

# Benetton Group (BNG.MI)

## Lowering forecasts ahead of FY2004

### Note

March 23, 2005

### Underperform/Cautious

Europe  
Consumer Cyclical  
Retail

### Stock data

Price	€7.54
52-week range	€10.18 - 7.46
Dividend yield	5.0%

### Capitalization

Market cap	€1,368 mn
Enterprise value	€1,859 mn
Net debt/equity	39.6%
Shares outstanding	181.6 mn

### Price performance (%)

	1M	3M	12M
Absolute	(18.5)	(21.4)	(12.8)
Rel to FTSE Europe	(17.8)	(25.4)	(27.6)

**Summary:** Ahead of the FY results (March 31), we are lowering our forecasts for FY2004 and 2005, reflecting a weak trading environment in Benetton's core markets (Italy and Germany), lower selling prices and higher mark-ups to franchise stores. Benetton is making sensible steps in reducing prices, increasing the number of seasons and Asian sourcing. Our concern is this could take several years. Meanwhile we believe additional investment in prices will be required, with no guarantee that the franchise stores will improve performance. The stock is trading on around an 8% discount to the apparel sector (ex H&M/Inditex), which is generous in our view. A 5% dividend yield gives some downside support, but comments from management that there is no possibility of a property spin-off should disappoint asset-based investors. On fundamentals we think the stock should be trading closer to €7. We maintain our U/C rating.

### Forecasts and valuation

Fiscal year ended	EPS €	P/E X	Revenue €mn	Pre-Tax Profit €mn	Net Income €mn	EBITDA €mn	EV/EBITDA X	Div. Yield %
12/02A New	0.71	10.7	1,992	49.0	128.1	342.5	5.4	4.6
12/02A Old	unch	--	unch	187.0	(10.0)	343.0	--	--
12/03A	0.77	9.8	1,859	165.0	108.0	311.0	6.0	5.0
12/04E New	0.67	11.3	1,686	165.2	121.1	295.1	6.3	5.0
12/04E Old	0.73	--	1,710	181.0	132.0	312.0	--	--
12/05E New	0.53	14.3	1,620	133.9	95.7	239.7	7.8	5.1
12/05E Old	0.79	--	744.0	197.0	143.0	330.0	--	--
12/06E New	0.67	11.2	1,588	170.5	122.4	274.7	6.8	5.2
12/06E Old	0.92	--	2,003	227.5	166.3	360.6	--	--

Source: Company data, Goldman Sachs Research estimates

A breakdown of our 2004E-2006E numbers can be seen at the end of this section.

### We do believe Benetton is doing the right thing in theory.

Benetton is too expensive vs. the competition, and so reducing prices on key items is a sensible move. Increasing the mark up to the franchise stores effectively means that Benetton is giving them cash to reinvest in retail prices, existing stores and new openings. Increasing the number of seasons from two to five means that Benetton can compete more effectively with the likes of H&M, Zara and Gap. Not only can its stores look more up to date, but fast-selling lines can also be replenished more quickly, and slow-selling lines can be discontinued. Increasing the dollar sourcing base through its delocalisation programme should benefit Benetton as long as the dollar remains weak.

### Several risks remain.

This is unlikely to be a one-off price reduction in our view. The franchise stores are under no contractual obligation to pass on price cuts to customers, or invest in their stores, and so it is possible that they will keep the margin for themselves. This may be especially tempting when you consider the store owners have seen their net margins shrink from 10% to 0%-5%.

Because Benetton is predominantly a wholesaler, it is more concerned with increasing its sales through new store channels, rather than on driving same-store sales. This is risky in our view, if fewer stores

**The Goldman Sachs Group, Inc. does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.**

For Reg AC certification, see the text preceding Appendix 1. For other important disclosures, refer to Appendix 1, go to <http://www.gs.com/research/hedge.html>, or contact your investment representative.

### Keith Wills

keith.wills@gs.com  
London: +44(20)7774-1144

### James Targett, CFA

james.targett@gs.com  
London: +44(20)7552-9371

### Richard Chamberlain

richard.chamberlain@gs.com  
London: +44(20)7552-1361

### Christian Koefoed-Nielsen

christian.koefoed-nielsen@gs.com  
London: +44(20)7552-5944

Goldman Sachs

Global Investment Research

are opening in a more cautious environment, it will become more dependent on same store re-order volumes. Too much emphasis is put on driving sale through lower prices. The risk is that the Benetton brand itself is getting tired, and nothing seems to be being done to combat this.

Finally, it will take time to increase the volume of goods sourced from Asia, and the benefits will reduce if the dollar strengthens. In addition, the nature of the wholesale model means it is structurally impossible to reduce lead times to that of a pure play retailer, so it will always be at a disadvantage.

Each of the analysts named below hereby certifies that, with respect to each subject company and its securities for which the analyst is responsible in this report, (1) all of the views expressed in this report accurately reflect his or her personal views about the subject companies and securities, and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report: Keith Wills, James Targett, CFA.

---

**Exhibit 1: Benetton FY forecasts**

Eur mn

<b>Dec YE</b>	<b>2004E</b>	<b>2005E</b>	<b>2006E</b>
Revenues	1,686	1,620	1,588
<i>growth</i>	-9.3%	-3.9%	-2.0%
Gross profit	705	693	691
<i>margin</i>	41.8%	42.8%	43.5%
Operating income	216	162	198
EBITDA	295	240	275
EBIT	191	154	190
<i>margin</i>	11.3%	9.5%	12.0%
Pretax	165	134	170
Net income	121	96	122
EPS	0.67	0.53	0.67

---

*Source: Goldman Sachs Research estimate*

## APPENDIX 1: DISCLOSURES

### Coverage group(s) of stocks by primary analyst(s)

Keith Wills: Europe-General Retail. Richard Chamberlain: Europe-General Retail. Christian Koefoed-Nielsen: Europe-General Retail.

Europe-General Retail: Benetton Group, Boots, Carphone Warehouse, Cortefiel, Dixons Group, GUS, Halfords Group, Hennes & Mauritz, HMV Group, Inditex, Karstadt-Quelle, KESA, Kingfisher, Marks & Spencer, Matalan, MFI, Next, Pinault Printemps-Redoute, Signet Group, Woolworths Group plc.

### Company-specific regulatory disclosures

**The following disclosures relate to relationships between The Goldman Sachs Group, Inc. (with its affiliates, "Goldman Sachs") and companies covered by the Global Investment Research Division of Goldman Sachs and referred to in this research.**

Goldman Sachs has received compensation for investment banking services in the past 12 months: Benetton Group (€7.54)

Goldman Sachs expects to receive or intends to seek compensation for investment banking services in the next 3 months: Benetton Group (€7.54)

Goldman Sachs has received compensation for non-investment banking services in the past 12 months: Benetton Group (€7.54)

Goldman Sachs had an investment banking services client relationship during the past 12 months with: Benetton Group (€7.54)

Goldman Sachs had a non-investment banking securities-related services client relationship during the past 12 months with: Benetton Group (€7.54)

Goldman Sachs had a non-securities services client relationship during the past 12 months with: Benetton Group (€7.54)

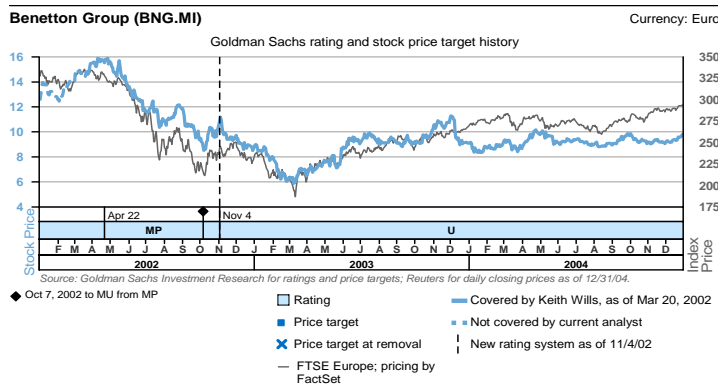
### Distribution of ratings/investment banking relationships

Goldman Sachs Investment Research global coverage universe

	Rating Distribution			Investment Banking Relationships		
	OP/Buy	IL/Hold	U/Sell	OP/Buy	IL/Hold	U/Sell
Global	24%	59%	17%	66%	57%	53%

As of January 1, 2005, Goldman Sachs Global Investment Research had investment ratings on 1,716 equity securities. Goldman Sachs uses three ratings relative to each analyst's coverage universe - Outperform, In-Line, and Underperform. See "Ratings, Coverage Views and related definitions" below. NASD/NYSE rules require a member to disclose the percentage of its rated securities to which the member would assign a buy, hold, or sell rating if such a system were used. Although relative ratings do not correlate to buy, hold, and sell ratings across all rated securities, for purposes of the NASD/NYSE rules, Goldman Sachs has determined the indicated percentages by assigning buy ratings to securities rated Outperform, hold ratings to securities rated In-Line, and sell ratings to securities rated Underperform, without regard to the coverage views of analysts.

## Price target and rating history chart(s)



The price targets shown should be considered in the context of all prior published Goldman Sachs research, which may or may not have included price targets, as well as developments relating to the company, its industry and financial markets.

## Regulatory disclosures

### Disclosures required by United States laws and regulations

See company-specific regulatory disclosures above for any of the following disclosures required as to companies referred to in this report: manager or co-manager in a pending transaction; 1% or other ownership; compensation for certain services; types of client relationships; managed/co-managed public offerings in prior periods; directorships; market making and/or specialist role.

The following are additional required disclosures: **Ownership and material conflicts of interest:** Goldman Sachs policy prohibits its analysts, professionals reporting to analysts and members of their households from owning securities of any company in the analyst's area of coverage. **Analyst compensation:** Analysts are paid in part based on the profitability of Goldman Sachs, which includes investment banking revenues. **Analyst as officer or director:** Goldman Sachs policy prohibits its analysts, persons reporting to analysts or members of their households from serving as an officer, director, advisory board member or employee of any company in the analyst's area of coverage. **Distribution of ratings:** See the distribution of ratings disclosure above. **Price chart:** See the price chart, with changes of ratings and price targets in prior periods, above, or, if electronic format or if with respect to multiple companies which are the subject of this report, on the Goldman Sachs website at <http://www.gs.com/research/hedge.html>.

### Additional disclosures required under the laws and regulations of jurisdictions other than the United States

The following disclosures are those required by the jurisdiction indicated, except to the extent already made above pursuant to United States laws and regulations. **Australia:** This research, and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act. **Canada:** Goldman Sachs Canada Inc. has approved of, and agreed to take responsibility for, this research in Canada if and to the extent it relates to equity securities of Canadian issuers. Analysts may conduct site visits but are prohibited from accepting payment or reimbursement by the company of travel expenses for such visits. **Germany:** See company-specific disclosures above for (i) any net short position or (ii) management or co-management of public offerings in the last five years as to covered companies referred to in this report. **Hong Kong:** Further information on the securities of covered companies referred to in this research may be obtained on request from Goldman Sachs (Asia) L.L.C. **Japan:** See company-specific disclosures as to any applicable disclosures required by Japanese stock exchanges, the Japanese Securities Dealers Association or the Japanese Securities Finance Company. **Korea:** Further information on the subject company or companies referred to in this research may be obtained from Goldman Sachs (Asia) L.L.C., Seoul Branch. **Singapore:** Further information on the covered companies referred to in this research may be obtained from Goldman Sachs (Singapore) Pte. (Company Number: 198602165W). **United Kingdom:** Persons who would be categorized as private customers in the United Kingdom, as such term is defined in the rules of the Financial Services Authority, should read this research in conjunction with prior Goldman Sachs research on the covered companies referred to herein and should refer to the risk warnings that have been sent to them by Goldman Sachs International. A copy of these risk warnings, and a glossary of certain financial terms used in this report, are available from Goldman Sachs International on request.

## Ratings, coverage views, and related definitions

Our rating system requires that analysts rank order the stocks in their coverage groups and assign one of three investment ratings (see definitions below) within a ratings distribution guideline of no more than 25% of the stocks should be rated Outperform and no fewer than 10% rated Underperform. The analyst assigns one of three coverage views (see definitions below), which represents the analyst's investment outlook on the coverage group relative to the group's historical fundamentals and valuation. Each coverage group, listing all stocks covered in that group, is available by primary analyst, stock and coverage group at <http://www.gs.com/research/hedge.html>.

### Definitions

**Outperform (OP).** We expect this stock to outperform the median total return for the analyst's coverage universe over the next 12 months.

**In-Line (IL).** We expect this stock to perform in line with the median total return for the analyst's coverage universe over the next 12 months.

**Underperform (U).** We expect this stock to underperform the median total return for the analyst's coverage universe over the next 12 months.

**Not Rated (NR).** The investment rating and target price, if any, have been removed pursuant to Goldman Sachs policy when Goldman Sachs is acting in an advisory capacity in a merger or strategic transaction involving this company and in certain other circumstances.

**Rating Suspended (RS).** Goldman Sachs Research has suspended the investment rating and price target, if any, for this stock, because there is not a sufficient fundamental basis for determining an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and

should not be relied upon.

**Coverage Suspended (CS).** Goldman Sachs has suspended coverage of this company.

**Not Covered (NC).** Goldman Sachs does not cover this company.

**Not Available or Not Applicable (NA).** The information is not available for display or is not applicable.

**Not Meaningful (NM).** The information is not meaningful and is therefore excluded.

**Coverage views:** **Attractive (A).** The investment outlook over the following 12 months is favorable relative to the coverage group's historical fundamentals and/or valuation. **Neutral (N).** The investment outlook over the following 12 months is neutral relative to the coverage group's historical fundamentals and/or valuation. **Cautious (C).** The investment outlook over the following 12 months is unfavorable relative to the coverage group's historical fundamentals and/or valuation.

**Current Investment List (CIL).** We expect stocks on this list to provide an absolute total return of approximately 15%-20% over the next 12 months. We only assign this designation to stocks rated Outperform. We require a 12-month price target for stocks with this designation. Each stock on the CIL will **automatically** come off the list after 90 days unless renewed by the covering analyst and the relevant Regional Investment Review Committee.

Ratings definitions prior to November 4, 2002

**RL = Recommended List.** Expected to provide price gains of at least 10 percentage points greater than the market over the next 6-18 months. **LL = Latin America**

**Recommended List.** Expected to provide price gains of at least 10 percentage points greater than the Latin America MSCI Index over the next 6-18

months. **TB = Trading Buy.** Expected to provide price gains of at least 20 percentage points sometime in the next 6-9 months. **MO = Market Outperformer.** Expected to provide price gains of at least 5-10 percentage points greater than the market over the next 6-18 months. **MP = Market Performer.** Expected to provide price gains similar to the market over the next 6-18 months. **MU = Market Underperformer.** Expected to provide price gains of at least 5 percentage points less than the market over the next 6-18 months.

## Global product; distributing entities

The Global Investment Research Division of Goldman Sachs produces and distributes research products for clients of Goldman Sachs, and pursuant to certain contractual arrangements, on a global basis. Analysts based in Goldman Sachs offices around the world produce equity research on industries and companies, and research on macroeconomics, currencies, commodities and portfolio strategy.

This research is disseminated in Australia by Goldman Sachs JBWere Pty Ltd (ABN 21 006 797 897) on behalf of Goldman Sachs; in Canada by Goldman Sachs Canada Inc. regarding Canadian equities and by Goldman Sachs & Co. (all other research); in Germany by Goldman Sachs & Co. oHG; in Hong Kong by Goldman Sachs (Asia) L.L.C.; in Japan by Goldman Sachs (Japan) Ltd; in the Republic of Korea by Goldman Sachs (Asia) L.L.C., Seoul Branch; in New Zealand by Goldman Sachs JBWere (NZ) Limited on behalf of Goldman Sachs; in Singapore by Goldman Sachs (Singapore) Pte. (Company Number: 198602165W); and in the United States of America by Goldman, Sachs & Co. Goldman Sachs International has approved this research in connection with its distribution in the United Kingdom and European Union.

## General disclosures in addition to specific disclosures required by certain jurisdictions

This research is for our clients only. Other than disclosures relating to Goldman Sachs, this research is based on current public information that we consider reliable, but we do not represent it is accurate or complete, and it should not be relied on as such. We seek to update our research as appropriate, but various regulations may prevent us from doing so.

Goldman Sachs conducts a global full-service, integrated investment banking, investment management, and brokerage business. We have investment banking and other business relationships with a substantial percentage of the companies covered by our Global Investment Research Division.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients and our proprietary trading desks that reflect opinions that are contrary to the opinions expressed in this research. Our asset management area, our proprietary trading desks and investing businesses may make investment decisions that are inconsistent with the recommendations or views expressed in this research.

We and our affiliates, officers, directors, and employees, excluding equity analysts, will from time to time have long or short positions in, act as principal in, and buy or sell, the securities or derivatives (including options and warrants) thereof of covered companies referred to in this research.

This research is not an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Clients should consider whether any advice or recommendation in this research is suitable for their particular circumstances and, if appropriate, seek professional advice, including tax advice. The price and value of the investments referred to in this research and the income from them may fluctuate. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. Certain transactions, including those involving futures, options, and other derivatives, give rise to substantial risk and are not suitable for all investors. Current options disclosure documents are available from Goldman Sachs sales representatives or at <http://theocc.com/publications/risks/riskstoc.pdf>. Fluctuations in exchange rates could have adverse effects on the value or price of, or income derived from, certain investments.

Our research is disseminated primarily electronically, and, in some cases, in printed form. Electronic research is simultaneously available to all clients.

Disclosure information is also available at <http://www.gs.com/research/hedge.html> or from Research Compliance, One New York Plaza, New York, NY 10004.

Copyright 2005 The Goldman Sachs Group, Inc.

**No part of this material may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without the prior written consent of The Goldman Sachs Group, Inc.**