Louvain School of Management

Fundamental Analysis of Groupe SEB Stocks

Author: Lyssia Crucitti
Supervisor: Philippe Grégoire
Academic year 2020-2021
Dissertation for the master in Business Engineering
Master subject and focus: International Finance
Daytime schedule

Thank-you notes

First of all I would like to thank my supervisor, Professor Philippe Grégoire for its assistance and advice in realizing this dissertation.

Then, I would like to thank my family and my friends for their supports and good listening over the life of this master's thesis.

Finally, I would particularly like to thank my big brother who took the time to read and correct my work.

Once again, thank you to all of you.

Table of contents

I. Introduction

Every day, thousands of stock analysts study publicly listed companies and their environment to determine if they are correctly valued by the market. We are living in a rapidly changing world where many expected or unexpected events can occur and affect prices of shares at any time. Therefore, a continuous monitoring of market prices and a complete study of companies and their sectors are necessary before buying or selling stocks in order to make successful investments or successful sales. Being able to determine if a security is undervalued, overvalued, or correctly valued by the market is thus extremely useful and valuable. In this dissertation, I will do the same job as a financial analyst and my analysis will be focus on Groupe SEB.

Groupe SEB is a French multinational which is the worldwide leader in the field of small electronical household appliance. The group has been listed on the Paris Stock Exchange in May 1975 at a share price of €5,78. Forty-six years later, its share worth €149,6 (July 21, 2021). Over the years, the company has been able to internationally expand its activities and to grow through strategic acquisitions, innovative products, and a large network of distribution channels. With its 50,3 million of shares, Groupe SEB is followed by many financial analysts from different companies. I found on Bloomberg that 11 on 13 analysts (84,6%) made a recommendation to buy Groupe SEB share and that the last 2 analysts (15,4%) made a recommendation to hold the share.[1] This will mean that there are real positive perspectives and growth potential for Groupe SEB in the future, and therefore, a real interest to look at Groupe SEB share price as part of this dissertation.

Firstly, I will review the literature about fundamental analysis and valuation methods to have a better understanding of these two financial concepts. Then, I will study the environment and all the specificities of Groupe SEB to understand its strengths, its weaknesses, its positioning, its strategies, its financial structure, and its sources of growth and risk. After that, I will make assumptions based on my readings and research to project its financial statements from 2021 to 2025. Furthermore, I will use Discounted Cash Flow and Market Multiples methods to estimate Groupe SEB Implied Enterprise Value and Implied Share Price. Finally, I will end this dissertation with a sensitivity analysis and a conclusion that will sum up my research and results and that will contain a recommendation to buy, hold or sell Groupe SEB share.

[1] Appendix 1: Analysts' rating.

II. Literature

1. Fundamental analysis

Fundamental analysis has been initiated in 1934 by two Americans economists, Benjamin Graham and David Dodd through their book "Security Analysis".[2] They turn to investors to give competent advice on how to succeed on the stock market. They also raise awareness about "*the responsibilities of corporate decision makers to build shareholder value and transparency for investors*" (Goodreads). Eighty-seven years later, this book is still considered a standard and has already been reissued six times.

Firstly, what is a fundamental analysis? A fundamental analysis *"is a method of measuring a security's intrinsic value by examining related economic and financial factors."* (Segal, 2021). Indeed, this analysis consider all macro- and micro- economic factors that can influence a security's value in order to provide a price estimate to investors. This estimation, considered as the intrinsic value of the company, allow them to compare it with the current price and, therefore, to determine if the security is under- or over-valued.[3]

Then, a fundamental analysis is built on a range of quantitative factors, qualitative factors, or both. Indeed, the analysis may be based on numbers, and/or on "*anything from a company's market share to the quality of its management*" (Segal, 2021). The four major qualitative factors that interest financial analysts are the business model, the competitive advantage, the management, and the corporate governance. They also look at "*customer base, market share among firms, industry-wide growth, competition, regulation, and business cycles*" (Segal, 2021). Concerning quantitative factors, analysts use numbers given by the income statement, the balance sheet, and the cash flow statement. Studying all those factors allows to have a complete understanding of the company and its environment.

However, even if fundamental analysis is a useful tool, it is important to keep in mind that this is just an estimate of what the price should be worth from a financial analyst personal perspective. Therefore, there are no guarantees that the share price will reach the intrinsic value over time. The reality is sometimes much more complex, and the share price may be affected by a lot of different causes that may undermine a fundamental analysis.[4]

---

[2] Goodreads. *Security Analysis: Principles and Technique*.
[3] Segal T. (March 11, 2021). *Fundamental Analysis*. Investopedia.
[4] Segal T. (March 11, 2021). *Fundamental Analysis*. Investopedia.

2. Valuation models

Through fundamental analysis, a valuation, which *"is the estimation of an asset's value based either on variables perceived to be related to future investment returns or on comparisons with similar assets"* (Stowe, 2007), is achieved. To make this estimation, there exists a 5-step valuation process:[5]

1. Understanding the business
2. Forecasting company performance
3. Selecting the appropriate valuation model
4. Converting forecasts to a valuation
5. Making the investment decision (recommendation)

In this section, I have been interested in the third step. To value the studied company, I have decided to use the Discounted Cash Flow and Market Multiples methods.

Discounted cash flow (DCF) «*is a valuation method used to estimate the value of an investment today based on its expected future cash flows"* (Fernando, 2021). Through DCF, the cumulative present value of expected Unlevered Free Cash Flow (FCF) is equal to the sum of the discounted Unlevered FCF each year:

$$Cumulative\ PV\ of\ FCF = \sum_{t=1}^{t=n} \frac{CF_t}{(1+r)^t}$$

$$where\ n = final\ year\ of\ the\ projection, CF_t = expected\ cash\ flow\ in\ period\ t, r = discount\ rate$$

Therefore, to apply DCF, we must forecast a company's Unlevered Free Cash Flow and determine the discount rate that will be used to discount those FCF. The Weighted Average Cost of Capital (WACC) is usually used as the discount rate.

After applying the DCF method, it is useful to use another one to be able to cross-check results. Therefore, we can use the **Market Multiples analysis** which « *is a valuation technique that utilizes different financial metrics from comparable companies to value a target company. Thus, the assumption is that the relative value of certain financial ratios can be used to rank or value a company within a similar group* » (Corporate Finance Institute). The key is to select the appropriate set of comparable companies. Then, we must determine the metrics and multiples

[5] Stowe J., Robison T., Pinto J., McLeavey D. (2007). *Equity Asset Valuation*.

and calculate them for all the companies. Finally, we must use the median multiples to the studied company to estimate its Implied Enterprise Value.

III. Groupe SEB

All the information contained in this section come from two main sources: Universal registration document and annual financial report - 2019 and the official website of the group.

1. Company presentation

Groupe SEB, that includes SEB S.A. – the parent company – and all the subsidiaries, is a French multinational located in France, in Lyon. It is the worldwide leader in the field of small electronical household appliance and has a prominent place in the sectors of cookware products and professional coffee machines. To cover these sectors, Groupe SEB is composed of 31 different brands present all around the world (*Figure 1)*.

Figure 1: Groupe SEB brands[6]

The group employs approximately 34.000 people and is present in more than 150 countries. In 2019, most of sales, 38% exactly, are realized in Western Europe. Then, 25% of total sales are made in China and 12% in North America. In 2019, total sales reached €7.354 million which represented an increase of 5,8% compared to 2018. In 2020, total sales decreased to €6.940 million (-5,63% compared to 2019) because of the health crisis.

In its 42 industrial sites located all around the world, the group manufactures more than 250 million products each year. 2/3 of these products are produced internally and the company

[6] Groupe SEB. (2020). *Universal registration document and annual financial report – 2019.*

outsources standard products in a targeted and coordinated way. In addition, it is interesting to note that a major part of the production is made in Asia (31%) and in Europe (27%).[7]

The group is listed on the Euronext Paris since 1975. As we can see on *Figure 2*, its share price has fluctuated a lot over the last five years. On July 22, 2016, it worth €104,14. It worth now €149,6 (July 21, 2021). In 2020, there were 50,3 million shares for a stock market capitalization up to €7.496 million.[8] The majority of Groupe SEB is held by shareholders from Founder Group with 41,3% of shares and by institutional investors with 40,9% of shares.[9]

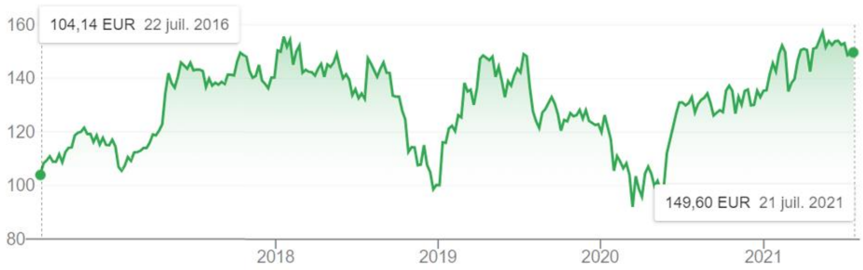


Figure 2: Groupe SEB share price over the last 5 years[10]

2. Company history

It all started in 1857 when Antoine Lescure decided to create a tinware workshop in Bourgogne (France). Over the years, the workshop has been transmitted father to son and is become a successful family business. In 1944, the company is renamed S.E.B for Société d'Emboutissage de Bourgogne because the workshop was specialized in metal stamping which is *"a manufacturing process used to convert flat metal sheets into specific shapes"*.[11]

After becoming a public limited company in 1952, SEB started to launch many new and innovative products to make consumers' life easier. The creation of the Super Cocotte pressure cooker in 1953 marked the beginning of a long and successful story. SEB continued its expansion by acquiring Tefal in 1968 and Calor four years later. It is in that context that SEB decided to become a holding company in 1973.[12]

[7] Groupe SEB. (2020). *Universal registration document and annual financial report – 2019.*
[8] Groupe SEB. (2021). *Universal registration document and annual financial report – 2020.*
[9] Appendix 2: Structure of Shareholding at 31/12/2020.
[10] Boursorama. *Cours SEB.*
[11] Esict. *What is metal stamping?*
[12] Groupe SEB. *History of Groupe SEB.*

Furthermore, SEB share has been listed to the Paris stock exchange on May 27, 1975, at a share price of 5,78€ (625 francs). However, the group remained a family business as 79% of the capital were still owned by the founding family.[13]

Finally, the group has continued to grow by acquiring new companies like Rowenta in 1988 and Volmo in 1998. In addition, it has broadened its international cover by opening many subsidiaries all around the world (Mexico, Poland, Czech Republic, Slovakia, Portugal, Hungary, Turkey, Canada, Russia, United Arab Emirates, Brazil, Argentina).

3. <u>Sectors</u>

Groupe SEB operates in 3 sectors: small electronical household appliance, cookware products and professional coffee machines.

i. *Small electrical household appliance*

SEB entered this market in 1962 with the production of its first electric coffeemaker. The sector of small electrical household appliance is now the most profitable as it generated more than €47 billion in 2019 (58% of sales). The company has segmented this area in several categories:[14]

- Electric cooking: deep fryers, rice cookers, electric pressure cookers, waffle irons, grills, toasters, etc.
- Beverage preparation: expresso machines, coffee machines, electric kettles, etc.
- Food preparation: blenders, mixers, pastry robots, etc.
- Laundry care: Irons, steam brushes, etc.
- Home care: vacuums, robots, brooms, etc.
- Home comfort: fans, heaters, air-treatment appliances, etc.
- Personal care: haircare and hair removal appliances, etc.

Groupe SEB has built a worldwide reputation and is become a reference in that sector. The company holds a leader position in more than 25 countries.

---

[13] Groupe SEB. *1975 – 2015 – 40 ans de cotation.*

[14] Groupe SEB. (2020). *Universal registration document and annual financial report – 2019.*

ii. *Cookware products*

Cookware products are the second biggest source of revenue for Groupe SEB as they represented 31% of its sales (€24 billion) in 2019. The group offers a large choice of products and constantly tries to expand it by means of new technologies and materials. This sector is divided in 2 categories. The first one includes pans, pots, pressure cookers, bakeware, and oven dishes. The second one contains all the utensils like spatulas, ladles, kitchen knives and isothermal mugs. Groupe SEB is considered as the reference in the first segment and is an important player in the second one (Top 5).[15]

iii. *Professional coffee machines*

Groupe SEB entered the market of professional coffee machines in 2016 with the acquisition of the German company, WMF. Three years later, this sector yielded €9 billion which represented 11% of sales. Products are mostly dedicated to hotels, restaurants, cafés, and bakeries. The group always tries to conclude additional contracts with those collaborators like equipment's contacts or long-term exclusive contracts to always replace coffee machines.[16]

4. Competitors

Groupe SEB has a special position on the market with its large portfolio of brands, its international coverage and its 3 different sectors. Therefore, it faces a fierce competition with many competitors.

First, Groupe SEB competes with major international groups like Philips and Electrolux in the field of small electronical appliance. There are also Spectrum Brands and Conair present in Europe and in the US, and Bosch-Siemens and Braun present in Europe only. The company also competes with other international groups, but that have high-end positioning like Dyson and Vorwerk.

Then, in the field of cookware products, the major rivals are Fissler (DE), Zwilling-Staub (DE), Tramontina (US), Meyer (US), Tupperware (US), Ikea (SE), Rubbermaid (US) and Oxo (US). Concerning the sector of professional coffee machines, De Longhi, Francke, Thermoplan and Melitta are the main competitors.

---

[15] Groupe SEB. (2020). *Universal registration document and annual financial report – 2019.*
[16] Groupe SEB. (2020). *Universal registration document and annual financial report – 2019.*

Furthermore, there are also smaller rivals with high-end positioning on one type of products like iRobot (vacuums), Jura (coffee machines) and Le Creuset (cookware products). In addition, Groupe SEB competes with unbranded and branded products mostly from China which offer competitive prices.

Finally, the competition is everywhere, but it is more intense in the sectors of cookware products and small electronical appliance. This can be explained by the evolution of distribution channels that have impacted prices, and by the rise of e-commerce.[17]

5. Positioning and strategy

Groupe SEB relies on a **multi-channel distribution policy** to meet the different market expectations. The company uses the following distribution channels:[18]

- specialized stores
- mass retail brands
- retailers
- proprietary stores
- e-commerce

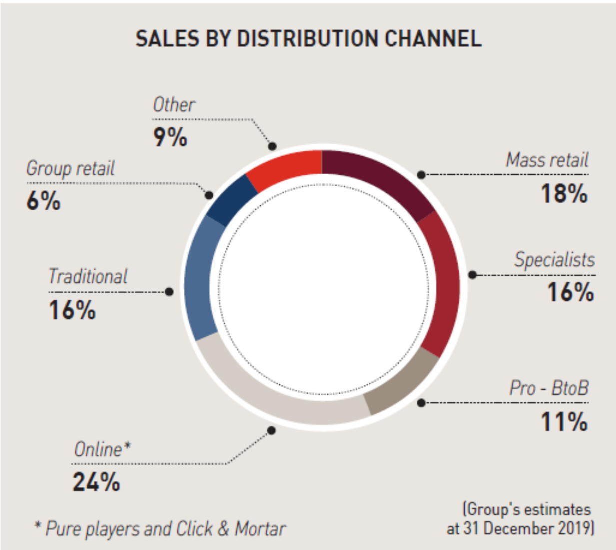


Figure 3: Sales by distribution channel[19]

We can observe on *Figure 3* that almost a fourth of the total sales are made via e-commerce. Mass, traditional, and specialized distribution are the next most used by Groupe SEB clients. It is interesting to note that the group owns more than 1300 shops all around the world.

Though these distribution channels, Groupe SEB offers **3 product ranges to meet the needs of 3 different types of target clients.** Indeed, the group proposes premium, professional and

[17] Groupe SEB. (2020). *Universal registration document and annual financial report – 2019.*
[18] Groupe SEB. *Distribution.*
[19] Groupe SEB. (2021). *Universal registration document and annual financial report – 2019.*

consumer brands. Premium brands are dedicated to demanding clients whose expectations are high and professional brands, to the business world. Consumer brands offer everyday products dedicated to everyone.

In addition, the group takes the position of a very **committed and concerned company about climate change and environmental issues.** The group is aware of its impact on earth and therefore, tries to limit or eliminate it. Some results have already been observed by the group. Indeed, it decreased its energy consumption by 13%, used more than 37% of recycled materials for its products and reduced its carbon footprint by 24% per unit sold. In addition, 94% of products have now the “product repairable for 10 years” label.[20]

Concerning its strategies, Groupe SEB has 2 major focuses: privilege organic growth and keep a sustainable competitive advantage. To meet the first one, the company relies on:[21]

- Innovation
- A diversified but complementary portfolio of brands
- A large network of distribution channels
- A constant international expansion

All these aspects will be developed in the next section as they are all great sources of growth for the group.

Then, to keep a long-term competitive advantage, the company relies on:[22]

- A large and high-quality range of products
- A strict control of operating costs and working capital requirement
- The optimization of its purchasing policy and its supply chain

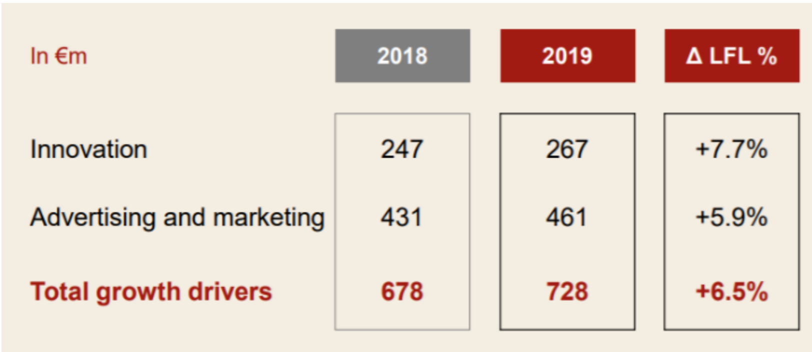
6. Sources of growth

The first source of growth comes from its **innovation policy**. The group continuously tries to develop new products to differentiate from its competitors and to attract more clients. According to the CEO, “*every year, one-third of growth is driven by new products”* (Groupe SEB, 2020). To support that policy, Groupe SEB has employed more than 1500 people, has invested €267 million on innovation, and has filled 383 patents in 2019.

[20] Groupe SEB. (2020). *Universal registration document and annual financial report – 2019.*
[21] Groupe SEB. *Strategy.*
[22] Groupe SEB. (2020). *Universal registration document and annual financial report – 2019.*

Then, **advertising & marketing investments** are the second source of growth for the group. In 2019, Groupe SEB has invested more than €461 million to be present, gain visibility and support promotional campaigns or the launch of new products. In addition, 50% of those investments have been dedicated to digital marketing and to improve the quality of online sales services.

On *Figure 4*, we can observe the growth generated by Innovation and Advertising & Marketing investments.



In €m	2018	2019	Δ LFL %
Innovation	247	267	+7.7%
Advertising and marketing	431	461	+5.9%
Total growth drivers	**678**	**728**	**+6.5%**

Figure 4: Growth drivers[23]

Furthermore, to grow and develop its activities, Groupe SEB focus on both **organic and external growth.** On one hand, the group privileges an internal growth based on an increase of sales and on quality goods. On the other hand, it relies on an external growth by acquiring new companies. The challenge is to be able to integrate those new companies and to create synergies with the existing portfolio of brands.

Moreover, the company has a **well-organized and well-segmented sales structure** through many distribution channels that is a source of growth. It allows the group to boost its sales by being present on multiple networks and to directly interact with clients in order to better understand their needs and optimize the offer.

Finally, the last source of growth comes from its **international expansion.** The holding enters mature and emerging countries to gain market shares, increase its sales and develop leadership position. Its international coverage associated with its broad brands portfolio allow the group to reach a wide audience whose expectations are manifold and diverse.

[23] Groupe SEB. (February 27, 2020). 2019 FULL-YEAR RESULTS.

7. Sources of risk

We are living in a rapidly changing world where companies must deal with many uncertainties. Groupe SEB faces strategic, operational, legal, financial & market and environmental & industrial risks. However, all those risks do not have the same probability to happen and will not impact the company similarly. Therefore, I decided to only focus on risks that will have a high impact and a high probability to happen. In the case of Groupe SEB, it mostly concerns strategic risks.

1. *Risk related to competition and concentration in the market of small electronical appliances*[24]

At an international level, the market of small electronical appliance is a market divided into many segments. As previously mentioned in section *"Competitors",* there are many competitors in this fiercely competitive global market. In that context, there is always a risk that a rival enhances its performance and steels market shares. This situation could impact the group by reducing its negotiating power and its economy of scale.

2. *Risk related to the evolution of distribution*[25]

The distribution of products has deeply changed all over the years. The rise of e-commerce and the arrival of new and performant digital players on the market have completely modified the process of distribution. Further changes could negatively impact Groupe SEB sales and/or market shares.

3. *Risk related to innovation and patent*[26]

Innovation is become a key element of Groupe SEB strategy to remain competitive. When an innovation is successful, there is always a risk to be imitated. To protect its innovation from imitation, Groupe SEB must protect itself with patents. However, patents can also slow its innovative research if it is filled by a competitor. This risk can be a source of litigation, financial or reputation issues.

[24] Groupe SEB. (2020). *Universal registration document and annual financial report – 2019.*
[25] Groupe SEB. (2020). *Universal registration document and annual financial report – 2019.*
[26] Groupe SEB. (2020). *Universal registration document and annual financial report – 2019.*

4. *Risk related to competitiveness*[27]

Groupe SEB must be agile in the competitive and promotional environment it evolves in. To remain competitive, the group must always look at:

- Its manufacturing structure (cost, processes, supply chain, stocks, investments, etc.)
- Its plants capacity production because the demand is variable
- The quality of its offering

If there is a problem with one of these elements, Groupe SEB could lose market shares and a part of its sales.

5. *Risk related to image and reputation*[28]

The reputation and the image are two extremely important element to last in time. They mostly depend on the quality of products and services. Brand image can easily be hurt by an employee, a distributor, or a dissatisfied customer, and can have a high impact on sales. In addition, this risk has increased with time as we are living in a connected world where information flows very quickly all around the world.

6. *Risk related to currency volatility*

Even if this risk would have a lower impact than the previously strategic risks, risk related to currency volatility is still important as the group mostly produces in Europe and Asia but sells all around the world. As we can observe on *Figure 5*, currency volatility made lose €579 million to the group from 2016 to 2020. Therefore, the company must pay attention to exchange rates.

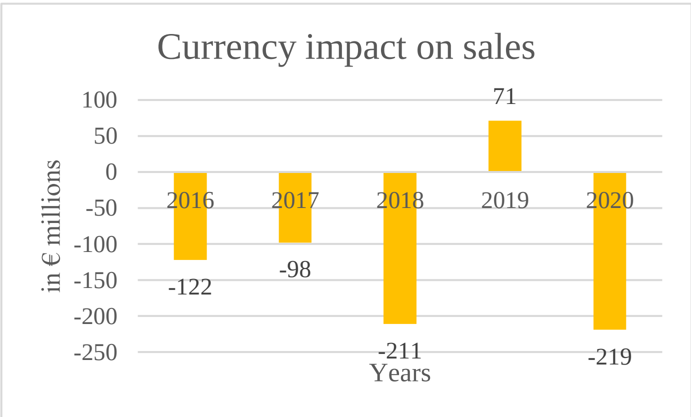


Figure 5: Currency impact on sales[29]

[27] Groupe SEB. (2020). *Universal registration document and annual financial report – 2019.*
[28] Groupe SEB. (2020). *Universal registration document and annual financial report – 2019.*
[29] Groupe SEB. FULL-YEAR RESULTS – *2016, 2017, 2018, 2019, 2020.*

8. SWOT analysis

i. Strengths

The first strength of Groupe SEB is its **ability to select the right company to buy, integrate it to its portfolio and create synergies.** Over time, all these acquisitions allowed the group to build a diversified but complementary brands portfolio that supports its growth and offers a large range of products.

Then, another strength of Groupe SEB is its **ecological commitment**. The company supports circular economy and is very active in the fight against climate change. As customers are more and more concerned about global warming and environmental issues, they will be more sensitive and receptive to products that come from a committed company like Groupe SEB.

Then, its **international coverage** is a real strength for the group. It allows to reach a wide audience and to potentially increase its market shares. In addition, its presence in China which represented 24% of sales in 2020 is a great asset as an economic growth of 8,44%[30] is expected in 2021.[31]

The last strength of the company is its **ability to keep innovating**. Historically, Groupe SEB has always tried to develop new and innovative products that will meet the new needs of clients with a sustainable development approach.

ii. Weaknesses

The first weakness is related to the strong **seasonality** of Groupe SEB sales. Indeed, the group made a large part of its sales during events like Christmas, Mother's Day, Prime day, Black Friday, etc.

In addition, there is a certain **opacity** regarding all brands contained in the group. As each brand acts separately and is not directly linked to the group, Groupe SEB **under optimizes its marketing expenditure.**

---

[30] Statista. (April 12, 2021). *Growth rate of real gross domestic product (GDP) in China from 2010 to 2020 with forecasts until 2026*.
[31] Sommerer, G. (April 19, 2021). *Sarah Thirion (TP ICAP Europe) : Groupe SEB à l'achat. BFM Business.*

iii. *Opportunities*

The business environment and consumer behaviors constantly change and therefore, create a lot of new opportunities for companies.

First, Groupe SEB made in the past some **partnerships** with retailers to develop products or find solutions to problems, or with influencers to promote its products. Therefore, there are opportunities to seize by making other meaningful partnerships with economic players on the market and influencers on social media to gain visibility and increase sales.

Then, the group can also benefit from the **growing attention on health and well-being**. Consumers have changed their consumption behaviors to privilege healthy and home-made food. In addition, this trend has been amplified by the health crisis through the lockdown and the closure of restaurants. Groupe SEB has already started to meet this need with its products, but there are still opportunities to seize in that field.

Furthermore, to strengthen its position, develop its brands portfolio and support its growth, Groupe SEB realizes selective strategic acquisitions. Therefore, there are opportunities to seize by **acquiring new innovative and digital companies.**

iv. *Threats*

The first threat is related to **Covid-19 virus**. As 31% of the total production is made in Asia through 13 plants, and that the epidemic started in China, the health crisis has directly and negatively impacted Groupe SEB. After few months, it was forced to close some plants which has reduced/cleared its stocks and reduced its sales. Even if the pandemic slows down in few countries, this is not the case everywhere. Therefore, Covid-19 epidemic is still a threat to the international activities of Groupe SEB.

Another threat comes from the **high competition** on the market of small electronical appliance and cookware products. As mentioned before, Groupe SEB faces a fierce existing competition, but also faces the arrival of new competitors mostly from China who master well all the digital resources and offer low prices.

In addition, as the group uses many different raw materials to manufacture its products, the **volatility of raw materials prices** can be a threat. Indeed, Groupe SEB needs “*aluminum (for cookware), nickel (for certain steel alloys), copper (mainly wire for motors and electric cables),* *plastic (a key material in small electrical appliances) and paper products for printed documents and packaging*." (Groupe SEB, 2017).

IV. Financial Analysis

The information used to realize the financial analysis come from the last five universal registration document and annual financial report of Groupe SEB and the last five Full-Year Results reports [2016-2020]. I will analyze historical financial statements in order to have an overview of the last financial performances.

1. Covid-19 impacts

The end of 2019 and the year 2020 have been heavily influenced by the propagation of Covid-19 virus in many parts of the world. Therefore, 2020 is not a representative year for Groupe SEB financial performance. Groupe SEB has faced the closure of 19 over its 42 plants in mid-April 2020 which has caused production issues and stock shortages, and therefore, loss of sales. However, all factories have been able to reopen in mid-June 2020 with measures taken against Covid-19 virus. In addition to factories, many stores have been forced to close all around the world for indefinite period. The proportion of distribution channels which has closed represented 58% of sales.[32] Therefore, this situation has led to a significant increase of e-commerce as a distribution channel; 35% in 2020 versus 24% in 2019.[33]

Furthermore, Groupe SEB has taken many measures to manage the health crisis. For example, it has reduced executive compensation, non-essential costs and expenses, capital expenditure, and dividends paid in 2019. It has also renegotiated rental payments of its own shops and *"increased flexibility of the payroll through the introduction of short-time working measures, mandatory leave, contract suspension, the end of temporary contracts, etc., as well as a recruitment freeze"* (Groupe SEB, 2021).

In addition, despite the lower performance in 2020, the Board of Directors of Groupe SEB has decided to offer *"one new share for ten existing shares for all shareholders registered on March 2, 2021"* (Groupe SEB, 2021). It wants to thank shareholders for their loyalty and encourage long-term detention of shares. Therefore, it created 5.030.706 new shares with a par value of

[32] Groupe SEB. (April 28, 2020). *2020 first-quarter sales and financial data.*
[33] Groupe SEB. (2021). *Universal registration document and annual financial report – 2020.*

€1 for a total capital raised to €55.337.770. These new shares have the same specifications and give the same rights as the existing ones.[34]

2. <u>Current situation – First half of 2021</u>

The year 2021 has started in a very uncertain environment due to the Covid-19 epidemic which is still active. However, Groupe SEB first-half results are encouraging as total sales increased by 23,9% compared to the first-half 2020 and by 8,2% compared to the first-half 2019. This increase is largely due to the consumer business segment (+27,3%) which has continued to consume mostly via e-commerce. This growth is observable on each continent where Groupe SEB operates, but the most impressive one comes from North America with a sales raise of 66,6%. Concerning the professional business segment, it still suffers from the health crisis. This means that professional clients have interrupted, postponed, or reduced their business commitments with Groupe SEB which has reported a sales reduction of 28,7% in that segment in the first-quarter 2021[35]. However, the sector begins to recover as the group reported a sales reduction of only 5,1% in the first-half 2021.[36]

Then, Groupe SEB suffered and still suffers from the increase in raw materials prices like aluminium, cartoon, plastic, steel, etc from mid-2020. It also faced electronic components shortages which has led to a significant increase of prices, between 20x to 50x more. In addition, transport costs have also increased. These additional costs worth €140 million in the first-quarter 2021 and worth €250 million in the first-half 2021[37]. Until now, sales volume allowed the group to compensate those costs, but their evolutions are complicated to predict. Therefore, the group has decided to increase prices of one product out of two by 5% to 10% depending on the product from September 1, 2021, to absorb those additional costs.[38]

Finally, the operating result from activity has reached €320 million, versus €103 million in the first-half 2020[39] and €230 million in the first-half 2019[40]. This can be explained by the significant increase in sales, the cost control, and the normal resumption of production. Regarding the net debt, it amounted €1.850 million in the first-half 2021, versus €2.085 million in the first-half 2020 and €2.428 million in the first-half 2019.

[34] Groupe SEB. (February 25, 2021). 2020 FULL-YEAR RESULTS.
[35] Groupe SEB. (April 22, 2021). *2021 first-quarter sales and financial data.*
[36] Groupe SEB. (July 23, 2021). *First-half 2021 sales and results.*
[37] Groupe SEB. (July 23, 2021). *First-half 2021 sales and results.*
[38] Iweins, D. (July 23, 2021). *SEB va répercuter la hausse des coûts à ses clients.* LesEchos.
[39] Groupe SEB. (July 23, 2020). *First-half 2020 sales and results.*
[40] Groupe SEB. (July 24, 2019). *First-half 2019 sales and results.*

3. Historical financial analysis

i. *Profitability analysis*

Firstly, we can observe on *Figure 6* that revenues of Groupe SEB constantly grew from 2016 to 2019, but with an impressive increase of 29,7% from 2016 to 2017. This can be explained by the development of the Chinese brand SUPOR and by the integration of WMF in the brands portfolio which allows the group to enter the market of professional coffee machines. In 2020, due to Covid-19 impacts, the group realized a total revenue of €6.940 million which represents a decrease of 5,63% compared to 2019. In addition, we can see on *Figure 6* that the Operating expenses (OpEx) follows the same trend as the revenue.

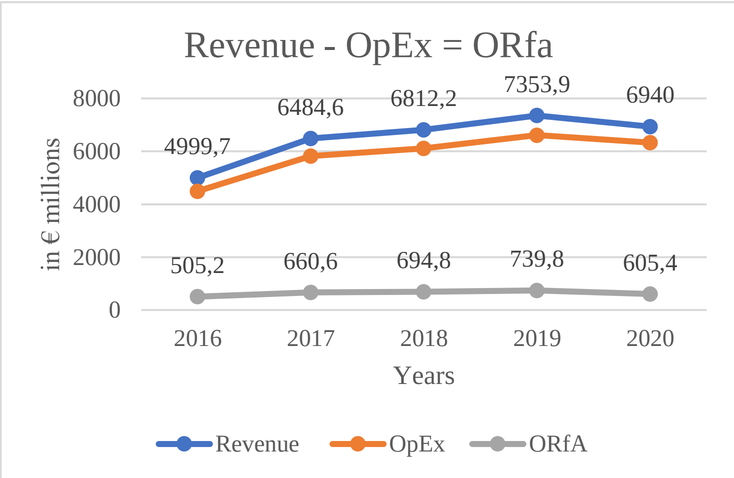


Figure 6: Revenue, OpEx and Operating Result from activity from 2016 to 2020 [41]

Then, *Figure 7* shows the evolution of Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) and Earnings Before Interest and Taxes (EBIT) from 2016 to 2020. EBITDA grew each year from 2016 to 2019 and reached €898,6 million in 2019. It decreased to €777,2 million in 2020 due to the decrease in sales that year. Concerning EBIT, it increased each year until 2018 by reaching €625,6 million, but started to decrease from 2019. The reduction in 2019 can be explained by the fact that Other operating income and expense worth €82 million in 2019, versus €36 million in 2018. This difference is mainly due to the "*restructuring provisions in WMF's Consumer business, covering mainly industrial asset impairments and estimated labour costs*" (Groupe SEB, 2020). Concerning the EBIT decrease in 2020, it is for the same reason as for EBITDA, it is due to the decrease in sales that year.

[41] Appendix 3: P&L.

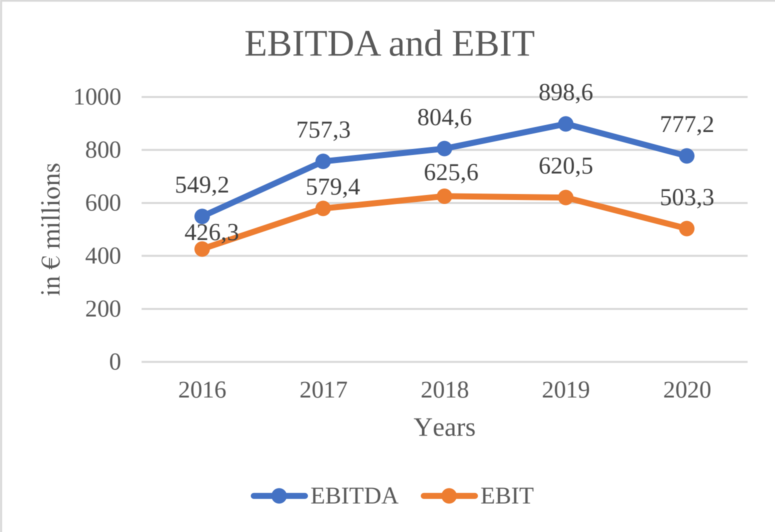


Figure 7: EBITDA and EBIT evolutions [42]

Furthermore, as we can see on *Figure 8*, the net income of Groupe SEB has grown and reached €419 million in 2018 to slowly decrease to €379,7 million in 2019 and €300,5 million in 2020. The decrease of EBIT and the increase of Finance cost and Other financial income and expense explained the decrease of net income by 9% in 2019. In addition, the 21% decrease in 2020 is mainly due to the decrease in sales that year.

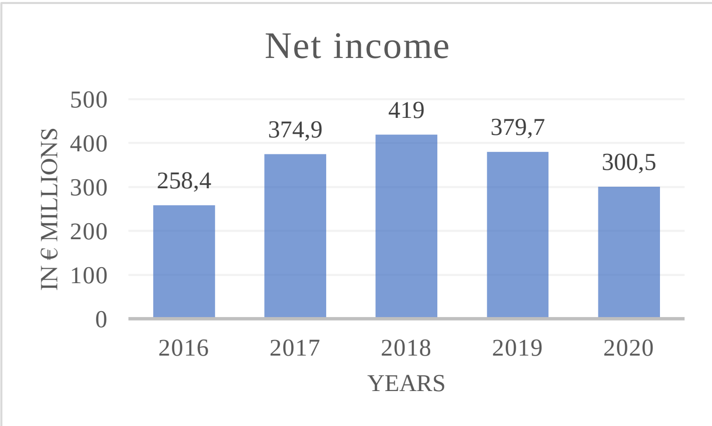


Figure 8: Net income from 2016 to 2020 [43]

ii. *Financial structure*

Firstly, I have been interested in Groupe SEB assets. In 2020, total assets worth €9.270 million, versus €7.815,4 million in 2019. This difference is mainly due to the increase of €983,9 million in cash and cash equivalents. This significant increase comes from "*cash generated from operations*" (Groupe SEB, 2021).

[42] Appendix 3: P&L.
[43]Appendix 3: P&L.

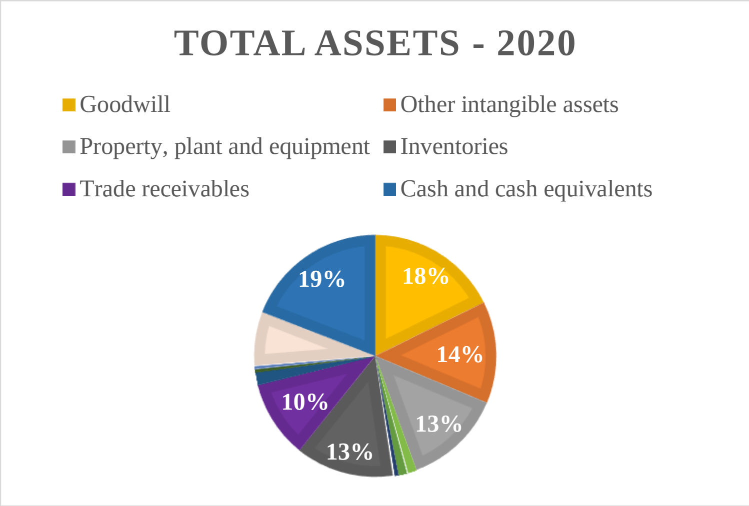


Figure 9: Total Assets in 2020 [44]

Then, we can observe on *Figure 9* the composition of assets. In 2020, 19% of total assets corresponded to cash and cash equivalents (€1.769,4 million) and 18% to goodwill (€1.642,4 million). The balance sheet was also composed of 14% of other intangible assets (€1.261,9 million), 13% of property, plant, and equipment (€1.219,5 million) and 13% of inventories (€1.211,5 million).

Furthermore, as we can see on *Figure 10*, Groupe SEB was mostly financed by equity (€2.734,8 million) and long-term borrowings (€2.285,8 million) as they respectively represented 29% and 25% of total liabilities in 2020. Long-term borrowings are mainly composed of bond debt for an amount of approximately €1.500 million, private placements, and IFRS 16 debt.[45] Then, the third source of debt was short-term borrowings which represented 18% of total liabilities (€1.672,2 million) in 2020. Short-term borrowings are mainly composed of Negotiable European Medium-Term Note (NEU MTN) and Negotiable European Commercial Paper (NEU CP) for an amount of €1.211,5 million, and convertible bonds maturing in 2021 for an amount of €150 million. In addition, trade payables corresponded to 14% of total liabilities (€1.260,3 million) in 2020.[46]

---

[44] Appendix 4: Balance Sheet.
[45] Groupe SEB. (2021). *Universal registration document and annual financial report – 2020.*
[46] Groupe SEB. (2021). *Universal registration document and annual financial report – 2020.*

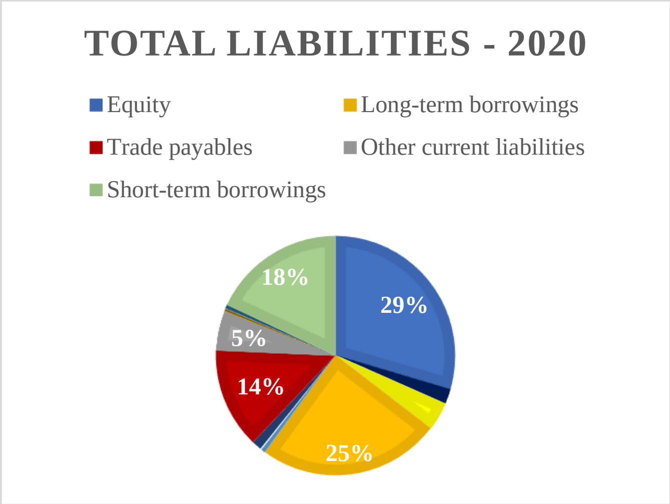


Figure 10: Total Liabilities in 2020 [47]

iii. *Cash Flow analysis*

Firstly, cash from operating activities (CFO) "*reflects how much cash is generated from a company's products or services*" (Murphy, 2021). We can observe on *Figure 11* that CFO has fluctuated a lot over the last five years, but that it has always remained positive. In 2020, CFO reached €962,5 million which is mainly due to the high changes in trade receivables and trade payables that year.

Then, cash from investing activities (CFI) "*includes any sources and uses of cash from a company's investments*" (Murphy, 2021). In 2016, CFI reached €1.849,5 million and this can be explained by the fact that Groupe SEB made a significant investment of €1.695 million by finalizing the acquisitions of WMF and EMSA. Then, the group stabilized its investments between 2017 and 2019. In 2020, CFI reached €868,7 million which is mainly due to the purchase of financial assets.

Finally, cash from financing activities (CFF) "*includes the sources of cash from investors or banks, as well as the uses of cash paid to shareholders*" (Murphy, 2021). As we can see on *Figure 11*, CFF reported in 2016 and 2020 are the only two high and positive numbers over the last five years. These amounts are due to a significant increase in borrowings both years. From 2017 to 2019, the group considerably decreased its CFF. It is explained by higher decrease in borrowings and higher dividends paid.

[47] Appendix 4: Balance Sheet.

All these movements of CFO, CFI and CFF have led to positive and growing cash and cash equivalents each year over the last five years. Therefore, Groupe SEB is a good generator of cash flow.

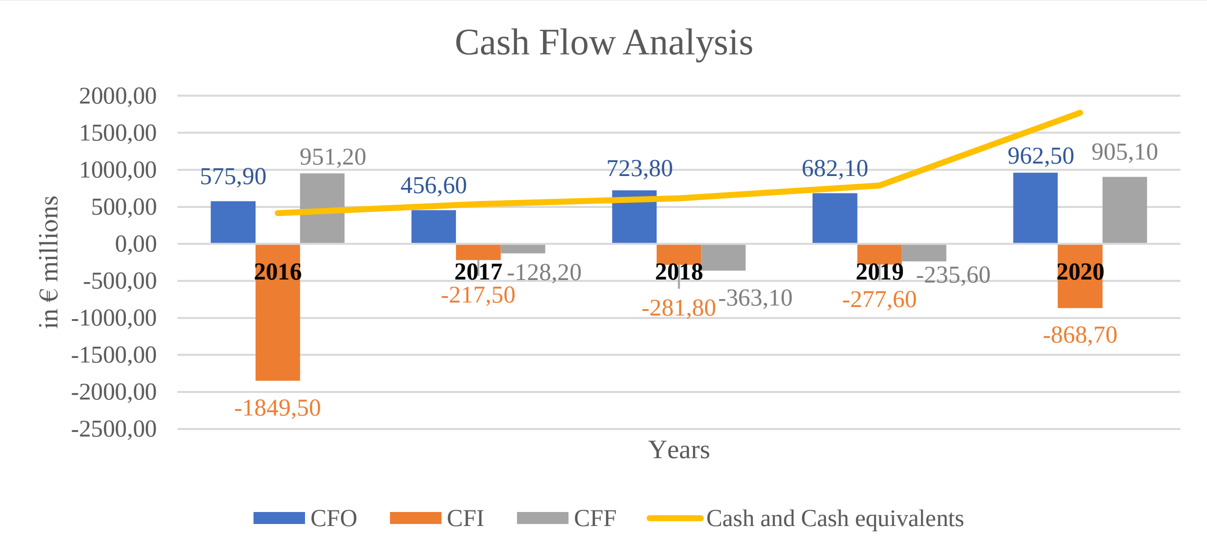


Figure 11: CFO, CFI, CFF and Cash and Cash Equivalents from 2016 to 2020 [48]

V. Projection and Assumptions

i. Revenues

To forecast Groupe SEB total revenues, I looked at the revenue decomposition by business sector and I made growth assumptions regarding each sector.

Firstly, I read market studies to get a clearer idea of what the market expected. A recent market research attests that "*the global small electrical appliance market is expected to grow at a CAGR of 10.9% from 2020 to 2021*" (The Business Research Company, 2021). In addition, another market analysis indicates that the market *"is expected to growth at a CAGR of 7% from 2021-2025"* (GlobeNewswire, 2021). Concerning the sector of cookware, it is expected to growth at a CAGR of 6,9% from 2021 to 2028.[49] I read another market survey on cookware products market over a shorter period that mentions a growth at a CAGR of 4% from 2021 to 2025.[50]

[48] Appendix 5: CF Statement.
[49] Grand View Research. (May 2021). *Cookware Market Size, Share & Trends Analysis Report.*
[50] GlobeNewswire. (April 26, 2021). *The Global Cookware Market is expected to grow by $5.30 billion during 2021-2025, progressing at a CAGR of almost 4% during the forecast period.*

Then, I read articles and interviews to link the content of market research with the personal situation of Groupe SEB. According to Christophe CHAPUT, a business analyst from Oddo BHF who follows Group SEB share value and the market in which it operates, "*the demand on the market of small electronic appliance and cookware products is remained very high in a globally less intense promotional environment*" (Investir.fr, 2021). Indeed, the closure of restaurants and non-essential stores, lockdown and curfew have impacted and changed the lifestyle of people to favor home-made cooking and well-being at home using connected units, new coffee machines, household appliances and cooking aids.[51] According to Brigitte Petit, the chairwoman of Gifam (Groupement des marques d'appareil pour la maison), this new lifestyle tends to be sustainable over time and the demand on the market should remain high.[52]

During the first-quarter 2021, Groupe SEB reported a global growth of 35,4% in the sectors of small electronical appliance and cookware products compared to the first-quarter 2020. Groupe SEB has recently published first-half 2021 results and for the semester, the group reported a global growth of 27,3% in those sectors. Those impressive growth rates prove that the demand is present and very high. In addition, the demand has been met thanks to the continuous development of e-commerce business. Groupe SEB has followed the trend by digitizing more its distribution channels, and this has enabled the group to compensate the loss due to the closure of stores. In 2020, 35% of sales were made via e-commerce, versus 24% in 2019. According to Sarah THIRION, a business analyst from Midcap Partners who also follows Group SEB share value, thanks to digitalization of sales, products and marketing, its expertise, its innovation capacity and its international cover, the group "*has everything to continue outperforming its market"* (Soubranne, 2021).

Therefore, based on the sustainability of the new consumer habits like cooking home-made dishes, the development of e-commerce, market expectations, and the great performance during the first-half 2021, it seems reasonable to consider a growth rate of 10,9% in the sector of small electronical appliance and of 6,9% in the sector of cookware for 2021. As the financial performance in 2020 was low, the performance of 2021 is particularly high. Therefore, in 2022, I made growth rates decrease to 7,65% and 5,9% respectively in order to get closer to the historical average growth rate. Finally, from 2023 to 2025, I decided to decrease the growth

[51] Verhaegen J-C. (April 22, 2021). *Seb anticipe une solide croissance des ventes en 2021, après un fort rebond au premier trimestre.* Le Figaro.
[52] CNEF. (August 3, 2021). *Le marché de l'électroménager.*

rate in both sectors to follow the downward trend of forecasted GDP growth rate in Europe[53], China[54] and in the US[55], where Groupe SEB realizes the major part of its sales. Over the forecasted period, I therefore obtained a growth at a CAGR of 7,08% in the sector of small electronical appliance and of 5,5% in cookware products sector.

Concerning the sector of professional coffee machines and hotels, the first-quarter 2021 has been complicated as restaurants and hotels were closed in many countries due to Covid-19 pandemic. The group has therefore reported a decrease of 28,7% in that sector in the first-quarter 2021 compared to the first-quarter 2020. However, the sector begins to recover as the group reported a reduction of only 5,1% in the first-half 2021 compared to the first-half 2020. According to a market research, *"the Global Professional Coffee Machine market size is projected to reach USD 326.7 million by 2026, from USD 239.7 million in 2020, at a CAGR of 5.3% during 2021-2026"* (MarketWatch, 2021). It is important to note that Groupe SEB also includes in that sector other professional equipment like professional pancake machines. Therefore, regarding the improvement of Groupe SEB growth rate in that sector, the low performance in 2020, market expectations and the fact that nearly all restaurants and hotels are now open all around the world and that vaccination campaigns continue to progress, it seems reasonable to consider a growth rate of 6% in 2021. From 2022 to 2025, as explained before, I decided to make the growth rate slowly decrease to 4% in 2025 to follow forecasted GDP growth trend, and I obtained a CAGR of 5% from 2021 to 2025.

As we can see on *Figure 12*, the progression by business sector gives a total growth rate of 9,23% in 2021 with total sales estimated at €7.580 million. I am close to the number that Thierry de La Tour d'Artaise, CEO of Groupe SEB, has given during an interview by saying that the group anticipated a significant global sales growth of approximately 10% in 2021 based on the sustainability of the new consumer habits like cooking home-made dishes and on the development of e-commerce.[56] Then, the growth rate decreases by more than 2% in 2022 and by less than 1% from 2023 to 2025 to finally reach total sales of €9.472 million in 2025.

[53] Statista. (June 16, 2021). *Growth of the real gross domestic product (GDP) in the European Union and the Euro area from 2016 to 2026.*
[54] Statista. (April 12, 2021). *Growth rate of real gross domestic product (GDP) in China from 2010 to 2020 with forecasts until 2026*.
[55] Statista. (June 1, 2021). *Real gross domestic product (GDP) growth rate in the United States from 2016 to 2026.*
[56] Monégier L. (March 24, 2021). Thierry de La Tour d'Artaise, président directeur général du groupe SEB : « Nous devrions renouer en 2021 avec la croissance organique de nos ventes ». Mieux Vivre Votre Argent.

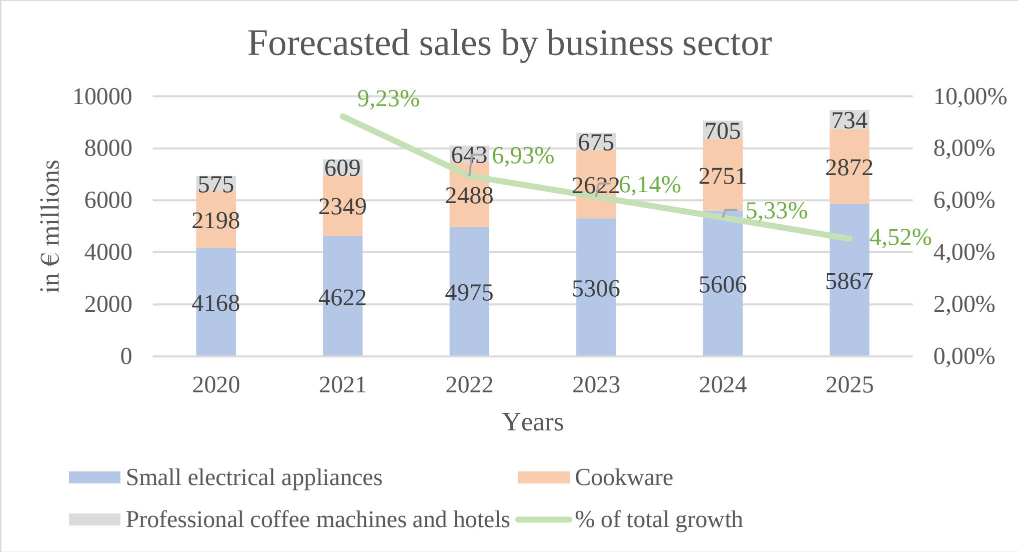


Figure 12: Forecasted sales by business sector[57]

ii. Operating expenses

Firstly, Operating expenses gather cost of sales, advertising cost, research & development cost, and distribution and administrative expenses. As mentioned in the first part of this dissertation, two of Groupe SEB growth drivers are innovation, and marketing and advertisement investments. Therefore, the growth revenues must be supported by advertising and research & development expenses. As we can see on *Figure 13*, they respectively correspond to 2,03% and 1,91% of total revenue on average each year. Concerning the cost of sales and distribution and administrative expenses, they respectively correspond to 60,75% and 25,43%. To forecast the operating expenses, I decided to increase advertising expenses to 2,33% (+0,3%) and research & development expenses to 2% (+0,09%) as they are growth drivers. I kept the same percentage for distribution and administrative expenses and increased cost of sales to 61,25% (+0,5%) to better reflect the current increase of raw materials prices and transport costs on the market. I applied those percentages to the forecasted revenues.

[57] Appendix 6: Forecasted revenues by business sector.

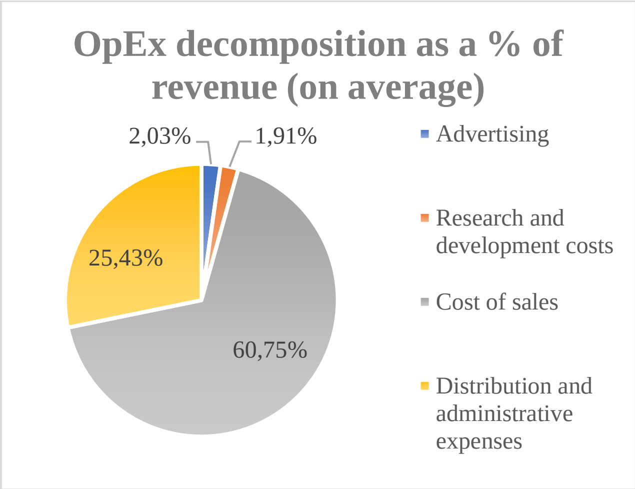


Figure 13: OpEx decomposition as a % of revenue (on average over the last five years)[58]

iii. Income Tax Rate

As Group SEB is a French multinational, it is submitted to the statutory French tax rate. However, as it is an international group that operates all around the world, the statutory French tax rate is always modified by several elements detailed in *Table 1*.

Statutory French tax rate
+ Effect of differences in tax rates
+ Unrecognized and relieved tax loss carryforwards
+ Prior period tax loss carryforwards recognized and utilized during the period
+ Other
= **Effective tax rate**

Table 1: Computation of effective tax rate[59]

These adjustments mostly depend on agreements, local tax rates, and tax laws of the tens of countries where Groupe SEB operates and have significant impacts. As we can see on *Figure 14,* starting from a statutory French tax rate of 34,4% from 2016 to 2019, the effective tax rate was much lower with values of 19,55% to 23,49%. In 2020, reductions of statutory French tax rate to 32% and of the other elements have led to a decrease of the effective tax rate from 23,49% to 21,20% that year. The effective tax rate is then applied to EBT to determine the amount of income tax.

[58] Excel files – Lyssia Crucitti.
[59] Groupe SEB. (2021). *Universal registration document and annual financial report – 2020.*

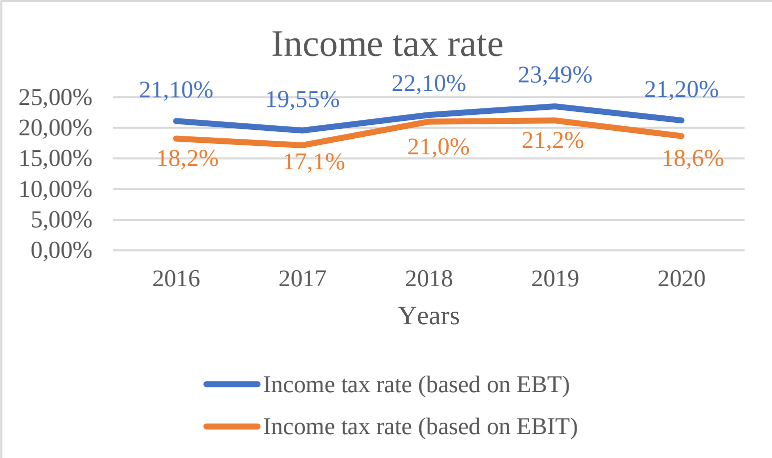


Figure 14: Income tax rate[60]

However, to project the amount of taxes in the DCF method, I need tax rates based on EBIT and not on EBT.[61] Therefore, I calculated tax rates based on EBIT, and obtained the values which appear on *Figure 14*. As Group SEB computes the income tax from EBT and that I have thus no means to precisely calculate tax rate on EBIT, I decided to use the median of tax rates based on EBIT over the last five years to forecast the income tax. Therefore, I applied an effective tax rate of 18,69% from 2021 to 2025.

iv. *<u>Capital Expenditure</u>*

Capital Expenditure (CapEx) includes purchases of property, plant and equipment, and purchases of software and other intangible assets. As mentioned before, one of Groupe SEB growth drivers is related to acquisitions of new companies all around the world. As we can see on *Figure 15*, CapEx and revenues evolve in the direction; when revenue increases, CapEx increases and vice versa. Therefore, the growth revenues must be supported by Capital Expenditure. For this reason, I expressed CapEx as a percentage of revenue and decided to apply a little bit more than the average percentage (3,2%). Therefore, to forecast CapEx, I have applied a percentage of 3,6%[62] to the forecasted revenues each year.

[60] Groupe SEB. *Universal registration document and annual financial report – 2016, 2017, 2018, 2019, 2020.*
[61] Breaking Into Wall Street. *Financial Modeling Fundamentals, Modules 7 – 9: Valuation and DCF Analysis*

[62] Appendix 5: CF Statement.

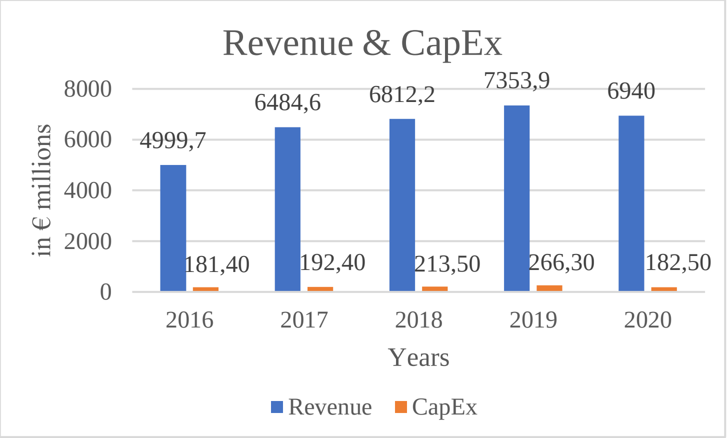


Figure 15: Revenue[63] & CapEx[64]

VI. Valuation

To estimate Groupe SEB implied share price, I used two different valuation methods: Discounted Cash Flow and Market Multiples. In this section, I will explain my methodology to collect data and apply those methods.

1. Discounted Cash Flow Method

i. WACC

Firstly, to be able to discount the Unlevered FCF in the DCF method, I need to calculate the Weighted Average Cost of Capital (WACC) which is given by this formula:

$$WACC = \left(\frac{E}{D+E} * r_e\right) + \left(\frac{D}{D+E} * r_d * (1-t)\right)$$

$$where\ r_e = Cost\ of\ Equity, r_d = Cost\ of\ debt, t = marginal\ tax\ rate,$$
$$E = market\ value\ of\ equity, D = market\ value\ of\ debt$$

To compute the WACC, I need to calculate the Cost of Equity and the Cost of debt as all the other parameters are available on the market. We can find on *Table 2* the details on my WACC calculation, and I will explain how and why I selected those data.

[63] Appendix 3: P&L.
[64] Appendix 5: CF Statement.

WACC Calculation	25-06-2021
Risk-Free Rate	0,998%
Beta	0,615
Market risk premium	8,00%
Cost of Equity	**5,92%**
Euro Swap Rate 10y	0,244%
Credit Spread	2,18%
Pre-tax Cost of Debt	**2,42%**
Tax rate	21,2%
Gearing ratio	29,3%
Post-tax WACC	**4,74%**

Table 2: WACC Calculation[65]

Cost of Equity

To compute the Cost of Equity, I used the formula of the Capital Asset Pricing Model (CAPM):

$$r_e = r_f + \beta_L * (r_m - r_f)$$

$$where\ r_f = risk - free\ rate, \beta_L = levered\ beta, r_m - r_f = market\ risk\ premium$$

- For the risk-free rate, I took the yield of a 30-year French bond as the major part of sales are made in Europe and as France is one of the countries in which most sales are made.[66]
- For the levered beta, I used the adjusted beta of Groupe SEB given by Bloomberg with the function "BETA".[67]
- According to PwC France documentation about WACC, the market risk premium of France is "*currently estimated in a range between 7,25% and 8,25%*". Therefore, I chose to apply 8%.[68]

I therefore obtained a Cost of Equity of 5,92%.

Cost of debt

The Cost of debt is defined by the following formula:

$$r_d = (Pre - tax\ Cost\ of\ Debt) * (1 - t)$$

- To compute the pre-tax cost of debt, I added the 10-year euro swap rate[69] and the credit spread between the yield of a 7-year Groupe SEB bond issued in 2015[70] and the yield

[65] Excel files – Lyssia Crucitti.
[66] Trading Economics. *France 30Y.*
[67] Appendix 7: BETA.
[68] PwC. *Documentation Weighted Average Cost of Capital.*
[69] European Central Bank. *Euro area yield curves*.
[70] Appendix 8: SEB SA bonds.

of a 10-year French government bond.[71] Groupe SEB has not issued bonds without embed options and it mostly issues 5- or 7-year bonds.

- For the tax rate, I used the effective tax rate of Groupe SEB in 2020.
- For the gearing ratio, I used the median gearing of comparable companies.

I therefore obtained a Cost of Debt of 2,42%.

Finally, after computation, I obtained a WACC of 4,74%. It is interesting to compare this value to the WACC value computed on Bloomberg which worth 4,6%.[72]

ii. Forecasted Unlevered Free Cash Flow

The next step consists of calculating the forecasted Unlevered Free Cash Flow of Groupe SEB. To do that, I calculated the Net Operating Profit After Tax (NOPAT) which is equal to $EBIT - taxes\ on\ EBIT$. Then, I added D&A, deducted Capital Expenditure, and added/deducted Net Change in Working Capital to obtain the Unlevered Free Cash Flow. Furthermore, I calculated the Present Value of Unlevered FCF each year by multiplying each FCF by $\frac{1}{(1+WACC)^t}$. At the end of the process, I added each present value of FCF and obtained a cumulative present value of Unlevered FCF of €1.967,95 million (*Table 3*).

DCF	31/12/2020	FY21	FY22	FY23	FY24	FY25
in € millions	**Audited**	**Forecast**	**Forecast**	**Forecast**	**Forecast**	**Forecast**
Revenue	6940,00	7580,39	8106,07	8603,42	9062,08	9472,01
% of growth	-5,63%	9,23%	6,93%	6,14%	5,33%	4,52%
EBIT	503,30	561,74	600,70	637,56	671,55	701,92
As a % of revenues	7,25%	7,41%	7,41%	7,41%	7,41%	7,41%
Taxes on EBIT	-93,80	-104,69	-111,95	-118,82	-125,16	-130,82
As a % of EBIT	18,64%	18,64%	18,64%	18,64%	18,64%	18,64%
Net Operating Profit After Tax (NOPAT)	**409,50**	**457,05**	**488,75**	**518,74**	**546,39**	**571,11**
D&A	273,90	207,96	222,38	236,03	248,61	259,86
As a % of revenues	3,95%	2,74%	2,74%	2,74%	2,74%	2,74%
Capital Expenditure	182,50	272,59	291,50	309,38	325,88	340,62
As a % of revenues	2,63%	3,60%	3,60%	3,60%	3,60%	3,60%
Net change in Working Capital	-367,60	475,77	-104,85	-113,49	-127,33	-138,20
Unlevered Free Cash Flow	**133,30**	**868,19**	**314,79**	**331,90**	**341,80**	**352,15**

Discount period		1	2	3	4	5
WACC		4,74%	4,74%	4,74%	4,74%	4,74%
Discount factor		0,95	0,91	0,87	0,83	0,79
Present Value of annual future FCF		828,88	286,93	288,83	283,98	279,33
Cumulative PV of future FCF						**1967,95**

Ajusted EBITDA	855,10	853,09	912,25	968,22	1019,84	1065,97
% of growth	-12,81%	-0,23%	6,93%	6,14%	5,33%	4,52%

Table 3: Discounted Cash Flow method [73]

[71] MarketWatch. *France 10 Year Government Bond.*
[72] Appendix 9: WACC.
[73] Excel files – Lyssia Crucitti

iii. *Estimation of Groupe SEB Implied Share Price*

To determine the Terminal Value of Groupe SEB, I firstly used the Perpetuity Growth Method (PGM), also called Gordon Growth Model (GGM). By definition:

$$TV_n = \frac{FCFF_n * (1 + g_n)}{(WACC - g_n)}$$

$$where\ n = terminal\ year\ of\ the\ projection\ period, g_n = perpetuity\ growth\ rate$$

For the perpetuity growth rate, I took the world long-term GDP growth rate given by the OECD which worth 2%.[74] I therefore obtained a Terminal Value of €13.099,3 million. Then, I added the present value of this terminal value to the sum of discounted Unlevered FCF to compute the Implied Enterprise Value (EV). Furthermore, I deducted cash and cash equivalents, total debt, and non-controlling interests of the last fiscal year (2020) from the Implied EV to obtain the Implied Equity Value. I divided that number by the amount of diluted shares outstanding (50,3 million) and I obtained an Implied Share Price of €196,87 which represents a growth of 31,6% compared to its current share price, €149,6 on July 21, 2021 (*Table 4*).

Terminal Value - Perpetuity Growth Method:	
Expected Long-Term GDP Growth:	2,00%
Baseline Terminal Value:	13.099,3
Implied Terminal EBITDA Multiple:	12,3 x
(+) PV of Terminal Value:	10.390,6
(+) Sum of PV of Free Cash Flows:	1.967,9
Implied Enterprise Value:	**12.358,6**
(+) Cash & Cash-Equivalents:	1.769,4
(+) Equity Investments:	
(+) Other Non-Core Assets, Net:	
(+) Net Operating Losses:	
(-) Total Debt:	3.958,0
(-) Preferred Stock:	
(-) Noncontrolling Interests:	267,3
(-) Unfunded Pension Obligations:	
(-) Capital Leases:	
(-) Restructuring & Other Liabilities:	
Implied Equity Value:	**9.902,7**
Diluted Shares Outstanding (31/12/2020):	50,3
Implied Share Price from DCF:	**196,87**
Current Share Price (21-07-2021):	**149,60**
Premium / (Discount) to Current:	**31,6%**

Table 4: Implied Share Price from DCF[75]

[74]OECD. (July 2018). *The Long View: Scenarios for the world economy to 2060.*
[75] Breaking Into Wall Street. *Financial Modeling Fundamentals, Modules 7 – 9: Valuation and DCF Analysis* [Canvas].

2. Market Multiples Method

i. Peers' selection

The first step of the Market Multiples Method consists of choosing right comparable public companies to Groupe SEB. In the first instance, I used the function "RMAP – Relationship Map" on Bloomberg. As detailed on *Table 5*, that function gave me four companies that I decided to keep as peers.

Comparable Company	Country	Market Cap (in € millions)
Electrolux AB-B	Sweden	5.474
De 'Longhi SPA	Italy	3.831
METALL ZUG B-REG	Switzerland	621,4
V-ZUG Holding AG	Switzerland	832,1

Table 5: Comparable Companies[76]

ii. Selection and calculation of metrics and multiples

I have decided to use the metric EV/EBITDA as EBITDA "*provides a clearer picture of the financial performance of a company since it strips out debt costs, taxes, and accounting measures like depreciation, which spreads the costs of fixed assets out for many years"* (Maverick, 2021). Firstly, I searched on Bloomberg the EV/EBITDA of Groupe SEB and its comparable companies. Then, I calculated the maximum, the minimum, the 25th and the 75th percentile, and the median as detailed in *Table 6*. I selected the median EV/EBITDA of comparable companies of 2020 (the last fiscal year) which worth 10,69.

EV/EBITDA in € millions	FY18	FY19	FY20	FC21	FC22	FC23
Groupe SEB	**9,25**	**9,87**	**11,95**	**10,15**	**9,52**	**8,99**
Electrolux	6,25	8,72	5,08	5,92	5,94	5,61
De'Longhi	10,11	8,81	10,69	11,42	10,85	10,22
METALL ZUG	7,73	11,06	14,33	20,91	15,53	12,81
V-ZUG Holding	0	0	5,81	9,38	9,12	8,27
Maximum	10,11	11,06	14,33	20,91	15,53	12,81
75th Percentile	9,25	9,87	11,95	11,42	10,85	10,22
Median	7,73	8,81	**10,69**	10,15	9,52	8,99
25th Percentile	6,25	8,72	5,81	9,38	9,12	8,27
Minimum	0	0	5,08	5,92	5,94	5,61

Table 6: EV/EBITDA[77]

[76] Appendix 10: Relationship Map.
[77] Bloomberg on July 14, 2021.

iii. *Estimation of Groupe SEB Implied Share Price*

Firstly, I calculated the Terminal Value by using the Exit Multiple Method (EMM) which gives the following formula:

$$TV_n = EBITDA_n * Exit\ Multiple$$

$$where\ Exit\ Multiple = median\ of\ \frac{EV}{EBITDA}\ of\ comparable\ companies$$

Therefore, by multiplying the median $\frac{EV}{EBITDA}$ of comparable companies in 2020 (10,7x) by the EBITDA in 2025 (€1.065,97 million), I obtained a terminal value of €11.395,2 million. Then, I added the present value of this terminal value to the sum of discounted Unlevered FCF to compute the Implied Enterprise Value (EV). Furthermore, I deducted cash and cash equivalents, total debt, and non-controlling interests of the last fiscal year (2020) from the Implied EV to obtain the Implied Equity Value. I divided that number by the amount of diluted shares outstanding (50,3 million) and I obtained an Implied Share Price of €170,00 which represents a growth of 13,6% compared to its current share price, €149,6 on July 21, 2021 (*Table 7*).

Terminal Value - Multiples Method:	
Median EV / EBITDA of Comps:	10,7 x
Baseline Terminal EBITDA Multiple:	10,7 x
Baseline Terminal Value:	11.395,2
(+) PV of Terminal Value:	9.039,0
(+) Sum of PV of Free Cash Flows:	1.967,9
Implied Enterprise Value:	**11.006,9**
(+) Cash & Cash-Equivalents:	1.769,4
(+) Equity Investments:	
(+) Other Non-Core Assets, Net:	
(+) Net Operating Losses:	
(-) Total Debt:	3.958,0
(-) Preferred Stock:	
(-) Noncontrolling Interests:	267,3
(-) Unfunded Pension Obligations:	
(-) Capital Leases:	
(-) Restructuring & Other Liabilities:	
Implied Equity Value:	**8.551,0**
Diluted Shares Outstanding (31/12/2020):	50,3
Implied Share Price:	**170,00**
Current Share Price (21-07-2021):	**149,60**
Premium / (Discount) to Current:	**13,6%**

Table 7: Implied Share Price from Multiples [78]

[78] Breaking Into Wall Street. *Financial Modeling Fundamentals, Modules 7 – 9: Valuation and DCF Analysis* [Canvas].

VII. Sensitivity analysis

After having obtain two Implied Share Prices by two different methods, I realized a sensitivity analysis on the Implied Share Price. I used a color code where the light red zone represents the zone where the Implied Share Price is lower than the current one. Therefore, it corresponds to a recommendation to sell Groupe SEB shares. The light green zone represents the zone where the Implied Share Price is higher than the current one. Therefore, it corresponds to a recommendation to buy or hold Groupe SEB shares.

Firstly, I looked at the variation in the price when the WACC and the long-term growth rate (perpetuity growth rate) change as part of the DCF method. For the limits, I decided to apply a variation of 0,3% on the WACC in order to have a lower bound higher than the upper bound of the long-term growth rate to avoid having a negative denominator. For the long-term growth rate, I decided to apply a variation of 0,1%. As we can see on *Table 8*, from a WACC higher than 5,34% and regardless the level of the long-term growth rate, the share price is lower than the current share price. Therefore, a too high level of WACC would have led to a recommendation to sell Groupe SEB stocks. In addition, the more the level of WACC decreases and the long-term growth rate increases, the more the share price increases.

		Weighted Average Cost of Capital (WACC):										
		3,24%	3,54%	3,84%	4,14%	4,44%	**4,74%**	5,04%	5,34%	5,64%	5,94%	6,24%
Long-term Growth rate (Terminal Value Calculated Using the Gordon Growth Method):	2,40%	716,12	517,75	402,02	326,24	272,79	233,10	202,48	178,14	158,35	141,95	128,15
	2,30%	638,44	474,81	374,95	307,69	259,34	222,93	194,54	171,79	153,17	137,65	124,52
	2,20%	575,67	438,27	351,17	291,06	247,09	213,56	187,16	165,84	148,28	133,57	121,07
	2,10%	523,89	406,80	330,12	276,05	235,89	204,90	180,28	160,26	143,67	129,70	117,79
	2,00%	480,45	379,41	311,36	262,44	225,60	**196,87**	173,86	155,01	139,31	126,03	114,66
	1,90%	443,48	355,35	294,53	250,05	216,12	189,41	167,84	150,07	135,19	122,55	111,68
	1,80%	411,64	334,06	279,35	238,71	207,36	182,45	162,20	145,41	131,28	119,23	108,83
	1,70%	383,93	315,08	265,58	228,31	199,24	175,95	156,89	141,00	127,57	116,06	106,11
	1,60%	359,60	298,05	253,05	218,72	191,69	169,87	151,89	136,83	124,04	113,05	103,50

Table 8: Share price sensitivity to WACC and perpetuity growth rate variations.[79]

Then, I looked at the variation in the price when the WACC and the median EV/EBITDA change as part of the Market Multiples method. For the limits, I decided to apply the same variation of 0,3% on the WACC and of 1x on the median EV/EBITDA. As we can observe on *Table 9*, regardless the level of the WACC, when the median EV/EBITDA is lower than 9,7x, the share price is lower than the current one. Therefore, the level of the Exit Multiples has a high impact on the price and having too small comparable companies would have led to a recommendation to sell Groupe SEB stocks.

[79] Excel files – Lyssia Crucitti.

		Weighted Average Cost of Capital (WACC):										
		3,24%	3,54%	3,84%	4,14%	4,44%	**4,74%**	5,04%	5,34%	5,64%	5,94%	6,24%
Terminal EV / EBITDA Multiple (Terminal Value Calculated Using the Multiples Method):	14,7 x	255,71	251,89	248,13	244,44	240,81	237,24	233,73	230,29	226,90	223,57	220,29
	13,7 x	237,64	234,08	230,58	227,14	223,75	220,43	217,16	213,95	210,79	207,69	204,64
	12,7 x	219,57	216,27	213,03	209,84	206,70	203,62	200,59	197,61	194,69	191,81	188,98
	11,7 x	201,51	198,46	195,47	192,54	189,65	186,81	184,02	181,28	178,58	175,93	173,32
	10,7 x	183,44	180,66	177,92	175,24	172,60	**170,00**	167,45	164,94	162,47	160,05	157,67
	9,7 x	165,37	162,85	160,37	157,94	155,54	153,19	150,88	148,60	146,37	144,17	142,01
	8,7 x	147,30	145,04	142,82	140,64	138,49	136,38	134,31	132,27	130,26	128,29	126,35
	7,7 x	129,24	127,24	125,27	123,34	121,44	119,57	117,73	115,93	114,16	112,41	110,70
	6,7 x	111,17	109,43	107,72	106,04	104,38	102,76	101,16	99,59	98,05	96,53	95,04

Table 9: Share price sensitivity to WACC and Exit Multiples variations.[80]

VIII. Conclusion

Through this dissertation entitled *Fundamental Analysis of Groupe SEB Stocks*, I wanted to give an estimation of the Implied Share Price of Groupe SEB by using two different valuation methods in order to be able to make a recommendation to buy, hold or sell its shares.

In order to do that, I firstly reviewed the literature about fundamental analysis and valuation methods. That helped me to understand the very core and the theory behind these two concepts. Then, I made a complete analysis of Groupe SEB and its environment. Groupe SEB is a French group that gathers 31 different brands and that is the worldwide leader in the field of small electronical household appliance. I learnt that its strategy relied on innovation, an international cover, strategic acquisitions, and a multi-channel distribution policy. I have also identified risks to which it is exposed and made a SWOT analysis.

Furthermore, I realized a financial analysis that allowed me to analyze and understand its historical financial performances, its assets composition, and its financing methods. I also provided an overview of the Covid-19 impacts and of the current situation through the first-half 2021 results. The health crisis has mostly impacted the group in 2020 and it was forced to take measures to limit losses and maintain investor confidence. However, the first results of 2021 are encouraging and show that Groupe SEB got back on track and regained great growth. After that, I was able to make projections of financial statements in order to calculate the Unlevered Free Cash Flow as part of the DCF method.

Then, with a WACC calculated at 4,74%, I obtained an Implied Share Price of €196,87 through DCF method. Through Market Multiples, I obtained €170,00. I decided to do the average between the two methods, and I finally obtained an Implied Share Price of €183,44, which

[80] Excel files – Lyssia Crucitti.

represents a growth of 22,6% compared to its current share price, €149,6 (July 21, 2021). Therefore, I make a recommendation to buy shares or to hold existing shares based on an Implied Share Price of 183,44€ (*Table 10*).

DCF	Multiples	Mean
€196,87	€170,00	€183,44

Table 10: Summary of Groupe SEB Implied Share Price

I ended this dissertation with a sensitivity analysis that allowed me to observe the variation of the Implied Share Price by the two methods according to the variation of WACC and Exit Multiples, and WACC and perpetuity growth rate.

IX. Bibliography

Boursorama. *Cours SEB*. Consulted on July 22, 2021, from https://www.boursorama.com/cours/1rPSK/

Breaking Into Wall Street. *Financial Modeling Fundamentals, Modules 7 – 9: Valuation and DCF Analysis* [PDF].

CNEF. (August 3, 2021). *Le marché de l'électroménager*. Retrieved from https://lacnef.fr/le-marche-electromenager/

Corporate Finance Institute. *Multiples Analysis* [Online]. Consulted on June 16, 2021, from https://corporatefinanceinstitute.com/resources/knowledge/valuation/multiples-analysis/

Esict. *What is metal stamping?* [Online]. Consulted on December 10, 2020, from https://www.esict.com/what-is-metal-stamping/

European Central Bank. *Euro area yield curves*. Consulted on June 25, 2021, from https://www.ecb.europa.eu/stats/financial_markets_and_interest_rates/euro_area_yield_curves/html/index.en.html

Fernando, J. (March 13, 2021). *Discounted Cash Flow*. Investopedia. Retrieved from https://www.investopedia.com/terms/d/dcf.asp

GlobeNewswire. (February 26, 2021). *Household Appliances Global Market Report 2021: COVID 19 Impact and Recovery to 2030.* Retrieved from https://www.globenewswire.com/fr/news-release/2021/02/26/2183555/0/en/Household-Appliances-Global-Market-Report-2021-COVID-19-Impact-and-Recovery-to-2030.html

GlobeNewswire. (April 26, 2021). *The Global Cookware Market is expected to grow by $ 5.30 billion during 2021-2025, progressing at a CAGR of almost 4% during the forecast period.* Retrieved from https://www.globenewswire.com/news-release/2021/04/26/2216546/0/en/The-Global-Cookware-Market-is-expected-to-grow-by-5-30-billion-during-2021-2025-progressing-at-a-CAGR-of-almost-4-during-the-forecast-period.html

Goodreads. *Security Analysis: Principles and Technique* [Online]. Consulted on June 16, 2021, from https://www.goodreads.com/book/show/203409.Security_Analysis

Grand View Research. (May 2021). *Cookware Market Size, Share & Trends Analysis Report.* Retrieved from https://www.grandviewresearch.com/industry-analysis/cookware-market

Groupe SEB. (2021). *Universal registration document and annual financial report – 2020* [PDF]. Retrieved from https://www.groupeseb.com/sites/default/files/2021-04/21_04_13_SEB_URD_2020_EN_MEL_DEF_0.pdf

Groupe SEB. (2020). *Universal registration document and annual financial report – 2019* [PDF]. Retrieved from https://www.groupeseb.com/sites/default/files/SEB2019_URD_EN_V-MEL-17_04_2020_1.pdf

Groupe SEB. (2019). *Universal registration document and annual financial report – 2018* [PDF]. Retrieved from https://www.groupeseb.com/sites/default/files/GroupeSEB-%202018_Financial_report_and_registration_document-08042019.pdf

Groupe SEB. (2018). *Universal registration document and annual financial report – 2017* [PDF].Retrieved from https://www.groupeseb.com/sites/default/files/groupeseb-2017financial_report_and_registration_document-en_2.pdf

Groupe SEB. (2017). *Document de référence et rapport financier annuel – 2016* [PDF]. Retrieved from https://www.groupeseb.com/sites/default/files/2018-09/groupeseb-documentdereferencerapportfinancierannuel2016-fr.pdf#page=0

Groupe SEB. (February 25, 2021). *2020 FULL-YEAR RESULTS* [PDF]. Retrieved from https://www.groupeseb.com/sites/default/files/2021-02/GroupeSEB-Presentation%202020%20Full-year%20-25022021.pdf

Groupe SEB. (February 27, 2020). *2019 FULL-YEAR RESULTS* [PDF]. Retrieved from https://www.groupeseb.com/sites/default/files/Groupe%20SEB_2019_Full-Year_Results_presentation-27022020.pdf

Groupe SEB. (February 28, 2019). *2018 FULL-YEAR RESULTS* [PDF]. Retrieved from https://www.groupeseb.com/sites/default/files/Groupe%20SEB-Presentation-2018%20Results-28022019.pdf

Groupe SEB. (March 1, 2018). *2017 FULL-YEAR RESULTS* [PDF]. Retrieved from https://www.groupeseb.com/sites/default/files/groupeseb_resultats2017_vf_en%20%281%29.pdf

Groupe SEB. (2017). *2016 FULL-YEAR RESULTS* [PDF].

Groupe SEB. (April 22, 2021). *2021 first-quarter sales and financial data* [PDF]. Retrieved from https://www.groupeseb.com/sites/default/files/2021-05/GroupeSEB_Presentation_First-quarter_2021_sales_and_financial_data_20042021_1.pdf

Groupe SEB. (April 28, 2020). *2020 first-quarter sales and financial data* [PDF]. Retrieved from https://www.groupeseb.com/sites/default/files/GroupeSEB_Presentation_First-quarter_2020_sales_and_financial_data.pdf

Groupe SEB. (July 23, 2021). *First-half 2021 sales and results* [PDF]. Retrieved from https://www.groupeseb.com/sites/default/files/2021-07/Groupe%20SEB_2021_Half-year_Results-23072021.pdf

Groupe SEB. (July 23, 2020). *First-half 2020 sales and results* [PDF]. Retrieved from https://www.groupeseb.com/sites/default/files/Groupe%20SEB_2020_Half-year_Results-23072020-B.pdf

Groupe SEB. (July 24, 2019). *First-half 2019 sales and results* [PDF]. Retrieved from https://www.groupeseb.com/sites/default/files/Groupe%20SEB_2019_Half-Year_Results_Presentation_24072019.pdf

Groupe SEB. *History of Groupe SEB* [Online]. Consulted on December 11, 2020, from https://www.groupeseb.com/en/history-of-groupe-SEB

Groupe SEB. *Distribution* [Online]. Consulted on December 11, 2020, from https://www.groupeseb.com/en/distribution

Groupe SEB. *Strategy* [Online]. Consulted on December 11, 2020, from https://www.groupeseb.com/en/strategy

Groupe SEB. *1975 – 2015 – 40 ans de cotation* [Online]. Consulted on December 12, 2020, from https://www.groupeseb.com/fr/node/415#:~:text=L'action%20SEB%20a%20%C3%A9t%C3%A9,de%205%2C78%20%E2%82%AC*

Investir.fr. (April 23, 2021). *Seb bouillonne en Bourse après des ventes bien plus fortes que prévu au premier trimestre, retour sur la cuisine d'un succès.* LesEchos Investir. Retrieved from https://investir.lesechos.fr/actions/actualites/seb-bouillonne-en-bourse-apres-des-ventes-bien-plus-fortes-que-prevu-au-premier-trimestre-retour-sur-la-cuisine-d-un-succes-1959375.php

Iweins, D. (July 23, 2021). *SEB va répercuter la hausse des coûts à ses clients*. LesEchos. Retrieved from https://www.lesechos.fr/industrie-services/conso-distribution/seb-va-repercuter-la-hausse-des-couts-a-ses-clients-1334290

MarketWatch. *France 10 Year Government Bond* [Online]. Consulted on June 25, 2021, from https://www.marketwatch.com/investing/bond/tmbmkfr-10y?countrycode=bx

MarketWatch. (July 24, 2021). *At a 5.3% CAGR, Professional Coffee Machine Market 2021 is expected to register a Significant Growth by Increasing demand from end-user industries including Coffee Shops and Bakeries.* Retrieved from https://www.marketwatch.com/press-release/at-a-53-cagr-professional-coffee-machine-market-2021-is-expected-to-register-a-significant-growth-by-increasing-demand-from-end-user-industries-including-coffee-shops-and-bakeries-2021-07-24 [Press Release]

Maverick, J.B. (June 7, 2021). *Should You Pay More Attention to the EV/EBITDA or P/E Multiple?* Investopedia. Retrieved from https://www.investopedia.com/ask/answers/061515/which-metric-should-i-pay-more-attention-evebitda-or-pe.asp

Murphy, C. (January 16, 2021). *Understanding the Cash Flow Statement*. Investopedia. Retrieved from https://www.investopedia.com/investing/what-is-a-cash-flow-statement/

OECD. (July 2018). *The Long View: Scenarios for the world economy to 2060*. Retrieved from https://www.oecd.org/economy/growth/scenarios-for-the-world-economy-to-2060.htm

PwC. *Documentation Weighted Average Cost of Capital* [Online]. Consulted on June 25, 2021, from https://www.pwc.fr/en/services/transaction/evaluation/valuation-corner/documentation.html

Segal, T. (March 11, 2021). *Fundamental Analysis*. Investopedia. Retrieved from https://www.investopedia.com/terms/f/fundamentalanalysis.asp

Sommerer, G. (April 19, 2021). *Sarah Thirion (TP ICAP Europe) : Groupe SEB à l'achat* [VIDEO]. BFM Business. Retrieved from https://www.bfmtv.com/economie/replay-emissions/bfm-bourse/sarah-thirion-tp-icap-europe-groupe-seb-a-l-achat-19-04_VN-202104190319.html

Soubranne, Q. (April 23, 2021). *S.E.B. : les ventes d'électroménager explosent et ramènent SEB proche de son pic historique en bourse.* BFM Bourse. Retrieved from https://www.tradingsat.com/seb-FR0000121709/actualites/seb-les-ventes-d-electromenager-explosent-et-ramenent-seb-proche-de-son-pic-historique-en-bourse-964979.html

Statista. (April 12, 2021). *Growth rate of real gross domestic product (GDP) in China from 2010 to 2020 with forecasts until 2026*. Retrieved from https://www.statista.com/statistics/263616/gross-domestic-product-gdp-growth-rate-in-china/

Statista. (June 16, 2021). *Growth of the real gross domestic product (GDP) in the European Union and the Euro area from 2016 to 2026*. Retrieved from https://www.statista.com/statistics/267898/gross-domestic-product-gdp-growth-in-eu-and-euro-area/

Statista. (June 1, 2021). *Real gross domestic product (GDP) growth rate in the United States from 2016 to 2026*. Retrieved from https://www.statista.com/statistics/263614/gross-domestic-product-gdp-growth-rate-in-the-united-states/

Stowe, J., Robison, T., Pinto, J., McLeavey, D. (2007). *Equity Asset Valuation* [PDF]. John Wiley & Sons, Inc. https://books.mec.biz/tmp/books/ITGVZUIMRPCIOBB6RSFP.pdf

The Business Research Company. (January 2021). *Small Electrical Appliance Global Market Report 2021: COVID 19 Impact And Recovery To 2030*. Retrieved from https://www.thebusinessresearchcompany.com/report/small-electrical-appliances-global-market-report

Trading Economics. *France 30Y* [Online]. Consulted on June 25, 2021, from https://tradingeconomics.com/gfrn30y:ind

Verhaegen, J-C. (April 22, 2021). *Seb anticipe une solide croissance des ventes en 2021, après un fort rebond au premier trimestre.* Le Figaro. Retrieved from https://www.lefigaro.fr/flash-eco/seb-anticipe-une-solide-croissance-des-ventes-en-2021-apres-un-fort-rebond-au-premier-trimestre-20210422

Abstract:

This dissertation aims to estimate the equity value of Groupe SEB in order to make a recommendation to buy or sell its stocks. My study, therefore, starts with a complete analysis of the company, its sector, and its competitors. It is followed by a detailed financial analysis based on historical and forecasted financial statements. My research ends with the valuation achieved through Discounted Cash Flow and Market Multiples methods.

UNIVERSITÉ CATHOLIQUE DE LOUVAIN
Louvain School of Management

Place des Doyens, 1 bte L2.01.01, 1348 Louvain-la-Neuve
Boulevard Emile Devreux 6, 6000 Charleroi, Belgique
Chaussée de Binche 151, 7000 Mons, Belgique

www.uclouvain.be/lsm