

Ermenegildo Zegna N.V

Ending the year on a high note

Reiterate Rating: BUY | PO: 14.00 USD | Price: 12.19 USD

Not everything is just about Triple Stitch

Zegna Group revenues in 4Q grew +20% organically (+43% at cFX incl. Tom Ford) making it the fastest growing luxury company to date in our coverage. In our view, strength of the result is impressive as the Group is doing all the right things across its portfolio, delivering on strategic promises: 1) own retail exposure at core brands +2ppt YoY, as DTC outperformed at +29% cFX; 2) luxury leisurewear (+1-2ppt YoY) and footwear (+1-2ppt YoY) gained share as % of sales at Zegna brand, outperforming formalwear, as turnaround is also starting to gain traction in China; 3) Tom Ford delivered a strong holiday season, as brand commences its journey at the group. Management confirmed that the Dec trend was stronger than previous months and “the year finished on a positive note”. We slightly tweak our 2023 EPS but leave 2024-25 broadly unchanged. We are 3-5% below consensus 2024-25, but 21x P/E does not screen expensive for 19% EPS CAGR. Reiterate Buy, PO \$14.

Thom Browne and Tom Ford drove the 4Q beat

The 4Q was solid across the board, however the scope of the 10ppt beat vs consensus was driven by Thom Browne and Tom Ford, +20-25% vs Street. Thom Browne saw DTC +41% cFX (+13% on an organic basis excl. conversion of 17 POS in Korea) and wholesale +27% cFX as the brand adjusted its shipment timing vs 2022. Tom Ford 4Q sales of €97m were a positive surprise, as the brand had strong performance during the holiday season, also reflective of quarterly seasonality. Key Zegna brand grew +18% organically in 4Q, broadly in line with our expectation, despite negative wholesale trends of -7% cFX, driven largely by conversion of Saks into a concession and a shift in delivery timing elsewhere due to a planned change to a drop-based merchandising strategy.

Group gains momentum towards its mid-term goals

At the December CMD Zegna set out to achieve >10% revenue CAGR and c. 20% EBIT CAGR vs 2023 in the medium term. We believe current momentum provides good foundation for achieving mid-term goals. However, we now model 9% revenue CAGR and 15% EBIT CAGR vs 2023, as we await further evidence around group's ability to drive profitability at Tom Ford. For 2024 we forecast +12% growth (6% organic) for the Group with EBIT margin -60bps YoY.

Estimates (Dec) (EUR)	2021A	2022A	2023E	2024E	2025E
EPS (Adjusted Diluted)	0.33	0.25	0.44	0.50	0.62
EPS Change (YoY)	844.3%	-23.6%	78.7%	13.6%	21.9%
Dividend / Share	0	0.10	0.14	0.16	0.20
Valuation (Dec)					
P/E	33.0x	45.9x	24.8x	22.2x	18.2x
Dividend Yield	0%	0.89%	1.25%	1.44%	1.76%
EV / EBITDA*	12.8x	12.1x	9.57x	8.84x	7.71x
Free Cash Flow Yield*	8.18%	2.74%	3.41%	6.06%	8.54%

* For full definitions of *IQmethod™* measures, see page 15.

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Refer to important disclosures on page 16 to 18. Analyst Certification on page 13. Price Objective Basis/Risk on page 13.

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Timestamp: 01 February 2024 04:00AM EST

01 February 2024

Equity

Key Changes

(EUR)	Previous	Current
2023E EPS	0.43	0.44
2025E EPS	0.61	0.62

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Stock Data

Price	12.19 USD
Price Objective	14.00 USD
Date Established	10-Jan-2024
Investment Opinion	B-1-7
52-Week Range	10.12 USD-16.36 USD
Mrkt Val / Shares Out (mn)	3,243 USD / 266.0
Average Daily Value (mn)	6.44 USD
Free Float	21.6%
BofA Ticker / Exchange	ZGN / NYS
Bloomberg / Reuters	ZGN US / ZGN.N
ROE (2023E)	16.9%
Net Dbt to Eqty (Dec2022A)	29.6%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

iQprofileSM Ermenegildo Zegna N.V

Key Income Statement Data (Dec)

(EUR Millions)

	2021A	2022A	2023E	2024E	2025E
Sales	1,301	1,507	1,905	2,123	2,301
EBITDA Adjusted	312	331	419	454	520
Depreciation & Amortization	(163)	(174)	(195)	(217)	(235)
EBIT Adjusted	149	158	224	237	285
Net Interest & Other Income	(2.90)	(46.7)	(10.4)	(10.5)	(10.4)
Tax Expense / Benefit	(30.7)	(35.8)	(77.5)	(89.5)	(109)
Net Income (Adjusted)	66.6	59.8	112	127	155
Average Fully Diluted Shares Outstanding	205	241	252	252	252

Key Cash Flow Statement Data

Net Income (Reported)	(136)	51.5	108	125	152
Depreciation & Amortization	163	174	195	217	235
Change in Working Capital	(5.94)	(176)	(112)	(43.7)	(32.1)
Deferred Taxation Charge	0	0	0	0	0
Other CFO	260	97.6	19.2	20.1	21.3
Cash Flow from Operations	281	146	209	318	376
Capital Expenditure	(94.3)	(73.3)	(114)	(149)	(138)
(Acquisition) / Disposal of Investments	0	0	0	0	0
Other CFI	12.3	16.0	(118)	16.5	16.5
Cash Flow from Investing	(82.0)	(57.3)	(233)	(132)	(121)
Share Issue / (Repurchase)	5.96	3.39	0	0	0
Cost of Dividends Paid	(0.65)	(26.0)	(23.8)	(34.9)	(40.3)
Increase (decrease) debt	(35.8)	(158)	0	0	0
Other CFF	(33.6)	(116)	(137)	(144)	(150)
Cash Flow from Financing	(64.1)	(297)	(160)	(179)	(190)
Total Cash Flow (CFO + CFI + CFF)	135	(208)	(184)	6.44	64.7
FX and other changes to cash	7.45	2.35	0	0	0
Change in Cash	143	(206)	(184)	6.44	64.7
Change in Net Debt	(178)	47.7	184	(6.44)	(64.7)
Net Debt	169	217	400	394	329

Key Balance Sheet Data

Property, Plant & Equipment	111	126	129	141	132
Goodwill	NA	NA	NA	NA	NA
Other Intangibles	425	456	494	543	588
Other Non-Current Assets	536	559	574	590	606
Trade Receivables	160	177	229	251	267
Cash & Equivalents	460	254	70.7	77.1	142
Other Current Assets	764	854	957	1,006	1,041
Total Assets	2,458	2,427	2,454	2,607	2,776
Long-Term Debt	472	185	185	185	185
Other Non-Current Liabilities	639	643	643	643	643
Short-Term Debt	157	286	286	286	286
Other Current Liabilities	545	581	634	671	701
Total Liabilities	1,813	1,694	1,747	1,784	1,815
Total Equity	644	732	706	822	962
Total Equity & Liabilities	2,458	2,427	2,454	2,607	2,776

Business Performance*

Return On Capital Employed	6.88%	5.42%	7.34%	7.58%	8.54%
Return On Equity	11.1%	9.35%	16.9%	18.2%	19.0%
Operating Margin	-7.22%	9.81%	10.7%	11.0%	12.3%
Free Cash Flow (MM)	187	73.1	95.1	169	238

Quality of Earnings*

Cash Realization Ratio	4.22x	2.45x	1.87x	2.50x	2.43x
Asset Replacement Ratio	0.58x	0.42x	0.59x	0.69x	0.59x
Tax Rate	NM	35.4%	40.0%	40.0%	40.0%
Net Debt/Equity	26.2%	29.6%	56.7%	47.9%	34.2%
Interest Cover	NM	3.38x	21.5x	22.7x	27.6x

* For full definitions of iQmethodSM measures, see page 15.

Company Sector

Luxury Goods

Company Description

Ermenegildo Zegna is an Italian luxury group founded in 1910. The group operates across two key segments: 1) Zegna segment (consisting of Zegna brand, Textiles and Third Party Product/Strategic Alliances) and 2) Thom Browne segment. The group is a vertically-integrated luxury menswear player, present in approximately 80 countries through its DTC network.

Investment Rationale

Zegna is a leading name in the luxury menswear market. Its growth is supported by the Zegna brand re-set and Thom Browne expansion. We rate Zegna Buy as we think we already see clear signs of Zegna executing well on its turnaround strategy and showing solid improvement in profitability & sales densities. We believe current valuation of 19x 2024 P/E is not expensive for 17% EPS CAGR name.

Stock Data

Price to Book Value

4.3x

Strong end to the year for Zegna Group

Zegna reported 4Q revenue of €570m, +43% at constant currency and +20% organically. The results were 2% above BofA estimates and consensus on an organic basis and 8-10% ahead on reported basis. Zegna is therefore the fastest growing luxury company in 4Q so far, out of those to have reported.

4Q23 revenue +20% on an organic basis, 2ppt beat vs consensus

Below we show a snapshot of the Zegna result by segment and channel, vs consensus and BofA expectations.

Exhibit 1: 4Q revenues were ahead of consensus driven by Thom Browne and Tom Ford

BofA vs consensus expectations on Zegna Q4 23 Sales, Dec YE

	4Q23 Revenue	Visible Alpha	BofA vs Visible Alpha	BofAe	Beat / (miss) vs BofA
Revenue by Segment					
Zegna					
Revenue (€m)	385	377	2.2%	379	1.8%
YoY %	15%	13%	2.5%	13%	2.0%
Organic %	18%	19%	-0.7%	18%	0.4%
Thom Browne					
Revenue (€m)	99	83	19.1%	83	18.3%
YoY %	30%	9%	20.8%	10%	20.1%
Organic %	25%	14%	10.7%	15%	9.9%
Tom Ford Fashion					
Revenue (€m)	97	77	25.3%	82	18.2%
Revenue by Channel					
Zegna					
DTC	26%	22%	4.0%	25%	1.3%
Wholesale	-7%	2%	-8.2%	5%	-11.5%
Thom Browne					
DTC	41%	32%	9.2%	30%	11.0%
Wholesale	27%	-10%	36.1%	-5%	31.5%
Group organic growth %	20%	17%	2.3%	17%	2.4%
Group Revenue (EURm)	570	519	9.9%	529	7.7%

Source: BofA Global Research estimates, Visible Alpha

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Performance by segment:

- **Zegna segment** revenues grew +18% on an organic basis and +17% cFX, which was broadly in line with BofA/consensus expectation but 2ppt ahead on reported level. DTC channel drove the strength at +26% cFX, whilst wholesale revenues declined by -7% driven by wholesale conversions (e.g. Saks) and timing of deliveries in light of the new drop delivery model.
- **Thom Browne segment** revenues grew +25% organically (+35% at cFX) which was a 10-11% beat vs BofA/consensus. Both DTC and wholesale revenue growth came in above our expectation, with +41% cFX (+13% organically ex Korea conversions) and +27% cFX respectively.
- **Tom Ford Fashion segment** delivered revenues of €97m in 4Q23, reflecting momentum during the holiday season.

Performance by geography:

- On an organic basis: **EMEA** revenues grew +14% cFX, **North America** revenues +3% in 4Q23 (o/w US +4%), **APAC** revenues growth +32%. On a 2yr stack Greater China revenues -6% (Q3 +10%, Q2 -15% and Q1 +6%) as 4Q Greater China revenues +36%.
- On a cFX basis which includes TF: **EMEA** revenues grew +33% cFX, **North America** revenues +61% in 4Q23 (o/w US +64%), **APAC** revenues growth +44%.

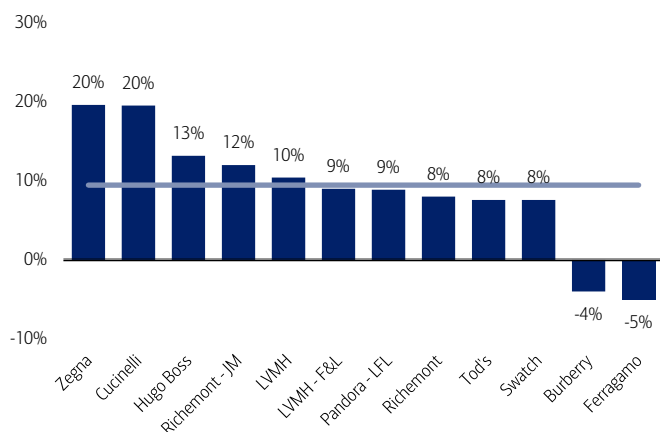
Sector revenues +10% cFX in 4Q, Zegna fastest growing

For luxury companies who reported 4Q so far revenues grew +9.5% cFX yoy on average, after growing +8.1% in 3Q23. All the sequential acceleration in y/y sector revenue growth can be attributed to an easy comp in Mainland China and Americas, as well as strong performance in Japan.

Zegna and Brunello Cucinelli so far reported the fastest growth this quarter, whilst Burberry and Ferragamo revenues declined on a YoY basis.

Exhibit 2: Luxury sector revenues grew +10% cFX yoy for companies to report to date

Luxury companies yoy revenue growth, 4Q23, Dec YE



Source: BofA Global Research, company report (Richemont – March). Average is revenue weighted

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Exhibit 3: Zegna reported fastest revenue growth so far

Luxury companies yoy revenue growth, 4Q23, Dec YE (revenue-weighted)

Yoy growth cFX	1Q23	2Q23	3Q23	4Q23
Zegna	18.9%	24.5%	11.3%	19.6%
Cucinelli	32.8%	28.4%	25.7%	19.5%
Hugo Boss	25.0%	19.6%	15.1%	13.2%
Richemont - JM	27.0%	24.0%	9.0%	12.0%
LVMH	17.0%	17.0%	9.0%	10.4%
LVMH - F&L	18.0%	21.0%	9.0%	9.0%
Pandora - LFL	0.0%	2.0%	9.2%	8.9%
Richemont	22.4%	19.0%	5.0%	8.0%
Tod's	23.3%	22.3%	5.0%	7.6%
Swatch	18.0%	18.0%	7.6%	7.6%
Burberry	16.0%	17.8%	1.0%	-4.0%
Ferragamo	-6.4%	-7.7%	-13.5%	-5.0%
Average	17.6%	17.0%	8.1%	9.5%

Source: BofA Global Research estimates, company report.

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Asia growth faster YoY but decelerated on a 4yr CAGR

Luxury revenues in Asia Pacific grew +14% in 4Q23, which was up from +10% in 3Q23.

YoY acceleration can be attributed to easier China comp of last year (lockdowns in Mainland China in Nov-Dec), however Asia trends decelerated on a 4yr CAGR basis.

Exhibit 4: Asia revenues grew +14% in 4Q, faster than 3Q on easier China comp

Asia Pacific YoY revenue growth Dec YE adjusted

APAC	1Q23	2Q23	3Q23	4Q23
Zegna	17.2%	40.0%	3.5%	36.1%
Hugo Boss	31.0%	41.0%	21.0%	33.0%
Cucinelli	59.4%	62.4%	49.5%	28.7%
Tod's	28.8%	60.7%	1.6%	25.4%
LVMH	14.0%	34.0%	11.0%	15.0%
Richemont	25.0%	40.0%	8.0%	13.0%
Burberry	19.0%	36.0%	2.0%	3.0%
Ferragamo	-13.0%	-6.6%	-13.2%	2.5%
Pandora - LFL	-26.0%	5.0%	0.0%	-12.0%
Average	15.6%	34.5%	10.0%	14.4%

Source: BofA Global Research estimates, company report.

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Americas YoY growth faster in 4Q due to easier comp

Revenues in America grew +8% in Q4, improving from 3% in 3Q23, entirely driven by easier comp. On an underlying 4yr CAGR basis 4Q accelerated by 130bps to 11.3%.

Exhibit 6: Americas YoY growth sequentially improved

Americas revenue YoY growth Dec YE adjusted

Americas	1Q23	2Q23	3Q23	4Q23
Cucinelli	38.7%	11.5%	25.2%	23.7%
Hugo Boss	38.0%	20.0%	22.0%	18.0%
Tod's	2.3%	-7.2%	6.4%	14.3%
Pandora - LFL	-7.0%	-4.0%	5.0%	10.0%
Richemont	12.0%	-2.0%	4.0%	8.0%
LVMH	8.0%	-1.0%	2.0%	8.0%
Zegna	1.8%	16.2%	12.3%	3.2%
Ferragamo	-23.4%	-14.7%	-17.3%	-13.8%
Burberry	-7.0%	-8.0%	-10.0%	-15.0%
Average	8.5%	-0.7%	2.9%	7.5%

Source: BofA Global Research estimates, company report.

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European revenue growth slows impacted by normalisation in local consumption

Europe luxury revenue growth continued to normalise in 4Q23 as European local demand weakens and tourism is less of a support. European revenue growth was down to 3% cFX in 4Q23, from +6% in 3Q23 for companies to report to date. This implies a 180bps sequential deceleration on a 4yr CAGR basis, between 3Q23 and 4Q23.

Exhibit 8: European luxury revenues +3% cFX YoY in 4Q

Europe YoY revenue growth, Dec YE adjusted

Europe	1Q23	2Q23	3Q23	4Q23
Cucinelli	14.4%	32.3%	20.4%	16.8%
Zegna	11.6%	24.5%	18.5%	14.2%
Hugo Boss	21.0%	15.0%	12.0%	7.0%
Pandora - LFL	0.5%	0.3%	8.5%	5.2%
LVMH	24.0%	19.0%	7.0%	5.0%
Ferragamo	25.0%	0.5%	-13.2%	4.8%
Tod's	18.4%	10.0%	11.5%	2.8%
Richemont	21.0%	11.0%	-1.0%	-3.0%
Burberry	27.0%	17.0%	10.0%	-5.0%
Average	22.6%	16.6%	5.8%	3.4%

Source: BofA Global Research estimates, company report.

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Japanese revenues key source of reacceleration in 4YR CAGR

Japan luxury revenues grew +19% YoY in 4Q23, down from 26% YoY previous quarter. However, we saw significant reacceleration on a 4YR CAGR basis by 690bps from 3Q23.

Exhibit 5: Asia revenues decelerated by 40bps on 4yr CAGR between 4Q and 3Q

Asia Pacific revenue growth 4 year CAGR, Dec YE adjusted

APAC	1Q23	2Q23	3Q23	4Q23
Brunello Cucinelli	19.6%	28.1%	16.2%	27.6%
Tod's	13.7%	13.8%	11.2%	11.5%
Richemont	15.0%	13.0%	13.1%	11.0%
LVMH	11.7%	13.5%	10.5%	10.4%
Hugo Boss	6.7%	8.0%	8.2%	8.2%
Burberry	5.5%	6.9%	4.0%	-1.1%
Ferragamo	-6.9%	-10.0%	-4.9%	-6.5%
Pandora - LFL	-28.4%	-24.5%	-27.9%	-26.2%
Average	10.5%	11.7%	9.3%	8.9%

Source: BofA Global Research estimates, company report

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Exhibit 7: America accelerated 130bps on 4y CAGR to 11.3%

Americas revenue growth 4 year CAGR, Dec YE adjusted

Americas	1Q23	2Q23	3Q23	4Q23
Cucinelli	18.7%	12.1%	14.6%	20.2%
Richemont	20.3%	16.7%	17.0%	15.4%
Hugo Boss	12.3%	12.8%	13.3%	14.2%
LVMH	10.8%	11.5%	8.6%	11.0%
Pandora - LFL	10.9%	7.1%	9.8%	9.5%
Tod's	1.1%	1.3%	3.2%	7.7%
Ferragamo	-2.0%	0.8%	-0.6%	-1.1%
Burberry	4.3%	4.0%	5.2%	-2.4%
Average	12.1%	11.9%	10.1%	11.3%

Source: BofA Global Research estimates, company report

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Exhibit 9: European revenues decelerated by 180bps on 4yr CAGR

Europe revenue growth 4 year CAGR, Dec YE adjusted

Europe	1Q23	2Q23	3Q23	4Q23
Cucinelli	5.0%	18.4%	10.5%	18.3%
Hugo Boss	9.9%	11.2%	9.3%	8.7%
Richemont	9.7%	10.4%	6.8%	7.0%
LVMH	10.8%	10.9%	9.2%	6.7%
Pandora - LFL	6.5%	1.4%	4.4%	2.9%
Tod's	0.8%	-0.6%	1.1%	-1.4%
Burberry	2.2%	2.4%	1.2%	-1.7%
Ferragamo	0.7%	-1.0%	-5.1%	-4.0%
Average	9.9%	10.1%	8.2%	6.3%

Source: BofA Global Research estimates, company report

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Exhibit 10: European luxury revenues +19% cFX YoY in 4Q

Japan YoY revenue growth, Dec YE adjusted

Japan	1Q23	2Q23	3Q23	4Q23
Zegna	38.8%	23.9%	30.9%	20.7%
LVMH	34.0%	29.0%	30.0%	20.0%
Richemont	36.0%	14.0%	12.0%	18.0%
Ferragamo	1.2%	-8.7%	-0.1%	-6.5%
Average	34.1%	25.5%	26.1%	19.3%

Source: BofA Global Research estimates, company report

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Exhibit 11: Accelerating by 690bps sequentially on a 4YR CAGR

Japan revenue growth 4-year CAGR, Dec YE adjusted

Japan	1Q23	2Q23	3Q23	4Q23
Richemont	11.0%	16.7%	13.0%	20.1%
LVMH	14.1%	14.3%	12.7%	19.6%
Ferragamo	-1.8%	-2.1%	-2.5%	-0.8%
Average	13.3%	14.6%	12.6%	19.5%

Source: BofA Global Research estimates, company report

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We make tweaks to our Zegna model

After the result we increase our EPS estimates by 2% for 2023 but remain broadly in line for 2024-25E after 4Q23 sales result. We are now 3% ahead of consensus EBIT for 2023 but 3-5% below for 2024-25.

We slightly tweak our model post Q4 sales update

We change our forecast for 2023-25 after Q4 results. We increase our EBIT by 2% for 2023 and remain largely unchanged for 2024-25E.

Exhibit 12: We adjust 2023 estimate upwards by 2% but leave our profitability forecast largely unchanged for 2024-25E

Zegna changes to forecast table

(€m, Dec YE unless otherwise stated)	2023E			2024E			2025E		
	Old	New	% chg	Old	New	% chg	Old	New	% chg
Revenue	1,863	1,905	2.2%	2,082	2,123	2.0%	2,259	2,301	1.9%
Gross profit	1,220	1,247	2.2%	1,364	1,395	2.3%	1,491	1,518	1.9%
% margin	65.5%	65.5%	0.0%	65.5%	65.7%	0.2%	66.0%	66.0%	0.0%
EBITDA	409	419	2.6%	445	454	2.0%	510	520	1.9%
EBIT	220	224	2.0%	236	237	0.4%	284	285	0.4%
% margin	11.8%	11.8%	0.0%	11.3%	11.2%	-0.2%	12.6%	12.4%	-0.2%
NPAT attributable to shareholders	109	112	2.2%	127	127	0.3%	154	155	0.4%
EPS, fully diluted shares	0.4	0.4	2.2%	0.5	0.5	0.3%	0.6	0.6	0.4%

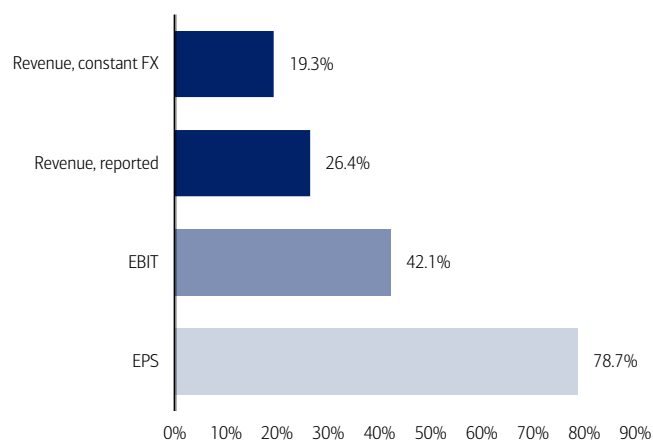
Source: BofA Global Research estimates, company report

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Below we show our growth forecasts for revenue, EBIT and EPS through 2023-24E.

Exhibit 13: We expect EBIT to grow +42% in 2023

Zegna 2023 BofA growth

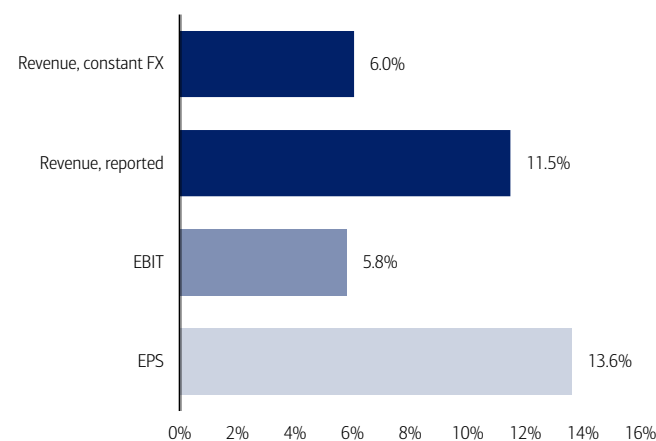


Source: BofA Global Research estimates

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Exhibit 14: ...and +6% in 2024

Zegna 2024 BofA growth



Source: BofA Global Research estimates

BofA GLOBAL RESEARCH

BofA 3-5% below consensus EBIT for 2023-25

Below we show our estimates relative to consensus. We are 3-5% below consensus adjusted EBIT for 2024-25E. We are 3% ahead on 2023.

Exhibit 15: We are 3% ahead of consensus on 2023 EBIT but 3-5% below on 2024-25 EBIT

BofA vs consensus for Zegna

	FY-2023			FY-2024			FY-2025		
€m	BofA	Cons	% Δ	BofA	Cons	% Δ	BofA	Cons	% Δ
Revenue	1904.5	1852.9	2.8%	2123.1	2054.1	3.4%	2300.6	2219.7	3.6%
Growth%	26.4%	23.0%	343bps	11.5%	10.9%	62bps	8.4%	8.1%	30bps
cFX growth%	28.5%	24.9%	358bps	12.5%	8.7%	375bps	8.3%	8.1%	21bps
EBITDA (reported)	399.2	418.9	-4.7%	450.7	472.4	-4.6%	517.1	528.7	-2.2%
% margin	21.0%	22.6%	(165)bps	21.2%	23.0%	(177)bps	22.5%	23.8%	(134)bps
EBIT (reported)	204.2	208.8	-2.2%	234.2	247.1	-5.2%	282.5	290.0	-2.6%
% margin	10.7%	11.3%	(54)bps	11.0%	12.0%	(100)bps	12.3%	13.1%	(79)bps
EBIT (adjusted)	224.2	217.3	3.2%	237.2	251.8	-5.8%	285.5	295.0	-3.2%
% margin	11.8%	11.7%	4bps	11.2%	12.3%	(109)bps	12.4%	13.3%	(88)bps
EPS	116.3	113.2	2.7%	134.2	143.9	-6.7%	163.3	172.2	-5.2%

Source: BofA Global Research, Bloomberg

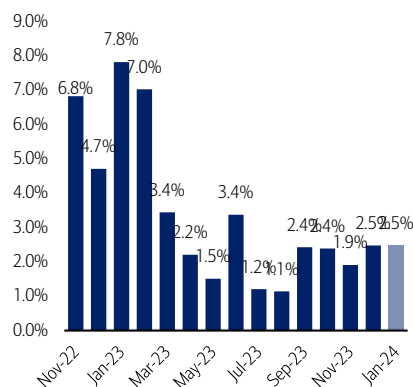
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Positioning on Zegna is neutral

Positioning on Zegna is quite neutral. 57% of sell-side analysts rate stock as a buy and 14% analysts rate it at underperform. Short interest is 2.5% in Jan which is in line with December.

Exhibit 16: Short interest is 2.5% in Jan

Zegna Short interest

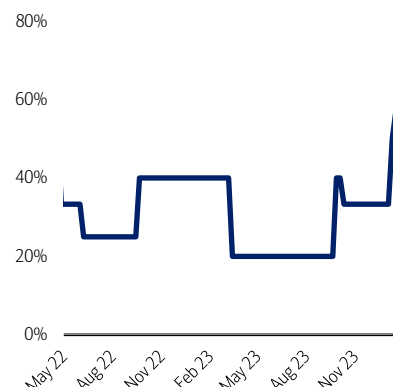


Source: BofA Global Research Estimates, Bloomberg

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Exhibit 17: 57% analysts rate at Buy

Zegna % of Buy Recommendations

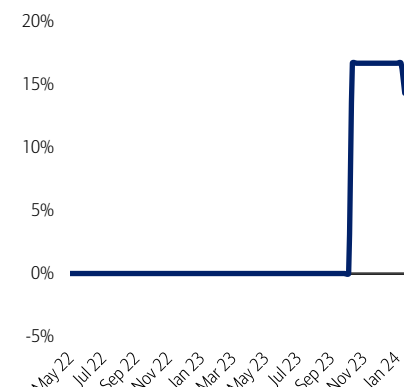


Source: BofA Global Research Estimates, Bloomberg

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Exhibit 18: 14% analysts rate at U/P

Zegna % of Sell Recommendations



Source: BofA Global Research Estimates, Bloomberg

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Financial Summary

Revenue

Exhibit 19: Revenue

Zegna - Revenue summary (€m, Dec YE unless otherwise stated)

	2019	2020	2021	2022	2023	2024E	2025E	2026E	2027E
Group revenues	1321	1015	1292	1493	1905	2123	2301	2490	2676
Growth %	11.7%	-23.2%	27.4%	15.5%	27.6%	11.5%	8.4%	8.2%	7.5%
cFX Growth %	0.0%	-21.4%	26.4%	11.0%	29.7%	12.5%	8.3%	8.2%	7.4%
Revenue by segment (pre-elimination)									
Zegna segment	1161	835	1029	1163	1291	1345	1446	1555	1672
Growth	0.2%	-27.7%	22.8%	13.7%	12.4%	1.7%	7.6%	7.5%	7.5%
cFX Growth	0.0%	-25.9%	21.8%	9.3%	19.5%	5.2%	7.5%	7.5%	7.5%
DTC Zegna-branded	743	528	713	773	945	986	1066	1151	1244
Wholesale Zegna-branded	177	109	134	151	164	170	178	187	197
Textiles & Strategic Alliances	200	170	177	235	176	184	197	211	226
Agnona	18	12	1	0	0	0	0	0	0
Other	23	16	3	4	5	5	5	5	6
Reported growth									
DTC Zegna-branded	0.0%	-28.9%	35.0%	8.4%	22.4%	4.3%	8.1%	8.0%	8.0%
Wholesale Zegna-branded	0.0%	-38.5%	23.9%	12.6%	8.4%	3.4%	5.1%	5.0%	5.0%
Textiles & Strategic Alliances	4.8%	-15.2%	4.3%	32.4%	-24.8%	4.3%	7.1%	7.0%	7.0%
Agnona	0.2%	-30.0%	-90.4%	-95.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other	-6.1%	-29.1%	-80.0%	30.9%	10.8%	4.0%	5.1%	5.0%	5.0%
cFX growth									
DTC Zegna-branded	0.0%	-27.2%	34.1%	2.9%	25.3%	5.4%	8.0%	8.0%	8.0%
Wholesale Zegna-branded	0.0%	-36.8%	23.0%	10.6%	7.2%	4.4%	5.0%	5.0%	5.0%
Textiles & Strategic Alliances	0.0%	-13.4%	3.4%	32.2%	-2.3%	5.4%	7.0%	7.0%	7.0%
Agnona	0.0%	-28.2%	-91.3%	n.m.	0.0%	0.0%	0.0%	0.0%	0.0%
Other	0.0%	-27.4%	-80.9%	n.m.	n.m.	5.0%	5.0%	5.0%	5.0%
Thom Browne segment	161	179	263	330	378	407	457	510	549
Growth	37.8%	11.5%	46.9%	25.3%	14.9%	7.1%	12.2%	11.7%	7.6%
cFX Growth	0.0%	13.3%	45.9%	20.6%	18.3%	8.9%	12.1%	11.7%	7.6%
DTC Thom Browne	61	85	139	146	183	206	245	288	315
Wholesale Thom Browne	100	94	125	184	195	202	212	223	234
Reported growth									
DTC Thom Browne	0.0%	39.7%	62.5%	5.1%	25.9%	12.1%	19.1%	17.5%	9.6%
Wholesale Thom Browne	0.0%	-5.4%	32.5%	47.7%	5.8%	4.0%	5.1%	5.0%	5.0%
cFX growth									
DTC Thom Browne	0.0%	41.4%	61.6%	-1.5%	28.1%	13.1%	19.0%	17.5%	9.6%
Wholesale Thom Browne	0.0%	-3.6%	31.5%	46.6%	8.9%	5.0%	5.0%	5.0%	5.0%
Tom Ford segment					236	371	397	425	455
Growth						5.0%	7.1%	7.0%	7.0%
cFX Growth						6.0%	7.0%	7.0%	7.0%

Source: BofA Global Research estimates, company report

BofA GLOBAL RESEARCH

P&L

Exhibit 20: Zegna P&L

Zegna – Income Statement (€m, Dec YE unless otherwise stated)

	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Revenues	1321	1015	1292	1493	1905	2123	2301	2490	2676
Total revenue	1329	1020	1301	1507	1905	2123	2301	2490	2676
Growth	11.8%	-23.3%	27.5%	15.8%	26.4%	11.5%	8.4%	8.2%	7.5%
cFX growth (BofA)	9.9%	-21.5%	26.6%	11.3%	28.5%	12.5%	8.3%	8.2%	7.4%
Gross profit	834	626	819	957	1247	1395	1518	1656	1780
Growth	4.7%	-24.9%	30.9%	16.8%	30.4%	11.8%	8.9%	9.1%	7.5%
margin	62.7%	61.4%	63.0%	63.5%	65.5%	65.7%	66.0%	66.5%	66.5%
Cost of raw materials and consumables	(310)	(251)	(310)	(311)	(423)	(456)	(488)	(530)	(570)
Growth	48.1%	-19.1%	23.5%	0.6%	35.8%	8.0%	6.8%	8.7%	7.5%
as % of sales	23.3%	24.6%	23.8%	20.7%	22.2%	21.5%	21.2%	21.3%	21.3%
Purchased, outsourced and other costs	(372)	(287)	(354)	(438)	(463)	(531)	(564)	(598)	(642)
Growth	1.3%	-22.8%	23.2%	23.8%	5.7%	14.7%	6.2%	6.0%	7.5%
as % of sales	28.0%	28.1%	27.2%	29.1%	24.3%	25.0%	24.5%	24.0%	24.0%
Personnel costs	(332)	(283)	(368)	(395)	(514)	(563)	(610)	(660)	(709)
Growth	3.5%	-14.8%	30.1%	7.4%	30.2%	9.4%	8.4%	8.2%	7.5%
as % of sales	25.0%	27.7%	28.3%	26.2%	27.0%	26.5%	26.5%	26.5%	26.5%
Other operating costs	(49)	(30)	(181)	(41)	(106)	(122)	(122)	(117)	(108)
Growth	30.3%	-38.0%	494.8%	-77.2%	156.5%	16.1%	-0.1%	-4.4%	-7.7%
as % of sales	3.7%	3.0%	13.9%	2.7%	5.5%	5.8%	5.3%	4.7%	4.0%
EBITDA	266	163	69	321	399	451	517	585	647
Total D&A & impairment	(177)	(186)	(163)	(174)	(195)	(217)	(235)	(254)	(264)
as % of sales									
EBIT (reported)	89	(23)	(94)	148	204	234	282	331	383
Growth	-6.5%	-125.5%	316.5%	-257.3%	38.2%	14.7%	20.6%	17.3%	15.5%
margin	6.7%	-2.2%	-7.2%	9.8%	10.7%	11.0%	12.3%	13.3%	14.3%
EBIT (adjusted)	107	20	149	158	224	237	285	334	386
Growth		-81.3%	645.1%	5.8%	42.1%	5.8%	20.4%	17.1%	15.4%
margin	8.1%	2.0%	11.5%	10.5%	11.8%	11.2%	12.4%	13.4%	14.4%
Zegna segment adj. EBIT	91	(9)	111	142	187	191	220	249	281
% margin	7.8%	-1.1%	10.7%	12.0%	14.1%	14.2%	15.2%	16.0%	16.8%
Thom Browne segment adj. EBIT	16	29	38	48	54	59	71	85	98
% margin	9.9%	16.1%	14.4%	14.5%	14.3%	14.5%	15.6%	16.7%	17.8%
Tom Ford adj. EBIT					13	17	24	30	36
% margin					5.5%	4.5%	6.0%	7.0%	8.0%
Net finance cost (paste)	(19)	(9)	(3)	(47)	(10)	(10)	(10)	(10)	(10)
PBT (reported)	69	-32	-97	101	194	224	272	321	373
Income tax	(44)	(15)	(31)	(36)	(78)	(89)	(109)	(128)	(149)
Profit/(loss) (reported)	25	(47)	(128)	65	116	134	163	193	224
Basic EPS	0.11	(0.25)	(0.67)	0.22	0.43	0.50	0.61	0.73	0.85
Diluted EPS	0.11	(0.25)	(0.66)	0.21	0.43	0.49	0.61	0.72	0.84
Adjusted Basic EPS	0.18	(0.04)	0.33	0.25	0.45	0.51	0.62	0.74	0.86
Adjusted Diluted EPS	0.18	(0.04)	0.33	0.25	0.44	0.50	0.62	0.73	0.84

Source: BofA Global Research estimates, company report

BofA GLOBAL RESEARCH

Balance Sheet

Exhibit 21: Zegna Balance Sheet

Zegna – Balance Sheet (€m, Dec YE unless otherwise stated)

	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
ASSETS									
Non-current assets									
Intangible assets	420	388	425	456	494	543	588	629	673
Investment property	55	50	0	0	0	0	0	0	0
PPE	276	244	111	126	129	141	132	100	67
Right-of-use assets	459	352	370	376	390	406	423	440	457
Investments at equity method	28	21	22	23	23	23	23	23	23
Deferred tax assets	60	72	108	125	125	125	125	125	125
Other non-current financial assets	95	49	35	36	36	36	36	36	36

Exhibit 21: Zegna Balance Sheet

Zegna – Balance Sheet (€m, Dec YE unless otherwise stated)

	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Total non-current assets	1393	1176	1073	1141	1197	1273	1326	1352	1382
Current assets									
Cash and cash equivalents	211	317	460	254	71	77	142	254	376
Inventories	315	321	338	411	514	563	598	635	682
Trade receivables	178	139	160	177	229	251	267	284	300
Derivative financial instruments	6	12	2	22	22	22	22	22	22
Tax receivables	10	16	15	15	15	15	15	15	15
Other current financial assets	435	350	340	321	321	321	321	321	321
Other current assets	92	67	69	85	85	85	85	85	85
Assets held for sale	0	17	0	0	0	0	0	0	0
Total current assets	1247	1239	1385	1286	1257	1334	1450	1616	1801
LIABILITIES AND SHAREHOLDERS' EQUITY									
Non-current liabilities									
Non-current borrowings	514	559	472	185	185	185	185	185	185
Other non-current financial liabilities	237	221	167	179	179	179	179	179	179
Non-current lease liabilities	406	315	331	332	332	332	332	332	332
Non-current provisions for risks and charges	34	40	45	20	20	20	20	20	20
Employee benefits	35	29	42	52	52	52	52	52	52
Deferred tax liabilities	76	71	54	61	61	61	61	61	61
Total non-current liabilities	1302	1235	1111	827	827	827	827	827	827
Current liabilities									
Current borrowings	106	106	157	286	286	286	286	286	286
Current lease liabilities	103	93	107	111	111	111	111	111	111
Derivative financial instruments	14	13	14	2	2	2	2	2	2
Current provisions for risks & charges	11	8	14	14	14	14	14	14	14
Trade payables and customer advances	226	188	223	271	324	361	391	423	455
Tax liabilities	36	33	29	26	26	26	26	26	26
Other current financial and non-financial liabilities	113	77	158	156	156	156	156	156	156
Liabilities held for sale	0	17	0	0	0	0	0	0	0
Total current liabilities	607	535	702	867	920	957	987	1019	1051
Share capital	4	4	6	6	6	6	6	6	6
Retained earnings	944	893	499	528	612	702	814	945	1098
Other reserves	-260	-296	97	145	26	43	59	76	92
Non-controlling interest	41	43	43	53	62	72	83	95	109
Equity	730	645	644	732	706	822	962	1122	1305

Source: BofA Global Research estimates, company report

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Cash Flow

Exhibit 22: Cash Flow

Zegna - Cash flow statement (€m, Dec YE unless otherwise stated)

	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Net Income	25	-47	-128	65	116	134	163	193	224
Income taxes	44	15	31	36	78	89	109	128	149
D&A	177	186	163	174	195	217	235	254	264
Net finance cost	19	9	3	47	10	10	10	10	10
Write-downs	1	6	20	0	0	0	0	0	0
(Gains)/Losses from the sale of fixed assets	1	1	1	-1	0	0	0	0	0
Other non-cash expenses/(income)	-6	-28	231	23	0	0	0	0	0
Obsolete inventory write-down/(reversal)	7	38	30	29	0	0	0	0	0
Change in inventories	-5	-39	-28	-103	-103	-48	-36	-37	-47
Change in trade receivables	-8	36	-12	-16	-51	-22	-16	-17	-16
Change in trade payables	-11	-38	31	44	53	37	30	32	32
Change in other operating assets and liabilities	-11	-10	20	-76	0	0	0	0	0
Interest paid	-27	-21	-17	-25	-10	-10	-10	-10	-10
Income taxes paid	-31	-36	-63	-49	-78	-89	-109	-128	-149
Net cash flow from operations	174	71	281	146	209	318	376	425	456
Additions of PPE	-46	-28	-80	-49	-77	-100	-92	-83	-90
Proceeds from disposals	0	1	4	0	0	0	0	0	0
Additions of intangibles	-13	-12	-15	-24	-38	-49	-46	-41	-44
Payments for investment property	0	0	0	0	0	0	0	0	0
Other	153	133	13	17	17	17	17	17	17
Business combinations, net of cash	-9	-2	-4	-1	-135	0	0	0	0
Net cash flow from investing	84	93	-82	-57	-233	-132	-121	-108	-117
Proceeds from borrowings	131	265	124	0	0	0	0	0	0
Repayments of borrowings	-273	-221	-160	-160	0	0	0	0	0
Payment of lease liabilities	-110	-91	-101	-122	-137	-144	-150	-155	-159
Treasury shares (acquisitions)/sales	0	-1	6	3	0	0	0	0	0
Dividends	-15	-2	-1	-26	-24	-35	-40	-49	-58
Other	0	0	68	7	0	0	0	0	0
Net cash flow from financing	-267	-49	-64	-297	-160	-179	-190	-204	-217
Free Cash Flow	115	32	187	73	95	169	238	300	322
Cash and cash equivalents in the beginning of the period	218	211	317	460	254	71	77	142	254
Net increase/(decrease) in cash	-9	114	135	-208	-184	6	65	113	122
FX	2	-8	7	2	0	0	0	0	0
Cash and cash equivalents at the end of the period	211	317	460	254	71	77	142	254	376

Source: BofA Global Research estimates, company report

BofA GLOBAL RESEARCH

Price objective basis & risk

Ermenegildo Zegna N.V (ZGN)

Our \$14 price objective is based on a DCF valuation with a WACC of 7% and terminal growth rate of 3% and EURUSD FX spot. We assume terminal EBIT margin for Zegna at 17.0%. We then cross-check the DCF output with P/E and EV/Sales multiples of the luxury goods sector peers.

Upside risks: 1) faster-than-expected Zegna brand turnaround, 2) faster-than-expected Thom Browne DOS roll-out, 3) larger-than-expected impact of China re-opening, 4) better-than-expected store productivity, 5) higher-than-expected pricing, 6) bolt-on M&A (primarily within Textiles) and 7) new contracts for the Third Party segment.

Downside risks: 1) bigger-than-expected impact on revenue growth and EPS from a macroeconomic slowdown, 2) weaker China, 3) inability to further improve store productivity primarily at Zegna, 4) inability to drive incremental pricing,

Analyst Certification

I, Daria Nasledysheva, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

EMEA - Luxury & Retail Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Adidas AG-ADR	ADDYY	ADDYY US	David Roux
	adidas Group	ADDDF	ADS GY	David Roux
	B&M European Value Retail	BMRPF	BME LN	David Roux
	B&M European Value Retail	BMRRY	BMRRY US	David Roux
	Brunello Cucinelli	BCUCF	BC IM	Daria Nasledysheva
	Carrefour	CRERF	CA FP	Ashley Wallace
	Carrefour	CRRFY	CRRFY US	Ashley Wallace
	CTS Eventim	CEVMF	EVD GY	Daria Nasledysheva
	DocMorris AG	ZRSEF	DOCM SW	Adam Gildea
	Ermenegildo Zegna N.V	ZGN	ZGN US	Daria Nasledysheva
	EssilorLuxottica	ESLOF	EL FP	Geoffroy de Mendez
	EssilorLuxottica	ESLOY	ESLOY US	Geoffroy de Mendez
	Hermes	HESAF	RMS FP	Ashley Wallace
	Hermès	HESAY	HESAY US	Ashley Wallace
	Hugo Boss	HUGPF	BOSS GY	Daria Nasledysheva
	Inditex	IDEXF	ITX SQ	Geoffroy de Mendez
	Inditex	IDEXY	IDEXY US	Geoffroy de Mendez
	JD Sports	JDDSF	JD/ LN	David Roux
	L'Oreal	LRLCF	OR FP	Ashley Wallace
	L'Oreal	LRLCY	LRLCY US	Ashley Wallace
	LVMH	LVMHF	MC FP	Ashley Wallace
	LVMH	LVMUY	LVMUY US	Ashley Wallace
	Marks and Spencer	MAKSF	MKS LN	David Roux
	Marks and Spencer	MAKSY	MAKSY US	David Roux
	Ocado	OCDGF	OCDO LN	Geoffroy de Mendez
	Ocado	OCDDY	OCDDY US	Geoffroy de Mendez
	Pandora	XNPUF	PNDORA DC	Daria Nasledysheva
	Redcare Pharmacy NV	SHPPF	RDC GY	Adam Gildea
	Sanlorenzo	XWGHF	SL IM	Daria Nasledysheva
	The Hut Group	THGPF	THG LN	Adam Gildea
	Vusion Group	SRBEF	VU FP	Adam Gildea
NEUTRAL				
	Ahold Delhaize	ADRNY	ADRNY US	Ashley Wallace



EMEA - Luxury & Retail Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Ahold Delhaize	AHODF	AD NA	Ashley Wallace
	Ceconomy	MTAGF	CEC GY	Adam Gildea
	De' Longhi S.p.A	DELHF	DLG IM	Ashley Wallace
	Dr. Martens PLC	DOCMF	DOCS LN	David Roux
	Fielmann AG	FLMNF	FIE GY	Geoffroy de Mendez
	Groupe SEB	SEBYF	SK FP	Ashley Wallace
	Interparfums	IPAFF	ITP FP	Daria Nasledysheva
	Moncler	MONRF	MONC IM	Geoffroy de Mendez
	Next PLC	NXGPF	NXT LN	David Roux
	Prada	PRDSF	1913 HK	Geoffroy de Mendez
	PUMA	PMMAF	PUM GY	David Roux
	Richemont	XRCMF	CFR SJ	Ashley Wallace
	Richemont	CFRHF	CFR SW	Ashley Wallace
	Richemont	CFRUY	CFRUY US	Ashley Wallace
	Swatch Group	SWGAF	UHR SW	Ashley Wallace
	Tesco	TSCDF	TSCO LN	David Roux
	Tesco	TSCDY	TSCDY US	David Roux
	Watches of Switzerland	WOSGF	WOSG LN	Daria Nasledysheva
	WH Smith	WHTPF	SMWH LN	David Roux
	Zalando	ZLDSF	ZAL GY	Geoffroy de Mendez
	Zalando	ZLNDY	ZLNDY US	Geoffroy de Mendez

UNDERPERFORM

	ASOS	ASOMF	ASC LN	Geoffroy de Mendez
	Associated British Foods plc	ASBFF	ABF LN	David Roux
	Associated British Foods plc	ASBFY	ASBFY US	David Roux
	boohoo Group PLC	BHHOF	BOO LN	Geoffroy de Mendez
	Burberry	BBRYF	BRBY LN	Ashley Wallace
	Burberry	BURBY	BURBY US	Ashley Wallace
	Fraser's	SDIPF	FRAS LN	Adam Gildea
	H&M	HMRZF	HMB SS	Geoffroy de Mendez
	Kering	PPRUF	KER FP	Ashley Wallace
	Kering	PPRUY	PPRUY US	Ashley Wallace
	Kingfisher	KGFHF	KGF LN	David Roux
	Kingfisher	KGFHY	KGFHY US	David Roux
	Metro AG	MTTWF	B4B GY	Ashley Wallace
	On Holding AG	ONON	ONON US	David Roux
	Sainsbury	JSNSF	SBRY LN	David Roux
	Sainsbury	JSIAY	JSIAY US	David Roux
	Salvatore Ferragamo SpA	SFRGF	SFER IM	Daria Nasledysheva
	SMCP	SMCSF	SMCP FP	Geoffroy de Mendez
	Tods	TODGF	TOD IM	Daria Nasledysheva

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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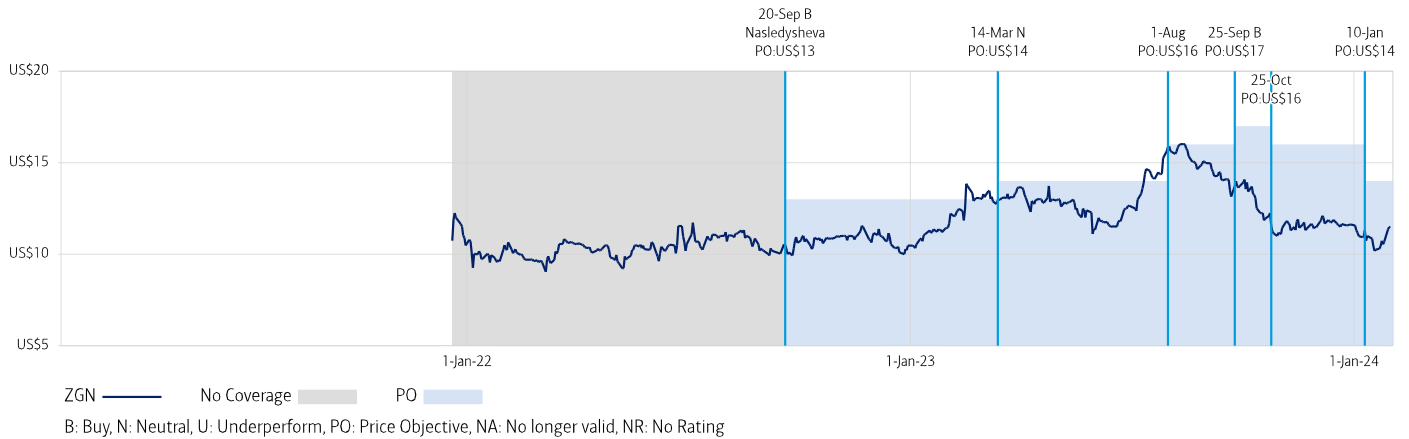
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Zegna (ZGN) Price Chart



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Equity Investment Rating Distribution: Consumer Products Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	32	50.00%	Buy	16	50.00%
Hold	19	29.69%	Hold	8	42.11%
Sell	13	20.31%	Sell	7	53.85%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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