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Navigating the Digital Runway: The Farfetch IPO Unveiled

How to set an Initial Public Offering for success: The case of Farfetch

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Abstract

The following case study, subdivided into two parts, serves the purpose of performing an in-depth analysis of Farfetch's complex journey towards an IPO and subsequent performance. The first part dates to September 2018, and explores the IPO's key decision-making processes. Elements such as an analysis of Farfetch's pre-IPO financial health, an assessment of the dual-class structure implications on the transition to a public firm and a discussion of the motivation and risks involved were included. The second part moves forward to October 2023, delving into topics such as the company's recent decreasing valuation and the option to delist.

Keywords

Unicorn Valuation, Investor Base, Venture Capital, IPO Alternatives, Initial Public Offering

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Abbreviations

ACP Average Collection Period

AHP Average Holding Period

APP Average Payable Period

APAC Asia Pacific

CAC Consumer Acquisition Costs

CAGR Compound Annual Growth
Rate

CCC Cash Conversion Cycle

COGS Costs of Goods Sold

D/E Debt-to-Equity

D/EBITDA Debt-to-EBITDA

EMEA Europe, Middle East and Africa

FPS Farfetch Platform Solutions

GMV Gross Merchandise Value

IFRS International Financial Reporting
Standards

IPO Initial Public Offering

HKEX Hong Kong Exchanges and
Clearing Market

LSE London Stock Exchange

LVMH Moët Hennessy Louis Vuitton
SE

M&A Mergers and Acquisitions

MBI Management Buy-In

MBO Management Buy-Out

NGG New Guards Group

NMG Neiman Marcus Group

NYSE New York Stock Exchange

S1 First Semester

S2 Second Semester

UK United Kingdom

U.S. United States of America

U.S. GAAP United States Generally
Accepted Accounting Principles

VC Venture Capital

YNAP Yoox Net-a-Porte

PART A

Introduction

It was September 20th, 2018, and unlike past years, this was one of the busiest seasons in the history of Farfetch, as the company was headed for a potential IPO.

More than ten years into its foundation, and three years after achieving a \$1B valuation, which established Farfetch as a unicorn, the company was still not profitable. Despite having high-growing revenues of nearly \$400M in 2017, the company was accumulating losses and a negative operating cash flow (Farfetch 2018). However, José Neves, founder and CEO of Farfetch had long established that the company's priority lied in investing in future growth and achieving global scale, rather than just focusing on hitting profitability. Secure of this growth and expansion strategy, the CEO still needed to find a solution for Farfetch's pressing financing needs. Until that moment, Farfetch was heavily reliant on funding from private investors, namely VC firms, but after undergoing 7 funding rounds, it seemed like it was time for a different move.

As Farfetch was heading towards a potential IPO later that month, Neves contemplated all the questions he needed to address. The reality was that an IPO had the potential of raising a substantially larger amount of money for the firm than it could get by launching another funding round. But would the benefits of an IPO outweigh its costs and risks? How would the shareholder base be affected by an IPO? While in discussions with the remaining elements of Farfetch's board of directors, several matters were considered, namely the valuation of the firm and location of the IPO, and whether an alternative option to an IPO would be preferred.

As Neves and his board of directors considered the possible courses of action, they knew that no less than the future growth and stability of Farfetch was at stake.

About Farfetch

Company Background & History

José Neves had shown his interest in technology and fashion from a young age. The Portuguese entrepreneur founded his first technology business, a software distributor company named Grey Matter, at just 19 years old while studying Economics at the University of Porto, a time during which he described himself as “an almost outsider”. Neves came from a family traditionally linked to the craft of shoemaking, and thus, it was no surprise that he began his involvement in the fashion startup landscape. Just two years after launching his first business, in 1996, Neves moved to London, a desire he had for quite some time, and launched SWEAR, a company focused on designing and producing footwear products. This project encouraged him to later create SIX London, a fashion licensing and wholesale company, which allowed him to explore the complexities of the fashion supply chain and global distribution networks. Later, in 2001, Neves opened the famous London shop, bstore. In 2006, bstore received the coveted British Fashion Award for “Retailer of the Year” in recognition of its remarkable contributions to the fashion industry (Farfetch 2023b).

Having a unique combination of passions with a love for fashion and a great awareness of technology's revolutionary potential, Neves ended up laying the first seeds for Farfetch's founding in 2007. His idea, acclaimed by many as visionary, was to present consumers with a global network of luxury boutiques and high-end goods, through an online marketplace (Danziger 2020). This platform would tap into the emerging needs of the market, given the lack of online sales channels for luxury brands. In José Neves' view, the already existing companies such as Amazon, were not designed for this purpose as these were not tailored to meet the specific requirements of the luxury sector.

Therefore, the official launch of this idea in 2008 marked the beginning of a transformative journey to redefine the luxury shopping experience. However, this settlement

was not always easy, as Neves experienced a few difficulties in attracting sellers during earlier stages. Indeed, most luxury brands placed the utmost importance on their brand's reputation and on providing a customized customer experience, leading them to believe that such an online platform would disrupt their traditional business models. Thus, when it was first launched, Farfetch enabled customers from 5 different countries to shop for items from a selection of 25 boutique stores.

Farfetch's early years were characterized by audacious ambition and rapid expansion, as it introduced an unprecedented concept, distinguishing itself by an extensive selection of diverse luxury products, encompassing apparel, accessories, footwear, and jewelry, as well as by its technological expertise. During the first 3 years, the company experienced difficulties in attracting external investors, being only financed with the CEO's own capital. Afterwards, it received multiple strategic investments, which fueled the company's global expansion, acquisition strategy, and technology enhancements (Godinho 2019).

Farfetch started as an online platform that connected consumers with an exclusive selection of luxury fashion boutiques and brands. As it grew, the company expanded into providing e-commerce management and technology integration services to luxury brands and designers, through *Farfetch Black & White Solutions*, and to presenting innovative in-store technological solutions for one-of-a-kind physical retail, through the *Store of the Future*.

In 2015, Farfetch was recognized as Portugal's first and fashion's only unicorn, a term used in the business and startup world to describe a privately held company with a valuation of over \$1B (European Commission 2022). The company achieved this milestone by expanding and attracting significant international investment (Ahmed 2015). This accomplishment not only emphasized Farfetch's success as a technology-driven fashion marketplace but also drew attention to Portugal's developing startup and tech sector.

As of June 2018, Farfetch connected more than 1.1M active consumers from 190 countries with over 980 luxury sellers (Farfetch 2018). Despite not having yet achieved profitability, Farfetch registered total revenue of \$386M in 2017 (Farfetch 2018). The company which has always been headquartered in London given the CEO's familiarity with the city, accounted for over 3,000 employees around the globe, in 2018. It established offices in major fashion capitals such as London, New York, Los Angeles, São Paulo, and Shanghai (Farfetch 2018). These strategic locations allowed Farfetch to build relationships with luxury boutiques and designers from diverse regions, enriching its product offerings and international appeal.

Mission and Vision

Farfetch's mission was to be the "global technology platform for luxury fashion, connecting creators, curators, and consumers" (Farfetch 2018).

As José Neves stated, "Farfetch exists for the love of fashion. This is an industry of emotions, aesthetics, desire, and tech companies miss that. Fashion is the antithesis of tech's value-driven mentality" (Farfetch 2018). Therefore, Farfetch's vision was to build a global community that promotes fashion creativity and originality, reinventing the future of fashion retail and empowering the industry's growth by employing cutting-edge technology and a commitment to excellent customer experiences.

Furthermore, the firm aimed to empower independent and small boutiques, allowing them to expand their reach and connect with a wider customer base.

Industry Analysis

The Global Luxury industry, which includes Personal luxury goods, Luxury cars, Luxury hospitality, Fine wines and spirits, among other segments, hit €1.2T in sales, by 2017, representing 5% growth from 2016 (D'Arpizio et al. 2017).

As a global luxury fashion platform, Farfetch was part of the Global Personal luxury goods segment that comprises high-end products meant for personal use, namely, premium

apparel, fashion accessories, watches, jewellery, and cosmetics products. In 2017, this market achieved a €262B valuation, growing at a 6% CAGR since 2010. According to Bain & Company, in that year, the Personal luxury goods market was the second largest segment in the Overall Luxury industry, following the Luxury cars one (*Exhibit 1*) (D'Arpizio et al. 2017).

The Luxury industry highly relies on the perception of scarcity and exclusivity to enhance appeal, typically achieved through limited availability and selective distribution of items. Traditionally, this industry focused on in-store experiences to be able to provide a more customized and exclusive service. This way, brands' reluctance to introduce online sales channels was associated with the desire to fully control premium customers' experience and with the lack of adequate digital capabilities. However, despite the relatively low online channels' market share (in the Personal luxury goods market) of 9%, in 2017, the online trend within this area was growing rapidly, accelerated by the increased prominence of younger generations and the increasing tendency for interconnectivity (*Exhibit 2*). In fact, online Personal luxury shopping grew 24% over 2017 and at a 27% CAGR since 2010. Furthermore, experts forecasted that online sales would constitute 25% of the market's value, in 2025 (D'Arpizio et al. 2017).

Additionally, Generations Y and Z constituted 44% of Personal luxury goods consumers and 32% of the sales, in 2017 (*Exhibit 3*) (D'Arpizio et al. 2017). Indeed, these younger generations are considered digitally savvy luxury shoppers, and thus, show new preferences regarding their shopping and payment methods.

Regarding category distribution, apparel, beauty and handbags were the top performing ones, representing 62% of the market, in 2017 (D'Arpizio and Levato 2022).

Concerning region distribution, traditionally, Europe and Americas had been the largest regions in terms of market share (*Exhibit 4*). In 2017, Europe was the top region, representing 33% of the market. Despite the challenging department stores environment, Personal luxury

sales hit €84B in the Americas, accounting for 32% of the market, by 2017 (D'Arpizio et al. 2017).

According to Farfetch, the expansion of the Global Personal luxury goods market was anticipated to be largely fueled by rising consumer demand in emerging markets such as China, the Middle East, Latin America, and Eastern Europe (Farfetch 2018). Asia had the third position, with a 30% share of the market, as of 2017. In that year, China's sales constituted an 8% market's stake and rose 15% from 2016, given the increased consumer confidence. Furthermore, by consumer nationality, Chinese consumers accounted for 32% of the market's purchases, showing its increasing importance (*Exhibit 5*). Lastly, in Japan, sales rose 4% to represent 8% of the market, enjoying a currency driven boost (D'Arpizio et al. 2017).

In terms of future prospects, Bain & Company projected this market to reach a total value between €295B to €305B, in 2020 (D'Arpizio et al. 2017).

Competitive Analysis

Farfetch was the first online luxury retailer platform of its kind, however, with the rise of online shopping in the early 2010s, new e-commerce platforms emerged, and luxury brands slowly began to adopt this new way of selling, either through these platforms, or by launching their own online stores, tightening Farfetch's competition. Besides, even though most large luxury brands sold their products on Farfetch, these still posed as competitors through their own physical and online stores.

Key Players

Luxury Conglomerates and Mono-Brands

Luxury conglomerates dominated the luxury fashion industry, with three prominent names leading the race, as they accumulated worldwide known brands and consequently, a large market share.

LVMH, was the luxury market leader with over €5.8B of net profit in 2017, stemming from over 70 houses which were rooted in several lines, including fashion, jewelry, wine, spirits, hospitality, and media (LVMH 2017a). Some of the most recognized brands under this French powerhouse included Louis Vuitton, Dior, Rimowa, Bulgari, and Moët & Chandon.

Richemont, formerly known as Compagnie Financière Richemont SA, registered over €10.6B in revenue in 2017 and owned 19 houses among watchmakers, jewelry and fashion brands, including Cartier, Montblanc and Chloé. Nevertheless, most of Richemont's activity comes from its jewelry houses, which accounted for 56% of the group's overall business in 2017 (Richemont 2017). Earlier in 2018, the company completed its acquisition of Yoox Net-a-Porter, Farfetch's largest competitor, marking its delisting from the Milan Stock Exchange.

Kering, the eldest of the three, held 13 luxury brands under its realm, encompassing Gucci, Saint Laurent and Balenciaga, as well as 2 sports brands, including PUMA. In 2017, the company more than doubled its net profit, registering €15.4B in revenue (Kering 2017).

Beyond these main players, there was a range of smaller luxury conglomerates, including EssilorLuxottica, which dominated the luxury eyewear market; Prada Group, owner of Prada and Miu Miu; the American-based Tapestry, which held Coach, Stuart Weitzman, and Kate Spade; and Michael Kors Holding, which besides holding the brand from which it gains its name, had just completed the acquisition of the famous luxury shoe-maker Jimmy Choo (Michael Kors 2017).

Besides, most luxury brands, whether independent, or held under a conglomerate, had their own network of physical stores, spread across company-owned flagship stores and department stores, such as Harrods, Galleries Lafayette, or Bergdorf Goodman.

Luxury Multi-Brand Online Stores

The multi-brand online store landscape was largely dominated by YNAP in 2018, which was the largest luxury retailer by volume of sales in 2017 with €2.5B. YNAP emerged from the

merger of Yoox, which sold off-season luxury goods, and Net-a-Porter, which sold current season luxury goods from about 800 fashion brands and 200 beauty brands, in 2015. The merger of these two companies had the goal of fighting the tightening competition that was rising in the online luxury retail space, namely with the growth of Farfetch. It owned the online retailers Net-a-Porter, The Outnet, Mr Porter and Yoox, and also operated the e-commerce websites for more than 30 luxury brands including Dolce & Gabbana, and Stella McCartney (YNAP 2017).

Moreover, Farfetch operated among this segment, occupying the second place in terms of sales volume in 2017 with around \$386, a much lower value than YNAP (Farfetch 2018).

Another key player in this space was Secoo, one of China's largest multi-brand online retailers, which had the unique feature of running its website in parallel with its offline experience centres across Chinese cities.

Founded in 1987 as a boutique, the German MyTheresa launched online in 2006, offering ready-to-wear shoes, bags, and accessories for womenswear, menswear and kidswear, together with home décor and lifestyle products from over 200 luxury brands, including Burberry and Valentino. Contrarily to Farfetch, this company has been profitable since its founding by distinguishing itself from competitors through a niche product assortment, exclusive capsule collections with designers and pre-launches with top brands.

In 2017, LVMH launched 24 Sèvres (24S), a multi-brand online retailer with more than 300 brands, that tried to reproduce the visuals of luxury department stores, while offering a personal shopper service. 24S had the competitive advantage of being the exclusive online partner of some of LVMH's most prestigious brands such as Dior, Celine, and Louis Vuitton (LVMH 2017b).

Smaller players included Luisa Via Roma, an on-line retailer since 1999, that offered a curated selection of over 600 luxury brands, including iconic brands and emerging talents; The

Real Real, the world's leading high-end consignment store founded in 2011; and Vestiaire Collective, a second-hand online store founded in 2009.

E-Commerce Platforms

Contrarily to luxury multi-brand online stores, e-commerce players do not sell exclusively luxury goods, but rather all types of goods and thus, do not offer a unique expertise on the Luxury industry. Despite little success, e-commerce giants such as Amazon, Alibaba, and JD.com had been trying to enter the luxury online landscape.

Amazon was the world's largest e-commerce player, but most luxury brands had rejected selling their products through this platform. This is partly because of Amazon's recognition as "the everything store", which conflicted with the emphasis on exclusivity that luxury brands seek. Besides, counterfeit goods had been reportedly sold through Amazon's platform, endangering the intellectual property and brand identity of luxury fashion houses (Dalton and Stevens 2017).

Alibaba was also a key player, particularly in the Asian market. The company launched in 2017 a space dedicated to luxury and premium products that can only be accessed via invitation under the name "Luxury Pavilion" within its Tmall platform (Alizila 2017). Also in 2017, JD.com, a Chinese e-commerce giant, launched its own luxury e-commerce platform "TopLife", featuring brands such as Rimowa and La Perla (JD.com 2017).

Macroenvironment Impact

The most significant macroeconomic event since Farfetch's foundation up to 2018 was the 2008 financial crisis. Between December 2007 and June 2009, the world witnessed one of the most severe global recessions, resulting in far-reaching consequences. Indeed, in 2009, there was a dramatic decline in global output of 1.8%, with global trade falling by 9.9%, and investment collapsing by 9% (WTO 2009). The effects of the financial crisis were widespread,

affecting every industry. As a result, the Global Luxury market lost approximately 9% of its value (Parisi 2020).

Furthermore, a financial crisis or any perturbation to the financial markets also influences the Venture Capital (VC) market and its players, which become notably marked by a larger resistance to investment in such risky opportunities. Following this, during the 2008 financial crisis, this investment segment was naturally affected.

In fact, this crisis happened simultaneously with Farfetch's founding, leading its attractiveness for VC investors to be compromised, as raising investment funds became a more difficult task in the context of the crisis. Hence, Neves mainly relied on his capital to fund the company during this period and only from 2010 onwards could the company convince private investors to take on this opportunity.

Farfetch Business Model

Core Components

Farfetch's business model was composed of two main revenue-driven segments: Digital Platform and In-Store (Farfetch 2018).

Digital Platform

The Digital Platform encompassed Farfetch's Marketplace, the core element of the platform, and additional offerings including *Farfetch Black & White Solutions* and *Store of the Future* (Farfetch 2018).

Within the Digital Platform, Farfetch committed heavily to developing comprehensive data insights and employing proprietary algorithms that increased the company's efficiency, by applying data science and machine learning to automate decision-making processes related to merchandizing, targeting, curation, and feedback. The integration of these insights enabled Farfetch to deliver an elevated consumer experience and operational efficiencies for its partners (Farfetch 2018).

Marketplace

Farfetch's Marketplace, the first application built on the company's platform, was responsible for over 90% of its total revenue in 2017. As of June 30, 2018, the Marketplace counted with over 1.1 million active consumers from 190 countries, and 989 luxury sellers from 45 countries, consistently demonstrating its commitment to maintaining the singular characteristics of each partner seller (Farfetch 2018). This aggregation of numerous luxury sellers had been achieved through a decade-long and meticulous process of relationship building, acting as a formidable barrier to entry.

But how did the Marketplace collect revenue? Marketplace's consumers were not charged any amount to access and use the platform. Instead, the company had two distinct selling models, and collected revenue accordingly.

On one hand, third-party sales referred to the products listed and sold on Farfetch's platform by independent sellers, which could include luxury fashion boutiques, brands, or individual sellers. As Farfetch acted as a commercial intermediary between third-party sellers and consumers, it received a commission of around 30% over the sales performed through its platform. This consisted of a blended commission of the retail sale price of the good sold, thus, its selling partners did not pay any fixed fee. Farfetch did not own the inventory for these items. Alternatively, the company had real-time access to all the sellers' inventory to be able to provide customers with up-to-the-minute product availability. Therefore, the firm was also not directly responsible for the storage and fulfilment of the orders, but the sellers needed to use Farfetch branded packaging and ship through a Farfetch-approved delivery system for order consistency (Farfetch 2018). This business model shielded the company from holding inventory risk, through third-party sales, as the products were shipped directly from the brand to the customer, rather than being stored in a warehouse under Farfetch's ownership (Abaffati 2017).

Additionally, Farfetch offered free of charge services for content creation, including styling, photography, and item descriptions. This was a cost that was incurred by the firm itself and not the luxury brand behind each product. Moreover, Farfetch's partner sellers could also access additional charged service lines provided by the company, namely *Fulfilment by Farfetch*, which simplified and streamlined the entire order fulfilment process for sellers, ensuring that the products were stored, processed, and delivered effectively, by allowing sellers to store their inventory in third-party-owned warehouses, managed and operated by Farfetch (Farfetch 2018).

It should also be noted that the selection of the merchandise as well as the prices made available on Farfetch's marketplace were set by the third-party sellers, limiting Farfetch's responsiveness to customers' preferences and competition.

On the other hand, the first-party sales referred to sales of items owned by Farfetch, through direct purchases from brands, which were sold on its digital platform. Such first-party sales entailed supply chain management and inventory risk. Furthermore, these were not commission-based as Farfetch acted as principal in these transactions, collecting the revenue it made on the items' sale over its purchase or production cost. For these first-party sales, the revenue realized was equal to the Gross Merchandise Value¹ (GMV) (Farfetch 2018).

And what costs did the Marketplace require? Costs of Goods Sold (COGS) were related to shipping costs, duties, credit card fees, packaging expenses and other direct order related costs. Moreover, Farfetch's success pertained not only to customer retention but also to the collection of new ones, leading the firm to incur high Consumer Acquisition Costs (CAC). These were mainly driven by marketing and advertising costs, as the firm targeted a niche affluent customer base, as well as by the establishment of designer collaborations and the organization of exclusive events for its top-tier customers. Related to the CAC, were the

¹ Gross Merchandise Value (GMV) is a term used to the total amount of merchandise sold by a company over a given period of time through a marketplace.

Lifetime Value of a Consumer (LTV) and Platform Order Contribution Margin. An increased LTV/CAC ratio demonstrated that each consumer was becoming more valuable. Farfetch believed that a higher LTV over time was achievable or that expenditure on demand generation may be reduced to achieve a comparable return (Farfetch 2018). This may be achieved through a continuous focus on adding new Active Consumers to the Marketplace and on increasing their purchase frequency, and the AOV after their initial purchase, while lowering retention expenditure.

Farfetch Black & White Solutions

Launched as an independent business unit in 2015, *Farfetch Black & White (B&W)* offered e-commerce and technology services to luxury brands and designers concerning the optimization and development of their online luxury presence.

Recognizing that some luxury brands and retailers prioritize maintaining authenticity and independence in their e-commerce presence, Farfetch decided to leverage on the technology that has made it a global platform for the luxury fashion industry, by providing white-label services. This meant that clients could enjoy enhancements to their digital platforms through Farfetch, while still retaining their independence and the integrity of their brand's identity. This service was offered through specific packs of products which the consumers could choose from or through a complete end-to-end e-commerce solution, including digital marketing and customer engagement solutions, data analytics, and international expansion support for entering new markets and navigating international e-commerce challenges (Farfetch 2018).

Furthermore, *B&W Solutions* relied on a combined upfront payment along with a fee applied to all e-commerce transactions, making it a successful fee-based model. Note that this fee was lower than the commission charged on the Marketplace sales (Farfetch 2018).

In-Store

The In-Store segment was referent to the revenue generated by Browns, a small chain of multi-brand physical boutiques in London owned by Farfetch. Note that the acquisition of Browns will be further developed below (Farfetch 2018).

Initiatives

Store of the Future Initiative

In April 2017, Farfetch introduced its *Augmented Retail* vision realized through the *Farfetch Store of the Future*, a technology-driven retail operating system for use in brick-and-mortar stores. This innovative approach aimed at merging physical and online shopping, leveraging consumer data to enhance the luxury fashion retail experience. Farfetch recognized the value consumers place on in-store interactions, where they could build relationships with sales associates and interact with the products and sought to replicate this in a digitally enhanced environment. Moreover, this initiative allowed retailers and brands to integrate third-party technologies on the system, offering a tailored experience to each brand or retailer based on their unique strategies (Farfetch 2018).

The *Store of the Future* used technologies such as universal ID to synchronize offline and online customer activity, instant in-store wishlists, advanced payment options, Radio Frequency Identification and Smart Mirror technologies (Farfetch 2018).

This initiative was initially introduced as a pilot program in ten of Thom Browne's London and New York stores in early 2018, followed by its implementation a few months later in the Browns East boutique. At the same time, Farfetch established a multi-year global innovation partnership with Chanel for the *Store of the Future* project, further illustrating their commitment to seamlessly integrate the online and offline worlds in luxury fashion retail (Farfetch 2018).

M&A and Partnerships

To enhance its technological expertise and know-how in the industry, alongside seeking an enlargement of its market share, Farfetch resorted to an active M&A and partnerships strategy by making investments that accelerated the company's existing strategy.

Browns

Browns, an iconic luxury fashion boutique in London, which rapidly evolved to a small chain of boutiques, was acquired in 2015 to dive deeper into the luxury retail ecosystem, bolstering Farfetch's credibility within the industry. Browns was celebrated for introducing emerging fashion labels such as Alexander McQueen and John Galiano. This acquisition enabled Farfetch to consolidate the *Store of the Future* initiative, serving as its incubator (Farfetch 2018).

JD.com

On June 21, 2017, Farfetch entered into a strategic partnership with JD.com, with the goal of gaining valuable insight into the Chinese market. As part of this relationship, Farfetch leveraged JD.com's local logistics network, consumer payment solutions, technology capabilities, and its marketing resources, including its WeChat partnership (Farfetch 2018).

Chalhoub Group

In February 2018, Farfetch joined forces with the Chalhoub Group, one of biggest luxury players in the Middle East, by signing a joint venture agreement. This deal aimed at allowing the firms involved to dominate the luxury online market in this region, which remained a potentially large and relatively untapped source of growth. Through this partnership, Farfetch launched its website in Arabic, and curated a selection of goods aimed at Arabic consumers (Farfetch 2018).

Curiosity China

To further expand its presence in the Luxury industry in China and extend its *Black & White* Solutions offering, in July of 2018, Farfetch acquired CuriosityChina, a domestic technology company with particular expertise in Customer Relationship Management and digital marketing for luxury fashion brands (Farfetch 2018).

Financing Path

The founding stage of Farfetch emerged from a heavy investment of considerable risk from the owner, Neves. “I used all the money I had, I took loans from my shoe business and lent it to Farfetch. If Farfetch hadn’t worked, I would have been bankrupt”, Neves stated (Godinho 2019).

Seed and Angel Investment

Interestingly, the company never actually entered the Seed funding and Angel investment phase, where normally CEOs attract early-stage, high-net-worth, investors who believe in the company’s potential (Ganti 2023). This investment phase is typically crucial since the support of this type of investors not only provides a great amount of capital but is also an instrument of external validation in the company’s business model, building credibility and attracting further interest from both investors and luxury brands. As Neves stated “We survived from our own capital for 3 years, no one gave us any seed money and we didn’t even have a business plan to present for most of the time. It gave Farfetch a DNA of resistance and that was essential. Farfetch has a humble but ambitious origin” (Invesquotes, and BuyandHold 2021). This self-funding approach provided the CEO with the ability to make crucial decisions, such as focusing on building a resilient and powerful technological infrastructure.

Series A-G Funding Rounds

To solidify its standing as a high-growth and high-potential entity, Farfetch had to eventually seek external funding. Therefore, between 2010 and early 2018, the company incurred a series of 7 funding rounds (Crunch Base 2023).

In July 2010, Farfetch successfully secured \$4.5M in its first Series A funding round, with an investment from Advent Venture Partners. Later, in 2012, Farfetch raised \$18M in Series B funding with participation from Index Ventures, e.Venture Capital Partners, and its already existing investor, Advent Venture Partners. In the next year, Farfetch conducted its Series C funding round in the amount of \$20M, led by global media giant Condé Nast (Crunch Base 2023).

Many companies finish raising money with their Series C, but this was not the case for Farfetch. There are a few reasons why a company may choose to pursue further funding rounds, namely increasing their value before making a public debut, or pursuing a new expansion opportunity.

In May 2014, Farfetch completed a Series D funding round with the value of \$66M. This round was led by Vitruvian Partners, with the participation of existing investors Advent Venture Partners, Condé Nast, and new investor Richard Chen, partner at the Chinese VC fund Ceyuan (Crunch Base 2023). On the goals of this round, Neves stated “included facilitating the firm’s omni-channel proposition, escalating the development of local language sites in its key new markets of Russia, China and Japan and accelerating engineering developments” (Farfetch 2014).

By March 2015, Farfetch initiated a Series E investment round, led by DST Global, a VC fund that had invested in Facebook, Twitter, and Alibaba. This round resulted in an additional \$86M in funding, solidifying its valuation at \$1B and raising its status to a unicorn

(Crunch Base 2023). This funding round encompassed the launch of *Farfetch Black & White Solutions* and the acquisition of Browns.

In 2016, Farfetch completed its Series F funding round and raised \$110M, led by the new investor Temasek, an investment company based in Singapore. Neves saw this as a “strategic move”, allowing Farfetch to deepen its knowledge concerning the Asian market. Still in 2016, Farfetch obtained debt financing of \$50M from TriplePoint Capital (Crunch Base 2023).

In June 2017, Farfetch raised \$397M from JD.com under its series G funding round, which turned the new investor into Farfetch’s largest shareholder (Crunch Base). This transaction marked the inception of a strategic collaboration, harmonizing Farfetch's brand curation with JD.com's substantial presence and influence within the rapidly expanding Chinese luxury goods market.

IPO

Neves first announced its intention of turning Farfetch into a public company in 2015 stating that “going public would be the next financial milestone for Farfetch”. Such a transition to public markets would allow the firm to raise a large sum of capital, which it could utilize to further its growth agenda. As of August 2018, the company filled out the registration documents to its IPO, which was expected to occur in September of that year.

Farfetch benefited from a dual-class structure, composed of approximately 215M Class A shares and 42.9M convertible Class B shares as of August 2018. José Neves was the only owner of Farfetch’s Class B ordinary shares, granting him 80.2% of the aggregate voting power of the company, due to the 20:1 voting ratio between Farfetch’s Class B and Class A shares, even though he only owned around 17.3% of the company (José Neves also owned a small stake of Class A shares). How could this dual-class structure that gave controlling power to the CEO influence the transition to an IPO? While it allowed Neves to pursue its strategic vision

given that no decision could be made without his approval, it could raise significant agency costs (Farfetch 2018).

In its projected IPO, Farfetch was planning to sell 44.2M Class A shares, with 33.6M new shares being issued by the company and the remaining 10.6M shares being offered by existing shareholders, at a share price of \$20, raising a total of \$885M. However, IPOs are expensive transactions, and the company was set to pay around \$50.9M in offering expenses if it pursued this financing proposition. Thus, the net proceeds accounting for deductions related to underwriting, commissions, and expenses, along with contributions from a concurrent private placement, were projected to be approximately \$625.4M. It is also worth mentioning that the company was not expected to receive the proceeds from the shares offered by the selling shareholders (Farfetch 2018).

Goldman Sachs, J.P. Morgan, UBS, and Allen & Company were expected to act as the main IPO underwriters, being allowed a 30-day option to purchase up to an additional 6.6M Class A shares at the initial public offering price, provided that investors' interest exceeds expectations. Moreover, Farfetch's Chinese partner, JD.com, which had invested \$397M in the company a year prior to its IPO, would be granted the right to purchase shares through a concurrent private placement in order to mitigate the deteriorating effect on the shareholder's ownership after the shares began traded publicly (Farfetch 2018). Refer to the *Exhibit 13, 14 and 15* for a summary of the company's ownership structure both before and after the offering and the concurrent private placement, considering for the latter case the scenarios of full or no exercise of over-allotment option by the underwriters.

An important decision surrounding an IPO is also its location, and Farfetch seemed to favour the NYSE as its future home, despite being a London-based company. Would this be seen by investors as a smart move, or would other locations be more favourable?

Company Expectations Post-IPO

During the years prior to the IPO, the CEO of the London-based company had expressed his interest and plans to expand into new regions and reach more customers, particularly given the rapid rise of online marketplaces and competitive responses in the Luxury industry. Richemont's acquisition of YNAP and Coach's bid to boost its premium goals by rebranding as Tapestry were two examples that motivated the decision to move on with the IPO (Reuters 2023). In this atmosphere, Farfetch's IPO filing came as a response and was viewed as a requirement for the company to stand out and take part in more initiatives and technological developments, being the potential acquisitions and incremental growth financed by the net proceeds of the proposed public offer. Thus, the motivation to expand was a reason for the desire to undertake the IPO, and several others can also be identified such as the increased visibility and familiarity and the creation of a currency for acquisitions. However, it is also important to ask: what are the potential risks and challenges associated with undertaking such a strategic financial move?

In its IPO prospectus, Farfetch informed investors that it did not plan to turn a profit in the foreseeable future, preferring to invest in technology and market share, which is a strategy supported by many technology investors (Farfetch 2018). “We may continue to experience losses after taxes in the future, and we cannot assure you that we will achieve profitability and may continue to incur significant losses in future periods”, Farfetch stated. Additionally, Farfetch expected its Platform GMV to grow approximately 40% by the end of 2019, and Adjusted EBITDA margin to remain negative between -19% to -18% (Farfetch 2018).

Market Conditions

Despite threats of economic uncertainty caused by geopolitical tensions and the ongoing trade war between the US, EU, and China, the global IPO market surged in 2017, registering a 40% increase in proceeds to \$188.8B, and a 49% increase in volume to 1624 IPOs. The NYSE

capitalized most of these proceeds, accounting for \$30.1B with 71 IPOs (EY 2017). It is also worth noting that technology was the most active sector in terms of IPOs in 2017, with a large number of tech unicorns making their debut in public markets, such as Snapchat. This trend continued during the first half of 2018, with tech giants such as Spotify, Dropbox, and Xiaomi publicly listing their shares. Key contributing factors to this booming time in the IPO market were strong investor confidence, large pools of liquidity, high valuations, and low interest rates. In the words of Nelson Griggs, president of the NASDAQ Stock Exchange, “With the market at all-time highs valuations are at the high-end, presenting a favourable backdrop for IPOs” (Banerjee and Singh 2017). José Neves wondered whether this was a favourable timing for Farfetch’s public debut.

What is next?

Farfetch had come a long way since its founding in 2008, evolving from a small startup to one of the world’s leading luxury fashion multi-brand online retailers (*Exhibit 13*). Farfetch operated at the intersection of luxury fashion, online commerce, and technology. Thus, keeping a close eye at the specific market dynamics and consumer trends that are shaping the future of the industry, Farfetch intended to accompany the luxury channel shift to online. For luxury sellers, digital was fundamentally changing their route to market as well as their communications and engagement with their end consumers (Farfetch 2018).

Farfetch’s planned growth strategies encompassed increasing the lifetime value of existing consumers. This came in line with a boost the efficiency of demand generation and of customer retention over time, since an increased LTV/CAC ratio illustrates that each customer retained is more valuable, contributing to a positive payoff to this high investment strategy. Besides, Farfetch was also seeking growth through the acquisition of new customers, particularly from younger cohorts, by catering to their preferences through the use of social media and influencer marketing. Moreover, anticipating significant growth in luxury fashion

demand from emerging markets, such as China, the Middle East, and Eastern Europe, Farfetch was expecting to increasingly focus on geographical expansion, by leveraging on its strategic partnership with JD.com, and its acquisition of CuriosityChina. Lastly, Farfetch was also planning on enduring its commitment to innovation, by adapting its platform to seamlessly integrate with emerging technologies such as voice-enabled interfaces, AR/VR, and the Internet of Things (Abafatti 2017; Farfetch 2018).

Looking ahead, in order to continue leveraging its capabilities and execute its planned growth strategies, Farfetch was in need of raising capital. An IPO emerged as a potential solution for this dilemma, but this would be a big move for the company. Was Farfetch ready to embrace the transition to a public firm? Many of its competitors had proven successful in their debut in public markets before. But what about Farfetch? Would its IPO proven to be a success as well? There were a series of factors to consider when making such a decision. Where should it list its shares? At what price? How would a transition to public markets affect the company's existing investor base? José Neves, Farfetch's founder and CEO, debated over these questions, and possible alternatives to an IPO, in an effort to make the best decision for the company's future.

TEACHING NOTE

Case Synopsis

In 2007, José Neves, a Portuguese entrepreneur, founded Farfetch, a worldwide e-commerce platform for the luxury fashion industry. Ten years later, business seemed to be flourishing, as the platform counted with over 1.1M active consumers and 980 luxury sellers, while revenue increased at a fast pace. However, after raising around \$700M in funding, and achieving a valuation of \$1B, which put Farfetch on the radar as Portugal's first unicorn, the firm has not yet turned a profit, while cash flows remained largely negative.

In order to invert this situation, a key step was to scale up, as this would enable the firm to leverage on cost efficiencies. Nonetheless, such a strategy involved additional capital raising. After undergoing seven funding rounds while most start-ups stop after the third one, the focal point of discussion revolved around the possibility of an IPO.

As the case unfolds in September 2018, Neves must decide on a crucial matter: to list or not to list? The CEO had publicly stated his desire for the firm to launch an IPO some years earlier, hence this was no news for investors. Conscious of the impact of such a decision on the firm's development, Neves found himself compelled to address several issues. Where and by how much should Farfetch list its shares? How would his controlling position in the company affect an IPO? Would this be a good deal for early investors, or would these oppose such a move? The CEO also contemplated whether alternative options would be preferred.

Learning Objectives

This case provides students with a profound understanding of a company's complex journey toward becoming publicly listed. It delves into a comprehensive analysis of Farfetch's financial situation, alongside a valuation before the anticipated IPO. Furthermore, students are encouraged to engage in critical thinking regarding the decision to go public, weighing the motivations and risks of such a move and discussing alternative capital-raising options. The case also presents an assessment of the circumstances of Farfetch's projected listing. In essence, this case seeks to empower learners by offering a comprehensive exploration of Farfetch's pre-IPO journey, centering around two crucial dimensions:

- **Financial Performance and Valuation:** In order to comprehensively assess the decision to go public, understanding if the company is in a favourable situation for an IPO is crucial. This entails an analysis of Farfetch's financial health and performance metrics in the years preceding the anticipated IPO. Furthermore, determining the fair share price for its IPO is also a critical component of the company's listing process.

- **Strategic Analysis:** Farfetch had a dual-class share structure, whose potential influence on governance and investor relations should be discussed. Moreover, an analysis of the incentives and drawbacks of the decision to go public as well as an assessment of the advantages of an IPO versus other financing options, such as SPACs, private equity or debt funding are part of the decision-making. An in-depth study of the market timing at the projected listing, including the global market conditions and investors' expectations, and of the strategic selection of the stock exchange is a significant issue to address too. Furthermore, a discussion of the exit strategy that the IPO could represent for early investors and venture capital firms that had invested in Farfetch is requested. Lastly, it is important to explore potential scale up strategies that Farfetch could employ after the IPO to avoid big losses in market capitalization.

Target Audience

This case is designed for courses at the BSc, MSc, or MBA levels that center around subjects such as Entrepreneurial Finance and Venture Capital, Corporate Finance, Entrepreneurship, Entrepreneurial Strategy, Investments, or their equivalents.

Teaching Plan

This case is designed for a one-day session in courses related to “Corporate Finance” and "Entrepreneurial Finance and Venture Capital." Students are requested to read Part A of the case, which is self-contained and separate from Part B, and reflect on the assignment questions. Additionally, to provide comprehensive answers, students are encouraged to conduct independent research on the topic. For a broader view of Farfetch’s evolution and a reflection of its path after the IPO, the resolution of Part B of the case is also recommended. Moreover, the professor is advised to provide a summary of key case aspects, outlining Farfetch's journey up to the IPO, before initiating discussions on the assignment questions.

Assignment Questions

Going back in time to September of 2018, the time of Farfetch's anticipated IPO, put yourself in the shoes of CEO José Neves, who intends to decide the future of his company.

1. Delving into an Initial Public Offering decision: The case of Farfetch

1.1. Analyze Farfetch's financial performance in the years preceding the anticipated IPO (expected in September of 2018). Was Farfetch in a favourable financial situation to attract investors? Justify your reasoning with quantitative metrics.

1.2. Evaluate Farfetch's dual-class structure, discussing the potential corporate governance issues it could raise and its impact on the transition to a public company.

1.3. Should Farfetch be listed? Assess the benefits, as well as the potential risks and costs of listing Farfetch.

2. A deep dive into an Initial Public Offering strategy: The case of Farfetch

2.1. Conduct a valuation analysis of Farfetch. At what price should the firm list its shares if it conducts an IPO in September 2018?

2.2. Assuming the IPO goes forward in the expected timeframe, comment on its alignment with market conditions, while elaborating on the impact of market timing in an IPO.

2.3. Assuming the IPO goes forward, what is the optimal listing venue for Farfetch? Discuss the factors influencing the location choice for a firm's IPO.

3. How to set an Initial Public Offering for success: The case of Farfetch

3.1. Many startups achieve a billion-dollar valuation after being listed, however, few are able to keep up with the market expectations. How can high-growth

companies scale up after a successful IPO to avoid big losses in market capitalization? Discuss these topics in Farfetch's context.

3.2. Evaluate the exit strategy that the IPO would represent for early investors and venture capital firms that had invested in Farfetch, in case Farfetch pursues the IPO route. Would the IPO lead to changes in the composition of Farfetch's investor base?

3.3. Explore alternative capital raising methods. What are the advantages of other financing options compared to an IPO?

PART B

Introduction

It was the 31st of October 2023 and José Neves, founder and CEO of Farfetch, was drinking his daily morning cup of coffee at the London office. Nearly five years have passed since Farfetch made a bold move to list its shares in the NYSE.

In the span between 2018 and 2023, Farfetch continued to boost its presence in the Luxury market. The IPO allowed the company to raise over \$800M, implying a valuation of over \$6B. With this, Farfetch was able to conduct its growth strategy, through geographical expansion towards the Asian market, scaling up of operations at a global level, and through an extensive range of acquisitions, including the notably famous New Guards Group, home to brands such as Off-White and Palm Angels. By 2022, the company registered revenue of \$2.3B, more than doubling its previous figure. Additionally, it achieved profitability for the first time in 2021, with a record net income of \$1.5B. Furthermore, the number of platform sellers witnessed substantial growth, accounting for 1400 of the world's best brands in 2023 vs 989 in 2018. Lastly, in that year, the number of employees also rose to 6,700 (Farfetch 2022a).

However, the financial situation of the company was not as good as these indicators might suggest. While 2021 was marked as the best year in the company's history so far, mostly due to the push the COVID-19 pandemic had on online shopping, this boom ended shortly after.

Farfetch's profits in 2022 decreased by 77%, and in the first half of 2023, the company accumulated nearly half a billion dollars in losses (Farfetch 2023c). Consequently, the stock price plummeted to \$1.5/share by the end of October, representing a discount of over 90% compared to the initial offering price of \$20.

It was now time to reflect upon the success of the IPO, while reassessing the decision to be a public firm. Was the IPO a hit or a failure? The reality was that Farfetch had now a much lower valuation than the one it achieved in 2018. Why was this phenomenon happening? Besides, what was preventing Farfetch from providing sustained profits? Whether Farfetch should remain listed or not was the ultimate question to be addressed.

IPO

On September 21st, 2018, Farfetch became a public company, by listing its shares on the NYSE for the first time at a \$20 price, surpassing the expected range of \$17-\$19 a share, which had already been upsized from the original range of \$15-\$17 due to robust demand. Farfetch listed 44.2M Class A ordinary shares, with the company issuing 33.6M new shares and existing shareholders, including early investors such as Advent Venture Partners and Vitruvian Partners, offering the remaining 10.6M shares. The IPO drew investment from prominent industry players, such as the Pinault Family, which controls Artémis, and subsequently Kering. Thus, in its listing, the company raised the anticipated total amount of \$885M, with the net proceeds equalling \$625.4M (Farfetch 2018).

Furthermore, the long-anticipated IPO was considered by many analysts as an overnight success since shares soared 53% on the first trading day, raising the company's implied valuation to \$6.2B, as investors bet on the company's promising technology and unique positioning in the high-end luxury segment. At the time, Farfetch was trading at a richer valuation than the e-commerce giants Amazon and JD.com (Hirsch 2018).

Even though the market had a surprisingly positive reaction to Farfetch's IPO, investors seemed to have changed their optimistic view on this strategy, as the company's stock price dropped just one year after it became public, experiencing fluctuations ever since. In fact, as of end of October 2023, the stock price was trading at \$1.5, way below the initial offering of \$20/share.

Industry Analysis

The Global Luxury industry hit €1.4T in sales in 2022, illustrating a considerable expansion since 2017 (D'Arpizio and Levato 2022). Due to the pandemic, the Personal luxury goods market, which Farfetch belongs to, saw its first decline since 2009, experiencing a 23% contraction from 2019 to 2020 (D'Arpizio and Levato 2020). Nevertheless, it had already fully recovered and exceeded pre-COVID levels. In 2022, this market reached its highest historical valuation of €353B, marking a 22% growth from the previous year. Hence, it held its position as the second-largest segment within the Overall Luxury industry, only surpassed by the Luxury cars segment (*Exhibit 18*) (D'Arpizio et al. 2023).

According to Bain & Company, this positive trend continued through the initial quarter of 2023, registering a growth rate of 10% compared to the last year. Consequently, despite the economic insecurity, the projected growth rate for the current year falls within the range of 5-12%, since it is believed that the market is now better prepared to withstand the potential impact of a recession compared to the 2008-09 Global Financial Crisis. This contrast is mainly due to the larger and more concentrated consumer base on top-tier clients that account for 40% of the Luxury industry and who exhibit greater resilience to economic downturns (D'Arpizio and Levato 2023).

In terms of future prospects, the Personal goods market is anticipated to achieve a valuation ranging from €530B to €570B by 2030 (D'Arpizio et al. 2023).

During the pandemic, Luxury brands were forced to strongly expand their online presence in response to physical store closures and restricted in-person shopping experiences. In 2022, online channels accounted for 21% of the Personal luxury goods market, a significant expansion compared to the 9% share in 2017. Additionally, by 2030, it is estimated that 33% of Personal luxury sales will take place online, while the remaining 66% will be conducted through physical stores (*Exhibit 19*) (D'Arpizio et al. 2023).

Moreover, younger cohorts continued to play a crucial role in this market, with all of the market's growth in 2022 being driven by Millennials and Generation Z. By 2030, it is expected that Generations Y, Z, and Alpha constitute 80% of global luxury purchases (*Exhibit 20*) (D'Arpizio et al. 2023).

In addition, studies show that luxury consumers are exhibiting evolving buying preferences, valuing quality over quantity. Consequently, iconic and ultra-luxury pieces are gaining increasing prominence. When it comes to product category, Leather Goods accounted for around 60% of the Personal luxury goods market growth between 2019 and 2022, mainly supported by a progressive price increase (D'Arpizio et al. 2023).

The pandemic has also led to a shift in the global distribution of sales by region, leading Asia to become the region with the highest Personal luxury goods sales value (*Exhibit 21*) (D'Arpizio and Levato 2020).

By 2022, Asia accounted for 38% of the Personal luxury goods market. Despite struggling again with prolonged COVID-19 lockdowns, China accounted for 17% of the market in 2022, showing a significant increase since 2018 and being the second largest market after the U.S., on a country-level ranking. Chinese consumers are expected to emerge as the dominant nationality in luxury, projected to make up 38% to 40% of global purchases, by 2030 (D'Arpizio et al. 2023). These consumers primarily buy abroad to benefit from lower prices

and to experience a sense of excitement. Moreover, they have an average age of 28 years, younger than the world luxury consumers' average (Hall and Spencer 2023).

Additionally, Japan displayed strong consumption in 2022, reaching pre-COVID levels and accounting for 7% of the market, in that year. Furthermore, India is highlighted as a rising star by experts, with the overall Luxury industry being able to reach a size 3.5 bigger than today, by 2030 (D'Arpizio et al. 2023).

As of 2022, the Americas represented 32% of the Personal luxury goods market, with the U.S. being the largest player on a country-level ranking, with a 28% share. Furthermore, Europe held the third position, accounting for 27% of the market. In 2022, Europe was able to surpass pre-COVID-19 levels, primarily due to robust domestic demand and increased spending from U.S. and Middle Eastern tourists (D'Arpizio et al. 2023).

Concerning the midterm future challenges, environmental and sustainability issues will continue to play a crucial role, with pressures over the next 3 years for value chain decarbonization. It is also worth noting that, with the increasing environmental concerns, the Second-hand Luxury Goods market is growing at a fast rate, hitting €43B in 2022 (D'Arpizio et al. 2023). Furthermore, being ahead of the competition in what relates to technological advances is a determinant for success, with the next years being marked by the use of Generative AI to reinvent and digitalize the value chain (D'Arpizio and Levato 2023).

Competitive Analysis

The competitive landscape for the online luxury fashion industry in 2023 remained similar to that of 2018, with the majority of the main players holding their prominent position.

Key Players

Luxury Conglomerates and Mono-Brands

The three giant luxury powerhouses, LVMH, Richemont, and Kering, remain on top of the race. LVMH, whose owner Bernard Arnault outpaced Elon Musk as the richest person in

the world in 2023 (Dolan 2023), is the luxury market leader with a 22% market share (Spencer 2023), and over €79B in revenue in 2022 (LVMH 2022). Its most noteworthy acquisition since 2018 was the jewellery maker Tiffany & Co. in 2021, in a lengthy and controversial deal that broke out a legal battle between the two companies. Richemont grew its portfolio to 22 luxury brands, namely with the acquisition of Gianvito Rossi, the renowned Italian shoemaking brand in 2023. The company registered an all-time revenue high of €19.9B in the fiscal year ended March 2023 (Richemont 2022). Lastly, Kering, despite holding a smaller number of brands, registered €20.3B in revenue in 2022 (Kering 2022).

Regarding the range of smaller luxury conglomerates, it is worth noting that Versace was acquired by Michael Kors Holdings in the end of 2018, which then changed its name to Capri Holdings (Eytan 2018).

These fashion conglomerates rely on an expansion strategy through M&A, supported by their investment vehicles, such as LVMH's private equity arm L Catterton, to grow their portfolio of brands and thus, consolidate their position in the market. M&A activity in the luxury goods sector has been growing since 2021, as established mono-brand players are finding it increasingly difficult to compete with conglomerates, leading to more companies being acquired (A. Fongern 2023).

Despite the M&A trend, some companies have been able to remain independent, acting as mono-brand players in the industry, namely Armani, Chanel, and Hermès, which had become the second most-valued luxury brand in 2023 (Holmes 2023).

Most luxury brands have an online presence through multi-brand online retailers like Farfetch, but a few, such as Chanel and Hermès, had chosen not to adopt this sales channel.

Luxury Multi-Brand Online Stores

Contrarily to 2018, in 2023 the multi-brand online store landscape was largely dominated by Farfetch, which registered a GMV of over \$1B in 2022 (Farfetch 2022a).

Nevertheless, YNAP remained as Farfetch's biggest competitor, despite its falling financial performance. In the fiscal year ended in March 2022, YNAP registered revenue of approximately \$1.7B and net losses of \$186M. Nevertheless, YNAP has a worldwide footprint, serving more than 4M customers across 170 countries. In 2022, Farfetch placed a bid to acquire a 47.5% stake in YNAP, leading it to become one of the brand's main shareholders, together with Richemont (Faithfull 2022).

It is important to note that another one of Farfetch's competitors, MyTheresa made its debut in public markets in January of 2021 at a share price of \$26. This NYSE-listed company reported over €747M in GMV in the fiscal year of 2022, accounting for a 21.3% increase when compared to the previous year (MyTheresa 2022).

Lastly, Secoo filed for bankruptcy two times in 2022, first in January and later in August, amidst COVID-19-related disruptions. By the time of the second filing, Secoo's shares were trading at \$0,24, more than 98% below their IPO price (Lau 2022).

E-Commerce Platforms

Within the E-commerce space, Amazon remained as the uncontested world leader, having made continued efforts to attract luxury brands.

Regarding the Asian market, Alibaba entered a partnership with Richemont for YNAP in 2020. Alibaba's "Luxury Pavilion", which stood as the largest online shopping destination for luxury goods in China in 2023, allowed brands to use virtual and augmented reality tools to create a tailored and unique virtual experience for its users, who enjoy customized brand pages, product recommendations, and exclusive VIP awards. From 2019 to 2021, Luxury Pavilion's customer base grew by more than 150% and sales increased nearly 300% (WWD 2023).

Macroenvironment Impact

Between 2018 and early 2020, year in which the COVID-19 pandemic spurred, the global economy was booming, and so was the Global Luxury industry. However, the COVID-

19 pandemic was a challenging time for this industry, which experienced its first contraction since the 2008 crisis, as it decreased by 21% (in sales) between 2019 and 2020 (D'Arpizio and Levato 2020).

This time was characterized by a highly uncertain economic environment that severely strained spending power and consumer confidence. As a result, the demand for luxury items was significantly disrupted given its discretionary nature. This sharp decline also stemmed from a significant reduction in social events, particularly during virus outbreaks, which did not stimulate the desire for such goods.

Furthermore, over this period, the supply chain distribution in this market was highly compromised due to the temporary shutdowns, material shortages, increased logistic costs, and difficulty in forecasting demand. As a matter of illustration, more than 40% of the Global Luxury goods were produced in Italy and all Italian factories were closed for about 3 months, in 2020 (Achille and Zipser 2020).

Farfetch was not an exception and experienced some of the COVID-19 adverse effects. The company was forced to temporarily shut most of its offices, the Los Angeles and Hong Kong production facilities and its physical retail stores in 2020. It is also important to note that within its Chinese market, the persistent impact of regional sanctions in China, stemming from the global pandemic, adversely affected the company's operations in the country. Besides, it also encountered interruptions and delays in the supply chain, fulfilment network, and shipping processes (Farfetch 2018).

Nevertheless, despite these difficulties, the pandemic had an overall beneficial impact on Farfetch's business model, when compared to the rest of the industry, expediting the transition of consumer demand to online platforms. Indeed, in the Personal luxury market, online channels grew by 50% between 2019 and 2020 (D'Arpizio and Levato 2020).

In fact, the company was able to improve its performance, with the Net Losses becoming less negative, in 2020. Farfetch's revenue grew 64% from 2019 to 2020, influenced by a 46% increase in the number of active customers which boosted the volume of the orders. This trend was supported by a rise in the supply from boutiques that had to shut down because of restrictions.

Certainly, this enduring online trend proved to be advantageous for Farfetch, with José Neves stating, "One thing we're very confident of is that a lot of people discovered buying fashion online, and they're not going back" (Shapiro 2021).

Just two years after the COVID-19 pandemic spurred, Russia invaded Ukraine, triggering another massive shock to the global economy, particularly impacting the energy and food markets, due to supply shortages. Adding heavily to the inflationary pressures in the post-pandemic recovery, this push on consumer prices led to unprecedented inflation, which peaked at 9,1% in June of 2022 in the U.S. (Rockeman 2022) and at 10,6% in in the Euro area in October 2022 (Eurostat 2022). Consequently, in an effort to push inflation back to pre-pandemic levels (around 2% target), economic institutions began to increase interest rates. In July of 2023, the Federal Reserve registered its benchmark interest rate at an all-time high of 5.5% (Sherman 2023), while in September 2023, the ECB raised its interest rate to an all-time high of 4% (Arnold and McDougall 2023).

These adverse market conditions marked a bumping 2022, during which public markets sunk, with the S&P500 losing more than 18% in returns, and M&A activity slowing, registering a decrease in aggregate deal values of 37% year-over-year (Toomey 2023). According to Deloitte (2023), Luxury industry M&A deals grew by less than 3% in 2022, and in the Personal luxury goods sector, the number of deals was down by 30 for the same period.

As it should be no surprise, Farfetch's revenue slowed during 2022, increasing by just 3% compared to 2021, while its GMV dropped by 4% (Farfetch 2022a). Due to the Russia-

Ukraine conflict, Farfetch ceased trading in Russia following the imposition of international sanctions, leading to an 83% decrease in Russia revenue for 2022, vis-à-vis the previous year. The sanctions on Russia and the broader conflict are anticipated to continue exerting significant influence on Farfetch's operations in the larger CIS region. In addition, Farfetch's warehousing and shipping costs increased as a result of worldwide inflation, resulting in a sharp decrease in profits of over 75%, from \$1.47B in 2021 to \$344M in 2022 (Farfetch 2022a).

Farfetch Business Model

Core Components

Contrarily to 2018, in 2023 Farfetch's business model was composed of not 2, but 3 segments: Digital Platform, Brand Platform, and In-Store (Farfetch 2022a).

Digital Platform

Similarly to pre-IPO times, the Digital Platform is composed of the Marketplace, but also of *Farfetch Platform Solutions* (FPS), and other online channels under Farfetch's purview, including brand websites of the New Guards Group (NGG) portfolio, Stadium Goods, and Browns. Just like in 2018, this segment accounts for the majority of Farfetch's revenue, amounting to 74% of the company's overall business in 2022 (Farfetch 2022a). Note that the addition of NGG and of Stadium Goods will be further developed below.

Marketplace

Farfetch's marketplace remains the core revenue stream of the company's business model. By October 2023, the Marketplace offered products from over 1400 brands, most of which are small brands, encompassing 600 direct partners and collaborations with the most prestigious brands and designers (Farfetch 2023b). Moreover, the revenue collection model of the Marketplace continued the same since 2018.

Concerning the Marketplace's consumer base, as of August 2023, it accommodated 4.1M active customers. In 2022, the gender split of Farfetch's users was 64% female and 36%

male, while the average age was set at 34 years old. Regarding household income, 39% of customers had an income above \$100,000 (Farfetch 2023a).

As a new improvement to Farfetch's Marketplace, the company introduced virtual reality and augmented reality, enabling customers to have a shopping experience as resemblant as possible to a physical one. Farfetch also engages in localized marketing, by tailoring its marketing campaigns to specific regions, promoting relevant products, and collaborating with local influencers. Moreover, starting in 2022, Farfetch made a groundbreaking announcement regarding its adoption of cryptocurrencies as a viable method of payment. This transformative initiative will kick off in the United States, the United Kingdom, and Europe, with plans to extend this payment option to additional countries in the near future (Farfetch 2022a).

Farfetch Platform Solutions

In 2019, *Farfetch Black & White Solutions* became *Farfetch Platform Solutions* (FPS), continuing to offer white-label e-commerce solutions for luxury brands and retailers.

As of 2023, FPS operated as an enabler of the *Luxury New Retail* vision, by facilitating the digitalization of the enterprise clients' businesses.

This new *Luxury New Retail* vision was brought to light as part of a strategy to accommodate to the ever-changing technological world. Subsequent to the revival of investor confidence in the E-commerce Luxury segment in the context of the 2020 pandemic, the *Luxury New Retail* was funded through Artémis (i.e. Kering), Richemont and Alibaba. This distinctive collaboration of key players in the Luxury industry had the intent to expand Farfetch's presence in the Chinese market for Luxury e-commerce, as Alibaba provided Farfetch with access to its luxury marketplaces - Luxury Pavilion and Luxury Soho -advancing the online luxury shopping into further progress.

Furthermore, building upon the earlier mention in the Marketplace segment, Farfetch will extend its acceptance of cryptocurrencies as payment methods in FPS starting from 2023 (Farfetch 2022f).

Brand Platform

Launched in 2019, the Brand Platform covers business-to-business activities involving design, production, brand development, and wholesale distribution of brands owned or licensed by NGG, which was acquired by Farfetch in 2019. The revenue in this segment is primarily stemmed from wholesale sales of goods.

In-Store

The In-Store platform, just like in 2018, incorporates the physical stores of the Farfetch Group, including Browns, Stadium Goods, Violet Grey, and select brands in the NGG portfolio. Revenue in this segment is generated from sales conducted within these physical retail establishments. Note that the addition of Violet Grey will be further developed below.

Initiatives

Store of the Future

The *Store of the Future* remains Farfetch's main initiative. Previously encompassed under the *Augmented Retail* vision, and now under the *Luxury New Retail* vision, it aims at merging online and physical consumer retail experience (Farfetch Tech Blog 2019).

M&A and Partnerships

Stadium Goods

In December 2018, Stadium Goods, a leading online and offline Marketplace for premium sneakers and streetwear was acquired to cater to evolving consumer tastes. Before joining the Farfetch Group, Stadium Goods products were already sold in its Marketplace, where it experienced a significantly robust sales increase (Farfetch 2022e).

Toplife

In early 2019, for \$50M, Farfetch acquired Toplife, a luxury portal owned by JD.com, building upon their existing partnership with JD.com, which was already an investor in Farfetch, particularly in the realm of strategic capabilities in China, thus developing the company's penetration in this market. The incorporation of Toplife's extensive user base, numbering 360M active users at the moment of the sale, further solidified Farfetch's position in the Luxury E-commerce landscape. Furthermore, Farfetch developed a partnership with WeChat via Toplife, an app with over 1.3B active users in 2017, where Farfetch has 80 luxury brands being sold (Farfetch 2019).

New Guards Group

In 2019, Farfetch added to its business units the New Guards Group (NGG), a fashion conglomerate of 10 prominent international Luxury brands including Off-White c/o Virgil Abloh, Palm Angels, AMBUSH and There Was One, leading to the creation of a new operating segment, its Brand Platform (Farfetch 2022d).

The conglomerate produces revenue through owned e-commerce websites, directly operated stores and via Farfetch's Marketplace. The NGG acquisition represented a significant milestone in Farfetch's journey. Its appeal was clear prior to the acquisition, as some of NGG's brands from its portfolio were already sold in Farfetch's Marketplace. For instance, Off-White, one of NGG's brands, had consistently ranked among the top 10 bestselling brands on the Marketplace. Nevertheless, the public disclosure of this acquisition was revealed to be brutal for Farfetch in terms of market reaction, resulting in a 40% decline in Farfetch's shares compared to its IPO price. According to analysts, this acquisition was unexpected for investors, given its timing right after buying Stadium Goods for \$250M the year before and Toplife for \$50M just two months later (Hopkins 2019). "For a company that's losing money right now, I think investors were surprised that they announced the reasonably big acquisition of Stadium

Goods and then announced an even bigger acquisition of New Guards group relatively quickly, probably even before they finish fully integrating Stadium Goods and see the benefits of that,” stated by Helfstein (2019) from Oppenheimer & Co. Inc.

Violet Grey

In January 2022, Farfetch acquired the LA-based cult beauty retailer Violet Grey, anticipating the launch of beauty to its platform offering in April of that year. Moreover, the company’s founder, Cassandra Grey became the global beauty advisor for Farfetch’s Marketplace (Farfetch 2022b). However, in October 2023, less than two years after, Farfetch announced its plan to sell the retailer, after deciding to exit the beauty category (Benissan 2023).

Neiman Marcus Group

In April 2022, Farfetch and Neiman Marcus Group (NMG), the largest omnichannel luxury retailer in the U.S. and the parent company of Neiman Marcus and Bergdorf Goodman, unveiled a global strategic partnership that includes a minority common equity investment of \$200M by Farfetch into NMG (Farfetch 2022c). This partnership intended to merge the next generation of the luxury retail, in the form of Farfetch, with a long-standing Luxury industry player, NMG. With this investment, NMG will expand its digital capabilities, using Farfetch’s FPS to re-platform Bergdorf Goodman’s app and website.

Yoox Net-a-Porter

In 2022, Farfetch announced it would acquire a substantial 47,5% stake in YNAP, its major competitor, turning Farfetch into one of the major shareholders along with Richemont. The deal has received regulatory approval in October 2023, but with Farfetch’s shares trading at a much lower valuation than when the deal was announced, the transaction terms are likely to be renegotiated. Beyond solidifying Farfetch's status, this strategic manoeuvre is expected to cement its leadership in the dynamic realm of online luxury retail (Farfetch 2022).

Financing Path

Farfetch underwent a total of 9 equity funding rounds and 2 debt funding, covering both pre and post-IPO eras (Crunch Base 2023). These rounds, intricately connected to company's growth story, showcase a deliberate and calculated approach to securing the necessary resources for innovation and expansion.

Tencent, Dragoneer Investment Group

In January 2020, Farfetch made a significant announcement regarding a private placement for convertible senior notes amounting to \$250M. Within this strategic move, Tencent, a global technology trailblazer committed to enhancing the lives of internet users, pledged a substantial investment of \$125M, while Dragoneer, a growth-focused investment firm boasting over \$8.5B in capital, agreed to acquire the remaining \$125M of the notes. This financial infusion strategically bolstered Farfetch's existing liquidity, with the company's cash and cash equivalents balance amounting to around \$320M, as of December 31, 2019. (Farfetch 2020a).

Private Placement of Convertible Senior Notes

In April 2020, Farfetch unveiled plans for a significant financial move, initiating a private placement offering of \$300M principal amount of Convertible Senior Notes due 2027 to qualified institutional buyers. These notes, constituting senior unsecured obligations for Farfetch, will accrue interest payable semi-annually in arrears and are slated to mature on the 1st of May, 2027, unless earlier converted, repurchased, or redeemed. According to Farfetch (2020b), the earmarked purpose for the net proceeds from this offering is set for general corporate use.

Artémis, Alibaba, and Richemont

Later in 2020, Artémis invested \$50M in Farfetch, while Alibaba and Richemont committed to invest \$600M, most of which was going to be made in Farfetch China, in order

to advance Farfetch's presence in this region. As a result of this investment, Richemont and Alibaba, through Tall (Alibaba's subsidiary), held a stake in Farfetch China, with the option to acquire an additional 24% after three years (Farfetch 2020).

What is next?

Since its IPO in 2018, Farfetch has shown tremendous growth, having gone through several acquisitions, and expansion efforts (*Exhibit 28*). In particular, during 2021 and 2022, Farfetch doubled its revenue and achieved positive profit. However, fast forward to 2023, Farfetch was, once again, struggling with profitability issues, registering net losses in the first two quarters of the year of \$174M and \$281M, respectively. Consequently, investors, who before had their hopes high regarding the future of the company, were now dubious about the company's ability to deliver long-term solid results. As such, shares of the company sank to a 1.5\$/share low by the end of October 2023, representing a 90% discount from its first offering price.

However, Farfetch's C-level board remained optimistic, as Tim Stone, former Vice-President of Finance at Amazon, stepped into Elliot Jordan's shoes as new CFO in October 2023, signalling a new opportunity for restructuring and growth (Business Wire 2023).

Farfetch had set multiple goals, such as aiming to reach \$10B in GMV and attaining an EBITDA margin ranging from 10% to 13% by the year 2025 (Farfetch 2023a). Moreover, the company placed sustainability as one of its key priorities for the next decade, and thus it developed a series of goals, under the "POSITIVELY FARFETCH" umbrella, where they commit to not only restructure the company, but also inspire their community of creators, curators, and customers to follow their example. These goals include achieving carbon neutrality by 2030, becoming more circular, and promoting a diverse and inclusive workplace.

Besides, within the Luxury industry, there were a number of growth opportunities, as this market was expected to grow at a fast pace, particularly in the Asian region. As such, China

was expected to become Farfetch's focal area, according to José Neves, given the projected dominance of Chinese consumers. Moreover, technological advancements were expected to flourish with the increasing relevance of AI technology, and the birth of the Web 3.0 era, predictably impacting the business of Farfetch in a positive way.

Nevertheless, Neves, Stone and their peers were still faced with a pressing issue regarding the company's viability in the short-term. In order to continue afloat and invest in these growth opportunities, Farfetch needed to undergo a restructuring. What was leading to Farfetch's poor financial results? Did Farfetch's business model remain viable? It was also crucial to reflect on the success of the company's IPO, while deliberating on alternative ways to raise capital. Several questions were raised. How could Farfetch tackle declining stock prices? Should the firm remain publicly traded?

TEACHING NOTE

Case Synopsis

In 2018, Farfetch became public, by listing in the NYSE, marking an important moment for the Portuguese unicorn in the luxury e-commerce segment. The company had an impressive initial valuation of \$6.2B. The market's optimism regarding Farfetch's future was unmistakable.

With the injection of capital from the IPO, Farfetch embarked on a strategic journey through relevant acquisitions and partnerships. However, despite this promising start, the company's value has experienced a persistent decline since its early days on the stock exchange. The turning point arrived in 2020 with the global onset of the COVID-19 pandemic. While most of the global economy was affected by the virus, Farfetch found itself in an unexpected position, thriving as people turned to online platforms for their shopping needs. The surge in online luxury purchases propelled Farfetch to its best years since inception.

However, as the world recovers from the pandemic and resumes normality, Farfetch faces a critical juncture demanding reinvention. The prevailing sentiment echoes scepticism

about the company's sustainability. Some attribute the decline to excessive investments in partnerships that failed to yield anticipated profits. Crucially, persistent doubts about Farfetch's viability in the long run.

This prompts essential questions: Is Farfetch's current strategy sufficient? How have its strategic moves influenced the company's trajectory? What steps are crucial for making Farfetch's business model profitable in the near future? What constitutes a fair valuation for Farfetch in the current market dynamics? Given the steep decline in the stock value of Farfetch, should the firm remain listed?

Learning Objectives

This case provides students with a profound understanding of a company that, theoretically, possesses all the elements for success. However, the market perception does not align with analysts' predictions. Students are encouraged to engage in critical thinking to explore potential reasons behind the decreasing valuation of Farfetch. The case delves deeply into market conditions, investor sentiment, and strategic options. It also presents an opportunity for students to evaluate the trade-off between remaining a public entity or going private as a strategic move to endure and fight another day. In essence, this case seeks to empower learners by offering a comprehensive exploration of Farfetch's post-IPO journey, centering around two crucial dimensions:

- **Financial Performance and Market Valuation:** An analysis of the firm's financial performance after the IPO is crucial to measure the success of the latter. Hence, students are prompted to assess Farfetch's financial well-being and performance metrics following its IPO, as well as analyse market reactions and investor sentiment by scrutinizing quarterly reports and financial disclosures. Students are also encouraged to analyse if the market was correctly valuing the company.

- **Strategic Decision-making and Operational Dynamics:** Despite the financial component, a strategic one is also extremely relevant for analysing Farfetch's post-IPO performance. Hence, students are invited to conduct an in-dept analysis of pivotal strategic decisions made or to be made by Farfetch's leadership. This includes considerations of international expansions, technological innovations, shifts in the business model and the viability of the delisting of the company.

Target Audience

This case is designed for courses at the BSc, MSc, or MBA levels that centre around subjects such as Entrepreneurial Finance and Venture Capital, Corporate Finance, Entrepreneurship, Entrepreneurial Strategy, Investments, or their equivalents.

Teaching Plan

This case is designed for a one-day session in courses related to "Corporate Finance" and "Entrepreneurial Finance and Venture Capital." Students are requested to read both Part A and Part B of the case and reflect on the assignment questions of the last part. Additionally, to provide comprehensive answers, students are encouraged to conduct independent research on the topic. The professor is advised to provide a summary of key case aspects, outlining Farfetch's journey up to the present day, before initiating discussions on the assignment questions.

Assignment Questions

1. From investor euphoria to market uncertainty: The case of Farfetch

- 1.1. Analyze Farfetch's financial performance. How did the IPO impact Farfetch from a financial standpoint? Justify your reasoning with quantitative metrics.
- 1.2. Farfetch first recorded a positive Net Income in 2021. Comment on the reasons leading up to the company's challenges regarding profitability, while elaborating on the viability of its business model.

1.3. Assess the market reaction to Farfetch's IPO, including the initial stock price performance, subsequent movements, and the notable decline in stock price after 2021. Discuss the impact of Farfetch's strategic trajectory, namely M&A transactions, external market conditions and industry trends on the company's stock price.

2. Navigating Farfetch's present and exploring the delisting dilemma: The case of Farfetch

2.1. Was the market correctly assessing the value of Farfetch on 31st of October 2023? Conduct a valuation of the company and reflect whether its stock is correctly priced. Should you, as an investor, sell the stock?

2.2. Critically assess the viability and potential consequences of the option to delist Farfetch as a strategic measure for the company's sustainability and growth.

2.3. Discuss Farfetch's possible exit options if its CEO decides to pursue a privatization of the company. Analyse the motivations driving each party involved, with a particular emphasis on Neves' perspective.

ANALYSIS

Part A – Question 3.1

During the last decade, there has been an emergence of unicorns opting for an IPO as a viable route as opposing to remaining private. However, large market value losses in the post-IPO setting have become increasingly common, suggesting challenges in sustaining their high pre-IPO equity valuations, exceeding \$1B (Brown and Wiles 2015).

Motives for decreasing market capitalization after an IPO

In this sense, there has been documented a decreasing survival rate for new lists over decades, accompanied by an extensive literature revealing this IPO long-run underperformance anomaly (Ritter 1991). This may be attributed to the scarcity of information about IPO firms before their listing, posing challenges in efficient pricing and in assessing failure probability due to greater uncertainty in valuation (Weber 2003). IPO firms' business models largely differ from established firms', focusing on leverage and current profitability. Alongside, findings documented a reduction in IPO firms' profitability and a simultaneous rise in anticipated growth prospects, coinciding with the profile of young technology firms (Fama and French 2004). Indeed, several factors influence this decreasing trend in market capitalization, namely: corporate discipline, organizational capital, and hot issue periods.

Corporate discipline: When undergoing IPOs, unicorns, as other firms, are often plagued by organizational and governance problems, such as misaligned incentives between management and ownership, and an oppressive regulatory environment. These factors depress firms' valuation. In fact, public corporations face challenges with diffuse ownership, given the numerous shareholders with small holdings, which bear residual risks (C. Brown and Whiles 2015).

Organizational Capital: For unicorns, the cost of being public is high, even at high private valuations, since these companies are, in most cases, still developing intangible assets and are not sufficiently established yet (Davydova 2022).

The literature identifies organizational capital - advertising, information technology, human capital, and customer relations – as one of the types of intangible assets (Corrado 2010). It is harder to protect organizational assets through patents, given their non-rivalry property, which makes it difficult to exert property rights (Crouzet 2022). Thus, this leads to high disclosure costs upon going public, particularly for unicorns, since they heavily rely on organizational capital and network effects. Indeed, 59% of unicorns have a business model reliant on distribution, with particular relevance of network and scale effects (Peters 2017). Since unicorns have fewer patents per dollar of VC funding in the years before the IPO than other startups, if their decision to go public is premature, the firm will not have built enough intangible assets to capture the network effects or economies of scale vital to their business model. As a consequence, unicorns prematurely pursuing an IPO, may end up missing an opportunity for organizational growth with less expropriation risk. While unicorns are highly valuable if they successfully leverage organizational capital and network effects, transitioning to public status may hinder their ability to capture these benefits, central to their business plan. If failure in doing so as public firms, investor expectations will certainly be impacted, depressing market capitalization.

Hot issue periods: The occurrence of "hot markets" for IPOs, marked by increased new issues and higher initial returns, has been extensively studied. During exuberant markets, as in the late 1990s tech boom, high initial returns are linked to excessive IPO demand, attracting lower-quality issues. Firms going public in these high-demand periods are more likely to be of lower quality, increasing the probability of failure, as suggested by financial market observations (Ibbotson and Jaffe 1975).

Preventing post-IPO market value losses

The post-IPO challenge lies in successfully navigating the 'scale-up' phase, focused on substantial market penetration, following initial product exploration. Scale up success depends on factors as market conditions, management, strategy, regulatory environment and finance

(Duruflé 2017). Within 5 years of going public, 47% of firms delist due to suspension, liquidation, mergers, or other reasons and after 10 years, only 29% remain operational (Kenney 2012). In light of this, identifying and resolving performance issues during an IPO may enhance the resilience of public companies and safeguard them from experiencing failures in the stock market.

R&D intensity: According to Guo (2006), R&D is positively correlated to IPOs long-term performance. The documented long-term underperformance of IPOs is linked to inflated investor expectations in no-R&D IPOs. Contrastingly, companies heavily invested in R&D do not show the same post-IPO underperformance. Therefore, technology firms at an advanced stage of research, such as unicorns, are associated with heavy expenditures on R&D and are less probable to experience failure at the time of IPO. The results from survival analysis suggest that pre-issue managerial commitment to R&D spending and developing diversified product lines enhances the ability of IPO issuing firms to remain viable for longer periods of time (Jain 2008). Thus, one may hint at R&D investment as a strategy for post-IPO superior long-term performance, particularly for unicorns already immersed in an innovation sphere (Demers 2015). Accordingly, Farfetch's emphasis on innovation and R&D may provide additional market strength after going public.

Underwriters & Auditors: Underwriter prestige acts as a certification factor during IPOs, with higher prestige linked to lower first-day returns, indicating lower risk and lower information asymmetry. Corwin (2005) finds a negative association between underwriter prestige and the probability of firm failure within two or three years of IPO, particularly relevant for tech firms. Signalling models, by Titman (1986), suggest that higher-quality firms signal their quality through prestigious auditors. Likewise, ensuring high-quality, transparent financial reporting and robust governance procedures is essential to build trust among investors, as deficiencies in these areas can contribute to the failure of an IPO (Demers 2015).

Improve Key Financial Metrics: Gross margin reflects industry competitiveness and market pricing power. A higher gross profit margin, indicative of stronger brand names and pricing power, correlates with lower post-IPO failure probability, suggesting firms with greater pricing power are more resilient (Demers 2015). Farfetch presented larger Gross margins than its competitors, thereby showcasing significant strength in its financial performance. However, it presented inferior EBITDA margins, which are equally important as they provide a comprehensive view of a company's operational efficiency, as it accounts for the full cost structure of the firm. As such, to address IPO viability, Farfetch should place focus on maintaining a robust Gross Margin while improving its EBITDA margin by decreasing expenditures related to SG&A - which at the time of the IPO corresponded to 74% of revenues.

Concerning firm accumulated deficits, in the high-tech sector, substantial accumulated losses may signal a riskier firm with uncertain profit prospects, increasing the probability of post-IPO failure. Accumulated deficits were demonstrated to be interpreted by investors as heightened uncertainty in the business (Demers 2015). This was particularly concerning for Farfetch, which, until 2018, had consecutively accumulated losses.

Regarding ROA, as per Donaldson (2015) empirical study, a substantial correlation is observed between ROA and the market capitalization of IPOs. The significance of these findings resides in ensuring the longevity of IPO firms, thereby putting forward the adoption of measures for ROA enhancement. ROA measures how efficiently firm leaders use assets to generate earnings and may be used as an indicator of IPO long-term performance. This constitutes the base for its inclusion in an extended version of the Fama French stock return prediction model, which resulted in enhanced explanatory power for a range of long-term performance anomalies. Given the negative reported ROA, Farfetch must focus on further continuing the observed trend, by implementing asset growth strategies, and increasing the company's Net Result to positive values.

Avoid Cash Burning: Lastly, the weak aftermarket returns could be due to IPO-specific conditions, such as the inability to manage growth, or poor use of proceeds resulting from the IPO. As a matter of fact, if Farfetch's management uses the IPO proceeds in an unfavourable way for the company, that poses a risk for market value losses. In this sense, scale up for unicorns in the IPO aftermath may encompass stimulating entrepreneurship and encouraging innovation in a conscious manner (Duruflé 2017).

Conclusion

C. Brown (2000) points out that the ultimate success of all corporations—unicorns and non-unicorns alike — depends upon the quality of their business and operational performance over time. Nonetheless, in a post-IPO setting, several considerations must be made regarding unicorns' long-term performance, since the success of an IPO is influenced by economic variables, impacting market circumstances and investor confidence. In this sense, if Farfetch moves forward with the IPO, it must engage in measures for preserving market capitalization, namely by continuing to focus on R&D intensity, improving key financial metrics, by achieving profitability, increasing its Gross and EBITDA margins, and enlarging its asset base, paired with well-planned spending (Certo 2003;Majmudar 2018).

Part A – Question 3.2

An IPO commonly constitutes the first liquidity event in the life cycle of a fast-growing firm as early investors start realizing the value of their ownership stake (Brav 2003). So, as to analyse the exit strategy of Farfetch's early investors, one should comprehend its investment strategy and horizon.

Evaluating the IPO as a potential exit strategy for early investors

The term "exit" denotes the VC's divestment of the company from their portfolio, underscoring the crucial role of strategic divestiture in realizing investment gains (Armin Schwibacher 2010). VCs allocate significant capital to startups, typically acquiring an equity

stake. These shares, initially illiquid, are held for a few years due to limited positive cash flows and absence of dividends. The primary avenue for VCs to realize returns is through sale of the shares held in portfolio companies. Investment decisions are meld by the remaining investment horizon of the funds, with younger companies at an earlier development stage being selected by funds with a longer remaining horizon (Jean-Noël Barrot 2016). This implies that investors' exit is timed to occur at a specific stage of the firm's development.

IPOs represent a common exit strategy for VCs and early investors, allowing them to sell a significant portion of their investment in the entrepreneurial company either on the IPO date or within a year of going public. Despite IPOs being well-recognized as an exit mechanism, there is a disincentive for VCs to fully divest at the IPO date, leading to the retention of a substantial portion of their shares. In fact, Krishnan (2011) reveals that VCs commonly hold a considerable equity share (of 24.6%) post-IPO, not fully capitalizing their returns on the IPO. Moreover, investors face a trade-off between the need to exit, returning funds to Limited Partners (LPs), and the possibility to benefit from post-IPO holdings. Indeed, Krishnan CNV (2011) documented a superior stock performance and profitability of VC-supported firms in the 3 years post-IPO. On the other hand, Jain and Kini (1994) find that, in the overall, new IPOs experience declines in operating performance post-issuance, which motivates early investors' exit at the company's debut. In these cases, subsequently to having provided funding, investors exploit favourable market conditions and time the market (by buying low and selling high). Thus, IPO timing presents significant value implications particularly for early investors exiting.

In the context of Farfetch IPO, existing shareholders would place 10.6M Class A ordinary shares in the public market, hence consolidating their exit strategy (Farfetch 2018). It should be noted that the latter amount does not correspond to newly issued shares, but rather to the sale of part of the ownership stake of existing shareholders. Early investors in Farfetch would, thus, be given the option to exit if they sell their class A share amount subscribed initially via a partial

cash out event (Farfetch 2018). Farhold and DST Global IV entities would also liquidate part of their ownership stake through public market sale. Accordingly, the IPO could provide these entities with a liquidity event, allowing them to realize a return on their investment.

In the aftermath of the IPO, early investors and company insiders are typically subject to a Lock-Up period, with the aim of ensuring stability in share prices during the initial trading period. Once the Lock-Up Period expires, early investors can initiate their Post-Lock-Up Exit strategy. Indeed, Kadi Group (i.e., JD.com) has agreed to a 180-day lock-up arrangements for Class A ordinary shares, which restricts securities under the Securities Act to be sold in the public market (Farfetch 2018). This process is executed methodically to prevent flooding the market with shares, which could ultimately lead to a drop in share prices. Since a significant portion of Farfetch's shares would be eligible to be sold into the market, market price of Farfetch's Class A ordinary shares may plummet significantly, even if the business is doing well.

Changes in the Investor Base and Implications

An IPO fundamentally transforms many characteristics of a firm, with the most pronounced effect on ownership structure. The issuance of shares during an IPO result in an immediate increase of dispersion of shareholdings, often followed by further declines in ownership concentration over several years post-listing (Alavi 2006). Salancik (1980) asserts that ownership significantly influences strategy and performance, modifying the firm's responsiveness to external contingencies. The ownership structure post-listing is constituted by large stakeholders of retained equity. While founders commonly hold the majority of shares in a IPO, is also typical the participation of heterogeneous PE investors, with expertise in high growth and potential ventures. Concretely, IPOs involve two types of PE investors: Venture Capitalists (VCs) and Business Angels (BAs). These early-stage investors have distinct investment objectives and time horizons (Bruton 2010).

In the IPO, Farfetch was expected to place 33.6M Class A ordinary shares (41.6 M shares if the underwriters fully exercise their option). Therefore, the total outstanding of Class A shares post-IPO would amount to 256.6M Class A ordinary shares (if underwriters fully exercise their option) comparatively to the initial 215M. The volume Class B ordinary shares to be outstanding post-offering was to remain stable at 42.9M shares, with the full volume remaining beneficially owned by José Neves. Before the IPO there was no public market for Farfetch's Class A ordinary shares. Indeed, José Neves was expected to sell the full extent of his Class A share holdings, hence leaving his ownership stake solely composed of Class B shares, of which he will persist as beneficial owner (*Exhibit 14,15,16 for complete details on ownership structure*).

Given the dual-class structure of shares, entailing a 1:20 voting ratio between Farfetch's Class A and Class B shares, no major differences were outlined in the voting power of shareholders before and after the IPO. Following the offering, the greatest share of the voting power pertains concentrated at Neves (holding approximately 77.0% - 77.4% depending on the underwriter's option allotment). These results derive from Farfetch's concentrated ownership structure, with Neves only reporting, at maximum, a decrease of 3.2% in its voting power. Accordingly, despite investor diversification, Farfetch would continue to be owner-controlled, which according to literature is linked to larger risk orientation. The owner-manager prioritizes risk for increased return on equity, emphasising firm's net worth over growth (Herman, 1981).

Farfetch's IPO was set to be accompanied by a concurrent private placement and an exercise option to purchase additional shares granted to the underwriters. Concerning the option allotment, the underwriters were granted an option purchase up to 6.6M additional from Farfetch within 30 days of the date of this prospectus. Regarding the concurrent private placement, it pertained to the issuance of 1.4M new Class A shares, which were privately allocated for the exclusive purchase of Kadi Group. Kadi Group was given access to one third of the number of shares that would allow it to maintain its ownership stake after the IPO. This

ultimately implies a dilution of Kadi's holding stake. Nevertheless, the ownership deterioration was partially mitigated by the private placement. The volume of shares available in the private placement was independent of the subscription of the underwriter's allotment option.

The IPO and the concurrent private placement were anticipated to diversify the ownership landscape, reducing the holding stakes of the six major investors, which held 71.3% of Class A ordinary shares before the listing, to between 58.6% and 57.1%. Consequently, their collective voting power was set to decrease from 14.2% to around 13%. Concretely, Kadi Group was anticipated to maintain its voting influence at 3.8% and Index Ventures at 2.6%. The largest share of VC funds invested in Farfetch coming from Index Ventures was predicted to decrease from 13.4% to 11.2% -11.5% (depending on the full subscription of the over-allotment option), with a small downward impact of 1% over its voting rights. It should also be noted that, given the issuance of new shares, the IPO would imply a dilution of ownership for early investors who do not participate in the offering, namely for Index Ventures and for DST Global IV, as their volume of assigned class A shares remained fixed. Given the rise in the number of total shares outstanding, the percentage of ownership held by these existing shareholders would be reduced, entailing a negative consequence for early investors intending to maintain their stakes. Additionally, interest in purchasing an aggregate of up to \$50M in Class A ordinary shares in the offering has been demonstrated by Artémis, which controls Kering, a global luxury goods group of luxury fashion. Nonetheless, given the non-binding nature of the agreement to purchase, Artémis could determine to purchase more, less or no Class A ordinary shares in this offering.

The restructuring of Farfetch's investor base composition is foreseen to be linked to a broader set of institutional investors - mutual funds, pension funds, and hedge funds, which typically pursue investments with longer-term horizons, which can provide stability to the shareholder base. Also, firms with substantial institutional ownership demonstrate risk aversion, operational efficiency, and proactive corrective actions in line with institutional investors'

performance focus. As such, the level of outside institutional stock ownership inversely correlates with the firm's long-term debt-to-capital ratio and positively associates with firm financial performance (higher ROE). In this sense, to attract outside investments and keep stock value high, firms align strategies with institutional investor goals and with metrics particularly looked after for institutional investors, as D/E ratios (Chagant 1991).

To sum up, this expansion of participation would convey a heightened level of diversity within the shareholder base, with an increase of 11.9% - 13.9% of newly issued equity capital. These would underscore increased liquidity in Farfetch's shares trading. Nonetheless, not 100% of the newly issued stakes would pertain to new investors, as the existing shareholder base may hold intentions of further enlarging their volume of holdings.

Part A – Question 3.3

The capital raising method for Farfetch as a private company aiming at accessing further funding for its strategic expansion plans is reliant upon a multitude of factors in the financial landscape such as liquidity, control and ownership, price stability, flexibility and exit options. Therefore, to better grasp the impact of an IPO for Farfetch, it is crucial to carefully weight alternative methods against an IPO, such as a direct listing, Special Purpose Acquisition Vehicles (SPACs), a takeover by another company, private equity (PE) investment, or even debt financing.

Direct Listings

There is a notable trend of companies staying private longer or opting for alternative avenues to go public without IPO backing, such as direct listings, a method pioneered by the unicorn Spotify in 2018. While IPOs are still on the rise, the success of direct listings may gain traction, especially among unicorns facing challenges in maintaining massive pre-IPO valuations in public markets.

In direct listings the shares are placed directly to the public without intermediaries, there is no pre-defined number of shares to be sold, nor a public price is set for these shares. As such,

the shares pricing is established by private-market transactions based on valuation models performed in the private stage, resultant from market driven supply and demand dynamics. The direct listing alternative stands out for preventing ownership dilution, as no new shares are issued. Direct listings afford shareholders the immediate opportunity to sell their stakes without a lock-up period. While this option is appealing in mitigating dilution concerns for Neves and Farfetch's early investors, direct listings do not convert into new shares issuance. This implies that comparatively to IPOs, the issuer is not receiving the same immediate benefit of capital gain through selling public shares; rather existing shareholders are receiving the immediate benefit of selling their own stock. This might be a deterrent for Farfetch given its restless innovation drive backed out by funds (Sornborger 2021).

All in all, direct listings come with both benefits and drawbacks on account of having fewer guardrails, stemming from the absence of underwriters and a roadshow cost, which set and inform the price of the IPO.

Special Purpose Acquisition Vehicles (SPACs)

A SPAC is a publicly traded buyout firm that goes public through an IPO with the goal of acquiring other companies, either by obtaining a controlling stake or outright purchase, using the funds raised for its operations. SPACs offer a cost-effective alternative to IPOs, as fees and underwriting costs are covered before the target company involvement. This approach minimizes mispricing and contributes to a stable launch, making SPACs appealing in less predictable markets. The upfront negotiation of terms enhances the stability of the valuation process, providing companies with a more predictable and less volatile going-public option. Despite their appeal, SPACs pose challenges stemming from limited investor input pricewise, potentially leading to post-merger disagreements, jeopardizing funding if investors disagree with the chosen target company and withdraw their investment, by redeeming their shares.

SPAC shares, unlike most, have an active and liquid trading market, even in unfavourable new issue markets. However, the predetermined offering amount in SPACs creates a trade-off between price predictability and the growth potential sacrificed, as it relies on a flat amount raised from investors rather than the uncertainty of shifting share prices under a traditional IPO. That may pose as a deterrent argument against Farfetch's need for continuous capital to complete its strategic vision based on the emerging markets driving growth.

While SPAC mergers are quicker, cheaper, and less stressful than IPOs, caution should be applied when engaging in SPACs as a going-public strategy. The operational performance of SPAC firms lags behind industry peers and conventional IPO firms, with more debt, smaller size, reduced investments, and lower growth opportunities. Likewise, findings suggest that in the year following to the merger, going public through a SPAC is associated with substantially inferior performance, with excess stock returns being substantially more negative (Berger 2008).

Takeover by another firm

Regarding liquidity, the choice between a complete cash-out through a takeover or an IPO depends on the scale of liquidity requirements. For larger liquidity boosts, a takeover is more suitable for firm insiders, as it allows them to divest the entire company without signalling a negative exit. Private takeovers present fewer information asymmetries, reducing the likelihood of signalling low firm quality when selling secondary shares in an IPO (Leland 1977; Humphery-Jenner 2012). Information asymmetries in IPOs can depress share prices, decreasing the amount raised and the likelihood of full subscription. Despite the advantages of takeovers in avoiding negative signals, the higher post-deal insider liquidity in takeovers results in a 22% discount on the payoff premium compared to IPOs.

Concerning ownership and control, takeovers involve a sudden change in controlling stakes, while IPOs may enable insiders to maintain effective ownership post-IPO. For Farfetch, this is particularly relevant as José Neves, holding a controlling position, might be reluctant to

relinquish such control, preferring an IPO that allows him to maintain significant influence within the company (L. A. and Z. L. Bebchuk 2000). However, target owners can retain varying control levels by structuring takeovers through stock purchases.

The likelihood of deciding for an IPO over a takeover is influenced by: industry concentration – high concentration industries are less propense to corporate combinations due to increased antitrust concerns, making takeovers more challenging; high-tech affiliation – IPO activity is stimulated by the investors’ appeal to high-tech; market “hotness” – favourable market conditions lead to IPO timing and coincide with intense IPO volume; cost of debt - the pecking order theory suggests that a high cost of debt increases IPO attractiveness, while making takeovers more challenging to fund. Firm size favours IPOs over takeovers due to reduced fixed cost component. High M/B and high-debt industries enlarge takeovers’ propensity.

Private Equity funds

Comparatively to public offerings, PE funds may constitute a source of raising funds with limited exit options, as PE funds typically have a finite investment horizon, often ranging from 5 to 7 years. This can limit insiders’ flexibility in choosing the optimal exit timing.

PE funds, which take a more hands-on approach in management, provide operational expertise, and may constitute a financing option with varied levels of control. PE investment has the potential to curtail managerial decision-making authority, thereby influencing the company's strategic direction. The degree of PE involvement spans from active investment offering comprehensive support to board-only participation, where minimal resources are required, to specialized portfolio management. As PE deals entail a privately negotiated valuation of the company, this type of investment setbacks at the level of limited public exposure and credibility. This leads to diminished transparency for establishing a clear and widely accepted valuation, impacting future fundraising efforts and strategic decision-making (Humphery-Jenner 2012).

Debt financing

Debt financing offers a rapid fundraising alternative to IPOs, allowing firms strategic access to funds without the share price volatility associated with public trading. This method provides a quicker process compared to an IPO, crucial for firms requiring swift capital access. The advantages of debt financing include leveraging potential tax benefits through interest deductibility and negotiating flexible repayment terms. Yet, it is essential to recognize the obligations related to the repayment of borrowed funds with interest.

It must be noted that for high-tech IPOs, the effect of leverage does not reflect better firm quality as it does for low-tech IPOs. Instead, for high tech-firms, leverage may translate increased risk and uncertainty, leading to greater under-pricing, given the larger volatility and unpredictability of this sector. In this sense, managers contemplating an IPO further down the road, should acknowledged the effect of the current capital structure on IPO under-pricing (Wang 2013).

Several factors explain cross-sectional variation in debt issuance, which increases with industry median leverage, fixed assets, firm size, expected inflation, M/B ratio and decreases with profits. The pecking order theory suggests that firms have a preference for issuing the safest security first, favouring leverage over equity financing (IPO in this case). According to dynamic models, debt conservatism may emerge when growth options, for business models heavily reliant on value creation, outweigh the tax benefits of debt. Firms, thus, move away from debt financing, surging as under-levered from the static trade-off model viewpoint. (Wang 2013).

Discussion

All in all, although direct listings may surge as appealing given Farfetch's unicorn status, contributing to the prevention of ownership dilution and providing a liquidity exit strategy, this option may not be the most appealing for Farfetch's driven innovation and expansion strategy. Concerning SPACs, Farfetch's need for continuous capital may clash with SPACs' predetermined offering amount, limiting growth potential. Besides, SPACs' operational performance tends to

lag, and caution is advised. Concerning a takeover, the sudden change in controlling stakes would go against Neves' intent to maintain control, despite the enhanced liquidity and reduced information asymmetry that comes with it. PE involvement, on the other hand, would entail limited public exposure and credibility issues, along with managerial interference. Although constituting a viable option for raising capital, debt issuance might pose detrimental for IPO underpricing if further down the road Farfetch intends to pursue that route. Debt issuance would provide a quick access to funds without share price volatility and without jeopardizing Farfetch's solvency given its null debt.

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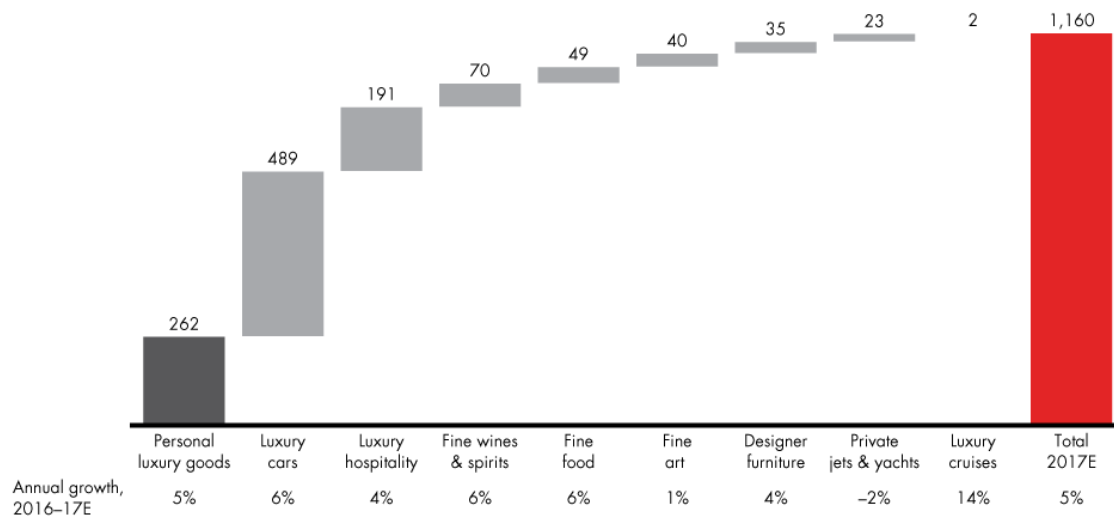
APPENDIX

Part A

Case Study

Exhibit 1: Global Luxury industry in 2017

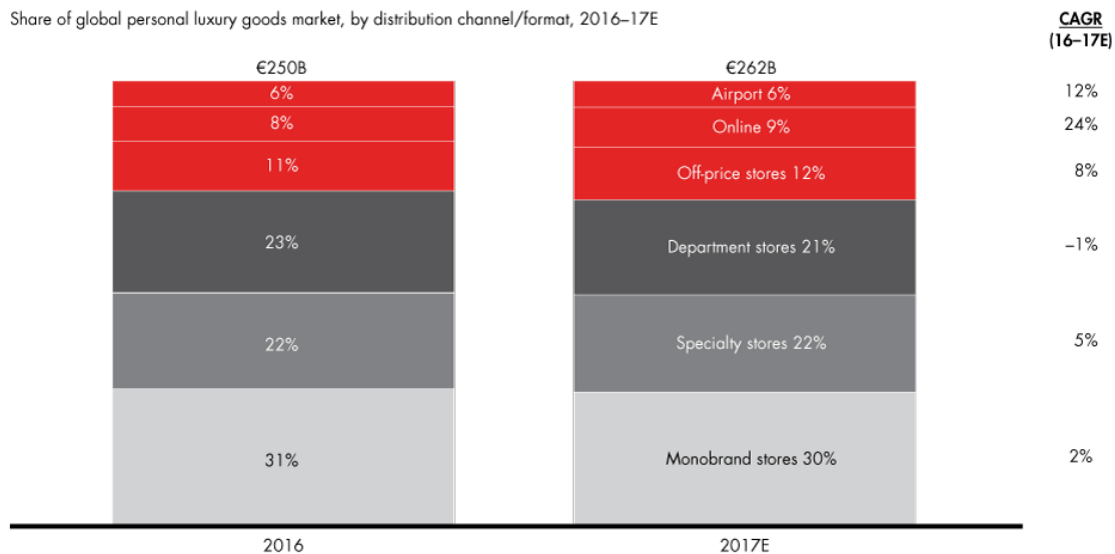
Worldwide luxury market, 2017E (€ billions)



Notes: Figures for 2017 are estimated, based on data from January to September; discrepancy in total is due to rounding
Source: Bain & Company

Exhibit 2: Share of Personal luxury goods market by distribution channels

Share of global personal luxury goods market, by distribution channel/format, 2016–17E

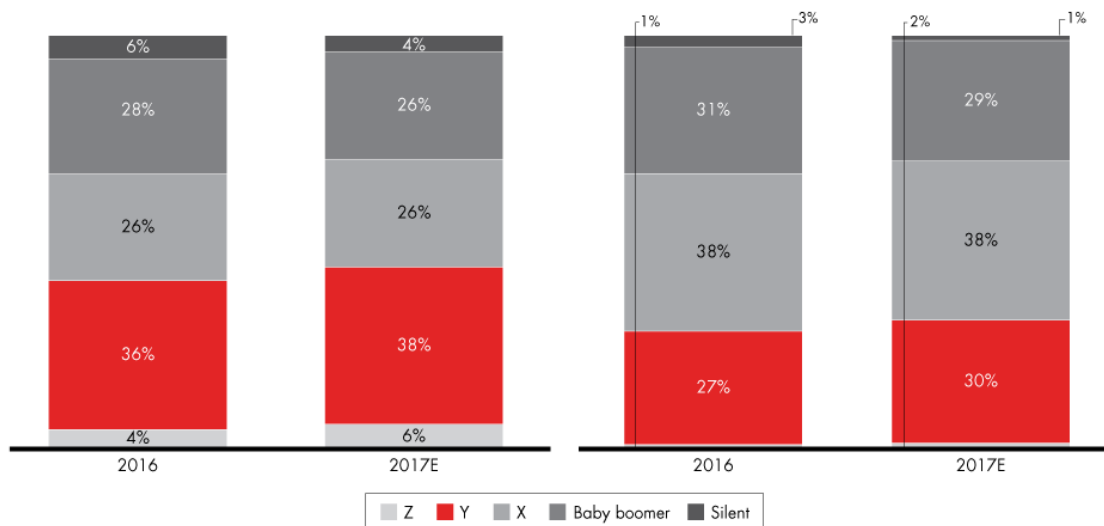


Note: Discrepancy in 2016 percentages is due to rounding
Source: Bain & Company

Exhibit 3: Share of Personal luxury consumers and sales value by generations

Share of global personal luxury goods consumers, by generation

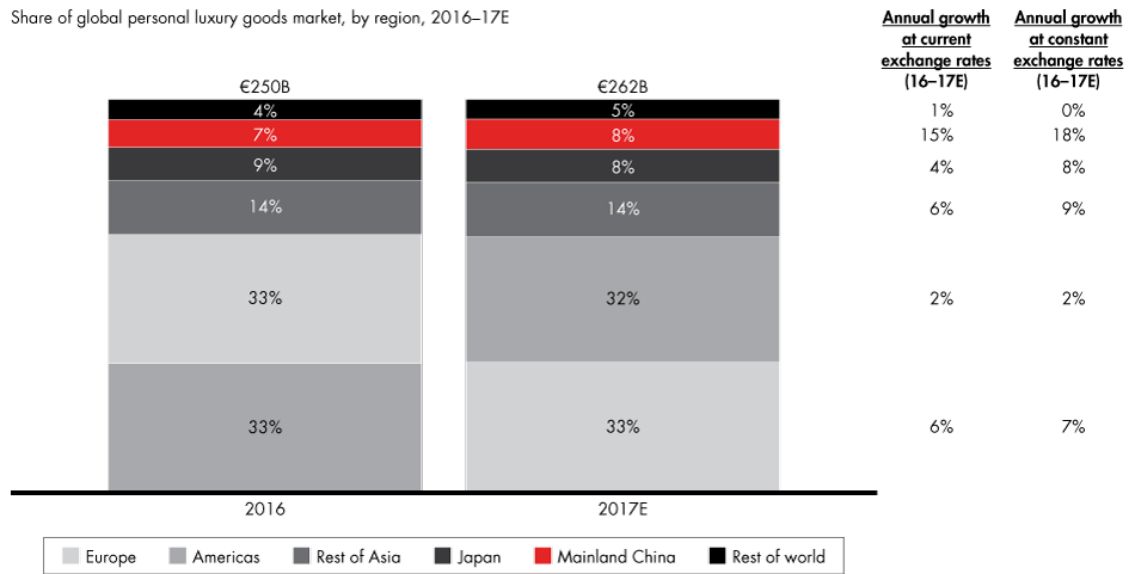
Share of global personal luxury goods sales value, by generation



Source: Bain & Company

Exhibit 4: Share of Personal luxury goods market by regions

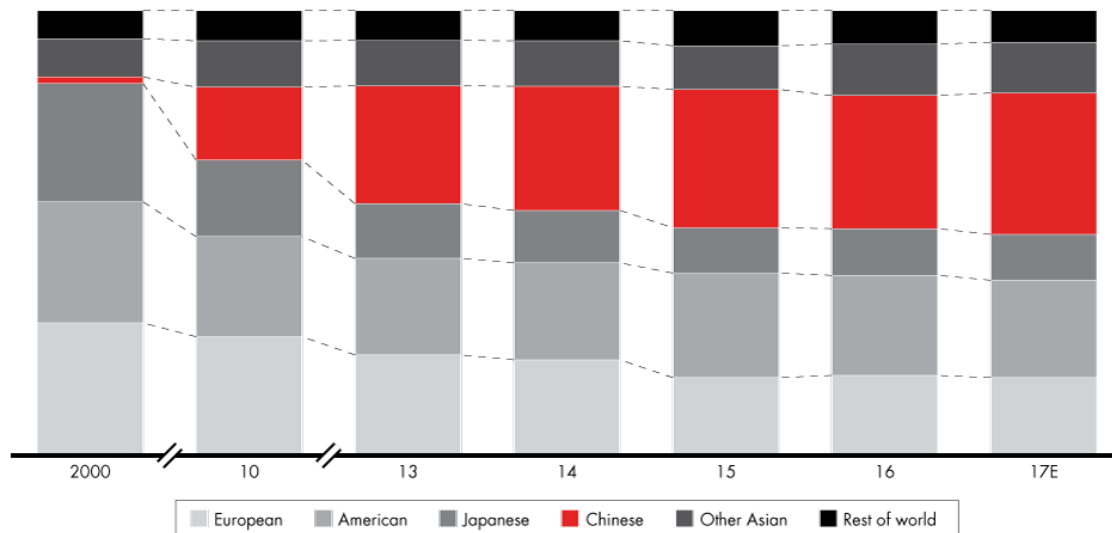
Share of global personal luxury goods market, by region, 2016–17E



Source: Bain & Company

Exhibit 5: Share of Personal luxury goods market by consumers' nationality

Global personal luxury goods market, by consumer nationality, 2000–17E



Source: Bain & Company

Exhibit 6: Income Statement

Income Statement						
Thousands \$	2015	2016	2017 S1	2017	2018 S1	
Revenue	\$ 142,305.00	\$ 242,116.00	\$ 172,571.00	\$ 385,966.00	\$ 267,508.00	
Cost of Revenue	\$ (69,702.00)	\$ (125,238.00)	\$ (78,223.00)	\$ (181,200.00)	\$ (130,643.00)	
Gross Profit	\$ 72,603.00	\$ 116,878.00	\$ 94,348.00	\$ 204,766.00	\$ 136,865.00	
Selling, general and administrative expenses	\$ (130,073.00)	\$ (205,558.00)	\$ (125,762.00)	\$ (295,960.00)	\$ (208,801.00)	
Impairment losses on tangible assets	\$ -	\$ -	\$ -	\$ -	\$ -	
Impairment losses on intangible assets	\$ -	\$ -	\$ -	\$ -	\$ -	
Gain/(loss) on items held at fair value and remeasurements	\$ -	\$ -	\$ -	\$ (3,300.00)	\$ -	
Share of results of associates	\$ -	\$ 18.00	\$ 15.00	\$ 31.00	\$ 24.00	
Operating loss/profit	\$ (57,470.00)	\$ (88,662.00)	\$ (31,399.00)	\$ (94,463.00)	\$ (71,912.00)	
Gain/(loss) on items held at fair value and remeasurements	\$ -	\$ -	\$ -	\$ -	\$ -	
Share of results of associates	\$ -	\$ -	\$ -	\$ -	\$ -	
Net finance income/ (costs)	\$ (4,265.00)	\$ 7,402.00	\$ 1,690.00	\$ (17,642.00)	\$ 4,218.00	
Finance income	\$ 525.00	\$ 9,280.00	\$ 3,162.00	\$ 2,833.00	\$ 4,261.00	
Finance costs	\$ (4,790.00)	\$ (1,472.00)	\$ (1,472.00)	\$ (20,475.00)	\$ (43.00)	
(Loss)/profit before tax	\$ (61,735.00)	\$ (81,260.00)	\$ (29,709.00)	\$ (112,105.00)	\$ (67,694.00)	
Income tax benefit/(expense)	\$ 628.00	\$ (199.00)	\$ 429.00	\$ (170.00)	\$ (714.00)	
Loss after tax	\$ (61,107.00)	\$ (81,459.00)	\$ (29,280.00)	\$ (112,275.00)	\$ (68,408.00)	
(Loss)/profit after tax attributable to:						
Equity holders of the parent	n.a.	\$ (81,414.00)	n.a.	\$ (112,275.00)	n.a.	
Non-controlling interests	n.a.	\$ (45.00)	n.a.	\$ -	n.a.	
Net (loss)/profit	n.a.	\$ (81,459.00)	n.a.	\$ (112,275.00)	n.a.	
(Loss)/earnings per share attributable to owners of the parent						
Basic	\$ (0.35)	\$ (0.43)	\$ (0.14)	\$ (0.50)	\$ (0.27)	
Diluted	\$ (0.35)	\$ (0.43)	\$ (0.14)	\$ (0.50)	\$ (0.27)	
Weighted-average shares outstanding						
Basic	171,929,007	188,679,490	205,401,364	223,465,734	250,709,204	
Diluted	171,929,007	188,679,490	205,401,364	223,465,734	250,709,204	

Exhibit 7: Balance Sheet

Balance Sheet			
Thousands \$	2016	2017	2018 S1
Assets			
Non-Current Assets			
Trade and Other Receivables	\$ 5,367.00	\$ 9,193.00	\$ 9,916.00
Derivative Financial Assets	\$ -	\$ -	\$ -
Deferred Tax Assets	\$ -	\$ -	\$ -
Intangible Assets	\$ 42,943.00	\$ 74,041.00	\$ 83,908.00
Property, Plant and Equipment	\$ 15,795.00	\$ 26,696.00	\$ 33,783.00
Right-of-use Assets	\$ -	\$ -	\$ -
Investments	-	\$ 278.00	\$ 272.00
Investments in Associates	\$ 23.00	\$ 58.00	\$ 79.00
Total Non-current Assets	\$ 64,128.00	\$ 110,266.00	\$ 127,958.00
Current Assets			
Inventories	\$ 13,591.00	\$ 50,610.00	\$ 55,633.00
Trade and Other Receivables	\$ 17,281.00	\$ 18,180.00	\$ 79,932.00
Current Tax Assets	\$ -	\$ -	\$ -
Short-term Investments	\$ -	\$ -	\$ -
Derivative Financial Assets	\$ -	\$ -	\$ -
Cash and Cash Equivalents	\$ 150,032.00	\$ 384,002.00	\$ 336,982.00
Total Current Assets	\$ 180,904.00	\$ 452,792.00	\$ 472,547.00
Total Assets	\$ 245,032.00	\$ 563,058.00	\$ 600,505.00
Equity and Liabilities			
Liabilities			
Non-current Liabilities			
Provisions	\$ 3,935.00	\$ 5,142.00	\$ 6,314.00
Deferred Tax Liabilities	-	\$ -	\$ -
Lease Liabilities	\$ -	\$ -	\$ -
Employee Benefit Obligations	\$ -	\$ -	\$ -
Derivative Financial Liabilities	\$ -	\$ -	\$ -
Borrowings	\$ 17,340.00	\$ -	\$ -
Put and Call Option Liabilities	\$ -	\$ -	\$ -
Other Financial Liabilities	\$ 15,416.00	\$ 5,123.00	\$ 5,654.00
Total Non-current Liabilities	\$ 36,691.00	\$ 10,265.00	\$ 11,968.00
Current Liabilities			
Trade and Other Payables	\$ 84,388.00	\$ 136,744.00	\$ 155,999.00
Borrowings	\$ 2,673.00	\$ -	\$ -
Provisions	\$ -	\$ -	\$ -
Current Tax Liability	\$ -	\$ -	\$ -
Lease Liabilities	\$ -	\$ -	\$ -
Employee Benefit Obligations	\$ -	\$ -	\$ -
Derivative Financial Liabilities	\$ -	\$ -	\$ -
Put and Call Option Liabilities	\$ -	\$ -	\$ -
Other Financial Liabilities	\$ 2,364.00	\$ 19,146.00	\$ -
Total Current Liabilities	\$ 89,425.00	\$ 155,890.00	\$ 155,999.00
Total Liabilities	\$ 126,116.00	\$ 166,155.00	\$ 167,967.00
Equity			
Share Capital	\$ 6,192.00	\$ 9,298.00	\$ 7,374.00
Share Premium	\$ 342,640.00	\$ 677,674.00	\$ 782,177.00
Merger Reserve	\$ -	\$ -	\$ -
Foreign Exchange Reserve	\$ (32,871.00)	\$ 633.00	\$ (8,501.00)
Other reserves	\$ 19,857.00	\$ 38,475.00	\$ 49,073.00
Accumulated Losses	\$ (216,901.00)	\$ (329,177.00)	\$ (397,585.00)
Equity Attributable to Owners of the Parent	\$ 118,917.00	\$ 396,903.00	\$ 432,538.00
Non-Controlling Interests	\$ (1.00)	\$ -	\$ -
Total Equity	\$ 118,916.00	\$ 396,903.00	\$ 432,538.00
Total Equity and Liabilities	\$ 245,032.00	\$ 563,058.00	\$ 600,505.00

Note: Balance Sheet of 2015 and of S1 of 2017 was not disclosed.

Exhibit 8: Statement of Cash-Flows

Statement of Cash Flows			
Thousands \$	2015	2016	2017
Cash flows from operating activities			
Operating loss	\$ (61,735.00)	\$ (81,260.00)	\$ (112,105.00)
Adjustments for:	\$ -	\$ -	\$ -
Depreciation	\$ 2,427.00	\$ 2,451.00	\$ 3,648.00
Amortization	\$ 677.00	\$ 4,446.00	\$ 7,332.00
Impairment of non-current asset	\$ -	\$ 43.00	\$ -
Non-cash employee benefits expense	\$ 4,803.00	\$ 15,339.00	\$ 16,578.00
Net loss/(gain) on sale of non-current assets	\$ (5.00)	\$ 261.00	\$ 42.00
Share of profits of associates	\$ -	\$ (15.00)	\$ (35.00)
Net finance income	\$ 115.00	\$ (204.00)	\$ (1,261.00)
Net exchange differences	\$ 2,048.00	\$ 2,073.00	\$ 12,196.00
Impairment losses on tangible assets	\$ -	\$ -	\$ -
Impairment losses on intangible assets	\$ -	\$ -	\$ -
Issue of warrants	\$ -	\$ 409.00	\$ -
Impairment of investments	\$ -	\$ -	\$ -
Change in the fair value of derivatives	\$ -	\$ (288.00)	\$ 44.00
Changes in working capital	\$ -	\$ -	\$ -
Decrease/Increase in receivables	\$ (3,647.00)	\$ (9,524.00)	\$ (598.00)
Decrease/Increase in inventories	\$ (2,838.00)	\$ (6,308.00)	\$ (35,163.00)
Decrease/Increase in payables	\$ 14,292.00	\$ 19,463.00	\$ 47,406.00
Changes in other assets and liabilities	\$ 0	\$ -	\$ -
(Increase)/decrease in non-current receivables	\$ (4,747.00)	\$ (619.00)	\$ (3,826.00)
Increase in other liabilities	\$ 11,908.00	\$ 7,973.00	\$ 7,365.00
Decrease/increase in provisions	\$ -	\$ -	\$ -
Interest paid	\$ (12.00)	\$ (1,222.00)	\$ (591.00)
Other items	\$ -	\$ -	\$ -
Income taxes paid	\$ (544.00)	\$ (97.00)	\$ (352.00)
Net cash outflow from operating activities	\$ (37,258.00)	\$ (47,079.00)	\$ (59,320.00)
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired	\$ (12,043.00)	\$ -	\$ 195.00
Payments for property, plant and equipment	\$ (9,429.00)	\$ (6,012.00)	\$ (12,616.00)
Proceeds on disposal of property, plant and equipment	\$ 5.00	\$ -	\$ -
Payments for intangible assets	\$ (6,583.00)	\$ (12,586.00)	\$ (18,997.00)
Interest received	\$ 479.00	\$ 1,637.00	\$ 2,833.00
Investment in short-term investments	\$ -	\$ -	\$ -
Decrease in short-term investments	\$ -	\$ -	\$ -
Dividends received from associate	\$ -	\$ -	\$ -
Payments for investments	\$ -	\$ -	\$ (278.00)
Proceeds on disposal of investment	\$ -	\$ -	\$ -
Increase/decrease in other long-term assets	\$ -	\$ -	\$ -
Net cash outflow from investing activities	\$ (27,571.00)	\$ (16,961.00)	\$ (28,863.00)
Cash flows from financing activities			
Payment for acquisition of non-controlling interest	\$ -	\$ (5,028.00)	\$ -
Proceeds from issue of shares, net of issue costs	\$ 77,717.00	\$ 146,869.00	\$ 322,097.00
Proceeds from exercise of employee share-based awards	\$ -	\$ -	\$ -
Transaction costs paid relating to capital contribution from non-controlling interest	\$ -	\$ -	\$ -
Repayment of loan notes	\$ (303.00)	\$ (47.00)	\$ (21,955.00)
Repayment of the principal elements of lease payments	\$ -	\$ -	\$ -
Proceeds from borrowings, net of issue costs	\$ -	\$ 19,379.00	\$ -
Payment for the repurchase of convertible loan notes	\$ -	\$ -	\$ -
Dividends paid to holders of non-controlling interests	\$ -	\$ -	\$ -
Interest and fees paid on loans	\$ -	\$ -	\$ -
Settlement of equity-based awards	\$ -	\$ -	\$ -
Capital contribution from non-controlling interest	\$ -	\$ -	\$ -
Net cash inflow/(outflow) from financing activities	\$ 77,414.00	\$ 161,173.00	\$ 300,142.00
Net increase/(decrease) in cash and cash equivalents	\$ 12,585.00	\$ 97,133.00	\$ 211,959.00
Cash and cash equivalents at the beginning of the year	\$ 63,441.00	\$ 72,579.00	\$ 150,032.00
Effects of exchange rate changes on cash and cash equivalents	\$ (3,447.00)	\$ (19,680.00)	\$ 22,011.00
Cash and cash equivalents at end of year	\$ 72,579.00	\$ 150,032.00	\$ 384,002.00

Exhibit 9: Revenue Breakdown by Product

Revenue By Product						
Thousands \$	2015	2016	2017 S1	2017	2018 S1	
Digital Platform						
Services revenue	\$ 106,794.00	\$ 180,937.00	\$ 131,480.00	\$ 296,350.00	\$ 209,766.00	
Fulfilment revenue	\$ 28,617.00	\$ 48,511.00	\$ 33,760.00	\$ 74,182.00	\$ 50,551.00	
Total revenue	\$ 135,411.00	\$ 229,448.00	\$ 165,240.00	\$ 370,532.00	\$ 260,317.00	
Less: Cost of revenue	\$ (66,056.00)	\$ (117,686.00)	\$ (74,746.00)	\$ (173,951.00)	\$ (126,730.00)	
Gross profit	\$ 69,355.00	\$ 111,762.00	\$ 90,494.00	\$ 196,581.00	\$ 133,587.00	
In-Stores:						
Revenue	\$ 6,894.00	\$ 12,668.00	\$ 7,331.00	\$ 15,434.00	\$ 7,191.00	
Less: Cost of revenue	\$ (3,646.00)	\$ (7,552.00)	\$ (3,477.00)	\$ (7,249.00)	\$ (3,913.00)	
Gross profit	\$ 3,248.00	\$ 5,116.00	\$ 3,854.00	\$ 8,185.00	\$ 3,278.00	

Exhibit 10: Revenue Breakdown by Region

Revenue By Region						
Thousands \$	2015	2016	2017 S1	2017	2018 S1	
Americas	\$ 46,318.00	\$ 77,608.00	\$ 46,389.00	\$ 111,349.00	\$ 54,412.00	
Europe, Middle East and Africa	\$ 50,503.00	\$ 92,885.00	\$ 69,948.00	\$ 156,507.00	\$ 134,272.00	
Asia Pacific	\$ 45,484.00	\$ 71,623.00	\$ 56,234.00	\$ 118,110.00	\$ 78,824.00	
Total revenue	\$ 142,305.00	\$ 242,116.00	\$ 172,571.00	\$ 385,966.00	\$ 267,508.00	

Exhibit 11: Marketplace Indicators

Marketplace Indicators						
	2015	2016	S1 2017	2017	S1 2018	
Digital Platform Revenue	\$ 135,411.00	\$ 229,448.00	\$ 165,240.00	\$ 370,532.00	\$ 260,317.00	
Active Consumers (Thousands)	416	652	796	936	1118	
Number of Orders (Thousands)	801	1260	853	1881	1305	
Average Order Value (Actual)	\$ 587	\$ 584	\$ 592	\$ 620	\$ 622	

Exhibit 12: Farfetch's Logo

Exhibit 13: Farfetch Business Model Canvas (2018)

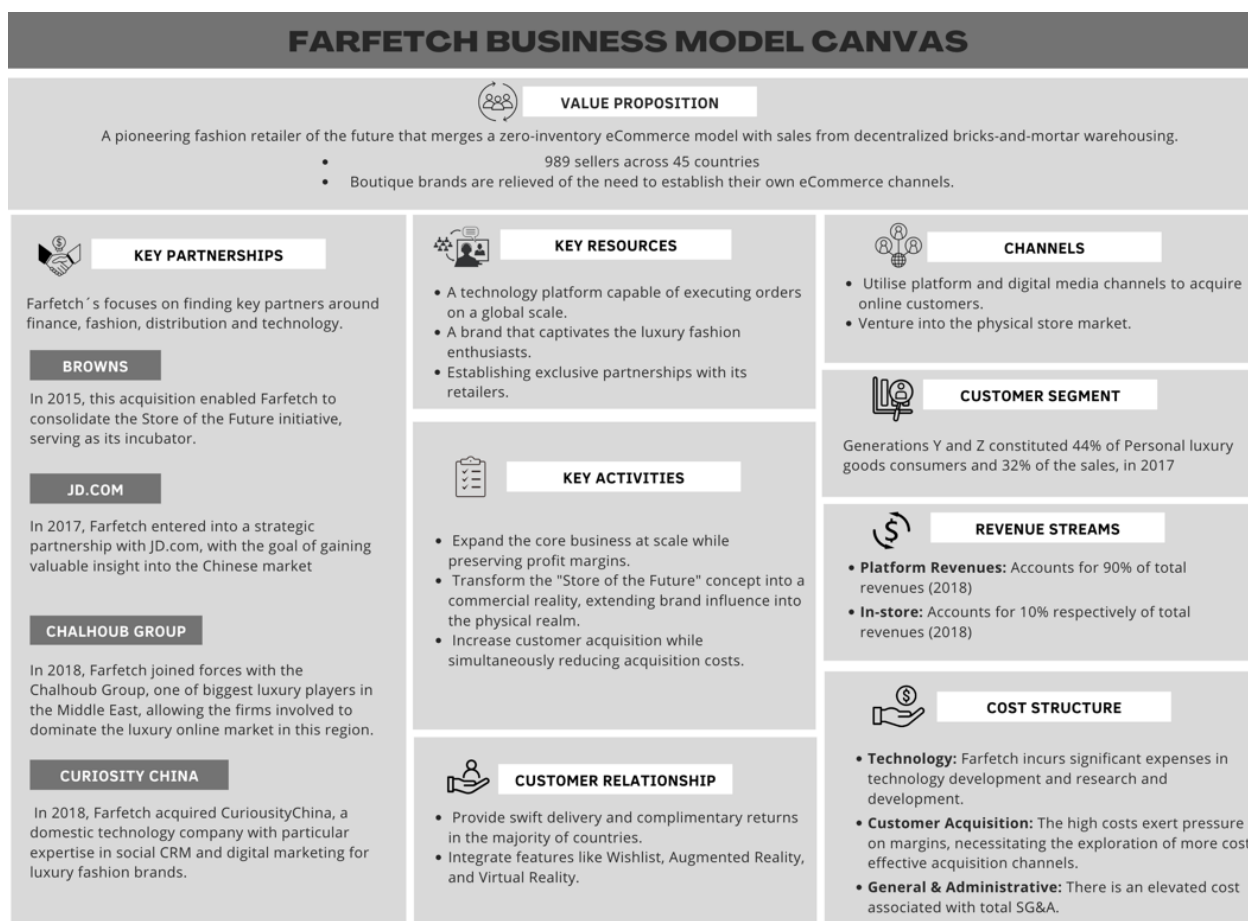


Exhibit 14: Farfetch's Ownership Structure

Farfetch's Ownership Structure

	Farfetch's Ownership Structure									
	Before the offering and the concurrent private placement			After the offering and the concurrent private placement						
	Number	Percent	% of total voting power	No exercise of over-allotment option [B]		Full exercise of over-allotment option [B]		Number	Percent	% of total voting power
Class A ordinary shares beneficially owned	Existing Equity stake	215,029,489	83.4%	20.1%	215,029,489	73.4%	19.4%	215,029,489	71.8%	19.3%
	New Equity stake [A]	n/a	n/a	n/a	34,971,526	11.9%	3.2%	41,608,088	13.9%	3.7%
Class B ordinary shares beneficially owned		42,858,080	16.6%	79.9%	42,858,080	14.6%	77.4%	42,858,080	14.3%	77.0%
Total		257,887,569	100.0%	100.0%	292,859,095	100.0%	100.0%	299,495,657	100.0%	100.0%

Notes:

[A- 1]: The term 'New Equity Stake' only accounts for shares outstanding newly issued, and it does not include the sale of shares by previously existing shareholders (of 10.6M).

[A- 2]: Kadi Group Holding Limited, already a shareholder and an associate of JD.com, agreed on a private acquisition of Class A ordinary shares, materialized through a concurrent private placement. The volume of shares agreed to be purchased would be equal to one-third of the total amount of shares they would need to purchase to keep their current percentage of ownership, after the issuance of all ordinary shares in the IPO is completed (1.4M Class A shares).

[B]: The underwriters could exercise their option to purchase up to 6.6 M additional Class A ordinary shares. within 30 days of the date of the prospectus (20/09/2018).

Exhibit 15: José Neves's Ownership

José Neves' Ownership									
	Before the offering and the concurrent private placement			After the offering and the concurrent private placement					
	Number	Percent	% of total voting power	No exercise of over-allotment option			Full exercise of over-allotment option		
	Number	Percent	% of total voting power	Number	Percent	% of total voting power	Number	Percent	% of total voting power
Class A ordinary shares [A]	1,692,478	0.7%	0.2%	0	0.0%	0.0%	0	0.0%	0.0%
Class B ordinary shares	42,858,080	16.6%	79.9%	42,858,080	14.6%	77.4%	42,858,080	14.3%	77.0%
Total [B]	44,550,558	17.3%	80.1%	42,858,080	14.6%	77.4%	42,858,080	14.3%	77.0%

Notes:

[A]: José Neves had 1,7M of Class A ordinary shares, which he intended to sell after the IPO. Thus, after the offering José Neves' ownership of Farfetch will correspond to the total number of Class B ordinary shares.

Exhibit 16: Farfetch's Detailed Ownership Structure

Name of beneficial owner	Class A ordinary shares beneficially owned before the offering and the concurrent private placement		Class B ordinary shares beneficially owned before the offering and the concurrent private placement		Class A ordinary shares beneficially owned after the offering and the concurrent private placement		Class B ordinary shares beneficially owned after the offering and the concurrent private placement		Class A ordinary shares beneficially owned after the offering and the concurrent private placement assuming an exercise of over-allotment option		Class B ordinary shares beneficially owned after the offering and the concurrent private placement assuming an exercise of over-allotment option	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
	% of total voting power before the offering and the concurrent private placement		% of total voting power before the offering and the concurrent private placement		% of total voting power before the offering and the concurrent private placement		% of total voting power before the offering and the concurrent private placement		% of total voting power before the offering and the concurrent private placement		% of total voting power before the offering and the concurrent private placement	
Kath Group Holding Limited	4,106,030	19.4%	—	—	42,412,425	17.2%	42,412,425	16.7%	—	—	—	3.8%
Locks Venture V (Georg), L.P.	2,532,930	13.4%	—	—	28,339,930	11.2%	28,339,930	11.2%	—	—	—	2.6%
Locks Venture V (Georg) Fund	2,532,930	13.4%	—	—	28,339,930	11.2%	28,339,930	11.2%	—	—	—	2.6%
Parfitt (Luxembourg)	2,448,935	11.6%	—	—	22,627,241	8.9%	22,627,241	8.7%	—	—	—	2.0%
Advance Publications	14,838,410	7.0%	—	—	14,838,410	6.0%	14,838,410	5.9%	—	—	—	1.3%
DST Global IV, L.P.	14,743,190	7.0%	—	—	12,531,686	5.1%	12,531,686	4.9%	—	—	—	1.1%
Jose Neves	1,692,478	0.8%	42,858,000	100%	1,692,478	0.7%	—	—	42,858,000	100%	42,858,000	77.4%
Andreessen Horowitz	1,257,971	0.6%	—	—	797,458	0.3%	797,458	0.3%	—	—	—	0.7%
Frederic Court	—	—	—	—	1,257,971	0.6%	1,257,971	0.5%	—	—	—	1.0%
Dan Evans	—	—	—	—	—	—	—	—	—	—	—	—
Ben Khamis	302,689	0.1%	—	—	302,689	0.1%	302,689	0.1%	—	—	—	—
Swahly Marcet	298,010	0.1%	—	—	298,010	0.1%	298,010	0.1%	—	—	—	—
Swahly Newhouse	—	—	—	—	—	—	—	—	—	—	—	—
Danny Rauer	—	—	—	—	—	—	—	—	—	—	—	—
Mike Raman	—	—	—	—	—	—	—	—	—	—	—	—
Michael Saper	—	—	—	—	—	—	—	—	—	—	—	—
Michael Saper Fund	—	—	—	—	—	—	—	—	—	—	—	—
All executive officers and board members as a group	77,665	0.4%	—	—	47,456	0.2%	47,456	0.2%	—	—	—	0.4%
Other Selling Shareholders	44,145,985	2.1%	—	—	2,065,985	0.8%	2,065,985	0.8%	—	—	—	77.9%
Brown Holdings (UK) Limited	1,457,620	0.7%	—	—	1,457,620	0.6%	1,457,620	0.6%	—	—	—	—
Stamps.com Inc	1,347,620	0.6%	—	—	1,347,620	0.5%	1,347,620	0.5%	—	—	—	—
Stamps.com Inc Co-AG	1,347,620	0.6%	—	—	1,347,620	0.5%	1,347,620	0.5%	—	—	—	—
Stamps.com Inc (UK) Limited	1,347,620	0.6%	—	—	1,347,620	0.5%	1,347,620	0.5%	—	—	—	—
Novel TMT CIP, L.P.	299,873	0.1%	—	—	178,625	0.1%	178,625	0.1%	—	—	—	—
Sub Major Shareholders	150,713,590	7.1%	—	—	144,749,002	58.6%	144,749,002	57.1%	—	—	—	13.9%

Source: IPO Prospectus

Notes:

*Indicates beneficial ownership of less than 1% of the total outstanding Class A ordinary shares.

This table indicates the major beneficial shareholders of Farfetch.

Exhibit 17: Key Indicators of Designated Stock Exchanges (2017)

Key Indicators of Designated Stock Exchanges					
(data from December 2017)	LSE	NASDAQ	NYSE	EURONEXT	HKEX
Location	London	New York	New York	Europe (multiple)	Hong Kong
Establishment	1773	1971	1972	1801	1891
Market Capitalization (in millions \$)	\$4,290,412.80	\$9,803,890.80	\$21,877,540.60	\$4,370,982.00	\$4,226,334.20
Number of listed companies	990	1,315	2,285	1,255	2,118
Number of IPOs in 2017	108	103	71	31	80
Share of Foreign IPOs	20%	21%	27%	n.a.	n.a.

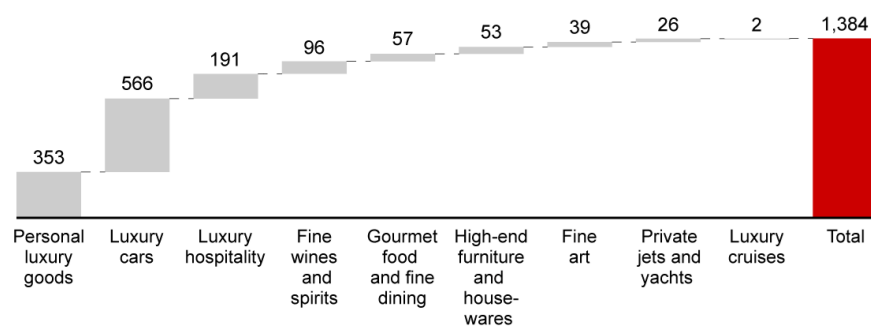
Source: Statista, EY and websites of each stock exchange

Part B

Case Study

Exhibit 18: Global Luxury industry in 2022

Worldwide luxury market, 2022E (€ billions)

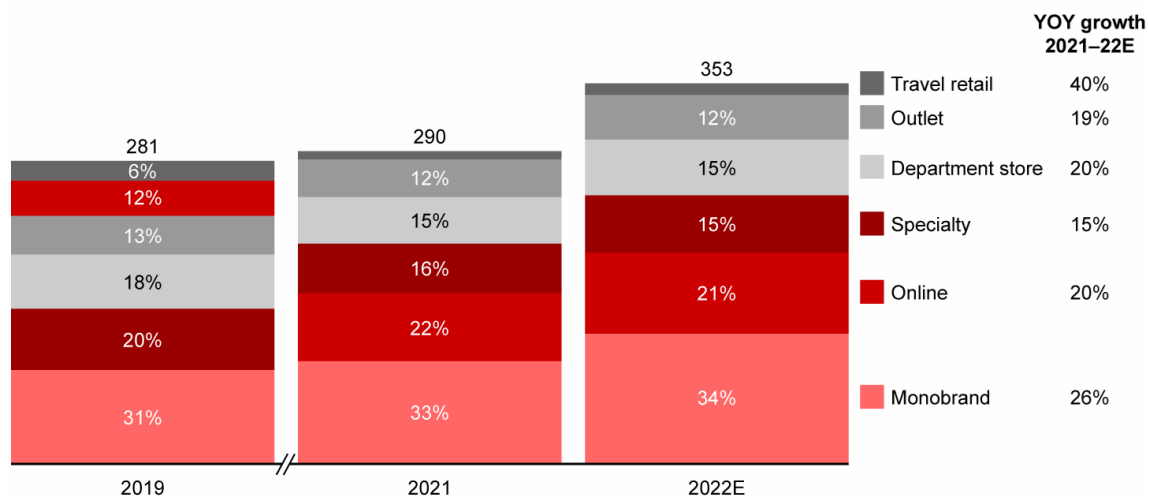


2019–22E overall growth at current exchange rates	26%	3%	-7%	26%	8%	24%	7%	12%	-25%	8%–10%
2021–22E growth at current exchange rates	22%	6%	110%	16%	12%	13%	13%	18%	355%	19%–21%
2021–22E growth at constant exchange rates	15%	-1%	95%	9%	11%	9%	5%	10%	325%	11%–13%

Note: E indicates estimated growth
Source: Bain & Company

Exhibit 19: Share of Personal luxury goods market by distribution channels

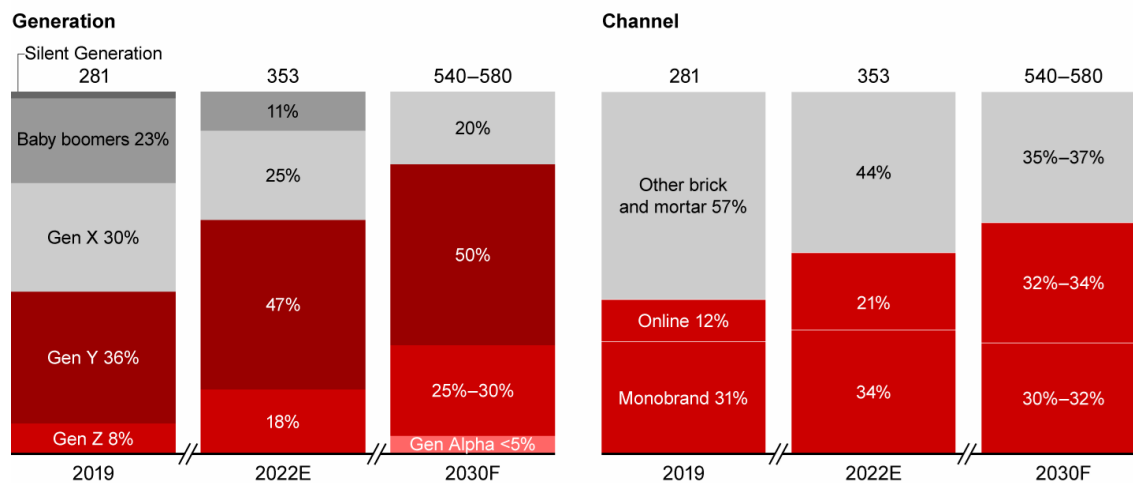
Global personal luxury goods market, by distribution channel and format (€ billions)



Note: Growth shown at current exchange rates
Source: Bain & Company

Exhibit 20: Share of Personal luxury goods market by generation and distribution

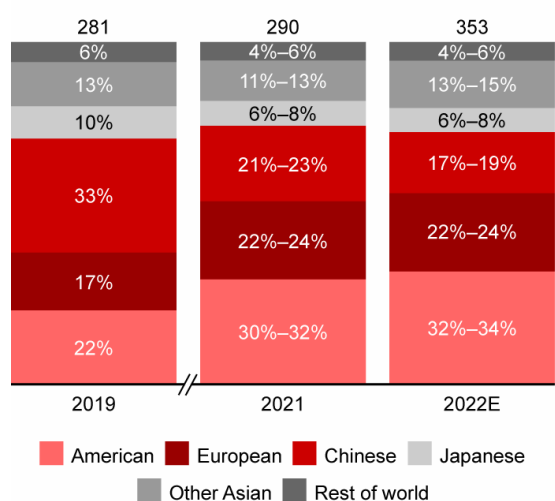
Share of global personal luxury goods market (€ billions)



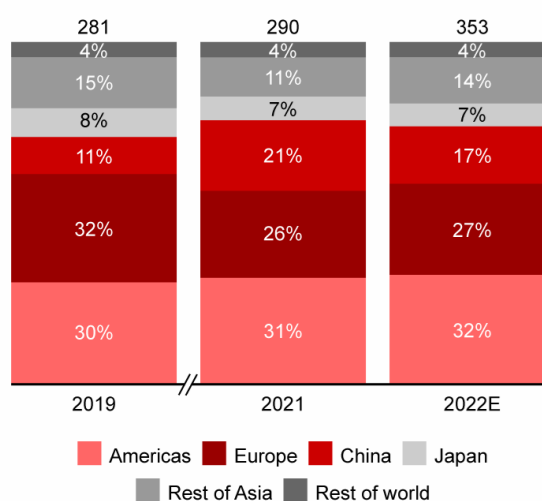
Notes: Segments may not total 100% due to rounding; generations defined by birth year (Silent Generation 1928-45, baby boomers 1946-64, Generation X 1965-80, Generation Y 1981-1995, Generation Z 1996-2015, Generation Alpha 2016-present)
Source: Bain & Company

Exhibit 21: Share of Personal luxury goods market by consumers' nationality and regions

Share of global personal luxury goods market, by consumer nationality (€ billions)



Share of global personal luxury goods market, by region (€ billions)



Note: Segments may not total 100% due to rounding
Source: Bain & Company

Exhibit 22: Income Statement

Income Statement								
Thousands \$	2018	2019	2020	2021	2022 SI	2022	2023 SI	
Revenue	\$ 602,384.00	\$ 1,021,037.00	\$ 1,673,922.00	\$ 2,256,608.00	\$ 1,094,150.00	\$ 2,316,680.00	\$ 1,128,477.00	
Cost of Revenue	\$ (303,934.00)	\$ (561,191.00)	\$ (902,994.00)	\$ (1,240,097.00)	\$ (595,964.00)	\$ (1,293,505.00)	\$ (644,972.00)	
Gross Profit	\$ 298,450.00	\$ 459,846.00	\$ 770,928.00	\$ 1,016,511.00	\$ 498,186.00	\$ 1,023,175.00	\$ 483,505.00	
Check	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	
Selling, General and Administrative expenses	\$ (471,766.00)	\$ (889,421.00)	\$ (1,351,483.00)	\$ (1,480,968.00)	\$ (826,676)	\$ (1,733,603.00)	\$ (875,169.00)	
Impairment Losses on Tangible Assets	\$ -	\$ -	\$ (2,991.00)	\$ -	\$ -	\$ (19,945.00)	\$ (14,766.00)	
Impairment Losses on Intangible Assets	\$ -	\$ -	\$ (36,269.00)	\$ (11,779.00)	\$ -	\$ (116,787.00)	\$ -	
Gain/(Loss) on Items Held at Fair Value and Remeasurements	\$ -	\$ 21,721.00	\$ (2,643,573.00)	\$ 2,023,743.00	\$ 1,160,423.00	\$ 1,298,612.00	\$ (43,887.00)	
Share of Results of Associates	\$ 33.00	\$ 366.00	\$ (74.00)	\$ (52.00)	\$ 30.00	\$ 68.00	\$ (5.00)	
Operating loss/profit	\$ (173,316.00)	\$ (429,575.00)	\$ (619,815.00)	\$ (476,236.00)	\$ (328,490.00)	\$ (847,160.00)	\$ (406,430.00)	
Check	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	
Gain/(Loss) on Items Held at Fair Value and Remeasurements	\$ -	\$ 21,721.00	\$ (2,643,573.00)	\$ 2,023,743.00	\$ 1,160,423.00	\$ 1,298,612.00	\$ (43,887.00)	
Share of Results of Associates	\$ 33.00	\$ 366.00	\$ (74.00)	\$ (52.00)	\$ 30.00	\$ 68.00	\$ (5.00)	
Net Finance Income/(Costs)	\$ 19,866.00	\$ 15,150.00	\$ (66,595.00)	\$ (73,842.00)	\$ (39,744.00)	\$ (110,188.00)	\$ (49,316.00)	
Finance Income	\$ 38,182.00	\$ 34,382.00	\$ 24,699.00	\$ 12,599.00	\$ 4,220.00	\$ 38,369.00	\$ 21,252.00	
Finance Costs	\$ (18,316.00)	\$ (19,232.00)	\$ (91,294.00)	\$ (86,441.00)	\$ (43,964.00)	\$ (148,557.00)	\$ (70,548.00)	
(Loss)/Profit Before Tax	\$ (153,417.00)	\$ (392,338.00)	\$ (3,330,057.00)	\$ 1,473,613.00	\$ 792,219.00	\$ 341,332.00	\$ (499,638.00)	
Check	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	
Income Tax Benefit/(Expense)	\$ (2,158.00)	\$ (1,162.00)	\$ 14,434.00	\$ (3,002.00)	\$ 4,203.00	\$ 3,523.00	\$ 44,024.00	
Loss After Tax	\$ (155,575.00)	\$ (393,500.00)	\$ (3,315,623.00)	\$ 1,470,611.00	\$ 796,422.00	\$ 344,855.00	\$ (455,614.00)	
Check	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	
(Loss)/Profit After Tax Attributable to:								
Equity Holders of the Parent	\$ (155,575.00)	\$ (405,109.00)	\$ (3,333,171.00)	\$ 1,466,487.00	\$ 804,809.00	\$ 359,287.00	\$ (11,821.00)	
Non-controlling Interests	\$ -	\$ 11,609.00	\$ 17,548.00	\$ 4,124.00	\$ (8,387.00)	\$ (14,432.00)	\$ (443,793.00)	
Net Loss/Profit	\$ (155,575.00)	\$ (393,500.00)	\$ (3,315,623.00)	\$ 1,470,611.00	\$ 796,422.00	\$ 344,855.00	\$ (455,614.00)	
Check	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	
(Loss)/Earnings per Share Attributable to Owners of the Parent (actual)								
Basic	\$ (0.59)	\$ (1.27)	\$ (9.69)	\$ 4.02	\$ 2.11	\$ 0.93	\$ (1.11)	
Diluted	\$ (0.59)	\$ (1.27)	\$ (9.69)	\$ (1.07)	\$ (0.77)	\$ (1.85)	\$ (1.11)	
Weighted-average Shares Outstanding (actual)								
Basic	264,432,214	318,843,239	343,829,481.00	364,696,712.00	382,232,170	384,986,092.00	399,597,359.00	
Diluted	264,432,214	318,843,239	343,829,481.00	472,357,995.00	460,821,030	465,689,374.00	399,597,359.00	
Adjusted EBITDA	\$ (95,960.00)	\$ (121,376.00)	\$ (47,432.00)	\$ 1,638.00	n.a.	\$ (98,715.00)	n.a.	

Exhibit 23: Balance Sheet

Balance Sheet								
Thousands \$	2018	2019	2020	2021	2022 S1	2022	2023 S1	
Assets								
Non-Current Assets								
Trade and Other Receivables	\$ 10,458.00	\$ 12,388.00	\$ 58,081.00	\$ 31,225.00	\$ 18,450.00	\$ 21,204.00	\$ 40,069.00	
Derivative Financial Assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 721.00	
Deferred Tax Assets	\$ -	\$ 5,324.00	\$ 13,556.00	\$ 13,334.00	\$ 18,776.00	\$ 19,566.00	\$ 19,342.00	
Intangible Assets	\$ 103,345.00	\$ 1,362,967.00	\$ 1,279,328.00	\$ 1,359,657.00	\$ 1,721,135.00	\$ 1,547,830.00	\$ 1,503,925.00	
Property, Plant and Equipment	\$ 37,528.00	\$ 67,999.00	\$ 89,082.00	\$ 97,063.00	\$ 94,591.00	\$ 91,141.00	\$ 92,632.00	
Right-of-use Assets	\$ -	\$ 115,176.00	\$ 179,227.00	\$ 195,549.00	\$ 203,576.00	\$ 187,640.00	\$ 195,115.00	
Investments	\$ 566.00	\$ 16,229.00	\$ 8,278.00	\$ 17,937.00	\$ 217,897.00	\$ 218,977.00	\$ 217,505.00	
Investments in Associates	\$ 86.00	\$ 2,466.00	\$ 2,319.00	\$ 69.00	\$ 100.00	\$ 138.00	\$ 276.00	
Total Non-current Assets	\$ 151,983.00	\$ 1,582,549.00	\$ 1,629,871.00	\$ 1,714,834.00	\$ 2,274,525.00	\$ 2,086,496.00	\$ 2,069,585.00	
Check	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE
Current Assets								
Inventories	\$ 60,954.00	\$ 128,107.00	\$ 145,309.00	\$ 255,664.00	\$ 291,589.00	\$ 345,969.00	\$ 436,408.00	
Trade and Other Receivables	\$ 93,670.00	\$ 189,897.00	\$ 209,946.00	\$ 374,706.00	\$ 454,688.00	\$ 492,565.00	\$ 501,225.00	
Current Tax Assets	\$ -	\$ 1,873.00	\$ 2,082.00	\$ 10,201.00	\$ 11,409.00	\$ 16,193.00	\$ 25,945.00	
Short-term Investments	\$ -	\$ -	\$ -	\$ 99,971.00	\$ 99,588.00	\$ -	\$ -	
Derivative Financial Assets	\$ -	\$ 3,024.00	\$ 30,242.00	\$ 8,010.00	\$ 8,536.00	\$ 472.00	\$ 10,971.00	
Cash and Cash Equivalents	\$ 1,044,786.00	\$ 322,429.00	\$ 1,573,421.00	\$ 1,363,128.00	\$ 575,573.00	\$ 734,221.00	\$ 453,820.00	
Total Current Assets	\$ 1,199,410.00	\$ 645,330.00	\$ 1,961,000.00	\$ 2,111,680.00	\$ 1,441,383.00	\$ 1,589,420.00	\$ 1,428,369.00	
Check	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE
Total Assets	\$ 1,351,393.00	\$ 2,227,879.00	\$ 3,590,871.00	\$ 3,826,514.00	\$ 3,715,908.00	\$ 3,675,916.00	\$ 3,497,954.00	
Check	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE
Equity and Liabilities								
Liabilities								
Non-current Liabilities								
Provisions	\$ 13,462.00	\$ 23,704.00	\$ 129,113.00	\$ 60,545.00	\$ 12,060.00	\$ 12,166.00	\$ 15,636.00	
Deferred Tax Liabilities	\$ -	\$ 219,789.00	\$ 182,463.00	\$ 156,025.00	\$ 145,043.00	\$ 127,348.00	\$ 88,596.00	
Lease Liabilities	\$ -	\$ 100,833.00	\$ 165,275.00	\$ 180,915.00	\$ 184,850.00	\$ 178,247.00	\$ 194,584.00	
Employee Benefit Obligations	\$ -	\$ 16,455.00	\$ 26,116.00	\$ 12,948.00	\$ 3,947.00	\$ 2,930.00	\$ 3,833.00	
Derivative Financial Liabilities	\$ -	\$ -	\$ 2,996,220.00	\$ 872,428.00	\$ 235,795.00	\$ 206,564.00	\$ 206,967.00	
Borrowings	\$ -	\$ -	\$ 617,789.00	\$ 515,804.00	\$ 537,222.00	\$ 892,700.00	\$ 916,923.00	
Put and Call Option Liabilities	\$ -	\$ 61,268.00	\$ 348,937.00	\$ 836,609.00	\$ 254,358.00	\$ 169,218.00	\$ 208,610.00	
Other Financial Liabilities	\$ 15,342.00	\$ -	\$ 4,853.00	\$ 13,367.00	\$ 308,491.00	\$ 298,244.00	\$ 287,358.00	
Total Non-current Liabilities	\$ 28,804.00	\$ 422,049.00	\$ 4,470,766.00	\$ 2,648,641.00	\$ 1,681,766.00	\$ 1,887,417.00	\$ 1,922,507.00	
Check	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE
Current Liabilities								
Trade and Other Payables	\$ 194,158.00	\$ 413,696.00	\$ 666,144.00	\$ 806,406.00	\$ 707,721.00	\$ 740,848.00	\$ 829,662.00	
Borrowings	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Provisions	\$ -	\$ -	\$ 27,146.00	\$ 14,585.00	\$ 8,657.00	\$ 12,053.00	\$ 8,427.00	
Current Tax Liability	\$ -	\$ 28,289.00	\$ 3,098.00	\$ 5,189.00	\$ 20,861.00	\$ 6,075.00	\$ 6,503.00	
Lease Liabilities	\$ -	\$ 18,485.00	\$ 26,128.00	\$ 33,594.00	\$ 36,706.00	\$ 36,996.00	\$ 41,614.00	
Employee Benefit Obligations	\$ -	\$ -	\$ 38,286.00	\$ 8,296.00	\$ 2,987.00	\$ 2,403.00	\$ 2,051.00	
Derivative Financial Liabilities	\$ -	\$ 5,601.00	\$ 17,427.00	\$ 21,118.00	\$ 67,490.00	\$ 22,041.00	\$ 4,934.00	
Put and Call Option Liabilities	\$ -	\$ 1,118.00	\$ -	\$ 8,321.00	\$ 48,900.00	\$ 26,029.00	\$ 30,194.00	
Other Financial Liabilities	\$ -	\$ 809.00	\$ 518.00	\$ 9,748.00	\$ 24,379.00	\$ 36,433.00	\$ 45,891.00	
Total Current Liabilities	\$ 194,158.00	\$ 467,998.00	\$ 778,747.00	\$ 907,257.00	\$ 917,701.00	\$ 882,878.00	\$ 969,276.00	
Check	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE
Total Liabilities	\$ 222,962.00	\$ 890,047.00	\$ 5,249,513.00	\$ 3,555,898.00	\$ 2,599,467.00	\$ 2,770,295.00	\$ 2,891,783.00	
Check	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE
Equity								
Share Capital	\$ 11,994.00	\$ 13,584.00	\$ 14,168.00	\$ 15,231.00				
Share Premium	\$ 772,300.00	\$ 878,007.00	\$ 927,931.00	\$ 1,641,674.00				
Merger Reserve	\$ 783,529.00	\$ 783,529.00	\$ 783,529.00	\$ 783,529.00				
Foreign Exchange Reserve	\$ (23,509.00)	\$ (30,842.00)	\$ (7,271.00)	\$ (24,544.00)				
Other reserves	\$ 67,474.00	\$ 349,463.00	\$ 467,565.00	\$ 59,520.00				
Accumulated Losses	\$ (483,357.00)	\$ (826,135.00)	\$ (4,013,120.00)	\$ (2,386,802.00)				
Equity Attributable to Owners of the Parent	\$ 1,128,431.00	\$ 1,167,606.00	\$ (1,827,198.00)	\$ 88,608.00	\$ 953,580.00	\$ 748,214.00	\$ 460,568.00	
Check	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE
Non-Controlling Interests	\$ -	\$ 170,226.00	\$ 168,556.00	\$ 182,008.00	\$ 162,861.00	\$ 157,407.00	\$ 145,603.00	
Total Equity	\$ 1,128,431.00	\$ 1,337,832.00	\$ (1,658,642.00)	\$ 270,616.00	\$ 1,116,441.00	\$ 905,621.00	\$ 606,171.00	
Check	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE
Total Equity and Liabilities	\$ 1,351,393.00	\$ 2,227,879.00	\$ 3,590,871.00	\$ 3,826,514.00	\$ 3,715,908.00	\$ 3,675,916.00	\$ 3,497,954.00	
Check	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE

Exhibit 24: Statement of Cash-Flows

Statement of Cash Flows					
Thousands \$	2018	2019	2020	2021	2022
Cash flows from operating activities					
Operating loss	\$ (153,417.00)	\$ (429,575.00)	\$ (619,815.00)	\$ (476,236.00)	\$ (847,160.00)
Adjustments for:	\$ -	\$ -	\$ -	\$ -	\$ -
Depreciation	\$ 7,338.00	\$ 28,536.00	\$ 39,366.00	\$ 49,564.00	\$ 54,689.00
Amortization	\$ 16,199.00	\$ 85,055.00	\$ 177,857.00	\$ 201,634.00	\$ 278,086.00
Impairment of non-current asset	\$ -	\$ -	\$ -	\$ -	\$ -
Non-cash employee benefits expense	\$ 53,819.00	\$ 158,007.00	\$ 168,347.00	\$ 219,932.00	\$ 290,331.00
Net loss/(gain) on sale of non-current assets	\$ 1,028.00	\$ (144.00)	\$ -	\$ -	\$ -
Share of profits of associates	\$ (33.00)	\$ -	\$ -	\$ -	\$ -
Net finance income	\$ (19,866.00)	\$ -	\$ -	\$ -	\$ -
Net exchange differences	\$ 7,621.00	\$ (842.00)	\$ -	\$ -	\$ -
Impairment losses on tangible assets	\$ -	\$ -	\$ 2,991.00	\$ -	\$ 19,945.00
Impairment losses on intangible assets	\$ -	\$ -	\$ 36,269.00	\$ 11,779.00	\$ 116,787.00
Issue of warrants	\$ -	\$ -	\$ -	\$ -	\$ -
Impairment of investments	\$ -	\$ 5,000.00	\$ 235.00	\$ 134.00	\$ 99.00
Change in the fair value of derivatives	\$ (506.00)	\$ (117.00)	\$ (15,052.00)	\$ 5,663.00	\$ (53,741.00)
Changes in working capital	\$ -	\$ -	\$ -	\$ -	\$ -
Decrease/Increase in receivables	\$ (72,151.00)	\$ (51,273.00)	\$ (15,833.00)	\$ (164,656.00)	\$ (105,977.00)
Decrease/Increase in inventories	\$ (10,345.00)	\$ (29,723.00)	\$ (16,471.00)	\$ (104,838.00)	\$ (85,610.00)
Decrease/Increase in payables	\$ 57,432.00	\$ 113,716.00	\$ 280,454.00	\$ 115,025.00	\$ (73,582.00)
Changes in other assets and liabilities	\$ -	\$ -	\$ -	\$ -	\$ -
(Increase)/decrease in non-current receivables	\$ (1,265.00)	\$ 3,723.00	\$ (1,453.00)	\$ 13,551.00	\$ 10,500.00
Increase in other liabilities	\$ -	\$ 11,575.00	\$ 59,640.00	\$ (44,227.00)	\$ (52,890.00)
Decrease/increase in provisions	\$ (701.00)	\$ (4,252.00)	\$ 85,001.00	\$ (68,128.00)	\$ (50,707.00)
Interest paid	\$ (536.00)	\$ -	\$ -	\$ -	\$ -
Other items	\$ -	\$ -	\$ -	\$ -	\$ -
Income taxes paid	\$ (822.00)	\$ (16,328.00)	\$ (65,221.00)	\$ (41,351.00)	\$ (37,368.00)
Net cash outflow from operating activities	\$ (116,205.00)	\$ (126,642.00)	\$ 116,315.00	\$ (282,154.00)	\$ (536,598.00)
Cash flows from investing activities					
Acquisition of subsidiaries, net of cash acquired	\$ -	\$ (461,691.00)	\$ (12,016.00)	\$ (27,295.00)	\$ (73,860.00)
Payments for property, plant and equipment	\$ (21,137.00)	\$ (39,512.00)	\$ (26,839.00)	\$ (28,854.00)	\$ (22,191.00)
Proceeds on disposal of property, plant and equipment	\$ -	\$ 272.00	\$ -	\$ -	\$ -
Payments for intangible assets	\$ (50,978.00)	\$ (72,985.00)	\$ (94,105.00)	\$ (167,707.00)	\$ (148,679.00)
Interest received	\$ 8,865.00	\$ 11,259.00	\$ 3,131.00	\$ 2,994.00	\$ 8,917.00
Investment in short-term investments	\$ -	\$ -	\$ -	\$ (100,000.00)	\$ -
Decrease in short-term investments	\$ -	\$ -	\$ -	\$ -	\$ 100,019.00
Dividends received from associate	\$ -	\$ -	\$ 60.00	\$ -	\$ -
Payments for investments	\$ (288.00)	\$ (20,846.00)	\$ (2,872.00)	\$ (9,794.00)	\$ (210,003.00)
Proceeds on disposal of investment	\$ -	\$ -	\$ -	\$ -	\$ 1,461.00
Increase/decrease in other long-term assets	\$ -	\$ -	\$ -	\$ -	\$ -
Net cash outflow from investing activities	\$ (63,538.00)	\$ (583,503.00)	\$ (132,641.00)	\$ (330,656.00)	\$ (344,336.00)
Cash flows from financing activities					
Payment for acquisition of non-controlling interest	\$ -	\$ -	\$ -	\$ (18,514.00)	\$ -
Proceeds from issue of shares, net of issue costs	\$ 859,526.00	\$ -	\$ 50,000.00	\$ -	\$ -
Proceeds from exercise of employee share-based awards	\$ -	\$ 8,654.00	\$ 62,899.00	\$ 36,833.00	\$ 2,546.00
Transaction costs paid relating to capital contribution from non	\$ -	\$ -	\$ -	\$ (25,000.00)	\$ -
Repayment of loan notes	\$ -	\$ -	\$ -	\$ -	\$ -
Repayment of the principal elements of lease payments	\$ -	\$ (19,127.00)	\$ (19,051.00)	\$ (26,251.00)	\$ (33,938.00)
Proceeds from borrowings, net of issue costs	\$ -	\$ -	\$ 1,241,861.00	\$ -	\$ 369,113.00
Payment for the repurchase of convertible loan notes	\$ -	\$ -	\$ -	\$ -	\$ (32,500.00)
Dividends paid to holders of non-controlling interests	\$ -	\$ -	\$ (20,515.00)	\$ (23,016.00)	\$ (17,129.00)
Interest and fees paid on loans	\$ -	\$ (4,776.00)	\$ (54,154.00)	\$ (32,791.00)	\$ (26,699.00)
Settlement of equity-based awards	\$ -	\$ -	\$ -	\$ (6,119.00)	\$ (4,409.00)
Capital contribution from non-controlling interest	\$ -	\$ -	\$ -	\$ 500,000.00	\$ -
Net cash inflow/(outflow) from financing activities	\$ 859,526.00	\$ (15,249.00)	\$ 1,261,040.00	\$ 405,142.00	\$ 256,984.00
Net increase/(decrease) in cash and cash equivalents	\$ 679,783.00	\$ (725,394.00)	\$ 1,244,714.00	\$ (207,668.00)	\$ (623,950.00)
Cash and cash equivalents at the beginning of the year	\$ 384,002.00	\$ 1,044,786.00	\$ 322,429.00	\$ 1,573,421.00	\$ 1,363,128.00
Effects of exchange rate changes on cash and cash equivalents	\$ (18,999.00)	\$ 3,037.00	\$ 6,278.00	\$ (2,625.00)	\$ (4,957.00)
Cash and cash equivalents at end of year	\$ 1,044,786.00	\$ 322,429.00	\$ 1,573,421.00	\$ 1,363,128.00	\$ 734,221.00

Exhibit 25: Revenue Breakdown by Product

Revenues by Product							
Thousands \$	2018	2019	2020	2021	2022 S1	2022	2023 S1
Digital Platform					\$ -		
Services revenue	\$ 488,995.00	\$ 701,246.00	\$ 1,033,156.00	\$ 1,385,678.00	\$ 672,818.00	\$ 1,419,721.00	\$ 732,533.00
Fulfillment revenue	\$ 97,794.00	\$ 127,960.00	\$ 213,228.00	\$ 332,504.00	\$ 158,797.00	\$ 321,653.00	\$ 170,899.00
Total revenue	\$ 586,789.00	\$ 829,206.00	\$ 1,246,384.00	\$ 1,718,182.00	\$ 831,615.00	\$ 1,741,374.00	\$ 903,432.00
Less: Cost of revenue	\$ (295,083.00)	\$ (457,293.00)	\$ (686,178.00)	\$ (987,929.00)	\$ (471,926.00)	\$ (1,014,785.00)	\$ (542,313.00)
Gross profit	\$ 291,706.00	\$ 371,913.00	\$ 560,206.00	\$ 730,253.00	\$ 359,689.00	\$ 726,589.00	\$ 361,119.00
Check	TRUE	TRUE	TRUE	TRUE		TRUE	
Brand Platform					\$ -		
Revenue	n.a.	\$ 164,210.00	\$ 390,014.00	\$ 467,505.00	\$ 217,069.00	\$ 477,146.00	\$ 181,843.00
Less: Cost of revenue	n.a.	\$ (89,203.00)	\$ (199,208.00)	\$ (225,989.00)	\$ (106,547.00)	\$ (242,663.00)	\$ (86,756.00)
Gross profit	\$ -	\$ 75,007.00	\$ 190,806.00	\$ 241,516.00	\$ 110,522.00	\$ 234,483.00	\$ 95,087.00
Check	TRUE	TRUE	TRUE	TRUE		TRUE	
In-Stores:							
Revenue	\$ 15,595.00	\$ 27,621.00	\$ 37,524.00	\$ 70,921.00	\$ 45,466.00	\$ 98,160.00	\$ 43,202.00
Less: Cost of revenue	\$ (8,851.00)	\$ (14,695.00)	\$ (17,608.00)	\$ (26,179.00)	\$ (17,491.00)	\$ (36,057.00)	\$ (15,903.00)
Gross profit	\$ 6,744.00	\$ 12,926.00	\$ 19,916.00	\$ 44,742.00	\$ 27,975.00	\$ 62,103.00	\$ 27,299.00

Exhibit 26: Revenue Breakdown by Region

Revenue By Region						
Thousands \$	2018	2019	2020	2021	2022	
Americas	\$ 175,060.00	\$ 277,712.00	\$ 314,596.00	\$ 475,684.00	\$ 512,196.00	
Europe, Middle East and Africa	\$ 240,662.00	\$ 377,944.00	\$ 151,875.00	\$ 221,264.00	\$ 258,271.00	
Asia Pacific	\$ 186,662.00	\$ 365,381.00	\$ 1,207,451.00	\$ 1,559,660.00	\$ 1,546,213.00	
Total revenue	\$ 602,384.00	\$ 1,021,037.00	\$ 1,673,922.00	\$ 2,256,608.00	\$ 2,316,680.00	

Exhibit 27: Marketplace Indicators

Marketplace indicators						
	2019	2020	2021	2022 S1	2022	2023 S1
Digital Platform Revenue	\$ 829,206.00	\$ 1,246,384.00	\$ 1,718,182.00	\$ 731,615.00	\$ 1,741,374.00	\$ 903,432.00
Active Consumers (Thousands)	2,068	3,024	3,687	3,844	3,918	4,132
Number of Orders (Thousands)	n/a	n/a	n/a	n/a	n/a	n/a
Average Order Value (Actual)	\$ 608	\$ 568	\$ 612	\$ 596	\$ 574	\$ 561

Exhibit 28: Farfetch Business Model Canvas (2023)

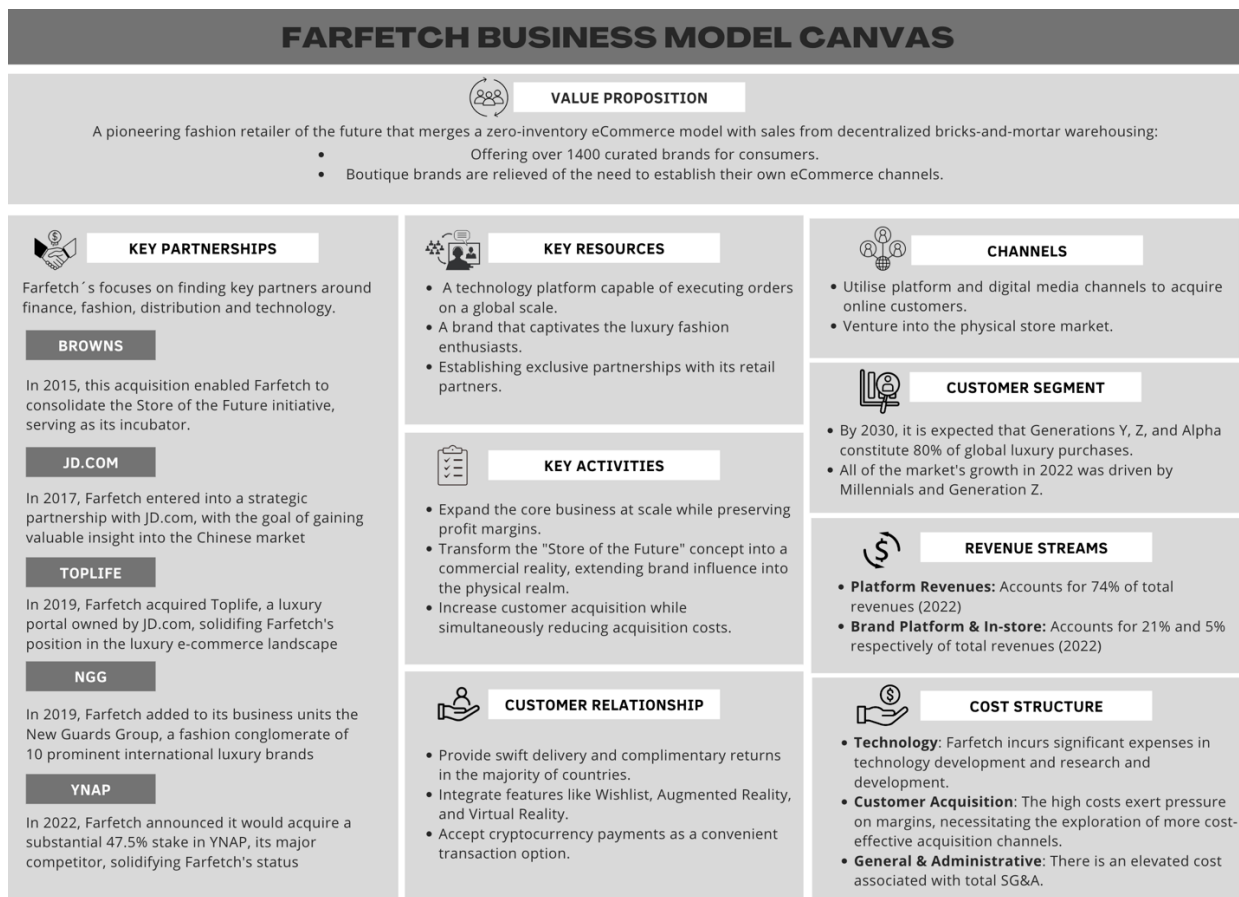


Exhibit 29: Stock Price Evolution



