



Handbags Luggage and Accessory Stores

Finance and Investment Club
Consumer Goods Sector
Spring 2016

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Shen

Recommendation Summary: Fossil Group Inc.

Recommendation Summary	
Company (Ticker)	FOSL
Current Trading Price (04-14-2016)	\$40.59
Recommendation	BUY
Target Price	\$55.52
Upside Potential	33.7%

FOSSIL
EST.  U S A

Fossil Group Inc.
(NASDAQ: FOSL)



Industry Definition

- Firms in this industry comprise of departmental stores, mass merchandisers, company owned retail stores and specialty retail stores that sell **Handbags, Luggage and Accessories**
- The industry includes stores that primarily sell handbags, travel luggage such as suitcases and backpacks, and accessories such as watches and jewelry

G U E S S

Guess' Inc.
(NYSE: GES)

FOSSIL
EST. USA

Fossil Group Inc.
(NASDAQ: FOSL)



NEW YORK
Coach
(NYSE: COH)

TUMI

Tumi Holdings, Inc.
(NYSE: TUMI)

Vera Bradley

Vera Bradley, Inc.
(NASDAQ: VRA)

MK
MICHAEL KORS

**Michael Kors Holdings
Limited**
(NYSE: KORS)


kate spade
NEW YORK

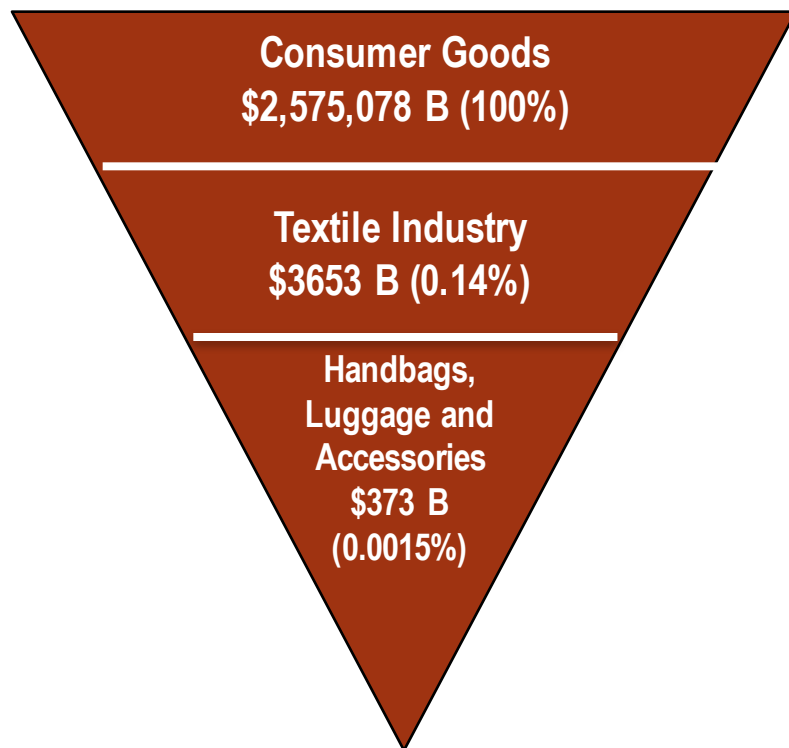
**Kate Spade &
Company**
(NYSE: KATE)

GENESCO

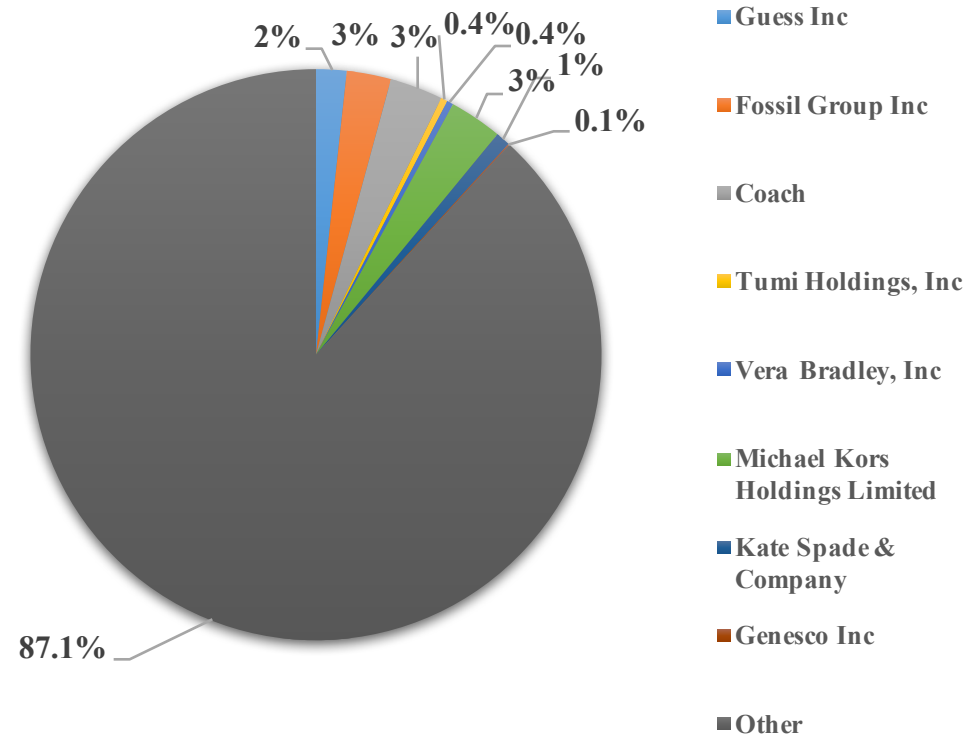

Genesco Inc.
(NYSE: GCO)

Industry Breakdown

Industry Breakdown by Market Capitalization (In Billions)



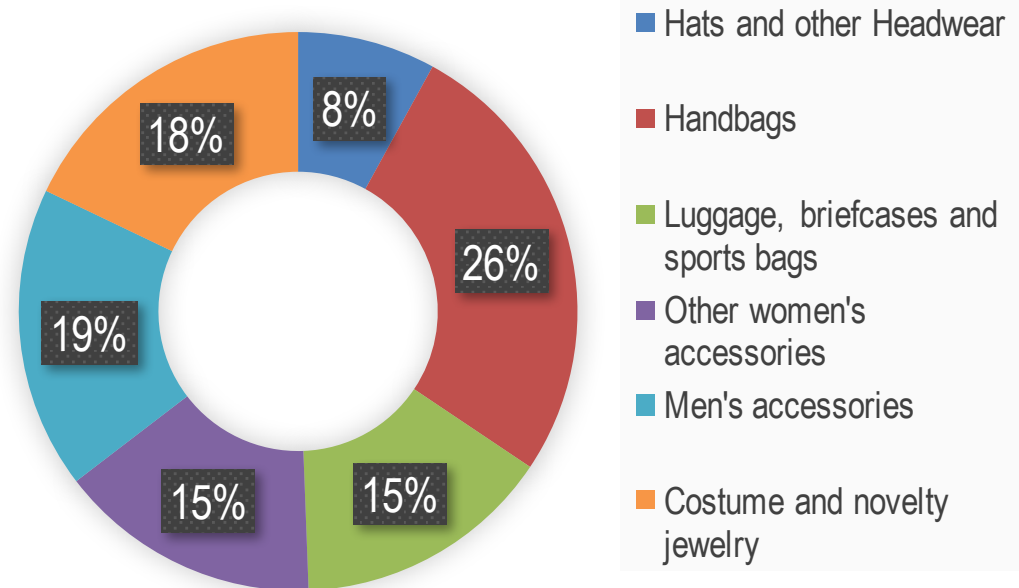
Market Share by FY2015 Revenue (\$B)



Handbag, Luggage, and Accessory Stores: At a Glance

Revenue	\$14.3B
Profits	\$1.1B
Life Cycle Stage	Mature
Exports	Low & Steady
Annual Growth (10-15)	4.8%
Expected Growth (15-20)	3.0%
Number of Businesses	33,820
Regulation Level	Heavy

Products segmentation



- Over the past five years, the industry has focused on appealing to customers who purchase modern luxury items, which have a lower price tag than other traditional luxury items
- Consumer confidence levels have driven up sales in recent years allowing for a higher demand for the products that are being sold

Company Selection and Overview

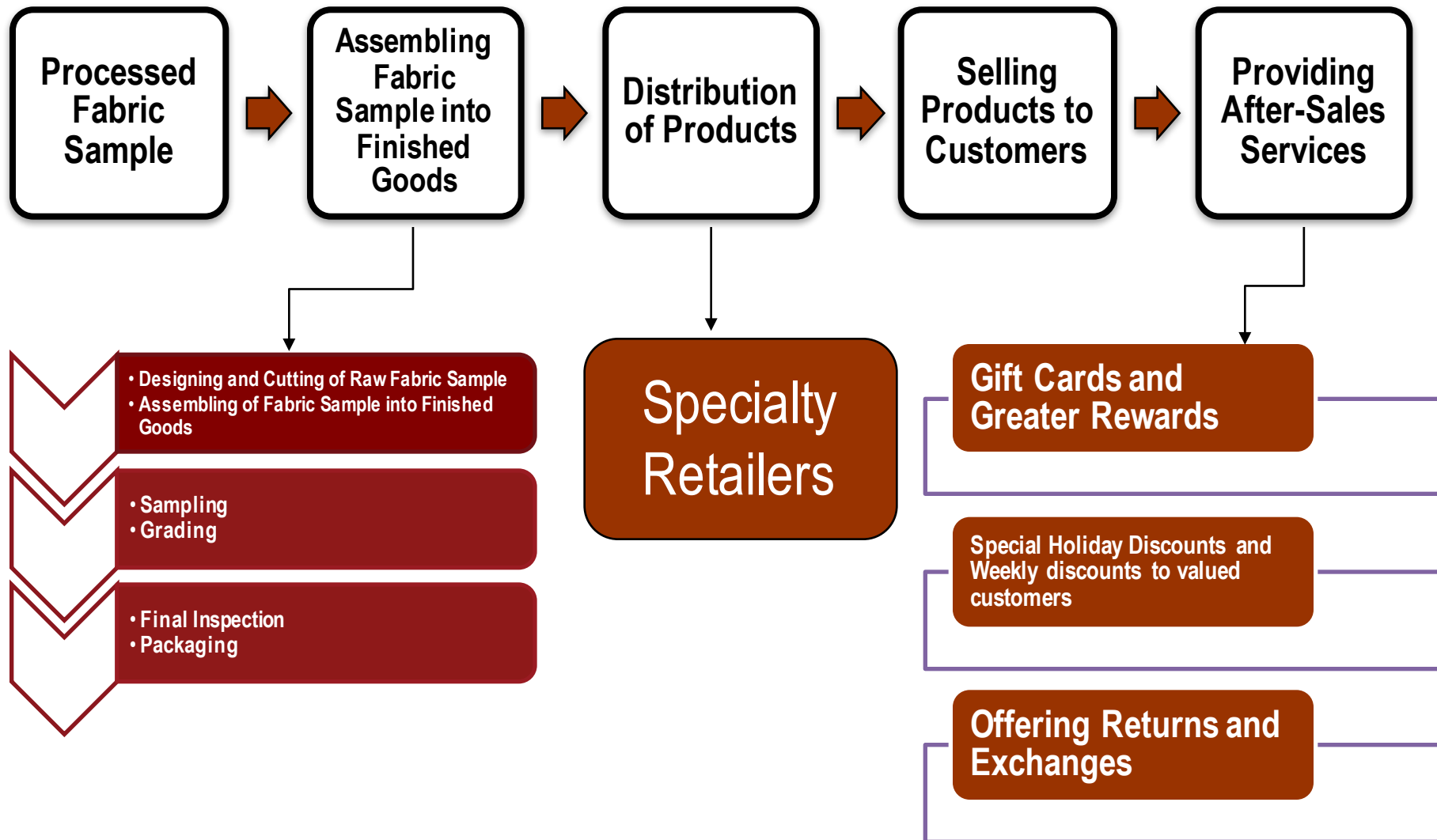
Fossil Group is a designer and manufacturer of clothing and accessories. Principal offerings include extensive line of men's and women's fashion watches, jewelry, handbags, small leather goods and accessories

- Strong brand portfolio with brands such as Skagen, Zodiac Watches, Adidas, Emporio Armani and Karl Lagerfeld
- Sales channels include department stores, specialty retail stores, and specialty watch and jewelry stores in U.S. and over 150 countries worldwide through 23 company-owned foreign sales subsidiaries and 80 independent distributors
- Company's operations divided into three segments – the North America wholesale segment, the Europe wholesale segment and the Asia Pacific wholesale segment
- E-commerce websites in Australia, Austria, China, France, Germany, Italy, Japan, the Netherlands, South Africa and the United Kingdom



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Revenue Generation Model



Trends Snapshot



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Trend #1: Increase in Revenue due to expansion into wearable technology

Sources of Revenue boost:

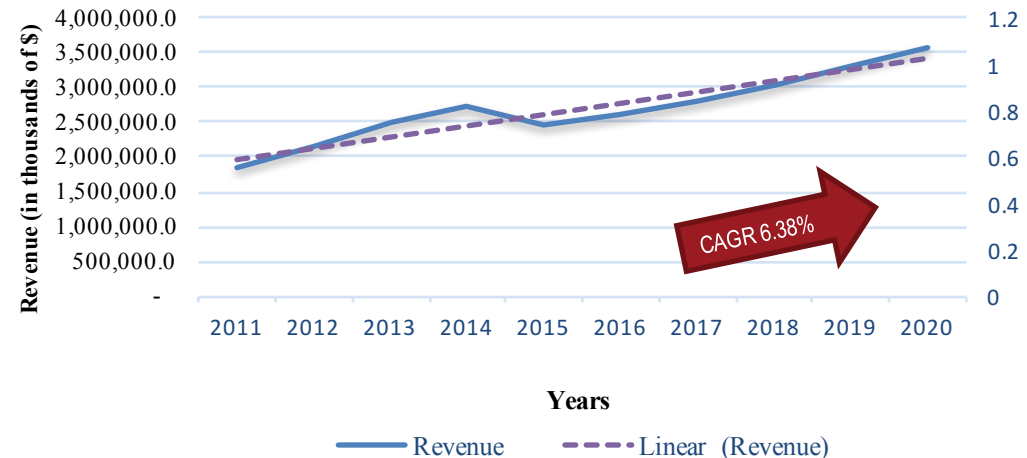
- Partnership with Google and Intel Corp. brings added advantage in terms of latest technology and boost to existing watches segment
 - ✓ Extension of Android Wear combined with Intel processing power ensures strong consumer demand
 - ✓ Launch of the new Fossil Q Founder, Q Wander and Q Marshal priced at \$275; relatively inexpensive as compared to prices for other wearable devices
- Acquisition of Misfit for \$260 million - opportunity to integrate Misfit's software and hardware platforms in the next generation of connected accessories
- Opportunity to manufacture other designer brands brings opportunity for Fossil to make wearable tech under their names

Statistics:

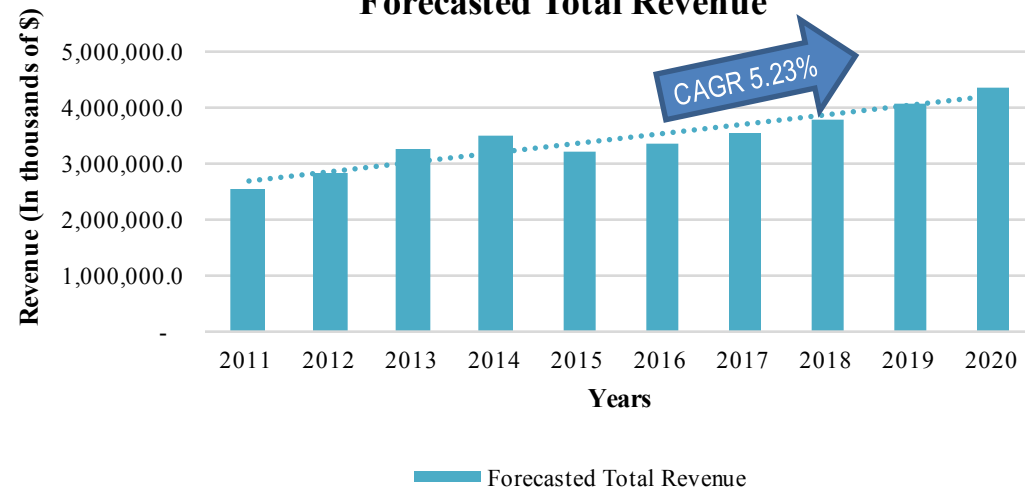
- Expected Revenue CAGR for Watches Segment: 6.38%
- Expected Overall Revenue CAGR: 5.23%

Key Takeaway: Expansion into wearable technology is expected to boost overall revenue by 5.23% annually

Forecasted Revenue for Watches Segment



Forecasted Total Revenue



Trend #2: Successful international and domestic growth leading to increase in revenue

- Adoption of multi-faceted growth strategy leading to strong growth after the financial crisis
- Net Sales 7 year CAGR: 10.84%
- Reasons for Revenue boost:

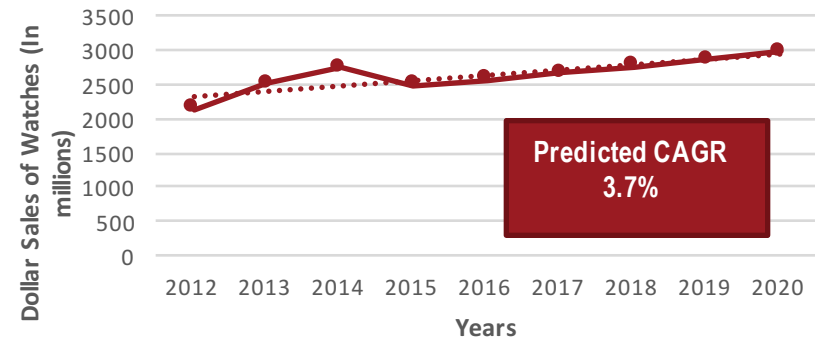
Acquisition:

- Acquisition of Skagen Designs for \$231.7 million - Opportunity to expand operations, manufacturing and marketing of watches, jewelry, sunglasses and clocks
- Boost to European and East Asian emerging market business while simultaneously maintaining market share - Watches and jewelry posting strong double-digit gains

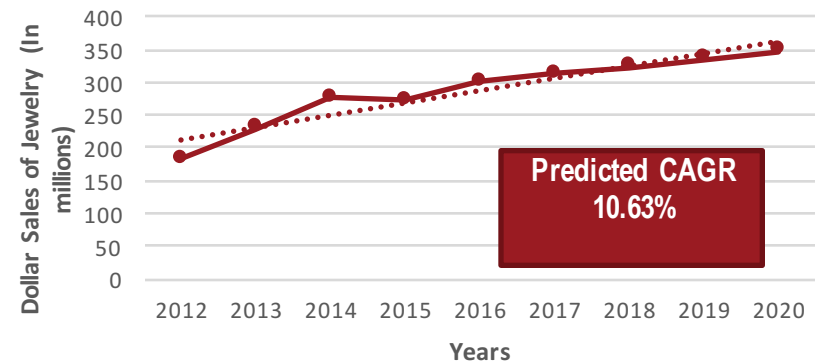
Licensing agreement and launch of products:

- Exclusive global licensing agreement with Karl Lagerfeld (launched in 2013) and Tory Burch (launched in 2014) for watches
- Launch of Emporio Armani Swiss made watches in Q1 2014

Projected Sales for Watches



Projected Sales for Jewelry



	2009	2010	2011	2012	2013	2014	2015
Net Sales	\$ 1,548,093	\$ 2,030,690	\$2,567,302	\$2,857,508	\$3,259,975	\$3,509,691	\$3,228,836
Growth in Sales		31.17%	26.43%	11.30%	14.08%	7.66%	-8.00%

Trend #2 Continued

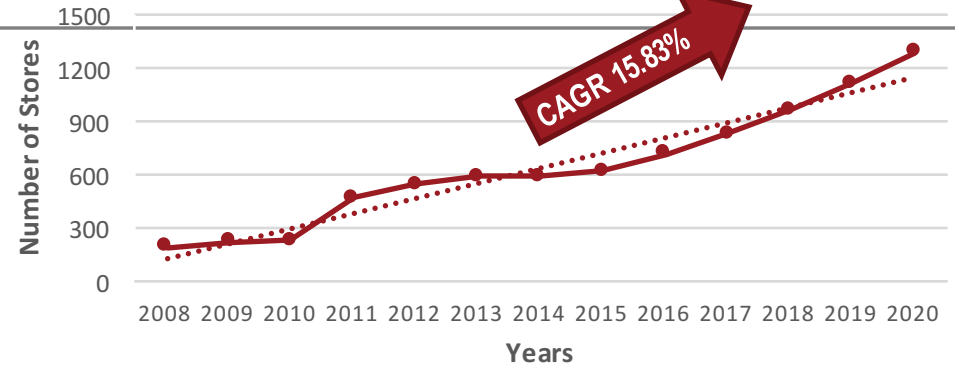
Reasons for Revenue Boost:

Expansion of retail stores worldwide:

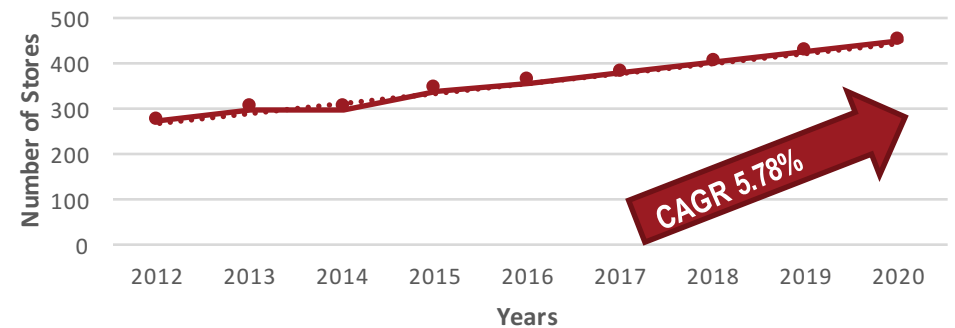
- 5 year projected CAGR of Retail Stores: 15.83%
- Overall growth of Retail Stores fueled by international growth:
 - International vs. Domestic CAGR of Retail Stores: 5.78% vs 0.73%

Key Takeaway: Successful International and domestic growth due to acquisition, licensing and retail store expansion is expected to increase revenue in the years up to 2020

Projected increase in number of stores worldwide



Projected Increase in International Stores



	2015			2014			2013			2012		
	America	Other International	Total	America	Other International	Total	America	Other International	Total	America	Other International	Total
Full Price	128	194	322	147	172	319	119	170	289	112	164	276
Outlets	153	117	270	143	100	243	143	100	243	125	81	206
Full Price multi brand Apparel	0	27	27	6	25	31	6	25	31	6	23	29
	0	0	0	0	0	0	28	2	30	30	2	32
Total	281	338	619	296	297	593	296	297	593	273	270	543

Trend #3: Increasing Debt Financing to support acquisition and expansion

- Increased use of Debt in Capital Structure from 2013 onwards
 - Finance expansion into European and East Asian markets after acquisition of Misfit, Inc. and Skagen Designs
 - Capital for integration of acquired company technologies and resources
- Debt/Equity ratio – Company: 0.9, Industry: 0.2
- With Increased Financial leverage, expected Revenue CAGR: 5.23%, Net Income CAGR: 9.0%

Key Takeaway: Despite slightly increasing inability for company to pay back its debts, revenue and net income are expected to show double digit growth with increased debt financing

	2013	2014	2015	2016	2017	2018	2019	2020
	\$	\$	\$	\$	\$	\$	\$	\$
Revenue	3,259,975	3,509,691	3,228,836	3,384,132	3,574,926	3,812,624	4,078,678	4,367,052
	\$	\$	\$	\$	\$	\$	\$	\$
Net Income	311,911	311,120	166,640	243,050	259,209	290,404	329,252	373,223
Return on Equity Ratio	29.01	31.62	17.87	20.67	18.07	16.83	16.03	15.37
Interest Coverage Ratio	50.24	29.60	11.39	14.32	12.01	10.78	9.98	9.39

RISKS

Risks faced by companies in the industry

Anticipating changing fashion trends

- Predicting, gauging and tackling changing fashion and product trends continuously creates pressure for companies to preserve the authenticity and quality of their brands while increasing costs
- Any mistake with regards to misjudging the market for products results in significant amount of unsold finished goods inventory, which can adversely affect their results of operations

- Uncertain global economic conditions such as high unemployment and slowing economic growth negatively impacts consumer spending for discretionary items
- Such conditions create lower consumer confidence thereby affecting demand for company's products

Deterioration of global market conditions

Heavy Regulation

- Heavy Regulation with regards to labor, environmental, consumer protection, foreign exchange control and product safety increases difficulty and cost of compliance
- Companies can be forced to delay introduction of new products, limit business practices and increase costs which can drastically affect their operations

Key Takeaway: Anticipating changes in fashion trends, deterioration of global market conditions and heavy regulations pressurizes companies to comply to such trends in the form of limiting business practices, increasing costs and find new ways to increase demand for their products

VALUATION

Valuation Summary with Weights

Year	2016e	2017e	2018e	2019e	2020e
Unlevered FCF (In Thousands) \$	447,439 \$	647,028 \$	870,115 \$	1,126,493 \$	1,421,902

Valuation Summary

Method	Price	Weight
Discounted Cash Flow		
Perpetuity Growth Method	\$ 65.40	25%
Exit Multiple Method	\$ 50.19	35%
Comparable Company Analysis		
P/E	\$ 97.72	5%
EV/EBITDA	\$ 48.91	17.5%
EV/Revenue	\$ 46.62	17.5%
Target Price	\$ 55.52	

Key Financials

Comparable Company Analysis

LTM data (04-15-2016)

Company	Ticker	EV (Millions)	Market Cap (In Millions)	Revenue (In Millions)	EBITDA	Net Income (In Thousands)	Return on Assets	Return on Equity	P/E	EV/EBITDA	EV/Revenue
Fossil Group	FOSL	\$ 1,954.04	\$ 1,953.80	\$ 3,228.90	\$ 420.80	\$ 250.10	17.10%	38.30%	7.81x	4.6x	0.6x
Guess	GES	\$ 1,050.00	\$ 1,471.00	\$ 2,204.30	\$ 197.10	\$ 86.30	5.90%	8.70%	17.1x	5.3x	0.5x
Tumi Holdings	TUMI	\$ 1,702.80	\$ 1,797.40	\$ 547.70	\$ 122.70	\$ 65.80	10.30%	13.60%	27.3x	13.9x	3.1x
Vera Bradley	VRA	\$ 555.90	\$ 653.60	\$ 502.60	\$ 74.80	\$ 31.80	10.20%	13.50%	20.5x	7.4x	1.1x
Genesco	GCO	\$ 1,491.50	\$ 1,510.00	\$ 3,022.20	\$ 239.70	\$ 98.50	6.20%	9.80%	15.3x	6.2x	0.5x
Kate Spade	KATE	\$ 3,310.00	\$ 3,140.00	\$ 1,210.00	\$ 125.78	\$ 86.60	5.04%	71.18%	14.2x	8.7x	1.0x
High									36.2x	26.3x	3.1x
Mean									20.7x	10.6x	1.4x
Median									18.8x	6.8x	0.9x
Low									7.8x	4.6x	0.5x

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**Thank You! We welcome any questions you
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