
SAVIGNY PARTNERS NEWSLETTER

Dear Friends

The SLI seems to have paused in its rollercoaster ride. Companies have been swift to react to the monumental change in market forces over the last year and are bracing themselves for a tough year, despite green shoots of recovery being witnessed in some markets. Uncertainty remains the theme however and never has it been more important for brands to have a strong and clean identity.

We hope you have a good summer and look forward to updating you with our views this fall, including a couple of articles on themes that are topical to the luxury goods industry.

Pierre and team

Sector Review

SLI vs. FTSE All World 1st January 2009 - 30th June 2009



Note : The Savigny Luxury Sector index focuses on European and American luxury goods manufacturers and retailers

Sailing through calmer waters

Since the publication of our last newsletter at the end of April, the SLI has remained relatively stable, gaining 4.4% in May only to fall back 4.9% in June, ending 0.6 percentage points lower than at the end of April. There has been very little in the way of news flow over the last two months, explaining the lack of movement in share prices. Looking at the last 6 months, the SLI outperformed the FTSE All World index by 5.7 percentage points. It hit a low of 81 points at the beginning of March, relative to 100 points in January, and rallied to a high of 122 points at the beginning of June as investors were reassured by the measures taken by many of the luxury companies to curtail the impact of the current recession.

What lies beneath...

The SLI's EV/EBITDA rating has increased by 4.4 percentage points since January to reach 8.9x at the end of June. However this modest upward re-rating belies the significant re-rating of a number of the smaller constituents of our index. Coach, Burberry, Safilo and Bulgari which together account for 11.8% of the SLI, have all witnessed EV/EBITDA uplifts in excess of 50%, with Burberry topping the league at 75%. Burberry and Coach have come out with stronger than expected results and delivered credible cost savings programmes; Bulgari's share price recovered some of the lost ground from the beginning of the year as a result of the announcement of a wide sweeping restructuring initiative, whilst Safilo's share price did not trade down in line with the company's results, resulting in an upward re-rating of the stock. PPR and Tiffany which together account for 11.9% of the SLI experienced re-ratings in the 30 percentile on the back of better than expected results announcements. These significant gains were tempered by LVMH's (32% of the SLI) relatively modest re-rating of 9% and offset by Hermes's (13% of the SLI) de-rating of 12%.

Sector Review

| | MV as at Jun-09 | EV/EBITDA (LFY) | | |
|--------------|-----------------|-----------------|--------|--------|
| | (EUR'm) | Jun-09 | Dec-08 | % chg |
| LVMH | 25,735 | 7.2 | 6.6 | 9.1% |
| Hermes | 10,400 | 19.0 | 21.6 | -12.3% |
| Richemont | 7,727 | 5.7 | 4.7 | 20.7% |
| PPR | 7,360 | 7.9 | 5.8 | 36.9% |
| Luxottica | 6,800 | 9.8 | 8.3 | 17.5% |
| Coach | 6,085 | 7.1 | 4.7 | 52.0% |
| Swatch Group | 5,988 | 6.4 | 5.6 | 14.2% |
| Ralph Lauren | 3,787 | 6.4 | 6.7 | -3.3% |
| Tiffany & Co | 2,243 | 7.2 | 5.5 | 31.1% |
| Burberry | 2,151 | 8.2 | 4.7 | 75.1% |
| Tod's Group | 1,233 | 7.6 | 6.1 | 24.7% |
| Bulgari | 1,157 | 12.3 | 8.2 | 49.5% |
| Safilo | 126 | 7.1 | 4.2 | 68.8% |
| SLI | 80,790 | 8.9 | 8.5 | 4.4% |

Uncertainty is likely to be a theme for 2009

Whilst companies have been very swift to react to the current economic downturn, there is still a high level of uncertainty as to its depth and length. Guidance as to 2009 and 2010 is mixed: watch companies are the most cautious, forecasting up to two years of continued depressed market conditions; the rest of the sector anticipates 2009 to be a tough year, with green shoots of recovery being seen in the USA, but with the market not having bottomed out yet in Europe. All agree, though, that stronger specialised brands with a strong tradition of craftsmanship will prevail, as intimated in our last newsletter.

Sector Review

| Index Components | Market Cap EUR m | YoY Price Growth [%] | P/E (x) Estimate (current) | P/E (x) Estimate (forward) | FY / 08-09 | | | EBIT Margin [%] | Est. Sales Growth [%] |
|----------------------|---------------------|-------------------------|----------------------------------|----------------------------------|--------------|---------------|-------------|--------------------|--------------------------|
| | | | | | Sales (x) | EBITDA (x) | EBIT (x) | | |
| LVMH | 25,735 | -18.3 | 11.9 | 14.3 | 1.7 | 7.2 | 8.5 | 20.3 | 4.3 |
| Richemont | 7,727 | -9.1 | 15.3 | 22.4 | 1.3 | 5.7 | 7.0 | 18.1 | 2.4 |
| PPR | 7,360 | -17.7 | 8.4 | 10.8 | 0.7 | 7.9 | 10.4 | 6.7 | 5.8 |
| Coach | 6,085 | -6.9 | 13.0 | 14.1 | 2.5 | 7.1 | 8.0 | 31.4 | -25.2 |
| Luxottica | 6,800 | 0.3 | 17.1 | 18.8 | 1.9 | 9.8 | 13.4 | 14.1 | 4.7 |
| Swatch Group | 5,988 | -31.7 | 11.1 | 14.6 | 1.5 | 6.4 | 7.5 | 20.3 | 3.0 |
| Hermes | 10,400 | -1.0 | 35.9 | 36.3 | 5.6 | 19.0 | 22.2 | 25.5 | 8.6 |
| Ralph Lauren | 3,787 | -14.7 | 11.9 | 15.7 | 1.0 | 6.4 | 8.4 | 11.9 | 2.8 |
| Burberry | 2,151 | -6.6 | 13.2 | 15.0 | 1.5 | 8.2 | 10.3 | 15.0 | 20.7 |
| Tiffany & Co | 2,243 | -37.8 | 10.9 | 16.2 | 1.3 | 7.2 | 9.9 | 13.1 | -31.3 |
| Bulgari | 1,157 | -39.8 | 14.3 | 27.5 | 1.5 | 12.3 | 22.9 | 6.4 | -6.9 |
| Tod's Group | 1,233 | 16.3 | 14.8 | 16.0 | 1.7 | 7.6 | 9.3 | 17.9 | 7.7 |
| Safilo | 126 | -68.6 | nmf | nmf | 0.7 | 7.1 | 11.0 | 6.2 | -5.6 |
| Savigny Luxury Index | | -13.6 | 15.5 | 16.1 | 2.1 | 8.9 | 10.9 | 18.8 | 1.8 |

Source: Reuters

1. Exchange rates used: £1 to €1.15, CHF1 to €0.66 and \$1 to €0.71
2. Sales growth: yoy change using latest annuals
3. EBIT margin: using latest annuals, Sales-COGS-S&GA
4. P/E forecast based on IBES yearly estimates
5. Current is either 12/08 or 03/09 depending on company year end
6. Prosp is either 12/09 or 03/10 depending on company year end

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