

# F&F Co Ltd (383220.KS)

MLB's increasing visibility of China onshore expansion comes with margin upgrade opportunities; initiate at Buy

Buy

**383220.KS** 12m Price Target: **W200,000** Price: **W136,000** Upside: **47.1%**

F&F is South Korea's 2nd largest listed fashion company (based on sales) with its flagship brand *MLB*'s China retail sales already at c.US\$1bn in less than 2 years of its China onshore entry, in our view the best-in-class China growth profile among Korea consumer stocks. We envision ongoing growth for MLB in light of: 1) MLB's "sports-streetwear" value, a rare quality for an ex-sportswear brand, and extended reach to local online communities capturing young Chinese consumers, 2) increasing store expansion visibility, 3) disciplined brand policy to preserve MLB's premium equity. In the next five years, we project a 30% sales CAGR for MLB China (8.5x industry), after which would place MLB among China's top 10 ex-sportswear brands in FY26E (with 0.7% share). We initiate on F&F at Buy with a 12m TP of W200,000 (14x avg P/E since its relisting), implying 47% upside.

Amid MLB's next 5-year growth, we also assume solid margin expansion on moderating commission ratio via growing China wholesale mix. We look for F&F's FY26E China/consolidated OPM of c.50%/35%, the strongest margin profile within our Korea Consumer space. F&F shares have pulled back by c.20% since recent lockdowns in China, now trading at just 11x P/E (vs. global peers' 17x). We see this as a good entry point, as we expect F&F, amid inventory control, still to deliver +23% yoy sales growth in 2H22E (MLB China SSSG already recovered DD% June to date), accelerate growth to +27% yoy in FY23E. We foresee F&F's valuation re-rating on the industry recovery cycle (from 3Q22E) and MLB's growing China onshore presence.

Potential investor pushback: Risk of MLB momentum erosion, where we argue MLB's ongoing category expansion and diverse customer mix support LT consumer traction. Other risks: Lack of wholesale control, Korea/US/China tensions impacting MLB sell-out.

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## Key Data

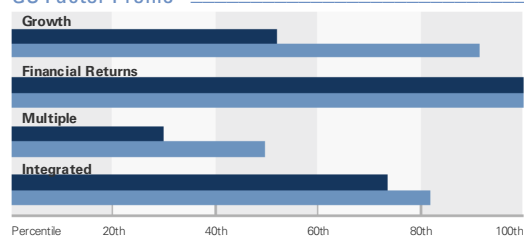
Market cap: W5.2tr / \$3.8bn  
Enterprise value: W5.2tr / \$3.8bn  
3m ADTV: W18.2bn / \$14.0mn  
South Korea  
Korea Consumer Staples  
M&A Rank: 3  
Leases incl. in net debt & EV?: Yes

## GS Forecast

	12/21	12/22E	12/23E	12/24E
Revenue (W bn)	1,089.2	1,909.5	2,419.2	2,720.6
EBITDA (W bn)	351.0	615.2	813.6	951.1
EPS (W)	30,307	10,835	14,595	17,135
P/E (X)	4.7	12.6	9.3	7.9
P/B (X)	2.0	6.0	4.0	2.8
Dividend yield (%)	3.9	1.6	2.1	2.5
N debt/EBITDA (ex lease,X)	0.6	(0.1)	(0.6)	(1.1)
CROCI (%)	NM	62.7	75.5	85.3
FCF yield (%)	25.6	6.8	10.7	13.2

	3/22	6/22	9/22E	12/22E
EPS (W)	2,528	1,824	2,432	4,051

## GS Factor Profile



■ 383220.KS relative to Asia ex. Japan Coverage  
■ 383220.KS relative to Korea Consumer Staples

Source: Company data, Goldman Sachs Research estimates.  
See disclosures for details.

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Buy

## F&amp;F Co Ltd (383220.KS)

Rating since Sep 5, 2022

## Ratios &amp; Valuation

	12/21	12/22E	12/23E	12/24E
P/E (X)	4.7	12.6	9.3	7.9
P/B (X)	2.0	6.0	4.0	2.8
FCF yield (%)	25.6	6.8	10.7	13.2
EV/EBITDAR (X)	3.6	8.1	5.6	4.3
EV/EBITDA (excl. leases) (X)	3.9	8.8	6.0	4.6
CROCI (%)	NM	62.7	75.5	85.3
ROE (%)	NM	58.6	51.3	41.6
Net debt/equity (%)	46.8	(0.9)	(32.9)	(52.6)
Net debt/equity (excl. leases) (%)	35.8	(7.1)	(37.0)	(55.6)
Interest cover (X)	90.9	82.0	111.0	129.5
Days inventory outst, sales	81.2	52.6	51.6	52.3
Receivable days	—	20.5	19.6	20.7
Days payable outstanding	—	124.5	126.7	134.8
DuPont ROE (%)	42.4	47.6	42.4	35.6
Turnover (X)	1.0	1.2	1.1	1.0
Leverage (X)	2.1	1.8	1.6	1.5
Gross cash invested (ex cash) (W)	757.1	831.6	872.6	884.8
Average capital employed (W)	—	775.1	817.3	821.8
BVPS (W)	71,534	22,614	34,290	47,998

## Growth &amp; Margins (%)

	12/21	12/22E	12/23E	12/24E
Total revenue growth	NM	75.3	26.7	12.5
EBITDA growth	NM	75.3	32.3	16.9
EPS growth	NM	(64.2)	34.7	17.4
DPS growth	NM	(60.6)	34.7	17.4
EBIT margin	29.6	29.7	31.7	32.9
EBITDA margin	32.2	32.2	33.6	35.0
Net income margin	21.3	21.6	23.0	24.0

## Price Performance

383220.KS (W)

KOSPI



	3m	6m	12m
Absolute	(6.5)%	(19.6)%	(8.2)%
Rel. to the KOSPI	3.9%	(9.3)%	22.2%

Source: FactSet. Price as of 5 Sep 2022 close.

## Income Statement (W bn)

	12/21	12/22E	12/23E	12/24E
Total revenue	1,089.2	1,909.5	2,419.2	2,720.6
Cost of goods sold	(292.8)	(541.3)	(708.1)	(807.7)
SG&A	(473.7)	(801.3)	(944.5)	(1,018.9)
R&D	—	—	—	—
Other operating inc./exp.)	—	—	—	—
<b>EBITDA</b>	<b>351.0</b>	<b>615.2</b>	<b>813.6</b>	<b>951.1</b>
Depreciation & amortization	(28.3)	(48.3)	(47.0)	(57.0)
<b>EBIT</b>	<b>322.7</b>	<b>566.9</b>	<b>766.6</b>	<b>894.1</b>
Net interest inc./exp.)	(3.5)	(6.1)	(0.7)	6.4
Income/(loss) from associates	(1.2)	(3.8)	(3.8)	(3.8)
<b>Pre-tax profit</b>	<b>322.5</b>	<b>571.9</b>	<b>773.2</b>	<b>907.7</b>
Provision for taxes	(90.6)	(158.9)	(216.5)	(254.2)
Minority interest	—	0.3	—	—
Preferred dividends	—	—	—	—
<b>Net inc. (pre-exceptionals)</b>	<b>231.9</b>	<b>413.3</b>	<b>556.7</b>	<b>653.6</b>
Post-tax exceptionals	—	—	—	—
<b>Net inc. (post-exceptionals)</b>	<b>231.9</b>	<b>413.3</b>	<b>556.7</b>	<b>653.6</b>
<b>EPS (basic, pre-exceptionals) (W)</b>	<b>30,307</b>	<b>10,835</b>	<b>14,595</b>	<b>17,135</b>
<b>EPS (diluted, pre-exceptionals) (W)</b>	<b>30,307</b>	<b>10,835</b>	<b>14,595</b>	<b>17,135</b>
<b>EPS (basic, post-exceptionals) (W)</b>	<b>30,307</b>	<b>10,835</b>	<b>14,595</b>	<b>17,135</b>
<b>EPS (diluted, post-exceptionals) (W)</b>	<b>30,307</b>	<b>10,835</b>	<b>14,595</b>	<b>17,135</b>
DPS (W)	5,500	2,167	2,919	3,427
Div. payout ratio (%)	18.1	20.0	20.0	20.0

## Balance Sheet (W bn)

	12/21	12/22E	12/23E	12/24E
Cash & cash equivalents	14.6	305.3	709.4	1,224.5
Accounts receivable	100.1	114.6	145.2	163.2
Inventory	242.3	308.5	375.3	403.8
Other current assets	227.1	227.1	227.1	227.1
<b>Total current assets</b>	<b>584.0</b>	<b>955.5</b>	<b>1,456.9</b>	<b>2,018.6</b>
Net PP&E	129.5	203.1	222.3	226.4
Net intangibles	17.0	20.6	23.5	22.8
Total investments	357.8	354.0	350.3	346.5
Other long-term assets	58.1	58.1	58.1	58.1
<b>Total assets</b>	<b>1,146.5</b>	<b>1,591.4</b>	<b>2,111.0</b>	<b>2,672.4</b>
Accounts payable	156.2	213.0	278.6	317.8
Short-term debt	210.6	243.6	223.6	203.6
Short-term lease liabilities	30.7	33.4	33.4	33.4
Other current liabilities	166.1	206.7	235.3	254.7
<b>Total current liabilities</b>	<b>563.7</b>	<b>696.6</b>	<b>770.9</b>	<b>809.5</b>
Long-term debt	—	—	—	—
Long-term lease liabilities	29.6	20.6	20.6	20.6
Other long-term liabilities	5.8	5.8	5.8	5.8
<b>Total long-term liabilities</b>	<b>35.4</b>	<b>26.4</b>	<b>26.4</b>	<b>26.4</b>
<b>Total liabilities</b>	<b>599.1</b>	<b>723.0</b>	<b>797.3</b>	<b>835.9</b>
Preferred shares	—	—	—	—
Total common equity	547.4	862.6	1,307.9	1,830.8
<b>Minority interest</b>	<b>—</b>	<b>5.8</b>	<b>5.8</b>	<b>5.8</b>
<b>Total liabilities &amp; equity</b>	<b>1,146.5</b>	<b>1,591.4</b>	<b>2,111.0</b>	<b>2,672.4</b>
Net debt, adjusted	196.1	(61.8)	(485.8)	(1,020.9)

## Cash Flow (W bn)

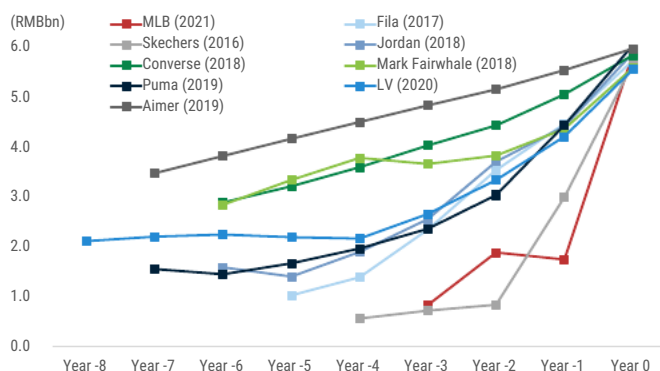
	12/21	12/22E	12/23E	12/24E
Net income	231.9	413.3	556.7	653.6
D&A add-back	28.3	48.3	47.0	57.0
Minority interest add-back	—	(0.3)	—	—
Net (inc)/dec working capital	(53.2)	(24.0)	(31.7)	(7.5)
Other operating cash flow	84.4	4.3	3.8	3.8
<b>Cash flow from operations</b>	<b>291.5</b>	<b>441.5</b>	<b>575.8</b>	<b>706.9</b>
Capital expenditures	(12.0)	(89.7)	(20.0)	(20.0)
Acquisitions	—	—	—	—
Divestitures	—	—	—	—
Others	(555.6)	(111.8)	(111.8)	(111.8)
<b>Cash flow from investing</b>	<b>(567.5)</b>	<b>(101.5)</b>	<b>(31.8)</b>	<b>(31.8)</b>
Repayment of lease liabilities	—	—	—	—
Dividends paid (common & pref)	—	(42.1)	(82.7)	(111.3)
Inc/(dec) in debt	185.0	32.9	(20.0)	(20.0)
Other financing cash flows	(23.5)	(40.1)	(37.3)	(28.7)
<b>Cash flow from financing</b>	<b>161.5</b>	<b>(49.3)</b>	<b>(139.9)</b>	<b>(160.0)</b>
<b>Total cash flow</b>	<b>(114.5)</b>	<b>290.7</b>	<b>404.1</b>	<b>515.1</b>
Free cash flow	279.5	351.9	555.8	686.9

Source: Company data, Goldman Sachs Research estimates.

## Our thesis in charts

### Exhibit 1: MLB's recent 2-3 year sales expansion in China has been unprecedented

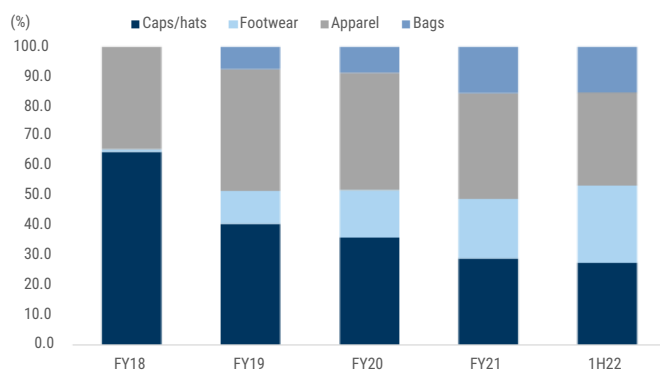
China A&F brands - Number of years to reach c.Rmb6bn retail sales



Source: Euromonitor, Company data, Goldman Sachs Global Investment Research

### Exhibit 3: MLB's ongoing category diversification proves its resilient consumer traction

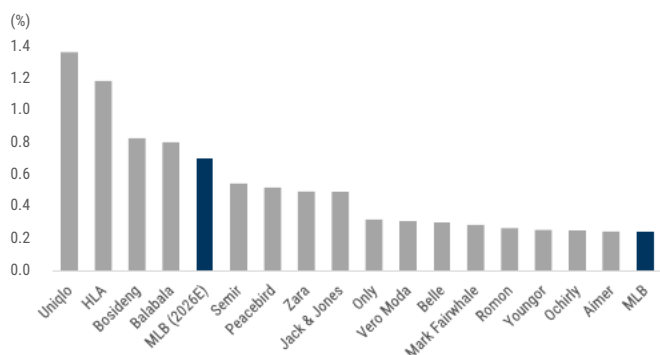
MLB sales mix by category



Source: Company data

### Exhibit 5: This would place MLB among China's top 10 ex-sportswear brands

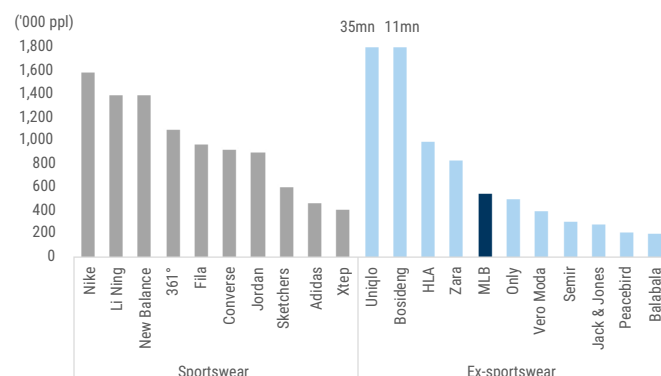
China ex-sportswear market share by brand (2021)



Source: Euromonitor, Company data, Goldman Sachs Global Investment Research

### Exhibit 2: MLB now owns the fifth largest Weibo fan base among China's top 10 ex-sportswear brands

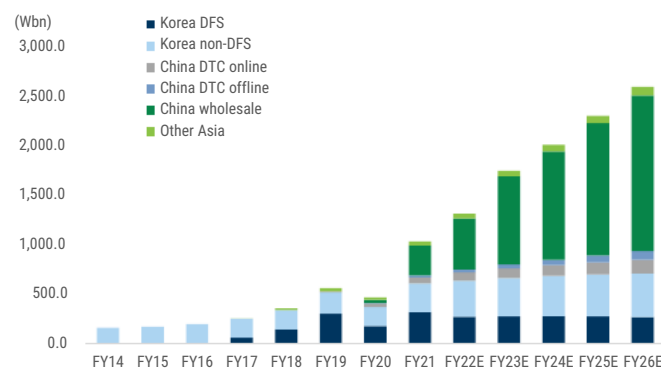
Weibo - Number of followers by brand (as of August 31, 2022)



Source: Weibo

### Exhibit 4: MLB's increasing onshore presence through top-tier distributors supports its 30% FY22E-26E China sales CAGR

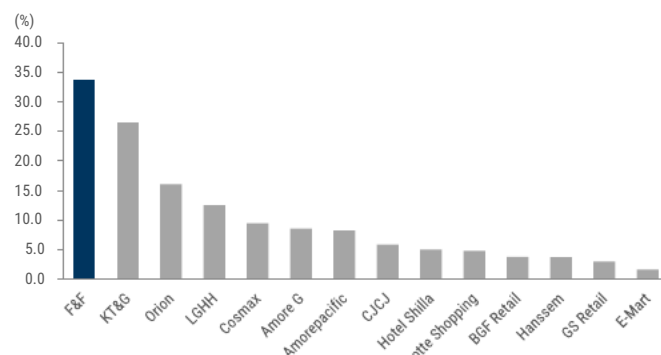
MLB global sales forecast by channel/region



Source: Company data, Goldman Sachs Global Investment Research

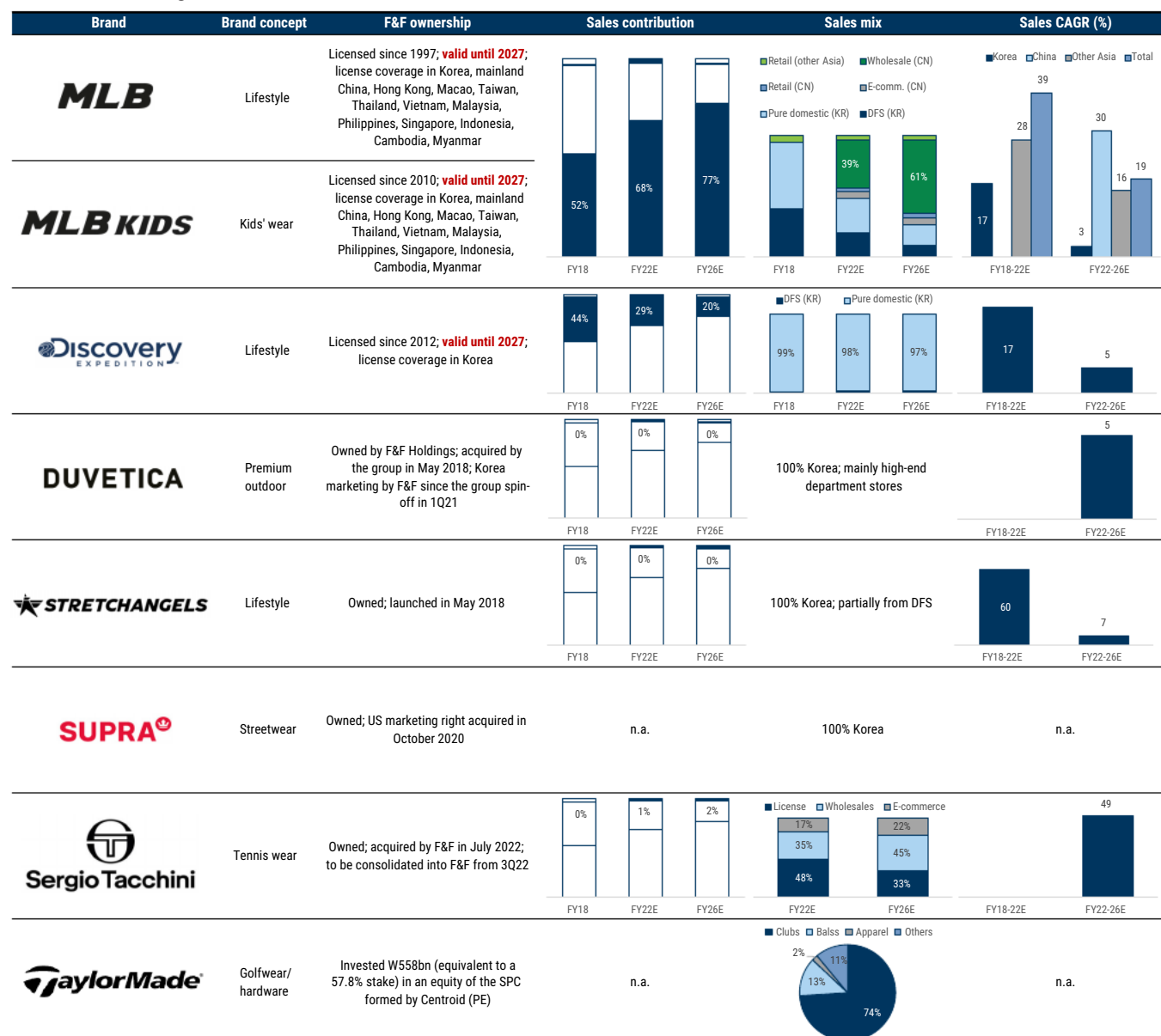
### Exhibit 6: F&F has replaced KT&G as our best margin performer within our Korea Consumer coverage

South Korea Consumer coverage OPM forecast (FY24E)



Source: Company data, Goldman Sachs Global Investment Research

## Exhibit 7: F&amp;F - At a glance



Source: Company data, Goldman Sachs Global Investment Research

## PM summary

We newly add F&F, Korea's fashion branding specialist, to our Korean consumer Buy ideas. We believe F&F provides a highly visible China growth story from the Korean consumer space, which has long been absent since LGHH's China beauty market share gains in 2014-20. F&F's flagship brand MLB has recorded c.US\$1bn (or c.Rmb6bn) retail sales in less than 2 years of China onshore entry, which is among the fastest market share gains in the past 10 years of China's A&F industry. Within the ex-sportswear space, MLB's positioning looks unique to us, as its "sports-streetwear" branding has effectively expanded its categories in premium price ranges. Looking forward, we foresee MLB exploring further upside across China onshore through F&F's consistently strong product success rates, timely coverage expansion with local distributors and strict monitoring of day-to-day onshore store operation, all delivered by the company's broadly applied big data strategy (namely Digital Transformation or DT).

### **MLB's China sales to grow 8.5x ex-sportswear industry pace; a top-tier growth profile among Korean consumer stocks**

Looking ahead, we envision F&F's much underpenetrated offline presence and resilient store productivity to support MLB China's 30% sales CAGR in FY22E-26E (or 26% CAGR in Rmb terms), 8.5x faster than China's 3% ex-sportswear industry sales CAGR. That said, we expect MLB's China ex-sportswear market share to double to 0.7% by 2026E, from 0.3% currently, which would place it among China's top 10 ex-sportswear brands in the next five years, based on past 10-year market share data. This reminds us of History of Whoo's (i.e. LGHH's prestige cosmetics brand) China beauty market share gains in 2015-19 (1.6%-3.1%) and we believe MLB's growth story appears especially attractive given its onshore-based expansion looks consistent to us, and it is not as reliant on the often volatile DFS avenue as many beauty brands.

### **MLB sustainability checklist**

**How does the brand connect with customers?** We believe MLB's sports-streetwear messages have well addressed young Chinese consumers' growing demand for a higher degree of comfort, self-expression, exclusivity and gender-neutrality, whilst the brand's fan-based viral marketing (#MLBcrew) consistently leverages social networking platforms to extend its reach to Chinese local communities. MLB currently has 143k followers on Little Red Book (where MLB is ranked No. 2 on the platform among China's top 10 ex-sportswear brands) and 560k followers at Weibo (where MLB is ranked No. 5).

**Has the brand executed newness?** F&F's brand digitalisation (launched in 2017) helps other key divisions (marketing, planning, IT support) interactively share fashion big data, adopt these digital transformation (DT) messages to new product ideas, stock management and viral marketing efforts through selective influencers. For context on strategy effectiveness, the brand's two biggest hits, Big Ball Chunky shoes and the Monogram series, are products of the DT division's efforts.

**How's consumer traction to the brand?** We think active category expansion is a sign of strong consumer traction. As of 1H22, MLB made 31% of its sales from apparel,

followed by headwear's 27%, footwear's 26% and bags' 15%, vs. 65% of the brand's sales from headwear and just 1% from shoes in FY18.

**Who manages the brand?** F&F currently works with >20 local distributors in China, all top-tier players in respective provinces (among which is Zhonghe Group). Mr. Chang Soo Kim, F&F's CEO, is widely known in the Korean consumer space to have extensive branding knowledge with >30 years of fashion branding experience. F&F's China CEO has >20 years of experience in many consumer companies (e.g. L'Oreal, adidas) and was the CEO of Avon China before joining F&F.

### **Increasing China wholesales mix to support F&F's 20% FY22E-26E EBIT CAGR**

We expect F&F's growing China wholesale revenue mix within MLB (estimated at c.60% by FY26E, vs. 29%/39% in FY21/22E) to sequentially lower commission burden (under SG&A) over our projected period, supporting F&F's consolidated OPM expansion to 35% by FY26E, from 30% in FY22E. Within our Korean consumer coverage, based on our FY24E OPM forecasts, F&F (34%) has replaced KT&G (27%) as our best margin performer.

### **Initiate at Buy with W200,000 TP implying 47% upside potential**

We initiate coverage of F&F with a Buy rating and 12m TP of W200,000 (implying 47% upside as of last close, vs. an average 16% for our Korean consumer coverage). We derive our TP by applying a target P/E of 14x (i.e. F&F Opco's average P/E since its relisting in May 2021 post the group spin-off) to our FY23E EPS estimate. F&F currently trades at 11x 1-yr fwd P/E (with 26% FY22E-24E EPS CAGR), vs. global peer average at 16x (and 9% CAGR), suggesting a good entry point to accumulate F&F shares.

### **Where could we be wrong?**

Key downside risks to our view are: 1) slower-than-expected MLB momentum in mainland China, 2) lack of control over wholesale stores, 3) geopolitical tensions between Korea/US and mainland China.

**Slower-than-expected MLB momentum in mainland China**, which could be partially triggered by: 1) potentially falling MLB product hit rate, and 2) simply too many stores around. We argue that our 30% sales CAGR forecast for MLB China is supported by MLB's conjugation of latest fashion trends with its sports-originated identity, which should preserve MLB's long-term brand equity. Our MLB China store projection of c.1,500 by FY26E does not look to us over-scaled to dilute MLB's brand value given Fila's (with similar store formats/locations) store productivity remained strong ever since its POS count exceeded the 1,600 level in FY18, suggesting that strong branding power matters the most.

**F&F's potential lack of control over wholesale stores.** F&F already owns >20 years of experience working with local agencies in the competitive Korean market. F&F selectively chooses its wholesale partners based on the candidate's capital strength and existing offline coverage. F&F remains strictly involved in the distributor's pricing, store plans with specific requirements, monitors day-to-day operation of distributor stores based on its fully synchronised IT system across both its DTC/distributor stores.

**Geopolitical tensions between South Korea/US and mainland China.** After the Xinjiang cotton issue in March last year, some investors have turned cautious on apparel brands with strong perceptions of US-interests, highlighting concerns around any potential impact to brand popularity. We note that F&F's MLB brand image/designs are based on logos of the US professional baseball teams, but MLB's overall product designs are fairly remote from actual images/designs tied to either the sport itself or the US as a country and its customer demographic mix varies from that of MLB sports fans in China onshore. That said, we believe strong US-related perceptions are not as clearly evident, but acknowledge association risk.

*The prices in the body of this report are based on the close of September 2, 2022 unless otherwise noted.*

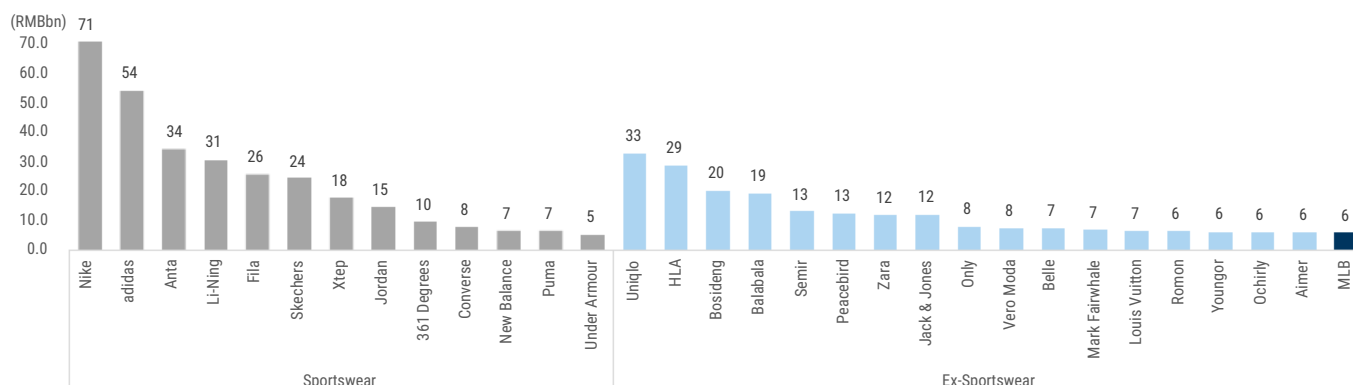
## MLB's branding differentiation and channel expansion set to place it among China's top tier ex-sportswear space

We view F&F as a branding specialist with its broadly applied big data strategy ("Digital Transformation" or DT) helping to win consumer mind shares in targeted segments/markets, whilst sustaining its retail discount rates at a healthy level of an annualised 10%, which we believe differentiates F&F from many China-play companies in the Korea consumer space regarding their next 5-year growth outlook.

We think F&F's flagship brand 'MLB', already a c.US\$1bn-sales fashion brand in China ([Exhibit 8](#)) in less than 2 years since entry ([Exhibit 9](#)), provides an industry leading example for non-western foreign brands for when, where and how to penetrate mainland China using digitally-gearred inventory/store management and innovative, long-lasting product ideas with strong hit rates using own-data mining technologies. We believe MLB's differentiated branding (i.e. a hybrid of street fashion and sports-originated brand identity), strong presence within China's younger communities and digitalization support from headquarters will help the brand preserve its 'premium' brand equity, whilst its recent entry into the China wholesale channel could leverage the brand's sales growth potential over the next five years.

We think the overall backdrop for apparel names in the China market is turning favourable on an easing COVID-affected base from 2H22. That said, F&F, with its MLB China onshore POS to double in the next five years, could enjoy above-industry top-line growth over time. In all, we forecast F&F's MLB brand to deliver 19% sales CAGR globally (and 30% CAGR in mainland China) over the next five years (vs. 39% CAGR in FY19-22E), after which we estimate the brand's global revenue at c.US\$2bn, with US\$1.5bn (or Rmb20bn in retail terms) from China onshore, which we think will likely place F&F's MLB among the top 10 ex-sportswear brands in China by 2026 ([Exhibit 10](#)).

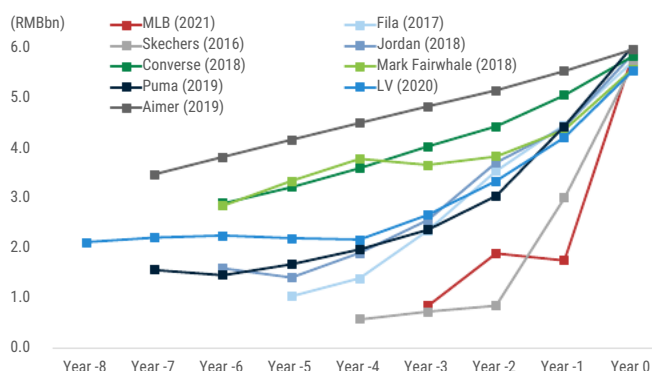
**Exhibit 8: China's top 30 A&F brand retail sales (2021)**



1) Respective brands' positioning classified by Euromonitor; 2) MLB sales include Korea DFS results

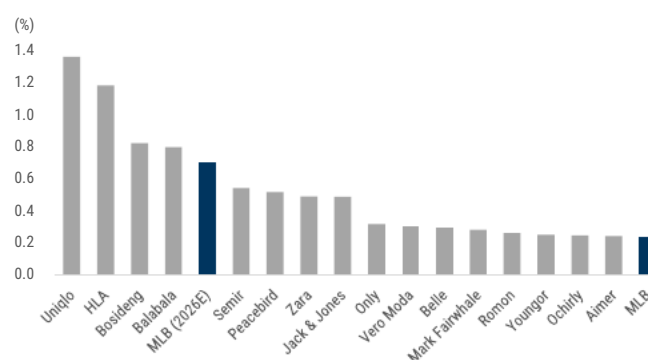
Source: Euromonitor, Company data, Goldman Sachs Global Investment Research



**Exhibit 9: China A&F brands - Number of years to reach c.Rmb6bn retail sales**

1) Years in brackets represent respective brands' year of reaching Rmb6bn in retail sales, 2) MLB sales include Korea DFS results

Source: Euromonitor, Company data, Goldman Sachs Global Investment Research

**Exhibit 10: China ex-sportswear market share by brand (2021)**

MLB sales include Korea DFS results

Source: Euromonitor, Company data, Goldman Sachs Global Investment Research

## About MLB by F&F

In our view, brand legacy is critical for an apparel brand to meaningfully grow their fan base, but can require many years of story telling and active brand management to reach a certain level. Selected Korean companies chose a shortcut to meet this goal by licensing-in globally renowned Western IPs and applying them to their apparel goods (Exhibit 11). F&F's *MLB* (launched in 1997) was the first and, in our view, the most successful licensing-in case in the Korea fashion industry.

**Exhibit 11: Examples of Korean fashion companies with marketing licenses with non-apparel brands globally**

Company name	F&F		The Nature Holdings		Hililght Brands		Hansae MK	Stone Global	Wiz Corporation	Baba Group
Licensed-in brands	MLB	Discovery Expedition	NFL	National Geography	Kodak	Polaroid	NBA	CNN	YALE	Billboard
Launch year	1997	2012	2019	2013	2020	2021	2011	2021	2020	2021
License coverage										
Korea	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
China	✓			Tentatively			✓			
Hong Kong	✓			✓			✓			
Macao	✓						✓			
Taiwan	✓			✓						
Southeast Asia	✓									
Other markets				NA, Europe						
Brand images										

Source: Company websites, Goldman Sachs Global Investment Research

We note that F&F not only distributes MLB goods, but is also an originator of MLB apparel products and directs MLB marketing/distribution expansion in licensed regions, including Korea, Greater China and Southeast Asia regions. Since its licensing-in contract in 1997, F&F has consistently renewed/extended its terms, and currently is entitled to own MLB's Asia (ex-Japan) marketing licenses until 2027, which differs from other MLB licensees globally, where licenses are usually valid for 1-2 years, per [Medium.com's](#) review of another 11 MLB licensees. According to the same review, other MLB licensees' average royalty rate paid (as % of product sales) ranges from 6.8% to 8.8% (with upfront payments, ranging from US\$10k to US\$100k embedded in some cases), whereas we assume F&F's royalty rate is around 5%, which together suggest F&F's has better bargaining terms with its IP holder, vs. other MLB licensees, potentially

attributable to F&F's superior brand management.

F&F's first overseas onshore expansion outside Korea was made in December 2017 (i.e. it opened an MLB flagship store in Hong Kong) after the company acquired MLB Asia (ex-mainland China) license in 2017. In 2019, F&F expanded MLB license coverage to China onshore, opened a MLB Tmall flagship store in June 2019 and its first China onshore offline retail store in December 2019. In August 2020, F&F started wholesale distribution in the country. As of end-2Q22, F&F's MLB products are available at 681 stores in mainland China.

#### Exhibit 12: History of MLB overseas expansion

**2015:**  
Brand appearances through sponsoring Korean/Chinese TV shows

**2016-17:** Sales at tourist-visited stores start to pick up post greater brand awareness amongst Chinese consumers

**2017-18:**  
Launches Korea DFS operation / sales quickly increases with growing daigou tractions

**Dec 2017:**  
Launches Hong Kong stores for brand testing outside Korea

**2019:**  
Launches China onshore stores (Tmall, DTC stores)

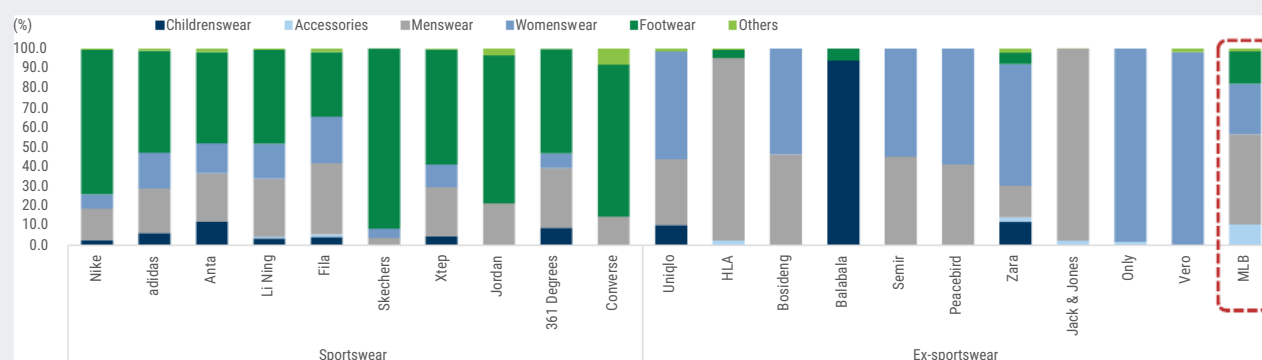
**2020~**  
Starts to deploy local distributors to expand China onshore presence

Source: Company, Goldman Sachs Global Investment Research

#### MLB's positioning in China onshore

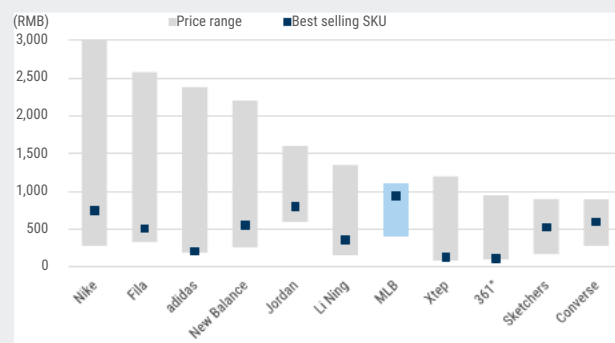
We believe MLB belongs in the ex-sportswear space given their product offering (i.e. more fashionable than functional), yet its positioning within the ex-sportswear space is unique in our view given MLB's relatively higher degree of category expansion and a larger footwear sales contribution (Exhibit 13), which looks more comparable with that of sportswear brands. In terms of segmentation, we think MLB is positioned in the premium space rather than the mass segment, as: (1) its best-selling shoes SKU is priced higher (Rmb939) than the majority of sportswear brands' (Exhibit 14), (2) MLB's jacket price range is also higher than that of most major ex-sportswear brands in China onshore (Exhibit 15).

#### Exhibit 13: China's top 20 A&F brands - Retail sales mix by category (2021)



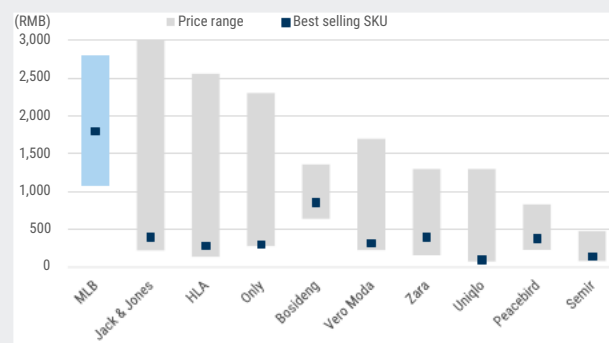
MLB sales captures China onshore sales only

Source: Euromonitor, Company data, Goldman Sachs Global Investment Research

**Exhibit 14: MLB vs. sportswear brands - Shoes price range by brand**

In the order of median of respective brand's price range

Source: Tmall.com

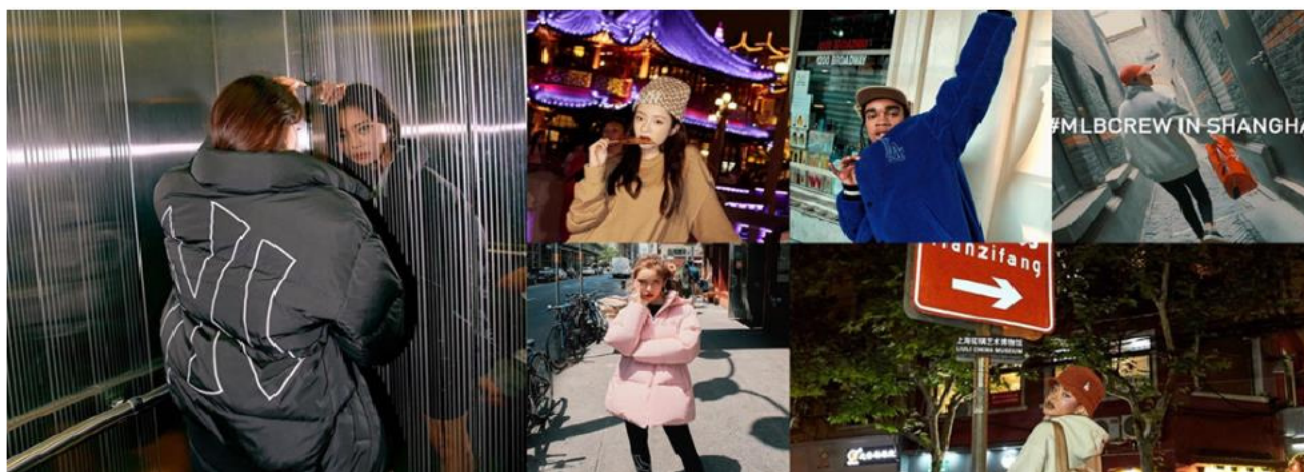
**Exhibit 15: MLB vs. ex-sportswear brands - Jacket price range in China onshore**

In the order of median of respective brand's price range

Source: Tmall.com

**Competitive moats for “MLB by F&F”****(1) Flexible with styles, loyal to identity; premium niche streetwear segment set to grow 12% CAGR into 2026E**

We think MLB's branding mix of stylish messages and sports-originated brand identity provides the brand with unique positioning in the China ex-sportswear space, also differentiates MLB from fast fashion brands that can lose their identities as they look to adapt to shifting market trends, which can then lead to an instant loss of traction with customers. Having started as a pure sportswear brand, MLB has consistently expanded its scope to embrace newer industry trends, which largely contains messages from street fashion, yet its iconic logos like “LA” and “NY” continue to preserve a sporty image within the brand (Exhibit 16).

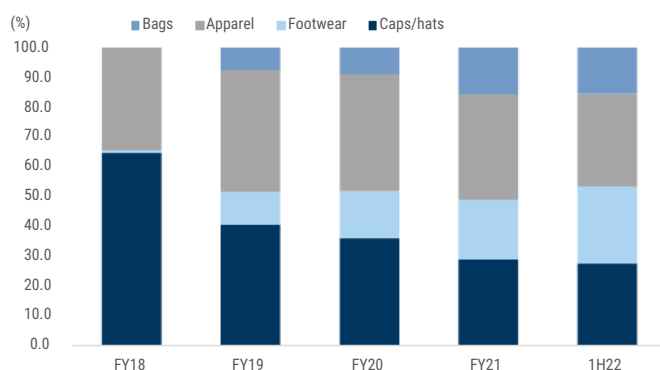
**Exhibit 16: F&F - MLB's brand.com**

Source: MLB-crew.com

Two good examples of this in our view are the Big Ball Chunky shoes and the

Monogram series (images available in [Exhibit 33](#)). MLB's extension into experimental fields such as streetwear has not only increased sales, but also strengthened its customer stickiness, as evident in its active category diversification since then ([Exhibit 17](#)). We think this particularly differentiates F&F's MLB from other MLB licensees globally such as New Era (although the latter only has a wholesale license), for which caps still remain the major category, whereas F&F's much diversified across categories (based on Tmall GMV; [Exhibit 18](#)).

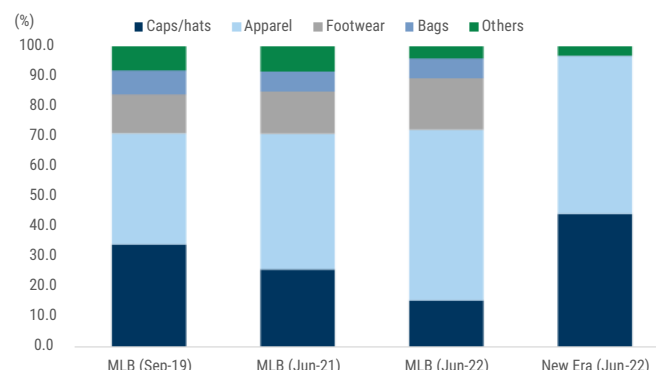
**Exhibit 17: MLB sales mix by category**



Based on 1) DFS, 2) pure domestic, 3) exports sales (largely reflecting China onshore sales)

Source: Company data

**Exhibit 18: MLB vs. New Era - Tmall GMV mix by category**



Source: Tmall.com, Moojing

We believe MLB's expanded reach to streetwear will continue to garner increasing mind share of young consumers (including Chinese Gen Zers) among whom a higher degree of comfort, self-expression, exclusivity and gender-neutrality are increasingly important (see our China consumer team's earlier deep dive into Chinese Gen Zers [here](#)). From a brand perspective, consumer perception of MLB's "sports-streetwear" image in our view should support the brand's long-term brand equity staying in the premium segment given: 1) generally high pricing point of streetwear items in respective categories, whilst; 2) MLB stands at the midpoint in the wider streetwear space, based on our pricing survey on Tmall ([Exhibit 26](#)).


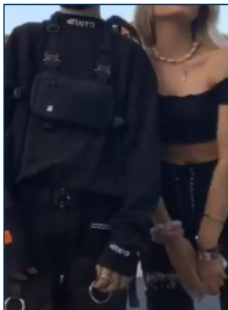


Separately, we believe the streetwear segment has potential to grow at 12% CAGR to 2026E in China onshore. We deploy a bottom-up approach to size China's streetwear consumption growth potential by: 1) modeling a theoretical 'active' streetwear buyer based on their known spending habits globally, 2) deriving their theoretical annual streetwear spending amount based on price range of streetwear items available in mainland China, 3) identifying consumer cohorts in China onshore that could afford the theoretical streetwear spending amount, 4) assuming different penetration rate of "active" streetwear buyers among affordable consumers by age group.

### About China's street fashion scenes

Streetwear nowadays represents one of the most fast-growing fashion streams in China. According to a study by Nielsen and Chinese e-commerce platform OFashion, China's nationwide streetwear consumption grew 4 times faster than that of non-streetwear in 2015-20. Many fashion experts assess

that a slew of famous Chinese TV shows such as The Rap of China, FOURTRY and Street Dance of China have pushed street fashion from the underground into the mass market since late-2010s (vs. first appearing globally in 1980-90s), whilst newer Chinese generations desire more niche brands which they believe could offer a comfortable style and simultaneously differentiate themselves from previous generations.

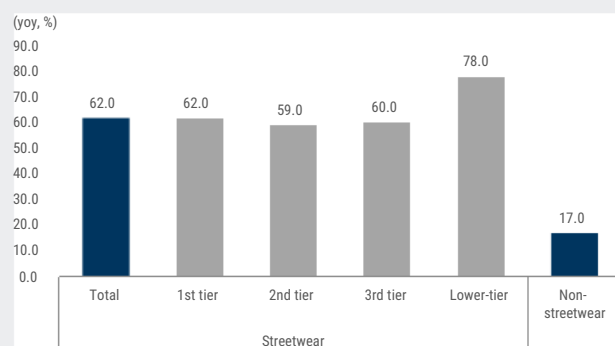
#### Exhibit 19: Examples of Chinese street fashion styles

	Lolita/Pastel Goth	E-Boy/E-Girl	Hip-Hop	Traditional Chinese
Origin	Goth style was developed in the UK during the 1980s, inspired by the Victorian era fashion and gothic genre of pop culture. Pastel goth is later rooted in Japan's Harajuku street fashion scene.	Internet clothing culture such as skater, K-Pop and anime culture	Bronx, New York in 1970s	Viral since 2019
Characteristics	Smoky makeup, dark fashion with touches of cute/colourful	Layered sweaters, jackets and skirts with chunky boots, baggy pants, metalwork accessories	Oversized clothes, bucket hats, chain accessories, denim dungarees, sportswear as casual wear and sneakers	Traditional Hanfu clothing
China transformation	Incorporating with some traditional elements like the qipao	Usually limited to be a persona in the Internet space	More accepted as a mainstream fashion style through popular TV shows including "Rap Of China" which collected 3bn views during its first season in 2017. Nowadays evolved to more wearable in everyday life.	Local designers draw inspiration from Imperial China's aesthetics or Taoism for their collections. Chinese local brands like Li Ning forged a strong authentic identity such as Jing Shen.
Examples				

Source: Chinosty (December 2020), Local Talk News (June 2021)

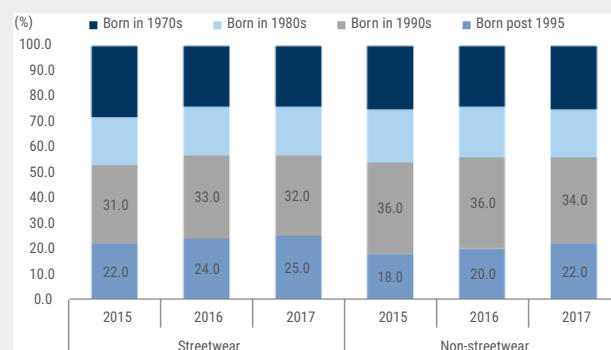
According to Nielsen/OFashion, the streetwear boom has been evenly witnessed across the country (Exhibit 20), and Millennials (born 1985-1995) and Gen Z (born after 1995) already accounted for c.60% of China's streetwear consumption in 2017 (Exhibit 21). Around 2020, many Chinese consumers even adopted traditional Chinese looks (e.g. Hanfu) into their streetwear style, and consumers' own exploration into the space helped streetwear quickly evolve from an emerging fashion phenomenon into the mainstream, making up c.US\$20bn worth of the US\$427bn A&F retail market today in China onshore (Exhibit 23).

#### Exhibit 20: China - Streetwear revenue growth by city tier (2017)

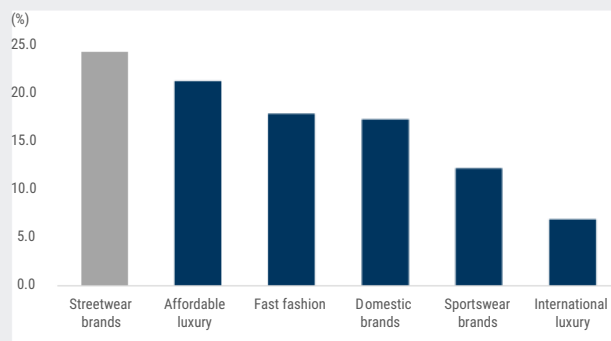


Source: Nielsen, OFashion

#### Exhibit 21: China - Consumer cohorts mix across streetwear vs. non-streetwear

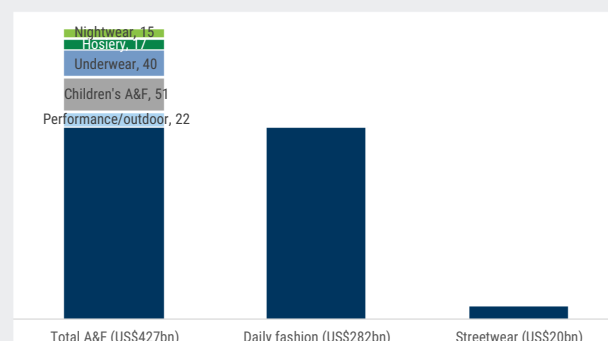


Source: Nielsen, OFashion

**Exhibit 22: Chinese Gen Z fashion preferences (2020)**

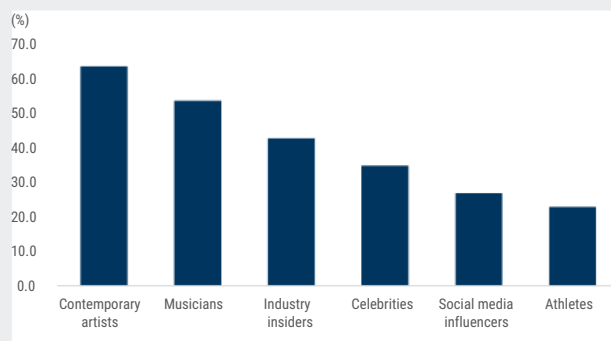
N=c.3,000 respondents

Source: Online survey of Hylink

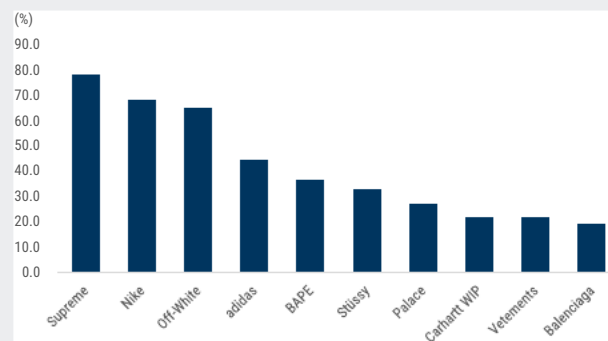
**Exhibit 23: GS estimate of China's streetwear retail market size vs. total A&F industry (2021)**

Source: Nielsen, OFashion, Hypebeast, Strategy&amp;, Euromonitor, Hylink, Goldman Sachs Global Investment Research

In our view, streetwear is not a singular fashion style (as it covers various counter-cultures such as graffiti, hip-hop, skate, surf), but a collection of different styles, in which consumers pursue a higher degree of comfort, self-expression, exclusivity and gender-neutrality, often inspired by artists, musicians and even athletes ([Exhibit 24](#)). Streetwear's boundless consumer approach has allowed many brands (other than original brands like Supreme, BAPE) also to become involved in the streetwear segment, which ranges from high-end luxury brands to mass sportswear brands like Nike and adidas ([Exhibit 25](#)).

**Exhibit 24: Most credible streetwear figures to Chinese consumers (2019)**

Source: Hypebeast, Daxue Consulting

**Exhibit 25: Survey on which brands represent streetwear most**

Source: Streetwear Impact Report 2019

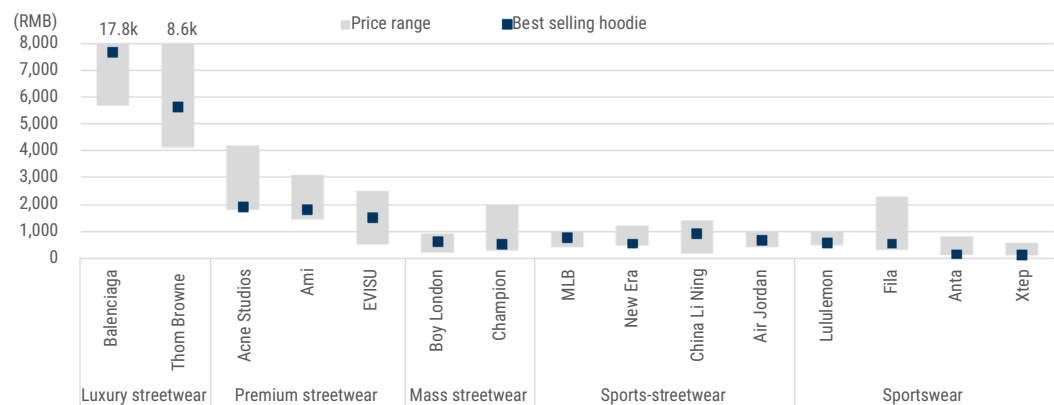
- Our theoretical 'active' streetwear buyers would purchase 2 headwear items, 5 outerwear items (mainly T-shirts, hoodies) and 2 pairs of footwear items a year (together c.10 times purchases a year), based on: 1) Chinese Gen Zers' average 9.8 times of streetwear purchase a year (as of 2020), 2) likely a similar purchase frequency in older generations given streetwear's season-less characteristics. Close to 60% of streetwear fans globally said they purchased >12 streetwear items a year per the 2019 Hypebeast survey.
- Given the price range of best-selling hoodies from major streetwear brands on Tmall selling for at least US\$100 (c.Rmb700), our theoretical 'active' streetwear consumer



spends US\$880 (c.Rmb6,000) on streetwear items annually and US\$70 on other clothing items. We note that the projected US\$950/year spending still looks conservative compared to Asian streetwear consumers' average monthly streetwear spending of US\$380/month (from the Hypebeast survey).

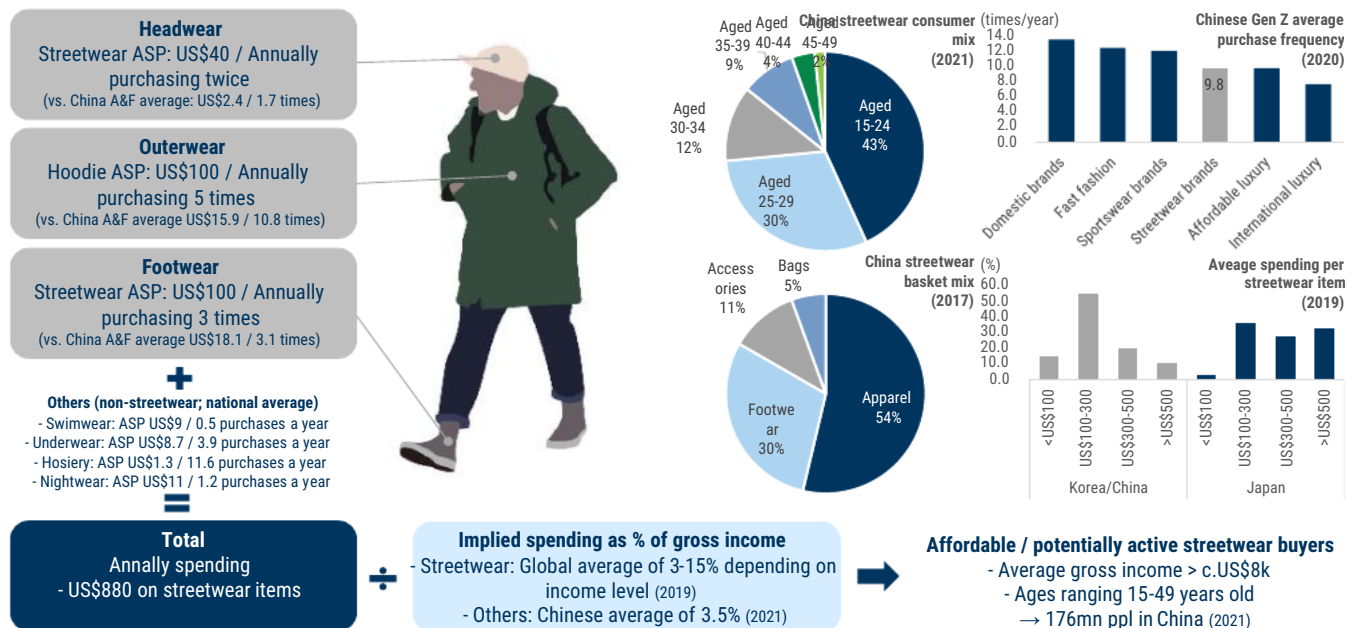
- Per the Hypebeast survey, 'active' streetwear consumers globally spend up to 15% of their annual income on streetwear items, whereas Chinese consumers together spent 3.5% of their gross income on clothing/footwear last year, per Euromonitor. After baking in different shopping behaviours across age groups, we assume a higher/lower consumption propensity for younger/older consumer cohorts, respectively, and this implies our modeled active streetwear buyer need to make annual income of >US\$7.5k if they were aged 15-24, or >US\$10k if older.

**Exhibit 26: Major streetwear brands - Best selling hoodie retail price on Tmall**



Source: Tmall.com

**Exhibit 27: We calculate an 'active' streetwear buyer is willing to spend c.US\$900 a year on streetwear items**



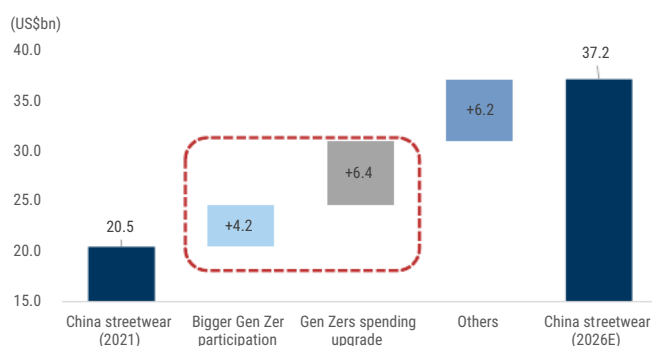
Source: Nielsen, OFashion, Hypebeast, Strategy&, Euromonitor, Hylink, Goldman Sachs Global Investment Research

- These income requirements are met by 176mn ppl in China total (among those aged

15-49), equivalent to 26% of China's population in that age range. We expect this number to reach 38% by 2026E as the number of those able to afford this level of streetwear expenditure grows at a 7% CAGR in 2021-26E, based on Euromonitor's population/income growth forecast by China's different age groups.

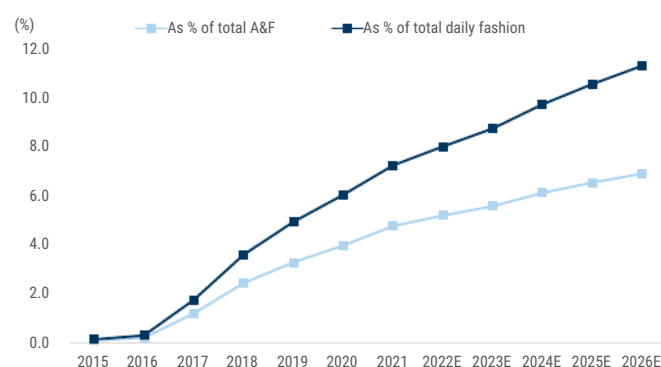
- We estimate the number of actual streetwear buyers at 24mn ppl in 2021 and expect it to reach 32mn ppl by 2026E, and for their aggregated streetwear spending amount to grow to US\$37bn (Rmb243bn) in 2026E, from US\$20bn (Rmb133bn) in 2021. As such, we expect streetwear will represent 7% of total A&F spending in China onshore by 2026E (vs. 5% in 2021). Gen Zers are the primary driving force of the streetwear buying population increase in China. We expect Gen Zers to contribute to 63% of incremental streetwear spending in 2021-26E.

**Exhibit 28: China streetwear retail sales waterfall (2021 vs. 2026E)**



Source: Nielsen, OFashion, Euromonitor, Goldman Sachs Global Investment Research

**Exhibit 29: Streetwear penetration within China's A&F industry**



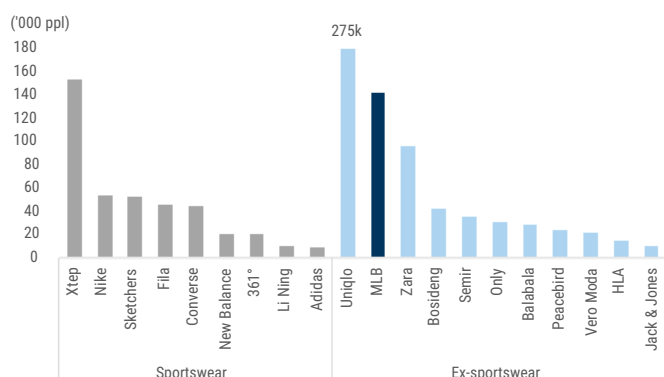
Source: Euromonitor, Goldman Sachs Global Investment Research

## (2) Consistent communication with online communities

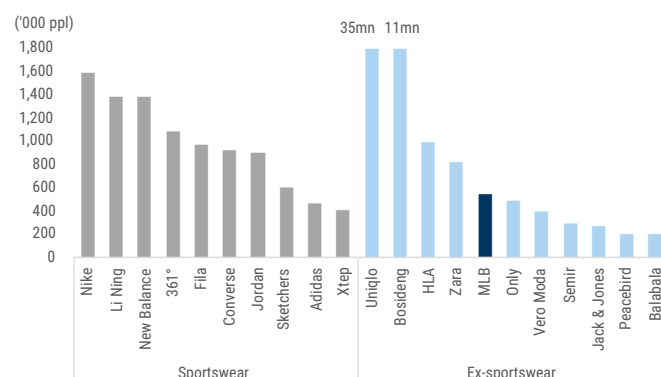
As partially rooted in the streetwear industry, we believe MLB understands the modern “democratic” value of the latest fashion trends (in as much as it allows them to signal their individual style, that differs from previous generations) such that consumers tend to be as powerful as brand insiders to determine what is cool within the space, whilst opinion sharing has become more accessible through social media platforms, especially in China onshore. That said, since the mid-2010s, MLB has started to deploy the brand-oriented online communities — namely MLB Crews — with various online-based content, which aims to encourage MLB brand awareness in targeted markets.

In our view, due to the brand's MLB Crew marketing and streetwear focus, we note that, as of August 31, 2022, MLB had 143k followers on Little Red Book ([Exhibit 30](#)), the second most among China's top 10 ex-sportswear brands, and 560k Weibo followers ([Exhibit 31](#)), positioning it in the median of the China ex-sportswear space only around two years after entry into China onshore. We believe MLB's meaningful presence on Gen-Z focused social media/e-commerce platforms illustrates the brand's prospective growth in mainland China given their role in online fashion communities of Chinese Gen Zer's ([Exhibit 32](#)).

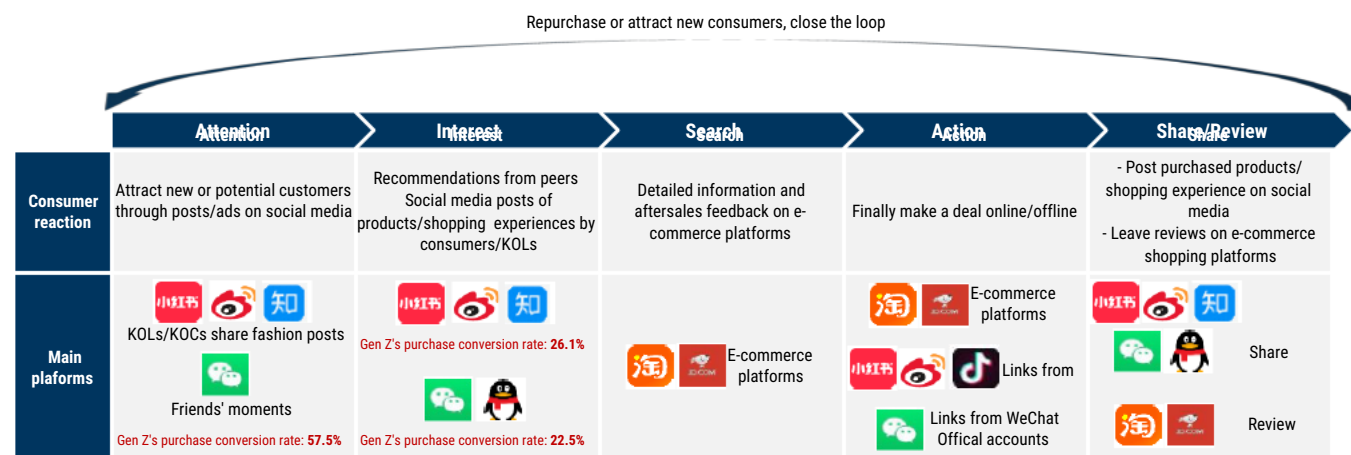


**Exhibit 30: Little Red Book - Number of followers by brand (as of August 31, 2022)**

Source: Little Red Book, compiled by Goldman Sachs Global Investment Research

**Exhibit 31: Weibo - Number of followers by brand (as of August 31, 2022)**

Source: Weibo, compiled by Goldman Sachs Global Investment Research

**Exhibit 32: AISAS model in the Chinese fashion industry**

Source: Daxue Consulting, Double V Consulting

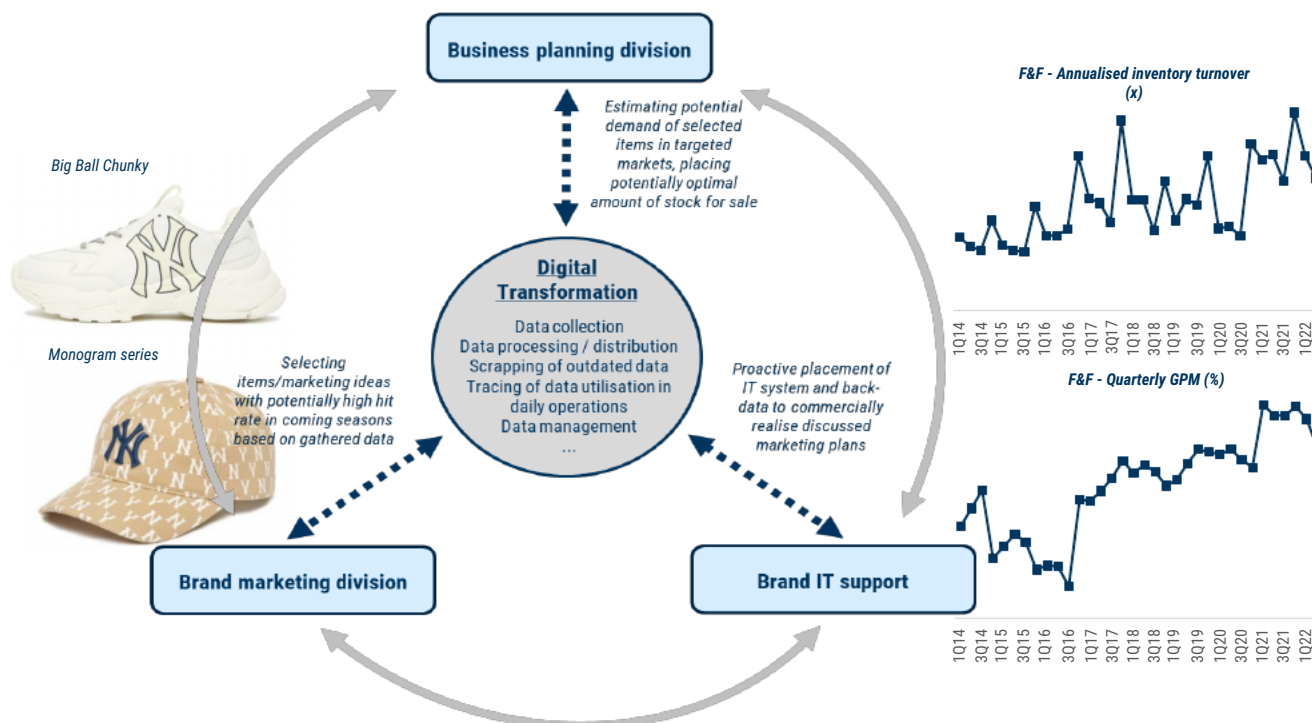
### (3) Brand digitalisation

In 2017, F&F initiated a digital-based work flow (Exhibit 33) into its business, which is now the backbone of the company's brand management globally. The Digital Transformation (DT) department is currently run by c.100 staff (or close to 20% of total headquarters-based staff members) and works closely with other key divisions such as marketing, planning and IT support to interactively share fashion big data (e.g. changes in consumer behaviour to weather, days, aging, leisure activities, online keywords) that has been gathered by the DT department, and to adopt DT messages to respective operations including new product ideas, stock management and viral marketing through effective influencers and digital content.

We believe F&F's digital execution led by its DT department can help continue to create a virtuous cycle within MLB's China operation, as seen in the past 10 years of MLB's Korea operations, with: 1) a strong product hit rate, 2) a healthy inventory level, 3) strict pricing policy — which together should help preserve MLB's brand value and long-term growth potential. We note that since the DT was adopted in F&F's business chain in 2017, its inventory turnover rate has steadily climbed and its GPM has picked up notably,

to c.70% since FY18, vs. c.60% previously. Note that MLB's inventory sell-in rate strictly remains at 80-85% in South Korea/China combined, demonstrating the company's effective inventory management, in our view.

**Exhibit 33: Concept of Digital Transformation collaboration with key divisions**

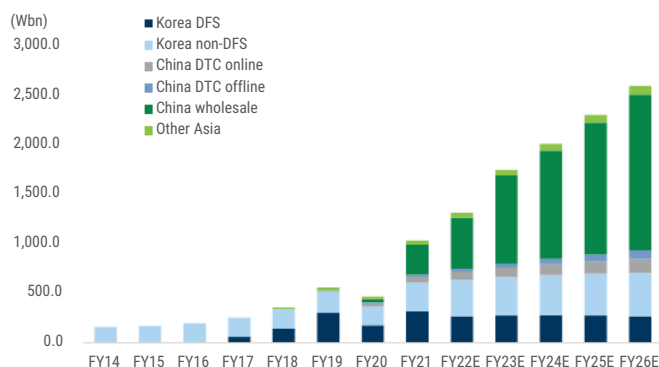


Source: Company data, compiled by Goldman Sachs Global Investment Research

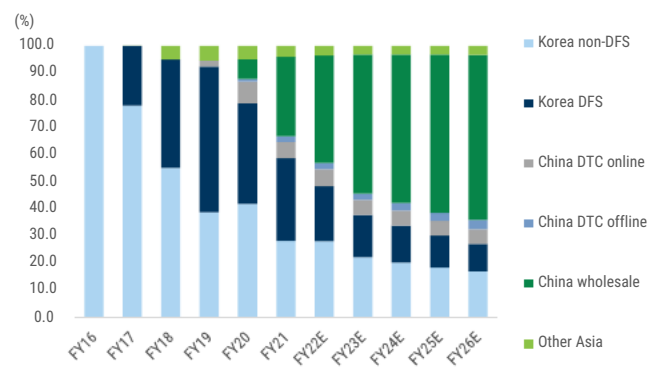
### MLB's next five years: China's second-phase expansion to support 19% sales CAGR globally

Since 2020, F&F has been partnering with >20 top-tier local distributors across China for MLB wholesale, including Zhonghe Group, which is the largest sportswear brand distributor (in terms of sales) in Jiangsu Province and among the leading sportswear agents in China. Zhonghe mainly sells top-tier sportswear brands, including Anta, Li Ning, Nike, Adidas, Under Armour, Converse and has c.1,500 stores in multiple provinces, including Jiangsu, Zhejiang, Shanghai, Anhui, Tianjin, Hubei, Hunan, Jiangxi, Fujian, and Guangdong.

Whilst we forecast MLB brand sales to reach W2.6tn (US\$2.2bn) by FY26E (Exhibit 34), implying FY22-26E CAGR of 19%, we expect China wholesale revenue to grow faster, at 32% CAGR, making up 61% of MLB global sales by FY26E, vs. 39% this year (Exhibit 35).

**Exhibit 34: MLB global sales forecast**

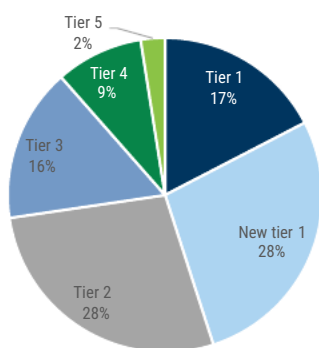
Source: Company data, Goldman Sachs Global Investment Research

**Exhibit 35: MLB global sales mix forecast**

Source: Company data, Goldman Sachs Global Investment Research

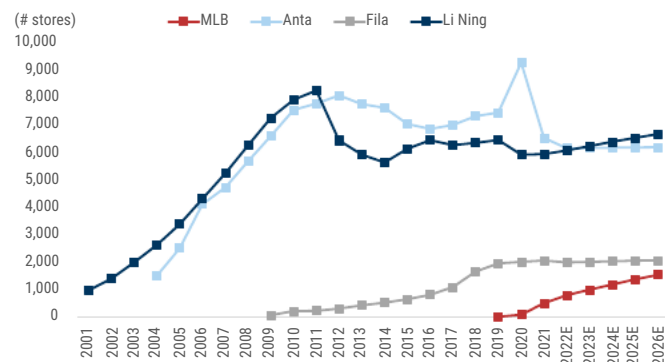
**(1) Store expansion.** As of end-2Q22, MLB offline coverage includes F&F's 25 DTC stores and 656 agency stores (including MLB Kids), together 681 offline stores, mostly located in top-tier cities ([Exhibit 36](#)). Looking forward, we believe consistent demand for brand is the single most important driver for long-term store expansion by local distributors. Based on our channel checks with local distributors, MLB's gross margin from the distributor perspective remains higher than for other competing brands given: 1) most MLB stores are mainly located in department stores, and; 2) distributors have advantages in selling MLB when bargaining with these department stores. Given we think MLB will retain its strong brand equity through our forecast period and given F&F's record of effective inventory control, we think MLB's sell-out (i.e. actual retail) demand remains strong and expect MLB's total China onshore POS to double to c.1,500 by FY26E, from c.760 in FY22E ([Exhibit 37](#)).

Our MLB POS assumptions for FY26E may seem aggressive in light of other major non-sportswear brands' c.500-800 store presence in China onshore in recent years. We argue that MLB's average store space (>25 pyeong) is smaller than the average of Uniqlo/Zara/Gap and is more comparable to Fila/Li Ning stores ([Exhibit 38](#)) although we are also cognizant of their different segmentation (i.e. sportswear brand) from MLB. Our end-FY26E MLB POS assumption of c.1,500 stores is still below Fila's 1,652 stores as of end-FY18, whilst MLB's current store count matches Fila's as of end-FY16.

**Exhibit 36: MLB China onshore store distribution by region**

As of July 2022

Source: MLB WeChat

**Exhibit 37: MLB/Anta/Fila/Li Ning - Mainland China POS forecasts**

Source: Company data, Goldman Sachs Global Investment Research

**Exhibit 38: MLB store next to China Li Ning store**

Source: Goldman Sachs Global Investment Research

**(2) Store productivity.** F&F management has strictly disciplined requirements regarding distributors' store plans/locations, often described as too demanding, per our channel checks with MLB distributors. Our industry checks also confirmed that MLB's wholesale discount is tighter than other apparel brands from the distributor perspective, which seems to us a reasonable basis (along with the brand's sustainable sell-out demand) to assume MLB's solid wholesale store productivity amidst continuing store expansion. That said, we expect MLB's wholesale revenue will fall 21% yoy in FY22E due to 2Q22 lockdown and partially lingering inventory issues in 2H22E, but for this to recover by +35% yoy in FY23E and then post single-digit growth in FY24-26E — whilst the slowdown is not necessarily due to softening momentum, but to marginally increasing sales contribution from MLB Kids (i.e. lower ASP), going forward. Separately, we note that F&F's MLB China has restored double-digit SSSG since June after negative growth in April-May this year.

Put together, we expect MLB's mainland China sales to reach W1.8tn by FY26E, and coupled with Korea DFS sales of W262bn, we estimate the brand's total Chinese-driven sales at W2.1tn (US\$1.7bn). In retail terms (i.e. using online GMV instead of net sales

and adjusting for wholesales discount), our forecasts imply overall MLB sales of W3.8tn (or c.Rmb20bn/c.US\$3bn) from these channels, translating into 0.7% ex-sportswear market share in China onshore in FY26E, putting MLB among China's top 10 ex-sportswear brands by 2026E (vs. 18th last year), based on past 10-years of market share data within the space (Exhibit 10).

**Exhibit 39: MLB Korea DFS/China onshore sales forecasts**

(Wbn)	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E	FY26E
<b>Korea DFS</b>								
# of POS	28	19	15	15	15	15	15	15
Sales per store (Wmn)	10,801	7,274	18,353	17,597	17,987	18,223	17,969	17,469
<b>Net sales (Wbn)</b>	<b>297.0</b>	<b>170.9</b>	<b>312.0</b>	<b>264.0</b>	<b>269.8</b>	<b>273.3</b>	<b>269.5</b>	<b>262.0</b>
yoy growth (%)								
# of POS		(9)	(4)	0	0	0	0	0
Sales per store (Wmn)		(32.7)	152.3	(4.1)	2.2	1.3	(1.4)	(2.8)
<b>Net sales (Wbn)</b>		(42.4)	82.5	(15.4)	2.2	1.3	(1.4)	(2.8)
<b>China DTC online</b>								
GMV (RMBmn)	119.1	313.0	533.6	647.1	750.7	860.5	968.4	1,090.0
Volume ('000 units)	216.7	593.1	947.9	1,052.1	1,164.2	1,282.3	1,410.5	1,551.5
ASP (RMB)	549.4	527.7	562.9	615.0	644.8	671.1	686.6	702.5
GMV (Wbn)	20.0	53.3	96.0	124.7	144.7	165.8	186.6	210.1
<b>Net sales (Wbn)</b>	<b>11.9</b>	<b>37.1</b>	<b>62.0</b>	<b>82.6</b>	<b>95.8</b>	<b>109.9</b>	<b>123.6</b>	<b>139.2</b>
yoy growth (%)								
<b>GMV (RMBmn)</b>		162.9	70.5	21.3	16.0	14.6	12.5	12.6
Volume ('000 units)		173.7	59.8	11.0	10.7	10.1	10.0	10.0
ASP (RMB)		(4.0)	6.7	9.3	4.8	4.1	2.3	2.3
GMV (Wbn)		167.1	80.1	29.9	16.0	14.6	12.5	12.6
<b>Net sales (Wbn)</b>		<b>212.1</b>	<b>67.2</b>	<b>33.2</b>	<b>16.0</b>	<b>14.6</b>	<b>12.5</b>	<b>12.6</b>
<b>China DTC retail</b>								
# of POS	2	4	22	29	35	41	47	53
Sales per store (Wmn)	n.a.	1,277	1,512	1,139	1,298	1,454	1,599	1,759
<b>Net sales (Wbn)</b>	<b>0.0</b>	<b>4.2</b>	<b>21.9</b>	<b>29.6</b>	<b>41.5</b>	<b>55.3</b>	<b>70.4</b>	<b>88.0</b>
yoy growth (%)								
# of POS		2	18	7	6	6	6	6
Sales per store (Wmn)		n.a.	18.4	(24.7)	14.0	12.0	10.0	10.0
<b>Net sales (Wbn)</b>		n.a.	428.2	35.1	40.3	33.0	27.4	25.0
<b>China wholesale</b>								
# of POS		71	472	756	956	1,136	1,316	1,476
Sales per store (Wmn)		666	988	771	1,043	1,048	1,091	1,128
<b>Net sales (Wbn)</b>	<b>0.0</b>	<b>33.3</b>	<b>300.0</b>	<b>516.1</b>	<b>893.0</b>	<b>1,095.8</b>	<b>1,337.6</b>	<b>1,575.2</b>
in retail term	0.0	69.4	625.0	1,075.3	1,860.4	2,282.9	2,786.7	3,281.8
yoy growth (%)								
# of POS		71	401	284	200	180	180	160
Sales per store (Wmn)		n.a.	48.3	(21.9)	35.3	0.4	4.1	3.4
<b>Net sales (Wbn)</b>		n.a.	800.9	72.0	73.0	22.7	22.1	17.8
<b>Mainland China total (Wbn)</b>	<b>11.9</b>	<b>74.5</b>	<b>383.9</b>	<b>628.3</b>	<b>1,030.4</b>	<b>1,260.9</b>	<b>1,531.6</b>	<b>1,802.4</b>
in retail terms	20.0	126.8	742.9	1,229.6	2,046.6	2,504.0	3,043.7	3,579.8
<b>Chinese-driven sales (Wbn)</b>	<b>308.9</b>	<b>245.5</b>	<b>695.9</b>	<b>892.3</b>	<b>1,300.2</b>	<b>1,534.3</b>	<b>1,801.1</b>	<b>2,064.4</b>
in retail terms	317.0	297.8	1,054.9	1,493.5	2,316.4	2,777.4	3,313.2	3,841.8
yoy growth (%)								
<b>Mainland China total (Wbn)</b>		527.3	415.1	63.7	64.0	22.4	21.5	17.7
<b>Chinese-driven sales (Wbn)</b>		(20.5)	183.5	28.2	45.7	18.0	17.4	14.6

Source: Moojing, Company data, Goldman Sachs Global Investment Research

## Increasing China revenue mix to drive 20% OP CAGR into FY26E

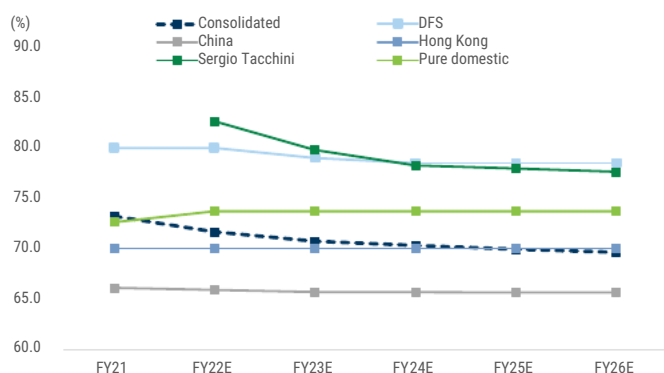
### **MLB's strong sell-out demand to lock in 65% GPM in China through expansion phase**

The MLB brand currently has a “no discount” policy, allowing price promotions only during major online events such as 618/Single's Day. MLB's brand discount rate to regular retail prices is generally capped at 10% on average a year. Yet, we note that MLB's seasonal sold-out ratio does not differ much from some top-performing sportswear brands in China onshore, per our channel check. We see this sell-out demand, coupled with MLB's strong bargaining power against distributors sustaining a mid-60% GPM for F&F in China into coming years. Our China GPM forecasts are lower than F&F's other channels/regions given China's larger wholesale revenue mix. On a consolidated perspective, increasing China sales mix should translate into a FY26E GPM forecast of 70%, from 73%/72% in FY21/22E ([Exhibit 40](#)).

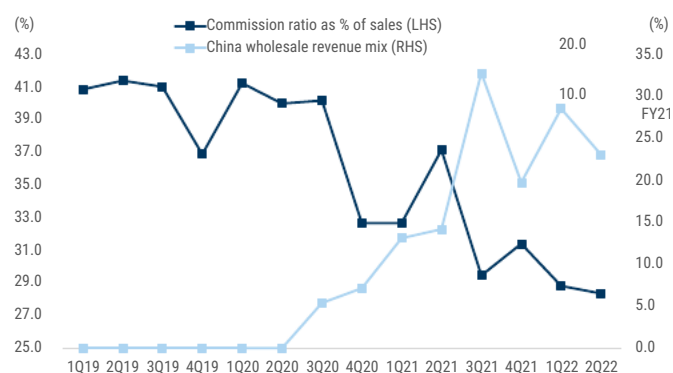
### **Commission ratio to moderate on increasing China wholesale revenue mix**

Commissions alone accounted for 32% of the F&F's consolidated sales in FY21, including F&F's MLB/Discovery royalty expense and various retail commissions (e.g. department stores, DFS, Tmall). However, with wholesale mix in China exceeding 20-30% of consolidated sales (from 3Q21), F&F's commission ratio has moderated to >30%, from c.40% previously ([Exhibit 41](#)). That said, with increasing China wholesale revenue mix, we project F&F's consolidated OPM to expand to 35% by FY26E, from 29%/30% in FY21/22E ([Exhibit 43](#)), after commission ratio (as % of sales) falling to 22% in FY26E, from 29% in FY22E ([Exhibit 42](#)), which is more than enough to make up the GPM deceleration.

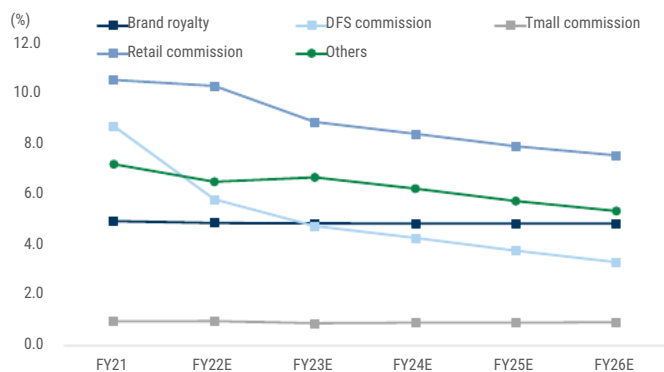
Separately, we assume 16% DFS OPM in FY26E, vs. 20% in FY22E, consistent with our assumptions for South Korea cosmetics brands (Amorepacific, LGHH), as we expect: 1) overall DFS channel sales growth (in KRW terms) to slow down to +3%/-3%/-2% yoy in 2024E/25E/26E (owing to contraction of daigou segment within the market; see our latest view [here](#)), after a +25% yoy recovery in 2023E (largely on low base and KRW depreciation), and; 2) F&F's Korea DFS sales deceleration by -14%/+4%/+1%/-1%/-3% yoy in FY22E/23E/24E/25E/26E. We note that our less bullish DFS earnings assumptions have limited impact to our F&F earnings outlook given mid-teen DFS sales mix in FY22E, vs. c.20-30% in FY19-21.

**Exhibit 40: F&F - GPM forecast by division**

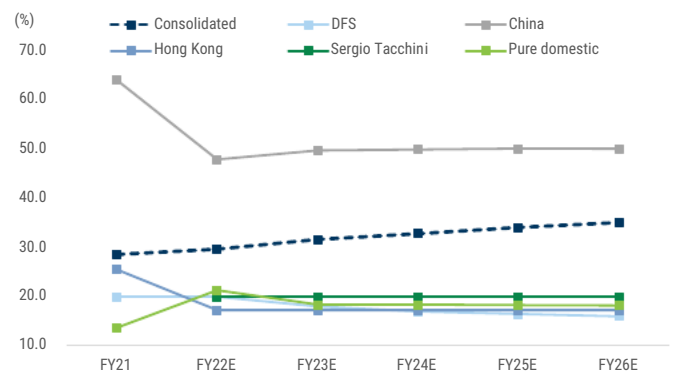
Source: Company data, Goldman Sachs Global Investment Research

**Exhibit 41: F&F - Commission ratio vs. China wholesale revenue mix**

Source: Company data

**Exhibit 42: F&F - Commission expense (under SG&A) ratio by major account**

Source: Company data, Goldman Sachs Global Investment Research

**Exhibit 43: F&F - Consolidated OPM forecast**

Source: Company data, Goldman Sachs Global Investment Research



## Exhibit 44: F&amp;F - Core earnings forecast by division

(Wbn)	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E	FY26E
<b>Sales</b>																
<b>Consolidated</b>	<b>218</b>	<b>201</b>	<b>222</b>	<b>301</b>	<b>370</b>	<b>439</b>	<b>561</b>	<b>669</b>	<b>910</b>	<b>838</b>	<b>1,482</b>	<b>1,910</b>	<b>2,419</b>	<b>2,721</b>	<b>3,043</b>	<b>3,365</b>
DFS	0	0	0	0	0	0	53	141	301	176	323	278	288	292	287	279
China	0	0	0	0	0	0	0	0	12	75	384	628	1,030	1,261	1,532	1,802
Hong Kong	0	0	0	0	0	0	0	18	30	23	42	48	56	65	76	87
Sergio Tacchini	0	0	0	0	0	0	0	0	0	0	13	35	46	54	64	64
Duvetica	0	0	0	0	0	0	0	14	11	8	0	0	0	0	0	0
Pure domestic	218	200	222	301	370	439	507	496	557	557	748	933	1,004	1,051	1,088	1,126
Others	0	0	0	0	0	0	0	(0)	(1)	(2)	(15)	9	6	6	6	6
<b>(% of sales)</b>																
DFS	0%	0%	0%	0%	0%	0%	10%	21%	33%	21%	22%	15%	12%	11%	9%	8%
China	0%	0%	0%	0%	0%	0%	0%	0%	1%	9%	26%	33%	43%	46%	50%	54%
Hong Kong	0%	0%	0%	0%	0%	0%	0%	3%	3%	3%	3%	3%	2%	2%	2%	3%
Sergio Tacchini	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	1%	1%	2%	2%	2%	2%
Duvetica	0%	0%	0%	0%	0%	0%	0%	2%	1%	1%	0%	0%	0%	0%	0%	0%
Pure domestic	100%	100%	100%	100%	100%	100%	90%	74%	61%	67%	50%	49%	42%	39%	36%	33%
Others	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	-1%	0%	0%	0%	0%	0%
<b>Gross profit</b>																
<b>Consolidated</b>	<b>133</b>	<b>114</b>	<b>132</b>	<b>182</b>	<b>212</b>	<b>256</b>	<b>368</b>	<b>441</b>	<b>617</b>	<b>567</b>	<b>1,085</b>	<b>1,368</b>	<b>1,711</b>	<b>1,913</b>	<b>2,128</b>	<b>2,343</b>
DFS	0	0	0	0	0	0	43	113	241	141	259	222	227	229	226	219
China	0	0	0	0	0	0	0	0	8	51	254	414	677	828	1,005	1,183
Hong Kong	0	0	0	0	0	0	0	13	21	16	30	34	39	46	53	61
Sergio Tacchini	0	0	0	0	0	0	0	0	0	0	11	28	36	42	50	50
Duvetica	0	0	0	0	0	0	0	7	6	4	0	0	0	0	0	0
Pure domestic	133	114	132	182	212	256	326	308	340	355	543	688	740	775	802	830
<b>GPM (%)</b>																
<b>Consolidated</b>	<b>61%</b>	<b>57%</b>	<b>59%</b>	<b>60%</b>	<b>57%</b>	<b>58%</b>	<b>66%</b>	<b>66%</b>	<b>68%</b>	<b>68%</b>	<b>73%</b>	<b>72%</b>	<b>71%</b>	<b>70%</b>	<b>70%</b>	<b>70%</b>
DFS	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	80%	80%	80%	80%	80%	80%	79%	79%	79%	79%
China	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	70%	68%	66%	66%	66%	66%	66%	66%
Hong Kong	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	70%	70%	70%	70%	70%	70%	70%	70%
Sergio Tacchini	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	83%	80%	78%	78%	78%
Duvetica	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	51%	51%	51%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pure domestic	61%	57%	59%	60%	57%	58%	64%	62%	61%	64%	73%	74%	74%	74%	74%	74%
<b>SG&amp;A</b>																
<b>Consolidated</b>	<b>(112)</b>	<b>(107)</b>	<b>(125)</b>	<b>(170)</b>	<b>(194)</b>	<b>(210)</b>	<b>(270)</b>	<b>(349)</b>	<b>(466)</b>	<b>(444)</b>	<b>(661)</b>	<b>(801)</b>	<b>(944)</b>	<b>(1,019)</b>	<b>(1,089)</b>	<b>(1,161)</b>
Salaries/wages	(9)	(9)	(8)	(9)	(9)	(12)	(14)	(21)	(25)	(35)	(42)	(54)	(60)	(66)	(73)	(80)
Rent	(2)	(2)	(2)	(5)	(9)	(9)	(15)	(27)	(15)	(12)	(23)	(28)	(35)	(40)	(45)	(49)
Commission	(89)	(79)	(89)	(126)	(149)	(164)	(213)	(264)	(360)	(312)	(481)	(545)	(631)	(673)	(707)	(741)
D&A	(5)	(4)	(4)	(5)	(6)	(6)	(7)	(9)	(29)	(35)	(39)	(49)	(62)	(70)	(79)	(87)
Advertising	(3)	(8)	(15)	(17)	(16)	(13)	(15)	(18)	(21)	(30)	(52)	(72)	(92)	(103)	(115)	(127)
Others	(5)	(5)	(5)	(6)	(5)	(6)	(7)	(10)	(16)	(20)	(25)	(54)	(64)	(67)	(71)	(76)
<b>(% of sales)</b>																
<b>Consolidated</b>	<b>-52%</b>	<b>-53%</b>	<b>-56%</b>	<b>-56%</b>	<b>-52%</b>	<b>-48%</b>	<b>-48%</b>	<b>-52%</b>	<b>-51%</b>	<b>-53%</b>	<b>-45%</b>	<b>-42%</b>	<b>-39%</b>	<b>-37%</b>	<b>-36%</b>	<b>-34%</b>
Salaries/wages	-4%	-4%	-4%	-3%	-2%	-3%	-2%	-3%	-3%	-4%	-3%	-3%	-2%	-2%	-2%	-2%
Rent	-1%	-1%	-1%	-2%	-2%	-2%	-3%	-4%	-2%	-1%	-2%	-1%	-1%	-1%	-1%	-1%
Commission	-41%	-39%	-40%	-42%	-40%	-37%	-38%	-40%	-40%	-37%	-32%	-29%	-26%	-25%	-23%	-22%
D&A	-2%	-2%	-2%	-2%	-2%	-1%	-1%	-1%	-3%	-4%	-3%	-3%	-3%	-3%	-3%	-3%
Advertising	-1%	-4%	-7%	-6%	-4%	-3%	-3%	-3%	-2%	-4%	-4%	-4%	-4%	-4%	-4%	-4%
Others	-2%	-2%	-2%	-2%	-1%	-1%	-1%	-1%	-2%	-2%	-2%	-3%	-3%	-2%	-2%	-2%
<b>Operating profit</b>																
<b>Consolidated</b>	<b>20</b>	<b>7</b>	<b>7</b>	<b>12</b>	<b>19</b>	<b>46</b>	<b>98</b>	<b>92</b>	<b>151</b>	<b>123</b>	<b>424</b>	<b>567</b>	<b>767</b>	<b>894</b>	<b>1,039</b>	<b>1,182</b>
DFS	0	0	0	0	0	0	13	35	69	35	65	56	52	50	47	45
China	0	0	0	0	0	(0)	(0)	(0)	8	41	247	302	513	631	769	905
Hong Kong	0	0	0	0	0	0	0	4	7	(2)	11	8	10	11	13	15
Sergio Tacchini	0	0	0	0	0	0	0	0	0	0	3	7	9	11	13	13
Duvetica	0	0	0	0	0	0	0	(0)	(4)	(7)	0	0	0	0	0	0
Pure domestic	20	7	7	12	19	46	85	53	72	55	102	199	185	193	199	205
<b>OPM (%)</b>																
<b>Consolidated</b>	<b>9%</b>	<b>3%</b>	<b>3%</b>	<b>4%</b>	<b>5%</b>	<b>10%</b>	<b>18%</b>	<b>14%</b>	<b>17%</b>	<b>15%</b>	<b>29%</b>	<b>30%</b>	<b>32%</b>	<b>33%</b>	<b>34%</b>	<b>35%</b>
DFS	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	25%	25%	23%	20%	20%	20%	18%	17%	17%	16%
China	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	64%	55%	64%	48%	50%	50%	50%	50%
Hong Kong	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	22%	22%	-8%	26%	17%	17%	17%	17%	17%
Sergio Tacchini	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	20%	20%	20%	20%	20%
Duvetica	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-3%	-40%	-80%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pure domestic	9%	3%	3%	4%	5%	10%	17%	11%	13%	10%	14%	21%	18%	18%	18%	18%

Source: Company data, Goldman Sachs Global Investment Research



# A long-awaited China growth story within the Korea Consumer space; Initiate at Buy with W200,000 TP

## Earnings forecasts

After factoring in: 1) growing MLB market share in China onshore, 2) increasing wholesale mix to support 50% China OPM, we forecast F&F's consolidated sales/OP/NP to grow at 19%/26%/26% CAGRs in FY22E-24E. Our detailed channel sales/margin forecasts are presented in [Exhibit 39](#) (MLB Korea/China sales metrics by division/channel) and [Exhibit 44](#) (margin assumptions by division/channel). From 3Q22, we start to filter in earnings contribution from Sergio Tacchini, which was newly consolidated in July 2022 (adding W13bn/W3bn of sales/OP into 2H22E). We separately note that the company is set to book its first coupon receipt from its earlier investment in TaylorMade SPC's mezzanine tranche (face value of W200bn) in 3Q22E (GSe of W11bn).

Our estimates imply F&F's China onshore sales mix reaches 54% by FY26E, which makes F&F the most exposed to China onshore within our South Korea Consumer coverage space — our FY26E China onshore sales mix projections include: Cosmax at 46%, Amorepacific at 21% and LGHH at 14%.

**Exhibit 45: F&F - Quarterly earnings forecast**

(Wbn)	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22E	4Q22E	FY21	FY22E	FY23E	FY24E
<b>Consolidated sales</b>	<b>166</b>	<b>167</b>	<b>160</b>	<b>345</b>	<b>278</b>	<b>312</b>	<b>329</b>	<b>563</b>	<b>437</b>	<b>371</b>	<b>405</b>	<b>696</b>	<b>1,482</b>	<b>1,910</b>	<b>2,419</b>	<b>2,721</b>
DFS	38	40	45	53	71	99	72	81	73	61	64	80	323	278	288	292
China	6	9	16	43	50	61	124	150	151	107	168	203	384	628	1,030	1,261
Hong Kong	5	4	5	9	10	10	9	14	10	12	11	15	42	48	56	65
Sergio Tacchini											7	6		13	35	46
Pure domestic	116	113	90	238	157	147	126	319	203	186	154	390	748	933	1,004	1,051
Others	1	1	4	1	(9)	(3)	(2)	(1)	0	5	2	2	(15)	9	6	6
<b>yoy (%)</b>	<b>2.0</b>	<b>(17.2)</b>	<b>(26.3)</b>	<b>4.7</b>	<b>67.3</b>	<b>87.3</b>	<b>106.0</b>	<b>63.1</b>	<b>57.4</b>	<b>18.9</b>	<b>23.2</b>	<b>23.6</b>	<b>76.9</b>	<b>28.8</b>	<b>26.7</b>	<b>12.5</b>
DFS	(15.7)	(52.0)	(50.7)	(34.8)	85.8	147.0	61.1	52.2	3.0	(38.1)	(11.0)	(2.2)	83.3	(14.1)	3.6	1.3
China	n.a.	2,501.9	400.3	421.8	684.6	598.4	657.2	247.7	204.7	77.2	35.8	34.7	415.1	63.7	64.0	22.4
Hong Kong	(32.8)	(50.0)	(38.2)	30.8	124.4	118.9	87.2	43.2	2.4	23.0	19.4	13.9	82.5	14.3	15.8	16.6
Sergio Tacchini											n.a.	n.a.		n.a.	169.8	30.1
Pure domestic	5.6	6.1	(18.0)	3.4	35.2	29.7	39.6	33.8	29.6	26.7	22.2	22.3	34.2	24.7	7.7	4.7
<b>Consolidated GP</b>	<b>113</b>	<b>115</b>	<b>108</b>	<b>231</b>	<b>205</b>	<b>227</b>	<b>239</b>	<b>415</b>	<b>316</b>	<b>256</b>	<b>289</b>	<b>508</b>	<b>1,085</b>	<b>1,368</b>	<b>1,711</b>	<b>1,913</b>
GPM (%)	68.3	68.8	67.7	66.8	73.8	72.6	72.6	73.6	72.2	69.0	71.2	72.9	73.2	71.7	70.7	70.3
<b>Consolidated OP</b>	<b>17</b>	<b>20</b>	<b>13</b>	<b>72</b>	<b>69</b>	<b>75</b>	<b>96</b>	<b>184</b>	<b>135</b>	<b>95</b>	<b>120</b>	<b>217</b>	<b>424</b>	<b>567</b>	<b>767</b>	<b>894</b>
OPM (%)	10.4	12.3	7.9	20.9	24.9	24.1	29.1	32.6	30.8	25.6	29.7	31.2	28.6	29.7	31.7	32.9
<b>Consolidated NP</b>	<b>14</b>	<b>14</b>	<b>9</b>	<b>49</b>	<b>55</b>	<b>32</b>	<b>71</b>	<b>129</b>	<b>96</b>	<b>70</b>	<b>93</b>	<b>155</b>	<b>232</b>	<b>413</b>	<b>557</b>	<b>654</b>
NPM (%)	8.4	8.5	5.3	14.3	19.8	10.2	21.6	22.9	22.1	18.7	22.9	22.2	15.6	21.6	23.0	24.0

FY21 financial includes F&F's January-April operation results amidst F&F's spin-off from the group in May 2021.

Source: Company data, Goldman Sachs Global Investment Research

## Where we are versus consensus

We forecast FY22E/FY23E/FY24E consolidated sales at W1.9tn/W2.4tn/W2.7tn, respectively, sitting 1%/3%/2% above Bloomberg consensus forecasts, for which we attribute to our modestly more aggressive MLB market share gains outlook in China onshore. We believe our DFS sales forecasts are likely more conservative than the Street estimates given our less bullish outlook for overall daigou momentum across the channel.

Our FY22E/FY23E/FY24E consolidated OP forecasts are for W567bn/W767bn/W894bn. Our FY22E OP forecast is 1% below consensus presumably due to our assumption of

modestly lingering lockdown inventory issues in China onshore in 2H22E, but our FY23E/FY24E estimates are 7%/10% above consensus post our faster sales growth forecast from China onshore business, where we assign a c.50% OPM (due to falling commission burdens on increasing wholesale mix within), vs. <20% OPM for other businesses. Consequently, our FY22E/FY23E/FY24E consolidated NP forecasts of W413bn/W557bn/W654bn are -2%/+5%/+7% from consensus.

For 2H22E, our consolidated sales/OP forecasts of W1.1tn/W337bn are in-line with Bloomberg consensus forecast of W1.1tn/W342bn.

#### Exhibit 46: GSe vs. Bloomberg consensus - F&F earnings estimates

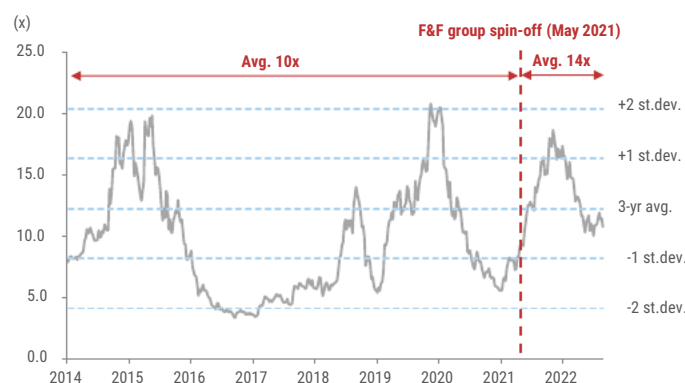
(Wbn)	GSe			Bloomberg			GSe vs. BBG (% pp)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Sales	1,910	2,419	2,721	1,899	2,348	2,665	0.6%	3.0%	2.1%
yoy (%)	75.3%	26.7%	12.5%	74.4%	23.6%	13.5%	1.0pp	3.0pp	-1.0pp
OP	567	767	894	572	717	814	-1.0%	7.0%	9.8%
OPM (%)	29.7%	31.7%	32.9%	30.1%	30.5%	30.6%	-0.5pp	1.2pp	2.3pp
NP	413	557	654	424	532	611	-2.4%	4.5%	6.9%
NPM (%)	21.6%	23.0%	24.0%	22.3%	22.7%	22.9%	-0.7pp	0.3pp	1.1pp

Source: Bloomberg, Company data, Goldman Sachs Global Investment Research

#### Valuation

We derive our 12m TP of W200,000 by applying a target P/E of 14x (F&F's P/E average since its relisting in May 2021 post the group spin-off; [Exhibit 47](#)) to our FY23E EPS estimates. F&F's 1-yr fwd P/E since its relisting in May 2021 ranged from 10x to 19x ([Exhibit 47](#)), as positive sentiment over MLB's growing China market share outlook has quickly switched to increasing market concerns around COVID impact since early this year. In light of: 1) still lingering COVID concerns, 2) lack of visibility on potential direction of COVID policy by the government, vs. 3) our forecast of MLB's multi-year market share gains in China, we believe 14x, F&F's average P/E since relisting in May 2021, best reflects NTM backdrops.

#### Exhibit 47: F&F - 1-yr fwd P/E trend



Source: Bloomberg, Company data, Goldman Sachs Global Investment Research

F&F currently trades at an 11x 1-yr fwd P/E with a 26% FY22E-24E EPS CAGR, vs. global peers (excluding average-extreme outliers like Gap) at 16x and 9% respectively, suggesting a good entry point to accumulate F&F shares. If we were to assume normalised market conditions such as minimal COVID concerns, we believe there would

be room for F&F's longer-term valuation, recalling LGHH's 2015-18 case, when their OPM increased by 2-3pp and History of Whoo's (i.e. LGHH's prestige skincare brand) China beauty market share moved up to 2.7%, from 1.8%, which is similar to what we project for MLB's China ex-sportswear market share trend in FY22E-24E. In this time, LGHH's P/E advanced to 28x, from 26x. If assuming a similar re-rating trend amid better visibility of COVID/macro situations, we think MLB's market share gains can be better appreciated by the market with a theoretical fair P/E at c.15x P/E (midpoint of its post relisting range) around 2023-24E.

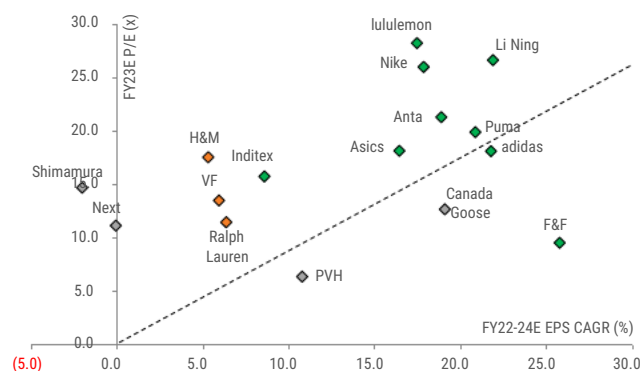
#### Exhibit 48: Global peer comparison

		GS	Price (LC	Mkt Cap	EV/EBITDA (x)	EBITDA	EBITDA	PER (x)	EPS	EPS	PBR (x)	ROE (%)			
Company	BBG ticker	Rating	2-Sep	(USDmn)	FY22E	FY23E	FY22-24E	FY22E	FY22E	FY23E	FY22-24E	FY22E			
F&F	383220 KS	Buy	139,000	3,891	8.6	6.0	24.3	0.4	12.8	9.5	25.8	0.5	6.1	4.1	58.6
Fila Holdings	081660 KS	NC	30,400	1,355	4.8	4.4	6.8	0.7	7.2	6.2	12.0	0.6	1.0	0.9	14.9
Shinsegae International	031430 KS	NC	27,800	728	6.2	6.0	4.3	1.4	9.0	8.3	9.0	1.0	1.2	0.8	14.4
Handsome	020000 KS	NC	27,500	497	1.7	1.7	2.9	0.6	5.3	5.1	7.0	0.8	0.5	0.5	10.1
Domestic peer average					4.2	4.0	4.7	0.9	7.2	6.5	9.3	0.8	0.9	0.7	13.1
Nike Inc.	NKE US	Buy	106.49	167,260	21.8	19.0	15.4	1.4	29.4	26.0	17.8	1.6	10.6	9.6	38.9
VF Corp.	VFC US	Sell	41.41	15,824	12.2	11.7	4.4	2.8	14.0	13.5	5.9	2.4	4.2	4.0	29.6
lululemon athletica inc.	LULU US	Buy	294.45	40,059	20.0	16.9	16.9	1.2	32.5	28.2	17.5	1.9	11.9	10.2	41.0
Under Armour Inc.	UAA US	CS	8.32	3,765	n.a.	6.4	n.a.	n.a.	n.a.	16.0	n.a.	n.a.	n.a.	1.9	n.a.
Columbia Sportswear Co.	COLM US	CS	71.72	4,453	7.5	7.1	5.2	1.4	13.9	12.3	12.9	1.1	2.3	2.0	16.3
Canada Goose Holdings	GOOS US	Neutral	17.86	1,868	10.6	8.9	12.7	0.8	15.5	12.7	19.1	0.8	4.4	3.4	29.9
adidas	ADS GY	Buy	145.16	30,652	9.3	7.8	17.3	0.5	21.5	18.1	21.8	1.0	4.8	4.8	19.2
Puma	PUM GY	Buy	59.22	9,186	7.7	6.7	14.0	0.5	22.8	19.9	20.9	1.1	3.4	2.9	16.5
Anta Sports Products	2020 HK	Buy	90.25	31,283	13.7	11.6	15.8	0.9	25.1	21.3	18.9	1.3	6.4	5.6	27.5
Li Ning	2331 HK	Buy*	67.70	21,231	20.2	15.7	23.3	0.9	32.4	26.6	21.9	1.5	6.3	5.3	20.4
Goldwin	8111 JP	NC	7,870	2,662	19.5	15.6	18.6	1.0	31.0	20.8	27.6	1.1	6.1	4.8	20.7
Asics Corp	7936 JP	Buy*	2,438	3,184	9.4	7.2	15.9	0.6	23.0	18.1	16.4	1.4	3.6	3.1	14.4
Global peer (Sportswear/outdoor brands)					13.8	11.2	14.5	1.1	23.7	19.5	18.2	1.4	5.8	4.8	24.9
Ralph Lauren Corp.	RL US	Sell	90.05	6,101	7.1	7.0	0.9	7.8	11.8	11.5	6.4	1.9	2.6	2.6	21.4
Gap Inc.	GPS US	Neutral	9.24	3,421	13.1	8.4	33.7	0.4	170.2	11.9	347.0	0.5	1.4	1.3	0.1
PVH Corp.	PVH US	Neutral	55.87	3,655	5.6	5.3	3.1	1.8	6.7	6.4	10.8	0.6	0.7	0.6	10.3
Victoria's Secret	VSCO US	NC	33.55	2,787	3.0	4.4	(13.4)	(0.2)	4.7	7.2	(12.8)	(0.4)	2.8	6.6	74.7
American Eagle Outfitters	AEO US	CS	11.20	1,897	2.7	4.3	(15.7)	(0.2)	5.2	10.1	(23.1)	(0.2)	1.7	1.5	36.7
Urban Outfitters Inc.	URBN US	CS	20.36	1,877	2.7	4.1	(13.6)	(0.2)	6.3	11.0	(17.2)	(0.4)	1.1	1.1	19.1
Inditex	ITX SM	Buy	21.25	67,792	7.0	6.5	5.3	1.3	17.2	15.7	8.6	2.0	3.9	3.7	24.0
Hennes & Mauritz	HMB SS	Sell	110.14	17,460	4.4	4.2	3.9	1.1	17.4	17.5	5.3	3.3	3.0	2.8	17.7
Next	NXT LN	Neutral	5,762	8,759	7.8	7.7	3.4	2.3	10.6	11.1	(0.1)	(178.4)	5.9	5.5	63.0
Ted baker	TED LN	NC	109.00	232	11.0	8.3	30.2	0.4	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
OVS	OVS IM	NC	1,499	435	10.7	9.9	22.8	0.5	8.2	6.9	16.9	0.5	0.5	0.5	3.5
Fast Retailing	9983 JP	Buy	81,310	59,063	15.9	13.9	n.a.	n.a.	34.2	35.8	n.a.	n.a.	6.0	5.3	19.0
Shimamura	8227 JP	Neutral	12,370	3,246	4.0	3.9	(1.4)	(2.8)	14.0	14.7	(2.0)	(6.9)	1.1	1.0	7.8
Global peer (Casual/fashion apparel brands)					6.8	6.6	2.3	1.1	12.4	13.4	(0.7)	(17.8)	2.7	2.8	27.0
Total peer average					9.5	8.4	8.0	1.1	16.8	15.4	9.2	(6.7)	3.8	3.5	24.4

\*denotes membership on our regional Conviction List. CS = Coverage Suspended, NC = Not Covered.

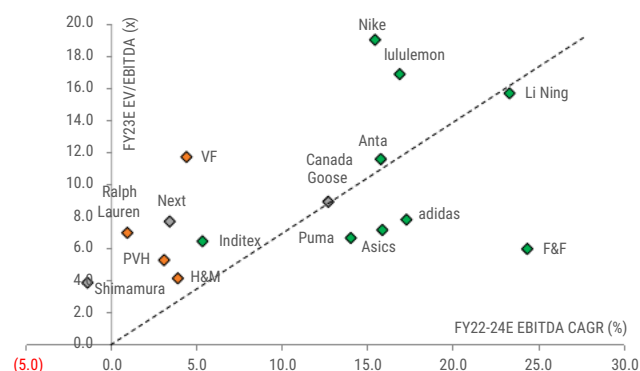
Source: Bloomberg, Company data, Goldman Sachs Global Investment Research

#### Exhibit 49: GS covered apparel stocks - FY22E-24E EPS CAGR vs. FY23E P/E



Source: Bloomberg, Company data, Goldman Sachs Global Investment Research

#### Exhibit 50: GS covered apparel stocks - FY22E-24E EBITDA CAGR vs. FY23E EV/EBITDA



Source: Bloomberg, Company data, Goldman Sachs Global Investment Research

### M&A framework — rank of 3: An unlikely target due to its ownership structure

We examine the probability of F&F being an acquisition target by applying our regional M&A framework, which takes into consideration both quantitative and qualitative factors to evaluate the potential that a certain company could be acquired at a premium to the current stock price.

We assign an M&A score as a means of ranking companies under coverage from 1 to 3, with 1 representing high (30-50%) probability of M&A activity, 2 representing medium (15-30%) probability and 3 representing low (0-15%) probability. For companies ranked 1 or 2, in line with our standard departmental guidelines we incorporate an M&A component into our target price. An M&A rank of 3 is considered immaterial and therefore does not factor into our target price, and may or may not be discussed in research.

We believe M&A is most likely among companies that have the ability (Can, i.e., where market size, ownership structure and regulation are not prohibitive), are attractive assets (Should, i.e., offer strong growth potential and opportunities for cost improvement at reasonable valuations), and are willing (Would, i.e., management is open to M&A).

Based on our analysis below, we believe F&F is an unlikely target given its blocking share held by controlling shareholders, limited cost synergies (given F&F mostly depends on OEMs partners) as well as a lack of guidance from management on being acquired. We accordingly assign an M&A rank of 3 and do not incorporate an M&A component into our 12-month TP for F&F.

#### Exhibit 51: F&F - M&A rank of 3

Company name / Bloomberg ticker  
F&F / 383220 KS

Can			Should			Would		
Criteria	Value	Score	Criteria	Value	Score	Criteria	Value	Score
[A] Market cap (US\$mn)	3,891	2	[A] EBITDA growth (CY22-24E, %)	24.3	1	[A] Strategic appeal	n.a.	2
[B] Ownership	40.5	3	(vs. peer average)	12.3		[B] Management stance	n.a.	3
[C] Regulatory risk	n.a.	3	[B] Industry positioning	n.a.	2			
			[C] Cost synergies	n.a.	3			
			[D] Valuation (CY23E EV/EBITDA,x)	6.0	1			
			(vs. peer average)	8.4				
Overall		3	Overall		2	Overall M&A rank		3

Source: Bloomberg, Company data, DART, Goldman Sachs Global Investment Research

### Downside risks to our view

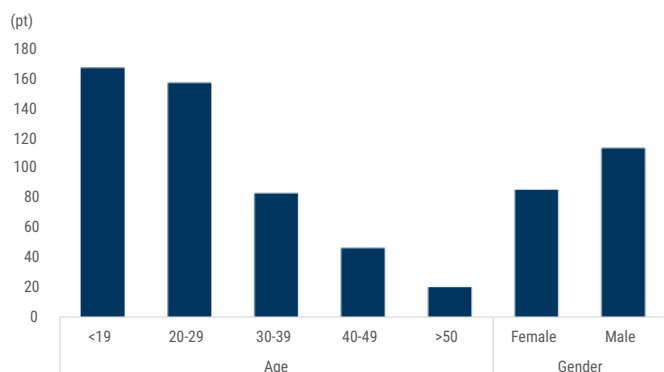
Given the company's increasing revenue mix from its China operation, we believe F&F's earnings are more prone to **softer apparel/footwear consumption in mainland China** (on weaker macro/consumer sentiment) and **unexpected COVID lockdowns in China onshore** (as seen in F&F's top-line growth deceleration to +19% yoy in 2Q22, vs. quarterly average growth of c.40% in FY20-21). We share a few more downside risks to our Buy thesis and TP on F&F below.

**Slower than expected MLB momentum in mainland China.** We expect MLB's contribution to F&F's consolidated sales to grow to 77% by FY26E, from 68% in FY22E, largely driven by growing China mix within MLB sales to 70% by FY26E, from 48% in FY22E. That said, slower-than-expected MLB momentum in China onshore could pose a

major downside risk to our view, which would be partially triggered by: 1) potentially falling MLB product popularity, 2) too many stores around. We, however, note that our forecast for a 30% FY22E-26E CAGR for MLB's China sales is partially supported by F&F's strong execution of digital-based brand management that has helped the company timely conjugate the latest fashion trends with MLB's streetwear/baseball identities which has led to the company's two biggest sales line-ups recently, Big Ball Chunky shoes and the Monogram line-up. Further, our MLB China store projection for c.1,500 stores by FY26E does not look to us, over-scaled to dilute MLB's premium image. For context, Fila's (with similar store formats/locations) sales per store growth has remained in the double-digits since its store count exceeded the 1,600 level in FY18, which suggests to us that strong branding power should not be diluted by store numbers.

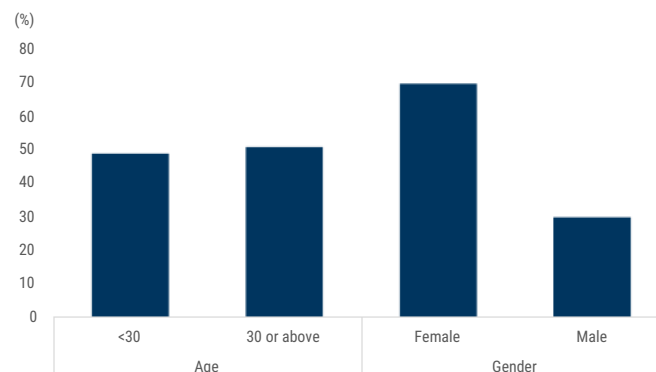
**Lack of control over wholesale stores.** We believe some investors are concerned with MLB's increasing exposure to local distributors in China given some Korean brands, including Hansae MK (069640.KS, Not Covered), one of NBA's apparel license partners in China onshore, having historically lost momentum, presumably due to looser control over local distributors. F&F already has >20 years of experience working with local agencies in the competitive Korean market, but we would further argue that F&F has selectively chosen its wholesale partners in China onshore based on the candidate's capital strength and existing offline coverage. Once selected, F&F remains strictly involved in the distributor's pricing, store plans (e.g. location, space, interior, floor plan) with specific requirements (e.g. minimum store space >c.80 square meters) and monitors day-to-day operations of the distributor stores (e.g. sales, inventory) based on its fully synchronised POS system that covers both its DTC/distributor stores. F&F now plans to also connect the CRM system across the stores and is cooperating with Tmall Innovation Center (TMIC), a big data analysis platform, to understand customers' demands.

**Geopolitical tensions between South Korea/US and mainland China.** After the Xinjiang cotton issue in March last year, some investors have turned cautious on apparel brands with strong perceptions of US-interests, highlighting concerns around any potential geopolitical conflicts between China and the US. Given F&F's MLB brand image/designs are based on logos of the US professional baseball teams, we believe any negative sentiment around US-related products (such as seen in Nike's softer Greater China sales growth of +9% yoy in 4QFY21, vs. +42% in the previous quarter) could pose a downside risk to our MLB earnings projections. We, however, note that Nike's June sales in 2021 sequentially improved to the prior year level after being down single digits in May, implying a recovery of Chinese consumer sentiment. We further note that MLB's overall product designs are fairly remote from actual images/designs tied to either the sport itself or the US as a country and its customer demographic mix varies from that of MLB sports fans in China onshore: 1) 51% of MLB customers are above 30, vs. MLB sports fans (based on the Baidu search amount on "MLB") relatively skewed to below 30, and; 2) 70% of MLB customers are females, vs. MLB sports fans largely of males (Exhibit 52, Exhibit 53). This together suggests to us, that should there be any deterioration in the MLB sports image (as a sports community), this would have limited impact to the MLB customer community in China onshore, in our view.

**Exhibit 52: Baidu search TGI - User profile of those searching for "MLB" for the past one year**

1) TGI=Target Group Index, 2) If TGI>100, the group has the search feature, 3) as of July 2022.

Source: Baidu

**Exhibit 53: F&F - MLB China onshore customer mix by age/gender**

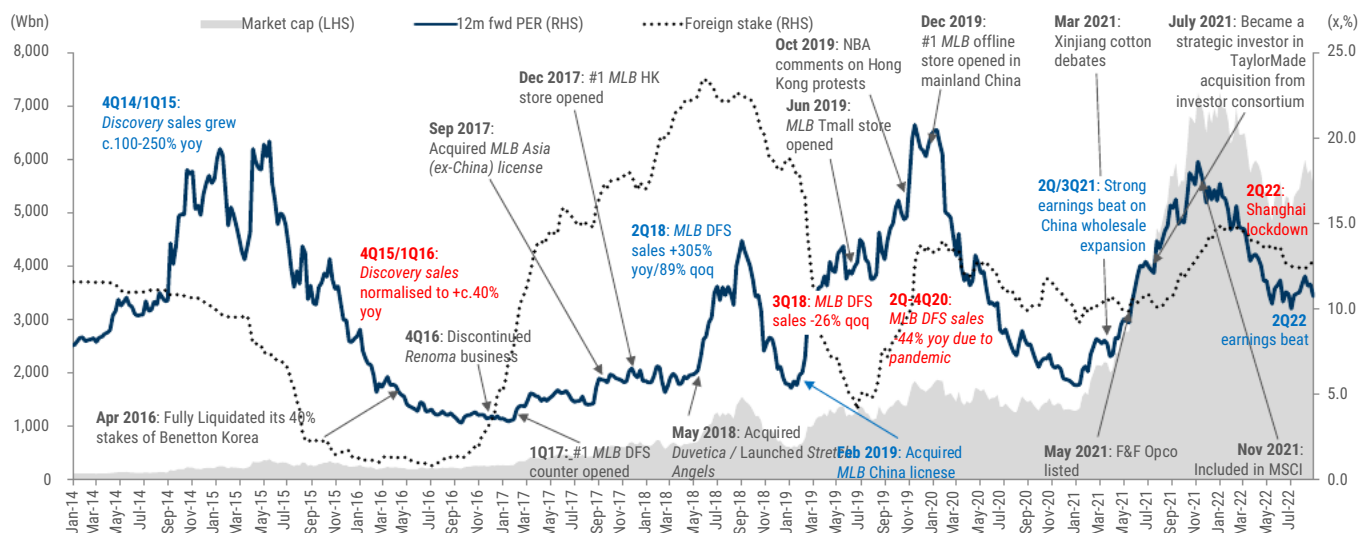
Source: QQ.com (June 13, 2021)

### Company profile

Established in 1992, F&F is a South Korea-based fashion brand company with licenses to distribute *MLB*-logod fashion items in South Korea, China and other Asian regions and *Discovery*-logo wearing items in South Korea, both of which F&F's distribution licenses are to remain valid until 2027. F&F also runs its own brand such as a lifestyle brand *Stretch Angels* and a premium streetwear fashion brand *SUPRA* and has a domestic marketing license for a premium outdoor brand *Duvetica*, which is 95% owned by F&F group's holding company, F&F Holdings (007700.KS, Not covered).

F&F's largest shareholder is F&F Holdings, which owns 30.54% of F&F, followed by Mr. Chang Soo Kim, the group chairman, at 23%. Mr. Kim has been heading the company since F&F was founded in 1992. F&F's China onshore operation is led by Mr. Xuming Zhang, who has >20 years of experience in consumer companies such as Unilever, L'Oreal, adidas and New Balance and was the CEO of Avon China prior to joining F&F.

## Exhibit 54: F&amp;F - Market cap history



Market cap prior to the group spin-off in May 2021 refers to F&F Holdings (007700.KS).

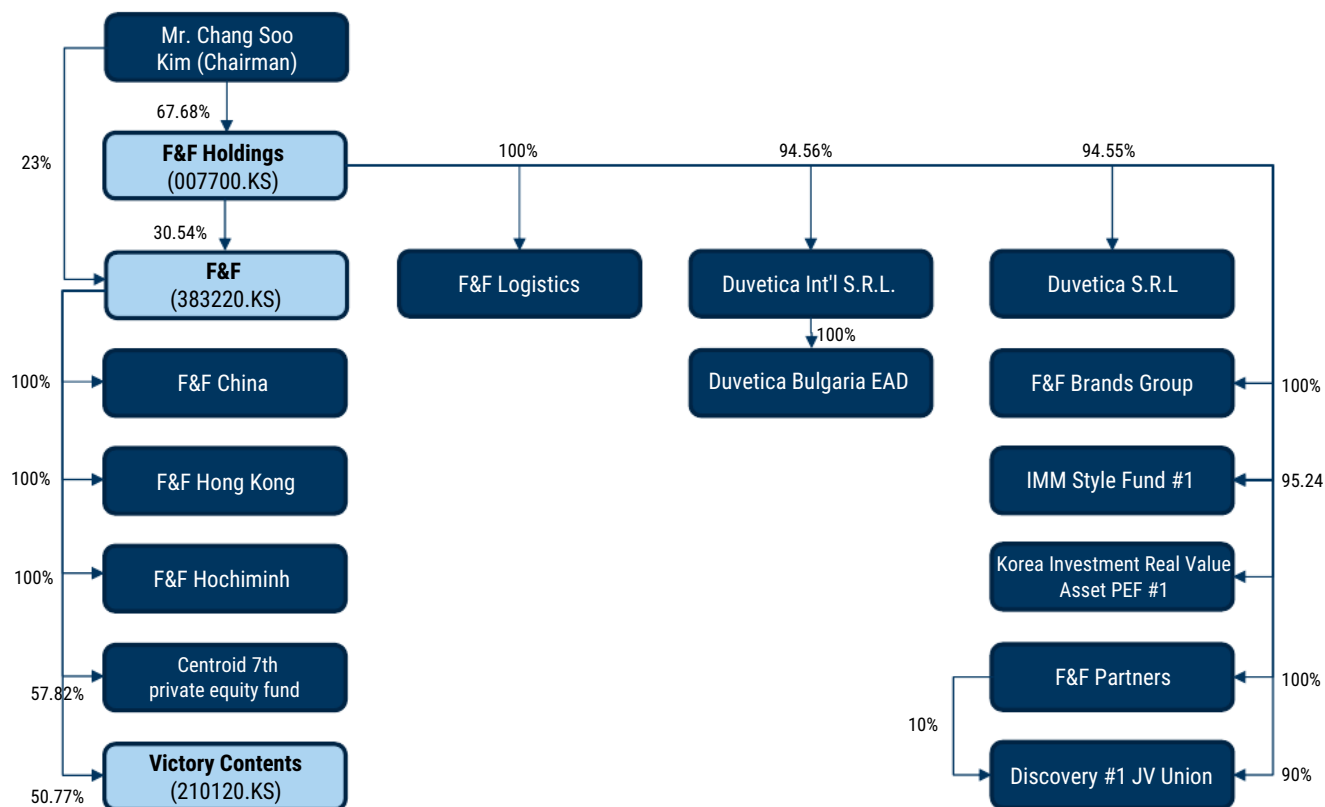
Source: Bloomberg, Goldman Sachs Global Investment Research

## Exhibit 55: F&amp;F - Company milestone

	Date	Description
F&F Holdings	Aug 1992	F&F established
	Feb 1996	Incepted Renoma Sports Club brand business
	Jun 1997	Incepted MLB brand business
	Feb 2002	Opened Collected mall in Jukjeon
	Jul 2005	F&F Shanghai established
	Apr 2008	Launched F&F HQ in Yeoksam
	Feb 2010	Incepted MLB Kids brand business
	Aug 2012	Incepted Discovery Expedition brand business
	Mar 2014	Launched Icheon Logistics Centre
	Mar 2016	F&F Logistics established
	Apr 2016	Discontinued Renoma Sports brand business
	Sep 2017	F&F Hong Kong established
	Nov 2017	Acquired MLB Asia marketing license
	Apr 2018	F&F Italy established
	May 2018	Acquired Duvetica brand; Duvetica Bulgaria and Duvetica HR included into Duvetica's subsidiaries; Launched Stretch Angels brand
	Jun 2018	F&F Italy's company name changed to Duvetica Int'l; Duvetica S.R.L included into F&F's subsidiaries
	Aug 2018	F&F NA established
	Feb 2019	Acquired MLB China marketing license
	Jun 2019	MLB Tmall launched (under F&F Shanghai)
	Dec 2019	Opened two MLB offline store in Shanghai
F&F	Aug 2020	Initiated MLB wholesale distribution in China onshore
	May 2021	F&F Opco (383220.KS) spun off from the remaining F&F Holdings (007700.KS)
	Jul 2021	Became a strategic investor in TaylorMade acquisition (with W500bn investment) by Centroid-led investor consortium
	Sep 2021	Invested another W58bn into the TaylorMade deal
	Mar 2022	Acquired 50.77% stakes of Victory Contents (210120.KS)
	Jul 2022	Acquired 100% stakes of Sergio Tacchini

Source: Company data



**Exhibit 56: F&F group - Shareholding structure (as of end-1H22)**

Source: Company data

## Financial statements

*Note that F&F was spun off from F&F Holdings in May 2021, and all FY21 references in tables below represent F&F's business results during May-December 2021. If we were to also incorporate the first four months of F&F's FY21 business results, F&F's FY21 consolidated sales/GP/OP would have been at W1.5tn/W1.1tn/W424bn, vs. below stated at W1.1tn/W796bn/W323bn, respectively. That said, on apple-to-apple basis, F&F's FY22E consolidated sales/GP/OP growth would be implied at +29%/+26%/+36% yoy, vs. below stated at +75%/+71%/+79% yoy, respectively.*

### Income statement

**Gross/operating margin.** We expect F&F's consolidated GPM to fall to 70% in FY26E, from 73%/71% in FY21/22E, after: 1) growing sales mix of MLB wholesale in China onshore (where we assume 65% GPM), which we expect to increase to 47% of F&F's consolidated sales in FY26E, from 20%/27% in FY21/22E, and; 2) relatively higher-margin DFS sales mix (with c.80% GPM) falling to 8% in FY26E, from 22%/15% in FY21/22E. Nevertheless, we note that the GPM contraction by a larger wholesales revenue mix in China onshore is more than compensated by decreasing commission burdens (22% of consolidated sales by FY26E, vs. 32%/29% in FY21/22E), resulting in a 5-6pp OPM expansion in FY22-26E, vs. GPM down 3pp. In 1H22, F&F's consolidated GPM fell 2pp yoy to 71%, but OPM increased 4pp yoy to 28%, from 24%.



**Net margin.** Along with rising OPM, we forecast F&F's consolidated NPM would climb to 26% by FY26E, vs. 21%/22% in FY21/22E. Since 3Q21, the company booked an average of W0.8bn equity-method losses per quarter, which partially incorporate F&F's management fees payable to Centroid regarding the SPC for the TaylorMade acquisition. In 3Q22, we expect F&F would receive W11bn worth of coupons from the mezzanine fund under the same SPC and likely the same amount a year from now. Once the mezzanine fund reaches its full maturity in FY27, F&F is entitled to receive W600bn from the fund, based on the fund terms of 5.5% annual coupon and 10.5% annualised YTM return on the W200bn investment.

**Exhibit 57: F&F - Consolidated income statement**

(Wbn)	FY21	FY22E	FY23E	FY24E	FY25E	FY26E
<b>Total sales/revenues</b>	<b>1,089</b>	<b>1,910</b>	<b>2,419</b>	<b>2,721</b>	<b>3,043</b>	<b>3,365</b>
yoy growth (%)	n.a.	75.3	26.7	12.5	11.8	10.6
Total COGS	(293)	(541)	(708)	(808)	(915)	(1,022)
<b>Gross profit</b>	<b>796</b>	<b>1,368</b>	<b>1,711</b>	<b>1,913</b>	<b>2,128</b>	<b>2,343</b>
yoy growth (%)	n.a.	71.8	25.1	11.8	11.2	10.1
Gross profit margin (%)	73.1	71.7	70.7	70.3	69.9	69.6
SG&A	(474)	(801)	(944)	(1,019)	(1,089)	(1,161)
<b>EBITDA</b>	<b>351</b>	<b>615</b>	<b>814</b>	<b>951</b>	<b>1,099</b>	<b>1,245</b>
yoy growth (%)	n.a.	75.3	32.3	16.9	15.6	13.3
Depreciation	(27)	(40)	(38)	(45)	(44)	(43)
Amortization	(1)	(8)	(9)	(12)	(16)	(20)
<b>EBIT (operating profit)</b>	<b>323</b>	<b>567</b>	<b>767</b>	<b>894</b>	<b>1,039</b>	<b>1,182</b>
yoy growth (%)	n.a.	75.7	35.2	16.6	16.2	13.8
Operating profit margin (%)	29.6	29.7	31.7	32.9	34.2	35.1
Non-operating income/(loss)	(0)	5	7	14	22	32
<b>Pre-tax profit (income before tax)</b>	<b>323</b>	<b>572</b>	<b>773</b>	<b>908</b>	<b>1,062</b>	<b>1,215</b>
yoy growth (%)	n.a.	77.3	35.2	17.4	16.9	14.4
Income taxes	(91)	(159)	(216)	(254)	(297)	(340)
Minority interest	0	0	0	0	0	0
<b>Net income (pre-preferred dividends)</b>	<b>232</b>	<b>413</b>	<b>557</b>	<b>654</b>	<b>764</b>	<b>875</b>
yoy growth (%)	n.a.	78.2	34.7	17.4	16.9	14.4
Net profit margin (%)	21.3	21.6	23.0	24.0	25.1	26.0
Preferred dividends	0	0	0	0	0	0
Extraordinary gain/(loss)	0	0	0	0	0	0
<b>Net income (post-preferred dividends)</b>	<b>232</b>	<b>413</b>	<b>557</b>	<b>654</b>	<b>764</b>	<b>875</b>
yoy growth (%)	n.a.	78.2	34.7	17.4	16.9	14.4

FY21 results captures operation results during May-December 2021 given F&F Opco was spun off from F&F Holdings in May 2021.

Source: Company data, Goldman Sachs Global Investment Research

## Balance sheet

**Cash conversion cycle (CCC).** We estimate F&F's CCC would moderate to 47 days in FY26E, from 82 days in FY22E, as their inventory days fall to 162 days by FY26E, from 185 days in FY22E mainly attributable to increasing wholesales revenue mix in China onshore.

**Cash and cash equivalents.** The company had W90bn cash and cash equivalents as of end-1H22 and W246bn in short- and long-term debt combined. We expect the company to remain in net cash over our projection period.

**Assets held for sale.** In 4Q21, the company started to book W195bn in assets held for sale under its current assets, which represent the company's W200bn mezzanine investment in the TaylorMade SPC in July 2021. F&F publicly disclosed the company has no plans to liquidate the mezzanine investment. That said, F&F expects its total investment under its non-current assets to grow by c.W200bn (and the same amount deducted from current assets) in 3Q22; whilst we believe this would have no impact to our earnings forecasts.

**Exhibit 58: F&F - Consolidated balance sheet**

(Wbn)	FY21	FY22E	FY23E	FY24E	FY25E	FY26E
Cash and equivalents	15	305	709	1,224	1,831	2,533
Net receivables	100	115	145	163	183	202
Inventory/stocks	242	309	375	404	439	470
Other current assets	227	227	227	227	227	227
<b>Current assets</b>	<b>584</b>	<b>955</b>	<b>1,457</b>	<b>2,019</b>	<b>2,679</b>	<b>3,432</b>
Gross PP&E/Fixed assets	76	165	185	205	225	245
Less accumulated depreciation	(5)	(14)	(25)	(37)	(50)	(65)
<b>Net PP&amp;E/Fixed assets</b>	<b>72</b>	<b>151</b>	<b>160</b>	<b>168</b>	<b>175</b>	<b>180</b>
Gross intangibles	18	30	42	53	65	77
Less accumulated amortization	(1)	(9)	(18)	(31)	(47)	(66)
<b>Net intangibles</b>	<b>17</b>	<b>21</b>	<b>23</b>	<b>23</b>	<b>19</b>	<b>11</b>
Total investments	358	354	350	346	343	339
Right-of-use assets	58	52	62	58	54	52
Other long-term assets	58	58	58	58	58	58
<b>Total assets</b>	<b>1,146</b>	<b>1,591</b>	<b>2,111</b>	<b>2,672</b>	<b>3,328</b>	<b>4,072</b>
Accounts payable	156	213	279	318	360	402
ST debt and current portion of LT debt	211	244	224	204	184	164
Lease liabilities	31	33	33	33	33	33
Other current liabilities	166	207	235	255	277	299
<b>Current liabilities</b>	<b>564</b>	<b>697</b>	<b>771</b>	<b>810</b>	<b>854</b>	<b>898</b>
Long-term debt	0	0	0	0	0	0
Lease liabilities	30	21	21	21	21	21
Other long-term liabilities/creditors	6	6	6	6	6	6
<b>Total long-term liabilities</b>	<b>35</b>	<b>26</b>	<b>26</b>	<b>26</b>	<b>26</b>	<b>26</b>
<b>Total liabilities</b>	<b>599</b>	<b>723</b>	<b>797</b>	<b>836</b>	<b>880</b>	<b>924</b>
Preferred shares	0	0	0	0	0	0
Common stock	318	318	318	318	318	318
Treasury stock	(4)	(19)	(19)	(19)	(19)	(19)
Retained earnings	232	563	1,008	1,531	2,142	2,842
Other common equity	1	1	1	1	1	1
<b>Total common equity</b>	<b>547</b>	<b>863</b>	<b>1,308</b>	<b>1,831</b>	<b>2,442</b>	<b>3,142</b>
Minority interest (balance sheet)	0	6	6	6	6	6
<b>Total shareholders funds/equity</b>	<b>547</b>	<b>868</b>	<b>1,314</b>	<b>1,837</b>	<b>2,448</b>	<b>3,148</b>
<b>Total liabilities and equity</b>	<b>1,146</b>	<b>1,591</b>	<b>2,111</b>	<b>2,672</b>	<b>3,328</b>	<b>4,072</b>

FY21 results captures operation results during May-December 2021 given F&F Opco was spun off from F&F Holdings in May 2021.

Source: Company data, Goldman Sachs Global Investment Research

### Cash flow statement

**Capex.** In 3Q21, F&F invested total W558bn in the TaylorMade takeover deal led by Centroid, which can be found under the cash flow from investing in FY21. In July 2022, F&F invested c.W80bn into the full acquisition of Sergio Tacchini brand. From FY23E and thereon, we assume F&F's annual capex of c.W30bn, which is FY15-20 average capex amount prior to the group spin-off in 2021. Our FY23-26E capex assumption represents

<1% of the company's consolidated sales over time.

**Dividends.** The company paid out 18% of NP as dividends in the last two years. Whilst there aren't any official DPS guidance, we for now assume a 20% payout in FY22-26E, suggesting FY22E/23E/24E/25E/26E DPS at c.W2,200/W2,900/W3,400/W4,000/W4,600 respectively.

**Exhibit 59: F&F - Consolidated cash flow statement**

(Wbn)	FY21	FY22E	FY23E	FY24E	FY25E	FY26E
<b>Income pre-preferred share dividends</b>	232	413	557	654	764	875
Minority interest add-back	0	(0)	0	0	0	0
Depreciation and amortization add-back	28	48	47	57	60	63
Net income from associates/JV	1	4	4	4	4	4
Net loss/(gain) on asset sales	0	0	0	0	0	0
<b>(Increase)/decrease in working capital :</b>	<b>(53)</b>	<b>(24)</b>	<b>(32)</b>	<b>(7)</b>	<b>(12)</b>	<b>(8)</b>
Other operating cash flow items	83	0	0	0	0	0
<b>Cash flow from operating</b>	<b>292</b>	<b>442</b>	<b>576</b>	<b>707</b>	<b>815</b>	<b>933</b>
Capital expenditure	(17)	(101)	(32)	(32)	(32)	(32)
Other investment cash flow items	(550)	0	0	0	0	0
<b>Cash flow from investing</b>	<b>(568)</b>	<b>(101)</b>	<b>(32)</b>	<b>(32)</b>	<b>(32)</b>	<b>(32)</b>
Dividends paid (common and preferred)	0	(42)	(83)	(111)	(131)	(153)
Share repurchase/issue	(4)	(15)	0	0	0	0
Increase/(decrease) in short-term debt	185	33	(20)	(20)	(20)	(20)
Increase/(decrease) in long-term debt	0	0	0	0	0	0
Increase/(decrease) in preferred shares	(23)	(25)	(37)	(29)	(27)	(26)
Increase/(decrease) in financial lease	0	0	0	0	0	0
Change in minority interest	0	0	0	0	0	0
Other financing cash flow items	0	0	0	0	0	0
<b>Cash flow from financing</b>	<b>158</b>	<b>(49)</b>	<b>(140)</b>	<b>(160)</b>	<b>(177)</b>	<b>(199)</b>
<b>Others</b>	<b>3</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total cash flow</b>	<b>(115)</b>	<b>291</b>	<b>404</b>	<b>515</b>	<b>606</b>	<b>702</b>

FY21 results captures operation results during May-December 2021 given F&F Opco was spun off from F&F Holdings in May 2021.

Source: Company data, Goldman Sachs Global Investment Research

# Disclosure Appendix

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