# *NYSSA Student Research*

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Industry: Apparel and Accessories

## Phillips-Van Heusen

**Ticker: PVH** **Recommendation: BUY**

**Price: $17.90 (as of Jan. 20, 2009)** **Price Target: $23.50**

Team J

Jan. 26, 2009

| EPS | 1Q | 2Q | 3Q | 4Q | Year | P/E |
|---|---|---|---|---|---|---|
| **2007A** | $1.1 | $0.8 | $1.2 | $0.6 | $3.7 | 10.7x |
| **2008E** | 1.2 | 0.6 | 1.0 | 0.4 | 3.2 | 5.6x |
| **2009E** | 0.7 | 0.4 | 0.8 | 0.4 | 2.3 | 7.8x |
| **2010E** | 0.7 | 0.4 | 0.9 | 0.7 | 2.7 | 6.6x |

Note: PVH fiscal years are based on the 52-53 week period ending on the Sunday closest to February 1 and are designated by the calendar year in which the fiscal year commences.

## PVH: In Strong Position to Weather This Recession

- **Strong Growth from International Licensing, Contributing Higher Margins**: Ck Calvin Klein is well recognized as a high-end brand in Asia, and regional licensees are committed to a minimum sales level, according to our interview with local licensees. International licensee Warnaco is still aggressively opening new stores in the new markets. We believe that certain international markets will recover from the global slowdown sooner than the US and will continue to contribute strong growth to PVH. Furthermore, the licensing business contributes a 100% gross margin, which improves overall profitability when the licensing business grows faster than other segments.

- **Margins Maintained Due to Established Relationships with Distributors and Retailers**: During the 2000 downturn, distributor's margins decreased about 10% and branded companies and retailers' margins decline 1 to 2%. This recession is more severe but PVH will be able to pressure distributors and absorb the negative impacts with retail partners due to its established position in the value chain. In our worst case, assuming wholesale gross margins decrease 5% and retail gross margins decline 6% for the next 3 years, our valuation still indicates PVH is underpriced.

- **Healthy Cash Flow Generation and Clean Balance Sheet**: From 2003 to 2007, PVH's wholesale business gross margin averaged 46%, outperforming the industry average by 400 basis points. PVH's operating cycle stands out from its peers with shorter AR days and lower inventory level, and it generated more than $290 million operating cash flow (CFO) from 2006 to 2007. We estimate that 2008 CFO will decline to $238 million, but this is more than sufficient to weather the recession and finance capital expenditures and previous acquisitions' contingent payments. Projected $100 million FCF in 2009 will enable the company pay its $0.15 dividend per share.

- **Traded Lower than Tangible Book Value per Share:** Tangible BVPS $21.80 is higher than its current price. However, we think the price may only reflect earning-related multiples (forward P/E and TEV/EBITDA) in the short run and will converge to industry median Tangible P/B ratio in the mid-term. Our short-term target price is $21.00 and medium-term $26.00.

**PVH Last Twelve Months Stock Price**


| Market Portfolio | |
|---|---|
| 52 Week Price Range | $13.0 - $47.9 |
| Avg. Daily Volume (k) | 1,023 |
| Beta | 1.7 |
| Dividend Yield (est.) | 0.8% |
| Shares Outstanding (mn) | 52.3 |
| Market Cap ($mn) | $936 |
| Institutional Holdings | 94.2% |
| Tangible BV per Share | $21.8 |
| Debt to Total Capital | 26.8% |
| Return on Equity | 14.3% |

**Important disclosures appear at the back of this report**

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# Investment Summary

Our target price of $23.50 is the average price of our short-term (next 6 months) and medium-term (12 to 18 months) target prices. Our short-term target price $21.00 is based on our DCF, industry median forward P/E and TEV/EBITDA, and our medium term target price of $26.00 is the average of DCF, industry median forward P/E, TEV/EBITDA, and tangible P/B. PVH is currently traded at its historical bottom and is lower than its tangible BVPS.

We created a comprehensive model to predict PVH wholesale, retail, and licensing revenue growth, taking into consideration the global economic slowdown, apparel and accessories industry trends, and PVH's relative position to its competitors.

PVH's Q3 '08 earnings result beat expectations because of continued strong growth from international licensing. We believe Asia, especially China, will recover in the mid to late 2009, and continue to drive international licensing revenue. The licensing business not only contributes high growth and a 100% gross margin, but is also less risky. PVH simply collects royalty revenue and transfers sourcing, inventory, new market expansion, and retail operations to its licensees. PVH maintains significant bargaining power over licensees because licensees do not own brand equity. Thus, during an economic recession the licensee's margins decrease first and by the largest amount. We have concluded that strong international licensing revenue will continue to be a driver for the company.

To account for uncertainty, we ran a scenario analysis on PVH's wholesale and retail gross margins and on the length of recession. In our worst case, assuming wholesale gross margins decrease 5% and retail gross margins decline 6% for the next 3 years, our valuation still indicates that PVH is underpriced. We feel this would be an extreme decline in margins since PVH, RL, and major retailers' margins declined only 1-2% during the 2000 downturn. We believe that PVH is in a competitive position to first pressure its licensees and then support its wholesale retail partners to efficiently manage inventory and margins.

PVH has a strong balance sheet and cash position. It generated $290 to 300 million in operating cash flow (CFO) from 2006 to 2007. We estimate 2008 CFO will decline to $238 million, but feel this is more than sufficient to weather this recession and to finance capital expenditures and previous acquisitions' contingent payments. In the long term, we believe that PVH has the experienced management team to put itself in the position to gain market share as the world economy recovers.

**Figure 1: PVH Last Five Years Stock Price**


*Source: Yahoo Finance*

**Catalysts for Realization of Our Target Price**:

- **Short-term**: PVH's ability to maintain gross and operating margins in Q4 '08 and Q1 '09 amongst likely disappointing sales results and potential consolidation in the wholesale retail industry.
- **Medium-term**: Chinese economy recovers and international licensing revenue grows as forecasted.
- **Long-term**: Continued strong balance sheet and cash position provides opportunities for market share gains through organic growth and acquisitions.

**Investment Risks to Our Call:**

- Major retailers/licensees bankruptcy and/or consolidation
- Extended recession
- International licensing revenue grows slower than expected
- Currency translation loss

# Valuation

Our short-term target price $21.00 is based on our DCF and short-term public comparables (forward P/E, TEV/EBITDA) valuations. Our medium-term price of $26.00 is the average of our DCF and the industry median forward P/E, TEV/EBITDA, and tangible P/B.

**Discounted Cash Flow Valuation Target Price: $21.00**

PVH generated between $130 and $150 million free cash flow (FCF) to the firm each year from 2005 to 2007. However, we expect 2008 FCF will decline to $84 million and only grow to $110 million in 2009. In our DCF model, we projected five years of FCF through FY 2012 and used the 1981 to 2007 US chain-store sales average growth of 5.1% minus 3% as a long-term terminal growth. We have assumed global apparel market will enter a matured stage in the long-run and not grow as quick as it did before.

Revenue growth projection is a volatile and sensitive factor in our DCF valuation. Therefore, we developed a comprehensive model to estimate future revenue growth for each segment. *(See Appendix 1)*

<u>Wholesale revenue growth</u>: PVH's wholesale business is solely focused on the US market. We used US chain store sales and its correlation with GDP to project the industry growth. According to the trend in the last twelve months, we estimated the sale shifts among apparel retail channels, including specialty, department, and discount stores. Finally, we physically investigated PVH's major wholesale distributors (Macy's, Kohl's, JCPenney's, and Sears) to gauge PVH's relative store positioning to its competitors.

<u>Retail revenue growth</u>: We compared historical industry comp store growth and non-comp store growth with PVH's retail comp store growth and non-comp store growth to predict retail revenue growth.

<u>Licensing revenue growth</u>: We forecasted licensing revenue principally by region, such as Europe and Asia, and by country, such as Japan, China, Korea, and Australia. We also estimated additional growth driven by the expansion to new Asian markets, noted as new licensees/ store openings.

**Table 1: Revenue Growth Projection Model Framework**

| Wholesale revenue growth | Retail revenue growth | Licensing revenue growth |
|---|---|---|
| Nominal GDP growth | Industry comp store growth | US |
| Coefficient | Industry non-comp store growth | Canada |
| Industry chain store growth | PVH comp store growth adj. | Europe |
| Retail channel adjustment | PVH non-comp store growth adj. | Asia |
| Competition adjustment | Seasonality adjustment | New licensee/store opening adj. |
| Seasonality adjustment | **PVH Retail revenue growth** | Seasonality adjustment |
| **PVH Wholesale revenue growth** | | **PVH Licensing revenue growth** |

Margin projection is another sensitive element in our model. To account for this uncertainty, we ran a scenario analysis on PVH's wholesale and retail gross margins and on the length of recession. The target price ranges from $19 to 22, indicating the current price is undervalued. *(See Appendix 2 and 4)*

**Table 2: Scenario Analysis on Length of Recession and Gross Margins**

| Case | Target Price | Description | Weight | DCF Target |
|---|---|---|---|---|
| **Best** | $22.20 | Recession ends in 2009 Christmas; wholesale gross margin declines 2.0% and retail gross margin declines 3.0% during recession | 25% | |
| **Base** | $21.18 | Recession ends in 2010 Christmas; wholesale gross margin declines 3.5% and retail gross margin declines 4.5% during recession | 50% | **$21.12** |
| **Worst** | $19.92 | Recession ends in 2011 Christmas; wholesale gross margin declines 5.0% and retail gross margin declines 6.0% during recession | 25% | |

PVH has maintained a fixed amount of long-term debt ($399 million) for the past five years, and $150 million of the Senior Unsecured Notes will expire in 2011. Thus, we used Adjusted Present Value method to calculate its equity value (= all equity firm value plus debt tax shield present value).

To estimate cost of equity, we used the CAPM model. Our key assumptions were: a risk free rate of 2.8%, which is the 30-year Treasury yield; a market risk premium of 7%, which is the long-term US historical average; and a beta of 1.73, which is the last five year's average. Our estimated cost of equity is 14.9%. Our assumptions for debt tax shield were: a cost of debt before tax of 7.7%, which is the weighted average long-term debt coupon rate, and a tax rate 38.1%, which is based on latest effective tax rate. *(See Appendix 3 and 4)*

**Table 3: Discounted Cash Flow Valuation Summary-- Base Case**

**Discounted Cash Flow Valuation for Phillips-Van Heusen**
*Dollars in millions, except per share*

| | Historical Fiscal Year | | | | | Projected Fiscal Year | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
| After-tax EBIT | 43.7 | 87.4 | 130.2 | 160.9 | 200.4 | 162.0 | 114.2 | 135.7 | 198.3 | 217.5 |
| Cash flow from operations | 96.4 | 174.0 | 222.0 | 294.8 | 308.3 | 211.9 | 221.1 | 259.5 | 287.6 | 342.3 |
| **Free cash flow to the firm** | | 43.3 | 158.9 | 134.5 | 157.1 | 80.5 | 108.3 | 93.8 | 110.1 | 151.0 |
| *Growth%* | | | *267.3%* | *-15.3%* | *16.8%* | *-48.7%* | *34.5%* | *-13.4%* | *17.4%* | *37.2%* |
| Firm value with all equity | | | | | | 955.1 | | | | |
| Debt tax shield | | | | | | 11.7 | | | | |
| PV of debt tax shield | | | | | | 152.2 | | | | |
| **Estimated firm value** | | | | | | **1,107.4** | | | | |
| Shares outstanding | | | | | | 52.3 | | | | |
| **Estimated share price** | **21.18** | | | | | | | | | |
| Current price | 17.90 | as of Jan. 20, 2009 | | | | | | | | |
| Underpriced % | 18% | | | | | | | | | |

**Public Comparables Valuation Target Price: Short-term \$21.00; Medium-term \$31.00**

On a public comparables basis, we found a short-term price per share of \$21.00, which is a 17% premium to PVH's recent share price of \$17.90 on January 20, 2009. In the medium-term, we found a price of \$31.00. We decided the following companies to be comparables: GES, JNY, KCP, PERY, RL, VFC and WRC. Industry, lines of business and size were the most important considerations when choosing our comps. *(See Appendix 5 and 6)*

Currently, investors are very pessimistic and are solely focusing on EPS and EBITDA multiples to price this stock. In fact, the recently traded price of \$17.90 is trading below tangible book value per share of \$21.80, which is the value of the company's hard assets. Thus, we used the median 2009 estimated TEV/EBITDA and the median 2009 forward price-to-earnings to calculate our implied PVH valuation for the short term. We used the median 2009 estimated TEV/EBITDA for the comps because we felt that using P/E alone could distort our valuation due to differences in leverage, accounting standards, and shares outstanding over time. Fifty percent weights were applied to the implied prices found from the two ratios to come about our overall estimated short-term share price \$21.00.

We believe that 12 to 18 months out, investors will once again factor in a wider array of multiples. We chose current Tangible P/B or Price-to-tangible BV because we note that PVH has a large amount of intangibles on its balance sheet (49% of total assets) due to a wave of recent acquisitions. Price-to-tangible BV is a better gauge of how economic profit is valued in this industry. Thus, the median 2010-estimated TEV/EBITDA, the median current price-to-tangible BV, and the median 2010 forward price-to-earnings was used to calculate our medium-term implied PVH valuation. Thirty-three percent weights were applied to the implied prices found from these three ratios to come about our overall medium-term estimated share price \$31.00.

**Table 4: Public Comparables Valuation Summary**

**Public Comparables Valuation**
*Dollars in millions, except per share*

| *Short Term (6 months)* | | | | | |
|---|---|---|---|---|---|
| PVH 2009 EBITDA | 321 | PVH 2009 Est. EPS | 2.18 | | |
| Median TEV/EBITDA | 4.1x | Median Forward P/E | 7.1x | | |
| Implied TEV | 1,317 | **Implied Share Value** | **15.49** | | |
| Net Debt | (32) | **Weight** | **50%** | | |
| Implied Market Value | 1,349 | | | | |
| Common Shares Outstanding | 52.29 | | | | |
| **Implied Share Price** | **25.80** | | | | |
| **Weight** | **50%** | | | | |
| **Estimated Share Price** | **20.64** | | | | |
| Current price | 17.90 | as of Jan. 20, 2009 | | | |
| underpriced % | 15% | | | | |
| *Medium Term (12 to 18 months)* | | | | | |
| PVH 2010 EBITDA | 308 | PVH 2008 Tangible Book Value | 1,140 | PVH 2010 Est. EPS | 2.59 |
| Median TEV/EBITDA | 4.4x | Common Shares Outstanding | 52.29 | Median Forward P/E | 7.7x |
| Implied TEV | 1,363 | Tangible Book Value per Share | 21.80 | **Implied Share Value** | **19.98** |
| Net Debt | (192) | Median Price to Tangible Book Value | 2.0x | **Weight** | **33%** |
| Implied Market Value | 1,555 | **Implied Share Value** | **43.18** | | |
| Common Shares Outstanding | 52.29 | **Weight** | **33%** | | |
| **Implied Share Price** | **29.74** | | | | |
| **Weight** | **33%** | | | | |
| **Estimated Share Price** | **30.66** | | | | |
| Current price | 17.90 | as of Jan. 20, 2009 | | | |
| underpriced % | 71% | | | | |

**Risks to Our Price Target**

Bankruptcy or major store consolidation for a major wholesale retail customer or licensee of PVH would have a short-term, but significant, negative impact on revenue growth. In the medium-term, if the worldwide recession persists longer than forecasted, PVH's revenues will be negatively impacted. Furthermore, international licensing revenue may grow slower than expected. It is possible that international economies do not recover when expected, a major licensee goes bankrupt, or new store growth is not as strong as projected. The result would be a negative impact on revenues.

# Business Description

Phillips-Van Heusen is a global apparel company with business lines going back to the 19$^{th}$ century. Its major brands include Calvin Klein, IZOD, Van Heusen, ARROW, and Bass, along with a number of licensed brands and private labels made on behalf of major department stores. The company designs, sources, and markets the majority of its products through 1) traditional wholesale channels to US department stores, 2) a network of retail stores in the US outlet malls and high-end shopping malls, and 3) licensing agreements to sell apparel in over 120 countries. The global retail sales value of its five biggest brands exceeded $8 billion in 2007, according to the company filing. *(See Appendix 7- 9)*

The Wholesale segment sources and distributes dress shirts, neckwear, and sportswear to major department stores and discounters. Based on management discussions, we estimate that over 60% of wholesale revenue comes from its five largest customers (Macy's, JCPenney's, Sears, Kohl's, and Wal-Mart). PVH sells shirts to Wal-Mart under the private label "George," which has a lower margin than other PVH brands but provides access to the discount channel. According to our interviews with retailers, wholesale retail customers usually order 6 to 9 months ahead and hold inventory after it is delivered. From the Q3 '08 earnings call, PVH management believes that it had established strong relationship with its retailer partners and will support their partners in managing inventory levels to maintain margins for both parties.

The Retail segment operates 750 stores in the US under the Calvin Klein, IZOD, Van Heusen, Bass, and Geoffrey Beene brands, mostly in outlet malls. It also runs a small number of Calvin Klein specialty stores in high-end malls around the country and one premium Calvin Klein boutique in New York, which acts as an advertising flagship. PVH recently closed 80 Geoffrey Beene stores and converted 20 of them into Calvin Klein stores in hopes of improving traffic.

PVH has over 55 licensing agreements for the Calvin Klein brand, along with over 100 agreements for its heritage brands. Licensing royalty revenue is 5 to 7% of underlying licensee sales depending on brands, plus an additional 3 to 4% contribution for advertising support. Warnaco (US: WRC) and Coty (private) are the largest licensees, accounting for 41% and 18% of segment revenues, respectively.

Roughly 57% of licensing revenue comes from outside the US. Based on our analysis of licensees, we estimate this number is broken down in the following weights: Europe 30%, Asia 15%, Canada 6%, and Latin America 6%. *(See Appendix 10)* Warnaco has especially high exposure to the Italian and South Korean markets, representing roughly 26% and 18% of its international sales respectively. Coty's sales are skewed towards Western Europe, which represents 54% of its revenue. PVH also has exclusive relations with Onward Holdings in Japan and Club 21 in Southeast Asia, each of which has CK branded sales of around $50 million. Currency translation places a significant role in the international licensing revenue. Asia, Latin America, and Eastern Europe have experienced the most rapid growth, which is expected to slow in the short term, but continue expanding in the long term.

Based on interviews, international licensees are responsible for sourcing and distributing in Asia, a rapid growing region for the Calvin Klein brand. These licensees bear the responsibility for production, inventory, new market expansion, foreign exchange, and retail operation risks. This provides PVH a 100% gross margin revenue stream with rapid growth and complete supply chain protection. International licensees like Warnaco then subcontract to regional licensees/retailers and transfer the inventory risk to these regional partners.

**Management**

The management team has established experience in the industry. Most of the senior management has worked together since 1990s and experienced the 2001 downturn. Furthermore, the board is focused on maintaining coherence in the management team. The CEO was let go in 2006 because some of the other executives disagreed with his management style. After reviewing insider trading and executive compensation records, we are confident in this management team's integrity.

# Industry Overview and Competitive Positioning

**Global Branded Apparel Industry Five Forces Analysis** *(See Appendix 11)*

Given the global recession, top line growth will come under pressure for all players across the apparel industry value chain. The fundamental question is who will be hurt first and will absorb the largest decline in margin. We analyzed the Porter's five forces for each step of the value chain and reviewed the historical recession margin decreases to understand PVH's position in the industry.

PVH designs its apparel and is involved in marketing to build its brand equity. In the branding segment, the rivalry and threat from substitutes are high because of a large number of competitors and growing pressure from private label clothing. However, established brand equity, like the Calvin Klein brand, creates moderate bargaining power against customers (distributor, retailer, and consumers), suppliers, and new entrants.

Overseas manufacturers capture the lowest operating margins in the value chain due to its identical outputs and fragmented structure. We assume the unit cost of apparel is the same across branded companies. Therefore, the driver of margin is pricing, which relies on the bargaining power among PVH, distributors, and retailers.

Distributors own the network capacity but lack the brand recognition. In the past recession, we found that distributor Warnaco's operating margin steeply decreased. *(See Appendix 12)* In fact, Warnaco filed bankruptcy in 2002. Thus, we hypothesize that overseas manufacturers and distributers will be squeezed first and by the largest amount during this recession, because they lack brand recognition.

Brand companies and department stores suffered a 2 to 3% decline in operating margins during 2000 to 2002, and we believe this recession is more severe than in 2000. *(See Appendix 12)* We feel that PVH actively works with wholesale retail partners to manage inventory and can pressure its distributors further before diluting its own margin. However, we feel that a 5 to 6% decline in margin is possible (as indicated in our worst case scenario) if retailers significantly push back inventory.

The retail channel's competitive position is more easily understood. The buyer is the end consumer, who has been hurt greatly by the current recession and credit contraction. We feel outlet retailers is in a slightly worse competitive position in the retail segment because of competitive pressure from promotions in department stores, discount stores, and other outlets.

**Wholesale Competitive Positioning** *(See Appendix 13)*

In the wholesale channel, PVH is fairly well positioned. Although it has lower sales volume than Ralph Lauren (RL) and Jones Apparel Group (JNY), it is growing at a faster rate, with 2007 growth of 23.6%. Looking ahead, while growth in the department store channel is projected to be weak, PVH will benefit from its high exposure to men dress shirts, which historically have performed better than women apparel in a recession. Men's dress clothing is a much more functional product than other forms of apparel, and PVH has roughly 33% market share within this segment. Additionally, many of PVH's dress shirt lines, including Van Heusen and ARROW sell at lower price points than its competitors, along with the "George" private label brand, which it distributes to Wal-Mart. We believe sales of these brands will remain relatively strong in the face of a formidable recession, as middle and lower income households trade down on necessities. As a potential drag to sales, we observed that PVH products generally had a less prominent placement in stores than its direct competitor RL during our visits to Kohl's, Macy's, JCPenney's, and Sears. Thus, we feel that adjusted PVH wholesale growth would be relatively lower than its competitors in these markets.

For the gross margin, we referred to the margin trends in 2000 of key players in the value chain and ran a scenario analysis on PVH's margins:

- **Best case**: Recession will last until the 2009 Christmas; wholesale gross margin will decline 2%, and retail gross margin will decline 3% during the recession. Operating margins will remain at 12% in 2009 and 2010.
- **Base case**: Recession will last until the 2010 Christmas; wholesale gross margin will decline 3.5%, and retail gross margin will decline 4.5% during the recession. Operating margins will decline 2% in 2009 and 1% in 2008 and 2010.
- **Worst case**: Recession will last until the 2011 Christmas; wholesale gross margin will decline 5% and retail gross margin will decline 6% during recession. Operating margins will decrease 3% for 2009 and 2010 and 1 to 2% for 2008 and 2011.

**Retail Competitive Positioning** *(See Appendix 13)*

Although still healthy, PVH is in a slightly weaker position in the retail industry. During good times, PVH outlet stores have traditionally experienced slower growth (8%) than specialty stores Abercrombie & Fitch (ANF) and American Eagle (AEO), which have experienced 12% growth. PVH has also had slower new store expansion than the specialty stores. During the current downturn, we believe that the comparable store sales for PVH's outlet stores will decline, due to the progressive promotions in the department stores and PVH's reduced outlet mall footprint as a result of closing or converting around 100 Geoffrey Beene stores in 2008. According to the Q3 '08 earnings call, outlet channels act as a strategic player in inventory management, rather than a driver of income growth in its business model. By helping manage inventory, its retail stores help the wholesale business achieve steady growth and sustainable margins. As noted in the margin scenario analysis in the wholesale competitive positioning section above, we feel that retail margins will be more negatively impacted than those for wholesale.

**Licensing Competitive Positioning**

The Calvin Klein brand has room to grow by entering new geographies and new product lines. We estimate that currently 15% of licensing revenue comes from Asia, where Warnaco is the largest licensee. With 48 doors in China, Calvin Klein Jeans currently has three times as many stores than its closest competitor, Guess (GES). In Europe, Warnaco recently began to enter Germany and Russia, and in Latin America, it has entered Argentina and Brazil.

Aside from current macroeconomic headwinds, many of Asian markets are underpenetrated, such as secondary cities in China, and could yield high growth opportunities simply from new store openings. In fact, Warnaco had continuously partnered with local Chinese licensees/retailers to expand into secondary cities. In 2008 December, the largest CK Jeans specialty store in Asia was opened in Xiamen, Fujian China. In 2007, CK Jeans entered Chongqing, another secondary city in China. During our trip to the region this winter, we noted that the traffic at a secondary city department store was still robust. We believe that while China is currently experiencing slower growth, it will eventually generate strong domestic consumption and provide PVH the opportunity for strong future licensing revenue.

Moving forward, we expect that international licensing market growth will predominately come from new store openings in the new markets. There has been no sign to date of fundamental collapse in China and the pre-Olympics overinvestment should be digested within a year. Thus, we expect China will recover in the mid or late of 2009. Referring to Warnaco's estimation of 20% retail sale growth generated from new market expansion, we believe CK licensing sales can grow at least 15% from new store openings in 2009, despite the worldwide recession.

**Corporate Level Competitive Positioning**

PVH owns a strong balance sheet and cash position. It generated more than $290 million in operating cash flow (CFO) from 2006 to 2007. We estimate 2008 CFO will decline to $238 million, which is more than sufficient to weather the recession and finance capital expenditures and previous acquisitions' contingent payments. The company maintains a low degree of leverage equating to $399 million of fixed long-term debt, of which $150 million will expire in 2011. PVH is projected to have $100 million FCF in 2009, which will enable the company to pay its steady $0.15 dividend per share. We believe that PVH has a sufficient cash position to expand its business or acquire distressed companies in order to gain more share when economy recovers.

# Catalysts for Realization of Our Target Price (Other Heading)

In the short term, the catalyst for realizing our target price will be whether PVH can maintain its gross and operating margins while suffering disappointing sales results in both Q4 '08 and Q1 '09. Margin is mainly driven by bargaining power with wholesale retailers and distribution partners. Consolidation is foreseen to happen in the retail industry, and it is not certain that PVH will maintain a sufficiently strong competitive position to protect its margins in the event of consolidation. The Q4 '08 and Q1 '09 earnings release will likely reveal the fortitude of PVH's position in its value chain.

In the medium term, the catalyst will be the recovery of the Chinese economy earlier than the West because of resilient domestic consumption. China will be a key driver for future licensing revenue growing as forecasted. Two indicators will be consumer spending and retail textile trade volume.

In the long term, the catalyst for future growth will be gains in market share. We expect that with a strong balance sheet and cash position, PVH will gain share from bankrupted and weakened competitors once the US and Europe economy rebounds. Management's plans to increase market share as the economy begins to recover and grow international licensing will be key to PVH's long-term growth.

# Financial Analysis

**Earnings**

Wholesale Revenue Projection *(See Appendix 1 and 14)*

We expect wholesale revenue to decline by 10.76% QoQ for Q4'08, as the U.S. heads deeper into an economic recession. We feel that in this environment, four of PVH's five main wholesale customers (Macy's, Kohl's, Sears, and JCPenney's) will be severely impacted by low discretionary spending relative to the retail industry. Due to observably poor in-store positioning, we expect the cutbacks will be sharper for PVH brands than for its competitors, resulting in a steep decline in Q4'08 revenue.

For 2009, we project a continued challenging wholesale environment for PVH. The company will continue to grapple with low purchase order levels from wholesale customers, resulting in a 4.4% decline in wholesale revenue. On a quarterly basis, we predict revenue growth will begin to improve in Q3'09, as President Obama's large fiscal stimulus package begins to work itself through the economy.

We believe that 2010 will be the turning point for wholesale revenue, as the economy shows signs of recovery and credit markets begin to function normally. Higher discretionary spending will give PVH's wholesale retailers confidence to begin expanding purchase orders, allowing PVH's wholesale revenue to grow 3.1% YoY for 2010. As the economy continues to expand, we predict a 7.9% CAGR from 2011 to 2013 for wholesale revenue.

Using the International Council of Shopping Centers (ICSC) Chain Store Sales Growth index as the industry proxy, we found the US branded apparel industry to be highly correlated with US GDP. We adjusted the Bloomberg economy survey real GDP growth to -6% for 4Q '08, -1.8% for 2009, and 1.7% for 2010. We used post 1991 and 1982 recessions' data to estimate real GDP for 2011 and 2013. Because inflation is difficult to predict and the current available projections vary greatly from 2% to 6%, we used the 1987 to 2007 historical average of 2.4% as a flat inflation rate in our model.

By taking the five-year rolling regressions for 1985 to 2007, we found that the chain-store sales index had a coefficient of less than one during previous recessions and higher than one during economic expansion. This helped us conclude that consumer spending is defensive and more volatile than the overall growth of the economy. Because ICSC Chain Store Sales Growth index includes all kinds of retailers, we further adjusted the industry growth derived from the correlation between the ICSC index and the US nominal GDP growth for PVH's wholesale channel: department stores. We project that department stores will lose market share to discounters during the current recession.

Retail Revenue Projection *(See Appendix 1)*

We predict that the retail market will experience deeper negative growth during recession than wholesale market due to store closings and shrinking consumer spending. However, retail market growth will regain faster than wholesale when economy rebounds, according to the historical trend.

Revenue from PVH's retail stores is predicted to fall a steep 18.3% QoQ for Q4'08. We feel that specialty retail industry comparable store growth will fall 11.4%, which is the same decline seen back in 2001. We applied a 2% negative adjustment to this decline, because PVH operates mainly outlet stores, which get squeezed by heavy discounting at department stores and lower pricing at discount stores. Meanwhile, non-comparable industry store growth will only grow at 2.6%, which is a third of the level seen back in 2001. Slower industry new store growth is likely to be seen in this recession due to the currently frozen credit markets and the severity of the recession. PVH's new store growth is predicted to be even worse: 10% less than the industry in Q4'08 due to the announced net closings of 80 outlet stores and plans to freeze new store expansion.

Retail revenue is projected to decline 9.3% YoY in 2009. The specialty retail industry will continue to struggle from a lasting recession and slow economic recovery. Additionally, we felt that PVH's new store growth would continue to underperform the industry by 3% for 2009, because of management's plans to curb new store expansion.

We believe that things will slowly begin to improve in 2010, but revenue growth will still decline by 2.7% YoY. Due to slow economic recovery, the specialty retail industry's comparable store growth is predicted to contract at a 5.8% pace for much of 2010, which is comparable to the decline seen back in 2002. PVH's comparable store growth is predicted to decline at a 6.8% pace, due to mall-based specialty retailers typically outperforming outlet stores. As the economy expands in 2011 through 2013, we expect the specialty retail industry to recover and begin to expand once again. Thus, we predict a 6.8% CAGR from 2011 to 2013 for retail revenue.

Licensing Revenue *(See Appendix 1 and 15)*

We used a similar framework as our US market forecast to estimate international markets: correlation between nominal GDP and retail textile trade volume. For international licensing revenue, Calvin Klein licensing revenue has traditionally been PVH's strongest and fastest growing segment. However, a worldwide recession will likely curb growth in the short run. Currently, we are modeling a decline of 3.4% in QoQ total licensing revenue growth for Q4'08. Domestic and Canadian licensing revenue will decline in similar fashion to wholesale revenue. While growth in Asia and Europe will remain stable, the appreciation of the US dollar will hurt international revenue.

In 2009, we expect YoY to decline by 2.5%. While domestic and Canadian revenue will continue to remain weak, Asian licensing revenue is predicted to receive a boost due in part by a predicted reversal in most Asian currencies, as shown in current Bloomberg analyst consensus forecasts. Additionally, revenue loss in Europe is likely to be partially offset by new store openings in Asia. Warnaco, PVH's largest licensee, has guided towards 25% increase in store count in 2009, including aggressively planned expansions in Germany, Russia, Latin America, and China. Club 21, another main PVH licensee, aims to grow store count in Asia from 18 to 50 within a few years. We forecasted a more conservative 15% revenue growth from store openings in 2009 to account for the worldwide slowdown.

Licensing revenue growth is projected to accelerate in 2010 to 6.8% YoY, driven largely by an improving international economic environment and a predicted 15% increase in new stores internationally. Our projections account for less than management's predictions of $7 billion in global Calvin Klein license-driven sales. Slower-than-expected international economic growth, limited suitable real estate and unforeseen regulatory barriers are likely factors that will lead to this underperformance. However, we believe that further aggressive international expansion by PVH's licensees and a growing domestic and Canadian economy will result in a CAGR of 8.5% from 2011 to 2013.

SG&A *(See Appendix 2)*

Compared to its peers, PVH has a historically higher than industry average of 30% SG&A % of revenue. However, this is lower than its direct competitor RL, which has 39%. SG&A as a percentage of revenue is projected at a flat 38% through 2012. Management will look to cut administrative overhead, workforce and advertising expenses in the midst of negative revenue growth. However, we feel that the cuts will be offset by revenue declines.

**Cash Flow**

Working Capital *(See Appendix 3)*

Accounts receivable, inventory, accounts payable, and other operating assets/liabilities are from the wholesale and retail business. Because AR days outstanding is almost offset by AP days outstanding, working capital is mainly driven by inventory days outstanding, which increased from 86 days in 2003 to 95 days in 2007. The industry average is 95 days. We expect that major retailers such as Macy's would push back some inventory to PVH and estimate that the 2008 inventory days will increase to 100 and further worsen in 2009 to 105 days. We feel it will then improve to 95 days in 2010.

Capital Expenditure *(See Appendix 3 and 16)*

Based on the Q3 '08 earnings call, we feel PVH will hold back on its net capital expenditure (capex) due to slowing spending and store closings. However, we estimate capex to come back to the normal pace in 2009 for the foreseen recovery in 2010. Compared to its peers, PVH's capex and depreciation/amortization % of revenue is at the industry average, and we expect this ratio to remain at current levels.

Acquisitions *(See Appendix 3 and 17)*

PVH continuously acquires companies to improve its product portfolio and supply chain. The purchase price of a prior acquisition is separated into a one-time payment and contingency payments that are based on future year sales volume. These contingency payments will continue due to contractual obligations. We believe that PVH has an excellent cash position and could look to make some attractive acquisitions once the market begins to recover.

**Balance Sheet and Financing** *(See Appendix 3)*

PVH has maintained a fixed amount of long-term debt ($399 million) for the past five years, and $150 million of the Senior Unsecured Notes will expire in 2011.

# Investment Risks

**Major Retailer Bankruptcy and/or Consolidation** *(See Appendix 18)*

According to management reports, four main wholesale customers (Macy's, Kohl's, JCPenney's, and Wal-Mart) currently account for about 24% of PVH's annual revenue. In 2005, Federated's purchase of May's department stores created a series of store closings, which reduced the total number of doors for PVH. Consequently, sales to the Federated-May's combination fell from 13.7% of total PVH revenue to 9.7%. We believe there will be further economic pressure for these department stores to consolidate. The most relevant statistic is that ICSC expects the closure of 73,000 stores in 2009.

Mervyn's, one of PVH's retail partners, has filed bankruptcy, and we believe JCPenney's and Sears will be susceptible to bankruptcy or consolidation due to weak store traffic. While Mervyn's was relatively small with only 177 stores, JCPenney's and Sears each operate around 1,000 stores. If Sears goes out of business, the ARROW brand, which is less than 7% of total wholesale sales, will be hurt the most. The bankruptcy of JCPenney's would have an impact on Van Heusen and ARROW, as well as licensed and private label sales. Any consolidation could lead to further store closings. In the long-term, we believe consolidation will improve the efficiency in the industry and the total aggregate consumption in the US would not change by the number of retail doors.

**Major Licensee Bankruptcy**

PVH's largest growth segment is in the licensing of the Calvin Klein brand, especially to international licensees. Warnaco, a major international licensee, bears the financial burden of opening stores and has been in financial trouble in the past. If it were to fall into bankruptcy, there could be a severely negative impact on PVH's revenues. Eventually, revenues would recover, as PVH finds other licensee partners with strong distribution channels.

**Extended Recession**

We have forecasted an economic recovery to begin in the latter half of 2009 with definitive recovery in PVH's revenue starting in 2010. We believe this will occur due in part to the projected large fiscal stimulus plan proposed by the Obama administration. If the worldwide recession persists longer than forecasted, PVH's revenues will be negatively impacted.

**International Licensing Revenue Growth Slower than Expected**

A key assumption is that certain international economies will start to recover in the latter half of 2009 and that licensees will still maintain a reasonably strong new store growth strategy. One or both of these assumptions could not occur as expected, which would have a negative impact on our valuation. We do believe that management has sufficient influence over its licensees to insure that business interests are aligned, which should mitigate some of this risk.

**Foreign Currency Translation**

A growing portion of revenue is projected to come from the international markets, making PVH exposed to a variety of currency fluctuations. When a foreign currency depreciates against the US dollar, PVH will incur a currency loss. However, we believe PVH's international licensing is a diversified portfolio, which should mitigate some of the currency risk.

**Larger Wholesale Discounts and/or Returns than Expected**

Retailers, such as Macy's and Wal-Mart, may have the bargaining power to push unsold inventory and the costs of deeper discounts back onto PVH through lower pricing on future orders. This would result in lower wholesale revenues. The negative impact is tested in our operating margin sensitivity analysis.

**Sensitivity Analysis** *(See Appendix 19 and 20)*

If total revenue growth is 4% lower than our estimation and operating margin is 200 basis points lower for 2008 to 2012, our target price will be $16.80, which is below the recently traded price of $17.90.

If PVH's cost of equity increases 4% to 18.8%, our target price $16.70, which is 7% lower than the recently traded price. If terminal growth rate declines 4%, our target price is 18.38, which is still at a 3% premium to the recently traded price. In the extreme case in which cost of equity is 4% higher and terminal growth rate is 4% less than forecasted, our target price is $15.70, which is 16% lower than the recently traded price.

# Appendix

# Appendix 1: Revenue Growth Projection Model

**Revenue Growth Projection for for Phillips-Van Heusen**

| Based on PVH fiscal year | | 2008 | FY 2009 | | | | FY 2010 | | | | FY 2011 | FY 2012 | FY 2013 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 4Q 08Dec - 09Feb | 1Q 09Mar - 09May | 2Q 09Jun - 09Aug | 3Q 09Sep - 09Nov | 4Q 09Dec - 10Feb | 1Q 10Mar - 10May | 2Q 10Jun - 10Aug | 3Q 10Sep - 10Nov | 4Q 10Dec - 11Feb | | | |
| **Wholesale revenue growth** | | | | | | | | | | | | | |
| Nominal GDP growth | | 2.10% | 0.64% | 0.64% | 1.64% | 2.96% | 4.12% | 4.12% | 4.12% | 4.68% | 5.09% | 5.71% | 5.25% |
| Coefficient | | 84.73% | 84.73% | 84.73% | 84.73% | 90.47% | 93.34% | 93.34% | 93.34% | 117.66% | 117.66% | 117.66% | 127.57% |
| Industry chain store growth | | 1.78% | 0.54% | 0.54% | 1.39% | 2.68% | 3.85% | 3.85% | 3.85% | 5.51% | 5.99% | 6.72% | 6.60% |
| Retail channel adjustment | | -9.00% | -6.25% | -6.25% | -6.25% | -4.00% | -3.00% | -2.00% | -1.00% | 1.00% | 2.75% | 2.00% | 2.00% |
| Competition adjustment | | -0.75% | -0.75% | -0.75% | -0.75% | -0.75% | -0.75% | -0.75% | -0.75% | -0.75% | -0.75% | -0.75% | -0.75% |
| Seasonality adjustment | | -2.79% | 2.65% | -4.48% | 4.62% | -2.79% | 2.65% | -4.48% | 4.62% | -2.79% | 0.00% | 0.00% | 0.00% |
| **PVH Wholesale revenue growth** | | **-10.76%** | **-3.80%** | **-10.94%** | **-0.99%** | **-4.86%** | **2.75%** | **-3.39%** | **6.71%** | **2.97%** | **7.99%** | **7.97%** | **7.85%** |
| **Retail revenue growth** | | | | | | | | | | | | | |
| Industry comp store growth | | -11.43% | -11.43% | -11.43% | -9.14% | -5.75% | -5.75% | -5.75% | -5.75% | -1.40% | 0.14% | 3.63% | 3.63% |
| Industry non-comp store growth | | 2.64% | 4.40% | 4.40% | 4.40% | 3.82% | 3.82% | 3.82% | 3.82% | 4.36% | 4.95% | 6.48% | 6.32% |
| PVH comp store growth adj. | | -2.00% | -1.00% | -1.00% | -1.00% | -1.00% | -1.00% | -1.00% | -1.00% | -1.00% | -1.00% | -1.00% | -1.00% |
| PVH non-comp store growth adj. | | -10.00% | -3.00% | -3.00% | -3.00% | -3.00% | -1.00% | -1.00% | -1.00% | -1.00% | -1.00% | -2.00% | -2.00% |
| Seasonality adjustment | | 2.48% | -3.64% | 0.35% | 0.81% | 2.48% | -3.64% | 0.35% | 0.81% | 2.48% | 0.00% | 0.00% | 0.00% |
| **PVH Retail revenue growth** | | **-18.30%** | **-14.66%** | **-10.67%** | **-7.93%** | **-3.45%** | **-7.57%** | **-3.58%** | **-3.12%** | **3.44%** | **3.09%** | **7.10%** | **6.51%** |
| **Licensing revenue growth** | **Weights** | | | | | | | | | | | | |
| US | 42.00% | -7.97% | -6.46% | -6.46% | -5.61% | -2.07% | 0.10% | 1.10% | 2.10% | 5.76% | 7.99% | 7.97% | 7.85% |
| Canada | 5.00% | -7.97% | -6.46% | -6.46% | -5.61% | -2.07% | 0.10% | 1.10% | 2.10% | 5.76% | 7.99% | 7.97% | 7.85% |
| Europe | 35.00% | -13.34% | -13.34% | -13.34% | -13.34% | 3.68% | 3.68% | 3.68% | 3.68% | 2.62% | 2.17% | 0.45% | -0.62% |
| Asia | 18.00% | 1.07% | 1.07% | 1.07% | 1.07% | 9.50% | 9.50% | 9.50% | 9.50% | 6.41% | 6.60% | 7.05% | 6.60% |
| Asia new licensee/store opening adj. | 18.00% | 15.00% | 15.00% | 15.00% | 15.00% | 15.00% | 15.00% | 15.00% | 15.00% | 15.00% | 20.00% | 20.00% | 20.00% |
| Seasonality adjustment | | 2.11% | -2.37% | -3.65% | 3.91% | 2.11% | -2.37% | -3.65% | 3.91% | 2.11% | 0.00% | 0.00% | 0.00% |
| **PVH Licensing revenue growth** | | **-3.41%** | **-7.18%** | **-8.46%** | **-0.51%** | **6.84%** | **3.37%** | **2.56%** | **10.59%** | **9.59%** | **9.30%** | **8.77%** | **8.26%** |

*Source: Student Estimates*

# Appendix 2a: Projected Income Statement— Base Case (Quarterly)

**Projected Income Statement for Phillips-Van Heusen**
*Dollars in millions, except per share*

| | Projected Fiscal Year | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2008 | Q1 '09 | Q2 '09 | Q3 '09 | Q4 '09 | 2009 | Q1 '10 | Q2 '10 | Q3 '10 | Q4 '10 | 2010 | 2011 | 2012 | 2013 |
| **Revenues** | | | | | | | | | | | | | | |
| Wholesale | 1,161.3 | 313.9 | 197.5 | 381.6 | 216.7 | 1,109.8 | 322.6 | 190.8 | 407.2 | 223.1 | 1,143.7 | 1,235.1 | 1,333.6 | 1,438.3 |
| Retail | 959.7 | 191.2 | 237.5 | 237.4 | 204.6 | 870.7 | 176.8 | 229.0 | 230.0 | 211.6 | 847.4 | 873.6 | 935.7 | 996.6 |
| Calvin Klein Licensing | 300.4 | 69.8 | 67.1 | 83.7 | 72.2 | 292.9 | 72.2 | 68.8 | 92.6 | 79.2 | 312.8 | 341.9 | 371.9 | 402.6 |
| **Total Revenues** | **2,421.4** | **575.0** | **502.1** | **702.8** | **493.5** | **2,273.4** | **571.5** | **488.7** | **729.9** | **513.9** | **2,303.9** | **2,450.6** | **2,641.1** | **2,837.5** |
| | | | | | | | | | | | | | | |
| COGS | 1,217.6 | 292.0 | 252.1 | 381.3 | 242.6 | 1,169.9 | 286.9 | 243.3 | 390.0 | 233.0 | 1,154.0 | 1,143.5 | 1,230.4 | 1,319.8 |
| SG&A | 915.6 | 211.4 | 202.8 | 242.8 | 202.0 | 867.6 | 210.2 | 197.4 | 252.2 | 210.3 | 879.2 | 935.2 | 1,007.9 | 1,082.8 |
| **EBIT** | **288.2** | **71.6** | **47.2** | **78.6** | **48.9** | **236.0** | **74.5** | **48.0** | **87.7** | **70.5** | **270.7** | **371.9** | **402.9** | **434.8** |
| | | | | | | | | | | | | | | |
| **EBIT** | | | | | | | | | | | | | | |
| Wholesale | 134.6 | 39.8 | 11.1 | 48.8 | 8.1 | 96.8 | 41.2 | 10.9 | 52.8 | 16.3 | 111.1 | 142.9 | 154.6 | 167.0 |
| Retail | 28.9 | (2.7) | 3.0 | (11.5) | 5.2 | (5.3) | (2.3) | 3.1 | (10.8) | 15.1 | 5.3 | 60.3 | 64.8 | 69.2 |
| Calvin Klein Licensing | 149.8 | 34.5 | 33.1 | 41.3 | 35.6 | 144.5 | 35.6 | 34.0 | 45.7 | 39.1 | 154.3 | 168.7 | 183.5 | 198.7 |
| Corporate | (51.6) | (12.9) | (12.9) | (12.9) | (12.9) | (51.6) | (12.9) | (12.9) | (12.9) | (12.9) | (51.6) | (51.6) | (51.6) | (51.6) |
| **Total EBIT** | **261.6** | **58.7** | **34.3** | **65.7** | **36.0** | **184.4** | **61.6** | **35.1** | **74.8** | **57.6** | **219.2** | **320.3** | **351.3** | **383.3** |
| | | | | | | | | | | | | | | |
| Tax expense | 99.7 | 22.4 | 13.1 | 25.0 | 13.7 | 70.3 | 23.5 | 13.4 | 28.5 | 21.9 | 83.5 | 122.0 | 133.8 | 146.0 |
| **After-tax EBIT** | **162.0** | **36.3** | **21.3** | **40.7** | **22.3** | **114.2** | **38.1** | **21.7** | **46.3** | **35.7** | **135.7** | **198.3** | **217.5** | **237.3** |
| | | | | | | | | | | | | | | |
| After-tax unusual items | (18.2) | - | - | - | - | - | - | - | - | - | - | - | - | - |
| - After-tax interest expense | (20.4) | - | - | - | - | - | - | - | - | - | - | - | - | - |
| - Pref. dividends and other adj. | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **NI to common stock** | **164.1** | **36.3** | **21.3** | **40.7** | **22.3** | **114.2** | **38.1** | **21.7** | **46.3** | **35.7** | **135.7** | **198.3** | **217.5** | **237.3** |
| | | | | | | | | | | | | | | |
| Weighted Avg. Diluted Shares Out. | 52.3 | 52.3 | 52.3 | 52.3 | 52.3 | 52.3 | 52.3 | 52.3 | 52.3 | 52.3 | 52.3 | 52.3 | 52.3 | 52.3 |
| **Diluted EPS** | **3.2** | **0.7** | **0.4** | **0.8** | **0.4** | **2.3** | **0.7** | **0.4** | **0.9** | **0.7** | **2.7** | **3.8** | **4.2** | **4.5** |
| *Growth* | *-14.0%* | *-39.8%* | *-36.6%* | *-22.1%* | *7.3%* | *-27.7%* | *4.9%* | *2.3%* | *13.8%* | *60.1%* | *17.6%* | *39.8%* | *9.7%* | *9.1%* |
| | | | | | | | | | | | | | | |
| Dividend per share | 0.15 | 0.15 | 0.15 | 0.15 | 0.15 | 0.15 | 0.15 | 0.15 | 0.15 | 0.15 | 0.15 | 0.15 | 0.15 | 0.15 |
| Dividend | 7.8 | 7.8 | 7.8 | 7.8 | 7.8 | 7.8 | 7.8 | 7.8 | 7.8 | 7.8 | 7.8 | 7.8 | 7.8 | 7.8 |
| | | | | | | | | | | | | | | |
| **EPS contribution** | | | | | | | | | | | | | | |
| Wholesale | 1.6 | 0.5 | 0.1 | 0.6 | 0.1 | 1.1 | 0.5 | 0.1 | 0.6 | 0.2 | 1.3 | 1.7 | 1.8 | 2.0 |
| Retail | 0.3 | (0.0) | 0.0 | (0.1) | 0.1 | (0.1) | (0.0) | 0.0 | (0.1) | 0.2 | 0.1 | 0.7 | 0.8 | 0.8 |
| Calvin Klein Licensing | 1.8 | 0.4 | 0.4 | 0.5 | 0.4 | 1.7 | 0.4 | 0.4 | 0.5 | 0.5 | 1.8 | 2.0 | 2.2 | 2.4 |
| Corporate | (1.0) | (0.2) | (0.2) | (0.2) | (0.2) | (0.5) | (0.2) | (0.2) | (0.2) | (0.2) | (0.5) | (0.6) | (0.6) | (0.6) |
| **Total Diluted EPS** | **3.2** | **0.7** | **0.4** | **0.8** | **0.4** | **2.3** | **0.7** | **0.4** | **0.9** | **0.7** | **2.7** | **3.8** | **4.2** | **4.5** |

*Source: Company Documents, Student Estimates*

# Appendix 2b: Projected Income Statement— Base Case (Yearly)

**Projected Income Statement for Phillips-Van Heusen**
*Dollars in millions, except per share*

| | Historical Fiscal Year | | | | | Projected Fiscal Year | | | | | | 2003-07 | 2008-13 | 2011-13 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2003** | **2004** | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** | **2011** | **2012** | **2013** | **CAGR** | **CAGR** | **CAGR** |
| **Revenues** | | | | | | | | | | | | | | |
| Wholesale | 721.0 | 741.1 | 912.5 | 953.5 | 1,178.8 | 1,161.3 | 1,109.8 | 1,143.7 | 1,235.1 | 1,333.6 | 1,438.3 | *10.3%* | *3.4%* | *7.9%* |
| Retail | 698.1 | 739.8 | 816.6 | 928.5 | 981.1 | 959.7 | 870.7 | 847.4 | 873.6 | 935.7 | 996.6 | *7.0%* | *0.3%* | *6.8%* |
| Calvin Klein Licensing | 149.8 | 160.5 | 179.7 | 208.6 | 265.3 | 300.4 | 292.9 | 312.8 | 341.9 | 371.9 | 402.6 | *12.1%* | *7.2%* | *8.5%* |
| **Total Revenues** | 1,568.9 | 1,641.4 | 1,908.8 | 2,090.6 | 2,425.2 | 2,421.4 | 2,273.4 | 2,303.9 | 2,450.6 | 2,641.1 | 2,837.5 | | | |
| *Rev Growth* | | *4.6%* | *16.3%* | *9.5%* | *16.0%* | *-0.2%* | *-6.1%* | *1.3%* | *6.4%* | *7.8%* | *7.4%* | *9.1%* | *2.7%* | *7.6%* |
| | | | | | | | | | | | | | | |
| COGS | 924.5 | 890.4 | 1,017.8 | 1,060.8 | 1,234.2 | 1,217.6 | 1,169.9 | 1,154.0 | 1,143.5 | 1,230.4 | 1,319.8 | | | |
| SG&A | 576.4 | 621.3 | 683.2 | 772.2 | 880.8 | 915.6 | 867.6 | 879.2 | 935.2 | 1,007.9 | 1,082.8 | | | |
| **EBIT** | 68.0 | 129.7 | 207.8 | 257.6 | 310.2 | 288.2 | 236.0 | 270.7 | 371.9 | 402.9 | 434.8 | | | |
| *EBIT/Rev* | *4.3%* | *7.9%* | *10.9%* | *12.3%* | *12.8%* | *11.9%* | *10.4%* | *11.8%* | *15.2%* | *15.3%* | *15.3%* | | | |
| | | | | | | | | | | | | | | |
| **EBIT** | | | | | | | | | | | | | | |
| Wholesale | 65.4 | 80.7 | 135.5 | 122.2 | 159.6 | 134.6 | 96.8 | 111.1 | 142.9 | 154.6 | 167.0 | | | |
| Retail | 3.5 | 19.1 | 38.5 | 82.9 | 81.7 | 28.9 | (5.3) | 5.3 | 60.3 | 64.8 | 69.2 | | | |
| Calvin Klein Licensing | 15.0 | 63.2 | 74.8 | 125.1 | 128.9 | 149.8 | 144.5 | 154.3 | 168.7 | 183.5 | 198.7 | | | |
| Corporate | (15.9) | (33.3) | (41.0) | (72.6) | (58.3) | (51.6) | (51.6) | (51.6) | (51.6) | (51.6) | (51.6) | | | |
| **Total EBIT** | **68.0** | **129.7** | **207.8** | **257.6** | **311.9** | **261.6** | **184.4** | **219.2** | **320.3** | **351.3** | **383.3** | | | |
| | | | | | | | | | | | | | | |
| Tax expense | 24.3 | 42.3 | 77.6 | 96.7 | 111.5 | 99.7 | 70.3 | 83.5 | 122.0 | 133.8 | 146.0 | | | |
| **After-tax EBIT** | 43.7 | 87.4 | 130.2 | 160.9 | 200.4 | 162.0 | 114.2 | 135.7 | 198.3 | 217.5 | 237.3 | | | |
| *growth* | | *100.1%* | *49.0%* | *23.6%* | *24.5%* | *-19.2%* | *-29.5%* | *18.8%* | *46.2%* | *9.7%* | *9.1%* | | | |
| | | | | | | | | | | | | | | |
| After-tax unusual items | (5.5) | 0.1 | (0.6) | 4.7 | 1.0 | (18.2) | - | - | - | - | - | | | |
| - After-tax interest expense | 5.3 | 19.1 | 41.7 | 58.2 | 69.3 | (20.4) | - | - | - | - | - | | | |
| - Pref. dividends and other adj. | 20.0 | 21.1 | 29.2 | 14.2 | - | - | - | - | - | - | - | | | |
| **NI to common stock** | **12.9** | **47.3** | **58.6** | **93.3** | **132.1** | **164.1** | **114.2** | **135.7** | **198.3** | **217.5** | **237.3** | | | |
| | | | | | | | | | | | | | | |
| Weighted Avg. Diluted Shares Out. | 30.3 | 51.6 | 51.7 | 53.5 | 57.1 | 52.3 | 52.3 | 52.3 | 52.3 | 52.3 | 52.3 | | | |
| **Diluted EPS** | **0.4** | **0.9** | **1.1** | **1.7** | **3.7** | **3.2** | **2.3** | **2.7** | **3.8** | **4.2** | **4.5** | | | |
| *Growth* | | *115.7%* | *23.8%* | *53.7%* | *112.8%* | *-14.0%* | *-27.7%* | *17.6%* | *39.8%* | *9.7%* | *9.1%* | | | |
| | | | | | | | | | | | | | | |
| Dividend per share | 0.15 | 0.15 | 0.15 | 0.15 | 0.15 | 0.15 | 0.15 | 0.15 | 0.15 | 0.15 | 0.15 | | | |
| Dividend | 4.5 | 7.7 | 7.8 | 8.0 | 8.6 | 7.8 | 7.8 | 7.8 | 7.8 | 7.8 | 7.8 | | | |
| | | | | | | | | | | | | | | |
| **EPS contribution** | | | | | | | | | | | | | | |
| Wholesale | 1.4 | 1.1 | 1.6 | 1.4 | 1.7 | 1.6 | 1.1 | 1.3 | 1.7 | 1.8 | 2.0 | | | |
| Retail | 0.1 | 0.2 | 0.5 | 1.0 | 0.9 | 0.3 | (0.1) | 0.1 | 0.7 | 0.8 | 0.8 | | | |
| Calvin Klein Licensing | 0.3 | 0.8 | 0.9 | 1.5 | 1.4 | 1.8 | 1.7 | 1.8 | 2.0 | 2.2 | 2.4 | | | |
| Corporate | (1.4) | (1.5) | (2.3) | (3.1) | (1.2) | (1.0) | (0.5) | (0.5) | (0.6) | (0.6) | (0.6) | | | |
| **Total Diluted EPS** | **0.4** | **0.9** | **1.1** | **1.7** | **3.7** | **3.2** | **2.3** | **2.7** | **3.8** | **4.2** | **4.5** | | | |
| | | | | | | | | | | | | | | |
| **Ratios and Assumptions** | | | | | | | | | | | | | | |
| Revenue growth | | | | | | | | | | | | | | |
| Wholesale | | 2.8% | 23.1% | 4.5% | 23.6% | -1.5% | -4.4% | 3.1% | 8.0% | 8.0% | 7.9% | | | |
| Retail | | 6.0% | 10.4% | 13.7% | 5.7% | -2.2% | -9.3% | -2.7% | 3.1% | 7.1% | 6.5% | | | |
| Calvin Klein Licensing | | 7.1% | 12.0% | 16.1% | 27.2% | 13.2% | -2.5% | 6.8% | 9.3% | 8.8% | 8.3% | | | |
| | | | | | | | | | | | | | | |
| COGS % of rev | 58.9% | 54.2% | 53.3% | 50.7% | 50.9% | 50.1% | 51.1% | 49.7% | 46.7% | 46.6% | 46.5% | | | |
| SG&A % of rev | 36.7% | 37.9% | 35.8% | 36.9% | 36.3% | 38.2% | 38.2% | 38.2% | 38.2% | 38.2% | 38.2% | | | |
| | | | | | | | | | | | | | | |
| Gross Margin | | | | | | | | | | | | | | |
| Wholesale | 40.2% | 46.3% | 48.3% | 49.4% | 48.0% | 47.7% | 45.0% | 45.9% | 47.7% | 47.7% | 47.7% | | | |
| Retail | 31.6% | 38.0% | 38.2% | 45.5% | 42.8% | 39.1% | 35.7% | 36.8% | 43.0% | 43.0% | 43.0% | | | |
| Calvin Klein Licensing | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | | | |

*Source: Company Documents, Student Estimates*

# Appendix 3: Projected Balance Sheet

**Projected Balance Sheet for Phillips-Van Heusen**
*Dollars in millions*

| | Historical Fiscal Year | | | | | Projected Fiscal Year | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2003** | **2004** | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** | **2011** | **2012** |
| Cash And Equivalents | 133.0 | 124.1 | 267.4 | 366.1 | 269.9 | 370.9 | 555.4 | 726.2 | 881.5 | 1097.4 |
| Account receivables | 96.7 | 93.4 | 102.8 | 99.4 | 186.0 | 187.6 | 170.8 | 152.3 | 194.5 | 190.9 |
| Inventory | 218.4 | 242.9 | 257.7 | 284.9 | 322.2 | 332.7 | 295.7 | 317.2 | 328.7 | 381.4 |
| Prepaid Exp. | 23.1 | 19.0 | 18.1 | 39.6 | 48.3 | 35.4 | 33.5 | 34.5 | 36.3 | 39.8 |
| Deferred Tax Assets, Curr. | 17.2 | 13.7 | 23.4 | 2.0 | - | - | - | - | - | - |
| Other Current Assets | 0.5 | 0.3 | 0.3 | 8.0 | 9.8 | 8.5 | 8.1 | 8.3 | 8.7 | 9.6 |
| **Total Current Assets** | **488.9** | **493.4** | **669.7** | **800.0** | **836.2** | **935.0** | **1,063.5** | **1,238.5** | **1,449.7** | **1,719.0** |
| | | | | | | | | | | |
| Gross Property, Plant & Equipment | 321.2 | 364.3 | 389.9 | 424.8 | 516.6 | 565.6 | 610.2 | 683.7 | 763.2 | 848.9 |
| Accumulated Depreciation | (182.7) | (209.7) | (231.4) | (252.8) | (284.5) | (373.7) | (476.1) | (581.4) | (689.3) | (799.0) |
| Net Property, Plant & Equipment | **138.5** | **154.6** | **158.5** | **172.0** | **232.1** | **192.0** | **134.1** | **102.3** | **74.0** | **49.9** |
| | | | | | 48.9% | | | | | |
| Goodwill | 160.4 | 174.5 | 200.0 | 271.1 | 322.0 | 370.4 | 415.9 | 462.0 | 511.0 | 563.8 |
| Other Intangibles | 628.8 | 699.3 | 699.4 | 742.4 | 740.1 | 774.0 | 796.7 | 842.8 | 891.8 | 944.6 |
| Other Long-Term Assets | 22.7 | 27.8 | 25.9 | 27.9 | 42.1 | 42.1 | 42.1 | 42.1 | 42.1 | 42.1 |
| **Total Assets** | **1,439.3** | **1,549.6** | **1,753.5** | **2,013.4** | **2,172.5** | **2,313.5** | **2,452.4** | **2,687.8** | **2,968.6** | **3,319.5** |
| | | | | | | | | | | |
| Accounts Payable | 49.8 | 54.5 | 61.6 | 81.9 | 112.8 | 95.3 | 91.4 | 93.9 | 98.9 | 108.8 |
| Accrued Exp. | 114.4 | 133.4 | 145.3 | 188.4 | 210.0 | 192.7 | 175.7 | 186.8 | 196.7 | 208.5 |
| Unearned Revenue, Current | 18.7 | 20.6 | 23.8 | 27.7 | 34.4 | 30.5 | 28.9 | 29.7 | 31.2 | 34.3 |
| Def. Tax Liability, Curr. | - | - | - | - | 2.9 | - | - | - | - | - |
| **Total Current Liabilities** | **182.9** | **208.5** | **230.7** | **298.0** | **360.1** | **318.5** | **296.0** | **310.4** | **326.9** | **351.6** |
| | | | | | | | | | | |
| Long-Term Debt | 399.1 | 399.5 | 399.5 | 399.5 | 399.6 | 399.6 | 399.6 | 399.6 | 399.6 | 399.6 |
| Pension & Other Post-Retire. Benefits | 15.8 | - | - | - | - | - | - | - | - | - |
| Def. Tax Liability, Non-Curr. | 178.3 | 187.2 | 232.5 | 256.3 | 219.6 | 216.7 | 205.3 | 211.1 | 222.2 | 243.7 |
| Other Non-Current Liabilities | 102.4 | 125.6 | 118.2 | 117.3 | 236.9 | 233.8 | 221.5 | 227.7 | 239.7 | 262.9 |
| **Total Liabilities** | **878.5** | **920.8** | **980.9** | **1,071.1** | **1,216.2** | **1,168.6** | **1,122.4** | **1,148.8** | **1,188.4** | **1,257.8** |
| | | | | | | | | | | |
| Pref. Stock, Convertible | 264.7 | 264.7 | 161.9 | - | - | - | - | - | - | - |
| Common Stock | 30.6 | 32.5 | 43.2 | 55.9 | 56.5 | 56.5 | 56.5 | 56.5 | 56.5 | 56.5 |
| Additional Paid In Capital | 155.4 | 185.7 | 346.1 | 530.0 | 559.0 | 559.0 | 559.0 | 559.0 | 559.0 | 559.0 |
| Retained Earnings | 145.6 | 178.5 | 255.4 | 388.6 | 558.5 | 737.2 | 922.2 | 1,131.2 | 1,372.4 | 1,653.9 |
| Treasury Stock | (0.5) | (0.6) | - | (0.1) | (200.3) | (200.3) | (200.3) | (200.3) | (200.3) | (200.3) |
| Comprehensive Inc. and Other | (35.1) | (32.0) | (34.0) | (32.2) | (17.4) | (7.4) | (7.4) | (7.4) | (7.4) | (7.4) |
| **Total Equity** | **560.7** | **628.8** | **772.6** | **942.2** | **956.3** | **1,145.0** | **1,330.0** | **1,539.0** | **1,780.2** | **2,061.7** |
| | | | | | | | | | | |
| **Total Liabilities And Equity** | **1,439.2** | **1,549.6** | **1,753.5** | **2,013.3** | **2,172.5** | **2,313.5** | **2,452.4** | **2,687.8** | **2,968.6** | **3,319.5** |
| | | | | | | | | | | |
| **Ratios and Assumptions** | | | | | | | | | | |
| Days in a year | 365 | | | | | | | | | |
| AR outstanding days | 24.9 | 23.0 | 21.7 | 19.3 | 31.4 | 28.0 | 30.0 | 24.1 | 24.1 | 24.1 |
| Inventory outstanding days | 86.2 | 99.6 | 92.4 | 98.0 | 95.3 | 100.0 | 105.0 | 95.0 | 95.0 | 95.0 |
| AP outstanding days | 19.7 | 22.3 | 22.1 | 28.2 | 33.4 | 29.1 | 29.1 | 29.1 | 29.1 | 29.1 |
| Avg cash conversion cycle | 91.4 | 100.3 | 92.0 | 89.1 | 93.4 | 98.9 | 105.9 | 90.0 | 90.0 | 90.0 |
| Prepaid Exp. % of rev | 1.6% | 1.3% | 1.0% | 2.1% | 2.2% | 1.7% | 1.7% | 1.7% | 1.7% | 1.7% |
| Deferred Tax Assets, Curr. % of rev | 1.1% | 0.8% | 1.2% | 0.1% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Other Current Assets % of rev | 0.0% | 0.0% | 0.0% | 0.4% | 0.5% | 0.4% | 0.4% | 0.4% | 0.4% | 0.4% |
| Accrued Exp. % of rev | 8.1% | 9.0% | 8.4% | 10.0% | 9.7% | 9.0% | 8.7% | 9.0% | 9.0% | 8.7% |
| Unearned Revenue, Current % of rev | 1.3% | 1.4% | 1.4% | 1.5% | 1.6% | 1.4% | 1.4% | 1.4% | 1.4% | 1.4% |
| Def. Tax Liability, Curr. % of rev | 0.0% | 0.0% | 0.0% | 0.0% | 0.1% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Def. Tax Liability, Non-Curr. % of rev | 12.6% | 12.6% | 13.4% | 13.6% | 10.2% | 10.2% | 10.2% | 10.2% | 10.2% | 10.2% |
| Other Non-Current Liabilities of rev | 7.2% | 8.5% | 6.8% | 6.2% | 11.0% | 11.0% | 11.0% | 11.0% | 11.0% | 11.0% |
| Increase in goodwill | | 14.10 | 25.50 | 71.10 | 50.90 | 48.43 | 45.47 | 46.08 | 49.01 | 52.82 |
| Increase in GW % of rev | | 0.9% | 1.3% | 3.4% | 2.1% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% |
| Increase in tradenames | | 70.50 | 0.10 | 43.00 | (2.30) | 33.9 | 22.7 | 46.1 | 49.0 | 52.8 |
| Increase in tradenames % of rev | | 4.3% | 0.0% | 2.1% | -0.1% | 1.4% | 1.0% | 2.0% | 2.0% | 2.0% |
| Depreciation % of gross PP&E | 16.4% | 15.9% | 16.6% | 16.1% | 16.6% | 15.0% | 14.0% | 13.0% | 12.0% | 11.0% |

*Source: Company Documents, Student Estimates*

# Appendix 4a: Discounted Cash Flow Valuation— Base Case

**Discounted Cash Flow Valuation for Phillips-Van Heusen**
*Dollars in millions, except per share*

| | Historical Fiscal Year | | | | | Projected Fiscal Year | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
| After-tax EBIT | 43.7 | 87.4 | 130.2 | 160.9 | 200.4 | 162.0 | 114.2 | 135.7 | 198.3 | 217.5 |
| Cash flow from operations | 96.4 | 174.0 | 222.0 | 294.8 | 308.3 | 211.9 | 221.1 | 259.5 | 287.6 | 342.3 |
| **Free cash flow to the firm** | | 43.3 | 158.9 | 134.5 | 157.1 | 80.5 | 108.3 | 93.8 | 110.1 | 151.0 |
| *Growth%* | | | *267.3%* | *-15.3%* | *16.8%* | *-48.7%* | *34.5%* | *-13.4%* | *17.4%* | *37.2%* |
| Firm value with all equity | | | | | | 955.1 | | | | |
| Debt tax shield | | | | | | 11.7 | | | | |
| PV of debt tax shield | | | | | | 152.2 | | | | |
| **Estimated firm value** | | | | | | **1,107.4** | | | | |
| Shares outstanding | | | | | | 52.3 | | | | |

| | | |
|---|---|---|
| **Estimated share price** | **21.18** | |
| Current price | **17.90** | as of Jan. 20, 2009 |
| Underpriced % | 18% | |

| Assumptions | | |
|---|---|---|
| Risk free rate | 2.79% | |
| Beta | 1.73 | capitalIQ 5 year beta |
| Market risk premium | 7.00% | historical avg |
| Cost of equity | 14.88% | |
| Terminal growth rate | 2.08% | US 1981-2007 average growth rate minus 3% |
| Tax rate | 38.10% | |
| Cost of debt, pretax | 7.70% | |
| Debt amount ($ millions) | 399.60 | |

From capital IQ

**FY 2008 Capital Structure As Reported Details**
*Dollars in millions*

| Description | Principal Due | Coupon Rate | Maturity | Seniority | Secured | Convertible | Interest exp. | |
|---|---|---|---|---|---|---|---|---|
| Debentures, 7.75% due 2023 | $ 99.60 | 7.750% | 2023 | Senior | Yes | No | $ 7.72 | |
| Senior Unsecured Notes, 7.25% due 2011 | $ 150.00 | 7.250% | 2011 | Senior | No | No | $ 10.88 | |
| Senior Unsecured Notes, 8.125% due 2013 | $ 150.00 | 8.125% | 2013 | Senior | No | No | $ 12.19 | |
| | | | 399.6 | | | | 30.8 | 7.7% |
| | | | | | | | | **weighted avg interest rate** |

*Source: Company Documents, Student Estimates*

# Appendix 4b: Discounted Cash Flow Valuation— Best Case

**Discounted Cash Flow Valuation for Phillips-Van Heusen**
*Dollars in millions, except per share*

| | Historical Fiscal Year | | | | | Projected Fiscal Year | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
| After-tax EBIT | 43.7 | 87.4 | 130.2 | 160.9 | 200.4 | 166.9 | 140.0 | 181.0 | 198.3 | 217.5 |
| Cash flow from operations | 96.4 | 174.0 | 222.0 | 294.8 | 308.3 | 216.8 | 246.9 | 304.8 | 287.6 | 342.3 |
| **Free cash flow to the firm** | | 43.3 | 158.9 | 134.5 | 157.1 | 85.4 | 134.2 | 139.1 | 110.1 | 151.0 |
| *Growth%* | | | *267.3%* | *-15.3%* | *16.8%* | *-45.6%* | *57.1%* | *3.7%* | *-20.8%* | *37.2%* |
| Firm value with all equity | | | | | | 1,008.9 | | | | |
| Debt tax shield | | | | | | 11.7 | | | | |
| PV of debt tax shield | | | | | | 152.2 | | | | |
| **Estimated firm value** | | | | | | **1,161.2** | | | | |
| Shares outstanding | | | | | | 52.3 | | | | |

| | | |
|---|---|---|
| **Estimated share price** | **22.20** | |
| Current price | **17.90** | as of Jan. 20, 2009 |
| Underpriced % | 24% | |

| Assumptions | | |
|---|---|---|
| Risk free rate | 2.79% | |
| Beta | 1.73 | capitalIQ 5 year beta |
| Market risk premium | 7.00% | historical avg |
| Cost of equity | 14.88% | |
| Terminal growth rate | 2.08% | US 1981-2007 average growth rate minus 3% |
| Tax rate | 38.10% | |
| Cost of debt, pretax | 7.70% | |
| Debt amount ($ millions) | 399.60 | |

From capital IQ

**FY 2008 Capital Structure As Reported Details**
*Dollars in millions*

| Description | Principal Due | Coupon Rate | Maturity | Seniority | Secured | Convertible | Interest exp. | |
|---|---|---|---|---|---|---|---|---|
| Debentures, 7.75% due 2023 | $ 99.60 | 7.750% | 2023 | Senior | Yes | No | $ 7.72 | |
| Senior Unsecured Notes, 7.25% due 2011 | $ 150.00 | 7.250% | 2011 | Senior | No | No | $ 10.88 | |
| Senior Unsecured Notes, 8.125% due 2013 | $ 150.00 | 8.125% | 2013 | Senior | No | No | $ 12.19 | |
| | | | 399.6 | | | | 30.8 | 7.7% |
| | | | | | | | | **weighted avg interest rate** |

*Source: Company Documents, Student Estimates*

# Appendix 4c: Discounted Cash Flow Valuation— Worst Case

**Discounted Cash Flow Valuation for Phillips-Van Heusen**
*Dollars in millions, except per share*

| | Historical Fiscal Year | | | | | Projected Fiscal Year | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
| After-tax EBIT | 43.7 | 87.4 | 130.2 | 160.9 | 200.4 | 157.0 | 95.8 | 105.1 | 151.0 | 217.5 |
| Cash flow from operations | 96.4 | 174.0 | 222.0 | 294.8 | 308.3 | 207.0 | 202.7 | 228.9 | 240.3 | 342.3 |
| **Free cash flow to the firm** | | 43.3 | 158.9 | 134.5 | 157.1 | 75.6 | 89.9 | 63.2 | 62.8 | 151.0 |
| *Growth%* | | | *267.3%* | *-15.3%* | *16.8%* | *-51.9%* | *19.0%* | *-29.7%* | *-0.7%* | *140.5%* |
| Firm value with all equity | | | | | | 889.6 | | | | |
| Debt tax shield | | | | | | 11.7 | | | | |
| PV of debt tax shield | | | | | | 152.2 | | | | |
| **Estimated firm value** | | | | | | **1,041.8** | | | | |
| Shares outstanding | | | | | | 52.3 | | | | |

| | | |
|---|---|---|
| **Estimated share price** | **19.92** | |
| Current price | **17.90** | as of Jan. 20, 2009 |
| Underpriced % | 11% | |

| Assumptions | | |
|---|---|---|
| Risk free rate | 2.79% | |
| Beta | 1.73 | capitalIQ 5 year beta |
| Market risk premium | 7.00% | historical avg |
| Cost of equity | 14.88% | |
| Terminal growth rate | 2.08% | US 1981-2007 average growth rate minus 3% |
| Tax rate | 38.10% | |
| Cost of debt, pretax | 7.70% | |
| Debt amount ($ millions) | 399.60 | |

From capital IQ

**FY 2008 Capital Structure As Reported Details**
*Dollars in millions*

| Description | Principal Due | Coupon Rate | Maturity | Seniority | Secured | Convertible | Interest exp. | |
|---|---|---|---|---|---|---|---|---|
| Debentures, 7.75% due 2023 | $ 99.60 | 7.750% | 2023 | Senior | Yes | No | $ 7.72 | |
| Senior Unsecured Notes, 7.25% due 2011 | $ 150.00 | 7.250% | 2011 | Senior | No | No | $ 10.88 | |
| Senior Unsecured Notes, 8.125% due 2013 | $ 150.00 | 8.125% | 2013 | Senior | No | No | $ 12.19 | |
| | | | 399.6 | | | | 30.8 | 7.7% |
| | | | | | | | | **weighted avg interest rate** |

*Source: Company Documents, Student Estimates*

# Appendix 5: Public Comparables

| *Dollars in millions* | | Price as of | 52 Week | | Market | Enterprise | Book | Tang. | DuPont Analysis: Margin | | | DuPont Analysis: Turnover | DuPont Analysis: Leverage | | TEV/EBITDA | | Tangible P/B | P/B | Forward P/E | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Company | Ticker | 1/20/2009 | High | Low | Value | Value | Value | BVPS | 2008E | 2009E | 2010E | 2008E | 2008E | ROE | 2009E | 2010E | 2008E | 2008E | 2009E | 2010E |
| Guess? | GES | 14.95 | 45.21 | 10.26 | 1,408 | 1,232 | 756 | 7.55 | 0.11 | 0.10 | 0.09 | 1.65 | 1.65 | 32.55 | 3.5x | 3.8x | 2.0x | 0.0x | 7.1x | 7.7x |
| Jones Apparel Group | JNY | 3.94 | 22.12 | 2.34 | 329 | 911 | 2,026 | 5.22 | (0.01) | (0.01) | (0.01) | 1.10 | 1.61 | (1.42) | 3.8x | 4.3x | 0.8x | 0.0x | 4.9x | 6.1x |
| Kenneth Cole | KCP | 6.14 | 19.74 | 5.52 | 110 | 59 | 213 | 10.98 | (0.01) | (0.01) | (0.01) | 1.48 | 1.55 | (2.49) | -8.2x | 9.7x | 0.6x | 0.0x | -15.2x | -30.1x |
| Perry Ellis | PERY | 4.10 | 29.27 | 3.40 | 62 | 277 | 280 | 3.85 | 0.02 | 0.02 | 0.02 | 1.41 | 2.20 | 6.78 | 5.9x | 5.2x | 1.1x | 0.0x | 5.7x | 4.5x |
| Ralph Lauren | RL | 37.25 | 82.02 | 31.22 | 3,677 | 3,606 | 2,525 | 12.29 | 0.09 | 0.09 | 0.09 | 1.17 | 1.69 | 19.81 | 4.4x | 4.4x | 3.0x | 0.0x | 9.2x | 10.6x |
| VF Corp. | VFC | 52.16 | 84.60 | 38.22 | 5,742 | 7,075 | 3,861 | 10.44 | 0.09 | 0.08 | 0.08 | 1.10 | 1.81 | 18.01 | 6.5x | 6.5x | 5.0x | 0.0x | 9.9x | 9.8x |
| Warnaco Group | WRC | 19.47 | 53.89 | 12.22 | 908 | 1,031 | 837 | 9.78 | 0.04 | 0.04 | 0.04 | 1.34 | 1.85 | 9.97 | 4.1x | 4.3x | 2.0x | 0.0x | 7.9x | 8.3x |
| **High** | | **52.16** | **84.60** | **38.22** | **5,742** | **7,075** | **3,861** | **12.29** | **0.11** | **0.10** | **0.09** | **1.65** | **2.20** | **32.55** | **6.5x** | **9.7x** | **5.0x** | **0.0x** | **9.9x** | **10.6x** |
| **Low** | | **3.94** | **19.74** | **2.34** | **61.86** | **58.80** | **213.04** | **3.85** | **(0.01)** | **(0.01)** | **(0.01)** | **1.10** | **1.55** | **(2.49)** | **-8.2x** | **3.8x** | **0.6x** | **0.0x** | **-15.2x** | **-30.1x** |
| **Mean** | | **19.72** | **48.12** | **14.74** | **1747.82** | **2027.17** | **1499.72** | **8.59** | **0.05** | **0.05** | **0.04** | **1.32** | **1.77** | **11.89** | **2.9x** | **5.4x** | **2.1x** | **0.0x** | **4.2x** | **2.4x** |
| **Median** | | **14.95** | **45.21** | **10.26** | **908** | **1,031** | **837** | **9.78** | **0.04** | **0.04** | **0.04** | **1.34** | **1.69** | **9.97** | **4.1x** | **4.4x** | **2.0x** | **0.0x** | **7.1x** | **7.7x** |
| Phillips-Van Heusen | PVH | 17.90 | 47.94 | 13.04 | 936 | 994 | 1,145 | 21.80 | 0.07 | 0.05 | 0.06 | 1.06 | 2.00 | 14.33 | 3.7x | 3.2x | 0.8x | 0.4x | 8.2x | 6.9x |

*Source: Company Documents, Student Estimates*

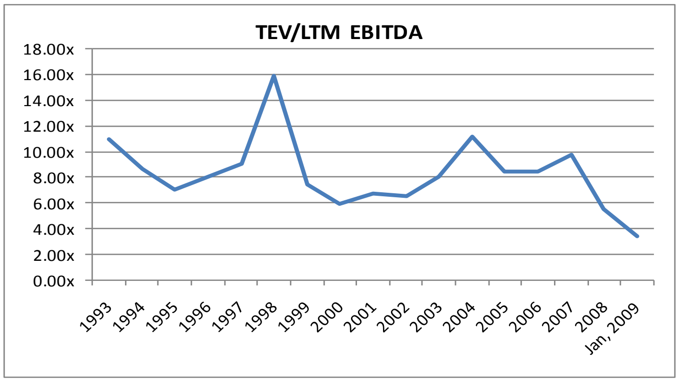
# Appendix 5: Public Comparables (Cont.)

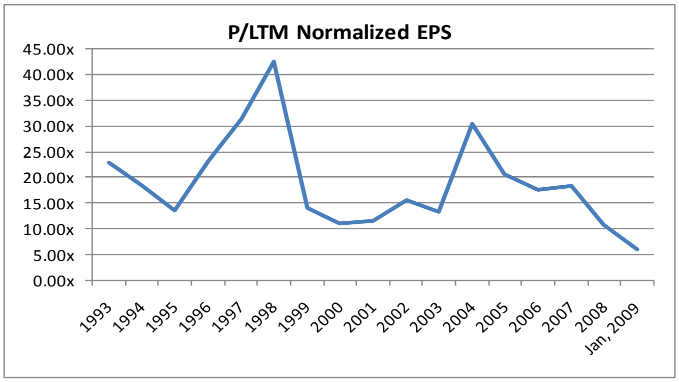
| *Dollars in millions* Company | Ticker | Price as of 1/20/2009 | Avg Days Inventory | ROA | 1 Yr Total Rev Growth | 2 Yr Total Rev Growth | 1 Yr EBIT Growth | 2 Yr EBIT Growth | 1 Yr Net Income Growth | 2 Yr Net Income Growth | LTM Gross Margin | LTM EBIT Margin | Net Debt/ Book Value | EBIT/Interest Expense |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Guess? | GES | 14.95 | 77.46 | 18.81 | 26.85 | NA | 29.32 | NA | 28.40 | NA | 45.37 | 17.42 | (0.23) | 74.7x |
| Jones Apparel Group | JNY | 3.94 | 85.45 | 2.54 | (10.18) | (8.41) | (33.79) | (42.46) | NM | NM | 32.81 | 3.74 | 0.29 | 3.2x |
| Kenneth Cole | KCP | 6.14 | 71.82 | 0.67 | (3.06) | (3.49) | (84.31) | (67.98) | NM | NM | 42.34 | 0.75 | (0.24) | NA |
| Perry Ellis | PERY | 4.10 | 79.28 | 5.14 | (1.21) | 3.64 | (24.85) | (5.74) | (35.96) | (3.11) | 34.15 | 5.62 | 0.77 | 2.9x |
| Ralph Lauren | RL | 37.25 | 100.37 | 10.58 | 11.19 | 11.19 | 11.39 | 6.11 | 21.97 | 12.95 | 54.97 | 14.18 | (0.03) | 26.7x |
| VF Corp. | VFC | 52.16 | 111.99 | 9.25 | 11.99 | 19.14 | 10.04 | 15.37 | 21.55 | 8.58 | 44.22 | 13.17 | 0.35 | 10.6x |
| Warnaco Group | WRC | 19.47 | 102.29 | 8.67 | 17.94 | 17.14 | 25.54 | 47.67 | 15.30 | 49.47 | 44.06 | 10.47 | 0.15 | 6.7x |
| **High** | | **52.16** | **111.99** | **18.81** | **26.85** | **19.14** | **29.32** | **47.67** | **28.40** | **49.47** | **54.97** | **17.42** | **0.77** | **74.7x** |
| **Low** | | **3.94** | **71.82** | **0.67** | **(10.18)** | **(8.41)** | **(84.31)** | **(67.98)** | **(35.96)** | **(3.11)** | **32.81** | **0.75** | **(0.24)** | **2.9x** |
| **Mean** | | **19.72** | **89.81** | **7.95** | **7.65** | **6.54** | **(9.52)** | **(7.84)** | **10.25** | **16.97** | **42.56** | **9.33** | **0.15** | **20.8x** |
| **Median** | | **14.95** | **85.45** | **8.67** | **11.19** | **7.42** | **10.04** | **0.19** | **21.55** | **10.77** | **44.06** | **10.47** | **0.15** | **8.7x** |
| Phillips-Van Heusen | PVH | 17.90 | 98.15 | 7.09 | (6.11) | (4.85) | (18.10) | (6.05) | (30.44) | (17.34) | 49.72 | 10.81 | 0.03 | 12.8x |

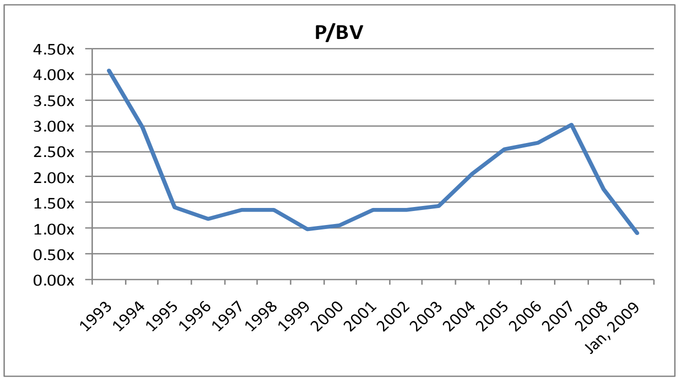
*Source: Company Documents, Student Estimates*

# Appendix 6: PVH Historical Trading Multiples

| | | 2007 | 2008 | Jan, 2009 |
|---|---|---|---|---|
| **TEV/NTM EBITDA** | **Average** | 8.65x | 5.57x | 4.42x |
| | **High** | 10.40x | 7.55x | 4.92x |
| | **Low** | 5.56x | 2.93x | 4.01x |
| | **Close** | 5.82x | 4.55x | 4.30x |
| **P/NTM EPS** | **Average** | 16.54x | 10.18x | 7.72x |
| | **High** | 20.07x | 14.17x | 8.70x |
| | **Low** | 10.74x | 4.72x | 6.92x |
| | **Close** | 10.74x | 7.94x | 7.53x |




*Source: Company Documents, Student Estimates*

## Appendix 7: Brands and Primary Products

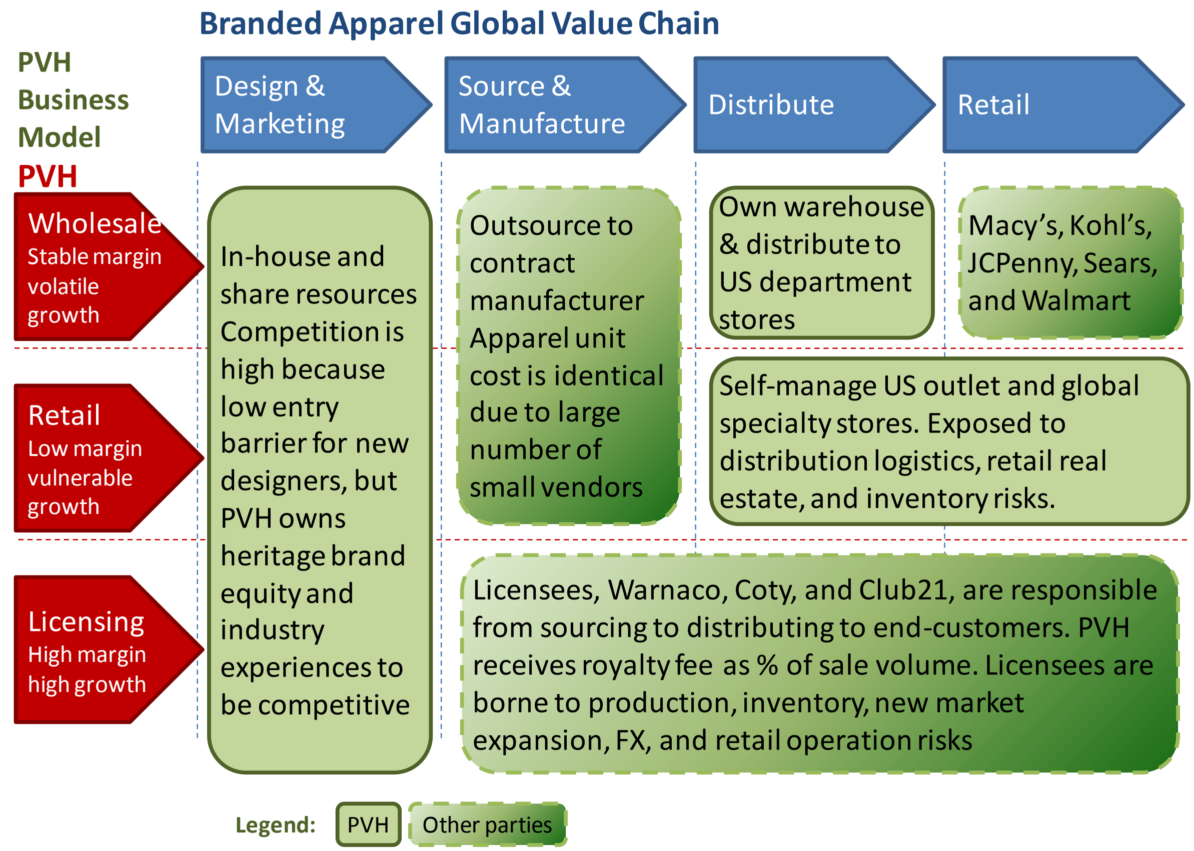
| | Dress | Sportwear | Footwear | Fragrance, Accessories, Home |
|---|---|---|---|---|
| Calvin Klein | x | x | x | x |
| IZOD | x | x | | |
| Van Heusen | x | x | | |
| ARROW | x | x | | |
| Bass | | | x | |
| Licensed | x | x | | |
| Private Label | x | | | |

*Source: Company Documents, Student Estimates*

## Appendix 8: 2007 Revenue % by Business Segment

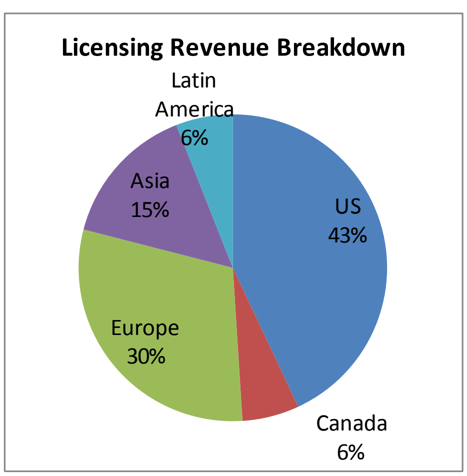

*Source: Company Documents, Student Estimates*

## Appendix 9: Industry Overview and PVH Business Model




*Source: Company Documents, Student Estimates*

## Appendix 10: Licensing Revenue Breakdown




*Source: Company Documents, Student Estimates*

## Appendix 11: Global Branded Apparel Industry Five Forces Analysis

**PVH Global Branded Apparel Industry Value Chain**

| Five Forces Industry Analysis | Brand Design & Marketing | Overseas Manufacturer | International Distribution | Department Store |
|---|---|---|---|---|
| Rivalry | High<br>• Numerous brands compete | Very high<br>• Identical output low cost strategy | Moderate<br>• Oligopoly - limited players | Moderate<br>• Oligopoly - limited players |
| Buyer Power | Moderate<br>• Mass market brand is vulnerable | Low<br>• Brand/distributor has power | Moderate to High<br>• Retailer has power | High<br>• Channel demand is elastic |
| Supplier Power | Moderate<br>• Few designers own power | Moderate/ High<br>• Raw materials are commodities | Moderate to High<br>• Brand has power | Moderate<br>• Retail store consolidation |
| New Entrant | Moderate<br>• New designers can easily enter | High<br>• Low entry barriers | Low<br>• Network builds capacity barrier | Low<br>• Network builds capacity barrier |
| Substitutes | High<br>• Private label clothing threats | Moderate<br>• Relies on labor<br>• New technology | Low<br>• Relies on last mile distribution | High<br>• Internet/catalog<br>• Discount store |
| Operating Margin % | Moderate 12% (PVH) | Low <5% | Moderate 8% (Warnaco) | Moderate 9% (Macy's/ Kohls) |

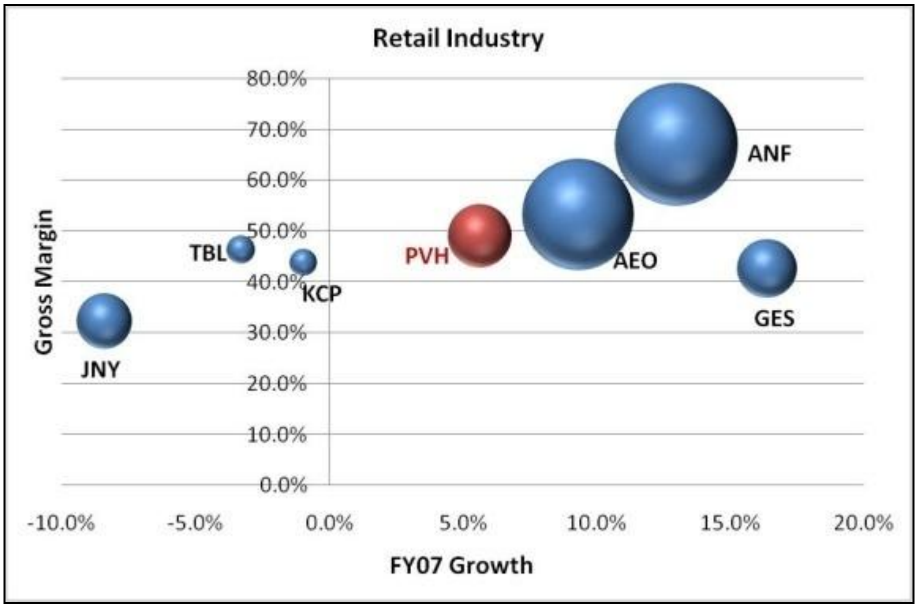
*Source: Company Documents, Student Estimates*

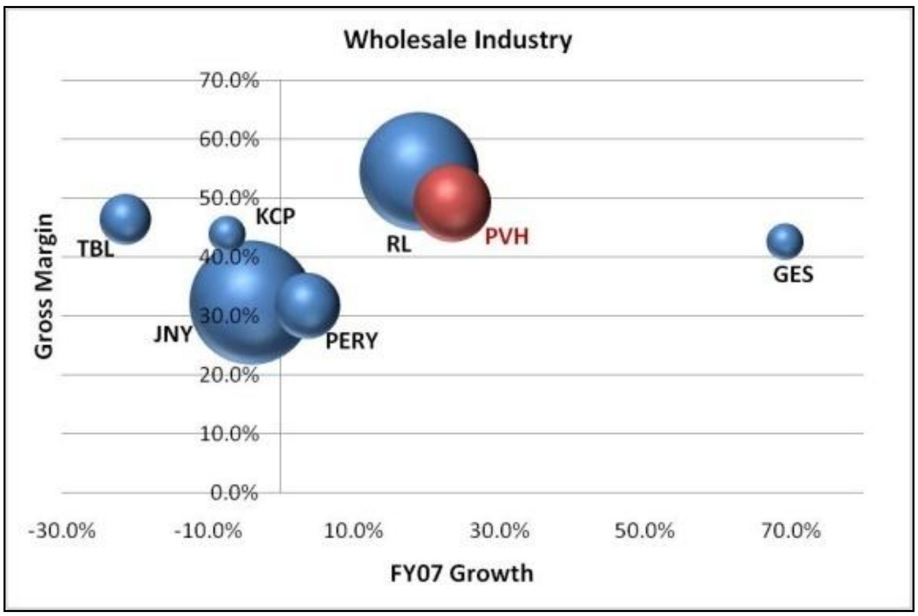
# Appendix 12: Recession Impacts on the Value Chain Key Players

| | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Revenue Growth** | | | | | | | | | | | | | | | | | | | |
| PVH | | | | 15.3% | 10.5% | 8.9% | 16.6% | (7.1%) | (0.7%) | (3.5%) | (2.4%) | 14.5% | (1.6%) | (2.8%) | 12.7% | 4.6% | 16.3% | 9.5% | 16.0% |
| Macy's | | | | | 2.1% | 15.0% | 81.0% | 1.2% | -0.1% | 1.0% | 4.3% | 3.8% | -5.9% | -1.4% | -0.1% | 2.4% | 41.9% | 20.5% | -2.4% |
| Kohl's | | | | | 19.0% | 19.0% | 23.9% | 24.0% | 28.1% | 20.3% | 23.8% | 35.0% | 21.7% | 21.8% | 12.7% | 13.8% | 14.9% | 16.0% | 5.6% |
| JCPenny | | | | 11.2% | 5.7% | 7.7% | 0.8% | 10.5% | 29.6% | -2.1% | 6.7% | 0.3% | -43.2% | -2.5% | -0.7% | 3.3% | 3.8% | 6.0% | -0.2% |
| Sears | | | | | -0.2% | -12.0% | 7.3% | -0.9% | 2.4% | 4.6% | 6.7% | -2.5% | -2.4% | -14.1% | -20.4% | -15.1% | 149.2% | 7.2% | -4.4% |
| Walmart | 25.0% | 26.5% | 34.8% | 26.4% | 21.4% | 22.7% | 13.6% | 12.0% | 12.4% | 16.7% | 19.8% | 15.8% | 6.6% | 12.5% | 11.7% | 9.9% | 9.8% | 11.7% | 8.6% |
| Warnaco | | | | 11.1% | 12.6% | 12.1% | 16.2% | 16.1% | 35.0% | 35.8% | 8.4% | 6.4% | -29.6% | -11.0% | -2.4% | 2.3% | -7.3% | 27.0% | 12.4% |
| RL | | | | | | | | | | 16.6% | 13.2% | 13.8% | 6.2% | 3.2% | 8.6% | 24.7% | 13.3% | 14.7% | 13.6% |
| **Gross Margin %** | | | | | | | | | | | | | | | | | | | |
| PVH | | | 35.5% | 37.0% | 35.1% | 32.6% | 32.5% | 33.0% | 30.5% | 34.3% | 35.5% | 34.7% | 35.4% | 37.2% | 41.1% | 45.8% | 46.7% | 49.3% | 49.1% |
| Macy's | | | | 40.3% | 39.5% | 38.3% | 38.1% | 38.6% | 39.6% | 40.0% | 40.3% | 40.2% | 39.1% | 40.0% | 40.5% | 40.8% | 40.7% | 40.6% | 40.4% |
| Kohl's | | | | 34.1% | 33.4% | 33.2% | 32.8% | 32.6% | 33.1% | 33.5% | 33.9% | 34.1% | 34.3% | 34.4% | 33.0% | 35.2% | 35.6% | 36.4% | 36.5% |
| JCPenny | | | 31.2% | 31.5% | 31.3% | 31.2% | 30.0% | 28.8% | 27.6% | 30.7% | 29.8% | 28.0% | 33.6% | 35.9% | 37.1% | 37.5% | 38.3% | 39.3% | 38.6% |
| Sears | | | | 27.2% | 25.7% | 24.5% | 22.2% | 22.4% | 21.8% | 21.8% | 23.2% | 20.0% | 20.6% | 17.1% | 22.7% | 24.7% | 27.7% | 28.7% | 27.7% |
| Walmart | 22.8% | 22.4% | 21.5% | 21.1% | 21.4% | 21.4% | 21.4% | 21.3% | 21.7% | 21.9% | 22.3% | 22.2% | 22.7% | 23.0% | 23.2% | 23.7% | 23.9% | 24.2% | 24.4% |
| Warnaco | | | 34.7% | 35.1% | 33.6% | 32.4% | 33.8% | 27.2% | 26.1% | 27.5% | 32.2% | 27.0% | 16.9% | 28.8% | 31.8% | 33.3% | 33.6% | 38.6% | 41.7% |
| RL | | | | | | | | | | 47.6% | 48.7% | 47.8% | 48.5% | 49.5% | 49.9% | 51.0% | 54.1% | 54.4% | 54.1% |
| **EBIT Margin %** | | | | | | | | | | | | | | | | | | | |
| PVH | | | 6.1% | 7.1% | 7.0% | 4.5% | 3.2% | 3.5% | (0.0%) | 3.3% | 3.8% | 4.8% | 2.9% | 5.0% | 4.3% | 7.9% | 10.9% | 12.3% | 12.8% |
| Macy's | | | | 6.1% | 7.4% | 7.6% | 6.5% | 5.9% | 8.8% | 9.5% | 10.6% | 10.6% | 8.4% | 9.1% | 9.1% | 9.1% | 11.7% | 9.1% | 7.9% |
| Kohl's | | | | 5.9% | 7.8% | 8.0% | 7.8% | 7.9% | 8.5% | 9.2% | 9.8% | 10.6% | 11.4% | 11.8% | 9.3% | 10.2% | 10.5% | 11.6% | 11.0% |
| JCPenny | | | 6.2% | 7.5% | 8.3% | 8.5% | 6.8% | 4.9% | 5.7% | 3.6% | 2.3% | 0.5% | 3.1% | 4.0% | 4.4% | 7.2% | 8.6% | 9.7% | 9.5% |
| Sears | | | | 5.2% | 3.5% | 2.0% | 0.5% | 2.5% | 2.8% | 3.3% | 3.3% | 0.3% | -0.4% | -4.2% | 1.7% | 4.4% | 3.8% | 4.6% | 3.1% |
| Walmart | 7.1% | 6.7% | 6.4% | 6.2% | 6.2% | 6.0% | 5.5% | 5.4% | 5.5% | 5.8% | 6.1% | 5.9% | 5.6% | 5.7% | 5.8% | 6.1% | 6.0% | 5.9% | 5.9% |
| Warnaco | | | 12.6% | 14.4% | 13.1% | 12.6% | 12.4% | -1.1% | 1.8% | 4.4% | 9.7% | 2.9% | -17.5% | 2.1% | 5.8% | 7.4% | 6.9% | 7.4% | 9.3% |
| RL | | | | | | | | | | 12.4% | 13.5% | 10.8% | 13.1% | 12.5% | 11.0% | 12.4% | 14.4% | 15.3% | 13.5% |
| **SG&A % of Rev** | | | | | | | | | | | | | | | | | | | |
| PVH | | | 29.4% | 29.9% | 28.2% | 28.1% | 29.3% | 29.5% | 30.6% | 31.0% | 31.7% | 29.9% | 32.5% | 32.3% | 36.7% | 37.9% | 35.8% | 36.9% | 36.3% |
| Macy's | | | | 34.2% | 32.1% | 30.7% | 31.6% | 32.7% | 30.7% | 30.5% | 29.7% | 29.5% | 30.7% | 30.9% | 31.4% | 31.7% | 31.2% | 32.2% | 32.5% |
| Kohl's | | | | 26.2% | 23.4% | 23.0% | 22.7% | 22.5% | 22.2% | 22.0% | 21.4% | 20.8% | 20.4% | 20.0% | 21.0% | 22.1% | 22.2% | 21.9% | 22.4% |
| JCPenny | | | 25.6% | 24.7% | 23.7% | 23.5% | 23.9% | 22.5% | 21.6% | 26.8% | 27.1% | 27.1% | 30.6% | 32.0% | 32.7% | 28.4% | 27.8% | 27.7% | 27.0% |
| Sears | | | | 22.0% | 22.3% | 22.5% | 21.7% | 20.0% | 19.1% | 18.5% | 19.9% | 19.7% | 21.0% | 21.3% | 20.9% | 20.2% | 22.0% | 21.9% | 22.6% |
| Walmart | 15.8% | 15.8% | 15.2% | 15.0% | 15.3% | 15.6% | 16.0% | 16.2% | 16.4% | 16.2% | 16.4% | 16.5% | 17.2% | 17.4% | 17.5% | 17.6% | 17.9% | 18.4% | 18.5% |
| Warnaco | | | 22.2% | 20.7% | 20.5% | 19.9% | 21.4% | 28.4% | 24.3% | 23.2% | 22.5% | 24.1% | 34.4% | 26.7% | 25.1% | 25.7% | 26.3% | 30.5% | 31.7% |
| RL | | | | | | | | | | 35.2% | 35.2% | 36.9% | 35.4% | 37.0% | 38.9% | 38.5% | 39.4% | 38.7% | 39.6% |

*Source: Capital IQ*

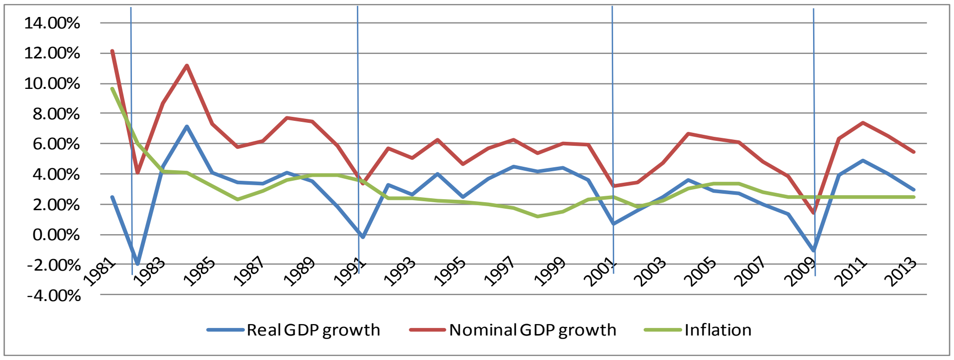
# Appendix 13: 2007 US Retail and Wholesale Competitive Position

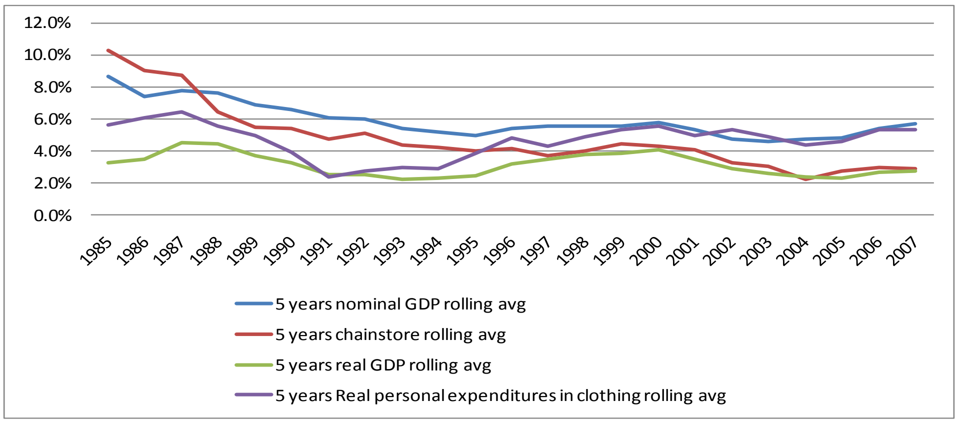


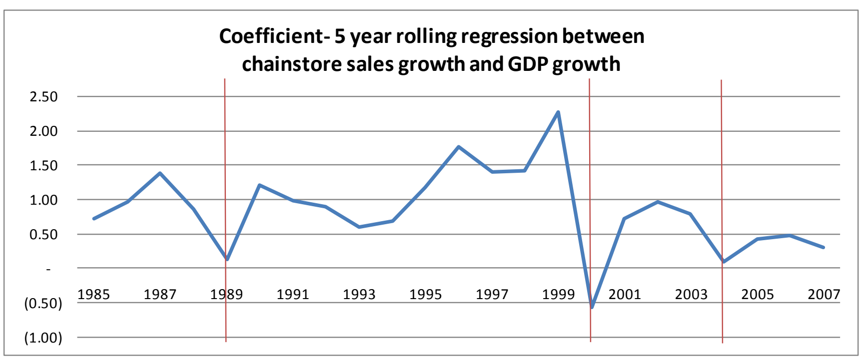



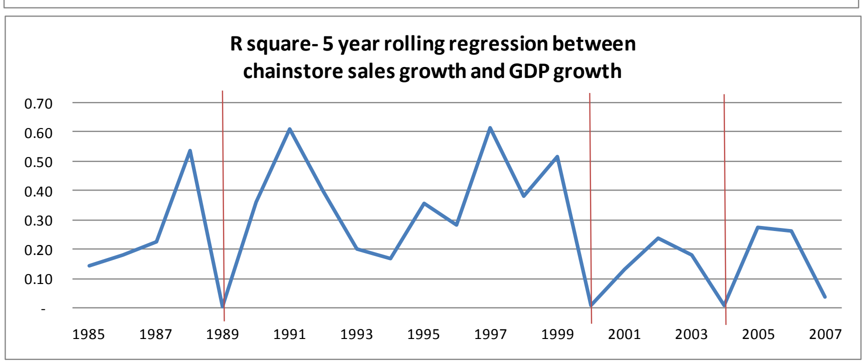

*Source: Capital IQ*

# Appendix 14: US GDP Growth and Chain Store Sales Growth Correlation



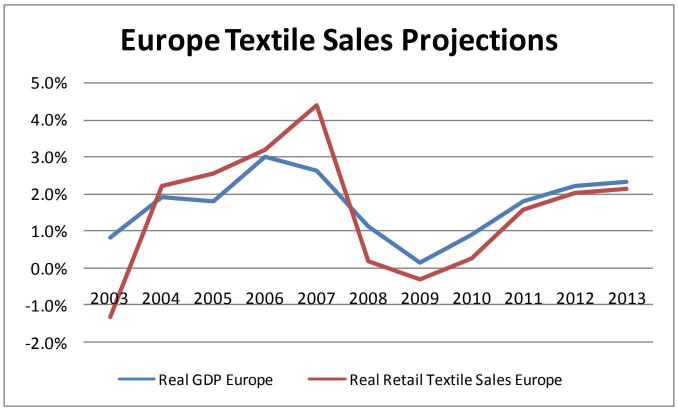



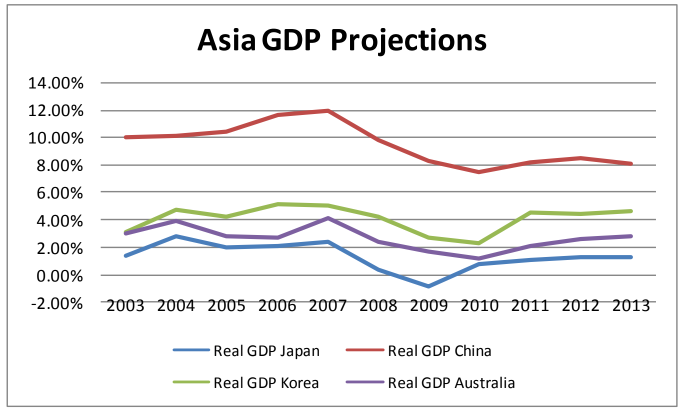



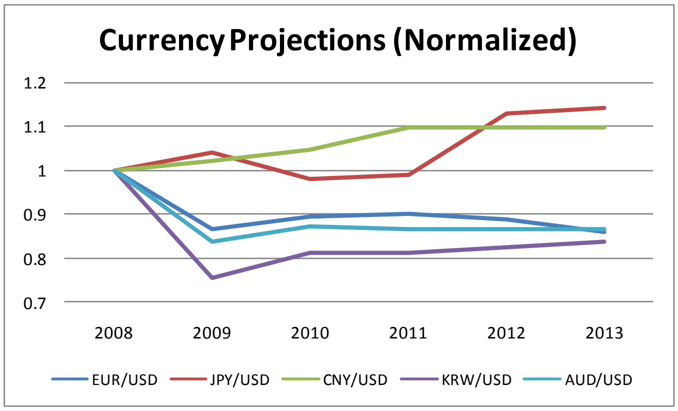




*Source: International Council of Shopping Centers, EIU: Bureau of Economic Analysis*

# Appendix 15: International Licensing Key Macro Indicator Projections




*Source: Bloomberg, Student Estimates*

# Appendix 16: PVH Capital Expenditure % of Next Year's Revenue

| | Historical Fiscal Year | | | | | Projected Fiscal Year | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
| Net Capex % of next year Rev | | | | | | | | | | |
| Wholesale | 0.8% | 1.1% | 1.0% | 0.8% | 2.0% | 1.0% | 1.0% | 2.0% | 2.0% | 2.0% |
| Retail | 3.1% | 4.0% | 2.6% | 3.2% | 6.8% | 3.5% | 3.5% | 4.0% | 4.0% | 4.0% |
| Calvin Klein Licensing | 0.7% | 0.6% | 0.6% | 0.6% | 1.4% | 1.0% | 1.1% | 1.2% | 1.3% | 1.4% |

*Source: Company Documents, Student Estimates*

# Appendix 17: Historical Acquisitions

Six Year Acquisition History

| Acquisition Target | Date of completion | Price/Financing | Other Information | Size of target ($mm) |
|---|---|---|---|---|
| Mulberry Thai Silks | April 24 2008 | 10M cash purchase | "Certain Assets" were acquired. PVH acquired the rights to produce neckwear under the Kenneth Cole New York, Kenneth Cole Reaction, J. Garcia, Liz Claiborne, Sean John, BCBG Max Azria, BCBG Attitude, U.S. Polo Assn., Axcess, and Henry jacobson brands in connection with the transaction. Total neckwear sales for these brands, at time of purchase, were $20-$25 Million. PVH also acquiredthe rights to the Henry Jacobson lifestyle brand for all menswear classifications world-wide. | 9.6 |
| CMI [Confezioni Moda International S.r.L.] | Jan 30 2008 | | CMI was the licensee of Calvin Klein Collection apparel and accessories businesses. PVH acquired 100% of the issued and outstanding chares of CMI from Warnaco. | 17.1 |
| Superba Inc | Jan 2 2007 | All Cash. 110M + earnout over three year period with maximum 70M value. | Superba was privately held, and a leading manufacturer and distributor of neckwear in The US and Canada. The acquired business, which includes neckwear licenses for many well-known designer and brand names, such as Arrow, DKNY, Tommy Hilfiger, Nautica, Perry Ellis, Ted Baker, Ike Behar, Michael Kors, JOE Joseph Abboud, Original Penguin, Jones New York and Hart Schaffner Marx,is now operated through the newly formed PVH Neckwear Group. | 180.0 |
| Cluett American Corp., Arrow Brand and related Licensing business | Dec 10 2004 | ~70 M | "Arrow" is the name for the collection of Cluett Peabody Resources Corporation and Cluett Peabody & Co., Inc. PVH had previously been a long-term licensee of Arrow, whose annual sales volume for PVH had grown to $160-$170 Million prior to the deal. | 70.0 |
| Calvin Klein | Feb 12 2003 | 430 M in cash and Stock. Mr Klein to receive purchase price payments based on CK sales through 2018. | Prior the acquisition, Calvin Klein was known as a highly successful couture business and held an extensive network of licensing agreements that generated over $3 billion in annual retail sales worldwide. | 444.0 |

*Source: Capital IQ*

## Appendix 18: Wholesale Distribution Channel

| | Sales at Retail ($MM) | Wholesale (Doors) | | | | | | Licensing | Retail |
|---|---|---|---|---|---|---|---|---|---|
| | | Macy's (810) | JC Penny (1067) | Sears (926) | Kohl's (1003) | Wal-Mart (4000+) | Other | | |
| Calvin Klein | 5,448 | x | | | | | x | x | x |
| IZOD | 920 | x | x | | | | x | x | x |
| Van Heusen | 859 | x | x | | | | x | x | x |
| ARROW | 623 | | | x | x | | x | x | |
| Bass | 301 | | | | | | | x | x |
| Licensed | | x | x | | x | | x | | x |
| Private Label | | x | x | x | x | x | x | | |

*Source: Company Documents*

## Appendix 19: Cost of Equity and Terminal Growth Rate Sensitivity Analysis

| Target share price | | Change to Cost of Equity | | | | |
|---|---|---|---|---|---|---|
| | | 0.0% | 1.0% | 2.0% | 3.0% | 4.0% |
| Change to Terminal Growth Rate | -2.0% | 19.7 | 18.5 | 17.5 | 16.6 | 15.7 |
| | -1.5% | 20.1 | 18.9 | 17.8 | 16.8 | 15.9 |
| | -1.0% | 20.6 | 19.2 | 18.1 | 17.1 | 16.2 |
| | -0.5% | 21.0 | 19.6 | 18.4 | 17.3 | 16.4 |
| | 0.0% | 21.5 | 20.0 | 18.8 | 17.6 | 16.7 |

*Source: Student Estimates*

## Appendix 20: Revenue Growth and Operating Margin Sensitivity Analysis

| Target share price | | Change to Total Revenue Growth Rate | | | | |
|---|---|---|---|---|---|---|
| | | -4.0% | -3.0% | -2.0% | -1.0% | 0.0% |
| Change to Operating Margin | -2.0% | 16.8 | 17.0 | 17.2 | 17.4 | 17.5 |
| | -1.5% | 17.7 | 17.9 | 18.1 | 18.3 | 18.5 |
| | -1.0% | 18.6 | 18.8 | 19.1 | 19.3 | 19.5 |
| | -0.5% | 19.5 | 19.8 | 20.0 | 20.3 | 20.5 |
| | 0.0% | 20.4 | 20.7 | 21.0 | 21.2 | 21.5 |

*Source: Student Estimates*

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