DUFF & PHELPS

D-zine Men's Apparel

2019 Duff & Phelps Asia YOUniversity Deal Challenge

Strategy Consultant Document

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Contents

1. Executive Summary

Executive Summary

Situation Overview

D-zine Men's Apparel (DMA) is a US based menswear producer and retailer. Due to recent revenue drop, DMA got bankrupted and taken control by debtholders.

Luxury industry has maintained steady growth in the past years. While tourism and higher incomes would further boost luxury sales, dynamic landscape in this industry no doubt create a unstable future for small players like DMA.

Debtholder Exit

Strategic Buyers are most likely to offer 0.9 – 1.1 billion USD for DMA. Potential strategic buyers include other luxury and retailing company. Based on analysis of possible synergies and financial positions, we believe Burberry would be the most suitable buyer for DMA.

Financial Buyers are most likely to offer 1.2 – 1.8 billion USD for DMA. The current PE environment is stable. And we believe DMA would be a suitable target for co-investment of relatively small PE firms.

Trademark Dispute

FPA's infringement of DMA® in watch production in Spain might incur reputation damage to DMA. If litigation succeeds, DMA would be entitled with a damage of around 6 million USD. Future cooperation is also favorable for DMA considering the less likely reputation damage and promising license income.

2. Industry Analysis

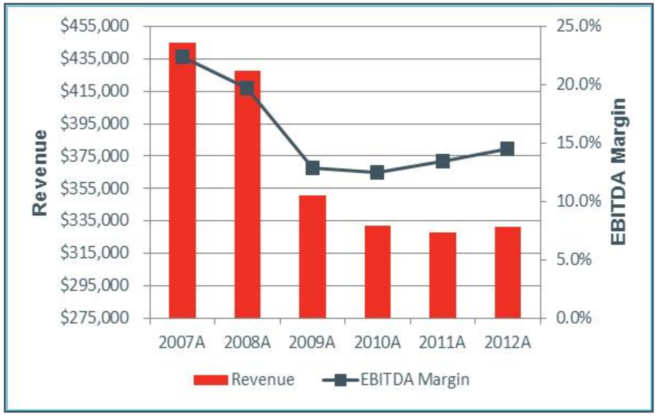
Deliverable 1

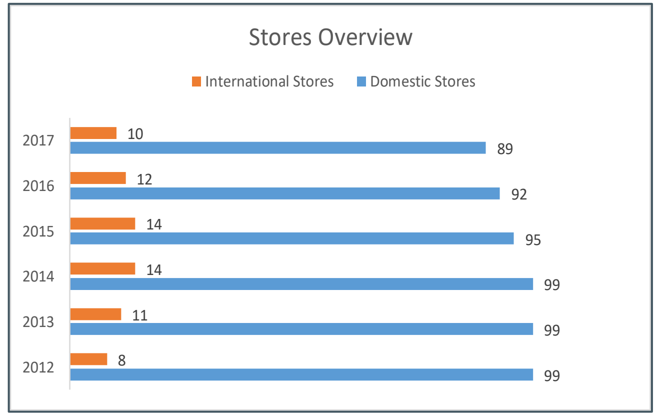
Company Profile

D-zine Men's Apparel

D-zine Men's Apparel ("DMA") engages in the sale of men's clothing and luxury products and is based in the United States. DMA sells to customers throughout the U.S. and in selected European and Asian markets. It currently operates 99 stores, distributes to upscale department stores, and has significant online sales.

Financial Overview





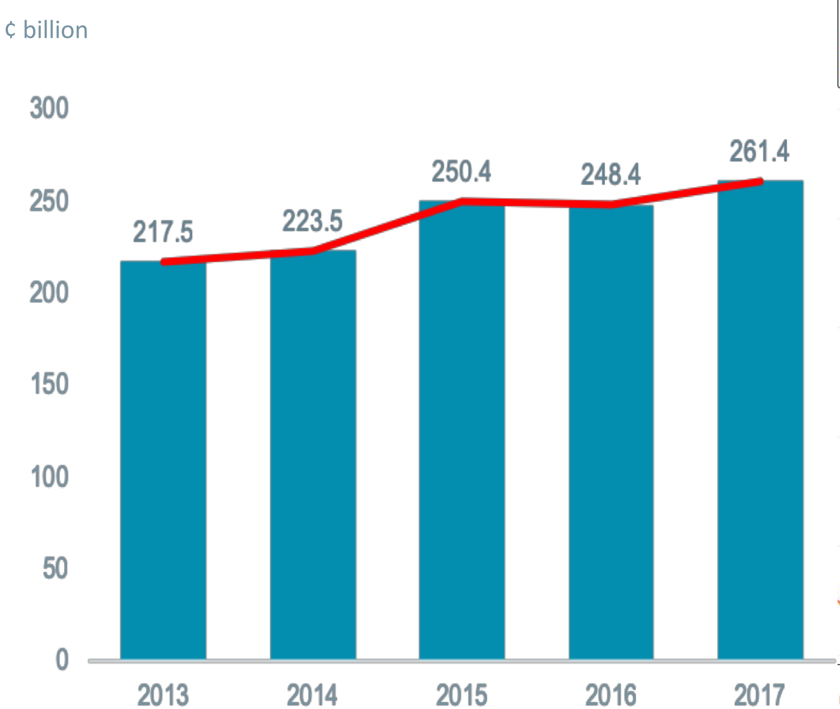
DMA's Milestone

- Founded in 1924, NY. began with a small tailor suits shop
- DMA suits gained widespread popularity in the 1940s, and maintained its luxury image
- In July 2012, DMA was acquired by a private equity firm for $1.1 billion
- In 2014, DMA lost a large department store customer which incurred significant decline in revenue
- DMA defaulted on principal payments in 2017. The debtholders have hired consultants to advise on exit scenarios

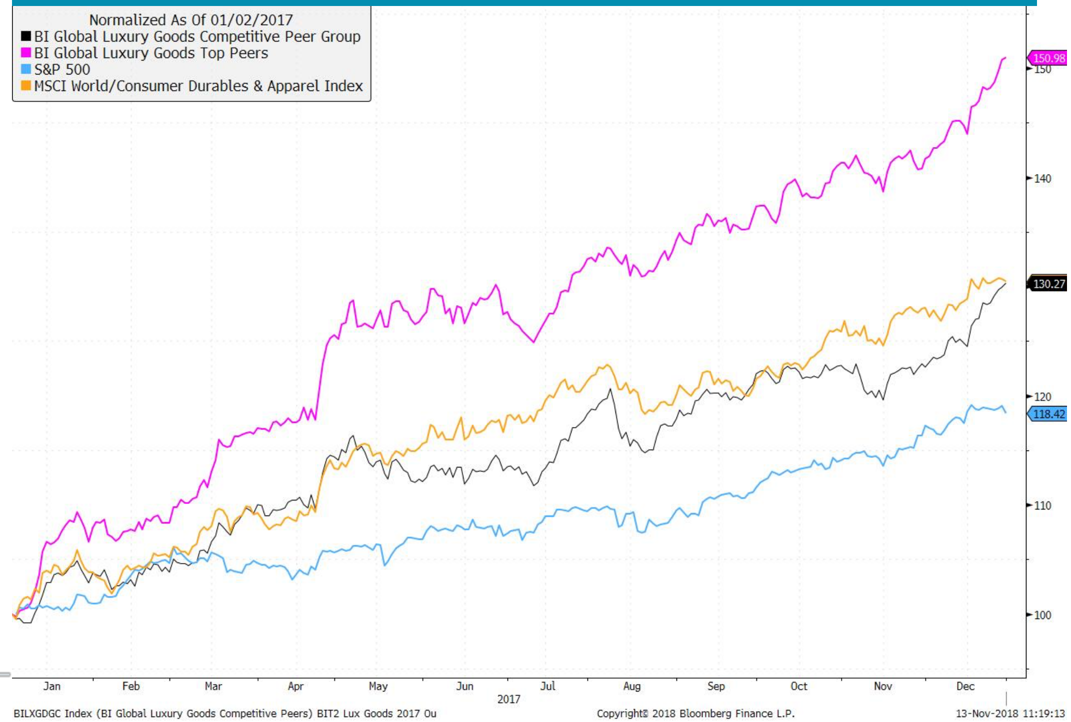
Industry Overview

The luxury goods industry outperformed S&P 500 and MSCI Consumer Durable & Apparel Index throughout 2017. It has witnessed an upsurge in its demand in the recent years.

Global Luxury Goods Market Value, 2013-17



Industry Stock Performance



Source: Bloomberg

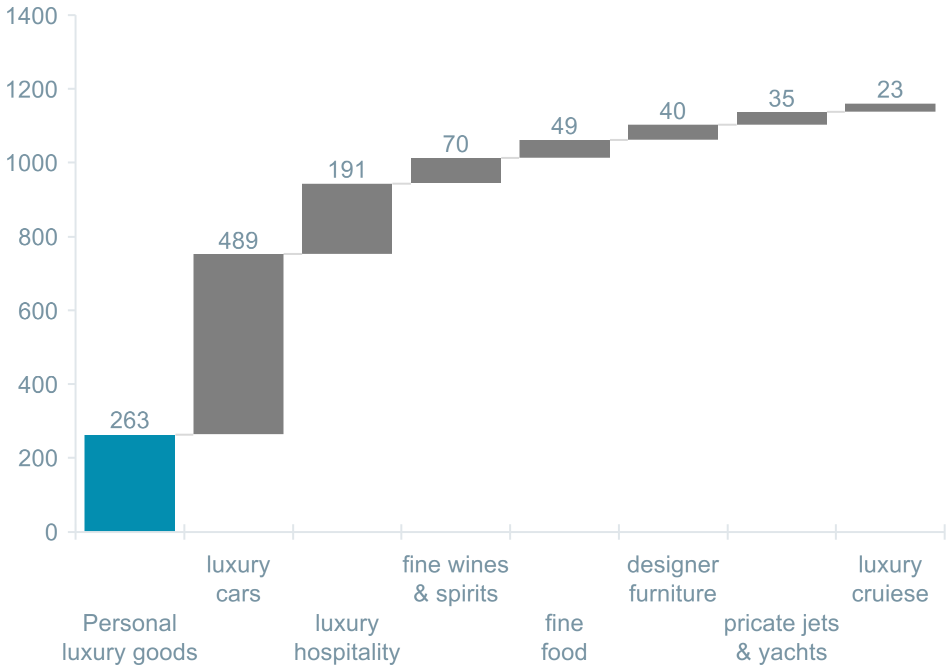
Key drivers to luxury industry:

- Inclination of consumers towards luxury goods
- Increased preference for premium products over cost-effective products

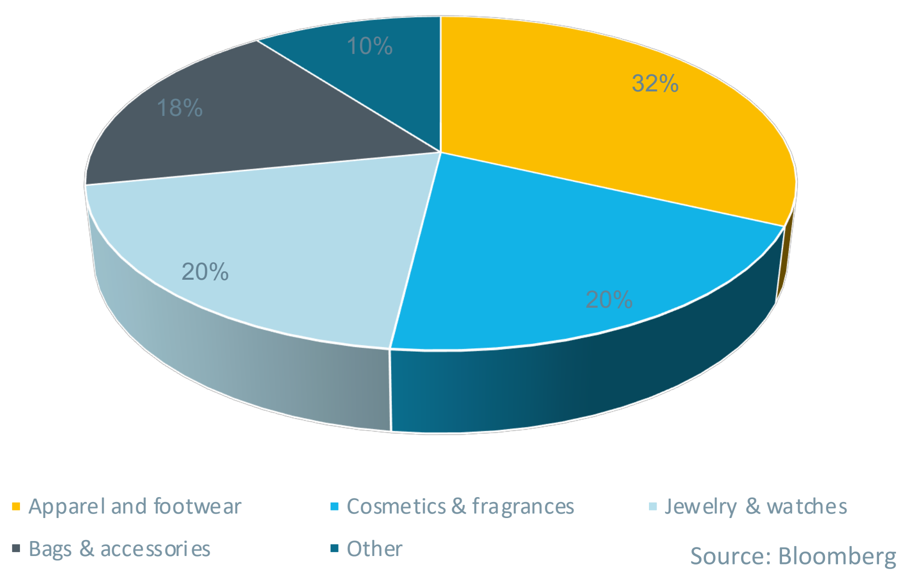
Industry Overview

Personal luxury goods as the second largest segmentation of luxury market is further segmented into apparel & footwear, cosmetics & fragrances, jewelry & watches, bags & accessories, and other. Among all the category segmentation, apparel as the ”core of the core” has a 3% growth rate in 16-17.

Global Luxury Market Revenue for 2017



Personal Luxury Goods Segmentation for 2017



Source: Bloomberg

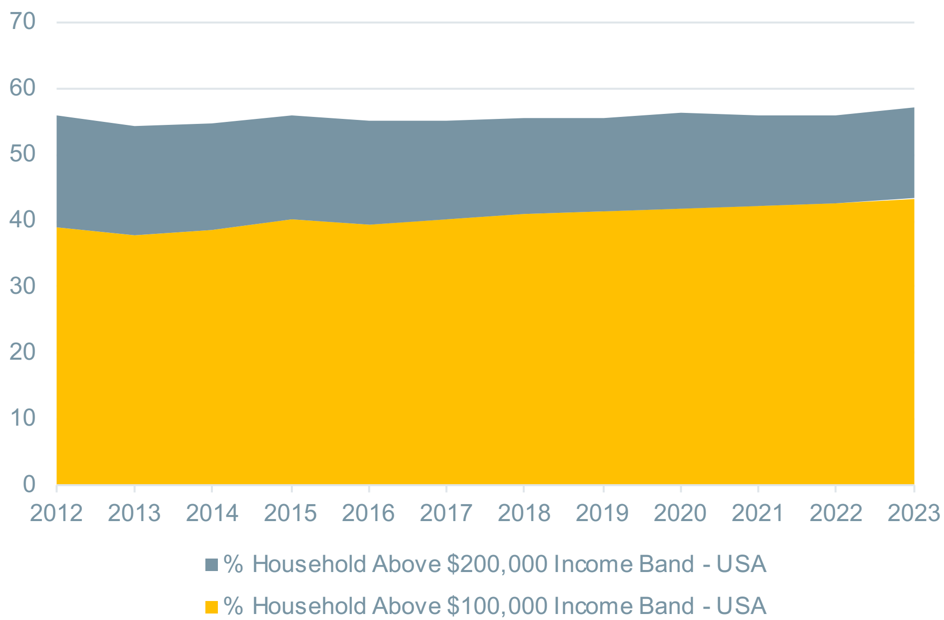
Key drivers to apparel segment:

Frequent changes or modifications in fashion trend.

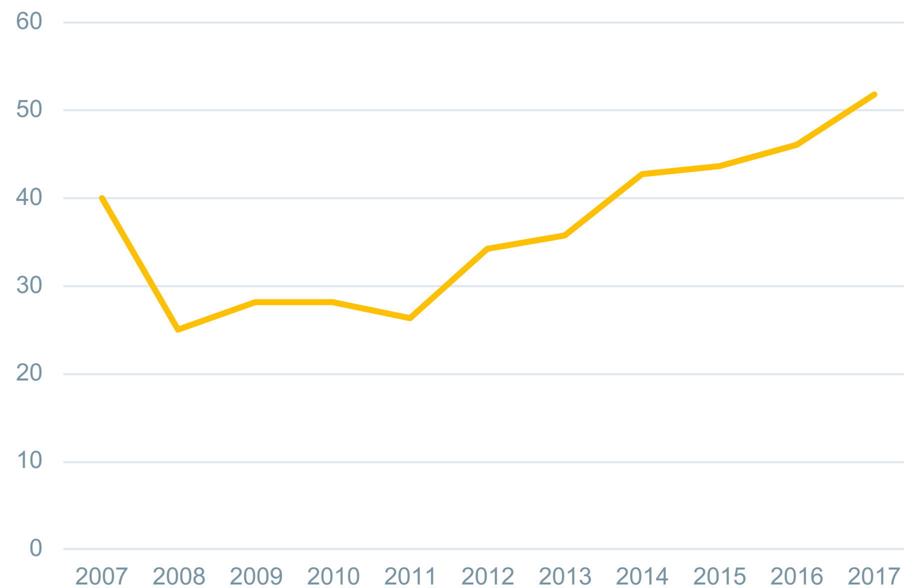
Top Factors Impacting Global Luxury Goods Market

Stronger Consumption Power:
Specialty apparel and department stores that create better product and customer experience should continue to enlarge market share as consumers steer consumptions toward clothing to keep wardrobes fresh. This is partially driven by stronger consumption power which is demonstrated by increasing percentage of household above disposable income band over both $200,000 and $100,000 and soaring consumer confidence.

% Household Above Disposable Income Band



Bloomberg U.S. Consumer Comfort Index



Source: Bloomberg

Top Factors Impacting Global Luxury Goods Market

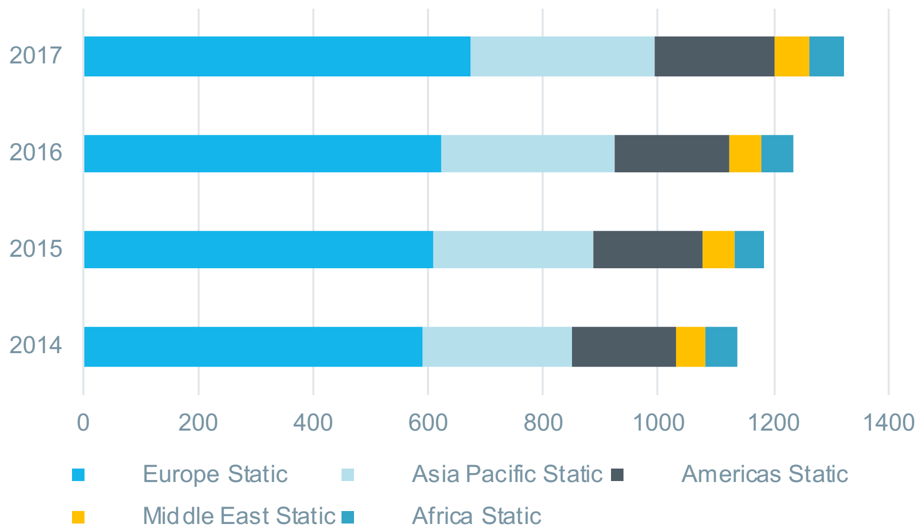
Strong tourist purchase

Worldwide, the personal luxury goods market experienced growth across all regions, driven by both more robust local consumption (up 4%) and strong tourist purchases (up 6%). Among the global appetite for personal luxury goods, China as the third largest purchaser shows little sign of slowing, with new locations and younger generation's raising demand.

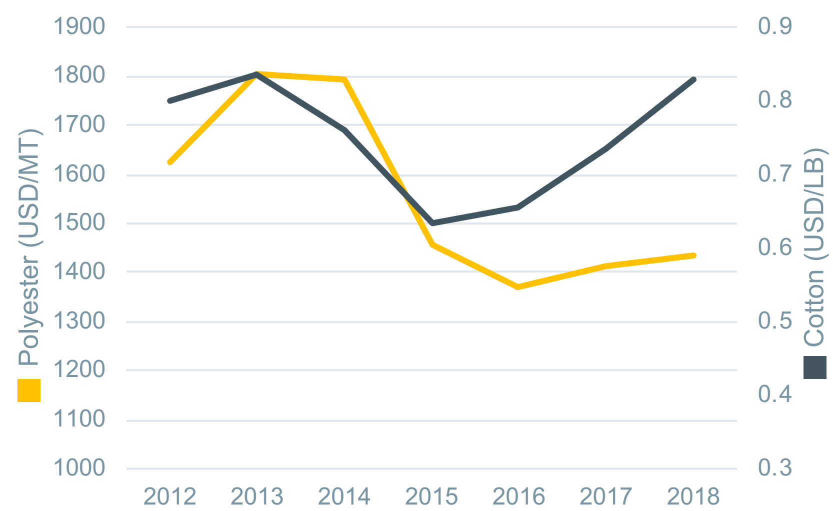
Increasing costs on raw materials

Along with larger market size and promising revenue growth, luxury apparel industry may facing pressure of raw material costs which increased from 2015. Companies have to aggressively seek for opportunities on economic of scales from enlarged business.

Global Tourists, million, 2014-17



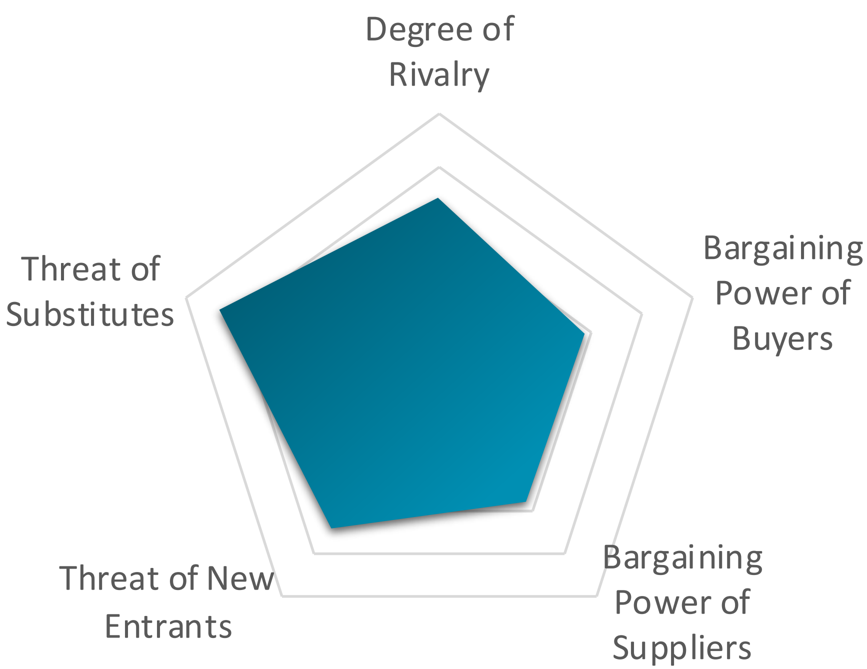
Raw Material Price



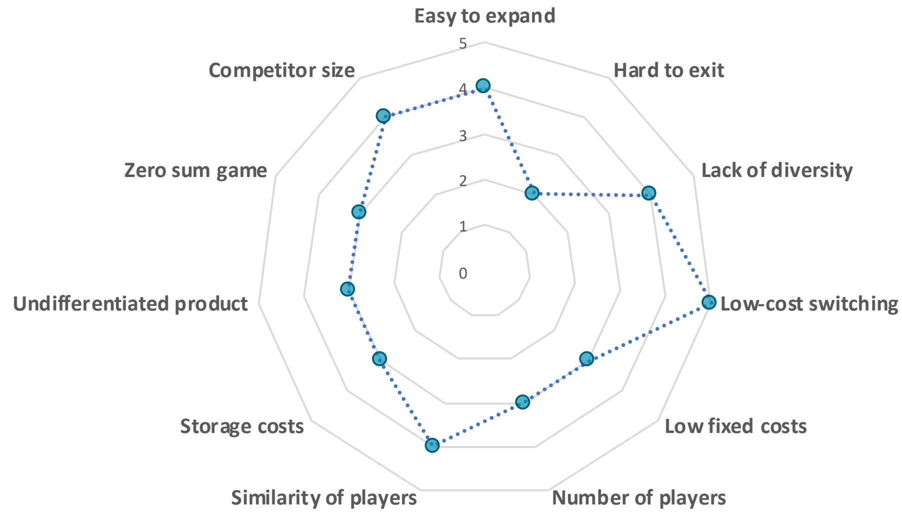
Source: Bloomberg

Porter's Five Model: U.S. Luxury Apparel

DMA primarily belongs to U.S luxury apparel industry. Overall speaking, this industry proves to have a strong degree of rivalry, threat of new entrants and threat of substitutes, while the bargaining power of buyers and suppliers is relatively moderate.



Degree of Rivalry



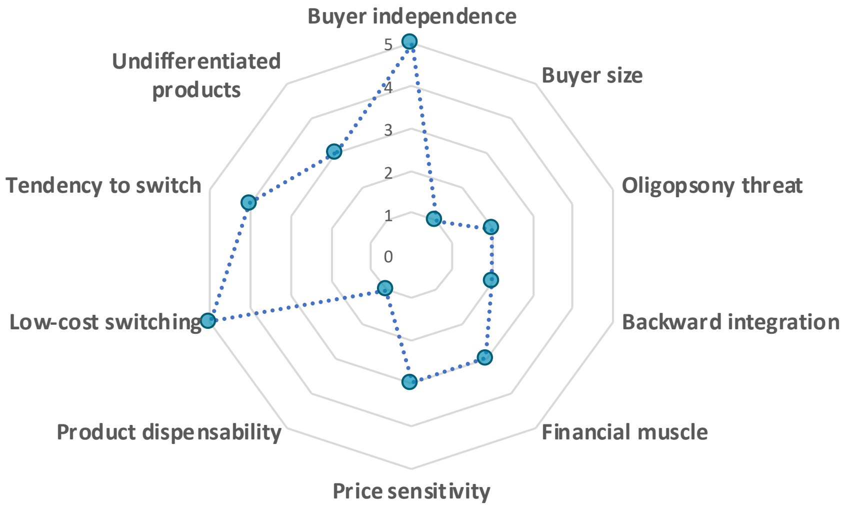
Strong

1. Highly concentrated market by top large conglomerate	• Small number of players • Large competitor size
2. Limited market growth	• Intensify competition
3. Fierce acquisition competition	• Large players secure domination by acquisition

Source: MarketLine

Porter's Five Model: U.S. Luxury Apparel

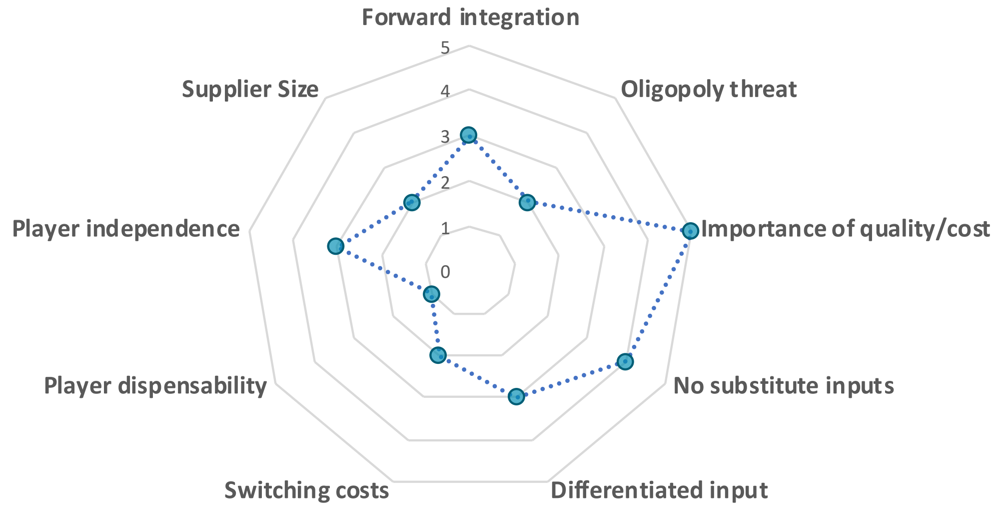
Bargaining Power of Buyers



Moderate

1. Mostly individual customers	• Small, independent buyer • Low oligopsony threat • Low backward integration
2. Affluent purchasing	• Low price sensitive • Tend to switch
3. Conglomerate brands diversify	• illusive switching
4. Online sales increase	• Low-cost switching
5. Second-hand sales e.g. eBay	• Increase dispensability

Bargaining Power of Suppliers



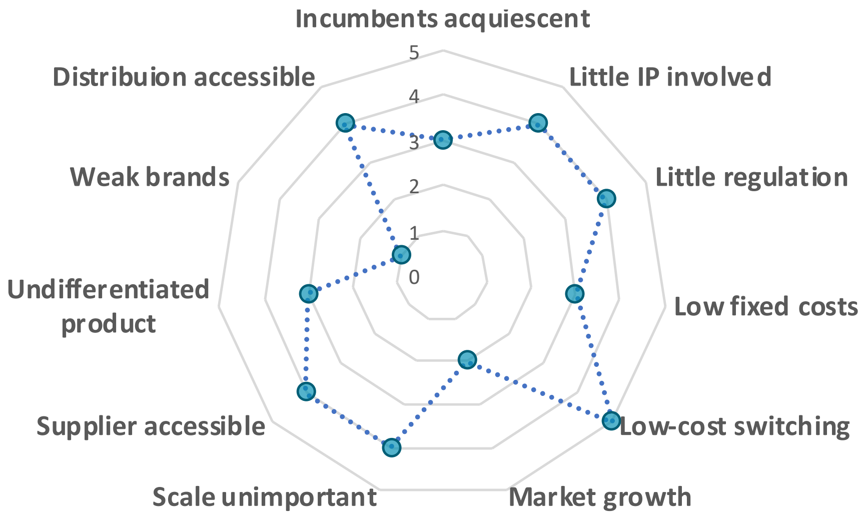
Moderate

1. No substitutes for raw materials e.g. cotton & leather	• No substitute inputs
2. Poor quality harms reputation	• Quality importance
3. Globalization provides many potential suppliers	• Low oligopoly threat
4. End users influence production procedure	• Ethical production
5. Low quantity production	• Low switching costs

Source: MarketLine

Porter's Five Model: U.S. Luxury Apparel

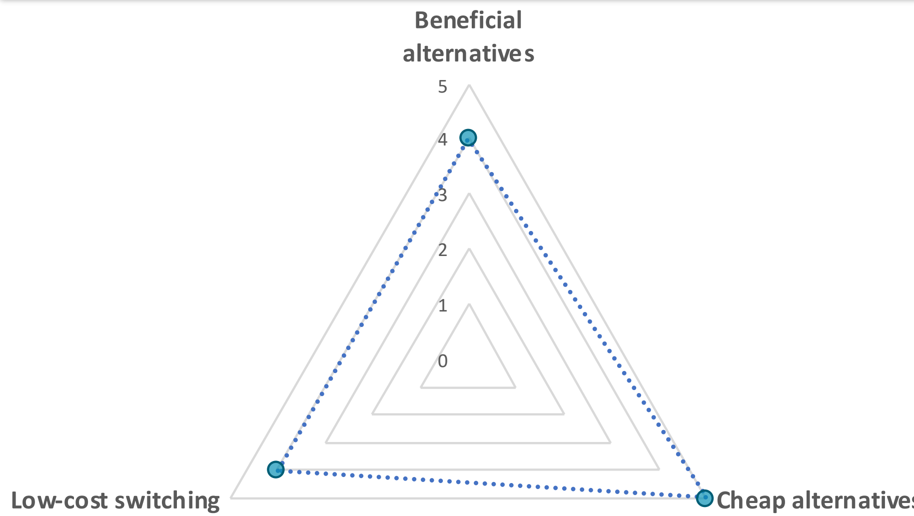
Threat of New Entrants



Strong

1. Strong online presence through social media	• Easily gain traction
2. Occupy niche market	• Scale unimportant
3. Influenced by global market	• Large player expansion regionally
4. Positive correlation between price and demand	• Weak brands charge and sell less
5. High raw material cost due to trade war	• Less new entrants recently
6. Large conglomerate acquisition	• Top players dominate

Bargaining Power of Customers



Strong

1. Non-luxury options	• Beneficial in various ways • Cheaper alternatives
2. Outlet alternatives	• Cheaper alternatives
3. Counterfeiting problems	• Cheaper option • Brand reputation damage • Different target group • Customer personal image loss – switching cost

Source: MarketLine

Opportunity & Risk

We explore the opportunities and threats of DMA as an individual company and as a participant of the luxury industry with reference to the future trends in this industry.

Opportunity

1. E-commerce
   - Enlarging customer base worldwide
   - Cost controls on capital investment
   - Attracting time-pressed customers
2. Social CRM
   - Better engagement with customers
   - Storytelling, exclusive campaigns
3. Sustained Growing Market
   e.g. China (local & tourist purchasing)
4. New Emerging Market
   e.g. southeast Asian, sub-Saharan African
5. "Millennialization" of Luxury
   - Reinterpret streetwear to attract millennial
   - Selling experience & lifestyle
   - Building brands through customer network
6. Off-priced & Airport Stores
   Grow by 8% & 12% respectively in 2017
7. Shoes, Jewelry & Handbag Market
   Expand into fastest-growing product categories

Risk

1. Limited Market Growth
   U.S. luxury market shrank by 2% in 2017
2. New Entrant Threat
   Geographic expansion, segment extension
3. Substitute Threat
   Infringement Problems
4. Geopolitics & Economic instability
   Anti-corruption campaign, sanction, trade war
5. Fragmentation of Demand
   Sophistication and diversification of consumer tastes
6. Physical Store Role Changing
   Delivering immersive retailing experience
7. Strong Industrial Competition
   Top player domination, sheer market share
8. Supply Chain Inefficiency
   Quality inconsistency, shortage, breakdown
9. Financial/Organization Problems

Source: IIC Partners, Bain, Forbes

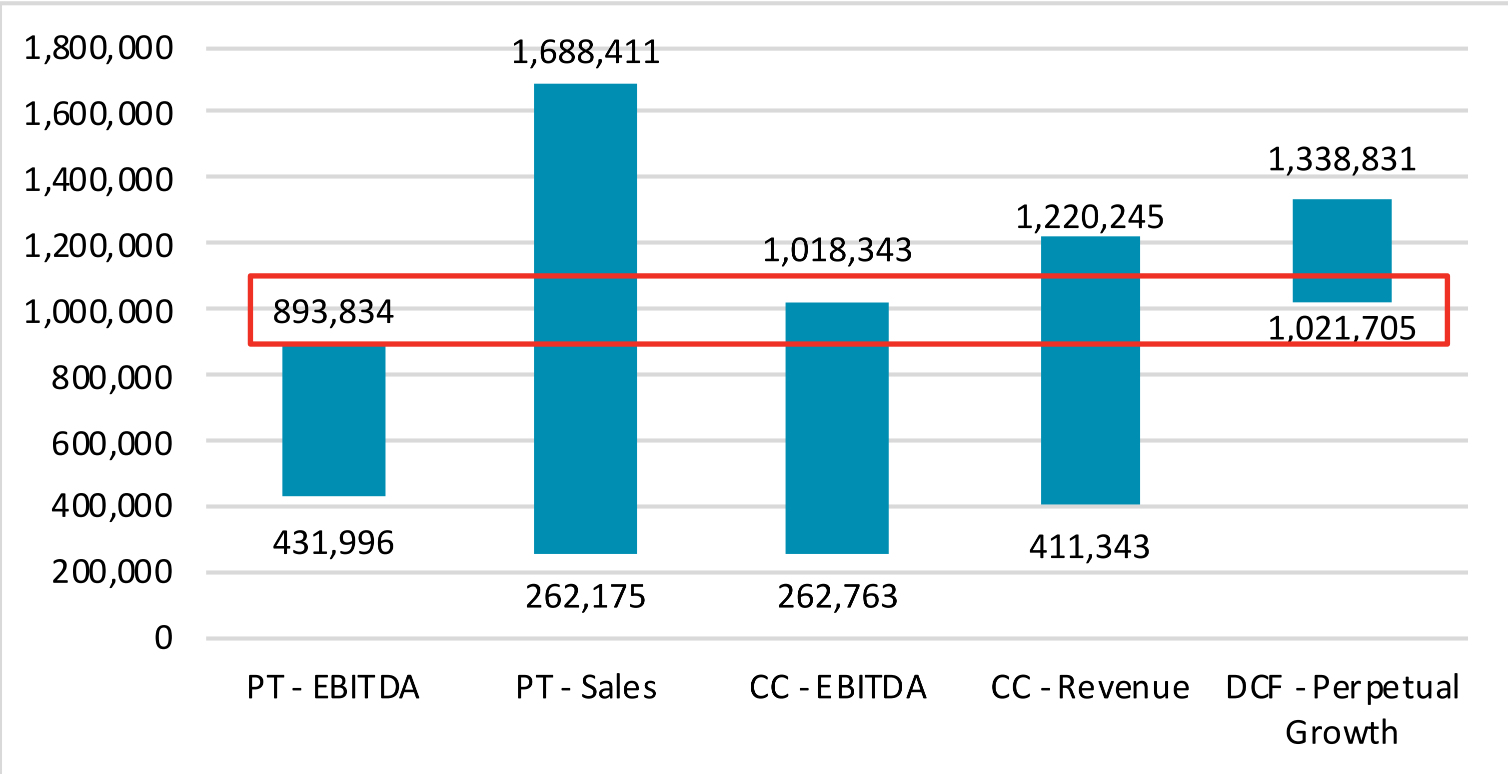
3.

Strategic Buyers

Deliverable 2

Valuation Football Field – Strategic Buyers

Enterprise Value Range



Implied Value Range:

$900 - $1,100 ('million)

PT – Precedent Transaction
CC – Comparable Company
DCF – Discounted Cash Flow

Discounted Cash Flow Analysis

	Actual						Forecast Period				CAGR	CAGR
	2012A	2013A	2014A	2015A	2016A	2017A	2018E	2019E	2020E	2021E	2012-2017	2018-2021
Total Revenue	445,203	427,823	350,629	331,868	327,661	331,062	353,630	366,640	384,082	400,350	-5.75%	4.22%
growth, %	N/A	-3.9%	-18.0%	-5.4%	-1.3%	1.0%	6.8%	3.7%	4.8%	4.2%		
Gross Margin	267,122	254,127	199,157	190,824	190,043	193,010	212,885	222,550	235,058	247,109	-6.29%	5.09%
margin, %	60.0%	59.4%	56.8%	57.5%	58.0%	58.3%	60.2%	60.7%	61.2%	61.7%		
EBITDA	99,725	84,281	45,231	41,483	43,906	48,005	80,176	92,520	103,714	111,908	-13.60%	11.76%
margin, %	22.4%	19.7%	12.9%	12.5%	13.4%	14.5%	22.7%	25.2%	27.0%	28.0%		
EBIT	88,191	73,148	35,881	32,567	35,087	39,107	69,379	81,422	92,237	100,032	-15.01%	12.97%
margin, %	19.8%	17.1%	10.2%	9.8%	10.7%	11.8%	19.6%	22.2%	24.0%	25.0%		
Tax (35%, 21%)	30,867	25,602	12,558	11,398	12,280	13,687	14,570	17,099	19,370	21,007		
NOPAT	57,324	47,546	23,323	21,169	22,807	25,420	54,809	64,323	72,867	79,025		
Add: Depreciation	11,534	11,133	9,350	8,916	8,819	8,898	10,798	11,099	11,478	11,877		
Less: Capex	9,349	10,696	9,818	6,969	5,898	5,628	8,528	9,208	9,265	9,696		
Less: Inc./Dec. in NWC	N/A	(3,997)	(17,755)	(4,315)	(968)	782	5,191	2,992	4,012	3,742		
Unleveraged FCF	59,509	51,981	40,609	27,431	26,695	27,907	51,888	63,222	71,068	77,464		

Synergies		
Amount	Account	Assumption
20,000	Department stores revenue	$20m annual revenue synergy is added to department store revenue
7,500	Domestic stores revenue	Closing 10 unprofitable domestic stores results in $7.5m annual revenue loss
8,000	S&M	Closing stores also saves $8m annual S&M costs
10,000	G&A	Strategic buyer would optimize management and cut off headcounts, thus $10m G&A costs is deducted annually
3,000	Restructuring	Closing stores also cause $3m one time lease termination fee in 2018.
1,668	Depreciation	Distribution centre appraised $25m is depreciated throughout 15 years under straight line method, i.e. 6.67% annual depreciation rate on distribution centre.
N/A	Gross Margin rate	Benefited from economics of scale and improvement of buying power, gross margin is improved to industry average by 2021

Assumptions:

- Tax rate of 35% from 2021A to 2017A and 21% from 2018E to 2021E. The Tax Cuts and Jobs Act of 2017 reduced the statutory tax rate from 35.0% to 21.0%, effective January 1, 2018.
- Average gross margin of luxury apparel industry of 61.72%.
- WACC of 8.51%.
- Average working capital of revenue of luxury apparel industry 21%
- 6.67% annual depreciation rate on distribution centre. Distribution center of $25m is depreciated throughout 15 years under straight line method.
- Constant Growth Rate of 2.27%, the US inflation rate.

Implied Enterprise Value						
		Constant Gowth Rate				
		1.47%	1.87%	2.27%	2.67%	3.07%
WACC	7.51%	1,282,175	1,359,018	1,447,601	1,550,839	1,672,697
	8.01%	1,183,917	1,248,197	1,321,442	1,405,670	1,503,548
	8.51%	1,099,655	1,154,108	1,215,547	1,285,408	1,365,551
	9.01%	1,026,604	1,073,234	1,125,403	1,184,158	1,250,832
	9.51%	962,670	1,002,979	1,047,743	1,097,747	1,153,966

Discounted Cash Flow Analysis-Details

	Actual 2012A	2013A	2014A	2015A	2016A	2017A	Forecast Period 2018E	2019E	2020E	2021E	CAGR 2012-2017A	CAGR 2018-2021E
Company-Owned Stores	261,548	253,292	233,629	224,778	219,496	219,685	218,580	227,224	239,554	250,437		
growth, %	N/A	-3.2%	-7.8%	-3.8%	-2.3%	0.1%	-0.5%	4.0%	5.4%	4.5%		
Domestic Stores	242,560	230,917	208,056	200,049	197,219	200,137	198,641	206,886	218,606	228,861		
growth, %	N/A	-4.8%	-9.9%	-3.8%	-1.4%	1.5%	-0.7%	4.2%	5.7%	4.7%		
International Stores	18,988	22,375	25,573	24,729	22,277	19,548	19,939	20,338	20,948	21,576		
growth, %	N/A	17.8%	14.3%	-3.3%	-9.9%	-12.3%	2.0%	2.0%	3.0%	3.0%		
Department Stores	173,580	164,728	107,403	96,984	97,372	99,515	122,002	125,063	128,740	132,546		
growth, %	N/A	-5.1%	-34.8%	-9.7%	0.4%	2.2%	22.6%	2.5%	2.9%	3.0%		
Online	10,075	9,803	9,597	10,106	10,793	11,862	13,048	14,353	15,788	17,367		
growth, %	N/A	-2.7%	-2.1%	5.3%	6.8%	9.9%	10.0%	10.0%	10.0%	10.0%		
Total Revenue	445,203	427,823	350,629	331,868	327,661	331,062	353,630	366,640	384,082	400,350	-5.75%	4.22%
growth, %	N/A	-3.9%	-18.0%	-5.4%	-1.3%	1.0%	6.8%	3.7%	4.8%	4.2%		
Costs of Goods Sold	178,081	173,696	151,472	141,044	137,618	138,052	140,745	144,090	149,024	153,254		
in % of revenue	40.0%	40.6%	43.2%	42.5%	42.0%	41.7%	39.8%	39.3%	38.8%	38.3%		
Gross Margin	267,122	254,127	199,157	190,824	190,043	193,010	212,885	222,550	235,058	247,096	-6.29%	5.09%
margin, %	60.0%	59.4%	56.8%	57.5%	58.0%	58.3%	60.2%	60.7%	61.2%	61.7%		
SG&A	167,397	169,846	153,926	149,341	146,137	145,005	129,709	130,030	131,344	135,201		
in % of revenue	39.1%	39.7%	36.0%	34.9%	34.2%	33.9%	30.3%	30.4%	30.7%	31.6%		
Restructuring	-	-	-	-	-	-	3,000	-	-	-		
EBITDA	99,725	84,281	45,231	41,483	43,906	48,005	80,176	92,520	103,714	111,895	-13.60%	11.75%
margin, %	22.4%	19.7%	12.9%	12.5%	13.4%	14.5%	22.7%	25.2%	27.0%	27.9%		
Depreciation	11,534	11,133	9,350	8,916	8,819	8,898	10,798	11,099	11,478	11,877		
in % of revenue	2.6%	2.6%	2.7%	2.7%	2.7%	2.7%	3.1%	3.0%	3.0%	3.0%		
EBIT	88,191	73,148	35,881	32,567	35,087	39,107	69,379	81,422	92,237	100,019	-15.01%	12.97%
margin, %	19.8%	17.1%	10.2%	9.8%	10.7%	11.8%	19.6%	22.2%	24.0%	25.0%		
Tax (35%, 21%)	30,867	25,602	12,558	11,398	12,280	13,687	14,570	17,099	19,370	21,004		
Capex	9,349	10,696	9,818	6,969	5,898	5,628	8,528	9,208	9,265	9,696		
in % of revenue	2.1%	2.5%	2.8%	2.1%	1.8%	1.7%	2.4%	2.5%	2.4%	2.4%		
Increase/Decrease in NWC	N/A	(3,997)	(17,755)	(4,315)	(968)	782	5,191	2,992	4,012	3,742		
Unleveraged Free Cash Flow	59,509	51,981	40,609	27,431	26,695	27,907	51,888	63,222	71,068	77,453		

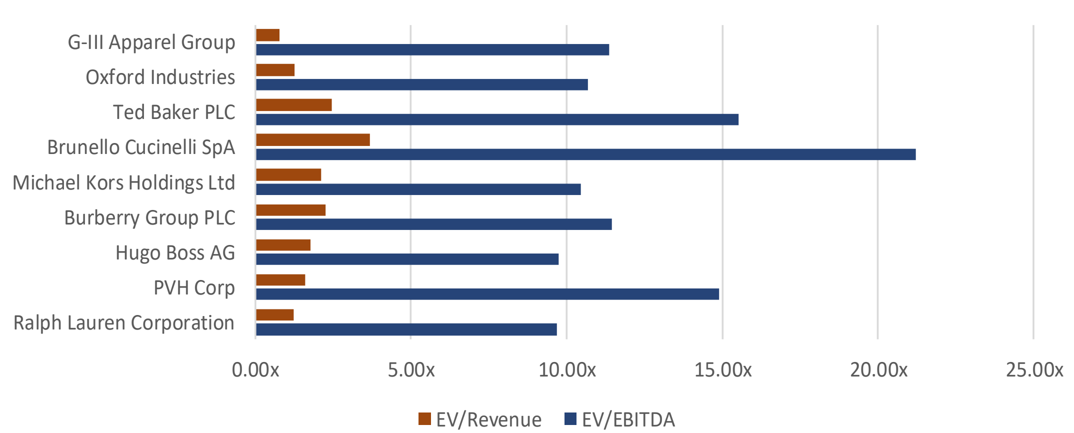
DCF Valuation-Gorden Growth Method						
(+) terminal value (2.27% terminal growth rate) 2017 US GDP growth rate						
Total cash flow		28,690	57,079	66,214	75,079	1,412,829
Enterprise Value	**1,215,547.3**					
(-) Net debt	715,000.0					
Equity Value	**500,547.3**					

Constant growth model for terminatl value

		Constant Gowth Rate				
		1.47%	1.87%	2.27%	2.67%	3.07%
WACC	7.51%	1,364,997	1,467,640	1,585,966	1,723,867	1,886,639
	8.01%	1,260,573	1,348,044	1,447,715	1,562,330	1,695,522
	8.51%	1,170,990	1,246,470	1,331,634	1,428,473	1,539,563
	9.01%	1,093,295	1,159,131	1,232,787	1,315,743	1,409,879
	9.51%	1,025,269	1,083,230	1,147,601	1,219,504	1,300,345

Comparable Valuation

US $ in thousands (FY 2017)								
Company Name	Ticker	Market Cap	Enterprise Value	Revenue	EBITDA	EBITDA Margin %	EV/EBITDA	EV/Revenue
Ralph Lauren Corporation	RL	9,089,300	7,681,500	6,182,300	793,400	12.83%	9.68x	1.24x
PVH Corp	PVH	11,659,400	14,248,300	8,914,800	957,300	10.74%	14.88x	1.60x
Hugo Boss AG	BOSS	5,532,480	5,506,377	3,087,838	564,887	18.29%	9.75x	1.78x
Burberry Group PLC	BRBY	9,080,192	7,944,576	3,497,984	693,248	19.82%	11.46x	2.27x
Michael Kors Holdings Ltd	KORS	9,293,300	10,008,400	4,718,600	957,700	20.30%	10.45x	2.12x
Brunello Cucinelli SpA	BC	2,075,471	2,097,506	569,068	98,875	17.37%	21.21x	3.69x
Ted Baker PLC	TED	1,724,928	1,868,032	757,376	120,320	15.89%	15.53x	2.47x
Oxford Industries	OXM	1,333,600	1,373,100	1,086,200	128,400	11.82%	10.69x	1.26x
G-III Apparel Group	GIII	1,834,400	2,179,600	2,806,900	191,800	6.83%	11.36x	0.78x
	Average	5,735,897	5,878,599	3,513,452	500,659	14.88%	12.78x	1.91x
	High	11,659,400	14,248,300	8,914,800	957,700	20.30%	21.21x	3.69x
	Low	1,333,600	1,373,100	569,068	98,875	10.74%	9.68x	1.24x
	Median	5,532,480	5,506,377	3,087,838	564,887	15.89%	11.36x	1.78x



Expected Multiple Range	EV/REVENUE
Low	1.24x
High	3.69x

Expected Multiple Range	EV/EBITDA
Low	9.68x
High	21.21x

Implied Value Range:

(EBITDA Multiple) 464,763 ~ 1,018,343
(Revenue Multiple) 411,343 ~ 1,220,245

Precedent Transaction

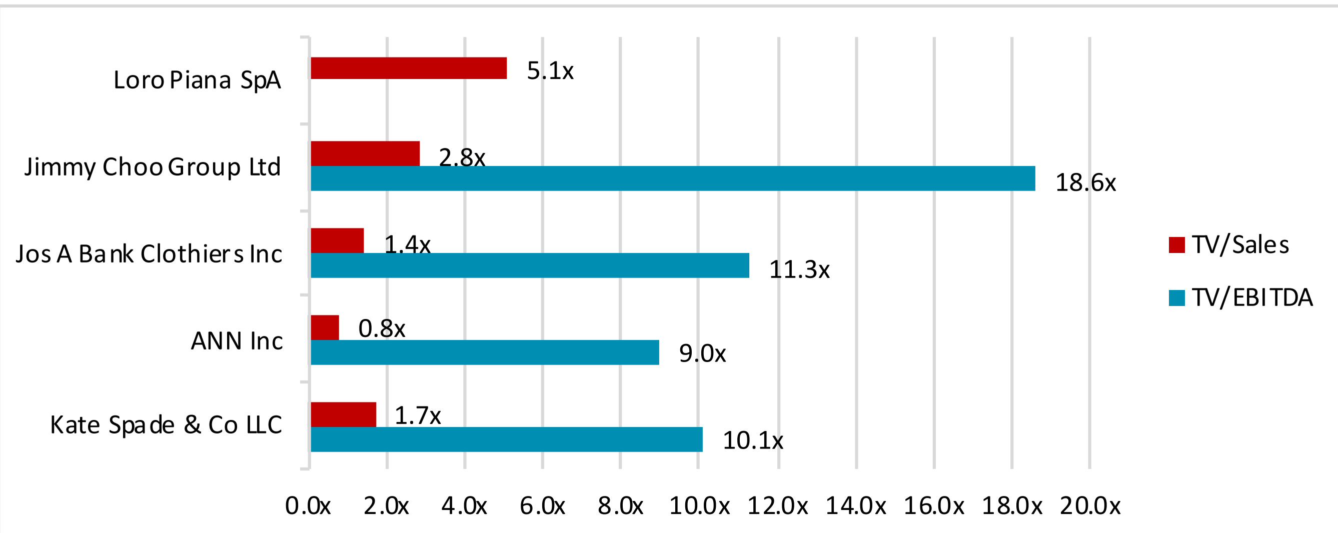
Comparable Transactions Analysis: Textile Apparel & Retail Sales Apparel[1]

Announce Date	Target Name	Acquirer Name	Announced Total Value	Payment Type	TV/EBITDA	TV/Sales
8/5/2017	Kate Spade & Co LLC	Tapestry Inc	2,353,750	Cash	10.1x	1.7x
18/5/2015	ANN Inc	Ascena Retail Group Inc	2,006,310	Cash and Stock	9.0x	0.8x
26/11/2013	**Jos A Bank Clothiers Inc**	**Tailored Brands Inc**	**1,486,070**	**Cash**	**11.3x**	**1.4x**
25/7/2017	Jimmy Choo Group Ltd	Michael Kors Holdings Ltd	1,349,950	Cash	18.6x	2.8x
8/7/2013	Loro Piana SpA	LVMH Moet Hennessy Louis Vuitton SE	2,573,600	Undisclosed	N/A	5.1x
				Average	12.3x	2.4x
				Median	10.7x	1.7x
				High	18.6x	5.1x
				Low	9.0x	0.8x

Implied Entrepreise Value ($k)

	As of 12/31/2017	Multiple Range	Implied EV
EBITDA	48,004	9.0x - 18.6x	431,996 - 893,834
Sales	331,061	0.8x - 5.1x	262,175 - 1,688,411

Multiples



Source: [1]Bloomberg as of 12/31/2017

- Precedential transactions analysis is another relevant valuation methodology aimed to reveal implied enterprise value with premium taking into consideration.
- This is past precedent transaction of strategic buyers deals in Apparel industry.
- The most relevant transaction is Tailored Brands Inc's acquisition of Jos A Bank Clothiers Inc. Jos A Bank Clothiers Inc is a U.S. retailor of men's clothing, while Tailored Brands Inc is a large retail holding company focus on men's apparel.

Strategic Buyer Pre-Screening

- The pre-screening criteria complies with management's expectation on post acquisition synergy: significant $20m revenue synergy on existing department and outlet sales channel, benefits from buyers' distribution centers, and reduction on SG&A costs.

Financial Synergy Pre-Screening	Forward Merger	Backward Merger	Horizontal Merger	Product Extension	Market Extension
Revenue Synergy	✗	✓	✓	✓	✓
COGS Synergy	✓	✗	✓	✓	✓
Distribution Channel	✗	✓	✓	✓	✓
SG&A Costs	✓	✓	✓	✓	✓

- Forward Merger is screened out because it is least likely to generate significant revenue synergy on existing department and outlet channel and provide advantage on new distribution centers. Market Extension Merger is screened out because the brands of most buyers with adequate affordability has already been multi-national brands and have footprints across the world.

Strategic Buyer Universe

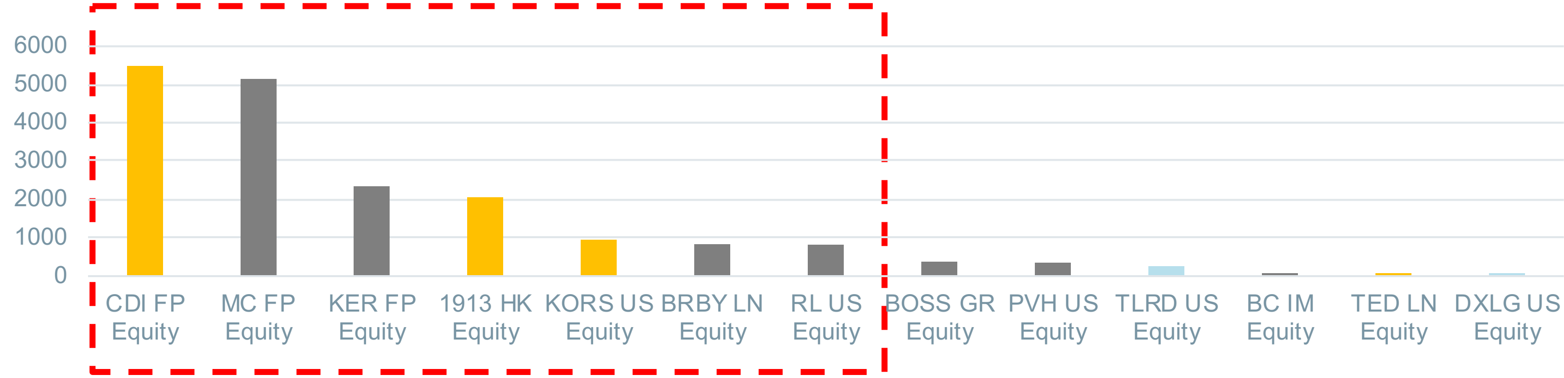
	Backward Merger	Horizontal Merger	Product Extension
Strategic Rationale	➢ Acquire critical suppliers to improve efficiency and realize cost savings, such as transportation costs. ➢ Gain product differentiation as strategic advantage.	➢ Eliminate competition and increase market share with joint effort. ➢ Take advantage of economies of scale in purchasing, managerial, marketing, and financial perspectives.	➢ Diversify product lines to a complementary market; ➢ Get access to wider set of customers. ➢ Savings on overlapping costs.
Recent M&A Transactions	➢ On 25 May 2018, Walmart acquired Bonobos for $310m ➢ On 3 Apr 2017, Adastria Co., Ltd acquired Velvet, LLC	➢ On 1 Jun 2018, VF Corporation acquired Altra Footwear ➢ On 8 May 2017, Tapestry Inc acquired Kate Spade & Co LLC for $2.4b	➢ On 1 Nov 2017, Michael Kors Holdings Ltd acquired Jimmy Choo Group Ltd for $1.35b
Potential Buyers	➢ Tailored brands Inc ➢ Destination ➢ Farfetch	➢ Burberry Group PLC ➢ Ralph Lauren Corp ➢ LVMH SE ➢ PGH Corp ➢ HUGO BOSS AG...	➢ PRADA SpA ➢ Ted Baker PLC ➢ Christian Dior SE ➢ Michael Kors Holdings Ltd

Financial position for Transactions by Merger Type

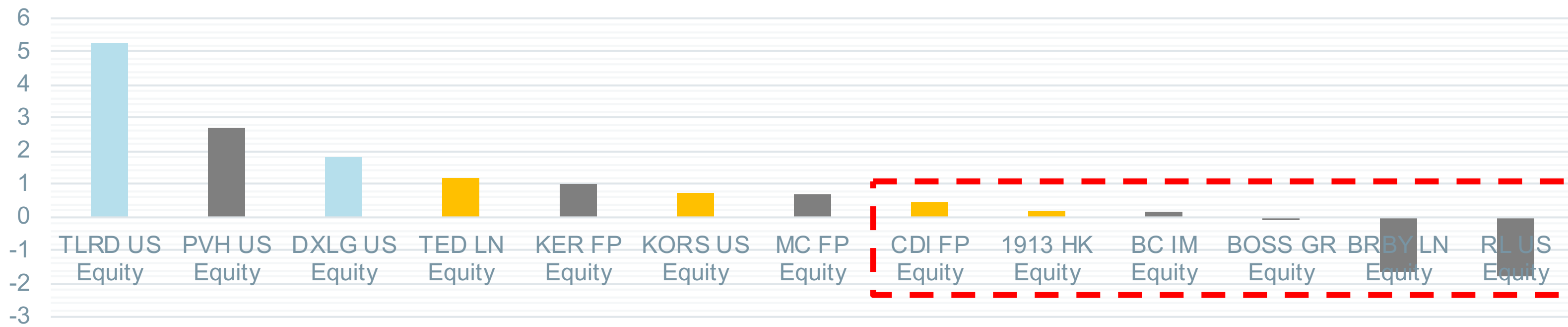
Source: Bloomberg

Horizontal Merger | Product Extension Merger | Backward Merger

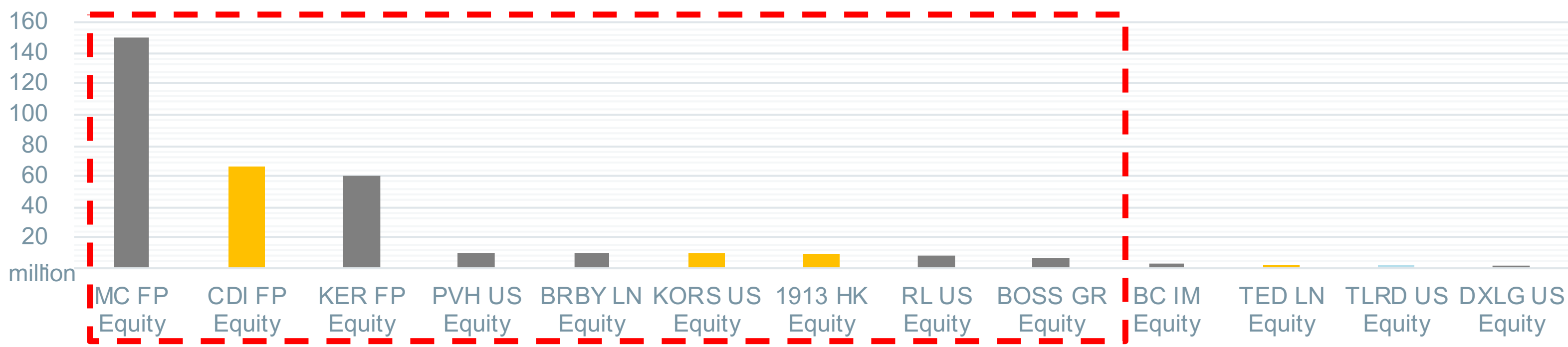
Free Cash Flow



Debt/ EBITDA



Market Capital



Strategic Buyer Screening

BOSS HUGO BOSS

BRUNELLO CUCINELLI

TED BAKER LONDON

TAILORED BRANDS

DXL GROUP

PVH

KERING

MICHAEL KORS

LVMH MOËT HENNESSY• LOUIS VUITTON

PRADA

RALPH LAUREN

BURBERRY® LONDON

Christian Dior

Satisfatory Strategic Buyers
Burberry
Ralph Lauren
Christian Dior

Burberry Profile

Company overview

BURBERRY
LONDON

Headquarters: London, UK
Year Founded: 1856
Products: Luxury clothing, Footwear, Fragrances, accessory

Key Financials

Revenue	£2,733 m
EBITDA Margin	21.88%
EV/EBITDA	12.1X
Net Debt	0
Enterprise Value	£6,810 m

Recent Activities

- Burberry is cutting off 15-20% of its product lines, after the luxury fashion brand's profits fell by a quarter in 2016
- Burberry's new chief executive, Marco Gobbetti, has revealed plans to take the Burberry more upmarket as part of a shake-up that comes with a hefty price tag of its own in Nov 2017

Acquisitions Motivation

- Expanding its distribution channels in US
- Acquiring the high-end men's tailored suits product line
- Consolidating its luxury image to strengthen competitiveness
- Strengthening its brands diversity

Ralph Lauren Profile

Company overview

RALPH LAUREN

Headquarters: New York, USA
Year Founded: 1967
Products: Luxury clothing, Footwear
Fragrances, Furniture

Key Financials

Revenue	$6,182 m
EBITDA Margin	15.56%
EV/EBITDA	8.63X
Net Debt	0
Enterprise Value	$8,310 m

Prior Acquisitions

- $80 million Club Monaco Inc. acquisition in 1999 –Trendy clothing store to attract younger & hipper clients
- $230 million European licensee Poloco SA acquisition in 2000 –specialty shops expansion

Acquisitions Motivation

- Acquiring the high-end men's tailored suits product line
- Gaining more market shares to drive its revenue as its CEO announced to increase sales by $1Billion over the next 5 years

Dior Profile

Company overview

Dior

Headquarters: Paris, France
Year Founded: 1946
Products: Luxury clothing, Fragrances, accessory

Key Financials

Revenue	€43,666 m
EBITDA Margin	24.82%
EV/EBITDA	7.76X
Net Debt	€7,100 m
Enterprise Value	€82,400 m

Recent Activities

- LVMH to Gain Control of Dior After $13 Billion Arnault Deal. Bernard Arnault moved to consolidate control over Christian Dior for about 12.1 billion euros, folding the fashion house's operations into the LVMH luxury empire.

Acquisitions Motivation

- Acquiring the high-end men's tailored suits product line
- Improving its competitiveness in US market
- Strengthening its luxury empire image

Strategic Buyers

	RALPH LAUREN		BURBERRY LONDON		Dior
Revenue	$6,182 m	Revenue	£2,733 m	Revenue	€43,666 m
EBITDA Margin	15.56%	EBITDA Margin	21.88%	EBITDA Margin	24.82%
EV/EBITDA	8.63X	EV/EBITDA	12.1X	EV/EBITDA	7.76X
Net Debt	0	Net Debt	0	Net Debt	€7,100 m
Enterprise Value	$8,310 m	Enterprise Value	£6,810 m	Enterprise Value	€82,400 m

	Ralph Lauren	Burberry	Dior
US Market Competitiveness	✓		
Debt capacity	✓	✓	✓
Brands diversity			✓
Desire to Acquire		✓✓	
Business similarity	✓	✓	

Brands Portfolio

POLO RALPH LAUREN RRL RALPH LAUREN RALPH LAUREN	BURBERRY London, England	Christian Dior Berluti PINK THOMAS PINK JERMYN STREET LONDON

Burberry's Synergies with DMA

Synergies form the Acquisition

Operating Synergies

➢ **Economies of Scale**
By acquiring DMA, Burberry can expand its US market share and generate revenue

➢ **New growth driver**
By acquiring DMA's high-end tailored suits product line can endow Burberry with the new growth driver

➢ **Greater pricing power**
Stems form reduced competition and consolidates the competitive position in the supply chain

Financial Synergies

➢ **Tax benefits**
As Burberry is the European company, the post-transaction company will have lower tax

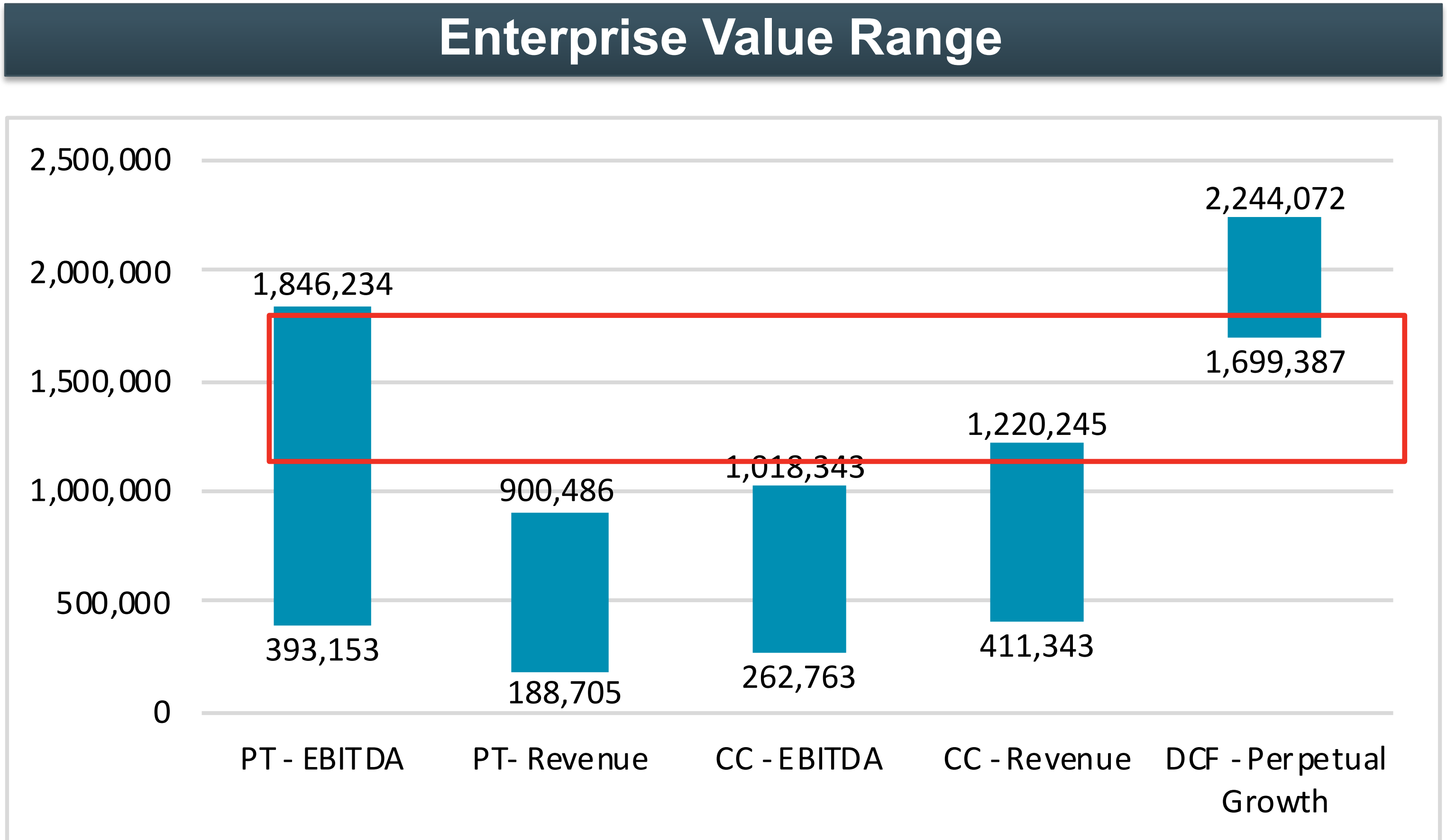
➢ **Increase debt capacity**
Merger of equals creates higher debt capacity for both companies

➢ **Project opportunities**
Burberry can invest its excess cash to the new projects to create value

4. Financial Buyers

Deliverable 2

Valuation Football Field – Financial Buyers



Implied Value Range:

$1,200 - $1,800 ('million)

PT – Precedent Transaction
CC – Comparable Company
DCF – Discounted Cash Flow

Note:
Comparable Company Valuation is the same regardless whether financial buyers or strategic buyers are analyzed. Hence, CC figures are from Strategic Buyers Valuation in Page 19.

Discounted Cash Flow Analysis

	Actual						Forecast Period				CAGR	CAGR
	2012A	2013A	2014A	2015A	2016A	2017A	2018E	2019E	2020E	2021E	2012-2017	2018-2021
Total Revenue	445,203	427,823	350,629	331,868	327,661	331,062	326,204	323,713	325,039	550,062	-4.82%	13.95%
growth, %	N/A	-3.9%	-18.0%	-5.4%	-1.3%	1.0%	-1.5%	-0.8%	0.4%	69.2%		
Gross margin	267,122	254,127	199,157	190,824	190,043	193,010	242,648	280,549	307,557	320,687	-5.27%	-0.77%
margin, %	60.0%	59.4%	56.8%	57.5%	58.0%	58.3%	58.3%	58.3%	58.3%	58.3%		
EBITDA	99,725	84,281	45,231	41,483	43,906	48,005	111,801	149,400	175,173	184,678	-11.47%	4.82%
margin, %	22.4%	19.7%	12.9%	12.5%	13.4%	14.5%	26.9%	31.0%	33.2%	33.6%		
EBIT	88,191	73,148	35,881	32,567	35,087	39,107	102,671	139,969	165,363	174,469	-12.68%	5.81%
margin, %	19.8%	17.1%	10.2%	9.8%	10.7%	11.8%	24.7%	29.1%	31.3%	31.7%		
Tax (35%, 21%)	30,867	25,602	12,558	11,398	12,280	13,687	21,561	29,394	34,726	36,639		
NOPAT	57,324	47,546	23,323	21,169	22,807	25,420	57,324	57,324	57,324	57,324		
Add: Depreciation	11,534	11,133	9,350	8,916	8,819	8,898	9,130	9,431	9,810	10,209		
Less: Capex	9,349	10,696	9,818	6,969	5,898	5,628	8,528	9,208	9,265	9,696		
Less: Inc./Dec. in NWC	-	(3,997)	(17,755)	(4,315)	(968)	782	19,583	14,952	10,655	5,180		
Unleveraged FCF	59,509	51,981	40,609	27,431	26,695	27,907	62,130	95,847	120,527	133,164		

Projections		
Amount	Account	Assumption
N/A	Company owned store revenue	Revenue at company owned stores remain relatively similar to management's current plan
Increase to $225 by 2021	Mainstream stores and outlet revenue	Revenue increase rapidly until reaching approximately $225m in 2021 because of the new distribution channel
Decrease by half by 2021	Upscale department revenue	Revenue from existing upscale department stores will be cut half by 2021 due to the change of brand target
N/A	Gross Margin in % of revenue	Lower gross margin of lower price pruduct offset makes the gross margin imporvement in management plan not material. Therefore, gross margin level remain flat at 2017 level
10,000 annually	SG&A costs	Cost savings associated withstore closings are $10m annually because of the new managemenet and backoffice overlap
Decrease by 6% by 2021	SG&A costs	SG&A costs (excluding savings associated with store closings) decreased by 6% by 2021 because increased revenue provide scale advantages

Assumptions:

- Tax rate of 35% from 2021A to 2017A and 21% from 2018E to 2021E. The Tax Cuts and Jobs Act of 2017 reduced the statutory tax rate from 35.0% to 21.0%, effective January 1, 2018.
- WACC of 8.51%.
- Average working capital of revenue of luxury apparel industry 21%
- Constant Growth Rate of 2.27%, the US inflation rate.
- Mainstream Stores and outlet revenue growth rate experience a spur and then level off, i.e. 30%, 20%, 10%.
- Upscale department revenue shrinks on a straight line basis.
- Online store revenue, depreciation and capital expenditure comply with management expectation.

Implied Enterprise Value

		Constant Gowth Rate				
		1.47%	1.87%	2.27%	2.67%	3.07%
WACC	7.51%	2,041,270	2,167,295	2,312,576	2,481,891	2,681,742
	8.01%	1,880,388	1,985,810	2,105,936	2,244,072	2,404,598
	8.51%	1,742,458	1,831,764	1,932,526	2,047,102	2,178,540
	9.01%	1,622,911	1,699,387	1,784,945	1,881,307	1,990,656
	9.51%	1,518,314	1,584,421	1,657,837	1,739,845	1,832,047

Discounted Cash Flow Analysis-Details

	Actual						Forecast Period				CAGR	CAGR
	2012A	2013A	2014A	2015A	2016A	2017A	2018E	2019E	2020E	2021E	2012-2017A	2018-2021E
Company-Owned Stores	261,548	253,292	233,629	224,778	219,496	219,685	226,080	234,724	247,054	257,937		
growth, %	N/A	-3.2%	-7.8%	-3.8%	-2.3%	0.1%	2.9%	3.8%	5.3%	4.4%		
Domestic Stores	242,560	230,917	208,056	200,049	197,219	200,137	206,141	214,386	226,106	236,361		
growth, %	N/A	-4.8%	-9.9%	-3.8%	-1.4%	1.5%	3.0%	4.0%	5.5%	4.5%		
International Stores	18,988	22,375	25,573	24,729	22,277	19,548	19,939	20,338	20,948	21,576		
growth, %	N/A	17.8%	14.3%	-3.3%	-9.9%	-12.3%	2.0%	2.0%	3.0%	3.0%		
Upscale Department Stores	173,580	164,728	107,403	96,984	97,372	99,515	87,075.63	74,636	62,197	49,758		
growth, %	N/A	-5.1%	-34.8%	-9.7%	0.4%	2.2%	-12.5%	-14.3%	-16.7%	-20.0%		
Mainstream Stores and Outlets	0	0	0	0	0	0	90,000	157,500	202,500	225,000		
growth, %	-	-	-	-	-	-	N/A	30%	20%	10%		
Online	10,075	9,803	9,597	10,106	10,793	11,862	13,048	14,353	15,788	17,367		
growth, %	N/A	-2.7%	-2.1%	5.3%	6.8%	9.9%	10%	10%	10%	10%		
Total Revenue	445,203	427,823	350,629	331,868	327,661	331,062	416,204	481,213	527,539	550,062	-4.82%	7.22%
growth, %	N/A	-3.9%	-18.0%	-5.4%	-1.3%	1.0%	25.7%	15.6%	9.6%	4.3%		
Costs of Goods Sold	178,081	173,696	151,472	141,044	137,618	138,052	173,556	200,665	219,982	229,374		
in % of revenue	40.0%	40.6%	43.2%	42.5%	42.0%	41.7%	41.7%	41.7%	41.7%	41.7%		
Gross margin	267,122	254,127	199,157	190,824	190,043	193,010	242,648	280,549	307,557	320,687	-5.27%	-0.77%
margin, %	60.0%	59.4%	56.8%	57.5%	58.0%	58.3%	58.3%	58.3%	58.3%	58.3%		
SG&A	167,397	169,846	153,926	149,341	146,137	145,005	130,846	131,148	132,383	136,009		
in % of revenue	37.6%	39.7%	43.9%	45.0%	44.6%	43.8%	31.4%	27.3%	25.1%	24.7%		
EBITDA	99,725	84,281	45,231	41,483	43,906	48,005	111,801	149,400	175,173	184,678	-11.47%	4.82%
margin, %	22.4%	19.7%	12.9%	12.5%	13.4%	14.5%	26.9%	31.0%	33.2%	33.6%		
Depreciation	11,534	11,133	9,350	8,916	8,819	8,898	9,130	9,431	9,810	10,209		
in % of revenue	2.6%	2.6%	2.7%	2.7%	2.7%	2.7%	2.2%	2.0%	1.9%	1.9%		
EBIT	88,191	73,148	35,881	32,567	35,087	39,107	102,671	139,969	165,363	174,469	-12.68%	5.81%
margin, %	19.8%	17.1%	10.2%	9.8%	10.7%	11.8%	24.7%	29.1%	31.3%	31.7%		
Tax (35%, 21%)	30,867	25,602	12,558	11,398	12,280	13,687	21,561	29,394	34,726	36,639		
Capex	9,349	10,696	9,818	6,969	5,898	5,628	8,528	9,208	9,265	9,696		
in % of revenue	2.1%	2.5%	2.8%	2.1%	1.8%	1.7%	2.0%	1.9%	1.8%	1.8%		
Increase/Decrease in NWC	-	(3,997)	(17,755)	(4,315)	(968)	782	19,583	14,952	10,655	5,180		
Unleveraged FCF	59,509.15	51,980.58	40,609	27,431	26,695	27,907	62,130	95,847	120,527	133,164		

DCF Valuation-Gorden Growth Method						
(+) terminal value (2.27% terminal growth rate)						
Total cash flow		27,907	62,130	95,847	120,527	2,317,104
Enterprise Value	**1,932,526.3**					
(-) Net debt	715,000.0					
Equity Value	**1,217,526.3**					

Constant growth model for terminal value

		Constant Gowth Rate				
		1.47%	1.87%	2.27%	2.67%	3.07%
WACC	7.51%	2,238,657	2,406,996	2,601,056	2,827,220	3,094,173
	8.01%	2,067,396	2,210,853	2,374,318	2,562,292	2,780,732
	8.51%	1,920,477	2,044,268	2,183,941	2,342,760	2,524,953
	9.01%	1,793,053	1,901,028	2,021,826	2,157,878	2,312,265
	9.51%	1,681,487	1,776,547	1,882,117	2,000,042	2,132,625

Precedent Transaction

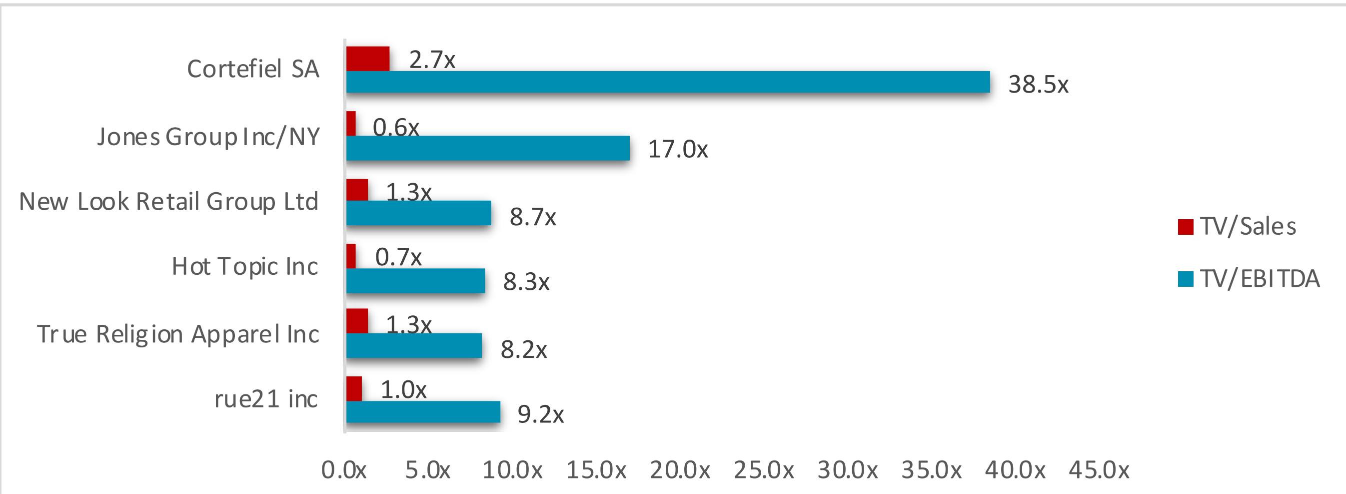
Comparable Transactions Analysis: Textile Apparel & Retail Sales Apparel[1]

Announce Date	Target Name	Acquirer Name	Announced Total Value	Payment Type	TV/EBITDA	TV/Sales
7/3/2013	Hot Topic Inc	Sycamore Partners LLC	533,510	Cash	8.3x	0.7x
10/5/2013	**True Religion Apparel Inc**	**TowerBrook Capital Partners LP**	**635,130**	**Cash**	**8.2x**	**1.3x**
23/5/2013	rue21 inc	Apax Partners LLP	934,340	Cash	9.2x	1.0x
19/12/2013	Jones Group Inc/NY	Sycamore Partners LLC	2,199,050	Cash	17.0x	0.6x
15/5/2015	New Look Retail Group Ltd	Brait SE	2,810,050	Cash	8.7x	1.3x
7/21/2017	Cortefiel SA	CVC Advisers Ltd, PAI Partners SAS	1,166,600	Cash	38.5x	2.7x
				Average	15.0x	1.3x
				Median	9.0x	1.2x
				High	38.5x	2.7x
				Low	8.2x	0.6x

Implied Entreprise Value ($k)

	As of 12/31/2017	Multiple Range	Implied EV
EBITDA	48,004	8.2x - 38.5x	393,153 - 1,846,234
Sales	331,061	0.6x - 2.7x	188,705 - 900,486

Multiples



- Precedential Transactions Analysis is another relevant valuation methodology aimed to reveal implied enterprise value with premium taking into consideration.
- This is past precedent transaction of financial buyers deals in Apparel industry.
- The most relevant transaction is TowerBrook Capital Partners LP's acquisition of True Religion Apparel Inc. True Religion Apparel is an U.S retailor selling premium apparel products, while TowerBrook Capital Partners LP is a private equity company.

Source: [1]Bloomberg as of 12/31/2017

Current Private Equity Environment

Overview

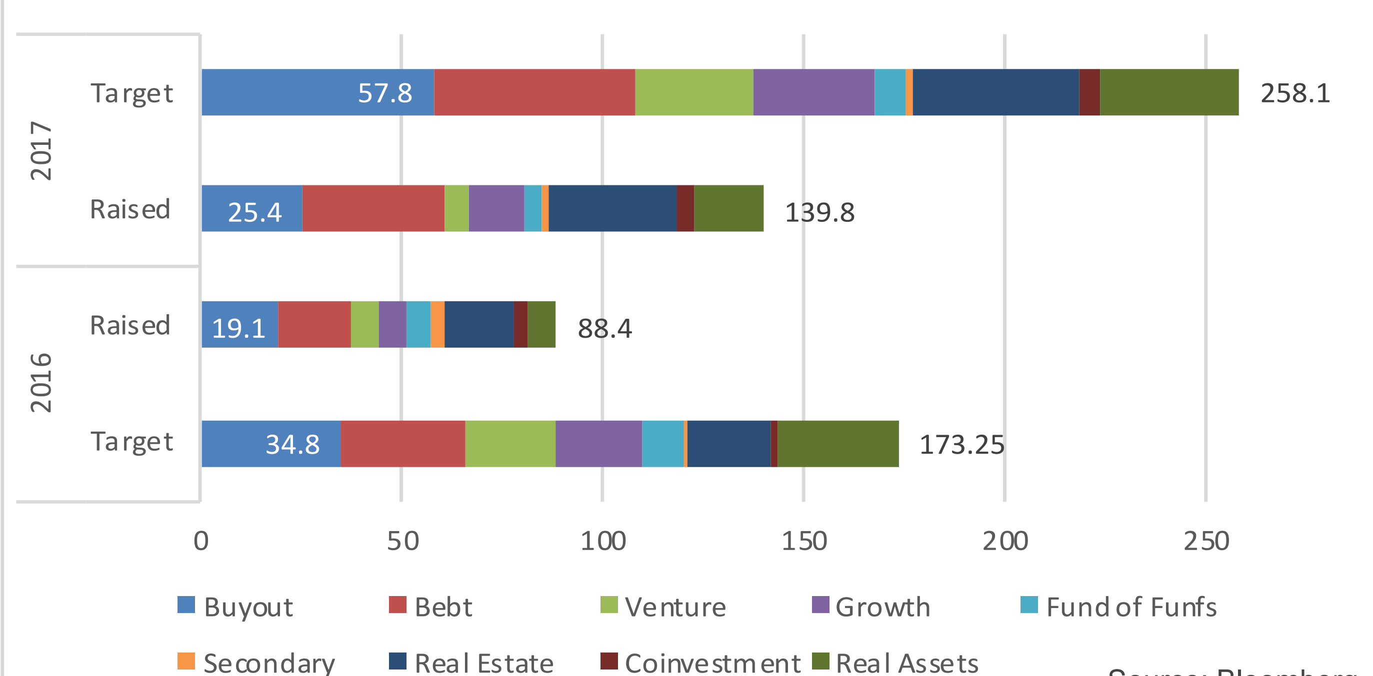
- Past years have witnessed a healthy and strong private market.
- **Continuous Capital Inflow** - Research shows Limited Partners believe Private Equity would keep outperformed public market.
- **Mid-market buyouts** generate widest spread of IRR (Lowest & Highest). Middle market buyouts have a solid growth of 7%.

Highlights

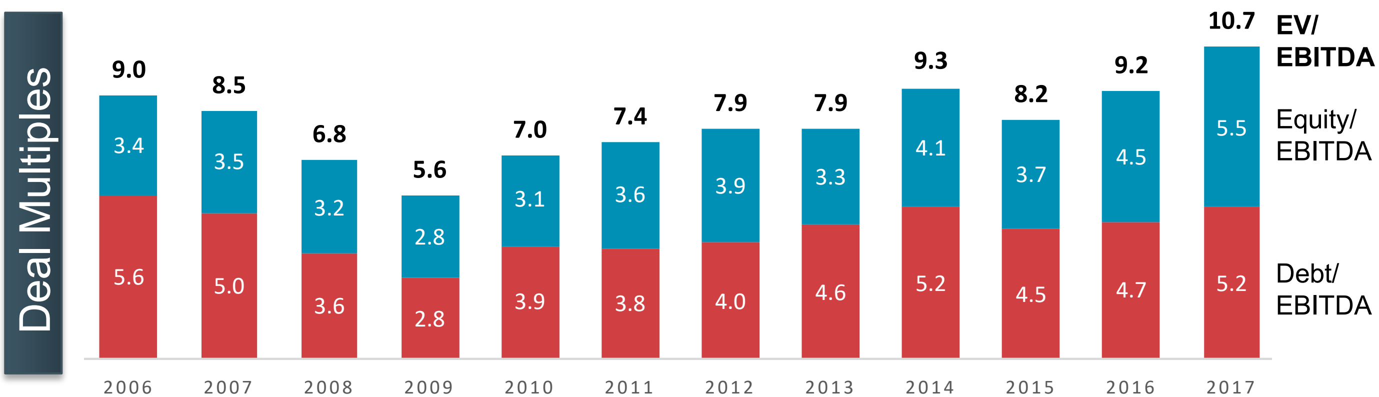
- Global PE deal volume increased, while deal count decreased in 2017. **Average deal size** increased by 25% in 2017.
- **Private equity deal multiple** continued to rise.
- Big Firms' share of fundraising grew rapidly.
- **Low-cost debt environment** encouraged inorganic growth & drive up **leverage levels.**
- **Co-investment** increased significantly.

Source: McKinsey

Private Equity Fund Target & Raised by Strategies



Source: Bloomberg



Potential Financial Buyers

General Definition

- **Financial buyers** are buyers primarily interested in the return that can be achieved from the acquisition.
- **Private Equity** is the most common type of financial buyers financed through consortium of PE funds and(or) leverage.

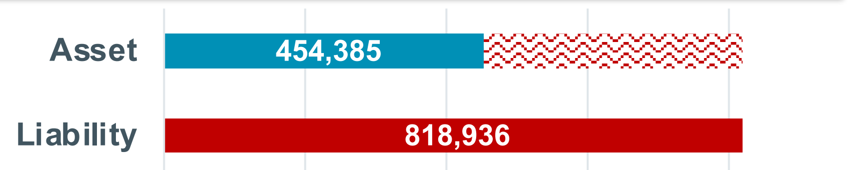
Exit Strategies

1. **Secondary Buyout:** sell DMA to another PE firm
2. **Strategic Buyers:** sell DMA to its buyers who are able to realize strategic synergies.
3. **Initial Public Offering (IPO):** issue new shares in the public market.
   - Longer regulatory procedure and more uncertainty
   - But possibly generate highest IRR

Purchase Strategies

- Generally speaking, lack of available **synergies**, financial buyers usually offer less compared to strategic buyers.
- In this case, however, calculated based on given information, financial buyers are supposed to realize higher profits in future, thus offering a **higher deal price**.
- Considering the underwater situation of DMA, it is impossible for potential financial buyers to execute **leverage buyout**.
- Hence, the potential financial buyers of DMA have to be fully funded by **cash or stock**.

DMA Balance Sheet of 2017



Potential Financial Buyers

1 Experienced in Precedent Transaction[1]

- PERMIRA
- SYCAMORE PARTNERS
- Advent International GLOBAL PRIVATE EQUITY
- LG&P
- Apax PARTNERS
- BainCapital PRIVATE EQUITY
- TPG
- CVC CAPITAL PARTNERS

2

Region Match: US

Section Match: Consumer Cyclic

2	3 Retail Apparel Portfolios/Exits	4
SYCAMORE PARTNERS Sycamore Partners LLC	**Jones Group Inc/NY** • Acq. in 2013 at **Hot Topic Inc** • Acq. In 2013	• Median IRR = 23.35% • Relative Small PE • Funds mostly in Fundraising & Investment Period
LG&P Leonard Green & Partners LP	**J Crew Group Inc** • Acq. in 2010 • Partner with TGP Capital, Neuberger Berman Group **David's Bridal Inc** • Acq. in 2006; Exit in 2012	• Median IRR = 13.85% • Relative Small PE • Prefer co-investment with other PE firms • **Co-invest DMA possible**
BainCapital PRIVATE EQUITY Bain Capital Private Equity LP	**Canada Goose** • Acq. in 2013 **TOMS** • Acq. in 2014	• Median IRR = 25.60% • Relative Large PE • Standalone investment in sizable middle market companies.
TPG TPG Capital LP/US	**Sunrise Identity** • Acq. in 2018 **J Crew Group Inc** • Acq. in 2010; • Partner with Leonard Green & Partners LP	• Median IRR = 11.10% • Relative Small PE • Prefer co-investment with other PE firms • **Co-invest DMA possible**

Source: [1]Bloomberg (Size: $500 - 5000m, Target Company: Retail Apparel, U.S)

Recommendation

Strategic Buyers Vs Financial Buyers

- **Economics Parity**

Both acquisition of strategic buyers and financial buyers can repay debtholders because the acquisition leads to a positive equity value with an enterprise value larger than debt amount. Debtholders of $820m liability are indifferent with the two types of buyers when strategic buyers will pay at least $900m and financial buyers will pay at least $1200m for the firm. Notably, financial buyers are *unlikely to leveraged buyout* due to the existing high debt to equity ratio.

- **Value Creation**

Significant synergy exists with strategic buyers due to possible costs savings, improvement in efficiency, gain on resource and capabilities. And strategic holders are more likely to *pay a higher premium* for the company. Initially, financial buyers create more significant value through lower brand repositioning and exploring new distribution channels. However, *this strategy is risky and whether the benefit of repositioning outweigh the harm is unforeseen*. **Debt holders are risk averse and will prefer a conservative outcome.**

- Strategic buyers is more likely to maximize debt holders' interest.
- Burberry is the most suitable buyer for debtholders in DMA exit.

5. Trademark Dispute

Deliverable 3

Trademark Infringement Dispute

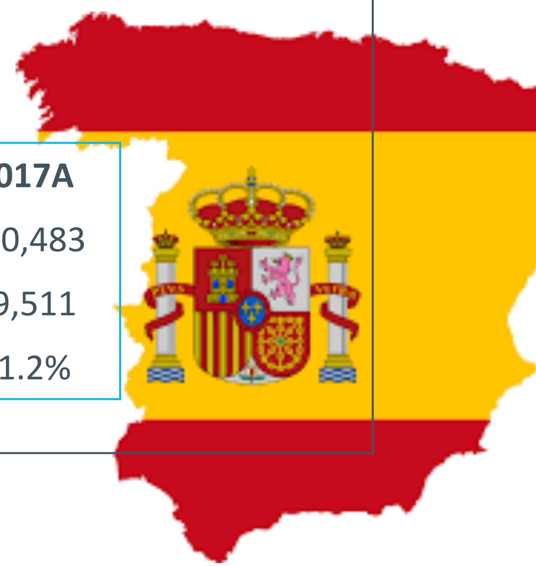
2013

Late 2015

Background

- **Infringement action**
  - FPA, a maker of fine watched introduced a line of watched in Spain in 2013 under the brand "DMA"
  - DMA's two most successful international stores are in Spain. The company has registered its trademark with Spanish authorities
- **Legal proceeding**
  - DMA sued FPA to stop the infringement of the name and to recover damages in late 2015
- **Damage claim consideration**
  - DMA does not sell watches
  - FPA Sales of DMA-branded Watches

	2013A	2014A	2015A	2016A	2017A
Revenue	$5,168	$9,768	$19,914	$25,092	$30,483
EBIT	$1,462	$2,828	$5,895	$7,628	$9,511
as % Revenue	28.2%	28.9%	29.6%	30.4%	31.2%



Trademark Infringement Dispute

Value of Trademark

- A trademark is a company's logo, symbol, or design that is used to enable the public to identify the sources of merchandise. Trademarks allow the public to distinguish one company's products from another.

Harm of Trademark Infringement on DMA

- **Dilution of the distinctiveness of DMA's mark**

DMA's loss of control over its own reputation is risky and harmful. Continuous infringement of trademark dilute the distinctiveness of DMA's trademark, thus destroying the advertising value of the trademark.

- **Harm on DMA's reputation**

Poor-quality goods produced by FPA could harm DMA's reputation, leading consumers to evaluate DMA's goods less favorably. Consumers who have had negative experience with the products sold by FPA will justifiably view goods offered under the whole trademark with increased skepticism and hesitancy.

Trademark Infringement Dispute

Infringement Law Source

❖ *According to Regulation (EU) 2017/1001 Article 125:*
"Proceedings shall be brought in the ***courts of the Member State*** *in which the defendant is domiciled or, if he is not domiciled in any of the Member States, in which he has an* ***establishment****."*

DMA® as **EU trademark**

DMA's trading entity in **Spain**

→ **Spain Courts** → Comply with EU regulations

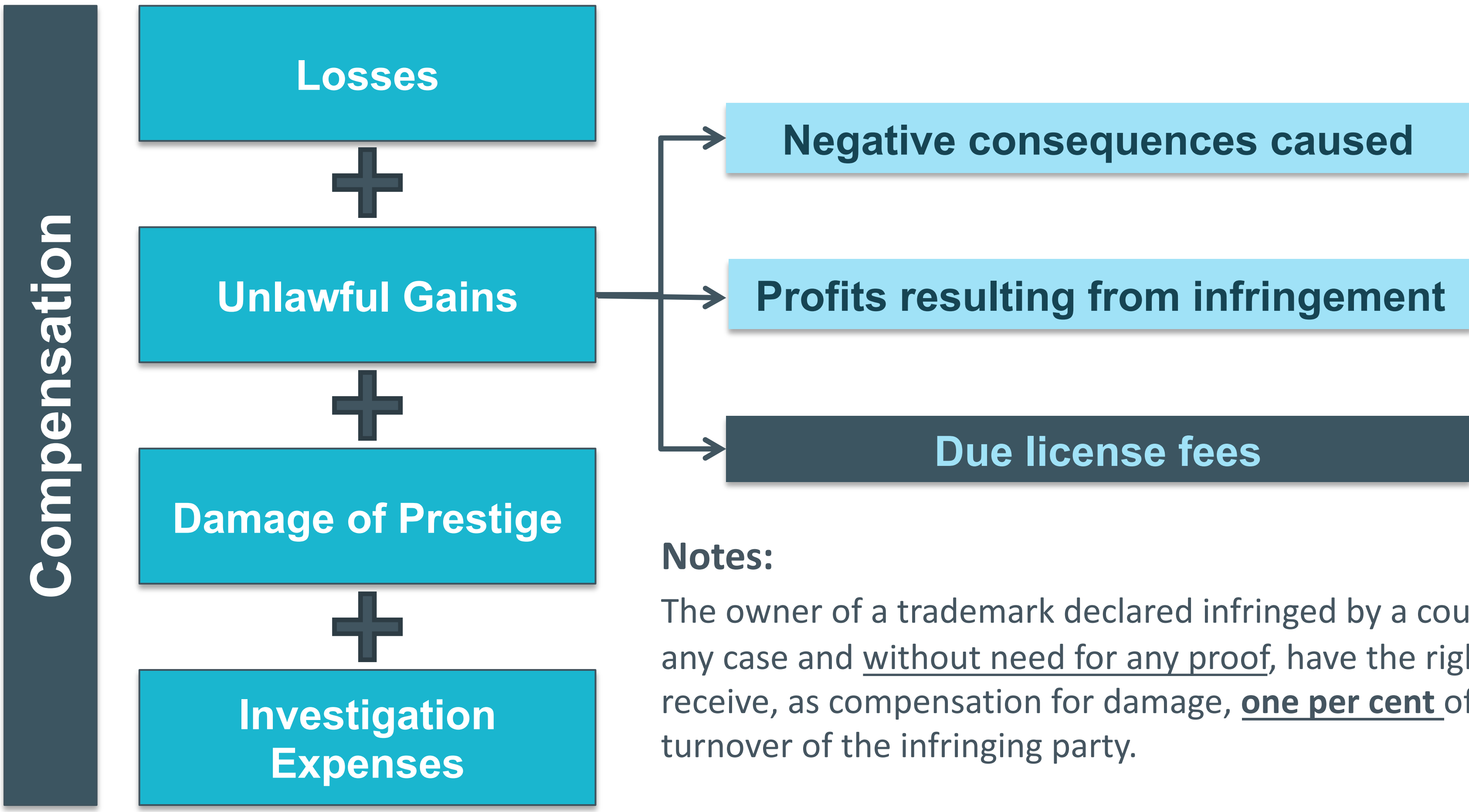
Computation of Compensation

❖ According to *Regulation (EU) 2017/1001 Article 125:*
"Compensation for damage shall cover not only ***the losses suffered*** *but also* ***the gains which the trademark registration holder has failed to obtain*** *as a result of the infringement of his right. The trademark registration holder may also request compensation for* ***the harm caused to the prestige of the trademark*** *by the infringing party, especially through defective production of the goods bearing the trademark unlawfully or inappropriate presentation of the trademark on the market."*

Source : World Intellectual Property Organization (WIPO), European Commission

Trademark Infringement Dispute

❖ According to ***<u>Law 17/2001 of December 7, 2001, on Trademarks</u>***：



Notes:

The owner of a trademark declared infringed by a court shall, in any case and without need for any proof, have the right to receive, as compensation for damage, **one per cent** of the turnover of the infringing party.

Source : World Intellectual Property Organization (WIPO), European Commission

Trademark Infringement Dispute

Computation of Compensation

Compensation Composition	Calculation
FPA Sales of DMA-branded Watches from 2008 - 2012 (in thousands USD)	90,461
Compensation of damages without proof	1%
Losses	904.61
Royalty Rate	6%
Due License Fee	5,427.66
Total Damage (in thousands USD)	**6,332.27**

Source: [1]Centre of Fashion Enterprise (CFE)

- DMA® currently does not operate watch product line
- EU regulation guarantees a 1% compensation without evidence

- Royalty Rate in Fashion industry is typically 5 – 15%
- Ralph Lauran gains 5 – 8 % in licensing its womenswear[1]

Forward Arrangement

On discussion of the preferable arrangement of DMA afterwards, the key consideration is to determine the potential benefit & damages from this relationship with FPA. The changes in underlying situation might lead to different favourable decisions.

Licensing

- Allow FPA to continue the usage of DMA® in watches
- Establish licensing contract combining royalty rate & minimum royal payment
- Potentially cooperate on advertisement & distribution

Advantages

- ✓ Earn extra licensing revenue
- ✓ Diversify product segments
- ✓ Enlarging market share & customer base
- ✓ Cost saving on advertisement & distribution
- ✓ Build brand awareness

Disadvantages

- ✗ Reputation damages
- ✗ Quality control costs
- ✗ Distinctiveness dilution
- ✗ Licensor dependency
- ✗ Additional competition

Trademark Infringement Dispute

Forward Arrangement

Establish Relationship with FPA

High — License Revenue — Low

1. DMA watches of FPA have a high expected future revenue
2. DMA® and FPA are able to agree on high royalty rate

Low — Reputation Damages — High

1. DMA watches position themselves as premium products
2. FPA has a trustworthy quality management
3. DMA watches are designed with differentiated characteristics

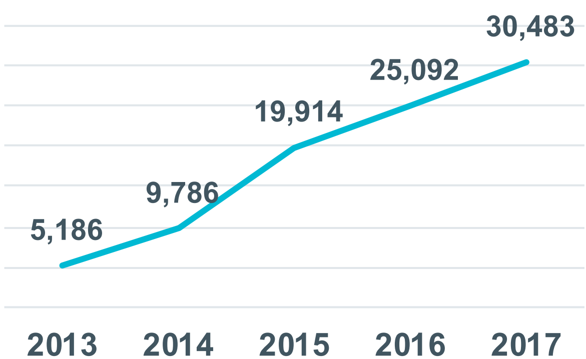
High — Cooperation Benefits — Low

1. DMA® & DMA watches shares aligned marketing perspectives
2. DMA® would benefit from the distribution networks of FPA

Low — Competitions — High

1. FPA didn't plan to enter apparel & accessories luxury industry

Stop Infrigement Production



Current Recommendation

Based on limited information given, we recommend DMA to cooperate with FPA, converting infringers into allies. Considering the troublesome financial situation of DMA®, it is almost impossible to implement product extension individually. And given the fact that DMA watches are fine watches and have a promising revenue growth, DMA® would be able to enjoy passive income without concerns regarding reputation distortion.

Conclusion

Deliverable 1

- Luxury market has stable growth and fierce competition.
- Small players need to differentiate to survive.

Deliverable 2

- We suggest a sales of 900 – 1,100 million USD to strategic buyers.
- The most possible potential buyer is Burberry.

Deliverable 3

- DMA is recommended to license its trademark to FPA watches.

6. Appendix

Appendix 1 - Management Expectation

	Actual						Forecast Period				CAGR	CAGR
	2012A	2013A	2014A	2015A	2016A	2017A	2018E	2019E	2020E	2021E	2012-2017A	2018-2021E
Company-Owned Stores	261,548	253,292	233,629	224,778	219,496	219,685	226,080	234,724	247,054	257,937		
growth, %	N/A	-3.2%	-7.8%	-3.8%	-2.3%	0.1%	2.9%	3.8%	5.3%	4.4%		
Domestic Stores	242,560	230,917	208,056	200,049	197,219	200,137	206,141	214,386	226,106	236,361		
growth, %	N/A	-4.8%	-9.9%	-3.8%	-1.4%	1.5%	3.0%	4.0%	5.5%	4.5%		
International Stores	18,988	22,375	25,573	24,729	22,277	19,548	19,939	20,338	20,948	21,576		
growth, %	N/A	17.8%	14.3%	-3.3%	-9.9%	-12.3%	2.0%	2.0%	3.0%	3.0%		
Department Stores	173,580	164,728	107,403	96,984	97,372	99,515	102,002	105,063	108,740	112,546		
growth, %	N/A	-5.1%	-34.8%	-9.7%	0.4%	2.2%	2.5%	3.0%	3.5%	3.5%		
Online	10,075	9,803	9,597	10,106	10,793	11,862	13,048	14,353	15,788	17,367		
growth, %	N/A	-2.7%	-2.1%	5.3%	6.8%	9.9%	10.0%	10.0%	10.0%	10.0%		
Total Revenue	445,203	427,823	350,629	331,868	327,661	331,062	341,130	354,140	371,582	387,850	-5.75%	4.37%
growth, %	N/A	-3.9%	-18.0%	-5.4%	-1.3%	1.0%	3.0%	3.8%	4.9%	4.4%		
Costs of Goods Sold	178,081	173,696	151,472	141,044	137,618	138,052	140,887	144,843	150,085	155,140		
in % of revenue	40.0%	40.6%	43.2%	42.5%	42.0%	41.7%	41.3%	40.9%	40.4%	40.0%		
Gross margin	267,122	254,127	199,157	190,824	190,043	193,010	200,243	209,297	221,497	232,710	-6.29%	5.14%
margin, %	60.0%	59.4%	56.8%	57.5%	58.0%	58.3%	58.7%	59.1%	59.6%	60.0%		
Sales & Marketing	167,397	169,846	153,926	149,341	146,137	145,005	147,709	148,030	149,344	153,201		
in % of revenue	37.6%	39.7%	43.9%	45.0%	44.6%	43.8%	43.3%	41.8%	40.2%	39.5%		
EBITDA	99,725	84,281	45,231	41,483	43,906	48,005	52,534	61,267	72,153	79,509	-13.60%	14.81%
margin, %	22.4%	19.7%	12.9%	12.5%	13.4%	14.5%	15.4%	17.3%	19.4%	20.5%		
Depreciation	11,534	11,133	9,350	8,916	8,819	8,898	9,130	9,431	9,810	10,209		
in % of revenue	2.6%	2.6%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.6%	2.6%		
EBIT	88,191	73,148	35,881	32,567	35,087	39,107	43,404	51,836	62,343	69,300	-15.01%	16.88%
margin, %	19.8%	17.1%	10.2%	9.8%	10.7%	11.8%	12.7%	14.6%	16.8%	17.9%		
Tax (35%, 21%)	30,867	25,602	12,558	11,398	12,280	13,687	9,115	10,886	13,092	14,553		
Capex	9,349	10,696	9,818	6,969	5,898	5,628	8,528	9,208	9,265	9,696		
in % of revenue	2.1%	2.5%	2.8%	2.1%	1.8%	1.7%	2.5%	2.6%	2.5%	2.5%		
Increase/Decrease in NWC	N/A	(3,997)	(17,755)	(4,315)	(968)	782	2,316	2,992	4,012	3,742		
Unleveraged Free Cash Flow	59,509	51,980.60	40,609	27,431	26,695	27,907	32,576	38,181	45,784	51,518		

Revenue Projection	Actual						Forecast Period			
	2012A	2013A	2014A	2015A	2016A	2017A	2018E	2019E	2020E	2021E
# of domestic stores	99	99	99	95	92	89	79	79	79	79
growth, %	N/A	0.0%	0.0%	-4.0%	-3.2%	-3.3%	-11.2%	0.0%	0.0%	0.0%
Annual revenue per store	2,450	2,332	2,102	2,106	2,144	2,249	2,609	2,714	2,862	2,992
growth, %	N/A	-4.8%	-9.9%	0.2%	1.8%	4.9%	16.0%	4.0%	5.5%	4.5%
# of international stores	8	11	14	14	12	10	10	10	10	10
growth, %	N/A	37.5%	27.3%	0.0%	-14.3%	-16.7%	0.0%	0.0%	0.0%	0.0%
Annual revenue per store	2,374	2,034	1,827	1,766	1,856	1,955	1,994	2,034	2,095	2,158
growth, %	N/A	-14.3%	-10.2%	-3.3%	5.1%	5.3%	2.0%	2.0%	3.0%	3.0%

Appendix 2 - WACC Analysis

Comparable Companies Capital Structure and Unlevered Beta Benchmarks							
Company	Levered Beta	Market Value of Debt	Market Value of Equity	Debt/ Equity	Equity/ Total Assets	Tax Rate	Unlevered Beta
Ralph Lauren Corp	1.38	588.2	6611	8.9%	91.8%	35%	1.30
Burberry Group PLC	1.13	34.3	7559	0.5%	99.5%	35%	1.13
PVH Corp	0.95	3216.4	7093	45.3%	68.8%	35%	0.73
Michael Kors Holdings Ltd	0.9	133.1	5939	2.2%	97.8%	35%	0.89
HUGO BOSS AG	0.82	131.8	4896	2.7%	97.4%	35%	0.81
Salvatore Ferragamo SpA	0.8	84.6	3738	2.3%	97.8%	35%	0.79
Brunello Cucinelli SpA	0.7	78.3	1837	4.3%	95.9%	35%	0.68
Ted Baker PLC	0.57	116.6	1254	9.3%	91.5%	35%	0.54
Kate Spade & Co LLC	1	392.6	2988	13.1%	88.4%	35%	0.92
G-III Apparel Group Ltd	1.37	461.8	1277	36.2%	73.4%	35%	1.11
Oxford Industries Inc	1.21	91.5	906.7	10.1%	90.8%	35%	1.14
Median	**0.95**			**6.6%**	**93.9%**		**0.85**
Mean	**0.98**			**12.5%**	**90.2%**		**0.89**

Notes:

(1) Data of leveraged beta is 3-year weekly beta: weekly stock return / weekly market return in 3 years

(2) Source: Blomberg

Relevered Beta		Mean Unlevered Beta	Mean Target Debt/ Equity	Target Marginal Tax Rate	Relevered Beta
Target Company		0.89	12.5%	35%	0.96

Appendix 2 - WACC Analysis

WACC Calculation		Comments
Industry Capital Structure		
Debt to Total Capitalization	11.1%	
Equity to Total Capitalization	88.9%	
Debt to Equity Ratio	12.5%	Obtained from Market D/E (adjusted for leases) in apparel industry of US companies
Cost of Equity		
Risk-free rate (2)	2.4%	Interpolated Yield on 10-year Treasury bond
Market risk Premium (3)	6.9%	Obtained from Ibbotson SBBI Valuation Yearbook
Levered Beta (4)	0.96	Obtained from Beta and Capital Structure tab
Cost of Equity	**9.1%**	
Cost of Debt		
Cost of Debt	5.0%	With 14.9x leverage ratio, DMA has 36,482.40 interest expense on current portion of debt
Corporate tax rate	21.0%	Taken from average effective tax rate of apparel sector
After Tax Cost of Debt	**4.0%**	
WACC	**8.5%**	

Cost of Equity vs Debt/Total Cap Target

		Cost of Equity				
		8.47%	8.77%	9.07%	9.37%	9.67%
Debt/Total Cap Target	1.09%	8.42%	8.72%	9.02%	9.31%	9.61%
	6.09%	8.20%	8.48%	8.76%	9.04%	9.33%
	11.09%	7.97%	8.24%	8.51%	8.77%	9.04%
	16.09%	7.75%	8.00%	8.25%	8.50%	8.75%
	21.09%	7.52%	7.76%	7.99%	8.23%	8.47%

Assumptions:

- Book value of debt equals market value of debt so cost of debt equals the coupon rate on outstanding debt.
- Target "optimal" capital structure is based on median capital structures of comparable companies
- Tax rate of 21%. The Tax Cuts and Jobs Act of 2017 reduced the statutory tax rate from 35.0% to 21.0%, effective January 1, 2018.

Leverage ratio of 2017	14.9
EBIT of 2017	39,107
Interest rate	**0.05**

(Leverage ratio=EBIT/(EBIT-interest expense)

Appendix 3 – Infringement Regulations

Law 17/2001 of December 7, 2001, on Trademarks

Calculation of Compensation for Damages

43.—**(1)** Compensation for damage shall ***cover not only the losses suffered but also the gains which the trademark registration holder has failed to obtain as a result of the infringement of his right.*** The trademark registration holder may also request compensation for the harm caused to the prestige of the trademark by the infringing party, especially through defective production of the goods bearing the trademark unlawfully or inappropriate presentation of the trademark on the market.

(2) The gains which have not been obtained shall be fixed, at the injured party's discretion, according to one of the following criteria:

(a) the profits which the owner would have *obtained through the use of the trademark* if the infringement had not taken place;

(b) the profits which the infringing party has obtained as a *result of the infringement*;

(c) the price which the infringing party would have had to pay to the owner for the ***grant of a license*** which would have allowed him to undertake such use rightfully.

(3) When fixing the level of compensation, inter alia, the notoriety, fame and prestige of the trademark, and number and class of licenses granted at the time the infringement began shall be taken into account. In the case of ***damage to the prestige of the trademark***, attention shall also be paid to the circumstances of the infringement, seriousness of the injury and degree of dissemination on the market.

(4) In order to fix the amount of the damage suffered, a trademark owner may request that the documents of the person responsible, which may be used for that purpose, be shown.

(5) The owner of a trademark declared infringed by a court shall, in any case and without need for any proof, have the right to receive, as compensation for damage, ***one per cent of the turnover*** of the infringing party resulting from the goods or services bearing the trademark unlawfully. The trademark owner may, in addition, request higher compensation if he proves that the infringement of his trademark caused him greater damage, in accordance with the previous paragraphs.

Coercive Compensation

44. Where a person is ordered to ***cease acts infringing a trademark***, the courts shall fix compensation, the amount of which is not less than ***600 euros*** per day until such time as the infringement actually ceases. The amount of this compensation and the day on which the obligation to compensate begins shall be set when the decision is enforced.