

A Work Project, presented as part of the requirements for the Award of a Master Degree in Management from the NOVA – School of Business and Economics.

EQUITY RESEARCH: FARFETCH - A CLEAR PATH  
TO PROFITABILITY

Inês Raposo de Sousa Cardoso (44522)

A Project carried out on the Master in Management Program, under the supervision of:

Francisco Martins

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## **Abstract**

The aim of the present Equity Research is to assess the value of Farfetch's stock, which is a leading online platform in the luxury industry. After analyzing the company's position within this industry as well as the current market trends and forecasting its future performance, a share price of **41.56** as of December 31, 2022 was achieved. Considering a current market share price 30.54, this leads to a shareholder's return of **36%** and therefore a **BUY** recommendation.

**Keywords:** Valuation, Innovation, Fashion, Marketplace

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This report is part of the “Equity Research: Farfetch” and should be read as an integral part of it.

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# Company Overview

## Farfetch

**Neves' vision was to create a single platform capable of addressing the complex and constantly evolving demands of consumers.**

**Known for its revolutionary way to sell fashion, its marketplace provides access to over 3,500 brands and more than 3 million active consumers in over 190 countries.**

Founded in 2007 by José Neves and launched in 2008, Farfetch is the largest online retail platform for the global luxury fashion industry. Neves' vision was to seamlessly connect several independent boutiques, brands, retailers and consumers around the world in a single platform capable of addressing the complex and ever-changing needs of luxury sellers and consumers.

Being the first Portuguese Unicorn start-up and known for its revolutionary way to sell fashion, its **online marketplace** provides access to over 3,500 different brands from more than 1,300 sellers that aim to deliver a unique shopping experience to more than 3 million active consumers located in over 190 countries and territories.

Apart from Farfetch's marketplace, its additional businesses include **Stadium Goods** Marketplace, **Browns** and **New Guards Group**, a platform that develops several global fashion brands. Additionally, under the *Luxury New Retail* initiative, *Farfetch Platform Solutions (FPS)* delivers multi-channel e-commerce solutions to foster growth and innovation. Lastly, *Farfetch Store of the Future* initiative aims to reinvent the customer experience both online and in-store, using augmented reality shopping experience, innovative payment methods and an emotion-scanning software, blending the physical and digital worlds and thus reflecting the vision of the company to disrupt the luxury industry.

## Business model and segments

Farfetch organizes its activities in three operating segments. Firstly, **Digital Platform**, which is its main business and includes Farfetch Marketplace, Farfetch Platform Solutions, BrownsFashion.com, Stadium Goods.com, Farfetch Store of the Future and other online channels, including the websites of the brands in the New Guards Portfolio. Within the Digital Platform unit, the company generates three sources of revenues, the major ones being 3P revenues, made through transactions between sellers and customers, where Farfetch acts as an intermediary between boutiques or retailers and consumers and therefore earns a commission of around 30% (take-rate). Because of that, Farfetch's business model differs from other well-known online retailers, like Net-A-Porter and My Theresa as, by not buying or holding significant stock, the firm can reduce its inventory costs. Besides 3P revenues, it also generates first party (1P) revenues of products purchased, owned and sold by Farfetch directly to the end customer, where the firm acts as principal and therefore recognizes the whole GMV as sales. Together, 1P and 3P revenues are known as Digital Platform Services revenues. Finally, it also gets Fulfilment Revenue, which is related to fulfilment services made to marketplace consumers, from which Farfetch gets no economic profit.

**“The key innovation is a retail model that is technology enabled but doesn't rely on owning stock”.**



Figure 1: Farfetch's operating segments  
Source: Annual Report

Secondly, **Brand Platform** was launched in August 2019, with the acquisition of New Guards Group, which designs, manufactures, and distributes luxury brands, such as Off-White, Heron Preston, Palm Angels and Marcelo Burlon. Last year, this segment accounted for almost 25% of company's total revenues.

Finally, the **In-Store** segment relates to sales made in Browns, Stadium Goods and other brands in the New Guards portfolio's physical stores. This source of revenue is the smallest contributor to Farfetch's sales.

## Growth Strategy

### Inorganic growth: M&A Activity:

Farfetch already proved that acquisitions are a powerful tool driving its growth. Firstly, it acquired Browns, a British fashion and luxury goods boutique, followed by Fashion Concierge, a small tech start-up that aspires to answer requests for products that are not available on Farfetch marketplace, by trying to locate them anywhere in the world in order to deliver them to the final consumer. It then bet on CuriosityChina, a digital marketing and tech company focused on China's top social network, WeChat, where it targets its users to sell luxury goods, enabling Neves' company to extend its footprint in China. In the same year, it bought Stadium Goods, a sneaker and streetwear marketplace and back to 2019, it acquired the New Guards Group (NGG), driven by the vision to create a platform that could help the world's top creative talent to build iconic brands. Lastly, in 2021, given the recent boost of second-hand luxury market, Farfetch's most recent acquisition was LUXCLUSIF, a British second-hand luxury platform.

Year	Company	Investment (in thousands)
2015	Browns	\$ 32,000
2017	Fashion Concierge	\$ 2,000
2018	CuriosityChina	\$ 9,000
2018	Stadium Goods	\$ 250,000
2019	New Guards Group	\$ 675,000

**Table 1:** M&A activity

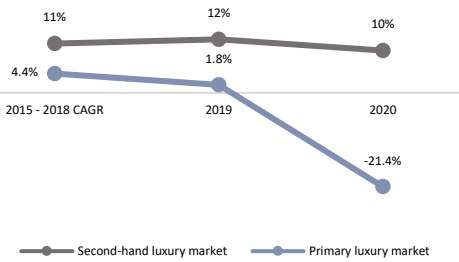
Source: Annual Report and Farfetch F-1

### New Product Categories and Offerings:

Besides growing inorganically, the company is also planning to expand its product offering into the beauty product category, which is meant to happen in 2022. This can be a propitious investment for the firm as, according to Bain, beauty sales amounted to \$55B in 2020 at current exchange rates, representing 22% of global personal luxury goods purchases. This way, Farfetch can tap into other type of consumers: the ones that are buyers of luxury beauty (e.g.: fragrances and foundations) but that do not buy luxury apparel or jewellery as, on average, the latter categories are much higher-priced. Another promising category is streetwear, which is being leveraged by the acquisition of the New Guards Group. This confirms its ability to tackle existing demand in the market and consequently enabling Farfetch to remain the leading online luxury fashion platform.

### Positively Circular:

This initiative emphasizes Farfetch's effort to extend the life of the clothes and reduce waste while improving its image among eco-friendly consumers. It includes *Farfetch Second Life*, which enables consumers to sell their pre-owned bags (by simply posting photos of the bag they want to sell) in exchange for a credit earned by the clients; and *Farfetch Donate service*, where UK customers can donate their clothes to a charitable organization chosen by them. This allows the company to capture value from the second-hand luxury market, which is growing increasingly faster as compared to the primary market, being worth \$31.92B as of 2020.<sup>1</sup> Graph compares the second-hand market growth with the primary market growth over the last few years, confirming the recent shift in consumer preferences towards the re-sale industry as well as the resilience of second-hand luxury vis a vis the primary market.



Graph 1: Primary luxury market vs. second-hand market growth  
Source: Statista and Bain & Co

### Hit new markets - establishing partnerships:

Farfetch has recently announced a partnership with the Chinese e-commerce giant Alibaba and the Swiss luxury conglomerate Richemont. This allows the company to launch its luxury shopping channels on Alibaba's platforms (Tmall Luxury Pavilion and Luxury Soho) as well as Alibaba's marketplace (Tmall Global), therefore expanding the reach of its platform to Alibaba's 757 million customers and, as a result, increase sales in China by providing enhanced access to this market. This partnership was done through a \$600M investment (\$300M by each part - Alibaba and Richemont) in convertible notes issued by Farfetch, plus an additional \$500M investment in Farfetch China, which is a 25% equity stake joint venture that includes Farfetch's operations in China. This also includes the *Luxury New Retail* initiative, which goal is to leverage Farfetch and Alibaba's retail technologies, using digital transformation to better serve the needs of the luxury customers.

**Partnership with Alibaba and Richemont allows Farfetch to expand the reach of the platform to Alibaba's platform, providing enhanced access to the Chinese market**

### Farfetch's own brand

The company remains committed to grow its Brand Platform segment, not only by trying to enlarge the significance of the brands within the New Guards portfolio, but also by launching its first fashion private-label brand in October 2021 – *There Was One*. It was jointly created with the New Guards Group and combines the vision from Farfetch's marketplace with the design capabilities and expertise of NGG. It focuses on sustainability and on creating an "wardrobe for the future", by using eco-friendly materials, always having longevity in mind. In other words, it aims to allow its current consumers to complement Farfetch's goods that they already own and tend to buy with basic and timeless items that are produced with conscious and certified materials. As such, this recently launch perfect fits Farfetch's "Positively Circular" and "Planet conscious" vision that focuses on reducing waste as much as possible.

**Farfetch launched its first own fashion brand – There was One (TWO) in October 2021.**

<sup>1</sup> Statista

# Performance Analysis

## Operating Performance

Farfetch's **Gross Merchandise Value**, the total dollar amount of orders processed, net of cancellations, reached \$3B in 2020, after \$2.14B in 2019, which represents a 49% growth. Concerning the amount effectively earned by Farfetch and therefore recognized as **Revenue**, it has seen an even bigger growth of 69% in 2019 and 64% in 2020, ascending to more than \$1.67B last year.

The company operates in 3 main regions: United States, United Kingdom and other countries (Europe and Emerging economies mainly), the biggest contributor to its sales, being 72% of total Revenues in 2020 (graph 3).

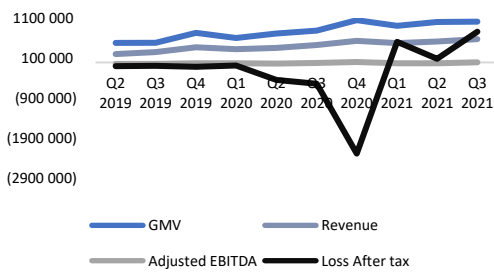
From a segmental standpoint, Farfetch's main source of Revenue is the one deriving from its **Digital Platform**, representing 74 % of total sales in 2020 (graph 4). Even though the AOV has been slightly decreasing, the number of Active Consumers more than compensated it by increasing 2.2x from 2018 to 2020.

Regarding the **Brand Platform** segment, it represented 23% of total sales last year (graph 4), much less when compared to the previously mentioned source of revenue. However, it should be said that with the launch of Farfetch's own womenswear brand *There Was One* in 2021, we expect this revenue segment to grow significantly in the upcoming years.

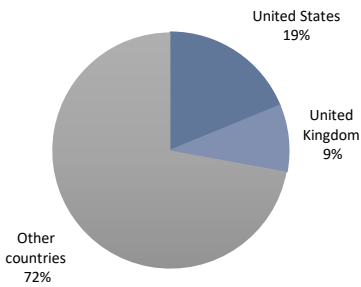
As for the **In-store** segment, it just represented 2% of the group's revenues last year (graph 4) and had never accounted for more than 5%, not being a significant segment driving Farfetch's growth. Moreover, we do not believe this will ever be an important segment, considering the complete shift to online purchasing that we expect to last beyond the pandemic.

With regards to **Gross margins** (graph 5), despite a recent slight decrease, the Digital Platform has lately been Farfetch's best performing segment. This can be explained by the fact that Digital Platform is at a great extent composed by third-party sales, where Farfetch acts as an intermediary connecting buyers and sellers, thus having almost zero incremental costs per additional sale.

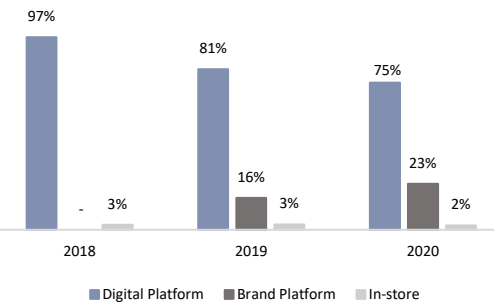
Despite a strong revenue performance, Farfetch has yet to be profitable: **losses after tax** (graph 2) have been increasing, even though from 2019 to 2020 this was mainly driven by high losses on items held at fair value and remeasurements.



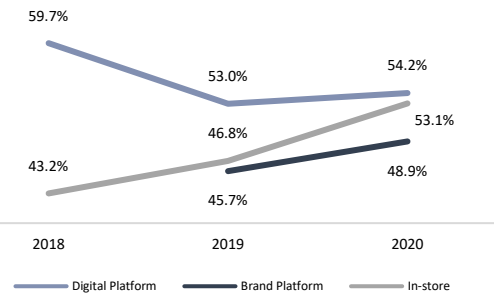
**Graph 2:** GMV, Total Revenue, Adjusted EBITDA and Loss After Tax  
Source: Farfetch's Annual reports and quarterly earnings release



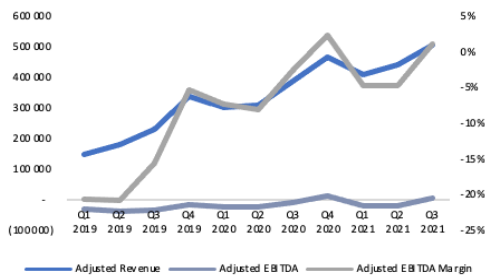
**Graph 3:** Revenue by region, 2020  
Source: Farfetch's Annual reports



**Graph 4:** Revenue share per segment  
Source: Farfetch's Annual reports



**Graph 5:** Gross margin per segment  
Source: Farfetch's Annual reports



**Graph 6:** Adjusted EBITDA Margin quarterly evolution

Source: Farfetch's Annual reports and quarterly earnings release

Nevertheless, in the 4<sup>th</sup> quarter of 2020, **Adjusted EBITDA Margin**<sup>2</sup> was positive (2.2%), enabling the company to **hit EBITDA profitability** for the first time ever.

## ■ Key Ratios

Farfetch is financing itself using both debt and equity. While in 2018 its high cash amounts and inexistence of borrowings and leases led to a **negative Net Debt to Equity** ratio of **-92%**, in 2020 the company's negative common equity, which resulted from the losses on items held at fair value and remeasurements, together with its net cash, led to a **30% Net Debt to Equity** ratio. Concerning liquidity ratios, current ratio has always been much higher than 1, showing financial ability to pay long-term obligations using short-term assets.

	2016	2017	2018	2019	2020
Excess of cash	145 190	376 283	1 032 738	302 008	1 539 943
Borrowing and leases	20 013	-	-	119 318	826 640
Non-controlling interests	(1)	-	-	170 226	168 556
Net Debt	(125 178)	(376 283)	(1 032 738)	(12 464)	(544 747)
Common equity	118 917	396 903	1 128 431	1 167 606	(1 844 646)
<b>Net Debt/Equity</b>	<b>-105%</b>	<b>-95%</b>	<b>-92%</b>	<b>-1%</b>	<b>30%</b>
<b>Debt/Equity</b>	<b>17%</b>	<b>0%</b>	<b>0%</b>	<b>10%</b>	<b>-45%</b>

**Table 2:** Debt to Equity ratios

Source: Own computations

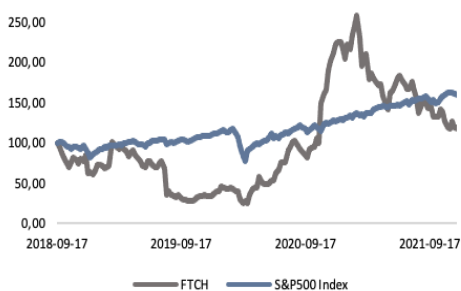
	2018	2019	2020
<b>Current Ratio</b>	6.18	1.38	2.52
<b>Cash Ratio</b>	5.38	0.69	2.02

**Table 3:** Liquidity ratios

Source: Own computations

## ■ Stock performance

Farfetch went public in September 2018 on the NYSE, selling 44.2 million shares at \$20 each, raising \$885M. The stock had an outstanding market reception of roughly 53% in the first day of trading. However, it has been a challenging journey and in August 2019, after announcing the acquisition of the New Guards Group, the share price went down by nearly 50% in just a few hours, showing that investors were not persuaded by this decision. More recently, in November 2020, its stock surged 40%, which is explained by the announcement of a strategic partnership with the Chinese e-commerce giant Alibaba and the luxury goods company Richemont. This joint venture made it possible to have Farfetch's shopping channel available on Alibaba's platform, Tmall Luxury Pavillon, enabling Farfetch to access the Chinese market and to gain brand awareness within the Chinese consumer.



**Graph 7:** S&P vs. Farfetch stock evolution (indexed)

Source: Yahoo Finance

<sup>2</sup> Adjusted EBITDA margin means Adjusted EBITDA/Adjusted Revenue, where Adjusted EBITDA means EBITDA further adjusted for share-based compensations, share results of associates and items outside the normal scope of ordinary activities. Adjusted Revenue means Revenue less Digital Platform Fulfilment Revenue, which brings no economic profit for the firm (Fulfilment Revenue equals Fulfilment Cost of Sales).

# Valuation

## Cost of Capital

	2017	2018	2019	2020
Borrowings	-	-	-	635 237
Leases	-	-	119 318	191 403
<b>Total Debt</b>	-	-	119 318	826 640
Excess Cash	376 283	(1 032 738)	(302 008)	(1 539 943)
Non-controlling inter	-	-	170 226	168 556
<b>Net Debt</b>	376 283	(1 032 738)	(12 464)	(544 747)
Equity	396 903	1 128 431	1 167 606	(1 844 646)
<b>Net Debt to Equity</b>	-	-	-1,1%	<b>29,5%</b>

Table 4: Farfetch's past capital structure (in thousands)

Source: Farfetch's Annual report and own computations

Even though Farfetch did not have debt in its Balance sheet in 2017 and 2018, in 2019 it raised debt in the form of leases, leading to a -1% Net Debt to Equity ratio, and, more recently, during 2020, the firm issued convertible notes.

Not only given that **Net Debt-to-Equity values have been fluctuating a lot**, but also because comparable companies tend to have unstable ratios, most of which with negative Net Debt/Equity ratios (table 5), we do not think Farfetch will have a target leverage ratio in the foreseeable future.

Therefore, since we believe the future trend will be to have unstable capital structure ratios, we decided to value Farfetch's stock using the **APV approach**.

Net Debt/Equity	2018	2019	2020	Average
Shopify	-93%	-71%	-86%	-83%
Etsy	-16%	7%	-75%	-28%
Amazon	-19%	13%	-0,01%	-2,0%
eBAY	69%	191%	121%	127%
Boohoo	-66%	-70%	-70%	-69%
<b>Median</b>				<b>-28%</b>

Table 5: Comparables' past capital structure

Source: Firms' Annual reports and own computations

### ▪ Cost of Equity

#### Risk-free rate and MRP:

The risk-free rate (rf) chosen was the 30-Year US Treasury Yield – **1.98%**, which is in the same currency and has a similar maturity to our cashflows. Regarding the Market Risk Premium (MRP), we decided to use the Equity market risk premium suggested by KPMG – **5.0%**.

#### Equity Beta:

1st approach: FTCH equity beta ( $\beta_E$ )	0,56
2nd approach: FTCH equity beta ( $\beta_E$ ) eliminating outliers	1,26
3rd approach: FTCH equity beta ( $\beta_E$ ) based on industry's peers	1,29
<b>Equity beta (<math>\beta_E</math>)</b>	<b>1,28</b>

To perform the equity beta estimation, 3 approaches were used:

Risk-free rate (rf)	1,98%
Market Risk Premium (MRP)	5,00%
<b>Cost of equity (<math>r_E</math>)</b>	<b>8,4%</b>
FTCH Unlevered Beta ( $\beta_U$ )	1,26
<b>Unlevered Cost of equity (<math>r_U</math>)</b>	<b>8,3%</b>

In our **1<sup>st</sup> approach**, we measure to which extent Farfetch's equity is sensitive to changes in the stock risk market, where the S&P index was used as a proxy of the market portfolio. We reached an equity beta of **0.56**, a value that, in our judgment, seems to be too low and to not reflect Farfetch's sensibility to market fluctuations. Because of that, we decided to remove some data that we considered as outliers and that appeared to be biasing the results, leading us to the **2<sup>nd</sup> approach**. The reason behind this is that, even though Farfetch is a luxury fashion retailer and so it operates in a market highly exposed to market oscillations (for instance, during 2020 the luxury personal goods market contracted for the first time since 2009, falling by 21%), the fact that it is an online retailer more than compensated the market contraction due to a strong migration of sales to online, a specificity of Covid-19 crisis. By doing so, an equity beta of **1.26** was obtained, which may be inflated by abnormalities shown by a confidence interval of [1.253, 1.275], with a 95% level of confidence. To complement our analysis, a **3<sup>rd</sup> approach** was used considering comparable companies' betas, with similar business models. By doing so, we reached an industry unlevered beta of **1.27** (table 7), leading to an equity beta of **1.29** when considering Farfetch's Debt to Market Cap. ratio. Finally, by triangulating the 2<sup>nd</sup> and 3<sup>rd</sup> approaches, we achieved an equity beta of **1.28**. The levered cost of equity ( $r_E$ ) equals **8.4%** whereas the unlevered cost of equity ( $r_U$ ) amounts to **8.3%**, leading to a **1.26** unlevered beta.

Table 6: Equity beta

Source: Own computations

Firm	Asset beta ( $\beta_U$ )
Farfetch	0,57
Shopify	1,45
Square	2,27
eBay	0,98
Amazon	1,06
<b>Industry Average (<math>\beta_U</math>)</b>	<b>1,27</b>

Table 7: Industry asset betas

Source: Own computations

- Cost of Debt

Farfetch has no publicly traded straight bonds (just convertible notes) neither a defined credit rating. Consequently, we decided to follow a synthetic credit rating approach.

There are many positive factors that could allow Farfetch to achieve an investment grade rating, besides the fact of operating in high-rated countries from a credit rating standpoint: **(i)** its low historical debt levels; **(ii)** its past ability to repay its debt (in 2016, the firm issued debt for the first time, which was fully repaid in one year) and **(iii)** its great growth prospects in a fast-growing market, where tech firms tend to have low annual default rates and high credit ratings (tables 9 and 10), meaning that Farfetch operates in a relatively safe industry from a default point of view. Despite that, we believe its unprofitability and the nature of its assets, which are mainly intangibles and hence cannot be used as collateral, would limit its credit rating to a great extent, especially because profit margins and coverage ratios have a big weight on rating agencies' decisions when assessing a firm's credit worthiness and its ability to repay its debt.

Hence, we believe that Farfetch would not be able to achieve an investment grade rating. As a result, we assign a **Ba2 rating** according to Moody's scale.

By using a corporate bond of a comparable company (Square) with the same credit rating (Ba2), we reached an annualized YTM of 7% leading us to a cost of debt <sup>3</sup> of **6.24%**, with a PD = 1.16% and LGD = 65.8%.<sup>4</sup>

## Long-term value drivers: ROIC, RONIC and Growth

Historically, Farfetch's Operating Return on Invested Capital – Core ROIC - has been highly volatile and negative, what is not surprising for a flourish but still unprofitable firm, with high growth prospects, like Farfetch. Particularly, from 2019 to 2020, its **Core ROIC** increased from **-494%** to **-47%**. While, at the first sight this improvement might signal a remarkable progress on firm's returns, this rise needs to be carefully analysed as the reason for such change can be mainly explained by particularities of 2019 and 2020: **(i)** Farfetch's considerable investment amounts during 2019 with the acquisitions of Stadium Goods and the New Guards Group followed by a **(ii)** pandemic year that created a huge demand boost for Farfetch as consumers tried to avoid contagion and physical stores were closed. Consequently, we are projecting a decrease to **-86%** of Farfetch's Operational ROIC during 2021.

As referred in our *Growth Strategies* section, in previous years, one of the firm's main strategies for growth has been inorganic growth through the acquisition of new brands, trademarks, and domain names. As such, we believe that, at least in the near future, Farfetch will continue to further explore this path for growth, what can lead to a substantial increase in its year-after-year Invested Capital and consequently to an extension of negative Operational FCFs.

Country	Credit rating
United States	Aaa
United Kingdom	Aa3
China	A1
European Union	Aaa

**Table 8:** Credit rating, by country

Source: Moody's

Annual Default Rates By Broad Industry Group, 2015-2017			
	2015	2016	2017
High tech industries	0,47%	0,81%	1,28%

**Table 9:** High tech / Tech industries annual default rates (2015 – 2017)

Source: Moody's

Tech firms ratings	Moody's rating
Amazon	A1
eBAY	Baa1
<b>Square</b>	<b>Ba2</b>
Alibaba	A1

**Table 10:** Credit rating, by tech firm

Source: Moody's

YTM	3,50%
YTM (annualized)	7,00%
Probability of default (Ba2) 10Y annualized	1,160%
Loss given default	65,8%
Probability of default * Loss given default (EL)	0,76%
rD	6,24%
βD	0,85

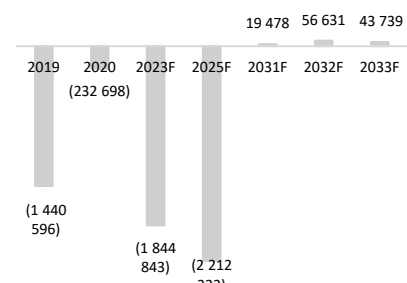
**Table 11:** Cost of debt and Debt Beta

Source: Own estimates

WACC	
Cost of equity	8,36%
Cost of debt after tax	5,05%
Debt/capitalization	6%
<b>WACC</b>	<b>8,2%</b>

**Table 12:** Weighted Average Cost of Capital

Source: Own computations

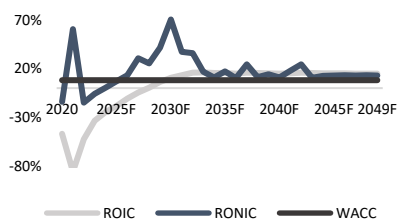


**Graph 8:** Operational FCF Forecast

Source: Own estimates

<sup>3</sup> rD = YTM - Probability of default (Ba2) \* Loss given default

<sup>4</sup> Moody's annual default study of 2021



Graph 9: Long-term value creation drivers (%)

Source: Own estimates

Long-term growth rate	
Region	Long-Term Real GDP growth
United States	1,6%
United Kingdom	1,5%
Other Countries	1,8%
<b>Weighted Average Long-term real GDP growth</b>	<b>1,7%</b>
<b>Long-term inflation rate</b>	<b>1,9%</b>
<b>Long-term nominal growth rate</b>	<b>4%</b>

Table 13: Long-term growth rate

Source: PWC and Statista

As Farfetch grows and matures, we expect both its Core ROIC and RONIC to continuously decline towards 15% and 13%, respectively. Since Farfetch's Marketplace is a recognized and valuable partner for its third-party sellers and boutiques - not only due to its technical know-how and expertise, but also due to consumer's confidence on its platform - we project these value drivers to remain **above the Cost of Capital of 8.2%** (for further explanation, see *Competitive Advantage* section of this report).

In perpetuity, the operational FCF will grow at the nominal terminal growth rate of 4.17%, what seems to be reasonable considering a weighted average long-term real GDP growth of about 1.7% and a long-term inflation rate of 1.9%.

## Adjusted Present Value (APV)

Table 14: APV Model

in thousands \$	FY 2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2035	FY2040	FY2045	FY2049	Terminal value
Discounted Unlevered FCF		(1 704 151)	(1 507 196)	(1 743 791)	(1 240 658)	(1 081 207)	(847 259)	(81 377)	(12 861)	53 638	806 712	760 533	668 638	17 058 887
PV (Unlevered EV)	17 798 313													
Discounted Tax shields		7 311	8 036	6 785	9 474	12 000	11 220	13 548	15 284	6 850	4 858	2 103	1 868	46 594
PV (ITS)	234 879													
<b>Operating EV</b>	<b>18 033 192</b>													

Source: Own Computations

Operating EV	18 033 192
Non-core IC	(3 223 101)
Levered EV	14 810 091
Net Debt	(62 246)
Equity Value	14 872 336
Shares outstanding	354 210 144
<b>Price per share</b>	<b>\$ 41,99</b>

Table 15: Stock Price

Source: Own Computations

Once our forecasts entered in a stabilized phase, we then computed Farfetch's unlevered Enterprise Value and ended up obtaining a **share price of 41.99 \$**.

## Sensitivity Analysis

A sensitivity analysis was conducted on the inputs we feel more unsure about to understand how changes in these values would affect our valuation. Since Farfetch does not have a credit rating nor regular debt from which we could extrapolate the YTM of a straight bond, the cost of debt is one of the variables that we are more doubtful about. Table 16 presents a sensitivity analysis in which we used the cost of unlevered equity ( $r_u$ ) and the cost of debt ( $r_D$ ) as the changing variables.

Table 16: Stock price sensitivity to the unlevered cost of equity ( $r_u$ ) and cost of debt ( $r_D$ )

		$r_u$											
		41,99	8,01%	8,06%	8,11%	8,16%	8,21%	8,26%	8,31%	8,36%	8,41%	8,46%	8,51%
$r_D$	4,74%	49,78	48,19	46,64	45,14	43,67	42,25	40,87	39,53	38,22	36,95	35,71	
	5,24%	49,67	48,08	46,53	45,02	43,56	42,14	40,76	39,41	38,10	36,83	35,59	
	5,74%	49,59	47,99	46,44	44,94	43,48	42,05	40,67	39,33	38,02	36,75	35,51	
	6,24%	49,52	47,93	46,38	44,87	43,41	41,99	40,60	39,26	37,95	36,68	35,44	
	6,74%	49,47	47,87	46,32	44,82	43,35	41,93	40,55	39,21	37,90	36,63	35,39	
	7,24%	49,42	47,83	46,28	44,77	43,31	41,89	40,51	39,16	37,85	36,58	35,34	
	7,74%	49,38	47,79	46,24	44,73	43,27	41,85	40,47	39,12	37,81	36,54	35,30	

Source: Own Computations

As for the cost of debt, it is possible to conclude that the possible values it can assume have a minor impact on the share price, which ranges between \$41.85 and \$42.25 for the same cost of unlevered equity. Therefore, as we expected, the cost of debt is not a critical element affecting Farfetch's stock valuation. Regarding the  $r_u$ , its influence on valuation is higher, leading the share price to fluctuate between \$35.44 and \$49.52, *ceteris paribus*. Finally, the combined effect of changes on these two inputs can be deemed to be large, with the share price ranging from \$35.30 to 49.78\$.

We also ran a sensitivity analysis on the long-term growth rate, as it is a key variable for Terminal Value's computation, which will obviously have a strong impact in the Present Value of Cash-Flows, given that it accounts for roughly 96% of the Unlevered Enterprise Value.

**Table 17:** Stock price sensitivity to the unlevered cost of equity ( $r_u$ ) and terminal growth rate

		$r_u$											
		41,99	8,01%	8,06%	8,11%	8,16%	8,21%	8,26%	8,31%	8,36%	8,41%	8,46%	8,51%
g	2,67%	33,60	32,54	31,51	30,50	29,51	28,54	27,60	26,68	25,77	24,89	24,02	
	3,17%	37,81	36,62	35,46	34,33	33,22	32,14	31,09	30,06	29,06	28,08	27,12	
	3,67%	42,99	41,63	40,30	39,01	37,76	36,53	35,34	34,17	33,04	31,93	30,85	
	4,17%	49,53	47,93	46,38	44,88	43,41	41,99	40,61	39,26	37,96	36,68	35,45	
	4,67%	58,02	56,09	54,23	52,42	50,67	48,98	47,33	45,74	44,19	42,70	41,24	
	5,17%	69,51	67,09	64,75	62,49	60,32	58,23	56,20	54,25	52,36	50,54	48,77	
	5,67%	85,93	82,69	79,59	76,63	73,78	71,06	68,44	65,93	63,52	61,20	58,97	

Source: Own Computations

As expected, the share price varies more in table 17 in comparison to table 16. Concretely, the importance of the perpetuity growth rate is visible in share price disparities – [\$28.54; \$71.06] - for the same  $r_u$ .

Finally, we tried to understand how our proposed valuation would change if we used the asset beta that we obtained in our first approach used to compute the equity beta (0.57) and if we used 1.27, which is the industry unlevered beta in our third approach. In the first case, the share price would be too high, which confirms our belief that 0.57 is not a reasonable value for the equity beta, whereas in the second case the share price would not differ that much from the one we obtained.

$\beta_u$	0,57	1,26	1,27
$r_u$	4,85%	8,26%	8,31%
Share price	704,57	41,99	40,37

**Table 18:** Share price sensitivity to asset beta

Source: Own Computations

## Scenario Analysis

Scenario	Share Price	Probability
Base	\$ 41,99	80%
Conservative	\$ 27,23	10%
Optimistic	\$ 52,44	10%
Target price	\$ 41,56	

**Table 19:** Target price

Source: Own Estimates

To enhance investors' confidence on our final recommendation, in this section we will perform a scenario analysis. To do so, we will present 3 different scenarios that are essentially built based on the major risks the company and the industry are facing, which we identified throughout the present report.

## Risk Summary

### (i) Covid-19 recovery and *There Was One* success

The ongoing Covid-19 pandemic represented a break in growth for many industries, and the Personal Luxury Goods one was no exception. The question arising now is how quickly this industry will recover from this crisis and get back on track to win back 2019 market levels. The launch of *There Was One* in such critical times may harm the brand's ability to penetrate within the market and succeed in attracting its target consumers.

### (ii) Bargaining power of Farfetch's 3P sellers

Given the current outlook and the high search for e-commerce solutions, increased and intense competition might appear and Farfetch's third-party sellers may choose alternative platforms to sell their products or even develop their own platforms. Indeed, brands and small boutiques may start rejecting Farfetch high take-rates if their ability to make profitable sales starts being affected. An example of such threat is *Amazon Luxury Stores*, a platform launched in September 2020 by Amazon that enables luxury fashion clothes to be sold via its website.

### (iii) Capture of Chinese Customers

Even though we believe Farfetch has advantage in the Chinese market over its competitors due to its partnership with Alibaba, the success and penetration in this market is not guaranteed, especially given the strong shift to local purchasing verified in China during 2020<sup>5</sup>.

### Base scenario:

Our **Base scenario** was calculated based on the assumptions we consider to be the most likely ones (80% probability), given the current economic and market outlook. Following the strong momentum verified in 2021, this scenario predicts that the market will be 100% recovered from the pandemic by 2022, year when it is expected to return to 2019's level. This is the case exposed in the previous sections of the present report and, following the implicit assumptions, we arrived at a price per share of **\$41.99**.

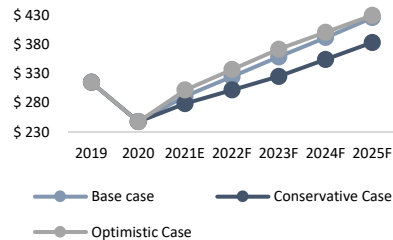
### Conservative and Optimistic scenarios

In January 2021 Bain & Co. published a study named *The Future of Luxury: Bouncing-Back from Covid-19*, where it makes projections about how the market is expected to recover from Covid-19 and evolve over a 5-year period. In this report, Bain presents a range of values for the Worldwide Personal Luxury Goods market size between 2021 and 2025, which we present in table 20.

Bain Estimates at the current EUR/USD exchange rate				
2021	2022F	2023F	2024F	2025F
\$278 - \$302	\$302 - \$336	\$325 - \$371		\$383 - \$429

**Table 20:** Bain Estimates for the market value (2021F – 2025F), in billions  
Source: Bain & Co.

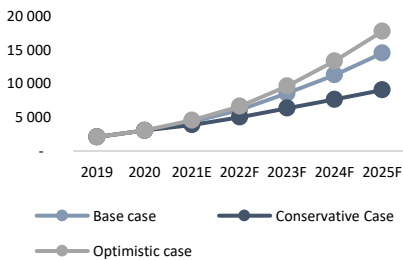
### Conservative scenario:



**Graph 10:** Expected market size per scenario (2019 – 2025F), in billions

Source: Bain & Co. and Own Estimates

In our **Conservative scenario**, to which we have assigned a 10% probability, we test Bain's lowest estimations for the market value, in which market recovery from Covid-19 will occur more gradually over the years as compared to our Base case: in this scenario, the market is expected to reach 2019 level by 2023. Furthermore, this scenario accounts for the circumstance that the partnership with Alibaba and Richemont does not occur as expected and Farfetch struggles to acquire incremental demand from Chinese consumers.

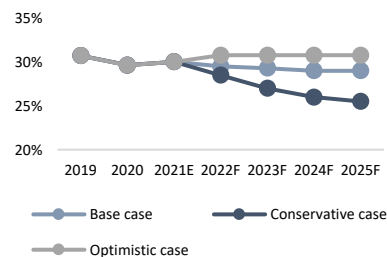


**Graph 11:** Active Consumers per scenario, in thousands (2019 – 2025F)

Source: Farfetch's Annual Report and Own Estimates

Consequently, the evolution of Farfetch's market share over the next 5-year period will not be as positive as in our Base scenario and it is projected to reach 7.5% by 2025 (vs. 9.3% in our Base case). Finally, this scenario also considers the likeliness that Farfetch will have to accept a higher decrease than expected on its 3P take-rate driven by an increased bargaining power of its marketplace's sellers as new players appear in the market trying to capture those partners. As a result, Farfetch can be forced to further decrease its take-rate to 25.5% by 2025 (vs. 29% in our Base case) in order to lock-in its current partners. Taking everything into account, our Conservative case can be translated into a share price of **\$27.23**.

### Optimistic scenario:



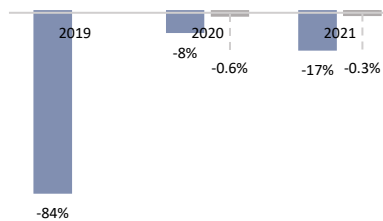
**Graph 12:** Third-party take-rate per scenario (2019 – 2025F)

Source: Farfetch's Annual Report and Own Estimates

Conversely, in our **Optimistic scenario**, to which we assign a 10% likelihood, we test the maximum value of Bain's estimated ranges for the size of the worldwide personal luxury goods market between 2021 and 2025. In this scenario, similarly to our base case, a return to 2019 demand levels is likely to occur during 2022. Moreover, the partnership with Richemont and Alibaba will turn out to be more successful than expected, leading Farfetch's Active consumers to grow 6x in the next 5 years to reach nearly 18 million active consumers by 2025 and a market share of 11% (compared to 9,3% in our Base case). Lastly, this scenario assumes that the appearance of new players in the market will not harm Farfetch's performance due to the strong and long-lasting relationship the firm has built overtime, with both its customers and sellers. Consequently, Farfetch will be able to sustain its 3P take-rate at its historical levels' average. Based in our Optimistic scenario, the expected price per share is **\$52.44**.

## Final Recommendation

A favorable market outlook and a strong revenue growth forecast for the upcoming years provide good prospects for the company which, according to our DCF valuation and scenario analysis, we project to be traded at **\$41.56** as of December 31, 2022. Even though the firm was not yet able to show net positive incomes, a large portion of those negative results can be partially explained by non-cash items and big investments made on behalf of future growth, therefore not reflecting Farfetch's operating performance.



**Graph 13:** Cash-flow from investing activities to Revenue ratio (9 months ended) (2019 – 2021)

Source: Annual Reports and Own Computations

Looking closely to operating results, the outlook is more favorable since, as of the 4<sup>th</sup> quarter of 2020, Farfetch reached for the first time a positive Adjusted EBITDA margin, strengthening our belief that the prospects are good and the promising future, bringing interesting margins.

Considering a current market share price of **\$30.54** and the fact that Farfetch has not previously paid any dividends on its ordinary shares and does not anticipate paying them in the foreseeable future (no dividend yield), this translates into a shareholder's return of **36%**. Therefore, as of 17<sup>th</sup> December 2022 our final recommendation is for investors to **BUY** Farfetch's stock.

# FARFETCH

LUXURY FASHION

STUDENTS: INÊS CARDOSO & MARIA ARAÚJO

# COMPANY REPORT

17 DECEMBER 2021

44522@novasbe.pt, 44529@novasbe.pt

## The rise of the Portuguese Unicorn

### A clear path to profitability

- Farfetch's activities are divided into three segments: In-store, Digital - its marketplace - and Brand platform, where it has recently launched its first owned brand, *There Was One*.
- Its stock has recently skyrocketed, after having announced its famous **partnership with the giant Alibaba and Richemont**, in November 2020. This will provide the company greater access to China, a market that has been a major engine for Luxury industry's growth.
- Having **hit operating profitability for the first time** ever in the 4<sup>th</sup> quarter of 2020, we believe this will be soon reflected in a full year positive Adjusted EBITDA Margin, which we expect to turn positive in 2022. This is explained by a strong revenue growth in both the Digital and the Brand Platform segments, through an increase in the number of Active Consumers and in Average Order Value (AOV).
- Even though we forecast a successful future for the company, a risk that Farfetch might face is increased competition coming from other e-commerce platforms that might appear, forcing the firm to decrease its 3P take-rate to retain its sellers.
- Considering our expectations going forward for both the sector and the firm, we arrived at a target price of **\$41.56** as of FY2022, leading to a **BUY** recommendation.

### Company description

Farfetch is an online luxury fashion retail platform founded in 2007 by the Portuguese entrepreneur José Neves. It is known for its revolutionary way to sell fashion, with a marketplace that provides access to more than 1,300 sellers in more than 190 countries.

**Recommendation:** BUY

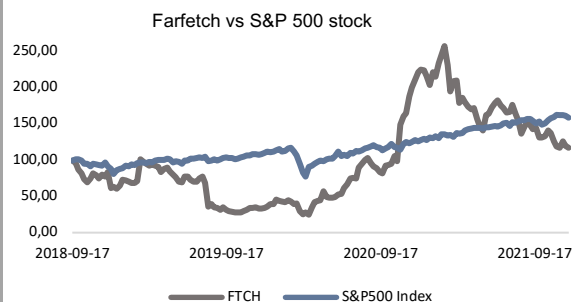
**Price Target FY22:** \$41.56

**Price (as of 16 Dec 2021)** \$30.54

Bloomberg: 16/12/2021

52-week range (\$)	32.36 - 73.87
Market Cap (\$B)	10.944
Outstanding Shares (m)	354.21

Source: Yahoo Finance



Source: Yahoo Finance

(Values in \$ millions)	2020	2021E	2022F
Revenues	1,674	2,467	3,694
Digital Platform revenue	1,246	1,875	2,879
GMV	3,187	4,829	7,279
Core Result	(533)	(715)	(824)
Gross Margin	52.8%	52.9%	53.3%
Order contribution margin	39.2%	38.0%	39.1%
Adjusted EBITDA	(47)	(81)	28
Adj EBITDA Margin	-3.2%	-3.9%	0.9%
EPS	(9.4)	3.5	(2.4)

Source: Annual report and own estimates

THIS REPORT WAS PREPARED EXCLUSIVELY FOR ACADEMIC PURPOSES BY INÊS RAPOSO DE SOUSA CARDOSO AND MARIA LOPES DE ARAÚJO, MASTER'S IN FINANCE STUDENTS OF THE NOVA SCHOOL OF BUSINESS AND ECONOMICS. THE REPORT WAS SUPERVISED BY A NOVA SBE FACULTY MEMBER, ACTING IN A MERE ACADEMIC CAPACITY, WHO REVIEWED THE VALUATION METHODOLOGY AND THE FINANCIAL MODEL.  
(PLEASE REFER TO THE DISCLOSURES AND DISCLAIMERS AT END OF THE DOCUMENT)

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## Company Overview

### Farfetch

*Neves' vision was to create a single platform capable of addressing the complex and constantly evolving demands of consumers.*

*Known for its revolutionary way to sell fashion, its marketplace provides access to over 3,500 brands and more than 3 million active consumers in over 190 countries.*

Founded in 2007 by José Neves and launched in 2008, Farfetch is the largest online retail platform for the global luxury fashion industry. Neves' vision was to seamlessly connect several independent boutiques, brands, retailers and consumers around the world in a single platform capable of addressing the complex and ever-changing needs of luxury sellers and consumers.

Being the first Portuguese Unicorn start-up and known for its revolutionary way to sell fashion, its **online marketplace** provides access to over 3,500 different brands from more than 1,300 sellers that aim to deliver a unique shopping experience to more than 3 million active consumers located in over 190 countries and territories. Apart from Farfetch's marketplace, its additional businesses include **Stadium Goods** Marketplace, **Browns** and **New Guards Group**, a platform that develops several global fashion brands. Additionally, under the *Luxury New Retail* initiative, *Farfetch Platform Solutions (FPS)* delivers multi-channel e-commerce solutions to foster growth and innovation. Lastly, *Farfetch Store of the Future* initiative aims to reinvent the customer experience both online and in-store, using augmented reality shopping experience, innovative payment methods and an emotion-scanning software, blending the physical and digital worlds and thus reflecting the vision of the company to disrupt the luxury industry.

### Business model and segments

Farfetch organizes its activities in three operating segments. Firstly, **Digital Platform**, which is its main business and includes Farfetch Marketplace, Farfetch Platform Solutions, BrownsFashion.com, Stadium Goods.com, Farfetch Store of the Future and other online channels, including the websites of the brands in the New Guards Portfolio. Within the Digital Platform unit, the company generates three sources of revenues, the major ones being 3P revenues, made through transactions between sellers and customers, where Farfetch acts as an intermediary between boutiques or retailers and



Figure 1: Farfetch's operating segments

Source: Annual Report

**“The key innovation is a retail model that is technology enabled but doesn’t rely on owning stock”.**

consumers and therefore earns a commission of around 30% (take-rate). Because of that, Farfetch’s business model differs from other well-known online retailers, like Net-A-Porter and My Theresa, as by not buying or holding significant stock, the firm can reduce its inventory costs. Besides 3P revenues, it also generates first party (1P) revenues of products purchased, owned and sold by Farfetch directly to the end customer, where the firm acts as principal and therefore recognizes the whole GMV as sales. Together, 1P and 3P revenues are known as Digital Platform Services revenues. Finally, it also gets Fulfilment Revenue, which is related to fulfilment services made to marketplace consumers, from which Farfetch gets no economic profit.

Secondly, **Brand Platform** was launched in August 2019, with the acquisition of New Guards Group, which designs, manufactures, and distributes luxury brands such as Off-White, Heron Preston, Palm Angels and Marcelo Burlon. Last year, this segment accounted for almost 25% of company’s total revenues.

Finally, the **In-Store** segment relates to sales made in Browns, Stadium Goods and other brands in the New Guards portfolio’s physical stores. This source of revenue is the smallest contributor to Farfetch’s sales.

## Growth Strategy

### Inorganic growth: M&A Activity:

Farfetch already proved that acquisitions are a powerful tool driving its growth. Firstly, it acquired Browns, a British fashion and luxury goods boutique, followed by Fashion Concierge, a small tech start-up that aspires to answer requests for products that are not available on Farfetch marketplace, by trying to locate them anywhere in the world in order to deliver them to the final consumer. It then bet on CuriosityChina, a digital marketing and tech company focused on China’s top social network, WeChat, where it targets its users to sell luxury goods, enabling Neves` company to extend its footprint in China. In the same year, it bought Stadium Goods, a sneaker and streetwear marketplace and back to 2019 it acquired the New Guards Group (NGG), driven by the vision to create a

Year	Company	Investment (in thousands)
2015	Browns	\$ 32 000
2017	Fashion Concierge	\$ 2 000
2018	CuriosityChina	\$ 9 000
2018	Stadium Goods	\$ 250 000
2019	New Guards Group	\$ 675 000

Table 1: M&A activity

Source: Annual Report and Farfetch F-1

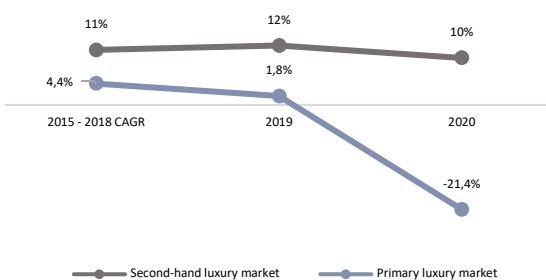
platform that could help the world’s top creative talent to build iconic brands. Lastly, in 2021, given the recent boost of second-hand luxury market, Farfetch’s most recent acquisition was LUXCLUSIF, a British second-hand luxury platform.

New Product Categories and Offerings:

Besides growing inorganically, the company is also planning to expand its product offering into the beauty product category, which is meant to happen in 2022. This can be a propitious investment for the firm as, according to Bain, beauty sales amounted to \$55B in 2020 at current exchange rates, representing 22% of global personal luxury goods purchases. This way, Farfetch can tap into other type of consumers: the ones that are buyers of luxury beauty (e.g.: fragrances and foundations) but do not buy luxury apparel or jewellery as on average the latter categories are much higher-priced. Another promising category is streetwear, which is being leveraged by the acquisition of the New Guards Group. This confirms its ability to tackle existing demand in the market and consequently enabling Farfetch to remain the leading online luxury fashion platform.

Positively Circular:

This initiative emphasizes Farfetch’s effort to extend the life of the clothes and reduce waste while improving its image among eco-friendly consumers. It includes *Farfetch Second Life*, which enables consumers to sell their pre-owned bags (by simply posting photos of the bag they want to sell) in exchange for a credit earned by the clients; and *Farfetch Donate service*, where UK customers can donate their clothes to a charitable organization chosen by them. This allows the company to capture value from the second-hand luxury market which is growing increasingly faster as compared to the primary market, being worth \$31.92B as of 2020.<sup>1</sup> Graph 1 compares the second-hand market growth with the primary market growth over the last few years, confirming the recent shift in



Graph 1: Primary luxury market vs. second-hand market growth

Source: Statista and Bain & Co.

<sup>1</sup> Statista

consumer preferences towards the re-sale industry as well as the resilience of second-hand luxury *vis a vis* the primary market.

#### Hit new markets – establishing partnerships:

***Partnership with Alibaba and Richemont allows Farfetch to expand the reach of the platform to Alibaba’s platform, providing enhanced access to the Chinese market***

Farfetch has recently announced a partnership with the Chinese e-commerce giant Alibaba and the Swiss luxury conglomerate Richemont. This allows the company to launch its luxury shopping channels on Alibaba’s platforms (Tmall Luxury Pavilion and Luxury Soho) as well as Alibaba’s marketplace (Tmall Global), therefore expanding the reach of its platform to Alibaba’s 757 million customers and, as a result, increase sales in China by providing enhanced access to this market. This partnership was done through a \$600M investment (\$300M by each part - Alibaba and Richemont) in convertible notes issued by Farfetch, plus an additional \$500M investment in Farfetch China, which is a 25% equity stake joint venture that includes Farfetch’s operations in China. This also includes the *Luxury New Retail* initiative, which goal is to leverage Farfetch and Alibaba’s retail technologies, using digital transformation to better serve the needs of the luxury customers.

#### Farfetch’s own brand

***Farfetch launched its first own fashion brand –There was One (TWO) in October 2021.***

The company remains committed to grow its Brand Platform segment, not only by trying to enlarge the significance of the brands within the New Guards portfolio, but also by launching its first fashion private-label brand in October 2021 – *There Was One*. It was jointly created with the New Guards Group and combines the vision from Farfetch’s marketplace with the design capabilities and expertise of NGG. It focuses on sustainability and on creating an “wardrobe for the future”, by using eco-friendly materials, always having longevity in mind. In other words, it aims to allow its current consumers to complement Farfetch’s goods that they already own and tend to buy with basic and timeless items that are produced with conscious and certified materials. As such, this recently launch perfect fits Farfetch’s “Positively Circular” and “Planet conscious” vision that focuses on reducing waste as much as possible.

## Performance Analysis

### Operating Performance

Farfetch's **Gross Merchandise Value**, the total dollar amount of orders processed, net of cancellations, reached \$3B in 2020, after \$2.14B in 2019, which represents a 49% growth. Concerning the amount effectively earned by Farfetch and therefore recognized as **Revenue**, it has seen an even bigger growth of 69% in 2019 and 64% in 2020, ascending to more than \$1.67B last year.

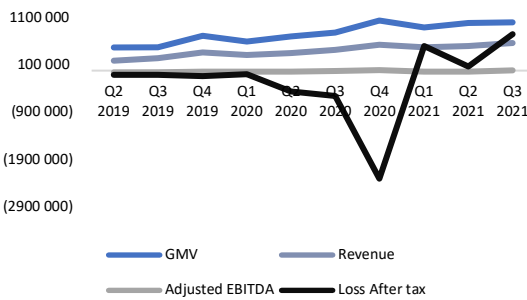
The company operates in 3 main regions: United States, United Kingdom and other countries (Europe and Emerging economies mainly), the biggest contributor to its sales, representing 72% of total Revenues in 2020 (graph 3).

From a segmental standpoint, Farfetch's main source of Revenue is the one deriving from its **Digital Platform**, representing 74% of total sales in 2020 (graph 4). Even though the AOV has been slightly decreasing, the number of Active Consumers more than compensated it by increasing 2.2x from 2018 to 2020.

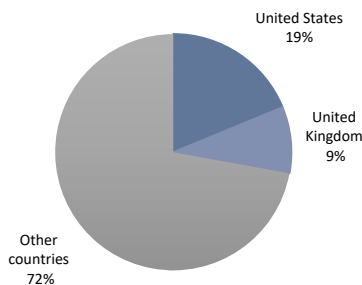
Regarding the **Brand Platform** segment, it represented 23% of total sales last year (graph 4), much less when compared to the previously mentioned source of revenue. However, it should be said that, with the launch of Farfetch's own womenswear brand *There Was One* in 2021, we expect this revenue segment to grow significantly in the upcoming years.

As for the **In-store** segment, it just represented 2% of the group's revenues last year (graph 4) and had never accounted for more than 5%, not being a significant segment driving Farfetch's growth. Moreover, we do not believe this will ever be an important segment, considering the complete shift to online purchasing that we expect to last beyond the pandemic.

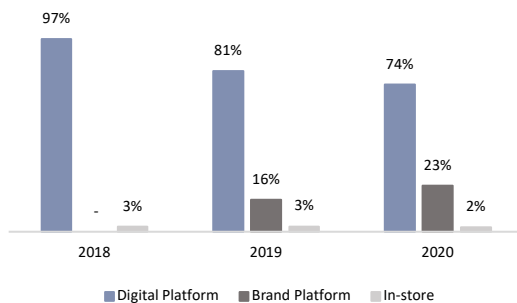
With regards to **Gross margins** (graph 5), despite a recent slight decrease, the Digital Platform has lately been Farfetch's best performing segment. This can be explained by the fact that Digital Platform is at a great extent composed by third-party sales, where



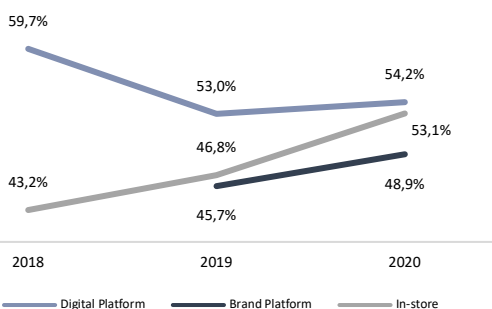
**Graph 2:** GMV, Total Revenue, Adjusted EBITDA and Loss After Tax  
Source: Farfetch's Annual reports and quarterly earnings release



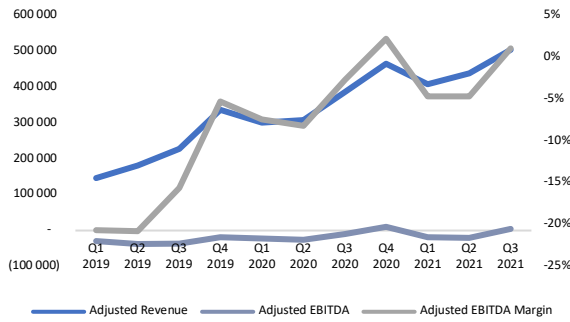
**Graph 3:** Revenue by region, 2020  
Source: Farfetch's Annual reports



**Graph 4:** Revenue share per segment  
Source: Farfetch's Annual reports



**Graph 5:** Gross margin per segment  
Source: Farfetch's Annual reports



Graph 6: Adjusted EBITDA Margin quarterly evolution

Source: Farfetch's Annual reports and quarterly earnings release

Farfetch acts as an intermediary connecting buyers and sellers, thus having almost zero incremental costs per additional sale. Despite a strong revenue performance, Farfetch has yet to be profitable: **losses after tax** (graph 2) have been increasing, even though from 2019 to 2020 this was mainly driven by high losses on items held at fair value and remeasurements. Nevertheless, in the 4<sup>th</sup> quarter of 2020, **Adjusted EBITDA Margin<sup>2</sup>** was positive (2.2%), enabling the company to **hit EBITDA profitability** for the first time ever.

### Key Ratios

Farfetch is financing itself using both debt and equity. While in 2018 its high cash amounts and inexistence of borrowings and leases led to a **negative Net Debt to Equity** ratio of **-92%**, in 2020 the company's negative common equity, which resulted from the losses on items held at fair value and remeasurements, together with its net cash, led to a **30% Net Debt to Equity** ratio. Concerning liquidity ratios, the current ratio has always been much higher than 1, showing financial ability to pay long-term obligations using short-term assets.

	2016	2017	2018	2019	2020
Excess of cash	145 190	376 283	1 032 738	302 008	1 539 943
Borrowing and leases	20 013	-	-	119 318	826 640
Non-controlling interests	(1)	-	-	170 226	168 556
Net Debt	(125 178)	(376 283)	(1 032 738)	(12 464)	(544 747)
Common equity	118 917	396 903	1 128 431	1 167 606	(1 844 646)
<b>Net Debt/Equity</b>	<b>-105%</b>	<b>-95%</b>	<b>-92%</b>	<b>-1%</b>	<b>30%</b>
<b>Debt/Equity</b>	<b>17%</b>	<b>0%</b>	<b>0%</b>	<b>10%</b>	<b>-45%</b>

Table 2: Debt to Equity ratios

Source: Own computations

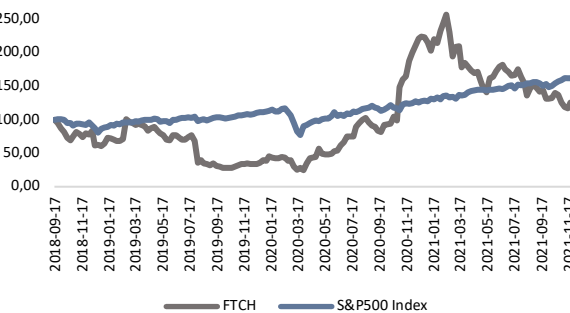
	2018	2019	2020
<b>Current Ratio</b>	6.18	1.38	2.52
<b>Cash Ratio</b>	5.38	0.69	2.02

Table 3: Liquidity ratios

Source: Own computations

### Stock performance

Farfetch went public in September 2018 on the NYSE, selling 44.2 million shares at \$20 each, raising \$885M. The stock had an outstanding market reception of roughly 53% in the first day of trading. However, it has been a challenging journey and in August 2019, after announcing the acquisition of the New Guards Group, the share price went down by nearly 50% in just a few hours, showing that investors were not persuaded by this decision. More recently, in November 2020, its stock surged 40%, which is explained by the announcement of a strategic partnership with the Chinese e-commerce giant Alibaba and the luxury goods company Richemont. This joint venture made it possible to have Farfetch's shopping channel available on Alibaba's platform, Tmall Luxury Pavillon, enabling Farfetch to access the Chinese market and to gain brand awareness within the Chinese consumer.



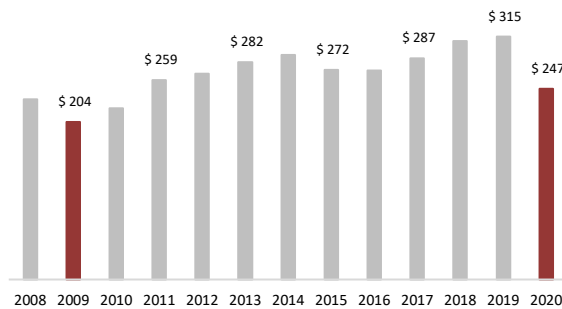
Graph 7: S&P 500 vs. Farfetch stock evolution (indexed)

Source: Yahoo Finance

<sup>2</sup> Adjusted EBITDA margin means Adjusted EBITDA/Adjusted Revenue, where Adjusted EBITDA means EBITDA further adjusted for share-based compensations, share results of associates and items outside the normal scope of ordinary activities. Adjusted Revenue means Revenue less Digital Platform Fulfilment Revenue, which brings no economic profit for the firm (Fulfilment Revenue equals Fulfilment Cost of Sales).

# Market Overview and Covid-19 Outbreak

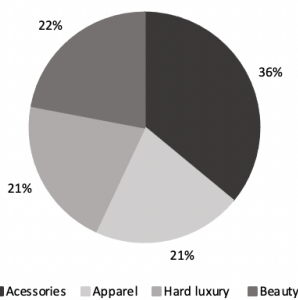
## Worldwide Market size



Graph 8: Worldwide Personal Luxury Goods market value (in \$B)

Source: Bain & Co.

Over the last decade, the global Personal Luxury Goods market - “the core” of luxury - has been conquering space within the overall luxury goods market. According to Bain, by 2019, this market was already valued at \$315B at current €/€ exchange rates, reflecting an implicit 2009-2019 CAGR of 4.4%. Despite favourable past performance, the Covid-19 pandemic caused an **unprecedented decline in the personal luxury goods market** - during 2020, the market contracted for the first time in real terms since 2009, falling by 21% to reach back \$247B and cancelling out years of growth.

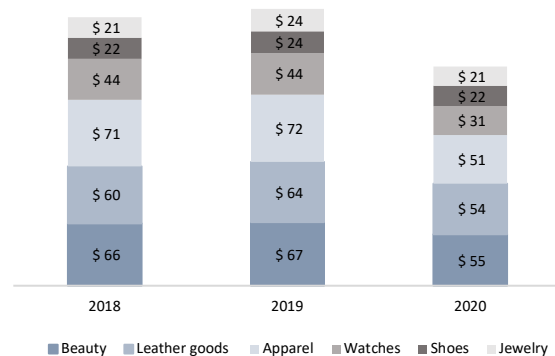


Graph 9: Share of Worldwide Personal Luxury Goods market, by category

Source: Bain & Co.

## Global Personal Luxury Goods Market Categories

The global Personal Luxury Goods market comprises 4 main categories: Accessories, Apparel, Hard Luxury and Beauty, with Accessories being the largest one and representing 36% of total market sales in 2020. It also includes six product categories: Beauty, Leather Goods, Apparel, Watches, Shoes and Jewellery, with Leather Goods, Shoes and Jewellery being the fastest growing product categories over the past years.



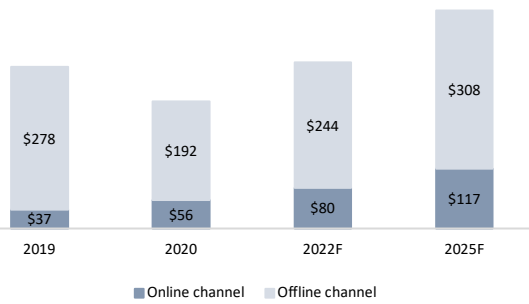
Graph 10: Worldwide Personal Luxury Goods sales, by product category (in \$B)

Source: Bain & Co.

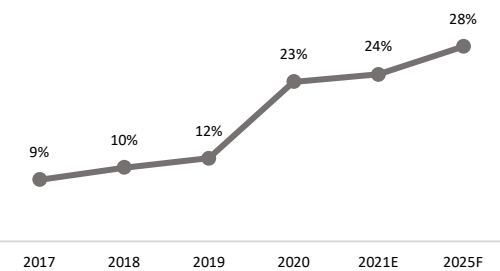
Even though the Covid-19 crisis heavily impacted all categories, causing a contraction across all of them, shoes and jewellery were the ones that deaccelerated the least from 2019 to 2020, shrinking by 8% and 13%, respectively. On the other hand, Apparel and Watches were the product types that were the most impacted by the pandemic.

## Market trends driving growth - The Future of Luxury

2020 was a challenging year for this industry, with deep changes in the way luxury consumers shop and an acceleration of the online channel. Luxury players and distributors will now have to adapt as quick as possible to the “new normal” and redefine the way they do business to remain competitive.



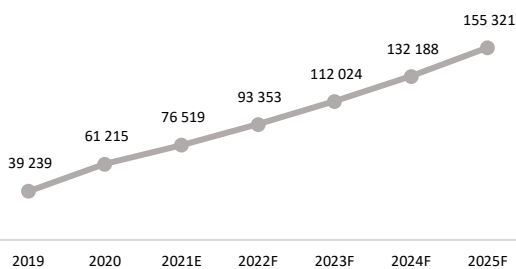
**Graph 11:** Worldwide Personal Luxury Goods sales, by channel (in \$B)  
Source: Bain & Co. and Own estimates



**Graph 12:** Worldwide Personal Luxury Goods market online penetration  
Source: Bain & Co.

	2017	2018	2019	2020
Total Luxury Sales (online & offline)	287 020	309 160	314 720	247 380
Online Penetration	8,7%	10,5%	11,7%	22,6%
Online Luxury Sales	24 973	32 332	36 960	55 860
Farfetch Total GMV	910	1 408	2 140	3 187
Market share in total luxury	0,3%	0,5%	0,7%	1,3%
Farfetch Marketplace GMV	894	1 392	1 948	2 759
Market share in online luxury	3,6%	4,3%	5,3%	4,9%
Farfetch Marketplace Active Consumers	936	1 382	2 068	3 024
(/) Market share in online luxury	3,6%	4,3%	5,3%	4,9%
Worldwide Online Luxury Consumers (Estimated)	26 135	32 097	39 239	61 215

**Table 4:** Farfetch Estimated market share (in thousand \$, except market share and Consumers)  
Source: Bain & Co. and Own estimates



**Graph 13:** Number of Worldwide Online Personal Luxury Goods Consumers Forecast (2019 – 2025F)  
Source: Own estimates

From now onwards, we see the following demographical, generational, regional and distribution trends as the key drivers of luxury sales growth, which we forecast to return to 2019 levels by 2022 and to hit \$425B as of 2025 (graph 11).

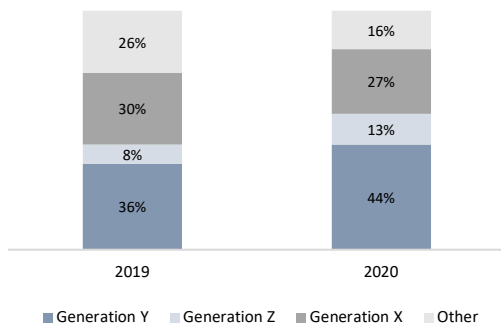
▪ Online shopping

The impact of the pandemic and the restrictions imposed by governments in response to it increased the presence of online in every single aspect of people's lives. In what concerns shopping, the online channel was set on track to become a leading channel. In the specific case of the personal luxury goods market, the pandemic led to an increase of the online market value by nearly 50% and to a rise of online penetration from the 12% registered in 2019 to 23% in 2020. Therefore, even though the overall personal luxury goods market contracted during 2020, the online market benefited from the pandemic, with a shift on consumers' demand towards online. Between 2020 and 2025 we are projecting online luxury purchases to grow from \$56B to \$117B (graph 11) at an implicit CAGR of 16% and online penetration to reach 28%, meaning that Farfetch has a large addressable market.

If we consider the number of Farfetch's Marketplace Active Consumers and its 4.9% market share<sup>3</sup> within the online luxury market in 2020 (table 4), we reach a total number of worldwide online luxury consumers of 61,215 thousand. This represents a remarkable growth as compared to the 39,239 thousand online luxury buyers in 2019. In the upcoming years, we see the number of online buyers to follow the impulse felt in 2020 to grow to 155,321 thousand by 2025 (graph 13).

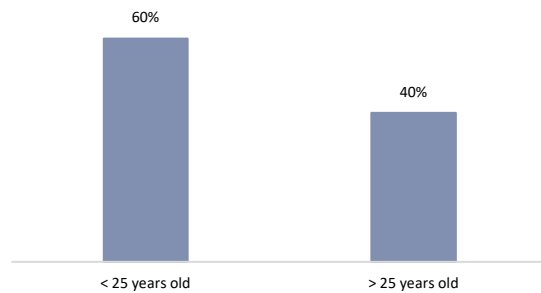
Even though we foresee an unprecedented importance of the online channel, we believe that "in-store" will continue to be a "core" distribution channel as luxury consumers value a personalized shopping experience. As a result, we expect the offline luxury personal goods market to recover at a slower pace than the global market, returning to 2019 sales' level by 2024.

<sup>3</sup> Computed considering Farfetch Marketplace's GMV of \$2.759M in 2020 and Online Luxury Sales worldwide of \$56B (Bain, 2020)



**Graph 14:** Share of Worldwide Personal Luxury Goods purchases, by generation

Source: Bain & Co.



**Graph 15:** Share of Streetwear consumers, by age

Source: Strategy& and Hypebeast and PwC

▪ Younger generations and Casualization

Generations Y, also known as Millennials, and Z are becoming the largest segments of the luxury industry customer base, profoundly reshaping the personal luxury goods market through new demand preferences *vis á vis* older consumers. These generations seek high-end brands that are aligned with both their personal values, considering that younger generations are more concerned about environmental sustainability and animal welfare than the older ones, and aesthetics ideals, besides favouring streetwear / casual wear rather than traditional styles. Indeed, a study conducted by *Strategy& and Hypebeast* covering over 40,000 streetwear consumers worldwide showed that **more than 60% of those consumers were under 25-years-old**, confirming the high appeal of younger generations for streetwear.<sup>4</sup> On the roots of these new trends is the rise of luxury menswear, with young males increasingly interested in their looks and in new fashion trends, leading traditional luxury brands, which used to focus only on women’s wear, to shift their focus to also cover men styles.

According to Bain, in 2020, Millennials and Generation Z accounted for more than a half - **57%** (graph 14) - of global personal luxury goods sales and are expected to continue increase their presence within the market, being estimated to represent over two thirds of total purchases by 2025.

▪ The rise of HENRY’s customer segment

With their traditional customers getting old, luxury brands demonstrate an increasing effort to target customers within a lower income range, the HENRY’s (“high-earners-not-yet-rich”) that, even though are not yet affluent luxury buyers, are on track to become. This way, brands start building a relationship with the luxury customers of the future.

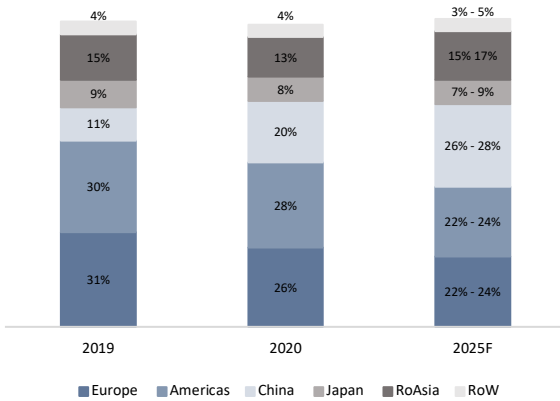
<sup>4</sup> Strategy& and Hypebeast

▪ Chinese luxury market

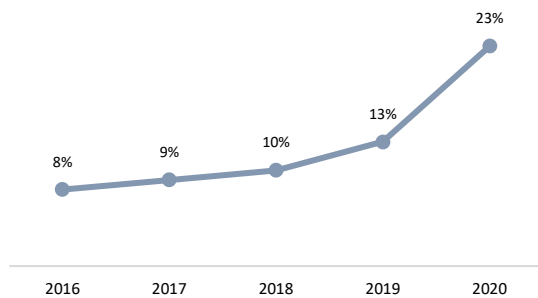
The growth of the Chinese middle class and China’s economic development that took place over the last decades caused an exponential growth of the Chinese personal luxury goods market, with Chinese consumers, and in particular Chinese Millennials, massively increasing their personal luxury goods expenditure. The explanation for that relies on an increase of the average incomes per year by almost threefold, from 37,000 yuan in 2010 to 100,000 yuan in 2020.<sup>5</sup> This resulted in the Chinese personal luxury goods market increasing its importance within the global market to become one of the main current growth engines of the sector.

Bain claims that, in 2019, Chinese consumers in China accounted for 11% of the market and, only one year later, this share increased by 9 pp. to hit 20%, making China the best performing country from 2019 to 2020. In the upcoming years, Bain expects the Chinese market to further increase its importance in the sector and become the biggest luxury market by 2025, with a share of about 26% - 28%. As a result, the Chinese market is becoming a major priority for luxury brands seeking for incremental demand.

The presence of the digital era and the shift towards the online channel for luxury goods purchases is also taking place in the Chinese market with the share of online sales increasing from 8% in 2016 to 23% in 2020.



**Graph 16:** Share of Worldwide Personal Luxury Goods sales, by region  
Source: Bain & Co.



**Graph 17:** Share of online sales in the Chinese Luxury market  
Source: Bain & Co.

## Competitive Landscape

Farfetch faces competition from other marketplaces, technology enablement companies, like Shopify Inc. and Square, and other luxury sellers (e.g.: online luxury retailers, luxury brand stores, luxury department stores, niche multi-brand and streetwear sites).

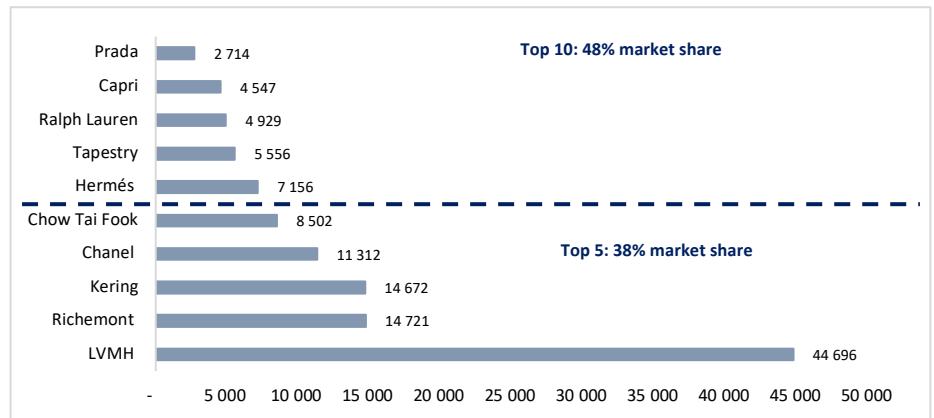
### Top Luxury Companies

The personal luxury goods market is a highly concentrated market, with a small number of companies dominating sales, where the top 10

<sup>5</sup> National Bureau of Statistics

leading luxury companies accounted for 48% of sales during 2020, while Farfetch only accounted for 4,9% of online sales and 1,3% of total luxury sales, considering the worldwide luxury sales estimated by Bain (appendix 6).

**Graph 18:** Revenue of the 10 leading luxury companies worldwide in 2020 (in M \$)



Source: Statista

### Luxury Distributors

***Farfetch and Net-A-Porter are the current leading online luxury retail platforms***

Until a few years ago, luxury brands were hesitant to embrace the digital era and shift towards online supply. Behind this resistance were the possibility of losing control over their businesses and the lack of know-how regarding e-commerce. With the digital revolution, it was time to change mentalities and adopt the online channel as a mean to promote and sell luxury products. By 2021, even though there is an increasing number of luxury e-tailers, there is still a relatively low number of luxury distributors, with Farfetch and Net-A-Porter being the largest players. However, in a flourish market like this, contenders need to move fast and try to differentiate, not only from one another but also from potential entrants so as to build long-lasting relationships with valuable customers and sellers. To do so, luxury fashion retailers rely on strategies that include<sup>6</sup>: website/app design and ease of use, payment methods, depth of designer selection (number of luxury designers/brands), pricing strategies (frequency of promotions) and the service provided (delivery and return policies and customer assistance). Table 5 distinguishes Farfetch from three of its main direct competitors on some dimensions.

<sup>6</sup> Deutsche Bank, 2018

**Table 5: Farfetch's Competitors**

Competitor	Online Launch	Business Model	Inventory policy	Returns policy	Luxury Sellers Count	Revenues (2020)	Instagram followers
Farfetch	2008	Marketplace   E-concessions	Inventory-light model (third-party)	Free returns	> 1.300	\$1.67B	3.3M
Net-A-Porter	2000	Luxury multi-brand online retailer	Purchases and holds inventory from brands	Free returns	> 1.000	N/A	4.6M
MyTheresa	2006	Luxury multi-brand online retailer	(Purchases and) holds inventory from brands	Free returns	> 200	\$0.503B	1.6M
Matches Fashion	2007	Luxury multi-brand online retailer	Purchases and holds inventory from brands	Free returns	> 650	\$0.556B	1.1M

Source: Firms' websites

**Business model**

The key differentiating element is that whereas **Farfetch** mainly operates a marketplace based on e-concessions and an “*inventory-light policy*” and therefore decreasing significantly both inventory risk and inventory costs, **Net-A-Porter**, **Mytheresa** and **Matches Fashion** are traditional multi-brand luxury retailers that buy and hold stock from brands (designers) and thus bearing higher inventory risk and costs. As such, this points out cost efficiency as a source of Farfetch's competitive advantage.

**Revenue volume and market share in online luxury**

Another important figure to account for is the total dollar amount of the orders processed, which refers to digital GMV in the case of Farfetch and to total revenues in the case of its competitors. As shown in table 6, Farfetch and Richemont's online distributors, which include Net-A-Porter, together accounted for 9.8% of online luxury goods sales during 2020, being the largest luxury distributors within the online market.

**Profit margins**

Table 7 shows that Farfetch **underperforms** its peers when it comes to profitability from its operations, having been registering negative EBITDA margins year-after-year, driven, among others, by a considerable amount of Personnel Expenses. Graph 19 compares Farfetch's Personnel Expenses as a percentage of Adjusted Revenue (44%, 2020) with My Theresa's (11.3%, 2020), showing there are still improvements to be made in this regard and economies of scale to be achieved. Likewise, Graph 20 compares Farfetch's Cost of Sales to Revenues ratio with Mytheresa's and Richemont's, owner of YNAP.

2020	
Total Luxury Sales (online & offline)	247 380
Online Penetration	23%
Online Luxury Sales	55 860
<b>Luxury e-tailers:</b>	
<b>Farfetch:</b>	
Farfetch Marketplace GMV	2 759
Market share in online luxury	4,9%
Farfetch Total GMV	3 187
Market share in total luxury	1,3%
<b>My Theresa</b>	
My Theresa online Revenue	490
Market share in online luxury	0,9%
My Theresa total Revenue (online + retail revenue)	503
Market share in total luxury	0,2%
<b>YNAP and Watchfinder</b>	
Richemont's online distributors (YNAP & Watchfinder) Revenue	2 718
Market share in online luxury	4,9%
<b>Matches Fashion</b>	
Matches Fashion Revenue	556
Market share in online luxury	1,0%

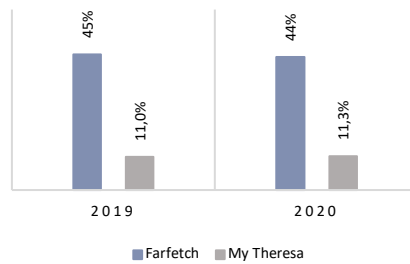
**Table 6:** Farfetch and Competitors' revenues (in \$M) and estimated Market share

Source: Annual Reports and Own estimates

	2019	2020
<b>Farfetch</b>		
EBITDA margin	-13,6%	-3,2%
<b>Richemont Online Distributors (YNAP &amp; Watchfinder)</b>		
EBITDA margin	0,2%	-2,9%
<b>My Theresa</b>		
EBITDA margin	7,7%	7,6%

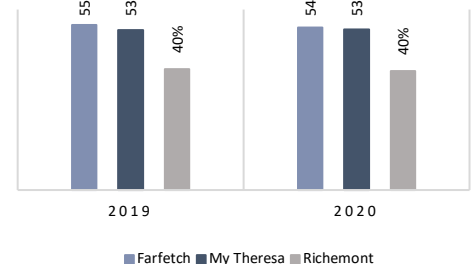
**Table 7:** Profit margins

Source: Own computations



**Graph 19:** Personnel Expenses to Revenues ratios

Source: Own computations



**Graph 20:** Cost of Sales to Revenues ratios

Source: Own computations

Despite that, it has been showing a positive evolution on its profit margins, represented by an increase of its Adjusted EBITDA margin by 10.4 pp. and as previously mentioned, a positive EBITDA margin during the fourth quarter of 2020 (table 7).

## Competitive Advantage

Over the years, Farfetch managed to conquer a differentiated position within the online personal luxury goods market, being considered the **#1 global online luxury fashion platform**.

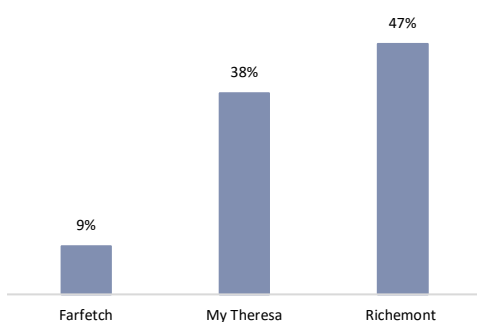
In our view, the success behind the Portuguese Unicorn *vis a vis* other market players can be explained by three main sources of competitive advantage, which we foresee to continue being primary engines driving Farfetch’s growth and prosperity:

**(i) Premium relationship with luxury designers/brands and 3P boutiques:**

Farfetch has been able to lock-in its luxury partners by developing deep and loyal relationships with the most well-known brands. As a result, we see the probability of potential entrants coming in and capturing Farfetch’s sellers to be reduced. Furthermore, Farfetch’s technical expertise and know-how encourages boutiques to partner with it rather than building their own online platforms.

**(ii) Farfetch’s main business segment – its Marketplace –**

aggregates the best of two worlds: it allows luxury designers, which are overprotective of their businesses, to maintain control over their branding, image and pricing strategies while enabling Farfetch to reduce inventory risk and inventory-holding costs, a major cost for retailers. This allowed Farfetch to maintain an inventory amount



**Graph 21:** Farfetch, My Theresa and Richemont’s Inventory to Revenues ratio (2020)

Source: Firms’ annual reports and own computations

that only accounted for **9%** of revenues in 2020, while Mytheresa and Richemont held an inventory that accounted for **38%** and **47%** of the year's revenue, respectively.

(iii) Contrary to other luxury e-tailers, who rely on a narrow number of distribution centres, Farfetch has a **depth selection of luxury partners**, aggregating supply from many global sources and boutiques, while still partnering with the top players within the luxury market (graph 18). This was the main reason why local lockdowns during 2020 did not significantly impacted firm's operations and supply chain.

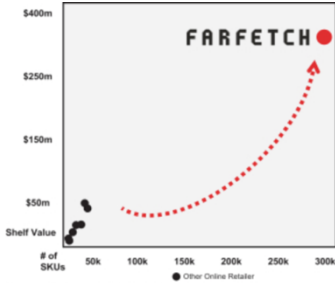


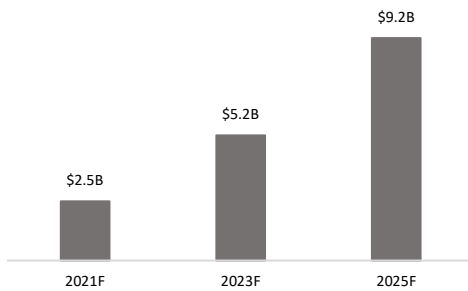
Figure 2: Farfetch's SKU count

Source: Farfetch F-1

## Financial Outlook

### Revenue Drivers

As already mentioned in this report, Farfetch generates revenue through three operating segments: (i) **Digital Platform**, (ii) **Brand Platform**, and (iii) **In-store**. In this section, we will highlight the key factors that, in our judgment, will be driving revenue growth in our forecast period. By 2025, we are projecting Farfetch's Revenue to grow to \$9.2B, with Digital Platform Revenue, Brand Platform Revenue, and In-store Revenue accounting for 78%, 21% and 1% of total year's revenue, respectively.

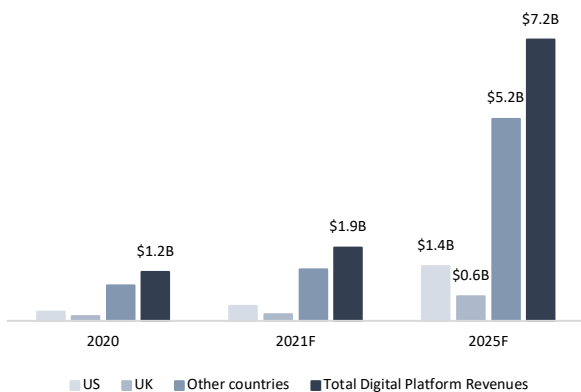


Graph 22: Farfetch's Total Revenues Forecast (2021F -2025F)

Source: Own estimates

#### Digital Platform Forecast – The Marketplace

Historical data indicates that Farfetch's Digital Platform has always been the major source of revenues for the firm, and we believe it will continue to be. After last year's explosive growth of e-commerce fostered by the pandemic, we expect a reset of Farfetch's digital (adjusted) revenues and a decline in its growth during 2021 from 47.3% to 42.9%, especially as international travel and brick-and-mortar reopen and capture some luxury demand from e-commerce. Between 2020 and 2025, we predict Digital Platform Revenue (including Fulfilment Revenue) to grow at a CAGR of 42% reach to \$7.2B by 2025. On a geographical level, as of 2025, we expect Digital Revenues in the United States, United Kingdom and Other Countries to be \$1.4B, \$0.6B and \$5.2B, respectively. We would like to highlight that we see "Other



Graph 23: Farfetch's Digital Platform Revenues Forecast, by region (2021F - 2025F)

Source: Own estimates

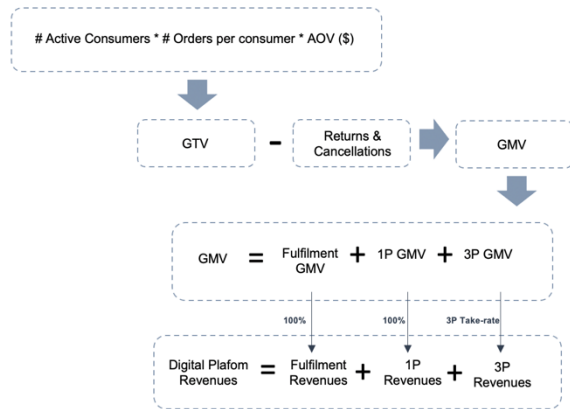


Figure 3: Digital Platform Revenue Drivers

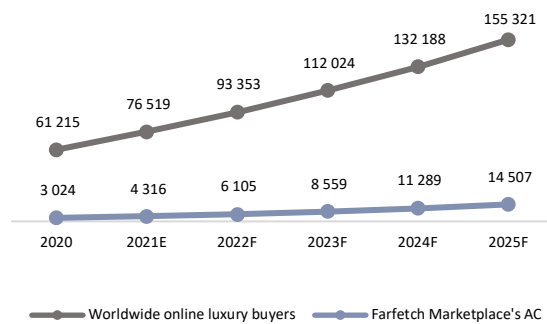
countries” to remain the most valuable geographic area for Farfetch’s marketplace.

To forecast Digital Platform Revenues per region, the bottom-top approach highlighted on Figure 3 was used.

Active Consumers

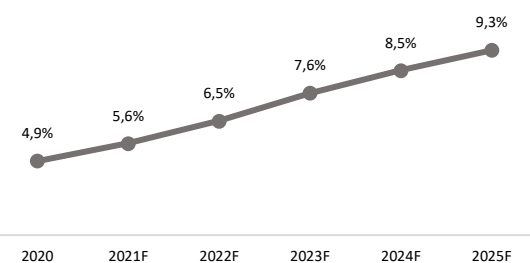
The number of Active Consumers is a critical indicator of Farfetch’s performance, reflecting its ability not only to attract and retain its customer base but also to convert platform visits into orders. We foresee the growth in the number of Farfetch Marketplace’s Active Consumers<sup>7</sup> to be driven by an increase in both the number of worldwide online luxury buyers and in its market share.

Considering the rapid shift towards online shopping fostered by the ongoing Covid-19 crisis, we have reasons to believe that online shopping in luxury is a tendency that came to stay in the long-term. Following the strong momentum verified in 2020, we see the number of online luxury buyers to continue to grow at a fast pace in the upcoming years<sup>8</sup> to reach 155,321 thousand by 2025, especially with late Millennials and Gen Z, the “digital age generations”, becoming financially independent and with an increasingly higher buying power.



Graph 24: Number of worldwide online luxury buyers and Active Consumers Forecast (2020 – 2025F) (in thousands)

Source: Farfetch annual report and Own estimates



Graph 25: Farfetch’s Market share Forecast (2020 – 2025F)

Source: Own estimates

<sup>7</sup> Active Consumers (AC) = Market share \* Worldwide online luxury consumers

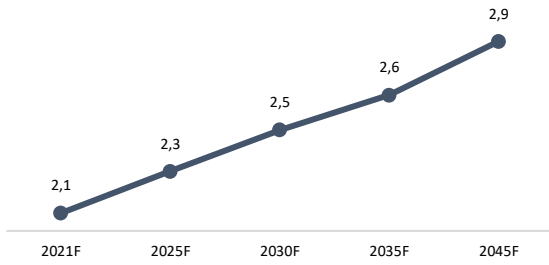
<sup>8</sup> Even before Covid-19 it was already a flourish market, with high growth rates

2020 and 2030.<sup>9</sup> Besides that, the investment in new product categories like streetwear (with the acquisition of the NGG and Stadium Goods) and beauty will also favour Farfetch. Hence, we believe that the firm has potential to grow its market share to 9,3% by 2025 and increase 5x the number of its Active Consumers in the next 5 years to hit nearly 14.5 million.

Number of orders

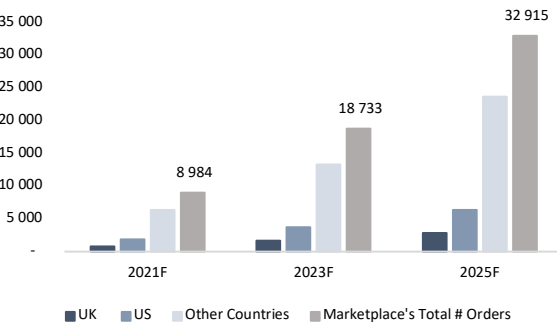
As the online channel becomes more prominent in luxury consumers’ day-to-day lives, we expect the Number of Orders<sup>10</sup> on Farfetch’s Marketplace to increase year-after-year.

Over the years, we are projecting the total number of orders in the marketplace to grow to nearly 33 million by 2025, reflecting an implicit 2021 - 2025 CAGR of roughly 38% over our forecast period through 2025. Regarding the number of orders per consumer, even though by looking at the 2021 quarterly results released so far we are expecting no increase of this metric during 2021 due to a Covid-19 rebound and re-open of in-store activities, we see it to improve in the upcoming years, evolving according to each region’s GDP real growth rate.



**Graph 26:** Number of orders per Active Consumer Forecast – Weighted Average (2021F – 2025F)

Source: Own estimates



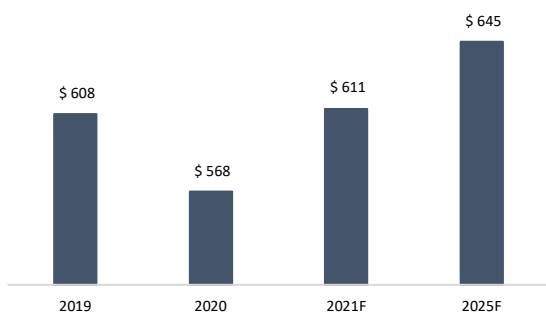
**Graph 27:** Total Number of Orders Forecast (2021F – 2025F) (in thousands)

Source: Own estimates

Average Order Value (AOV)

The AOV on Farfetch’s Marketplace in 2020 was \$568, representing a decrease compared to the \$608 registered in 2019, a consequence of COVID-19. For this reason, we expect it to increase to \$611 in 2021 due to a change in category mix, higher price baskets and higher number of items per order.

Note that it is extremely hard to predict the AOV on the Marketplace as it is, among others, directly linked to: **(i) each brand/designer future pricing strategies:** while luxury buyers usually like to feel a sense of exclusivity when wearing certain brands that are not easily attained by the average consumer and, because of that, a price decrease could mean designers losing this type of customers, it is



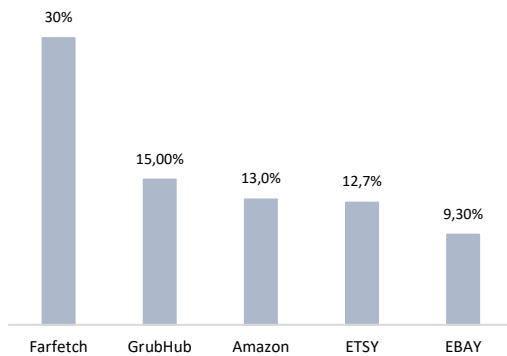
**Graph 28:** Average Order Value Forecast

Source: Farfetch’s Annual reports and Own estimates

<sup>9</sup> McKinsey Global Institute

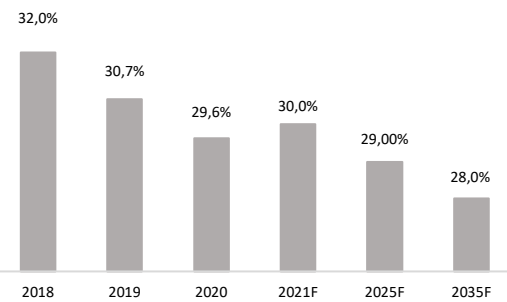
<sup>10</sup> Number of orders = Orders per AC \* Number of AC

also true that luxury brands have already proven they are looking to target a range of people as wide as possible, including lower income consumers, through the launch of cheaper product lines (e.g.: Marc by Marc Jacobs); **(ii) customer’s confidence in the platform** and **(iii) type of products Farfetch adds to its marketplace**: if on the one hand the inclusion of higher-priced product categories like jewelry and watches will potentially increase the AOV, on the other hand, the incorporation of beauty products, which are lower-priced, is likely to bring down the AOV. Consequently, we assumed that these forces will offset one another and the AOV is set to remain relatively stable in real terms from 2022 onwards, having only been adjusted for inflation purposes. Hence, by 2025, we are projecting it to grow to \$645.



**Graph 29:** Internet Marketplaces' take-rates

Source: Firm's reports



**Graph 30:** Farfetch's 3P take-rate Forecast

Source: Farfetch's Annual reports and Own estimates

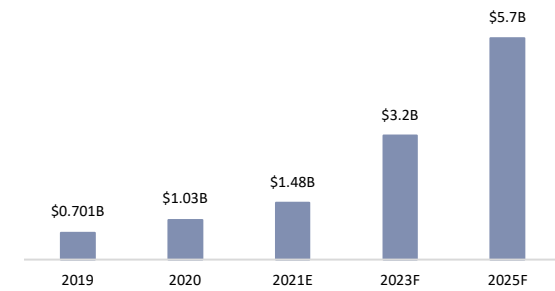
3P Take-rate

Benchmarking analysis revealed us that Farfetch has been reporting third-party take rates significantly above other marketplaces' rates. Graph 29 compares Farfetch's 3P take-rate with other marketplaces.

Even though we see Farfetch's above-average 3P take-rate as sustainable, since it brings additional new demand to its third-party boutiques / sellers, creating incremental value for them, we also believe that, over the years, the firm is likely to have no option but to decrease its take-rate to accommodate for the potential entrance of new players, i.e. other e-commerce platforms that might appear in the market trying to steal its third-party partners.

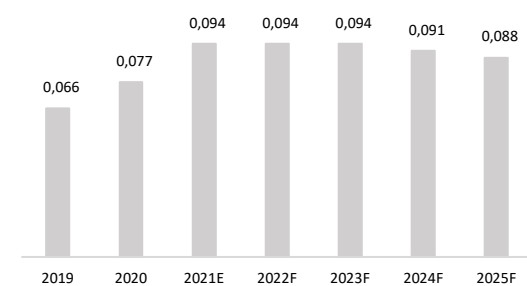
Fulfilment revenue

To facilitate the growth of its Digital Platform and enhance efficiency, Farfetch provides fulfilment services to its Marketplace consumers and collects revenue from the provision of those services, which are "a pass-through cost of delivery and duties charged with no



**Graph 31:** Digital Platform Adjusted Revenue Forecast (net of Fulfilment) (2019 – 2025F)

Source: Annual Report and Own estimates



**Graph 32:** Fulfilment Revenue per unit of Digital Platform GMV Forecast (2019 – 2025F)

Source: Own estimates

*economic benefit*<sup>11</sup> for the firm. For that reason, they calculate Adjusted Revenue (graph 31), net of Fulfilment Revenue. This fulfilment process is one of Farfetch’s competitive advantages as it allows it to successfully reduce delivery costs and times.

Since Digital Platform Fulfilment Revenue is related with shipping services, we expect it to grow in line with the cost of delivery and duties, which increases as the volume of orders grow. Throughout 2020 and 2021, Brexit and the ongoing pandemic affected global supply chains and networking capacity of logistic firms, besides busting demand for home deliveries, causing an unprecedented surge in shipping costs.

The consequence of such rise is being noticed with Digital Platform Fulfilment Revenue per unit of GMV increasing from 0.066 to 0.077 during 2020 and to 0.094 during the first 3 quarters of 2021. As a result, we project Digital Platform Fulfilment Revenue per unit of GMV to remain at the current level until 2023 and the reduction of freight rates to gather pace after that.

▪ **Brand Platform Forecast**

With the inclusion of the Brand Platform operating segment, which is comprised of B2B activities, to its portfolio, Farfetch opened doors to a completely new way of doing business: the firm was no longer only a marketplace, starting also focusing on design, production, and brand development activities. By now, Farfetch already started proving its ability to keep innovating and developing brands, namely with the launch of *There Was One*. While more conservative investors have doubted about this relatively new segment as it could partially neutralize one of the firm’s main sources of competitive advantage – its *“light-inventory” policy* - from our perspective, this was a clever move from Farfetch that enabled it to go along with new customer preferences – the casual wear trend – which we believe will bring incremental demand to the firm, namely with the casual-oriented brand Off-White, under the NGG.

During 2020, the performance of this segment was harmed by Covid-19 as Farfetch’s clients had to close their stores and stop

<sup>11</sup> Farfetch 2020 Annual Report



**Graph 33:** Farfetch's Brand Platform Revenues Forecast (2021F -2025F)  
Source: Own estimates

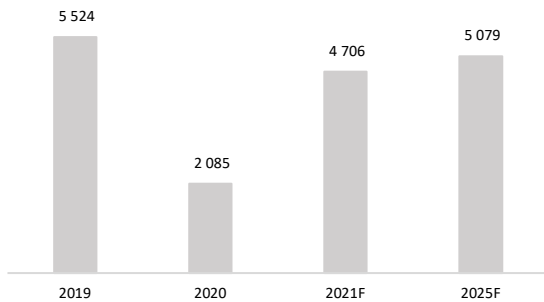
their operations several times during that year. Consequently, based on our expectations for the offline market recovery, the increase of casual wear demand and the development of Farfetch's brand, we are projecting Brand Platform Revenue to grow significantly, at a CAGR of 38% within the next 5 years, reaching \$1.9B in 2025. However, it should be noticed that, because this is a relatively new segment, there is no relevant data about historical performance that could be used as a reference to forecast future years. Thus, Brand Platform revenues were forecasted based on In-store segment performance on its first years of activity, after Browns' acquisition by Farfetch. Even though these are two distinct segments, they are indirectly related, and they are likely to evolve similarly as in the latter Farfetch acts as a retailer to the final consumer and in the first it acts as a supplier to the retailer. It should be mentioned that Farfetch acquired Browns on May 2015 and the period between 2015 and 2020 of In-store segment can be seen as the "homologous period" for the Brand platform segment between 2019 and 2024.

▪ In-Store Forecast

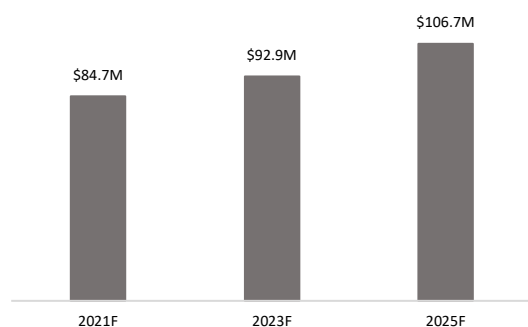
Farfetch's in-store segment has always been a minor one for the firm, with its revenues accounting for only 3% of firm's total revenues during 2019. With online shopping becoming more prevalent, we foresee a profound reshape in the way Farfetch manages and embraces its in-store activities.

From now onwards, this business unit will have to adapt to the "new era of luxury" and Farfetch will be forced to reinvent its stores in order to augment retail experience, which is where in-store shopping can overperform online shopping.

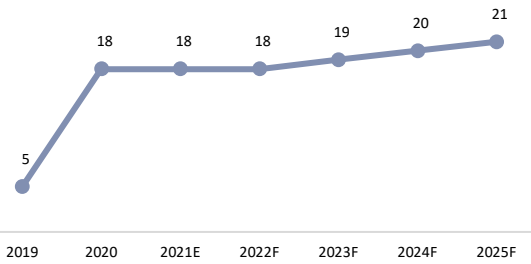
During 2020 this business unit was negatively affected by the pandemic as stores were forced to close at various times because of governments' enforced lockdowns and given that the consumer traffic to stores that remained open decreased substantially, not only because consumers were less willing to go there, but also due to a reduction in international travel explained by travel restrictions, in a market where "20% to 30% of industry revenues are generated by



**Graph 34:** Revenues per store Forecast (2019 - 2025F) (in \$)  
Source: Own estimates



**Graph 35:** Farfetch's In-Store Revenues Forecast (2021F -2025F)  
Source: Own estimates



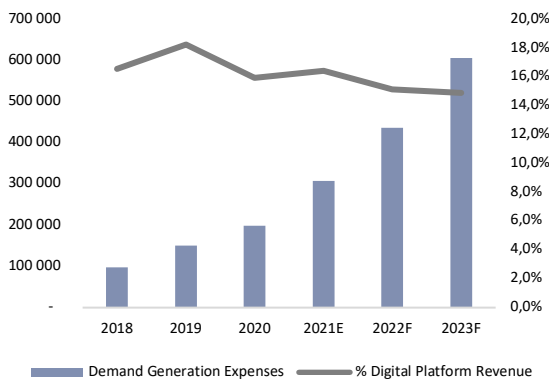
Graph 36: Number of stores Forecast (2019 - 2025F)

Source: Own estimates

consumers making luxury purchases outside their home countries”.<sup>12</sup> For this reason, we project a growth of in-store revenues of nearly 126% and revenues per store to increase from \$2,085 thousand (2020) to \$4,706 thousands during 2021. In the next year we predict the number of stores directly operated by Browns, Stadium Goods and New Guards to remain constant, at 18 stores. From 2023 onwards, we expect the number of stores to evolve hand to hand with the offline market real growth. Consequently, as of 2025, we project in-store to hit \$106.7M, representing only 1% of Farfetch’s total revenues.

### Demand Generation Expenses

Demand Generation Expenses are marketing costs meant to support the Digital Platform and consist mainly of fees paid to media and affiliate partners. These are essential for potential customers to know about the company and therefore are the most relevant costs, especially given the highly competitive nature of the market, which highlights how important it is for Farfetch to create brand recognition and capture new customers and sellers, while maintaining its existing ones. We expect the company to be able to keep decreasing these expenses in percentage of Digital Platform Revenues, even though at a slower pace than in 2020, to reach nearly 15% by 2023.



Graph 37: Demand Generation Expenses Forecast (in thousands)

Source: Farfetch’s Annual reports and Own estimates

### Consumer Acquisition Cost (CAC)

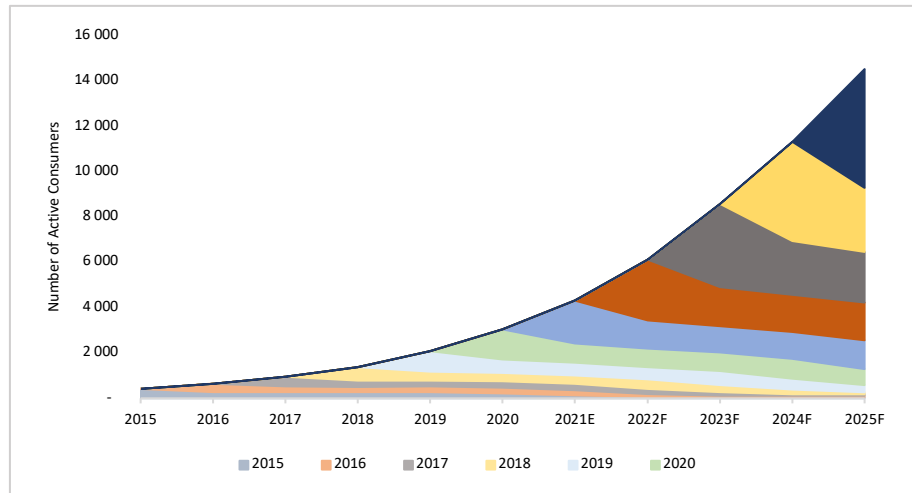
Farfetch defines its Platform Consumer Acquisition Cost as the “demand generation expense attributable only to new consumer acquisition during a specific time period divided by the number of new consumers acquired during the same period”.<sup>13</sup> To assess how our implicit assumptions on Demand Generation Expenses will influence Farfetch’s Digital Platform Consumer Acquisition Cost (CAC), we decided to perform a Cohort Analysis. To do so, for the sake of identifying the number of Existing Consumers on a certain year’s total Active Consumers, we used data extrapolated by Deutsche Bank from

<sup>12</sup> McKinsey

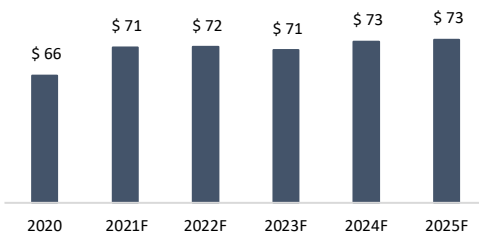
<sup>13</sup> Farfetch F-1

Farfetch's F-1 about the percentage of original GMV repeated in the following six years and assumed that consumer retention rates equal the median of Platform GMV retention rates for each year. The result of this procedure can be seen in graph 38.

**Graph 38:** Consumer Cohort Analysis (estimated)



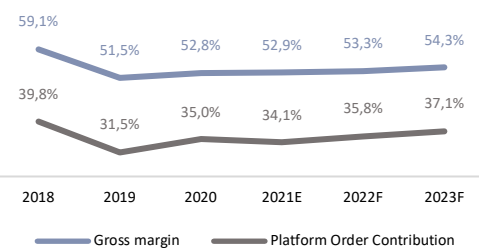
Source: Deutsche Bank, Farfetch F-1 and Own Estimates



**Graph 39:** Estimated Consumer Acquisition Cost (2020 – 2025F)

Source: Own Estimates

Once we had the number of existing consumers and, by difference, the number of new consumers, it was possible to calculate the CAC. As shown in graph 39, we are estimating a \$66 CAC for 2020 and implicitly projecting an increase of this cost to \$71 during 2021, what is aligned with our vision for the company in the near future: as e-commerce becomes more popular, it will naturally attract new investors and players and, as a retaliation mechanism, Farfetch might be forced to increase its marketing expenses. Furthermore, research revealed that, on average, e-commerce CAC ranges between \$81 and \$87, strengthening our expectations of an increase.

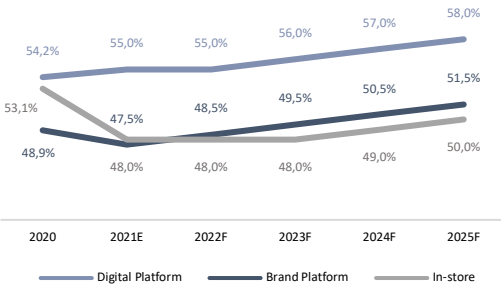


**Graph 40:** Gross margin and Platform Order Contribution Forecast

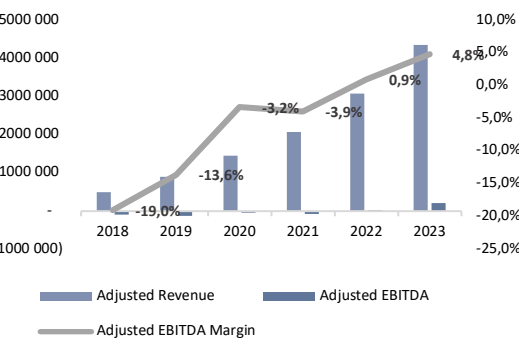
Source: Farfetch's Annual reports and Own estimates

### Profit margins

Despite the fact that United Kingdom's withdrawal from the European Union – Brexit – may harm Farfetch's profitability through an increase of distribution costs, we expect profit margins to keep improving in the near future.



**Graph 41:** Gross margin Forecast, per segment  
Source: Farfetch's Annual reports and Own estimates



**Graph 42:** Adjusted EBITDA and Adjusted EBITDA margin Forecast (in thousands)  
Source: Own estimates

The forecasted boost in **gross profit** can be justified by our expectations of better economies of scale in shipping/logistics and to the growth of Farfetch's main segment, Digital Platform.

On a segmental level, we see Digital Platform's **gross margin** to keep improving year-after-year as well as overperforming the other business units.

Regarding **Digital Platform Order Contribution** (graph 40), we are forecasting it to gradually expand as an indication of an increasing ability to extract digital consumer value from Demand Generation Expenses. Since this metric will increase at a higher pace than Digital Platform Revenues, we expect Digital Platform Order Contribution Margin to improve gradually in the future.

Even though we expect the operating result to turn positive only in 2028, these losses have a "non-monetary impact" and we believe the company will reach operating profitability already in 2022, with a positive **Adjusted EBITDA Margin** of 0.92%.

## Valuation

### Cost of Capital

	2017	2018	2019	2020
Borrowings	-	-	-	635 237
Leases	-	-	119 318	191 403
<b>Total Debt</b>	-	-	119 318	826 640
Excess Cash	376 283	(1 032 738)	(302 008)	(1 539 943)
Non-controlling inter	-	-	170 226	168 556
<b>Net Debt</b>	376 283	(1 032 738)	(12 464)	(544 747)
Equity	396 903	1 128 431	1 167 606	(1 844 646)
<b>Net Debt to Equity</b>	-	-	-1,1%	29,5%

**Table 8:** Farfetch's past capital structure (in thousands)  
Source: Farfetch's Annual report and own computations

Even though Farfetch did not have debt in its Balance sheet in 2017 and 2018, by 2019 it raised debt in the form of leases, leading to a -1% Net Debt to Equity ratio, and, more recently, during 2020, the firm issued convertible notes.

Not only given that **Net Debt-to-Equity values have been fluctuating a lot**, but also because comparable companies tend to have unstable ratios, most of which with negative Net Debt/Equity ratios (table 9), we do not think Farfetch will have a target leverage ratio in the foreseeable future.

Therefore, since we believe the future trend will be to have unstable capital structure ratios, we decided to value Farfetch's stock using the **APV approach**.

Net Debt/Equity	2018	2019	2020	Average
Shopify	-93%	-71%	-86%	-83%
Etsy	-16%	7%	-75%	-28%
Amazon	-19%	13%	-0,01%	-2,0%
eBAY	69%	191%	121%	127%
Boohoo	-66%	-70%	-70%	-69%
<b>Median</b>				<b>-28%</b>

**Table 9:** Comparables' past capital structure  
Source: Firms' Annual reports and own computations

▪ Cost of Equity<sup>14</sup>

Risk-free rate and MRP:

The risk-free rate (rf) chosen was the 30-Year US Treasury Yield – **1.98%**, which is in the same currency and has a similar maturity to our cashflows. Regarding the Market Risk Premium (MRP), we decided to use the Equity market risk premium suggested by KPMG – **5.0%**.

Equity Beta:

To perform the equity beta estimation, 3 approaches were used:

In our **1<sup>st</sup> approach**, we measure to which extent Farfetch’s equity is sensitive to changes in the stock market, where the S&P index was used as a proxy to the market portfolio. We reached an equity beta of **0.56**, a value that, in our judgment, seems to be too low and to not reflect Farfetch’s sensibility to market fluctuations. Because of that, we decided to remove some data that we considered as outliers and that appeared to be biasing the results, leading us to the **2<sup>nd</sup> approach**. The reason behind this is that even though Farfetch is a luxury fashion retailer, and so it operates in a market that is highly exposed to market oscillations (for instance, during 2020 the luxury personal goods market contracted for the first time since 2009, falling by 21%), the fact that it is an online retailer more than compensated the market contraction due to a strong migration of sales to online, a specificity of Covid-19 crisis. By doing so, an equity beta of **1.26** was obtained, which may be inflated by abnormalities shown by a confidence interval of ]1.253, 1.275], with a 95% level of confidence. To complement our analysis, a **3<sup>rd</sup> approach** was used considering comparable companies’ betas, with similar business models. By doing so, we reached an industry unlevered beta of **1.27** (table 11), leading to an equity beta of **1.29** when considering Farfetch’s Debt to Market Cap. ratio. Finally, by triangulating the 2<sup>nd</sup> and 3<sup>rd</sup> approaches, we achieved an equity beta of **1.28**. The levered cost of equity (r<sub>E</sub>) equals **8.4%** whereas the unlevered cost of equity (r<sub>U</sub>) amounts to **8.3%**, resultant from a **1.26** unlevered beta.

1st approach: FTCH equity beta (β <sub>E</sub> )	0,56
2nd approach: FTCH equity beta (β <sub>E</sub> ) eliminating outliers	1,26
3rd approach: FTCH equity beta (β <sub>E</sub> ) based on industry’s peers	1,29
<b>Equity beta (β<sub>E</sub>)</b>	<b>1,28</b>

Risk-free rate (rf)	1,98%
Market Risk Premium (MRP)	5,00%
<b>Cost of equity (r<sub>E</sub>)</b>	<b>8,4%</b>
FTCH Unlevered Beta (β <sub>U</sub> )	1,26
<b>Unlevered Cost of equity (r<sub>U</sub>)</b>	<b>8,3%</b>

Table 10: Equity beta

Source: Own computations

Firm	Asset beta (β <sub>A</sub> )
Farfetch	0,57
Shopify	1,45
Square	2,27
eBay	0,98
Amazon	1,06
<b>Industry Average (β<sub>A</sub>)</b>	<b>1,27</b>

Table 11: Industry asset betas

Source: Own computations

<sup>14</sup> To compute the cost of equity, we used the CAPM equation:  $E(r) = r_f + \beta * MRP$ .

▪ Cost of Debt

Farfetch has no publicly traded straight bonds (just convertible notes) neither a defined credit rating. Consequently, we decided to follow a synthetic credit rating approach.

There are many positive factors that could allow Farfetch to achieve an investment grade rating, besides the fact of operating in high-rated countries from a credit rating standpoint: (i) its low historical debt levels; (ii) its past ability to repay its debt (in 2016, the firm issued debt for the first time, which was fully repaid in one year) and (iii) its great growth prospects in a fast-growing market, where tech firms tend to have low annual default rates and high credit ratings (tables 13 and 14), meaning that Farfetch operates in a relatively safe industry from a default point of view. Despite that, we believe its unprofitability and the nature of its assets, which are mainly intangibles and hence cannot be used as collateral, would limit its credit rating to a great extent, especially because profit margins and coverage ratios have a big weight on rating agencies' decisions when assessing a firm's credit worthiness and its ability to repay its debt.

Hence, we believe that Farfetch would not be able to achieve an investment grade rating. As a result, we assign a **Ba2 rating** according to Moody's scale.

By using a corporate bond of a comparable company (Square) with the same credit rating (Ba2), we reached an annualized YTM of 7% leading us to a cost of debt<sup>15</sup> of **6.24%**, with a PD = 1.16% and LGD = 65.8%.<sup>16</sup>

Long-term value drivers: ROIC, RONIC and Growth

Historically, Farfetch's Operating Return on Invested Capital – Core ROIC - has been highly volatile and negative, what is not surprising for a flourish but still unprofitable firm, with high growth prospects, like Farfetch. Particularly, from 2019 to 2020 its **Core ROIC** increased from **-494%** to **-47%**. While, at the first sight this improvement might signal a remarkable progress on firm's returns, this rise needs to be carefully analyzed as the reason for such

Country	Credit rating
United States	Aaa
United Kingdom	Aa3
China	A1
European Union	Aaa

Table 12: Credit rating, by country  
Source: Moody's

Annual Default Rates By Broad Industry Group, 2015-2017			
	2015	2016	2017
High tech industries	0,47%	0,81%	1,28%

Table 13: High tech / Tech industries annual default rates (2015 – 2017)  
Source: Moody's

Tech firms ratings	Moody's rating
Amazon	A1
eBAY	Baa1
<b>Square</b>	<b>Ba2</b>
Alibaba	A1

Table 14: Credit rating, by tech firm  
Source: Moody's

YTM	3,50%
YTM (annualized)	7,00%
Probability of default (Ba2) 10Y annualized	1,160%
Loss given default	65,8%
Probability of default * Loss given default (EL)	0,76%
<b>rD</b>	<b>6,24%</b>
<b>βD</b>	<b>0,85</b>

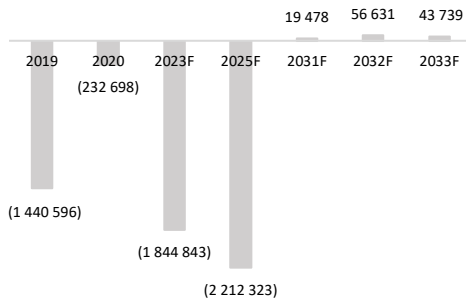
Table 15: Cost of debt and Debt Beta  
Source: Own estimates

WACC	
Cost of equity	8,36%
Cost of debt after tax	5,05%
Debt/capitalization	6%
<b>WACC</b>	<b>8,2%</b>

Table 16: Weighted Average Cost of Capital  
Source: Own computations

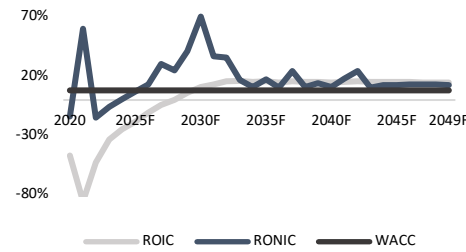
<sup>15</sup> rD = YTM - Probability of default (Ba2) \* Loss given default

<sup>16</sup> Moody's annual default study of 2021



Graph 43: Operational FCF Forecast

Source: Own estimates



Graph 44: Long-term value creation drivers (%)

Source: Own estimates

Long-term growth rate	
Region	Long-Term Real GDP growth
United States	1,6%
United Kingdom	1,5%
Other Countries	1,8%
<b>Weighted Average Long-term real GDP growth</b>	
	<b>1,7%</b>
<b>Long-term inflation rate</b>	
	<b>1,9%</b>
<b>Long-term nominal growth rate</b>	
	<b>4%</b>

Table 17: Long-term growth rate

Source: PWC and Statista

change can be mainly explained by particularities of 2019 and 2020: (i) Farfetch’s considerable investment amounts during 2019 with the acquisitions of Stadium Goods and the New Guards Group followed by a (ii) pandemic year that created a huge demand boost for Farfetch as consumers tried to avoid contagion and physical stores were closed. Consequently, we are projecting a decrease to **-86%** of Farfetch’s Operational ROIC during 2021.

As referred in our *Growth Strategies* section, in previous years, one of the firm’s main strategies for growth has been inorganic growth through the acquisition of new brands, trademarks, and domain names. As such, we believe that, at least in the near future, Farfetch will continue to further explore this path for growth, what can lead to a substantial increase in its year-after-year Invested Capital and consequently to an extension of negative Operational FCFs.

As Farfetch grows and matures, we expect both its Core ROIC and RONIC to continuously decline towards 15% and 13%, respectively. Since Farfetch’s Marketplace is a recognized and valuable partner for its third-party sellers and boutiques - not only due to its technical know-how and expertise, but also due to consumer’s confidence on its platform - we project these value drivers to remain **above the Cost of Capital of 8.2%** (for further explanation, see *Competitive Advantage* section of this report).

In perpetuity, the operational FCF will grow at the nominal terminal growth rate of 4.17%, what seems to be reasonable considering a weighted average long-term real GDP growth of about 1.7% and a long-term inflation rate of 1.9%.

## Adjusted Present Value (APV)

Table 18: APV Model

in thousands \$	FY 2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2035	FY2040	FY2045	FY2049	Terminal value
Discounted Unlevered FCF		(1,704,151)	(1,507,196)	(1,743,791)	(1,240,658)	(1,081,207)	(847,259)	(81,377)	(12,861)	53,638	806,712	760,533	668,638	17,058,887
PV (Unlevered EV)	17,798,313													
Discounted Tax shields		7,311	8,036	6,785	9,474	12,000	11,220	13,548	15,284	6,850	4,858	2,103	1,868	46,594
PV (ITS)	234,879													
<b>Operating EV</b>	<b>18,033,192</b>													

Source: Own Computations

Operating EV	18,033,192
Non-core IC	(3,223,101)
Levered EV	14,810,091
Net Debt	(62,246)
Equity Value	14,872,336
Shares outstanding	354,210,144
Price per share	<b>\$ 41,99</b>

Table 19: Stock Price

Source: Own Computations

Once our forecasts entered in a stabilized phase, we then computed Farfetch’s unlevered Enterprise Value and ended up obtaining a **share price of \$41.99**.

### Sensitivity Analysis

A sensitivity analysis was conducted on the inputs we feel more unsure about to understand how changes in these values would affect our valuation. Since Farfetch does not have a credit rating nor regular debt from which we could extrapolate the YTM of a straight bond, the cost of debt is one of the variables that we are more doubtful about. Table 20 presents a sensitivity analysis in which we used the cost of unlevered equity ( $r_U$ ) and the cost of debt as the changing variables.

**Table 20:** Stock price sensitivity to the unlevered cost of equity ( $r_U$ ) and cost of debt ( $r_D$ )

		$r_U$											
		41,99	8,01%	8,06%	8,11%	8,16%	8,21%	8,26%	8,31%	8,36%	8,41%	8,46%	8,51%
$r_D$	4,74%	49,78	48,19	46,64	45,14	43,67	42,25	40,87	39,53	38,22	36,95	35,71	
	5,24%	49,67	48,08	46,53	45,02	43,56	42,14	40,76	39,41	38,10	36,83	35,59	
	5,74%	49,59	47,99	46,44	44,94	43,48	42,05	40,67	39,33	38,02	36,75	35,51	
	6,24%	49,52	47,93	46,38	44,87	43,41	41,99	40,60	39,26	37,95	36,68	35,44	
	6,74%	49,47	47,87	46,32	44,82	43,35	41,93	40,55	39,21	37,90	36,63	35,39	
	7,24%	49,42	47,83	46,28	44,77	43,31	41,89	40,51	39,16	37,85	36,58	35,34	
	7,74%	49,38	47,79	46,24	44,73	43,27	41,85	40,47	39,12	37,81	36,54	35,30	

Source: Own Computations

As for the cost of debt, it is possible to conclude that the possible values it can assume have a minor impact on the share price, which ranges between \$41.85 and \$42.25 for the same cost of unlevered equity. Therefore, as we expected, the cost of debt is not a critical element affecting Farfetch’s stock valuation. Regarding the  $r_U$ , its influence on valuation is higher, leading the share price to fluctuate between \$35.44 and \$49.52, *ceteris paribus*. Finally, the combined effect of changes on these two inputs can be deemed to be large, with the share price ranging from \$35.30 to \$49.78.

We also ran a sensitivity analysis on the long-term growth rate, as it is a key variable for Terminal Value’s computation, which will obviously have a strong impact in the Present Value of Cash-Flows given that it accounts for roughly 96% of the Unlevered Enterprise Value.

**Table 21:** Stock price sensitivity to the unlevered cost of equity ( $r_U$ ) and terminal growth rate

		$r_U$											
		41,99	8,01%	8,06%	8,11%	8,16%	8,21%	8,26%	8,31%	8,36%	8,41%	8,46%	8,51%
$g$	2,67%	33,60	32,54	31,51	30,50	29,51	28,54	27,60	26,68	25,77	24,89	24,02	
	3,17%	37,81	36,62	35,46	34,33	33,22	32,14	31,09	30,06	29,06	28,08	27,12	
	3,67%	42,99	41,63	40,30	39,01	37,76	36,53	35,34	34,17	33,04	31,93	30,85	
	4,17%	49,53	47,93	46,38	44,88	43,41	41,99	40,61	39,26	37,96	36,68	35,45	
	4,67%	58,02	56,09	54,23	52,42	50,67	48,98	47,33	45,74	44,19	42,70	41,24	
	5,17%	69,51	67,09	64,75	62,49	60,32	58,23	56,20	54,25	52,36	50,54	48,77	
	5,67%	85,93	82,69	79,59	76,63	73,78	71,06	68,44	65,93	63,52	61,20	58,97	

Source: Own Computations

As expected, the share price varies more in comparison to table 21. Concretely, the importance of the perpetuity growth rate is visible in share price disparities – [ \$28.54 ; \$71.06 ] - for the same  $r_u$ .

Finally, we tried to understand how our proposed valuation would change if we used the asset beta that we obtained in our first approach used to compute the equity beta (0.57) and if we used 1.27, which is the industry unlevered beta in our third approach. In the first case, the share price would be too high, which confirms our belief that 0.57 is not a reasonable value for the equity beta, whereas in the second case the share price would not differ that much from the one we obtained.

$\beta_u$	0,57	1,26	1,27
$r_u$	4,85%	8,26%	8,31%
Share price	704,57	41,99	40,37

Table 22: Share price sensitivity to asset beta

Source: Own Computations

## Relative Valuation

### Multiples

Comparables	EV/Sales	P/Sales
ETSY	14,35x	13,67x
Boohoo	1,44x	1,47x
Amazon	4,04x	3,92x
EBAY	3,17x	3,62x
Square	5,23x	5,19x
My Theresa	2,98x	3,04x
25% Quartile	2,59x	2,65x
Median	3,61x	3,77x
75% Quartile	7,51x	7,31x

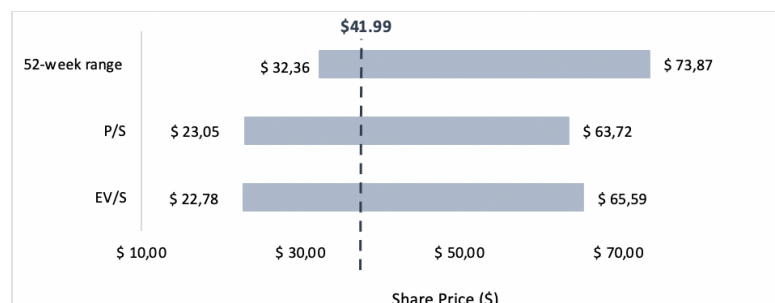
Table 23: Peer's Multiples

Source: Yahoo Finance and Annual reports

To complement our DCF valuation, we decided to incorporate current market expectations on the industry through a Relative Valuation. To do so, we took into consideration: **(i)** three other internet marketplaces with similar business models - ETSY, Amazon, and eBay; **(ii)** two fashion retailers - Boohoo and Mytheresa, this latter being, in our view, a direct competitor for Farfetch; and **(iii)** one technology enablement company – Square, which might attract Farfetch's sellers by enabling e-commerce.

Using the last 12 months of data, 2 multiples were computed: the *EV to Sales* and the *Price to Sales* multiples. Notice that multiples based on past earnings were not considered as historically Farfetch did not achieved a full year of positive results. Regarding the **EV-to-Sales** multiple, we reached values ranging from 1.44x to 14.35x (Table 23). Then, considering the first and third quartiles of the mentioned peer sample we arrived at a price per share for Farfetch ranging between \$22.78 and \$65.59 (Graph 45). Similarly, using the **P-to-Sales** we reached a stock price that ranges from \$23.05 and \$63.72, with the multiple ranging from 1.47x to 13.67x.

Graph 45: Football Field



Source: Yahoo Finance and Annual reports

## Scenario Analysis

Scenario	Share Price	Probability
Base	\$ 41,99	80%
Conservative	\$ 27,23	10%
Optimistic	\$ 52,44	10%
Target price	\$ 41,56	

**Table 24:** Target price

Source: Own Estimates

To enhance investors' confidence on our final recommendation, in this section we will perform a scenario analysis. To do so, we will present 3 different scenarios that are essentially built based on the major risks the company and the industry are facing, which we identified throughout the present report.

### Risk Summary

#### (i) Covid-19 recovery and *There Was One* success

The ongoing Covid-19 pandemic represented a break in growth for many industries, and the Personal Luxury Goods one was no exception. The question arising now is how quickly this industry will recover from this crisis and get back on track to win back 2019 market levels. The launch of *There Was One* in such critical times may harm the brand's ability to penetrate within the market and succeed in attracting its target consumers.

#### (ii) Bargaining power of Farfetch's 3P sellers

Given the current outlook and the high search for e-commerce solutions, increased and intense competition might appear and Farfetch's third-party sellers may choose alternative platforms to sell their products or even develop their own platforms. Indeed, brands and small boutiques may start rejecting Farfetch high take-rates if their ability to make profitable sales starts being affected. An example of such threat is *Amazon Luxury Stores*, a platform launched in September 2020 by Amazon that enables luxury fashion clothes to be sold via its website.

#### (iii) Capture of Chinese Customers

Even though we believe Farfetch has advantage in the Chinese market over its competitors due to its partnership with Alibaba, the success and penetration in this market is not guaranteed, especially given the strong shift to local purchasing verified in China during 2020<sup>17</sup>.

<sup>17</sup> Bain & Co., 2020

Base scenario:

Our **Base scenario** was calculated based on the assumptions we consider to be the most likely ones (80% probability), given the current economic and market outlook. Following the strong momentum verified in 2021, this scenario predicts that the market will be 100% recovered from the pandemic by 2022, year when it is expected to return to 2019's level. This is the case exposed in the previous sections of the present report and, following the implicit assumptions, we arrived at a price per share of **\$41.99**.

Conservative and Optimistic scenarios

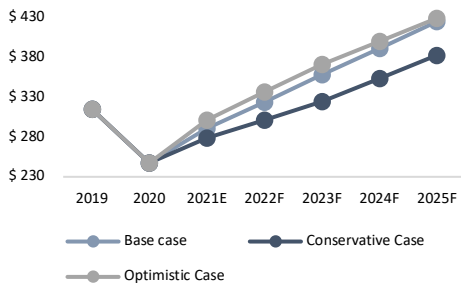
In January 2021 Bain & Co. published a study named *The Future of Luxury: Bouncing-Back form Covid-19*, where it makes projections about how the market is expected to recover from Covid-19 and evolve over a 5-year period. In this report, Bain presents a range of values for the Worldwide Personal Luxury Goods market size between 2021 and 2025, which we present in table 25.

Conservative scenario:

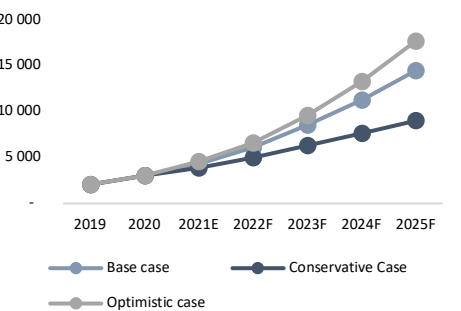
In our **Conservative scenario**, to which we have assigned a 10% probability, we test Bain's lowest estimations for the market value, in which market recovery from Covid-19 will occur more gradually over the years as compared to our Base case: in this scenario, the market is expected to reach 2019 level by 2023. Furthermore, this scenario accounts for the circumstance that the partnership with Alibaba and Richemont does not occur as expected and Farfetch struggles to acquire incremental demand from Chinese consumers. Consequently, the evolution of Farfetch's market share over the next 5-year period will not be as positive as in our Base scenario and it is projected to reach 7.5% by 2025 (vs. 9.3% in our Base case). Finally, this scenario also considers the likeliness that Farfetch will have to accept a higher decrease than expected on its 3P take-rate driven by an increased bargaining power of its marketplace's sellers as new players appear in the market trying to capture those partners. As a result, Farfetch can be forced to further decrease its take-rate to 25.5% by 2025 (vs. 29% in our Base case) in order to lock-in its current partners. Taking everything into account, our Conservative case can be translated into a share price of **\$27.23**.

Bain Estimates at the current EUR/USD exchange rate				
2021	2022F	2023F	2024F	2025F
\$278 - \$302	\$302 - \$336	\$325 - \$371		\$383 - \$429

**Table 25:** Bain Estimates for the market value (2021F – 2025F) (in \$B)  
Source: Bain & Co.



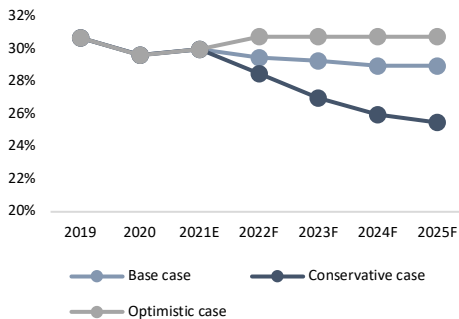
**Graph 46:** Expected market size per scenario (2019 – 2025F) (in \$B)  
Source: Bain & Co. and Own Estimates



**Graph 47:** Active Consumers per scenario (2019 – 2025F) (in thousands)  
Source: Farfetch's Annual Report and Own Estimates

Optimistic scenario:

Conversely, in our **Optimistic scenario**, to which we assign a 10% likelihood, we test the maximum value of Bain's estimated ranges for the size of the worldwide personal luxury goods market between 2021 and 2025. In this scenario, similarly to our base case, a return to 2019 demand levels is likely to occur during 2022. Moreover, the partnership with Richemont and Alibaba will turn out to be more successful than expected, leading Farfetch's Active consumers to grow 6x in the next 5 years to reach nearly 18 million active consumers by 2025 and a market share of 11% (compared to 9,3% in our Base case). Lastly, this scenario assumes that the appearance of new players in the market will not harm Farfetch's performance due to the strong and long-lasting relationship the firm has built overtime, with both its customers and sellers. Consequently, Farfetch will be able to sustain its 3P take-rate at its historical levels' average. Based in our Optimistic scenario, the expected price per share is **\$52.44**.

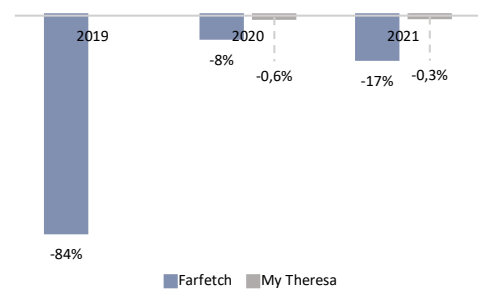


**Graph 48:** Third-party take-rate per scenario (2019 – 2025F)  
Source: Farfetch's Annual Report and Own Estimates

## Final Recommendation

A favorable market outlook and a strong revenue growth forecast for the upcoming years provide good prospects for the company which, according to our DCF valuation and scenario analysis, we project to be traded at **\$41.56** as of December 31, 2022. Even though the firm was not yet able to show net positive incomes, a large portion of those negative results can be partially explained by non-cash items and big investments made on behalf of future growth, therefore not reflecting Farfetch's operating performance. Looking closely to operating results, the outlook is more favorable since, as of the 4<sup>th</sup> quarter of 2020, Farfetch reached for the first time a positive Adjusted EBITDA margin, strengthening our belief that the prospects are good and the future is promising, bringing interesting margins.

Considering a current market share price of **\$30.54** and the fact that Farfetch has not previously paid any dividends on its ordinary shares and does not anticipate paying them in the foreseeable future (no dividend yield), this translates into a shareholder's return of **36%**. Therefore, as of 17<sup>th</sup> December 2022 our final recommendation is for investors to **BUY** Farfetch's stock.



**Graph 49:** Cash-flow from investing activities to Revenue ratio (9 months ended) (2019 – 2021)  
Source: Annual Reports and Own Computations

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# Appendix

## 1 - Balance Sheet

<i>in thousands \$</i>									
		2018	2019	2020	2021E	2022F	2023F	2024F	2025F
Operating Cash		12 048	20 421	33 478	49 348	73 873	104 101	139 685	184 561
	% Revenues	2%	2%	2%	2%	2%	2%	2%	2%
Trade Receivables		2 727	41 484	49 833	67 601	101 196	128 344	172 215	252 824
	Collection Period	2	15	11	10	10	9	9	10
Inventories		60 954	128 107	145 309	269 965	393 071	529 927	667 222	836 678
	Holding Period	73	83	59	72	70	68	65	63
Other receivables		100 710	160 801	218 194	374 245	597 167	893 576	1 268 859	1 768 784
	% Revenues	17%	16%	13%	15%	16%	17%	18%	19%
Development Costs (net)		61 683	109 373	148 180	245 131	517 110	728 709	907 953	1 199 650
	% Revenues	10%	11%	9%	10%	14%	14%	13%	13%
Brand, trademarks & domain names (net)		4 906	908 303	771 393	1 233 712	2 031 503	2 758 685	3 422 285	4 337 195
	% Revenues	1%	89%	46%	50%	55%	53%	49%	47%
Other Intangible assets (net)		713	4 224	3 234	6 169	12 928	15 615	17 461	19 379
	% Revenues	0,12%	0,41%	0,19%	0,25%	0,35%	0,30%	0,25%	0,21%
PP&E (net)		37 528	183 175	268 309	298 043	374 534	478 440	594 684	720 376
Trade and other payables		(102 720)	(204 073)	(371 289)	(509 394)	(729 989)	(1 013 097)	(1 334 444)	(1 660 075)
	Payable period	123	133	150	135	130	130	130	125
Deferred revenue		(4 145)	(29 966)	(30 957)	(45 009)	(67 376)	(94 946)	(127 400)	(168 330)
	% Revenues	1%	3%	2%	2%	2%	2%	2%	2%
Accruals		(85 779)	(179 657)	(263 898)	(391 504)	(606 098)	(854 111)	(1 146 063)	(1 514 256)
	% Revenues	14%	18%	16%	16%	16%	16%	16%	16%
Provisions		(10 947)	(7 979)	(138 078)	(32 061)	(47 994)	(67 633)	(90 751)	(92 281)
	% Revenues	2%	1%	8%	1%	1%	1%	1%	1%
<b>Operating Invested Capital</b>		<b>77 678</b>	<b>1 134 213</b>	<b>833 708</b>	<b>1 566 245</b>	<b>2 649 924</b>	<b>3 607 611</b>	<b>4 491 705</b>	<b>5 884 504</b>
Goodwill (net)		36 043	341 067	356 521	356 521	356 521	356 521	356 521	356 521
Investments		566	16 229	8 278	8 278	8 278	8 278	8 278	8 278
Investments in associates		86	2 466	2 319	2 319	2 319	2 319	2 319	2 319
Employee benefit obligations		(15 342)	(16 455)	(64 402)	(64 402)	(64 402)	(64 402)	(64 402)	(64 402)
Deferred Tax assets (liabilities), net		(1 514)	(240 881)	(169 923)	(169 923)	(169 923)	(169 923)	(169 923)	(169 923)
Provisions		(2 515)	(15 725)	(18 181)	(18 181)	(18 181)	(18 181)	(18 181)	(18 181)
Other financial liabilities		-	(809)	(5 371)	(5 371)	(5 371)	(5 371)	(5 371)	(5 371)
Put and call option liabilities		-	(62 386)	(348 937)	(348 937)	(348 937)	(348 937)	(348 937)	(348 937)
Derivative Product Liabilities		-	-	(2 996 220)	(2 996 220)	(2 996 220)	(2 996 220)	(2 996 220)	(2 996 220)
Forward foreign currency exchange contracts, net		691	(2 577)	12 815	12 815	12 815	12 815	12 815	12 815
<b>Non-operating Invested Capital</b>		<b>18 015</b>	<b>20 929</b>	<b>(3 223 101)</b>	<b>(3 223 101)</b>	<b>(3 223 101)</b>	<b>(3 223 101)</b>	<b>(3 223 101)</b>	<b>(3 223 101)</b>
<b>Total Invested Capital</b>		<b>95 693</b>	<b>1 155 142</b>	<b>(2 389 393)</b>	<b>(1 656 856)</b>	<b>(573 177)</b>	<b>384 510</b>	<b>1 268 604</b>	<b>2 661 403</b>
Excess of cash		(1 032 738)	(302 008)	(1 539 943)	(1 098 291)	(981 454)	(1 003 360)	(817 062)	(1 045 848)
Borrowings & Leases		-	119 318	826 640	749 804	750 652	876 560	786 274	1 166 314
Non-controlling interests		-	170 226	168 556	168 556	168 556	168 556	168 556	168 556
<b>Net Debt (Cash)</b>		<b>(1 032 738)</b>	<b>(12 464)</b>	<b>(544 747)</b>	<b>(179 930)</b>	<b>(62 246)</b>	<b>41 757</b>	<b>137 767</b>	<b>289 022</b>
<b>Common Equity</b>		<b>1 128 431</b>	<b>1 167 606</b>	<b>(1 844 646)</b>	<b>(1 476 925)</b>	<b>(510 931)</b>	<b>342 753</b>	<b>1 130 837</b>	<b>2 372 381</b>

## 2 – Revenue Drivers

Revenue Drivers											
<i>in thousands \$ (except AOV and orders per AC)</i>				2018	2019	2020	2021E	2022F	2023F	2024F	2025F
<b>Revenue by operating segment</b>											
In-store revenues / GMV		15 595	27 621	37 524	84 712	86 407	92 940	99 690	106 664		
Brand-Platform revenues / GMV		-	164 210	390 014	508 187	728 432	1 041 112	1 484 286	1 940 886		
Digital Platform Revenues		586 789	829 206	1 246 384	1 874 524	2 878 804	4 071 015	5 400 280	7 180 525		
<b>Total revenues</b>		<b>602 384</b>	<b>1 021 037</b>	<b>1 673 922</b>	<b>2 467 424</b>	<b>3 693 642</b>	<b>5 205 066</b>	<b>6 984 256</b>	<b>9 228 075</b>		
<b>In-store revenues / GMV</b>											
	<i>Nr. of stores</i>		5	18	18	18	19	20	21		
	<i>(x) Revenue per store</i>		5 524	2 085	4 706	4 800	4 892	4 985	5 079		
(=) In-store revenues		15 595	27 621	37 524	84 712	86 407	92 940	99 690	106 664		
<b>Brand Platform revenues / GMV</b>											
Brand Platform revenues		-	164 210	390 014	508 187	728 432	1 041 112	1 484 286	1 940 886		
	<i>Y/Y growth</i>			138%	30%	43%	43%	43%	31%		
<b>Digital platform revenues</b>											
<b>United States</b>											
	<i>Nr. Active consumers (AC)</i>	308	426	568	888	1 256	1 755	2 304	2 945		
	<i>(x) Orders per AC</i>	2,1	2,0	2,1	2,1	2,1	2,1	2,1	2,2		
(=) US Total orders		650	855	1 183	1 848	2 674	3 732	4 938	6 382		
	<i>(x) AOV</i>	619	608	568	611	634	630	637	645		
(=) US GTV		402 088	520 135	671 780	1 128 641	1 694 337	2 349 679	3 143 486	4 118 697		
	<i>(-) Returns &amp; Cancellations</i>	91 676	118 591	153 166	257 330	386 309	535 727	716 715	939 063		
	<i>% GTV</i>	22,8%	22,8%	22,8%	22,8%	22,8%	22,8%	22,8%	22,8%		
(=) US GMV		310 412	401 544	518 614	871 310	1 308 028	1 813 952	2 426 771	3 179 634		
(-) Digital Platform Fulfilment GMV		21 806	26 378	40 074	81 871	122 906	170 444	220 667	279 795		
(-) 1P Digital Platform GMV		24 566	42 302	74 347	95 218	156 085	224 910	285 226	382 458		
(=) 3P Digital Platform GMV		264 040	332 863	404 194	694 222	1 029 037	1 418 598	1 920 878	2 517 382		
<b>US Revenue</b>		<b>130 843</b>	<b>170 937</b>	<b>234 245</b>	<b>385 587</b>	<b>582 557</b>	<b>811 003</b>	<b>1 062 948</b>	<b>1 392 293</b>		
	<i>3P take rate</i>	32,0%	30,7%	29,6%	30,0%	29,5%	29,3%	29,0%	29,0%		
<b>United Kingdom</b>											
	<i>Nr. Active consumers (AC)</i>	145	159	274	393	556	779	1 024	1 311		
	<i>(x) Orders per AC</i>	2,1	2,0	2,1	2,1	2,2	2,1	2,2	2,2		
(=) UK Total orders		306	320	571	818	1 201	1 675	2 220	2 875		
	<i>(x) AOV</i>	619	608	568	611	634	630	637	645		
(=) UK GTV		189 705	194 302	324 310	499 500	761 271	1 054 346	1 413 138	1 855 220		
	<i>(-) Returns &amp; Cancellations</i>	43 253	44 301	73 943	113 886	173 570	240 391	322 196	422 990		
	<i>% GTV</i>	22,8%	22,8%	22,8%	22,8%	22,8%	22,8%	22,8%	22,8%		
(=) UK GMV		146 452	150 001	250 367	385 614	587 701	813 955	1 090 943	1 432 230		
(-) Digital Platform Fulfilment GMV		10 288	9 854	19 346	36 233	55 222	76 482	99 200	126 030		
(-) 1P Digital Platform GMV		11 590	15 803	35 892	42 140	70 130	100 921	128 222	172 274		
(=) 3P Digital Platform GMV		124 574	124 345	195 129	307 240	462 350	636 552	863 521	1 133 926		
<b>(+) UK Revenue</b>		<b>61 731</b>	<b>63 855</b>	<b>113 084</b>	<b>170 648</b>	<b>261 745</b>	<b>363 913</b>	<b>477 843</b>	<b>627 143</b>		
	<i>3P take rate</i>	32,0%	30,7%	29,6%	30,0%	29,5%	29,3%	29,0%	29,0%		
<b>Other Countries</b>											
	<i>Nr. Active consumers (AC)</i>	928	1 482	2 181	3 036	4 294	6 025	7 961	10 250		
	<i>(x) Orders per AC</i>	2,1	2,0	2,1	2,1	2,2	2,2	2,3	2,3		
(=) RoW Total orders		1 957	2 975	4 539	6 318	9 337	13 327	17 930	23 658		
	<i>(x) AOV</i>	619	608	568	611	634	630	637	645		
(=) RoW GTV		1 211 449	1 808 708	2 578 360	3 858 730	5 917 238	8 390 722	11 413 778	15 267 590		
	<i>(-) Returns &amp; Cancellations</i>	276 210	412 385	587 866	879 791	1 349 130	1 913 085	2 602 341	3 481 011		
	<i>% GTV</i>	22,8%	22,8%	22,8%	22,8%	22,8%	22,8%	22,8%	22,8%		
(=) RoW GMV		935 239	1 396 323	1 990 494	2 978 940	4 568 108	6 477 638	8 811 437	11 786 579		
(-) Digital Platform Fulfilment GMV		65 700	91 728	153 808	279 910	429 233	608 658	801 228	1 037 171		
(-) 1P Digital Platform GMV		74 013	147 101	285 350	325 542	545 107	803 154	1 035 634	1 417 731		
(=) 3P Digital Platform GMV		795 526	1 157 494	1 551 337	2 373 488	3 593 768	5 065 826	6 974 574	9 331 677		
<b>(+) RoW Revenue</b>		<b>394 215</b>	<b>594 414</b>	<b>899 055</b>	<b>1 318 290</b>	<b>2 034 501</b>	<b>2 896 099</b>	<b>3 859 489</b>	<b>5 161 089</b>		
	<i>3P take rate</i>	32,0%	30,7%	29,6%	30,0%	29,5%	29,3%	29,0%	29,0%		
(=) Digital Platform revenues		586 789	829 206	1 246 384	1 874 524	2 878 804	4 071 015	5 400 280	7 180 525		
	<i>Y/Y growth</i>		41,3%	50,3%	50,4%	53,6%	41,4%	32,7%	33,0%		
(-) Fulfilment revenue		97 794	127 960	213 228	398 014	607 361	855 583	1 121 096	1 442 997		
(=) Digital Platform Adjusted revenues		488 995	701 246	1 033 156	1 476 510	2 271 443	3 215 431	4 279 184	5 737 528		
	<i>Y/Y growth</i>		43,4%	47,3%	42,9%	53,8%	41,6%	33,1%	34,1%		

### 3 - Income Statement

<i>in thousands \$</i>								
	2018	2019	2020	2021E	2022F	2023F	2024F	2025F
<b>Revenue by operating segment</b>								
In-store revenues / GMV	15 595	27 621	37 524	84 712	86 407	92 940	99 690	106 664
Brand-Platform revenues / GMV	-	164 210	390 014	508 187	728 432	1 041 112	1 484 286	1 940 886
Digital Platform Revenues	586 789	829 206	1 246 384	1 874 524	2 878 804	4 071 015	5 400 280	7 180 525
<b>(+) Total revenues</b>	<b>602 384</b>	<b>1 021 037</b>	<b>1 673 922</b>	<b>2 467 424</b>	<b>3 693 642</b>	<b>5 205 066</b>	<b>6 984 256</b>	<b>9 228 075</b>
<i>Y/Y growth</i>		69,5%	63,9%	47,4%	49,7%	40,9%	34,2%	32,1%
<b>Adjusted Revenue net of fulfilment revenue</b>	<b>504 590</b>	<b>893 077</b>	<b>1 460 694</b>	<b>2 069 410</b>	<b>3 086 282</b>	<b>4 349 483</b>	<b>5 863 160</b>	<b>7 785 078</b>
<i>Y/Y growth</i>		77,0%	63,6%	41,7%	49,1%	40,9%	34,8%	32,8%
<b>(-) Cost of revenues</b>	<b>(303 934)</b>	<b>(561 191)</b>	<b>(902 994)</b>	<b>(1 373 292)</b>	<b>(2 049 584)</b>	<b>(2 844 463)</b>	<b>(3 746 708)</b>	<b>(4 847 420)</b>
<b>(=) Gross Profit</b>	<b>298 450</b>	<b>459 846</b>	<b>770 928</b>	<b>1 094 132</b>	<b>1 644 058</b>	<b>2 360 603</b>	<b>3 237 547</b>	<b>4 380 654</b>
<i>Gross margin</i>	59,1%	51,5%	52,8%	52,9%	53,3%	54,3%	55,2%	56,3%
<b>(-) Demand Generation Expenses</b>	<b>(97 295)</b>	<b>(151 350)</b>	<b>(198 787)</b>	<b>(308 075)</b>	<b>(436 526)</b>	<b>(606 499)</b>	<b>(819 599)</b>	<b>(1 059 252)</b>
<b>(=) Order contribution</b>	<b>201 155</b>	<b>308 496</b>	<b>572 141</b>	<b>786 057</b>	<b>1 207 533</b>	<b>1 754 104</b>	<b>2 417 948</b>	<b>3 321 402</b>
<i>Order Contribution margin</i>	39,9%	34,5%	39,2%	38,0%	39,1%	40,3%	41,2%	42,7%
<b>(-) Other SG&amp;A</b>	<b>(130 450)</b>	<b>(184 897)</b>	<b>(264 913)</b>	<b>(370 114)</b>	<b>(491 254)</b>	<b>(676 659)</b>	<b>(907 953)</b>	<b>(1 199 650)</b>
<b>(-) Personnel Expenses</b>	<b>(220 484)</b>	<b>(403 397)</b>	<b>(646 293)</b>	<b>(805 860)</b>	<b>(1 034 596)</b>	<b>(1 270 786)</b>	<b>(1 512 111)</b>	<b>(1 803 349)</b>
<b>(=) Operating EBITDA</b>	<b>(149 779)</b>	<b>(279 798)</b>	<b>(339 065)</b>	<b>(389 917)</b>	<b>(318 318)</b>	<b>(193 340)</b>	<b>(2 117)</b>	<b>318 403</b>
<i>Operating EBITDA margin</i>	-30%	-31%	-23%	-19%	-10%	-4%	0%	4%
<b>(-) Depreciation</b>	<b>(7 337)</b>	<b>(28 491)</b>	<b>(39 323)</b>	<b>(130 649)</b>	<b>(145 127)</b>	<b>(182 373)</b>	<b>(232 968)</b>	<b>(289 572)</b>
<b>(-) Amortization</b>	<b>(16 200)</b>	<b>(85 100)</b>	<b>(177 900)</b>	<b>(201 130)</b>	<b>(364 015)</b>	<b>(501 731)</b>	<b>(623 579)</b>	<b>(804 251)</b>
<b>(=) Operating EBIT</b>	<b>(173 316)</b>	<b>(393 389)</b>	<b>(556 288)</b>	<b>(721 696)</b>	<b>(827 460)</b>	<b>(877 445)</b>	<b>(858 664)</b>	<b>(775 420)</b>
<i>Operating EBIT margin</i>	-34%	-44%	-38%	-35%	-27%	-20%	-15%	-10%
<b>Operating taxes</b>	<b>32 930</b>	<b>74 744</b>	<b>105 695</b>	<b>137 122</b>	<b>157 217</b>	<b>166 715</b>	<b>163 146</b>	<b>147 330</b>
<i>Statutory tax rate</i>	19%	19%	19%	19%	19%	19%	19%	19%
<b>Operating tax adjustments</b>	<b>(35 286)</b>	<b>(65 416)</b>	<b>(82 609)</b>	<b>(130 058)</b>	<b>(153 475)</b>	<b>(176 426)</b>	<b>(186 720)</b>	<b>(191 434)</b>
<b>(=) Operating result</b>	<b>(175 672)</b>	<b>(384 061)</b>	<b>(533 202)</b>	<b>(714 631)</b>	<b>(823 718)</b>	<b>(887 156)</b>	<b>(882 238)</b>	<b>(819 524)</b>
<b>Other items</b>	<b>-</b>	<b>(16 374)</b>	<b>(24 267)</b>	<b>(20 321)</b>	<b>(20 321)</b>	<b>(20 321)</b>	<b>(20 321)</b>	<b>(20 321)</b>
Impairment losses on tangible assets	-	-	(2 991)	-	-	-	-	-
Impairment losses on intangible assets	-	-	(36 269)	-	-	-	-	-
Gain/ (loss) on items held at fair value and remeasurements	-	21 721	(2 643 573)	2 466 651	-	-	-	-
Shares of results of associates	33	366	(74)	617	617	617	617	617
Finance income	38 182	34 382	24 699	32 421	32 421	32 421	32 421	32 421
Unrealized exchange losses	(17 779)	(10 997)	(39 940)	(22 905)	(22 905)	(22 905)	(22 905)	(22 905)
<b>Non-operating EBIT</b>	<b>20 436</b>	<b>29 098</b>	<b>(2 722 415)</b>	<b>2 456 463</b>	<b>(10 188)</b>	<b>(10 188)</b>	<b>(10 188)</b>	<b>(10 188)</b>
<b>Non-operating taxes</b>	<b>(3 883)</b>	<b>(5 529)</b>	<b>517 259</b>	<b>(466 728)</b>	<b>1 936</b>	<b>1 936</b>	<b>1 936</b>	<b>1 936</b>
<i>Statutory tax rate</i>	19%	19%	19%	19%	19%	19%	19%	19%
<b>Other Comprehensive Income</b>	<b>(23 706)</b>	<b>(11 017)</b>	<b>39 816</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Non-operating tax adjustments</b>	<b>3 979</b>	<b>(6 526)</b>	<b>(530 849)</b>	<b>5 523</b>	<b>5 523</b>	<b>5 523</b>	<b>5 523</b>	<b>5 523</b>
<b>Non-operating result</b>	<b>(3 174)</b>	<b>6 026</b>	<b>(2 696 189)</b>	<b>1 995 258</b>	<b>(2 729)</b>	<b>(2 729)</b>	<b>(2 729)</b>	<b>(2 729)</b>
<b>Finance costs</b>	<b>(537)</b>	<b>(8 235)</b>	<b>(68 802)</b>	<b>(45 019)</b>	<b>(40 834)</b>	<b>(40 880)</b>	<b>(47 737)</b>	<b>(42 820)</b>
<i>Interest Tax shield</i>	102	1 565	13 072	8 554	7 758	7 767	9 070	8 136
<b>Financing tax adjustments</b>	<b>-</b>	<b>-</b>	<b>(8 134)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Financial result</b>	<b>(435)</b>	<b>(6 670)</b>	<b>(63 864)</b>	<b>(36 465)</b>	<b>(33 076)</b>	<b>(33 113)</b>	<b>(38 667)</b>	<b>(34 684)</b>
<b>Total Comprehensive Income</b>	<b>(179 281)</b>	<b>(384 705)</b>	<b>(3 293 255)</b>	<b>1 244 161</b>	<b>(859 523)</b>	<b>(922 998)</b>	<b>(923 635)</b>	<b>(856 938)</b>
<b>Net income</b>	<b>(155 575)</b>	<b>(373 688)</b>	<b>(3 333 071)</b>	<b>1 244 161</b>	<b>(859 523)</b>	<b>(922 998)</b>	<b>(923 635)</b>	<b>(856 938)</b>
Shares Outstanding	354 210	354 210	354 210	354 210	354 210	354 210	354 210	354 210
EPS	(0,4)	(1,1)	(9,4)	3,5	(2,4)	(2,6)	(2,6)	(2,4)

## 4 – Profit Margins

<i>in thousands \$ (except margins)</i>								
	2018	2019	2020	2021E	2022F	2023F	2024F	2025F
<b>Gross Margin</b>								
Gross Profit	298 450	459 846	770 928	1 094 132	1 644 058	2 360 603	3 237 547	4 380 654
Gross Profit Margin	59,1%	51,5%	52,8%	52,9%	53,3%	54,3%	55,2%	56,3%
<b>Order Contribution margin</b>								
Order Contribution	201 155	308 496	572 141	786 057	1 207 533	1 754 104	2 417 948	3 321 402
Order Contribution margin	39,9%	34,5%	39,2%	38,0%	39,1%	40,3%	41,2%	42,7%
<b>(Digital) Platform Order Contribution margin</b>								
(Digital) Platform Order Contribution	194 411	220 563	361 419	504 006	812 768	1 194 143	1 619 535	2 268 514
(Digital) Platform Order Contribution margin	39,8%	31,5%	35,0%	34,1%	35,8%	37,1%	37,8%	39,5%
<b>Adjusted EBITDA margin</b>								
Adjusted EBITDA	(95 960)	(121 376)	(47 432)	(80 824)	28 292	209 701	464 730	863 283
Adjusted EBITDA margin	-19,0%	-13,6%	-3,2%	-3,9%	0,9%	4,8%	7,9%	11,1%

## 5 - Free-Cash-Flow map

<i>in thousands \$</i>								
	2018	2019	2020	2021E	2022F	2023F	2024F	2025F
<b>Core Result</b>								
Core Result	(175 672)	(384 061)	(533 202)	(714 631)	(823 718)	(887 156)	(882 238)	(819 524)
Core Invested Capital	77 678	1 134 213	833 708	1 566 245	2 649 924	3 607 611	4 491 705	5 884 504
Investment		1 056 535	(300 504)	732 537	1 083 679	957 687	884 095	1 392 799
<b>Core FCF</b>		(1 440 596)	(232 698)	(1 447 168)	(1 907 396)	(1 844 843)	(1 766 333)	(2 212 323)
<b>Non-core result</b>								
Non-core result	(3 174)	6 026	(2 696 189)	1 995 258	(2 729)	(2 729)	(2 729)	(2 729)
Non-core Invested Capital	18 015	20 929	(3 223 101)	(3 223 101)	(3 223 101)	(3 223 101)	(3 223 101)	(3 223 101)
<b>Non-core FCF</b>		3 112	547 841	1 995 258	(2 729)	(2 729)	(2 729)	(2 729)
<b>FREE CASH-FLOW</b>		(1 437 484)	315 143	548 090	(1 910 126)	(1 847 572)	(1 769 062)	(2 215 053)
<b>Financial result</b>								
Financial result	(435)	(6 670)	(63 864)	(36 465)	(33 076)	(33 113)	(38 667)	(34 684)
Net Debt	(1 032 738)	(12 464)	(544 747)	(179 930)	(62 246)	41 757	137 767	289 022
<b>Net Debt CF</b>		1 013 604	(596 146)	328 351	84 609	70 889	57 343	116 570
<b>Equity</b>								
Equity	1 128 431	1 167 606	(1 844 646)	(1 476 925)	(510 931)	342 753	1 130 837	2 372 381
Comprehensive income	(179 281)	(384 705)	(3 293 255)	1 244 161	(859 523)	(923 998)	(923 635)	(856 938)
<b>Net Equity CF</b>		423 880	281 003	(876 441)	1 825 517	1 776 683	1 711 719	2 098 482
<b>FINANCING CASH FLOW</b>		1 437 484	(315 143)	(548 090)	1 910 126	1 847 572	1 769 062	2 215 053

## 6 – Luxury sales within the market *(in million \$, except market share)*

	2020
Total Luxury Sales (online & offline)	247 380
<i>Online Penetration</i>	<i>23%</i>
Online Luxury Sales	55 860
<b>Luxury e-tailers:</b>	
<b>Farfetch:</b>	
Farfetch Marketplace GMV	2 759
<b>Market share in online luxury</b>	<b>4,9%</b>
Farfetch Total GMV	3 187
<i>Market share in total luxury</i>	<i>1,3%</i>
<b>My Theresa</b>	
My Theresa online Revenue	490
<i>Market share in online luxury</i>	<i>0,9%</i>
My Theresa total Revenue (online + retail revenue)	503
<i>Market share in total luxury</i>	<i>0,2%</i>
<b>YNAP and Watchfinder</b>	
Richemont's online distributors ( <i>YNAP &amp; Watchfinder</i> ) Revenue	2 718
<i>Market share in online luxury</i>	<i>4,9%</i>
<b>Matches Fashion</b>	
Matches Fashion Revenue	556
<i>Market share in online luxury</i>	<i>1,0%</i>
<b>Top 10 leading luxury companies:</b>	
LVMH	44 696
<i>Market share in total luxury</i>	<i>18,1%</i>
Richemont	14 721
<i>Market share in total luxury</i>	<i>6,0%</i>
Kering	14 672
<i>Market share in total luxury</i>	<i>5,9%</i>
Chanel	11 312
<i>Market share in total luxury</i>	<i>4,6%</i>
Chow Tai Fook	8 502
<i>Market share in total luxury</i>	<i>3,4%</i>
Hermés	7 156
<i>Market share in total luxury</i>	<i>2,9%</i>
Tapestry	5 556
<i>Market share in total luxury</i>	<i>2,2%</i>
Ralph Lauren	4 929
<i>Market share in total luxury</i>	<i>2,0%</i>
Capri	4 547
<i>Market share in total luxury</i>	<i>1,8%</i>
Prada	2 714
<i>Market share in total luxury</i>	<i>1,1%</i>
<b>Total - Top 10</b>	<b>118 805</b>
<i>Market share of total luxury</i>	<i>48,0%</i>

## 7 - Scenario Assumptions

### Base case

	2021E	2022F	2023F	2024F	2025F
Value of the global personal luxury goods market ( in \$B)	291	324	358	391	425
Nr. Worldwide online personal luxury goods consumers (in \$ thousands)	76 519	93 353	112 024	132 188	155 321
Farfetch market share	5,6%	6,5%	7,6%	8,5%	9,3%
Nr. Farfetch's Active Consumers (in thousands)	4 316	6 105	8 559	11 289	14 507
3P Take-rate	30,0%	29,5%	29,3%	29,0%	29,0%

### Conservative case

	2021E	2022F	2023F	2024F	2025F
Value of the global personal luxury goods market ( in \$B)	278	302	325	354	383
Nr. Worldwide online personal luxury goods consumers (in \$ thousands)	72 234	83 069	95 529	106 992	119 831
Farfetch market share	5,3%	6,0%	6,6%	7,1%	7,5%
Nr. Farfetch's Active Consumers (in thousands)	3 857	5 017	6 343	7 639	9 035
3P Take-rate	30,0%	28,5%	27,0%	26,0%	25,5%

### Optimistic case

	2021E	2022F	2023F	2024F	2025F
Value of the global personal luxury goods market ( in \$B)	302	336	371	400	429
Nr. Worldwide online personal luxury goods consumers (in \$ thousands)	78 049	96 781	118 073	139 917	165 102
Farfetch market share	5,8%	6,8%	8,1%	9,5%	10,7%
Nr. Farfetch's Active Consumers (in thousands)	4 558	6 620	9 611	13 348	17 732
3P Take-rate	30,0%	30,8%	30,8%	30,8%	30,8%

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<b>Buy</b>	Expected total return (including expected capital gains and expected dividend yield) of more than 10% over a 12-month period.
<b>Hold</b>	Expected total return (including expected capital gains and expected dividend yield) between 0% and 10% over a 12-month period.
<b>Sell</b>	Expected negative total return (including expected capital gains and expected dividend yield) over a 12-month period.

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