BRYAN, GARNIER & CO

INDEPENDENT RESEARCH

28th November 2016

Luxury & Consumer Goods

Yoox Net-A-Porter

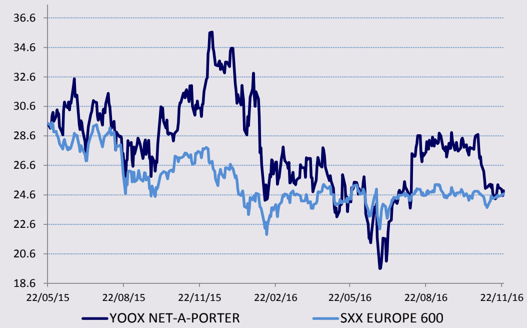
IN BREF: Yoox Net-A-Porter, the « web-niche »

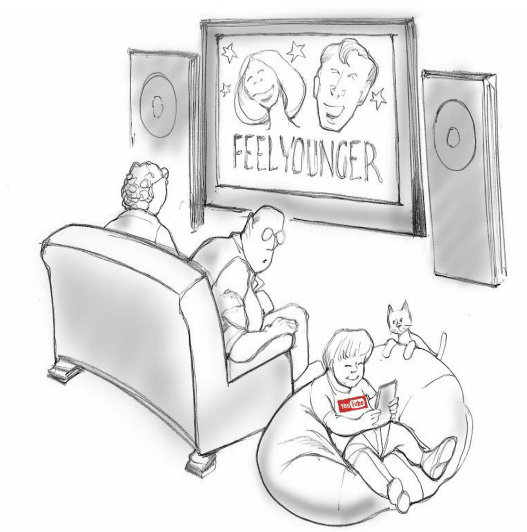
Fair Value EUR33 (price EUR24.89)

BUY
Coverage initiated

Bloomberg	YNAP IM
Reuters	YNAP.MI
12-month High / Low (EUR)	35.7 / 19.6
Market capitalisation (EURm)	3,377
Enterprise Value (BG estimates EURm)	3,328
Avg. 6m daily volume ('000 shares)	592.5
Free Float	38%
3y EPS CAGR	18.3%
Gearing (12/15)	-3,252%
Dividend yields (12/16e)	NM

YE December	12/15	12/16e	12/17e	12/18e
Revenue (EURm)	1,665	1,886	2,257	2,647
EBIT(EURm)	75.72	96.90	109.02	143.72
Basic EPS (EUR)	0.41	0.25	0.32	0.49
Diluted EPS (EUR)	0.46	0.51	0.57	0.75
EV/Sales	2.05x	1.76x	1.47x	1.24x
EV/EBITDA	25.6x	20.7x	15.8x	12.2x
EV/EBIT	45.0x	34.3x	30.5x	22.8x
P/E	54.6x	49.1x	43.4x	33.0x
ROCE	2.6	3.5	3.8	5.0





This introduction is intended as a description for investors who would like to get to know Yoox Net-A-Porter. It complements our sector report (« Serving Consumers not Uberising Them! ») which details our investment summary and valuation, leading to our Buy recommendation (Fair Value of EUR33).

As we point out in our sector report, no truth is indivisible and e-commerce players that have enjoyed a clear success share only the common denominator of having a coherent offer that seems to fit into one of four main models:

- In the first model, the e-merchant offers a comprehensive range at the best price. **Amazon** fits best this notion of a web-hypermarket, substituting "everything under the same roof" with "everything under the same site".
- In the second model, a web category killer such as **Zalando** multiples flows on high rotation product lines such that it becomes the natural destination for all internet users looking for a specific product.
- In the third model, the expertise of a **YNAP** is so great in a niche segment that it is difficult for another web-merchant to **1/** source and **2/** sell a similar product, in such an intimate framework and at the best price.
- In the fourth, the Brick & Mortar retailer is capable of reconciling a more predictive way of serving consumers (via click and data) while maintaining social ties (via collection from a physical store network).

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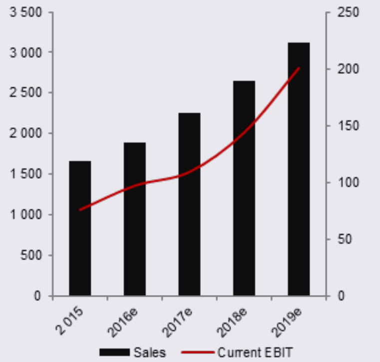

Company description

Yoox Net-A-Porter is the world's leading online luxury fashion retailer as a result of a game-changing merger with Yoox and Net-A-Porter. The group built a unique business with an unrivalled offering including multi-brand in-season online store and multi-brand off-season online stores, as well as numerous online flagship stores.g

Simplified Profit & Loss Account (EURm)	2014	2015	2016e	2017e	2018e
Revenues	1,272	1,665	1,886	2,257	2,647
Change (%)	*-%*	*30.9%*	*13.3%*	*19.7%*	*17.3%*
Current EBITDA	106	133	161	211	268
Change (%)	*-%*	*25.7%*	*20.8%*	*30.9%*	*27.3%*
EBITDA	85.7	126	148	196	251
Change (%)	*-%*	*47.5%*	*17.4%*	*31.9%*	*28.1%*
Current EBIT	59.0	75.7	96.9	109	144
Change (%)	*-%*	*28.3%*	*28.0%*	*12.5%*	*31.8%*
EBIT	38.8	69.5	50.2	60.1	92.3
Change (%)	*-%*	*79.1%*	*-27.8%*	*19.9%*	*53.4%*
Profits from associates	(0.69)	0.59	0.0	0.0	0.0
Financial results	4.2	0.75	(2.6)	0.0	0.0
Pre-Tax profits	42.3	70.9	47.6	60.1	92.3
Tax	(18.9)	(17.4)	(15.3)	(18.0)	(27.7)
Net profit	23.4	53.4	32.3	42.1	64.6
Restated net profit	43.3	59.7	67.3	76.3	101
Change (%)	*-%*	*37.8%*	*12.7%*	*13.4%*	*31.8%*
Cash Flow Statement (EURm)					
Operating cash flows	40.9	46.2	118	178	223
Change in working capital	(16.8)	8.9	(7.4)	(13.5)	(14.2)
Capex, net	(38.4)	(60.6)	(144)	(158)	(159)
Free Cash flow	(14.4)	(5.5)	(33.8)	6.1	50.0
Financial investments, net	(1.2)	(30.0)	(5.5)	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0
Capital increase / buyback	21.8	15.6	100	0.0	0.0
Other	24.6	51.7	3.0	0.0	0.0
Decrease / (Increase) in net debt	30.7	31.9	63.7	6.1	50.0
Net debt	(30.7)	(62.6)	(126)	(132)	(182)
Balance Sheet (EURm)					
Tangible fixed assets	35.7	111	113	89.9	44.9
Intangibles assets	35.7	1,842	1,771	1,816	1,862
Cash & equivalents	128	193	281	288	337
Other assets	256	657	745	870	1,002
Total assets	455	2,804	2,910	3,064	3,246
Shareholders' funds	158	2,037	1,977	2,019	2,083
L & ST Debt	96.8	131	155	155	155
Others liabilities	200	637	778	890	1,008
Total Liabilities	455	2,804	2,910	3,064	3,246
WCR					
Capital employed	110	2,014	1,952	1,988	2,003
Ratios					
Operating margin	4.64	4.55	5.14	4.83	5.43
Normative tax rate	30.00	30.00	30.00	30.00	30.00
Net margin	3.41	3.59	3.57	3.38	3.80
ROCE (after tax)	37.47	2.63	3.47	3.84	5.02
Gearing	(515)	(3,252)	(1,564)	(1,524)	(1,142)
Average number of shares					
Number of shares, diluted	0.0	131	133	133	133
Data per Share (EUR)					
EPS	NM	0.41	0.25	0.32	0.49
Restated EPS	NM	0.46	0.51	0.57	0.75
% change	*-%*	*-%*	*11.2%*	*13.2%*	*31.5%*
Operating cash flows	NM	0.35	0.89	1.34	1.67
FCF	NM	(0.04)	(0.25)	0.05	0.37
Net dividend	NM	0.0	0.0	0.0	0.0

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

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1. Two soul sisters

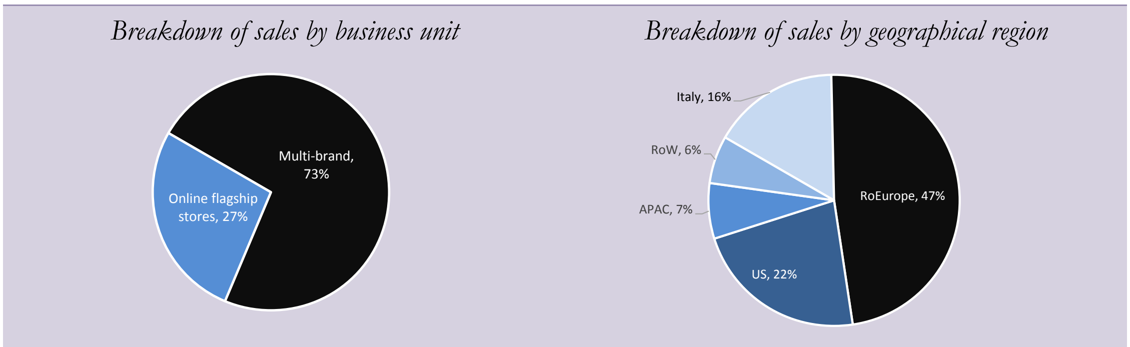
1.1. Yoox: six of one…

Yoox Group was created in Italy in 2000 by Federico Marchetti, a former banker, who was animated by the idea of combining internet and fashion for the first time. Since its creation, the group focuses on selling mid and upscale articles and targets "sophisticated" clients to the detriment of attractive promotional and cut-price sales.

This niche positioning was strengthened in the affordable luxury segment with the opening of The Corner.com (2008) and Shoescribe (2012) and enabled Yoox.com to break even three years after its launch. The model is easy to export since the company is currently present in 170 markets compared with only 57 countries in 2009.

Yoox Group was floated on the Italian market on 12th March 2009 (only IPO in Italy that year) at the price of EUR4.3 per share, at the high-end of the valuation range (EUR3.6-EUR4.5) for a market capitalisation of EUR217m. The operation enabled the group to raise EUR95m, destined at underpinning business in Asia. As of 2013, the share integrated the Italian stockmarket's benchmark index, the FTSE MIB.

Fig. 1: Presentation of Yoox – 2014 (pre-merger)



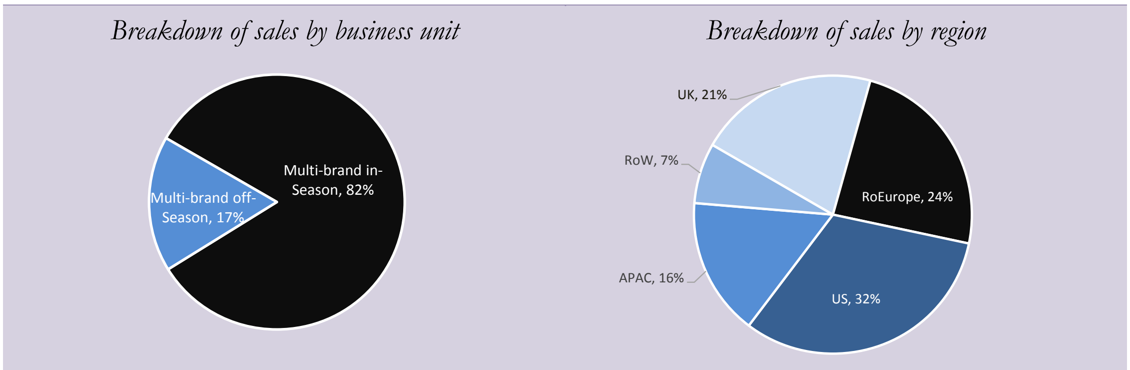
Source: Company Data; Bryan, Garnier & Co ests.

1.2. NAP: …half a dozen of the other

Net-A-Porter Group was founded in the UK in 2000 by Natalie Massenet, previously a fashion editor for specialised UK magazines. The group rapidly became one of the favoured online addresses for wealthy fashion lovers.

Sales development then focused more on upscale fashion lovers. This niche positioning rapidly caught the eye of global luxury player Richemont, which bought a stake in the group as of 2002. This was constantly increased until the group took control of Net-A-Porter in 2010.

Fig. 2: Presentation of NAP – 2014 (pre-merger)



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

1.3. A marriage of convenience

Birth of a global leader in online sales of affordable luxury articles

In October 2015, via a share swap offer, Yoox Group logically undertook the merger/absorption of Net-A-Porter (valued at GBP950m, or EUR1.44bn), its alter-ego in the online affordable luxury segment. Indeed, Yoox Net-A-Porter (YNAP) combines the multi-brand proprietary business of Net-A-Porter (Net-A-Porter.com, MrPorter.com and TheOutnet.com) with the expertise of Yoox in the development and management of dedicated websites for third-party brands (know-how strengthened by the joint-venture with Kering concerning eight corners focused on the French group's brands). So far, 41 mono-brand websites are currently supervised by the company.

The merger created Yoox Net-A-Porter (YNAP), one of the leaders in online fashion sales with pro-forma 2015 sales of EUR1.7bn generated in 180 countries. Federico Marchetti remains at the head of the new group, while the founder and CEO of Net-A-Porter, initially destined to become Executive Chairman, resigned just a few weeks before the operation was completed.

Fig. 3: Presentation of YNAP – pro-forma 2015

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

Richemont (which had acquired 93% of Net-A-Porter's capital) obtained 49% of the capital and 25% of YNAP voting rights and is obliged to maintain its stake for a three-year period. Meanwhile, Federico Marchetti reduced his pre-merger stake from 9.8% to 4.8% after the merger, then 3.9% at end-June 2016. A capital increase of up to EUR200m was initially planned following the merger-absorption, in which Richemont was supposed to take part (EUR100m was finally undertaken via a private placement in April 2016 with the Alabbar fund).

Fig. 4: Shareholding structure of new YNAP group

Shareholding	At 06/16
Richemont	49%
Federico Marchetti (Yoox founder)	3.9%
Renzo Rosso (Diesel founder)	4%
Mohamed Ali Rashed Alabbar	3%
Fil Limited	2%
Public free float	38%

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

Ramp-up and potential operating synergies

With an average basket of EUR481 in 2014, Net-A-Porter's customers are positioned in a more upscale segment than those of Yoox (EUR200). These more selective and extravagant customers are also fewer in number (0.8m vs. 1.3m in 2014). The integration of Net-A-Porter helped Yoox move upscale with an average basket totalling EUR352 in 2015, albeit without a reduction in the client base (2.5m in 2015) and the number of orders taken on a pro-forma basis (7.1m in 2015).

Net-A-Porter has always been less profitable than Yoox (7.7% EBTIDA margin vs. 9.6% despite its more upscale positioning). It only became profitable during 2015, just prior to the merger of the two groups. In addition to complementary geographical aspects, the merger offers high synergy potential that should bring the margin to levels that are rare for an e-commerce player.

Initially estimated at EUR60m/year as of 2018 (after integration of the logistics process, sales platforms and technological support), synergies were reassessed at EUR80m/year. EUR95m in non-recurring cost-reductions are also expected between 2015 and 2018, primarily concerning capex.

Fig. 5: An apparently beneficial move upscale

	Yoox Group (2014)	Net A Porter Group (2014)	Yoox Net A Porter Group (2015)
Online stores	Yoox.com TheCorner.com Shoescribe.com Corners including JV with Kering	Net-a-porter.com MrPorter.com TheOutnet.com Corner for Jimmy Choo	Yoox.com Net-a-porter.com MrPorter.com TheOutnet.com Corners including JV with Kering and Jimmy Choo
Net revenues (EURm)	524.3	753.8	1,665
EBITDA (EURm)	50.1	58.3	126.0
EBITDA margin	9.6%	7.7%	7.6%
Employees	885	2,455	3,901
Monthly unique visitors (m)	15.2	9.0	27.1
Active customers (m)	1.3	0.8	2.5
Average order value (EURm)	202	481	352
Orders (m)	3.4	2.4	7.1
Conversion rate	1.9%	2.2%	2.2%

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

Fig. 6: Strong complementary aspects in off-season and corners

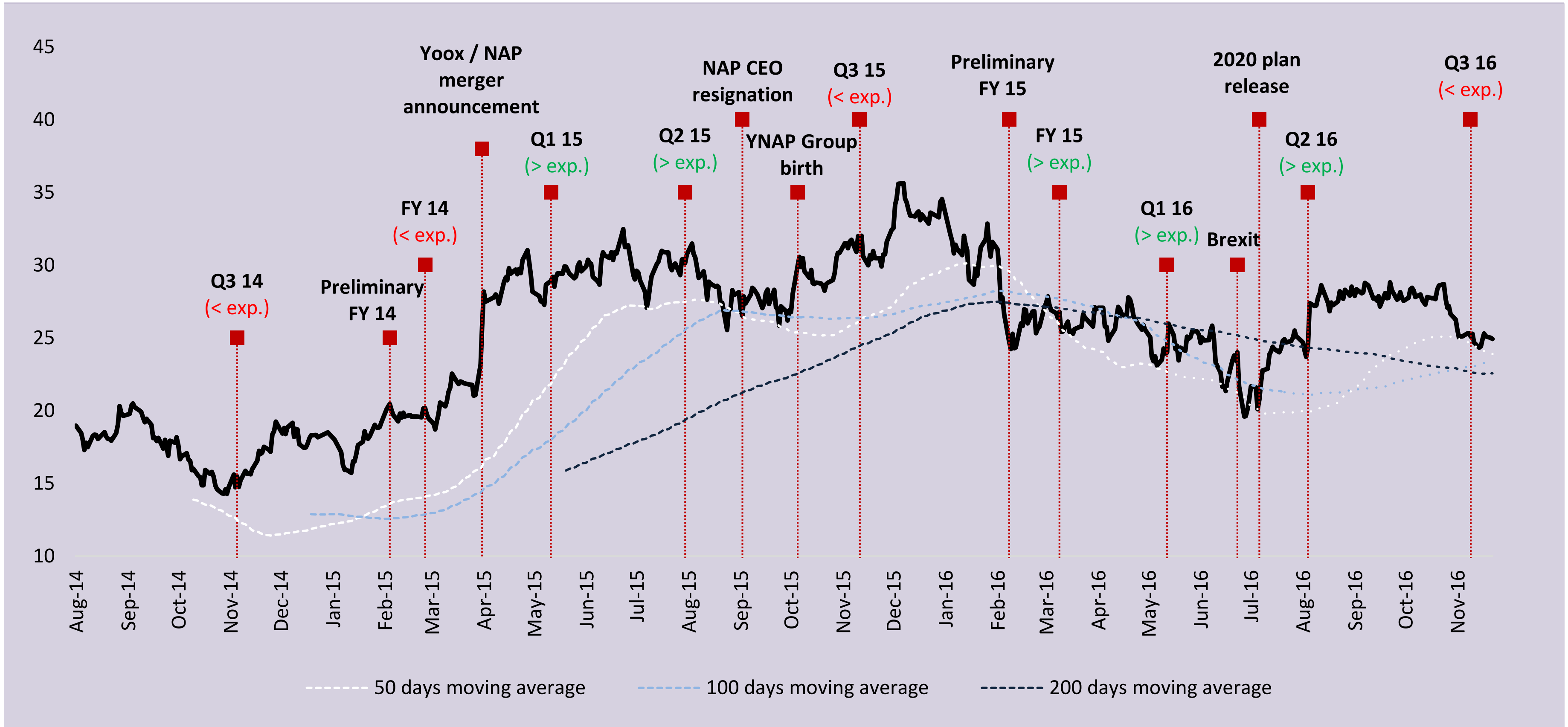
	Yoox Group		Net-A-Porter Group	
In-Season	SHOESCRIBE	Created in 2012. Focused on women footwear	NET-A-PORTER	Created in 2000. Fashion items destined to women
	THECORNER	Created in 2008. Online store for men and women	MR PORTER	Created in 2011. Fashion items destined to men
Off-Season	YOOX.COM	Created in 2000. Destocking of exhaustive fashion items for men, women and children	THE OUTNET	Created in 2009. Destocking of more exclusive premium fashion items for an olde female clientele
Corners	KERING	Since 2012, JV with Kering to handle its 8 brands' websites (Saint Laurent, Bottega Veneta, Alexander McQueen ...) 33 other brands (Marni.com, Diesel.com, Valentino.com ...)	JIMMY CHOO	Since 2007, JV with Jimmy Choo to handle the brand's retailing website

Cannibalisation between Yoox et NAP's websites offering the same kind of products (leading to the Shoescribe & TheCorner's closure in 2016)

Offer's complementarity between Yoox and NAP's websites

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

Fig. 7: Yoox equity story (Yoox Net-A-Porter since August 2014)



Source: Thomson Reuters; Bryan, Garnier & Co ests.

1.4. SWOT analysis of Yoox Net-A-Porter

Fig. 8: YNAP SWOT

Strengths	Weaknesses
Niche market expertise that cannot be improvised (first entrant, revered by some of the most well-known brands).	Contrary to a number of rivals, YNAP bills its deliveries and returns, at a higher than average cost.
In the mono-brand division, the experience gained previously in the multi-brand segment is a guarantee of strong credibility...	The level of stocks could be improved. It needs to be optimised as the omni-stock programme is rolled out.
... whereas intimate relations with the brands, via mono-brand corners, help secure supply in the multi-brand segment.	
Opportunities	**Threats**
The penetration rate in e-commerce in luxury is currently low at 7%. It offers several years of growth for sector players.	All mergers (October 2015) present execution risks, especially when logistics are at the heart of the system.
Cross fertilisation between the various site categories, enabling the group to be constantly up-to-date with the latest fashions.	On principal, Amazon is a threat for e-commerce players (in 2017 it is set to be the no. 1 US textiles retailer).
A breeding ground of synergies can still be exploited following the merger (more than 300bp potential improvement in the margin out to 2020).	Further out, retailers could decide to bring their e-commerce brands back in-house (especially Kering).

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

2. A unique offer in the affordable luxury segment

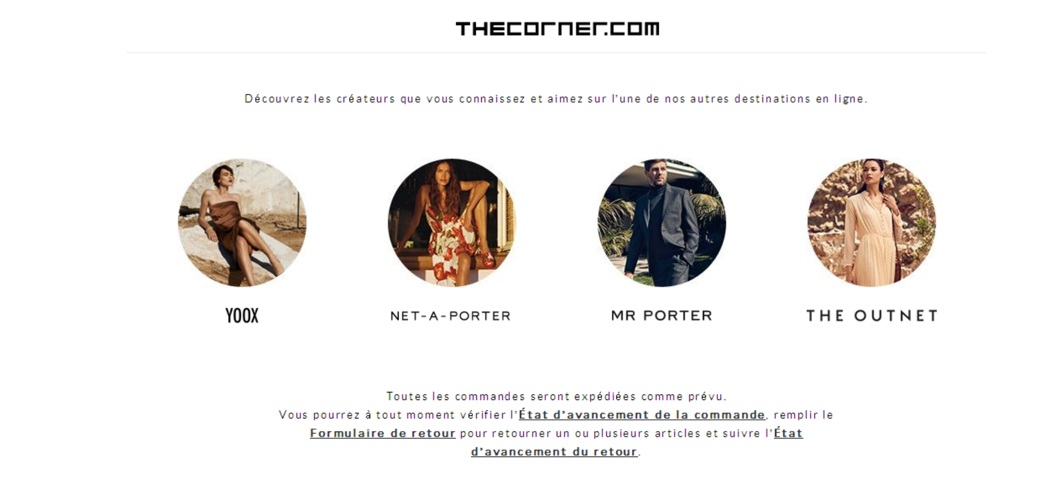
2.1. A comprehensive in- and off-season offering

YNAP manages 47 sites selling fashion articles in the affordable luxury segment, divided into three categories: **1/** multi-brand in-season sites (covering recent articles from around 350 brands), **2/** multi-brand off-season sites (which run down products stemming from 1,000 different brands from previous seasons or from other group websites, destined to be sold at a discount), **3/** mono-brand flagship sites (41 including eight for the JV with Kering) managed on behalf of third-party brands (see section 2.2).

The in-season segment (Net-A-Porter, Mr Porter) had been reorganised within the new group given the similarities with a number of sites in terms of offer (very similar styles or brands and the same price range - see figure 6) and customers (virtually half of the active customers on The Corner and Shoescribe were also Net-A-Porter and Mr Porter users). At the end of 2015, YNAP therefore announced the closure of TheCorner.com and Shoescribe.com (initially part of Yoox Group) by the summer of 2016.

Note that these two sites only accounted for 2.4% of pro-forma sales at end-September 2015, hence the low risk attached to reorganisation. The websites are still online and, in order to limit the loss in customers, redirect users to other addresses belonging to the group. This operation has helped streamline market and structural costs. YNAP is therefore aiming to improve the profitability of the Net-A-Porter sites, which was initially weaker than for the Yoox sites.

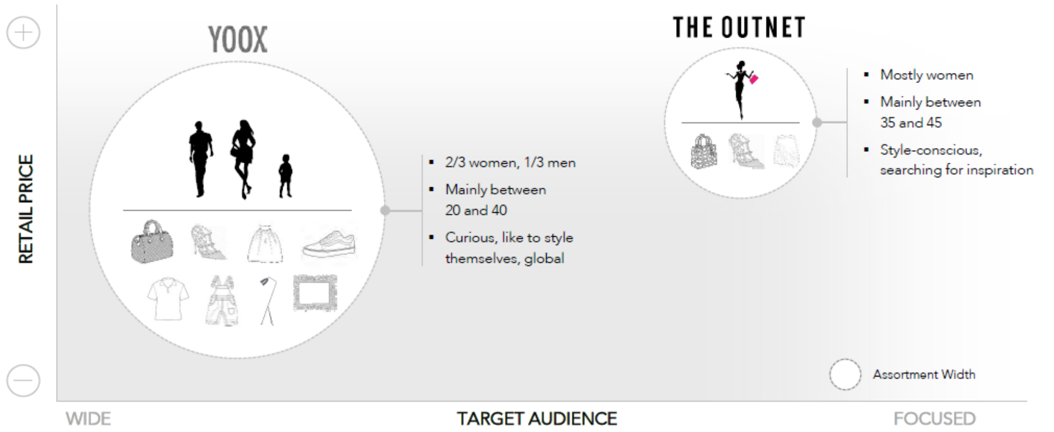
Fig. 9: Site reorganisation: rapidity without brutality



Source: TheCorner.com.

Off-season multi-brand websites are not currently part of the reorganisation, even if the offer stemming from the merger of Yoox and Net-A-Porter is set to become more upscale with the addition of The Outnet (initially owned by Net-A-Porter). Via the Yoox site, this off-season segment was previously targeting a large category of customers (women, men, children) to whom a comprehensive rate of fashion products was offered. The Outnet (stock run-downs) currently provides more exclusive premium fashion articles for women aiming to change their system (older customers who are more demanding and prepared to spend more).

Fig. 10: Moves upscale in off-season



Source: Yoox Net-A-Porter.

2.2. Niche market expertise in the mono-brand corner segment

Since its creation in 2000, Yoox has acquired so much experience in the online luxury segment that numerous high-end banners have entrusted it the management of their websites (32 brands, as well as eight Kering brands via a joint-venture with the French group). Meanwhile, until the merger, Net-A-Porter simply managed the Jimmy Choo corner via a joint venture. Today, YNAP manages 41 mono-brand corners.

In concrete terms, the YNAP role consists of managing the sales platform, settlement processes, deliveries and returns. In addition, in agreement with the brands, it can offer consumers services in **1/** "Click & Collect" (online order and collection of the product in the brand's physical stores), **2/** "Click & Reserve" (after reserving online, the customer pays for and collects the product at the store) while ensuring **3/** "Ship From Store" (which consists of soliciting stock from another store if the article is lacking in the store where the customer is supposed to collect it from). Finally, via its smart data expertise, **4/** it can advise brands on their offer.

Under the framework of the joint venture created with Kering in 2012 (51% Kering, 49% Yoox), the brands maintain exclusive control of the store via the product assortment, editorial content, artistic direction and digital communication. YNAP simply makes its platform available and manages settlements and deliveries. The joint venture is consolidated in Kering's accounts, and Kering pays YNAP on the basis of a percentage of sales. After seven years of operation, Kering and YNAP will have the right to respectively exercise a buy and a sell option on the share owned by the e-merchant in the joint-venture. The risk is that Kering could later decide to bring management of all of the websites for the brands it owns back in-house (note the impact that the loss of the Kering licence had on Safilo's share price...). We believe that the market has this threat well in mind.

2.3. Cross-fertilisation concept in an upscale ecosystem

The strength of YNAP's business model is based especially on the cross-fertilisation concept between the sites' various categories. Indeed, the multi-brand platforms serve as a shop-window and incubator for future corners, which then become a breeding ground for information.

As such, thanks to the data collected (2.5m active clients and 27m unique monthly visits), YNAP can permanently fine-tune the offer on its proprietary sites depending on the trends and fashions taking shape. Similarly, when it has not managed to run-down stocks on its "in-season" sites, YNAP can shift them to its "off-season" platforms (as articles not sold in the corners can be found on multi-brands sites).

The concern with fine-tuning the offer lies in the presentation of upscale products (professional photographs, 3D views, videos). The clichés stem from specialised studios owned by the group, with around 99 of these throughout the world, close to distribution centres (US, UK, Italy, China, Japan and Hong Kong). More than 250 photographers, stylists, photo retouchers, cameramen and editors are involved in this activity that primarily covers the products sold by the in-season multi-brand sites.

It goes without saying that YNAP has adopted an omni-channel content strategy. In this respect, the offer is accessible on mobile devices (95% of luxury goods customers have a smartphone whereas mobiles account for 55% of YNAP's visitor flows and 37% of orders).

3. Heading for an industrialisation of the model

3.1. Densifying coverage

In geographical terms, the presence of Net-A-Porter in the US (32% of its 2014 sales) and in Asia (16%) advantageously rounds out Yoox's high exposure to Europe (63% of its 2014 sales). Indeed, the US and Chinese markets are larger than Europe and offer higher growth potential, with customers who are more used to online purchasing and are more spendthrift. In Europe, each entity enables the group to benefit from its leadership position in the domestic market (Italy for Yoox and the UK for Net-A-Porter).

Via a logistics network of eight centres (250,000m² in) throughout the world, YNAP delivered seven million orders in 180 countries in 2015. Out of all of the destinations, 25 benefited from a premium delivery service (same-day delivery). This high-quality service is ensured by a proprietary fleet of 55 vans throughout Italy, the east coast of the US and in Hong-Kong. The remaining orders are handled by a third-party provider. Delivery is billed to the customer (between EUR6 and EUR30 depending on the timeframe chosen), returns are free but with a retraction deadline of less than 30 days.

YNAP's global logistical network is currently dependent on supply from the Bologne centre (147,000m²) historically owned by Yoox. However, in order to reduce costs and delivery times, the group has not stopped extending its distribution capacity. The space dedicated to logistics should therefore rise from 250,000m² in 2015 to 340,000m² in 2020, by the opening/extension of satellite centres. Italy should therefore welcome a new entity for which building started in H1 2016 and should be fully operational in H1 2018 (58,000m² for an investment of EUR30m). The United Arab Emirates should be equipped with a similar space in H2 2017 and this should help the group attack the Middle Eastern market. Asia and the US will also see their network increase in 2018 and 2019 respectively. In addition, the group's recent interest for Russia, prompted by the potential economic recovery, could encourage it to extend its network in Eastern Europe.

Fig. 11: Extension of logistical capacity

Country	NAP	Yoox	YNAP 2015 (m²)	YNAP 2020 (m²)
Italy		x	147,000	205,000
UK	x		17,600	17,600
US	x	x	49,000	43,000
Japan		x	2,300	4,800
China		x	3,000	6,200
Hong Kong	x	x	14,000	14,100
United Arab Emirates			-	ND
?			-	?
Total			**250,000**	**340,000**

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

Fig. 12: Yoox Net-A-Porter logistical structure – 2020 plan

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

3.2. Harmonisation of logistical processes

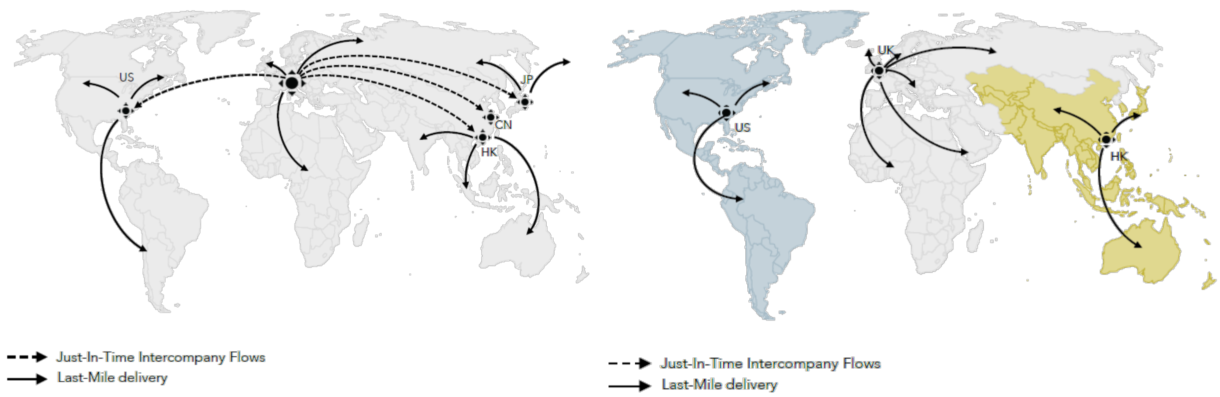
1/ When YNAP undertakes delivery/settlement on behalf of third-party brands and for multi-brand sites, its own logistics chain is directly solicited. In contrast, **2/** when the group simply collects orders and reservations on behalf of the banners (Click & Collect, Click & Reserve and Ship From Store), it leaves its partners to handle in-store delivery and is therefore only indirectly concerned by logistics. These direct **(1)** and indirect **(2)** flows are destined to be optimised thanks to the multiplication in synergies between the platforms.

1/ Concerning direct flows

In historical terms, Yoox' logistical structure is based on its main logistics hub in Bologne, whereas the organisation at Net A Porter is less centralised and initially includes three major centres (US, UK, Hong Kong). Each of these works independently and feeds secondary platforms, while directly ensuring a number of orders.

Fig. 13: Two different organisations

Pre-merger logistical organisation– Yoox Group *Pre-merger logistical organisation– Net A Porter Group*



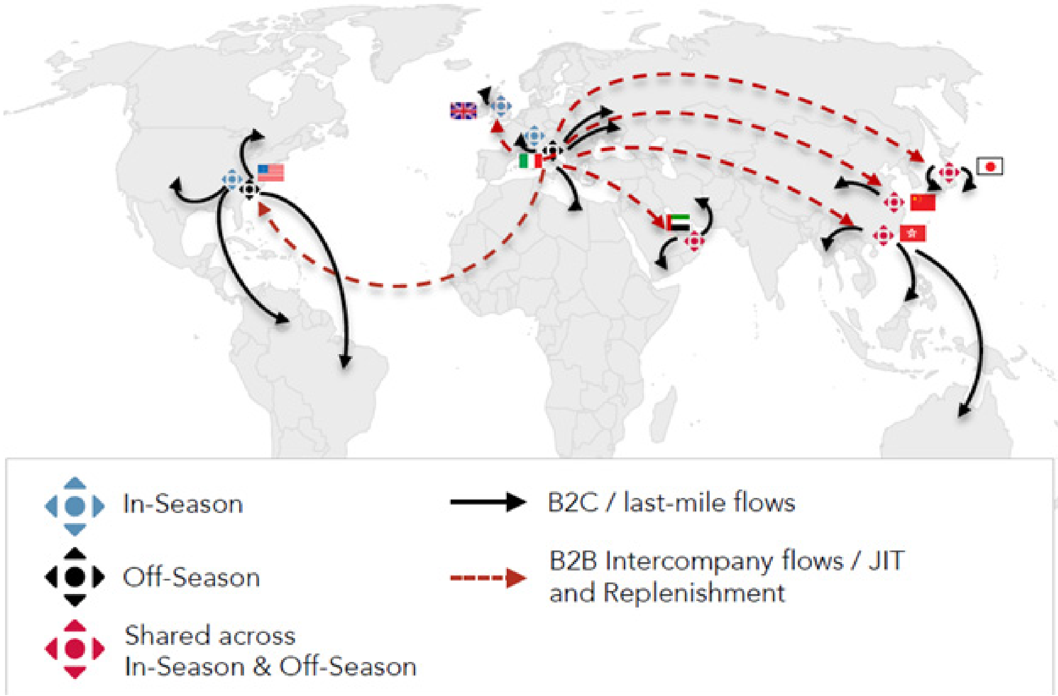
Source: Yoox Group; Net A Porter Group.

At end-June 2016, YNAP had more than 8.7m articles in all of its logistical centres. In order to manage these stocks, the new organisation maintains the centralised scheme established by Yoox and therefore remains dependent on Bologna. This hierarchy nevertheless integrates more secondary poles to supply, these being increasingly well connected in order to optimise flows.

Indeed, YNAP is currently working on a smart stock-allocation programme ("omni-stock") aimed at providing a degree of flexibility to the allocation of reserves between the various logistical centres, in order to protect itself as far as possible from the risk of shortfalls or of overstocking. Further out, YNAP executives will have real-time access to this information.

This programme should be operational between now and 2018. Yoox' former in-season sites will be the first to migrate to this system, as of Q4 2016 (transfer of the off-season business is planned for H2 2017). The former Net-A-Porter sites are then set to follow, and then in Q3 2017, the mono-brand sites managed on behalf of third-party brands (for classic delivery payment).

Fig. 14: New post-merger organisation (including 2020 plan to extend the logistics network)



Source: Yoox Net-A-Porter.

2/ Indirect flows

When the consumer opts for the Click & Collect option, the brand's logistics chain is solicited and Yoox is simply an order-taking platform via the mono-brand corner. An order management system software then places the corner in contact with the brands' physical stores and distribution centres, making the omni-channel strategy more fluid. In order to do this, the group decided to call on the expertise of IBM as of 2016.

3.3. Outsourcing expertise in logistical software to IBM

The standardisation of the logistical processes has stemmed from the partnership created with IBM in 2016. In addition to a single IT platform (the e-commerce suite), IBM developed the order management system software and is currently working on the "omni-stock" programme. This partnership is apparently diluting the proprietary technology, which some clearly consider regrettable. A number of executive staff, including the group's head of technology, Hugh Fahy, have therefore left the group.

At the same time, YNAP is planning to recruit more than 100 staff in its technological division, between the Bologna and London sites, in order to accompany the ramp-up in the technology necessary for converging the systems and developing mobile services (55% of visitor flows, but just 37% or orders). Out of the EUR800m in capex planned for 2015-2020, 74% is set to be invested in technology (21% for operations with the opening of new handling centres).

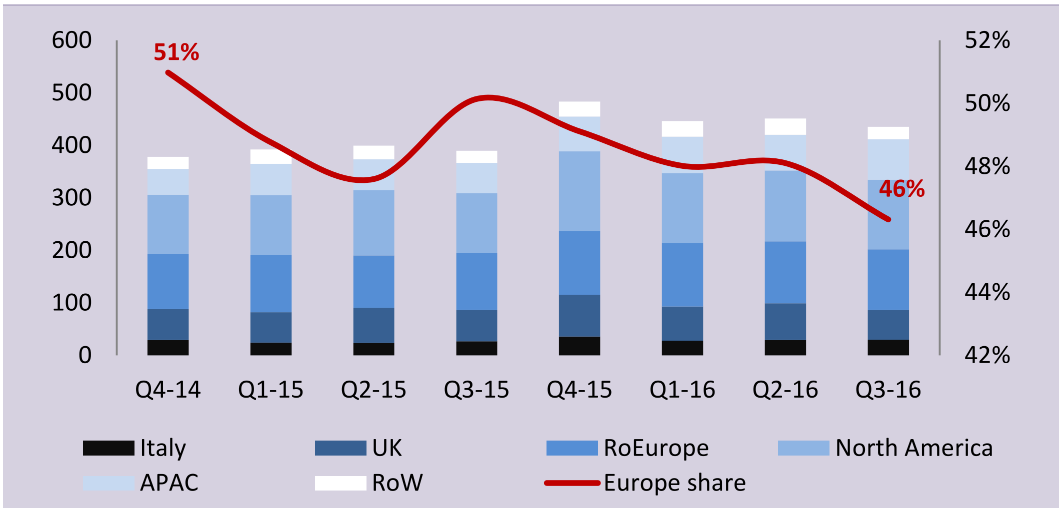
4. YNAP financial performances

4.1. Growth in the online luxury market

The group is highly exposed to two main regions, North America (30% of sales) and Europe (48%), both of which are developed and receptive to e-commerce. The contribution from Europe has nevertheless tended to decline (48% in Q2 2016 vs. 51% pro-forma in Q4 2014), given the ramp-up in Asia.

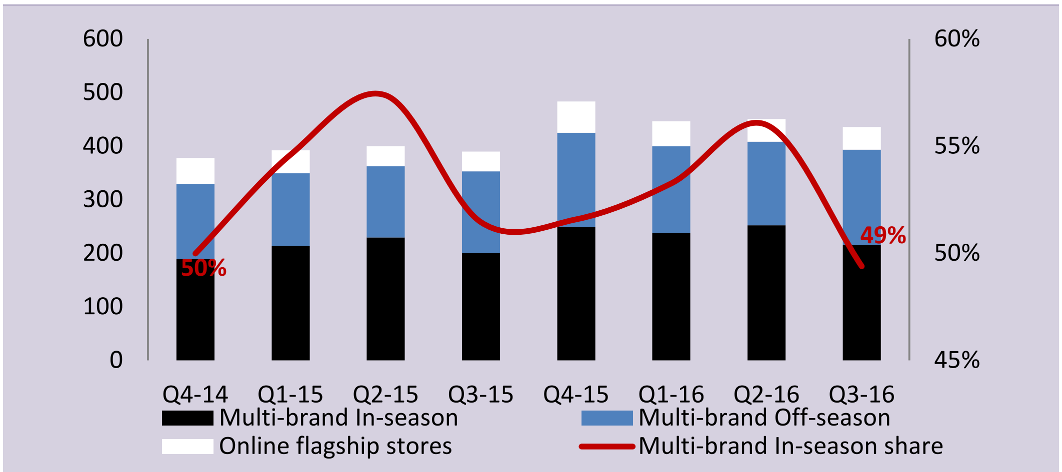
Like the Middle East, Asia merits specific attention. Indeed, China represents huge development potential for e-commerce with growth rates of around 33% at present and potential still to explore (36% of the population over the age of 15 have already made purchases online).

Fig. 15: Increasingly diversified geographical exposure (EURm)



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

Fig. 16: Sales driven by Net-A-Porter.com and Mr Porter.com (EURm)



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

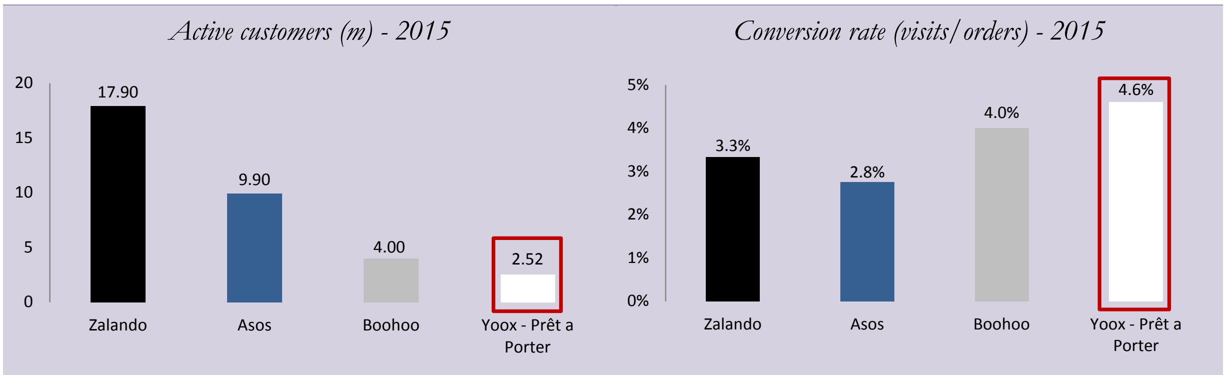
Fig. 17: Characteristics of three major regions for e-commerce (2015)

Country	E-commerce B2C turnover (EURbn)	E-commerce B2C (YoY growth)	E-shoppers (% of population >15yo)	Spending per e-shopper (EUR)
European region	455	+13%	43%	1,540
China	682	+33%	36%	1,855
US	530	+12%	67%	3,428

Source: Eurostat; E-commerce in Europe; Bryan, Garnier & Co ests.

Given its far more upscale positioning than rivals such as Asos and Zalando, YNAP's active client base (i.e. those having made at least one purchase over the past 12 months) is smaller (2.5m customers in 2015 on a pro-forma basis). However, this more restricted customer base also seems easier to convert into sales, with YNAP boasting a conversion rate of 4.6% (far higher than its European peers in mass market segments).

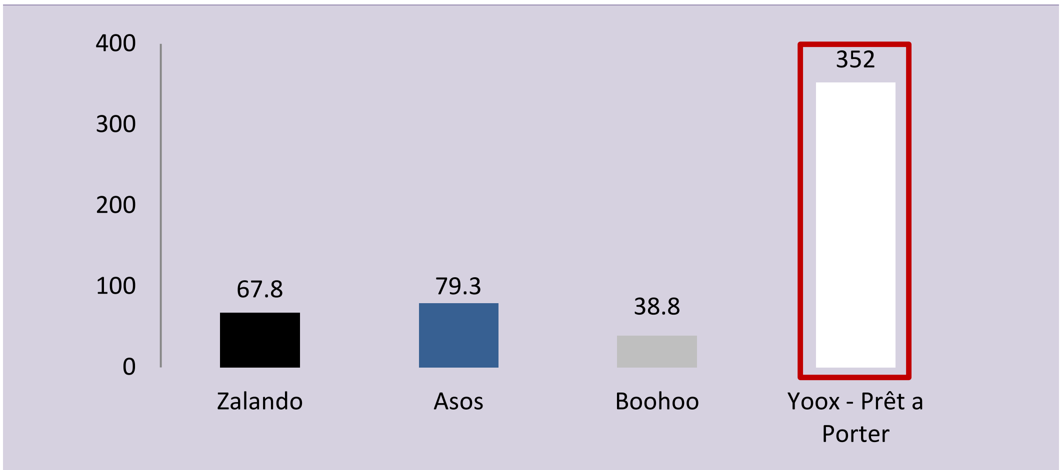
Fig. 18: Luxury: fewer customers but more easily converted



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

The range of luxury products offered and the customer purchasing power targeted drives an average basket of EUR352, more than four times higher than average baskets at European peers. Note that this even climbs to EUR600 if we only look at the group's in-season business (Net-A-Porter, Mr Porter).

Fig. 19: High average basket makes Yoox a luxury player



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

With a customer base looking for quality and strong brand image, the group does not need to make huge efforts in terms of handling orders (the majority of customer satisfaction having been undertaken upstream, when the product is presented). As such, YNAP does not offer free delivery (which costs between EUR6 and EUR30 for customers) and only grants a 14-28 day time-frame for customers to change their minds and return the products. This strategy contrasts with policies at other players, like Zalando, which offer free deliveries and returns.

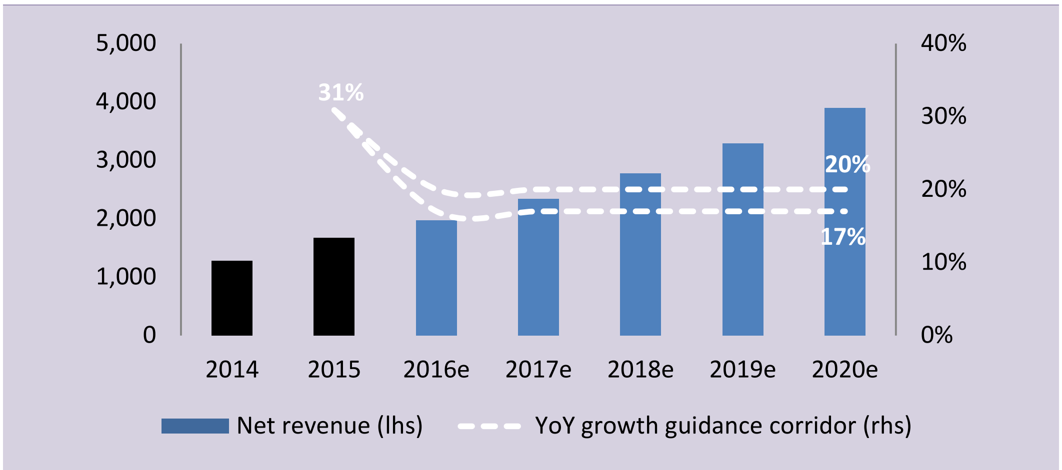
Fig. 20: Fewer efforts in order handling

	Delivery time	Delivery cost	Retraction/return time	Return cost
Yoox	1-6 days	€9.5-€30	14 days	Free
Net A Porter	1-6 days	€7.95-€25	28 days	Free
The Outnet	1-6 days	€10-€25	28 days	Free
Mr Porter	0-3 days	€6-€25	28 days	Free
Boohoo	5 days	€6-€9	14 days	Free
Zalando	1-6 days	Free	100 days	Free

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

YNAP is targeting average sales growth (at constant exchange rates) of between 17% and 20% by 2020. This estimate seems coherent to us, given the segment's potential and the market share gains made by the group so far. The impact of closing TheCorner.com and Shoescribe (off-season multi-brand) in Q2 2016, should be very limited over 2016, given the low contribution to sales (2.4%).

Fig. 21: Reasonable sales targets (EURm)

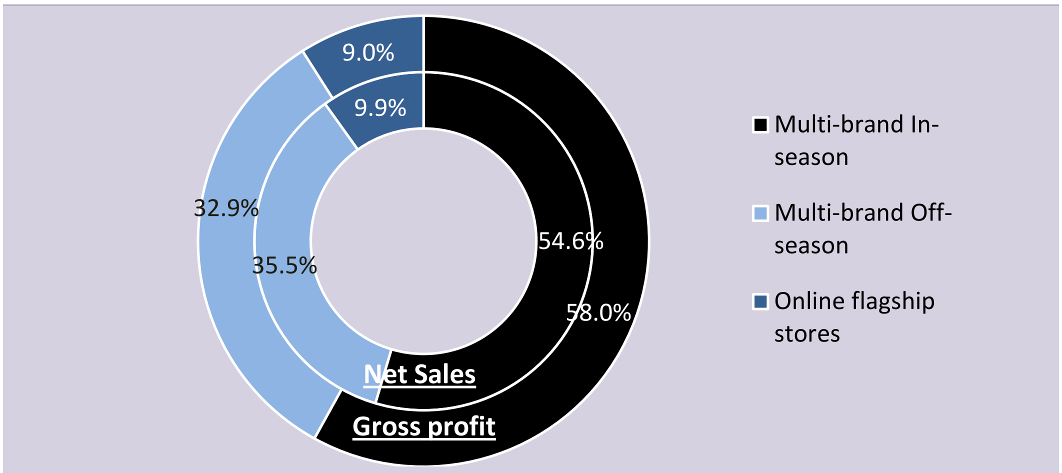


Source: Company Data; Bryan, Garnier & Co ests.

4.2. Profitability

Gross margin is primarily driven by the in-season multi-brand sites (Net-A-Porter and Mr Porter, which post a rate of 42%), whose more expensive products are destined for customers less sensitive to prices. Whereas the business only generates 54.6% of the group's sales, it contributes 58% of gross margin. This situation contrasts with the off-season multi-brand sites (Yoox, The Outnet), which offer unsold products from past seasons at lower prices and margin levels (36.7%). The mono-brand sites managed on behalf of third-parties only generate a gross margin of 36.1%.

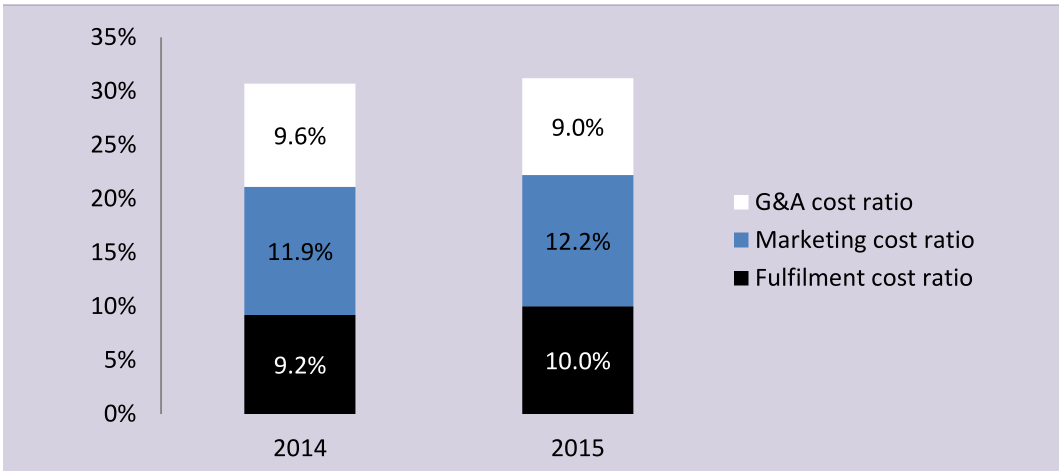
Fig. 22: Breakdown of net sales and gross margin by business - H1 2016



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

As for rivals, the main source of spending for YNAP concerns marketing and logistics, which represent 22% of sales Note that these two items tended to increase in weight in 2015 following the merger. Indeed, a period of overlapping and doubling of certain operating costs was witnessed until the structures were integrated and standardised.

Fig. 23: Main spending items (% of sales) – pro forma (excl. IPC)



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

Fig. 24: Marketing expenses now higher than those of rivals (2015)

	Active customers (m)	Conversion rate	Basket size (EUR)	Marketing cost (EURm)	Marketing cost (% sales)
Yoox - Prêt a Porter	2.52	4.6%	352.0	203.13	12.2%
Zalando	17.90	3.3%	67.8	354.96	12.0%
Asos	9.90	2.8%	79.3	65.78	5.0%
Boohoo	4.00	4.0%	38.8	22.85	10.2%

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

Based on historical adjusted EBITDA margin limited to 2014 and 2015 in pro-form terms, note that the margin totalled 8% at the end of 2015. This rate offers improvement potential of 300-500bp, based on the group's targets (i.e. between 11% and 13% of adjusted EBITDA margin out to 2020). At this stage, our estimates are in line with these assumptions (ie 11.7%).

Management has identified four sources of leverage to achieve this: **1/** EUR80m/year in synergies as of 2018; **2/** margin improvement potential at Net-A-Porter, historically less profitable than Yoox (7.7% of EBITDA margin vs. 9.6%), **3/** the implementation of the omni-stock programme and **4/** momentum in own-brands (structurally more profitable than national brands) which should represent 10% of net sales in the off-season multi-brand business by 2020.

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BUY ratings 55,7% NEUTRAL ratings 32,9% SELL ratings 11,4%

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