



Prada (1913 HK)

High fashion at 14x EV/pretax profit with an alt-data catalyst



ASIAN
CENTURY
STOCKS

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Summary



1. Prada is an Italian fashion group specialising in handbags, clothing, shoes, eyewear and accessories. It's run by a woman called Miuccia Prada, who together with her husband Patrizio Bertelli built Prada from a small leather goods shop into a major fashion brand.
2. Today, the company is listed in Hong Kong and more or less ignored by European and American investors. Yet Prada is enjoying a renaissance, driven by an increase in popularity for its sister brand Miu Miu. In the past few years, Miu Miu has captivated Gen Z consumers with its mini skirts and crop tops. And its popularity on TikTok continues to rocket higher. Miu Miu now represents roughly 1/4 of revenues and sales almost doubled in the past year. Female consumers have taken a liking to Miu Miu's Wander, Arcadie and Ivy bags and they remain sold out on second-hand trading platforms.
3. Prada's performance stands in stark contrast to the downturn currently experienced by the broader luxury goods sector. Chinese buyers have gone quiet when it comes to the purchase of luxury goods, perhaps due to falling property prices and weak consumer confidence in that market. While the main Prada brand continues to grow in almost all regions, it has noted recent challenges in China.
4. Will Prada's and Miu Miu's run continue? Their recent success seems to be related to the hiring of Raf Simons as a co-creative director together with Miuccia Prada. That has allowed her to focus on the smaller Miu Miu brand, completely reinvigorating the brand. Google search query data remains constructive with year-on-year growth for Miu Miu of +85%. According to the Lyst Hottest Brands Index, Miu Miu is #1 and Prada #3. And Miu Miu keeps trending on TikTok.
5. If there's one worry, it's that neither Prada's nor Miu Miu's latest collection seemed to have hit a nerve with consumers. The CEO of Miu Miu also resigned recently, with no replacement found just yet.
6. On my numbers, Prada trades at 18.3x 2025e P/E. While that may sound high, the peer group trades at an even higher 36x. And historically, Prada has traded at 33x. With the current momentum at Miu Miu, it's understandable if investors are willing to pay up.

Capitalisation



- Share price: HK\$54.6
- Shares outstanding: 2,559 million
- Market cap: US\$17.9 billion
 - Cash: US\$0.7 billion
 - + Debt: US\$0.2 billion
 - + Minority interests: US\$0.0 billion
 - = Enterprise value: US\$17.5 billion
- Trading volume: US\$11 million

US\$ million



* HK\$ = Hong Kong Dollar. HKD/USD = 7.78

Linda Greenblatt on investing in retail stocks: the best time to get in is when they miss a season of merchandise



- *"I like retail because you are constantly getting information. You get it on a monthly basis and sometimes on a weekly basis. Retailers put out same store sales numbers-Comparable sales in stores for a year-over-year period."*
- *"Inevitably these companies are going to miss because of their fault or no fault of their own due to the macro environment. There will be a missed number and the market tends to have no mercy. So the market kills these stocks. One day it is trading at 20 times and the next day it is trading 10 times (earnings) but nothing has fundamentally has changed. That fundamentally is your opportunity"*
- *I don't know how to pick the next trend. I really don't know fashion. I say this: nobody can predict fashion. It is really is not about hitting the next trend on a continuous basis. Are these companies running a good business over the long-term? Are they running a business that can weather the ups and downs?"*
- *"The best time to get in is when they missed a season of merchandise because if you look at the fundamentals of the company and it is well-run and the stock gets crushed because they miss a season of merchandise, then it is an opportunity to own for the long term. It is really irrelevant if they pick the hot trends or not."*

Special Situation Investing Classes at Columbia University Business School

These class notes and supplemental materials are written by an investor who audited Joel Greenblatt's Special Situation Class at Columbia's Graduate Business Program from 2002 through 2006. Different years may have an overlap of material and concepts covered by the prior year's notes but the repetition and supplemental material may improve retention. Any errors, omissions or faulty premises are the notetaker's fault and not implied or committed by the speakers or persons presented. Please use these notes as a spur to your own efforts and thinking in how to become a more effective investor. I hope this help. Comments welcome at aldrige56@aol.com

Greenblatt Class #1

Sept. 07, 2005

A Story Selling Gum

My goal is to teach you the course that I never had and that I wish I had. I started in business school 25 years ago. What I know about investing other than reading financial statements, I learned on my own reading and making mistakes. Hopefully, I can give you the benefit of my experience.

A number of years ago I was trying to explain to my son what I did for a living. He is 11 years old. I spoke about selling gum. Jason, a boy in my son's class, sold gum each day at school. He would buy a pack of gum for 25 cents and he would sell sticks of gum for 25 cents each. He sells 4 packs a day, 5 days a week, 36 weeks or about \$4,000 a year. What if Jason offered to sell you half the business today? What would you pay?

My son replied, "Well, he may only sell three packs a day so he would make \$3000 a year. Would you pay \$1,500 now? Why would I do that if I have to wait several years for the \$1,500?"

Would you pay a \$1? Yes, of course! But not \$1,500. I would pay \$450 now to collect \$1,500 over the next few years, which would be fair. Now, you understand what I do for a living, I told my son.

I sit around trying to figure out what businesses are worth, and then I try to pay a lot less for them. I think you get the point.

The Skills I Will Teach You

I really don't think the skills that I am going to teach you are very valuable. It is not that you can't make a lot of money from what I am going to teach you. There are fundamentally better things you can do with your time. My view is that the social value of investing in the stock market as being similar to being good at handicapping horses. There is a benefit to having markets for raising capital; they just really don't need you.

I think what I am going to teach you this semester is really how to make money and so whatever social benefits there are to society, it is not very large. So if you do end up following my advice and it works for you, I would ask that you find some way to give back. I am one iteration removed so what I am doing?

I truly wish that I had the chance to have this course to help out in some way.

Divergence between Prices and Values

Prices fluctuate more than values—so therein lies opportunity.

Why are prices of each company so variable and volatile compared to the value of companies?

If I take out the newspaper and I pick out any large cap stock like IBM, Cisco, eBay, KKD, Google, why are the prices all over the place? Look at the wide divergence between the 52 week high/low. Here is a business that hasn't changed much but the price has gone from \$35 to \$70. \$7 to \$30 and right now to \$20. Look at ANF and INTL.

From the 1999 movie “10 Things I Hate About You”



- **Bianca:** *“There's a difference between like and love. Because, I like my Skechers, but I love my Prada backpack.”*
- **Chastity:** *“But I love my Skechers.”*
- **Bianca:** *“That's because you don't have a Prada backpack.”*
- **Chastity:** *“Ohhhhh....”*



Prada's clothing & accessories are sought after in a way that mass-market brands aren't

Business overview



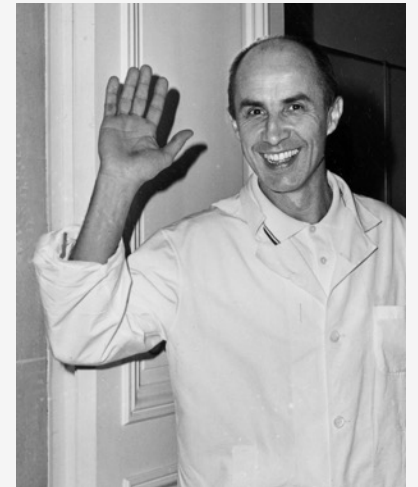
- Prada is an Italian fashion group specializing in women's handbags, clothing, shoes, eyewear and accessories.
- Today, the group controls three main brands: luxury clothing brand Prada, youth mass luxury brand Miu Miu and English shoe brand Church's. They also get royalties from the sales of Prada branded cosmetics and eyewear.
- The company has well over 100 years of history and continues to be run by the Prada family, now in its third generation through granddaughter Miuccia Prada.
- She has made a major contribution to the Prada brand by introducing its distinctive "ugly chic" style, e.g. by using utilitarian materials such as nylon for luxury products. As a Marxist, she's said that she wants to challenge "bourgeois consumption patterns". In her own words: *"Clothes were never about doing clothes... It's about living different parts of your personality"*.
- Prada owns 26 production facilities, most of which in Italy. However, most manufacturing is outsourced.



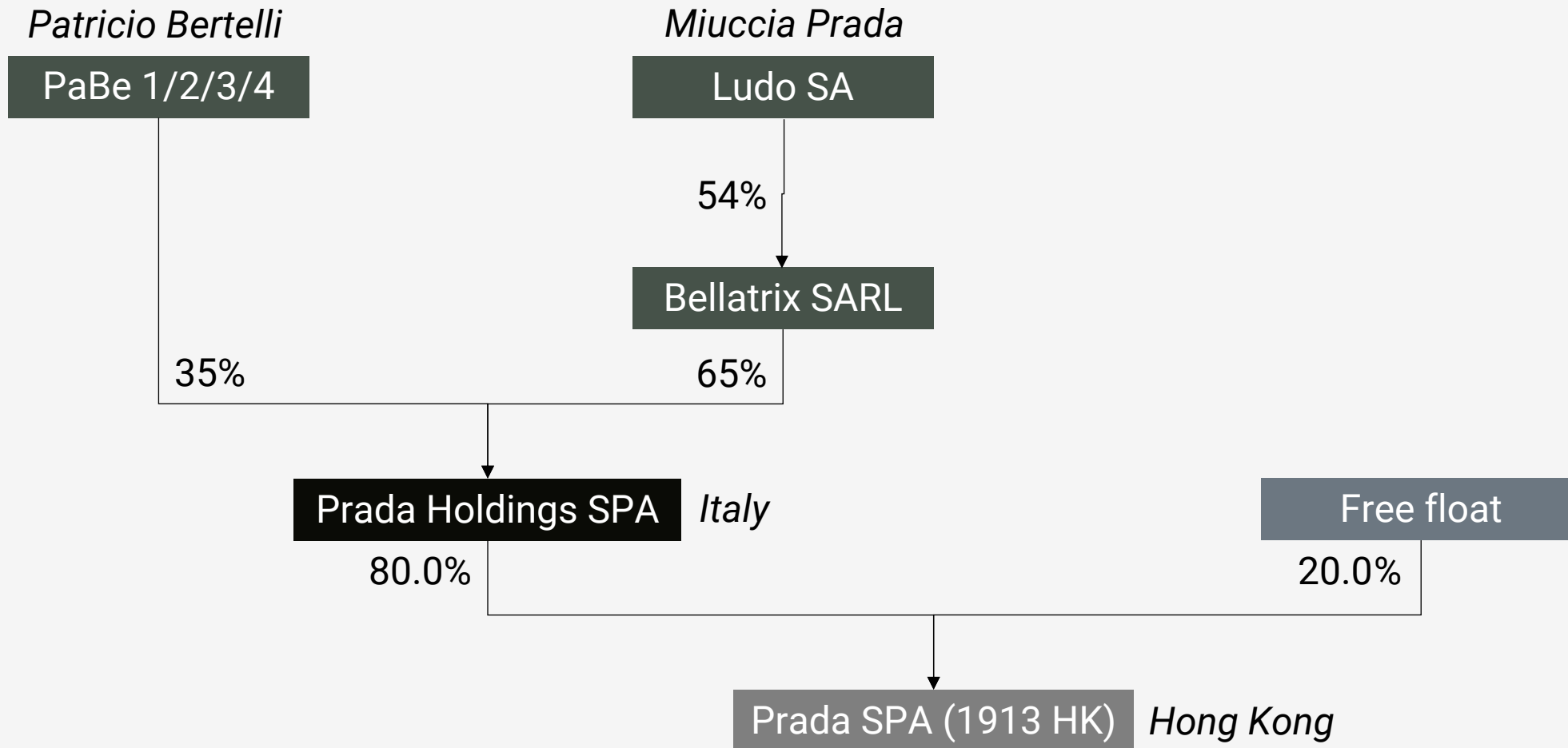
Today's Prada is Miuccia Prada and Patrizio Bertelli's creation



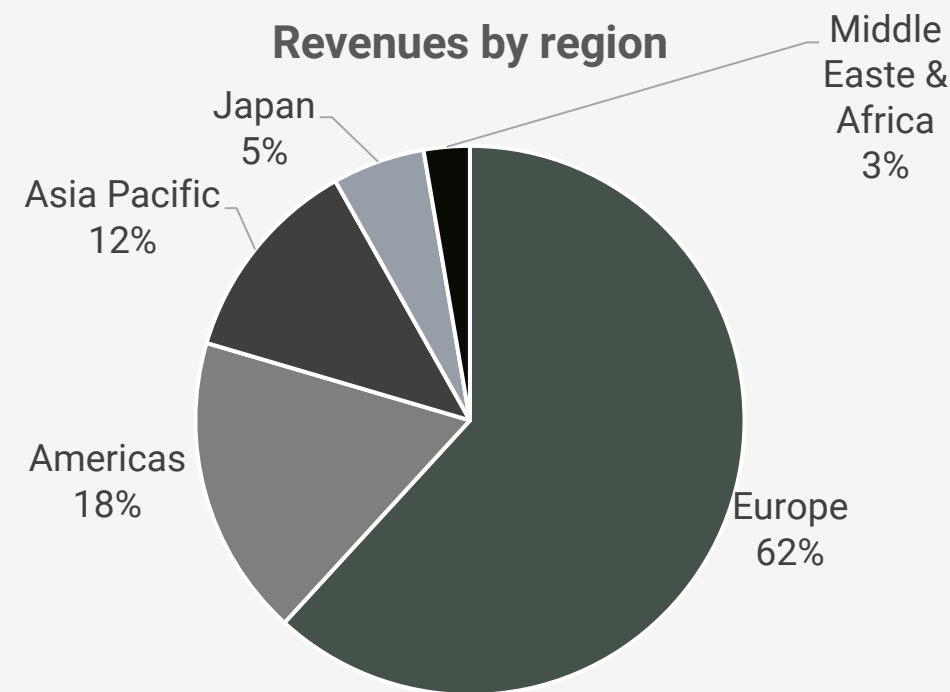
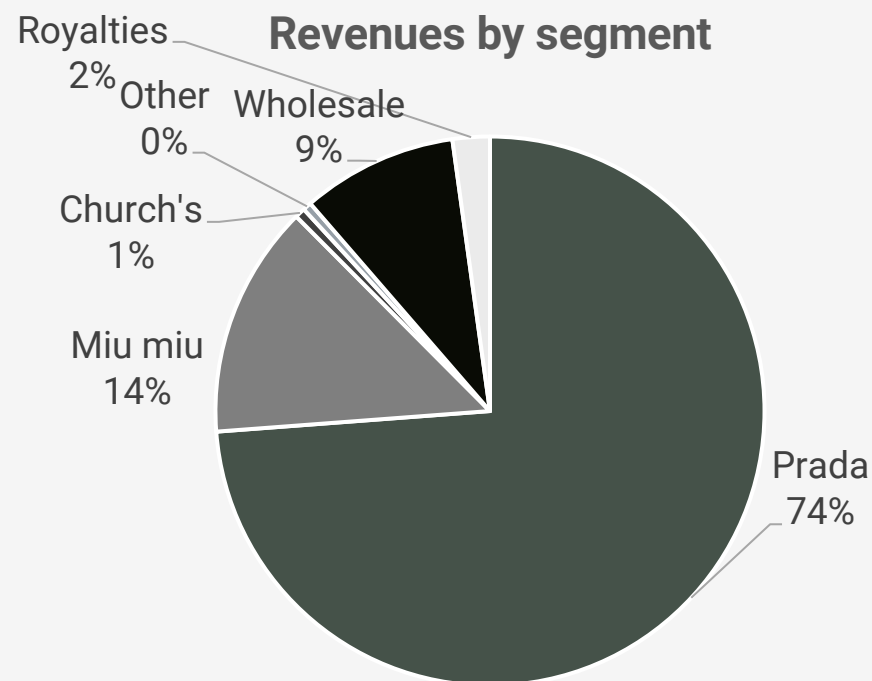
- Prada was founded in **1913** by Mario Prada, a former salesman at a leather shop in Milan, Italy. Initially, it sold animal goods, luggage, imported English handbags, travel accessories and rare objects.
- Mario's son had no interest in taking over the business, so it was Mario's daughter Luisa who succeeded him and ran Prada for almost twenty years.
- In **1970**, Mario's granddaughter Miuccia Prada took over the business and then merged Prada with the leather goods business of Patrizio Bertelli, who became her husband. Together, they helped Prada transition to become a luxury goods brand.
- A Prada shoe line was launched in **1979** and in the early 1980s, the first Prada handbag ("Vela"), which became an overnight sensation. The unique selling point was it being practical and sturdy, with sleek design language. Prada became known as an "anti-status" or "inverse snobbery" brand.
- In **1992**, the lower-end brand "Miu Miu" (named after Miuccia Prada) was established, focusing on younger consumers with a more avant-garde and provocative style. Meanwhile, the Prada brand increasingly became a status symbol with manufactured scarcity being a key part of the brand building strategy.
- In **1998**, Prada acquired shares in Gucci and then sold those shares to Bernard Arnault's LVMH. It then acquired shares in Helmut Lang's company, Jil Sander, British shoemaker Church & Company and a stake in Fendi. However, in this process, Prada accumulated a significant amount of debt and it sold most of these stakes except the Church's brand.
- In **2011**, Prada listed on the Hong Kong Stock Exchange and raised US\$2.1 billion. It had some success and then declined in popularity through most of the 2010s.
- The turnaround came with the **2020** hiring of Belgian designer Raf Simons as fashion director. Then came the hiring of ex-LVMH executive Andrea Guerra as the CEO, marking a new era for the brand.



Prada is controlled by Patrizio Bertelli and Miuccia Prada



Prada sells leather goods and fashion under the "Prada" brand name, and disproportionately in Europe

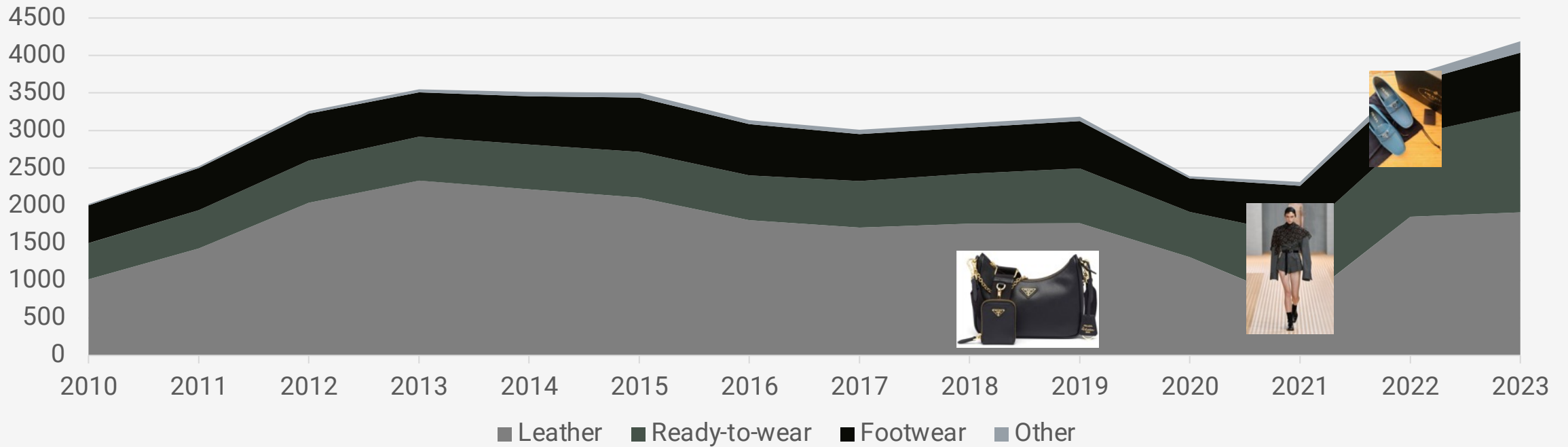


Source: Bloomberg

Prada has historically been a handbag maker, though with time diversified to clothing and footwear



Sales by product line



The brand portfolio



- Luxury fashion brand
- Minimalist aesthetic
- Handbags, shoes, clothing, accessories
- Known for its Prada Nylon Bag



- Youthful, playful fashion
- Trend-setting designs
- 2/3 of products sold to Gen Z and millennials
- Clothing, accessories and now fragrances and cosmetics

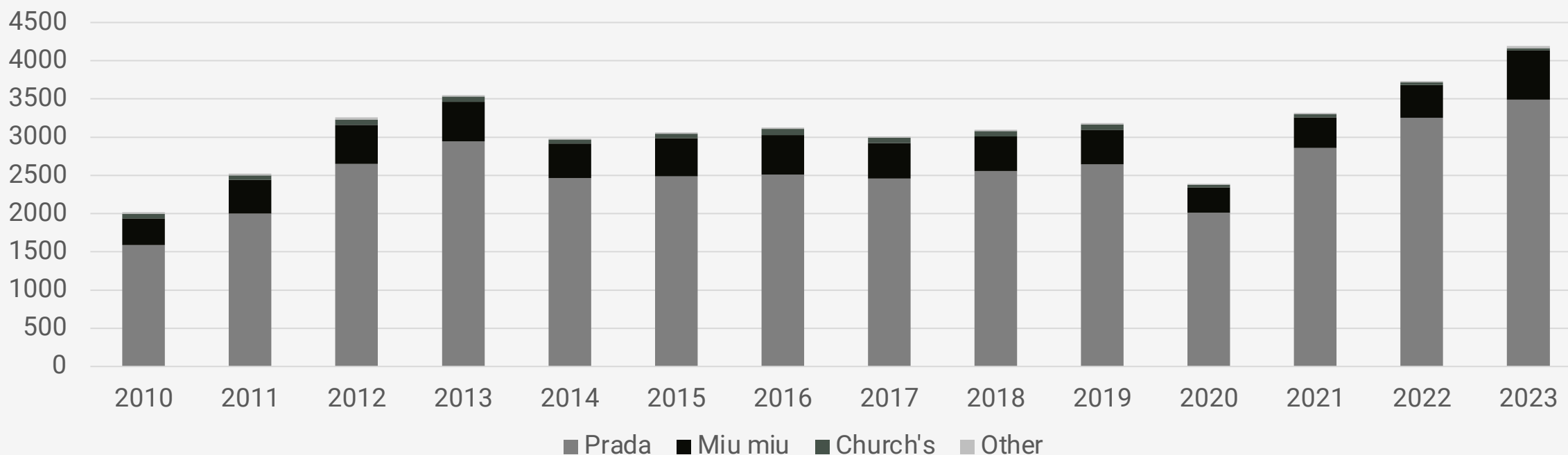


- High-quality footwear for men
- British, timeless designs
- Associated with handmade shoes that last forever
- Key products: brogues, Oxford shoes, loafers

Prada remains the most important factor for overall revenues



Retail net sales



The Prada brand



- Prada is known for high fashion, avant-garde yet minimalist design.
- It's been a front-runner in the use of newer materials such as nylon. Its first handbag was made out of nylon rather than leather, breaking the mold. And Prada continues to challenge the status quo, most recently by launching a high jewelry collection focused on lab-grown diamonds.
- The designs are meant to be timeless and distinctive across the product range. In their own words: *"a benchmark to those who dare to challenge conventions"*.



The Miu Miu brand



- The Miu Miu brand is relatively new, born in 1993 and using the nickname of Miuccia Prada.
- Miu Miu's designs are light but sophisticated. And significantly more creative than Prada. In their own words: *"Miu Miu reflects the radical and impulsive character of the woman behind it"*.
- It attracted attention with its mini-skirts a few years ago, crop-tops and more recently hoodies.
- Handbags and accessories are a large part of what's attracting fans to the brand. The Wander and Arcadie bags are particularly popular.
- An online magazine called Miu Miu *"the go-to for gifting among the youth"* as the brand is more accessible than luxury brands.



The difference between the Prada and Miu Miu brands



The creative process in Miu Miu is completely different from that of Prada. Miu Miu is not as complicated and thought out as Prada. Rather than being young, Miu Miu is immediate. Prada is very sophisticated and considered; Miu Miu is much more naïve.

– Miuccia Prada



The Church's product portfolio



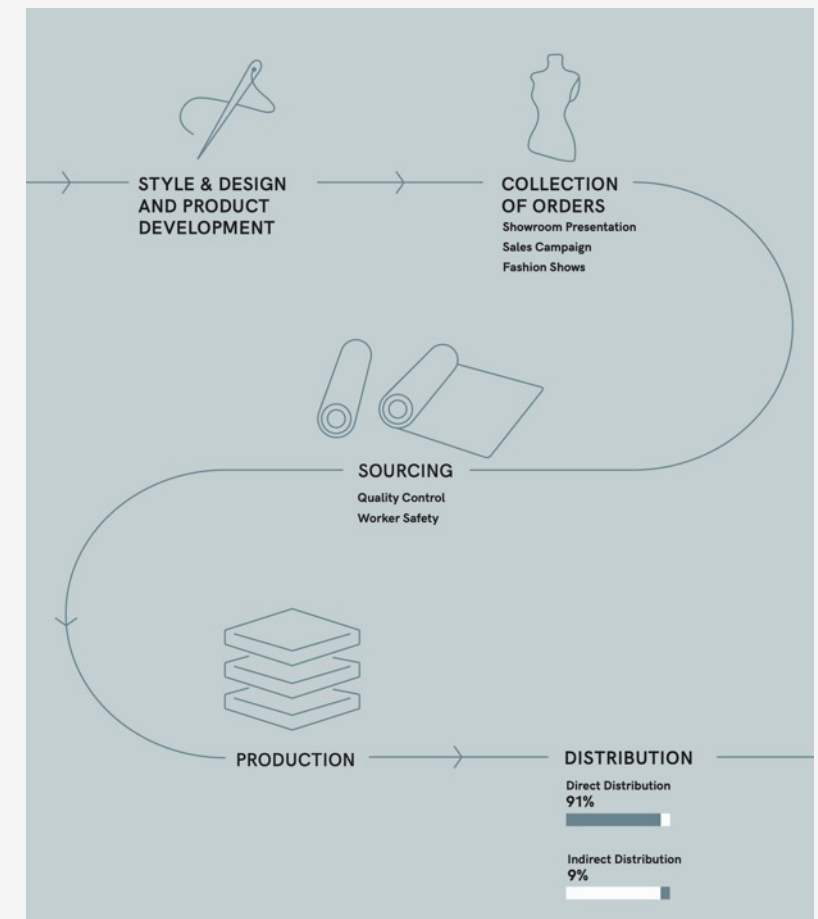
- A Northampton-based footwear brand focusing on higher-end, handcrafted shoes with timeless design.
- Church's was founded in 1873 by Thomas Church and stayed independent until the acquisition by Prada in 1999 for GBP 106 million.
- The brand is most known for Oxfords, brogues and loafers.
- While Church's offers women's shoes too, it's primarily a menswear brand.
- Some customers complain that the quality of Church's footwear has deteriorated under Prada's ownership, presumably due to outsourcing.
- Since 2010, Church's retail sales has dropped by a significant amount, and seems to be continuing lower.



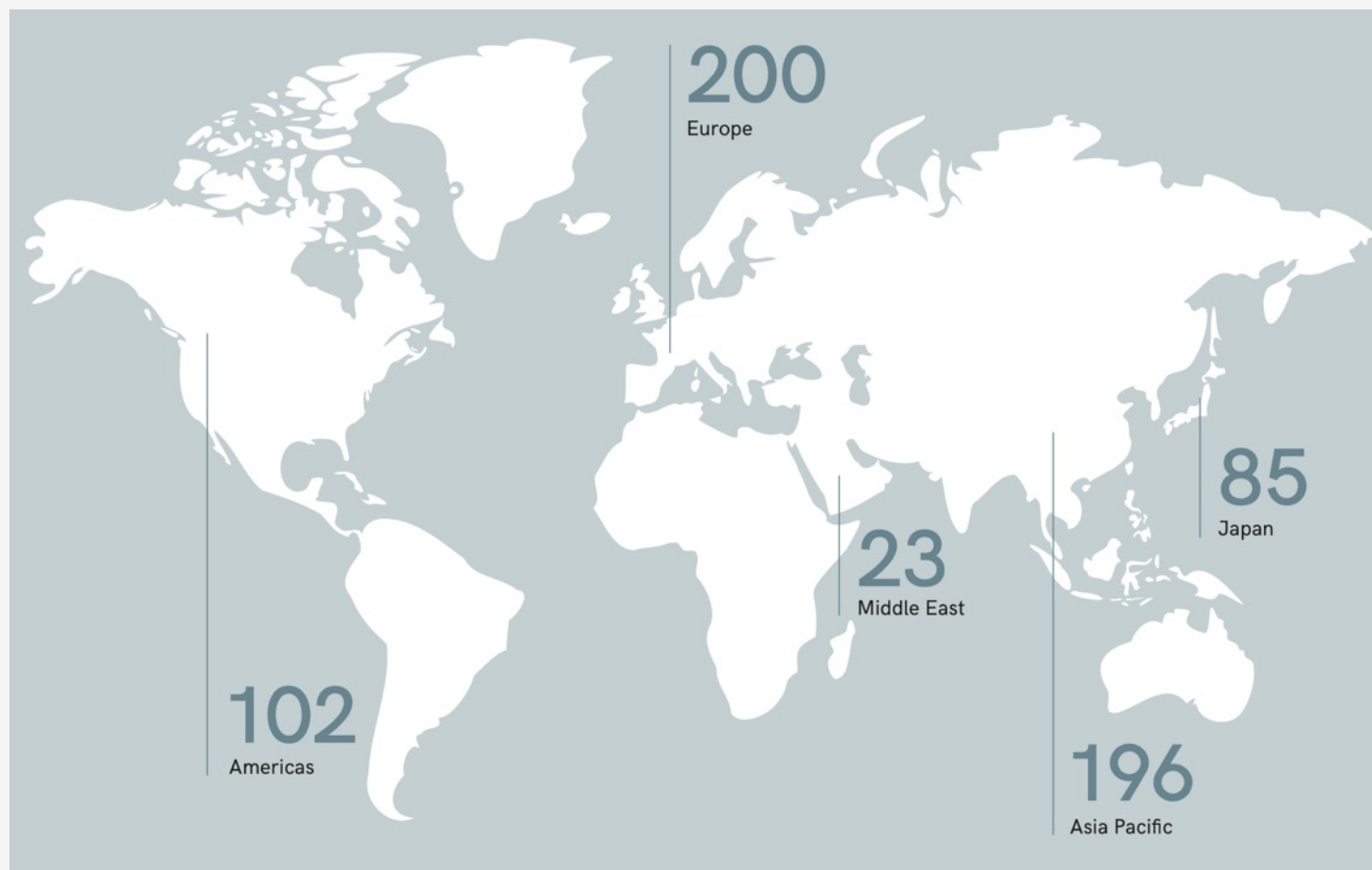
Prada's collection development cycle



- The development of styles, designs and products occurs twice per year across spring/summer collections and fall/winter collections.
- The launch of the new collections are done at fashion shows at the Milan Fashion Week
- After development, Prada launches a sales campaign with showroom presentations
- After which ready-to-wear items are sourced and vetted for their quality
- After production, the items are distributed across Prada's retail network, most of which is fully owned
- And the items will be sold to consumers for over a half a year, until the cycle starts again
- In addition, the company will occasionally launch flash collections for both Prada and Miu Miu. These are monthly collections across ready-to-wear, leather goods and shoes that will stay in stores for perhaps 2 months.



An even distribution of stores globally with a large focus on Asia



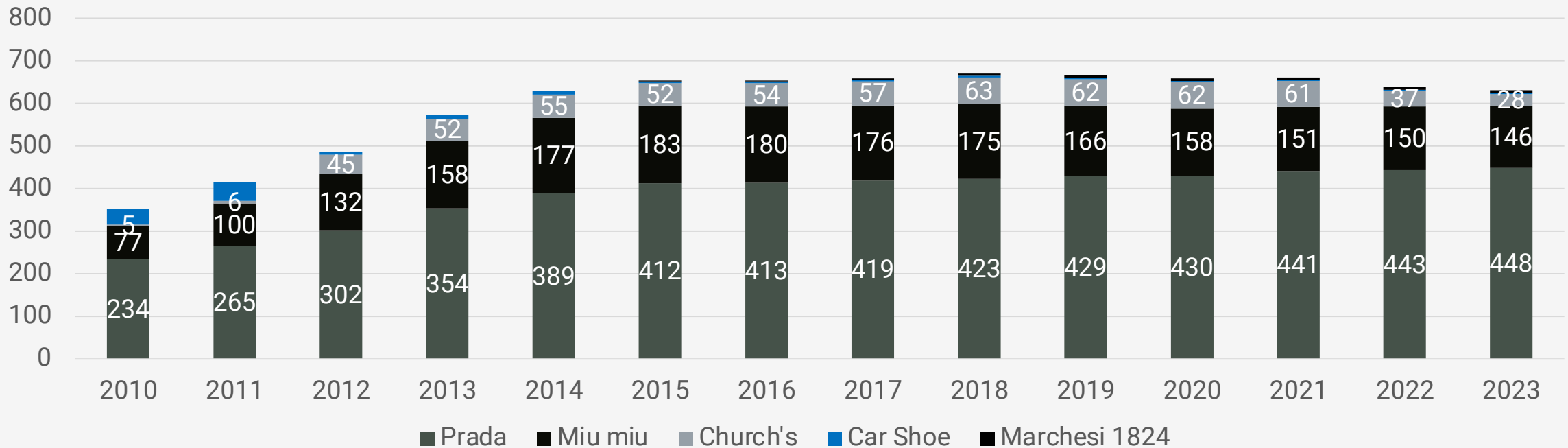
Typical Prada stores in NYC and Singapore



Prada's store footprint (mostly directly-operated) has been shrinking due to poor productivity / greater share of e-commerce



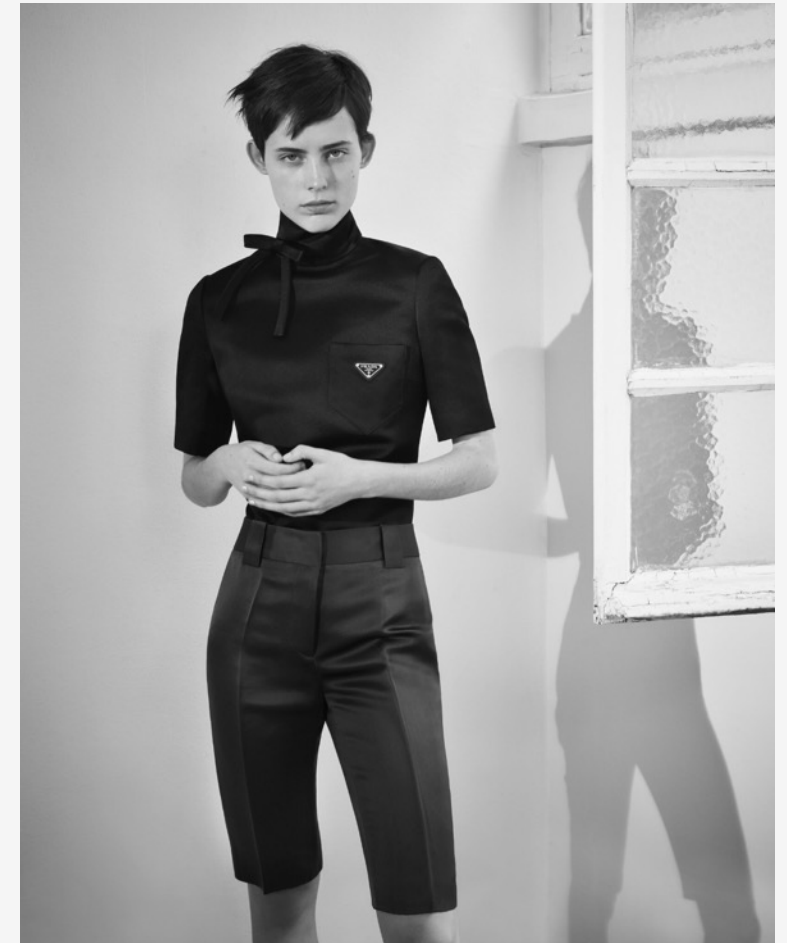
Number of stores



Prada's competitive advantages



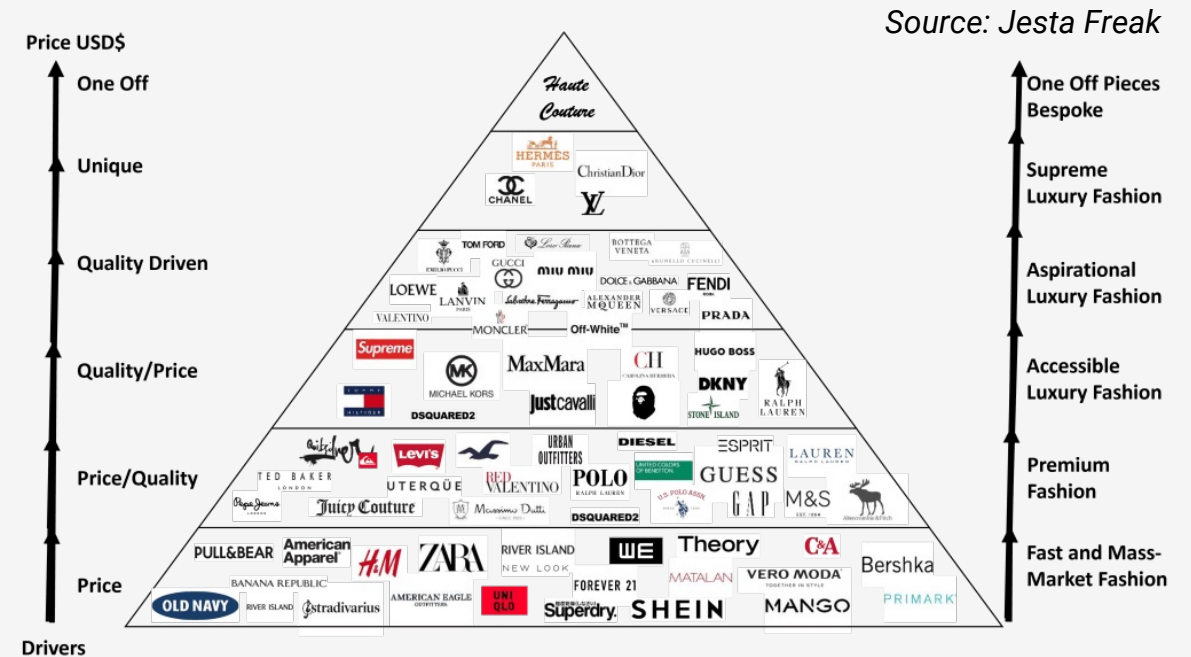
- **A strong management team:** Prada was more or less built up from the ground by Miuccia Prada and Patrizio Bertelli. Miuccia's designs are still vowing the fashion world. And both of them are still actively involved in the business.
- **Consumer mindshare:** The Prada brand is ranked as #86 on Interbrand's list of the world's Best Global Brands. Further, Prada and Miu Miu were ranked #1 and #2 on the Lyst Index of the hottest fashion brands of 2023.
- **Control over distribution:** Prada controls almost all of its retail stores, and doesn't sell much through wholesale channels anymore after a restructuring in the late 2010s. This enables it to better build its brands by controlling prices without the risk of third-party companies discounting its products. By controlling its stores, it can also better design incentive systems for store sales assistants.



Luxury brands should be aspirational



- There are several secrets to building a luxury brand:
 - **Aura of exclusivity:** Scarcity sells, so the brand needs to stay aspirational – you want the higher echelons of society to buy your product but not the average person
 - **Iconic products:** The brand's creative director needs to develop distinctive products that catch people's attention
 - **Controlling distribution:** to avoid discounting by distributors, as such discounting can ultimately hurt perceived brand value
 - **Controlling manufacturing:** to ensure that the products are high quality and durable so that customers retain trust in the brand
 - **Scale:** Larger brands tend to have higher margins thanks to the greater scale: high street shop rentals tend to be costly yet are necessary to gain visibility



Prada has iconic, distinctive products and controls distribution but it has been criticized for its quality control and it's not exclusive enough to warrant high second-hand prices. Not quite Hermès.

Iconic historical Prada products



The Galleria Bag



2000 Nylon bag



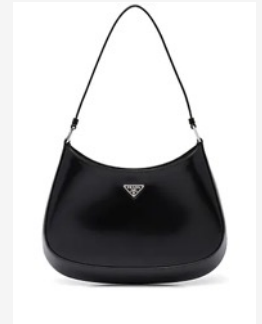
Saffiano wallet



Cahier bag



Cleo bag



Nylon backpack



Triangle tote bag



Padded headband



Leather loafer



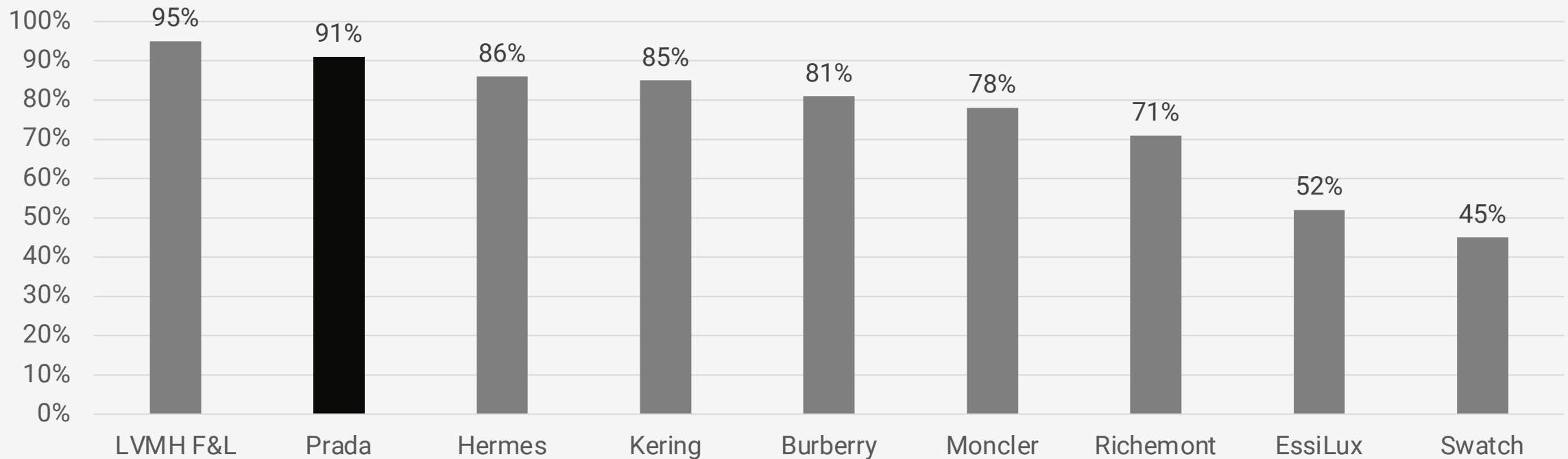
Bolo tie



Prada has almost complete control over distribution, thus avoiding discounting by third parties in the wholesale channel



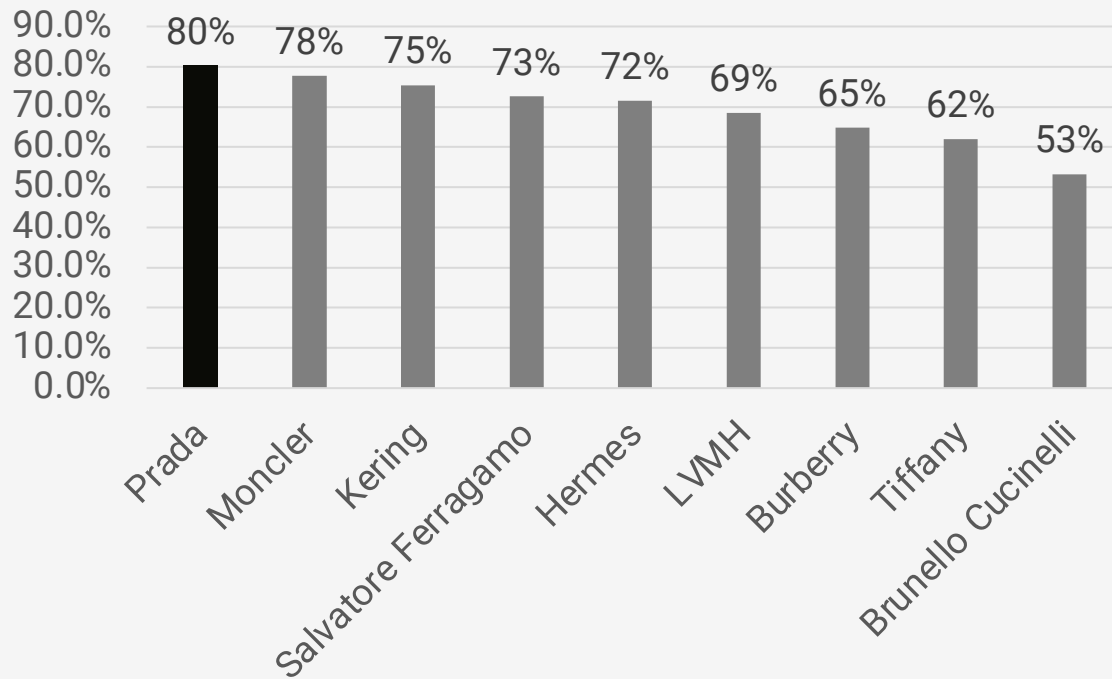
Retail sales proportion (vs wholesale)



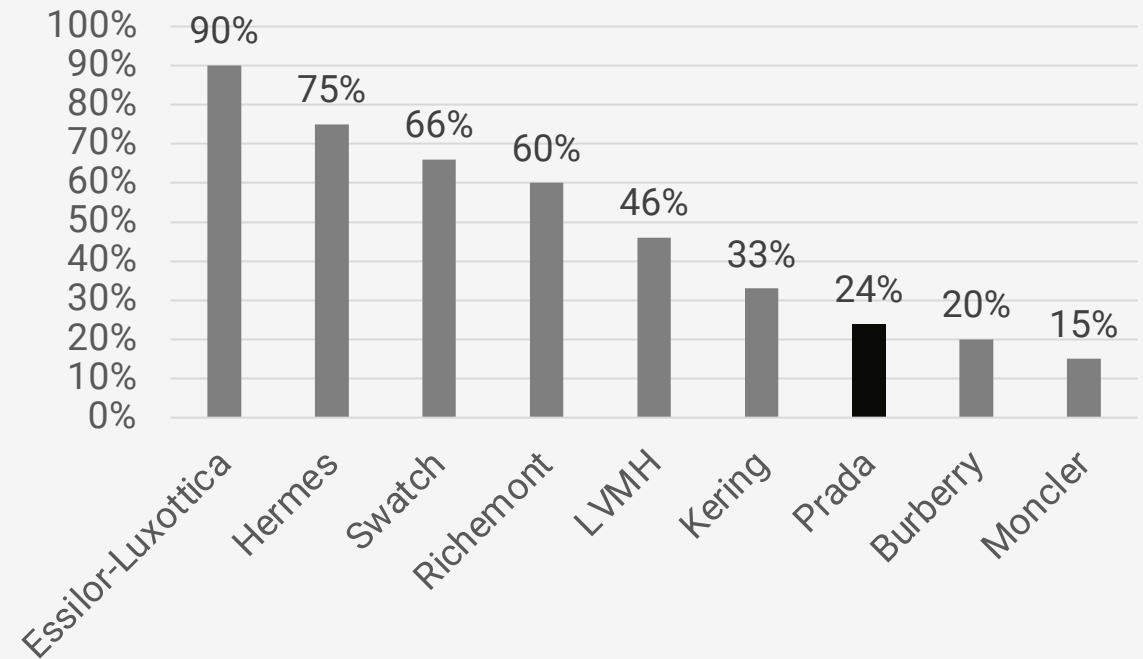
Prada doesn't score well in terms of vertical integration – making quality control more difficult than e.g. at Hermès



Gross profit margin



Proportion of in-house manufacturing



Prada has 26 fully-owned factories with almost 15,000 employees. 23 of those factories are in Italy. However, 76% of production is outsourced.



Prada factory, Italy



Dongguan Auspicious Industrial, one Prada supplier



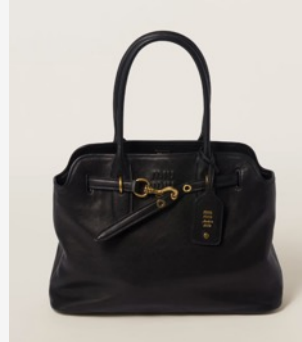
Prada's and Miu Miu's bags offer decent price/value ratios



Celine Mini Belt Bag: \$2,850



Miu Miu Aventure: \$3,050



Louis Vuitton Speedy Soft 30: \$3,900



Prada Galleria Saffiano: \$4,700



Bottega Veneta Andiamo: \$5,500



Fendi Peekaboo Iseeu Medium: \$5,800



Second-hand market pricing on TheRealReal.com suggests that Miu Miu continues to be hot, whereas Prada not so much



Prada Saffiano Lux Leather Galleria Double Zip Medium



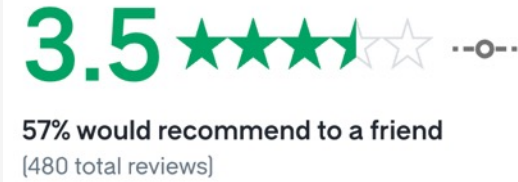
Price: \$1,595
MSRP: \$4,700
Discount: 66%

Miu Miu Raffia Arcadie



Price: \$1,916
MSRP: \$2,600
Discount: 26%

Employee reviews on Glassdoor are just okay, with nothing really standing out



Positives

- *Good upper management*
- *Very friendly work culture among staffs. Good camaraderie*
- *If you are in a sales position, there is definitely opportunity for good money through the commission structure.*
- *Great pay, gifts from Prada, commission,*
- *Cool products, nice stores, that's it*
- *Commission structure is great if you meet your goals. Health Benefits and 401k are great. Feels like a family*
- *Great management team and support for employees*
- *International big company with promising career*
- *Great fashion - Italy based*
- *This company does a great job hiring wonderful team members. Pay is competitive and upper level management is kind and supportive.*

Negatives

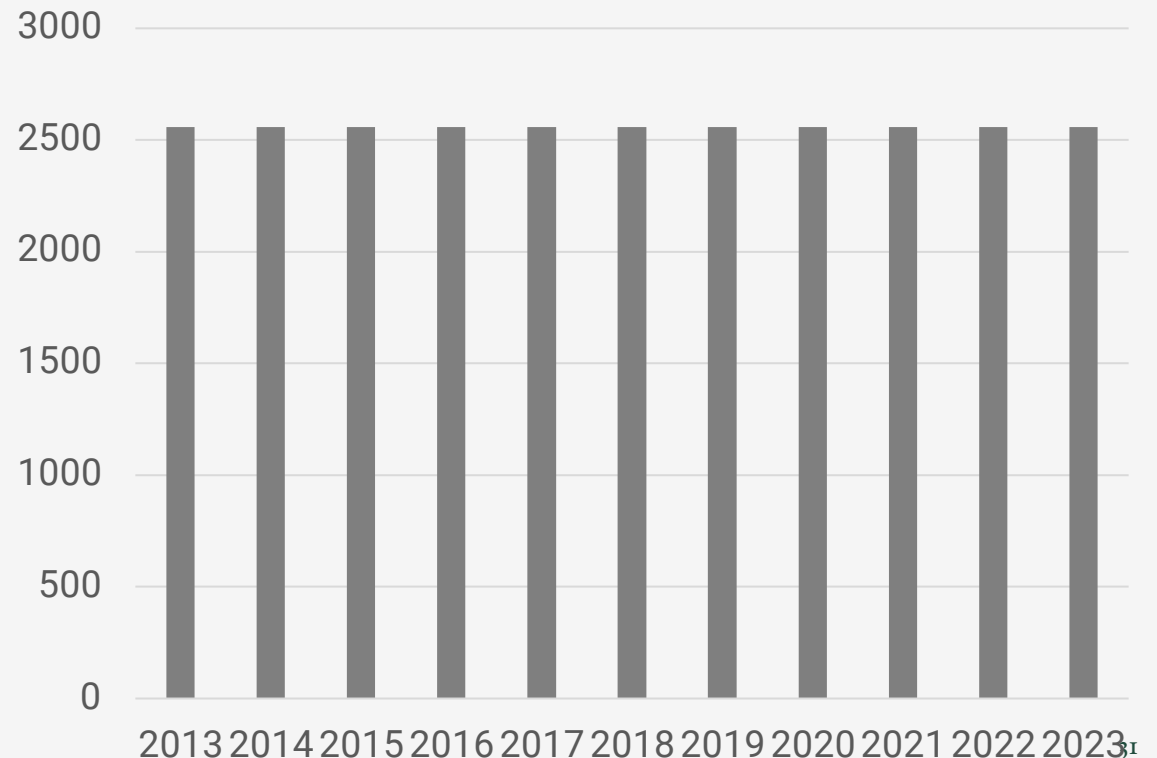
- *Not much cons to be mention*
- *No Cons as per my experience*
- *If you are in management, the amount of pay is not enough for the work that goes in. The company also doesn't support smaller markets well, and stores end up overexerted and understaffed*
- *Hours, management, lack of work life balance*
- *Management is incompetent across all levels*
- *Management isn't very helpful. Corporate constantly changing CEOs and guidelines. Very stressful and high expectations.*
- *Turn over was high for the agents at the NYC office.*
- *I am very satisfied for my employer*
- *Bad Upper management. Aggressive culture.*
- *Lots of changes whenever CEOs change. Not enough credit given when things go well. Many extraneous unnecessary tasks constantly added to all that management already has to do.*



Prada's corporate governance seems reasonably strong

- The company's capital allocation seems decent with a return on equity of about 20%, though lower during the downturn in the late 2010s.
- Prada's track record in terms of M&A has been mixed:
 - In the late 1990s and early 2000s, Prada acquired a large number of companies including Fendi, Church's, Helmut Lang and Jil Sander. Some at close to 1x EV/Sales and some closer to 7x. But neither of these have worked out well, showing either a lack of discipline in the acquisition process or poor execution
 - A recent question mark is Prada's US\$425 million purchase of a Fifth Avenue, NYC retail building. It has 12 floors and houses Prada's flagship store. Notably, this purchase occurred after former Goldman Sachs banker Andrea Bonini joined in 2022. It's possible that his banking industry contacts pushed him to transact.
- While Prada has never repurchased shares, it is reasonably generous with its dividends, paying out close to half of earnings.
- No major related party transaction to speak of. The parent company Prada Holdings does have any operational assets as far as I'm aware.

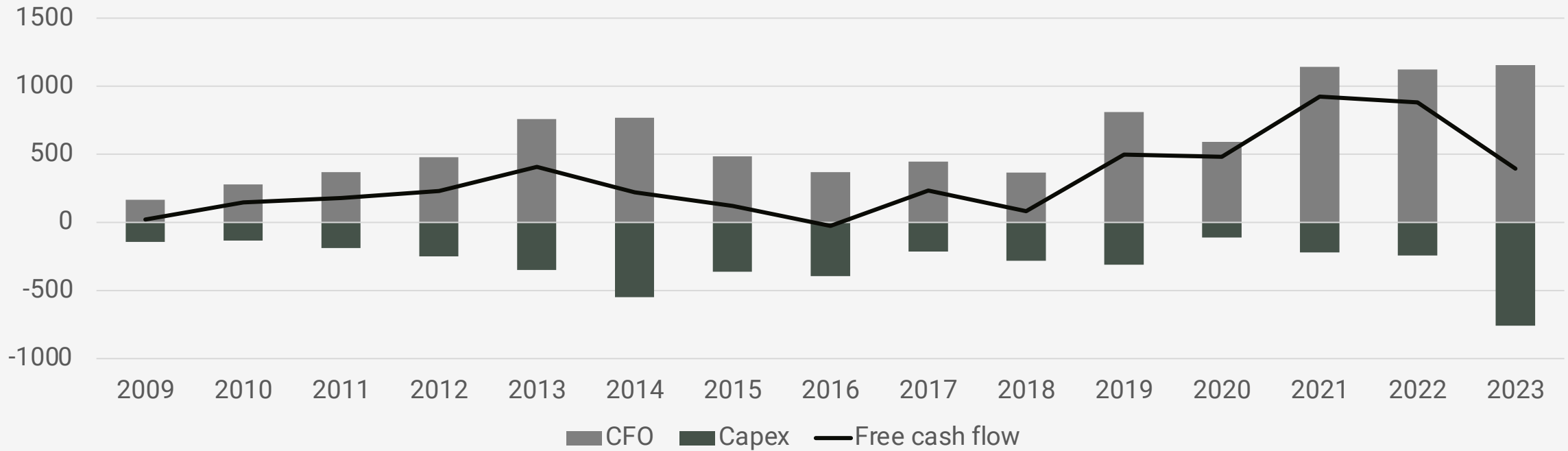
Prada shares outstanding



Prada remains highly cash flow generative



Prada free cash flow profile



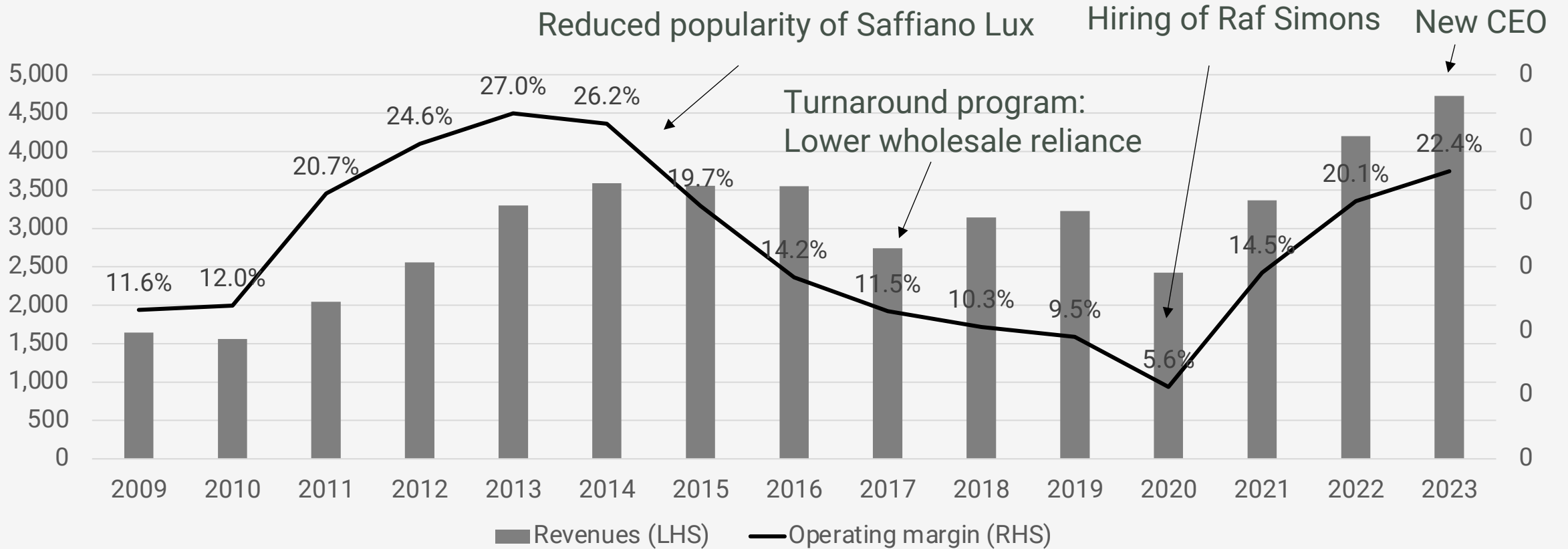
Prada's share price hasn't gone up much considering Miu Miu's impressive run since 2020



Prada (1913 HK)



Prada's margins have been cyclical: an early 2010s boom and another one today



Prada has a new CEO since 2022 that's ex-LVMH



Miuccia Prada
Executive Director
75 years old

- Grand-daughter of the founder
- Co-creative director together with Raf Simons
- Known to have a strong work ethic and being a “challenger”
- Co-CEO until January 2023



Patrizio Bertelli
Chairman,
Executive Director
78 years old

- Miucciu’s husband and business partner since 1970s
- Engineering degree drop-out. Then long-time entrepreneur and now running the business side of Prada.
- Co-CEO until January 2023



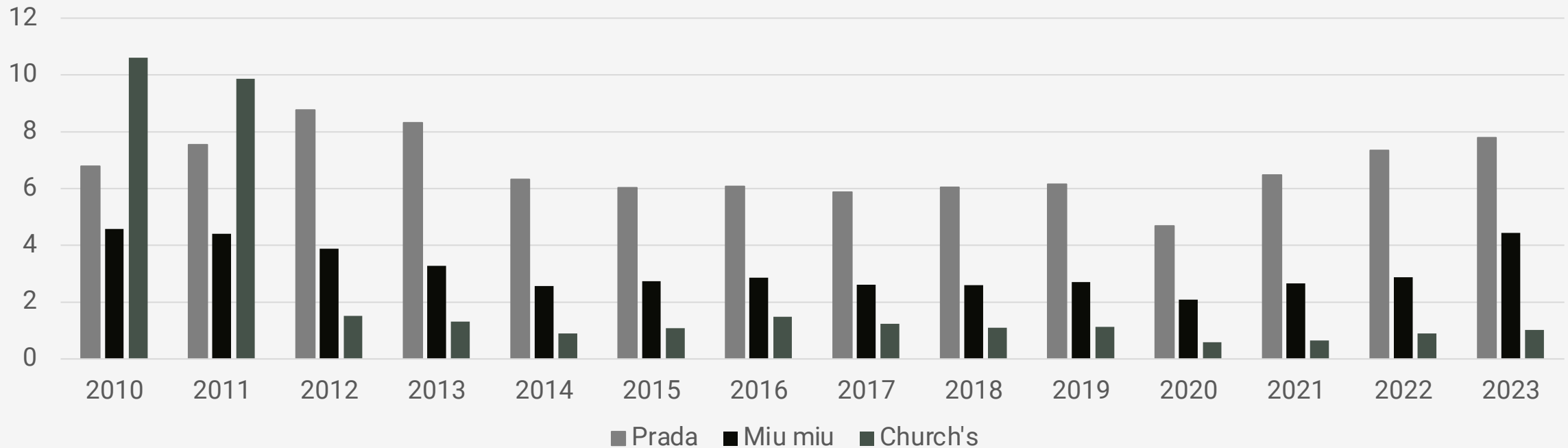
Andrea Guerra
Chief Executive
Officer
59 years old

- Sole CEO since 2023
- Previous strategic advisor to LVMH, CEO of its hotel arm
- Also CEO of Luxottica from 2004 to 2014 and restaurant chain Eataly from 2015 to 2019

Retail store productivity is now improving



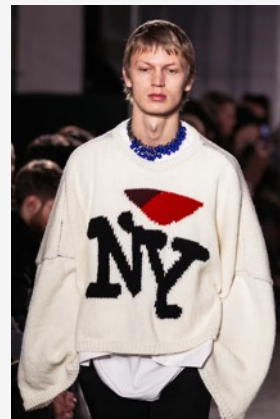
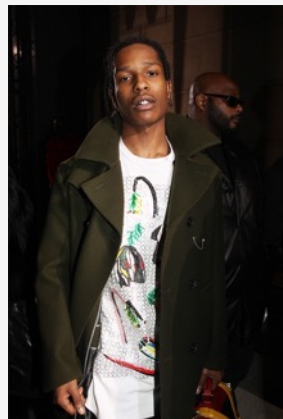
Revenues per store



Since 2020, Prada's new creative co-director is Belgian Raf Simons. Meanwhile, Miu Miu is fully designed by Miuccia herself.



- Belgian Raf Simons was hired as a creative director in 2020, partly due to a planned succession but also to boost creativity. Miuccia and Raf share an aversion to traditional clothes.
- He had previously run his own menswear design label since 1995, heavily inspired by youth sub-culture and punk music
- Raf also worked with Miuccia Prada at Jil Sanders from 2005, so they have previously collaborated with success





Some of the hero products released since 2020

Re-Edition 2000 mini bag



Prada Loafers



Miu Miu's Mini Skirts



Ballet Flats



Arcadie / Wander Bags



Hottest new Miu Miu bags: Wander Bag, Arcadie, Ivy leather bag



Miu Miu Wander bag
(€2,100)



Miu Miu Arcadie bag
(€2,700)



Miu Miu Ivy leather bag
(€2,300)



Some of Miu Miu's recent brand ambassadors



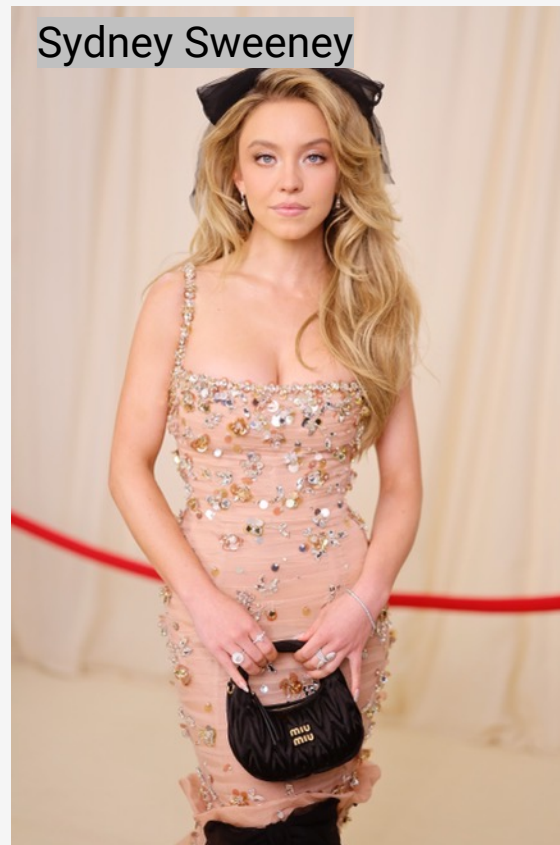
Jang Won-young (IVE)



Minnie ((G)I-dle)



Sydney Sweeney



Gigi Hadid



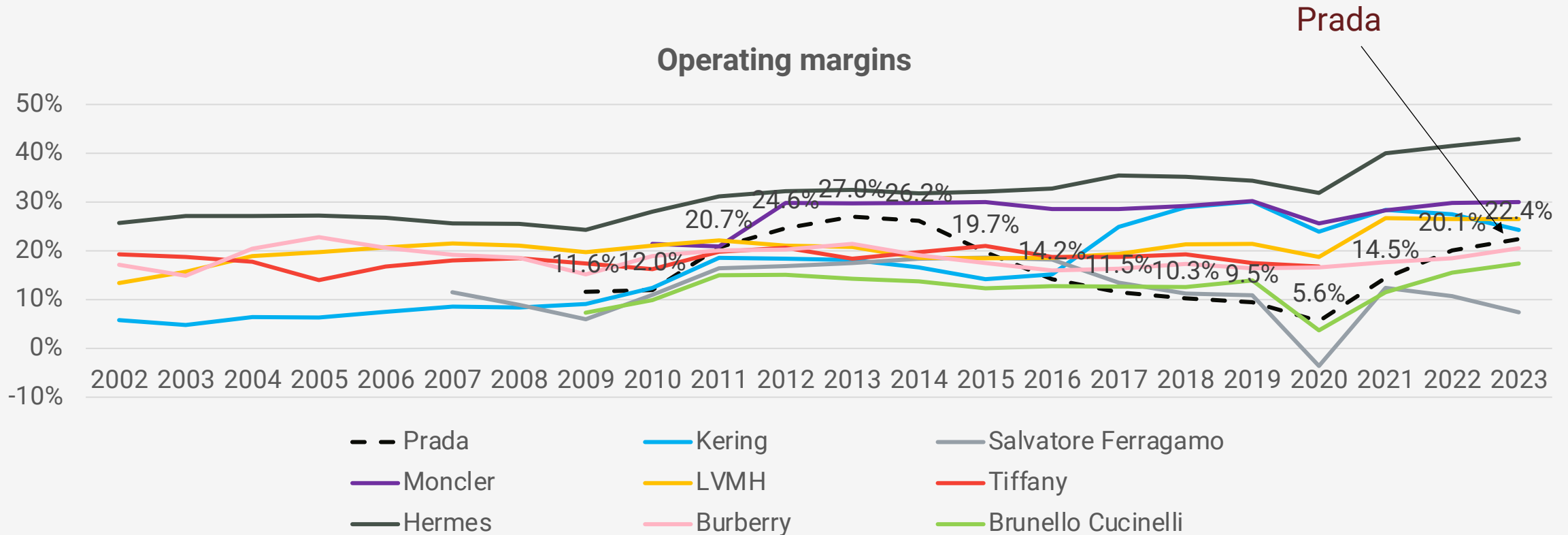
Prada's new brand ambassadors



Prada's margins have improved with the popularity of its recent collections and higher store productivity



Operating margins

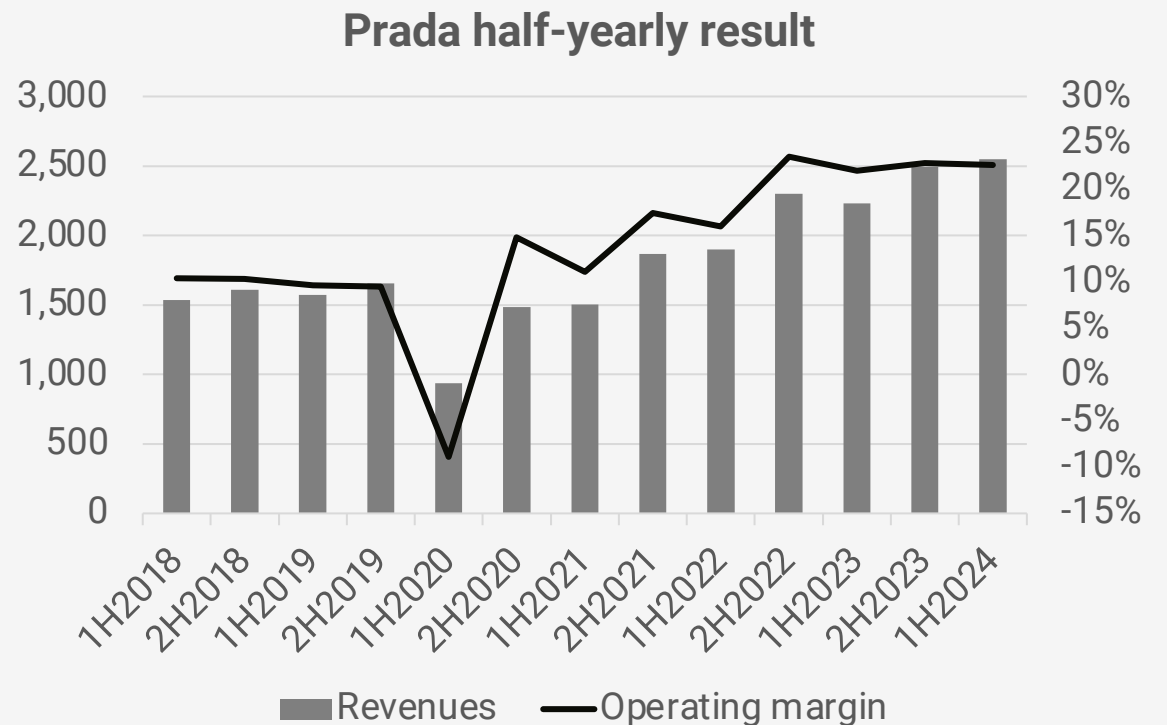


Source: TIKR

Prada's latest financial results



- First-half 2024 retail sales of +18%, margin flat
 - Prada +6% year-on-year
 - Miu Miu +93% year-on-year
- Third-quarter top-line growth remained at +18%, weakness in Asia made up by strength elsewhere. Strong royalty growth across eyewear and fragrances.
 - Prada growth slowed down to +2% year-on-year
 - Miu Miu on fire at +105% year-on-year: *"on a remarkable organic growth trajectory"*
- Finished product inventory rose +11% year-on-year, a healthy level vs COGS growth of +17%, suggesting that inventory isn't piling up unsold.



Long-term industry trends



1. **Luxury goods industry headwinds:** Global luxury goods consumption is cyclical and correlated with money supply growth. China's money supply growth is now decelerating and luxury goods brands are reporting weaker sales in Asia. LVMH reported a first half 2024 results below estimates. Burberry, Swatch and Hugo Boss all pointed out weakness in China. Hermes also suggested its Chinese business performed below expectations, despite continued healthy top-line growth.
2. **Quiet luxury:** A key trend in the fashion industry during COVID-19 has been understated designs with no visible logos, a.k.a. "quiet luxury" or "stealth wealth". Prada arguably benefited from this trend as it sells minimalist fashion products.
3. **Y2K aesthetic:** Late 1990s fashion and the Y2K aesthetic have become popular with Gen Z'rs, no doubt helping Miu Miu grow among the younger demographic.



M2 money supply headwinds for the luxury goods industry



US M2 Money Supply

US M2 Money Supply YoY (I:USM2MSYY)

2.61% for Sep 2024



+ WATCH

Overview

Interactive Chart

Level Chart

VIEW FULL



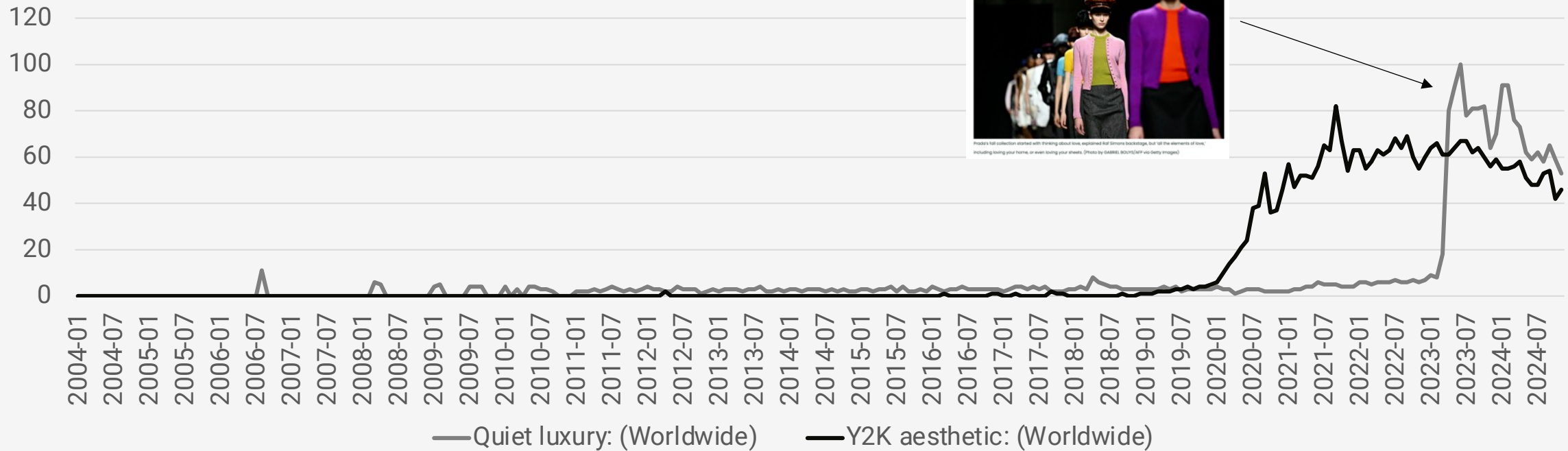
China Outstanding Yuan Loan Growth



Quiet luxury and the Y2K style might have been hot in the past few years... but will fashion remain the same in the next few years?



Google search queries



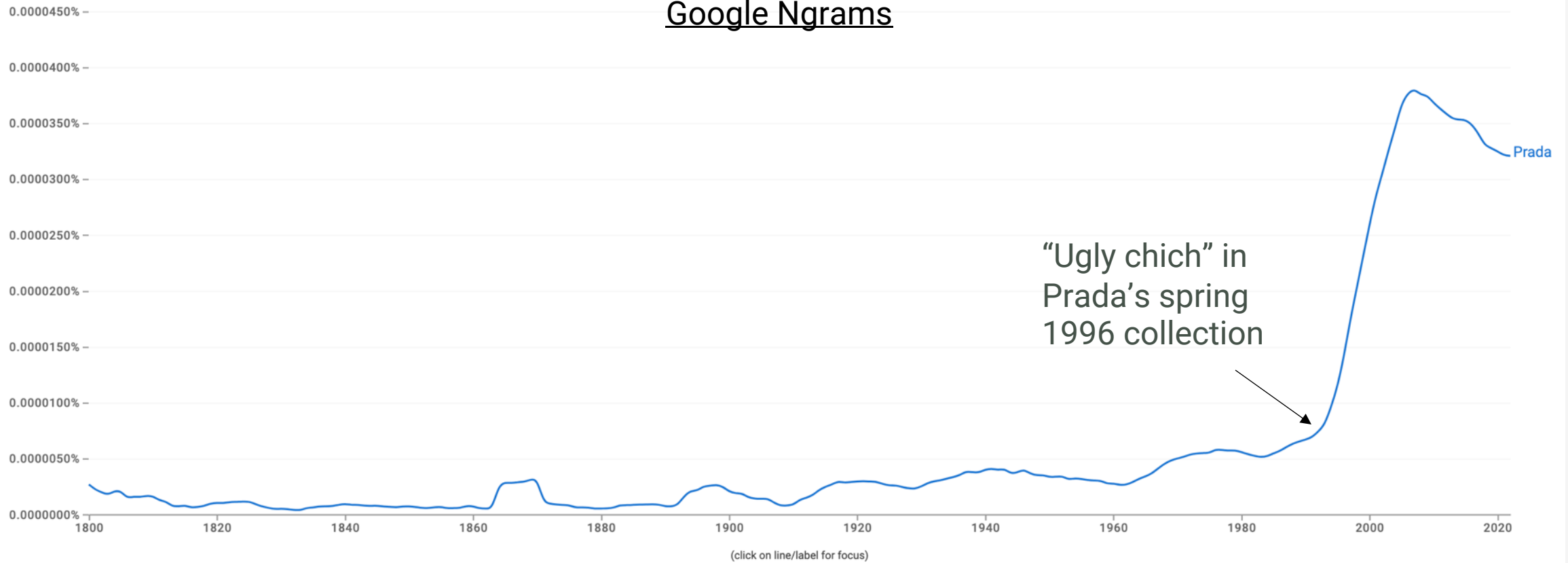
The Y2K aesthetic: a playful, experimental style with bold colors and patterns... as well as mini skirts and crop tops



The cultural relevance of Prada might have gone down in the English speaking world since 2006



Google Ngrams



What will change for Prada in the future?



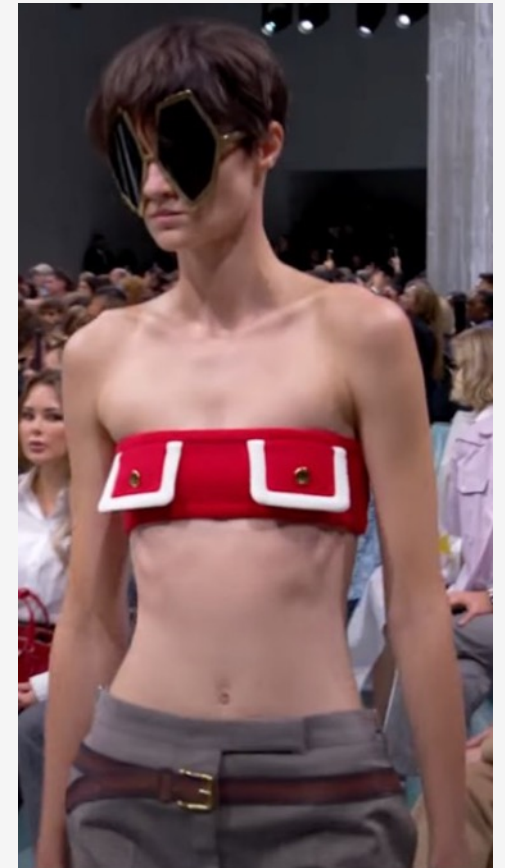
- **Improving retail productivity:** Prada's retail productivity is weak at EUR 14,000/square meter compared to over EUR 80,000 at Hermes. Andrea Guerra has vowed to increase the retail productivity in the Prada's stores in the coming years by 1) launching in-store installations 2) one-to-one relationships between sales staff and customers 3) infusing stores with wearable pieces and collaborations.
- **Store expansion:** Early in 2024, the company said that Miu Miu will add 10-15 stores in 2025, and Prada closer to 5-10. It implies net store growth of 3.2%.
- **Prada menswear:** Raf Simons is a menswear designer, and there are now signs that Prada is tapping the menswear market after decades of focusing on mostly women.
- **Cosmetics:** In 2023, Prada launched a make-up and skincare line together with L'Oreal, focusing on lipstick. Royalties revenues (including eyewear) has since grown at a steady pace.



Prada's guidance is about Prada weakness in China and expansion of Miu Miu's retail network



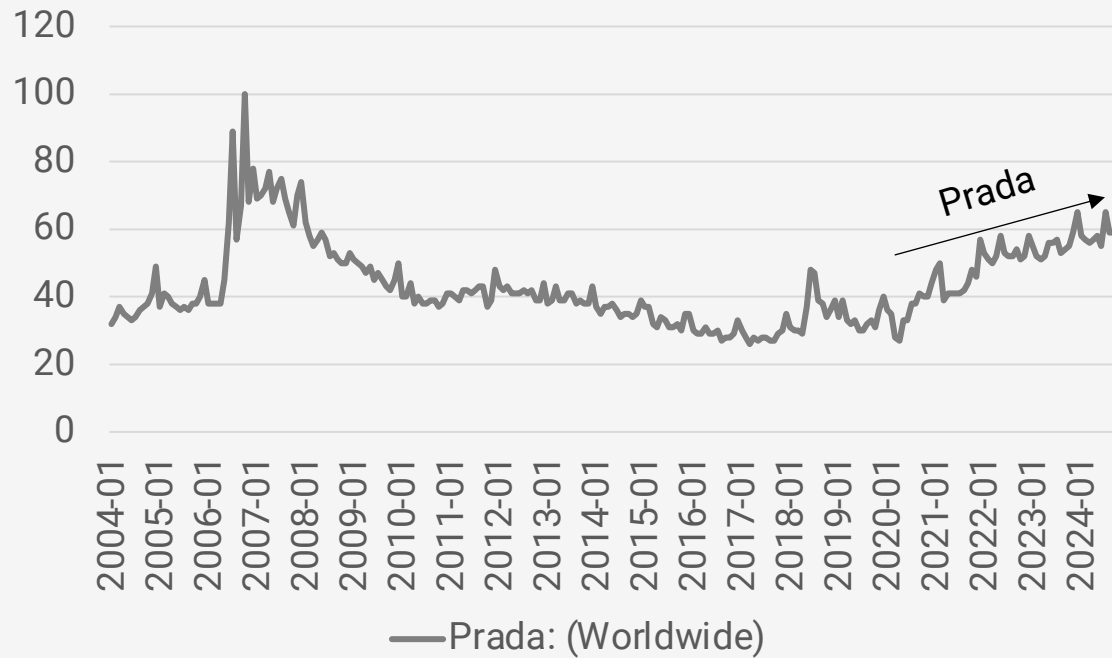
- **Improving store productivity:** "In 2024 our focus remains unchanged: we will continue to evolve our network and our execution to further progress on the path towards retail excellence"
- **Higher capex in 2025:** "On the Miu Miu side, it's time today that we also enlarge a little bit our square meters. We have been on a like-for-like basis on Prada and Miu Miu for the past 2, 3 years mainly. So we are going to enlarge a little bit our square meters, which means most of the times enlarging stores, because landlords want to give us a little bit more space. And on the other side, beginning to And on the other side, beginning to fill some cities and regions where basically, Miu Miu is not present today. So this is how we're moving forward in 2025."
- **Weakness in China:** "As we have stated more than once, China is more complicated today, and not necessarily improving in the near future... Prada brand, starting with Chinese. Chinese are low single-digit positive year-to-date and Q3 was a touch softer, low single-digit negative... In terms of Prada, has been, for sure, China has been the main detractor. If we remove China, we really had a very, very healthy quarter for Prada gain. So I wouldn't go in too much understanding too many details. I think that the positive stance is still there. The brand is incredibly desirable. So no real question marks."
- **Wholesale channel shift:** "We see you have been very strong in your wholesale channel in the third quarter compared with second half... I'll take this, Andrea. It's purely timing effect. So no differences, no change in strategy, nothing to be reported."



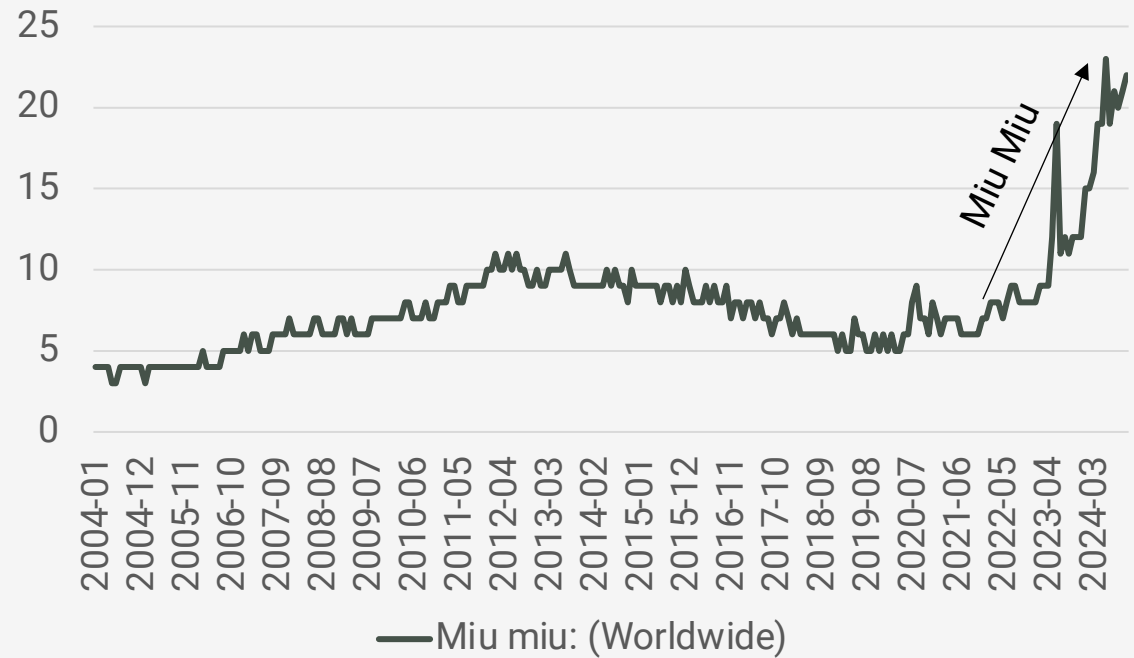
The Miu Miu brand is on fire



Google search queries for "Prada"



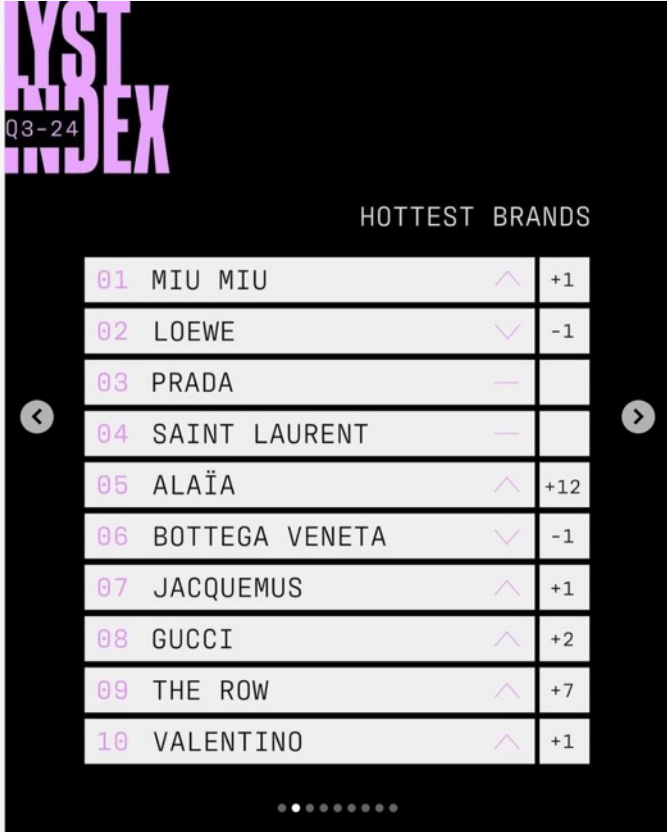
Google search queries for "Miu Miu"



In 3Q2024, Miu Miu hit #1 on the Lyst Hottest Brands Index Ranking, whereas Prada maintained its spot as #3



Prada occupies the #1 and #3 positions



The image shows a screenshot of the Lyst Hottest Brands Index Ranking for Q3-24. The title 'LYST INDEX' is in large pink letters at the top left, with 'Q3-24' in smaller white text below it. The subtitle 'HOTTEST BRANDS' is in white text at the top right. The table lists the top 10 brands with their rankings, names, and change indicators. The table is set against a black background with white and pink text. Navigation arrows are visible on the left and right sides of the table, and a series of dots at the bottom indicates the current page.

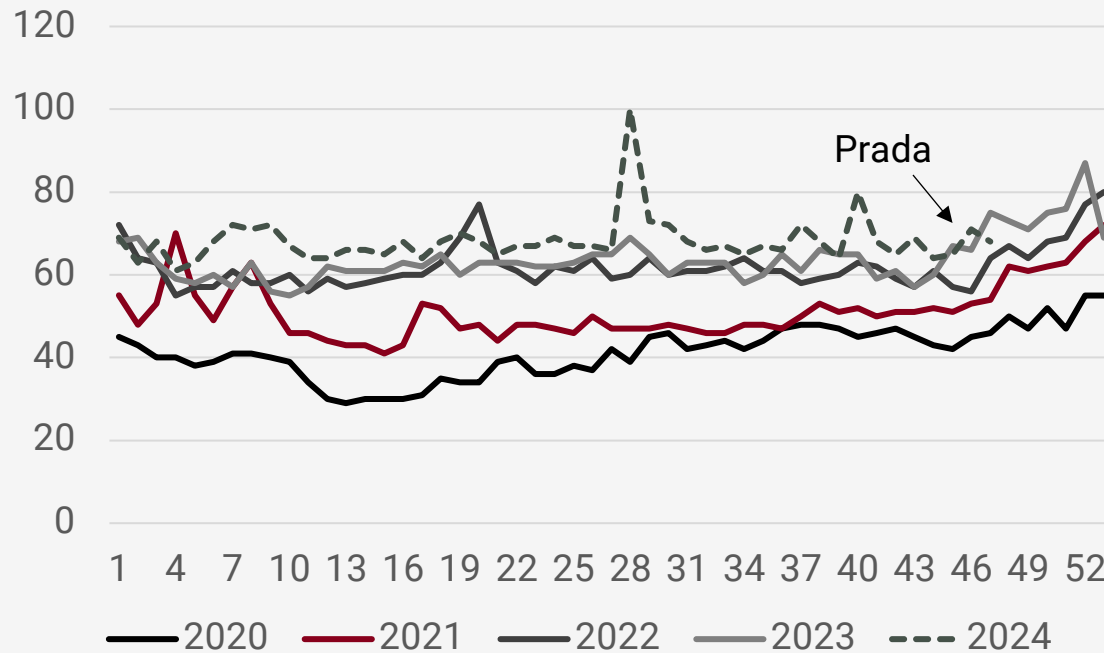
HOTTEST BRANDS		
01	MIU MIU	+1
02	LOEWE	-1
03	PRADA	—
04	SAINT LAURENT	—
05	ALAÏA	+12
06	BOTTEGA VENETA	-1
07	JACQUEMUS	+1
08	GUCCI	+2
09	THE ROW	+7
10	VALENTINO	+1

Source: Lyst

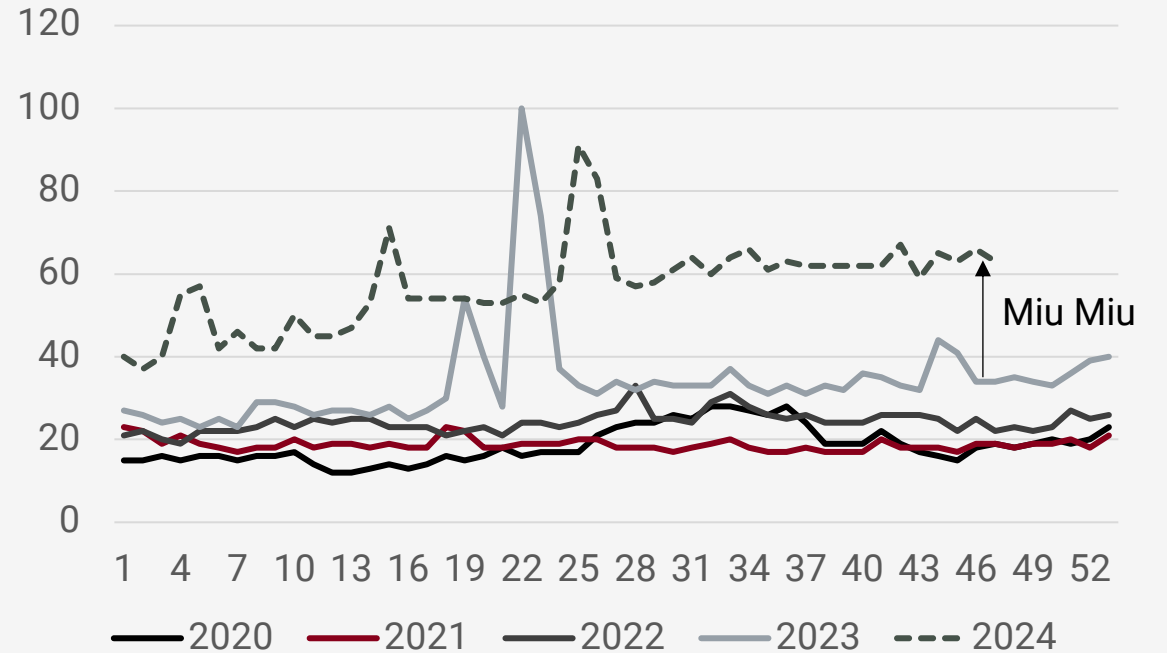
Seasonally-adjusted numbers: still strong for Miu Miu



Prada (Worldwide)



Miu Miu (Worldwide)



Will Miu Miu's hype last? A YouTuber's arguments pro vs con.



**Why MIU MIU is the HOTTEST Brand :
in 2024 but will the HYPE last?**

4.9K views • 3 weeks ago

Pros:

- Prada logo has brand cachet
- Miu Miu has interesting styling
- The “Miu Miu woman” (cute, bookish) image has been crafted masterfully. Look resonated with Asians and increasingly Europeans, too.
- TikTok loves vintage styles

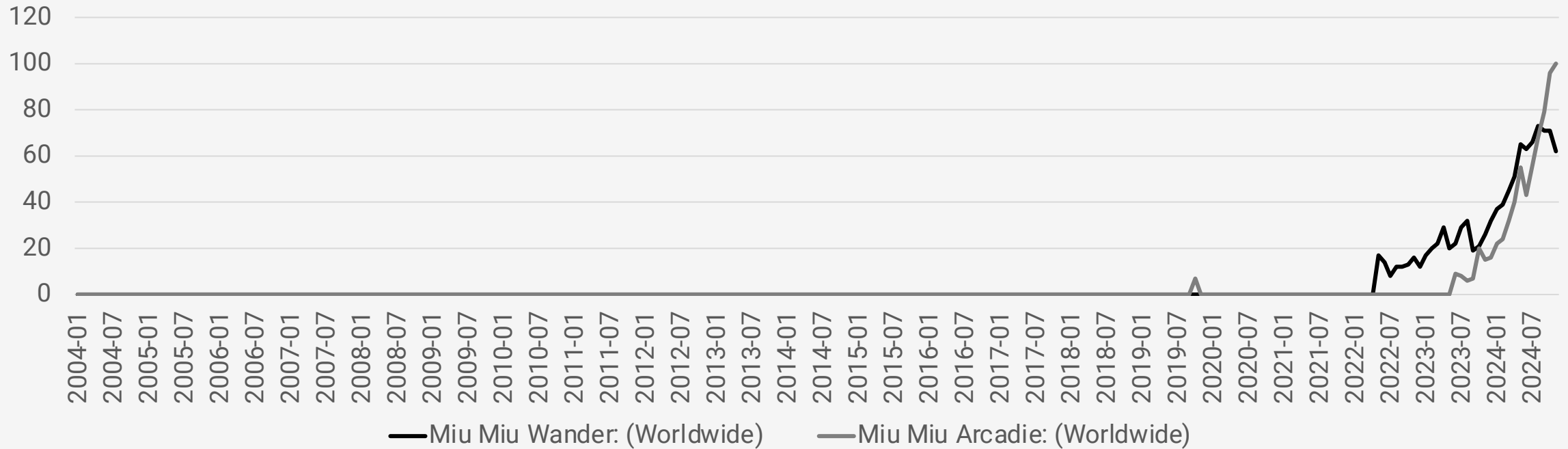
Cons:

- Prada copies the designs of other handbags (eg Darling vs Lindy)
- Prada price increases have now reached a limit
- Not convinced by the new Prada handbags (Aimée, Darling) – run of the mill

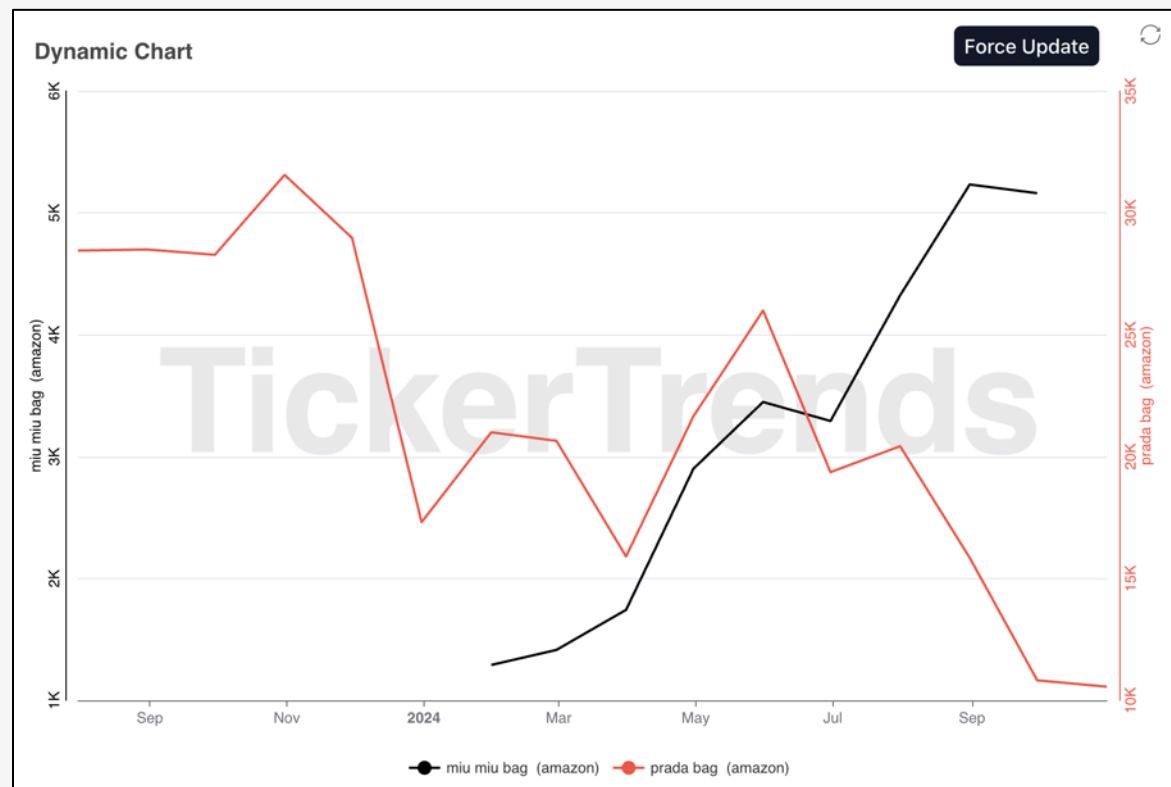
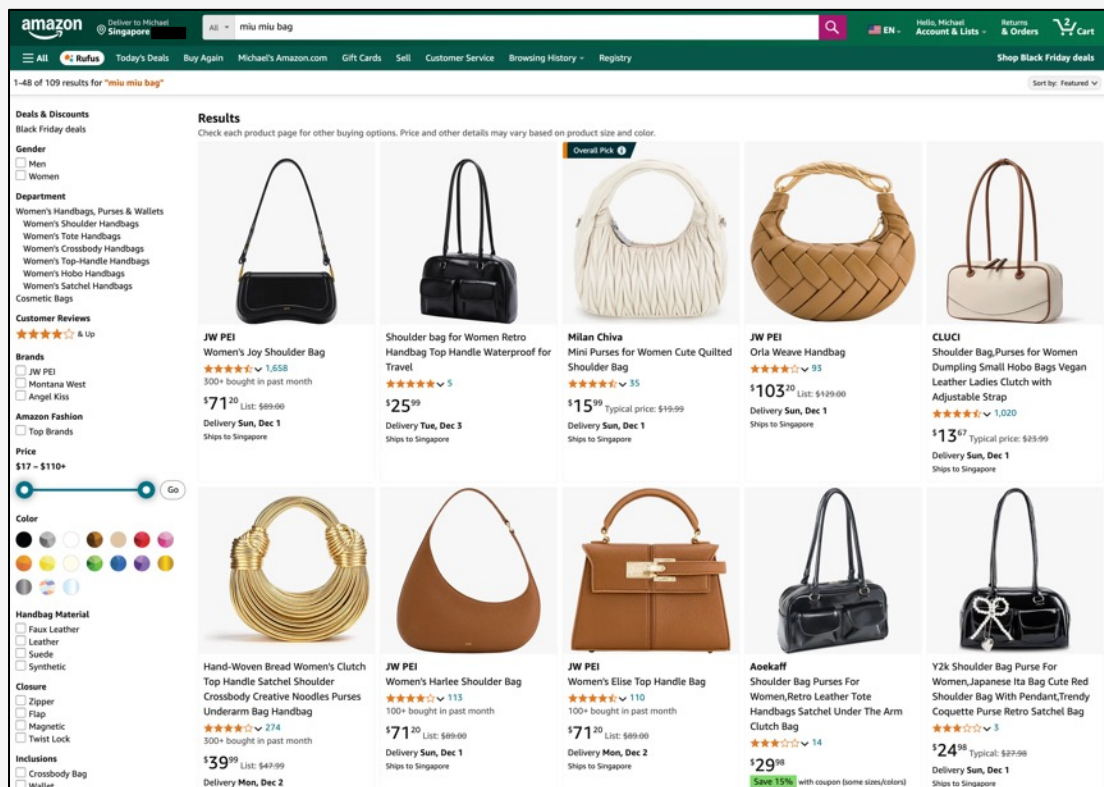
The €2,700 Arcadie bag continues to be incredibly popular



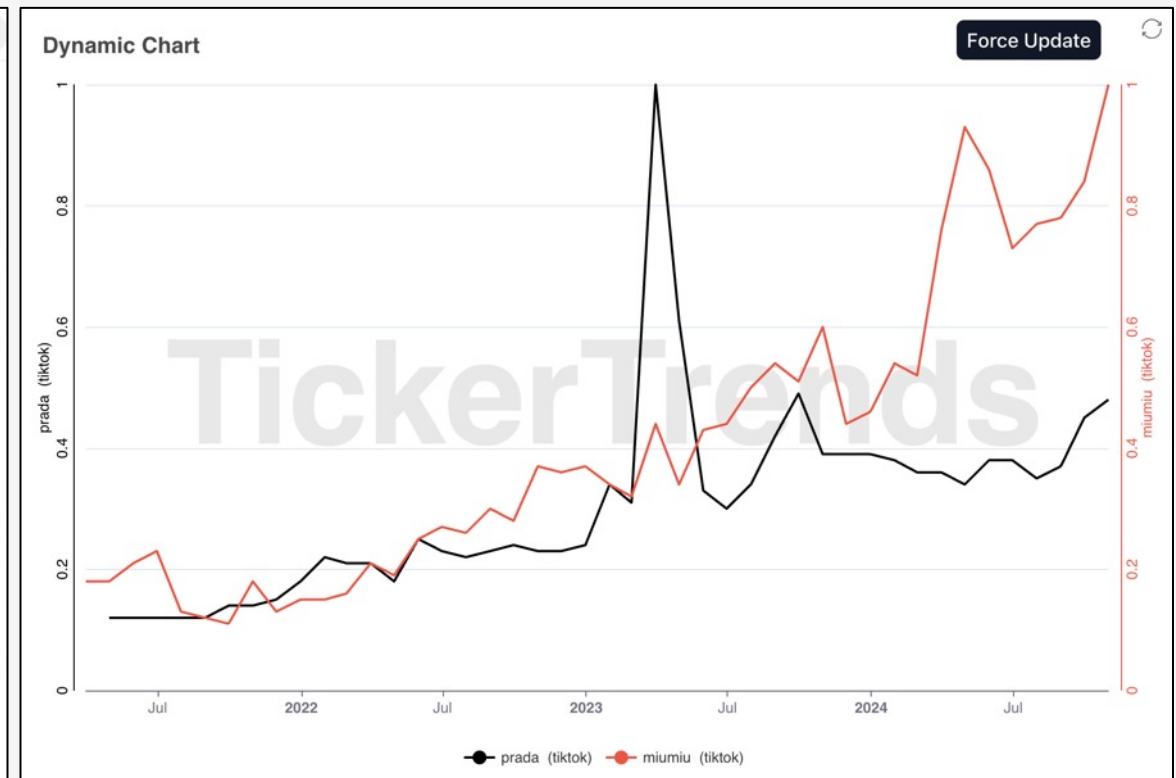
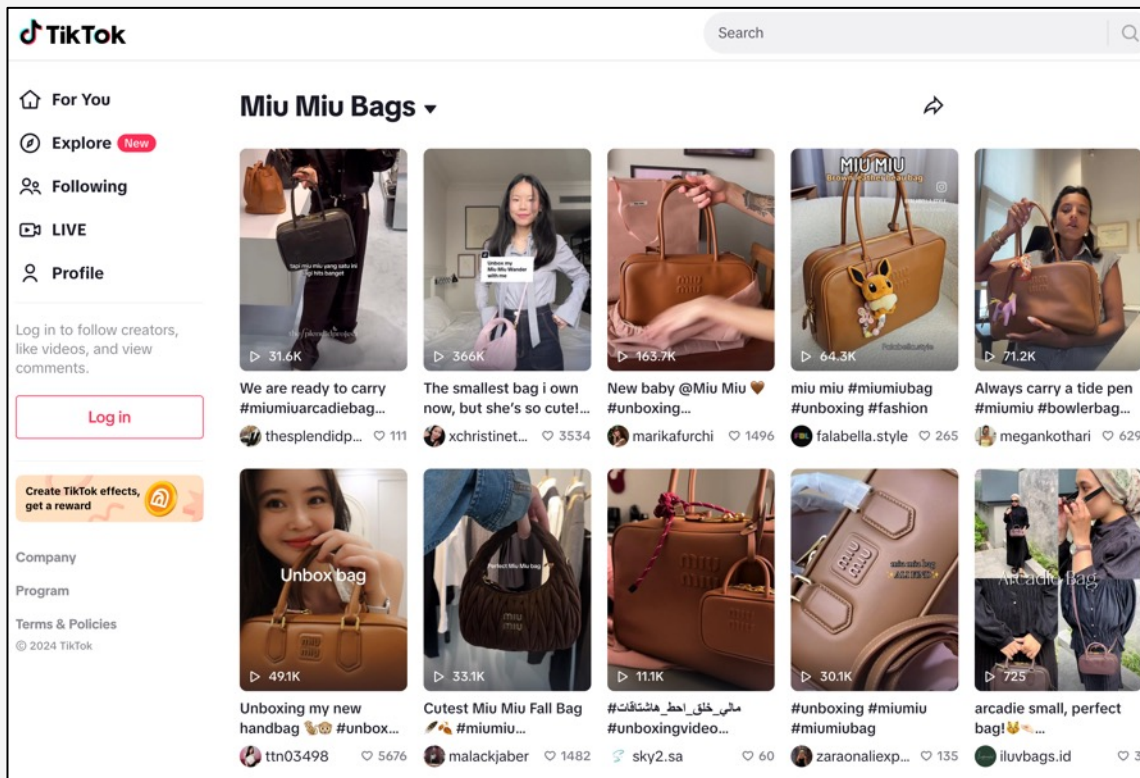
Google search queries for "Prada" and "Miu miu"



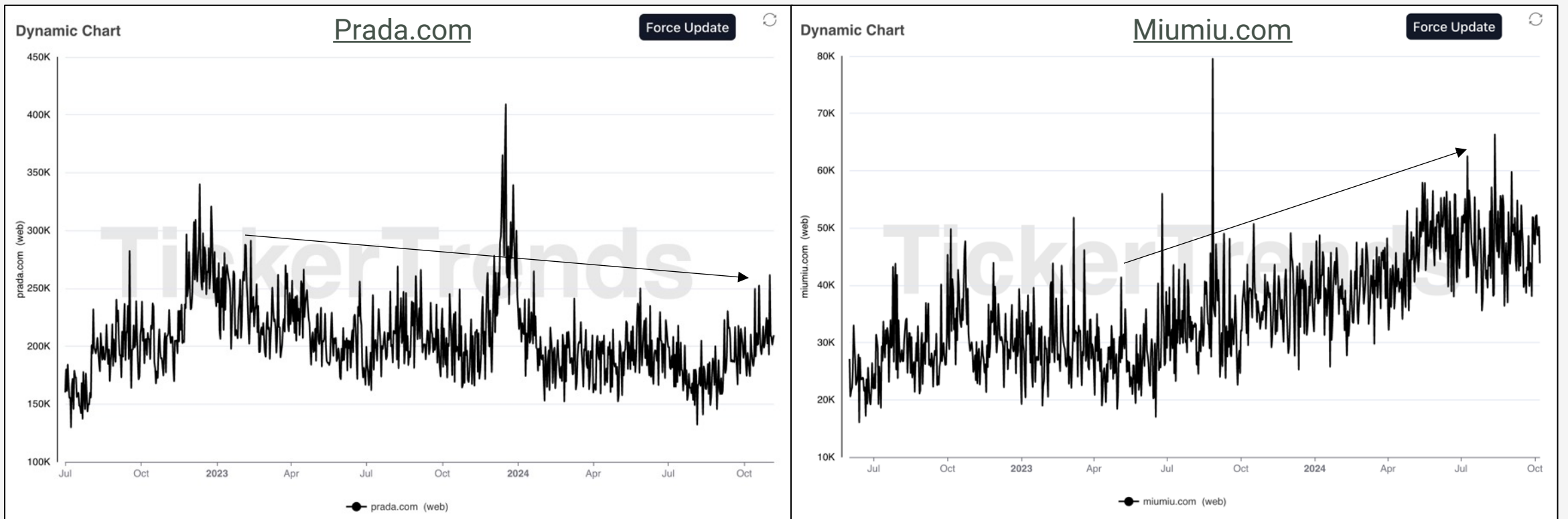
On Amazon, users are increasingly searching for Miu Miu, whereas for Prada, less so



Miu Miu is trending on TikTok, whereas Prada, less so



Website traffic data suggests a sluggish Prada, strong Miu Miu



Prada's latest spring-summer collection didn't hit right



Spring/Summer 2023



- *"I was glad to see the colourful dresses"*
- *"Prada gives us heaven on earth AGAIN love this"*
- *"Miu is better without Raf"*
- *"Hauntingly fabulous collection! Simons continues to subvert Prada's lady-like elegance with a disquieting twist. It's like sexy Frankenstein."*

Spring/Summer 2024



- *"Hats off to Miuccia after all these years ..still relevant and high level"*
- *"What a remarkable show. The pastel dresses with delicate floaty touches and jewel-colored shoes were divine. The other outfits were so chic, dramatic, modern, and filled with great design"*
- *"Breathtaking collection!!!! Truly creative impact on fashion"*

Spring/Summer 2025



- *"Even the models look like: I don't wanna wear this hopefully never ever again. "*
- *"I am very impressed with the creativity in this collection. The designs are truly unique and reflect the brand's vision."*
- *"Wow, this show was an emotional rollercoaster! Very aggressive, but empowering! Kind of toxic, but also very sweet & feminine!"*
- *"Are These halloween costumes?"*



The latest Miu Miu collection didn't hit right either

Spring/Summer 2023



- *"LOVE - one of the best - the whole collection was modern, fresh, youthful, wearable - great color palette, amazing denim & leather - great styling and the minimal make-up: so refreshing!"*
- *"Obsessed with each and every look"*
- *"So beautiful and elegant. Wonderful elevated classics"*

Spring/Summer 2024



- *"The show is very nice 🎉😊"*
- *"Beautiful, love the color palette. Love the use of the dark, navy."*
- *"Very interesting and Fabulous"*
- *"LOVE THIS COLLECTION. Prep goes CHIC AF."*
- *"The collection seems for young teens."*

Spring/Summer 2025



- *"For whatever reason, I feel like Miuccia Prada is right on the edge of another breakthrough"*
- *"All this stuff is wearable but totally missing finesse/visual quality."*
- *"Don't get it. I thought Luxury was meant to be passed on. A lot of this looks like an expensive version of topshop"*
- *"Seems like Miuccia is running out of ideas"*

Prada's peers tend to trade at high multiples... luxury goods brands continue to be sought after among investors



Global fashion (NTM)	Ticker	Country	Mkt cap (US\$m)	EV/Sales	EV/EBIT	P/E	Dividend yield
Prada	1913 HK	Hong Kong	17,934	3.3x	13.9x	18.5x	2.9%
Kering	KER FP	France	28,576	2.5x	15.1x	17.4x	3.1%
Salvatore Ferragamo	SFER IM	Italy	1,084	1.5x	38.4x	101.7x	0.6%
Moncler	MONC IM	Italy	13,777	4.1x	14.1x	20.5x	2.5%
LVMH	MC FP	France	311,408	3.7x	15.0x	20.5x	2.3%
Tiffany	TIF US	United States	16,044	4.0x	24.1x	28.1x	1.8%
Hermes	RMS FP	France	223,836	12.7x	31.3x	43.7x	1.0%
Burberry	BRBY LN	United Kingdom	4,100	1.9x	45.0x	90.0x	0.9%
Brunello Cucinelli	BC IM	Italy	6,415	5.1x	30.2x	45.6x	1.2%
Average ex-Prada				4.4x	26.7x	45.9x	1.7%
Median ex-Prada				3.9x	27.2x	35.9x	1.5%

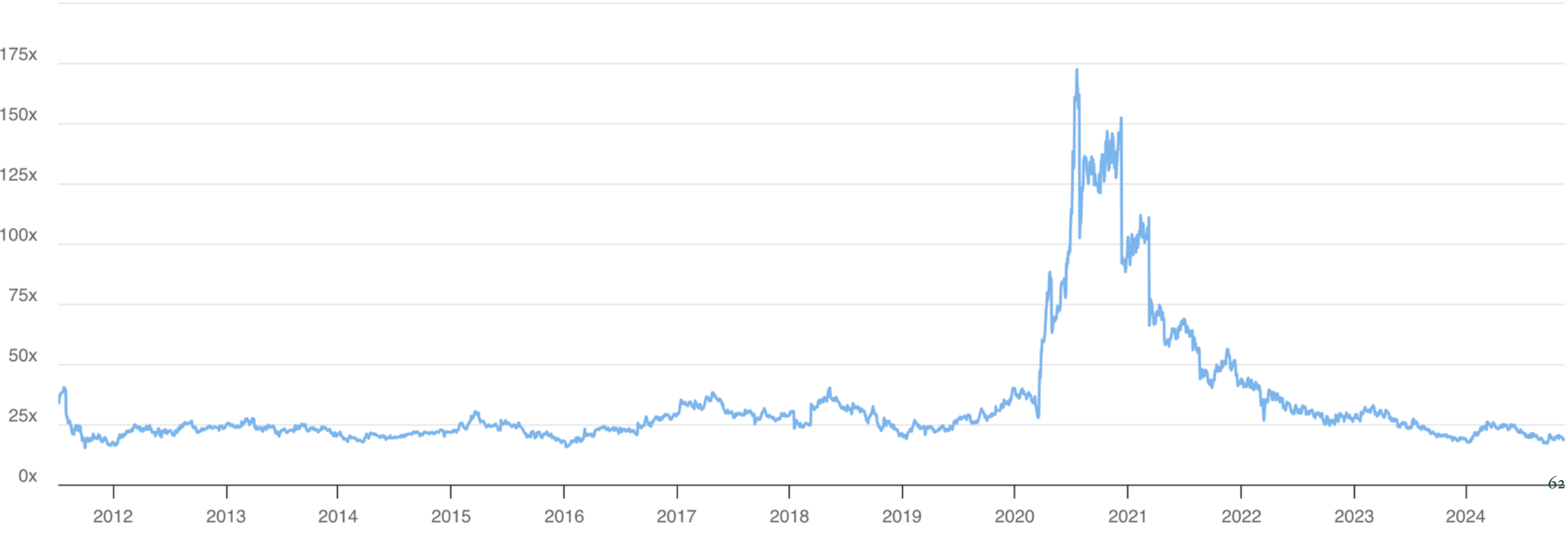
Prada has historically traded around 25x P/E



Prada S.p.A. (1913)

1913 NTM Price / Normalized Earnings (P/E): Mean: 33.40x High: 172.24x Low: 15.21x Last: 18.54x

Zoom 3m 6m ytd 1yr 3yr 5y 10y all

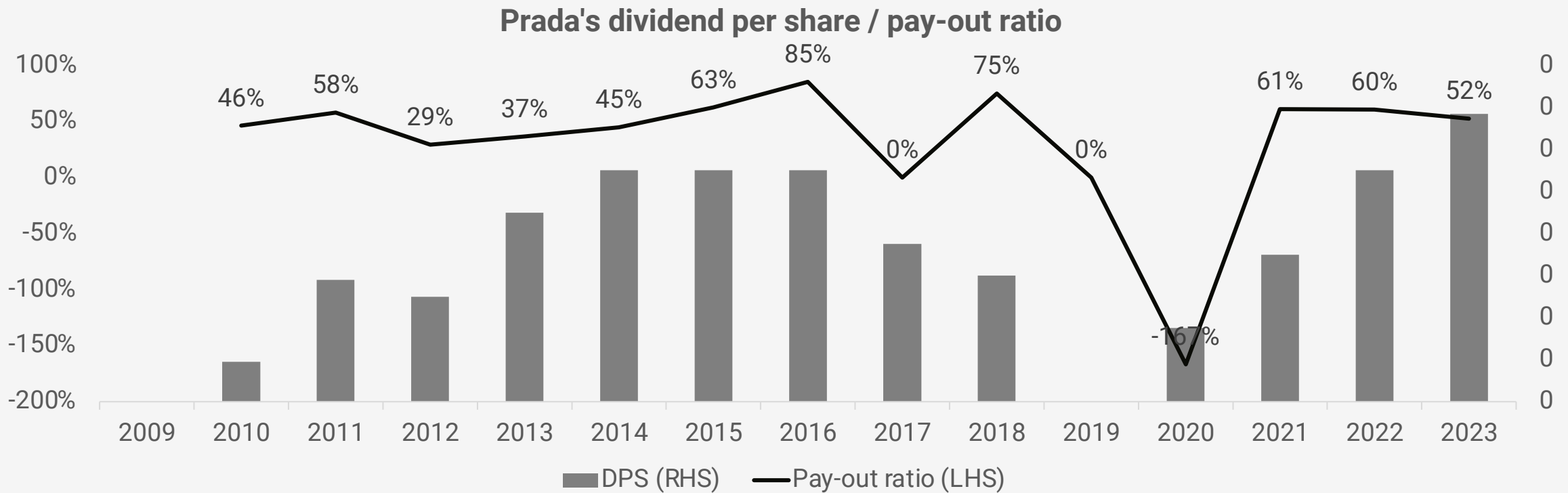


Pencilling in EUR 0.37 in EPS by 2027 in line with management's ambitions to grow the Miu Miu brand further



Prada (1913 HK) (EUR)	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Revenue	3,226	2,423	3,366	4,201	4,726	5,577	6,358	6,994	7,413	7,710
COGS	-906	-679	-818	-889	-925	-1,082	-1,233	-1,357	-1,438	-1,496
Gross profit	<u>2,320</u>	<u>1,743</u>	<u>2,547</u>	<u>3,312</u>	<u>3,802</u>	<u>4,495</u>	<u>5,125</u>	<u>5,637</u>	<u>5,975</u>	<u>6,214</u>
Product design and development	-127	-102	-115	-137	-151	-173	-197	-217	-230	-239
Advertising and promotion	-231	-207	-294	-359	-420	-496	-566	-622	-660	-686
Selling costs	-1,470	-1,260	-1,421	-1,704	-1,873	-2,192	-2,499	-2,749	-2,913	-3,030
General & Administrative	-184	-154	-227	-266	-297	-346	-394	-434	-460	-478
EBIT	<u>307</u>	<u>20</u>	<u>489</u>	<u>845</u>	<u>1,062</u>	<u>1,288</u>	<u>1,469</u>	<u>1,616</u>	<u>1,712</u>	<u>1,781</u>
Interest expense	-25	-29	-31	-24	-32	-35	-39	-43	-47	-52
Lease liability cost	-49	-43	-37	-41	-59	-65	-71	-78	-86	-95
Dividends from investments	2	0	0	0	1	1	1	1	1	1
Pretax profit	<u>235</u>	<u>-52</u>	<u>422</u>	<u>780</u>	<u>971</u>	<u>1,189</u>	<u>1,360</u>	<u>1,495</u>	<u>1,580</u>	<u>1,636</u>
Tax	23	-3	-127	-242	-298	-369	-421	-464	-490	-507
NPAT	<u>258</u>	<u>-54</u>	<u>295</u>	<u>538</u>	<u>673</u>	<u>820</u>	<u>938</u>	<u>1,032</u>	<u>1,090</u>	<u>1,129</u>
Minority interest	-2	0	-1	-4	-2	-3	-4	-4	-4	-5
Net income to controlling	<u>256</u>	<u>-54</u>	<u>294</u>	<u>534</u>	<u>671</u>	<u>817</u>	<u>934</u>	<u>1,028</u>	<u>1,086</u>	<u>1,124</u>
EPS	0.10	-0.02	0.11	0.21	0.26	0.32	0.37	0.40	0.42	0.44
EV/pretax profit	70.9x	-321.5x	39.5x	21.4x	17.1x	14.0x	12.3x	11.1x	10.5x	10.2x
P/E	66.9x	-316.3x	58.2x	32.1x	25.5x	21.0x	18.3x	16.7x	15.8x	15.2x
Dividend yield	0.0%	0.5%	1.0%	1.6%	2.0%	2.5%	2.8%	3.1%	3.3%	3.4%

Prada remains generous with its dividends



Source: TIKR

Potential downside risks



- **Fashion cycles:** Prada's products are decidedly avant-garde rather than timeless. The company is therefore far more exposed to fashion cycles than a brand such as Hermès.
- **Quality concerns:** Prada only makes 24% of its products in-house, with the rest outsourced to third parties.
- **Management transition:** In September 2024, Miu Miu announced that Benedetta Petruzzo would leave her position as Managing Director of the brand in favor of Christian Dior. Prada has yet to name a successor. Miuccia's son Lorenzo Bertelli is the group's head of corporate social responsibility and is expected to take over as CEO, though lacks experience.
- **Tariffs:** There's been talk of tariffs on non-US goods. But Prada makes its products in Italy, and tariffs would be modest at 10-20% at most. Further, North America only makes up 18% of total revenues.



Catalysts



- Replacement to Benedetta Petruzzo secured at Miu Miu
- Full-year earnings to be released on 6 March 2025, with alt-data still positive
- Planned 2025 store expansion for Miu Miu



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