

LUISS 

The IPO of DOUGLAS

Advanced Corporate Finance
Academic Year 2025/26
Final Case

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**VALUATION
SUMMARY**



KEY ASSUMPTIONS

DOUGLAS

1. CAGR - Sales Growth → decreasing trajectory

Douglas's **revenue growth decelerates** as FY23 tailwinds **fade, base effects normalize**, and key levers like **stores, e-commerce**, and **Eastern Europe** add less over time. Growth ultimately converges toward the **European selective beauty market rate**, with Douglas staying **slightly above peers** due to its **brand and footprint**.

2. EBITDA Margin → 17.73% to 20.00%

Douglas's **EBITDA margin expands from 17.73% to 20.00%** as the company gains **operating leverage** on its store and head-office cost base. Early gains are limited by **new stores** and **digital investment**, but maturing stores, **non-linear rent and personnel costs**, and a stronger **own-label mix** support further margin expansion.

3. Terminal Growth Rate → $g = 2\%$

Douglas's **terminal growth rate is set at 2.0%**, reflecting steady-state growth beyond 2029. It is anchored to the ECB's 2.0% inflation target and **Damodaran's stable-growth cap**, with the step-down from FY29 showing Douglas's transition to a **mature European omnichannel retailer**.



KEY ASSUMPTIONS

DOUGLAS

4. D&A → declining as % of sales, rising in absolute terms

Douglas's **D&A rises in absolute terms** due to the lagged impact of earlier **CAPEX investment**, but **declines as a percentage** of sales as revenue grows faster than the asset base. This reflects a normal **investment-cycle lag**, not Douglas becoming asset-light, and keeps the forecast **conservative** by avoiding an overstated EBIT and FCF uplift.

5. CAPEX → declining from ~3.5% to ~3.3% of sales

Douglas's **CAPEX rises in absolute terms** but **declines as a percentage of sales** from around **3.5% to 3.3%** as the investment cycle normalizes. FY24-FY26 reflects heavier **store, refurbishment, and e-commerce investment**, while later years shift closer to **maintenance CAPEX**, supporting the forecast **FCF inflection**.

6. ΔNWC → normalising toward ~4% of incremental sales

Douglas's **NWC outflow normalizes** after the unusually large FY23 drag, settling at roughly **4% of incremental sales** from FY24 onward. Its **negative cash conversion cycle**, driven by fast customer collection and extended supplier terms, means working capital is **not a major constraint**, while rising **own-label sales** further reduce inventory needs.



BETA & WACC ESTIMATION

Damodaran Industry Betas (Jan 2024)					
Industry	Geography	N. firms	β_u (Unlevered)	β_L (Levered)	D/E Ratio
Retail (Special Lines)	Europe	111	1,32	1,53	21,25%

FINAL WACC OUTPUT					
Scenario	β_u	β_L	Re (CAPM)	Rd*(1-t)	WACC
Douglas Prospectus	1,00	1,15	10,62%	5,02%	9,63%
Adjusted Estimate	1,32	1,52	13,37%	5,02%	11,91%

Damodaran (January 2024 dataset) — within the March 2024 cut-off.

<https://pages.stern.nyu.edu/~adamodar/%20https://pages.stern.nyu.edu/~adamodar/pc/archives/betaEurope23.xls>

Damodaran, A. (2024). Excess Returns: European Industry Averages — EVA Dataset, January 2024 update. NYU Stern School of Business.

<https://pages.stern.nyu.edu/~adamodar/pc/archives/EVAEurope23.xls>

DCF VALUATION

Scenario	WACC	β_u	β_L	V(2029)	EV	P(0)	vs. IPO Range
Douglas Prospectus	9,63%	1,00	1,15	9.676,47 €	8.324,65 €	45,51 €	51-75% above
Adjusted Estimate	11,91%	1,32	1,52	7.455,84 €	6.742,53 €	30,82 €	slightly above

Douglas Prospectus

- **Optimistic Assumptions:** uses an **optimistic unlevered beta (β_u) of 1.00**, lowering the discount rate.
- **Valuation Premium:** with **9.63% WACC** and **2.0% terminal growth**, valuation implies **€45.51/share**.
- **Implied Undervaluation:** this is **51 - 75% above the IPO range**, suggesting the stock is significantly undervalued.

Adjusted Estimate

- **Risk-Adjusted Parameters:** uses a higher **levered beta (β_u) of 1.32 / levered beta (β_L) of 1.52**, raising WACC to **11.91%**.
- **Valuation Impact:** valuation falls to **€30.82/share**, only slightly above the **€26.00 - €30.00 IPO range**.
- **Investment Outlook:** this suggests Douglas is **fairly priced**, with limited upside for investors.

DCF VALUATION

SENSITIVITY ANALYSIS

Scenario	WACC	EV	P(0)	vs. IPO Range
Const. 5% growth perpetuity	11,91%	7.461,31 €	37,49 €	25-45% above
5% growth + 7% EBIT margin	11,91%	6.568,33 €	29,20 €	in between

Const. 5% growth perpetuity

- Using the same WACC of 11.91%, the constant-growth DCF gives a **higher price** (€37.49) than the variable-growth DCF (€30.82), with a difference of €6.67/share.
- This confirms that the valuation is highly sensitive to **long-term growth assumptions**, as the terminal value represents most of the firm value.

5% growth + 7% EBIT margin

- **Profitability Impact:** comparing the **€29.20** share price to the variable-growth model demonstrates how a lower EBIT margin directly reduces operating income.
- **Cash Flow & EV:** this decline in margin lowers free cash flow, which in turn reduces the overall Enterprise Value.
- **Valuation Sensitivity:** the result highlights that small shifts in profitability assumptions can have significant effects on the final valuation.

APV VALUATION

$r(u) =$	9,50%
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We have computed the APV Valuation, as well as the unlevered cost of capital, using the **unlevered beta of Douglas's prospectus** ($\beta = 1.00$).

$P(0) =$	55,77 €
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- **Significant Undervaluation:** the APV valuation of **€55.77** sits far above the **€26.00 - €30.00** IPO range.
- **High Margin of Safety:** the intrinsic value is more than double the final IPO price of **€26.00**.
- **Investment Recommendation:** given the substantial upside potential, the stock is a clear **Buy**.

SENSITIVITY ANALYSIS

$r(u) =$	11,90%
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We then proceeded computing the APV Valuation using the **estimated beta for the calculation of $r(u)$** ($\beta = 1.32$).

$P(0) =$	34,00 €
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- **Undervaluation:** at an APV of **€34.00**, Douglas AG is undervalued compared to the **€26.00 - €30.00** IPO range.
- **Margin of Safety:** the intrinsic value significantly exceeds the offering price, providing a solid cushion for investors.
- **Discounted Entry:** buying at the **€26.00** final price offers a **30% discount** on the company's fundamental worth (covering 34.6m shares).
- **Recommendation:** with cash flows and tax shields priced well below fair value, the stock is a **Buy**.



MULTIPLES VALUATION

MULTIPLES-BASED ESTIMATED VALUATION - DOUGLAS AG			
		(€ millions)	
Method	Multiples	Estimated EV	Estimated Price
EV/EBITDA - Beauty (Average)	16,0	12.931,74 €	88,29 €
EV/EBITDA - Beauty (Median)	15,15	12.214,34 €	81,63 €
EV/EBITDA - Retail (Average)	8,39	6.760,21 €	30,98 €
EV/EBITDA - Retail (Median)	8,34	6.721,49 €	30,62 €
EV/EBIT - Beauty (Median)	20,51	8.132,41 €	43,73 €
EV/EBIT - Retail (Median)	11,67	4.626,37 €	11,17 €

- **EV/EBIT Discrepancy:** the retail median (€11.69) is lower than Douglas's IPO range, but this metric is less reliable here.
- **Accounting Distortions:** high depreciation and amortization. driven by **IFRS 16** lease assets and acquired intangibles, artificially suppress Douglas's EBIT.
- **Preferred Metric: EV/EBITDA** is a superior comparable, as it neutralizes these non-cash accounting costs for a fairer peer analysis.

IPO PRICE COMPARISON	
IPO Price - High	30,00 €
IPO Price - Mid	28,00 €
IPO Price - Low	26,00 €

- **Optimal Benchmark:** the **Retail peer set** is the most accurate benchmark due to Douglas's omnichannel specialty-retail model.
- **Fair Valuation:** an **EV/EBITDA median of 8.34x** implies a share price of **€31.38**, aligning closely with the €26.00 - €30.00 IPO range.
- **Peer Constraints:** premium beauty multiples (€90+) are unrealistic for Douglas given its retail cost structure and high financial leverage (**Net Debt/EBITDA ~4.2x**).

VALUATION SUMMARY

KEY VALUATION OUTPUTS		
DCF	APV	Multiple Median
€ 30.82	€ 34.00	€ 30.63
Adjusted WACC 11.91%	Adjusted r(u) 11.90%	Retail median EV/EBITDA

Under risk-adjusted assumptions, the three methodologies converge on a range of **€30-€34**.

- Buying at the **IPO lower bound** of **€26** provides a meaningful margin of safety (up to ~31% upside to APV of €34).
- Buying at the **upper bound** of **€30** offers limited protection, as it sits at or just below the estimated intrinsic value across most methods.

The investment is attractive only if shares can be acquired at or below the midpoint of the offering range.

Our Final
Recommendation:

BUY

This **final recommendation** is based on the comparison between the **price range obtained** with our analysis (€30-€34) and the **IPO price range**. Since our estimated intrinsic value range (**€30-€34**) exceeds the IPO price range, we recommend a **BUY**.



DOUGLAS

**Thank you
for your attention!**