# Creditreform Corporate Issuer / Issue Rating

Kering S.A.

Creditreform Rating

| Rating object | Rating information | |
|---|---|---|
| **Kering S.A.** | Corporate Issuer Rating: **A / stable** | Type: Initial rating, Unsolicited, Public rating |
| Creditreform ID: FNR0000111240 | LT LC Senior Unsecured Issues: **A / stable** | Other: **n.r.** |
| Incorporation: 1981 | Rating date: 12 July 2022 | |
| Based in: Paris, France | Monitoring until: Withdrawal of the rating | |
| Main (Industry): Luxury goods | Rating methodology: CRA "Corporate Ratings"<br>CRA "Non-Financial Corporate Issue Ratings"<br>CRA "Rating Criteria and Definitions" | |
| CEO: François-Henri Pinault | Rating history: www.creditreform-rating.de | |
| CFO: Jean-Marc Duplaix | | |
| Rating objects:<br>Long-term Corporate Issuer Rating: Kering S.A.<br>Long-term Local Currency (LT LC) Senior Unsecured Issues | | |

### Content




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## Summary


### Company

Kering S.A. (hereafter referred to as "Kering" or "the Company"), headquartered in Paris, France, was founded in June 1981. The Company is a multi-brand player operating in the global luxury goods industry, with a wide range of highly desirable products including apparel, shoes and other fashion accessories, jewelry and watches. The brand portfolio includes some of the most prestigious luxury-brand subsidiaries (called "Houses" by Kering) in the industry. Overall, Kering unites a total of 11 renowned brands under its corporate umbrella. These are Gucci, Saint Laurent, Bottega Veneta, Alexander McQueen, Balenciaga, Boucheron, Brioni, DoDo, Pomellato, Qeelin and Kering Eyewear. Products are sold across different global markets, especially in Asia (38% of total revenues), North America (26%), Europe (23%), Japan (6%) and others (7%). With roughly 35,000 employees and 1,565 directly owned stores, the Company generated EUR 17.6 billion in revenues with an operating margin of 27% in 2021.

### Rating result

The current unsolicited corporate issuer rating of A attests Kering's high level of creditworthiness, representing a low default risk. We factored into the ratings the Company's leading position in the global luxury market (the top three worldwide by revenue) as well as its diversification in terms of brands, product offering and geographic footprint. An additional positive consideration is the successful build-up of its brands' value proposition, which proves Kering's industry know-how. Additionally, fundamentals for the luxury goods industry are positive, with a growth forecast of nearly 30% over the 2022-2026[1] period. Lastly, the Company has a conservative financial management, sustaining a solid capital structure and sound liquidity profile.

On the other hand, the rating are constrained by a high concentration of Gucci's results within the portfolio and by growing challenges in the industry, which include managing brands' attractiveness amid fast changing consumer habits and securing sustainable practices along a highly complex supply chain. Additionally, continued market volatility stemming from the persistent Covid-19 pandemic and mounting geopolitical tensions will potentially affect demand for luxury goods in specific markets and will increase costs significantly.


[1] Source: Luxury Outlook 2022 | BCG

**Reference:**

The relevant rating factors (key drivers) mentioned in this section, are predominantly based on internal analyses, evaluations of the rating process, the derived valuations of the analysts participating in the rating and, if applicable, other rating committee members. The fundamental external sources used, are specified in the section "Regulatory requirements" and "Rules on the presentation of credit ratings and rating outlooks".

**Excerpts from the financial key figures analysis 2021:**
+ Strong demand recovery in 2021, improving results significantly
+ Maintenance of stable debt levels
+ Continued strong liquidity profile

- Covid-19 lockdown adversely affected Gucci in early 2022
- Increase in shareholder remuneration
- Profitability is slightly below pre-pandemic levels

**General rating factors** summarize the key issues that – according to the analysts as per the date of the rating – have a significant or long-term impact on the rating, whether positive (+) or negative (-).

### Outlook

The outlook for the next 12 months is stable. Based on its track record of business resilience even in times of crisis, we believe the company will continue to perform well in the years ahead despite increased market volatility. We also assume that the company will manage capex, M&A activities and shareholder payments prudently in order to preserve its sound financial strength.

## Relevant rating factors

Table 1: Financials I Source: Kering S.A. Annual Report 2021, standardized by CRA

| Kering S.A.<br>Selected key figures of the financial statement analysis<br>Basis: Annual accounts and report of 31.12. (IFRS, etc.) | CRA standardized figures[2] | |
|---|---|---|
| | **2020** | **2021** |
| Sales (million EUR) | 13,100 | 17,645 |
| EBITDA (million EUR) | 4,702 | 6,246 |
| EBIT (million EUR) | 3,266 | 4,799 |
| EAT (million EUR) | 2,158 | 3,246 |
| EAT after transfer (million EUR) | 2,128 | 3,166 |
| Total assets (million EUR) | 25,459 | 28,099 |
| Equity ratio (%) | 43,10 | 43,49 |
| Capital lock-up period (days) | 41,50 | 36,03 |
| Short-term capital lock-up (%) | 37,46 | 38,86 |
| Net total debt / EBITDA adj. (factor) | 2,43 | 1,64 |
| Ratio of interest expenses to total debt (%) | 2,49 | 1,79 |
| Return on investment (%) | 9,82 | 12,52 |

### General rating factors

+ Long history in the luxury industry and crisis-resilient business model
+ Positive short and long-term fundamentals for the luxury goods industry
+ Luxury customers tend to be more loyal, as there is a higher degree of attachment to a brand's value proposition and customers are unaffected by rising inflation rates
+ Multi-brand player with a wide range of highly-desired products
+ High geographic diversification
+ Strong growth over recent years supported by investments to build up a portfolio of complementary brands, each one with unique appeal and distinctive market position
+ Gucci is Kering's most iconic luxury brand, ranking under the Top 5 most valuable worldwide (together with Luis Vuitton, Chanel and Hermes)[3]
+ Successful expansion of omnichannel distribution, with increasing penetration of e-commerce and new concepts of bricks & mortar stores

[2] For analytical purposes, CRA adjusted the original values in the financial statements in the context of its financial ratio analysis. For example, when calculating the analytical equity ratio, deferred tax assets, goodwill (entirely or partly), and internally generated intangible assets are subtracted from the original equity, whilst deferred tax liabilities are added. Net total debt considers all balance sheet liabilities. Therefore, the key financial figures shown often deviate from the original values of the company.

[3] Source: The World's Most Valuable Luxury Brands | Statista

- Growing need to anticipate new fashion trends and higher investments in creative product designs and to improve customer purchase experience
- Higher complexity to develop brands globally amid growing tendency to focus on local activities
- Higher reputational risk, as failure in creating brand value or negative media coverage could significantly hamper sales
- High exposure to social risks associated with violations of human rights along the textile supply chain
- High concentration of Gucci in consolidated results (72% of total operating income)

### Current rating factors

**Current rating factors** are the key factors that, in addition to the underlying rating factors, have an impact on the current rating.

+ Strong demand recovery in 2021, with revenues increasing by 35% year-over-year (YoY) and meaningful gains in profitability
+ Kering maintained stable debt levels in 2021 compared to the previous year, improved its operating results and increased significantly its cash holdings, all this positively impacting its key financial ratios
+ Maintenance of strong liquidity profile, with a comfortable proportion of cash holdings in relation to upcoming debt maturities

- Mounting external challenges, especially associated with geopolitical and economic issues, increase overall business risk, with potential negative effects on sales and procurement activities
- Still low tourism activity adversely affects demand for luxury goods globally
- Subdued results for Gucci in Q1 2022 due to more restrictive lockdown measures in China
- Gucci's operating margin has not yet fully recovered to pre-pandemic levels
- Increased shareholder payments and partially debt financed acquisitions (Maui Jim)

### Prospective rating factors

**Prospective rating factors** are factors and possible events which – according to the analysts as of the date of the rating – would most likely have a stabilizing or positive effect (+) or a weakening or negative effect (-) on future ratings, if they occurred. This is not an exhaustive list of possible future events with potential relevance for future ratings. Circumstances can arise that are not included in the list of prospective factors whose effects are impossible to assess at the time of the rating, either because these effects are uncertain or because the underlying events are deemed unlikely to occur.

+ Growth will be supported by higher investments to expand retail activities, in particular in the US and China, to increase digitalization and improve omnichannels.
+ Gucci's future growth will be driven by continued strengthening of brand appeal and new store openings, resulting in a EUR 5 billion increase in net revenue over the medium term.
+ New business acquisitions are likely to complement Kering's eyewear segment, with a medium-term forecast reaching EUR 2 billion in revenue (from EUR 706 million in 2021) and operating margin to increase by 5%.

- Prolonged period of high inflation and economic slowdown could drag down demand for luxury goods, or shift this towards second-hand market
- Record-high raw material prices will exert negative pressure on profitability

**ESG factors** are factors related to environment, social issues and, governance. For more information, please see the section "Regulatory requirements". CRA generally takes ESG relevant factors into account when assessing the rating object and discloses them when they have a significant influence on the creditworthiness of the rating object, leading to a change in the rating result or the outlook.

### ESG-factors

CRA generally considers ESG factors (environment, social and governance) within its rating decisions. In the case of Kering S.A., not identified any ESG factor with significant influence so far.

Nevertheless, the luxury goods industry generally faces high ESG risks. Companies will be increasingly pressured to address environmental and social issues as consumers' purchases become more and more purpose-driven. This change in consumer behavior has a great potential to influence companies' revenue generation.

The biggest environmental impact lies in the sourcing of raw materials, such as leather, animal fur as well as precious metals and stones. Despite various efforts, some luxury companies cannot fully ensure that the raw materials do not come from questionable sources, such as from cruel slaughtering process and illegal extracting activities, with non-transparent disclosure regarding their suppliers[4]. The primary social risk associated with the production of luxury goods is human rights violations within the supply chain, in particular child labor, human trafficking, discrimination and overall poor working conditions. This occurs because the fashion supply chain is highly complex and it is difficult to control each stage of production.

Although there is much room for improvement, we assume that Kering holds one of the best practices in the industry regarding sustainability. Kering has set up a policy with high standards of animal welfare to ensure the traceability of suppliers throughout the entire value chain. In 2021 it was traced 90% of its key materials back to the slaughterhouse or back to the country of origin, and the target is to achieve 100% traceability back to the farm by 2025. A major breakthrough was Kering's recent decision to stop the use of animal fur in all of its brands beginning with the fall 2022 collections.

A general valid description of Creditreform Rating AG, as well as a valid description of corporate ratings for understanding and assessing ESG factors in the context of the credit rating process, can be found here.

Please note:

The scenarios are based on information available at the time of the rating. Within the forecast horizon, circumstances may occur that could lead to a change of the rating out of the indicated range.

### Best-case scenario: A+

In our best-case scenario for the next 12-24 months we assume a rating of A+. In this scenario we consider that Kering improves its results, both from price increases and expansion of its operations. This is enabled by the continued implementation of its brand elevation strategy, which consists in using core values to increase customer loyalty and willingness to pay. We also expect the company to embark on additional strategic business acquisition, but investments are commensurate with current financial position and any deterioration in key financial indicators is reversed relatively swiftly. An upgrade on Kering's rating would be dependent on further brand diversification, such that the Company's reliance on Gucci diminishes, as well as on continuing improvement of its ESG practices and maintenance of solid financial indicators.

### Worst-case scenario: A-

In our worst-case scenario for the next 12-24 months we assume a rating of A. In this scenario we consider that Kering's operating results are impaired by increased market volatility stemming from persistent Covid-19 lockdowns and global geopolitical tensions, with slowing demand and a steep rise in raw material prices or in the case of supply-chain disruptions. This scenario, combined with increased M&A activity and higher remuneration to shareholders, weakens Kering's financial strength, ultimately impairing brand attractiveness and delaying growth.

[4] Source: Fashion Transparency Index 2021 Edition

## Business development and outlook

Kering's strong business model is ensured through its broad portfolio of highly desired brands and by its global reach. The Company ranked as the third-largest player within the luxury goods industry in 2021 (behind LVMH and Richemont), selling a wide range of products through 11 renowned houses – Gucci being the most iconic one. The company is well-positioned in the industry, as awareness and willingness to buy is very high among young generations, which are expected to drive 70% of all luxury good sales by 2025. Geographically, Kering has a strong presence in China and the US, which together account for more than half of the luxury market in value. Following the growing demand for sustainably sourced products, the Company has taken the lead in announcing that it will no longer use animal fur in its new collections starting 2022.

During the most severe period of the Covid-19 crisis in 2020, Kering's net revenues declined by 18% compared to the previous year, reaching their lowest level since 2016. Nevertheless, the Company's large geographical footprint, as well as its multi-brand profile and well-established digital capabilities, provided it with the resilience needed to weather the unprecedented shock to demand, and performance bounced back rapidly in 2021. As reported by Kering, to alleviate the financial impact of the pandemic, some projects were postponed and the majority of costs were allocated to improve distribution networks, enhance IT systems and develop brands' digital platforms. The company is now in a better position to benefit from the long-lasting impacts of Covid-19 on customer behavior – namely, a focus on local activities and acceleration on e-commerce. Hence, net revenues increased by 35% in 2021, amounting to EUR 17.6 billion and, unless there is no supply disruption constraining production, we expect even higher revenues in 2022, as the Company will likely continue increasing prices to accommodate inflation hikes. Although we expect a continued positive development of overall operating activity, there will still be ups and downs in specific markets as uncertainties related to Covid-19 pandemic remain and geopolitical tensions adversely affect supply chains and international trade. In Q1 2022, Gucci's sales faced a downturn in China amid more restrictive lockdown measures to fight new waves of the coronavirus; however, overall results have been more than offset by the strong growth in the House Saint Laurent and in other Houses.

Gucci is the most profitable brand and the main driver of Kering's operating growth, representing approximately 52% of total revenue and 72% of total operating income. With a legacy of a hundred years, Gucci reinvented itself over the course of its history and gained strong appeal among young people who are increasingly eager to express their identities through brand preference and who develop a strong degree of attachment to its core values. Thus, new generations (millennials and gen z) now represent nearly one-third of Gucci's client base, much higher than the 9% share in 2015. Gucci has already shown rapid business growth over recent years, a trend that will likely continues based on the company's forecasts to raise prices based on more desirable collections, to increase sales volumes with new store openings (mostly in the Americas) and improved client management strategies. Accordingly, net revenues are expected by Gucci to increase by EUR 5 billion in the medium-term (from EUR 9.7 billion in 2021) and operating margin to increase by 3% (from current 38%).

Historically, Kering has maintained a conservative investment strategy, growing its businesses mostly organically. Main brands were acquired more than two decades ago, since which the Company has been directing its own funds to expand its network of directly-owned stores and gain brand attractiveness by developing concepts and increasing brand awareness. Over the last five years, the company has spent about EUR 522 million in new business acquisitions, much lower than the amount spent by its main peers (Richemont: EUR 3.0 billion, LVMH: EUR 22.5

billion)[5]. Going forward, Kering will potentially embark on strategic businesses acquisitions in order to better explore new emerging market trends and boost growth. This movement is evidenced in the recent M&A transactions executed by the Company, namely Lingberg and Maui Jim, which will expand the eyewear segment. Kering also purchased a 5% stake in VestiaireCollective – a fast growing platform for desirable second-hand fashion.

Table 2: Operating performance by brand I Source: Annual Report 2022, reported information)

| Kering according to individual corporate divisions in 2021 | | | | |
|---|---|---|---|---|
| in million EUR | Gucci | Saint Laurent | Bottega Veneta | Other houses |
| Revenues | 9,731 | 2,521 | 1,503 | 3,264 |
| Operating income | 3,715 | 715 | 286 | 459 |
| Operating margin % | 38,18 | 28,36 | 19,03 | 14,06 |

Despite challenging trend developments in the industry, in connection with sustainability aspects, limited availability of raw materials, growing geopolitical tensions globally and a gloomy economic outlook, we believe Kering's strong business model will support it to continue on a positive development in the years ahead, and is a key supporting factor for the rating-level.

## Structural risk

Kering S.A. is the parent company of the Group and the owner of 11 highly prestigious brands, the most relevant ones being Gucci, Yves Saint Laurent and Bottega Veneta. The Company benefits from full ownership of 10 of its 11 brands and has a majority stake in Qeelin (78%), which provides greater flexibility in designing collections based each brand's value proposition. The high degree of autonomy between the brands, which seem to be common among larger luxury corporates, is a competitive advantage, as it creates a complementary portfolio offering. At the same time, the Group supports its brands by providing expertise and greater influencing power through large-scaled operations, improving supply chain reliability, enabling better access to distribution networks, as well as higher financing capabilities.

Kering's product offering is largely focused on leather goods (50% of total), followed by shoes (21%), ready-to-wear (15%) watches and jewelry (8%) and others. To increase control over the entire value chain and provide greater exclusivity to its customers, Kering sells primarily through its 1,565 directly-owned stores, which account for 81% of total revenues, with the remainder coming from wholesale. From a risk perspective, we see a considerable structural cost risk in this sales channel, especially in increasingly uncertain times. With respect to geographical distribution, Kering has a major presence in Asia (mostly China) and in North America (mostly US), with respective markets accounting for 39% and 27% of total revenues; these are followed by Western Europe with 22% of total revenues, Japan (6%) and other regions (6%). In view of the recently increasing tensions between the western world on the one hand and Russia and China and other countries on the other hand, this could result in significant medium-term risks for both sales and procurement of Kering.

The Group's operating segment is divided according to the most representative brands: Gucci, Yves Saint Laurent, Bottega Veneta, Other Houses and Corporate (including Kering Eyewear). We see the Company's high concentration on one brand as a relevant risk factor, as Gucci accounts for 72% of its total operating results. Brand performance is directly linked to reputation

[5] Source: Annual report 2021 of Compagnie Financière Richemont SA and LVMH Moet Hennessy Louis Vuitton SE

and potential to tap customers' emotions, which are immeasurable assets built up over several years. Gucci's successful trajectory since 2015 attests the industry know-how of Kering's executive management team. If Kering's brand diversification does not improve noticeably, this may be a limiting factor for Kering's rating development in the future.

Kering was founded in 1962 by Francois Pinault and was involved in diversified retail activities. It was only in 2000 that the Company began its shift towards the luxury goods industry, becoming a global multi-brand player in the subsequent 20-year period. The first milestones for the Company were during 1999-2001and include the acquisition of a 42% stake in Gucci (almost full ownership, achieved later in 2004), Yves Saint Laurent, Boucheron, Bottega Veneta, Balenciaga and Alexander MCQueen. A second wave of acquisitions occurred during 2011-2014 with the acquisition of Girard-Perregaux, Ulysse Nardin (both businesses recently divested) and Qeelin. More recently, Kering expanded its eyewear segment with the acquisition of Lingberg and Maui Jim in 2021-2022.

Kering is controlled by Artémis, a holding company owned by the Pinault family, which holds 41.7% of total share capital. The shareholding structure is further composed of institutional investors, with a 53.5% equity stake, and the remainder is owned by private individuals as well as by employees and executives of the Company. The Board of Directors currently consists of 14 members, five of whom are executives (including the CEO), seven are independent members and two are employee representatives. Furthermore, four additional specialized committees enhance the Company's business risk management: Audit, Appointments and Governance, Sustainability and Remuneration.

Overall, we acknowledge Kering's solid organizational structure and high standards of corporate governance practices. The Company has a robust risk management approach with a three-tier defense mechanism, which provides a clear definition of responsibilities, increasing oversight capability and ensuring independence in the internal auditing process (direct channel to Board of Directors). In our view the management practices appears conservative and risk-aware in a positive sense.

## Business risk

The luxury goods sector faced a slowdown during the most severe period of the Covid-19 pandemic, but recovered quickly in 2021 and will likely be continuing its positive momentum in the years ahead, with an expected growth of around 30% over the 2022-2026[1] period. The industry's fundamentals are supported by a fast-growing middle class in its emerging markets and by an increase in disposable income, as well as by the ever-increasing attachment of young generations to brands' value proposition – according to Bain's luxury Report 2021, these generations will represent 70% of total luxury goods consumption by as early as 2025. China will also continue to be a key growth driver, as it now represents 21% of the global luxury market, up from 11% in 2019, and is forecasted to reach 25-27% share by 2025.

The disruption caused by the Covid-19 crisis will have a long-lasting impact on consumers of luxury goods and companies will be increasingly pressured to reshape their business models. A significant share of the demand for luxury goods has been based on tourism, which faced a drastic decline after the outbreak of coronavirus. Although most regions are now alleviating their travel restrictions, leisure air traffic has not fully recovered, and we will see companies focusing their operations on local consumption. In 2021, local clients accounted for 95% of luxury goods purchases globally. An additional major impact of Covid-19 is the acceleration of online sales, which grew by 50% in 2020 and by an additional 27% in 2021, all on a year-over-year basis.

The biggest risks for the luxury goods industry involve the supply of raw materials and allegations of human rights violations within the production chain. It is extremely difficult to ensure compliance of all suppliers with national and international standards of welfare, especially with regard to child labor and proper working conditions, and to secure the sustainable sourcing of leather, animal skins and precious metals. Also, the increased scarcity of raw materials and higher geopolitical instability could result in more price volatility and supply disruptions.

Luxury goods producers are highly reliant on the talent of few creative directors and their ability to anticipate changes in consumers' expectations. Therefore, there is a high degree of susceptibility to impairments in the event of losses regarding brand value. Additionally, managing a brand's image is key in the industry, as any reputational damage associated with inappropriate production practices could significantly hamper sales and is an issue difficult to reverse.

As already mentioned in previous chapters, we see the increasing geopolitical conflicts and their resulting direct (e.g. availability of raw materials) and indirect effects (e.g. economic downturns, inflation) as an increasingly relevant risk. Even if the effects on companies in the luxury goods industry do not yet appear significant and are therefore not yet decisive for the present rating, in our opinion there is a risk of short-term changes in our assessment.

Concerning Kering's business model, it constantly reinvents itself to capitalize on new consumer trends within the luxury goods industry. As proof of its success, net revenue more than doubled and operating income more than tripled since 2015; Kering's market capitalization increased from EUR 20 billion to EUR 88 billion in the same time horizon.

To improve customer experience, both in-store and online, the Company's operating model is shifting towards an omnichannel approach, with direct ownership of distribution networks and in-house management of digital platforms, which will result in better control of operating process and will provide clients with more customized services. The retail channel through mono-brand stores (both online and brick-and-mortar) will prevail over wholesale in the coming years as customers increasingly seek exclusivity, and Kering is well-positioned with its retail sales representing 81% of total – well above the 49% share for the overall industry. Nevertheless, we also see risks in the form of fixed structural costs in increasingly uncertain times.

The transformation of Kering's marketing strategy has also been supportive of the rapid operating growth over the last few years, with increasing efforts to attach sustainability and innovation values to its brands and build long-lasting client relationships. The Company also continues to create new and more effective ways to engage with targeted audiences, which are increasingly connected through social media.

## Financial risk

For the purposes of its financial ratio analysis, Creditreform Rating AG (CRA) adjusted the original values in the financial statements. For example, we deducted 50% of the goodwill shown on Kering's balance sheet from equity - contrary to our normal practice of reducing 100% - suggesting a certain asset recoverability in case of financial distress.

Kering has a track record of having a stable and well-balanced capital structure, which is confirmed by a sound analytical equity ratio of 43.5% and a solid asset coverage ratio of 92.1% in 2021. In our view, the Company has maintained conservative financial policies over the course of its history, with prudent management of debt and liquidity and growing its business mostly organically. The ratio net total debt / EBITDA[2] remained consistently below 2.5 times over the 2018-2021 period, a characteristic of companies with exceptionally strong internal financial strength or very low debt levels. In Kering's case, this is due to its highly profitable businesses activities (current operating margin close to 40%).

As of December 2021, Kering’s total financial debt amounted to EUR 5.4 billion, fairly stable as compared to debt levels at the end of 2020, but considerably higher than the average EUR 4.7 billion during the three-year period that preceded the Covid-19 crisis. Nevertheless, Kering’s higher indebtedness has been accompanied by business growth and stronger earnings results, which has supported stable credit metrics over recent years. Recurring EBITDA generation, adjusted according to CRA methodologies, amounted to EUR 6.5 billion, outperforming levels seen before the pandemic in absolute terms.

Kering’s main external financing sources are bonds (62% of total), followed by commercial papers (13%) and other borrowings (25%). Recent liability management initiatives include the repayment of EUR 495 million notes due in April 2021, the issuance of a dual-tranche bond in the amount of EUR 1.5 billion with partial maturity in 2025 and in 2030, whose proceeds were used to finance the Maui Jim acquisition. These new notes have coupons of 1.25% and 1.85%, which are higher than the weighted average cost of 1.1% for the existing debt instruments.

The Company’s liquidity position was exceptionally strong in 2021, with its cash holdings of EUR 5.2 billion covering almost the entirety of its financial debt obligation. This provides Kering with a high degree of financial flexibility in times of increased market instability and gives a distinctive competitive advantage compared to its main industry peers. Also, Kering’s liquidity profile is further enhanced by its fully-available committed credit facility of EUR 3 billion and its solid cash flow generation, which so far has been more than enough to cover its organic growth. In 2021, the Company achieved positive free cash flows even after discounting shareholder payments, a trend that will likely continue with the expected positive operating development in the years ahead.

In view of the increasing availability of internal funds coming from both robust cash balance and stronger operating cash flows, Kering will eventually be more active in acquiring new businesses which are strategic and will accelerate future growth. In 2022, Kering partially financed the EUR 1.5 billion purchase of Maui Jim with debt, but this movement has been accompanied by improved operating results and was compensated by other businesses divestitures (Girard-Perregaux and Ulysse Nardin).

In a nutshell, we assess Kering’s financial risk profile as very low. The reason for this is the Company’s long history of stable business performance, ensured mainly through its distinctive and highly valued brand portfolio, and by its ample access to capital markets. Despite our expectation of higher cash outlays in the short-to-medium term, the Company will sustain its track record of prudent financial management and preserve its very high degree of creditworthiness.

## Issue rating

### Issue rating details

The rating objects of this issue rating are exclusively the long-term senior unsecured issues, denominated in euro, issued by Kering S.A. and which are included in the list of ECB-eligible marketable assets. The ECB list of eligible marketable assets can be found on the website of the ECB.

The Notes have been issued within the framework of the Euro Medium Term Note (EMTN) programme, of which the latest base prospectus dates from 3 December 2021. This EMTN programme amounts to EUR 6 billion. The notes under the EMTN programme are senior unsecured, and rank at least pari passu among themselves and with all other present and future unsecured obligations of the issuer. Additionally, the Notes benefit from a negative pledge provision, a change of ownership clause and a cross default mechanism.

We have provided the debt securities issued by Kering S.A. with a rating of A. The rating is based on the corporate issuer rating of Kering S.A. Other types of debt instruments or issues denominated in other currencies of the issuer have not been rated by CRA. For a list of all currently valid ratings and additional information, please consult the website of Creditreform Rating AG.

### Overview

Table 3: Overview of CRA Ratings I Source: CRA

| Rating Category | Details | |
|---|---|---|
| | Date | Rating |
| Kering S.A. (Issuer) | 12.07.2022 | A / stable |
| Long-term Local Currency (LC) Senior Unsecured Issues | 12.07.2022 | A / stable |
| Other | -- | n.r. |

Table 4: Overview of 2021 Euro Medium Note Programme I Source: Base Prospectus dated 03.12.2022

| Overview of 2021 EMTN Programme | | | |
|---|---|---|---|
| Volume | EUR 6,000,000,000 | Maturity | Depending on respective bond |
| Issuer / Guarantor | Kering S.A. (Garantin) | Coupon | Depending on respective bond |
| Arranger | Société Générale | Currency | Depending on respective bond |
| Credit enhancement | None | ISIN | Depending on respective bond |

All future LT LC senior unsecured Notes issued by Kering S.A. and which have similar conditions to the current EMTN programme, are denominated in euro and included in the list of ECB-eligible marketable assets will, until further notice, receive the same ratings as the current LT LC senior unsecured Notes issued under the EMTN programme. Notes issued under the programme in any currency other than euro, or other types of debt instruments, have not yet been rated by CRA.

## Financial ratio analysis

Table 5: Financial key ratios |Source: Kering annual report 2021, structured by CRA

| Asset structure | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|
| Fixed asset intensity (%) | 63,03 | 68,87 | 64,50 | 59,29 |
| Asset turnover | | 0,73 | 0,53 | 0,66 |
| Asset coverage ratio (%) | 90,61 | 73,18 | 87,98 | 92,09 |
| Liquid funds to total assets | 11,54 | 9,41 | 13,52 | 18,68 |
| **Capital structure** | | | | |
| Equity ratio (%) | 49,38 | 37,54 | 43,10 | 43,49 |
| Short-term debt ratio (%) | 33,36 | 33,52 | 26,45 | 31,23 |
| Long-term debt ratio (%) | 7,73 | 12,86 | 13,64 | 11,11 |
| Capital lock-up period (in days) | 19,92 | 18,58 | 41,50 | 36,03 |
| Trade-accounts payable ratio (%) | 3,88 | 3,33 | 5,85 | 6,20 |
| Short-term capital lock-up (%) | 39,52 | 44,41 | 37,46 | 38,86 |
| Gearing | 0,79 | 1,41 | 1,01 | 0,87 |
| Leverage | | 2,34 | 2,48 | 2,31 |
| **Financial stability** | | | | |
| Cash flow margin (%) | | 21,79 | 22,08 | 26,45 |
| Cash flow ROI (%) | | 14,24 | 11,36 | 16,61 |
| Total debt / EBITDA adj. | 2,19 | 2,52 | 3,19 | 2,46 |
| Net total debt / EBITDA adj. | 1,69 | 2,14 | 2,43 | 1,64 |
| ROCE (%) | 36,81 | 40,03 | 23,76 | 40,69 |
| Total debt repayment period | | 2,42 | 6,38 | 2,91 |
| **Profitability** | | | | |
| Gross profit margin (%) | 74,63 | 74,13 | 72,59 | 74,06 |
| EBIT interest coverage | 17,35 | 14,29 | 9,06 | 16,90 |
| EBITDA interest coverage | 19,70 | 18,17 | 13,05 | 21,99 |
| Ratio of personnel costs to total costs (%) | 15,22 | 14,42 | 15,80 | 13,85 |
| Cost income ratio (%) | 72,82 | 71,05 | 76,34 | 72,81 |
| Ratio of interest expenses to total debt (%) | 2,20 | 2,12 | 2,49 | 1,79 |
| Return on investment (%) | 14,88 | 10,32 | 9,82 | 12,52 |
| Return on equity (%) | | 23,61 | 21,47 | 27,99 |
| Net profit margin (%) | 19,41 | 13,84 | 16,47 | 18,40 |
| Operating margin (%) | 27,19 | 28,95 | 24,93 | 27,20 |
| **Liquidity** | | | | |
| Cash ratio (%) | 34,58 | 28,06 | 51,12 | 59,82 |
| Quick ratio (%) | 72,63 | 56,29 | 91,69 | 91,90 |
| Current ratio (%) | 110,84 | 92,84 | 134,20 | 130,37 |

# Appendix

### Rating history

The rating history is available under https://www.creditreform-rating.de/en/ratings/published-ratings.html.

Table 6: Corporate Issuer Rating of Kering S.A.

| Event | Rating created | Publication date | Monitoring until | Result |
|---|---|---|---|---|
| Initial rating | 12.07.2022 | www.creditreform-rating.de | Withdrawal of the rating | A / stable |

Table 8: LT LC Senior Unsecured Issues issued by Kering S.A.

| Event | Rating created | Publication date | Monitoring until | Result |
|---|---|---|---|---|
| Initial rating | 12.07.2022 | www.creditreform-rating.de | Withdrawal of the rating | A / stable |

### Regulatory requirements

The rating[6] was not endorsed by Creditreform Rating AG (Article 4 (3) of the CRA-Regulation).

The present rating is, in the regulatory sense, an unsolicited rating, that is public. The analysis was carried out on a voluntary basis by Creditreform Rating AG, which was not commissioned by the Issuer or any other third party to prepare the present rating.

The rating is based on the analysis of published information and on internal evaluation methods for the assessment of companies and issues. The rating object was informed of the intention of creating or updating an unsolicited rating before the rating was determined.

The rating object participated in the creation of the rating as follows:

| **Unsolicited Corporate Issuer / Issue Rating** | |
|---|---|
| With rated entity or related third party participation | No |
| With access to internal documents | No |
| With access to management | No |

[6] In these regulatory requirements the term "rating" is used in relation to all ratings issued by Creditreform Rating AG in connection to this report. This may concern several companies and their various issues.

The rating was conducted based on the following information.

| List of documents |
|---|
| **Accounting and controlling** |
| ▪ Kering Universal Registration Document 2021<br>▪ Quarterly financial information – Q1 2022 |
| **Finance** |
| ▪ EMTN Base prospectus dated 03.12.2022 and Final Terms |
| **Additional documents** |
| ▪ Company's presentations<br>▪ Report on Corporate Governance<br>▪ Industry researches<br>▪ Press releases |

A management meeting did not take place within the framework of the rating process.

The documents submitted and information gathered were sufficient to meet the requirements of Creditreform Rating AG's rating methodologies.

The rating was conducted based on the following rating methodologies and the basic document.

| Rating methodology | Version number | Date |
|---|---|---|
| Corporate Ratings | 2.3 | 29.05.2019 |
| Non-financial Corporate Issue Ratings | 1.0 | October 2016 |
| Rating Criteria and Definitions | 1.3 | January 2018 |

The documents contain a description of the rating categories and a definition of default.

The rating was carried out by the following analysts:

| Name | Function | Mail-Address |
|---|---|---|
| Christian Konieczny | Lead-analyst | C.Konieczny@creditreform-rating.de |
| Sabrina Mascher de Lima | Analyst | S.Mascher@creditreform-rating.de |

The rating was approved by the following person (person approving credit ratings, PAC):

| Name | Function | Mail-Address |
|---|---|---|
| Stephan Giebler | PAC | S.Giebler@creditreform-rating.de |

On 12 July 2022, the analysts presented the rating to the rating committee and the rating was determined. The rating result was communicated to the company on 13 July 2022. There has not been a subsequent change to the rating.

The rating will be monitored until Creditreform Rating AG withdraws the rating. The rating can be adjusted as part of the monitoring, if crucial assessment parameters change.

In 2011, Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on this registration, Creditreform Rating AG is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation.

### ESG-factors

You can find out whether ESG factors were relevant to the rating in the upper section of this rating report "Relevant rating factors".

A general valid description for Creditreform Rating AG, as well as a valid description of corporate ratings for understanding and assessing ESG factors in the context of the credit rating process, can be found here.

### Conflict of interests

No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or in approving credit ratings and rating outlooks.

In the event of providing ancillary services to the rated entity, Creditreform Rating AG will disclose all ancillary services in the credit rating report.

### Rules on the presentation of credit ratings and rating outlooks

The approval of credit ratings and rating outlooks follows our internal policies and procedures. In line with our "Rating Committee Policy", all credit ratings and rating outlooks are approved by a rating committee based on the principle of unanimity.

To prepare this credit rating, Creditreform Rating AG has used following substantially material sources:

Corporate issuer rating:

1. Annual report
2. Website
3. Internet research

Corporate issue rating:

1. Corporate issuer rating incl. information used for the corporate issuer rating
2. Documents on issues / instruments

There are no other attributes and limitations of the credit rating or rating outlook other than those displayed on the Creditreform Rating AG website. Furthermore, Creditreform Rating AG considers as satisfactory the quality and extent of information available on the rated entity. With respect to the rated entity, Creditreform Rating AG regarded available historical data as sufficient.

Between the time of disclosure of the credit rating to the rated entity and the public disclosure, no amendments were made to the credit rating.

The Basic Data Information Card indicates the principal methodology or version of methodology that was used in determining the rating, with a reference to its comprehensive description.

In cases where the credit rating is based on more than one methodology or where reference only to the principal methodology might cause investors to overlook other important aspects of the credit rating, including any significant adjustments and deviations, Creditreform Rating AG explains this fact in the credit rating report and indicates how the different methodologies or other aspects are taken into account in the credit rating. This information is integrated in the credit rating report.

The meaning of each rating category, the definition of default or recovery and any appropriate risk warning, including a sensitivity analysis of the relevant key rating assumptions such as mathematical or correlation assumptions, accompanied by worst-case scenario credit ratings and best-case scenario credit ratings are explained.

The date at which the credit rating was initially released for distribution and the date when it was last updated, including any rating outlooks, is indicated clearly and prominently in the Basic Data Information Card as a "rating action"; initial release is indicated as "initial rating", other updates are indicated as an "update", "upgrade" or "downgrade", "not rated", "confirmed", "selective default" or "default".

In the case of a rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within the Basic Data Information Card.

In accordance with Article 11 (2) EU-Regulation (EC) No 1060/2009, a registered or certified credit rating agency shall make available, in a central repository established by ESMA, information on its historical performance data including the rating transition frequency and information about credit ratings issued in the past and on their changes. Requested data are available at the ESMA website.

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