Luxury & Cosmetics

"The Ernst & Young Financial Factbook"

2012 edition

Contents

Executive Summary

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This second edition of the Ernst & Young Financial Factbook for Luxury & Cosmetics builds on the incredible success of our first report last year and reflects the valuable feedback we received from those in the industry, as well as from other market observers.

While many industries have suffered over the past 12 months, luxury groups are likely to look at the last year and ask themselves, crisis - what crisis? The global personal Luxury market is estimated to have grown by 10.4% in 2011 and is forecast to grow at a CAGR of 6.0% to 7.0% through FY12E and FY14E. Indeed, Luxury is one of the very few industries currently experiencing real growth, even in troubled developed markets such as that of Spain, where the sector grew by double digits in 2011 in a country where five million people were unemployed.

Why does the sector continue to go from strength to strength? A key reason is the fact that GDP growth continues to be strong in both emerging and rapid-growth markets, aiding the emergence of the upper middle classes looking for an elevated social positioning that only Luxury can provide and, in return, that provides the structural foundations for the industry as a whole.

Yet, there are two other elements that are important to the story, and they are factors that all successful companies in the sector have in common: a focus on both "VALUES" and "VALUE".

The notion of values encompasses the process by which luxury groups reinforce the message around the legitimacy of their brands. For it's not the fast growth of consumer populations in many markets that enables luxury companies to expand sales; rather, it is the companies' ability to convey the genuine values of their brands by communicating the know-how and established traditions and craftsmanship associated with them. As the report shows, the fastest growing brands have a global footprint, the highest-quality products and strong brand awareness, particularly among emerging-market consumers. Customers today are more alert than ever and confronted by a world of choices; consequently, they care about the values of the brands they are buying. For them, Luxury does not simply mean buying expensively, there is always mass-prestige for this, Luxury means access to and sharing the brands' values, and through this limited access, attaining the dream.

No less important is the underlying value that luxury companies produce. Creating genuine value requires extensive investment and listed luxury groups remain extremely concerned about the operational efficiency of their performance. Less so for family-owned Houses but the need to be efficient and add-value in all that they do, rather than cost cutting and savings targets is increasingly the norm. Many groups are successful at controlling costs and managing operations. They are expending significant effort on optimizing their supply chains by ensuring high levels of quality. Many are also spending money on their digital strategies; while this entails considerable costs, it is crucial to provide them with additional channels for communication. Ultimately, the ability of luxury groups to create value is based on the successful and appropriate balance between quality and cost management: adding value by being efficient and effective.

These are the elements that are helping the Luxury sector outperform other industries in a still volatile economic climate. The picture is not entirely rosy, however, and luxury groups face three key challenges in the near term:

1. **Geopolitical and financial threats not yet banished**: Of course, the ongoing crisis in Europe and the uncertain pace of the US recovery generate some major concerns about the economic environment. However, even the most rapidly growing emerging markets remain vulnerable to political and social instability or a decline in economic confidence that could undermine growth. 2011 witnessed moderate slowdowns in the pace of economic growth in both China and India. At the same time, as long as the upper middle class continues to expand in developing economies, the demand for luxury goods should continue to grow.

2. **Rivals waiting in the wings – a need to master the challenge of delivering luxury service as well as luxury products**: Increasing competition remains one of the major threats to luxury groups looking to expand and also to sustain their market share. Consumers are increasingly demanding, particularly in the Luxury sector, and we are seeing greater trends in switching between brands as some Luxury brands stretch down into mass-prestige and some mass-prestige brands start to rival their Luxury counterparts. One of the key challenges, especially as the demographics of customers visiting Paris, New-York and Milan flagship stores moves further East and Younger, is the ability of Luxury Houses to deliver higher quality customer service and service flexed to the standards and expectations of this new customer. Managing the balance between delivering say a Parisian style experience, which is what is expected in making the journey to shop in Paris, with the etiquette and values of say a Chinese customer is a delicate balancing act and one that will require more than mere "awareness training" of staff.

3. **Maintaining profitability**: Supporting the profitability structure of a group requires companies to invest money accurately and consistently from the start. This is particularly challenging in an environment where companies need to spend even more to reach out to customers, even if they are already profitable. Investment needs to be carefully targeted; for instance, investment in Internet sites and in a digital strategy, particularly to drive brand content and create an online "Universe for the House", and not only brand image can be a good use of cash, but the returns are still very uncertain or hard to measure. There will be both winners and losers. In Luxury, as well as in Cosmetics, the most successful investments need to be consistent with strategy and focused around the brand. This is the essence of creating brand value.

We have designed this second edition similarly to the first one, with a number of operational and financial aggregates about the industry, along with key valuation parameters and multiples. We have also added some views from our Luxury & Cosmetics experts in order to enrich the analysis.

We hope you find this EY financial factbook helpful.

Methodology and disclaimer

Methodology

There are many criteria to analyze the operating and financial performances of listed companies. The aim of this survey is not to conduct a detailed analysis of the selected companies.

The approach implemented in this second edition of the "Luxury & Cosmetics - The Ernst & Young Financial Factbook — 2012 edition" essentially relies on three types of information:

- Several standard valuation parameters and operating aggregates
- Industry characteristics (in terms of growth forecasts and drivers)
- An overview of 21 major players in the industry

Even though this data is important and essential to the analysis, it must be stressed that other criteria or parameters could also have been analyzed.

Foreword

The entirety of the data utilized in this factbook is publicly disclosed information. The Ernst & Young Transaction Advisory Services teams who participated in drafting this document have not had access to any confidential information.

If the information used turns out to be incomplete or incorrect, EY will not be held responsible for any impact this may have on the results or the analyses presented in this document.

It must be noted that the information provided in this study entitled "Luxury & Cosmetics - The Ernst & Young Financial Factbook — 2012 edition" is only relevant as at the date of 31 December 2011, unless stated otherwise or apart from subsequent pieces of information included in this survey. Any modification of the analyzed groups' financial performances or any evolution of the financial markets that occurred since 31 December 2011 could lead to partially or completely different conclusions.

Please note that we have presented the actual 2011 sales for the companies which have already released their 2011 annual results as of March 2012.

Sample selection and specific analyses

Sample selection

The sample analyzed is composed of 21 listed companies from the Luxury and Cosmetics industry, of which 15 are mostly in the Luxury business and 6 in the Cosmetics segment.

To select these companies we proceeded as follows:

- We firstly identified "pure players" of the Luxury sector: LVMH Moet Hennessy Louis Vuitton S.A. ("LVMH"), Compagnie Financière Richemont S.A. ("Richemont"), Swatch Group AG ("Swatch"), Hermès International S.C.A. ("Hermès"), Coach Inc. ("Coach"), Polo Ralph Lauren Corp. ("Ralph Lauren"), Tiffany & Co. ("Tiffany"), Burberry Group plc ("Burberry"), Hugo Boss AG ("Hugo Boss"), Tod's S.p.A. ("Tod's"), Prada S.p.A. ("Prada") and Salvatore Ferragamo S.p.A. ("Ferragamo").
- We completed this first list with other players in Cosmetics or diversified which have at least one business segment in the Luxury industry or in a similar industry within their portfolio: L'Oréal S.A. ("L'Oréal"), PPR S.A. ("PPR"), Estée Lauder Companies Inc. ("Estée Lauder"), Beiersdorf AG ("Beiersdorf"), Shiseido Co. Ltd ("Shiseido") and L'Occitane International S.A. ("L'Occitane").
- We also added companies that are in direct relation with luxury companies, such as Luxottica Group S.p.A. ("Luxottica") and Safilo Group S.p.A. ("Safilo").
- Finally we decided to include an actor, not part of the Luxury environment, but acting, as the largest cosmetics company from the emerging markets, Natura Cosméticos S.A. ("Natura"), to enlarge the geographical coverage.

Please note that the sample has been adjusted in this second edition.

Three companies were added: L'Occitane International S.A. ("L'Occitane"), Prada S.p.A. ("Prada") and Salvatore Ferragamo S.p.A. ("Ferragamo") because they have recently been listed on the Hong-Kong stock exchange for L'Occitane and Prada, and on the Milan stock exchange for Ferragamo.

Conversely, two players were excluded:

- Christian Dior S.A. ("Christian Dior"): for this updated version, we have decided to only retain LVMH in the main sample to avoid double counting with Christian Dior, the main holding company of LVMH,
- Bulgari S.p.A. ("Bulgari"), since it is now integrated within LVMH.

In order to allow a comparison with our previous edition, and to be consistent with the approach retained by brokers, who separately analyse LVMH and Christian Dior, we present, at the end of the report, specific data on Christian Dior.

We also decided to dedicate a section of this study to the acquisition of Bulgari by LVMH, analyzing public information on the largest M&A transaction of the year in the sector.

SOTP analyses

For the companies which have diversified activities (LVMH, PPR, L'Oréal) we performed a Sum-of-the-parts analysis to isolate the pure Luxury segment and to better understand its characteristics, as well as its contribution to the companies' performance.

This analysis was not possible for Swatch, Beiersdorf and Shiseido as no accurate data was available.

DCF and Valuation Parameters

A Financial parameters

B Operating aggregates

C Advertising expenses
and net working capital analysis

D SOTP and segment analyses

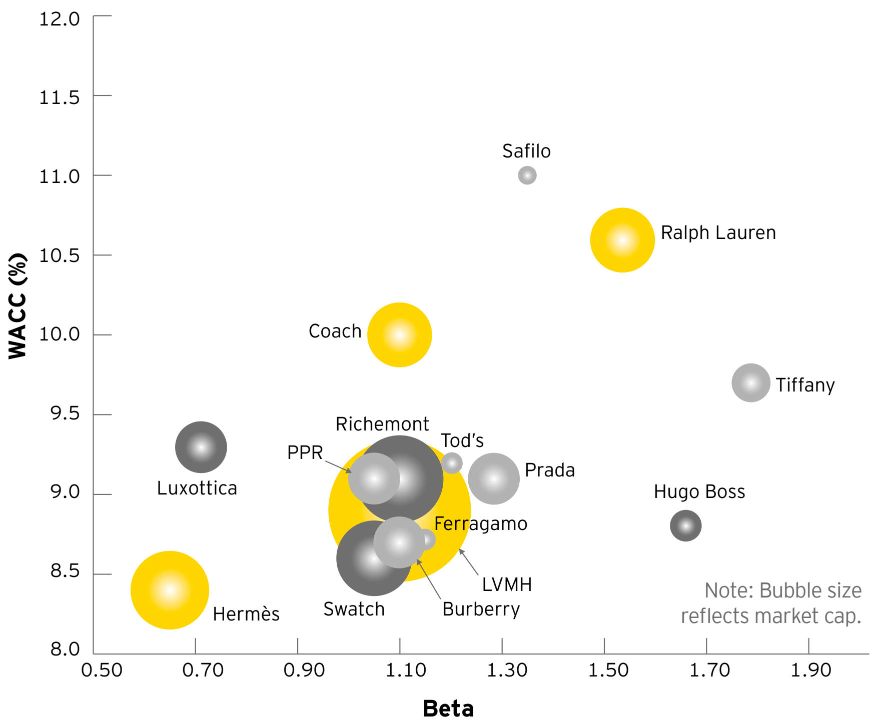
E Trading multiples

F Transaction multiples

G EY Luxury and Comestics Index

DCF valuations for Luxury companies are based on WACC ranging from 8.4% to 11.0% depending on capital structure and perceived associated risk

- The average WACC, beta and growth rate for the Luxury sector are 9.3%, 1.19 and 2.6% respectively.



Source: Data based on consensus of several brokers reports for each company
Note: Market Capitalization is based on a one-month average as of December 2011.

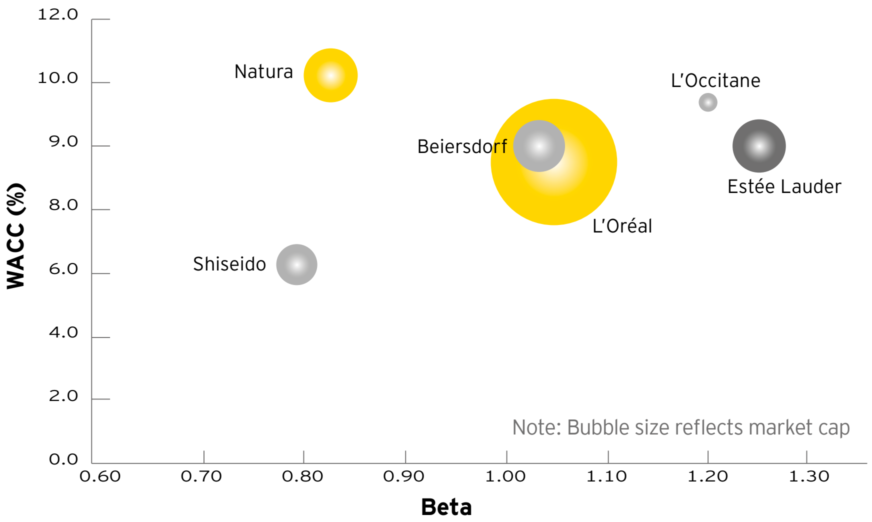
Luxury Companies	WACC	Gearing	Beta	LTGR
LVMH	8.9%	22.7%	1.10	2.5%
Hermès	8.4%	(44.8%)	0.65	3.3%
Richemont	9.1%	(38.1%)	1.10	3.8%
Swatch	8.6%	(33.5%)	1.05	2.5%
Coach	10.0%	(42.0%)	1.10	2.5%
PPR	9.1%	23.3%	1.05	2.0%
Ralph Lauren	10.6%	(5.8%)	1.53	2.0%
Luxottica	9.3%	56.2%	0.71	2.5%
Prada	9.1%	33.2%	1.29	2.3%
Tiffany	9.7%	3.1%	1.79	n/a
Burberry	8.7%	(16.8%)	1.10	3.1%
Hugo Boss	8.8%	35.5%	1.66	2.5%
Tod's	9.2%	13.0%	1.20	2.9%
Ferragamo	8.7%	23.5%	1.15	2.7%
Safilo	11.0%	27.8%	1.35	1.8%
Average	9.3%	3.8%	1.19	2.6%
Median	9.1%	13.0%	1.10	2.5%
Maximum	11.0%	56.2%	1.79	3.8%
Minimum	8.4%	(44.8%)	0.65	1.8%

A Financial parameters

… while for Cosmetics companies, WACC ranges from 6.3% to 10.2%, and betas from 0.78 to 1.26

Only Shiseido and Natura have a positive gearing (indebtedness) in our Cosmetics sample.

- Natura's long-term growth rate is estimated to reach the high-end of the range at 4.2%, followed by L'Oréal, Beiersdorf and L'Occitane with long-term growth rates estimated to reach 2.0%.



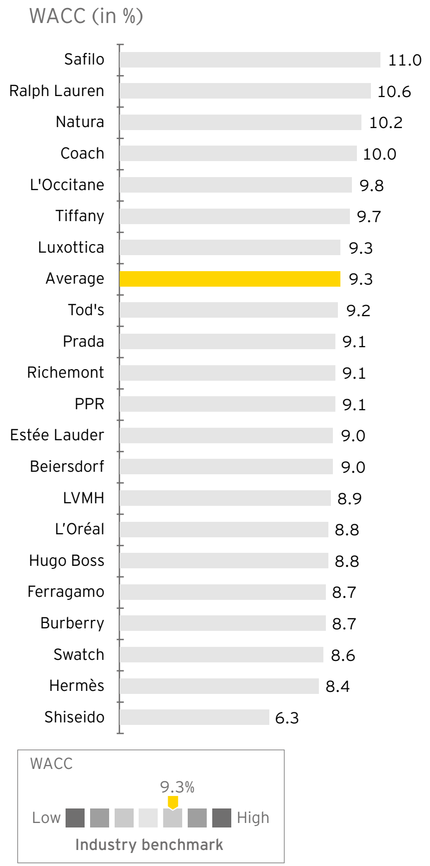
Cosmetics Companies	WACC	Gearing	Beta	LTGR
Shiseido	6.3%	19.4%	0.78	n/a
L'Oréal	8.8%	(5.8%)	1.05	2.0%
Estée Lauder	9.0%	(1.3%)	1.26	1.5%
Natura	10.2%	51.0%	0.83	4.2%
Beiersdorf	9.0%	(68.9%)	1.03	2.0%
L'Occitane	9.8%	(43.2%)	1.20	2.0%
Average	8.8%	(8.1%)	1.02	2.3%
Median	9.0%	(3.5%)	1.04	2.0%
Maximum	10.2%	51.0%	1.26	4.2%
Minimum	6.3%	(68.9%)	0.78	1.5%

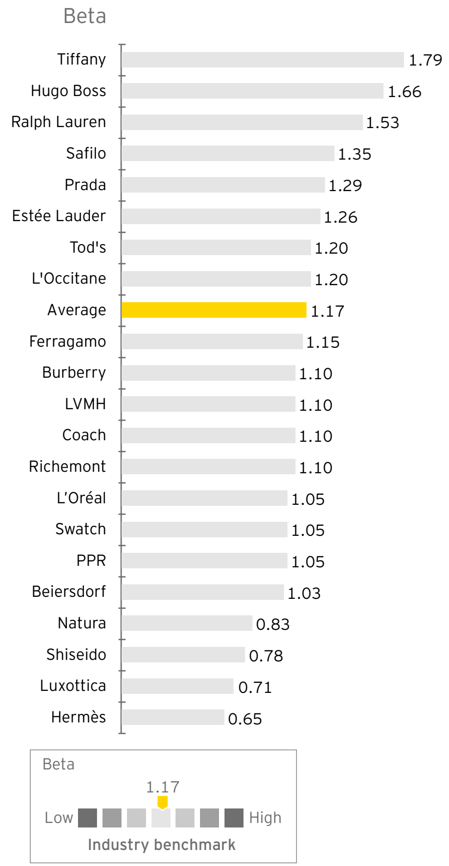
Source: Data based on consensus of several brokers reports for each company

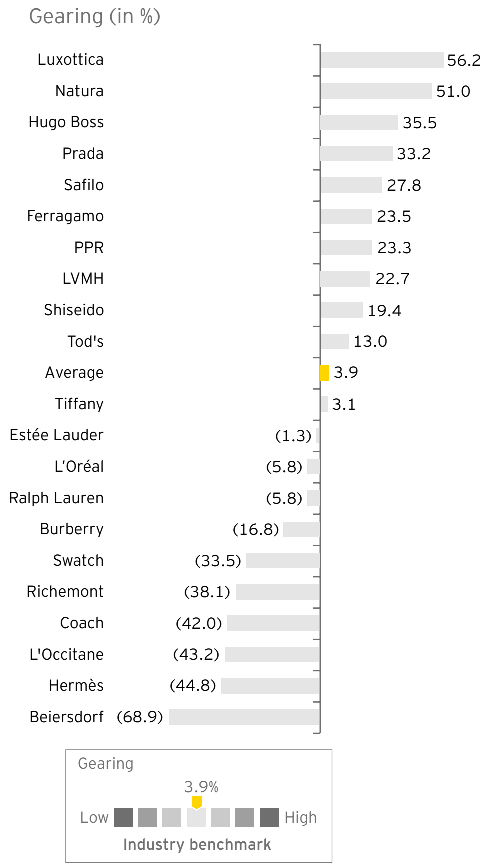
Note: Market Capitalization is based on a one-month average as of December 2011.

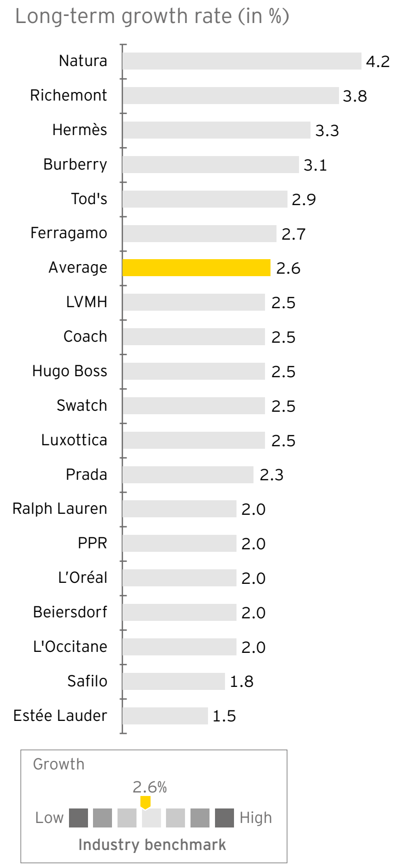
A Financial parameters

EY Luxury and Cosmetics sample: Summary of financial parameters









Source: Data based on consensus of several brokers reports for each company

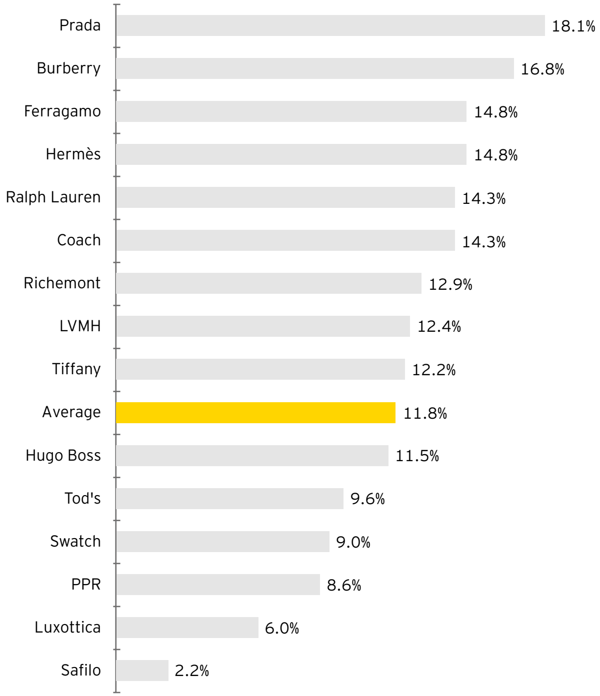
Note: LTGR data was not available for Tiffany and Shiseido.

Sales development and growth for the Luxury industry

Consensus of analysts' reports reflect that companies will maintain a healthy top line annual growth between FY10 and FY13E.

- Top line for the major players of the industry is expected to grow at a CAGR of around 11.8% between FY10 and FY13E. This growth would mainly be driven by:
  - Additional incomes from emerging markets,
  - Growing number of high net worth individuals,
  - Increasing spending power of working women,
  - Growing propensity to travel.

Average Sales growth FY10-FY13E - Luxury Companies



Source: Data based on consensus of several brokers reports for each company

Sales (in €m)	FY10	FY11A/E	FY12E	FY13E	CAGR (FY10-FY13E)
LVMH	20,320	23,659	26,728	28,839	12.4%
Hermès	2,401	2,842	3,162	3,352	14.8%
Richemont	6,892	8,320	8,974	9,908	12.9%
Swatch	4,899	5,425	5,782	6,352	9.0%
Coach	2,722	3,138	3,595	4,061	14.3%
PPR*	11,008	12,227	13,275	14,090	8.6%
Ralph Lauren	4,271	5,149	5,749	6,381	14.3%
Luxottica	5,798	6,223	6,482	6,906	6.0%
Prada	2,047	2,537	2,931	3,369	18.1%
Tiffany	2,328	2,749	3,069	3,290	12.2%
Burberry	1,752	2,186	2,465	2,794	16.8%
Hugo Boss	1,729	2,059	2,179	2,396	11.5%
Tod's	788	894	946	1,035	9.6%
Ferragamo	782	986	1,097	1,181	14.8%
Safilo	1,080	1,102	1,108	1,153	2.2%
Average					11.8%
Median					12.4%
Max					18.1%
Min					2.2%

* PPR sales for FY10-FY13E exclude numbers for Redcats, Conforama and CFAO

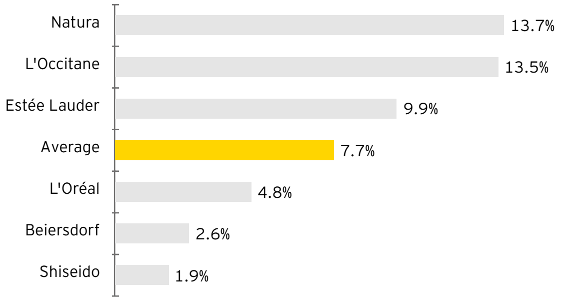
Notes: - 2011 figures are estimated or actual depending on whether the results were already publicly released as of March 2012.
- Figures are converted into euros using exchange rates as of 31 December 2011.

Sales development and growth for the Cosmetics industry

The industry is expected to follow a similar trend as the Luxury players but with slightly lower growth rate.

- Sales of industry players are expected to grow at a healthy rate, led by double digit annual growth rates for Natura and L'Occitane from FY10 to FY13E. The major players also enjoy the benefit of increasing barriers to entry such as increasing costs related to R&D, product launches and marketing.

Average Sales growth FY10-FY13E - Cosmetics Companies



Source: Data based on consensus of several brokers reports for each company

Sales (in €m)	FY10	FY11A/E	FY12E	FY13E	CAGR (FY10-FY13E)
Shiseido	6,238	6,275	6,413	6,601	1.9%
L'Oréal	19,496	20,343	21,289	22,417	4.8%
Estée Lauder	5,882	6,647	7,280	7,798	9.9%
Natura	2,320	2,526	2,961	3,406	13.7%
Beiersdorf	5,571	5,633	5,805	6,020	2.6%
L'Occitane	772	869	992	1,130	13.5%
Average					7.7%
Median					7.3%
Maximum					13.7%
Minimum					1.9%

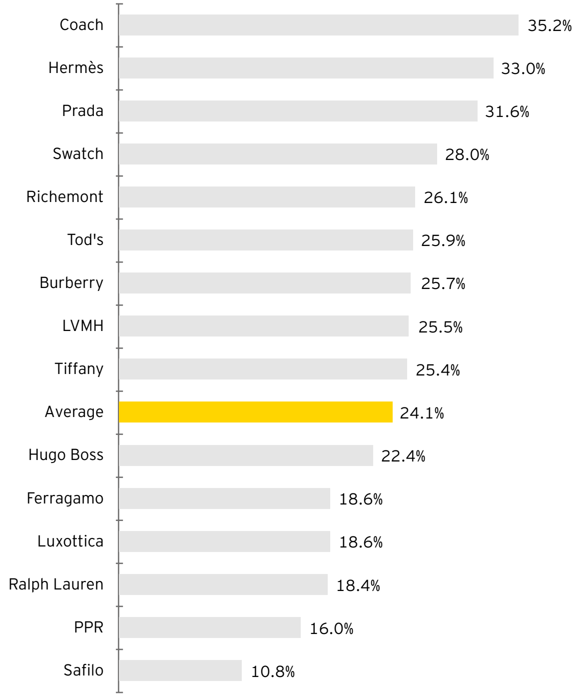
Notes: - 2011 figures are estimated or actual depending on whether the results were already publicly released as of March 2012.
- Figures are converted into euros using exchange rates as of 31 December 2011.

EBITDA margin trend for Luxury companies

Based on analysts' expectations, companies should maintain healthy operating margins between FY11 and FY13E.

- Most companies are expected to improve their operating margin in the coming years.
- The main drivers of margin growth are the following:
  - Sales growth driven by the end of volume contraction since 2009 and increasing demand from emerging markets,
  - The level of fixed costs which allow significant leverage.

Average EBITDA margin FY10-FY13E – Luxury Companies



Source: Data based on consensus of several brokers reports for each company

EBITDA Margin	FY10	FY11A/E	FY12E	FY13E	Average Margin (FY10-FY13E)
LVMH	24.7%	25.7%	25.6%	26.1%	25.5%
Hermès	32.1%	33.6%	33.1%	33.4%	33.0%
Richemont	24.0%	26.6%	26.4%	27.5%	26.1%
Swatch	27.1%	27.2%	28.5%	29.2%	28.0%
Coach	35.4%	34.4%	35.3%	35.8%	35.2%
PPR*	17.4%	13.5%	16.1%	17.1%	16.0%
Ralph Lauren	18.4%	18.0%	18.3%	18.7%	18.4%
Luxottica	17.8%	18.2%	18.9%	19.4%	18.6%
Prada	38.0%	28.1%	29.5%	30.9%	31.6%
Tiffany	24.7%	24.4%	25.8%	26.6%	25.4%
Burberry	24.3%	25.5%	26.2%	26.7%	25.7%
Hugo Boss	20.3%	22.8%	23.0%	23.6%	22.4%
Tod's	24.4%	25.8%	26.4%	27.1%	25.9%
Ferragamo	14.8%	18.6%	19.6%	21.4%	18.6%
Safilo	10.0%	11.1%	10.7%	11.5%	10.8%
Average	23.6%	23.6%	24.2%	25.0%	24.1%
Median	24.3%	25.5%	25.8%	26.6%	25.5%
Maximum	38.0%	34.4%	35.3%	35.8%	35.2%
Minimum	10.0%	11.1%	10.7%	11.5%	10.8%

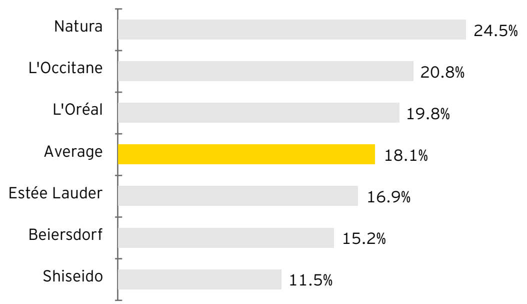
* PPR margin for FY10-FY13E exclude numbers for Redcats, Conforama and CFAO
Notes: the 2011 EBITDA margin is computed based on either actual or estimated figures for 2011 sales, depending on their availability.

EBITDA margin trend for Cosmetics companies

Based on analysts' expectations, average EBITDA margins for Cosmetics companies will range between 18% - 19% during FY11-FY13E, a lower level compared to margins for Luxury companies during the same period.

- Similarly to Luxury companies, most of the companies in this segment are expected to improve their operating margin in the coming years.
- The key drivers of margin growth are:
  - Sales growth driven by the end of volume contraction since 2010,
  - Increasing demand from emerging markets.

Average EBITDA margin FY10-FY13E - Cosmetics Companies



Source: Data based on consensus of several brokers reports for each company

EBITDA Margin	FY10	FY11A/E	FY12E	FY13E	Average Margin (FY10-13E)
Shiseido	11.8%	11.3%	11.4%	11.5%	11.5%
L'Oréal	19.3%	20.1%	19.8%	20.1%	19.8%
Estée Lauder	14.9%	16.7%	17.7%	18.3%	16.9%
Natura	24.6%	25.5%	23.8%	24.2%	24.5%
Beiersdorf	16.1%	15.2%	14.6%	14.9%	15.2%
L'Occitane	21.6%	20.0%	20.5%	21.2%	20.8%
Average	18.1%	18.1%	18.0%	18.4%	18.1%
Median	17.7%	18.4%	18.7%	19.2%	18.4%
Maximum	24.6%	25.5%	23.8%	24.2%	24.5%
Minimum	11.8%	11.3%	11.4%	11.5%	11.5%

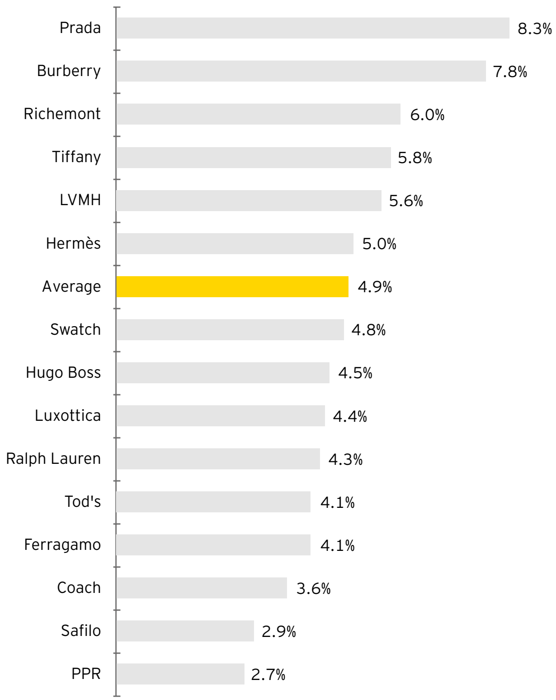
Notes: the 2011 EBITDA margin is computed based on either actual or estimated figures for 2011 sales, depending on their availability.

Capex ratio for the Luxury industry

Analysts are expecting most luxury companies to increase their Capex to support top line growth.

- Based on historical and estimated figures, Capex on sales ratio for the Luxury industry ranges from 4% to 5%.
- Most of the companies increased their Capex in 2011 given the positive selling trends anticipated for all regions and product categories, especially in emerging markets.
- For 2012 and 2013, the Capex ratio illustrates more prudent behavior.

Average Capex Ratio FY10-FY13E - Luxury Companies



Source: Data based on consensus of several brokers reports for each company

Capex Ratio	FY10	FY11A/E	FY12E	FY13E	Average Ratio (FY10 - FY13E)
LVMH	4.6%	7.4%	5.3%	5.0%	5.6%
Hermès	4.8%	5.1%	4.9%	n/a	5.0%
Richemont	4.8%	6.4%	6.9%	5.8%	6.0%
Swatch	4.4%	5.8%	4.8%	4.1%	4.8%
Coach	2.5%	3.6%	4.3%	3.9%	3.6%
PPR	3.0%	2.7%	2.6%	2.5%	2.7%
Ralph Lauren	4.3%	4.4%	4.4%	4.0%	4.3%
Luxottica	3.9%	4.9%	4.4%	4.3%	4.4%
Prada	6.6%	8.9%	9.0%	8.7%	8.3%
Tiffany	4.0%	6.6%	5.9%	6.6%	5.8%
Burberry	6.4%	10.2%	8.5%	6.2%	7.8%
Hugo Boss	3.4%	5.3%	4.9%	4.6%	4.5%
Tod's	3.8%	6.5%	3.2%	2.9%	4.1%
Ferragamo	3.5%	4.3%	3.7%	4.8%	4.1%
Safilo	3.1%	2.2%	3.2%	3.1%	2.9%
Average	4.2%	5.6%	5.1%	4.8%	4.9%
Median	4.0%	5.3%	4.8%	4.5%	4.5%
Maximum	6.6%	10.2%	9.0%	8.7%	8.3%
Minimum	2.5%	2.2%	2.6%	2.5%	2.7%

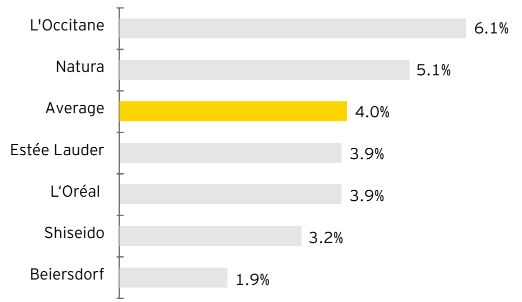
Notes: the 2011 Capex ratio is computed based on either actual or estimated figures for 2011 sales, depending on their availability.

Capex ratio for the Cosmetics industry

Analysts are expecting Cosmetics companies to increase their Capex to support top line growth.

- Based on historical and estimated Capex figures, Capex on sales ratio for Cosmetics industry ranges between 3.5% and 4.5%.
- Beiersdorf has the lowest Capex ratio ranging between 1.5% to 2.5% over the years analysed.

Average Capex Ratio FY10-13E - Cosmetics Companies



Source: Data based on consensus of several brokers reports for each company

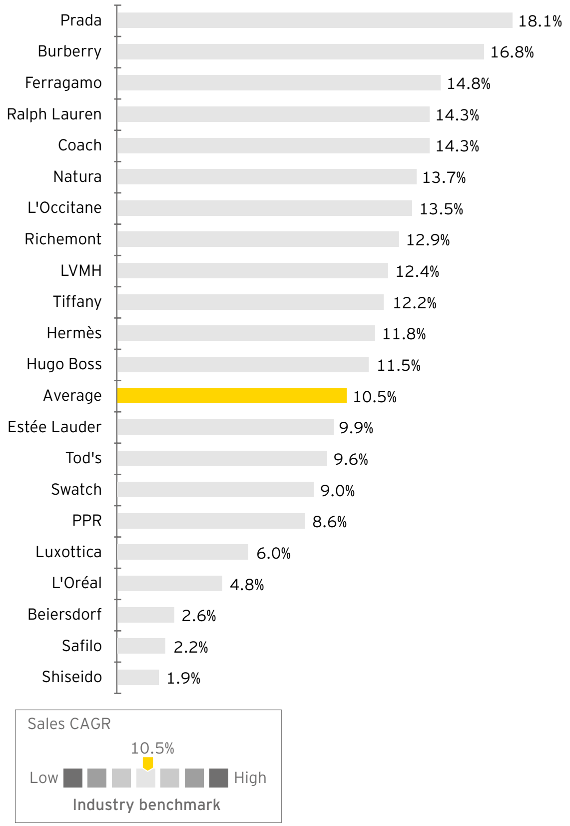
Capex Ratio	FY10	FY11A/E	FY12E	FY13E	Average Ratio (FY10 - FY13E)
Shiseido	3.3%	3.2%	3.2%	3.1%	3.2%
L'Oréal	3.5%	4.3%	4.0%	3.9%	3.9%
Estée Lauder	3.5%	4.0%	4.3%	4.0%	3.9%
Natura	4.6%	5.7%	5.2%	4.7%	5.1%
Beiersdorf	1.7%	1.5%	2.1%	2.2%	1.9%
L'Occitane	6.3%	6.7%	5.7%	5.4%	6.1%
Average	3.8%	4.2%	4.1%	3.9%	4.0%
Median	3.5%	4.1%	4.1%	4.0%	3.9%
Maximum	6.3%	6.7%	5.7%	5.4%	6.1%
Minimum	1.7%	1.5%	2.1%	2.2%	1.9%

Notes: the 2011 Capex ratio is computed based on either actual or estimated figures for 2011 sales, depending on their availability.

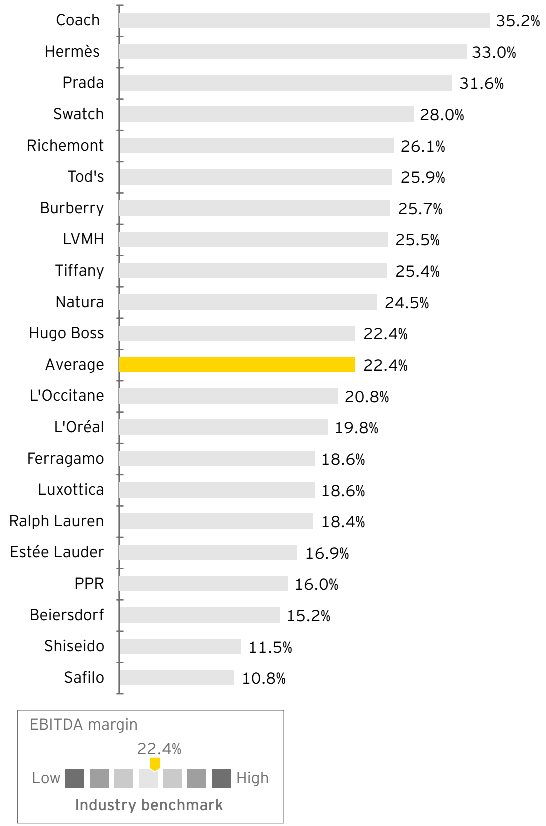
B Operating aggregates

EY Luxury and Cosmetics sample: Summary of operating aggregates

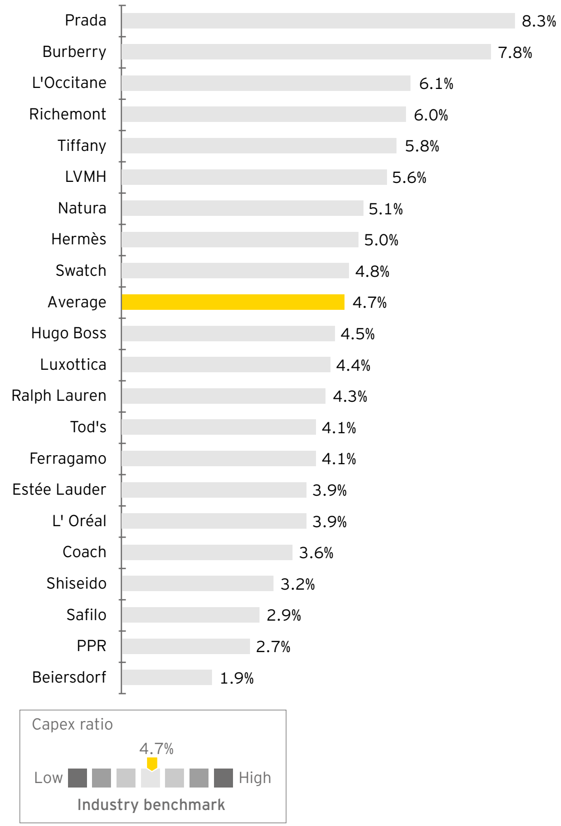
Average Sales growth FY10-FY13E



Average EBITDA margin FY10-FY13E



Average Capex Ratio FY10-FY13E



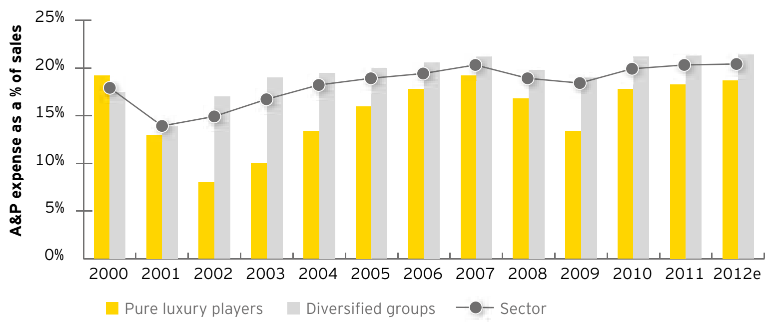
Source: Data based on consensus of several brokers reports for each company

Advertising expenses

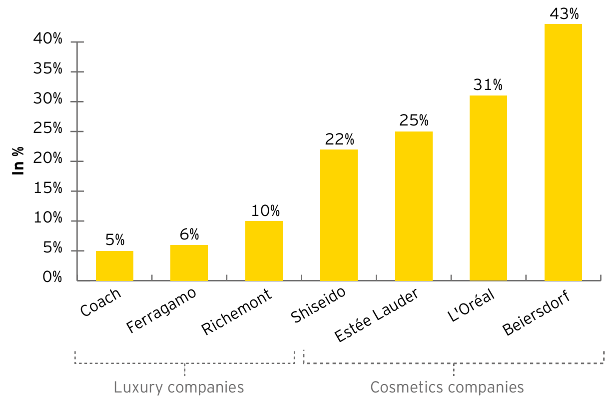
Advertising expenses will remain a major operating issue especially for companies focusing on top-line growth.

- The industry players are expected to incur advertising and promotional expenses at an approximated level of 20% of sales in the following years, with a different model between luxury companies and the cosmetics sector.
- Fastest growing brands are those with a global footprint, best-quality products and customer services, strong brand awareness (particularly among emerging-market consumers) and operating within prime retail locations.

Industry advertising expenses as a % of sales - FY00-FY12E



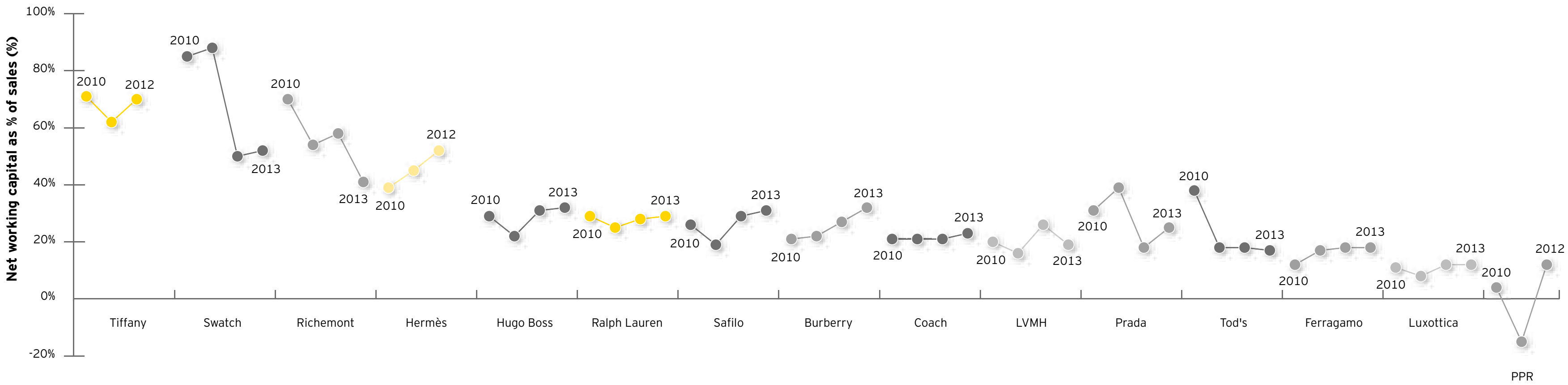
Selected companies - Advertising expenses as a % of sales FY12E



Source: Selected research

Working capital requirement of Jewellery and Watches companies is higher than that of other luxury companies

- As shown on the graph below, the Jewellery and Watches businesses are the most working-capital-seeker of all Luxury segments.
- Leather Goods and Accessories segment has relatively low working capital to sales ratio.

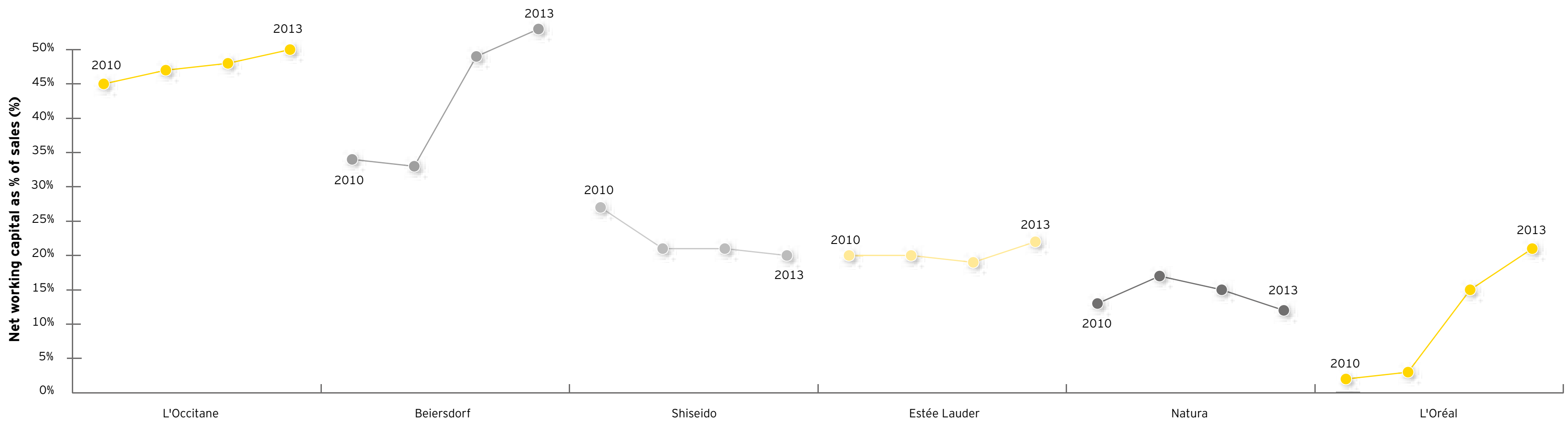


Source: Data based on consensus of several brokers reports for each company

Note: Net Working Capital (NWC): Current Assets Less Current Liabilities; For Tiffany, Hermès and PPR, NWC only available for FY10- FY12E

Working capital requirement of Cosmetics companies

- Both L'Occitane's and Beiersdorf's net working capital as a percentage of sales is expected to remain at relatively high level compared to the other Cosmetics companies.
- The net working capital requirements of L'Occitane, Beiersdorf and L'Oréal are expected to increase from now to 2013.



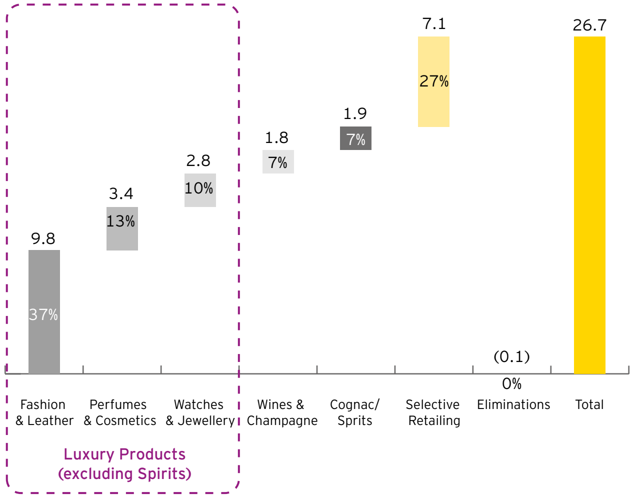
Source: Data based on consensus of several brokers reports for each company

Note: Net Working Capital (NWC): Current Assets Less Current Liabilities

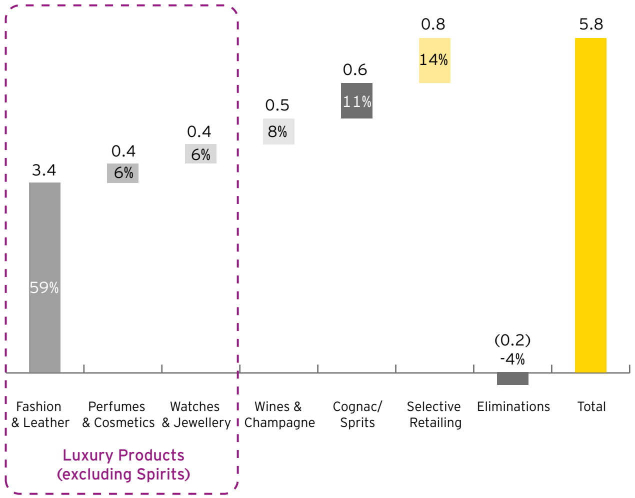
LVMH: Sum-of-the-Parts

- LVMH SOTP analysis implies a total enterprise valuation of €78.3bn in FY12E.
- The Fashion and Leather segment is the largest contributor both in terms of sales (37%) and EBIT (59%).

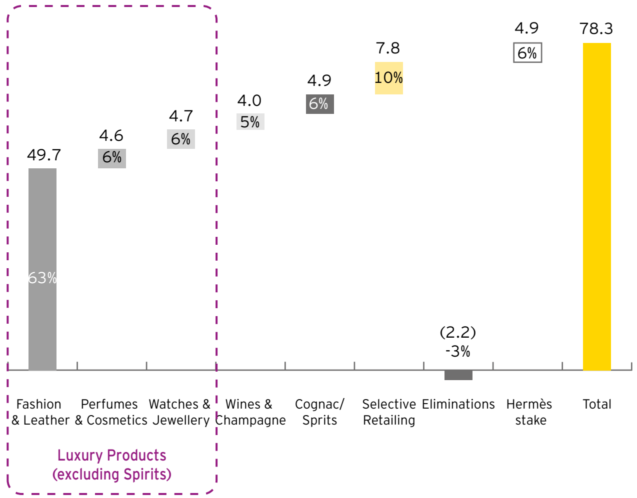
Sales Breakdown FY12E (in €bn)



EBIT Breakdown FY12E (in €bn)



Enterprise Value Breakdown FY12E (in €bn)

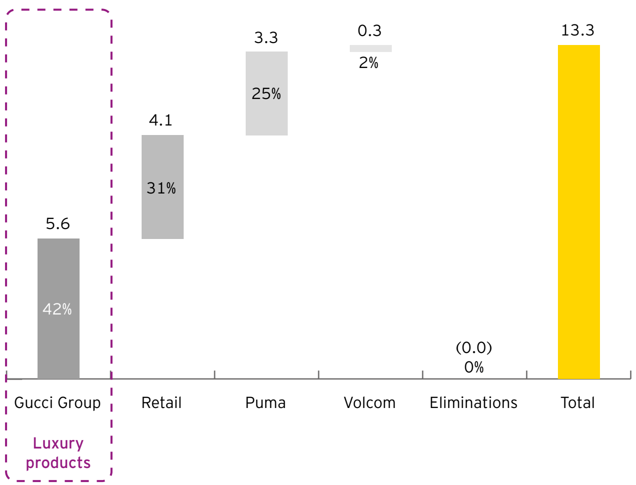


Source: SOTP based on EY analysis and on the following brokers reports: Deutsche Bank (11/01/2012), Kepler Capital (13/02/2012) and Cheuvreux (03/02/2012)

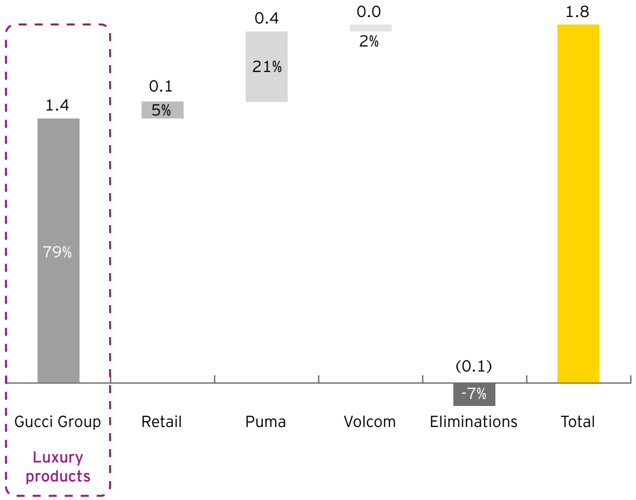
PPR: Sum-of-the-Parts...

- PPR SOTP analysis implies a total enterprise value of €20.4bn in FY12E (excluding the Redcats business).
- Contributing approximately 80% of the total EBIT for only 42% of sales, Gucci Group is the most profitable segment in terms of operating margin.

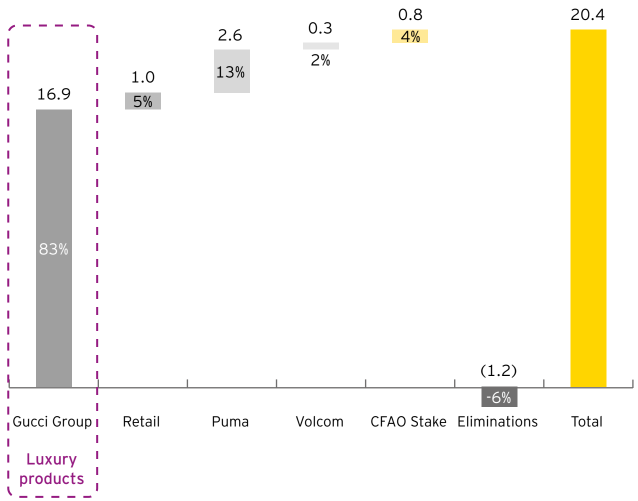
Sales Breakdown FY12E (in €bn)



EBIT Breakdown FY12E (in €bn)



Enterprise Value Breakdown FY12E (in €bn)



Source: SOTP based on EY analysis and on the following brokers reports: HSBC (23/01/2012) and Société Générale (17/02/2012)

Note: Redcats is not included in the SOTP analysis.

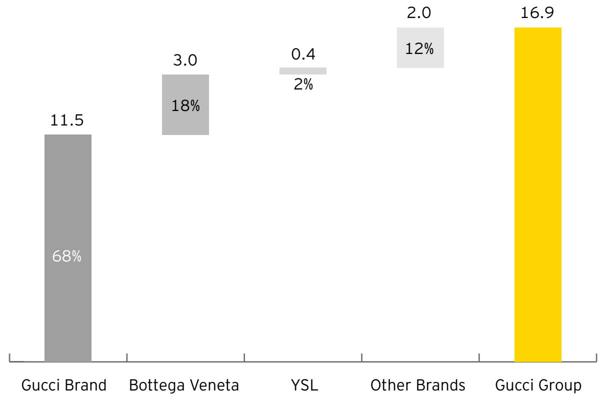
… PPR-Further analysis of Gucci Group through a SOTP approach…

- Gucci Group SOTP analysis implies an enterprise value of €16.9bn in FY12E.
- Within the Gucci Group's segment, Gucci brand alone represents 62% of the top line and 75% of EBIT in FY12E, thus the Gucci brand is expected to constitute the largest segment within the Gucci Group and also the most profitable in terms of operating margin.

Sales Breakdown FY12E (in €bn)

EBIT Breakdown FY12E (in €bn)

Enterprise Value Breakdown FY12E (in €bn)

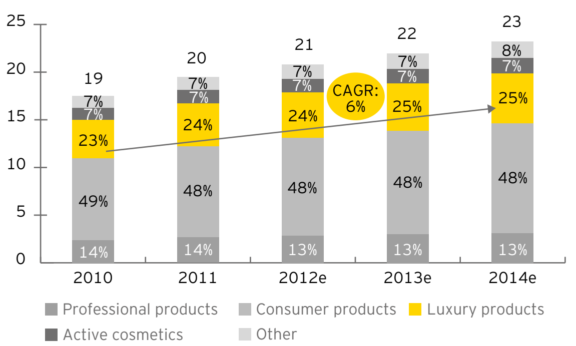


Source: SOTP based on EY analysis and on the following brokers reports: HSBC (23/01/2012) and Société Générale (17/02/2012)

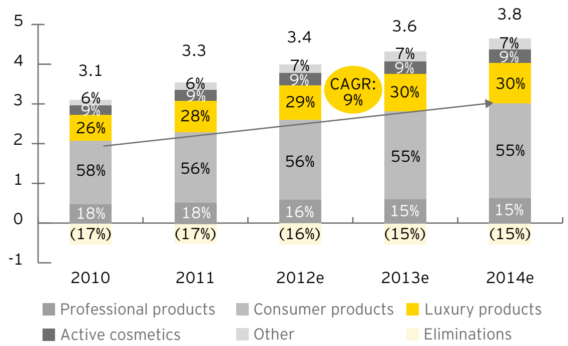
L'Oréal: Segment Analysis

- The Luxury Products division of L'Oréal accounted for 24% of total sales in FY11.
- This division is expected to achieve a sales CAGR of 6% over the 2010-14E period while its operating income is anticipated to grow from €791m to €1,136m (or at a CAGR of 9%) over the same period.
- The Luxury Products division will remain one of the most profitable divisions within L'Oréal.

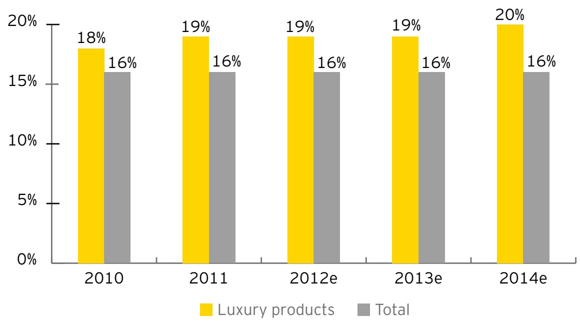
Sales Breakdown FY10-FY14E (in €bn)



EBIT Breakdown FY10-FY14E (in €bn)



EBIT margin FY10-FY14E (in %)



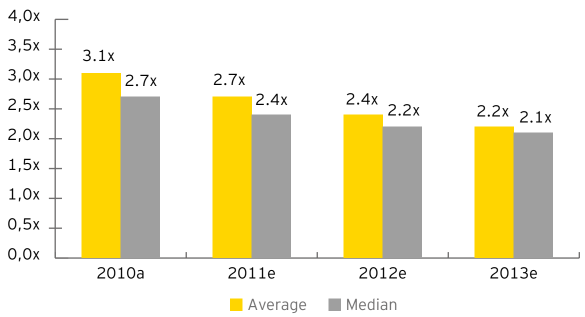
Source: Analysts research (Q4 2011)

Valuation trading multiples take into account the expected strong growth and improvement of margins

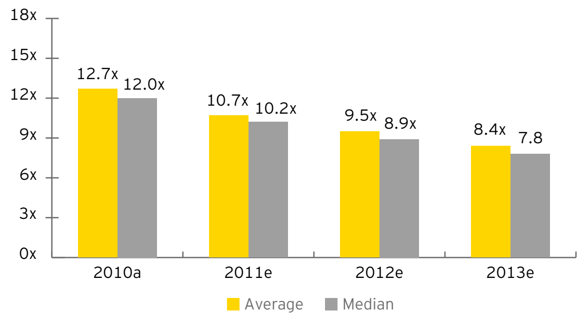
Level of multiples illustrates the improving operational efficiency of the Luxury sector.

- The expected evolution of valuation multiples is the result of an improvement in top line growth as well as in the operating efficiency of the luxury companies.
- The average top line growth for luxury companies reached a peak in FY10 (18%) followed by another good year with average top line growth of 17% in FY11. FY12E and FY13E are expected to witness a more "normal" growth of approximately 10%.

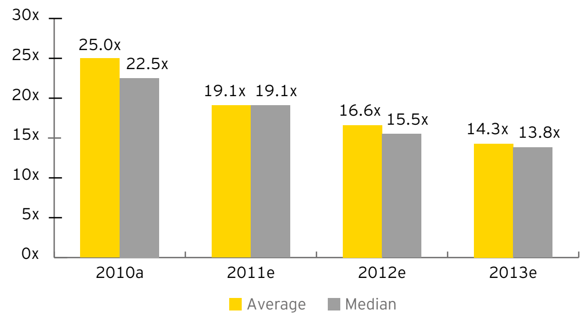
EV/Sales (FY10-FY13E)



EV/EBITDA (FY10-FY13E)



Price to Earnings (FY10-FY13E)



Source: Data based on consensus of several brokers reports for each company

Note: Market Capitalization is based on a one-month average as of December 2011.

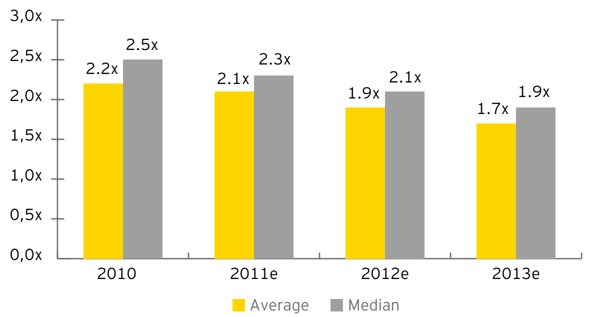
E Trading multiples

Cosmetics companies' valuation trading multiples are expected to follow the same trend as the luxury companies

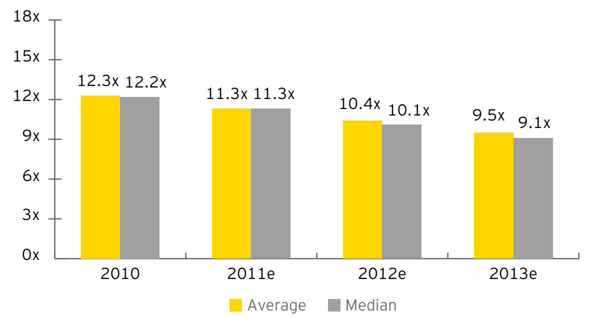
Sales multiples illustrate the dynamic nature of Cosmetics since 2008.

- Sales multiples illustrate continuous improvement in cosmetics companies' top lines from FY10 to FY13E.

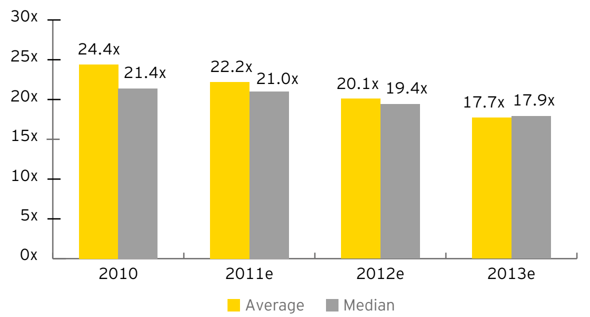
EV/Sales (FY10-FY13E)



EV/EBITDA (FY10-FY13E)



Price to Earnings (FY10-FY13E)

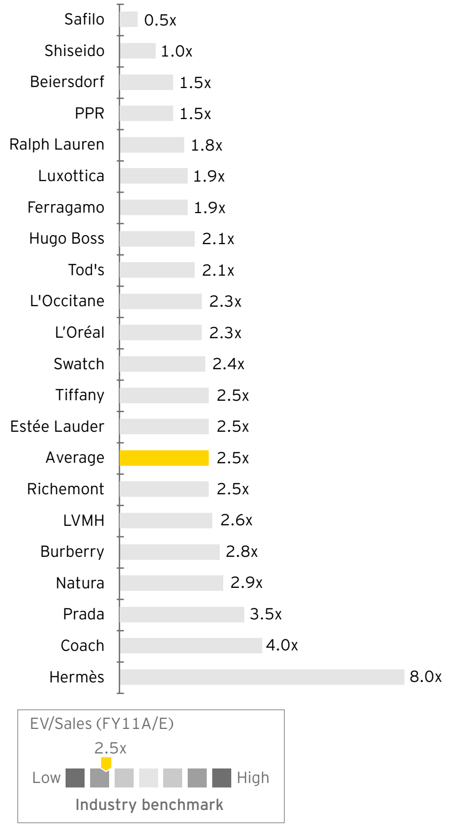


Source: Data based on consensus of several brokers reports for each company

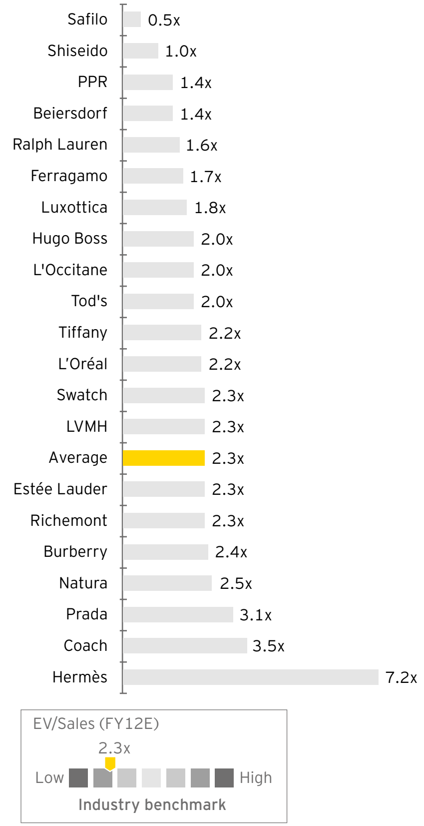
Note: Market Capitalization is based on a one-month average as of December 2011.

EY Luxury and Cosmetics sample: Summary of EV/Sales multiples

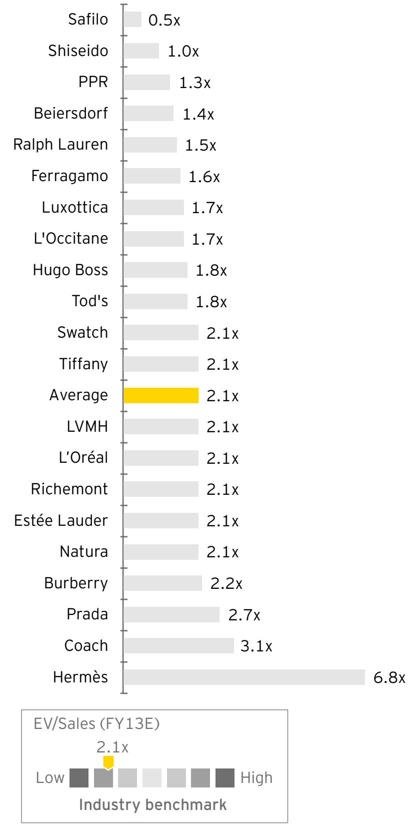
EV/Sales (FY11A/E)



EV/Sales (FY12E)



EV/Sales (FY13E)

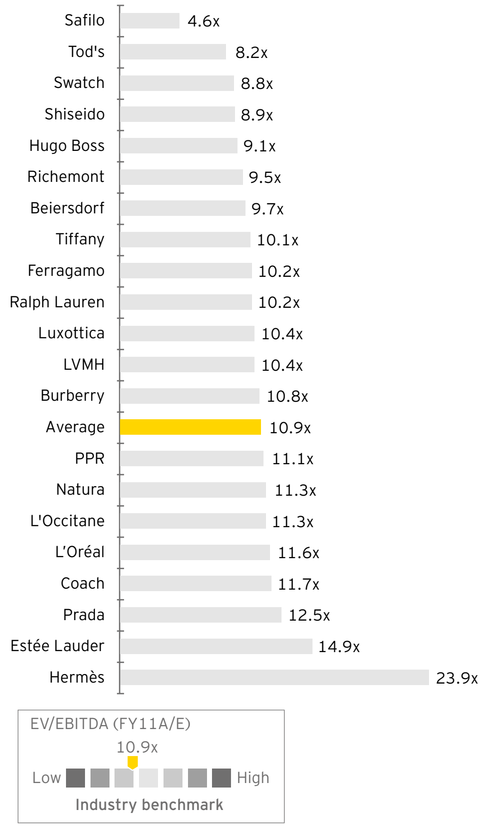


Source: Data based on consensus of several brokers reports for each company

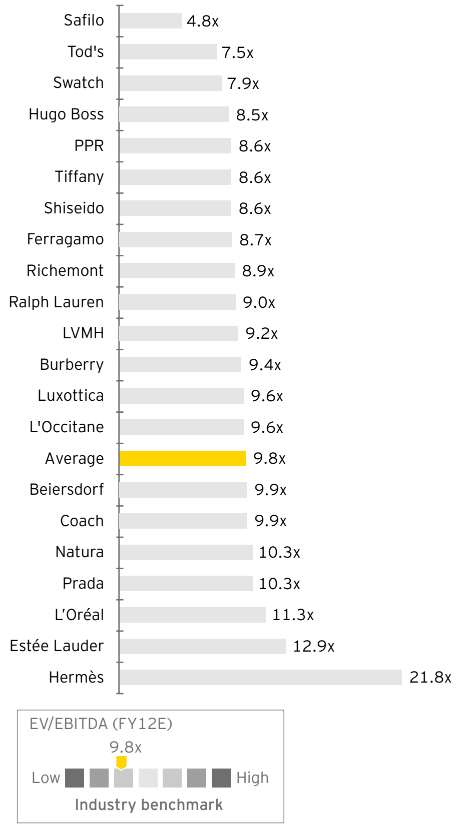
Note: Market Capitalization is based on a one-month average as of December 2011.

EY Luxury and Cosmetics sample: Summary of EV/EBITDA multiples

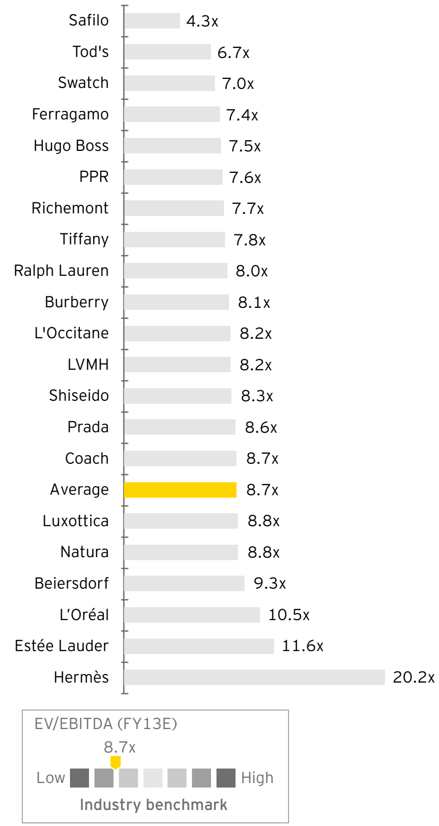
EV/EBITDA (FY11A/E)



EV/EBITDA (FY12E)



EV/EBITDA (FY13E)



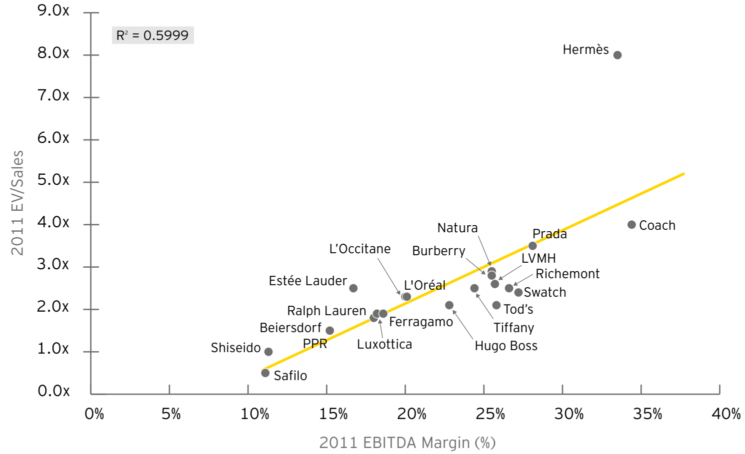
Source: Data based on consensus of several brokers reports for each company

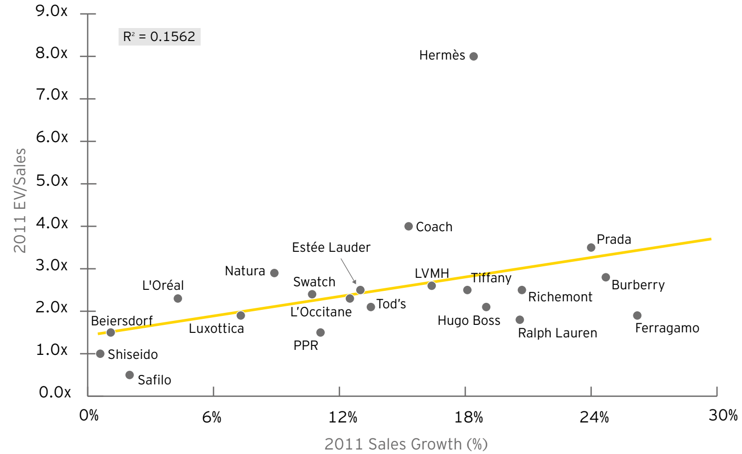
Note: Market Capitalization is based on a one-month average as of December 2011.

Regression analysis:
EV/Sales multiple vs. EBITDA margin and 2011 Growth

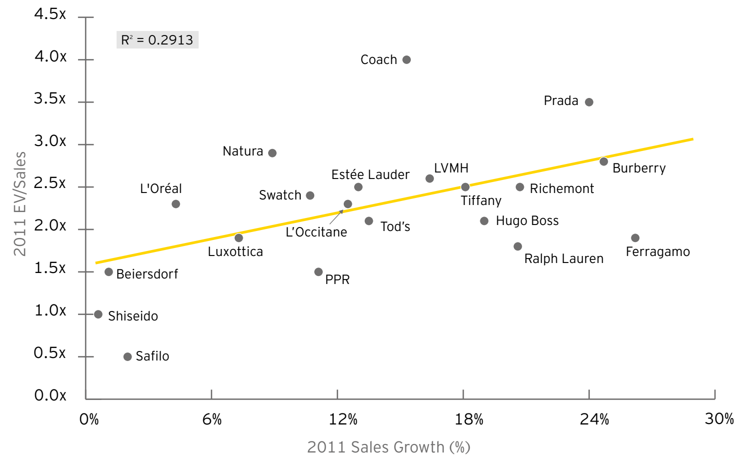
Analysis excluding Hermès data shows significant correlation of profitability but a more limited correlation of sales growth.

Including Hermès data





Excluding Hermès data



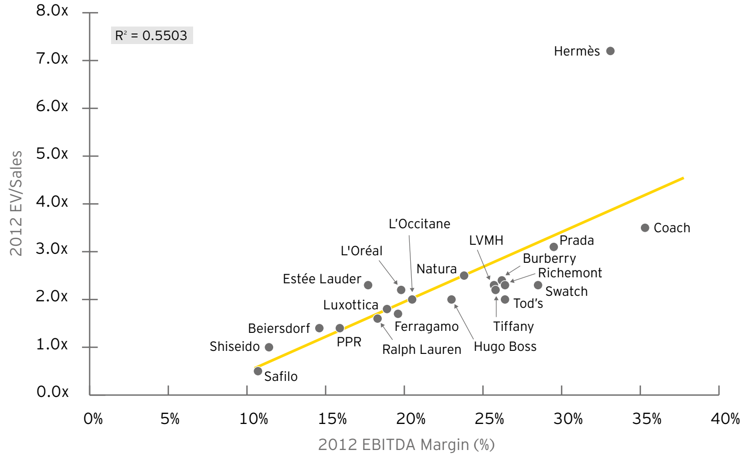
Source: Data based on consensus of several brokers reports for each company

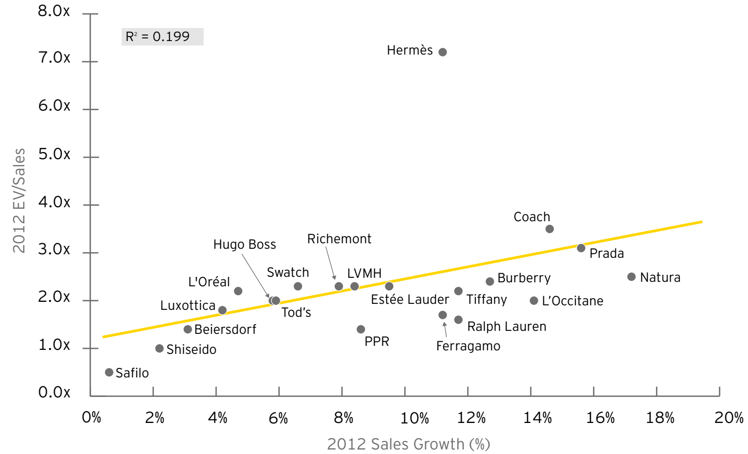
Notes: - Market Capitalization is based on a one-month average as of December 2011.
- The 2011 growth corresponds to the sales growth rate between FY10 and FY11A/E.

Regression analysis:
EV/Sales multiple vs. EBITDA margin and 2012 Growth

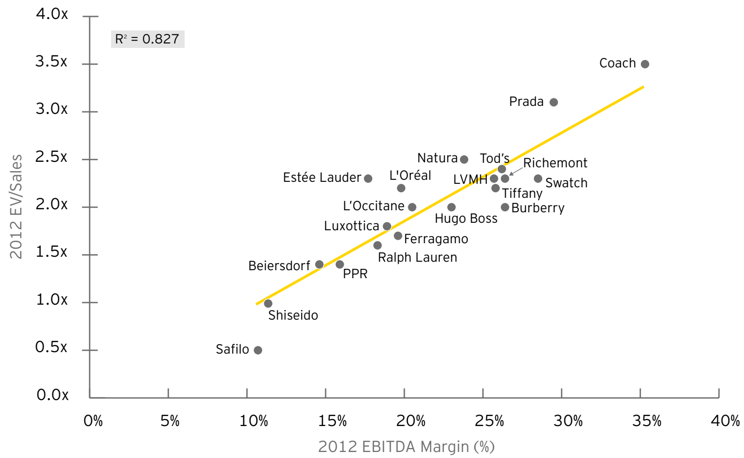
Analysis excluding Hermès data shows significant correlation of profitability but a more limited correlation of sales growth.

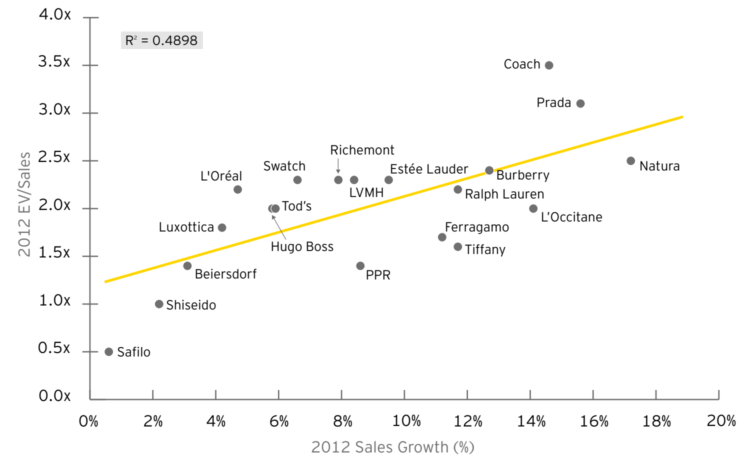
Including Hermès data





Excluding Hermès data





Source: Data based on consensus of several brokers reports for each company

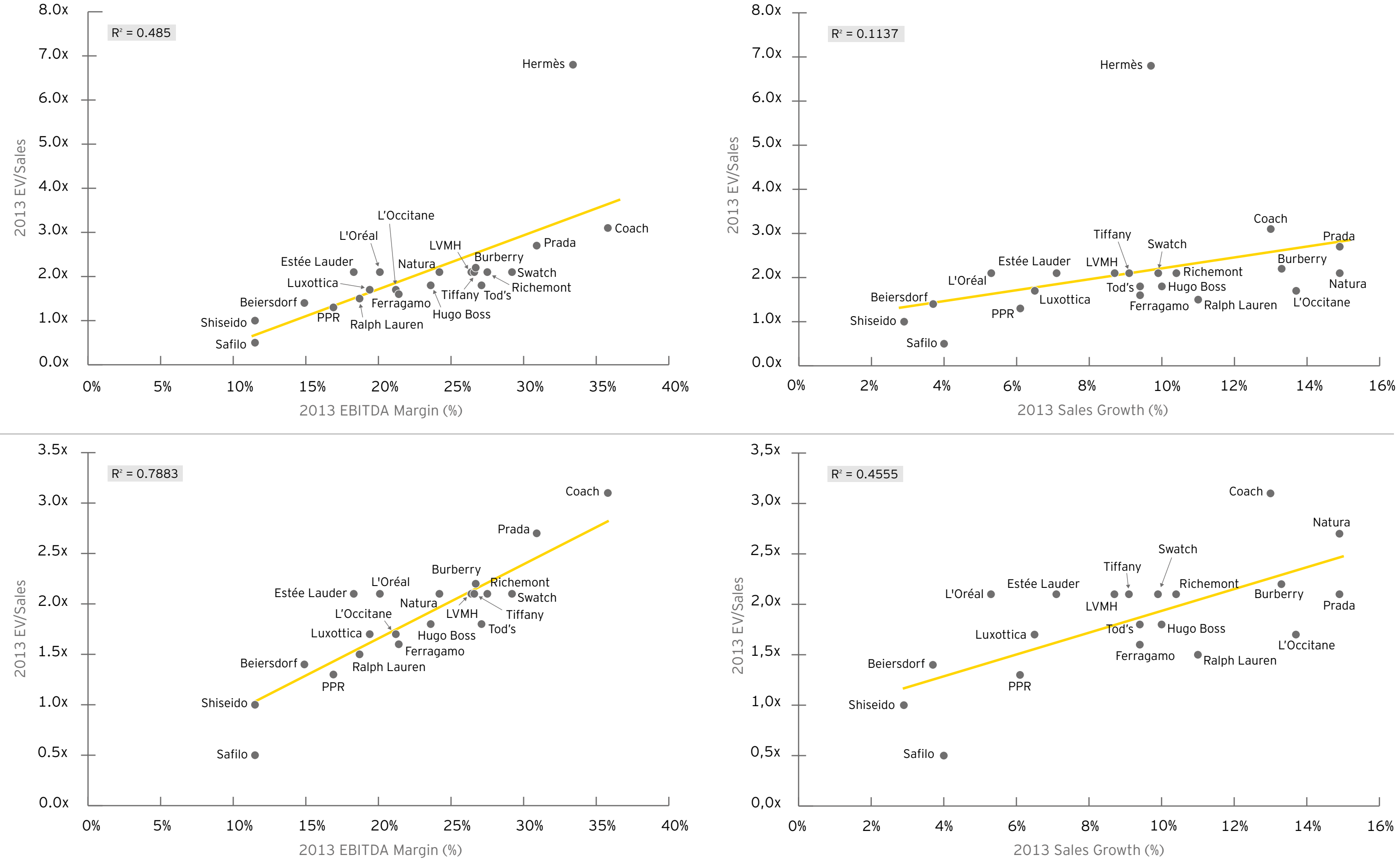
Notes: - Market Capitalization is based on a one-month average as of December 2011.
- The 2012 growth corresponds to the expected sales growth rate between FY11A/E and FY12E.

Regression analysis: EV/Sales multiple vs. EBITDA margin and 2013 Growth

Analysis excluding Hermès data shows significant correlation of profitability but a more limited correlation of sales growth.

Including Hermès data

Excluding Hermès data



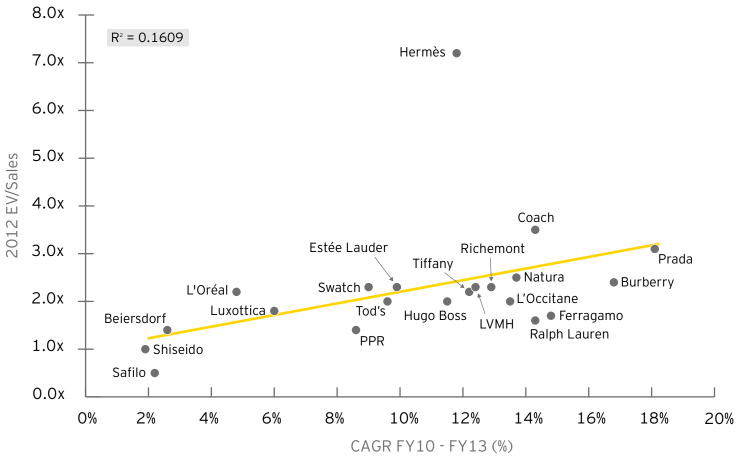
Source: Data based on consensus of several brokers reports for each company

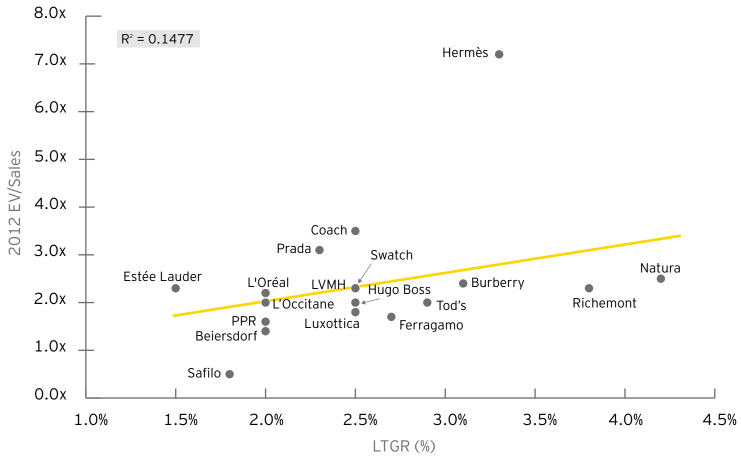
Notes: - Market Capitalization is based on a one-month average as of December 2011.
- The 2013 growth corresponds to the expected sales growth rate between FY12E and FY13E.

Regression analysis:
EV/Sales 2012E multiple vs. CAGR FY10-FY13 and LTGR

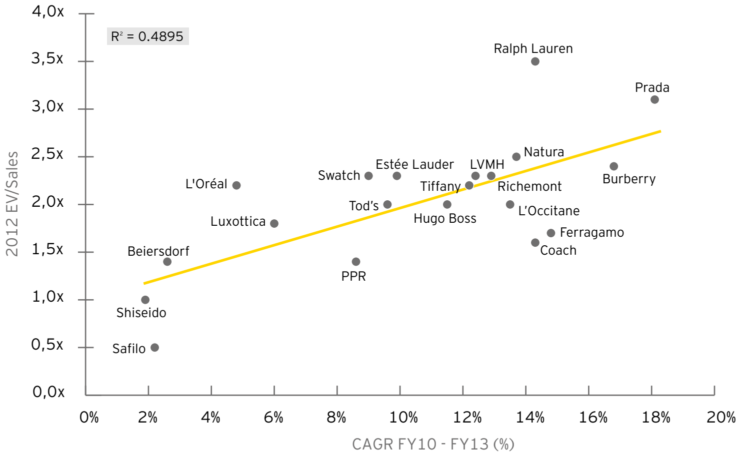
Analysis excluding Hermès data shows a strong correlation of CAGR but a very limited correlation of LTGR.

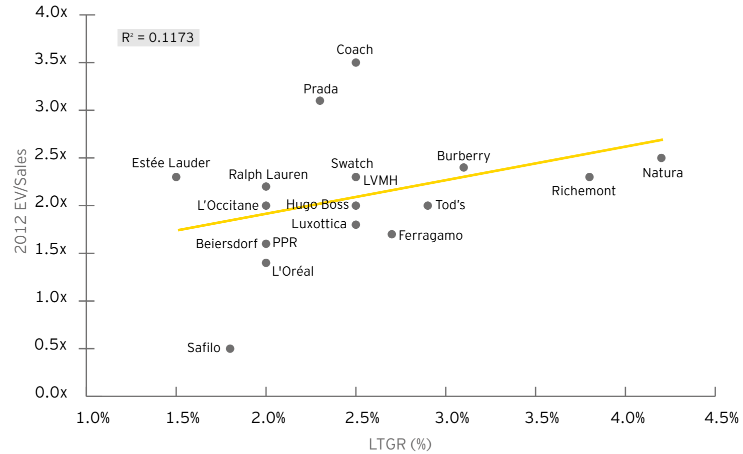
Including Hermès data





Excluding Hermès data





Source: Data based on consensus of several brokers reports for each company

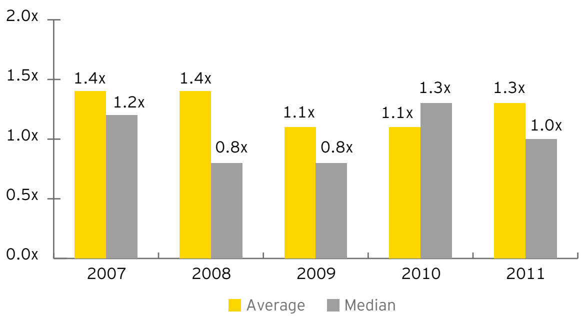
Notes: Market Capitalization is based on a one-month average as of December 2011.

F Transaction multiples

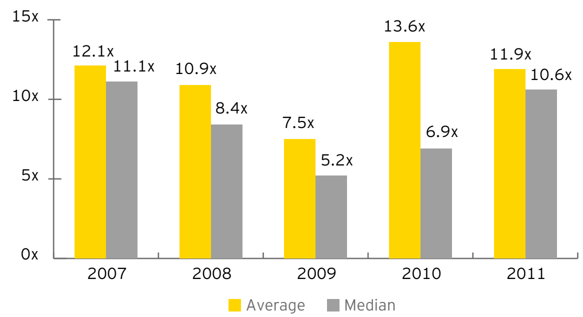
Transaction multiples in the Luxury industry are lower than before the crisis but remain at a significant premium relative to many other sectors

- Multiples are slightly lower than before the crisis but remain high, illustrating the attractiveness of the industry.
- The average sales multiple over the past five years ranged between 1.1x and 1.4x, while the EBITDA multiple ranged between 7.5x and 13.6x and the average price to earnings ratio ranged between 8.5x and 21.0x.

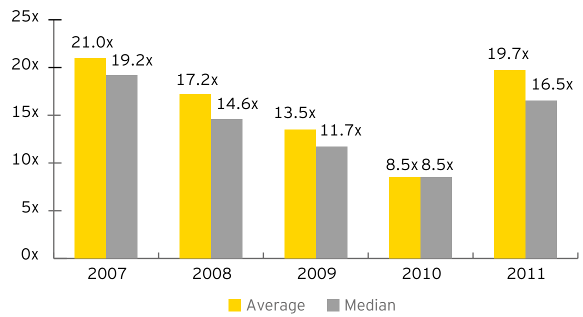
EV/Sales (FY07-FY11)



EV/EBITDA (FY07-FY11)



Price to Earnings (FY07-FY11)

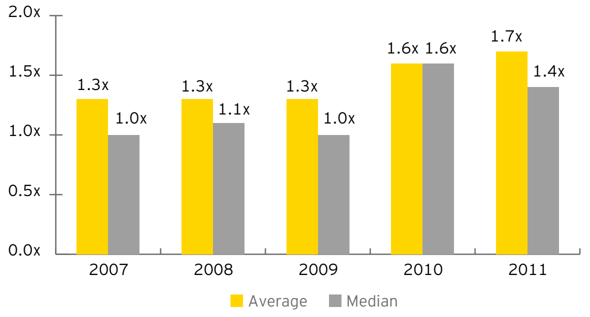


Source: Capital IQ

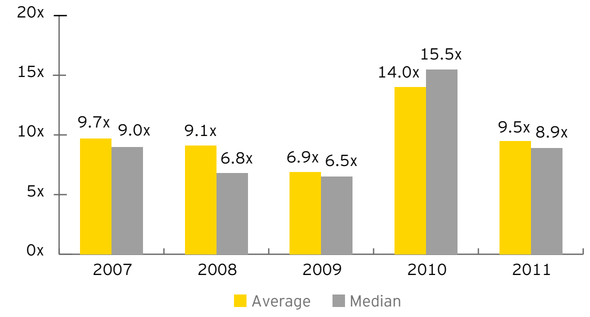
The M&A deals in the Cosmetics sector illustrate an improvement in value after a drop in 2008

- M&A deals in 2009 and 2010 reflect an increase in companies' values after a drop in 2008.
- The average sales multiple over the past five years ranged between 1.3x and 1.7x, while the EBITDA multiple ranged between 6.9x and 14.0x and the average price to earnings ratio ranged between 15.4x and 26.5x.

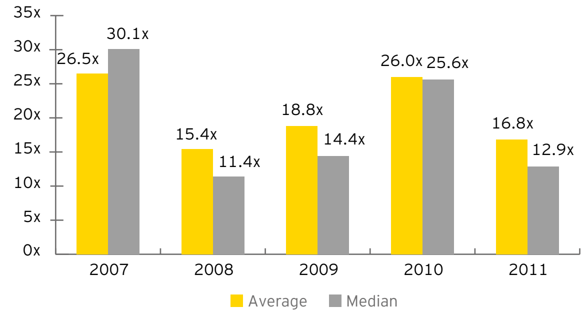
EV/Sales (FY07-FY11)



EV/EBITDA (FY07-FY11)



Price to Earnings (FY07-FY11)



Source: Capital IQ

M&A transactions with a deal value of over €1bn over the past five years

Target Company	Bidder	Year	Target Nation	% Acq.	Deal Value (€m)	100% Market Value (€m)	EV (€m)	Sales (€m)	EBITDA (€m)	EBIT (€m)	EV/ Sales	EV/ EBITDA	EV/ EBIT
Alberto-Culver Company	Conopco, Inc.	2010	United States	100.0	2,962.7	2,753.5	2,769.4	1,262.7	195.9	172.5	2.4x	15.5x	17.6x
Tommy Hilfiger B.V.	PVH Corp.	2010	Netherlands	100.0	2,580.4	2,243.1	2,343.9	1,641.4	219.1	147.5	1.4x	10.7x	15.9x
Bulgari S.p.A.	LVMH Moet Hennessy Louis Vuitton	2011	Italy	50.4	2,097.8	3,649.8	3,795.3	1,069.0	147.2	82.0	3.6x	25.8x	46.3x
Puma SE	Sapardis S.A. (PPR Group)	2007	Germany	35.0	1,848.9	5,282.4	4,908.0	2,378.3	403.3	360.4	2.1x	12.2x	13.6x
Valentino Fashion Group S.p.A.	Permira Advisers Ltd.	2007	Italy	47.2	1,804.8	3,823.8	4,501.9	2,012.5	317.3	253.3	2.2x	14.2x	17.8x
Oakley, Inc.	Luxottica Group S.p.A.	2007	United States	100.0	1,718.9	1,510.9	1,676.3	604.3	88.4	58.6	2.8x	19.0x	28.7x
Puma SE	Sapardis S.A. (PPR Group)	2007	Germany	27.1	1,429.7	5,268.0	4,937.4	2,382.2	409.2	368.7	2.1x	12.1x	13.4x
Bulgari S.p.A.	LVMH Moet Hennessy Louis Vuitton	2011	Italy	31.3	1,337.5	4,271.8	4,445.4	1,173.8	163.1	101.7	3.8x	27.3x	43.7x
Bare Escentuals, Inc.	Shiseido Co. Ltd.	2010	United States	100.0	1,311.6	1,157.0	1,202.2	389.2	123.5	111.0	3.1x	9.8x	11.0x
The Body Shop International plc	L'Oréal S.A.	2006	United Kingdom	100.0	1,030.6	940.7	953.1	712.0	94.7	69.2	1.4x	10.2x	14.0x
Yves Saint-Laurent Beauté Holding SAS	L'Oréal S.A.	2008	France	100.0	1,150.0	1,150.0	1,150.0	649.2	na	na	1.8x	na	na
Average											2.4x	15.7x	22.2x
Median											2.2x	13.2x	16.8x

Source: Capital IQ

Top 10 transactions based on operating margins

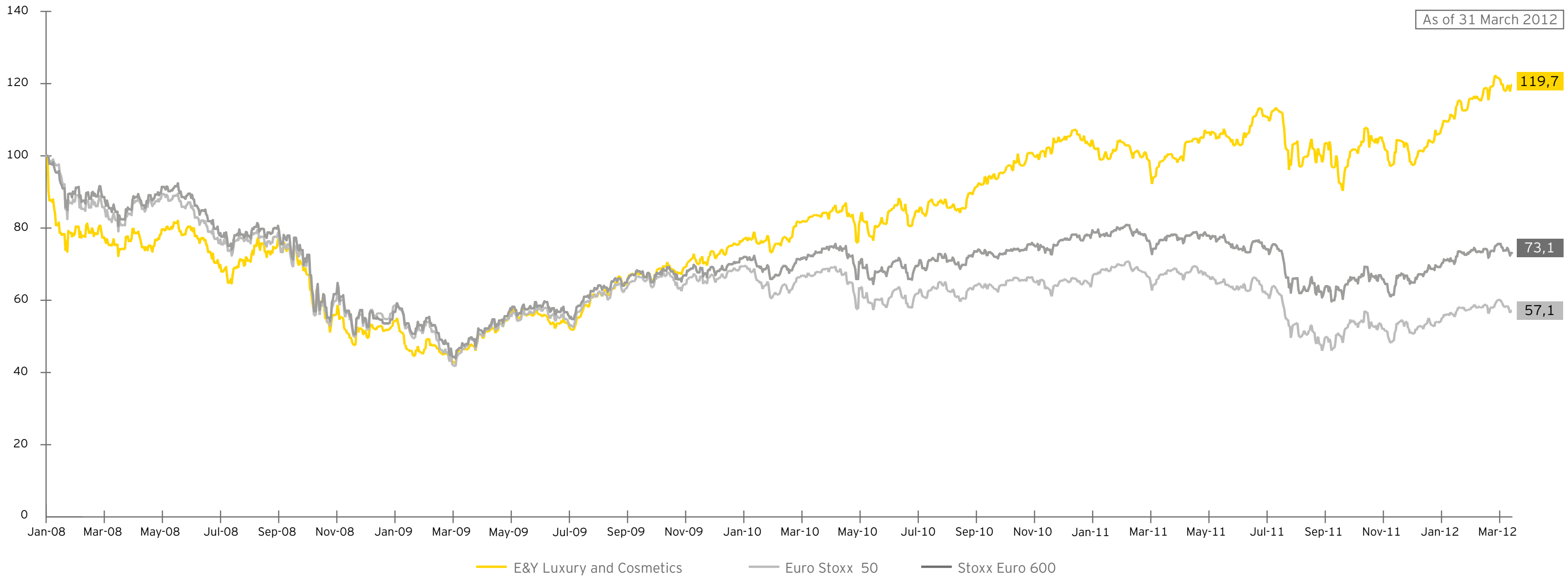
Target Company	Bidder	Year	Target Nation	% Acq.	Deal Value (€m)	100% Market Value (€m)	EV (€m)	Sales (€m)	EBITDA (€m)	EBIT (€m)	EV/ Sales	EV/ EBITDA	EV/ EBIT	EBIT margin (%)
Natural Beauty Bio-Technology Ltd.	The Carlyle Group LP	2009	Hong Kong	65.5	142.0	216.7	168.3	47.2	18.7	17.0	3.6x	9.2x	10.1x	36.0%
Baggallini, Inc.	R.G. Barry Corporation	2011	United States	100.0	24.3	21.8	23.8	12.8	4.1	4.0	1.9x	6.0x	6.1x	31.6%
Bare Escentuals, Inc.	Shiseido Co. Ltd.	2010	United States	100.0	1,311.6	1,157.0	1,202.2	389.2	123.5	111.0	3.1x	9.8x	11.0x	28.5%
Zhuhai Rossini Watch Industry Ltd.	China Haidian Holdings Ltd.	2008	China	91.0	44.3	48.7	47.5	16.2	4.2	4.1	2.7x	10.5x	10.8x	25.3%
Peerless Garments, Ltd.	ComWest Enterprise Corp.	2010	Canada	90.0	15.4	12.0	16.4	30.6	7.0	7.0	0.5x	2.4x	2.4x	22.8%
DXN Holdings Bhd	Temasek Sejati Sdn Bhd.	2011	Malaysia	33.4	31.4	93.9	91.7	60.7	14.4	12.8	1.5x	6.2x	7.0x	21.0%
Umbro Ltd.	Nike Vapor Ltd.	2007	United Kingdom	100.0	442.9	405.6	441.8	143.4	32.4	29.7	3.2x	14.1x	15.3x	20.7%
Umbro Ltd.	JJB Sports plc	2007	United Kingdom	10.1	37.8	373.5	409.7	143.4	32.4	29.7	3.0x	13.1x	14.2x	20.7%
Gant Company AB	Maus Freres S.A.	2008	Sweden	59.7	378.5	569.4	593.7	145.9	32.3	30.1	4.1x	18.3x	19.7x	20.6%
Gant Company AB	Maus Freres S.A.	2007	Sweden	22.3	123.5	553.7	600.9	149.7	33.1	30.6	4.1x	18.6x	20.1x	20.4%
Average											2.8x	10.8x	11.7x	24.8%
Median											3.0x	10.2x	10.9x	21.9%

Source: Capital IQ

Note: All deals with operating margin above 20%

EY Luxury and Cosmetics Index: Evolution since January 2008

EY Luxury and Cosmetics Index evolution compared to major indices (base 100 as of 01/01/2008)



Source: Capital IQ

Industry Overview

A Global Luxury goods market

B Global Cosmetic goods market

C Insights into Luxury - Interview with Prof. Jean-Noël Kapferer

D Focus on the Spanish market

E Focus on the Italian market

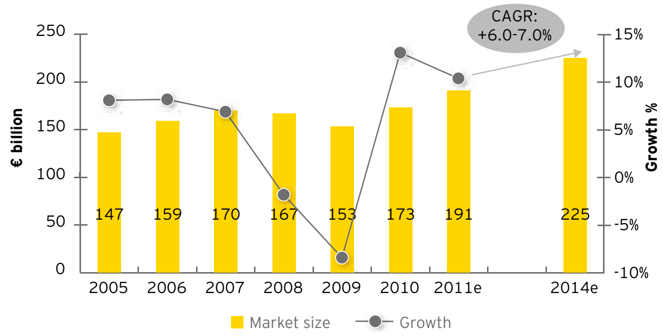
F Focus on the Supply chain in the Luxury industry

G Focuses on Dior and Bulgari

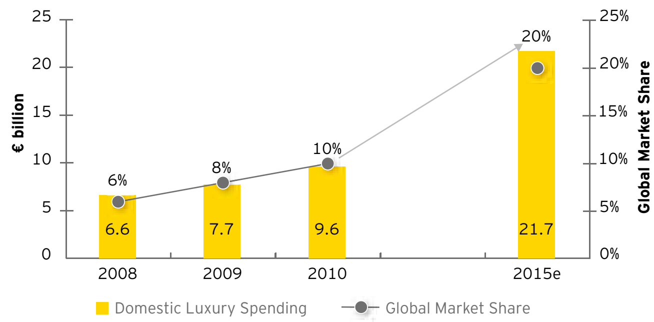
A Global Luxury goods market

Double digit growth for worldwide personal luxury goods continued in 2011 with China showing a growing love for Luxury

Worldwide Personal Luxury Goods Market trend [1]



Luxury goods consumption in China [2]



- EY expects sustained growth in the personal luxury goods industry for the coming years.
- The worldwide personal luxury goods market is estimated to have grown by a healthy 10.4% in 2011, including a -3.0% currency impact, and is expected to grow at a CAGR of 6.0% to 7.0% from FY11 to FY14E.
- While tourist purchases have helped sustain demand in developed markets, increasing purchasing power is fueling growth in demand for luxury goods in developing markets like China where luxury goods consumption is expected to grow at a CAGR of 17.6% between FY10 and FY15E and domestic consumption is expected to reach 20% of the global market share in 2015.
- While most luxury players and analysts are positive about future growth, a degree of caution still exists; especially relating to possibilities of slowdown in the Chinese economy and the impeding sovereign debt situation within the Eurozone.

Source: S&P, Bain & Company and Fondazione Altagamma; and other selected research

Notes: 1) Luxury Goods Worldwide Market Study, 2011 – Bain & Company and Fondazione Altagamma
2) Luxury spending includes fashion ready to wear, leather goods/handbags, watches and fine jewelry – McKinsey Consumer & Shopper Insights.

A Global Luxury goods market

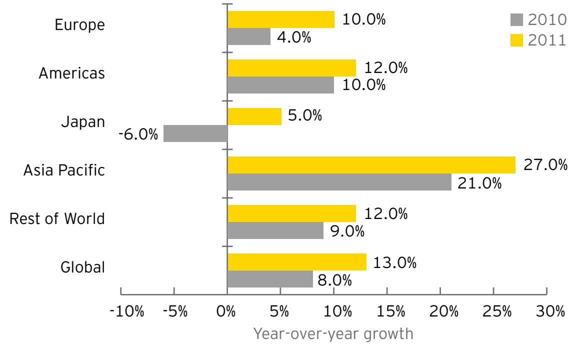
Market participants are cautious but optimistic for 2012 and beyond

Real GDP growth by selected market (2009-2013E)[1]

(In %)	FY09	FY10	FY11	FY12E	FY13E
Global	**(0.9)**	**5.2**	**3.8**	**3.3**	**3.9**
Euro Area	(4.1)	1.9	1.6	(0.5)	0.8
CEE*	(3.6)	4.5	5.1	1.1	2.4
UK	(4.9)	2.1	0.9	0.6	2.0
Japan	(5.3)	4.4	-0.9	1.7	1.6
US	(2.6)	3.0	1.8	1.8	2.2
Brazil	(0.2)	7.5	2.9	3.0	4.0
Russia	(7.9)	4.0	4.1	3.3	3.5
India	5.7	9.9	7.4	7.0	7.3
China	9.1	10.4	9.2	8.2	8.8

BRIC economies

Luxury goods market growth by geography [2] (constant exchange rates)



1 Concerns about the global slowdown

- Global growth prospects dimmed and risks escalated during the fourth quarter of 2011, as the Euro zone crisis entered a difficult new phase.
- Growth in emerging and developing economies slowed more than forecasted, possibly due to a greater than expected effect of macroeconomic policy tightening or weaker than expected underlying growth.
- Luxury spending in Japan, a key luxury market, has remained weak despite signs of improvement in most other parts of the world.

2 Demand for luxury goods is holding steady

- Sales of luxury goods in developed countries are picking up again as the majority of affluent shoppers have retained their purchasing power and tourist spending on luxury goods is growing in these regions.
- Luxury markets are also performing well in developing countries such as Russia and China, as well as in Middle Eastern Gulf states.
- China's importance as a luxury market has grown dramatically and most global players are focusing on growing their Chinese footprint.

Source: International Monetary Fund, Bain & Company and Fondazione Altagamma; and other selected research

Notes: 1) International Monetary Fund data
2) Luxury Goods Worldwide Market Study, 2011 – Bain & Company and Fondazione Altagamma
* Central and Eastern Europe

Analysts' expectations remain mixed, but consistently highlight significant growth potential

Deutsche Bank: 7.0% growth for 2012

"1) a favourable swing in currencies, 2) a better-than-expected US macro environment, and 3) the possibility that no hard landing will take place in China, could trigger consensus estimates to move higher. The recession/default risks in Europe could generate some volatility, though the markets seem set to overlook these issues. ***We have increased our expectation of luxury demand growth in 2012 from +5% to +7% at constant exchange rates, assuming a higher contribution from the Chinese consumer.****"*

Luxury Goods Quarterly, Deutsche Bank, 21 February 2012

HSBC: 10.0% growth for 2012 (2013: 9.0%)

"Although we think other consumer sub-sectors could suffer from macro threats (especially in Europe), strong barriers to entry and tourism flows should support the luxury goods industry... For 2012, we expect a slowdown rather than a collapse in sales growth, as we take the view that Asian consumption, both local and travel-related, could put a floor under growth. ***We forecast the sector's average organic sales growth rate to slow to 10% in 2012 and 9% in 2013 from the historically high level of 2011****, but to remain above the 7-8% long-term industry average."*

Global luxury goods, HSBC Global Research, March 2012

J.P. Morgan: 4.7% growth for 2012

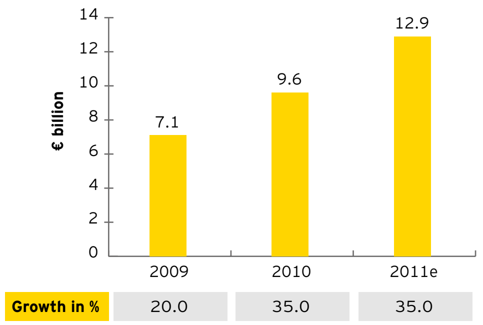
"Lifting our expectation for US Sales to 10% growth (vs previously flat) and keeping Sales growth to ML Chinese at home and travelling at +15% ***would bring our global organic growth to 4.7% from 3%, still significantly below current consensus (8-10%)****... Our expectation may have seemed conservative in the light of recent strong double digit trend and price increases but the volume declines this sector has posted in past downturns has been very significant."*

Luxury Uncovered, J.P. Morgan Cazenove, 12 March 2012

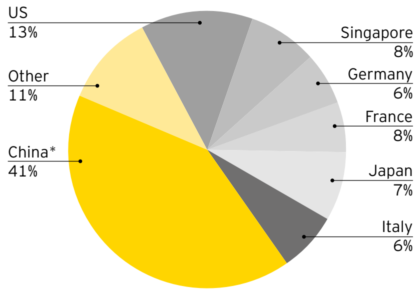
Source: Selected research

China: a growing influence on the global Luxury landscape

Chinese Personal Luxury Goods Market (2009-2011E) [1]



Destination of Swiss watch exports in Q4'11 (by value) [2]



Luxury goods sales mix by nationality (2008-2013E)[3]

(in %)	2008	2009	2010	2011E	2012E	2013E
Japanese	28.0	27.0	24.0	21.0	20.0	19.0
North American	23.0	21.0	20.0	20.0	19.0	18.0
European (excluding Russia)	22.0	22.0	22.0	21.0	20.0	18.0
Chinese	11.0	15.0	19.0	22.0	25.0	29.0
Other	16.0	16.0	15.0	16.0	16.0	16.0
Total	100.0	100.0	100.0	100.0	100.0	100.0
"Mature customer"	*73.0*	*70.0*	*66.0*	*62.0*	*58.0*	*55.0*
"Emerging customer"	*27.0*	*31.0*	*34.0*	*38.0*	*42.0*	*45.0*

Source: Bain & Company and Fondazione Altagamma, Deutsche Bank and other selected research

Notes: 1) Luxury Goods Worldwide Market Study, 2011 - Bain & Company and Fondazione Altagamma
2) Federation of the Swiss Watch Industry - Luxury Goods Quarterly, Deutsche Bank, 21 February 2012
3) Luxury Goods Quarterly, Deutsche Bank, 21 February 2012
* China excluding Taiwan

1 China: the fastest growing Luxury market

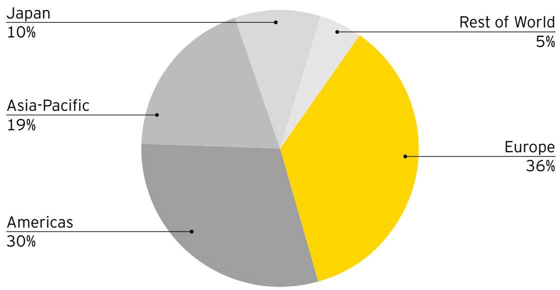
- Since the Chinese Luxury market became relevant (i.e. in 2003 when China started to account for more than 1.0% of luxury groups' sales), it has grown at rates of above 30.0% per annum.
- The years 2010 and 2011 saw a flurry of luxury brands opening stores in China; China alone had almost as many new openings in 2010 as the Americas or Europe.
- China (excluding Taiwan) accounted for almost 41% of Swiss watch exports during Q4'11, an indication of the growing Chinese influence on global Luxury consumption.
- The Boston Consulting Group expects China to become the world's largest luxury goods market by 2015, with 29% of global Luxury spending.

2 Chinese: already the top buyers of luxury goods

- While the Luxury market in China may take another couple of years to emerge as the largest in the world, estimates for 2011 suggest that Chinese nationals are already the top buyers of luxury products.
- Chinese accounted for close to 22.0% of global luxury sales in 2011E, overtaking Japanese consumers as the largest buyers.
- This is primarily driven by strong growth in overseas luxury purchases by Chinese tourists in the US, Europe and Asia.
- According to the World Luxury Association, Chinese consumers spent $7.2bn abroad on luxury goods during the week long lunar holiday season alone (up 29% from $5.6bn in 2011).

Other markets are buoyant

Global Personal Luxury Goods Market by geography (2011E) [1]



2 Japan: finally regains some lost demand

- Japan has been experiencing a decline in demand for luxury goods since 2007.
- However, a 5.0% gain before considering currency fluctuations in 2011 reversed the trend.
- The recovery might have been muted to an extent by the earthquake in March 2011 and subsequent nuclear risks; major brands closed their stores in Tokyo for almost two weeks.
- However, the effects on luxury consumption in Japan were milder than expected.
- Brands and department stores started experiencing growth in the second half of 2011.

1 Europe: the world's biggest luxury goods market

- Europe is the world's largest market for luxury goods, accounting for approximately 36.0% of global sales in 2011.
- It was also the most resilient and mature market during the financial crisis between 2007 and 2011, with sales growing at a CAGR of 2.0%.
- However, most of this growth was generated from sales to tourists from foreign markets.
- The annual number of Chinese, Japanese and Russians visiting European tourist destinations grew by 19.0% between 2009 and 2010. The Chinese have doubled their average spending per basket in France since 2005.

3 Americas: going steady

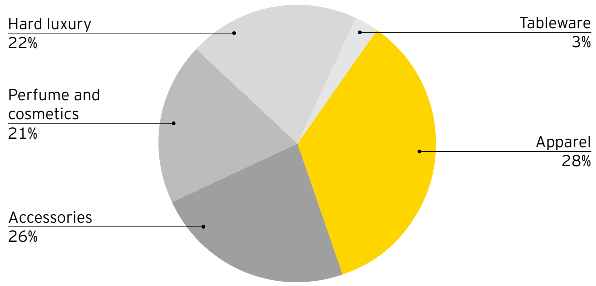
- Americas posted a growth of 12.0% in luxury sales during 2011 (excluding currency impact), following an increase of 10.0% in 2010.
- The growth was driven by female categories and a recovery in demand for jewellery and watches.
- Brands have focused on opening stores in second and third tier cities.
- Like Europe, Chinese tourists is a growing consumer group in Americas, especially in New York and Hawaii.

Source: Bain & Company and Fondazione Altagamma; company filings and other selected research

Notes: 1) Luxury Goods Worldwide Market Study, 2011 - Bain & Company and Fondazione Altagamma

Male purchases are rising across product segments, particularly in China

Global Personal Luxury Goods Market by product type (2011E) [1]



2 Apparel and accessories: the male shopper

- Menswear is outperforming the overall apparel market, mainly driven by changing formal wear trends in mature markets and casual clothing trends in China.
- Luxury leather accessories and shoes, which are traditionally women driven segments, are also experiencing an increasing male demand in Asia.
- While the male dominated demand growth from China is driving these trends, Chinese women are expected to eventually play a bigger role in luxury spending.

1 Perfumes and cosmetics

- Premium priced and niche cosmetics that innovate on ingredients and application methods are becoming increasingly popular.
- Luxury cosmetics markets in China and Latin America are growing at a double digit pace, whereas sales in mature markets are essentially flat.
- Large global cosmetics brands continue to dominate the luxury cosmetics segment, though some lifestyle brands are making inroads into the sector.
- However, in the premium perfumes segment, lifestyle brands are outperforming specialists.

3 Hard luxury: Swiss watch exports on the rise

- The luxury watches segment has primarily driven exports of Swiss watches.
- After declining year-on-year (y-o-y) each month in 2009, Swiss watch exports experienced growth every month since January 2010; exports in January 2011 were up 16% y-o-y.
- Watches segment, which is traditionally wholesale driven, is starting to invest heavily in retail (especially in Asia) to gain more control.
- While accessible silver jewelry has been doing well, branded precious jewelry is also starting to gain acceptance in emerging markets.

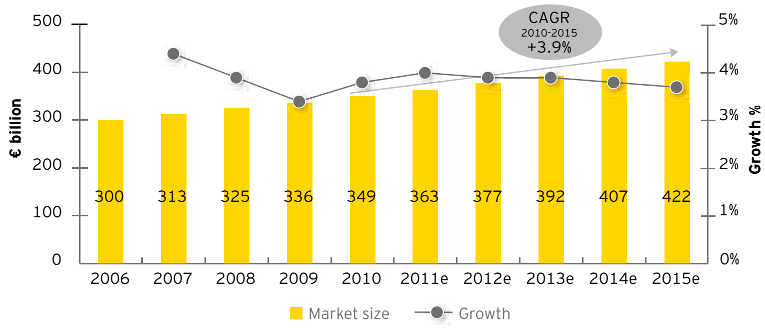
Source: Bain & Company and Fondazione Altagamma; company filings and other selected research

Notes: 1) Luxury Goods Worldwide Market Study, 2011 - Bain & Company and Fondazione Altagamma

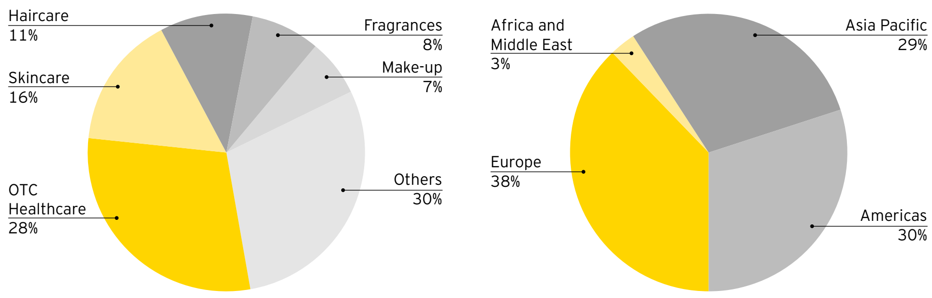
B Global Cosmetic goods market

Sales of cosmetics and personal care products were estimated at €363bn in 2011...

Global Personal Products Market trend (2006-2015E) [1]



Global Personal Products Market segmentation by products and geographies (2010) [1]



1 Market is expected to grow by 4% in next five years

- EY expects stable growth in the personal products market for the coming years.
- Revenues for global personal products market (includes skincare, haircare, fragrances, make-up, OTC healthcare and other smaller product categories) were estimated at €363bn for 2011, an increase of 4% compared to the previous year.
- Moderate growth rates are expected in the immediate future, with the market for personal products expected to reach €422bn by 2015.

2 Focus on emerging markets growing

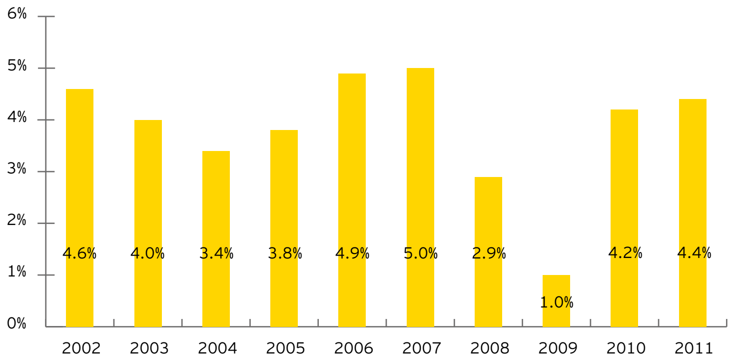
- Europe accounted for 38% and Americas for 30% of the global personal products market.
- Manufacturers continue to expand their product lines and geographic reach to take advantage of new market opportunities.
- There is a growing focus on emerging economies as cosmetics penetration in those markets is extremely low.
- OTC healthcare is the largest segment of the global personal products market, accounting for 28% of global sales in 2010, followed by skincare with 16%.

Source: Datamonitor and other selected research

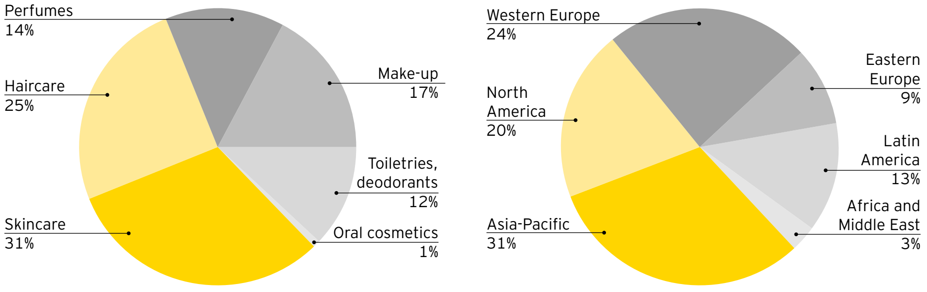
Notes: 1) Global Personal Products, Datamonitor, January 2012

... with pure players representing €153bn[1]...

Global cosmetics industry market growth, YOY (2002-2011) [1]



Global cosmetics market segmentation by product and geography (2011) [1]



1 Cosmetics market is likely to expand in the coming years

- The global cosmetics market (which includes skincare, haircare, perfume, make-up, toiletries and deodorants and other smaller product categories) had total revenues of €153bn in 2011, an increase of 4.4% compared to the previous year.
- The market for cosmetic products is primarily driven by exports from Western Europe and Asia-Pacific.
- The cosmetics market remains a supply-led market, driven by consumers' demand for quality, performance and innovation.

2 Asia-Pacific region leads global cosmetics market

- Asia-Pacific is the largest cosmetics market, accounted for 31% of the global cosmetics market value in 2011.
- Skincare is the largest revenue segment in the cosmetics market, accounting for 31% of global cosmetics sales in 2011 (out of which face care products represented 64.1%).
- Companies have focused on realigning their brand and operations strategy amid the slowdown to increase focus on core brands and product lines.

Source: L'Oréal Annual Report 2011 and other selected research

Notes: 1) L'Oréal estimates of worldwide cosmetics market based on manufacturer net selling prices. Excluding soap, toothpaste, razors and blades. Excluding currency fluctuations – L'Oréal Annual Report 2011

B Global Cosmetic goods market

... and emerging markets fueling demand

1 Focus on new geographies

- With saturated demand within industrialized markets, the cosmetics industry has been focusing on expanding in developing countries.
- Emerging markets accounted for over 80% of growth in the global cosmetics market in 2011[1].
- Strong economic growth in these markets is not only driving demand for mass-market personal care and beauty products, but also for premium brands as consumers are becoming increasingly affluent.

2 Increasing product innovation

- Companies continue to innovate with their brand positioning strategies based on the markets in which they operate.
- For example, products are being targeted at the aging baby boomers in the US, while teens and young adults are the focus in countries with a higher proportion of young people.
- Companies are offering innovative and niche products to retain customer interest; these include cosmeceuticals, nutricosmetics, natural and organic products among others.
- With increasing health concerns among consumers, the demand for chemical free cosmetics has also seen an increase.

3 Luxury cosmetics regain momentum

- A number of prestige brands, that registered flat or declining sales during the global slowdown, have regained some of the lost steam over the past couple of years.
- Share of premium brands within the cosmetics market is now at par with the level seen in 2007.
- Luxury cosmetic brands have found new buyers resulting from an increasing appetite from the growing upper-middle class in emerging economies.

4 Manufacturing base in emerging economies

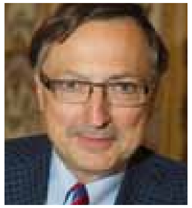
- Over the last decade, a number of cosmetic companies have also shifted their manufacturing base closer to dominant emerging economies – Brazil, Russia, India and China (BRIC).
- In addition to being close to growing markets, these facilities also offer lower manufacturing costs.
- However, cost escalation within BRIC economies has prompted companies to consider the second tier emerging economies for setting up new plants.

Source: Selected research and company filings

Notes: 1) L'Oréal estimates of worldwide cosmetics market based on manufacturer net selling prices. Excluding soap, toothpaste, razors and blades. Excluding currency fluctuations – L'Oréal Annual Report 2011

Interview with Jean-Noël Kapferer

Insights into Luxury



Interview with Prof. Jean-Noël Kapferer[1]

Paul Wood, Ernst & Young, Paris - France

Paul Wood: Prof. Kapferer, when we look at the pace of change in the world of Luxury are there lessons that can be learned from the experiences in Mass Consumer and their focus on the market and now individual, digitized, personal customer experience?

Jean-Noël Kapferer: To be short, two forces drive markets: Technology and sociology changes, whatever the sector, Luxury or not.

For instance trains allowed companies to sell nationwide, cars made the supermarket civilization possible (with parking), TV created brands (no need for a salesman in stores). Now the internet creates the era of generalized interactivity and sharing wherever you are (with your mobile or iPad) with your friends or with the brand you like. No brand can stay apart. But since there is no luxury strategy without direct one to one contact with the client, luxury sees a great opportunity to increase its level of service and of creation of the dream.

PW: So are you seeing some of the more classic Luxury Brands, the Dior's, Chanel's Gucci's of the world of Luxury, embracing these mass consumer technology trends and are they doing it in the same way?

JNK: My vision in the book "The Luxury Strategy" is that this sector works by doing the just opposite of what everyone else does - breaking the classic rules of marketing. For example the pricing power of the Luxury Sector allows them to avoid doing what FMCG brands have had to do during the recession that is cutting prices to stimulate demand.

There is a pressure exerted on luxury businesses to follow the practices of FMCG groups, for instance in their widespread usage of technology. Now without turning the back to progress, anything done hastily which looks like FMCG behavior is just diluting the prestige of the brand and hence its pricing power.

PW: I understand, but how does this relate to the technology point you were making earlier?

JNK: I see two dangers for Luxury Brands. Firstly, trying to imitate the no.1 mass market brands e.g. saying "let's imitate the factors of success and growth of Nike" but – how do I make a difference from Nike - am I in the same race as them? The second danger – the trends of mass consumer brands – making service too personal, engaging in friendly dialogue, as if the brand was your best friend, at your own level. It is very normal to provide multi-channel service and consumers experiences. But it is less normal to imitate the type of relation that FMCG brands adopt. Take CRM (Customer Relationship Management) for instance, OK for an intimate knowledge but not OK to launch proactive SMS aimed at selling to Luxury customers.

The problem today however, is that sometimes FMCG delivers a better service: take the service in an Apple store or what Amazon does on line. So here Luxury is late and it is a real problem.

Because to date - Luxury was THE domain where service was personal by definition. So if you say to everyone in the Mass Market - make service personal - and this is possible now through digital technology e.g. Amazon know me and my reading habits intimately, then the question for Luxury Brands is "what is left?" In fact it is the mass market brands that are today learning from the experience of Luxury and so the gap is closing on Luxury because the Mass and Premium markets are learning from YOU. Luxury is about maintaining the gap.

[1] Professor HEC Paris and World renown expert in Luxury, holds the Pernod-Ricard Chair of Management of Prestige Brands and co-author of the best seller *The Luxury Strategy*

Interview with Jean-Noël Kapferer (cont'd)

Insights into Luxury

PW: So Luxury can teach the mass market a few things but what can Luxury learn from the mass market?

JNK: I think that at the CEO level in the Luxury business, they should be constantly aware of losing their specificity. Take the example of consumer dialogue and co-creation – all managers of brands need to do this. But how much dialogue and co-creation is needed in Luxury? If you look at the Fashion shows where products are immediately photographed and sent around the world, the picture is about the product design more than the person. If you start to ask consumers to share their views and needs on next seasons colors or styles and looks that you would like us to design into the product then we are starting on a slippery slope – the role of the Designer becomes simply a contracted manufacturer!

PW: Take it to the extreme, could you ever see for e.g. Karl Lagerfeld at Chanel asking for mass consumer input on next seasons' designs?

JNK: Never!

Look at Marc Jacobs, he is the no.1 figure of the Y generation in the USA. Why? Because he is very friendly and his products are fun. In France some of his cheaper US products would not be called luxury because it is missing many of the core dimensions, in my opinion there is less durability on some of his goods. They will also not keep their value through time. In the recession we have seen little reduction in the spend on real luxury products as they are an investment – take a luxury watch. Value goes with time and time is in the product. It will resist time. There is also a feel-good factor otherwise people would simply buy a gold bar.

In luxury we need to have desire, desire to sustain the price and this is what avoids luxury brands reducing prices, whether in a recession or not. We need to be precise, the luxury sector is a notion based on macro-economics, then there is the highly subjective concept of what luxury is and finally there is the luxury strategy - stricto sensu - with its very precise implications. The luxury strategy means to open awareness and in the meantime to close access by controlling everything from the supply chain through to logistics and distribution into the owned store. So I do not see luxury houses ever asking for surveys and input and ideas to design products. Luxury customers expect luxury houses to lead the way, to innovate and define where their products should be going - produce something I can dream of acquiring!

Also let's be clear - fashion is not luxury. It is two different business models. Italian brands sell fashion, French ones sell Luxury. Luxury should be made locally and will not fade over time, does not have seasons, unlike fashion products. Fashion is about repeat purchases every year or season. Luxury is not. The problem today is that all of these companies – prestige, fashion, premium, etc. – are lumped together with real luxury companies in the so called "luxury sector".

Take a look at Armani, they use a pyramid, linked by the identity of Armani himself. It is a creative model where the magic of the creator is everywhere. But in his pyramid, you have Armani Jeans fighting against Diesel, Exchange fighting against the youngest level of Burberry, there are many stories in his empire. Where he is very clever, is that each Story in the Empire communicates with separate distribution channels and no leakage between each brand level. He segments customers, channels and products. He is able to have real luxury products with the right element of social discrimination so each level of customer does not mix in his different stores.

Interview with Jean-Noël Kapferer (cont'd)

Insights into Luxury

PW: if we look at Emerging markets, particularly Brazil and China, they are some of the biggest consumers of luxury products. Should they be approached differently by the luxury houses in order to succeed?

JNK: In these countries the local elites want to flex their muscles and compete symbolically against the riches and elites of the West which so far have been setting the standards. This is why they dream of having the same brands and lifestyle as the West. They do not dream about their local brands. They want the real Porsche, the real Martell cognac, the real Chanel dress or Berluti shoes.

Now, there is no more one single elite in these countries. Each part of society dreams about certain kinds of products. In these countries we have the powerful economic elite and the art or internet elite - each brand should ask which elite should I aim at? Do I aim at the ultra high net worth individuals with wealth over $30m - this is the market for the art and auctions but also of Richard Mille watches for example at two hundred thousand euros per watch. I think for Houses like Vuitton and Chanel and others who want to be bought by people in these countries who are becoming well off, they have to show that they are the dream of the ultra-rich in these countries.

The question is by answering the demand right now - first - do they have the production capacities in France to meet this demand as the Chinese do not want to hear that we are making luxury products next door to them. Coach for example has dropped out of the luxury market but has done so deliberately and is able to meet the rising demand by having off-shored its production facilities into low cost locations. But this is not the race in which some European brands are in. If you ask me what is the rule for luxury for emerging markets? I have to reply: which type of luxury! The luxury strategy is to maximize intangible value. Intangible value comes, for example, from being made by Gucci in Italy, by Italian craftsmen and creating the product that will last 10 years, made by a craftsman who trained for 10 years, etc. This is the *Luxury Strategy*.

So, in the case of managing the demand coming from emerging markets, it will be important that a real luxury house does not reduce quality – of service, of image, of product – simply to meet the wave of demand coming from the East. Otherwise they will slide into premium and mass premium strategies.

Therefore, the real challenge is one of resistance – building production carefully and gradually over time, creating the investment in new retail outlets that are tailored for each city and their demographics, and resisting the urge to simply saturate these new consumers with new products that do not represent the image or values of the luxury house – this will be the death of luxury in this case.

Note: the views represented in this interview are those of Professor Jean-Noël Kapferer alone and do not represent an opinion or recommendation from Ernst & Young

Focus on the Spanish market

The Luxury sector in Spain grew 25% in 2011

Eva Maria Abans Iglesias, Ernst & Young, Barcelona - Spain

In Spain, where there are 5 million unemployed, the luxury sector is currently worth approximately 5,000 million euros with a growth of 25% more in 2011 than in 2010, contrasting sharply with the general decrease in consumption due to the crisis.

This growth is largely due to the increase in tourism, especially in cities such as Madrid, Barcelona and Marbella, as the consumption of this kind of product has been decreasing for the Spanish since 2008. Only 20% of Spanish families (approximately 3.5 million of families) can now afford this kind of "luxury". There are 2 segments: a) the "high incomes" and b) the "aspiring incomes". The latter (c. 2.8 million of families), with annual luxury purchases of less than 500 euros largely spent on cosmetics and accessories. The "high incomes" (c.390 thousand families) spend up to 12,000 euros per annum mostly on fashion, watches and jewellery.

Spain is thus an exporter of luxury products and the real big consumers of luxury goods are the tourists. The major consumers are Asian, who have discovered that Spanish luxury products also include tradition, innovation and creativity. It is estimated that approximately 30% of the market is related to tourism. In the last few years we have seen the opening in Spain of high quality goods stores such as Tiffany, MiuMiu, Prada and Audemars Piguet.

For the Spanish luxury firms, international expansion is key because when tourists come to Spain and know the brand they significantly increase the local consumption. That is the case, for example for Loewe.

It is hoped that in 2012 the Spanish sector will maintain its growth rate despite the crisis, due to the expected growth in Asian tourism and the possible weakening of the euro against other currencies. More and more purchasers of luxury items see them as an "investment", preferring to buy only good quality lasting products instead of 3 that will only last one season. Additionally, Spain has the potential for becoming one of the largest luxury producers as it already has brands such as Zara, Massimo Dutti and Mango with boutiques located in streets and boulevards where the traditional luxury brands are competing and has a fantastic gastronomic offering with Ferrán Adriá and other restaurateurs with Michelin stars. Nowadays, Spanish products with most success in the market are food, the beauty products, the hotel industry and now fashion and accessories.

Focus on the Italian market

Italian Luxury M&A

Roberto Bonacina,
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Milan - Italy

Due to the volatile macroeconomic picture of the Eurozone, the Italian economy is experiencing a slowdown. The M&A market has also been affected by this situation, showing a clear decline in the number and value of transactions over the last 3 years.

However, it seems that the crisis has affected industries differently: despite the tough market conditions, the Luxury industry remains one of the most attractive sectors in Italy for domestic and international investors, on both private transactions and offerings on stock exchanges.

Concerning the private market, Italian fashion luxury companies have attracted several types of investors, such as: European conglomerates, large diversified holdings from the emerging markets, Italian SMEs, private equity funds and Sovereign Wealth Funds.

When analyzing the transactions in the Luxury industry that closed since 2008, investments in Italian Luxury have primarily followed these main strategies:

- **"Portfolio expansion"** – This strategy, mainly carried out by industrial buyers, consists of buying a well-managed company, with a strong brand and a wide existing network, which is looking for financing and further expansion. This was the case of the French group LVMH, that recently acquired Bulgari and thus widened its leading luxury portfolio. This type of strategy is typically implemented by conglomerates looking to strengthen their market positions or add top brands to their existing product offering. Over the last 3 years, the main transactions were led by PPR (Brioni acquisition), LVMH, and also the South Korean E-Land (acquisition of some of the brands owned by the former Mariella Burani Fashion Group - Coccinelle and Mandarina Duck - and of the Italian upmarket shoemaker Sutor Mantellassi).
- **"Financial Investment"** – Similar to the previous category of targets, financial sponsors usually prefer companies with potential for growth and a history of solid cash flows. The entrance can be made by buying a controlling stake, sometimes even from another PE (like in the latest Moncler buyout by Eurazeo) or with a subsequent entrance to support the previous financial shareholder, as in the Mubadala investment in the Charme Investment-owned Ballantyne.
- **"Turnaround"** – Involves buying an undervalued company, sometimes in a distressed condition, while supporting improvement both with new sources of financing and/or with strategic and managerial expertise. While this approach is typically adopted by financial buyers, industrial partners have made similar investments.

Focus on the Italian market (cont'd)

Italian Luxury M&A

This was the case with Belstaff, acquired in 2011 by the rising Swiss conglomerate Labelux (which had already acquired the niche Italian leather accessories brand Zagliani in 2009). The Company went through a deep business and management turnaround which included a new CEO, the appointment of Tommy Hilfiger as a fashion advisor, a Chief Creative Officer coming from Burberry, new headquarters, new iconic flagship stores openings.

- **"Development capital"** – Here the investor acquires new or smaller brands with growth potential and provides them with the necessary funding. This is the case of Dondup, a premium casualwear brand, in which the French private equity firm L Capital (who has LVMH among its Limited Partners) backed founders and management acquiring a 40% stake. Or Twin-Set (acquired by DGPA Capital in 2008 through a capital increase) which since then has more than tripled revenues and enhanced profitability. As a result, Twin-Set is now considered one of the most successful growth stories in the Italian market.

Italian Initial Public Offerings market between 2008 and 2012 was weak, due to the general economic environment and to the limited presence of investors in a volatile market. Notwithstanding this, excluding the large IPO of the largest Italian renewable company Enel Green Power (€2.3bn placement, 80% sold to retail investors), the luxury companies were the only assets that attracted the true interest of international institutional investors. In June 2011, two leading luxury Italian companies went public: Salvatore Ferragamo, which was listed in Milan raising €345m with a market capitalization at IPO of €1.5bn, and Prada, whose IPO raised €1.5bn on the Hong Kong Stock Exchange, valuing the company at €9.0bn.

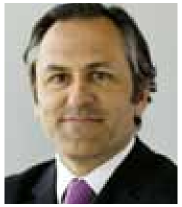
More recently, Brunello Cucinelli's listing on the Milan Stock Exchange is considered another success story. The Italian cachemire apparel maker, albeit smaller than Prada and Salvatore Ferragamo, managed to raise approximately €174m (market capitalization of €527m) in one of the most successful offerings of the latest years on the Italian market. In fact the bookbuilding closed after just one week of roadshow with the offering more than 15x oversubscribed.

These IPOs were driven by interest in the sector and in well-known and managed family companies, well representing the "made in Italy" and were landmark deals in terms of oversubscription and international demand: 78% of the total book orders for Salvatore Ferragamo and approximately two thirds for Brunello Cucinelli came from international investors.

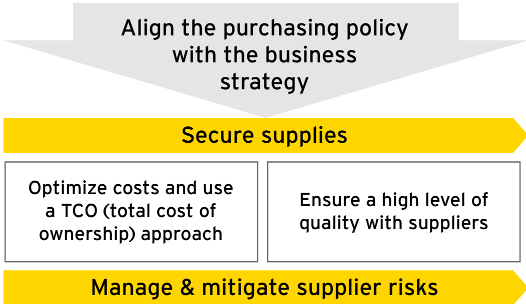
The performance following the IPO was also impressive: a portfolio composed of these three Italian luxury stocks would have performed at the end of April 2012, 37% from the IPO price, with an IRR of 47%.

Focus on the Supply chain in the Luxury industry

The importance of Purchasing in the luxury goods industry



Eric Salviac,
Ernst & Young,
Paris - France



How did Purchasing functions successfully transition in the luxury industry, and what are their drivers for action?

Align the purchasing policy with the business strategy, optimize costs and ensure a high level of quality, secure supply chain and manage supplier risks are the main stakes of Procurement functions in the luxury goods industry.

In order to thoroughly understand the role of the Purchasing functions, we must return to its essential mission, which can be described as follows:

Detecting needs: define, plan for and formalize internal needs at the exact necessary levels by working upstream starting with product specifications (value analysis). This requires developing a close relationship with the marketing (creative development), quality and production departments. This could therefore involve "challenging specifications". For example, the major price difference between a piece of jewellery in yellow gold or white gold could be due to the use of palladium in white gold, and a slightly lower quality of diamond.

Careful work on specifications is essential, especially during information exchange phases that could give rise to interpretations of aesthetic or functional requirements from the part of the client and manufacturing.

Identifying, testing and qualifying suppliers in order to set up a list within the company of shared suppliers, which will be called on first. This sourcing will nowadays occur on a global scale, by including drastic selection criteria on quality and durability of sources. Finding new suppliers will also involve searching for additional production capacities. However, care must be taken here: outsourcing and off-shoring can result in a weakening of the core competencies and a loss of know-how (for example, loss of know-how in handcrafting leather goods). Lastly, at the time assessment of the supplier and the handover, the Purchasing functions must apply a proper method for defining specifications and for product development (prototyping).

Managing call for tender processes: managing calls for tenders, from drafting through to analysis, in order to inform selections. Even for long-standing suppliers, it is necessary to formalize choices in full knowledge of the facts. The call for tender process is an exercise which allows suppliers to explain how they meet needs in concrete terms and at the best cost.

Analyzing supplier costs using a Total Cost of Ownership (TCO) approach, setting forecasts on economies of scale based on an optimized production cycle assumption (standardized, i.e., with no surcharge in the client price for start-up costs, notably for pilot series); drawing up detailed price lists per component and logging comparisons.

Focus on the Supply chain in the Luxury industry (cont'd)

The importance of Purchasing in the luxury goods industry

Analysis of costs is not limited to a spot price analysis; it is performed jointly with management control, and must make it possible to understand the suppliers' cost structure for optimized decision-making.

Contractualizing: defining and negotiating the economic terms (prices, financing) and legal terms (contracts), then committing the company. From a Purchasing standpoint, the legal issue is a sensitive one. In addition to the parties' undertakings, the work done by the legal department must be furthered, notably with regard to protecting know-how (patents) and combating counterfeiting to protect brand value.

Managing the upstream supply chain to ensure the expected delivery service level; and ensure logistics and supply chain functioning. Guarantee the required level of service for the supply chain, both in terms of organization and information systems. This notably includes forecasting, inventory management and transportation, deliveries and potential claims and disputes management, up to fulfilment of client needs and client satisfaction. In order to do this, supply chain management will involve correctly coordinating purchasing actions with the Logistics and Supply departments in a transverse and cross-function approach (**Sales and Operations Planning** - S&OP process), led by client demand. For example, in high-end fashion, S&OP will include marketing early in the process of collection definition.

Steering relations with suppliers and managing the list: ensuring the proper implementation of agreements and supplier performance (e.g., productivity gains, making savings, etc.).

Among other tasks, the Purchasing function must manage suppliers which have highly qualified personnel, with specific knowledge (e.g.: in the watches & jewellery sector). Purchasing must also manage a certain level of staff shortage from the suppliers' side. It is difficult to find people with high-level skills in haute couture, fine metal-working or clock-making. For example, Swiss clock-making is presently facing difficulties in the production system due to the current craze for luxury watches among Asian consumers. It takes approximately seven years to train a tulle worker, the highly-skilled craftsman in charge of running the looms on which lace is woven. The practice of rotating suppliers, common in industry, in order to maintain competitive pressure among the panel does not altogether fully apply to the luxury sector.

Managing risks: in particular foreign exchange (forex) risk and the risk of price fluctuations for raw materials (e.g.: gold), and supplier risks (financial and quality).

Foreign exchange risk arises from the price difference between sales and costs invoiced in different currencies and the issue of adverse forex effects related to the strong euro are recurrent, as most luxury groups have manufacturing costs in euros and sales in dollars. This scissor effect has consequences that do not always completely cover the currency effects. Similarly, the rising price of raw materials, such as gold, silver and even cotton, has adverse impacts on operating margins. The solutions to this problem are well known: it is possible to decrease forex risk through natural hedging, a simple strategy of balance between counterparties (aligning costs and income on a single currency), and as in the case of raw materials, a simple hedging policy. Therefore, purchasing methods must be changed, to operate on the basis of a forecast budget that should include a price sensitivity scenario. Thus, depending on actual changes in prices and the necessary quantity, forward positions can be taken in order to hedge the budget (defined time frame and quantity).

Focus on the Supply chain in the Luxury industry (cont'd)

The importance of Purchasing in the luxury goods industry

Lastly, certain groups regularly consider the issue of passing on price increases for certain raw materials in their prices (for example, a 5% to 6% price increase in order to pass on the increase in the price of gold and other precious materials used in products).

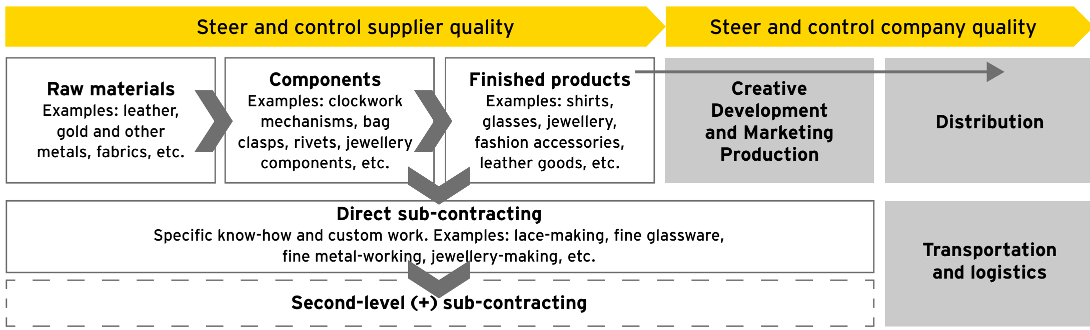
The ultimate risk that the Purchasing functions must manage is **the risk of a supply chain disruption**; securing supplies implies ensuring supplier durability. In order to do this, the following aspects must be looked at, in particular: the market penetration rate (what level of revenues does the purchaser represent in the supplier's overall revenues?), the history of the relationship (e.g., supply problems, quality problems, etc.) and the company's financial and asset/liability situation and its financing needs. For example, let us cite a not-uncommon example: takeover by suppliers of their clients in order to ensure its sources and reduce the risk of disruption to zero (cf. the example of a group that recently purchased one of its leather and fur supplier). There is also a financing technique in the form of reverse factoring, which consists of organizing the assignment of receivables that the supplier holds on the group, under the conditions of this latter's financing costs. The supplier thus obtains an immediate cash flow to cover its needs.

Procurement functions have a role to play in supplier quality control

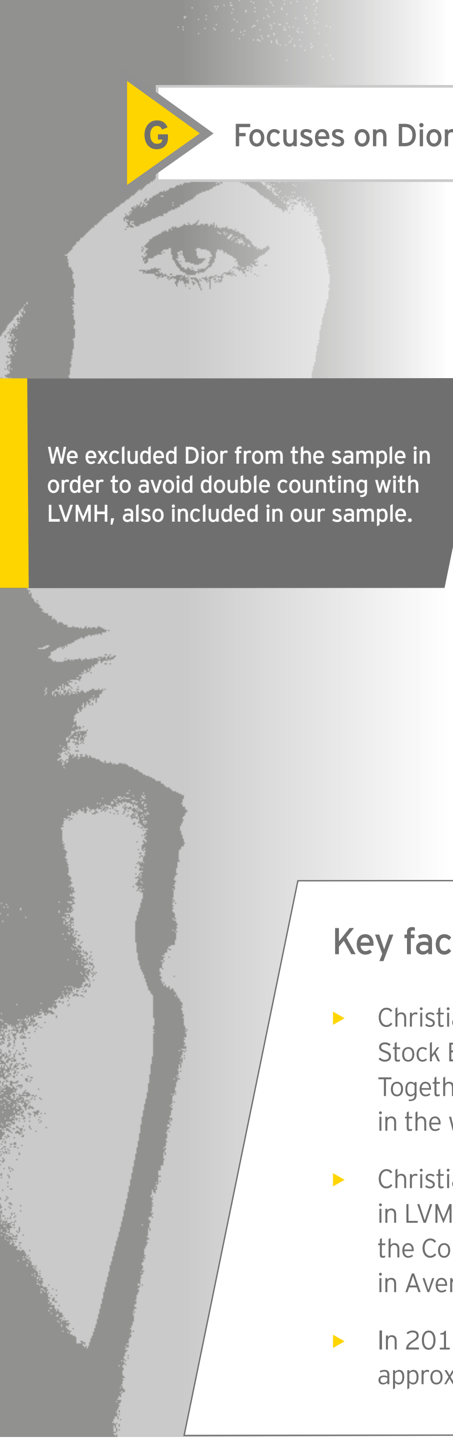
In concrete terms, quality can be defined as purchased products or services fulfilling the compliance criteria expected by the client, notably the criteria defined in the specifications sent to the supplier and from the standpoint of the quality perceived by the end client. Quality is both a major component for measuring supplier performance, and a crucial factor in customer satisfaction. This therefore means ensuring that the products or services purchased meet the defined needs, over an entire product cycle, from the choice of raw materials (upstream suppliers) to distribution in sales networks, of course including production processes. Indeed, since final quality requirements are very high, only an integrated and complete approach can make it possible to address these issues. For example, outsourcing jewellery production will imply a close quality management at every step of the supplier value chain.

The key issue for a business is the determination of the product risk factor, i.e., determining whether quality deficiency is minor, major, or critical for the company vis-à-vis its clients.

To sum up, Purchasing functions must have the same ultimate goal: contributing to the continual growth of the company's commercial, economic and financial profitability, while remaining focused on their core business missions. This is the considerable key benefit of investing in these functions, while integrating new practices.

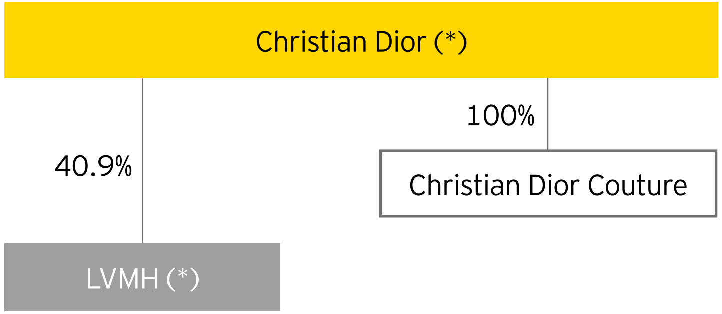


Dior: Overview



We excluded Dior from the sample in order to avoid double counting with LVMH, also included in our sample.

Simplified group structure as at 31 December 2011



Source: Christian Dior corporate website
(*) listed entities

Key facts

- Christian Dior and LVMH are listed entities on the French Stock Exchange, both controlled by Groupe Arnault SAS. Together they represent the biggest fashion conglomerate in the world.
- Christian Dior mainly owns three assets: its majority stake in LVMH, Christian Dior Couture (the operating branch of the Company) and the Christian Dior 9,000 sqm HQ in Avenue Montaigne in Paris.
- In 2011 Christian Dior Couture generated sales of approximately € 1bn, up 22% from 2010.

Consolidated Key Financials (in €m)	FY10	FY11	FY12E	FY13E	FY10-FY13E CAGR
Sales	21,123	24,628	27,242	29,589	*11.9%*
EBITDA	5,175	6,266	6,755	7,544	*13.4%*
EBITDA margin (in %)	*24.5%*	*25.4%*	*24.8%*	*25.5%*	*n.m.*
EBIT	4,338	5,323	5,758	6,508	*14.5%*
EBIT margin (in %)	*20.5%*	*21.6%*	*21.1%*	*22.0%*	*n.m.*
Advertising expenses	2,376	2,854	n.a.	n.a.	*n.m.*
Capex Ratio (in %)	*5.2%*	*7.5%*	*5.4%*	*5.2%*	*n.m.*
Net Working Capital	3,566	3,423	n.a.	n.a.	*n.m.*
Net Debt	4,438	6,396	4,675	2,747	*-14.8%*
Equity	19,570	24,942	n.a.	n.a.	*n.m.*

Source: Bloomberg
Note: n.m. = not meaningful

Bulgari: Overview

After it was taken over by LVMH, we chose to exclude Bulgari from the sample

Key Financials (in €m)	FY09	FY10	YoY growth
Sales	924	1,065	15.3%
EBITDA	54	155	184.2%
EBITDA margin (in %)	*5.9%*	*14.6%*	*n.m.*
EBIT	-20	85	n.m.
EBIT margin (in %)	*-2.1%*	*8.0%*	*n.m.*
Advertising expenses	96	109	13.8%
Capex Ratio (in %)	*3.6%*	*5.2%*	*n.m.*
Net Working Capital	611	735	20.2%
Net Debt	220	145	-34.3%
Equity	782	934	19.5%

Source: Bloomberg

Note: n.m. = not meaningful

Key facts

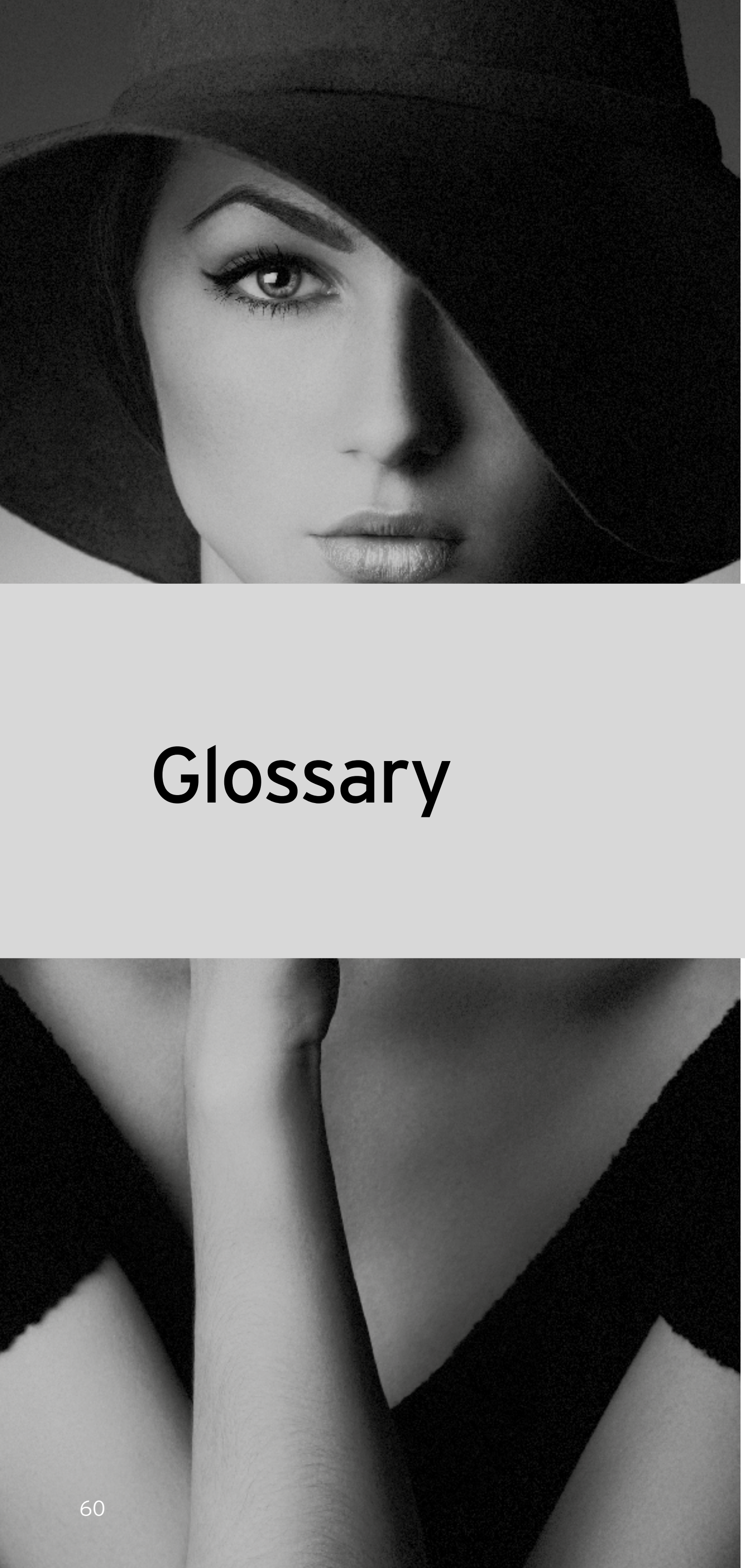
- Founded in Rome in 1884 and initially focused on high-end jewellery, Bulgari Group operates in various business segments, production and sale of luxury products. Its products are: jewellery, watches, accessories and gifts, leather goods, fragrances, skincare and hotels and resorts.
- The world's third largest jewellery brand behind Cartier and Tiffany, Bulgari's consolidated revenue for 2011 amounted to €1,272m, with an operating profit of €109m, after deducting non-recurring expenses amounting to €16m, relating to the alliance with LVMH.

LVMH S.A./Bulgari S.p.A. – Deal details

- **Target:** Bulgari S.p.A.
- **Acquirer:** LVMH Moet-Hennessy Louis Vuitton S.A.
- **Deal Value:** more than € 3.5bn
- **Announcement date:** 7 March 2011
- **Effective date:** 30 June 2011
- **Delisting date:** 4 October 2011

- **Description:** LVMH agreed to buy Bulgari S.p.A. for approximately €3.7bn in cash and stocks.
- **Financial terms:** LVMH started to buy Bulgari's shares directly on the market (21.09%). Then, in order to take control of the Italian company, LVMH swapped 18.0m of its own shares – worth approximately €2.0bn – for the 55.03% stake held by the founding family, valuing the target at €12.25 per share. After the conversion of the Bulgari convertible bonds, LVMH held circa 66% of the Bulgari share capital. It then offered the same price in cash for the remaining stock, which was listed on the Milan Stock Exchange. The cash offer valued Bulgari shares at a 61% premium to their most recent closing price of €7.59.

Source: The Deal Pipeline



Glossary

- **CAGR**: Compound Annual Growth Rate
- **Capex**: Capital Expenditure
- **DCF**: Discounted Cash Flow
- **EBIT**: Earnings Before Interest & Taxes
- **EBITDA**: Earnings Before Interest, Taxes, Depreciation and Amortization
- **EV**: Enterprise Value
- **FMCG**: Fast Moving Consumer Goods
- **FY**: Financial Year
- **GDP**: Gross Domestic Product
- **LTGR**: Long-Term Growth Rate
- **M&A**: Mergers and Acquisitions
- **NWC**: Net Working Capital
- **OTC**: Over The Counter
- **P/E**: Price to Earnings
- **R&D**: Research and Development
- **SOTP**: Sum-Of-The-Parts
- **WACC**: Weighted Average Cost of Capital
- **YOY**: Year On Year

Luxury & Cosmetics – EY experts

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