

# Hyperion Asset Management

## Company Profile

## Kering SA

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### ***Main Business Activities***

Kering SA (Kering) owns a suite of luxury brands that it sells through directly operated stores, online and wholesale channels. It's three main brands are Gucci, Saint Laurent and Bottega Veneta, but the Other Houses segment incorporates well respected luxury brands that will contribute to revenue growth over time, including Alexander McQueen, Balenciaga, Brioni, Boucheron, Dodo, Girard-Perregaux, Pomellato, Qeelin and Ulysse Nardin.

### ***Key Value Proposition to Customers***

Brand strength is the key value proposition for customers. Key brands in the group benefit from both heritage with long, storied histories, and provenance. Gucci and Bottega Veneta are Italian, Yves Saint Laurent is a French luxury brand and the majority of luxury brands come from France or Italy, other than watches which come from Switzerland. These factors provide significant barriers to entry. The high price point, limited supply of product (demand outstrips supply) and reputation for high quality design and manufacturing provides consumers with a feeling of exclusivity and luxury.

### ***Sustainable Competitive Advantages and Outlook***

The key competitive advantages for Kering are the strength of the company's brands. Having a diverse portfolio of luxury brands across sectors provides the business resilience, scale advantages and the ability to retain and promote top talent across the group. The group has a strong management team, who are experienced and disciplined in running brands to maintain brand equity.

### ***Overall Company Growth Options***

Hyperion believe Kering's revenue growth at its largest brands will primarily come from increasing sales density in existing stores rather than increasing the current store footprint. Smaller brands will have a higher contribution from new store rollouts to revenue growth. The luxury market itself is growing at an estimated 4% to 6% per annum, with future growth driven by the trend to premiumisation and the emergence of the middle class in the developing world, particularly China.

Hyperion expect growth will be skewed to China given their increasing demand for luxury items as a result of the following:

- 1) GDP growth fueling the wealth effect;
- 2) Demographics with millennials and Gen Z typically supported by parents and grandparents;
- 3) Social issues such as a lack of social stratification leading desire for luxury brands to portray social status, and growing empowerment of women in the workforce; and
- 4) Rise of technology, particularly social media.

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