A Work Project, presented as part of the requirements for the Award of a Master Degree in Finance from the NOVA – School of Business and Economics.

Equity Research – Farfetch Limited:
The pioneer of the luxury fashion marketplace

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A Project carried out on the Master in Finance Program, under the supervision of:

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16th December 2022

Abstract

This individual report analyze how Farfetch is currently disrupting the luxury market and how are they adding value to it with the different partnerships and unique business model.

As the current leading technology platform for the global luxury fashion industry, we analyzed the company's competitive landscape to further understand how Farfetch was performing in comparison with its peers.

Following the recent announcement of acquisition of a share of YNAP, we also analyzed how are these acquisitions creating or destroying value to the shareholders.

Keywords
Farfetch, Luxury, Online penetration rate

This work used infrastructure and resources funded by Fundação para a Ciência e a Tecnologia (UID/ECO/00124/2013, UID/ECO/00124/2019 and Social Sciences DataLab, Project 22209), POR Lisboa (LISBOA-01-0145-FEDER-007722 and Social Sciences DataLab, Project 22209) and POR Norte (Social Sciences DataLab, Project 22209).

This report is part of the “Farfetch – Equity Research: Where technology and luxury meet” report (annexed), developed by Mafalda Farinha and Suyala Monteiro and should be read has an integral part of it.

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Introduction

The present project aims to value Farfetch, the online luxury retail platform that owns a marketplace that provides access to more than 1,300 sellers in more than 190 countries. Upon the migration of sales to online fostered by the pandemic in 2020, Farfetch became a rising unicorn with a large addressable market and a great potential for growth. However, the company has been reporting negative returns since January 2022, to what we believe is the consequence of the acquisitions that the company has been making.

So, despite its losses that mostly come from the strong investment in demand generation, the company has been performing well for the past years. Together with the company's effort to build a strong connection with its partners and retaining most of its retailers quarter after quarter, we expect that Farfetch will be able to have positive returns in the following years.

Amid the market volatility the markets faced this year, we forecast a favourable market outlook and a strong revenue growth forecast for the upcoming years, with the company's stock to be traded at 5.56 US dollars om FY2023.

For the first half of the report, we do company overview, where the company's model is further explained and how is Farfetch bringing innovation to the market. Then, we provide a competitive landscape to explain how the company is positions in comparison with its peers. Furthermore, the M&A activity of Farfetch was addressed as it represents one of the sources of the company's growth. After giving a glimpse of the company and the competition, we end this half with a risk and scenario analysis.

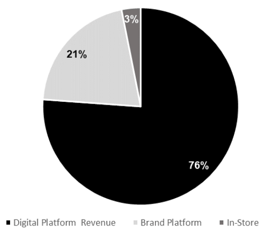
For the second half of the joint research, we analyse the global macroeconomic scenario and the luxury market industry, as the consumer and technology trends were used in our valuation model. In order to value Farfetch, we used a Discounted Cash Flows model with the main value drivers being the increase of digitalization of the luxury market and the increase in the online penetration rate. At the end, we also performed a sensitivity analysis.

Company Overview

What is Farfetch?

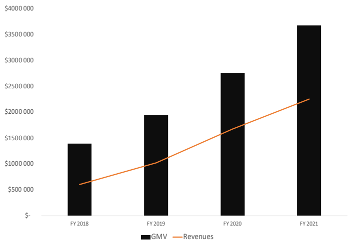
Founded by the Portuguese entrepreneur José Neves in 2007, Farfetch is as an e-commerce marketplace and platform for luxury boutiques around the world. The Farfetch marketplace connects physical store locations through its Digital Platform to worldwide consumers, making luxurious brands offer seamless experiences across multiple channels.

Being the pioneer for the luxury fashion marketplace concept, today Farfetch Marketplace is established in over 190 countries and territories with items from more than 50 countries and over 1,400 of the world's best brands, boutiques and department stores. As Farfetch has a marketplace business model it connects buyers and sellers but does not hold inventory itself. This allows the company to offer a wide variety of items from different luxury fashion brands while maintaining a low overhead cost. By delivering a unique shopping experience and access to the most extensive selection of luxury on a platform, Farfetch Limited has become the leading global platform for the luxury fashion industry.



***Graph 1**: Revenues by segment*
Source: Farfetch's Financial Reports

Additionally, Farfetch businesses include Browns and Stadium Goods, which offer an in-store experience to consumers. Combining fashion and technology, the company's Luxury New Retail initiative incorporates Farfetch Platform Solutions (FPS) and Future Retail which offer commerce solutions for luxury brands and retailers.

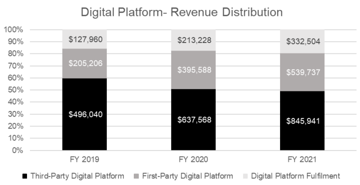


***Graph 2**: Gross Merchandise Value*
Source: Farfetch's Financial Reports

The Business Model – Three Broad Segments

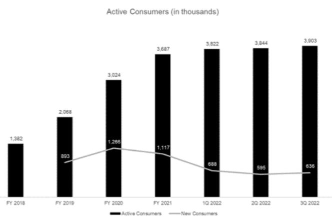
Farfetch generates revenue through three operating segments, the Digital Platform (which includes fulfilment, first-party, and third-party revenues), the Brand Platform, and In-Store.

Farfetch's Gross Merchandise Value (GMV) represents the total dollar amount of orders processed, net of cancellations. In FY2021, the GMV reached 3.7 billion US dollars representing a growth of 33% from the FY2019 GMV. In FY2021, the amount recognized as total revenues was 2.3 billion US dollars. In the last year, this figure increased 35%, a higher percentage increase than the one verified in the GMV.



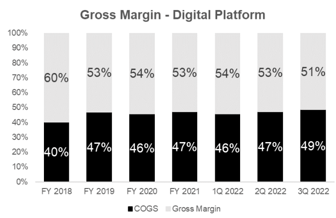
***Graph 3**: Digital Platform – Revenue Distribution*
Source: Farfetch's Financial Reports

- ### Digital Platform



***Graph 4**: Digital Active Consumers*
Source: Farfetch's Financial Reports

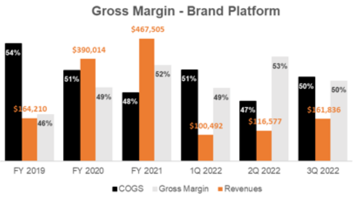
Digital Platform group is composed by online revenues generated by Farfetch own brands: New Guards Group, Browns, and Stadium Goods (first-party digital platform revenues); Farfetch's brands and boutique partners who list their inventory on the marketplace and then pay a fee when the product is sold (third-party); and fulfilment revenues that are supposed to track the fulfilment costs, which results in only marginal gross profit contribution with no economic benefit. The platform derives its revenues mostly from transactions between sellers and consumers or customers conducted on their technology platforms, and primarily operates a revenue share model where retains commissions and related income from those transactions.



***Graph 5**: Digital Platform – Gross Margin*
Source: Farfetch's Financial Reports

This segment represented 76% of total revenues in FY2021. Even though the average order value (AOV) has been slightly decreasing, the number of Active Consumers more than compensated it by increasing 78% from FY2019 to FY2021. At this date, the company has more than 3.9 millions of active consumers.

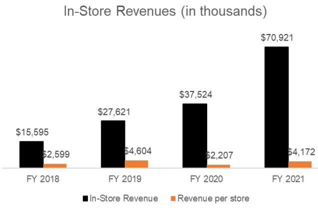
First- and third-party cost of revenues include packaging costs, credit card fees, and incremental shipping costs provided in relation to the provision of these services. Digital Platform Services first-party cost of revenues also includes the cost of goods sold of the owned products. Since 2019, the company has been able to maintain a consistent level of efficiency, keeping gross margins stable.



***Graph 6**: Brand Platform – Gross Margin*
Source: Farfetch's Financial Reports

- Brand Platform

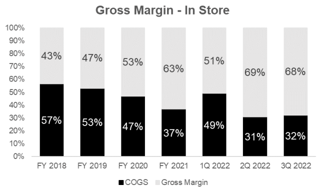
The Brand Platform segment is comprised of design, production, brand development and wholesale distribution of brands owned and licensed by New Guards and includes franchised store operations. Since the creation of this segment, in FY2019, revenues have almost tripled to 467 million US dollars, accounting for 21% of total revenues. This growth is mainly driven by organic growth of the New Guards portfolio of brands but also by the acquisition of new ones, like Palm Angels.



***Graph 7**: In-Store – Revenues*
Source: Farfetch's Financial Reports

- In-Store

The In-Store segment covers the activities of stores Farfetch operates, including Browns, Stadium Goods and certain brands in the New Guards portfolio. Revenues are derived from sales made in these physical stores. As of 30 September 2022, Farfetch accounted for 23 in-stores.



***Graph 8**: In-Store – Gross Margin*
Source: Farfetch's Financial Reports

The In-store segment only represented 3% of the group's revenues last year and had never accounted for more than 5%, not being a significant segment driving Farfetch's growth. Although this segment won't have a high contribution to the group's revenue as the Digital Platform has, it is expected to see a marginally increase to in-store purchases upon the investments of digitization and number of stores.

How is Farfetch Disrupting the Luxury Market?

Farfecth sees itself as a leader in digitizing the luxury experience offline

As it is hard to recreate an online experience that provides the same level of exquisite service that consumers receive in the physical stores and boutiques, the luxury goods industry was late in transitioning to the eCommerce universe.

Farfetch has a business model that allows the company to position themselves in a different environment compared to their marketplace competitors. As the core business doesn't rely in physical retail stores nor inventory, has a distribution across different countries, and it doesn't rely in physical retail stores, Farfetch is able to overcome the challenges that other retailers have faced and work more as platform.

Year	Partnership and Goal
2018	Acquisition of **CuriosityChina** Make plug-and-play China capabilities access available to FPS clients.
2018	Partnership with **Channel** Deliver Store of the Future Experience.
2019	Partnership with **Harrods** Create online platform through FPS.
2020	Partnership with **Alibaba** Further extend reach in China and accelerating the digitalization of the sector.
2022	Partnership and investment in **Neiman Marcus Group** Re-platform and power website and mobile application of NMG brands. Support digital growth and innovation initiatives.
2022	Partnership with **Salvatore Ferragamo** Digitalization of the brand and higher presence on Farfetch marketplace.
2022	Partnership with **Richemont** and **Alabbar** Farfetch acquires a 47.5% stake in Yoox Net-A-Porter. YNAP to adopt FPS to advance growth and shift towards a hybrid business model. Richemont Maisons to adopt FPS and open e-concessions on the Farfetch Marketplace

FPS means "Farfetch Platform Solutions"

***Table 1**: Partnership and Goal*
Source: Farfetch's Financial Reports

- Building the "Store of the Future"

Beyond their online platform where consumers can purchase a wide range of products, Farfetch is also innovating the concept of in-store shopping. The company is using Browns to test its new vision around digitally enabled in store customer experience. Using new technologies like augmented reality, Farfetch tries to deliver to in-store shopping customers a better experience. Customers can try on clothing that may not be available in-store and book appointments use through the store's app to select clothing to be tried on in store before they arrive. The personnel at the store can also see the customer's search history in the app as well as what clothing they have asked in their visit to provide customers with more customized recommendations. Radio-frequency enabled clothing racks in the Browns' boutique detect which merchandise a customer is picking up and then the item is added to the customer's wish list. Fitting rooms are also outfitted with smart mirrors customers use to request items in different sizes or colours. The smart mirrors also show what's on a customer's wish list and how to mix and match pieces.

- Building Partnerships

Over the years, the group has been partnering and expanding enterprise relationships with luxury sellers. Farfetch signed an agreement to enter a strategic arrangement with Taobao China Holding Limited (“Alibaba”) and Richemont International Holding S.A (“Richemont”) in 2021. As part of the arrangement, Alibaba and Richemont invested 500 million US dollars in return for a combined 25% stake in Farfetch China Holdings Limited and its subsidiaries. This also includes the Luxury New Retail initiative, which goal is to leverage Farfetch and Alibaba´s retail technologies, using digital transformation to better serve the needs of the luxury customers. Adding, Farfetch also has a strategic relationship with the Chalhoub Group which together with the two previously mentioned partnerships enhance access to geographic markets such as China and the Middle East. Beyond selling products via the Farfetch Marketplace, partnering with Farfetch also enables the digitization of brands and retailers, powering their own sites, stores and fulfilment operations with Farfetch’s platform and Luxury New Retail proposition.

- Skilled Management Team

The strong industry relations at Farfetch stem from founder José Neves and his team of well-connected luxury veterans with deep relationships with brands and boutiques that have engendered a trust in the platform and willingness to partner. The CEO has been involved in the fashion start-up world since the mid-1990s when he launched footwear business SWEAR and opened a renowned boutique store, which won the British Fashion Award for Retailer of the Year in 2006.

Elliot Jordan, the Chief Financial Officer, is responsible for the company´s financial operations including accounting, treasury and tax, and financial reporting and control across all Farfetch’s international offices. With a wealth of financial experience at consumer online retailers including ASOS and Sainsbury’s, Elliot has been working for Farfetch since 2015.

The Chief Strategy Officer, Stephanie Pair, is the Chair of the British Fashion Council and was previously founder and President of TheOutnet.com of the and was part of the Executive team of The Net-a-Porter Group from 2009 to 2015. She has more than 15 years of luxury and e-commerce experience.

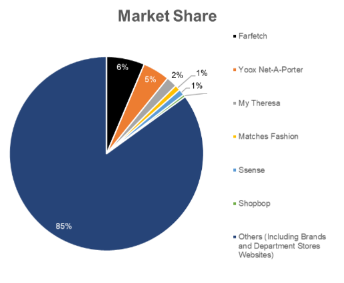
As Farfetch built its own platform, they also depend highly on the skills their data specialists, software engineers and technology professionals to design, maintain and improve the code and algorithms necessary to run the brand platform.

- How Farfetch adds value to the industry

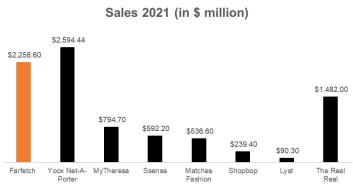
By partnering with Farfetch, all the parties involved win.

The company offers retailers an attractive opportunity to earn incremental dollars on otherwise unsold inventory. By using Farfetch, sellers are able to achieve incremental sales that optimize their inventory space without increasing their physical footprint and for the retailers. As an added benefit here, there is not much incremental work on the sellers' part as Farfetch handles the content generation, inventory management, and shipping logistics.

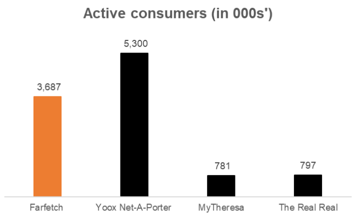
The Farfetch Platform Solutions (FPS) is a white-label technology platform for retailers, brands, and department stores to manage their luxury e-commerce business as well as their physical stores and warehouses. FPS enables content creation and management, online marketing, global payments and logistics, inventory management and synchronization, and in-



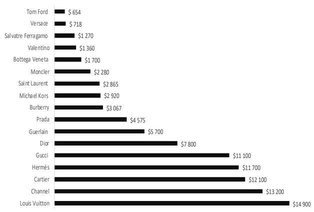
Graph 9*: Market share (online channel).*
Source: Statista



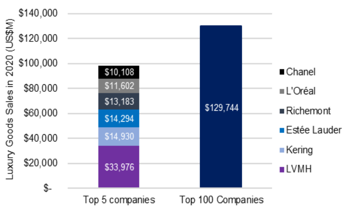
Graph 10*: Sales 2021*
Source: Companies' financial reports



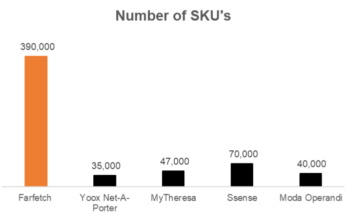
Graph 11*: Active consumers – 2021*
Source: Companies' financial reports



Graph 12: *Top 17 luxury brand's revenue*
Source: Statista



Graph 13*: Key players/ Conglomerates in the luxury market*



Graph 14: *Number of SKU's*
Source: Companies' financial reports

store technology. Given that luxury brands are not technology companies, unlike Farfetch, and do not possess the expertise to build a comparable product for themselves, it is more profitable for them to partner with Farfetch. However, it is difficult to quantify the added value and revenue potential of this platform, as there is no information about how revenues are generated or what type of pricing structure is used.

Competitive Landscape

The luxury e-commerce landscape has a relatively small number of contenders. The market is highly competitive and concentrated, with Farfetch and Yoox Net-A-Porter being the largest and best-established companies.-

Because Farfetch is a high-tech luxury marketplace that acts more like a tech company than as a retailer, it stands out from competition that comes from i) marketplaces, ii) technology enablement companies and, iii) online and offline luxury retailers. However, in a fast-growing market like this, players need to move fast not only to differentiate from one another but also to build valuable and long-lasting partnerships with sellers and customers, who see cooperation as a mean of modernizing their operations. Therefore, most marketplaces and online and offline luxury retailers compete for market share using similar strategies: i) creating digital tools to modernize their services, such as websites and apps; ii) the size of the offer (number of brands, designers and SKUs); iii) pricing strategy; iv) payment, shipping and return policies and; v) the service delivered (user friendliness and help desk). Against the main marketplace competitors, Farfetch outstands in most of the above criteria basically because their main business driver, the Digital Platform Services, operates based on e-concessions and does not require investment in inventories or logistics. Thus, the company can better allocate their efforts on product and services, platform, technology, and traffic management and build a significant competitive advantage.

While having large variety of brands in Farfetch platform is an advantage, sales are still highly concentrated with few brands. The top 5 brands represented more than 19% of the total market and the top 10 brands almost 27% in 2021. Moreover, the luxury industry is tightly controlled by family and few large groups and families control the key brands. As an example, in 2020, the top 5 biggest luxury companies represented 38% of the total revenues in the luxury goods market. This control enforces some obsessive focus over brand image, pricing, and distribution which until recent times explained why luxury industry have been late adopters of online. Since Farfetch generates revenue by taking commission on sales from the brands and does not own the inventory, brands have the control over merchandising, pricing and the customer experience. By partnering closely with large conglomerates, like Kering, Richemont and Chanel, who have their brands heavily promoted on the marketplace, Farfetch was able to get some of the most popular brands in their platform. Moreover, the Covid-19 pandemic also helped to strength and create more partnerships as brands and boutiques were forced to embrace digital to support growth and remain relevant to new generations of affluent customers. All in all, the company has a depth selection of luxury partners allowing them to aggregate supply from multiple sources and boutiques while still partnering with big players, contrary to other luxury e-tailers who rely on a narrow number of distribution centres.

Over the years, Farfetch reached scale and today, the company's marketplace connects customers in over 190 countries and territories with items from more than 50 countries and over

3,500 of the world's luxurious brands, boutiques and department stores[1], which make over 390,000 SKUs that are listed on the platform. Moreover, the company launched the Beauty segment in 2022, differentiating itself from competition, being the only platform with this category. Also, among younger generations, Farfetch appears in the top of popularity (among the luxury e-commerce and marketplaces) with 2.4x more Instagram followers than the second most popular channel, which ultimately can lead higher costumer acquisition rate.

Despite partnering with offline channels, Farfetch also faces competition from them. Conglomerates like LVMH, who is the leading luxury fashion company that detains the highest stake in the luxury market sales, have offline and online stores directly managed by them. LVMH, for example, controls Louis Vuitton (it is only sold through LVMH boutiques or online platform) and launched in 2014 an online store, the 24S selling more than 150 brans, 20 of which are group owned. To overcome the problems faced by this kind of competition, Farfetch has been creating valuable partnerships with other conglomerates and brands, as already mentioned above, and focus on creating powerful platform solutions for their brands. We see company's relationship with luxury conglomerates and brands providing a competitive advantage in the long-run, difficult for a competitor to create. In 2022, the company already announced two big partnerships, with Neiman Marcus Group and Salvatore Farragamo with the goal of reinforcing their omnichannel retail strategy through the integration of their e-commerce using Farfetch Platform Solutions and strength the presence of this brands on the Farfetch marketplace.

Merger & Acquisitions

Year	Company	% Acquired
2015	Browns	100%
2015	iMall Holdings Limited	100%
2017	Fashion Concierge UK Limited	100%
2017	Laso Co Limited	100%
2017	Style.com	100%
2017	JD	Merge
2019	Stadium Goods	100%
2019	CuriosityChina	100%
2019	Toplife	100%
2019	New Guards Group	100%
2021	Luxclusif	100%
2021	Jetti	100%
2021	Allure	100%
2021	Palm Angels	60%

***Table 2**: Summary of M&A.*
Source: Farfetch's Financial Reports

Although acquisitions can be a powerful tool to accelerate revenue growth, Farfetch also focus on developing and improving its customers' experience and building its own brand.

Farfetch is not limited in being the intermediary between the brands and its customers. In FY2018, Farfetch acquired the eCommerce business - Style.com – which allowed the company to invest and create more innovative content and commerce experiences for customers. Also in 2018, with the rise of businesses in emerging markets, the company acquired CuriosityChina. This acquisition allowed Farfetch to provide access to its partners to expand their business in China. Using the Farfetch platform, brands became able to have a unified view of all their inventory (in China or cross-border), be able to manage all of their customer touchpoints whether the customer is at home or travelling and be able to offer an unrivalled service tailored to the sophisticated Chinese consumer.

In 2019, Farfetch bought New Guards Group, which owns several luxury labels including Off White, for 675 million US dollars. This was the boost for the company to start creating its own content and become more than a transactional platform. With this new acquisition, the company started to become culturally relevant as brand. In August, Farfetch purchased a 47.5% stake of one of its main competitors - Yoox Net-a-Porter - which operates the luxury eCommerce site Net-a-Porter. As a part of the merger Net-a-Porter will transition to Farfetch's technology platform.

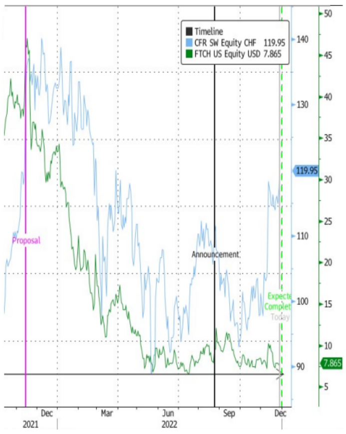
The global Personal Luxury Goods market comprises 4 main categories: Accessories, Apparel, Hard Luxury and Beauty. As a result of the latest acquisition of Violet Grey, the group launched a beauty direct-to-consumer online channel, targeting now all the categories mentioned before.

Farfetch stake in Yoox Net-A-Porter

[1] Data retrieved from brands listed on the Platform. - [FARFETCH - The Global Destination For Modern Luxury]

In August 24th, Farfetch announced that it is planning to acquire a 47.5% of Yoox Net-A-Porter ("YNAP"). YNAP is an Italian online fashion retailer owned by Richemont and until now, the main Farfetch's competitor. Upon the acquisition, YNAP will become a neutral platform with no controlling shareholder. In the initial stage, Farfetch and Alabbar will acquire 47.5% and 3.2%, respectively, of YNAP's share capital from Richemont, making YNAP a neutral platform with no controlling shareholder. The 47.5% share acquisition by Farfetch is expected to be accounted for as a non-controlling stake, which will not require it to consolidate YNAP in this stage.

There are two envisaged stages of the investment into YNAP. Upon completion of the sale of 47.5% of YNAP's share capital to Farfetch, Richemont will receive 53.0-58.5 million Farfetch Class A ordinary shares. Richemont will also receive 250 million US dollars (on the fifth anniversary of completion of the initial stage of the transaction). At completion of the initial stage, YNAP will be free of financial debt, with a minimum of 290 million US dollars of cash on its balance sheet, and Richemont will make available, for up to 10 years, a committed credit facility for an additional 450 million US dollars that YNAP may draw upon at its discretion, subject to certain conditions. The potential second and final stage of the transaction provides for Farfetch to increase its ownership of YNAP's share capital to 100% through a put and call option mechanism. If not exercised, all parties exit via an IPO or a sale to a third party.



***Graph 15**: Market Reaction to Farfetch – Richemont deal.*
Source: Bloomberg

Although the deal still faces regulatory review from regulators (which could take six to nine months), Farfetch and Richemont combine forces to expand and advance the digitalization of the luxury industry. Moreover it would enable Farfetch to position itself better to take advantage of market growth and a wider portfolio of brands. Through the YNAP acquisition, Farfetch more than doubles it reach into luxury consumers. Despite there is some overlap between Farfetch 3.6 million active consumers and YNAP's 5.3 million, the costumer avatar is slightly different. According with José Neves "The Farfetch customers are digital natives, having grown up with two-sided marketplaces [online and offline] as an integral part of their lives […]. The Net-A-Porter and Mr Porter customers are older, having started their luxury shopping habits with glossy magazines and the department store and slowly discovered and migrated to an online mode of shopping […]." Consequently, the average costumer age is different, but the biggest customer prize is YNAP "Extremely Important Person" customer base that make up only about 3% of its total active consumers but account for over 40% of total revenues.[2] Additionally, Richemont brands including Cartier, IWC and Chloe will adopt Farfetch platform for e-commerce and most will launch sales concessions on the Farfetch marketplace, which may boost traffic generation and consequently both revenue and GMV. Despite many challenges on the road, the market shown a positive reaction upon the announcement, with the share price of Farfetch and Richemont increasing 21.4% and 3.13%, respectively.

	FY2018	FY2019	FY2020	FY2021
Farfetch	-92%	-16%	40%	-671%
Shopify	-94%	-76%	-86%	-59%
Etsy	102%	128%	313%	-16%
MyTheresa	-19%	-27%	-31%	-9%
TheRealReal	-143%	-108%	-44%	-8%
BLOCK	-19%	-37%	-44%	-10%

***Table 3**: Net Debt/Equity*
Source: Companies' financial reports

Performance Analysis

Capital Structure and Liquidity

	FY2018	FY2019	FY2020	FY2021
Farfetch	5.38	0.69	2.02	1.61
Shopify	14.20	7.76	14.57	11.05
Etsy	5.57	4.33	3.67	1.60
MyTheresa	0.06	0.03	0.09	0.70
TheRealReal	0.70	3.06	2.39	2.22
BLOCK	0.70	3.06	2.39	2.22

***Table 4**: Cash Ratio*
Source: Companies' financial reports

Farfetch finances its business mainly through equity, debt in form of capital leases and excess of cash. Debt-wise, Farfetch currently has outstanding roughly 551 million US dollars in form of convertible notes and 205 million US dollars in form of capital lease obligations. Companies in

[2] https://www.forbes.com/sites/pamdanziger/2022/08/28/richemont-ynap-deal-puts-farfetch-closer-to-being-the-global-platform-for-luxury/?sh=2d2f08dd6090

	FY2018	FY2019	FY2020	FY2021
Farfetch	6.18	1.38	2.52	2.33
Shopify	15.35	8.67	15.69	12.15
Etsy	2.05	2.07	1.93	3.12
MyTheresa	2.07	1.90	1.88	1.94
heRealReal	1.01	3.43	2.85	2.75
BLOCK	2.07	1.90	1.88	1.94

***Table 5**: Current Ratio*
Source: Companies' financial reports

Farfetch's sector are characterized by having considerably high levels of excess of cash in relation to debt resulting in negative net debt to equity ratios – it detains a lot excess of cash, causing the net Debt-to-Equity ratio to be negative and over 100%.

The high value of Excess of Cash is reflected on the liquidity ratios of the company – from FY2018 to FY2021, meaning that if the company had to pay its current liabilities right now, it would have the capacity to pay it almost twice. Additionally to be highly liquid, it is also highly solvent – the firm has a sustainable capital structure to finance its activity.

In comparison with its peers, we can see that most of them also have a high amount of excess cash and present a negative net debt to equity ratio. In terms of liquidity, Shopify is the best positioned as it can easily source cash to pay out its obligations.

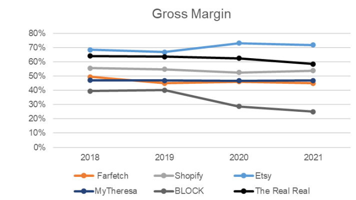


***Table 16**: Gross margin*
Source: Companies' financial reports

Profitability and margins

Looking at the gross margins, Farfetch presents throughout the years a very stable figure around 45%. Amid China year-on-year dip across EMEA regions to Russia closures, and the Asia-Pacific decline to Chinese Covid regulations, noting the strength of the US dollar's this year, we expect that Farfetch will maintain this margin as they don't do promotions.

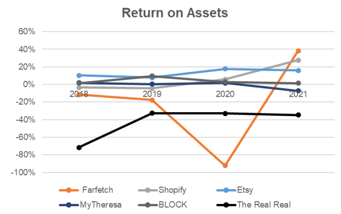


***Table 17**: Return on assets*
Source: Companies' financial reports

Farfetch presented a negative return on assets until 2021, recording 38% return in 2021. This negative ratio was mainly due to the negative income, but for the first time in 2021 hit a total EBITDA profitability. However, when focusing only on the operating result, the ROA maintains its negative trend of - 21% in the FY2021.

Risks and Scenario Analysis

We believe there are three important variables that need further discussion due to its high importance and impact on the company: the take rate, luxury market online penetration, and demand generation expenses. A scenario analysis was performed for each of them to quantify the impact of each one of the factors on Farfetch's valuation, as well as the probability of those risks materializing.

- Online Penetration Rate

On a 294 billion US dollars market size, the online channel represented 19.40% of the total luxury goods revenues in FY2021, an increase in 1.40pps comparing to FY2020. The COVID-19 pandemic has helped to increase the online presence of the luxury sector. However, with the reopening of the economy and physical stores, two scenarios may occur. The first one, the slowdown of the migration of shoppers to online channels, represents a risk for Farfetch that sees the size of potential costumers decrease substantially. A scenario where the online penetration stabilizes at 25% compromises the ability of the company to become profitable, given its high level of investment.

The second scenario, a faster adoption of online channels, will boost target segment and GMV of the company. The company is able to produce positive cash flows already in FY2026 (two years before the base scenario predicts) and generate a discounted operating value 4x higher than the base scenario.

As we believe the online channel is a trend that came to stay, the probability of the increase of the online penetration rate is more likely to happen, which suggests an expected share value of 8.59 US dollars (a 54% upside).

	Downside	Base	Upside
Online Penetration (2023-2040)	Stabilizes at 25% in 2025	Reaches 27% in 2025 and stabilizes in 2034 at 35%	Stabilizes in 2030 at 50%
Probability	15%	60%	25%
Core Value	$ (42,693)	$ 1,775,129	$ 7,039,577
Terminal Value	$ 334,775	$ 860,670	$ 1,632,831
Non-Core Value	$ (168,220)	$ (168,220)	$ (168,220)
Enterprise Value	**$ 123,862**	**$ 2,467,579**	**$ 8,504,189**
Less: Debt	$ 757,617	$ 757,617	$ 757,617
Plus: Excess Cash	$ 419,906	$ 419,906	$ 419,906
Equity Value	**$ (213,849)**	**$ 2,129,868**	**$ 8,166,478**
Price per share	**$ (0.56)**	**$ 5.56**	**$ 21.33**
Expected Share Value		$ 8.59	

- Take Rate

Farfetch has been able to sustain high take rates, not so different from other competitors. Although the company delivers high-value proposition to its consumers and partners, the industry is becoming more competitive, and this poses a threat to the future of the company's take rates. Being able to keep high rates demonstrates the extent of value that the company is able to create for its customers and third-party sellers, however it also invites competition and take rates are unlikely to increase in the future. In the downside scenario, we considered a take rate of 23% and in the upside scenario, the take rate would be 33% (a scenario unlikely to happen).

In a bearish scenario, revenues would decrease by an average of 928 million US dollars each year (a ~5% decrease) implying a negative impact on core result of 430 million US dollars on average each year. Thus, this scenario implies an intrinsic share price of 0.88 US dollars.

	Downside	Base	Upside
Average Take Rate	23%	28%	33%
Probability	25%	70%	5%
Core Value	$ 228,949	$ 1,775,129	$ 3,245,376
Terminal Value	$ 615,578	$ 860,670	$ 1,122,591
Non-Core Value	$ (168,220)	$ (168,220)	$ (168,220)
Enterprise Value	**$ 676,308**	**$ 2,467,579**	**$ 4,199,747**
Less: Debt	$ 757,617	$ 757,617	$ 757,617
Plus: Excess Cash	$ 419,906	$ 419,906	$ 419,906
Equity Value	**$ 338,597**	**$ 2,129,868**	**$ 3,862,036**
Price per share	**$ 0.88**	**$ 5.56**	**$ 10.09**
Expected Share Value		$ 4.62	

- Demand Generation Expenses

Demand generation expenses is a crucial factor to consider when valuating Farfetch. In FY2021, Farfetch reported ~292 million US dollars in demand generation expense, or 35.50 US dollars per order, representing around 20% of the digital platform services revenue. As comparison, Farfetch's demand generation budget is more than twice the closest competitor, MyTheresa (~ 97.8 million US dollars last fiscal year, 13% of net sales).

To become profitable, this is one of the factors the company needs to optimize. To do so, Farfetch needs to allocate a smaller percentage of its budget to the acquisition of new costumers and increase the percentage on the retention costs, ~3x cheaper than CAC. With more players in the market and greater competition to acquired costumers, both costs can increase significantly, negatively impacting the firm's operations and financial results. In a bearish scenario where CAC are 25% higher, Farfetch will only be able to produce positive operating cash flows in FY2033, which implies a negative share price. A scenario where the company can further reduce its CAC implies an intrinsic share value of 21.11 US dollars.

	Downside	Base	Upside
CAC (average cost per order from 2023-2040)	$ 162.5	$ 130.0	$ 97.5
Probability	35%	50%	15%
Core Value	$ (5,763,143)	$ 1,775,129	$ 6,919,779
Terminal Value	$ 104,198	$ 860,670	$ 1,665,812
Non-Core Value	$ (168,220)	$ (168,220)	$ (168,220)
Enterprise Value	**$ (5,827,164)**	**$ 2,467,579**	**$ 8,417,372**
Less: Debt	$ 757,617	$ 757,617	$ 757,617
Plus: Excess Cash	$ 419,906	$ 419,906	$ 419,906
Equity Value	**$ (6,164,876)**	**$ 2,129,868**	**$ 8,079,661**
Price per share	**$ (16.10)**	**$ 5.56**	**$ 21.11**
Expected Share Value		$ 0.31	

FARFETCH LIMITED

COMPANY REPORT

LUXURY FASHION

16 DECEMBER 2022

STUDENT: MAFALDA FARINHA & SUYALA MONTEIRO 32198@novasbe.pt & 39539@novasbe.pt

Farfetch – Equity Research

Where technology and luxury meet

Considering our expectations going forward for both the sector and the firm, we arrived at a target price of 5.56 US dollars as of FY2023, leading to a BUY recommendation due to the following factors:

- The luxury market is growing at a 5% CAGR through 2025, with upside potential to industry online penetration driving a 18% CAGR through 2025.
- The strong management team including executives influential in the luxury sector for several years and the skilled programmers behind the Marketplace platform.
- The group is very well positioned in the Chinese market, which is expected to grow faster than the industry in the following years.
- Strong partnerships with different brands around the world with an exclusive contract and high retention rate.
- M&A that allows the company to grow and expand the business, while simultaneously increase its market share.

Valuation/Risks - Our target price is based on a DCF model explained in the valuation section. Company bears are related to the take rate pressure and M&A strategy's risk.

Company description

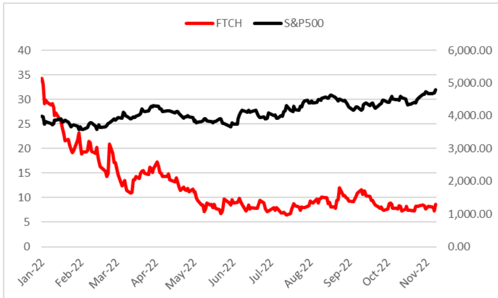
Farfetch Limited is the leading global platform for the luxury fashion industry. Its e-commerce marketplace connects customers in over 190 countries and over 1,400 brands and designers. Farfetch's additional businesses encompasses offline retail, platform for the development of global fashion brand, and enterprise level solutions, which services enterprise clients with e-commerce and technology capabilities.

Recommendation:	**BUY**
Price Target FY23:	**$5.56**
Price (as of 14-Dec-2022)	**$4.66**

YahooFinance: Adj.Close

52-week range ($)	4.34-35.26
Market Cap ($ thousands)	3,158,150
Outstanding Shares	382,806,025

Source: Yahoo Finance



Source: Yahoo Finance

(Values in $ millions)	2021	2022E	2023F
Revenues	2 257	2 324	3070
Operating Costs	1 462	1 689	1 786
Operating Profit	(417)	(569)	(399)
GMV	3 678	3 346	4 561
Growth	33%	-9%	36%
Operating Margin	-19%	-25%	-13%

Source: Company financials and analyst's projections 2022

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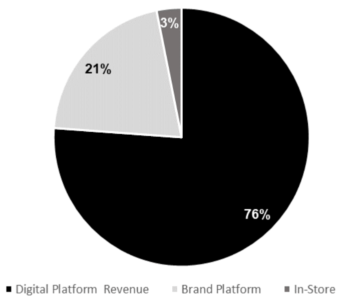
Company Overview

What is Farfetch?

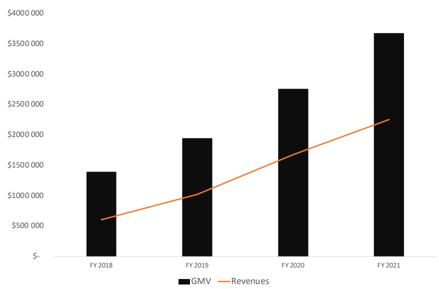
Founded by the Portuguese entrepreneur José Neves in 2007, Farfetch is as an e-commerce marketplace and platform for luxury boutiques around the world. The Farfetch marketplace connects physical store locations through its Digital Platform to worldwide consumers, making luxurious brands offer seamless experiences across multiple channels.

Being the pioneer for the luxury fashion marketplace concept, today Farfetch Marketplace is established in over 190 countries and territories with items from more than 50 countries and over 1,400 of the world's best brands, boutiques and department stores. As Farfetch has a marketplace business model it connects buyers and sellers but does not hold inventory itself. This allows the company to offer a wide variety of items from different luxury fashion brands while maintaining a low overhead cost. By delivering a unique shopping experience and access to the most extensive selection of luxury on a platform, Farfetch Limited has become the leading global platform for the luxury fashion industry.

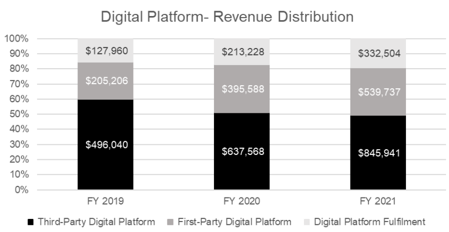
Additionally, Farfetch businesses include Browns and Stadium Goods, which offer an in-store experience to consumers. Combining fashion and technology, the company's Luxury New Retail initiative incorporates Farfetch Platform Solutions (FPS) and Future Retail which offer commerce solutions for luxury brands and retailers.



***Graph 1**: Revenues by segment*
Source: Farfetch's Financial Reports



***Graph 2**: Gross Merchandise Value*
Source: Farfetch's Financial Reports

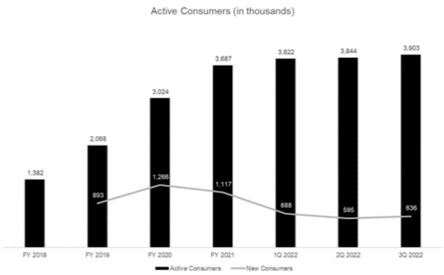


***Graph 3**: Digital Platform – Revenue Distribution*
Source: Farfetch's Financial Reports

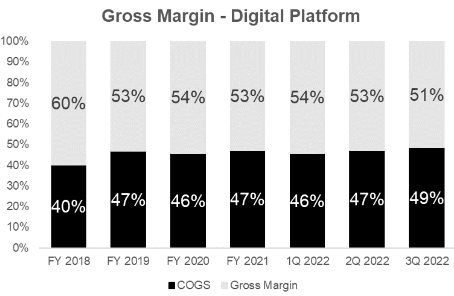
The Business Model – Three Broad Segments

Farfetch generates revenue through three operating segments, the Digital Platform (which includes fulfilment, first-party, and third-party revenues), the Brand Platform, and In-Store.

Farfetch's Gross Merchandise Value (GMV) represents the total dollar amount of orders processed, net of cancellations. In FY2021, the GMV reached 3.7 billion US dollars representing a growth of 33% from the FY2019 GMV. In FY2021, the amount recognized as total revenues was 2.3 billion US dollars. In the last year, this figure increased 35%, a higher percentage increase than the one verified in the GMV.



***Graph 4**: Digital Active Consumers*
Source: Farfetch's Financial Reports



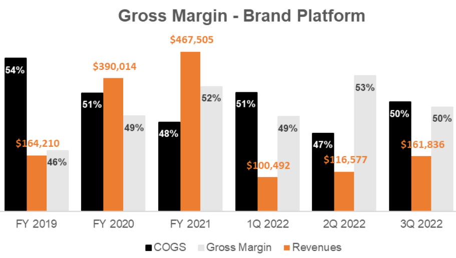
***Graph 5**: Digital Platform – Gross Margin*
Source: Farfetch's Financial Reports

- ## Digital Platform

Digital Platform group is composed by online revenues generated by Farfetch own brands: New Guards Group, Browns, and Stadium Goods (first-party digital platform revenues); Farfetch's brands and boutique partners who list their inventory on the marketplace and then pay a fee when the product is sold (third-party); and fulfilment revenues that are supposed to track the fulfilment costs, which results in only marginal gross profit contribution with no economic benefit. The platform derives its revenues mostly from transactions between sellers and consumers or customers conducted on their technology platforms, and primarily operates a revenue share model where retains commissions and related income from those transactions.

This segment represented 76% of total revenues in FY2021. Even though the average order value (AOV) has been slightly decreasing, the number of Active Consumers more than compensated it by increasing 78% from FY2019 to FY2021. At this date, the company has more than 3.9 millions of active consumers.

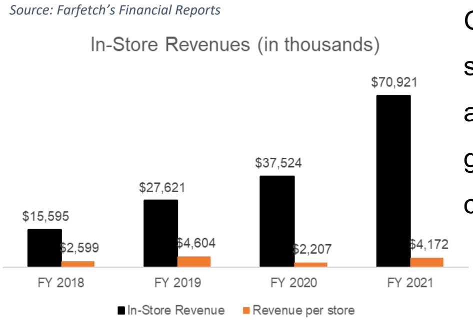
First- and third-party cost of revenues include packaging costs, credit card fees, and incremental shipping costs provided in relation to the provision of these services. Digital Platform Services first-party cost of revenues also includes the cost of goods sold of the owned products. Since 2019, the company has been able to maintain a consistent level of efficiency, keeping gross margins stable.



***Graph 6**: Brand Platform – Gross Margin*
Source: Farfetch's Financial Reports

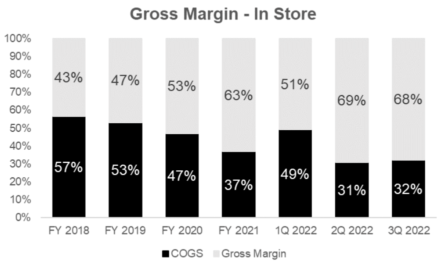
- ## Brand Platform

The Brand Platform segment is comprised of design, production, brand development and wholesale distribution of brands owned and licensed by New Guards and includes franchised store operations. Since the creation of this segment, in FY2019, revenues have almost tripled to 467 million US dollars, accounting for 21% of total revenues. This growth is mainly driven by organic growth of the New Guards portfolio of brands but also by the acquisition of new ones, like Palm Angels.



***Graph 7**: In-Store – Revenues*
Source: Farfetch's Financial Reports

- ## In-Store



***Graph 8**: In-Store – Gross Margin*
Source: Farfetch's Financial Reports

The In-Store segment covers the activities of stores Farfetch operates, including Browns, Stadium Goods and certain brands in the New Guards portfolio. Revenues are derived from sales made in these physical stores. As of 30 September 2022, Farfetch accounted for 23 in-stores.

The In-store segment only represented 3% of the group's revenues last year and had never accounted for more than 5%, not being a significant segment driving Farfetch's growth. Although this segment won't have a high contribution to the group's revenue as the Digital Platform has, it is expected to see a marginally increase to in-store purchases upon the investments of digitization and number of stores.

How is Farfetch Disrupting the Luxury Market?

Farfetch sees itself as a leader in digitizing the luxury experience offline

As it is hard to recreate an online experience that provides the same level of exquisite service that consumers receive in the physical stores and boutiques, the luxury goods industry was late in transitioning to the eCommerce universe.

Farfetch has a business model that allows the company to position themselves in a different environment compared to their marketplace competitors. As the core business doesn't rely in physical retail stores nor inventory, has a distribution across different countries, and it doesn't rely in physical retail stores, Farfetch is able to overcome the challenges that other retailers have faced and work more as platform.

Year	Partnership and Goal
2018	Acquisition of **CuriosityChina** Make plug-and-play China capabilities access available to FPS clients.
2018	Partnership with **Channel** Deliver Store of the Future Experience.
2019	Partnership with **Harrods** Create online platform through FPS.
2020	Partnership with **Alibaba** Further extend reach in China and accelerating the digitalization of the sector.
2022	Partnership and investment in **Neiman Marcus Group** Re-platform and power website and mobile application of NMG brands. Support digital growth and innovation initiatives.
2022	Partnership with **Salvatore Ferragamo** Digitalization of the brand and higher presence on Farfetch marketplace.
2022	Partnership with **Richemont** and **Alabbar** Farfetch acquires a 47.5% stake in Yoox Net-A-Porter. YNAP to adopt FPS to advance growth and shift towards a hybrid business model. Richemont Maisons to adopt FPS and open e-concessions on the Farfetch Marketplace

FPS means "Farfetch Platform Solutions"

***Table 1**: Partnership and Goal*
Source: Farfetch's Financial Reports

- Building the "Store of the Future"

Beyond their online platform where consumers can purchase a wide range of products, Farfetch is also innovating the concept of in-store shopping. The company is using Browns to test its new vision around digitally enabled in store customer experience. Using new technologies like augmented reality, Farfetch tries to deliver to in-store shopping customers a better experience. Customers can try on clothing that may not be available in-store and book appointments use through the store's app to select clothing to be tried on in store before they arrive. The personnel at the store can also see the customer's search history in the app as well as what clothing they have asked in their visit to provide customers with more customized recommendations. Radio-frequency enabled clothing racks in the Browns' boutique detect which merchandise a customer is picking up and then the item is added to the customer’s wish list. Fitting rooms are also outfitted with smart mirrors customers use to request items in different sizes or colours. The smart mirrors also show what’s on a customer’s wish list and how to mix and match pieces.

- Building Partnerships

Over the years, the group has been partnering and expanding enterprise relationships with luxury sellers. Farfetch signed an agreement to enter a strategic arrangement with Taobao China Holding Limited (“Alibaba”) and Richemont International Holding S.A (“Richemont”) in 2021. As part of the arrangement, Alibaba and Richemont invested 500 million US dollars in return for a combined 25% stake in Farfetch China Holdings Limited and its subsidiaries. This also includes the Luxury New Retail initiative, which goal is to leverage Farfetch and Alibaba´s retail technologies, using digital transformation to better serve the needs of the luxury customers. Adding, Farfetch also has a strategic relationship with the Chalhoub Group which together with the two previously mentioned partnerships enhance access to geographic markets such as China and the Middle East. Beyond selling products via the Farfetch Marketplace, partnering with Farfetch also enables the digitization of brands and retailers, powering their own sites, stores and fulfilment operations with Farfetch’s platform and Luxury New Retail proposition.

- Skilled Management Team

The strong industry relations at Farfetch stem from founder José Neves and his team of well-connected luxury veterans with deep relationships with brands and boutiques that have engendered a trust in the platform and willingness to partner. The CEO has been involved in the fashion start-up world since the mid-1990s when he launched footwear business SWEAR and opened a renowned boutique store, which won the British Fashion Award for Retailer of the Year in 2006.

Elliot Jordan, the Chief Financial Officer, is responsible for the company´s financial operations including accounting, treasury and tax, and financial reporting and control across all Farfetch’s international offices. With a wealth of financial experience at consumer online retailers including ASOS and Sainsbury’s, Elliot has been working for Farfetch since 2015.

The Chief Strategy Officer, Stephanie Pair, is the Chair of the British Fashion Council and was previously founder and President of TheOutnet.com of the and was part of the Executive team of The Net-a-Porter Group from 2009 to 2015. She has more than 15 years of luxury and e-commerce experience.

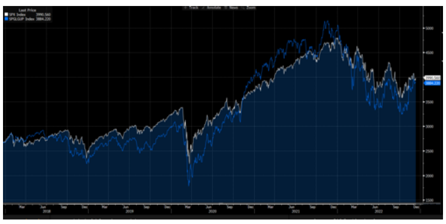
As Farfetch built its own platform, they also depend highly on the skills their data specialists, software engineers and technology professionals to design, maintain and improve the code and algorithms necessary to run the brand platform.

- How Farfetch adds value to the industry

By partnering with Farfetch, all the parties involved win.

The company offers retailers an attractive opportunity to earn incremental dollars on otherwise unsold inventory. By using Farfetch, sellers are able to achieve incremental sales that optimize their inventory space without increasing their physical footprint and for the retailers. As an added benefit here, there is not much incremental work on the sellers' part as Farfetch handles the content generation, inventory management, and shipping logistics.

The Farfetch Platform Solutions (FPS) is a white-label technology platform for retailers, brands, and department stores to manage their luxury e-commerce business as well as their physical stores and warehouses. FPS enables content creation and management, online marketing, global payments and logistics, inventory management and synchronization, and in-store technology. Given that luxury brands are not technology companies, unlike Farfetch, and do not possess the expertise to build a comparable product for themselves, it is more profitable for them to partner with Farfetch. However, it is difficult to quantify the added value and revenue potential of this platform, as there is no information about how revenues are generated or what type of pricing structure is used.

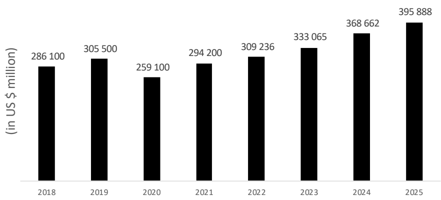


***Graph 9**: S&P 500 Index vs S&P Global Index*
Source: Bloomberg

Macroeconomic Trends

Comparing the S&P 500 Index and the S&P Global Luxury Index, we can see that following the Covid-19 pandemic, the luxury stock prices suffered a big hit in March 2020. Since then, the prices have been increasing. However, this year there was a big volatility in the market due to the geopolitical tension between Russia and

Ukraine and the still ongoing Covid-19 restrictions in emerging markets. Following the increase in prices with inflation peaks throughout this year, it is expected to see a decrease in revenues of the fashion luxury segment as people have less discretionary income to spend. However, by analysing the market trends, luxury fashion is still growing at an impressive rate.



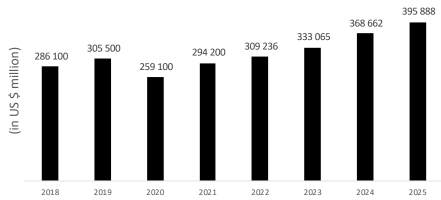
***Graph 10**: Global luxury sales*
Source: Statista

Looking now at the luxury sales, we can see that they have recovered reaching almost 300 billion dollars in FY2021, up from 2019 and pre-covid-19 lockdown levels. Looking forward into 2022, amid all the market volatility and increase in prices, this number is expected to further increase. This is mostly due to sales being more concentrated among ultra-wealthy individuals whose disposable income is unlikely to be affected by an economic downturn.

Furthermore, following the geopolitical crisis involving Russia, the marketplace industry faced a declined on the growth sales, explaining the lower growth we expect on revenues over the year 2022 comparing to 2021. We expect that luxury fashion does better than other fashion categories during periods of economic downturn, due to its primary customer base being high-income consumers poised to weather a recession. Farfetch also poses an advantage as it offers diversification and scale in their luxury products. Furthermore, leather goods are considered to be an investment by luxury fashion shoppers due to their long shelf lives and potential return on investment if still in good condition. Given this, both the Hermès Birkin and the Chanel classic flap bag (both sold by Farfetch) tend to fetch more than buyers originally pay for them on the resale market. The forementioned was our main assumption behind the revenue forecast for the next few years.

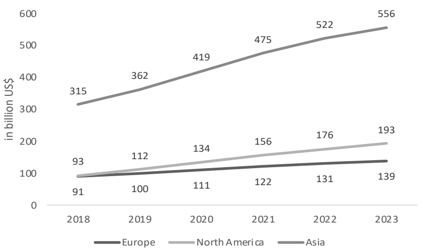
Global luxury growth is expected to accelerate further after 2022, with a sales increase of 8.6% from 2022 to 2025. Although China is currently facing challenges and is driving down the influx in spending, it is expected that people becoming wealthier in regions including India, South Korea and Mexico will lead to about new luxury consumers.

Between U.S. inflation, China's lockdowns, and Europe's foreign policy issues, it's the perfect but not so perfect storm for a global recession. In the end, the market will continue to correct itself, and the economy will forever go through highs and lows. As luxury market currently stands, we are very optimistic on how this market will react to any future recession.

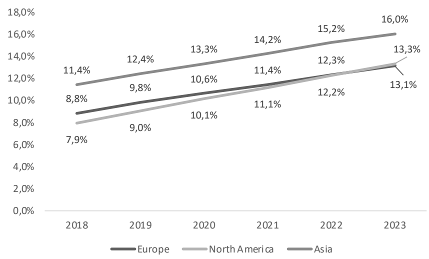


***Graph 10**: Global luxury sales*
Source: Statista

***Graph 11**: Luxury Goods Industry Revenue*
Source: Statista



***Graph 12**: Fashion e-commerce revenue*
Source: Statista



***Graph 13**: Luxury goods online share*
Source: Statista

The Luxury Fashion Market

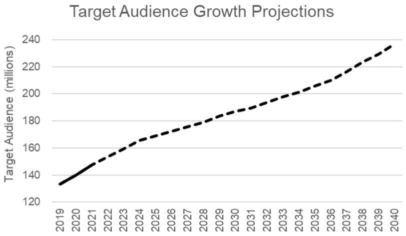
Market Overview

Personal luxury goods is the second-largest segment of the luxury industry after luxury cars. Encompassing luxury apparel, accessories, watches, jewerly and eyewear, the revenue of the personal luxury goods market has increased at a steady pace over the past decade, apart from the hiccup caused by the coronavirus (COVID-19) pandemic. The global impact of COVID-19 has been unprecedented and staggering, with luxury goods witnessing a negative demand shock across all regions amid the pandemic. The market is projected to grow from 294 billion US dollars in FY2021 to 396 billion US dollars in 2025. The rise in CAGR is attributable to this market's demand and growth as we assume that the levels of growth would return to pre-pandemic levels by 2025.

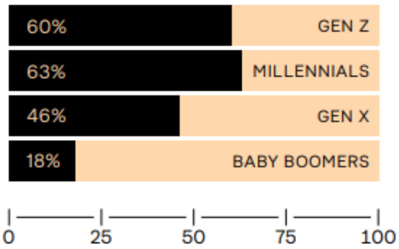
The quality and high durability of such products come with the highest price point, which is affordable to only a small group of the global population. Therefore, companies are targeting a wealthy population with creative designs, as the product cost is usually not the criteria for such groups, wherein the uniqueness and eminence of the product are the key deciding factors before their purchase. In 2020, the United States was the market leader in personal luxury goods with a revenue of about 65 billion US dollars, followed by China. By 2025, the United States is expected to retain its position as the leading country where the personal luxury goods market generates the highest revenue worldwide. Parallel to this, American nationals make up the leading consumer group when it comes to luxury goods consumption.

As the online share is highest in China and South Korea where a young generation of newly-minted, digital-first High Net Worth Individuals are the ones driving the emerging markets share in the luxury market. eCommerce's total value share of luxury goods there currently stands at 27% and 30% respectively and is set to grow to 40% or 37% of sales in 2023.

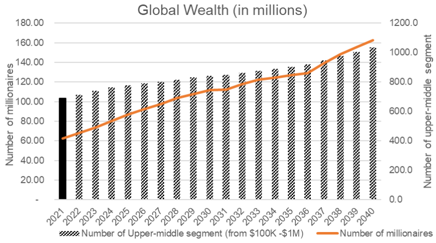
Future of Luxury



***Graph 14**: Target audience growth projections*
Source: Analysts' estimates



***Graph 15**: Shopper who bought luxury in 2021*
Source: Klarna's Luxury Report



***Graph 16**: Global Wealth*
Source: Statista

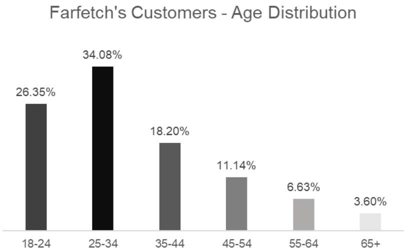
Within the personal luxury goods industry, fashion and apparel products account for the largest revenue share. By 2025, we expect the luxury fashion segment, to yield over 396 billion US dollars in revenue, taking into account inflation and the past performance of this segment.

- Target Segment

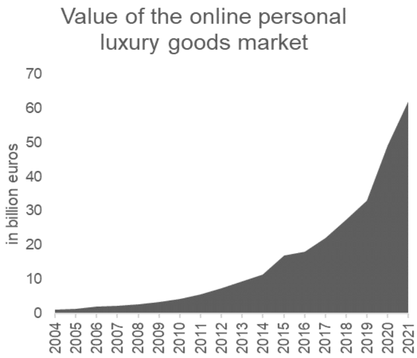
The younger generations, the Millennials and the Generation Z are becoming the largest segments of the luxury industry customer base, profoundly reshaping the personal luxury goods market with distinct preferences on how and where they want experiences. Their loyalty relies on brands that value authenticity and integrity, with sustainability being a key concern. Brands must be honest, transparent, and backed by action. With younger shoppers becoming the top purchasers in luxury, there is an opportunity for retailers to connect and build relationships with the luxury customers of the future. According to Bain, in FY2020, Millennials and Generation Z accounted for more than a half of global personal luxury goods sales. This is the rise of the Henry customer segment - high-earners-not-yet-rich. Luxury brands are targeting these customers with a lower income range given that they are the next customer base. Following these generations trends, luxury brands are committing to innovation and new technologies to enhance customers shopping interactions. In FY2021, Gucci launched virtual sneakers, called The Virtual Gucci 25, which could be worn by users in augmented reality, as well as on the online gaming platform Roblox.

Beyond consumers' shopping preferences and age, Luxury Fashion Market is also characterized by consumers wealth. Financial independent people, with an annual income around 100 thousand US dollars or above are the main shoppers of luxury goods. According to the *Global Health Report 2021* from Credit Suisse Research Institute, the number of millionaires is expected to grow at an 8.62% CAGR until FY2025, and the number of the upper-middle segment (households with a net worth between 100 thousand US dollars and 1 million US dollars) have grown 5.67% since the last decade[1]. Roughly 12% of millionaires and 22% of upper-middle segment

[1] Credit Suisse. (n.d.). *Global Wealth Report 2022*. Retrieved October 14, 2022, from https://www.creditsuisse.com/about-us/en/reports-research/global-wealth-report.html

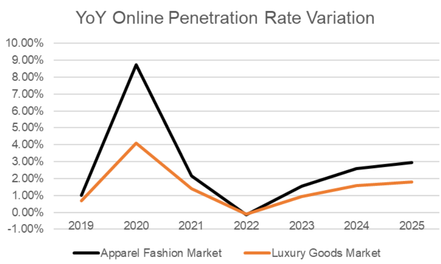


***Graph 17**: Farfetch's Customers*
Source: Farfetch's Financial Reports



***Graph 18**: Value of the online personal luxury goods market*
Source: Statista

***Graph 19**: Value of the global personal luxury goods market, by format*
Source: Statista



***Graph 20**: YoY Online Penetration Rate Variation*
Source: Analysts' estimates

have less than 50 years old. Assuming a constant growth rate, following the population growth rate, a target audience of 159.53 million people in FY2023 and 198.21 million in ten years is expected.

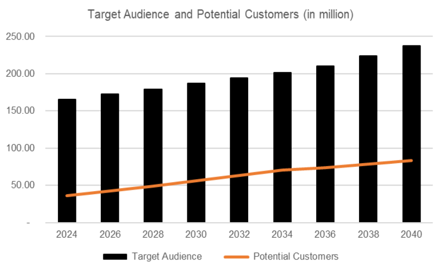
Most of Farfetch's sales are already linked to these segments. The average age of Farfetch's customers is 34, 34.08% of total sales came from customers between 25 and 34 years old, and people born between 1998 and 2004 represent the second biggest source of revenues. Concerning the economic status, 39% of the regular customers have an income above 100 thousand US dollars.[2]

Luxury Online Penetration – still an opportunity

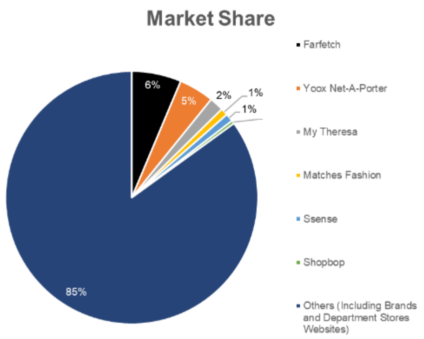
Ecommerce has fundamentally changed the structure of trading goods. Currently about 50% of the world's population are shopping online regularly. The penetration of internet-enabled devices and the increase of online stores have led to an inevitable change within the retail landscape. Regarding the distribution channel, of the luxury goods market the offline segment is expected to hold a major luxury goods market share, as it allows the customer to physically see and touch the product and thereby compare their features in-person at the store. However, the purchase conveniences of online channels would make it the fastest-growing segment. The COVID-19 pandemic has further provided opportunities to strengthen online channels in the luxury business, but it also had a tremendous influence on the shopping behaviour.

On a 294 billion US dollars market size, the online channel represented 19.40% of the total luxury goods revenues in FY2021, an increase in 1.4pps comparing to FY2020. Shopping online luxury goods is a tendency that came to stay, however not following the same penetration curve that global apparel online market did. Historically, the global apparel shoppers have been migrating from offline to online at a faster pace. While the online penetration of global apparel fashion increased, on average, 3.96pps between FY2019 and FY2021, online penetration rate increased only 2.07pps (a -60% variation). By 2030, the online market will represent 29.74% of the total luxury market and 35% in 2035. Considering the same penetration rate for customers, the potential number of customers for the

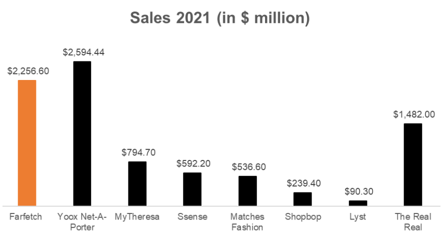
[2] Farfetch Conscious Luxury Trends 2022- https://stories.farfetch.com/consciousluxurytrends2022/consumers



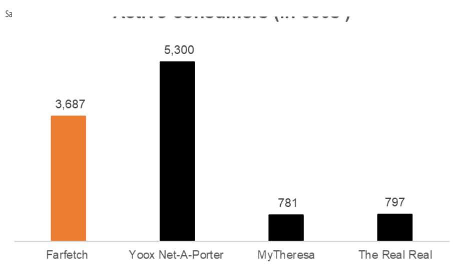
***Graph 21**: Target audience and potential customers*
Source: Analysts' estimates



***Graph 22**: Market share (online channel).*
Source: Statista



***Graph 23**: Sales 2021*
Source: Companies' financial reports



***Graph 24**: Active consumers – 2021*
Source: Companies' financial reports

online Luxury Goods Market was 28.63 million US dollars in FY2021 and is estimated to be 32.24 million US dollars by 2023. According with these numbers and Farfetch's active consumers in FY2021, the company's penetration rate was 12.88% in the given year.

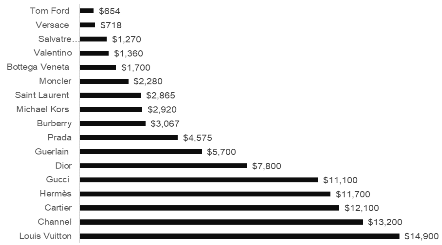
Sustainability Trend

The sustainability trend has also entered into the luxury business where environmentally friendly raw materials and responsible use of utilities are being promoted offering a new angle for growth opportunities. Prompted by the need to adopt more sustainable production and consumption measures in recent years, resale has also emerged as a profitable and viable option for luxury, although ownership and authenticity play a vital role for luxury consumers. Given this., rising initiatives towards sustainable luxury goods production are likely to drive the demand for eco-friendly products. In 2021, the second-hand luxury market was estimated to be worth 33 billion euros worldwide.

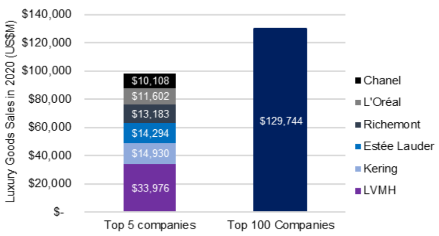
Competitive Landscape

The luxury e-commerce landscape has a relatively small number of contenders. The market is highly competitive and concentrated, with Farfetch and Yoox Net-A-Porter being the largest and best-established companies.

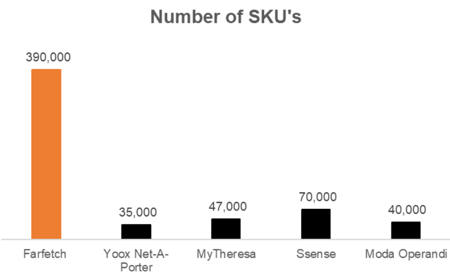
Because Farfetch is a high-tech luxury marketplace that acts more like a tech company than as a retailer, it stands out from competition that comes from i) marketplaces, ii) technology enablement companies and, iii) online and offline luxury retailers. However, in a fast-growing market like this, players need to move fast not only to differentiate from one another but also to build valuable and long-lasting partnerships with sellers and customers, who see cooperation as a mean of modernizing their operations. Therefore, most marketplaces and online and offline luxury retailers compete for market share using similar strategies: i) creating digital tools to modernize their services, such as websites and apps; ii) the size of the offer (number of brands, designers and SKUs); iii) pricing strategy; iv) payment, shipping and return policies and; v) the service delivered (user friendliness and help desk). Against the main marketplace competitors, Farfetch outstands in most of the above criteria basically because their main business driver, the Digital Platform Services, operates based on e-concessions and does not require investment in inventories or



Graph 25: *Top 17 luxury brand’s revenue*
Source: Statista



Graph 26*: Key players/ Conglomerates in the luxury market*
Source: Global Powers of Luxury Goods 2021, Deloitte



Graph 27: *Number of SKU’s*
Source: Companies’ financial reports

logistics. Thus, the company can better allocate their efforts on product and services, platform, technology, and traffic management and build a significant competitive advantage.

While having large variety of brands in Farfetch platform is an advantage, sales are still highly concentrated with few brands. The top 5 brands represented more than 19% of the total market and the top 10 brands almost 27% in 2021. Moreover, the luxury industry is tightly controlled by family and few large groups and families control the key brands. As an example, in 2020, the top 5 biggest luxury companies represented 38% of the total revenues in the luxury goods market. This control enforces some obsessive focus over brand image, pricing, and distribution which until recent times explained why luxury industry have been late adopters of online. Since Farfetch generates revenue by taking commission on sales from the brands and does not own the inventory, brands have the control over merchandising, pricing and the customer experience. By partnering closely with large conglomerates, like Kering, Richemont and Chanel, who have their brands heavily promoted on the marketplace, Farfetch was able to get some of the most popular brands in their platform. Moreover, the Covid-19 pandemic also helped to strength and create more partnerships as brands and boutiques were forced to embrace digital to support growth and remain relevant to new generations of affluent customers. All in all, the company has a depth selection of luxury partners allowing them to aggregate supply from multiple sources and boutiques while still partnering with big players, contrary to other luxury e-tailers who rely on a narrow number of distribution centres.

Over the years, Farfetch reached scale and today, the company’s marketplace connects customers in over 190 countries and territories with items from more than 50 countries and over 3,500 of the world’s luxurious brands, boutiques and department stores[3], which make over 390,000 SKUs that are listed on the platform. Moreover, the company launched the Beauty segment in 2022, differentiating itself from competition, being the only platform with this category. Also, among younger generations, Farfetch appears in the top of popularity (among the luxury e-

[3] Data retrieved from brands listed on the Platform. - [FARFETCH - The Global Destination For Modern Luxury]

commerce and marketplaces) with 2.4x more Instagram followers than the second most popular channel, which ultimately can lead higher costumer acquisition rate.

Despite partnering with offline channels, Farfetch also faces competition from them. Conglomerates like LVMH, who is the leading luxury fashion company that detains the highest stake in the luxury market sales, have offline and online stores directly managed by them. LVMH, for example, controls Louis Vuitton (it is only sold through LVMH boutiques or online platform) and launched in 2014 an online store, the 24S selling more than 150 brans, 20 of which are group owned. To overcome the problems faced by this kind of competition, Farfetch has been creating valuable partnerships with other conglomerates and brands, as already mentioned above, and focus on creating powerful platform solutions for their brands. We see company's relationship with luxury conglomerates and brands providing a competitive advantage in the long-run, difficult for a competitor to create. In 2022, the company already announced two big partnerships, with Neiman Marcus Group and Salvatore Farragamo with the goal of reinforcing their omnichannel retail strategy through the integration of their e-commerce using Farfetch Platform Solutions and strength the presence of this brands on the Farfetch marketplace.

Year	Company	% Acquired
2015	Browns	100%
2015	iMall Holdings Limited	100%
2017	Fashion Concierge UK Limited	100%
2017	Laso Co Limited	100%
2017	Style.com	100%
2017	JD	Merge
2019	Stadium Goods	100%
2019	CuriosityChina	100%
2019	Toplife	100%
2019	New Guards Group	100%
2021	Luxclusif	100%
2021	Jetti	100%
2021	Allure	100%
2021	Palm Angels	60%

***Table 2**: Summary of M&A.*
Source: Farfetch's Financial Reports

Merger & Acquisitions

Although acquisitions can be a powerful tool to accelerate revenue growth, Farfetch also focus on developing and improving its customers' experience and building its own brand.

Farfetch is not limited in being the intermediary between the brands and its customers. In FY2018, Farfetch acquired the eCommerce business - Style.com – which allowed the company to invest and create more innovative content and commerce experiences for customers. Also in 2018, with the rise of businesses in emerging markets, the company acquired CuriosityChina. This acquisition allowed Farfetch to provide access to its partners to expand their business in China. Using the Farfetch platform, brands became able to have a unified view of all their inventory (in China or cross-border), be able to manage all of their customer touchpoints whether the customer is at home or travelling and be able to offer an unrivalled service tailored to the sophisticated Chinese consumer.

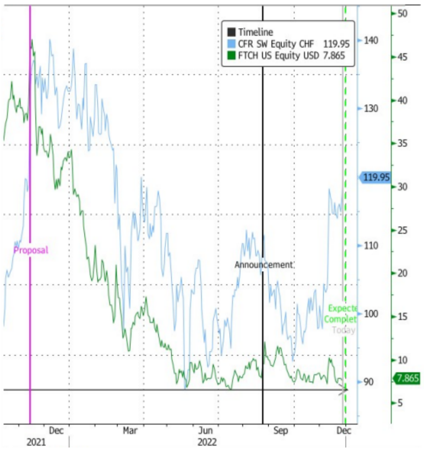
In 2019, Farfetch bought New Guards Group, which owns several luxury labels including Off White, for 675 million US dollars. This was the boost for the company to start creating its own content and become more than a transactional platform. With this new acquisition, the company started to become culturally relevant as brand. In August, Farfetch purchased a 47.5% stake of one of its main competitors - Yoox Net-a-Porter - which operates the luxury eCommerce site Net-a-Porter. As a part of the merger Net-a-Porter will transition to Farfetch's technology platform.

The global Personal Luxury Goods market comprises 4 main categories: Accessories, Apparel, Hard Luxury and Beauty. As a result of the latest acquisition of Violet Grey, the group launched a beauty direct-to-consumer online channel, targeting now all the categories mentioned before.

Farfetch stake in Yoox Net-A-Porter

In August 24th, Farfetch announced that it is planning to acquire a 47.5% of Yoox Net-A-Porter ("YNAP"). YNAP is an Italian online fashion retailer owned by Richemont and until now, the main Farfetch's competitor. Upon the acquisition, YNAP will become a neutral platform with no controlling shareholder. In the initial stage, Farfetch and Alabbar will acquire 47.5% and 3.2%, respectively, of YNAP's share capital from Richemont, making YNAP a neutral platform with no controlling shareholder. The 47.5% share acquisition by Farfetch is expected to be accounted for as a non-controlling stake, which will not require it to consolidate YNAP in this stage.

There are two envisaged stages of the investment into YNAP. Upon completion of the sale of 47.5% of YNAP's share capital to Farfetch, Richemont will receive 53.0-58.5 million Farfetch Class A ordinary shares. Richemont will also receive 250 million US dollars (on the fifth anniversary of completion of the initial stage of the transaction). At completion of the initial stage, YNAP will be free of financial debt, with a minimum of 290 million US dollars of cash on its balance sheet, and Richemont will make available, for up to 10 years, a committed credit facility for an additional 450 million US dollars that YNAP may draw upon at its discretion, subject to certain conditions. The potential second and final stage of the transaction provides for Farfetch to increase its ownership of YNAP's share capital to 100% through a put and call option mechanism. If not exercised, all parties exit via an IPO or a sale to a third party.



***Graph 28**: Market Reaction to Farfetch – Richemont deal.*
Source: Bloomberg

Although the deal still faces regulatory review from regulators (which could take six to nine months), Farfetch and Richemont combine forces to expand and advance the digitalization of the luxury industry. Moreover it would enable Farfetch to position itself better to take advantage of market growth and a wider portfolio of brands. Through the YNAP acquisition, Farfetch more than doubles it reach into luxury consumers. Despite there is some overlap between Farfetch 3.6 million active consumers and YNAP's 5.3 million, the costumer avatar is slightly different. According with José Neves "The Farfetch customers are digital natives, having grown up with two-sided marketplaces [online and offline] as an integral part of their lives […]. The Net-A-Porter and Mr Porter customers are older, having started their luxury shopping habits with glossy magazines and the department store and slowly discovered and migrated to an online mode of shopping […]." Consequently, the average costumer age is different, but the biggest customer prize is YNAP "Extremely Important Person" customer base that make up only about 3% of its total active consumers but account for over 40% of total revenues.[4] Additionally, Richemont brands including Cartier, IWC and Chloe will adopt Farfetch platform for e-commerce and most will launch sales concessions on the Farfetch marketplace, which may boost traffic generation and consequently both revenue and GMV. Despite many challenges on the road, the market shown a positive reaction upon the announcement, with the share price of Farfetch and Richemont increasing 21.4% and 3.13%, respectively.

	FY2018	FY2019	FY2020	FY2021
Farfetch	-92%	-16%	40%	-671%
Shopify	-94%	-76%	-86%	-59%
Etsy	102%	128%	313%	-16%
MyTheresa	-19%	-27%	-31%	-9%
TheRealReal	-143%	-108%	-44%	-8%
BLOCK	-19%	-37%	-44%	-10%

***Table 3**: Net Debt/Equity*
Source: Companies´ financial reports

Performance Analysis

Capital Structure and Liquidity

Farfetch finances its business mainly through equity, debt in form of capital leases and excess of cash. Debt-wise, Farfetch currently has outstanding roughly 551 million US dollars in form of convertible notes and 205 million US dollars in form of capital lease obligations. Companies in Farfetch's sector are characterized by

[4]"Richemont -YNAP Deal Puts Farfetch Closer To Being The Global Platform For Luxurt"- https://www.forbes.com/sites/pamdanziger/2022/08/28/richemont-ynap-deal-puts-farfetch-closer-to-being-the-global-platform-for-luxury/?sh=2d2f08dd6090

	FY2018	FY2019	FY2020	FY2021
Farfetch	5.38	0.69	2.02	1.61
Shopify	14.20	7.76	14.57	11.05
Etsy	5.57	4.33	3.67	1.60
MyTheresa	0.06	0.03	0.09	0.70
TheRealReal	0.70	3.06	2.39	2.22
BLOCK	0.70	3.06	2.39	2.22

***Table 4**: Cash Ratio*
Source: Companies´ financial reports

	FY2018	FY2019	FY2020	FY2021
Farfetch	6.18	1.38	2.52	2.33
Shopify	15.35	8.67	15.69	12.15
Etsy	2.05	2.07	1.93	3.12
MyTheresa	2.07	1.90	1.88	1.94
TheRealReal	1.01	3.43	2.85	2.75
BLOCK	2.07	1.90	1.88	1.94

***Table 5**: Current Ratio*
Source: Companies´ financial reports

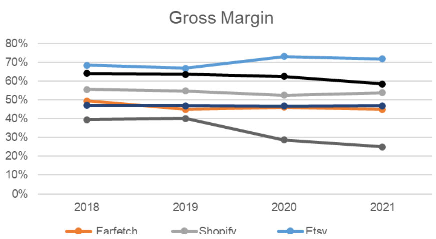


***Table 29**: Gross margin*
Source: Companies´ financial reports

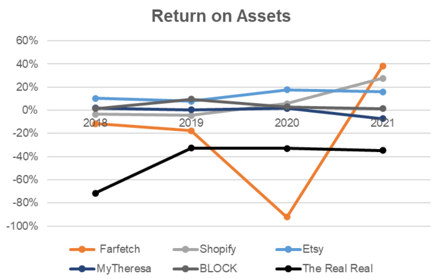


***Table 30**: Return on assets*
Source: Companies´ financial reports

having considerably high levels of excess of cash in relation to debt resulting in negative net debt to equity ratios – it detains a lot excess of cash, causing the net Debt-to-Equity ratio to be negative and over 100%.

The high value of Excess of Cash is reflected on the liquidity ratios of the company – from FY2018 to FY2021, meaning that if the company had to pay its current liabilities right now, it would have the capacity to pay it almost twice. Additionally to be highly liquid, it is also highly solvent – the firm has a sustainable capital structure to finance its activity.

In comparison with its peers, we can see that most of them also have a high amount of excess cash and present a negative net debt to equity ratio. In terms of liquidity, Shopify is the best positioned as it can easily source cash to pay out its obligations.

Profitability and margins

Looking at the gross margins, Farfetch presents throughout the years a very stable figure around 45%. Amid China year-on-year dip across EMEA regions to Russia closures, and the Asia-Pacific decline to Chinese Covid regulations, noting the strength of the US dollar's this year, we expect that Farfetch will maintain this margin as they don't do promotions.

Farfetch presented a negative return on assets until 2021, recording 38% return in 2021. This negative ratio was mainly due to the negative income, but for the first time in 2021 hit a total EBITDA profitability. However, when focusing only on the operating result, the ROA maintains its negative trend of - 21% in the FY2021.

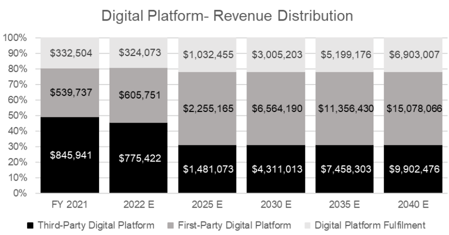
Financial Outlook

Revenue Value Drivers

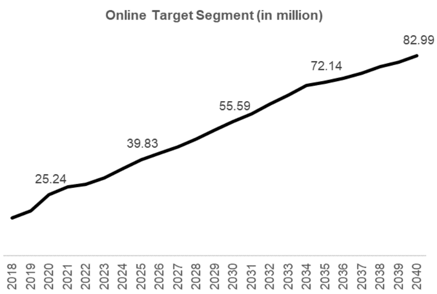
The company generates Gross Merchandise Value through transactions between sellers and costumers. The GMV is the total dollar value of orders processed that the company collects and remits to sellers after deducting its income. While for Fulfillment, First-Party, Brand Platform and In-Store GMV is equal to the total revenues of the respective segment, for the third-party segment, the revenues are a percentage (take rate) of the GMV.

Digital Platform Revenue

The Marketplace is the key value driver of revenues



Graph 31*: Digital Platform – Revenue Distribution*
Source: Farfetch's Financial Reports and analysts' estimates



Graph 32*: Online target segment*
Source: Farfetch's Financial Reports and analysts' estimates

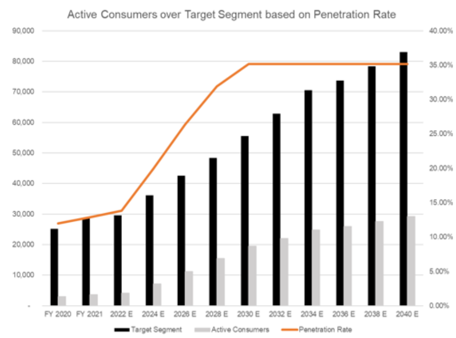
Digital Platform has always been the major source of revenue for Farfetch and will continue to be, representing 72% of Adjusted Revenues[5] in FY2021. Between 2023 and 2030, we predict Digital Platform Revenue to grow at a CAGR of 26.35% reaching 9.69 billion US dollars by 2030. In order to estimate the Digital Platform Revenues, first we need to estimate the GMV which is computed by forecasting the number of active consumers (AC), number of orders and the average order value (AOV) and the return rate. After this, we are able to estimate the first- and third-party revenues.

<u>Active Consumers</u>

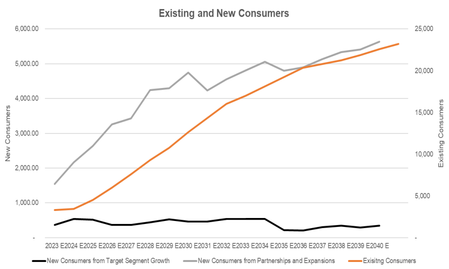
Three factors will drive the growth of active consumers and consequently, Farfetch penetration rate in the industry: i) growth of the target segment; ii) growth of online channel in the luxury sector (increase of online and e-commerce penetration rate); iii) Farfetch's partnerships and expansion into new segments.

As explained more in depth in the Market Overview section, Farfetch's target segment is mainly composed by young (Gen Z and Millennials) and financial independent people, with an annual income around 100 thousand US dollars or above, that shops mainly through online channels. Thus, Farfetch's target customers are expected to increase at a 10.40% CAGR from FY2022 to FY2025

[5] *Adjusted Revenues = Total Revenues – Digital Platform Fulfilment Revenues*



Graph 33*: Active consumers over target segment*
Source: Farfetch's Financial Reports and analysts' estimates



Graph 34*: Existing and new consumers*
Source: Analysts' estimates

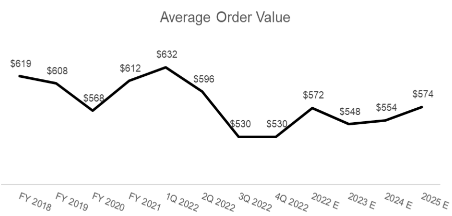
and from FY2026 to FY2040 are expected to growth at a slower pace (4.89% CAGR). Keeping everything else constant, the growth of the target segment would represent an increase, on average, of roughly 410 thousand active consumers per year on Farfetch's marketplace.

However, Farfetch has been focus on improving the customer experience and customer-service, offering flexible payment and delivery options, and making it easy for customers to find and purchase through their marketplace. The company has been able to expand their offerings through new partnerships with powerful sellers and incorporation of new luxury segments in the marketplace (beauty segment). We believe this is what will drive the growth of active consumers as well and the increase in Farfetch penetration rate. With the integration of the beauty segment and integration of Neiman Marcus Group Brands that alone has more than 4.6 million customers worldwide, we expect the company to increase its penetration rate by 2.8ppts (a penetration rate of 16.6% in FY2023). With those partnerships, new consumers are expected to migrate to Farfetch marketplace, boosting the company's GMV and revenues. This inorganic expansion is expected to bring to the marketplace more than 4.3 million new customers each year, on average. Thus, penetration rate will evolve and reach a percentage of 35.2% by FY2030.

<u>Number of Orders</u>

The number of orders is given by the number of total active consumers times the number of orders per consumer. As the online channel becomes more prominent in the luxury consumers' day-to-day lives, we expect number of orders to increase year after year.

As for the number of orders per consumer, we expect a 10% decrease in this metric due to macroeconomic factors that affect more price sensitive consumers. After that we see it to improve in the upcoming years, following the world's GDP real growth rate.



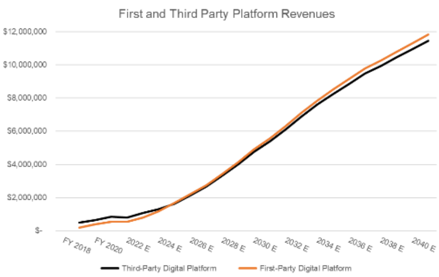
Graph 35*: Average order value*
Source: Farfetch's Financial Reports and analysts' estimates

<u>Average Order Value (AOV)</u>

For FY2021, the AOV was 612 US dollars. During the first quarter of FY2022 it increased to 632 US dollars but decreased right after to 596 US dollars and 530 US dollars in second and third quarters, respectively. The AOV is extremely hard to estimate because i) each brand/designer decide their own pricing strategies:

while some brands decide to maintain their sense of exclusivity to keep a certain type of customers, other luxury brands and designers have already proven they are looking to target a wide range of people by launching cheaper products in an attempt to "democratize" luxury; ii) Farfetch adds multiple products with different price ranges: while the addition of higher-priced categories such as jewellery can increase the AOV, the addition of lower-priced categories such as beauty, helps to decrease the AOV. All in all, we believe all these factors end up by offsetting each other and the average order value will only be adjusted for inflation.

First-Party Platform Revenue



***Graph 36**: First and third party platform revenues*
Source: Farfetch's Financial Reports and analysts' estimates

This segment, which is comprise of Farfetch's brands, is derived from the marketplace gross merchandise value, therefore it is expected to grow as a percentage of it. Historically, this segment represents 15% of the total GMV, on average. The growth forecasted is driven by the increase in popularity among younger customers of New Guards brands. Align with the company's goal of becoming a leading platform, it is expected inorganic growth through the acquisition of new brands. However, the impact on revenues of those acquisitions is difficult to quantify since it depends on many factors, such as popularity of the brand, target costumers and brand segment. Considering this, we expect the first-party segment to represent 20% of the total GMV by FY2025 becoming the biggest source of revenue.

Third-Party Platform GMV

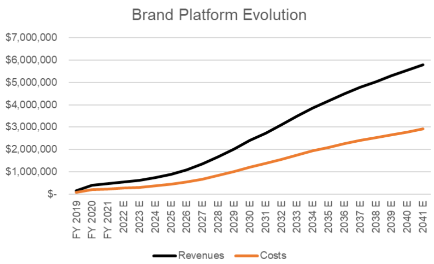
Currently, this represents the highest stake in Farfetch's revenues, and we expect it to continue increasing in the forecasted years. Its weight on the total revenues is directly influenced by the take rate.

Third-Party Take Rate

	2019	2020	2021
Amazon		8% -15%	
The RealReal	36.30%	35.70%	35.00%
Farfetch	30.72%	29.65%	30.15%

***Table 6:** Take rate*
Source: Companies' financial reports

Historically, the company's take rate varied between 29.65% and 32.04%, better than most marketplaces. Only The RealReal take rate is higher, however this company works on a niche market, the second-hand luxury goods market, where Farfetch has not a big presence, yet. As the company does more businesses directly with brands and works more with department stores, this could pressure take-rates. Moreover, higher competition can force the company to lower their take-rate. Although we are projecting take rates to decline to 27.9% until FY2025, we ultimately view this take-rates sustainable given the fact that Farfetch drives



***Graph 37**: Brand platform evolution*
Source: Farfetch's Financial Reports and analysts' estimates

incremental demand for boutiques and provide several services to the sellers demonstrating the extent of value Farfetch has to its partners.

- Brand Platform Revenue

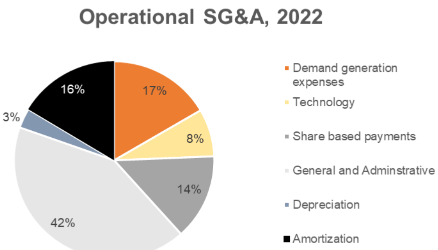
New Guards Group is the Brand Platform that detains several luxury brands. This layer of the business model provides design, production, and brand development capabilities then relies on wholesale distribution outside of Farfetch. This part of the business has very similar economics to any other brand. Again, inorganic growth is one of the main drivers of this platform: for example, the company acquired Stadium Goods in FY2018, and New Guards Group in FY2019, fully embracing a fast-growing luxury streetwear category. As result, in FY2019, brand platform revenue grew 31% and 67% in FY2020. With the acquisition of Violet Grey in the FY2022, Farfetch entered in the beauty. Between FY2023-FY2030, we expect this segment to increase at a 21.25% CAGR. After that it will follow the same trend of GMV growth.

- In-Store Revenue

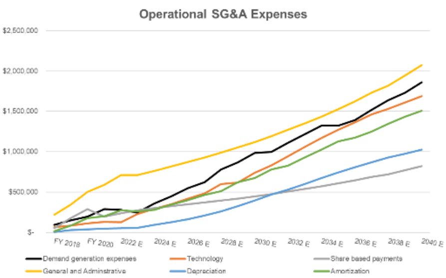
In-store revenues results from in-store sales at Browns boutiques, Stadium Goods and New Guards Group. In total, Farfetch owns 23 stores and due to the nature of both Stadium Goods and New Guards Group brands, we expect this number to slightly increase in the upcoming years, following the real GDP growth rate. Also, an increase in the revenues per store is expected (adjustment for inflation), with each store generating 6.31 million US dollars by FY2030.

Cost Value Drivers

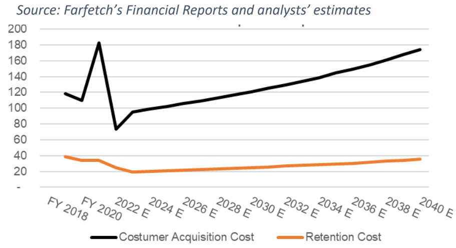
Digital platform cost of revenues includes packaging costs, credit card fees, and incremental shipping costs provided in relation to the provision of these services. Digital Platform Services first-party cost of revenues also includes the cost of goods sold of owned products. Influenced by the decrease in the take rate, the third-party digital platform service gross margin is expected to decrease. For the brand platform, the cost of goods sold includes design, production, brand development and wholesale distribution costs of brands owned and licensed by New Guards. Without much room for improvement, we believe these costs will continue to growth as percentage of revenues, keeping their margins stable.



***Graph 38**: Operational SG&A*
Source: Farfetch's Financial Reports and analysts' estimates



***Graph 39**: Operational SG&A evolution*
Source: Farfetch's Financial Reports and analysts' estimates



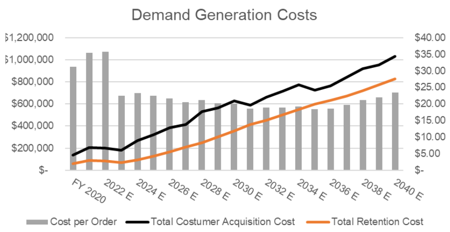
***Graph 40**: Demand generation expenses per customer*
Source: Farfetch's Financial Reports and analysts' estimates

Operational SG&A Expenses

On the operational costs side, besides the General Administrative costs that represents the biggest slice, share based payments, amortization costs, demand generation expenses and had a significant impact on company's net income during the historical period.

Employees receive remuneration in form of share-based payments in form of either equity or cash schemes. Difficult to estimate since it's based on the price of the Farfetch's shares we estimate an increase in this cost based on the increase in the number of employees. As so, it will become less significant for the company future expenses. As a noncash expense, amortization is one of the most significant costs of the company since the main investment on capital relies on intangible assets. Annual amortization costs will represent 23% of intangible assets' book value of the previous year.

More significantly, we estimate changes in demand generation and technology expenses efficiencies. In the last years, the company was focused on building brand recognition and a bigger network of consumers and sellers, and this trend is likely to continue in the next few years, despite the slowdown forecasted to FY2023 due to macroeconomic factors and results below predictions in FY2022. Demand generation expense consists of fees that Farfetch pays to media affiliate partners to acquire and retain customers. This cost represented 15% of adjusted revenues in FY2021 but is expected to decline to 9% in FY2023. Due to data constraints regarding Farfetch's costumer acquisition and retention costs, we estimated these costs considering what we believe is Farfetch's strategy for the future.



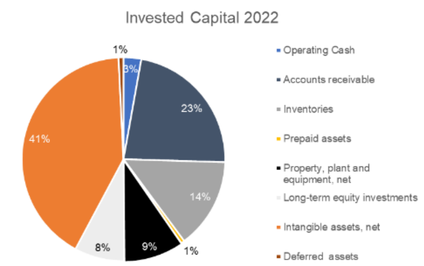
***Graph 41**: Demand generation costs*
Source: Farfetch's Financial Reports and analysts' estimates

The company is still focused on rapid growth and looks to increase its market share in the online luxury market, thus the number of consumers. Considering that, the model allocated, 70% of the entire demand generation budget to the acquisition of new consumers and the remaining 30% to the retention of existing customers. On average, this corresponds to a historical CAC[6] of 97.8 US dollars and a retention

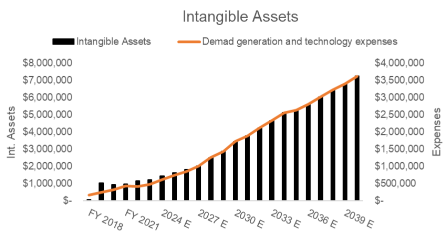
[6] Costumer Acquisition Cost

cost per costumer of 19.5 US dollars. As the company matures, the percentage allocated to the acquisition of new consumers is expected to decrease and stabilize at 54%. The remaining 30%-46% is allocated to retention costs. These costs are a very dynamic metric, that can change due to market and competitive conditions that overall offset each other. Thus, we don't estimate any reductions in CAC and retention costs per consumer and we expected these costs to only adjust to inflation. Despite the focus on expansion and the investment in costumer acquisition, the percentage of adjusted revenues attributed to demand generation is estimated to decrease over time and stabilizes at 7%.

Regarding technology costs, as a technology enablement company and a marketplace, Farfetch needs to actively invest in information technologies and systems to operate their business and maintain competitiveness. It is expected that the company continue to invest product and infrastructure to maintain and grow its platform. On average, this cost represented 9% of the adjusted revenues. As the company states on it financial report, it has adjusted the pace of increase in technology headcount, by using outsourcing to create a flexible and adaptable workforce to meet fluctuations in development needs[7]. By FY2026, we expect this cost to represent 7% of the adjusted revenues as consequence of economies of scale.



***Graph 42**: Invested capital - 2022*
Source: Farfetch's Financial Reports



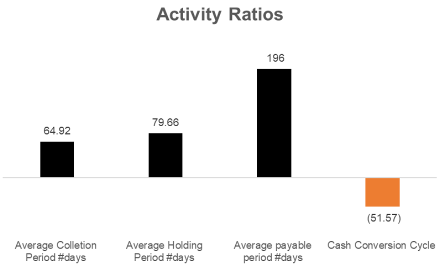
***Graph 43**: Intangible assets*
Source: Farfetch's Financial Reports and analysts' estimates

Invested Capital

Behaving more live a technology-enablement company, Farfetch main driver of invested capital are the intangible assets. Those represent 41% of the operating assets and include domains software, databases, license agreements, and patented technology. As the company continues to grow its operations, we expect Farfetch to increase its costs on demand generation and technology, driving the growth of intangible assets.

Another important driver of the invested capital is the accounts receivables. The receivables are spread across many different customers, from boutique partners, first-party product suppliers, wholesale retailers, retail customers, explaining the large amount. Farfetch already has a good average collection period metric, it takes

[7] Farfetch's 20-F Report, 2021



***Graph 44**: Activity ratios*
Source: Farfetch's Financial Reports and analysts' estimates

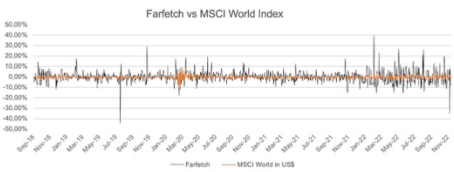
on average 64.92 days to collect its receivables. Thus, we expect this metric to remain constant.

Valuation Model - DCF Analysis

- Cost of Equity

The company's cost of equity was calculated through the CAPM formula:

$$E(r) = rf + \beta * MRP$$



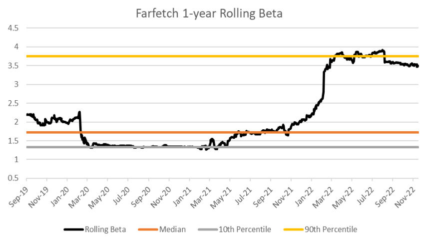
***Graph 45:** Farfetch vs MSCI World Index*
Source: Analysts' estimates

As a key parameter to estimate the cost of equity, we analysed the Farfetch beta. Our beta estimation comprises a regression of 4 years of daily data of Farfetch's stock returns against the MSCI World Index, which was used as a proxy for the market returns. We used 4 instead of 5 years because Farfetch only went public in September 2018. The regression indicated a coefficient of 2.09 with a wide 95% confidence interval of [1.85; 2.33] and a low R^2 (of 21.7%) which shows low correlation. Therefore, we analysed both the raw and adjusted betas of similar companies. For the adjusted beta, the average was 2.17 and the median 2.29 and for the raw beta, we got an average of 2.75 and a median of 2.93.

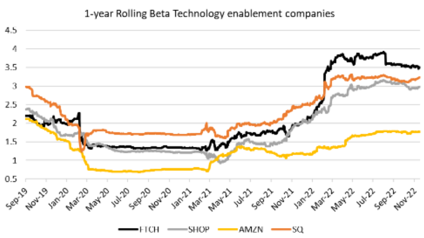
Company	Raw Beta	Adjus. Beta
MyTheresa	1.66	1.44
The RealReal	3.47	2.66
Shopify	2.78	2.19
Block	3.08	2.39
Average	**2.75**	**2.17**
Median	**2.93**	**2.29**

***Table 7**: Betas*
Source: Bloomberg

The analysis of the 1-year rolling beta within the 4-year time window helped us to understand the width of the 95% confidence interval previous calculated. *Graph 46* shows the evolution of the beta with three distinct trends. From September 2019 to late 2019, the 1-year rolling beta presented a stable trend marked by some volatility broader than the market. The second distinct trend started in the beginning of 2020, when Farfetch's rolling beta plunged at the start of Covid-19 pandemic. The tech industry suffered a smaller impact from the pandemic than other industries, and Farfetch had favourable events such as the spontaneous rise of on-line shopping, causing the firm's rolling beta to decrease from 2.26 to 1.27 unit. The third trend started in the beginning of 2021 with the increase of the company's beta. The post-pandemic slowdown of the e-commerce market, inflation, rising interest rates and the Russo-Ukrainian conflict have curbed consuming spending. Farfetch is a relatively recent company without a solid business and an unproven business model. The company has been "cash burn" and increased the level of leverage (in form of convertible bonds and operating leases). Since 2021, the company has been more volatile than the market, reaching its higher rolling beta of 3.9 unit in December 2022. In conclusion, the



***Graph 46:** Farfetch 1-year rolling Beta*
Source: Analysts' estimates



***Graph 47**: 1-year rolling beta – technology enablement companies*
Source: Analysts' estimates

volatility of the 1-year rolling beta within the 5 years time horizon makes it clear why the regression had such a large confidence interval. Using the beta peers to corroborate the estimate, a beta of 2.17 was used.

Cost Of Equity	
Beta	2.17
Rf	3.61%
MRP	6%
Cost Of Equity	16.64%

***Table 8**: Cost of equity*
Source: Analysts' estimates

As for the risk-free, as a proxy we used the US 10-year Treasury bonds, which yields a 3.61% return and is in the same currency. As for the market risk premium, we used 6%, value suggested by the literature.[8] Using the CAPM formula, the computed cost of equity is 16.64%.

- Cost of Debt

The costs of debt and capital leases were estimated using the following formula:

$$Rd = YTM - PD * LGD$$

Cost Of Debt	
Credit Rating (Fitch Rating)	B-
YTM	8.08%
Rf	3.61%
Probability of Default	3.30%
Loss Given Default	65.80%
Cost Of Debt	5.91%
Cost Of Debt (after-tax)	4.78%

***Table 9**: Cost of debt*
Source: Analysts' estimates and bloomberg

***Graph 48**: U.S Corporate B+, B, B- Bond Index yield curve*
Source: Bloomberg

Mainly explained by its weak financial profile with projected negative operating net income until FY2025, negative free cash flows over FY2022-FY2028 and the nature of Farfetch assets (mainly are intangible, therefore cannot serve as collateral), Farfetch is currently rated a B- by Fitch, a non-investment and highly speculative grade (equivalent to Moody's B3 grade). The company has never publicly traded straight bonds, therefore we use as a proxy for the YTM the U.S Corporate B+, B, B- Bond Index, which tracks the performance of U.S. dollar-denominated high-yield corporate bonds, issued by companies and has a yield of 8.08% on a 10-year maturity. To compute the probability of default, we annualized the 10-year cumulative default rate for B- (B3) rated companies which then was multiplied by the loss given default (65.80%). The resulting cost of debt after tax for Farfetch is equal to 4.78%.

- WACC

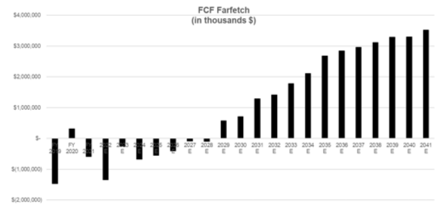
The WACC was computed after calculating the cost of the sources of financing available to Farfetch. For the capital structure, a target net debt to equity ratio based on the average capital structure of the technology industry was considered. This value represents the average ratio of mature companies that operate in technology enablement and e-commerce/marketplace industries. For this, we assumed an average between Alibaba, Uber, Amazon and Shopify. Despite

[8] KPMG. (2022). Equity Market Risk Premium - Research Summary (30 September 2022). KPMG.

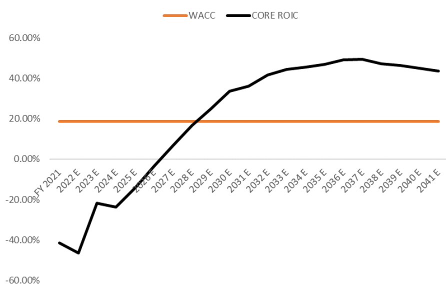
operating in different industries, this companies reflect what we believe Farfetch will tend to be in the future: a more technology related company that operates in the luxury market instead of a simple marketplace.

Assuming a constant capital structure in the future and a 19% tax rate corresponding to the UK corporate income tax, the WACC obtained is equal to 18.77%.

- Long-term Value Drivers



***Graph 49**: Farfetch's Free Cash Flow*
Source: Farfetch's Financial Reports and analysts' estimates



***Graph 50:** Core ROIC and WACC*
Source: Analysts estimates

Intrinsic Value (in 000's)		
Core Value	$	1,775,129
Terminal Value	$	860,670
Non-Core Value	$	(168,220)
Enterprise Value	**$**	**2,467,579**
Less: Debt		757,617
Plus: Excess Cash		419,906
Equity Value	**$**	**2,129,868**
Equity Value / Share	$	5.56

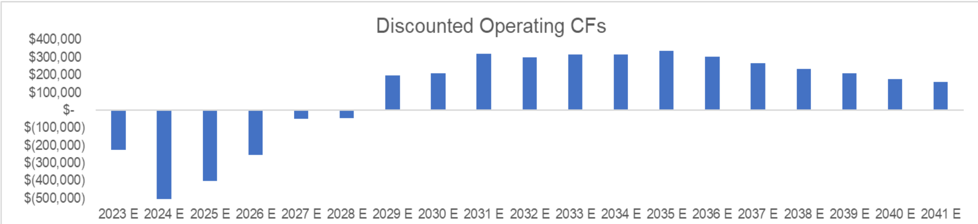
***Table 10**: Intrinsic value*
Source: Analysts' estimates

Farfetch's operating return on invested capital has been highly volatile and negative, which is not surprising since the company has been unprofitable. It's core ROIC increased from -476% in 2019 to -41% in FY2021 and we expect it continue negative until FY2025. Similar companies like MyTheresa and Shopify have also shown high levels of volatility on historical ROIC, averaging 25% and –3.08% in the last 4 years respectively.

Historically, Farfetch main strategy for growth has been inorganic growth through the acquisition of trademarks, new brands and domain names, however this kind of expansion is expected to slow down, and the company is expected to stabilize and focus on optimizing processes and investments which will translate into positive FCFs in the future. Nevertheless, we project an extension of negative FCFs until FY2028. As Farfetch grows and matures we expect the ROIC to stabilize at 46%, above the cost of capital. Farfetch operates in a scalable industry, with high barriers to entry (due to high investment requirements), has its own well stablish brands and valuable partnerships with third parties which are determinant factors for the company to have competitive advantage and a sustainable growth which blocks any destruction of returns. In perpetuity, the operational FCF are expected to grow at a rate of 2.83%, a reasonable value considering the projected real GDP of 3.02%.

- Outcome

The Discounted Cash-Flow model assigns an intrinsic value to Farfetch's stock of 5.56 US dollars.



Sensitivity Analysis

An important element for the valuation is Farfetch cost of capital, thus the value of beta. Our analysis demonstrates that the beta of Farfetch has been quite volatile in the recent past, yielding a wide confidence interval on the regression. Therefore, in order to analyse the impact of the beta fluctuations on the share price target, we performed a sensitivity analysis of the beta using the same confidence interval. The higher the beta, and consequently the higher cost of equity, the smaller will be the share price target. With the stock behaving more in tandem with the overall market, with a beta decreasing near 1, a larger shareholder's return and target price is expected.

Beta		**1.853**	**1.973**	**2.093**	**2.213**	**2.333**
Cost of Equity		14.73%	15.45%	16.17%	16.89%	17.61%
Wacc		16.51%	17.36%	18.21%	19.06%	19.91%
$	**5.56**	**$ 8.64**	**$ 7.37**	**$ 6.24**	**$ 5.24**	**$ 4.35**

Taking into consideration the different discount rates given by the change in the beta and the perpetual growth rate, we performed another sensitivity analysis to understand how critical the impact of WACC and growth rate is. The share price is sensitive to variations on both variables however is much more sensitive to the change in the discount rate then in the perpetual growth rate. Perpetual growth rate only impacts the terminal value which represents 34.88% of the total

		Perpetual growth Rate				
	$	**5.56**	0.73%	1.48%	**2.83%**	2.98%	3.73%
Discount Rate		16.51%	$ 8.20	$ 8.34	$ 8.64	$ 8.67	$ 8.86
		17.36%	$ 6.99	$ 7.11	$ 7.37	$ 7.40	$ 7.56
		18.21%	$ 5.91	$ 6.02	$ 6.24	$ 6.27	$ 6.41
		18.77%	$ 5.26	$ 5.36	$ 5.56	$ 5.59	$ 5.72
		19.06%	$ 4.95	$ 5.05	$ 5.24	$ 5.26	$ 5.39
		19.91%	$ 4.09	$ 4.18	$ 4.35	$ 4.37	$ 4.47

enterprise value while the cost of capital impacts both terminal and the discounted operating value of the firm, leading to a bigger impact on the share price target.

Risks and Scenario Analysis

We believe there are three important variables that need further discussion due to its high importance and impact on the company: the take rate, luxury market online penetration, and demand generation expenses. A scenario analysis was performed for each of them to quantify the impact of each one of the factors on Farfetch's valuation, as well as the probability of those risks materializing.

- Online Penetration Rate

On a 294 billion US dollars market size, the online channel represented 19.40% of the total luxury goods revenues in FY2021, an increase in 1.40pps comparing to FY2020. The COVID-19 pandemic has helped to increase the online presence of the luxury sector. However, with the reopening of the economy and physical stores, two scenarios may occur. The first one, the slowdown of the migration of shoppers to online channels, represents a risk for Farfetch that sees the size of potential costumers decrease substantially. A scenario where the online penetration stabilizes at 25% compromises the ability of the company to become profitable, given its high level of investment.
The second scenario, a faster adoption of online channels, will boost target segment and GMV of the company. The company is able to produce positive cash flows already in FY2026 (two years before the base scenario predicts) and generate a discounted operating value 4x higher than the base scenario.
As we believe the online channel is a trend that came to stay, the probability of the increase of the online penetration rate is more likely to happen, which suggests an expected share value of 8.59 US dollars (a 54% upside).

	Downside	Base	Upside
Online Penetration (2023-2040)	Stabilizes at 25% in 2025	Reaches 27% in 2025 and stabilizes in 2034 at 35%	Stabilizes in 2030 at 50%
Probability	15%	60%	25%
Core Value	$ (42,693)	$ 1,775,129	$ 7,039,577
Terminal Value	$ 334,775	$ 860,670	$ 1,632,831
Non-Core Value	$ (168,220)	$ (168,220)	$ (168,220)
Enterprise Value	**$ 123,862**	**$ 2,467,579**	**$ 8,504,189**
Less: Debt	$ 757,617	$ 757,617	$ 757,617
Plus: Excess Cash	$ 419,906	$ 419,906	$ 419,906
Equity Value	**$ (213,849)**	**$ 2,129,868**	**$ 8,166,478**
Price per share	**$ (0.56)**	**$ 5.56**	**$ 21.33**
Expected Share Value		$ 8.59	

- Take Rate

Farfetch has been able to sustain high take rates, not so different from other competitors. Although the company delivers high-value proposition to its consumers and partners, the industry is becoming more competitive, and this poses a threat to the future of the company's take rates. Being able to keep high rates demonstrates the extent of value that the company is able to create for its customers and third-party sellers, however it also invites competition and take rates are unlikely to increase in the future. In the downside scenario, we considered a take rate of 23% and in the upside scenario, the take rate would be 33% (a scenario unlikely to happen).

In a bearish scenario, revenues would decrease by an average of 928 million US dollars each year (a ~5% decrease) implying a negative impact on core result of 430 million US dollars on average each year. Thus, this scenario implies an intrinsic share price of 0.88 US dollars.

	Downside	Base	Upside
Average Take Rate	23%	28%	33%
Probability	25%	70%	5%
Core Value	$ 228,949	$ 1,775,129	$ 3,245,376
Terminal Value	$ 615,578	$ 860,670	$ 1,122,591
Non-Core Value	$ (168,220)	$ (168,220)	$ (168,220)
Enterprise Value	**$ 676,308**	**$ 2,467,579**	**$ 4,199,747**
Less: Debt	$ 757,617	$ 757,617	$ 757,617
Plus: Excess Cash	$ 419,906	$ 419,906	$ 419,906
Equity Value	**$ 338,597**	**$ 2,129,868**	**$ 3,862,036**
Price per share	**$ 0.88**	**$ 5.56**	**$ 10.09**
Expected Share Value		$ 4.62	

- Demand Generation Expenses

Demand generation expenses is a crucial factor to consider when valuating Farfetch. In FY2021, Farfetch reported ~292 million US dollars in demand generation expense, or 35.50 US dollars per order, representing around 20% of the digital platform services revenue. As comparison, Farfetch's demand generation budget is more than twice the closest competitor, MyTheresa (~ 97.8 million US dollars last fiscal year, 13% of net sales).

To become profitable, this is one of the factors the company needs to optimize. To do so, Farfetch needs to allocate a smaller percentage of its budget to the acquisition of new costumers and increase the percentage on the retention costs, ~3x cheaper than CAC. With more players in the market and greater competition to acquired costumers, both costs can increase significantly, negatively impacting the firm's operations and financial results. In a bearish scenario where CAC are 25% higher, Farfetch will only be able to produce positive operating cash flows in FY2033, which implies a negative share price. A scenario where the company can further reduce its CAC implies an intrinsic share value of 21.11 US dollars.

	Downside	Base	Upside
CAC (average cost per order from 2023-2040)	$ 162.5	$ 130.0	$ 97.5
Probability	35%	50%	15%
Core Value	$ (5,763,143)	$ 1,775,129	$ 6,919,779
Terminal Value	$ 104,198	$ 860,670	$ 1,665,812
Non-Core Value	$ (168,220)	$ (168,220)	$ (168,220)
Enterprise Value	**$ (5,827,164)**	**$ 2,467,579**	**$ 8,417,372**
Less: Debt	$ 757,617	$ 757,617	$ 757,617
Plus: Excess Cash	$ 419,906	$ 419,906	$ 419,906
Equity Value	**$ (6,164,876)**	**$ 2,129,868**	**$ 8,079,661**
Price per share	**$ (16.10)**	**$ 5.56**	**$ 21.11**
Expected Share Value		$ 0.31	

Multiple Valuation

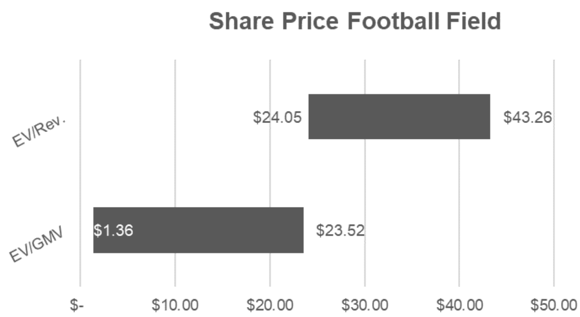
To complement the DCF valuation, we choose to perform a relative valuation. To do so, we consider two other technology enablement companies, which might attract Farfetch's sellers by enabling e-commerce (Shopify, and Block), one direct close competitor from the luxury fashion retailer segment, My Theresa, and other internet marketplace with similar business model, ETSY.

Using the last year of data, we computed EV-to-GMV[9] and EV-to-Revenues multiples. Both GMV and revenues are the most important drivers in any of the use multiples based on historical earnings because the only time Farfetch achieved positive results was in FY2021, however this value was caused by nonoperating items (gain on items held at fair value and remeasurements), which are one-time event. Therefore, using any multiple based on earnings could lead to a misleading comparison. Regarding the EV-to-GMV, we arrived to multiples ranging from 0.20 to 3.35x. For the EV-to-Revenues, the multiples ranged from 4.08x and 7.53x. Farfetch's EV/GMV and EV/Revenues ratios are 0.67 and 0.95, respectively. Its ratios are below the comparable average. Its ratios are below the comparable average, signalling that company is potentially undervalued, which helps to confirm our DCF analysis.

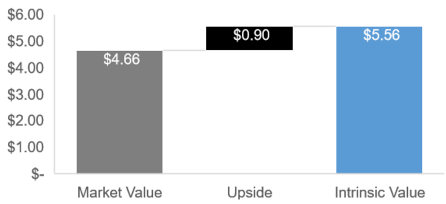
Multiples		
Company	**EV/GMV**	**EV/Revenue**
ETSY	1.12	6.48
MyTheresa	3.35	4.19
Shopify	0.20	7.53
Block	0.43	4.08
Average	1.27	5.57
Median	0.77	5.33
Fartech Valuation		
	EV/GMV	**EV/Revenues**
Enterprise value	$ 2,588,837	$ 12,393,631
Debt	757,617	757,617
Excess of Cash	419,906	419,906
Equity Value	$ 2,251,126	$ 12,055,920
Share Price	$ 5.88	$ 31.49

***Table 11**: Farfetch valuation and comparable multiples*
Source: Analysts' estimates and companies' financial reports

[9] We consider GMV for marketplaces and retailers and Gross Payment Volume (GPV) for technology enablement companies.



Final Recommendation



Graph 51: *Market Values vs Intrinsic Value*

Source: Analysts estimates

Taking into account the results from the DCF model, we believe Farfetch is a buy with a share target price of 5.56 US dollars (an upside of 19%) because: (i) its large addressable market of luxury presents significant growth in the online channel allows the company to capture high stake of the market; (ii) well positioned for emerging markets, like China, and for new customer segments; (iii) strong management team with know-how and influence in the luxury market; but especially, (iv) the strong relationship with the larger players and brands, driving large advantage over competitors. Despite the marketplace upside potential, we believe Farfetch's true value may rest with its FPS technology.

Appendix

Financial Statements

FARFETCH LIMITED AND SUBSIDIARIES - REFORMULATED BALANCE SHEET														
(in thousands)	FY 2020	FY 2021	2022 E	2023 E	2024 E	2025 E	2030 E	2035 E	2036 E	2037 E	2038 E	2039 E	2040 E	2041 E
CORE BUSINESS														
Operating Cash	$ 29,213.88	$ 38,482.08	$ 78,480.83	$ 52,525.01	$ 66,874.77	$ 86,952.35	$ 245,711.31	$ 423,759.95	$ 454,994.37	$ 486,761.09	$ 510,397.08	$ 537,527.14	$ 562,819.89	$ 588,587.48
Accounts receivable	$ 256,068.00	$ 396,462.00	$ 612,272.23	$ 545,695.99	$ 730,604.70	$ 956,951.08	$ 2,719,762.18	$ 4,693,474.87	$ 5,039,468.69	$ 5,391,354.23	$ 5,653,124.37	$ 5,953,420.94	$ 6,233,261.03	$ 6,518,356.61
Inventories	$ 145,309.00	$ 255,664.00	$ 376,342.81	$ 373,081.38	$ 530,847.91	$ 708,701.91	$ 2,030,226.85	$ 3,507,716.20	$ 3,766,367.21	$ 4,029,415.64	$ 4,225,027.76	$ 4,449,184.67	$ 4,657,900.12	$ 4,870,537.80
Prepaid assets	$ 14,041.00	$ 19,670.00	$ 14,195.05	$ 67,789.97	$ 86,310.10	$ 112,222.68	$ 317,120.59	$ 546,914.21	$ 587,226.06	$ 628,224.91	$ 658,730.06	$ 693,744.73	$ 726,388.12	$ 759,644.36
Property, plant and equipment, net	$ 268,309.00	$ 292,612.00	$ 266,777.00	$ 434,612.03	$ 581,880.02	$ 762,150.47	$ 2,166,117.03	$ 3,738,053.24	$ 4,013,615.25	$ 4,293,869.62	$ 4,502,352.83	$ 4,741,519.89	$ 4,964,394.67	$ 5,191,455.10
Long-term equity investments	$ 10,597.00	$ 18,006.00	$ 222,441.00	$ 222,441.00	$ 222,441.00	$ 222,441.00	$ 222,441.00	$ 222,441.00	$ 222,441.00	$ 222,441.00	$ 222,441.00	$ 222,441.00	$ 222,441.00	$ 222,441.00
Intangible assets, net	$ 922,807.00	$ 977,372.00	$ 1,161,464.86	$ 1,237,430.44	$ 1,528,645.51	$ 1,776,415.32	$ 3,457,153.51	$ 5,205,469.61	$ 5,537,954.73	$ 5,971,430.65	$ 6,357,530.06	$ 6,704,672.76	$ 7,121,841.45	$ 7,420,014.63
Deferred assets	$ 13,556.00	$ 13,334.00	$ 20,803.80	$ 41,156.57	$ 52,400.48	$ 68,132.50	$ 192,529.88	$ 332,041.92	$ 356,516.00	$ 381,407.17	$ 399,927.42	$ 421,185.49	$ 441,003.90	$ 461,194.39
Accounts payable	$ (541,725.00)	$ (654,659.00)	$ (747,601.43)	$ (918,658.58)	$ (1,307,135.70)	$ (1,745,075.27)	$ (4,999,138.03)	$ (8,637,240.44)	$ (9,274,130.89)	$ (9,921,849.37)	$ (10,403,515.73)	$ (10,955,469.50)	$ (11,469,400.88)	$ (11,992,990.23)
Total tax payable	$ (79,918.00)	$ (74,242.00)	$ (75,423.14)	$ (109,820.79)	$ (147,033.48)	$ (192,585.47)	$ (547,349.49)	$ (944,557.24)	$ (1,014,188.16)	$ (1,085,004.78)	$ (1,137,685.77)	$ (1,198,120.16)	$ (1,254,437.71)	$ (1,311,812.91)
Deferred Revenue	$ (30,957.00)	$ (60,486.00)	$ (105,520.17)	$ (294,742.99)	$ (394,616.45)	$ (516,871.35)	$ (1,469,006.29)	$ (2,535,054.03)	$ (2,721,933.27)	$ (2,911,994.77)	$ (3,053,382.86)	$ (3,215,579.96)	$ (3,366,728.05)	$ (3,520,714.75)
Core Business Invested Capital	**$ 1,007,300.88**	**$ 1,222,215.08**	**$ 1,824,232.84**	**$ 1,651,510.04**	**$ 1,951,218.86**	**$ 2,239,435.21**	**$ 4,335,568.55**	**$ 6,553,019.29**	**$ 6,968,330.97**	**$ 7,486,055.40**	**$ 7,934,946.23**	**$ 8,354,527.01**	**$ 8,839,483.54**	**$ 9,206,713.49**
NON CORE BUSINESS														
Short-term investments	$ -	$ 99,971.00	$ -	$ 42,743.00	$ 42,743.00	$ 42,743.00	$ 42,743.00	$ 42,743.00	$ 42,743.00	$ 42,743.00	$ 42,743.00	$ 42,743.00	$ 42,743.00	$ 42,743.00
Hedging assets	$ 30,242.00	$ 8,010.00	$ 10,653.00	$ 9,080.00	$ 9,080.00	$ 9,080.00	$ 9,080.00	$ 9,080.00	$ 9,080.00	$ 9,080.00	$ 9,080.00	$ 9,080.00	$ 9,080.00	$ 9,080.00
Goodwill	$ 356,521.00	$ 382,285.00	$ 492,957.95	$ 492,957.95	$ 492,957.95	$ 492,957.95	$ 492,957.95	$ 492,957.95	$ 492,957.95	$ 492,957.95	$ 492,957.95	$ 492,957.95	$ 492,957.95	$ 492,957.95
Employee Benefits	$ (26,116.00)	$ (12,948.00)	$ (4,063.00)	$ (4,063.00)	$ (4,063.00)	$ (4,063.00)	$ (4,063.00)	$ (4,063.00)	$ (4,063.00)	$ (4,063.00)	$ (4,063.00)	$ (4,063.00)	$ (4,063.00)	$ (4,063.00)
Other payable	$ (16,642.00)	$ (22,208.00)	$ (105,737.23)	$ (105,737.23)	$ (105,737.23)	$ (105,737.23)	$ (105,737.23)	$ (105,737.23)	$ (105,737.23)	$ (105,737.23)	$ (105,737.23)	$ (105,737.23)	$ (105,737.23)	$ (105,737.23)
Other Liabilities	$ (22,798.00)	$ (52,554.00)	$ (559,077.00)	$ (559,077.00)	$ (559,077.00)	$ (559,077.00)	$ (559,077.00)	$ (559,077.00)	$ (559,077.00)	$ (559,077.00)	$ (559,077.00)	$ (559,077.00)	$ (559,077.00)	$ (559,077.00)
Deferred Taxes	$ (182,463.00)	$ (156,025.00)	$ (136,191.00)	$ (136,191.00)	$ (136,191.00)	$ (136,191.00)	$ (136,191.00)	$ (136,191.00)	$ (136,191.00)	$ (136,191.00)	$ (136,191.00)	$ (136,191.00)	$ (136,191.00)	$ (136,191.00)
Pension & Other Post Retirement	$ (38,286.00)	$ (8,296.00)	$ (3,539.00)	$ (8,296.00)	$ (8,296.00)	$ (8,296.00)	$ (8,296.00)	$ (8,296.00)	$ (8,296.00)	$ (8,296.00)	$ (8,296.00)	$ (8,296.00)	$ (8,296.00)	$ (8,296.00)
Derivative Product Liabilities	$ (3,345,157.00)	$ (1,709,037.00)	$ (243,430.00)	$ (243,430.00)	$ (243,430.00)	$ (243,430.00)	$ (243,430.00)	$ (243,430.00)	$ (243,430.00)	$ (243,430.00)	$ (243,430.00)	$ (243,430.00)	$ (243,430.00)	$ (243,430.00)
Provisions	$ (156,259.00)	$ (75,130.00)	$ (20,187.00)	$ (20,187.00)	$ (20,187.00)	$ (20,187.00)	$ (20,187.00)	$ (20,187.00)	$ (20,187.00)	$ (20,187.00)	$ (20,187.00)	$ (20,187.00)	$ (20,187.00)	$ (20,187.00)
Non Core Business Invested Capital	**$ (3,400,958.00)**	**$ (1,545,932.00)**	**$ (568,613.28)**	**$ (532,200.28)**	**$ (532,200.28)**	**$ (532,200.28)**	**$ (532,200.28)**	**$ (532,200.28)**	**$ (532,200.28)**	**$ (532,200.28)**	**$ (532,200.28)**	**$ (532,200.28)**	**$ (532,200.28)**	**$ (532,200.28)**
TOTAL INVESTED CAPITAL	**$ (2,393,657.12)**	**$ (323,716.92)**	**$ 1,255,619.57**	**$ 1,119,309.77**	**$ 1,419,018.59**	**$ 1,707,234.93**	**$ 3,803,368.27**	**$ 6,020,819.01**	**$ 6,436,130.69**	**$ 6,953,855.12**	**$ 7,402,745.95**	**$ 7,822,326.73**	**$ 8,307,283.27**	**$ 8,674,513.22**
FINANCIAL														
Excess Cash	$ (1,544,207.12)	$ (1,324,645.92)	$ (419,905.78)	$ (862,453.22)	$ (879,702.28)	$ (897,296.33)	$ (990,687.65)	$ (1,193,177.32)	$ (1,252,836.19)	$ (1,315,478.00)	$ (1,381,251.89)	$ (1,450,314.49)	$ (1,522,830.21)	$ (1,553,286.82)
Debt	$ 809,192.00	$ 730,313.00	$ 757,617.00	$ 760,492.57	$ 904,242.61	$ 994,666.87	$ 505,927.36	$ 187,152.65	$ 149,722.12	$ 119,777.70	$ 95,822.16	$ 76,657.72	$ 61,326.18	$ 59,486.39
Net Financial Assets	**$ (735,015.12)**	**$ (594,332.92)**	**$ 337,711.22**	**$ (101,960.65)**	**$ 24,540.33**	**$ 97,370.55**	**$ (484,760.29)**	**$ (1,006,024.67)**	**$ (1,103,114.07)**	**$ (1,195,700.30)**	**$ (1,285,429.74)**	**$ (1,373,656.76)**	**$ (1,461,504.03)**	**$ (1,493,800.42)**
Stockholders' Equity	$ (1,827,198.00)	$ 88,608.00	$ 755,945.35	$ 1,050,684.58	$ 1,223,892.42	$ 1,439,278.55	$ 4,117,542.73	$ 6,856,257.85	$ 7,368,658.93	$ 7,978,969.59	$ 8,517,589.86	$ 9,025,397.66	$ 9,598,201.47	$ 9,997,727.81
Non Controlling Interests	$ 168,556.00	$ 182,008.00	$ 161,963.00	$ 170,585.83	$ 170,585.83	$ 170,585.83	$ 170,585.83	$ 170,585.83	$ 170,585.83	$ 170,585.83	$ 170,585.83	$ 170,585.83	$ 170,585.83	$ 170,585.83
TOTAL SHAREHOLDERS EQUITY	**$ (1,658,642.00)**	**$ 270,616.00**	**$ 917,908.35**	**$ 1,221,270.41**	**$ 1,394,478.26**	**$ 1,609,864.39**	**$ 4,288,128.56**	**$ 7,026,843.68**	**$ 7,539,244.76**	**$ 8,149,555.42**	**$ 8,688,175.69**	**$ 9,195,983.49**	**$ 9,768,787.30**	**$ 10,168,313.64**

FARFETCH LIMITED AND SUBSIDIARIES - REFORMULATED INCOME STATEMENT														
(in thousands)	FY 2020	FY 2021	2022 E	2023 E	2024 E	2025 E	2030 E	2035 E	2036 E	2037 E	2038 E	2039 E	2040 E	2041 E
CORE OPERATIONS														
Revenues	**$ 1,673,922**	**$ 2,256,608**	**$ 2,323,767**	**$ 3,067,956**	**$ 4,107,531**	**$ 5,380,072**	**$ 15,290,768**	**$ 26,387,173**	**$ 28,332,384**	**$ 30,310,719**	**$ 31,782,416**	**$ 33,470,713**	**$ 35,044,001**	**$ 36,646,836**
YoY Growth	*64%*	*35%*	*3%*	*32%*	*34%*	*31%*	*19%*	*9%*	*7%*	*7%*	*5%*	*5%*	*5%*	*5%*
Digital Platform Services	$ 1,033,156	$ 1,385,678	$ 1,348,507	$ 1,885,089	$ 2,481,920	$ 3,329,518	$ 9,691,347	$ 16,766,595	$ 18,003,296	$ 19,260,985	$ 20,195,863	$ 21,265,850	$ 22,261,205	$ 23,275,279
Third-Party Digital Platform	*$ 637,568*	*$ 845,941*	*$ 791,093*	*$ 1,079,738*	*$ 1,294,320*	*$ 1,638,144*	*$ 4,768,205*	*$ 8,249,272*	*$ 8,857,737*	*$ 9,476,528*	*$ 9,936,494*	*$ 10,462,934*	*$ 10,952,656*	*$ 11,451,586*
First-Party Digital Platform	*$ 395,588*	*$ 539,737*	*$ 557,414*	*$ 805,351*	*$ 1,187,600*	*$ 1,691,374*	*$ 4,923,142*	*$ 8,517,323*	*$ 9,145,559*	*$ 9,784,457*	*$ 10,259,369*	*$ 10,802,916*	*$ 11,308,550*	*$ 11,823,693*
Digital Platform Fulfilment	$ 213,228	$ 332,504	$ 324,073	$ 441,705	$ 763,792	$ 1,032,455	$ 3,005,203	$ 5,199,176	$ 5,582,666	$ 5,972,664	$ 6,262,562	$ 6,594,356	$ 6,903,007	$ 7,217,462
Brand Platform	$ 390,014	$ 467,505	$ 541,293	$ 626,727	$ 739,538	$ 887,445	$ 2,414,557	$ 4,177,324	$ 4,485,442	$ 4,798,790	$ 5,031,711	$ 5,298,293	$ 5,546,282	$ 5,798,934
In-Store	$ 37,524	$ 70,921	$ 109,894	$ 114,435	$ 122,281	$ 130,654	$ 179,661	$ 244,080	$ 260,981	$ 278,280	$ 292,280	$ 312,214	$ 333,507	$ 355,161
Adjusted Revenues	**$ 1,460,694**	**$ 1,924,104**	**$ 1,999,694**	**$ 2,626,251**	**$ 3,343,738**	**$ 4,347,617**	**$ 12,285,565**	**$ 21,187,998**	**$ 22,749,718**	**$ 24,338,055**	**$ 25,519,854**	**$ 26,876,357**	**$ 28,140,994**	**$ 29,429,374**
Cost of revenues	**$ (902,994)**	**$ (1,240,097)**	**$ (1,270,543)**	**$ (1,709,473)**	**$ (2,432,365)**	**$ (3,247,298)**	**$ (9,302,575)**	**$ (16,072,486)**	**$ (17,257,634)**	**$ (18,462,932)**	**$ (19,359,234)**	**$ (20,386,329)**	**$ (21,342,671)**	**$ (22,316,985)**
YoY Growth	*61%*	*37%*	*2%*	*35%*	*42%*	*34%*	*19%*	*9%*	*7%*	*7%*	*5%*	*5%*	*5%*	*5%*
Digital Platform Services	$ (472,950)	$ (655,425)	$ (638,795)	$ (915,620)	$ (1,257,148)	$ (1,726,317)	$ (5,024,853)	$ (8,693,289)	$ (9,334,504)	$ (9,986,602)	$ (10,471,326)	$ (11,026,102)	$ (11,542,182)	$ (12,067,968)
Third-Party Digital Platform	*$ (208,518)*	*$ (288,286)*	*$ (235,677)*	*$ (337,288)*	*$ (404,319)*	*$ (511,723)*	*$ (1,489,490)*	*$ (2,576,904)*	*$ (2,766,976)*	*$ (2,960,274)*	*$ (3,103,958)*	*$ (3,268,407)*	*$ (3,421,386)*	*$ (3,577,242)*
First-Party Digital Platform	*$ (264,432)*	*$ (367,139)*	*$ (403,118)*	*$ (578,332)*	*$ (852,829)*	*$ (1,214,595)*	*$ (3,535,363)*	*$ (6,116,384)*	*$ (6,567,528)*	*$ (7,026,328)*	*$ (7,367,367)*	*$ (7,757,694)*	*$ (8,120,796)*	*$ (8,490,726)*
Digital Platform Fulfilment	$ (213,228)	$ (332,504)	$ (324,073)	$ (441,705)	$ (763,792)	$ (1,032,455)	$ (3,005,203)	$ (5,199,176)	$ (5,582,666)	$ (5,972,664)	$ (6,262,562)	$ (6,594,356)	$ (6,903,007)	$ (7,217,462)
Brand Platform	$ (199,208)	$ (225,989)	$ (269,420)	$ (315,269)	$ (372,017)	$ (446,421)	$ (1,214,620)	$ (2,101,363)	$ (2,256,359)	$ (2,413,986)	$ (2,531,154)	$ (2,665,256)	$ (2,790,004)	$ (2,917,098)
In-Store	$ (17,608)	$ (26,179)	$ (38,254)	$ (36,879)	$ (39,407)	$ (42,105)	$ (57,899)	$ (78,659)	$ (84,105)	$ (89,680)	$ (94,192)	$ (100,616)	$ (107,478)	$ (114,457)
Gross Profit	**$ 770,928**	**$ 1,016,511**	**$ 1,053,225**	**$ 1,358,483**	**$ 1,675,166**	**$ 2,132,774**	**$ 5,988,193**	**$ 10,314,687**	**$ 11,074,750**	**$ 11,847,787**	**$ 12,423,182**	**$ 13,084,384**	**$ 13,701,330**	**$ 14,329,851**
YoY Growth	*68%*	*32%*	*4%*	*29%*	*23%*	*27%*	*19%*	*8%*	*7%*	*7%*	*5%*	*5%*	*5%*	*5%*
Gross Margin	*46%*	*45%*	*45%*	*44%*	*41%*	*40%*	*39%*	*39%*	*39%*	*39%*	*39%*	*39%*	*39%*	*39%*
Operational SG&A	**$ (1,327,216)**	**$ (1,462,238)**	**$ (1,689,350)**	**$ (1,786,022)**	**$ (2,092,085)**	**$ (2,410,120)**	**$ (4,357,542)**	**$ (6,603,783)**	**$ (7,013,772)**	**$ (7,511,049)**	**$ (7,983,476)**	**$ (8,461,849)**	**$ (8,984,800)**	**$ (9,481,589)**
YoY Growth	*52%*	*10%*	*16%*	*6%*	*17%*	*15%*	*11%*	*6%*	*6%*	*7%*	*6%*	*6%*	*6%*	*6%*
Demand generation expenses	$ (198,787)	$ (291,821)	$ (280,453)	$ (248,565)	$ (357,632)	$ (448,766)	$ (985,972)	$ (1,323,217)	$ (1,395,230)	$ (1,515,982)	$ (1,637,512)	$ (1,729,144)	$ (1,861,190)	$ (1,932,502)
Technology	$ (115,227)	$ (131,408)	$ (129,481)	$ (231,855)	$ (295,198)	$ (347,809)	$ (737,134)	$ (1,271,280)	$ (1,364,983)	$ (1,460,283)	$ (1,531,191)	$ (1,612,581)	$ (1,688,460)	$ (1,765,762)
Share based payments	$ (291,633)	$ (196,167)	$ (237,015)	$ (275,317)	$ (302,603)	$ (325,678)	$ (446,578)	$ (609,485)	$ (648,005)	$ (687,053)	$ (721,619)	$ (770,834)	$ (823,406)	$ (881,913)
General and Adminstrative	$ (504,346)	$ (591,644)	$ (710,847)	$ (710,847)	$ (763,792)	$ (763,780)	$ (1,121,028)	$ (1,527,228)	$ (1,623,750)	$ (1,731,381)	$ (1,818,486)	$ (1,942,509)	$ (2,074,991)	$ (2,222,431)
Depreciation	$ (39,366)	$ (49,564)	$ (54,529)	$ (57,727)	$ (94,044)	$ (125,911)	$ (394,229)	$ (745,431)	$ (808,865)	$ (868,492)	$ (929,136)	$ (974,249)	$ (1,026,001)	$ (1,074,228)
Amortization	$ (177,857)	$ (201,634)	$ (277,025)	$ (261,711)	$ (278,828)	$ (344,447)	$ (672,602)	$ (1,127,143)	$ (1,172,939)	$ (1,247,858)	$ (1,345,532)	$ (1,432,531)	$ (1,510,752)	$ (1,604,752)
Share of results of associates	**$ (74)**	**$ (52)**	**$ 65**	**$ 1,711**	**$ 1,711**	**$ 1,711**	**$ 1,711**	**$ 1,711**	**$ 1,711**	**$ 1,711**	**$ 1,711**	**$ 1,711**	**$ 1,711**	**$ 1,711**
as % of Investment in associates	-0.70%	-0.29%		0.77%	0.77%	0.77%	0.77%	0.77%	0.77%	0.77%	0.77%	0.77%	0.77%	0.77%
Core result before taxes	**$ (556,362)**	**$ (445,779)**	**$ (636,060)**	**$ (425,828)**	**$ (415,208)**	**$ (275,635)**	**$ 1,632,362**	**$ 3,712,615**	**$ 4,062,690**	**$ 4,338,449**	**$ 4,441,418**	**$ 4,624,246**	**$ 4,718,241**	**$ 4,849,974**
YoY Growth	*35%*	*-20%*	*43%*	*-33%*	*-2%*	*-34%*	*44%*	*12%*	*9%*	*7%*	*2%*	*4%*	*2%*	*3%*
Statutory taxes	105,709	84,698	120,851	80,907	78,890	52,371	(310,149)	(705,397)	(771,911)	(824,305)	(843,869)	(878,607)	(896,466)	(921,495)
UK tax rate	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%
Tax adjustments	(57,142)	(56,839)	(54,180)	(54,180)	(54,180)	(54,180)	(54,180)	(54,180)	(54,180)	(54,180)	(54,180)	(54,180)	(54,180)	(54,180)
Core Result	**$ (507,795)**	**$ (417,920)**	**$ (569,388)**	**$ (399,101)**	**$ (390,498)**	**$ (277,444)**	**$ 1,268,034**	**$ 2,953,038**	**$ 3,236,599**	**$ 3,459,964**	**$ 3,543,368**	**$ 3,691,459**	**$ 3,767,595**	**$ 3,874,299**
Core Margin	-30%	-19%	-25%	-13%	-10%	-5%	8%	11%	11%	11%	11%	11%	11%	11%
NON CORE OPERATIONS														
Other SG&A	$ (24,267)	$ (18,730)	$ (27,052)	$ (19,144)	$ (19,144)	$ (19,144)	$ (19,144)	$ (19,144)	$ (19,144)	$ (19,144)	$ (19,144)	$ (19,144)	$ (19,144)	$ (19,144)
Impairment losses on tangible assets	$ (2,991)	$ -	$ (30,612)	$ (8,401)	$ (8,401)	$ (8,401)	$ (8,401)	$ (8,401)	$ (8,401)	$ (8,401)	$ (8,401)	$ (8,401)	$ (8,401)	$ (8,401)
Impairment losses on intangible assets	$ (36,269)	$ (11,779)	$ (22,981)	$ (14,206)	$ (14,206)	$ (14,206)	$ (14,206)	$ (14,206)	$ (14,206)	$ (14,206)	$ (14,206)	$ (14,206)	$ (14,206)	$ (14,206)
Gain/(loss) on items held at fair value and remeasuremer	$ (2,643,573)	$ 2,023,743	$ 1,142,525	$ 108,883	$ 108,883	$ 108,883	$ 108,883	$ 108,883	$ 108,883	$ 108,883	$ 108,883	$ 108,883	$ 108,883	$ 108,883
Finance Income	$ 19,729	$ 9,289	$ 6,724	$ 14,428	$ 14,428	$ 14,428	$ 14,428	$ 14,428	$ 14,428	$ 14,428	$ 14,428	$ 14,428	$ 14,428	$ 14,428
Finance Costs	$ (39,940)	$ (9,135)	$ (34,945)	$ (18,999)	$ (15,810)	$ (15,172)	$ (15,013)	$ (15,013)	$ (15,013)	$ (15,013)	$ (15,013)	$ (15,013)	$ (15,013)	$ (15,013)
Non Core result before taxes	**$ (2,727,311)**	**$ 1,993,388**	**$ 1,033,659**	**$ 62,562**	**$ 65,751**	**$ 66,389**	**$ 66,549**	**$ 66,549**	**$ 66,549**	**$ 66,549**	**$ 66,549**	**$ 66,549**	**$ 66,549**	**$ 66,549**
Statutory taxes	$ 518,189	$ (378,744)	$ (196,395)	$ (11,887)	$ (12,493)	$ (12,614)	$ (12,644)	$ (12,644)	$ (12,644)	$ (12,644)	$ (12,644)	$ (12,644)	$ (12,644)	$ (12,644)
UK tax rate	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%
Tax adjustments	$ (561,135)	$ 333,823	$ 102,360	$ (25,845)	$ (25,845)	$ (25,845)	$ (25,845)	$ (25,845)	$ (25,845)	$ (25,845)	$ (25,845)	$ (25,845)	$ (25,845)	$ (25,845)
Other comprehensive income (loss)	$ 39,816	$ (47,422)	$ (130,525)	$ (10,582)	$ (10,582)	$ (10,582)	$ (10,582)	$ (10,582)	$ (10,582)	$ (10,582)	$ (10,582)	$ (10,582)	$ (10,582)	$ (10,582)
Non Core Result	**$ (2,730,441)**	**$ 1,901,045**	**$ 809,099**	**$ 14,248**	**$ 16,831**	**$ 17,348**	**$ 17,477**	**$ 17,477**	**$ 17,477**	**$ 17,477**	**$ 17,477**	**$ 17,477**	**$ 17,477**	**$ 17,477**
FINANCE														
Interest on Cash Deposits	$ 4,970	$ 3,310	$ 1,999	$ 4,143	$ 8,510	$ 8,680	$ 9,584	$ 11,213	$ 11,773	$ 12,362	$ 12,980	$ 13,629	$ 14,310	$ 15,026
as % of Excess of cash (n-1)	2%	0%		1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Interest expenses	$ (51,354)	$ (77,306)	$ (77,306)	$ (77,306)	$ (77,306)	$ (77,306)	$ (77,306)	$ (77,306)	$ (77,306)	$ (77,306)	$ (77,306)	$ (77,306)	$ (77,306)	$ (77,306)
Finance result before taxes	**$ (46,384)**	**$ (73,996)**	**$ (75,307)**	**$ (73,163)**	**$ (68,796)**	**$ (68,626)**	**$ (67,722)**	**$ (66,093)**	**$ (65,533)**	**$ (64,944)**	**$ (64,326)**	**$ (63,677)**	**$ (62,996)**	**$ (62,280)**
Statutory taxes	$ 8,813	$ 14,059	$ 14,308	$ 13,901	$ 13,071	$ 13,039	$ 12,867	$ 12,558	$ 12,451	$ 12,339	$ 12,222	$ 12,099	$ 11,969	$ 11,833
UK tax rate	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%
Financing Result	**$ (37,571)**	**$ (59,937)**	**$ (60,999)**	**$ (59,262)**	**$ (55,725)**	**$ (55,587)**	**$ (54,855)**	**$ (53,536)**	**$ (53,082)**	**$ (52,605)**	**$ (52,104)**	**$ (51,578)**	**$ (51,026)**	**$ (50,447)**
Total Comprehensive Income	**(3,275,807)**	**1,423,189**	**178,712**	**(444,114)**	**(429,392)**	**(315,683)**	**1,230,655**	**2,916,980**	**3,200,994**	**3,424,836**	**3,508,741**	**3,657,358**	**3,734,046**	**3,841,329**

FARFETCH LIMITED AND SUBSIDIARIES - FCF MAP

(in thousands)	FY 2020	FY 2021	2022 E	2023 E	2024 E	2025 E	2030 E
Core FCF							
Core Result	$ (507,795)	$ (417,920)	$ (569,388)	$ (399,101)	$ (390,498)	$ (277,444)	$ 1,268,034
Core IC	$ 1,007,301	$ 1,222,215	$ 1,824,233	$ 1,651,510	$ 1,951,219	$ 2,239,435	$ 4,335,569
Investment	$ (140,997)	$ 214,914	$ 602,018	$ (172,723)	$ 299,709	$ 288,216	$ 574,596
Core CF	**$ (366,799)**	**$ (632,834)**	**$ (1,171,406)**	**$ (226,378)**	**$ (690,207)**	**$ (565,661)**	**$ 693,438**
Non-Core FCF							
Non-Core Result	$ (2,730,441)	$ 1,901,045	$ 809,099	$ 14,248	$ 16,831	$ 17,348	$ 17,477
Non-Core IC	$ (3,400,958)	$ (1,545,932)	$ (568,613)	$ (532,200)	$ (532,200)	$ (532,200)	$ (532,200)
Investment	$ (3,405,243)	$ 1,855,026	$ 977,319	$ 36,413	$ -	$ -	$ -
Non-Core CF	**$ 674,802**	**$ 46,019**	**$ (168,220)**	**$ (22,165)**	**$ 16,831**	**$ 17,348**	**$ 17,477**
Core + Non-Core CF	**$ 308,004**	**$ (586,815)**	**$ (1,339,626)**	**$ (248,543)**	**$ (673,376)**	**$ (548,313)**	**$ 710,914**
Financial							
Financial Result	$ (37,571)	$ (59,937)	$ (60,999)	$ (59,262)	$ (55,725)	$ (55,587)	$ (54,855)
Net Debt	$ (735,015)	$ (594,333)	$ 337,711	$ (101,961)	$ 24,540	$ 97,371	$ (484,760)
Change in Net Debt	$ (549,766)	$ 140,682	$ 932,044	$ (439,672)	$ 126,501	$ 72,830	$ (108,707)
Net Debt & Other Claims Cf	**$ (587,337)**	**$ 80,745**	**$ 871,045**	**$ (498,934)**	**$ 70,776**	**$ 17,243**	**$ (163,562)**
Equity							
Equity	$ (1,658,642)	$ 270,616	$ 917,908	$ 1,221,270	$ 1,394,478	$ 1,609,864	$ 4,288,129
Change in Equity	$ (2,996,474)	$ 1,929,258	$ 647,292	$ 303,362	$ 173,208	$ 215,386	$ 683,303
Comprehensive Income	$ (3,275,807)	$ 1,423,189	$ 178,712	$ (444,114)	$ (429,392)	$ (315,683)	$ 1,230,655
	$ 279,333	**$ 506,069**	**$ 468,580**	**$ 747,476**	**$ 602,600**	**$ 531,069**	**$ (547,353)**
Financing CF	**$ (308,004)**	**$ 586,815**	**$ 1,339,626**	**$ 248,543**	**$ 673,376**	**$ 548,313**	**$ (710,914)**

(in thousands)	2031 E	2035 E	2036 E	2037 E	2038 E	2039 E	2040 E	2041 E
Core FCF								
Core Result	$ 1,572,711	$ 2,953,038	$ 3,236,599	$ 3,459,964	$ 3,543,368	$ 3,691,459	$ 3,767,595	$ 3,874,299
Core IC	$ 4,638,975	$ 6,553,019	$ 6,968,331	$ 7,486,055	$ 7,934,946	$ 8,354,527	$ 8,839,484	$ 9,206,713
Investment	$ 303,406	$ 290,994	$ 415,312	$ 517,724	$ 448,891	$ 419,581	$ 484,957	$ 367,230
Core CF	**$ 1,269,305**	**$ 2,662,044**	**$ 2,821,287**	**$ 2,942,240**	**$ 3,094,477**	**$ 3,271,879**	**$ 3,282,639**	**$ 3,507,069**
Non-Core FCF								
Non-Core Result	$ 17,477	$ 17,477	$ 17,477	$ 17,477	$ 17,477	$ 17,477	$ 17,477	$ 17,477
Non-Core IC	$ (532,200)	$ (532,200)	$ (532,200)	$ (532,200)	$ (532,200)	$ (532,200)	$ (532,200)	$ (532,200)
Investment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Non-Core CF	**$ 17,477**	**$ 17,477**	**$ 17,477**	**$ 17,477**	**$ 17,477**	**$ 17,477**	**$ 17,477**	**$ 17,477**
Core + Non-Core CF	**$ 1,286,782**	**$ 2,679,521**	**$ 2,838,764**	**$ 2,959,717**	**$ 3,111,954**	**$ 3,289,356**	**$ 3,300,116**	**$ 3,524,546**
Financial								
Financial Result	$ (54,700)	$ (53,536)	$ (53,082)	$ (52,605)	$ (52,104)	$ (51,578)	$ (51,026)	$ (50,447)
Net Debt	$ (580,463)	$ (1,006,025)	$ (1,103,114)	$ (1,195,700)	$ (1,285,430)	$ (1,373,657)	$ (1,461,504)	$ (1,493,800)
Change in Net Debt	$ (95,703)	$ (103,606)	$ (97,089)	$ (92,586)	$ (89,729)	$ (88,227)	$ (87,847)	$ (32,296)
Net Debt & Other Claims Cf	**$ (150,403)**	**$ (157,142)**	**$ (150,171)**	**$ (145,191)**	**$ (141,834)**	**$ (139,805)**	**$ (138,874)**	**$ (82,743)**
Equity								
Equity	$ 4,687,238	$ 7,026,844	$ 7,539,245	$ 8,149,555	$ 8,688,176	$ 9,195,983	$ 9,768,787	$ 10,168,314
Change in Equity	$ 399,109	$ 394,600	$ 512,401	$ 610,311	$ 538,620	$ 507,808	$ 572,804	$ 399,526
Comprehensive Income	$ 1,535,488	$ 2,916,980	$ 3,200,994	$ 3,424,836	$ 3,508,741	$ 3,657,358	$ 3,734,046	$ 3,841,329
	$ (1,136,379)	**$ (2,522,380)**	**$ (2,688,593)**	**$ (2,814,526)**	**$ (2,970,121)**	**$ (3,149,550)**	**$ (3,161,242)**	**$ (3,441,802)**
Financing CF	**$ (1,286,782)**	**$ (2,679,521)**	**$ (2,838,764)**	**$ (2,959,717)**	**$ (3,111,954)**	**$ (3,289,356)**	**$ (3,300,116)**	**$ (3,524,546)**

DCF Valuation	2023 E	2024 E	2025 E	2026 E	2027 E	2028 E	2029 E	2030 E	2031 E	2032 E
	0	1	2	3	4	5	6	7	8	9
Unlevered Core FCF	$ (226,378)	$ (690,207)	$ (565,661)	$ (424,288)	$ (99,217)	$ (112,380)	$ 556,625	$ 693,438	$ 1,269,305	$ 1,397,035
Discounted @Wacc	18.77%	18.77%	18.77%	18.77%	18.77%	18.77%	18.77%	18.77%	18.77%	18.77%
Discounted Core FCF	$ (226,378)	$ (581,110)	$ (400,972)	$ (253,220)	$ (49,854)	$ (47,543)	$ 198,261	$ 207,951	$ 320,478	$ 296,974

DCF Valuation	2033 E	2034 E	2035 E	2036 E	2037 E	2038 E	2039 E	2040 E	2041 E	Terminal Value
	10	11	12	13	14	15	16	17	18	19
Unlevered Core FCF	$ 1,758,819	$ 2,087,493	$ 2,662,044	$ 2,821,287	$ 2,942,240	$ 3,094,477	$ 3,271,879	$ 3,282,639	$ 3,507,069	$ 22,622,284
Discounted @Wacc	18.77%	18.77%	18.77%	18.77%	18.77%	18.77%	18.77%	18.77%	18.77%	18.77%
Discounted Core FCF	$ 314,783	$ 314,553	$ 337,725	$ 301,352	$ 264,596	$ 234,300	$ 208,574	$ 176,184	$ 158,477	$ 860,670

Intrinsic Value (in 000's)		
Core Value	$	1,775,129
Terminal Value	$	860,670
Non-Core Value	$	(168,220)
Enterprise Value	**$**	**2,467,579**
Less: Debt		757,617
Plus: Excess Cash		419,906
Equity Value	**$**	**2,129,868**
Equity Value / Share	$	5.56

34.88%

Market Value		
Market Cap	**$**	**1,783,876**
Plus: Debt		757,617
Less: Excess Cash	$	419,906
Enterprise Value	**$**	**2,121,587**
Equity Value / Share	**$**	**4.66**

Market Value Vs Intrinsic Value		
Market Value	$	4.66
Upside	$	0.90
Intrinsic Value	$	5.56

Rate of Return		
Current Price	$	4.66
Target Price	$	5.56
Target price Upside		19%
IRR		10%

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Disclosures and Disclaimers

Report Recommendations

Buy	Expected total return (including expected capital gains and expected dividend yield) of more than 10% over a 12-month period.
Hold	Expected total return (including expected capital gains and expected dividend yield) between 0% and 10% over a 12-month period.
Sell	Expected negative total return (including expected capital gains and expected dividend yield) over a 12-month period.

This report was prepared by [*insert student's name*], a Master in Finance student of Nova School of Business and Economics ("Nova SBE"), within the context of the Field Lab – Equity Research.

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