ISCTE Business School
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KERING'S VALUATION

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Master in Finance

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Resumo

O presente projecto tem como objectivo a avaliação da empresa Kering, com vista a chegar a um preço-alvo e fazer uma recomendação de investimento.

A Kering é uma empresa multinacional francesa que opera no sector dos bens de luxo e está presente em todo o mundo. A empresa está dividida em duas divisões: a divisão de luxo e a de desporto e estilo de vida, possuindo um *portfolio* diversificado de marcas bem conhecidas, como a Gucci, Yves Saint Laurent, PUMA, entre outras. Nos últimos anos, a Kering tem passado por um processo de reestruturação com a venda de todas as empresas do segmento de retalho, com o objectivo de se tornar num grupo mais coeso, integrado e internacional.

Para avaliar a empresa foram escolhidos o Método de Fluxo de Caixa Descontado e o Método dos Múltiplos de Mercado. Para tal, é necessário analisar cuidadosamente os fundamentais da empresa, assim como estimar as principais variáveis.

Todas as análises e projecções foram elaboradas com a informação disponível até Dezembro de 2013.

Através do desenvolvimento do modelo de avaliação, chegou-se a um valor de € 184.50 por acção, que comparado com o valor de mercado de € 153.65 à data de 31 de Dezembro de 2013, significa que a Kering estava a negociar com um desconto de 20%. Desta forma, a recomendação de investimento seria então de compra da acção.

Palavras-chave: Kering, Bens de Luxo, Método de Fluxo de Caixa Descontado, Múltiplos
JEL Classification System: G30, G32

Abstract

The present project aims to evaluate Kering company in order to make an investment recommendation.

Kering is a French multinational holding company, with a worldwide presence. The company operates in the luxury goods sector and is divided into two divisions - the Luxury Division and the Sport & Lifestyle Division - having a wide brand portfolio with some well-known brands like Gucci, Yves Saint Laurent, PUMA, among others. Through the past years, Kering has been restructuring itself to become a more cohesive, integrated and international Group.

In order to see if the company is trading at a premium or at a discount, the company's fundamentals are deeply evaluated and the main variables are estimated to apply Discounted Cash Flow and Market Multiples Method. The purpose is to reach a price target and to make an investment decision.

All the analysis and projections were only prepared with the information available until December 2013.

The valuation model points to a value of € 184.50 per share, which compared to the market value of € 153.65, in 31th December 2013, meaning that Kering share was trading at a discount of 20%. Thus, and according to this analysis, the investment recommendation at that time would have been to buy the share.

Keywords: Kering, Luxury Goods, Discounted Cash Flow, Multiples
JEL Classification System: G30, G32

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List of Abbreviations

- **BV –** Bottega Veneta
- **YSL** – Yves Saint Laurent
- **OLB –** Other Luxury Brands
- **OLB –** Other Sport & Lifestyle Brands
- **DCF –** Discounted Cash Flow
- **LFL** – Like-for-Like
- **WACC** – Weighted average cost of capital
- **rE** – Cost of Equity
- **rD** – Cost of Debt
- **EV –** Enterprise Value
- **ASL –** Average Selling Price
- **AUR** - Average Unit Retail
- **NBS -** National Bureau of Statistics of China
- **HNWI** – High-net-worth individuals

Executive Summary/Introduction

As part of the thesis in the Master of Finance, it was proposed to carry out a project or a dissertation. The choice made relies on a project that reconciles the work activity as an equity analyst at BPI Asset Management with the academic work. Choosing the company took into account what would be useful for the bank, in professional terms, as well as the personal interests. As a result, the company chosen was Kering.

Kering is a French multinational holding company that operates in the luxury goods sector and has a wide brand portfolio with around 20 brands. The company is divided into two divisions - the Luxury Division and the Sport & Lifestyle Division - and its brands are distributed in more than 120 countries around the world, with mainly presence in Western Europe (30% of revenues) and Asia-Pacific (25% of revenues). The company comprises several known brands, such as Gucci, Yves Saint Laurent and PUMA. Gucci is the main brand, contributing with 37% of revenues and 62% of EBIT in 2012. In the same year, the company made € 9.7 million in revenues and obtained an operating income of € 1.8 million, representing an EBIT margin of 18%.

The aim of this work is first to evaluate the financial and economic situation of the company and secondly to reach a price target in order to make an investment decision – buy, hold or sell the related share.

The main issues that arise are "Is the company cheap or expensive? Is it worth investing on it? What are the expected returns?". To address these questions it was made a complex model with all the past information of the company and the estimates are made with the goal of reaching a price target for Kering.

In the end, the reached price is € 184.50 and the current market price is € 153.65, which is translated into an upside potential of 20%. Thus the recommendation decision is to buy.

The structure of this report was carefully thought in order to give the reader a good understanding of the process.

It starts with the review of the main literature, which includes the different valuation methods and a greater emphasis is made on the methods that are used to value the company – discounted cash flow and multiples methods.

Then, it is made an overview of the company by characterizing its business, history, brands, strategy and industry. Since Kering has several brands and in order to do an accurate analysis of the company, each one of the brands is comprehensively described.

After this, are presented not only the main assumptions for each brand in terms of revenues and EBIT margins but also other assumptions for the company as a whole. The assumptions are based on several research reports, on information published by the company, on conference calls with analysts specialized in this sector and that follow Kering, and on Kering's investor relations.

Finally, the discounted cash flow and multiples methods are shown as well as a sensitivity analysis. To conclude, a recommendation decision is made.

After reading this report, the reader should be aware about the reality of Kering, namely its businesses and results, and should easily take his or her own conclusions.

1. Revision of Existing Literature

1.1. Introduction to Corporate Valuation

Every asset has a value. The challenging of valuation is to accurately estimate how much is its worth, by analyzing the sources of the value, as Damodaran (2012) states.

Valuation consists in determining the current value of an asset or company. Although it looks simple, this is very far from being an exact science. The success of this task is dependent on the accuracy of data inputs, very often based on the views and beliefs of the analysts. Some assets are easier to value than others, and the chosen valuation method may vary from case to case, depending on the information available and on many other characteristics of the asset.

First of all, it is crucial to understand what value is. Several concepts of value are used for the foundation of different valuation models. CFA (2011) states intrinsic value as the starting point of an equity analysis and as the very relevant concept of this process. However, there are many other concepts of value – going-concern value, liquidation value and fair value, which will be explained shortly.

Intrinsic value is the value of an asset based on all the underlying characteristics of that asset. It reflects the investor's view of the "true/fair" value of it. Going-concern value corresponds to the value of a company assuming that it will continue its business activities (it is based on the principle of continuity). Generally, equity analysts estimate intrinsic value under a going-concern assumption.

Liquidation value is the company's value assuming that it went bankrupt and its assets will be sold individually. According to CFA (2011; p. 12), fair market value is "*(…) the price at which an asset (or liability) would change hands between a willing buyer and a willing seller when the former is not under any compulsion to buy and the latter is not under any compulsion to sell*".

Corporate valuation is used for several purposes. According to Frykman and Tolleryd (2003), valuation is necessary to raise capital for growth; to create an incentive program to keep and attract employees; to execute a merger, acquisition or divestiture; or to conduct an IPO. As stated by Damodaran (2012), valuation is important for portfolio management, merger and acquisitions and corporate finance. In addition, Fernández (2007) considers some other purposes of valuation, including inheritances and wills – used to compare the share's value with that of the other assets; compensation schemes based on value creation; identification of value drivers; strategic decisions on the company's continued existence and strategic planning.

The final objective of Kering's valuation is to decide whether or not to include this company in a portfolio, making this project important for portfolio management. Fundamental analysts try to value the company by analyzing its growth prospects, risks and cash flows in order to seek companies that seem to be undervalued.

CFA (2011) states that the process of valuing a company has five essential steps. First, it is necessary to understand the business, including its financial statements, economic, competitive and industry context, and also its strategy. The second step is to forecast the company performance, which includes the projection of revenues, dividends, earnings and financial position. Then it is necessary to select the appropriate valuation model and after that to convert forecasts into a valuation. Lastly, valuation conclusions are applied.

There are countless ways to divide the different valuation models.

According to Frykman and Tolleryd (2003) the valuation models can be divided in valuation models based on cash flows, which include the dividend discount model (DDM), the discounted cash flow model (DCF) and the cash flow return on investment (CFROI); valuation models based on returns, including the economic value added model (EVA); valuations based on assets, constituted by the net asset valuation approach; options valuation and valuation based on multiples.

As said by Fernández (2007), valuation models can be classified in balance sheet based methods (book value, adjusted book value, liquidation value and substantial value), income statement based methods (multiples analysis), mixed methods, cash flow discounting methods (DCF, APV, equity cash flow and capital cash flow), value creation (EVA, economic profit, cash value added and CFROI) and option methods, of which the first four enumerated methods are considered the most widely used ones.

Damoradan (2012) only considers three approaches of valuation: discounted cash flow valuation, which contemplates FCFF, FCFE, DDM, APV and EVA; relative valuation and contingent claim valuation (use of option pricing models). He also explains that many authors use the asset based valuation as a valid method, even though he does not consider this approach as an alternative to discounted cash flow, relative valuation or option pricing models because replacement and liquidation values can be obtained from these approaches.

In fact, almost all the authors consider the same approaches of valuation although they divide them in very different ways.

The different valuation models can be briefly described as:

- **Dividend discount model (DDM)** – consists in projecting the present value of expected future dividends to achieve the value of the company's equity;
- **Discounted cash flow model (DCF)** – assumes the enterprise value as the present value of expected future cash flows. This model can be divided in firm or equity perspective;
- **Adjusted Present Value –** considers the value of the operations if the company were all equity financed and the value of tax shields that arise from debt financing;
- **Economic Value Added (EVA) –** it is the value a company can create, thus it compares the required rate of return of the company's stakeholders with its cost of capital;
- **Relative (or multiples) valuation** – estimates the value of a company by looking at the pricing of other companies, the industry average or the company's own historical data;
- **Real options valuation** – uses option pricing models to measure the value of investment opportunities and companies;
- **Liquidation Value –** it is the value of a company if its assets were sold and its debts were paid off;
- **Cash flow return on investment model (CFROI)** – consists in calculating a return ratio that represents the company's current or future ability to produce free cash flow;
- **Net asset valuation** – it is the adjusted value of the equity on the balance sheet.

Damodaran (2012) states that the majority of the analysts use discounted cash flow models and/or multiples to value companies, therefore these are the methods that are fully described below and used to value the company. Koller et all (2010, p.103) agree with Damodaran stating that "*DCF remains a favorite of practitioners and academics because it relies solely on the flow of cash in and out of the company, rather than on accounting-based earnings".*

1.2. Discounted Cash Flow Model

Discounted Cash Flow Model (DCF) is the most used valuation model in the real world. The general idea behind this model is that a value of an asset corresponds to the present value of expected future cash flows on that asset.

$$\text{Value} = \sum_{t=1}^{t=n} \frac{CF_t}{(1+r)^t} \quad (1)$$

Where:
n – Life of the asset

CF_t – Cash flow in period t

r – Discount rate reflecting the riskiness of the estimated cash flows

By using DCF it is possible to estimate the intrinsic value of an asset based on its fundamentals. According to Damodaran (2012, p. 12), intrinsic value is defined as *"the value that would be attached to the firm by an unbiased analyst, who not only estimates the expected cash flows for the firm correctly, given the information available at the time, but also attaches the right discount rate to value these cash flows".*

There are numerous DCF models, however the more common ones are the models based on dividends (DDM), on cash flows (FCFF and FCFE), APV and EVA.

The most frequently used model is the one based on cash flows, also known as McKinsey DCF model, that can be applied either in an equity (FCFE) or a firm (FCFF) approach.

On the Free Cash Flow to Firm Method (FCFF) the company is valued as a whole and all the claimholders, such as shareholders, bondholders and preferred shareholders are taken into consideration. It is also possible to value just the equity stake in the business, through the Free Cash Flow to Equity Method (FCFE).

Depending on which method is used, it is necessary to use different discount rates in order to reflect the risk of the whole business – in the case of the FCFF method or to only reflect the risk of equity – FCFE method.

Kering's valuation is obtained through the implementation of the FCFF method. For that reason a deeper analysis on this method is developed.

According to Frykman and Tolleryd (2003) DCF is very popular because it is theoretically correct and compatible with some capital market models; it responds well to market values and it works for all types of companies. For a successful result the analyst must have a good understanding of the underlying characteristics of the company and also have a good comprehension of its business and industry. This effort is not required by other valuation models such as relative multiples, since the valuation is based on comparisons.

DCF model also has disadvantages. DCF is a mechanical valuation tool and once it is used to estimate intrinsic value it requires more information than other models. Also, small changes in input variables can have large impacts in the value of a company; and inputs can be easily manipulated by the analyst to obtain the results he or she wants. Other drawback relies on the fact that the DCF valuation model only concludes if stocks are over or undervalued, that being a problem for equity researches analysts, who want to make recommendations of buy, hold or sell stocks in a specific sector.

Free Cash Flow to Firm Method

This method intends to value the company as a whole and consists in four main steps:

1. **Estimating the Discount Rate – WACC**

In order to reflect the risk of the whole business, the cash flows available to the firm are discounted using the weighted average cost of capital (r_{WACC}).

WACC is the company's cost of capital in which each source of financing (equity and debt) is proportionately weighted:

$$r_{WACC} = \frac{E}{D+E} \times r_e + \frac{D}{D+E} \times r_d \times (1-t) \qquad \textbf{(2)}$$

Where:
D – market value of debt
E – market value of equity
D + E – market value of the company
r_d – cost of debt
r_e – cost of equity
t – tax rate

Target Capital Structure

Company's capital structure can change over time, thus WACC can also change over time and that is why analysts often use a target capital structure instead of using the current market value weights. This target capital structure reflects analysts' expectations on the future capital structure of the company and it can be estimated by using some inputs: the current capital structure based on market values, capital structures of comparable companies, and based on management's financing policies and corporate strategy.

Cost of Equity

The cost of equity corresponds to the return that a shareholder requires to invest in the company.

Although there are several ways to calculate cost of equity - using capital asset pricing model (CAPM), arbitrage pricing model (APM), Fama-French three-factor model or proxy models - CAPM is the most consensual one. As Damodaran (2012, p. 77) says *"We would argue that a judicious use of the capital asset pricing model, without an over reliance on historical data, is still the most effective way of dealing with risk in valuation in most cases."*. The CAPM formula is the following:

$$r_e = r_f + (r_m - r_f) \times \beta_e \qquad \textbf{(3)}$$

Where:

r_e – cost of equity
rf – risk free rate
rm – expected market return
rm-rf – marker risk premium
βe – company levered beta

According to Frykman and Tolleryd (2003), the risk-free rate is usually the return on a government bond or a treasury bill in the home country of the company, being valued with a maturity that matches the investor's investment horizon.

The market risk premium is the required return by an investor to invest in a risky security compared with "risk-free" investments such as government bonds. There is no preferred model to estimate market risk premium, however Koller et all (2010) describes three methods to estimate it: by measuring and extrapolating historical returns; by using regression analysis to link current market variables (dividend-to-price ratio for example) and by using DCF valuation, along with estimates of profitability and growth, solving for the implicit market's cost of capital. Based on these three methods, the authors believe that the appropriate market risk premium is between 4.5 and 5.5 percent.

Beta measures the company-specific risk compared to the market, i.e. how much the stock and the market move together. CFA (2011) considers that the simplest way to estimate beta is based on an ordinary least squares regression of the return on the stock on the return on the market, being considered a "raw" historical beta. However it is necessary to adjust this beta to better predict the future beta. It is done by using the following formula presented by Blume (1971) that follows the general idea of mean reversion:

$$\text{Adjusted beta} = \frac{2}{3} \times \text{Unadjusted beta} + \frac{1}{3} \times 1.0 \qquad \textbf{(4)}$$

Nevertheless, Damodaran (1999) criticizes regression betas because they are affected by the choice of the market index, time period and return interval. Different choices about these variables result in different betas for the same company.

According to the same author there are three alternatives to this methodology: to modify the regression betas in order to reflect the current fundamentals of the company; to come up with a measure of relative risk, such as relative volatility or accounting betas, without using historical prices on the stock and the index, or to estimate bottom-up betas, which reflect its current financial leverage and the businesses where the company operates.

He considers that the better way to estimate beta is by using the bottom-up approach, which uses the weighted average of the unlevered betas of the different businesses where the company operates, adjusted to reflect the current operating and financial leverage of the company. This is his preferred approach because it estimates the unlevered betas, by sector, by averaging across regression betas; it reflects the current company structure, since it uses the current weights for different businesses and the levered beta is computed using the current financial leverage of the company, rather than the average leverage over the period of the regression.

Cost of Debt

According to Frykman and Tolleryd (2003, p. 75) "*(…) the required return on debt is the cost to the company for attracting more money from external lenders, in the first instance banks and other lending institutions.*". In other words, the required return on debt is the interest that the lender requires to lend its money to the company.

The cost of debt should reflect the default risk and the level of interest rates in the market and according to Damodaran (2013) it can be estimated by looking at the company's yield to maturity of a long-term bond or at the company's debt rating and estimate a default spread based on it, in the case the company does not have long term bonds that are liquid.

2. Calculating Free Cash Flow

Free Cash Flow to Firm corresponds to the cash flow available to all claimholders and there are several ways to calculate it:

$$\text{FCFF} = \text{EBIT} \times (1 - \text{t}) + \text{D\&A} - \Delta\text{NWCN} - \text{Capex} \tag{5}$$

$$\text{FCFF} = \text{EBITDA} \times (1 - \text{t}) + \text{D\&A} \times \text{t} - \Delta\text{NWCN} - \text{Capex} \tag{6}$$

$$\text{FCFF} = \text{Net Income} + \text{Interest Expense} \times (1 - \text{t}) + \text{D\&A} - \Delta\text{NWCN} - \text{Capex} \tag{7}$$

$$\text{FCFF} = \text{CFO} - \text{Capex} \tag{8}$$

Where:
t – tax rate
D&A – depreciations and amortizations
NWCN – net working capital needs
Capex – capital expenditures (net of divestures)
FCFE – free cash flow to equity
CFO – cash flow from operations

To calculate free cash flows it is necessary to distinguish between explicit forecast period and terminal value period. In the explicit forecast period the free cash flows are predicted for each year and in the terminal value is assumed a constant growth. However, in the case of high growth companies it is possible to have a third period in order not to move from an extremely high growth rate period to a much lower growth rate state (terminal value period).

To compute FCFF the main variables that need to be estimated are: EBIT, cash taxes on EBIT, capex, depreciation and working capital.

The value of FCF from the explicit period is given by:

FCF from the explicit period

$$= \frac{FCF_1}{(1 + r_{WACC})^1} + \frac{FCF_2}{(1 + r_{WACC})^2} + \cdots + \frac{FCF_t}{(1 + r_{WACC})^t} \quad \textbf{(9)}$$

Where:

FCF – free cash flow

t – number of years in the explicit period

3. Calculating Terminal Value

After calculating the free cash flow for the explicit forecast period, it is necessary to estimate the terminal value of the company in order to have the enterprise value.

The terminal value, according to Frykman and Tolleryd (2003) is "*the free cash flows from the year after the last year of the explicit period to perpetuity*":

$$TV_0 = \frac{\frac{FCF_{t+1}}{r_{WACC} - g}}{(1 + r_{WACC})^t} \quad \textbf{(10)}$$

Where:

TV – terminal value

FCF_{t+1} – level of free cash flow in the first year after the explicit forecast period

r_{WACC} – weighted average cost of capital

g – expected growth rate in free cash flow in perpetuity

The terminal value's calculation is extremely important because 70-80 percent of a company's value comes from this value, thus assumptions on this calculation must be extremely accurate and reasonable.

In the long-term, industry growth is not expected to be higher than GDP growth.

4. Estimating the Final Value of the Company

Calculating the Enterprise Value

Having determined FCFF, the terminal value and the WACC, it is possible to calculate the enterprise value, which is nothing more than the present value of all the future cash flows, including the terminal value, discounted at the WACC.

$$\text{Enterprise Value} = \sum_{t=1}^{t=\infty} \frac{\text{FCFF}_t}{(1 + r_{\text{WACC}})^t} \quad \textbf{(11)}$$

Calculating the Equity Value

Once the FCFF is calculated it is then necessary to subtract the market value of debt and add the market value of non-operating assets to reach the equity value.

$$\text{Equity Value} = \text{Firm Value} - \text{Market value of debt} + \text{Non} - \text{operating assets} \quad \textbf{(12)}$$

Non-operating assets are assets that are not essential to the ongoing operations of the company but that can generate return. It includes cash, marketable securities, investments in equities and bonds of other firms and minority holdings in other firms.

Calculating the Price Target – Objective

Finally the price target of the company's stock is achieved by dividing the shareholder's equity by the number of shares outstanding:

$$\text{Price Target} = \frac{\text{Equity Value}}{\text{Number of shares outsantding}} \quad \textbf{(13)}$$

In the end, this value is compared with the market value to see if the company is over or undervalued.

1.3. Market Multiples Method

Market multiples are used to reinforce the DCF valuation conclusions and provide a relative valuation between a company and its peers.

According to Frykman and Tolleryd (2003), there are two approaches relating multiples: fundamental and relative multiples. The fundamental multiples are calculated based on company fundamentals and the relative multiples compare the company multiples with the ones of comparable companies, industry or historical data, being the second approach the most common one.

There are two type of multiples: equity multiples, which are ratios of a stock's market price (numerator) in relation to some other variable (denominator), and enterprise value multiples which relate the total market value of all sources of a company's capital (numerator) in relation to other variables (denominator).

The market multiples method has some advantages. It is objective and efficient since it can be easily applied; it is easy to understand; it can be used in different investments styles, such as value and growth, and it requires less information than DCF model. In this valuation method there are always securities under or overvalued.

Nevertheless, it also has some drawbacks. It is too simplistic and can exclude company-specific value drivers; it is very difficult to find out comparables and multiples are influenced by the company fundamentals and by market sentiment.

It is important to note that multiples tend to be different from industry to industry. For example, technology sector has a P/E ratio much higher than the utility sector.

Equity Multiples

1. **Price to Earnings Ratio**

Price to earnings ratio is the most popular multiple and it compares the share price of a company with its earnings. This ratio shows how much investors are willing to pay per unit of earnings.

$$\mathrm{P/E} = \frac{\text{Market price per share}}{\text{Earnings per share}} \tag{14}$$

A high P/E ratio means that investors are anticipating higher earnings growth in the future.

This ratio can be a trailing P/E, when the current price is divided by the EPS from the last twelve months or a forward P/E, when are used the next year's expected earnings.

This ratio is very easy to understand and that's why it is the most commonly used. Nevertheless, earnings are based on accounting measures and can easily be manipulated, which can result in biased results.

2. **Price to Book Ratio**

Price to book ratio reflects the current market price in relation to the company's book value, which is the adjusted book value of total assets less adjusted book value of liabilities.

$$\mathrm{P/B} = \frac{\text{Market price per share}}{\text{Book value per share}} \tag{15}$$

With this ratio it is possible to see if the investor is paying too much for what would be left if the company went bankrupt immediately. The stock could be undervalued if it has a low P/B ratio.

3. **Price to Sales Ratio**

Price to sales ratio relates a company's stock price to its sales.

$$\mathrm{P/S} = \frac{\text{Market price per share}}{\text{Sales per share}} \quad \textbf{(16)}$$

This ratio represents the value placed on each unit of a company's sales. A low P/S ratio may indicate the stock is undervalued.

4. **Dividend Yield**

Dividend yield relates how much a company pays in dividends with its share price. It represents how much cash flow it gets for each unit invested in a stock.

$$\text{Dividend Yield} = \frac{\text{Dividend per share}}{\text{Earnings per share}} \quad \textbf{(17)}$$

Enterprise Multiples

1. **Enterprise Value to EBITDA Ratio**

It is used to determine the fair market value of a company.

$$\frac{\text{Enterprise Value}}{\text{EBITDA}} = \frac{\text{Market Value of Equity} + \text{Market Value of Debt} - \text{Cash}}{\text{EBITDA}} \quad \textbf{(18)}$$

This ratio is a better measure than P/E ratio since it is not affected by capital structure and thus can be used to compare companies with different capital structures.

A lower ratio indicates that a company might be undervalued.

2. **Enterprise Value to EBIT Ratio**

This multiple is similar to the previous ratio. The only difference is that this one considers depreciation and amortization in the denominator.

$$\frac{\text{Enterprise Value}}{\text{EBIT}} \quad \textbf{(19)}$$

3. **Enterprise Value to Sales Ratio**

This ratio defines how much it costs to buy the company's sales.

$$\frac{\text{Enterprise Value}}{\text{Sales}} \qquad (20)$$

A lower ratio means the company can be undervalued. However, it can also mean the future sales prospects are weak.

Others

Free Cash Flow Yield

Free Cash Flow Yield ratio relates the free cash flow per share with the price per share.

$$\text{Free Cash Flow Yield} = \frac{\text{Free Cash Flow per Share}}{\text{Price per Share}} \qquad (21)$$

The higher the ratio, the more attractive the company is.

This ratio is better than earnings yield because it considers capital expenditures and other ongoing costs, better reflecting what an investor receives.

Now the chosen valuation methods have been referred, Kering's valuation is presented.

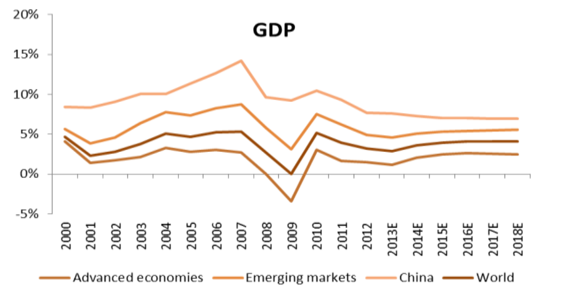
2. Industry Analysis

2.1. Macroeconomic Outlook

GDP trends are slowing down, mainly in some emerging markets, such as China. The absence of a strong recovery in Europe and in the United States has been also contributing to muted projections for 2013. IMF anticipates a worldwide GDP of 2.9% for 2013, the lowest value since 2010.

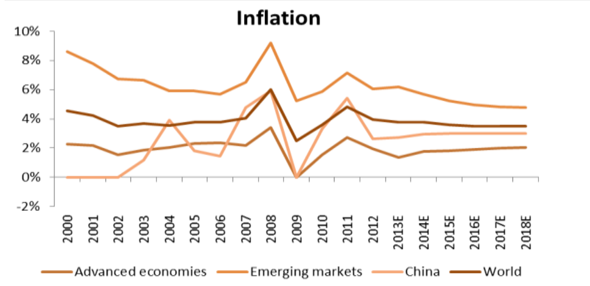
However, according to IMF it is expected a slight recovery from both advanced economies and emerging markets, although China will continue to slowdown. The IMF estimates a GDP of 2.6% for advanced economies and 5.5% for emerging markets, resulting in a worldwide GDP of 4.1% in 2018. China GDP is projected to be around 7%. World's inflation is expected to reach a level of 3.5% in 2018.

FIGURE 1 – GDP 2000-2018E



Source: IMF, World Economic Outlook, October 2013

FIGURE 2 –Inflation 2000-2018E



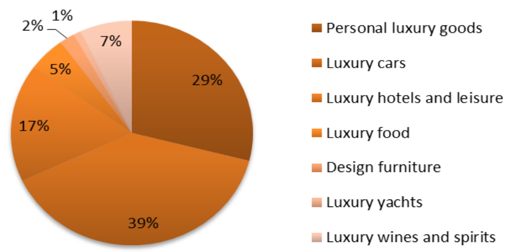
Source: IMF, World Economic Outlook, October 2013

2.2. Luxury Goods Market

Kering is part of the luxury market, more precisely of the personal luxury goods sector.

The luxury market is constituted by different segments, such as personal luxury goods, which represents around 30% of the market in terms of revenues, luxury cars (39% of the market), luxury hotels and leisure, luxury food, design furniture, luxury yachts, and luxury wines and spirits.

FIGURE 3 – Luxury market breakdown by segment 2012

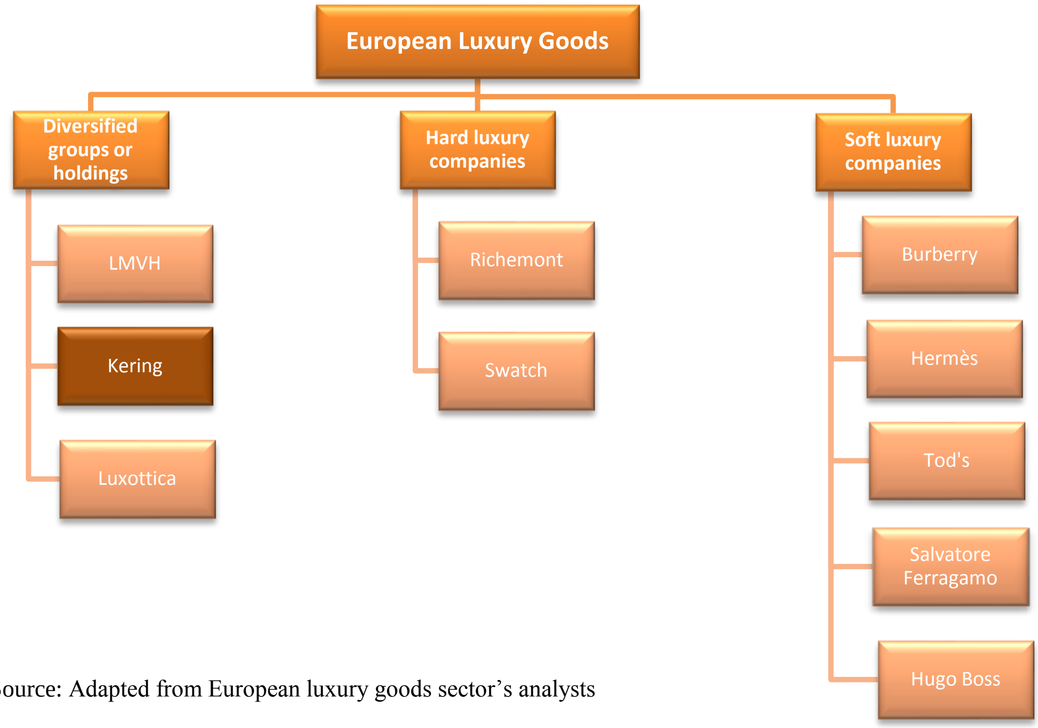


Source: SG Asset Management Research

The personal luxury goods (also named luxury goods sector) sector is constituted by companies that develop, produce, market and sell not only high-end leather goods, apparel, jewellery, watches and accessories, but also other premium-priced categories, like fragrances and wines and spirits. This sector is characterized by its very high operating margins, strong cash flow generation and more recently also by its high exposure to emerging markets.

Kering is included more precisely in the European luxury goods sector, which can be divided in the following way:

FIGURE 4 – European Luxury Goods Sector



Source: Adapted from European luxury goods sector's analysts

Diversified groups, where Kering is included, are constituted by companies that market different product categories: fashion and leather, fragrance and cosmetics, wines and spirits or watches and jewellery.

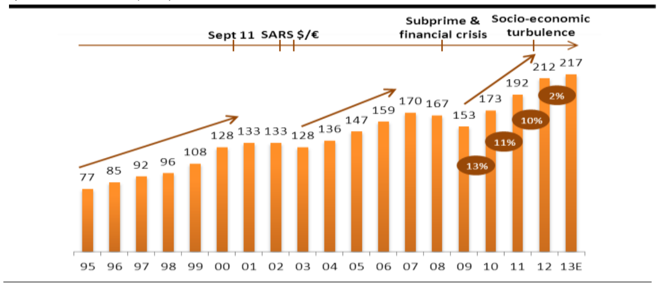
Hard luxury companies are the ones focused on watches, jewellery and pens.

Soft luxury describes high-end apparel and leather goods.

- **Market Overview**

The personal luxury goods market is facing the first slowdown since the financial crisis of 2008/09, leaving behind the double digit growth of the recent years. For 2013, the market expected revenues of € 217 billion for the luxury goods market, corresponding to a growth of 2% as reported and 6% at comparable exchange rates.

FIGURE 5 – Worldwide personal luxury goods market trend (1995-2013E|€B)



Source: Bain&Company

This sector is known for outperforming the global economy when the economy is growing, but also to underperform the market during recessions, once it follows the global market trend.

FIGURE 6 –Luxury LFL and global GDP = 0.9

Source: Barclays Research

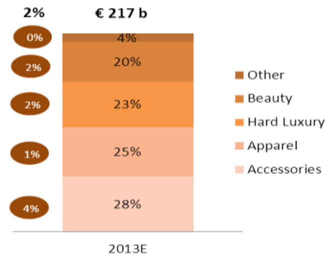
Beyond the global economic factors, there are also other drivers that affect the demand and growth of luxury goods, such as positive trends in emerging markets driven mainly by middle class increase, growth in the global population of high-net-worth individuals and increase of tourism spending. However, in the short term there are some concerns that could weight down the development of this market, such as high import taxes on luxury goods in some emerging countries and new and more restrictive regulations on travel and in the acquisition of luxury goods.

Lastly, it should be noted that in this market, the currency has a very high impact on the companies' performance. According to Bain & Company (2013), the euro appreciation has been penalizing market performance over 2013, albeit constant growth has been higher than in 2012. The main contributor to the difference between real and nominal growth is the yen devaluation, which drives over half of this differential.

Product categories

The luxury goods sector has four product categories: accessories, apparel, hard luxury and beauty.

FIGURE 7 – Worldwide personal luxury goods market by category (€b)



Source: Bain&Company

Accessories category includes shoes, leather goods (handbags, wallets and others), textile accessories and eyewear. This category accounts for 28% of total luxury goods sector and it was expected to record the fastest growth in the sector at 4% in 2013. Leather goods are the fastest growing category in luxury with 5% growth.

Apparel category comprises ready-to-wear for both women and men and represents 25% of the sector. It is spread into men's and women's products, with a super-performance of high-end segment of menswear driven by made-to-measure.

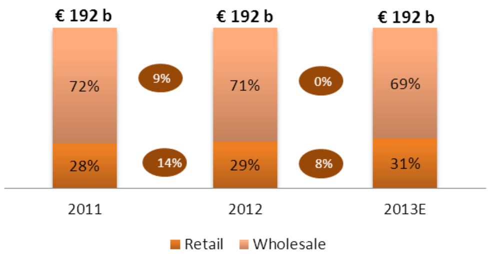
Hard luxury is constituted by watches and jewellery and represents 23% of the market. High-end and affordable jewellery are growing significantly, but watches are slowing down in real terms.

At last, beauty includes perfume and cosmetics and represents 20% of the total luxury goods market. This category is suffering in Europe due to promotions increases, which lowers the average price.

Distribution Channels

Retail channel is essential for the success of a luxury brand because it allows a better control over the consumer shopping experience and over product assortment, merchandising and customer service. In 2013 it represents 31% of the luxury goods market.

FIGURE 8 – Worldwide personal luxury goods market by channel (€b)



Source: Bain&Company

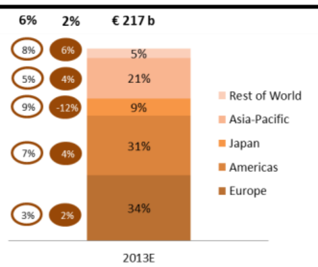
Despite decelerating organic growth, this channel is the only growth driver in the luxury goods sector, with main focus on store expansion. Therefore it is expected a slowdown in new DOS (directly operated stores) openings, mainly in emerging markets and store expansion, renovation and relocation, in mature markets.

The online channel is gaining scale reaching € 10 billion in 2013, up 28% versus 2012. It comes 70% from wholesale and 30% from retail, representing 5% of total luxury goods market.

Geographic Regions

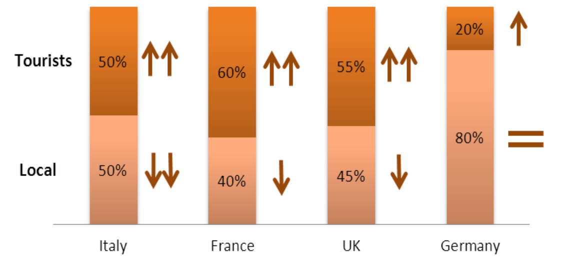
Europe is becoming the leading geographical region in luxury goods market, accounting for 34% of revenues, up 3% at comparable exchange rates in 2013. This growth is driven by touristic flows that are increasing in Europe, offsetting the decline of local consumers, due to increases in local prices.

FIGURE 9 – Worldwide personal luxury goods market by region (€b)



Source: Bain&Company

FIGURE 10 – Share of sales to tourist vs domestic by European major country (2013E)



Source: Bain&Company

The Americas region is the second largest region, representing 31% of the market, being the United States the largest country in terms of luxury goods consumption. In 2013 this region was expected to grow 7% at comparable exchange rates due to consumer confidence, strong momentum from tourism in major cities and brand expansion in cities such as Miami, Las Vegas and Los Angeles.

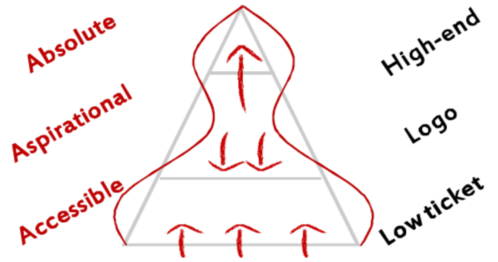
Japan, which accounts for 9% of the market, is being hugely affected by yen devaluation in 2013, redirecting consumption locally. At comparable exchange rates, the trends are being very positive (9% growth), caused by strong internal consumption.

The Asia Pacific ex-Japan was expected to grow 5% and accounts for 21% of the market. Greater China[1] is the largest area within this region, accounting for € 28 billion, up 4% in

[1] Greater China is constituted by Mainland China, Hong Kong, Macau and Taiwan.

2013. In Mainland China real growth is slowing down, due mainly to government crackdown on public officials spending in luxury and anti-corruption campaigns still negatively affecting gifting and to increasing consumer spending abroad from Chinese consumers.

FIGURE 11 – China Luxury Goods Market by segment trend (2013E)



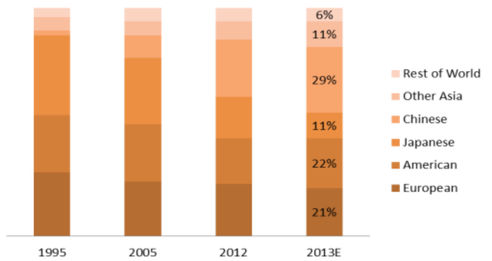
Source: Bain&Company

Chinese consumers become more sophisticated, seeking for high-end and sophisticated luxury. They are also logo fatigue, with aspirational consumers shifting to more accessible luxury-premium brands, benefiting also from the rise of new middle class.

Nationality

Chinese consumers are the ones growing the most, very close to become one third of the market due to sustained domestic market and relevant spending in Europe.

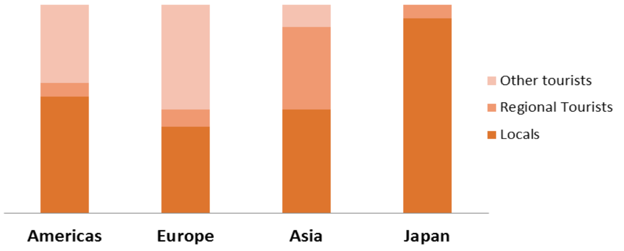
FIGURE 12 –Luxury Goods Market by consumer nationality (1995-2013€b)



Source: Bain&Company

In the Americas region, there are more domestic consumers than tourists. In the US and in Brazil, consumers buy mainly locally. In Europe, consumers are evenly divided and Asian consumers are fundamental, with Chinese consumers increasing in number. Western Europeans are decreasing spending and buying more locally. In Asia, Chinese consumers are the top foreign nationality for most markets in Greater China, SEA and Korea and Japanese overseas spending is decreasing due to yen devaluation. In contrast, Japanese consumption is increasing locally.

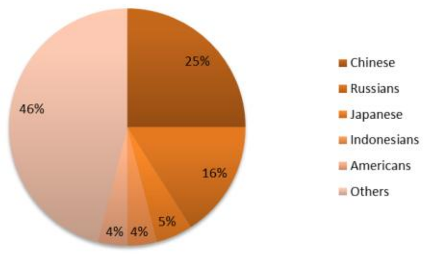
FIGURE 13 –Luxury Goods Market by consumer nationality (2013€b)



Source: Bain&Company

According to Global Blue[2], 50% of tourism spending is made by Chinese tourists (25% of total spending), Russian (16%), Japanese (5%) and Indonesians/Americans (4%).

FIGURE 14 – Top 10 nations by amount spent



Source: Barclays Research, Global Blue

The tourism spending has many drivers. The outbound tourist flows is driven by GDP per capita, the wealthier consumers become the more they want to travel abroad; culture also matters, for example the gift giving for Chinese customers; foreign exchange, costs and requirements of visa and development of air transport.

Regarding the different categories of products, Chinese prefer to spend in watches and jewellery (43%) and Russian prefer fashion & clothing (24%).

FIGURE 15 – Main categories in share of amount spend 2012

Source: Barclays Research, Global Blue

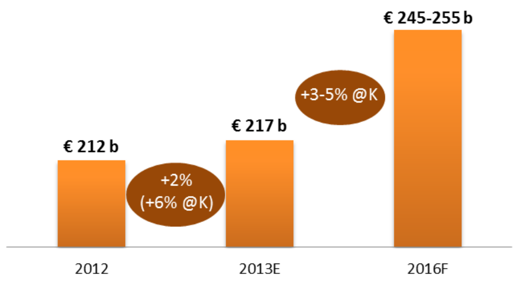
[2] Global Blue – a leader company that processes VAT refunds from tourists is a good measure on the growth rates for tourism spending in the luxury industry, once it gives information about tourism spending rather than just traffic. It is important to note that Global Blue does not count with tourism spending in the US, Hong Kong and Dubai, due the fact these countries do not have VAT refund systems in place.

- **Market Outlook**

Sector's analysts are positive on the sector in the long term given the potential for structural growth from emerging markets, the barriers to entry, cash flow generation and pricing power. However, in the short term it is expected a continued share price volatility in the sector given consumer uncertainty around the fiscal cliff in US and leadership transition in China.

Bain&Company (2013) forecast a 3-5% growth at comparable exchange rates over the next 3 years for the luxury goods market.

FIGURE 16 –Luxury goods market trend



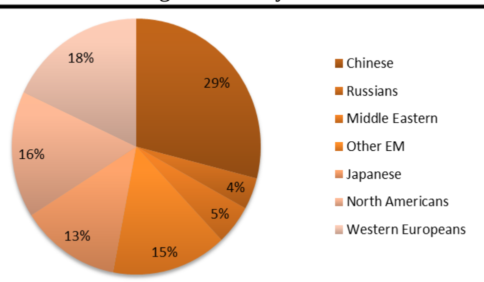
Source: Bain & Company

The main drivers of this growth are the Chinese consumers potential, positive trends in China, new emerging markets, continued expansion of tourism, increase in high-spending consumer classes, global consumption and development of new high-end products and services.

1. **China/Chinese consumers**

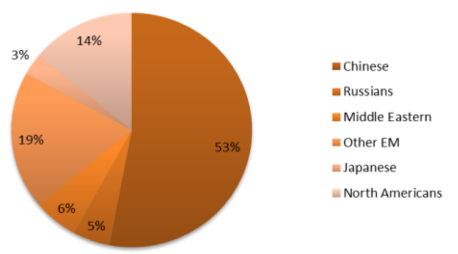
As it was referred before, Chinese consumers represent around 30% of the luxury consumers in the world, being a key for the luxury goods market. It is expected that Chinese people will contribute more than 50% to luxury growth in 2013.

FIGURE 17 – Share of global luxury market



Source: Swiss & Global Asset Management

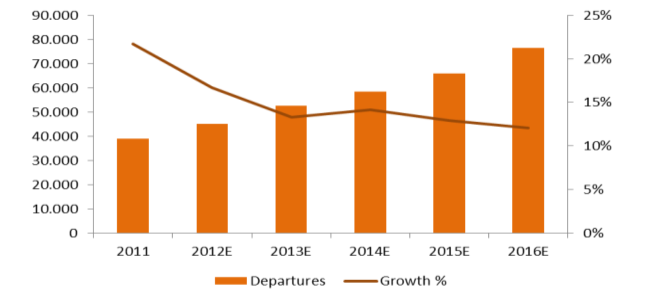
FIGURE 18 – Contribution to luxury growth



Source: Swiss Global & Asset Management

Chinese outbound tourists have been increasing for the past few years, being the main reasons for this new trend, the easing of travelling abroad, due to the less restrictive visa requirements, as well as the significant price differential of luxury goods between China and abroad. The huge price gap is driven by high import duties and consumption tax on luxury goods imports and by a weak Euro against RMB.

FIGURE 19 – Chinese outbound travel forecasts



Source: Barclays Research, Global Blue

Global Blue (2013) estimates that Chinese outbound travels will growth 14% in the next 5 years, which can benefit European luxury goods companies.

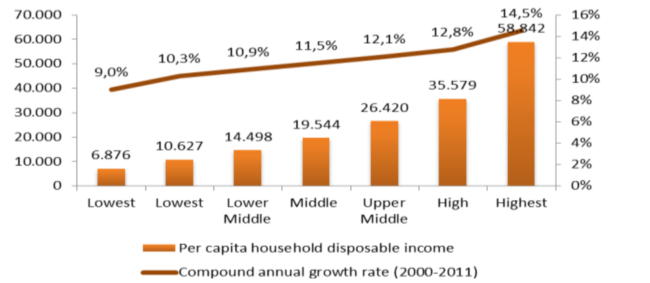
Chinese consumers' tastes are becoming more sophisticated and in tier 1 and tier 2 cities they worry more about the history and culture of the brands, being less logo orientated. However consumers in lower-tier cities may still prefer brands with easily recognized logos, since they have recently reached a new social status that can afford luxury goods and like to show off it.

According to Fung Business Intelligence Centre (2013), China's luxury market has some positive drivers, such as the increase in household disposable income, the fact that the number of wealthy individuals is growing at a rapid pace, the fast growing affluent and middle class, and the ongoing urbanization and rising luxury demand in smaller cities.

Household disposable income in China has grown consistently over the years. According to the National Bureau of Statistics of China (2013), the highest income segment was the one that grew the most (14.5%), followed by the high income and upper middle income segment. These income groups are the biggest spender on luxury goods.

It is expected that household disposable income will continue to rise since the Chinese government wants to double the per capita household income by 2020 in order to stimulate domestic consumption.

FIGURE 20 – Household disposable income by income group

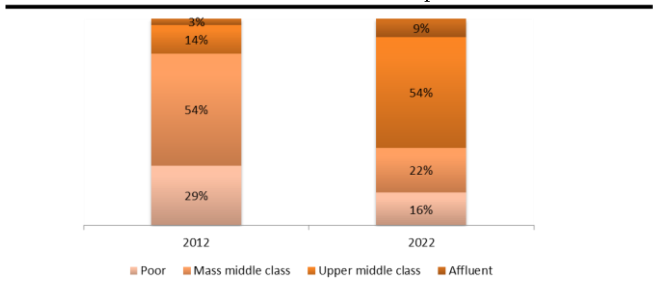


Source: Fung Business Intelligence Centre, NBS

According to the same source, it is predicted that HNWIs in China will double to 14,000 by 2016.

Middle class is driving luxury sector tendencies and according to McKinsey & Company (2013) the upper middle class (income between 16,000 and 34,000 USD) is expected to reach 54% of urban households in 2020 from 14% in 2012. Therefore middle class as a whole is expected to be 75% of China's urban consumers and will stem mainly from third-tier cities.

FIGURE 21 – Income Class of Chinese Population



Source: McKinsey & Company

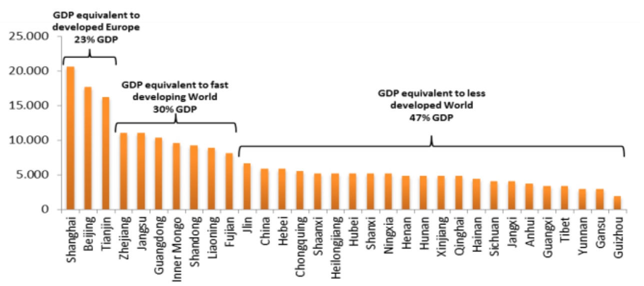
Middle class will be the consumer dominant force since the increase in urbanization degree and in disposable income will help this class to become more sophisticated, by changing their consumption tastes and make them willing to pay a premium for high quality goods, benefiting luxury brands.

The Chinese tourism spending has been slowing down since the end of 2012, however there is still high potential due to the rising of the middle class where the average disposable income and purchasing power of consumers has continued to grow.

China has the lowest consumer spending as percentage of GDP and thus there is scope for China consumer spending to increase faster than GDP growth.

China has only three regions that show developed GDP per capita – Shanghai, Beijing and Tanjing and seven regions growing fast. The twelve remaining regions are still developing, meaning that there is significant growth remaining for China.

FIGURE 22 – GDP per capita by region



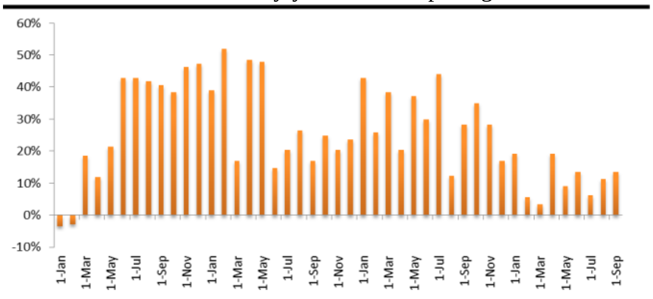
Source: Barclays Research

There are also economic and others risks in China. According to Barclays Research (2013), global recession causes China hard landing; corruption – "gifting" and soft bribery – is another problem and social unrest, given by the unpalatable wealth divide.

2. Tourism spending

In September 2013, tourism spending in the luxury industry raised 14% y/y, which represents an YTD growth of 12%. This trend represents more moderate growths, after a very strong period of growth from 2009 to 2012, but still robust.

FIGURE 23 – Global Blue y/y worldwide spend growth %



Source: Barclays Research, Global Blue

Tourism has been increasing significantly as percentage of sales in Europe. According to Barclays Research (2013), tourism is a very important driver in the European luxury goods sector. As an example there is the fact that tourism accounts for 60% of European sales for Richemont.

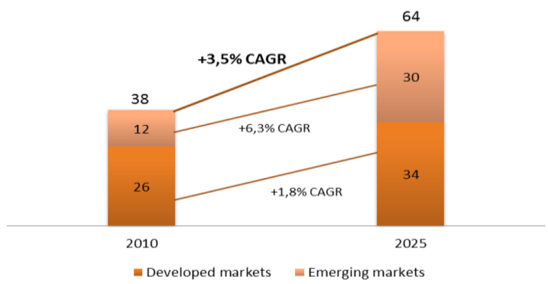
This increase has two main explanations. The first one is the increase in traffic especially from Asia with the development of the emerging economies - the air traffic between Europe and the Far East grew 28% between 2009 and 2013. The other reason is related with the huge increase in the average tourism spending, which raised 143% between 2008 and 2013, representing a 19% CAGR. Chinese tourism spending increased 38%, moving from 7% of contribution to total tourism spending to 19%.

3. Global consumption

According to Swiss Global Asset Management (2013), the global consumption will grow 3.5% (CAGR) until 2025, with an impressive growth of consumption in the emerging markets, which is expected to be around 6.3% (CAGR). This growth has impact in the luxury market. The emerging market consumption is driven by economic and wage growth, and urbanization.

The world wealth is expected to rise almost 50% from 2012 to 2017 and China will surpass Japan and become the second wealthiest country in the world. Nowadays the US has the higher number of millionaires, followed by Japan and Germany. North America and Europe had 31% of the wealth in 2012 each. There are more millionaires living in Asia than in Europe.

FIGURE 24 – Global Consumption (trillion USD)



Source: Swiss & Global Asset Management

4. New emerging countries

Beyond China, Middle East, Brazil, Australia, Africa and India, there are also other emerging countries that, according to Bain & Company (2013), are fundamental to the growth of the luxury goods sector, such as Indonesia, Malaysia, Vietnam and Thailand. Luxury growth will result essentially from emerging markets.

5. High-spending consumer classes

The high-net-worth individuals (HNWI's) are expected to increase 6.5% per year, reaching USD 55.8 trillion by 2015, driven mainly by Asia Pacific HNWI wealth growth.

2.3. *Sport & Lifestyle Market*

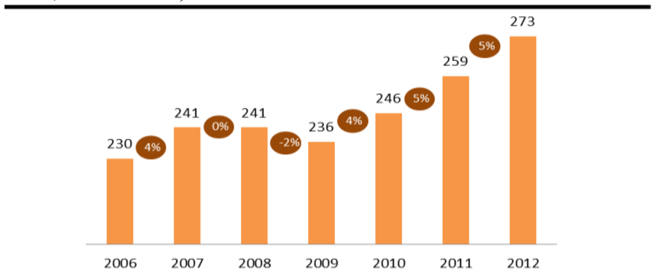
Since Kering has also sport and lifestyle brands, it is also necessary to analyse this market.

This section derives from "Kering – 2013 Financial Document", which in turn was based on "2012 Global Sport Market Report" by NPD Group.

- **Market Overview**

The sport and lifestyle market has been growing since 2009 and reached revenues of € 273 billion in 2012, representing a 5% growth rate as reported. Since 2006, this market registered a compound annual growth rate of 3%.

FIGURE 25 – Worldwide Sport & Lifestyle market trend (2006-2012, in € billions)



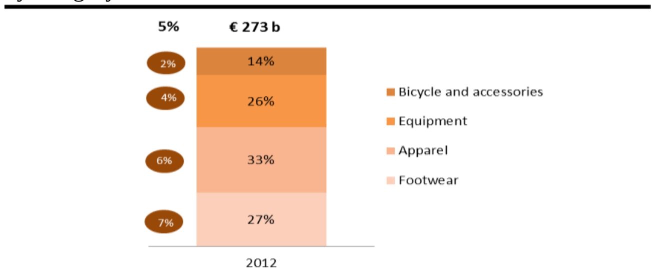
Source: Company data

This market has four main drivers: demographic trends and an increase in world GDP, increase in leisure time and increased awareness among the population of the positive effect of sport on health, globalization and convergence of consumer habits as sport promotes universal value, and increase in purchasing power and urbanization in emerging countries.

Product Categories

The sport and lifestyle sector has four product categories: footwear, apparel, equipment and bicycle and accessories.

FIGURE 26 – Worldwide Sport & Lifestyle market: breakdown by category



Source: Company data

Apparel is the largest product category with 33% of revenues in 2012, followed by footwear – 27% of revenues.

All categories grew in 2012 and footwear registered the highest growth of 7%.

The five main sports, which represent half of the market, are cycling, fitness, walking/hiking, running and football/soccer.

The major players of this market are Nike, Adidas and PUMA, but there are other smaller players specialized in only one category.

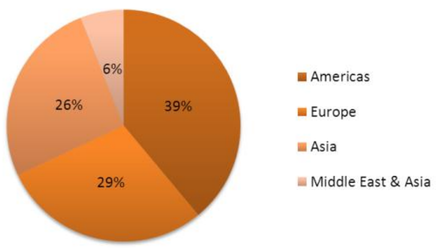
Distribution Channels

Wholesale is the most important distribution channel for the sport and lifestyle market. However, players are developing their network of directly-operated stores, shop-in-shops and joint ventures with retailers.

Geographic Regions

In 2012, Americas represented 39% of the market at comparable rates and Europe 29% in terms of revenues.

FIGURE 27 – Worldwide Sport & Lifestyle market: breakdown by region



Source: Company data

United States is the largest country, with 27% of market share, followed by China and Japan. Macro-economic headwinds influenced Western Europe, but it increased 2%. Northern Europe offset weaknesses in Southern Europe. Emerging markets, mainly Brazil, South Africa and India, grew the most.

- **Market Outlook**

NPD Group expects a compound annual growth rate of 3% for 2013-2016, driven by a positive global GDP and consumer spending. They also predict that the top five sports will outperform the sport and lifestyle market growth, with growth rates around 4%-5%.

3. Company Overview and Outlook

3.1. Company Description

Kering, previously known as PPR, is a French multinational holding company that operates in the apparel and accessories sector and is organized in two divisions: the Luxury Division and the Sport & Lifestyle Division.

The Luxury Division includes brands such as Gucci, Yves Saint Laurent, Bottega Veneta, Alexander McQueen, Balenciaga, Brioni, Christopher Kane, Stella McCartney, Sergio Rossi, Boucheron, Dodo, Girard-Perregaux, Jeanrichard, Pomellato and Qeelin and the Sport & Lifestyle Division includes PUMA, Volcom, Cobra, Electric and Tretorn.

PPR was founded in 1963 by François Pinault and it started as a building materials business. In the 1990s PPR entered in the retail activity, with the acquisition of Conforama. Later in 1999, the Group acquired a 42% stake in Gucci Group, entering thus in the luxury goods sector. In 2007, PPR purchased a controlling stake in PUMA.

In 2008, PPR was a diversified group involving several sectors: retail business, with Fnac, Redcats, Conforama and Cfao; luxury business with the Gucci Group and sport & lifestyle business with PUMA.

It is possible to see the company structure evolution since 2008 in Appendix 1 - Company Structure.

In the last years, Kering has been transforming itself in an integrated group which is no longer concerned with the retail business, focusing exclusively on its two main divisions. This transformation was expected to be concluded in 2013, with Kering exiting its remaining historical retail businesses, through the Fnac de-merger (happened in the first half of 2013) and the disposal of Redcats.

In July 2013, in order to reflect this transformation, the Group's name changed from PPR to Kering. This new name reflects not only the company attitude towards its brands, people, customers, stakeholders and the environment, but also an opportunity to reaffirm the Group's international dimension.

A new emblem was also created: an owl, a sign of wisdom, which represents the visionary side of the Group, the capacity to anticipate trends and spot potential.

This new identity, started several years ago, came from the transformation of its business, going through a diverse conglomerate to a cohesive, integrated and international group.

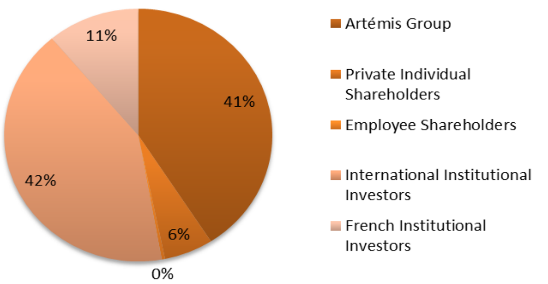
Kering celebrated its 50th birthday in 2013.

Shareholders Stucture

Kering is a public company listed on NYSE Euronext Paris, or Paris Bourse, and it is a member of the CAC 40 Index since 1995.

The main shareholder is Artémis Group with a 41% of the Group's share capital in 2012. In that same year, while international institutional investors had 42%, French institutional investors only held 11% of the share capital. Regarding the employee shareholders, they detained 6% of the share capital in 2012.

FIGURE 28 – Shareholders Structure 2012



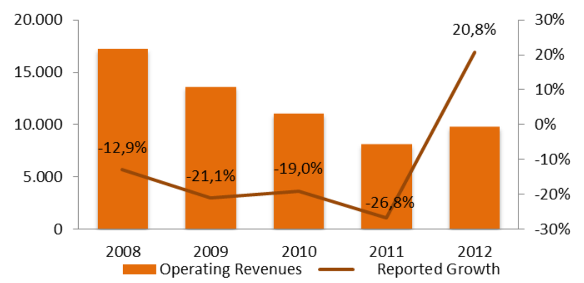
Source: Company data

Revenues and Margins

Kering has been having high growth rates in the last years. However that is not perceivable in FIGURE 29 due to the simultaneous disinvestment from the retail businesses. Only the two last years are comparable because 2011 data was re-stated. With comparable data, Kering's revenues registered a strong performance by growing 20.8% in 2012, hugely affected by positive movements on currencies. Contrariwise, in the first nine months of 2013, revenues grew 3.9% at comparable data, but only 0.4% as reported due to very negative currency impact.

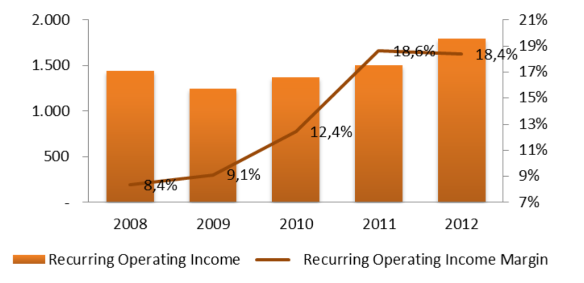
Regarding margins, since Kering started the disposal of its retail business, margins begun to rise strongly, due to higher margins in the luxury goods sector. In 2012 the company reached an EBIT margin of 18.4% and in the first half of 2013 of 18%.

FIGURE 29 – Revenues vs reported growth (%)



Source: Company data

FIGURE 30 – EBIT vs EBIT margin (%)

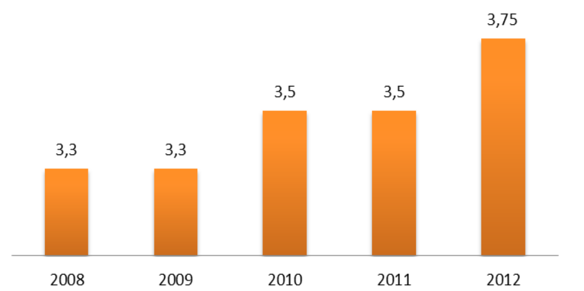


Source: Company data

Dividend per Share and Solvency

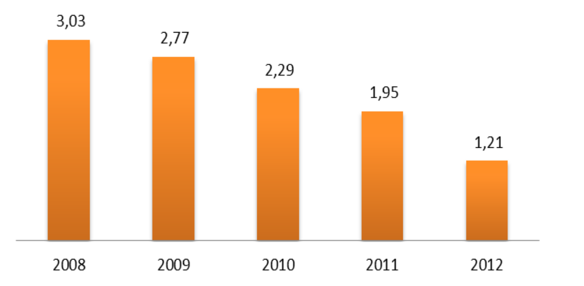
Kering has been growing its dividend per share paid to its shareholders, reaching a maximum of € 3.75 in 2012. Since 2008, Kering is decreasing its net debt/EBITDA, reaching a ratio of 1.21 in 2012. This low ratio is confirmed by S&P's rating of BBB. In the first half of 2013, Kering's gross borrowings maturing within one year corresponded to 50%. In spite of having low long term debt, because of its strong cash generation and its current high level of cash in the balance sheet, the company is not exposed to liquidity risk.[3]

FIGURE 31 – Dividend per Share



Source: Company data

FIGURE 32 – Solvency (Net debt/EBITDA)

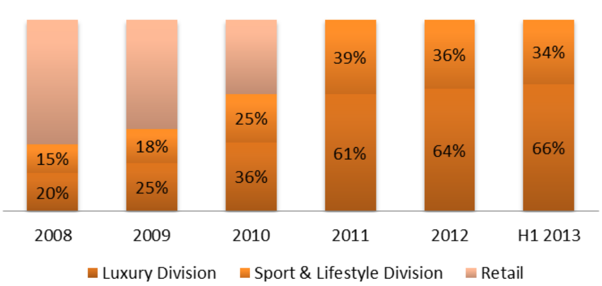


Source: Company data

3.1.1. Divisions and brands

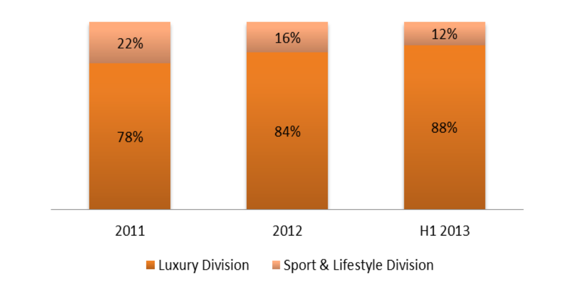
Luxury division increased from 20% of revenues in 2008 to 66% in the first half of 2013 and represented 88% of EBIT.

FIGURE 33 – Revenues breakdown by division



Source: Company data

FIGURE 34 – EBIT breakdown by division

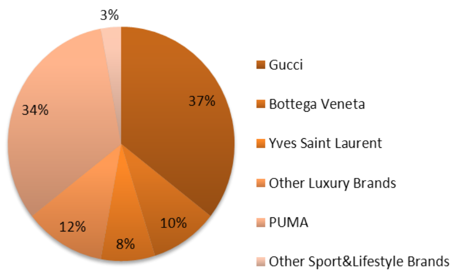


Source: Company data

[3] See Appendix 2 – Liquidity.

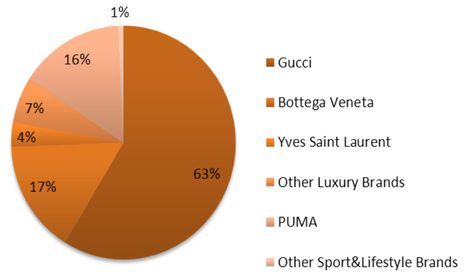
Gucci is a key stock driver for Kering Group, representing 37% of revenues and contributing for 63% of total EBIT. The second biggest brand in terms of revenues is PUMA with 34% of revenues but it only accounts for 16% of EBIT in 2012. Bottega Veneta is the second more important brand in terms of EBIT margin, accounting for 16% of EBIT.

FIGURE 35 – Revenues breakdown by brand 2012



Source: Company data

FIGURE 36 - EBIT breakdown by brand 2012

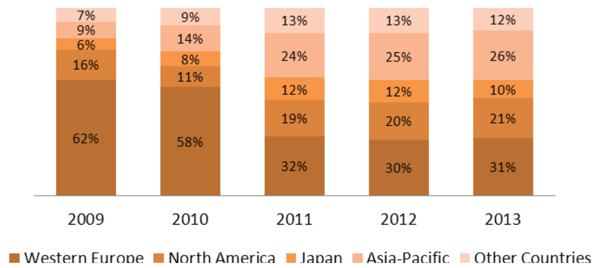


Source: Company data

3.1.2. Geographic regions

Over the years Kering has been focused on internationalization and since 2009 revenues in Western Europe fell by half and are now around 30%. To counteract this decreasing trend, revenues in Asia-Pacific excluding Japan, and in North America grew from 9% to 26% and from 16% to 21%, respectively, between 2009 and 2013.

FIGURE 37 – Revenues breakdown by region



Source: Company data

3.2. Strategy

The strategy of Kering is based on enhancing the organic growth of their current brands through the expansion into new markets, on the reinforcement of their presence in mature markets and on the development of their distribution network and channels.

Another strategy is the acquisition of small to medium size brands that meet some strict criteria, which will strengthen and complement their brand portfolio.

3.3. Brands

This section provides a deeper analysis of each brand, as well as the corresponding estimates for the next three years in terms of revenues and margins. All the analysis and projections are essentially based on several researches from HSBC, Barclays, JP Morgan, Societe Generale, Credit Suisse and Cantor Fitzgerald.[4]

3.3.1. Luxury Division

3.3.1.1. Gucci

Gucci was founded by Guccio Gucci in Florence in 1921 and it is one of the world's leading luxury fashion brands. This brand contributed with 37% of revenues and accounted for 59% of EBIT in 2012, being a key brand for the Group.

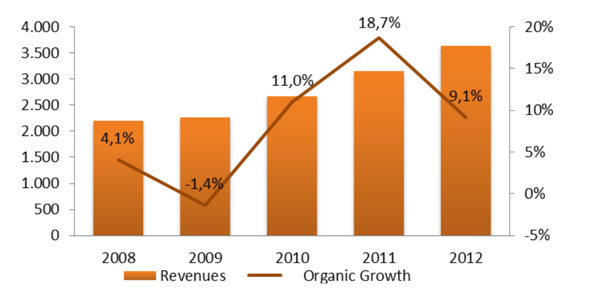
Gucci's main product category is leather goods and is mainly present in Asia-Pacific. Retail channel is the principal distribution channel chosen by Gucci.

The Gucci brand is known by its quality, Italian craftsmanship, exclusivity, innovation, creativity and social responsibility.

The brand sees as main competitors Hermès, Chanel and Louis Vuitton.

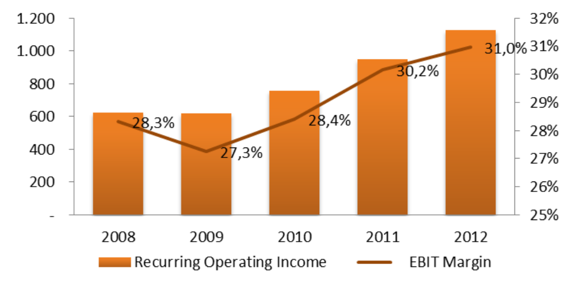
It has sustained strong EBIT and revenues momentum with the margins increasing since 2009, as well as revenues, due to its new positioning.

FIGURE 38 – Gucci: Revenues vs Organic growth (%)



Source: Company data

FIGURE 39 – Gucci: EBIT vs EBIT margin (%)



Source: Company data

- **History**

Between the 1950's and 1970's, the brand was an absolute reference in the luxury market, however in the 1980's the brand's strategy was affected by infighting among the family,

[4] To see how the revenues were estimated, see Appendix 3 – Revenues projections. The exchange rates impact only was considered for 2013, by using the trend of the first nine months of 2013.

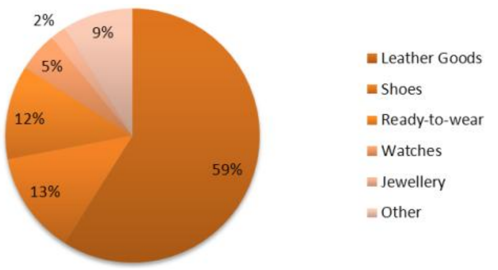
resulting in the brand's loss of relevance and thus becoming more affordable. In the 1990's the brand was one dimensional on "sexy fashion", with 85% of its business being fabric and logo bags and was excessively affordable, thus Gucci's icons were lost. In the mid-2000's the company tried to bring back the icons but it was not successful, as the consumers were still focused on fabric and logo bags.

The main objective of Patrizio di Marco, CEO since 2009, was to redefine the positioning of Gucci as a true luxury brand with a strong heritage and craftsmanship – a positioning that Hermès has captured – bringing back the original appeal of the 50's-70's.

- **Price/Product Mix**

Gucci designs, manufactures and distributes a wide range of products, such as leather goods (handbags, small leather goods and luggage) – which is the main product category (59% of Gucci revenues), shoes, ready-to-wear, silks, timepieces and fine jewellery.

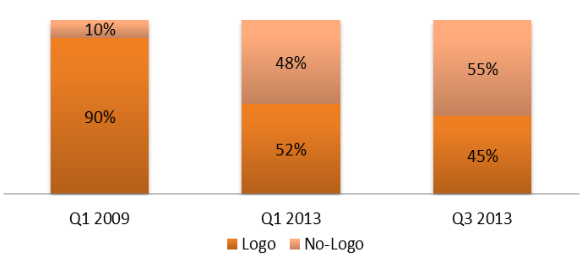
FIGURE 40 - Gucci: Revenues breakdown by product category 2012



Source: Company data

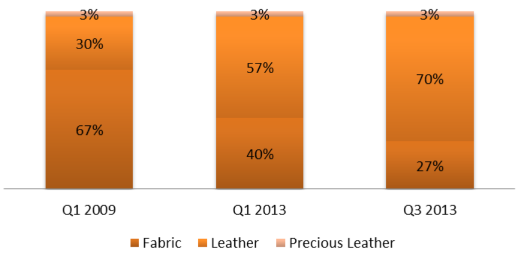
In the last 4 years, Patrizio di Marco has been trying to recapture the mid to high end consumer, focusing on increasing no-logo and leather products. This upscale strategy is going very well with no logo handbags representing 55% of sales, increased from 10% in the start of 2009 and from 48% in the start of 2013 and leather being 70% of sales, compared to 30% at the start of 2009 and 57% at the start of 2013.

FIGURE 41 – Gucci: Logo vs No-logo handbags



Source: Company data

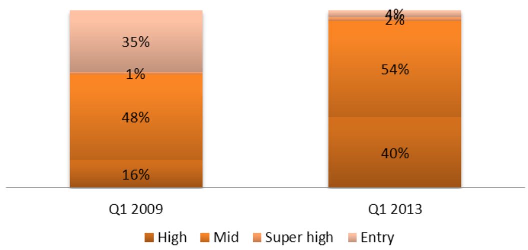
FIGURE 42 – Gucci: Handbags sales breakdown by materials



Source: Company data

Those trends resulted in an average selling price (ASP) increase of 41% in the past four years, with one third coming from price increase (3-4% per year) and two thirds from product mix. The brand saw an additional 10% ASP increase year on year in 2013. The high price category (€ 1,000- € 2,500) moved from 16% of sales in 2009 to 40% in Q1 2013.

FIGURE 43 – Gucci: Handbags sales breakdown by price category

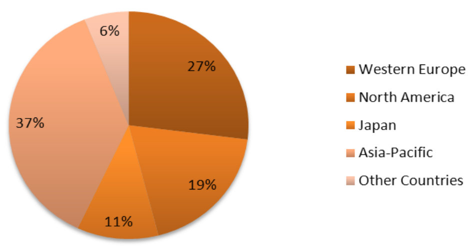


Source: Company data

The new assortment of products has enabled the brand to focus on its key product that is handbags, which represents 28% of the brand revenues. Gucci also revived the iconic handbags like Jackie, New Jackie, Bamboo and Stirrup, now representing 12% of sales (a shift from zero sales 4 years ago). The handbags design has become more leather based, with less focus on the logo and with a much higher average price.

Gucci is mainly present in Asia-Pacific, representing 37% of revenues and in Western Europe with 27% of its revenues in 2012.

FIGURE 44 – Gucci: Revenues breakdown by region 2012



Source: Company data

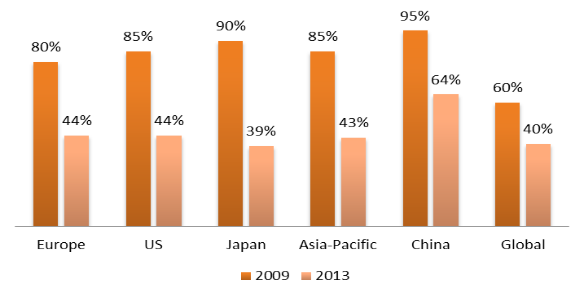
Greater China represents 23% of sales and Chinese consumer corresponds to 30% of sales globally, being a key for Gucci brand. In China logo sales decreased from 95% in 2009 to 64% at the start of 2013 and 60% in Q3, however its weight is still higher than in all other regions (Global representation=40%).

The reason for that relies on the fact that middle class is increasing and the "Chinese new rich" consumers want to demonstrate their wealth via logo products. Thus, the question is if this brand's new positioning will work in the long term. Nevertheless, over the last months Chinese became more sophisticated, looking for more understated products, which someway confirm Gucci's strategy.

The increase of the number of millionaires in China combined with the rise in the middle classes also indicates a long term growth potential for the brand.

This translates in a mix shift opportunity that should benefit Gucci.

FIGURE 45 – Gucci: Logo % handbags sales by region



Source: Company data

Currently, China has a negative like-for-like (LFL) growth due to the up scaling of its merchandising, which results in a loss of low end consumer without yet converting the higher end consumer. Nonetheless, given the work the brand has done in Japan (logo bags sales moved from 90% in 2009 to 30% in 2013) it will be possible to upscale the Chinese consumer, probably going through a few quarters of disruption. This negative growth affects the Gucci brand as a whole.

Another important part in Gucci's strategy is the new product categories and the re-launch of existing categories. In the last 4 years the brand introduced new categories, such as Kids and Silk and reinvented the watches and jewellery categories.

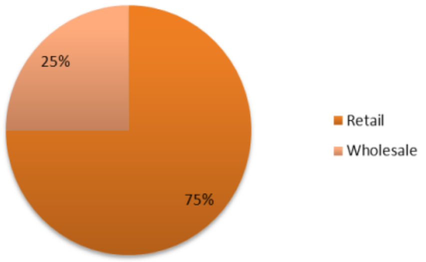
There is still opportunity to improve and/or create different areas including made to order and made to measure; fragrance and beauty; kids; hard luxury (watches and jewellery) and silks and home collections, but also to increase the number of evergreen (carry-over) products.

To conclude, product has been having a fundamental role in the brand's repositioning strategy and it will continue to be a potential growth driver. The question that arises is if this new positioning will be well accepted in China.

- **Distribution**

Gucci distribution channels consist in directly-operated stores (around 75% of Gucci revenues), a directly-operated e-commerce website, some franchisees and selected department, and specialty stores.

FIGURE 46 – Gucci: Revenues breakdown by distribution



Source: Company data

Since 2009, Gucci has added 171 stores reaching 429 directly-operated stores (DOS) in the end of 2012. The brand will continue to open stores but at a slower pace (c. 20/25 stores per year). Therefore the retail channel is set to continue to rise – with particular emphasis on fast-growing regions, but also on mature markets - and reach around 80% of sales in 2015.

Another strategy of the brand is to continue to improve its existing network, by redesigning the stores. In order to do that, the brand launched the new 'Frida' store concept, designed by creative director Frida Gianni and implemented in 54% of the stores in the end of 2012. The redesign of the remaining stores is expected to be completed in 2017. With this new store concept, the products became less about the logo, more around the leather, with the AUR (average unit retail) showing an increase. The new format also helped to reduce costs by 35%-40% and increased the capacity by 30%.

According to Kering's management, store location is the key. Gucci has over 50% of leases in China expiring over the next few years and therefore the group will be able to relocate some stores or/and renegotiate leases in order to increase profitability. These store relocations disrupted Chinese growth rates in Q3 2013.

Management is optimist about the medium-term outlook for China and believes that there is still growth potential because in Mainland China the brand has only 61 stores, compared with 102 stores in the US and 66 stores in Japan. They believe that Gucci can eventually have as many stores as in the US, but not straight away.

The wholesale channel will continue to clean up, i.e., Gucci intends to re-capture wholesale points of sale or convert to franchise stores or DOS. The increase of the retail channel, which implies having a greater control of distribution, is a key driver to boost revenues and therefore margin.

- **Communication**

Regarding communication strategy, which is an essential pillar in the luxury sector, the brand has been betting on marketing initiatives to promote the brand, such as the "Forever Now" campaign and the presence in 81 fashion magazine covers in the last 2 years.

The brand sees the digital channel as a key communication tool and is present on Facebook, Twitter, and all main social networks, being also the first brand to launch a digital shopping magazine.

Conclusion

As mentioned before, there are many drivers that are expected to boost revenues and margins in the medium term. The product mix and price, the creation of different areas, the evergreen products increase, the Chinese consumer and the increase of the retail network, mainly in China, are some of the key drivers that will help to boost sales. The LFL growth, which corresponds to the growth of the existing stores, will be affected for all these drivers.

Gucci has been raising its average selling price 3%-4% per year and this trend is expected to continue, with an approach of positioning Gucci amongst the leading luxury brands in the World by an increasing role of sales of high level prices (leather products).

The overall price increase comes from price increases on the carry over collections (price increase of 7-8% in April 2013) and from the positive price mix by pushing higher priced products and selling less low priced products. Due to the up scaling of the brand it is expected that the volume of sales will decrease as a direct result of the loss of lower end clienteles. Thus the company will sell less new items but at higher prices, at least in the medium term.

That being said, for 2014 the LFL growth it estimated only considering a price increase of 2.5% because it will offset the volume decline and for 2015, after an year of new positioning consolidation and no logo products increase in China it is considered a LFL growth of 4.5%.

In Q3 2013, Gucci revenues only grew 0.6% at comparable rates, mainly due wholesale rationalization and softer retail performance in China caused by store relocations and the new positioning in high-end products. Mainland China was down single digit in Q3 2013 after a flat performance in the first half of 2013, impacted by short term market conditions, upscale transition and changes on retail network. These factors will continue to impact Gucci in the short term, thus for 2013, it is assumed a decrease of 2.5% in the LFL growth rate.

Regarding the number of stores, management expected to have 30 net stores openings (including transfers from wholesale) in 2013 and around 25 new stores per year for the medium-term, translating the strategy of slowing the growth level of stores compared to the last three years, when growth rates were quite high. In the first nine months of 2013 the brand already had opened 12 new stores and recaptured 20 points of sale, therefore for 2013 is considered 35 net stores openings and 25 for both 2014 and 2015, which reflects a reasonable growth of the number of stores at a 5% per year pace.

Gucci intends to rationalize the wholesale channel, especially in Europe. That is why in the first half of 2013 this channel decreased around 4% and in Q3 decreased 9%, reflecting Gucci’s decision of reducing the number of point of sales by bringing certain operations back under direct management (notably in Canada); limit the increase in sales of Fashion and Leather Goods to certain distributors (notably in Italy) and reclassify points of sales in South Korea as DOS. Thus, for 2013 it is assumed that this channel will contract 8% and for 2014 and 2015 it is considered that it will show no growth, reflecting the decision to focus on the retail channel.

With all of these facts put together, an organic growth of 3.0%, 6.6% and 7.2%, for 2013, 2014 and 2015, is expected. Those rates are in line with Kering’s expectation of having a 80% revenue in 2015 coming from the retail channel.

In what concerns margins, there are three main key areas of potential: the gross margin expansion potential driven by the higher gross margin from leather versus fabric bags; operating leverage from the fixed cost base – the company invested in infrastructures in the last years, giving potential for sales leverage to benefit margins, and expected improvements on capacity and demand management which could lower markdowns.

In Kering’s First Half 2013 conference call, management stated that EBIT margin is expected to increase for the entire year, thus it is assumed an EBIT margin of 32% for 2013, which represents an increase of 1%. For the following years a growth of 0.7% per year is estimated, corresponding to the average growth of the last five years, reaching an EBIT margin of 32.2% and 32.4% for 2014 and 2015, respectively, going on the right track to achieve the management target of 35% long-term EBIT margin.

To conclude, Gucci is in a transition process that impacts revenues on the short term but after a consolidation period the brand is likely to return to its high growth rates due to all the potential drivers previously referred.

3.3.1.2. Bottega Veneta

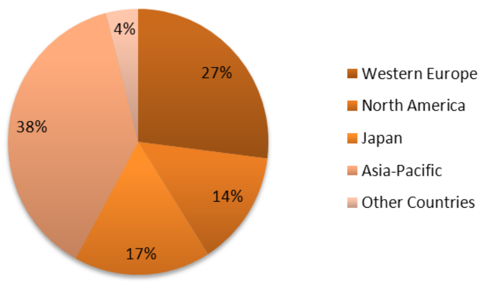
Bottega Veneta is an Italian luxury brand famous by its signature *intrecciato*, a leather weaving technique developed by its artisans. The brand was founded in 1966 in Vicenza by Vittorio and Laura Moltedo and in 2001 the company was acquired by Kering Group.

Bottega Veneta is the second most important brand in Kering Group, contributing with 17% of the company's EBIT. It accounted for 15% of luxury division revenues and around 10% of total revenues in the end of 2012.

The company's strategy consists in creating luxury goods based on its values of innovation, quality, craftsmanship, exclusivity, discreet luxury and attention to detail.

Its main product category is leather goods and the brand is mainly present in Asia-Pacific with 38% of the revenues and in Western Europe accounting for 27% of the brand revenues.

FIGURE 47 – BV: Revenues breakdown by region 2012



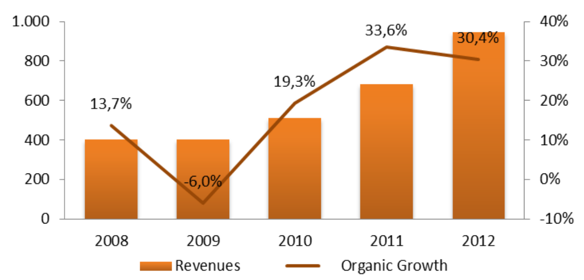
Source: Company data

Bottega Veneta has been engaged in collaborations with key strategy partners that have the same values and focus on quality and craftsmanship. These partners are Poltrona Frau (seating), KPM (porcelain), Victor Mayer (fine jewellery), Girard-Perregaux (watches), Safilo (eyewear), Coty Prestige (fragrances) and Rizzoli (books).

In 2006, due to the importance of artisanal craftsmanship for this brand, Bottega Veneta opened a school with the objective to train and support future generations of leather artisans. In 2013 the brand launched the "*Initials",* which enables customers to personalise leather goods that they purchase online.

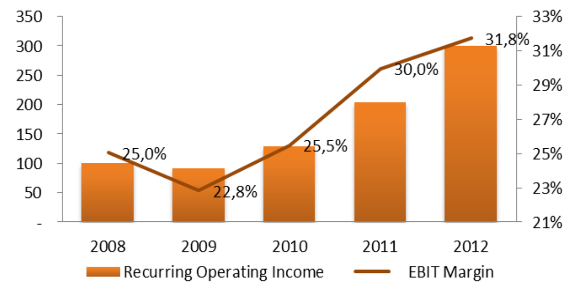
Since 2009, BV has been having an impressive performance with sustainable organic growth rates mainly due to the leather, craftsmanship and heritage focus that is expanding to other categories (ready to wear and shoes) and its Italian-made and high-quality products designed by Tomas Maier since 2001. The brand has also very good margins that have been increasing since 2009, reaching 31.8% in 2012. Despite its smaller size, the brand has higher margins than Gucci brand.

FIGURE 48 – BV: Revenues vs Organic growth (%)



Source: Company data

FIGURE 49 – BV: EBIT vs EBIT Margin (%)

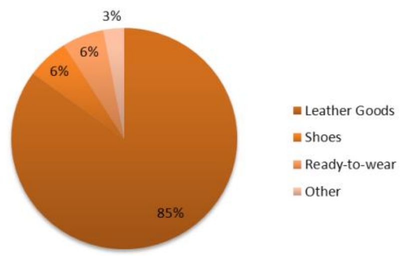


Source: Company data

- **Price/ Product Mix**

Leather goods (handbags, luggage and small leather goods) account for 85% of Bottega Veneta's revenues, but the brand has much more product categories, such as ready-to-wear, shoes, jewellery, eyewear, accessories, furniture and home decorations. The famous motto "When your own initials are enough" is applied to all product categories and expresses a "philosophy of individually and confidence".

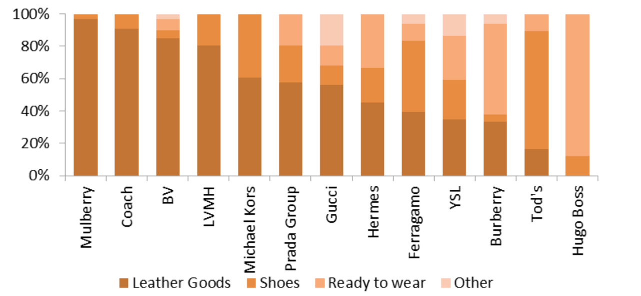
FIGURE 50 – BV: Revenues breakdown by product category



Source: Company data

Compared to its peers, BV has one of the highest exposures to leather goods, which are the products that have the highest margins. It is a positive long-term key, although in 2013, because the brand is diversifying its portfolio into ready-to-wear and soft accessories, the margins may hold back given by the lower margin of these categories versus leather goods.

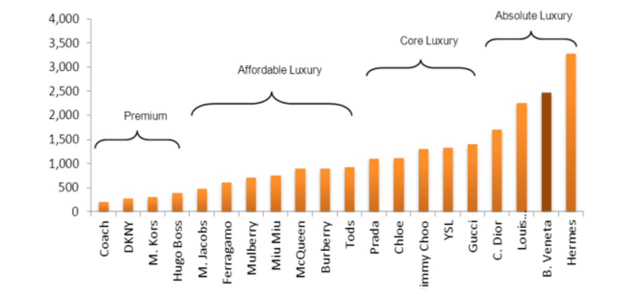
FIGURE 51 – Soft luxury product breakdown by brand



Source: Barclays Research

The brand positions itself in the absolute luxury category, only beaten by Hermès price positioning. This positioning gives strong pricing power, driving superior sales growth over the medium term and can be an opportunity to reduce the gap between BV and Hermès.

FIGURE 52 – BV price positioning (€ for black leather tote bag)

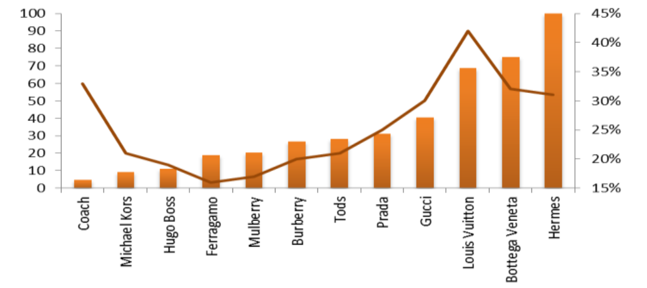


Source**:** Barclays Research

This focus on higher-priced leather goods led the brand to achieve sustainable growth rates in the last years, mainly driven by price/mix with its average unit price doubling since 2004/5 from € 1,000 to € 2,000 nowadays.

The price positioning and EBIT margin, although the trend is brand specific, are correlated, which means that the brands with the higher prices usually have the higher margins. Given BV's positioning in the high end and associated pricing power, it is a key driver for margin in the medium-term.

FIGURE 53 – Soft luxury price positioning vs EBIT margin

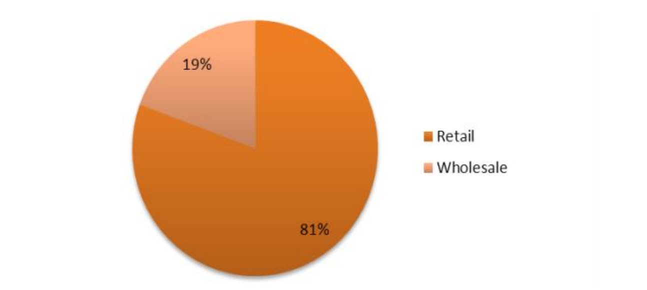


Source: Barclays Research

- **Distribution**

The products are sold through a tightly-controlled distribution network of directly operated stores, exclusive franchise stores, strictly-selected department, specialty stores and online. The retail channel represents 81% of revenues and management wants to enhance this network with selective store openings worldwide.

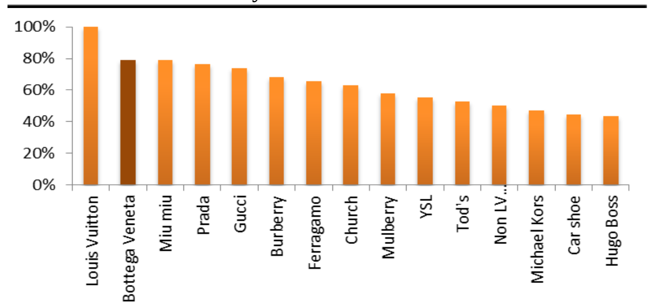
FIGURE 54 - Revenues breakdown by distribution channel 2012



Source: Company data

Similarly to the highest exposure to leather goods, BV has also one of the highest exposures to own retail when compared to its peers. The advantages of having a high exposure to retail channel are the strong control over brand equity, which leads to stronger pricing power long-term and lower top-line cyclicality, which offsets the higher fixed cost structure.

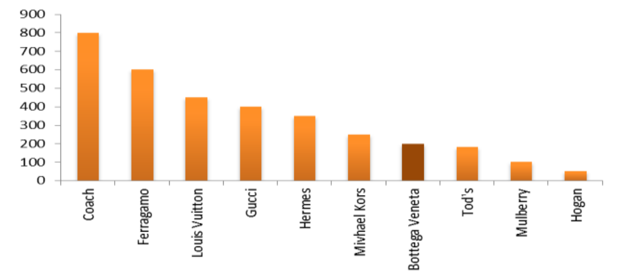
FIGURE 55 – Soft luxury own retail as a % of sales



Source: Barclays Research

Concerning the number of stores, BV is way below its peers with only 196 DOS compared to its mature peers such as Louis Vuitton (460), Gucci (429) and Hermès (350). This can be a potential driver to store openings of 20/25 stores per year.

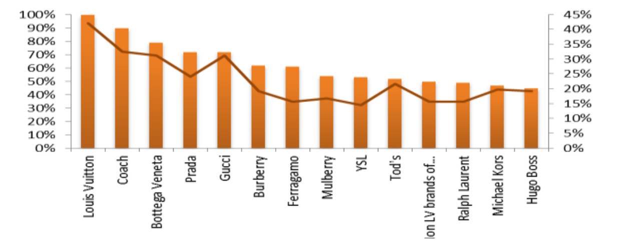
FIGURE 56 – Bottega Veneta store numbers versus peers



Source**:** Barclays Research

The retail exposure is correlated with EBIT margin: the higher the retail exposure, the higher the EBIT margin. Therefore being one of the brands with the highest retail exposure, BV has an advantage regarding margins.

FIGURE 57 – Soft luxury % of sales from retail vs EBIT margin (%)



Source**:** Barclays Research

Conclusion

To conclude, the main growth drivers for Bottega Veneta are its price/mix, higher-priced leather goods, product exposure, exposure to own retail and scope for store expansion. These drivers will help to boost revenues and margins.

The LFL growth will be supported by the brand's positioning given by its pricing power at the absolute luxury end of the leather goods category; store opening profile; own retail exposure and margin potential.

Management wants to have in the end of 2013 220 stores, which represents the opening of 5 stores in the Q4 of 2013. For the next years is expected a slowdown in the growth of the number of stores with net openings of around 20/25 stores per year. To be conservative, it is assumed 20 new net stores openings, representing a growth of around 10% in the number of stores for the next 3 years. Retail channel is expected to represent 86% of revenues in 2015 corresponding to a CAGR of 14.5%.

Wholesale growth should continue to slowdown once the brand is focusing on DOS. Thus it is estimated a growth for the entire year of 2013 similar to what happened on the first half – around 3% and for 2014 and 2015 it is assumed a 0% growth because it is not expected that this channel will continue to expand due to huge focus on directly operated network.

Final figures reach an organic growth of 13.9%, 12.2% and 11.9% for 2013, 2014 and 2015, respectively.

Beyond the referred key margin drivers – high price positioning and high percentage of own retail - there is also another one that is important for higher margins, which is scale given operating leverage on the existing cost base. Bottega Veneta is very well positioned regarding these drivers, thus it has potential to improve the margins in the long-term. Management believes that BV can reach a 35/40% EBIT margin in the long term.

Therefore, due to BV's positioning it is expected EBIT margin to continue to rise, however at a slower pace. It is assumed BV can reach a 32.8% EBIT margin in 2013, representing a 100bps increase and that will grow 50bps in 2014 and 2015 reaching 33.3% and 33.8%, respectively.

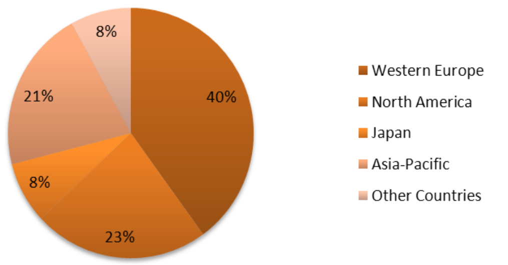
3.3.1.3. Yves Saint Laurent

Yves Saint Laurent or Saint Laurent Paris, is a luxury fashion house founded in 1961 by the designer Yves Saint Laurent and his partner Pierre Bergé. The brand started as an haute couture house and it was the first house to introduce luxury ready-to-wear, revolutionizing modern fashion.

This brand is responsible for 8% of the luxury division revenues and 5% of the total revenues, contributing with 4% of the Group's EBIT in 2012.

Yves Saint Laurent is mainly present in Western Europe with 40% of revenues, followed by North America and Asia-Pacific.

FIGURE 58 – YSL: Revenues breakdown by region 2012

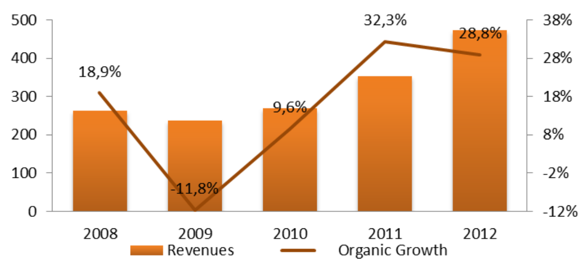


Source: Company data

In March 2012, the company started a new era with the appointment of Hedi Slimane as Creative Director. His objective is to recapture the impulses of "youth, freedom and modernity" that inspired the designer to launch Saint Laurent Rive Gauche ready-to-wear in 1966 and to return to the brand's heritage. To reflect the rebranding exercise, Hedi renamed the ready-to-wear and accessories lines "Saint Laurent", indicating a stronger focus on the ready-to-wear products. The brand launched a new store concept designed by Hedi and inspired by the techniques and materials of French art deco.

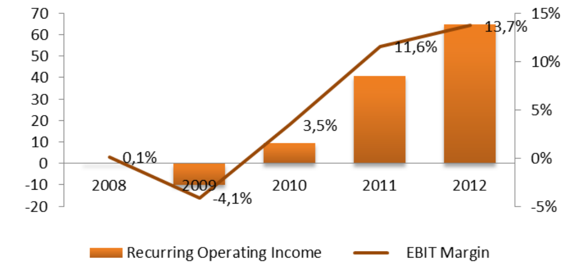
YSL has been having robust revenues over the last years and since 2009, after several years of losses, the brand started to be profitable with EBIT margin growing throughout the years, reaching an EBIT margin of 14% in 2012.

FIGURE 59 – YSL: EBIT vs EBIT margin (%)



Source: Company data

FIGURE 60 – YSL: Revenues vs Organic growth (%)

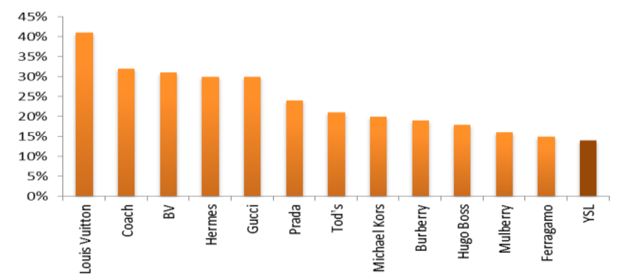


Source: Company data

These top-tine trends were essentially driven by leather goods and large extent shoes. Leather goods increased from 33% in 2009 to 44% in 2012 and shoes grew from 19% to 23%, mainly driven by its best-selling products in both categories, including the *Cabas* bag and the *Tribute* shoes.

YSL has the lowest margins compared to its peers, which can be an opportunity to increase them in the long-term.

FIGURE 61 – YSL: EBIT margin vs peers

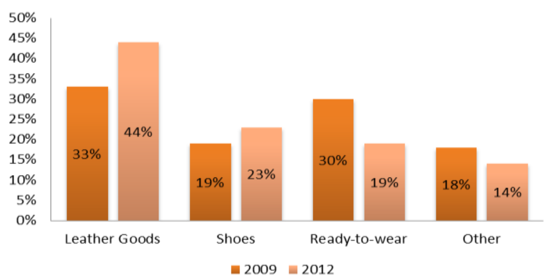


Source: **B**arclays Research

- **Product**

The brand's objective is to create and market highly desirable products, such as leather goods (handbags and small leather goods), which represent 44% of revenues, shoes (23% of revenues), ready-to-wear, jewellery, scarves, ties and eyewear.
One of the main objectives of the new creative director Hedi Slimane is to return to the brand's heritage, which means to put more focus on the ready-to-wear category, once it decreased from 30% of revenues in 2009 to 19% in 2012.

FIGURE 62 – YSL: Revenues breakdown by product category



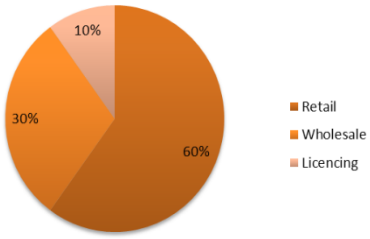
Source**:** Company data

This more ready-to-wear focus will put pressure on margins on the near-term, due to lower margins in this category, however on the long-term there is potential as the brand leverages its fixed-cost base.

- **Distribution**

YSL markets its products through directly-operated boutiques (60% of revenues), select multi-brand boutiques and department stores. The brand has also a licence agreement with L'Oréal to product and to distribute fragrances and cosmetics. Although the retail channel is the main distribution channel, it represents a smaller percentage compared to Gucci and Bottega Veneta.

FIGURE 63 – YSL: Revenues breakdown by distribution channel 2012



Source: Company data

The brand had only 89 stores in the end of 2012 and comparing to its peers is significantly under-penetrated, thus there is store expansion potential.

Management plans to continue the expansion of its global retail presence and to redesign progressively all the existing stores with the new store concept. This expansion will not be only on emerging markets but also on the US, Europe and Japan.

Conclusion

To conclude, the brand's key drivers are the store expansion potential, price mix and marketing campaigns.

Kering planned to increase the pace of the number of new stores per year, opening around 15/20 new stores. However, the brand already opened 21 stores in the first nine months of 2013, thus for 2013 it is assumed 25 new stores. To be conservative it is predicted 15 new stores per year in 2014 and 2015. This strategy translates into a CAGR of around 17% for the next three years in the number of stores.

During the transition period (new store concept and new designer launch), which requires adaptations of large-scale production and merchandising, the brand decided to prioritize deliveries for wholesalers, reducing the supply for DOS, that's why revenues from retail channel only rose 3.4% in the first half of 2013, although in Q3 2013 this channel gained momentum by growing 15%, which reflects successful roll-out of new store concept.

The brand is in a transition phase with LFL revenues declining with the rising number of stores. Therefore for LFL growth is predicted a 1% decrease for 2013 and in 2014 and 2015 LFL revenues should start to accelerate gradually.

With a huge focus on the retail channel, it is forecasted an increase of retail as percentage of revenues, achieving 63% of sales in 2015 from 60% in 2012. This is translating into CAGR of around 15%. The wholesale channel will see a slowdown on the growth rates as soon as the transition period finishes.

Consequently, it is predicted comparable growth rates of 14.9%, 14.9% and 10% for 2013, 2014 and 2015, respectively.

This phase will put margins under pressure in 2013. However they will start to develop nicely in 2014 and 2015, estimating an EBIT margin of 13.5% for 2013 and a 100bps increase in 2014 and in 2015. Management believes that it is possible to achieve a 25% EBIT margin on the long term.

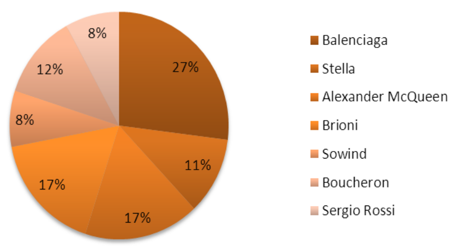
3.3.1.4. Other Luxury Brands

The Other Luxury Brands (OLB) includes a number of smaller brands that complement Kering's portfolio, by its distinctive identity.

According to Barclays Research (2013), these smaller brands give access to merchandising and retail expertise, digital expertise, a higher negotiating power, the use of Kering's logistics platform and a support services platform for taxes, communications, human resources and legal affairs (including intellectual property) and shared services platforms in Hong Kong, Mainland China and Korea, that have a dedicated back-office structure from which all the brands can leverage.

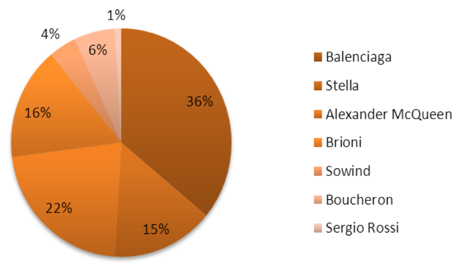
The OLB are constituted by the brands Balenciaga, which represents 27% of revenues and 36% of EBIT, Stella McCarteny, Alexander McQueen, Brioni, Sowind Group, Noucheron, Sergio Rossi and recently, Qeelin, Pomellato and Christopher Kane.

FIGURE 64 – OLB: Revenues breakdown by brand 2012



Source: **B**arclays Research

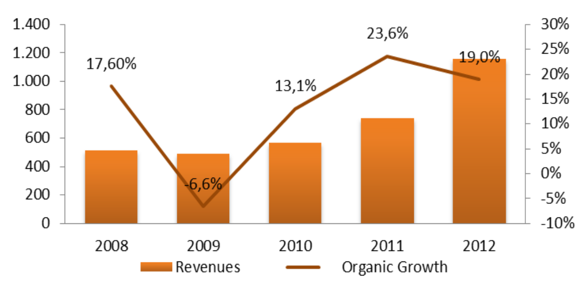
FIGURE 65 – OLB: EBIT breakdown by brand 2012



Source: **B**arclays Research

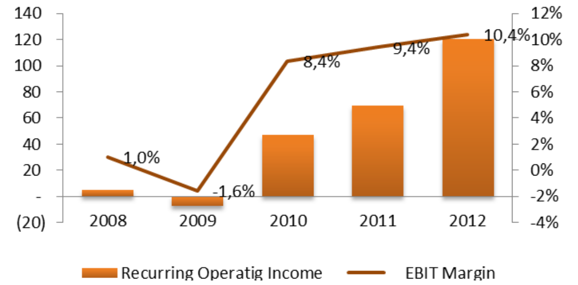
This segment has been having significant sustainable growth rates – it grew 19% in 2012 and 11% in the first nine months of 2013, and the EBIT margins have been also increasing, reaching 10% of revenues in 2012.

FIGURE 66 – OLB: Revenues vs Organic growth (%)



Source: **B**arclays Research

FIGURE 67 – OLB: EBIT vs EBIT margin (%)



Source: **B**arclays Research

- **Alexander McQueen**

Alexander McQueen was founded in 1992 by LeeMcQueen and it designs, manufactures and distributes two brands: Alexander McQueen and McQ. Kering acquired a stake of 51% in 2000, nowadays the brand belongs 100% to the Group. These brands market women's and men's ready-to-wear, accessories, shoes and small leather goods and distribute their products through directly-operated stores, shop-in-shops, franchise network and e-commerce. The values of these brands are based in audacity, creativity and high level of craftsmanship. It is one of the largest brands of "Other Luxury Brands".

- **Balenciaga**

Balenciaga was founded in 1919 by Cristóbal Balenciaga and it was established in Paris in 1936. It represents the largest part of the other luxury brands. Balenciaga presents some essential characteristics for their customers, such as its provocative, design and vision and the mastery of techniques. The brand's heritage is ready-to-wear but they have been diversified, including also bags, shoes, eyewear and fragrances, which are marketed through a license agreement with Coty. More recently, Balenciaga's distribution network includes not only directly-operated stores (69 in 2012) and e-commerce, but also franchises and points-of-sale in the leading multi-brand stores. It is expected to open new stores in mature markets and Asia.

- **Boucheron**

Boucheron was established in Paris in 1858 by Frédéric Boucheron and it is specialized in creating innovative jewellery and watches. Its products are worldwide distributed through directly-operated stores, franchises, department stores and multi-brand boutiques. Boucheron is continuing to expand its network and in 2012 it opened not only the first DOS in Hong Kong, but also developed its network of franchises and exclusive distributors particularly in Greater China.

- **Brioni**

Brioni, an Italian high-end menswear tailoring house, was created in 1945 by Nazzareno Fonticoli and Gaetano Savini. In 2007 and 2011 it was considered by Luxury Institute of NY the most prestigious men's luxury fashion brand in America. The brand is based in 3 guidelines: the Method: "custom made" clothing; the Master Tailor: production capacity is sartorial - the tailor is the distinctive element, and the School: it was launched a superior school to perpetuate its know-how. Its products include all categories of men's attire, leather goods, shoes and other accessories. Brioni is a recent brand of Kering, since it was only acquired in January 2012. It has 35 directly-operated stores, located mainly in Europe and Japan and the management's strategy includes the expansion of its own retail to Asia and other emerging markets.

- **Sowind Group: Girar-Perregaux and JEANRICHARD**

The Sowind has two brands: Girard-Perregaux and JeanRichard, and it is specialized in *Haute Horlogerie.* Sowind develops and produces a portfolio of high-end watch movements and mechanical watches for its two brands and third parties, including brands within the Kering Group, such as Bottega Veneta and Boucheron. The strategy of Sowind consists in the expansion of its two brands in different markets such as US and Latin America, and in the continuing growth in Asia and strong development in Middle East.

- **Sergio Rossi**

Sergio Rossi was founded in Italy in 1968 and it is a women's luxury shoes brand. Furthermore, the brand also produces a small range of men's shoes, bags and accessories. Its products are sold through directly-operated stores, franchises, selected department, specialty stores and e-commerce. In 2012 the brand developed its presence in Asia.

- **Stella McCartney**

Stella McCartney launched her own fashion house in partnership with Kering in 2001. Her collections are not only distributed in over 50 countries through directly operated stores, specialty shops and department stores (650 wholesale accounts) but are also shipped to 100 countries online. Its main products category is women's ready-to-wear and accessories. Besides these categories, the brand has also other categories, which includes lingerie, eyewear, fragrance, kids wear, and sport collection in partnership with Adidas. The objective of the brand in 2013 is to consolidate the retail openings, to focus on the growth in the wholesale channel and to support the retail channel through the re-launch of the website.

- **Qeelin**

Qeelin is a Chinese jewellery brand made in France and it was acquired by Kering in December 2012.

- **Christopher Kane**

Christopher Kane was born in 2006 in Scotland. Since then, it focused only on women's ready-to-wear but in 2010 it also started to focused on menswear. Christopher Kane is known for its inventive and imaginative fashion. In 2013 the brand was acquired by Kering Group.

- **Pomellato Group**

Pomellato Group is an Italian jewellery company that embodies two brands: Pomellato and Dodo.

Conclusion

Due to the difficulty of estimating the mix of all these brands, it is used the assumptions of the following analysts (JP Morgan, HSBC, Credit Suisse, Societe Generale, Barclays and Cantor Fitzgerald) to predict revenues and EBIT margins. As a result, it is expected that this segment will grow 12.5%, 11.8% and 10.0% in 2013, 2014 and 2015, respectively, reaching margins of 10.8%, 11.7% and 12.4% for the same years.

3.3.2. Sport & Lifestyle Division

3.3.2.1. PUMA

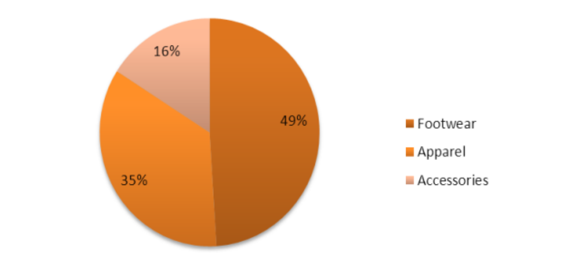
PUMA is a sport and lifestyle multinational German company that designs, produces and sells footwear, apparel and accessories. It is the world's third largest sport and lifestyle brand as measure by revenue. Its main peers are Nike and Adidas.

In 2007 Kering Group acquired a 69% stake in PUMA, which nowadays grew up to 83%. In 2012, the brand contributed for 34% of total revenues and 16% of total EBIT.

PUMA has collaborations with renowned designers such as Alexander McQueen and Mihara Yasuhiro. The company has the brands PUMA, Cobra Golf and Tretorn and in June 2013 PUMA appointed a new CEO – Bjoern Gulden.

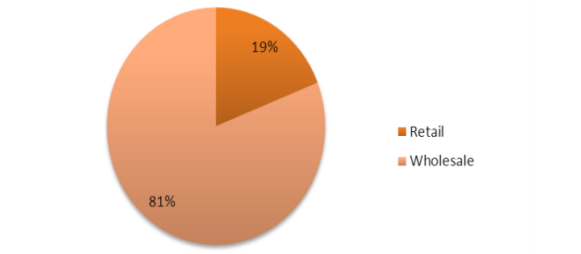
PUMA offers footwear, apparel and accessories products in categories such as football, running, training and fitness, golf and motorsports. The footwear product category represents almost 50% of the brand's revenues, followed by apparel (35%) and accessories (16%). The products are essentially sold through wholesale channel, that represents around 80% of revenues.

FIGURE 68 – PUMA: Revenues breakdown by product category 2012



Source: Company data

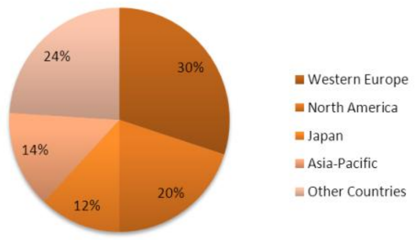
FIGURE 69 – PUMA: Revenues breakdown by distribution channel 2012



Source: Company data

Western Europe is the main market of PUMA, representing 30% of revenues, followed by North America with 24% of revenues.

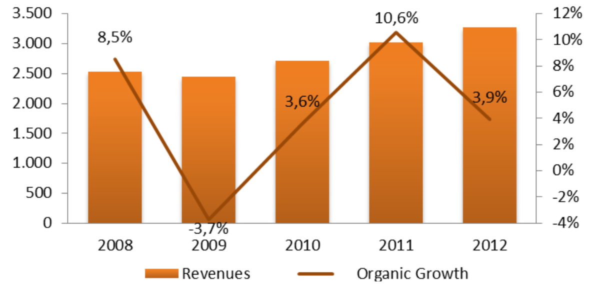
FIGURE 70 – PUMA: Revenues breakdown by region 2012



Source: Company data

In 2012, the difficult market environment, particularly in Europe, and adverse exchange rates movements impacted PUMA performance; however it grew 3.9% organically in 2012. In the first nine months of 2013, the adverse environment mainly in Southern Europe and the Far East continued as well as currency headwinds, causing a decrease of 2.5% in comparable revenues, which was also affected by the closing of 60 unprofitable stores. This performance was in line with management full year guidance.

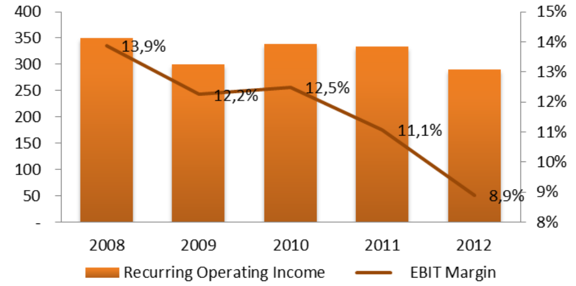
FIGURE 71 – PUMA: Revenues vs Organic growth (%)



Source: Company data

EBIT margins have been decreasing in the last five years and reached 8.9% in 2012. This decrease was mainly due to higher costs and lower margins caused by inventory clearance, the regional mix and continued pressure in wage inflation in the Far East. In the first half of 2013, despite the cost savings through the Cost Reduction Program, they were not enough to offset the decline in sales and gross profit margin and EBIT margin continued to fall, reaching 7.5% compared to 9.5% in the first half of 2012.

FIGURE 72 – PUMA: EBIT vs EBIT margin (%)



Source: Company data

PUMA defined as its mission to become the most desirable and sustainable Sport Lifestyle company in the World and to accomplish that it defined a Transformation and Cost Reduction Program that consists in several priorities: cost reduction program to ensure profitability over the short term, through the implementation of a new regional business model in Europe by reducing the number of reporting entities from 23 countries to 7 country groups; warehouse consolidation in Europe; closing unprofitable stores, mainly in Europe and in the US, but continue opening stores in selected locations, primarily in emerging markets (90 stores expected to close in 2013, reaching 540 stores in the end of the year) and focus on sponsoring, by closing endorsement contracts that are unprofitable; brand and product transformation with the objective of focusing on future sales; corporate transformation which aims to optimize the business model on the long-term and to continue to develop the expansion of Tretorn and COBRA Golf.

The implementation of this program started in the second half of 2012 and will continue throughout 2013, which is a transitional year.

PUMA/Tretorn

Tretorn was founded in 1891 in Sweden and is specialized in rubber-made products. Tretorn is inspired in its Scandinavian roots that apply into its collection of rubber boots, riding boots, leisure shoes and tennis balls.

The new PUMA's CEO mission is to fulfil the potential of Tretorn as a world-class outdoor brand by expanding the business through the investment in product development and design and international sales.

PUMA COBRA GOLF

Cobra Golf is a golf equipment manufacturer that became PUMA Cobra Golf when it was purchased by PUMA in 2010. It allowed PUMA to provide an ample range of golfing products and to become a leading player in the golf sector. It sells golf equipment, apparel, footwear and accessories.

Guidance

Management doesn't anticipate any growth in revenue in 2013 due to global economic situation and to the restructuration program which includes the closing of 90 unprofitable stores and the streamlining of the product portfolio, expecting a low to mid-single digit decline in sales for the entire year.

Unfavourable exchange rates movements, rising in wage costs and in raw materials will continue to push down the gross profit margin in 2013 (guidance of -100/150bps).

The company will continue to invest in the appeal of PUMA, Cobra and Tretorn, as well as on expanding core markets and in new retail stores. It has planned investments costs of € 70 million for 2013. The restructuring program should lower the expense ratio with cost savings coming from Europe.

Management stated that in 2013 net income will be positive but much lower than in 2012.

Management also announced that there are expected special items of approximately € 130 million in the Q4 of 2013, coming from impairment charges related to non-current assets.

Conclusion

PUMA's behaviour in the different regions is very different, thus it is chosen this way to estimate the revenues.

Americas registered a comparable growth of 0.4% in the first nine months of 2013. For the full year of 2013 it is assumed a slight comparable growth of 0.5% due to an expected continuing strong growth in Latin America; wage growth, which is expected to promote consumer spending and the 2013 FIFA confederations cup; and the build-up to the 2014 FIFA World Cup.

For Asia/Pacific region it is assumed the same comparable growth that occurred in the first nine months of 2013 (decrease of 5%) due to expected continuing difficulties in Japan (weaker yen), China and Korea.

Regarding EMEA, which is the more important region for PUMA, representing around 40% of revenues, it registered a -3.6% decrease in first nine months of 2013 and this negative trend is expected to continue in the Q4 of the year. There are many reasons for that, such as the increase in the unemployment rate, severe austerity measures, low wage growth, reduced consumer spending (mainly in Western Europe) and a tough comparative that included the

Olympics and the Euro 2012. Saying that, for the entire year of 2013 it is assumed a comparable growth of - 4%.

With these assumptions taken it is arrived to a comparable growth of - 3.6% for 2013, which goes to company guidance of low to mid-single digit decline for the entire year. The exchange rates movements will affect this growth pushing it down to around 4%.

After a year of restructuring, it is predictable that PUMA will be back to normal, slowly recovering and reach a long term growth in the industry which is around mid-single digit (low single digit inflation more emerging markets growth). Consequently it is assumed comparable growths of 3.5% and 4.7% for 2014 and 2015, respectively.

Gross margin has been suffering with the difficult economic environment and it went from 49.5% in the first nine months of 2012 to 47.5% in the same period of 2013. In Q4 2013 this pressure is expected to continue. The main focus of PUMA is in this margin and the abandonment of rugby and sailing will help materially. Hence, for 2013 it is assumed a decline of -100 bps to 47.3% and for 2014 and 2015 it is assumed gross margin will increase slightly to 47.5% and 47.7% respectively, due to cost reduction program.

With the Transformation and Cost Reduction Program, PUMA was able to reduce its operating expenses ratio from 40% to 39.8%. However, this costs reduction was not enough to offset declines in revenues and gross margin and EBIT margin declined to 8.3% in the first nine months of 2013.

EBIT margin is expected to decrease slightly in 2013 to 7.8% and start to grow in 2014 and 2015, 8.2% and 8.7%, respectively, due to operating expenses improvements.

It is possible to see PUMA's income statement in Appendix 5 – PUMA Income Statement.

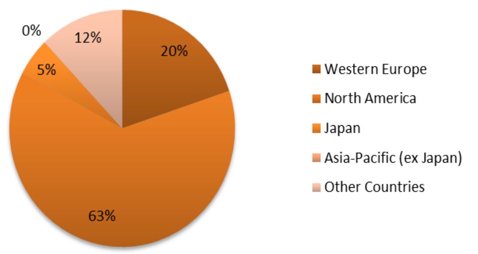
3.3.2.2. Other Sport & Lifestyle Brands

The Other Sport & Lifestyle Brands (OSL) include the brands Volcom and Electric, which belong to Kering Group since July 2011,[5] and represent a slight piece of 3% of its revenues.

[5] The data for 2011 only concerns the second half of that year.

The brands are essentially present in North America, where sales are around 63%, and are not present in Asia-Pacific ex-Japan.

FIGURE 73 – OSL: Revenues breakdown by region 2012

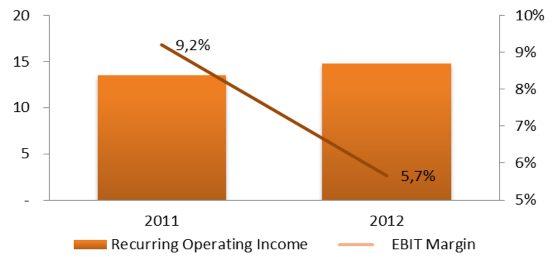


Source**:** Company data

In 2012, both of the brands struggled with several problems: the difficult economic environment in Europe, the major reorganization measures undertaken by certain distributors' stores networks in the United States and the adverse weather.

A major factor related to these brands is that their business is highly seasonal and generates higher operating income in the second half of the year. Thus, although Figure LXXI reports a decrease of the EBIT margin from 9.2% to 5.7%, at the end it was only a 90 basis decrease, based on comparable data.

FIGURE 74 – OSL: EBIT vs EBIT margin (%)



Source**:** Company data

Volcom

Volcom is an action sports-based modern lifestyle company founded in 1991 that designs, markets and distributes youth-oriented products, such as young men's and women's clothing, footwear and accessories.

The company focuses on three board sports: skate, surf and snow. Recently, Volcom added motocross to its roster of riding sports.

Volcom promotes its brand image by sponsoring athletes featured on the covers of action sports magazines and websites and presented in grassroots market events and by producing board sport and youth lifestyle related films, art and music.

Volcom plans to launch its closed-toe footwear line, developed in cooperation with PUMA; to do additional investments in resources, marketing and operations; to expand its retail network and to re-launch its website.

Electric

Electric is a premium sport and lifestyle accessory brand founded in 2000 in Southern California.

It designs and markets a wide line of premium sunglasses, snow goggles, watches, backpacks, luggage, snow helmets and accessories, which are distributed through retail channel in the Americas, Europe, Japan, China and Australasia.

The brand desires to accelerate its growth by expanding its product lines, distribution network and geographical footprint.

Regarding the distribution network the brand wants to place its products in department stores, lifestyle boutiques and selected online sites.

Within the product lines, Electric will focus on bags and small leather goods, as well as in introducing two new snow goggles and in updating the high-end "Loveless" collection.

Conclusion

Estimation of revenues growth and EBIT margins are based on the following analysts (JP Morgan, HSBC, Credit Suisse, Societe Generale, Barclays and Cantor Fitzgerald). It is assumed organic growth rates of -2.5%, 4.4% and 5.7% for 2013, 2014 and 2015, respectively. For the EBIT margins, it is expected to reach 4.1%, 6.5% and 7.5% for the next three years.

4. Company Valuation

4.1. Projections

In order to apply the DCF model – the main chosen model to value Kering – some inputs are needed.

- **Revenues**

Kering has a wide portfolio of diversified brands, each one with its own characteristics. Therefore, to estimate revenues, as well as EBIT margins for the explicit period, it was decided to do it by brand in order to have a more accurate projection. The assumptions made are justified in section 3.3. and are summarized in FIGURE 75.

FIGURE 75 – Organic revenue growth assumptions

Organic Revenue Growth Assumptions	2013E	2014F	2015F
Luxury Division	**7,3%**	**9,2%**	**8,8%**
Gucci	3,0%	6,6%	7,2%
Bottega Veneta	13,9%	12,2%	11,9%
Yves Saint Laurent	14,9%	14,9%	10,0%
Other Luxury Brands	12,5%	11,8%	10,0%
Sport & Lifestyle Division	**-3,6%**	**3,5%**	**4,8%**
PUMA	-3,6%	3,5%	4,7%
Other Sport&Lifestyle Brands	-2,5%	4,4%	5,7%
Total Kering	**3,4%**	**7,3%**	**7,5%**

Source: Author's estimates

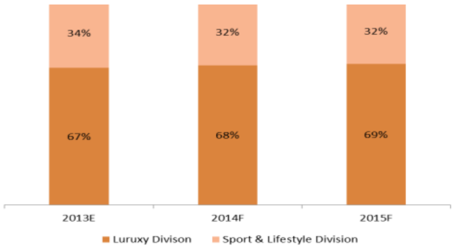
According to the mentioned assumptions, Kering should grow 3.4% in 2013, 7.3% in 2014, and 7.5% in 2015 at comparable rates. For 2013 it is assumed a negative impact of 3.3% from exchange rates, resulting from the trends verified in the first nine months of that year. According to these projections, Kering will grow above the sector average, which is expected to grow 2%-5% in the next three years.

These trends reflect the restructuring transition that Kering has been going through, but after this period revenues should accelerate given its strong brand portfolio, and all the before mentioned reasons.

With Gucci having troubles with its new positioning in China and sports division suffering from economic conditions, organic growth will depend mainly on the smaller luxury brands.

Given those assumptions, it is estimated that luxury division will continue to grow and in the future will represent around 70% of revenues, meeting the company's guidance.

FIGURE 76 – Revenues breakdown by Division in the next 3 years



Source: Author's estimates

Revenues are very hard to predict since they depend on several factors that are impossible to control. Therefore, the assumptions were only made for the next three years, since longer projections have a higher probability of not being met.

Consequently, after this explicit forecast period, it was considered an intermediate period where growth rates decay during the following seven years until they reach the long term growth rate of 2.5%.[6]

- **EBIT margins**

As said before, EBIT margins were also estimated by and they are presented in FIGURE 77.

FIGURE 77 – EBIT margins assumptions

EBIT Margins Assumptions	2013E	2014F	2015F
Luxury Division	**26,3%**	**26,6%**	**27,0%**
Gucci	32,0%	32,2%	32,4%
Bottega Veneta	32,8%	33,3%	33,8%
Yves Saint Laurent	13,5%	14,5%	15,5%
Other Luxury Brands	10,8%	11,7%	12,4%
Sport & Lifestyle Division	**7,5%**	**8,1%**	**8,6%**
PUMA	7,8%	8,2%	8,7%
Other Sport&Lifestyle Brands	4,1%	6,5%	7,0%
Total Kering	**18,7%**	**19,3%**	**19,9%**

Source**:** Author's estimates

EBIT margins are expected to increase in the following three years, reaching 19.9% in 2015. This increasing trend is due to a higher expected weight of luxury division (see FIGURE 76) that comes from higher revenues growth rates in that division, combined with higher margins in luxury than in sports.

For the intermediate period it is assumed that the company will be able to maintain the margins.

[6] Terminal value will be presented later.

- **Tax Rate**

Tax rate is dependent on the mix of the business (luxury/sport division structure as percentage of EBIT) since luxury brands have much lower tax rates than the sport and lifestyle ones. The main reason for this is that luxury brands have all their warehouses in Switzerland, paying there most of the taxes. Swiss tax rate is only 19%, which contrasts with a 29% tax rate from sport and lifestyle division.

Consequently, with higher weight of the luxury division as percentage of profits, the company has been able to decrease the tax rate through the last years, reaching a 22% tax rate in 2012. In the first half of 2013, tax rate was 19% due to an even higher weight of luxury. Since it is estimated an increase on luxury/sport division structure, it is expected that the tax rate will continue to decline.

The company gives a guidance of 20-21% tax rate going forward, and to be conservative it is assumed a tax rate of 21%.

- **Capital Expenditure**

The group designed a targeted investment policy in order to reinforce its image and the positioning of its brands, as well as to increase its return on capital employed. This policy consists in developing its store network, renovating and converting its existing stores, establishing and maintaining the manufacturing units in the luxury sector and developing the IT systems.

Since 2009, Kering has been increasing its capital expenditures, reaching a capex to sales ratio of 4.4% in the first half of 2013. Management does not provide any guidelines about it, but they said on the First Half 2013 Conference Call that they will continue to help its brands to grow with store openings for some of the brands, such as Bottega Veneta, Yves Saint Laurent and others, in line with its investment policy, as well as investing in information system with the objective of tracking better their clients. Kering also remains committed to acquiring smaller brands.

Therefore, it is expected that Kering will continue to invest in its brands at the same pace of the last year and a half (beginning of the restructuration period), thus it is assumed, for the next three years, a constant capex to sales ratio of 4.5%, corresponding to the ratio of 2012,. Since no long term guidance was given, and being conservative, the same ratio is also assumed for the intermediate period.

- **D&A**

Since investment policy will be maintained it is assumed the ratio depreciations and amortizations as % of sales of the last historical year, which is 2.8%.

- **Working Capital**

In 2012, Kering had a working capital of € 768 million, € 479 million higher than at 2011.

The working capital is related with the differences between the current needs and current resources. Working capital as percentage of revenues has been fluctuating through the past years. The reason of that are the changes in group structure. In 2012, since Fnac was classified as asset held for sale, the ratio reflected the actual structure of Kering group, with focus only on luxury and sports businesses. Therefore, it is assumed the company will maintain the same ratio of 7.8% for the next years.

- **Cost of Capital**

The cost of capital corresponds to the minimum rate of return an investor requires to invest in a company.

Kering did not announce any plans to change its capital structure, thus it is considered the current market values as the target capital structure. Market debt value is extracted from Bloomberg and market equity value is calculated by multiplying the number of shares outstanding by the price per share in the end of 2013.

In order to calculate the cost of equity, CAPM model is used, because it is the most consensual model used by financial advisers.

Since the risk free rate is usually the return on a government bond in the home country of the company, with a maturity that should match the investment's time horizon, it is used the French 30 year government bond rate of 3.4%.

Regarding beta estimation, although the simplest way to do that is by using a regression of the stock's return against the market's return, as referred before, Damodaran (1999) states the bottom-up approach is the best one to come with updated betas and therefore this method was chosen to calculate beta. Damodaran estimates unlevered betas adjusted for cash for all industries and regions and provides a database in his website with all the information.

Thus according to the author mentioned the unlevered beta adjusted for cash for apparel industry in Europe is 0.996 (in 13/1/2013).

After that, it is necessary to transform this beta into a levered beta, which consists in adjusting the unlevered beta for the company's financial leverage (with market values). In the end, it is reached a levered beta of 1.16.

Regarding market risk premium it is used Damodaran estimate for France market of 5.6%. This value is calculated by estimating mature market risk premium and adding an additional country risk premium, based on the risk of that country. The default spread is calculated by using the local currency sovereign rating from Moody's and estimate the default spread for that rating over a default free government bond rate, by using the average CDS spreads by ratings class. This goes to what is suggested by common literature, for an appropriate market risk premium around 5%. With all the assumptions made, the cost of equity is 9.9%.

Concerning the cost of debt, in a market environment of low interest rates, Kering was able to finance their last 7 year bond at a 2.5% coupon in July 2013. However, this cost is very low and is not predicted that in the long term this levels of interest rates will be maintained. Therefore, given consensus the expected cost of debt is 5%.

Regarding the tax rate it is also the effective tax rate of 21.9%.

FIGURE 78- Cost of Capital

Cost of Equity (rE)	9,9%
Unlevered Beta	1,00
Beta	1,16
Risk Free Rate	3,4%
Market Return	9,0%
Equity Risk Premium	5,6%
Cost of Debt (rD)	5,0%
Capital Structure:	
Debt	4.125,70
Tax Rate	22%
Equity (Market Cap)	19.357,67
Shares Outstanding	125,99
Price	153,65
Firm Value	23.483,37
D/(D+E)	17,6%
E/(D+E)	82,4%
WACC	8,9%

Source: Author's estimates

After applying the methodology described above, the cost of capital is 8.9%.

- **Terminal Value**

When forecasting the company's financials, it is considered an explicit forecast period of three years. However, due the fact Kering is a high growth company it is also considered an intermediate forecast period where the company is still growing more than inflation. For this intermediate period it is assumed that growth rates will gradually converge to terminal value growth rate.

To be conservative, it is assumed a terminal value a growth rate of 2.5%. It is expected that the company will grow annually at a long term inflation rate of 2% plus a mild long term economic growth of 0.5%. This is below the 4% perpetuity rate anticipated for the sector since it is expected an overall lower growth rate at perpetuity for the sporting goods sector.

Since terminal value has a huge impact on share's price, a sensitivity analysis will be presented in order to measure its impact on Kering's valuation.

4.2. Discounted Cash Flow Method – Target Price

The company was evaluated primarily with the use of a discounted cash flow model, which consists in discounting the expected future free cash flows to the present, by using the weighted average cost of capital.

Free cash flow corresponds to the amount of cash that flows in a company after deducting all cash expenses. It represents the actual cash that a company has left from its operations that may be used to pursue opportunities in order to enhance shareholder value, such as making acquisitions, or developing new products.

After estimating all the inputs necessary to apply this model, the free cash flows are calculated and discounted at the cost of capital of 8.9% to reach the enterprise value.[7] Then it is necessary to make some adjustments to this value, by adding cash and the non-operating assets, and subtracting debt, which includes non-controlling interests (minority interests in PUMA), provisions for liabilities and deferred tax liabilities, in order to reach the equity value.

FIGURE 79 –Enterprise value to Equity Value

	EV explicit period		3.499,66
(+)	EV intermediate period		7.410,67
(+)	Terminal Value		15.128,43
	Enterprise Value		**26.038,76**
(+)	Cash		2.081,00
(-)	Debt	-	4.584,00
(-)	Non-controlling interests	-	704,90
(-)	Provisions for Liabilities and Charges & (	-	364,80
(-)	Deferred Tax Liabilities	-	2.772,30
	Equity Value		**19.693,76**

Source: Author's estimates

[7] The complete DCF model could be seen in Appendix 9 – DCF**.**

In the end, by dividing equity value by the number of shares outstanding it is reached a value of € 159.32 for 31/12/2012.[8] Since the present valuation is for the end of 2013 and in order to have a target price for the next 12 months (31/12/2014) this value is capitalized for two years at the cost of equity. Then the future value of paid dividends is subtracted. Finally it is reached a price target of € 184.50, which compared to the market value of € 153.65 means Kering share is trading at a discount of 20%. In conclusion, the recommendation decision is to *BUY*.

FIGURE 80 – Price Target

# Shares Outstanding	125,99
Price Target 31/12/2012	156,32 €
Price Target 31/12/2014	188,82 €
FV of Paid Dividends	4,32
Price Target ex-dividend 31/12/2	**184,50 €**
Current Value 31/12/2013	153,65
Premium/Discount	**20%**

Source: Author's estimates

4.3. Market Multiples Method[9]

As mentioned before, market multiples are used to complement and reinforce DCF conclusions and to provide a relative valuation of the company and its peers.

Choosing comparable companies is crucial for the application of this method, since the conclusions depend on that. Kering is included in the European luxury goods sector and thus it makes sense to use as comparable companies the ones considered as part of this sector. The following figure summarizes the main characteristics of Kering and its peers.

FIGURE 81 – Characteristics of Kering and its comparable companies

	Share Price	Shares Outstanding	Market Cap	EV	D/E
Kering	157,1	125,4	19.703,50	23.599,20	35,7%
LVMH	126,4	500,6	63.264,10	69.553,10	26,9%
Luxottica	39,4	469,1	18.499,70	20.397,30	54,4%
Richemont	51,3	522,0	26.791,00	23.745,00	19,0%
Swatch	499,7	54,0	26.984,30	26.006,30	1,1%
Burberry Group	10,0	441,9	4.423,20	4.210,70	16,6%
Hermes	251,50	104,10	26.181,20	25.628,40	9,0%
Tods	108,63	30,60	3.324,20	3.211,50	7,3%
Hugo Boss	86,13	69,00	5.943,20	6.189,60	59,8%

Source: Bloomberg

FIGURE 82 presents the multiples projected for luxury goods companies in 2014.

[8] FCF were discounted to 2012 since it is the last historical year and the adjustment to the enterprise value should reflect the last historical data.
[9] Market multiples analysis can be seen in Appendix 10 – Multiples Analysis.

FIGURE 82 – Multiples projections 2014

	2014F							
	P/E	P/B	P/S	Dividend Yield	EV/EBIT	EV/EBITDA	EV/Sales	FCF Yield
Kering	13,5x	1,4x	1,8x	2,6%	11,0x	9,6x	2,1x	4,1%
LVMH	16,5x	2,2x	2,1x	2,6%	10,5x	8,8x	2,2x	4,5%
Luxottica	24,8x	3,9x	2,4x	2,0%	16,1x	12,2x	2,5x	3,1%
Richemont	17,2x	3,1x	3,6x	1,5%	13,0x	11,3x	3,2x	3,1%
Swatch	16,7x	2,8x	3,2x	1,5%	11,9x	10,4x	3,0x	2,4%
Burberry Group	17,8x	4,7x	2,7x	2,3%	12,2x	9,5x	2,5x	3,9%
Hermes	30,7x	7,9x	6,7x	1,3%	19,6x	17,7x	6,3x	2,4%
Tods	22,1x	4,1x	3,5x	2,6%	14,9x	12,5x	3,3x	3,4%
Hugo Boss	18,5x	8,0x	2,7x	3,8%	13,9x	11,5x	2,7x	4,3%
Industry Average	**19,8x**	**4,2x**	**3,2x**	**2,2%**	**13,7x**	**11,5x**	**3,1x**	**3,5%**

Source: Author's estimates

The industry average P/E 2014E ratio is 19.8x, while Kering has the lowest value of 13.5x, which is telling that Kering is the cheapest stock and it states that investors are willing to pay less for the same earnings per share.

In terms of P/BV 2014E Kering is trading at a 1.4x P/B, well below the industry (4.2x) which might indicate the company is undervalued. Looking at P/S the same can be concluded, suggesting that the price is too low for the volume of sales. Lastly, Kering's dividend yield is in line with its industry, 2.2% on average, and its FCF yield of 4.1% is above the average, indicating the company's attractiveness.

By analyzing equity multiples and since Kering is trading at lower P/E, P/BV and P/S ratios comparing to the industry average, according to what is described in section 1.3. the company seems undervalued. Kering enterprise multiples are also below average industry also confirming the company is undervalued when compared to its sector.

4.4. Risks

As in all valuations, Kering is exposed to several risks that can impact the present valuation.

Being Gucci a key brand for the whole company, an underperformance of this brand will be a huge risk for the company. Disappointing results or failure to turnaround PUMA will also be a risk, as well as acquisitions, and as the group has restructured the use of cash and future gearing levels are a key uncertainty.

Kering is an international company and consequently is exposed to currency movements, more precisely to the strengthening of the euro against the United States dollar and yen. The company has high exposure to emerging markets, which can also be a risk if they start to slowdown, affecting consumer spending and consequently revenues.

Other risks Kering is baring are the macroeconomic outlook, since revenues are dependent on the overall strength of the economy, a weaker outlook for the global economy could affect negatively the projections. An example of a macro factor that has impact on Kering is hard landing in China. A decline in travelling flows and tourism results in a decline in tourism spending affecting Kering revenues performance.

The luxury market is a competitive sector where brand strength and consumer perception of the different luxury brands affect the sales, and therefore a change in the competitive landscape or in the consumer's appreciation of Kering's brands, particularly Gucci could affect sales.

4.5. Sensitivity Analysis

Future is uncertain and it would be unrealistic to think that the assumptions made will correspond completely to reality. All the projections have associated a certain risk, and for that reason it is relevant to measure the impact that small changes in some variables in the final results.

Sensitivity analysis has the purpose of determining the effect of a particular variable oscillation while keeping the others constant.

In this analysis the variables considered are perpetuity rate, cost of capital, 2013 growth rate (since future revenues depend on those values) and 2015 EBIT margin (due to the fact that in the future it is assumed the same margin of that year), because they are the ones that might have higher impact on the price target of the company, they should be tested. The results are presented in the following figure[10]:

FIGURE 83 – Sensitivity analysis

Perpetuity Rate	Share Value
	184,50
0,0%	132,16
0,5%	140,14
1,0%	149,13
1,5%	159,33
2,0%	171,01
2,5%	**184,50**
3,0%	200,29
3,5%	219,01
4,0%	241,57
4,5%	269,30
5,0%	304,19

WACC	Share Value
	184,50
5,0%	590,59
6,0%	398,94
6,5%	339,13
7,0%	292,66
7,5%	255,52
8,0%	225,17
8,5%	199,90
8,9%	**184,50**
9,5%	160,28
10,0%	144,47
10,5%	130,65
11,0%	118,47
11,5%	107,66
12,0%	98,01

g 2013 E	Share Value
	184,50
-0,5%	182,95
0,0%	184,22
0,1%	**184,50**
0,5%	185,49
1,0%	186,77
1,5%	188,04
2,0%	189,31
3,0%	191,85
4,0%	194,39
5,0%	196,94

EBIT 2015	Share Value
	184,50
16,0%	133,74
17,0%	146,78
17,5%	153,30
18,0%	159,83
18,5%	166,35
18,7%	169,30
18,9%	171,57
19,5%	179,39
19,9%	**184,50**
20,5%	192,44
21,0%	198,96
21,5%	205,48

Source: Author's estimates

[10] Grey fill means price target below current market price (€ 153.65 as of 31/12/2013).

As would be expected changes in perpetuity rate and cost of capital have the highest impacts on price target. If perpetuity rate is less than 1% or cost of capital higher than 10%, the investment recommendation would change. Changes in 2013 revenues growth rate do not affect the given recommendation. Nevertheless, regarding 2015 EBIT margin the recommendation would change if it went from 19.9% to 17.5%.

The main drawback of sensitivity analysis is that it only allows studying the impact of one variable alone. However, for the purpose of dealing with this limitation it is also undertaken a scenario analysis that allows to combine simultaneously a set of possible changes. Thus, it is tested the combined impact of a change either in the perpetuity rate and cost of capital, and also a change in 2013 revenues growth rate and 2015 EBIT margin, simultaneously.

FIGURE 84 – Impact on target price with changes in some variables

		WACC													
	184,50	**5,0%**	**6,0%**	**6,5%**	**7,0%**	**7,5%**	**8,0%**	**8,5%**	**8,9%**	**9,5%**	**10,0%**	**10,5%**	**11,0%**	**11,5%**	**12,0%**
Perpetuity Rate	**0,0%**	62%	28%	14%	3%	-7%	-16%	-24%	-28%	-36%	-42%	-47%	-51%	-55%	-59%
	0,5%	80%	39%	23%	10%	-1%	-10%	-19%	-24%	-33%	-39%	-44%	-49%	-53%	-57%
	1,0%	102%	52%	34%	19%	7%	-4%	-13%	-19%	-29%	-35%	-41%	-46%	-50%	-55%
	1,5%	130%	69%	48%	30%	16%	3%	-7%	-14%	-24%	-31%	-37%	-43%	-48%	-52%
	2,0%	168%	90%	64%	43%	26%	12%	0%	-7%	-19%	-27%	-33%	-40%	-45%	-50%
	2,5%	220%	116%	84%	59%	38%	22%	8%	0%	-13%	-22%	-29%	-36%	-42%	-47%
	3,0%	299%	152%	110%	78%	54%	34%	18%	9%	-6%	-16%	-24%	-32%	-38%	-44%
	3,5%	430%	201%	144%	103%	73%	49%	30%	19%	2%	-9%	-19%	-27%	-34%	-40%
	4,0%	692%	276%	192%	137%	97%	67%	44%	31%	11%	-2%	-12%	-21%	-29%	-36%
	4,5%	1479%	399%	264%	184%	130%	91%	62%	46%	22%	7%	-5%	-15%	-24%	-32%
	5,0%		647%	385%	254%	175%	123%	85%	65%	36%	18%	4%	-8%	-18%	-27%

		2015 EBIT Margin											
	184,50	**16,0%**	**17,0%**	**17,5%**	**18,0%**	**18,5%**	**18,7%**	**18,9%**	**19,5%**	**19,9%**	**20,5%**	**21,0%**	**21,5%**
g 2013 E	**-0,5%**	-28%	-21%	-18%	-14%	-11%	-9%	-8%	-4%	-1%	3%	7%	10%
	0,0%	-28%	-21%	-17%	-14%	-10%	-8%	-7%	-3%	0%	4%	8%	11%
	0,1%	-28%	-20%	-17%	-13%	-10%	-8%	-7%	-3%	0%	4%	8%	11%
	0,5%	-27%	-20%	-16%	-13%	-9%	-8%	-7%	-2%	1%	5%	8%	12%
	1,0%	-27%	-19%	-16%	-12%	-9%	-7%	-6%	-2%	1%	6%	9%	13%
	1,5%	-26%	-19%	-15%	-12%	-8%	-6%	-5%	-1%	2%	6%	10%	13%
	2,0%	-25%	-18%	-15%	-11%	-7%	-6%	-5%	0%	3%	7%	11%	14%
	3,0%	-24%	-17%	-13%	-10%	-6%	-4%	-3%	1%	4%	8%	12%	16%
	4,0%	-23%	-16%	-12%	-9%	-5%	-3%	-2%	2%	5%	10%	14%	17%
	5,0%	-22%	-15%	-11%	-7%	-4%	-2%	-1%	4%	7%	11%	15%	19%

Source: Author's estimates

It is possible to note the huge impact that perpetuity and cost of capital have together. For example, a small change of 0.6% in cost of capital combined with a decrease of 0.5% in perpetuity rate has an impact of - 27% on the price target. Nevertheless, the impacts from the combination between 2013 growth rate and 2015 EBIT margin are much lower.

5. Conclusion

The aim of the present project was to reach a price target for Kering and trying to evaluate the attractiveness of the company's share.

Hence, it was developed a model in order to analyze the historical information and to help to project the future. The DCF model points to a price target of € 184.50, which compared to the current market price of € 153.65, suggests Kering has an upside potential of 20%. Therefore, the investment recommendation is to buy Kering's share.

Multiples analysis also points that Kering is undervalued compared to its peers, with a P/E 2014E of 13.5x versus the sector 19.8x and an EV/EBITDA 2014E of 9.4x compared to 11.5x from the industry average.

The company has been creating value since its return on invested capital (ROIC) is higher than its cost of capital. Kering has been increasing its EVA spread (ROIC-WACC) and this trend is expected to continue, reaching an EVA spread of 2.1% in 2015. Return on equity (ROE) is also increasing and it is higher than the cost of equity, meaning the company has capacity to earn excess returns. The equity return spread (ROE-rE) is estimated to continue to raise and reach a value of 1.6% in 2015.

FY 2013 has being a transition year for Kering with the listing of Groupe Fnac and the announced disposal of La Redoute, representing the end of the restructuration process consisted in divesting all the retail businesses. Now Kering is only focused on Luxury and Sport & Lifestyle divisions. Additionally, this is also a year for brands transformation: Gucci is going through a brand repositioning with focus on no logo leather products; YSL is experiencing a transition period with a new store concept and a new Creative Director, and PUMA is implementing its Transformation and Cost Reduction Plan.

The diversified brand portfolio combined with good prospects for the luxury goods sector, and justified by the increase in Chinese outbound tourists, HNWIs, global consumption, wealthy and middle classes in emerging markets, household disposable income and in ongoing urbanization in China, will drive the company future organic growth.

Organic growth is expected to be driven mainly by the smaller luxury brands that have been presenting sustainable growth rates and should benefit from Chinese consumer new preferences with more understated products. Gucci has been impacted by some disruption around the brand's repositioning and from the stores relocation, which will impact short-term performances. PUMA will be focused on its transformation plan and brand relaunch.

Kering reported FY13 revenues that came in +0.1% as reported and +4% organically, in line with the estimates. However, Gucci was below the estimates (2.2% against 3% estimated) since it continues to see weaker trends in China given its new positioning and store relocations. BV was in line with the expectations and YSL was the main outperformer with an organic growth of 21.6% (estimated +14.9%) driven by an improvement in the ready to wear new collection. Other luxury brands were slight ahead of estimates with Balenciaga registering "improving" trends with the new creative director. PUMA was above the estimates, declining 2.8 (expected -3.6%), however its FY 2014 guidance changed to flat revenues and 5% EBIT margin.

Kering saw a decrease in EBIT margin from 18.4% in 2012 to 18%, 70bps below the estimates, driven mainly by PUMA EBIT margin decrease of 250bps. Luxury division saw an EBIT margin of 26%, 30bps below the estimates. FY 2013 adjusted EPS from continuing operations was at €9.75 compared with the estimated at € 9.94, this was mainly due to exceptional items that were € 442.5 million. Net debt/EBITDA was 1.7x compared to 1.5x estimated and dividend per share were in line with expectations. Other luxury brands are not enough to offset the deceleration at Gucci and PUMA and consequently the model update should point to a reduction on Kering's price target.

The elaboration of this project had some limitations. To support the valuation process it was done a relatively complex excel model in mid-2013, becoming quite difficult to update it, since each brand was analyzed and projected individually. Therefore, it was decided to keep the valuation date in the end of that year, and to not update it because it would take a long time to review all the assumptions made and to project one more year (since at the present date, the 2013 full year results are already known and it would not make sense to only have an explicit period of two years).

Suggestions for further studies include a sum-of-the-parts analysis and a deeper analysis about growth prospects and characteristics of Kering peers.

To conclude, with Kering restructuration process ended and with a positive market prospects, as well as a strong brand portfolio, the company has potential to reach sustainable organic growths and operating income margins on the medium term.

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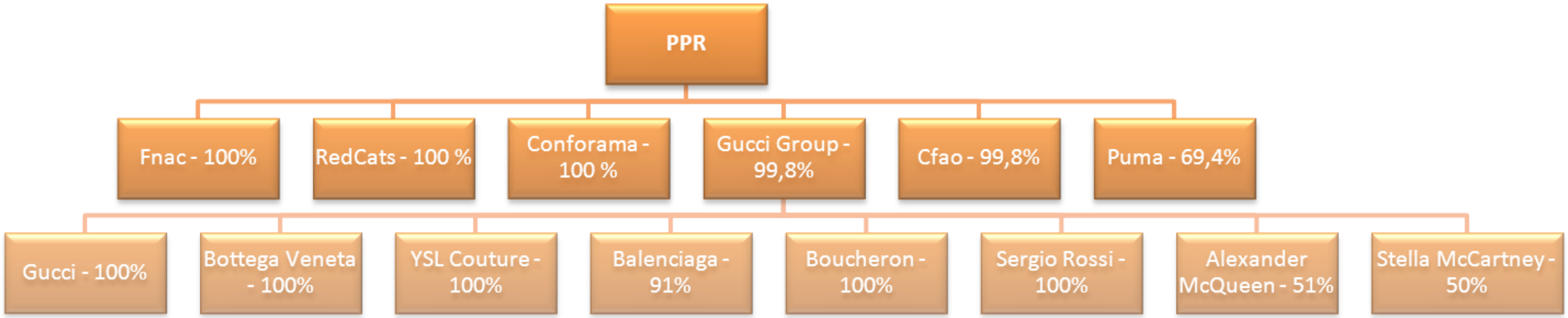
7. Appendixes

Appendix 1 - Company Structure

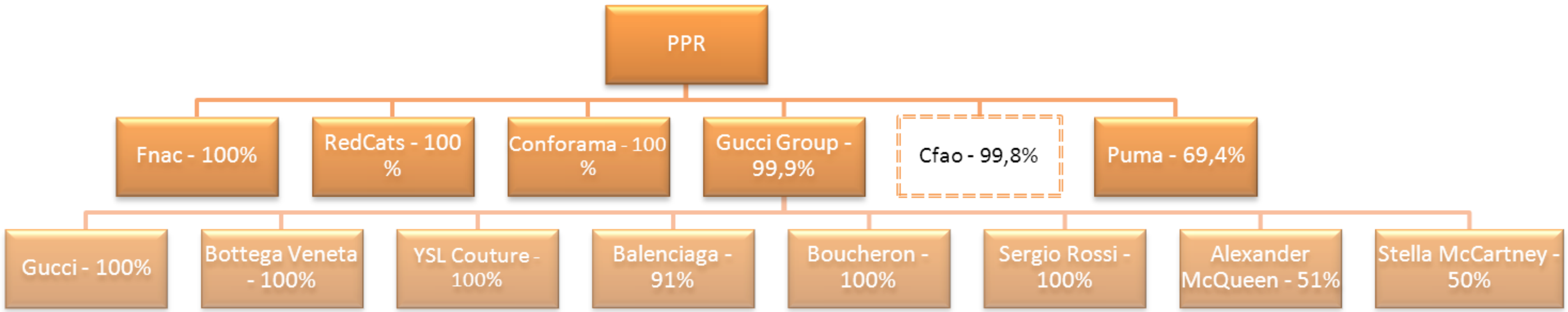
Sale

Acquisition

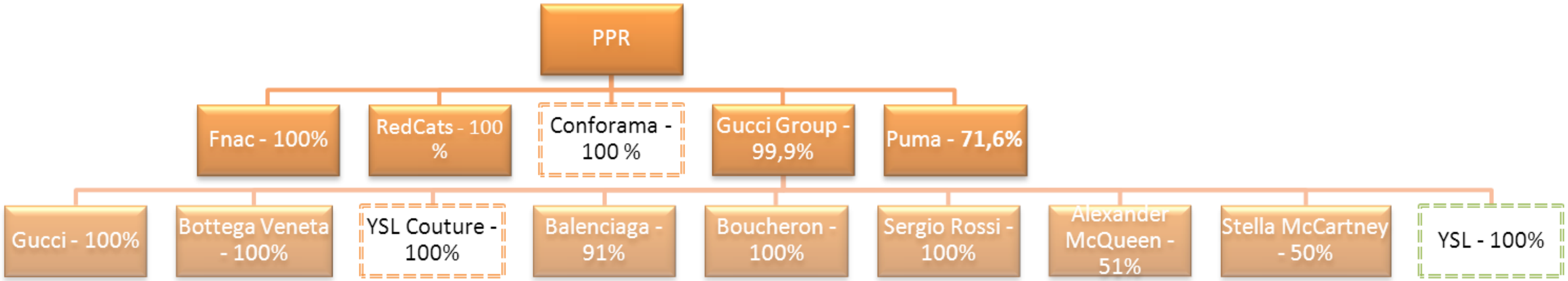
2008



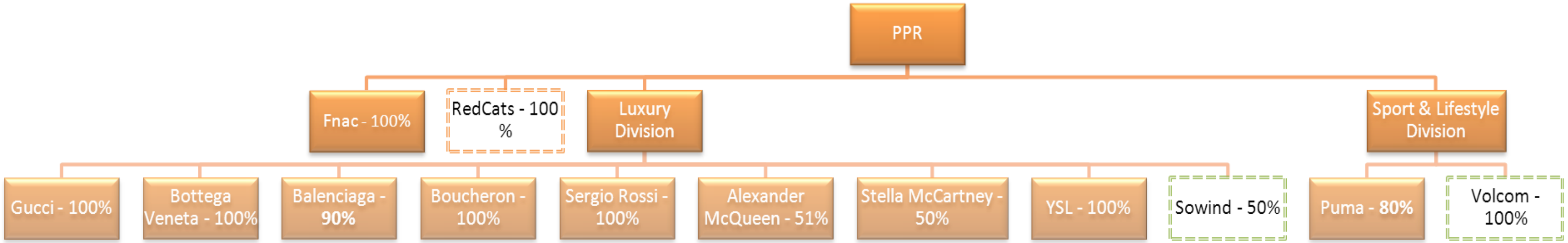
2009



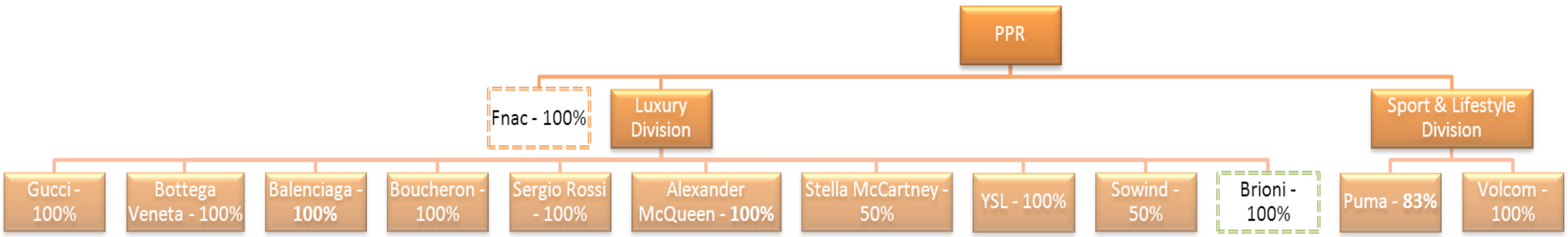
2010


PPR
Fnac - 100%
RedCats - 100 %
Conforama - 100 %
Gucci Group - 99,9%
Puma - 71,6%
Gucci - 100%
Bottega Veneta - 100%
YSL Couture - 100%
Balenciaga - 91%
Boucheron - 100%
Sergio Rossi - 100%
Alexander McQueen - 51%
Stella McCartney - 50%
YSL - 100%

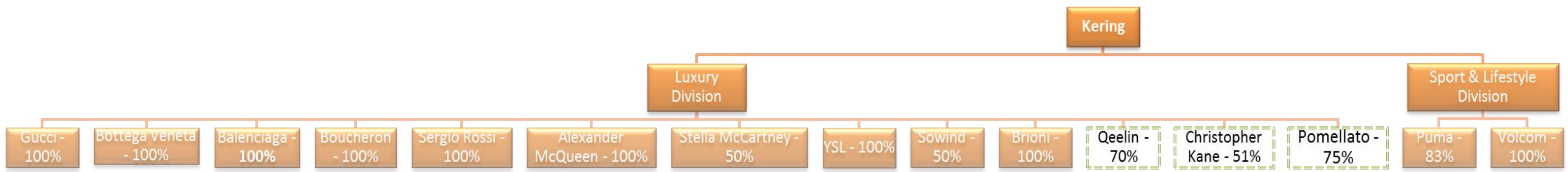
2011


PPR
Fnac - 100%
RedCats - 100 %
Luxury Division
Sport & Lifestyle Division
Gucci - 100%
Bottega Veneta - 100%
Balenciaga - 90%
Boucheron - 100%
Sergio Rossi - 100%
Alexander McQueen - 51%
Stella McCartney - 50%
YSL - 100%
Sowind - 50%
Puma - 80%
Volcom - 100%

2012

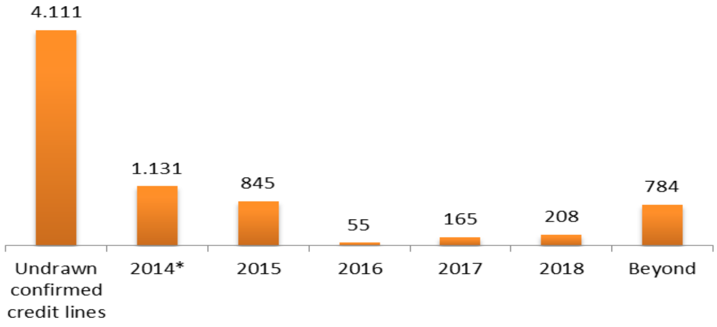

PPR
Fnac - 100%
Luxury Division
Sport & Lifestyle Division
Gucci - 100%
Bottega Veneta - 100%
Balenciaga - 100%
Boucheron - 100%
Sergio Rossi - 100%
Alexander McQueen - 100%
Stella McCartney - 50%
YSL - 100%
Sowind - 50%
Brioni - 100%
Puma - 83%
Volcom - 100%

2013


Kering
Luxury Division
Sport & Lifestyle Division
Gucci - 100%
Bottega Veneta - 100%
Balenciaga - 100%
Boucheron - 100%
Sergio Rossi - 100%
Alexander McQueen - 100%
Stella McCartney - 50%
YSL - 100%
Sowind - 50%
Brioni - 100%
Qeelin - 70%
Christopher Kane - 51%
Pomellato - 75%
Puma - 83%
Volcom - 100%

Appendix 2 – Liquidity

Maturity schedule of net debt H1 2013



Source: Company data

*Gross borrowings after deduction of cash equivalents and financing of customer loans

Appendix 3 – Revenues projections

When a new store opens it does not reach immediately the level of sales of the existing ones. According to Kering's investor relations "*You should assume that it typically takes between 6 to 18 months (depending on the size of the stores, the region, as well as the brand, etc…) for a new store to mature*.", therefore it is assumed that the new stores reach on average 2/3 of the revenues per store in comparison with the mature ones.

To project the revenues coming from LFL stores the following equations are used:

$$\text{LFL Revenues}_n = \text{Revenues per store}_{n-1} \times (1 + \text{LFL growth}_n) \times \#\text{ of stores}_{n-1}$$

$$\text{Revenues per store} = \frac{\text{Retail Revenues}}{\text{Average \# of stores}}$$

- **Project new stores revenues**

$$\text{New Stores Revenues}_n = \text{Revenues per store}_{n-1} \times (1 + \text{LFL growth}_n) \times \frac{2}{3} \times \text{Average \# of stores openings}_n$$

Appendix 4 – Brands
Gucci

Summary	2008	2009	2010	2011	2012	H1 2013	Q3 2013	9M 2013	2013E	2014F	2015F
Revenues	2.206,40	2.266,40	2.666,10	3.143,20	3.638,80	1.754,80	865,00	2.619,80	3.619,11	3.856,36	4.133,09
Reported Growth	1,4%	2,7%	17,6%	17,9%	15,8%	1,6%	-5,4%	-0,9%	-0,5%	6,6%	7,2%
Organic Growth	4,1%	-1,4%	11,0%	18,7%	9,1%	4,0%	0,6%	2,9%	3,0%	6,6%	7,2%
FX	-2,7%	4,1%	6,6%	-0,8%	6,7%	-2,4%	-6,0%	-3,8%	-3,5%	0%	0%
Recurring Operating Income	624,80	617,70	757,20	947,70	1.126,40	556,00			1.158,12	1.242,67	1.341,17
EBIT Margin	28,3%	27,3%	28,4%	30,2%	31,0%	31,7%			32,0%	32,2%	32,4%
EBITDA	704,6	710	864,6	1071,2	1260,3	625,6					
EBITDA Margin	31,9%	31,3%	32,4%	34,1%	34,6%	35,7%					
% Total Revenues	12,8%	16,7%	24,2%	39,0%	37,4%	37,5%	34,3%	36,4%	37,1%	36,9%	36,8%
% Luxury Division Revenues	65,3%	66,8%	66,5%	63,9%	58,6%	57,0%	53,5%	55,8%	55,8%	54,4%	53,6%
Gross Operating Investments	136,9	100,7	87,1	111,30	203,90	70,50					

Revenues by Distribution Channel	2008	2009	2010	2011	2012	H1 2013	Q3 2013	9M 2013	2013E	2014F	2015F
Retail	1.584,20	1.645,41	1.956,92	2.332,25	2.729,10	1.333,65			2.913,19	3.158,78	3.445,25
Growth		3,9%	18,9%	19,2%	17,0%	6,2%	4,0%		6,7%	8,4%	9,1%
% of Revenues	71,8%	72,6%	73,4%	74,2%	75,0%	76%			78%	79%	81%
Wholesale	622,20	620,99	709,18	810,95	909,70	421,15			833,29	833,29	833,29
Growth				14,3%	5,5%	-4,1%	-9,0%		-8%	0%	0%
% of Revenues	28,2%	27,4%	26,6%	25,8%	25,0%	24,0%			22%	21%	19%
Total	2206,4	2266,4	2666,1	3143,2	3638,8	1.754,80			3.746,47	3.992,07	4.278,53
Organic Growth									3,0%	6,6%	7,2%

Retail Breakdown	2008	2009	2010	2011	2012	H1 2013	Q3 2013	9M 2013	2013E	2014F	2015F
# of Stores	**258**	**283**	**317**	**376**	**429**	**446**	**461**	**461**	**464**	**489**	**514**
Store Growth		9,7%	12,0%	18,6%	14,1%				8,2%	5,4%	5,1%
Average # of Stores		271	300	347	403	438			447	477	502
Revenues per store (avg)		5,81	6,52	6,73	6,78				6,52	6,63	6,87
Stores openings		25	34	59	53	17	15	32	35	25	25
Average # of stores openings		12,5	17	29,5	26,5				17,5	12,5	12,5
LFL Revenues									2.836,06	3.103,05	3.387,52
LFL Growth				20,0%	10%	6,2%			-2,5%	2,5%	4,5%
New Stores Revenues									77,13	55,73	57,73
Total Retail									**2.913,19**	**3.158,78**	**3.445,25**

BV

Summary	2008	2009	2010	2011	2012	H1 2013	Q3 2013	9M 2013	2013E	2014F	2015F
Revenues	402,10	402,10	510,60	682,60	945,10	465,60	259,00	724,60	1.024,33	1.149,70	1.286,13
Reported Growth	9,8%	0,0%	27,0%	33,7%	38,5%	8,4%	7,3%	8,0%	8,4%	12,2%	11,9%
Organic Growth	13,7%	-6,0%	19,3%	33,6%	30,4%	12,9%	15,8%	13,9%	13,9%	12,2%	11,9%
FX & Scope	-3,9%	6,0%	7,7%	0,1%	8,1%	-4,5%	-8,5%	-5,9%	-5,5%	0%	0%
Recurring Operating Inco	100,70	91,80	130,20	204,60	300,10	146,50			335,98	382,85	434,71
EBIT Margin	25,0%	22,8%	25,5%	30,0%	31,8%	31,5%			32,8%	33,3%	33,8%
EBITDA	111,9	103,3	143,9	220,2	320,6	157,3					
EBITDA Margin	27,8%	25,7%	28,2%	32,3%	33,9%	33,8%					
% Total Revenues	2,3%	3,0%	4,6%	8,5%	9,7%	10,0%	10,3%	10,1%	10,5%	11,0%	11,4%
% Luxury Division Revenu	11,9%	11,9%	12,7%	13,9%	15,2%	15,1%	16,0%	15,4%	15,8%	16,2%	16,7%
Gross Operating Investme	7,3	11,5	16	29,10	41,30	29,90					

Revenues by Distribution	2008	2009	2010	2011	2012	H1 2013	Q3 2013	9M 2013	2013E	2014F	2015F
Retail					761,75	71,70			887,46	1.019,19	1.162,54
Growth				32,2%	28,5%	15,4%	18,0%		16,5%	14,8%	14,1%
% of Revenues					80,6%	82,2%			82,5%	84,4%	86,0%
Wholesale				0,0%	183,35	82,88			188,85	188,85	188,85
Growth				41,3%	39,0%	2,8%			3%	0%	0%
% of Revenues					19,4%	17,8%			17,5%	15,6%	14,0%
Total									1.076,31	1.208,04	1.351,39
Organic Growth									**13,9%**	**12,2%**	**11,9%**

Retail Breakdown	2008	2009	2010	2011	2012	H1 2013	Q3 2013	9M 2013	2013E	2014F	2015F
Total # of Stores	121	135	148	170	196	209	215	215	220	240	260
Store Growth		11,6%	9,6%	14,9%	15,3%				12%	9%	8%
Average # of Stores		128	142	159	183	203			208	230	250
Revenues per store (avg)		-	-	-	4,16	0,35			4,27	4,43	4,65
Stores openings		14	13	22	26	13	6	19	24	20	20
Average # of stores openings		7	6,5	11	13	6,5			12	10	10
LFL Revenues									848,50	985,59	1.127,32
LFL Growth									4%	5%	6%
New Stores Revenues									38,96	33,60	35,23
Total Retail									**887,46**	**1.019,19**	**1.162,54**

YSL

Summary	2008	2009	2010	2011	2012	H1 2013	Q3 2013	9M 2013	2013E	2014F	2015F
Revenues	262,80	237,50	269,20	353,70	472,80	255,30	139,00	394,30	529,20	608,01	668,97
Reported Growth	18,8%	-9,6%	13,3%	31,4%	33,7%	14,2%	7,2%	11,6%	11,9%	14,9%	10,0%
Organic Growth	18,9%	-11,8%	9,6%	32,3%	28,8%	16,5%	12,0%	14,8%	14,9%	14,9%	10,0%
FX & Scope	-0,1%	2,2%	3,7%	-0,9%	4,9%	-2,3%	-4,8%	-3,2%	-3,0%	0,0%	0,0%
Recurring Operating Income	0,30	- 9,80	9,40	40,90	65,00	27,20			71,44	88,16	103,69
EBIT Margin	0,1%	-4,1%	3,5%	11,6%	13,7%	10,7%			13,5%	14,5%	15,5%
EBITDA	11,90	1,80	19,00	50,20	75,80	33,90					
EBITDA Margin	4,5%	0,8%	7,1%	14,2%	16,0%	13,3%					
% Total Revenues	1,5%	1,7%	2,4%	4,4%	4,9%	5,5%	5,5%	5,5%	5,4%	5,8%	5,9%
% Luxury Division Revenues	7,8%	7,0%	6,7%	7,2%	7,6%	8,3%	8,6%	8,4%	8,2%	8,6%	8,7%
Gross Operating Investments		3,9	7	7,50	21,80	29,80					

Revenues by Distribution Ch	2008	2009	2010	2011	2012	H1 2013	Q3 2013	9M 2013	2013E	2014F	2015F
Retail	-	-	-	-	283,68	132,76			317,85	372,66	423,32
Growth					35,7%	3,4%	15,0%		12%	17%	14%
% of Revenues					60,0%	52,0%			60,1%	61,3%	63,3%
Wholesale	262,80	237,50	269,20	353,70	141,84	122,54			177,30	186,17	195,47
Growth				43,50%	22,7%	43,6%			25%	5%	5%
% of Revenues	100,0%	100,0%	100,0%	100,0%	30,0%	48,0%			33,5%	30,6%	29,2%
Licencing					47,28				48,23	49,19	50,17
Growth				-0,4%	10,7%				2%	2%	2%
% of Revenues					10,0%				9%	8%	12%
Total									543,38	608,01	668,97
Organic Growth									14,9%	14,9%	10,0%

Retail Breakdown	2008	2009	2010	2011	2012	H1 2013	Q3 2013	9M 2013	2013E	2014F	2015F
Total # of Stores	**64**	**66**	**78**	**83**	**89**	**104**	**110**	**110**	**114**	**129**	**144**
Store Growth		3%	18%	6%	7%				28%	13%	12%
Average # of Stores		65	72	81	86	97			102	122	137
Revenues per store (avg)		-	-	-	3,30	1,38			3,13	3,07	3,10
Stores openings		2	12	5	6	15	6	21	25	15	15
Average # of stores openings		1	6	3	3	8			13	8	8
LFL Revenues									290,64	357,00	407,53
LFL Growth				34,80%	35,7%	3,40%			-1,0%	0,0%	3,0%
New Stores Revenues									27,21	15,66	15,80
Total Retail									317,85	372,66	423,32

Other luxury brands

Summary	2008	2009	2010	2011	2012	H1 2013	Q3 2013	9M 2013	2013E	2014F	2015F
Revenues	508,60	484,30	564,80	737,50	1.155,60	602,70	354,00	956,70	1.317,38	1.472,61	1.619,87
Reported Growth	11,70%	-4,8%	16,6%	30,6%	56,7%	10,9%	15,3%	12,5%	14,0%	11,8%	10,0%
Organic Growth	17,60%	-6,6%	13,1%	23,6%	19,0%	12,5%	9,4%	11,3%	12,5%	11,8%	10,0%
FX	-5,9%	1,8%	3,5%	-0,8%	6,1%	-1,6%	5,9%	1,2%	1,5%	0,0%	0,0%
Scope	0,0%	0,0%	0,0%	7,8%	31,6%	0,0%	0,0%	0,0%			
Recurring Operatig Income	5,20	- 7,60	47,20	69,40	120,10	59,80			142,36	172,65	200,21
EBIT Margin	1,0%	-1,6%	8,4%	9,4%	10,4%	9,9%			10,8%	11,7%	12,4%
EBITDA	56,40	43,90	67,60	92,60	158,60	79,90					
EBITDA Margin	11,1%	9,1%	12,0%	12,6%	13,7%	13,3%					
% Total Revenues	3,0%	3,6%	5,1%	9,1%	11,9%	12,9%	14,0%	13,3%	13,5%	14,1%	14,4%
% Luxury Division Revenues	15,0%	14,3%	14,1%	15,0%	18,6%	19,6%	21,9%	20,4%	20,3%	20,8%	21,0%
Gross Operating Investments	26,6	15	18,1	25,00	70,30	38,80					
# of DOS						265	330				

PUMA

Summary	2008	2009	2010	2011	2012	H1 2013	Q3 2013	9M 2013	2013E	2014F	2015F
Revenues	2,524.20	2,447.30	2,706.40	3,009.00	3,270.70	1,473.90	825.00	2,298.90	3,020.57	3,125.42	3,273.55
Reported Growth	6.4%	-3.0%	10.6%	11.2%	8.7%	-6.3%	-8.9%	-6.8%	-7.6%	3.5%	4.7%
Organic Growth	8.5%	-3.7%	3.6%	10.6%	3.9%	-3.1%	-1.4%	-2.5%	-3.6%	3.5%	4.7%
FX	-2.2%	0.7%	7.0%	0.6%	4.8%	-3.2%	-7.5%	-4.3%	-4.0%	0.0%	0.0%
Scope	0.0%	0.0%	0.0%	1.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Recurring Operating Income	350.40	299.70	337.80	333.20	290.70	110.10	80.30	190.40	234.91	256.28	284.80
EBIT Margin	13.9%	12.2%	12.5%	11.1%	8.9%	7.5%	9.9%	8.3%	7.8%	8.2%	8.7%
EBITDA	406.60	358.50	393.00	390.40	350.40				297.71	321.26	352.86
EBITDA Margin	16.1%	14.6%	14.5%	13.0%	10.7%				9.9%	10.3%	10.8%
% Total Revenues	14.7%	18.0%	24.6%	37.3%	33.6%	31.5%	32.7%	31.9%	31.0%	29.9%	29.1%
% Sport&Lifestyle Division Revenues	100.0%	100.0%	100.0%	95.4%	92.6%	92.9%	92.1%	92.6%	92.4%	92.3%	92.2%
Gross Operating Investments	119.2	54.5	55.1	71.10	81.20	31.00			60.00		
# of DOS				535	590	559			540		

	2008	2009	2010	2011	2012	H1 2013	Q3 2013	9M 2013	2013E	2014F	2015F
… Geographic Region											
Americas		665.10	855.90	966.90	1,127.20	527.20	261.10	788.30	1,080.98	1,113.41	1,157.95
Reported Growth			28.7%	13.0%	16.6%	-2.3%	-7.8%	-4.2%	-4.1%	3.0%	4.0%
Organic Growth			20.0%	17.7%	10.6%	0.2%	0.7%	0.4%	0.5%	3%	4%
FX			8.7%	-4.7%	6.0%	-2.5%	-8.5%	-4.6%	-4.6%	0%	0%
% of Revenues	0.0%	27.2%	31.6%	32.1%	34.5%	35.8%	31.6%	34.3%	35.8%	35.6%	35.4%
Asia-Pacific		578.00	628.80	730.10	841.70	332.50	173.70	506.30	712.08	747.68	788.06
Reported Growth			8.8%	16.1%	15.3%	-13.1%	-18.2%	-14.9%	-15%	5%	5%
Organic Growth			-2.6%	13.3%	7.4%	-5.0%	-3.7%	-4.5%	-5%	5%	5%
FX			11.4%	2.8%	7.9%	-8.1%	-14.5%	-10.4%	-10%	0%	0%
% of Revenues	0.0%	23.6%	23.2%	24.3%	25.7%	22.6%	21.1%	22.0%	23.6%	23.9%	24.1%
EMEA	1,510.00	1,204.20	1,221.70	1,312.00	1,301.70	614.10	378.30	992.40	1,227.50	1,264.33	1,327.54
Reported Growth		-20.3%	1.5%	7.4%	-0.8%	-5.7%	-4.6%	-5.3%	-5.7%	3.0%	5.0%
Organic Growth			-2.5%	7.7%	-1.6%	-4.8%	-1.7%	-3.6%	-4%	3%	5%
FX		-20.3%	4.0%	-0.3%	0.8%	-0.9%	-2.9%	-1.7%	-2%	0%	0%
% of Revenues	59.8%	49.2%	45.1%	43.6%	39.8%	41.7%	45.9%	43.2%	40.6%	40.5%	40.6%

Other sport & lifestyle brands

Summary	2008	2009	2010	2011	2012	H1 2013	Q3 2013	9M 2013	2013E	2014F	2015F
Revenues	-	-	-	146,70	261,20	113,00	71,00	184,00	249,63	260,70	275,60
Reported Growth					78,1%	-6,0%	-7,9%	-6,7%	-4,4%	4,4%	5,7%
Organic Growth					-3,4%	-4,2%	-2,3%	-3,5%	-2,5%	4,4%	5,7%
FX					81,5%	-1,8%	-5,6%	-3,2%	-3,0%	0,0%	0,0%
Scope											
Recurring Operating Income				13,50	14,80	-			10,15	16,92	19,40
EBIT Margin				9,2%	5,7%	0,0%			4,1%	6,5%	7,0%
EBITDA				16,00	20,50	2,00					
EBITDA Margin				10,9%	7,8%	1,8%					
% Total Revenues				1,8%	2,7%	2,4%	2,8%	2,6%	2,6%	2,5%	2,5%
% Sport&Lifestyle Division Revenues				4,6%	7,4%	7,1%	0,0%	0,0%	7,6%	7,7%	7,8%
Gross Operating Investments				3,70	9,90	2,80					
# of DOS				29	32						

Appendix 5 – PUMA Income Statement

3	2008	2009	2010	2011	2012	H1 2013	Q3 2013	9M 2013	2013E	2014F	2015F
Operating Revenues	**2.524,20**	**2.447,30**	**2.706,40**	**3.009,00**	**3.270,70**	**1.473,90**	**813,10**	**2.287,00**	3.020,57	3.125,42	3.273,55
Cost of Sales	- 1.217,60	- 1.204,20	- 1.361,60	- 1.515,60	- 1.691,70	- 771,20	- 429,80	- 1.201,00	- 1.592,53	- 1.640,85	- 1.712,07
Gross Profit	**1.306,60**	**1.243,10**	**1.344,80**	**1.493,40**	**1.579,00**	**702,70**	**383,30**	**1.086,00**	**1.428,04**	**1.484,58**	**1.561,48**
Growth		-5%	8%	11%	6%				-10%	4%	5%
Gross Margin	51,8%	50,8%	49,7%	49,6%	48,3%	47,7%	47,1%	47,5%	47,3%	47,5%	47,7%
Gross Margin Growth		-2%	-2%	0%	-3%				-2%	0%	0%
Operating Expenses	- 956,20	- 943,40	- 1.007,00	- 1.160,20	- 1.288,30	- 592,60	- 303,00	- 895,60	- 1.193,12	- 1.228,29	- 1.276,69
Growth		-1%	7%	15%	11%	-9%	-8%		-7%	3%	4%
% Revenues	38%	39%	37%	39%	39,4%	40,2%	37,3%	39,8%	39,5%	39,3%	39,0%
Recurring Operating Income	**350,40**	**299,70**	**337,80**	**333,20**	**290,70**	**110,10**	**80,30**	**190,40**	**234,91**	**256,28**	**284,80**
Growth		-14%	13%	-1%	-13%				-19%	9%	11%
Recurring Operating Income Marg	13,9%	12,2%	12,5%	11,1%	8,9%	7,5%	9,9%	8,3%	7,8%	8,2%	8,7%
Other Non-Recurring Operating Inco	- 25,00	- 153,30	- 31,00	-	- 177,50	-	-	-	- 130,00	-	-
EBIT (Operating Income)	**325,40**	**146,40**	**306,80**	**333,20**	**113,20**	**110,10**	**80,30**	**190,40**	**104,91**	**256,28**	**284,80**
EBIT Margin	12,9%	6,0%	11,3%	11,1%	3,5%	7,5%	9,9%	8,3%	3,5%	8,2%	8,7%
Growth EBIT Margin		-53,6%	89,5%	-2,3%	-68,7%				0%	136%	6%
Net Finance Costs	1,10	- 8,00	- 5,30	- 12,80	- 0,90	- 8,00	- 1,50	- 9,50	- 9,50	- 3,00	- 3,00
EBT (Pretax Income)	**326,50**	**138,40**	**301,50**	**320,40**	**112,30**	**102,10**	**78,80**	**180,90**	95,41	253,28	281,80
Income Taxes	- 94,80	- 61,10	- 99,30	- 90,00	- 32,50	- 28,60	- 22,50	- 51,10	- 26,73	- 74,47	- 82,86
Tax Rate	29,0%	44,1%	32,9%	28,1%	28,9%	28,0%	28,6%	28,2%	28,0%	29,4%	29,4%
Consolidated Net Income	**231,70**	**77,30**	**202,20**	**230,40**	**79,80**	**73,50**	**56,30**	**129,80**	**68,69**	**178,81**	**198,94**
Minority Interest Expense	1,10	2,30	-	- 0,30	- 9,60	- 5,70	- 3,50	- 9,20	- 9,00	- 9,45	- 9,92
Net Income	**232,80**	**79,60**	**202,20**	**230,10**	**70,20**	**67,80**	**52,80**	**120,60**	**59,69**	**169,36**	**189,02**
Growth		-66%	154%	14%	-69%				-15%	184%	12%
Net Income Margin	9%	3%	7%	8%	2%	5%	6%	5%	2%	5%	6%
EBITDA	406,60	358,50	393,00	390,40	350,40	110,10	80,30	190,40	297,71	321,26	352,86
EBITDA Margin	16,1%	14,6%	14,5%	13,0%	10,7%	7,5%	9,9%	8,3%	9,9%	10,3%	10,8%
Depreciation and Amortization	- 56,20	- 58,80	- 55,20	- 57,20	-59,7				- 62,80	- 64,98	- 68,06
Depreciation/Revenues	2%	2%	2%	2%	2%				2%	2%	2%

Appendix 6 - Summary

	Revenues breakdown by…								Forecast		
	2008	2009	2010	2011	2012	H1 2013	Q3 2013	9M 2013	2013E	2014F	2015F
Operating Revenues	**17.207,00**	**13.584,30**	**11.007,80**	**8.062,30**	**9.736,30**	**4.678,40**	**2.523,00**	**7.201,40**	**9.747,04**	**10.459,63**	**11.244,03**
Reported Growth		-21,1%	-19,0%	-26,8%	20,8%	1,4%	-1,5%	0,4%	0,1%	7,3%	7,5%
Organic Growth					10,6%	4,2%	3,4%	3,9%	3,4%	7,3%	7,5%
FX & Scope					10,2%	-2,8%	-4,9%	-3,5%	-3,3%	0,0%	0,0%
EBIT	1.440,70	1.239,60	1.370,40	1.501,40	1.791,50	842,70			1.825,22	2.022,46	2.236,62
EBIT margin	8,4%	9,1%	12,4%	18,6%	18,4%	18,0%			18,7%	19,3%	19,9%
…Divisions and Brands											
Luxury Division	**3.379,90**	**3.390,30**	**4.010,70**	**4.917,00**	**6.212,30**	**3.078,40**	**1.617,00**	**4.695,40**	**6.490,02**	**7.086,68**	**7.708,06**
Reported Growth	5,0%	0,3%	18,3%	22,6%	26,3%	5,3%	1,5%	3,9%	4,5%	9,2%	8,8%
Organic Growth	8,3%	-3,5%	12,2%	22,2%	15,1%	7,9%	5,6%	7,1%	7,3%	9,2%	8,8%
FX	-3,3%	3,8%	6,1%	-0,7%	6,5%	-2,8%	-4,1%	-3,2%	-2,8%	0,0%	0,0%
Scope	0,0%	0,0%	0,0%	1,1%	4,7%	0,2%	0,0%		0,0%	0,0%	0,0%
% of Revenues	19,6%	25,0%	36,4%	61,0%	63,8%	65,8%	64,1%	65,2%	66,6%	67,8%	68,6%
EBIT	731,00	692,10	944,00	1.262,60	1.611,60	789,50			1.707,90	1.886,34	2.079,78
% of Revenues				84,1%	90,0%	93,7%			93,6%	93,3%	93,0%
EBIT margin	21,6%	20,4%	23,5%	25,7%	25,9%	25,6%			26,3%	26,6%	27,0%
EBIT margin change		-1,2%	3,1%	2,1%	0,3%				0,4%	0,3%	0,4%
Gucci	2.206,40	2.266,40	2.666,10	3.143,20	3.638,80	1.754,80	865,00	2.619,80	3.619,11	3.856,36	4.133,09
Reported Growth	1,4%	2,7%	17,6%	17,9%	15,8%	1,6%	-5,4%	-0,9%	-0,5%	6,6%	7,2%
Organic Growth	4,1%	-1,4%	11,0%	18,7%	9,1%	4,0%	0,6%	2,9%	3,0%	6,6%	7,2%
FX & Scope	-2,7%	4,1%	6,6%	-0,8%	6,7%	-2,4%	-6,0%	-3,8%	-3,5%	0,0%	0,0%
% of Revenues	12,8%	16,7%	24,2%	39,0%	37,4%	37,5%	34,3%	36,4%	37,1%	36,9%	36,8%
EBIT margin	28,3%	27,3%	28,4%	30,2%	31,0%	31,7%			32,0%	32,2%	32,4%
EBIT margin change		-1,1%	1,1%	1,7%	0,8%	1,5%			1,0%	0,2%	0,2%
Bottega Veneta	402,10	402,10	510,60	682,60	945,10	465,60	259,00	724,60	1.024,33	1.149,70	1.286,13
Reported Growth	9,8%	0,0%	27,0%	33,7%	38,5%	8,4%	7,3%	8,0%	8,4%	12,2%	11,9%
Organic Growth	13,7%	-6,0%	19,3%	33,6%	30,4%	12,9%	15,8%	13,9%	13,9%	12,2%	11,9%
FX & Scope	-3,9%	6,0%	7,7%	0,1%	8,1%	-4,5%	-8,5%	-5,9%	-5,5%	0,0%	0,0%
% of Revenues	2,3%	3,0%	4,6%	8,5%	9,7%	10,0%	10,3%	10,1%	10,5%	11,0%	11,4%
EBIT margin	25,0%	22,8%	25,5%	30,0%	31,8%	31,5%			32,8%	33,3%	33,8%
EBIT margin change		-2,2%	2,7%	4,5%	1,8%	-0,3%			1,0%	0,5%	0,5%
Yves Saint Laurent	262,80	237,50	269,20	353,70	472,80	255,30	139,00	394,30	529,20	608,01	668,97
Reported Growth	18,8%	-9,6%	13,3%	31,4%	33,7%	14,2%	7,2%	11,6%	11,9%	14,9%	10,0%
Organic Growth	18,9%	-11,8%	9,6%	32,3%	28,8%	16,5%	12,0%	14,8%	14,9%	14,9%	10,0%
FX & Scope	-0,1%	2,2%	3,7%	-0,9%	4,9%	-2,3%	-4,8%	-3,2%	-3,0%	0,0%	0,0%
% of Revenues	1,5%	1,7%	2,4%	4,4%	4,9%	5,5%	5,5%	5,5%	5,4%	5,8%	5,9%
EBIT margin	0,1%	-4,1%	3,5%	11,6%	13,7%	10,7%			13,5%	14,5%	15,5%
EBIT margin change		-4,2%	7,6%	8,1%	2,2%				-0,2%	1,0%	1,0%
Other Brands	508,60	484,30	564,80	737,50	1.155,60	602,70	354,00	956,70	1.317,38	1.472,61	1.619,87
Reported Growth	11,7%	-4,8%	16,6%	30,6%	56,7%	10,9%	15,3%	12,5%	14,0%	11,8%	10,0%
Organic Growth	17,6%	-6,6%	13,1%	23,6%	19,0%	12,5%	9,4%	11,3%	12,5%	11,8%	10,0%
FX	-5,9%	1,8%	3,5%	-0,8%	6,1%	-1,6%	5,9%	1,2%	1,5%	0,0%	0,0%
Scope	0,0%	0,0%	0,0%	7,8%	31,6%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
% of Revenues	3,0%	3,6%	5,1%	9,1%	11,9%	12,9%	14,0%	13,3%	13,5%	14,1%	14,4%
EBIT margin	1,0%	-1,6%	8,4%	9,4%	10,4%				10,8%	11,7%	12,4%
EBIT margin change		-2,6%	9,9%	1,1%	1,0%				0,4%	0,9%	0,6%
Sport & Lifestyle Division	**2.524,20**	**2.447,30**	**2.706,40**	**3.155,70**	**3.531,90**	**1.586,90**	**896,00**	**2.482,90**	**3.270,20**	**3.386,13**	**3.549,15**
Reported Growth		-3,0%	10,6%	16,6%	11,9%		-7,6%	-6,8%	-7,4%	3,5%	4,8%
Organic Growth				10,5%	3,3%		-0,9%	-2,4%	-3,6%	3,5%	4,8%
FX	0,0%	-3,0%	10,6%	6,1%	8,6%		-6,7%	-4,4%	-3,8%	0,0%	0,0%
Scope		0,0%	0,0%	1,2%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
% of Revenues	14,7%	18,0%	24,6%	39,1%	36,3%	33,9%	35,5%	34,5%	33,6%	32,4%	31,6%
EBIT	350,40	299,70	337,80	346,70	305,50	110,10			245,06	273,20	304,20
% Total EBIT				23,1%	17,1%	13,1%			13,4%	13,5%	13,6%
EBIT margin	13,9%	12,2%	12,5%	11,0%	8,6%	6,9%			7,5%	8,1%	8,6%
EBIT margin change		-1,6%	0,2%	-1,5%	-2,3%				-1,2%	0,6%	0,5%
Puma	2.524,20	2.447,30	2.706,40	3.009,00	3.270,70	1.473,90	825,00	2.298,90	3.020,57	3.125,42	3.273,55
Reported Growth	6,4%	-3,0%	10,6%	11,2%	8,7%	-6,3%	-8,9%	-6,8%	-7,6%	3,5%	4,7%
Organic Growth	8,5%	-3,7%	3,6%	10,6%	3,9%	-3,1%	-1,4%	-2,5%	-3,6%	3,5%	4,7%
FX	-2,2%	0,7%	7,0%	0,6%	4,8%	-3,2%	-7,5%	-4,3%	-4,0%	0,0%	0,0%
Scope	0,0%	0,0%	0,0%	1,2%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
% of Revenues	14,7%	18,0%	24,6%	37,3%	33,6%	31,5%	32,7%	31,9%	31,0%	29,9%	29,1%
EBIT margin	13,9%	12,2%	12,5%	11,1%	8,9%	7,5%			7,8%	8,2%	8,7%
EBIT margin change		-1,6%	0,2%	-1,4%	-2,2%				-1,1%	0,4%	0,5%
Other Brands	-	-	-	146,70	261,20	113,00	71,00	184,00	249,63	260,70	275,60
Reported Growth	0,0%	0,0%	0,0%	0,0%	78,1%	-6,0%	-7,9%	-6,7%	-4,4%	4,4%	5,7%
Organic Growth	0,0%	0,0%	0,0%	0,0%	-3,4%	-4,2%	-2,3%	-3,5%	-2,5%	4,4%	5,7%
FX	0,0%	0,0%	0,0%	0,0%	81,5%	-1,8%	-5,6%	-3,2%	-3,0%	0,0%	0,0%
% of Revenues	0,0%	0,0%	0,0%	1,8%	2,7%	2,4%	2,8%	2,6%	2,6%	2,5%	2,5%
EBIT margin	0,0%	0,0%	0,0%	9,2%	5,7%	0,0%			4,1%	6,5%	7,0%
EBIT margin change					-3,5%				-1,6%	2,4%	0,6%
Fnac	4.457,20	4.375,10	4.302,70	-	-	-			-	-	-
Redcats	3.698,60	3.386,40	-	-	-	-			-	-	-
Conforama	3.167,90	-	-	-	-	-			-	-	-
Corporate	- 20,80	- 14,80	- 12,00	- 10,40	- 7,90	13,10	10,00	23,10	- 13,18	- 13,18	- 13,18
% of Revenues	-0,1%	-0,1%	-0,1%	-0,1%	-0,1%	0,3%	0,4%	0,3%	-0,1%	-0,1%	-0,1%
EBIT				- 107,90	- 124,90	- 57,00			- 127,74	- 137,08	- 147,36
% of Revenues				-1,3%	-1,3%	-1,2%			-1,3%	-1,3%	-1,3%

Appendix 7 – Kering Income Statement

	2008	2009	2010	2011	2012	H1 2013	2013E	2014F	2015F
Operating Revenues	**17.207,00**	**13.584,30**	**11.007,80**	**8.062,30**	**9.736,30**	**4.678,40**	9.747,04	10.459,63	11.244,03
Reported Growth	-12,9%	-21,1%	-19,0%	-26,8%	20,8%	1,4%	0,1%	7,3%	7,5%
Organic Growth					10,6%	4,2%	3,4%	7,3%	7,5%
FX					10,2%	-2,8%	-3,3%	0%	0%
(-) Cost of Sales	- 9.130,90	- 6.900,70	- 5.639,20	-3.086,50	-3.776,20	-1.753,00	-3.752,61	- 4.026,96	- 4.328,95
= **Gross Profit**	**8.076,10**	**6.683,60**	**5.368,60**	**4.975,80**	**5.960,10**	**2.925,40**	**5.994,43**	**6.432,67**	**6.915,08**
Growth		-17,2%	-19,7%	-7,3%	19,8%		1%	7%	7%
Gross Margin	46,9%	49,2%	48,8%	61,7%	61,2%	62,5%	61,5%	61,5%	61,5%
Gross Margin Growth		5%	-1%	27%	-1%		0%	0%	0%
(-) **Operating Expenses**	**- 6.255,80**	**- 5.109,20**	**- 3.720,10**	**-3.236,40**	**-3.893,50**	**-1.942,40**	-3.893,81	- 4.114,67	- 4.360,76
Growth		-18%	-27%	-13%	20%		0%	6%	6%
% of Revenues	36%	38%	34%	40%	40%	42%	40%	39%	39%
Payroll Expenses	- 2.579,10	- 2.049,20	- 1.636,70	-1.229,10	-1.493,60	- 755,50			
Other Recurring Operating Income and Expenses	- 3.676,70	- 3.060,00	- 2.083,40	-2.007,30	-2.399,90	-1.186,90			
= **Recurring EBITDA**	**1.820,30**	**1.574,40**	**1.648,50**	**1.739,40**	**2.066,60**	**983,00**	**2.100,63**	**2.318,00**	**2.554,32**
Growth		-13,5%	4,7%	5,5%	18,8%	2,9%	1,6%	10,3%	10,2%
EBITDA Margin	10,6%	11,6%	15,0%	21,6%	21,2%	21,0%	21,6%	22,2%	22,7%
(-) Depreciation and Amortization	- 379,60	- 334,80	- 278,10	- 238,00	- 275,10	- 140,30	- 275,40	- 295,54	- 317,70
% of Revenues	2,2%	2,5%	2,5%	3,0%	2,8%	3,00%	2,8%	2,8%	2,8%
= **Recurring Operating Income**	**1.440,70**	**1.239,60**	**1.370,40**	**1.501,40**	**1.791,50**	**842,70**	**1.825,22**	**2.022,46**	**2.236,62**
Growth		-14,0%	10,6%	9,6%	19,3%	2,3%	1,9%	10,8%	10,6%
Recurring Operating Income Margin	8,4%	9,1%	12,4%	18,6%	18,4%	18,0%	18,7%	19,3%	19,9%
(-) Other Non-Recurring Operating Income and Expenses	- 367,80	- 373,50	- 141,20	- 23,50	- 25,20	- 25,40	- 25,40	-	-
= **EBIT (Operating Income)**	**1.072,90**	**866,10**	**1.229,20**	**1.477,90**	**1.766,30**	**817,30**	**1.799,82**	**2.022,46**	**2.236,62**
(-) Net Finance Costs	- 352,90	- 363,60	- 240,10	- 201,80	- 147,70	- 97,20	- 176,35	- 169,64	- 172,17
= **EBT (Pretax Income)**	**720,00**	**502,50**	**989,10**	**1.276,10**	**1.618,60**	**720,10**	**1.623,47**	**1.852,82**	**2.064,45**
(-) Income Taxes	- 268,70	- 172,50	- 263,60	- 295,20	- 297,60	- 137,00	- 340,93	- 389,09	- 433,53
Tax Rate	26,4%	26,0%	23,2%	22,9%	21,9%	18,7%	21,0%	21,0%	21,0%
(-) Share in Earnings of Associates	- 2,20	0,50	34,70	46,60	36,90	- 0,70	-	-	-
= **Net Income from Continuing Operations**	**449,10**	**330,50**	**760,20**	**1.027,50**	**1.357,90**	**582,40**	**1.282,55**	**1.463,73**	**1.630,91**
o/w attributable to non-controlling interests	- 74,40	- 16,70	- 50,80	- 59,10	- 34,20	- 23,60			
Growth		-26,4%	130,0%	35,2%	32,2%		-6%	14%	11%
(-) Net Income (loss) from Discountinued Operations	589,90	664,60	255,10	18,00	- 275,50	- 388,00	- 388,00	-	-
o/w attributable to non-controlling interests	- 43,50	- 27,50	-	- 0,10	-	1,70			
= **Consolidated Net Income**	**1.039,00**	**995,10**	**1.015,30**	**1.045,50**	**1.082,40**	**194,40**	**894,55**	**1.463,73**	**1.630,91**
(-) Minority Interest Expense	- 117,90	- 44,20	- 50,80	- 59,20	- 34,20	- 21,90	- 10,15	- 28,79	- 32,13
= **Net Income**	**921,10**	**950,90**	**964,50**	**986,30**	**1.048,20**	**172,50**	**884,40**	**1.434,93**	**1.598,78**
Net Income from continuing operations atribbutable to ow	**374,70**	**313,80**	**709,40**	**968,40**	**1.323,70**	**560,50**	**1.272,40**	**1.434,93**	**1.598,78**
Net Income from continuing operations (excluding non-recurring items) attributable to owners of the parent	718,00	598,00	834,50	989,70	1.268,80	582,10	1.252,41	1.434,93	1.598,78

Appendix 8 – Kering Balance Sheet

	2008	2009	2010	2011	2012	H1 2013	2013E	2014F	2015F
ASSETS									
Non Current Assets									
Property, Plant and Equipment	2.253,40	1.861,50	1.423,60	1.372,00	1.376,30	1.402,10	1.543,28	1.718,43	1.906,71
Intangible Assets	16.351,40	15.666,00	14.740,20	14.546,00	14.360,90	14.397,30	14.397,30	14.397,30	14.397,30
Long-term Investments	323,80	301,80	271,40	279,50	273,70	294,50	294,50	294,50	294,50
Investments in Associates	74,50	705,60	747,70	735,80	25,80	24,30	24,30	24,30	24,30
Deferred Tax Assets	639,10	551,10	560,00	562,40	600,20	583,20	583,20	583,20	583,20
Other Non Current Assets	16,80	11,40	11,20	12,20	28,90	40,10	40,10	40,10	40,10
Total Non Current Assets	**19.659,00**	**19.097,40**	**17.754,10**	**17.507,90**	**16.665,80**	**16.741,50**	**16.882,68**	**17.057,83**	**17.246,11**
Current Assets									
Inventories	3.465,50	2.347,50	2.227,00	2.202,50	1.736,50	1.920,50	1.738,42	1.865,51	2.005,41
Cash and Equivalents	1.116,60	944,50	1.398,20	1.270,70	2.081,00	934,30	954,07	1.549,60	2.324,81
Accounts Receivable	1.492,50	1.106,30	1.192,90	1.087,40	985,30	986,00	986,39	1.058,50	1.137,88
Other Current Assets	1.182,00	804,00	2.122,30	716,00	657,40	709,50	-	-	-
Total Current Assets	**7.256,60**	**5.202,30**	**6.940,40**	**5.276,60**	**5.460,20**	**4.550,30**	**3.678,88**	**4.473,61**	**5.468,09**
Assets classified as held for sale or for distribution for owners	61,60	74,90	-	2.169,30	3.130,50	438,40	438,40	-	-
Total Assets	**26.977,20**	**24.374,60**	**24.694,50**	**24.953,80**	**25.256,50**	**21.730,20**	**20.999,96**	**21.531,44**	**22.714,20**
EQUITY									
Equity before non-controlling interests	9.341,90	9.880,60	10.599,20	10.925,00	11.413,80	10.852,10	11.826,36	12.789,45	13.884,93
Non-controlling interests	1.256,90	1.066,20	1.052,00	824,50	704,90	704,30	715,05	743,84	775,97
Total Shareholders' Equity	**10.598,80**	**10.946,80**	**11.651,20**	**11.749,50**	**12.118,70**	**11.556,40**	**12.541,40**	**13.533,29**	**14.660,91**
LIABILITIES									
Non Current Liabilities									
Long-Term Debt	3.961,30	4.357,80	3.341,10	3.066,20	2.988,90	2.056,80	2.056,80	2.056,80	2.056,80
Provisions for Liabilities and Charges & Other	405,40	295,80	356,60	219,70	190,50	188,00	190,50	190,50	190,50
Deferred Tax Liabilities	2.847,30	2.860,00	2.850,80	2.846,90	2.772,30	2.753,10	2.772,30	2.772,30	2.772,30
Total Non Current Liabilities	**7.214,00**	**7.513,60**	**6.548,50**	**6.132,80**	**5.951,70**	**4.997,90**	**5.019,60**	**5.019,60**	**5.019,60**
Current Liabilities									
Short-Term Debt	2.722,10	1.006,20	1.877,60	1.611,40	1.595,10	2.068,90	2.068,90	2.068,90	2.068,90
Accounts Payable	3.166,00	2.272,10	2.166,60	1.535,60	684,50	872,10	685,26	735,35	790,50
Provisions for Liabilities and Charges & Other	207,30	263,90	172,40	144,00	174,30	130,10	174,30	174,30	174,30
Other Current Liabilities	2.998,00	2.321,30	2.278,20	2.181,30	1.926,70	1.594,30	-	-	-
Total Current Liabilities	**9.093,40**	**5.863,50**	**6.494,80**	**5.472,30**	**4.380,60**	**4.665,40**	**2.928,46**	**2.978,55**	**3.033,70**
Liabilities associated with assets classified as held for sale or for distribution to ov	71,00	50,70	-	1.599,20	2.805,50	510,50	510,50	-	-
Total Liabilities	**16.378,40**	**13.427,80**	**13.043,30**	**13.204,30**	**13.137,80**	**10.173,80**	**8.458,56**	**7.998,15**	**8.053,30**
Total Shareholders' Equity and Liabilities	**26.977,20**	**24.374,60**	**24.694,50**	**24.953,80**	**25.256,50**	**21.730,20**	**20.999,96**	**21.531,44**	**22.714,20**

Appendix 9 – DCF

	Historical Year	Explicit Forecast Period			Intermediate Period							
	2012	**2013E**	**2014F**	**2015F**	**2016F**	**2017F**	**2018F**	**2019F**	**2020F**	**2021F**	**2022F**	**Terminal Value**
	0	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**
Revenues	9.736,30	9.747,04	10.459,63	11.244,03	12.016,99	12.767,99	13.486,13	14.160,39	14.779,87	15.334,09	15.813,27	16.208,60
Growth	20,8%	0,1%	7,3%	7,5%	6,9%	6,2%	5,6%	5,0%	4,4%	3,7%	3,1%	2,5%
Recurring EBIT	1.791,50	1.825,22	2.022,46	2.236,62	2.390,37	2.539,76	2.682,61	2.816,73	2.939,96	3.050,20	3.145,52	3.224,15
Growth		1,9%	10,8%	10,6%	6,9%	6,2%	5,6%	5,0%	4,4%	3,7%	3,1%	2,5%
EBIT Margin	18,4%	18,7%	19,3%	19,9%	19,9%	19,9%	19,9%	19,9%	19,9%	19,9%	19,9%	19,9%
NOPAT	1.399,34	1.441,93	1.597,74	1.766,93	1.888,39	2.006,41	2.119,26	2.225,22	2.322,57	2.409,66	2.484,96	2.547,08
Growth		3,0%	10,8%	10,6%	6,9%	6,2%	5,6%	5,0%	4,4%	3,7%	3,1%	2,5%
Tax Rate	21,9%	21,0%	21,0%	21,0%	21,0%	21,0%	21,0%	21,0%	21,0%	21,0%	21,0%	21,0%
D&A	275,10	275,40	295,54	317,70	339,54	360,76	381,05	400,10	417,61	433,27	446,81	457,98
Growth		0,1%	7,3%	7,5%	6,9%	6,2%	5,6%	5,0%	4,4%	3,7%	3,1%	2,5%
% of Revenues	2,8%	2,8%	2,8%	2,8%	2,8%	2,8%	2,8%	2,8%	2,8%	2,8%	2,8%	2,8%
Δ Working Capital	- 479,00	- 0,85	- 56,21	- 61,87	- 60,97	- 59,24	- 56,65	- 53,19	- 48,86	- 43,72	- 37,80	- 31,18
NWCN	768,00	768,85	825,06	886,93	947,90	1.007,14	1.063,79	1.116,97	1.165,84	1.209,55	1.247,35	1.278,54
% of Revenues	7,9%	7,9%	7,9%	7,9%	7,9%	7,9%	7,9%	7,9%	7,9%	7,9%	7,9%	7,9%
Capex	- 441,90	- 442,39	- 470,68	- 505,98	- 540,76	- 574,56	- 606,88	- 637,22	- 665,09	- 690,03	- 711,60	- 729,39
% of Revenues	4,5%	4,5%	4,5%	4,5%	4,5%	4,5%	4,5%	4,5%	4,5%	4,5%	4,5%	4,5%
FCFF	**753,54**	**1.274,09**	**1.366,39**	**1.516,77**	**1.626,20**	**1.733,37**	**1.836,79**	**1.934,92**	**2.026,21**	**2.109,17**	**2.182,37**	**2.244,49**

	EV explicit period	3.499,66
(+)	EV intermediate period	7.410,67
(+)	Terminal Value	15.128,43
	Enterprise Value	**26.038,76**
(+)	Cash	2.081,00
(-)	Debt	- 4.584,00
(-)	Non-controlling interests	- 704,90
(-)	Provisions for Liabilities and Charges	- 364,80
(-)	Deferred Tax Liabilities	- 2.772,30
	Equity Value	**19.693,76**

# Shares Outstanding	125,99
Price Target 31/12/2012	156,32 €
Price Target 31/12/2014	188,82 €
FV of Paid Dividends	4,32
Price Target ex-dividend 31/12/2014	**184,50 €**
Current Value 31/12/2013	153,65
Premium/Discount	**20%**

Appendix 10 – Multiples Analysis

Equity Multiples	2008	2009	2010	2011	2012	2013E	2014F	2015F
				Price to Earnings				
Kering	**13,5x**	**35,5x**	**18,2x**	**14,0x**	**17,7x**	**21,9x**	**13,5x**	**12,1x**
LVMH	11,2x	21,2x	19,5x	17,6x	20,4x	18,6x	16,5x	15,5x
Luxottica	15,3x	27,8x	26,2x	22,1x	27,0x	28,3x	24,8x	22,7x
Richemont	12,3x	6,0x	25,4x	20,6x	16,9x	19,2x	17,2x	15,8x
Swatch	9,4x	18,4x	21,0x	15,0x	15,6x	18,7x	16,7x	14,7x
Burberry Group	14,8x		38,8x	25,0x	25,2x	19,9x	17,8x	16,3x
Hermes	36,2x	34,1x	39,2x	40,7x	32,0x	34,2x	30,7x	24,8x
Tods	11,2x	18,5x	20,8x	14,3x	20,1x	24,5x	22,1x	18,4x
Hugo Boss	10,7x	13,5x	18,3x	13,4x	17,9x	21,1x	18,5x	15,6x
Industry Average	**15,0x**	**21,9x**	**25,3x**	**20,3x**	**21,4x**	**22,9x**	**19,8x**	**17,3x**
				Price to Book				
Kering	**0,6x**	**1,1x**	**1,4x**	**1,3x**	**1,6x**	**1,5x**	**1,4x**	**1,3x**
LVMH	1,8x	2,7x	3,4x	2,4x	2,8x	2,5x	2,2x	2,1x
Luxottica	2,3x	3,0x	3,2x	2,8x	3,7x	4,2x	3,9x	3,6x
Richemont	2,4x	1,4x	2,8x	3,2x	3,0x	3,5x	3,1x	2,6x
Swatch	1,4x	2,3x	3,2x	2,4x	2,7x	3,2x	2,8x	2,4x
Burberry Group	3,9x	2,3x	5,3x	7,2x	7,6x	5,6x	4,7x	4,1x
Hermes	6,6x	5,5x	7,7x	10,4x	10,0x	9,7x	7,9x	6,0x
Tods	1,5x	2,4x	3,7x	2,8x	3,9x	4,6x	4,1x	3,2x
Hugo Boss	6,0x	6,9x	9,9x	7,6x	9,0x	9,6x	8,0x	6,6x
Industry Average	**2,9x**	**3,1x**	**4,5x**	**4,4x**	**4,9x**	**4,9x**	**4,2x**	**3,5x**
				Price to Sales				
Kering	**0,3x**	**0,6x**	**1,0x**	**1,1x**	**1,8x**	**2,0x**	**1,8x**	**1,7x**
LVMH	1,3x	2,2x	2,9x	2,3x	2,5x	2,3x	2,1x	2,0x
Luxottica	1,1x	1,6x	1,8x	1,6x	2,0x	2,5x	2,4x	2,3x
Richemont	3,6x	1,2x	2,9x	3,2x	2,9x	3,9x	3,6x	3,3x
Swatch	1,4x	2,7x	3,6x	2,8x	3,2x	3,6x	3,2x	3,0x
Burberry Group	2,0x	1,0x	2,4x	3,4x	3,5x	3,0x	2,7x	2,4x
Hermes	6,0x	5,1x	6,9x	8,5x	6,8x	7,4x	6,7x	5,3x
Tods	1,3x	2,2x	2,9x	2,2x	3,0x	3,7x	3,5x	2,8x
Hugo Boss	0,7x	0,9x	2,0x	1,9x	2,3x	3,0x	2,7x	2,4x
Industry Average	**2,0x**	**1,9x**	**2,9x**	**3,0x**	**3,1x**	**3,5x**	**3,2x**	**2,8x**
				Dividend Yield				
Kering	**7,1%**	**3,9%**	**2,9%**	**3,2%**	**2,7%**	**2,4%**	**2,6%**	**2,6%**
LVMH	3,3%	2,1%	1,7%	2,4%	2,1%	2,3%	2,6%	2,9%
Luxottica	1,7%	1,9%	1,9%	2,3%	1,9%	1,7%	2,0%	2,2%
Richemont	2,1%	1,7%	0,9%	0,8%	1,0%	1,3%	1,5%	1,7%
Swatch	2,9%	1,5%	1,2%	1,6%	1,5%	1,3%	1,5%	1,7%
Burberry Group	2,7%	4,3%	2,0%	1,7%	1,7%	2,1%	2,3%	2,5%
Hermes	1,0%	1,1%	1,0%	0,9%	1,1%	1,1%	1,3%	1,6%
Tods	4,2%	2,9%	2,7%	4,0%	2,8%	2,4%	2,6%	3,3%
Hugo Boss	8,0%	4,8%	4,1%	5,2%	3,9%	3,4%	3,8%	4,6%
Industry Average	3,7%	2,7%	2,0%	2,5%	2,1%	2,0%	2,2%	2,6%

Enterprise Value	2008	2009	2010	2011	2012	2013E	2014F	2015F
				EV/EBIT				
Kering	**7,4x**	**3,2x**	**13,2x**	**11,3x**	**11,7x**	**12,5x**	**11,0x**	**9,6x**
LVMH	7,6x	12,2x	14,5x	11,3x	12,6x	11,9x	10,5x	9,6x
Luxottica	11,7x	18,5x	17,7x	14,7x	16,2x	18,4x	16,1x	14,6x
Richemont	16,5x	5,7x	16,0x	14,7x	11,3x	15,1x	13,0x	11,4x
Swatch	7,5x	16,4x	15,7x	11,1x	13,2x	13,9x	11,9x	10,4x
Burberry Group	11,2x	6,9x	13,0x	16,4x	16,5x	13,9x	12,2x	11,0x
Hermes	22,4x	20,1x	23,6x	26,2x	20,2x	22,0x	19,6x	15,2x
Tods	7,8x	12,7x	15,4x	10,3x	15,1x	16,6x	14,9x	12,4x
Hugo Boss	11,5x	10,5x	12,7x	10,0x	12,6x	15,7x	13,9x	11,6x
Industry Average	**11,5x**	**11,8x**	**15,7x**	**14,0x**	**14,4x**	**15,6x**	**13,7x**	**11,8x**
				EV/EBITDA				
Kering	**6,0x**	**2,9x**	**10,7x**	**9,5x**	**10,1x**	**10,9x**	**9,6x**	**8,4x**
LVMH	6,5x	9,8x	12,2x	9,7x	10,8x	9,9x	8,8x	8,1x
Luxottica	8,6x	12,3x	12,4x	10,5x	11,9x	13,7x	12,2x	11,2x
Richemont	14,2x	4,7x	12,5x	12,1x	9,7x	13,0x	11,3x	9,8x
Swatch	6,1x	12,8x	13,4x	9,7x	11,5x	12,2x	10,4x	9,1x
Burberry Group	9,5x	5,5x	10,5x	13,7x	13,5x	10,9x	9,5x	8,5x
Hermes	19,6x	17,4x	20,7x	23,2x	18,3x	20,0x	17,7x	13,7x
Tods	6,2x	10,0x	12,5x	8,6x	12,6x	13,9x	12,5x	10,3x
Hugo Boss	8,4x	7,5x	10,4x	8,5x	10,7x	13,0x	11,5x	9,7x
Industry Average	**9,5x**	**9,2x**	**12,8x**	**11,7x**	**12,1x**	**13,1x**	**11,5x**	**9,9x**
				EV/Sales				
Kering	**0,6x**	**1,0x**	**1,4x**	**1,5x**	**2,1x**	**2,3x**	**2,1x**	**1,9x**
LVMH	1,6x	2,4x	3,1x	2,5x	2,7x	2,4x	2,2x	2,0x
Luxottica	1,7x	2,1x	2,2x	1,9x	2,3x	2,7x	2,5x	2,4x
Richemont	3,4x	1,0x	2,6x	2,9x	2,6x	3,6x	3,2x	2,8x
Swatch	1,3x	2,5x	3,3x	2,5x	3,0x	3,4x	3,0x	2,7x
Burberry Group	2,1x	1,0x	2,3x	3,3x	3,4x	2,8x	2,5x	2,2x
Hermes	5,7x	4,9x	6,5x	8,2x	6,6x	7,1x	6,3x	4,9x
Tods	1,2x	2,0x	2,8x	2,1x	3,0x	3,6x	3,3x	2,6x
Hugo Boss	1,1x	1,2x	2,1x	1,9x	2,4x	3,0x	2,7x	2,3x
Industry Average	**1,8x**	**1,7x**	**2,5x**	**2,4x**	**2,7x**	**2,9x**	**2,6x**	**2,3x**

				FCF yield				
Kering						**4,1%**	**4,6%**	**5,2%**
LVMH						4,5%	5,2%	5,7%
Luxottica						3,1%	3,9%	4,2%
Richemont						3,1%	3,9%	4,6%
Swatch						2,4%	4,2%	4,7%
Burberry Group						3,9%	4,6%	5,0%
Hermes						2,4%	2,7%	3,3%
Tods						3,4%	3,6%	4,3%
Hugo Boss						4,3%	4,6%	5,7%
Industry Average						**3,5%**	**4,1%**	**4,8%**

Source: Factset

Appendix 11 – Scenario Analysis

Perpetuity Rate	WACC													
184,50	**5,0%**	**6,0%**	**6,5%**	**7,0%**	**7,5%**	**8,0%**	**8,5%**	**8,9%**	**9,5%**	**10,0%**	**10,5%**	**11,0%**	**11,5%**	**12,0%**
0,0%	299,72	235,27	210,55	189,40	171,12	155,15	141,10	132,16	117,50	107,51	98,50	90,32	82,87	76,06
0,5%	332,09	256,14	227,73	203,73	183,20	165,45	149,94	140,14	124,18	113,37	103,66	94,89	86,94	79,70
1,0%	372,53	281,16	248,01	220,43	197,13	177,20	159,95	149,13	131,63	119,86	109,35	99,91	91,39	83,67
1,5%	424,48	311,72	272,33	240,15	213,37	190,74	171,38	159,33	139,99	127,11	115,67	105,46	96,28	88,00
2,0%	493,71	349,89	302,03	263,79	232,54	206,53	184,55	171,01	149,47	135,25	122,72	111,61	101,68	92,76
2,5%	590,59	398,94	339,13	292,66	255,52	225,17	199,90	**184,50**	160,28	144,47	130,65	118,47	107,66	98,01
3,0%	735,85	464,30	386,80	328,72	283,59	247,51	218,03	200,29	172,75	154,99	139,62	126,18	114,35	103,84
3,5%	977,86	555,76	450,32	375,05	318,64	274,80	239,76	219,01	187,27	167,11	149,85	134,91	121,85	110,34
4,0%	1.461,77	692,89	539,20	436,80	363,69	308,89	266,30	241,57	204,42	181,25	161,66	144,88	130,35	117,65
4,5%	2.913,24	921,36	672,48	523,20	423,72	352,70	299,46	269,30	224,99	197,94	175,41	156,37	140,05	125,93
5,0%		1.378,20	894,53	652,75	507,72	411,07	342,06	304,19	250,10	217,95	191,65	169,75	151,23	135,37

g 2013 E	EBIT Margin											
184,50	**16,0%**	**17,0%**	**17,5%**	**18,0%**	**18,5%**	**18,7%**	**18,9%**	**19,5%**	**19,9%**	**20,5%**	**21,0%**	**21,5%**
-0,5%	132,49	145,46	151,94	158,42	164,91	167,84	170,09	177,87	182,95	190,84	197,32	203,80
0,0%	133,51	146,54	153,06	159,57	166,09	169,03	171,30	179,12	184,22	192,15	198,67	205,18
0,1%	133,74	146,78	153,30	159,83	166,35	169,30	171,57	179,39	**184,50**	192,44	198,96	205,48
0,5%	134,53	147,63	154,17	160,72	167,27	170,23	172,51	180,37	185,49	193,46	200,01	206,56
1,0%	135,55	148,71	155,29	161,87	168,45	171,42	173,71	181,61	186,77	194,77	201,35	207,93
1,5%	136,57	149,79	156,40	163,02	169,63	172,62	174,92	182,86	188,04	196,08	202,70	209,31
2,0%	137,58	150,87	157,52	164,17	170,81	173,81	176,13	184,10	189,31	197,39	204,04	210,69
3,0%	139,62	153,04	159,75	166,46	173,17	176,21	178,54	186,60	191,85	200,02	206,73	213,44
4,0%	141,65	155,21	161,98	168,76	175,54	178,60	180,96	189,09	194,39	202,64	209,42	216,19
5,0%	143,69	157,37	164,21	171,06	177,90	180,99	183,37	191,58	196,94	205,26	212,10	218,94

Appendix 12 – Analysts' Recommendations

31-12-2013 | 14-04-2014 (Update)

Broker	Data	Target Price	Equity Value	Premium/Discount	Recommendation	Data	Target Price	Equity Value	Premium/Discount	Recommendation
Maria	31-Dez-13	184,50	23.244,71	20%	Buy					
Cantor Fitzgeral	23-Dez-13	186,00	23.433,30	21%	Buy	28-Mar-14	160,00	20.145,60	7%	Hold
Barclays	11-Nov-13	200,00	25.197,09	30%	Buy	11-Abr-14	190,00	23.922,90	27%	Buy
JP Morgan	25-Out-13	190,00	23.937,24	24%	Buy	21-Fev-14	160,00	20.145,60	7%	Hold
HSBC	17-Dez-13	195,00	24.567,17	27%	Buy	14-Abr-14	176,00	22.160,16	17%	Buy
Societe Generale	13-Dez-13	191,00	24.063,23	24%	Buy	9-Abr-14	191,00	24.048,81	27%	Buy
Credit Suisse	19-Nov-13	164,00	20.661,62	7%	Hold	7-Abr-14	156,00	19.641,96	4%	Hold
Others (16)	20-Nov-13	179,00	22.551,40	16%	Buy	04-03-2014	169,00	21.278,79	13%	Buy
	Average	186,43		21%	Buy	**Average**	171,71		14%	Buy
	Minimum	164,00		7%		**Minimum**	156,00		4%	
	Maximum	200,00		30%	6	**Maximum**	191,00		27%	4
	# Shares Outstanding	125,99				**# Shares Outstanding**	125,91			
	Share Price 31/12/2013	153,65				**Share Price 14/4/2014**	150,05			

Source: Bloomberg

Appendix 13 – Some valuation metrics

	2008	2009	2010	2011	2012	2013E	2014F	2015F
Revenue	17.207,00	13.584,30	11.007,80	8.062,30	9.736,30	9.747,04	10.459,63	11.244,03
EBITDA	1.820,30	1.574,40	1.648,50	1.739,40	2.066,60	2.100,63	2.318,00	2.554,32
EBIT	1.440,70	1.239,60	1.370,40	1.501,40	1.791,50	1.825,22	2.022,46	2.236,62
EPS	5,70	4,73	6,58	7,84	10,06	9,94	11,39	12,69
DPS	3,3	3,3	3,5	3,5	3,75	3,75	4,00	4,00
ROIC		5,7%	6,9%	7,5%	9,6%	10,1%	10,1%	11,0%
ROE		2,9%	6,5%	8,6%	11,5%	10,4%	11,2%	11,6%
ROA		1,3%	3,1%	4,1%	5,8%	5,5%	6,9%	7,4%
P/E	13,47	35,54	18,20	14,02	17,65	21,86	13,47	12,09
P/B	0,62	1,07	1,42	1,28	1,56	1,54	1,43	1,32
Dividend Yield	7,1%	3,9%	2,9%	3,2%	2,7%	2,4%	2,6%	2,6%
EV/Sales	0,63	0,99	1,38	1,49	2,15	2,35	2,13	1,91
EV/EBITDA	5,95	2,92	10,74	9,48	10,07	10,89	9,61	8,42
EV/EBIT	7,40	3,15	13,15	11,34	11,66	12,53	11,02	9,61
EV/IC						1,45	1,38	1,31
EVA spread		-3,2%	-2,0%	-1,3%	0,7%	1,2%	1,3%	2,1%
Equity return spread		-7,0%	-3,4%	-1,3%	1,6%	0,5%	1,3%	1,7%