COMPANY UPDATE

Benetton Group (BNG.MI)

Buy

More colour on execution; weaker outlook may prove conservative

What's changed

Benetton reported (February 21) a good set of FY07 preliminary results with sales of €2,085 mn vs. our €2,078 mn estimate and €2,080 mn consensus (+7.8% in 4Q vs. our +6.5%). FY07 EBITDA was €337 mn or a 16.2% EBITDA margin, slightly above company guidance of above 15% and our 15.6%. We highlight that EBITDA was positively affected by €12 mn of currency gains, however even stripping out that figure, the EBITDA margin would have been 15.6%, in line with our estimate. FY07 net income was €145 mn vs. our €142 mn and consensus of €143 mn.

Implications

On the positive side, we believe these results have provided greater visibility on the new management strategy moving in the right direction. Sustained top-line momentum continued over 4Q07 and into the beginning of 2008 with the new S/S'08 collection growing at +8%-9% (c.70% of visibility on orders), despite the end of the mark up policy. Key mature markets such as Italy & Medit. Europe posted double-digit growth and emerging markets performed very strongly (India +58%, Russia +40% and EE +30%). Furthermore, capex was below guidance and expectations (€225 mn vs. our €300 mn). On the negative side however, 2008 outlook was cautious with sales expected to grow in the lower range of 6%-8% (flat lfl), EBITDA and net income at only above +7% and a much higher than expected €650 mn NFP (vs. our €510 mn). However, we note that 2008E EBITDA growth is gross of 2007 FX gains and that net income growth is affected by a higher tax rate (28% vs. our 25%). Given the relatively high visibility on 2008, sales guidance may prove conservative as in 2007.

Valuation

We adjust our estimates and 12-month price target to €11.6 (from €12.2), based on 2008E cash returns.

Key risks

A sharp deterioration in top-line momentum is the key downside risk.

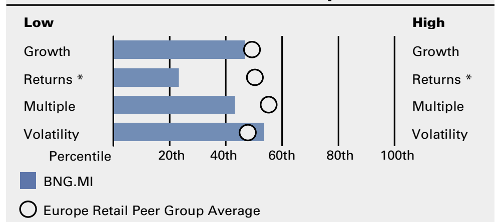
INVESTMENT LIST MEMBERSHIP

Pan-Europe Buy List

Coverage View: Cautious

Italy:
Retail

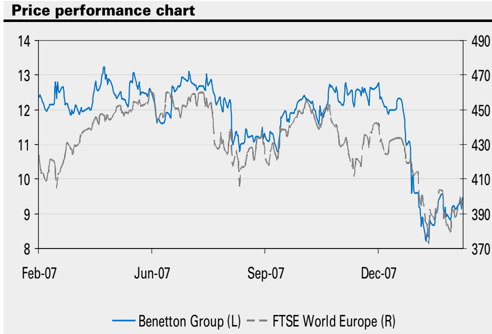
Investment Profile: Benetton Group



* Returns = Return on Capital For a complete description of the investment profile measures please refer to the disclosure section of this document.

Key data				Current
Price (€)				9.46
12 month price target (€)				11.60
Upside/(downside) (%)				23
Market cap (€ mn)				1,720.5
Enterprise value (€ mn)				2,361.0
	12/07	12/08E	12/09E	12/10E
Revenue (€ mn) New	**2,085.0**	**2,194.3**	**2,314.9**	**2,449.9**
Revenue revision (%)	0.3	0.2	0.2	0.3
EBIT (€ mn) New	**243.2**	**258.9**	**284.7**	**306.2**
EBIT revision (%)	8.4	5.1	6.3	7.2
EPS (€) New	**0.80**	**0.86**	**0.95**	**1.03**
EPS (€) Old	0.78	0.87	0.96	1.03
EV/EBITDA (X)	8.1	6.5	6.0	5.6
P/E (X)	15.6	11.0	10.0	9.2
Dividend yield (%)	3.4	4.8	5.3	5.7
FCF yield (%)	(3.4)	(4.9)	3.6	4.8
CROCI (%)	9.1	9.3	9.9	10.4

Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	(21.7)	(17.4)	(25.9)
Rel. to FTSE World Europe	(15.0)	(3.5)	(9.4)

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 2/21/2008 close.

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Benetton Group: Summary financials

Profit model (€ mn)	12/07	12/08E	12/09E	12/10E
Total revenue	2,085.0	2,194.3	2,314.9	2,449.9
Operating costs	(1,443.1)	(1,513.6)	(1,590.6)	(1,682.1)
R&D	0.0	0.0	0.0	0.0
Lease payments	(119.8)	(123.4)	(127.1)	(130.9)
Other operating profit/(expense)	(304.9)	(318.7)	(326.1)	(339.1)
EBITDA	**337.0**	**362.1**	**398.2**	**428.7**
Depreciation & amortisation	(93.8)	(103.1)	(113.4)	(122.5)
EBIT	**243.2**	**258.9**	**284.7**	**306.2**
Net interest income/(expense)	(40.0)	(34.5)	(39.7)	(40.7)
Associates	0.0	0.0	0.0	0.0
Profit/(loss) on disposals	0.0	0.0	0.0	0.0
Others (recurring)	4.0	0.0	0.0	0.0
Pretax profits	**207.2**	**224.4**	**245.1**	**265.5**
Income tax	(53.0)	(62.8)	(67.4)	(73.0)
Tax rate (%)	26.1	28.0	27.5	27.5
Minorities	(5.0)	(5.0)	(5.5)	(5.9)
Preferred dividends	0.0	0.0	0.0	0.0
Net income (pre-exceptionals)	**149.2**	**156.6**	**172.2**	**186.6**
Other non-recurring items post tax	0.0	0.0	0.0	0.0
Net income	**149.2**	**156.6**	**172.2**	**186.6**
EPS (underlying) (€)	**0.82**	**0.86**	**0.95**	**1.03**
EPS (basic, reported) (€)	0.82	0.86	0.95	1.03
Weighted shares outstanding (mn)	181.9	181.9	181.9	181.9
Common dividends declared	77.0	83.0	91.3	98.9
DPS (€)	0.42	0.46	0.50	0.54
Dividend payout ratio (%)	51.6	53.0	53.0	53.0
Dividend cover (X)	1.9	1.9	1.9	1.9

Growth & margins (%)	12/07	12/08E	12/09E	12/10E
Revenue growth	9.1	5.2	5.5	5.8
EBITDA growth	28.1	7.4	10.0	7.7
EBIT growth	35.9	6.5	10.0	7.6
Net income growth	19.4	4.9	10.0	8.4
EPS growth	19.4	4.9	10.0	8.4
DPS growth	14.4	7.8	10.0	8.4
EBITDA margin	16.2	16.5	17.2	17.5
EBIT margin	11.7	11.8	12.3	12.5

Cash flow statement (€ mn)	12/07	12/08E	12/09E	12/10E
Net income	149.2	156.6	172.2	186.6
D&A	93.8	103.1	113.4	122.5
Minority interest	5.0	5.0	5.5	5.9
Other recurring items	(6.0)	(6.0)	(6.0)	(6.0)
Post tax cash flow from operations	**242.0**	**258.7**	**285.1**	**309.0**
Net (inc)/dec working capital	(96.2)	(98.8)	(32.1)	(36.0)
Capital expenditures	(225.0)	(250.2)	(196.8)	(196.0)
Acquisitions	0.0	0.0	0.0	0.0
Divestitures	0.0	0.0	0.0	0.0
Dividends paid (common & pref)	(69.0)	(77.0)	(83.0)	(91.3)
Other non-recurring items	--	--	--	--
Surplus/(deficit)	**(148.1)**	**(167.2)**	**(26.8)**	**(14.3)**
Capex/D&A (%)	239.8	242.6	173.5	160.0
Reinvestment rate (%)	93.0	96.7	69.0	63.4
Cash flow cover of dividends (X)	3.1	3.1	3.1	3.1
Free cash flow cover of dividends (X)	(1.0)	(1.0)	0.7	0.8

Balance sheet (€ mn)	12/07	12/08E	12/09E	12/10E
Cash & equivalents	225.7	225.7	225.7	225.7
Accounts receivable	813.4	904.5	944.3	988.9
Stocks	375.3	405.9	428.3	453.2
Other current assets	7.0	7.0	7.0	7.0
Current assets	**1,421.5**	**1,543.3**	**1,605.3**	**1,674.9**
Accounts payable	(437.9)	(460.8)	(490.8)	(524.3)
Other current liabilities	(117.5)	(117.5)	(117.5)	(117.5)
Current liabilities	**(555.4)**	**(578.3)**	**(608.3)**	**(641.8)**
Gross PP&E and intangibles	1,744.6	1,744.6	1,744.6	1,744.6
Net PP&E	935.7	1,082.7	1,166.0	1,239.5
Net intangibles	222.6	222.6	222.6	222.6
Total investments	248.6	248.6	248.6	248.6
Other long-term assets	0.0	0.0	0.0	0.0
Long-term assets	**1,406.9**	**1,553.9**	**1,637.3**	**1,710.8**
Total assets	**2,828.4**	**3,097.2**	**3,242.6**	**3,385.7**
Unfunded pensions & other provs	(53.4)	(53.4)	(53.4)	(53.4)
Deferred taxes & other liabilities	(52.8)	(52.8)	(52.8)	(52.8)
Long-term liabilities	**(106.2)**	**(106.2)**	**(106.2)**	**(106.2)**
Total shareholders' equity	**1,440.5**	**1,514.1**	**1,597.3**	**1,686.6**
Minority interest	27.3	32.3	37.8	43.7
Short-term debt	293.8	461.0	487.8	502.1
Long-term debt	405.2	405.2	405.2	405.2
Capitalised leases	958.2	986.9	1,016.5	1,047.0
Capital employed	**3,125.0**	**3,399.5**	**3,544.6**	**3,684.6**
Adj for unfunded pensions & GW	(276.0)	(276.0)	(276.0)	(276.0)
Adj capital employed	**2,848.9**	**3,123.5**	**3,268.6**	**3,408.6**
Gross cash invested	**3,591.8**	**3,719.3**	**3,781.0**	**3,847.6**

Ratios	12/07	12/08E	12/09E	12/10E
CROCI (%)	9.1	9.3	9.9	10.4
CROCI/WACC (X)	1.3	1.4	1.5	1.6
ROIC (%)	10.3	9.4	9.5	9.6
ROIC/WACC (X)	1.5	1.4	1.5	1.5
ROA (%)	5.5	5.3	5.4	5.6
WACC (%)	6.9	6.5	6.5	6.5
Inventory days	65.7	67.5	67.5	67.5
Asset turnover (X)	2.2	2.0	2.0	2.0
Net debt/equity (%)	32.2	41.4	40.8	39.4
EBITDA interest cover (X)	8.4	10.5	10.0	10.5

Valuation	12/07	12/08E	12/09E	12/10E
EV/sales (X)	1.2	1.0	1.0	0.9
EV/EBITDAR (X)	7.7	6.6	6.2	5.9
EV/EBITDA (X)	7.6	6.1	5.6	5.2
EV/EBIT (X)	9.7	8.3	7.9	7.5
P/E (X)	15.1	11.0	10.0	9.2
Dividend yield (%)	3.4	4.8	5.3	5.7
FCF yield (%)	(3.4)	(4.9)	3.6	4.8
EV/GCI (X)	1.1	0.9	0.9	0.9
EV/adj. capital employed (X)	1.4	1.2	1.1	1.1
Price/book (X)	1.6	1.1	1.1	1.0

Note: Last actual year may include reported and estimated data.

Source: Company data, Goldman Sachs Research estimates.

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Exhibit 1: Benetton 4Q07 and FY07 actuals vs. estimates

(Euro millions)

Year End Dec 31	Q4 06	FY 06	Q1 07	Q2 07	H1 07	Q3 07	9M 07	Q4 07E	FY 07E	Q4 07	FY 07
Net Revenue	**539**	**1,911**	**460**	**530**	**990**	**514**	**1,504**	**574**	**2,078**	**581**	**2,085**
Growth yoy (%)	13.0%	8.3%	10.6%	10.0%	10.2%	8.4%	9.6%	6.5%	8.7%	7.8%	9.1%
Total COGS	**312**	**1,105**	**268**	**299**	**567**	**294**	**861**	**324**	**1,185**	**315**	**1,176**
Growth yoy (%)	17.3%	11.1%	12.9%	6.6%	9.5%	6.9%	8.6%	3.7%	7.2%	1.0%	6.4%
as % sales	57.9%	57.8%	58.2%	56.5%	57.3%	57.2%	57.2%	56.4%	57.0%	54.2%	56.4%
Gross profit	**227**	**806**	**192**	**231**	**423**	**220**	**643**	**251**	**894**	**266**	**909**
Growth yoy (%)	7.6%	4.7%	7.5%	14.8%	11.3%	10.6%	11.1%	10.4%	10.9%	17.2%	12.8%
Gross margin (%)	42.1%	42.2%	41.8%	43.5%	42.7%	42.8%	42.8%	43.6%	43.0%	45.8%	43.6%
Depreciation	**22**	**84**	**22**	**22**	**45**	**23**	**67**	**33**	**100**	**23**	**90**
as % sales	4.1%	4.4%	4.9%	4.2%	4.5%	4.4%	4.5%	5.7%	4.8%	3.9%	4.3%
Total operating costs	**174**	**627**	**158**	**165**	**323**	**161**	**484**	**185**	**669**	**178**	**662**
as % sales	32.3%	32.8%	34.4%	31.1%	32.6%	31.3%	32.2%	32.3%	32.2%	30.6%	31.7%
Operating income pre non-recurring items	**53**	**179**	**34**	**66**	**100**	**59**	**159**	**65**	**224**	**88**	**247**
Growth yoy (%)	-17.3%	-12.7%	0.3%	31.5%	18.9%	40.5%	26.1%	23.7%	25.4%	66.7%	38.1%
EBIT margin (%)	9.8%	9.4%	7.4%	12.4%	10.1%	11.5%	10.6%	11.4%	10.8%	15.2%	11.9%
Industrial EBITDA	**75**	**263**	**57**	**88**	**145**	**82**	**226**	**98**	**324**	**111**	**337**
Growth yoy (%)	-14.1%	-9.4%	4.6%	23.1%	15.1%	30.2%	20.1%	31.1%	23.3%	48.2%	28.1%
EBITDA margin (%)	13.9%	13.8%	12.3%	16.6%	14.6%	15.9%	15.0%	17.1%	15.6%	19.1%	16.2%
Non-recurring expenses/(income)	**10**	**-1**	**-7**	**0**	**-7**	**0**	**-7**	**6**	**-1**	**11**	**4**
EBIT	**43**	**180**	**41**	**66**	**107**	**59**	**166**	**59**	**225**	**77**	**243**
Growth yoy (%)	125.8%	14.6%	17.4%	21.8%	20.1%	22.9%	21.1%	38.6%	25.2%	79.9%	35.1%
EBIT (post - except.) margin (%)	8.0%	9.4%	8.9%	12.4%	10.8%	11.5%	11.0%	10.4%	10.8%	13.3%	11.7%
Financial expenses	**-8**	**-21**	**-7**	**-10**	**-17**	**-5**	**-22**	**-8**	**-31**	**-18**	**-40**
as % sales	-1.5%	-1.1%	-1.5%	-1.9%	-1.7%	-1.0%	-1.5%	-1.3%	-1.5%	-3.1%	-1.9%
Pre-tax profit (post exceps)	**35**	**159**	**34**	**56**	**90**	**54**	**137**	**58**	**195**	**66**	**203**
Growth yoy (%)	217.3%	18.7%	6.6%	9.4%	8.3%	31.7%	10.4%	65.3%	22.5%	89.7%	27.8%
Pretax margin (%)	6.5%	8.3%	7.4%	10.5%	9.1%	10.5%	9.1%	10.0%	9.4%	11.4%	9.7%
Tax	**1**	**31**	**8**	**12**	**20**	**14**	**34**	**15**	**49**	**19**	**53**
Effective tax rate (%)	2.9%	19.5%	23.5%	21.5%	22.2%	25.9%	24.8%	25.4%	25.0%	28.7%	26.1%
Income before minorities	**34**	**128**	**26**	**44**	**70**	**40**	**103**	**43**	**146**	**47**	**150**
Minority interest	**-3**	**-3**	**1**	**-1**	**0**	**0**	**0**	**-4**	**-4**	**-5**	**-5**
Net Income (post exceps)	**31**	**125**	**27**	**43**	**70**	**40**	**103**	**39**	**142**	**42**	**145**
Growth yoy (%)	34.6%	11.6%	12.9%	8.3%	9.3%	33.3%	9.5%	25.3%	13.8%	36.3%	16.2%
Net margin (%)	5.7%	6.5%	5.9%	8.2%	7.1%	7.8%	6.8%	6.8%	6.8%	7.3%	7.0%

Sales by region	Q4 06	FY 06	Q1 07	Q2 07	H1 07	Q3 07	9M 07	Q4 07E	FY 07E	Q4 07	FY 07
Italy	**261**	**915**	**215**	**267**	**482**	**240**	**722**	**312**	**1,034**	**294**	**1,016**
Growth	18.6%	7.8%	14.2%	13.2%	13.6%	4.4%	10.4%	19.6%	13.0%	12.6%	11.0%
% of total	48.4%	47.9%	46.8%	50.3%	48.7%	46.7%	48.0%	54.3%	49.8%	50.6%	48.7%
Rest of Europe	**196**	**694**	**172**	**203**	**375**	**196**	**572**	**199**	**770**	**223**	**794**
Growth	9.0%	9.8%	17.7%	13.6%	15.4%	13.6%	14.8%	1.4%	11.0%	13.6%	14.5%
% of total	36.4%	36.3%	37.4%	38.3%	37.9%	38.2%	38.0%	34.6%	37.1%	38.4%	38.1%
Asia	**67**	**231**	**55**	**45**	**100**	**51**	**150**	**58**	**208**	**58**	**209**
Growth	4.1%	11.6%	-9.2%	-10.3%	-9.7%	-5.0%	-8.2%	-14.5%	-10.0%	-13.6%	-9.7%
% of total	12.5%	12.1%	11.9%	8.5%	10.1%	9.9%	10.0%	10.0%	10.0%	10.0%	10.0%
Americas	**13**	**63**	**16**	**12**	**28**	**17**	**45**	**5**	**50**	**-3**	**42**
Growth	8.9%	-13.7%	-20.7%	-23.6%	-22.0%	18.0%	-10.3%	-58.5%	-20.0%	-126.9%	-33.8%
% of total	2.4%	3.3%	3.4%	2.3%	2.8%	3.4%	3.0%	0.9%	2.4%	-0.6%	2.0%
Rest of the world	**2**	**8**	**2**	**3**	**5**	**10**	**15**	**1**	**16**	**10**	**25**
Growth	156.4%	100.0%	101.3%	91.0%	94.7%	199.9%	151.0%	-72.1%	95.0%	384.3%	209.6%
% of total	0.4%	0.4%	0.4%	0.6%	0.5%	1.9%	1.0%	0.1%	0.8%	1.7%	1.2%
Total	**539**	**1,911**	**460**	**530**	**990**	**514**	**1,504**	**574**	**2,078**	**581**	**2,085**
Growth	13.0%	8.3%	10.6%	10.0%	10.2%	8.4%	9.6%	6.5%	8.7%	7.8%	9.1%

Source: Company data, Goldman Sachs Research estimates.

Reg AC

We, Luca Cipiccia and Emanuele Cagnoni, hereby certify that all of the views expressed in this report accurately reflect our personal views about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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The Goldman Sachs Investment Profile provides investment context for a security by comparing key attributes of that security to its peer group and market. The four key attributes depicted are: growth, returns, multiple and volatility. Growth, returns and multiple are indexed based on composites of several methodologies to determine the stocks percentile ranking within the region's coverage universe.

The precise calculation of each metric may vary depending on the fiscal year, industry and region but the standard approach is as follows:

Growth is a composite of next year's estimate over current year's estimate, e.g. EPS, EBITDA, Revenue. **Return** is a year one prospective aggregate of various return on capital measures, e.g. CROCI, ROACE, and ROE. **Multiple** is a composite of one-year forward valuation ratios, e.g. P/E, dividend yield, EV/FCF, EV/EBITDA, EV/DACF, Price/Book. **Volatility** is measured as trailing twelve-month volatility adjusted for dividends.

Quantum

Quantum is Goldman Sachs' proprietary database providing access to detailed financial statement histories, forecasts and ratios. It can be used for in-depth analysis of a single company, or to make comparisons between companies in different sectors and markets.

Disclosures

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

Luca Cipiccia: Europe-General Retail, Europe-Luxury Goods. Lucy Chamberlain: Europe-General Retail.

Europe-General Retail: adidas, Antichi Pellettieri, Arcandor AG, Benetton Group, Debenhams, Douglas Holding AG, DSG International, Essilor, Fielmann, Folli Follie, Geox, Halfords Group, Hennes & Mauritz, HMV Group, Home Retail Group, Inditex, KappAhl Holding AB, KESA, Kingfisher, Luxottica (Italy), Mariella Burani Fashion Group, Marks & Spencer, Next, Pinault Printemps-Redoute, Puma, Safilo Group SpA, Signet Group, Woolworths Group plc.

Europe-Luxury Goods: Bulgari S.p.A., Burberry, Christian Dior, Hermes International, LVMH Moet-Hennessy Louis Vuitton, Richemont, The Swatch Group (registered share), Tod's.

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Goldman Sachs expects to receive or intends to seek compensation for investment banking services in the next 3 months: Benetton Group (€9.46)

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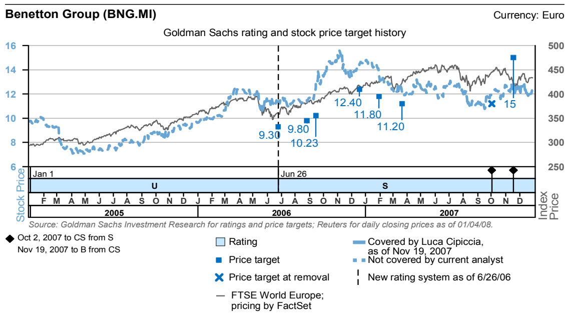
Distribution of ratings/investment banking relationships

Goldman Sachs Investment Research global coverage universe

	Rating Distribution			Investment Banking Relationships		
	Buy	Hold	Sell	Buy	Hold	Sell
Global	29%	58%	13%	39%	30%	26%

As of Jan 1, 2008, Goldman Sachs Global Investment Research had investment ratings on 2,994 equity securities. Goldman Sachs assigns stocks as Buys and Sells on various regional Investment Lists; stocks not so assigned are deemed Neutral. Such assignments equate to Buy, Hold and Sell for the purposes of the above disclosure required by NASD/NYSE rules. See 'Ratings, Coverage groups and views and related definitions' below.

Price target and rating history chart(s)



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