Analyst: Blank

Long Farfetch [FTCH]

Basic Data

Share Price	$11.43	EV/GMV	1.5x
Market Cap	$3.7B	EV/Rev	4.7x
EV	$3.4B	NTM GMV Growth	40%
Revenue LTM	$725M	FY19 Adj. EBITDA Margin	-15%

Scenario Analysis

	Bear Case	Base Case	Bull Case
Target Price	$9.8	$33	$42
Upside/Downside	-14%	~186%	267%
IRR to 2023E	N/A	~30%	38%

*Note: Originally finished Dec. 20, when share price was $10.16, not $11.42. I've made updates to all the numbers since. Updated last 1/28/20.

Summary

- Farfetch represents an opportunity to capitalize on a large overreaction to a bad 2Q (down 60% due to bad reception to new acquisition, COO departure, gross margin miss) and buy a fast-growing marketplace with large white space.
- Long term, Farfetch delivers an attractive value proposition to brands and consumers due to its marketplace model, and online luxury growth trends point to 15-20% market CAGR, which Farfetch should beat handily.
- Key variant perception is that bear concerns about take rate compression, luxury brand power, and boutique price issues are already priced in and are non-thesis killers – FTCH already trades at a fairly large discount to comparable marketplaces
- Over the next 4 years, Farfetch should still compound revenues at a 27% and rerate from 4.5x sales to 6x sales, combining for ~210% upside by 2023E. Amend – The rerating has essentially played out, now upside is ~186% by 2023E, driven mostly by revenue growth.

Business

- Farfetch operates an asset-lite e-concession model – boutique partners + brands directly sell on Farfetch's marketplace while controlling the inventory + pricing + presentation. Farfetch charges a 15-35% (~30% blended) take rate to fund marketing expenses in addition to offering fulfillment capabilities, while taking on no inventory risk. Farfetch also owns 3 other companies, Curiosity China, which specializes in marketing to Chinese consumers, Stadium Goods, a reseller of high-end sneakers (1sthand + 2ndhand), and New Guards Group (NGG), a collection of luxury streetwear brands (Off-White is on a long-term license).

Variant Opinion/Thesis

- Neutral/Positive on NGG acquisition vs. market negative view
    - Purchased at a discount to other existing luxury names at ~7x EBIT
    - Visible strategic rationale for acquisition as a driver of traffic to Farfetch stores. Off-White is one of the hottest luxury fashion names in the space and exclusive releases on Farfetch would drive traffic. In addition, NGG is very cash generative (~80M LTM in OCF generation) and extends the burn runway for FTCH for only a $330M cash outlay.
- Long term, Farfetch has an attractive value proposition to brands and consumers and should take share from department stores and wholesale retailers
    - Farfetch's value proposition to brands revolves around much better control over merchandizing – brands get control over presentation, pricing and stock access, all of which are very important to top luxury brands. Sales to e-tailers using a wholesale model give brands no control – e-tailers can discount and destroy luxury brand equity to their hearts content when times get tough. Farfetch also charges a ~15-30% take rate, vs. retailers that charge a ~50% take rate. Wholesale retail is 68% of the market, and Farfetch is advantaged vs. all of it.
    - Farfetch's value proposition to consumers revolves around their SKU access + availability – Farfetch carries a much larger range of SKUs than the competition, anywhere from 2-6x the range for each brand. In addition, Farfetch can now offer exclusive NGG brand SKUs that should act as traffic drivers.
- Online luxury trends are highly positive and point to 15-20% revenue growth over the next few years
    - Based on online apparel trends, luxury is at the base of the S-curve in terms of growth, and is primed to grow heavily over the next few years. Online apparel penetration doubled in 5 years, and while luxury penetration will be lower, growth is still strong.
    - Farfetch also has a large presence in China as well. By 2025, China is projected to make up 55% of the luxury market, and Farfetch revenues are equally split between EMEA, APAC, and the Americas.
    - Farfetch still is mostly an apparel business even though apparel only makes up ~25% of the overall market for luxury goods. Farfetch is trying to add jewelry and handbag categories, which should serve to blunt natural declines in growth.
- Farfetch is better positioned than bears think – multibrand retailers serve key role in luxury purchase process

- Multibrand retailers serve as item discovery and item research channels for brands. Currently 80% of luxury sales happen in multi-brand environments, and there are structural advantages to multi-brand. It's simply easier and more convenient for consumers to buy with multi-brand. And so I believe multi-brand websites have more of a hold on the customer than the power dynamics would imply, as they are the first point of contact.
    - In addition, while top luxury brands have more control, challenger or weaker brands like Michael Kors or Burberry don't have the same amount of brand power, and so FTCH has enough leverage to force through concessions like full SKU access.
    - Steady state, there is room for Farfetch to collect low 15-20% take rates from top brands trying to access incremental luxury cohorts, and 20-30% take rates from smaller/medium sized brands
- Path to profitability is in sight – may take longer than expected but is possible without dilution, and Farfetch is heavily exposed to strong secular growth in online luxury
    - Farfetch spent heavily to gain share and has a higher cost structure compared with marketplaces (eBay, Etsy) at similar places in their transition to profitability. However, 2Q19 shocked FTCH into caring about profitability as they realized they could no longer lose money into infinity.
    - However, because of this, Farfetch has plenty of fat to cut, and should transition quickly over the next few years. For example, G&A is heavily inflated at 38% of revenues TTM, while other marketplaces never reached anywhere near that even at their peak.
    - By 2023, FTCH should be at a ~15% EBITDA margin, if their transition to profitability is as successful as eBay's or Etsy's.
- Bear case worries about take rate compression, top luxury brand power, and boutique shenanigans are mostly priced in – even at punitive valuations of FTCH's businesses at multiples well below those of peers, FTCH has at most 25% downside.
    - The market is generally overestimating these issues, but I personally also need more confirmation to build conviction, mainly surrounding "ownership of the customer" so to speak in the luxury buying process – do customers decide what to buy first and then look for items and search for the cheapest option, or do they emphasize researching and item discovery on places like Farfetch?

Catalysts

- Next 2 quarters - Return of gross margin to pre-2Q levels
    - Stock has run up heavily already on margin rebound in 3Q, but I believe there is a lot more room for margins to rebound
- Next 2 years – Proving out ~30% GMV growth past FY2020
    - Market overreacted on GMV slowdown – FTCH is now undervalued on an EV/Rev or GP basis vs. other marketplaces. If FTCH continues to execute, market will begin appreciating growth again.
- Next 2 years – Proving out transition to profitability
    - Self-explanatory, but FTCH needs to prove profitability after growth slowdown – investors need growth or profits, and FTCH needs to display solid steps toward breakeven.

Scenario Details	Base case
Marketplace GMV CAGR (thru 2023)	27%
Online Penetration (2023)	17%
3P Gross Margins (2023)	66.3%
3P PSR CAGR (thru 2023)	23%
2023 Take Rate	27.3%
Adj. EBITDA Margin 2023	15.9%
NGG Rev CAGR (thru 2023)	12%

Risks

- Revenue growth slows more dramatically than expected, or path to profitability takes longer than expected
- Multiples will compress if the above two disappoint
- Thesis killers: Lack of margin sustained progress towards operational leverage/cost-cutting, or revenue growth that slows more dramatically than outlined in my base case.

Valuation

Total Valuation	**Base**	**Bull**
3P Marketplace Valuation	$ 8,539.6	$ 10,832.7
NGG Valuation	$ 1,353.08	$ 1,689.08
1P Business Valuation	$ 931.8	$ 1,282.3
Total Valuation	**$ 10,824.5**	**$ 13,804.0**
Net Debt	$ 252.28	$ 252.28
Equity Valuation	$ 10,572.26	$ 13,551.77
Shares Outstanding	322.9	322.9
Target Price	$ 32.74	$ 41.97
Current Price	$ 11.43	$ 11.43
Upside	**186.5%**	**267.2%**
Projected IRR to 2023E	**30.1%**	**38.4%**

Total Valuation	**Bear**
3P Marketplace Valuation	$ 2,480.6
NGG +1P Valuation	$ 837.93
Total Valuation	**$ 3,318.5**
Net Debt	$ 150.50
Equity Valuation	$ 3,168.01
Shares Outstanding	322.9
Target Price	$ 9.81
Current Price	$ 11.43
Downside	**-14.2%**

Full Thesis Outline

1. Why does this opportunity exist?

a. Poor reaction to NGG acquisition – 3 mitigants
   i. Fits long term strategic vision
   ii. Cheap acquisition
   iii. Helps cash burn
b. Gross Margin miss
   i. Temporary
   ii. Management commitment to reducing promotions
c. Complexity of FTCH business is obscuring value
   i. 3 separate businesses with synergy but radically different economics

2. Bull Case Walkthrough

a. Online luxury is taking share and growing at 20%
   i. China – outsize exposure
   ii. Expansion into hard luxury
b. Necessity of the multi-brand environment
   i. Role of multi-brand env. in consumer purchasing decision
c. Farfetch's better online mousetrap for brands and consumers
   i. Brand value proposition
   ii. Consumer value proposition
   iii. FTCH has grown faster than competition through move towards concessions, China exposure
d. Profitability Roadmap
   i. Past marketplace transitions
   ii. Steady-state margin breakdown

3. Bear Case Walkthrough

4. Debunking/Mitigating Bear Case

a. Negative brand power dynamics
   i. Top brands are still increasing SKU count on FTCH
   ii. Monobrand tailwinds are not that robust
      1. Multibrand provides ease of use, brand discovery, SKU access, and potentially loyalty
   iii. Selection for bad SKUS
      1. Hard to quantify impacts. Cannot assert this is a FTCH killer as a bear point
   iv. Challenger brands outside top 20 do NOT have power over FTCH
   v. Steady state, there is room for FTCH – teens take rate for top brands, higher for smaller
b. Reversal of price dynamics of grey market have helped FTCH vs. competition
   i. This is a fair bear critique IMO
   ii. Less boutique means lower take rate, lower growth
c. All bear points are priced in at this low multiple
   i. Taken as a whole, simply means FTCH will moderate growth – ~27% GMV growth, ~25% revenue growth – does NOT mean FTCH is worthless

5. Financials

6. Risks Discussion

7. Valuation

8. Misc – Questions, Citations

Why does this opportunity exist?

1. Reaction to 2Q Gross Margin

Gross margin and order contribution margin in 2Q19 was 41% and 28% vs. 52% and 45% in 2Q18.

Heavy promotional activity across the luxury retailing space caused margins to miss heavily. Management called out specifically that stores were offering large % of basket discounts and large coupons, which heavily impacted

However, Farfetch is taking concrete steps to restore gross margins.

a. Management is committed to reducing promotional activity going forward
   i. *"This means doubling down on e-concessions, reducing* our promotional *activities, as we boost our full-price mix via exciting collaborations with our brand partners plus original content from New Guards. It also means accepting that we will often be more expensive compared to discounted prices from our competitors." – 2Q19*
b. Management conversations with luxury brands have signaled they understand the negative effect of excess promotions well, and they will be pulling back from promotional activity. Luxury brands will also begin punishing + pulling back stock from retailers that participated heavily in the promotional activity
   i. *"All our conversations with major brands indicate they are starting to implement strategies to more directly control their overall distribution, away from online wholesale and towards e-concessions" – 2Q19*
   ii. *"Prada has been reducing wholesale supply to global e-tailers" -2Q19*

Looking at 2Q vs. 3Q, margins are up 3% already. While I don't expect them to get back to pre- 2Q margins immediately, as management has called out that the promotional environment will last for another year or so, I believe it's not impossible to return to something close to 2018 gross margins.

2. Bad reception to NGG Acquisition

NGG owns a fast-growing collection of luxury streetwear brands of which Off-White is the jewel. Bears see NGG as a non-core acquisition potentially taking resources away from the fast-growing marketplace business, compounding the bad optics of 2Q19.

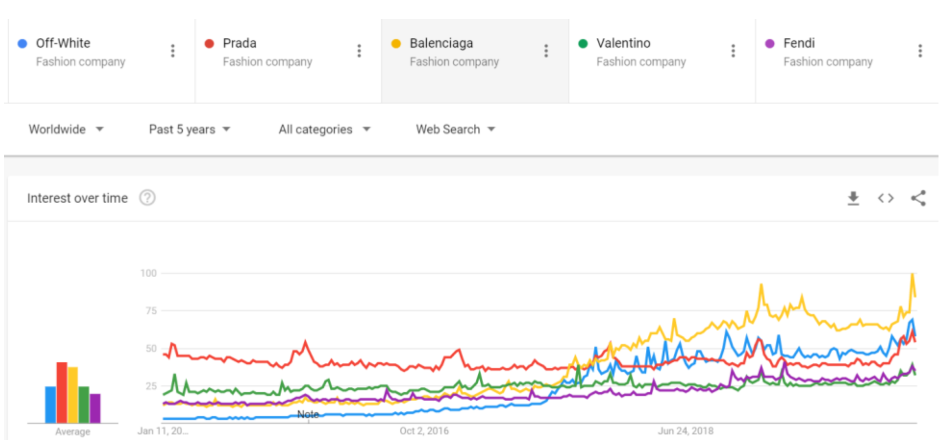
The reasoning behind NGG boils down into 3 reasons

1. Fits long term strategic vision
2. Cheap acquisition
3. Helps cash burn

Long Term Strategic Vision

The key thing to consider is that online luxury marketplaces have very few levers to pull to drive traffic and differentiate themselves from other marketplaces. They have promotions, SKU access and marketing. Marketing is controllable, but all else equal, marketplaces should do marketing equally as well. Promotions as covered before do not jive well with luxury brands. SKU access is the last one.

Off-White is a brand on par with traditional luxury brands like Prada, Balenciaga, Fendi, etc according to the Lyst Index and Google search trends and is exceptionally culturally relevant, especially for younger consumers. Off-White and streetwear brands heavily favored by young Farfetch consumers (average customer is 34). Off-White has been 1st or 2nd every quarter on the Lyst marketplace index since its inception in 2018, beating out names like Fendi, Prada, etc consistently. The formula behind the Index takes into account global Lyst and Google search data, conversion rates and sales, as well as brand and product social media mentions and engagement statistics worldwide over a three-month period.

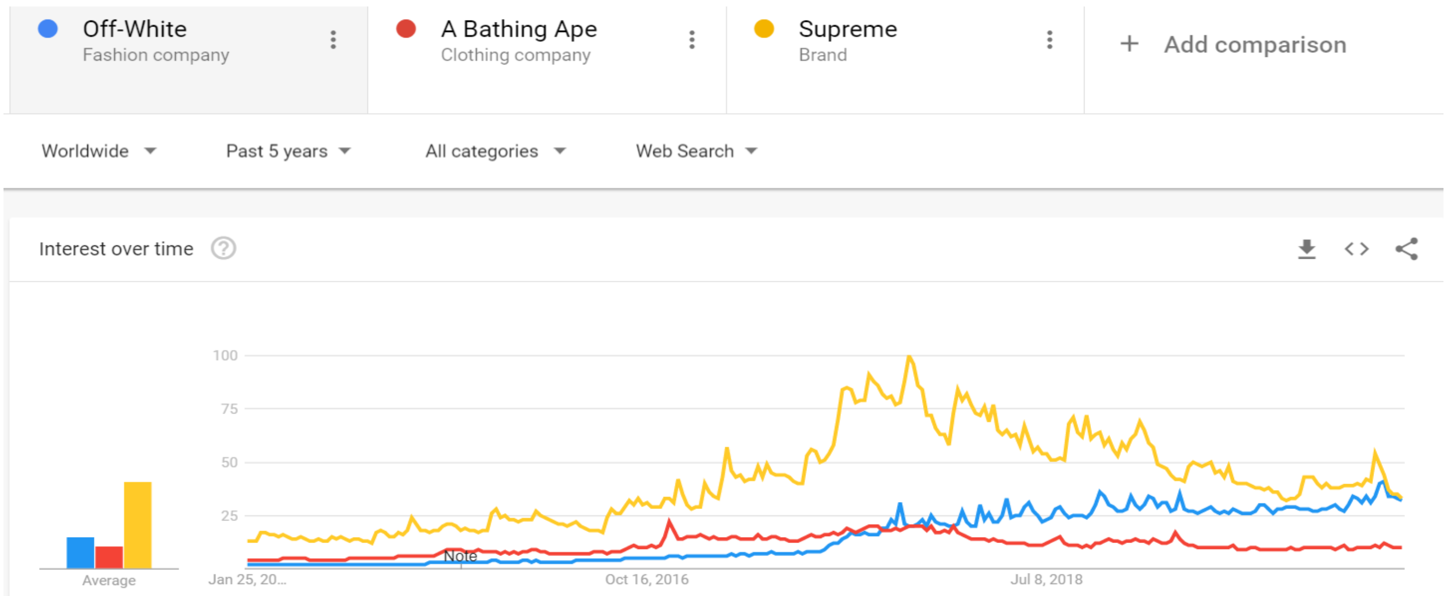


Farfetch is also in the process of curtailing wholesale distribution, and making NGG brands only available through Farfetch. The key purpose of NGG is to use the popularity of the NGG brands to drive traffic to Farfetch. There is a large potential for Off-White + marketing to make Farfetch destination of choice for consumers, driving sales of other brands while consumers are on Farfetch and lowering average CAC. Customers come ready to purchase luxury – Farfetch is simply leveraging that readiness from Off-White across their entire product base.

Other online multibrand marketplaces do not have this marketing channel – and this differentiates Farfetch even more in terms of SKU access.

Farfetch also gains low cost optionality on creating further new viral brands. NGG started with only Marcelo Burlon, but organically attracted designers with its creative ethos and marketing/production capabilities. Off-White, now a $200M+ rev business was founded in 2013 under NGG umbrella from $0. Several nascent brands have organically followed – Kirin, A Plan Application, Heron Preston, any of which could eventually be as impactful as Off-White.

Bears have pointed to the streetwear focus of NGG as a negative, but I believe Off-White has transcended that. A graph below compares the three largest mainstream brands (ones you might actually have heard of) – Supreme, Off-White, and A Bathing Ape. The rest barely registered on Google Trends.



As you can see, the other two peaked near December 2017 – but Off-White trends have stayed strong. Streetwear made the leap to luxury fashion, but as luxury fashion began incorporating of streetwear, many streetwear brands failed to evolve. Meanwhile, Off-White fully embraced luxury fashion, and seamlessly doubles as haute couture, with runway shows while maintaining streetwear appeal.

NGG is also better positioned than the vast majority of luxury brands –16 percent of its US wholesale products are marked down, compared with an average of 37 percent for luxury brands.

Cheap Purchase Price

Purchase price was $675M, half in stock, half in cash against $95M in LTM pre-tax earnings 2018 revenue growth was ~90%, and is projected to be 20-30% for next year. Lower quality luxury names (Tapestry, Kors) trade at 15x+ EBIT with far lower revenue growth (5-10%)

Company Name	Enterprise Value	Sales	EBIT	EBITDA	EV/Sales	EBITDA M	Enterprise Value/ EBIT	Enterprise Value/ EBITDA	Sales 1 Year Growth
Tapestry	10,253.1	6,003.8	862.8	1,134.2	1.7	18.9%	11.88x	9.04x	0.53%
LVMH Moet Hennessy Louis Vuitton	247,629.0	57,218.2	12,109.2	15,709.4	4.3	27.5%	20.45x	15.76x	7.42%
Prada	12,599.8	3,624.5	368.8	877.3	3.5	24.2%	34.17x	14.36x	1.00%
Capri Holdings	9,923.1	5,569.7	788.7	1,030.1	1.8	18.5%	12.58x	9.63x	9.73%
Tiffany	17,556.7	4,384.6	738.9	982.6	4.0	22.4%	23.76x	17.87x	-0.79%
Kering	82,598.5	16,965.0	5,031.3	5,942.6	4.9	35.0%	16.42x	13.90x	-2.64%
Burberry Group	11,102.3	3,548.2	602.5	882.8	3.1	24.9%	18.43x	12.58x	-1.84%
Salvatore Ferragamo	3,892.6	1,544.3	178.9	353.7	2.5	22.9%	21.76x	11.01x	-4.55%
HUGO BOSS	4,570.6	3,205.2	374.4	720.7	1.4	22.5%	12.21x	6.34x	-1.93%
Average	48,734.0	12,007.5	2,524.1	3,312.4	4.1	27.6%	19.07x	12.28x	0.01%
Median	11,851.0	4,004.5	670.7	932.7	3.0	23.3%	18.43x	12.58x	-0.01%
New Guards Group	675.0	320.0	84.0	80.0	2.1	25.0%	8.04x	8.44x	15.00%

As seen above, even though NGG leads in growth and has similar margins, it was far cheaper. Some of this can be attributed to concerns about streetwear and faddiness vs. the other more "timeless" brands, but if it pans out for Farfetch, they will have gotten a steal.

Cash flow

Currently NGG is running at run rate $80M EBIT, while TTM Farfetch lost $150M. NGG should allow FTCH to reach Adj. EBITDA breakeven by the end of FY20, for a cash outlay of only $330M. This was preferable to further dilution or higher leverage. See profitability roadmap and the model for further information.

3. Complexity of Farfetch's Business

Farfetch's three businesses of size, NGG, the 3rd Party business, and 1st Party business all have radically different economics. Below is a chart of estimates of steady state economics + other information to illustrate the differences.

	NGG	3rd Party	1st Party
GMV	$ 100.0	$ 100.0	$ 100.0
Revenue	$ 100.0	$ 30.0	$ 100.0
Gross Profit	$ 45.0	$ 18.0	$ 42.0
Opex	$ 20.0	$ 13.5	$ 35.0
EBIT	$ 25.0	$ 4.5	$ 7.0
2023 Growth Rate	11%	19%	18%
Gross Margins	45%	60%	42%
Opex as % of Rev	20%	45%	35%
2020 Rev	$ 377.74	$ 660.02	$ 283.75

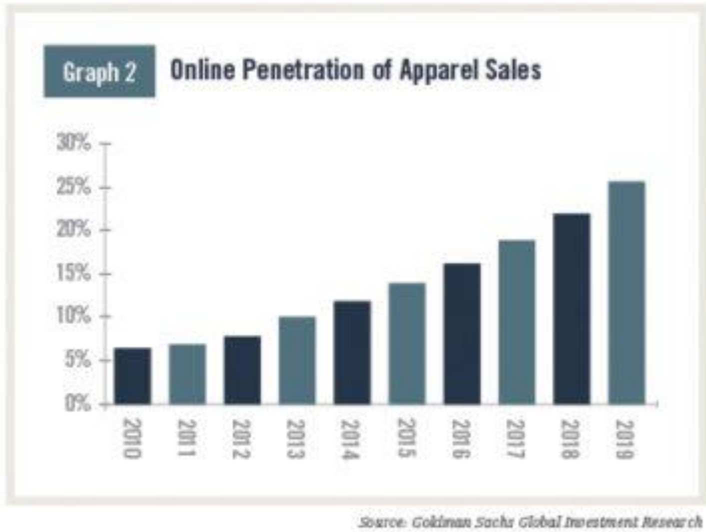
Very different. It's useless to use a combined EV/GMV valuation, or an EV/Sales valuation multiple as you'd be lumping together too many different segments. I think investors were willing to look past this when Farfetch was doing well, but now have become more critical, and are assigning a lower valuation as a result. I think if Farfetch manages to execute over the next few years however, investors will come around to the complexity again.

Bull Case Walkthrough

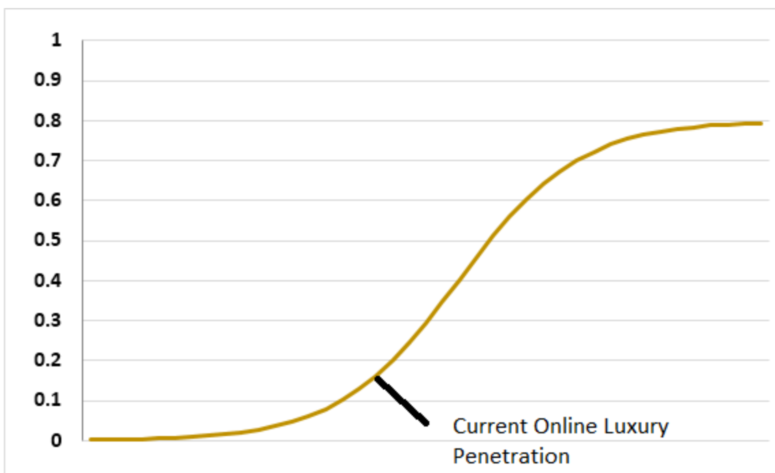
1. Online luxury Growth

Currently, online penetration of luxury sales is hovering around 10-11%, vs. overall apparel penetration at 25%. By 2023, online penetration should double to 18%, and rise to 25% by 2025 (Bain)

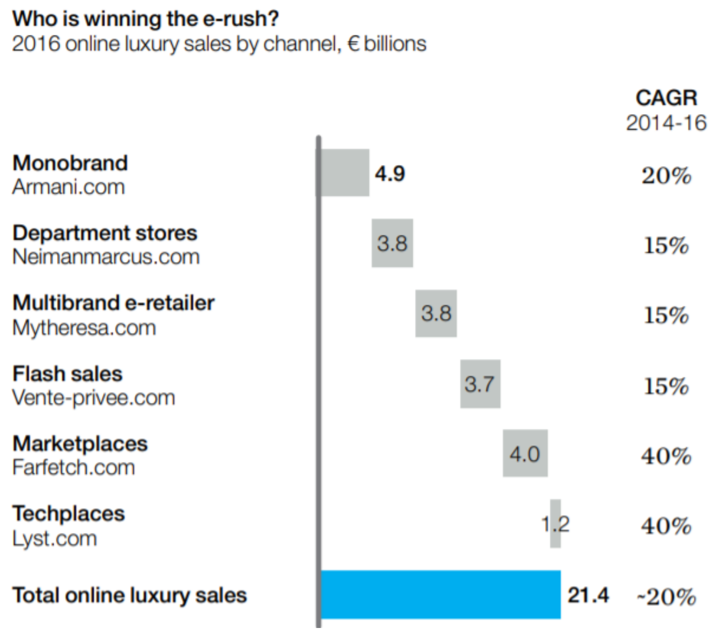
Below is a chart of Online Penetration of Apparel Sales. Luxury is currently at the 2013/14 point in this picture. Once the tipping point is reached, growth comes very rapidly, as seen in 2013.



Online luxury is clearly at the base of the S-curve as seen below.



Within the space, Farfetch is currently growing at ~40% LTM vs. the ~20% of the rest of the market, and is currently taking heavy share, mostly at the expense of department stores and wholesale e-tailers. Exhibit 9



Over the next 3 years, I expect Farfetch to compound GMV at 30%, a little above growth rates of the overall market.

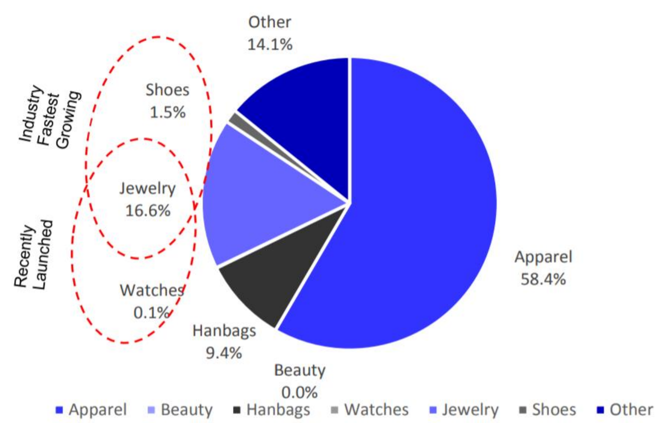
China Exposure

33% of Farfetch revenues are APAC, and China is set to rise to 55% of total global luxury consumption by 2025E from IDK today. Farfetch is better positioned than other online marketplaces, especially as they have a partnership with JD. Farfetch is directly listed on JD's home app page, and JD owns 14% of FTCH, so incentives are aligned.

Expansion into hard luxury

Watches, jewelry, handbags vs. current focus on apparel + shoes will also cause growth to moderate less than expected. Currently ~60% of Farfetch revenue is apparel vs. apparel's ~22% of luxury spend globally. Farfetch has only recently launched jewelry + watches as categories. Hard luxury growth will outpace apparel growth and help moderate declines in growth in apparel.

Figure 14: Farfetch is Just Getting Into / Has Room to Grow in the Fastest Growing Categories



Source: Deutsche Bank & Farfetch

2. Farfetch's better luxury selling mousetrap

Farfetch has built a better mousetrap that offers value to both the brand and consumer, and this has been key to their growth over the rest of the competition. Farfetch's model revolves around letting brands + 3rd party boutiques list their items on Farfetch, naming whatever price suits them best. Farfetch takes a ~15-35% cut, depending on who is selling – large brand or tiny boutique shop.

Value Proposition - Brands

With respect to brands, Farfetch minimizes the downsides of the multi-brand sales channel while offering online + heavily international sales exposure at a lower take rate.

Brands would ultimately like to sell everything through their own channels, but that's not possible as consumers like choice (it's why department stores first came about). ~80% of luxury products are sold in a multi-brand environment. Brands have two options, sell wholesale to online retailers or on Farfetch. At traditional retailers, they cannot control presentation of the product, markdowns, or stock availability.

With the Farfetch model, brands control all the levers as they still control their inventory. On Farfetch, brands + independent boutiques simply choose to list their SKUs, but control the pricing of the item, along with presentation. All this is done at a lower take rate, 30-35% take rate, vs a retailer which would charge an effective ~50% take rate (their gross margin).

The aforementioned levers - presentation, promotions, and stock are of paramount importance to luxury brands. Retailers that take on inventory simply cannot compete because at market weakness, they will rush to unload stock through promotions that destroy luxury brand equity.

Farfetch also has great international access and handles customs. Farfetch revenue is roughly equally distributed between the Americas, EMEA, and APAC, and as mentioned before, has a deep presence within China.

Value Proposition - Consumers

Consumers receive access to a huge selection of stock on Farfetch - $3B at the end of Q3. Other online retailers have much smaller selections due to their need to hold inventory. Consumers will naturally assign some sort of bonus to the retailer with the largest stock, as item availability is one of the main selling points of a luxury retailer. Farfetch will have the item you can't find anywhere else, and has a better shot of getting the "long tail" of purchases. Case in point below, Farfetch massively outpaces their leading competitor in SKU availability.

Sample SKU counts from websites by brand

	Farfetch	Net-a-Porter
Prada	6000	900
Gucci	6200	700
Fendi	2500	300
Moncler	1050	230

Independent boutique retailers that sell on Farfetch are responsible for a large proportion of Farfetch's SKUs that are not available on other marketplaces, as they are either niche or from past seasons.

The NGG acquisition will also drive consumers to Farfetch. Exclusive merchandise should drive consumers to Farfetch, and act in the same way that "blockbuster SKUs" act for other brands, driving traffic to their brand.coms.

Competitive Advantage

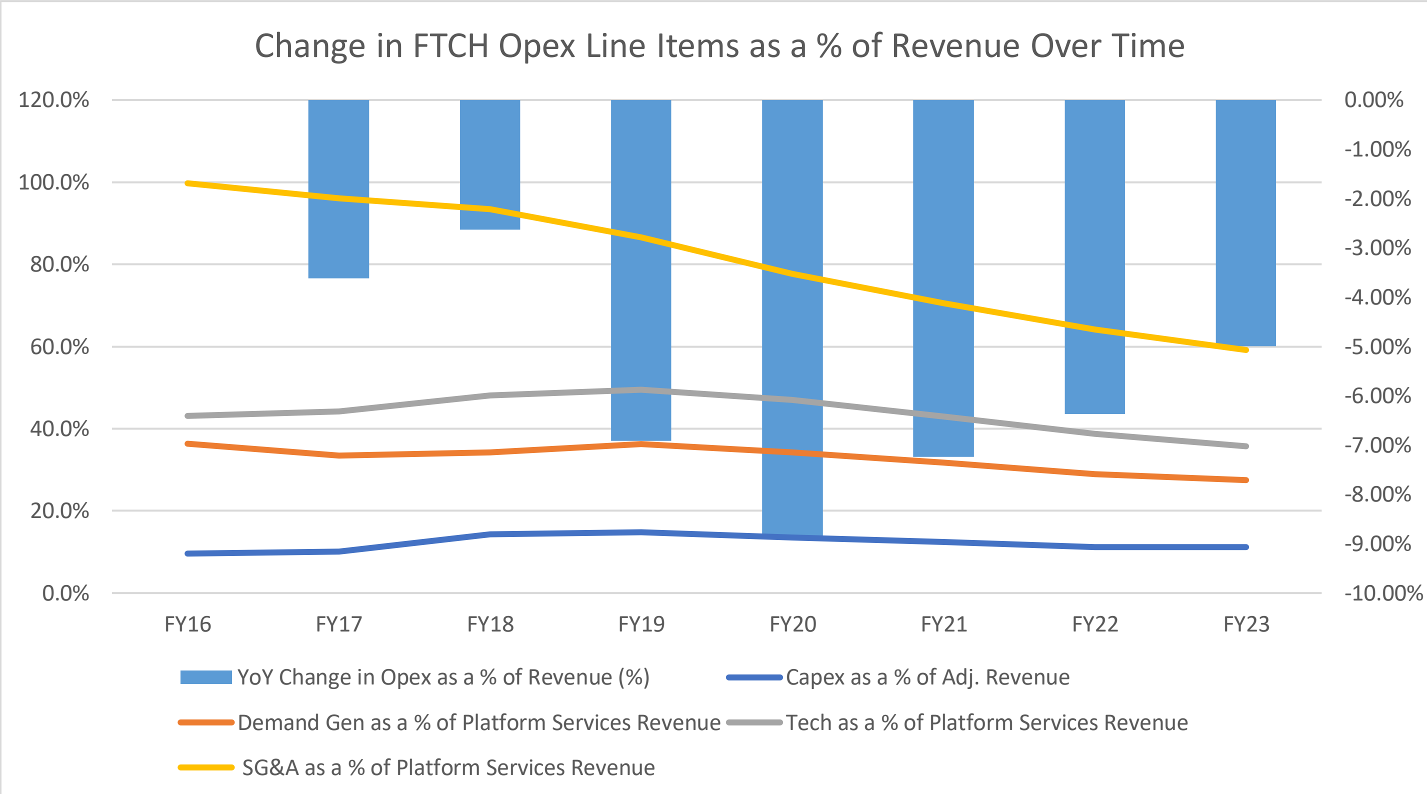
It's important to note the effects of how Farfetch will push their competitive advantage vs. wholesale retailers, online or off. As brands continue to warm up to the idea of luxury online and Farfetch's role, Farfetch should continue to take share.

In 2Q, wholesale online retailers were the driving force behind the promotional cadence, and as such, Farfetch specifically called out on the 2Q19 call that brands were beginning to reduce wholesale exposure. Conversely, Farfetch called out that their top 10 brands increased their stock 100% YoY, including brands like Gucci, Fendi and Prada.

Wholesale luxury currently makes up 68% of the market according to Bain. Again, Farfetch has a competitive advantage over all 68% of the entire market. While the industry as a whole is reluctant to change, the only benefits that wholesale has vs. Farfetch's model are upfront cash, and a channel to dump inventory into, neither of which are that important to large top luxury brands.

3. Profitability Roadmap

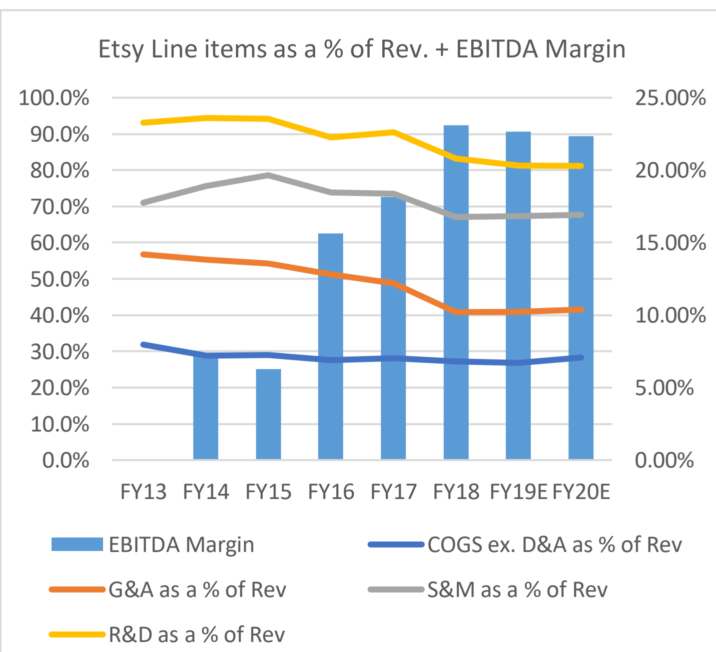
I estimate that Farfetch should reach adj. EBITDA breakeven at the end of FY20 and be close to FCF breakeven by FY22. Below are my estimates of Farfetch's profitability transition over the next 5 years.

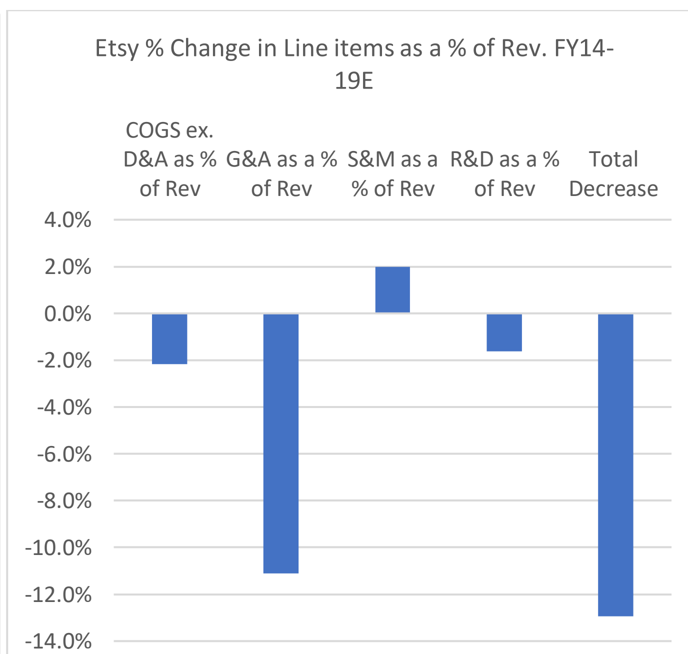


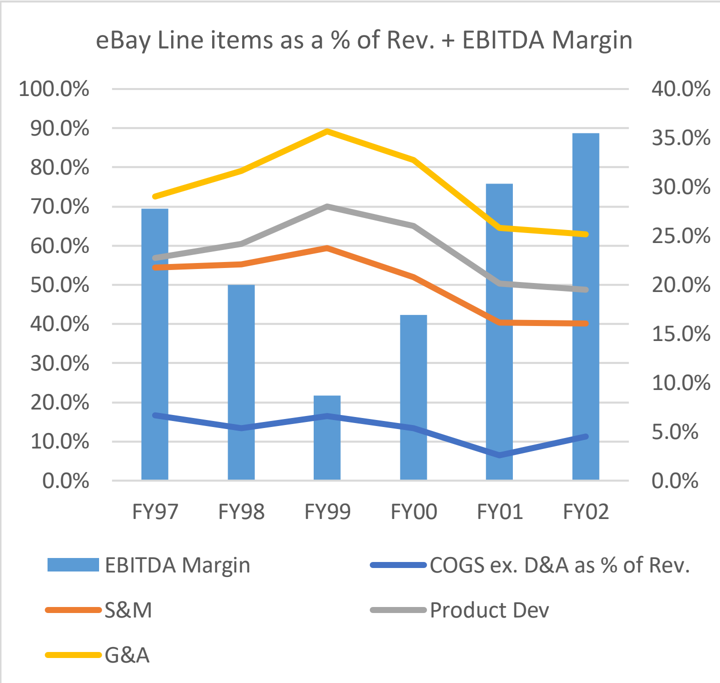
I define Opex as the sum of the % in the columns – Demand Gen, SG&A, Capex and Tech Expense. More detail below in the financials appendix.

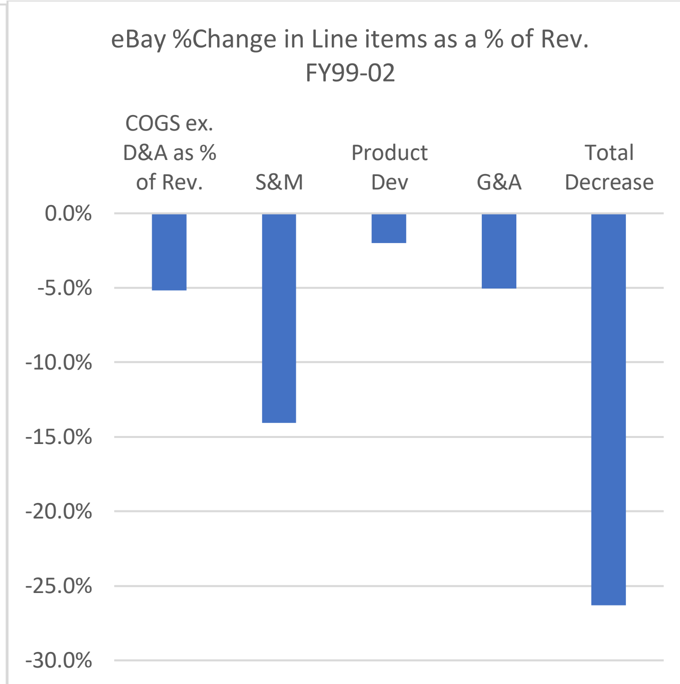
Farfetch has been in heavy investment spending mode for the past 2-3 years, and I believe 2Q shocked them to switch towards targeting profitability – with a larger focus on keeping fixed costs down.

A similar transition occurred in the past at other marketplaces – charts for eBay and Etsy are below.



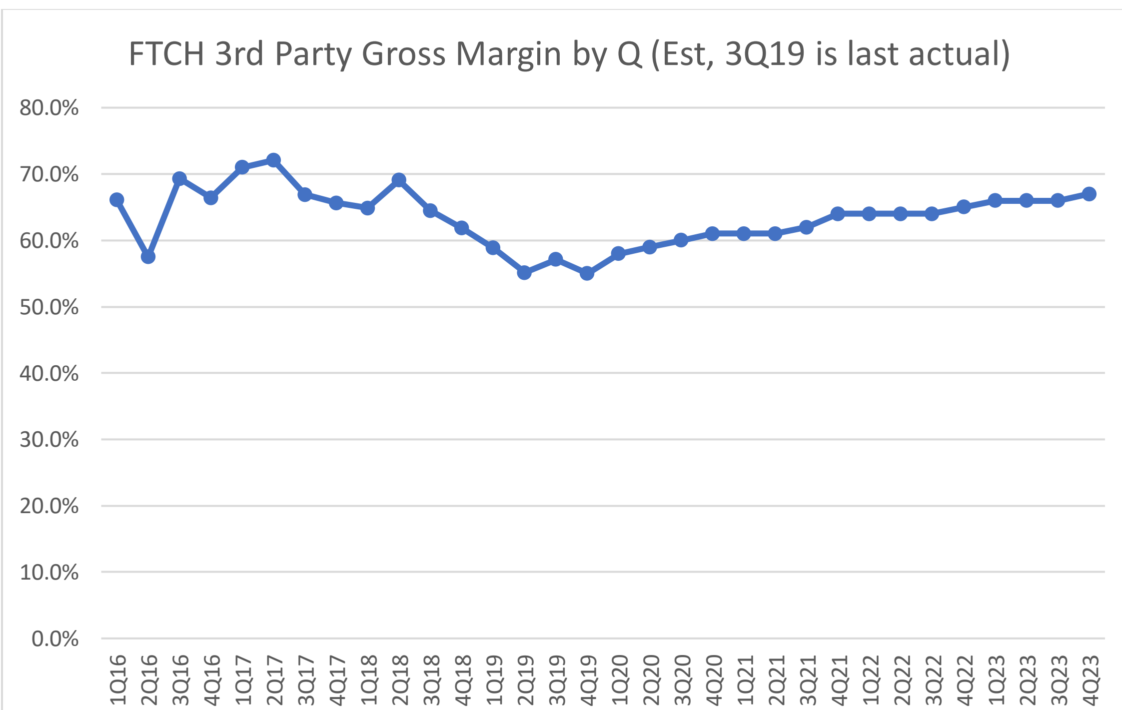






Two takeaways – one is that SG&A cuts account for the vast majority of margin improvement, and two, that large swings in profitability can happen very quickly. From FY15-18, EBITDA margins jumped 17% for Etsy, and FY99-02, EBITDA margins jumped 27% for eBay. While there is further to go for Farfetch, there is more fat. G&A at 37% of revenue has a long way to fall, being far above peak G&A levels at eBay and Etsy. Operating leverage should also kick in for CoGS for Farfetch, and as they pull back on promotions margins should rise.

Backstopping this profitability transition is the 3rd party business' excellent margin profile. Backing into Farfetch's 3rd Party business margins – we see margins on par with some SaaS software makers below. Farfetch's overall gross margins are dragged down by their 1P business, which hover at around 40-50% GM.



Farfetch is well positioned to transition to profitability.

4. Necessity of the Multibrand environment

Consumers use luxury multi-brand marketplaces for 2 things

1. Item/Brand Discovery
2. Ease of use

Item/Brand Discovery

Multi-brand marketplaces are a great source of item/brand discovery.

According to a Deloitte study, consumers are roughly evenly split between buying from a few preferred brands, a number of preferred brands, and buying anything that they like, regardless of brand. That means that when consumer goes on a multi-brand marketplace like Farfetch, most are actively looking for item/brand discovery.

This is backed up by a 2014 McKinsey study. 39% of respondents preferred to use multibrand full price markets vs. only 31% for official brand sites. The % of respondents for official brand sites also fell 12% in just 2 years, showing that brands' official websites were playing an increasingly smaller role in item/brand discovery. Notably, this was 5 years ago – the % of multi-brand

Ease of Use

80% of online luxury purchases are made in multi-brand environments, according to Deloitte.

It's hard to argue that purchases made on a brand.com can ever offer an easier user experience – you have to order items from 3-4 websites vs. only one, and again, customers are not buying one brand at a time, they are actively looking at multiple brands. In addition, Farfetch seamlessly handles customs and international orders, a big selling point for Farfetch's international user base.

Bear Case Walkthrough

Over the past 5 years, brands have increasingly taken a larger interest in online sales. Luxury brands thrive on lack of accessibility but are seeking to reduce friction in the consumer's buying process and find other avenues to reach their desired customers by moving online. They have begun to take an active role in their online experience, seeking to control their presentation and capture economics strategically.

Larger + more exclusive luxury brands have begun to recognize and flex their power – LVMH, Gucci, Prada, etc, recognize that demand for their products far outstrips their supply and seek to capture maximum economics from this situation – sales through their brand.com or through restricting distribution by restricting SKU access, not engaging with Farfetch as a distributor, and negotiating for lower take rates from Farfetch and other distributors. Brands will seek as well to drive sales towards their brand.com, not direct sales to multi-brand websites where they lose 15-50% of MSRP.

Bears believe brands also do not have an incentive to list their best SKUs on Farfetch, as the best SKUs can act as traffic drivers for the rest of the website, and do not seek to share that traffic with Farfetch.

Take rates for Farfetch will fall over time, as volumes from larger brands ramp up vs. smaller brands + boutiques (larger brands pay 15-20%, vs. 25-35% of small brands + boutiques).

In addition, bears also believe that Farfetch has been exploiting the pricing angle in luxury goods. Item purchased in Europe ($80) costs less than item purchased in America ($100) costs less than item purchased in Asia ($120). A boutique can buy an item for $40ish in Europe, sell on Farfetch for a small discount to those in Asia, say $100, and still make great margins, even with Farfetch's take rate, which has contributed to excess growth.

Debunking/Mitigating the Bear Case

1.Near term, top brands are still increasing SKU count on FTCH

Bears seem to be having their cake and eating it too – pointing out take rate pressure as top brands grow over time, but also pointing out that top brands seem to not want to sell on Farfetch. One of these has to give – and I believe the take rate pressure is real, but brands absolutely still want to sell on Farfetch.

> *"And while Prada has been reducing wholesale supply to global e-tailers, we have seen the inventory of Prada's e-concession grow 275% in Q2 on the Farfetch platform. Similarly, we've expanded our e-concessions with other major luxury groups, and total direct supply from Prada, Kering, and LVMH brands on the Farfetch Marketplace in spring/summer 2019 grew 140% versus spring/summer 2018" – 2Q19 Call*

> *"As a result of this secular shift, in addition to signing new brand, we have also seen existing brands double down on Farfetch. At the end of Q3, our top 10 brands, which includes leading brands such as Gucci, Prada, and Fendi have more than twice as much direct stock on our platform a year ago. The increased supply from direct brand partners combined with continuous growth of supply from our boutique network has driven Q3 stock value up to nearly $3 billion, that's more than 50% year-over-year."*

The fact that top brands are still increasing stock on Farfetch means that they DO see value in engaging with Farfetch as a sales channel. Top brands pay lower take rates and they do have more stringent requirements, but brands recognize the fact that they need a multi-brand environment to sell in. Moncler, for example, sells on Farfetch, with the proviso that all their rules are strictly adhered to – enforced geo-pricing, etc.

Top tier luxury brands will only expand distribution if they believe they gain access to an incremental, desirable luxury cohort. And as brands keep signing up, they clearly find value in Farfetch. Farfetch has a desirable customer base – young, with an average age of 34, and high income.

2.Monobrand tailwinds are not that robust

While bear cases harp on brands strategically shifting their sales to monobrand, it's impossible for all brand sales to be monobrand only.

Again as described before, consumers use multi-brands for product discovery. A 2018 study of consumers' perceptions of multibrand sales retailers (vente-privee-like rather than Farfetch, but the vast majority of conclusions are transferable) provides valuable insights into the mind of a luxury consumer.

First, the study backs up the earlier McKinsey study, saying "consumers from these websites are looking for benefits such as freedom of use and brand discovery", not necessarily directly buying high demand SKUs.

The key takeaway is that while luxury industry is consciously listing high demand SKUs to drive traffic to their monobrand sites, this isn't picked up on conciously by luxury consumers, who have a different usage for multibrand sites. Consumers that research on multi-brand websites will likely purchase on multi-brand sites.

And so, multi-brand marketplaces are not directly harmed by lack of blockbuster SKUs. In addition, NGG shows that Farfetch recognizes the hole that the lack of blockbuster SKU leaves them with, and so they're using Off-White to fill the blockbuster role, so to speak.

Second, the study finds that "appropriate product and brand help consumers forget that they are buying brands' unsold stocks, that transferring the luxury webmospheres would be positively perceived." That is, marketplaces with "lower quality SKUs" do not suffer from a worse reputation, and that the brand perception "transfers". A choice quote from a survey respondent is as follows:

> "You give less value to the item that you can buy easily, but not the brand itself. Armani is still Armani, and my dress is still Armani. And if somebody asks me I will say that it's an Armani dress, not a discounted dress."

Brand perception is not harmed by the listing of products on places other than their brand.com. However, the study also found that brands did hurt their reputation by selling on multiple sites. So brands should NOT be spreading their stock over a large number of marketplaces, but should be working with a few choice providers. Farfetch, as a scale incumbent with model advantages over wholesale naturally fills this role.

In addition, multibrand sites are simply easier to use. Even taking away the price lever – how would buying a 4 brand basket be easier on 4 monobrand sites vs. 1 basket on Farfetch?

I believe another way Farfetch can provide value to brands beyond "better" distribution lies in their customer relationship ownership (Booking/Google instead of directly through a hotel), and admittedly haven't done a great job of doing that yet. However, they are finally building on the inherent advantages of ease of use, discovery, and are working on a loyalty program, Farfetch Access. If done well, I believe that this could shift the power balance more in favor of Farfetch.

3.Selection for bad SKUS

I think this bear point is credible, but it's hard to quantify the impacts. To assert that the lack of these will kill FTCH, one must assume that sales of items are heavily skewed towards the best SKUs at luxury brands, to the tune of say 50%+. No numbers exist on this, and I have no idea how to even go about estimating (what is a "best" SKU?). And I find it hard to believe that this will kill Farfetch. It's an unquantifiable negative.

4.Lower take rates

Take rates will migrate lower over time, which will pressure revenue growth. I account for take rates decreasing faster than most of the street believes it will – 100 bps a year vs the 25bps or so I see. Currently, boutiques make up 50% of sales, which should fall over time as more brands deepen their direct relationships with Farfetch. Below is a very rough estimate of how I believe trends in weightings by seller category should drag the take rate down over time. Take rate % estimates from each category are taken mostly from sell-side estimates, and I backed into the FY19 take rate.

3P Take Rate Estimates		FY19		FY20		FY21		FY22		FY23
	Take Rate	Weighting	Take Rate	Weighting	Take Rate	Weighting	Take Rate	Weighting	Take Rate	Weighting
Boutiques	36.0%	50.0%	35.5%	45.0%	35.0%	40.0%	34.5%	35.0%	34.0%	30.0%
Small Brand	31.0%	20.0%	31.0%	20.0%	31.0%	20.0%	31.0%	20.0%	31.0%	20.0%
Med Brand	24.0%	20.0%	24.0%	20.0%	24.0%	25.0%	24.0%	25.0%	24.0%	25.0%
Large Brand	17.0%	10.0%	17.0%	15.0%	17.0%	15.0%	17.0%	20.0%	17.0%	25.0%
Overall Take Rate		30.7%		29.5%		28.8%		27.7%		26.7%

The pressure that Farfetch is facing is mostly related to larger brands growing as a proportion of sales, dragging down overall take rates, and so I believe there is a sort of floor to take rates – I find it hard for take rates to dip below 25% without there being some sort of industry-wide take rate pressure.

5.Challenger brands outside top 20 do NOT have power over FTCH

While larger, more successful brands have a skewed demand/supply in favor of demand, smaller brands have the opposite problem – more supply vs. demand. How will brands grow their sales? Increase their distribution at least, and they are still subject to the same pressures that drive larger brands to move to e-concessions vs. wholesale. Farfetch immediately leaps to the forefront as a solid partner.

While larger brands have an outsized presence on social media and engagement, the industry as a whole is highly fragmented – Hermes, Prada, and Gucci may have clout, but Tod's ($1.1B Revs), Tory Burch ($1B Revs), and Acne Studios ($220M Revs) don't have so much. Below the top 30 luxury companies, companies have revenues of under $2B, which are often split between multiple brands. They absolutely do not have enough power to negotiate for the take rate concessions and the like that Gucci is going to be able to ask for.

Case in point - Burberry and Stella McCartney, two fairly large but somewhat weaker brands made their full SKU list available on Farfetch. This theme should offset some of the power that larger brands have over Farfetch.

Brands sell on multi-brand to gain access to incremental luxury cohort – they get that with FTCH, and FTCH is advantaged vs. wholesale retailers, so FTCH should ultimately win.

6.Negative boutique dynamics

This is a fair bear critique. Less boutique sales means a lower take rate and lower growth. However, again, this is not a killer. Customers do not only come to FTCH because they were 10% cheaper, for reasons stated above, and I model in the pressures to take rates and revenue growth.

7. Steady state, there is room for FTCH

Long term, taking into account the pressures above, FTCH's growth may moderate, and their average take rate will fall, but Farfetch still adds value and has a legitimate business case. Farfetch may suffer from pressure from large luxury brands but can still add value by charging only a ~15-20% take rate to larger brands. For smaller brands, Farfetch is still a better alternative vs. wholesale, and Farfetch has more leverage over them given the size difference.

Financials

Below is a simplified version of my model.

	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Farfetch Marketplace GMV	$ 509.8	$ 797.7	$ 1,260.6	$ 1,691.5	$ 2,209.9	$ 2,829.8	$ 3,556.9	$ 4,366.2
Growth (YoY%)		56.5%	58.0%	34.2%	30.6%	28.1%	25.7%	22.8%
FTCH Marketplace 3rd Party GMV	$ 488.2	$ 761.7	$ 1,154.5	$ 1,517.6	$ 1,986.8	$ 2,561.5	$ 3,238.6	$ 3,994.6
% Growth		56.0%	51.6%	31.4%	30.9%	28.9%	26.4%	23.3%
3P Platform Revenue	$ 156.5	$ 255.8	$ 377.0	$ 511.9	$ 660.0	$ 812.7	$ 988.8	$ 1,175.1
3P Take Rate	31.3%	32.9%	32.0%	30.9%	29.9%	28.9%	28.1%	27.3%
Growth (YoY%)	0.0%	63.4%	47.4%	35.8%	28.9%	23.1%	21.7%	18.8%
NGG Wholesale Revenue	$ -	$ -	$ -	$ 147.6	$ 377.7	$ 434.4	$ 490.9	$ 544.9
Growth (YoY%)	0.0%	0.0%	0.0%	0.0%	155.9%	15.0%	13.0%	11.0%
1P Revenue (ex. NGG)	$ 37.08	$ 55.96	$ 127.56	$ 200.67	$ 243.18	$ 292.33	$ 346.75	$ 405.36
Growth (YoY%)		50.9%	128.0%	57.3%	21.2%	20.2%	18.6%	16.9%
Adj. Revenue (ex. Fulfillment)	$ 193.6	$ 311.8	$ 504.6	$ 874.6	$ 1,321.5	$ 1,589.4	$ 1,887.3	$ 2,198.7
Growth (YoY%)		61.0%	61.8%	73.3%	51.1%	20.3%	18.7%	16.5%
Group Gross Profit	$ 116.9	$ 204.8	$ 298.5	$ 445.0	$ 698.1	$ 863.2	$ 1,050.6	$ 1,252.4
Platform Gross Profit	$ 111.7	$ 196.6	$ 291.7	$ 366.3	$ 507.6	$ 642.5	$ 799.3	$ 971.0
Platform Gross Profit Margin	61.7%	66.3%	59.7%	52.3%	56.1%	58.0%	59.6%	61.2%
Growth (YoY%)		76.1%	48.4%	25.6%	38.6%	26.6%	24.4%	21.5%
Demand generation expense	$ (48.4)	$ (69.2)	$ (97.3)	$ (149.8)	$ (187.6)	$ (213.1)	$ (237.7)	$ (257.7)
as a % of Platform Services Revenue	26.7%	23.4%	19.9%	21.4%	20.7%	19.2%	17.7%	16.2%
Platform Order Contribution	$ 63.3	$ 127.4	$ 194.4	$ 216.5	$ 320.0	$ 429.4	$ 561.6	$ 713.2
Platform Contribution Margin	35.0%	43.0%	39.8%	30.9%	35.4%	38.8%	41.9%	44.9%
Tech Expense	$ (12.3)	$ (31.6)	$ (68.2)	$ (93.1)	$ (115.2)	$ (124.5)	$ (130.5)	$ (130.7)
as a % of Platform Services Revenue	6.8%	10.7%	14.0%	13.3%	12.7%	11.2%	9.7%	8.2%
SG&A	$ (109.6)	$ (162.0)	$ (228.9)	$ (324.4)	$ (406.9)	$ (437.9)	$ (480.0)	$ (515.3)
as a % of Platform Services Revenue	56.6%	52.0%	45.4%	37.1%	30.8%	27.6%	25.4%	23.4%
Adj. EBITDA	$ (53.4)	$ (58.1)	$ (96.0)	$ (122.4)	$ (11.6)	$ 87.7	$ 202.4	$ 348.6
Adj. EBITDA Margin	-27.6%	-18.6%	-19.0%	-14.0%	-0.9%	5.5%	10.7%	15.9%
Opex as % of Adj. Revenue*	107.8%	101.3%	103.1%	95.9%	71.0%	64.4%	59.2%	55.4%
D&A + Share Based Payments	$ (26.75)	$ (32.47)	$ (77.36)	$ (224.92)	$ (167.50)	$ (195.97)	$ (223.27)	$ (247.83)
Operating Profit	$ (88.7)	$ (94.5)	$ (173.3)	$ (343.0)	$ (198.0)	$ (129.1)	$ (43.8)	$ 75.6
Net Profit	$ (81.5)	$ (112.3)	$ (155.6)	$ (374.5)	$ (211.6)	$ (144.3)	$ (59.8)	$ 46.3
Free Cash Flow	$ (64.0)	$ (88.2)	$ (179.7)	$ (1,222.2)	$ (175.2)	$ (111.1)	$ (10.7)	$ 85.0
*Capex+Demand Gen+SG&A+Tech+Share Pay								

Risks

Bear Case Risks

The next few quarters are vital for FTCH as they need to prove out that their growth is still sustainable, and that their margins have room to recover. By my estimate, 3P GMs were at 57% in 3Q19, up 2% from 2Q19, but down 7.5% from 3Q18. I believe if margins end up stagnating around the high 50s instead of recovering into the 60s that would be a thesis breaker.

In addition, 3P growth slowed to 28% in 3Q19, by my estimates. I believe this is due to being a price laggard for the moment – FTCH was lighter on the promotions in 3Q19 than competitors, leading to slower growth. I believe as the rest of the market corrects to match the promotional cadence of FTCH, due to pressure from brands, FTCH should resume capturing a normal share of growth – low 30%s instead of high 20%s.

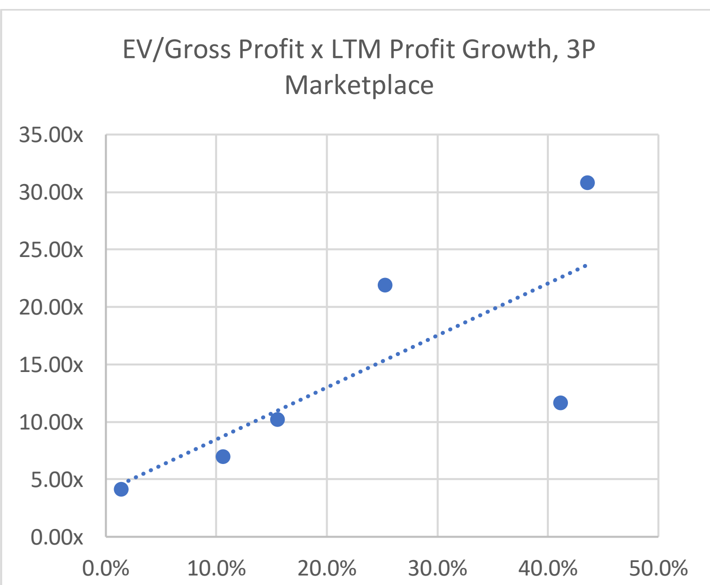
I believe that if the two risks mentioned above end up coming to pass however – lower 3P margins and an inability to resuscitate growth, downside risk is fairly high. Post 3Q, FTCH ran up a lot mainly on optimism about recovering margins and better than expected growth numbers, and deflation of optimism could cause the market to overreact to the downside.

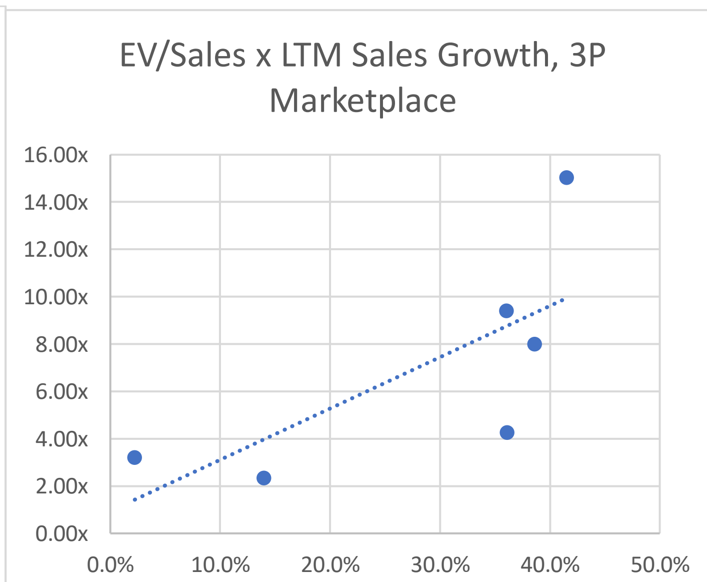
However, even under very punitive bear case multiples and growth, FTCH is fairly valued at $10. Any dip below that would be an overcorrection. Bear case valuations are at the bottom of my valuation section.

Valuation

3rd Party Valuation

Name	EV	Sales	Sales LTM Growth	Gross Profit	Profit LTM Growth	EBITDA	EBITDA Margin	EBITDA LTM Growth	EV/Sales	EV/Gross Profit	EV/EBITDA
YOOX Net-A-Porter	$ 5,500.0	$ 2,358.6	14.0%	$ 784.5	10.6%	$ 245.3	10.4%	12.6%	2.33x	7.01x	22.42x
Etsy	$ 5,968.9	$ 748.4	38.6%	$ 511.1	41.2%	$ 138.7	18.5%	49.0%	7.98x	11.68x	43.04x
Alibaba	$ 607,234.0	$ 64,615.7	36.1%	$ 27,689.9	25.2%	$ 16,132.4	25.0%	42.6%	9.40x	21.93x	37.64x
Mercadolibre	$ 30,789.3	$ 2,050.1	41.5%	$ 998.6	43.6%	$ (20.7)	-1.0%		15.02x	30.83x	
eBay	$ 34,523.4	$ 10,775.0	2.2%	$ 8,250.0	1.4%	$ 3,030.0	28.1%	2.4%	3.20x	4.18x	11.39x
GrubHub	$ 5,339.3	$ 1,258.6	36.1%	$ 522.3	15.5%	$ 126.7	10.1%	-37.1%	4.24x	10.22x	42.14x
Average			28.1%		22.9%		15.2%	13.9%	7.03x	14.31x	31.33x
3P 2023 Rev	$ 1,175.1		18.8%		22.5%						

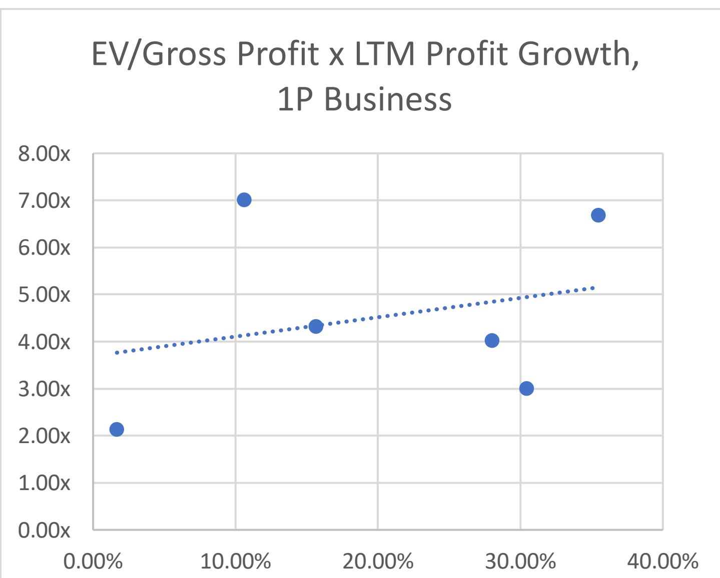


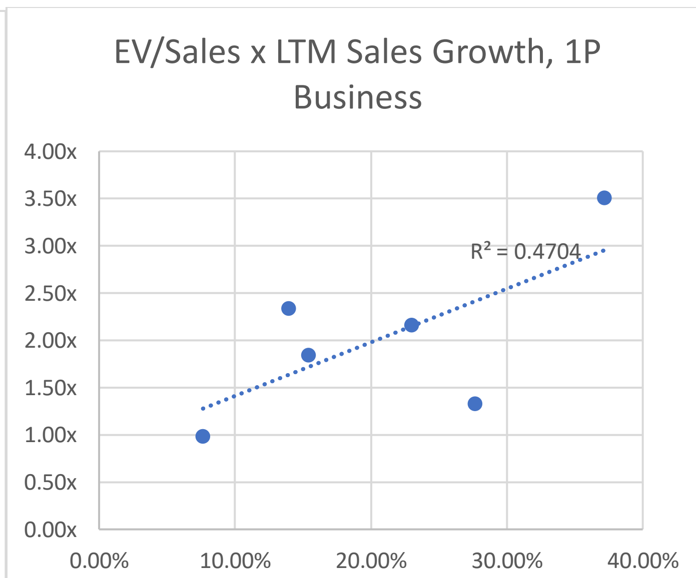


3P Marketplace Valuation	Base	Bull
3P 2023 Rev	$ 1,175.1	$ 1,175.1
Revenue Multiple	5.25x	6.50x
Valuation	$ 6,169.1	$ 7,638.0
3P 2023 GP	$ 779.3	$ 779.3
GP Multiple	14.00x	18.00x
Valuation	$ 10,910.2	$ 14,027.3
Average	**$ 8,539.6**	**$ 10,832.7**

1st Party Comps

Name	EV	Sales	Sales LTM Growth	Gross Profit	Gross Profit LTM Growth	EBITDA	EBITDA Margin	EBITDA LTM Growth	EV/Sales	EV/Gross Profit	EV/EBITDA
ASOS	$ 3,446.5	$ 3,502.8	7.64%	$ 1,618.5	1.67%	$ 138.1	3.94%	-34.43%	0.98x	2.13x	24.95x
Stitch Fix	$ 2,199.8	$ 1,656.1	27.67%	$ 731.3	30.43%	$ 28.7	1.73%	-48.58%	1.33x	3.01x	76.63x
boohoo	$ 4,606.9	$ 1,315.4	37.19%	$ 689.0	35.48%	$ 127.6	9.70%	45.03%	3.50x	6.69x	36.11x
Revolve	$ 1,256.1	$ 581.2	23.00%	$ 311.8	28.00%	$ 51.5	8.87%	15.00%	2.16x	4.03x	24.38x
YOOX Net-A-Porter	$ 5,500.0	$ 2,358.6	13.98%	$ 784.5	10.60%	$ 245.3	10.40%	12.56%	2.33x	7.01x	22.42x
Zalando	$ 12,800.7	$ 6,945.1	15.41%	$ 2,965.4	15.64%	$ 378.0	5.44%	68.98%	1.84x	4.32x	33.86x
Average			20.82%		20.30%		6.68%	9.76%	2.03x	4.53x	36.39x
1P Business 2023		$ 478.8	17.72%	227.9	17.72%						

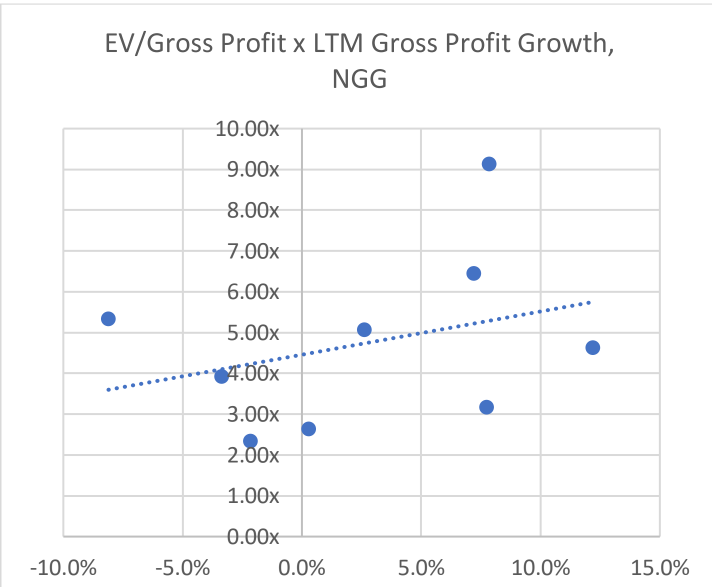


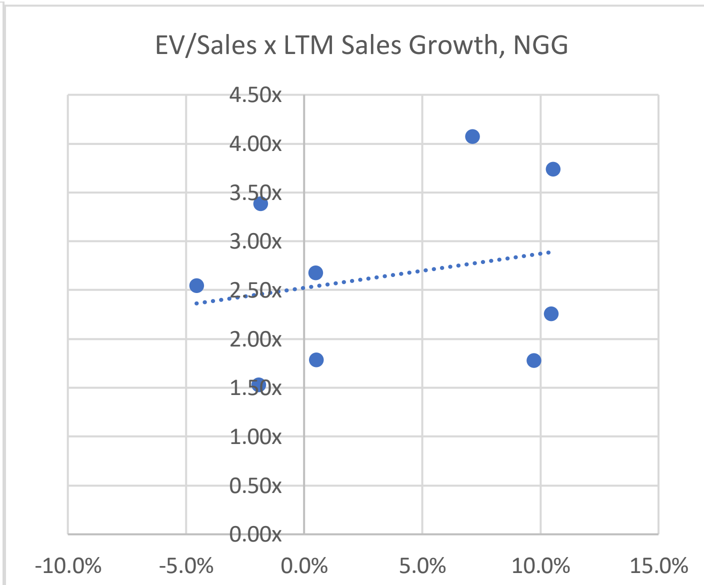


1P Business Valuation	Base	Bull
1P Revenue 2023	$ 478.8	$ 478.8
Revenue Multiple	1.75x	2.50x
Valuation	$ 837.8	$ 1,196.9
1P GP 2023	227.9	227.9
1P GP Multiple	4.50x	6.00x
Valuation	$ 1,025.8	$ 1,367.7
Average	**$ 931.8**	**$ 1,282.3**

New Guards Comps

Name	EV	Sales	Sales LTM Growth	Gross Profit	Gross Profit LTM Growth	EBITDA	EBITDA Margin	EBITDA LTM Growth	EV/Sales	EV/Gross Profit	EV/EBITDA
Prada	$ 13,556.5	$ 3,624.5	10.5%	$ 2,103.2	7.2%	$ 877.3	24.2%	1.1%	3.74x	6.45x	15.45x
Tapestry	$ 10,738.7	$ 6,003.8	0.5%	$ 4,064.4	0.3%	$ 1,134.2	18.9%	-9.7%	1.79x	2.64x	9.47x
Burberry Group	$ 12,010.5	$ 3,548.2	-1.8%	$ 2,253.1	-8.1%	$ 882.8	24.9%	14.4%	3.38x	5.33x	13.61x
HUGO BOSS	$ 4,895.1	$ 3,205.2	-1.9%	$ 2,088.7	-2.1%	$ 720.7	22.5%	27.7%	1.53x	2.34x	6.79x
Capri Holdings	$ 9,918.6	$ 5,569.7	9.7%	$ 3,124.8	7.7%	$ 1,030.1	18.5%	-12.5%	1.78x	3.17x	9.63x
adidas	$ 69,546.0	$ 25,978.6	0.5%	$ 13,721.8	2.6%	$ 3,866.1	14.9%	18.7%	2.68x	5.07x	17.99x
PUMA	$ 12,910.8	$ 5,720.0	10.5%	$ 2,790.3	12.2%	$ 738.0	12.9%	42.0%	2.26x	4.63x	17.49x
NIKE	$ 166,148.0	$ 40,785.0	7.1%	$ 18,195.0	7.8%	$ 5,748.0	14.1%	4.4%	4.07x	9.13x	28.91x
Salvatore Ferragamo	$ 3,932.7	$ 1,544.3	-4.6%	$ 1,001.7	-3.4%	$ 353.7	22.9%	23.9%	2.55x	3.93x	11.12x
Average			3.4%		2.7%		19.3%	12.2%	2.67x	5.19x	17.03x
NGG 2019	$ 675.0	$ 320.0	15.0%	$ 144.0	15.0%	$ 84.0	26.3%	15.0%	2.11x	4.69x	8.04x
NGG 2023		$ 544.9	11.0%	$ 245.2	11.0%	$ 122.6	27.0%	11.0%			





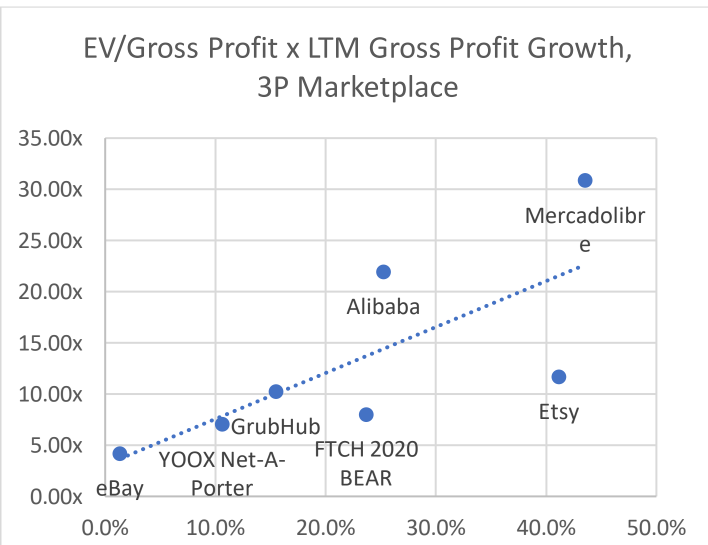
NGG Valuation	Base	Bull
NGG 2023 Rev	$ 544.9	$ 544.9
Revenue Multiple	2.50x	3.00x
Valuation	$ 1,362.16	$ 1,634.60
NGG 2023 EBITDA	$ 122.59	$ 122.6
EBITDA Multiple	11.00x	15.00x
Valuation	$ 1,348.54	$ 1,838.92
NGG 2023 GP	$ 245.19	$ 245.2
Gross Profit Multiple	5.50x	6.50x
Valuation	$ 1,348.54	$ 1,593.73
Average	**$ 1,353.08**	**$ 1,689.08**

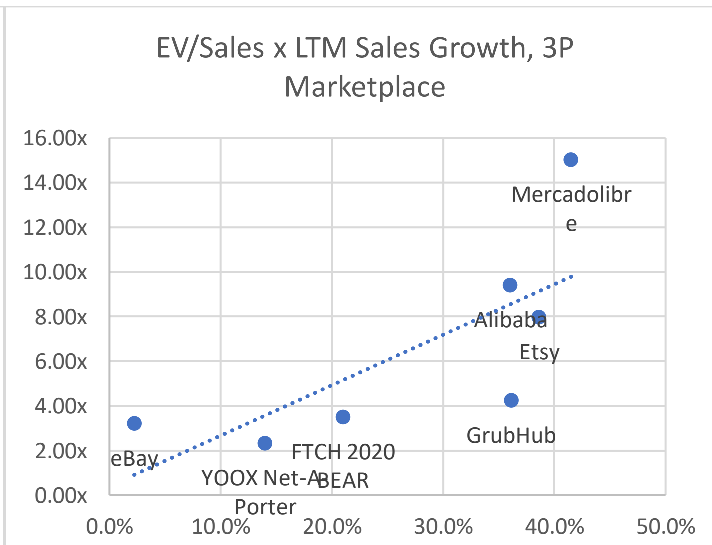
Total Valuation

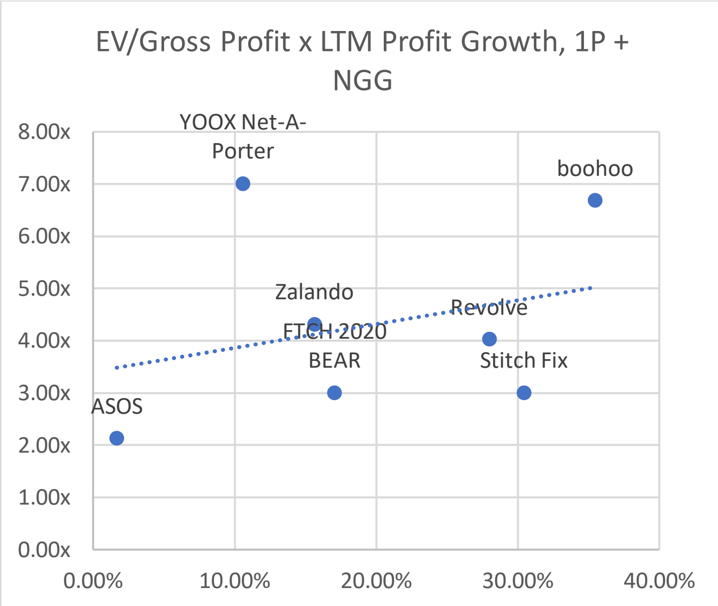
Total Valuation	Base	Bull
3P Marketplace Valuation	$ 8,539.6	$ 10,832.7
NGG Valuation	$ 1,353.08	$ 1,689.08
1P Business Valuation	$ 931.8	$ 1,282.3
Total Valuation	**$ 10,824.5**	**$ 13,804.0**
Net Debt	$ 252.28	$ 252.28
Equity Valuation	$ 10,572.26	$ 13,551.77
Shares Outstanding	322.9	322.9
Target Price	$ 32.74	$ 41.97
Current Price	$ 11.43	$ 11.43
Upside	**186.5%**	**267.2%**
Projected IRR to 2023E	**30.1%**	**38.4%**

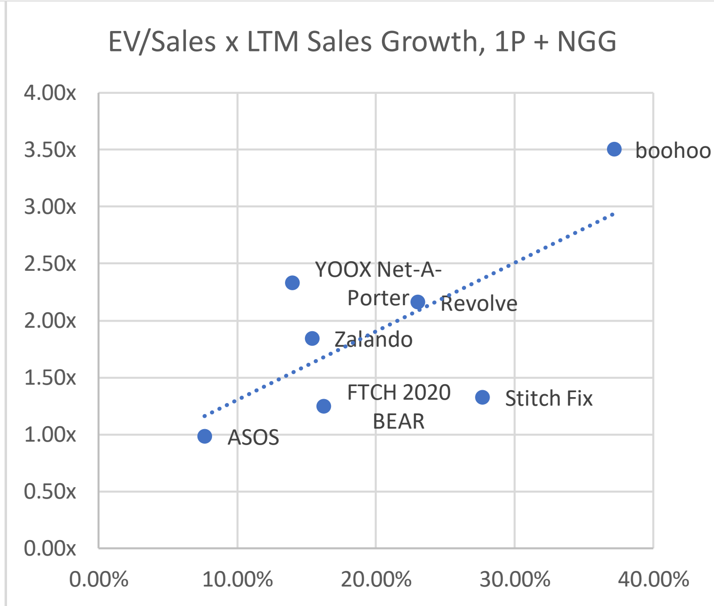
Bear Valuation

3P Marketplace Valuation	Bear
3P 2020 Rev	$ 612.3
Revenue Multiple	3.50x
Valuation	$ 2,143.1
3P 2023 GP	$ 352.3
GP Multiple	8.00x
Valuation	$ 2,818.1
Average	**$ 2,480.6**









1P + NGG Valuation	Bear
1P + NGG Revenue 2020	$ 651.0
Revenue Multiple	1.25x
Valuation	$ 813.7
1P GP 2020	287.4
1P GP Multiple	3.00x
Valuation	$ 862.2
Average	**$ 837.9**

Total Valuation	Bear
3P Marketplace Valuation	$ 2,480.6
NGG +1P Valuation	$ 837.93
Total Valuation	**$ 3,318.5**
Net Debt	$ 150.50
Equity Valuation	$ 3,168.01
Shares Outstanding	322.9
Target Price	$ 9.81
Current Price	$ 11.43
Downside	**-14.2%**

Summary

Farfetch will compound quickly over the next few years. Farfetch is facing real competitive pressures, but those challenges are manageable and the secular trends driving online luxury are too attractive to ignore.

Online luxury will continue to take share at a rapid pace – ~20% growth over the next few years. Farfetch should continue to grow above market due its advantaged business model – control to the luxury brands and selection, access and curation to consumers. Farfetch should transition to profitability quickly as well, and is absolutely capable of doing so as seen in the transitions made by eBay and Etsy – operating leverage is high at dominant marketplaces.

Farfetch does face pressures from brands, but top luxury brands are still increasing stock on Farfetch and while they have incentive to push for monobrand tailwinds, they don't have as much power as bears think they do to affect change. Farfetch take rates will fall over time, but GMV growth will be enough to power through declines in take rate.

Farfetch is available at a compelling multiple, with a compelling growth story, and legitimate advantages relative to its competitors.

Upside is ~180% over the next 4 years, good for a 30% IRR.

Misc.

Questions I have for Farfetch mgmt.

1. Where do you see the industry shaking out long term? Do you see a role for yourself similar to what I think (low take rate for large brands, high take rate for small brands)?
2. What % of brands have released their full SKU list on FTCH? Why have those that haven't refused to do so?
3. What % of sales come from your top 10-20 products?
4. What take rates do large brands like Prada pay on e-concession sales?

5. How do you see the % of sales coming from boutiques trending over time? Do you see their role diminishing as brands tighten control over distribution? Where will their sales go to?
6. You have an abnormally high G&A expense especially vs. other marketplaces – how do you see your profitability transition playing out over the next few years?
7. How do you see a luxury purchase decision playing out? Do customers come to you with an item in mind or do they browse to find an item?
8. What is your value prop vs. other retailers? You've played up the long tail of SKUs quite a bit, but how effective is that in driving traffic?
9. Do brands really have that much control over your business? And do you ever see brands from LVMH or Richemont selling on FTCH directly on a large scale?
10. How much do you think you can grow your ex. Apparel business? I think the reputation for Farfetch is as purely an apparel+ maybe some bags marketplace, so do you think you could change that perception? Maybe break out growth rates for individual categories?

Further work I can do with more resources/time

1. Try to research industry structure more by interviewing participants?
2. Make a survey to research what drives industry structure

Survey Aims

1. Figure out how item discovery happens
2. Figure out what drives people to shop on a specific website
3. Figure out feelings on monobrand vs. multibrand
4. Figure out how much traffic megabrands drive

Links to research I used

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