INDEPENDENT RESEARCH UPDATE

1st August 2013

Tod's Group

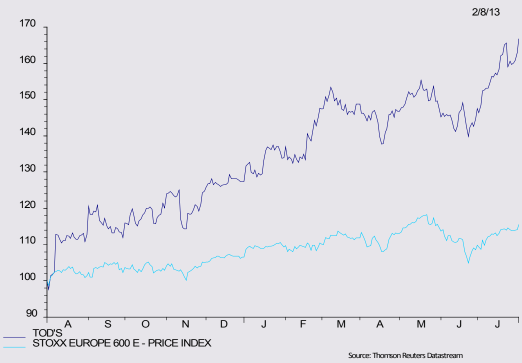
Simply too expensive!

Luxury & Consumer Goods

Fair Value EUR104 vs. EUR85 (price EUR125.20) **SELL**

Bloomberg	TOD IM
Reuters	TOD.MI
12-month High / Low (EUR)	125.2 / 73.4
Market capitalisation (EURm)	3,832
Enterprise Value (BG estimates EURm)	3,697
Avg. 6m daily volume ('000 shares)	89.50
Free Float	43.0%
3y EPS CAGR	13.7%
Gearing (12/12)	-14%
Dividend yield (12/13e)	2.40%

YE December	12/12	12/13e	12/14e	12/15e
Revenue (EURm)	963.10	1,020	1,140	1,275
EBIT (EURm)	209.00	220.30	260.00	300.00
Basic EPS (EUR)	4.76	5.14	6.04	6.99
Diluted EPS (EUR)	4.76	5.14	6.04	6.99
EV/Sales	3.9x	3.6x	3.2x	2.8x
EV/EBITDA	14.9x	13.9x	12.0x	10.3x
EV/EBIT	17.8x	16.8x	14.1x	12.0x
P/E	26.3x	24.4x	20.7x	17.9x
ROCE	29.7	29.0	31.3	33.8



Source: Thomson Reuters Datastream

We are adopting a new Fair Value on Tod's Group (EUR104 vs EUR85 previously) but with an unchanged Sell recommendation given the very demanding valuation (14% premium vs peers on 2014 EV/EBIT).

- **Tod's Group is above all a shoemaker as shoes accounted for 74% of 2012 sales** while Leather goods represented no more than 17% of sales. Also, Tod's is less exposed to Retail (60% of 2012 revenues) in comparison with peers. Lastly, Tod's Group is also too dependent on Italy which accounts for 40% of sales.
- **The group's strategy is twofold**: **i/** to increase the weight of Retail (67% est in 2015 vs 60% in 2012) but this is still below the level of peers (closer to 75% on average) and **ii/** to be less dependent on Italy (30% est in 2015 vs 40% in 2012) thanks to expansion in Asia and in Greater China particularly. These movements should help the group to increase its EBIT margin: we expect a 180bp gain between 2012 and 2015.
- **After a poor Q1 2013 (sales down 5.5% at same forex and an 80bp EBIT margin decline), affected by the 19% Wholesale sales decline, we anticipate a better trend in Q2 (6.5% sales increase).** Actually, Wholesale rationalisation will be less significant in the coming quarters. Furthermore, management, following the Q1 results, reiterated its FY 2013 guidance of 7% sales growth (same forex) and EBITDA margin stability (26.1%).
- **We remain Sellers on the stock**, despite these positive prospects with sales and EBIT 2012-2015 CAGRs at respectively 10% and 13% which lead us to raise our 2015 EBIT by 4.5%. Actually, the stock is trading at an unwarranted 14% premium vs peers on 2014 EV/EBIT, mainly due to a "speculative" premium in our view. But we are convinced that the Della Valle family will not sell control of the group, at least in the short term. We have raised our FV to EUR104 vs. EUR85 previously to reflect the 2015 EBIT assumption increase and adjustments of our DCF model. Sell maintained.

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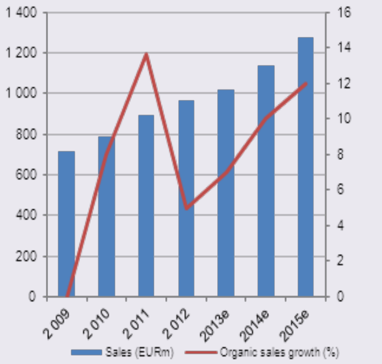
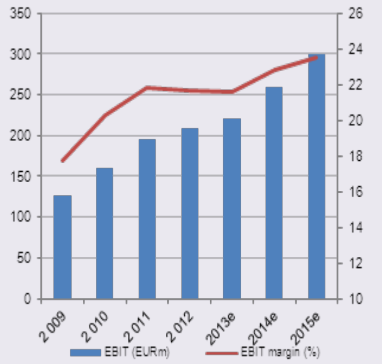




Company description

Tod's Group produces and sells luxury shoes (74% of sales), leather goods (17% of sales) under the Tod's, Hogan and Roger Vivier brand names. Fay brand sells exlusively Apparel. The group characterises its products as contemporary luxury, and is driving growth through expansion of the DOS network (60% of sales), into new markets primarily in Asia even if Italy remains predominant (40% of sales), as well as the international roll-out of the Hogan brand. The company's founding family, the Della Valle, is the main shareholder with 57.6% of the share capital.

Income Statement (EURm)	**2010**	**2011**	**2012**	**2013e**	**2014e**	**2015e**
Revenues	788	894	963	1,020	1,140	1,275
Change (%)	*10.4%*	*13.5%*	*7.8%*	*5.9%*	*11.8%*	*11.8%*
Gross margin	628	717	736	781	877	985
Change (%)	*17.6%*	*14.0%*	*2.7%*	*6.2%*	*12.3%*	*12.3%*
Adjusted EBITDA	193	233	250	266	305	349
EBIT	160	195	209	220	260	300
Change (%)	*26.6%*	*21.7%*	*7.3%*	*5.4%*	*18.0%*	*15.4%*
Financial results	3.4	5.0	(1.1)	3.0	3.0	0.0
Pre-tax profits	163	200	208	223	263	300
Tax	(52.6)	(63.9)	(62.0)	(66.0)	(78.0)	(86.0)
Minority interests	(1.7)	(1.7)	(0.30)	0.0	0.0	0.0
Net profit	109	134	146	157	185	214
Restated net profit	109	134	146	157	185	214
Change (%)	*27.5%*	*22.9%*	*8.6%*	*8.0%*	*17.6%*	*15.7%*
Cash Flow Statement (EURm)						
Operating cash flows	145	172	183	203	230	263
Change in working capital	(24.2)	44.0	78.0	35.8	37.0	41.6
Capex, net	98.1	67.6	42.2	51.0	57.0	57.4
Financial investments, net	0.0	0.0	0.0	1.0	1.0	1.0
Dividends	153	168	76.5	82.6	91.8	101
Other	(1.5)	(122)	(6.3)	1.0	0.0	0.0
Net debt	(96.5)	(111)	(103)	(135)	(178)	(240)
Free cash flow	70.8	60.4	63.1	116	136	164
Balance Sheet (EURm)						
Tangible fixed assets	174	191	195	200	212	220
Intangibles assets	189	202	199	199	199	199
Cash & equivalents	172	188	168	200	243	305
current assets	323	387	418	462	516	577
Other assets	58.1	76.9	93.7	93.7	34.8	34.8
Total assets	916	1,044	1,073	1,154	1,204	1,336
L & ST debt	75.2	77.0	64.6	64.6	64.6	64.6
Others liabilities	222	279	244	256	282	311
Shareholders' funds	612	683	758	827	852	955
Total liabilities	916	1,044	1,073	1,154	1,204	1,336
Financial Ratios						
Gross margin (% of sales)	79.80	80.19	76.40	76.59	76.93	77.25
Operating margin	20.32	21.79	21.70	21.60	22.81	23.53
Tax rate	32.17	32.00	29.82	29.56	29.66	28.67
Net margin	13.86	15.01	15.12	15.42	16.23	16.78
ROE (after tax)	19.52	21.36	21.84	21.78	24.01	26.37
ROCE (after tax)	27.51	29.99	29.71	29.03	31.34	33.78
Gearing	-15.78	-16.18	-13.64	-16.35	-20.94	-25.18
Pay out ratio	154	57.07	56.76	58.38	54.60	58.64
Data per Share (EUR)						
EPS	3.57	4.38	4.76	5.14	6.04	6.99
Restated EPS	3.57	4.38	4.76	5.14	6.04	6.99
% change	*27.5%*	*22.9%*	*8.6%*	*8.0%*	*17.6%*	*15.7%*
BVPS	2.99	3.41	3.51	3.77	3.93	4.36
Operating cash flows	4.73	5.62	5.99	6.64	7.51	8.59
FCF	2.31	1.97	2.06	3.80	4.44	5.36
Net dividend	5.50	2.50	2.70	3.00	3.30	4.10

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

1. After a poor Q1, Q2 should be better,

After a disappointing Q1 with a 3.7% sales decline (-5.5% at same forex) and a 80bp EBIT margin decrease, we believe that Q2 should be better oriented both in terms of sales and EBIT.

1.1. A poor Q1

Q1 2013 was quite disappointing in several aspects. Sales momentum was poor, mainly affected by the wholesale business but also with a deceleration in same store sales growth (SSSG). Consequently, profitability has been under pressure with an 80bp EBIT margin decline to 21%.

1.1.1. 5.5% sales decline at same forex

In Q1, sales reached EUR963m, down 3.7% and 5.5% at same forex. This decline was mainly due: **i/** to Hogan (-22%) and Fay (-35%), two brands which are heavily exposed to the Wholesale network (close to respectively 65% and 75% of sales), **ii/** to Wholesale (-19%), as a consequence of the rationalisation of the independent distribution, mainly in Italy, and **iii/** to Italy (-27%). Meanwhile, sales to Retail were up 13.5% (same forex), nevertheless, SSSG showed a slight deceleration in March and over the first weeks of Q2 as, it was +8.2% for the first 10 weeks (mid-March) versus +5.1% for the first 19 weeks (until 12th May), but with a better trend during the last weeks of the period, which should bode well for a recovery in the last weeks of Q2.

Fig. 1: Q1 sales by distribution network

EURm	Q1/12	Q1/13	chge at same forex (%)
DOS	113.3	132.3	13.5
Wholesale	149.9	121.2	-19.0
Group	**263.2**	**153.5**	**-5.5**

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

Tod's Group is mainly made up of three brands which are Tod's (59% of 2012 sales), Hogan (25% of sales) and Roger Vivier (8% of sales). Roger Vivier is a very exclusive shoe maker with the same positioning as brands like Christian Louboutin or Jimmy Choo. It is important to remind, at this stage, that Roger Vivier does not belong to Tods' Group but to the Della Valle family and there is a licence agreement between Della Valle and Tod's Group that ends in 2016. We believe it is very likely that the Roger Vivier brand will be sold by the Della Valle family to Tod's Group in the medium term.

The last one is Fay (7% of sales) and is almost exclusively only sold in Italy through the Wholesale network. Fay sales declined 35% in Q1 2013.

Excluding Italy and Europe, sales momentum remained very well oriented with 25.6% (same forex) sales growth in America and a 44.2% increase in Greater China (Mainland China, Macao and Taiwan) which already accounts for close to 20% of group sales. In America and Mainland China, the group operates mainly with the Tod's and Roger Vivier brands.

1.1.2. EBIT margin declined 80bp to 21%

In Q1, EBIT reached EUR53.3m (-7%), implying an 80bp margin decline to 21%. This is due to higher operating costs despite the industrial margin increase thanks to a more positive geographical mix (more sales in Asia) and a favourable distribution mix (higher weight of Retail sales).

Besides the sales decline, the two main explanations for the EBIT margin decline are: **i/** higher rental costs which are included in the "costs to third parties" and **ii/** the "labour costs" increase both due to store network expansions and DOS openings particularly in the Chinese market. Indeed, Tod's Group opened 12 DOS in Mainland China in 2012 and even three more in Q1 2013 to reach 45 and 57 in Greater China (+3 in Q1 2013 and +13 in 2012).

Fig. 2: Q1 EBIT (as %of sales)

as % of sales	Q1/12	Q1/13
COGS	27.5	28.1
Cost for services	24.9	21.1
Cost of third parties	7.2	9.3
Labour costs	13.3	14.7
Other costs	5.3	5.8
EBIT	**21.8**	**21.0**

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

1.2. Better Q2 likely

1.2.1. Sales growth expected

We assume that Q2 should be significantly better even if the comparison base is almost the same (+7% in Q1 and Q2 2012). Sales should be well oriented (+6.5% at same forex after -5.5% in Q1) as this quarter is much more a "Retail quarter" like Q4 while the Q1 and the Q3 are Wholesale-weighted. If Retail accounted for 43% of Q1 2012 sales, it was 73% in Q2 2012 and we anticipate that Wholesale will not be more than 22% of group sales in Q2 2013. Therefore the Wholesale sales decline still expected in Q2 (-15% vs -19% in Q1) will have much less of a negative impact than in Q1.

Furthermore, theQ2 Wholesale sales decrease should be less significant than in Q1 as the impact of the Wholesale network rationalisation will be lower than in Q1, as most of the reduction of points of sale has already been done (hence our -15% expected vs -19% in Q1). Retail sales (+13% expected in Q2) should be well oriented thanks to an SSSG recovery in May and in June after a slowdown in April. Actually, SSSG reached 5.1% in the first 19 weeks vs +8.2% for the first 10 weeks. Nevertheless, the situation improved during the last weeks of this period. We assume a 5.8% SSSG for Q2.

Fig. 3: Quarterly sales growth by distribution network

chge in % (same forex)	Q1/12	Q2/12	Q3/12	Q4/12	Q1/13	Q2/13e	H1/13e
Retail	16.7	15..5	23	11	13.5	13	13
Wholesale	1.0	-8	-17	-4	-19.0	-15	-16
Group	**7**	**8**	**-1**	**7**	**-5.5**	**6.5**	**1**

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

By geographical area and for the second quarter, we anticipate another decline in Italy (-18%) but less than in Q1 (-27%), again due to the positive distribution mix during this quarter. Nevertheless, the Wholesale weight in Italy is stronger than the group average. This is also true in the Rest of Europe (+3% estimated after -3.8% in Q2) whose performance has been probably helped by tourist flows. In America, sales will remain dynamic (+19%e) even if a slowdown vs Q1 (+25.6%) is possible given the more demanding comparison base (+27% in Q2/12 after +19% in Q1/12).

Lastly, Asia & RoW (now split between Greater China and RoW) should again be very well oriented (+23% expected) even if the quarter is likely to be affected by a relative softness in the Chinese luxury goods market.

Fig. 4: Quarterly sales growth by geographical area

chge in % (same forex)	Q1/12	Q2/12	Q3/12	Q4/12	Q1/13	Q2/13e	H1/13e
Italy	-4	-25	-17	-18	-26.7	-18	-24
Rest of Europe	4	16	3	17	-3.8	3	0
America	19	27	23	19	25.6	19	22
Asia & RoW	45	48	39	29	32.5	23	28
Group	**7**	**8**	**-1**	**7**	**-5.5**	**6.5**	**1**

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

1.2.2. EBIT margin should improve in Q2

After an 80bp EBIT margin decline in Q1 (see above), we anticipate a slight margin recovery in Q2. Actually, we expect 9% EBIT growth to EUR50.2m, implying a 1% increase for H1 (EUR104m) after the 7% decline in Q1. In Q2, the EBIT margin should slightly improve (+40bp to 21.4%) while, in H1 it should remain almost stable at 21.3%. The Q2 profitability improvement is explained by two factors:

1. **A better distribution mix**, as Wholesale sales are expected to be down vs last year's Q2 (21% vs 27% in Q2 2012), as a consequence of the reduction of wholesale points of sales in the last few quarters.
2. **A better geographical mix:** the weight of Italy should also decrease (24% vs 30% in Q2 2012) thanks to the Wholesale rationalisation in Italy. Conversely, the weight of Asia (with a higher profitability) should be higher than last year (42% vs 38%).

Fig. 5: Quarterly P&L

EURm	Q2/12	H1/12	Q2/13e	H1/13e
Sales	219.2	482.4	233	488
EBITDA	56.6	123.3	60.4	124
as % of sales	*25.8*	*25.6*	*25.9*	*25.4*
EBIT	**46.0**	**103.3**	**50.2**	**104**
as % of sales	*21.0*	*21.4*	*21.4*	*21.3*

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

2. Main catalysts in MT

We have identified three main catalysts which should drive growth over the next three years. The group's strategy is likely to be to: **i/**increase the weight of Retail or DOS (Directly Operated Stores), **ii/**reduce the exposure to Italy, thanks to an expansion in US and above all in Asia (Greater China), and **iii/** increase the proportion of sales achieved with leather goods at the expense of sales in shoes, the former being more profitable than the later.

This strategy will have a positive impact on sales growth but more importantly also on profitability as the retail, geographical and product mix improvement will favourably play on the EBIT margin and will allow the group to reduce the gap with other luxury groups.

2.1. Retail expansion

One of the weaknesses of Tod's Group is the relatively low proportion of sales achieved through its Retail network versus its peers. Actually, the sector average is close to 70-75% versus 60% (in 2012) for the Italian group. This partly explains the poor sales group performance last year and in Q1 2013. Actually, Tod's Group suffered from destocking from wholesalers mainly in Italy. Meanwhile, management, like most luxury brands (Fendi, Gucci, Céline…) has decided to clean-up its wholesale network in Italy in order to be more selective and to minimise the default risk.

While Tod's Group had around 800 points of sales (POS) in the Wholesale network in Italy two years ago, it now has around 630 and should be close to 590 by the end of 2013. This POS reduction almost exclusively concerns the Hogan and Fay brands. The Tod's brand Wholesale network is already more exclusive, which is why this brand is less concerned by the wholesale network downsizing.

Fig. 6: Sales breakdown by distribution network (as % of sales)

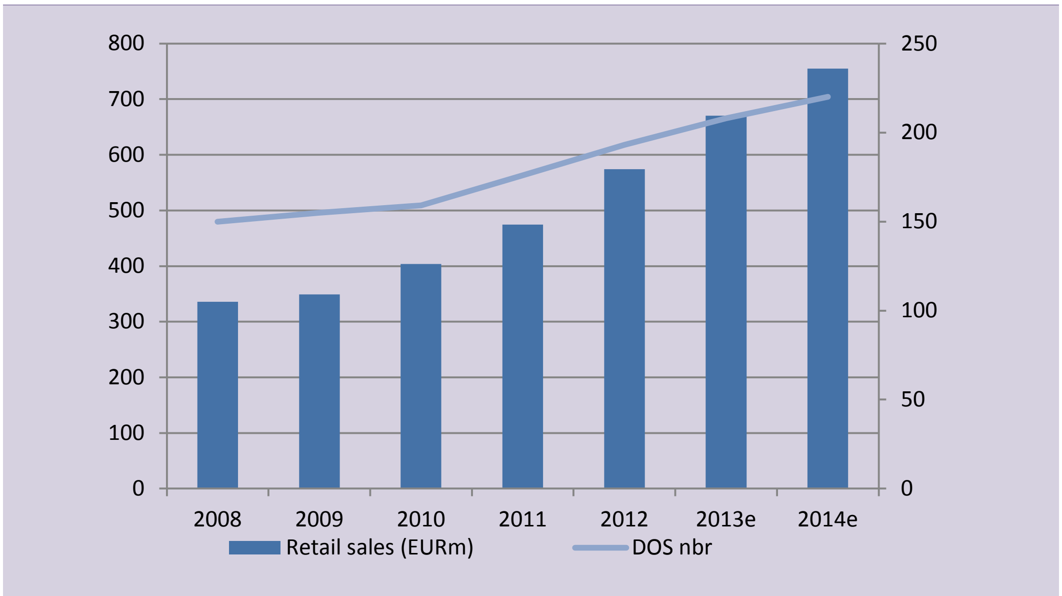
Source: Company Data; Bryan, Garnier & Co ests

We anticipate that Retail should account for around 67% of sales in 2015 from 60% of Group sales in 2012. And there will still be work to do to reach the luxury average (between 70 and 75%). But since the Fay brand is almost exclusively sold wholesale, a comparison with other luxury groups is not fully accurate in our view. Therefore a level of 70-75% should be difficult to reach for Tod's Group even in 2015.

Currently, the Tod's brand already achieves about 70% of its sales in Retail versus only 40% for Hogan and 25% to 30% for Fay. On the other hand, Roger Vivier (very high-end women's shoemaker) is almost exclusively sold in its 12 DOS and also in its two franchised stores, therefore more than 90% of sales are achieved in Retail.

The following chart highlights the expected Retail sales and Retail network in the coming years. The DOS openings acceleration began in 2011 and was confirmed in 2012 (+17 each year) after a stability in 2010. This matches the store network expansion in Mainland China (see Figure. 8).

Fig. 7: Retail sales and DOS number



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

The below table shows us that the number of DOS in Italy and in the Rest of Europe should remain almost stable this year (after no net openings in 2012), while we anticipate nine net openings in Greater China (after +13 in 2012) and two in Rest of Asia. We assume that each year, Tod's should be able to open at least 15 new DOS (net of closures), mostly in Asia. In Mainland China, among the 42 DOS (end of 2012 versus 22 at the end of 2010), 31 were Tod's brand stores, nine Hogan and two Roger Vivier. These figures have to be compared with 40 stores for Louis Vuitton and close to 60 for Gucci. Tod's brand is not present in all Tier 2 cities and but may have two stores in some Tier 1 cities (namely Beijing and Shanghai).

Fig. 8: DOS by geographical area

Number of DOS	2009	2010	2011	2012	2013e
Italy	36	40	44	44	45
Europe	37	32	34	35	36
US	14	14	13	14	15
Japan	28	30	29	29	30
Great China	26	31	41	54	63
o/w MC	17	22	30	42	49
RoW	14	12	15	17	19
Total	**155**	**159**	**176**	**193**	**208**

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

One of the drivers for the sales increase and more importantly for profitability improvement within the coming years is the current low level of sales per DOS and therefore the potential improvement which will come from: **i**/store enlargement and renovation, **ii**/lower weight of discount sales, **iii**/higher level of evergreen products, and **iv**/ better product mix Among luxury players, Tod's, with EUR3m sales per store (end of 2012), has one of the lowest level of sales per DOS. Even if Ferragamo (EUR2.2m in 2012) is not close to Tod's Group levels, this figure is nevertheless far below the sector average (EUR6m) and obviously the best in class is Louis Vuitton with EUR13m. We anticipate a level of EUR3.5m sales per store in 2015. It is worth noting the regular improvement since 2008 (from EUR2.2m in 2008 to EUR3m in 2012).

Fig. 9: Retail sales and sales per DOS

	2008	2009	2010	2011	2012	2013e	2014e
Retail sales (EURm)	335.6	348.9	403.8	474.3	574.1	670	755
DOS number	150	155	159	176	193	208	220
Sales per DOS (EURm)	**2.2**	**2.3**	**2.5**	**2.7**	**3.0**	**3.2**	**3.4**

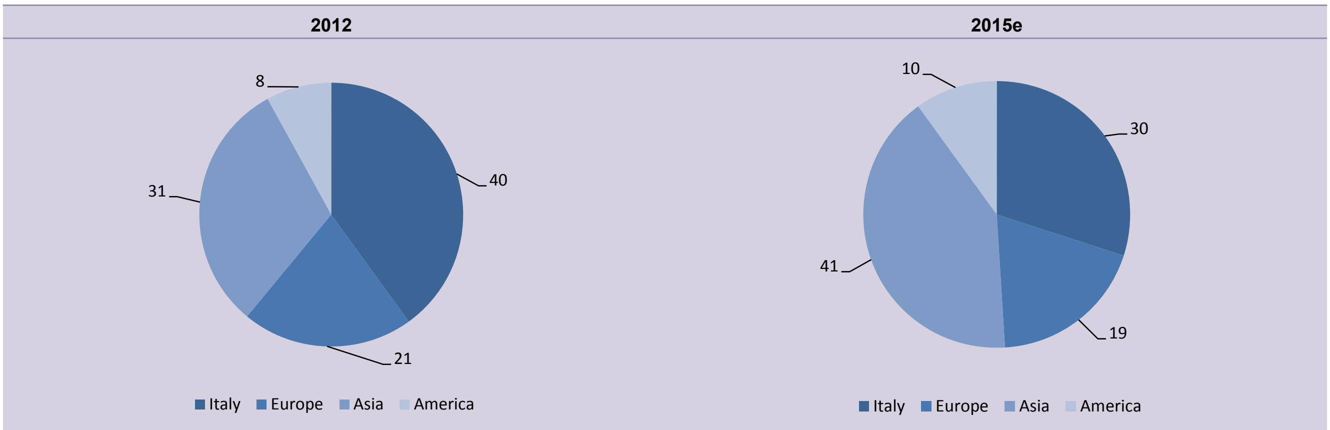
Source: Company Data; Bryan, Garnier & Co ests.

2.2. Geographical expansion

Another weakness of the group is its overexposure to Italy and Europe. Currently, sales in Italy account for 40% of group sales while those achieved in the Rest of Europe are 21% of sales (more than 60% together), which is the strongest exposure to Europe among our luxury sample, which is closer to 40%. On the other hand, Asia (31% of sales) and particularly the US (8%) are under-represented. We anticipate this breakdown to change in 2015. Italy should account for no more than 30% of sales while Asia and the US should represent respectively 40% (+10 points) and 10% (+2 points.

Store openings (see above) and same store growth in Asia (mainly in Greater China) and Wholesale rationalisation in Italy which should, nevertheless, be almost completed in 2014, explain the shift in the geographical breakdown.

Fig. 10: Sales breakdown by geographical area (as a % of sales)



Source: Company Data; Bryan, Garnier & Co ests

3. 2013-15 prospects

We anticipate buoyant prospects for Tod's Group in the coming years both at the top line and at the EBIT line, as we expect an EBIT margin improvement linked to a better geographical and distribution mix. Therefore, we estimate that sales and EBIT CAGRs (2012-15e) should respectively reach 10% and 13%.

3.1. We forecast 10% sales CAGR over 2012-15…

The strong momentum expected within the coming years should be driven by both international expansion and also by Retail sales growth as explained earlier in this report. This strategy should enable Tod's Group to achieve 10% sales CAGR between 2012 and 2015. Clearly Asia should drive the growth with a 15% CAGR by 2015 while Europe and Italy will post lower growth rates with respectively +6% and +1%.

Fig. 11: Sales breakdown by geographical area (2010-15e)

EURm	2010	2011	2012	2013e	2014e	2015e
Italy	426	449	384	330	355	385
Europe	164	182	200	200	220	240
America	53	62	82	100	112	125
Asia	145	200	297	390	453	525
Group	**788**	**894**	**963**	**1 020**	**1 140**	**1 275**

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

The other growth driver will be the Retail expansion, following the dynamic store openings programme (see above) and the Wholesale streamlining. Actually, Retail sales should achieve 14% sales CAGR by 2015, significantly outperforming Wholesale sales (+3%).

Fig. 12: Sales breakdown by distribution network (2010-15e)

EURm	2010	2011	2012	2013e	2014e	2015e
Retail	403.8	474	574	670	755	850
Wholesale	383.7	419	389	350	385	425
Group	**787.5**	**894**	**963**	**1 020**	**1 140**	**1 275**

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

The strong Tod's Group sales momentum will also be led by leather goods sales growth mainly at the Tod's brand as leather goods accounted in 2012 for less than 17% of Tod's group sales versus 74% for shoes. It is also worth noting at this point that the expected higher weight of leather goods sales (18.5% in 2015 vs 17% in 2012) will also have a positive impact on profitability, as this business is much more profitable than shoes (higher sales per square metre and gross margin, lower SKU…). This partly explains the high profitability level of leather goods brands such as Louis Vuitton, Bottega Veneta and Hermès.

3.2. …and 13% EBIT CAGR

Following this strong sales growth momentum driven by International sales expansion, Retail outperformance and also the increasing weight of leather goods sales, EBIT profitability should therefore improve during the period. Hence, we expect a higher EBIT CAGR (+13%) than for sales

(+10%). EBIT 2012-15 CAGR. The EBIT margin improvement will be driven by the gross margin increase (+90bp to 77.3%), which should benefit from this strategy.

The Group's EBIT margin improvement (+180bp between 2012 and 2015 at 23.5%) will also be driven by the increase of sales per owned stores (DOS) which remains at a very low level compared to peers (EUR3m versus an average close to EUR6m per store) not to mention the best in class like Louis Vuitton (EUR13m), Hermès (EUR11m) or Gucci (EUR7m) levels. Only Ferragamo has lower sales per store (EUR2.2m) which is why the profitability of Ferragamo is only 18.5%.

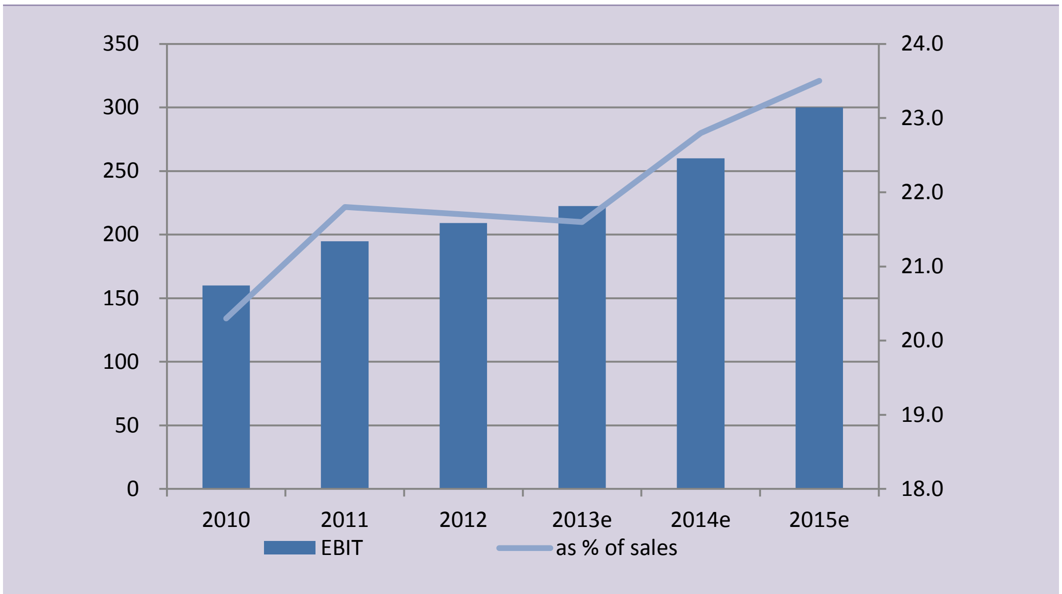
Fig. 13: P&L summarised (2010-15e)

EURm	**2010**	**2011**	**2012**	**2013e**	**2014e**	**2015e**
Sales	788	894	963	1 020	1 140	1 275
Gross margin	628.5	716.6	735.8	781.2	877.0	985.0
as % of sales	*79.8*	*80.2*	*76.4*	*76.6*	*76.9*	*77.3*
EBITDA	193.1	232.5	250.2	266.2	305.0	349.0
as % of sales	24.5	26.0	26.0	26.1	26.8	27.4
EBIT	**160**	**195**	**209**	**220**	**260**	**300.0**
as % of sales	*20.3*	*21.8*	*21.7*	*21.6*	*22.8*	*23.5*

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

The graph below highlights the EBIT margin gain between 2010 and 2015. Nevertheless, the level expected in 2015 (23.5%) will remain below most luxury groups' levels.

Fig. 14: EBIT and EBIT margin (2010-15e)



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

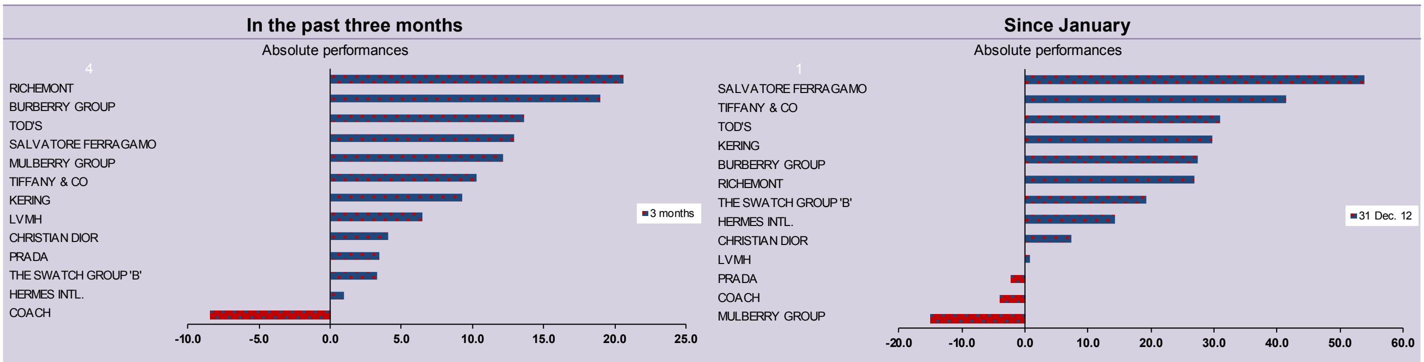
4. Valuation

Tod's share price has registered a very tremendous performance recently (+13% on last three months and +30% versus the beginning of the year). This move is partly explained by not warranted speculative appeal as we are convinced that the Della Valle family will not sell the control (family holds 57.6% of shares) at least in the short term given the strong group prospects. The stock is currently trading at a significant premium of 14% versus peers on 2014 EV/EBIT. We keep our sell recommendation on the stock with, nevertheless a EUR104 FV versus EUR85 previously given the 4% EBIT rise and new DCF model.

4.1. Strong share price outperformance

The below chart highlights Tod's remarkable share price performance on three months and since the beginning of the year, respectively +13% and +30% versus respectively +6% and +16% for our luxury group sample. On 12m, it even gained 66% vs +31% for peers! On last month, the stock has gained 13%, partly due to LVMH's acquisition of Loro Piana. Since that date, the stock has gained 8%. It is worth noting that among the four best sector performers, we find two stocks with a "speculative" aspect, Tod's and Ferragamo. The share price performance can also be explained by the confirmation by the management of the 2013 FY guidance (stability of the EBITDA margin).

Fig. 15: Share price performance



Source: Datastream

4.2. Significant premium vs peers

Tod's is trading at a very significant premium vs peers on 2013 and 2014 EV/EBIT, respectively 18% and 14%.

Fig. 16: Comparative valuations

as closed of 30th Aug.	2013e EV/EBIT	2014e EV/EBIT	2013 premium on average (ii)	2014 premium on average (ii)
Burberry	13.7	11.6	1%	-1%
Hermès	21.2	19.3	-	-
LVMH	11.5	10.3	-15%	-13%
Prada	16.5	13.6	-	-
Richemont	12.4	10.9	-9%	-9%
Salvatore Ferragamo	18.3	15.5	34%	31%
Swatch Group	12.4	10.7	-9%	-9%
Tod's Group	16.2	13.3	18%	14%
(ii) Luxury average (excl. Hermés & Prada)	**13.7**	**11.8**	-	-

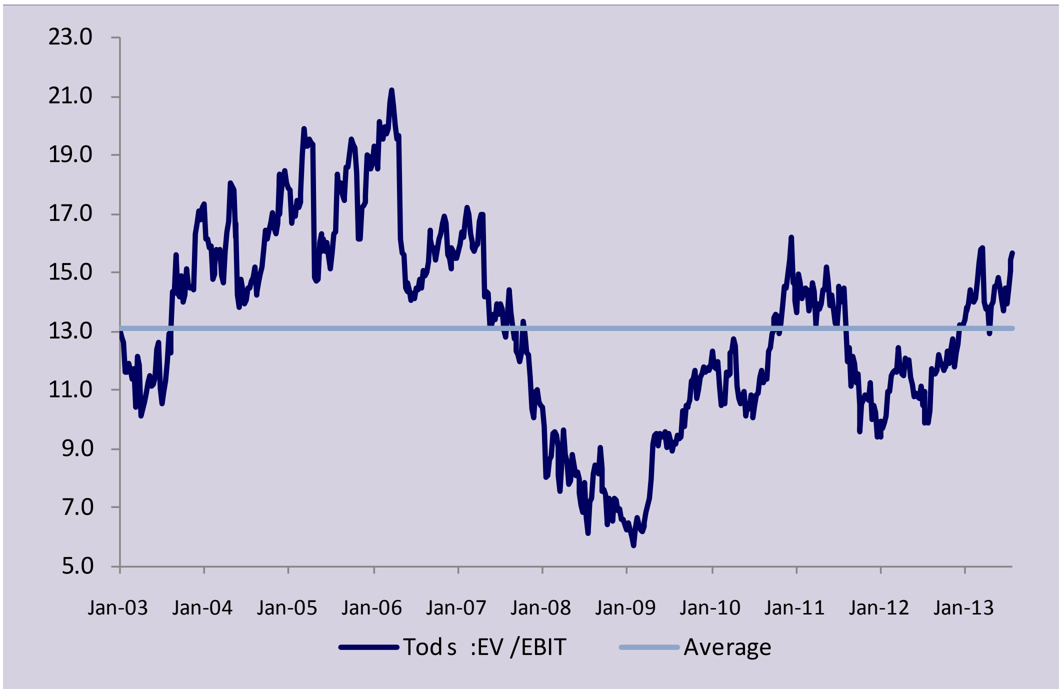
Source: Company Data; Bryan, Garnier & Co ests

Even if we take in account the solid group prospects, the stock appears still expensive with a 10% premium on 2012-15 PEG vs sector average excluding Hermés (1.75x vs 1.60x).

4.3. Historical valuation premium

Tod's is trading at a significant premium (18%) versus its historical valuation on EV/EBIT (2003-13). This premium is clearly not warranted as EBIT CAGR between 2004 and 2012 is higher than the one expected for the next three years (+16% vs +13%). We assume that the current premium is only due to a speculative aspect which we do not share as: **i/** the company's prospects remain quite positive, and **ii/** the family has stated many times that it does not intend to sell its stake (57.6%). Furthermore, it is worth noting that LVMH has a 3.5% stake in Tod's Group for more than 10 years. Nevertheless, if we take in account the price paid by LVMH for Loro Piana (23x EV/EBIT), this should lead to a theoretical price of EUR150.

Fig. 17: Historical valuation



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

4.4. A DCF-based FV of EUR104

Our EUR104FV is based on our DCF model, which incorporates a risk free rate of 3%, a risk premium of 6.1% and a perpetual growth of 2.5%, in line with other luxury groups. We have integrated a Beta of 1.0, a 3-year average, versus 1.2 previously, based only on market capitalisation criteria. This leads to a WACC of 8.7%.

Fig. 18: Tod's DCF model

EURm	2012	2013e	2014e	2015e	2016e	2017e	2018e	2019e	2020e	2021e	2022e
Sales	963.1	1 020	1 140	1 275	1 377	1 473	1 562	1 640	1 722	1 808	1 880
Chge (%)		6.9	10.7	11.8	8%	7%	6%	5%	5%	5%	4%
EBIT	209	220	260	300	328	356	382	401	421	442	459
as of sales (%)	21.7%	21.6%	22.8%	23.5%	23.8%	24.1%	24.4%	24.4%	24.4%	24.4%	24.4%
Tax	-62	-67	-78	-86	-98	-107	-114	-120	-126	-133	-138
PBT	147	156	182	214	230	249	267	280	294	309	322
Amortization	41.2	46.35	45	49	52	56	59	62	65	69	71
as of sales (%)	4.3%	4.5%	3.9%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%
WCR	-78	-34	-33	-41	-44	-47	-50	-52	-55	-58	-60
as of sales (%)	8.1%	-3.3%	-2.9%	-3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%
Cap ex	-42	-52	-57	-57	-55	-59	-62	-66	-69	-72	-75
as of sales (%)	-4.4%	-5.0%	-5.0%	-4.5%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
FCF	68	116	137	165	183	199	214	225	236	248	258
NPV of FCF	**62.5**	**57.5**	**115**	**128**	**131**	**130**	**129**	**125**	**120**	**116**	**111**

Source: Company Data; Bryan, Garnier & Co ests. As closed of 30th August

PV of FC	**1 142**
Terminal value	1 850
Enterprise value	2 992
Financial assets	58.9
Minorties	5.8
Net cash 2013e	138
Market value	3184
N° of shares (m)	30.6
Share price (EUR)	104

Source: Company Data; Bryan, Garnier & Co ests. As closed of 30th August

Price Chart and Rating History

Tod's Group

Ratings

Date	Ratings	Price
23/05/12	SELL	EUR80.7
13/05/11	NEUTRAL	EUR91.85
27/07/07	BUY	EUR57.9419

Target Price

Date	Target price
15/05/13	EUR85
16/01/13	EUR80
09/08/12	EUR75
24/11/11	EUR70
13/05/11	EUR94
18/03/11	EUR86
23/11/10	EUR84
06/09/10	EUR68
14/05/10	EUR62
23/03/10	EUR58
16/10/09	EUR53
20/11/08	EUR40
08/09/08	EUR52
30/01/08	EUR48
18/01/08	EUR50
18/09/07	EUR75

Please see the section headed "Important information" on the back page of this report.

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Stock rating

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

NEUTRAL Opinion recommending not to trade in a stock short-term, neither as a BUYER or a SELLER, due to a specific set of factors. This view is intended to be temporary. It may reflect different situations, but in particular those where a fair value shows no significant potential or where an upcoming binary event constitutes a high-risk that is difficult to quantify. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

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

Distribution of stock ratings

BUY ratings 56% NEUTRAL ratings 28.4% SELL ratings 15.6%

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