

# Kering



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## What it does

Kering is an international group that owns luxury brands such as Gucci, Saint Laurent, Bottega Veneta and Balenciaga.

## Why we own it

- CEO Francois-Henri Pinault's combination of patience and entrepreneurialism drives the culture.
- An ensemble of complementary luxury brands that exhibit tremendous pricing power and longevity.
- Gucci, the group's best-known brand, is led by a talented and restlessly eccentric designer, which could last for many years. Bottega Veneta remains at the top of the tree, and 'junior' houses such as Balenciaga could grow to multiples of their current size.
- We believe that the central holding company adds value to the individual brands, particularly in regard to technology and sustainability innovation.

## How it could be worth many times more

- Steady growth over a longer period acknowledging the unlikely probability that we can predict the individual brands.
- The emerging possibility that luxury might encompass more than clothes: 'experiences', dining, even furniture – Kering is unafraid of giving its brands freedom to experiment.
- 15% growth over the long term. Margins tick up a little to 35%. It can compound over time at margins similar to Hermes and LVMH.

## Where we might be wrong

- Gucci has hit the jackpot with designer, Alessandro Michele, and this is as good as it gets.
- Chinese consumer luxury spend is weaker or inhibited from here
- The long-awaited Asian brands emerge and usurp the European stalwarts.
- Whilst Gucci has proven indestructible, is it too dominant in a group context?
- Are there natural ceilings to luxury brands?

## Short 10 questions

Can sales double in the next five years?

1

Gucci, Saint Laurent and a recovering Bottega Veneta give double-digit growth.

Ten years and beyond?

2

Balenciaga, Brioni and Alexander McQueen become €1bn+ brands.

Competitive advantage?

3

Heritage brands are well managed and aided by a patient, central owner.

Is the business culture different?

4

Pinault is one of the most thoughtful CEOs around.

Customers like you? Contribute to society?

5

Absolutely – the brands are emotional, aspirational and long-lasting. The company is a leader in environmental sustainability.

Are returns worthwhile?

6

Yes. Luxury appeal.

Will they rise or fall?

7

They carry on rising with Gucci's scope and larger scale for the other brands.

How is capital allocated?

8

The ability to acquire great brands out of favour is a special one.

Could it be worth 5x as much?

9

The share price hasn't kept up with the underlying growth rate.

What doesn't the market understand?

10

Worried about cyclical and over-reliance on Gucci, while overlooking Kering's track record of patiently building up other brands and divisions to a significant scale

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