

## Is the new CEO coming?

### ■ Any management announcement could trigger the stock

The Financial Times has published an interview with Mr Alessandro Benetton today. According to this article, Benetton is due to announce its new CEO in the next few days. This newsflow is in keeping with our expectations. After the resignation of its CEO and CFO on 13 Nov 06, the new CFO Emilio Foà was appointed in December (joining in Apr 07).

### ■ FY 06 results release is mostly uneventful

FY 06 results out this Friday 16 March, followed by a conference call at 4.00pm CET. We highlight that Benetton already released preliminary FY 06 results and provided its 2007 outlook at the beginning of February. The company targets 6%-8% sales growth range and +20% y/y EBITDA growth which should imply an EBIT above 10% margin in 2007.

### ■ Key catalyst remains the period release of quarterly figures

The equity story of Benetton stock is mostly driven by the execution on operating margins (10.5% in 2007E and 10.8% in 2008E) combined with positive sales momentum (we forecast high-single digit sales growth in 2007-08E), in our view.

### ■ Valuation

Our PT is DCF-based (8.0% WACC, 1.5% perpetuity growth). At target, the stock would trade on 18x PE and 14.5x EV/EBIT in 2007E.

Highlights (€m)	12/04	12/05	12/06E	12/07E	12/08E
Revenues	1,704	1,765	1,913	2,062	2,184
EBIT (UBS)	158	157	179	216	236
Net income (UBS)	109	112	125	149	167
EPS (UBS, €)	0.60	0.62	0.69	0.82	0.92
Net DPS (UBS, €)	0.34	0.34	0.38	0.41	0.49

Profitability & Valuation	5-yr hist. av.	12/05	12/06E	12/07E	12/08E
EBIT margin %	13.8	8.9	9.3	10.5	10.8
ROIC (EBIT) %	15.5	10.0	11.0	12.3	12.6
EV/EBITDA x	8.5	8.0	10.3	8.9	8.4
PE (UBS) x	14.3	13.6	18.6	15.6	13.9
Net dividend yield %	3.2	4.1	3.0	3.2	3.9

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are stated before goodwill, exceptional and other special items. Valuations: based on an average share price that year, (E): based on a share price of €12.79 on 13 Mar 2007 09:32 GMT

### Laura Leonardelli

Analyst  
laura.leonardelli@ubs.com  
+39-02-7210 0254

Italy

Clothing &amp; Fabrics

**Rating** **Neutral 1**  
**Unchanged**
**Price target** €14.60/US\$38.50  
**Unchanged**
**Price** €12.79/US\$32.09 (ADR)

RIC: BNG.MI/BNG.N BBG: BEN IM/BNG US

**13 March 2007**

#### Trading data (local/US\$)

52-wk. range	€15.63-10.63/US\$39.62-27.40
Market cap.	€2.34bn/US\$2.93bn
Shares o/s	183m (ORD)/91.3m (ADR)
ADR ratio	1 ADR :2 ORD
Free float	30%
Avg. daily volume ('000)	600/5
Avg. daily value (€m)	8.0/0.2

#### Balance sheet data 12/06E

Shareholders' equity	€1.33bn
P/BV (UBS)	1.8x
Net cash (debt)	(€0.38bn)

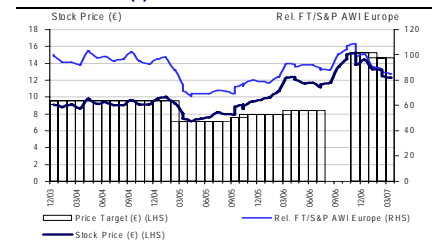
#### Forecast returns

Forecast price appreciation	+14.2%
Forecast dividend yield	3.0%
Forecast stock return	+17.2%
Market return assumption	9.0%
Forecast excess return	+8.2%

#### EPS (UBS, €)

	12/06E		12/05
	UBS	Cons.	Actual
Q1E	0.16	0.13	0.13
Q2E	0.23	0.22	0.20
Q3E	0.15	0.16	0.15
Q4E	0.15	0.15	0.14
12/06E	0.69	0.69	
12/07E	0.82	0.81	

#### Performance (€)



Source: UBS

[www.ubs.com/investmentresearch](http://www.ubs.com/investmentresearch)
**This report has been prepared by UBS Limited**

## ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 2

UBS 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.

---

## ■ Benetton

Benetton is one of the world's leading apparel manufacturers and boasts a global brand name (United Colours of Benetton). It designs, manufactures, markets and distributes casual clothing. Europe is the major market. Traditionally distributing its casual and sportswear through independent retailers (4,883 in 2005), it moved its store strategy partly into direct retailing (from 121 in 2003 to 281 directly operated stores in 2005) in order to strengthen its brand portfolio (UBC, Sisley, Playlife and Killer Loop). The Benetton family is the core shareholder.

## ■ Statement of Risk

Benetton's performance is linked to general consumer spending and demand for apparel and sporting goods. Competition in its domestic market is expected to increase with the recent entry of international players. Further unfavourable forex may hit Benetton's profitability harder during 2006-07. Any drastic change of the investments related to its real-estate assets (c€500m book value) could affect our invested capital forecasts.

## ■ Analyst Certification

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers; 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 by that research analyst in the research report.

## Required Disclosures

This report has been prepared by UBS Limited, an affiliate of UBS AG (UBS).

For information on the ways in which UBS manages conflicts and maintains independence of its research product; historical performance information; and certain additional disclosures concerning UBS research recommendations, please visit [www.ubs.com/disclosures](http://www.ubs.com/disclosures).

### UBS Investment Research: Global Equity Ratings Definitions and Allocations

UBS rating	Definition	UBS rating	Definition	Rating category	Coverage <sup>1</sup>	IB services <sup>2</sup>
<b>Buy 1</b>	FSR is > 6% above the MRA, higher degree of predictability	<b>Buy 2</b>	FSR is > 6% above the MRA, lower degree of predictability	<b>Buy</b>	44%	36%
<b>Neutral 1</b>	FSR is between -6% and 6% of the MRA, higher degree of predictability	<b>Neutral 2</b>	FSR is between -6% and 6% of the MRA, lower degree of predictability	<b>Hold/Neutral</b>	43%	36%
<b>Reduce 1</b>	FSR is > 6% below the MRA, higher degree of predictability	<b>Reduce 2</b>	FSR is > 6% below the MRA, lower degree of predictability	<b>Sell</b>	13%	26%

1: Percentage of companies under coverage globally within this rating category.

2: Percentage of companies within this rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Ratings allocations are as of 31 December 2006.

### KEY DEFINITIONS

**Forecast Stock Return (FSR)** is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

**Market Return Assumption (MRA)** is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

**Predictability Level** The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities.

**Under Review (UR)** Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

### EXCEPTIONS AND SPECIAL CASES

**US Closed-End Fund ratings and definitions are:** Buy: Higher stability of principal and higher stability of dividends; Neutral: Potential loss of principal, stability of dividend; Reduce: High potential for loss of principal and dividend risk.

**UK and European Investment Fund ratings and definitions are:** Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Reduce: Negative on factors such as structure, management, performance record, discount.

**Core Banding Exceptions (CBE):** Exceptions to the standard +/-6% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Companies Mentioned or Company Disclosure table in the relevant research piece.

### Companies mentioned

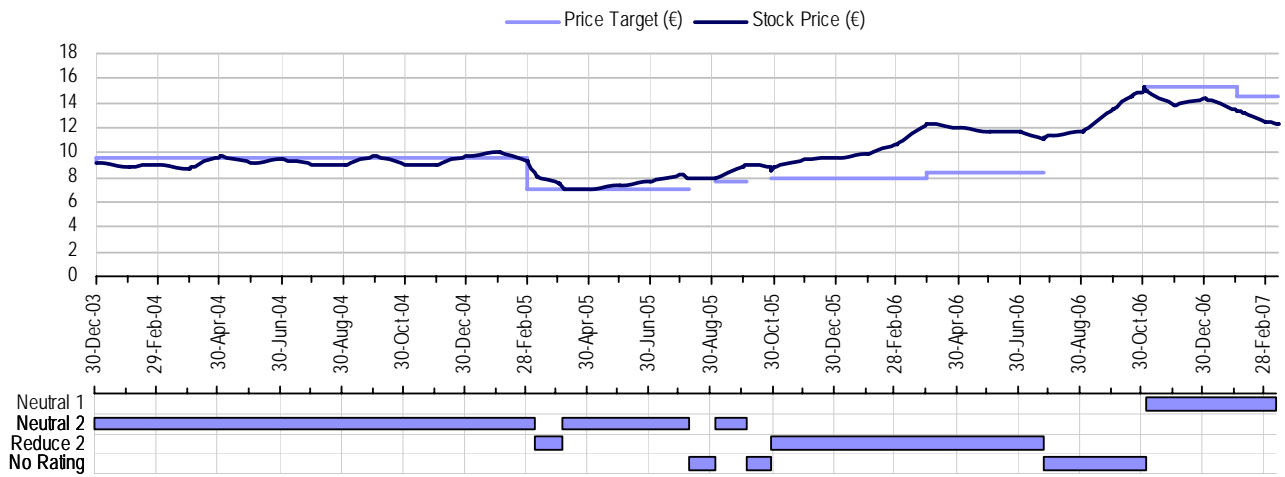
Company Name	Reuters	Rating	Price	Price date/time
Benetton <sup>16</sup>	BNG.MI	Neutral 1	€12.26	12 Mar 2007 23:38 GMT

Source: UBS. GMT: Greenwich mean time.

16. UBS Securities LLC makes a market in the securities and/or ADRs of this company.

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

**Benetton (€)**



Source: UBS; as of 12 March 2007.

Note: On September 9, 2006, UBS adopted new percentage band criteria for its rating system. (See 'UBS Investment Research: Global Equity Ratings Definitions and Allocations' table for details). Between October 13, 2003 and September 9, 2006 the percentage band criteria used in the rating system was 10%. Prior to October 13, 2003, the UBS ratings and their definitions were: Buy 1: Excess return potential >15%, smaller range around price target; Buy 2: Excess return potential >15%, larger range around price target; Neutral 1: Excess return potential between -15% and 15%, smaller range around price target; Neutral 2: Excess return potential between -15% and 15%, larger range around price target; Reduce 1: Excess return potential < -15%, smaller range around price target; Reduce 2: Excess return potential < -15%, larger range around price target. Excess return is defined as the difference between the FSR and the one-year local market interest rate.

## Global Disclaimer

This report has been prepared by UBS Limited, an affiliate of UBS AG (UBS). In certain countries UBS AG is referred to as UBS SA.

This report is for distribution only under such circumstances as may be permitted by applicable law. It has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. It is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. No representation or warranty, either express or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein, except with respect to information concerning UBS AG, its subsidiaries and affiliates, nor is it intended to be a complete statement or summary of the securities, markets or developments referred to in the report. The report should not be regarded by recipients as a substitute for the exercise of their own judgement. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas or groups of UBS as a result of using different assumptions and criteria. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. UBS is under no obligation to update or keep current the information contained herein. UBS relies on information barriers to control the flow of information contained in one or more areas within UBS, into other areas, units, groups or affiliates of UBS. The compensation of the analyst who prepared this report is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking revenues, however, compensation may relate to the revenues of UBS Investment Bank as a whole, of which investment banking, sales and trading are a part.

The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. Options, derivative products and futures are not suitable for all investors, and trading in these instruments is considered risky. Mortgage and asset-backed securities may involve a high degree of risk and may be highly volatile in response to fluctuations in interest rates and other market conditions. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Neither UBS nor any of its affiliates, nor any of UBS' or any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. **Additional information will be made available upon request.**

For financial instruments admitted to trading on an EU regulated market: UBS AG, its affiliates or subsidiaries (excluding UBS Securities LLC and/or UBS Capital Markets LP) acts as a market maker or liquidity provider (in accordance with the interpretation of these terms in the UK) in the financial instruments of the issuer save that where the activity of liquidity provider is carried out in accordance with the definition given to it by the laws and regulations of any other EU jurisdictions, such information is separately disclosed in this research report.

**United Kingdom and the rest of Europe:** Except as otherwise specified herein, this material is communicated by UBS Limited, a subsidiary of UBS AG, to persons who are market counterparties or intermediate customers (as detailed in the FSA Rules) and is only available to such persons. The information contained herein does not apply to, and should not be relied upon by, private customers. UBS Limited is regulated by the FSA. **France:** Prepared by UBS Limited and distributed by UBS Limited and UBS Securities France SA. UBS Securities France S.A. is regulated by the the Autorité des Marchés Financiers (AMF). Where an analyst of UBS Securities France S.A. has contributed to this report, the report is also deemed to have been prepared by UBS Securities France S.A. **Germany:** Prepared by UBS Limited and distributed by UBS Limited and UBS Deutschland AG. UBS Deutschland AG is regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin). **Spain:** Prepared by UBS Limited and distributed by UBS Limited and UBS Securities España SV, SA. UBS Securities España SV, SA is regulated by the Comisión Nacional del Mercado de Valores (CNMV). **Russia:** Prepared and distributed by the Moscow Representative Office of UBS Cyprus Moscow Limited. **Switzerland:** Distributed by UBS AG to persons who are institutional investors only. **Italy:** Prepared by UBS Limited and distributed by UBS Limited and UBS Italia Sim S.p.A.. UBS Italia Sim S.p.A. is regulated by the Bank of Italy and by the Commissione Nazionale per le Società e la Borsa (CONSOB). Where an analyst of UBS Italia Sim S.p.A. has contributed to this report, the report is also deemed to have been prepared by UBS Italia Sim S.p.A.. **South Africa:** UBS South Africa (Pty) Limited (Registration No. 1995/011140/07) is a member of the JSE Limited, the South African Futures Exchange and the Bond Exchange of South Africa. UBS South Africa (Pty) Limited is an authorised Financial Services Provider. **United States:** Distributed to US persons by either UBS Securities LLC or by UBS Financial Services Inc., subsidiaries of UBS AG; or by a group, subsidiary or affiliate of UBS AG that is not registered as a US broker-dealer (a "non-US affiliate"), to major US institutional investors only. UBS Securities LLC or UBS Financial Services Inc. accepts responsibility for the content of a report prepared by another non-US affiliate when distributed to US persons by UBS Securities LLC or UBS Financial Services Inc. All transactions by a US person in the securities mentioned in this report must be effected through UBS Securities LLC or UBS Financial Services Inc., and not through a non-US affiliate. **Canada:** Distributed by UBS Securities Canada Inc., a subsidiary of UBS AG and a member of the principal Canadian stock exchanges & CIPF. A statement of its financial condition and a list of its directors and senior officers will be provided upon request. **Hong Kong:** Distributed by UBS Securities Asia Limited. **Singapore:** Distributed by UBS Securities Pte. Ltd or UBS AG, Singapore Branch. **Japan:** Distributed by UBS Securities Japan Ltd to institutional investors only. **Australia:** Distributed by UBS AG (Holder of Australian Financial Services Licence No. 231087) and UBS Securities Australia Ltd (Holder of Australian Financial Services Licence No. 231098) only to "Wholesale" clients as defined by s761G of the Corporations Act 2001. **New Zealand:** Distributed by UBS New Zealand Ltd.

© 2007 UBS. All rights reserved. This report may not be reproduced or redistributed, in whole or in part, without the written permission of UBS and UBS accepts no liability whatsoever for the actions of third parties in this respect.