



Equity Valuation Kering S.A.

Francesca Colzani

Dissertation written under the supervision of
Professor José Carlos Tudela Martins

Dissertation submitted in partial fulfilment of requirements for the
MSc in Finance, at the Universidade Católica Portuguesa, May 25th, 2023.

Abstract

Title: Equity Valuation Kering S.A

Author: Francesca Colzani

The primary objective of this dissertation is to determine the target share price of Kering S.A., a renowned French luxury conglomerate established in 1963, for the fiscal year 2023.

Within the methodologies presented in the literature review, the Discounted Cash Flow (DCF) approach was applied, specifically the Free Cash Flow to firm (FCFF) and the Adjusted Present Value (APV) models, as they were deemed most suitable for the analysis. Furthermore, relative techniques were employed, focusing on forward multiples such as EV/Sales, EV/EBITDA, and EV/EBIT. The outcome target price for FY 2023, derived as an average of the three different models employed, resulted to be €585, indicating an upside potential of 7% in relation to the current share price of €546.5 as of May 16th, thereby leading in a “Hold” recommendation. This opinion was further supported by the conclusions of the sensitivity analysis, which was incorporated to evaluate the robustness of the two DCF models when stressing out the inputs.

Keywords: Kering, DCF, APV, Relative techniques, target share price.

Resumo

Título: Equity Valuation Kering S.A

Autor: Francesca Colzani

O objectivo principal desta dissertação é determinar o preço-alvo das ações da Kering S.A., um renomado conglomerado de luxo francês criado em 1963, para o ano fiscal de 2023.

Dentro das metodologias apresentadas na revisão da literatura, foi aplicada a abordagem do Fluxo de Caixa Descontado (DCF), especificamente os modelos Fluxo de Caixa Livre para a empresa (FCFF) e o Valor Presente Ajustado (APV), por terem sido considerados os mais adequados para a análise. Além disso, foram utilizadas técnicas relativas, focando em múltiplos futuros, tais como EV/Vendas, EV/EBITDA e EV/EBIT. O preço-alvo do resultado para o exercício de 2023, calculado como uma média dos três modelos diferentes utilizados, resultou em 585 euros, indicando um potencial de valorização de 7% em relação ao preço actual das acções de 546,5 euros em 16 de Maio, conduzindo assim a uma recomendação de "Manter". Esta avaliação foi ainda suportada pelas conclusões da análise de sensibilidade, que foi incorporada para avaliar a robustez dos dois modelos DCF quando se efectua uma sobrecarga dos dados.

Palavras-chave: Kering, DCF, APV, técnicas relativas, preço-alvo das ações.

List of Equations

<i>Equation 1: Present Value</i>	3
<i>Equation 2: FCFF</i>	4
<i>Equation 3: FCFF</i>	4
<i>Equation 4: Enterprise Value FCFF</i>	4
<i>Equation 5: FCFE</i>	5
<i>Equation 6: FCFE</i>	5
<i>Equation 7: Equity Value FCFE</i>	5
<i>Equation 8: Present Value DDM</i>	6
<i>Equation 9: Gordon Growth Model</i>	6
<i>Equation 10: Two-Stage DDM</i>	6
<i>Equation 11: Enterprise Value APV</i>	7
<i>Equation 12: Expected Distress Costs</i>	7
<i>Equation 13: WACC</i>	9
<i>Equation 14: Cost of Equity</i>	10
<i>Equation 15: Beta Levered</i>	11

List of Figures

<i>Figure 1: Global Luxury Industry by segment, 2022 – Source: Bain & Company Report 2023</i>	12
<i>Figure 2: Consumer Confidence Index (CCI) – Source: OECD, Own Elaboration</i>	13
<i>Figure 3: Global Personal Luxury Goods growth – Source: Bain & Company Report 2023</i>	14
<i>Figure 4: Share of Global Personal Luxury Goods, by Region, 2022 – Source: Bain & Company Report 2023</i> .	15
<i>Figure 5: Share of Global Personal Luxury Goods, by Channel, 2022 – Source: Bain & Company Report 2023</i>	15
<i>Figure 6: :Global Personal Luxury Goods expected growth to 2030 – Source: Bain & Company Report 2023</i> ..	16
<i>Figure 7: Portfolio Composition: Brand Overview and respective segments, 2023 – Source: Company Reports</i>	17
<i>Figure 8: Acquisitions that made Kering a Luxury Conglomerate – Source: Company Reports</i>	18
<i>Figure 9: Share Price history: Kering vs Euronext vs S&P Luxury Good Index – Source: Refinitiv Eikon</i>	19
<i>Figure 10: Historical Performance, Source: Company Reports</i>	19
<i>Figure 11: Share revenues by Segment and House, 2022 - Source: Company Reports</i>	20
<i>Figure 12: Share revenues by Region, 2022 - Source: Company Reports, Own Elaboration</i>	20
<i>Figure 13: Porter's Five Forces, Luxury Goods – Source: MarketLine, Own elaboration</i>	21
<i>Figure 14: Forecast Revenues - Source: Own Elaboration</i>	28
<i>Figure 15: Forecast of Kering's costs – Source: Own Elaboration</i>	29
<i>Figure 16: CapEx and D&A trends – Source: Own Elaboration</i>	31
<i>Figure 17: Regression Approach – Source: Own Elaboration</i>	33

<i>Figure 18: Scenario Analysis – Source: Own Elaboration</i>	40
<i>Figure 19: Football Field - Source: Own Elaboration</i>	42

List of Tables

<i>Table 1: Peers' Table – Source: Refinitiv Eikon, Own Elaboration</i>	21
<i>Table 2: Profitability Ratios – Source: Company Reports, Refinitiv Eikon</i>	22
<i>Table 3: Liquidity Ratios – Source: Company Reports, Refinitiv Eikon</i>	22
<i>Table 4: Efficiency Ratios - Source: Company Reports, Refinitiv Eikon</i>	23
<i>Table 5: Solvency Ratios - Source: Company Reports, Refinitiv Eikon</i>	23
<i>Table 6: Kering Common-Size Income Statement – Source: Company Reports</i>	24
<i>Table 7: Non-Cash Working Capital as % of the Revenues – Source: Company Reports</i>	25
<i>Table 8: Capital Expenditures and D&A – Source: Company Reports</i>	25
<i>Table 9: Revenues per Houses and per Region – Source: Company Reports</i>	26
<i>Table 10: Forecast Revenues by House – Source: Own Elaboration</i>	27
<i>Table 11: Forecast Revenues by Region – Source: Own Elaboration</i>	28
<i>Table 12: Forecast Non-Cash Working Capital – Source: Own Elaboration</i>	30
<i>Table 13: Forecast Capital Expenditures – Source: Own Elaboration</i>	30
<i>Table 14: Synthetic rating – Source: Damodaran, Own Elaboration</i>	32
<i>Table 15: Bonds outstanding- Source: Refinitiv Eikon</i>	32
<i>Table 16: Cost of Debt – Source: Own Elaboration</i>	32
<i>Table 17: Investors's Location – Source: Refinitiv Eikon</i>	33
<i>Table 18: Levered Beta – Source: Own Elaboration</i>	34
<i>Table 19: Market Risk Premium – Source: Own Elaboration, Damodaran, Ferenandez</i>	34
<i>Table 20: Levered Cost of Equity – Source: Own Elaboration</i>	34
<i>Table 21: Unlevered Cost of Equity – Source: Own Elaboration</i>	35
<i>Table 22: WACC – Source: Own Elaboration</i>	35
<i>Table 23: DCF, FCFF – Source: Own Elaboration</i>	36
<i>Table 24: DCF, APV – Source: Own Elaboration</i>	37
<i>Table 25: Share Price 2023 – Source: Own Elaboration</i>	38
<i>Table 26: Relative Valuation - Source: Refinitiv Eikon, Own Elaboration</i>	38
<i>Table 27: Sensitivity Analysis FCFF - Source: Own Elaboration</i>	39
<i>Table 28: Sensitivity Analysis APV - Source: Own Elaboration</i>	39
<i>Table 29: DCF/APV Anlaysia VS DCF Bank Report – Source: Investment Bank Report, Own Elaboration</i>	41

List of Abbreviations

APT	Arbitrage Pricing Theory
APV	Adjusted Present Value
CAPM	Capital Asset Pricing Model
CAPEX	Capital Expenditure
CAGR	Compound Annual Growth Rate
CCI	Consumer Confidence Index
D	Debt
D&A	Depreciation and Amortization
DCF	Discounted Cash Flow
DDM	Dividend Discount Model
DIO	Days Inventory Outstanding
DPO	Days Payable Outstanding
DRO	Days Receivable Outstanding
EBIT	Earnings Before Interest and Taxes
EBITDA	Earnings Before Interest, Taxes, Depreciation, and Amortization
E	Equity
FY	Fiscal Year
FCFE	Free Cash Flow to Equity
FCFF	Free Cash Flow to Firm
GDP	Gross Domestic Product
ITS	Interest Tax Shields
IFRS	International Financial Reporting Standards
K_d	Cost of Debt
K_e	Cost of Equity
MRP	Market Risk Premium
MV	Market Value
NOPAT	Net Operating Profit After Tax
PV	Present Value
PP&E	Property, Plant, and Equipment
ROIC	Return on Invested Capital
R_f	Risk-free rate
TV	Terminal Value
WACC	Weighted Average Cost of Capital

Contents

- 1. Introduction** 1
- 2. Literature Review** 2
 - 2.1 Valuation 2
 - 2.2 Discounted Cash Flow 3
 - 2.2.1 Free Cash Flow to Firm (FCFF) 4
 - 2.2.2 Free Cash Flow to Equity (FCFE) 5
 - 2.2.3 Dividend Discount Model (DDM) 6
 - 2.2.4 Adjusted Present Value (APV) 7
 - 2.3 Relative Valuation 8
 - 2.4 Weighted Average Cost of Capital (WACC) 9
 - 2.4.1 Cost of Debt 9
 - 2.4.2 Cost of Equity 10
- 3. Industry Overview** 12
 - 3.1 Luxury Goods Industry 12
 - 3.2 Personal Luxury Goods 14
 - 3.2.1. Regional Highlights and Distribution Trends 15
 - 3.2.2 Outlook for 2030: Growth Factors 16
- 4. Company Overview** 17
 - 4.1 Business Analysis 17
 - 4.2 Business Strategy 18
 - 4.3 Performance Highlights 19
 - 4.4 Market Landscape and Peers 21
- 5. Financial Analysis** 22
 - 5.1 Ratio Analysis 22
 - 5.2 Cost Structure 23
 - 5.3 Non-cash Working Capital 24
 - 5.4 CapEx & D&A 25
 - 5.5 Revenues 26
- 6. Forecasts and Valuation** 27
 - 6.1 Forecast Inputs 27
 - 6.2 Revenues 27
 - 6.3 Costs 29
 - 6.4 Non-cash Working Capital 29
 - 6.5 CapEx & D&A 30
 - 6.6 WACC 31

6.6.1 Risk Free Rate	31
6.6.2 Cost of Debt.....	31
6.6.3 Cost of Equity.....	33
6.7 Terminal Value.....	35
6.8 FCFF.....	36
6.9 APV	36
6.10 Share Price.....	37
6.11 Relative Valuation.....	38
7. Sensitivity Analysis and Comparison with Investment Bank Report.....	39
7.1 Sensitivity Analysis.....	39
7.2 Scenario Analysis.....	40
7.3 Comparison with Investment Bank Report	41
7.4 Conclusion.....	42
References	43
Appendix	46

1. Introduction

The equity valuation process holds a vital role across different finance fields, from Mergers and Acquisitions to Corporate Finance or Investment Banking. Motivated by a keen interest in these fields, the author has chosen to undertake a thesis on equity valuation. The purpose of this dissertation is to determine with accuracy the value of the selected company, thereby establishing a target share price in order to provide a potential investment recommendation.

The selected company for the analysis is Kering, a renowned French luxury conglomerate established in 1963 with its headquarter in Paris. This choice was mainly dictated by the author's interest in fashion, as well as an admiration for the company's commitment to gender diversity, evident through its representation of women in managerial roles, accounting for nearly 60%. Furthermore, Kering represents an interesting case to analyze since being of the largest luxury conglomerates in the world while simultaneously one of the youngest, as it transitioned to solely focus on the luxury industry in 2018, despite its initial foray into the sector dating to 1999 with its first acquisition.

Therefore, this dissertation will guide the reader through an in-depth explanation of equity valuation, starting with the literature review encompassing the main models employed in this field. Of these, only FCFE, APV, and related valuation will be applied to Kering with the objective of ascertaining the company's share price as of December 2023. Nevertheless, in order to facilitate comparative analysis, the share price as of December 2024 was computed, enabling the comparison with the available investment bank report. Following the literature review, an introduction to the macroeconomic landscape and pivotal trends that are currently driving the luxury industry will be presented, followed by a detailed description of the company, presenting its strategy, and an in-depth analysis of its historical performance and financial indicators. In conclusion, forecasts will be expounded upon and predicted on the assumptions derived from the industry overview, thereby serving as a foundation for the various valuations employed (FCFE, APV, relative valuation). The outcome will subsequently be subjected to a sensitivity and scenario analysis, which will incorporate the impact of adjustments in the inputs, followed by the comparison with the investment bank report to provide further insights and perspectives.

2. Literature Review

This section will provide an overview of what is a valuation, and which are the most common techniques, outlining which methods suit best to obtain the final value of Kering.

2.1 Valuation

Valuation is the assessment used to determine the present or future value of an asset or a company. It plays a key role in different areas of finance and for numerous people such as managers and investors in fact “all management decisions, explicit or implicit, are based on a valuation model of any kind” (Copeland, Koller, and Murrin, 2000).

Although it looks like a simple and straightforward process, it is extremely far from being an exact science but rather presents the opinion of the valuer (Fernandez, 2002). Indeed, the final value depends on the accuracy of the data entered, which must reflect the economic environment wherein the company operates, but also leave a lot of room for subjective judgment (Damodaran, 2006).

Hence, over the last decades, practitioners and academics have refined a wide spectrum of models, which can present different assumptions, but have some characteristics in common that can be classified in broader terms. Thus, there is no evaluation method that is ideal for all companies. Rather, the decision should be made as to which approach is best suited on a case-by-case basis. In this respect, Damodaran (2006) states that business valuation methodologies can be broken down into four main groups:

- i. Discounted cash flow: links the value of an asset and the present value of the projected future cash flows on that same asset, discounted at the rate that reflects “the opportunity cost of investing capital in assets of similar risk and duration” (Froot & Kester, 1995).
- ii. Relative valuation: estimates the value of an asset by examining the price of comparable assets in relation to a common variable, such as earnings, book value, or cash flows. (Damodaran, 2006).
- iii. Contingent claim valuation: Uses option pricing models to determine the value of the assets which present similar option characteristics (e.g. Black and Scholes). (Damodaran, 2006).
- iv. Residual income model: Attempts to adjust a firm's future earnings estimates to compensate for the equity cost, identifying a more accurate value on a firm.

2.2 Discounted Cash Flow

The DCF analysis not only represents one of the most commonly used methodologies by researchers and practitioners but also stands as the basis for other valuations. Indeed, to have a correct relative valuation, it is necessary to understand its fundamentals thoroughly, while the option pricing model often starts with a DCF valuation. (Damodaran, 2006).

This model has its foundation in the present value rule, meaning that the intrinsic value of any asset can be estimated by discounting the expected future cash flows at a suitable discount rate, reflecting the risk perceived by investors.

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

Equation 1: Present Value

Therefore, the value of the company depends on two major components:

- i. The forecast period, where typically the company's cash flows are forecasted out five to ten years depending on the company's sector, stage of development, and the predictability of its financial performance (Rosenbaum et al., 2009). Everything above that becomes a real guessing game, which is where the Terminal Value comes in.
- ii. The Terminal Value, which is the residual value remaining after the forecast period, represents most of the aggregate value. Its calculation involves fundamental assumptions about long-term expectations of the firm's performance and managerial capacity and can be obtained through three approaches. The first is the perpetual growth rate, which assumes that the firm will continue to generate cash flows in perpetuity, thus in a normalized state. The second is the exit multiple, in which the company is assumed to be marketed at a multiple of some metric based on currently observed similar trading multiples for comparable companies. The liquidation approach, which is the final option, estimates the worth of a company's assets as if they were going to be sold to the highest bidder at the end of its forecasted existence.

Nonetheless, the present value will differ based on the type of cash flow chosen in the analysis, which can be divided into Free Cash Flow to Firm (FCFF), also known as Unlevered Free Cash Flows, Free Cash Flow to Equity (FCFE), commonly referred to as Levered Free Cash Flow, and dividends (Dividend Discount Model) (Baker et al., 2020). The key differences between these three lies in how the cash flows are discounted and how cash flows are calculated.

2.2.1 Free Cash Flow to Firm (FCFF)

The FCFF represents the cash available, after accounting for depreciation expenses, working capital, taxes, and investments, to the company's suppliers of capital, which includes stockholders, bondholders, and sometimes preferred stockholders (Pinto et al., 2015). In simple words, FCFF is the cash flow from operations minus capital expenditures and is a measurement of the business's profitability after all expenses and reinvestments. FCFF is forecasted under the assumption that the capital structure is entirely equity, and it is based on this assumption that the analysts estimate these FCFF as the net operating after taxes (NOPAT) minus the net investment in operating capital (NIOC).

$$FCFF = NOPAT - NIOC$$

Equation 2: FCFF

NOPAT can be estimated as earnings before interest and taxes (EBIT) and subtracting the taxes by using the firm's marginal tax rate, while NIOC as the sum of investments in capital expenditures (Capex) and in working capital (OWC), identifying that depreciation expenses (D&A) incurred must be subtracted from the gross investment (Baker et al., 2020).

$$FCFF = EBIT * (1 - T_c) + D\&A - \Delta OWC - CapEx$$

Equation 3: FCFF

Thereafter, since FCFF is the cash flow available to all suppliers of capital, the weighted average cost of capital (WACC) is used as the discount rate that reflects their expectations about time and risk, resulting in enterprise value.

$$Enterprise\ Value = \sum_{t=1}^{t=n} \frac{FCFF_t}{(1 + WACC)^t} + \frac{TV_n}{(1 + WACC)^n}$$

Equation 4: Enterprise Value FCFF

Finally, to get at the intrinsic value of equity, the FCFF method subtracts the value available to non-equity capital of debt and other non-equity to the value of the firm (Koller et al., 2015). However, the FCFF approach helps to value non-dividend-paying firms with negative net income, and it also accounts for the advantages and drawbacks of debt financing that come with estimating the WACC, which will be analyzed afterward.

2.2.2 Free Cash Flow to Equity (FCFE)

A transitional model between FCFF and DDM is FCFE. It represents the cash flow available to the company's holder of common equity after accounting for all operating expenses, interest, principal payment, and investments in fixed and working capital. In a nutshell, FCFE equals the cash flows from operations minus capital expenditures after netting all payments to debtholders and is often used as a proxy for the amount that a business can return to its stockholders via dividends or share buybacks. (Pinto, et al. 2015). This method of valuation gained popularity as a substitute for DDM, especially if a company does not pay a dividend. Although, it does not necessarily equate to the amount paid out to shareholders. There are two ways to compute them. In the first case, FCFE is calculated starting from the net income, which has already accounted for the interest expense and tax savings from any debt outstanding minus Capex plus net debt issued.

$$FCFE = Net\ Income + D\&A - \Delta OWC - CapEx + \Delta Debt$$

Equation 5: FCFE

Contrarily, the second approach starts with the concept of FCFF, presented earlier, subtracting the interest tax shield (ITS), and adding up the net debt issued.

$$FCFE = FCFF - ITS + \Delta Debt$$

Equation 6: FCFE

Moreover, unlikely the FCFF, given that FCFE is the cash flow remaining to the common stockholders to get at the equity value, the correct discount rate to use would be the cost of equity, which is the rate of return required by equity investors (Pinto et al., 2015).

$$Equity\ Value = \sum_{t=1}^{t=n} \frac{FCFE_t}{(1 + K_e)^t} + \frac{TV_n}{(1 + K_e)^n}$$

Equation 7: Equity Value FCFE

Notwithstanding this, there are advantages and disadvantages to this approach. The main benefit is that it can be negative since it takes the expected dilution of any new stock offerings into account when calculating the value of equity. On the other hand, the primary drawback is that it necessitates annual assessments of capital expenditures, new working capital requirements, and of the amount of debt issued and redeemed (Baker et al., 2020).

2.2.3 Dividend Discount Model (DDM)

Similar to FCFE, the DDM model directly assesses the shareholders' equity, and it is the simplest and oldest approach introduced in 1938 by Williams (John Burr Williams, 1938). It's based on the assumption that the value of a stock today is equal to the sum of all present value of all future dividends discounted to the present by the cost of equity (K_e) (Pinto et al., 2015).

$$V_0 = \sum_{t=1}^{t=n} \frac{D_t}{(1 + K_e)^t}$$

Equation 8: Present Value DDM

However, because it is impossible to predict future payouts to infinity, several versions of the dividend discount model have been developed using various growth estimates (Damodaran, 2006). The most used ones are:

- i. The Gordon Growth Model assumes that the dividends will grow forever at a constant rate (g) (Pinto et al., 2015).

$$V_0 = \frac{D_0(1 + g)}{K_e - g}$$

Equation 9: Gordon Growth Model

- ii. The two-stage Dividend Discount Model presents two stages of growth: an early phase in which the growth rate is unstable and a following steady state in which the growth rate is expected to be stable for the long term (Damodaran, 2006).

$$V_0 = \sum_{t=1}^{t=n} \frac{D_t}{(1 + K_e)^t} + \frac{TV_t}{(1 + K_e)^t}$$

Equation 10: Two-Stage DDM

Even though the DDM is one of the simplest and most intuitive valuation methods, both Damodaran and Pinto emphasize that it is the approach with the most limitations. Indeed, only applies to stable companies with a track record of paying out dividends. Moreover, the Gordon Growth Model assumes that dividends will grow at a constant rate forever, which may not be the case in reality. In addition, the model does not account for changes in the company's capital structure or the potential impact of macroeconomic factors on the company's future dividends.

2.2.4 Adjusted Present Value (APV)

To conclude this chapter regarding the DCF, the last model presented is the Adjust Present Value. The APV, introduced by Myers in 1974, is a secondary method used to calculate the company's enterprise value and is particularly useful when evaluating companies that have complex financing structures or when the leverage varies over time. It represents the net present value (NPV) of a company if it was funded exclusively by equity, plus the present value of any financing-related benefits or costs, such as tax shields or costs of bankruptcy.

The enterprise value is calculated starting from the value of the unlevered firm, which is computed from the FCFF discounted by the unlevered cost of equity, adding the present value of the interest tax shield (ITS), and subtracting the expected cost of bankruptcy from borrowing money.

$$EV = \sum_{t=1}^{t=n} \frac{FCFF_t}{(1 + K_{e(u)})^t} + \frac{TV}{(1 + K_{e(u)})^t} + PV(ITS) - E(Distress Cost)$$

Equation 11: Enterprise Value APV

Regarding the present value of the ITS, taking into account the imperfection of the market caused by corporate taxes, Modigliani and Miller (1958) first examined the effect of the capital structure on the firm's value suggesting discounting it at the risk-free rate. Myers (1974), however, proposed as a discount factor the cost of debt augmenting that “the risk of tax savings resulting from the use of debt is equal to the risk of the debt”. However, to these days there are still debates regarding which risk factor should be used. Indeed, Than and Pareja argue that “If the discount rate for the tax shield is not the unlevered cost of equity, the total value would be underestimated”.

Lastly, there is the expected cost of distress which is the biggest downfall of this method. In a nutshell, it is the product of the probability of default and the bankruptcy cost. Rating tables can be used to show the probability of default of a company, but the precise cost of bankruptcy is unknown. Indeed, these last ones can be classified as direct and indirect. The direct costs can be estimated between 3% and 5 % of the firm's value at the moment of crisis, while the indirect ones, which represent lost opportunities, account for 25% and 30% of the firm's value (Titman & Shapiro, 1984).

$$E(Distress Costs) = Probability\ of\ Default * Bankruptcy\ Costs$$

Equation 12: Expected Distress Costs

2.3 Relative Valuation

The objective of relative valuation is to value a company based on how similar businesses are currently priced by the market. It represents one of the most widely used methodologies by analysts, given its broad applicability and ease of understanding the results. Indeed, over 50 percent of all acquisition values and nearly 85 percent of stock research reports are based on a multiple and comparable (Damodaran, 2006). Nevertheless, it is an approach that a lot of times is applied incorrectly or with flaws, so to understand it and use it correctly, three basic steps must be kept in mind. The first one is to identify the appropriate comparable companies that are priced by the market. This must be done not only by looking at the average of the industry but focusing on the business area, the size of the company, its debt-to-equity ratio, and most importantly looking at its profitability and growth rate. The second step is scaling the market prices to a common variable, meaning that the market value of equity or the firm must be converted into multiples. Lastly, adjust for differences across companies that could affect the multiple, like non-operating items (Damodaran, 2006). That being said, relative valuation can be divided into two approaches:

- i. Market Multiples, whose purpose is to identify the right comparable company concerning the risk profile, cash-flows, and earnings growth, where peers are selected by looking at the business model comparability, size, and capital structure of the target company. The multiples can be calculated using either historical or forward data. Even though forward multiples include analyst projections, while historical gives a sense of security since they are based on audited accounts, empirical evidence shows that these are more accurate, hence more frequently used.
- ii. Precedent Transaction Analysis is based on historical transactions in which companies were acquired or sold, where the transaction reflects the commitment of an investor to pay the business based on a multiple. However, this approach presents some constraints. Firstly, given that the transaction occurred in the past, the market conditions may have shifted. Secondly, the transaction price probably includes a takeover premium, which represents the percentage by which the price paid exceeds the fair value of the target company, taking into account transaction costs and synergies.

However, the strengths of this method equal the weaknesses of it, as multiples can be influenced by market sentiment leading to inaccurate estimates (Damodaran, 2006).

2.4 Weighted Average Cost of Capital (WACC)

The WACC represents the rate of return that equity and debt holders expect from investing in a company's operations as opposed to others carrying a comparable level of risk, and as previously mentioned, is used to discount the forecasted FCF and the respective TV, representing the risk faced by all investors (Koller et al., 2015). It presents three main factors, the cost of equity (K_e), the cost of debt (K_d) after tax, and the capital structure of the target company, which are weighted by the amount they contribute to the capital structure of the company, taking into account their market value, as shown in the formula (Baker et al., 2020).

$$WACC = \frac{D}{D + E} * K_d * (1 - \tau) + \frac{E}{D + E} * K_e$$

Equation 13: WACC

As shown in *Equation 14*, K_d is reduced by the marginal tax rate since free cash flows do not include the interest tax shield (ITS), which has value to the shareholders (Koller et al., 2015). However, as noted by Jagannathan, Liberti, Liu, and Meier (2017) “the true cost of capital is unobservable, and firms use hurdle rates as proxies”. Therefore, WACC must be based on the selection of a target capital structure for the company that is in line with its long-term goals, as well as a correct calculation of the cost of debt and equity (Rosenbaum et al., 2009).

2.4.1 Cost of Debt

Cost of Debt (K_d) assesses the current cost to the company of borrowing funds to finance its assets, not only reflecting the default risk but also the level of interest rates in the market. Indeed, creditors will charge higher default spreads to lend to the company as the default risk rises (Damodaran, 2006). There are two main approaches to estimating it. The market-based approach, which is determined by the blended yield on the firm's outstanding debt instruments, may comprise a mix of public and private debt. The cost of debt for publicly traded bonds is calculated using the current yield on all active issues, while for private debt, such as revolving credit facilities and term loans, bankers often talk with a debt capital markets specialist (Rosenbaum et al., 2009). The second one requires researching the firm's credit rating and approximating the default spread it is based on, but since different bonds from the same company can present different ratings, it must be used the firm's median rating (Damodaran, 2006). Once determined, the cost of debt is tax-affected at the company's marginal tax rate as interest payments are tax-deductible, as shown in *Equation 13*.

2.4.2 Cost of Equity

Unlike what has just been presented for the cost of debt, which can be determined from a company's outstanding maturities, the cost of equity (K_e) is implicit and cannot be directly observed in the market (Rosenbaum et al., 2009). Moreover, this expected rate is not necessarily the same for everyone. Depending on the investor's level of risk aversion, various levels of risk in the same investment correspond to fluctuating rates of return, making the cost of equity harder to estimate (Damodaran, 2006). The cost of equity is the return that a company's equity investors expect to receive, and it can be estimated with three different models, where the main difference relies upon which factors are used to estimate the effect of compensated risk. (Koller et al., 2015; Baker et al., 2020). The first and most widely used by analysts is the Capital asset pricing model (CAPM), introduced in 1964 by Sharpe, which is a market equilibrium model that prices risk and will be explored later. The second, presented by Ross in 1976, is the arbitrage pricing theory (APT), which is a multi-factor model that presents a linear relationship between the asset's expected return and a number of macroeconomic variables that capture the systematic risk. The latest and more recent one is the three-factor asset pricing model (3FF), established by Fama and French in 1992, which accounts for anomalies observed in the financial market like size and value risk (Baker et al., 2020). However, as mentioned above, a survey made by Graham and Harvey in 2001 shows the CAPM to be the most commonly used model among practitioners as it was applied by 73,5% of U.S. firms and, therefore, will be further analyzed. The foundation of CAPM is the idea that equity investors must get compensation in the form of a risk premium for the systematic risk they assume. This risk is related to the market, is exogenous and non-diversifiable, and hence is profitable and must be priced, unlike idiosyncratic risk, which is endogenous and can be avoided through diversification (Baker et al., 2020). It depends on the covariance between the rate of return on a company's stock and the movements in the overall market, traditionally the S&P 500 which is used as a proxy, and is measured by beta (β) as shown in the following equation:

$$K_e = R_f + \beta * (R_m - R_f)$$

Equation 14: Cost of Equity

Thus, to be able to use it, three inputs are needed:

- i. Risk-Free Rate (R_f), which is the rate of return of an investor obtained when investing in a "riskless" security, such as T-Bills and T-Bonds, since they are backed

by the U.S. federal government. In order to choose the correct Rf, Lerner and Willinge (2002) suggested that the objective is to utilize an instrument whose maturity matches one of the investments (Rosenbaum et al., 2009; Baker et al., 2020). Some accepted proxies are the German Eurobond for European companies and the 10-year U.S. treasury bond yield for the companies based in the U.S., which Damodaran states to be used by 70% of the firms.

- ii. Market Risk Premium (MRP) is the spread of the rate of return of the market over the risk-free rate (Rm-Rf) (Rosenbaum et al., 2009). It is claimed to be one of the most critical metrics to estimate in finance; thus, among practitioners and academics, there is no universal consensus on how to estimate it. Gompers (2015) and other researchers recommend, as a general rule, viewing it as a range between 5% and 7% rather than using a specific number (Baker et al., 2020).
- iii. Beta (β), as defined before, is the measure of the volatility stock's return related to the overall market return. When the stock presents a $\beta < 1$, it means it has lower systematic risk than the market and exhibits a lower cost of equity, contrary to when $\beta > 1$, it has higher risk and cost of equity. It can be determined according to three methods. Firstly, the historical market beta is estimated by regressing the investment's historical returns against the returns of the market portfolio by substituting a wide index for the market portfolio, such as the S&P 500. Secondly, there is the bottom-up method, which requires computing an average of the unlevered betas of the peer group chosen and then a relever of this beta, taking into account the marginal tax rate (τ) and the debt-to-equity ratio. The average must be calculated out of the unlevered betas of each company to neutralize the effects of each different capital structure (Rosenbaum et al., 2009).

$$\beta_L = \beta_U * \left(1 + \frac{D}{E} * (1 - \tau) \right)$$

Equation 15: Beta Levered

This is one of the best approaches since it is universal and can be applied to firms in any market (Damodaran, 2006). Lastly, the accounting method, which instead of utilizing market prices to evaluate the risk, uses accounting earnings and regresses them against the changes in earnings for the market. Even though this approach suffers from some pitfalls, it can be used when the market prices are too noisy or unavailable to analysts (Damodaran, 2006).

3. Industry Overview

3.1 Luxury Goods Industry

As will be further analyzed, Kering is one of the major players in the Luxury Industry, which in 2022 leaped forward, despite the uncertainties of the market, growing by 21% and reaching almost €1.4 trillion, as stated in the industry report of Bain & Company. As can be seen from the figure below, the industry is divided into nine main segments, led by luxury cars, and followed by the personal luxury goods market segment, in which Kering primarily operates and which has experienced accelerated growth of 22%, in 2022, to 353 billion (Bain & Company, 2023).



Figure 1: Global Luxury Industry by segment, 2022 – Source: Bain & Company Report 2023

Despite deteriorating macroeconomic indicators and geopolitical conditions, this sector performed strongly across quarters in 2022 and is expected to see further expansion in 2023 (Bain & Company, 2023). Nevertheless, as reported by the research conducted by McKinsey & Company (2023), many fashion executives are concerned about the fragility of the market in 2023, and expectations of a continued recovery can be downshifted quickly due to mainly four threats:

- i. Inflation, which has forced central banks to raise interest rates, ending a long period of low and ultra-negative rates, to contain rising prices and help economies avoid recession, but that is also pressuring brand costs as a result of a competitive labor market.
- ii. War in Ukraine which began last February, triggering a series of events, such as the worsening energy crisis in Europe, disruption of the supply chain and limitations imposed to the export of luxury goods in Russia.

- iii. Covid-19, which is no longer considered a major concern in Europe but still had effects in regions such as China in 2022, whose economic growth slowed to 3% according to the Oxford Economics, and is expected to see a recovery through 2023 with the lift of the Zero-Covid restrictions (Kering Report, 2023).
- iv. Exchange rates, that through central bank monetary policies brought to a strong rise in the US dollar against the Euro alongside a decline in the Japanese Yen. Due to these regional discrepancies, as a result, more consumers could purchase products while on vacation.

However, as mentioned above, in 2023 the sector is expected to grow, and this is supported by two main reasons. The first, as the chart below shows, is the starting increase of the Consumer Confidence Index (CCI) after an all-time low since 2014, which provides an indication of future consumption and savings trends based on the expected financial situation, denoting a rise in consumer confidence for the future economic situation (OECD, 2023).

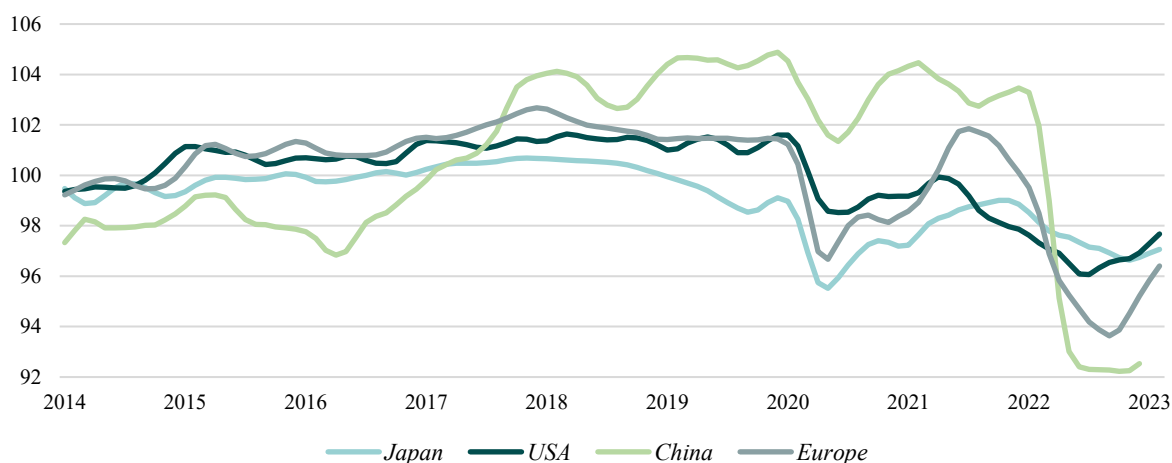


Figure 2: Consumer Confidence Index (CCI) – Source: OECD, Own Elaboration

The second is that the luxury market now seems better equipped to deal with economic turmoil, thanks to an increasing consumer base that is more focused on top customers, who are less sensitive to downturns and who are looking for unique products and experiences. Indeed, the top customers' share has been growing in the past year, reaching 40%, 5% more compared to 2021. Thus, the customer-centricity honed in recent years as well as the multi-touchpoint ecosystem that luxury has developed, are sources of resilience for the industry (Bain & Company, 2023). As a result, different possible outcomes could occur in the next years, depending on the strength of China's economic recovery and the ability of the United States and Europe to weather the headwinds (Bain & Company, 2023).

3.2 Personal Luxury Goods

Focusing now on personal luxury goods, which is the main sector in which Kering operates and continues to be the heart of the entire luxury industry. As can be seen in *Figure 3*, the sector has grown continuously with a CAGR of 6% from 1996 to 2022. Moreover, it shows the cyclical nature of the industry, as the rate of sales growth is negatively affected during periods of economic contraction which are highlighted in grey.

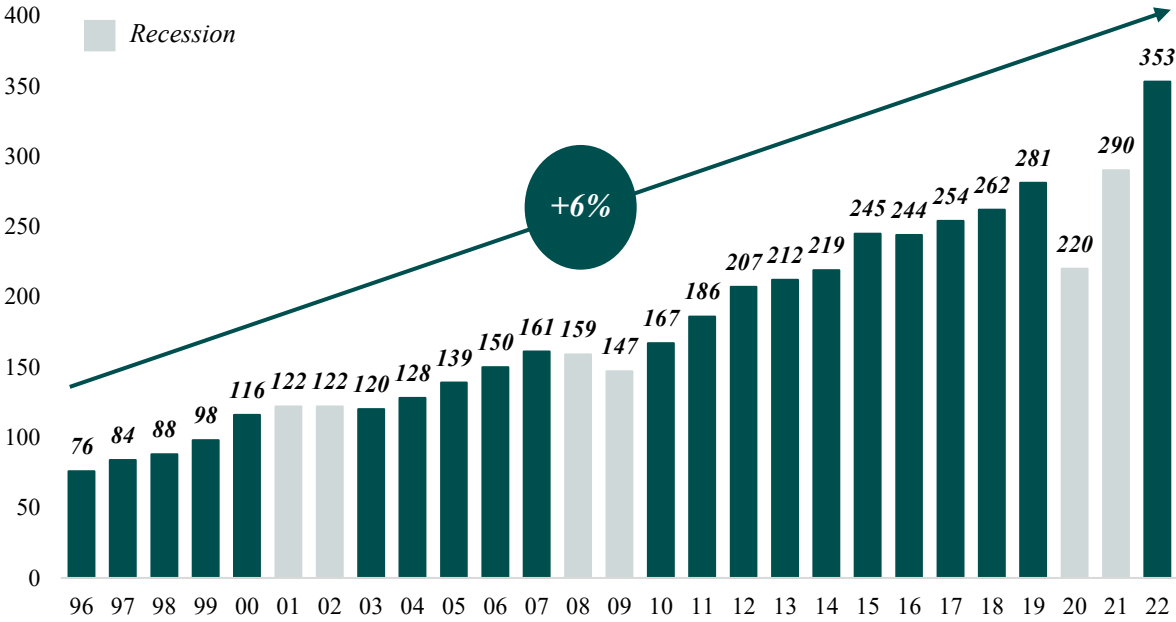


Figure 3: Global Personal Luxury Goods growth – Source: Bain & Company Report 2023

Concerning the individual categories of personal luxury goods, as stated in the Bain & Company report, all of them recovered to 2019 or better levels, with accessories leading the segment at a CAGR of 10% between 2019 and 2022. Within them, leather goods grew by 25%, driven by the price increase that did not damage the volume growth, with iconic models and recognizable brands remaining the most popular items. Hard luxury (jewelry and watches) is the second biggest segment, with watches setting a new record of €52 billion, showing the strong demand for iconic models but nevertheless constrained by the product’s low availability. Apparel increased as well by 23%, with menswear and womenswear growing at the same pace, supported by wardrobe restocking for office and events where formal attire is taking on a new definition (McKinsey & Company, 2023). Lastly, beauty, which touched €69 billion, led by fragrances and makeup, but is still affected by the recovery of travel retail. (Bain & Company, 2023).

3.2.1. Regional Highlights and Distribution Trends

In terms of regions, the Americas, especially U.S., are expected to lead the industry as its economy is stronger than other major ones, which respectively have been affected by the war and energy crisis in Europe and the lingering COVID restrictions in China. However, both Europe and China are also expected to see developments. In fact, Europe has already managed to recover beyond pre-covid 2019 levels due to solid domestic demand and a boost from tourist shoppers, which has doubled between 2019 and 2022. Moreover, South Korea, and southeast Asia, alongside with African countries, have shown exceptional growth and future potential as their luxury infrastructure can develop quickly. Among them stands out India, thanks to younger consumers and rising upper and middle class, which is expected to grow to 3.5 times its current size by 2030. (Bain & Company, 2023).



Figure 4: Share of Global Personal Luxury Goods, by Region, 2022 – Source: Bain & Company Report 2023

Regarding the distribution channels, Monobrand stores are the best performers, favored by customers’ willingness to return to in-person shopping after Covid-19, and who do not only seek clothes and accessories but experiences with the brands. Online channel remains in line with the growth seen in the past years (Bain & Company, 2023).

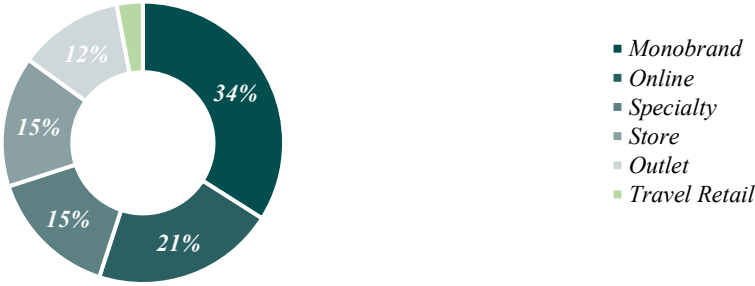


Figure 5: Share of Global Personal Luxury Goods, by Channel, 2022 – Source: Bain & Company Report 2023

3.2.2 Outlook for 2030: Growth Factors

After experiencing extreme instability and uncertainty for three years due to Covid-19, the sector came out of this period stronger, more resilient, and more innovative than before. Additionally, the vigorous performance of 2022 underlines that the market should continue to see healthy growth in the medium-long term. Therefore, looking forward to 2030, growth rates between 5 and 7 percent are expected, according to Bain & Company, which would power the market growth to reach between €520 and €580 billion, given three main reasons:

- i. China should overtake Europe and the Americas, driven mainly by Chinese consumers, who are predicted to grow and reclaim their pre-covid position as the largest nation for luxury goods, accounting for 40% of all purchases worldwide.
- ii. Generational trends, which already had an impact in 2022, as Gen Z and Gen Y¹ accounted for the entire market growth and are expected to mark for one-third of industry spending by 2030, growing three times faster than previous generations reflecting a more precocious attitude toward luxury.
- iii. New activities that will transcend the traditional business model of industry and will be driven by technology, such as NFT, metaverse, and virtual experiences, could bring in an additional €60 to €120 billion.

To conclude, the figure below shows a plausible scenario of the personal luxury goods market growth if current conditions lead the CAGR to grow at the minimum expected, that is, 5 percent.

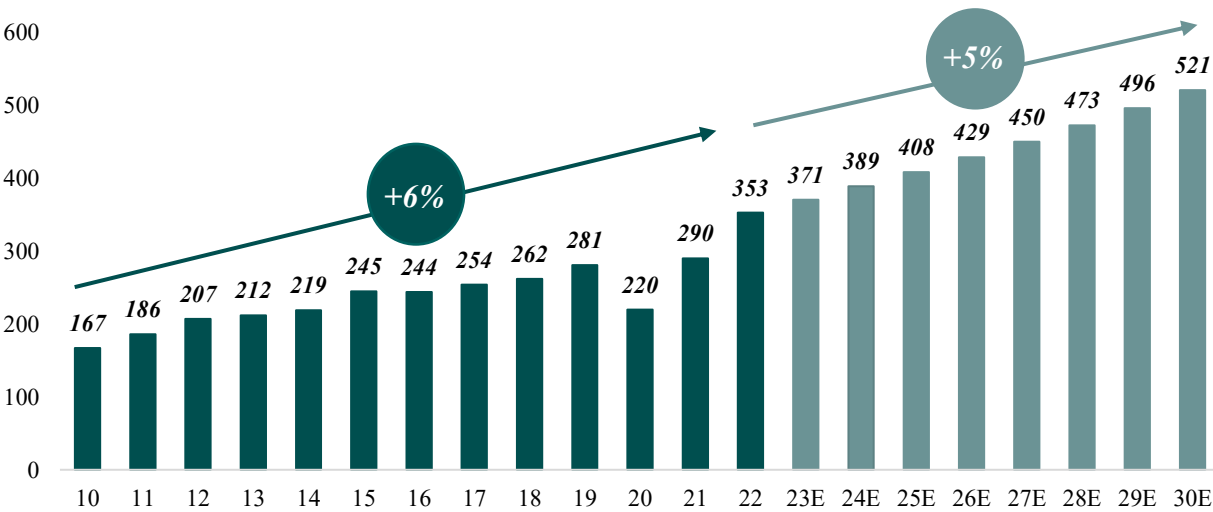


Figure 6: Global Personal Luxury Goods expected growth to 2030 – Source: Bain & Company Report 2023

¹ Gen Z, comprises people born between 1996 and 2010; Gen Y, comprises people born between 1981 and 1996

4. Company Overview

4.1 Business Analysis

Kering SA is a Paris-based French conglomerate founded in 1963 that operates in the luxury industry and has been listed on the pan-European market (Euronext) since 1988. It is the 5th world's biggest luxury holding, with sales of €20,3 billion in 2022 and a market cap of €71.15 billion as of 22nd of March 2023. The group produces luxury and lifestyle goods that can be divided into three categories (Fashion & Leather, Jewelry & Watches, and Eyewear), employing more than 47.000 people and selling in 1.659 stores around the world. Its portfolio includes world-famous brands such as Gucci, which is the main house present in the holding, Saint Laurent, Bottega Veneta, and others that are shown in the table below.



Figure 7: Portfolio Composition: Brand Overview and respective segments, 2023 – Source: Company Reports

Moreover, in February 2023, the company announced the introduction of the new Kering Beauty segment, which will allow some of the group's brands, such as Bottega Veneta, Balenciaga, Alexander McQueen, Pomellato and Qeelin, to develop in this new area which is a natural extension of their territory but at the same time will permit the company to create value in coherence with its strategies and positioning (Kering Annual Report, 2023). However, Kering will not be able to produce products for the main houses since Coty has licensed Gucci until 2028, and Yves Saint Laurent is produced by L'Oréal (Financial Times, 2023).

4.2 Business Strategy

The group's objective is to become one of the most influential groups in terms of innovation, sustainability, and economic performance. In order to do so, it has decided to put the concept of luxury at the center of its model, which until ten years ago accounted for only 17% of its revenues. This has enabled the company to develop a value for each of its Maisons while at the same time playing a complementary role, allowing the conglomerate to optimize several strategic functions such as logistics, advertising space, and information systems while reinforcing their positioning given the mix of brands, products, and customers. Moreover, in recent years, another strength has been vertical integration and strategic acquisition, which has allowed investment in activities and companies that have benefited the entire group, such as the creation of Kering eyewear. This has allowed the development of expertise in a specific category that is fundamental to the strategy and image of each Maison while also contributing to the group through the creation of 6% revenues in 2022.

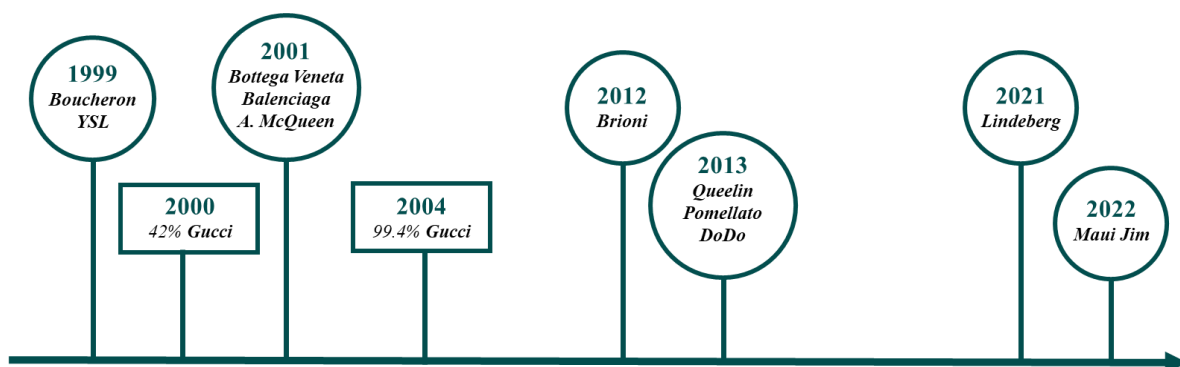


Figure 8: Acquisitions that made Kering a Luxury Conglomerate – Source: Company Reports

As was previously stated, another key component of their strategy is sustainability. Indeed, since 2017 their main objective has been to reduce its environmental impact with a target of 40% reduction by 2025. Today, this goal has already been met and exceeded by touching -50% in 2022, thus inciting the group to strive for even bigger and more important goals such as achieving carbon neutrality by 2025, investing in startups (more than 225 since 2016) to create sustainable materials and products and investing in the second-hand market, acquiring 5% of Vestiere Collective, the world leader in the online sale. Lastly, there is a focus on employees, supporting them to evolve and grow within the conglomerate, moving them between various Maisons to create a strong team culture. By placing all these characteristics and creativity at the center of its strategy, Kering inspires each Maison to go beyond its boundaries in order to responsibly and sustainably shape the future of luxury.

4.3 Performance Highlights

Given its strategy, Kering, in the past five years, has been able to outperform the S&P Luxury Goods Index, which consists of the eighty largest companies engaged in the production and distribution of luxury goods. However, it was not able to outperform Euronext all through the years but just in some periods, mainly before the pandemic. Notwithstanding, as can be seen from the graph below, Kering showed a good recovery from 2021 onwards, despite the effects of inflation and Zero-Covid restrictions in China being apparent.

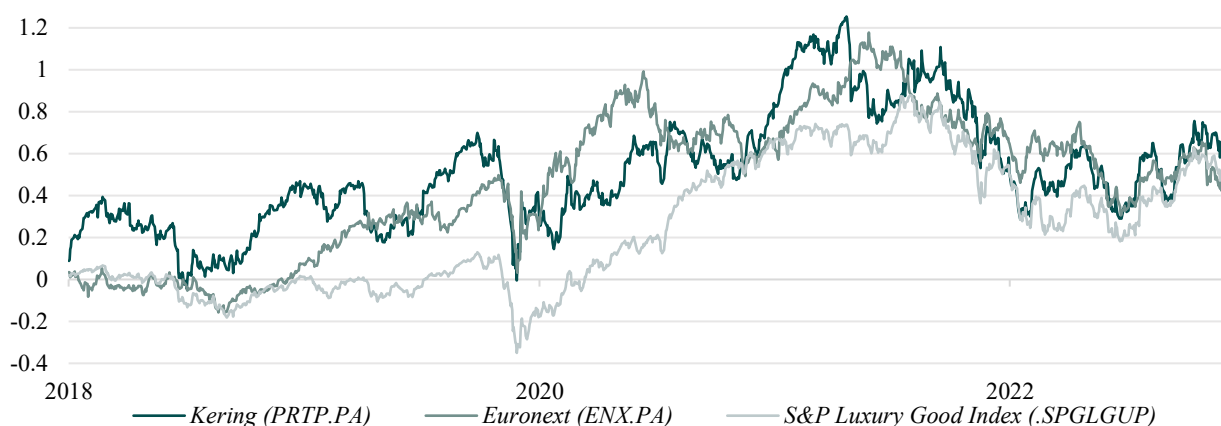


Figure 9: Share Price history: Kering vs Euronext vs S&P Luxury Good Index – Source: Refinitiv Eikon

Moreover, since Kering started focusing only on the luxury sector, the company has grown rapidly, with a CAGR of 8.4 % over the past seven years and an EBITDA margin of around 35 % since 2018. As shown below, Covid had a major impact on the group's performance in 2020, returning to lower levels than in 2018, although sales in the e-commerce channel recovered in 2021 thanks to the lifting of Covid restrictions and the boost of tourist shopping mainly in Europe attracted by favorable exchange rates.

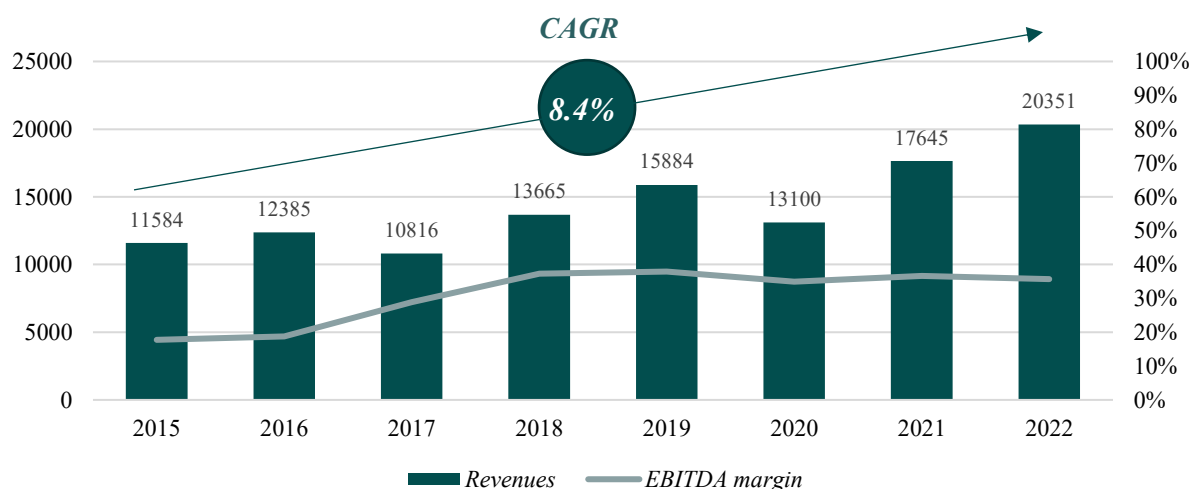


Figure 10: Historical Performance, Source: Company Reports

Regarding last year Kering reported sales of €20.351 billion, 15 % more than in 2021. Of the total 83% arose from the Fashion & Leather Goods segment, which includes clothing, handbags, shoes, and other accessories, while the house with the most revenue was Gucci, accounting for more than half of the revenue for the company. Nevertheless, compared to 2019, Yves Saint Laurent and the other Maisons are growing at a faster pace, respectively at 2% and 3%, while Gucci decreased by 12%.

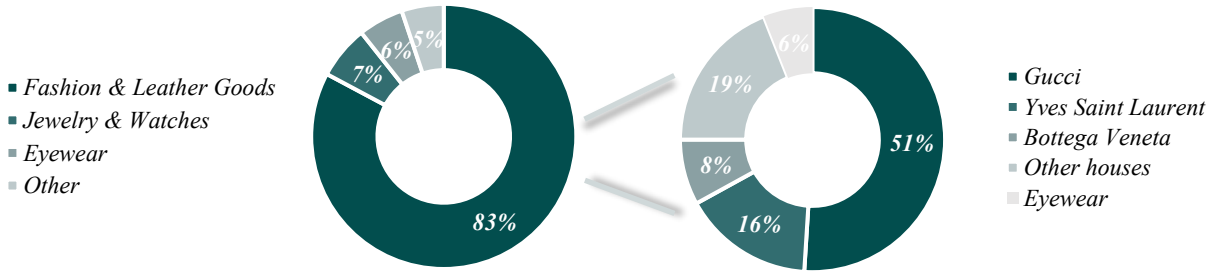


Figure 11: Share revenues by Segment and House, 2022 - Source: Company Reports

Additionally, the business offers comprehensive details about the areas in which it operates, starting with Asia Pacific, representing the core market for Kering and accounting for 33% of the revenues of the total sales in 2022, led mainly by Mainland China, although it has experienced lower store footfall in recent years due to the lockdown. However, North America is expected to have the largest share due to its consumers. The results can already be seen comparing data from 2019 to 2022, which showed an increase of 8 %, reaching 27%, the same share as Western Europe, that, on the contrary, experienced a 5% decline.

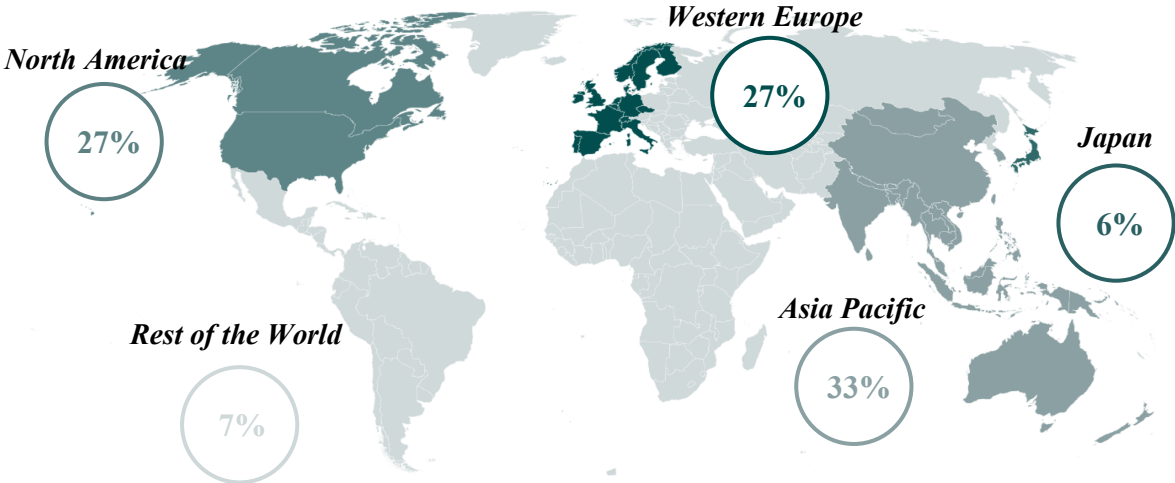


Figure 12: Share revenues by Region, 2022 - Source: Company Reports, Own Elaboration

4.4 Market Landscape and Peers

Nevertheless, Kering is not the only one competing in this industry. In fact, the market is characterized by large multinational corporations that impact the market, creating a strong degree of rivalry and consequently relatively limiting growth. In addition, barriers to entry are limited, so if a particular niche is established, the market can still be penetrated by new entrants. However, their ability to compete and grow against established brands is more challenging. This is mainly due to the presence of conglomerates, such as Kering and LVMH, which tend to acquire any player that becomes a threat to their existing brands.

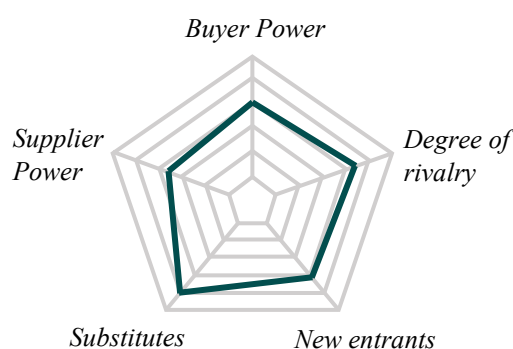


Figure 13: Porter's Five Forces, Luxury Goods – Source: MarketLine, Own elaboration

Nonetheless, the competition among large conglomerates is to some extent limited. This is due to the differentiation of the wide range of segments present. Indeed, marketing campaigns and product development to maintain customer loyalty and involvement are the areas of strength for these players. This is precisely the reason why selecting accurate peers is difficult. However, peers are selected by the following main characteristics, shown in the chart below:

1. Segment: selecting at least one peer for each, in which Kering operates (Fashion & Leather Goods, Jewelry & Watches and Eyewear). This is the main reason why EssilorLuxottica, even though has different ratios, was included since Kering wants to expand this segment.

2. Margins: considering growth ratios such as EBITDA, which are all around 30%, profitability ratios (ROE), which confirms the first position for LVMH, but underlines the strength of Kering.

Segment	Company Name	Headquarter	Market Cap	EBITDA Margin	ROE	ROIC	D/E	β
Fashion & Leather Goods	LVMH	France	450.02B	33.60%	27.60%	15.00%	63.67%	1.01
	Capri Holdings Limited	UK	5.58B	21.20%	33.00%	13.20%	43.33%	2.28
	Prada SpA	Italy	154.81B	35.20%	14.10%	8.20%	76.51%	0.72
	Hermes International SCA	France	209.33B	46.80%	30.80%	25.90%	15.55%	0.72
	Burberry Group PLC	UK	9.9B	29.60%	25.00%	14.00%	86.86%	1.67
Jewelry & Watches	Moncler SpA	Italy	18.18B	39.90%	22.50%	17.20%	31.45%	0.74
	Richemont	Switzerland	78.51B	25.70%	11.00%	7.40%	75.73%	1.51
	Swatch Group	Switzerland	14.68B	20.90%	6.90%	6.60%	0.07%	0.99
Eyewear	EssilorLuxottica SA	France	78.60B	27.90%	5.90%	4.50%	32.58%	0.88
	Kering SA	France	71.75B	35.65%	25.13%	18.86%	84.83%	1.01

Table 1: Peers' Table – Source: Refinitiv Eikon, Own Elaboration

5. Financial Analysis

Before heading into the core of this thesis, the financial structure of Kering is analyzed. This has the intention of evaluating the recent historical performance, from ratio analysis to common statements analysis, to identify the drivers of its future forecasts.

5.1 Ratio Analysis

Profitability ratios are the first to be evaluated since they show the company's ability to use its assets in order to generate money and value for its shareholders. In the table beneath, both margin and return ratios are shown, and as can be seen, Kering outperforms its peers when comparing 2022. The peers' ratios were achieved by doing a weighted average with the brands operating in Fashion & Leather Goods accounting 30%, while for Eyewear and Jewelry & Watches accounting for 5% each.

	2018	2019	2020	2021	2022	Peers	Industry Median
EBITDA Margin	32.5%	37.9%	34.9%	36.7%	35.6%	32.2%	24.6%
EBIT Margin	28.9%	30.1%	23.9%	28.4%	27.5%	20.8%	
Net Income Margin	19.4%	13.6%	16.8%	18.4%	18.3%	14.1%	10.8%
ROE	26.3%	20.8%	18.3%	23.6%	25.1%	20.9%	22.4%
ROA	12.4%	8.0%	7.8%	10.4%	10.9%	8.9%	

Table 2: Profitability Ratios – Source: Company Reports, Refinitiv Eikon

The financial strength is then evaluated by analyzing the liquidity ratios. These measure the capability of a debtor to settle current debt commitments without having to raise outside capital. Overall, Kering shows lower but close values to the ones of its peers. Even though its current ratio is lower than 1.8x, it is still greater than 1x, meaning that the company has the financial resources to remain solvent. However, since the cash ratio is below 1x, Kering cannot pay off its short-term debt with cash and cash equivalents.

	2018	2019	2020	2021	2022	Peers	Industry Median
Current Ratio	1.0x	0.9x	1.3x	1.3x	1.4x	1.8x	1.7x
Quick Ratio / Acid Ratio	0.7x	0.6x	0.9x	0.9x	0.8x	1.2x	0.9x
Cash Ratio	0.4x	0.3x	0.5x	0.6x	0.5x	0.6x	

Table 3: Liquidity Ratios – Source: Company Reports, Refinitiv Eikon

Subsequently, Kering's efficiency in managing the working capital is assessed through the efficiency ratios. The comparison of *Table 4* reveals that the peers' days inventory outstanding is lower than Kering's. However, if Kering was just compared with LVMH, Prada and Burberry the value would be in line. This ratio gives an indication of how quickly the company can turn

its inventory into cash. Contrarily, regarding the days receivables, Kering performs better compared to its peers.

	2018	2019	2020	2021	2022	Peers	Industry Median
Days Inventory	269.9	239.4	295.8	248.5	278.2	246.8	253.4
Days Receivables	22.7	22.9	23.0	20.2	21.2	24.3	
Days Payables	78.5	71.8	67.7	138.9	160.3	124.7	

Table 4: Efficiency Ratios - Source: Company Reports, Refinitiv Eikon

Lastly, the solvency ratios are calculated to measure Kering's capability to cover its long-term debt. By looking at the D/E ratio, it can be noticed that from 2018 to 2019 the value doubled, meaning that the company increased its debt. As can be found in Appendix 3, this was due to a surge of non-current leases as well as of short-term debt and current leases. However, Kering ratios are pretty in line with the ones of its peers, proving to be in a healthy state.

	2018	2019	2020	2021	2022	Peers	Industry Median
D/E	0.4x	0.9x	0.8x	0.7x	0.9x	0.7x	0.5x
Assets/Equity	2.1x	2.6x	2.4x	2.3x	2.4x	2.2x	2.4x
Net Debt/ EBITDA	0.5x	0.7x	1.3x	0.8x	0.8x	0.7x	0.8x

Table 5: Solvency Ratios - Source: Company Reports, Refinitiv Eikon

To conclude, these results give a clear indication of good operational management that creates the basis for sustainable growth, making Kering a solid company with strong fundamentals.

5.2 Cost Structure

Unfortunately, Kering does not disclose any information regarding the structure of any of its costs, so this subchapter will be based on information gathered from its peer's reports.

For all luxury companies, raw materials are one of the biggest portions of costs for the manufacture of their products, alongside production costs and impairment of inventories. Further significant costs are general, administrative, and selling expenses (SG&A), which generally include costs related to the promotion of new products and campaigns, but in Kering's case, include only overhead personnel expenses. All the other expenditures are classified under the voice of other recurring operating income and expenses. To get a better overview of its costs, the table below shows each item in the percentage of Kering's sales. As can be seen from *Table 6*, Kering keeps all costs quite constant, with a maximum deviation of 3%.

(EUR m)	2018H	2019H	2020H	2021H	2022H
Income statement % Revenues					
Cost of sales	25%	26%	27%	26%	25%
SG&A	15%	14%	16%	14%	14%
Other operating expenses	31%	30%	33%	32%	33%
EBITDA (Adj)	32%	38%	35%	37%	36%
D&A	4%	8%	11%	8%	8%
EBIT (Adj)	29%	30%	24%	28%	27%
Non recurring income	2%	2%	5%	2%	1%
EBIT	27%	28%	19%	27%	27%
Other financial income/expenses	1%	1%	-4%	1%	1%
EBT	26%	27%	23%	26%	25%
Income taxes	6%	13%	6%	7%	7%
Net income after Tax	19%	14%	17%	18%	18%
After Tax Income/Expense	8%	1%	0%	0%	0%
Minority Interest	0%	0%	0%	0%	1%
Net Income Group	27%	15%	16%	18%	18%

Table 6: Kering Common-Size Income Statement – Source: Company Reports

Furthermore, *Table 6* shows the effects that Covid had on Kering in 2020. Starting with the decrease in revenues, which amounted to €13.100m (*Appendix 1*), declined by 17.5% compared to the previous year, which was mainly due to the forced closure of stores as a result of the lockdown measures. The effects can also be seen in the recurring operating income, reported in the table as EBIT Adjusted, a figure that does not include the non-recurring income or expenses as it is assumed a once-in-time effect. However, the dilution in the EBIT Adjusted compared to 2019 was limited to 6%, passing from 30% to 24%. Lastly, regarding the impacts on the costs side, an increase of 3% from 2019 to 2020 can be noticed in other operating expenses, in part due to costs related to health measures, such as the purchase of face masks, hand sanitizer, and covid tests as reported in Kering's annual report of 2020. Overall, in the past five years, as mentioned before, the costs stayed constant.

5.3 Non-cash Working Capital

On the other hand, looking at Kering's balance sheet, non-cash working capital has been volatile, increasing over the years and reaching a peak of 8% in 2022 but with an average between 2015 and 2018 of -13%. It is possible that this increase was due indirectly to Covid, which causes impairment losses on current assets such as inventory as well as tax receivables. As shown in *Table 7*, they increased in 2020 due to a slowdown in inventory items, mainly due to the spring and summer harvest and difficulties faced by wholesaler accounts. Moreover, the last item is other current liabilities, which is assumed to be of operative nature since any comment is disclosed on the Report of 2022.

<i>WC as a % of revenue</i>	2018H	2019H	2020H	2021H	2022H
Inventories	18%	19%	22%	19%	22%
Trade receivables	6%	6%	6%	6%	6%
Tax receivables	1%	2%	5%	5%	2%
Other current assets	7%	6%	9%	6%	6%
Deferred tax assets	6%	9%	9%	8%	8%
Accrued Expenses	0%	0%	0%	0%	0%
Non-current provisions	0%	0%	0%	0%	0%
Other non-current liabilities	0%	-1%	-2%	-1%	-1%
Deferred tax liabilities	-12%	-10%	-11%	-8%	-8%
Trade payables	-5%	-5%	-5%	-10%	-11%
Tax payables	-10%	-9%	-7%	-7%	-3%
Current provisions	-2%	-1%	-2%	-1%	-1%
Other current liabilities	-23%	-19%	-20%	-15%	-12%
Noncash working capital	-15%	-4%	3%	1%	8%

Table 7: Non-Cash Working Capital as % of the Revenues – Source: Company Reports

5.4 CapEx & D&A

Capital Expenditures are another element that, in the last, years was quite unstable, probably also due to the introduction of the IFRS 16 in 2019. They include mainly investments in new stores, refurbishments as well as logistic infrastructure and IT systems. Capex is calculated just on the voices present in *Table 8*, namely Intangible Assets, PP&E, and Right of use assets since Depreciation and Amortization changes are reflected just in these items as described in Kering’s report of 2022. However, as can be noticed, D&A stays quite constant throughout the years, accounting for around 10% when calculated as a percentage of total tangible and intangible assets.

<i>CapEx</i>	2018H	2019H	2020H	2021H	2022H
Intangible assets	7,394	7,261	6,986	7,032	7,357
Property, plant and equipment	2,229	2,619	2,670	2,967	3,388
Right-of-use assets	0	4,247	3,957	4,302	4,929
Sum	9,622	14,127	13,613	14,301	15,674
D&A		1,245	1,439	1,453	1,666
Net CapEx		5,749	925	2,141	3,040
<i>as a % of revenue</i>					
D&A		9%	11%	10%	11%
Net CapEx		36%	7%	12%	15%

Table 8: Capital Expenditures and D&A – Source: Company Reports

5.5 Revenues

To conclude this chapter, below is presented *Table 9*, showing the breakdown of revenues by household and region. Gucci represents more than half of Kering's revenues, driven mainly by sales in Asia Pacific and North America. Nonetheless, it is the only house that experienced a decline from 2018 to 2022. All the other houses, including Kering's Eyewear, show in the same period an increase of 2% to 4%. In addition, Kering Eyewear has shown outstanding performance, with a compound annual return of 22.2% between 2018 and 2022, as a result of its acquisition strategy. Overall, in 2022 revenues rose by 15% compared to 2021 thanks to the return of tourism in Europe but also to the currency movements, which boosted the sales denominated in the US dollar and Chinese yuan by almost 5%. This, combined with the average price increase, made Kering able to offset the negative impact of inflation.

(EUR m)	2018H	2019H	2020H	2021H	2022H
Houses Revenues					
GUCCI	61%	61%	57%	55%	52%
	8,285	9,628	7,441	9,731	10,487
<i>Asia Pacific</i>	36%	38%	44%	44%	36%
<i>North America</i>	21%	20%	22%	27%	29%
<i>Western Europe</i>	29%	28%	22%	17%	22%
<i>Japan</i>	8%	8%	7%	6%	6%
<i>Rest of the world</i>	6%	6%	5%	6%	7%
Yves Saint Laurent	13%	13%	13%	14%	16%
	1,744	2,049	1,744	2,521	3,300
<i>Asia Pacific</i>	28%	28%	30%	28%	25%
<i>North America</i>	23%	24%	25%	34%	33%
<i>Western Europe</i>	35%	35%	32%	27%	31%
<i>Japan</i>	8%	7%	7%	5%	4%
<i>Rest of the world</i>	6%	6%	6%	6%	7%
Bottega Veneta	8%	7%	9%	9%	9%
	1,109	1,168	1,210	1,502	1,740
<i>Asia Pacific</i>	39%	38%	40%	39%	34%
<i>North America</i>	11%	12%	13%	18%	21%
<i>Western Europe</i>	28%	29%	27%	24%	27%
<i>Japan</i>	16%	15%	11%	10%	12%
<i>Rest of the world</i>	6%	6%	9%	9%	6%
Other Houses	15%	16%	17%	19%	19%
	2,109	2,538	2,282	3,285	3,874
<i>Asia Pacific</i>	21%	23%	30%	28%	25%
<i>North America</i>	15%	15%	25%	34%	33%
<i>Western Europe</i>	46%	45%	32%	27%	31%
<i>Japan</i>	9%	10%	7%	5%	4%
<i>Rest of the world</i>	9%	7%	6%	6%	7%
Eyewear	3%	3%	3%	4%	6%
	419	501	424	733	1,139
Total Revenues	13,666	15,884	13,100	17,644	20,351

Table 9: Revenues per Houses and per Region – Source: Company Reports

6. Forecasts and Valuation

For this chapter, since Kering does not provide any information regarding its future, the analysis made for its forecast is based on the author's judgment of Kering's historical performance as well as industry specific data retrieved from the Bain & Company report of 2023.

6.1 Forecast Inputs

As previously mentioned in Chapter 3, the Luxury industry is cyclical, with a historical average length of 10 years. However, it is not foreseeable, therefore, since the last recession was in 2020, this analysis will study the next seven years, assuming that until 2030 a new recession would not happen, making the company operate in a steady state, growing at a constant rate and with Capex converging towards D&A.

6.2 Revenues

In order to forecast Kering's revenues, a meticulous analysis of the compound annual growth rate for each Maison and region is undertaken. Afterward, these growth rates are projected into the future, incorporating adjustments based on insights derived from Bain & Company's report, such as America and Asia being the main areas to drive sales. Nonetheless, this method is not applied to Kering Eyewear. The exclusion of Kering Eyewear is justified by its distinctive trajectory since its launch in 2015. In fact, the company has invested a lot in strategic acquisitions and partnerships in order to make it grow at a fast pace, recording a CAGR of 24.7% between 2017 and 2022. A massive leap came from the major acquisition in 2021 of Lindberg, a Danish brand, which made Kering register revenues for €1139m in 2022. However, it is assumed for the projection that revenues will no longer grow at the same rate, so a lower CAGR, retrieved from Statista, is applied to reflect the growth of the eyewear industry over the next 8 years. Moreover, the author decided not to take into account the new beauty segment mentioned in Chapter 4, as to date any data or information has been released and the relevance of the segment is expected to be marginal in the mid-term.

(EUR m)	2022H	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030TV
Houses Revenues									
GUCCI	10,487	11,024	11,603	12,229	12,905	13,635	14,132	14,608	14,919
YSL	3,300	3,580	3,885	4,217	4,579	4,921	5,210	5,514	5,631
Bottega Veneta	1,740	1,863	1,998	2,147	2,311	2,445	2,565	2,685	2,742
Other Houses	3,874	4,040	4,228	4,442	4,641	4,859	5,038	5,235	5,347
Eyewear	1,139	1,189	1,241	1,295	1,352	1,411	1,472	1,537	1,569
Total Revenues	20,351	21,695	22,955	24,329	25,786	27,271	28,418	29,578	30,209
Growth	15%	7%	6%	6%	6%	6%	4%	4%	2%

Table 10: Forecast Revenues by House – Source: Own Elaboration

The next table shows in detail the breakdown of revenues by region, outlining what was previously said regarding the leading markets. As can be seen, Asia-Pacific will maintain the largest share, driven by Chinese consumers but also by South Koreans, who, according to a Morgan Stanley study, have become the largest consumers per capita by 2022. Their total spending on personal luxury goods has grown year on year by 24%, reaching \$325 per capita thanks to their increasing purchasing power and the desire to display their social standing (CNBC, 2023). However, North America will be the one that will experience the largest growth.

(EUR m)	2022H	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030TV	CAGR
Region Revenues										
Asia Pacific	7,299	7,779	8,298	8,862	9,432	10,037	10,523	11,032	11,267	6%
North America	5,774	6,255	6,785	7,370	8,016	8,667	9,176	9,669	9,875	8%
Western Europe	5,001	5,111	5,229	5,356	5,493	5,620	5,699	5,785	5,909	2%
Japan	1,125	1,135	1,145	1,156	1,167	1,177	1,175	1,173	1,198	1%
Rest of the world	1,341	1,416	1,497	1,584	1,678	1,771	1,845	1,919	1,960	5%
Total Revenues	20,351	21,695	22,955	24,329	25,786	27,271	28,418	29,578	30,209	5%

Table 11: Forecast Revenues by Region – Source: Own Elaboration

This growth will be mainly driven by E-Commerce, accounting already for 15% of retail sales, which has sparked an early interest in the Luxury world among new generations such as Gen Y and Gen X. According to the Bain & Company analysis, "Gen Z customers are buying luxury products three to five years ahead of millennials, and by 2030, will become the largest buyers of luxury, representing 80% of global purchases." To conclude, the revenues overall will grow at a CAGR of 5% for the next 8 years, resulting in line with the growth mentioned in the Industry Overview.

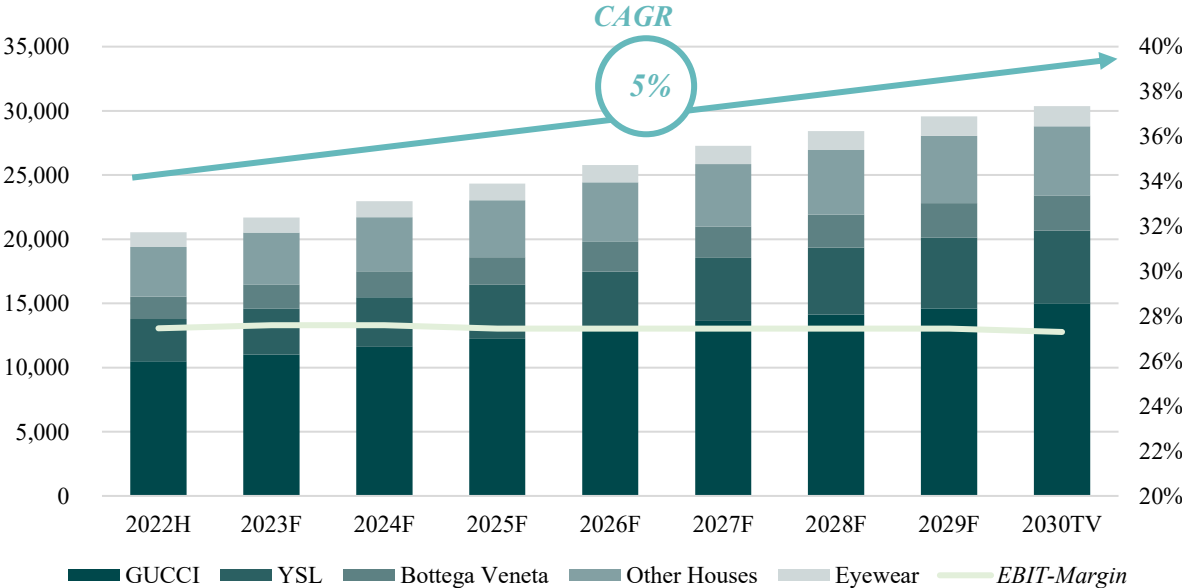


Figure 14: Forecast Revenues - Source: Own Elaboration

6.3 Costs

In future periods, Kering's costs are expected to increase at a similar rate to its revenues. To be specific, the Cost of Sales and Other operating expenses were forecasted by computing an average of the historical figures and extrapolating these figures into the future, as shown below.

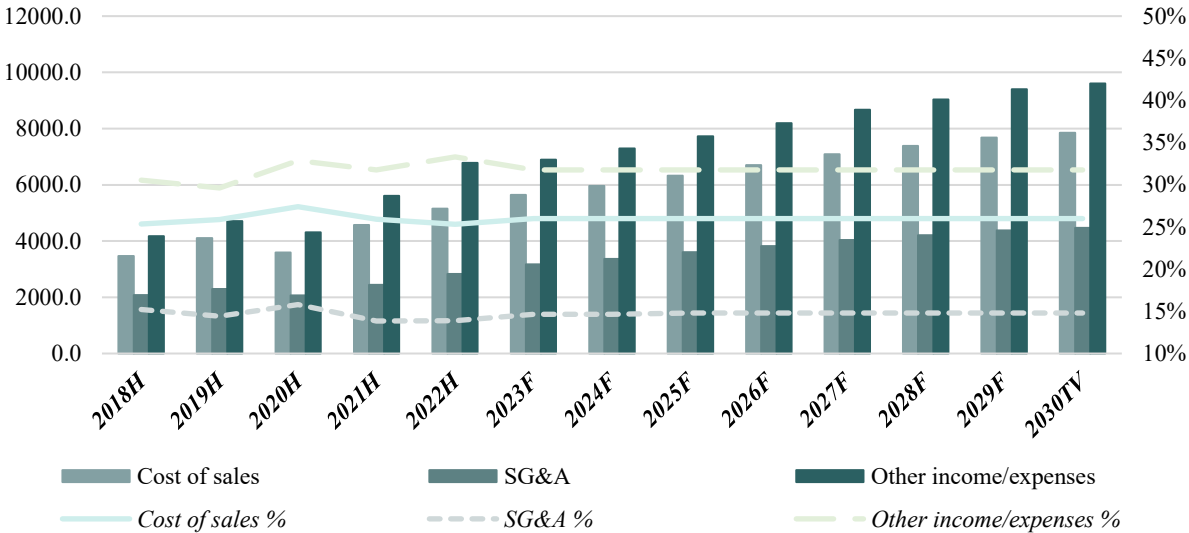


Figure 15: Forecast of Kering's costs – Source: Own Elaboration

Although there was a surge in costs associated with healthcare measures, inflation pressure, and supply chain disruptions in 2020, as depicted in the graph above, a return to pre-covid levels is expected starting in 2023 onwards. Additionally, operating expenses, comprising Selling and General expenses and other income and expenses, recorded a 19% uptick in 2022. This trend ensued from Kering Eyewear and Maison's' investments to enhance their expansion by increasing budgets for store expenditures, developing new collections, and communications systems aligned with the digital transformation gaining momentum within the industry. Moreover, some adjustments were made in the S&GA forecasts in order to align with Kering's objective of achieving gender pay parity by 2025. This aim was prompted by an in-depth analysis of employee salaries undertaken by Kering in 2021, specifically targeting its corporate, retail, and factory workforce in Italy. The purpose of this analysis was to identify strategies to promote gender equality and foster a culture of inclusivity.

6.4 Non-cash Working Capital

Working Capital wise, all assets and liabilities that are deemed to be with operating nature are taken into account and forecasted using different ways. Specifically, inventory, trade receivable, trade payable and other current assets/liabilities, are projected through the average of the

efficiency ratio such as DIO, DPO, and DRO. It is assumed that Kering's will maintain its past efficiency levels while growing in line with sales and cost of sales. Other operating working capital items don't follow specific guidelines. Because of that these items are projected as a percentage of sales of their historical averages. While working capital as a percentage of sales was extraordinarily high in FY2022, mainly due to excess inventory, working capital levels are expected to converge towards a historical average of around 2%.

<i>Working Capital</i>	2022H	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030TV
Inventories	4,465.0	4,390.0	4,644.9	4,923.0	5,217.8	5,518.2	5,750.3	5,985.0	6,112.8
Trade receivables	1,180.0	1,620.3	1,714.3	1,817.0	1,925.8	2,036.7	2,122.3	2,209.0	2,256.1
Tax receivables	378.0	697.8	738.3	782.5	829.4	877.1	914.0	951.3	971.6
Other current assets	1,136.0	1,412.6	1,494.6	1,584.1	1,679.0	1,775.6	1,850.3	1,925.9	1,967.0
Deferred tax assets	1,640.0	1,807.3	1,912.3	2,026.8	2,148.1	2,271.8	2,367.4	2,464.0	2,516.6
Accrued Expenses	(12.0)	(15.1)	(15.9)	(16.9)	(17.9)	(18.9)	(19.7)	(20.5)	(21.0)
Non-current provisions	(19.0)	(22.9)	(24.2)	(25.7)	(27.2)	(28.8)	(30.0)	(31.2)	(31.9)
Other non-current liabilities	(228.0)	(295.6)	(312.7)	(331.4)	(351.3)	(371.5)	(387.1)	(402.9)	(411.5)
Deferred tax liabilities	(1,572.0)	(2,002.9)	(2,119.1)	(2,246.0)	(2,380.5)	(2,517.6)	(2,623.4)	(2,730.6)	(2,788.8)
Trade payables	(2,263.0)	(2,117.4)	(2,240.3)	(2,374.5)	(2,516.7)	(2,661.6)	(2,773.5)	(2,886.7)	(2,948.3)
Tax payables	(567.0)	(1,342.1)	(1,420.0)	(1,505.0)	(1,595.1)	(1,687.0)	(1,757.9)	(1,829.7)	(1,868.8)
Current provisions	(168.0)	(248.8)	(263.2)	(279.0)	(295.7)	(312.7)	(325.9)	(339.2)	(346.4)
Other current liabilities	(2,389.0)	(3,557.8)	(3,764.3)	(3,989.7)	(4,228.6)	(4,472.1)	(4,660.2)	(4,850.4)	(4,953.9)
Noncash working capital	1581.0	325.6	344.5	365.1	387.0	409.3	426.5	443.9	453.3
<i>as a % of Revenues</i>	8%	2%	2%	2%	2%	2%	2%	2%	2%

Table 12: Forecast Non-Cash Working Capital – Source: Own Elaboration

6.5 CapEx & D&A

Regarding Capital Expenditures, Kering prioritizes investments related to stores openings and renovation, logistics infrastructure, and IT systems, which are typically executed in the second half of each year. Notably, in 2022, 70% of gross operating investment was allocated to expanding Kering's retail network, which the company aims to enhance further. Although Kering already generates 78% of its revenues through the retail channel, 28% higher than the industry average, the company is keen to grow its network of directly operated stores and e-commerce, as appears more attractive to the younger generation. This strategy aims to increase Kering's control over its distribution and streamline its operations by collaborating with fewer partners.

<i>CapEx</i>	2022H	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030TV
Intangible assets	7,357	7,782	8,166	8,508	8,866	9,115	9,290	9,387	9,387
Property, plant and equipment	3,388	3,584	3,760	3,918	4,083	4,198	4,278	4,323	4,323
Right-of-use assets	4,929	5,214	5,471	5,700	5,940	6,107	6,224	6,289	6,289
Sum	15,674	16,579	17,397	18,127	18,889	19,419	19,793	19,998	19,998
D&A	1,666	1,563	1,794	2,038	2,172	2,572	2,860	3,160	3,437
Net CapEx	3,040	2,468	2,612	2,768	2,934	3,103	3,233	3,365	3,437
<i>as a % of revenue</i>	20,351	21,695	22,955	24,329	25,786	27,271	28,418	29,578	30,209
D&A	17%	17%	16%	16%	16%	15%	15%	15%	14%
Net CapEx as %	15%	11%	11%	11%	11%	11%	11%	11%	11%

Table 13: Forecast Capital Expenditures – Source: Own Elaboration

On the other hand, the forecast for Depreciation and Amortization takes into account the estimated useful life of depreciable assets, which is estimated to be 11 years, in line with the nature of Kering’s asset base. This projection is based on estimates retrieved from MACRS Asset life table which is available in Thomson Reuters (MACRS 2023).

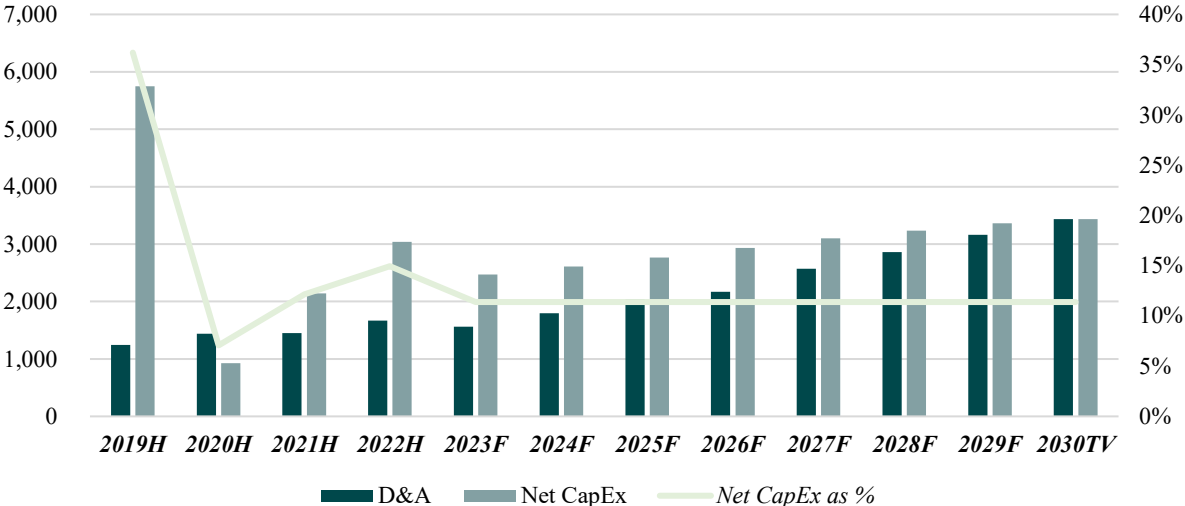


Figure 16: CapEx and D&A trends – Source: Own Elaboration

6.6 WACC

To estimate the right final value, the proper WACC must be calculated to reflect the risk of its cash flow. The methodology used follows the one presented in the Literature Review.

6.6.1 Risk-Free Rate

The risk-free rate selected for this analysis is the current yield of the German 10-Year Government bond, since the company has its headquarter in Paris and is traded on the Euronext. This resulted to be 2.44% as of 20th April 2023 (Refinitiv Eikon, 2023).

6.6.2 Cost of Debt

In order to determine the cost of debt, each type of debt issued by Kering has been taken into account. The company presents both listed and non-listed debt, and for the non-listed one, a direct measure of its costs is not available. Therefore, the Kd was assessed by using the Damodaran approach of the Synthetic rating. This approach assigns a rating from triple A to D for any given interest coverage ratio (Appendix 10). For each of these, corresponds a given spread that will be added to the risk-free rate to estimate the final default spread as shown in the table below.

2022	
EBIT	5589
Interest Expenses	296
Interest Coverage Ratio	18.8x
Credit	AAA
Spread asocietad	0.75%
Risk free rate	2.90%
Cost of Debt	3.65%

Table 14: Synthetic rating – Source: Damodaran, Own Elaboration

Moreover, as can be seen from the table, the risk-free rate does not match the one presented above. This divergence is due to the different maturity of the debt. To elucidate, the non-listed debt exhibits an average maturity of 1.9 years, therefore the 2-year German Government Bond, retrieved as well the 20th of April 2023 (Refinitiv Eikon, 2023), is more appropriate to use. On the other hand, regarding the traded debt, accounting for 35% of the total debt, after retrieving the Bonds data from Eikon the Market value is computed by multiplying the last price for the amount outstanding. Weighted yields are subsequently computed from which the final average is derived to represent the cost of debt.

Description	Issue Date	Maturity Date	Amount Outstanding	MV	Last Price	Yield
PRTP 0.250 13-May-2023 '23 MTN	13-May-2020	13-May-2023	600,000,000	598794000	99.799	4.324
PRTP 2.750 08-Apr-2024 MTN	08-Apr-2014	08-Apr-2024	500,000,000	499630000	99.926	2.826
PRTP 1.250 05-May-2025 '25 MTN	05-May-2022	05-May-2025	750,000,000	718597500	95.813	3.423
PRTP 1.250 10-May-2026 '26 MTN	10-May-2016	10-May-2026	500,000,000	469895000	93.979	3.366
PRTP 1.500 05-Apr-2027 '27 MTN	05-Apr-2017	05-Apr-2027	300,000,000	280080000	93.36	3.323
PRTP 3.639 27-May-2027 MTN	27-May-2022	27-May-2027	182,033,312	182033312	--	3.639
PRTP 0.750 13-May-2028 '28 MTN	13-May-2020	13-May-2028	600,000,000	530142000	88.357	3.29
PRTP 1.875 05-May-2030 '30 MTN	05-May-2022	05-May-2030	750,000,000	684862500	91.315	3.279
PRTP 1.600 16-Apr-2035 MTN	16-Apr-2015	16-Apr-2035	50,000,000	39868000	79.736	3.729
Average Yield				3.44%		

Table 15: Bonds outstanding- Source: Refinitiv Eikon

With the retrieval of both costs of debt, two essential insights can be determined. Firstly, is the market value of Debt, which in the case of Bonds, Short Term Debt and Short Lease Liabilities equal the book value, whereas for Long-Term Debt and Long term liabilities the book value is discounted by the corresponding cost of debt. Secondly, by computing the weighted average of the company debt the final cost of debt, which will be used in the WACC, is determined as shown in the table below. Moreover, the cost of debt for current/non lease liabilities, was calculated by the interest paid (124m, retrieved from the Kering's 2022 financial report) on lease liabilities.

	MV of debt	Cost of Debt	Weighted Cost of Debt
Bonds	4003.9	3.4%	0.012
Other LT debt	1075.8	3.7%	0.003
ST Debt	1252.0	3.7%	0.004
Current / Non current Lease Liabilities	5232.0	2.4%	0.011
MV Debt	11563.7		
Average cost of debt		3.0%	

Table 16: Cost of Debt – Source: Own Elaboration

6.6.3 Cost of Equity

6.6.3.1 Beta

Ultimately, the Cost of Equity is assessed through the CAPM formula presented in the Literature Review. As mentioned in Chapter 1, the CAPM relies on the premise that equity investors demand a premium over the risk-free rate, which is calculated by β . For this valuation two methods to calculate the risk were applied. The first one is the regression approach, which is assessed by regressing the historical returns against a market portfolio that is selected by analyzing the investor's location retrieved from Eikon. As can be seen from the Table below, given that almost 70% of shareholders are located in Europe, the Stoxx600 was selected as a proxy for the market portfolio.

<i>Investors by Location</i>	
Europe	69.46%
North America	20.97%
Asia- Pacific	7.47%
Other	2.10%

Table 17: Investors's Location – Source: Refinitiv Eikon

Afterward, β is stated as the slope of the regression of Kering's excess returns against Stoxx600 excess returns, which yields to 1.13 as written in the bold equation in the figure beneath.

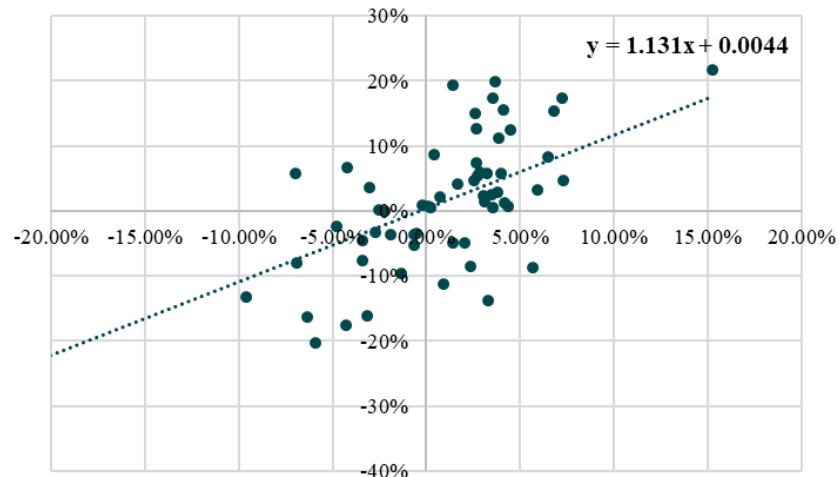


Figure 17: Regression Approach – Source: Own Elaboration

The final result is then adjusted to account for the betas tendency to revert to the mean of all betas (Blume, 1975). Therefore, it is corrected by weighing $\frac{2}{3}$ the realized estimate and $\frac{1}{3}$ of the market. This last step is also applied to the second methodology named bottom-up approach, which computes an average of the peer's unlevered betas, neutralizing the effects of the capital structure, and then relevers the beta by considering the marginal tax rate and the debt-to-equity ratio.

Lastly, an average of these two methods was computed in order to retrieve the final beta which yields to 1.06.

Kering Sa	5Y (monthly)	
	Regression	Bottom-Up
Avg. Beta	1.13	1.05
Adj. Beta (Blume)	1.09	1.03
Beta	1.06	

Table 18: Levered Beta – Source: Own Elaboration

6.6.3.2 Market Risk Premium

Following the calculation of Beta and retrieving the risk-free rate, the last input required in order to calculate the cost of equity is the market risk premium, which represents the spread of the rate of return of the market over the Rf. This premium comprises two distinct components that are tied to different risk sources. Firstly, the country risk premium, which refers to the extra return that investors expect to receive, to compensate for the higher risk of investing in the foreign operations of Kering. This premium was assessed using the excel provided on the Damodaran page, where the average country risk premium was computed for each segment in which Kering operates and then weighed upon the revenues of each segment.

	2022		
	Revenues Kering %	CRP	*
Asia Pacific	33%	1.61%	0.53%
North America	27%	0.00%	0.00%
Western Europe	27%	1.08%	0.29%
Japan	6%	1.22%	0.07%
Rest of the world	7%	6.83%	0.48%
Total Country Risk Premium			1.4%
French Equity Premium			6%
Weighted Average Risk Premium			7.4%

Table 19: Market Risk Premium – Source: Own Elaboration, Damodaran, Fernandez

The second component, the equity risk premium which measures the excess return earned by the investors above the risk-free rate was retrieved from Fernandez paper published in April 2023. With all the inputs available, the cost of equity is determined by applying the CAPM formula, resulting in a value of 10.3%.

Cost of Equity	
Bloome Adjusted Levered Beta	1.06
RF rate (10Y bund)	2.44%
Market risk premium	7.4%
Cost of Equity	10.3%

Table 20: Levered Cost of Equity – Source: Own Elaboration

Additionally, also the unlevered cost of equity was also calculated since it will be used for the adjusted present value valuation.

Cost of Equity	
Bloome Adjusted Unlevered Beta	0.91
RF rate (10Y bund)	2.44%
Market risk premium	7.4%
Cost of Equity	9.2%

Table 21: Unlevered Cost of Equity – Source: Own Elaboration

In conclusion the Weighted Average cost of capital will result to be 9.2% given all the previous information.

WACC	
Tax Rate	25.0%
MV of Equity	69,929.00
MV of Debt	11,563.68
MVEV	81,492.68
D/EV	14.2%
E/EV	85.8%
Kd	3.0%
Ke	10.3%
WACC	9.2%

Table 22: WACC – Source: Own Elaboration

6.7 Terminal Value

The terminal value, which is typically the most critical part to estimate, was carried out using the perpetuity formula applied to the FCFF from 2029, given that the operating income, working capital, and capital expenditures are quite stable, leading to a sustainable free cash flow. The growth rate chosen was obtained by multiplying the reinvestment rate, which was calculated as the growth rate FY2029 on the average industry return on capital, and the average WACC of the industry retrieved from the Damodaran page, resulting in 2.1%, which is consistent with the long-term real GDP growth rate of 2.6% for 2029 as reported by OECD. Furthermore, it is important to note that two terminal values were assessed, one for the FCFF and one for the APV. Indeed, for the FCFF the terminal value is discounted by the WACC, whereas for the APV is discounted by the unlevered cost of equity presented in the table above and subsequently added with the terminal value of the tax shield which is discounted as well by the unlevered cost of equity, in accordance with the methodology proposed by the by Than and Pareja, highlighted in the Literature Review.

6.8 FCFF

Regarding the methodologies used the first one is DCF, specifically the free cash flows to the firm (FCFF). As outlined in the Literature Review, FCFF refers to the cash available to the company's supplier of capital, namely bond holders and stockholders, after accounting for D&A, taxes, working capital and investments as shown in the table below. It can be observed that FCFF are expected to rise in the long term, expect for 2022 and 2023, due to a substantial surge in working capital owing to a high rise in inventories, potentially attributed to Covid and supply chain disruption, and the shift in other fixed assets, resulting from a significant increase in goodwill from 2020 to 2022.

	2021H	2022H	2023F	2024F	2025F	2026F	2027F	2028F	2029F
EBIT	4,681.8	5,431.0	5,988.0	6,335.6	6,676.3	7,076.1	7,483.5	7,798.2	8,116.6
(Taxes)	(1,325.0)	(1,501.9)	(1,497.0)	(1,583.9)	(1,669.1)	(1,769.0)	(1,870.9)	(1,949.6)	(2,029.2)
D&A	1,453.0	1,666.0	1,562.9	1,793.9	2,038.4	2,171.7	2,571.9	2,859.9	3,159.8
Gross Cash Flows	4,809.8	5,595.1	6,054.0	6,545.6	7,045.6	7,478.8	8,184.5	8,708.6	9,247.3
Change in WC	189.1	(1,360.9)	1,255.4	(18.9)	(20.6)	(21.9)	(22.3)	(17.2)	(17.4)
Change in other fixed assets	212.3	(982.9)	-	-	-	-	-	-	-
CAPEX	(2,140.7)	(3,039.5)	(2,468.3)	(2,611.6)	(2,768.0)	(2,933.7)	(3,102.6)	(3,233.1)	(3,365.1)
Unlevered FCFF	3,070.5	211.8	4,841.1	3,915.1	4,257.0	4,523.2	5,059.6	5,458.3	5,864.8
Discount factor (WACC)				0.92	0.84	0.77	0.70	0.64	0.59
PV FCFF				3,585.6	3,570.7	3,474.7	3,559.7	3,517.0	3,461.0
Sum PV FCFF			21,168.8						
PV TV			51,933.3						
Enterprise Value			73,102.1						

Table 23: DCF, FCFF – Source: Own Elaboration

In conclusion, the enterprise value of Kering for FY2023 was determined by summing the present value of the FCFF, which are discounted by the WACC, and the terminal value resulting in €73.102.

6.9 APV

On the other hand, the second methodology employed is the adjusted present value, which is another form of DCF analysis. The APV reflects the net present value of a company that is exclusively funded with equity, plus the present value of any financing benefits, minus the expected cost of bankruptcy. Although it is a valid methodology, especially in the case of companies with complex financial structures, the expected costs of bankruptcy are the biggest downfall of the model since are difficult to calculate precisely. As previously said, in the APV the cash flows are discounted by the unlevered cost of equity, which in Kering case corresponds to 9.2%, the same value that was obtained for the WACC presented in Table 22. Therefore, the

unlevered value results in almost the same value as the one in the FCFF. Regarding the tax shield, the present value is assessed by multiplying the cost of debt on the tax shield, while the terminal value is discounted by the unlevered cost of equity as mentioned in chapter 6.7 regarding the TV. Hence, the value of the tax shield results in €1.839.4.

	2021H	2022H	2023F	2024F	2025F	2026F	2027F	2028F	2029F
Unlevered FCFF	3,070.5	211.8	4,841.1	3,915.1	4,257.0	4,523.2	5,059.6	5,458.3	5,864.8
Discount factor (k_{EU})				0.92	0.84	0.77	0.70	0.64	0.59
PV FCFF				3,583.9	3,567.3	3,469.8	3,553.0	3,508.7	3,451.1
Sum PV FCFF			21,133.8						
PV TV			51,407.9						
Unlevered Value			72,541.8						
Gross Debt			12,944.9	13,187.4	13,452.1	13,732.7	14,018.5	14,239.4	14,462.8
Tax Shield			93.0	97.9	99.8	101.9	104.0	105.9	107.6
Discount factor (k_D)			1.00	0.97	0.94	0.92	0.89	0.86	0.84
PV TS				95.1	94.1	93.2	92.4	91.4	90.1
Sum PV TS			556.3						
PV TV			1,283.1						
Value Tax Shield			1,839.4						
Probability of Default			0.01%						
Bankruptcy costs			25%						
Expected Distress Costs			1.8						
Enterprise Value			74,379.4						

Table 24: DCF, APV – Source: Own Elaboration

The expected distress costs are calculated by using the rating table proposed by Damodaran, which indicates that Kering's triple A corresponds to a default rate 0.01% (Appendix 9), and the assumption of Shapiro and Titman that bankruptcy costs being on average around 25% and 30%. Based on these calculations, the enterprise value of Kering FY2023 is estimated to be €74.379.4.

6.10 Share Price

To conclude, in order to determine the price per share, the equity value is calculated by deducting the net debt and the surplus assets, adding the minority interest, and dividing the resulting figure by the number of shares outstanding resulting in a share price of €580 for FCFF and of €590 for APV for year 2023. In addition, in light of the target price report for December 2024 provided by the investment bank, which will be compared in the last chapter with the current analysis, the corresponding share price was obtained by discounting the free cash flow to 2024 and adjusting it for net debt, surplus assets, and minority interests, as shown in the Appendix 11.

Valuation	FCFF	APV
Enterprise value	73,102	74,381
(Net debt)	(5,677.5)	(5,677.5)
Surplus assets	(66.0)	(66.0)
Minority interests	4,063.2	4,063.2
Equity value	71,421.9	72,701.0
Number of shares	123.2	123.2
Price per Share (2023)	579.9	590.3

Table 25: Share Price 2023 – Source: Own Elaboration

6.11 Relative Valuation

The final valuation model examined is the relative valuation approach utilizing the market multiples. To determine the share price, forward multiples, retrieved from Eikon, were utilized instead of actuals as they are considered more accurate, taking into account future scenarios, as stated from Lie & Lie. Afterwards, the terminal multiples were assessed through the average and the harmonic mean. However, for the purpose of the analysis, the harmonic mean was selected over the average as suggested by Ruback and Baker, who argued that the arithmetic mean tends to be biased upwards.

Company Name	Symbol	Market Data					Valuation Multiples		
		Price	Shares	Mcap	Net Debt (including)	Enterprise Value	EV/Sales	FEV/EBITDA	FEV/EBIT F
Kering SA	PRTP.PA	545.4	123.16	68,080.3	7,371.0	75,451.3	3.0x	8.6x	10.6x
LVMH Moet Hennessy Louis Vuitton SE	LVMH.PA	885.40	502.05	447,220.8	25,728.0	472,948.8	4.4x	12.8x	15.9x
Prada SpA	1913.HK	7.04	2558.82	16,963.4	1,591.3	18,554.7	3.5x	10.3x	18.5x
Burberry Group PLC	BRBY.L	28.89	378.22	10,973.0	217.1	11,190.1	2.5x	8.7x	12.8x
Compagnie Financiere Richemont SA	CFR.S	158.81	522.00	82,896.3	NA		3.1x	9.8x	12.5x
Harmonic Mean							3.2x	10.2x	14.5x
Mean							3.4x	10.4x	14.9x
<i>Kering</i>							Sales	EBITDA	EBIT
Enterprise Value (Harmonic Mean)							21,695.4	7,551.0	5,988.0
Net Debt							70,350.4	77,089.8	86,939.6
Minorities							(5,677.5)	(5,677.5)	(5,677.5)
Surplus Assets							(104.0)	(104.0)	(104.0)
Equity Value (Harmonic Mean)							(66.0)	(66.0)	(66.0)
Share Price (Excluding EssilorLuxottica)							64,503.0	71,242.3	81,092.1
586.9							523.7	578.5	658.4

Table 26: Relative Valuation - Source: Refinitiv Eikon, Own Elaboration

Conversely, the equity values are derived by utilizing Kering's projections for Sales, EBITDA and EBIT, which are subsequently multiplied for the corresponding multiples. Following this calculation, net debt, minorities, and surplus assets are then subtracted to get at the final enterprise value. The final share is then retrieved by taking an average of the prices obtained, resulting in €586.9. However, EssilorLuxottica was excluded from the relative valuation since it's not a real comparable.

7. Sensitivity Analysis and Comparison with Investment Bank Report

The last chapter of this thesis encompasses an overview of the possible outcome of the final share price target in case of changes in inputs. Additionally, a comprehensive comparative analysis with a professional report will be presented.

7.1 Sensitivity Analysis

The first step is the sensitivity analysis, a method used to assess the impact of independent variables on a specific dependent variable, given certain conditions. For this reason, the three main assumptions, terminal growth rate, WACC and cost of unlevered equity, are stressed out to test the robustness of the two models.

		Perpetual growth (FCFF)								
		1.3%	1.5%	1.7%	1.9%	2.1%	2.3%	2.5%	2.7%	2.9%
WACC	8.4%	603.4	616.3	629.9	644.4	659.8	676.2	693.7	712.5	732.7
	8.6%	585.4	597.4	610.1	623.6	637.9	653.2	669.4	686.8	705.3
	8.8%	568.4	579.6	591.5	604.1	617.4	631.6	646.7	662.7	679.9
	9.0%	552.3	562.8	573.9	585.7	598.1	611.3	625.3	640.2	656.1
	9.2%	537.0	546.9	557.3	568.3	579.9	592.2	605.3	619.1	633.9
	9.4%	522.4	531.7	541.5	551.8	562.7	574.2	586.4	599.3	613.0
	9.6%	508.6	517.4	526.6	536.3	546.5	557.2	568.6	580.6	593.4
	9.8%	495.5	503.7	512.4	521.5	531.0	541.1	551.8	563.0	574.9
	10.0%	482.9	490.7	498.9	507.4	516.4	525.9	535.9	546.4	557.5

Table 27: Sensitivity Analysis FCFF - Source: Own Elaboration

		Perpetual growth (FCFF)								
		1.3%	1.5%	1.7%	1.9%	2.1%	2.3%	2.5%	2.7%	2.9%
KEU	8.4%	613.6	626.5	640.2	654.8	670.2	686.7	704.3	723.2	743.4
	8.6%	595.6	607.7	620.5	634.0	648.4	663.7	680.0	697.4	716.1
	8.8%	578.5	589.8	601.8	614.5	627.9	642.1	657.3	673.4	690.6
	9.0%	562.3	573.0	584.2	596.0	608.5	621.8	635.9	650.9	666.8
	9.2%	547.0	557.0	567.5	578.6	590.3	602.7	615.8	629.8	644.6
	9.4%	532.4	541.8	551.7	562.1	573.1	584.7	596.9	609.9	623.7
	9.6%	518.6	527.4	536.7	546.5	556.8	567.6	579.1	591.2	604.1
	9.8%	505.4	513.7	522.5	531.6	541.3	551.5	562.2	573.6	585.6
	10.0%	492.8	500.7	508.9	517.6	526.6	536.2	546.3	556.9	568.1

Table 28: Sensitivity Analysis APV - Source: Own Elaboration

As can be seen in the tables above, the inputs were strained in a range of $\pm 0.8\%$ for both models, leading to a minimum value of €483 and a maximum of €743. Subsequently, in order to determine the buy, hold and sell scenarios, a 15% threshold of the current price (€546.5, as of May 16th) was selected yielding values of €628 and €464, leading to outcomes that indicate a recommendation of buy for around 25%, and hold for 75%.

7.2 Scenario Analysis

Additionally, to the sensitivity analysis, a scenario analysis was conducted to examine the potential outcomes in the event of a slower economy, stemming from the prevailing crisis, as well as in the event of a robust recovery, which will result in a different share price.

Under the downside scenario, the ability of Kering to expand would be hindered due to the rising costs alongside the effects of a recession, which could generate a shock to travel industry affecting tourism and could lead to a further deterioration of the macroeconomic environment in the United States as well. These factors combined would bring EBIT to levels resembling those observed in 2021, a period marked by the lingering impact of the Covid-19. The result would be a price per share around €490, which is 10% below the current trading price.

On the other hand, in case of the upside scenario, Kering would register a CAGR of 6.2%, which is still in line with the industry outlook proposed by Bain & Company. However, to attain this level of growth, the company would need to sustain its progress mainly by revitalizing Gucci to regain its pre-Covid levels, while keeping all the other Mansions on the current trajectory. Ultimately, this would lead Kering’s share price around €650.

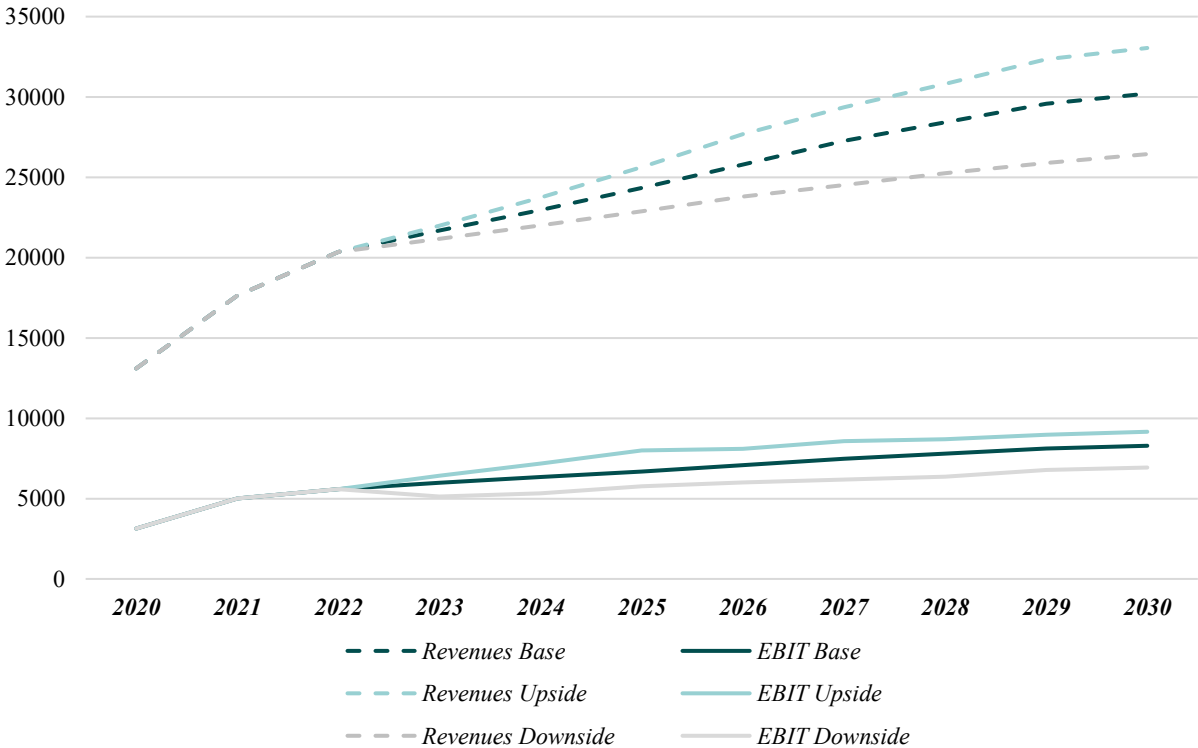


Figure 18: Scenario Analysis – Source: Own Elaboration

7.3 Comparison with Investment Bank Report

Before concluding, the valuation presented in this thesis is compared to the values published on the investment bank report by J.P Morgan on the 15th of February 2023.

The bank proposes a final price €620 targeted for December 2024, which compared to the price at the time (€561.4) indicates an upside potential around 10%, achieved through a DCF analysis based on the following factors: WACC of 10%, terminal growth rate of 2.5% and medium-term growth of 5%. Additionally, it presents an EV/EBITDA of 8.0x for 2024 which is in line with the one presented in the relative valuation. By comparing these assumptions, the author's analysis presents a higher growth outlook in the medium term (6%), which declines over the years, resulting in a lower terminal growth rate of approximately 2.1%. However, despite these differences, the final price recommended by the report aligns with the valuation obtained during FY2024, being only 2% over the price obtained with FCFF and less than 1% to that of APV.

	2024		
	Thesis FCFF	Thesis APV	Bank
Date	16/05/2023	16/05/2023	14/02/2023
Methodology	DCF	APV	DCF
EBIT Margin	27.6%	27.4%	28.0%
Price at Date	546.50 €	546.50 €	561.40 €
Upside Potential	10.7%	12.5%	10.4%
Price Target	604.78 €	614.70 €	620.00 €

Table 29: DCF/APV Analysis VS DCF Bank Report – Source: Investment Bank Report, Own Elaboration

This can probably be attributed to the utilization on not only a lower terminal value, but also lower WACC, which counterbalances the higher terminal value and WACC, ultimately resulting in a making the share price for 2024.

7.4 Conclusion

In conclusion, all the methodologies employed to evaluate Kering are presented in the soccer field below. As mentioned earlier, the FCFF and APV approach yielded target prices of €580 and €590, respectively, for the FY 2023. Conversely, the multiple valuation approach resulted in a final price of €586.9, excluding the impact of EssilorLuxottica, as the latter is exclusively focus on eyewear and exhibits significant divergents margins compared to Kering. As a result, an average of the three valuation methods produces a price of €585 for 2023, indicating a potential upside of 7% in relation to the current share price of €546.5 (as of May 16th). Accordingly, a recommendation of “Hold” is warranted, which is in line with the recommendation presented in the sensitivity analysis.

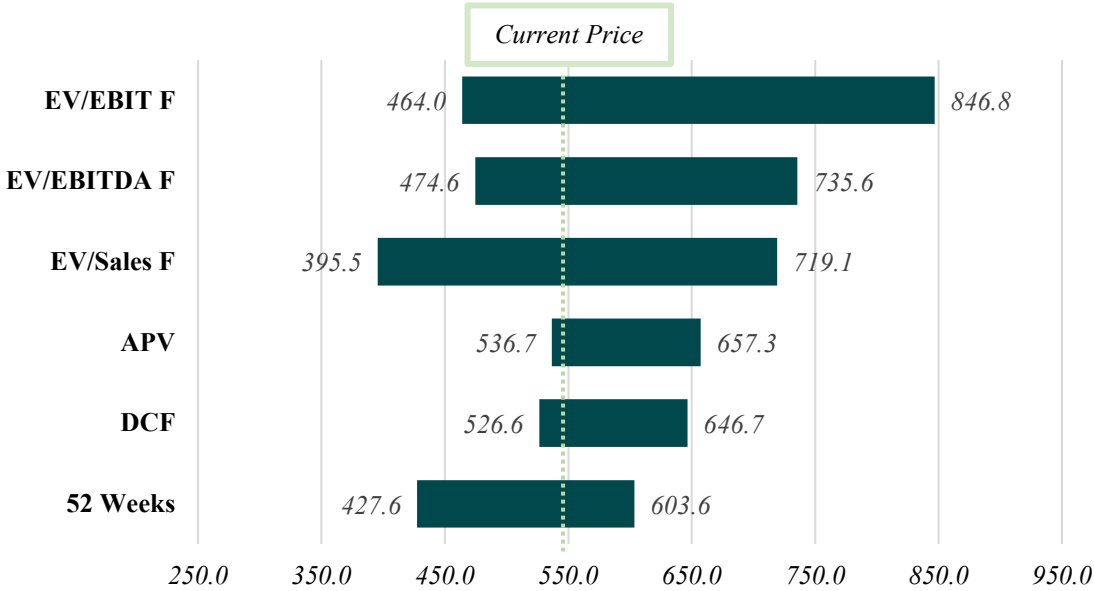


Figure 19: Football Field - Source: Own Elaboration

References

- Bain & Company (2023). *Renaissance in Uncertainty: Luxury Builds on Its Rebound*
<https://www.bain.com/insights/renaissance-in-uncertainty-luxury-builds-on-its-rebound/>
- Baker, M., & Ruback, R. (1999). *Estimating industry multiples*. Harvard University, 1-30.
- Blume, M. E. (1975). *Betas and their regression tendencies*. *The Journal of Finance*, 30(3), 785-795.
- Burberry (2023). *Annual Report 21/22*
- CNBC (2023). *South Koreans are the world's biggest spenders on luxury goods*.
<https://www.cnn.com/2023/01/13/south-koreans-are-the-worlds-biggest-spenders-on-luxury-goods.html>
- Copeland, T., Koller, T. and Murrin, J. (2000). *Valuation Measuring and Managing the Values of Companies*. John Wiley Sons.
- Damodaran, A (2023). *Country Default Spreads and Risk Premiums*.
https://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/ctryprem.html
- Damodaran, A (2023). *Estimating a synthetic rating and cost of debt*.
https://pages.stern.nyu.edu/~adamodar/New_Home_Page/valquestions/syntrating.htm
- Damodaran, A (2023). *The Adjusted Present Value Approach*.
https://pages.stern.nyu.edu/~adamodar/New_Home_Page/valquestions/apv.htm
- Damodaran, A. (2006). *Damodaran on valuation: security analysis for investment and corporate finance*. John Wiley & Sons.
- Fernandez, P (2023). *Survey: Market Risk Premium and Risk-Free Rate used for 80 countries in 2023*.
- Fernandez, P. (2002). *Three Residual Income Valuation methods and Discounted Cash Flow Valuation*.
- Filbeck, G., Baker, H. K., & Kiymaz, H. (2020). *Equity Markets, Valuation, and Analysis*. John Wiley & Sons.
- Financial Times (2023). *Kering creates in-house beauty unit in effort to widen customer base*.
<https://www.ft.com/content/105f1921-b47b-4560-b6eb-63d4f0f8e691>
- Froot, K. A., & Kester, W. C. (1995). *Cross-border valuation*.
- Goedhart, M., Koller, T., & Wessels, D. (2015). *Valuation: Measuring and managing the value of companies*. John Wiley & Sons.

- Gompers, P., Kaplan, S. N., & Mukharlyamov, V. (2015). *What Do Private Equity Firms Say They Do?* (No. w21133). *National Bureau of Economic Research*.
- Graham, J. R., & Harvey, C. R. (2001). *The theory and practice of corporate finance: Evidence from the field*. *Journal of financial economics*, 60(2-3), 187-243.
- Jagannathan, R., Liberti, J., Liu, B., & Meier, I. (2017). *A Firm's Cost of Capital*. *Annual Review of Financial Economics*, 9, 259-282.
- Kering (2019). *Financial Document 2018*.
- Kering (2020). *Financial Document 2019*.
- Kering (2021). *Financial Document 2020*.
- Kering (2022). *Financial Document 2021*.
- Kering (2023). *2022 Universal Registration Document*.
- Kering (2023). *Financial Document 2022*.
- Lerner, J., & Willinge, J. (2002). *A note on valuation in private equity settings*.
- Lie, E., & Lie, H. J. (2002). *Multiples used to estimate corporate value*. *Financial Analysts Journal*, 58(2), 44-54.
- MACRS (2023). *Asset Life Table*
https://cs.thomsonreuters.com/ua/fixa/cs_us_en/ass_life_tbl/hid_help_asset_lives.htm
- MarketLine (2023). *Kering SA – Financial and Strategic SWOT Analysis*
- McKinsey & Company (2022). *State of fashion 2023: Holding onto growth as global clouds gather*.
<https://www.mckinsey.com/industries/retail/our-insights/state-of-fashion>
- Myers, S. C. (1974). *Interactions of corporate financing and investment decisions-implications for capital budgeting*. *The Journal of finance*, 29(1), 1-25.
- OECD (2023). *Consumer Confidence Index*.
<https://data.oecd.org/leadind/consumer-confidence-index-cci.htm>
- OECD (2023). *GDP long-term forecast*.
<https://data.oecd.org/gdp/gdp-long-term-forecast.htm>
- Pearl, J., & Rosenbaum, J. (2009). *Investment banking: valuation, leveraged buyouts, and mergers and acquisitions*. *John Wiley & Sons*.
- Pinto, J. E., Henry, E., Robinson, T. R., Stowe, J. D. and Wilcox, S. E. (2015). *Equity asset valuation*. *John Wiley & Sons*.
- Prada (2023). *2022 Annual Report*
- Shapiro, A., & Titman, S. (1984). *An Integrated View of Risk Management*. *Midland Corporate Finance Journal*.

Statista (2023). Eyewear Worldwide

<https://www.statista.com/outlook/cmo/eyewear/worldwide>

Velez-Pareja, I., & Tham, J. (2003). *Beyond the planning period: calculating the terminal value*.

Williams, J. B. (1964). *Theory of Investment Value, third printing*.

Appendix

Appendix 1: Historical Income Statement

(EUR m)	2018H	2019H	2020H	2021H	2022H
Income statement					
Revenue	13,665	15,884	13,100	17,645	20,351
Cost of sales	(3,467)	(4,109)	(3,591)	(4,577)	(5,153)
Gross Profit	10,198	11,775	9,510	13,069	15,198
SG&A	(2,080)	(2,291)	(2,070)	(2,444)	(2,830)
Other operating expenses	(4,174)	(4,706)	(4,304)	(5,607)	(6,779)
Operating profit (Adj. EBIT)	3,944	4,778	3,135	5,017	5,589
Adding D&A, provision	492	1,245	1,439	1,453	1,666
Adj. EBITDA	4,436	6,023	4,574	6,470	7,255
Non recurring income	(312)	(301)	(691)	(335)	(187)
Non operating income/(expenses)	0	1	3	0	29
EBITDA	4,124	5,723	3,886	6,135	7,097
D&A, provision	(492)	(1,245)	(1,439)	(1,453)	(1,666)
EBIT	3,632	4,478	2,447	4,682	5,431
Financial Income expenses	(118)	(178)	509	(158)	(296)
EBT	3,514	4,300	2,957	4,524	5,135
Taxes	(868)	(2,134)	(759)	(1,280)	(1,420)
Net Income after Tax	2,646	2,167	2,197	3,244	3,715
After Tax Income/Expense	1,096	184	(17)	12	3
Minority Interest	(28)	(42)	(30)	(80)	(104)
Net Income (reported)	3,715	2,309	2,150	3,176	3,614

Appendix 2: Forecast Income Statement

(EUR m)	2023	2024	2025	2026	2027	2028	2029	2030TV
Income statement								
Sales	21,695.4	22,954.8	24,329.2	25,786.2	27,270.6	28,417.6	29,577.9	30,209.1
<i>Growth</i>	6.6%	5.8%	6.0%	6.0%	5.8%	4.2%	4.1%	2.1%
Cost of sales	(5,636.7)	(5,963.9)	(6,321.0)	(6,699.5)	(7,085.2)	(7,383.2)	(7,684.6)	(7,848.6)
SG&A	(3,176.4)	(3,360.8)	(3,600.7)	(3,816.4)	(4,036.1)	(4,205.8)	(4,377.5)	(4,470.9)
Other income/expenses	(6,894.2)	(7,294.5)	(7,731.2)	(8,194.2)	(8,665.9)	(9,030.4)	(9,399.1)	(9,599.7)
Including D&A	1,562.9	1,793.9	2,038.4	2,171.7	2,571.9	2,859.9	3,159.8	3,436.9
EBITDA (Adj.)	7,551.0	8,129.5	8,714.7	9,247.9	10,055.4	10,658.1	11,276.5	11,726.8
D&A	(1,562.9)	(1,793.9)	(2,038.4)	(2,171.7)	(2,571.9)	(2,859.9)	(3,159.8)	(3,436.9)
EBIT (Adj.)	5,988.0	6,335.6	6,676.3	7,076.1	7,483.5	7,798.2	8,116.6	8,289.8
Non recurring income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non operating income / (expenses)	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
EBIT	5,988.5	6,336.1	6,676.8	7,076.6	7,484.0	7,798.7	8,117.1	8,290.3
Other financial income/expenses	(167.7)	(167.7)	(167.7)	(167.7)	(167.7)	(167.7)	(167.7)	(167.7)
EBT	5,820.4	6,168.0	6,508.6	6,908.5	7,315.8	7,630.6	7,949.0	8,122.2
Income taxes	(1,455.1)	(1,542.0)	(1,627.2)	(1,727.1)	(1,829.0)	(1,907.6)	(1,987.2)	(2,030.5)
Net income AT	4,365.3	4,626.0	4,881.5	5,181.4	5,486.9	5,722.9	5,961.7	6,091.6
After Tax Income/Expense	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Minority Interest	(104.0)	(104.0)	(104.0)	(104.0)	(104.0)	(104.0)	(104.0)	(104.0)
Net income	4,264.3	4,525.0	4,780.5	5,080.4	5,385.9	5,621.9	5,860.7	5,990.6

Appendix 3: Historical Balance Sheet

(EUR m)	Consolidated Balance Sheet				
ASSET	2018H	2019H	2020H	2021H	2022H
Cash & Cash Equivalents	2,217	2,286	3,443	5,249	4,336
Short-Term Investments	61	38	158	22	167
Account Receivables	850	996	824	977	1,180
Current Tax Receivables	91	281	601	822	378
Inventories	2,415	2,959	2,846	3,369	4,465
Other Current Assets	900	979	1,149	975	1,136
Current Assets	6,532	7,540	9,020	11,413	11,662
Non-Current Financial Assets	336	458	1,689	1,054	855
Investments in Equity-Accounted companies	1,075	1,105	36	31	49
Lease right-of-use Assets	0	4,247	3,957	4,302	4,929
PP&E	2,229	2,619	2,670	2,967	3,388
Deffered Tax Assets	830	1,368	1,177	1,353	1,640
Other Non Current Assets	34	19	17	6	8
Goodwill	2,399	2,526	2,452	2,891	4,053
Intangible Assets	7,394	7,261	6,986	7,032	7,357
Non-Current Assets	14,297	19,603	18,985	19,635	22,279
Assets Held for Sale	539	6	1	19	0
Total Assets	21,368	27,148	28,005	31,068	33,941
LIABILITIES and EQUITY	2018H	2019H	2020H	2021H	2022H
Account Payable	746	809	666	1,742	2,263
Accrued Expenses	9	9	12	12	12
Short-Term Debt	721	1,976	1,776	2,442	2,295
Current Leases	36	720	538	675	812
Current Income Taxes	1,303	1,362	901	1,148	567
Current Provisions	256	216	212	138	168
Other Current Liabilities	3,152	3,056	2,629	2,568	2,389
Current Liabilities	6,222	8,147	6,735	8,725	8,506
Long-Term Debt	3,129	3,122	3,815	2,976	4,347
Non-Current Leases	43	3,599	3,546	3,826	4,420
Deffered Tax Liabilities	1,579	1,530	1,485	1,452	1,572
Pension & Other	88	107	108	89	66
Non-Current Provisions	14	15	18	16	19
Other Non Current Liabilities	43	189	264	199	228
Non-Current Liabilities	4,895	8,562	9,236	8,557	10,652
Retained Earnings	2,428	2,428	1,863	1,655	1,314
Other Common Equity	7,478	7,850	9,958	11,692	12,684
Shareholder Equity	9,906	10,278	11,821	13,347	13,998
Minority Intrests	156	161	214	389	785
Total Equity	10,062	10,439	12,035	13,736	14,783
Liabilities Held for Sale	189	1	0	49	0
Total Liabilities & Equity	21,368	27,148	28,005	31,068	33,941

Appendix 4: Forecast Balance Sheet

(EUR m)								
Consolidated Balance Sheet								
ASSET	2023	2024	2025	2026	2027	2028	2029	2030TV
Cash & Cash Equivalents	7,171	7,674	8,367	9,088	10,131	11,412	12,932	14,711
Short-Term Investments	96	96	96	96	96	96	96	96
Account Receivables	1,620	1,714	1,817	1,926	2,037	2,122	2,209	2,256
Current Tax Receivables	698	738	782	829	877	914	951	972
Inventories	4,390	4,645	4,923	5,218	5,518	5,750	5,985	6,113
Other Current Assets	1,413	1,495	1,584	1,679	1,776	1,850	1,926	1,967
Current Assets	15,388	16,362	17,570	18,836	20,435	22,145	24,100	26,115
Non-Current Financial Assets	855	855	855	855	855	855	855	855
Investments in Equity-Accounted companies	49	49	49	49	49	49	49	49
Lease right-of-use Assets	5,214	5,471	5,700	5,940	6,107	6,224	6,289	6,289
PP&E	3,584	3,760	3,918	4,083	4,198	4,278	4,323	4,323
Deferred Tax Assets	1,807	1,912	2,027	2,148	2,272	2,367	2,464	2,517
Other Non Current Assets	8	8	8	8	8	8	8	8
Goodwill	4,053	4,053	4,053	4,053	4,053	4,053	4,053	4,053
Intangible Assets	7,782	8,166	8,508	8,866	9,115	9,290	9,387	9,387
Non-Current Assets	23,352	24,274	25,118	26,002	26,656	27,125	27,427	27,479
Assets Held for Sale	0	0	0	0	0	0	0	0
Total Assets	38,740	40,637	42,688	44,838	47,091	49,270	51,526	53,595
LIABILITIES and EQUITY	2023	2024	2025	2026	2027	2028	2029	2030TV
Account Payable	2,117	2,240	2,374	2,517	2,662	2,774	2,887	2,948
Accrued Expenses	15	16	17	18	19	20	21	21
Short-Term Debt	3,312	3,505	3,714	3,937	4,163	4,339	4,516	4,612
Current Leases	866	916	971	1,029	1,088	1,134	1,180	1,205
Current Income Taxes	1,342	1,420	1,505	1,595	1,687	1,758	1,830	1,869
Current Provisions	249	263	279	296	313	326	339	346
Other Current Liabilities	3,558	3,764	3,990	4,229	4,472	4,660	4,850	4,954
Current Liabilities	11,459	12,124	12,850	13,620	14,404	15,010	15,622	15,956
Long-Term Debt	4,347	4,347	4,347	4,347	4,347	4,347	4,347	4,347
Non-Current Leases	4,420	4,420	4,420	4,420	4,420	4,420	4,420	4,420
Deferred Tax Liabilities	2,003	2,119	2,246	2,381	2,518	2,623	2,731	2,789
Pension & Other	66.0	66.0	66.0	66.0	66.0	66.0	66.0	66.0
Non-Current Provisions	23	24	26	27	29	30	31	32
Other Non Current Liabilities	296	313	331	351	372	387	403	412
Non-Current Liabilities	11,154	11,289	11,436	11,592	11,751	11,874	11,998	12,065
Retained Earnings	2,593	3,690	4,869	6,093	7,403	8,854	10,373	12,040
Other Common Equity	12,748	12,748	12,748	12,748	12,748	12,748	12,748	12,748
Shareholder Equity	15,341	16,438	17,617	18,841	20,151	21,602	23,121	24,789
Minority Interests	785	785	785	785	785	785	785	785
Total Equity	16,126	17,223	18,402	19,626	20,936	22,387	23,906	25,574
Liabilities Held for Sale	0	0	0	0	0	0	0	0
Total Liabilities & Equity	38,740	40,637	42,688	44,838	47,091	49,270	51,526	53,595

Appendix 5 : Historical Cash Flow Statement

(EUR m)	2019H	2020H	2021H	2022H
Cash flows				
EBIT	4,478	2,447	4,682	5,431
(Operational taxes)	(2,222)	(628)	(1,325)	(1,502)
D&A	1,245	1,439	1,453	1,666
Gross cash flows	3,501	3,258	4,810	5,595
Change in noncash WC	(1,414)	(1,012)	189	(1,361)
CAPEX	(5,749)	(925)	(2,141)	(3,040)
Change in other fixed assets	(264)	(86)	212	(983)
FCFO	(3,926)	1,235	3,070	212
Tax shields	88	(131)	45	82
Net Interest expenses/income	(178)	509	(158)	(296)
Change in short term investments	23	(120)	136	(145)
Change in gross debt	5,489	259	243	1,956
Change in surplus assets	364	6	12	(53)
FCFE	1,859	1,758	3,349	1,756
Dividends	(1,342)	(1,000)	(998)	(1,483)
Other movements in group equity	(452)	346	(720)	(1,581)
Change in minorities	5	54	175	396
Change in cash	69	1,157	1,806	(913)

Appendix 6 : Forecast Cash Flow Statement

(EUR m)	2023	2024	2025	2026	2027	2028	2029	2030TV
Cash flows								
EBIT	5,988.0	6,335.6	6,676.3	7,076.1	7,483.5	7,798.2	8,116.6	8,289.8
(Operational taxes)	(1,497.0)	(1,583.9)	(1,669.1)	(1,769.0)	(1,870.9)	(1,949.6)	(2,029.2)	(2,072.5)
D&A	1,562.9	1,793.9	2,038.4	2,171.7	2,571.9	2,859.9	3,159.8	3,436.9
Gross cash flows	6,054.0	6,545.6	7,045.6	7,478.8	8,184.5	8,708.6	9,247.3	9,654.3
Change in noncash WC	1,255.4	(18.9)	(20.6)	(21.9)	(22.3)	(17.2)	(17.4)	(9.5)
CAPEX	(2,468.3)	(2,611.6)	(2,768.0)	(2,933.7)	(3,102.6)	(3,233.1)	(3,365.1)	(3,436.9)
Change in other fixed assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCFO	4,841.1	3,915.1	4,257.0	4,523.2	5,059.6	5,458.3	5,864.8	6,207.9
Tax shields	41.9	41.9	41.9	41.9	41.9	41.9	41.9	41.9
Net Interest expenses/income	(167.7)	(167.7)	(167.7)	(167.7)	(167.7)	(167.7)	(167.7)	(167.7)
Change in short term investments	70.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in gross debt	1,070.9	242.5	264.7	280.6	285.9	220.9	223.4	121.5
Change in surplus assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCFE	5,856.8	4,031.9	4,395.9	4,678.1	5,219.8	5,553.4	5,962.5	6,203.7
Dividends	(2,985.0)	(3,167.5)	(3,346.3)	(3,556.2)	(3,770.1)	(3,935.4)	(4,102.5)	(4,193.5)
Other movements in group equity	(36.8)	(361.7)	(356.5)	(400.9)	(406.5)	(337.1)	(339.8)	(230.9)
Change in minorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in cash	2,835.0	502.7	693.1	720.9	1,043.1	1,281.0	1,520.2	1,779.4

Appendix 7 : ESG Score, retrieved from Eikon

ESG	2018H	2019H	2020H	2021H	2022H
Environmental Pillar	A+	A+	A+	A+	A+
Social Pillar	A+	A+	A+	A+	A+
Governance Pillar	B-	C+	B-	B	C+
ESG Combined Score	B-	B+	B	A-	A-

Appendix 8 : SWOT Analysis

SWOT	
S	W
<ol style="list-style-type: none"> 1. High Liquidity 2. Diversified Revenue Stream 3. Strong Financial Performance 4. Commitment to Sustainability 	<ol style="list-style-type: none"> 1. High Debt 2. Dependence on a Main Brand
O	T
<ol style="list-style-type: none"> 1. Demand in Emerging Markets 2. Online Retail / E-commerce 	<ol style="list-style-type: none"> 1. Intense competition 2. Foreign Exchange Rates 3. Economic uncertainties

STRENGTHS:

1. The current ratio increased through the years.
2. Geographical Presence and Multi-Channel.
3. High growth in revenues, focus on efficient cost management.
4. Aligns with changing consumers preferences, enhance brand image.

WEAKNESSES:

1. Higher interest in the future
2. 50% of the revenues come from Gucci, risk with changing consumers taste and trends.

OPPORTUNITIES:

1. Rise in middle class, could expand customer base.
2. Connect with new generation of customers.

THREATS:

1. A lot of conglomerates compete on basis of price, quality, design.
2. Has a lot of operations across the world, vulnerable to fluctuations.

Appendix 9: Damodaran Default Rates by Bond Rating Classes

<i>Bond Rating</i>	<i>Default Rate</i>
D	100.00%
C	80.00%
CC	65.00%
CCC	46.61%
B-	32.50%
B	26.36%
B+	19.28%
BB	12.20%
BBB	2.30%
A-	1.41%
A	0.53%
A+	0.40%
AA	0.28%
AAA	0.01%

Appendix 10: Damodaran synthetic rating and cost of debt

<i>Interest Coverage Ratio</i>	<i>Rating</i>	<i>Spread</i>
> 8.5	AAA	0.75%
6.5-8.5	AA	1.00%
5.5 - 6.5	A+	1.50%
4.25- 5.5	A	1.80%
3- 4.25	A-	2.00%
2.5-3	BBB	2.25%
2- 2.5	BB	3.50%
1.75-2	B+	4.75%
1.5-1.75	B	6.50%
1.25-1.5	B-	8.00%
0.8-1.25	CCC	10.00%
0.65-0.8	CC	11.50%
0.2-0.65	C	12.70%
<0.2	D	14.00%

Appendix 11: Share Price 2024

Valuation	FCFF	APV
Enterprise value	75,904	77,126
(Net debt)	(5,417.3)	(5,417.3)
Surplus assets	(66.0)	(66.0)
Minority interests	4,063.2	4,063.2
Equity value	74,483.7	75,706.1
Number of shares	123.2	123.2
Price per Share (2024)	604.8	614.7

Appendix 12: Montecarlo Simulation

