



LISBON
SCHOOL OF
ECONOMICS &
MANAGEMENT
UNIVERSIDADE DE LISBOA

MASTER OF SCIENCE IN FINANCE

MASTERS FINAL WORK PROJECT

EQUITY RESEARCH:
KERING S.A.

TOMÉ REIS

SUPERVISOR:
PROFESSOR HELENA AMARAL NETO



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Abstract

This project is mainly comprised on an Equity Research of Kering S.A. to determine a certain price target of Kering's stock by 31st December 2019. This assessment is mostly assembled by a set of assumptions, made the author of these document, for the time period of 2019F-2023F which reflect the historical performance of the company and the current market settings that may impact such target price.

The document was written under CFA Institute formal formations and following a specific structure to better portrait the analysis and computations that lead to the final price target, the main goal of these document.

The document begins with a company description, which contains a brief summary of its historical results, current strategic remarks and corporate governance, then its operations which are explained a long with the industry where it is allocated, following the in depth analysis of the company's financial statements, market performance and the risk attached to its operations.

In regards of the computations around the price target definition, three valuation models were covered, the Discounted Cash Flow Model, which discounted all future cash flows generated in the period under analysis and through perpetuity, totaling a price of 580.12 EUR / share, and the Dividend Discount Model and Multiples Valuation Model which totaled 567.00 EUR and 582.22 EUR respectively. Based on these there valuation models, by assigning an equal weight to each one of them, a price target of 576.44 EUR was reached translating into a 8.9% upside potential regarding the reference date of analysis of 525.10 EUR in 1st July 2019.

Once, computed the price target, the final recommendation for these equity research document was defined based on the risk criteria that better described Kering S.A market environment settings, providing this way a solid statement for Kering's share price within the period under analysis.

JEL Classification: G10, G17, G32, G34, G39

Keywords: Equity Research; Fashion; Valuation; Discounted Cash Flow; Dividend Discount Model; Multiple Valuation

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This project represents my final, the big final, for my academic journey, a project that represents way more than my masters final work. Represents a massive accomplishment for me.

Hence, I need to try and put on to words how grateful I am to all that helped me since my first days in the Bachelor at ISEG throughout this day, 15th October 2019, the day that I delivered my master's final report.

Firstly, I would like to thank, Professor Helena Amaral Neto, for being the best tutor I could ever hope for, thank you very much and hope in the future we could work together again.

Secondly, I would like to mention my friends that provided me the best 6 years of my life, either in the bachelor or in the master, it was an amazing time that I will always cherish, thank you to you all.

Finally the biggest thank you of them all, goes to my parents, godparents and family, without you, I would not be where I am now, hope one day I could repay all the help and strength that you gave me, thank you.

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Industry: Textile & Apparel
Sector: Luxury Goods
Ticker: KER.PA – Euronext Paris

Valuation Date: 1st July 2019
Company: Kering S.A.
Headquarters: Paris, France

Current Price: 525.10 EUR
Price Target: 576.44 EUR
Upside: 8.9 %

Recommendation
Medium Risk
15th October 2019

RESEARCH SNAPSHOT

Summary

Kering S.A. is a French holding company, publicly traded in Euronext Paris, under the designation KER.PA. Operates worldwide in retail, wholesale and online. It is regarded as one of the top players within the Luxury Goods industry with House such as Gucci, Saint Laurent and Bottega Venetta under Kering's banner.

Investment Recommendation

A **HOLD** recommendation is issued for Kering S.A. 31st December 2019, target price of **576.44 EUR** with an upside potential of **8.9%** with an intrinsic medium risk attached to this recommendation, regarding the 1st July 2019 closing price of 525.10 EUR, showcasing a clear undervaluation which any investor could take advantage of.

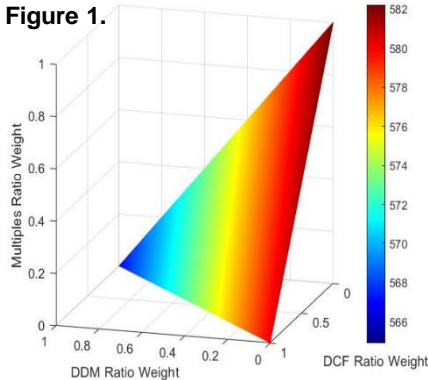
The target price and the associated upside in question was mainly assembled following an equally weighted methodology approach comprised by the Discounted Cash Flow model, Dividend Discount model and the Multiple Valuation, as can be observed in the Figure 2 heatmap.

Table 1.

| Market Info | |
|--------------------|----------------|
| Ticker | KER.PA |
| Market Cap. | 59523 EUR |
| Share Outstanding | 126.27 million |
| Avg. Volume | 255442 |
| Free Float | 59% |
| Last Dividend Paid | 10.50 EUR |

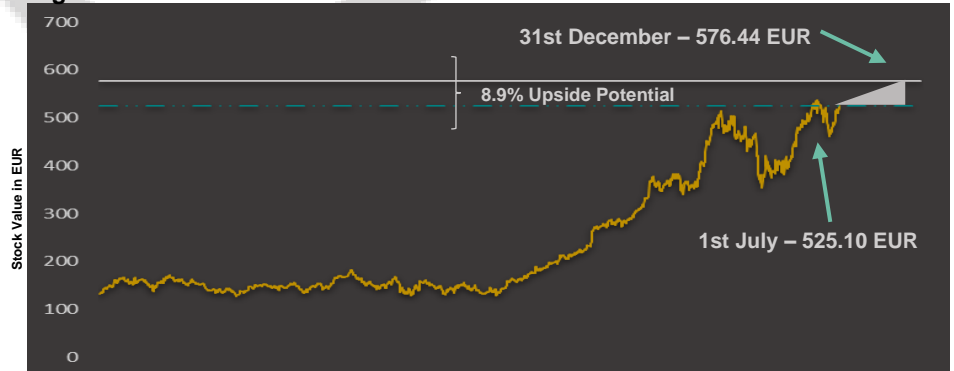
Source: Bloomberg

Figure 1.



Source: Author Estimations

Figure 2.



Source: Bloomberg

String Financial Position and Upswing Momentum

On the follow up of the recent performance showcased in the past quarters, Kering is looking sharp in regard on its future scenario with a forecasted revenue reaching an impressive 8.7% CAGR growth through the period under analysis.

An impressive expected growth which matches perfectly with the current reality where Kering holds the title of the fastest growing Group among their big competitors, handing over an astonishing 26.3% year on year revenue growth between 2017YE and 2018YE, boosting ahead of LVMH with 21.9% and Richemont with 17%.

Alongside this enticing performance, some solid remarks on the strong EBITDA and EBIT margins, Figure 40, aligned with a defined business strategy to enhance the high standards of quality and exclusivity demanded by the extremely competitive Industry where it operates.

Table 2.

| Key Financial Information | 2018YE |
|---------------------------|--------|
| EBITDA | 30.90% |
| Net Profit Margin | 27.20% |
| EPS | 2.94 |
| ROE | 36.90% |
| ROA | 17.40% |
| Rev. Growth | 26.30% |

Source: Kering Data

Table 3.

| Luxury Houses |
|--------------------|
| Gucci |
| Yves Saint Laurent |
| Bottega Veneta |
| Alexander McQueen |
| Balenciaga |
| Brioni |
| Boucheron |
| Pomellato |
| Dodo |
| Qeelin |
| Ulysse nardin |
| Girard-Perregaux |
| Kering Eyewear |

Source: Kering Data

Group Description – Past, Present and Future

Kering S.A is a Luxury Group based in Paris, that manages the development of a series of renowned fashion Houses such as Gucci, Saint Laurent, Bottega Veneta, Balenciaga, Alexander McQueen, Brioni, Boucheron, Pomellato, Dodo, Qeelin, Ulysse Nardin, Girard-Perregaux, as well as Kering Eyewear.

Kering operates globally under an omni-channel approach, employing over 27,000 full-time employees across all distribution channels. A spread-out distribution network that is overseeing a clear growth over the past years, with a special intake of the online sales and e-commerce segments.

Alongside the increasing online presence both Retail and Wholesale registered a solid performance 2018YE across 1439 operating stores worldwide, an increased presence of 104 stores if compared with the previous year.

Founded in 1963 by François Pinault became listed in the Euronext Paris in 1988 as Pinault SA. The Group began its transformation into the retail market in the 1990s and soon became one of the leading European players in the sector.

A continuous path guided by an entrepreneurial spirit and commitment to constantly pursue a continuous growth and create value. An ideology that led to another milestone for the Group with the of a 42% equity stake in Gucci group.

By 2004, the Group raised its stake in the Gucci Group to 99.4% marking its pace to become one of the world most influent players within the luxury brand sector as it holds stakes in some of the most sort after Houses in the luxury brand sector, such as Gucci itself, Yves Saint Laurent and Bottega Veneta.

A few years later, in 2013, the Group changed name to the one it holds till this day, Kering S.A.

Another relevant milestone within the Group, was the acquisition of 62.1% of PUMA in 2007, a new stage that allowed the Group to continue growing towards new market sectors and new target consumers. A presence in the Sport & Lifestyle Activities sector that was discontinued in 2018 as PUMA shares were distributed in kind to Kering shareholders, confirming the Group’s positioning as a pure luxury player while maintaining its financial interest at 15.85% of PUMA ’s share capital.

As part of new developments in its digital strategy, Kering announced on November 26, 2018 that after a highly successful and fruitful seven-year partnership with Yoox Net-à-Porter (YNAP), the e-commerce activities handled since 2012 through the YNAP joint venture will transition back to the Group during the first half of 2020.

Key Drivers of Profitability

Empowering Revenues

Worldwide revenues are mostly driven by high-end sustained growth of demand in key regions, reflecting both local and tourist robust consumption and the rise in the number of high-net-worth-individuals (HNWI), which is directly related with the growing net household affluence and a year on year (yoy) increase in the demand for Luxury Goods.

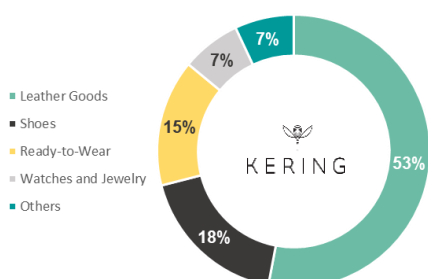
Moreover, as the market grows in sophistication, the integration and improvement of the different distribution channels, in particular the development of the digital luxury experience in e-commerce platforms and the in store sale expansion among emerging countries, are also driving the sustained growth in the industry.

Figure 3.



Source: Kering Data

Figure 4.



Source: Kering Data

Figure 5.



Source: Author Estimations

Furthermore, as the decline in the negative sentiment regarding excessive consumption and the rise in self-reward, status-seeking and connoisseurship, was fueled by the renewed confidence in the future economic prospects, leads to an increase in the industry's global revenues.

Costs to boost Efficiency

Luxury is an innovation-driven industry, which relies not only on the ability to continuously innovate and merge both artistic and handicraft abilities as well as increasing its efficiency on each distribution and logistics models in order to empower their vision for the future.

Additionally, with the outstanding development of the online channel, physical stores needed to be reinvented to better engage with customers in order to portray an emotional luxury experience that younger generations, local consumers and tourists search for. In this context, companies are investing enormously in both physical stores and on a more resilient and efficient presence on the growing digital market for luxury.

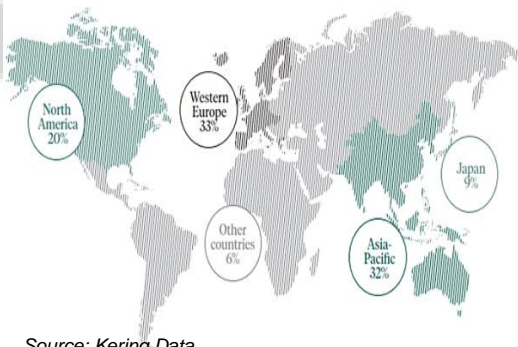
A Success Driven Entity

Kering consolidated a **Total Revenue of EUR 13,665.2 million** by 2018YE, a reported increase of 26.3% and 29.4% on comparable basis from 2017YE. A remarkable increase backed by an increase in **Operating Income of 46.3%** and **Operating Margins of 28.9%**.

An outstanding performance that led Kering to outperform the sector with a solid revenue growth across all regions of operations. Led by North American market which registered the biggest rise in revenue out of all regions with an increase of 38% when compared with 2017YE.

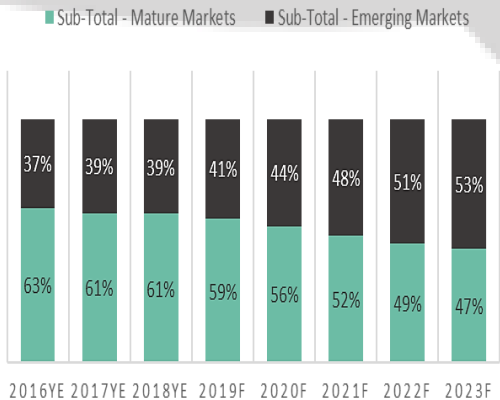
Asia-Pacific was a close second with an increase of 34% in revenue, which reinforces the increasing influence of this region on the Luxury Goods market, outperforming Western Europe and Japan who also performed well nonetheless with an increase in revenue of 24% for both regions.

Figure 6.



Source: Kering Data

Figure 7.



Source: Author Estimations

Kering Business Segments

Luxury Houses

The Luxury House segment in 2018YE represented 97% of Total Revenue, a clear note that Kering stands as a pure Luxury group, with the Gucci brand as the powerhouse and main revenue driver among the Group, representing 63% of the segment revenue.

2018 was an incredible year for Kering, with 77% of overall revenue from operating stores and 23% from both wholesale and online sales, across all regions, where Leather Good were the main source of revenue with 53%, followed by Shoes with 18% and Ready-to-Wear with 15%.

Gucci

In 2018, Gucci strengthened its role as one of the world's leading luxury fashion houses both in terms of revenue and profitability. With 85% of the brand's total revenue driven by in store sales, 2018 revenue grew across all quarters at an impressive pace despite the increasingly challenging basis of comparison. An upswing growth driven by the increasing demand for luxury goods and for Gucci itself and full-price sales across all product categories, regions and distribution channels.

Saint Laurent

A High-End global exclusive luxury brand that occupies a leading position in the ready-to-wear, fashion and leather goods sector. In 2018, brand's sales were fueled by an upswing growth across all main product categories benefiting from the increasing demand for luxury goods. Saint Laurent also made a great investment in enhancing its retail

Figure 8.



Source: Kering Data

network with selective new 35 store openings worldwide and announced a partnership with Farfetch to enhance its e-commerce business.

Bottega Veneta

A truly exclusive luxury brand that relies on the distinctive quality and know-how of its handcrafted goods which places Bottega Veneta at the top of the pyramid of the sector. In the first half of 2018, the brand continued to invest in communication and to focus on consolidating its high-end positioning and exclusivity. In the second half of 2018, in the nomination of the new creative director David Lee, the brand's focus on a new contemporary vision, reinforcing its retail network in order to secure its reputation and excellence while meeting the increasing demand for its products.

Corporate and Others

The Corporate and Other segment represents 3% of Total Revenue 2018YE, increasing 42.1% in regards of 2017YE, is comprised into Kering's corporate departments and headquarters teams, Shared services, which provide a range of services to the brands, the Kering Sustainability Department, and the Kering Sourcing Department, a profit center for services that it provides on behalf of non-Group brands.

Company Strategies - Empowering Imagination

The key for the notable success across all Houses is set out clearly as to where and how the Houses should operate. Kering enables its Houses to set new limits in terms of their creative expression, setting standards and trends while crafting tomorrow's Luxury in a sustainable and responsible way, empowering its beliefs with its signature motto. "Empowering Imagination". A stronger vision which encourages the embrace of creativity towards a modern and bold vision for Luxury, shaping the Luxury of tomorrow with the ambition to be the world's most influential Luxury Group.

A vision that is reflected on the grounds of a **multi-brand business model** built with a long-term creative autonomy for the Houses, elevating their individual recipe for success, Agility, Balance and Responsibility.

Agility – Kering provides its Houses with an organizational structure that empowers their potential for excellence by elevating the previous success of the group since its inception and channeling it towards an success driven mentality, being flexible to change and outgrow expectations, while having the clarity to enhance the reach of each House and continue on the rise.

Balance – Kering's multi-brand model is reaching optimal efficiency. An efficiency that is achieved by the strength as a Group, that helps forge a distinctive identity for each House as each of them expresses their unique characters while enhancing the consumer experience, especially in the growing digital channels. A balanced environment that unlocks the huge growing prospect, spurred by a positive demographic, economic and sociological factors.

Along with these factors, the momentum allied with the extensive footprint and geographical dispersion, as well as the variety of customers, products, brands and locations, make Kering ready for any change in market conditions to seize every growth opportunity and grow even more by anticipating the negative input that comes from any market cyclical event.

A well-diversified footprint that acts as a barrier towards the disruptive impact of geopolitical tensions, allowing the group to take advantage of its positioning and the market momentum to enhance profit margins and optimizing capital allocation.

Responsibility – All Kering's operations are founded on a responsible, comprehensive and sustainable economic model that yields into a competitive structural advantage when compared with their peers. Sustainability is regarded as an economic opportunity and a source of innovation towards sustainable Luxury.

Figure 9.

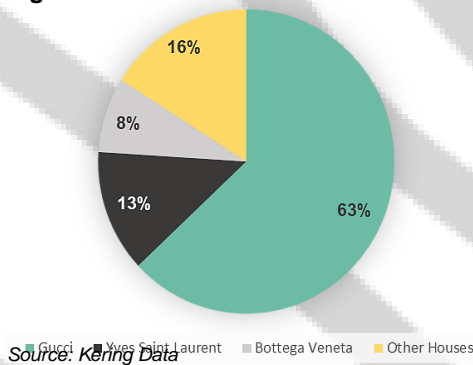


Table 4.

| | |
|-----------------------|--|
| VISION | Embracing creativity for a modern, bold vision of Luxury |
| BUSINESS MODEL | A multi-brand model built on a long-term approach and creative autonomy for the Houses Agility Balance Responsibility |
| STRATEGY | Harnessing the full potential of Luxury to grow faster than our markets Promoting organic growth Enhancing synergies and integration |

Source: Kering Data

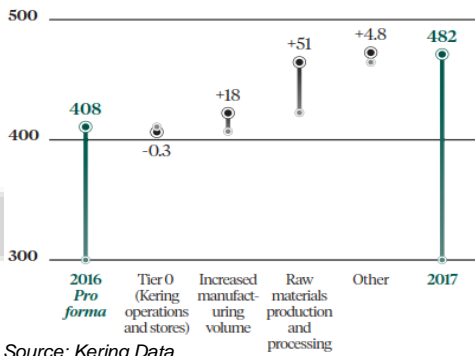
Table 5.

| | TIER 0 Operations and stores 10% | TIER 1 Final assembly 5% | TIER 2 Preparation of sub-components 9% | TIER 3 Processing of raw materials 10% | TIER 4 Production of raw materials 66% |
|------------------------------|--|--------------------------------|---|--|--|
| Air pollution 9% | ● | ● | ● | ● | ● |
| Greenhouse gas emissions 32% | ● | ● | ● | ● | ● |
| Land use 32% | ● | ● | ● | ● | ● |
| Waste 5% | ● | ● | ● | ● | ● |
| Water consumption 8% | ● | ● | ● | ● | ● |
| Water pollution 14% | ● | ● | ● | ● | ● |

Source: Kering Data

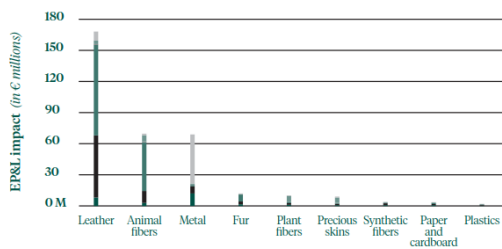
Figure 10.

EP&L impact (in € millions)



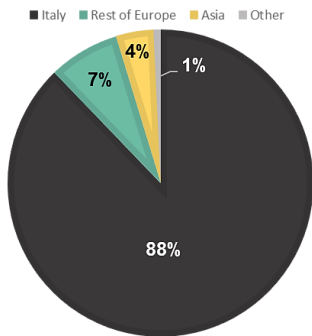
Source: Kering Data

Figure 11.



Source: Kering Data

Figure 12.



Source: Kering Data

Sustainable Luxury is considered the main target strategy for 2025, with an environment and social based strategy where the inclusion of non-financial criteria to create sustainable value for customers as well as for society. A people and environment approach that ensures a fair and ethical treatment that impacts all the Group without jeopardizing the creative potential while leveraging an ambitious governance structure applied by every House, every day.

Environmental Profit & Loss (EP&L)

Becoming increasingly sustainable has been on Kering Group metrics for success, a step that must arrive hand in hand with a firm and defined environmental approach, thus Kering is aiming to reduce the entire Group’s EP&L by 2025. A defined scope of action that is spread out the entire verticality of the group, setting a standard within the industry. Table. 5.

Economic Implications

A sustainable environmental impact could be translated into economic terms, where better environmental and social aware practices may induce in better economic results. (e.g sustainable use of raw materials (animal welfare standards) and environmental friendly practices (less plastics)) If the Group’s practices are increasing as they are, following an increase of operations mapped by the strong revenue increase in the past years, better environmental and social aware practices lead to more efficient practices translating into a better economic performance. (Figure 10 and 11)

Promoting Organic growth and Enhancing Synergies and Integration

Exploring emerging economies and cultures is key, as is the increase in the use of new technologies as a major source of value creation. Chasing new creative ways to innovate products by setting new trends and boosting sales efficiency while improving the quality of consumer experience. This way, an omni-channel approach is the next step to conquer and boost even further the growth potential for every House.

A very important step since the digital presence is simultaneously accelerating and deepening the relationship between brands and costumers, allowing the Group to offer a new and refreshing experience to clients.

Thus, Kering is continuing its growth story, unlocking the potential of its Houses and pursuing its ambition to be the world’s most influential Luxury group embracing creativity with a modern, bold vision of Luxury.

Another remarkable strength within the group is its upstream positioning in the luxury goods value chain by targeting acquisitions of leather tanneries in order to secure its vertical integration efficiency by assuring the raw materials sourcing. A reinforced supply chain that aims to meet the increasing market needs with effectiveness but always with the same unmatched standard of quality, uniqueness and exclusivity.

Socially Responsible Supply Chains

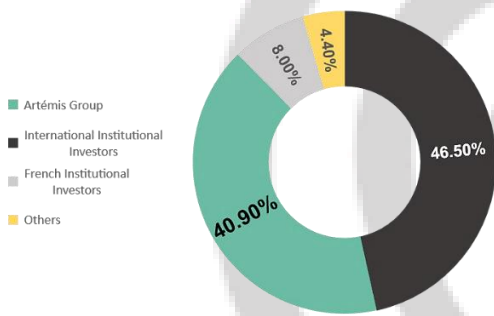
The fashion environment in regards of environment and socially responsible practices has always been targeted as one to not serve has an example, a title that the Kering Group since very early fought to suppress.

In respect of social and environment issues, Kering work to develop standards that went in line with the investor’s expectations, especially regarding their supply chains which are chosen not by being cheaper but by being of excellency.

Developing a supplier’s chart which sets the standard for all actions within the group and their suppliers, complying with all ethical and human rights standards, reducing this way the risk exposure for all in regards with socially responsible practices while carrying on with sustainable innovation projects. Supply mapping on Figure 12.

Corporate Management - Board Structure and Attendance

Figure 13.



Kering is managed by a Board of Directors (BoD) composed of a minimum of three members and a maximum of eighteen members and must be comprised of at least one third of independent directors. Directors may be appointed under the statutory conditions by a General Meeting (GM) of shareholders, for a term of four years from which any director may be re-elected. Any shareholder may attend the GM, as long as one holds at least one share by no later than the second business day preceding the date of the GM.

Shareholder Structure

Kerings's largest shareholder is Artémis Group held by the Pinault family with a 40.9% ownership position. The remaining ownership as of 31st December 2017, is held by numerous individual international investors, including Capital Group Cos Inc. with 4.86% and Vanguard Group Inc. with 3.01%, being only 0.3% held by employees and corporate officers.

The share capital is set at EUR 505,117,288. It is divided into 126,279,322 shares with a par value of four euros each, which are paid up in full, which represents 59% free float by 2018YE. These ordinary shares are traded on Euronext Paris and do not grant any special rights beyond the shareholder's general rights detailed in Kering's by-laws.

Corporate Governance

Built on the Group's core values, Kering's responsible model leverages an ambitious one-tier system governance structure, supported by the BoD and its Executive Committee to enforce the highly regarded level of ethics and compliance that settled Kering as a textbook example within the industry.

Together they drive the sustainability strategy, which the Houses put into action every day under the guidance of dedicated experts, which resulted in impressive Corporate Governance scoring among the major outsourcing entities that evaluate listed companies.

Kerings's ISS Quality Score is 5, with 1 being the highest out of 10, which places them just above their peer average at 5.8.

Another important metric to mention is Bloomberg ESG reports, where Kering's overall Governance Disclosure Score of 93.1, which is higher than the peer average of 74.4, alongside the also good performance in the environment and socio-cultural metrics as can be observed in Table 6 and 7.

Also, important to mention the percentage of women in the BoD, where Kering exceeds once again, leading the industry with 46% of attendance.

On this note, Kering follows an Anglo-Saxon Corporate Governance Model where shareholders in attendance at the GM elect representatives for the BoD and for each Committee.

BoD – The BoD has the duty to perform the tasks and exercise the powers that are conferred on it by the law and its bylaws, being responsible for managing the daily operations, as well as allocating resources and coordinating performance reviews.

Sustainable Development Committee – This committee aids the Company in engineering, implementing and ensuring proper corporate governance engagements, taking into account the target of the Board and Executive Management to maintain a high level of sustainability in their economic, social and environmental context.

Table 6.

| ISS Governance | |
|--------------------------|-----|
| Kering S.A | 5 |
| Hermès International | 7 |
| Prada S.P.A | 8 |
| LVMH Group | 8 |
| Cie Financiere Richemont | 6 |
| Burberry Group | 1 |
| Ind. Average | 5.8 |

Source: Bloomberg

Table 7.

| ESG Performance | |
|--------------------------|------|
| Kering S.A | 78.7 |
| Hermès International | 54.0 |
| Prada S.P.A | 50.0 |
| LVMH Group | 75.3 |
| Cie Financiere Richemont | 77.3 |
| Burberry Group | 73.0 |
| Ind. Average | 68.1 |

Source: Bloomberg

Figure 14.

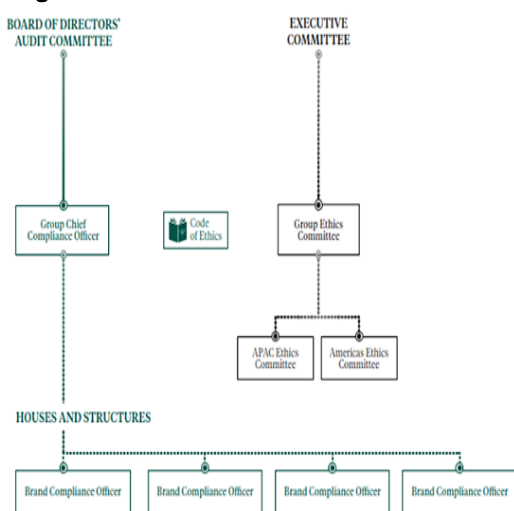


Table 8.

| Board of Directors | |
|-------------------------------------|------------------------|
| CEO | François-Henri Pinault |
| Managing Director | Jean-François Palus |
| Director | Heloise Temple Boyer |
| Director | Baudouin Prot |
| Director Representing the Employees | Claire Lacaze |
| Independent Director | Yseulys Costes |
| Independent Director | Jean-Pierre Denis |
| Independent Director | Ginevra Elkann |
| Independent Director | Sophie L'Hellias |
| Independent Director | Daniela Riccardi |
| Independent Director | Sapna Sood |

Source: Kering Data

Remuneration Committee– Reviews and makes proposals to the Board of Directors on all items and terms of remuneration of the Chairman and CFO and of the Group Managing Director, which are presented and approved in GM.

Appointments Committee – Examines proposals directed to appointments within the Board of Directors before they are presented to the Annual General Meeting for approval or to the Board of Directors in the event of a vacancy.

Audit Committee – The Audit Committee reviews the annual and half-yearly financial statements, to ensure that the Company’s accounting methods are reliable and in concordance with the international standards by reviews the effective implementation of internal control and risk management procedures.

INDUSTRY OVERVIEW

Economic Outlook

According to the IMF 2019 World Economic Outlook (WEO), the global economy continues to expand, but since 2018 third-quarter growth has deepened in some major economies as the likes of Europe and Asia.

Following the sub performance of these economies the overall global expansion has weakened, translating into a growth of 3.6% in 2018YE, carrying over this softening momentum to coming years with global growth forecasted to decline to 3.3% in 2019YE before picking up slightly to 3.6% in 2020YE. A 0.2 and 0.1 percentage point lower, respectively if compared with, the previous WEO regarding 2017YE.

Personal Luxury Goods

Personal Luxury Goods can be defined as an industry where products are used for self-grooming purposes such as apparel, accessories, hard luxury and fragrances and cosmetics.

This industry has been facing several changes in the past decades, where varying economic trends, rapid digital transformation and evolving consumer preferences created a completely different competitive landscape over the years. Although some ideals prevail, such as the exclusivity of every item which makes this industry so desirable for its products.

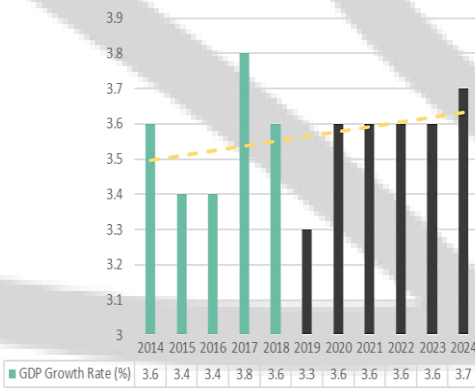
Based on the principle of exclusivity, this industry shapes itself as one of the most efficient industry regarding supply, since its exclusivity does not allow the supply to grow in parallel with the increasing demand year on year making possible to establish such huge margins on every product reinforcing the ideal of exclusivity and translating into an industry of bn in profits.

Globally, this industry tends to be classified as monopolistic competition in a multiregional business sphere. The personal luxury goods market can be segmented by product basis (apparel, accessories, hard luxury and fragrances and cosmetics), distribution (wholesale and retail) and channel (physical stores and online).

According to Bain & Company, retail continued growing steadily, gaining 8% by 2018YE, while wholesale grew only 3% in the same period, assuming constant exchange rates. Meanwhile, online sales (within this analysis online sales are imbedded within Wholesale) jumped by 24% 2018YE, increasing at a 25% CAGR 2013-2017, reaching a market share of 10% with strong upswing momentum to become even more relevant in coming years.

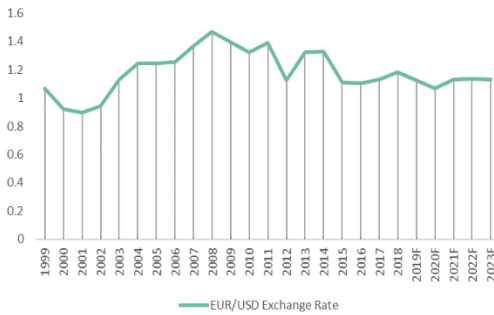
Overall it is observable that a continuous and sustainable upward trend of the industry has reinforced its position, as one of the most profitable, stable and attractive industries to invest in, worldwide, despite a slowdown in growth if compared with 2017YE.

Figure 15.



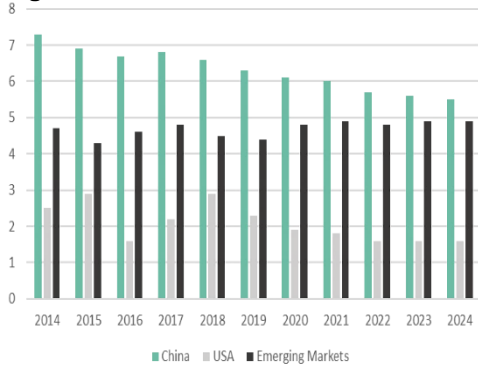
Source: IMF

Figure 16.



Source: Bloomberg

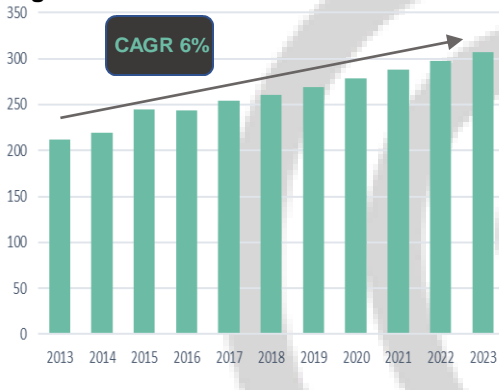
Figure 17.



Source: IMF

Worldwide personal luxury goods market trend 2010-2019F (in EUR bn)

Figure 18.



Source: Bain & Co.

Demand for Luxury Goods

According to Bain & Company and Altgamma publications, the estimated market evolution for the personal luxury goods industry is forging a continuous growth since 2010 of 6% Compounded Annual Growth Rate (CAGR) for the period 2010-2018, a solid growth in the industry which grew 6% in 2018 alone, reaching an industry approximated value of EUR 260 bn (Figure 19), with blustering 20% of profitability across the main players within the industry, an outstanding growth which is being replicated in first half of 2019 as the demand for luxury goods is scaling.

For 2019YE Bain and Altgamma forecasted an overall growth for the industry of 5%, a forecast that has been accounted for the global economic GDP forecast and the possible deceleration in demand in China due to the currency instability and the ongoing trade war with the US and other currency and interest rate fluctuations as well as geopolitical instability and inflation. Some considerations which do not deflect from the strong market potential in the future for this industry even though it is forecasted to tick down 1 b.p from 2018.

The personal luxury goods industry is expected to reach EUR 320-365 bn by 2025 at 3-5% CAGR from 2018, an ambitious upswing driven by emerging countries, new emerging consumers as the upper-middle class and the high-net-worth-individuals (HNWIs) are increasing its purchasing power and quantities of purchases, alongside the new generations Y and Z which are fueling trends with increasing preferences for high-end products, translated into an increase of consumption of 100% in 2018 by this generation.

Supply Channels

Another major driver for the industry growth is clearly the development of the distribution channels across all regions, in particular, e-commerce which is expected to account over 25% of total personal luxury goods sales by 2025.

Meanwhile, in 2018, according to Bain & Company, the retail channel grew 4% in 2018, with three-quarters of that increase coming from same-store sales growth, representing 22% of the total worldwide personal luxury goods market in 2018.

The wholesale channel grew only 1%, hampered by department store performance and a slowdown among specialty stores facing tough competition from the online channel. Although, wholesale remains as the number one source of revenue within the industry, totaling 62% of the total worldwide personal luxury goods market in 2018.

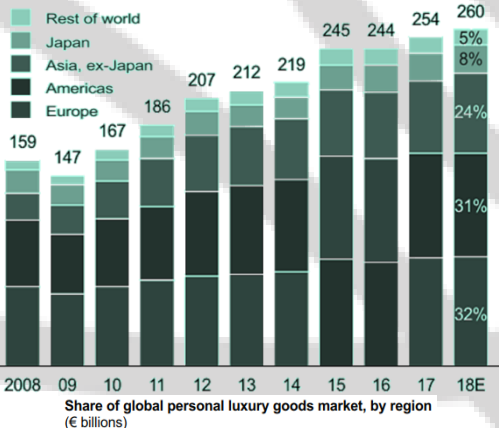
Luxury shopping online continued to accelerate in 2018 compared with physical channels, growing 22% if compared with 2017, totaling EUR 27 bn. The U.S. market made up close to half of online sales, 44%, while Asian market is emerging as the new growth engine for luxury online, slightly ahead of Europe.

Region Outlook

China remains the main driver for the industry growth trend, representing 33% of global luxury spending in 2018, EUR 86 bn, translating their increasing preferences for luxury products and increasing purchasing power. A trend that is forecasted to endure and be reinforced in coming year as consumption in Mainland China is increasing twice as much as the spending abroad by Chinese nationals.

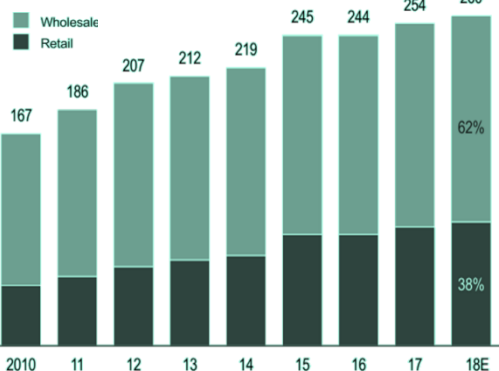
Across the rest of Asia retail sales grew 7% at current exchange rates to EUR 39 bn, due to dynamic growth in South Korea, driven by strong local consumption. Meanwhile, Japan's luxury purchases deepened, slightly, in 2018 as its luxury sales shifted towards an increasing importance of consumption from tourists while local purchases softened.

Figure 19.



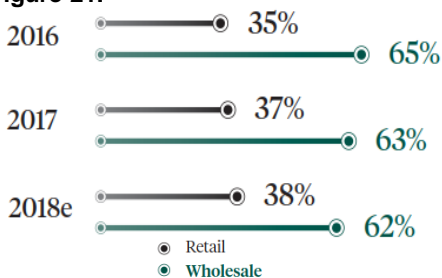
Source: Bain & Co.

Figure 20.



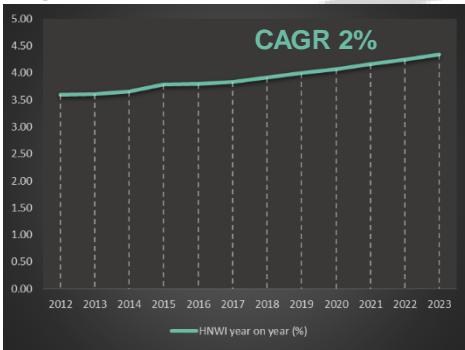
Source: Bain & Co.

Figure 21.



Source: Kering Data

Figure 22.



Source: Bloomberg

Europe lagged in 2018 due to a strong Euro that impacted tourists' purchasing power. Local consumption was positive overall, despite mixed country performance, helping to boost retail sales 1% at current exchange rates to EUR 84 bn.

The Americas grew 5% at current exchange rates to EUR 80 bn. A positive U.S. economy boosted disposable income and overall luxury spending from locals, even as brands remained wary of continued economic prosperity. However, the strong dollar impacted tourists' spending from Asia and Latin America. Canada and Mexico were strong players in the region, while political uncertainties derailed Brazil's performance.

In other areas, growth was 0% at current exchange rates, holding at EUR 12 bn, mainly due to stagnation in Middle East brought on by a recent government spending restriction.

Cyclicality Overview

The personal luxury goods industry operates as an established market in its mature form, performing extraordinarily in the past 5 years, mainly due to the increasing demand and purchasing power of the upper-middle class and the HNWIs, especially in Mainland China.

As mentioned, being in the mature state, this industry is expected to deaccelerate its growth in coming years and stabilize around the already observed 20% level of profitability by 2025F.

Competitive Positioning

PEERS

The worldwide personal luxury goods sphere is populated by a few large global players that dominate and drive the market worldwide. Often called "multi-brand groups", these players compete in different segments in terms of both product categories and geographic location.

As previously mentioned, this industry is mainly identified as a monopolistic competition industry, where the main players such as Kering S.A, LVMH, Hèrmes, Prada, Burberry, and Richemont operate in a vertically integrated system worldwide and compete across all segments and channels of distribution.

Considering the industry's total revenues observed in 2018YE of EUR 260 bn, LVMH stand out as the industry big player with a market share of 45%, followed by Kering with 18%. (Figure 23).

Kering, the Future?

As it seats, Kering has positioned itself quite well towards future expectations, innovating alongside the market newer demands. The partnership with YNAP was the first step to secure and solidify the digitalization process, establishing grounds to breach the gap to LVMH in regards of market share. in the words of Kering's Chairman, François-Henri Pinault, "We are only in the beginning", illustrates the confidence behind the recent performance of the group, reinforced by the group's lead driver, Gucci and by the new bn House of the group, Alexander McQueen.

A Future prospect looking more promising every passing year as the group over thrones step by step, as it did in 2017 where Gucci overstepped Hèrmes in growth and aims to dust Louis Vuitton in coming year, bringing an outstanding performance in 2018 as business card as it was shown by the incredible increase of 26.3% in revenue, 2018YE.

Competitive Landscape

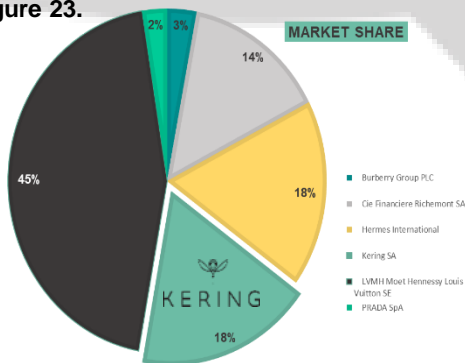
It is assumed that the competitive landscape is to remain the same in coming year, unless some M&A activities or macroeconomic turmoil reshapes the entire structure of the industry.

Table 9.

| PEER GROUP |
|-----------------------------|
| Kering S.A |
| Burberry Group PLC |
| Cie Financiere Richemont SA |
| Hermes International |
| LVMH |
| Prada SpA |

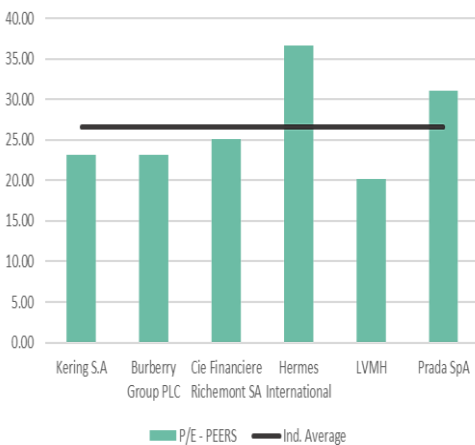
Source: Kering Data

Figure 23.



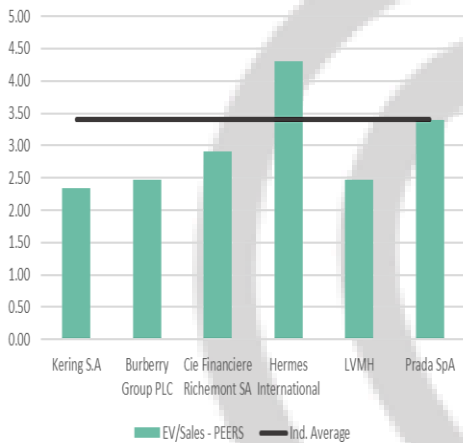
Source: Author Estimations

Figure 24.



Source: Bloomberg

Figure 25.



Source: Bloomberg

A market composition that will continue to observe LVMH as the main player within the industry but with Kering breaching the gap as the industry fastest growing group, above the industry growth rate, while the other players continue to grow at the industry pace, as the demand evolves.

Despite the slowdown in demand, compared with 2017YE, is expected to continue to observe China as the number one spender in luxury goods in coming years despite the macroeconomic concerns.

A competitive landscape that might only be disrupted by any M&A activity among the main players, condition that might shift the hierarchy within the main players, and any geopolitical event that would negatively affect the exchange and interest rates among the main spenders of the industry, specifically between US and China.

SWOT Analysis

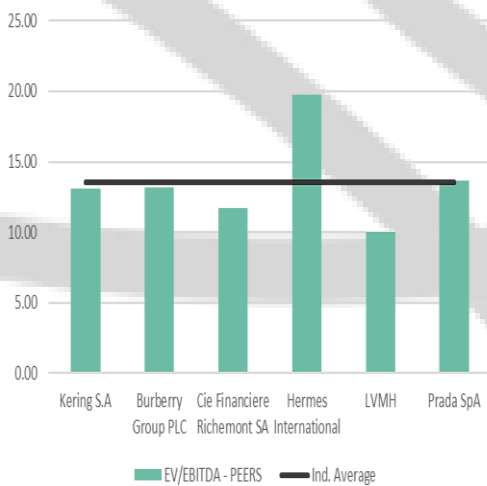
In furtherance of the evaluation of the internal and external factors that influence Keirng's current positioning within the market, a SWOT analysis below, was prepared to describe the factors that might shift the competitive positioning of the Group.

Table 10.

| Strengths | Weaknessess |
|--|--|
| Industry Momentum Reputation Strong Financial Position | Very Susceptible to Market Shifts Poor Diversification of the Group |
| Opportunities | Threats |
| Digitalization/Online Markets Expansion to Emerging Markets M&A Activity | Macroeconomic Instability Contrafaction Intense Competition |

Source: Author Estimations

Figure 26.



Source: Bloomberg

Extended Porter's Five Forces Analysis

Bargaining Power of Suppliers - Low

Most companies of this industry rely on third parties for production of raw materials used by the manufacturers. There are some producers of raw materials and the prices are not expected to rise substantially.

Companies also rely on many independent non-exclusive manufacturers to produce the vast majority of their products. The high number of alternative manufactures and the low wages paid to the employees makes the bargaining power of suppliers low.

Bargaining Power of Buyers - Medium

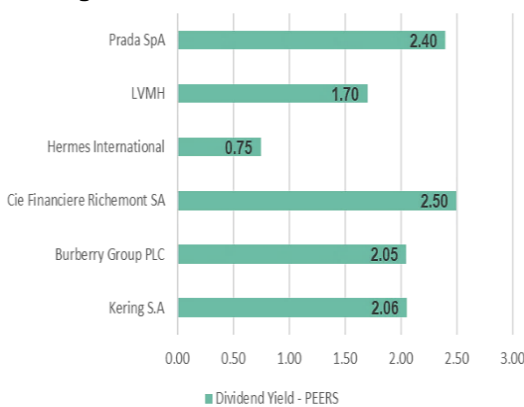
The final consumer does hold some bargaining power: given the opportunity to choose between the wide variety of stores and brands, which could be described as poorly differentiated from each other in products and prices, the consumer does have the opportunity to choose the one that fits their preferences the best.

Regardless, taking a closer look towards the company perspective, its inventories are sold in an exclusive manner, to only a few selected large wholesale customers, making them dependent on these arrangements.

Threat of Substitues Products – Medium/Low

There is no substitute product to replace the function of dress, but the consumers of this industry buy luxury apparel clothing for fashion, trend, status and appearance and not for their basic needs. This means that the existent "substitues" are nothing but the competition. On the one hand, big players have a strong reputation and brand recognition that creates loyalty among their clients. On the other, the companies follow the same fashion trends and so, offer similar products.

Figure 27.



Source: Bloomberg

Rivalry Among Existing Companies - High

The industry is very competitive as a result of its fashion orientation, where it holds a mix of large and small producers and a wide diversity of retailing choices. Companies compete worldwide with numerous designers, brands, manufacturers and retailers of apparels, shoes, hard luxury, beauty products and jewelry.

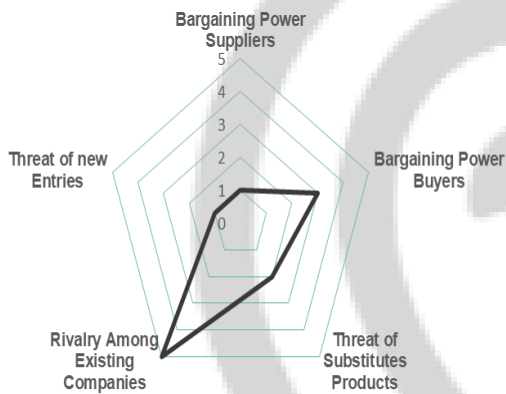
Also, the rise of the online shopping results into more companies entering this industry given the low barriers to entry and increased level of transparency in pricing products and product comparison.

Threat of New Entrants – Low

The Luxury goods industry does not hold any barriers to entry, although in order to enter an industry with such assembled base companies, a new entry, in the short run does not have the power to compete with existing companies.

As previously mentioned the Luxury Goods industry seats on a mature market setting, growing year on year based on the increasing purchasing power of the middle class and the HNWI forgoing a continuous expansion of the industry making room for the existing companies to grow even more and also making room for new players to enter the market and explore and take advantage of niches within the industry to grow as it was the case of Farfetch.

Figure 28.



Source: Author Estimations

INVESTMENT SUMMARY

Table 11.

| Recommendation Table | | | |
|----------------------|-------------|-------------|-------------|
| Level of Risk | High Risk | Medium Risk | Low Risk |
| SELL | 0% ≤ | -5% ≤ | -10% ≤ |
| REDUCE | >0% & ≤10% | >-5% & ≤5% | >-10% & ≤0% |
| HOLD | >10% & ≤20% | >5% & ≤15% | >0% & ≤10% |
| BUY | >20% & ≤45% | >15% & ≤30% | >10% & ≤20% |
| STRONG BUY | ≥45% | ≥30% | ≥20% |

Source: Author Estimations

Figure 29.



Source: Author Estimations

Table 12.

| DCF - Price Target | |
|-------------------------|-------------|
| Enterprise Value | 74,968.20 € |
| Net Debt | 1,711.40 € |
| Equity Value | 73,256.80 € |
| Share Outstanding | 126.279244 |
| Equity Value per Share | 580.12 € |
| Price on 31st Dec, 2019 | 580.12 € |
| Price on 1st Jul, 2019 | 525.10 € |
| Upside Potential | 9.5% |

Source: Author Estimations

Investment Thesis

Kering S.A. is one of the leading groups in luxury with brands such as Gucci, Bottega Veneta, YSL and Balenciaga under its banner and has become a successful textbook brand under a strong and committed leadership. This allied with an enhanced financial discipline is delivering strong cash flow and pushing the debt and its cost down markedly yoy.

Issuing a HOLD recommendation on Kering S.A Group with a **price target of 576.44 EUR**, representing an 8.9% upside from the closing price of 525.10 EUR per share of 1st July 2019, a recommendation underlining an undervaluation for Kering's share price.

The price target calculation was established by an equally weighted average of the forecasted price target of three different valuation model, the Discounted Cash Flow Model (DCF), Dividend Discount Model (DDM) and the Multiples Valuation.

Valuation Approach

Applying the DCF Model a price target of 580.12 EUR was reached, translating into a 9.5% upside potential by 2019YE while the DDM and Multiple Valuation produced similar results for the same time period with respective price targets of 567.00 EUR and 582.22 EUR, resulting in 7.4% and 9.8% upside potential respectively, enhancing a slight undervaluation for Kering S.A.

The methodology behind the use of the three valuation methods is assembled to capture the full gage of Kering's true valuation across all industry spectrum and market settings, acknowledging the competitive environment within the industry as well as the cyclicity of the market and the distribution of dividends of the Group and the influence that it brings to the final valuation.

Investment Drivers

The HOLD recommendation stated above, reflects the foundation of three major drivers that uphold the same reasoning of the valuation models used on the computation of the price target, the strong competitive positioning of the Group, the strong momentum of both the industry and the Group and the sound financial positioning of the Group

Strong Competitive Positioning

Table 13.

| DDM - Price Target | |
|-------------------------|-------------|
| Total PV(DIVt) | 71,599.90 € |
| Share Outstanding | 126.28 € |
| Equity Value per Share | 567.00 € |
| Price on 31st Dec, 2019 | 567.00 € |
| Price on 1st Jul, 2019 | 525.10 € |
| Upside Potential | 7.4% |

Source: Author Estimations

Kering has seen its revenue grow at an impressive pace across all regions and distribution channels and is expected to continue to perform as such within the period under analysis, with a forecasted CAGR growth, for the period 2016YE-2023F showcasing an impressive stand within the industry.

Having their main Houses, especially Gucci, growing and collecting more and more attention and power has positioned Kering as one of the main pillars for the luxury goods industry, dominating trends season on season and bridging the gap for the industry main player, LVMH.

Strong Industry Momentum,

According to Bloomberg Intelligence and Bain & Company, the Luxury goods industry, as previously mentioned has been scaling year on year with impressive growth across all regions and distribution channels.

An outstanding performance which is expected to be reinforced with the unequivocally growth of the online sales worldwide.

Sound Financial Positioning,

A brief look to the Group's balance sheet in Appendix 1, showcases a strong and healthy position, reflecting the business model and the success of the Group.

Favorable cash position securing a strong liquidity and an overall admirable financial position and low debt levels, creating the financial basis to further pursue the growth of the group with new investments.

Risks to be aware

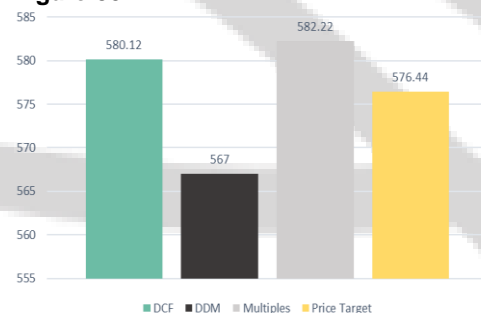
Key investors looking forward to investing must be aware of the **medium risk** designation attached to the HOLD recommendation for Kering Group, A business that fluctuates greatly given any market shift does hold a few risks, such as the interest rate risk, foreign rate risk and the unavoidable market affectation that uphold a significant market and strategic risk.

Table 14.

| Multiple Price Target | |
|-------------------------|----------|
| EV/Sales | 468.09 € |
| EV/EBITDA Price | 511.88 € |
| P/E Price | 766.70 € |
| Price on 31st Dec, 2019 | 582.22 € |
| Price on 1st Jul, 2019 | 525.10 € |
| Upside Potential | 9.8% |

Source: Author Estimations

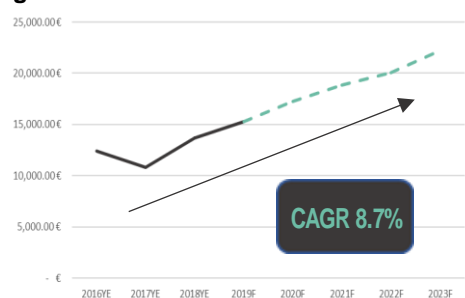
Figure 30.



Source: Author Estimations

VALUATION

Figure 31.



Source: Author Estimations

Within this section, the HOLD recommendation on Kering S.A Group with a price target of 576.44 EUR, will be analyzed, pinpointing the main focus of the valuation process through all models and variables used to estimate the long-term value of the Group in order to underline the Group's business model characteristics reflecting a true representation for the forecasted price target obtained, for 31st December.

Revenue

The first step for the valuation process was the revenue forecast. The forecast process was assembled to incorporate all the relevant variables that would indeed impact the future revenue of the group. Thus, was needed to assemble a regression that would incorporate the variables that would reflect the market influence on the revenues and the industry characteristics as well.

The methodology behind the assembly of the regression was to divide the variables between **market affection**, GDP Growth (Gdp_g), inflation (Inf), Exchange Rates (Ex_r) and Tax Rates (tx_r), and **industry influence**, Historical Industry Growth (Ind_g), Kering's Historical Growth (Ker_g) and Demand, given by the percentage of High Net Worth Individuals(HNWI) in the most representative countries, in order to fully build a cohesive base for the forecast.

Table 15.

| Regression Statistics | |
|-----------------------|---------|
| Multiple R | 0.80210 |
| R Square | 0.64337 |
| Adjusted R Square | 0.43533 |
| Standard Error | 2.50528 |
| Observations | 20 |

Source: Author Estimations

Once assembled, the regression reached the following form:

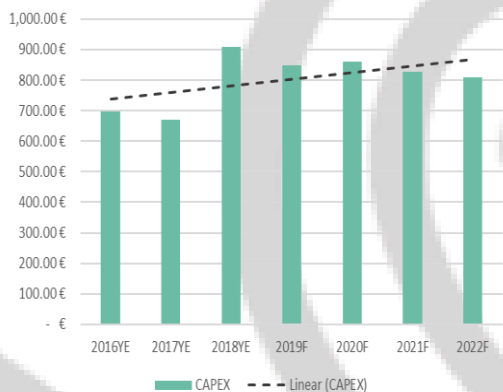
$$rev_t = \beta_1 Ind_g_t + \beta_2 Ker_g_t + \beta_3 Gdp_g_t + \beta_4 Inf_t + \beta_5 Ex_r_t + \beta_6 Tx_r_t + \beta_7 Demand_t$$

The following step was to compute the estimators in order to forecast the revenue 2019YE-2023YE, Figure 31 and Table 15, followed by all relevant tests to assure the statistical relevance and fitness of the regression to assure the validity of its results. Appendix 22.

As it seats, a revenue growth of 8.7% CAGR for the period under analysis 2016YE-2023YE, a very solid and strong growth mainly backed by steady industry progression yoy and the massification of the demand, mainly in Emerging Markets, particularly in Mainland China.

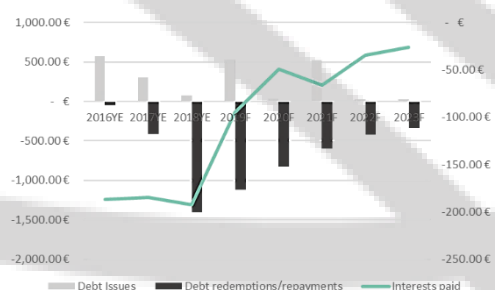
Following the revenue forecast for the Group, the same basis line will be presented and adapted for the revenue distribution per region of operation, distribution channel and main Houses, Appendix 6.

Figure 32.



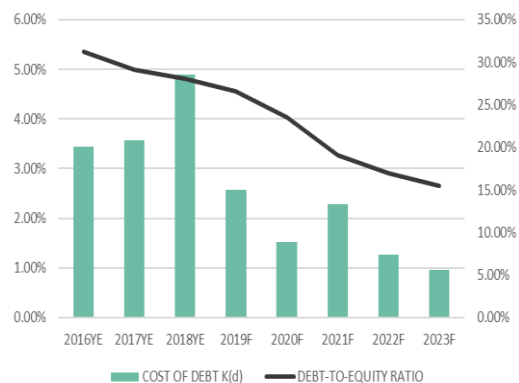
Source: Author Estimations

Figure 33.



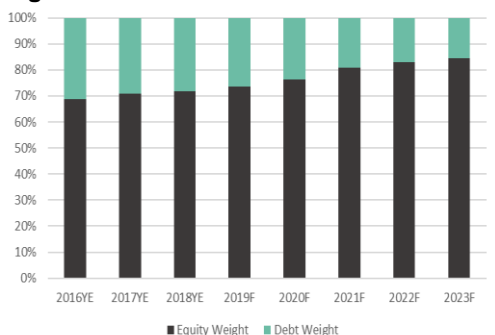
Source: Author Estimations

Figure 34.



Source: Author Estimations

Figure 35.



Source: Author Estimations

Capital Expenditures

Regarding Kering's capital expenditures (CAPEX) it is expected a steady growth of 3% CAGR, 2016-2023F. A growth that is in line with the impact of the CAPEX weight in the revenue growth, forgoing the increasing capacity of new investments.

Debt Strategy and Capital Structure

As observed in recent years, Kering has incurred in issuing bonds and underwriting small credit loans to secure operational endeavors, such as securing hedging positions to safeguard its operations and to have a secure base to invest, translating into a stable capital structure through the years.

Although the debt strategy seems to be slowly changing, as of 2018, Kering observed a significant shift in its capital structure, due to discontinued operations. Alongside that shift in capital structure, the carrying debt is due to full redemption within the forecast timeline.

With this in mind and without any note on the debt and capital structure strategy from Kering it is observed that a reshape of the capital structure is ongoing with the repayment of existing debt without incurring in new issues.

This apparent shift in strategy alongside the massive growth in operations and profit do create an issue on the forecast of the price target since this abnormal occurrence does impact massively the cost of debt.

So, for the purpose of this equity research, a new debt schedule methodology was assumed to replicate Kering's past occurrences regarding their debt strategy. Appendix 10 to 16.

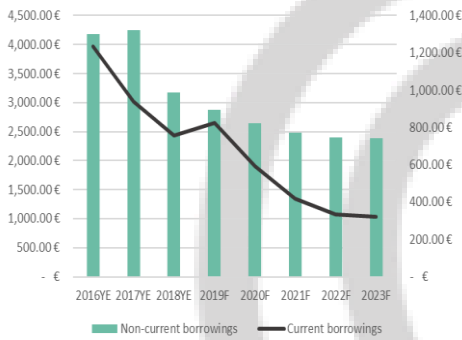
Cost of Debt

Following the assumed methodology for the new debt issue, the cost of debt, as expected decreased from 4.9% in 2018YE to a 1.71% for the terminal value, a decrease backed by the decreasing debt weight of the group. Figure 34

Cost of Equity

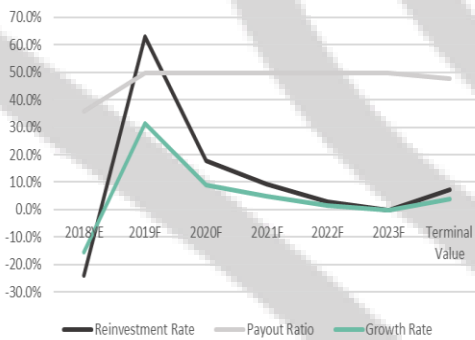
The cost of equity was computed using the capital asset pricing model (CAPM) adjusted for both the market risk premium (MRP) and the country risk premium (CRP), assuming the 10-years French Government bond rate as the risk-free basis for the computations. Regarding the volatility parameter, beta (β), was computed by setting a linear regression analysis between the 10-year daily returns of the Kering Group and the Euronext Paris as can be further explained in Appendix 21.

Figure 36.



Source: Author Estimations

Figure 37.



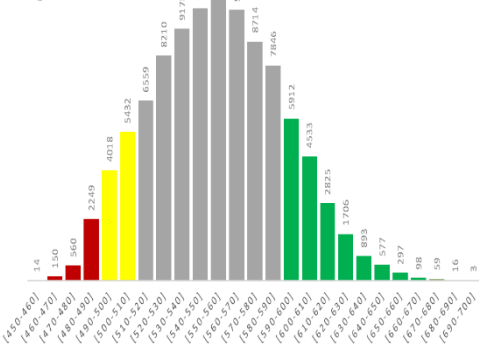
Source: Author Estimations

Table 16.

| Perpetuity WACC | |
|----------------------------|-------------|
| 10y French Government Bond | 0.6% |
| MRP | 6.7% |
| CRP | 0.7% |
| Beta Levered | 1.17 |
| Cost of Equity | 7.5% |
| Pre-Tax Cost of Debt | 1.7% |
| Corporate Tax | 0.31 |
| After-Tax Cost of Debt | 1.2% |
| Weight of Equity | 84.5% |
| Weight of Debt | 15.5% |
| Pre-Tax WACC | 6.6% |
| WACC | 6.5% |

Source: Author Estimations

Figure 38.



Source: Author Estimations

Terminal Growth Rate

A very optimistic Terminal Value growth rate of 3.81% was reached by using the Gordon's Growth Model, assuming a perpetual dividend growth rate and a constant rate of return over time. A growth rate that translates the industry strong momentum and Kering's strong competitive positioning and financial positioning. Figure 37 and Appendix 26.

WACC Methodology

A Weighted Average Cost of Capital (WACC) was estimated in two stages, setting base individual forecast values yoy for the period 2019F-2023F as can be observed in Appendix 17 and a value of 6.55% for the perpetuity. This estimation was assembled to more accurately discount the Free Cash Flow to the Firm (FCFF).

Following the methodology applied for the cost of equity with the CAPM, the WACC does include the same inputs used for the computation of the cost of equity, as can be observed in Table 16.

Discounted Cash Flow Model (DCF)

With the intention of estimating Kering's intrinsic value, the FCFF model was chosen given its bet representation to incorporate a two-stage valuation process, for both the period under analysis, 2019F.2023F and for perpetuity.

The DCF model follows a WACC approach by using a two-stage FCFF Model, discounted at an individual forecasted WACC, portraying an individual and linear growth rate yoy for 2019F-2023F and a constant growth after 2023F indexed with a WACC discount rate for perpetuity and also reflecting the current cost of equity, mitigated slightly by the Group's debt position.

Once taken all the inputs into consideration, a price target of 580.12 EUR with a 9.5% upside potential was reached, translating into a required annual cash flow growth of 7% in order to achieve such price target. Appendix 17.

Dividend Discount Model (DDM)

Given the historical behavior of the Group on the matter of redistributing dividends and given the recent event within the company, the discontinuation of the Sport & Lifestyle segment, which culminated in an abnormal distribution of the Group policy of dividend distribution, was found to be quite relevant to explore the dividend discount model to best trace an accurate valuation of the Group.

Assuming a constant payout ratio, based on historical data to establish a forecast base line for the dividends, a price target of 567.00 EUR was reached resulting into a 7.4% upside potential. (Appendix 20)

Multiple Valuation

When developing the Multiple Valuation, the peers selection was assembled according to Kering's annual report, where are identified as peers, LVMH Group, Burbury Group, Hermes International, Prada S.A and Cie Financiere Richemont.

Once collected all the peers information a EV/EBITDA ratio with a price target of 511.88 EUR was reached, translating into an downside potential of 2.6%, EV/Sales ratio showed a price target of 468.09 EUR resulting into a 12.2% downside potential and finally the P/E-ratio resulted into a price target of 766.70 EUR and a upside potential of 31.5%.

Hence, a multiple valuation was assembled based on an equally weight average of the ratios above mentioned, revealing a final price target for this valuation method of 582.22 EUR with a 9.8% upside potential. (Appendix 18)

Table 17.

| Metrics | |
|-------------|------------|
| Avg. | 564.32 EUR |
| Std. | 59.35 EUR |
| Max. | 694.09 EUR |
| Min. | 455.41 EUR |
| Probability | |
| Sell | 7.0% |
| Reduce | 20.2% |
| Hold | 66.3% |
| Buy | 6.5% |
| Strong Buy | 0.0% |
| Upside | 72.8% |
| Downside | 27.2% |

Source: Author Estimations

Risks to Price Target

Robustness Analysis

In order to assess the earnings volatility drivers some sensitivity test were made to identify the investment risks and determine their impact on the price target by evaluating each risk variable and their prompt affection in the stated investment recommendation.

Thus, the selected variables to test were the terminal growth rate (g), the discount rate (WACC), the cost of debt, the cost of equity, market risk premium (MRP), beta levered (X) and both weights of equity and debt, as can be observed in the Appendix 19.

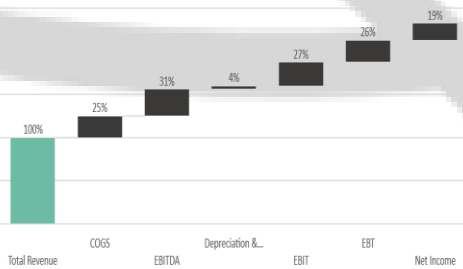
Monte Carlo Simulation

To stress the price target for the range of possible outcomes given a certain set of variables, such as terminal growth rate and perpetuity WACC a Monte Carlo Simulation was assembled. (Appendix 21).

100.000 simulations were made to the illustrate the impact of the different combination of the key variables towards the price target, were an average price target of 564.32 EUR was reached translating into a HOLD/BUY/STRONG BUY recommendation with 72.8% probability, underlining the statement of Kering's share value to be undervalued.

FINANCIAL ANALYSIS

Figure 39.



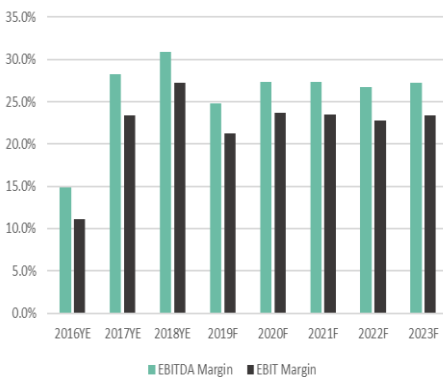
Source: Author Estimations

Financial Overview

Upon completion of the financial statement's forecast, for the period 2019F-2023F, was observed that total revenues for the implied period grew at an 8.7% CAGR followed by a 4.2% CAGR increase for the costs of goods sold, translating into a solid profitability margin, solidifying Kering's current momentum across all regions and distribution channels.

Such good and solid performance may be driven by favorable momentum of the Luxury Goods industry and by the strong spending from Asia & Pacific, where Mainland China has been catalyzing massive investments mainly due to the increasing purchasing power of their midclass.

Figure 40.



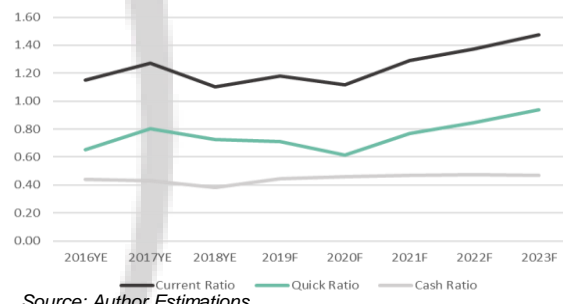
Source: Author Estimations

Profitability Upswing

Carried by the revenue expansion, Kering's net profit margin has grown steadily yoy, showcasing a robust growth in 2018YE of 65%. A remarkable performance, which obliterated Kering's biggest expansion yet.

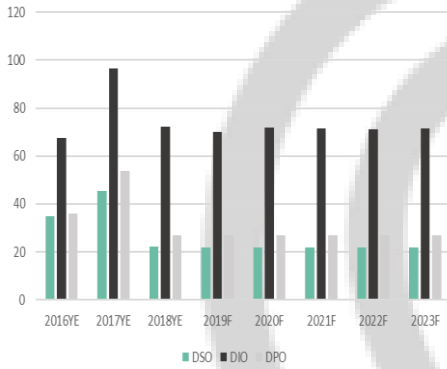
Profitability has been boosted specifically due to significant improvements in sales at Kering's main Houses, Gucci and Saint Laurent. Both represent the two most profitable brands within the Group, recording operating margins of about 40% and 26% respectively by 2018YE, such a strong performance in these two Houses translating into margin expansion for the all Group, a true statement on the true individual brand value of each house.

Figure 41.



Source: Author Estimations

Figure 42.



Source: Author Estimations

Quality Returns Means Happier Shareholders

Given the impressive forecasted returns for the period under analysis, some strong earnings per share (EPS) was to be expected with a CAGR growth of 22% between 2016YE-2023F alongside with solid EBITDA margin (upswing of 9% CAGR) and net profit margin (18% CAGR growth) despite the potential negative impact of interest rate and foreign currency shifts.

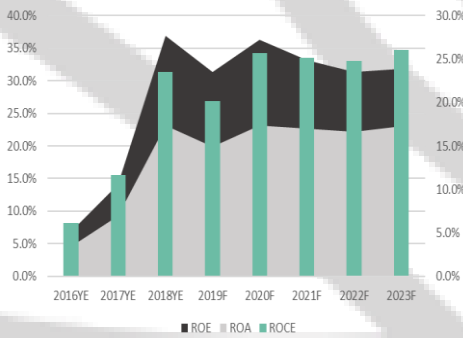
Hand in hand a great forecasted performance for Kering and wonderful news for their shareholders, as their earnings

Table 18.

| Liquidity Ratios | | Units | 2016YE | 2017YE | 2018YE | 2019F | 2020F | 2021F | 2022F | 2023F |
|--|-------|-------|--------|--------|--------|-------|-------|-------|-------|-------|
| Current Ratio | times | | 1.15 | 1.27 | 1.10 | 1.18 | 1.12 | 1.29 | 1.37 | 1.47 |
| Quick Ratio | times | | 0.65 | 0.80 | 0.73 | 0.71 | 0.61 | 0.77 | 0.84 | 0.94 |
| Cash Ratio | times | | 0.44 | 0.43 | 0.38 | 0.44 | 0.46 | 0.47 | 0.47 | 0.47 |
| Intereste Coverage Ratio | times | | 3.63 | 6.80 | 9.68 | 13.60 | 19.43 | 18.35 | 20.72 | 22.35 |
| Efficiency Ratios | | Units | 2016YE | 2017YE | 2018YE | 2019F | 2020F | 2021F | 2022F | 2023F |
| Total Assets Turnover | times | | 0.51 | 0.42 | 0.64 | 0.71 | 0.78 | 0.79 | 0.80 | 0.81 |
| Inventory Turnover | times | | 5.09 | 4.01 | 5.66 | 5.43 | 5.43 | 5.43 | 5.43 | 5.43 |
| Collection Period - DSO | days | | 35 | 45 | 22 | 22 | 22 | 22 | 22 | 22 |
| Days in Inventory - DIO | days | | 67 | 96 | 72 | 70 | 72 | 72 | 71 | 72 |
| Payables Period - DPO | days | | 36 | 54 | 27 | 27 | 27 | 27 | 27 | 27 |
| Operating Cycle | days | | 71 | 99 | 49 | 49 | 49 | 49 | 49 | 49 |
| Cash Cycle | days | | 66 | 88 | 68 | 65 | 67 | 67 | 66 | 67 |
| Assets Turnover | times | | 0.67 | 0.59 | 0.96 | 1.05 | 1.16 | 1.23 | 1.28 | 1.38 |
| Profitability Ratios | | Units | 2016YE | 2017YE | 2018YE | 2019F | 2020F | 2021F | 2022F | 2023F |
| Gross Profit Margin | % | | 62.9% | 73.2% | 74.6% | 70.2% | 72.7% | 72.5% | 71.8% | 72.3% |
| EBITDA Margin | % | | 14.9% | 28.3% | 30.9% | 24.8% | 27.3% | 27.3% | 26.8% | 27.3% |
| EBIT Margin | % | | 11.1% | 23.4% | 27.2% | 21.2% | 23.7% | 23.5% | 22.8% | 23.3% |
| Net Profit Margin | % | | 6.6% | 16.5% | 27.2% | 21.1% | 22.1% | 21.5% | 20.9% | 21.2% |
| ROA | % | | 3.4% | 7.0% | 17.4% | 14.9% | 17.3% | 17.0% | 16.6% | 17.2% |
| ROCE | % | | 6.1% | 11.6% | 23.5% | 20.2% | 25.7% | 25.1% | 24.8% | 26.1% |
| ROE | % | | 6.8% | 14.1% | 36.9% | 31.4% | 36.3% | 33.2% | 31.4% | 31.8% |
| ROIC | % | | 5.3% | 9.5% | 17.8% | 16.0% | 20.5% | 20.5% | 20.0% | 21.3% |
| EPS | times | | 0.64 | 1.41 | 2.94 | 2.55 | 3.02 | 3.22 | 3.32 | 3.73 |
| Solvency Ratios | | Units | 2016YE | 2017YE | 2018YE | 2019F | 2020F | 2021F | 2022F | 2023F |
| Short-term Debt Ratio | % | | 5.1% | 3.7% | 3.5% | 3.8% | 2.7% | 1.8% | 1.3% | 1.2% |
| Long-term Debt Ratio | % | | 17.3% | 16.6% | 14.8% | 13.3% | 12.0% | 10.4% | 9.5% | 8.7% |
| Debt to Equity Ratio | times | | 0.26 | 0.24 | 0.24 | 0.19 | 0.16 | 0.11 | 0.09 | 0.07 |
| Equity Multiplier Financial Leverage | times | | 2.02 | 2.03 | 2.12 | 2.11 | 2.09 | 1.95 | 1.89 | 1.85 |
| Debt to EBITDA | times | | 2.94 | 1.70 | 0.93 | 0.98 | 0.69 | 0.56 | 0.51 | 0.45 |

Source: Author Estimations

Figure 43.



Source: Author Estimations

DuPont Analysis

Following the forecasted line on which the equity weight is becoming more and more preminent yoy and with increasing net profit margins, decreasing equity multiplier and slight increase on total asset turnover translates into steady but solid return on equity (ROE), stabilizing after 2018 at around 31%.

Hence can be concluded that following the business policies applied by Kering, equity investment tends to continue to be a positive influence in profitability given the efficiency of the Group's operations.

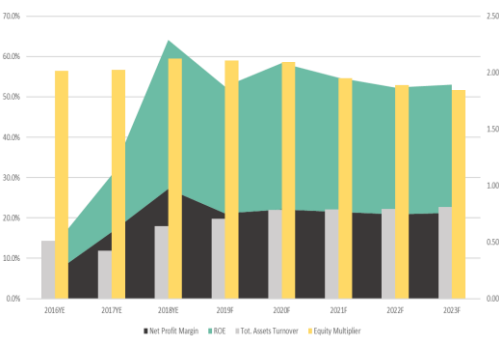
Operational Efficiency Driving the Expansion

Kering's operational efficiency in the period under analysis remained quite stable, namely in their collection period alongside with their days in inventory and payable period (Figure XX), a clear indication of a good operational management that creates the basis for the sustainable growth presented by Kering.

Cash Equals Expansion

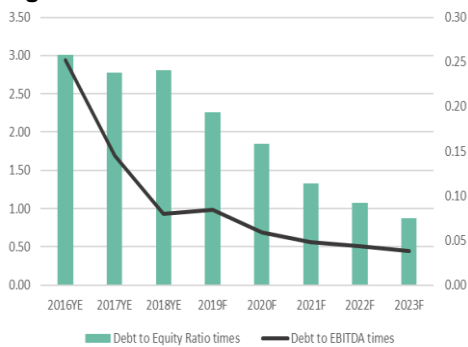
Operational efficiency has been the base for a solid financial situation which could be observed by the ability of the operational activities to generate cash to support Kering's expansion as they grew 15% CAGR, allowing this way Kering to reduce debt thereafter, highlighting their apparent debt repayment strategy while covering investing and financing activities with the operational cash flow.

Figure 44.



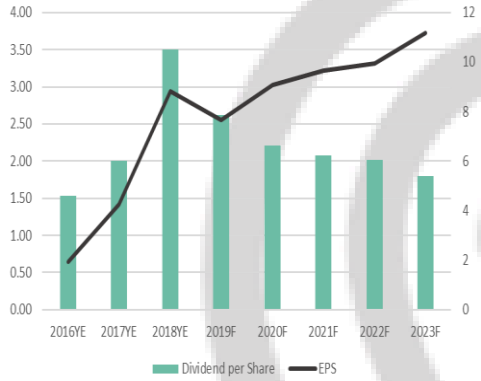
Source: Author Estimations

Figure 45.



Source: Author Estimations

Figure 46.



Source: Author Estimations

By enhancing their cash position while increasing their debt to equity ratio (D/E) shifting from 0.24x in 2018YE to 0.07x in 2023F allows Kering to meet their short-term financial obligation if required showcasing a clear liquid stability and minimal risk exposure in case of expansion through equity financing.

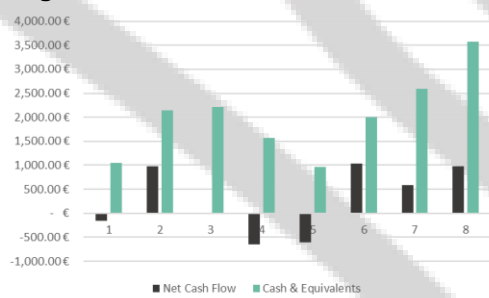
Dividend Share Policy

As of 24th April 2019, Kering’s general meeting, shareholders approved a dividend payment of 10.50 EUR per share. An abnormal event which was provoked by the need to redistribute dividends after the discontinuation of operations of the Sport & Lifestyle sector.

This abnormal event settled the payout ratio to 38% a relatively low percentage if compared with the 72% paid in 2016YE.

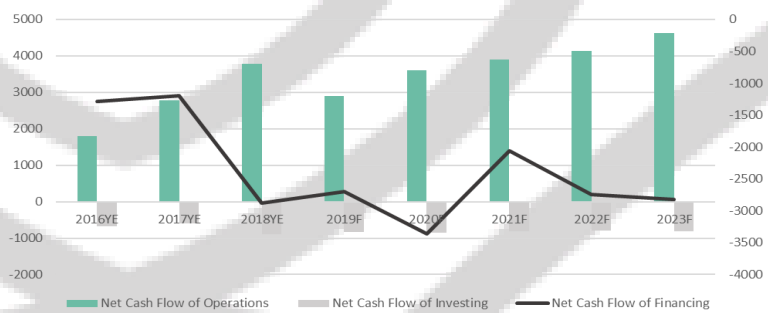
Thus, for the forecasted period it will be assumed and constant payout ratio of 50% based on the historical average, disregarding this way any further abnormal activity.

Figure 47.



Source: Author Estimations

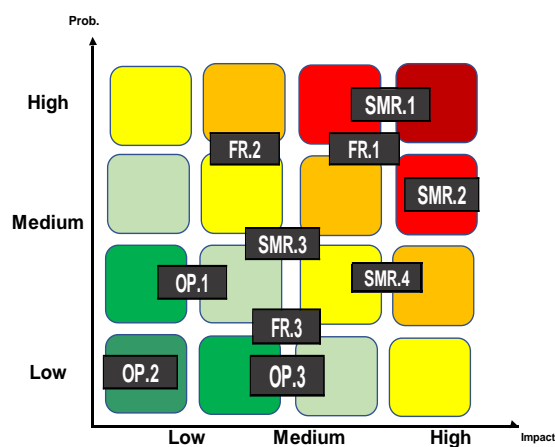
Figure 48.



Source: Author Estimations

INVESTMENT RISKS

Figure 49.



Source: Author Estimations

Strategic & Market Risks

Exposure to Equity Risk | SMR.1

Taking in account the recent business decisions of the group, namely the discontinuation of the entire Sport & Life style operations may dictate a bigger exposure to equity risk since a less diversified Group, forgoes a higher probability of being affected by some oscillations in value given any shock in the luxury good industry in the near future.

Also, within this risk exposure any transactions involving shares in consolidated companies or shares issued by the group may be considered exposed to equity risk.

Gucci, the powerhouse or the deal breaker | SMR.2

Gucci, since it’s inclusion in the Group has establish itself as the main driver for the exceptional rise of the Kering Group to the top of the luxury brand environment.

Year on year it’s growth and dominance within the industry has been in focus not only for its quality and exclusivity but also for the consistence that the brand established since early years.

By setting each trend and mastering the implementation of new waves within the market such as the great development of the online business in recent years cements Gucci’s almightiness among its peers and rivals making it the leader in growth in the industry for the past two years, according to Bloomberg Intelligence.

Such massive performance is reflected on Kering’s recent boom, where it went from a 402.80 EUR stock value in 2nd January 2019 to an astonishing 525.10 EUR in 1st July 2019, a 30% growth in line with Gucci’s massive revenue growth in Q1 and Q2, registering 20% and 16% revenue growth, respectively.

Table 19.

| Risks | Risk Mitigation |
|-------|---------------------------------------|
| SMR.1 | Derivative instruments |
| SMR.2 | M&A activity |
| SMR.3 | Market scanning |
| SMR.4 | Develop in region growth oportunities |
| FR.1 | Interest rate swaps |
| FR.2 | Forward currency contracts |
| FR.3 | Derivative instruments |
| OP.1 | Ethics and compliance |
| OP.2 | Ethics and compliance |

Source: Author Estimations

As it seats, Kering's remarkable growth is almost in its all supported by the good performance of Gucci in recent years despite the good performance of other brands within the Group, as the likes of Alexander McQueen, which reached the bn-euro valuation early this year, and both Saint Lauren and Balenciaga which increased their profits and weight within the industry following their new partnerships and success of current collections.

Arguably a solid and trustworthy position that made Gucci the industry's powerhouse and the main driver for the current strong momentum for Kering.

Although, in an event of a cooldown of the current momentum might bring an unwanted scenario for Kering, where a slowdown of Gucci's growth might become a negative giveaway to investors despite the good results presented in 2018 and followed through the first two quarters this year.

In this event, a slowdown in Gucci's aligned with other current macroeconomic events such as increasing tensions between USA and China and consequently sift of the exchange rates might induce in a plunge of Kering's valuation.

Having these two scenarios into consideration, Gucci's performance might be gaged as a barometer for Kerings performance and establishment as a powerhouse within the industry or its downfall, a scenario that should be taken seriously into consideration despite the current good momentum of both Kering and Gucci, given the current macroeconomic instability.

M&A and Competition | SMR.3

M&A activity within this industry has the power of shaping the future landscape of the competition that we observe to this day.

Being a supply driven industry with no barrier to entry, any new player at any time may become extra recognizable to the masses which may present an attractive business opportunity to any of the bigger player to acquire this new player and growth their position within the industry.

So, with such relevance to refining the competition M&A activity can become deal breaker for Kering's future.

Travel Flows | SMR.4

A big slice from the entire revenue comes foreign spending, especially from the entire US region revenue, who benefit from a great inflow of tourist spending.

Given any shift in the global geopolitical environment would throw the foreign spending into a downward trend, harming greatly Kering's revenues.

Financial Risks

Exposure to Interest Rate Risk | FR.1

As it currently seats the Groups financial positioning, particularly the borrowing, there is a significant exposure to interest rates as the macroeconomic environment is continually shifting as the looks of Brexit, and trade war between the USA and China.

To manage this exposure on its financial assets and liabilities the group underwent an hedging strategy designed to convert fixed interest rates on negotiable debt securities, fixed-rate borrowings and credit line drawdowns into floating rates and also to convert floating rate bonds into fixed rate debt.

According with Kering annual report data, on regards of the sensitivity to interest rate risk, after the hedging a sudden 50 basis-point shift in interest rates would have a gross impact of 4.8 million EUR on pre-tax consolidated net income.

Table 20.

| Interest Rate - Hedging | |
|--|-------|
| Swaps fixed rate lender | 139.9 |
| Swaps fixed rate borrower | |
| Other interest rate instruments | |

Source: Kering Data

Exposure to Foreign Exchange Risk | FR.2

In the same line of the principles behind the exposure to interest rate risk, the exposure to foreign exchange risk comes as potentially more harmful for the group as it operates worldwide.

Thus, a heavy hedging strategy is in line as a major safeguard for the group as uses forward currency contracts and/or cross currency swaps to hedge the commercial import/export risk that comes with the exposure to different foreign exchange rates. Alongside with the swap hedging strategies, the Group also implements plain vanilla option to hedge the future exposures. (Appendix 23)

Exposure to Credit Risk | FR.3

As the Group operates with a large number of customers throughout all business segments, direct sales do not expose the Group to any credit risk.

Thus, any credit taken has been mainly to assure somebody to the operation especially in wholesale since it may be more prone to dependency or concentration of operation which may incur in a slight credit risk.

Although in recent years that expected risk has been covered in such way that Kering went through a debt repayment strategy, hinting that credit risk may no longer be an issue.

Operational Risks

Quality and Reputation | OP.1

Kering and all their Houses represent a standard, a recognized brand of extreme quality and exclusivity that has been built through the years.

This image and reputation have assured Kering's success and any event that would occur would probably have massive consequences for the future of each House under Kering's banner.

Governance Risk | OP.2

Kering, since its inception in 1963 it has been a life project of François Pinault and still till this day him and his family own a great part of the Group, by individual shares and indirectly by Artémis Group, the biggest shareholder of the group which is owned by the Pinault family as well.

Such clustering in any eventuality may become an operational risk since a potential conflict may be argued to impact either one of the groups, but Kering in particular.

Unforeseeable Risks | OP.3

Unforeseeable risks as the name defines itself, are risks that sit outside the control of the Group, such as natural disasters and terrorist attacks. Any of these events may impact the business in any unforeseeable way thus it is not a risk that can be hedged in any way by the Group.

Main Drivers for an Extra Upside

As previously identified on the SWOT analysis and on investment risks analysis, there are a few scenarios that Kering could take advantage to boost even more its operations and consequently its profitability. Thus, within this point, a few of those points will be extended to provide a deeper scope on those opportunities.

Table 21.

| Foreign Currency - Hedging | |
|-----------------------------------|---------------|
| Currency forwards | 5036.4 |
| Cross currency swaps | 105.7 |
| Currency options - export tunnels | 160.7 |
| Currency options - purchases | 92.1 |
| Total Hedging | 5394.9 |

Source: Kering Data

Macroeconomic Stability

Despite Kering's brilliant and healthy financial position sometimes that is not reflected on its market value, thus the medium risk allocation for this investment recommendation.

Kering and all their competitors tend to be affected negatively the constant macroeconomic shifts, namely the Brexit and the trade war between USA and China which affects greatly the travelling spending, especially spending from Chinese nationals whom have become the main spenders of this decade.

Given this current macroeconomic environment has damaged the true growth potential for Kering, this way, in an event of an improvement/stability in the market would boost Kering to growing levels never seen before, which would translate into an improved upside potential.

M&A Activity

The luxury goods industry it's a fierce competitive market where all the players fight for an extra chunk of revenue season on season. So, given this super competitive, M&A activity would increase one's ability to outgrow their competitors while increasing their market stake.

Within this scenario, by acquiring a competitor or an emerging "hot" new brand, Kering could increase its upside potential both from increasing its market share and perhaps taking advantage of some benefits absorbed by the acquiring the other brand, for instance, by increasing the groups diversity and/or take advantage of their suppliers, technology or reputation.

Exploring Emerging Markets

Once observed the total revenue breakdown, emerging markets are outgrowing the traditional ones, such as the European market and the north American market. With this in mind, given an extra investment to grow physically and online in this markets would represent a significant basis to capture the increasing purchasing power of those markets, translating into a great opportunity to increase the upside potential.

APPENDIX

Appendix 1. Balance Sheet

| | 2016YE | 2017YE | 2018YE | 2019F | 2020F | 2021F | 2022F | 2023F |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Assets | 24,139.00 € | 25,577.40 € | 21,367.50 € | 21,595.25 € | 22,025.86 € | 23,920.03 € | 25,237.33 € | 27,341.59 € |
| Goodwill | 3,533.50 € | 3,421.20 € | 2,399.20 € | 2,058.46 € | 1,766.12 € | 1,515.29 € | 1,300.08 € | 1,115.44 € |
| Brand & other intangible assets | 11,272.70 € | 11,159.00 € | 7,393.60 € | 7,411.65 € | 7,432.03 € | 7,445.39 € | 7,454.29 € | 7,469.46 € |
| PP&E | 2,206.50 € | 2,267.60 € | 2,228.50 € | 2,767.01 € | 3,303.17 € | 3,805.90 € | 4,283.97 € | 4,773.55 € |
| Investments in equity-accounted companies | 48.30 € | 48.60 € | 1,074.70 € | 1,074.70 € | 1,074.70 € | 1,074.70 € | 1,074.70 € | 1,074.70 € |
| Non-current financial assets | 480.40 € | 364.30 € | 336.30 € | 329.17 € | 322.19 € | 315.36 € | 308.68 € | 302.13 € |
| Deferred tax assets | 927.00 € | 964.60 € | 830.10 € | 907.23 € | 1,028.30 € | 1,122.29 € | 1,194.92 € | 1,321.54 € |
| Other non-current assets | 30.40 € | 35.40 € | 34.20 € | 34.20 € | 34.20 € | 34.20 € | 34.20 € | 34.20 € |
| Non-current assets | 18,498.80 € | 18,260.70 € | 14,296.60 € | 14,582.42 € | 14,960.71 € | 15,313.13 € | 15,650.85 € | 16,091.03 € |
| Inventories | 2,432.20 € | 2,699.10 € | 2,414.70 € | 2,807.46 € | 3,182.11 € | 3,472.95 € | 3,697.73 € | 4,089.55 € |
| Trade Receivables | 1,196.40 € | 1,366.50 € | 849.50 € | 932.08 € | 1,056.47 € | 1,153.03 € | 1,227.65 € | 1,357.74 € |
| Current tax receivables | 105.60 € | 78.60 € | 90.60 € | 102.24 € | 115.88 € | 126.47 € | 134.66 € | 148.93 € |
| Other current financial assets | 131.00 € | 155.60 € | 60.90 € | 129.29 € | 146.54 € | 159.93 € | 170.28 € | 188.33 € |
| Other current assets | 725.40 € | 880.30 € | 899.50 € | 932.05 € | 1,056.43 € | 1,152.99 € | 1,227.61 € | 1,357.69 € |
| Assets held for sale | - € | - € | 539.10 € | 539.10 € | 539.10 € | 539.10 € | 539.10 € | 539.10 € |
| Cash & cash equivalents | 1,049.60 € | 2,136.60 € | 2,216.60 € | 1,570.62 € | 968.62 € | 2,002.43 € | 2,589.45 € | 3,569.23 € |
| Current assets | 5,640.20 € | 7,316.70 € | 7,070.90 € | 7,012.83 € | 7,065.15 € | 8,606.90 € | 9,586.48 € | 11,250.56 € |
| Equity | 11,963.90 € | 12,626.40 € | 10,061.60 € | 10,254.06 € | 10,523.60 € | 12,255.70 € | 13,339.64 € | 14,793.98 € |
| Non-controlling assets | 694.20 € | 678.20 € | 155.70 € | 155.70 € | 155.70 € | 155.70 € | 155.70 € | 155.70 € |
| Equity attributed to owners of the parent | 11,269.70 € | 11,948.20 € | 9,905.90 € | 10,098.36 € | 10,367.90 € | 12,100.00 € | 13,183.94 € | 14,638.28 € |
| Share capital | 505.20 € | 505.20 € | 505.20 € | 505.20 € | 505.20 € | 505.20 € | 505.20 € | 505.20 € |
| Capital reserves | 2,428.30 € | 2,428.30 € | 2,428.30 € | 2,428.30 € | 2,428.30 € | 2,428.30 € | 2,428.30 € | 2,428.30 € |
| Treasury shares | - € | - € | 168.30 € | 168.30 € | 168.30 € | 168.30 € | 168.30 € | 168.30 € |
| Translation adjustments | 87.80 € | 131.70 € | 206.70 € | 230.71 € | 261.49 € | 285.39 € | 303.86 € | 336.06 € |
| Remunerations of financial instruments | 16.80 € | 76.00 € | 97.80 € | 97.80 € | 97.80 € | 97.80 € | 97.80 € | 97.80 € |
| Other reserves | 8,231.60 € | 9,070.40 € | 7,445.20 € | 7,661.67 € | 7,961.99 € | 9,717.99 € | 10,820.40 € | 12,306.94 € |
| Liabilities | 12,175.10 € | 12,951.00 € | 11,305.90 € | 11,341.19 € | 11,502.26 € | 11,664.33 € | 11,897.69 € | 12,547.61 € |
| Non-current borrowings | 4,185.80 € | 4,245.50 € | 3,171.60 € | 2,881.39 € | 2,650.08 € | 2,476.97 € | 2,392.79 € | 2,380.65 € |
| Other non-current financial liabilities | 19.60 € | 0.70 € | 3.00 € | 3.00 € | 3.00 € | 3.00 € | 3.00 € | 3.00 € |
| Provisions for pensions and other post-employment benefits | 142.60 € | 125.70 € | 88.00 € | 88.00 € | 88.00 € | 88.00 € | 88.00 € | 88.00 € |
| Other non-current provisions | 74.00 € | 55.50 € | 14.20 € | 14.20 € | 14.20 € | 14.20 € | 14.20 € | 14.20 € |
| Deferred tax liabilities | 2,854.50 € | 2,712.20 € | 1,578.60 € | 2,381.77 € | 2,381.77 € | 2,381.77 € | 2,381.77 € | 2,381.77 € |
| Other non-current liabilities | - € | 48.80 € | 40.00 € | 40.00 € | 40.00 € | 40.00 € | 40.00 € | 40.00 € |
| Non-current liabilities | 7,276.50 € | 7,188.40 € | 4,895.40 € | 5,408.36 € | 5,177.05 € | 5,003.94 € | 4,919.75 € | 4,907.62 € |
| Current borrowings | 1,234.50 € | 939.70 € | 756.40 € | 824.21 € | 592.89 € | 419.79 € | 335.60 € | 323.46 € |
| Other current financial liabilities | 285.90 € | 367.60 € | 553.20 € | 448.95 € | 508.86 € | 555.37 € | 591.31 € | 653.97 € |
| Trade payables | 1,098.50 € | 1,240.70 € | 745.80 € | 900.97 € | 989.47 € | 1,082.29 € | 1,162.94 € | 1,277.41 € |
| Provisions for pensions and other post-employment benefits | 8.20 € | 10.70 € | 8.60 € | 8.60 € | 8.60 € | 8.60 € | 8.60 € | 8.60 € |
| Other current provisions | 143.70 € | 182.40 € | 255.70 € | 193.93 € | 219.81 € | 239.90 € | 255.43 € | 282.50 € |
| Current tax liabilities | 398.50 € | 815.40 € | 1,303.30 € | 936.51 € | 1,061.49 € | 1,158.51 € | 1,233.49 € | 1,364.19 € |
| Other current liabilities | 1,729.30 € | 2,206.10 € | 2,598.90 € | 2,431.06 € | 2,755.48 € | 3,007.33 € | 3,201.97 € | 3,541.26 € |
| Liabilities associated with assets held for sale | - € | - € | 188.60 € | 188.60 € | 188.60 € | 188.60 € | 188.60 € | 188.60 € |
| Current liabilities | 4,898.60 € | 5,762.60 € | 6,410.50 € | 5,932.83 € | 6,325.22 € | 6,660.39 € | 6,977.94 € | 7,640.00 € |
| Total Equity and Liabilities | 24,139.00 € | 25,577.40 € | 21,367.50 € | 21,595.25 € | 22,025.86 € | 23,920.03 € | 25,237.33 € | 27,341.59 € |

Source: Author Estimations

Appendix 2. Balance Sheet Common Size % Total Assets

| | 2016YE | 2017YE | 2018YE | 2019F | 2020F | 2021F | 2022F | 2023F |
|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Assets | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| Goodwill | 14.6% | 13.4% | 11.2% | 9.5% | 8.0% | 6.3% | 5.2% | 4.1% |
| Brand & other intangible assets | 46.7% | 43.6% | 34.6% | 34.3% | 33.7% | 31.1% | 29.5% | 27.3% |
| PP&E | 9.1% | 8.9% | 10.4% | 12.8% | 15.0% | 15.9% | 17.0% | 17.5% |
| Investments in equity-accounted companies | 0.2% | 0.2% | 5.0% | 5.0% | 4.9% | 4.5% | 4.3% | 3.9% |
| Non-current financial assets | 2.0% | 1.4% | 1.6% | 1.5% | 1.5% | 1.3% | 1.2% | 1.1% |
| Deferred tax assets | 3.8% | 3.8% | 3.9% | 4.2% | 4.7% | 4.7% | 4.7% | 4.8% |
| Other non-current assets | 0.1% | 0.1% | 0.2% | 0.2% | 0.2% | 0.1% | 0.1% | 0.1% |
| Non-current assets | 76.6% | 71.4% | 66.9% | 67.5% | 67.9% | 64.0% | 62.0% | 58.9% |
| Inventories | 10.1% | 10.6% | 11.3% | 13.0% | 14.4% | 14.5% | 14.7% | 15.0% |
| Trade Receivables | 5.0% | 5.3% | 4.0% | 4.3% | 4.8% | 4.8% | 4.9% | 5.0% |
| Current tax receivables | 0.4% | 0.3% | 0.4% | 0.5% | 0.5% | 0.5% | 0.5% | 0.5% |
| Other current financial assets | 0.5% | 0.6% | 0.3% | 0.6% | 0.7% | 0.7% | 0.7% | 0.7% |
| Other current assets | 3.0% | 3.4% | 4.2% | 4.3% | 4.8% | 4.8% | 4.9% | 5.0% |
| Assets held for sale | 0.0% | 0.0% | 2.5% | 2.5% | 2.4% | 2.3% | 2.1% | 2.0% |
| Cash & cash equivalents | 4.3% | 8.4% | 10.4% | 7.3% | 4.4% | 8.4% | 10.3% | 13.1% |
| Current assets | 23.4% | 28.6% | 33.1% | 32.5% | 32.1% | 36.0% | 38.0% | 41.1% |
| Equity | 49.6% | 49.4% | 47.1% | 47.5% | 47.8% | 51.2% | 52.9% | 54.1% |
| Non-controlling assets | 2.9% | 2.7% | 0.7% | 0.7% | 0.7% | 0.7% | 0.6% | 0.6% |
| Equity attributed to owners of the parent | 46.7% | 46.7% | 46.4% | 46.8% | 47.1% | 50.6% | 52.2% | 53.5% |
| Share capital | 2.1% | 2.0% | 2.4% | 2.3% | 2.3% | 2.1% | 2.0% | 1.8% |
| Capital reserves | 10.1% | 9.5% | 11.4% | 11.2% | 11.0% | 10.2% | 9.6% | 8.9% |
| Treasury shares | 0.0% | 0.0% | -0.8% | -0.8% | -0.8% | -0.7% | -0.7% | -0.6% |
| Translation adjustments | 0.4% | -0.5% | -1.0% | -1.1% | -1.2% | -1.2% | -1.2% | -1.2% |
| Remunerations of financial instruments | 0.1% | 0.3% | -0.5% | -0.5% | -0.4% | -0.4% | -0.4% | -0.4% |
| Other reserves | 34.1% | 35.5% | 34.8% | 35.5% | 36.1% | 40.6% | 42.9% | 45.0% |
| Liabilities | 50.4% | 50.6% | 52.9% | 52.5% | 52.2% | 48.8% | 47.1% | 45.9% |
| Non-current borrowings | 17.3% | 16.6% | 14.8% | 13.3% | 12.0% | 10.4% | 9.5% | 8.7% |
| Other non-current financial liabilities | 0.1% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Provisions for pensions and other post-employment benefits | 0.6% | 0.5% | 0.4% | 0.4% | 0.4% | 0.4% | 0.3% | 0.3% |
| Other non-current provisions | 0.3% | 0.2% | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% |
| Deferred tax liabilities | 11.8% | 10.6% | 7.4% | 11.0% | 10.8% | 10.0% | 9.4% | 8.7% |
| Other non-current liabilities | 0.0% | 0.2% | 0.2% | 0.2% | 0.2% | 0.2% | 0.2% | 0.1% |
| Non-current liabilities | 30.1% | 28.1% | 22.9% | 25.0% | 23.5% | 20.9% | 19.5% | 17.9% |
| Current borrowings | 5.1% | 3.7% | 3.5% | 3.8% | 2.7% | 1.8% | 1.3% | 1.2% |
| Other current financial liabilities | 1.2% | 1.4% | 2.6% | 2.1% | 2.3% | 2.3% | 2.3% | 2.4% |
| Trade payables | 4.6% | 4.9% | 3.5% | 4.2% | 4.5% | 4.5% | 4.6% | 4.7% |
| Provisions for pensions and other post-employment benefits | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Other current provisions | 0.6% | 0.7% | 1.2% | 0.9% | 1.0% | 1.0% | 1.0% | 1.0% |
| Current tax liabilities | 1.7% | 3.2% | 6.1% | 4.3% | 4.8% | 4.8% | 4.9% | 5.0% |
| Other current liabilities | 7.2% | 8.6% | 12.2% | 11.3% | 12.5% | 12.6% | 12.7% | 13.0% |
| Liabilities associated with assets held for sale | 0.0% | 0.0% | 0.9% | 0.9% | 0.9% | 0.8% | 0.7% | 0.7% |
| Current liabilities | 20.3% | 22.5% | 30.0% | 27.5% | 28.7% | 27.8% | 27.6% | 27.9% |
| Total Equity and Liabilities | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

Source: Author Estimations

Appendix 3. Income Statement

| | 2016YE | 2017YE | 2018YE | 2019F | 2020F | 2021F | 2022F | 2023F |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Total Revenues | 12,384.90 € | 10,815.90 € | 13,665.20 € | 15,252.24 € | 17,287.65 € | 18,867.72 € | 20,088.86 € | 22,217.53 € |
| Western Europe | 3,885.90 € | 3,625.00 € | 4,471.50 € | 4,880.72 € | 5,186.30 € | 5,094.28 € | 5,022.22 € | 5,332.21 € |
| North America | 2,740.50 € | 2,050.50 € | 2,704.70 € | 2,923.64 € | 3,209.31 € | 3,392.21 € | 3,497.88 € | 3,746.55 € |
| Japan | 1,226.30 € | 961.30 € | 1,157.50 € | 1,207.51 € | 1,279.22 € | 1,304.91 € | 1,298.58 € | 1,342.34 € |
| Sub-Total - Mature Markets | 7,852.70 € | 6,636.80 € | 8,333.70 € | 9,011.87 € | 9,674.83 € | 9,791.40 € | 9,818.67 € | 10,421.09 € |
| Eastern Europe, Middle East and Africa | 814.30 € | 624.50 € | 725.10 € | 915.13 € | 1,037.26 € | 1,132.06 € | 1,205.33 € | 1,333.05 € |
| South America | 514.30 € | 147.10 € | 186.10 € | 152.52 € | 172.88 € | 188.68 € | 200.89 € | 222.18 € |
| Asia Pacific (excluding Japan) | 3,203.60 € | 3,407.50 € | 4,420.30 € | 5,185.76 € | 6,396.43 € | 7,735.77 € | 8,839.10 € | 10,220.06 € |
| Sub-Total - Emerging Markets | 4,532.20 € | 4,179.10 € | 5,331.50 € | 6,253.42 € | 7,606.57 € | 9,056.51 € | 10,245.32 € | 11,775.29 € |
| Cost of Goods Sold | 4,595.30 € | 2,899.80 € | 3,467.00 € | 4,539.35 € | 4,722.03 € | 5,185.31 € | 5,662.30 € | 6,145.60 € |
| Gross Margin | 7,789.60 € | 7,916.10 € | 10,198.20 € | 10,712.89 € | 12,565.62 € | 13,682.41 € | 14,426.56 € | 16,071.92 € |
| Salaries, Wages and Employee Benefits | 1,983.70 € | 1,797.80 € | 2,080.40 € | 2,440.36 € | 2,766.02 € | 3,018.84 € | 3,214.22 € | 3,554.80 € |
| Other Non-recurring Charges | 506.00 € | 164.20 € | 222.40 € | 305.04 € | 345.75 € | 377.35 € | 401.78 € | 444.35 € |
| Other Recurring Op. Income and Expenses | 3,919.70 € | 3,427.60 € | 4,174.00 € | 4,728.20 € | 5,359.17 € | 5,848.99 € | 6,227.55 € | 6,887.43 € |
| EBITDA | 1,846.10 € | 3,056.80 € | 4,224.40 € | 3,781.61 € | 4,725.39 € | 5,150.76 € | 5,375.27 € | 6,058.26 € |
| Depreciation & Amortization | 465.90 € | 530.30 € | 503.00 € | 542.32 € | 630.72 € | 713.54 € | 792.25 € | 872.93 € |
| Operating Income EBIT | 1,380.20 € | 2,526.50 € | 3,721.40 € | 3,239.29 € | 4,094.67 € | 4,437.23 € | 4,583.02 € | 5,185.33 € |
| Total Financial Net Cost | 201.80 € | 220.20 € | 207.30 € | 83.00 € | 62.12 € | 101.03 € | 57.73 € | 49.60 € |
| Income Before Income Taxes EBT | 1,178.40 € | 2,306.30 € | 3,514.10 € | 3,156.29 € | 4,032.56 € | 4,336.20 € | 4,525.29 € | 5,135.73 € |
| Income Tax Expense | 296.10 € | 550.80 € | 867.70 € | 978.45 € | 1,250.09 € | 1,300.86 € | 1,357.59 € | 1,438.00 € |
| Share in Earnings of Equity-Accounted Companies | 2.20 € | 3.60 € | 11.90 € | 11.90 € | 11.90 € | 11.90 € | 11.90 € | 11.90 € |
| Net Income From Continuing Operations | 880.10 € | 1,751.90 € | 2,658.30 € | 2,189.74 € | 2,794.36 € | 3,047.24 € | 3,179.60 € | 3,709.63 € |
| Net Income From Discontinued Operations | 11.60 € | 113.20 € | 1,095.20 € | 1,095.20 € | 1,095.20 € | 1,095.20 € | 1,095.20 € | 1,095.20 € |
| Net Income Before Minority | 868.50 € | 1,865.10 € | 3,753.50 € | 3,284.94 € | 3,889.56 € | 4,142.44 € | 4,274.80 € | 4,804.83 € |
| Minority/Non Controlling Interest | 55.00 € | 79.50 € | 38.60 € | 64.40 € | 73.00 € | 79.67 € | 84.82 € | 93.81 € |
| Net Income | 813.50 € | 1,785.60 € | 3,714.90 € | 3,220.54 € | 3,816.57 € | 4,062.77 € | 4,189.98 € | 4,711.01 € |
| Dividends Per Share | 4.60 € | 6.00 € | 10.50 € | 7.87 € | 6.64 € | 6.24 € | 6.05 € | 5.38 € |
| Basic EPS | 6.46 € | 14.17 € | 29.49 € | 25.58 € | 30.31 € | 32.27 € | 33.28 € | 37.42 € |
| Diluted EPS | 6.46 € | 14.17 € | 29.49 € | 25.58 € | 30.31 € | 32.27 € | 33.28 € | 37.42 € |
| Adjusted EPS | 10.17 € | 14.97 € | 22.36 € | 26.09 € | 30.89 € | 32.90 € | 33.95 € | 38.16 € |

Source: Author Estimations

Appendix 4. Income Statement Common Size % Total Rev.

| | 2016YE | 2017YE | 2018YE | 2019F | 2020F | 2021F | 2022F | 2023F |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Total Revenues | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| Western Europe | 31.4% | 33.5% | 32.7% | 32.0% | 30.0% | 27.0% | 25.0% | 24.0% |
| North America | 22.1% | 19.0% | 19.8% | 19.2% | 18.6% | 18.0% | 17.4% | 16.9% |
| Japan | 9.9% | 8.9% | 8.5% | 7.9% | 7.4% | 6.9% | 6.5% | 6.0% |
| Sub-Total - Mature Markets | 63.4% | 61.4% | 61.0% | 59.1% | 56.0% | 51.9% | 48.9% | 46.9% |
| Eastern Europe, Middle East and Africa | 6.6% | 5.8% | 5.3% | 6.0% | 6.0% | 6.0% | 6.0% | 6.0% |
| South America | 4.2% | 1.4% | 1.4% | 1.0% | 1.0% | 1.0% | 1.0% | 1.0% |
| Asia Pacific (excluding Japan) | 25.9% | 31.5% | 32.3% | 34.0% | 37.0% | 41.0% | 44.0% | 46.0% |
| Sub-Total - Emerging Markets | 36.6% | 38.6% | 39.0% | 41.0% | 44.0% | 48.0% | 51.0% | 53.0% |
| Cost of Goods Sold | 37.1% | 26.8% | 25.4% | 29.8% | 27.3% | 27.5% | 28.2% | 27.7% |
| Gross Margin | 62.9% | 73.2% | 74.6% | 70.2% | 72.7% | 72.5% | 71.8% | 72.3% |
| Salaries, Wages and Employee Benefits | 16.0% | 16.6% | 15.2% | 16.0% | 16.0% | 16.0% | 16.0% | 16.0% |
| Other Non-recurring Charges | 4.1% | 1.5% | 1.6% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% |
| Other Recurring Op. Income and Expenses | 31.6% | 31.7% | 30.5% | 31.0% | 31.0% | 31.0% | 31.0% | 31.0% |
| EBITDA | 14.9% | 28.3% | 30.9% | 24.8% | 27.3% | 27.3% | 26.8% | 27.3% |
| Depreciation & Amortization | 3.8% | 4.9% | 3.7% | 3.6% | 3.6% | 3.8% | 3.9% | 3.9% |
| Operating Income EBIT | 11.1% | 23.4% | 27.2% | 21.2% | 23.7% | 23.5% | 22.8% | 23.3% |
| Total Financial Net Cost | 1.6% | 2.0% | 1.5% | 0.5% | 0.4% | 0.5% | 0.3% | 0.2% |
| Income Before Income Taxes EBT | 9.5% | 21.3% | 25.7% | 20.7% | 23.3% | 23.0% | 22.5% | 23.1% |
| Income Tax Expense | 2.4% | 5.1% | 6.3% | 6.4% | 7.2% | 6.9% | 6.8% | 6.5% |
| Share in Earnings of Equity-Accounted Companies | 0.0% | 0.0% | -0.1% | -0.1% | -0.1% | -0.1% | -0.1% | -0.1% |
| Net Income From Continuing Operations | 7.1% | 16.2% | 19.5% | 14.4% | 16.2% | 16.1% | 15.8% | 16.7% |
| Net Income From Discontinued Operations | 0.1% | -1.0% | -8.0% | -7.2% | -6.3% | -5.8% | -5.5% | -4.9% |
| Net Income Before Minority | 7.0% | 17.2% | 27.5% | 21.5% | 22.5% | 22.0% | 21.3% | 21.6% |
| Minority/Non Controlling Interest | 0.4% | 0.7% | 0.3% | 0.4% | 0.4% | 0.4% | 0.4% | 0.4% |
| Net Income | 6.6% | 16.5% | 27.2% | 21.1% | 22.1% | 21.5% | 20.9% | 21.2% |

Source: Author Estimations

Appendix 5. Revenue Growth per Region

| | 2016YE | 2017YE | 2018YE | 2019F | 2020F | 2021F | 2022F | 2023F |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Total Revenues | 12,384.90 € | 10,815.90 € | 13,665.20 € | 15,252.24 € | 17,287.65 € | 18,867.72 € | 20,088.86 € | 22,217.53 € |
| Western Europe | 3,885.90 € | 3,625.00 € | 4,471.50 € | 4,880.72 € | 5,186.30 € | 5,094.28 € | 5,022.22 € | 5,332.21 € |
| North America | 2,740.50 € | 2,050.50 € | 2,704.70 € | 2,923.64 € | 3,209.31 € | 3,392.21 € | 3,497.88 € | 3,746.55 € |
| Japan | 1,226.30 € | 961.30 € | 1,157.50 € | 1,207.61 € | 1,279.22 € | 1,304.91 € | 1,298.58 € | 1,342.34 € |
| Sub-Total - Mature Markets | 7,852.70 € | 6,636.80 € | 8,333.70 € | 9,011.87 € | 9,674.83 € | 9,791.40 € | 9,818.67 € | 10,421.09 € |
| Eastern Europe, Middle East and Africa | 814.30 € | 624.50 € | 725.10 € | 915.13 € | 1,037.26 € | 1,132.06 € | 1,205.33 € | 1,333.05 € |
| South America | 514.30 € | 147.10 € | 186.10 € | 152.52 € | 172.88 € | 188.68 € | 200.89 € | 222.18 € |
| Asia Pacific (excluding Japan) | 3,203.60 € | 3,407.50 € | 4,420.30 € | 5,185.76 € | 6,396.43 € | 7,735.77 € | 8,839.10 € | 10,220.06 € |
| Sub-Total - Emerging Markets | 4,532.20 € | 4,179.10 € | 5,331.50 € | 6,253.42 € | 7,606.57 € | 9,056.51 € | 10,245.32 € | 11,775.29 € |

| | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Total Revenues | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| Western Europe | 31% | 34% | 33% | 32% | 30% | 27% | 25% | 24% |
| North America | 22% | 19% | 20% | 19% | 19% | 18% | 17% | 17% |
| Japan | 10% | 9% | 8% | 8% | 7% | 7% | 6% | 6% |
| Sub-Total - Mature Markets | 63% | 61% | 61% | 59% | 56% | 52% | 49% | 47% |
| Eastern Europe, Middle East and Africa | 7% | 6% | 5% | 6% | 6% | 6% | 6% | 6% |
| South America | 4% | 1% | 1% | 1% | 1% | 1% | 1% | 1% |
| Asia Pacific (excluding Japan) | 26% | 32% | 32% | 34% | 37% | 41% | 44% | 46% |
| Sub-Total - Emerging Markets | 37% | 39% | 39% | 41% | 44% | 48% | 51% | 53% |

Source: Author Estimations

Appendix 6. Revenue Growth per House

| Revenue by Brand | 2017YE | 2018YE | 2019F | 2020F | 2021F | 2022F | 2023F |
|---------------------------------------|-------------------|-------------------|-------------------|--------------------|--------------------|--------------------|--------------------|
| Gucci | 6,211.20 € | 8,284.90 € | 9,608.91 € | 11,236.97 € | 12,452.70 € | 13,660.43 € | 15,552.27 € |
| <i>In Stores Sales</i> | 5,279.52 € | 7,042.17 € | 8,167.58 € | 9,214.32 € | 9,962.16 € | 10,655.13 € | 11,664.20 € |
| <i>Wholesale & Other Channels</i> | 931.68 € | 1,242.74 € | 1,441.34 € | 2,022.66 € | 2,490.54 € | 3,005.29 € | 3,888.07 € |
| Saint Laurent | 1,501.40 € | 1,743.50 € | 2,135.31 € | 2,420.27 € | 2,452.80 € | 2,611.55 € | 2,666.10 € |
| <i>In Stores Sales</i> | 1,035.97 € | 1,185.58 € | 1,387.95 € | 1,573.18 € | 1,545.27 € | 1,566.93 € | 1,546.34 € |
| <i>Wholesale & Other Channels</i> | 465.43 € | 557.92 € | 672.62 € | 768.44 € | 775.70 € | 827.54 € | 843.99 € |
| Bottega Veneta | 1,176.30 € | 1,109.40 € | 1,220.18 € | 1,210.14 € | 1,320.74 € | 1,406.22 € | 1,333.05 € |
| <i>In Stores Sales</i> | 976.33 € | 909.71 € | 1,000.55 € | 992.31 € | 1,056.59 € | 1,124.98 € | 1,039.78 € |
| <i>Wholesale & Other Channels</i> | 199.97 € | 199.69 € | 219.63 € | 217.82 € | 264.15 € | 281.24 € | 293.27 € |
| Other Houses | 1,927.00 € | 2,527.40 € | 2,287.84 € | 2,420.27 € | 2,641.48 € | 2,410.66 € | 2,666.10 € |
| <i>In Stores Sales</i> | 982.77 € | 1,288.97 € | 1,166.80 € | 1,234.34 € | 1,347.16 € | 1,229.44 € | 1,359.71 € |
| <i>Wholesale & Other Channels</i> | 944.23 € | 1,238.43 € | 1,121.04 € | 1,185.93 € | 1,294.33 € | 1,181.23 € | 1,306.39 € |

| Revenue per Brand | 2017YE | 2018YE | 2019F | 2020F | 2021F | 2022F | 2023F |
|---------------------------------------|------------|------------|------------|------------|------------|------------|------------|
| Gucci | 57% | 61% | 63% | 65% | 66% | 68% | 70% |
| <i>In Stores Sales</i> | 85% | 85% | 85% | 82% | 80% | 78% | 75% |
| <i>Wholesale & Other Channels</i> | 15% | 15% | 15% | 18% | 20% | 22% | 25% |
| Saint Laurent | 14% | 13% | 14% | 14% | 13% | 13% | 12% |
| <i>In Stores Sales</i> | 69% | 68% | 65% | 65% | 63% | 60% | 58% |
| <i>Wholesale & Other Channels</i> | 31% | 32% | 32% | 32% | 32% | 32% | 32% |
| Bottega Veneta | 11% | 8% | 8% | 7% | 7% | 7% | 6% |
| <i>In Stores Sales</i> | 83% | 82% | 82% | 82% | 80% | 80% | 78% |
| <i>Wholesale & Other Channels</i> | 17% | 18% | 18% | 18% | 20% | 20% | 22% |
| Other Houses | 18% | 18% | 15% | 14% | 14% | 12% | 12% |
| <i>In Stores Sales</i> | 51% | 51% | 51% | 51% | 51% | 51% | 51% |
| <i>Wholesale & Other Channels</i> | 49% | 49% | 49% | 49% | 49% | 49% | 49% |

Source: Author Estimations

Appendix 7. Distribution Channels

| Kering Distribution Channels | 2017YE | 2018YE | 2019F | 2020F | 2021F | 2022F | 2023F |
|---------------------------------------|--------|--------|-------|-------|-------|-------|-------|
| <i>In Stores Sales</i> | 75% | 77% | 76% | 74% | 73% | 71% | 70% |
| <i>Wholesale & Other Channels</i> | 25% | 23% | 24% | 26% | 27% | 29% | 30% |

Source: Author Estimations

Appendix 8. Cash Flow Statement

| | 2016YE | 2017YE | 2018YE | 2019F | 2020F | 2021F | 2022F | 2023F |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Cash From Operating Activities CFO | | | | | | | | |
| Net Income From Continuing Operations | 880.10 € | 1,751.90 € | 2,658.30 € | 1,968.23 € | 2,230.89 € | 2,434.80 € | 2,592.38 € | 2,867.07 € |
| Depreciation And Amortization - CF | 432.10 € | 432.10 € | 491.90 € | 373.96 € | 423.87 € | 462.61 € | 492.55 € | 544.74 € |
| Other non-cash Income and Expenses | 295.00 € | 10.30 € | - 6.60 € | - 6.60 € | - 6.60 € | - 6.60 € | - 6.60 € | - 6.60 € |
| Net Change In Working Capital Requirement | - 84.40 € | - 35.80 € | - 51.60 € | - 51.60 € | - 51.60 € | - 51.60 € | - 51.60 € | - 51.60 € |
| Income Tax Paid | - 295.50 € | - 316.00 € | - 562.00 € | - 478.49 € | - 354.28 € | - 401.56 € | - 438.26 € | - 466.63 € |
| Current Tax Expense | 386.10 € | 749.40 € | 1,062.40 € | 946.89 € | 1,209.77 € | 1,300.86 € | 1,357.59 € | 1,540.72 € |
| Interest Paid/Received | 179.30 € | 181.40 € | 186.60 € | 137.78 € | 156.16 € | 170.44 € | 181.47 € | 200.70 € |
| Dividends Received | - 0.70 € | - 0.20 € | - 1.00 € | - 1.00 € | - 1.00 € | - 1.00 € | - 1.00 € | - 1.00 € |
| Net Cash Flows From Operations | 1,791.90 € | 2,773.10 € | 3,778.00 € | 2,889.17 € | 3,607.21 € | 3,907.94 € | 4,126.52 € | 4,627.40 € |
| Cash From Investing Activities CFI | | | | | | | | |
| Purchases of Investments | - 87.40 € | - 65.10 € | - 80.30 € | - 86.61 € | - 87.96 € | - 84.69 € | - 82.62 € | - 85.82 € |
| Purchase of PP&E and Intangibles | - 611.00 € | - 605.20 € | - 828.00 € | - 760.54 € | - 772.33 € | - 743.68 € | - 725.50 € | - 753.60 € |
| Interest And Dividends Received | 14.00 € | 5.20 € | 5.40 € | 5.40 € | 5.40 € | 5.40 € | 5.40 € | 5.40 € |
| Proceeds From Sale of Fixed & Intangible Asset | 8.50 € | 37.60 € | 5.20 € | 5.20 € | 5.20 € | 5.20 € | 5.20 € | 5.20 € |
| Payment of Acquisition of Subsidiary | - 10.20 € | 1.60 € | - 15.80 € | - 15.80 € | - 15.80 € | - 15.80 € | - 15.80 € | - 15.80 € |
| Proceeds From Sale of Other Financial Assets | 16.40 € | 31.80 € | 21.90 € | 21.90 € | 21.90 € | 21.90 € | 21.90 € | 21.90 € |
| Net Cash Flows From Investing | - 669.40 € | - 594.10 € | - 891.60 € | - 830.45 € | - 843.59 € | - 811.67 € | - 791.42 € | - 822.73 € |
| Cash from Financing Activities CFF | | | | | | | | |
| Dividends Paid | - 504.90 € | - 580.90 € | - 757.60 € | - 1,605.23 € | - 1,902.31 € | - 2,025.03 € | - 2,088.43 € | - 2,348.13 € |
| Dividends Paid to non-controlling interests | - 36.50 € | - 16.40 € | - 22.80 € | - 44.20 € | - 44.20 € | - 44.20 € | - 44.20 € | - 44.20 € |
| Other Financing Activities | 0.20 € | 27.80 € | 2.70 € | 2.70 € | 2.70 € | 2.70 € | 2.70 € | 2.70 € |
| Treasury Shares Transactions | 0.50 € | 0.20 € | - 167.90 € | - 167.90 € | - 167.90 € | - 167.90 € | - 167.90 € | - 167.90 € |
| Debt Issues | 570.50 € | 299.40 € | 73.10 € | 530.00 € | 35.00 € | 525.00 € | 25.00 € | 28.00 € |
| Debt Redemptions/Repayments | - 51.90 € | - 410.10 € | - 1,404.50 € | - 1,114.41 € | - 824.21 € | - 592.89 € | - 419.79 € | - 335.60 € |
| Increase (Decrease) In Borrowings | - 1,054.70 € | - 364.40 € | - 27.90 € | - 584.41 € | - 789.21 € | - 67.89 € | - 394.79 € | - 307.60 € |
| Interest Paid From Financing Activities | - 186.60 € | - 184.70 € | - 192.40 € | - 94.95 € | - 49.20 € | - 65.95 € | - 34.37 € | - 25.87 € |
| Net Cash Flows From Financing Used in Activities | - 1,263.40 € | - 1,284.70 € | - 2,502.70 € | - 3,083.80 € | - 3,744.72 € | - 2,441.57 € | - 3,127.17 € | - 3,204.00 € |
| Net cash From Discontinued Operations | - 17.70 € | 87.70 € | - 379.10 € | - 379.10 € | - 379.10 € | - 379.10 € | - 379.10 € | - 379.10 € |
| Effect of Exchange Rates On Cash | 13.90 € | 159.80 € | - 67.60 € | - 3,462.90 € | - 2,820.67 € | - 2,820.67 € | - 3,506.27 € | - 3,583.10 € |
| Net Cash Flows From Financing | - 1,281.50 € | - 1,197.00 € | - 2,881.80 € | - 2,704.70 € | - 3,365.62 € | - 2,062.47 € | - 2,748.07 € | - 2,824.90 € |
| Net Cash Flow | - 159.30 € | 982.00 € | 4.60 € | - 645.98 € | - 601.99 € | 1,033.80 € | 587.03 € | 979.78 € |
| Beginning Cash - 01/Jan | - € | 1,049.60 € | 2,136.60 € | 2,216.60 € | 1,570.62 € | 968.62 € | 2,002.43 € | 2,589.45 € |
| End Cash - 31/Dec | 1,049.60 € | 2,136.60 € | 2,216.60 € | 1,570.62 € | 968.62 € | 2,002.43 € | 2,589.45 € | 3,569.23 € |
| Cash & Equivalents | 1,049.60 € | 2,136.60 € | 2,216.60 € | 1,570.62 € | 968.62 € | 2,002.43 € | 2,589.45 € | 3,569.23 € |

Source: Author Estimations

Appendix 9. Cash Flow Statement Common Size % CFO

| | 2016YE | 2017YE | 2018YE | 2019F | 2020F | 2021F | 2022F | 2023F |
|---|---------------|---------------|---------------|----------------|----------------|---------------|---------------|---------------|
| Cash From Operating Activities CFO | | | | | | | | |
| Net Income From Continuing Operations | 49.1% | 63.2% | 70.4% | 68.1% | 61.8% | 62.3% | 62.8% | 62.0% |
| Depreciation And Amortization - CF | 24.1% | 15.6% | 13.0% | 12.9% | 11.8% | 11.8% | 11.9% | 11.8% |
| Other non-cash Income and Expenses | 16.5% | 0.4% | -0.2% | -0.2% | -0.2% | -0.2% | -0.2% | -0.1% |
| Net Change In Working Capital Requirement | -4.7% | -1.3% | -1.4% | -1.8% | -1.4% | -1.3% | -1.3% | -1.1% |
| Income Tax Paid | -16.5% | -11.4% | -14.9% | -16.6% | -9.8% | -10.3% | -10.6% | -10.1% |
| Current Tax Expense | 21.5% | 27.0% | 28.1% | 32.8% | 33.5% | 33.3% | 32.9% | 33.3% |
| Interest Paid/Received | 10.0% | 6.5% | 4.9% | 4.8% | 4.3% | 4.4% | 4.4% | 4.3% |
| Dividends Received | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Net Cash Flows From Operations | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| Cash From Investing Activities CFI | | | | | | | | |
| Purchases of Investments | -4.9% | -2.3% | -2.1% | -3.0% | -2.4% | -2.2% | -2.0% | -1.9% |
| Purchase of PP&E and Intangibles | -34.1% | -21.8% | -21.9% | -26.3% | -21.4% | -19.0% | -17.6% | -16.3% |
| Interest And Dividends Received | 0.8% | 0.2% | 0.1% | 0.2% | 0.1% | 0.1% | 0.1% | 0.1% |
| Proceeds From Sale of Fixed & Intangible Asset | 0.5% | 1.4% | 0.1% | 0.2% | 0.1% | 0.1% | 0.1% | 0.1% |
| Payment of Acquisition of Subsidiary | -0.6% | 0.1% | -0.4% | -0.5% | -0.4% | -0.4% | -0.4% | -0.3% |
| Proceeds From Sale of Other Financial Assets | 0.9% | 1.1% | 0.6% | 0.8% | 0.6% | 0.6% | 0.5% | 0.5% |
| Net Cash Flows From Investing | -37.4% | -21.4% | -23.6% | -28.7% | -23.4% | -20.8% | -19.2% | -17.8% |
| Cash from Financing Activities CFF | | | | | | | | |
| Dividends Paid | -28.2% | -20.9% | -20.1% | -55.6% | -52.7% | -51.8% | -50.6% | -50.7% |
| Dividends Paid to non-controlling interests | -2.0% | -0.6% | -0.6% | -1.5% | -1.2% | -1.1% | -1.1% | -1.0% |
| Other Financing Activities | 0.0% | -1.0% | -0.1% | -0.1% | -0.1% | -0.1% | -0.1% | -0.1% |
| Treasury Shares Transactions | 0.0% | 0.0% | -4.4% | -5.8% | -4.7% | -4.3% | -4.1% | -3.6% |
| Debt Issues | 31.8% | 10.8% | 1.9% | 18.3% | 1.0% | 13.4% | 0.6% | 0.6% |
| Debt Redemptions/Repayments | -2.9% | -14.8% | -37.2% | -38.6% | -22.8% | -15.2% | -10.2% | -7.3% |
| Increase (Decrease) In Borrowings | -58.9% | -13.1% | -0.7% | -20.2% | -21.9% | -1.7% | -9.6% | -6.6% |
| Interest Paid From Financing Activities | -10.4% | -6.7% | -5.1% | -3.3% | -1.4% | -1.7% | -0.8% | -0.6% |
| Net Cash Flows From Financing Used in Activities | -70.5% | -46.3% | -66.2% | -106.7% | -103.8% | -62.5% | -75.8% | -69.2% |
| Net cash From Discontinued Operations | -1.0% | 3.2% | -10.0% | -13.1% | -10.5% | -9.7% | -9.2% | -8.2% |
| Effect of Exchange Rates On Cash | 0.8% | 5.8% | -1.8% | -119.9% | -114.3% | -72.2% | -85.0% | -77.4% |
| Net Cash Flows From Financing | -71.5% | -43.2% | -76.3% | -93.6% | -93.3% | -52.8% | -66.6% | -61.0% |

Source: Author Estimations

Appendix 10. Gross Borrowings

| Gross Borrowings | Dec. 31 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|--|--------------|----------|----------|----------|----------|------------|
| Non-current borrowings | € 3,171.60 | | € 713.10 | € 563.70 | € 282.40 | € 1,607.20 |
| Bonds | € 2,592.10 | € - | € 490.50 | € 474.90 | € 273.70 | 1,353.00 € |
| Other bank borrowings | € 160.00 | € - | € 117.90 | € 30.50 | € 1.10 | 9.50 € |
| Obligations under finance leases | € 42.80 | € - | € 5.40 | € 5.50 | € 7.60 | 20.10 € |
| Other borrowings | € 376.70 | € - | € 99.30 | € 52.80 | € - | 224.60 € |
| Current borrowings | € 756.40 | | | | | |
| Bonds | € 244.10 | € 244.10 | | | | |
| Drawdowns on unconfirmed lines of credit | € 7.60 | € 7.60 | | | | |
| Other bank borrowings | € 40.00 | € 40.00 | | | | |
| Obligations under finance leases | € 35.90 | € 35.90 | | | | |
| Bank overdrafts | € 380.30 | € 380.30 | | | | |
| Commercial paper | € - | € - | € - | € - | € - | € - |
| Other borrowings | € 48.50 | € 48.50 | | | | |
| Total | € 3,928.00 | € - | € 713.10 | € 563.70 | € 282.40 | € 1,607.20 |

Source: Kering Data

Appendix 11. New Debt Schedule

| New Debt Schedule - Assumptions | | | | | | | | | | | | |
|---------------------------------|----------|----------|----------|----------|----------|----------|----------|----------|---------|------|------|------|
| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 |
| Beg. Outstanding | 30.00 € | 22.31 € | 14.73 € | 7.25 € | | | | | | | | |
| Interest Paid | 0.30 € | 0.22 € | 0.15 € | 0.07 € | | | | | | | | |
| Principle | 7.39 € | 7.36 € | 7.33 € | 7.25 € | | | | | | | | |
| PMT | 7.69 € | 7.59 € | 7.47 € | 7.33 € | | | | | | | | |
| End Outstanding | 22.31 € | 14.73 € | 7.25 € | 0.07 € | | | | | | | | |
| Beg. Outstanding | | 35.00 € | 26.03 € | 17.18 € | 8.46 € | | | | | | | |
| Interest Paid | | 0.35 € | 0.26 € | 0.17 € | 0.08 € | | | | | | | |
| Principle | | 8.62 € | 8.59 € | 8.55 € | 8.46 € | | | | | | | |
| PMT | | 8.97 € | 8.85 € | 8.72 € | 8.55 € | | | | | | | |
| End Outstanding | | 26.03 € | 17.18 € | 8.46 € | 0.08 € | | | | | | | |
| Beg. Outstanding | | | 25.00 € | 18.59 € | 12.27 € | 6.04 € | | | | | | |
| Interest Paid | | | 0.25 € | 0.18 € | 0.12 € | | | | | | | |
| Principle | | | 6.16 € | 6.14 € | 6.11 € | 6.04 € | | | | | | |
| PMT | | | 6.41 € | 6.32 € | 6.23 € | 6.10 € | | | | | | |
| End Outstanding | | | 18.59 € | 12.27 € | 6.04 € | 0.06 € | | | | | | |
| Beg. Outstanding | | | | 25.00 € | 18.59 € | 12.27 € | 6.04 € | | | | | |
| Interest Paid | | | | 0.25 € | 0.18 € | 0.12 € | 0.06 € | | | | | |
| Principle | | | | 6.16 € | 6.14 € | 6.11 € | 6.04 € | | | | | |
| PMT | | | | 6.41 € | 6.32 € | 6.23 € | 6.10 € | | | | | |
| End Outstanding | | | | 18.59 € | 12.27 € | 6.04 € | 0.06 € | | | | | |
| Beg. Outstanding | | | | | 28.00 € | 20.83 € | 13.74 € | 6.77 € | | | | |
| Interest Paid | | | | | 0.28 € | 0.21 € | 0.14 € | 0.07 € | | | | |
| Principle | | | | | 6.90 € | 6.87 € | 6.84 € | 6.77 € | | | | |
| PMT | | | | | 7.17 € | 7.08 € | 6.98 € | 6.84 € | | | | |
| End Outstanding | | | | | 20.83 € | 13.74 € | 6.77 € | 0.07 € | | | | |
| Beg. Outstanding | 500.00 € | 420.17 € | 342.97 € | 268.38 € | 196.42 € | 127.17 € | 60.84 € | | | | | |
| Interest Paid | 14.30 € | 12.02 € | 9.81 € | 7.68 € | 5.62 € | 3.64 € | 1.74 € | | | | | |
| Principle | 65.53 € | 65.19 € | 64.78 € | 64.28 € | 63.64 € | 62.69 € | 60.84 € | | | | | |
| PMT | 79.83 € | 77.20 € | 74.59 € | 71.96 € | 69.25 € | 66.32 € | 62.58 € | | | | | |
| End Outstanding | 420.17 € | 342.97 € | 268.38 € | 196.42 € | 127.17 € | 60.84 € | 1.74 € | | | | | |
| Beg. Outstanding | | | 500.00 € | 420.17 € | 342.97 € | 268.38 € | 196.42 € | 127.17 € | 60.84 € | | | |
| Interest Paid | | | 14.30 € | 12.02 € | 9.81 € | 7.68 € | 5.62 € | 3.64 € | 1.74 € | | | |
| Principle | | | 65.53 € | 65.19 € | 64.78 € | 64.28 € | 63.64 € | 62.69 € | 60.84 € | | | |
| PMT | | | 79.83 € | 77.20 € | 74.59 € | 71.96 € | 69.25 € | 66.32 € | 62.58 € | | | |
| End Outstanding | | | 420.17 € | 342.97 € | 268.38 € | 196.42 € | 127.17 € | 60.84 € | 1.74 € | | | |

Source: Author Estimations

As it was previously mentioned in the topic “*Debt Strategy and Capital Structure*“, Kering doesn’t provide a clear idea on where does its debt strategy lays.

As of 2018, Kering observed a significant drop in debt, due to discontinued operations., while observing its debt structure and its debt schedule is assumed that Kering is undertaking a debt repayment strategy since its debt is due to full redemption by 2035 and shifting its debt structure to 95% equity by 2021 given that no further indication of new loans nor bond issues are programmed.

Such claim that can supported by the current strong financial position of the Group and clear orientation of their debt allocation, for hedging foreign currencies and interest rate and also to finance certain sporadic operational expenditures and investments.

With this in mind, for the only purpose of this Equity Research a debt restructuring process had to be made to replicate the historical behavior of Kering’s debt issues by assuming a value of issues that will induce the deb-to-equity ratio to follow the same downwards trend (5% CAGR) observed between 2016-2018, adjusting to the debt repayments between 2019-2023.

Appendix 12. Debt Repayments

| Debt Repayments | | | | | | |
|------------------|-------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
| Debt repayment | 1,040.50 € | 776.40 € | 547.77 € | 386.41 € | 310.84 € | 306.33 € |
| Interest expense | 73.92 € | 47.81 € | 45.12 € | 33.37 € | 24.76 € | 17.13 € |
| PMT | 1,114.41 € | 824.21 € | 592.89 € | 419.79 € | 335.60 € | 323.46 € |

Source: Author Estimations

Appendix 13. Cost of Debt

| | 2016YE | 2017YE | 2018YE | 2019F | 2020F | 2021F | 2022F | 2023F |
|-----------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| DEBT | 5,420.30 € | 5,185.20 € | 3,928.00 € | 3,705.60 € | 3,242.97 € | 2,896.76 € | 2,728.39 € | 2,704.11 € |
| Non-current borrowings | 4,185.80 € | 4,245.50 € | 3,171.60 € | 2,881.39 € | 2,650.08 € | 2,476.97 € | 2,392.79 € | 2,380.65 € |
| Current borrowings | 1,234.50 € | 939.70 € | 756.40 € | 824.21 € | 592.89 € | 419.79 € | 335.60 € | 323.46 € |
| EQUITY | 11,963.90 € | 12,626.40 € | 10,061.60 € | 10,254.06 € | 10,523.60 € | 12,255.70 € | 13,339.64 € | 14,793.98 € |
| Debt Issues | 570.50 € | 299.40 € | 73.10 € | 530.00 € | 35.00 € | 525.00 € | 25.00 € | 28.00 € |
| Debt redemptions/repayments | 51.90 € | 410.10 € | 1,404.50 € | 1,114.41 € | 824.21 € | 592.89 € | 419.79 € | 335.60 € |
| Interests paid | 186.60 € | 184.70 € | 192.40 € | 94.95 € | 49.20 € | 65.95 € | 34.37 € | 25.87 € |
| COST OF DEBT K(d) | 3.44% | 3.56% | 4.90% | 2.56% | 1.52% | 2.28% | 1.26% | 0.96% |
| AVERAGE K(d) | 3.97% | | | | | | | |
| DEBT-TO-EQUITY RATIO | 31.18% | 29.11% | 28.08% | 26.55% | 23.56% | 19.12% | 16.98% | 15.45% |

Source: Author Estimations

Appendix 14. Bond Details - EUR

| Bond Issue - EUR (million) | | | | | | |
|----------------------------|---------------------|-------------------------|------------|-----------|-------------|--|
| Par Value | Issue Interest Rate | Effective Interest Rate | Issue Date | Maturity | Bond Rating | |
| 245.00 € | 3.13% | 3.31% | 4/23/2012 | 4/23/2019 | A- | |
| 360.00 € | 2.50% | 2.58% | 7/15/2013 | 7/15/2020 | A- | |
| 500.00 € | 2.01% | 2.01% | 10/8/2013 | 10/8/2018 | A- | |
| 500.00 € | 2.75% | 2.35% | 4/8/2014 | 4/8/2024 | A- | |
| 345.00 € | 1.38% | 1.47% | 10/1/2014 | 10/1/2021 | A- | |
| 275.00 € | 0.88% | 1.02% | 3/27/2015 | 3/28/2022 | A- | |
| 50.00 € | 1.60% | 1.66% | 4/16/2015 | 4/16/2035 | A- | |
| 500.00 € | 1.25% | 1.35% | 5/10/2016 | 5/10/2026 | A- | |
| 300.00 € | 1.50% | 1.61% | 4/5/2017 | 4/5/2027 | A- | |

Source: Kering Data

Appendix 15. Bond Details - USD

| Bond Issue - USD (million) | | | | |
|----------------------------|--|-------------------------|------------|----------|
| Par Value | 3M USD Libor Assumed to be value forecasted at redemption. | Effective Interest Rate | Issue Date | Maturity |
| 131.00 € | 3.39% | 2.32% | 3/9/2015 | 3/9/2020 |
| 131.00 € | 2.89% | 2.94% | 6/9/2015 | 6/9/2021 |

Source: Kering Data

Appendix 16. Credit Borrowings Details

| Credit Borrowings (million) | | | | |
|-----------------------------|---|-------------------------|------------|------------|
| Par Value | Floating JPY Tibor assumed to be 3M benchmark of 0.069% | Effective interest rate | Issue Date | Maturity |
| 31.80 € | 1.09% | - | 12/14/2014 | 12/14/2018 |
| 39.70 € | 1.09% | - | 4/15/2015 | 4/15/2020 |
| 15.90 € | 1.04% | - | 3/31/2016 | 3/31/2020 |
| 15.90 € | 0.94% | - | 3/31/2016 | 3/31/2021 |
| 30.00 € | 0.98% | - | 9/30/2016 | 9/30/2019 |
| 23.80 € | 0.96% | - | 3/31/2017 | 3/31/2020 |
| 24.80 € | 0.98% | - | 4/17/2017 | 4/15/2020 |
| 23.80 € | 0.98% | - | 11/27/2017 | 11/27/2020 |
| 15.90 € | 0.89% | - | 9/28/2018 | 9/30/2021 |

Source: Kering Data

Appendix 17. DCF Analysis

| DCF Analysis | | | | | | | |
|------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Cost of Equity | 2018YE | 2019F | 2020F | 2021F | 2022F | 2023F | TV |
| Risk-Free Rate R(f) | 0.00710 | 0.00270 | 0.00350 | 0.00580 | 0.00577 | 0.00577 | 0.00577 |
| Beta Unlevered | 1.036 | 1.036 | 1.036 | 1.036 | 1.036 | 1.036 | 1.036 |
| Beta Levered | 1.306 | 1.294 | 1.256 | 1.205 | 1.182 | 1.167 | 1.167 |
| Market Risk Premium (MRP) | 6.65% | 6.65% | 6.65% | 6.65% | 6.65% | 6.65% | 6.65% |
| Country Risk Premium (CRP) | 0.69% | 0.69% | 0.69% | 0.69% | 0.69% | 0.69% | 0.69% |
| Cost of Equity R(e) | 8.5% | 8.0% | 7.8% | 7.8% | 7.6% | 7.5% | 7.5% |
| Cost of Debt | | | | | | | |
| Cost of Debt R(d) | 4.90% | 2.56% | 1.52% | 2.28% | 1.26% | 0.96% | 1.71% |
| Marginal Tax Rate T(c) | 33.3% | 31.0% | 31.0% | 31.0% | 31.0% | 31.0% | 31.0% |
| After-Tax Cost of Debt R(d)' | 3.3% | 1.8% | 1.0% | 1.6% | 0.9% | 0.7% | 1.2% |
| WACC | | | | | | | |
| Weight of Equity | 72% | 73% | 76% | 81% | 83% | 85% | 85% |
| Weight of Debt | 28% | 27% | 24% | 19% | 17% | 15% | 15% |
| Pre-Tax WACC | 7.48% | 6.55% | 6.35% | 6.71% | 6.54% | 6.51% | 6.63% |
| WACC | 7.03% | 6.33% | 6.24% | 6.58% | 6.48% | 6.47% | 6.55% |

| | 2018YE | 2019F | 2020F | 2021F | 2022F | 2023F | TV |
|-------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|--------------------|
| EBIT*(1-T(c)) | 2,482.17 € | 2,235.11 € | 2,825.32 € | 3,061.69 € | 3,162.28 € | 3,577.88 € | 2,890.74 € |
| D&A | 503.00 € | 542.32 € | 630.72 € | 713.54 € | 792.25 € | 872.93 € | 675.79 € |
| ΔNWC | 893.70 € | 419.60 € | 340.06 € | 1,206.57 € | 662.03 € | 1,002.02 € | 342.74 € |
| CAPEX | 908.30 € | 847.15 € | 860.29 € | 828.37 € | 808.12 € | 839.43 € | 848.61 € |
| FCFF | 2,970.57 € | 1,510.68 € | 2,935.81 € | 1,740.28 € | 2,484.38 € | 2,609.37 € | 2,375.18 € |
| Terminal Value (TV) | | | | | | | 90,179.90 € |
| PV(FCFF) by WACC | 2,970.57 € | 1,420.69 € | 2,601.17 € | 1,437.52 € | 1,932.91 € | 1,907.35 € | 65,668.56 € |

Source: Author Estimations

| Enterprise Value | |
|-------------------------|--------------------|
| Terminal Growth Rate | 3.8% |
| Perpetuity WACC | 6.55% |
| Terminal Value | 90,179.90 € |
| PV of Terminal Value | 65,668.56 € |
| PV of FCFF | 9,299.64 € |
| Enterprise Value | 74,968.20 € |

Source: Author Estimations

| Price Target | |
|--------------------------------|-----------------|
| Enterprise Value | 74,968.20 € |
| Net Debt | 1,711.40 € |
| Equity Value | 73,256.80 € |
| Share Outstanding | 126.279244 |
| Equity Value per Share | 580.12 € |
| Price on 31st Dec, 2019 | 580.12 € |
| Price on 1st Jul, 2019 | 525.10 € |
| Upside Potential | 9.5% |

Source: Author Estimations

Appendix 18. Multiples Analysis

| Multiple - EV/Sales | |
|--------------------------------|-----------------|
| EV/Sales PEERS | 3.40 |
| Kering Sales (Forward Avg.) | 17,896.53 € |
| Kering EV | 60,822.31 € |
| Net Debt | 1,711.40 € |
| Equity Value | 59,110.91 € |
| No. of issued Shares | 126.28 |
| Equity Value per Share | 468.10 € |
| Price on 31st Dec, 2019 | 468.10 € |
| Price on 1st Jul, 2019 | 525.10 € |
| Upside Potential | -12.2% |

Source: Author Estimations

| Multiple - EV/EBITDA | |
|--------------------------------|-----------------|
| EV/EBITDA PEERS | 13.58 € |
| Kering EBITDA (Forward Avg.) | 4,885.95 € |
| Kering EV | 66,350.71 € |
| Net Debt | 1,711.40 € |
| Equity Value | 64,639.31 € |
| No. of issued Shares | 126.28 |
| Equity Value per Share | 511.88 € |
| Price on 31st Dec, 2019 | 511.88 € |
| Price on 1st Jul, 2019 | 525.10 € |
| Upside Potential | -2.6% |

Source: Author Estimations

| Multiple - P/E | |
|--------------------------------|-----------------|
| P/E PEERS | 24.93 € |
| Kering EPS (Forward Avg.) | 3,952.63 € |
| Kering EV | 98,529.56 € |
| Net Debt | 1,711.40 € |
| Equity Value | 96,818.16 € |
| No. of issued Shares | 126.28 |
| Equity Value per Share | 766.70 € |
| Price on 31st Dec, 2019 | 766.70 € |
| Price on 1st Jul, 2019 | 525.10 € |
| Upside Potential | 31.5% |

Source: Author Estimations

| Multiple Average | |
|--------------------------------|-----------------|
| EV/Sales | 468.10 € |
| EV/EBITDA Price | 511.88 € |
| P/E Price | 766.70 € |
| Price on 31st Dec, 2019 | 582.22 € |
| Price on 1st Jul, 2019 | 525.10 € |
| Upside Potential | 9.8% |

Source: Author Estimations

Appendix 19. Sensitivity Analysis

In order to better understand the combined impact of a certain combination of variables, a few sensitivity analysis were made to address whether that shift in the variables does indeed impact the target price, thus identifying the associated risks to the given price target

For the purpose of the analysis the base line of the variables is the DCF Model which translates into the closest approximation in regards of price target to actual price target of 576.44 EUR.

| | | Terminal Growth Rate | | | | | | | | | | |
|-----------------|----------|----------------------|----------|----------|----------|----------|----------|----------|----------|----------|------------|------------|
| | | 2.8% | 3.0% | 3.2% | 3.4% | 3.6% | 3.8% | 4.0% | 4.2% | 4.4% | 4.6% | 4.8% |
| Perpetuity WACC | 569.84 € | | | | | | | | | | | |
| | 5.25% | 600.19 € | 618.72 € | 640.88 € | 667.82 € | 701.30 € | 701.30 € | 800.38 € | 878.24 € | 992.73 € | 1,177.68 € | 1,527.03 € |
| | 5.5% | 579.15 € | 594.14 € | 611.75 € | 632.70 € | 658.07 € | 658.07 € | 729.10 € | 781.01 € | 851.79 € | 954.03 € | 1,114.70 € |
| | 5.75% | 561.70 € | 574.06 € | 588.36 € | 605.09 € | 624.94 € | 624.94 € | 678.23 € | 715.20 € | 763.11 € | 827.70 € | 919.47 € |
| | 6.0% | 547.01 € | 557.35 € | 569.18 € | 582.82 € | 598.74 € | 598.74 € | 640.12 € | 667.71 € | 702.20 € | 746.54 € | 805.66 € |
| | 6.25% | 534.47 € | 543.24 € | 553.17 € | 564.49 € | 577.52 € | 577.52 € | 610.52 € | 631.85 € | 657.79 € | 690.03 € | 731.15 € |
| | 6.5% | 534.47 € | 543.24 € | 553.17 € | 564.49 € | 577.52 € | 577.52 € | 610.52 € | 631.85 € | 657.79 € | 690.03 € | 731.15 € |
| | 6.75% | 514.21 € | 520.73 € | 527.98 € | 536.10 € | 545.25 € | 545.25 € | 567.54 € | 581.31 € | 597.43 € | 616.54 € | 639.57 € |
| | 7.0% | 505.91 € | 511.61 € | 517.90 € | 524.89 € | 532.71 € | 532.71 € | 551.47 € | 562.86 € | 576.00 € | 591.33 € | 609.44 € |
| | 7.25% | 498.57 € | 503.58 € | 509.09 € | 515.16 € | 521.91 € | 521.91 € | 537.89 € | 547.45 € | 558.35 € | 570.90 € | 585.50 € |
| | 7.5% | 492.02 € | 496.46 € | 501.31 € | 506.64 € | 512.51 € | 512.51 € | 526.27 € | 534.40 € | 543.58 € | 554.02 € | 566.01 € |
| | 7.75% | 486.15 € | 490.11 € | 494.41 € | 499.11 € | 504.26 € | 504.26 € | 516.22 € | 523.21 € | 531.03 € | 539.84 € | 549.86 € |

Source: Author Estimations

In this scenario, Terminal Growth Rate (g) vs Perpetuity WACC, an increase of just 0.2% in g would be enough to shift the recommendation but would have had taken a decrease of 0.8% to shift the recommendation to REDUCE, assuming WACC to be constant.

On the other hand, considering g constant, would have taken a 0.25% increase in WACC to turn the recommendation to REDUCE while it would have had taken a decrease of 0.5% to shift the recommendation to a BUY.

| | | Beta Levered | | | | | | | | | | |
|---------------------|----------|--------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| | | 0.85 | 0.9 | 0.95 | 1 | 1.05 | 1.1 | 1.15 | 1.2 | 1.25 | 1.3 | 1.35 |
| Market Risk Premium | 569.84 € | | | | | | | | | | | |
| | 6.45% | 1,120.76 € | 958.92 € | 846.41 € | 763.50 € | 699.79 € | 649.29 € | 608.26 € | 574.26 € | 545.63 € | 521.18 € | 500.07 € |
| | 6.50% | 1,092.52 € | 938.75 € | 831.05 € | 751.27 € | 689.74 € | 640.81 € | 600.97 € | 567.90 € | 540.00 € | 516.15 € | 495.54 € |
| | 6.55% | 1,066.02 € | 919.66 € | 816.42 € | 739.57 € | 680.08 € | 632.66 € | 593.95 € | 561.75 € | 534.56 € | 511.28 € | 491.14 € |
| | 6.60% | 1,041.09 € | 901.55 € | 802.47 € | 728.37 € | 670.82 € | 624.80 € | 587.17 € | 555.82 € | 529.30 € | 506.57 € | 486.88 € |
| | 6.65% | 1,017.60 € | 884.35 € | 789.15 € | 717.64 € | 661.91 € | 617.24 € | 580.63 € | 550.08 € | 524.20 € | 502.00 € | 482.74 € |
| | 6.70% | 995.42 € | 868.00 € | 776.42 € | 707.34 € | 653.34 € | 609.95 € | 574.31 € | 544.53 € | 519.27 € | 497.57 € | 478.73 € |
| | 6.75% | 974.44 € | 852.43 € | 764.25 € | 697.46 € | 645.09 € | 602.91 € | 568.21 € | 539.16 € | 514.49 € | 493.27 € | 474.84 € |
| | 6.80% | 954.57 € | 837.58 € | 752.58 € | 687.96 € | 637.14 € | 596.12 € | 562.31 € | 533.96 € | 509.85 € | 489.10 € | 471.05 € |
| | 6.85% | 935.71 € | 823.42 € | 741.41 € | 678.83 € | 629.48 € | 589.56 € | 556.60 € | 528.92 € | 505.36 € | 485.05 € | 467.38 € |
| | 6.90% | 917.80 € | 809.88 € | 730.68 € | 670.04 € | 622.09 € | 583.22 € | 551.07 € | 524.04 € | 501.00 € | 481.12 € | 463.81 € |
| | 6.95% | 900.77 € | 796.93 € | 720.38 € | 661.57 € | 614.96 € | 577.09 € | 545.72 € | 519.31 € | 496.76 € | 477.30 € | 460.33 € |
| 7.00% | 884.54 € | 784.53 € | 710.49 € | 653.42 € | 608.07 € | 571.16 € | 540.53 € | 514.71 € | 492.65 € | 473.59 € | 456.96 € | |

Source: Author Estimations

Beta levered vs Market risk premium (MRP), this analysis is mostly comprised on the impact that the beta levered might have on the recommendation since the MRP would required a huge shift to actually impact the recommendation, thus a shift in the beta levered of only +/- 0.1% would impact the recommendation.

| | | Debt Weight | | | | | | | | | | |
|--------------|----------|-------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| | | 7.5% | 10.0% | 12.5% | 15.0% | 17.5% | 20.0% | 22.5% | 25.0% | 27.5% | 30.0% | 32.5% |
| Cost of Debt | 569.84 € | | | | | | | | | | | |
| | 1.4% | 628.50 € | 608.97 € | 591.24 € | 575.06 € | 560.23 € | 546.59 € | 534.00 € | 522.34 € | 511.50 € | 501.42 € | 491.99 € |
| | 1.5% | 627.97 € | 608.34 € | 590.53 € | 574.29 € | 559.41 € | 545.74 € | 533.12 € | 521.44 € | 510.60 € | 500.50 € | 491.08 € |
| | 1.6% | 627.45 € | 607.72 € | 589.83 € | 573.52 € | 558.61 € | 544.90 € | 532.26 € | 520.56 € | 509.70 € | 499.60 € | 490.17 € |
| | 1.7% | 626.92 € | 607.09 € | 589.13 € | 572.77 € | 557.81 € | 544.07 € | 531.40 € | 519.69 € | 508.82 € | 498.71 € | 488.27 € |
| | 1.8% | 626.40 € | 606.47 € | 588.43 € | 572.02 € | 557.01 € | 543.24 € | 530.55 € | 518.82 € | 507.94 € | 497.82 € | 488.39 € |
| | 1.9% | 625.88 € | 605.85 € | 587.74 € | 571.27 € | 556.22 € | 542.42 € | 529.71 € | 517.96 € | 507.08 € | 496.95 € | 487.52 € |
| | 2.0% | 625.36 € | 605.24 € | 587.05 € | 570.53 € | 555.44 € | 541.61 € | 528.88 € | 517.12 € | 506.22 € | 496.09 € | 486.65 € |
| | 2.1% | 624.84 € | 604.63 € | 586.37 € | 569.79 € | 554.67 € | 540.81 € | 528.05 € | 516.28 € | 505.37 € | 495.24 € | 485.80 € |
| | 2.2% | 624.33 € | 604.02 € | 585.69 € | 569.06 € | 553.90 € | 540.01 € | 527.24 € | 515.45 € | 504.54 € | 494.40 € | 484.96 € |
| 2.3% | 623.82 € | 603.42 € | 585.02 € | 568.34 € | 553.14 € | 539.22 € | 526.43 € | 514.63 € | 503.71 € | 493.57 € | 484.13 € | |
| 2.4% | 623.31 € | 602.82 € | 584.35 € | 567.62 € | 552.38 € | 538.44 € | 525.63 € | 513.82 € | 502.89 € | 492.75 € | 483.31 € | |

Source: Author Estimations

As it seats, Kering's debt structure is decreasing thus an increase in the debt weight wouldn't cause any major impact since it would need at least a shift of close 10% to actually impact the recommendation, while a shift in the cost of debt doesn't impact at all the recommendation by its one.

| | | Equity Weight | | | | | | | | | | | |
|----------------|----------|---------------|------------|------------|----------|----------|----------|----------|----------|----------|----------|----------|-------|
| | | 569.84 € | 65.0% | 67.5% | 70.0% | 72.5% | 75.0% | 77.5% | 80.0% | 82.5% | 85.0% | 87.5% | 90.0% |
| Cost of Equity | 6.50% | 1,345.34 € | 1,149.60 € | 1,023.20 € | 934.87 € | 869.66 € | 819.56 € | 779.86 € | 747.65 € | 720.98 € | 698.55 € | 679.42 € | |
| | 6.75% | 1,129.95 € | 999.58 € | 909.51 € | 843.57 € | 793.21 € | 753.51 € | 721.41 € | 694.92 € | 672.69 € | 653.78 € | 637.50 € | |
| | 7.00% | 986.99 € | 892.95 € | 824.90 € | 773.39 € | 733.05 € | 700.60 € | 673.95 € | 651.67 € | 632.77 € | 616.54 € | 602.46 € | |
| | 7.25% | 884.50 € | 812.86 € | 759.24 € | 717.62 € | 684.38 € | 657.23 € | 634.63 € | 615.55 € | 599.21 € | 585.07 € | 572.72 € | |
| | 7.50% | 807.07 € | 750.27 € | 706.67 € | 672.15 € | 644.15 € | 620.99 € | 601.51 € | 584.91 € | 570.60 € | 558.13 € | 547.18 € | |
| | 7.75% | 746.29 € | 699.90 € | 663.55 € | 634.32 € | 610.31 € | 590.24 € | 573.22 € | 558.60 € | 545.91 € | 534.80 € | 525.00 € | |
| | 8.00% | 697.20 € | 658.40 € | 627.50 € | 602.34 € | 581.44 € | 563.82 € | 548.77 € | 535.76 € | 524.41 € | 514.42 € | 505.56 € | |
| | 8.25% | 656.65 € | 623.57 € | 596.89 € | 574.91 € | 556.51 € | 540.87 € | 527.42 € | 515.74 € | 505.50 € | 496.45 € | 488.40 € | |
| | 8.50% | 622.54 € | 593.91 € | 570.55 € | 551.13 € | 534.75 € | 520.74 € | 508.63 € | 498.05 € | 488.75 € | 480.49 € | 473.13 € | |
| | 8.75% | 593.42 € | 568.31 € | 547.63 € | 530.31 € | 515.59 € | 502.94 € | 491.95 € | 482.32 € | 473.80 € | 466.23 € | 459.45 € | |
| 9.00% | 568.25 € | 545.98 € | 527.50 € | 511.91 € | 498.60 € | 487.09 € | 477.05 € | 468.22 € | 460.39 € | 453.41 € | 447.14 € | | |

Source: Author Estimations

Equity weight vs cost of equity translates into two variables that would impact greatly the recommendation of HOLD for Kering share price since, the Groups capital structure is mainly comprised by equity other than debt, so it figure that any shift in any of the variables would produce a tilt in the recommendation.

Assuming a constant cost of equity would require a decrease of 5% to tilt the recommendation towards a BUY while it would require an increase of 7.5% to turn into a REDUCE recommendation.

On the other hand, considering the equity weight constant, an increase of 0.5% would shift the recommendation towards REDUCE while would only require a decrease in 0.25% to increase the recommendation to a BUY.

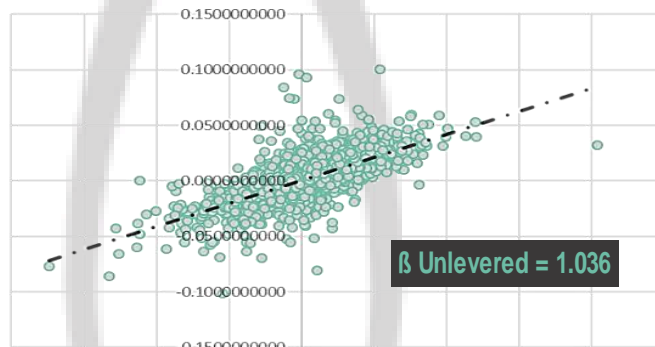
Appendix 20. DDM Analysis

| Dividend Discount Model (DDM) | 2018YE | 2019F | 2020F | 2021F | 2022F | 2023F | TV |
|-------------------------------|-------------|------------|------------|------------|------------|------------|-------------|
| Dividend | 1,325.93 € | 1,605.23 € | 1,902.31 € | 2,025.03 € | 2,088.43 € | 2,348.13 € | 65,614.89 € |
| PV(DIVt) | 1,325.93 € | 1,486.54 € | 1,764.05 € | 1,879.17 € | 1,940.51 € | 2,183.70 € | 61,020.00 € |
| Total PV(DIVt) | 71,599.90 € | | | | | | |
| Share Outstanding | 126.28 | | | | | | |
| Equity Value per Share | 567.00 € | | | | | | |
| Price on 31st Dec, 2019 | 567.00 € | | | | | | |
| Price on 1st Jul, 2019 | 525.10 € | | | | | | |
| Upside Potential | 7.4% | | | | | | |

Source: Author Estimations

Appendix 21. Beta Unlevered

Beta Unlevered was computed by tracing a simple linear regression between Kering's and Euronext Paris (Stock Exchange where Kering's shares are publicly traded) historical 10y daily returns. By tracing a linear regression, a slope was reached portraying the horizontal difference between the correlation of these two variables translating into an actual approximations of Kering's historical market volatility, which can be identified along the slope line.



Source: Author Estimations

Appendix 22. Monte Carlo Simulation Output & Statistics

| freq | obs | min | max |
|-----------|-------|-----|-----|
| [450-460] | 14 | 450 | 460 |
| [460-470] | 150 | 460 | 470 |
| [470-480] | 560 | 470 | 480 |
| [480-490] | 2249 | 480 | 490 |
| [490-500] | 4018 | 490 | 500 |
| [500-510] | 5432 | 500 | 510 |
| [510-520] | 6559 | 510 | 520 |
| [520-530] | 8210 | 520 | 530 |
| [530-540] | 9178 | 530 | 540 |
| [540-550] | 9924 | 540 | 550 |
| [550-560] | 10366 | 550 | 560 |
| [560-570] | 9861 | 560 | 570 |
| [570-580] | 8714 | 570 | 580 |
| [580-590] | 7846 | 580 | 590 |
| [590-600] | 5912 | 590 | 600 |
| [600-610] | 4533 | 600 | 610 |
| [610-620] | 2825 | 610 | 620 |
| [620-630] | 1706 | 620 | 630 |
| [630-640] | 893 | 630 | 640 |
| [640-650] | 577 | 640 | 650 |
| [650-660] | 297 | 650 | 660 |
| [660-670] | 98 | 660 | 670 |
| [670-680] | 59 | 670 | 680 |
| [680-690] | 16 | 680 | 690 |
| [690-700] | 3 | 690 | 700 |

Source: Author Estimations

| Kering Level of Risk | Medium Risk |
|----------------------|---------------|
| Sell | 6991 |
| Reduce | 20201 |
| Hold | 66334 |
| Buy | 6471 |
| Strong Buy | 3 |
| | 100000 |

Source: Author Estimations

Appendix 23. Revenue Forecast - Data & Statistics

| Year | rev | Ind_g | ker_g | gdp_g | inf | ex_r | tx_r | demand |
|------|----------|----------|----------|-------|----------|----------|-------|----------|
| 1999 | 11.63079 | 98 | 0 | 3.6 | 1.016496 | 1.065929 | 0.4 | 3.181715 |
| 2000 | 15.93792 | 116 | 0.058555 | 4.8 | 1.77505 | 0.923612 | 0.378 | 3.214322 |
| 2001 | 16.55016 | 122 | -0.28061 | 2.5 | 1.600347 | 0.895571 | 0.378 | 3.247263 |
| 2002 | 16.303 | 122 | -0.50709 | 3 | 0.649565 | 0.945574 | 0.354 | 3.280542 |
| 2003 | 16.464 | 120 | -0.32533 | 4.3 | 1.409355 | 1.131148 | 0.354 | 3.314162 |
| 2004 | 17.042 | 128 | 0.123191 | 5.4 | 2.232363 | 1.243943 | 0.354 | 3.348126 |
| 2005 | 17.766 | 139 | 0.07118 | 4.9 | 1.878266 | 1.244114 | 0.35 | 3.382439 |
| 2006 | 17.931 | 150 | -0.22348 | 5.5 | 1.904263 | 1.255623 | 0.344 | 3.417103 |
| 2007 | 17.761 | 161 | 0.168465 | 5.6 | 2.555323 | 1.370478 | 0.344 | 3.452123 |
| 2008 | 20.201 | 159 | -0.1924 | 3 | 3.700954 | 1.470755 | 0.344 | 3.313126 |
| 2009 | 16.525 | 147 | 0.044582 | -0.1 | -0.47743 | 1.394759 | 0.34 | 3.417545 |
| 2010 | 11.008 | 167 | 0.41795 | 5.4 | 1.502835 | 1.325695 | 0.333 | 3.488162 |
| 2011 | 12.227 | 186 | 0.071403 | 4.3 | 2.781199 | 1.39193 | 0.333 | 3.52391 |
| 2012 | 9.736 | 207 | 0.118726 | 3.5 | 1.711296 | 1.124789 | 0.333 | 3.595826 |
| 2013 | 9.748 | 212 | 0.2399 | 3.5 | 1.501498 | 1.322812 | 0.333 | 3.603213 |
| 2014 | 10.037 | 219 | -0.02946 | 3.6 | 2.026769 | 1.3285 | 0.333 | 3.660809 |
| 2015 | 11.584 | 245 | 0.025887 | 3.4 | 0.73407 | 1.109513 | 0.333 | 3.787792 |
| 2016 | 12.384 | 244 | 0.073251 | 3.4 | 1.065047 | 1.1069 | 0.333 | 3.799094 |
| 2017 | 10.185 | 254 | 0.601295 | 3.8 | 1.611355 | 1.129686 | 0.333 | 3.82793 |
| 2018 | 13.665 | 260 | 0.361631 | 3.6 | 2.029158 | 1.180955 | 0.33 | 3.913996 |
| 2019 | 15.25224 | 269.2041 | 0.179603 | 3.3 | 1.597266 | 1.126571 | 0.31 | 3.995321 |
| 2020 | 17.28765 | 278.483 | 0.105216 | 3.6 | 2.029138 | 1.0695 | 0.31 | 4.072343 |
| 2021 | 18.86772 | 287.8372 | 0.074816 | 3.6 | 1.976441 | 1.131833 | 0.3 | 4.15995 |
| 2022 | 20.08886 | 297.2675 | 0.062393 | 3.6 | 1.976441 | 1.136167 | 0.3 | 4.24826 |
| 2023 | 22.21753 | 306.7744 | 0.057316 | 3.6 | 1.899925 | 1.131143 | 0.28 | 4.336597 |

Source: Author Estimations

| | Coefficients | Standard Error | t Stat | P-value |
|-----------|--------------|----------------|----------|---------|
| Intercept | -49.04200 | 65.75084 | -0.74588 | 0.47010 |
| Ind_g | -0.18934 | 0.08276 | -2.28777 | 0.04110 |
| ker_g | -3.10167 | 3.31439 | -0.93582 | 0.36782 |
| gdp_g | -1.04078 | 0.72072 | -1.44408 | 0.17432 |
| inf | 2.70483 | 1.22939 | 2.20014 | 0.04813 |
| ex_r | -1.92108 | 6.14812 | -0.31247 | 0.76005 |
| tx_r | -56.64576 | 73.97798 | -0.76571 | 0.45865 |
| demand | 33.70497 | 19.22822 | 1.75289 | 0.01511 |

Source: Author Estimations

| Durbin Watson Calc. | |
|--|--------|
| Sum of squared difference of residuals | 86.122 |
| Sum of squared residuals | 75.317 |
| Durbin Watson Stat. | 1.143 |
| R Square | 0.643 |

Source: Author Estimations

In order to safely assure the validity of the forecasted results, additional statistical tests were made to assure the fitness of the model.

Once performed the Durbin Watson test, was found that there was no evidence of spurious results within the revenue regression, although it presented evidence of positive autocorrelation in the model, so further test were to be made.

In addition, the Augmented Dickey Fuller test was made, to check the presence of autocorrelation in the model.

| ADF Test | |
|---|--------|
| If H0: $\Theta = 0$, is not Stationary | |
| If H0: $\Theta < 0$, is Stationary | |
| Critical Value 5% | -1.663 |
| Model Used: | |
| Intercept w/ trend | |
| $\Delta y_t = \alpha_0 + \Theta y_{t-1} + \alpha_1 y_{t-1} + \dots + \alpha_{p-t} y_{t-p} + \alpha_t$ | |

Source: Author Estimations

| | Coefficients | Standard Error | t Stat | P-value |
|---------------|--------------|----------------|----------|----------|
| Intercept | 2.214611623 | 1.44217252 | 1.535608 | 0.139565 |
| log (rev) | -0.126059544 | 0.094782727 | -1.72998 | 0.039779 |
| lag1 log(rev) | -0.542412415 | 0.115640641 | -4.6905 | 0.000125 |

Source: Author Estimations

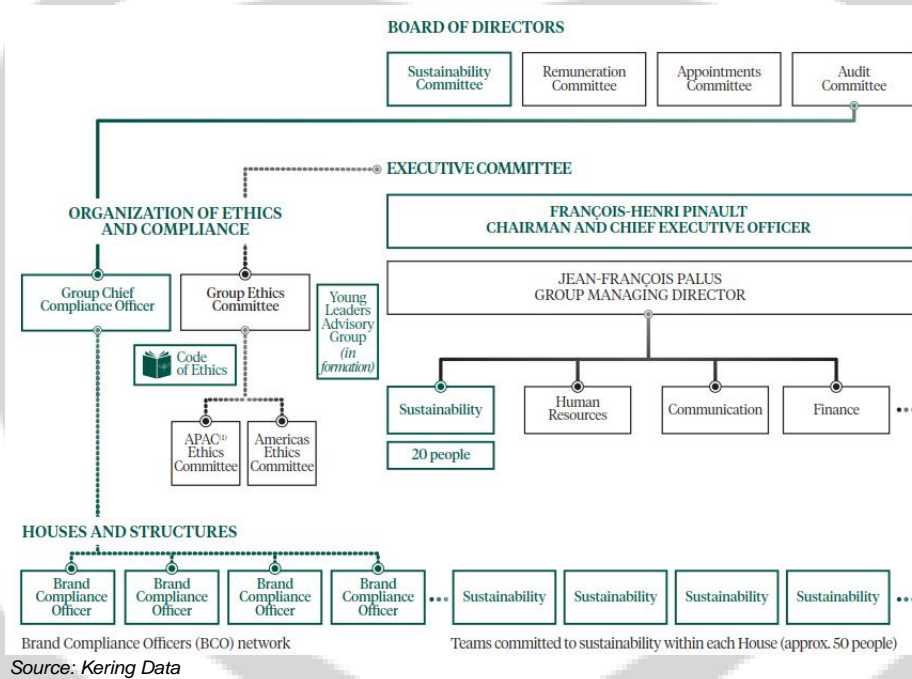
Based on the results above, from the ADF test, the null hypothesis is rejected conferring statistical evidence of stationarity of the model and also that there is no statistical evidence of autocorrelation in the model as can be checked by the critical value (-1.663) < t-statistic of the regression (-1.729), supported by McKinnon's approximated p-value of 0.039 at a level of confidence of 95%.

Appendix 24. Foreign Exchange Hedging

| | Dec. 31, 2018 | USD | JPY | GBP | CHF | HKD | CNY | SGD | TWD | KRW | Other |
|--|---------------|-----------|---------|---------|---------|---------|---------|--------|---------|---------|---------|
| <i>(in € millions)</i> | | | | | | | | | | | |
| Cash flow hedges | | | | | | | | | | | |
| Forward purchases and forward purchase swaps | 28.3 | 27.5 | 0.8 | | | | | | | | |
| Forward sales and forward sale swaps | (3,302.0) | (1,224.9) | (439.8) | (322.5) | (321.7) | (393.0) | (50.0) | (42.2) | (306.4) | (201.5) | |
| Currency options – purchases of export tunnels | (160.7) | (49.8) | (33.8) | (62.0) | (15.1) | (92.1) | | | | | |
| Currency options – purchases | (92.1) | | | | | | | | | | |
| Fair value hedges | | | | | | | | | | | |
| Forward purchases and forward purchase swaps | 5 14.0 | 167.1 | 54.9 | 42.4 | 21.4 | 43.5 | 62.3 | 7.3 | 6.4 | 42.6 | 66.1 |
| Forward sales and forward sale swaps | (1,600.6) | (316.2) | (121.2) | (224.9) | (21.1) | (189.9) | (257.3) | (35.1) | (26.5) | (73.3) | (335.1) |
| Not documented | | | | | | | | | | | |
| Forward purchases and forward purchase swaps | 937.2 | 615.8 | 77.9 | 76.6 | 2.2 | 11.5 | 37.6 | 3.9 | 6.1 | 16.0 | 89.6 |
| Forward sales and forward sale swaps | (1,613.3) | (843.1) | (149.6) | (140.2) | (315.7) | (11.5) | (37.6) | (3.9) | (6.1) | (16.0) | (89.6) |
| Gross currency swaps | (105.7) | | (105.7) | | | | | | | | |
| Maturity | | | | | | | | | | | |
| Less than one year | | | | | | | | | | | |
| Forward purchases and forward purchase swaps | 1,479.5 | 810.4 | 133.6 | 119.0 | 23.6 | 55.0 | 99.9 | 11.2 | 12.5 | 58.6 | 155.7 |
| Forward sales and forward sale swaps | (6,491.2) | (2,379.4) | (690.7) | (687.6) | (336.8) | (523.1) | (687.9) | (89.0) | (74.8) | (395.7) | (626.2) |
| Gross currency swaps | | | | | | | | | | | |
| Currency options – purchases of export tunnels | (160.7) | (49.8) | (33.8) | (62.0) | (15.1) | (92.1) | | | | | |
| Currency options – purchases | (92.1) | | | | | | | | | | |
| More than one year | | | | | | | | | | | |
| Forward purchases and forward purchase swaps | | | | | | | | | | | |
| Forward sales and forward sale swaps | (24.7) | (4.8) | (19.9) | | | | | | | | |
| Gross currency swaps | (105.7) | | (105.7) | | | | | | | | |

Source: Kering Data

Appendix 25. Board of Directors Breakdown



Appendix 26. Gordon Growth Rate

| Growth Rate - Gordon | | | | | | | |
|----------------------|------------|------------|------------|------------|------------|------------|----------------|
| | 2018YE | 2019F | 2020F | 2021F | 2022F | 2023F | Terminal Value |
| CAPEX | 908.30 € | 847.15 € | 860.29 € | 828.37 € | 808.12 € | 839.43 € | 848.61 € |
| D&A | 503.00 € | 542.32 € | 630.72 € | 713.54 € | 792.25 € | 872.93 € | 675.79 € |
| ΔNon-Cash NWC | - 973.70 € | 1,065.58 € | 261.93 € | 172.77 € | 75.01 € | 22.24 € | 103.97 € |
| EBIT | 3,514.10 € | 3,156.29 € | 4,032.56 € | 4,336.20 € | 4,525.29 € | 5,135.73 € | 4,116.70 € |
| Tc | 0.33 € | 0.31 € | 0.31 € | 0.30 € | 0.30 € | 0.28 € | 0.28 € |
| EBIT*(1-Tc) | 2,354.45 € | 2,177.84 € | 2,782.46 € | 3,035.34 € | 3,167.70 € | 3,697.73 € | 2,964.02 € |
| Reinvestment Rate | -24.1% | 62.9% | 17.7% | 9.5% | 2.9% | -0.3% | 7.3% |
| Dividend(t+1) | 1,325.93 € | 1,605.23 € | 1,902.31 € | 2,025.03 € | 2,088.43 € | 2,348.13 € | 1,882.51 € |
| Net Income(t) | 3,714.90 € | 3,220.54 € | 3,816.57 € | 4,062.77 € | 4,189.98 € | 4,711.01 € | 3,952.63 € |
| Payout Ratio | 35.7% | 49.8% | 49.8% | 49.8% | 49.8% | 49.8% | 47.6% |
| Growth Rate | -15.5% | 31.6% | 8.9% | 4.8% | 1.4% | -0.2% | 3.81% |

Source: Author Estimations

Appendix 27. Author's Methodology/Assumptions

| BALANCE SHEET | Unit | 2019F | 2020F | 2021F | 2022F | 2023F | Methodology |
|--|--------------------------------|------------|------------|------------|------------|------------|--|
| Assets | | | | | | | |
| Goodwill | - | 2,058.46 € | 1,768.13 € | 1,515.29 € | 1,300.08 € | 1,115.44 € | See Fx - Calca |
| Brand & other intangible assets | - | 7,411.65 € | 7,432.03 € | 7,445.39 € | 7,454.29 € | 7,469.46 € | Brand & other intangible assets t-1 + Capex on Intangible assets - D&A |
| PP&E | - | 2,767.01 € | 3,303.17 € | 3,805.90 € | 4,283.97 € | 4,773.55 € | PP&E t-1 + Capex on PP&E - D&A |
| Investments in equity-accounted companies | yoj | 0% | 0% | 0% | 0% | 0% | Kept at 2018 carrying amount |
| Non-current financial assets | % D&A | 2% | 2% | 2% | 2% | 2% | Depreciating by the assets avg. D&A rate |
| Deferred tax assets | % Rev. | 6% | 6% | 6% | 6% | 6% | Constant Weight on % of Tot. Rev |
| Other non-current assets | yoj | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | Kept at 2018 carrying amount |
| Non-current assets | | | | | | | |
| Inventories | % Rev. | 18.4% | 18.4% | 18.4% | 18.4% | 18.4% | Inventories valued according to the weighted avg. method, thus is assumed that inventories will grow on the same pace as the business. |
| Trade Receivables | % DSO | 932.08 € | 1,056.47 € | 1,153.03 € | 1,227.65 € | 1,357.74 € | Maintain DSO |
| Current tax receivables | % Rev. | 0.7% | 0.7% | 0.7% | 0.7% | 0.7% | Maintain the same Avg % of Tot. Rev. |
| Other current financial assets | % Rev. | 0.8% | 0.8% | 0.8% | 0.8% | 0.8% | Maintain the same Avg % of Tot. Rev. |
| Other current assets | % Rev. | 6% | 6% | 6% | 6% | 6% | Maintain the same Avg % of Tot. Rev. |
| Assets held for sale | yoj | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | Kept at 2018 carrying amount |
| Cash & cash equivalents | - | - | - | - | - | - | See Cash Flow Statement |
| Current assets | | | | | | | |
| Equity | | | | | | | |
| Non-controlling assets | yoj | 0% | 0% | 0% | 0% | 0% | Kept at 2018 carrying amount |
| Equity attributed to owners of the parent | | | | | | | |
| Share capital | yoj | 0% | 0% | 0% | 0% | 0% | Kept at 2018 carrying amount |
| Capital reserves | yoj | 0% | 0% | 0% | 0% | 0% | Kept at 2018 carrying amount |
| Treasury shares | yoj | 0% | 0% | 0% | 0% | 0% | Kept at 2018 carrying amount |
| Translation adjustments | % Rev. | -0.61% | -0.61% | -0.61% | -0.61% | -0.61% | Assumed to remain at Hist Avg. 54% of Tot. rev |
| Remunerations of financial instruments | yoj | 0% | 0% | 0% | 0% | 0% | Kept at 2018 carrying amount |
| Other reserves | % Rev. | 50% | 46% | 52% | 54% | 55% | Assumed % of Rev. taking into account the increasing weight of equity after 2021 |
| Liabilities | | | | | | | |
| Non-current borrowings | - | 2,881.39 € | 2,650.08 € | 2,476.97 € | 2,392.79 € | 2,380.65 € | See Debt Schedule |
| Other non-current financial liabilities | yoj | 0% | 0% | 0% | 0% | 0% | Kept at 2018 carrying amount |
| Provisions for pensions and other post-employment benefits | yoj | 0% | 0% | 0% | 0% | 0% | Kept at 2018 carrying amount |
| Other non-current provisions | yoj | 0% | 0% | 0% | 0% | 0% | Kept at 2018 carrying amount |
| Deferred tax liabilities | % Rev. | 16% | 14% | 13% | 12% | 11% | Constant Weight on % of Tot. Rev |
| Other non-current liabilities | yoj | 0% | 0% | 0% | 0% | 0% | Kept at 2018 carrying amount |
| Non-current liabilities | | | | | | | |
| Current borrowings | - | 824.21 € | 592.89 € | 419.79 € | 335.60 € | 323.46 € | See Debt Schedule |
| Other current financial liabilities | % Rev. | 3% | 3% | 3% | 3% | 3% | Maintain the same Avg % of Tot. Rev. |
| Trade payables | %DPO | 900.97 € | 989.47 € | 1,082.29 € | 1,162.94 € | 1,277.41 € | Maintain DPO |
| Provisions for pensions and other post-employment benefits | % Rev. | 0% | 0% | 0% | 0% | 0% | Kept at 2018 carrying amount |
| Other current provisions | % Rev. | 1% | 1% | 1% | 1% | 1% | Constant Weight on % of Tot. Rev |
| Current tax liabilities | % Rev. | 6% | 6% | 6% | 6% | 6% | Maintain the same Avg % of Tot. Rev. |
| Other current liabilities | % Rev. | 16% | 16% | 16% | 16% | 16% | Maintain the same Avg % of Tot. Rev. |
| Liabilities associated with assets held for sale | yoj | 0% | 0% | 0% | 0% | 0% | Kept at 2018 carrying amount |
| Current liabilities | | | | | | | |
| Dividends | | | | | | | |
| Share Outstanding | in millions | 126.28 | 126.28 | 126.28 | 126.28 | 126.28 | Assumed no new share repurchase nor new share issue |
| Weighted avg. share outstanding | in millions | 125.90 | 125.90 | 125.90 | 125.90 | 125.90 | Assumed no new share repurchase nor new share issue |
| Dividends | Avg. Payout Ratio | 50% | 50% | 50% | 50% | 50% | Issued based on Avg. Hist. Payout Ratio |
| INCOME STATEMENT | | | | | | | |
| Total Revenues | | | | | | | |
| Western Europe | | 32% | 30% | 27% | 25% | 24% | |
| North America | | 19% | 19% | 18% | 17% | 17% | |
| Japan | | 8% | 7% | 7% | 6% | 6% | |
| Sub-Total - Mature Markets | % Rev. | 59% | 56% | 52% | 49% | 47% | See Rev. Region |
| Eastern Europe, Middle East and Africa | | 6% | 6% | 6% | 6% | 6% | |
| South America | | 1% | 1% | 1% | 1% | 1% | |
| Asia Pacific (excluding Japan) | | 34% | 37% | 41% | 44% | 46% | |
| Sub-Total - Emerging Markets | % Rev. | 41% | 44% | 48% | 51% | 53% | |
| Cost of Goods Sold | % Rev. | 24% | 24% | 24% | 24% | 24% | Constant Weight on % of Tot. Rev |
| Gross Margin | | | | | | | |
| Salaries, Wages and Employee Benefits | % Rev. | 16% | 16% | 16% | 16% | 16% | Constant Weight on % of Tot. Rev |
| Other Non-recurring Charges | % Rev. | 2% | 2% | 2% | 2% | 2% | Constant Weight on % of Tot. Rev |
| Other Recurring Op. Income and Expenses | % Rev. | 31% | 31% | 31% | 31% | 31% | Constant Weight on % of Tot. Rev |
| EBITDA | | | | | | | |
| Depreciation & Amortization | - | € 542.32 | € 630.72 | € 713.54 | € 792.25 | € 872.93 | |
| Operating Income / EBIT | | | | | | | |
| Total Financial Net Cost | Kd | 2.56% | 1.52% | 2.28% | 1.26% | 0.96% | Represents the Cost of Debt |
| Income Before Income Taxes / EBT | | | | | | | |
| Income Tax Expense Tc | yoj | 31% | 31% | 30% | 30% | 28% | France Corporate Tax |
| Share in Earnings of Equity-Accounted Companies | yoj | 0% | 0% | 0% | 0% | 0% | Kept at 2018 carrying value |
| Net Income From Continuing Operations | | | | | | | |
| Net Income From Discontinued Operations | yoj | 0% | 0% | 0% | 0% | 0% | Kept at 2018 carrying value |
| Net Income Before Minority | | | | | | | |
| Minority/Non Controlling Interest | % Rev. | 0.4% | 0.4% | 0.4% | 0.4% | 0.4% | Constant Weight on % of Tot. Rev |
| Net Income | | | | | | | |
| CASH-FLOW STATEMENT | | | | | | | |
| Cash From Operating Activities / CFO | | | | | | | |
| Net Income From Continuing Operations | % Rev. | 12.9% | 12.9% | 12.9% | 12.9% | 12.9% | Grows maintaining the Hist. % of Tot. Rev. |
| Depreciation And Amortization - CF | % Net Inc. from Op. Activities | 19% | 19% | 19% | 19% | 19% | % Net Income from Op. Activities, based on Hist. observations |
| Other non-cash Income and Expenses | - | 0% | 0% | 0% | 0% | 0% | Kept at 2018 carrying value |
| Net Change In Working Capital Requirement | - | 0% | 0% | 0% | 0% | 0% | Kept at 2018 carrying value |
| Income Tax Paid | % Net Inc. from Op. Activities | 18% | 18% | 18% | 18% | 18% | % Net Income from Op. Activities t-1, based on Hist observations |
| Current Tax Expense | % EBT | 30% | 30% | 30% | 30% | 30% | % of EBT based on Hist. observations |
| Interest Paid/Received | % Net Inc. from Op. Activities | 7% | 7% | 7% | 7% | 7% | % Net Income from Op. Activities, based on Hist. observations |
| Dividends Received | - | 0% | 0% | 0% | 0% | 0% | Kept at 2018 carrying value |
| Net Cash Flows From Operations | | | | | | | |
| Cash From Investing Activities / CFI | | | | | | | |
| Purchases of Investments | - | 86.61 € | 87.96 € | 84.69 € | 82.62 € | 85.82 € | Purchase of new investments based on Hist. Avg increasing by the same rate as the Rev. |
| Purchase of PP&E and Intangibles | - | 760.54 € | 772.33 € | 743.68 € | 725.50 € | 753.60 € | Purchase of PP&E and Intangibles based on Hist Avg. increasing by the same rate as the Rev. |
| Interest And Dividends Received | yoj | 0% | 0% | 0% | 0% | 0% | Kept at 2018 carrying value |
| Proceeds From Sale of Fixed & Intangible Asset | yoj | 0% | 0% | 0% | 0% | 0% | Kept at 2018 carrying value |
| Payment of Acquisition of Subsidiary | yoj | 0% | 0% | 0% | 0% | 0% | Kept at 2018 carrying value |
| Proceeds From Sale of Other Financial Assets | yoj | 0% | 0% | 0% | 0% | 0% | Kept at 2018 carrying value |
| Net Cash Flows From Investing | | | | | | | |
| Cash From Financing Activities / CFF | | | | | | | |
| Dividends Paid | yoj | 1,325.93 € | 1,605.23 € | 1,902.31 € | 2,025.03 € | 2,088.43 € | Dividend paid on t-1 |
| Dividends Paid to non-controlling interests | yoj | 44.20 € | 44.20 € | 44.20 € | 44.20 € | 44.20 € | Interim Cash unchanged from 2018 |
| Other Financing Activities | yoj | 0% | 0% | 0% | 0% | 0% | Kept at 2018 carrying value |
| Treasury Shares Transactions | yoj | 0% | 0% | 0% | 0% | 0% | Kept at 2018 carrying value |
| Debt Issues | - | - | - | - | - | - | See Debt Schedule |
| Debt Redemptions/Repayments | - | - | - | - | - | - | See Debt Schedule |
| Increase (Decrease) In Borrowings | Issue t - Redemption t | 584.41 € | 789.21 € | 67.89 € | 304.79 € | 307.60 € | Difference between new issues and redemptions on t |
| Interest Paid From Financing Activities | - | - | - | - | - | - | See Debt Schedule |

Source: Author Estimations

Abbreviations

Bn - Billion
BoD – board of Directors
CAGR – Compounded Annual Growth Rate
CAPM – Capital Asset Pricing Model
CAPEX – Capital Expenditures
CRP – Country Risk Premium
DCF – Discounted Cash Flows
DDM – Divined Discount Model
E.G – Example
EP&L – Environmental Profit & Loss
EPS – Earnings per Share
EUR – Euro
ESG – Environment, Social and Governance
F – Forecasted
FCFF – Free Cash Flow to the Firm
GDP – Gross Domestic Product
G.M – General Meeting
HNWI – High Net Worth Individual
IMF – International Monetary Fund
ISS – Institutional Shareholders Structure
LVMH – Louis Vuitton Moet Hennessey
MRP – Market Risk Premium
ROA – Return on Assets
ROE – Return on Equity
SWOT - Strengths, Weaknesses, Opportunities and Threats
USD – United States Dollar
YE – Year End
YOY – Year on Year
WACC – Weighted Average Cost of Capital
WEO – World Economic Outlook

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