15th November 2016

Luxury & Consumer Goods

Salvatore Ferragamo

Price EUR21.81

Q3 results below expectations, penalised by wholesale

Fair Value EUR23,8 vs. EUR24,5 (+9%) **NEUTRAL vs. BUY**

Bloomberg	SFER IM
Reuters	SFER MI
12-month High / Low (EUR)	23.2 / 17.5
Market Cap (EURm)	3,681
Ev (BG Estimates) (EURm)	3,686
Avg. 6m daily volume (000)	628.3
3y EPS CAGR	5.2%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-4.8%	4.3%	2.4%	0.3%
Pers & H/H Gds	-5.6%	-8.8%	-4.2%	-5.0%
DJ Stoxx 600	-0.5%	-2.3%	1.1%	-7.5%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	1,430	1,420	1,500	1,585
% change		*-0.7%*	*5.6%*	*5.7%*
EBITDA	324	318	340	362
EBIT	264.7	261.0	285.0	307.0
% change		*-1.4%*	*9.2%*	*7.7%*
Net income	172.6	167.0	184.0	201.0
% change		*-3.2%*	*10.2%*	*9.2%*

	2015	2016e	2017e	2018e
Operating margin	18.5	18.4	19.0	19.4
Net margin	12.1	11.8	12.3	12.7
ROE	30.0	26.4	26.2	26.1
ROCE	26.2	22.9	23.1	23.1
Gearing	0.8	0.6	0.4	0.7

(EUR)	2015	2016e	2017e	2018e
EPS	1.02	0.99	1.09	1.19
% change	-	*-3.2%*	*10.2%*	*9.2%*
P/E	21.3x	22.0x	20.0x	18.3x
FCF yield (%)	2.9%	2.3%	2.6%	2.9%
Dividends (EUR)	0.47	0.53	0.60	0.68
Div yield (%)	2.2%	2.4%	2.8%	3.1%
EV/Sales	2.6x	2.6x	2.5x	2.3x
EV/EBITDA	11.4x	11.6x	10.8x	10.2x
EV/EBIT	13.9x	14.1x	12.9x	12.0x

Salvatore Ferragamo's Q3 results were below expectations, significantly penalised by wholesale sales with a 4% sales decrease, implying -6% in Q3 alone versus -3.1% in H1. Nevertheless, retail sales recovered in Q3 (+0.5% vs -3.1% in H1) while wholesale sales deteriorated significantly (-19%) during the quarter. We revise down our FY 2016 estimates by 3%. Given poor visibility on the short term, we downgrade our recommendation from Buy to Neutral with a new EUR23.8 FV vs EUR24.5.

ANALYSIS

- **Salvatore Ferragamo's 9m sales reached EUR1.01bn** (consensus: EUR1.02bn), down 0.7% and 4% at same forex. This implies a 6% organic revenues decrease in Q3 alone (consensus:-0.5%) versus -3.1% in H1 and -3.4% in Q2. The disappointment was due to wholesale sales (35% of group sales) down 7.3% over 9m and more importantly, down 19% in Q3, strongly penalised by a very cautious shipping approach towards Department Stores, particularly in US, in order to avoid markdowns that *in fine* had a negative impact on brand equity. On the other hand, **retail sales had a better performance in Q3** and were almost stable following -3% in H1 and even -6% in Q2**. Actually, on a same store basis**, retail sales declined 3% in Q3 after -6% in H1. This acceleration was driven in particular by **Mainland China** where sales were up 5% in Q3 versus -5% in H1.
- **By region**, we would highlight the slight improvement in **Asia-Pacific** (35% of sales) with a 3.3% decrease following -4.4% in H1 and even -6.4% in Q3. This confirmed that momentum is clearly improving in Greater China (22% of group sales), while the trend remains very well oriented in other Asian countries like Korea and Singapore. In Q3, **Mainland China** (10% of sales) confirmed its turnaround, initiated in Q2 with 7% growth. On the other hand, **Hong Kong** and **Macau** remained clearly under pressure. In **Europe** (26% of sales), sales momentum deteriorated with a 9% decline mainly due to a lack of tourists and also to the wholesale business decrease (-12%), again due to delivery cautiouness. The faster decline in **North American** revenues (-7% vs -1.6% in Q3) was due to the clear deterioration in wholesale while retail sales were up.

Organic sales growth by region

in %	Q1 16	Q2 16	H1 16	Q3 16	9M 16
Europe	-4.2	-2.2	-3.1	-8.6	-4.8
North America	-3.8	-1.6	-2.6	-7.0	-3.9
Japan	0.0	-10.6	-5.2	-16.8	-9.1
Asia-Pacific	-2.0	-6.4	-4.4	-3.3	-4.1
Others	8.4	15.3	12.0	14.6	12.8
Group	**-2.3**	**-3.4**	**-3.1**	**-5.9**	**-4.0**

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

- **9m EBITDA of EUR216m (consensus: EUR223m) implied a 6% decline in Q3 alone**, penalised by i/ lower than expected a sales nd ii/ one-off costs linked to management changes, following the departure of Mr. Norsa as CEO. Therefore EBITDA margin lost 130bp in Q3 alone and remained stable over 9m.
- **New CEO, Mr. Eraldo Poletto**, is set to focus on **i/** store efficiency (improving sales per store which is far below the sector average) instead of store openings, **ii/** brand equity and **iii/** products, hence new designer appointments (both for the leather goods and shoes activities). Following the poor 9m results, we adjust our FY estimates and expect a 2% organic sales decline (-0.5% previously) and EBITDA margin slight decline (- 30bp).

VALUATION

- **The stock is trading on a 3% premium versus the luxury sample 2017 EV/EBIT**. Given our FV adjustments and low visibility on the short term, we prefer to **downgrade our recommendation from Buy to Neutral with a new FV at EUR23.8 vs EUR24.5.**

NEXT CATALYSTS

- FY 2016 sales to be reported end of January 2017

Analyst :
Loïc Morvan
33(0) 1 70 36 57 24
lmorvan@bryangarnier.com

Sector Team :
Nikolaas Faes
Antoine Parison
Cédric Rossi
Virginie Roumage

Bryan Garnier stock rating system

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

Stock rating

BUY — Positive opinion for a stock where we expect a favourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential upside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

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.

SELL — Negative opinion for a stock where we expect an unfavourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential downside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

Distribution of stock ratings

BUY ratings 56,1% NEUTRAL ratings 32,5% SELL ratings 11,5%

Research Disclosure Legend

1	Bryan Garnier shareholding in Issuer	Bryan Garnier & Co Limited or another company in its group (together, the "Bryan Garnier Group") has a shareholding that, individually or combined, exceeds 5% of the paid up and issued share capital of a company that is the subject of this Report (the "Issuer").	No
2	Issuer shareholding in Bryan Garnier	The Issuer has a shareholding that exceeds 5% of the paid up and issued share capital of one or more members of the Bryan Garnier Group.	No
3	Financial interest	A member of the Bryan Garnier Group holds one or more financial interests in relation to the Issuer which are significant in relation to this report	No
4	Market maker or liquidity provider	A member of the Bryan Garnier Group is a market maker or liquidity provider in the securities of the Issuer or in any related derivatives.	No
5	Lead/co-lead manager	In the past twelve months, a member of the Bryan Garnier Group has been lead manager or co-lead manager of one or more publicly disclosed offers of securities of the Issuer or in any related derivatives.	No
6	Investment banking agreement	A member of the Bryan Garnier Group is or has in the past twelve months been party to an agreement with the Issuer relating to the provision of investment banking services, or has in that period received payment or been promised payment in respect of such services.	No
7	Research agreement	A member of the Bryan Garnier Group is party to an agreement with the Issuer relating to the production of this Report.	No
8	Analyst receipt or purchase of shares in Issuer	The investment analyst or another person involved in the preparation of this Report has received or purchased shares of the Issuer prior to a public offering of those shares.	No
9	Remuneration of analyst	The remuneration of the investment analyst or other persons involved in the preparation of this Report is tied to investment banking transactions performed by the Bryan Garnier Group.	No
10	Corporate finance client	In the past twelve months a member of the Bryan Garnier Group has been remunerated for providing corporate finance services to the issuer or may expect to receive or intend to seek remuneration for corporate finance services from the Issuer in the next six months.	No
11	Analyst has short position	The investment analyst or another person involved in the preparation of this Report has a short position in the securities or derivatives of the Issuer.	No
12	Analyst has long position	The investment analyst or another person involved in the preparation of this Report has a long position in the securities or derivatives of the Issuer.	No
13	Bryan Garnier executive is an officer	A partner, director, officer, employee or agent of the Bryan Garnier Group, or a member of such person's household, is a partner, director, officer or an employee of, or adviser to, the Issuer or one of its parents or subsidiaries. The name of such person or persons is disclosed above.	No
14	Analyst disclosure	The analyst hereby certifies that neither the views expressed in the research, nor the timing of the publication of the research has been influenced by any knowledge of clients positions and that the views expressed in the report accurately reflect his/her personal views about the investment and issuer to which the report relates and that no part of his/her remuneration was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.	Yes
15	Other disclosures	Other specific disclosures: Report sent to Issuer to verify factual accuracy (with the recommendation/rating, price target/spread and summary of conclusions removed).	No

A copy of the Bryan Garnier & Co Limited conflicts policy in relation to the production of research is available at www.bryangarnier.com

London
Beaufort House
15 St. Botolph Street
London EC3A 7BB
Tel: +44 (0) 207 332 2500
Fax: +44 (0) 207 332 2559
Authorised and regulated by the
Financial Conduct Authority (FCA)

Paris
26 Avenue des Champs Elysées
75008 Paris
Tel: +33 (0) 1 56 68 75 00
Fax: +33 (0) 1 56 68 75 01
Regulated by the
Financial Conduct Authority (FCA) and the
Autorité de Contrôle prudential et de
resolution (ACPR)

New York
750 Lexington Avenue
New York, NY 10022
Tel: +1 (0) 212 337 7000
Fax: +1 (0) 212 337 7002
FINRA and SIPC member

Munich
Widenmayerstrasse 29
80538 Munich
Germany
+49 89 2422 62 11

New Delhi
The Imperial Hotel Janpath
New Delhi 110 001
Tel +91 11 4132 6062
+91 98 1111 5119
Fax +91 11 2621 9062

Geneva
rue de Grenus 7
CP 2113
Genève 1, CH 1211
Tel +4122 731 3263
Fax+4122731 3243
Regulated by the FINMA