

LTS CHALLENGE 2023

Detailed Instructions - Phase 2

Congratulations! The analysis conducted by you/your team has been well received by the investment committee of your fund. After providing an overview of the key dynamics within the Luxury Sector and having selected one of the companies to further evaluate, your managers requested the preparation of an investment memorandum for the selected company. The purpose of this material is to provide an investment recommendation in the stock (buy, sell, or hold).

We suggest that the investment analysis of the company cover the main topics below:

Deep Dive into the Company and Investment Thesis

- a. Does the company's business model present barriers-to-entry ("moats")? How can the company develop or maintain durable competitive advantages?
- b. What are the main revenue drivers? What are the main segments/geographies that are generating revenue growth and/or margin expansion?
- c. Analysis of the company profitability and returns. What is their current margin profile? How and why is it changing (or not)?
- d. What is the company's cash generation profile (e.g. Working Capital dynamics, FCF conversion, capex needs etc.)?
- e. How do you evaluate their capital allocation decisions? Will the company be able to continue to invest at high return rates (e.g. M&A opportunities, incremental ROIC, long-term margin profile etc.)?
- f. How do you evaluate their management/board? Do they have the required capabilities to create value? Are their incentives aligned with shareholders'?
- g. Is the company overvalued, undervalued, or fairly valued (e.g., multiples analysis, Discounted Cash Flow, etc.)? What is the expected return in 5 years (e.g., TSR – Total Shareholder Return, IRR – Internal Rate of Return etc.)? Why is it (or not) a good time to invest now?
- h. What are the key drivers and the time horizon of your investment thesis? Are there any catalysts that may trigger a market correction?
- i. What are the main risks to your thesis?

Recommendations

- a. Summarize your analysis with a concise investment recommendation (Buy, Sell, or Hold) and provide the rationale behind it.
- b. Explore potential upsides/downsides and how it impacts your recommendation.
- c. Feel free to make recommendations to management (e.g., what are the main areas that need change, how to implement them, potential strategic options, etc.)

Your investment memo should be concise and objective, with clear storytelling, and a summary of the upside/downside to be shared with your fund's managers. **It's not mandatory to mention all the points above neither limit yourself to them.**

Submission Instructions: The presentation should be prepared in English, contain up to 15 pages of content (+ cover), and be sent to the email challenge@lts-investments.com by 11:59 pm (BRT) on October 1, 2023, with the subject "Phase 2 Submission - [Group Name]". At the end of the main material, an appendix is allowed, which will not be read by the evaluators but may be used during the Q&A of the presentation, in case your group is selected for the next stages. Suggested sources: investor relations website, annual report, earnings call, investor day, field research, Google.

Good luck!