

# WESTPEAK RESEARCH ASSOCIATION

Levi Strauss & Co. (NYSE:LEVI)

Consumer Cyclical – Clothing and Accessories

## LEVI – Fashioning up the Strategy

April 17th, 2023

*Levi Strauss & Co. ("LEVI") is a American apparel company that leads jeans-wear globally and company was founded in San Francisco, California in 1853. Levi Strauss & Co. currently operates in more than 110 countries with 3,100 stores worldwide. Company has four revenue segments: wholesale, e-commerce, shop-in-shop, and company operated stores.*

### Thesis

Levi Strauss & Co. possesses various well-recognized brand portfolios and aims to focus further on diversifying brand portfolios through the acquisition of brands as well as focusing on digitalization to increase further increase margins. The continued strong brand portfolio diversification and the joining e-commerce trends will distinguish Levi Strauss & Co. as a strong player in the extremely competitive apparel market.

### Drivers

Levi Strauss & Co. holds a well-established reputation in Denim Apparel in many countries worldwide. The company implements investment in fast-growing apparel segments and expansion in e-commerce facility to further increase their corporate value. On the market side, the apparel market is expected to have positive growth in the next 5 years from the recovery of demand in the post covid time.

### Valuation

Levi's current share price is 15.12 We recommend a **BUY** rating for Levi Strauss & Co. by using a Discounted Cash Flow Analysis and a Comparable Company Analysis. After weighting a weight of 75% toward Discounted Cash Flow Analysis and 25% weights to Comparable Company Analysis, we have arrived at a target price of \$23.1 with upside of 52.7%.

**Analyst:** Naoki Sakura, BA. '24  
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### Equity Research US

**Price Target** **US\$ 23.10**

**Rating** **Buy**

**Share Price (Apr. 17 Close)** **US\$ 15.12**

**Total Return** **52.7%**

### Key Statistics

**52 Week H/L** **\$20.49/\$13.57**

**Market Capitalization** **\$6.01B**

**Average Daily Trading Volume** **\$1.93M**

**Net Debt** **\$1.9B**

**Enterprise Value** **\$7.92B**

**Net Debt/EBITDA** **2.3x**

**Diluted Shares Outstanding** **96.52M**

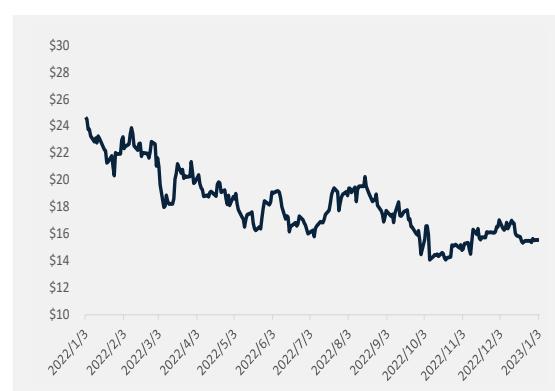
**Free Float** **22.4%**

**Dividend Yield** **3.2%**

### WestPeak's Forecast

	<u>2022E</u>	<u>2023E</u>	<u>2024E</u>
<b>Revenue</b>	\$5.76B	\$6.38B	\$7.37B
<b>EBITDA</b>	\$829M	\$894M	\$873M
<b>Net Income</b>	\$554M	\$620M	\$490M
<b>EPS</b>	\$1.35	\$1.53	\$1.22
<b>P/E</b>	10.7x	9.9x	12.4x
<b>EV/EBITDA</b>	6.0x	5.7x	5.3x

### 1-Year Price Performance



## Business Overview/Fundamentals

### Company Overview

Levi Strauss & Co. is an American apparel company that leads jeans-wear globally and is one of the largest apparel companies in the world. The company designs and produces jeans, casual wear, and accessories for both men and women across all age categories under brands such as Levi's, Dockers, Signature by Levi Strauss & Co., Denizen, and Beyond Yoga. Levi Strauss & Co. has operations in more than 110 countries and generates revenue through wholesale, e-commerce, shop-in-shops, and DTC sales from their 3,100 company operated-stores.

### Denim

The denim lineup encompasses the majority of products that Levi Strauss & Co. offers. It includes Levi's, Signature by Levi Strauss & Co., and Denizen. The denim lineup offers denim jeans to denim jackets as well as clothing and apparel for all genders. Majority of sales in this segment were from Levi's brand.

**LEVI STRAUSS & CO.**



### Khaki

Dockers cover the khaki lineup of Levi Strauss & Co. The Dockers brand focuses on casual California style and offers everything from khaki pants and shirts to jackets and shoes. In FY2021, Dockers experienced expansion where sales improved each quarter. The aesthetic of the "California casual lifestyle" won over new and young consumers. Moreover, the Dockers brand evolved in the international sales stream of Levi Strauss & Co. Currently, Dockers accounts for 50% of the overseas revenue of Levi Strauss & Co.



## Yoga

Beyond Yoga is the yoga lineup for Levi Strauss & Co. Beyond Yoga was acquired by Levi Strauss & Co. in September 2021 for approximately \$400 million. The acquisition allowed Levi Strauss & Co. to enter into the fast-growing and high-margin activewear segment, diversifying their brand portfolio further. Beyond Yoga provides premium performance activewear in soft fabrics following trends of “casualization” mainly for younger generations. With the great product of Beyond Yoga and great consumer insights of their customer, Levi Strauss & Co. foresees long-term growth opportunity in this segment.



## Business Strategies

In Q2 of 2022, Levi Strauss & Co. presented to the investor an outline of a plan for FY2022-FY2027 to strengthen their business. Their core growth strategy is to 1) Expand through brand-led growth, 2) Strengthen DTC (Direct To Customer) Sales, and 3) Diversify Brand Portfolio.

### Brand-led Growth

Levi's is a leader in the global jeans market where there is an expected 6% CAGR from 2022 to 2027. They have a comparative advantage as they are recognized as a top denim brand globally and top denim brands for men in the U.S. Levi Strauss & Co. considers Levi's Brand as their greatest asset, which boosts their financial performance and impact within and outside their industry. The growth in 2021 of Levi's brand was strong and their growth in market share was larger than the next of all three competitors. Levi's brand retains customers by following trends in denim and implementing attractive advertisement campaigns that demonstrate the brand's value and resonate with consumers.

## Focusing on DTC (Direct to Customer)

Investment in DTC (Direct to Customer) allows Levi Strauss & Co. to deliver the best brand experience while generating higher margins. The company is aiming to increase DTC as a source of revenue from the current level of 36% to 55% by FY2027. Levi Strauss & Co. focuses on both brick-and-mortar stores and e-commerce for their DTC strategy. Although there were challenges with COVID-19 in FY2021, their company-operated stores kept improving revenue each quarter. Through e-commerce, Levi Strauss & Co. is delivering highly personalized recommendations to customers and attractive loyalty programs leading to a strong customer acquisition rate.

## Diversifying the Portfolio

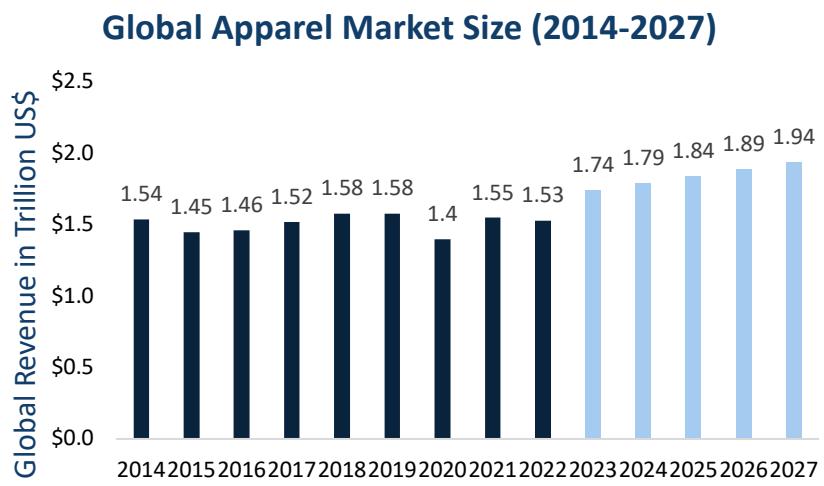
Levi Strauss & Co. keep emphasizing diversification across categories, channels, and geographies. They foresee capturing underrepresented opportunities as a chance for their business to grow. Levi Strauss & Co. is underrepresented in women's, and tops, segments as well as region outside U.S. They aim to expand outside denim through the utilization of the DTC platform to bring exceptional and memorable experiences to loyal customers. The acquisition of Beyond Yoga is one example of Levi Strauss & Co. diversifying its brand portfolio to expand into women's and activewear segments.

## Industry Analysis

Levi Strauss & Co. operates in the apparel market. The apparel industry includes several product lines such as Men's Apparel, Women's Apparel, and Kid's Apparel. Levi & Strauss & Co. mainly focuses on adult apparel for both males and females and operates via both wholesale and retail sales as well as e-commerce sales.

### Industry Overview

The apparel industry suffered from the COVID-19 pandemic in the past 3 years where there was a 16% decline in the overall revenue in 2020. The COVID-19 pandemic forced brick-and-mortar stores to temporarily close and reduced the amount of disposable income for consumers. Moreover, staying at home in 2020, shifted consumer preference to choose casual clothing and resulted in a decline in sales of other categories of apparel. These factors affected the apparel market and recorded all-time low revenue of \$1.4 trillion



between 2012 and 2020. The revenue generated in this industry is increasing steadily and expected to have CAGR of 1.79% in the period of 2014 to 2027. According to Statista, the global apparel industry recorded a market size of 1.55 trillion US dollars during 2021, which is expected to grow to 1.94 trillion US dollars by 2027. The Covid 19 pandemic lead apparel industry to further shift its digitalization as Stay-Home in 2020 made customer unable to buy apparel at physical stores. Although e-commerce was growing in the recent 5 years, brick-and-mortar stores' closure increased e-commerce sales significantly. This signalled the apparel industry to adjust its business model and supply chain. With the recovery of pandemics in 2021 and 2022, the apparel market foresees optimism in growth of sales through the recovery of brick-and-mortar-store sales and growth in e-commerce sales.

## Industry Drivers

Drivers for the apparel industry rely both on demand side and supply side factors.

Demand side factor includes the consumer income and savings. Apparel industry is hugely dependent on consumer confidence of consumers globally. During the recession, consumers are not likely to spend huge amount into their clothing but rather save more money. On the other hand, during the inflation, consumers tend to spend more toward apparel as good economic condition boosts consumer confidence toward spending.

Supply side factor includes the cotton price. Company operating in apparel market is hugely dependent on cotton as it is a key material that is used to develop and manufacture their apparel lineups. Increasing in the cotton price is detrimental for apparel industry as the company may need to increase the price or tighten their margins. However, when the cotton price decreases, apparel companies could offer consumer a product at lower price or increase their margins.

## Competitive Landscape

The apparel industry is a highly competitive market with high barriers entering to the industry. When company enters to apparel market, it requires financial and human resources to design and produce attractive product that is affordable for consumers. Moreover, it requires company to build an efficient distribution platform from manufacturing to sales. Consumers in this industry cares about the trends and brand name. Therefore, it make difficult for new firm to be successful.

## Sustainability

The apparel industry has a growing concern regarding its environmental footprint. Brand awareness is a crucial factor driving sales of companies and environmental initiative is becoming crucial in part of brand awareness due to growing environmental concerns globally. An initiative such as moving production facilities and supply chains to neighbouring countries to cater to environmentally conscious consumers is becoming more important than previously decades.

## Social Issues

Consumers in recent years are conscious about the manufacturing process of products where they have preference on the ethical aspects. Social issues such as child labor are critical aspects that could potentially damage brand value of apparel companies. Child labor could be in the supply chain unexpectedly. It was reported that some countries use child labor for extraction of cotton, which is key supply that is needed to produce apparel goods. Levi & Strauss should be carefully examining the supplier of cotton to avoid hurting their long and well-established brand.

## E-commerce

Through the rise of access to the internet by consumers in recent decades. Consumers can search for reviews of brands on the internet while experiencing brand quality at the brick-and-mortar stores. Having various sales channels for consumers allows Levi Strauss & Co. to cater great customer experiences and meet the needs of each consumer's preferences of purchase style.

Moreover, e-commerce sales worldwide have been increasing enormously in recent years. E-commerce apparel sales in 2022 to 2030 is expected to have a CAGR of 8.6%, which \$582.91 billion in 2022 is expected to grow to \$1,160.56 billion in 2030. Moreover, further exposure to e-commerce from the COVID-19 pandemic is likely to shift the emphasis on the digitization of sales. Therefore, Levi Strauss & Co. is likely to benefit from these trends.

## Investment Thesis

### Market View

Market views Levi & Strauss Co. as an apparel company leading in jeans-wear with its brand and diversified brand portfolios. While financial performance in the FY2020 was weak, the company has shown their ability to adapt and recover from poor market conditions. Levi & Strauss Co. has suffered with a reduction of revenue and profit during FY2020 due to the decrease in sales from the spread of covid 19; however, they have recovered in FY2021 where recording revenue back to FY2019 level and net income of FY2021 beating FY2019 net income. Despite current macroeconomic conditions, rising interest rates, and inflationary pressure bringing a challenge ahead for Levi Strauss & Co., the company is undervalued, considering its financial performance and the target set by the management.

Moreover, 7 out of 13 analysts from the street rates Levi Strauss & Co. as a buy with a median estimate of \$19 and a high estimate of \$24. This gives incentive to bullish investors an opportunity when Levi Strauss & Co. is traded at a low price.

## Investment thesis 1 – Portfolio of Apparel Brands in Different category

Levi Strauss & Co. a company that is known for denim product so Levi's holds portfolio of multiple brands, which they compete in market of denim apparel, khaki apparel, and yoga apparel. Levi Strauss & Co. purchased Beyond Yoga a active wear brands in 2021 to compete in new segments of apparel. Beyond Yoga is on track for its growth where it recorded \$123 million in revenue in first year after acquisition, which meets company's expectation of over \$100 million. Levi Strauss & Co. has well established knowledge in Organizing and keep growing brands, which they could increase corporate value through growing their yoga wear and khaki line ups.



## Investment thesis 2 – Emphasis on Digitalization



Levi Strauss & Co. announced in investor presentation that they would be focusing on DTC and digitalization was one of the focus in increasing sales of DTC. Levi Strauss & Co. is devoted to invest toward their attractive e-commerce platform. With the e-commerce industry expects to have a CAGR of 8.6% growing from 582.91 billion to 1,160.56 billion from 2020 to 2030, Levi Strauss & Co. could leverage this opportunity to create a stable and trustful source of revenue. This

determination is evident in Levi Strauss & Co's investment where they are expanding their e-commerce factories to further match the demand of growing e-commerce sales and providing a great customer experience. Furthermore, greater emphasis on Digitalization as a strategy would allow the company to cut down on several costs that were needed in operating a brick-and-mortar store. This is creating an optimistic view for their margins to increase in the upcoming years.

## Catalysts

### Growth of E-commerce post Covid 19

The covid 19 outbreak in 2020 lead more people to purchase apparel online. This phenomenon lead various people to purchase clothing online in post-covid. Moreover, technology for e-commerce is significantly increasing where some firms introduces virtual fitting room for their e-commerce customer to have similar experience to in-person shopping. Technlogical growth and increasing trends of purcashing apparel through e-commerce is significant as apparel e-commerce have CAGR of 8.6% from 2022 to 2030 as mentioned. Therefore, Levi Strauss & Co's focus on E-commerce could work could further drive value of company to increase.

### Potential Acquisition of Apparel Company

The acquisition of Beyond Yoga in 2021 is currently on track for their growth. The company estimated the Beyond Yoga revenue of FY2022 to be more than \$100 million. The brand reached expectations by recording a strong performance of \$123 million in revenue for FY2022. Beyond Yoga opened up a retail store operating in Los Angeles and is expected to open more stores in upcoming years. Levi Strauss & Co. aims to increase the presence of Beyond Yoga through both retail stores and e-commerce. Furthermore, there is steady growth ahead for the yoga industry with an expected CAGR of 8.4%. Beyond Yoga is likely to increase its revenue by hopping on to industry growth and leveraging brand potential.

As Levi Strauss & Co. aims to diversify their portfolio of brands, we believe that Levi Strauss & Co. would consider the acquisition of an attractive apparel company operating in the high potential industry.

### Succesful expansion into New Location

Levi Strauss & Co. is focusing on increasing DTC sales, which includes company operated stores and e-commerce. To further increase in consumer and brand engagement, the company could be expanding their company operated stores in the U.S and outside U.S. In the U.S, Levi Strauss & Co. operates at 42 states out of 50 states. Regarding Canadina locations, the company operates stores in 8 provinces out of 10 provinces. Those untapped regions could be beneficial for the company to take market share from the competitors in underserved regions.

### Potential Brand Collaboration

Levi's brand previously collaborated with well-known brands such as Supreme, Off-White, Disney, Pokemon, etc., The company aims to further grow by utilizing its presence of brands. The company could enhance its collaboration with other brands due to synergetic purposes. Through collaboration with other brands, the company is likely to increase its presence, which could drive more revenue. We believe that Levi Strauss & Co. will proceed with more brand collaboration in upcoming years.

## Management Team

### Charles V. Bergh – President & Chief Executive Officer

Mr.Bergh serves as President & Chief Executive Officer of Levi & Strauss Co. He joined and was appointed as Chief Executive Officer of Levi Strauss & Co. in 2011. Prior to joining Levi Strauss & Co., he spent 28 years of career at Procter & Gamble (P&G). Mr.Bergh had experience in brand management and served in numerous leadership positions at the time in P&G including launch of Swiffer (P&G's most successful new brand in recent three decades), growth of Gillette, Folgers Coffee, and Jif Peanut Butter. Mr.Bergh was also appointed as non-executive chairman of the board of HP Inc in 2017. Mr.Bergh is well recognized as a value-driven leader where he was named as one of the world's greatest leaders by Fortune magazine in 2019. Mr.Bergh graduated from Lafayette College with Bachelor of Arts degree in International Affairs in 1979.



Mr.Bergh's total compensation for FY2021 was \$16.33 million. This breaks down into \$1,516,346 of base salary, \$4,443,469 of bonus, \$7,890,250 of stock, \$2,249,992 of stock options, and \$231,774 came from other forms of compensation.

### Harmit Singh – Executive Vice President & Chief Financial Officer

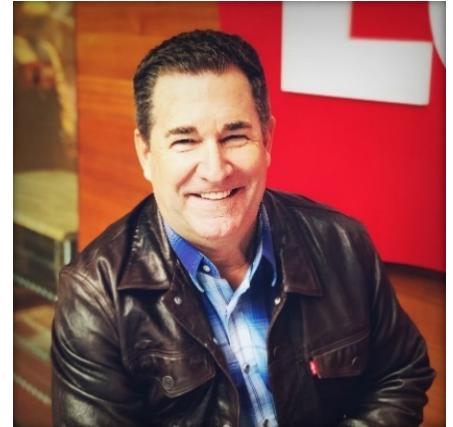
Mr.Singh serves as Executive Vice President and Chief Financial Officer of Levi & Strauss & Co. He Joined Levi Strauss & Co. in 2013 as a Chief Financial Officer. Mr.Singh is responsible for the global operation of the company's finance, information technology, M&A, investor relationship, and strategic sourcing. He holds various experiences working in financial capacities at corporations in the US and Asian countries. Prior to joining Levi Strauss & Co, Mr.Singh was Executive Vice President and Chief Financial Officer of Hyatt Hotels Corporation. He also worked at Yum! Brands, Inc for 14 years where he served in multiple leadership roles including Vice President and Chief Financial Officer. Mr.Singh graduated from Shri Ram College of Commerce (India) with a Bachelor of Commerce degree in 1983.



Mr.Singh's total compensation for FY2021 was \$4.84 million. This breaks down into \$918,269 of base salary, \$1,540,125 of bonus, \$1,753,381 of stock, \$499,997 of stock options, and \$128,935 came from other forms of compensation.

## Seth M. Ellison - Executive Vice President & Chief Commercial Officer

Mr. Ellison serves as Executive Vice President and Chief Commercial Officer of Levi Strauss & Co. He joined Levi Strauss & Co. in 2012 as a President of Dockers Brand and became a Europe Region President of Levi Strauss & Co. In 2020, he was promoted and became Chief Commercial Officer 2020. Mr. Ellison is responsible for Levi Strauss & Co's commercial strategy and operations of all portfolios of the company's brands across the world. He is also a member of an executive leadership team that make decisions on the global directions of the company's brands. He has more than 30 years experience of working in the apparel industry. Prior to joining Levi Strauss & Co, he worked in a leadership position at Alternative Apparel, Perry Ellis, Nike, and Quiksilver Inc. Mr. Ellison is an alumnus of Stanford University.



Mr. Ellison's total compensation for FY2021 was \$7.58 million. This breaks down into \$898,846 of base salary, \$1,498,500 of bonus, \$1,578,035 of stock, \$449,994 of stock options, and \$3,162,011 came from other forms of compensation.

## Management Compensation

The compensation of management is aligned with the industry standards for the apparel market. The current management has recorded steady growth for the company in pre-covid time. Although there was a decrease in revenue during FY2020 due to the covid outbreak and lockdowns, they were able to bring a recovery in revenue during FY2021 and 2022. With the further growth plan ahead, it is expected that the current management will be able to handle their tasks, which will bring a return to the investors. Therefore, we believe that the management compensation of Levi Strauss & Co. is justifiable.

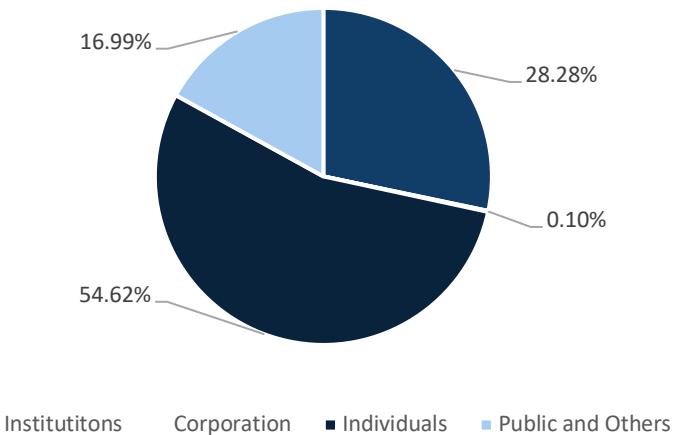
## Shareholder Base, Liquidity, Market Depth

### Shareholder Base

Levi Strauss & Co. 394.39M shares outstanding with market capitalization of 6556.7M and a free float of 22.4%. Levi Strauss & Co. has ownership structure where institutions and individuals hold share of 28.28% and 54.62% respectively.

Type	Common Stock	% of Shares Outstanding	Market Value (USD)
Institutions	111,546,989	28.28%	1,857.3
Corporation	386,477	0.10%	6.4
Individuals	215,434,441	54.62%	3,587.0
Public and Others	67,025,043	16.99%	1,116.0
<b>Total</b>	<b>394,392,950</b>	<b>100.00%</b>	<b>6,566.7</b>

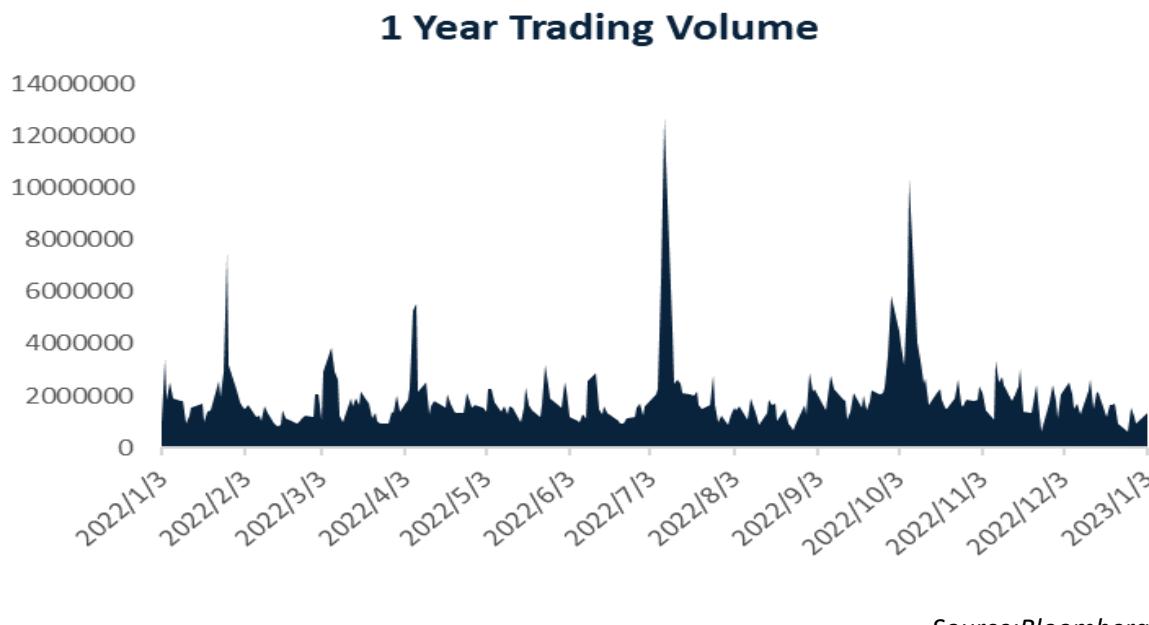
**Ownership Summary**



Source:Capital IQ

## Liquidity

As of April 17<sup>th</sup> 2023, Levi Strauss & Co. has an average trading volume of 1.93M shares with a market cap of 6.01B. Float percentage is 22.4%, which implies slightly low liquidity that could be considered as concern. However, as graph below shows trading volume significantly increase when quarter or annual report are released. Therefore, we do not expect there would be liquidity issue for investors for their positions.



## Valuation

### Discounted Cash Flow Analysis

#### Revenue

The revenue of Levi Strauss & Co. is projected by the forecast of DTC and wholesale, which are the two main segments of the company. DTC accounts for sales from company-operated stores and e-commerce sales. Throughout FY 2021 to FY 2022, revenue from DTC recorded further growth than the revenue generated from wholesale. There was a great track record in revenue growth in both DTC and wholesale in FY2021; however, the growth in FY2022 slowed down from 29.5% to 10.7%. Moving into FY2023, it is expected that there will be an increase in growth rate as the result of the acquisition of Beyond Yoga and further emphasis on e-commerce. Beyond Yoga opened an in-store location in the US and generates sales through e-commerce. We believe that there will be further growth opportunities for Levi Strauss & Co. as they are expected to follow the growth plan outlined in the investor conference in Q2 of 2022: 1) Expand through brand-led growth, 2) Strengthen DTC (Direct

To Customer) Sales, and 3) Diversify Brand Portfolio. Furthermore, we expect to see a further acquisitions of brands other than Beyond Yoga in the upcoming years. Through these assumptions, our analysis estimates the revenue growth will increase up to 17% by FY2027.

### **Capital Expenditure (CAPEX)**

Levi Strauss & Co. has been constantly investing in new distribution recently. They recently opened new distribution specifically for e-commerce, which is aligned with their announcement of focusing on DTC in 2022. Moreover, Levi Strauss & Co. is expected to open a new sustainable distribution center for Levi's Europe by 2024. These openings of new factories allow them to assist their omnichannel strategy and contribute to the environment as they aim to operate new factories upon the principle of zero waste, conservation, and recycling. We expect this trend of building more factory continue along with the potential acquisition of businesses. Therefore, we estimated CAPEX from 2023 to 2027 will increase from 35% to 40%.

### **Selling, General, & Administrative Expense (SG&A)**

Levi Strauss & Co. is currently focusing on DTC sales through both brick-and-mortar stores and e-commerce as their strategy for increasing DTC sales. Levi Strauss & Co. is strongly acquiring customers through their e-commerce platform with their attractive loyalty program. As we expect this consumer trends shift further toward e-commerce in post Covid 19, we expect that Levi Strauss & Co. will put emphasis on online sales in next 5 year horizon, which we expect SG&A to decrease from current level of 43% to 38%.

### **Weighted Average Cost of Capital (WACC)**

Levi Strauss & Co. has a WACC of 9.5% and it was calculated by using data on Bloomberg. The cost of Equity was calculated by setting the risk-free rate of 4.7%, an expected market return of 9.9%, and a beta of 1.15. Regarding the cost of debt, we applied the pre-tax cost of debt of 5% with an effective tax rate of 30%.

### **Effective Tax Rate**

Historically, the Tax rate of Levi Strauss & Co. varied from -16.2% to 43%. With the recovery of sales revenue expected in the next 5-year horizon from the relaxed covid 19 pandemic situation, we have estimated the tax rate to be 30%.

## Comparable Company Analysis

Following apparel companies below were chosen and used to create a portfolio of comparable companies for our comparable company analysis. They are all global brands with presence in apparel market over the world. These companies have comparable business model including design, production, and distribution.

### **The GAP, Inc**

The GAP, Inc is a US-based apparel company that offers a product line of merchandise apparel, and personal care products for men and women. Their notable brands include Gap, Old Navy, and Banana Republic. The GAP, Inc designs, produces, and distributes its product through its retail stores, franchised stores, and e-commerce platform. They have business operations across the US, Asia, the Middle East, Europe, and Africa.

### **PVH Corp**

PVH Corp is a US-based apparel retailer that offers a product portfolio of dress shirts, sportswear, jeans wear and performance apparel. Their famous brands include Calvin Klein, Tommy Hilfiger, Van Heusen, Warner's, and ARROW. PVH Corp have representation in the apparel market globally.

### **Ralph Lauren Corporation**

Ralph Lauren Corporation is a US-based apparel company that designs, produces, and distributes apparel. Their apparel lineups include apparel, accessories, footwear, home furnishings, and fragrances. Ralph Lauren Corporation markets products under Ralph Lauren, Ralph, Lauren, Polo, Club Monaco, Chaps, and Pink Pony. The company distributes apparel through wholesale, retail, third-party license, department stores, and e-commerce portal. Ralph Lauren Corporation has business presence globally

### **Urban Outfitters, Inc**

Urban Outfitters, Inc is a US-based apparel retailer that focuses on fashion apparel accessories and home goods. Specifically, they offer active wear, casual apparel shoes, wedding gowns, party dress, accessories, and assorted jewelry. Urban Outfitters, Inc offers these products under various brand names including Urban Outfitters, Anthropologie, Free People, Terrain, Bhldn, and Nuuly. Urban Outfitters, Inc have a strong presence in the apparel market across the world. Ralph Lauren Corporation offers their products under various brands include

### **American Eagle Outfitters, Inc**

American Eagle Outfitters, Inc is a US-based company that offers apparel for men and women, kids apparel, footwear, personal care products, and accessories. American Eagle Outfitters, Inc markets products under brand names American Eagle Outfitters, American Eagle, AE, AEO, Aerie, and Unsubscribed. The company operates globally and has a presence in the apparel industry.

## Hanesbrands Inc

Hanesbrands Inc is a US-based apparel company that designs, produces, distributes, and markets activewear to casual wear. Hanesbrands Inc offers t-shirts, fleece, tops, and bottoms. The company owns a brand portfolio including Champion, Bonds, Maidenform, Hanes, and Bali. Those products are sold through department stores, mass merchants, specialty stores, retail stores, and e-commerce portals. The company operates across the globe and has a strong presence in the apparel industry.

## Risks

### Uncertainty of Availability and Price of a Cotton

The products that Levi & Sturass & Co. offers are mostly made out of cottons or cotton/synthetic blends. Cotton price could fluctuate significantly as availability varies by year. The cotton price is highly dependent on the supply side factors and macroeconomic factors. Factors such as weather, supply condition, energy price, transportation costs, government regulation, sanctions, and economic conditions will be accounted to the price of the cotton. In recent years, climate change situation worsened and it could be a factor causing the cotton price to rise. In recent years, the cotton price and availability faced uncertainty, which could be worse in the future. The recent trade action from the US government to specific regions in China could be a troublesome for the suppliers of Levi Strauss & Co. This may cause the company to pressure financial conditions of the company, may not purchase comparable quality of the cotton at acceptable price, and not able to deliver same quality of goods compared to previous years.

### Expected Recession

With the expected recession in Q4 of 2023 or in 2024, consumers in the US and overseas may tighten their spending on consumer goods, which demand of Levi Strauss & Co. could potentially decrease in upcoming years and they might face challenge in increasing sales. This could potentially hurt financial conditions of Levi Strauss & Co. as revenue generated from sales could decrease. In the scenario of decreased demand and increased cost, it would be a huge risk for Levi Strauss & Co. to maintain expected Cash Flows.

### Consumer Trends

The main determinant of purchase in the fashion industry is brand recognition, quality, and consumer trends. While Levi & Sturass & Co. possess recognition and provided great quality to the customer, they may not be able to deliver the apparel design with consumer trends in some quarters. This may lead the consumer to not purchase the product offered by Levi & Strauss Co. at that time. Moreover, if Levi & Strauss Co. fails to satisfy customers with apparel design consecutively, customers may refrain from the purchase of Levi & Strauss Co. lineups.

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It would cause revenue to decrease and will be a huge risks to the financial condition and further operation of the company.

### Foreign Exchange

Levi & Strauss & Co. operates in more than 110 countries, which will face the risk of foreign exchange. The fluctuation of currency in the foreign exchange market will cause revenue forecasts to be unpredictable. With the current situation of hiking interest rate and rate cut to happen by the end of 2023, the value of the USD could depreciate. The depreciation of USD value will impact Levi & Sturass & Co. by reducing the value of revenue generated overseas.

## Recommendation – Buy

Based on our analysis, we believe that Levi Strauss & Co. is currently undervalued due to the market condition. Levi Strauss & Co. can differentiate itself from peers through its strong brand image, diversified brand portfolios, and emphasis on digitalization. The growth strategies outlined by Levi Strauss & Co. align with the industry trends of rising e-commerce usage and bring a steady cash flow through a diversified brand portfolio including the singautre brand and the newly acquired brand.

Our valuation weighting 75% weights on Discounted Cash Flow and 25% weights on Comparable Company Analysis, we have reached a price target of \$23.1 represneting an implied upside of 52.7% from the current share price of Levi Strauss & Co. at \$15.12.

## Appendix 1: Summary Page

(Figures in mm USD)	Nov-17	Nov-18	Nov-19	Nov-20	Nov-21	Feb-22	May-22	Aug-22	Nov-22	Nov-22	Nov-23	Nov-24	Nov-25	Nov-26	Nov-27
	FY2018	FY2019	FY2020	FY2021	FY2022	Q1-2023	Q2-2023	Q3-2023	Q4-2023	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028
<b>Income Statement</b>															
Revenue	4,904.0	5,575.4	5,763.1	4,452.6	5,763.9	1,591.6	1,471.1	1,517.2	1,802.7	6,382.6	7,371.8	8,551.3	9,962.2	11,655.8	13,637.3
EBITDA	584.6	660.6	690.6	56.7	829.4	273.2	115.0	239.3	266.8	894.3	872.5	1,009.1	1,275.2	1,491.9	1,881.9
Net Income	284.6	285.2	395.0	(127.1)	553.5	195.8	49.7	173.0	201.7	620.2	489.8	582.6	763.0	907.3	1,171.0
Earnings Per Share	\$ 0.73	\$ 0.73	\$ 0.97	\$ (0.32)	\$ 1.35	\$ 0.48	\$ 0.12	\$ 0.43	\$ 0.50	\$ 1.53	\$ 1.22	\$ 1.45	\$ 1.89	\$ 2.25	\$ 2.91
<b>Cash Flow Statement</b>															
Capital Expenditures	(118.6)	(159.4)	(175.4)	(130.4)	(166.9)	(73.6)	(46.9)	(76.3)	(41.0)	(237.8)	(193.5)	(203.7)	(219.3)	(238.2)	(267.6)
Acquisitions	-	-	-	(54.6)	(390.9)	-	-	-	-	-	-	-	-	-	-
Divestitures	(5.8)	(20.0)	12.2	12.5	(17.9)	3.1	(12.2)	(11.5)	-	(20.6)	-	-	-	-	-
Dividend Payment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividend Per Share	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Dividend Payout to Earnings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividend Payout to Core FCF	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividend Yield	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Balance Sheet</b>															
Current Assets	1,997.2	2,288.1	2,870.2	3,126.2	2,709.9	2,613.0	2,642.4	2,780.0	2,305.0	2,305.0	2,846.4	3,426.9	4,241.3	5,221.7	6,456.5
Non-Current Assets	1,360.6	1,254.6	1,362.2	2,515.0	3,190.2	3,138.7	3,095.4	3,119.2	3,117.5	3,117.5	3,138.2	3,165.1	3,199.1	3,241.4	3,300.0
<b>Assets</b>	<b>3,357.8</b>	<b>3,542.7</b>	<b>4,232.4</b>	<b>5,641.2</b>	<b>5,900.1</b>	<b>5,751.8</b>	<b>5,737.8</b>	<b>5,899.2</b>	<b>5,422.5</b>	<b>5,422.5</b>	<b>5,984.6</b>	<b>6,592.0</b>	<b>7,440.5</b>	<b>8,463.2</b>	<b>9,756.5</b>
Current Liabilities	879.1	1,052.2	1,167.2	1,548.9	1,869.6	1,686.0	1,730.6	1,865.6	1,187.2	1,187.2	1,259.5	1,284.3	1,369.8	1,485.2	1,607.5
Non-Current Liabilities	1,649.3	1,523.9	1,493.7	2,792.9	2,364.8	2,342.1	2,278.8	2,204.6	2,204.6	2,204.6	2,204.6	2,204.6	2,204.6	2,204.6	2,204.6
<b>Liabilities</b>	<b>2,528.4</b>	<b>2,576.1</b>	<b>2,660.9</b>	<b>4,341.8</b>	<b>4,234.4</b>	<b>4,028.2</b>	<b>4,009.4</b>	<b>4,070.2</b>	<b>3,391.8</b>	<b>3,391.8</b>	<b>3,464.1</b>	<b>3,488.9</b>	<b>3,574.4</b>	<b>3,689.9</b>	<b>3,812.1</b>
Shareholders' Equity	823.9	959.3	1,563.5	1,299.5	1,665.7	1,723.6	1,728.3	1,829.0	2,030.7	2,030.7	2,520.5	3,103.1	3,866.1	4,773.3	5,944.3
Cash	633.6	713.1	934.2	1,497.2	810.3	678.3	601.9	498.9	1,053.1	1,053.1	1,436.8	1,976.2	2,588.8	3,321.2	4,271.6
Debt															
Net Debt	(633.6)	(713.1)	(934.2)	(1,497.2)	(810.3)	(678.3)	(601.9)	(498.9)	(1,053.1)	(1,053.1)	(1,436.8)	(1,976.2)	(2,588.8)	(3,321.2)	(4,271.6)
Minority Interests	5.5	7.3	8.0	-	-	-	-	-	-	-	-	-	-	-	-
Debt/EBITDA	n/a	n/a	n/a	n/a	n/a						n/a	n/a	n/a	n/a	n/a
<b>Operating Metrics</b>															
Return on Equity (ROE)															
Return on Assets (ROA)															
Return on Invested Capital (ROIC)															
<b>Valuation Metrics</b>															
Stock Price (High)															
Stock Price (Low)															
Stock Price (Average)															
Diluted Shares Outstanding (Average)	384.3	388.6	408.4	397.3	409.8	407.0	403.8	402.9	402.9	404.2	402.9	402.9	402.9	402.9	402.9
Market Capitalization (Average)	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Enterprise Value (Average)	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
P/E	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!			9.9 x	12.4 x	10.5 x	8.0 x	6.7 x
EV/EBITDA	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!			5.7 x	5.3 x	4.1 x	2.7 x	1.9 x
FCF Yield to Market Capitalization	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!			5.5%	6.3%	8.9%	10.1%	12.0%
FCF Yield to Enterprise Value	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!			6.7%	8.2%	13.1%	17.5%	26.4%
<b>Free Cash Flow</b>															
EBIT	467.2	540.4	566.7	(85.1)	686.2	234.2	76.2	199.1	224.1	733.6	699.8	832.2	1,090.0	1,296.1	1,672.9
Tax Expense	(64.2)	(214.8)	(82.6)	62.6	(26.7)	(50.0)	(22.8)	(13.3)	(67.2)	(220.1)	(209.9)	(249.7)	(327.0)	(388.8)	(501.9)
D&A	117.4	120.2	123.9	141.8	143.2	38.9	38.8	40.2	42.7	160.6	172.7	176.8	185.2	195.9	209.1
Capital Expenditures	(118.6)	(159.4)	(175.4)	(130.4)	(166.9)	(73.6)	(46.9)	(76.3)	(41.0)	(237.8)	(193.5)	(203.7)	(219.3)	(238.2)	(267.6)
Changes in NWC	7.2	(138.6)	(163.8)	382.7	(23.8)	(181.9)	(108.3)	(159.2)	350.9	(98.5)	(85.4)	(16.3)	(116.3)	(132.6)	(162.1)
Unlevered Free Cash Flow	409.0	147.8	268.9	371.6	612.0	(32.4)	(63.1)	(9.5)	509.4	337.9	383.7	539.3	612.6	732.4	950.4
<b>Valuation Summary</b>															
Current Price	<b>\$ 15.12</b>														
Target Price	\$ 23.10														
Total Return	52.7%														
Recommendation	<b>BUY</b>														
<b>DCF Valuation</b>															
Perpetuity Growth Implied Price	\$ 26.70														
Exit Multiple Implied Price	\$ 26.99														
<b>Comps Valuation</b>															
Comps - EV/EBITDA Implied Price	\$ 10.18														
Comps - P/E Implied Price	\$ 13.53														

## Appendix 2: Discounted Cash Flow Analysis

(Figures in mm USD)	Nov-17	Nov-18	Nov-19	Nov-20	Nov-21	Feb-22	May-22	Aug-22	Nov-22	Nov-22	Nov-23	Nov-24	Nov-25	Nov-26	Nov-27
	FY2018	FY2019	FY2020	FY2021	FY2022	Q1-2023	Q2-2023	Q3-2023	Q4-2023	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028
<b>WACC Calculations</b>															
<b>Cost of Equity</b>															
Risk-free rate	4.7%														
Expected market return	9.9%														
Market Risk Premium	5.2%														
Beta	1.15														
<b>Cost of Equity</b>	<b>10.7%</b>														
<b>Cost of Debt</b>															
Pre-tax cost of debt	5.0%														
Effective tax rate	30.0%														
<b>Cost of Debt</b>	<b>3.5%</b>														
<b>WACC</b>															
Market value of equity	6,092.1														
Market value of debt	2,103.5														
<b>Total Capitalization</b>	<b>8,195.6</b>														
Cost of equity	10.7%														
Cost of debt	3.5%														
<b>WACC</b>	<b>8.8%</b>														
<b>Free Cash Flow</b>															
EBIT	467.2	540.4	566.7	(85.1)	686.2	234.2	76.2	199.1	224.1	733.6	699.8	832.2	1,090.0	1,296.1	1,672.9
Less: Tax expense	(64.2)	(214.8)	(82.6)	62.6	(26.7)	(50.0)	(22.8)	(13.3)	(67.2)	(220.1)	(209.9)	(249.7)	(327.0)	(388.8)	(501.9)
Add: Depreciation and amortization	117.4	120.2	123.9	141.8	143.2	38.9	38.8	40.2	42.7	160.6	172.7	176.8	185.2	195.9	209.1
Less: Capital expenditures	(118.6)	(159.4)	(175.4)	(130.4)	(166.9)	(73.6)	(46.9)	(76.3)	(41.0)	(237.8)	(193.5)	(203.7)	(219.3)	(238.2)	(267.6)
Less: Change in net working capital	7.2	(138.6)	(163.8)	382.7	(23.8)	(181.9)	(108.3)	(159.2)	350.9	(98.5)	(85.4)	(16.3)	(132.6)	(162.1)	
<b>Unlevered Free Cash Flow</b>	<b>409.0</b>	<b>147.8</b>	<b>268.9</b>	<b>371.6</b>	<b>612.0</b>	<b>(32.4)</b>	<b>(63.1)</b>	<b>(9.5)</b>	<b>509.4</b>	<b>337.9</b>	<b>383.7</b>	<b>539.3</b>	<b>612.6</b>	<b>732.4</b>	<b>950.4</b>
Discount factor						-	0.25		0.25	0.25	1.25	2.25	3.25	4.25	5.25
<b>Present Value of Unlevered Free Cash Flow</b>						-	(61.7)		<b>498.8</b>	<b>437.0</b>	<b>358.3</b>	<b>445.8</b>	<b>465.2</b>	<b>511.0</b>	<b>609.3</b>
<b>Discounted Cash Flow Valuations</b>															
<b>Perpetuity Growth Method</b>															
<b>Perpetuity Growth Rate</b>	<b>2.3%</b>														
PV sum of unlevered FCF	2,826.6														
Terminal value	9,534.7														
<b>Enterprise Value</b>	<b>12,361.3</b>														
Add: Cash	498.9														
Less: Debt	2,103.5														
Less: Other EV adjustments	-														
<b>Equity Value</b>	<b>10,756.7</b>														
Shares outstanding	402.9														
<b>Implied Share Price</b>	<b>\$ 26.70</b>														
Current Price	\$ 15.12														
Implied Price	\$ 26.70														
<b>Total Return</b>	<b>76.6%</b>														
<b>Exit Multiple Method</b>															
<b>Terminal EV/EBITDA Multiple</b>	<b>8.0x</b>														
PV sum of unlevered FCF	2,826.6														
Terminal value	9652.002														
<b>Enterprise Value</b>	<b>12,478.6</b>														
Add: Cash	498.9														
Less: Debt	2,103.5														
Less: Other EV adjustments	-														
<b>Equity Value</b>	<b>10,874.0</b>														
Shares outstanding	402.9														
<b>Implied Share Price</b>	<b>\$ 26.99</b>														
Current Price	\$ 15.12														
Implied Price	\$ 26.99														
<b>Total Return</b>	<b>78.5%</b>														
<b>WACC</b>															
<b>Perpetuity Growth Rate</b>	<b>9.84%</b>	<b>9.34%</b>	<b>8.84%</b>	<b>8.34%</b>	<b>7.84%</b>										
1.30%	\$ 19.95	\$ 18.53	\$ 18.53	\$ 19.95	\$ 23.36										
1.80%	\$ 18.92	\$ 17.63	\$ 17.63	\$ 18.92	\$ 22.00										
2.30%	\$ 19.92	\$ 17.63	\$ 17.63	\$ 18.92	\$ 22.00										
2.80%	\$ 19.95	\$ 18.53	\$ 18.53	\$ 19.95	\$ 23.36										
3.30%	\$ 22.41	\$ 20.67	\$ 20.67	\$ 22.41	\$ 26.70										
<b>WACC</b>															
<b>Terminal EV/EBITDA Multiple</b>	<b>6.0x</b>	<b>7.0x</b>	<b>8.0x</b>	<b>9.0x</b>	<b>10.0x</b>										
6.0x	\$ 19.97	\$ 19.48	\$ 19.48	\$ 19.97	\$ 21.00										
7.0x	\$ 17.12	\$ 16.69	\$ 16.69	\$ 17.12	\$ 18.00										
8.0x	\$ 17.12	\$ 16.69	\$ 16.69	\$ 17.12	\$ 18.00										
9.0x	\$ 19.97	\$ 19.48	\$ 19.48	\$ 19.97	\$ 21.00										
10.0x	\$ 25.68	\$ 25.05	\$ 25.05	\$ 25.68	\$ 26.99										

## Appendix 3: Comparable Company Analysis

(Figures in mm USD)										EV/EBITDA Multiple					P/E Multiple				
Company	Ticker	Share Price	Diluted Shares Outstanding	Equity Value	Cash	Debt	Other EV Adjustments	Enterprise Value	2021A EBITDA	2022E EBITDA	2023E EBITDA	2021A EVERBITDA	2022E EVERBITDA	2023E EVERBITDA	2021A P/E	2022E P/E	2023E P/E		
The Gap, Inc. (NYSE: GPS)	\$ 9.54	367.8	3,508.8	1,215.0	6,020.0	8,313.8		229.0	1,382.0	441.0	36.3 x	6.0 x	18.9 x	(1.8) \$ 0.67	\$ 0.14	(5.4 x)	14.2 x	68.1 x	
PVH Corp. (NYSE: PVH)	\$ 86.41	62.7	5,417.9	550.7	3,840.6	8,707.8		240.1	1,275.1	1,107.1	36.3 x	6.8 x	7.9 x	(16.0) \$ 13.25	\$ 8.32	(5.4 x)	6.5 x	10.4 x	
Ralph Lauren Corp. (NYSE: RL)	\$ 118.04	66.0	7,790.6	1,697.5	2,822.4	8,915.5		447.0	1,055.8	984.4	19.9 x	8.4 x	9.1 x	(1.7) \$ 8.07	\$ 7.72	(71.5 x)	14.6 x	15.3 x	
Urban Outfitters, Inc. (NASDAQ: URCN)	\$ 26.51	92.6	2,454.8	382.6	1,117.4	3,189.6		136.3	507.6	358.3	23.4 x	6.3 x	8.9 x	0.0 \$ 3.13	\$ 1.74	2,851.0 x	8.5 x	15.2 x	
American Eagle Outfitt (NYSE: AEO)	\$ 15.74	195.6	2,687.5	170.2	1,367.4	3,884.7		174.1	774.2	442.9	22.3 x	5.0 x	5.8 x	(1.3) \$ 2.03	\$ 0.86	(10.9 x)	6.8 x	16.0 x	
Hanesbrands, Inc. (NYSE: HBI)	\$ 4.82	349.4	1,684.1	238.4	4,300.5	5,746.2		1,030.1	680.5	712.3	5.6 x	8.4 x	8.1 x	1.5 \$ 0.97	\$ 0.99	3.3 x	5.0 x	4.9 x	
Levi Strauss & Co. (NYSE: LEVI)	\$ 15.12	396.4	5,993.6	321.8	2,227.8	-	7,899.6	863.5	868.6	884.4	9.1 x	9.1 x	8.9 x	1.4 \$ 1.46	\$ 1.43	11.2 x	10.4 x	10.6 x	
<b>Median</b>														6.6 x	8.8 x		7.6 x	15.3 x	
<b>Mean</b>														8.8 x	13.3 x		9.3 x	21.8 x	
<b>High</b>														8.4 x	18.9 x		14.6 x	68.1 x	
<b>Low</b>														5.0 x	7.9 x		5.0 x	4.9 x	
										EV/EBITDA Implied Price					P/E Implied Price				
<b>Median</b>														\$ 9.56	\$ 14.91		\$ 11.12	\$ 21.83	
<b>Mean</b>														\$ 10.18	\$ 17.17		\$ 13.5	\$ 30.4	
<b>High</b>														\$ 13.70	\$ 37.25		\$ 21.36	\$ 97.44	
<b>Low</b>														\$ 6.19	\$ 12.74		\$ 7.25	\$ 6.96	

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