

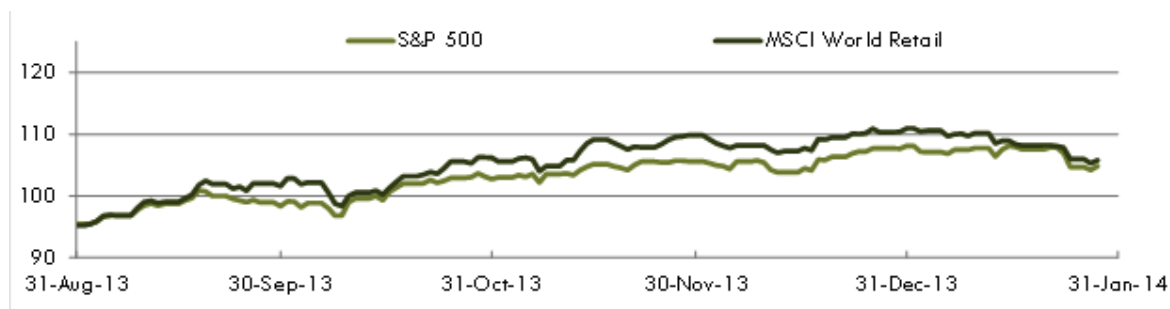
Retail

Sector Review – January

1. Sector Overview

- Wal-Mart Stores said it would invest about C\$500 million (\$452 million) this year to strengthen its presence in Canada divided into e-commerce and store projects, distribution networks and expansion of fresh food capabilities. This investment will create more than 7,500 jobs and happens after competitors Target Corp. announced 9 new store openings in this country;
- British online retailers saw a strong increase in overseas Internet shoppers in the fourth quarter of 2013, with a 64 percent increase year-on-year in the amount of overseas consumers searching for UK retail brands on smartphones. Even though it coincided with the Christmas season, this comes to underline the recent trend of consumers switching from traditional to online retail.
- Suntory Holdings announced that it would buy U.S. spirits company Beam Inc for \$13.6 billion cash, offering a 25% premium, in a deal that will make the Japanese company the world's third-largest spirits maker and the fifth largest malt whiskey company by volume. The purchase price is roughly 20.48x Beam's EBITDA, a multiple that comes close to the record 20.8 times EBITDA that Pernod Ricard paid in 2008 for the maker of Absolut Vodka.
- Hong Kong retail sales rose 5.7% while, after rising 9.1% in November, therefore missing 7.3% growth forecast. Such figures reflect the still positive consumer sentiment and further expansion of inbound tourism, already showing some effects of the U.S. quantitative easing policy.

Retail vs. Overall market



- January was marked as a month of fall in the major World's stock indexes, with the MSCI World Retail Index following the same downward trend. However, MSCI Retail still outperformed the it is observable the existence of a strong correlation between both indexes as their fluctuations proved to be quite parallel.

Retail Universe:

- LVMH
- Amazon
- Tesco
- Jerónimo Martins

This month's detailed company review:

- Inditex



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3. Followed Companies

LVMH (Ticker: MC FP)

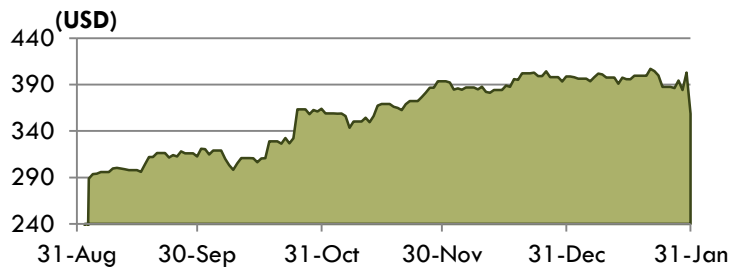
- LVMH announced revenues of €29.1 billion in 2013, an increase of 4% Year-on-Year together with an increase of 20% in Free Cash Flow. Organic revenue growth was set in 8% impulsioned by sales growth at LVMH's fashion and leather businesses which accelerated 7% in the last quarter Q-o-Q.



Price (EUR):	↑	130.15
Target Price (EUR):		150.00
Up/downside:		15.3%
Performance 3M:		-7.5%
P/E Ratio:		18.9x
ROC/WACC:		0.2x

Amazon (Ticker: AMZN US)

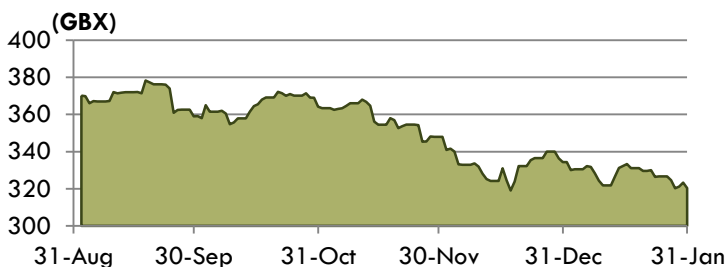
- Amazon shares fell more than 9% after the online retailer warned of a possible loss in the current quarter. Besides, the company said it was considering raising prices for Amazon Prime by \$20-\$40 in the United States due to higher fuel and transportation costs and increasing usage.



Price (USD):	↑	349.48
Target Price (USD):		440.00
Up/downside:		25.9%
Performance 3M:		-9.6%
P/E Ratio:		601.3x
ROC/WACC:		0.2x

Tesco (Ticker: TSCO LN)

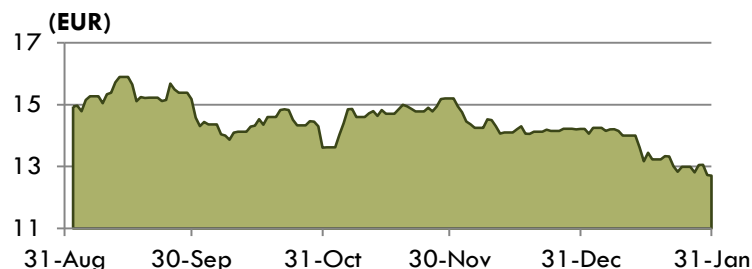
- Tesco plans to invest further in its mobile unit, and announced that it will be offering free 4G to its customers, both new and existing, from 30 January onwards, as an attempt to gain market share.



Price (GBX):	↑	314.00
Target Price (GBP):		349.00
Up/downside:		11.1%
Performance 3M:		-9.8%
P/E Ratio:		20.6x
ROC/WACC:		0.4x

Jerónimo Martins (Ticker: JMT PL)

- Jerónimo Martins' sales for 2013 were up 1.7% to €11.8 billion with like-for-like sales up 3.8%. Sales were mainly owed to a Biedronka sales jumping up 14.4%, while its Pingo Doce supermarket chain in Portugal reported a modest 3.9% rise.

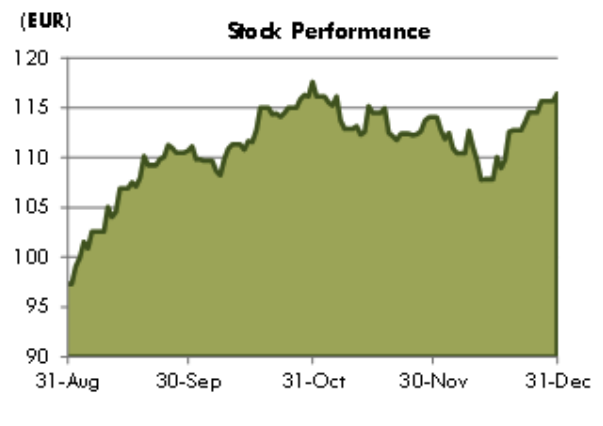


Price (EUR):	↑	12.74
Target Price (EUR):		16.15
Up/downside:		26.8%
Performance 3M:		-16.1%
P/E Ratio:		21.7x
ROC/WACC:		1.5x

3. Stock Analysis: Inditex

Corporate News

- Inditex showed some problem at the end of 2013 to match 2012 sparkling economic results. However, the Spanish group is expected to benefit from its great presence in emerging markets, which should let Inditex grow faster.
- The founder of Inditex, Amancio Ortega, is looking at the sale of 58% stake of property firm Realia, which is worth about 145 million euros. Ortega would invest through his investment vehicle, Pontegadea. What is drawing Ortega's attention the most is Realia's properties in France.



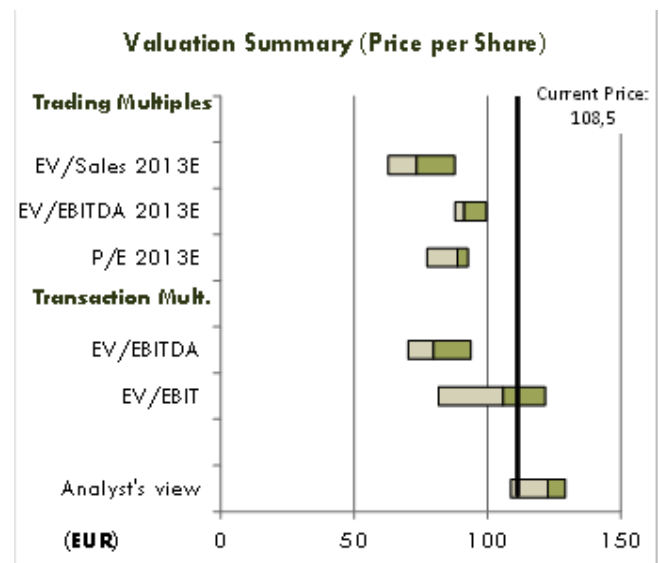
Market Performance

- Inditex stock price increased a lot between December 2013 and January 2014, but it sharply decreased to around 110 in the last days of January 2014. The stock is currently trading at 110.75, registering a slight volatility during last months.
- Inditex shares currently trade at 25 times expected earnings. This multiple is much higher than the one of comparable companies, like H&M or Gap. According to some analysts this would be the sign of high growth prospects, thanks to emerging markets and to online stores.

Inditex (EUR)	
Current Price (31/12/2013)	119.80
52-week high % change	-1.4%
Median Target Price	121.17
Market Capitalisation (mn)	67,444
Return on Common Equity	28.9%
Dividend Yield	0.0%
Beta (vs. S&P500)	0.6x
Total Debt/Equity	1.0%

Valuation Summary

- From the valuation summary, it is clear that the current stock price is not in line with the trading multiples with the exception of the P/E, and above the transaction multiples. As for the target price, the current price is trading below the minimum stock price estimate, showing that analysts have high expectations concerning the company's growth and identify upside in it.
- The discrepancy between the current stock price and the precedent transaction multiples together with the fact that the company is trading below analyst's estimates supports the view that there is upside identified.



Comparable Analysis

Company Name	Currency	MCap (mn)	Enterprise Value (mn)	EV/Sales			EV/EBITDA			P/E			
				LTM	2013E	2014E	LTM	2013E	2014E	LTM	2013E	2014E	
Inditex	EUR	67,444	63,556	4.3x	3.8x	3.4x	n/a	15.7x	14.0x	28.3x	27.0x	23.7x	
H&M	SEK	461,108	443,879	3.4x	3.1x	2.8x	16.8x	14.7x	13.1x	#N/A	N/A	23.2x	20.6x
Next	GBP	9,597	10,153	2.2x	2.7x	2.6x	12.6x	12.1x	11.4x	18.4x	17.8x	16.4x	
Sports Direct International	GBP	4,070	4,241	1.8x	1.5x	1.3x	15.0x	12.9x	10.7x	24.8x	21.3x	17.2x	
N Brown Group	GBP	1,518	1,716	2.1x	2.0x	1.9x	14.1x	13.2x	12.4x	18.9x	18.7x	17.2x	
Mulberry Group	GBP	390	379	3.4x	2.2x	2.0x	12.8x	12.4x	11.2x	23.5x	23.1x	21.1x	
75th Percentile				3.4x	3.0x	2.7x	15.0x	14.3x	12.9x	24.8x	23.1x	20.9x	
Median				2.8x	2.5x	2.3x	14.1x	13.1x	11.9x	23.5x	22.2x	18.9x	
25th Percentile				2.2x	2.1x	2.0x	12.8x	12.5x	11.2x	18.9x	19.3x	17.2x	

- Looking at the table Inditex trades at multiples slightly higher than the median of the comparables considered. This reflects the high value given by the market to the company. Looking at 2014 expected multiples, Inditex is also expected to trade at multiples higher than the market. In particular, the P/E ratio is expected at 23.7x, while the median of the market is 18.9x.
- Focusing on the comparable companies, H&M has the highest multiples after Inditex in terms of EV/Sales and EV/EBITDA. However, the highest P/E ratio among the peers is Mulberry Group's one. This means that the shares of the British fashion group are more expensive than the average. It is worth to say that actually Mulberry is a more sophisticated and expensive brand than the ones owned by Inditex. Hence, it could be associated to higher level fashion market.

Precedent Transactions

Announced Date	Target		Buyer		EV		
	Company	Country	Company	Country	(EUR mn)	EV/EBITDA	EV/EBIT
31-Oct-12	Walmart Group Inc	USD	PVH Corp	USD	2,824	11.3x	19.3x
23-Nov-10	J Crew Group Inc	USD	Leonard Green & Partners LP	USD	2,637	8.4x	9.9x
15-Mar-10	Tommy Hilfilger Corp	USD	PVH Corp	USD	2,300	15.6x	25.4x
08-Aug-05	Reebok International Ltd	USD	Adidas AG	GER	2,671	n/a	n/a
75th Percentile						13.4x	22.4x
Median						11.3x	19.3x
25th Percentile						9.8x	14.6x

- The median EV/EBITDA is lower than the median of comparables. This would not reflect the usual premium that is paid in deals to make them desirable for all the stakeholders involved. The issue can be explained considering that the deals chosen date back to few years ago and the retail and fashion industry have been changing a lot since then.
- Regarding the universe of comparable precedent transactions, as announced before, it becomes clear that this may not be the most accurate valuation method to be used in this case. The most relevant transaction for comparison purposes is the acquisition of Tommy Hilfilger Corp by PVH Corp, with multiples of EV/EBITDA of 15.6x and of EV/EBIT of 25.4x, in line with Inditex multiples.