

# Retail & Consumer Goods

## Sector Review – November & December



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### 1. Sector Overview

- Blackstone Group acquired Hilton Hotels, now called Hilton Worldwide, in 2007 with a \$26 billion-worth buyout. Hilton Worldwide went public in December 2013. The initial amount of the IPO was \$1.25 billion, but it raised \$2.34 billion at the end. This was the third largest US IPO of the year. The underwriters of the deal were Deutsche Bank, Goldman Sachs, Bank of America Merrill Lynch and Morgan Stanley.
- Luxury brands seem not to have been affected by the worldwide economic downturn so far, thanks to their large exposure in Eastern markets. An example of this is the extreme success of Moncler's IPO in December 2013. The listing price was €10.2, in the higher part of possible price range. At the end of the first day of trading, the price of the stock closed at €14.97. Joint global coordinators of the deal were Goldman Sachs, Bank of America Merrill Lynch and Mediobanca.
- Aramark is a food and concession provider for schools, universities and hospitals. It operates in 22 countries and was acquired in 2007 by Warburg Pincus, Thomas H. Lee and Goldman Sachs Capital Partners through a \$8.3 billion-worth buyout. Now, the three private equity backers want to exit their investment, setting the company to go public. They expect to rise up about \$1bn.
- Retail sales raised 1.4 per cent from October 2013 to November 2013, at the fastest pace since December 2009. In Portugal the figure reached 3.1 per cent. However, households are still cautious in their consumptions and unemployment is still a concern.

#### Retail Universe:

- Amazon
- Inditex
- Jerónimo Martins
- Tesco

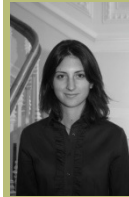
#### This month's detailed company review:

- LVMH



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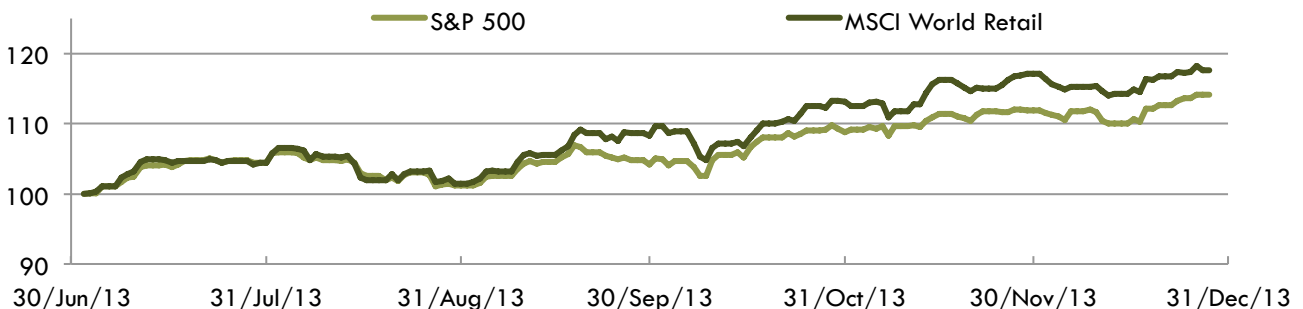
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### Retail vs. Overall market



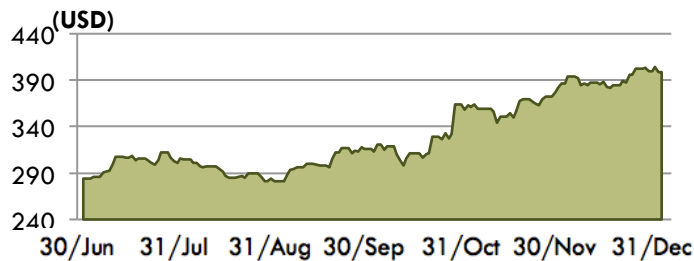
- Since the beginning of July until the end of the 2013, the MSCI World Retail Index constantly outperformed the S&P 500. Moreover, it is observable the existence of a strong correlation between both indexes as their fluctuations proved to be quite parallel.

### 3. Followed Companies

#### Amazon

(Ticker: AMZN FP)

- Amazon announced its Prime Air service which plans to deliver packages within 30 minutes. The company is developing drones, an aerial device and expects to have them fully working by 2015. Shares immediately skyrocketed after the announcement.

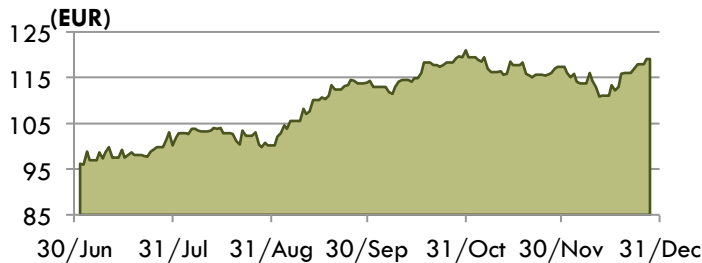


Price (USD):	↑	398.79
Target Price (USD):		440.00
Up/downside:		10.3%
Performance 3M:		26.2%
P/E Ratio:		625.8x
ROC/WACC:		0.3x

#### Inditex

(Ticker: ITX SM)

- Inditex's stock price continues to rally, with the exception of a limited drop at the end of December. The group announced increasing earnings of €1.67 billion, 1% higher than 2012, and increasing revenues of €11.93 billion, 5% more than in 2012. The company announced it will open new online stores in Mexico and South Korea.

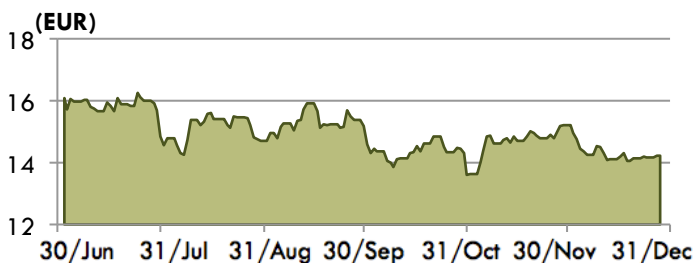


Price (EUR):	→	119.80
Target Price (EUR):		125.00
Up/downside:		4.3%
Performance 3M:		5.4%
P/E Ratio:		29.0x
ROC/WACC:		2.1x

#### Jerónimo Martins

(Ticker: JMT PL)

- Jerónimo Martins is focused on fighting growing price competition in Poland. To this aim, the company wants to expand the Biedronka chain to 3,000 stores by 2015. The firm is also planning to expand in Colombia and in South America in general, should the opportunity arise.

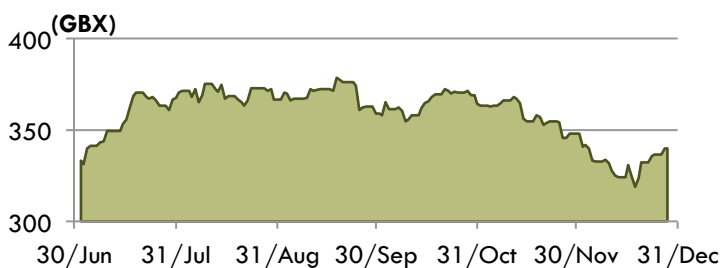


Price (EUR):	↑	14.22
Target Price (EUR):		16.15
Up/downside:		13.6%
Performance 3M:		-7.6%
P/E Ratio:		21.7x
ROC/WACC:		1.6x

#### Tesco

(Ticker: TSCO LN)

- Tesco with eyes set on opening supermarkets in India. It will be one of the first global retailers to invest there since Delhi removed trade barriers. The company will take advantage of its existing partnership with Tata. Stocks of Indian retailers benefited after this announcement.



Price (GBX):	→	334.35
Target Price (GBX):		349.00
Up/downside:		4.4%
Performance 3M:		-7.8%
P/E Ratio:		21.0x
ROC/WACC:		0.5x

### 3. Stock Analysis: LVMH

#### Corporate News

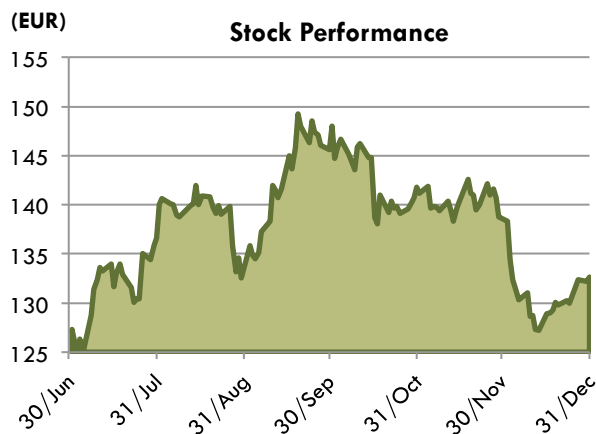
- LVMH was just added to our coverage replacing competitors Kering. The decision was made given the strong brand portfolio and rising importance of the group which includes the world's most valuable luxury brand - Louis Vuitton, Christian Dior, DKNY, renowned champagne brands Don Pérignon, Moët & Chandon and Veuve Clicquot, or reputed watch-makers Tag Heuer and Zenith.
- With a cooling macroeconomic climate, luxury growth in Chinese market decreased to 2.5%-from the 7% recorded in 2012 as Bain&Company last study points out. In a country contributing 25% to Luis Vuitton's revenues, LVMH is now set to look for growth elsewhere, being linked to a possible takeover of Burberry.

#### Market Performance

- LVMH's stock performance was highly volatile in the last six months, with a growth period until middle of September, followed by a sharp correction. The decrease in the Chinese economic growth together with high uncertainty in consumer confidence seem to have contributed to such performance.
- LVMH announced its aim to expand in the global premium cosmetics market. The priority will be the launch of the US brand Fresh in Asia. Last November 26th the group announced the payment of €1.20 interim dividend to be paid December 3°.

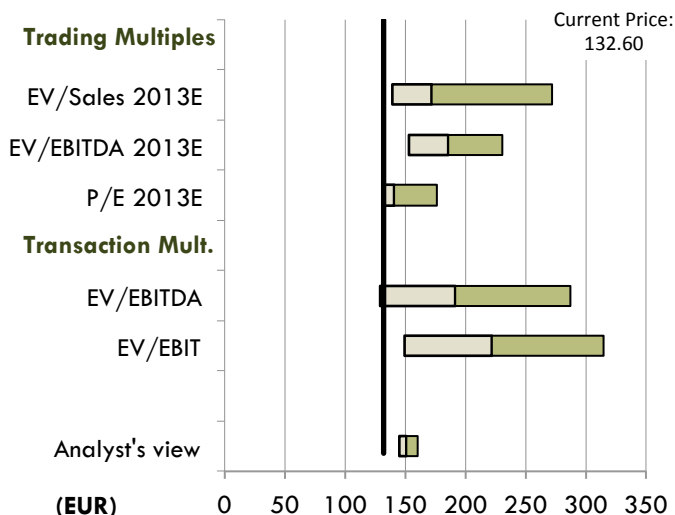
#### Valuation Summary

- In a valuation standpoint, the current stock price is clearly below both trading and transaction multiples. Similarly, the company appears to be undervalued in the analyst's views, as it is trading below median target price.
- 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 suggests that there is upside potential and supports the view that the company suffered deeply from its cyclical nature with the overall economy.



LVMH (EUR)	
Current Price (31/12/2013)	132.60
52-week high % change	-11.6%
Median Target Price	151.13
Market Capitalisation (mn)	67,327
Return on Common Equity	13.4%
Dividend Yield	2.34%
Beta (vs. S&P500)	1.0x
Total Debt/Equity	31.9%

#### Valuation Summary (Price per Share)



## 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
<b>LVMH</b>	EUR	67,105	73,759	2.5x	2.3x	2.1x	9.9x	9.2x	8.4x	18.9x	16.8x	15.1x
Kering	EUR	18,687	22,583	2.9x	2.3x	2.2x	10.9x	10.9x	10.0x	13.7x	15.1x	13.6x
Hérmès International	EUR	24,941	24,388	6.9x	6.5x	5.9x	18.1x	18.2x	16.5x	31.5x	30.7x	27.9x
Burberry	GBP	6,421	6,161	N/A	2.6x	2.4x	9.3x	10.3x	9.3x	16.9x	18.8x	16.8x
L'Oréal	EUR	73,976	73,407	3.3x	3.2x	3.0x	15.6x	15.8x	14.8x	24.7x	24.0x	22.6x
Diageo	GBP	45,227	54,882	5.3x	4.9x	4.5x	14.2x	14.2x	13.1x	16.4x	17.4x	15.8x
75th Percentile				5.3x	4.5x	4.2x	15.2x	15.4x	14.4x	23.3x	22.7x	21.1x
<b>Median</b>				<b>3.3x</b>	<b>2.9x</b>	<b>2.7x</b>	<b>12.5x</b>	<b>12.5x</b>	<b>11.6x</b>	<b>17.9x</b>	<b>18.1x</b>	<b>16.3x</b>
25th Percentile				2.9x	2.4x	2.2x	10.1x	10.4x	9.5x	16.5x	16.9x	15.3x

- Looking at the table LVMH appears as the company with the highest Enterprise Value among the peer group, with L'Oréal and Diageo being the companies with most resemblance. Both EV/Sales and EV/EBITDA figures are below the median for the peer group, mainly as a consequence of the healthy cash flows produced. Finally, LTM P/E are above the median figure for competitors possibly suggesting high expectations regarding future growth.
- Focusing on the comparable companies, Hermes International and Diageo present both the highest EV/Sales and EV/EBITDA figures, closely followed by L'Oréal. In which concerns to P/E, Hermes and L'Oréal come above the remaining peers, with P/E of 31.5x and 24.7x, respectively, both higher than the average for the peer group. Such figures are mainly due to the perception that Hermes might be a growth stock and the high brand innovation in L'Oréal's cosmetics' business.

## Precedent Transactions

Announced Date	Target		Buyer		EV (EUR mn)	EV/EBITDA	EV/EBIT
	Company	Country	Company	Country			
22-Oct-12	Ancestry.com Inc	USD	Permira Holdings Ltd	UK	1 081	9,3x	12,5x
21-Feb-12	Alibaba.com Ltd	HK	Alibaba Group Holding	HK	1 778	26,5x	30,2x
27-Oct-11	Rue du Commerce	FRN	Altarea	FRN	49	16,5x	23,1x
03-Feb-11	Culture Convenience Club Co. Ltd.	JPN	MM Holdings Co Ltd	JPN	915	7,9x	11,6x
75th Percentile						19,0x	24,9x
<b>Median</b>						<b>12,9x</b>	<b>17,8x</b>
25th Percentile						8,9x	12,3x

- Globally, the precedent comparable transactions present valuations below the ones from the trading multiples, mainly the EV/Sales and EV/EBITDA. This is not very usual because it means that the normal effect from the premium that is paid in deals, is not enough overcome the trading multiples of comparable companies. Yet, this may be simply explained if we look at the deals considered. These target companies are similar to LVMH in some aspects but they do not capture the full spectrum of operations of the on-line retailer giant, explaining the low valuations.
- Regarding the universe of comparable precedent transactions, it becomes clear that the most representative one would be the acquisition of Ancestry.com Inc by Permira Holdings. This multiple applied to the current metrics of LVMH would bring the valuation to zones more in line with the current market price and analysts consensus. The fact that the acquirer was a financial sponsor minimizes the effect of possible premiums paid for synergies, therefore arriving to matching valuations with market views.