BRYAN, GARNIER & CO

INDEPENDENT RESEARCH

2nd May 2016

Luxury & Consumer Goods

Moncler

Good protection from chilly conditions

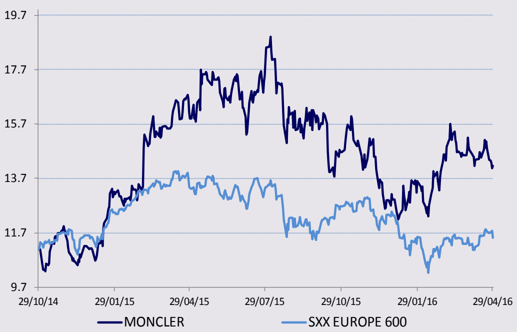
Fair Value EUR17 (price EUR14.06)

BUY

Coverage initiated

Bloomberg	MONC IM
Reuters	MONC.MI
12-month High / Low (EUR)	18.9 / 12.2
Market capitalisation (EURm)	3,517
Enterprise Value (BG estimates EURm)	3,472
Avg. 6m daily volume ('000 shares)	1 386
Free Float	52.6%
3y EPS CAGR	10.3%
Gearing (12/15)	9%
Dividend yields (12/16e)	1.21%

YE December	12/15	12/16e	12/17e	12/18e
Revenue (EURm)	880.39	978.08	1,081	1,181
EBIT(EURm)	252.68	282.56	311.81	340.95
Basic EPS (EUR)	0.66	0.74	0.82	0.91
Diluted EPS (EUR)	0.69	0.75	0.84	0.92
EV/Sales	4.05x	3.55x	3.11x	2.74x
EV/EBITDA	11.9x	10.5x	9.2x	8.1x
EV/EBIT	14.1x	12.1x	10.6x	9.4x
P/E	20.5x	18.6x	16.8x	15.3x
ROCE	40.9	42.8	45.2	47.8



We are initiating coverage of Moncler with a Buy recommendation and FV of EUR17. Over 2016-18, the group should post strong momentum in a luxury sector showing signs of a slowdown (average organic growth of ~10% vs. ~4% for our luxury sample) thanks to the dynamic outerwear segment, the strength of the group's brand and its upscale positioning and know-how in retail expansion. The share is trading on 2016e EV/EBIT of 12.1x, in line with the sector.

- Under the impetus of Remo Ruffini, the group's Chairman and CEO since 2003, Moncler has succeeded its shift into luxury and fashion and now dominates the high end outerwear segment (85% of sales). The group's track record speaks for itself. Between 2011 and 2015, sales and EPS rose by an average of 25% and 43% respectively, whereas adjusted EBITDA margin totalled 33.8% in 2015, more than 12 points higher than Burberry. These performances were partly driven by the rapid and successful expansion in retail (70% of 2015 sales vs. 38% in 2011).
- Moncler relies on its heritage and strong legitimacy to outperform the highly fragmented and fairly dynamic outerwear segment (+5%/year). Sales growth is above all set to be driven by the group's excellent control of the retail channel as shown by its sales per square metre of around EUR30k, one of the highest ratios in the sector. Retail should account for 77%e of 2018e sales (vs. 70% in 2015), while other catalysts are the rising momentum (cautious) of new categories (knitwear, accessories and footwear) and new circuits (travel retail and online).
- **In our view, Moncler's growth story is set to be written by sales** (2015-18e CAGR of around 10%) since **we expect a stable adjusted EBITDA margin** over 2016-18, albeit still at a high level (33.8%). Indeed, gross margin widening, driven primarily by the rising weight of retail, is likely to be wiped out by higher market and G&A expenses as the group continues to structure itself.
- Our EUR17 FV is obtained via a DCF valuation (WACC of 8.3%, growth to infinity of 2.5%).

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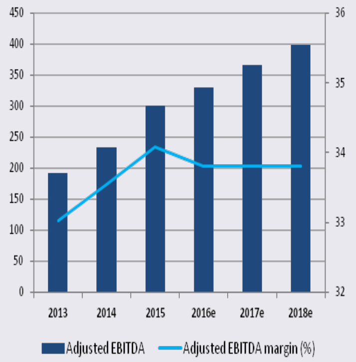

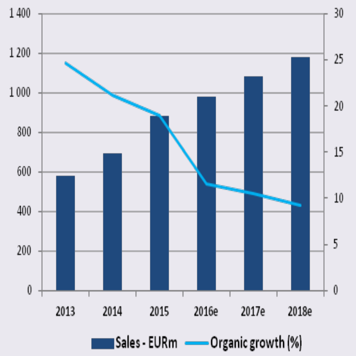

Company description

Moncler was founded in France in 1952 at Monestier-de-Clermont ('Moncler') and specialised in the creation of down jackets and outerwear. In 2003, Moncler was bought out by Remo Ruffini, who has undertaken its transformation into a more fashionable and upscale brand. In 2015, Moncler had sales of EUR880m (+19% FX-n) spread between four regions: Italy (16%), Europe excl. Italy (30%), Asia & RoW (38%) and the Americas (16%). Thanks to an active policy in terms of store openings, the retail segment accounted for 70% of sales in 2015 vs. 38% in 2011. The group's growth strategy is based on selective openings (around 15 DOS per year), development of new categories (knitwear, accessories and footwear) and new distribution circuits (travel retail, department stores, online) and penetration of new countries (Sweden, Australia, Dubai etc.). After the IPO in Milan in December 2013, the two key shareholders remain Mr Ruffini (31.9% of the capital) and Eurazeo (15.5%), with free float currently at approx. 53%.

Income Statement (EURm)	**2013**	**2014**	**2015**	**2016e**	**2017e**	**2018e**
Revenue	581	694	880	978	1,081	1,181
Change (%)	*18.7%*	*19.6%*	*26.8%*	*11.1%*	*10.5%*	*9.2%*
Change LFL (%)	*-%*	*-%*	*-%*	*-%*	*-%*	*-%*
Gross Profit	414	502	655	731	810	887
Adjusted EBITDA	192	233	300	331	365	399
EBIT	166	202	253	283	312	341
Change (%)	*14.2%*	*21.1%*	*25.4%*	*11.8%*	*10.4%*	*9.3%*
Financial results	(21.2)	(6.1)	(5.8)	(2.0)	0.0	2.0
Pre-Tax profits	145	195	247	281	312	343
Tax	(50.8)	(65.4)	(83.1)	(95.4)	(106)	(117)
Minority interests	(2.3)	0.23	(0.05)	0.0	0.0	0.0
Net profit	76.1	130	164	185	206	226
Change (%)	*164%*	*71.3%*	*25.7%*	*13.1%*	*11.1%*	*10.0%*
Cash Flow Statement (EURm)						
Operating cash flows	135	162	206	230	254	277
Change in working capital	10.1	50.4	7.2	16.0	17.6	18.0
Capex, net	34.3	50.2	67.7	58.7	59.5	59.0
Financial investments, net	(2.0)	(0.66)	(1.5)	0.98	1.1	1.2
Dividends	2.3	28.6	30.5	35.0	42.6	51.4
Other	31.0	(26.1)	40.2	25.0	25.0	25.0
Net debt	171	111	49.6	(44.9)	(154)	(276)
Free Cash flow	90.3	61.8	131	155	177	200
Balance Sheet (EURm)						
Cash & liquid assets	105	123	149	243	352	475
Other current assets	217	249	249	278	308	339
Tangible fixed assets	58.2	77.3	102	118	129	135
Intangible assets	253	259	268	268	268	268
Other assets	192	219	244	244	244	244
Total assets	826	927	1,012	1,151	1,301	1,461
LT & ST debt	276	235	198	198	198	198
Other liabilities	239	272	267	280	293	306
Shareholders' funds	311	421	547	673	810	957
Total liabilities	826	927	1,012	1,151	1,301	1,461
Capital employed	513	589	637	668	697	721
Financial Ratios						
Gross Margin (% of sales)	71.32	72.27	74.39	74.70	74.90	75.10
Adjusted EBITDA margin (% of sales)	33.02	33.54	34.08	33.80	33.80	33.80
EBIT margin (% of sales)	28.66	29.03	28.70	28.89	28.84	28.88
Tax rate	34.99	33.44	33.64	34.00	34.00	34.00
Net Margin	13.10	18.78	18.60	18.93	19.03	19.17
ROE (after tax)	24.74	31.07	29.99	27.54	25.42	23.67
ROCE (after tax)	33.20	34.81	40.87	42.77	45.22	47.76
Gearing	55.08	26.43	9.07	(6.67)	(18.96)	(28.89)
Pay out ratio	32.86	23.02	21.37	23.00	25.00	25.00
Number of shares, diluted	250,000	250,000	250,000	250,000	250,000	250,000
Per share data (EUR)						
EPS	0.30	0.52	0.66	0.74	0.82	0.91
Restated EPS	0.39	0.53	0.69	0.75	0.84	0.92
% change	*-67.7%*	*38.8%*	*28.2%*	*10.0%*	*10.9%*	*9.8%*
BVPS	1.24	1.68	2.19	2.69	3.24	3.83
Operating cash flows	0.54	0.65	0.82	0.92	1.02	1.11
FCF	0.36	0.25	0.52	0.62	0.71	0.80
Net dividend	0.10	0.12	0.14	0.17	0.21	0.23

Source: Company Data; Bryan, Garnier & Co ests.

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1. Investment Case

Why the interest now?

The reason for writing now

Moncler still harbours very attractive growth potential since we are forecasting average organic growth of 10% over 2016-18 compared with ~4% for our sample, representing an outperformance of 2.5x. The group's heritage brand status, its upscale positioning and excellent track record in terms of retail development reduce Moncler's risk with 95% of sales generated in ready-to-wear.

Cheap or Expensive?

Valuation

Despite slightly higher sales and EPS estimates than the average of our luxury sample, the **Moncler share is trading in line with the sector average** (12.1x for 2016 EV/EBIT), **but is far more accessible than Italian peers** such as Brunello Cucinelli (21.9x), Ferragamo (13.0x) and Tod's (12.4x).

When will I start making money?

Catalysts

Moncler relies on its heritage and strong legitimacy to outperform in the highly fragmented and fairly dynamic outerwear segment (+5%/year). Sales growth (2015-18e CAGR: +10.3%) is set to be driven by: **1/** retail expansion (77% of 2018e sales vs. 70% in 2015), **2/** the cautious diversification into new categories (Knitwear, Accessories & Shoes) and **3/** the rising momentum of new circuits (Travel Retail, online). Note that **we are forecasting a stable adjusted EBITDA margin** over 2016-18, albeit at a very high level (33.8%) for a ready-to-wear player.

What's the value added?

Difference from consensus

Our 2016-18 estimates are on average 2% below the consensus and our EBITDA estimates are slightly more cautious than the consensus figures (-1% over the same period).

Could I lose money?

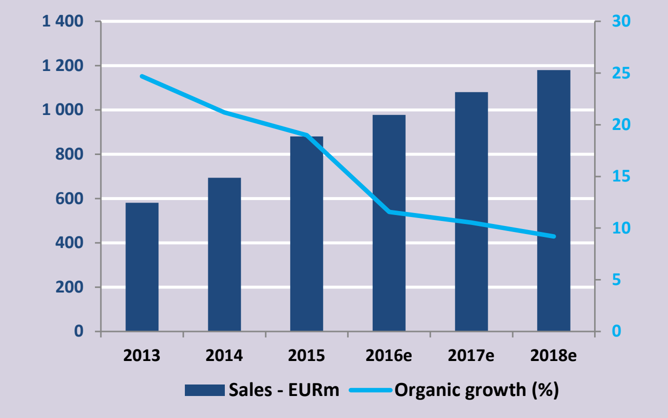
Risks to our investment case

We have identified four risks to our investment case: **1/** a loss of momentum in the outerwear segment which should provoke a slowdown in Moncler's growth (around 85% of sales), **2/** weather effects bearing in mind that Moncler derives around 75% of sales from the Fall/Winter collections, **3/** a new collection (around 70% of sales) that could go down badly with consumers and obviously **4/** the group's dependence on Remo Ruffini.

2. Moncler in six charts

Sales (EURm) and organic growth (%) over 2013-18e:

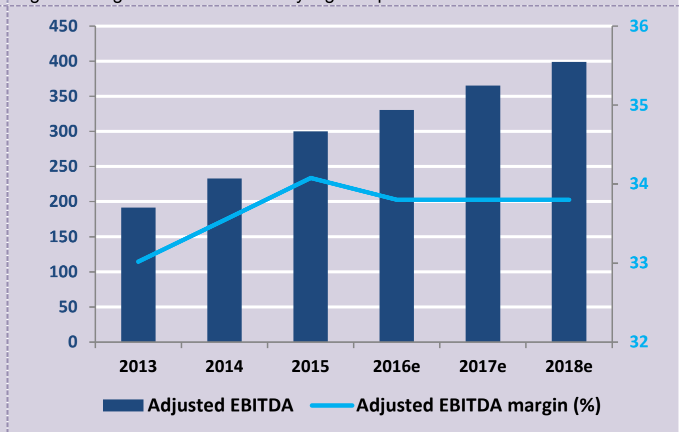
- Despite more normalised organic growth rates **Moncler should continue to outperform our luxury sample average by 2.5x** (~10% vs. 4%)



Source: Company Data, Bryan, Garnier & Co ests

Adjusted EBITDA (EURm) and margin (%) over 2013-18e:

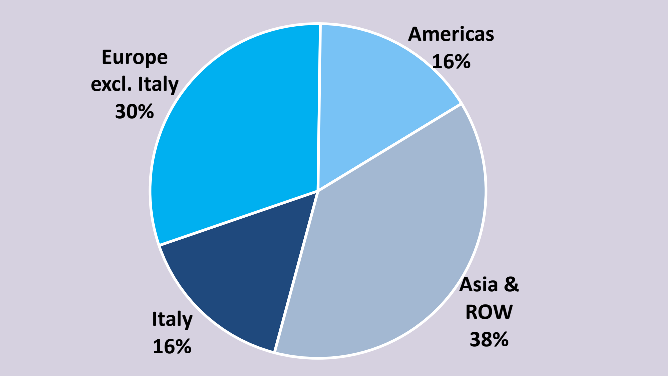
- On our estimates **the margin is set to be virtually stable** as further widening in gross margin should be offset by higher opex investments



Source: Company Data, Bryan, Garnier & Co ests

Sales breakdown by region (2015, %):

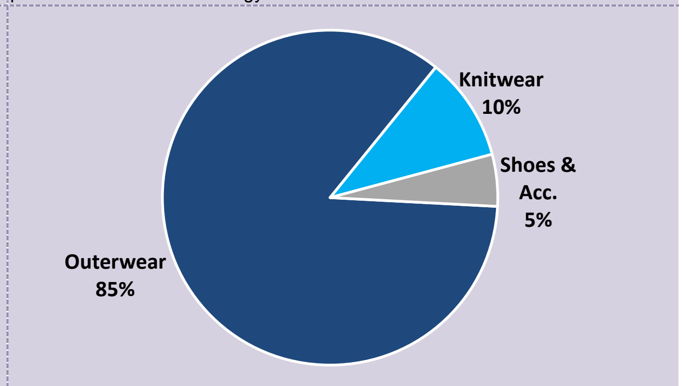
- **We estimate that Greater China became Moncler's biggest market** (~18% of sales) ahead of **Italy** (~16%), **Japan** and the **US** (~15% each)



Source: Company Data

Sales breakdown by category (2015, %):

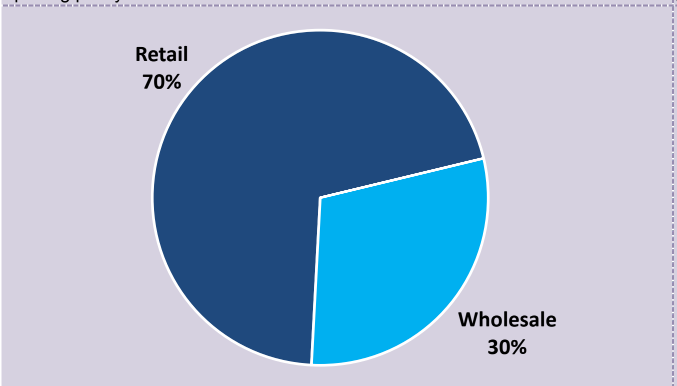
- **Outerwear remains Moncler's largest category** (~85% of sales) and in our view this split should not dramatically change in the MT given the group's prudent diversification strategy



Source: Bryan, Garnier & Co ests

Sales breakdown by channel (2015, %):

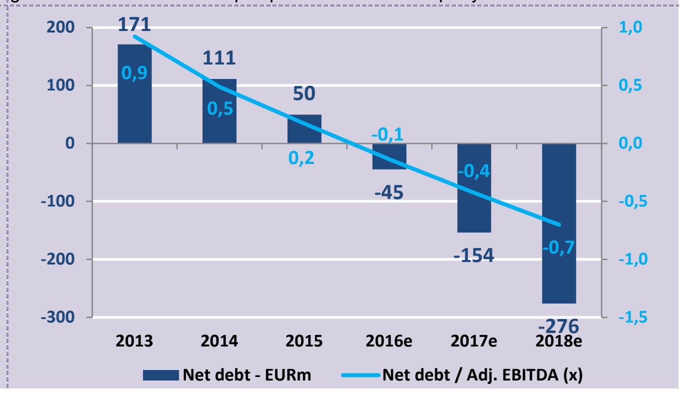
- **The Retail channel accounts for 70% of sales** thanks to an ambitious DOS-opening policy over 2010-15 and Moncler ran 173 DOS at end-2015



Source: Company Data

Net debt (EURm) and leverage ratio (x):

- **We expect the leverage ratio to improve continuously**, driven by high FCF generation and a limited capex plan of EUR55-60m per year



Source: Company Data, Bryan, Garnier & Co ests

3. Investment case summary

In our view, Moncler's growth story should above all be written by sales growth. However, we believe that Moncler should maintain its ability to generate far higher organic growth than the luxury sector average. This outperformance is based on: **(i)** solid fundamentals (strong legitimacy, high appeal and reputation), **(ii)** momentum in the outerwear segment and **(iii)** retail know-how that should help the group post same-store sales growth of 3-4% a year over 2016-18 on our estimates.

A high potential and very fragmented market. With sales of EUR880 in 2015, Moncler dominates the down jacket and outerwear segment, which is valued at more than EUR12bn. **According to Moncler, this outerwear segment posts average growth of 5% a year,** driven by innovation and the rising appeal with customers in both mature and emerging markets. Despite its global leadership, Moncler's market share only stands at 15% in Italy, is lower than 10% in France and the UK and is a mere 4% in the US! As such, growth potential remains considerable for the Italian brand.

Moncler makes the most of its strong credibility in outerwear. In 2003, under the impetus of the current shareholder and key shareholder (32% of the capital), Remo Ruffini, Moncler adopted its fashion and upscale image. The success of this repositioning lies in the brand's heritage and universe (mountain), which provides it two competitive advantages: **1/** a strong reputation with luxury clients looking for heritage brands such as this and **2/** an upscale image and significant pricing power limiting competition from affordable luxury and fast-fashion players.

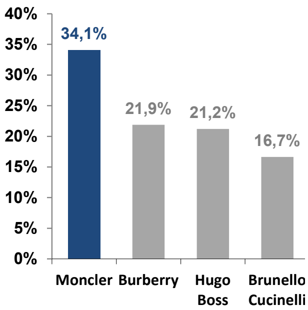
As the table below shows, Moncler should still grow 2.5x faster than the luxury sector average over 2016-18 (around 10% organic growth vs. around 4% for our luxury sample).

Fig. 1: 2016-18 organic growth: Moncler should continue to outperform the sector average:

Organic growth average (%)	2013-15	2016-18e
Moncler	~35	~10
Luxury sample	~10	~4
Outperformance (x)	**3.5**	**2.5**

Source: Company Data, Bryan, Garnier & Co ests

2015 adjusted EBITDA margin expected from groups exposed to ready-to-wear (%):

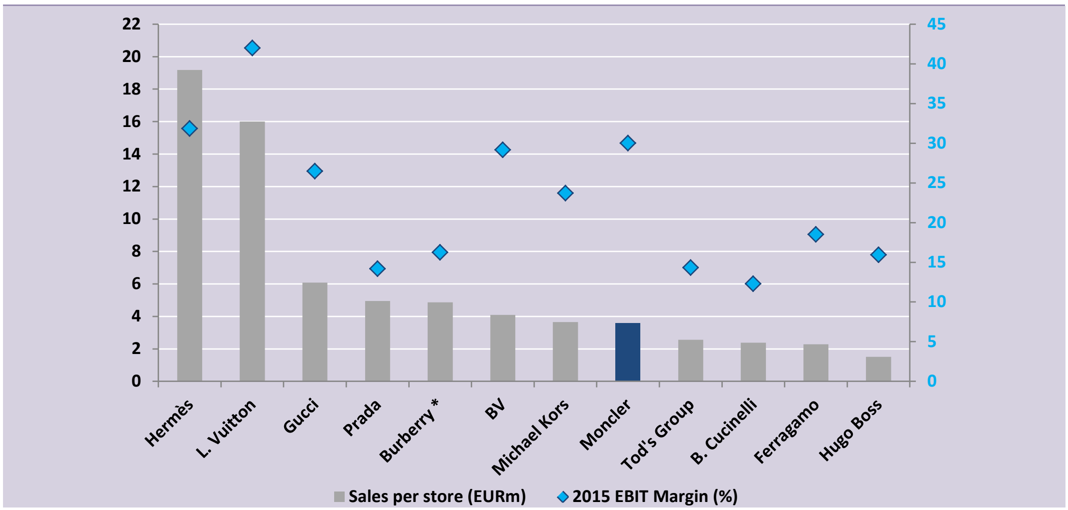


Note: Burberry (2015/16e)
Source: Company Data, IBES

The group should maintain its high margin level… Although Moncler derives almost 95% of its sales from ready-to-wear, it already boasts high profitability (2015: 34.1% of EBITDA margin and 30% of EBIT margin), as shown in the chart opposite. Faced with a return to normal same-store growth rates and investments in operating expenses (15 DOS openings a year, higher marketing and G&A costs), the group is set to rely on the rising weight of the retail segment (77% of 2018e sales vs. 70% in 2015) as well as control of store management.

… thanks to its "*Retail Excellence*". Indeed, despite the fairly recent expansion strategy in retail, Moncler has controlled it perfectly so far. With lower sales per store (EUR3.6m) than the sector average (EUR6m), Moncler has one of the highest sales/m² ratios in the sector (around EUR30k/m² (vs. ~EUR17k/m² for Burberry and EUR11k/m² for Hugo Boss) thanks to its fruitful initiatives to further improve performance indicators such as the conversion rate, Units Per Transaction (= average number of articles bought per consumer) and the average ticket.

Fig. 2: In 2015 Moncler had sales of EUR30,000/m²:



Note: BV = Bottega Veneta / Burberry: 2014/15 results *Source: Company Data, Bryan, Garnier & Co ests*

A high EBIT margin favours high FCF generation. Whereas we are forecasting a stable adjusted EBITDA margin over the 2016-18 period (33.8%e in 2018 vs. 34.1% in 2015), two other trends are set to help increase FCF generation:

(i) **Controlling change in WCR:** although 95% of sales are generated in ready-to-wear and 70% in new collections, the Italian brand manages its stocks efficiently (around 15% of 2015 sales vs. ~20% for Hugo Boss) thanks to the fairly low number of references. This good management is also felt in changes in WCR, which only accounts for 13% of sales compared with ~20% for the German group.

(ii) **A decline in capex as a percentage of sales:** at the Investor Day in December, management committed itself to a capex programme of around EUR55-60m a year over 2016-18, representing a gradual decline as a percentage of sales from 6% in 2016e to 5% in 2018e, after 7.7% in 2015. This capex is primarily set to be invested in opening 15 DOS a year, and the renovation/extension of a few existing stores every year.

As such, we are forecasting FCF generation of between EUR155m and EUR200m a year over the next three years.

Still attractively valued. The Moncler share is trading on 2016e EV/EBIT of 12.1x, in line with the average of our luxury sample, but with a 19% discount relative to the average of Italian midcaps (Brunello Cucinelli, Ferragamo, Moncler and Tod's). Based on a 2016-18e CAGR of around 11% for EBIT, Moncler is trading on an EV/EBIT to growth multiple of 1.1x, vs. 1.4x for our luxury sample average excluding Hermès.

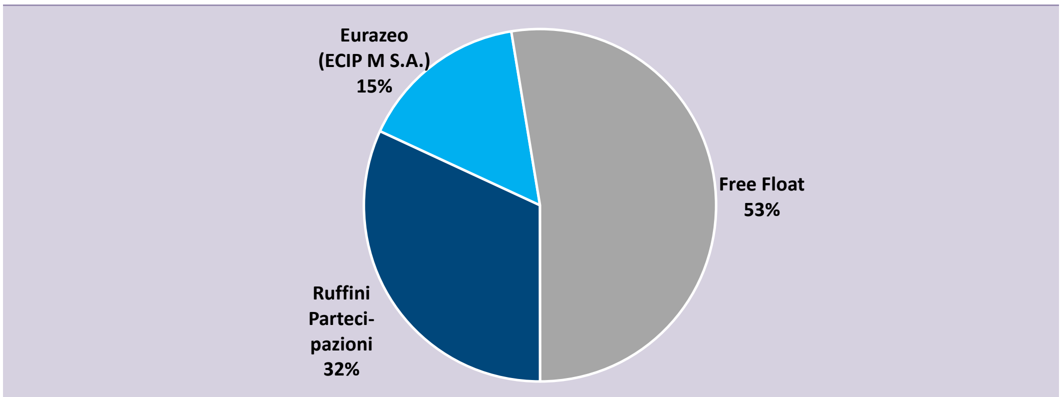
We are initiating coverage of Moncler with a FV of EUR17, obtained via a DCF valuation.

4. Valuation

4.1. Remo Ruffini still the group's key personality

Remo Ruffini has played a key and dominant role since his arrival as Creative Director in 1999, and since he bought the French brand in 2003. Following the IPO in December 2013, Eurazeo sold two thirds of its stake and the Carlyle and Mittel funds withdrew in 2014, leaving Remo Ruffini as the only reference shareholder with 32% of the capital.

Fig. 3: Moncler shareholding structure (at end-2015):



Source: Company Data; Bryan, Garnier & Co ests.

In addition to being Moncler's key shareholder, Remo Ruffini also has a central position in the group's operating management since he is Chairman, CEO and Artistic Director of Moncler!. Note that Mr Ruffini was at the root of the successful change in direction taken by the brand as of 2003, to move towards a more fashionable image, and above all, more upscale.

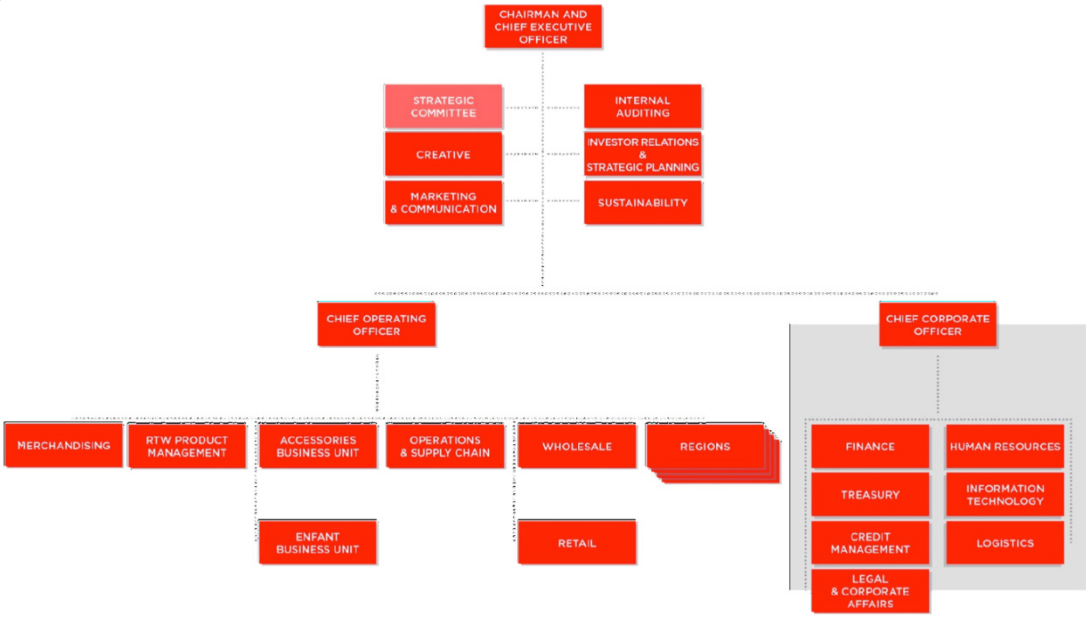
However, Mr Ruffini has also strengthened the group's structures in line with its growth. We would highlight two other key members of top-management (see organisational structure on the following page):

(i) **Roberto Eggs, Chief Operating Officer:** Roberto Eggs arrived in May 2015 to head up so-called Market functions (e.g. Retail, Wholesale, Supply Chain, etc.). Previously, Roberto Eggs was head of the EMEA region at Louis Vuitton (2009-15) after spending almost 17 years at Nestlé.

(ii) **Luciano Santel, Chief Corporate Officer:** Luciano Santel has headed central functions since September 2013, after occupying the same position at Geox (2001-09), and having directed Italian ready-to-wear brand Stefanel between 2009 and 2013.

Interestingly, the two distribution channels are directed by two historical figures at Moncler, namely **Andrea Tieghi**, who has been with the group for more than 12 years and supervises development in **Retail**, whereas **Wholesale** is directed by **Diego Baita**, present within the group for more than 10 years.

Fig. 4: Moncler organisational structure:



Source: Company Data

4.2. Valuation/growth ratio: advantage to Moncler

In our view, the elimination of this premium, especially in H2 2015, stemmed from investor fears concerning the negative impact of the mild winter on autumn/winter collections of groups exposed to clothing (Burberry, Hugo Boss, Moncler). For these groups, the impact actually turned out to be better than feared, as shown by the higher-than-expected 2015 earnings reported by Moncler.

The end to this premium and solid earnings prospects have a positive effect for the valuation/growth multiples set out in the two tables below. The **Moncler** share currently posts a 2016e EV/EBIT to growth multiple of 1.1x whereas the **luxury sector** is trading on an average of 1.4x (o/w 1.2x for **Tod's** and 1.3x for **Ferragamo**). The low CAGR at **Hugo Boss** stems from the plunge in margins expected in 2016 given the significant downturn in the premium ready-to-wear market in the US and China.

Fig. 5: Moncler EV/EBIT to growth multiple vs. luxury average:

Companies	2016e EV/EBIT (x)	2017e EV/EBIT (x)	EBIT CAGR 2015-2018e (%)	EV/EBIT to growth 2016e (x)	EV/EBIT to growth 2017e (x)
Brunello Cucinelli – Not covered	21.9	19.6	11	2.0	1.8
Moncler	12.1	10.6	11	1.1	1.0
Luxury average excl. Hermès	**12.3**	**11.0**	**9**	**1.4**	**1.3**
o/w Burberry – Not covered	*11.7*	*10.8*	*7*	*1.6*	*1.5*
o/w Ferragamo	*13.0*	*11.7*	*10*	*1.3*	*1.2*
o/w Hugo Boss	*10.4*	*9.1*	*1*	*ns*	*ns*
o/w Tod's Group	*12.4*	*10.9*	*10*	*1.2*	*1.1*

Source: Bryan, Garnier & Co ests, IBES

Moncler's 2016e PEG multiple is also lower than that of the **luxury sector** (1.6x vs. 1.8x on average for our luxury sample) and those of other Italian midcaps.

Fig. 6: Moncler PEG multiple vs. luxury average:

Companies	2016e P/E (x)	2017e P/E (x)	EPS CAGR 2015-2018e (%)	PEG ratio 2016e (x)	PEG ratio 2017e (x)
Brunello Cucinelli – Not covered	31.7	27.6	13	2.4	2.1
Moncler	18.6	16.8	11	1.6	1.5
Luxury average excl. Hermès	**18.7**	**17.1**	**10**	**1.8**	**1.6**
o/w Burberry – Not covered	*17.1*	*15.9*	*8*	*2.1*	*2.0*
o/w Ferragamo	*20.2*	*18.2*	*11*	*1.9*	*1.7*
o/w Hugo Boss	*13.8*	*12.3*	*3*	*ns*	*ns*
o/w Tod's Group	*19.7*	*18.4*	*12*	*1.7*	*1.6*

Source: Bryan, Garnier & Co ests, IBES

Note importantly that our 2016-18e CAGR estimates for EBIT and EPS depend almost exclusively on growth in sales (+10.3% over the same period), since we are forecasting virtually stable margins over the next three years.

4.3. Is there a risk of a downward revision to forecasts due to the apparel market?

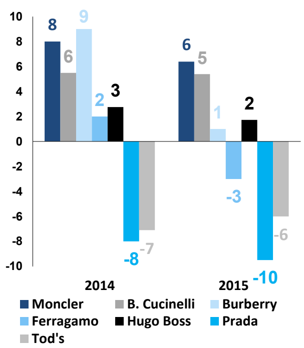
Recent publications have shown that the luxury market remains fragile with a slowdown in tourist flows in Europe, wait-and-see attitudes by US consumers and no clear improvement in Greater China. In addition, premium/luxury ready-to-wear groups have suffered especially from poor market conditions, as illustrated by the profit warnings from Ralph Lauren and Hugo Boss in February. In this context, why are we still confident in the outlook for Moncler? We have three main answers to this question:

(i) **A dynamic outerwear segment:** over 2011-15, the market rose by 5% on average to reach EUR12bn. This segment is still in the teething stages (around 10% of the ready-to-wear and accessories category) and benefits from its fashion image, frequent innovations and a rising appeal with emerging clients, whereas the level of maturity has not yet been reached in mature markets.

(ii) **A more resilient luxury position:** Moncler's strong legitimacy in outerwear lies in its heritage and its mountain universe, thereby providing it two advantages: **1/** a high reputation with luxury clients looking for this type of heritage brand, and **2/** an upscale image and significant pricing power which limit competition from accessible luxury and mass players (see chart below).

(iii) **A solid track-record in terms of operating management:** as the left-hand chart shows, Moncler posted the highest same-store growth in our sample over 2014-15 (+8% and +6% respectively). Moncler was even one of the rare groups in the sector to post a hike in profitability in 2015 (+60bp in adjusted EBITDA margin to 34.1%). **Despite the return to normal expected in 2016-18, we believe Moncler should be capable of maintaining higher than sector average growth.**

Moncler posted the highest same-store growth in 2013-14:



Source: Company Data, Bryan, Garnier & Co ests

Fig. 7: Main players in the read-to-wear/accessories category:

Source: Company Data; Bryan, Garnier & Co ests.

4.4. DCF: we calculate FV of EUR17

As mentioned in the section discussing our 2016-18 estimates, sales growth is set to be driven by: 1/ same-store growth of 3% in 2016, followed by 4% in 2017-18 and 2/ a positive surface effect prompted by the opening of around 15 new stores a year, without forgetting extensions in existing stores. We then gradually reduce this growth in sales to move towards our growth rate to infinity of 2.5%.

As the forecasts below show, Moncler's equity story is above all set to depend on sales growth rather than on margin widening, which we estimate at just 40bp to 29.8%, our normal average EBIT margin as of 2020.

The group's profitability is already one of the highest in the sector (2015 EBIT margin of 30% vs. 31.8% for Hermès), especially for a group generating almost 85% of its sales in the ready-to-wear category. As such, EBIT margins at Burberry (2014/15) and Hugo Boss are virtually 50% below those of the Italian group (respectively 16.3% and 15.9%). However, the return to normal same-store growth and the development of new categories with lower margins, could limit upside potential for margins.

In contrast, further development in the retail circuit (77% in 2018e vs. 70% in 2015), good management of operating costs and the rising momentum in emerging markets are all catalysts preventing fears of a significant downturn in medium-term profitability.

We estimate a cost of equity of 8.3% (risk-free rate of 1.6%, risk premium of 7% and beta of 0.95) and a cost of debt of 3%, pointing to WACC of 8.3%.

Fig. 8: DCF valuation:

EURm	2016e	2017e	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e
Net Sales	**978**	**1 081**	**1 181**	**1 275**	**1 377**	**1 474**	**1 562**	**1 640**	**1 706**	**1 757**
% change	*11,1%*	*10,5%*	*9,2%*	*8,0%*	*8,0%*	*7,0%*	*6,0%*	*5,0%*	*4,0%*	*3,0%*
Adjusted EBIT	288	317	346	377	410	439	465	489	508	524
Adjusted EBIT margin (%)	29,4%	29,3%	29,3%	29,6%	29,8%	29,8%	29,8%	29,8%	29,8%	29,8%
Income taxes	-95	-106	-117	-126	-137	-147	-156	-164	-170	-175
Tax rate (%)	34,0%	34,0%	34,0%	33,5%	33,5%	33,5%	33,5%	33,5%	33,5%	33,5%
Operating profit after taxes	**192**	**211**	**229**	**251**	**273**	**292**	**310**	**325**	**338**	**348**
+Depreciations	43	49	53	57	62	66	70	74	77	79
-Change in WCR	16	18	18	19	14	15	16	16	17	18
-Investments in fixed assets	59	59	59	57	62	66	70	74	77	79
Operating cash flow	**160**	**182**	**205**	**232**	**259**	**277**	**294**	**309**	**321**	**331**

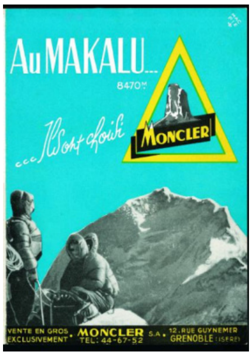
PV of terminal value	2,550
+PV of future cash flows (2016-25)	1,618
= Enterprise Value	**4,168**
Net debt (2016e)	-48
Other liabilities	12
Minority interest	1
Financial assets	46
Theoretical value of equity	**4,249**
Number of shares (m)	250
Theoretical FV per share (EUR)	**17**

Source: Bryan, Garnier & Co ests

5. Moncler: a luxury brand reaching for new heights

5.1. From mountain beginnings to luxury elite

Mountains are part of Moncler's DNA: (advertisement from the 1950s)



Source: Company Data

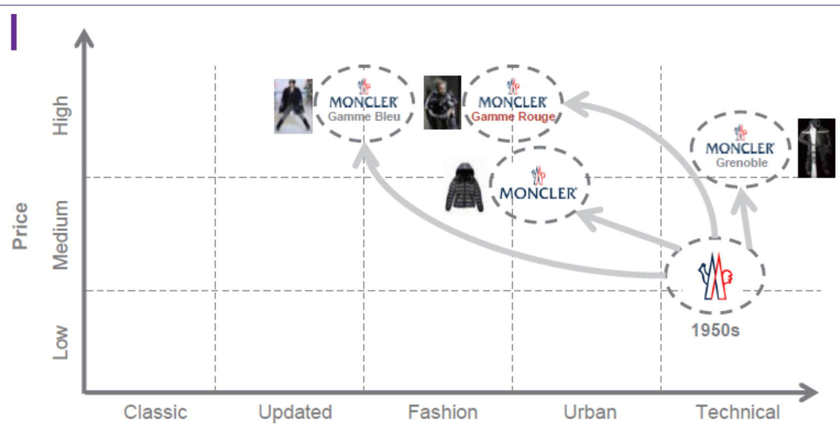
5.1.1. A mono-brand player with several product lines

Moncler took its name from the abbreviation for **Mon**estier-de-**Cler**mont, a village near Grenoble, where the brand was founded in 1952. At the outset, it made duvets and mountain tents, before developing its first down jacket in 1954. Its jackets became popular in the 1950s after being worn during expeditions and famous mountain ascents (K2, Makalu, etc.).

From its simple origins as a technical, sporty brand, Moncler morphed into a more fashionable label in the eighties, but it was the 2003 buyout by Remo Ruffini, who had joined the company as Creative Director in 1999, that launched the brand's ski-jump into the luxury fashion arena.

As the chart below shows, this shift to the high end of the market went hand in hand with the creation of a number of distinct collections (Gamme Rouge, Gamme Bleu, etc.) to cover different universes (urban, fashion, etc.) and expand the price range. All these product lines naturally channel the brand's mountain-born heritage and identity.

Fig. 9: Moncler's premiumisation strategy since 2003:



Source: Company Data, Bryan, Garnier & Co ests.

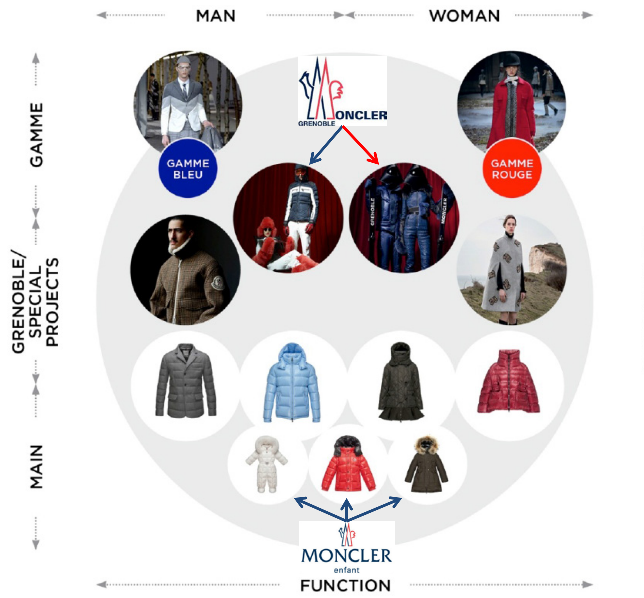
- **Gamme Rouge and Gamme Bleu** are the brand's two couture collections. Gamme Rouge (womenswear) was launched in 2006 and Gamme Bleu (menswear) in 2009. Each collection is overseen by a Creative Director - Giambattista Valli for Gamme Rouge and Thom Browne for Gamme Bleu - and presented on the catwalk during Fashion Weeks.
- **Grenoble:** this collection (for men and women), launched in 2010, covers the "technical" segment ingrained in the brand's heritage and is more of a sportswear line for the mountain sports market. Its price positioning is at the very top end of the market.
- **Special Projects:** Moncler collaborates with chosen designers to produce capsule collections. This secures its share of voice in fashion editorials while targeting a more fashion-forward or avant-garde clientele. Among others, it has worked with Pharrel Williams

and two Japanese creative directors (Hiroki Nakamura and Chitose Abe), given that the Japanese market accounts for around 15% of its sales.

- **Moncler's core products** are naturally centred on the down jacket, as outerwear represents 85% of sales versus 90% in 2012. This reduction reflects the successful diversification strategy rolled out in recent years, taking the brand into new product categories (shoes and accessories, ready-to-wear knitwear, eyewear) and spring/summer collections, which currently represent ~25% of sales;

- **Moncler Enfant:** since 1 January 2014, the kidswear collection has been managed in-house (it was previously handled by a 50/50 joint venture with Italian children's ready-to-wear specialist Altana), which will give the brand greater control over its development. For this purpose, Moncler plans to roll out its shop-in-shop concept, "Moncler Enfant" internationally (at end- 2015, it had nine shops-in-shops in Europe and two in Asia).

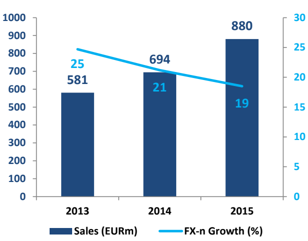
Fig. 10: The Moncler brand spread between several collections



Source: Company Data, Bryan, Garnier & Co ests.

5.1.2. Leader in a niche market: upscale outerwear

Moncler's sales and growth on constant currency (2013-15)

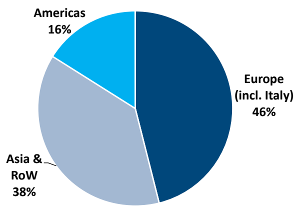


Source: Company Data

As shown in the chart opposite, Moncler enjoyed organic growth averaging 17% over 2013-15, clearly outstripping the upscale ready-to-wear category, which saw average same-currency growth of 4% over the same period. Moncler achieved this performance through sound same-store growth (+10% on average) coupled with its policy of opening new stores.

Building on its background and heritage, **Moncler operates in a niche market in the soft luxury sector: outerwear, valued at around EUR12bn (2011-15 CAGR: +5%)** and driven mainly by the Asia-Pacific region (excluding Japan) and North America. Moncler's upscale positioning and strong legitimacy in outerwear leave it well placed to withstand competition from "affordable luxury" brands and even the fast-fashion heavyweights (Uniqlo, Zara, etc.).

Moncler's sales by region in 2015 (%)

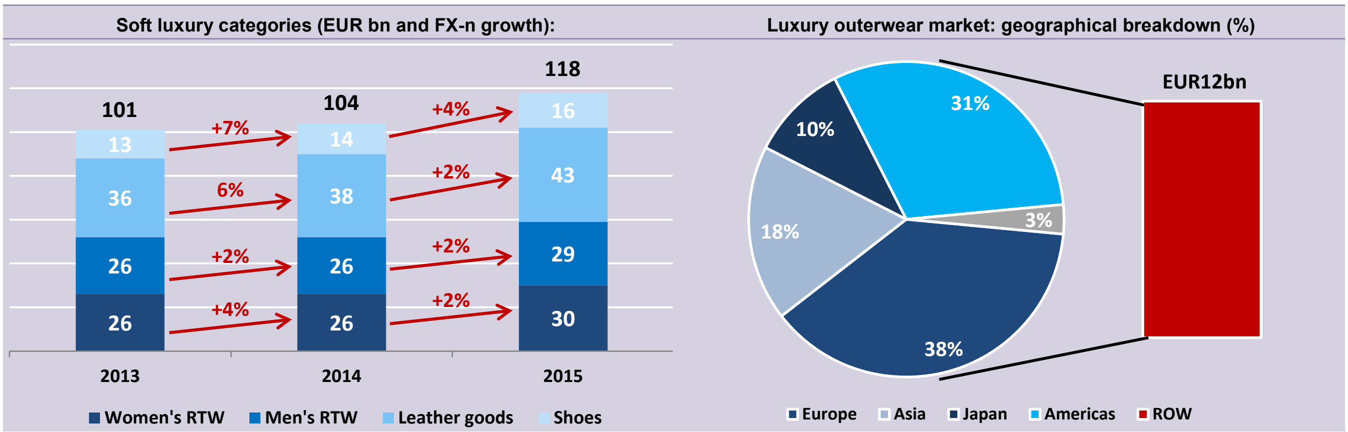


Source: Company Data

Looking at Moncler's 2015 sales breakdown versus that of the outerwear segment shown below, it is interesting to see that the Italian group is under-represented in the Americas (16% vs. ~31% for the segment). This is of course due to the preponderant weight of Europe (46% of Moncler's sales vs. 38% for the market), with Italy alone accounting for 16%.

At its Investor Day in December 2015, Moncler's management confirmed that it plans to pursue the brand's development in the **Americas**, opening a few more directly-operated stores in the US and Canada, where it currently has just two DOS. As with other ready-to-wear groups, collaboration with US department store chains (Neiman Marcus, Saks, etc.) is crucial. Finally, Moncler is considering a move into Mexico by 2018, although it has not yet decided which distribution channel will be targeted (stores or shops-in-shops in collaboration with local department store chains such as Liverpool and El Palacio de Hierro).

Fig. 11: Performance of upscale ready-to-wear versus outerwear market



Source: Altagamma, Bain & Company, Company Data, Bryan, Garnier & Co ests.

The brand's strong legitimacy and specific positioning in the soft luxury category is reflected in its average prompted awareness rate of 81% in the group's main markets. The table below shows that Moncler is the leader in **Italy** (15% market share) and no. 2 in **France** (9%). The group has also built up solid positions in **South Korea** (13%), **Japan** and **China** (10%).

Once again, Moncler's scant market share in the **UK** (6%), and especially the **US** (4%), shows that it still has strong growth potential in these markets.

Fig. 12: Moncler's market share and ranking in key markets

Country	Italy	Japan	China	France	UK	US
Market share	15%	10%	10%	9%	6%	4%
Ranking	No. 1	No. 3	No. 3	No. 2	No. 7	No. 7

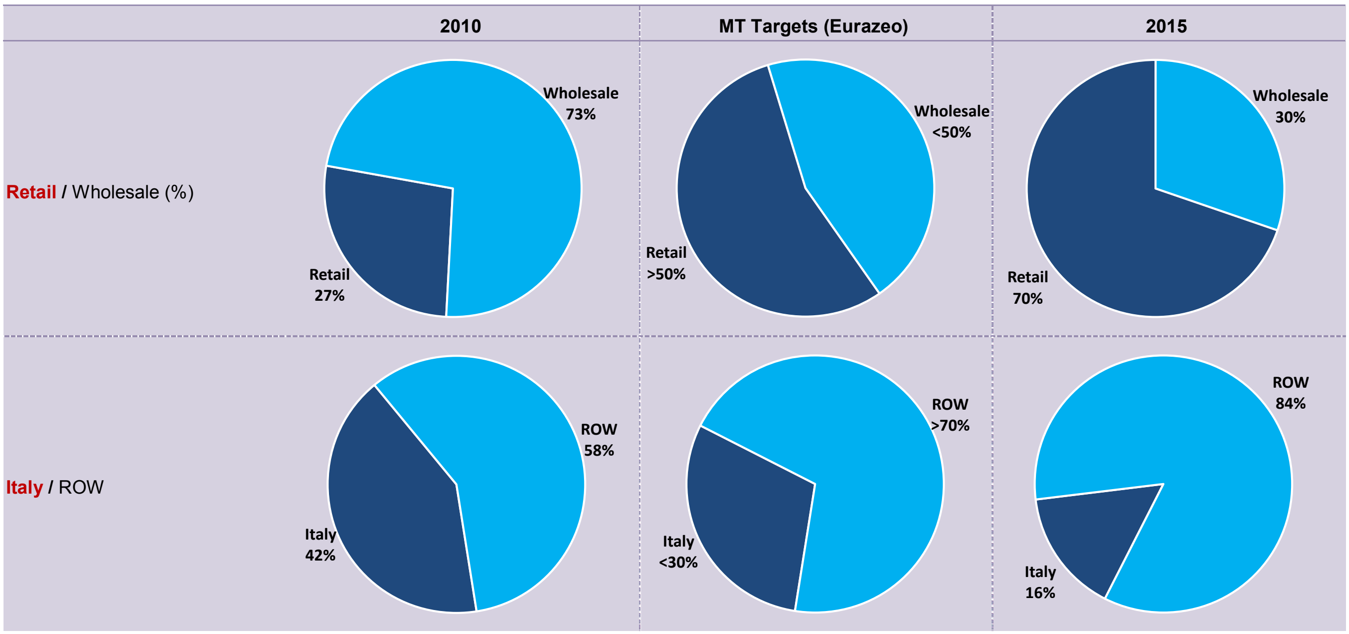
Source: Company Data

5.2. Fast but measured diversification

In 2010, Moncler's profile was much less diversified than in 2015 at every level: the wholesale channel represented 75% of sales, Italy accounted for no less than 42%, and the group was clearly a single-product player with outerwear bringing in ~90% of sales, its development in other categories (knitwear, shoes and accessories) having only just got underway.

At the time of the brand's June 2011 acquisition, Moncler and Eurazeo presented an ambitious mid-term diversification strategy. As shown below, the mid-term targets were exceeded.

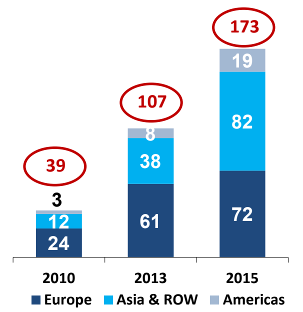
Fig. 13: Diversification strategy: mid-term targets surpassed:



Source: Company Data, Eurazeo

5.2.1. The retail channel made up 70% of 2015 sales

Number of DOS by region (2010-15):



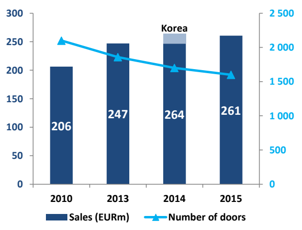
Source: Company Data

In 2010, the wholesale channel generated the lion's share of Moncler's business (73% of total sales), reflecting the group's presence in ready-to-wear, which requires a wider retailer network than other areas of the soft luxury market. This compares with 60% of sales generated via the wholesale channel at Hugo Boss and 83% at Brunello Cucinelli in 2010.

Since 2010, Moncler has implemented an ambitious store-opening policy in sync with its strategic upmarket shift and its aim to take firmer control of its distribution worldwide. Developments on this front have been swift, as shown in the chart opposite, with Moncler having 173 boutiques at end-2015 versus 107 in 2013 and 39 in 2010.

Unsurprisingly, the group's expansion was strongest in the **Asia-Pacific** region (+70 DOS between 2015 and 2010) and 2015 should show strong growth after the group bought back 12 shop-in-shops in South Korea. The brand more than doubled its exposure in the **Americas** (19 DOS vs. eight in 2013), illustrating its aim to strengthen presence in North America. Finally, in **Europe** Moncler had 72 stores, including 19 in Italy.

Performance of the wholesale activity and no. of doors



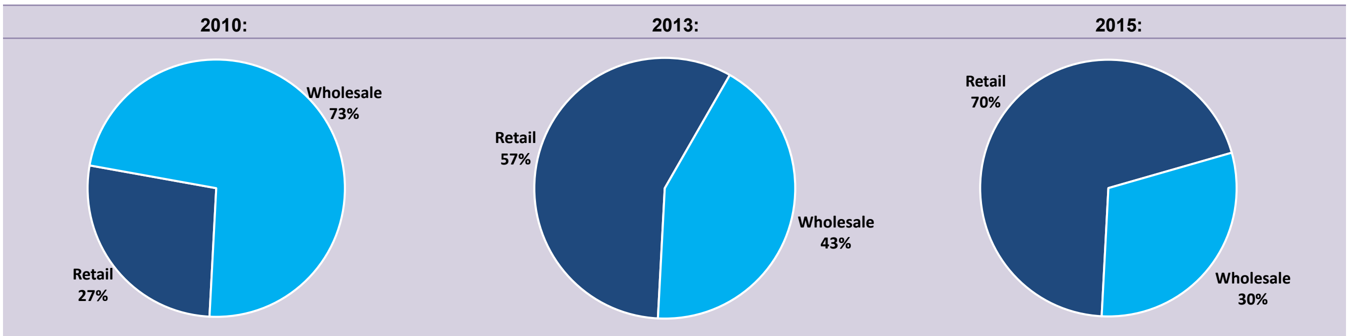
Source: Company Data, Bryan, Garnier & Co ests.

Wholesale: sales on the rise despite a scaling back policy

Like many other Italian luxury goods players, Moncler is implementing an increasingly selective strategy in the wholesale segment, cutting the overall number of doors (~1,600 in 2015 versus ~2,100 in 2010) and converting some of them to DOS, e.g. the 12 shop-in-shops in South Korea brought back under direct control in 2015.

By scaling back its points of sale, the brand has been able to retain only the best multi-brand chains (therefore boosting productivity) and reallocate more resources to key accounts, such as US department stores. As a result, wholesale sales enjoyed a 5% CAGR over the 2010-15 period, despite the number of outlets dropping by an average of 5% over the same period.

Fig. 14: Retail represents 70% of 2015 sales vs. 25% in 2010 (% of total sales)



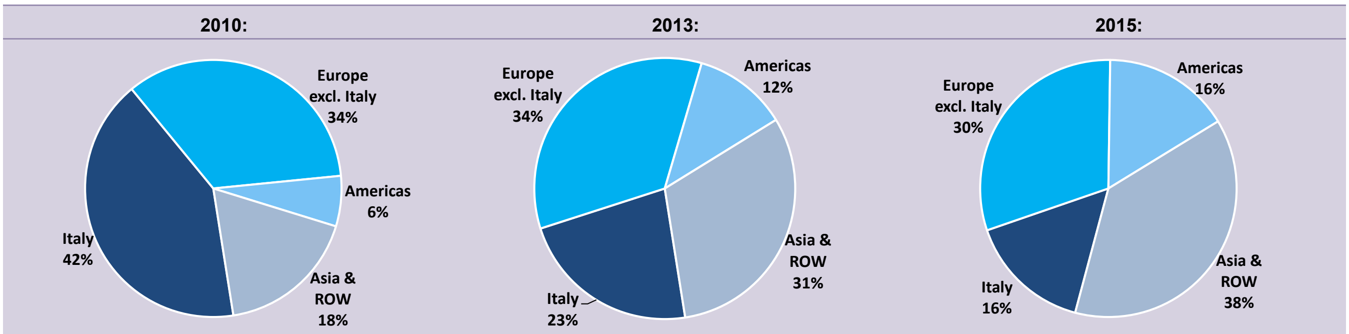
Source: Company Data

5.2.2. Successful international development

The expansion strategy in retail was naturally rolled out beyond **Italy,** drastically reducing the weight of the domestic market, which accounted for only 16% of sales in 2015 versus 42% in 2010! The weight of Italian sales at Moncler is slightly higher than at Ferragamo and Prada (around 10% and 12-13%, respectively), but half that at Tod's (~31%).

Between 2010 and 2015, the group doubled its exposure to the **Asia-Pacific** region, which now represents 38% of Moncler's sales, of which 18% generated in the **Greater China** region and 15% in **Japan**. Despite this advance, the weight of **Europe** (excluding Italy) remains largely unchanged (30% vs. 34% in 2010) due to boutique openings in major cities (Moscow, Prague, Brussels, etc.) and the massive inflows of tourists in Europe. Lastly, although the **Americas** represented 16% of overall sales, Moncler has identified substantial growth potential in the region.

Fig. 15: Italy now represents only 16% of sales vs. 42% in 2010 (% of total sales)



Source: Company Data

5.2.3. Diversification: cautious but promising

With its mountain roots and heritage, Moncler still generates a hefty share of sales in outerwear (~85% of total sales), which mainly belongs to the autumn/winter collection (~75% of sales). However, for several years now the brand has been branching out into two new categories:

- **(i)** **Knitwear:** a perfect complement for the brand's core products - jackets and down coats – thanks to its association with comfort, sport and the outdoors. Knitwear provides a perfect fit with Moncler's identity and its image as a technical ready-to-wear specialist.
- **(ii)** **Shoes and Accessories:** these two segments are again natural development areas for a ready-to-wear brand like Moncler, bringing two key advantages: (i) they make it easier for Moncler to attract aspirational customers, with average prices lower than those of its core products (e.g. EUR295-500 for the footwear range versus EUR875-1,250 for down jackets), and **(ii)** they deliver higher growth than ready-to-wear, largely via the travel retail segment.

These two categories already represent around 25% of Moncler's wholesale sales, versus ~15% of group sales. Although this difference may initially seem surprising, we should recall that at the Investor Day (December 2015) Moncler said that the wholesale channel would enable it to sound out a new market. It is therefore quite possible that the group wanted to test consumer reaction in its multi-brand outlets before allocating more space to these categories in its own stores. Management also acknowledged that it should increase the in-store visibility of these two categories in its retail network.

Moncler is developing its **eyewear** range in the accessories segment. Adhering to its cautious diversification strategy, Moncler launched a few very small collections in 2011 and 2012 with French optician Mykita, then set up a JV with Italian eyewear specialist Allison Group to round out the range. In September 2015, management clearly wanted to upgrade the distribution when it signed a conventional licensing agreement with Marcolin Group, a larger Italian eyewear manufacturer with a denser distribution network, providing more extensive coverage for Moncler's licence.

Fig. 16: Moncler is now less of a single-product player

Outerwear:	Knitwear:	Shoes & Accessories:
		
~85% of sales	~10% of sales	~5% of sales
Strong control in retail and wholesale channels	Good presence in the wholesale channel but must improve visibility in-store	Good presence in the wholesale channel but must improve visibility in-store

Source: Bryan, Garnier & Co ests.

5.2.4. Curbing reliance on winter collections remains a challenge

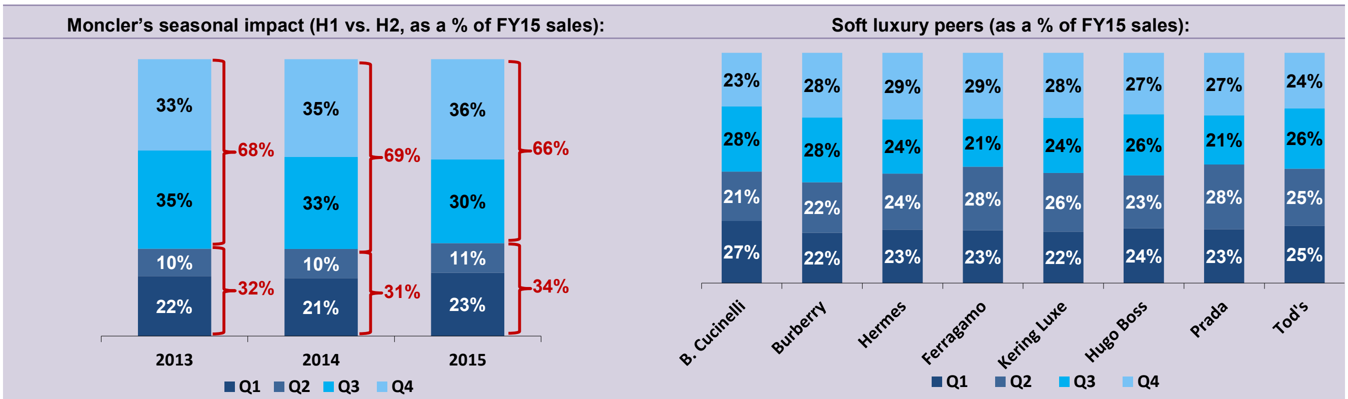
Moncler is a *bona fide* heritage brand, having built its success in outerwear around its unique mountain roots and background. The downside of this is the predominant weight of autumn/winter collections, which account for 75% of total sales, making the brand particularly sensitive to the seasonal impact.

As shown in the left-hand chart below, H2 2015 sales represented 66% of annual sales for Moncler, versus an average of 52% for the other soft luxury players. Even Burberry, whose brand is inextricably linked to the trench coat, generates only 56% of sales in H2, thanks to its successful diversification in leather goods and accessories.

Although the weight of these categories at Moncler is unlikely to match that at Burberry (~36% of total sales), Moncler has prioritised diversification as a way to reduce its cyclical nature. **Interestingly, the spring/summer collection generates around 30% of wholesale sales (vs. 25% of group sales), in which shoes and accessories have a higher share than the group average (around 25% vs. around 15% of total sales).**

While Moncler has a long way to go to achieve the same legitimacy in spring/summer collections, its expansion in the southern hemisphere (e.g. Australia) and countries less sensitive to seasonal changes (Dubai, Mexico, South East Asia) offers an alternative way to smooth out seasonal effects.

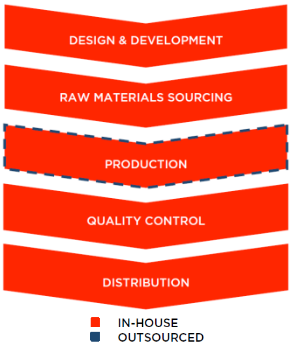
Fig. 17: Seasonal impact stronger at Moncler than at peers



Source: Company Data, Bryan, Garnier & Co ests, IBES

5.3. The supply chain remains largely outsourced, but firmly under control

Moncler manages and/or supervises every stage of the chain



Source: Company Data

While upstream integration is highly desirable for watch and leather goods brands, it is less so in ready-to-wear, as reflected in the small share of production handled in-house at Hugo Boss (~20%) or Moncler. Production was 100% outsourced at Moncler up to 2015.

In September 2015 and in March 2016, however, Moncler acquired two of its primary suppliers based in Romania. This should enable it to acquire the crucial industrial expertise needed to meet the **Moncler Clinique project's target of bringing 20-25% of total production in-house by 2018.** At the same time, the brand is to open a new R&D unit to focus on two key areas: **(i)** product innovation (new fabrics and the creation of new products outside the ready-to-wear sector, etc.) and **(ii)** product development (new manufacturing techniques, product optimisation, etc.).

Fig. 18: The level of control is increasing across the entire production cycle

Production Cycle	Comments
Design & Development	D&D expertise strengthened thanks to the new R&D department (**Moncler Clinique**)
Sourcing	Moncler **buys directly all the raw materials used in production** (Italy: 90% and Japan: 10%)
Production	**Moncler Clinique:** to internalise up to 20-25% of outerwear production by 2018
Quality Control	**- Raw materials:** Every lot of down is tested three times by Moncler's test lab in Poland **- Finished goods:** 100% of production is controlled by Moncler's inspectors
Distribution	Moncler gradually increases control over distribution **=> Retail channel now accounts for ~70% of 2015 group sales** vs. 38% in 2011

Source: Company Data, Bryan, Garnier & Co ests

While some fashion brands, mainly in the premium or affordable luxury segments (Burberry, Michael Kors, Tom Ford, etc.), are shortening the traditional fashion calendar by offering "See Now, Buy Now" collections, most luxury brands (Hermès, Gucci, Dior, Chanel, etc.) have already said that they do not support this trend. In Moncler's case, it takes 15 months to develop a collection and deliver it to outlets.

Fig. 19: Moncler's production cycle

Source: Company Data

The price of success: fighting fakes

With consumers flocking to buy down jackets and Moncler being so successful, the brand has had to deal with a sharp rise in counterfeit products in recent years.

While luxury goods players are all used to tackling counterfeits, Moncler is particularly concerned, given that: **(i)** it only sells discounted stock in its own outlet stores (~20 worldwide) and **(ii)** it needs to protect its appeal and upscale positioning in the ready-to-wear market, which has been hard hit by deflationary trends in the premium/mid-range segments, hence the difficulties encountered by Ralph Lauren and Hugo Boss, to name but two.

In view of this, Moncler has intensified its efforts to combat counterfeits worldwide, with a particular focus on China:

(i) **Website closures:** traffickers are taking advantage of the rise of online sales platforms in China (Taobao, Tmall, etc.), together with auction sites such as Ebay, to sell their products. In 2014 alone, Moncler closed over 650 websites, delisted 2,000 sites and withdrew more than 32,500 false advertisements.

(ii) **Clamping down on parallel distribution networks:** in November 2015, Moncler was awarded over EUR420,000 in damages in China following the conviction of a Chinese company (Beijing Nuoyakate Gourmet) for trying to channel counterfeit goods via a number of websites.

(iii) **Protecting the brand:** the Moncler brand is already registered and protected in over 50 countries, whereas it is distributed in only 35 countries (online sales), of which 24 through brick-and-mortar stores.

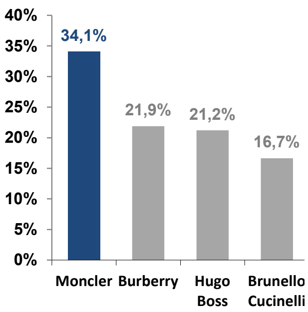
(iv) **Enhanced product traceability:** like other groups in our sample, Moncler will be fitting RFID chips (see photo opposite) in all its products in order to track their locations in real time (avoiding them being sold in the grey market) and enable consumers to check their product's authenticity. More than 60,000 customers have already registered over the last 12 months.

Moncler's new traceability system (using RFID technology)

Source: Company Data

6. Outlook: a few virgin peaks to conquer!

Adjusted EBITDA margin forecasts for groups exposed to ready-to-wear (%):



Source: Company Data, Bryan, Garnier & Co ests, IBES

In our view, Moncler's growth story over 2016-18 should above all be written by the top-line performance rather than margin widening. Indeed, upside potential in profitability looks more limited, especially since Moncler already generates the highest operating profitability among all the premium/luxury players deriving more than 50% of sales from the ready-to-wear category. As highlighted in the chart opposite, Moncler's EBITDA margin is more than 12 points higher than Burberry's!

In coming years, sales growth at the Italian brand is primarily set to be driven by: **(i)** further expansion in retail (DOS openings or extensions), **(ii)** penetration of new markets, **(iii)** the rising momentum of new circuits such as travel retail and e-commerce and **(iv)** development of new categories (knitwear, footwear and accessories).

6.1. Moncler fine-tuning its retail network

Although Moncler has "only" 173 directly-operated stores throughout the world, far from the 979 sales points managed by **Hugo Boss** (including 549 shop-in-shops) and the 427 owned by **Burberry** (including 213 corners), the retail circuit is already substantial since it accounts for 70% of overall sales, among the average of players in our soft-luxury sample (around 73%), as shown in the left-hand chart below. While the weight of retail is similar at **Burberry** (~73%), it is lower at **Hugo Boss** (60%) and **Brunello Cucinelli** (47%).

Although 173 stores might seem fairly low compared with other groups, this is also explained by the specific nature of Moncler since its upscale positioning and high exposure to winter clothing requires a degree of selectiveness in its store network expansion strategy. This "controlled" development also has the merit of limiting the risk of pressure on margins in the event of a slowdown in organic growth.

Over 2016-18, the group is planning to open around 15 stores a year to reach around 220 DOS by 2018 (or a 2016-18e CAGR of 8%), together with around 30 wholesale mono-brand stores (vs. 34 at end-2015).

Fig. 20: The 173 Moncler DOS accounted for 70% of total sales in 2015:

** (Burberry = as of December 31, 2015)* *Source: Company Data, Bryan, Garnier & Co ests*

6.1.1. The network is moving upscale in order to better satisfy customers

At the Investor Day, Moncler's management communicated extensively on its aim to constantly modernise and improve its existing store network in order to enhance the purchase experience and the average shopper spend. This qualitative strategy is all the more crucial in that the group only intends to open 15 new stores a year.

This rise in momentum has resulted in two main measures: **(i)** modernisation of older stores opened over 2007-2010 and not using the brand's new concepts/codes and **(ii)** the opening of flagship stores in the major capital cities for luxury shopping.

Existing stores are gradually being modernised and extended

Although Moncler has fairly recent experience of the retail circuit, the group manages its DOS network proactively, with the store concept having changed three times already since 2007, as set out in the table below. The third concept rolled out since 2013, is coherent with the brand's luxury positioning and aims to encourage an increase in sales per store:

(i) **Relocation:** this measure has two aims: **1/** to ensure presence in high-frequency locations, especially in China, where certain districts and shopping malls become unfashionable over time, **2/** to look for larger surface areas to extend the stores.

(ii) **Extension:** the average surface area of a Moncler store is set to rise from 110m² to 130m² by 2018, enabling the brand to better highlight its "new" categories, which has not been the case so far, as management has recognised. This measure should have a positive effect on Units Per Transaction.

(iii) **Modernisation:** the aim is to roll out the third concept in stores opened between 2007 and 2013 in order to improve the purchase experience thanks to a more luxurious environment and a larger sales surface. This initiative naturally strengthens Moncler's luxury positioning and favours an increase in the average shopper spend.

Note that Moncler only plans five store renovations/relocations a year out to 2018 so that it can keep its capex under control.

Fig. 21: Three store concept phases since 2007:

First Phase 2007-2010	Second Phase 2010-2013	Third Phase 2013-present
		
Milan store (Via della Spiga) opened in 2008	*Hong Kong store (Lee Gardens) opened in 2013*	*Tokyo flagship store (Ginza) opened in 2015*
- First store format inspired by the "ski-resort format" - Nearly 100% of the selling area dedicated to outerwear - Remodelled in 2015	- Store upgrade through the introduction of fine materials (marble, etc.) - Dedicated areas to display accessories	- Step up in luxury shopping experience: use of finest materials and extended store size (~130 sqm vs. ~110 sqm on average currently) - All categories are now well presented

Source: Company Data, Bryan, Garnier & Co ests

MT objective: to own 10 flagship stores throughout the world (vs. two at end-2015)

Whereas numerous luxury brands have multiplied openings of flagship stores in recent years, Moncler only had two at the end of 2015: Paris (opened in 2013) and Tokyo (inaugurated in October 2015). Admittedly, the small size of the stores (low opex) combined with very high sales density (EUR30,000/m²), explains why Moncler's profitability is so high.

Nevertheless, CEO Remo Ruffini has set the target of having 10 flagship stores over the medium term all complying with luxury sector codes in terms of size (at least 500m²), universe (use of marble etc.) and location (luxury districts with high footfall). In addition, the large size of these flagship stores (around 4x the size of a traditional store) should enable the brand to better highlight its new categories, in line with its diversification strategy.

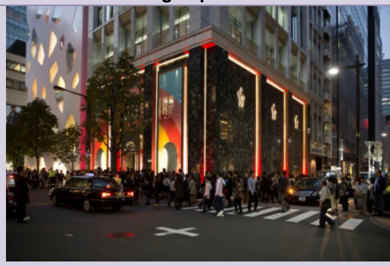
Fig. 22: Flagship stores 4x the size of a traditional store:

Traditional store

Boston store (Copley Place, opened in September 2015)

Average size: ~110 sqm for older stores but new outlets are larger (e.g.: this Boston store covers 140 sqm)
=> The average store size should reach ~130 sqm by 2018

Flagship store



Tokyo flagship store (Ginza)

Average size: ~500+ sqm
Ginza (2015): 560 sqm and **Paris** (2013): 545 sqm
All flagship stores adopt the luxury concept

Source: Company Data, Bryan, Garnier & Co ests

As the table below shows, Moncler is naturally set to target major luxury shopping destinations. As such, in 2016, the brand is set to inaugurate three new flagship stores: in **New York** (leading city in the world for luxury purchases, or EUR27bn), **London** (no. 3) and **Seoul** (no. 5). The majority of these cities benefit from a large local customer base, as well as tourist flows, mostly from Asia, whether in Europe or in Asia (Tokyo, Seoul).

Fig. 23: Moncler is targeting the main luxury shopping destinations:

Rank	Flag	City	Personal luxury goods market (EURbn)	2014-15 FX-n growth (country-wide, %)	Implications for Moncler
1		**New York**	27	0	Flagship store will open in **2016** (Madison Avenue)
2		**Paris**	13	10	1st flagship store that opened in **2013** (Faubourg St Honoré)
3		**London**	12	5	Flagship store will open in **2016** (Bond Street)
4		**Tokyo**	9	9	Opened in October **2015** (Ginza district)
5		**Seoul**	8	4	Flagship store will open in **2016**
6		**Hong-Kong**	7	-25	Moncler "*dreams to have one flagship store in HK*"
7		**Beijing**	6	-1	No plans to open a flagship store so far
8		**Milan**	5	6	Moncler "*dreams to have one flagship store in Milan*"
9		**Munich**	4	14	No plans to open a flagship store so far
10		**Dubai**	3	0	First retail presence planned for **2017**
-		**Moscow**	3	-2	No plans so far but Russia is a "*perfect market for Moncler*"

Source: Bain & Company, Altagamma, Bryan, Garnier & Co ests

6.1.2. New markets to explore

At end-2015, Moncler's directly-operated stores were present in 24 countries, which is not very many compared with Hugo Boss (80 countries), Prada (70) and Burberry (50 countries). Given Moncler's product mix (around 85% of sales stemming from outerwear, the autumn/winter collections represent 75% of sales), potential for geographical expansion is of course far more limited than for other luxury groups.

However, this has not prevented the brand from setting up in Brazil (2013), Singapore and Macao (2015). While locating stores in these regions is an opportunity to increase the weight of the spring/summer and accessories collections, some of these customers also visit Europe increasingly regularly, even during the winter and to go skiing. As such, it is important for the brand to remain connected to these customers throughout the year.

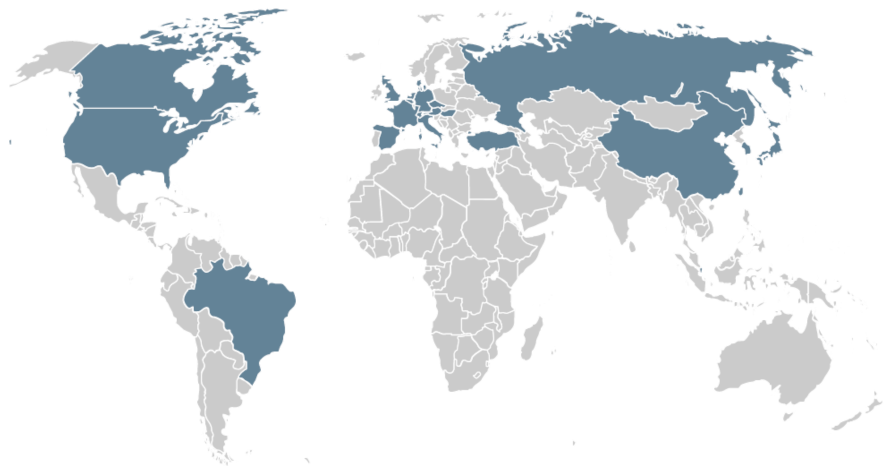
During the Investor Day, management unveiled a few countries where Moncler intends to set up between now and 2018:

(i) **Dubai, Sweden and Australia in 2017:** strengthened by its successful wholesale presence, Moncler would like to consolidate its presence in Dubai by opening a store in the famous Dubai Mall. Paradoxically, the Italian brand was not yet directly present in Scandinavian countries and its first store is due to open in Sweden. The Italian brand intends to open at least two DOS in Australia in Melbourne (the city closest to the Australian ski resorts), and then Sydney.

(ii) **Mexico in 2018:** management has not yet decided between wholesale or retail presence, but wholesale seems more likely, maybe via a shop-in-shop format in the main Mexican department stores (e.g.: El Palacio de Hierro, etc.).

In our view, store openings (around 15 a year) are more likely to be located in countries where the group aims to strengthen its presence (e.g. Canada, the US, the UK and Germany) than in new markets.

Fig. 24: Retail: Moncler was present in 24 countries at end-2015:



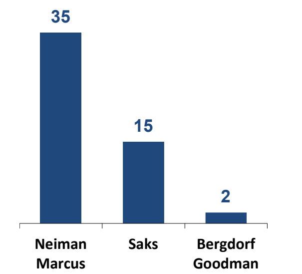
Source: Company Data

6.1.3. No, this does not spell the end of wholesale!

In 2015, wholesale sales fell 5%cc, solely due to the buyout of 12 franchised stores in South Korea, with growth remaining flat excluding the impact of these conversions, despite the closure of almost 100 sales points last year (to 1,600), thereby showing that this streamlining policy is less penalising for Moncler than for other luxury groups. Our estimates, set out in the right hand chart below, take account of a further reduction in the number of selling points in 2016, since management intends to close around 100 doors this year (to 1,500).

However, this circuit remains important for the medium-term development strategy (we estimate it at 23% of total sales in 2018), for two reasons: **(i)** it expands the brand's reputation and serves as a prior test before opening a DOS in new countries (e.g. Sweden, Australia) and **(ii)** contributes to diversification since new categories account for 25% of wholesale sales vs. 15% on the group scale. Two regions in particular harbour growth potential:

Wholesale partners in North America (at end-2015):

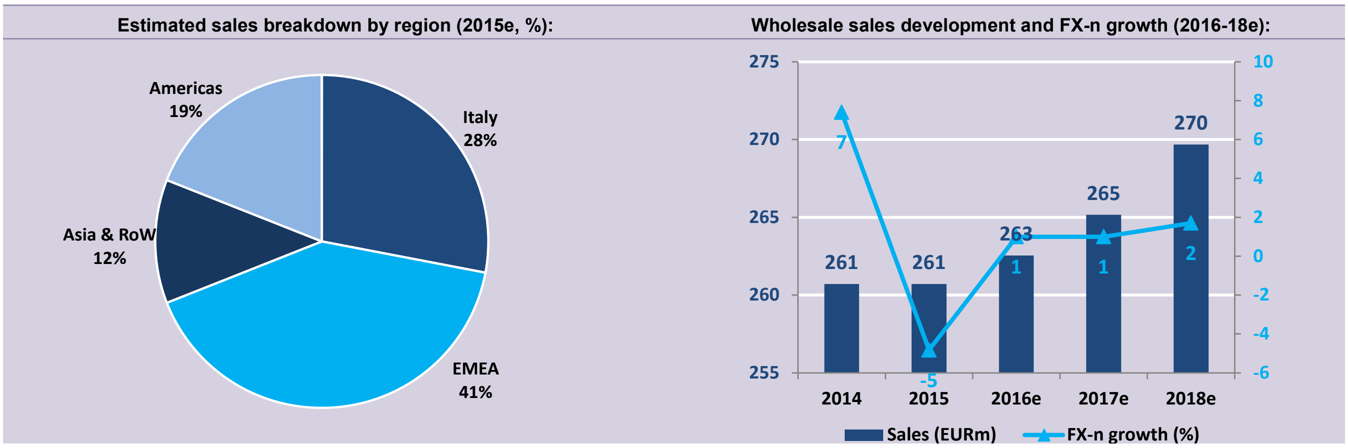


Source: Company Data

(i) North America: department stores are a significant outlet for ready-to-wear groups and Moncler is no exception to the rule since wholesale sales represent around 50% of sales in the region according to our estimates. As the chart opposite shows, Neiman Marcus and Saks are Moncler's two main partners housing 35 and 15 corners respectively. Now that Saks belongs to the Canadian department store chain, Hudson Bay's, Moncler could use the opportunity to extend its presence in Canada. Note nevertheless that the department stores recently entered a price war that has above all affected ready-to-wear (Ralph Lauren and Hugo Boss have been victims), but we believe that Moncler should be pretty well spared given its upscale positioning.

(ii) Middle East: the inauguration of a first directly-operated store in Dubai in 2017 could be rounded out by the openings of other wholesale sales points. In the Middle East, two main regional players are specialised in luxury franchises, the Chalhoub Group (Dubai) which manages more than 650 stores on behalf of brands such as Saks, Céline, Michael Kors, etc. and Al Tayer (Dubai, >200 stores), which partners a number of brands by Kering, Armani and Jimmy Choo.

Fig. 25: Wholesale: ~23% of 2018e sales vs. 30% en 2015:



Source: Company Data, Bryan, Garnier & Co ests

6.2. Capitalising on robust growth in new channels

6.2.1. Moncler to increase its exposure to travel retail

Moncler store located in HK airport (opened in 2014):

Source: Bryan, Garnier & Co

Paris CDG luxury shopping area:

Source: ADP

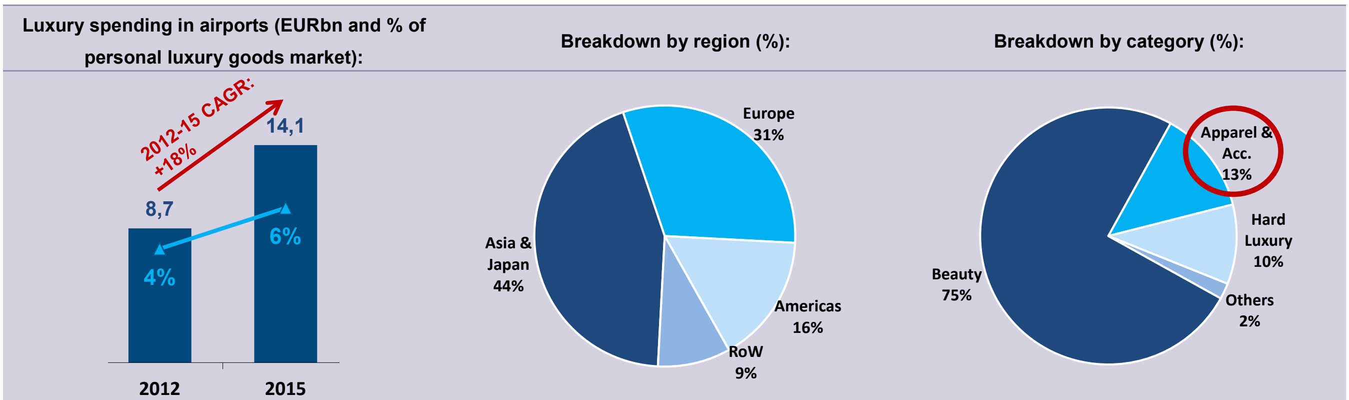
This circuit is clearly becoming vital for the entire luxury sector, as shown by the following statistic: 50% of luxury goods purchases are now made abroad! As the left-hand chart shows, luxury spending in airports has seen a CAGR of 18% since 2012 to stand at more than EUR14bn at end-2015. **Travel retail now represents almost 6% of the global luxury market (EUR253bn), whereas it only accounts for around 2% of Moncler's sales based on our estimates.**

This boom has been driven by three trends:

- **(i)** **Natural growth in the number of passengers**, partly fed by the surge in tourists stemming from emerging markets. Indeed, specialist website Air4casts estimates that passenger traffic should increase by 5.6% on average over 2015-18, including +7.8% in Asia Pacific and +7% for Latin America.
- **(ii)** **Higher spending per passenger:** airports are now building genuine shopping zones dedicated to luxury brands within their terminals, thereby improving the purchase experience. The increase in the size of selling space has also been beneficial to the brands, which have been able to widen their in-store offer.
- **(iii)** **An increase in the space allocated to travel retail:** at ADP, sales surface area rose by 19% between 2011 and 2015, including 35% growth in the duty-free area. In terms of the luxury stores present, Europe and Asia are at a more advanced stage than the US for example, where groups are virtually absent from all the major US airports.

Although the ready-to-wear and accessories segments only account for 13% of total luxury spending in airports (see right-hand chart below), this circuit represents significant growth potential for Moncler. Whereas travel retail stores are generally smaller than traditional stores and this could be a handicap for certain major luxury groups, this fear is of no concern whatsoever to Moncler (average sales space of 110-130m² at present).

Fig. 26: Luxury spending in travel retail up significantly:



Source: Bain & Company, Altagamma

Development of travel retail: Moncler to target Europe and Asia first

At end-2015, Moncler only managed four DOS in airports (two in Rome, one in Milan and one in Hong Kong) and recognised that its expansion strategy in travel retail was still being decided in terms of what format to favour (retail, wholesale, JV). In addition, management is considering the creation of a specific business unit, like groups such as L'Oréal, Luxottica and Ferragamo.

Within the tourism flows driving growth in this circuit, Chinese tourists are clearly priority targets since some 109m Chinese travellers spent more than USD60bn on luxury products abroad in 2015. The WTO estimates that Chinese traveller numbers could total around 230m by 2020! Consequently, Moncler is aiming primarily to target airports serving favourite European and Asian airports for Asian travellers, even if Paris is strangely not listed in the right-hand chart below whereas France welcomed two million Chinese tourists in 2015.

Fig. 27: Targeting airports where tourist flows transit:

Moncler's touristic flow scenario	Potential future airport locations:

Source: Company Data

The table below shows that with the exception of Tod's, Moncler is less present than its peers in the Top 15 global airports, especially Ferragamo and Burberry.

Fig. 28: Ranking of 15 most visited airports and mono-brand stores in travel retail (excluding franchises and multi-brand):

Rank	Airport	Country	Total PAX in 2015	% change vs. 2014	Burberry	Ferragamo	Moncler	Hugo Boss	Prada/ Miu Miu	Tod's
1	Atlanta	USA	101.5	*5.1*	0	2	0	0	0	0
2	Beijing	China	89.9	*4.4*	0	3	0	1	0	0
3	Dubai	UAE	78.0	*10.7*	0	0	0	0	0	0
4	Chicago	USA	76.9	*9.8*	0	1	0	0	0	0
5	Tokyo Haneda	Japan	75.3	*3.5*	0	1	0	0	0	0
6	London Heathrow	UK	74.9	*2.1*	4	0	0	3	1 / 1	0
7	Los Angeles	USA	74.9	*6.0*	0	1	0	0	0	0
8	Hong-Kong	HK	68.5	*8.1*	1	1	**1**	1	1 / 1	0
9	Paris	France	65.8	*3.1*	1	0	0	1	3 / 1	1
10	Dallas	USA	64.2	*1.0*	0	0	0	0	0	0
11	Istanbul Ataturk	Turkey	61.3	*7.7*	1	0	0	0	0	0
12	Frankfurt	Germany	61.0	*2.5*	1	1	0	1	0	0
13	Shanghai Pudong	China	60.1	*16.3*	0	2	0	1	0	0
14	Amsterdam	The Netherlands	58.3	*6.0*	1	0	0	0	0	0
15	Jakarta Soekarno	Indonesia	57.0	*0.0*	0	0	0	0	0	0
-	**Total**	**-**	**-**	**-**	**9**	**12**	**1**	**8**	**5 / 3**	**1**

Source: Airports Council International, Company Data, Bryan, Garnier & Co ests

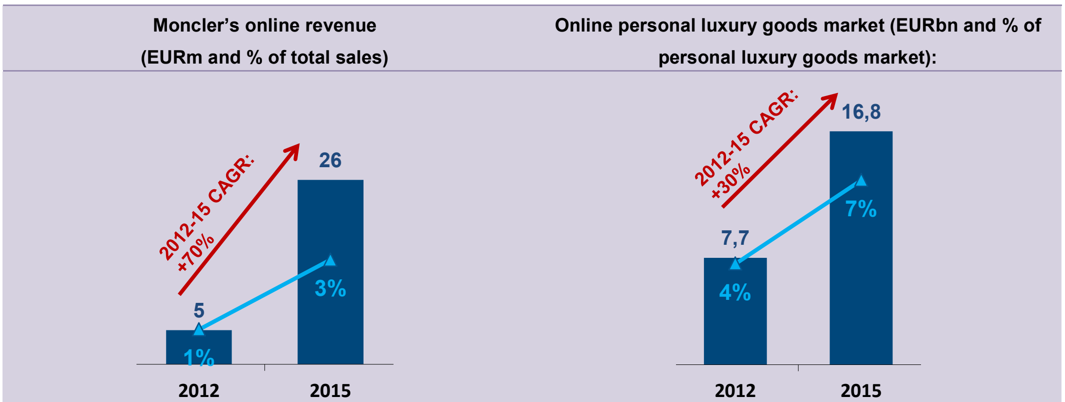
6.2.2. Online: *chi va piano va sano...*

Moncler inaugurated its online sales platform in 2011, developed in partnership with Yoxx. **Online sales rose by 70% on average between 2012 and 2015 to reach around 3% of sales (up to 7% through websites operated by third parties). However, this exposure is half as much as the average level in the luxury sector (around 7% according to Bain and Altagamma).** In our view, this difference stems from two main reasons:

(i) **A fairly high average shopper spend** concerning down coats (EUR850-900m), such that customers prefer in-store purchases contrary to other ready-to-wear articles or accessories that are easier to buy on the internet.

(ii) **Still-limited US exposure (around 15% of sales):** according to Bain, North America focuses 56% of online purchases of luxury goods, thereby showing that North American customers buy more easily online than European customers. This difference is also notable at Hugo Boss, which generates 3% of overall sales on line compared with around 12% for Ralph Loren (which is admittedly less exposed to business-wear). In our view, Moncler's expansion in the US should go hand in hand with its online business.

Fig. 29: Weight of online business at Moncler vs. luxury sector average:



Source: Bain & Company, Altagamma, Bryan, Garnier & Co ests

Note interestingly that the site is available in 35 countries whereas the group is only present in 24. As indicated in the chart below, the platform could be deployed in three further markets, namely Australia, South Korea and Brazil, with the group already having retail presence in the latter two.

Fig. 30: Website already available in 35 countries:

Source: Company Data

7. Our 2016-18e estimates

7.1. Sales at the forefront of Moncler's growth story

Although the brand is well established in **Europe**, growth potential remains high since management is aiming to increase its market share in sizeable markets such as Germany and the UK (eight DOS at end-2015). More generally, the region should continue to attract tourist flows as long as exchange rates remain at these levels.

Unsurprisingly, 2016-18 growth should primarily be driven by **Asia** and **North America,** which are set to focus the majority of store-openings in coming years. In Asia, Moncler is to pursue its development in **China** and **South Korea** now that it manages its 17 DOS directly. The **US** remains a promising market for the Italian brand, both in retail and wholesale, on condition that it negotiates price-policy and the presentation of shop-in-shops carefully with department stores in order to minimise dilution risk.

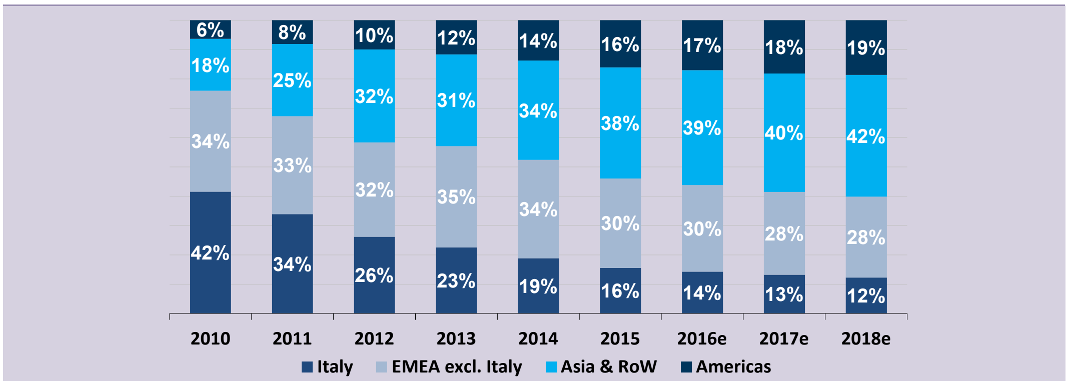
Fig. 31: Our forecasts by region (2016-18e):

EURm	2014	2015	2016e	2017e	2018e
Italy	**130.6**	**137.0**	**139.7**	**142.5**	**144.5**
% change	0	5	2	2	1
% change at constant FX	0	5	2	2	1
EMEA excl. Italy	**232.7**	**268.5**	**288.6**	**305.9**	**325.5**
% change	16	15	8	6	6
% change at constant FX	16	13	8	6	6
Asia & RoW	**235.2**	**333.5**	**382.9**	**436.5**	**490.6**
% change	29	42	15	14	12
% change at constant FX	35	28	15	14	12
Americas	**95.7**	**141.4**	**166.9**	**196.3**	**220.1**
% change	42	48	18	18	12
% change at constant FX	42	27	20	18	12
Total sales	**694.2**	**880.4**	**978.1**	**1,081.2**	**1,180.7**
% change	20	27	11	11	9
% change at constant FX	21	19	12	11	9

Source: Company Data, Bryan, Garnier & Co ests

By 2018, Europe should account for approximately 40% of total sales (including 12% for Italy) compared with 46% at end-2015.

Fig. 32: Change in Moncler sales by region (2010-18e' in %) :



Source: Company Data, Bryan, Garnier & Co ests

We are forecasting same-store growth of 3% in 2016 and 4% over 2017-18, which is cautious in view of the recent performance (+8% in 2014 and +6% in 2015), but justified by the volatile backdrop. However, this forecast should probably be one of the highest in our luxury sample. **Retail** sales should also benefit from the opening of around 15 DOS a year, whereas we are forecasting a modest growth in **wholesale** sales in 2016-18.

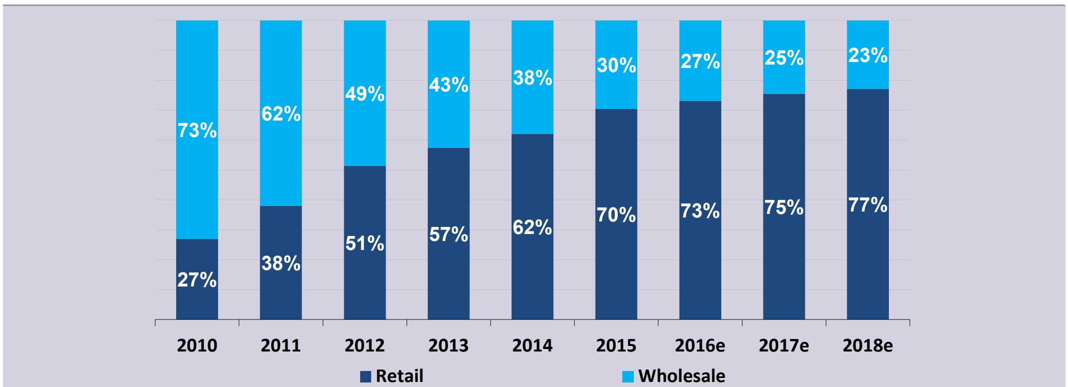
Fig. 33: Our forecasts by region (2016-18e):

EURm	2014	2015	2016e	2017e	2018e
Retail sales	**430.7**	**619.7**	**715.5**	**816.1**	**911.1**
% change	29	44	15	14	12
% change at constant FX	31	33	16	14	12
SSSG	**8**	**6**	**3**	**4**	**4**
Wholesale sales	**263.5**	**260.7**	**262.5**	**265.2**	**269.7**
% change	7	-1	1	1	2
% change at constant FX	7	-5	1	1	2
Total sales	**694.2**	**880.4**	**978.1**	**1,081.2**	**1,180.7**
% change	20	27	11	11	9
% change at constant FX	21	19	12	11	9

Source: Company Data, Bryan, Garnier & Co ests

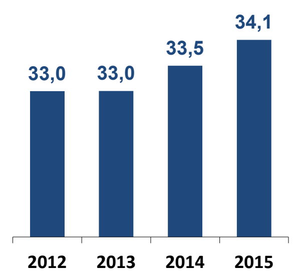
The retail segment could therefore account for slightly less than 80% of the group's sales in 2018, which would be an attractive performance for a player highly exposed to the ready-to-wear category.

Fig. 34: Change in Moncler sales by circuit (2010-18e' in %):



Source: Company Data, Bryan, Garnier & Co ests

Change in EBITDA margin (2012-15, %):



Source: Company Data

7.2. Profitability: how to stay at the top?

As mentioned previously, **Moncler's growth story for 2016-18 is above all set to be written by the top line rather than margin widening.** Indeed, although the group derives almost 95% of sales from ready-to-wear, it posts very high profitability (2015: 34.1% EBITDA margin and 30% EBIT margin), thanks to the rising weight of retail, combined with high same-store sales growth.

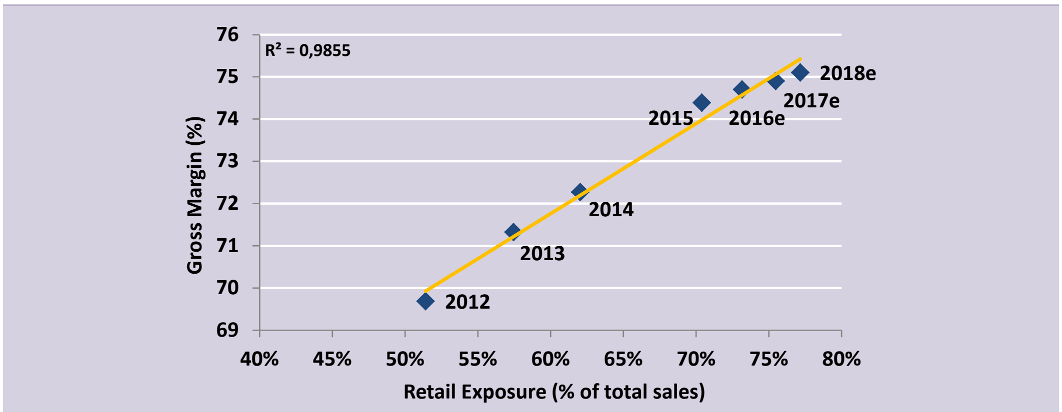
For Moncler, the challenge for coming years is therefore to protect this high level of profitability in a context of a return to normal same-store growth, while continuing to open stores (=> higher opex) and diversifying into new categories carrying slightly lower margins (but growing). **We believe the group is capable of rising to this challenge.**

7.2.1. Maintaining "*Retail Excellence*"

The easy part: increasing the gross margin rate thanks to a beneficial distribution mix…

Like other luxury groups, expansion in the store network has had a positive impact on gross margin, as shown by the chart below, which confirms the existence of a close correlation between the gross margin rate at Moncler and the rising weight of its retail network. **During the investor day, management indicated that the gross margin rate in retail was close to 80% whereas that in wholesale totalled around 60%.**

Fig. 35: The rising weight of retail helps widen gross margin:



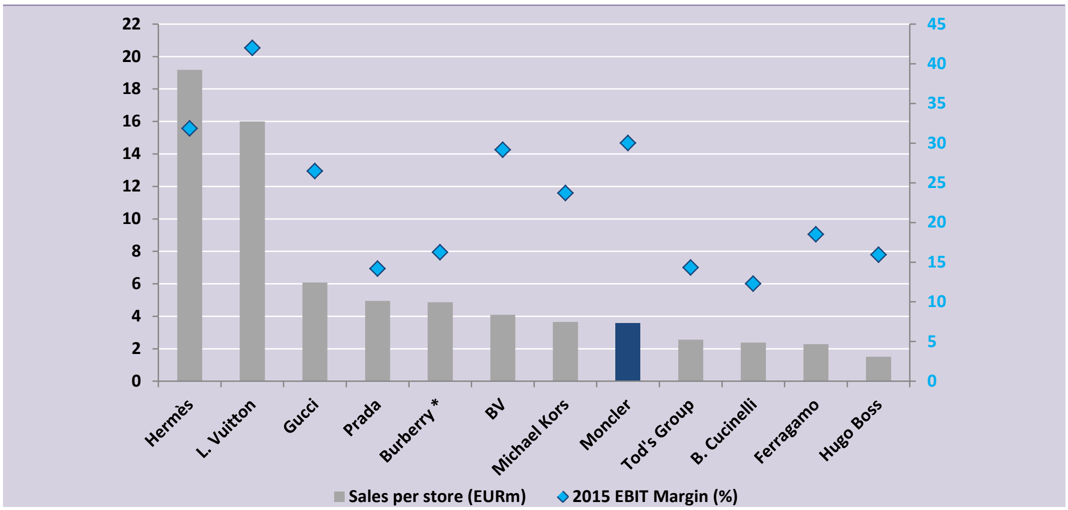
Source: Company Data, Bryan, Garnier & Co ests

The difficult part: controlling inflation in OPEX prompted by the development of retail

This management of operating expenses is all the more difficult to control in that same-store growth is slowing (and even becoming negative for certain groups), whereas some of these costs were continuing to rise even recently (e.g. rents in China, salaries).

The chart below shows that the margin battle again lies in the stores: whereas there is a close link between sales per store and the group's EBIT margin level, it is also important to assess commercial density (sales per m²). For example, at Moncler, sales per store "only" stand at EUR3.6m (vs. EUR16m for Hermès), but the group boasts one of the highest per square metre ratios in the sector (~EUR30k/m²), enabling it to post this very high level of profitability (EBIT margin of 30% in 2015 vs. 31.8% for Hermès).

Fig. 36: Is there always a correlation between sales per store and EBIT margin?



Note: BV = Bottega Veneta / Burberry: 2014/15 results *Source: Company Data, Bryan, Garnier & Co ests*

… Moncler has managed so far!

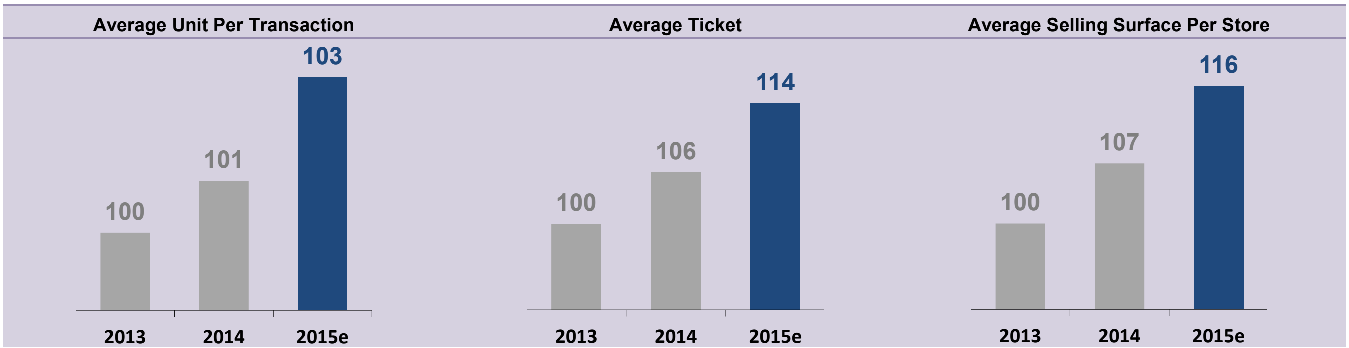
Although the retail expansion strategy is fairly recent at Moncler, it has been well controlled so far, as shown by the hike in the main performance indicators set out below:

(i) Average Units Per Transaction (+3 points vs. 2013): this improvement stems from the development of new categories, especially since these are now better highlighted in the brand's stores thanks to the new concept and store extensions.

(ii) Average ticket (+14 points vs. 2013): this beneficial change in the price-mix confirms that Moncler boasts high pricing power, based on its heritage and legitimacy in its core business (outerwear). Note importantly: **1/** the new collections account for around 70% of sales, making price hikes easier (as long as the brand's appeal lasts) and **2/** Moncler does not have promotional sales periods in its DOS, but only in its outlets (around 20 in the world).

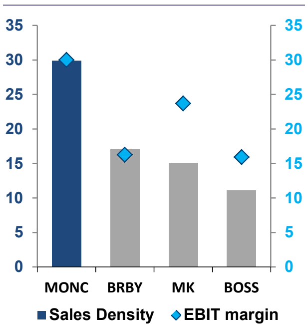
(iii) Average selling surface (+16 points vs. 2013): this stems from the aim to gradually increase the size of the stores (110m² on average => 130m² by 2018) in order to move upscale and better present new categories, without forgetting the opening of flagship stores around the world.

Fig. 37: The main KPIs in retail are increasing (basis 100 = 2013):



Source: Company Data

Sales/m² (EURk) and EBIT margin (2015, %):



Note : MK = Michael Kors
Source: Company Data

Despite store expansion, the rise in sales indices and the average shopper spend have enabled Moncler to post one of the highest sales/m² ratios in the sector (around EUR30k/m²), which compares with a ratio of EUR17k/m² for Burberry and EUR11k/m² for Hugo Boss.

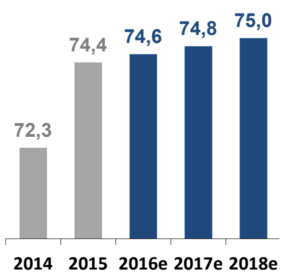
At the same time as this very high sales/m² ratio, the increase in costs has been well managed by the group thanks to the relatively small size of its stores, implying a control of rental costs and staff costs.

It is worth mentioning that total personal expenses represented around 9% of total Moncler sales in 2015 compared with 20% at Hugo Boss! Outsourcing of all production (prior to 2015) admittedly explained some of this difference.

7.2.2. 2015-18 EBITDA margin: a new plateau close to 34%?

7.2.3. Further widening in gross margin…

Gross margin forecasts - (2014-2018e, % of sales):



Source: Company Data, Bryan, Garnier & Co ests

In 2015 Moncler's gross margin has already reached one of the highest levels in the luxury sector (+210bp to 74.4%) thanks to a favourable channel mix (retail sales were up 33% FX-n whilst wholesale sales contracted by 5% FX-n), the retail channel now accounts for 70% of total sales (+8 points vs. 2014).

Given this high gross margin rate and more normalized growth rates within the retail channel, we believe that it should continue to widen, albeit at a more modest rate (+30bp in 2016 and +20bp/year in 2017-18):

(i) **Catalysts:** further development in retail (around 77% of 2018e sales vs. 70% in 2015), the decline in prices of the main commodities used (down, cotton, synthetic oil derivative materials) and the rising weight of emerging markets. Finally, thanks to its pricing power, potential to improve the price-mix remains attractive.

(ii) **Pressure/factors to watch:** as of 2015, Moncler is gradually set to bring its production back in-house (up to 20-25% by 2018), as shown by the takeover of two of its outsourcers in Romania, which is set to prompt a slight increase in COGS. In our view, the diversification into new categories should only have a low impact in our view since: **1/** these are only set to account for around 20% of 2018e sales compared with around 15% at present and **2/** their profitability is constantly growing.

7.2.4. … but we are forecasting a virtually stable adjusted EBITDA margin

During the IPO in December 2013, management already announced that an increase in profitability was difficult to achieve given the already high level and expansion in retail, which did not prevent adjusted EBITDA margin from widening by 110bp to 34.1% between 2013 and 2015. This welcome news was the fruit of higher than expected same-store growth, driven especially by the surge in indicators discussed on the previous page.

- **Distribution costs (2018: +130pb vs. 2015):** the increase stems naturally from cost increase prompted by the DOS network (rents, salaries) and is based on the opening of around 15 DOS a year, whereas a return to normal same-store growth over 2016-18 (+4%/year after +12% on average over 2012-15) implies lower operating leverage.

- **A&P (+20pb vs. 2015):** we are forecasting an increase in marketing expenses, which are already among the sector average, mainly due to investments in digital. Apart from classic communication in the media, the Italian brand relies heavily on its shop-windows and advertises temporarily during polar or mountain expeditions.

- **G&A (-10pb vs. 2015):** during the investor day, management confirmed that the group would invest in the various functions to structure the group, which is still in a growth phase (business and geographical diversification, network expansion etc.). Consequently, we only expect slight operating leverage for this item.

In this context, we expect the improvement in gross margin to be offset by the rise in operating costs, hence our estimate (cautious) for virtually stable EBITDA and EBIT margins over 2016-18, set out in the table on the following page.

Fig. 38: Our profitability estimates (2016-18e):

EURm	2014	2015	2016e	2017e	2018e
Sales	**100**	**100**	**100**	**100**	**100**
COGS	-27.7	-25.6	-25.3	-25.1	-24.9
Gross margin	**72.3**	**74.4**	**74.7**	**74.9**	**75.1**
Selling expenses	-26.4	-28.8	-29.5	-29.8	-30.1
A&P	-6.6	-6.6	-6.7	-6.8	-6.8
G&A	-9.5	-9.0	-9.1	-9.0	-8.9
Total OPEX	**-42.5**	**-44.4**	**-45.3**	**-45.6**	**-45.8**
Adjusted EBITDA margin	**33.5**	**34.1**	**33.8**	**33.8**	**33.8**
D&A	-3.8	-4.1	-4.4	-4.5	-4.5
Adjusted EBIT margin	**29.8**	**30.0**	**29.4**	**29.3**	**29.3**

Source: Company Data, Bryan, Garnier & Co ests

7.3. A very healthy balance sheet

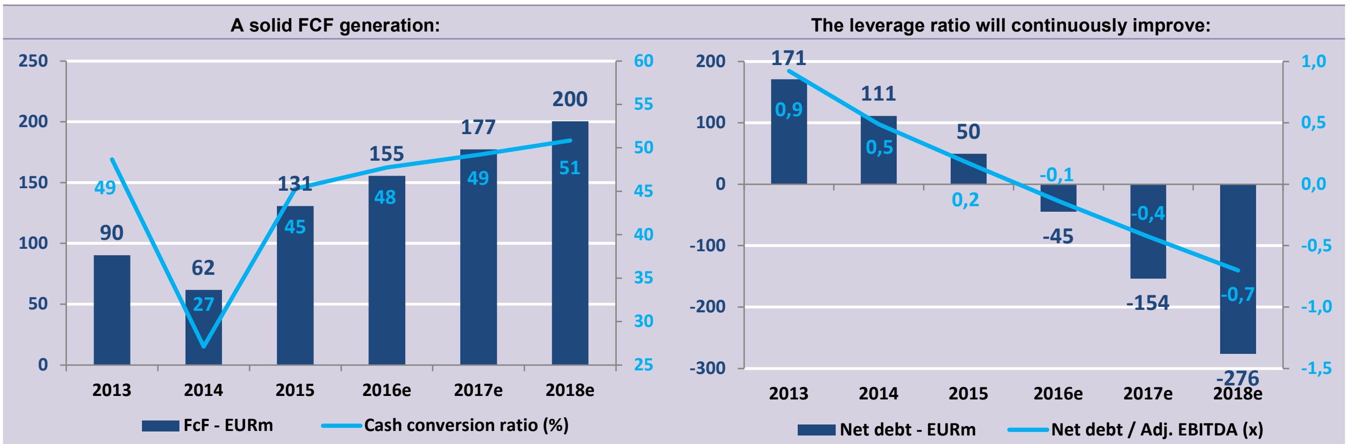
Our FCF estimates for 2016-18 are based on the following assumptions:

- **A capex plan of EUR55-60m/year:** around 75% of this amount, communicated by Moncler at the Investor Day, is to focus on retail. This includes around 15 store openings a year (of which two/three flagship stores a year) and the roll-out of the new retail concept (extensions and/or relocation of certain stores). The capex programme should therefore narrow as a percentage of sales at 5-6% of sales vs. 7.2% of sales in 2014 and 7.7% in 2015.

- **Slightly higher change in WCR:** the NWC/sales ratio remains low (around 13% in 2015) compared with that noted at Hugo Boss (around 20%), primarily in view of the group's pure player profile in ready-to-wear (outerwear: 85% of sales) which limits the number of references. However, the aim to increase the weight of new categories could prompt a higher change in WCR in our view (1 percentage point by 2018).

In view of high FCF generation (EUR155-200m/year), Moncler should boast a net cash position as of the end of this year. We expect the pay-out ratio to stabilise at around 25% and do not expect Moncler to seek acquisitions after the disposal of its sportswear division in November 2013, just before its IPO.

Fig. 39: An already heathy balance sheet that should continue to improve:



Source: Company Data, Bryan, Garnier & Co ests

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Bryan Garnier stock rating system

For the purposes of this Report, the Bryan Garnier stock rating system is defined as follows:

Stock rating

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NEUTRAL	Opinion recommending not to trade in a stock short-term, neither as a BUYER or a SELLER, due to a specific set of factors. This view is intended to be temporary. It may reflect different situations, but in particular those where a fair value shows no significant potential or where an upcoming binary event constitutes a high-risk that is difficult to quantify. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.
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Distribution of stock ratings

BUY ratings 57.6%　　NEUTRAL ratings 33.8%　　SELL ratings 8.6%

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