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Equity Research Report: Fielmann - All Eyes on Growth - Business Model, Forecasting and Risks

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Abstract

This paper is a component of the "All Eyes on Growth" Equity Research report, which examines Fielmann Group AG, a major participant in the eyewear market. The main objective is to evaluate total shareholder return over a one-year period. In order to provide prospective investors with actionable advice, the report integrates company analysis, financial analysis, industry overview, forecasts, and valuation approaches as well as major risks and ESG.

Given a projected target share price of €49.48, the Equity Research report advises a **HOLD** position because the present share price (as of 18.12.2023) of €48.94 does not provide major room for capital gain. In addition, we projected a dividend of €0.51 in 2024, anticipating a total return of +2.16% until the end of 2024.

Fielmann Group AG's business model enables great quality and cost control due to a significant level of value chain integration. Expansions in new geographies like Spain and the USA will be the primary drivers of top-line growth along with the underlying market developments. On the other hand, Fielmann faces high inflation risk due to their position as a price leader, which does not allow them to pass cost increases directly to customers.

Keywords

Corporate Valuation

Equity Research

Optical Retail

Fielmann Group AG

This report is part of the Fielmann Group AG Equity Research “All Eyes on Growth” report (annexed), developed by Christoph Siepen and Tobias Mika and should be read as an integral part of it.

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Introduction

In order to make an investment recommendation for Fielmann shares, the joint report "All Eyes on Growth" - Equity Research on Fielmann Group AG aims to evaluate the overall shareholder return within a year. This suggestion includes the present share price, the end of 2024 target share price of €49.48, and the €0.51 dividend per share that our valuation projects. Given the present share price of €48.94, we assume that the market has already priced in the majority of information, leading to limited upside potential in the stock price. Thus, we recommend investors to **HOLD** Fielmann shares.

We see Fielmann as a well-positioned price leader within its core markets. Fielmann has strong cost and quality control because of their substantial value chain integration, which will be especially beneficial during times of supply constraints and inflationary pressures. We anticipate that Fielmann's top-line will be primarily influenced by market developments, including a growing share of e-commerce, and a growing need for hearing aids and eye correction. We anticipate modest store expansion in the DACH region because of Fielmann's significant market share. While we see expansions into the largest and thirteenth largest eyewear markets in the world as major growth drivers, we also expect significant operational risk related to the simultaneous expansion into new markets.

The first two sections of the joint report are an outline of Fielmann's business model and an industry overview of the optical sector, where we examined current developments and their potential future effects. This includes analysis of the overall market, the competitive landscape, and Fielmann's place in the optical sector. Furthermore, we analysed Fielmann's capital structure, liquidity, working capital management, and returns in order to gain a deeper understanding of its present financial situation and profitability. In order to provide our estimates further context, we have included the historical development of revenues and margins in the forecasting section. Our forecasting assumptions are described in the following sections. We described the key value drivers for Fielmann and how they will likely evolve in the future, along with the operational performance and margin development. Furthermore, we forecasted Fielmann's balance sheet, free cash flows, and long-term value drivers. We determined the fair valuation of Fielmann by computing their WACC, a DCF valuation with sensitivities and a Montecarlo Simulation, and a relative valuation. Additionally, we examined Fielmann's ESG performance and the main risks they encounter in the next two parts before reaching our final recommendation.

The following components will make up my own part in order to give a well-balanced mix of descriptive and non-descriptive elements: Company Overview, Forecasting, Risks. For a comprehensive view, it is necessary to read these sections in conjunction with my pair's part, which are dispersed throughout the joint report.

My pair's separate section will cover the remaining areas.

Company Overview

Fielmann AG, founded in 1972, is a leading manufacturer and retailer of prescription glasses, contact lenses, sunglasses, hearing aids and accessories. The company is headquartered in Hamburg and operates 968 stores in 14 countries, with the majority being located in Germany, Switzerland, Austria, and Spain (Core Market). Additionally, Fielmann runs offline and online stores in Italy, Poland (Growth Market), Czech, Slovenia and the US (Expansion Market), while the latter has been achieved through their latest acquisition of SVS Vision and Eyevious Style in August 2023. Other countries are not relevant for further discussion due to their immaterial size and will be clustered under the region other markets. Fielmann had revenues of €1.8bn in 2022 with a CAGR of 5% during the last five years.

The business model of Fielmann is to utilize an omnichannel approach of selling both, in-house manufactured products, and well-established third-party brands via their stores (94% of revenue) and digital sales channels (6% of revenue). Fielmann operates production facilities in Europe and in China, leading to a high degree of control over costs and quality. Furthermore, the high level of value chain integration allows the company to cut out intermediaries to save additional costs, leading to lower prices compared to competitors as Fielmann's price leadership strategy passes cost savings on to its customers. Due to their strong market position as price leader, Fielmann is able to achieve 3x the revenue per store of the market average.

With Marc Fielmann taking over as CEO in 2019, Fielmann incorporated its new Vision 2025. It contradicts the former CEO's path and heavily builds on inorganic growth in markets abroad and focuses on digitalisation of its business model. The strategic shift results in high capital expenditures for acquisitions and a heavily focused omnichannel approach with strong online presence within sunglasses and contact lenses. During the last five years Fielmann acquired five companies in the US, Spain and Slovenia. Transaction value ranged from €30m to €100m. Their M&A strategy focuses on acquiring majority stakes of local market leader.

Fielmann has currently 84m shares outstanding at a current share price of €48.94, resulting in a market capitalization of €4.11bn. The company's history as a family-run business is also reflected in its ownership structure, with 72.9% ownership by Fielmann Family Trust. Its remaining share ownership is highly fragmented. The large portion of family-owned shares results in a free float of only 27.1% of shares. Fielmann is listed on the Frankfurt exchange system Xetra. The firm fulfils Prime Standard regulations, as it is listed on the German index S-Dax. While the S-Dax was able to increase by 25.8% during the last five years, Fielmann's share price decreased in the same time frame by 15.9%, which can be most likely be attributed to the over proportional difficulties that the retail market faced during Covid-19, as well as the investors dislike for the change in strategic focus – from profitability to growth. Historically, Fielmann distributed most of their earnings via dividends, resulting in a dividend yield of 1.6%.

Forecasts and Value Drivers

Value Drivers

The key growth drivers for Fielmann are determined by the overarching growth strategy, expanding e-commerce presence as well as the inorganic expansion via acquisitions. Revenue drivers are split into online and offline revenues drivers and then forecasted on a product segment level due to different growth dynamics between products. While contact lenses have experienced

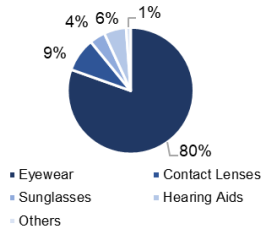


Figure 1: Sales Mix by Product Category

Fielmann is leading the market by offering high quality at affordable prices

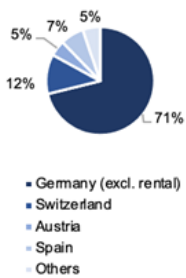


Figure 2: Sales Mix by Region

Target Company	Country	Date	Share	Value m€
SVS Group	USA	2023	100%	105
Eyevious Style	USA	2023	100%	33
MFI Group	Spain	2022	100%	71
Optica del Penedes	Spain	2020	80%	28
Optika Clarus	Slovenia	2019	70%	N/A

Figure 3: Acquisition Overview

Fielmann share underperforms benchmark due to change from profitability to growth and COVID impact on retail industry

Top Five Shareholder	Country	Share	Value m€
Fielmann Familienstiftung	Germany	72.9%	3,150
Allianz Global Investors	Switzerland	1.0%	43
The Vanguard Group	USA	0.9%	38
Norges Bank IM	Norway	0.5%	22
Dimensional Funds Adv.	USA	0.4%	18

Figure 4: Ownership Structure

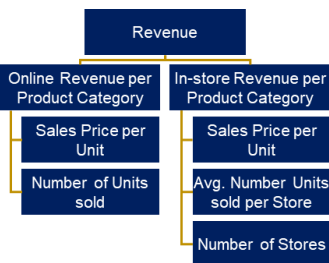


Figure 5: Revenue Driver Decomposition

high growth via digital sales channels, hearing aids on the other hand have shown growth exclusively through in-store sales. Online revenue can be decomposed further into average sales price per product segment and average number of units sold per product segment. On the other hand, in-store revenues per product segment can be decomposed into the average sales price, average number of units sold per store and number of stores per region. Each item is forecasted individually with a bottom-up approach, by quantifying and incorporating their underlying trends. In-store revenue is mostly driven by the growth of number of stores, which is broken down on country level. Product categories Accessories and Sunglasses are not forecasted on a number of units bases as Fielmann has not disclosed specific unit sales numbers for those two product categories.

▪ **Price per Unit**

Price increases start below inflation and converge towards inflation; Eyewear prices rise faster due to changing product mix

We view inflation rate as the most useful proxy to estimate future changes in prices. Due to Fielmann's main operations being in the DACH region, we used IMF's inflation prognosis for Germany and adjusted price increases to align with our view on Fielmann's strategy. For all forecasted unit prices, we decided to forecast growth in 2023 and 2024 well below inflation and apply downward adjustments between -2.0% to -3.2% due to Fielmann's strategy to be price leader, resulting in not being able to pass on cost increases. Therefore, we forecast a lower relative price per unit increase than the relative cost per unit increases in most years. After 2024, price increases for eyewear will follow inflation forecasts until 2027, where we expect prices to outpace inflation due to a changing product mix with more expensive varifocals and a larger share of sales from higher-priced markets such as Spain. Based on these assumptions, we forecast a CAGR for eyewear unit prices of 2.1% compared to a historical CAGR of 3.3%. Price increases for contact lenses are expected to stay well below inflation projections in all years, as they offer little differentiation and can be easily purchased online. Thus, competitive pressure is expected to remain high resulting in a forecasted CAGR of 1.4% which matches the historic growth. We expect price increases for hearing aids to be moderate and below the inflation rate, as many markets have statutory price caps that are covered by insurance, which will slow down price increases. Thus, we anticipate unit price growth for hearing aids to grow at a CAGR of 1.6% compared to a historical CAGR of 2.1%.

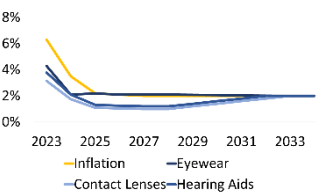


Figure 6: Price per Unit Forecast by Product Segment

▪ **Cost per Unit**

We expect Fielmann to face cost increases below inflation and then converge due to purchasing unprocessed goods and economies of scale

Similar to price per unit forecasts, we deem inflation to be a good proxy for material cost per unit development. To account for specifics of different product segments we applied an individual inflation adjustment factor. For eyewear and contact lenses we assumed equal adjustment factors starting at 0.9 (90% of inflation rate) and approaching a factor of 1.0 in 2032. By doing so, we assume that material cost will follow inflationary trends in the long-term but that in short and medium-term Fielmann can yield lower cost increases due to two reasons: First, Fielmann has in-house production capabilities hence purchasing less processed goods increasing its bargaining power due to more available suppliers. Second, we expect Fielmann's continuous expansion to allow for increasing economies of scale effects, especially for components with a low degree of product differentiation such as raw lenses. Our assumption results in material costs per unit growing at a CAGR of 2.1% until 2034 for eyewear and contact lenses, which seems reasonable, considering historical CAGRs of 5.5% (eyewear) and 3.6% (contact lenses) that include severe price shocks. For hearing aids, we assume material cost per unit to grow at a

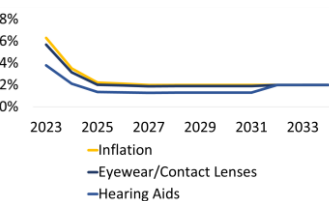


Figure 7: Cost per Unit Forecast by Product Segment

CAGR of 1.6% as we expect inflation to be partially offset by technological advancements in this product category. Hence, we applied an adjustment factor starting at 0.6.

▪ Store Count

Store Count by country was forecasted and multiplied with average sales per store, resulting in in-store revenues per country. We considered Fielmann's target store count per country and assessed its viability by comparing future store growth rates with historical growth rates as well as implied future market share.¹ In the last three years of the forecasting period, we assume no store growth to achieve a steady state in which only price increases drive growth.

From 2018 to 2022, Fielmann grew its stores in Germany at a CAGR of 0.6%. As the German market is relatively mature and Fielmann is well positioned with the largest revenue share, we expect a store growth at a CAGR of 0.7%. We expect a higher growth as the historical period includes Covid-effects. These numbers imply a market share of 5.3% in 2023, which grows to 5.8% by 2034. Our estimation implies an outperformance of the Vision 2025 target of 630 stores by 2 stores. In Switzerland, Fielmann stores grew at a CAGR of 1.7%. Even though the Swiss market is mature, we expect Fielmann store count to grow at a CAGR of 1.4% due to its low current market consolidation. This growth will increase Fielmann market share from 4.3% in 2023 to 5.3% in 2034. According to our estimation, Fielmann will roughly meet its Vision 2025 target. However, despite maintaining this growth rate, Fielmann will still only operate 55 stores by 2034, which seems plausible considering its high operating efficiencies and that the largest competitor, Visilab, currently operates 77 stores. In Austria, Fielmann stores grew at a CAGR of 0.7%. Although the Austrian market is more consolidated than the German and Swiss market, we estimate Fielmann stores to grow at a CAGR of 2.1%. This growth is justifiable by the low market share of 3.3% which we forecast to grow to 4.1% by 2034. Additionally, this growth implies falling short of the 2025 target by 4 stores. In 2034, Fielmann would operate 49 stores still only being the fourth largest retailer by store count.

In Spain Fielmann was able to grow inorganically from zero to 111 stores within three years. Fielmann mentions targeting market leadership with approximately 200 stores. We deem this target to be realistic and estimate 205 stores by 2034, equivalent to a market share of 2.1% and a CAGR of 5.1%. We anticipate this being achieved by organic and inorganic growth, especially as Fielmann announced to have found further acquisition targets.

Major other changes are anticipated in other regions where we included the US market entry. With the acquisition of SVS Vision, Fielmann got access to 80 stores which we expect to increase to 239 by 2034 as Fielmann already mentioned pursuing further acquisitions. We deem this growth as realistic as it implies a market share of only 0.5% in 2034 implying to become one of the top 15 retailers by store count by 2026/27. All other markets are assumed to fall short of Vision 2025 targets due to strong focus on newly acquired markets. However, moderate market share is assumed for 2034. Ultimately, this results in 1,447 stores overall and a CAGR of 2.7% with strong performance in Spain and the US.

▪ Sales per Store

Fielmann does not disclose enough information to forecast different product segment splits and selling prices for each country. To forecast sales per store we have to either forecast units sold

Slow store growth of maximum 1.7% p.a. in established markets with store market shares ranging from 4.1% to 5.8% in 2034

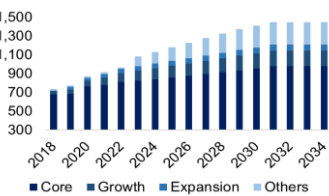


Figure 8: Number of Stores by Country

Strong store growth of maximum 1.7% p.a. in Spain & US with store market shares of 2.1% & 0.5% in 2034

Overall, stores grow at a 2.7% CAGR implying about 50 new stores per year and resulting in 1,447 stores in 2034

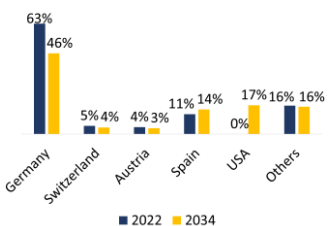


Figure 9: Geographical Split of Stores by Country

¹ Store Market Share based on last reliable market data from ECOO Blue Book 2020; Future market shares based on 2020 total store count; actual values will likely be higher due to market consolidation.

Units sold per store are forecasted on segment level to account for product specific effects

per product segment or directly forecast revenue per store individually for each region. We decided to forecast units sold per product segment to estimate units sold for an average store, as this allows us to capture product specific market dynamics. As we forecast with one average sales price for all countries, we incorporated different sales per store across countries by adjusting number of units sold in each product segment.

Stores in less efficient markets will increase in efficiency, once Fielmann is fully established in new markets

The units sold per product category forecast is impacted by three major drivers: e-commerce, geographic region and increasing demand for medical products. First, e-commerce decreases the number of units sold per store, as customers buy products online instead. This trend mainly concerns contact lenses, sunglasses and accessories, as eye and hearing examinations cannot yet be carried out online. Second, the average efficiency of sales per store varies significantly across different countries. While Switzerland is able to generate 2.5x of revenues compared to the average Fielmann store, Eastern Europe, Italy and Spain are only able to achieve revenues of 0.5x of the average store. Fielmann was able to generate on average €1.9m revenues per store in Germany, which is significantly higher than €0.5m of competitor stores. Differences in revenue per store within the same country clearly indicate differences in sold quantity, as this isolates different price levels across countries. The disparity can be attributed to the strong market position as price leader, while offering high quality and maintaining high operational efficiency. Therefore, it is reasonable to assume that newer regions such as Spain can close the gap in revenue per store, once Fielmann establishes the same operational efficiency and brand recognition as in their core markets. Heavy acquisitions in the US and Spain will further accelerate the convergence of store sales towards the average store. We recognize varying average unit sales across regions, by implicitly incorporating different country dynamics into units sold of the representative store. Third, the demographic aging of the general population and increased screen time will increase the overall demand for vision correction and hearing aids for all markets. We assume that Fielmann will only be able to grow via inflation in the long term. Therefore, we assume that unit sales converge to zero for all other product categories.

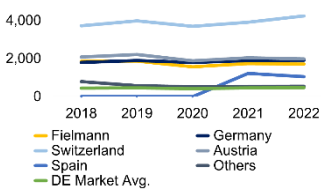


Figure 10: Revenue per Store across countries

The number of units sold of hearing aids per store is forecasted to grow equal to the market growth estimates of 5% p.a. and is expected to slowly converge to zero from 2032 onwards. Due to the non-existent online market for hearing aids, market growth translates directly into in-store sales growth.

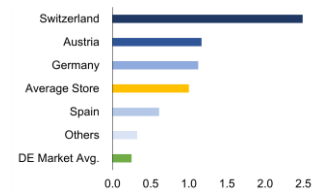


Figure 11: Efficiency Factor (Revenue per Store compared to average Revenue per Store)

The eyewear's number of units sold is expected to be close to its historical median yoy-growth rate of -3%. We forecast FY2023 with a growth rate of -2% until converging to 0% during the last five years, as the historical median of -3% incorporates Covid-19 effects. Main driver behind the negative CAGR is the trend towards online shopping, as we assume online eye exams to become more practical in coming years. Additionally, stores in new markets are not as efficient, driving down average unit sold per store figures.

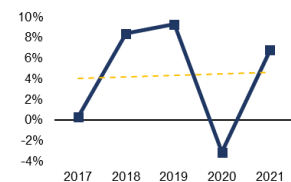


Figure 12: Historic Hearing Aids Market Growth in Germany

E-Commerce and opening of new stores are expected to decrease number of eyewear products sold per store

The effect of Covid-19 on in-store sales was most severe for contact lenses, due to the ease of online purchase. The number of units sold per store plummeted by -40% in 2020, while they bounced back with a yoy-growth rate of 8% in 2021. However, the trend towards online purchase cannot be reverted, and we expect contact lenses to decrease by 2% p.a., double the rate of pre-covid 2018.

Contact lenses in-store sales most severely hit by Covid-19

Sunglasses number of units sold per store is expected to decrease due to the trend towards online purchases. Consumers will increasingly shift sunglasses purchases online, as no medical

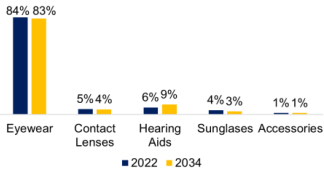


Figure 13: In-Store Sales Split by Product Category

exams are required. Thus, we expect this product group to have a negative yoy-growth rate of -2%, which will increase to -4%, before converging to zero in 2032.

We assume Accessories to be comprised of spontaneous purchases such as cases or cleaning kits. Hence, we forecast this sales number by the weighted average yoy-growth of all the other product categories, resulting in 1% yoy-growth rate on average during the next 10 years, before converging to zero.

Revenues per Store are expected to grow from €1.7m in 2022 to €2.0m in 2034, as a combination of the above discussed unit prices and units sold dynamics.



Figure 14: Revenue per Store

▪ Online Sales

Online sales are forecasted by units sold per product categories and then multiplied by their price per unit. Due to a lack of data, there is no geographical differentiation within online sales. The increasing importance of online channels drives online sales growth. The overall online ophthalmic optics market is expected to grow by 3% p.a. until 2027, including eyewear, contact lenses and sunglasses.

Fielmann's online growth is different for two reasons. Fielmann has shown much higher growth rates pre-covid, which have been accelerated even more by Covid-19. Contact lenses and sunglasses grew by 4% in 2018. Historical growth numbers show that Fielmann is able to outperform general online retail growth rates due to their strategic mission, to internalize an omni-channel approach that incorporates online retail, adjusting for past lack of efforts. Additionally, Fielmann is able and willing to further grow via acquisitions of pure online players such as Befitting in 2023. Fielmann states that the company targets an e-commerce share of 20% of consolidated revenues in the long-term. While this target shows the ambition of Fielmann to outperform market growth rates, we highly doubt the realizability of set goal. The company currently has an e-commerce share of 6%, which we expect to grow to a share of 10% in 2027, before staying constant in the long-term. Due to insufficient exam options in the online channel, we do not see how Fielmann would be able to grow to a revenue share of 20%, unless the company undergoes aggressive acquisitions, introduces new products, or loses more revenue in the offline segment.

In 2023, we assume online sales to jump due to the acquisition of SVS Vision and Befitting. We have assumed that both companies have the same revenue split as Fielmann and distributed the additional online revenues accordingly throughout the product segments. This leads to yoy-growth rates of 45% in eyewear, 21% in contact lenses, 150% in sunglasses and 62% in accessories. While we believe that Fielmann will continue with the inorganic growth, it is highly unlikely that the acquisitions will be similar in size and significance, as the acquisitions of SVS Vision and Befitting were a onetime entry into the US market.

Online sales forecasted on units sold per product segment

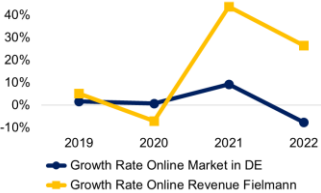


Figure 15: Online Growth Rate - Market & Fielmann

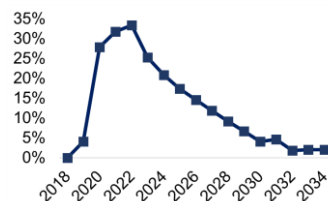


Figure 16: Online yoy-growth Rate Contact Lenses

Contact lenses show the highest potential to be purchased online, so we forecasted them to converge from 21% linear towards zero. This is in-line with historical growth rates of around 25% during the last three years. The logic behind converging against zero is that we think in the long-term Fielmann will only be able to grow driven by price.

Sunglasses are expected to outperform other segments within the online retail, as they usually are sold without prescription. Historic growth rates of 4% to 42% during the last 4 years confirm the outperformance of sunglasses. We forecast the online growth rate to start at 7% in 2024 and converge towards 2%, as we do not forecast sunglasses and accessories on unit bases due to a lack of data.

As previously mentioned, we do not expect much online growth for eyewear due to the inability to perform medical tests. Therefore, we have forecasted the number of units sold growth rate to continue with the 2022 growth rate of around 4-5% and converge against zero from 2032 onwards.

Hearing aids have the least potential for online sales of all product segments due to their regulatory constraints of not being allowed to be sold online in Germany. Thus, we expect no growth in the coming years. However, it would be naïve to assume, that there will be no point in time where online retail of hearing aids is legalized. Thus, we incorporated a slight increase of online hearing aids sales towards the end of the forecasting period.

As we expect online accessories sales to be correlated with other online sales, we forecast accessories to grow with the weighted average of the other product categories, resulting in growth rates of 14% in 2024, converging towards 2%.

It is important to keep in mind the high uncertainty of online retail forecasts, as this is a relatively new segment for Fielmann, and will rely on technological advancements of examinations.

Operating Performance and Margin Development

The five major drivers result in an expected growth of consolidated sales at a CAGR of 4% from € 2bn in 2023 to € 3.2bn in 2034. The CAGR is lower than the CAGR of the global market, as Fielmann currently does not intend to capitalise on major growth markets in the Asian region. Despite Covid-19 heavily impacting yoy-growth of 2020, revenues show a historical CAGR of 5.4%. The lockdown induced decline of -6% yoy-growth in 2020 was offset by an increase of 17% in 2021. Online sales have increased from 4% in 2018 to 6% of sales in 2022 due to Covid-19 impacts as well as Fielmann's strategic focus and are anticipated to increase in the future to 10%. The year 2023 shows yoy-growth of 16%, due to the acquisitions of SVS Vision and Befitting. Afterwards, yoy-growth rate is expected to decrease from 6% in 2024 to 2% in 2034, as a result of the above discussed dynamics of each top-line driver.

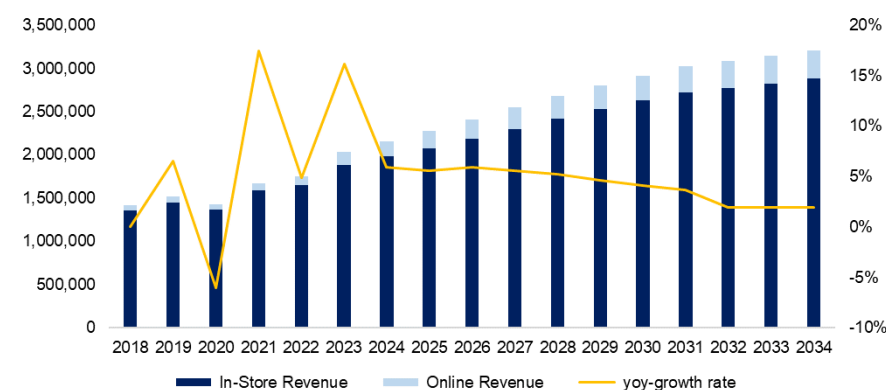


Figure 20: Consolidated Revenue Split

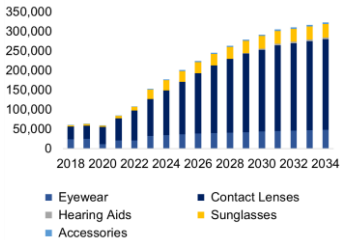


Figure 17: Revenue per Product Segment (kEUR)

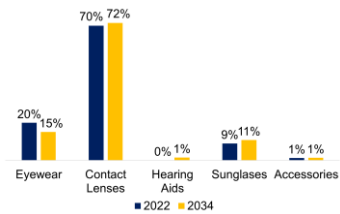


Figure 18: Online Sales Split per Product Segment

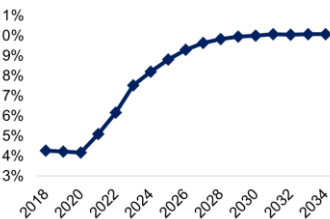


Figure 19: Share of Online Revenue

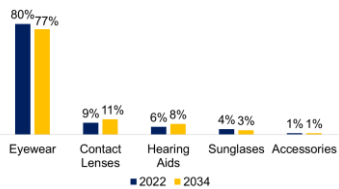


Figure 21: Consolidated Revenue Split by Product Segment

Decreasing personnel expenses as of revenues due to increasing e-commerce sales and overhead reductions

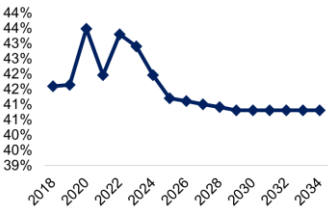


Figure 22: Personnel Costs as a percentage of Revenues

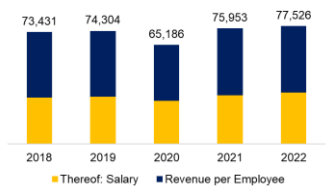


Figure 23: Revenue and Salary per Employee (kEUR)

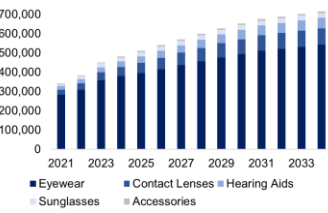


Figure 24: Material Costs per Product Segment (kEUR)

Despite the decrease from 83% in 2018 to 80% in 2022, we anticipate eyewear to remain the most important product category. All remaining product categories were able to grow with 1% in revenue share each. Sunglasses was the fastest growing product category with a CAGR of 13% during the historical period. The share of eyewear is expected to decrease to 77%, while contact lenses will grow in share from 9% in 2022 to 11%, due to increasing online sales. Germany is the most important geographical region with a revenue share of 82% in 2018, followed by Switzerland with 6%. While Germany is expected to remain the most important market in the future, its revenue share is forecasted to decrease to 46% by 2034. Spain and the US are expected to grow to the highest shares after Germany, totalling a share of 14% and 17%.

Fielmann applies the total cost method, reporting COGS in their specific cost category, rather than as one big cost block. The biggest cost item is personnel costs, comprised of retail, factory and e-commerce personnel as well as overhead. Therefore, it would not be accurate to relate personnel costs directly to number of stores, as Fielmann does not disclose the exact number of retail personnel. Instead, we see personnel costs directly linked to top-line growth with four different effects influencing the ratio of personnel costs to consolidated sales. First the percentage of e-commerce revenue to in-store revenue, second the wage level in the countries where Fielmann opens stores, third inflation and fourth overhead reductions. The first effect allows Fielmann to grow revenues at a faster rate than personnel costs, as e-commerce is less personnel intensive. For the second effect, we do not believe that stores in Eastern Europe will have a sufficient impact on the average wage level, as Germany, Spain and the USA will have the largest revenue share. Inflation impact on personnel expenditures is covered by relating personnel expenditures to revenue, as revenue at least grow with inflation. However, we anticipate that Fielmann needs to grow wages above inflation, due to a labour shortage. Additionally, Fielmann is implementing an overhead cost-cutting initiative, significantly decreasing overall personnel expense. We expect Fielmann to lay off about 500 employees by 2025 reducing employee costs in combination with increasing e-commerce sales by more than 2% of revenues in the long-term. During the historical period, Fielmann was able to grow their revenue with a CAGR of 5%, while the number of employees only grew with a CAGR 4% from 20k to 23k employees. The resulting increase in revenue per employee from €73k in 2018 to €78k in 2022 is a result of increasing e-commerce sales, which are less personnel intensive than brick-and-mortar retail. This increase in efficiency is offset by an increase of average salary per employee, which grew with a CAGR of 2% from €30k to €34k, induced by the above discussed labour shortage. Resulting personnel expenditures have been between 42% and 44% of revenues during 2018 to 2022. We assume that personnel expenditures as a percentage of revenue will decrease by 10 basis points per year, starting from 42.9% in 2023 until we reach a steady state of 40.8% in 2029, as efficiency will increase due the above discussed trends. Personnel costs are significantly above the industry average for optical pure retailers of only 36.9% of sales. The deviation can most likely be attributed to personnel costs for in-house factories, which skews the direct comparison with pure retailers.

The second biggest cost position are material costs. We calculate total material cost by multiplying material costs per unit by the number of units sold for eyewear, contact lenses and hearing aids. Sunglasses and accessories are forecasted on a revenue basis due to a lack of data. Historically, material costs as a percentage of sunglasses revenue have been rising from 20% in 2018 to 22% in 2022. Due to the price leadership strategy, we think that Fielmann will not be able to transfer material price increases directly to price increases and assume a continuation of

this trend. Thus, material costs as percentage of sunglasses revenue will increase to 23% by 2025. The same logic can be applied to material costs as a percentage of accessories revenues, which have been growing from 20% in 2018 to 22% in 2022 and is estimated to reach 24% from 2025 onwards. Ultimately, total cost of materials as a percentage of total sales is forecasted to increase from 21.8% in 2022 to the steady state rate of 22.3% in 2028. Fielmann's material cost rate is significantly below the industry average of 29.3% due to strong cost control resulting from in-house production capabilities.

Other operating expenses include mostly expenses related to administrative, organizational, advertising and personal training costs. As these items are not directly linked to a specific business activity and are neglectable due to their size, we assume no changes and forecast them with the past median value of 15%.

Fielmann's EBITDA-margin decreased from 22% in 2018 to 18% in 2022 and can be explained by increased material and personnel costs and lower profitability of newly opened stores. Due to the market position as price leader, Fielmann cannot transfer cost increases directly to consumers. This profitability level seems to be in line with the competitors of Fielmann. EssilorLuxottica has a similar median EBITDA-margin of 22% during the same time frame, with slightly higher profitability on average. Mister Spex and National Vision Holdings are both less profitable, with a median EBITDA-margin of -1% and 9% during the same time frame. This is likely due to the lower age of both companies and the focus on growth rather than profitability, as well as the difference in geographical focus. We believe that the margin will increase slightly during the forecasting period but not the level of historical values. Our assumptions lead to EBITDA-margins of 19.7% in 2023, increasing to a steady state of 21.7% in 2031 onwards.

Depreciation and amortization are calculated by their gross value balance sheet positions, which are rights-of-use-assets, tangible assets, and intangible assets. The development of those three assets will be discussed in detail in the forecasting of the balance sheet. Depreciation of rights-of-use assets have decreased from 17% in 2019 to 11% in 2022. We think that the decrease is mostly due to the low age of the asset class, which was only introduced in 2019. Therefore, we project a steady-state rate of 11% depreciation as a percentage of its gross value. Depreciation as a percentage of gross tangible assets fluctuated between 5% and 6% during the historical period, which is why we project future depreciation with the median of 5%. Depreciation as a percentage of gross intangible assets has been steady at 7% except for 2021 with 13%. Thus, we assume 7% to be representative for the future.

The resulting core result before taxes (EBIT)-margin was 16% in 2018 and decreased to 8% in 2022. This development can be explained by the same effects that decreased the EBITDA-margin. Furthermore, the effect is reinforced by the increase in amortization expenses due to the introduction of the rights-of-use assets class, as a result of the implementation of IFRS 16. Fielmann's Vision 2025 targets to achieve an EBIT-margin of 16% by 2025. Our forecasts result in an increase to 14% in 2025, thus falling short of the target margin. We do not deem the profitability increase to 16% realistic during this short time frame, especially with the changed strategic focus on growth. In 2032 we expect to reach a steady state with an EBIT-margin of 15%.

We expect the statutory tax rate to stay at a constant value of 29.8% and tax adjustments to remain at the historic median of 4% of statutory tax rates. These assumptions result in a core result after taxes of €229m in 2025 and a CAGR of 7% during the forecasting period.

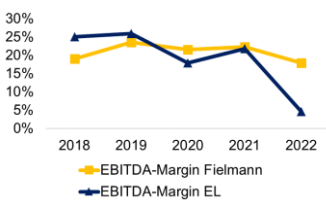


Figure 25: EBITDA-Margin Fielmann - EL

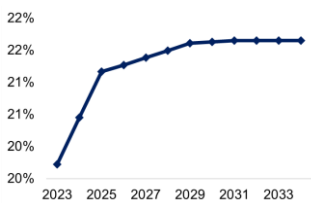


Figure 26: EBITDA-Margin Forecast

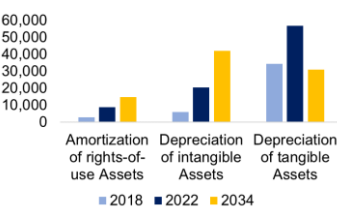


Figure 27: D&A per Asset Class (kEUR)

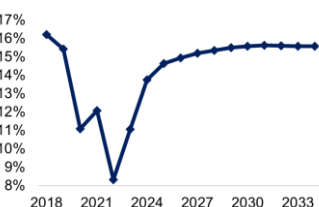


Figure 28: EBIT-Margin Fielmann

Statutory Tax rate set constant at 29.8%

Forecasts of non-core operations and financial operations can be seen in Appendix. Both will not be discussed in this report as they have no direct influence on the overall valuation of Fielmann.

Forecasted Balance Sheet

The intuition behind the forecasted balance sheet is, to assess how much capital Fielmann needs to invest, in order to achieve the forecasted top-line growth. This is done by the recognition and quantitative translation of qualitative trends that we have discussed so far. Non-current core assets can be decomposed into intangible assets, tangible assets, goodwill, and rights-of-use assets.

Intangible assets comprise rights of use, licenses, commercial trademarks and associated rights, intangible assets produced in-house, incomplete software projects, trademark rights and customer base. Rights of use refers primarily to short-term lease contracts of store openings in Italy. Historically, this position decreased by a CAGR of -13% due to a shift from short-term to long-term contracts that are reported as rights-of-use-assets. As we anticipate this shift to come to an end, we assume yoy-growth in 2023 to equal the past CAGR and then to decrease by 200 basis points p.a., before reaching a steady state in 2029. Trademark rights and customer base are both a product of acquisitions which we link to be a direct result of store growth, as some stores are opened organically, while other stores are opened via acquisitions. Furthermore, we assume that the ratio of organically and inorganically opened stores will stay constant through the historical and forecasting period. This allows us to project the past change per store opening into the future. During the historical period, Fielmann acquired one company per year, which we think is a realistic assumption to project into the future. Trademark rights showed median change per store opening of €109k, while customer base showed a change of 171k EUR per store opening. Even though we do not expect further store growth after 2032, we still assume changes to occur due to closures and reopening or acquisitions of stores. All other intangible assets positions are forecasted as a percentage of consolidated sales with their 2022 level.

The same forecasting logic is applied to goodwill, which also is a product of store openings, partially induced by acquisitions resulting in goodwill increase. Therefore, we have forecasted change in goodwill based on the store openings per year. Historically, the median change per store opening was 455k EUR, which is assumed to be representative of future change per store opening.

Tangible assets can be decomposed into property and buildings, tenant's fitting, factory and office equipment and assets under construction. Property and buildings is directly linked to the number of stores and the number of factories. However, this position cannot be forecasted based on the change of number of stores for two reasons. This approach would disregard factories and second Fielmann only leases newly opened stores, resulting in a CAGR of -0.5% between 2017 and 2022, while stores grew at a CAGR of 7% in the same time frame. Therefore, we forecast the position with its historical CAGR for the forecasting period. Tenants' fittings is a product of the amount spent per store opening and the number of stores that will be opened in the future. We forecast the amount per store opening with the median of the historic period of 247k EUR. Factory and office equipment cannot be linked to one specific development. Thus, we forecast this position as percentage of consolidated sales as Fielmann needs more factory capacity when selling more. Therefore, the position must grow in the same relationship to revenue as it has in the past, which is its median value of 6.1%. Assets under construction is primarily composed of amount spend into the renovation of stores. Thus, it is most accurate to forecast change per total

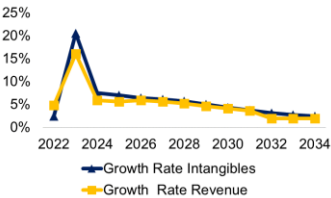


Figure 29: Growth Rate Comparison: Intangible Assets - Revenue

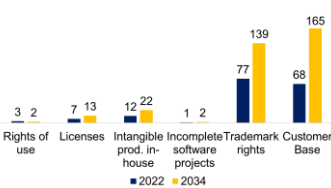


Figure 30: Intangible Assets Development (mEUR)

Goodwill forecasted based on store opening per year

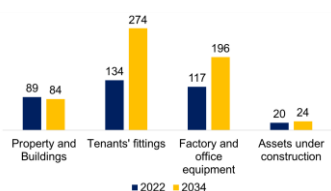


Figure 31: Tangible Assets Development (mEUR)

stores and project this number into the future, as each store will need renovation at some point. The median historical value was 16k EUR per Store.

Rights-of-use assets is composed of long-term rental contracts of stores. With every additional store, the company spends additional €505k, based on the historical median between 2020 and 2022, as the company only recently started to recognize lease contracts under IFRS 16 implementation.

The working capital of Fielmann can be decomposed into inventories, trade receivables, and trade payables. We forecast Fielmann's working capital to be in line with its historical values as they perfectly reflect the business model of a retail company, with high holding periods and low collection periods. Operating cash requirements are set to be constant at 2.5% of sales, which is representative for a retail company according to a McKinsey study. All other core balance sheet positions are forecasted based on their past relationship to consolidated sales. These positions have low significance for the overall company value due to their size and there is no specific driver.

The combination of all forecasting factors results in a CAGR of 4% of core invested capital during the forecasting period, which is lower than the estimated CAGR of 8% for their core result. This dynamic primarily reflects the over proportional increase in e-commerce revenue compared to total sales, as the share of e-commerce sales to total sales increases from 6% in 2022 to 10% in 2034. Furthermore, this reflects the underlying assumption that every incremental euro earned online requires less additional capital than in-store revenue.

Non-core items are separately forecasted based on their historical growth rate, as they cannot be linked directly to any core business operations. Net debt is forecasted as a variable, depending on the additional fundings needed in excess of operational cash generation to fund the invested capital increase. Equity is primarily a function of how much cash is generated through operations and which percentage of that cash is distributed to shareholders via transactions with shareholders. Transactions with shareholders is estimated to be at 0.2% for 2023, as Fielmann needs to fund its acquisitions of SVS and Befitting and can only distribute the remaining proceeds to shareholders. Afterwards, we assume that transactions with shareholders will increase by 2000 basis points per year until 2027 and then will increase by 1000 basis points until a steady state of 90% is reached in 2031. We have chosen 90% as a realistic steady state level, as this represents the median historical value, which we regard to be reasonable long term. However, it would not be wise to assume that the median of historical values is representative of any period before 2031, as Fielmann needs its proceeds to fund acquisitions, store openings and the establishment of a strong online presence.

Free Cash Flow Analysis

Unlevered Free Cash Flow from operations has decreased from €117m in 2018 to €-34m in 2022. The decrease has been induced by the cash constraints from expansion efforts, especially via acquisitions. Goodwill grew from €48m in 2018 to €217m in 2022, while intangible assets grew from €34m to €168m by increases in acquisition induced trademark rights and customer base. Most capital expenditures were recorded within rights-of-use assets, with CAPEX of €804m during the historical period. Due to the utilization of less capital-intensive online sales channels and a long-term slowdown in acquisitions, this trend is expected to be reversed in the future. This trend reversal is expected to happen in 2024 with a core FCF of €116m, before increasing to



Figure 32: Net Working Capital (kEUR)



Figure 33: Utilization of Core Result (kEUR)



Figure 34: CAPEX Spending (kEUR)

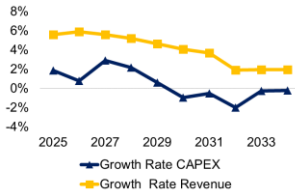


Figure 35: Growth Rate Comparison: CAPEX - Revenue
 converging from 20% in 2023 to long-term growth rate of 2%, as growth rate reaches steady-state in 2032

€300m by 2034, resulting in a CAGR of 10% between 2024 and 2034. The high growth of core FCF is a direct result of CAPEX development, which will decrease with a CAGR of -4% during the forecasting period. Non-core and financial cash flows will not be discussed, as they have no direct implication for the enterprise value.

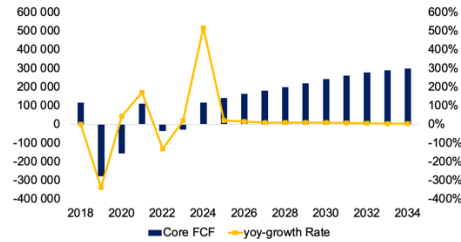


Figure 36: Core FCF Development

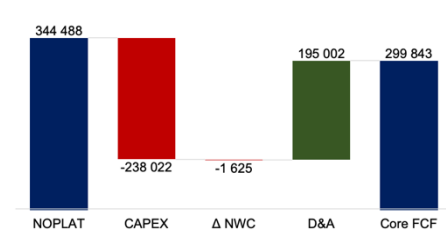


Figure 37: Core FCF Decomposition in 2034

Long-term growth rate set in-line with inflation expectations at 1.9%, resulting from ROINC of 13% and IR of 14%

Long-term Value Drivers

Our assumptions result in a long-term core growth rate of 1.9%, which is roughly in line with long-term inflation forecasts. This reflects our assumption that the long-term growth of Fielmann is mostly price driven by inflation, as there is no infinite room for expansion. The resulting growth rate is a product of Fielmann’s core RONIC and investment rate of new capital. Core RONIC is estimated to decrease from 29% in 2025 to 13% in 2034, while the core investment rate decreases from 38% in 2025 to 14% in 2034. It is noteworthy that our growth rate reaches steady state from 2032 onwards.

Key Risks

We can decompose risk into two categories – business risk and valuation risk.

Fielmann faces two types of macroeconomic risks. First, Fielmann has the market position of price leadership. Thus, it is difficult to transfer cost increases to customers. As they are affected by inflation risk, this can decrease their margins. Second, a recession would negatively affect consumer spending, as historical downturns decreased consumer spending in Germany on average by 2.4%. This can be explained by decreased disposable incomes and lower consumer confidence levels. Thus, a recession would severely hurt Fielmann’s top-line.

Fielmann faces significant acquisition risk, as their future growth heavily relies on acquisitions. This results in the risk of systematically overpaying for those acquisitions. Additionally, strong inorganic growth places operational challenges on Fielmann as they have to expand in several new markets simultaneously which also increases risk of bad post-merger integration. Due to Fielmann’s weight of in-store sales, they face risks from three sides. First, they need to protect their market position in established markets from new entrants. Second, Fielmann needs to establish itself in new regional markets where they have to compete against local market leaders. Third, offline sales will increasingly move online, where Fielmann still has a weaker market position. While the online sales channel is relatively new to Fielmann, they must compete with well-established pure online retailers. Due to the increasing importance of the online sales channel, it is crucial for Fielmann to establish a strong market position. It is unclear whether Fielmann will be able to transfer their offline skills in equal extend to the online world. Its market position also heavily relies on the action and investments made by its competitors. Valuation risks pose as a second source of risks. Our valuation is heavily impacted by the degree of materialization of our assumptions in the future which we accounted for in the sensitivity analysis and Monte Carlo Simulation.

Risk	Probability	Impact
Inflation	Moderate	High
Consumer Spending	Low	High
Acquisitions	High	Moderate
Offline Market Share	Moderate	Low
Online Market Position	Moderate	Low

Figure 38: Summary of Key Risks