KeyValue
ASSET MANAGEMENT

EQUITY RESEARCH

ANALYSIS OF KERING SA

DATE :
14 Maggio 2024

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Kering SA (KER)

BUY: 523,03 (+57,35%)

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Summary

Informations

Country	Paris, France
Tax Rate	25%
Sector	Luxury Goods
Date	13/05/2024
Last Price	332,40 €
Target Price	523,03 €
+/- Potential	57,35%
Ticker	KER

Market Data

52-Week High	575,1
52-Week Low	315,35
Avg. 3 Month Volume	0,25MM
5 Yr Beta	1,20

Iarket Data

Revenue Growth (Cagr 3 yr)	3,50%
Revenue Growth (Cagr 5 yr)	4,26%
Price Return (ytd)	-16,00%
Price return (1 yr)	-40,80%
Price Return (5 yr)	-30,40%

Capital structure

Market Cap	40.679
Enterprise Value	55.148
Shares O/S	122
Interest cover Ratio	13,15
Debt/Equity	29%

($mnl)	FY22	FY23	LMT
Revenues	20.351	19.566	19.566
Gross Profit	15.198	14.927	14.927
EBITDA	6.322	5.601	5.601
EBIT	5.589	4.746	4.746
Net Income	3.614	2.983	2.983

Analyst

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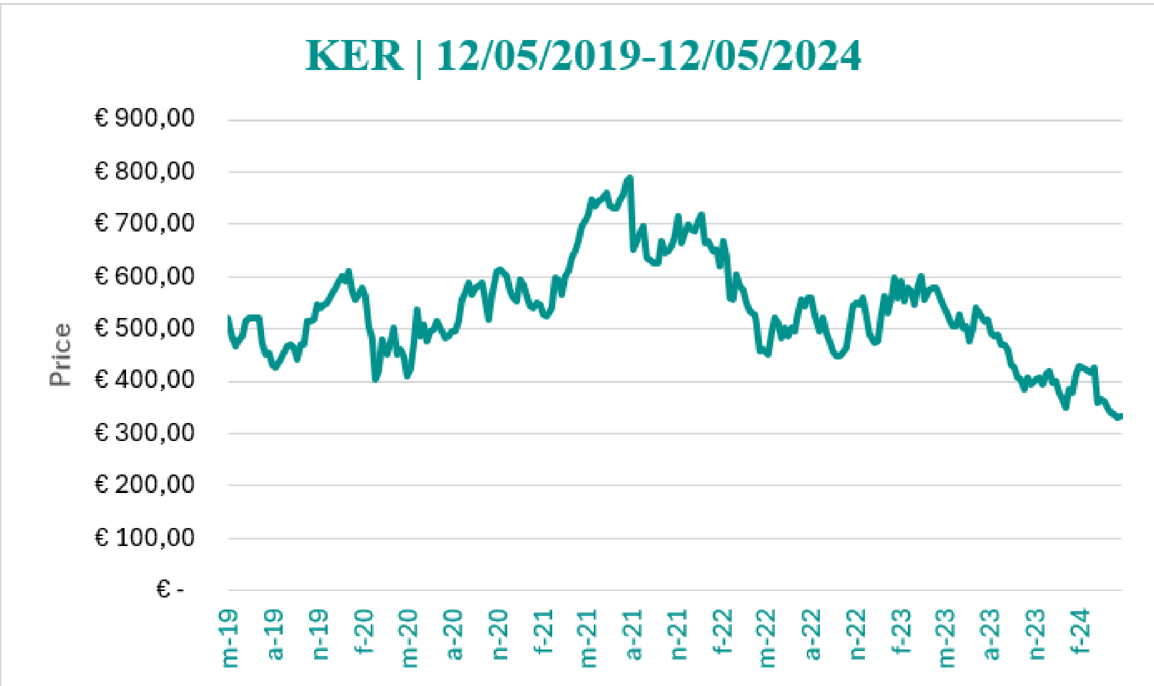


KeyValue
ASSET MANAGEMENT

About Us.

Introduzione

KeyValue aims to eliminate the information asymmetry that too often characterizes the relationships between financial services and their customers by introducing an approach based on transparency and integrity. We offer detailed market analyzes and careful selection of securities and strategies, conducting our operations transparently and without conflicts of interest, enhancing the most promising investment opportunities.

Our approach

We value transparency, maintaining open communication with investors to build a relationship of trust. Safety and quality are paramount. We offer a clear and understandable reporting system, allowing investors to operate in the markets with greater awareness and confidence.

Vision for the Future

Over the next six years, we want to create an Asset Management company capable of consolidating its position as a global leader, aiming to promote long-term and sustainable development in the long term. We are committed to achieving this goal through the scrupulous application of our skills and strategies, all aimed at maximizing value for investors.

OVERVIEW

Introduction

Kering was founded in 1962 under the name Établissements Pinault by François Pinault, who founded his construction timber trading company. The company is in good health and in 1988 it was listed on the Paris Stock Exchange, after making some strategic acquisitions. Towards the end of the nineties, l'Établissements expanded into the luxury sector, with various acquisitions of specialized Maisons and Boutiques. It becomes part of the Pinault Group following the merger with Le Printemps and the purchase of the stake in La Redoute, changing its name to Pinault Printemps Redoute (PPR).

The new century marks the definitive cessation of ancillary activities and the group dedicates itself to the luxury sector, incorporating brands such as Gucci, Saint Laurent, Gioielleria Boucheron, the Italian leather goods boutique Bottega Veneta, Balenciaga and concludes a partnership agreement with Alexander McQueen.

In 2005, the then CEO Henri-Francois Pinault launched the Kering foundation, which has as its main objective the fight against violence against women through three main means: NGOs and social enterprises, training and career development programs and campaigns of awareness.

In 2013 PPR changed its name and took the name of the Kering foundation, giving life to one of the luxury giants as we know it today.

The group controls some of the most prestigious brands in the luxury sector and produces absolutely positive economic and financial results. Furthermore, the topic of sustainability and social responsibility are increasingly at the center of attention, to the point that Kering publishes a P&L dedicated to ESG aspects, trying to establish a practice in the sector. Female empowerment remains another priority, with dedicated awareness and professional development campaigns.

Vision
With its creative vision that combines boldness and authenticity, Kering's ambition is to be the most influential luxury group in the world in terms of creativity, innovation, sustainable development and economic performance.

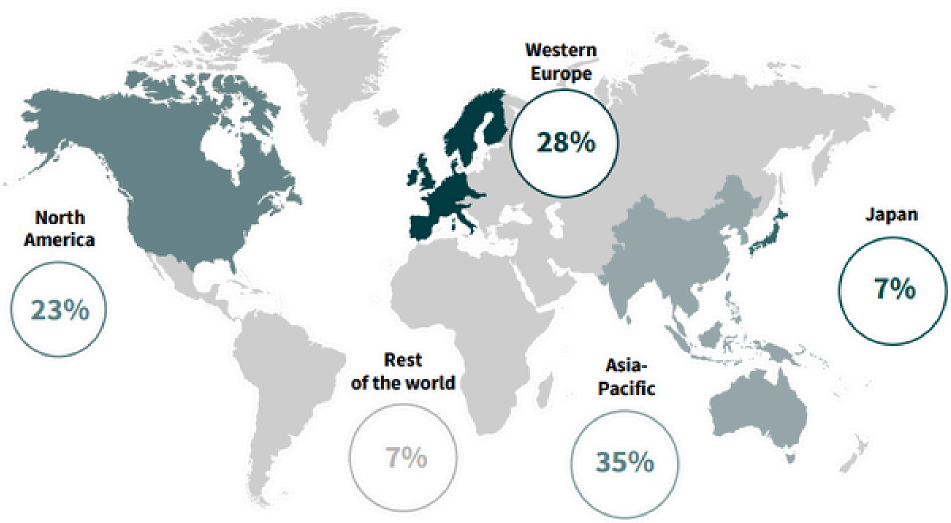
Business Model

Kering's business model is based on the acquisition of the best fashion houses in Europe. The group currently boasts highly respected brands within it, divided into three main segments. Gucci, Saint Laurent, Bottega Veneta, Alexander McQueen and Brioni in the fashion and leather goods segment, Boucheron, Pomellato, DoDo and Queelin in the jewelery segment, Ginory 1735, Kering Eyewear and Kering Beautè in the accessories segment.

Fashion and Leather Goods: undoubtedly the most prestigious segment for the group. The big luxury brands are perceived as exclusive, indicative of quality and the fruit of passion and local and artisanal production of the best tradition. In the future, the group aims to leverage even more on the exclusivity of its luxury brands, reducing sales to wholesalers to the bare minimum to focus exclusively on the retail sector. To do this, Kering already boasts numerous flagship stores owned by both monobrand and multibrand owners. Furthermore, the objective is to acquire real estate properties on the main luxury arteries and in strategic points such as Capri in Italy and Aspen in the United States, so as to consolidate the idea of exclusivity and prestige associated with the brands in the portfolio.

It should be noted that this strategy leads, in the short term, to a reduction in turnover, which however is to be considered physiological and benign in the future, when the various brands will have incorporated additional added value linked to the perception of exclusivity. In this regard, Kering intends to take over all of Valentino by 2028, of which it already owns 30% of the share capital.

Jewellery: continuing in the footsteps of the Fashion and Leather Goods sector, the jewelery segment is also a real "jewel" of the Kering group, which boasts some of the best goldsmith and jewelery houses in Europe and the world in its portfolio. The acquisitions made over time have made it possible to hold a series of strategic assets both from a real estate and brand point of view, with retail shops in historic buildings and a crossroads of fashion and luxury. The group aims, once again, to be perceived as a treasure chest of value (not only economic but also social and environmental) for the customer, who can feel pampered and be enchanted by the best artefacts in the jewelery field.



Fonte: 2023 Financial Document - Kering

Accessories: Although developed only later, the accessories segment includes eyewear and beauty products, mainly fragrances. The group focuses mainly on the intrinsic quality of the products, going so far as to develop its own internal eyewear production division precisely in order to better control the quality and care with which it produces, designs and markets accessories. Nothing is left to chance, even in a "marginal" product. which isn't so marginal in the fashion sector. In fact, it is an important source of both economic and reputational resources for the group. As evidence of this, the launch of the Beautè line to offer exclusive and iconic fragrances, a sector which is still undergoing strong expansion and expansion and which foresees important acquisitions in the future.

Sustainability and social commitment

Without a doubt one of the founding values of the group, which takes its name from a foundation whose aim was to sponsor and encourage the development of female managerial skills, giving them the opportunity to establish themselves since the early nineties in a sector typically dominated by men. Kering communicates its attention to the topic through sponsorships and projects, as well as adopting best practices and self-regulation in initiatives to support environmental sustainability. An emblematic case is the adoption of social and environmental reporting codes well before it became an industry standard, much less mandatory. The declared objective is to inspire competitors to do the same, so as to promote healthy competition based on the well-being of society. Proof of this are the Empowering Women and Women in Motion projects, as well as the Kering foundation itself. On the sustainability side, the group regularly publishes reports and numbers of its environmental impact, working assiduously to reduce it to the minimum possible.

Geography

The group's business model remains a global model, with diffusion in almost all existing luxury markets and without interruption. What stands out, however, is the group's intention to target the Asian market, which is always very sensitive to luxury goods and appreciates European refinement and taste in the fashion sector, as highlighted by recent trends. Specifically, the reopening of China after the pandemic is one of the pillars in the expansion of the years to come, just as it has always been the group's reference market for turnover.

EBITDA per settore

in milioni di €	**2023**	**2022**	**% Δ**
Gucci	3,999	4,416	-9.44%
Yves Saint Laurent	1,219	1,251	-2.56%
Bottega Veneta	494	541	-8.69%
Altre Case	585	888	-34.12%
Kering Eyewear e Corporate	276	157	75.80%
Eliminazioni	*(4)*	*2*	*-300.00%*
Totale Gruppo	**6,569**	**7,255**	**-9.46%**

Management

The symbol of Kering from 1987 to today is unquestionably François-Henri Pinault, current CEO and Chairman of the group. Pinault joined Kering as a manager in one of the subsidiaries, but soon held roles of primary importance, until his appointment as CEO in 2005. He managed to lead the group in international development in the luxury sector, ensuring that it established itself as the main player in the sector. Two issues that are personally close to his heart are sustainability and the battle against violence against women, values that are now intrinsically linked to the group and which act as foundations in the planning of the Business Plan.

From a strategic point of view, the Board of Directors directs and manages the group, fully reflecting the various balances between shareholders. Among the various figures, Héloïse Temple-Boyer stands out as permanent representative of the Pinault family financial company, which owns important assets in France and around the world, and Jean-Pierre Denis, contact for Climate Change. Furthermore, two members of the Board of Directors are employee representatives. In this way, the strategic direction of the company is fully influenced by its values of sustainability and social commitment, managing to put into practice the founding principles of the Kering foundation, from which the group itself takes its name.

In addition to the Board of Directors, the Executive Committee, again chaired by CEO François-Henri Pinault, deals with the operational management of the various brands and the group as a whole. Made up of 13 members, of which 6 women and 7 men, it brings together the CEOs of all the subsidiaries (Gucci, Saint Laurent, Balenciaga, etc.) and the financial and operations director. Here too, we can note the presence of a Chief Sustainability and International Affairs Officer, in the person of Marie-Claire Daveu, to underline the group's firm desire to act as a pioneer in ESG issues.

The management focuses heavily on the development of human capital, starting from the selection of the best talents and the promotion of gender equality, to develop high-level managerial skills in house. The various programs also promoted by the Kering foundation are confirmation of this.

Furthermore, the group has adopted as an internal governance system one of the most rigorous codes of ethics in the sector, available to all in 14 languages. The code does not only concern incorrect and inappropriate behaviour, but is a real programmatic document of social and environmental commitment, a source of inspiration for management in the company's strategic direction.

Sector

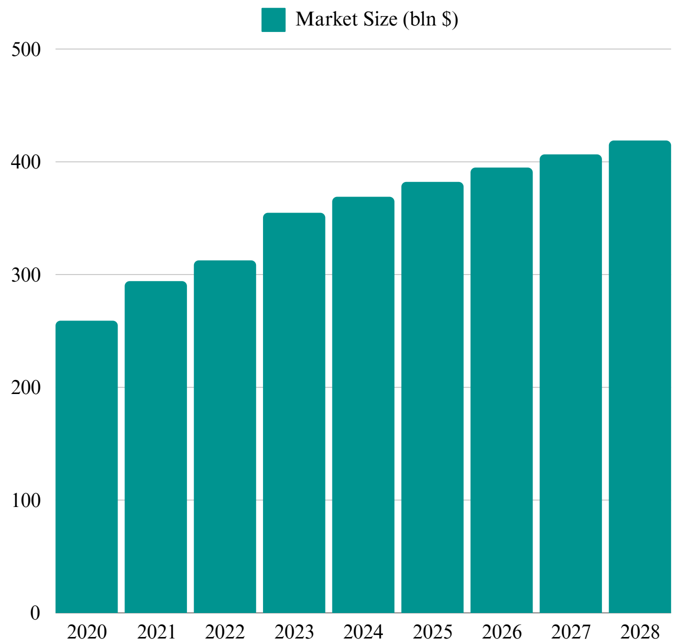
The luxury market refers to the industry that deals in goods and services of high quality and price, aimed at a customer segment that seeks exclusive products, often as a symbol of social status or for appreciation of fine craftsmanship. These products include high-end fashion, jewelry, watches, prestige cosmetics and other items that embody excellence in design and material quality.

The luxury goods sector represents a dynamic and ever-expanding industry, projected to grow from $354.8 billion in 2023 to $418.9 billion in 2028, with a compound annual growth rate of 3.4% . Despite economic uncertainties and cuts in discretionary spending triggered by global events such as the COVID-19 pandemic, the US-China trade war, and the war in Ukraine, the recovery of spending in China and the US and the growing influenza of the Millennial and Z generations are leading a vigorous market renaissance.

Online sales of luxury goods are gaining a significant share of the market, but the value of the physical shopping experience remains essential. Interestingly, digitally born luxury companies are opening physical stores to increase traffic to their online stores, strengthen brand legitimacy and improve local community engagement by providing experiences that only physical contact can offer.

In response to growing environmental and social concerns, especially among younger consumers, the industry is moving towards producing sustainable and ethical products and experiences. The industry is seeing a “casualization” of luxury apparel, with growing demand for luxury experiences and subscription and rental models, as well as a greater share of online sales and accessories.

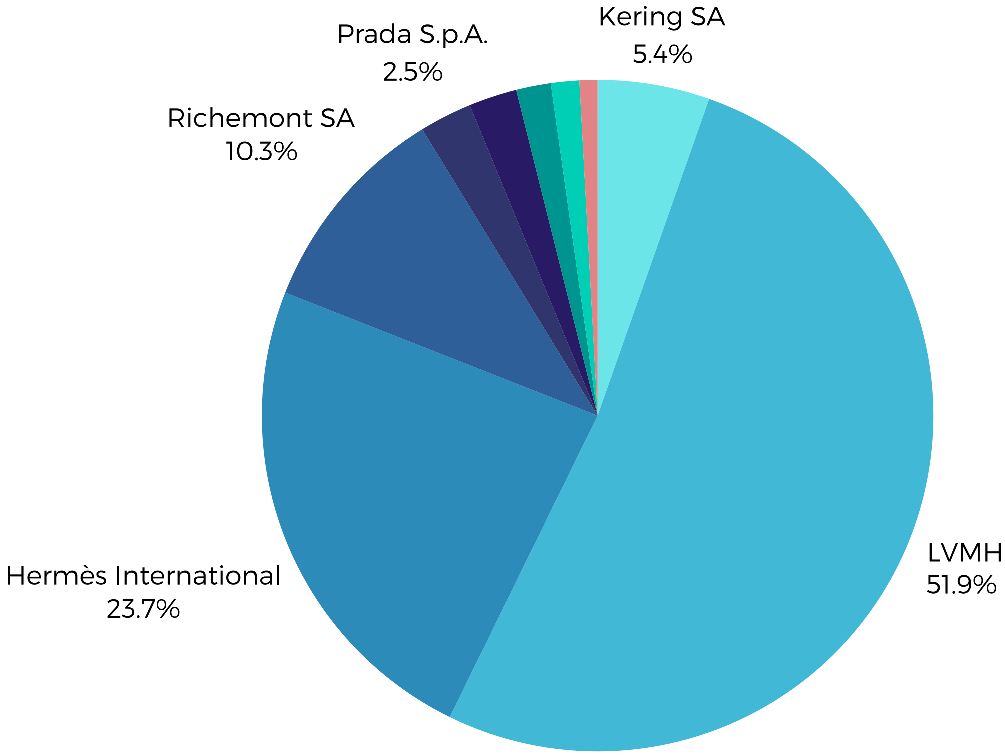
With significant spending expected in Asia, and particularly China, followed by Europe and North America, the global luxury goods market is poised to experience significant changes, with consumer preferences and market dynamics continuing to evolve.



Market Shares

The analysis of market shares in the luxury goods sector highlights a clear predominance of some giants compared to other players. LVMH Moët Hennessy - Louis Vuitton stands out as the undisputed leader with a commanding share of 51.9%, reflecting the strength of its broad portfolio of luxury brands and its ability to innovate and expand globally.
Kering SA, holder of 5.4% of the market, emerges as a leading competitor, thanks above all to the success of prestigious brands such as Gucci and Saint Laurent. Kering's strategy, centered on diversification and a focus on high fashion brands, ensures the company has a robust positioning in the luxury sector.
In addition to these giants, the market has some smaller companies, such as Richemont, which occupy relevant segments. However, outside of these entities, the industry displays a high degree of concentration, with the majority of the market controlled by a few large players.

Kering does not have an absolute leading position like LVMH, but it effectively defends its market share through iconic brands. Despite some diversification, Kering's reliance on a few brands introduces an element of risk, making revenues potentially vulnerable to fluctuations in the success of these brands. Nonetheless, Kering maintains an ongoing commitment to innovation, marketing and development, strategies that allow it to compete effectively and expand its market presence.
In conclusion, although Kering cannot match the breadth and diversification of LVMH's portfolio, its focus on high-end brands and innovative and sustainable management, together with a targeted expansion strategy, consolidates it as one of the undisputed leaders in the sector of luxury.



EXTERNAL ANALYSIS

Porter's Five Forces

1. Rivalry between Existing Competitors

The luxury sector is highly competitive, with renowned brands competing for the attention of global consumers. Kering SA finds itself competing with other large fashion and luxury houses such as LVMH and Richemont. However, Kering's diversification of brand portfolio and constant focus on innovation give it a strong competitive position.

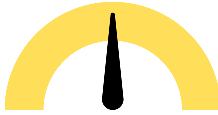
2. Threat of New Entrants

The barrier to entry in the luxury sector is significant. Kering SA has acquired an established reputation in the market, supported by prestigious brands such as Gucci, Saint Laurent and Bottega Veneta. Furthermore, the investment required to enter the industry is extremely high, both in terms of finances and reputation

3. Bargaining Power of Suppliers

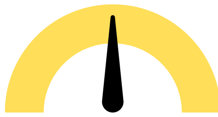
In the luxury sector, suppliers of high-quality materials and craftsmanship are limited and often have a position of power. However, Kering SA, given its size and influence in the industry, has the ability to negotiate advantageous agreements with its suppliers. Additionally, the company has adopted sustainability policies that can improve its relationship with suppliers.

4. Bargaining Power of Customers



Customers in the luxury sector are generally willing to pay a premium for high-quality and prestige products. However, with the increase in consumer awareness and available alternatives, the bargaining power of customers has seen a gradual increase. Kering SA has maintained its position through product innovation and maintaining a strong brand image.

5. Threat of Substitute Products



In the luxury sector, substitute products are less influential than in other sectors. Luxury brands such as those owned by Kering SA have a unique attraction that goes beyond the functional characteristics of the products themselves as distinguished by the brand. However, the increase in brands that enjoy an excellent reputation and the changing tastes of customers must be considered.

Competition

The fashion and luxury sector is characterized by strong competition between world-renowned companies fighting to attract the attention of demanding and sophisticated consumers.

LVMH Moët Hennessy Louis Vuitton SE
LVMH is a luxury conglomerate with a diverse portfolio of brands ranging from fashion to high-end spirits. Its business model is based on a multi-sector brand strategy, including fashion and leather goods (Louis Vuitton, Dior), perfumes and cosmetics (Givenchy, Guerlain), watches and jewelery (TAG Heuer, Bulgari), and wines and liqueurs (Moët & Chandon, Hennessy). LVMH adopts a distribution control policy to maintain the exclusivity of its brands and invests in innovation and marketing to maintain the relevance of its products in the luxury market.

Hermès International S.A
Hermès is renowned for its tradition of craftsmanship and the production of luxury items, particularly bags, accessories and perfumes. Its business model is based on craftsmanship, with an emphasis on supply chain control and in-house production.

Compagnie Financière Richemont SA
Richemont specializes in the production and distribution of luxury watches and jewelry through brands such as Cartier, Piaget and Van Cleef & Arpels. Its business model is based on maintaining strict control over the quality and exclusivity of its products.

Prada S.p.A.
Prada is an Italian fashion brand known for its contemporary style and design innovation. Its business model focuses on the production and distribution of high fashion apparel, accessories, footwear and leather goods. Prada is committed to maintaining a balance between tradition and modernity, investing in research and development to maintain its position in the global luxury market

Capri Holdings Limited
Capri Holdings owns and operates luxury fashion brands such as Michael Kors, Versace and Jimmy Choo. Its business model is based on creating a diverse portfolio of premium brands, each with its own distinctive style and target market. It aims for growth through the global expansion of its brands, retail channel optimization and product innovation.

Burberry Group plc
Burberry is a British luxury fashion brand known for its distinctive design. Its business model focuses on the production and distribution of high-end clothing, accessories, perfumes and cosmetics. It also adopts an omnichannel strategy, combining physical stores with a strong online presence.

SWOT

Strengths

Diversified brand portfolio
Kering SA owns a well-diversified portfolio of luxury brands, including Gucci, Saint Laurent, Bottega Veneta, Balenciaga and others. This diversification reduces the risk associated with a single brand and allows for greater resilience in the market.

Leadership position in the luxury sector
Kering SA is one of the world's leading fashion and luxury houses, with a strong presence in all major global markets. Its reputation for quality, innovation and style positions it as an industry leader.

Weaknesses

Exposure to taste changes volatility
In the fashion and luxury sector, changes in consumer tastes can be sudden and unpredictable. Kering SA could be exposed to operational risks if it fails to quickly predict and adapt to emerging trends.

Dependence on the Asian market
A large part of the turnover comes from the Asian market, especially China. This exposes the company to geopolitical risks, regulatory changes and economic fluctuations in this region.

Opportunities

Expansion into emerging markets
Kering SA has the opportunity to further expand into emerging markets, such as India, Brazil and some African countries. These markets offer great growth potential for luxury brands.

Technological innovation
The company can leverage emerging technologies, such as artificial intelligence and augmented reality, to improve customer experience and optimize business operations.

Threats

Global economic instability
Global economic fluctuations, such as recessions or financial crises, negatively affect the demand for luxury products, reducing sales. However, it must be considered that having high gross margins they are still able to manage a slight contraction.

Online competition
The growing penetration of e-commerce in the luxury sector has increased online competition. Kering SA faces the challenge of maintaining a strong online presence and protecting its brands from imitation and counterfeiting.

FINANCIAL STATEMENT

Income Statement

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Income Statement										
Revenues	**10.038**	**11.584**	**12.385**	**10.816**	**13.665**	**15.884**	**13.100**	**17.645**	**20.351**	**19.566**
% YoY Growth		15,41%	6,91%	-12,67%	26,34%	16,23%	-17,52%	34,69%	15,34%	-3,86%
COGS	(3.742)	(4.510)	(4.595)	(2.900)	(3.467)	(4.109)	(3.591)	(4.577)	(5.153)	(4.639)
Gross Profit	**6.296**	**7.074**	**7.790**	**7.916**	**10.198**	**11.775**	**9.510**	**13.068**	**15.198**	**14.927**
% YoY Growth		12%	10%	2%	29%	15%	-19%	37%	16%	-2%
Operating expenses	(4.632)	(5.428)	(5.903)	(5.225)	(6.254)	(6.997)	(6.374)	(8.051)	(9.609)	(10.181)
EBITDA	**1.999**	**2.119**	**2.352**	**3.221**	**4.447**	**5.276**	**3.711**	**5.638**	**6.322**	**5.601**
% YoY Growth		6%	11%	37%	38%	19%	-30%	52%	12%	-11%
Depreciation & Amortization	335,3	472,5	465,9	530,1	503	1234,1	1415,1	1448	1668	1840
EBIT	**1.664**	**1.647**	**1.886**	**2.691**	**3.944**	**4.778**	**3.135**	**5.017**	**5.589**	**4.746**
% YoY Growth		-1%	15%	43%	47%	21%	-34%	60%	11%	-15%
Other Expenses/Income	43	238	382	1.121	2.763	2	1.228	1.744	2.013	1.459
Interest Expenses/Income	(161)	(136)	(136)	(114)	(84)	(173)	(163)	(152)	(181)	(361)
Income Tax Expense	(326)	(322)	(296)	(551)	(868)	(2.134)	(759)	(1.280)	(1.420)	(1.163)
Net Income	**529**	**696**	**814**	**1.786**	**3.715**	**2.309**	**2.150**	**3.176**	**3.614**	**2.983**
% YoY Growth		32%	17%	119%	108%	(38%)	(7%)	48%	14%	(17%)

Supplementary Data										
Effective Tax Rate	(24%)	(32%)	(25%)	(24%)	(25%)	(49%)	(26%)	(28%)	(28%)	(27%)
Diluted Shares Outstanding	126	126	126	126	126	126	125	125	123	122
EPS	4,20	5,52	6,46	14,17	29,49	18,40	17,20	25,49	29,31	24,37
% YoY Growth		32%	17%	119%	108%	(38%)	(6%)	48%	15%	(17%)
Dividends per Share	4,00	4,00	4,60	6,00	10,50	8,00	8,00	12,00	14,00	14,00
Payout Ratio	95%	72%	71%	42%	36%	43%	47%	47%	48%	57%
R&D Expense	0	0	0	0	0	0	0	0	0	0
Selling and Marketing Expens	0	0	0	0	0	0	0	0	0	0
EBT Incl. Unusual Items	1.354	1.002	1.176	2.303	3.526	4.342	2.949	4.525	5.137	4.237

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Margins										
Gross Proft Margin	63%	61%	63%	73%	75%	74%	73%	74%	75%	76%
Operating Expenses Margin	37%	39%	37%	27%	25%	26%	27%	26%	25%	24%
Ebitda Margin	20%	18%	19%	30%	33%	33%	28%	32%	31%	29%
Ebit Margin	17%	14%	15%	25%	29%	30%	24%	28%	27%	24%
Net income Margin	5%	6%	7%	17%	27%	15%	16%	18%	18%	15%
Levered Free Cash Flow Mar	9%	6%	10%	18%	19%	14%	23%	23%	18%	12%

Income Statement

Revenues show an overall increasing trend, with some periods of negative fluctuation. The year-over-year (YoY) percentage changes reflect both significant peaks (e.g. +26.34% and +34.69%) and declines (e.g. -12.67% and -17.52%). These data suggest volatility probably linked to market factors or corporate strategic changes.

COGS shows a gradual increase over time, with some sporadic declines. This increase usually follows the trend of revenues and a rationalization of processes. In fact, as we can see, we have observed an almost doubling of turnover since 2015 but a corresponding increase in costs of goods sold of only +2.86%. gross profit followed a growth trajectory, in parallel with revenues. YoY changes are positive except on two occasions, indicating effective management of the revenue-cost ratio in most periods. the first decline is attributable to the emergency situation of 2020 which severely undermined both consumer sentiment and industries including the luxury one. The second drop observed this year, equal to -2%, indicates a consolidation of the growth observed Post-Covid and a very predominant increase in competitor LVMH.

The company's operating expenses have shown steady and fairly stable growth over time, with relatively similar compound annual growth rates (CAGR) over the 3-, 5-, and 10-year periods (8.14%, 7.79%, 8, 19%). This indicates that the company has maintained a consistent and strategic approach in managing its resources to support daily operations, despite the changing market environment.

A steady increase in operating expenses can reflect various strategic aspects. Indicates that the company is continuously investing in human resources, technology, or infrastructure to support expansive growth and improve operational efficiency. However, while such investments are crucial to long-term growth, it is critical that they are balanced effectively with revenue growth to prevent them from eroding profit margins.

On the other hand, a steady operating expense growth rate near 8% could also raise questions about sustainability, especially if the pace of revenue growth doesn't keep pace. In competitive market scenarios or in times of economic uncertainty, careful and critical management of expenses will become even more essential.

As regards EBITDA, we observe a clear decline in the last 3 years compared to the 5 and 10 year average. in fact the 3-year CAGR stands at -0.22% compared to a 5-year average of 1.20%. this decline is purely due to the increase in operating expenses noted above which will clearly have to be rationalized by the company in the coming years. EBIT clearly reflects the trend of EBITDA by amplifying it due to the increase in depreciation.

Income Statement

Despite the decline in EBITDA and EBIT we can however observe that the increase in operating expenses is strongly characterized by growing investments, for the expansion into new markets and above all by the increase in production capacity as found in the cash flow statement where we observe a strong increase in CAPEX compared to the previous year (+ 143.79%) but also compared to the previous three-year period where CAPEX stood in absolute terms at around 790 million against 2 billion in the last year.

the slowdown can be attributed to:

Market saturation
The company has reached saturation in its core market, limiting new revenue growth.

Increased competition
New market entrants or increased competition have eroded market share and margins.

Macroeconomic factors
Global economic changes, such as declining consumer sentiment, very high inflation may have influenced the weak growth it has experienced

However, it is noted that these problems can actually be resolved through strong investments in order to regain market share and return to the pinnacle of the fashion and luxury sector. This strategy should therefore be effective within a few years and consequently the stock could be significantly affected

Furthermore, the slowdown could also be interpreted as a period of consolidation, where the company is potentially streamlining operations and strengthening the foundation for future growth. In the context of the industry, we are talking about a mature industry, and this type of consolidation is common as companies strive to streamline operations and improve efficiency in response to reduced margins and slower growth.

the future strategies that can be adopted to return to sustained growth are:

- Diversification: Entering new markets or developing new products to stimulate growth.
- Technological innovation: Investing in technology to improve efficiency and reduce costs.
- Acquisitions: Acquire competitors or companies in related industries to quickly increase market share and access new capabilities.

Balance Sheet

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	LTM
Cash and equivalents	1.090	1.146	1.050	2.137	2.217	2.286	3.443	5.249	4.336	3.922	3.922
Short Term Investments	10	9	9	7	8	8	0	0	0	0	0
Cash and short Term Investm	**1.100**	**1.156**	**1.059**	**2.144**	**2.225**	**2.293**	**3.443**	**5.249**	**4.336**	**3.922**	**3.922**
Total Receivables	1.168	1.261	1.302	1.445	940	1.277	1.545	1.805	1.561	1.931	1.931
Inventory	2.235	2.191	2.432	2.699	2.415	2.959	2.846	3.369	4.465	4.550	4.550
Prepaid Expenses	0	0	0	0	0	0	0	0	0	0	0
Other current Assets	858	757	847	1.029	1.491	1.016	1.187	991	1.300	1.527	1.527
Total Current Assets	**5.361**	**5.365**	**5.640**	**7.317**	**7.071**	**7.546**	**9.020**	**11.414**	**11.662**	**11.930**	**11.930**
Net PP&E	1.887	2.073	2.207	2.268	2.229	6.866	6.627	7.269	8.317	10.325	10.325
Long term Investments	263	284	312	230	1.224	1.230	1.531	873	678	2.053	2.053
Goodwill	4.040	3.759	3.534	3.421	2.399	2.526	2.452	2.891	4.053	7.112	7.112
Other intangibles	10.748	11.286	11.273	11.159	7.394	7.261	6.986	7.032	7.357	8.178	8.178
Other long-Term Assets	178	198	198	207	221	221	211	236	233	246	246
Total non-current Assets	**17.893**	**18.486**	**18.499**	**18.261**	**14.297**	**19.603**	**18.985**	**19.654**	**22.279**	**29.437**	**29.437**
Total Assets	**23.254**	**23.851**	**24.139**	**25.577**	**21.368**	**27.148**	**28.005**	**31.068**	**33.941**	**41.367**	**41.367**
Accounts Payable	983	940	1.099	1.241	746	809	1.490	1.742	2.263	2.200	2.200
Accrued Liabilities	7	9	8	11	9	9	12	12	12	12	12
Long-Term Debt due within one	893	130	561	675	333	723	781	1.006	1.043	850	850
Current Portion of Capital Lease	7	8	8	7	36	720	538	675	812	884	884
Other Current Liabilities	2.287	2.030	2.159	2.756	3.596	3.273	2.017	2.756	2.557	2.599	2.599
Total Current Liabilities	**5.844**	**5.099**	**4.899**	**5.763**	**6.411**	**8.148**	**6.735**	**8.775**	**8.506**	**8.631**	**8.631**
Long Term Debt	3.128	3.976	4.098	4.169	3.129	3.122	3.815	2.976	4.347	10.026	10.026
Other non-current Liabilities	52	97	92	104	57	204	282	214	247	345	345
Total non-current Liabilities	**6.148**	**7.128**	**7.277**	**7.188**	**4.895**	**8.562**	**9.236**	**8.557**	**10.652**	**16.726**	**16.726**
Total Liabilities	**11.992**	**12.228**	**12.175**	**12.951**	**11.306**	**16.710**	**15.970**	**17.332**	**19.158**	**25.357**	**25.357**
Common Stocks	505	505	505	505	505	505	500	499	496	493	493
Additional Paid in Capital	0	0	0	0	0	0	0	0	0	0	0
Retained Earnings	0	0	0	0	0	0	0	0	0	0	0
Treasury Stocks	(3)	(5)	0	0	(168)	(574)	(54)	(380)	(1.028)	(450)	(450)
Comprehensive Income and Oth	10.132	10.448	10.765	11.443	9.569	10.347	11.375	13.228	14.530	15.169	15.169
Total Equity	**11.262**	**11.623**	**11.964**	**12.626**	**10.062**	**10.439**	**12.035**	**13.736**	**14.783**	**16.010**	**16.010**

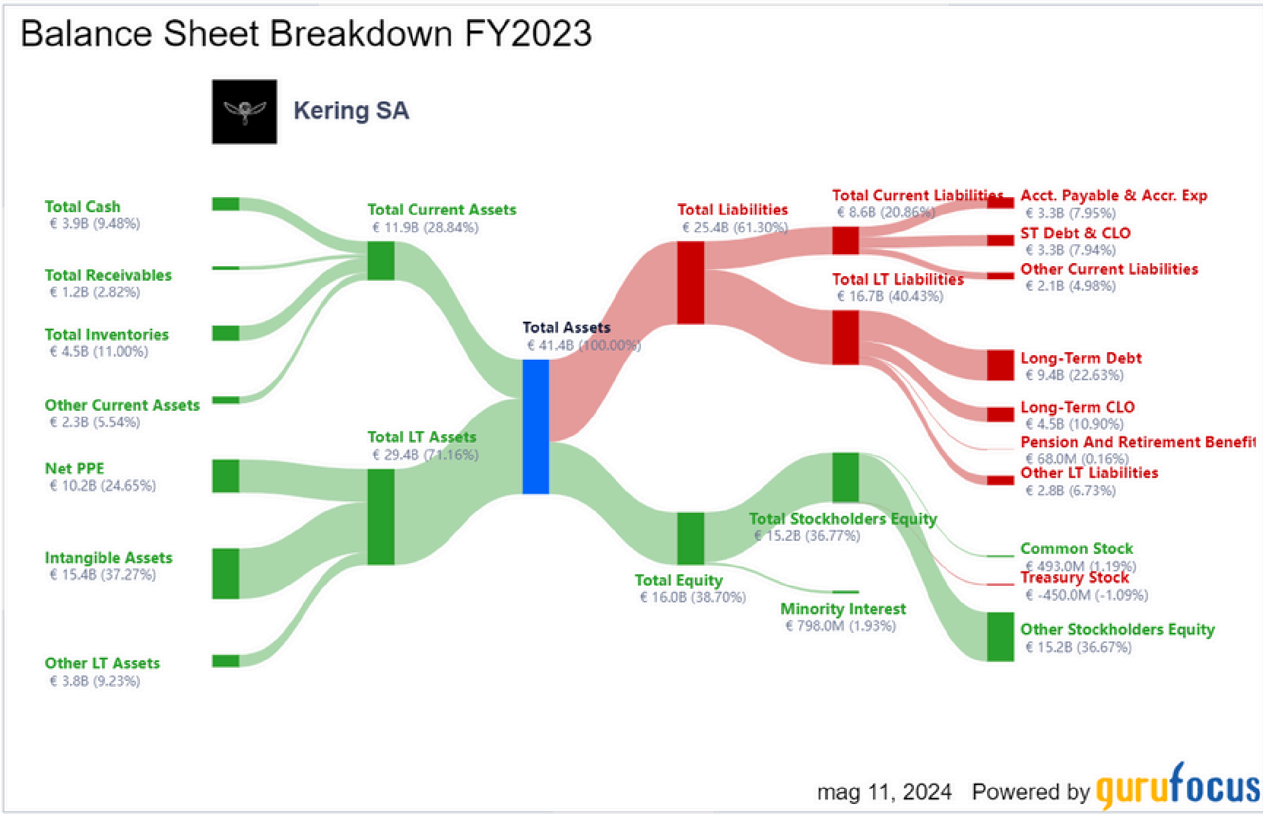
Kering SA's balance sheet shows strong solidity with strong investment trends underway. first of all, the inventory item stands out, which increased significantly in the post-covid period, reaching over 4 billion. In this specific case we believe that the substantial increase reflects a growth in inventories necessary to support sales expansion or entry into new markets in the near future. This concept relies heavily on the concurrent increase in CAPEX expenditures resulting from the largest ever increase in Total Assets of +21.88% compared to 2022. This robust growth demonstrates a substantial expansion of the company's operations and asset portfolio agency, also reflecting an overall strengthening of Kering SA's financial position to boost the business in the short to medium term. The two values that have supported the strong growth of the Assets are the net value of the properties and the goodwill. Net PP&E showed an upward trend, rising from €8.3 billion in 2022 to €10.33 billion in 2023. This increase suggests significant investments in physical assets, potentially linked to new production facilities, retail stores or improvements into existing infrastructure, emphasizing a focus on strengthening operational capabilities and physical expansion.

Balance Sheet

For Goodwill we see an increase of approximately 3 billion compared to 2022 and this may indicate a sign that the company is actively expanding its operations and its radius of influence in the market through strategic acquisitions. This can lead to increased market share and new growth opportunities.

Long-Term Debt grew significantly, from €9.776 billion in 2022 to €10.026 billion in 2023. This increase may indicate that Kering is accessing financing to support expansion, the acquisition of other companies, or large investments in fixed capital (such as plant, machinery, technology or real estate).

This upward trend in long-term debt is consistent with growth in total debt and may reflect a leverage strategy to finance expansion and acquisitions. However, the increase in debt must be carefully monitored to prevent an over-indebtedness situation. This is consistent with the observed increase in Goodwill, suggesting that some of this debt may have been used to finance acquisitions. However, the company may also have restructured its existing debt, although this is not a convenient period.



Profitability, Efficency and Financial Solidity

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Profitability										
Return on Assets		3%	3%	7%	16%	10%	8%	11%	11%	8%
Return on invested Capital		8%	9%	12%	23%	31%	15%	25%	24%	15%
Return on Equity		6%	7%	15%	33%	23%	19%	25%	25%	19%
Effincency										
Asset Turnover		0,49	0,52	0,44	0,58	0,65	0,48	0,60	0,63	0,52
Receivables Turnover		9,54	9,66	7,87	11,46	14,33	9,29	10,53	12,09	11,21
Inventory Turnover		2,04	1,99	1,13	1,36	1,53	1,24	1,47	1,32	1,03
Avg. Cash Conversion Cycle		139,57	140,44	222,07	196,47	195,13	217,53	153,58	165,79	211,65
Avg. Days Sales Outstanding		38,27	37,77	46,35	31,85	25,47	39,31	34,65	30,19	32,57
Avg. Days Outstanding Inventory		179,10	183,62	322,94	269,19	238,71	295,04	247,79	277,45	354,65
Avg. Days Payable Outstanding		77,80	80,95	147,22	104,57	69,05	116,82	128,85	141,84	175,58
Solvency										
Current Ratio	0,9	1,1	1,2	1,3	1,1	0,9	1,3	1,3	1,4	1,4
Quick Ratio	0,5	0,6	0,7	0,8	0,7	0,6	0,9	0,9	0,85	0,86
Debt / Assets	0,5	0,5	0,5	0,5	0,5	0,6	0,6	0,6	0,6	0,6
Interest Conver Ratio	10	12	14	24	47	28	19	33	31	13
EBITDA / Interest Expense	12	16	17	28	53	30	23	37	35	16
D&A % Revenues	3,34%	4,08%	3,76%	4,90%	3,68%	7,77%	10,80%	8,21%	8,20%	9,40%
Capex % Revenues	5,49%	5,80%	4,93%	5,60%	6,06%	6,02%	6,01%	5,42%	5,26%	13,34%
Accrued Liabilities (% of sales)	0,07%	0,08%	0,07%	0,10%	0,06%	0,06%	0,09%	0,07%	0,06%	0,06%
Other Current Liabilities (% of s	22,79%	17,53%	17,43%	25,48%	26,32%	20,60%	15,40%	15,62%	12,56%	13,28%
Prepaid and Other Current Asset	8,55%	6,53%	6,84%	9,51%	10,91%	6,40%	9,06%	5,62%	6,39%	7,80%

Profitability

Kering has shown a reduction in profitability, as evidenced by declines in Return on Assets (ROA), Return on Invested Capital (ROIC), and Return on Equity (ROE). ROA decreased from 11% to 8%, ROIC from 25% to 15%, and ROE from 25% to 19% compared to 2021. They have in fact realigned to the levels observed in the 2020 period. These decreases are indicative of less efficiency in the use of assets and capital to generate profit. This could be attributed to various factors, including increased investment in fixed assets that have not yet produced expected returns or a more competitive sales environment that has squeezed profit margins. Despite these declines, profitability levels remain relatively high, indicating that although efficiency in generating returns has decreased, the overall financial position and profit growth suggest that Kering maintains a robust financial outlook. however, it must be considered that the values found are lower than the averages observed over 3y, 5y, 10y, indicating an actual decline in profitability.

Efficiency

Kering's operational efficiency shows mixed signals. While receivables turnover improved, indicating more efficient collection of payments, inventory turnover decreased, from 1.47 to 1.03. This slowdown in inventory turnover could reflect challenges in inventory management, possibly due to changes in consumer demand or a product strategy that focuses on higher-quality but slower-turning luxury items. Furthermore, without prejudice to the point of the analysis based on the inventory and on the increase in production capacity, a decrease in inventory turnover could indicate an increase in the inventory itself in order to prepare

For strong expansion in the coming years. The significant lengthening of the Cash Conversion Cycle from 153.58 to 211.65 days could be interpreted as an impact of these strategic challenges and an adaptation to managing a broader and more diversified product portfolio. These trends may weigh on operational efficiency in the short term, but potentially represent necessary investments for Kering's long-term positioning in the luxury sector.

Financial Solidity

Kering's solvency remains strong, with the Current Ratio improving from 1.3 to 1.4 and a constant Quick Ratio, underlining good management of short-term liabilities. Furthermore, for a company like Kering which has a highly liquid warehouse, a quick ratio higher than 1 would be useless and could actually indicate a non-strategic management of cash. The decline of the Interest Coverage Ratio from 31 to 13, although still high, could be a sign of increasing pressure on financing costs, due however to the sharp increase in debt incurred during 2023. Despite this, Kering has maintained a healthy balance between debt and assets, as demonstrated by the constant debt/asset ratio at 0.6. This prudent capital management ensures that the company remains well positioned to respond to financial obligations and capitalize on growth opportunities.

D&A % revenues shows a slight decrease from 8.21% in 2021 to 8.05% in 2023. This reduction suggests that the company has maintained some stability in its depreciation and amortization expenses, which may indicate effective management of existing assets without significant increases in new, heavily depreciable investments.

Capex increased considerably from 5.42% in 2021 to 9.40% in 2023. This once again reflects an intensification of investment in physical assets, potentially related to new infrastructure, technology or retail expansion. This is very positive for supporting future growth and responding to the evolving needs of the luxury market. This strategy also signals a phase of growth and renewal, focused on greater operational capacity and brand expansion. While this may lead to greater pressure on cash flows in the short term, it is essential to sustain long-term competitiveness and growth.

Valuation

Multiples analysis

The analysis was carried out taking into account direct competitors who adopt the same business model. In particular, within the sample of comparables we find: LVMH, Hermès International, Compagnie Financière Richemont SA, Prada S.p.A., Moncler S.p.A., Pandora A/S, The Swatch Group AG, Brunello cuccinelli, Ferragamo, Tod's, EssilorLuxottica, Burberry Group, Capri Holdings Limited.

Kering records EV/Sales and EV/Ebit multiples significantly lower than the average and median of its competitors. Traditionally, a low EV/Sales indicates that the market places relatively less value on the company's sales, which could reflect concerns about the sustainability of the business model, future sales growth, or the quality of revenues. However, as we have seen Kering is making strong investments and is therefore going through a period of stagnation before facing future growth. this can simply be reflected in the multiples that are currently pricing this period of stagnation compared to that observed by competitors.

Similarly, the low EV/Ebit could be interpreted as predicting expectations of lower operating profit margins. For Kering, these indicators suggest that, despite its financial strength, there are concerns about its ability to maintain levels of growth and profitability comparable to those of its competitors at the moment.

Kering's P/E ratio is significantly lower than the industry average, further underscoring the perception of undervaluation. A low P/E can mean either that earnings must fall or that prices must rise. there are no actual omens that suggest however a drastic worsening of profits could therefore indicate an underestimation on the part of the market. lower earnings growth expectations or a more cautious overall market assessment. Finally, compared to the average MC/FCF of competitors which is 25.8x, Kering's MC/FCF is lower, suggesting that the market price of Kering shares is less expensive relative to the cash flow it generates, compared to its competitors.

	EV	Market Cap	Ev/Sales	Ev/Ebitda	Ev/Ebit	P/S	P/E	P/BV	P/TBV	MC/FCF
Simple Average	78.703,17	71.318,89	4,2x	15,9x	19,9x	4,0x	30,4x	6,7x	2,9x	25,8x
Weighted average - EV	-	-	6,6x	18,7x	22,0x	6,4x	31,6x	7,8x	12,9x	42,5x
Weighted average - MC	-	-	7,1x	19,7x	23,0x	7,0x	32,7x	8,1x	14,0x	44,7x
Median	15.654,52	14.886,44	3,7x	15,5x	18,7x	3,4x	26,5x	4,4x	3,5x	23,3x
Standard Deviation			4,01	8,11	9,97	4,27	16,37	6,65	16,07	28,24
(% Average)			95%	51%	50%	108%	54%		239%	109%
High	416.220	386.820	16,9x	35,4x	40,2x	17,6x	60,1x	23,7x	33,9x	80,6x
Low	2.035	1.424	1,0x	5,2x	6,8x	0,8x	9,6x	0,8x	-513,4x	-44,5x
Price based on multiples			750,82	312,17	697,00	830,18	738,631	836,849	NC	633,99

DCF

WACC

To calculate the average cost of capital, the turnover-weighted average of the 10-year American bond (US10Y) and the German bund (DE10Y) was selected as the risk-free rate, which appear to have a yield on the valuation date 12.05.2024 respectively of 4.50% and 2.51%. The country risk and market risk premium were calculated as a weighted average based on the turnover of the individual country risk premium and market risk premium of the country/geographical areas. The beta was calculated as a direct correlation between Kering SA and Euro Stoxx 5o. Finally, the cost of the debt was calculated taking into account the tranche of bonds issued by Kering of 1.3 billion with a maturity of twelve years and a coupon of 3.875%.

Capital Structure	
Equity	71%
Debt	29%
Wacc Calculation	
Cost of Equity	**11,93%**
Risk-free Rate	3,51%
Country Risk Premium	1,24%
Market Risk Premium	5,99%
Levered Beta	1,20
Net Cost of Debt	**2,91%**
Cost of Debt	3,88%
Tax Rate	25,00%
WACC	**9,28%**

	Cost of Equiy					
	9,28%	8,94%	9,44%	9,94%	10,44%	10,94%
Total Equity	51%	5,96%	6,22%	6,47%	6,73%	6,98%
	61%	6,57%	6,87%	7,17%	7,48%	7,78%
	71%	7,17%	7,52%	7,88%	8,23%	8,58%
	81%	7,77%	8,18%	8,58%	8,98%	9,39%
	91%	8,38%	8,83%	9,28%	9,74%	10,19%

	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	Term
Sales (% growth)		-5,0%	-3,3%	1,5%	3,2%	4,9%	3,5%	3,2%	2,9%	2,6%	2,3%	2,0%
1 Optimistic Scenario		-2,50%	-1,10%	2,00%	3,40%	4,80%	4,50%	4,00%	3,50%	3,00%	2,50%	2,00%
2 Base Scenario		-5,00%	-3,30%	1,50%	3,20%	4,90%	3,50%	3,20%	2,90%	2,60%	2,30%	2,00%
3 Pessimistic Scenario		-8,00%	-5,90%	-2,00%	0,10%	2,20%	2,50%	2,40%	2,30%	2,20%	2,10%	2,00%
Gross Profit margin		73,0%	73,2%	73,4%	73,6%	73,8%	74,0%	74,4%	74,8%	75,2%	75,6%	76,0%
1 Optimistic Scenario		77,00%	77,40%	77,79%	78,19%	78,60%	79,00%	79,20%	79,40%	79,60%	79,80%	80,00%
2 Base Scenario		73,00%	73,20%	73,40%	73,60%	73,80%	74,00%	74,40%	74,79%	75,19%	75,60%	76,00%
3 Pessimistic Scenario		72,00%	71,60%	71,19%	70,79%	70,40%	70,00%	70,00%	70,00%	70,00%	70,00%	70,00%
Ebit Margin		16,0%	17,5%	19,1%	20,9%	22,9%	25,0%	25,2%	25,4%	25,6%	25,8%	26,0%
1 Optimistic Scenario		18,00%	19,37%	20,85%	22,44%	24,16%	26,00%	26,39%	26,78%	27,18%	27,59%	28,00%
2 Base Scenario		16,00%	17,49%	19,13%	20,91%	22,87%	25,00%	25,20%	25,40%	25,60%	25,80%	26,00%
3 Pessimistic Scenario		15,00%	16,48%	18,10%	19,89%	21,85%	24,00%	24,20%	24,40%	24,60%	24,80%	25,00%
Depreciation & Amortization (% sales)		9,0%	8,9%	8,8%	8,7%	8,6%	8,5%	8,6%	8,8%	8,9%	9,0%	9,2%
1 Optimistic Scenario		9,00%	8,90%	8,80%	8,70%	8,60%	8,50%	8,60%	8,70%	8,80%	8,90%	9,00%
2 Base Scenario		9,00%	8,90%	8,80%	8,70%	8,60%	8,50%	8,63%	8,75%	8,88%	9,02%	9,15%
3 Pessimistic Scenario		10,00%	9,90%	9,80%	9,70%	9,60%	9,50%	9,60%	9,70%	9,80%	9,90%	10,00%
Capital Expenditures (% of sales)		10,0%	9,3%	8,7%	8,1%	7,5%	7,0%	6,9%	6,7%	6,6%	6,4%	6,3%
1 Optimistic Scenario		8,00%	7,72%	7,45%	7,19%	6,94%	6,70%	6,62%	6,54%	6,46%	6,38%	6,30%
2 Base Scenario		10,00%	9,31%	8,67%	8,07%	7,52%	7,00%	6,85%	6,71%	6,57%	6,43%	6,30%
3 Pessimistic Scenario		10,00%	9,31%	8,67%	8,07%	7,52%	7,00%	6,85%	6,71%	6,57%	6,43%	6,30%

Base case

In the base case, we expect a deeper decline in 2024 and then return to more moderate and sustainable growth without significant changes in the economic landscape or consumer behavior. This scenario reflects a stable market with growth that stabilizes again from 2026 and then gradually normalizes. Gross profit margin is expected to remain relatively stable, indicating steady management without major innovations or changes in cost structure. the EBIT margin is instead seen decreasing during 2024 due to heavy investments and then returning to normalization from 2026 onwards. This may reflect a “business as usual” strategy with a focus on conserving existing assets and a cautious approach towards expansion. Capital expenditure follows a trend of gradual reduction, given the huge investments made during 2023 and which will continue to be supported. This scenario will be possible if the huge investments made do not actually yield as hoped but only serve to get back in line with the sector.

Optimistic case

In the optimistic scenario, we expect robust recovery and growth for Kering SA in the coming years. Sales growth is expected to improve gradually, moving from a contraction in 2024 to sustained growth in the long term. This increase is supported by the assumption of strong market demand, potentially driven by favorable trends in luxury fashion and effective management of branding and marketing strategies and the effectiveness of investments implemented in 2023.

Gross profit margin is expected to increase, reflecting improved cost management and more aggressive price positioning. EBIT margin after the fall of 2024 is expected to grow thanks to high operational efficiency and careful control of expenses. Depreciation and amortization expenses remain stable, indicating prudent and well-managed investments, while capital expenses are expected to decline, a sign of the investment cycle reaching maturity.

Pessimistic scenario

The pessimistic scenario considers the challenges that Kering SA could face due to adverse market conditions or strategic errors. Sales growth shows a deep contraction in 2024, with a slow recovery in subsequent years. This could be the result of weak demand due to changes in consumer tastes and fiercer competition. Gross profit margin and EBIT margin are assumed lower, reflecting the impact of high operating costs and potential inefficiencies.

DCF

Fair Value

Kering SA is undervalued compared to current levels with a value of 524.04 Euros compared to the price of 332.40 Euros on 12/05/2024. It is highlighted that both the optimistic and pessimistic scenarios are positive, indicating a strong undervaluation due to the strength of the main competitor LVMH and the uninteresting results shown by Kering.

	Worse	Base	Optimistic
Value	435,16	524,04	593,99
+/- %	30,91%	57,65%	78,70%

Final Outlook

Currently, comparing the evaluations carried out, Kering appears to be significantly undervalued compared to its competitors and shows good growth potential in optimal scenarios. We believe it is important to point out that the right timing to enter the stock has not yet arrived due to a technical analysis that is not yet in favor and the restructuring period that Kering is facing. However, taking these factors into account, we believe that Kering has good prospects as found during the analysis, therefore the thesis of the analysis is BUY.

Sensitivity Analysis

		Wacc				
	$524,04	8,28%	8,78%	9,28%	9,78%	10,28%
Growth Rate	1,0%	524,04	521,43	519,14	517,11	515,30
	1,5%	527,03	524,04	521,43	519,14	517,11
	2,0%	530,49	527,03	524,04	521,43	519,14
	2,5%	534,56	530,49	527,03	524,04	521,43
	3,0%	539,40	534,56	530,49	527,03	524,04

		Wacc				
	$524,04	7,28%	8,28%	9,28%	10,28%	11,28%
Ev/Ebitda	**8,8x**	514,85	505,95	499,49	494,59	490,75
	9,3x	527,12	518,22	511,76	506,86	503,02
	9,8x	539,40	530,49	524,04	519,14	515,30
	10,3x	551,67	542,77	536,31	531,41	527,57
	10,8x	563,95	555,04	548,59	543,69	539,85

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