2019 DUFF & PHELPS India YOUniversity Deal Challenge

Presented By-

Prabal Gupta

Shaheed Sukhdev College of Business Studies

University of Delhi

India

DMA

AGENDA

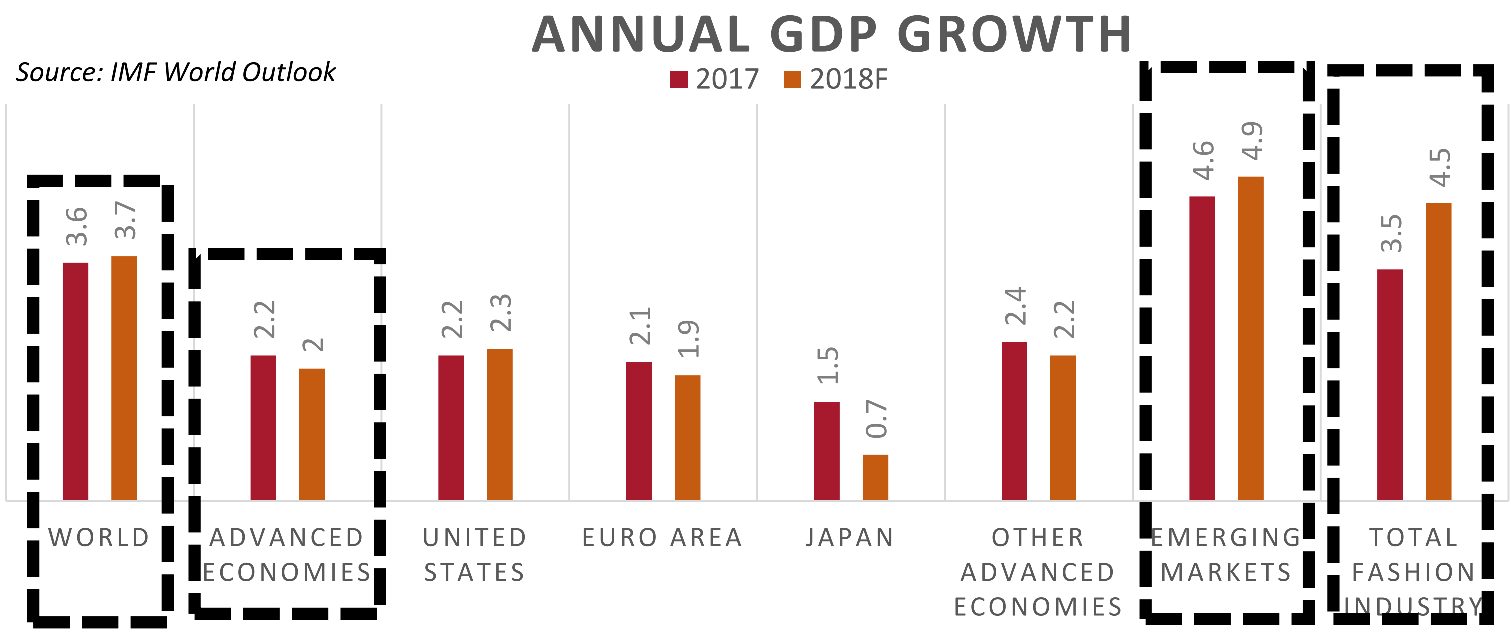
Executive Summary

DMA

Situation Overview	▪ DMA, a US-based men's clothing and luxury products retailers, has defaulted on its principal payments and has ceded control to debtholders. ▪ The debtholders wish to exit the business and are looking to sell the company either to a Strategic Buyer or a Private Equity Firm.
Analysis	▪ Industry Analysis, Porter's 5 Forces Analysis and after comparing risks and opportunities, it can be inferred that DMA has a strong brand value in the market. ▪ By revamping the channels of distributions and target markets, it can turn around its fortunes and thrive in this extremely competitive industry.
Valuation	▪ Based on an analysis of discounted cash flow, comparable companies and trading multiples, DMA's valuation ranges from $390-450 Million.
Recommendation	▪ After considering all factors, a PE Firm will be the most-suited buyer for DMA. It will derive the maximum value from the company through stringent cost cutting, changing pricing of products and accessing new distribution networks. Consequently it will charge the lowest discount for the acquisition.

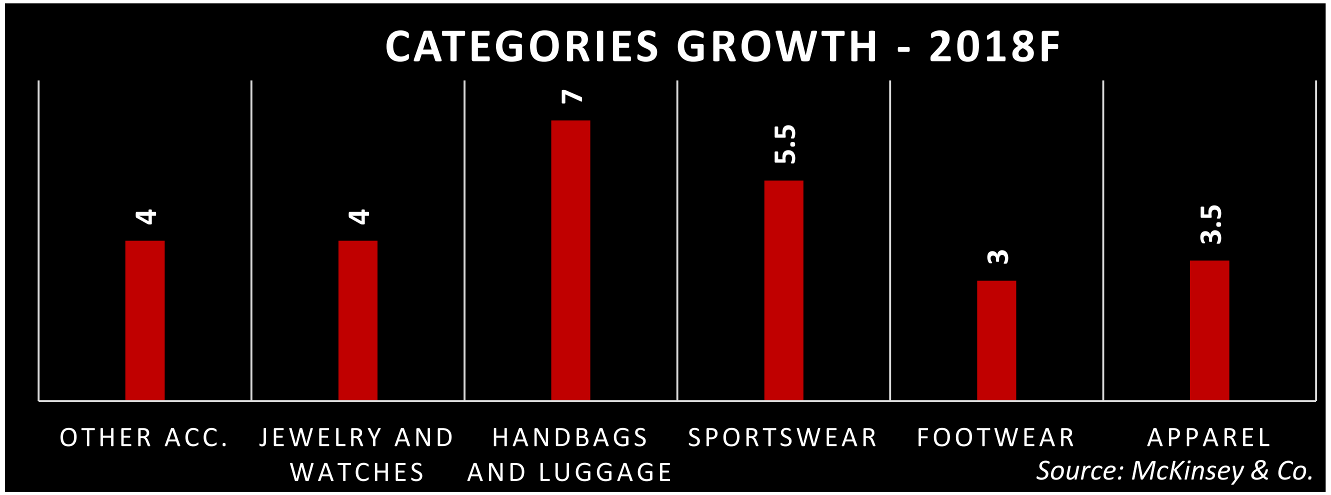
Industry Analysis

DMA

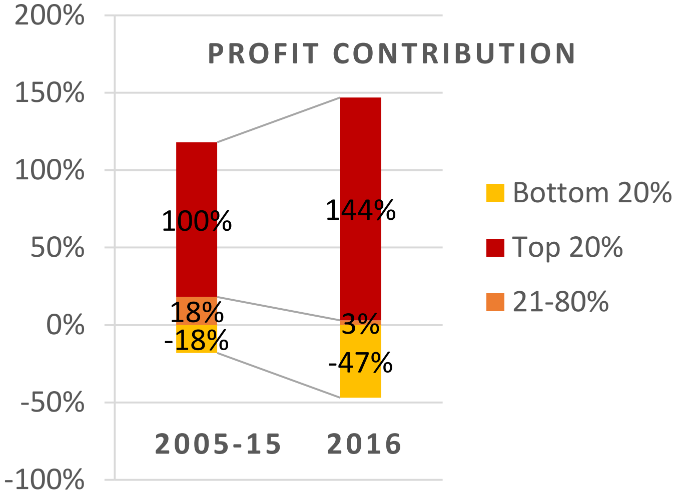


The Global Fashion, Apparel and Accessories Industry is one of the few avenues that have grown in tandem with World GDP Growth Rates. The projections for 2018 paint a similar picture, with the Fashion Industry expected to grow within a range of 3.5-4.5%. While the rate of growth in advanced economies has stagnated, emerging economies continue to grow at an accelerated pace, particularly those in emerging and developing Asia.

The Fashion Industry is changing as people's lifestyles change. Jewelry, Watches and Other Accessories, which have in the past delivered high growth rates, have paved the way for Sportswear, Handbags and Luggage to be the market drivers. This is both a challenge as well as an opportunity for incumbent firms that till now have derived a major share of their revenue from one of the slow growth categories.



Industry Analysis – *Global Fashion Industry*

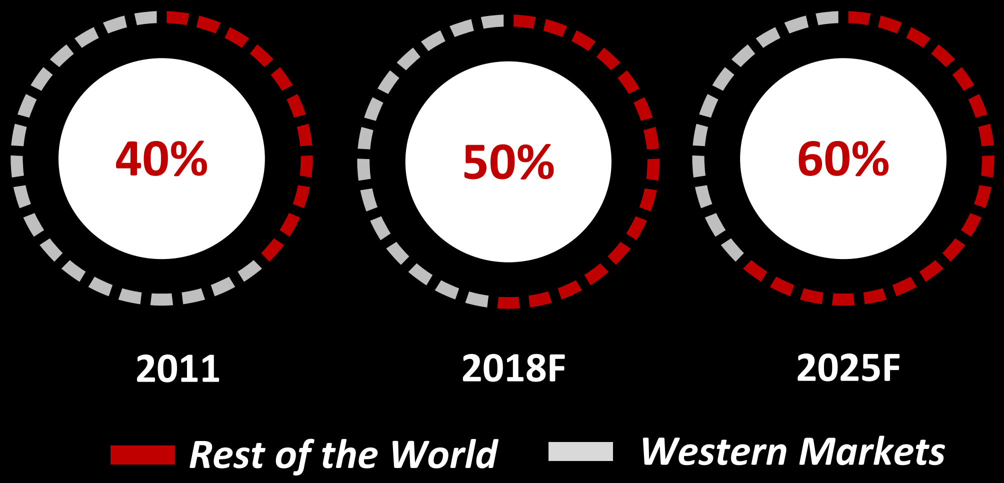


The Fashion Industry is characterized by its capacity to evolve with social, cultural, political and economic evolution. However uncertainty looms ahead as the industry struggles to grapple with innumerable forces of disruption – Digital Media, E-Commerce, Virtual Stores, Rising Labor Costs, Trade Wars and Sustainability. 2017 saw more than 1,875 fashion retailers shut down shop as the gap between market leaders and followers continued to widen. This number is expected to reach 9,452 by next year.

In 2018, an important tipping point will be reached when, for the first time, more than half of apparel and footwear sales will originate outside of Europe and North America, as the main sources of growth are emerging market countries across Asia-Pacific, Latin America and other regions.

This is further supported by slowing growth in developed economies and the economic resurgence of emerging markets in China, Latin America and South Asia. The huge population divide along with rising disposable income is also one of the contributing factors in this trend.

Global Apparel And Footwear Sales Forecast



Source: McKinsey & Co.

Industry Analysis - *DMA*

DMA

Market Fragmentation

Brand Loyalty has suffered due to augmenting market fragmentation. New brands, designs, companies and range of products are launched everyday perplexing the buyer.

Omni-Channel Shopping

With digitization of retail, customers prefer a shopping platform that offers entire range of products that fulfil that particular need. This is a big challenge for small and mid-size firms.

Experiential Commerce

Even though e-commerce has hurt store revenues, a new form of experiential retail is emerging. It means that stores are transforming from merely a ‘***Point of Sale’*** to a ‘***Point of Marketing’***.

Real-Time Demand

Customers no longer wish to stand in queues or wait for season sales. They want latest and affordable products at the click of a button, making Supply Chain Management a herculean task.

Innovative Business Models

The industry has been disrupted by a plethora of firms that have challenge the incumbent business model. Affordable Luxury is one such example that has been the most profitable.

Environmental Sustainability

Fashion and apparel companies are under enormous pressure from governments and environment agencies as their carbon footprint is one of the biggest in the industry.

Porter’s 5 Forces Analysis

DMA

Power of Suppliers

All DMA products are sourced from independent manufacturers and most manufacturing takes place outside US.

Power of Buyers

DMA caters to two key categories of customers: Departmental Stores and Individual Buyers. Both these groups exert different powers are to be handled separately.

Threat of Substitute Products

The Fashion Industry is, as a matter of fact, is not substitutable. Yet its very easy for product demand to swing drastically within the industry and affect the product line of businesses.

Threat of New Entrants

The Clothing Industry in highly susceptible to competition emerging from new players in the market. With the massive rise of e-commerce, a new online clothing brand springs up almost every other day.

Competitive Rivalry

The fashion industry faces intense competition, with every firm selling similar products being a potential competitor.

Power of Suppliers

DMA

Low Bargaining Power	Quality Concerns	Forex Volatility	Minimum Quantity Supplied
Since DMA sources its products from different independent manufacturers, they lack the ability to drive prices upward or disrupt the supply chain by holding back raw material.	Sourcing raw material from different suppliers may lead to lack of homogeneity in production that fail to meet the quality parameters of the company. Installing Quality Control checks also becomes expensive.	With the entire production capacity installed outside US, the company might have to bear the increased cost of suppliers if Dollar loses value against other currencies in the global market.	In an industry where demand for the underlying fabric changes as quickly as the change in latest trends, suppliers can put pressure on DMA to enter into a contract for pre-deciding the minimum order quantity every month.

Power of Customers

DMA

DEPARTMENTAL STORES

High Bargaining Power

Upscale Departmental Stores enjoy significant leverage, as DMA is only a tiny player in the multi-trillion dollar apparel industry with a plethora of globally recognized brands.

Niche Market Segment

DMA targets a very small niche of loyal consumer base that further affects its pricing negotiations with multi-chain departmental stores that cater to a much wider audience.

INDIVIDUAL CUSTOMERS

Low Bargaining Power

DMA specializes in high-end suits, luxury products and fashion accessories, all examples of Veblen goods sufficiently immune to price rise.

Changing Loyalty

DMA operates in a an extremely volatile industry where rapidly changing trends can shift customer preferences instantly. Thus keeping pace with market movements and always being relevant to the buyer is a big challenge.

Threat of Substitute Products

DMA

Strong Product Line

- DMA offers a full range of men's clothing, fashion accessories and luxury products.
- This minimizes the possibility of other firms' products eating into DMA's Sales.

Specialization

- DMA is most popular for its high-end formal suits, and counts celebrities and high profile executives as its customers. Yet the evolving fashion landscape has seen lesser demand among millennials for formal clothing outfits.

Evolving Preferences

- Though demand for suits will never cease to exist, DMA needs to be prominent in other categories as well in order to maintain its competitive edge.

Threat of New Entrants

DMA

Online Start-ups

The recent spurt in online apparel companies is worrisome for DMA. These startups identify with the young audience and limit the growth of traditional firms in that space, thus blocking important revenue sources.

Celebrity Brands

Celebrity Brands, which have become popular lately, require minimal levels of capital and aim to capture the entire fan base of that star. This affects legacy firms like DMA that counted celebrities as their primary endorsers.

Existing Firms

With the increase in competition, even existing companies are diversifying their product lines to include a wider array of clothes, accessories and luxury products virtually making then core competitors of DMA.

Latest Trends

Fashion Industry’s metamorphoses comes with every new trend, fad or style. And sales follow suit sooner or later. Thus it is important to keep a check on recent market happenings lest DMA loses out to newcomers in the industry.

Competitive Rivalry

Market Nichers: *Suit Makers*

DMA, being a full-line men's apparel retailer faces limited competition from Market Nichers. Yet since the company has built its reputation on high-end business suits, it needs to battle firms specializing in this segment of the market

Market Followers: *Full-Range Mid-Sized Firms*

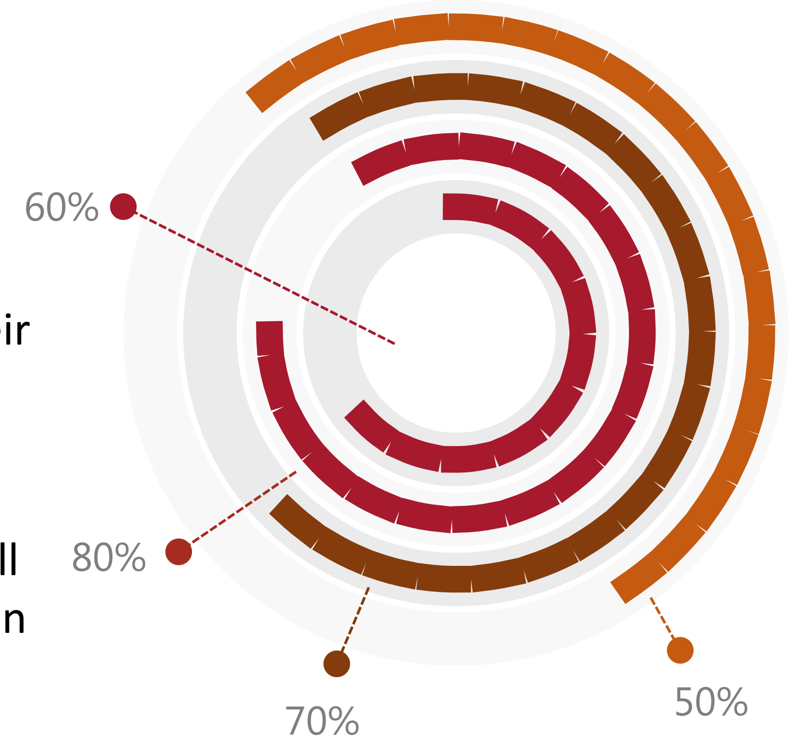
These are firms that don't disrupt the market but keep pace with its changing landscape. They are strategic competitors as they maintain a strong grip hold on their existing customers.

Market Challengers: *Start-Ups, Mid-Size Innovators, Celebrity Brands*

These are firms that are not big in size but relentlessly attack the market shares of all other companies. They are the pioneers of latest fashion, technology and distribution innovations and are competitors which need to kept away from our own customers.

Market Leaders: *Large Multi-Chain Retailers*

These are the most powerful companies that dominate the industry. They drive market prices, negotiate distribution deals and set standards for others to follow. They are comparatively less problematic for a small company like DMA.



DEGREE OF COMPETITIVE INTENSITY

Opportunities v. Risks

DMA

Rebuild Distribution Network
DMA needs to carry out an in-depth analysis of its stores' performance and revamp its entire distribution network. New forms of retail, logistics management and promotion represent a new hope for the company.

Obsolescence
DMA is over 90 years old and its brand ethos has remained more or less same. This rich legacy is a double edged sword in the 21st Century, which has seen innumerable regal brand go out of business.

Joint Ventures
DMA will be in shortage of funds to drive capital investments on its own. Partnering with a synergistic company operating in a similar domain will help it maximize its reach and revenue potential.

Poor Investments
DMA faces the risk of putting good money after bad as its current international stores continue to struggle financially, while growth in the domestic market is receding. Maintaining the expected *ROI* will be difficult.

Capitalizing Legacy
DMA has a rich heritage and a history of being endorsed by larger than life stars. This is the USP of the brand, which if capitalized prudently, will reap huge gains for the company.

Brand Cannibalization
DMA runs the risk of hurting its own traditional sales if it launches new brands to compete in the market. Such an outcome will not be desirable to the company at any cost.

Overhaul Operations
A restructuring of operations is necessary if DMA plans to bring its operating margins in line with industry standards. Beginning from suppliers, line of products and place of manufacturing, everything needs to be flexible and feasible.

Customer Retention
DMA will have to undergo a makeover in operations and distribution to survive after bankruptcy. This might alienate some of the old bunch of customers who are not willing to accept the new form.

DCF Valuation – *Perpetual Growth*

(All financials in thousands of dollars unless stated otherwise)	FY2018 (F)	FY2019 (F)	FY2020 (F)	FY2021 (F)	FY2022 (F)
Free Cash Flow to Firm (FCFF)- DMA					
EBIT (1-Tax Rate)	30,382.80	36,284.50	42,938.70	48,510.00	51,312.56
[+] Depreciation and Amortization	9,054.40	9,481.51	9,929.65	10,386.84	10,895.23
[-] Change in Working Capital	2,379.59	2,488.82	2,603.05	2,722.53	2,847.50
[-] Capital Expenditure	8,528.00	9,208.00	9,265.00	9,696.00	10,181.06
Free Cash Flow to Firm (FCFF)	**28,529.61**	**34,069.19**	**41,000.29**	**46,478.30**	**49,179.23**
Terminal Value					**564,903.00**

Discount Factors						
No. of Years		1	2	3	4	5
Discount Factor		0.90	0.81	0.73	0.65	0.59
Enterprise Value						
Present Value of FCFF		25,654.74	27,548.96	29,812.76	30,390.45	28,916.14
[+] Present Value of Terminal Value						332,149.00
Enterprise Value	**474,472**					

DCF Valuation – *Exit Multiple*

DMA

(All financials in thousands of dollars unless stated otherwise)	FY2018 (F)	FY2019 (F)	FY2020 (F)	FY2021 (F)	FY2022 (F)
Free Cash Flow to Firm (FCFF)- DMA					
EBIT (1-Tax Rate)	30,382.80	36,284.50	42,938.70	48,510.00	51,312.56
[+] Depreciation and Amortization	9,054.40	9,481.51	9,929.65	10,386.84	10,895.23
[-] Change in Working Capital	2,379.59	2,488.82	2,603.05	2,722.53	2,847.50
[-] Capital Expenditure	8,528.00	9,208.00	9,265.00	9,696.00	10,181.06
Free Cash Flow to Firm (FCFF)	**28,529.61**	**34,069.19**	**41,000.29**	**46,478.30**	**49,179.23**
Terminal Value					**715,690.00**

Discount Factors						
No. of Years		1	2	3	4	5
Discount Factor		0.90	0.81	0.73	0.65	0.59
Enterprise Value						
Present Value of FCFF		25,654.74	27,548.96	29,812.76	30,390.45	28,916.14
[+] Present Value of Terminal Value						420,808.00
Enterprise Value	**563,131**					

DCF Valuation – *Sensitivity Analysis*

DMA

	TERMINAL GROWTH RATE				
Cost of Capital	**2.0%**	**2.5%**	**2.8%**	**3.0%**	**3.5%**
11.0%	473,903.64	495,077.42	509,021.13	518,897.92	545,894.49
11.5%	447,573.26	466,180.68	478,371.74	486,977.20	510,373.29
12.0%	423,896.49	440,346.11	451,074.13	458,623.47	479,051.11
12.5%	402,493.83	417,114.00	426,609.57	433,273.13	451,227.72
13.0%	383,054.80	396,112.18	404,561.07	410,475.29	426,350.31

Implied EV

$383 Million - $474 Million

	EXIT MULTIPLE				
Cost of Capital	**6.5x**	**7.0x**	**7.5x**	**8.0x**	**8.5x**
11.0%	467,926.50	492,910.47	517,894.44	542,878.41	567,862.38
11.5%	458,750.97	483,179.76	507,608.55	532,037.35	556,466.14
12.0%	449,807.82	473,696.18	497,584.53	521,472.88	545,361.24
12.5%	441,090.07	464,452.27	487,814.47	511,176.67	534,538.87
13.0%	432,590.97	455,440.86	478,290.75	501,140.64	523,990.53

Implied EV

$433 Million - $524 Million

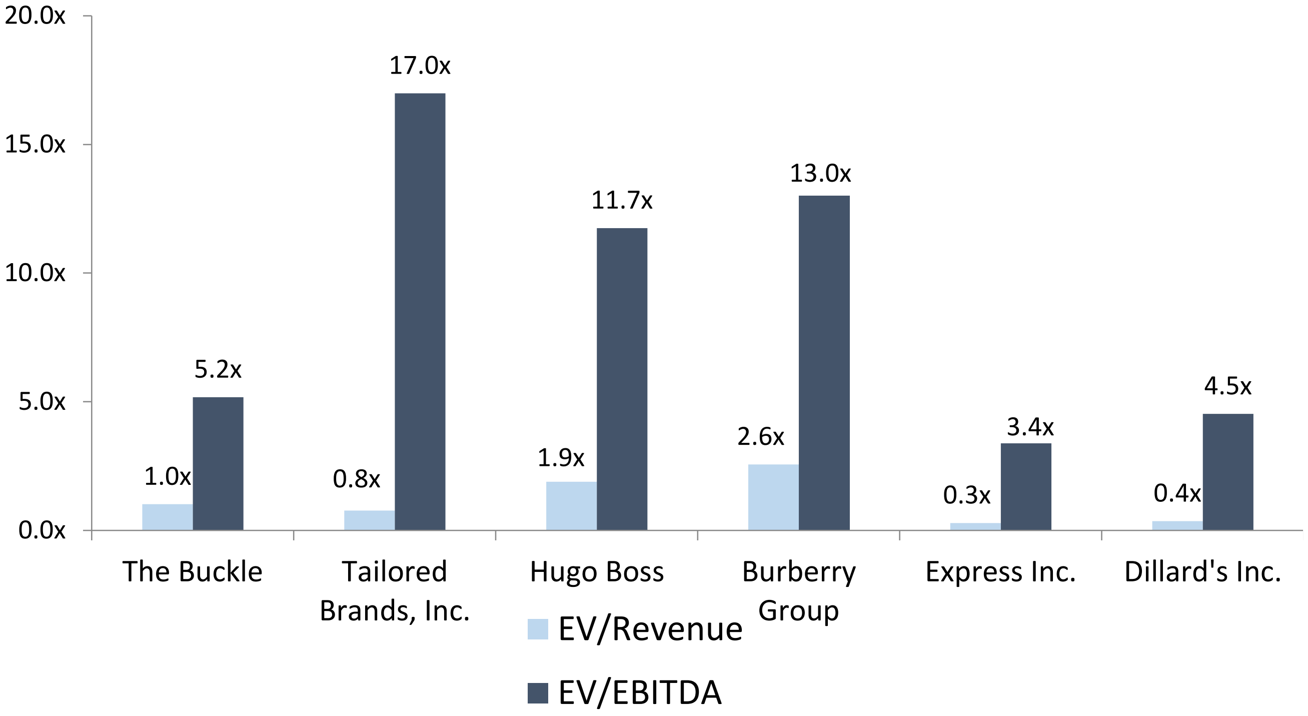
Comparable Companies Analysis

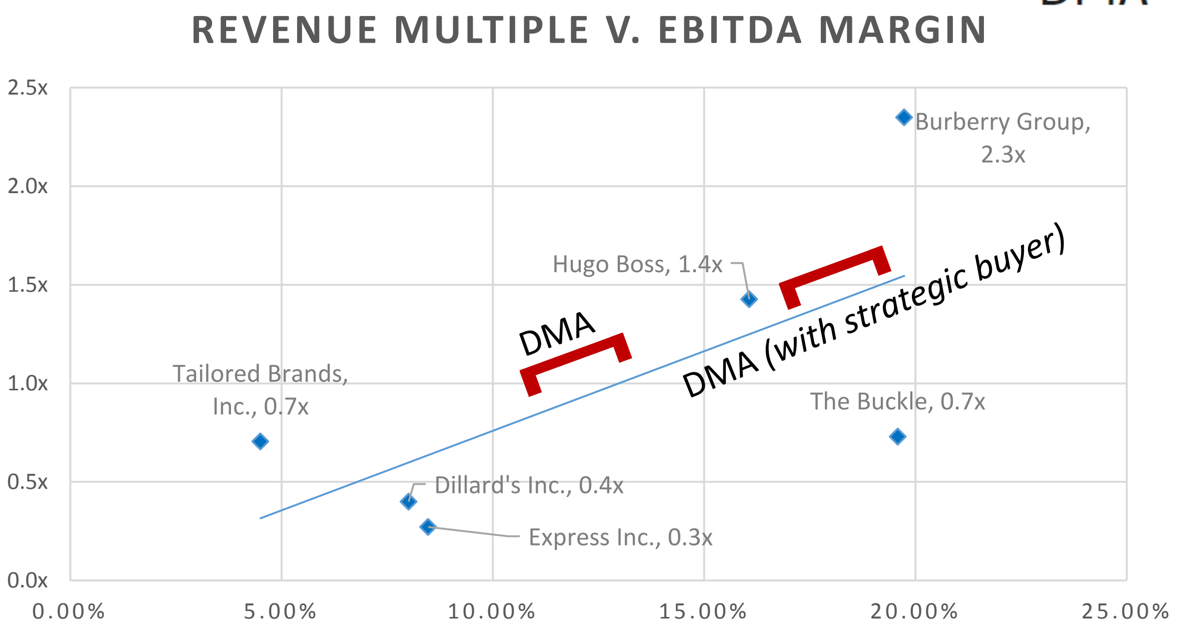
DMA

	Market Data			Financial Data					Valuation			
	Price	Market Cap	EV	Sales	EBITDA	EBIT	Earnings	EPS	EV/Sales	EV/EBITDA	EV/EBIT	P/E
Company Name	($/share)	($M)	($M)	($M)	($M)	($M)	($M)	($/share)	x	x	x	x
The Buckle	24.55	1,184.68	988.15	974.87	190.88	156.27	97.96	2.03	1.0x	5.2x	6.3x	12.1x
Tailored Brands, Inc.	21.99	1,072.80	2,584.09	3,378.70	152.18	132.83	24.96	0.51	0.8x	17.0x	19.5x	43.0x
Hugo Boss	75.72	5,225.57	5,344.74	2,831.80	455.01	277.10	203.50	2.95	1.9x	11.7x	19.3x	25.7x
Burberry Group	2252.73	9,961.55	8,904.09	3,471.33	684.98	494.85	359.93	81.40	2.6x	13.0x	18.0x	27.7x
Express Inc.	10.58	836.34	628.97	2,192.55	185.75	103.60	58.28	0.74	0.3x	3.4x	6.1x	14.4x
Dillard's Inc.	60.93	2,090.39	2,270.11	6,256.97	501.33	257.68	169.22	4.93	0.4x	4.5x	8.8x	12.4x
High		9,961.55	8,904.09	6,256.97	684.98	494.85	359.93	81.40	2.6x	17.0x	19.5x	43.0x
Mean		3,395.22	3,453.35	3,184.37	361.69	237.05	152.31	15.43	**1.1x**	**9.1x**	13.0x	22.5x
Median		1,637.54	2,427.10	3,105.25	322.94	206.97	133.59	2.49	**0.9x**	**8.5x**	13.4x	20.0x
Low		836.34	628.97	974.87	152.18	103.60	24.96	0.51	0.3x	3.4x	6.1x	12.1x

Comparable Companies – *DMA Valuation*

DMA



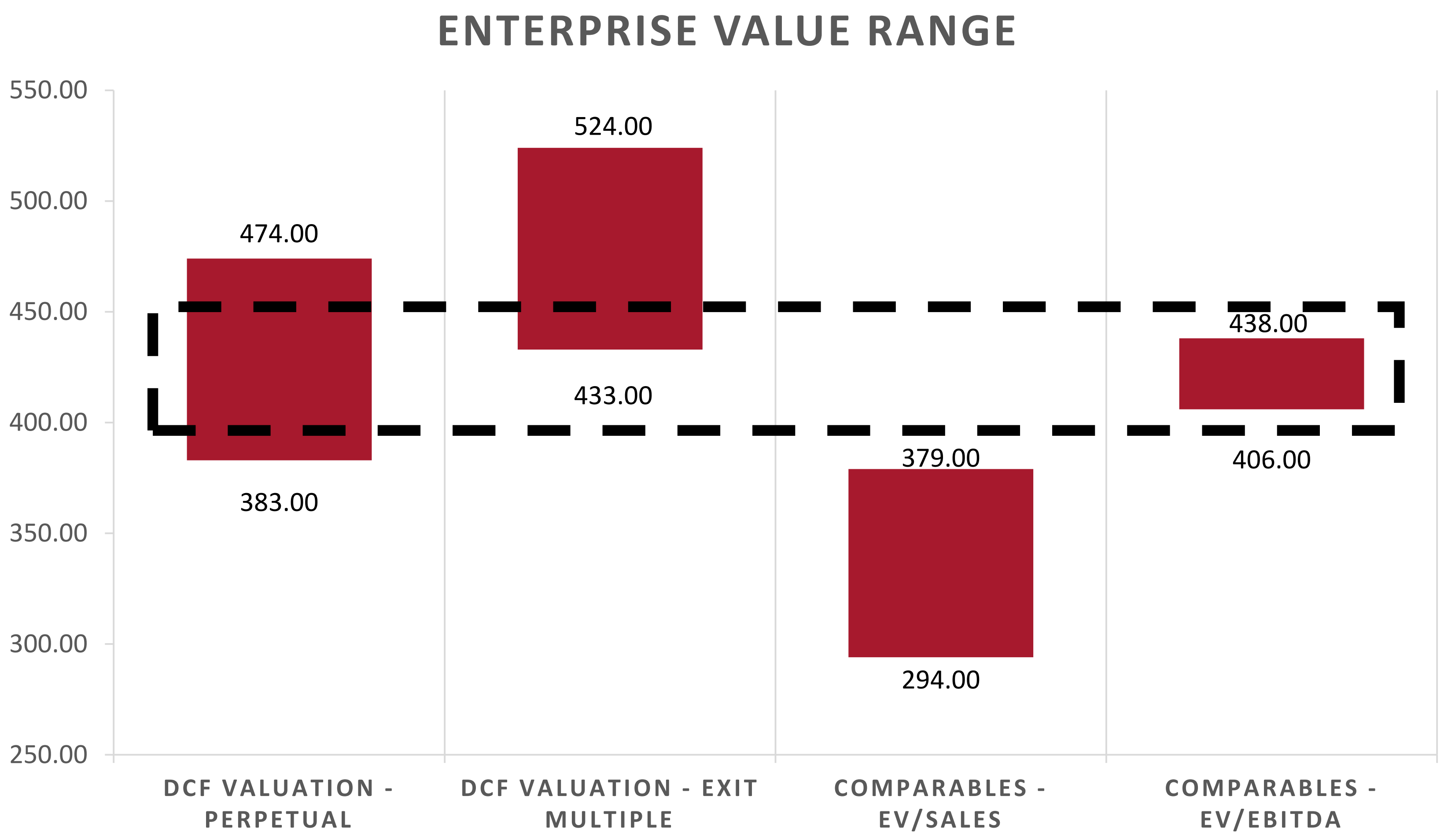


As of 28/01/17		Multiple Range	Implied EV
Revenue	$331,061,000	0.9x – 1.1x	$294 Million - $379 Million
EBITDA	$48,004,000	8.5x – 9.1x	$406 Million - $438 Million

Assumptions:

- With cost cutting and streamlined operations, EBITDA margins will improve driving the greater revenue multiples.
- DMA's current EBITDA margin percentage is 14.5%, which is projected to grow to 20.5% as it adopts new modes of retail.
- Because of cutting costs and other synergies, DMA's EBITDA margin increases with a synergistic buyer.

Valuation Football Field



Implied Range

$390 Million - $450 Million

Scenario 1 – *Strategic Buyer*

DMA

Year	2017	2018F	2019F	2020F	2021F	2022F
Revenue Forecasting	331061	341130	354139	370581	387850	407243
[+] Synergy Value	-	3500	4500	5500	6500	7000
[-] Lost Revenue	-	7500	-	-	-	-
Total Revenue	331061	337130	358639	376081	394350	414243
Growth	-	**1.8%**	**6.4%**	**4.9%**	**4.9%**	**5.0%**
Gross Margin Forecasting	58.3%	**57.8%**	**59.9%**	**60.5%**	**61.1%**	**61.6%**
COGS	138052	139950	146647	151996	157533	163493
Revenue-COGS	193009	197180	211992	224085	236817	250749
Operating Margin Forecasting	11.8%	**15.5%**	**19.0%**	**20.7%**	**21.7%**	**23.1%**
SG&A	145005	147709	148030	149344	153201	156265
[-] Cost Savings	-	3000	4000	3000	2000	1000
[+] One-Time Cost of Closing	-	300	-	-	-	-
Total SG&A	145005	145009	144030	146344	151201	155265
EBITDA	48004	52171	67962	77741	85616	95484
Depreciation Forecasting	8898	8528	8853	9265	9696	10181
As a % of Revenue	2.7%	2.5%	2.5%	2.5%	2.5%	2.5%
Year	2017	2018F	2019F	2020F	2021F	2022F
EBIT Forecasting	11.8%	**12.9%**	**16.5%**	**18.2%**	**19.3%**	**20.6%**
EBIT	39106	43643	59109	68477	75919	85303

Stabilize at 5%

Industry Growth Rate

Stabilize at 62%

Improve through synergistic revenue & scale of operations

Stabilize at 23%

Management & back office reductions, cutting loss making stores, reduced combined costs.

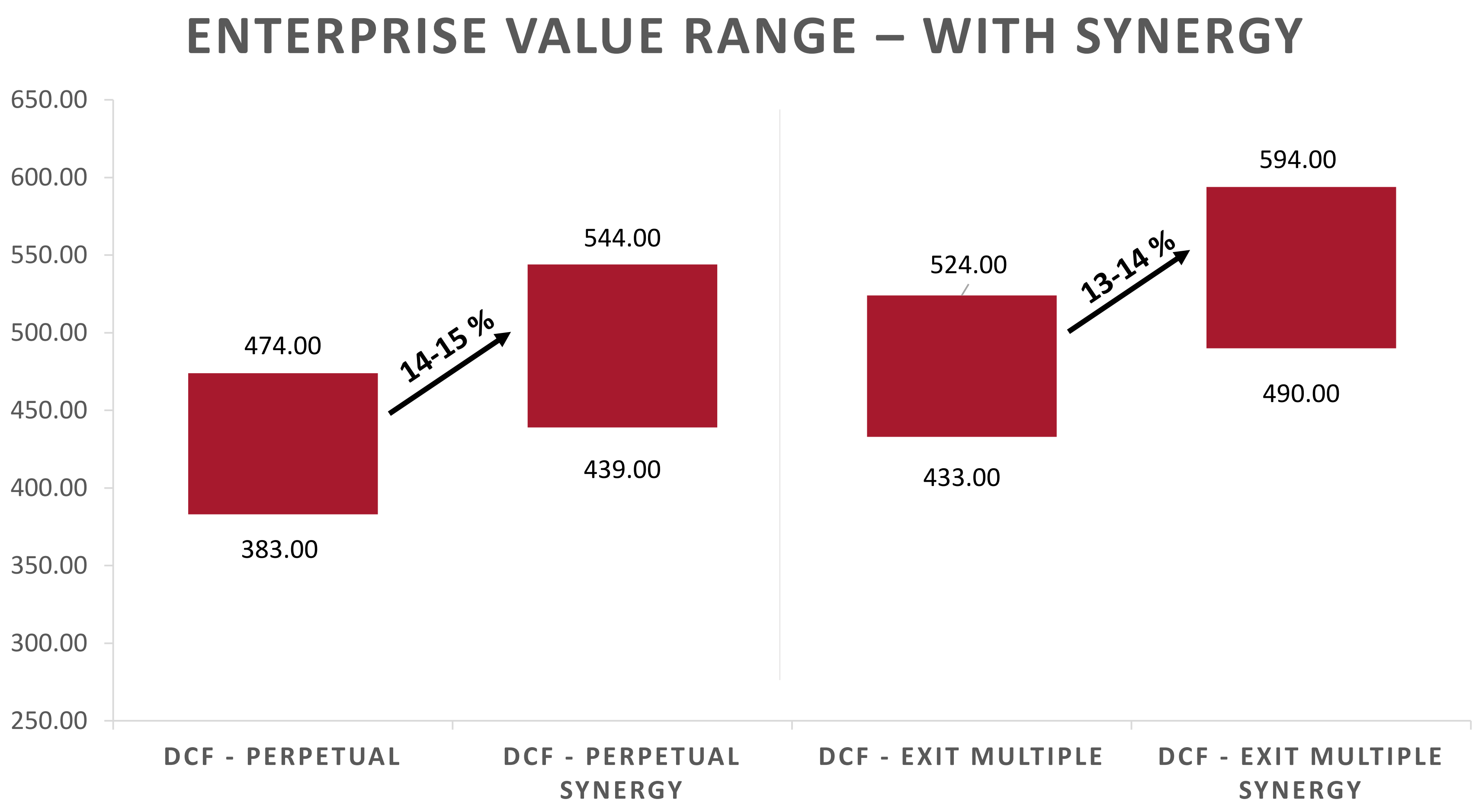
Remain at 2.5%

No new Capex incurred

Stabilize at 20.5%

Scenario 1 – *Strategic Buyer*

DMA



Implied EV (Perpetual)
$439 Million - $544 Million

Cumulative Growth Rate
14-15 %

Implied EV (Exit Multiple)
$490 Million - $594 Million

Cumulative Growth Rate
13-14 %

Potential Strategic Buyers

Brooks Brothers	Brooks Brothers	Brooks Brothers is the oldest men's clothier in the United States and is headquartered on Madison Avenue in Manhattan, New York City. As of 2015, there were 210 Brooks Brothers stores in the United States and 70 in other countries including UK, Australia and India.
Burberry Group	BURBERRY London, England	Burberry Group Plc, together with its subsidiaries, manufactures, retails, and wholesales luxury goods for men, women, and children under the Burberry brand name. The company also licenses third parties to manufacture and distribute products using the Burberry trademarks.
Ralph Lauren	RALPH LAUREN	Ralph Lauren is an American corporation producing mid-range to luxury fashion products. They are known for the clothing, marketing and distribution of products in four categories: apparel, home, accessories, and fragrances. The Company's brands include Polo Ralph Lauren, Ralph Lauren Collection, Lauren Ralph Lauren and many more.
J. Crew	J.CREW	J.Crew Group, Inc., is an American multi-brand, multi-channel, specialty retailer. The company offers an assortment of women's, men's and children's apparel and accessories, including swimwear, outerwear, lounge-wear, wedding, bags, sweaters, denim, dresses, suiting, jewelry, and shoes. It operates over 450 retail stores throughout the United States.
Tailored Brands, Inc.	TAILORED BRANDS®	Tailored Brands, Inc. operates as a specialty apparel retailer in the United States, Puerto Rico, and Canada. It operates through two segments, Retail and Corporate Apparel. It owns several brands including the Men's Wearhouse, Twin Hill Corporate clothing and. MW Cleaners
Nordstrom	N NORDSTROM	Nordstrom Inc. is an American chain of luxury department stores selling clothing, accessories, handbags, jewelry, cosmetics, and fragrances Nordstrom has 380 stores operating in 40 US states and Canada, a number which includes 122 full-line stores and 239 Nordstrom Rack stores, seven Trunk Club clubhouses and two clearance stores.

Scenario 2 – *PE Firm*

DMA

Year	2017	2018F	2019F	2020F	2021F	2022F
Revenue Forecasting	331061	341130	354139	370581	387850	407243
[+] New Sales	-	60000	120000	180000	225000	236250
[-] Lost Revenue	-	40801	47278	52195	56273	59087
Total Revenue	331061	**360329**	**426861**	**498386**	**556577**	**584406**
Growth	-	**8.8%**	**18.5%**	**16.8%**	**11.7%**	**5.0%**
Gross Margin Forecasting	58.3%	58.3%	58.3%	58.3%	58.3%	58.3%
COGS	138052	150257	178001	207827	232093	243697
Revenue-COGS	193009	210072	248860	290559	324484	340709
Operating Margin Forecasting	11.8%	20.5%	24.5%	29.1%	32.0%	32.5%
SG&A	145005	147709	148030	149344	153201	156265
[-] Cost Savings - Store Closing	-	8000	-	-	-	-
[-] Cost Savings - Management	-	3711	3541	3706	6594	5585
[+] One-Time Cost of Closing	-	300	-	-	-	-
Total SG&A	145005	136298	144489	145638	146607	150680
As a % of Revenue	43.8%	42.3%	40.8%	39.3%	37.8%	37.0%
EBITDA	48004	73774	104371	144921	177877	190029
Depreciation Forecasting	8898	8528	8853	9265	9696	10181
As a % of Revenue	2.7%	2.5%	2.5%	2.5%	2.5%	2.5%
Year	2017	2018F	2019F	2020F	2021F	2022F
EBIT Forecasting	11.8%	**18.1%**	**22.4%**	**27.2%**	**30.2%**	**30.8%**
EBIT	39106	65246	95518	135656	168181	179848

Industry Growth Rate

Stabilize at 5%

Remain at 58.3%

Shift to lower priced products, initial loss due to change in clientele, and new operations.

Stabilize at 30%

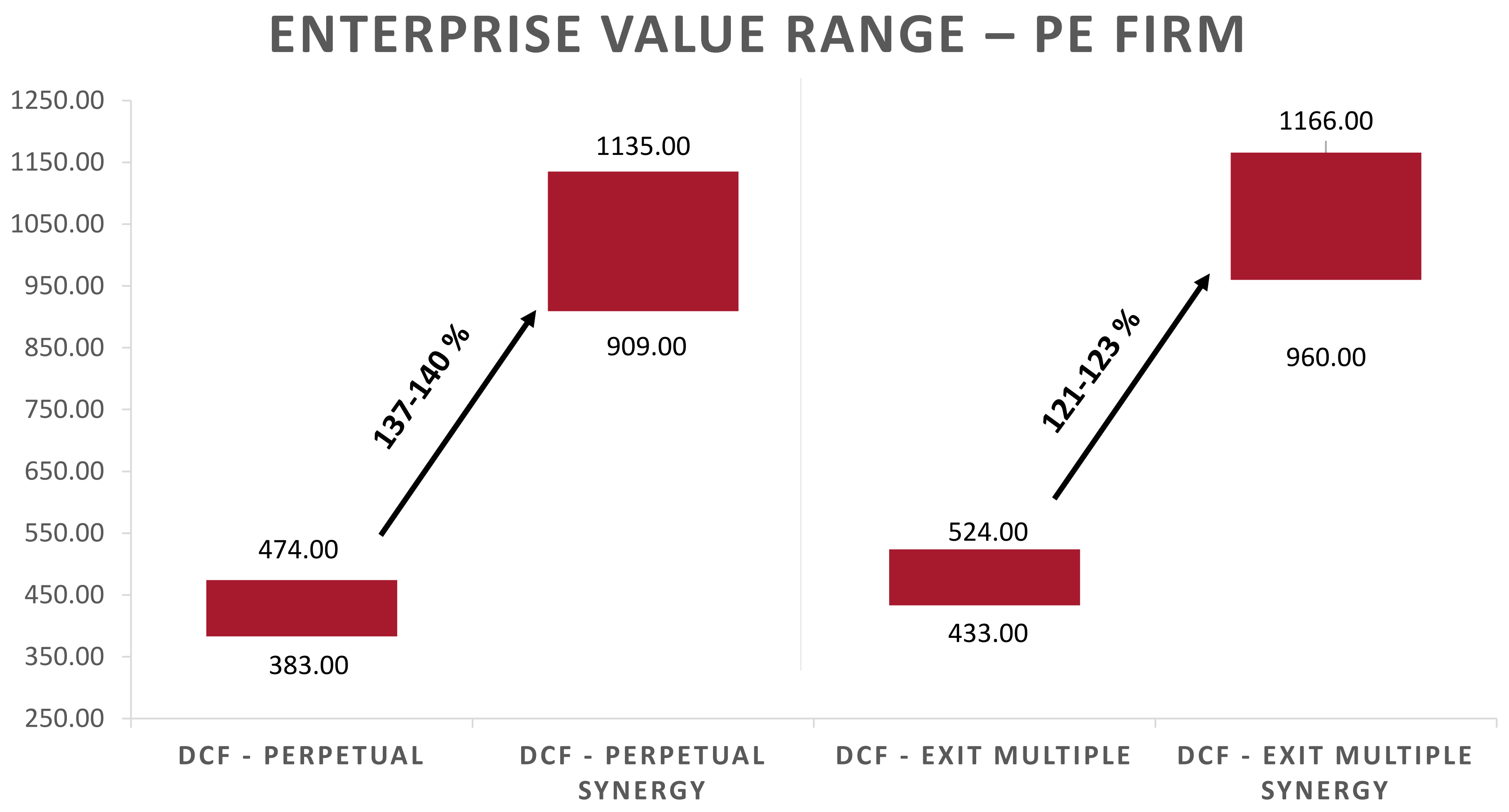
Economies of Scale and shut down of loss making stores likely to decrease contribution of SG&A by 6-7%/

Stabilize at 2.5%

Higher Sales Turnover

Stabilize at 27%

Scenario 2 – *PE Firm*



Implied EV (Perpetual)
$909 Million - $1135 Million

Cumulative Growth Rate
137-140 %

Implied EV (Exit Multiple)
$960 Million - $1166 Million

Cumulative Growth Rate
121-123 %

Scenario Analysis - *Debtholders*

DMA

Debtholders will get the ***maximum benefit if the company is sold to a Private Equity Firm***. Transitioning the business model of the firm will reap in huge financial gains in the future thereby making it an attractive opportunity for a PE Firm.

The number of potential ***PE Firms*** that can be contacted for such a deal is much ***larger than the number of strategic buyers*** that will be interested in acquiring DMA. This makes it easier to sell off the company.

This is an important factor for a bankrupt company as a lot of variables can deteriorate with time ultimately reducing the deal value. A PE Firm ***specializes in carrying out such deals and can fast-track the entire process***, unlike buyers from the industry.

PE Firms will be tough to negotiate with, especially under such constrained circumstances. On the other hand, ***strategic buyers will be much more open*** to friendly discussion over entire deal aspects.

2 — Value to Debtholders

2 — Availability of Buyers

2 — Time to Close Deal

1 — Negotiation

Scenario Analysis - *Buyers*

DMA

A PE Firm will find acquiring the firm at a significant discount and extracting as much value as possible by overhauling its business model ***a much more profitable deal***, than what an industrial firm will find acquiring another sick firm.

2

Discounted Value

The risk associated with completely changing the business model is huge. Whereas continuing the ***similar model with synergistic expansion, cost cutting and scaling of operations*** is a much safer bet.

1

Uncertainty / Risk

A strategic buyer will merge the operations of DMA with its own business which is a very cumbersome task and ***can have repercussions on the original structure of the buyer***. But, a PE Firm will be operate the company on a standalone basis and won't face any such difficulty.

2

Integration

Negotiations, if not handled correctly, can ***prove to be a drag on the company's resources and escalate prices***. A PE Firm will be much more willing to bear this cost that an industrial buyer.

2

Negotiation

Final Recommendation

DMA

We recommend the debtholders to move forward with **Scenario 2**. Selling the company to a PE Firm will be in their best interest, as it promises a **better deal amount** as well as scope for **maximum financial value addition to the company**.

Possible Synergies

- ✓ A PE Firm can expand the business and achieve ***economies of scale***.
- ✓ DMA's ***new distribution network*** will attract a big chunk of customers that were not being catered before.
- ✓ ***Diligent financial monitoring*** will ensure only the most profitable ventures remain operational.
- ✓ ***Cutting out deals*** with mainstream departmental and retail stores will become easier, a problem DMA has faced in the past.
- ✓ ***Better cash flow management*** due to quick sales.

Possible Setbacks

- × DMA's transition from a high-end luxury store to ***mass producer*** might not go well with the market.
- × New Sales channel can ***hurt the established brand*** image of the company, ultimately cancelling out expected increase in revenue.
- × Cost cutting targets can prove to be ***unsustainable***.
- × It will be challenging as ***another PE firm had failed*** to turn around the company in the ***past five years***.
- × ***Suppliers relations can be affected*** with the change in products and method of production.

After considering the possible synergies and setbacks, it can be concluded that a **PE firm is the preferred choice** to manage a classic luxury firm like DMA, **especially in times when the industry is undergoing a fundamental change**.

Trademark Dispute – *Reasons to Litigate*

Siphoning The Rightful Revenue Of DMA

DMA already has its presence in Spain and sells its own trademarked items. FPA, by illicitly using the same name, is leveraging the goodwill and brand value of DMA to sell its own watches. Such a "Free-Rider" problem decreases the rightful revenue of DMA.

Future Obstacles If DMA Launches Watches

DMA will face a lot of difficulties in launching its own range of watches in the future if a competitor company is already using its brand name. It will have to come up with a whole new name and promote it from scratch.

Brand Confusion And Dilution Of Value

FPA, through sale of its "DMA-branded" watches, might be catering to a completely different customer segment than DMA's original target audience. This can lead to confusion among buyers and dilute the Brand Identity of the company.

Exposure To FPA's Volatility

Any event that hampers the popularity of FPA's watches will negatively impact DMA's own store sales, without there being a formal corporate relation between the two companies.

Trademark Dispute – *Legal Framework*

DMA

EUIPO
EUROPEAN UNION
INTELLECTUAL PROPERTY OFFICE

BOE

WIPO
WORLD
INTELLECTUAL PROPERTY
ORGANIZATION

§ 9
As per Law 17/2001, of December 7, of Trademarks

Article 43. *Calculation of compensation for damages.*

1. Compensation for damages and losses shall include not only the losses incurred, but also the profits left to obtain by the owner of the trademark registration cause of the violation of his right. The owner of the trademark registration may also require **the compensation for the damage caused to the prestige of the brand by the infringer**, especially by a defective performance of illicitly marked products or a presentation inadequate in the market. Likewise, the indemnity amount may include, in your case, the research expenses incurred to obtain evidence reasonableness of the commission of the infraction subject to the judicial procedure.

Source: Agencia Estatal Boletín Oficial del Estado - https://www.boe.es/

(cont.)

Trademark Dispute – *Legal Framework*

2. In order to determine the compensation for damages, it shall be taken into account, at the injured:

a) The negative economic consequences, including the benefits that the owner would have obtained through the use of the trademark if the violation had not taken place and benefits that the offender has obtained as a result of the violation. In the case of moral damage, compensation will proceed, even if the existence of a economic damage.
b) The **amount that as price the offender should have paid the owner for the granting a license** that would have allowed it to carry out its use in accordance with straight.

3. For the determination of compensation, account shall be taken, among other circumstances, of the notoriety, reputation and prestige of the brand and the number and kind of licenses granted in the moment the violation began. In the case of damage to the prestige of the brand, In addition, **it will address the circumstances of the infraction, the severity of the injury and the degree of diffusion in the market**.

Source: Agencia Estatal Boletín Oficial del Estado - https://www.boe.es/

(cont.)

Trademark Dispute – *Legal Framework*

DMA

4. In order to determine the amount of damages suffered, the owner of the trademark may demand the display of the documents of the person in charge who can serve for that purpose.

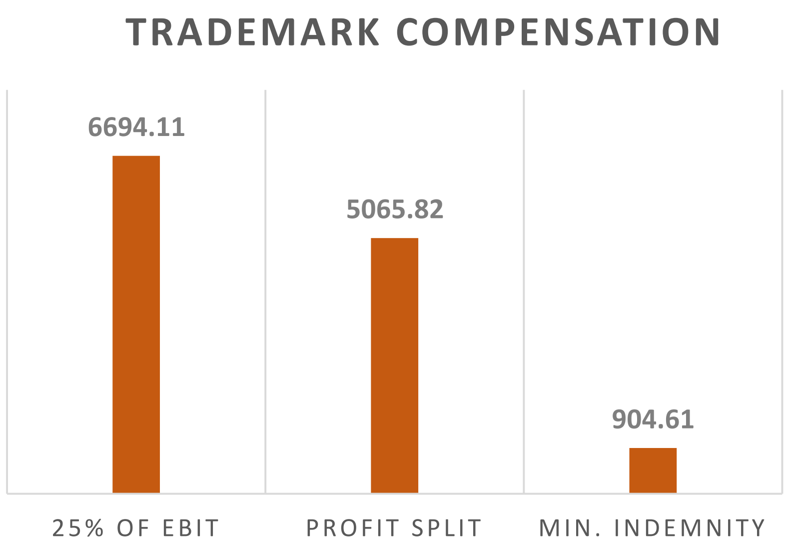
5. The owner of the trademark whose violation was judicially declared shall have, in all cases and without the need for any proof, **right to receive as a indemnity for damages and losses 1 percent of the turnover made by the offender with illicitly marked products or services**. The owner of the trademark may demand, in addition, a greater compensation if it proves that the violation of its brand caused damages or superior damages, in accordance with the provisions of the previous sections.

Source: Agencia Estatal Boletín Oficial del Estado - https://www.boe.es/

Trademark Dispute - *Compensation*

DMA

	2013A	2014A	2015A	2016A	2017A
Revenue	5,186	9,786	19,914	25,092	30,483
EBIT	1,462	2,828	5,895	7,628	9,511
as % Revenue	28.20%	28.90%	29.60%	30.40%	31.20%
25% of EBIT Approach Value	365.61	707.04	1473.64	1906.99	2377.67
Profit Split – Excess Return	217.81	479.51	1115.18	1605.89	2194.78
Minimum Indemnity @ 1%	51.86	97.86	199.14	250.92	304.83



Notes:

- 25% EBIT Rule is a popular industry standard to calculate Royalty Rates for a trademark/patent.
- Watch Industry Average Profit Margin = 24%
  Excess Rate = EBIT(%) – 24%
- Minimum Indemnity @1% of Turnover as per European Law

Approach	Compensation	Avg. Royalty Rate
25% of EBIT	6694.11	7.40%
Profit Split	5065.82	5.60%
Min. Indemnity	904.61	1.00%

Trademark Dispute – *Future Plans*

FACTOR	PARTNER WITH FPA	STOP SALE OF FPA
Customer Base	Same Target Audience	Different Target Audience
Distribution Network	Different Distribution Network	Same Distribution Network
Brand Image	Regal, State-of-the-Art, Luxury, Elegant	Affordable, Cheap, Daily Wear, Common
Marketing Channels	Online, Endorsements, Sponsorships	Advertisement, Posters, Word-of-Mouth
Licensing Deal	Favorable (> 7.40 %)	Unfavorable (< 7.40 %)
Expansion Strategy	New Forms of Retail, E-Commerce	Store Expansion, New Line of Products

Executive Summary

DMA

Situation Overview	▪ DMA, a US-based men's clothing and luxury products retailers, has defaulted on its principal payments and has ceded control to debtholders. ▪ The debtholders wish to exit the business and are looking to sell the company either to a Strategic Buyer or a Private Equity Firm.
Analysis	▪ Industry Analysis, Porter's 5 Forces Analysis and after comparing risks and opportunities, it can be inferred that DMA has a strong brand value in the market. ▪ By revamping the channels of distributions and target markets, it can turn around its fortunes and thrive in this extremely competitive industry.
Valuation	▪ Based on an analysis of discounted cash flow, comparable companies and trading multiples, DMA's valuation ranges from $390-450 Million.
Recommendation	▪ After considering all factors, a PE Firm will be the most-suited buyer for DMA. It will derive the maximum value from the company through stringent cost cutting, changing pricing of products and accessing new distribution networks. Consequently it will charge the lowest discount for the acquisition.

APPENDIX

A1: DCF - *Forecasts*

DMA

Year	2012	2013	2014	2015	2016	2017	2018F	2019F	2020F	2021F	2022F	
Revenue Forecasting	445204	427823	350629	331868	327662	331061	341130	354139	370581	387850	407243	
Growth		-3.9%	-18.0%	-5.4%	-1.3%	1.0%	3.0%	3.8%	4.6%	4.7%	5.0%	**Stabilize at 5%**
Year	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018F**	**2019F**	**2020F**	**2021F**	**2022F**	
Margin Forecasting	19.8%	17.1%	10.2%	9.8%	10.7%	11.8%	12.7%	14.6%	16.6%	17.9%	18.0%	**Stabilize at 18%**
EBIT	88191	73148	35882	32567	35088	39106	43404	51835	61341	69300	73304	
Year	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018F**	**2019F**	**2020F**	**2021F**	**2022F**	
Organic Capital Expenditure Forecasting	9349	10696	9818	6969	5898	5628	8528	9208	9265	9696	10181	
As a % of Revenue	2.1%	2.5%	2.8%	2.1%	1.8%	1.7%	2.5%	2.6%	2.5%	2.5%	2.5%	**Stabilize at 2.5%**
Year	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018F**	**2019F**	**2020F**	**2021F**	**2022F**	
Depreciation Forecasting	11534	11133	9350	8916	8819	8898	9054	9482	9930	10387	10895	
As a % of Revenue	2.6%	2.6%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	**Fixed Rate**
Year	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018F**	**2019F**	**2020F**	**2021F**	**2022F**	
Working Capital	-	-	-	-	-	51843	54223	56711	59314	62037	64884	
Change in Non Cash Working Capital Forecasting	-	-	-	-	-	-	2380	2489	2603	2723	2847	**Calculated from Peer Set**
% change	-	-	-	-	-	-	4.6%	4.6%	4.6%	4.6%	4.6%	

A1: DCF – *WACC Calculation*

Company	Ticker	Levered Beta	D/E Ratio	Factor	Unlevered Beta	Risk Premium
The Buckle	BKE	0.89	0.00	1.00	0.89	5.08%
Tailored Brands, Inc.	TLRD	1.22	1.47	2.03	0.60	5.08%
Hugo Boss	BOSS.DE	0.75	0.22	1.16	0.65	6.33%
Burberry Group	BRBY.L	1.04	0.00	1.00	1.04	5.89%
Express Inc.	EXPR	1.05	0.00	1.00	1.05	5.08%
Dillard's Inc.	DDS	0.92	0.31	1.21	0.76	5.08%
Weighted Average		**0.98**			**0.83**	

Leverage			14.9x
Book Value of Debt	*Equity x Leverage*	$	715,000.00
Book Value of Equity		$	47,986.58
Debt/(Debt+Equity) Ratio			0.94
Tax Rate on Income			30%

Risk free rate	2.5%
Beta	0.83
Market Risk Premium	5.1%
Cost of Debt	11.5%
Cost of Equity	**6.7%**
Cost of Capital	**11.2%**

Spread (As per Table)		13.95%
Risk Free Rate	*US 10Y Treasury Bond Rate*	2.49%
Cost of Debt	*Spread + Equity Risk*	16.44%
Cost of Debt (1-Tax Rate)		11.51%

For smaller (<$5 billion) and riskier firms

If interest coverage ratio is			
greater than	≤ to	Rating is	Spread is
-100000	0.499999	D2/D	18.60%
0.5	0.799999	C2/C	13.95%
0.8	1.249999	Ca2/CC	10.63%
1.25	1.499999	Caa/CCC	8.64%
1.5	1.999999	B3/B-	4.37%
2	2.499999	B2/B	3.57%
2.5	2.999999	B1/B+	2.98%
3	3.499999	Ba2/BB	2.38%
3.5	3.9999999	Ba1/BB+	1.98%
4	4.499999	Baa2/BBB	1.27%
4.5	5.999999	A3/A-	1.13%
6	7.499999	A2/A	0.99%
7.5	9.499999	A1/A+	0.90%
9.5	12.499999	Aa2/AA	0.72%
12.5	100000	Aaa/AAA	0.54%

Source: Aswath Damodaran, NYU Stern

The **Cost of Debt** has been obtained from this table. The Interest Coverage Ratio is taken to be greater than 0.5 but less than 0.79, therefore the spread comes out to be 13.95%. To this the risk free rate, i.e. 2.49%, is added to obtain the Cost of Debt. Further to adjust for tax benefits, it is reduced accordingly.

A1: DCF – *Change in Working Capital*

DMA

Company Name	Non-Cash Cur. Assets 2017	Current Liabilities 2017	Non-Cash Cur. Assets 2016	Current Liabilities 2016	Working Cap 2017	Working Cap 2016	Change in WC	% Change
The Buckle	189,921,000	98,616,000	201,712,000	107,626,000	91,305,000	94,086,000	2,781,000	3.05%
Tailored Brands, Inc.	1,094,828,000	459,920,000	1,229,940,000	536,327,000	634,908,000	693,613,000	58,705,000	9.25%
Hugo Boss	963,405	639,860	872,924	587,595	323,545	285,329	-38,216	-11.81%
Burberry Group	795,100,000	565,100,000	783,100,000	539,000,000	230,000,000	244,100,000	14,100,000	6.13%
Express Inc.	306760000	282397000	326516000	307403000	24,363,000	19,113,000	-5,250,000	-21.55%
Dillard's Inc.	1,641,385,000	976,517,000	1,466,014,000	751,216,000	664,868,000	714,798,000	49,930,000	7.51%
							Median % Change	**4.59%**

The Change in Working Capital has been calculated on the basis of comparable companies. The net change in Non-Cash Working Capital (Current Assets – Cash – Current Liabilities) from 2016 to 2017 has been calculated. This has then been express as a % change of 2017's Non-Cash Working Capital.

The Median Value of these rates has been taken as the final figure to calculate change in working capital for DMA.

A2: Market Peers

The Buckle	Buckle	The Buckle, Inc. operates as a retailer of casual apparel, footwear, and accessories for young men and women in the United States. It markets a selection of brand name casual apparel, including denims, other casual bottoms, tops, sportswear, outerwear, accessories, and footwear, as well as private label merchandise.
Tailored Brands, Inc.	TAILORED BRANDS	Tailored Brands, Inc. operates as a specialty apparel retailer in the United States, Puerto Rico, and Canada. It operates through two segments, Retail and Corporate Apparel. It owns several brands including the Men's Wearhouse, Twin Hill Corporate clothing, MW Cleaners and Joseph A. Bank brands.
Hugo Boss	BOSS HUGO BOSS	HUGO BOSS AG, together with its subsidiaries, develops, markets, and distributes fashion and accessories for men and women worldwide. It offers modern apparel, eveningwear, sportswear, casualwear, shoes, and leather accessories, as well as other accessories.
Burberry Group	BURBERRY London, England	Burberry Group plc, together with its subsidiaries, manufactures, retails, and wholesales luxury goods for men, women, and children under the Burberry brand name. The company also licenses third parties to manufacture and distribute products using the Burberry trademarks.
Express Inc.	EXPRESS	Express, Inc. operates as a specialty apparel and accessories retailer. It offers apparel and accessories for women and men. it operates 490 primarily mall-based retail stores in the United States and Puerto Rico, as well as 145 factory outlet stores
Dillard's Inc.	Dillard's	Dillard's, Inc. is a retail chain that offers a selection of merchandise, including fashion apparel for women, men, and children; accessories; cosmetics; home furnishings; and other consumer goods. Its brand merchandise includes Antonio Melani, Gianni Bini, GB, Roundtree & Yorke, and Daniel Cremieux.

A2: Market Peer Selection Rationale

Company	Same Customer Base	Distribution Network	Product Line & Price Range	Business Model	Financial Parameters	Final Match
The Buckle	✓	✗	✓	✓	✓	80%
Tailored Brands, Inc.	✓	✓	✓	✗	✓	80%
Hugo Boss	✗	✗	✓	✓	✓	60%
Burberry Group	✓	✓	✓	✗	✗	60%
Express Inc.	✗	✓	✓	✓	✓	80%
Dillard’s Inc.	✗	✓	✓	✓	✓	80%

2019 DUFF & PHELPS India YOUniversity Deal Challenge

THANK YOU