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Bulgari

Ticking Along Nicely

ACCUMULATE

Reason for Report: Reinstating Coverage

Long Term
BUY

Price:	EUR12.5			
12 Month Price Objective:	EUR15			
Estimates (Dec)	1999A	2000E	2001E	2002E
Net Income	59	84	111	142
EPS	0.22	0.29	0.38	0.49
EPS Change (Y-o-Y) (%)	31.6	33.6	32.3	28.2
P/E (x)	57.6	43.1	32.6	25.4
Cash Flow/Shr	0.23	0.38	0.53	0.70
Book Value/Share	1.0	1.3	1.6	2.1
Price/Cash Flow (x)	53.5	32.5	23.3	17.7
EV/EBITDA (x)	35.0	27.4	21.2	16.9
EV/Sales (x)	7.5	5.3	4.1	3.2
Net Dividend	0.06	0.06	0.07	0.08
Net Yield (%)	0.5	0.5	0.6	0.6

Opinion & Financial Data

Investment Opinion – Local:	B-2-1-7
Mkt. Value / Shares Outstanding (mn):	3618 / 289.41
Book Value/Share (Dec-99):	1.029
Price/Book Ratio:	12.14
ROE 2000E Average:	25.1% %
Net Debt/Net Equity:	16.1%
Est. 5 Year EPS Growth:	25%
2000E P/E Rel. to Mkt:	159%

Stock Data

52-Week Range – Local:	12.50-5.30
Symbol / Exchange – Local:	BULPF / Milan
Bloomberg / Reuters:	BUL IM / BULG.MI
Exchange Rate:	EUR1.10/USD
Free Float:	44%

For full investment opinion definitions, see footnotes.

All figures are in Euro except where otherwise noted.

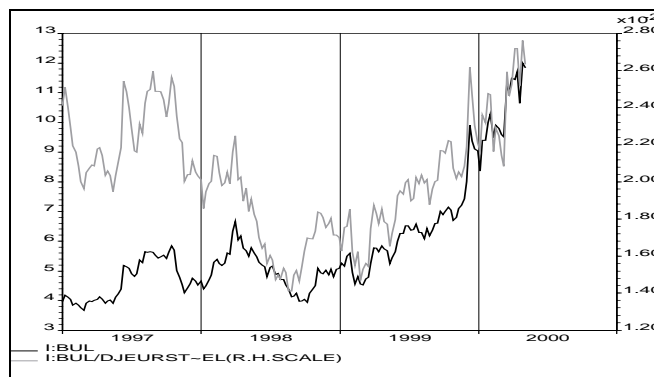
Investment Highlights:

- We resume coverage of Bulgari with an Accumulate rating and view the shares as a safe long-term organic growth vehicle in the sector.
- The current multiple premium to the peer group is fully supported by an estimated 25% organic earnings growth over 2000-05.

Fundamental Highlights:

- Jewellery and watch sales should continue to grow fast in the coming months as the benefits of sustained demand, the maturity of the store network and recent product launches kick in.
- Perfume and accessory profits should increase rapidly (albeit more slowly than jewellery and watches), especially as of 2001.
- Operating performance, though still under par, is catching up with other luxury goods companies, including in fragrances.
- Potential investment risks, especially dilutive acquisitions, are, we believe, largely overdone.
- Bulgari's presence on the eLUXURY and Luxlook portals should raise brand recognition further in the US and in Europe.

Stock Performance



Source: Datastream

	1mth	3mths	12mths
Absolute %	+6.7	+30.3	+138.1
Relative to DJ Euro Stoxx %	+5.2	+31.7	+73.1

RC#60114517

Executive Summary:

Reinstatement of Coverage

We reinstate coverage of Bulgari with an Accumulate (B-2-1-7) rating. This is supported by expected organic EPS growth of 25% a year over 2000-05 – our fastest in the sector-, stemming from the extension and operating leverage of the distribution network and, to a lesser extent, a likely improvement in the profitability of diversification lines.

Our valuation suggests a price objective of EUR15, or about 20% upside. Applying a 2000E PEG of 2.2x versus 1.8x today for Bulgari and 2.5x for the sector (implying no discount to the sector versus 30% today) would suggest an even higher price objective.

A Unique Growth Story

We believe Bulgari remains one of the best vehicles for investment in the luxury goods sector, as well as being a stand alone growth vehicle. As one of the most prestigious luxury goods brands, its portfolio includes jewellery (32% of sales), watches (43%) as well as fragrances and accessories (17% and 6% respectively).

We expect 25% EPS growth over 2000-05, mostly driven by expanded distribution, growth opportunities in all activities and new product launches. Bulgari's core business is targeted at consumers with high purchasing power, making the company less susceptible than some competitors to the effects of an economic downturn.

Update on Bulgari's Competitive Positions

Bulgari is a dominant player in the watch and jewellery segments (which comprise about 15% of the luxury goods industry), with estimated market shares of only about 6% and 5% respectively. This leaves room for further increases in the coming years, especially in the jewellery market where consolidation is more advanced than in most other product categories. Although it is a niche player, Bulgari now possesses a reasonable critical mass in prestige fragrances. Finally, Bulgari's diversification, especially into accessories and tableware, should improve top-line growth without significant margin impact, according to our estimates.

Despite its already strong brand awareness and exceptional sales growth in recent years, the company remains small vis-à-vis its major competitors, with sales of EUR487mn in 1999, versus an estimated EUR1,480mn for Cartier and EUR1,629mn for Tiffany. The company also has a much smaller store network: 97 stores globally versus 203 for Cartier and 132 for Tiffany. Additionally, Bulgari has not yet fully leveraged its accessory and fragrance businesses.

Potential For Margin Appreciation

Bulgari's operating performance remains inferior to that of several luxury goods houses, as at end 1999. EBIT margins stand at 16.8% compared with Gucci at 21.3%, Richemont at 18.6% (estimated, year-ended 31 March 2000) and Hermès at 20.6%. This is owing to:

1. The lack of critical size of the perfume business.
2. The predominance of the watch/jewellery business in the portfolio (less profitable, other things being equal, than leather goods, a major earnings contributor for Gucci, LVMH, Hermès, etc.).
3. The lack of leverage effect from the recently opened free-standing boutiques.

Bulgari sales, which continued to grow during the Asian crisis, have accelerated in the past few months as a result of external and internal factors. Trading conditions improved with the economic environment and with the recent appreciation of the yen. More specifically, the company has continued to expand its store network, increase its product offer with more accessible pricing and steadily increased advertising. Sales per store should continue to progress before stabilising in 2002-03.

Risks Mostly Macro-Dependent

The following constitute the major risks to Bulgari's fundamentals for minority shareholders: a substantial economic downturn, excessive exposure of the brand, excessive weight on capital employed resulting from strong store network development, a dilutive acquisition, performance under market expectation. Of these, only the first is significant, in our view. Widening the distribution network and lowering price points to appeal to a broader customer base could actually enhance the brand rather than overexposing it, in our view. Also, as Bulgari's strategic priority remains to develop the brand name, we believe the likelihood of a dilutive acquisition is insignificant.

The eLUXURY and Luxlook Experiences

Bulgari has contracted with LVMH to provide it with a selection of products (15-20 SKUs) for its web portal, targeted at affluent US customers and with Luxlook.com, another site to go live in August. We understand that LVMH's DFS unit will be in charge of eLUXURY's logistics, a key advantage for the participating brands, given DFS's order-fulfilment expertise. We expect the eLUXURY.com project will prove a significant tool for raising the brand profile and creating an additional niche business in the US. We estimate that these agreements could generate additional sales of EUR15mn-EUR20mn in their first year. This would correspond to a non-material 2% upward revision to EPS in 2000 estimates. Depending on trading conditions (not finalised yet), the Luxlook.com business could have a similar impact on Bulgari's earnings.

CONTENTS

■ Section		Page
Executive Summary	<i>At a marked discount to its peers given its unique growth status</i>	2
Valuation & Recommendation	1. <i>Fair value EUR15 per share</i>	4
The Luxury Goods Industry	2. <i>Update on Bulgari's competitive positions</i>	7
1999 Results	3. <i>'Brilliant' as expected</i>	8
Divisional Strategy	4. <i>Will continue to benefit from a catch-up effect versus its peers</i>	10
Potential Risks	5. <i>Cautious stance should not be excessive</i>	22
The ELUXURY.com and Luxlook Experiences	6. <i>Preliminary thoughts</i>	25
Forecasts and Financials	7. <i>A unique growth status in the industry</i>	26
Appendices	<i>Key Events in Bulgari's History.</i>	28
	<i>Consolidated Profit & Loss Account</i>	29
	<i>Consolidated Statement of Cash Flow</i>	30
	<i>Consolidated Balance Sheet</i>	31
	<i>EVA¹ Forecast</i>	32
	<i>Sales by Distribution Channel</i>	33
	<i>Sales & Royalties</i>	34
	<i>Sales by Product Line</i>	34
	<i>Sales by Region</i>	35
	<i>Geographical Split of Stores</i>	36
	<i>Distribution Network</i>	37
	<i>Activities</i>	40

1. Valuation and Recommendation

Our multi-criteria valuation suggests a price objective of EUR15 (about 20% upside). Whilst static relative enterprise value multiples are not totally meaningful (they would have been otherwise in the past five years of the company listing), we expect Bulgari's discount to the sector PEG to narrow.

Does P/E or PEG Matter with Bulgari ?

Since the July 1995 IPO, and due to the structural high rating of the shares, investors' concerns have always been the same:

1. Is the company capable of delivering the same growth going forward?
2. To what extent will Bulgari's multiples remain the highest in the sector if earnings growth is slowing down due to a higher comparison basis?

*Systematic cautiousness
cannot hide impressive track
record*

First of all, Bulgari's impressive track record since coming to the market now extends to almost five years. Despite management's cautiousness, the company has generally surprised on the upside, both during the Asian crisis and also more recently, when more aggressive earnings estimates surfaced in the market. Remember, in 1996, a few months after the IPO, consensus expectations were for Bulgari to grow EPS at an average rate of 25% per year for the rest of the decade. In fact, the effective growth has been 36% despite the Asian crisis, which was not anticipated at the time.

Our perception is that the group will continue to massage market EPS expectations in order to signal to investors what its minimum earnings growth could be. However, a couple of factors prompt us to believe that Bulgari's earnings growth should be sustainable at about 22% in the coming three years:

1. The progressive maturity of the recently-opened boutiques
2. The supportive currency situation, and the impact of Bulgari's hedging policy

It is more difficult to estimate the virtuous effects resulting from Bulgari having an identical break-even point with an enlarged product mix.

Re-rating incomplete

So far as the second question troubling investors is concerned, we also believe that Bulgari's relative ratings will improve even if the earnings growth rate slows somewhat in absolute terms. This is due to the limited number of companies in the sector offering solid earnings growth on an organic basis, the potential for a significant upgrade in net margin and no fashion content pressures (the core jewellery/watch business is less risky in terms of cyclicalities, seasonality and transience than most other product categories).

PEG Approach

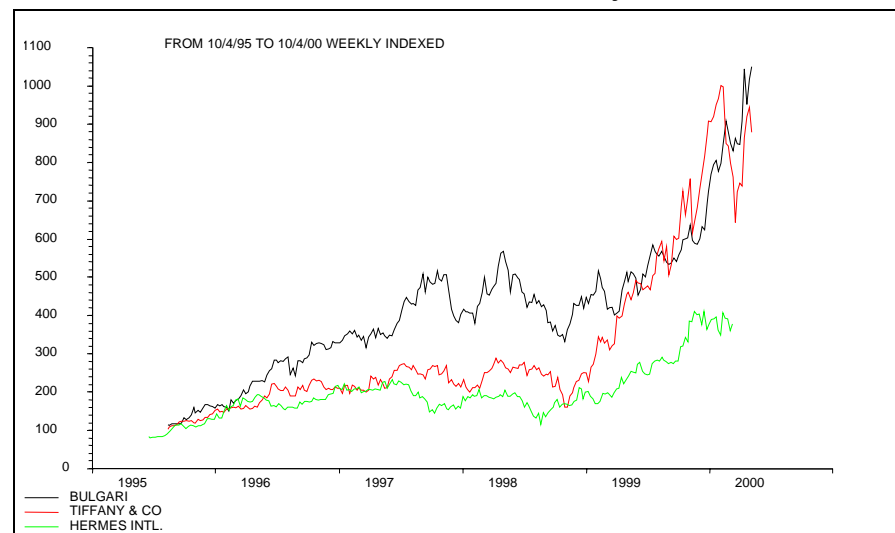
*We expect the sector PEG to
contract in the coming
months . . .*

We believe that the strong economic environment worldwide and the likely benefits of the recent appreciation of the yen against the dollar (while the euro has remained weak against the dollar) are already well discounted in the share prices within the sector. Also, according to our estimates, the luxury goods sector is now trading on a 2000E P/E of 38x and an EV/EBITDA of 15x, or a 15% premium to the previous mid-cycle valuation. This suggests that the sector PEG (price earnings/growth) should contract somewhat in the coming months. Currently, Bulgari trades at a 30% discount to the sector PEG, which is due partly to its absence from the major European indices and partly to the fact that the sector PEG has risen sharply, given the much slower growth now forecast for Gucci (GUC; B-2-2-7; USD 79 ¹³/₁₆). Until December 1997, towards the end of Asian crisis, the sector PEG was close to 2.0x to 2.2x rather than its current 2.5x which means that to return to trend we would expect either prices to fall 20% or earnings growth to be revised upward by 20%. The former seems more likely, although it is important to underline that LVMH and Richemont's earnings are enhanced by the strength of the yen which could have a positive impact of at least 10% on 2000 earnings, according to our estimates. So the sector is likely to continue to experience a slight consolidation, in the order of 10%, more or less the same as we expect for European stock markets, on which we remain positive.

... but Bulgari's discount to sector PEG should narrow

The simplistic but conservative assumption behind our first valuation approach is that Bulgari should trade at a reduced discount to sector PEG given its 5-year earnings track record of superior earnings growth and intact earnings potential. An argument often raised is that the company's rating should be lower, other things being equal, due to its low preferential tax regime. When we look at the companies within our peer group, LVMH and Hermès are the only ones who pay a 'normal tax rate'. We therefore believe that this reasoning does not apply, otherwise the French companies should be rated with a premium, to account for their higher quality of earnings, which is not the case. Applying a 2000E PEG of 2.2x) versus 1.8x today for Bulgari and 2.5x for the sector (implying no discount to the sector) suggests a price objective of EUR15.6/share. This is supported by the recent performance of Tiffany, the only jeweller worldwide of a significant size, and Bulgari, which has delivered in our view the best performance in the sector since the beginning of the year, compared with other luxury goods companies, particularly Hermès.

Chart 1: Relative Share Price Performance of Selected Luxury Goods Stocks



Source: Datastream

Our rating is fully supported by Bulgari's unique and solid growth status

We believe that, even excluding acquisitions, Bulgari will remain the fastest earnings growth story in the sector in the next three years. Its focused positions in a limited number of businesses within the luxury goods sector will also contribute to the absence in the market of a theoretical discount to net appraised value. This systematic reasoning scales back the share prices of Richemont and to a lesser extent LVMH, who are somewhat penalised – at least in the short term - by their diversified status. Also, compared to Hermès, which is much further advanced in terms of product diversification, Bulgari benefits from its less advanced strategic position.

Enterprise Value Analysis

Our second valuation approach consists of analysing enterprise values for Bulgari relative to its peer group of European luxury goods companies. Table 1 below shows that the market implies a much greater level of investor confidence in Bulgari's sales and earnings outlook, compared to the other jewellery houses. Tiffany trades on 28.3x forecast fiscal 2000 earnings and Richemont on 20.1x (for its year ending March 2001) after stripping out the stake in BAT. Bulgari shares are trading at a premium of 25%-35% to our sample, in terms of enterprise value multiples. While the higher level of visibility compared to the rest of the sector supports these valuations, it seems difficult to imagine much expansion in those multiples. In fact, we believe this premium will be maintained in the future, as Bulgari's organic growth should remain superior to that of its peer group.

Apparent expensive static EV ratios hide Bulgari's superior earnings growth

Table 1: Bulgari - Enterprise Value Multiple Analysis

2000E Estimates	EV/EBIT	EV/EBITDA	EV/Sales	PER
Bulgari	32.0x	25.5x	5.4x	39.5x
Gucci ⁽¹⁾	18.1x	16.2x	3.4x	25.8x
Hermès	24.6x	21.4x	5.3x	50.0x
LVMH ⁽²⁾	23.8x	18.8x	4.2x	50.0x
Richemont ⁽³⁾	21.8x	19.4x	4.1x	20.1x
Tiffany ⁽⁴⁾	16.1x	14.7x	3.1x	28.3x
Average Multiple	22.7x	19.3x	4.2x	35.6x

Sources: Merrill Lynch estimates (1) 1/12 of 1999 ending January 31, 2000 + 11/12 of 2000E (2) Restated from stake in Gucci & Diageo (3) Restated from the stake in BAT (4) Fiscal year ending January 2001

EVA

Our third and final valuation method points to a share price objective of EUR14.4. Our main assumptions are summarised below and include a long-term growth rate of 5% and a 2.5% equity risk premium (beta of 0.9x). After 2004, we have made the following assumptions: sales growth of 25%, a flat NOPAT margin of 13% as well as an unchanged tax rate of 15.5%.

EVA analysis shows 15% upside is sustainable

Table 2: Bulgari - EVA Valuation in Summary

EURm unless Otherwise Stated	2000E	2001E	2002E	2003E	2004E	2005E TV
NOPAT	93	119	149	181	217	260
Adjusted Capital Employed	515	626	779	960	1153	1384
E.V / Average Employed Capital	7.8x	6.0x	4.9x	3.9x	3.2x	2.7x
EVA ^a	77	92	117	140	165	197
Terminal Value	4967					
Discounted Terminal Value	3536					
Total EVA	4171					
EVA per Share	14.4					

Source: Merrill Lynch estimates

■ Sensitivity Analysis

Table 3 shows the sensitivity of the EVA price objective to two key assumptions: the long-term growth rate and the WACC. Our price objective assumes a perpetual growth rate of 5%, a minimum, in our view, for Bulgari at least for the next decade, given the untapped growth potential of the company.

Table 3: EVA Valuation Sensitivity Analysis

WACC	Perpetual Growth Rate					
	4.8%	4.9%	5.0%	5.1%	5.2%	5.3%
5.5%	14.42	15.32	16.36	17.58	19.03	20.79
6.0%	14.41	15.31	16.35	17.57	19.03	20.78
6.5%	14.40	15.30	16.34	17.57	19.02	20.77
7.0%	14.40	15.29	16.34	17.56	19.01	20.76
7.5%	14.39	15.29	16.33	17.55	19.00	20.75
8.0%	14.38	15.28	16.32	17.54	18.99	20.75
8.5%	14.37	15.27	16.31	17.53	18.98	20.74
9.0%	14.36	15.26	16.30	17.52	18.97	20.73

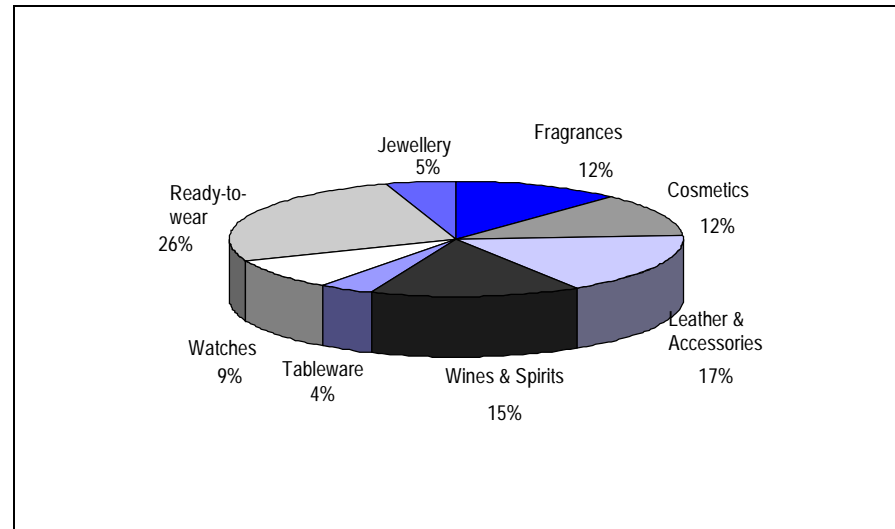
Source: Merrill Lynch estimates

2. Update on Bulgari's Competitive Positions

The world luxury goods market is generally estimated to be worth USD68bn in the broad sense, including wines and spirits selling at about USD20 per bottle. Taking a stricte

r definition - which excludes wines and spirits and amounts to a total of USD58bn - is more meaningful for Bulgari.

Chart 2: Global Luxury Goods Market By Segment



Source: Bulgari & Merrill Lynch estimates

A focused luxury goods company with an intact diversification potential

The resulting market share for the group is not meaningful. Indeed, we believe that within the universe of luxury goods companies, Bulgari offers specific strengths:

1. Bulgari is a dominant player in the watch and jewellery segments, which represent about 9% and 5% of the total, respectively. Bulgari's potential in its existing core business remains critical, especially in the jewellery sector in our view. Since 1996-97, the group has also developed a fragrance business with a reasonable critical mass but remains a niche player on this segment. Bulgari also launched its first line of silk scarves in 1996, licensed its name to Luxottica for an eyewear line in 1997 and to Rosenthal for tableware items in 1998. In the remaining three-quarters of the global luxury goods market, the group's positions remain marginal. This year, Bulgari will enter the skin-care segment and give a boost to its distribution of accessories in 4Q. However, in our view, a significant part of the brand diversification potential remains untapped. This should prove critical for medium-term profitability (see section on Divisional Strategy) as elaborate jewellery and fine watches carry lower margins in the sector.
2. Bulgari's core business is targeted at customers with high purchasing power, making the company historically anti-cyclical and less susceptible (beyond the common sensitivity of all the groups in the sector to the relative strength of currencies) than some competitors to the effects of economic downturns. The Japanese market is symptomatic of Bulgari's resilience, as despite the continuous depreciation of local GDP, Bulgari sales in the country have risen by a compound average of 35% in the past five years. The watch business in general is not only crisis-resilient: it has increased its market share significantly in 1999 by growing by 33% versus +12% for the Swiss luxury watch market.

3. “Brilliant” 1999 Results

Bulgari’s 1999 results were excellent, as operating income rose 52% in the period, without any acquisitions and with a similar perimeter increase to 1998. The lower relative spend on advertising (12.6% versus 13.6% in 1998) only explains 800bp of net profit growth (+34%), whilst the millennium had no significant impact, according to our calculations.

Very good results even after restating for new openings, products and supportive currencies

Right in Line: Operating Income +52%

Bulgari’s full year 1999 results came in exactly in line with Merrill Lynch’s expectations and slightly higher than the consensus. They showed clear growth in all product sectors in all countries and a comparable top line growth of +27% (excluding a 6% positive currency impact), which was peerless within our sample of European luxury goods stocks. Particularly strong were the Americas (+25%), Japan (+60%), the Far East (+56%) and Italy (+18%), which recovered strongly in the second half after being indirectly impacted by the Kosovo war.

Last year, Bulgari opened three free-standing boutiques in Italy (Padova and Bologna) and Belgium (Brussels). It also opened 12 franchises in Turkey (Izmir), Canada (Toronto), Indonesia (Jakarta), the Philippines (Manilla), Mexico (Mexico City), the Bahamas (Nassau), Korea (three shops-in-shop in Seoul), and Japan (three shops-in-shop in Tokyo Isetan, Nagoya, Hiroshima) and six wholesale accounts including Australia (Melbourne, Goldcoast DFS, Sydney), Singapore (Millenia) and two in Japan (Sapporo and Tamagawa). The group has just one franchised boutique in Latin America, which has taken delivery of, and paid for, stock up to the end of the year, and has no presence in Russia. Also, the impact of stronger than usual business in South East Asia, where the group has 22 boutiques (five directly-owned) is, in our view, not excessive as the region represents less than 15% of consolidated sales.

Table 4: Bulgari Sales by region in 1999 compared with Louis Vuitton, Gucci, Richemont

	Americas	Europe	Japan	Rest of Asia
Bulgari	+25%	+19%	+60%	+56%
Gucci Group (1)	+15.7% (*)	+12.8%	+7.9%	+21%
Louis Vuitton	+45% (*)	+30%	+35%	+50%
Richemont (2)	+19%	+8%	+39%	+43%

Source: Company Data (*) incl. Hawaii (1) Fiscal 1999 ending Jan. 2001 (2) 1H Sales for fiscal 2000 ending March 2001

Bulgari continued to gain market share in all its product categories last year. More specifically, jewellery sales rose 30% (compared with +14% for Richemont for the period March to September 1999) and watch sales rose 40% (+30% for Richemont).

In 2H, the EBIT margin (17.9%) was, logically, much stronger than in 1H, which does not include the Christmas season. However, it was 270bp higher than in the second half of 1998, only partially reflecting lower spend on advertising and promotion (12.6% of sales versus 13.6% in 1998). In other words, the jump in profitability was not achieved at the expense of long-term earnings growth.

Net financial expense totalled EUR9mn in 1999 compared to a net income of EUR3mn in the previous year, mostly reflecting the optimisation of the financial structure. The tax rate was even lower at 10.9% (12.8% over full year 1998), reflecting Swiss tax-exempt operations. The incidence of minority interests remained marginal.

Table 5: Bulgari - Simplified Consolidated Profit & Loss Account

Year to December (EUR mn)	1999	2000E	2001E	2002E	2003E
Sales	485	705	914	1,144	1,417
Gross Profit	327	453	588	736	914
% Chg	+28.4%	38.4%	+29.7%	+25.3%	+24.2%
Gross Margin (%)	67.5%	64.3%	64.3%	64.3%	64.5%
Operating Profit	81	108	140	175	220
% Chg	+52.2%	+32.6%	+29.7%	+25.3%	+25.5%
Operating Margin (%)	16.8%	15.3%	15.3%	15.3%	15.5%
Pre-Tax Profit	68	100	133	170	216
% Chg	+30.8%	+45.8%	+33.1%	+28.1%	+26.9%
Pre-Tax Margin (%)	14.1%	14.2%	14.5%	14.9%	15.3%
Tax Rate (%)	10.9%	14.0%	15.0%	15.3%	15.3%
Attributable Net Profit	59	84	111	142	181
% Chg	+33.9%	+42.2%	+32.3%	+28.2%	+27.3%
Net Margin (%)	12.2%	11.9%	12.1%	12.4%	12.8%
Published EPS (EUR)	0.204	0.290	0.384	0.492	0.626
Diluted EPS (EUR)	0.217	0.290	0.384	0.492	0.626
% Chg	+31.6%	+33.6%	+32.3%	+28.2%	+27.3%

Source: ML estimates

Impact of the Millennium

*Contemporary positioning but
no millennium hangover*

We reckon that the millennium had no significant impact on Bulgari's results. This is illustrated by the absence from the mix of products specifically launched for the occasion. Despite the obvious hype about expected demand for millennium jewels, Bulgari decided not to launch any specific products for the occasion.

In our view, the only noticeable action within the company in terms of preparing itself for the millennium was the significant restoration of the Via Condotti flagship store in Rome (re-opened on 5 December).

In some markets, particularly the US, our perception is that there may have been less resistance to high price points and more willingness to experiment with more original pieces but there was no significant impact for brand jewellers such as Bulgari.

4. Divisional Strategy

The Bulgari story is both a carefully-managed product diversification story and a tightly-held distribution expansion story. By 2003/2004, Bulgari intends to have 150 boutiques (versus 203 for Cartier today) and to distribute its jewellery and watches in 800 outlets (443 at the end of 1999) and its fragrances in 12,000 outlets (9,500 today). This suggests a minimum of 13%-15% estimated organic top line growth. Also, the expansion of Bulgari's core business should provide the scale necessary to leverage the company's margins further in the coming years, closer to that of most other luxury goods groups.

Bulgari's Growth Drivers

■ Distribution Drive

Bulgari remains a typical example of a company that predominantly controls its distribution network.

A growth strategy mostly driven by directly-owned boutiques . . .

At the end of 1999, the company recorded 58.6% of sales through its network of boutiques (62 directly-owned and 35 franchises). Those boutiques (at least the free-standing ones) have traditionally had a higher fixed-cost structure and therefore a higher break-even point, especially in the past few years, as the price to pay for renting prestigious locations has significantly increased. Gucci or Louis Vuitton are trying to offset this problem by opening larger stores (so-called global or flagship stores with selling surfaces between 6,000 and 18,000 square feet) where volumes can also be generated with other product categories (ready-to-wear, shoes, etc.). Bulgari is also doing this, to a lesser extent (in Via Condotti in Rome, Avenue Montaigne in Paris, etc), in order to open up its selling surface to new product categories. However, the average size of the company's stores (6,000 square feet according to our estimates) is smaller and comparable to Tiffany, at least for its new jewellery stores (6,000 to 8,000 square feet).

. . . by far the most sales and profit generative

Sales per store, which had actually declined between 1995 and 1997 due to the aggressive store-opening schedule and the time necessary for new stores to mature, should continue to progress before stabilising in 2002-2003. Note that the cumulative operating performance of the directly-owned distribution network should be more consistent in the future, as the incremental boutique openings impact less on total revenues. As opposed to some of its competitors in the jewellery/watch industry, which generate poor sales per square foot in their own boutiques, Bulgari's performance proves that its strategy has been pertinent.

Table 6: Bulgari – Sales By Door and Distribution Channel

EURmn	1993	1994	1995	1996	1997	1998	1999	2000E	2001E	2002E
Avg Sales per Owned Store	2.8	4.2	4.5	4.3	4.2	3.7	4.1	5.3	6.2	5.4
Avg Sales per Franchise	5.7	2.4	2.7	2.0	1.6	1.7	1.6	1.8	1.8	1.4
Avg Sales per Watch Distributor	0.0	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2

Source: Merrill Lynch estimates (moving average nb of stores)

Retail network remains small compared to closest competitors

By 2003/2004, Bulgari intends to have 150 boutiques (suggesting about 12 additional units on average per annum). This will still leave some upside compared to Cartier which already has 203 boutiques worldwide (including 145 directly-operated by the company) and which is now working more towards replacing or refurbishing less optimal outlets, rather than increasing its total number of stores.

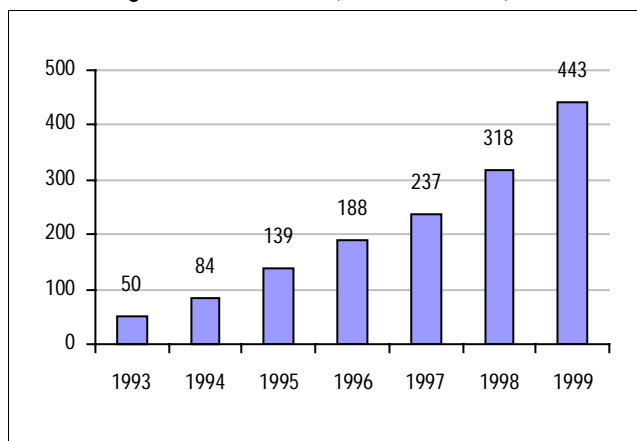
Table 7: Bulgari - Distribution Network

	1994	1995	1996	1997	1998	1999	2000E	2001E
New Stores	8	10	10	10	14	19	15	14
Directly Owned Stores	5	7	7	7	11	7	6	5
Franchises	3	3	3	3	3	12	9	9
Total Stores	36	44	54	64	78	96	112	133
Directly Owned Stores	25	27	33	45	54	60	67	77
Franchises	11	17	21	19	24	36	45	56

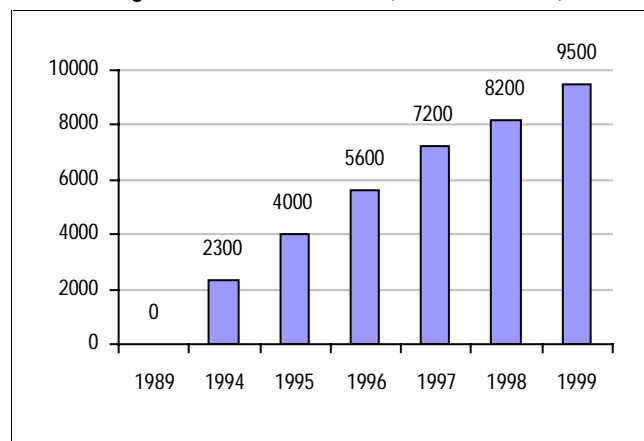
Sources: Bulgari & Merrill Lynch estimates

New openings will prove key driver of future growth

Also, Bulgari plans to distribute its jewellery and watches to 800 outlets versus 443 at the end of 1999. Compared to Cartier and Baume & Mercier which distribute their watches within more than 2,000 and 3,000 outlets respectively, as well as Rolex (which supplies about 3,500 watch retailers), Bulgari's distribution will remain very selective. Finally, fragrances which are currently present in 9,500 stores (15,000 to 20,000 for most prestige players) will be sold in about 12,000 stores in 3-4 years' time.

Chart 3: Bulgari Watch Retailers (number of doors)


Source: Bulgari

Chart 4: Bulgari Perfume Distributors (number of doors)


Source: Bulgari

We believe the proportion of sales recorded in owned stores is likely to remain stable over the coming years. As Bulgari intends to expand its global network rapidly in the coming years and to increase its brand awareness, management is progressively extending the distribution of its diversification lines (accessories, fragrances) to outside distribution partners. However, this should be offset by the growing maturity of the free-standing boutiques opened in the past few years. We therefore estimate that the proportion of owned stores as a percentage of total sales is likely to settle around 49% by 2003.

Table 8: Bulgari - Sales By Distribution Channel

	1998		1999		2000E		2001E		2002E	
	EURm	%	EURm	%	EURm	%	EURm	%	EURm	%
Owned Stores	183	50.0%	236	48.6%	335	47.5%	446	48.8%	578	50.5%
Franchises	37	10.0%	49	10.0%	71	10.1%	92	10.1%	120	10.5%
Watch Distribution	62	17.0%	84	17.3%	120	17.0%	158	17.3%	203	17.7%
Jewellery Distribution	4	1.0%	7	1.5%	14	2.0%	23	2.5%	34	3.0%
Perfume Retailers	69	19.0%	97	20.0%	141	20.0%	173	18.9%	171	14.9%
Royalties	11	3.0%	15	3.0%	21	3.0%	25	2.7%	33	2.9%
Total	365	100%	485	100%	705	100%	914	100%	1,144	100%

Sources: Bulgari & ML estimates

*Jewellery and watches
represent 78% of sales versus
100% in 1989*

■ Product Offering

In terms of merchandise, the Bulgari story is really a carefully-managed product diversification story. At the end of 1989, 63% of sales were in the jewellery segment and 37% in watches. Today, watches represent 45% of the total, jewellery 33%, perfumes 17% and accessories the remaining 6%. The product category that continues to decrease as a proportion of consolidated sales should be jewellery, as the product category with the longest life cycle (one line launched every year on average compared with one every three to four years on average within the competition). This is intentional, to further aid strong growth in the higher-margin watch business and to a lesser extent in the perfumes and accessories business, which is more short-lived and introduced very progressively to maintain the brand's prestigious image. Initially, Bulgari just wanted to test its new accessory line in its own stores along with perfumes and silk items. This year, the group will significantly enlarge the existing distribution of the line to speciality stores (including DFS). Although the new lines of jewels will be sold through additional independent jewellers, we estimate that jewellery could account for no more than the current 40.0% of sales in 2002. Meanwhile, watches could represent 42% of sales in 2002 (42.5% today). Those forecasts assume that fragrances could represent slightly less than Bulgari's target of 20% by 2002, (10% to 15% for Cartier today) and accessories about 5% of sales.

Table 9: Bulgari - Sales By Product Line

	1998		1999		2000E		2001E		2002E	
	EURm	%	EURm	%	EURm	%	EURm	%	EURm	%
Jewellery	119	32.7%	155	31.9%	267	37.8%	357	39.1%	461	40.2%
Watches	155	42.5%	207	42.6%	298	42.3%	385	42.1%	480	42.0%
Perfumes	68	18.6%	85	17.5%	96	13.6%	111	12.1%	124	10.9%
Accessories	12	3.3%	25	5.2%	28	4.0%	41	4.5%	56	4.9%
Services Rendered	5	1.4%	4	0.9%	5	0.7%	6	0.7%	7	0.6%
Royalties	6	1.6%	9	1.9%	11	1.6%	14	1.5%	16	1.4%
Total	365	100%	485	100%	705	100%	914	100%	1,144	100%

Sources: Bulgari & ML estimates

■ Additional Potential for Margin Upgrade

In terms of margins, Bulgari's operating performance remains inferior to that of several luxury goods houses at the end of 1999. EBIT margin amounted to 16.8% compared with Gucci 21.3%, Richemont 18.6% (estimated year ended 31 March 2000), Hermès 20.6%. Tiffany's operating margins (17.6%), though slightly above those of Bulgari, reflect in our view lower mark-ups as we believe the operating structure is getting more comparable. Note that Bulgari's gross margins are much higher than those of Tiffany but lower at the operating level.

*EBIT margins still under par
versus other luxury goods
companies ...*

This situation results in our view from several factors: the lack of critical size for Bulgari's perfume business, the predominance of the watch/jewellery business in the portfolio (less profitable, other things being equal, than leather goods, a major earnings contributor for Gucci, LVMH, Hermès, etc.) and the lack of leverage effect from the recently-opened free-standing boutiques.

Table 10: Comparative Profitability of Selected Luxury Goods Companies (%)

Company or Division	EBIT Margins (%)	Gross Margins (%)
Bulgari	16.8	67.5
Cartier ⁽⁴⁾	24.9	77.1
Gucci ^{(1) (3)}	21.3	67.2
Gucci Timepieces ^{(1) (3)}	16.2	69
Hermès ⁽¹⁾	20.6	58.5
Louis Vuitton ^{(1) (2)}	45.3	>80
LVMH Champagne ^{(1) (2)}	28.5	>30
LVMH Watches & Jewellery ^{(1) (2)}	9.0	14.0
LVMH Consolidated ⁽¹⁾	18.1	63.4
Prada ^{(1) (2)}	17.6	61
Richemont ⁽⁴⁾	18.6	66.1
Swatch Group ⁽¹⁾	14.1	73.9
Tag Heuer ^{(1) (2)}	15.7	58.9
Tiffany & Co ⁽³⁾	17.6	58.4
Zale Corporation ⁽⁵⁾	11.2	48.4

Source: Company Data & ML estimates ⁽¹⁾ Fiscal 1999 or/and calendar year ⁽²⁾ Gross margins estimated ⁽³⁾ Fiscal year ending January 2000 ⁽⁴⁾ Fiscal year ending March 2001 ⁽⁵⁾ Fiscal Year ending July 1999

... but higher gross margin

Moreover, given Bulgari's predominantly fixed cost operating structure, we believe that the expansion of the core business will provide the scale necessary to leverage the company's operating margin in the coming years. Finally, to a lesser extent, the group is likely to reduce its advertising expenditures over time (12.6% of sales in 1999, well above the competition), particularly when its fragrance business is more established. As a reminder, third party retailers, on the rise as a proportion of total stores, are supposed to support 50% of the cost of local advertising. We still expect advertising to advance in real terms in the coming years but at a moderately lower rate than sales growth. Assuming that SG&A represents 49% of sales by 2003 versus 51% last year, the group's operating margin could reach 15.5% in 2003 with 11% of sales in advertising (see Section on 2000-2003 forecasts). Note that our estimates are voluntarily conservative as they assume a slight deterioration of EBIT margins this year stemming from the costs associated with the likely launch of a skin care line in 3Q/4Q and the boom on sales of lower margins segments (high jewellery, accessories within duty free outlets etc.)

Table 11: Bulgari EBIT & EBIT Margin (1998-2003E)

Year to December (EURmn)	1998	1999	2000E	2001E	2002E	2003E
Operating Profit	53	81	108	140	175	220
% Chg	+6.5%	+52.2%	+32.6%	+29.7%	+25.3%	+25.5%
Operating Margin (%)	14.6%	16.8%	15.3%	15.3%	15.3%	15.5%

Source: ML estimates Assumptions : stable currencies and raw material prices

*Clearly positioned at the top
end of the premium luxury
watch market*

Watches (45% of Sales)

■ Business Profile and Evolution

Bulgari has been producing watches since the 1940s, but it was only in the 1970s that the company began systematically introducing collections of watches to complement the creation and production of its jewels and silverware. The watches are for both men and women and are distinguished by a creative and contemporary style.

The timepieces are created according to the most rigorous quality criteria: Swiss movements, watch dials made of shockproof, scratch-resistant sapphire crystal, double casing for impermeability, watch straps of supple leather exclusively handmade, and precious bracelets.

In the early 1980s, Bulgari Time was founded in Switzerland. Entirely owned by Bulgari, it directly controls the creation and production of all the watches. In 1989 an important joint venture agreement was stipulated between Bulgari and Girard-Perregaux, the famous Swiss watchmaker, for the production of the movements of Bulgari watches. In 1998, Bulgari sold its capital stock of G.P. Manufacture SA. In 1993, the company embarked on a strategy to selectively distribute its watches through the most prestigious retailers in the world.

Control over production flows is satisfactory compared to the majors in the sector (Rolex, Swatch, Cartier, etc.). Although Swiss movement makers (whether partially or fully integrated) have in recent years been supplying pieces to all parties and are likely to continue to do so, this is possibly the only manufacturing areas where problems could occur for Bulgari, with the fast consolidation of the sector, and more specifically the recent entrance of LVMH into the sector (see 14 Sept., 22 Oct. and 16 Nov. 1999 notes on Tag Heuer, Chaumet/Ebel and Zenith acquisitions).

■ Competitive Position

The top of the range watch market accounted for 72% of total Swiss exports by value in 1999, with sales of SFr5.9bn or USD3.6bn. Within this business of wristwatches with an ex-factory price of more than SFr500, only about 25%, or about USD900mn was represented by super-premium luxury watches, as segmented below.

Table 12: Segmentation of Luxury Watch Brands

Super Premium	Premium	Upper Middle
Audemars-Piguet	Bulgari	Baume & Mercier
Blancpain	Cartier	Breitling
Br�guet	Jaeger le Coultre	Girard-Perregaux
Patek-Philippe	Omega	Longines
Vacheron Constantin	Rolex	Rado

Source: Merrill Lynch estimates

In 1999, Bulgari sold over 140,000 units (44,000 in the super premium category), almost ten times 1990 volumes (15,000), and now stands in the middle tier of this luxury watch market, although well behind industry leaders Rolex and Cartier in volume terms.

Table 13: Ranking for A Selection of Super-Premium Watch Producers (*)

Company	No. Watches Sold in 1999	1999 Sales (*) (EURmn)
Rolex	700,000	1240
Cartier	200,000	322
Patek Philippe	26,000	130
Jaeger-LeCoultre	50,000	125
Chopard	38,000	99
Omega	100,000	93
IWC	38,000	71
Bulgari	44,000	65
Audemars Piguet	14,000	65
Piaget	16,000	62
Baume & Mercier	50,000	55
Frank Muller	14,000	49
Vacheron Constantin	12,000	49
Ebel	50,000	43
A Lange & soehne	4,100	34
Breitling	30,000	31
Corum	12,000	24
Breguet	6,000	24
Blancpain	6,000	22
Tag Heuer	20,000	19
Girard Perregaux	8,000	16
Glashuette Original	5,600	16
Van Cleef & Arpels	4,000	12
Ulysse Nardin	2,000	6

Sources: Frankfurter Allgemeine Zeitung 22/02/2000 and Merrill Lynch estimates

(*) Based on the market for watches with retail prices of at least SFr2,500 (does not cover total brand assortments)

*Brand recognition bound to
improve in the US in the
coming years*

We reckon Bulgari has gained since 1990 wider recognition among consumers world-wide - especially in Europe and in Asia attesting to the brand's longevity and ability to gain consumers' trust. In America, the company should, in our opinion, gain further recognition in the coming months. Two additional factors should help:

1. Traditional jewellery and watch chains (Watch Station, Watch World, Tourneau and more recently Synchrony (LVMH)) are starting to beef up their offering beyond the biggest brands (Rolex, Cartier etc.) with middle-tier brands like Bulgari.
2. The eLUXURY venture (see the Section on this project with LVMH) should, to a lesser extent, contribute to the positioning of the brand as one of the prime watch brands in the US. This could prove critical at a time when most high-end Swiss-made watch brands have begun a major retail push into this market.

Table 14: Selected Watch Lines

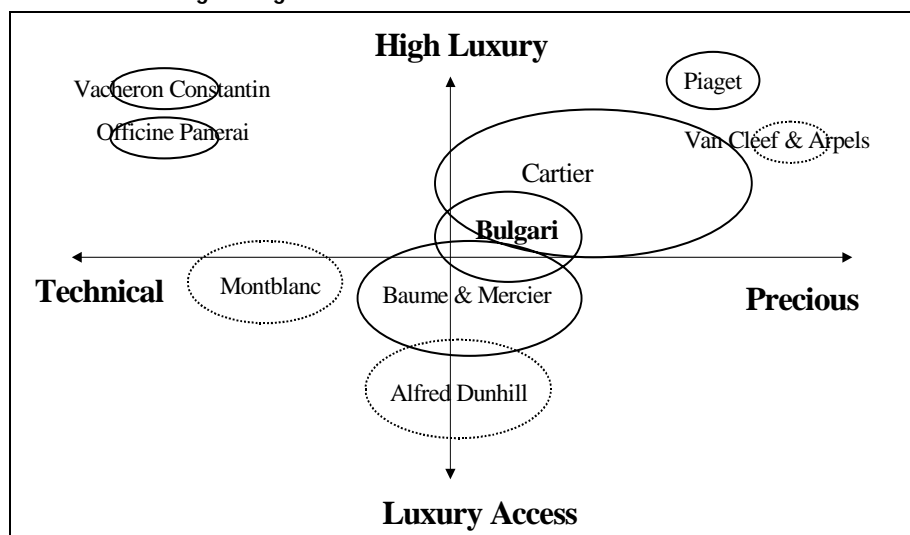
Date of Launch	Line
1985	Parentesi
1987	Bulgari-Bulgari
1989	Anfiteatro - Alveare
1990	Chrono
1991	Cronografo
1992	Quadrato
1994	Grande Complication - Sport - Scuba
1995	Trika
1996	Rattrapante
1997	Solotempo
1998	Aluminium
1999	Ovale
2000	Rettangolo

Source: Bulgari

■ Product Offering

Bulgari proposes 20 lines of watches including, amongst others, Bulgari-Bulgari, Quadrato, Scuba, Chrono, Solotempo, Aluminium and Ovale and, with prices ranging from USD980 for the Solotempo watch to in excess of USD150,000 for the "Grande Complication" models (Tourbillon, Rattrapante etc). The sketches of the first watch produced on a large scale date back to 1977. Still called the Bulgari-Bulgari today, the name of the watch is inspired by the double engraving of the logo on its bezel. This best seller is proposed in a variety of versions: in 18kt yellow or white gold or steel with leather straps in a choice of colours or with a metal bracelet, and also with a soft Tubogas bracelet. From 1994 it was also available with an automatic movement, in 1995, in a version enriched with diamonds on the dial, or with a bracelet in 18kt gold, or gold and diamonds and finally in 1996 in a wide range of versions (Squelette, Perpétuel, GMT). We estimate that the line is still the major Bulgari product in the segment and could still represent 40% of total sales versus about 50% five years ago.

During this period, Bulgari has launched several lines generally with a very accessible pricing policy. This started with the Cronografo and Quadrato lines which represent according to our estimates about 25% of total sales, and more recently in 1997 the Solotempo (in stainless steel with a quartz movement and date), the Aluminium/Aluminium Chrono (aluminium and rubber) the Ovale line dedicated to the contemporary woman launched in 1998/99, as well as the Rettangolo, its first rectangular watch introduced in 1Q 2000.

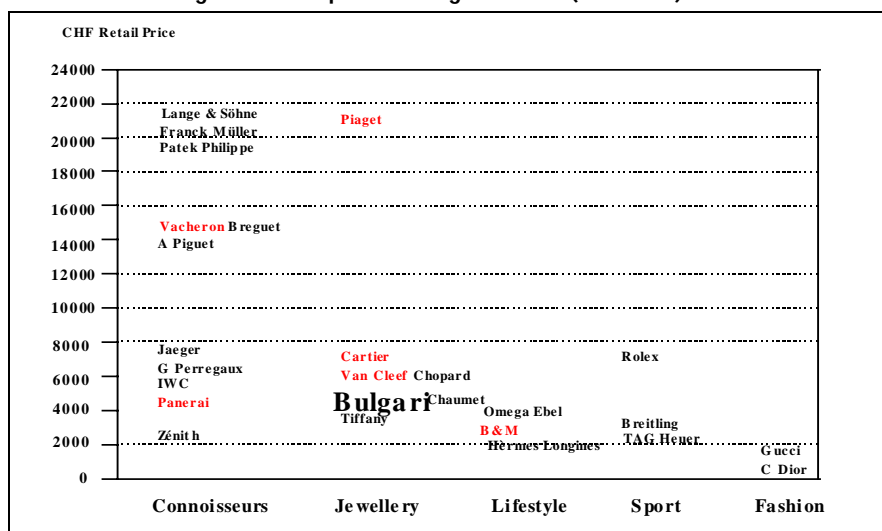
Chart 5: Positioning of Bulgari versus Richemont Watches

Sources: Richemont & Merrill Lynch estimates

■ Brand Management and Margin Analysis

*The watch remains pre-eminent
in Bulgari's operating
performance*

Watches are Bulgari's largest product category both in terms of sales and profits and will remain so, in our view, in the future. The success of this division is attributable to the double strategy of (i) distributing the watches not only through Bulgari stores but also through select independent retailers and (ii) covering the whole price range of fine watches, but above all the CHF4,000 segment, through the introduction of younger (i.e sports-specific models), contemporary, less ornate models (Solotempo, Aluminium). This strategy has enlarged the initial clientele whilst promoting the classic dressy lines that are still predominant.

Chart 6: Positioning of Swiss Top of the Range Watches (continued)


Source: Richemont

Positioning towards higher margin pieces is well under way

This strategy has consistently resulted in an improvement in margins in the past few years as the reduction in labour and precious material content has more than offset the lower average pricing policy. With a gross margin of about 67% in this segment, the group reckons that it has almost completed the re-positioning of its watch business towards higher margin pieces. As a reminder, the profitability of watch lines is inversely proportionate to retail prices as the most affordable pieces also carry the lower labour and raw material content. The additional growth resulting from the enlargement of the distribution network to independent retailers has according to the group had no material impact on group profitability as higher ex-factory volumes have offset lower margins in absolute terms.

Jewellery (33% of Sales)

Competitive Position

Bulgari is the third largest jeweller worldwide, though well behind Cartier and Tiffany, in a market estimated to be in excess of USD3.4bn.

Table 15: Selected Main Jewellers in the World

Company Sales in Jewellery	Sales (EUR mn)	Market Share
Cartier (1)	472	14%
Tiffany (2)	439	13%
Bulgari	154	5%
Van Cleef & Arpels (3)	75	2%
Harry Winston (4)	69	2%
Pomellato	52	2%
Gucci (5)	39	2%
Boucheron (6)	32	1%
Chaumet (7)	22	1%
Mauboussin	31	1%
Poiray (8)	13	0%
Other (9)	1,999	58%

Sources: Company Data & Merrill Lynch estimates (fiscal 1999 sales)

Estimate of Cartier jewellery sales (98% of Richemont's total jewellery sales). Note this is conservative as it does not include gold watches nor watches with jewellery (2) estimate 77% of fiscal 99 sales in the 'jewellery' segments (3) estimated 75% of sales in jewellery (4) Estimated 50% of sales in jewellery (5) Fiscal 1999 ending Jan. 2000 (6) 30% of sales in jewellery (about 70% in fragrances in 1999) (7) 45% of sales in jewellery (8) 55% of which in jewellery (9) Asprey, Dior, Chanel, Hermès, Casa Damiani, Fabergé, Carrera y Carrera, Marina B, Fred etc not above due to missing figures.

The undisputed third largest jeweller worldwide

In practice, the jewellery market is much larger than its brand component, the only segment on which we have information. Looking at the much larger, non-brand jewellery market is generally a pretty thankless task given the lack of published data, especially on prestige but anonymous independent jewellers. In our opinion, the brand jewellery market could be bolstered in the coming years if it manages to tap part of the non-brand market, which we estimate to be 10 times bigger. The idea is to market high-quality but lower-priced merchandise for women who want a broad range of unadorned jewellery for all occasions. This suggests that the growth potential of the major jewellery brands, at least with an accessible pricing policy, is far more important than it seems today. Although companies like Bulgari will never position themselves with diffusion or bridge lines, they try and exploit the purchasing power of a wider range of consumers through the democratisation of the jewellery market. In this environment, the international prospects for Tiffany are maybe stronger than for Bulgari, given the latter's more accessible pricing policy, particularly in Europe. Bulgari's portfolio is clearly presenting more expensive product enticers (starting from USD600 versus USD60 for Tiffany). Also Bulgari does not wish to imitate the more open-sell concept of Tiffany and its dedicated bridal sections. Our perception is that the company has focused more on developing its watch segment in the past few years, as it needed to expand its distribution network. Now that this is well advanced, we would not be surprised if Bulgari came back with a stronger focus on jewellery in the coming years.

■ **Product Offering**

Besides the unique pieces of the Collection Internationale, Bulgari offers different jewellery lines, all characterised by strong, contemporary and distinguished designs (see Table 15). Today the challenge is to create jewels that are magnificent and at the same time more accessible in price.

Among the unmistakably Bulgari lines, which have become jewellery classics, there are the Tubogas, made with a technique used in the 1800s and introduced into jewellery-making, whereby gold or steel are bent, and Parentesi, which consists of different combinations to form aesthetic variations.

We do not expect Bulgari's audience to widen beyond its traditional clientele who focus on exclusive designs with precious-stone jewels, but we expect this audience to expand via an increase in the average purchasing power of this potential clientele world-wide. If we take, for instance, the Asian clientele, AC Nielsen estimates that the number of affluent people in the South East Asian's seven biggest cities (Bangkok, Hong Kong, Jakarta, Kuala Lumpur, Manila, Taipei and Singapore) has risen from 3.1mn to 3.4mn in the past two years despite the Asian crisis (the largest proportion is in Hong Kong with 17% of the working population, the smallest is in Jakarta with 4%). In the meantime, lower income classes have fallen into poverty.

Along with the obvious benefits of advertising campaigns to establish the brand, Bulgari's product innovation has proved a key factor for success in the past few years. New product launches include the new B.zero1 range, a very affordable line (USD600 to USD900 per ring) still of interest to Bulgari's traditional clientele. The Bulgari brand should benefit from the success of its recent fragrance launches. Beyond this, we believe the brand should be able to capitalise on these accessible new jewellery products and garner additional market share over the next few years from less innovative brands. Also, some of the group's earlier creations, Tubogas in particular, continue to sell well, a testimony to enduring product design and strong brand equity.

Table 16: Jewellery Lines

Date of Launch	Line
1970	Tubogas
1982	Parentesi
1985	Alveare
1987	Doppio Cuore
1989	Gancio
1991	Naturalia
1992	Spiga
1994	Chandra
1995	Celtaura
1996	Trika
1997	XL
1998	Nuvole
1999	B.zero1

Source: Bulgari

Positioned as a contemporary jeweller to distinguish its products from those of Cartier

A niche player in the prestige fragrance arena

Fragrances (17% of sales)

■ Competitive Position

The global prestige fragrance market is estimated at about USD8.1bn (50% of the USD16.3bn world prestige fragrance and cosmetics market, 10% of the USD81.5bn world total cosmetics market, estimated by L'Oréal). This market is now dominated by multinational groups such as L'Oréal, Unilever, Procter & Gamble and specialist houses such as Estée Lauder, LVMH etc. The major feature of this market is its growing maturity, as illustrated by the now strong barriers to entry. These barriers are the result of spiralling advertising and promotion budgets, excessive and very costly product launches as well as, on the distribution front, the increasing bargaining power of newly-organised perfumery chains such as Sephora, Douglas etc. Over recent years, this growing maturity in the sector has resulted in slower growth: we estimate that in 1999, despite a low comparison basis due to the Asian crisis, sales of prestige fragrances rose only 5.5%. In this difficult market, where about 150 fragrances are launched every year, only the perfume majors, which possess higher financial resources and bargaining power, or the niche players with specific, innovative, focused brand appeal can succeed. Bulgari clearly tries to avoid confronting the biggest fragrance houses by positioning itself in the latter category. The group's fragrance activity was started at the end of 1992 and has grown from nil in its first year to sales of EUR85mn in 1999. With the addition of the Ferragamo joint venture business, we believe the group has almost reached a satisfactory critical mass in this segment. However, Bulgari does not rule out adding more outside brands to its distribution network in the coming years.

■ Business Profile & Product Offering

Bulgari entered the high perfumery market in 1992 with Eau Parfumée, Cologne au thé vert for both men and women, and strengthened it in 1994 with the women's fragrance Bulgari pour Femme and in 1995 with Bulgari pour Homme. In 1995, the two perfumes were enriched with a bath line; the Bulgari pour Femme. In 1996, Extrême, a more concentrated version of Eau Parfumée, was introduced and in 1997 Petits et Mamans, a fragrance dedicated to mothers and children was launched. In 1998, Bulgari presented the unisex fragrance, Black and later the Black Bath Collection.

The perfume division of the Bulgari Group was founded in Neuchâtel in February 1993 with offices dedicated to product development, marketing and sales. In 1996, a division dedicated to production and product assembling was also created. In 1997, Bulgari and Ferragamo signed an agreement to jointly invest in the creation of two new companies, Ferragamo Parfums and Ungaro Parfums, under the management of Bulgari Parfums.

Table 17: Bulgari Fragrances

Date of Launch	Fragrance
1992	Eau Parfumée
1994	Bulgari pour Femme
1995	Bulgari pour Homme
1996	Extrême
1997	Petits et Mamans
1998	Black

Source: Bulgari

Table 18: Bulgari's Targeted Competitors in Fragrance (EUR mn)

Company	1999 Sales
Boucheron	52 (*)
Bulgari	85
Cartier/Sulka (Burl)	88
Van Cleef & Arpels	48

Source: Bulgari & Merrill Lynch estimates (*) restated in 1999 for the foregone revenues as of 1 Jan. 2000 from J.P. Gaultier and Issey Miyake's fragrances in the US

The expansion in the number of doors should help to leverage the fragrance business

The portfolio consists of five lines and many extensions: masculine, feminine and unisex. Sales are expected to grow in double digits over the next few years thanks to a strong advertising campaign (primarily in magazines and newspaper, which are less costly than television campaigns) and increased distribution. At present, the brand is only present in 9,500 outlets and it is estimated that it will add another 1,000 to 1,500 over the next two years. Estée Lauder, by comparison, is known to distribute through at least 10,000 stores in more than 100 countries while Cartier's distribution network is, according to Bulgari, even larger. Table 18 gives an indication of the distribution of competing fragrances in the jewellery arena. Bulgari's strategy is to remain exclusive and give some kind of territorial exclusivity to its retailers in order to avoid price discounting as much as possible.

Table 19: Number of Outlets for Selected Fragrance Brands

Company	Nb of Doors
Bulgari	9,500
Cartier	15,000
Estée Lauder	10,000
Hermès	7,000
Mauboussin	500

Source: Company Data & Merrill Lynch estimates

While this division has clearly been destroying value in its early years of existence, we believe it is now closer to reaching a critical mass for the industry, with brand recognition on the rise, a key factor in the industry.

Accessories & Royalties (6% of sales)

■ **Leather Goods, Accessories & Tableware**

Bulgari introduced a line of prestigious leather goods in 1997 in Italy and in the United States. This collection has been available worldwide since autumn 1998 and has recently been enriched with new colours. A line of accessories composed of pens, lighters, keyholders, cufflinks and small items completes this range of creations. Later this year, Bulgari will also launch a new line of handbags geared towards a younger set of customers.

Additional focus will be given to accessories

The group possesses significant potential for growing this business in the coming years. As a comparison, Cartier, according to our estimates, records about 10% of its consolidated sales (EUR150mn) in this segment versus about 5% for Bulgari (EUR25mn in 1999). As a reminder, accessories offer some of the best gross margins of about 70% (likely to be slightly lower than industry average for Bulgari as they are predominantly distributed in wholesale accounts) and requires little capital invested as the production is outsourced in Italy. We estimate that Bulgari's accessories could represent 7% of sales by 2003.

■ **Silk Products**

In November 1996, Bulgari started selling a line of silk scarves in its Italian and Japanese stores, designed internally but produced outside. Several collections of scarves and ties have been launched in 1997 through the entire network of stores.

Ever since, demand for silk products - which is traditionally more correlated to the relative strength of the yen versus the dollar - has flagged, especially during the Asian crisis, when the yen reached historical lows. This was exacerbated by the higher exposure of silk products to Asia Pacific and duty-free channels and the decline in tourism and purchasing by Japanese travellers. However, since the end of the Asian crisis, and the significant appreciation the yen, the demand for these products, whether from Bulgari or its main competitors Hermès and Gucci, has not really picked up, as if they were no longer fashionable and consumers were turning their backs on them.

*Significant room also for
growth of other product
categories*

We do not expect this product category to provide Bulgari with substantial growth in the next few years for several reasons but particularly as the group does not wish to be perceived as a specialist in this field. We do not expect management to devote significantly more marketing budget or capital to silk items (the products will be predominantly distributed in speciality stores).

■ Eyewear

Following a five-year agreement signed in 1996 with Luxottica, Bulgari presented its first eyewear collection in 1997 in Italy and in the US and in the rest of the world in 1998. A new collection has recently been launched worldwide. The licensing agreement with Luxottica was renewed last year. This business contributed less than 1% of sales in 1999, representing about EUR5mn of sales.

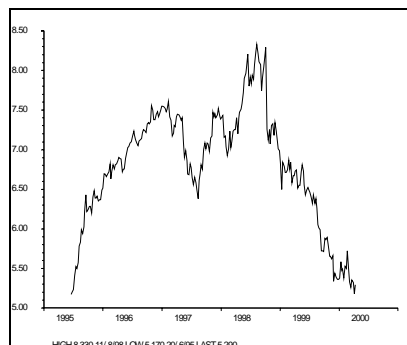
■ Tableware

Finally, Bulgari's premiere collection of porcelain, crystal stem - and bar-ware and silver flatware, developed with Rosenthal, combines craftsmanship of the highest level with an exclusive design and avant-garde technical skill. Among these are the Colonna coffee pot and the Olimpia line and the more recent Cerniera line.

5. Potential Risks

We have identified five main risks to Bulgari's fundamentals, for minority shareholders, none of which seem significant to us.

Chart 7: Yen versus Lira (1995-2000)



Source: Data Stream

No currency risk in the short term

A Substantial Economic Downturn or/and Unfavourable Currencies

Equity market consolidation worldwide and higher interest rates would obviously undermine consumer confidence globally, particularly in the US and Asia. In fact, Merrill Lynch economists are awaiting a pick-up in consumer confidence in Asia and expect continued growth prospects in the US. On the currency front, which represents a non-negligible risk, Bulgari has benefited from a strong dollar (23% of sales) and strong yen (22%). Recent lira depreciation, particularly vis-à-vis the yen could, however, add several percentage points to top line growth in 2000. Merrill Lynch forecasts are presented below with yen/dollar parity of 118 by year-end, 10% lower than current levels. Note that our economists do not expect a material strengthening of the Italian lira versus other currencies relevant to Bulgari's manufacturing and sales bases.

Table 20: Merrill Lynch Currency Forecasts in 2000/2001

(End of Period)	CY00				CY01E	
	1Q	2QE	3QE	4QE	1Q	2Q
Yen/Dollar Exchange Rate	107	111	116	118	118	118
Yen/Euro Exchange Rate	104	114	119	123	123	123

Sources: BoJ, MoF, EPA, MCA, MITI and Merrill Lynch estimates

Brand Excessive Exposition

We believe that widening the distribution network and lowering price points to appeal to a broader customer base could actually enhance the Bulgari brand rather than overexposing it. To pull off this feat, Bulgari needs to preserve its contemporary Italian jewellery positioning, high product quality and tight control over distribution. We have observed the management's commitment to these values in the past few years. Compared to Cartier, which possesses a wider distribution network and has significantly increased its market share in the recent years while maintaining its prestigious reputation, Bulgari has still a lot to grow.

No risk of brand dilution

Weight on Capital Employed Resulting from Strong Store Network Development

In terms of distribution, Bulgari's strategy has evolved over the past few years as its product offering has widened. The existing Bulgari store network is unlikely to prove able to maximise the brand's growth potential, simply because Bulgari has moved into several new product areas in recent years and also because most of the directly-owned boutiques are not old enough to have achieved commercial maturity (usually after 3 to 4 years). There is obvious scope for additional directly-owned stores in the coming years. However, it remains to be seen whether the target of opening another 50 leased sales points in four years' time will be fully attainable as the availability of proper locations is more difficult to secure than a few years ago. Management has decided to further broaden distribution by opening shops-in-shops in selected, exclusive department stores world-wide in a bid to reach more customers. We therefore expect Bulgari to open 20-30 points of sale in department stores and duty-free outlets over the next few years. This strategy is financially promising for two reasons:

1. It is proving less of a drain on capital employed than opening up directly operated stores.
2. It increases brand awareness.

Store expansion will not dilute margins and ROCE

In short, broadening Bulgari's distribution network will, in our view, prove profitable in terms of invested capital in the coming years, all the more so as the recently-opened stores will perform much better in a few years' time.

A Dilutive Acquisition

Based on the multiples paid for companies in the luxury goods sector, a dilutive acquisition is obviously one of the risks for Bulgari, at least in theory, as the company is not solely committed to opening new stores, and took an interest for instance in Fendi when it was on the market. Actually, Bulgari has not made a single acquisition since its IPO in July 1995, reflecting the extreme selectiveness of management who, in the case of Fendi, apparently stopped bidding well below the final price set. Given the company's investment ratios, it remains to be seen whether potential acquisitions would necessarily be dilutive on earnings. Anyway, the fact that family members and the management own about 56% of the capital probably explains why the company does not seem in a rush to buy at high prices, especially because it would probably have to pay in cash. Also, the relatively smaller size of Bulgari compared to other majors in the sector with deep pockets is obviously not helping. But maybe the best reason for this reluctance to participate in the current frenzy for acquisitions may simply be the fact that developing the Bulgari brand name remains the priority of the management. This is why the management is in absolute terms more interested by watch and/or accessories than fashion targets but is in practice unlikely to overpay.

Performance Under Market Expectations

The last risk we want to stress is what we regard as the unlikely possibility that Bulgari ends up in the coming months performing less than market expectations. Although the management has generally beaten market anticipations in the past 5 years, this cannot be ruled out. First quarter figures of 2000 were in that respect well above market expectations and of good omen for the coming months.

Table 21: Bulgari EPS Forecasts Merrill Lynch vs Consensus for 2000 & 2001

(EUR)	2000E	2001E
Consensus* EPS Forecast	0.237	0.299
Merrill Lynch current EPS Forecast	0.290	0.384
% Change	22%	28%

Source: Merrill Lynch estimates & (*) IBES forecasts (before 1Q results released on 12 May - new figures not available yet),

Table 22: Bulgari – SWOT Analysis

Strengths	Weaknesses
<ul style="list-style-type: none"> • Third largest jeweller worldwide but no risk of diluting brand value • In the realm of quality rather than fashion (free of fashion content pressures) • Earnings growth exceeding that of peer group • Outstanding management team • Strong free cash flow 	<ul style="list-style-type: none"> • Operating performance still below that of most luxury goods companies • Brand awareness still low in the US • Under-leveraged balance sheet • Lack of critical mass in fragrances/cosmetics
Opportunities	Threats
<ul style="list-style-type: none"> • Rising demand for "hard luxury goods" worldwide • Operating leverage from (i) new store openings (ii) additional product lines • Development of a critical mass in perfumes 	<ul style="list-style-type: none"> • Material strengthening of the Lira / Weakening of the Yen • A substantial economic downturn, especially in Europe • A dilutive acquisition

Source: Merrill Lynch

6. The eLUXURY.com and Luxlook Experiences

Bulgari possesses its own promotional website at www.bulgari.com. The group is also conducting distribution tests on the web with dotcom clients for its fragrances (Gloss, Eve, Perfumania, Beauty, Sephora etc.). However, management has decided to participate in LVMH's eLUXURY.com e-commerce venture to be operated by its DFS unit this month and in Luxlook.com site. These portals which will focus on luxury across the board (including services for eLUXURY) will be aimed respectively at US and European consumers with annual household incomes ranking in the top 25%.

Modalities of the Agreement with LVMH

The participation in eLUXURY.com: a test at this stage

In common with most eLUXURY.com partners Bulgari has contracted with LVMH to provide it with a selection of products (15 to 20 SKUs according to our estimates) for its web portal addressed to affluent US customers. We understand that the agreement is valid only for one year and will be renegotiated in due course. Bulgari will sell its products to eLUXURY.com at wholesale prices. Consumer online prices should be close to retail prices. In order to present a harmonised format online, all products sold will be photographed internally, meaning a modest one-off expense of about USD100,000 per company.

We understand that LVMH's DFS unit will take care of the logistics, a plus for the participating brands, given DFS's expertise in tourists' purchase management (i.e. physical delivery of goods ordered in downtown Gallerias, which is largely applicable to online fulfilment requests. We believe the site will fulfil Bulgari's expectations in the supply chain (after-sale services, product delivery logistics, secure payments, guarantees etc.). Also, the distribution of Bulgari's products on eLUXURY.com guarantees the absence of counterfeits and/or grey market items.

Likely Immaterial EPS Impact

Although unlikely to have a material impact on group earnings . . .

Firstly, we expect no material impact at group level from the sales from the distribution of Bulgari's fragrances on beauty sites in the US going forward. We expect the eLUXURY.com and Luxlook.com projects will prove a tool for information, training and direct marketing and also prove a niche business for Bulgari. Indeed, given its brand strength, we would have expected Bulgari to launch an e-commerce site on its own if it was convinced that the short-term profits would more than offset the resulting risks for the brand over the long run.

Assuming the sites receive 350 orders per month - already challenging for its first year as it corresponds to the orders received by a site like Lancôme.com on 'lower touch' products - and the average shopping basket is USD1,800, simplistically the equivalent to the retail price of a Bulgari-Bulgari steel watch, a likely best seller, we estimate that eLUXURY and Luxlook could generate additional sales of EUR15mn to EUR20mn on Bulgari products for their first year running. This would correspond to a 2% positive upward EPS revision for 2000. This would be consistent with the estimate according to which the Internet could represent 3% of Bulgari sales in the medium term, as Tiffany records about 75% of its sales in the US and reckons that the Internet could account for 10% of its total sales in the medium term.

. . . the eLUXURY and Luxlook projects should help raise the brand recognition

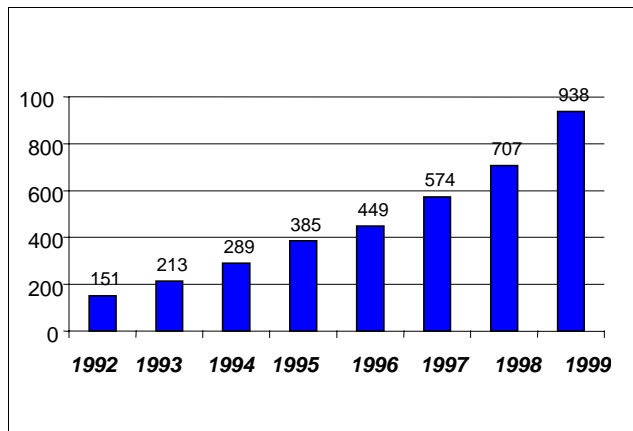
Our estimates exclude the impact that the acquisition by Bulgari of a stake in eLUXURY and Luxlook might have on its accounts and the marginal operating costs, which will result from Bulgari participating in the sites.

The question remains whether this online business is, in the long run, going to cannibalise part of Bulgari's existing brick and mortar business. That said, we believe that management may not have to reassess its presence on LVMH and Luxlook's sites in the coming months, as the latter is likely to respect the prestige environment deserved by the brand. In short, those sites could become distribution partners.

7. Forecasts & Financials

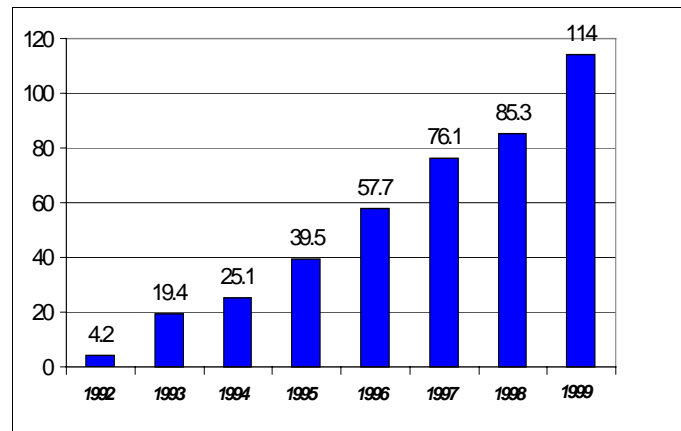
We expect Bulgari to deliver 25% EPS growth on average in the coming five years thanks to the benefit of operating leverage from new store openings, a higher watch distribution and to a lesser extent an improvement in the profitability of fragrance and accessories.

Chart 8: Bulgari - Net Sales Trend (ITL bn)



Source: Bulgari

Chart 9: Bulgari - Net Profit Trend (ITL bn)



Source: Bulgari

Without Acquisitions, Still the Highest Earnings Growth Rate in the Sector

Our main assumptions for 2000-2003 are presented below:

Table 23: Bulgari - Summarised Profit & Loss Account

Year to December (EUR mn)	1999	2000E	2001E	2002E	2003E
Total Sales	485	705	914	1,144	1,417
Gross Profit	327	453	588	736	914
% Chg	+28.4%	+38.4%	+29.7%	+25.3%	+24.2%
Gross Margin (%)	67.5%	64.3%	64.3%	64.3%	64.5%
Operating Profit	81	108	140	175	220
% Chg	+52.2%	+32.6%	+29.7%	+25.3%	+25.5%
Operating Margin (%)	16.8%	15.3%	15.3%	15.3%	15.5%
Pre-Tax Profit	68	100	133	170	216
% Chg	+30.8%	+45.8%	+33.1%	+28.1%	+26.9%
Pre-Tax Margin (%)	14.1%	14.2%	14.5%	14.9%	15.3%
Tax Rate (%)	10.9%	14.0%	15.0%	15.3%	15.3%
Attributable Net Profit	59	84	111	142	181
% Chg	+33.9%	+42.2%	+32.3%	+28.2%	+27.3%
Net Margin (%)	12.2%	11.9%	12.1%	12.4%	12.8%
Published EPS (EUR)	0.204	0.290	0.384	0.492	0.626
Diluted EPS (EUR)	0.217	0.290	0.384	0.492	0.626
% Chg	+31.6%	+33.6%	+32.3%	+28.2%	+27.3%

Source: Merrill Lynch estimates

*Product diversification will not
cause gross margin
dilution . . .*

*. . . but group operating margins
should continue to rise*

*Tax breaks for Swiss
operations should remain
in the future*

- Cumulated watch/jewellery sales could rise 25% on average in the period with assumed volume growth of 23% per annum and moderate 2% price increases. Our assumptions are backed by what we expect to be a sustained world economy and an ageing baby boomer generation, who constitute the major buyers of jewellery and watches. In 2002, those two segments could respectively record sales of EUR460mn and EUR480mn. While all major lines should perform well going forward, we anticipate superior growth from the B.zero1 and Tronchetto/Piramide collections as well as the Chrono/Aluminium watches, which the company is marketing heavily in Europe and Asia.
- Gross margins in the core business ($\approx 67\%$ estimated at end-1999) should not change substantially for the following reasons: (i) labour costs should remain under control given the long running relationships between Bulgari and its suppliers, (ii) we assume that the prices for precious stones will remain stable (iii) the product mix is becoming optimised with the development of more profitable non-line items (Tronchetto, B.zero1) which more than offset the trend of decreasing average unit prices in the core business.
- We estimate that Bulgari's operating margin should edge up slightly more to about 15.5% by 2003. As the company will continue to rely significantly on directly-owned store sales, at least much more than Tiffany, its gross margins, and consequently its operating margins should remain significantly higher. Advertising expenditure should still advance in real terms in the coming years but at a moderately lower rate than sales growth. Under our assumptions, they could represent 9% of sales in 2003E (13% today), virtually identical to equivalent figures for other luxury goods companies. Note that our estimates are conservative as we assume that production and administrative expenses should remain stable as a proportion of sales in the period. By division, our main assumptions are presented below:
 1. Operating margins within the fragrance division should progress further with an estimated 8% by 2003 versus 6% estimated today but with no significant impact at group level. The strong top line growth of the Bulgari fragrance business (about 25% of sales) should be bolstered in the coming years through distribution in additional channels, but will not offset the less enviable performance of the Ferragamo venture, likely to remain in the red at least until 2001. Generally speaking, many questions remain on the development of this division, especially in skin-care and make-up where Bulgari is currently progressing carefully through limited tests.
 2. The profitability of the accessories should marginally increase in the period. In theory, margins in this product category are higher at the operating level than in Bulgari's core business. However, the group has voluntarily decided to distribute those products beyond its network of controlled boutiques to enhance Bulgari's brand awareness. This suggests that in the future, part of the margins will be ceded back to speciality stores such as DFS. Of course, with the expansion of the core business, Bulgari will eventually be able to recapture some of this business within its network of free-standing boutiques.
 3. The tax benefits from Swiss authorities should remain: Bulgari Jewels, a production affiliate, enjoys complete federal and cantonal tax exemption until 2003 while the tax shelter of Bulgari Time has just been renewed and Bulgari Parfums benefits from complete tax exemption on its fragrance activities until 2002. We estimate a 15.3% effective tax rate for 2002/2003 (10.9% in 1999).

*The possibility of an
acquisition remains open*

Undergeared Finances are Price you Pay for Defensive Investment Strategy

The analysis of the group's financial structure in the past few years is indicative of the management's cautiousness during the period, as capital expenditures have been focused on the opening of new directly-owned boutiques, but are still inferior to the group's cash flow. Apart from that, the group has clearly privileged organic growth, as it is one of the only companies in our universe that has not made an acquisition since 1995. In that sense, the current optimisation of the financial structure partially results from the impact of the strong top line growth and the resulting logical increase in working capital requirements. Excluding any significant acquisition, we expect Bulgari to post a free cash flow of EUR35mn on average per annum in the next three years. On the basis of an EV/Sales ratio of 5x, the company could easily proceed to an acquisition of a target with sales of EUR70mn-EUR80mn, without earnings dilution. This would be a maximum in our view, as any deal is likely to be financed fully in cash, given the fact that the family wishes to retain control. In that sense, we doubt whether the group will buy the LMH watches (Jaeger LeCoultre, Lange & Sohne and IWC) likely to be sold this summer by Mannesman (either separately or more likely all together) at a price of around EUR1bn (6x sales and 25.5x EBIT on our 2000 estimates) according to our estimates.

Appendix

Key Events in Bulgari's History

- The Bulgari family descends from an ancient family of Greek silversmiths whose activity began in the small village of Epirus, where Sotirio, the founder of the family, made precious objects in silver.
- Mid-19th century: Sotirio Bulgari emigrates to Italy.
- 1884: First Bulgari shop in the Via Sistina, Rome, opened by Sotirio Bulgari.
- 1905: Opening of the shop in Via Condotti, still today the flagship store.
- 1910: A new interest taken in stones and jewels by two brothers Bulgari.
- 1970: Beginning of Bulgari's international expansion, with openings in New York, Paris, Geneva and Monte Carlo.
- 1977: Creation of "Bulgari-Bulgari", still the best-selling watch collection.
- 1980: Foundation of "Bulgari Time" in Switzerland which handles the creation/production of watches. The 1980s marked the opening of the flagship store on New York's Fifth Avenue as well as stores in Europe (London, Milan, Munich, St Moritz) and in the Far East (Hong Kong, Singapore, Osaka, Tokyo).
- 1989: Joint-venture signed with Girard-Perregaux, the Swiss watchmaking house.
- 1990: Bulgari Parfums was founded in Switzerland and marked the Group's entry into perfumes.
- 1994: Launch of Eau Parfumée, Cologne au thé vert, Bulgari pour Femmes.
- 1995: Bulgari S.p.A. listed on the Italian stock exchange and the international SEAQ of London. Introduction of Trika, a new bijou-watch and Eau Parfumée Extrême, a new fragrance. Licensing agreement signed with Luxottica in eyewear.
- 1996: Launch of the first line of fine silk scarves, "Acquerelli"
- 1997: Creation of a 50%-50% joint venture with Salvatore Ferragamo for Ferragamo and Ungaro perfumes. Presentation of the XL ring collection and the Solotempo fine watch created for a younger clientele. Launch of a new line of ties and the first collection of leather accessories.
- 1998: Six-year exclusive licensing agreement signed with Rosenthal to create, manufacture and distribute a new line (Home Designs) of Bulgari tableware and gift items. Bulgari is selling its capital stock of G.P Manufacture SA. Introduction of Nuvole, Bulgari's first platinum collection, and of the Aluminium watch.
- 1999: Launch of a new line called *Ovale* for women in the watch segment. The Bulgari Black Bath Collection is introduced as well as the fragrance *Salvatore Ferragamo Pour Homme*. Bulgari introduces an extensive collection of rings (Astrea and Goccia) and pendants Bulgari-Bulgari. Bulgari presents the second eyewear collection by Luxottica and its Spring/Summer leather goods line.

Table 24: Bulgari – Consolidated Profit & Loss Account

Year to December (EURmn)	1993	1994	1995	1996	1997	1998	1999	2000E	2001E	2002E	2003E
Total Sales	110	149	199	232	296	365	485	705	914	1,144	1,417
% Chg		+35.6%	+33.3%	+16.5%	+27.8%	+23.3%	+32.9%	+45.3%	+29.7%	+25.2%	+23.8%
Gross Sales	117	157	207	240	310	377	505	643	835	1,053	1,298
Discounts & Allowances	-9	-11	-13	-14	-19	-22	-34	-46	-59	-75	-92
Net Sales	108	146	195	227	290	354	472	689	895	1,128	1,390
% Chg		+36.0%	+33.1%	+16.4%	+28.1%	+22.1%	+33.1%	+46.0%	+29.9%	+26.1%	+23.2%
Services Rendered					1	5	4	5	6	0	7
Royalties	3	3	4	5	4	6	9	11	14	16	20
Changes in Inventories & Goods	2	9	22	5	9	77	50	73	95	120	148
Total Value of Production	112	158	222	237	305	444	538	781	1,013	1,270	1,571
Raw Materials, Parts, Supplies, Other	37	60	88	81	99	189	210	328	426	533	657
Gross Profit	75	98	134	156	206	255	327	453	588	736	914
% Chg		+30.4%	+36.2%	+16.8%	+31.9%	+23.7%	+28.4%	+38.4%	+29.7%	+25.3%	+24.2%
<i>Gross Margin (%)</i>	<i>68.5%</i>	<i>65.8%</i>	<i>67.3%</i>	<i>67.4%</i>	<i>69.6%</i>	<i>69.8%</i>	<i>67.5%</i>	<i>64.3%</i>	<i>64.3%</i>	<i>64.3%</i>	<i>64.5%</i>
Cost of Services	22	36	48	53	75	107	126	180	233	292	361
<i>Variable Selling Expenses</i>			<i>8</i>	<i>6</i>	<i>9</i>	<i>14</i>	<i>15</i>	<i>22</i>	<i>28</i>	<i>35</i>	<i>44</i>
<i>Production & Administrative Expenses</i>			<i>18</i>	<i>21</i>	<i>29</i>	<i>40</i>	<i>45</i>	<i>59</i>	<i>86</i>	<i>114</i>	<i>148</i>
<i>Advertising & Promotion</i>			<i>19</i>	<i>24</i>	<i>33</i>	<i>50</i>	<i>61</i>	<i>92</i>	<i>110</i>	<i>132</i>	<i>156</i>
<i>% of sales</i>			<i>9.2%</i>	<i>9.9%</i>	<i>10.6%</i>	<i>13.3%</i>	<i>12.6%</i>	<i>13.0%</i>	<i>12.0%</i>	<i>11.5%</i>	<i>11.0%</i>
Rentals & Lease Payments	7	8	9	10	13	17	22	31	40	50	62
Personnel Costs	20	29	37	41	48	55	69	97	126	158	195
Amortisation & Depreciation	5	5	8	9	13	16	23	28	36	45	55
Change in Inventory of Raw Materials	1	-1	0	0	-1	-4	-6	-7	-9	-12	-14
Other Operating Expenses	4	5	8	6	8	10	11	17	22	28	35
Operating Profit	16	18	24	36	50	53	81.4	108	140	175	220
% Chg		+13.1%	+32.1%	+53.4%	+38.8%	+6.5%	+52.2%	+32.6%	+29.7%	+25.3%	+25.5%
<i>Operating Margin (%)</i>	<i>14.3%</i>	<i>12.0%</i>	<i>11.9%</i>	<i>15.6%</i>	<i>17.0%</i>	<i>14.6%</i>	<i>16.8%</i>	<i>15.3%</i>	<i>15.3%</i>	<i>15.3%</i>	<i>15.5%</i>
Total Financial Income (Expenses)	-3	-2	1	3	1	3	-9	-8	-7	-5	-4
<i>Interest coverage (x)</i>	<i>4.3x</i>	<i>5.4x</i>	<i>5.9x</i>	<i>7.9x</i>	<i>9.0x</i>	<i>8.6x</i>	<i>8.1x</i>	<i>12.0x</i>	<i>17.5x</i>	<i>29.2x</i>	<i>44.0x</i>
Extraordinary Income (Expenses)	0	1	-1	-1	-1	-4	-4				
Pre-Tax Profit	13	16	24	39	50	52	68	100	133	170	216
Pre-Tax Margin (%)	10.8%	10.4%	11.6%	16.0%	16.1%	13.9%	13.6%	15.5%	15.9%	16.2%	16.7%
Income Taxes	-3	-3	-3	-7	-9	-7	-7	-14	-20	-26	-33
Tax Rate (%)	27.4%	17.4%	12.1%	18.9%	18.5%	12.8%	10.9%	14.0%	15.0%	15.3%	15.3%
Net Income	9	14	21	31	41	46	61	86	113	144	183
Minority Interests	-1	-1	-1	-1	-2	-2	-2	-2	-2	-2	-2
Attributable Net Profit	8	13	20	30	39	44	59	84	111	142	181
% Chg		+54.8%	+57.5%	+46.1%	+30.1%	+13.6%	+33.9%	+42.2%	+32.3%	+28.2%	+27.3%
<i>Net Margin (%)</i>	<i>7.2%</i>	<i>8.3%</i>	<i>9.8%</i>	<i>12.4%</i>	<i>12.5%</i>	<i>11.7%</i>	<i>11.7%</i>	<i>13.1%</i>	<i>13.3%</i>	<i>13.5%</i>	<i>14.0%</i>
Restated Net Profit	8	12	21	31	40	48	63	84	111	142	181
Published EPS	0.040	0.062	0.071	0.104	0.135	0.152	0.204	0.290	0.384	0.492	0.626
Diluted EPS	0.039	0.056	0.073	0.107	0.138	0.165	0.217	0.290	0.384	0.492	0.626

Source: Merrill Lynch estimates

Table 25: Bulgari – Consolidated Statement of Cash Flow

Year to December (EURmn)	1993	1994	1995	1996	1997	1998	1999	2000E	2001E	2002E	2003E
EBITDA	21	22	31	45	64	69	105	135	176	220	275
Taxes	-3	-3	-3	-7	-9	-7	-7	-14	-20	-26	-33
Net Financial Income	-3	-2	1	3	1	3	-9	-8	-7	-5	-4
Extraordinaries	0	1	-1	0	-1	-4	-4	0	0	0	0
Net Increase in Provisions	5	5	8	9	13	16	23	28	36	45	55
Other (1)	-1	-1	-1	-50	-16	-18	-40	-30	-30	-30	-30
Cash Flow	18	22	35	-1	52	58.8	67	111	154	204	264
Cash Flow Per Share (EUR)	0.088	0.106	0.123	-0.005	0.179	0.203	0.232	0.383	0.534	0.704	0.911
% Chg		+21.0%	+15.9%	ns	ns	+13.5%	+14.4%	+65.0%	+39.2%	+32.0%	+29.5%
Capex	-5	-5	-20	-12	-22	-24	-32	-37	-54	-75	-97
% of Sales	5.1%	3.3%	10.5%	5.4%	7.5%	6.7%	6.9%	5.4%	6.2%	6.7%	7.1%
Changes in W.C.R	-6	-11	-29	6	-8	-62	-71	-119	-81	-120	-134
Free Cash Flow	7	6	-14	-8	22	-27	-36	-45	19	9	32
Free Cash Flow Per Share (EUR)	0.034	0.030	-0.048	-0.026	0.076	-0.095	-0.125	0.155	0.066	0.032	0.112
Dividends	-1	-2	-7	-8	-8	-11	-12	-17	-20	-23	-26
Financial Investments	-1				-2	3	0	-25	-8	-9	-10
Increase in Capital			9	-1	-1	0	6				
Others (2)	4	0	81	25	-3	-9	-7				
Change in Net Cash	9	4	69	9	8	-44	-49	-87	-9	-23	-4

Source: Merrill Lynch estimates

(1) Net Change in Reserve for Employee Termination Indemnities, Revaluation of Financial Investments

(2) Change in Net Assets Due to Currency Translation & Misc.



Table 26: Bulgari – Consolidated Balance Sheet

Year End Assets in EURm	1993	1994	1995	1996	1997	1998	1999	2000E	2001E	2002E	2003E
Intangible Assets	2	2	10	8	10	12	15	22	28	35	44
<i>inc. Goodwill</i>					0	1	2	2	2	2	2
Tangible Fixed Assets	28	30	35	38	49	55	68	85	100	116	133
Financial Investments	3	1	1	2	17	23	15	47	61	77	95
Total Fixed Assets	33	33	46	47	76	90	98	154	189	229	272
Stocks	65	78	109	99	127	209	282	412	535	674	831
Net Trade Receivables	18	24	35	39	52	73	95	139	180	227	280
Other Debtors	9	12	22	19	17	24	54	67	87	110	136
Cash Equivalents+Cash	5	6	47	46	50	15	21	30	39	49	61
Total Current Assets	97	121	213	204	246	321	452	648	842	1061	1307
Accrued Income and Prepaid Expenses	5	4	4	5	2	2	3	3	3	3	3
Total Assets	134	157	264	255	323	414	544	804	1034	1293	1583
Liabilities in EURm											
Capital	1	1	19	19	19	19	19	19	19	19	19
Additional Paid-in Capital	6	6	84	84	84	86	93	98	103	108	113
Legal Reserve	4	0	0	1	2	2	3	2	2	2	2
Other Reserve	37	49	59	50	74	99	124	167	234	324	444
Net Attributable Profit	10	13	20	30	39	44	59	84	111	142	181
Shareholder's Equity	58	69	182	183	217	250	298	370	468	595	758
Minority Interests	1	1	2	3	5	5	8	10	12	14	16
Reserve For Risks & Charges	1	1	1	1	5	7	9	13	17	22	27
Reserve For Employee Termination Indemnities	2	2	2	3	4	4	5	7	9	11	14
Short Term Debt	35	30	14	3	2	11	65	94	122	154	190
Long Term Debt	13	14	2	4	1	1	2	43	26	18	-12
Short-Term Advances	0	0	0	0	1	1	2	3	4	5	6
Trade Payables	19	30	45	40	67	118	141	206	300	378	466
Taxes Payable & Social Security Institutions	5	5	11	11	12	10	13	19	25	31	38
Other Payables	2	3	4	6	8	7	10	14	19	23	29
Total Debts	75	82	76	65	90	147	230	402	524	646	762
Accrued Expenses and Deferred Income	1	1	0	0	2	1	0	0	0	0	0
Total Liabilities	134	157	264	255	323	414	544	804	1034	1293	1583
Book Value (EUR)											
Debt	49	44	16	7	3	12	67	163	181	213	228
Net Debt	44	39	-31	-39	-47	-3	46	133	142	164	168
<i>Net Gearing</i>	<i>75%</i>	<i>56%</i>	<i>-17%</i>	<i>-21%</i>	<i>-22%</i>	<i>-1%</i>	<i>15%</i>	<i>36%</i>	<i>30%</i>	<i>28%</i>	<i>22%</i>
ROE		20.3%	16.3%	16.4%	19.4%	18.9%	21.5%	25.1%	26.5%	26.8%	26.8%
ROCE			10.4%	14.9%	19.6%	18.9%	22.7%	21.2%	20.9%	21.1%	20.8%

Source: Merrill Lynch estimates

Table 27: Bulgari - EVA^r Forecast

EURm Unless Otherwise Stated	1995	1996	1997	1998	1999E	2000E	2001E	2002E	2003E	2004E	2005E TV
Sales	195	227	290	354	472	589	895	1128	1390	1668	2001
% Chg	+33.1%	+16.4%	+28.1%	+22.1%	+33.1%	+46.0%	+29.9%	+26.1%	+23.2%	+20.0%	+20.0%
NOPAT	21	29	41	47	72	93	119	149	181	217	260
Margin (%)	10.7%	13.0%	14.1%	13.2%	15.4%	13.5%	13.3%	13.2%	13.0%	13.0%	13.0%
Total Assets	264	255	323	414	544	779	1002	1252	1543	1851	2222
Net Goodwill	0	0	0	1	2	2	2	2	2	2	2
Non Interest Bearing Current Liabilities	63	62	98	146	179	263	374	471	580	696	836
Adjusted Capital Employed	200	193	225	267	362	515	626	779	960	1153	1384
% Chg		-3.6%	+16.5%	+18.8%	+35.6%	+42.0%	+21.6%	+24.5%	+23.3%	+20.0%	+20.0%
Pre-Tax ROCE (%)	11.8%	18.4%	24.0%	21.7%	25.9%	24.6%	24.5%	25.0%	24.5%	24.2%	24.2%
After-tax ROCE (%)	10.4%	14.9%	19.6%	18.9%	23.0%	21.2%	20.9%	21.1%	20.8%	20.5%	20.5%
Risk-Free Rate (%)	11.4%	9.3%	5.0%	5.0%	4.9%	4.9%	4.9%	4.9%	4.9%	4.9%	4.9%
Risk Premium (%)	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Beta	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Cost of Equity (%)	12.8%	10.6%	6.3%	6.4%	6.3%	6.3%	6.3%	6.3%	6.3%	6.3%	6.3%
Market Capitalisation	439	848	1336	1445	3301	3301	3301	3301	3301	3301	3301
Net Debt	-31	-39	-47	-3	46	108	109	123	150	180	215
Minority Interests	2	3	5	5	8	10	12	14	17	20	24
Enterprise Value	410	812	1293	1447	3355	3418	3418	3418	3418	3418	3418
Enterprise Value / Average Employed Capital	2.0x	4.1x	6.2x	5.9x	10.7x	7.8x	6.0x	4.9x	3.9x	3.2x	2.7x
Equity (%)	107%	104%	103%	100%	98%	97%	97%	97%	97%	97%	97%
Debt (%)	-8%	-5%	-4%	0%	1%	3%	3%	4%	4%	5%	6%
Cost of Debt Before Tax	11.4%	10.0%	5.3%	5.0%	4.8%	4.1%	4.1%	4.1%	4.1%	4.1%	4.1%
Cost of debt After tax	10.0%	8.1%	4.3%	4.4%	4.3%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
WACC (%)	12.9%	10.7%	6.4%	6.4%	6.2%	6.1%	6.2%	6.2%	6.2%	6.2%	6.3%
ROCE - WACC (%)	-2.6%	4.2%	13.2%	12.6%	16.8%	15.0%	14.7%	15.0%	14.6%	14.3%	14.3%
EVA^r	-5	8	30	34	61	77	92	117	140	165	197
Discount Factor					0.98	1.04	1.10	1.17	1.25	1.32	1.40
Discounted EVA					62	74	83	100	112	125	140
Sum	635										
Terminal Value	5756										
Perpetual Growth Rate	5.0%										
Discounted Terminal Value	4097										
Total EVA	4732										
Number of Shares Outstanding (mio)	289.4										
EVA per Share	16.35										

Source: Merrill Lynch estimates

Table 28: Bulgari – Sales By Distribution Channel

	1993		1994		1995		1996		1997		1998		1999		2000E		2001E		2002E	
	EURm	%	EURm	%	EURm	%	EURm	%	EURm	%	EURm	%	EURm	%	EURm	%	EURm	%	EURm	%
Owned Stores	61	56.9%	101	68.0%	117	59.0%	128	55.0%	163	55.0%	183	50.0%	236	48.6%	335	47.5%	446	48.8%	578	50.5
% Chg					15.6%		8.7%		27.7%		12.1%		29.2%		41.9%		33.1%		29.6%	
Franchises	46	42.9%	27	18.0%	38	19.0%	37	16.0%	33	11.0%	37	10.0%	49	10.0%	71	10.1%	92	10.1%	120	10.5%
% Chg					40.6%		-1.8%		-12.1%		12.1%		32.9%		46.3%		29.6%		30.4%	
Watch Distribution	0	0.3%	12	8.0%	18	9.0%	32	14.0%	50	17.0%	62	17.0%	84	17.3%	120	17.0%	158	17.3%	203	17.7%
% Chg					49.9%		81.5%		55.0%		23.1%		35.5%		42.9%		31.7%		28.5%	
Jewellery Distribution									2	0.5%	4	1.0%	7	1.5%	14	2.0%	23	2.5%	34	3.0%
% Chg											142.4%		93.9%		93.7%		62.1%		50.2	
Perfume Retailers			6	4.0%	22	11.0%	30	13.0%	41	14.0%	69	19.0%	97	20.0%	141	20.0%	173	18.9%	171	14.9%
% Chg					266.3%		37.9%		37.5%		67.4%		39.9%		45.3%		22.77%		-1.2%	
Royalties			3	2.0%	4	2.0%	5	2.0%	6	2.0%	11	3.0%	15	3.0%	21	3.0%	25	2.7%	33	2.9%
% Chg													ns		45.3%		18.2%		32.0%	
Total	107	100%	149	100%	199	100%	232	100%	296	100%	365	100%	485	100%	705	100%	914	100%	1144	100%

Source: Bulgari and Merrill Lynch estimates

Table 29: Bulgari - Sales & Royalties

	1993		1994		1995		1996		1997		1998		1999		2000E		2001E		2002E	
	EURm	%	EURm	%	EURm	%	EURm	%	EURm	%	EURm	%	EURm	%	EURm	%	EURm	%	EURm	%
Revenues from Sales & Services	107	98	149	98	199	98%	232	98%	296	99%	365	98%	485	98%	705	98%	914	99%	1,144	99%
% Chg			+39.4%		+33.3%		+16.5%		+27.8%		+23.3%		+32.9%		+445.3%		+29.7%		+25.2%	
Royalties	3	2	3	193%	4	208%	5	217%	4	1%	6	2%	9	2%	11	2%	14	1%	16	1%
% Chg			+16.6%		+44.5%		+21.5%		-14.9%		+31.4%		+63.6%		+20.0%		+20.0%		+20.0%	
Total	110	100	152	100	203	100%	237	100%	301	100%	371	100%	495	100%	716	100%	928	100%	1,161	100%
% Chg			+38.9%		+33.5%		+16.6%		+26.9%		+23.4%		+33.3%		+44.8%		+29.5%		+25.1%	

Source: Merrill Lynch estimates

Table 30: Bulgari - Sales By Product Line

	1993		1994		1995		1996		1997		1998		1999		2000E		2001E		2002E	
	EURm	%	EURm	%	EURm	%	EURm	%	EURm	%	EURm	%	EURm	%	EURm	%	EURm	%	EURm	%
Jewellery	61	56.9%	75	50.3%	87	43.7%	97	41.7%	111	37.5%	119	32.7%	155	31.9%	267	37.8%	393	42.9%	461	40.3%
% Chg			+23.2%		+15.7%		+11.4%		+14.8%		+7.5%		+29.5%		+72.4%		+47.2%		+17.4%	
Watches	46	42.9%	64	43.0%	85	42.7%	99	42.5%	135	45.5%	155	42.5%	207	42.6%	298	42.3%	360	39.4%	480	41.9%
% Chg			+39.9%		+32.2%		+16.1%		+36.6%		+15.2%		+33.4%		+44.0%		+20.8%		+33.3%	
Perfumes	0	0.3%	7	4.7%	23	11.6%	31	13.5%	42	14.0%	68	18.6%	85	17.5%	96	13.6%	109	11.9%	124	10.8%
% Chg			ns		ns		+36.3%		+32.7%		+63.1%		+25.3%		+12.9%		+13.5%		+13.8%	
Accessories								3	1.0%		12	3.3%	25	5.2%	28	4.0%	33	3.6%	56	4.9%
% Chg											ns		ns		+12.0%		+17.9%		+69.7%	
Services Rendered								1	0.5%		5	1.4%	4	0.9%	5	0.7%	6	0.7%	7	0.6%
% Chg											ns		ns		+18.1%		+20.0%		+20.0%	
Royalties			3	2.0%	4	2.1%	5	2.2%	4	1.5%	6	1.6%	9	1.9%	11	1.6%	14	1.5%	16	1.4%
% Chg			+16.6%		+44.5%		+21.5%		-14.9%		+31.4%		+63.6%		+20.0%		+20.0%		+20.0%	
Total	107	100%	149	100%	199	100%	232	100%	296	100%	365	100%	485	100%	705	100%	914	100%	887	100%

Source: Merrill Lynch estimates

Table 31: Bulgari – Sales by Region

	1994		1995		1996		1997		1998		1999		2000E		2001E		2002E	
	EURm	%	EURm	%	EURm	%	EURm	%	EURm	%	EURm	%	EURm	%	EURm	%	EURm	%
Italy	25	17.2%	31	15.7%	33	7.2%	39	13.3%	52	14.3%	57	11.7%	71	10.1%	84	9.2%	97	8.5%
			+24.2%		+3.9%		+21.3%		+32.7%		+8.3%		+25.3%		+18.6%		+15.7%	
Europe (excl. Italy)	44	30.1%	55	27.4%	61	13.5%	84	28.3%	97	26.4%	120	24.7%	185	26.2%	220	24.1%	255	22.3%
			+23.7%		+11.3%		+37.8%		+15.4%		+24.3%		+54.2%		+18.9%		+15.9%	
Total Europe	69	47.3%	86	43.1%	93	20.8%	123	41.6%	149	40.7%	177	36.4%	256	36.3%	304	33.3%	352	30.8%
			+23.9%		+8.6%		+32.0%		+20.9%		+18.7%		+44.9%		+18.8%		+15.9%	
America	31	20.9%	43	21.5%	53	11.8%	66	22.2%	88	24.2%	111	22.9%	155	22.0%	200	21.9%	254	22.2%
			+39.6%		+23.6%		+24.2%		+34.6%		+26.0%		+39.2%		+29.0%		+27.0%	
Japan	24	16.5%	33	16.4%	41	9.1%	50	16.8%	66	18.0%	105	21.7%	152	21.6%	210	23.0%	260	22.7%
			+35.7%		+24.2%		+22.8%		+32.1%		+60.0%		+44.2%		+38.2%		+23.8%	
Far-East	22	15.3%	38	18.9%	35	7.8%	43	14.5%	44	12.1%	70	14.4%	110	15.6%	155	17.0%	215	18.8%
			+68.8%		-6.8%		+22.2%		+3.1%		+58.0%		+57.3%		+40.9%		+38.7%	
Middle-East & Others					10	2.1%	15	4.9%	18	4.9%	22	4.5%	32	4.5%	45	4.9%	63	5.5%
							+52.4%		+22.4%		+22.6%		+45.5%		+40.6%		+40.0%	
Total	146	100%	199	100%	449	52%	296	100%	365	100%	485	100%	705	100%	914	100%	1,144	100%

Source: Merrill Lynch estimates

Table 32: Bulgari – Geographical Split of Stores

	1994		1995		1996		1997		1998		1999		2000E		2001E	
		%		%		%		%		%		%		%		%
Italy (1)	3	8.3%	4	9.1%	5	9.3%	6	9.4%	8	10.3%	10	10.3%	12	10.7%	13	10.3%
Europe (excl. Italy)	14	38.9%	14	31.8%	15	27.8%	17	26.6%	23	29.5%	25	25.8%	28	25.0%	31	24.6%
<i>inc. directly operated stores (2)</i>	<i>11</i>		<i>11</i>		<i>12</i>		<i>13</i>		<i>20</i>		<i>21</i>		<i>23</i>		<i>25</i>	
<i>inc. franchises & wholesale accounts (3)</i>	<i>3</i>		<i>3</i>		<i>3</i>		<i>4</i>		<i>3</i>		<i>4</i>		<i>5</i>		<i>6</i>	
							13.3%		35.3%		8.7%		12.0%		10.7%	
Total Europe	17	47.2%	18	40.9%	20	37.0%	23	35.9%	31	39.7%	35	36.1%	40	35.7%	44	34.9%
Americas	6	16.7%	11	25.0%	11	20.4%	12	18.8%	12	15.4%	15	15.5%	18	16.1%	20	15.9%
<i>inc. directly operated stores (4)</i>	<i>10</i>		<i>11</i>		<i>11</i>		<i>11</i>		<i>11</i>		<i>10</i>		<i>12</i>		<i>12</i>	
<i>inc. franchises & wholesale accounts (5)</i>	<i>0</i>		<i>0</i>		<i>0</i>		<i>1</i>		<i>1</i>		<i>4</i>		<i>6</i>		<i>8</i>	
Japan	4	11.1%	5	11.4%	7	13.0%	10	15.6%	13	16.7%	18	18.6%	21	18.8%	23	18.3%
<i>inc. directly operated stores (6)</i>	<i>4</i>		<i>5</i>		<i>7</i>		<i>9</i>		<i>12</i>		<i>15</i>		<i>16</i>		<i>16</i>	
<i>inc. franchises & wholesale accounts (7)</i>	<i>0</i>		<i>0</i>		<i>0</i>		<i>1</i>		<i>1</i>		<i>3</i>		<i>5</i>		<i>7</i>	
Asia-Pacific excluding Japan	9		10		16		14	21.9%	16	20.5%	22	22.7%	27	24.1%	33	26.2%
<i>inc. directly operated stores (8)</i>	<i>2</i>		<i>2</i>		<i>2</i>		<i>2</i>		<i>4</i>		<i>5</i>		<i>4</i>		<i>6</i>	
<i>inc. franchises & wholesale accounts (9)</i>	<i>7</i>		<i>8</i>		<i>14</i>		<i>12</i>		<i>12</i>		<i>17</i>		<i>23</i>		<i>27</i>	
Middle-East & Other	3		3		4		5	7.8%	6	7.7%	6	6.2%	6	5.4%	6	4.8%
<i>inc. franchises & wholesale accounts (10)</i>	<i>3</i>		<i>4</i>		<i>4</i>		<i>5</i>		<i>6</i>		<i>6</i>		<i>6</i>		<i>6</i>	
Total	36	75%	44	77%	54	70%	64	100%	78	100%	97	99%	112	100%	126	100%
% Chg				+22.2%		+22.7%		+18.5%		+21.9%		+24.4%		+15.5%		+12.5%

Source: Bulgari & Merrill Lynch estimates

(1) Rome, Rome Fiumicino, Milan Spiga, Milan Malpensa, Florence Cortina, Venice, Naples, Bologna, Padova

(2) Geneva, St Moritz, Zurich, Munich, Dusseldorf, Berlin, Frankfurt, Sylt, Paris (Vendôme, Montaigne, Printemps) Cannes, Monte Carlo, Madrid, London (Bond St, Harvey Nichols, Harrods), Brussels

(3) Istanbul (two franchises), Izmir (another franchise)

(4) New York (Fifth Ave, Madison), Beverly Hills, Aspen, San Francisco, Miami, Las Vegas, South Coast P., Chicago, Costa Mesa, Orlando

(5) Honolulu, Toronto, Mexico City, Nassau (franchises)

(6) Tokyo, Sionbashi, Shinjuku, Ginza, Tokyo Isetan, Osaka, Osaka Takashimaya, Osaka Daimaru, Kyoto, Yokohama, Kobe, Nagoya, Hiroshima

(7) Sapporo Mitsukoshi, Tobu Ikebukuro, Tamagawa Takashimaya (wholesale accounts)

(8) Melbourne, Sydney, Singapore (Hilton, Takashimaya), Kuala Lumpur,

(9) Seoul (four stores), Pusan, Guam, Hong Kong (The Landmark, The Peninsula, Chep Lap Kok Airport, Seibu) Taipei & Taipei Sogo, Jakarta & Jakarta Senayan, Manila: franchises

(10) Dubai, Jeddah, Kuwait City (Saliha Complex), Abu-Dhabi (Al Hana Centre), Riyadh (Al Rosais Centre)

Table 33: Bulgari - Distribution Network

	DOS	Franchises	POS End 1997	% of POS	Openings in 1998	DOS	Franchises Wholesales	POS End 1998	% of POS	Openings in 1999	DOS	Franchises Wholesales	POS End 1999	% of POS	Openings in 2000	DOS	Franchises Wholesales	POS End 2000	% of POS
EUROPE	21	2	23	36.5%	8	7	1	31	39.7%	4	3	1	35	36.5%	0			32	34.4%
Rome	2		2					2					2					2	
Milan (Spiga & Malpensa)	1		1		1	1		2					2					2	
Cortina d'Ampezzo	1		1					1					1					1	
Florence	1		1					1					1					1	
Venice			0		1	1		1					1					1	
Naples			0		1	1		1					1					1	
Bologna			0					0		1	1		1					1	
Padova			0					0		1	1		1					1	
Geneve	1		1					1					1					1	
Zurich	1		1					1					1					1	
St Moritz	1		1					1					1					1	
Paris (Montaigne, Vendôme, Printemps)	3		3					3					3					3	
Cannes	1		1					1					1					1	
Montecarlo	1		1					1					1					1	
Munich	1		1					1					1					1	
Dusseldorf	1		1					1					1					1	
Frankfurt	1		1		1	1		2					2					2	
Berlin	1		1		1	1		2					2					2	
Sylt			0		1	1		1					1					1	
Hamburg			0		1	1		1					1					1	
London (Bond St, Harvey, Harrods)	3		3					3					3					3	
Brussels			0					0		1	1		1					1	
Madrid	1		1					1					1					1	
Istanbul		1	1		1		1	2					2						
Izmir			0					0		1		1	1						
Athens		1	1					1					1					1	
AMERICAS	11	1	12	19.0%	0	0	0	12	15.4%	3	0	3	15	15.6%	0			15	16.1%
New York (Fifth, Madison excl. Hotel Pierre)	2		2					2					2					2	
Miami	1		1					1					1					1	
Aspen	1		1					1					1					1	
Las Vegas	1		1					1					1					1	
San Francisco	1		1					1					1					1	
Beverly Hills	1		1					1					1					1	
South Coast P.	1		1					1					1					1	
Houston	1		1		-1	-1		0					0					0	
Costa Mesa	1		1					1					1					1	
Chicago	1		1					1					1					1	

Table 33: Bulgari - Distribution Network (continued)

	DOS	Franchises	POS End 1997	% of POS	Openings in 1998	DOS	Franchises Wholesales	POS End 1998	% of POS	Openings in 1999	DOS	Franchises Wholesales	POS End 1999	% of POS	Openings in 2000	DOS	Franchises Wholesales	POS End 2000	% of POS
Orlando			0		1	1		1					1					1	
Mexico City			0					0		1		1	1					1	
Toronto			0					0		1		1	1					1	
Nassau			0					0		1		1	1					1	
Honolulu		1	1					1					1					1	
MIDDLE EAST	0	4	4	6.3%	2	0	2	6	7.7%	0	0	0	6	6.3%	0			6	6.5%
Dubai		1	1					1					1					1	
Jeddah		1	1					1					1					1	
Kuwait City		1	1					1					1					1	
Riyadh			0		1		1	1					1					1	
Abu-Dhabi		1	1		1		1	2					2					2	
FAR EAST	15	9	24	38.1%	5	2	3	29	37.2%	11	3	8	40	41.7%	0			40	43.0%
Tokyo	4		4					4		1	1		5					5	
Kobe	1		1					1					1					1	
Osaka	2		2		1	1		3					3					3	
Fukuoka	1		1		1	1		2					2					2	
Kyoto	1		1					1					1					1	
Yokohama	1		1					1					1					1	
Tobu Ikebukuro			0		1		1	1					1					1	
Nagoya			0					0		1	1		1					1	
Hiroshima			0					0		1	1		1					1	
Sapporo Mitsukoshi			0					0		1		1	1					1	
Tamagawa Takashimaya			0					0		1		1	1					1	
Seoul		1	1					1		3		3	4					4	
Pusan		1	1					1					1					1	
Guam			0		1		1	1					1					1	
Hong Kong		4	4					4					4					4	
Singapore	2		2					2					2					2	
Taipei		1	1		1		1	2					2					2	
Bangkok		1	1					1					1					1	
Kuala Lumpur	1		1					1					1					1	
Jakarta		1	1					1		1		1	2					2	
Manila			0					0		1		1	1					1	
Sydney	1		1					1					1					1	
Melbourne	1		1					1		1		1	2					2	
TOTAL	47	16	63	100.0%	15	9	6	78	100.0%	18	6	12	96	100.0%	0			93	100.0%

Source: Bulgari & Merrill Lynch estimates



Activities

Bulgari is an Italian luxury goods company that designs, manufactures and distributes jewellery, luxury watches and accessories/fragrances. The company is 58.2% owned by the Bulgari family and has been listed in Milan and London since July 17, 1995.

Major Shareholders

Bulgari family: 56.2%

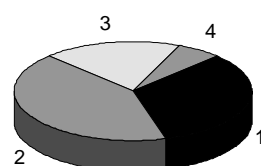
Profit & Loss

Y/E 31 Dec (EUR mn)	1999A	2000E	2001E	2002E
Turnover	485	705	914	1144
EBITDA	105	135	176	220
EBIT	81	108	140	175
Net Financial Result	(9)	(8)	(7)	(5)
Exceptional Items	(4)	0	0	0
Pre Tax Profit	68	100	133	170
Taxes	(7)	(14)	(20)	(26)
Associates	4	5	6	7
Minorities	8	10	12	14
Net Income Before Extraord.	61	86	113	144
EPS	0.22	0.29	0.38	0.49
EPS Growth %	31.6	33.6	32.3	28.2

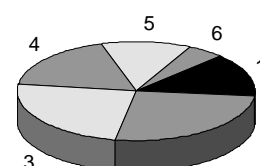
Ratios

Y/E 31 Dec	1999A	2000E	2001E	2002E
EBITDA Margin (%)	21.5	19.2	19.2	19.2
EBIT Margin (%)	16.8	15.3	15.3	15.3
Pre-Tax Margin (%)	14.1	14.2	14.5	14.9
Net Margin (%)	11.7	13.1	13.3	13.5
ROE (%)	21.5	25.1	26.5	26.8
ROCE (%)	19.3	17.4	18.2	18.2
ROCE - WAAC (%)	16.8	15.0	14.7	15.0
Net Gearing (%)	15.4	29.1	23.3	20.7
EV/EBITDA (x)	35.0	27.4	21.2	16.9
EV/Sales (x)	7.5	5.3	4.1	3.2
EV/Capital Employed (x)	11.6	8.5	6.5	5.3
Price/Book (x)	12.1	9.8	7.7	6.1
Net Yield (%)	0.5	0.5	0.6	0.6

Sales By Product Category (2000E)



Sales by Region (2000E)



Balance Sheet

Y/E 31 Dec (EUR mn)	1999A	2000E	2001E	2002E
Working Capital	275	401	488	615
Net Tangible Fixed Assets	68	85	100	116
Net Intangible Assets	15	22	28	35
Net Goodwill	2	2	2	2
Capital Employed ML	381	540	658	820
Financial Investments	15	22	29	36
Net Debt	46	108	109	123
Provisions	14	20	26	33
Minority Interest	8	10	12	14
Shareholders Equity	298	370	468	595

Cash Flow

Y/E 31 Dec (EUR mn)	1999A	2000E	2001E	2002E
Operating Cash Flow	67	111	154	204
Cash Flow/Shr	0.23	0.38	0.53	0.70
Capex	(32)	(37)	(54)	(75)
Change in WCR	89	119	81	120
Free Cash Flow	(36)	(45)	19	9
Acquisitions/Divestments	0	0	0	0
Capital Increase	6	0	0	0
Dividends	(12)	(17)	(20)	(23)
Others	(7)	0	0	0
Total Cash Generated	(49)	(62)	(1)	(14)
Net Debt End	46	108	109	123

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Opinion Key [X-a-b-c]: Investment Risk Rating(X): A - Low, B - Average, C - Above Average, D - High. Appreciation Potential Rating (a: Int. Term - 0-12 mo.; b: Long Term - >1 yr.): 1 - Buy, 2 - Accumulate, 3 - Neutral, 4 - Reduce, 5 - Sell, 6 - No Rating. Income Rating(c): 7 - Same/Higher, 8 - Same/Lower, 9 - No Cash Dividend.

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