



## ELEVATION CAPITAL GLOBAL SHARES FUND



The story of Moncler (Moncler SpA, BIT:MONC) begins in the city of Monetiser-de-Clermont, situated at the foot of the French Alps, a location ideal for winter sports. The city was a favourite of Mountaineer René Ramillon, who, in 1952, alongside fellow entrepreneur André Vincent, formed a company named “Moncler”— an abbreviation of its namesake city. Moncler first produced items designed to protect climbers from the elements such as sleeping bags, and almost immediately caught the attention of celebrated French mountaineer Lionel Terray. Terray’s endorsement helped raise visibility and led to an expanded product range with the company soon releasing “Moncler pour Lionel Terray,” a collection designed to endure extreme conditions. That same year, Moncler down jackets were chosen to outfit the Italian expedition to K2, the world’s second-highest mountain. The expedition was ultimately successful and the company’s ability to produce items that could withstand harsh conditions was recognised the world over. Moncler’s participation in the 1968 Winter Olympic Games in Grenoble, where it was the official supplier to the French downhill ski team, made the brand a household name and later inspired its high-fashion men’s line, “Grenoble”.

From its inception, Moncler has considered aesthetic just as important as performance. Throughout the 1970s, the brand researched fabrics and finishes that could replicate snow’s reflective properties. The result, the “shiny lacquered effect”, is now commonplace in its clothes. In the 1980s, Moncler jackets became the unofficial uniform for Paninaro, a collective of Italian teenagers named after Il Panino, a popular snack bar in Milan. The group of affluent young teens developed into a subculture with an unlikely mix of American and European style. Along with brands like Timberland, Levi’s, Armani and Stone Island, brightly coloured Moncler down jackets were a must. As Americana swept through Europe in the 1980s, Paninaro borrowed aspects from the preppy style of the movement and twisted it into something uniquely Italian.





## A brief history of Moncler SpA

- 1952** René Ramillon and André Vincent form a company centred around their personal interest in mountaineering and the outdoors named Moncler.
- 1954** In 1954, the company releases “Moncler pour Lionel Terray,” a collection designed to endure extreme conditions.
- 1962** Moncler down jackets are chosen to outfit the Italian expedition to K2, the world’s second-highest mountain. Climbers Achille Compagnoni and Lino Lacedelli become the first duo to climb the summit of K2 in July.
- 1968** Moncler is the official supplier to the French downhill ski team at the Winter Olympics in Grenoble.
- 1980’s** Designer Chantal Thomass is brought on to rework the look of the classic down jacket in 1980’s, in order to make Moncler’s designs more in line with current trends.
- 1980’s** In the 1980’s, Moncler jackets become the unofficial uniform for the Paninaro, who are immortalised in a music video by the Pet Shop Boys. <https://www.youtube.com/watch?v=LP-7-W70qXs>
- 2003** Moncler struggles to expand through the 90’s, caught off-guard between the rise of luxury conglomerates and dedicated outdoor sportswear companies. Creative director Remo Ruffini takes over as CEO and Moncler rebounds strongly.
- 2000’s** Moncler launches Gamme Rouge in 2008 and Gamme Bleu in 2009 expanding onto the runway.
- 2010** Moncler launches high-performance ski gear line, Grenoble in 2010.
- 2013** Moncler IPO’s on the Milan Stock Exchange 16 December 2013, at an initial value of €10.20 per share. The shares were 27 times oversubscribed and rose 47% in the first day of trading.
- 2018** Moncler launches its Genius project, consisting of a string of collaborations with different designers. Genius has become Moncler’s “creativity hub,” with a focus on advertising campaigns in recent years.
- 2020** December 2020, Moncler purchases Italian luxury sportswear brand Stone Island in a reported €1.15 billion acquisition.
- 2021** December 2021, Moncler becomes the official formal-wear partner of Italian football giant. Inter Milan.



# Business Overview

Now a global brand that shows few signs of slowing down, Moncler is poised to be one of the top global luxury outerwear manufacturers. Under the leadership of Ruffini, Moncler has become a textbook example of how a brand can leverage its history while simultaneously embracing new ideas in order to reinvent itself for a new generation. Moncler is considered the inventor of the down jacket and offers trendy, high-quality winter clothing to an affluent client base. Jacket prices range between USD\$1,000-USD\$10,000; beanies alone can retail for at least US\$465. At this price point, cost is no longer associated with functionality, but with brand reputation and fashion heritage. Besides its designer branding, Moncler was, at its heart, originally designed for harsh conditions and expedition, however compared to most down jackets, Moncler fits tend to be slimmer, sharper, and more stylized. Moncler jackets are constructed with 90/10 down-to-feather ratios, which is the best on the market, stuffed with high-quality down feathers, built using Japanese nylon, which is very fine so the chances of a loose feather is extremely small.

Moncler's products are distributed under different collections: Moncler - which serves as the main product line for men and women, Grenoble - high performance skiwear, Enfant - kidswear, and Genius - a monthly rotating collection conceived by top designers. These capsule collections increase the perceived exclusivity and image of Moncler's brand, meeting the desires of young customers. Collaborations are at the heart of Moncler's credibility, enabling it to be seen as an authentic ski and sportswear brand, as well as a go-to for fashionable streetwear. Recent projects include a short film called Brave by Spike Lee, and a collection of stars-and-stripes jackets by hip menswear designer Thom Browne. In addition to its shrewd market positioning, Moncler has also benefited from the growth of sportswear as everyday fashion, and the casualisation of the working wardrobe. Where once a suit required an overcoat, it's now acceptable to put a parka or puffer over formal clothes.

## Outerwear



## Ready to Wear

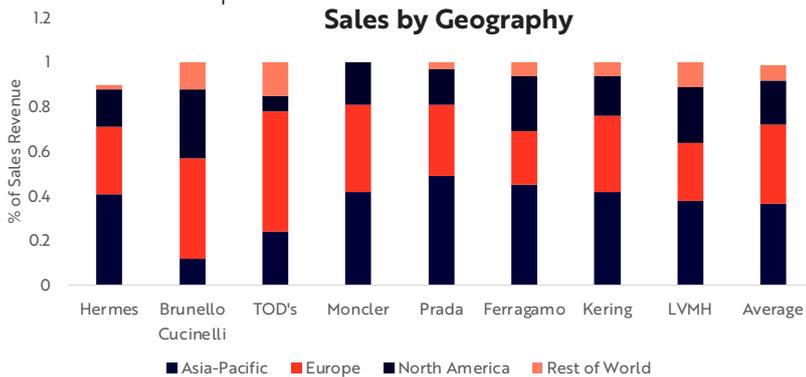


## Accessories



# Sales by Geography

Chinese mainland continues to be a key driver of sales, followed by Korea and North America. APAC accounted for 49% of revenues (including Japan) and grew at +39% in 2021, driven by strong demand in all major markets. Europe accounts for 34% of revenues and showed a significant acceleration in 2021 on the back of strong local demand and outstanding performance of direct online sales. The APAC market has been experiencing a growing middle class with greater economic prosperity, and Chinese consumers are set to contribute almost two-thirds to global luxury spending. Luxury holds significant social capital in Asia, with young consumers viewing luxury as a means to differentiate themselves from their peers.



Source: Elevation Capital/Capital IQ



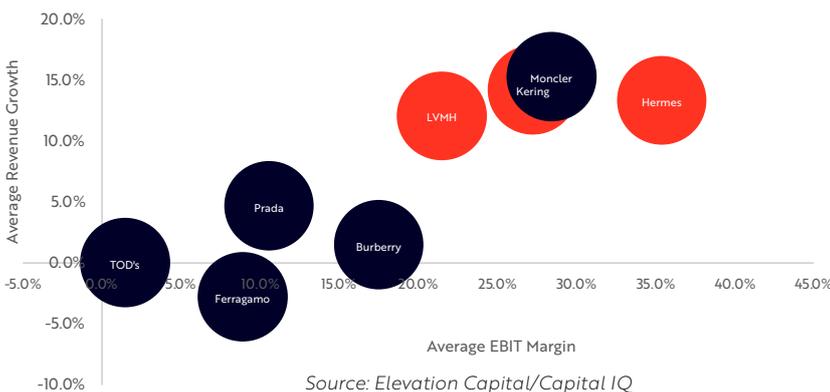


# Industry Overview

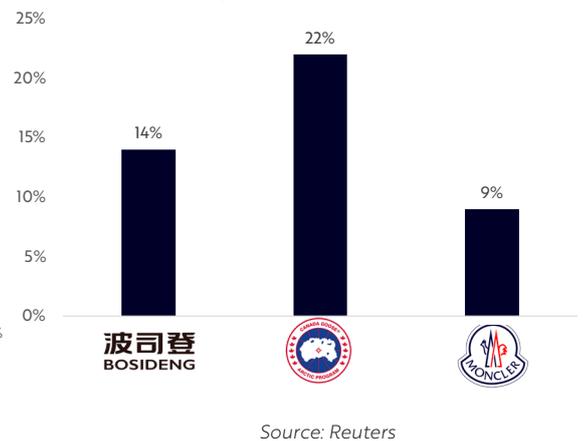
The luxury goods market is expected to grow at a moderate rate in the future, and Moncler is expected to continue a pace of growth faster than the sector. Moncler has displayed the fastest revenue growth over the last 5 years out of all of its peers in the luxury market, as the brand has quickly risen in prominence among millennial Chinese consumers. Moncler also boasts some of the most impressive margins in the sector, commensurate with a French luxury house. Moncler shows no signs of slowing, albeit in revenue growth which should be below the previous five years although consumers still exhibit strong appetite, in the face of an impending recession. Moncler's client base is ~70% female however the recent acquisition of high tech Italian fashion brand, Stone Island includes more gender diversification to Moncler's sales base.

Luxury brands do not usually compete on price as customers tend to be price insensitive and because clients may perceive the brand as less valuable and/or exclusive. Instead competition is mostly fought at an intangible level, in terms of desirability, design, customer experience, and meaning. Moncler has positioned itself as a brand for the discerning adventurer, commanding a much higher price point than competitors Canada Goose and Bosideng. Canada Goose is perhaps Moncler's most direct competitor, commanding a much larger market share. However, the two sell slightly different products, with Canada Goose focused more on function while Moncler has a greater focus on aesthetics. Market share is not as important for Moncler as its less luxurious competitors when it can sell its product at an exponentially greater price point.

**FY17 - FY21 Industry Averages**



**Share of Luxury Down Jacket Sales (China)**



## Key trends

Consumer Centric	Compete for Attention	Reconnect with the Planet

The world of fashion and luxury is undergoing extensive change. What were previously choices of product design of just a few environmentally-conscious innovators, are now moving to the mainstream, involving almost all companies in the industry. Increasingly, luxury goods companies are changing their approach and mindset, incorporating sustainability and digitalisation into their long-term strategies, to align with consumer demand and new regulatory requirements. They are focusing more on sustainability in the design and production of luxury goods, and accelerating the adoption of digital solutions to better engage with consumers. The jump to the digital world has been faster than expected, and the aim of companies now is to refine the solutions already implemented and develop new digital solutions. This increased pace means a complete rethink of production processes and, most importantly, finding new ways of creating products. Innovation is the lever of change in the luxury industry and Moncler is ahead of the curve.



# Strategic Initiatives

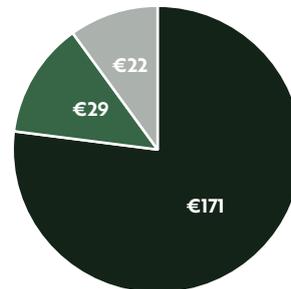
Moncler has deftly progressed their brand forward while consistently growing the core business. With the various lines Moncler produces, there is something for everyone, with high quality craftsmanship across the ranges as a result of the investment that Moncler dedicates to research of fabrication and materials. Moncler is continuing to push the boundaries of fashion, and with its recent acquisition of Stone Island has established its self as a prominent Italian fashion multi brand.

## 1

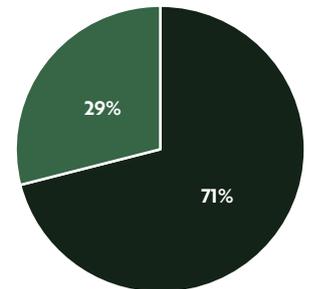
### Stone Island Acquisition

Moncler acquired Stone Island in 2021, marking the first major acquisition in the companies history. Stone Island is an Italian techno-luxury brand which grew to prominence in the 90's through its association with football hooliganism in the UK. Now, Stone Island has redefined itself as a luxury brand sported by the likes of Drake and Travis Scott. 2022 will be an important year for Stone Island. If the acquisition proves successful, it will be provide management with the confidence to seek other opportunities to expand its portfolio.

FY21 Revenue By Geography



FY21 Revenue by Channel



■ EMEA ■ ASIA ■ AMERICAS

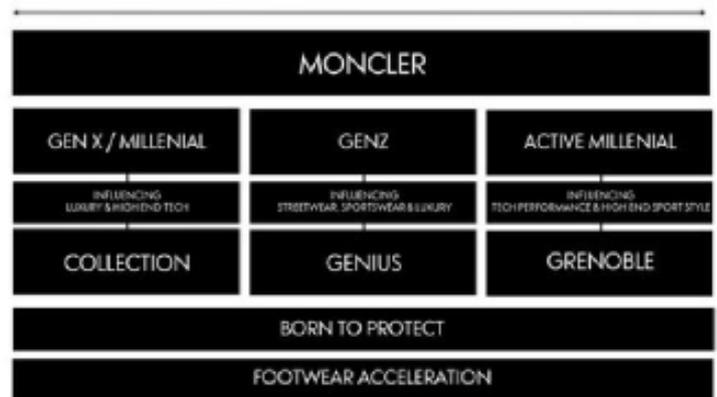
■ DTC ■ Wholesale

Source: Moncler 2021 Annual Presentation

## 2

### Boosting Grenoble and Genius

During their capital markets day, Moncler presented goals to increase focus on its core collection and technical products (Grenoble), which we see as reasonable given the Moncler's strong credentials and history in the sports/mountaineering category and consumer appeal for outdoor brands such as North Face and Patagonia. The company aims to triple the Grenoble collection from high single digits currently. The Genius collection (less than 10% currently) would target the Generation Z audience with broader collaborations beyond top designers.



## 3

### Expansion of Offering

Moncler continues to expand into new product categories beyond its core offering, down jackets. The company has recently opened a luxury ski and ski wear line, in addition to perfumes and shoes which the company views as a major potential growth market. Although this presents the risk of potential over-diversification Moncler has proven itself very adept at brand extension in the past.





## Leadership

Growing up around Lake Como in the 1970s, where temperatures would drop to -10C during winter Remo Ruffini was gifted his first Moncler jacket to wear when riding his Vespa to school. As a young man he worked for his fathers clothing company in New York, before founding two successful clothing companies of his own, based on his experiences in the New England countryside, bringing a more preppy style home to Italy. After moving to Moncler as its creative director and acquiring 20% of the company, Ruffini led Moncler through a repositioning journey moving from the technical mono-product offer (winter down jackets) to a multi-functional offer that included outerwear, knitwear, leather and accessories. This increased the unit per transaction (UPT) and avoided Autumn/Winter dependence. Known throughout the industry as an executive who can blend creativity with organisation, Ruffini has proven himself adept at brand extension and capital allocation.

The acquisition of Stone Island is perhaps the defining moment in Ruffinis career. Before the acquisition, Moncler has often been identified as a target, rather than an acquirer, and had regularly been rumoured to be in talks with French conglomerate Kering, (another holding in the Elevation Capital Global Shares Fund). Those who champion the Italian industry have long dreamt that a multi-brand conglomerate that would emerge to rival the French giants such as LVMH, Hermès and Kering. Should the acquisition of Stone Island prove to be successful, Ruffini will have positioned Moncler well for future acquisitions, and perhaps a chance to establish an Italian luxury multibrand business.



*British designer Craig Greens Spring/Summer 2021 Moncler Genius collection.*

The fashion landscape today is littered with fast collaborations, dead-of-night “drops” and jack-in-the-box pop-up stores. Anything to create cheap buzz without dismantling the seasonal engine of fashion. Ruffini has gone much further, betting on a different way of operating, in which designers and their collections come and go in frantic rotation. Moncler Genius. Every day potential clients open Instagram to see what is happening with Moncler, Vuitton, and Gucci. Today’s customers are impatient, they don’t want to wait six months to see what’s going on. Tired of conceiving a new story every month to give news to customers. Ruffini conceived a new Moncler organisation, the Genius Building. Moncler is the building and the “genius” designers are the temporary tenants—there are currently eight, but the roster changes constantly.

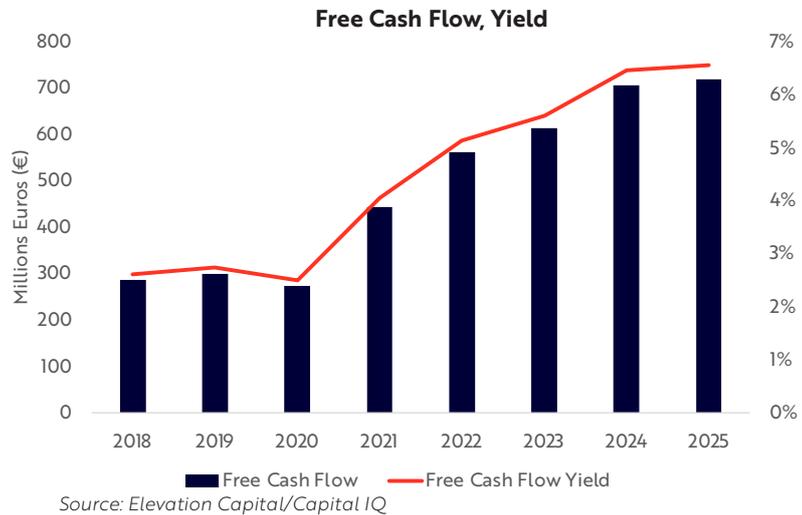
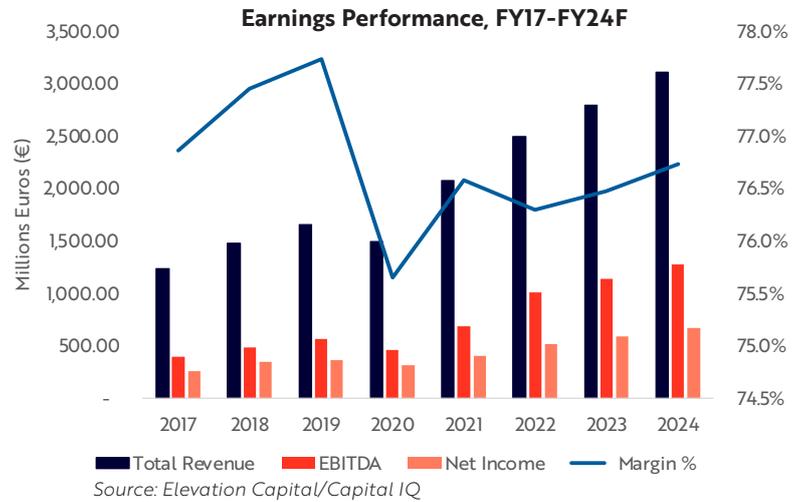
Moncler has consistently defied analysts exceptions who have long seen it as a one trick pony, due to its heavy reliance on down jacket sales. Moncler just recently surpassed €2b in revenues, a target once thought unassailable for a single luxury brand. That performance is all the more impressive considering that Moncler essentially sells only one thing, and it’s a thing most people need only one of, and then only in certain cold places at certain very cold times. Ruffini has successfully denied that reality, and he keeps denying it. Earlier this year, Moncler opened a store in sweltering Dubai, selling quite possibly the warmest down jacket on the market.



# Earnings Performance & Metrics

As expected, Monclers fundamentals are exemplary, consistently growing revenues which reached their highest level yet in 2021. Revenues along with Gross Margins did decrease in 2020 along with the entire sector at the outset of Covid-19 but have since rebounded strongly. Moncler's gross margins are amongst the highest in the industry and have consistently remained above 75%. Moncler has displayed solid operating performance with Q1 2022 starting strongly (revenues +61% from the prior year). However with consumer confidence falling to 10 year record low levels in June 2022, we anticipate significant headwinds that will impact revenue growth over the next 12 months. Monclers affluent client base tends to be more insulated from macro factors impacting the broader sector, however sales will still be impacted.

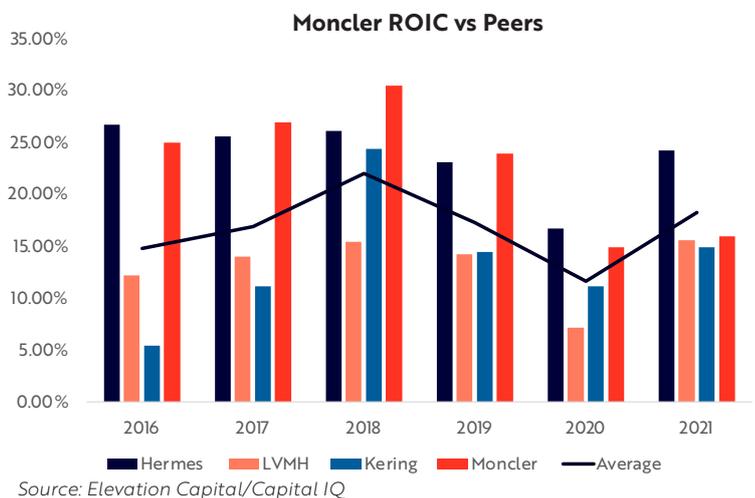
We expect Monclers free cash flow to grow steadily into 2025 however its free cash flow (FCF) Yield is even more impressive. FCF yield is effectively a coupon that investors earn on their investment and at a FCF Yield of +5% in 2022, Monclers yield compares favourably with Hermes and LVMH. Ideally we look for businesses which produce a yield above the risk-free rate, say the 10 year US Treasury Bond (2.88%). Expected to grow to 7% in 2025, Monclers FCF yield will be one of the highest in the industry and a symptom of a highly cash generative business.



*"We have brands with strong unexpressed potential and yet unexplored territories; communities to be strengthened and new ones to reach; a flexible organisation, ready to master the challenges and welcome the opportunities of the sector underpinned by a strong and distinctive vision to be a continuous source of inspiration"*

- Chairman and CEO Remo Ruffini, Q1 2022 Earnings Release

Moncler earns attractive returns on its invested capital, rivalling that of Hermes. Monclers ROIC (in dark orange) has consistently exceeded the luxury industry's averages only falling in the last two years due to a challenging operating environment and the recent acquisition of Stone Island, however, we expect a gradual reversion as Moncler continues its strong operating performance despite a challenging operating environment. We are inclined to agree with Charlie Munger that ROIC is an excellent filter for assessing a good business. The ability for management to earn a high return on invested capital over a sustained period, compounds over time, inevitably leading to great long term results for investors.





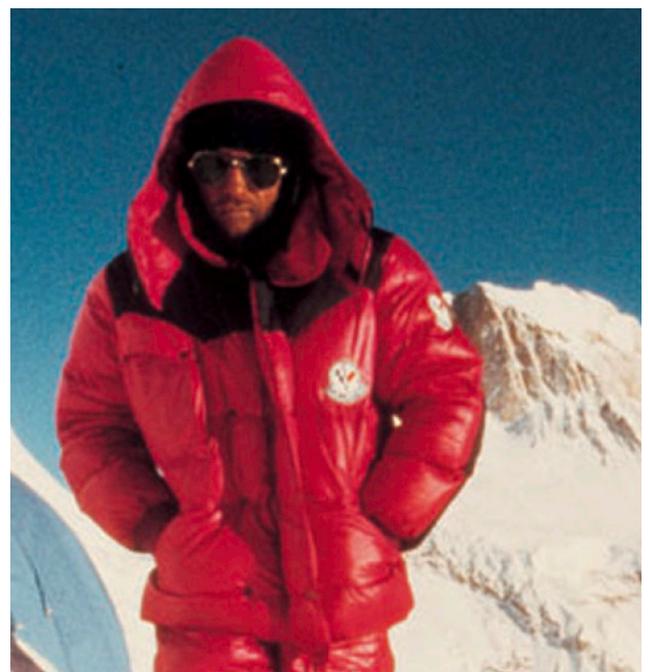
## Ahead of the Industry Curve on ESG

For the third year in a row, Moncler has topped the Dow Jones Sustainability Indices (DJSI) World and Europe, as industry leader of the “Textile, Apparel & Luxury Goods” sector, with the highest score, 89/100. To date, Moncler lists achievements including 100 percent of down traced and certified according to DIST Protocols; around 30 percent of Moncler Genius 2021 outerwear products entirely made of sustainable fabrics; 50 percent renewable energy at worldwide level, estimated to reach 80 percent this year, and 50,000 children protected from the cold in collaboration with UNICEF in the last four years. Last year, Moncler, which is a signatory of the Fashion Pact, signed a financing credit line granted by Intesa Sanpaolo SpA for a maximum amount of 400 million euros and based on a rewarding mechanism linked to the achievement of environmental impact reduction targets, similar to other brands in the industry such as Prada and Salvatore Ferragamo.

Down jacket manufacturers have come under fire in the past regarding murky ethics when it came to sourcing of down. PETA (People for the Ethical Treatment of Animals) has waged war against brands like Canada Goose, publishing investigations on animal cruelty (which the company denies) and buying billboards near the brand’s stores in New York and Chicago to persuade customers to stop buying down coats. However, Moncler has largely avoided these criticisms unlike its competitors, due in part to its ethical sourcing of down. Thus far synthetic down has not proven more effective insulation, and it is likely that products at the premium end of the spectrum will continue to use high quality and well sourced down.



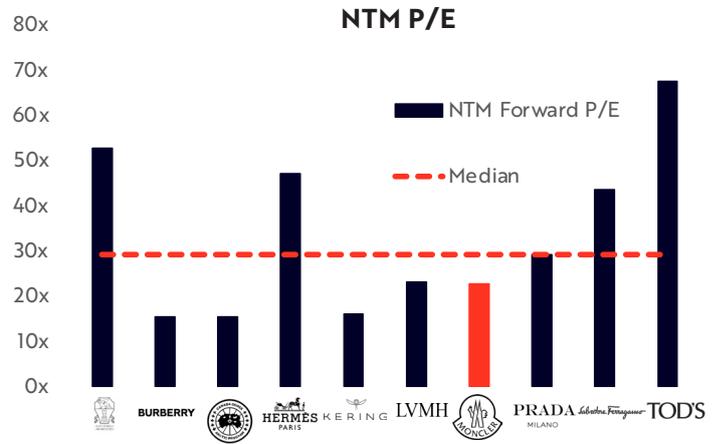
Moncler has joined the fashion brands that will no longer use fur in their collections. The announcement came on the occasion of the launch of Moncler “Born To Protect” collection which uses materials with low environmental impact (such as recycled nylon, polyester and organic cotton), reflecting the brand's commitment to protect the future of the environment. The Born to Protect plan includes precise targets for the company to meet, such as reducing its environmental impact by becoming carbon-neutral at its own sites, the recycling of fabric scraps and the use of sustainable nylon, as well as the elimination of conventional single-use plastics. Moncler has announced that it will stop purchasing fur this year and the last collection with fur garments will be the one for autumn-winter 2023. Corporate objectives with the Sustainability Plan 2020-25 also include the use of 50% sustainable nylon in Moncler collections by 2025 and recycling of more than 80% of nylon production waste by 2023. No less important is the commitment to protect 100,000 people who find themselves in uncomfortable situations from the cold.





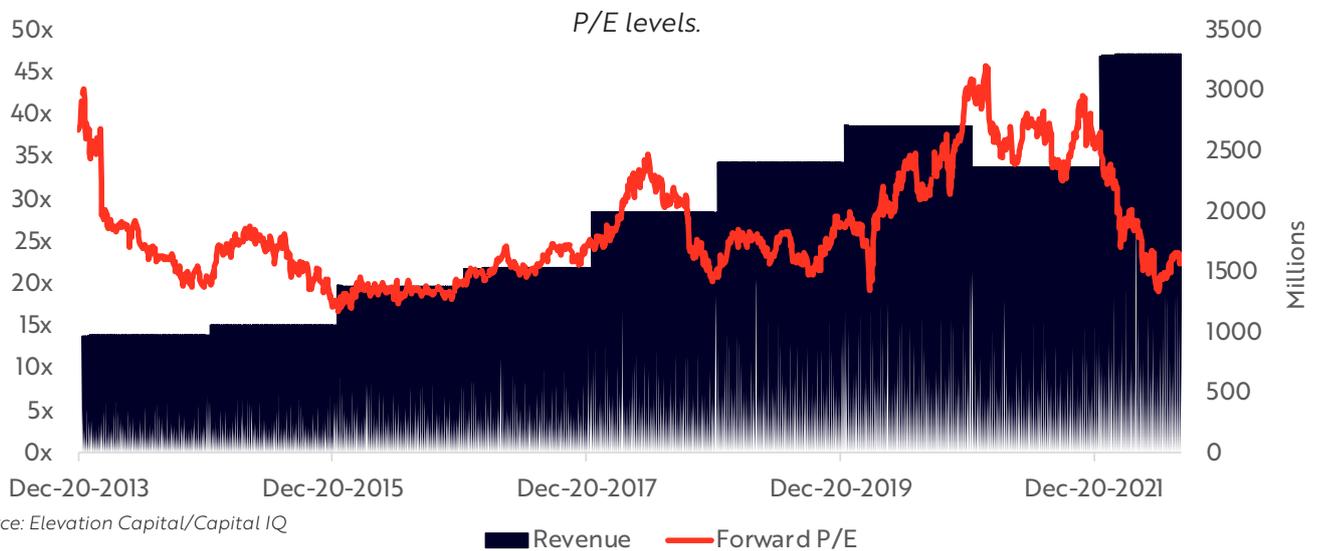
# Valuation

Moncler shares have declined ~30% year to date, underperforming the wider sector which has also experienced similar declines. We believe this is primarily based on concerns of a slowdown in consumer spending from September onwards, which is when Moncler generates the bulk of revenues and profits leaving the company more exposed to risks of earnings downgrades. However, Moncler has made steps to mitigate these concerns through the combination of a 10% price increase for the fall-winter collection offsetting potential volume declines and remains geographically diversified with American and Chinese exposure below sector averages. Moncler shares are trading near its 6-year low NTM P/E of 18x, below its relative average to the luxury sector.



Source: Elevation Capital/Capital IQ

Moncler is cheap on a historical basis and arguably much better positioned than when it traded at comparative



Source: Elevation Capital/Capital IQ

We take a longer term view of the macro factors that are impacting Moncler. Over the long term we expect recessionary fears to abate as the global economy moves through another cycle, leaving Moncler well positioned on the other side with a strong backlog of demand. We believe the market has presented us with an opportunity to purchase an exceptional company with a long runway of future growth and acquisition opportunities at an attractive price. To value Moncler we have forecast out Net Profit until 2025. We have made a conservative estimation that is lower than industry consensus, and estimated a low and high range based on different revenue growth assumptions that allows a "margin of safety". Should Moncler be valued at a slight discount to the sector P/E, our valuation range indicates a value of **€55 to €70 per share**, implying Moncler is trading at a discount of between 22% to 55% based on the closing share price of €45 as at 29/08/22. [As a cross reference to our valuation, LVMH acquired Tiffany & Co at a P/E of 27.8x, which highlights the intrinsic value luxury conglomerates see in these global brands as they continue to build their portfolios.]

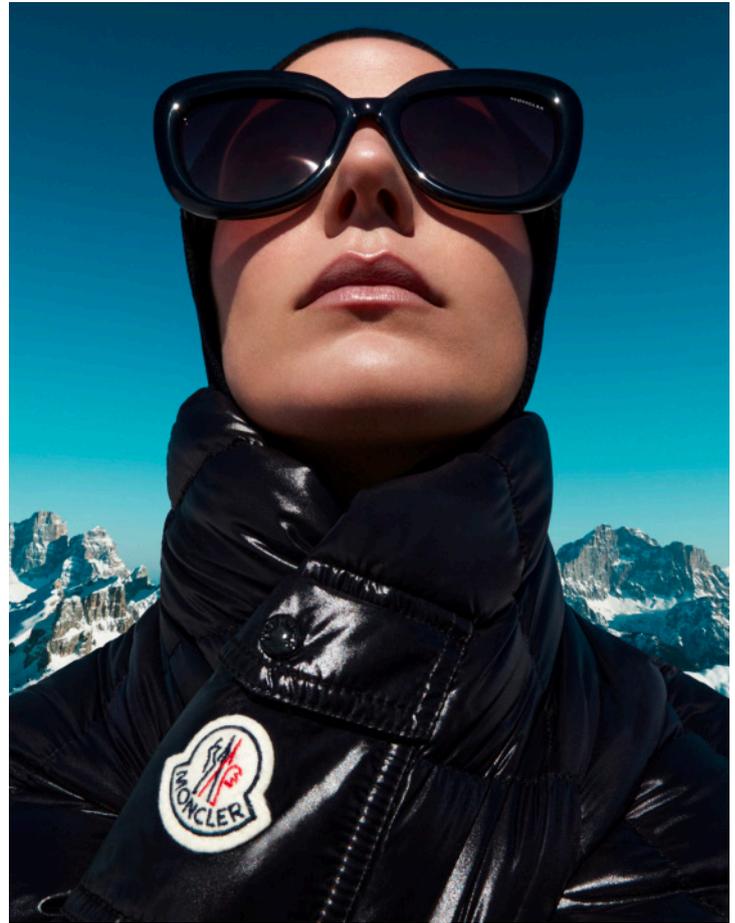
Moncler Valuation Summary (all numbers in millions except share price)		
Forecast	Low	High
FY25 Net Profit €	643	804
Peer Average P/E Multiples Discount	25x	25x
<b>Implied Enterprise Value €</b>	<b>16075</b>	<b>20100</b>
Minority Interests	0	0
Net Debt	706	706
Leases	656	656
Total Equity Value	14713	18738
Shares Outstanding	268	268
<b>Forecast Valuation Per Share €</b>	<b>55</b>	<b>70</b>
Current Share Price €	45 €	
Potential Upside/Downside	+22%	+55%

Source: Elevation Capital/Capital IQ



## Conclusion

Since Ruffini arrived as majority shareholder, Moncler has delivered exceptional results as the leading luxury down jacket manufacturer in the world. Moncler is more profitable than its peers, boasting higher margins and low capital intensity. We like the alignment of interest with Ruffini as Moncler's largest shareholder and corresponding risk reward profile for our investors. With a long runway for expansion post the Stone Island acquisition we see Moncler as an attractive addition to the Elevation Capital Global Shares Fund Portfolio and should market weakness present further opportunities we plan to add to the holding.



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This summary report was written in July - August 2022

Any data not referenced was sourced from Moncler SpA Annual Reports & Earnings Conference Calls.

1 Capital IQ

2 UBS Neo

3 Business of Fashion BOF, Remo Ruffini's plan for Moncler and Stone Island  
<https://www.businessoffashion.com/tags/organisations/moncler/>

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ELEVATION CAPITAL  
GLOBAL SHARES FUND



# *Independent Thinking Disciplined Investing*

**[In-de-pend-ent Think-ing] ind ə'pendənt THiNkiNG verb**

Is essential to long-term investment success. We are often contrarian and do not pay attention to index compositions when making investment decisions. We believe that when you're several thousand miles away from Wall Street in a different nation, it's easier to be independent and buy the things that other people are selling, and sell the things that other people are buying.

**[Dis-ci-plined In-vest-ing] disciplinəd inves'ting verb**

The market presents opportunities every day, but disciplined investing is as much about the opportunities you do not take. We also believe that cash is sometimes the most attractive investment.



MORNINGSTAR INTERNATIONAL  
EQUITIES CATEGORY FUND MANAGER OF  
THE YEAR 2017, NEW ZEALAND



NOMINEE - FUNDSOURCE INTERNATIONAL  
EQUITY SECTOR FUND MANAGER OF THE  
YEAR 2013, NEW ZEALAND



NOMINEE - MORNINGSTAR INTERNATIONAL  
EQUITIES CATEGORY FUND MANAGER OF  
THE YEAR 2012, NEW ZEALAND



NOMINEE - FUNDSOURCE INTERNATIONAL  
EQUITY SECTOR FUND MANAGER OF THE  
YEAR 2012, NEW ZEALAND