

**Research Summary: Movado Group, Inc. (NYSE: MOV)**

Movado Group, Inc. (NYSE: MOV) is a luxury watchmaker based in Paramus, NJ. It has a market capitalization of \$177.83mm.

*Business Summary*

Movado operates primarily in two segments: “Watch and Accessory Brands” and “Company Stores,” and serves both domestic and international markets. It does not manufacture any of the goods it produces.

Typically, Movado’s sales are greater during the Christmas and holiday season. In international markets, its sales tend to increase with local holidays in late winter or early spring. We expect that Movado’s current share price reflects (at least partially) the fact that it is outside of its most lucrative season and remaining uncertainty about consumer demand in the upcoming holiday season, and believe that the uptick in sales in coming months could stand to increase its share price.

We had a strong interest in investing in luxury goods. As they are the most discretionary of consumer discretionary goods, their share prices have been severely depressed by COVID-19, yet we believe the industry is resilient enough to survive the pandemic. Due to the strong and sustained depression of luxury stocks since the onset of the pandemic, we believe that the industry offers opportunities for significant growth as the nation and globe slowly recover from the pandemic.

Unsurprisingly, Movado’s revenues for the three- and six-month periods ending 7/31/20 are about half of the corresponding values from 2019. The current depression of Movado’s share price is amplified by the fact that it not only distributes highly discretionary goods but also operates stores for the sale of those goods (and in-person shopping has been temporarily significantly impaired by the pandemic). However, the company’s balance sheet has not been significantly damaged by the pandemic (in terms of losses or below-cost of tangible assets), which we believe prepares it for a healthy recovery.

We believe that Movado’s income statement reflects an overly negative view of its condition due to certain accounting standards; Movado significantly wrote down \$155.92mm of intangible assets in the first quarter of 2020, obviously a non-cash expense resulting from a re-evaluation of the company’s balance sheet. The value of this write-down is nearly equivalent to the total net loss attributable to the company for the 6 months ending 7/31 of \$156.61mm. However, its cash outflow is significantly reduced across operating, investing, and financing activities, reflecting a reduction in capital expenditures and buybacks/dividends. Additionally, the company improved its leverage by repaying \$36.77mm of bank borrowing and reissuing \$30.88mm.

Our view of the cyclicity of Movado is borne out by its high beta of 1.42, indexed against the S&P 500 using 5 years of weekly returns over the period ending 8/17/20. In spite of the overall recovery of many stock indices, its share price has yet to recover (as will be discussed below).

## Comparable Companies Analysis

We performed comparable companies analysis comparing Movado to six other publicly traded makers of luxury goods. Movado had satisfying ratios:

- P/S 28.6% of the mean and 72.7% of the median
- P/B: 29.2% and 50.4%, respectively
- P/C 11.2% and 46.3%, respectively
- P/FCF 22.3% of both.

Its D/E ratio is a pleasing 0 and its LT D/E ratio of 0.13 was a mere 10.1% of the mean and 19.7% of the median.

It had an operating margin 15% and 25% higher than the mean and median, respectively.

Movado is trading at a far more significant discount on the year, half-year, and YTD than its peers. It is 49% and 50% on the year and year-to-date and down 23% on the half-year.



*A graph of the S&P 500 demonstrates a significant decline and strong recovery since early 2020.*



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*A graph of Movado's share price shows Movado trading near a 5-year low, with a significant decline evidently brought on by COVID-19.*

The decline in Movado's share price beginning in 2018 is somewhat concerning as it suggests a decrease in its valuation due to endogenous reasons rather than solely COVID-19. The management has recognized the company's recent disappointing performance deriving from overinvestment in its marketing operations. Management noted that the company's balance sheet remains strong and committed to rectifying these dampening factors by reducing its operating expenses.

Additionally, it is evident that a second decline is due largely to an industry slowdown brought on by the pandemic, from which we think Movado can recover, even if it does not return to its 5-year high prices due to other, internal factors.

Due to its ratios and relationship with the broader market for consumer goods, we believe Movado to be undervalued and to offer strong growth opportunities. As such, we have taken a Long position on Movado Group, Inc. (NYSE: MOV).

---Wasim Rahaman