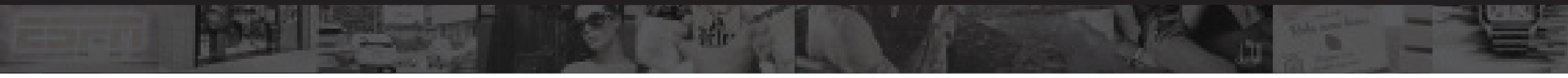


KERING

There are few fashion houses more iconic than Gucci, Saint Laurent and Balenciaga. They have had an indelible impact on fashion from the mid-20th Century until now. Gucci's 1953 loafers are instantly identifiable by their louche design and horsebit detailing, whilst Saint Laurent's effortless luxury springs forth from Yves Saint Laurent's revolutionary embrace of pret-a-porter (ready to wear), conceived at a time when custom-made couture still dominated fashion. And Balenciaga? Christian Dior referred to Cristóbal Balenciaga as "the master of us all"; his innovations are standard clothing now, the tunic dress, the bubble dress and the babydoll dress.

One unlikely company owns all these iconic fashion houses: Kering S.A.; Kering began life as a timber trading company (Pinault S.A., listed in October 1988 and was renamed Pinault Printemps Redoute (PPR) in 1994. PPR then expanded into retail and under the guidance of founder François Pinault, eventually became the luxury behemoth it is today with the acquisition of a majority stake in Gucci in 1999 closely followed by the acquisition of Yves Saint Laurent. Now Kering owns a stable of houses which emphasise quality, deriving the majority of revenues from Gucci, Saint Laurent and Bottega Veneta, while houses like Alexander McQueen and Balenciaga add to the critical and cultural heft of Kering's offering.

A Brief History of Kering S.A.

1963 François Pinault founds Établissements Pinault, a timber trading company, in Rennes. Following multiple acquisitions in its sector, the rapidly successful company was listed on the Paris Stock Exchange in 1988.

1994 Pinault (S.A.) was renamed Pinault Printemps Redoute (PPR).

1999 PPR acquired 40% of Gucci in March 1999 to thwart LVMH. PPR also acquired Yves Saint Laurent from Sanofi and sold it to Gucci for the same price.

2000 In December 2000, Gucci acquired 51% of Alexander McQueen's couture house. (McQueen was also the creative director of LVMH's Givenchy at the time).

2001 In September 2001, PPR lifted its stake in Gucci to 53.2% from 42% leaving LVMH's stake at ~10% of Gucci.

2001 Gucci Group acquires a majority stake in Bottega Veneta, the Italian luxury leather goods house; the Gucci Group also acquired Balenciaga.

2004 PPR raises its stake in Gucci Group to 99.4% of outstanding shares.

2005 François-Henri Pinault relaces Serge Weinberg as Chairman and CEO of PPR; he focuses on streamlining the company's luxury operations while shedding extraneous businesses.

2012 PPR acquires Bironi, the legendary Italian luxury house.

2013 PPR changes its name to Kering S.A.

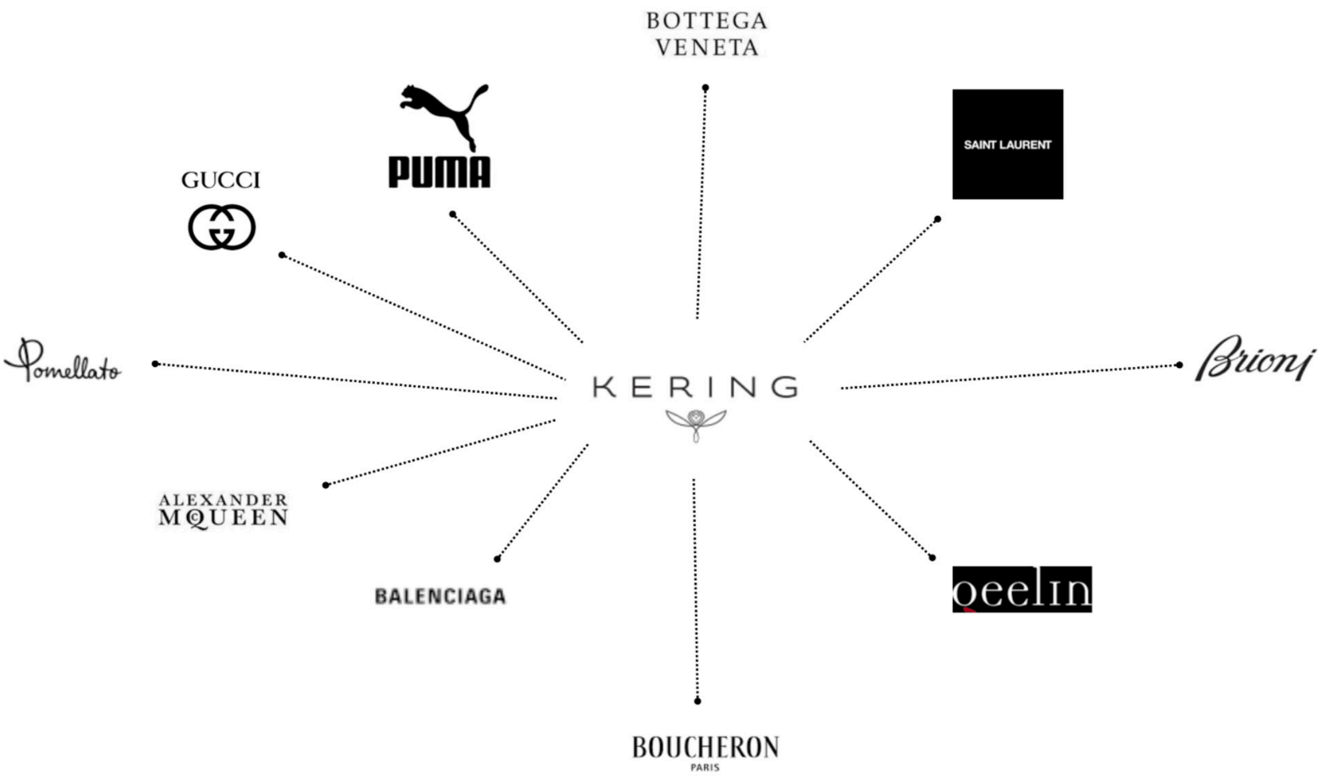
2015 Kering recruits Alessandro Michele, who will go on to revitalise Gucci, and Demna Gvasalia, who will do the same at Balenciaga.

2019 Kering opens its new Italian headquarters in Milan, at 91 Via Mecenate.

2021 Kering announces that none of the Group's houses will use animal fur, starting from the Fall 2022 collections. Animal welfare standards will also continue to be strictly applied across the product portfolio.

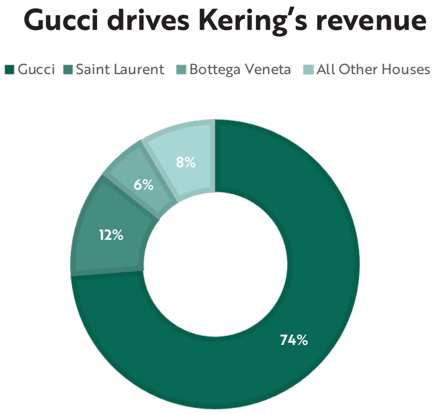
When you buy a stake in Kering you acquire fractional ownership in iconic brands with hard-to-replicate histories and almost incalculable brand cachet; you simply cannot recreate a "Gucci" today and expect the same success. The success of Gucci is built on the back of a long history and a strong association with luxury. We like the compounding nature of luxury brands; if they are managed well and do not compromise on quality the value of their brand only increases with subsequent generations. In the 1950s, Babe Paley and Gloria Guinness purchased custom-made Balenciaga; in 2022 the brand has lost none of its cachet, with designs by Balenciaga designer Demna Gvasalia achieving cult like status and critical praise.

Kering owns the following brands outright, with the exception of Puma in which it has only a 4% stake



The "Power of Three"

The bulk of Kering's revenues are derived from **Gucci, Saint Laurent and Bottega Veneta**. Gucci itself accounts for ~74.0% of Kering's revenue. There is a common thread between all of the houses Kering owns: management has the ability to revive houses with a troubled history and to make them once again, cult like. This takes considerable skill. Gucci's own history is one with a few not-inconsequential bumps. Under the direction of Aldo Gucci in the 1950s Gucci became an iconic brand, however the house fell into irrelevance in the 1980s in the midst of family feuds, and then in the 1990s it reemerged, phoenix-like, under the direction of Tom Ford, who imbued it with vitality and a fresh sensibility for a new decade. Prior to Gucci's most recent revival the house's creative director was Frida Giannini, who "kept the ship steady" but did not much more than that and the house fell into a kind of sleepy decline. Since 2015, Alessandro Michele has been at the helm of Gucci with his signature brand of eccentric maximalism and the brand has been revitalised once again.



Saint Laurent has experienced similarly uneven fortunes. The house was founded by Yves Saint Laurent, arguably the most important designer of the 20th Century. The house fell into a comatose state in the 90s, as Saint Laurent stepped away from the house and the brand was licensed out to third-party vendors with very little quality control, the name "YSL" appeared on almost anything. When Kering acquired Saint Laurent in 1999 the group installed Tom Ford, fresh from his revitalisation of Gucci, as Yves' successor. Here Kering's management skill is obvious: in only five years Saint Laurent's revenue has nearly doubled to €3.1 billion (2022E). Balenciaga too, was largely moribund after Cristobel's retirement from fashion and the house's subsequent acquisition by Jacques Bogart S.A in 1986. Kering's 2001 acquisition of the house signalled its revival: first under director Nicolas Ghesquière and now under Demna Gvasalia. **The thread is quite clear, Kering is exceptionally good at buying houses with a 'troubled' history and installing new management and designers to great acclaim.**

Gucci - the "heart" of Kering

Gucci is an exceptional "comeback" story. In 2021, Gucci generated €9.7 billion in sales (in comparison, it generated €2.6 billion in sales in 2010; a remarkable +12.7% CAGR). Gucci is the jewel in Kering's crown. Gucci's success story is largely a combination of savvy branding, the house projects an informal and playful aesthetic, alignment with key cultural players (everyone from Harry Styles to Iggy Pop) and careful supply chain management which crucially manages both scarcity and the feeling of luxury one expects when paying a premium for a designer piece. An experience at a Gucci store is carefully managed to feel like a scene from one of the house's iconic campaigns. In particular, we note Gucci's organic sales growth (OSG) +32.0%, a +4.0% difference versus that of its closest rival, LVMH, which we believe highlights Kering's aggressive growth and agile business model compared to the larger LVMH.

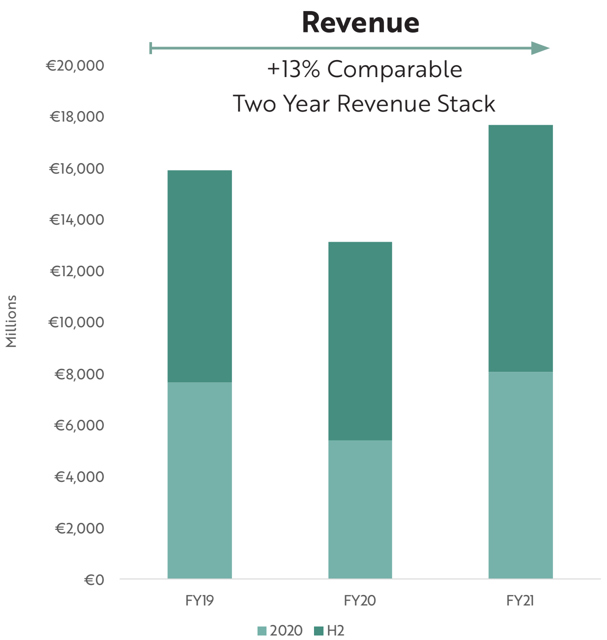
Compounding Brand(s)

All of Kering's houses are replete with history. Gucci has been a luxury brand since the 1950s; in the 1960s it was a favourite of Jacqueline Kennedy Onassis, whilst Saint Laurent was the brand of the late 1960s and 1970s, representing a new kind of luxury and freedom. An often overlooked factor of luxury is history. A house with history cannot be replicated; it is the actuarial of decades of history that makes a house like Gucci or Balenciaga so valuable. We like to think of it as similar to the nature of compounding interest: the value of a brand (if managed well), year after year, compounds on itself, becoming increasingly more valuable. Another under appreciated factor is the value of an archive. Luxury houses have decades of past designs and IP to draw upon; the classic example is Karl Lagerfeld's no-punches-pulled revival of Chanel in the 1980s, drawing upon the classic interlinked "C" monogram and classic tweed jacket to create an entirely new lexicon of luxury. This is standard practice these days, Kering is a leading practitioner of it, to much success, but in the 1980s this was radical. Lagerfeld understood the value of an archive. This is the same for Michele's Gucci or Gvasalia's Balenciaga, the designers play with recognisable tropes of their respective houses to generate new designs and products which can be sold at a premium. New houses lacking history do not have the benefit of an archive: they must create something new without an established "brand vocabulary". When you buy a stake in Kering you are not only buying a portfolio of brands, you are buying history, **and that we believe is an invaluable moat**.

Simple business

Kering's business is fairly simple: the bulk of its revenue derives from selling their product direct via brand-specific boutiques and online. A small portion (~3.5%) of revenue is derived from the licensing of various brands to third parties (i.e. perfume makers). In the past, licensing was a larger portion of the revenue-makeup of most luxury houses; it was an easy way to earn money without producing anything as a company, essentially earning royalities on the brand itself. With licensing, though, comes brand dilution. Kering has largely internalised previously licensed products (accessories, eyeware) to control both the quality of the brand and maintain its cachet.

The strength of Kering's simple business model is reflected in a two-year stack of its revenue. We prefer a two-year stack which takes into account the many shutdowns induced by the March 2020 COVID-19 Pandemic (though, it is impressive that even in a COVID-impacted year Kering still generated €13.1 billion in revenue, reflecting the resilience of the luxury "house of brands" business model).

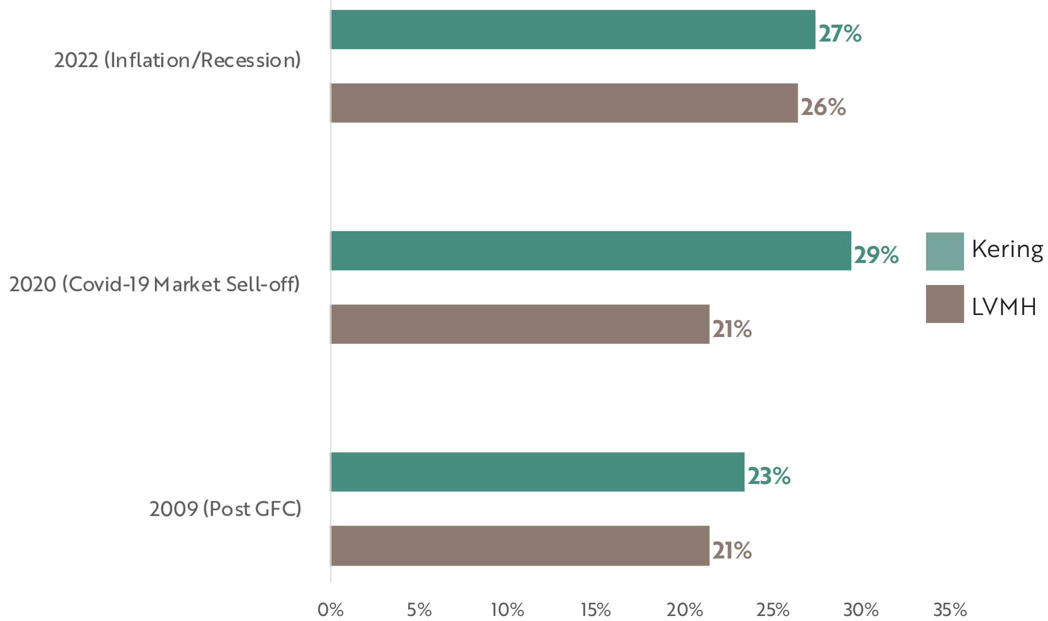


Luxury - An Evergreen Asset

Markets have taken a turn for the worse in the last few months, as interest rates have risen in response to inflation, and investors have priced in a recession. One of the aspects we like about luxury is that it actually provides a safe harbour during times of economic decline; a well known tale is that during the Great Depression lipstick sales went up. This sentiment is shared by operators within the luxury industry, in 2011, post GFC, former Louis Vuitton CEO, Yves Carcelle, commented that *"[Louis Vuitton] does not see any signs of slowing down, the world of luxury doesn't obey the same rule"*. The reality is more complex, as studies have shown, luxury brands are subject to slow-down in line with the rest of the world but crucially they maintain pricing power and often increase prices, (as LVMH did in February 2022, raising the average cost of a handbag +7%). As can be seen in the chart below, luxury brands, especially Kering and LVMH, the two "giants" of the industry; can maintain their operating margins even in the face of recession.

Why? It comes down to psychology. Luxury goods signal status and tell a narrative. They communicate a coded signal to one's peers of success and taste. One could buy a no-brand handbag or jacket from an outlet for far less than the price of a Gucci bag or Balenciaga jacket. It is the same basic lever that dictates why Coca-Cola is so successful: its brand is so strong, built up over more than a century, that people want a "Coca-Cola", not a generic cola that is probably cheaper. The same goes for the consumer buying a luxury good, it is about what the brand represents, rather than the object itself. To paraphrase Warren Buffett: *"a good business is one that can increase the cost of its product"*. Coca-Cola, of course, is able to increase the cost of its product by a few cents every year with no decline in demand. So is Apple: they can continuously increase the cost of the iPhone every year. So can Kering: its fashion houses can increase their prices year-on-year, maintaining margins in the mid-20%, because people desire the products above generic alternatives. This is of particular importance in an environment where margins are squeezed (due to cost of materials, inflation, commodity prices, etc), luxury businesses can still maintain their pricing power and profitability in spite of macroeconomic factors.

Kering and LVMH operating margins (before tax) throughout periods of contraction:



Source: Kering/LVMH Annual Reports

Key Drivers

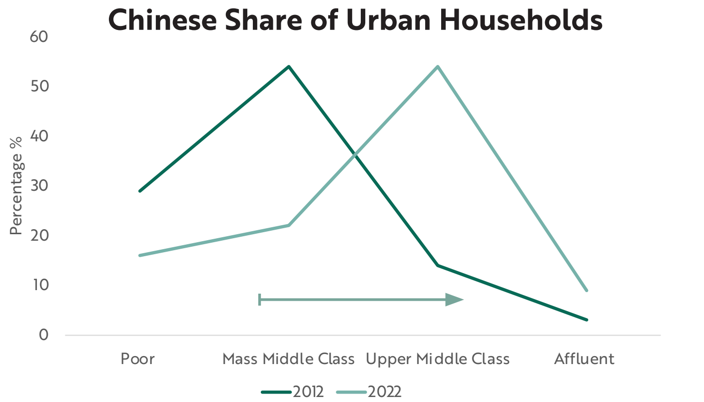
There are two key drivers which are correlated to Kering's growth:

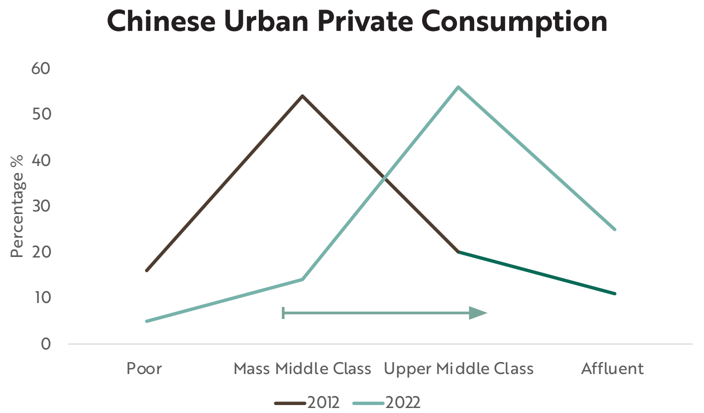
1 Rising Incomes

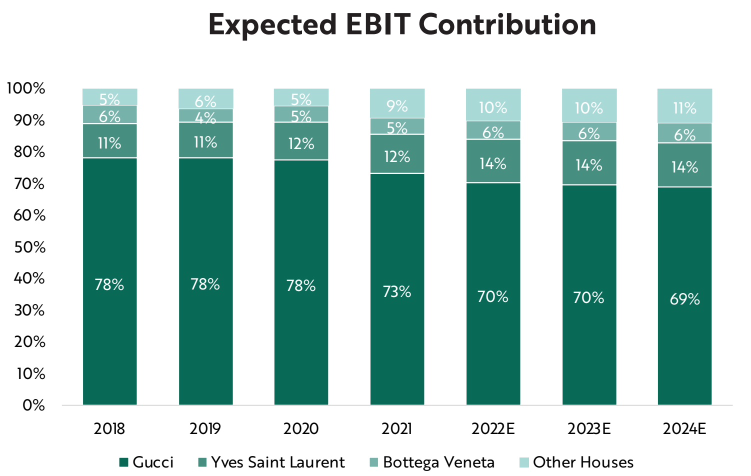
Class mobility is the biggest driver of luxury purchases. In particular, emergent middle classes (especially those in China) see purchasing status-symbol goods as a way of communicating their class ascendency. Luxury houses target the upper middle urban living class, people who might not fly private, but can afford a luxury bag, belt or sunglasses, hence why the Elevation Capital Global Shares Fund also holds an investment in Essilor Luxottica. This is a highly profitable area for luxury, accessories and smaller goods tend to have larger margins than complicated and elaborate pieces such as a coat or custom-made dress. In spite of inflation and recessionary fears the overall trajectory of the world as a whole is upward: the amenities and conveniences most people have access to in the 21st Century are beyond the wildest dreams of the richest "robber barons" of the 19th Century. It is highly probable that global incomes will continue to rise, and Kering is a likely beneficiary of continued class mobility.

2 Growth of Smaller Houses

Gucci has driven Kering's growth, but its addressable market is not what it was 20 years ago, and we see Gucci's growth levelling off in the years ahead. (Albeit Kering has announced a medium term annual sales target of €15b for Gucci, ~50% above its already substantial sales base). YSL and Bottega Veneta are expected to rise in prominence among the Kering portfolio, anticipated to contribute 14% and 6% of EBIT respectively by 2026. Kering's suite of other houses are also expected to further diversify its revenue base, Kering eyewear in particular has shown extraordinary growth, up ~+260% in 2021.





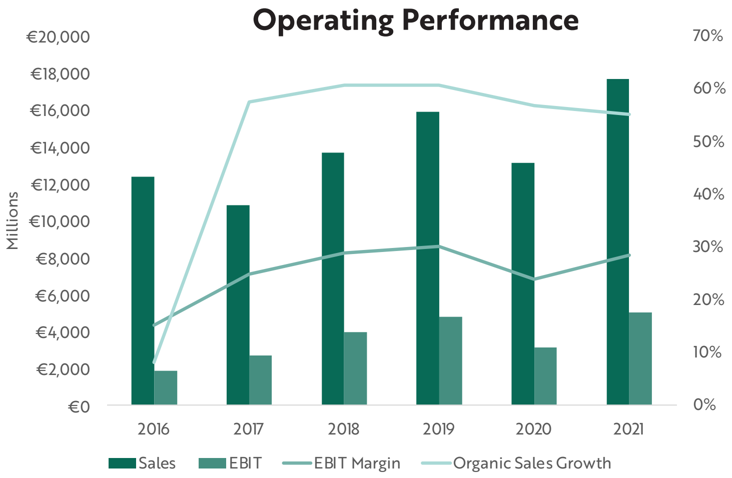


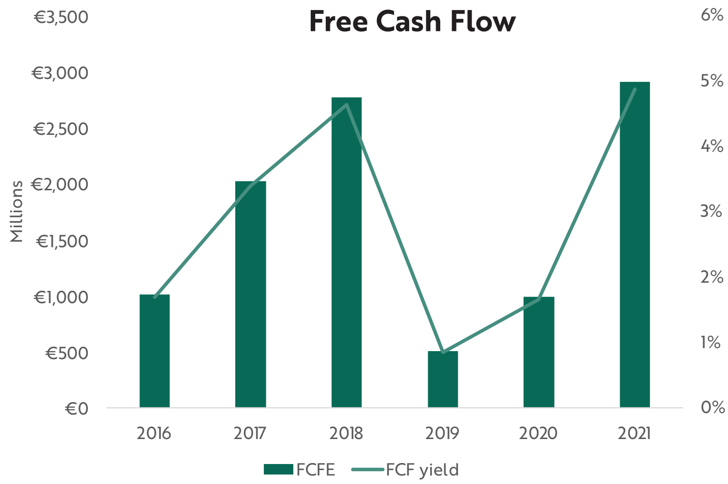
Source: UBS Neo

Financial Performance & Metrics

Kering has displayed solid operating performance over the past five years, in line with its peers in the luxury sector. Kering along with the entire sector suffered in 2020 mainly due to COVID-induced store closures, as lock-downs abated in 2021, Kering saw a large increase in revenue due to "revenge spending" from its affluent client base. In line with this, organic sales growth fluctuated wildly over the period, however it has now returned to its pre-COVID levels. Gucci's sales growth is projected to slow over the coming years, however Kering's suite of smaller houses is projected to pick up some of this slack, growing to ~+32.0% of revenues by 2026. YSL, Bottega Veneta and other houses contributed to sales growth in 2021, and grew at a faster rate than Gucci. This trend is forecast to continue.

Kering's free cash flow (FCF) grew from €1.0 Billion in 2016, to €2.9 Billion in 2021, +180.0% over a 5 year period. This is in-spite of a €1.25 Billion tax fine in 2019. We also note that Kering had a free cash flow yield of +4.9% in 2021, We like to think of free cash flow yield as the "coupon" rate you'd receive on your investment, cash in the hand. Ideally we look for businesses which produce a yield above the risk-free rate, say the 10 year US Treasury Bond (2.9%). This compares favourably with Hermés' free cash flow yield of (+2.5%).





Mean reversion is a key tenet of value investing, and over the past five-years we can observe that Kering's P/E multiple has tracked back to its average ratio of ~32x. Recent economic headwinds and bearish sentiment have seen a sell off in Kering's stock, now well below its five-year average along with its peers in the luxury sector. We see this as an indicator of potential undervaluation, given Kering's dominant market position and strong pricing power in the face of rising costs. History tells us that luxury goods companies with strong pricing power and premium market positioning tend to outperform "affordable luxury" brands throughout recessionary periods, leaving companies such as Kering better positioned to ride out any downturn.

Valuation

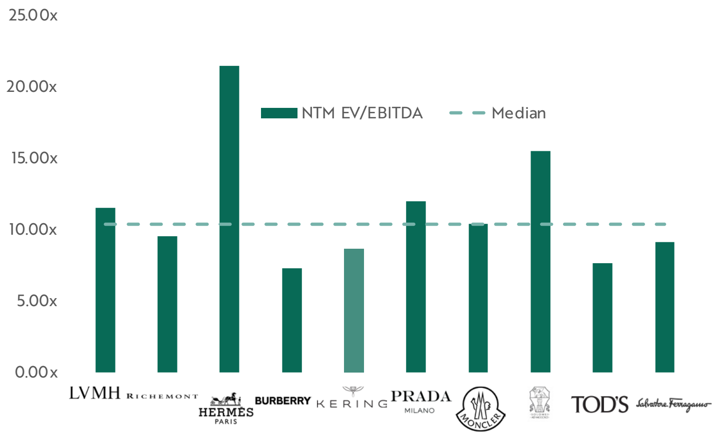
Kering's cache of iconic brands gives credence to its wide moat, which is almost impossible to replicate. When you buy a stake in Kering you are not only buying a brand, you are buying history, **and that is invaluable**.

LVMH is Kering's largest competitor and the comparison of the two business is most apt. LVMH trades at a NTM EV/EBITDA multiple of 11.5x; on the other hand Kering trades at 8.7x. Both Burberry and TOD's trade at lower NTM EV/EBITDA multiples than Kering, however both of these businesses have floundered for years, and their brands pale in comparison. Kering trades at approximately the same multiple as Ferragamo, an Italian footwear brand steeped in history, However, we see no reason for Kering to be subject to the same multiples given the enormous potential of its smaller houses and Gucci's continued dominance. In short, we expect Kering to revert to sector average multiples over the medium term.

To value Kering we have projected earnings out until 2026, to which we applied the sector average P/E of 24x. We have forecast NPAT growth at an average of +8.0% per annum, a conservative estimate allowing a *"margin of safety"*.

Below we compare Kering's revenue growth and EBIT margin over a five-year period with its competitors in the luxury sector. Over the past five years Kering has delivered results in the same ball park as upper echelon luxury companies Hermes and LVMH, but trades at lower multiples than almost all our comparison firms. **Kering is an upper echelon luxury company trading at a discount to its exceptional peers.**

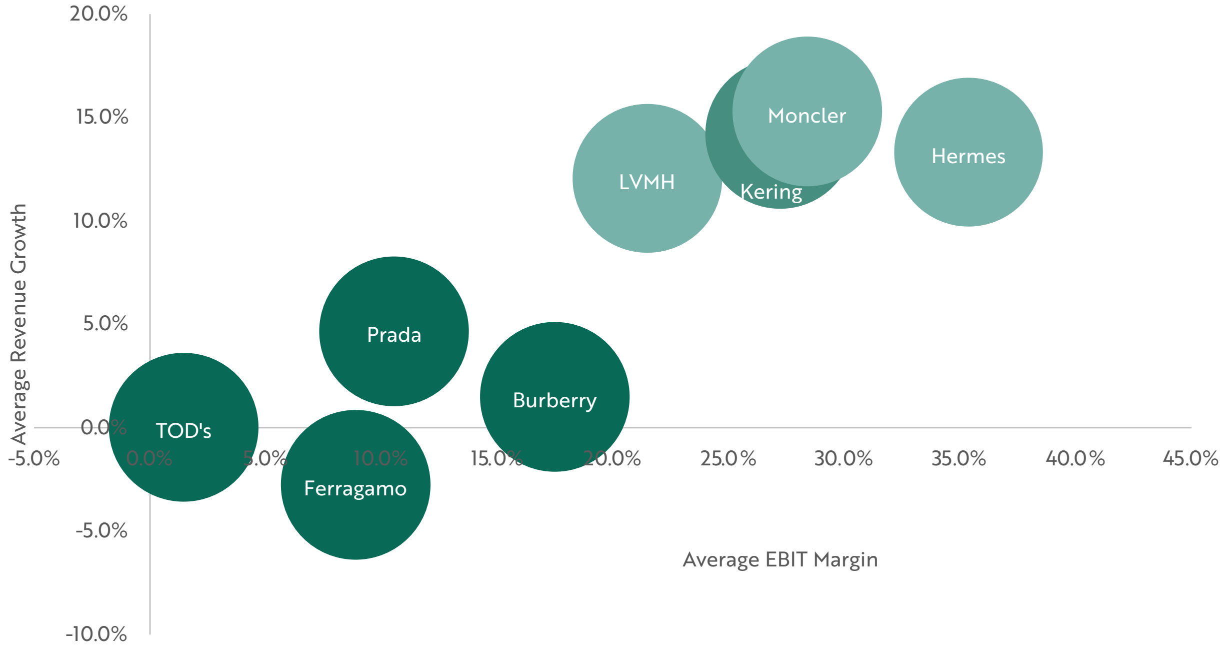
NTM EV/EBITDA Comparables



Kering Valuation, FY21-FY26 P/E Basis

Year	2021A	2026E
Net Profit After Tax (NPAT)	€ 3,361.30	€ 5,470.57
Sector P/E (x)	24	24
Implied Equity Value	**€ 80,671.20**	**€ 131,293.61**
Total Shares Outstanding (M)	*125*	*125*
Implied SOTP	**€ 645.37**	**€ 1,050.35**
Current Share Price (13/07/22)	€ *496.00*	
Potential Upside	**+ 30%**	**+ 112%**

5-Year Industry Margin and Revenue Growth



Conclusion

Kering's cache of unique brands are steeped in the kind of iconic status that is almost impossible to replicate. Kering's strong margins, pricing power, solid returns on invested capital and high free cash flow yield are indicative of a quality business that has a high probability of outperforming the broader market for years to come. The entire luxury sector has sold off significantly over the past few months. Kering's share price has also declined significantly and we believe that this climate of fear creates an opportunity for the Fund to acquire a fractional interest in a great business below its intrinsic value; something that would not happen in the private market.

This summary report was written in June/July 2022.
Any data not referenced was sourced from Kering S.A. Annual Reports and Conference Calls.

ELEVATION CAPITAL
GLOBAL SHARES FUND

Independent Thinking Disciplined Investing

[In-de-pend-ent Think-ing] indəˈpendənt THiNkiNG verb
Is essential to long-term investment success. We are often contrarian and do not pay attention to index compositions when making investment decisions. We believe that when you're several thousand miles away from Wall Street in a different nation, it's easier to be independent and buy the things that other people are selling, and sell the things that other people are buying.

[Dis-ci-plined In-vest-ing] disciplinəd invesʼting verb
The market presents opportunities every day, but disciplined investing is as much about the opportunities you do not take. We also believe that cash is sometimes the most attractive investment.

MORNINGSTAR INTERNATIONAL EQUITIES CATEGORY FUND MANAGER OF THE YEAR 2017, NEW ZEALAND

NOMINEE - FUNDSOURCE INTERNATIONAL EQUITY SECTOR FUND MANAGER OF THE YEAR 2013, NEW ZEALAND

NOMINEE - MORNINGSTAR INTERNATIONAL EQUITIES CATEGORY FUND MANAGER OF THE YEAR 2012, NEW ZEALAND

NOMINEE - FUNDSOURCE INTERNATIONAL EQUITY SECTOR FUND MANAGER OF THE YEAR 2012, NEW ZEALAND

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