BANCA IMI

Equity Company Note

Moncler

Feathers Around The World

Moncler - Key estimates and data					
Y/E December		2012A	2013E	2014E	2015E
Revenues	EUR M	489.20	575.30	673.92	778.83
EBITDA	EUR M	161.59	187.46	220.12	253.03
EBIT	EUR M	145.74	170.15	197.68	227.72
Net income	EUR M	82.49	94.68	112.43	131.95
Dividend ord.	EUR	0.10	0.11	0.13	0.21
Adj. EPS	EUR	0.33	0.38	0.44	0.52
EV/EBITDA	x	23.51	20.05	17.12	14.58
Adj. P/E	x	43.28	37.71	32.46	27.66

A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

- **An innovative brand in the high-end luxury goods market**. Moncler is a leading Italian luxury and high-end apparel group. The group designs and distributes luxury outerwear under the Moncler brand. The group offers apparel, shoes and accessories. In the last 13 years, the strengthening of the management team, the significant repositioning of the main brand Moncler and the disposal of the other brands have defined the current Moncler Group, supporting the group's results, with a 2010A-12A top-line CAGR of 32% and an increase in the adjusted EBITDA margin from 32.1% to 33%.

- **Positives**. The key drivers of Moncler's equity story, in our view, are: 1) a good management track record, on the creative, communications and brand positioning fronts; 2) heritage of a well-known iconic brand, Moncler, which has performed well even in the crisis period (2008/10 sales CAGR of 40%); 3) a strong average sales per sqm at Moncler format stores; 4) many prime global locations are already covered and there is significant room to further enlarge the DOS network worldwide; and 5) despite the only recent entry into fast-growth markets, the latest results point to an already high acceptance of the group's products. We estimate that the key pillars of the group's strategy in the next few years will be the DOS expansion, along with a tapping of the other products' potential, which should help keep the EBITDA margin in line with the best-in-class luxury players.

- **Valuation**. We used a DCF model to value Moncler and ran a peers' comparison as a cross-check. Our DCF model suggests an equity value of EUR 10.70/share (f.d.). In our multiples analysis, we sought to capture the potential value of the group, both related to the fundamentals trends and the M&A appeal for small/underdeveloped Italian names. The above-average expected growth coupled with the already delivered top tier profitability makes us comfortable in applying Brunello Cucinelli multiples to reach a fully diluted EUR 15.90/share equity value, which we consider as a blue-sky scenario. **We take a mid-point stance, averaging the two valuation results and we set a target price at EUR 13.30/share**, implying a 1.6x exit PEG, which we consider as fair in a stabilising growth scenario in emerging countries. Given the potential limited downside, **we initiate our coverage on Moncler with a neutral stance. HOLD.**

- **Key risks**. The main risks to our earnings model are represented by: 1) execution risks and higher than expected costs in the DOS expansion plan; 2) an unexpected slowdown in the emerging Asian luxury markets and a decline in comparable sales growth in mature markets; and 3) sharp increases in raw material prices (particularly feathers, nylon and cotton), although we assume a largely stable cost path in our earnings model.

See page 45 for full disclosures and analyst certification

17 February 2014

HOLD

Target Price: EUR 13.30

Branded Goods
Initiation of Coverage

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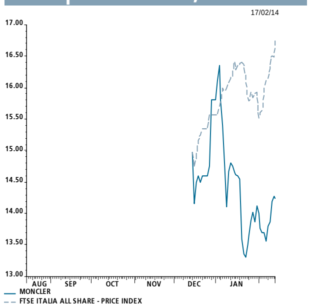
Price performance, -6M



Source: Thomson Reuters

Data priced on 13.02.2014	
Target price (€)	13.30
Target upside (%)	-6.72
Market price (€)	14.28
52-week range (€)	16.4/13.3
Market cap (€ M)	3,570.00
No. of shares (M)	250.00
Free float (%)	36
Major shareholder (%)	Ruffini R. 32
Reuters	MONC.MI
Bloomberg	MONC IM
FTSE It All Shares	21385

Performance %			
Absolute		Rel. to FTSE All Sh	
-1M	-3.5	-1M	-5.6
-3M	NM	NM	NM
-12M	NM	NM	NM

Source: Intesa Sanpaolo Research estimates and Thomson Reuters

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Contents

Investment Summary

A leader in luxury outwear

Moncler is a leading Italian luxury and high-end apparel group, which designs and distributes luxury outerwear under the Moncler Brand. Moncler's offer includes apparel, shoes and accessories. Operating since 1952, the company has a strong heritage with the Moncler brand which provided technical equipment for the Italian expedition to K2 in 1954 and was selected as the official supplier for the French team at the Winter Olympic Games in 1968. In the last 13 years, the strengthening of the management team, the significant repositioning of the main brand Moncler and the disposal of the other brands have defined the current Moncler Group.

Moncler Group reported turnover of EUR 489M at December 2012, with a 2010A-12A top-line CAGR of 32% and an increase in the adjusted EBITDA margin from 32.1% to 33.0%.

Key drivers

In our view, the main positive drivers of the equity story are:

- The strong heritage of a well-known iconic brand, Moncler, which has performed well even in the crisis period (2008A-10A sales CAGR of 40%) despite a steadfast 'no discount' policy;
- A good management track record on the creative front, on the promotion of brand appeal in the fashion industry and in managing the value chain under the 'Made in Moncler' approach;
- Many prime global locations are already covered with mono-brand stores, performing above the sector average; there is significant scope to further expand the DOS weighting in line with the main luxury players' current strategies;
- High exposure to fast-growth emerging and new markets and a positive local acceptance (2010A-12A sales CAGR Asia & RoW 76%; Americas 65%).

The equity story's starting point is a specific iconic product, which has developed into a well-known repositioned brand, managed by a visionary team. We have followed the equity story since 2011. At that time, our assumption of potential lower growth (approx. 70% of sales in Italy) and profitability (approx. 7% EBITDA margin) and higher cash absorption (consolidated NWC/sales of 14%) at the 'Other Brands' division, together with the need to increase the visibility of the main Moncler brand outside of Italy, were the main issues, in our view. Going forward, we see the reshaped perimeter, coupled with the high acceptance of Moncler around the world and the roll-out of the profitable DOS format as the key drivers in the medium term. The cost structure is typical of an operating leveraged business. For Moncler, the integration of the value chain has translated into a solid gross margin of 70% in 2012A, absorbing fixed costs and allowing the group to report a solid net margin (17% in 2012A). The ongoing Wholesale optimisation and the higher mark-up in the retail business amid a still untapped selling space development should lead to an approx. 75% gross margin in 2017E, according to our calculations, supported by a discount policy limited to the group's outlet activity. Growing distribution costs ("emerging" salary pressure and total rents) and advertising and promotions to maintain the current brand awareness should lead to a broadly stable EBITDA margin at 32% in the coming years. Thus, sales growth rates are important (with a lfl assumption moving from the current 13% to a more normalised 5% in 2017E-18E) and have translated into returns on invested capital of 25% in 2012A, while we forecast a ROIC at an average 34% over the estimated period vs. a 9.1% WACC.

Targets and estimates

In our view, Moncler's key advantages continue to be its success to date in rolling-out profitable directly-operated stores around the world (we assume 124 net additions for the estimated period, basically more than doubling the current numbers), supported by a good lfl sales growth. We also expect the Wholesale segment, given the ongoing cleaning-up of the channel, to deliver a mid single-digit increase in the delivered sales per door, supported by the expected annual price hikes and increasing orders by selected clients. These trends are behind our consolidated sales CAGR assumption of 13.3% in 2012-18E (of which 7.1% as a "blended" price increase and the remainder as volumes) and should allow the group to continue to drive the consolidated gross margin with variable costs under control. The current EBITDA margin level is broadly in line with the best-in-class luxury players (see the peers' margin comparison in the Valuation section) and looks reasonably sustainable, in our view.

Valuation

We used a DCF model to value Moncler and we ran a peers comparison analysis as a cross check. With a WACC target of 8.1% and a perpetual growth rate of 2.5%, our DCF model suggests an equity value of EUR 2.7Bn. In our multiples analysis we sought to capture the potential value of the group, both related to fundamentals and M&A appeal for small/underdeveloped Italian names. The above-average expected growth coupled with the already delivered top tier profitability makes us comfortable in adopting Brunello Cucinelli ratios as a high-end value. We calculate an implied value for Moncler of EUR 4.1Bn. However, the PEG of 2.6x for Cucinelli would suggest more limited further multiples expansion. Having said that, we see this value as a blue-sky scenario value for the next few years and in a conservative approach we prefer to take a mid-point stance, averaging the two valuation results. We thus set a fully diluted **target price of EUR 13.30/share**.

Key risks

The main risks to Moncler's equity story and our earnings model, in our view, are:

Top-down risks

A key risk is represented by a potential sharp, unexpected slowdown in the emerging Asian luxury markets, which is not assumed in our estimates. In our model, we incorporate an average 11% lfl growth in Asia & RoW per year in 2013E-18E. Another concern is a decline in comparable sales growth, particularly in the US (we view our lfl growth assumptions at a mid-single digit in Italy and in Europe as non-aggressive), where we are also forecasting a same 11% average pace over the period. All this amid the implementation of public debt reduction strategies both in Europe and the US, and a subsequently more sluggish or conscientious consumption trend.

DOS strategy execution and costs

Another risk is the possible difficulty in competing with the other luxury players in finding both the right locations for the planned new stores and at a reasonable entry price. These difficulties, coupled with rising rental costs (we assume the average cost of approx. EUR 6,000/sqm remains stable for Moncler's global network), a declining average lease period and an acceleration in local salaries in emerging markets could limit the profitability going forward.

Raw material cost increases

A minor risk to our earnings model relates to the assumption that raw material costs, mainly nylon, feathers and apparel linked, remain under control. As leading indicators, we assume a cotton price at USD 0.90 cent/lb and crude oil at USD 0.99 cent/bbl.

Valuation

We believe that a DCF model and a peer comparison are appropriate methods to analyse Moncler. On the basis of our DCF model and a multiples analysis, we obtain an overall **valuation of EUR 3,399M for Moncler.**

DCF model

Key assumptions

The main assumptions of our DCF model are summarised in the following tables:

Moncler - WACC calculation (%)	
Gearing ratio	30.0
Risk-free rate	4.25
Equity risk premium	5.5
Beta (x)*	1.0
Cost of debt	7.0
WACC target	8.1

Source: * Bloomberg and Intesa Sanpaolo Research estimates

Moncler - Key assumptions (%)	
Sales 2013-18E CAGR	13.3
EBIT margin 2018E	28.3
EBIT 2013-18E CAGR	12.4
Tax rate 2013E-18E avg	34.8
Capex to sales 2013E-18E avg.	4.8
ONWC to sales 2013E-18E avg.	10.0

Source: Intesa Sanpaolo Research estimates

With no significant concerns regarding the achievement of our FY13E estimates, we rolled-over our DCF by one year and ran our model on the basis of the following assumptions:

- For the 51% stake in the Japanese JV, with non-controlled net income of EUR 2.3M in 2013E we assume a EUR 30M fair value in line with the related accounted value by the company (13x EPS multiple vs. our previous assumption of 10x);
- Given the recent disposal of the 'Other Brands' division, we conservatively consider only the 'Base price' cash-in (see Industries Sportswear disposal, page 32), adding a net present value of EUR 21.2M to the financial assets. To this value we will add EUR 56.6M as potential proceeds from the recent 2014-18 Stock Option Plan;
- A slightly higher increase, but still healthy average weighting of OWC/sales of 10% in 2013E-18E (9% previously), fine-tuning the normalised tax rate from 34% to 35%;
- A risk-free rate of 4.25% and as a general approach, we reduced the equity risk premium from 6.00% to 5.50% due to some positive signals in the domestic scenario, leading to a rolling WACC moving from 7.5% to 9.8%, and a WACC target reduced from 8.47% to 8.14% (Beta at 1.0x and D/D+E at 30%);
- In our estimates, we maintained a steady capex/D&A ratio of 100% in 2017E-18E. We ran explicit cash flow estimates and we assume a growth to perpetuity rate of around 2.5% in line with the other players to calculate the 2019E terminal value.

Moncler - Free cash flow model (2014E-19E)

EUR M	2014E	2015E	2016E	2017E	2018E	2019E
NOPLAT	128.9	148.5	169.6	181.4	191.3	NM
Depreciation	15.3	18.2	20.9	22.5	24.1	NM
Amm. & Others	8.7	9.2	10.0	11.0	11.3	NM
Net Op. capex	-34.7	-34.3	-33.6	-31.8	-31.1	NM
Chg. in NWC	-6.8	-14.2	-3.2	-8.9	-11.1	NM
FOCF	111.4	127.3	163.7	174.1	184.5	189.1

NM: not meaningful; Source: Intesa Sanpaolo Research estimates

Our valuation yields EUR 2,734M, which implies a fully diluted EUR 10.70/share, in line with the recent IPO high range offer price (EUR 10.20/share) benefiting from the zeroing of the liquidity discount and by a slightly more positive margins development pace (see our Earnings Outlook section).

Moncler - DCF valuation (EUR M)	
Perpetual growth rate (%)	2.5
WACC target (%)	8.1
Terminal value as of 2019E	3353.1
Discounting rate of terminal value	0.68
Discounted terminal value	2289.3
Cumulated discounted FOCF 2014E-18E	575.5
Financial assets as of 31/12/13E	94.8
Enterprise value	2959.6
Net debt as of 31/12/13E	187.9
Minorities value	29.1
Employees termination pay	7.8
Equity value	2734.8
Equity value per share f.d. (EUR)	10.7

Source: Intesa Sanpaolo Research estimates

Moncler – Sensitivity analysis

EUR M	Perpetual Growth %				
WACC %	2.0	2.3	2.5	2.8	3.0
7.1	12.2	12.8	13.4	14.0	14.8
7.6	11.0	11.5	12.0	12.5	13.1
8.1	10.1	10.4	10.7	11.2	11.7
8.6	9.2	9.5	9.8	10.2	10.6
9.1	8.5	8.7	9.0	9.3	9.6

Source: Intesa Sanpaolo Research estimates

Multiples valuation

Ferragamo, Tod's and the Italians

As a cross check to our DCF valuation, we also ran a multiples valuation. We focused on companies with a high-name recognition positioned in the medium-high to high-end of the fashion market, to ensure significant similarities both in financial and operating terms on a sector and company analysis. We consider it reasonable to compare Moncler with the main players in the luxury arena. At the time of the IPO, due to the company's high similarity with some specific-listed Italian players characterised by still untapped growth potential, i.e. Ferragamo and Tods, we selected these latter two as the main peers used in our IPO valuation, classified as "average Italians" in our tables.

Above the average multiples of Cucinelli

Moreover in the same report we highlight that: "if we apply the above-average multiples that the market is currently paying for the high-end Italian success story of Brunello Cucinelli (i.e. 4.4x 2014 sales; 23.5x EBITDA; 34.4x EPS, according to Factset), the implied value for Moncler could reach EUR 3,804M". Following the listing, that has been clearly the case, leading to the immediate price increase from the EUR 10.20 proposed listing price to up EUR 14/share. We will therefore maintain our focus on this value to double check our valuation adding Cucinelli (BC) to the "Italians".

Moncler operates worldwide as a designer and distributor of soft luxury items. In detail, to value Moncler with a multiples comparison it makes sense to compare it with a sample of listed luxury players, who also enjoy global brand recognition in selling luxury products. As discussed in more detail in the market analysis section, these sector is still experiencing a growth in fundamentals, also in stabilising purchases from emerging customers, both in domestic markets and abroad. A higher attention to cost management and NWC needs is also a driver behind the more positive trend seen in recent years within the sector.

In the tables below we report the key financial indicators and the multiples of Moncler's peers.

Moncler - Peers growth comparison

%	2013-15E Revenues CAGR	2013-15E EBITDA CAGR	2013-15E Net profit CAGR	2014E Net debt/EBITDA (x)
LVMH	8.3	9.3	12.2	0.50
Hermes	10.8	10.9	11.1	-1.01
Prada	12.2	14.3	16.4	-0.67
Brunello Cucinelli	12.6	15.3	16.5	-0.08
Ferragamo	8.7	14.0	13.6	-0.08
Tods	6.8	11.2	9.1	-0.65
Average	9.9	12.5	13.1	-0.33
Median	9.7	12.6	12.9	-0.36
Moncler (*)	**16.4**	**16.2**	**18.1**	**0.54**

Source: FactSet and (*) Intesa Sanpaolo Research estimates

Peers margin comparison

%	EBITDA margin 2014E	EBITDA margin 2015E	EBIT margin 2014E	EBIT margin 2015E	Net margin 2014E	Net margin 2015E
LVMH	24.9	25.2	20.8	21.3	12.3	12.7
Hermes	35.1	35.8	31.9	32.3	21.3	21.5
Prada	32.4	33.6	27.3	28.0	18.9	19.7
Brunello Cucinelli	18.4	18.8	14.1	14.6	8.1	9.6
Ferragamo	21.8	22.8	18.6	19.6	12.1	12.7
Tods	25.0	25.8	21.1	21.5	14.7	15.3
Average	26.3	27.0	22.3	22.9	14.6	15.3
Median	25.0	25.5	21.0	21.4	13.5	14.0
Moncler (*)	**32.7**	**32.5**	**29.3**	**29.2**	**16.7**	**16.9**

Source: FactSet and (*) Intesa Sanpaolo Research estimates

Peers multiples comparison @ 10/02/14

x	Price (EUR)	Market Cap (EUR M)	EV/sales 2014E	EV/sales 2015E	EV/EBITDA 2014E	EV/EBITDA 2015E	P/E 2014E	P/E 2015E
LVMH	133.5	67773.9	2.3	2.1	9.1	8.1	17.3	15.7
Hermes (*)	241.0	25442.2	4.0	3.6	11.5	10.1	20.1	17.9
Prada	6.1	15541.2	3.6	3.1	11.1	9.3	20.2	17.4
Average	NM	NM	3.3	2.9	10.6	9.2	19.2	17.0
Brunello Cucinelli	20.9	1423.9	3.9	3.5	21.4	18.5	43.1	36.7
Ferragamo	23.6	3971.1	2.9	2.6	13.4	11.5	24.4	21.4
Tod's	97.0	2969.1	2.7	2.5	10.9	9.6	19.3	17.4
Average 'Italians'	NM	NM	3.2	2.9	15.3	13.3	28.9	25.2

Note: (*) multiples applying a 30% discount; NA: not available; NM: not meaningful; Source: FactSet

In this analysis we will try to capture the potential value of the group, both related to the fundamentals trends and the M&A appeal for small/underdeveloped Italian names. The above average expected growth coupled with the already delivered top tier profitability makes us comfortable in adopting the Brunello Cucinelli ratios (an approx. 36% premium on 'Italian' peers with a PEG 2.6x) as a high-end value. We calculate an implied value for Moncler of EUR 4,068M or **fully diluted EUR 15.90/share** if we add EUR 0.22/share related to the stock option plan potential proceeds.

Moncler - Valuation based on 2014E-15E average multiples

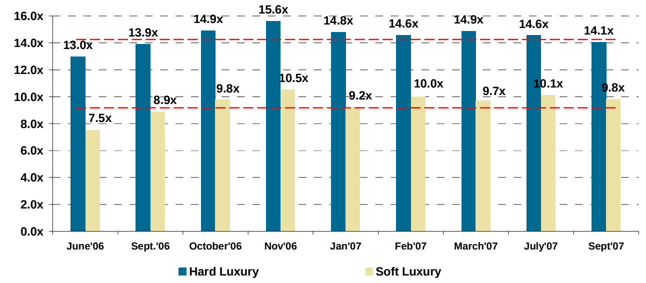
EUR M	Sales	EBITDA	Adj. net profit	Net debt	Minor+ETP
2014E	673.9	220.1	112.4	119.3	36.9
2015E	778.8	253.0	132.0	39.8	36.9
Implied equity value on					
2014E 'BC multiples	2501.4	4559.8	4789.8		3950.4
2015E 'BC' multiples	2633.8	4604.6	4796.5		4011.6
Fair value					3981.0

Note: Italians = Tod's and Ferragamo; ETP= Employees Termination Pay; Source: Intesa Sanpaolo Research estimates

Not far from "pre-crisis"

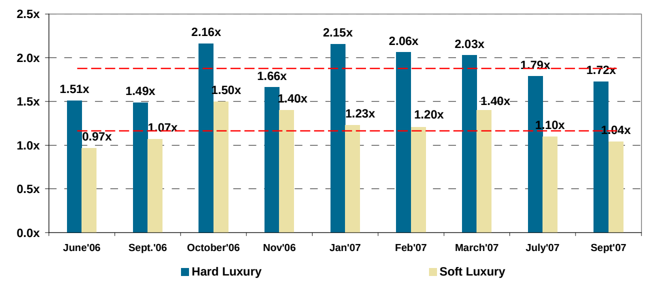
As usual, in our analysis, we historically compare the current market multiples, which are not far from the values we used to calculate in the "pre-crisis" period. In 2006-07 we monitored our samples in the hard luxury and soft luxury business over several months and calculated the average ratios referred to the corresponding period: **14.5x CY EBITDA and 1.84x PEG.**

Branded goods sector – Historical EV/EBITDA



Source: FactSet and Intesa Sanpaolo Research estimates

Branded goods sector – Historical PEG



Source: FactSet and Intesa Sanpaolo Research estimates

Given the similar current values, maintaining a healthy expansion pace in new and 'emerged' customers remains the real value driver for the well-known luxury brands around the world while reaching a PEG of 2.6x for Cucinelli reduces the hypothesis of a further multiples expansion, also considering the 2015E 18.7x EBITDA ratio we are using in our valuation. Having said that, we see the EUR 15.90/share price as a blue-sky scenario value for the next few years.

Moncler –Average multiples

EUR	2013E	2014E	2015E
Total shares outstanding (f.d.)	250.00	255.56	255.56
EPS (f.d.)	0.379	0.440	0.516
Avg. price of shares	14.8	15.9*	15.9*
P/E x	38.9	36.2	30.8
EPS 3-y growth %	17.0	17.3	13.6
PEG 3-y forward x	2.3	2.1	2.3
EV/SALES x	6.8	6.3	5.3
EV/EBITDA x	20.9	19.2	16.4
NOPLAT / Operating Capital (ROIC) %	26.5	29.6	32.5

(*) Our market multiple valuation; Source: Company data and Intesa Sanpaolo Research estimates

We appreciate the recent expansion of the group's products globally, as we see the maintaining of the distribution network enlargement pace and the return on capital employed as feasible. Taking a conservative approach, however, we prefer to take a mid-point stance, averaging the two valuation results. We thus set a **target price of EUR 13.30/share**, implying a 1.6x exit PEG, which we consider as fair in a stabilising growth scenario in emerging countries. Due to the potential limited downside, **we initiate our coverage on Moncler with a neutral stance. HOLD.**

SWOT Analysis

Strengths

- An Italian market leader, operating for almost half a century;
- A well-recognised school of design;
- One of the more innovative trendsetting and iconic luxury brands;
- A visionary management;
- Direct control over the entire value chain and a recently-optimised worldwide sourcing process;
- Global presence and a strong focus on high-growth emerging markets;
- Full coverage of prime locations.

Source: Intesa Sanpaolo research elaborations

Weaknesses

- Early stage in development of minor product categories;
- Possible lengthening of time required for the newly-opened DOS to reach regime and breakeven;
- Potential raw material inflation.

Source: Intesa Sanpaolo research elaborations

Opportunities

- Growth in worldwide high net worth individuals;
- Possibility of further expansion of existing DOS and travel retail;
- Increase in emerging markets' purchasing power;
- Growing impact from new emerging tourism.

Source: Intesa Sanpaolo research elaborations

Threats

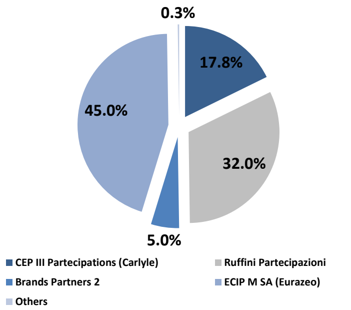
- High importance of ongoing brand development and recognition;
- Deterioration in long-term relations with suppliers and/or manufacturing partners;
- Intense competition for both products and DOS positioning;
- Reduced tourist traffic due to the uncertain macro/social conditions.

Source: Intesa Sanpaolo research elaborations

Share Ownership Structure

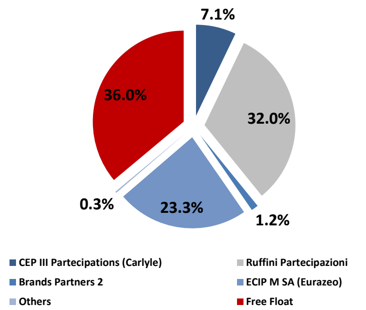
Before the IPO the main shareholders were ECIP M S.A. (Eurazeo) with 112,500,000 shares, and the group's founder Ruffini Partecipazioni S.r.l with 80,000,000 shares and CEP III Participations (Carlyle) with 44,390,000 shares. The deal comprised a secondary offering by ECIP M S.A., CEP III Participations and Brands Partners to extend the ownership structure to the market, reducing the weighting of financial investors and maintaining Ruffini Partecipazioni S.r.l. as the main shareholder. There are no new shares and related provisions, reflecting the fact that the group's current leverage is under control.

Moncler - Share ownership before the IPO



Source: Intesa Sanpaolo Research estimates

Moncler - Share ownership after IPO



Source: Intesa Sanpaolo Research estimates

2014-18 stock option plan

After the deal, according to our calculations, Moncler has reached a 36.0% free float. This ratio could be reduced to 35.3% if we assume the full exercise of the recently-announced "Stock Option Plan 2014-18 Top Management and Key People": a three-year vesting period with a strike price equal to the IPO price for a potential 5.55M new shares and related proceeds for EUR 56.7M.

With the listing, Moncler has raised the group's international visibility (to attract talented people) and supported the directly operated stores expansion, focusing on high-growth new markets, such as Asia, but also the USA.

Group Profile

The Moncler Group is a leader in the design, manufacture, and distribution of luxury outerwear, apparel, shoes and accessories under the Moncler Brand. The group generated turnover of EUR 489M at December 2012 after the disposal of the 'Other Brands' division (Marina Yachting (MY), Henry Cotton's (HC), Coast Weber Ahaus (CWA) and 18CRR81 Cerruti license), positioned in the lower accessible luxury segment and with a dilutive profitability.

The company's operations are focused in Europe (approx. 26% in Italy and 32% in other countries in 2012) with a significant part of the business dedicated to the fast-growing Asian&RoW region (sales have risen from EUR 50M in 2010A to EUR 155M in 2012A). The Americas are also growing fast, reaching 10% of sales in 2012. The past three years have also seen a significant development of the retail distribution moving from 27% of sales in 2010A to an equally divided weighting vs. wholesale. Operations also consist of a wide network of raw material and finished product suppliers collaborating under the tight control of the group.

History

The Moncler brand has its roots in the early 1950s and has since developed to become the current Moncler Group.

Moncler group history – The beginning

Year	Description
1952	Company established in Monestier de Clermont, a mountain village near Grenoble in France
1954	Moncler provided technical equipment for the Italian expedition to K2
1968	Moncler selected as official supplier for the French team at the Winter Olympic games

Source: Company data

Moncler - On the high mountain

Source: Company data

Moncler - Technical heritage

Source: Company data

Moncler group history – 1980-2001

Year	Description
1980s	Moncler becomes a fashion phenomenon in Italy
1999	Remo Ruffini appointed as Moncler creative director
2000	Launch of first Moncler Spring/Summer collection
2001	Opening of first boutique in Saint Moritz

Source: Company data

Moncler - Spring/Summer collection

Source: Company data

Moncler - First mountain boutique

Source: Company data

Moncler group history – 2003-07

Year	Description
2003	Moncler brand acquired by Remo Ruffini
2005	Mr Ruffini also acquired the Other Brands (HC, MY, C+W+A) coupled with the Moncler operations
2006	Increasing exclusivity/premium positioning: launch of Gamme Rouge Collection
2007	Opening of first urban store in Paris

Source: Company data

Moncler - Gamme Rouge collection

Source: Company data

Moncler - First urban store

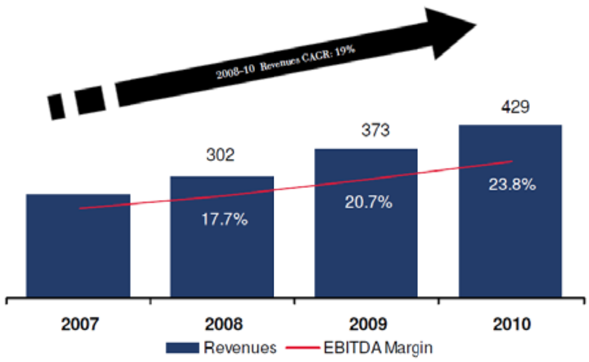
Source: Company data

Moncler group history – 2008 -13

Year	Description
2008/09	Establishment of Moncler Enfant and Japan JVs; Launch of Gamme Bleu Collection
2009	New dedicated management structure for the newly-created 'Other Brands' Division
2010	Launch of the Grenoble Collection
2011	First listing attempt followed by the decision for the sale of a 45% stake to the investment company Eurazeo S.A. (Bloomberg RF FP)
2013	Establishment of a new joint venture (51% controlled) in the eyewear business with Allison and disposal of the 'Other brands' division (sales of approx. EUR 135M, EBIT EUR 3.1M and a net loss of EUR 0.8M in 2012A)

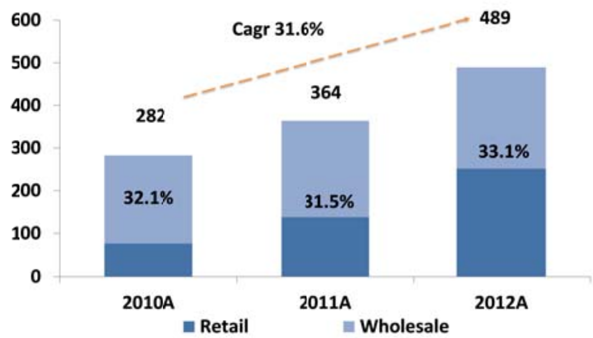
Source: Company data

Moncler – Pre-carve-out sales (EUR M) & EBITDA margin (%)



Note: 2007 and 2008 Italian GAAP; Source: Company data

Moncler – 2010A Moncler division and 2011/12 post-carve-out sales (EUR M) and EBITDA margin (%)



Note: 2010 and 2011 EBITDA Margin Adj. for one off items; Source: Company data

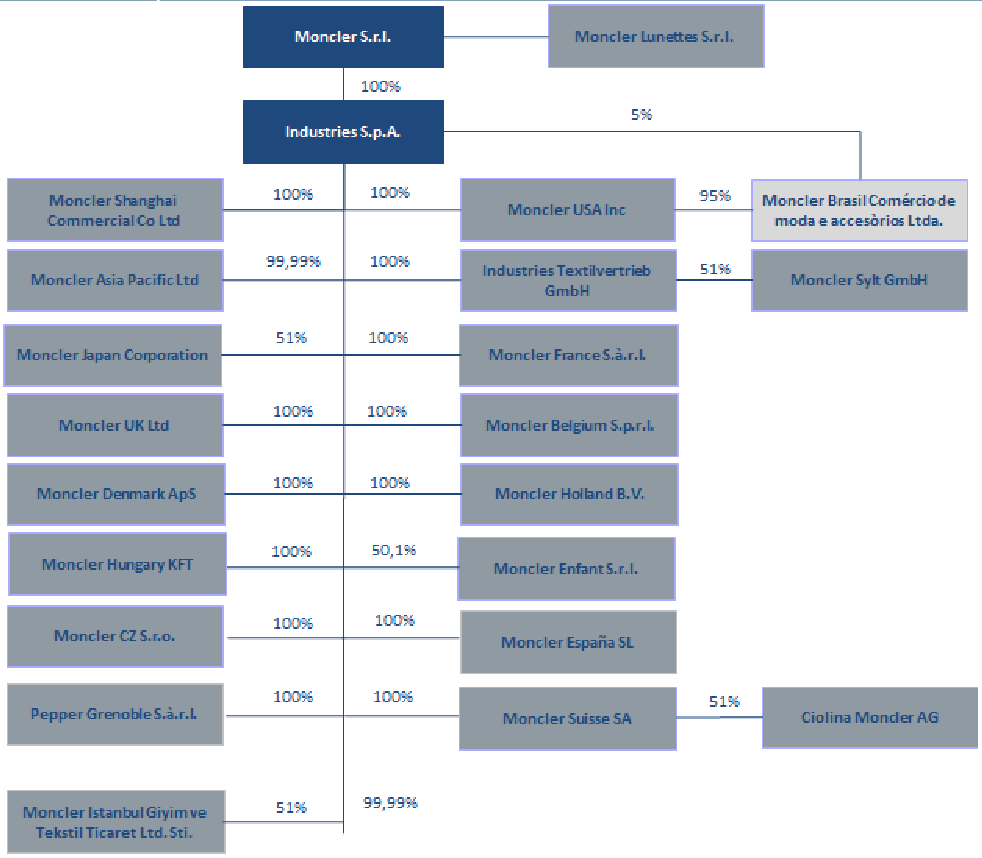
Organisational Structure & Management

As shown in the following charts, the Moncler group comprises several companies, including the parent company Moncler S.p.A, of which the key companies are:

- **Moncler S.p.A.:** The parent company of the Moncler Group, which directly or indirectly controls the companies shown in the chart below;
- **Moncler Enfant S.r.l.:** The company was created in joint venture with Altana, and sells the Moncler kids line;
- **Moncler Japan Corporation:** The company was created in joint venture with Yagi Tsusho Limited, and sells the Moncler brand on the Japanese market;
- **Industries Asia Pacific Ltd.:** The company coordinates and controls activities connected with product sourcing for the Moncler Group in the Far East.

The remaining group companies sell the Moncler brand products in specific geographical areas and in some cases manage the shops and DOS and/or operate as a general agent.

Moncler – Group structure



Source: Company data

The organisational chart also shows the minority equity investments for Moncler Enfant and Moncler Japan. As far as Moncler Enfant JV is concerned, the agreement will expire in 2013 with no further costs and the full internalisation of the production process is to be completed by January 2014. For the Moncler Japan JV, the agreement will expire in 2013 and will be renewed for five years.

Management team

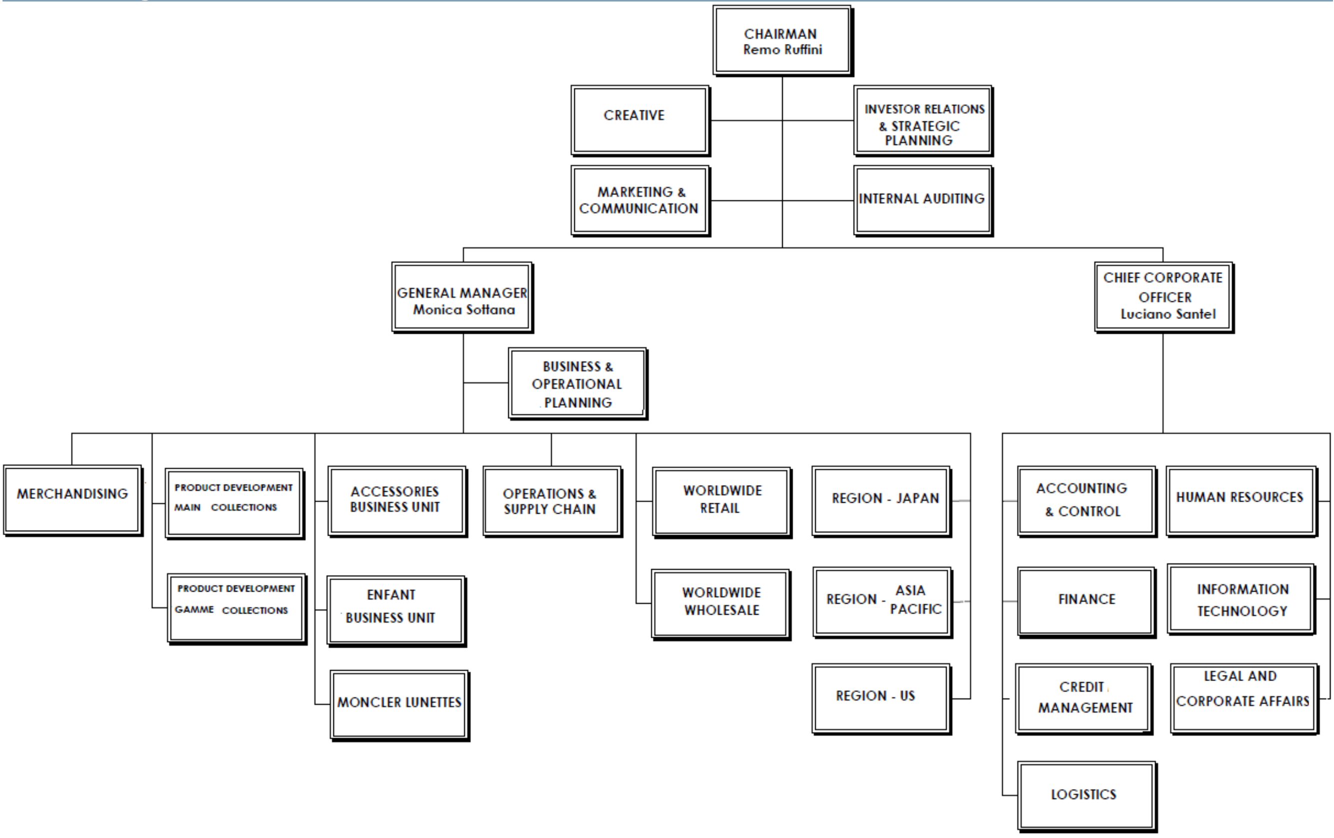
The company's long-standing tradition, recognised reliability, worldwide presence and innovative design in the outerwear luxury business are critical factors in maintaining a competitive advantage. The organisational structure reflects management's attention to these factors. As of 2012 Moncler has a clear brand identity and 1,057 full time equivalent employees around the world; each country has a local manager who reports to the divisional head of Moncler. In addition, the Corporate Centre manages the administrative activities and common functions and services. The members of the operating management team are:

Moncler - Management team

Role	Background
Remo Ruffini Chairman/CEO & Creative Director	Born in Como on 27 August 1961. A consultant at Gianfranco Ruffini Ltd for clothing design and marketing in the US, Remo Ruffini returned to Italy and founded the New England and Ingrose companies, both active in the field of sportswear. CEO of Ruffini Partecipazioni, he acquired the Moncler Brand in 2003 and the company Industries in 2005, and is currently the Chairman of the Board of Directors and Creative Director of both Industries and Moncler.
Monica Sottana General Manger	Monica Sottana is General Manager of Moncler since May 2012. She joined Moncler in 1986 and since then has served in a variety of managerial positions, including Export Area Manager of the children's division and Brand Manager at Cerruti Jeans. She has been the Director of the Moncler Division since 2003. She is also director of Moncler Enfant, as well as director of Moncler Lunettes.
Andrea Tieghi Group Retail & Development Director	Andrea Tieghi obtained a degree in Business Administration from the University of Evansville in Indiana, USA. He served as CEO of Wrangler Italia S.r.l in 1994 and as Manager of the Retail division and member of the executive committee of Victorian S.r.l. (Stefanel group) in 1996. In 1995 he co-founded Freeland S.r.l., the first Italian company dedicated to the development of factory outlets. He served as Director of Sales of the Coin group from 1999 until 2001 and Director of Retail from 2001 until 2003. From 2004 until 2005, he served as Director of Industries. He currently serves as Director of the Group Retail network.
Luciano Santel Chief Corporate Officer	Luciano Santel serves as Chief Corporate Officer since 2013. He holds a degree in economics and business from the Università Ca' Foscari of Venice. He began his career with audit firms Arthur Andersen and then Reconta Ernst & Young and subsequently joined the finance and administration departments of IVG and Rossignol. From 1996 to 1999, Mr. Santel was chief operating officer of the Retail Brand Alliance. From 2001 to 2009, he was chief corporate officer at Geox and in 2009, he was chief executive officer of Stefanel.
Sergio Buongiovanni Executive Director	Sergio Buongiovanni has served as Director since 2008. Buongiovanni holds a degree in economics and business from the Università Commerciale Luigi Bocconi of Milan. He later worked for six years as an auditor with the Milan office of KPMG followed by three years at Pa.fin as supervisor of venture capital activities. Mr. Buongiovanni also occupied a series of management roles with Marina Yachting S.p.A. (as chief executive officer), at Best Company S.r.l. (as chief executive officer) and at Industries (chief financial officer, operations director and chief executive officer). Since 2008, he is also chairman of the board of directors of the subsidiary Moncler Enfant. Additionally, Buongiovanni, is the effective owner of 625,000 of Ordinary Shares through his participation in Goodjohn & Co. S.r.l.

Source: Company data

Moncler – Organisational structure



Source: Company data

Value Chain

Collections & products

Established in 1952, Moncler is a brand steeped in history and heritage, rooted in the iconic 'Down Jacket' for mountain activities lined with feather down. Today, it is a trendsetting, lifestyle luxury brands, widely recognised as one of the more appealing labels in the outerwear segment of the apparel sector. As discussed in the History section, following the 1999 appointment of Remo Ruffini as Moncler's creative director, the 2000 launching of Moncler's first Spring/Summer collection, the 2001 opening of its first boutique in Saint Moritz, the 2003 acquisition of the Moncler brand by Remo Ruffini, coupled with the beginning of an effective brand communication, Moncler has undergone a repositioning from a technical mono-product to a luxury multi-function/multi-collection brand.

From technical mono-product to luxury multi collection brand

Moncler: 4 collections

The brand is mainly associated with winter down jackets but is developing other product categories (accessories, shoes and clothing) leveraging on the specific price positioning and styles of the four different collections: Gamme Rouge, Gamme Bleu, Grenoble, and the Main Collection. The products have an innovative and functional shape and are produced with high-quality raw materials, state-of-the-art craftsmanship and attention to detail. FY12A sales were EUR 489M.

Four different collections under the Moncler brand

Gamme Rouge & Gamme Bleu

The two Haute-Couture collections cover the Moncler top lines dedicated to women (Gamme Rouge launched in 2006) and men (Gamme Bleu launched in 2008). Manufactured in Italy, these are tailored and hand-made collections characterised by quality and unique design, mainly composed of outerwear designed by famous international stylists (previously Alessandra Facchinetti and now Giambattista Valli for women and Thom Browne for men). The collections are aimed at promoting Moncler's image and style worldwide and are distributed exclusively in some of the best wholesale doors worldwide and in selected DOS.

Grenoble

In 2010 the group launched Grenoble, a collection characterised by fashion and technology for outdoor sports and skiing and inspired by the historical Moncler products. Grenoble is a multi-category outfit design, which includes trousers, shirts, sweaters and other accessories, coordinated with outerwear. Distributed through selected retailers and direct retail outlets in order to enhance brand attractiveness to customers.

Main collection

The Main collection is Moncler's most famous and well-known collection comprising four lines: Archive, Sport Chic, Premiere and Enfant and includes outerwear, other selective clothing lines (such as knitwear and cut&sewn) and accessories.

Moncler – Archive collection

Source: Company data

Moncler – Sport chic collection

Source: Company data

Starting from the historical Main collection based on the 'blockbuster' products in the winter 'Down Jacket' category, the brand expanded its product portfolio, by line and gender (bags, footwear, knitwear, cut&sewn), progressively decreasing the dependency on outerwear from 92% in 2006A to approx. 85% of sales in 2013E in favour of knitwear and other products.

Moncler – Mens' shoes

Source: Company data

Moncler – Bags & accessories

Source: Company data

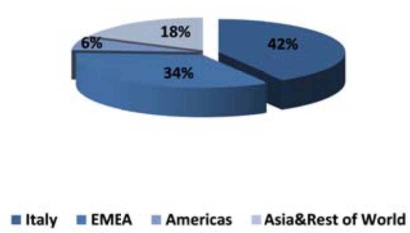
Higher weighting of S/S collection and balance of womens/mens' lines

In addition, the group also increased the weighting of the S/S collections (to a stable 23% of revenues in the last three years) and achieved a balance in the womens/mens' segments, with a more limited production dedicated to children.

Design and orders collection

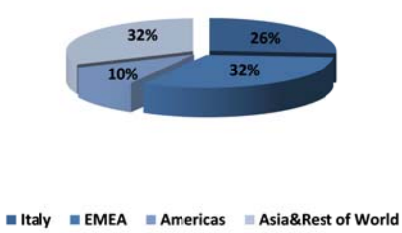
The group's business is the design and distribution of luxury/high-quality products based on both an iconic and innovative style and functionality. The historical strong brand awareness in Italy for the production of 'Down Jackets' has been the group's core business (approx. 85% of consolidated turnover in 2012A) with the remaining activities divided between shoes, apparel and accessories.

Moncler – Sales by region (2010A)



A: actual; Source: Company data

Moncler – Sales by region (2012A)



A: actual; Source: Company data

Control over the value chain

Starting from the solid know-how in design and coordination of production and to ensure an above-average quality for the Moncler Brand, the entire value chain is under the group's supervision.

Research

The production process for the Moncler brand products starts with the Research activity based on consolidated external collaborations with some of the world's leading designers (i.e. Alessandra Facchinetti, Giambattsta Valli, Junya Watanabe and Tom Browne) coordinated with Remo Ruffini to define the guidelines and protect brand uniqueness. Production planning is based on an analysis of sales trends of past collections.

Style&Design

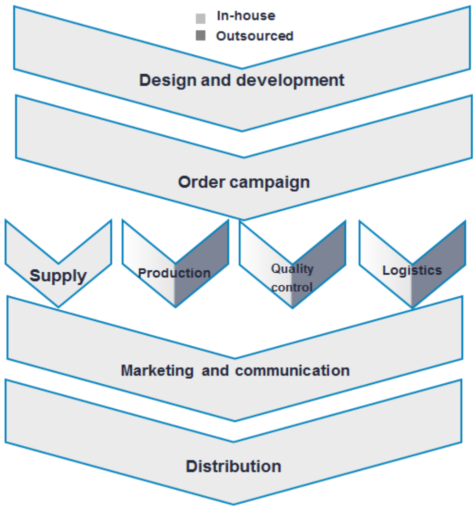
In the Style&Design phase, designers and sales people are in charge of the renewal of the product lines responding to main market trends while preserving the individual heritage and identity of the brand (such as the reduction in usage of shiny nylon as well as macro logos), supporting a significant sales growth in 2005A-12A. Close collaboration between Designers and the Product Development Office ensures that models can set the trends while allowing the cost of goods sold to be controlled as regards the definition of yarns, fabrics and style.

The aim is to have a flexible and efficient production process, fully responding to demand. The production model is based on supervision of the entire production process and logistics, including raw materials procurement but outsourced Cut, Make and Trim (CMT), facon and finishing stages. The Gamme Rouge and Gamme Bleu collections production is also handmade through Italian façonists mainly using a Cut, Make and Trim model.

Outsourcing & quality control

Moncler is responsible for the selection/purchase of raw materials while manufacturing activities are outsourced to external partners, mainly located in Eastern Europe and Italy with reference to the Gamme Bleu and Gamme Rouge collections, to ensure high-quality standards. The Moncler Group coordinates and oversees the entire process for outsourced activities with approx. 20 people involved in the quality control process based on periodical visits to suppliers and on finished products, performed both at third-party production sites and Moncler warehouses.

Moncler - Value chain



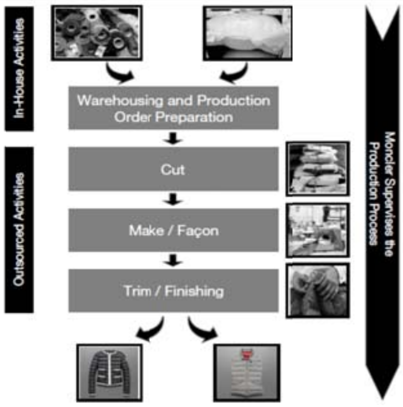
Source: Company data

As is typical in this type of business model, a direct in-house control at Moncler of the production process is the key element to ensure strict quality control.

Production

In the production process, Moncler searches for sophisticated and very high quality manufacturing skills with production outsourced to a network of approx. 20 core manufacturing partners mainly concentrated in Eastern Europe (Romania and Hungary) and Italy. None of the manufacturers has an exclusive agreement with Moncler, although, according to management, the company is able to exercise significant influence on some of them, due to the relative weighting of the Moncler Group on their customer portfolio. In this respect, ten top producers account for approx. 15% of COGS.

Moncler - Industrialised production process



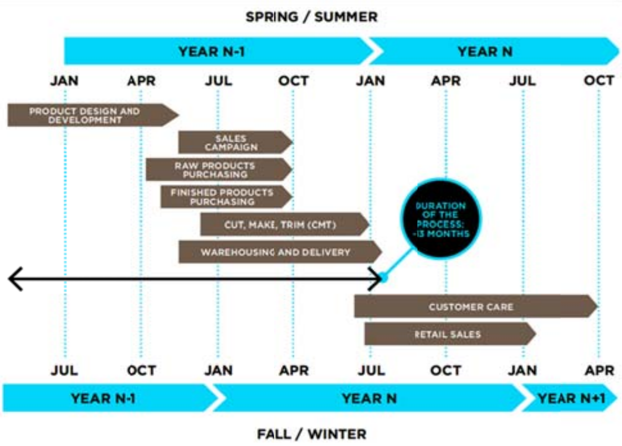
Source: Company data

Raw materials

On the supplier side, according to management, the increased search for alternative sources around the world (mainly in Italy, France, North America and Japan), while maintaining a tight control of related quality, permits the group to deal with possible hikes in raw material needs. Moncler currently uses approx. 50 raw material suppliers and the top ten suppliers account for approx. 53% of the total raw materials supply. More precisely, they select yarns, fabrics, downs and accessories (buttons, zippers, etc.) in Italy, France and Japan mainly for nylon and acquire approx. 130 tons of top-quality feathers yearly.

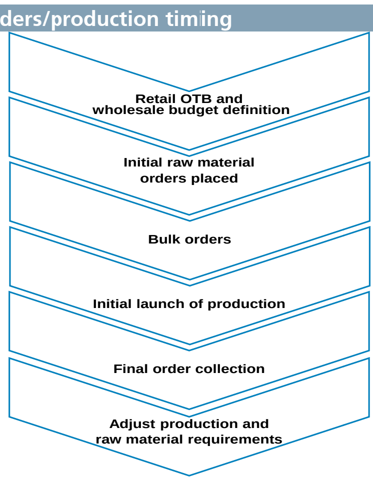
Raw material procurement starts before the sales campaign for the products to reach the market in a timely manner. The first production shift is launched in January and is based on the projections of received orders. The development phase for Moncler begins approximately four/five months prior to releasing the product into showrooms.

Moncler - Collection timetable



Source: Company data

Moncler - Orders/production timing



Source: Company data

Logistics

Moncler's brand logistics are managed at a group level in order to achieve cost efficiency. The strategic positioning of in-house managed warehouses (Piacenza, Tokyo, Hong Kong, New Jersey) allows for a global distribution reach, while maintaining a consolidated relationship with third-party logistics operators and ensuring on-time and cost-effective goods shipping.

To recap, the business model is based both on the purchase of raw materials and production of the finished garments outsourced to independent third parties or on a CMT approach. As stated, this approach means that Moncler is responsible for the selection and purchase of raw materials, manufacturing activities outsourced to external partners, with Moncler coordinating and overseeing the entire process.

Distribution structure

Global presence

The Moncler group is present in all the main countries around the world with a commercial network of highly recognisable, contemporary mono-brand stores, both in prestigious locations and in key commercial centres. The group has multi-channel expertise and has implemented progressive changes in the distribution mix, more focused on directly operated stores supported by a proven, profitable retail format: small stores, in top locations, with best-in-class sales density which, according to Intesa Sanpaolo research estimates, could reach a strong EUR 36k/sqm at the best performer mono-brand store. At 30 September 2013, there are 122 mono-brand stores of which 98 DOS and 24 wholesale stores (shop-in-shops and 1 franchised store).

Two channels: Wholesale and Retail

The commercial organisation is thus based on a tailor-made regional approach using the two different distribution channels both focused on a sell-out approach: Wholesale and retail channel.

Wholesale

At 30 September 2013, Moncler served more than 1,800 wholesale clients for the sole Moncler Main collection, 1 mono-brand franchised store in Seoul and 23 shop-in-shops in the main department stores such as Bergdorf Goodman and Neiman Marcus (NY), Harrods (London), Tsum (Moscow), Harvey Nichols (Hong Kong) and Shinsegae (Seoul).

The typical wholesale agreement is based on:

- Clients purchase at the same DOS sell-in price decided by the group on a regional basis with a suggested retail price;
- Clients do not generally have the right to return any unsold product;
- Clients must maintain product displays in accordance with Moncler requirements;
- Clients benefit from ongoing training and support/control from the commercial department.

Reference clients are luxury multi-brand stores selected by location and quality of space

The reference clients are prestigious luxury multi-brand department stores as well as franchise stores selected by location, quality of space and service to customers. The group does not provide financial help to the partners but collaborates with them in the design of the selling space and the display of products, leveraging on the Moncler stores planning expertise. Shop-in-shops have a similar product assortment to the urban DOS, but are more concentrated due to the limited space. The top wholesale clients for the Moncler Group are both Italian and international department stores, such as Neiman Marcus (US), Bloomingdales (US), Beams (Japan), SAKs (US), and Barneys Japan. The network, as mentioned, is also based on 24 wholesale mono-brand stores of which 23 Corner Shops located in the most important international shopping centres, such as Lafayette, Harrods and Bergdorf Goodman and 1 franchising (in Seoul). The selling space range is 60-150 sqm. Moncler sales are tied to multi-brands although the dependence on these customers is not significant, given that the top five customers accounted for around just 6% of 2012 revenues.

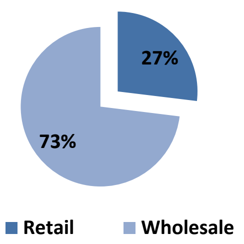
The 2008-09 economic crisis hit all wholesale markets, particularly in the US and Europe, which led to a proactive decision by Moncler to selectively reduce wholesale customers, especially in Italy and Japan, resulting in the beginning of a channel shift towards Retail.

Wholesale channel reduction and shift towards retail

More precisely for Moncler's Main collection, the group carried out a selective reduction of doors from 2,773 in 2008 to 2,170 in 2010, moving to the current 1,800 to enhance brand exclusivity. As stated, the downsizing process related to Italy and Japan: shifting from 800 doors in Italy and 650 in Japan in 2008 towards approx. 600 and around 250, respectively, for the Moncler brand. Today the geographical door breakdown is approx. 1,400 in EMEA and the remainder divided into similar amounts in Asia and America. According to management, the process should lead to a significant sales per door increase, with the doors selected on the basis of strict criteria (e.g. compliance with Moncler's brand image, store positioning and brand portfolio). The positive effects of an increase in orders per door and international expansion more than offset the doors reduction, with a +7% 2010-12A CAGR of channel sales.

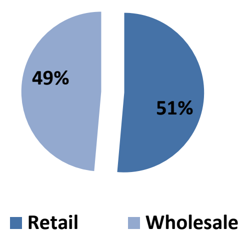
Precise guidelines for sore interiors and visual displays

Moncler – Sales by channel (2010A)



A: actual; Source: Company data

Moncler – Sales by channel (2012A)



A: actual; Source: Company data

Retail

Today 98 mono-brand stores in prime locations

At September 2013, Moncler directly operated 98 mono-brand stores (DOS) in prime locations: 39 in EMEA, 36 in Asia, 17 in Italy and 6 in North America. As for all the pure luxury players, the DOS development is a core/strategic part of the business. Both the positioning and quality of the stores reinforce the value and image of each brand and ensure the desired shopping experience with customers. Due to the historical nature of the iconic mountain product, the opening of the first store was in Saint Moritz in 2001 and the format of the DOS is designed both for high street locations and ski resorts and can count on: Boutique Urban locations (including New York, Milan, Shanghai and Paris with a size of 90-250 sqm); Boutique Ski Resorts (including Cortina, Aspen, a 200 sqm flagship in Saint Moritz, Verbier and Megeve with a size of 35-100 sqm); 12 Outlets (with a size of 65-160 sqm and an average sales/sqm not far from the DOS).

Successful launch of e-commerce platform in 2011

The e-commerce platform powered by YOOX (sales in line with a major flagship store) was launched in Europe and US in 2011 and in China in 2012. Aside from the potential turnover increase and brand visibility boost, the web presence should also be useful in limiting the online counterfeit activity and provide easy access to information on the brand and products.

Flagship stores

Last but not least, with an average size of 400 sqm the group's flagship stores carry all Moncler collections and product ranges and are located in top luxury streets (including Paris – Rue Faubourg St. Honoré; Milan – via Montenapoleone; New York – Prince St.; Tokyo – Aoyama; Beijing – Sanlitun; Shanghai – the Reel; Hong Kong – Lee Gardens).

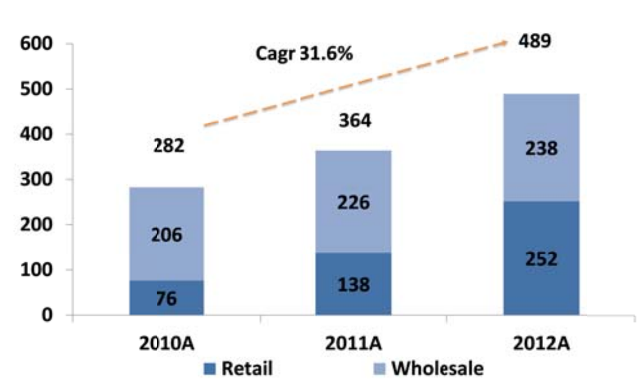
The direct operations and specific localisation permit a product assortment individually tailored to local markets, customer profile and store size. Urban stores typically have the deepest and widest assortment (excluding Gamme Rouge and Gamme Bleu, reserved to flagship stores). Resort locations have a fine-tuned assortment due to the limited store size and high seasonality, with emphasis more on special pieces in terms of functionality and fashion content. As typical, outlet stores offer products from the previous seasons' collections and products are also specifically made for the channel.

The DOS are designed, built and operated according to precise internal guidelines while store windows and other visual displays are decided by a team working actively between retail and visual merchandising people on the back of the collection style and the current advertising campaign, considering the Moncler mono-brand store as a key communication tool.

Acceleration of geographic expansion

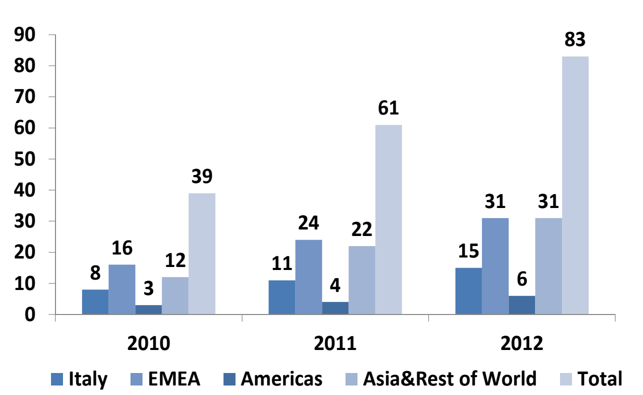
In past years, given the resilient business trend for Moncler, helped by a strong awareness of brand and iconic products, a below-average expansion of the directly operated store business, and a solid like-for-like performance, management decided to accelerate its geographic expansion, investing in new openings. The related capital expenditure in 2010-12A was EUR 66M, out of a total EUR 72M, for a network expansion from 39 in 2010 to 83 DOS in FY12. The strong +9% lfl in 2011A and +13% in 2012A, contributed to generate a +82% 2010-12A revenues CAGR for the channel. With a steadfast 'no discount' policy, the recent performance at the existing Moncler stores (excluding outlets) has been very positive, recording a stable double-digit lfl sales growth and a significant sales density.

Moncler - Sales by channel (2010A-12A)



A: actual; Source: Company data

Moncler – DOS by region (2010A-12A)



A: actual; Source: Company data

Communications

Together with the previous phases of the value chain, we believe Communications has contributed to the successful expansion of the brand. A very important pillar in the group business model is both the absolute and perceived quality of products, coupled with the sense of 'belonging' that a product must convey in terms of exclusivity. Marketing and Promotions aim to support and further enhance the brand uniqueness and exclusivity.

Communication activities are pursued at each stage of the value chain…

Communication activities are pursued at each stage of the value chain from collection presentations to distribution and are based on a centralised communication strategy defined at the group level in order to deliver effective advertising campaigns, helped by external agencies.

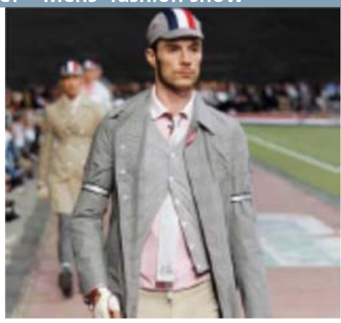
…and presence at the main international fashion weeks

Moreover, the group is present at the main international fashion weeks with the Gamme Rouge and Gamme Bleu (2 catwalk shows each per year) and Grenoble (one catwalk per year) for the collection presentations. We view the fashion shows as one of key communication tools to deliver a powerful presentation of the styles and designs embodied in the collections and capture the attention of the media. Communication is also based on specific one-off events focused on target markets and celebrities are involved in the promotional activities to further increase Moncler's brand awareness and indirectly the appeal of the Main "Core" collection on the market.

Moncler – Womens' fashion show

Source: Company data

Moncler – Mens' fashion show



Source: Company data

The Moncler brand is also influenced by art, creating a brand Prototype-style collection comprising a selective product range with a high innovation content, developed in collaboration with external designers and well-known artists.

Personnel

The number of employees in 2010-12 increased from 536 to 1057 while the number of people employed in the retail channel has progressively increased along with the development of the retail network. A solid sales force has been built over the past 2-3 years reaching approx. 600 units in FY12.

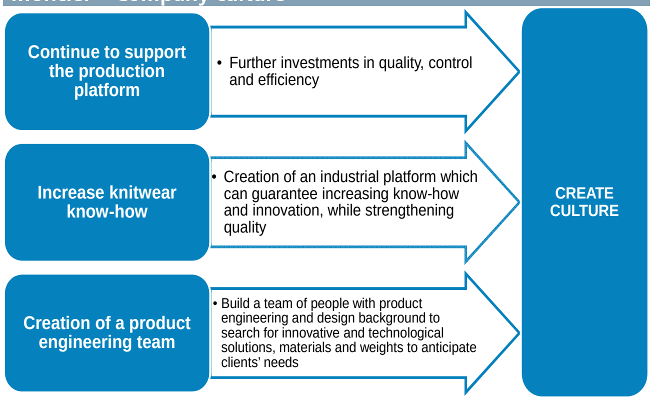
Strategy

Strategy and targets

Lower penetrated markets

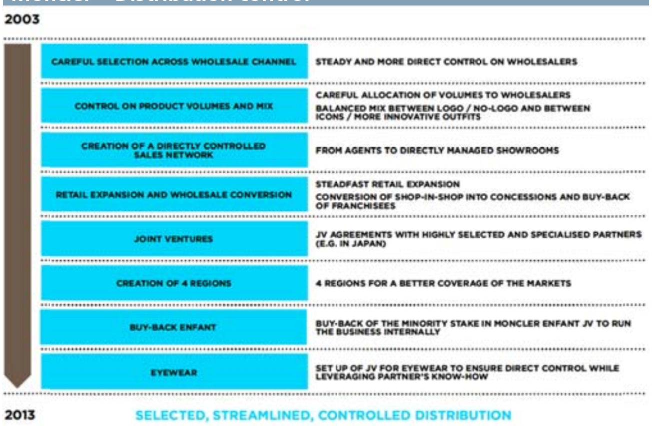
For Moncler, the brand's success is strongly related to the shopping experience and to communicating the brand's heritage in lower penetrated markets (such as the US and Asia). As a result, the group opted to internally develop the image and store format and intends to push the retail development so as to take their "feathers" to the world, steadily strengthening the distribution control and the internal know-how on production and innovation.

Moncler – Company culture



Source: Company data

Moncler – Distribution control



Source: Company data

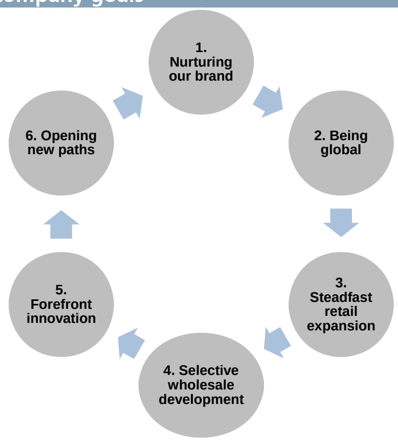
Brand awareness

On this front, the past three years performance in both distribution channels appears to have supported the increased brand awareness, confirming that the Moncler brand is well known in Italy and Europe, and its recognition is improving in Asia and the US. This explains why the group decided to invest, even in an economic crisis, with a focus on new markets.

DOS expansion …

Over the next few years, the group intends to maintain the expansion strategy for the Moncler brand based on the retail channel, paying attention to both the brand positioning and timely refurbishments in order to convey the desired brand image to consumers.

Moncler – Company goals



Source: Company data

Moncler – Retail plan

Source: Company data

…with selected wholesalers

In order to implement the above strategy, Moncler has set specific guidelines for new store openings, so as to exploit the full potential of the brand:

- Stores are only positioned in prime locations in main high streets and in the most renowned shopping malls and "concessions" in prime department stores;
- Effective format with a store size of 150-250 sqm (not below 200 sqm for urban stores);
- A more suitable layout to display different product categories, including accessories;
- The financial budget of new stores allows them to be profitable a year after opening, in line with the past trend and to return the capital invested in less than three years. The aim is to retain a best in-class sales to sqm ratio in all regions.

Overall, most of the new locations for this year have been secured, with significant openings planned in 4Q13, such as San Paolo, Istanbul and Hamburg, with a further 18 locations already secured.

The goal is to further expand the geographic reach and intensify the focus on the already-tested underpenetrated, high-potential markets such as North America, China and Russia and consolidate the penetration in existing key markets (Italy, Western Europe and Japan). At the same time, management seeks to broaden the multi-channel distribution focusing on retail and capitalising on operational improvements with a significant development of DOS, especially the urban format in top locations, and increasing selectivity for the wholesale channel based on a steady review and expansion of the selected wholesale customer base. To sum up, the focus is on the retail channel development while reinforcing wholesale relationships (e.g. the US). All this is helped by the progressive enhancement of Moncler as a global luxury brand.

E-commerce opportunities

As stated, the e-commerce platform was launched in July 2011, powered by the Italian sector leader YOOX. The aim of the platform for revenues at least equal to a big urban store has already been reached, while growth can still be exploited in China, where the platform opened in 2012. A 'Mobile' platform is to be launched by year-end. The site currently has approx. 6M visitors, with a disclosed increasing penetration (according to management).

A wider product offering

Another strategic goal is to widen the product offering. The focus is to be increased on some product categories, such as knitwear, and the scouting of innovative projects in new categories. Management also targets an ongoing focus on the S/S collection and a strengthening of the Grenoble line presence. There will also be a higher focus on accessories (mainly footwear, but also bags) through an expansion of the dedicated platform and new larger-sized DOS which are designed to support larger accessory lines.

JV in eyewear collection

Moreover, the JV with Allison is dedicated to the design, production and distribution of the Moncler eyewear collection: the Sunglasses collection was introduced in Spring 2013 and the Prescription glass collection was presented in September 2013.

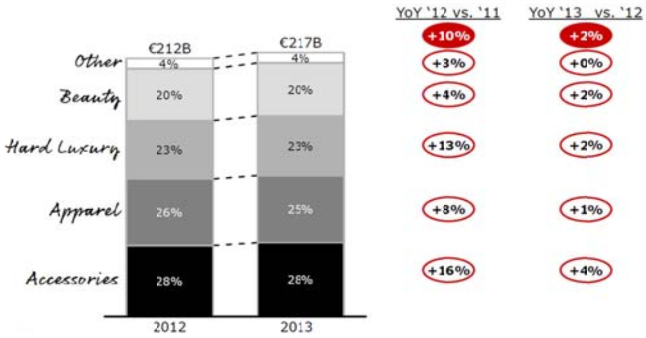
Competitive Positioning

Competitive forces

The luxury goods market is highly fragmented and characterised by the presence of a few large global players, and a large number of small brands. These players compete in different segments both in terms of product category and geographic location.

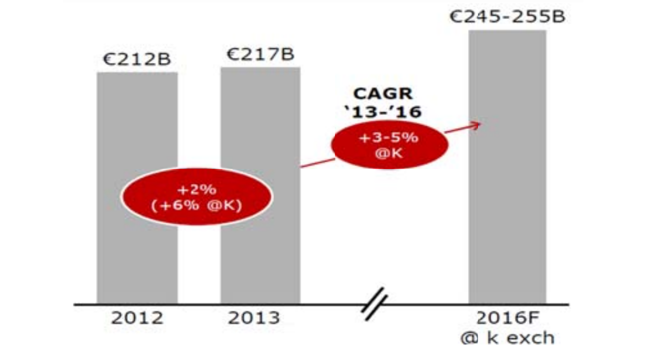
The brand's history, heritage, craftsmanship and quality combined with creativity, innovation, and selective distribution are all key business elements. In order to preserve brand integrity, it is critical to balance the potential expansion opportunities, both as regards openings and product categories, while still preserving and maintaining the product scarcity, high design content, and superior quality. Thus, entry barriers to the luxury goods market are high and are mainly related to the time and capital investment required to build and develop a luxury brand and to communicate it effectively.

Moncler – Luxury segments size & trend



Source: Altagamma

Moncler – Luxury market size & trend



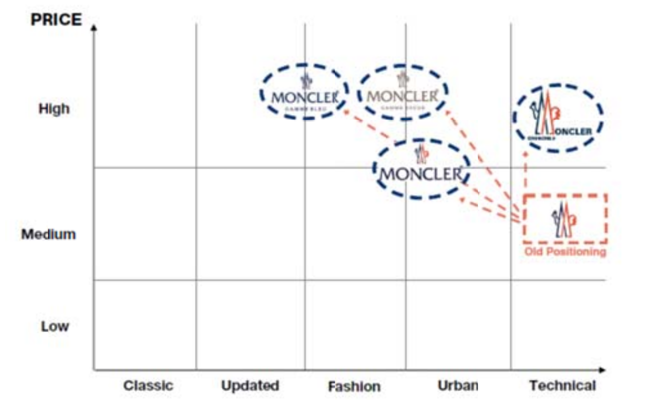
Source: Altagamma

Moncler is active in the Apparel and Accessories global luxury market, worth EUR 115Bn in 2012, according to Altagamma, and is perceived as a pure luxury brand.

Moncler – Collections & products

Source: Company data

Moncler – Brand positioning



Source: Company data

Moncler's lines respond to various needs/segments with a high-end positioning

Moncler's lines respond to various needs/segments with a high-end positioning. Starting from the 'blockbuster' product in the 'Down Jacket' category, the Moncler brand is now perceived as a pure luxury brand with four concepts, which range from accessible luxury (Main and Grenoble) to exclusive luxury (Gamme Rouge and Gamme Bleu). Products range from high tech sportswear, to elegant contemporary, up to tailored couture, competing successfully both in image and price with the leading global luxury brands thanks to a unique and differentiated offering. A successful revamping and repositioning of the brand, over the last 13 years, has also permitted the successful launch and consolidation of the previously non-core Spring/Summer collection.

The recent developments have ensured a resilience to the economic downturn. Moreover, established luxury brands are able to secure prime locations which allow them to maintain their exclusivity and preserve their prestige and identity.

Competitive forces

Suppliers power		New entrants
Long-term relationships with top suppliers		Limited due to the specific product proposal
	Rivalry	
	Significant competition in prime locations; Low competition from smaller players	
Substitute products		Customer power
Limited due to the iconic products		Low elasticity to prices in luxury consumption demand; More than 1800 selected clients for the sole Main collection

Source: Intesa Sanpaolo, Porter model

Market Analysis

Before looking in detail at the individual markets and recent market trends, we highlight that according to industry surveys the luxury business is not particularly vulnerable to business cycle fluctuations, and is currently expected to post a growth rate of around 1 and 4% globally for Apparel and Accessories in 2014 (source: Altagamma).

Costs

On the profitability side, we have seen some cost inflation in recent years. As an indication, an eye needs to be kept on the US cotton market, which, in April 2011, reached its highest level since the Civil War, due to tight stock control, strong demand and investment buying. The cotton market is still experiencing strong consumer demand from China and supply is tightly correlated to weather conditions in the area (accounting for more than a third of world production) and in India (the second-largest exporter of cotton), which in 2011 suspended exports to support its own ready-to-wear industry. However, the supply shortage of this commodity could be limited by the ongoing good performance of the main US market, visible in the subsequent fall in prices. After a hefty rally, since mid-2012, the oil price (i.e. synthetic fabrics and transportation costs), has moved back to a still high USD 110/bbl area. The current geopolitical uncertainty implies, in our view, limited scope for a significant decrease in the short run.

Cotton price trend

Source: FactSet

Oil price trend

Source: FactSet

Emerging markets costs and specifics

Specific "emerging" capex

In terms of DOS openings in emerging countries (first locations already exploited in tier one cities in China, expensive selling spaces in luxury hotels in India, etc.) general investments in emerging markets are becoming more expensive and specific. A clear example of this is the creation of specific regional brands (in addition to the specific regional fitting for products, such as ready-to-wear clothes, eyewear, skincare, etc.). We highlight that the German luxury hotel group, Kempinski Hotels SA, launched a new brand in China in a bid to win more customers in the nation. The German group, which has been operating in China for 18 years, plans to open 40 to 50 of the Chinese-style hotels globally. Aside from the Chinese market, Kempinski is also planning to deploy the new brand in overseas markets, as outbound travel from China is growing at a strong rate. By 2020, China will have the most international travellers, accounting for 9% globally, according to the international tax refund company Global Blue. Lured by the big potential of the Chinese market, more and more companies are rolling out new brands to suit Chinese tastes: Levi Strauss & Co unveiled its Denizen brand, while Hermes launched a new line known as Shang Xia, which will only be sold in China. During Expo 2010 Shanghai, Chanel introduced a handbag shaped like a takeaway carton for Chinese food.

A limited forex downside

Following the habit changes related to the sub-prime crisis, we continue to consider a value-for-money approach as a key driver in the mature luxury markets, while a still significant appetite for luxury goods in Asia and "emerged tourists" should support growth. We assume a good performance by the sector in the coming years, although we have some doubts related to the debt exit strategies in mature markets, coupled with sluggish or more cautious consumption. Our two-year forecasts incorporate a stable forex scenario for a EUR/USD exchange rate of 1.33 and EUR/JPY at 129 in 2013 and 138 in 2014 (-6% on average); see Intesa Sanpaolo's Macroeconomic Outlook report of December 2013 (an abstract from which is shown below).

Macroeconomic outlook in key countries

Economic growth by geographical region					
%	2010A	2011A	2012A	2013E	2014E
US	2.5	1.8	2.8	1.8	2.9
Japan	4.7	-0.6	1.4	1.7	1.7
Eurozone	1.9	1.6	-0.6	-0.4	1.0
Eastern Europe	3.6	3.7	2.8	1.5	2.4
Latin America	5.6	4.1	2.7	2.2	3.0
OPEC	3.8	4.8	5.5	3.8	4.3
East Asia	9.1	7.0	6.2	5.4	5.6
Africa	3.8	3.6	3.4	3.6	3.9
World growth	5.2	3.9	3.1	3.1	3.4

A: actual; E: estimates; Source: Intesa Sanpaolo Macroeconomic Research forecasts

2013 draws to a close with signs of an upturn in global growth

2013 leaves a cautiously optimistic legacy for next year. The mix of economic policies, improvements in financial stability in Europe and the absence of tensions on the commodities markets create the ideal conditions for another period of moderate growth without inflationary pressure. The main risk could come from the markets' reaction to the U-turn in monetary policy in the USA. However, the threats appear significant, especially for the emerging countries that are most dependent on foreign investors, and even there a disaster is not warranted. The economic indicators in November show that the production component of the manufacturing PMIs of the largest advanced economies are driving the global average, which is being curbed by a somewhat modest performance by the large emerging countries. The albeit weak recovery in the Euro zone is already helping the central and eastern European countries, which are showing an improvement in their economic situation.

United States

The Fed is committed to maintaining an exceptionally accommodative monetary policy, even after the end of the purchases programme: it will also remain in place after the unemployment rate has fallen to 6.5% and the recovery has picked up steam. The FOMC will shift the relative weight of monetary stimulus from purchases to forward guidance, and will make efforts to control the rise in yields that could accompany the tapering of purchases. As the recovery continues, however, there is a risk that the market will anticipate rate rises compared with the Fed's projections, leading to volatility and price corrections of financial assets.

The Euro area

In the Euro zone, the return to GDP growth began in Spring 2013 (+0.3% yoy in 2Q), followed by a more modest rise in the summer quarter (+0.1% yoy). The recovery phase will be completed when the upturn also starts to affect the lending cycle and labour market, which will likely be at the start of 2014. After two years of contraction, therefore, Euro zone GDP will resume growth in 2014 at a rate of around 1%. Domestic demand, after declining for the last two years, is expected to start growing again, driven mainly by corporate investment in machinery and equipment; growth of other investments will be more anaemic, however, due more or less solely to the appreciable recovery in the German construction sector. Fiscal restriction will continue but at a lower pace than in 2013. 2014 will also be a year in which imbalances - between domestic and foreign demand and the growth rates of central and peripheral countries - will be reduced.

Japan

In Japan, the BoJ is continuing with its strategy of qualitative and quantitative monetary stimulus committed to stepping up the stimulus if growth slows more than envisaged after the rise in consumption tax. The other main ingredient of the Japanese economic situation in 2014 will be the fiscal policy. The hike in consumption tax will be the lynchpin of the intervention to bring the deficit/GDP ratio down by nearly three percentage points per annum in 2014-15. The fiscal clampdown will be offset by temporary expansionary measures on the public spending side. The recovery should therefore continue in 2014 at similar levels to 2013 (1.8%), although with considerable quarterly volatility due to the budget intervention.

China

October and November data point to a slowdown in year-on-year GDP growth in 4Q13, which would not change our forecast for year-on-year growth of 7.6% in 2013, with risks slightly skewed to the upside tied to a stronger performance of private consumption than we had expected. The progressive slowing of credit aggregates in the coming quarters will weigh negatively, especially on investments, and will reap stronger effects on the growth trend in 2014, which we continue to forecast at 7.3%. Good labour market conditions, which for the time being continue to support spending, will inevitably feel the economic slowdown expected in the next two years. Their deterioration will prevent a strong acceleration in private consumption, helping keep inflation contained at around 3%. We expect broadly stable growth at 7.2% in 2015. The expansion of forms of financing alternative to the banking channel, the increase in problem loans, higher local government borrowing, and the risk of an inversion of the trend of real estate prices, remain reasons for concern for both the authorities and the rating agencies.

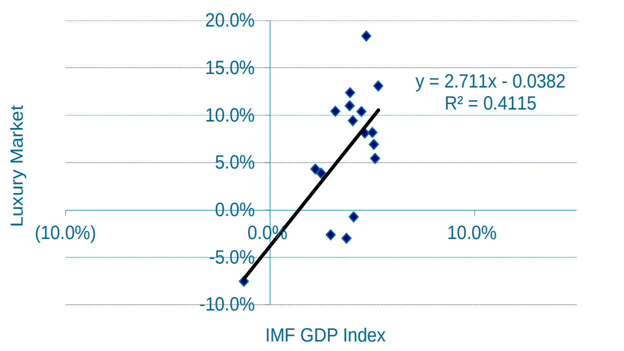
Luxury market trend

Emerging Stabilisation

Analysing the historical trends in 1995-2012 for both the luxury market size and global GDP, we derive a correlation rate of 2.71x. This ratio was 2.79x in our previous 2012 analysis, testifying to a stabilisation of the "Emerging Boost" on luxury goods spending. In our 2013E-14E assumptions, we maintain a discount of 20% to this correlation rate, thus maintaining a more conservative consumption attitude compared with the past (due to the arrival of internet purchases and the increase of outlet traffic), and we apply this ratio to our macroeconomic outlook.

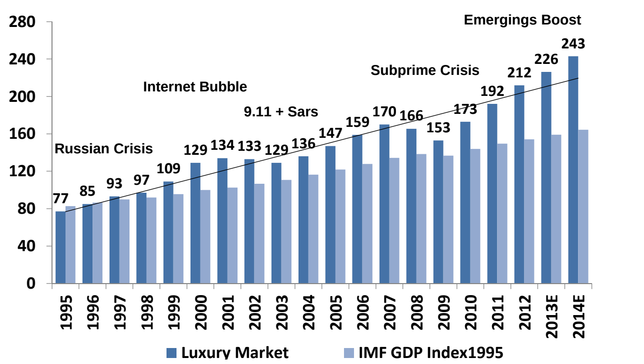
Specifically for the sector, after returning to the historical 2007 peak of EUR 170Bn in 2010, our model returns a value of EUR 243Bn in 2014E or a 2012A-14E CAGR of 7%, again largely supported by the "emerging market cycle" with a potential upside risk, in the case of a strong rebound in Europe.

Luxury vs. world GDP growth (1995-2012)



Source: Intesa Sanpaolo Research elaboration on IMF and Bain&Co. data

Luxury market growth (EUR Bn)



Source: Intesa Sanpaolo Research elaboration on IMF and Bain&Co. data

A 7% organic growth in 2013E and 2014E

Assuming a 7% like-for-like performance by the sector in the next two years, with potential downsides related to the debt level in the US and Europe and a more conservative consumption attitude, we are more aggressive vs. Altagamma's assumption.

Business Results and Recent Financials

Costs

In recent years, following Remo Ruffini's appointment as Moncler's creative director and the subsequent creation of the current group structure, we highlight the achievement of several business and financial improvements at the Moncler Group:

- Progressive collection enrichment;
- Expansion on foreign markets (with the European reference market weighting on sales reducing consistently);
- Cleaning up of the wholesale network and development of the retail network;
- Enhanced control of distribution thanks to the final buy-back of the Moncler Enfant joint-venture.

On the financial side, the group has delivered an industry-leading profitability in line with the best-in-class luxury players thanks to: 1) a no mark-down policy; 2) volumes expansion and economies of scale; 3) a higher weighting of the retail channel with DOS (excluding outlets) delivering strong average sales per square metre; and 4) supply chain efficiencies.

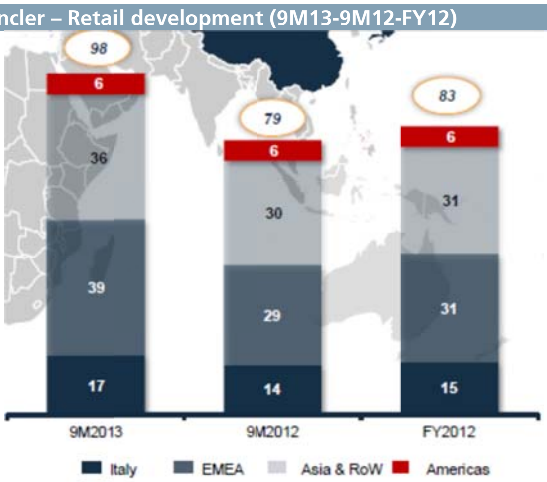
All the above translated into a strong cash flow generation, fuelling fast growth and deleveraging with limited investment requirements despite the retail rebalancing strategy (approx. EUR 20/25M per year for the stores in our estimates). In FY12A Moncler reported a net debt of around EUR 229M, down vs. EUR 270M in FY11A, with a debt/EBITDA improving to 1.42x from 2.36x, despite the EUR 150M dividends paid in 2011A. The debt/equity ratio stood at 1.19x at FY12.

Recent results: 3Q/9M13

Sales

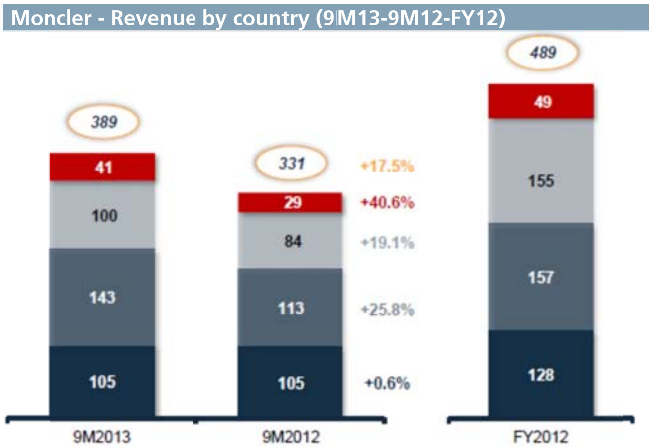
Moncler's consolidated 9M13A revenues grew by 17.5% (+22.2% ex-FX) with the devaluation of the Yen limiting the trend, mostly in the retail channel (2/3 of total impact), according to management. Like-for-like reported growth was +18% vs. +16% as of June 2013 (best performance in the US, Japan, China, followed by Europe and lastly Italy, which was nonetheless positive) and October retail sales confirmed the 9M trends, supporting our +13% FY13E assumption. The 9M13 retail sales increase of 42% was also helped by 15 openings (19 over the last 12 months in line with the 20+ expected per year). Wholesale sales rose by 3% despite the ongoing selective approach to wholesale accounts, or by 6% ex-FX, according to our calculations. International sales contributed for 73% of Moncler's revenues vs. 68% at September 2012.

Moncler – Retail development (9M13-9M12-FY12)



Source: Company data

Moncler - Revenue by country (9M13-9M12-FY12)



Source: Company data

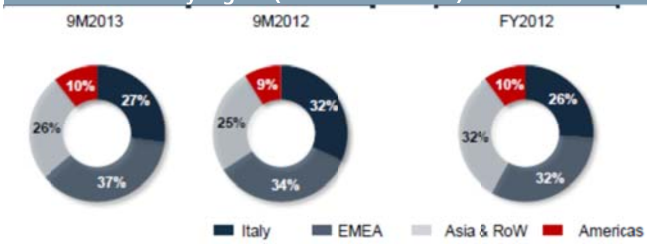
Seasonality

Adjusting for minor IPO costs and one-offs, the 3Q13 EBITDA margin recorded a slight improvement, mainly thanks to the positive effect on gross margins related to the ongoing channel mix shift to retail. On the opex side, selling costs increased to 24.8% of sales in 9M13 vs. 22.5% in 9M12. G&A and A&P remained stable. A tax rate of 36.4% in the period is consistent with management's expectations for a 35% normalised tax rate going forward.

Moncler – Sales by channel (9M13-9M12-FY12)

Source: Company data

Moncler – Sales by region (9M13-9M12-FY12)

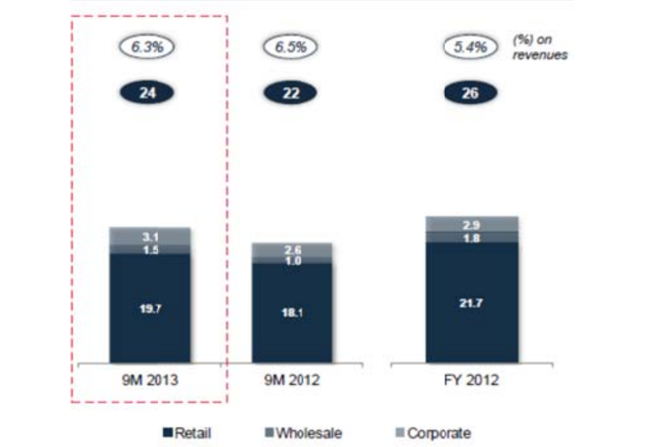


Source: Company data

Cash absorption

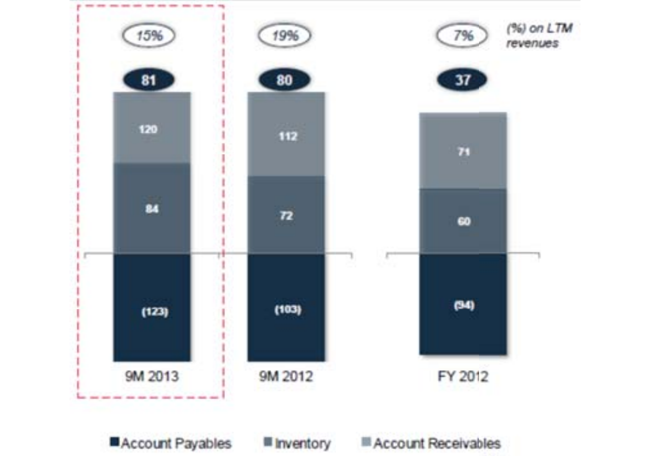
Capex mainly related to retail expansion (15 DOS opened in 9M13 vs. 18 in 9M12) amounted to EUR 20M, while a very minor amount was dedicated to wholesale capex for the opening of new shop-in-shops and investments in showrooms. The lower cash absorption by the operating working capital (15% of LTM revenues in the period) was due to timing differences in the production process, which are expected to reverse going forward, in order to accelerate the delivery of products into the enlarged distribution network. The group's net debt was slightly higher vs. FY12 (EUR 242M vs. EUR 229M) but with a deleveraged net debt/EBITDA (LTM) ratio of 1.37x (1.42x in FY12).

Moncler - Group capex (9M13-9M12-FY12)



Source: Company data

Moncler – ONWC trend (9M13-9M12-FY12)



Source: Company data

Moncler – 3Q/9M13 results

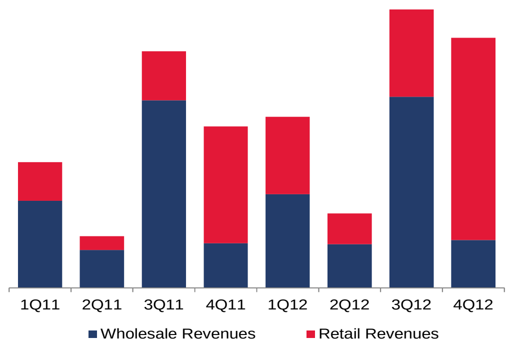
EUR M	3Q12A	3Q13A	% chg	9M12A	9M13A	% chg
Sales	176.1	205.8	16.6	331.2	389.0	17.5
% on full-year result(*)	36.0	36.2	23pp	67.7	68.6	96pp
Gross profit	118.2	139.9	18.3	223.8	269.3	20.5
Gross margin	67.1	68.1	98pp	67.6	69.2	170pp
EBITDA (**)	66.3	78.4	18.2	99.0	114.7	15.2
EBITDA margin	37.7	38.2	50pp	29.9	29.5	-59pp
EBIT (**)	62.3	73.4	17.7	87.9	100.9	15.3
EBIT margin	35.4	35.7	34pp	26.5	25.9	-50pp
Net income	NA	NA	NM	44.4	52.4	19.3
Net margin	NA	NA	NM	13.4	13.5	20pp

Note: (*) Implied value for FY13 in IMI assumptions; (**) Adj. for non-recurring items; NA: not available, NM: not meaningful; Source: Company data

We highlight that the group's quarterly performances are subject to seasonal fluctuations in revenues due to the nature of the business: Wholesale sales are concentrated in 1Q and 3Q, in correspondence with S/S and F/W purchases from Wholesale clients, while Retail sales are mainly concentrated in 4Q, due to the importance of the F/W collection. This is why the openings of new DOS are usually concentrated in the last quarter.

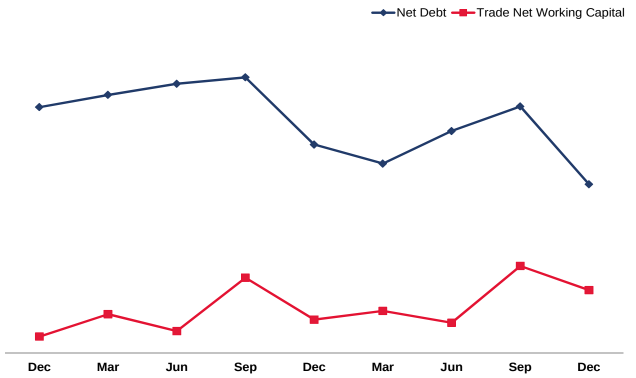
A fixed cost weighting of 70% of annual selling and G&A expenses (excluding D&A) results in an even higher seasonality at the EBITDA level. A&P expenses generally follow revenues seasonality.

Moncler – Sales seasonality (2011-12)



Source: Company data

Moncler - Debt & working capital trends

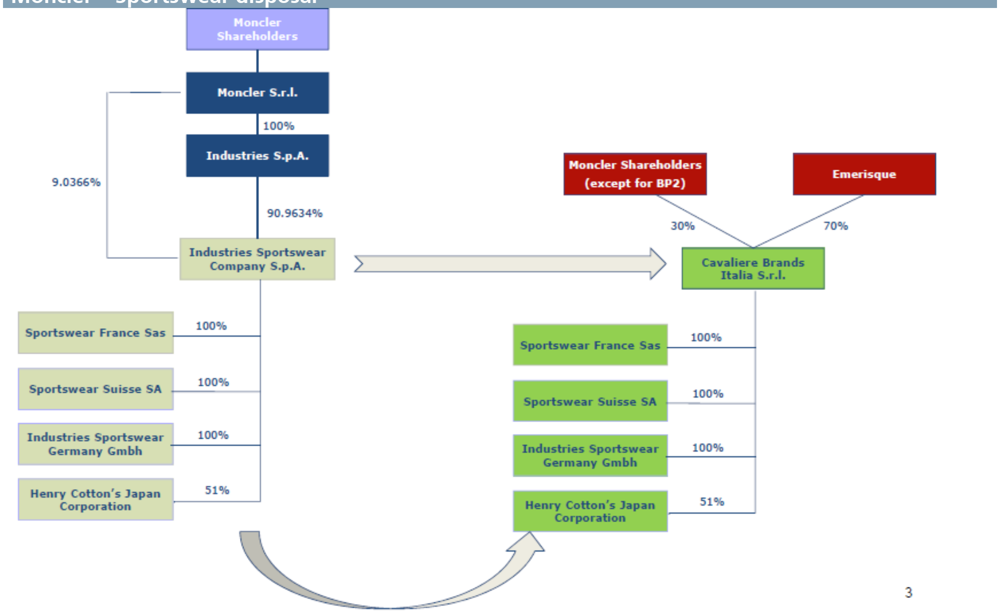


Source: Company data

Industries Sportswear disposal

On 31 October 2013, Moncler S.p.A. and Cavaliere Brands (Italia) S.r.l., a company controlled by Emerisque Brands, signed a Business Purchase Agreement for the disposal of Industries Sportswear Company S.p.A. (ISC), which produces and distributes apparel for three owned brands: Henry Cotton's, Marina Yachting, Coast+Weber+Ahaus and one licensed brand 18CRR81 Cerruti. On the closing date, Moncler's shareholders are to invest 30% in Cavaliere Brands.

Moncler – Sportswear disposal



Source. Company data

The Business Purchase Agreement envisages a potential total consideration of EUR 22,100,000, to be paid in three instalments, plus a potential earn-out as described below:

- The first instalment, equal to EUR 1,100,000, to be paid at the closing of the transaction;
- The second instalment, equal to EUR 7,500,000, to be paid on 31 December, 2013;
- The third instalment, equal to a maximum of EUR 13,500,000, to be paid on 30 June, 2014, is to be based on an adjustment mechanism, depending on: (i) ISC 2013 operating performance (adjusted EBITDA); (ii) ISC net financial position at 31 December, 2013; and (iii) ISC net working capital at 31 December, 2013.

In addition, the total disposal consideration might be increased by a further earn-out component, up to a maximum amount of EUR 21,900,000, based on ISC's FY14 operating performance (industrial margin), to be paid in FY15. There are no relevant obligations or commitments assumed by Moncler.

Moncler – Sportswear disposal price

	Base price	Base price + adjustment	Base price + adjustment + earn out
	€/000	€/000	€/000
Disposal price (a)	**8,600**	**22,100**	**44,000**
Net operating assets (b)	43,323	43,323	43,323
Income (Loss) on disposal (a-b)	(34,723)	(21,223)	677
Income taxes - net of transaction costs (c)	17,198	13,080	6,401
Net Income (Loss) on disposal (a-b+c)	**(17,525)**	**(8,142)**	**7,078**
Other transaction costs (d)	(3,038)	(3,038)	(3,038)
Cash generation (a+c+d)	**22,760**	**32,143**	**47,363**

Source. Company data

Pursuant to the Business Purchase Agreement, Moncler and Cavaliere Brands will also underwrite a service-supply agreement named "Transitional Services Agreement", under which Moncler has committed to provide Cavaliere Brands with some specific services aimed at facilitating ISC's management for an 18-month period, renewable for a maximum of three years.

Moncler – Sportswear disposal economic impact

	Base price	Base price + adjustment	Base price + adjustment + earn out
	€/000	€/000	€/000
Economic Impacts (*)	**(17,525)**	**(8,142)**	**7,078**
- o/w in 2013	*(17,525)*	*(8,142)*	*(8,142)*
- o/w in 2014	-	-	*15,220*
- o/w in 2015	-	-	-
Cash Impacts	**22,760**	**32,143**	**47,363**
- o/w in 2013	*5,562*	*5,562*	*5,562*
- o/w in 2014	*17,198*	*26,581*	*26,581*
- o/w in 2015	-	-	*15,220*

Source. Company data

We conservatively consider only the 'Base Price' cash-in on the 2013E and 2014E financial position, assuming no impact at the P&L level.

Earnings Outlook

We project financial results for the Moncler Group based on the group's development strategy, market analysis and recent peers' performances and plans.

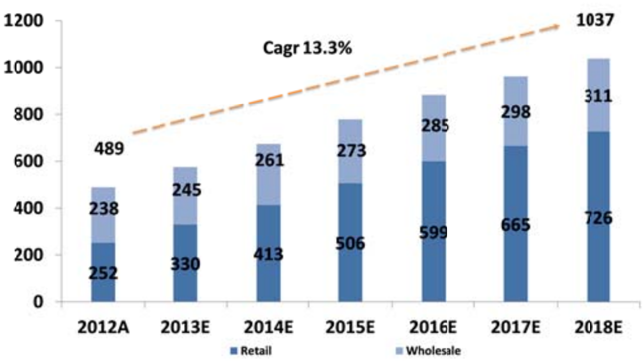
Revenues

Consolidated revenues

We forecast consolidated net revenues growth at a 2012A-18E CAGR of approx. 13%, led by both the consolidation of the market share gains by the brand in Italy (4% revenue CAGR for the region) as well as by the relatively low-penetrated geographic areas: a US CAGR of 29% to reach EUR 222M of sales in 2018E, a level higher to that assumed for the well-penetrated smaller Italian market over the same period (EUR 163M). Lower volumes and the announced DOS openings plan should drive the anticipated development path for EMEA and Asia&RoW, which we expect to both record a similar approx. EUR 330M market size in 2018E, growing on average by 13% per year. Brand awareness is expected to be adequately supported by an effective local advertising and endorsement campaign. We assume a steady strengthening of the brand and its products both among its current customers and new ones with potential synergies from the increasing recognition of Moncler as a global luxury brand. As discussed in our market analysis, we expect a lower market growth of 7% in the medium term (2012A-14E), thus gaining market share in both mature and new markets is mandatory.

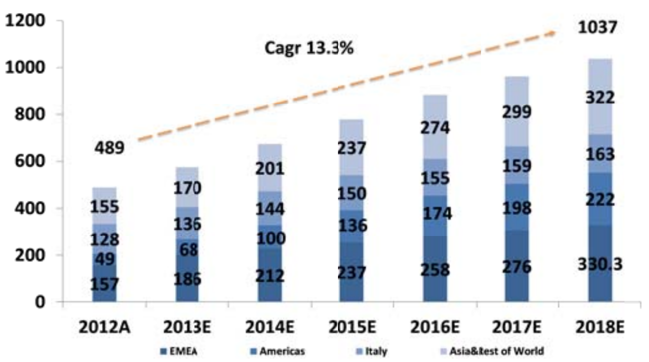
In more detail, we view the openings plan and the current lower volumes of the Moncler brand around the world, coupled with the innovative/trendsetting design and the strong response in the Asian and US markets (2010A-12A CAGR +76% and +65%, respectively) as the main drivers for the expansion of the business. The Moncler brand has size, distribution and innovation advantages, leading us to expect an above-average growth, with turnover of approx. EUR 1Bn in 2018E, largely from the Main collection with the high-end 'Gamme' lines to support the brand image.

Moncler Group – Exp. revenues by channel (2012A-18E) (EUR M)



A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

Moncler Group – Exp. revenues by region (2012A-18E) (EUR M)



A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

No licences for now

Moncler has not outlined a specific licensing plan, thus we have not factored in any potential earnings in our model on this front. We highlight, however, that the progressive recognition of Moncler as a global luxury brand could open up future potential opportunities.

Sales channel developments

Our retail development assumptions, shown in the following table, are based on the disclosed openings strategy and our estimates regarding the past performance at the DOS.

Moncler – Estimated retail development (2013-17E)							
EUR M	2013E	2014E	2015E	2016E	2017E	2018E	% CAGR 2012-18E
Italy	77.7	86.1	91.5	96.5	98.7	100.7	7.6
Sales growth (%)	19.5	10.75	6.38	5.44	2.30	2.00	
Like-for-like growth (%)	**8.0**	**4.5**	**3.6**	**2.9**	**2.3**	**2.0**	
Additional growth (%)	11.5	6.25	2.78	2.56	0.00	0.00	
DOS	17	19	20	21	21	21	
Net additions	2	2	1	1	0	0	
Europe	117.6	138.9	158.8	176.4	192.9	208.4	17.3
Sales growth (%)	47.0	18.2	14.3	11.1	9.4	8.0	
Like-for-like growth (%)	**11.5**	**7.5**	**6.0**	**4.8**	**3.8**	**3.1**	
Additional growth (%)	35.5	10.7	8.3	6.3	5.5	5.0	
DOS	44	52	60	67	74	81	
Net additions	13	8	8	7	7	7	
North America	57.0	89.2	125.6	163.4	188.3	211.9	32.7
Sales growth (%)	46.8	56.4	40.8	30.1	15.2	12.5	
Like-for-like growth (%)	21.5	13.5	10.8	8.6	6.9	5.5	
Additional growth (%)	30.0	42.9	30.0	21.4	8.3	7.0	
DOS	8	12	16	20	23	26	
Net Additions	2	4	4	4	3	3	
Asia&Rest of World	77.8	99.1	129.9	163.1	185.4	205.2	20.1
Sales growth (%)	14.0	27.3	31.2	25.6	13.6	10.7	
Like-for-like growth (%)	19.0	13.5	10.8	8.6	6.9	5.5	
Additional growth (%)	25.1	22.0	20.4	16.9	6.7	5.1	
DOS	38	46	55	64	72	79	
Net additions	7	8	9	9	8	7	
Group DOS	107	129	151	172	190	207	
Net additions	24	22	22	21	18	17	

E: estimates; Source: Company data and Intesa Sanpaolo Research

In our assumptions, we factored-in management's strategic plans for retail in the next few years as follows:

- A specific focus on mono-brand openings, mainly in Asian countries with some expansion in Europe;
- Effective format, with a store size of 150-250 sqm;
- Financial budget of new stores to allow them to be profitable a year after opening, in line with the past.

Overall, on the back of the above strategy, we assume a further significant increase in the weighting of the retail distribution for the Moncler brand.

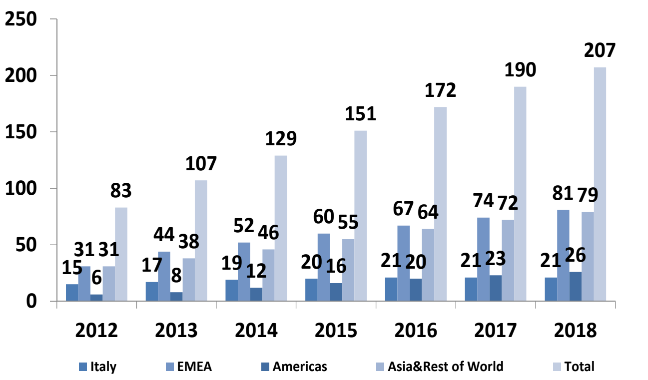
Moncler – Estimated channel development (2013E-18E)

EUR M	2013E	2014E	2015E	2016E	2017E	2018E	% 2010/12A CAGR	% 2012/17E CAGR
DOS (inc. outlet & E-com)	330.1	413.3	505.9	599.5	665.3	726.1	81.8	19.3
Growth rate (%)	31.3	25.2	22.4	18.5	11.0	9.1		
% on sales	57.4	61.3	65.0	67.8	69.1	70.0		
No. of DOS	107	129	151	172	190	207		
Avg. sales per DOS	3.5	3.5	3.6	3.7	3.7	3.7		
Growth rate (%)	-0.5	0.8	3.2	2.7	-1.0	-0.5		
Sales/sqm (k EUR)	32.4	29.8	28.9	28.4	27.3	26.5		
Growth rate (%)	-15.7	-8.0	-3.0	-1.7	-4.0	-2.9		
EBITDA DOS	115.4	143.0	173.3	205.0	223.5	238.9	80.5	17.6
Margin (%)	35.0	34.6	34.3	34.2	33.6	32.9		
Net additions	24	22	22	21	18	17		
DOS @ BEP hp. 1.5Y	72	95	118	140	162	181	44.2	23.9
% DOS@BEP	67	74	78	81	85	87		
Wholesale	245.2	260.7	272.9	284.5	297.6	311.4	7.3	4.6
Growth rate (%)	3.2	6.3	4.7	4.3	4.6	4.6		
% on sales	42.6	38.7	35.0	32.2	30.9	30.0		
No. of doors	1825	1780	1745	1710	1690	1670		
Avg. sales per door	0.13	0.14	0.15	0.16	0.18	0.19		
Growth rate (%)	7.7	9.8	7.1	6.4	6.3	5.9		
EBITDA wholesale	72.1	77.1	79.8	83.6	85.4	87.0	6.4	3.4
Margin	29.4	29.6	29.2	29.4	28.7	28.0		
EBITDA P&L	187.5	220.1	253.0	288.7	309.0	325.9	33.5	12.4

A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

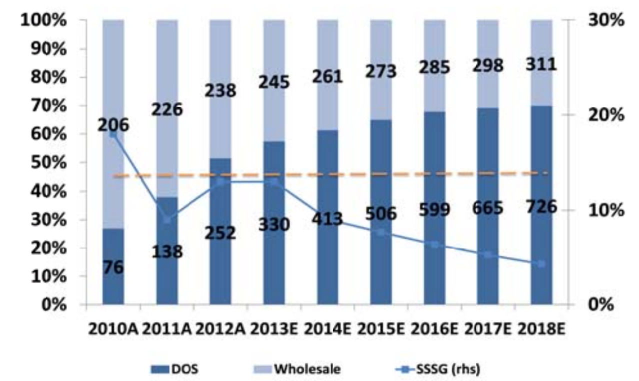
Thus, we assume net additions of 20+ new DOS per year (maintaining the investment activity at the same level of the past years as outlined in management's plan) and stabilising in 2017E-18E. We also assume a generalised stabilisation of the like-for-like sales growth in all regions, towards a sustainable mid single-digit, which is not far from the average sector annual price increase (we assume 5% as a sector standard). Moreover, we forecast a further selective reduction of server doors at the wholesale level, stabilising in 2017E.

Moncler – DOS development assumptions (2012A-18E)



A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

Moncler – Sales & lfl development assumptions (2010A-18E)



A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

We also considered a gross selling space enlargement, as the group intends to fully exploit the apparel and accessory products in its Moncler shops, with a related increase in required space, which should lead to an average DOS size of approx. 140 sqm in 2018E vs. the current estimated 91 sqm. Overall, considering a limited scope to increase the brand awareness for the main outerwear products coupled with a lower average price for new product categories, we assume a declining average sales/sqm going forward and a stable average sales per DOS at EUR 3.6/3.7M, with total selling space moving from the current estimated 7,550 sqm to 28.5k sqm in 2018E. Given management's increased focus on smaller locations in the main new shopping malls, we assume a slightly reduced enlargement pace.

Moncler – Selling space (as at Sept. 2013)			
Store	Units	%	Avg. Sqm
Urban	64	65	90
Ski resort	15	15	70
Flagship	7	7	180
Outlet	12	12	70
DOS	98	100	91

Source. Intesa Sanpaolo research estimates

Moncler – Selling space enlargement assumptions						
Sqm	2013E	2014E	2015E	2016E	2017E	2018E
Existing DOS #	83	83	83	83	83	83
Average existing	91	91	91	91	91	91
Additions #	24	46	68	89	107	124
Average additions	164	166	167	168	169	170
Average sqm	107	118	125	131	135	138

E: estimates. Source. Intesa Sanpaolo research estimates

On the wholesale side, given the ongoing selective clean-up of the channel, we view a mid single-digit increase in the delivered sales per door as a reasonable assumption, supported by the expected annual price increase and rising orders by selected best clients.

Profitability

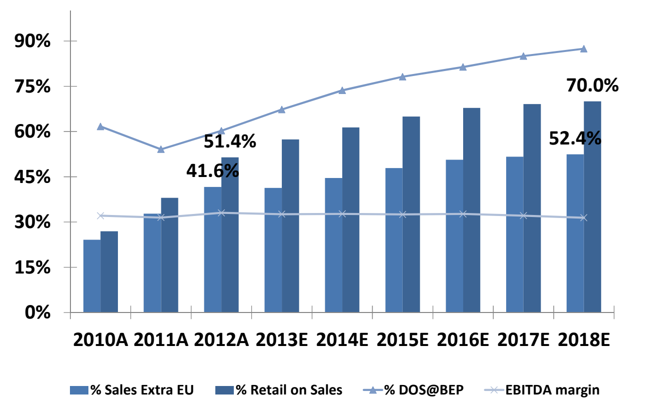
As stated, our profitability projections are based on the assumption of a progressive reduction towards a 'normal' consolidated mid single-digit lfl growth. On the margin side, based on the number of DOS openings expected in the coming years and assuming an average 1.5 years to reach breakeven (one year after opening, according to management), we expect the weighting of the less profitable shops to decline in the coming years. This should be supported by a calculated gross margin improvement (we highlight the 'no discount' policy adopted by the Moncler brand in recent years, which we expect to continue) with a general price positioning at the top-end of the reference market.

Moncler – Estimated gross margin expansion (2011A-18E)									
EUR M	2011A	2012A	2013E	2014E	2015E	2016E	2017E	2018E	2012-17E%
Cost of sales*	120.1	148.3	164.9	185.2	205.9	226.4	241.9	256.4	9.6
% on sales	33.0	30.3	28.7	27.5	26.4	25.6	25.1	24.7	
Average production cost (EUR)	132	143	148	153	159	164	170	176	3.5
Volumes	908,919	1,036,839	1,114,050	1,209,072	1,298,957	1,379,913	1,424,513	1,458,787	5.9
% Retail	38.0	51.4	57.4	61.3	65.0	67.8	69.1	70.0	
% Wholesale	62.0	48.6	42.6	38.7	35.0	32.2	30.9	30.0	
Avg. retail price (EUR)	647	673	700	732	764	799	835	872	4.4
Average wholesale price (EUR)	249	259	269	281	294	307	321	336	4.4
Avg. mark-up on production costs	3.0	3.3	3.5	3.6	3.8	3.9	4.0	4.0	4.0
Avg. selling price (EUR)	400	472	516	557	600	641	676	711	7.1
Group sales*	363.7	489.2	575.3	673.9	778.8	884.0	963.0	1037.5	13.3
Mark-up	3.0	3.3	3.5	3.7	3.8	3.9	4.0	4.0	3.5
Cost of sales	120.1	148.3	164.9	185.2	205.9	226.4	241.9	256.4	9.6
Gross profit*	243.7	340.9	410.4	488.7	572.9	657.5	721.0	781.1	14.8
Gross margin (%)	67.0	69.7	71.3	72.5	73.6	74.4	74.9	75.3	

Note: *data disclosed for 2011 and 2012; all other lines are Intesa Sanpaolo research estimates; A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

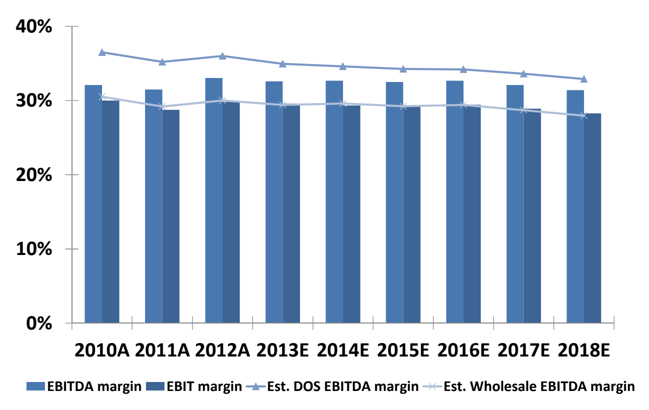
On the costs side, assuming slightly higher raw materials' inflation (a 3.5% increase per year) considering some emerging pressures both on feathers and cotton prices. Given the already well-developed outsourcing process, we assume there is limited room to increase profitability above the positive expected channel mix effect. However, we expect the EBITDA margin to stand largely steady at a best-in-class level going forward, benefiting from the positive geographical and distribution mix.

Moncler – Expected EBITDA drivers (2010A-18E)



A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

Moncler – Expected EBITDA margin by channel (2010A-18E)



A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

Cost of sales to increase at a slightly lower rate than sales

We expect the cost of sales' increase to be slightly less than sales (9.6% 2012A-18E CAGR with volumes +6% year-by year). As for the price of raw materials (nylon, feathers cotton, etc.), we do not see any specific problems on the supplier side in the coming years, with Moncler's market size helping to ensure substantial contractual power in this field. We also expect G&A costs to increase at a similar slower pace, benefiting from the higher percentage of fixed costs (11.6% 2012A-18E CAGR).

A&P costs weighting at 7% of sales

As for Advertising & Promotions, given the importance of communication in this sector, and due to the relatively limited size of Moncler's expenditures, our estimates assume an A&P cost weighting of at least 7% of sales. The demanding geographical expansion should be supported by a parallel increase in the current EUR 30M A&P budget, exceeding EUR 60M from 2016E (16.5% 2012A-18E CAGR).

Conservative stance on personnel costs

We took a similar conservative stance on the weighting of personnel costs. We based our estimates on the assumption of a similar salary policy around the world, with an increasing average salary in emerging markets, and on the fact that a good management of new DOS implies limited scope for a further reduction in the number of employees per shop. Assuming some 6/7 employees per DOS, we reach a total sales force of 1,450 units from the current approx. 600, for a total of 2,500 employees in 2018E. We assume that the average wage increases at a 2012A-18E CAGR of 4% with a hike of around 15% per year in the number of employees.

The selling space costs

Last but not least, the main impact on profitability comes from the selling space enlargement (24.8% 2012A-18E CAGR). Our key assumptions are maintained for a mix of higher tier-two town openings, thus with a rent per square metre stable at the current average of EUR 5,921, a level in line with the current worldwide average cost for prime locations in the main high streets.

Moncler – Estimated rental costs

Location	EUR/sqm
New Bond Street	7745
Oxford Street	5092
V. Montenapoleone	7214
V. Spiga	4986
C. Vitt.Emanuele	6790
V. Condotti	7108
Champs Elysees	7426
Rue F. St Honore	5092
Av. Montaigne	5092
Bahnhofstrasse	6365
Avg. Worldwide rents	6295

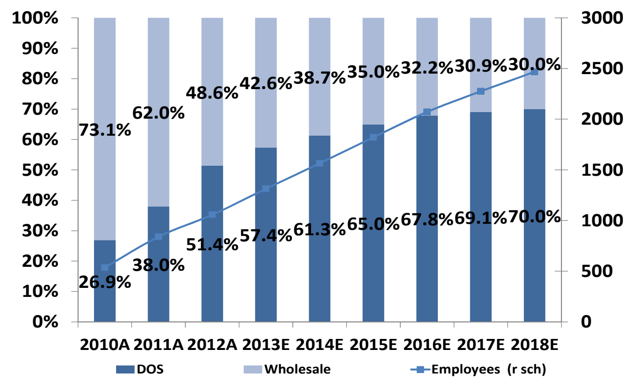
Source: Cushman & Wakefield

Moncler – Estimated rental trend (2012E-18E)

EUR M	2012E	2013E	2014E	2015E	2016E	2017E	2018E	12/18
Rents	44.7	68.0	89.8	111.7	133.0	151.4	169.1	24.8
% on Sales	9.1	11.8	13.3	14.3	15.0	15.7	16.3	
Growth %	90.2	52.1	32.0	24.5	19.0	13.9	11.7	
Rent/sqm	5921	5921	5921	5921	5921	5921	5921	0.0
Avg. smq	91	107	118	125	131	135	138	5.2
Rent x DOS (KEUR)	539	636	696	740	773	797	817	7.2
DOS	107	129	151	172	190	207	144	
Tot selling space	7550	11486	15163	18872	22457.5	25579.5	28568	24.8

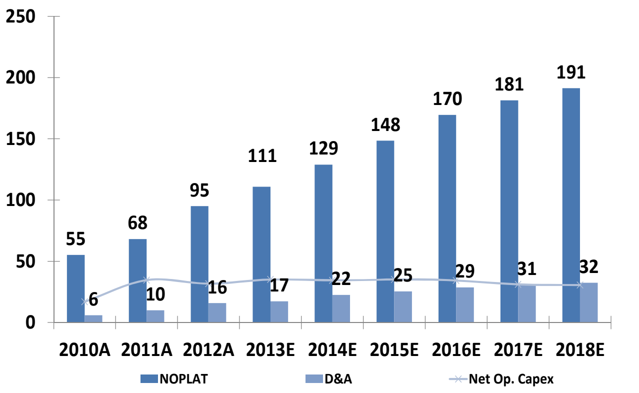
E: estimates; Source: Intesa Sanpaolo Research

Moncler – Distribution development & employees (2010A-18E)



A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

Moncler – Expected capex activity (EUR M) (2010A-18E)



A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

To sum up, we expect an EBITDA margin stable at 32% in the coming years, depreciation and amortisation to remain at a 3-4% ratio on the back of a limited capex absorbed by DOS and wholesale and corporate activities (level in line with the 2010A-12A weighting).

Capex

Bulk of capex in DOS expansion

As stated, Moncler plans to invest to expand its distribution capacity to exploit its competitive advantage and the expected growth in all its markets. This is the distinctive feature at this stage of Moncler's development. Clearly, the bulk of capital expenditure is to be slated for the DOS openings (EUR 140M in 2013E-17E, according to our calculations) at an increasing cost vs. the past considering management's goal to improve the stores appeal.

Moncler – Expected capex breakdown (2013E-18E)

EUR M	2013E	2014E	2015E	2016E	2017E	2018E
Wholesale	1.8	1.8	1.8	1.7	1.8	1.8
Retail	30.3	28.6	29.2	28.4	25.1	24.4
per DOS	1.26	1.30	1.33	1.35	1.40	1.44
Others	3.0	4.0	4.1	4.1	4.2	4.3
Total	35.1	34.7	34.3	34.3	31.1	30.5

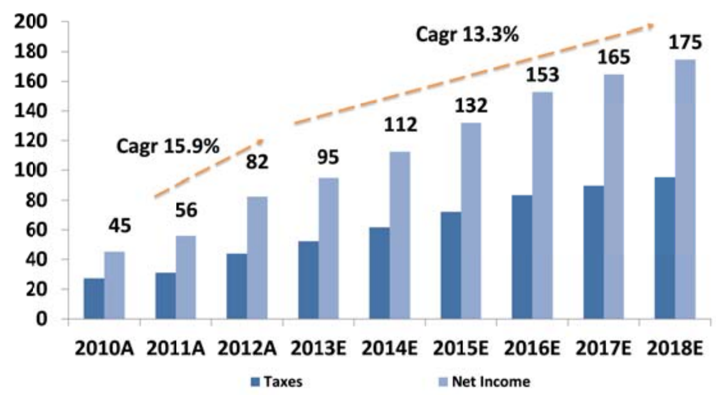
E: estimates; Source: Intesa Sanpaolo Research

Bottom line

Net income CAGR of 13.3% in 2012A-18E

We expect financial charges on debt to be approx. EUR 22M in the next few years, with gross debt assumed to be around EUR 324M and an average cost of 7%. Conservatively, also considering the expected increase in the 'Asian low-tax' business (with a corporate tax rate ranging from 16% in Hong Kong to 25% in China), we rounded the normalised tax rate to 35% in the estimated period. Subsequently, we calculate a net income CAGR of 13.3% in 2012A-18E in line with the sales growth pace.

Moncler – Net income and taxes (EUR M) (2010A-18E)



A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

Cash flow

For our estimated period, we expect an increase in cash flow, assuming that the operating working capital/sales ratio is slightly higher than in the past (on average at 10% in the estimated period). We did not consider any scope for improvements related to a further inventory optimisation and the increase of cash as a result of a higher percentage of retail activity in the distribution network. Management has already successfully reduced its ONWC/turnover to a solid level compared with sector peers and intends to increase the speed of serving clients and stores, thus a higher inventory weighting is expected to characterise the operating activity.

Moncler – Expected ONWC needs (2013E-18E)

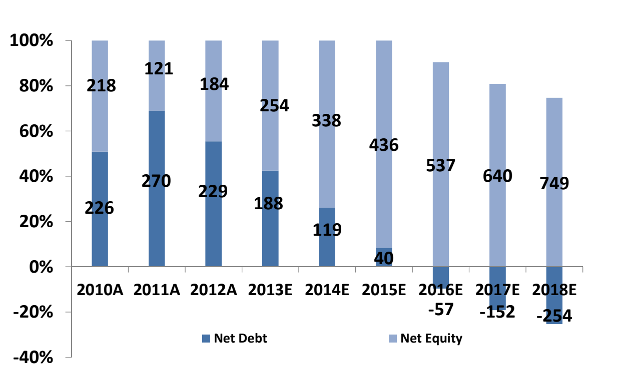
EUR M	2013E	2014E	2015E	2016E	2017E	2018E
Inventory days	160	170	185	188	188	188
Receivable days	54	56	58	58	58	58
Payable days	96	97	98	99	95	90
ONWC	51.0	63.2	80.3	88.0	99.6	113.6
% of sales	8.9	9.4	10.3	10.0	10.3	11.0

E: estimates; Source: Intesa Sanpaolo Research

Scope to improve return on capital employed

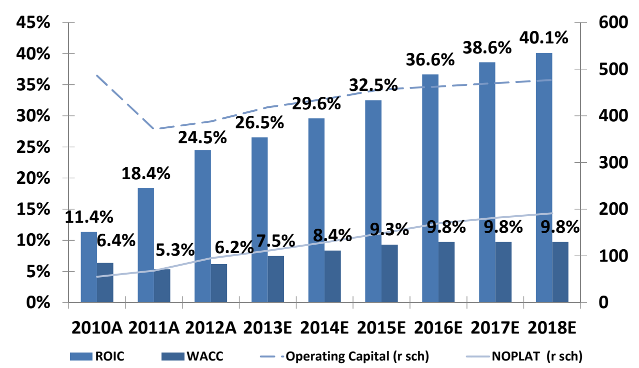
At the bottom line, we expect the flows generated to be sufficient to self-finance investments and gradually increase available cash and asset reserves for the future years. According to our estimates, we see scope for a further improvement in the return on capital employed and to offer a dividend pay-out in line with competitors (a 30/40% ratio in our assumptions).

Moncler – NFP/equity (EUR M) (2010A-18E)



A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

Moncler – Residual income value (2010A-18E)



A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

Our conclusion is for a steady increase in market share, mainly through an increasing number of profitable DOS, which should offer a significant return on planned investments and employed capital.

Moncler - Key figures					
			Ordinary		Rating
Sector	Branded Goods	Mkt price EUR/Share	14.28		**HOLD**
REUTERS CODE	MONC.MI	Target price EUR/Share	13.30		
Values per share (EUR)	2011A	2012A	2013E	2014E	2015E
No. ordinary shares (M)	250.00	250.00	250.00	255.56	255.56
No. NC saving/preferred shares (M)	-	-	-	-	-
Total no. of shares (M)	250.00	250.00	250.00	255.56	255.56
Adj. EPS	0.23	0.33	0.38	0.44	0.52
CFPS	0.26	0.39	0.45	0.53	0.62
BVPS	0.49	0.74	1.02	1.32	1.71
Dividend Ord	0.60	0.10	0.11	0.13	0.21
Dividend SAV Nc	-	-	-	-	-
Income statement (EUR M)	2011A	2012A	2013E	2014E	2015E
Sales	363.7	489.2	575.3	673.9	778.8
EBITDA	114.5	161.6	187.5	220.1	253.0
EBIT	104.6	145.7	170.1	197.7	227.7
Pre-tax income	89.3	128.7	149.2	176.8	207.3
Net income	55.9	82.5	94.7	112.4	132.0
Adj. net income	57.8	82.5	94.7	112.4	132.0
Cash flow (EUR M)	2011A	2012A	2013E	2014E	2015E
Net income before minorities	58.3	84.8	96.9	115.1	135.1
Depreciation and provisions	9.9	15.8	17.3	22.4	25.3
Change in working capital	87.9	-9.3	-14.1	-6.8	-14.2
Operating cash flow	156.2	91.4	100.1	130.8	146.2
Capital expenditure	-23.8	-34.7	-35.0	-34.7	-34.3
Other (uses of Funds)	84.2	129.8	0.8	0.9	1.3
Free cash flow	216.5	186.5	66.0	97.0	113.2
Dividends and equity changes	-75.5	-150.0	-24.7	-28.4	-33.7
Net cash flow	141.0	36.5	41.2	68.6	79.5
Balance sheet (EUR M)	2011A	2012A	2013E	2014E	2015E
Net capital employed	394.3	420.9	451.3	468.8	489.9
of which associates	-	-	-	-	-
Net debt/-cash	270.2	229.1	187.9	119.3	39.8
Minorities	2.8	7.5	9.2	11.3	13.7
Net equity	121.3	184.3	254.2	338.2	436.4
Market cap	3,570.0	3,570.0	3,570.0	3,649.3	3,649.3
Minorities value	-	-	-	-	-
Enterprise value (*)	3,840.2	3,799.1	3,757.9	3,768.6	3,689.1
Stock market ratios (x)	2011A	2012A	2013E	2014E	2015E
Adj. P/E	61.8	43.3	37.7	32.5	27.7
P/CEPS	54.2	36.3	31.9	27.1	23.2
P/BVPS	29.4	19.4	14.0	10.8	8.4
Dividend yield (% ord)	4.2	0.7	0.8	0.9	1.4
Dividend yield (% sav)	-	-	-	-	-
EV/sales	10.6	7.8	6.53	5.59	4.74
EV/EBITDA	33.5	23.5	20.05	17.12	14.58
EV/EBIT	36.7	26.1	22.09	19.06	16.20
EV/CE	9.7	9.0	8.33	8.04	7.53
D/EBITDA	2.4	1.4	1.00	0.54	0.16
D/EBIT	2.6	1.6	1.10	0.60	0.17
Profitability & financial ratios (%)	2011A	2012A	2013E	2014E	2015E
EBITDA margin	31.5	33.0	32.6	32.7	32.5
EBIT margin	28.7	29.8	29.6	29.3	29.2
Tax rate	34.7	34.1	35.0	34.9	34.8
Net income margin	15.4	16.9	16.5	16.7	16.9
ROE	46.1	44.8	37.2	33.2	30.2
Debt/equity ratio	2.2	1.2	0.7	0.3	0.1
Growth (%)		2012A	2013E	2014E	2015E
Sales		34.5	17.6	17.1	15.6
EBITDA		41.1	16.0	17.4	15.0
EBIT		39.4	16.7	16.2	15.2
Pre-tax income		44.1	15.9	18.5	17.3
Net income		47.5	14.8	18.8	17.4
Adj. net income		42.7	14.8	18.8	17.4

(*) EV = Mkt cap+ Net Debt + Minorities Value - Associates A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

Notes

Notes

Notes

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Equity rating key (long-term horizon: 12M)

Long-term rating	Definition
BUY	If the target price is 20% higher than the market price
ADD	If the target price is 10%-20% higher than the market price
HOLD	If the target price is 10% below or 10% above the market price
REDUCE	If the target price is 10%-20% lower than the market price
SELL	If the target price is 20% lower than the market price
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MARKET PRICE	Closing price on the day before the issue date of the report, as indicated on the first page, except where otherwise indicated

Historical recommendations and target price trends (long-term horizon: 12M)

Target price and market price trend (-1Y)	Historical recommendations and target price trend (-1Y)
INITIATION OF COVERAGE	INITIATION OF COVERAGE

Equity rating allocations (long-term horizon: 12M)

Intesa Sanpaolo Research Rating Distribution (at February 2014)

Number of companies considered: 83	BUY	ADD	HOLD	REDUCE	SELL
Total Equity Research Coverage %	29	35	31	2	2
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Equity rating key (short-term horizon: 3M)

Equity rating key (short-term horizon: 3M)	
Short-term rating	Definition
LONG	Stock price expected to rise or outperform within three months from the time the rating was assigned due to a specific catalyst or event
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