Duff & Phelps

2020 Duff & Phelps YOUniversity Deal Challenge

Maison Jacquelyn

August 2020

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Executive Summary

Maison Jacquelyn

After examining potential financial and strategic buyers, our recommendation is a sell-out to a PE firm at a Price of ~ € 510 MM followed by an acquisition of MYTHERESA, a global player with a strong online presence by the PE firm

Deliverable 1	Industry	• Key Driver: Growing opportunities in the international market • Presence of a strong resale market in the shoe industry.
	Company	• With declining revenue and negative equity, MJ needs to restore its growth by focusing on expanding its market through Omni-channel retail. It can leverage an online player's existing capabilities to gain market share
Deliverable 2	Acquisition Target	• The PE should acquire **MYTHERESA**, a Germany-based women's luxury footwear retailer, whose primary business channel is online • It is a women-oriented online retailer with a global presence, relatively higher monthly active users, and excellent customer service team
Deliverable 3	Financial Buyer	• MJ's debt holders should sell to a PE firm; the IRR for the PE firm would be around **29%.** • The transactional enterprise value would be in the range of **€ 412 MM – € 570 MM** • The transactional equity value would be in the range of **€ 340 MM – € 505 MM**
	Strategic Buyer	• Tapestry seems to be a good strategic buyer due to several operational, marketing, product synergies, and strategic alignment. Based on discounted cashflows, and comparable company analysis, we estimate an EV value range of around **€ 200 MM – € 360 MM** • The IRR return for the strategic buyer would be around **17.5%** based on DCF analysis
	Recommendations	• We recommend a sell-out to a PE firm (among the following PE firms – APAX, Champlain, CVC, & Tengram) at a Price of **€ 510 MM**

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Company Snapshot

Maison Jacquelyn

Traditionally a strong player in the luxury market, Maison Jacquelyn faced difficulties after losing a large department store; financial health has deteriorated leading up to inability to refinance debt and eventual default

Product Portfolio

- Maison Jacquelyn (MJ) began as a seller of handmade shoes for Women
- The company later expanded into a full line of **women's shoes** and other **luxury products**
- MJ's products are perceived to be **high quality** and **command a brand premium**

INCORPORATED
1960

HEADQUARTERS
Paris, France

Sales Channel

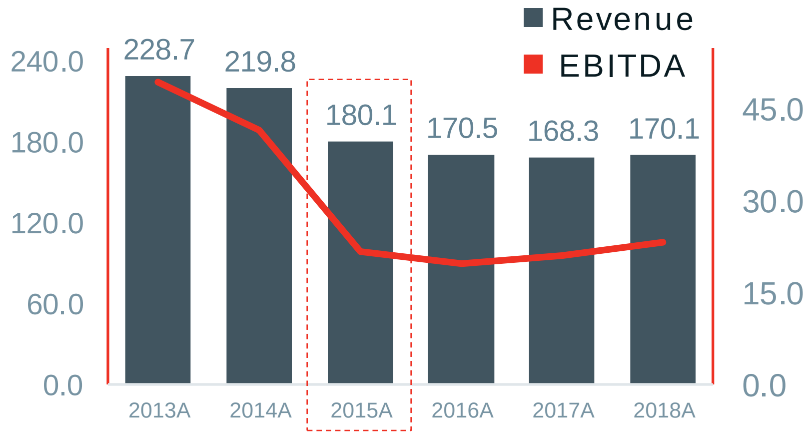
- The company sells through **leased out stores**
- MJ also distributes to upscale department stores
- The company has a **presence** in almost all **major European markets**, but its **international presence is limited**
- Although it has a website, it doesn't allow for online purchase

BRICK & MORTAR
99
Inclusive of both domestic and international stores

EMPLOYEES
~600
It also has an experienced management Team

Financial Status

- MJ was **acquired by a PE** firm in 2013 for \$0.55 Bn, using 65% debt and 35% equity
- In 2015, MJ **lost** a **large department store customer**. Revenues fell drastically & EBITDA margins are still off their 2013 peak
- In 2018 payments MJ **defaulted on its principal repayment**



*in Millions

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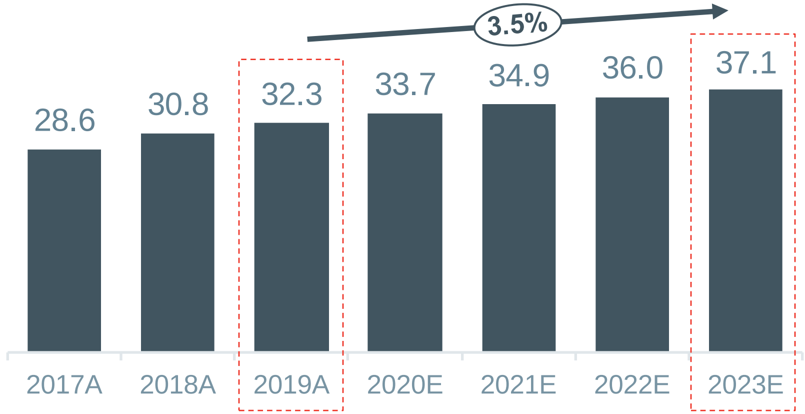
Industry Overview (1/4)

The market for luxury goods is expected to exhibit a tepid growth in 2020 due to trade tensions and a strong dollar; China is expected to be a major market for luxury brands going forward

Financial Performance

- Per capita revenues were $4.39 in 2019
- Shoes are the fastest-growing category in the market for luxury goods
- In the entire luxury goods market, the top 20 companies created 97% of the economic value in 2019
- The industry is likely to slow down considerably owing to trade tensions and a strong dollar which will limit tourist spending in the US

Luxury Footwear Market Size *in Billions



Geographical & Consumer Trends

The Rise of China

- China is expected to drive 75% of the growth in the 2018-25 luxury market
- Currently accounting for 33% of the market, it is expected to account for 40% by 2025

Sustainability

- Consumers are placing greater emphasis on the environmental sustainability dimension of brands and their products
- There is also focus on how brands align themselves in the discourse of social and often divisive issues

The Rise of Millennials

- Millennials are expected to grow from 32% to 50% of the world luxury market by 2025
- Millennial and Gen-Z consumption is characterized by shorter and more elastic product lifespans

Easier Buying

- The gap between points of discovery and purchase is shortening, with consumers increasingly adopting a “see it, want it” ethos
- Consumption has also increased due to strong growth in the resale market, which is expected to grow at 12%

Industry Overview – Preliminary Analysis (2/4)

Maison Jacquelyn

The market for luxury footwear is characterized by several strong parameters, including little regulation in the luxury market, accessible distribution, availability of cheaper alternatives, and low switching costs. Also, there are some weak/moderate forces in the industry

↑ Increase in relevant force

↓ Decrease in relevant force

Supplier Power

- Compromising the quality of inputs may lead to an erosion of brand equity ↑
- There is a lack of substitute inputs ↑
- There is a threat of an oligopsony market ↓

Threat of Substitution

- There is a substantial presence of value added alternatives ↑
- Consumers can switch brands at very low costs ↑
- Availability of cheaper alternatives and a strong resale market ↑

Competitive Rivalry

Threat of New Entry

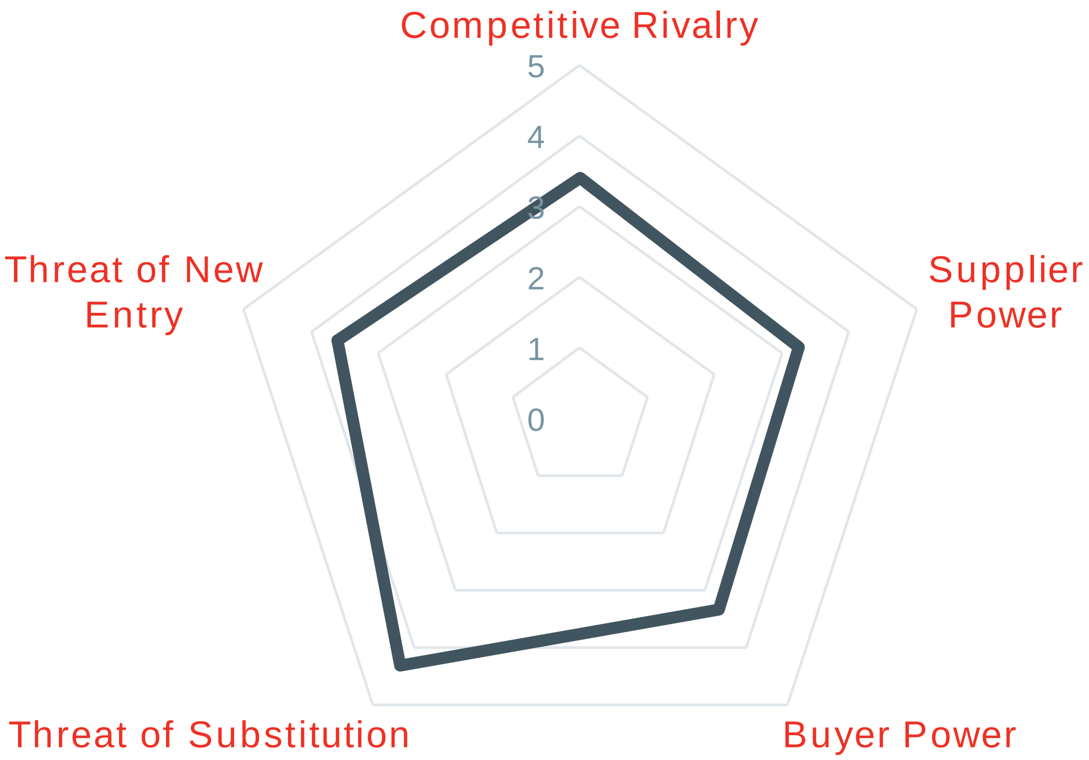
- The luxury market is subject to very little regulation ↑
- Distribution is mostly accessible for new entrants ↑
- Existing brands are extremely strong ↓

Buyer Power

- Strong consumer loyalty ↓
- Buyer size is mostly small ↓
- Because of super premium prices, buyers are typically concentrated ↑
- Products are strongly differentiated ↓

Industry Overview – Preliminary Analysis (3/4)

The Threat of New Entrants and Threat of Substitutes are very strong forces in the luxury footwear market, the rest of the five forces, namely supplier power, buyer power, and competitive rivalry are assessed as moderate



- **Degree of Rivalry:** Degree of rivalry is assessed as **Moderate**
- **Threat of Substitutes:** Threat of substitutes is assessed as **Strong**
- **Supplier Power:** Supplier power is assessed as **Moderate**
- **Buyer Power:** Buyer power is assessed as **Moderate**
- **Threat of new entrants**: Threat of new entrants is assessed as **Strong**

Note: *For the purpose of the 5 forces analysis, we assume buyers to be individual consumers and suppliers to be raw material providers*
The forces are rated from 0 to 5, depending on their effect on the industry

Source: Singapore Luxury Goods Market Outlook to 2017, Business Wire, New York

Industry Overview – SWOT Analysis (4/4)

MJ has considerable strengths, such as high-quality brand perception and strong brand equity. Significant opportunities exist going forward if MJ can put its financial troubles behind it

Strengths

- Perceived quality and brand equity
- Experienced management team

Weaknesses

- High leverage
- Record of default
- Lack of omnichannel presence
- Small international presence

S W O T

Opportunities

- Shift in luxury spending to China
- Changing consumer preferences & demographics
- Self disruption, even in venerable companies
- Rise of a strong resale market

Threats

- Low growth because of trade tensions
- Counterfeiting
- Possible shakeout of the luxury goods market in the near future

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Potential Target for Online Retailer – Searching & Screening (1/4)

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Both qualitative factors such as industry, geography, growth, management, and cultural compatibility as well as quantitative factors, including maximum price, profitability, and number of active users play an important role in searching and screening of potential target

Searching

Qualitative Factors

Industry: For searching the acquisition target it is necessary to define the industry

- In this case, the broader acquisition target would be online apparel retailers, which sell luxury shoes on their platforms
- The specific acquisition target would be an online luxury shoe retailer
- The other acquisition targets can be online branded shoe retailers

Geography:

- Since MJ has a limited international presence, it would be appropriate to look for companies that have capabilities in both domestic and international markets

Quantitative Factors

Size of the deal: Maximum purchase price the firm is willing to pay

- P/E (Max)
- P/B (Max)
- P/Cash Flow (Max)
- Purchase price in terms of Dollars/Euro

Screening

Qualitative Factors

Once we have identified several acquisition targets through a thorough search, it is important to screen the possible targets (These factors are for screening the online target retailer)

- Company management
- Growth opportunities
- Relationships with key stakeholders (Vendors, Suppliers, & Sellers)
- Cultural compatibility
- Product line (Specific to footwear or apparel)
- Distribution network

Quantitative Factors

Quantitative factors are also important to screen the targets

- Scale of business
- Physical infrastructure
- Profitability
- Number of active users (weekly/monthly/annually) and number of unique users (weekly/monthly/annually)
- Average coverage (in % of the Internet population)
- SKUs and inventory management

Potential Target for Online Retailer – Top 5 Targets (2/4)

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We identified top 5 online targets – Chaussea, Besson, Spartoo, Sarenza and Mytheresa for acquisition based on the parameters, such as market presence, revenue/funding, and online users

	Presence	Revenue/Funding	Online Users	Others
chaussea. (Private)	• Majorly France • Belgium • Luxembourg	• Revenue: USD 340 MM (in 2017)	• 10 million e-visitors	• 26 million pairs/year • Both women & men
Besson · chaussures · (Private)	• Majorly France • International (Europe)	• Revenue: EUR 264 MM (in 2017)	• 880k visitors in last 6 months • Bounce rate: 28.2% (Last 6 months)	• Both women & men
spartoo TOUTE LA MODE À VOS PIEDS (Private)	• Europe	• Revenue: EUR 250 MM (Approx.) • USD 74.7 MM (late stage venture)	• 14 million unique visitors in 2016 • Bounce rate: 46.92% (Last 6 months)	• 5 million pairs in 2018 • Top 20 online market place in France • More than 1000 brands on its platform • Both women & men
sarenza. (Private)	• France • International (Europe)	• EUR 74 MM (M&A by Monoprix)	• More than 10 million unique visitors	• 25 million pairs since creation in 2005 • Both women & men
MYTHERESA (Private)	• Global	• Revenue: EUR 377 MM (in 2019)	• 171k unique monthly active users	• Specifically high end luxury brands • Only for women

Potential Target for Online Retailer – Top 5 Targets Scoring (3/4)

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MYTHERESA is best fitted for acquisition based on the scoring system on the scale of 1-3 for each parameter; we have defined each parameter through our research to select the best online target to enhance the digital presence

	Score Definition / Company	chaussea.	Besson ·chaussures·	spartoo TOUTE LA MODE À VOS PIEDS	SARENZA.	MYTHERESA
Presence	• **1:** Limited Countries • **2:** Europe • **3:** Global	1	2	2	2	3
Revenue/ Funding	• **1:** < €150 MM • **2:** €150 - €300 MM • **3:** > € 300 MM	3	2	2	1	3
Online Users	• **1:** < 1 million • **2:** 1 – 5 million • **3:** > 5 million	3	2	3	3	2
Final Score	• **Max:** 9 • **Min:** 3 • **Higher the score, the better**	7	6	7	6	8

Potential Target for Online Retailer – MYTHERESA (4/4)

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We recommend MYTHERESA as the acquisition target based on several factors, including its strong global presence, its strong brand perception, high-end customer segment, and huge web traffic; Also, we express our concerns on deep discount as it may lead to brand dilution, loss of margins

MYTHERESA

- We recommend 'MYTHERESA to the management based on the factors and analysis done
  - It has a strong presence across European as well as international markets
  - It is highly regarded in France
  - It caters to high-end customers, who prefer to buy luxury footwear
  - We can leverage its high customer engagement & huge web traffic (~0.2 million unique monthly active users) to create a dedicated section for mid-range luxury products targeted at new customers to drive sales in the luxury segment

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Would you advise offering deep discounts as a long-term strategy for MJ's online business?

- We don't recommend deep discounts as a long-term strategy as it will lead to
  - Brand dilution
  - A strong resale market is present across Europe, and we would be missing out on margins
  - MYTHERESA has several brands, and a deep discount would not drive the sales in longer-term

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Strategic Buyer Selection (1/5)

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Identified top 4 strategic buyers – TOD'S, Hermes Paris, Louboutin, and Tapestry based on the parameters, such as past acquisition experience, cash availability, the stability of the company and if the acquisition will result in a strong synergy fit

	Acquisition Experience	Feasibility – Cash Availability	Stable Company with Strong Profits	Good Synergy Fit
TOD'S	✓	✓	✗	✗
HERMÈS PARIS	✗	✓	✓	✓
Christian Louboutin	✗	✗	✓	✓
tapestry	✓	✓	✓	✓

Strategic Buyer Selection – Tapestry (2/5)

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Tapestry has been acquiring popular luxury shoe brands similar to MJ and has an international presence. The company is stable with strong financials; a prime candidate to buy MJ

Company Overview

- It a New York-based luxury lifestyle brand, which was started in 1941 as *Coach New York,* later in 2017 it changed to Tapestry
    - **Founders**: Victor Luis
    - **Product Portfolio:** Accessories, such as handbags, key-chains, shoes and other small fashion items
- **Brand Portfolio:** *Coach, Kate Spade, and Stuart Weitzman*
    - **Stuart Weitzman:** Acquired in 2015 for $574 MM deal
    - **Kate Spade***:* Acquired in 2017 for $2.4 B deal

Current Plan

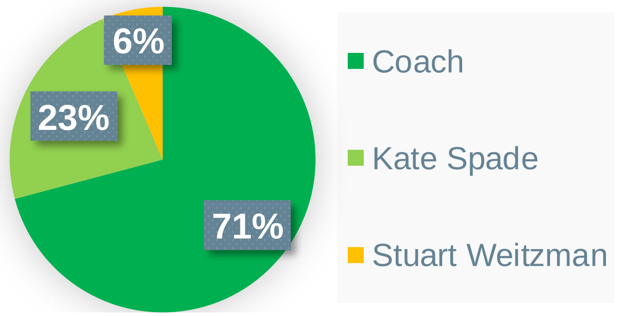
- Tapestry's current growth strategy includes plans to expand in a number of international regions, including Asia and Europe
- During FY19, Stuart Weitzman results continued to be negatively impacted by the trailing impacts of the supply chain operational challenges, including production delays, which caused lower than expected sales, as the brand was not prepared for the level of complexity and new development as it transitioned to a new creative vision.

INCORPORATED
2017

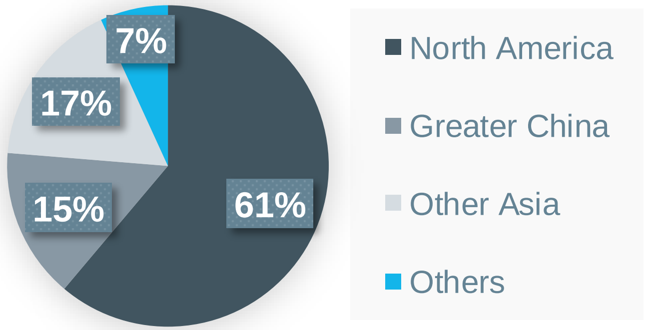
HEADQUARTERS
New York, US

Financial Status

Revenue Split by Brands (FY2019)



Revenue Split by Region (FY2019)



Strategic Buyer Selection – Strategic Rationale (3/5)

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MJ can support Tapestry's future plans in terms of international presence, supply chain, reduction of headcount and portfolio size increase

Overview

The company continues to focus on execution in fiscal 2020. Specifically, in fiscal 2020, the company intends to:

- Ignite brand growth driven by innovation
- Drive global growth, with a focus on maximizing opportunities with the Chinese consumer
- Invest in digital and data analytic capabilities
- Harness the benefit of the multi-brand structure

Tapestry plan		MJ's fit
Increase presence in Europe and Asian markets	→	Existing in Europe & other international markets
Supply chain optimized to reduce costs (Own distribution network)	→	Supply chain set up, which can be leveraged
Harness the benefit of multi-brand structure	→	Will add another brand to their portfolio
Rationalize headcount to increase operational efficiency	→	A similar company in the portfolio may help with headcount reduction

Strategic Buyer Selection – Strategic Rationale (4/5)

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Synergy can be obtained in the supply chain, geographical advantage, presence of existing department stores, increase in efficiency in supply chain and human resources

Expected Synergy from Merging Operations

- Tapestry have their own distribution network including a newly formed network in China. European distribution is relatively weak. MJ's capabilities will help scale up distribution in Europe.
- Tapestry has a relatively strong presence in North America and some Asian markets
- Tapestry has both brick and mortar stores and online presence. With a multi-brand structure, Tapestry would help drive additional sales through existing relationships with prestigious department stores as well as from different geographies.
- Tapestry established an ERP system in 2017. It was completed in 2019 and this will help information pass through the supply chain reducing the bull whip effect, improving information flows and helping align brand wise business goals
- During 2018, a consolidated human resource information system for employees was created. This also helps account for headcount and would help create cost synergies for the same

Strategic Buyer Selection – Scenario 1 (5/5)

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Based on DCF analysis the Internal Rate of Return (IRR) for a strategic buyer would be around 17.5% for the given scenario and based on our assumptions

Values in € 000's

	2018A	2019F	2020F	2021F	2022F	2023F	2024F	2025F
Domestic Stores	1,02,814	1,05,898	1,10,134	1,14,540	1,20,267	1,26,280	1,32,594	1,39,224
International Stores	10,042	10,243	10,448	10,761	11,192	11,639	12,105	12,589
Company Owned store	**1,12,856**	**1,16,141**	**1,20,582**	**1,25,301**	**1,31,458**	**1,37,919**	**1,44,699**	**1,51,813**
Department Stores	51,123	52,401	53,711	55,591	57,537	59,550	61,635	63,792
Growth	*2.20%*	*2.50%*	*2.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*
Newstores								
Growth								
Online	6,094	6,825	7,644	8,562	9,589	10,740	12,028	13,472
Store Closure Loss		(3,250)	(3,250)	(3,250)	(3,250)	(3,250)	(3,250)	(3,250)
Revenue add-on		3,513	4,113	4,774	5,524	5,255	5,516	5,790
Total Revenue/Sales	**1,70,073**	**1,75,630**	**1,82,800**	**1,90,978**	**2,00,858**	**2,10,215**	**2,20,628**	**2,31,617**
Growth	*1.04%*	*3.27%*	*4.08%*	*4.47%*	*5.17%*	*4.66%*	*4.95%*	*4.98%*
Costs of Goods Sold	71,645	73,293	75,198	77,755	80,088	82,490	84,965	87,514
Gross Profit	**98,428**	**1,02,337**	**1,07,602**	**1,13,223**	**1,20,770**	**1,27,724**	**1,35,663**	**1,44,103**
% Gross margin	*57.87%*	*58.27%*	*58.86%*	*59.29%*	*60.13%*	*60.76%*	*61.49%*	*62.22%*
Sales & Marketing	75,253	76,758	77,065	77,836	79,704	81,617	83,575	85,581
%Sales	*44.25%*	*43.70%*	*42.16%*	*40.76%*	*39.68%*	*38.83%*	*37.88%*	*36.95%*
Cost Savings		(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)
Cost Savings		(4,000)	(4,000)	(4,000)	(4,000)	(4,000)	(4,000)	(4,000)
One Time Expense		1500						
Total Expenses	144898	69,258	68,065	68,836	70,704	72,617	74,575	76,581
EBITDA	**23,175**	**33,079**	**39,537**	**44,387**	**50,066**	**55,108**	**61,087**	**67,522**
% EBITDA margin		*18.83%*	*21.63%*	*23.24%*	*24.93%*	*26.21%*	*27.69%*	*29.15%*
Depreciation	4,353	4,462	4,600	4,766	4,956	5,155	5,361	5,575
%Sales	*2.56%*	*2.54%*	*2.52%*	*2.50%*	*2.47%*	*2.45%*	*2.43%*	*2.41%*
EBIT	**18,822**	**28,617**	**34,937**	**39,621**	**45,110**	**49,953**	**55,726**	**61,946**
Sub:Tax	5,647	8,585	10,481	11,886	13,533	14,986	16,718	18,584
Add:D&A	4,353	4,462	4,600	4,766	4,956	5,155	5,361	5,575
Sub:Capex	2,753	4,130	4,419	4,445	4,645	4,854	5,073	5,301
Sub:ΔNWC		1,105	1,033	1,283	1,343	1,325	1,420	1,481
NWC	24,192	25,297	26,330	27,613	28,956	30,280	31,700	33,181
NWC as %Sales	*14.22%*	*14.40%*	*14.40%*	*14.46%*	*14.42%*	*14.40%*	*14.37%*	*14.33%*
Free Cash Flow to Firm	**14,775**	**19,260**	**23,604**	**26,773**	**30,545**	**33,943**	**37,877**	**42,156**

Assumptions

- Tax rate: 30%
- WACC (after 2021): 10.70%
- WACC for DCF has been taken as average for 2019,2020, 2021
- Exit Multiple (EV/EBITDA) taken from median of comparable company
- Perpetual growth taken is for luxury market

IRR for Strategic buyer (2025) is around 17.5%

Microsoft Excel Worksheet

Comparable Company and Perpetual Growth Analysis

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By using peer comparable analysis of public companies in the luxury footwear industry and perpetuity growth Analysis we get a range of enterprise value lying between € 200 MM – € 360 MM

Company	Revenue *(in MM $)*	LTM *(in MM $)*	D/E	EV	EV/EBITDA	EV/Sales
Jimmy Choo (2016)	364	-	32.3	669	11.3	1.8
Tapestry	6027	6003.8	45.6	9469	7.8	1.6
Weyco Group	298.4	306.7	2.8	256	8.6	0.9
Deckers	2020.4	2087	3.0	3725.2	10.0	1.8
Steven Madden	1763.6	1763.6	0.0	2335.6	10.9	1.3
				Median	**10**	**1.6**
				1st Quartile	**8.6**	**1.3**
				3rd Quartile	**10.9**	**1.8**
				Average	**9.7**	**1.5**

	Value *(in 000's)*	Multiple	Implied EV *(in $ 000's)*
EBITDA	25,643	8.6	2,20,526
		10.9	2,79,504
Sales	1,88,177	1.3	2,44,630
		1.8	3,38,719

Comparable Value Range
$ 220 MM - $ 280 MM

Comparable Value Range
€ 198 MM - € 252 MM

Converting rate
1USD = 0.9 EUR

Perpetuity Growth

Perpetuity Growth \ WACC	10.20%	10.45%	10.70%	10.95%	11.20%
1.0%	3,43,553	3,36,004	3,28,780	3,21,860	3,15,222
1.3%	3,47,862	3,40,029	3,32,547	3,25,389	3,18,532
1.5%	3,50,901	3,42,863	3,35,194	3,27,865	3,20,853
1.8%	3,55,729	3,47,360	3,39,388	3,31,784	3,24,519
2.0%	3,59,145	3,50,535	3,42,345	3,34,542	3,27,095

Perpetuity Growth Value
€ 315 MM - € 360 MM

Enterprise Value Range for Strategic Buyer

€ 200 MM – € 360 MM

Microsoft Excel Worksheet

WACC

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The capital structure of the company (D/E) is changing due to the debt repayment schedule, hence we have a different WACC for the first three years; The WACC is thus smoothened across three years to meet the target D/E of 39% (average debt structure of the comparable companies)

Comparable Company Unlevered β			
Company	Levered β	Debt/Equity	Unlevered
Jimmy Choo	0.778	32%	1.005298
Tapestry	0.958	46%	1.407168
Weyco	0.789	3%	0.804774
Deckers	0.824	3%	0.841675
Steven Madden	1.084	0%	1.084
Average		17%	1.028583
Median		3%	1.005298
Average (removing outliers)		39%	
Relevered Beta (average)	1.31		

Tax rate	30%

Target WACC	
Target capital Structure	2021
Debt/Equity	39%
Debt Weight	28%
Equity Weight	72%
Cost of Equity	
Risk free rate	1.82%
Expected market risk Premium	9%
Levered Beta (β)	1.31
Cost of Equity	13.60%
Cost of Debt	
Cost of Debt	4.62%
Tax rate	30%
After Tax Cost of Debt	3.23%
WACC (Target)	10.70%

WACC- Changing Capital Structure in First 3 years			
Target capital Structure	2019	2020	2021
Debt/Equity	90%	60%	39%
Debt Weight	47%	38%	28%
Equity Weight	53%	63%	72%
Cost of Equity			
Risk free rate	1.82%	1.82%	1.82%
Expected market risk Premium	9%	9%	9%
Levered Beta (β)	1.68	1.46	1.31
Cost of Equity	16.9%	15.0%	13.6%
Cost of Debt			
Cost of Debt	4.62%	4.62%	4.62%
Tax rate	30%	30%	30%
After Tax Cost of Debt	3.2%	3.2%	3.2%
WACC (Target)	10.43%	10.57%	10.70%

Assumptions

- Comparable company's data is very limited, hence we have taken the data from publicly traded company in the footwear segment
- MJ will have a changing capital structure in first three years as the firm pays down the debt
- By 2021 MJ will adopt the same capital structure as the median/average capital structure of its peer
- Cost of debt taken is assumed to be equal to the weighted average cost of debt for the strategic acquirer **4.6%**
- Risk free rate is assumed to be 10 Year US treasury yields as of 31/12/2018 **1.82%**
- Tax rate **30%**

Microsoft Excel Worksheet

Global Private Equity Environment Overview

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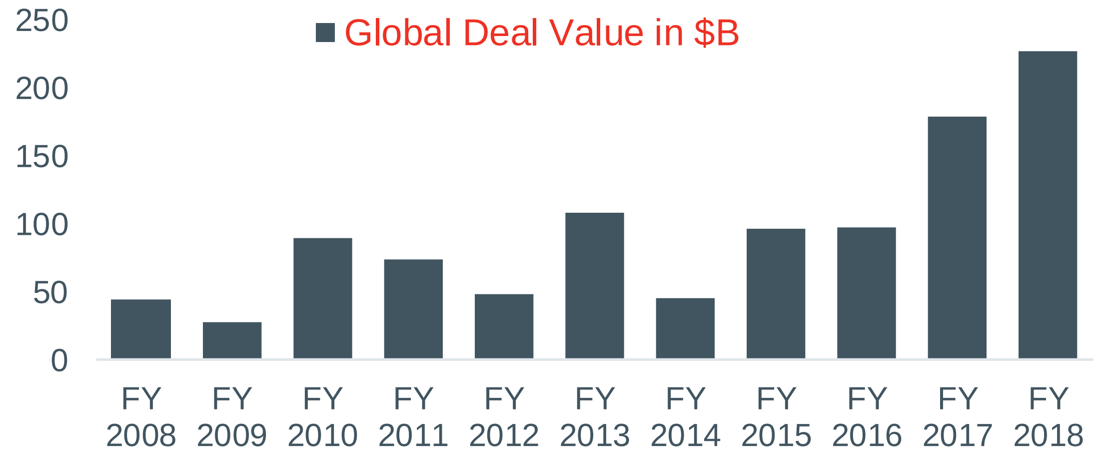
According to a report by Bain & Co, the PE industry has seen tremendous growth in last 5 years, where public to private deals reaching the highest level since the financial crisis; Also, the industry faces certain challenges, such as stricter regulations, access to financing, & political uncertainty

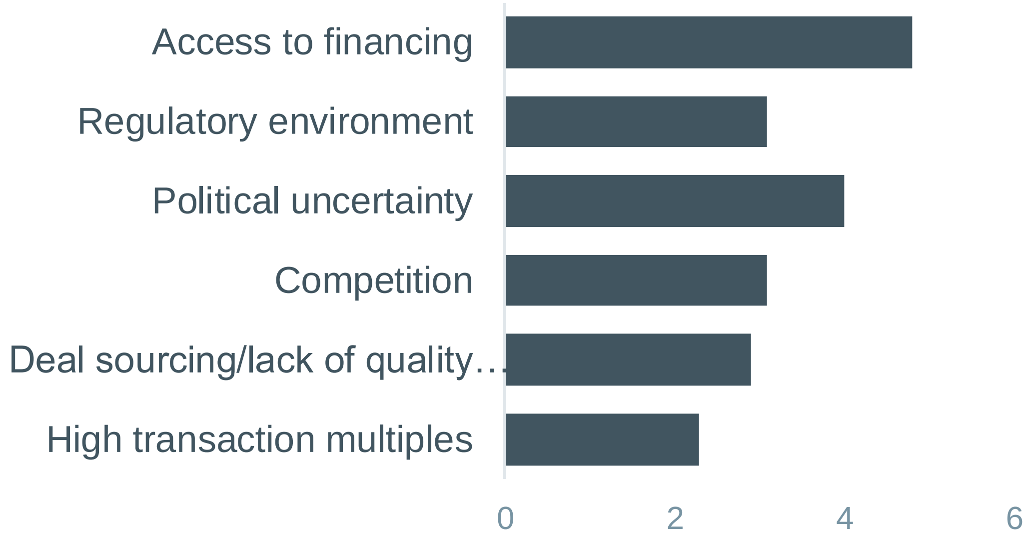
The growth story

- In the last 5 years, the private equity industry has marched ahead
- More money has been raised, invested and distributed back to shareholders than ever before
- Private equity seems to be on a growth path that should not be disturbed
- Public to private deals reached their highest levels after the financial crisis



Challenges

- Although the picture is mostly positive, there remain certain challenges
- The figure below shows the mean of responses to the question of the greatest challenges for PE firms
- Lower scores mean that the category represents a bigger challenge



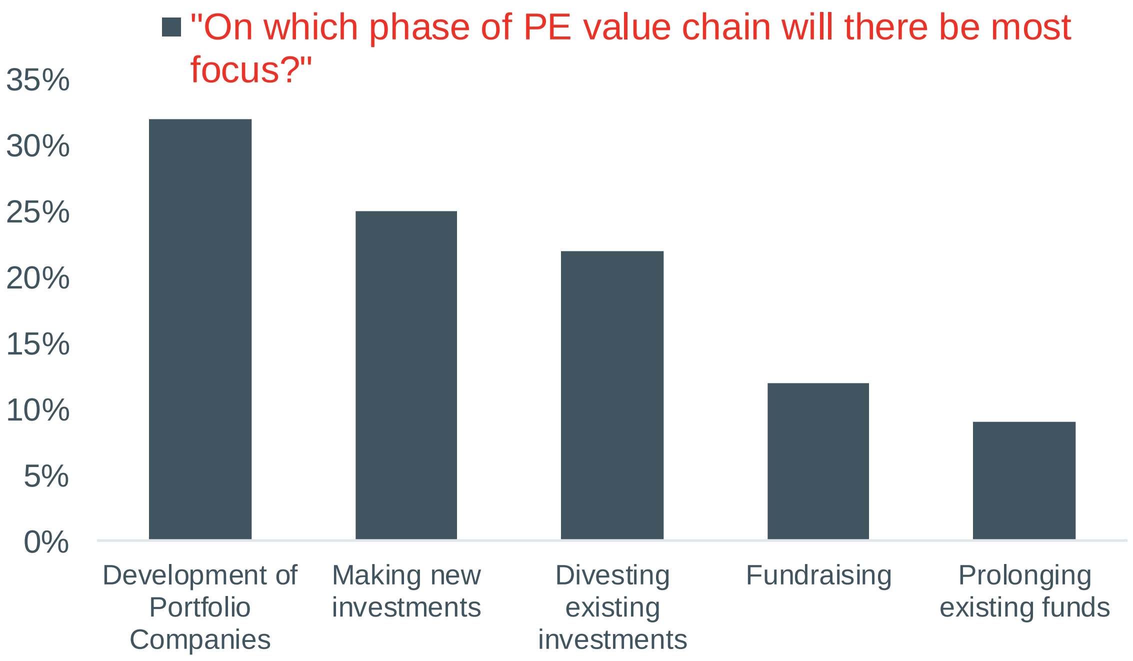
European Private Equity Environment Overview

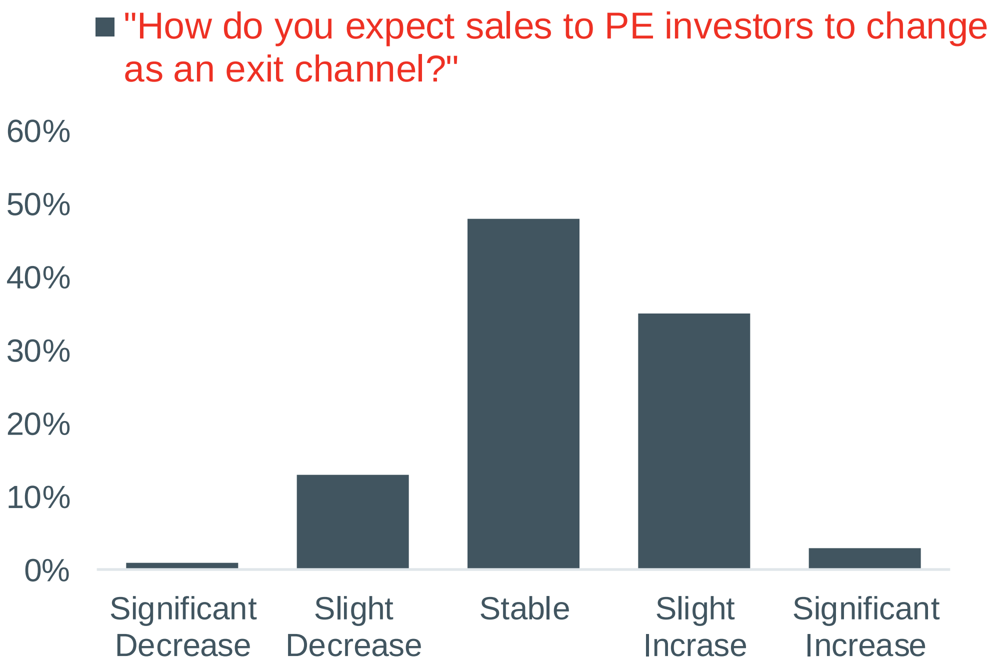
Maison Jacquelyn

European PE market is expected to slow down due to various reasons, including overvalued multiples and competition from emerging economies; Sale to PE investors is expected to become a preferable exit channel vis-a-vis decreasing importance of IPO channel

Trends in European Market

- Most experts expect PE activity to slow down in the European market owing to overvalued multiples, competition from emerging economies, and a lack of quality assets
- PE activity focused on developing portfolio companies and making new investments is likely to take off
- “Sale to PE investors” is expected to develop favorably as an exit channel. The IPO channel is expected to decrease in importance. The charts below are constructed by taking the opinions of over 2500 PE firm leaders across Europe.





Source: Roland Berger European Private Equity Outlook 2019

Scenario 2: Secondary Buyout by a PE firm

Maison Jacquelyn

The entry and exit multiples are taken in accordance with the industry; The transaction value for the deal is taken to be exiting year's value due to negative equity

Values in € 000's

Key Data

Entry EV/EBITDA	8.0x
Exit EV/EBITDA	8.0x
Debt	18,953
Cash	17,945
Restructuring Charges	2,000
Minimum Cash Balance	10,000
Other Closing Costs	2,000

Key Assumptions

- Due to negative equity, we have taken exiting year's exiting value as the Transaction value
- Based on the different exit years, we have got a range of transaction value for the PE firm buyout
- We leveraged the case scenario facts to calculate estimates for the firm
- Post 2022 growth metrics are considered similar to 2022

Sources of Cash	
Cash (target)	7,945
Line of Credit	7,500
Term Loan 1	75,000
Term Loan 2	75,000
Sub Debt 1	30,000
Sponsor Equity	67,651
Total Sources	**2,63,096**

Uses of Cash	
Cash Consideration	2,38,992
Stock Consideration	
Target Debt - Replace	18,953
Debt Financing Fees	2,813
Equity Financing Fees	338
Other Closing Costs	2,000
Total Uses	**2,63,096**

Microsoft Excel Worksheet

SBO Model Return Analysis

Maison Jacquelyn

Based on different Exit EBITDA multiples and Exit years the SBO model gives a range of implied EV – € 411 MM to € 573 MM; Also the range of implied equity value is € 343 MM to € 505 MM based on different Exit years and Exit EBITDA multiple

Exiting Terminal EV (€ 000's)

Exit EBITDA Multiple	Exit Year 2022F	2023F	2024F	2025F
7.0x	4,11,598	4,24,709	4,39,945	4,46,194
7.5x	4,40,998	4,55,045	4,71,370	4,78,065
8.0x	4,70,398	4,85,382	5,02,794	5,09,936
8.5x	4,99,798	5,15,718	5,34,219	5,41,807
9.0x	5,29,198	5,46,054	5,65,643	5,73,678

Sponsor's Equity IRR

Exit EBITDA Multiple	Exit Year 2022F	2023F	2024F	2025F
7.0x	24.5%	25.1%	25.9%	26.2%
7.5x	25.9%	26.6%	27.4%	27.7%
8.0x	27.3%	28.0%	28.8%	29.1%
8.5x	28.6%	29.3%	30.1%	30.4%
9.0x	29.9%	30.5%	31.3%	31.6%

Exiting Terminal Equity Value (€ 000's)

Exit EBITDA Multiple	Exit Year 2022F	2023F	2024F	2025F
7.0x	3,43,362	3,56,473	3,71,709	3,77,958
7.5x	3,72,762	3,86,810	4,03,134	4,09,829
8.0x	4,02,162	4,17,146	4,34,559	4,41,700
8.5x	4,31,562	4,47,482	4,68,983	4,73,571
9.0x	4,60,962	4,77,819	4,97,408	5,05,442

Sponsor's Unlevered IRR

Exit EBITDA Multiple	Exit Year 2022F	2023F	2024F	2025F
7.0x	17.4%	17.8%	18.2%	18.4%
7.5x	18.2%	18.6%	19.0%	19.2%
8.0x	19.0%	19.4%	19.8%	20.0%
8.5x	19.8%	20.1%	20.6%	20.8%
9.0x	20.5%	20.9%	21.3%	21.5%

SBO implied Enterprise Value range

€ 411 MM – € 573 MM

SBO implied Equity value range

€ 343 MM – € 505 MM

Microsoft Excel Worksheet

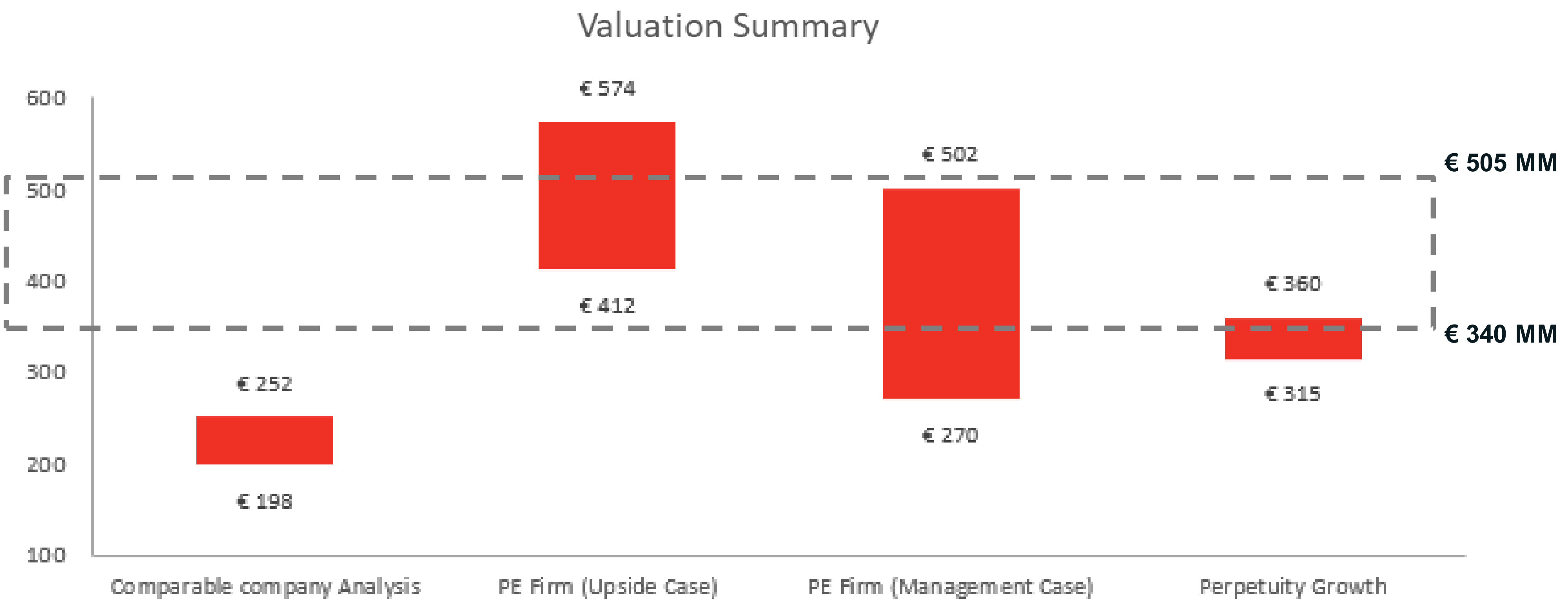
Calculation is done in Excel

Valuation Summary

Scenario 2, with upside potential, offers the highest range of Enterprise value, the management case provides the second-highest range of EV from € 270 MM to € 502 MM; Whereas the comparable company analysis offers a low range of EV from € 198 MM to € 252 MM

Enterprise Value (EV) Range (in **€ millions**)

Implied Equity Value Range



Microsoft Excel Worksheet

Final Recommendation

Maison Jacquelyn

Our final recommendation is a sell-out option to a PE firm at a price of ~ € 510 MM, based on our analysis and further acquisition of an online player (MYTHERESA) by the PE firm would enhance revenue potential, which we expect to be higher than the management case

Strategic Buyer

- Tapestry would be able to revamp MJ's operations based on its expertise in women's luxury footwear segment. It can leverage its existing operational, marketing, financial resources, and overseas operations expertise to drive the growth of MJ
- The existing negative equity drives the value of MJ lower for the strategic buyer

Financial Buyer

- A PE firm among the following identified PE firms – APAX PE, Champlain, CVC, Tengram, as all have an experience in luxury apparel/shoe segment. Based on this they will be able to drive growth for MJ
- Also, acquiring an online retailer would help them improve the company's condition drastically. The online player would enhance the revenue growth over the years and will help in retaining the target customers

MJ should chose a sell-out to a PE firm

For a price around € 510 MM

Microsoft Excel Worksheet

Thank You

Q&A

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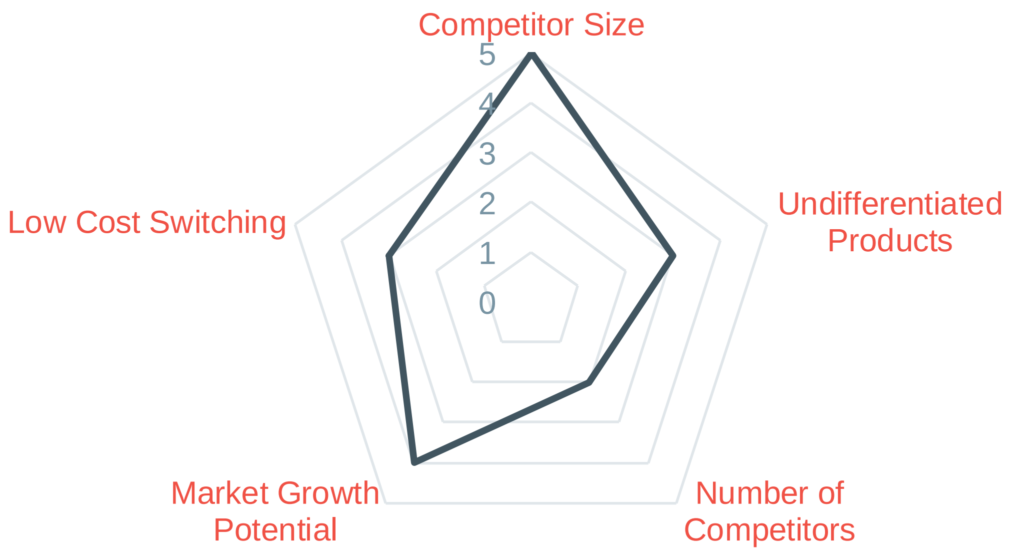
DUFF & PHELPS

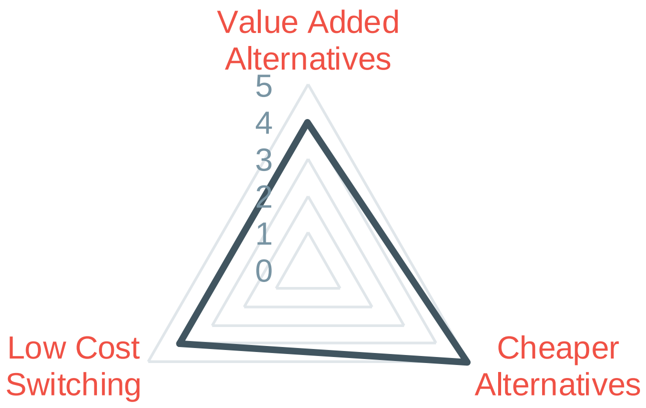
Drivers of Industry Rivalry



- **Low cost switching**: The ease with which consumers can switch choices is a cause for concern for established brands. Switching will only become easier with the growth of online channels
- **Competitor size:** Most competitors in the luxury footwear market are practically conglomerates, selling a wide range of luxury products
- **Undifferentiated products**: Luxury footwear is a category of differentiated products and so rivalry is kept in check
- **Number of competitors**: The number of competitors is low and the industry is highly consolidated
- **Market growth potential**: The market is expected to slow down in the next financial year, which will lead to greater competition
- **Average rating**: **3.4**

Source: Singapore Luxury Goods Market Outlook to 2017, Business Wire, New York

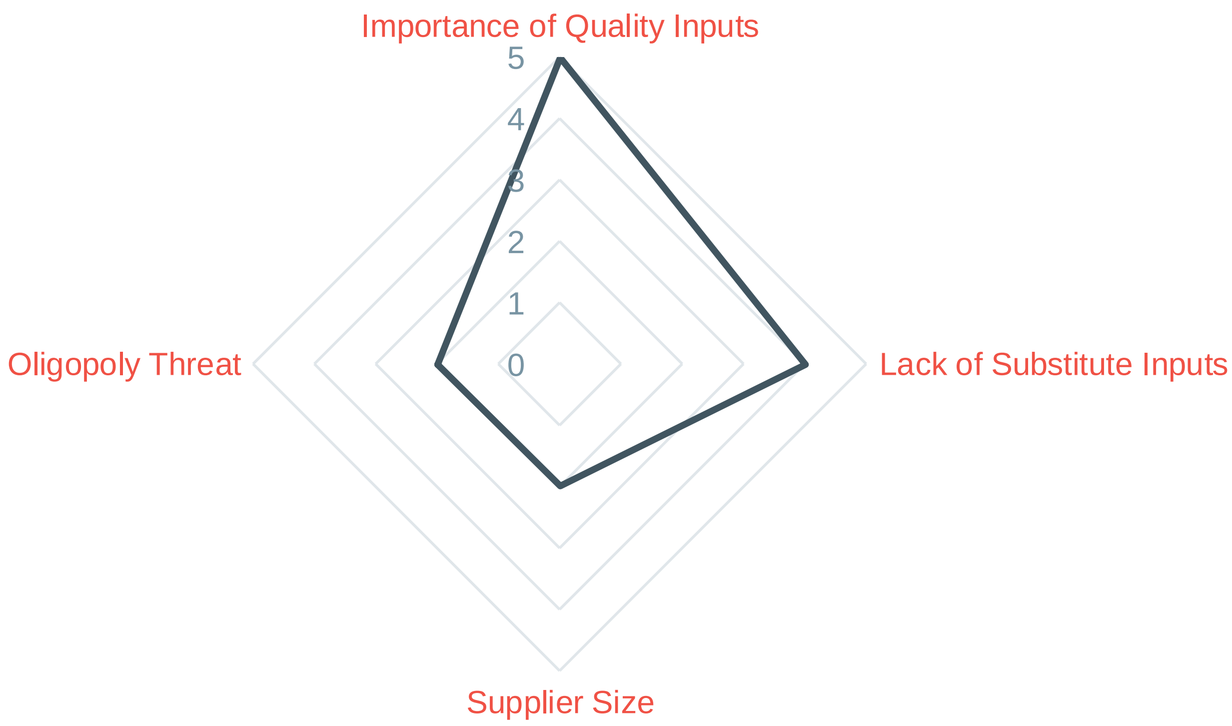
Drivers of Threat of Substitutes



- **Value Added Alternatives:** Brands are increasingly looking for ways to offer more value in their products by associating with sustainable sourcing and production, social issues and 'woke' advertising
- **Cheaper Alternatives:** There are plenty of cheaper alternatives on the market which serve as stepping stones into true luxury. In fact, the price sensitivity of consumers has led to the creation of a large and fast growing resale market.
- **Low Cost Switching:** Consumers can easily compare the value-price equation for rival brands and make decisions. Threat of substitutes is boosted
- **Average Rating: 4.33**

Source: Singapore Luxury Goods Market Outlook to 2017, Business Wire, New York

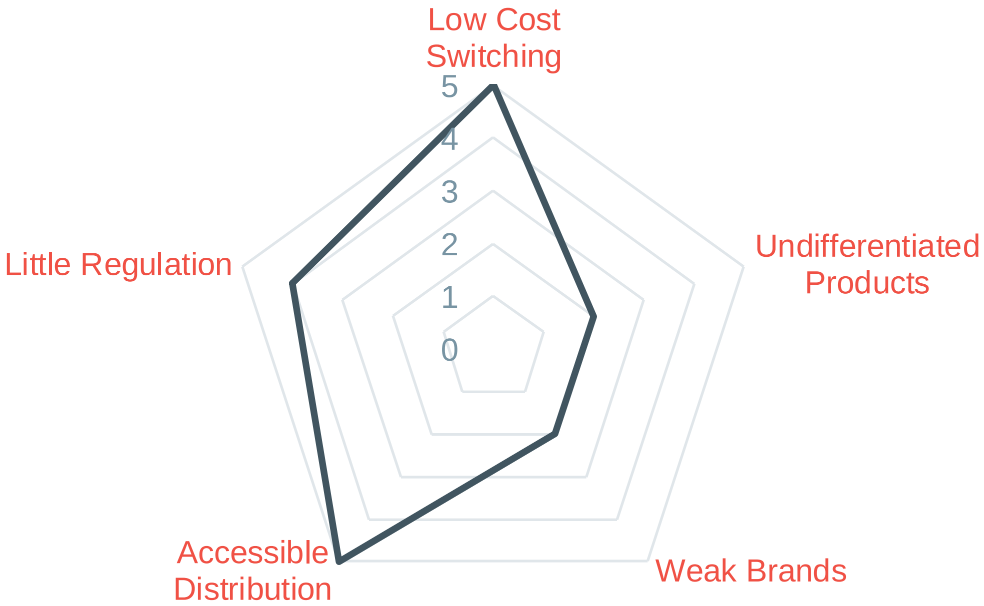
Drivers of Supplier Power



- **Importance of Quality Inputs:** Perceived quality is one of the chief motivators for consumers to buy luxury products. Compromising input quality would lead to a serious compromise of brand equity.
- **Lack of Substitute Inputs:** Some inputs are meant solely for specific end products, giving rise to hold up problem
- **Oligopoly Threat**: The threat of only a few brands dominating the luxury space is limited by the ease with which consumers can find alternatives
- **Supplier Size**: Suppliers are typically nowhere near the size of the downstream players. Supplier power is reduced.
- **Average rating**: **3.25**

Source: Singapore Luxury Goods Market Outlook to 2017, Business Wire, New York

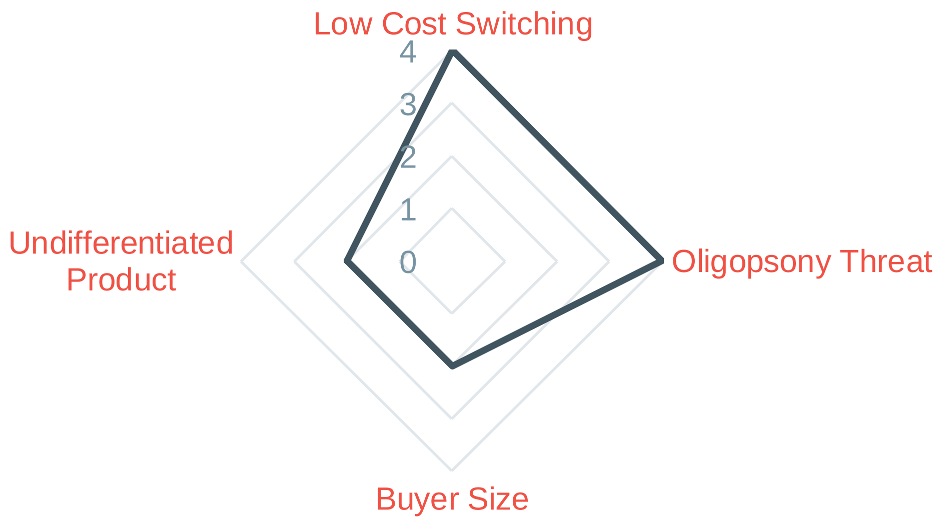
Drivers of Threat of New Entrants



- **Low Cost Switching:** Brands cannot hold consumers captive in case new entrants pop up in the market. The threat from low cost switching is thus high.
- **Little Regulation:** Luxury footwear is not heavily regulated, making it attractive to potential new entrants.
- **Undifferentiated Products:** Luxury brands thrive on differentiation, and hence new entrants may have a hard time crafting a compelling value proposition
- **Weak Brands:** The industry is characterized by the presence of extremely large and strong brands
- **Accessible Distribution:** Value chains are mostly not vertically integrated and hence distribution is accessible to new entrants
- **Average Rating: 3.6**

Source: Singapore Luxury Goods Market Outlook to 2017, Business Wire, New York

Drivers of Buyer Power



- **Undifferentiated Product:** Luxury footwear is a category of differentiated products and hence buyer loyalty is comparatively easy to achieve. Buyer power is thus reduced.
- **Oligopoly Threat**: Because of the super premium prices, brands typically have small, concentrated customer bases. This boosts buyer power.
- **Low Cost Switching**: Brands must deal with the fact that consumers can change their choices at the touch of a mobile screen for no additional cost. Buyer power is thus increased.
- **Buyer Size**: Buyers are mostly individual consumers and so do not individually drive buyer power
- **Average Rating**: **3.33**

Source: Singapore Luxury Goods Market Outlook to 2017, Business Wire, New York

Scenario 2 – Secondary Buyout

	2018A	2019F	2020F	2021F	2022F	2023F	2024F	2025F
Domestic Stores	1,02,814	1,05,898	1,10,134	1,14,540	1,20,267	1,26,280	1,32,594	1,39,224
International Stores	10,042	10,243	10,448	10,761	11,192	11,639	12,105	12,589
Company Owned store	**1,12,856**	**1,16,141**	**1,20,582**	**1,25,301**	**1,31,458**	**1,37,919**	**1,44,699**	**1,51,813**
Department Stores	51,123	52,401	53,711	55,591	57,537	59,550	61,635	63,792
Growth	2.20%	2.50%	2.50%	3.50%	3.50%	3.50%	3.50%	3.50%
Newstores & Enhanced online		40,000	66,000	92,400	1,20,000	1,26,000	1,31,670	1,35,620
Growth			65.00%	40.00%	29.87%	5.00%	4.50%	3.00%
Online	6,094	6,825	7,644	8,562	9,589	10,692	11,868	13,055
Store Closure Loss		(3,250)	(3,250)	(3,250)	(3,250)	(3,250)	(3,250)	(3,250)
Revenue add-on		4,329	5,632	7,144	8,917	8,485	8,888	9,257
Total Revenue/Sales	**1,70,073**	**2,16,447**	**2,50,320**	**2,85,747**	**3,24,251**	**3,39,396**	**3,55,509**	**3,70,287**
Growth	*1.04%*	*27.27%*	*15.65%*	*14.15%*	*13.47%*	*4.67%*	*4.75%*	*4.16%*
Costs of Goods Sold	71,645	90,989	1,04,820	1,19,494	1,35,745	1,42,533	1,49,659	1,56,394
Growth	*0.32%*	*27.00%*	*15.20%*	*14.00%*	*13.60%*	*5.00%*	*5.00%*	*4.50%*
Gross Profit	**98,428**	**1,25,457**	**1,45,500**	**1,66,253**	**1,88,505**	**1,96,864**	**2,05,850**	**2,13,893**
% Gross margin	*57.87%*	*57.96%*	*58.13%*	*58.18%*	*58.14%*	*58.00%*	*57.90%*	*57.76%*
Sales & Marketing	75,253	86,225	98,796	1,13,201	1,29,706	1,36,191	1,43,001	1,50,151
%Sales	*44.25%*	*39.84%*	*39.47%*	*39.62%*	*40.00%*	*40.13%*	*40.22%*	*40.55%*
Cost Savings		(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)
Cost Savings		(4,000)	(4,000)	(4,000)	(4,000)	(4,000)	(4,000)	(4,000)
One Time Expense		1500						
Total Expenses	144898	78,725	89,796	1,04,201	1,20,706	1,27,191	1,34,001	1,41,151
		-45.67%	14.06%	16.04%	15.84%	5.37%	5.35%	5.34%
EBITDA	**23,175**	**46,733**	**55,704**	**62,052**	**67,800**	**69,673**	**71,849**	**72,742**
% EBITDA margin		*21.59%*	*22.25%*	*21.72%*	*20.91%*	*20.53%*	*20.21%*	*19.64%*
Depreciation	4,353	4,462	4,600	4,766	4,956	5,155	5,361	5,575
%Sales								
EBIT	**18,822**	**42,271**	**51,104**	**57,286**	**62,843**	**64,518**	**66,488**	**67,167**
Sub:Tax	5,647	12,681	15,331	17,186	18,853	19,355	19,947	20,150
Add:D&A	4,353	4,462	4,600	4,766	4,956	5,155	5,361	5,575
Sub:Capex	2,753	4,130	4,419	4,445	4,645	4,854	5,073	5,301
Sub:ΔNWC		8,861	6,202	6,544	7,195	2,938	3,100	2,898
NWC	24,192	33,053	39,255	45,799	52,994	55,932	59,033	61,930
NWC as %Sales	*14.22%*	*15.27%*	*15.68%*	*16.03%*	*16.34%*	*16.48%*	*16.61%*	*16.72%*
Free Cash Flow to Firm	14,775	21,061	29,752	33,877	37,107	42,525	43,730	44,393

Key Assumptions

- Tax rate: 30%
- 3 cases has been taken
  - Management plan (Base case)
  - Scenario 2 (Upside case)
  - Downside case

IRR return for Financial buyer (2025) is around 29.1%

Calculation is done in Excel

SBO Model Return Analysis (2)

Sponsor IRR (Entry vs Exit Multiple)

Exit EV/EBITDA \ Entry EV/EBITDA	7.0x	7.5x	8.0x	8.5x	9.0x
7.0x	36.2%	30.4%	26.2%	22.9%	20.1%
7.5x	37.8%	32.0%	27.7%	24.3%	21.5%
8.0x	39.3%	33.4%	29.1%	25.7%	22.9%
8.5x	40.7%	34.8%	30.4%	26.9%	24.1%
9.0x	42.1%	36.0%	31.6%	28.1%	25.3%

Sponsor Cash-on-Cash (Entry vs Exit Multiple)

Exit EV/EBITDA \ Entry EV/EBITDA	7.0x	7.5x	8.0x	8.5x	9.0x
7.0x	9.9x	7.0x	5.5x	4.5x	3.8x
7.5x	10.7x	7.6x	5.9x	4.9x	4.1x
8.0x	11.6x	8.2x	6.4x	5.2x	4.4x
8.5x	12.4x	8.9x	6.9x	5.6x	4.8x
9.0x	13.3x	9.5x	7.4x	6.0x	5.1x

Sponsor IRR (Senior Debt/EBITDA)

Debt/EBITDA (Term Loan 2) \ Debt/EBITDA (Term Loan 1)	1.5x	1.8x	2.0x	2.3x	2.5x
1.5x	20.8%	21.5%	22.3%	23.2%	24.1%
1.8x	21.5%	22.3%	23.2%	24.1%	25.2%
2.0x	22.3%	23.2%	24.1%	25.2%	26.3%
2.3x	23.2%	24.1%	25.2%	26.3%	27.6%
2.5x	24.1%	25.2%	26.3%	27.6%	29.1%

Sponsor Cash-on-Cash (Senior Debt/EBITDA)

Debt/EBITDA (Term Loan 2) \ Debt/EBITDA (Term Loan 1)	1.5x	2.0x	2.5x	3.0x	3.5x
1.5x	3.9x	4.3x	4.8x	5.4x	6.4x
2.0x	4.3x	4.8x	5.4x	6.4x	7.9x
2.5x	4.8x	5.4x	6.4x	7.9x	10.6x
3.0x	5.4x	6.4x	7.9x	10.6x	16.8x
3.5x	6.4x	7.9x	10.6x	16.8x	45.3x

Calculation is done in Excel

DUFF & PHELPS

Thank you!

December 2019

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