

G-III Ltd.
NASDAQ:G-III

Analyst: Cindy Missaoui
Sector: Consumer
Discretionary

BUY

Price Target: \$43.98

Key Statistics as of 12/8/2016

Market Price: \$31.86
Industry: Apparel
Market Cap: \$1.5B
52-Week Range: \$24.41-55.89
Beta: 0.55

Catalysts:

- Expansion/Acquisition
- Q4 2017 Earnings call on March, 21st

Company Description:

Headquartered in New York City, NY G-III Apparel Group Ltd. is a manufacturer and distributor of outwear, dresses, sportswear, swimwear, beachwear and women's suits. The company manufactures and distributes under licensed brands such as Calvin Klein, Tommy Hilfiger, and Karl Lagerfeld, proprietary brands such as Vilebrequin, and Bass & Co. and private label brands.



Thesis

- G-III Apparel Group's broad portfolio is a significant advantage in the retail industry
- The company's growth strategy is based on expansion through acquisition
- Given the company financial performance it is an open door for growth

Brand Portfolio

G-III Apparel Group Ltd. large and deep portfolio of forty brands is a significant competitive advantage in an industry where competition is fierce. The company markets apparel and others products for men, women, and team sports. Globally, G-III Apparel Group Ltd. owns more than forty brands (licensed and proprietary), but deploys also several partnership with high-profile brands such as Calvin Klein, Tommy Hilfiger, and Karl Lagerfeld. These partnership allow G-III Apparel Group Ltd. to target a larger market and to follow the fashion trends which is constantly moving towards new trends. In addition to that, G-III Apparel Group Ltd. also own proprietary brands such as Vilebrequin, Bass, Weejuns, G.H, Andrew Mark, and Marc New York. As a matter of fact, the company tries to acquire more and more brands in order to create a meaningful lifestyle brands. For instance, G-III Apparel Group Ltd. acquired Vilebrequin in August 2012 a powerful brand closely linked to its Cote d'Azur heritage arising from its founding in St Tropez. In fact, G-III Apparel Group Ltd. has the ability to adapt in an industry and an environment of rapidly changing customers fashion trends. By offering people a perfect mix of established and newer brands, they make them more loyal and avoid seasonality which is one of the biggest risk within this industry. This exposition led G-III Apparel Group Ltd. to have a strong brand recognition with a strong reputation for providing and manufacturing high-quality products that has led major stores and retailers to partner up together. For these reasons, the company sells its products to more than 2,700 customers through retailers such as Macy's, Ross Stores, Saks Fifth Avenue, JC Penney, and TXJ Companies, which makes it easier for customers to find G-III Apparel Group Ltd. products which emphasizes even more customers loyalty and satisfaction.



Growth Strategy

When it comes to growth strategy, G-III Apparel Group Ltd. wants to expand its position as an all-season diversified clothes company. As said previously, seasonality can be a risk for G-III which might be avoided with portfolio diversification through partnership. In fact, as explained in the annual report, G-III Apparel Group Ltd. expanded its relationship with Tommy Hilfiger with a new license for womenswear in February 2016. As can be seen on the exhibit below, the company took a lot of diversification initiatives through partnership in order to add new product categories and so gain market share. In fact, strong brands such as Calvin Klein will continue to grow in the future due to strong brand awareness and loyalty among customers that will benefit G-III Apparel Group Ltd. The company decided to expand its partnership with Calvin Klein as the brand is considered as the company's cash cow.

In addition to that, as explained in the 10-K, G-III Apparel Group Ltd. expanded its partnership with respect to the Karl Lagerfeld brand through the acquisition of 19% minority interest in the parent company that holds the worldwide rights to the Karl Lagerfeld brand. G-III Apparel Group Ltd. is a leader in the apparel business for many years, and is still seeking for attractive acquisition and partnership with several different brands to continue to grow in the future and to create economies of scale. In fact, given the company's culture and infrastructure suggests that G-III Apparel Group Ltd. will acquire other company in the future.

License	New Commencement Date	Term Expiration Date
Calvin Klein (Men's outerwear)	December 31, 2013	December 31, 2020
Calvin Klein (Women's outerwear)	December 31, 2013	December 31, 2018
Calvin Klein (Women's dresses)	December 31, 2018	December 31, 2021
Calvin Klein (Women's suits)	December 31, 2018	None
Calvin Klein (Women's performance wear)	December 31, 2017	December 31, 2022
Calvin Klein (Women's better sportswear)	December 31, 2017	December 31, 2022
Calvin Klein (Women's leggings)	December 31, 2013	December 31, 2020
Calvin Klein (Women's knits and casual leather goods)	December 31, 2013	December 31, 2020
Calvin Klein (Women's performance activewear)	December 31, 2017	December 31, 2022
Calvin Klein (Men's and women's outerwear)	December 31, 2019	December 31, 2024
Cole Haan (Men's and women's outerwear)	January 31, 2016	None
Dodoni (Men's outerwear)	December 31, 2018	December 31, 2018
Ellie Tracy (Women's outerwear, dresses and suits and men's outerwear)	December 31, 2014	December 31, 2018
Gianni Versace (Men's and women's outerwear)	December 31, 2012	December 31, 2023
Gianni Versace (Women's dresses)	December 31, 2018	December 31, 2023
Isabella Toppano (Women's sportswear, suits, dresses, activewear, performance wear and knits)	December 31, 2018	December 31, 2023
Isabella Toppano (Women's dresses)	January 31, 2017	January 31, 2020
Isabella Toppano (Women's outerwear)	December 31, 2014	December 31, 2017
Jeanne Marie (Women's outerwear)	January 31, 2017	None
Joseph Ribbitt (Women's outerwear)	December 31, 2018	None
Joseph Ribbitt (Women's dresses, suits, active wear and outerwear)	December 31, 2018	None
Kenneth Cole NY (Men's outerwear, dresses, suits, active wear and outerwear)	January 31, 2017	January 31, 2022
Kenneth Cole & Joe (Women's cold weather accessories)	January 31, 2017	January 31, 2022
Kenneth Cole & Joe (Women's knits/leggings)	January 31, 2017	January 31, 2022
Levi's (Men's and women's outerwear)	December 31, 2018	December 31, 2018
Sea Island (Men's outerwear)	January 31, 2014	None
Sea Island (Women's outerwear)	December 31, 2013	December 31, 2023
Tommy Hilgner (Men's outerwear)	March 31, 2018	None
Tommy Hilgner (Leggings)	December 31, 2014	None
Yves Cassato (Women's dresses)	December 31, 2014	December 31, 2017
Yves Cassato (Men's outerwear)	December 31, 2014	December 31, 2017
Team Sports License	March 31, 2014	None
Collegiate Licensing Company	October 31, 2013	None
Major League Baseball (Men's)	October 31, 2014	None
Major League Baseball (Women's)	October 31, 2014	None
National Basketball Association	September 30, 2013	None
National Football League	March 31, 2017	None
National Hockey League	June 30, 2018	None



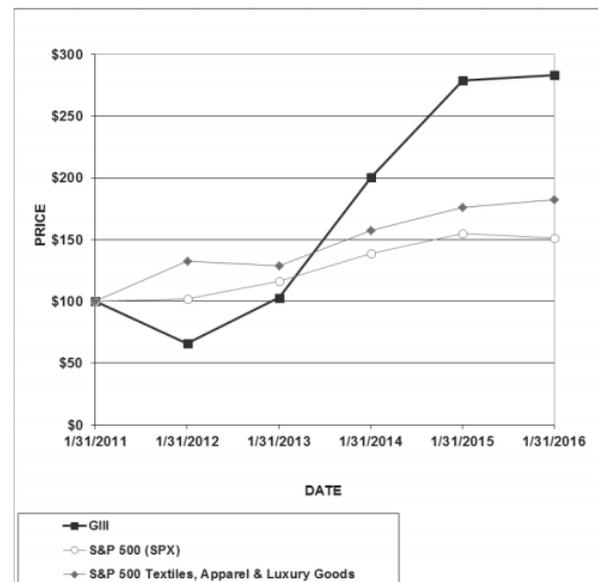
Acquisition

On July 2015, G-III Apparel Group Ltd. announced Donna Karan and DKNY (DKI) acquisition for \$650million. DKI has been founded in 1984, and is one of the world's most iconic brands from LVMH. Once again, when it comes to acquisition, G-III Apparel Group Ltd. focused on its strategy of expansion and diversification to drive long-term shareholder value. In fact, as explained in 10-K, G-III expects Donna Karen and DKNY to have the highest operating margin within its stable brands. That being said, the DKI's acquisition becomes a way to generate sales across channels and categories in the US and worldwide. As of December 2016, the transaction has been financially forcible and is expected to be accretive in FY 2019. When it comes to sources of financing, G-III Apparel Group Ltd. plan to fund the acquisition through indebtedness including \$75 million 6 years seller note and \$75 million of newly issued G-III common stock to LVMH. Besides of that, G-III has obtained financing from JP Morgan and Barclays with a \$525 million ABL credit facility and \$450 million 6-year term loan. This acquisition will further diversifies G-III Apparel Group Ltd.'s sales distribution by e non-licensed sales, and will perfectly fit along-side G-III's other powerful brands such as Calvin Klein, Vilbrequin, and Karl Lagerfeld. Finally, DKI acquisition will allow G-III to add new categories and brands, and so diversify its portfolio which is at the core of its growth strategy.

Risks

G-III Apparel Group Ltd. risk factors are mainly related to the Wholesales Operations. In fact, as explained before, the company relies a lot on license agreements, and so 59.2% of revenues depends on sales of licensed products in FY 2016. Consequently, the failure to maintain license agreements represents a significant risk as it will lead G-III Apparel Group Ltd. to lose significant revenues. In addition to that, the reputations and strategy of licensors that cannot be controlled and managed by G-III represent a risk for the company. Finally, trends can also be a risk for the company if it cannot respond to customers' need and

G-III Apparel Group, Ltd.
Comparison of Cumulative Total Return
(January 31, 2011 — January 31, 2016)



demand on a timely manner. Even if G-III's strategy is to diversify its portfolio in order to target a broad market avoiding seasonality and enhancing customers' loyalty, many apparel companies have experienced period of rapid growth followed by period of declining sales and loss. Many factors such as trends, and social media can negatively affect G-III.

Nevertheless, as can be seen on the graph above, G-III outperforms since 2014 both S&P 500 and S&P 500 Textiles, Apparel and Luxury Goods indexes.

Financials

G-III Apparel Ltd. financial health strength can be seen in multiples areas. First, as explained before the company reported strong financial results in FY 2016 and outperformed estimations on revenues and net income. Revenues rose by 11% from \$2,116 to \$2,344M and Net Income rose by 4.8% from \$103M to \$113M. As being said, revenues growth has led gross profit to increase from \$757M (34% gross margin) to \$837M (36% gross margin).

When looking at the potential forecasted growth for 2017 and 2018, G-III would generate respectively \$2,411M and \$2,884M. As a matter of fact, the gross margin would potentially be 35.6% and 36% of revenues in 2017 and 2018. As can be seen with the financials, and recent acquisitions the company will continue to maximize shareholders value year over year.

Besides, G-III Apparel Ltd. ROIC ratio highlights the company strong ability to generate return on invested capital and so to create value.

	ROIC	
	History	LFY
GIII	16.1%	13.4%
Competitors	15.4%	13.0%

When analyzing the key drivers of value which are revenue growth and ROIC, it seems obvious that the company's trend in the long run performance would be positive and will generate positive free cash flow.

Furthermore, G-III Apparel Group Ltd. has less debt than its competitors with a D/E ratio of 0.08 compared to 0.16 for competitors.

Five Procter Forces

Bargaining Power of Suppliers: Low – 44

Because G-III belongs to the apparel industry, it highly depends on suppliers. With a result of 44, the company does not have as much as bargaining power with its suppliers.

Bargaining Power of Customers: Medium – 50

When it comes to price, customers does not have a lot of bargaining power. However, they have the power to

buy items from competitors if prices do not please them.

Intensity of Existing Rivalry: Medium - 43

G-III mains competitors are Lululemon Athletica Inc., Columbia Sportswear, and Fossil Group. In order to survive in the retail industry, companies such as G-III might have a strong competitive advantage. In fact, because they are in a slow growth market, the only way to grow is to capture market share from each other, which obviously increases competition.

Threat of Substitutes: High – 75

On the apparel industry, customers have access to a diversified choice of substitutes. One of the major issue associated with goods substitutions is the fact that customers can choose to purchase the substitutes instead of the industry's product, which can drive the price and so profitability down.

Threat of New Competition: High - 71

G-III faces many competitors on the market. Even if the opportunity to enter the market might be complicated, few brands succeed to become unavoidable.

Summary

I recommend that we buy G-III at \$32 – the likelihood for the stock's price to rise in December is significantly high. In fact, Christmas will play a major role in raising the price of the stock. I expect the price to reach \$44 in a near future.

G-III Apparel Group, Ltd.
(GIII)

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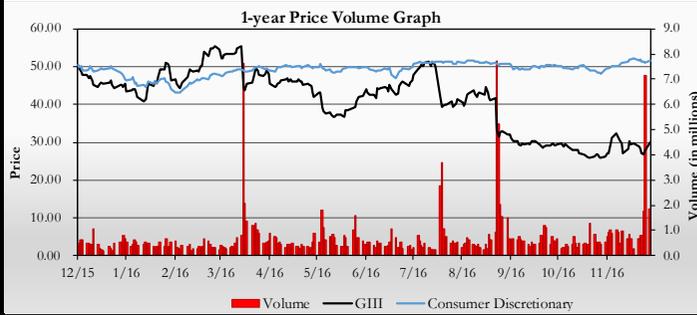
BULLISH

Analysis by
12/9/2016

Current Price: **\$31.86**
Dividend Yield: **0.4%**

Intrinsic Value: **\$39.58**
Target Price: **\$43.98**

Target 1 year Return: **38.45%**
Probability of Price Increase: **88.4%**



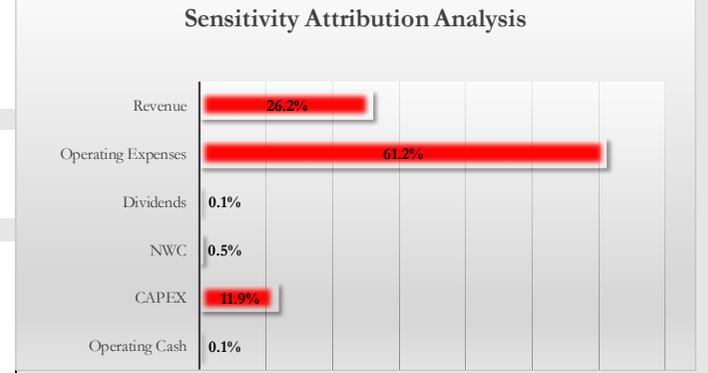
Description	
G-III Apparel Group, Ltd. designs, manufactures, and markets men's and women's apparel.	
General Information	
Sector	Consumer Discretionary
Industry	Textiles, Apparel and Luxury Goods
Last Guidance	November 3, 2015
Next earnings date	March 23, 2017
Estimated Country Risk Premium	6.57%
Effective Tax rate	39%
Effective Operating Tax rate	40%

Market Data	
Market Capitalization	\$1,508.80
Daily volume (mil)	0.66
Shares outstanding (mil)	48.64
Diluted shares outstanding (mil)	46.93
% shares held by institutions	104%
% shares held by investments Managers	90%
% shares held by hedge funds	8%
% shares held by insiders	9.02%
Short interest	11.91%
Days to cover short interest	7.37
52 week high	\$55.89
52-week low	\$24.41
Levered Beta	0.55
Volatility	42.92%

Past Earning Surprises			Peers
Quarter ending	Revenue	EBITDA	
10/31/2015	-1.21%	1.58%	Lululemon Athletica Inc.
1/31/2016	-10.97%	-55.88%	Columbia Sportswear Company
4/30/2016	-3.85%	7.38%	Fossil Group, Inc.
7/31/2016	-8.89%	-77.19%	Under Armour, Inc.
10/31/2016	-6.05%	-2.68%	V.F. Corporation
Mean	-6.19%	-25.36%	Guess?, Inc.
Standard error	1.7%	17.2%	Wolverine World Wide, Inc.
			Hanesbrands Inc.

Management	Position	Total compensations growth	Total return to shareholders
Goldfarb, Morris	Chairman of the Board and Ch	11.25% per annum over 6y	-4.86% per annum over 6y
Aaron, Sammy	Vice Chairman and President	18.38% per annum over 6y	-4.86% per annum over 6y
Nackman, Neal	Chief Financial Officer and	9% per annum over 6y	-4.86% per annum over 6y
Miller, Wayne	Chief Operating Officer and	13.35% per annum over 6y	-4.86% per annum over 6y
Goldfarb, Jeffrey	Director of Business Develop	N/M	N/M
Nostra-Katz, Jeanette	Senior Advisor and Director	-100% per annum over 3y	0.61% per annum over 3y

Profitability	GIII (LTM)	GIII (5 years historical average)	Industry (LTM)
ROIC	8.6%	19.31%	13.22%
NOPAT Margin	5%	8.86%	8.2%
Revenue/Invested Capital	1.61	2.18	1.62
ROE	9.9%	25.66%	14.90%
Adjusted net margin	5%	8.28%	7.4%
Revenue/Adjusted Book Value	2.19	3.10	2.00
Invested Funds	GIII (LTM)	GIII (5 years historical average)	Industry (LTM)
Total Cash/Total Capital	2.4%	5.3%	16%
Estimated Operating Cash/Total Capital	2.4%	4.0%	N/A
Non-cash working Capital/Total Capital	40.2%	36.0%	28%
Invested Capital/Total Capital	89.8%	86.9%	83%
Capital Structure	GIII (LTM)	GIII (5 years historical average)	Industry (LTM)
Total Debt/Common Equity (LTM)	0.49	0.22	0.15
Cost of Existing Debt	6.79%	7.92%	3.92%
Estimated Cost of new Borrowing	5.27%	5.94%	3.92%
CGFS Risk Rating	C	D	CC
Unlevered Beta (LTM)	0.49	1.76	0.62
WACC	7.07%	15.01%	7.79%



Porter's 5 forces (scores are out of 100)

Bargaining Power of Suppliers 44

Period	Revenue growth	Valuation	ROIC/WACC
Base Year	-0.9%	NOPAT margin	1.21
10/31/2017	13.6%	5.3%	1.24
10/31/2018	9.0%	5.4%	1.20
10/31/2019	10.5%	6.0%	1.33
10/31/2020	9.8%	6.2%	1.40
10/31/2021	8.9%	6.1%	1.38
10/31/2022	8.1%	5.9%	1.37