

March 1, 2018

PVH Corp. : PVH

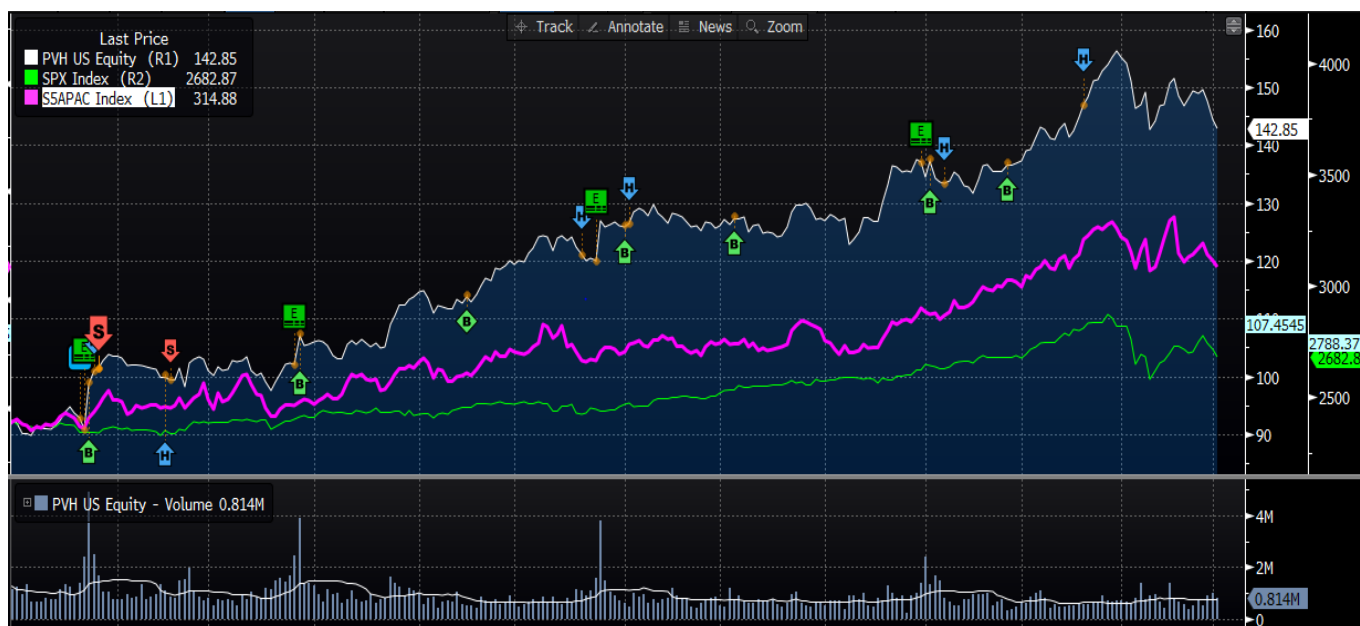
Paul Martinez

Sector: Consumer Discretionary
Industry: Textile- Apparel Clothing
Current Price: \$141.57
Target Price: \$186.98

BUY

Current Price: \$141.57
 Target Price: \$186.98
 Market Cap: 10.89B
 Average Volume: .760M
 52 Week Range: \$88.89 – \$157.96
 ROE: 11.19%
 Ke: 10.3%
 TD/Market Cap: 39.2%

Company Description: PVH Corp. operates as an apparel company and operates both domestically and internationally in more than 40 different countries. PVH Corp. designs and markets branded dress shirts, neckwear, sportswear, jeanswear, performance apparel, underwear, swim products, handbags, accessories, footwear and other related products. In addition, PVH Corp. licenses their owned brands over a broad range of products. These products are sold through many different distribution channels at many different price points.



Thesis: PVH Corp. is one of the largest retail companies in the world. PVH Corp. has continuously been able to develop and see success through their core businesses and grow them both domestically and internationally. PVH Corp. has been able to see single to double-digit revenue growth compared to their competitors in a struggling retail industry. PVH will continue to grow revenues and increase operating margins, which will lead to value creation.

Catalysts:

- **Short Term (within the year):** PVH Corp's relationship with Amazon and continued success through their digit channels.
- **Mid Term (1-2 years):** Strong international presence will continue to lead to double-digit revenue growth.
- **Long Term (3+):** Diversified business model, and a strong portfolio of brands will continue to drive interest to the company as well as sales both domestically and internationally.

Business Description:

PVH Corp, formerly known as the Phillips-Van Heusen Corporation was originally founded in 1881, and was incorporated in Delaware in 1976. PVH Corp. operates as an apparel company in the United States and internationally. The company operates through three primary segments. These segments consist of brands Calvin Klein, Tommy Hilfiger, and Heritage Brands. All of these segments operate domestically and additionally internationally and are operated as joint ventures or subsidiaries of PVH. The Company designs, markets, and retails men's and women's apparel and accessories. PVH is the world's largest dress shirt and neckwear company. PVH offers products through its own brands such as Calvin Klein, Tommy Hilfiger, Van-Heusen, IZOD, ARROW, Warner's, Olga, and Eagle; as well as through their licensed brands comprising of Speedo, Geoffrey Beene, Kenneth Cole, Michael Kors, and Chaps. The company distributes its products at wholesale in department, chain, mass market, and independent stores. PVH Corp has a very strong relationship with Macy's. Macy's is PVH's largest Calvin Klein and Tommy Hilfiger wholesale customer. Additionally, Heritage Brands sell wholesale to department stores such as J.C. Penney, Kohl's, and Sears. Finally, PVH operates through company-operated full-price outlet stores, as well as through e-commerce sites. As of recent, PVH has been taking more and more initiatives to improve their digital channel and e-commerce sites. At the end of 2017, Calvin Klein and Amazon teamed up for a fashion collaboration and incorporated Amazon's Echo Dot and PVH's very successful #MyCalvins line. Surprisingly, PVH has been able to stay ahead of the digital dash and continue to stay relevant in a struggling retail industry. The company has been able to do this through their successful digital channels and e-commerce initiatives. Manny Chirico, CEO, stated the following: "Our biggest growth channel continues to be digital and we define that as our own digital businesses, our department store, customer businesses, macys.com and the like, and then obviously the three side resume, the pure play, the Amazon, Tmall and Zalando, those businesses we'll put that all together but our fastest growing channel of distribution".



Segment Breakdown:

As mentioned, PVH Corp. operates through three business segments and reports financials for each. First being the Calvin Klein brand. Calvin Klein is one of the most well-known brands worldwide and has become a household name with the recent trend in the #MyCalvins line. The Calvin Klein brands can be further broken down in to the following six brands, *Calvin Klein by appointment*, *Calvin Klein Collection*, *CK Calvin Klein*, *Calvin Klein*, *Calvin Klein Jeans*, and *Calvin Klein Underwear*. The Calvin Klein brands cover just about every area and represent casual wear to luxurious, custom made products. These brands allow for a focused, consistent approach to global brand growth and development that preserves the brand's prestige and image. Currently, the Calvin Klein segment composes approximately 38% of PVH's total

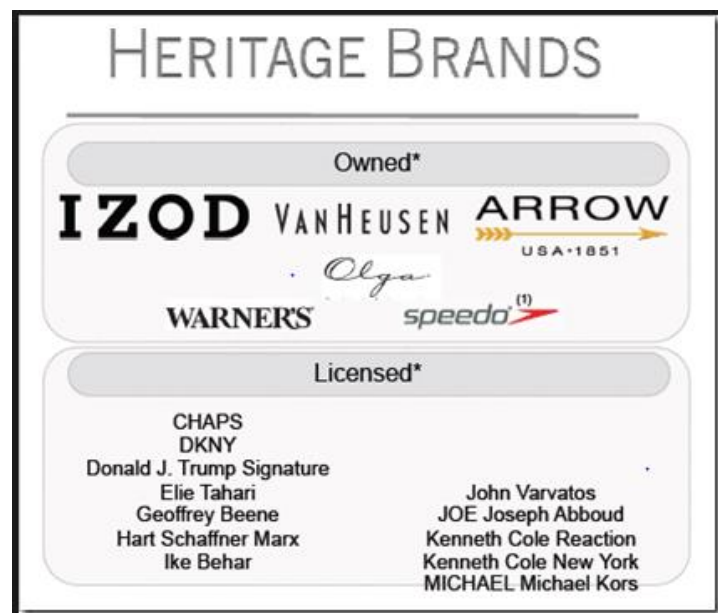


revenues and in 2017 reported an operating margin of 18.6%. Moving into PVH's second business segment, another well-known brand, Tommy Hilfiger. Tommy Hilfiger is one of the world's leading designer lifestyle brands and is internationally recognized for celebrating the essence of classic American cool style, featuring



preppy with a twist designs (2016 Annual Report). Similar to Calvin Klein, Tommy Hilfiger can be further broken down into four more brands. Starting with the *Hilfiger Collection*, which represents products for women in the 25-40 age. Then the *Tommy Hilfiger Tailored* line, which produces sophisticated suit apparel. The most common line, *Tommy Hilfiger*, embodies the classic American cool designed apparel for all consumers. Finally, *Hilfiger Denim*, which produces jeans for a younger crowd of 18-30 year old customers.

Currently, the Tommy Hilfiger segment composes the largest percent of total revenues at 43%. Tommy Hilfiger has an approximate operating margin of 26%. This is an extremely positive sign for PVH because it shows that the largest segment has the largest operating margin, which will lead to an increase in FCF and will create value in the future. This larger margin comes primarily from Tommy Hilfiger international that has an operating margin close to 37%, and is continuously growing at double-digit rates. Finally, PVH's last business segment that sometimes does not get as much glamour or credit as it deserves, Heritage Brand. Within the segment, there are four sub categories that are broken down and are categorized into many different brands and licenses. The Heritage Brand business, which includes the design, sourcing, and marketing of a varied selection of prominent brand label dress shirts, neckwear, sportswear, swim products, intimate apparel, underwear, and accessories. The Heritage Brand includes brands such as Van-Heusen, ARROW, IZOD, Eagle, Sean John, Geoffrey Beene, Kenneth Cole, Chaps, and Michael Kors. The Heritage Brand composes 19% of PVH's total revenue and has an approximate operating margin of 11%. The Heritage Brand has been performing significantly worse than both the Calvin Klein and Tommy Hilfiger segments, however, is still seeing year-over-year revenue growth in a struggling retail industry as a whole. The fact that these segments have been able to grow in a consolidating industry shows that the demand for the products will allow PVH to continue to grow and create value.

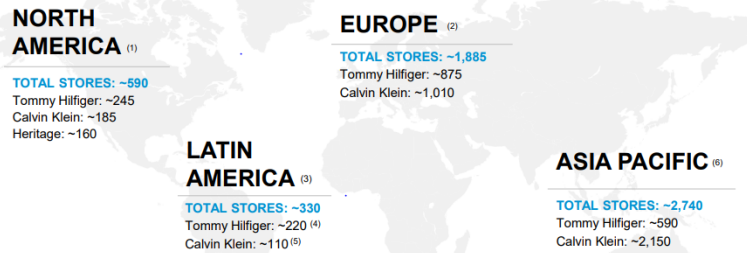


Company Performance:

As mentioned earlier, PVH Corp. has been able to grow significantly in a struggling retail industry that is shifting towards online shopping. PVH has done a successful job of diversifying revenues by increasing international exposure. As domestic revenues are still growing at mid-single digits, international revenues are growing at mid-teen levels. During the last quarter, PVH reported revenue and earnings growth in every segment. Tommy Hilfiger North America revenues were up 10% from last quarter and earnings were up 35% from the prior year. In addition, to this Tommy Hilfiger International revenues were up 16% from the previous quarter. This international growth was primarily through Tommy European and China businesses,

which have been continuously been outperforming expectations. Calvin Klein North America revenues were

PVH GLOBAL STORE COUNTS BY REGION (AS OF OCTOBER 29, 2017)



1. Includes the U.S. and Canada. 2. Includes the Middle East and Africa. Includes concession locations and franchisee and distributor stores. 3. Includes Central and South America and the Caribbean. 4. All locations are licensee stores. 5. Includes franchisee and distributor stores. 6. Includes concession, franchisee and, for Tommy Hilfiger, licensee stores.

PVH Investor Update – Winter 2017

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up 6% from last quarter and Calvin Klein International revenues were up 20%. This was primarily due to the positive impact of 4% for foreign currency and the strong performance in Europe. Finally, Heritage Brands revenues remained stagnant; however, earnings were up 9% from prior year. With this all being said, it is important to note that all businesses segments are growing significantly internationally. Manny Chirico stated during their last

earnings call, “Europe, China, and Japan continue to be our healthiest markets in the third quarter”. This shows that growth is coming in their larger margined areas and therefore will lead to value creation and overall margin expansion. PVH Corp. has historically beaten their estimates and adjusted guidance accordingly. Management has suggested seeing an overall revenue growth of 7% for the next quarter and a slight improvement in operating margins as well. With this being said, I believe that management is underestimating their growth and believe that double-digit revenue growth is more realistic. Between the

Measure	Q4/18 Est	4Wk Chg	YoY Gr	Growth vs Comps	Past Surprise
11) EPS, Adj+	1.461	-0.13%	18.7%	Stronger	Beat 8 of 8
12) EPS, GAAP	1.390	0.97%	10.3%	Weaker	Beat 6 of 8
13) Revenue	2.347B	0.33%	11.3%	Stronger	Beat 7 of 8
14) Net Income, Adj+	113.538M	0.40%	16.2%	Stronger	Beat 8 of 8
15) Operating Profit	168.429M	0.35%	--	--	--
16) EBITDA	250.700M	0.55%	15.2%	Stronger	Beat 7 of 8

holiday sales and international sales, I believe that a more realistic growth rate would be approximately 11-14%. I think that this type of growth is sustainable for PVH based on historic data and current industry position. PVH Corp. has distinguished strategic initiatives to continue their long-term growth. First, being to continue to drive consumer engagement by investing in products and marketing, which has been seen in their increase in marketing in their Heritage Brand segment. Secondly, to expand Calvin Klein and Tommy Hilfiger’s worldwide reach, which has been seen through their increase in international exposure. Third, to invest in their global operating and digital platforms to support growth initiatives, this has been seen through their investment in digital channels and relationship with Amazon. The fourth initiative is to develop and retain talent, and this could be expressed by being ranked #25 for Forbes “America’s Best Corporate Citizens”. Finally, through all of these strategic initiatives PVH will be able to generate solid free cash flow to drive sustainable growth. To conclude, PVH has been able to grow as a company by following management’s strategic business initiatives and have been able to succeed in a struggling industry.

Competitor Analysis:

In North America, the retail industry is one of the most competitive industries with some of the smallest margins to begin with. As of recent, competition has gotten more and more intense with different companies coming up and cutting into market share. This requires companies to invest in more marketing to stay relevant and promote their products. There are countless brands and choices, fashion, trends are always changing, and it is difficult to stay on top, let alone even keep up. However, PVH has consistently made the right steps to stay alive in the age where Amazon is taking over just about everything. As you can see from the graph below, PVH has historically been slightly outpaced by some of their competitors, but LTM has been able to gain traction and match or beat their competitors in EBITDA and Net Income Margins. I believe that going forward these margins will only continue to expand, as gross margins are increasing and interest

COMMON SIZE VIEW				
	6-year Historical Median		Last 12 Months	
	PVH	Competitors	PVH	Competitors
COR/Rev	47.6%	49.0%	45.3%	51.2%
(SGA+Other)/Rev	41.0%	36.4%	44.4%	40.7%
DPR/Rev	3.7%		2.8%	0.0%
EBITA Margin	7.7%	14.7%	7.5%	8.0%
Interest exp/Rev	2.9%	1.5%	2.3%	1.3%
AMORT/Rev	0.1%		1.0%	0.0%
SBC/REV	0.6%		0.5%	0.0%
Other Non-Operating Exp/Rev	-1.5%	-4.1%	-3.5%	0.8%
Taxes/Rev	1.2%	2.8%	1.6%	0.8%
Net Margin	4.3%	14.4%	5.6%	5.2%

expense is decreasing. PVH Corp. during 2017 spent a lot of money on SGA in the form of marketing as mentioned above. As we move further into 2018, we will see a decrease that will eventually converge to a similar level of their competitors, which will lead to an approximate increase in margins of 4% on a cash basis. PVH Corp. expresses that their two biggest competitors are VF Corp, which owns brands like North Face, Jansport, Timberland, and Eastpak as well as Ralph Lauren. I believe that these companies share similar segments, however, may not be the most accurate competitors and can see how certain margins and revenue streams may be different. As you can see below, PVH is not the leader in every category and is below the median in some cases, which I believe shows that there is more room for improvement and growth. As mentioned before, PVH as of the last twelve months have been catching up to their peers and I believe that this room for growth will allow PVH to become an industry leader in every category.

Overview	Comp Sheets	Markets	EPS Preview	Ownership	Credit	Custom					
Equity Valuation	CDS Spreads	Op Stats	Profitability	Balance Sheet	ESG						
Name	Sales Growth Yoy (%)	EBITDA Margin (%)	5Y CAGR Sales Growth	YoY Sales Growth (Qtr %)	Same Store Sales	Sales Spread (Qtr %)	Advertising Expenses (Annual)	Rental Expenses (Annual)	Gross Margin (%)		
Median	3.44%	14.69%	7.90%	5.74%	-4.10%	5.20	219.90M	258.55M	49.83%		
100) PVH CORP	2.28%	13.21%	7.49%	5.02%	--	--	416.30M	575.10M	55.04%		
101) CARTER'S INC	6.29%	15.61%	8.31%	9.97%	--	--	--	161.90M	44.84%		
102) VF CORP	7.12%	15.84%	3.77%	20.14%	--	--	715.90M	379.63M	51.79%		
103) HANESBRANDS INC	7.35%	16.06%	7.36%	4.44%	--	--	157.37M	184.60M	40.10%		
104) COLUMBIA SPORTSWEAR CO	3.75%	13.78%	9.14%	8.17%	--	--	121.84M	86.12M	47.86%		
105) UNDER ARMOUR INC-CLA...	3.13%	6.69%	21.97%	4.60%	--	--	565.10M	141.20M	43.30%		
106) RALPH LAUREN CORP	-10.16%	11.74%	-2.32%	-4.25%	-5.00%	0.75	219.90M	460.50M	60.68%		
107) MICHAEL KORS HOLDINGS...	-4.63%	25.00%	17.73%	6.45%	-3.20%	9.65	118.70M	332.50M	61.38%		
(Accounting Adjustments: Adjusted for Abnormal Items When Applicable)								10 Analyze List			

(Accounting Adjustments: Adjusted for Abnormal Items When Applicable)

10 Analyze List

Ownership Summary:

Primarily Investment Advisors own PVH Corporation. This position over the past year has increased from 81.37% to 82.45%. Meanwhile, Hedge Funds have decreased their position by approximately 1.78%. I believe that this decrease comes primarily in profit taking and could be the exiting of short positions as well. As mentioned earlier, PVH stock price has increased more than 60% over the past year, and Hedge Funds generally have a shorter-term focus so this fits into their schedule. Another positive sign in relation to their

Compare Current Stats Against 02/25/17				
Ownership Type	02/19/17	Curr ↓	Change	
11) Investment Advisor	81.37	82.45	+1.08	☑
12) Hedge Fund Manager	11.31	9.53	-1.78	■
13) Pension Fund	2.26	2.20	-0.06	■
14) Bank	1.55	1.43	-0.12	■
15) Government	1.22	1.32	+0.10	■
16) Sovereign Wealth Fund	0.94	1.22	+0.28	■
17) Insurance Company	0.51	0.75	+0.24	■
18) Individual	0.51	0.54	+0.03	■
19) Unclassified	0.03	0.17	+0.14	■
20) Brokerage	0.16	0.11	-0.05	■
21) Holding Company	0.05	0.11	+0.06	■

ownership is their extremely low short interest. As a percent of float, short interest is 1.74%. This shows that not many individuals or institutions believe that PVH's stock price is going to decrease. As mentioned, Investment Advisors hold a very large portion of PVH stock, which is another positive sign for investors showing that more funds and advisors are going long on PVH and believe that there is value in the company and that they will generate returns. Out of all the Investment Advisor's, Vanguard owns 10% of the company. Currently, the float is 99% of shares outstanding, which is a positive sign meaning that there is not any significant issues in trading or volume discrepancies. Furthermore, another positive sign is that even with their trading volume, PVH's days to cover is only 1.5.

Conclusion:

In conclusion, PVH Corp. is a well-known company that has been successful in a struggling retail industry that is being trumped by giants like Amazon. PVH Corp. realizes the areas of their business that they need to focus on more and invest more time in to. By investing significant time and money into the international business, they have been able to see double-digit revenue growth and expand operating margins accordingly. In addition to this, PVH Corp. has a strong portfolio of well-known brands that have become more and more relevant by their brand ambassadors, such as Kendall Jenner, Justin Bieber, Mark Wahlberg, and more. PVH Corp. next earnings call is at the end of March and I am expecting them to beat all of their estimates yet again since they have not missed since 2015. With this being said, I believe that this is a good time to get in because as you can see from the price chart, the price does move with earnings beats and would allow us to make some money quickly. To conclude, PVH is a strong company with an established planned for long-term growth and margin improvement, which will continue to create value over time. PVH Corp. is a buy at its current price.

PVH Corp. (PVH)

CENTER FOR GLOBAL FINANCIAL STUDIES

BULLISH

Analysis by Paul Martinez
3/2/2018

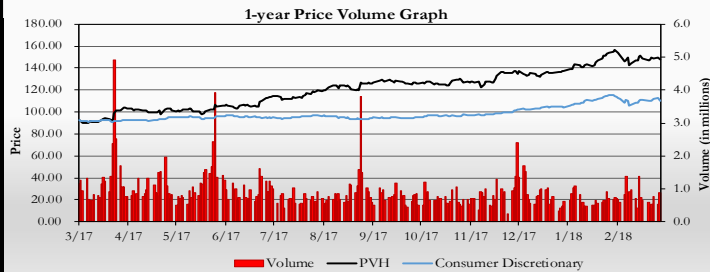
Current Price:
Divident Yield:

\$142.65
0.1%

Intrinsic Value
Target Price:

\$167.30
\$186.98

Target 1 year Return: 31.19%
Probability of Price Increase: 99.8%

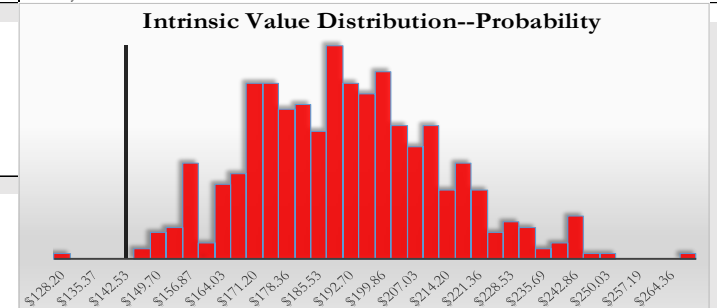


Description	
PVH Corp. operates as an apparel company in the United States and internationally.	
General Information	
Sector	Consumer Discretionary
Industry	Textiles, Apparel and Luxury Goods
Last Guidance	November 3, 2015
Next earnings date	March 15, 2018
Estimated Country Risk Premium	5.82%
Effective Tax rate	22%
Effective Operating Tax rate	22%

Market Data	
Market Capitalization	\$10,973.97
Daily volume (mil)	1.17
Shares outstanding (mil)	76.93
Diluted shares outstanding (mil)	79.03
% shares held by institutions	116%
% shares held by investments Managers	81%
% shares held by hedge funds	11%
% shares held by insiders	0.37%
Short interest	1.73%
Days to cover short interest	1.75
52 week high	\$157.96
52-week low	\$88.89
Volatility	26.95%

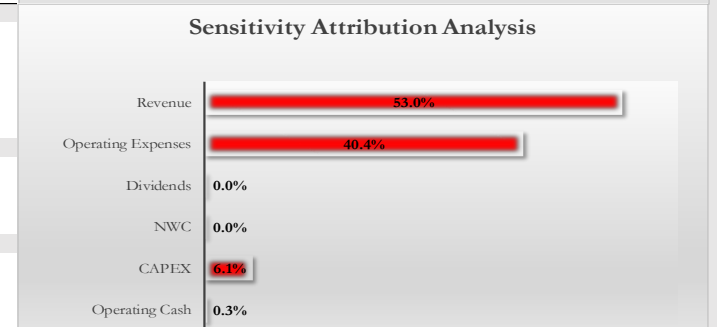
Past Earning Surprises	
Quarter ending	Revenue
10/30/2016	0.65%
1/29/2017	0.86%
4/30/2017	1.58%
7/30/2017	2.27%
10/29/2017	0.95%
Mean	1.26%
Standard error	0.3%

EBITDA	
10/30/2016	9.48%
1/29/2017	12.93%
4/30/2017	1.48%
7/30/2017	-0.51%
10/29/2017	-1.29%
Mean	4.42%
Standard error	2.9%



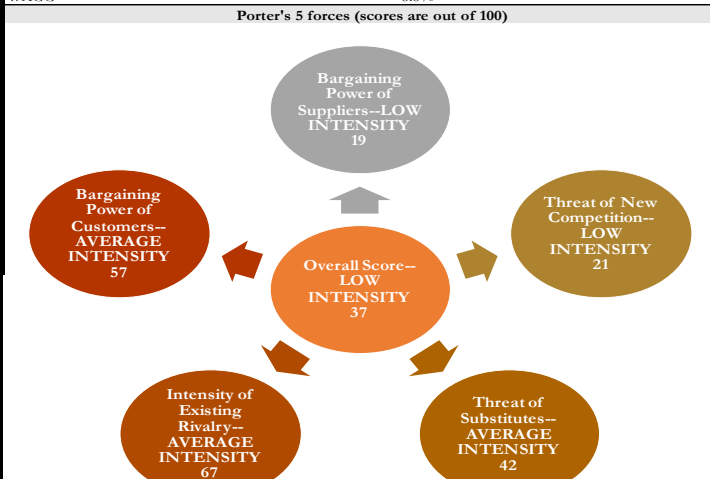
Management	Position
Chirico, Emanuel	Chairman and Chief Executive
Shaffer, Michael	Chief Operating & Financial
Duane, Francis	Chief Executive Officer of H
Shiffman, Steven	Chief Executive Officer of C
Grieder, Daniel	Chief Executive Officer of P
Mahoney, Eileen	Chief Information Officer an

Peers	
Hanesbrands Inc.	
V.F. Corporation	
Ralph Lauren Corporation	
Under Armour, Inc.	
Tapestry, Inc.	
Foot Locker, Inc.	
Michael Kors Holdings Limited	
L. Brands, Inc.	



Profitability	
Return on Capital (GAAP)	5.3%
Operating Margin	6%
Revenue/Capital (GAAP)	0.90
ROE (GAAP)	9.6%
Net margin	5.6%
Revenue/Book Value (GAAP)	1.70
Invested Funds	
Cash/Capital	5.4%
NWC/Capital	9.7%
Operating Assets/Capital	49.6%
Goodwill/Capital	35.3%
Capital Structure	
Total Debt/Market Capitalization	0.55
Cost of Existing Debt	3.7%
CGFS Rating (F-score, Z-score, and default Probability)	A
WACC	6.6%

Total compensations growth	
13.65% per annum over 5y	
8.73% per annum over 5y	
7.72% per annum over 5y	
18.15% per annum over 2y	
16.05% per annum over 2y	
N/M	
Total return to shareholders	
7.63% per annum over 5y	
7.63% per annum over 5y	
7.63% per annum over 5y	
-21.95% per annum over 2y	
-21.95% per annum over 2y	
N/M	
Peers' Median (LTM)	
5.60%	
7.39%	
4.80%	
1.54	
9.3%	
3.9%	
2.35	
Peers' Median (LTM)	
5.60%	
7.39%	
4.80%	
1.54	
9.3%	
3.9%	
2.35	



Porter's 5 forces (scores are out of 100)	
Period	Revenue Growth Forecast
Base Year	4%
10/29/2018	7%
10/29/2019	5%
10/29/2020	4%
10/29/2021	3%
10/29/2022	3%
10/29/2023	3%
10/29/2024	3%
10/29/2025	3%
10/29/2026	3%
10/29/2027	2%
Continuing Period	2%

Valuation	
NOPAT Margin Forecast	Revenue to Capital Forecast
13.0%	0.87
-2.5%	0.84
-1.5%	0.89
-0.8%	0.92
0.0%	0.94
14.0%	0.95
13.6%	0.87
13.3%	0.80
12.9%	0.74
12.5%	0.70
12.1%	0.66
11.7%	0.62

Return on Capital Forecast	
Period	WACC Forecast
Base Year	6.6%
10/29/2018	7.8%
10/29/2019	7.9%
10/29/2020	7.7%
10/29/2021	7.6%
10/29/2022	8.8%
10/29/2023	8.9%
10/29/2024	9.0%
10/29/2025	9.1%
10/29/2026	9.2%

Price per share Forecast	
Base Year	\$161.78
10/29/2018	\$181.85
10/29/2019	\$200.51
10/29/2020	\$218.33
10/29/2021	\$235.73
10/29/2022	\$254.82
10/29/2023	\$273.95
10/29/2024	\$293.20
10/29/2025	\$312.59
10/29/2026	\$332.17