

# Italy

# Benetton

## 2/Outperform

Textile Retailers

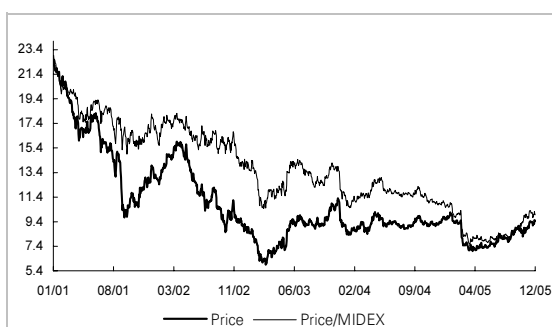
13 December 2005 – Update

## Moving in the right direction

- ▶ After several years of disappointing results, **Benetton's operating performance is starting to show signs of recovery.**
- ▶ Benetton's **top strategic priority is to boost its retail performance** by improving its relationship with its commercial partners, simplifying and increasing the number of collections, better monitoring sell-out levels, managing its stores more effectively and expanding in emerging markets. Benetton has also adopted a **more appealing policy for wholesale and retail pricing to boost volume growth**, while reducing production and G&A costs.
- ▶ **We foresee gradual improvement in 2006.** We expect volumes to increase by 7% in 2006 and 2007; the negative impact of the new pricing and margin policy should still weigh in 2006 (sales growth 3%), while from 2007 we expect a 6% sales growth with a slight increase in operating margin, resulting in 19% EPS growth.
- ▶ **We set a EUR10.5 target price, implying 11% upside.** Benetton trades at a 15-20% discount, based on P/E multiples and EV multiples adjusted for its real estate exposure. The 5% equity free cash flow yield (>7% beyond 2007) and the 3.5% dividend yield should shield the stock from downside risk.

<b>Closing Price (02/12/05)</b>	<b>EUR9.48</b>			
<b>Target price</b>	<b>+11% EUR10.5</b>			
<b>Market capitalisation</b>	<b>EUR1 722m</b>			
<b>MIDEX</b>	<b>31 916</b>			
<b>To 31/12 (EUR) - IFRS</b>	<b>2004</b>	<b>2005E</b>	<b>2006E</b>	<b>2007E</b>
Sales (m)	1 704.0	1 719.6	1 770.2	1 880.1
Net att. profit, rest. (m)	108.0	107.2	112.0	133.2
Free Cash Flow (m)	200.0	96.6	87.1	92.0
EBITDA margin (%)	15.1	15.2	15.1	15.7
Clean EPS	0.60	0.59	0.62	0.73
EPS, published	0.60	0.59	0.62	0.73
P/E (x)	16.4	16.1	15.4	12.9
Attrib. FCF yield (%)	11.2	5.6	5.0	5.3
EV/EBITDA (x)	8.6	8.1	7.9	7.0
EV/EBIT (x)	14.0	12.2	11.6	9.9
ROCE (%)	9.8	10.7	11.0	12.4
ROE (%)	9.4	8.9	9.0	10.2
P/BV (x)	1.5	1.4	1.4	1.3
Net debt/EBITDA (x)	1.7	1.5	1.4	1.1
Net dividend	0.34	0.34	0.35	0.42
Yield (%)	3.5	3.6	3.7	4.4

Next event: FY-05 results due on 30 March 2006.



<b>52-week range</b>	<b>EUR6.82-EUR10.34</b>		
<b>Free Float</b>	<b>EUR528m</b>		
<b>No. of shares, adjusted</b>	<b>181.559m</b>		
<b>Daily volume</b>	<b>EUR3.99m</b>		
<b>Reuters/Bloomberg</b>	<b>BNG.MI/BEN IM</b>		
	<b>1 month</b>	<b>3 months</b>	<b>12 months</b>
<b>Absolute perf.</b>	<b>8.0%</b>	<b>18.9%</b>	<b>2.2%</b>
<b>Relative perf.</b>	<b>1.5%</b>	<b>21.6%</b>	<b>-9.5%</b>

Shareholders: Edizione Holding 67%, Free Float 33%

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# CONTENTS

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I— Valuation approach ..... Page 06

II— Working toward a better future ..... Page 09

III— Benchmarking based on key peers ..... Page 15

IV— Estimates summary ..... Page 16

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## ► Benetton

### Company profile

**Benetton is one of the top international apparel brands.** It specializes in casual wear and operates through a broad distribution network consisting of ~5,000 retail stores managed by commercial partners in 120 countries (174 mega-stores). Benetton also owns ~210 directly operated stores, which account for roughly 20% of all group revenues.

**Benetton's current management team was recruited in 2003. Their mission was to re-focus the company on the core business** by re-launching the Benetton brand and creating a more a more efficient supply system. In 2004, sales fell by 10% (due to the disposal of Benetton's only remaining asset in the sports equipment business) and EBIT fell by 7%. In 2005, management decided to adopt a more appealing price policy and raise the mark-up for the commercial partners in order to boost volumes.

**Net debt totalled EUR440m at end-2004,** corresponding to a 35% gearing. **The company is owned by the Benetton family, with a 67% stake.**

### Investment case

**We confirm our positive stance as we feel that the operating performance is improving** and Benetton appears to be on its way to recovery in terms of volume growth in 2006 and revenue and margin improvement in 2007, following the negative trend of the last few years.

Benetton's top strategic priorities are to improve its **retail performance**, through direct investments in stores (now ~19% of sales) and more fruitful collaboration with its commercial partners. In addition, it has adopted a **more aggressive stance on prices and incentives to the network**, which has already had a favourable impact on sales volumes. **Other potential avenues of growth remain underexploited.** For example: (1) it could close the gap with peers for accessories and royalties; (2) it could take a more aggressive approach to advertising (historically one of its great strengths); (3) further develop the Sisley brand; (4) expand in emerging markets.

Despite Benetton's good recent performance (up 20% over the last 3 months), **the valuation remains appealing as multiples are lower than peers.** In addition, the 3.5% dividend yield and 5% free cash flow yield, which was maintained even in difficult periods, should shield against downside.

### Valuation

**We are fine tuning our target price to EUR10.5 based on our DCF valuation,** which points to ~11% upside.

Our DCF model is based on 7.5% WACC and a terminal value corresponding to a 9.5x EV/EBIT, in line with Benetton's current 2007 multiples.

**Benetton trades on 15x 2006 P/E and 13x 2007 P/E,** and presents a ~10-12% discount to a sample of European retailers and an **18-20% discount to its closest peers, H&M and Inditex.** The stock offers a slightly higher dividend yield of 3.5% (average 3%). EV multiples are quite heavily affected by the company's real estate holdings (EUR430m at the retail business, roughly 28% of its EV): after restating EV and profits to account for this anomaly, we reach similar conclusions. **With adjusted EV/EBIT of 10x in 2006 and 8.3x in 2007, Benetton is 15% cheaper than the retail sector and nearly 20% below Inditex and H&M.**

### SWOT analysis

#### Strengths

- 1) Worldwide brand recognition
- 2) Successful business model
- 3) Good cash flow generation
- 4) Dual supply system and efficient production

#### Weaknesses

- 1) Brand appeal has declined
- 2) Poor performance of casual wear
- 3) Longer time-to-market vs. pure retailers

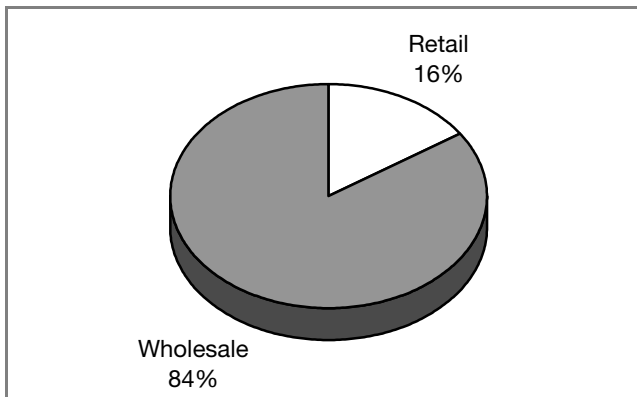
#### Opportunities

- 1) Improvement of time-to-market with better logistics
- 2) Better margins for the franchising network
- 3) High potential brand

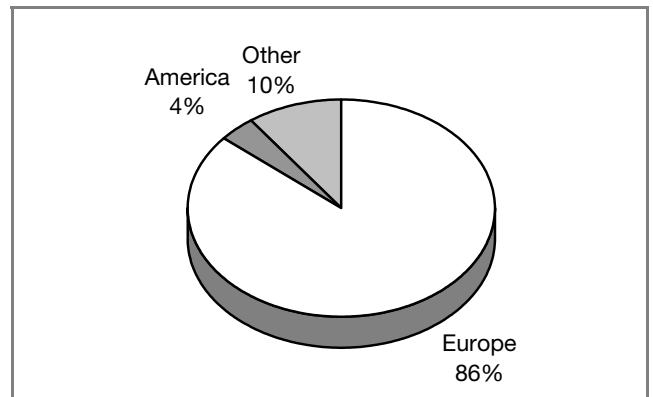
#### Threats

- 1) Further weakening of consumption trends
- 2) Retail division turnaround may be difficult
- 3) Competition from low-cost countries

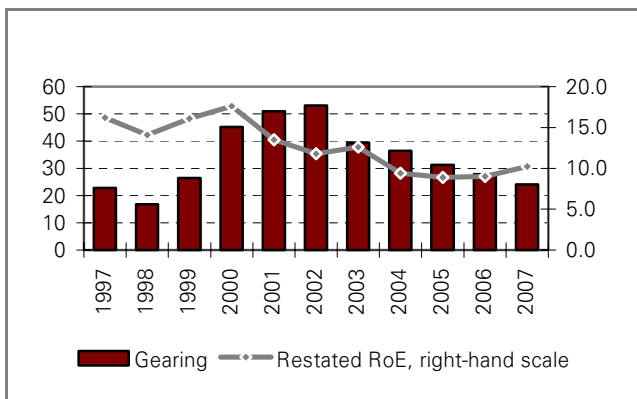
Revenues by channel (2004A)



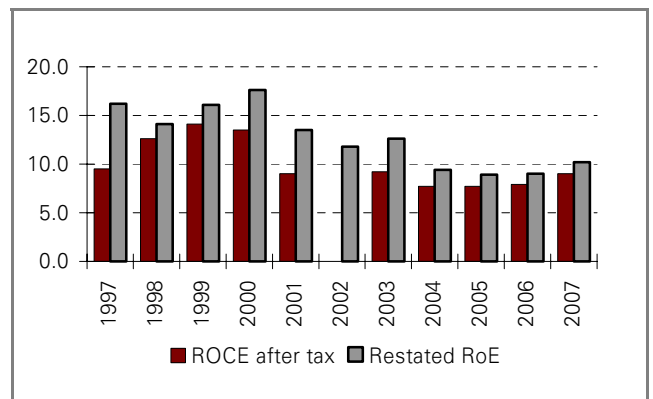
Revenues by region (2004A)



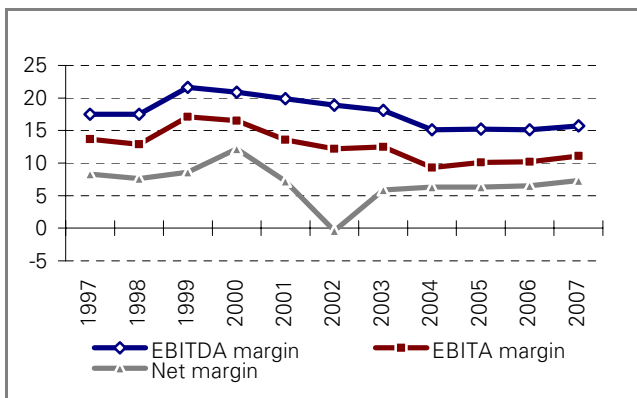
Gearing and restated ROE



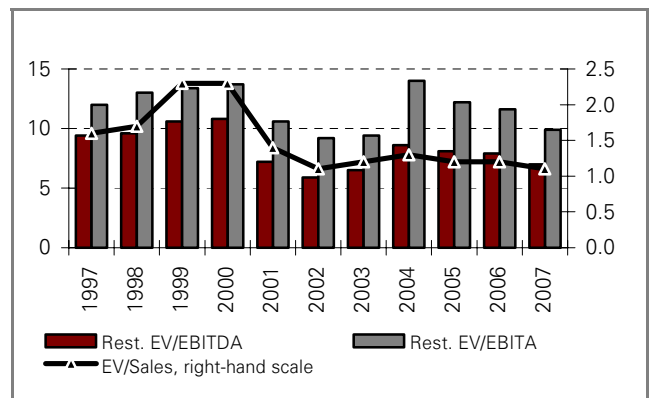
ROCE after tax and restated ROE



Margins



EV multiples



Benetton: Peer comparison

(EUR m, EUR, %)	Mkt.			Performance		P/E		Yield	EV/EBIT		P/BV
	Price	Cap.	Rating	1mo	3mos	05E	06E	05E	05E	06E	05E
HENNES & MAURITZ	262.0	22 791	2	2.0%	-1.0%	23.5	20.7	4.0	14.7	12.8	12.9
INDITEX	25.5	15 920	3	5.1%	9.2%	21.0	18.4	1.9	14.5	12.4	6.2
NEXT	1 500.0	5 562	3	11.1%	2.6%	12.6	11.5	3.0	9.1	8.2	18.6
<b>Weighted Average</b>		<b>44 273</b>		<b>4.2%</b>	<b>3.1%</b>	<b>21.2</b>	<b>18.7</b>	<b>3.1</b>	<b>13.9</b>	<b>12.1</b>	<b>11.2</b>
<b>Median</b>				<b>5.1%</b>	<b>2.6%</b>	<b>21.0</b>	<b>18.4</b>	<b>3.0</b>	<b>14.5</b>	<b>12.4</b>	<b>12.9</b>
BENETTON	9.5	1 723	2	7.1%	10.7%	16.1	15.4	3.6	12.2	11.6	1.5

Source: Cheuvreux

## INVESTMENT RECOMMENDATION

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**We reiterate our positive stance on Benetton with a target price of EUR10.5.** After 2 tough years, characterised by a sharp revenue slowdown and significant operating margin erosion, we feel Benetton is finally on its way to restoring revenue growth and profitability. In our view, the stock is an attractive investment opportunity, given Benetton's recent 40% underperformance vs. the Italian stock market.

- **Retail is the top priority.** One of the key changes is that Benetton is becoming increasingly involved in retail through more effective management of its own stores (now just less than 20% of sales) and through more productive collaboration with its network of commercial partners.
- **New policy for collections.** The second pillar of Benetton's strategy is to heighten product appeal by updating its collections more frequently. It will gradually start to offer four collections plus one per year instead of two and special "theme" lines are in the pipeline (i.e. a cashmere line and a "Barbie" line for kids). This should increase in-store traffic and eventually raise brand appeal.
- **Expansion in new markets.** For the last 5 years, Benetton has not expanded. Now, it is actively seeking growth opportunities in new markets: it recently entered the Turkish market and is planning new investments in India, China and Eastern Europe, where it operates manufacturing facilities (or holds production agreements), but posts modest sales.
- **Room to grow in accessories. Advertising lever still to be used.** UCB and Sisley brands are highly recognisable, but have not been well exploited in recent years. Clearly, a more active approach to advertising (Benetton cut its ad spend by 50% in the last few years partly due to the disposal of the sports business) could trigger further growth. Secondly, Benetton could achieve further growth by collecting more royalties (just 1% of sales) and increasing accessory sales (4% vs. 8-10% for direct competitors). Finally, the Sisley brand and network show significant scope for improvement.
- **For 2006, the top priority is to restore volume growth. In 2007, stable prices mean the higher sales should translate into profit.** We expect that Benetton will continue to pursue an appealing pricing policy and will invest in restoring profitability at its commercial network in 2006. For this reason, we feel that revenues should be depressed by a 5% negative pricing effect, leading to overall sales growth of roughly 3%, with mild operating margin dilution. In 2007, we feel revenues could grow by more than 6%, and operating margins could recover, driven by higher volumes (as the negative price effect eases), leading to 19% EPS growth vs. 2006.
- **Rising competition is still a threat, but Benetton could still make up for lost ground.** Benetton still faces strong competitive pressure from other retail chains. In our view, the need for further price cuts to sustain volume momentum is the main risk for investing in Benetton at this stage. However, if we benchmark Benetton against Inditex and H&M, it is clear that the Italian company has been lagging far behind in terms of both revenues (-2% CAGR in the last 3 years vs. double-digit growth for competitors, mainly due to the lack of retail expansion) and its gross margin (~45% vs. 55-59% for peers).
- **Real estate asset: value beyond the core business.** Benetton has a significant real estate portfolio. The book value of real estate represents 28% of its enterprise value, vs. 0-5% for its competitors. This exposure to real estate is distorting the multiple comparison as real estate asset multiples largely exceed consumer goods multiples. For this reason, Benetton seems more expensive than it actually is. While using stated multiples, the stock presents a 3-5% discount to EV multiples and **the discount widens to 18% after adjusting for the value of the real estate business** (in line with Benetton's 15-20% discount on 2006 and 2007 P/E).
- **Good free cash flow and dividend yield shield against downside.** Finally, despite the poor operating performance over the last few years, Benetton has maintained sound free cash flow generation. We estimate that it should continue to guarantee a **~3.5% dividend yield based on a 55-60% pay-out ratio in 2006**. In terms of the equity free cash flow, we expect EUR85-90m per year for 2006-07 (5% FCF yield) and feel Benetton has the potential to reach EUR120-130m after 2007 (~7%).

# I – VALUATION APPROACH

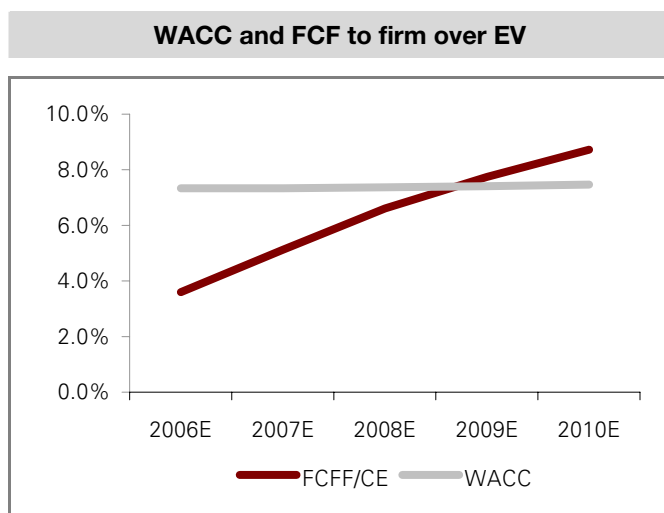
We set a target price of EUR10.5 for Benetton, based on our DCF valuation, backed by a multiple comparison which indicates that at our target price, Benetton would still trade at a slight discount to peers in 2007.

## DCF valuation

We based our DCF valuation on the following assumptions: (1) levered beta of 0.92x, vs. market beta of 0.78x (weekly performance of the last 2 years); (2) free risk rate of 4.5% and market risk premium of 4%; (3) average WACC of 7.5%; (4) terminal growth rate of 1%. **Our terminal value corresponds to 9.5x EV/EBIT at the terminal year, aligned with the 2007 multiple**, which we feel is the most appropriate year to assess Benetton's financials.

### DCF assumptions

This model delivers a **fair value of EUR10.5/share**: discounted cash flows from 2006 to 2010 account for ~EUR3 (~EUR0.6/share on average per year) and the terminal value accounts for the remaining EUR9.7. Debt at end-2005 accounts for ~EUR2.2/share. The low portion of debt over EV (~15%) reduces Benetton's sensitivity to the interest rate hike.



Source: Cheuvreux

	Total	Per share
DCF 06-10	535	2.95
Terminal value	1 767	9.73
<b>EV</b>	<b>2 302</b>	<b>12.68</b>
Debt	(393)	(2.16)
<b>Equity value</b>	<b>1 910</b>	<b>10.52</b>
WACC	7.5%	
Terminal growth	1.0%	
<b>Terminal EV/EBIT</b>	<b>9.5x</b>	

Source: Cheuvreux

## Benetton's real estate portfolio: Weakness or strength?

### Major real estate investment

Benetton has built up a significant real estate portfolio, starting in the mid-1990s. The acquisition campaign culminated in 1999-2000 with the investment (net of disposals) of ~EUR80m per year for real estate. Key facts:

- Benetton's real estate portfolio consists of its headquarters (which we estimate are worth EUR30-40m), three villas (estimated at ~EUR40m), production plants (possibly EUR150m) and 44 retail outlets.
- The book value of these real estate assets reached EUR579m in H1-05 (basically flat vs. end-2004). **Retail properties** account for **EUR430-450m** and plants and headquarters make up the remaining EUR150m. The book value represents 34% of our 2005 sales estimate, 28% of our current EV and over one third of all revenues.

- These ratios are very different from Benetton's direct competitors: for Inditex, the book value of real estate represents just 5% of EV and for H&M it is negligible.

**Weight of real estate assets**

	Source	Tangible assets	Real estate	% of 2005E sales	% of EV	% of market cap.
<b>Benetton (EUR m)</b>	<b>H1-05</b>	<b>768</b>	<b>579</b>	<b>34%</b>	<b>28%</b>	<b>35%</b>
Inditex (EUR m)	2004	1 903	677	10%	5%	4%
H&M (SEK m)	2004	6 429	437	1%	0%	0%

Source: Cheuvreux

**The impact on return on capital and multiples**

The **high weight of real estate investments over capital employed** clearly reduces the return on capital. To test the impact on Benetton, we created a simulation based on the following assumptions: (1) we focused exclusively on the retail properties, assuming a book value of EUR430m with an estimated market value of EUR500m; (2) we corrected the EV value to account for the book value, charging a 5.5% "virtual lease" cost (based on the market value) to Benetton's EBIT; (3) we added back the 3.3% depreciation charges on EUR430m. We concluded that:

- **The high weight of real estate is having a negative impact of 2.5-3% on the return on capital employed**, implying that the estimated 10.4% ROCE for 2005 could be very close to 13%, after stripping out the value of the real estate.
- In terms of multiples, we estimate that the negative impact on EV/EBIT is 1.6-1.7x. In other words, **Benetton's reported EV/EBIT of 11.6x for 2006 would become 9.9x** (8.4x vs. 9.9x for 2007) including the real estate impact.
- This impact on multiples is also evident if we split Benetton's EV between its casual-wear (~EUR1.5bn or 75% of total EV) and real estate businesses (the remaining 25%). The fair EV/EBIT multiple could also be computed as the weighted average of the two different businesses, with real estate sector trading in excess of 20x on EV/EBIT.

**Paying a high price to ensure visibility on key locations**

**Benetton insists that no real estate disposals will take place** in the next few years, as management considers these assets to be crucial for the core business: as **they ensure Benetton's access to prime locations for its flagship stores and protect the company against escalating rental costs**. However, there is a wide gap between Benetton's valuation ratios with and without the real estate. Given this huge difference, we see little competitive advantage in being an owner, rather than a tenant of the 44 prime commercial locations currently on the company's books.

**EV/EBIT multiple adjusted for real estate**

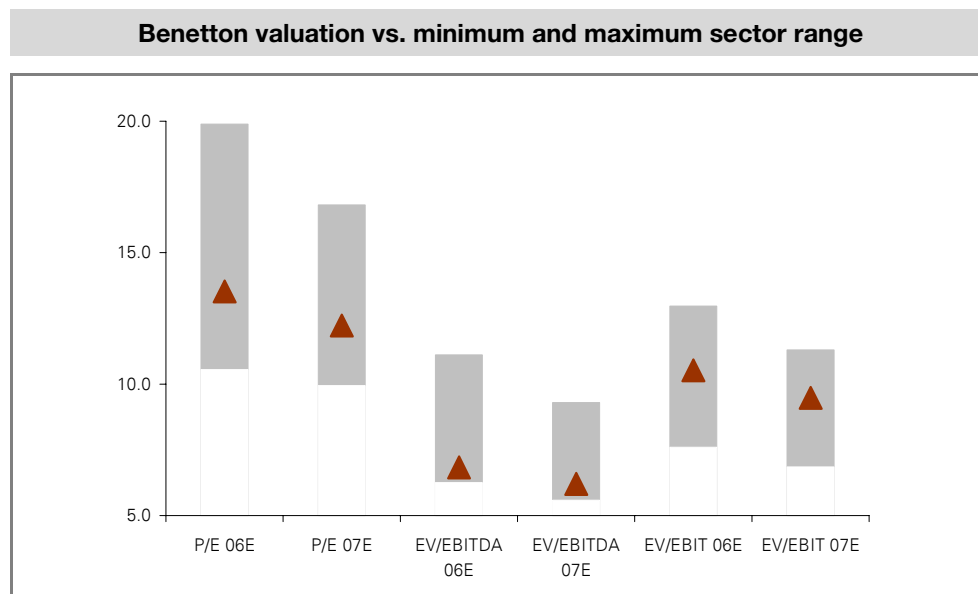
(x)	2005E	2006E	2007E
HENNES & MAURITZ	14.7	12.8	10.6
INDITEX	21.0	18.4	15.8
<b>BENETTON</b>	<b>12.2</b>	<b>11.6</b>	<b>9.9</b>
<b>BENETTON (adjusted)</b>	<b>10.5</b>	<b>9.9</b>	<b>8.4</b>

Source: Cheuvreux

**Overall, Benetton looks relatively inexpensive compared to peers**

**Peer comparison**

We compared Benetton to a sample of specialty retailers in Europe. We believe that its key peers are Inditex and H&M and this is the reason why in the previous section, we made a comparison based on restated multiples.



Source: Cheuvreux

Extending the comparison to a broader sample of retailers, Benetton looks relatively inexpensive based on P/E, very cheap based on EV/EBITDA and in line with the peer average based on EV/EBIT (not adjusted).

**Multiple comparison**

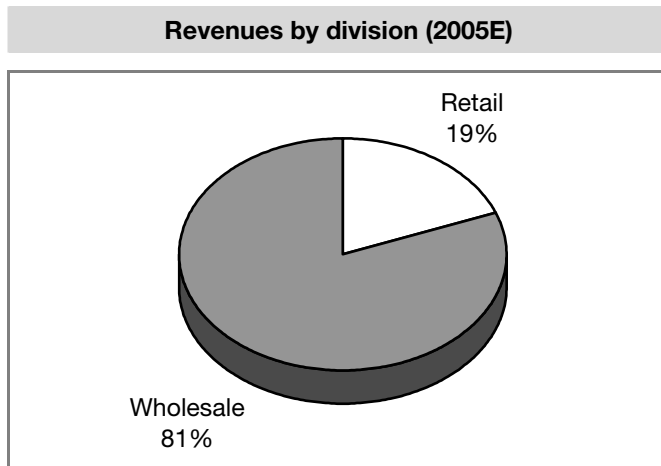
(x)	P/E			EV/EBIT		
	05E	06E	07E	05E	06E	07E
<b>BENETTON</b>	<b>16.1</b>	<b>15.4</b>	<b>12.9</b>	<b>12.2</b>	<b>11.6</b>	<b>9.9</b>
HENNES & MAURITZ	23.5	20.7	17.4	14.7	12.8	10.6
HUGO BOSS	19.7	16.9	14.9	14.8	12.6	11.0
INDITEX	21.0	18.4	15.8	14.5	12.4	10.6
MARKS & SPENCER	15.6	14.1	13.4	11.4	10.4	9.8
NEXT	12.6	11.5	10.8	9.1	8.2	7.5
PPR	20.0	16.4	13.9	14.5	12.2	10.4
<b>Average</b>	<b>18.3</b>	<b>16.2</b>	<b>14.2</b>	<b>13.0</b>	<b>11.5</b>	<b>10.0</b>

Source: Cheuvreux

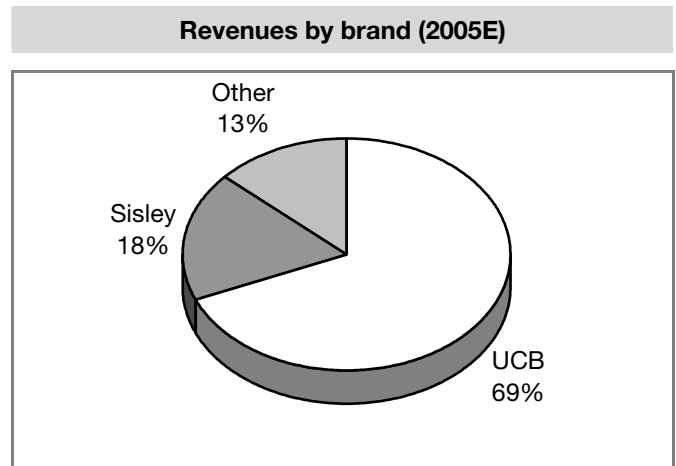
## II— WORKING TOWARD A BETTER FUTURE

### An Italian success story

Benetton is one of the most important retailers in Italy, whose international operations now account for roughly 50% of its total revenues. In the past, it employed a successful commercial partnership model to build up its retail business and its aggressive advertising campaigns helped reinforce its strong brand name around the world. Benetton changed its commercial strategy by investing directly in its own stores (210 of a total network of 5,000 stores) and buying up the corresponding real estate assets.



Source: Cheuvreux



Source: Cheuvreux

### Greater involvement in retailing

Benetton's current management team was appointed in early 2003. At that time, their mandate was to **gradually update the business model, by:** (1) **getting actively involved in the retail operations**, in order to better understand and monitor market trends and to test new commercial solutions; (2) steadily improving the perception of Benetton products; (3) **reorganising and simplifying collections**, and updating stock more frequently; (4) **closely cooperating with commercial partners** and raising their profitability levels, partly through a **more sophisticated pricing policy**, with more appealing prices for a few select products ("nice price") to attract more customers; and (5) **expanding in fast growing new markets** (mainly the "New Europe" and Far East regions).

The new reorganisation plan launched in 2005 is aimed at restoring growth and improving margins over the next 2 years. Benetton is expected to issue its new outlook and business plan targets in 2006.

### Growing retail presence

### Directly operated stores grew quickly in 2004-05

Although Benetton is still very dependent on its commercial partners, it now boasts 209 directly operated stores, which should generate an estimated EUR305m of sales in 2005, representing nearly 20% of the group's apparel revenues. These stores have been an important revenue driver over the last two years, partially offsetting the sharp decline in wholesale revenues in 2004 (-7.5%).

### Better reading of sell-out levels

Benetton is starting to monitor **its stores** (~4% of the total) to **analyse the sell-out rates** for the collection. This information will allow Benetton to better predict the level and types of reorders that the chain is likely to make, which radically reduces unsold stock and improves overall efficiency. In addition to its DOS network, Benetton is also planning to monitor a sample of independent stores. This initiative should help Benetton to benchmark the performance of its retail network and to determine why certain points of sale are not performing well.

**Breakdown of stores**

	1999	2000	2001	2002	2003	2004	2005E	2006E	2007E
<b>Total stores</b>	<b>5 641</b>	<b>5 551</b>	<b>5 456</b>	<b>5 404</b>	<b>5 259</b>	<b>5 080</b>	<b>5 000</b>	<b>5 000</b>	<b>5 000</b>
Italy	1 990	2 095	2 202	2 270	2 256	2 200			
Europe	2 305	2 200	2 157	1 999	1 932	1 865			
Asia		699	606	585	539	537			
America	397	294	259	262	286	282			
Other and licensee	949	263	232	288	246	196			
Own shops			85	87	121	204	210	240	250

Source: Cheuvreux

A key priority is to **reverse its commercial partners' negative revenue trend** in 2006, which would be a major revenue driver for the group going forward. Management's strategy to: (1) improve cooperation with the network; (2) raise network margins (with more attractive wholesale prices); and (3) avoid pushing volumes through base orders (favouring reorders) should all help fortify Benetton's relationship with the network.

The **DOS strategy focuses on entering new markets, exploiting special opportunities and collecting accurate feedback regarding sell-out rates**. Therefore, it seems fair to expect a mild increase in growth at the DOS: we estimate that their weight on total group revenues should range from ~20% to 22% in 2007-08.

**Breakdown of retail and wholesale revenues**

(EUR m)	2003	2004	2005E	2006E	2007E	2008E
Retail	149	245 (incl. Korea)	305	342	372	391
Wholesale	1 430	1 323	1 285	1 312	1 397	1 466
Weight of retail (%)	9%	16%	19%	21%	21%	21%

Source: Cheuvreux

**Higher sales per square meter**

**Higher sales per square meter is a more urgent goal than new openings at this stage.** The distribution network (consisting of ~4,800 franchised shops which account for 80% of sales and ~200 DOS which contribute 20% of revenues) has not changed significantly, apart from selective expansion in promising new countries (mainly emerging markets). Above all, Benetton is focusing on reorganising and improving store lay-outs to raise revenues, in addition to a **gradual improvement of the product mix** with more hanging garments, main collections and upgrade of core category products such as knitwear.

**Investing to restore revenue growth**

**Short term: restore revenue growth and network confidence**

Benetton has adopted a **more aggressive commercial strategy** since H2-05. Beginning with the Autumn/Winter 2005 collection, it introduced **more appealing retail prices** (i.e. a lower entry level price to attract new customers) **and it now offers better margin conditions to the retail network**. Overall, this means that the group will sacrifice ~5% revenue growth in the short term, and the impact of this strategy should continue in 2006. However, the strategy seems to be paying off so far and Benetton believes it should help **restore revenue growth over the longer term**.

**Early indications are good**

**Since this strategy was introduced, the sell-out rate for the Autumn/Winter 2005 collection has improved by 3%.** At the wholesale level the A/W 2005 backlog order went gradually improving in terms of volumes and mix with an overall +3/4% **The initial feedback from the Spring/Summer 2006 season also signals gradual improvement**, indicating that higher volumes and a better mix (~5%) are offsetting the 5% price cut.

Casual wear could grow by 8% in 2006...

In 2006, this strategy should help **improve volume growth**, with a **slight dilution in the operating margin**, before non-recurring items (which we believe will be positive as restructuring charges should decline). In our model for 2006, we assume a 7% volume increase and a 2% improvement in the mix, partly offset by a 5% negative price impact: volume growth should be supported by the inclusion of Turkish business, which should yield about a ~2% benefit, leading to **4% total growth for the apparel business**.

Revenue drivers

(%)	2001	2002	2003	2004	2005E	2006E	2007E	2008E
Volumes	+8.8%	-5.9%	+3.4%	+0.0%	+3.5%	<b>+7.0%</b>	+7.0%	+4.0%
Mix					+4.0%	<b>+2.0%</b>	+2.0%	+2.0%
Price (/Mix)	+0.7%	+3.2%	-1.3%	-3.7%	-6.0%	<b>-5.0%</b>	-2.0%	-1.0%
Currency		+0.0%	-2.6%	-1.0%	+0.0%	<b>+0.0%</b>	+0.0%	+0.0%

Source: Cheuvreux

...with a further dilution of the gross margin

We believe that **Benetton's strategy to raise volumes will weigh on the gross margin**, despite the relocation of production to new low-cost countries. The improvement in the mix should be offset by slightly higher production costs per unit (we expect EUR7.4/piece), leading to a dilution of the gross margin from 43-44% in 2005 to ~42% next year, implying that the top line improvement (~+3% also factoring a 10% reduction in the textile business) is unlikely to boost gross profit (which we expect will remain flat or fall slightly). With higher volumes to deliver and fresh revenue growth, we expect commercial costs to edge up slightly, which should depress the contribution margin further (-1.5%).

Gross margin and contribution margin

	2004A	2005E	2006E	2007E	2008E
<b>Gross Margin</b>	<b>775.0</b>	<b>748.6</b>	<b>741.7</b>	<b>783.6</b>	<b>822.3</b>
Change (%)	-4.3%	-3.4%	-0.9%	5.6%	4.9%
Margin (%)	45.5%	43.5%	41.9%	41.7%	41.9%
<b>Contribution margin</b>	<b>653.0</b>	<b>630.6</b>	<b>620.6</b>	<b>654.5</b>	<b>687.8</b>
Change (%)		-3.4%	-1.6%	5.5%	5.1%
Margin (%)	38.3%	36.7%	35.1%	34.8%	35.0%

Source: Cheuvreux

**Increasing new collections & updating product range more frequently**

From 2 to 4 collections a year

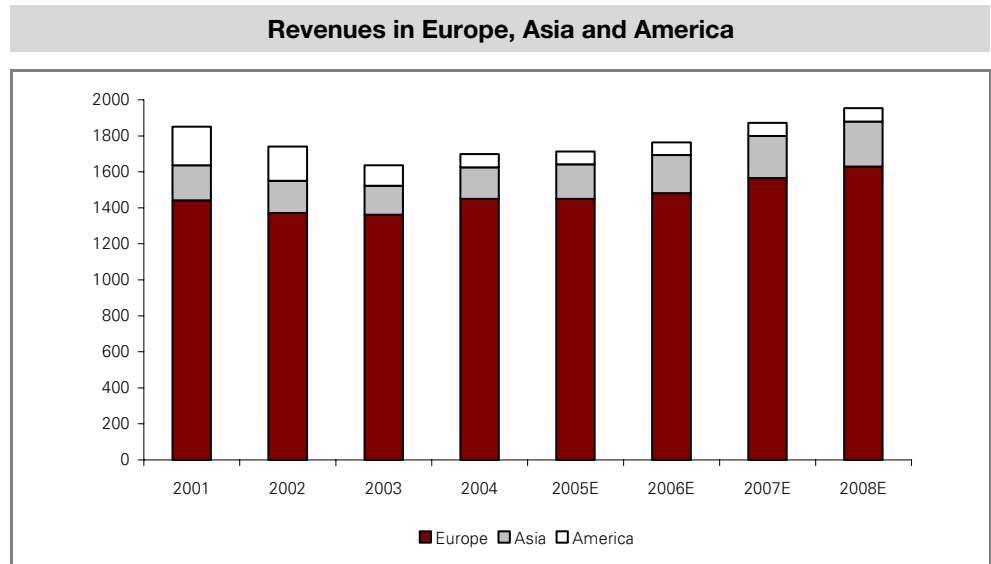
**Starting with the A/W 2006 collection, Benetton will move from two collections to 4+1 collections a year**, marking the end of a gradual change in the structure of the collections, which have been steadily simplified. In addition, Benetton plans to introduce special "theme collections" (such as a cashmere line and the "Barbie loves Benetton" line for children's wear, along with several "flash" collections to take advantage of the season's hottest trends) in order to increase client visits during the season and offering a renewed product range more than once per month.

Simpler collections, higher value per piece

Collections have been streamlined in terms of the number of pieces presented (-30% for UCB, -15% for Sisley and -10% for children's wear vs. 2004), in order to better manage the commercial calendar and service to the store. Moreover, in certain segments (menswear) Benetton has improved the mix by providing more hanging garments.

Doubling the number of yearly collections and adding new "special" product lines should yield significant advantages: (1) it should **increase the variety of the products**, to better meet demand; (2) **the stock available in shops will be replaced several times a year**, which should increase the frequency of customer visits and attract new clients; (3) it should allow Benetton to **close the gap with its main competitors**, which have been by far more dynamic in this respect over the last few years.

### ***New markets could yield interesting growth opportunities***



Source: Cheuvreux, Benetton

**New markets are gaining critical mass**

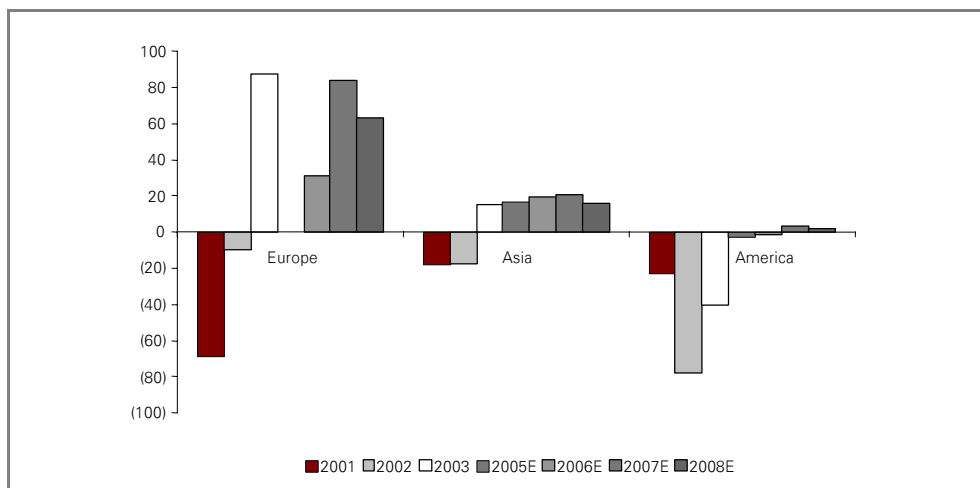
**Benetton is still mainly a Western European retailer**, despite its worldwide brand recognition. With 50% of its sales concentrated in Italy, we believe that there is significant scope for further geographical diversification going forward. In addition, revenues have dropped sharply in the Americas over the last few years, falling from 14% of group sales in 1999-00 (including sports equipment) to 4-5% now.

- European revenues represent 85% of the total (o/w Eastern Europe contributed 6%, Greece 3% and Portugal 3%). The **Mediterranean region (~13-14% of sales)** and **Eastern Europe (~6%)** should provide fresh growth opportunities for Benetton in the coming years.
- In the Far East (which represents 10% of Benetton's business), **South Korea** is a particularly appealing **market** for Benetton, representing ~4% of sales, and there is scope for further penetration. Benetton is also interested in increasing its presence in India, where it manufactures cotton products.

**Entry in Turkey to support business in H1-06**

Benetton signed an agreement in May 2005, to buy 50% of the company that manages Benetton stores in **Turkey**. The agreement should generate >EUR20m revenues in 2005 and an estimated EUR40-45m of total sales in 2006. The initial plan is to expand the network from the current ~50 shops in order to increase revenues by 50% in the next 5 years.

Contribution of different regions to sales



Source: Cheuvreux, Benetton

Other opportunities: accessories, Sisley and advertising?

Accessories may add up to 1% percentage point of growth going forward

Benetton has not yet developed its accessories business yet. Royalties account for just ~1% of sales, while accessories account for 4% of the total. We believe that the company should gradually raise the weight of this business to 8-10%, in line with competing brands, given its efforts to launch new products like shoes and hand bags.

2 brands

United Colours of Benetton (UCB) is the group's core brand, representing 76% of its revenues in H1-05. However, Sisley, which weighs for ~17% of the group's revenues performed better (2% growth in H1-05). In our view, this could be an interesting opportunity for Benetton to pursue a brand diversification strategy. Although management is concentrating on turning UCB around (-2% in H1-05), we believe the Sisley brand should not be neglected. It could be developed further by launching a specialised chain of shops (200-250 square meters).

UCB and Sisley: Revenue trends since 1999

(EUR m)	1999	2000	2001	2002	2003	2004	2005E	2006E	2007E	2008E
UCB	1 129	1 170	1 263	1 227	1 197	1 158	1 178	1 225	1 305	1 363
Sisley	251	280	324	303	337	304	310	322	345	366
UCB change		3.7%	8.0%	-2.9%	-2.4%	-3.3%	1.7%	4.0%	6.5%	4.5%
Sisley change		11.7%	15.8%	-6.5%	11.2%	-9.8%	2.0%	4.0%	7.0%	6.0%

Source: Cheuvreux, Benetton

Advertising investments are still relatively small

Eventually, Benetton could resume its aggressive marketing tactics, to better support its rich new product range and more efficient retail network. Without a doubt, UCB and Sisley remain well-known brands and in the last few years only 3% of sales have been invested in advertising vs. >5% in 2000.

Advertising and weight on revenues

(EUR m)	2001	2002	2003	2004	2005E
Advertising	112.6	101.9	69.47	54	54
Advertising/sales	5.4%	5.1%	3.7%	3.2%	3.1%

Source: Cheuvreux

**Costs and logistics**

To support its ambitious commercial strategy, Benetton has also invested heavily in its manufacturing and logistics processes in order to:

- **Improve product quality**, by using new materials, raising the fashion content, paying more attention to comfort and quality and improving the finishing of products.
- **Speed up the time to market**, by reducing the lead time, leveraging on a new supply and logistics system based mostly in low-cost countries (now ~75% of the total production capacity), with more modest production facilities based in Italy (~10%) and Istria, in Croatia, combined with fully centralised procurement of raw materials. The **de-localisation of production to low-cost countries** is nearly complete: >70% of all production is now based mainly in Tunisia, Croatia and Hungary.
- **New IT system**. Benetton made an investment in IT to connect a sample of shops (see page 10) to collect feedback about the sales of different products in its collection to anticipate re-ordering trends and avoid stock surpluses.

**2007: the moment of truth**

If the strategy is successful, Benetton should reap the first rewards in 2007. Based on our forecasts, we expect revenue growth to accelerate to 6-7% supported by +7% growth at the core apparel division. While we still anticipate moderate price erosion (-2%), we believe volume growth could remain in the high single digit range (we forecast 7%).

**If successful, the strategy should start to pay off in 2007**

**Revenue drivers**

(%)	2001	2002	2003	2004	2005E	2006E	2007E	2008E
Volumes	+8.8%	-5.9%	+3.4%	+0.0%	+3.5%	+7.0%	<b>+7.0%</b>	+4.0%
Mix					+4.0%	+2.0%	<b>+2.0%</b>	+2.0%
Price (/Mix)	+0.7%	+3.2%	-1.3%	-3.7%	-6.0%	-5.0%	<b>-2.0%</b>	-1.0%
Currency		+0.0%	-2.6%	-1.0%	+0.0%	+0.0%	<b>+0.0%</b>	+0.0%

Source: Cheuvreux

If no further price cuts are made, we estimate that the gross margin could stabilise at ~42% in 2007, with a ~35% contribution margin, roughly 3-4% points below the level reported before the new strategy was implemented. Based on these figures, we estimate that the EBIT margin could rebound to ~11% (vs. an all time low of 10% in 2005-06) and EBIT could exceed EUR200m.

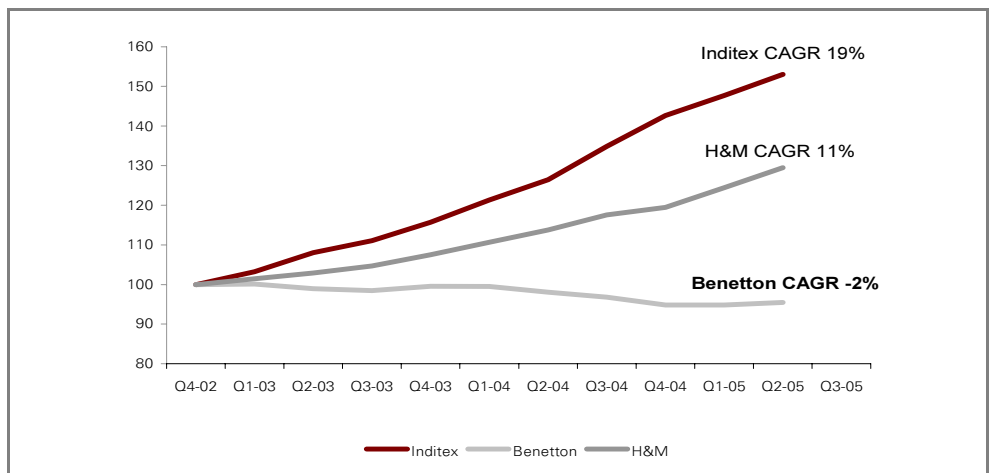
**Stabilisation of the contribution margin**

### III – BENCHMARKING BASED ON KEY PEERS

**A long way to go**

Benetton has sharply underperformed its key competitors over the last three years. We estimate that on a rolling basis, Benetton's total revenues have fallen by 2% pa since 2002 (~-1.3% for UCB), while the performances of key competitors like Inditex and H&M have improved by +19% and +11% respectively. Moreover, Benetton's turnover has basically remained stable, in line with 2002 levels, while Inditex's turnover has grown by 50% and H&M's 30%. **In our view, this is directly attributable to retail expansion:** over the last 4 years, Inditex's retail network grew by 20% annually, while H&M's points of sale grew at a 12% CAGR. Benetton's stagnant revenues appear to be linked to the 2% annual decline in stores.

Revenue trend for the last 3 years

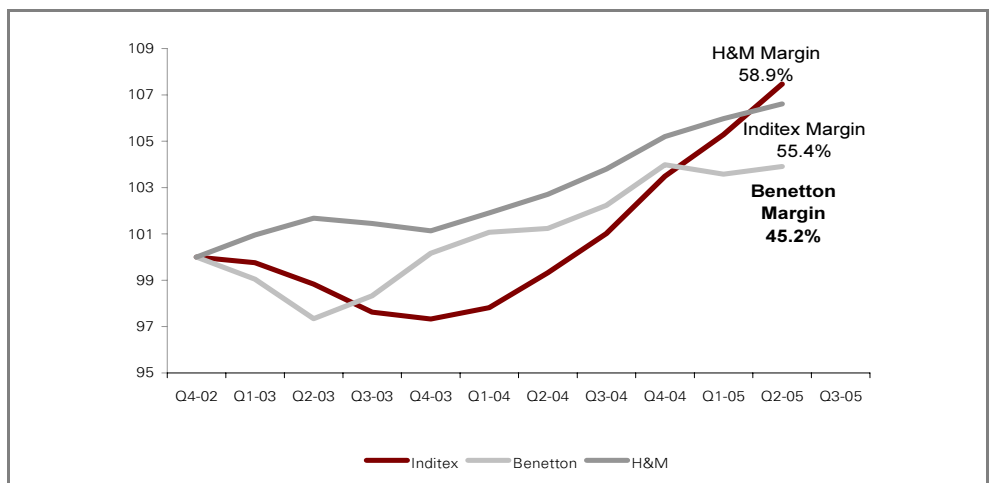


Source: Cheuvreux

**Benetton's gross margin has suffered as a result of the new strategy**

Benetton's gross margin continued to grow in line with its peers until 2004. This year, the new strategy kept Benetton's gross margin stable, however in 2006 it is likely to dip slightly. Inditex and H&M on the other hand have steadily raised their gross profitability to 55-60% vs. Benetton at 44-45%. We believe that Benetton is unlikely to close this gap in the next 2 years, as management are concentrating on top line growth rather than margin expansion: gains from production delocalisation to low-cost countries should just be enough to offset the price decline.

Gross margin evolution (base 2002 = 100)



Source: Cheuvreux

## IV— ESTIMATES SUMMARY

### *Revenue growth of 4.5% between 2005 and 2008*

#### **Revenue growth to accelerate in 2007**

We estimate that sales should grow by about 5% per year from 2005 to 2008. The pace of growth should remain quite sluggish in 2006 (<3%), but should pick up in 2007 (~6%) once the new strategy kicks in. After that point, we believe 3-4% growth would be sustainable. These assumptions are based on a steady decline at the textile business (from 6% to 4% of sales in 2008), combined with slightly higher growth at the casual business (~1% more than the consolidated revenue trend).

#### Revenue breakdown

FY to 31/12 (EUR m)	%		%		%		%		CAGR 05-08	
	2004	05/04	2005E	06/05	2006E	07/06	2007E	07/08		
Apparel	1 567.7	1.4%	1 589.6	4.0%	1 653.2	7.0%	1 769.0	5.0%	1 857.4	5.3%
Textile			100.0	-10.0%	90.0	-5.0%	85.5	-5.0%	81.2	-6.7%
Other			30.0	-10.0%	27.0	-5.0%	25.6	-5.0%	24.4	-6.7%
<b>Sales</b>	<b>1 704.0</b>	<b>0.9%</b>	<b>1 719.6</b>	<b>2.9%</b>	<b>1 770.2</b>	<b>6.2%</b>	<b>1 880.1</b>	<b>4.4%</b>	<b>1 963.0</b>	<b>4.5%</b>

Source: Cheuvreux

#### **Asia should outperform other markets**

In terms of the geographical breakdown, we expect Asia to grow more than the European markets (~9% CAGR vs. 4% of Europe), while our estimates for America do not factor in any improvement (~2% sales CAGR). The comparison with previous years is difficult as the disposal of the sports equipment business has significantly impaired the geographical breakdown. The retail business should remain the key driver of revenue growth (we expect +9% CAGR), although our 2006 estimates already factor in a modest rebound of the sales generated via the franchising network (+2%).

### *Margins should be under pressure again in 2006, but recover in 2007*

#### **A modest EBIT increase in 2006**

With management devoting all their energy to restoring revenue growth through price adjustments and higher margins to the network, it is fair to assume that in 2006 Benetton's EBIT margin could be under pressure and might remain in the region of 10%, basically flat vs. 2005. **Therefore, we are factoring a nearly flat operating profit of ~EUR181m into our forecast for 2006**, based on two trends:

- The expected decline in the contribution margin from EUR653m to EUR631m in 2005 (-3.4%), mainly driven by the deterioration of the gross margin (from 45.5% to 43.5%) due to the new pricing policy and other measures to revive the wholesale business. This trend should persist throughout 2006, although we expect it to be mildly offset by higher volumes: we expect the contribution margin to bottom out at ~EUR621m in 2006.
- The steady reduction of operating costs, which could be very evident in 2005 (from EUR495m to EUR457m) and could continue though to a lesser extent in 2006 (we factor in another EUR17m reduction). Part of this reduction should be due to the decline in restructuring charges from EUR29m of 2004 to an expected EUR20m in 2005 and ~EUR15m in 2006. In 2006, we estimate that opex reduction will basically compensate for the lower contribution margin.

## Contribution margin and EBIT margin

(EUR m)	2004	2005E	2006E	2007E	2008E
<b>Contribution margin</b>	<b>653.0</b>	<b>630.6</b>	<b>620.6</b>	<b>654.5</b>	<b>687.8</b>
Change (%)	-6.1%	-3.4%	-1.6%	5.5%	5.1%
Margin (%)	38.3%	36.7%	35.1%	34.8%	35.0%
<b>EBIT</b>	<b>158.0</b>	<b>173.6</b>	<b>180.8</b>	<b>208.9</b>	<b>235.4</b>
Change (%)		9.9%	4.1%	15.6%	12.7%
Margin (%)	9.3%	10.1%	10.2%	11.1%	12.0%

Source: Cheuvreux

**We expect a recovery in 2007**

**We expect margins to recover in 2007** due to Benetton's less aggressive stance on pricing. We currently factor in a 1% improvement in the operating margin to 11%. This, coupled with an acceleration in revenue growth, should result in a double digit EBIT increase to >EUR200m.

**Free cash flow generation should remain sound**

In this scenario, we expect that Benetton should continue to generate ~EUR100m equity free cash flow on a yearly basis in 2006 and 2007, after hitting a low of ~EUR80m in 2005, assuming that:

- **the working capital for sales**, which has risen to >41% in the last 2 years, **could gradually decline**. While we believe that historical level of 37-38% is not consistent with the company's new structure (direct retail exposure is rising), we feel that Benetton could gradually reduce this ratio to ~40% of sales, implying that the working capital requirement could be just EUR35-40m (cumulative) in 2006-07, despite the EUR160-170m revenue increase.
- **Capex should remain above EUR100m** in line with the EUR100-120m of 2005.
- **Cash flow should be flat in 2006** at just more than EUR200m **and rise in 2007**, supported by the better operating performance.
- All in all, we expect that with a constant dividend policy implying a 55-60% distribution of net profit, **debt could decline to EUR330-335m in 2007** from the year-end level of EUR390-400m, implying a breakdown of equity free cash flow destination of 70% distribution and 30% debt reduction.

## Cash flow statement

(EUR m)	2003	2004	2005E	2006E	2007E	2008E
<b>Cash flow</b>	<b>255.6</b>	<b>254.0</b>	<b>211.6</b>	<b>203.3</b>	<b>232.1</b>	<b>274.4</b>
% Change	8.0%	-0.6%	-16.7%	-3.9%	14.2%	18.2%
Change in WCR	(3.8)	15.0	(10.0)	(6.2)	(30.1)	(33.4)
Capex	(150.5)	(69.0)	(105.0)	(110.0)	(110.0)	(120.0)
<b>Net cash flow</b>	<b>101.3</b>	<b>200.0</b>	<b>96.6</b>	<b>87.1</b>	<b>92.0</b>	<b>121.0</b>
Financial investments	(42.0)	(23.0)	0.0	0.0	0.0	0.0
Disposals	143.9	50.0	3.0	3.0	3.0	3.0
Dividend paid	(64.3)	(69.0)	(61.7)	(61.3)	(64.0)	(76.1)
Capital increase	0.0	0.0	0.0	0.0	0.0	0.0
Other cash flow	6.0	(121.0)	0.0	0.0	0.0	0.0
<b>Dec. [inc.] in net debt</b>	<b>144.9</b>	<b>37.0</b>	<b>37.9</b>	<b>28.8</b>	<b>31.0</b>	<b>47.8</b>

Source: Cheuvreux

<b>Benetton</b>							<b>IFRS</b>		
<b>FY to 31/12 (Euro m)</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2004</b>	<b>2005E</b>	<b>2006E</b>	<b>2007E</b>
<b>Profit &amp; Loss Account</b>									
<b>Sales</b>	<b>2 018.1</b>	<b>2 098.0</b>	<b>1 991.8</b>	<b>1 859.0</b>	<b>1 686.0</b>	<b>1 704.0</b>	<b>1 719.6</b>	<b>1 770.2</b>	<b>1 880.1</b>
% Change	1.8%	4.0%	-5.1%	-6.7%	-9.3%		0.9%	2.9%	6.2%
Staff costs	(219.6)	(236.5)	(243.1)	(212.2)	(212.0)	(213.0)	(220.0)	(219.8)	(224.6)
Other costs	(642.3)	(655.0)	(618.8)	(548.2)	(529.0)	(470.0)	(481.6)	(486.6)	(520.4)
<b>EBITDA</b>	<b>422.7</b>	<b>418.5</b>	<b>375.7</b>	<b>336.0</b>	<b>317.0</b>	<b>257.0</b>	<b>261.6</b>	<b>266.8</b>	<b>295.9</b>
% Change	-1.2%	-1.0%	-10.2%	-10.6%	-5.7%		1.8%	2.0%	10.9%
Depreciation	(90.4)	(132.9)	(132.9)	(104.0)	(99.0)	(99.0)	(88.0)	(86.0)	(87.0)
<b>EBITA</b>	<b>332.3</b>	<b>285.6</b>	<b>242.8</b>	<b>232.0</b>	<b>217.0</b>	<b>158.0</b>	<b>173.6</b>	<b>180.8</b>	<b>208.9</b>
% Change	-1.9%	-14.1%	-15.0%	-4.4%	-6.5%		9.9%	4.1%	15.6%
Goodwill amortisation before OP	(23.2)	0.0	0.0	0.0	(1.0)	0.0	0.0	0.0	0.0
Goodwill amortisation [impairment test]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non recurring operational items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>EBIT</b>	<b>309.1</b>	<b>285.6</b>	<b>242.8</b>	<b>232.0</b>	<b>217.0</b>	<b>158.0</b>	<b>173.6</b>	<b>180.8</b>	<b>208.9</b>
Net financial items	(38.2)	(29.6)	(31.8)	(22.0)	(26.0)	(22.0)	(22.0)	(21.0)	(19.0)
Non recurring financial items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other exceptional items	75.4	(13.3)	(161.8)	(45.0)	(26.0)	0.0	0.0	0.0	0.0
Tax	(100.5)	(92.4)	(57.2)	(56.0)	(42.0)	(28.0)	(42.5)	(44.7)	(53.2)
Goodwill amortisation	0.0	0.0	0.0	0.0	(1.0)	0.0	0.0	0.0	0.0
Discontinuing activities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Goodwill amortisation	0.0	0.0	0.0	0.0	(1.0)	0.0	0.0	0.0	0.0
<b>Net profit [loss] before minorities</b>	<b>245.7</b>	<b>150.3</b>	<b>(8.0)</b>	<b>109.0</b>	<b>123.0</b>	<b>108.0</b>	<b>109.2</b>	<b>115.0</b>	<b>136.7</b>
Dividend to preferred shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Minorities	(2.4)	(2.2)	(1.6)	(1.0)	0.0	0.0	(2.0)	(3.0)	(3.5)
<b>Net attributable profit [loss]</b>	<b>243.3</b>	<b>148.1</b>	<b>(9.6)</b>	<b>108.0</b>	<b>123.0</b>	<b>108.0</b>	<b>107.2</b>	<b>112.0</b>	<b>133.2</b>
Restatement [impairment test]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Adj. for exceptional items	(53.5)	8.4	136.6	31.0	16.4	0.0	0.0	0.0	0.0
<b>Net attrib. profit [loss], restated (*)</b>	<b>213.0</b>	<b>156.5</b>	<b>127.0</b>	<b>139.0</b>	<b>141.4</b>	<b>108.0</b>	<b>107.2</b>	<b>112.0</b>	<b>133.2</b>
% Change	12.3%	-26.5%	-18.8%	9.4%	1.7%		-0.8%	4.5%	18.9%
<b>Cash Flow Statement</b>									
<b>Cash flow</b>	<b>336.1</b>	<b>285.1</b>	<b>236.6</b>	<b>255.6</b>	<b>179.9</b>	<b>254.0</b>	<b>211.6</b>	<b>203.3</b>	<b>232.1</b>
% Change	29.9%	-15.2%	-17.0%	8.0%	-29.6%		-16.7%	-3.9%	14.2%
Change in WCR	(31.3)	(68.0)	8.5	(3.8)	89.1	15.0	(10.0)	(6.2)	(30.1)
Capex	(264.9)	(311.3)	(168.5)	(150.5)	(69.0)	(69.0)	(105.0)	(110.0)	(110.0)
o/w Growth capex	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net cash flow</b>	<b>39.9</b>	<b>(94.2)</b>	<b>76.6</b>	<b>101.3</b>	<b>200.0</b>	<b>200.0</b>	<b>96.6</b>	<b>87.1</b>	<b>92.0</b>
Financial investments	0.0	29.6	(4.2)	(42.0)	(23.0)	(23.0)	0.0	0.0	0.0
Net buyback of treasury shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Disposals	119.8	34.5	12.5	143.9	50.0	50.0	3.0	3.0	3.0
Dividend paid	(187.5)	(84.5)	(74.9)	(64.3)	(69.0)	(69.0)	(61.7)	(61.3)	(64.0)
Capital increase	0.0	1.5	0.6	0.0	0.0	0.0	0.0	0.0	0.0
Other cash flow	(211.3)	0.0	17.0	6.0	(121.0)	(121.0)	0.0	0.0	0.0
Dec. [inc.] in net debt	(239.1)	(113.1)	27.6	144.9	37.0	37.0	37.9	28.8	31.0
<b>Balance Sheet</b>									
Shareholders' equity [group share]	1 174.9	1 240.7	1 140.6	1 173.9	1 230.0	1 206.0	1 251.5	1 302.2	1 371.4
Minority interests	11.9	15.2	14.8	12.8	7.0	7.0	7.5	8.0	8.5
Pension provisions	0.0	52.4	53.4	49.8	1.0	0.0	0.0	0.0	0.0
Other provisions	83.7	20.2	56.9	42.4	0.0	0.0	0.0	0.0	0.0
Net debt [cash]	536.6	640.1	613.0	467.5	431.0	441.0	392.6	363.8	332.9
Gearing [%]	45.2	51.0	53.1	39.4	34.8	36.4	31.2	27.8	24.1
<b>Capital invested</b>	<b>1 807.1</b>	<b>1 968.6</b>	<b>1 878.7</b>	<b>1 746.4</b>	<b>1 669.0</b>	<b>1 654.0</b>	<b>1 651.6</b>	<b>1 674.0</b>	<b>1 712.8</b>
Goodwill	(23.2)	0.0	0.0	0.0	(1.0)	0.0	0.0	0.0	0.0
Intangible assets	312.5	443.9	255.0	231.0	0.0	136.3	141.3	146.3	151.3
Tangible assets	681.7	720.5	706.0	713.8	951.0	772.7	756.3	767.5	771.1
Financial assets	40.8	14.3	140.6	75.6	30.0	33.0	33.0	33.0	33.0
Associates	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Working capital requirement	772.1	789.9	777.1	726.0	688.0	711.0	721.0	727.2	757.3
WCR as a % of sales	38.3	37.7	39.0	39.1	40.8	41.7	41.9	41.1	40.3
<b>Capital employed</b>	<b>1 783.8</b>	<b>1 968.6</b>	<b>1 878.7</b>	<b>1 746.4</b>	<b>1 668.0</b>	<b>1 653.0</b>	<b>1 651.6</b>	<b>1 674.0</b>	<b>1 712.8</b>

\* before goodwill for historical data

<b>Benetton</b>							<b>IFRS</b>		
<b>FY to 31/12 (Euro)</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2004</b>	<b>2005E</b>	<b>2006E</b>	<b>2007E</b>
<b>Per Share Data (at 2/12/2005)</b>									
EPS before goodwill	1.17	0.86	0.70	0.77	0.78	0.60	0.59	0.62	0.73
% Change	12.4%	-26.5%	-18.9%	9.6%	1.7%		-0.8%	4.6%	19.0%
EPS, reported	1.34	0.82	(0.05)	0.60	0.68	0.60	0.59	0.62	0.73
% Change	46.1%	-39.1%	NS	NS	13.8%		-0.8%	4.6%	19.0%
Goodwill per share	0.13	0.00	0.00	0.00	0.01	0.00	0.00	0.00	0.00
Dividend per share	0.46	0.41	0.35	0.33	0.34	0.34	0.34	0.35	0.42
Cash flow per share	1.85	1.57	1.30	1.41	0.99	1.40	1.17	1.12	1.28
% Change	29.8%	-15.2%	-17.0%	8.1%	-29.6%		-16.7%	-3.9%	14.2%
Book value per share	6.0	6.4	5.9	6.1	6.4	6.3	6.6	6.8	7.1
No. of shares, adjusted	181.536	181.559	181.559	181.559	181.559	181.559	181.559	181.559	181.559
Av. number of shares, adjusted	181.536	181.559	181.559	181.559	181.559	181.559	181.559	181.559	181.559
Treasury stock, adjusted	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
<b>Share Price [Adjusted]</b>									
Latest price	21.95	12.72	8.50	9.11	9.74	9.74	9.48	9.48	9.48
High	25.05	22.70	16.24	11.50	10.53	10.53	10.34	-	-
Low	18.55	9.45	8.21	5.78	8.26	8.26	6.82	-	-
Average price	21.28	15.70	12.18	8.65	9.20	9.20	8.32	-	-
Market capitalisation	3 984.7	2 309.4	1 543.1	1 654.0	1 768.0	1 768.0	1 721.7	1 721.7	1 721.7
Enterprise value	4 560.8	3 030.2	2 229.5	2 189.4	2 210.1	2 219.3	2 124.7	2 096.1	2 065.3
<b>Valuation</b>									
P/E	21.0	14.8	12.2	11.9	12.7	16.4	16.1	15.4	12.9
P/E before goodwill	18.7	14.8	12.2	11.9	12.5	16.4	16.1	15.4	12.9
P/CF	11.9	8.1	6.5	6.5	9.8	7.0	8.1	8.5	7.4
Attrib. FCF yield [%]	1.0	NS	4.9	6.1	11.2	11.2	5.6	5.0	5.3
P/BV	3.7	2.0	1.4	1.5	1.5	1.5	1.4	1.4	1.3
Enterprise value / Op CE	2.6	1.6	1.3	1.3	1.3	1.4	1.3	1.3	1.2
Yield [%]	2.1	3.2	4.1	3.6	3.5	3.5	3.6	3.7	4.4
EV/EBITDA, restated	10.8	7.2	5.9	6.5	7.0	8.6	8.1	7.9	7.0
EV/EBITA, restated	13.7	10.6	9.2	9.4	10.2	14.0	12.2	11.6	9.9
EV/Sales	2.26	1.44	1.12	1.18	1.31	1.30	1.24	1.18	1.10
EV/Debt-adjusted cash flow	12.4	9.9	9.5	8.0	11.0	8.1	9.3	9.5	8.4
<b>Financial Ratios</b>									
Interest cover	8.7	9.6	7.6	10.5	8.3	7.2	7.9	8.6	11.0
Net debt/Cash flow	1.6	2.2	2.6	1.8	2.4	1.7	1.9	1.8	1.4
EBITDA margin [%]	20.9	19.9	18.9	18.1	18.7	15.1	15.2	15.1	15.7
EBITA margin [%]	16.5	13.6	12.2	12.5	12.9	9.3	10.1	10.2	11.1
Net margin [%]	12.2	7.2	NS	5.9	7.3	6.3	6.3	6.5	7.3
Capital turn [Sales/ Op. CE]	1.2	1.1	1.1	1.1	1.0	1.1	1.1	1.1	1.1
Gearing [%]	45.2	51.0	53.1	39.4	34.8	36.4	31.2	27.8	24.1
Payout ratio [%]	34.3	50.3	(661.9)	55.5	50.2	57.2	57.6	56.7	57.2
<b>Return [%]</b>									
Pre-tax RoCE	19.1	14.6	14.0	13.9	13.2	9.8	10.7	11.0	12.4
RoCE after tax	13.5	9.0	NS	9.2	9.9	7.7	7.7	7.9	9.0
ROE [%]	23.1	12.7	NS	9.6	10.5	9.4	8.9	9.0	10.2
Return on equity, restated	17.6	13.5	11.8	12.6	12.0	9.4	8.9	9.0	10.2

## Important Disclosures

### Applicable disclosure clauses

Company	Closing Price	Rating	Disclosures
Benetton	EUR9.483	2/Outperform	E

A - One or more companies in the Crédit Agricole S.A. group owned more than 1% of the total issued share capital of the Company as of the end of the second most recent month preceding the publication date of this report.

B - One or more companies in the Crédit Agricole S.A. group owned more than 5% of the total issued share capital of the Company as of the end of the second most recent month preceding the publication date of this report.

C - The Company owned more than 5% of the total issued share capital of Crédit Agricole SA as of the end of the second most recent month preceding the publication date of this report.

D - One or more companies in the Crédit Agricole S.A. group held, as of the end of the second most recent trading day, a net sales position higher than 1% of the total issued share capital of the Company.

E - The trading portfolio of one or more companies in the Crédit Agricole S.A. group contained shares of the Company as of the end of the second most recent trading day.

F - Crédit Agricole Cheuvreux and/or a company in the Crédit Agricole S.A. group is a market maker or a liquidity provider for the financial instruments of the Company.

G - Calyon and/or a company in the Crédit Agricole S.A. group has been involved within the last three years in a publicly disclosed offer of or on financial instruments of the Company.

H - Calyon and/or a company in the Crédit Agricole S.A. group has concluded or is party to a non confidential agreement relating to the provision of investment banking services (except publicly disclosed offers mentioned under G) to the Company during the past 12 months or that has given rise during the same period to the payment of compensation or to the promise to get a compensation paid.

I - This research has been communicated to the Company and following this communication, its conclusions have been amended before its dissemination.

J - A director or a board member of the Crédit Agricole S.A. group is an officer, director, or board member of the Company.

### Specific disclosure clauses

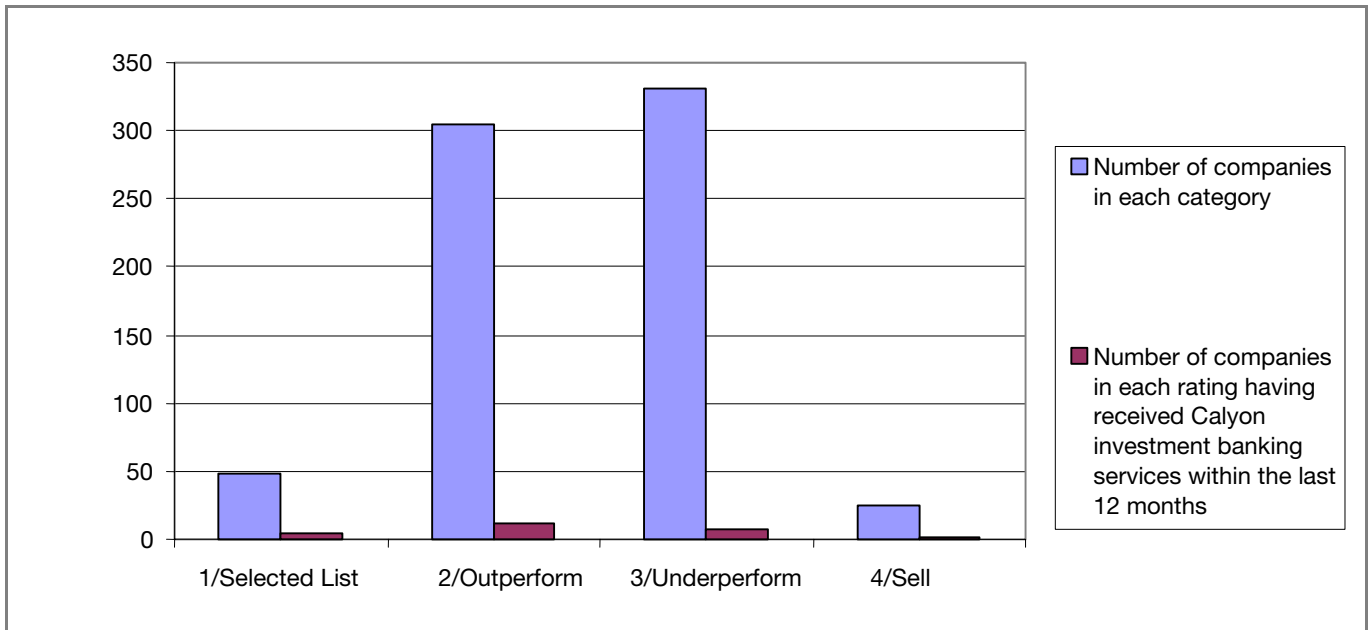
None.

### Cheuvreux's rating and target price system

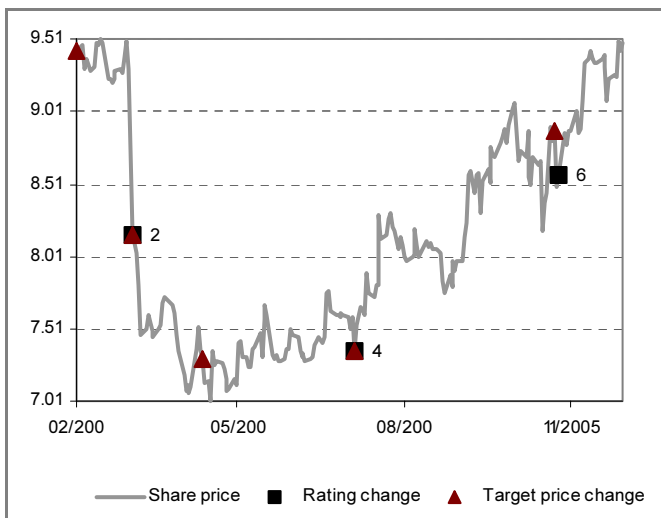
Ratings are built for a 6 to 12 month time horizon.

1/ Selected List	Expected to outperform the market and is in our country selected list
2/ Outperform	Expected to outperform the market
3/ Underperform	Expected to perform at best in line with the market
4/ Sell	Expected to underperform the market substantially
No Rating or Suspended	The investment rating and target price have been suspended . Such suspension is pursuant to Cheuvreux's policy in circumstances when Cheuvreux's parent company, Calyon, is acting in an advisory capacity in a merger or strategic transaction involving this company or when Calyon or Crédit Agricole has a beneficial interest in this company and in certain other circumstances.
Target price methodology	Cheuvreux's target prices are derived from one or more of the following methodologies : DCF, SOP, peer comparison and EVA.

Breakdown by rating category (as at 30/09/2005)



Share price trend and dates of changes in rating and/or target price



Dates of changes in target price and/or rating

N°	Date	Rating	Target price
1	04/02/2005		EUR9.00
2	07/03/2005		EUR8.00
3	14/04/2005		EUR7.00
4	07/07/2005	3/Underperform	EUR7.50
5	26/10/2005		EUR9.30
6	28/10/2005	2/Outperform	

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Country	Cheuvreux legal entity	Regulatory authority
France	Crédit Agricole Cheuvreux SA	Autorité des Marchés Financiers (AMF)
Germany	Crédit Agricole Cheuvreux Niederlassung – Frankfurt Branch	Bundesanstalt für Finanzdienstleistungsaufsicht (Bafin)
Italy	Crédit Agricole Cheuvreux Italia SIM SpA	Commissione Nazionale per le Società e la Borsa (Consob)
The Netherlands	Crédit Agricole Cheuvreux - Amsterdam Branch	Autoriteit Financiële Markten (AFM)
Spain	Crédit Agricole Cheuvreux Espana SV SA	Comisión Nacional del Mercado de Valores (CNMV)
Sweden	Crédit Agricole Cheuvreux Nordic AB	Finansinspektionen
Switzerland	Crédit Agricole Cheuvreux - Zurich Branch	Swiss Federal Banking Commission (SFBC)
United Kingdom	Crédit Agricole Cheuvreux International Ltd	Financial Services Authority (FSA)

**Local regulatory authorities**

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Italy	Crédit Agricole Cheuvreux Italia SIM SpA	Commissione Nazionale per le Società e la Borsa (Consob)
The Netherlands	Crédit Agricole Cheuvreux - Amsterdam Branch	Autoriteit Financiële Markten (AFM)
Spain	Crédit Agricole Cheuvreux Espana SA SV	Comisión Nacional del Mercado de Valores (CNMV)
Sweden	Crédit Agricole Nordic AB	Finansinspektionen
Switzerland	Crédit Agricole Cheuvreux - Zurich Branch	Swiss Federal Banking Commission (SFBC)
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