



Sector: Consumer Discretionary
Industry: Textiles, Apparel,
and Luxury Goods
Current Price: \$127.84
Target Price: \$147.72

Company Description: PVH Corp. designs, sources, manufactures, and markets men’s women’s and children’s apparel and footwear. The Company markets its products at a wholesale level through department store chains and directly to consumers through retail stores. PVH offers that includes dress shirts, sportswear, neckwear, and footwear

BUY

Current Price: \$127.84
Target Price: \$147.72
Market Cap: 9.8B
Average Volume: 0.69M
D/E Ratio: 0.63



Thesis:

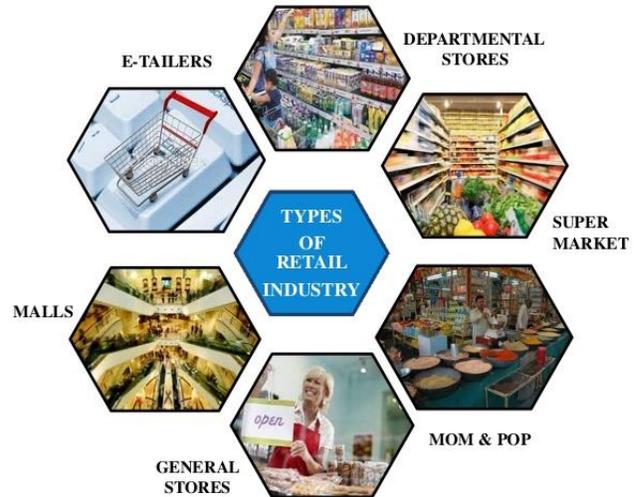
PVH Corp. is the best positioned retailer in a consolidating industry. PVH has been able to get low single digit revenue growth in the United States compared to the rest of the industry seeing flat to negative comps. The international growth, specifically in Europe and Asia will continue to add value to the company. The aforementioned revenue growth along with efficient cost management will lead to an increase in share price in the short and long term

Catalysts:

- **Short Term(within the year):** International Business Growth and Outperformance of Competition in U.S
- **Mid Term(1-2 years):** Growth in the consolidating Retail Industry
- **Long Term(3+):** Investment opportunities within the international business

Industry Performance and Outlook:

It is no secret that the retail industry is much maligned however, there are bright spots such as PVH Corp. the retail sector has been impaired by Amazon’s success and the sector wide move towards technology and DTC sales. The retail tracking ETF XRT is down 4.2% YTD compared to the Russell 2000 which is up 11%. Going forward, companies will have to adapt and expand within a few key categories. First, technology will be a major driver in the industry both on the companies’ side with increased operating efficiency and on the customer side in terms of how they purchase product. Second will be the creation of a meaningful experience for the customer within the store as foot traffic numbers are down across the board. Third there needs to be an increased customization in both the online and in store channels a report by KPMG stated “The importance of personalization in retail, shows that businesses that are currently personalizing online user journeys, and who are also able to quantify the improvement, are seeing an increase in sales of 19 percent on average.” Last, as is the case within any industry the recruitment and retention of employees is key. This is especially true within the consolidating retail industry. PVH has addressed these issues and is well positioned to take advantage of the ever evolving landscape in retail.



Business Description:

PVH Corp. designs, sources, manufactures, and markets men’s women’s and children’s apparel and footwear. The Company markets its products at a wholesale level through department store chains and directly to consumers through retail stores. PVH offers that includes dress shirts, sportswear, neckwear, and footwear.



PVH is broken down into three major business segments, Tommy Hilfiger, Calvin Klein, and Heritage. The company does business in the United States and internationally, operating in 40 countries. PVH gets roughly 52% of its revenue from the United States, 29% from Europe, 11% from Asia-Pacific, and 8% from the Americas (excluding the U.S). Interestingly, only 25% of PVH’s EBIT comes from the United States, this is due to the need for a great deal of promotional activity within the United States retail market. Europe makes up 40% of EBIT, with Asia-Pacific accounting for 23%, and 12% from the Americas (excluding U.S). The performance in these three segments will continue to drive share price growth in the near and long term.

Tommy Hilfiger:



Tommy Hilfiger is a world leader in designer lifestyle brands with strong global brand awareness. Within Tommy there are four specific targets. The Hilfiger Collection which targets 25 to 40-year-old consumers and includes designs that premiere on the runway during New York Fashion Week. Tommy Hilfiger Tailored which targets the same 25 to 40-year-old demographic offering everything from typical structured suiting to relaxed tailoring. The core line,

Tommy Hilfiger. Last, there is the Hilfiger Denim line which targets 18-30 year olds focusing on premium denim separates, footwear, bags, accessories, eyewear and fragrance.



Tommy Hilfiger makes up 43% of both PVH's revenue and EBIT. This is with a currency constant EBIT margin of 13.4% excluding non recurring cost. The operating margin for the whole Tommy Hilfiger segment is 11.1% with the North America business contributing 8.69% and the international business contributing 16.86%. This is important because the international business is outpacing the growth in North America and with less promotional activity needed overseas it follows that margins would be larger. This segment has been growing at just over 2% YOY since 2013 and revenue growth for the Tommy Hilfiger segment should begin to accelerate moving forward due to the international portion.

Calvin Klein:

Calvin Klein

Calvin Klein is one of the most recognizable and well known brands world wide. Similar to Tommy Hilfiger, Calvin Klein has targeted brands within the umbrella of Calvin Klein. There is Calvin Klein 205W39NYC, which is high-end designer apparel and accessories. Next, there is CK Calvin Klein which management considers the contemporary brand where Calvin Klein is "offering modern, sophisticated, fashionable items including apparel and accessories." Third there is the master brand which encompasses most of Calvin Klein's offerings from men's sportswear to women's handbags. Last there are the two brands Calvin Klein Jeans and Calvin Klein Underwear which are self-explanatory.

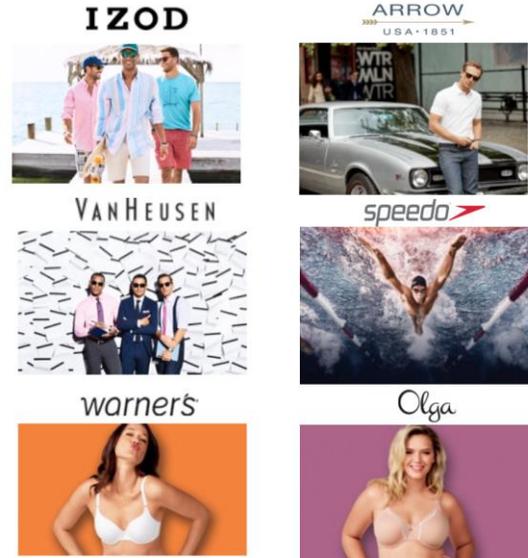


Calvin Klein contributes 38% of revenue and 46% of EBIT with the highest EBIT and operating margins within PVH. This segment reported constant currency EBIT margin of 15.2%. The North American segment contributes 12.5% operating margin and the international portion contributes 14.9%. Calvin Klein is an opportunity for aggressive growth with 28% CAGR from 2013 onward. This is especially evident within the international portion. This is again where growth and margins are strongest which further shows the opportunity for share price growth within PVH

Heritage:

The Heritage segment of PVH consists of a variety of different brands under the PVH umbrella. Included are: IZOD, VanHeusen, Arrow, Speedo, and Warners. All of these brands are recognized across the globe. Within the Heritage segment there are four sub categories, underwear/ core intimates, sportswear, dress furnishings, and swimwear.

The Heritage segment comprises 19% of revenue and 11% of EBIT with a 6.6% EBIT margin. Heritage is the smallest segment with 1.6B in revenue total, it also is the worst performing segment with a total operating margin of 6.36% and declining. Revenue is however increasing at around 6% YOY which is a positive sign in the ultra-competitive retail sector. Investment in this segment in terms of cost cutting is needed and could become a problem down the line but as of now is not a major issue.



Competition:

As mentioned earlier, retail is an ultra-competitive industry with pressure coming from the largest players such as Amazon and the smaller specialty mom and pop stores as well. Recently this competition has caused enormous promotional activity within the United States which cuts into margins and stock prices have taken a hit. As you can see in the table below roughly half of the comp group have negative total return to date with PVH out pacing everyone the same can be said in price change YTD. This is driven by revenue and EPS growth where PVH places first and second respectively. In consumer discretionary stocks, especially retail, earnings drive much of the price movement and with those types of growth it is no wonder that PVH is beating all of the comps. The most interesting part is PVH is doing this without leading margins which means there is room for even more improvement in a company that is already beating the comps.

Name	Ticker	Mkt Cap	Rev - 1 Yr Gr:Q	EPS - 1 Yr Gr:Q	OPM:Y	Total Return YTD (I)	Chg YTD
Median		6.84B	0.41%	5.00%	10.14%	7.51	3.40
100) PVH CORP	PVH US	9.88B	7.07%	37.50%	9.29%	41.51	37.32
101) UNDER ARMOUR INC-CL	UA A US	4.97B	-4.48%	-58.03%	9.16%	-59.45	-17.27
102) PERRY ELLIS INTERNATI	PERY US	353.69M	2.46%	--	4.95%	-9.63	-2.40
103) HANESBRANDS INC	HBI US	7.32B	2.17%	21.74%	15.16%	-4.99	-1.49
104) RALPH LAUREN CORP	RL US	7.45B	-8.61%	220.00%	7.11%	3.45	1.41
105) COLUMBIA SPORTSWEAR	COLM US	4.33B	0.22%	5.00%	10.99%	7.31	3.66
106) OXFORD INDUSTRIES IN	OXM US	1.07B	0.61%	-5.52%	8.92%	7.72	3.46
107) MICHAEL KORS HOLDIN	KORS US	7.27B	-3.59%	-3.57%	20.11%	11.52	4.95

(Accounting Adjustments: Adjusted for Abnormal Items when Applicable)

Debt:

PVH has 2.5 billion dollars of debt outstanding. This consists of two different classes of debt two senior secured term loans and a debenture. The first of these term loans was originally issued in 2014 and then amended in 2016 for 700M at 4.5% that comes due in 2022. The second term loan is a euro denominated term loan for 350M at 3.625%. Last, a debenture comes due in 2023 for 100M at 7.75%. This leads to a D/E ratio of 0.63, which is above the industry average of 0.43. This is due to the operational effectiveness of PVH, the company has been able to expertly navigate the ultra-competitive and now consolidating retail industry while keeping a leverage level that they deem acceptable.

Name	Ticker	Mkt Cap ↑	Debt/Equity LF	Net Debt to EBITDA LF
Median		6.84B	29.37%	0.98
100) PVH CORP	PVH US	9.88B	62.84%	2.72
101) PERRY ELLIS INTERNATI	PERY US	353.69M	25.09%	0.77
102) OXFORD INDUSTRIES IN	OXM US	1.07B	9.19%	0.25
103) COLUMBIA SPORTSWEAR	COLM US	4.33B	0.00%	-1.37
104) UNDER ARMOUR INC-CL	UAA US	4.97B	50.86%	1.50
105) GILDAN ACTIVEWEAR IN	GIL CN	6.41B	33.65%	1.18
106) MICHAEL KORS HOLDING	KORS US	7.27B	9.85%	-0.14
107) HANESBRANDS INC	HBI US	7.32B	324.56%	3.88
108) RALPH LAUREN CORP	RL US	7.45B	16.82%	-2.32
109) VF CORP	VFC US	27.52B	111.33%	1.83

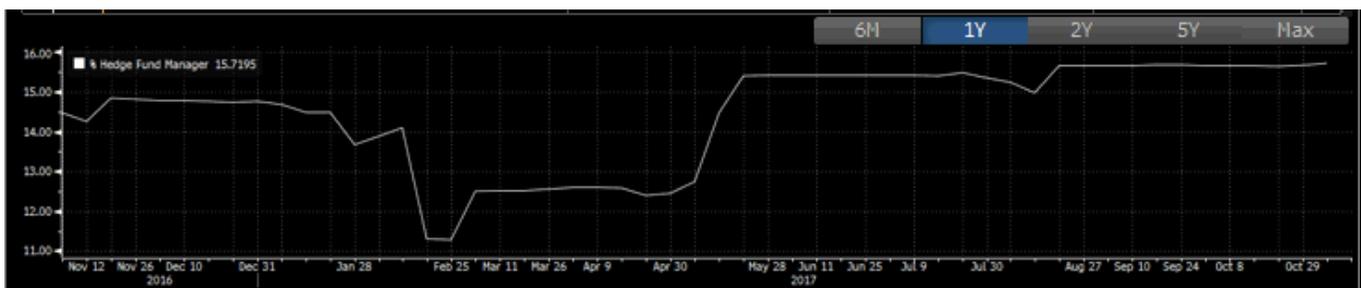
(Accounting Adjustments: Adjusted for Abnormal Items when Applicable)

10 Analyze List

Ownership:

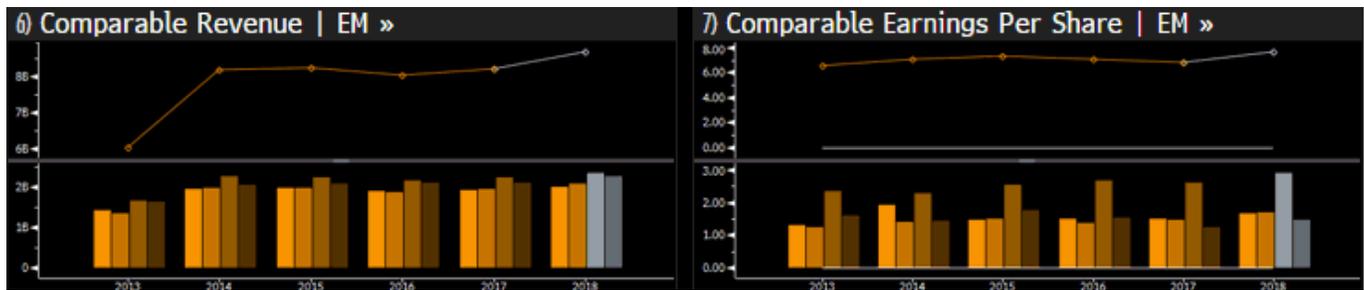
Institutions own 97.8% of the float of PVH. Investment advisors own 74.57% of the total float with Vanguard Group being the largest holder at 9.95%, this is a large amount but Vanguard remains a passive shareholder. Hedge funds own 15.72% of total float with D E Shaw and CO owning 2.6% of shares outstanding. Hedge funds have been steadily adding to their positions beginning in February of this year. This shows that hedge funds see this stock as a safe haven within the retail space. Short interest is low at 1.36% of float, meaning holders are in the stock expecting growth.

54) Ownership Type	10/29/17	Curr	Change
41) Investment Advisor	74.57	74.64	+0.07
42) Hedge Fund Manager	15.67	15.72	+0.05
43) Pension Fund	2.73	2.61	-0.12
44) Bank	2.33	2.32	-0.01
45) Government	1.60	1.62	+0.02
46) Sovereign Wealth Fund	1.49	1.49	0.00
47) Insurance Company	0.59	0.60	+0.01
48) Individual	0.58	0.58	0.00
49) Brokerage	0.12	0.12	0.00



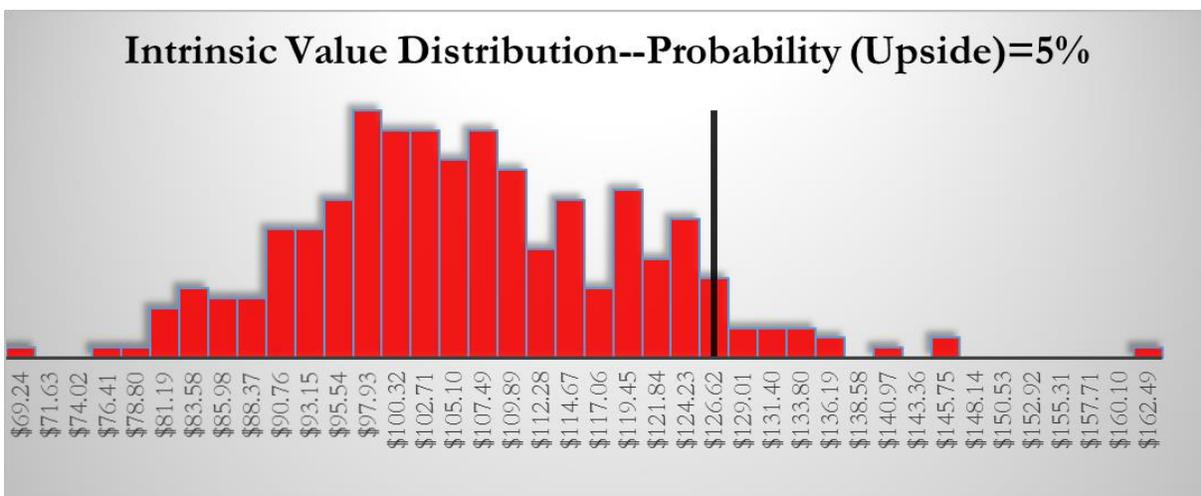
Earnings:

Earnings generally drive price for most stocks but this is especially true for consumer discretionary and even truer for the retail sector. This is evident in the chart of PVH as the last three quarters have beaten both revenue and EPS estimates which lead to one-day price jumps of 6, 5, and 7.6 percent. PVH is estimating EPS from \$2.88 to \$2.92, which is a 10-11% increase YoY. The company is projecting worldwide segment growth of 5% for Calvin Klein and 8% for Tommy Hilfiger with the Heritage brand losing around 8% due to the timing of product shipment. If PVH can outpace these metrics as they have done in their last eight reports, the stock price will see a major one-day move. As of right now, it is estimated that PVH will report on November 29.



Bear Case:

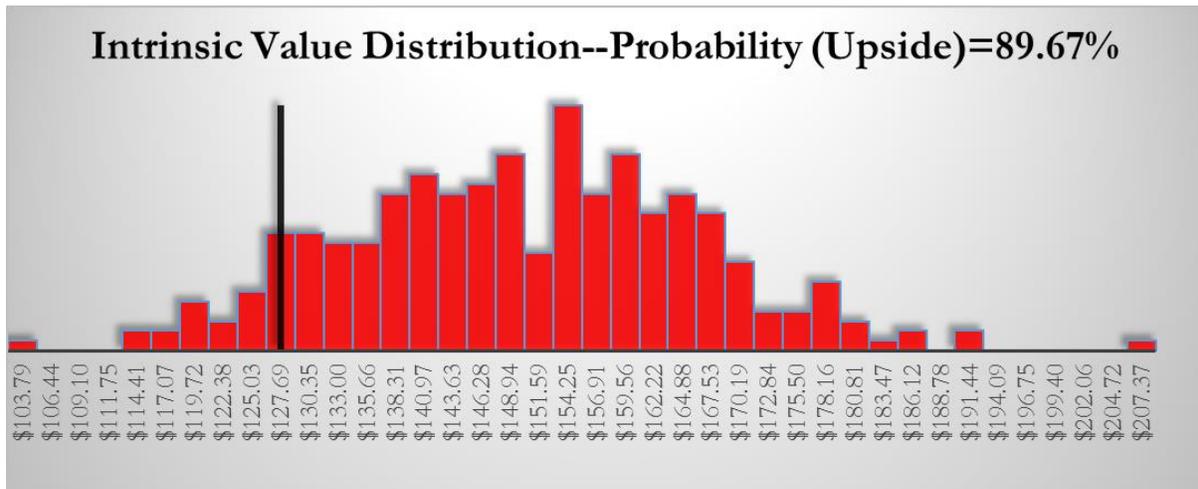
Considering everything there is a possibility that PVH sees a price decline. In order for this to happen, there would have to be three distinct triggers. These triggers would be very evident in the next quarterly earnings report. The first of these triggers would be North American revenue growth being either flat or negative versus the mid-single digits that it has been. Second, the international businesses would be suffering and therefore revenue growth would slow. Last and most important would be if management were to cut full year guidance there would be a large negative move in price. The result of all of this would be a 1-year price target of 104.29 which would result in a 18% loss.



Realistic Case:

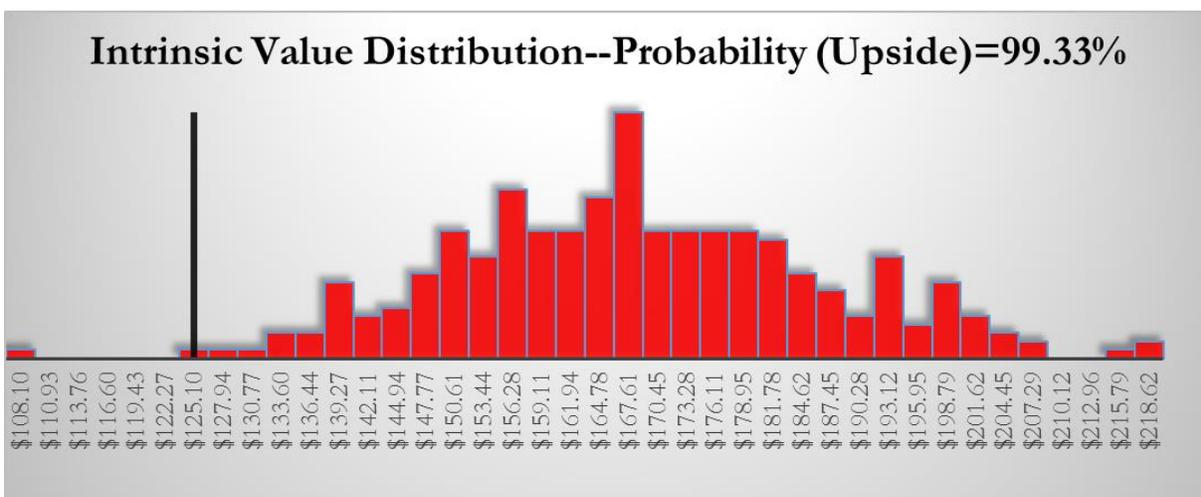
The more realistic case for PVH is that the trends in growth and margin from above maintain course. This would be shown be a small beat on revenue and EPS and guidance consistent with that of Q2 when they

report earnings. This would mean that PVH would continue to be one of the most successful retailers in North America while seeing aggressive growth in the higher margin international portion of business. This would result in a 1-year price target of 147.72 for a gain of 16%.



Bull Case:

The bull case for PVH would come if the company can exceed expectations in the coming quarter, which would be very evident in the earnings report for Q3. This would need to be a beat and raise for PVH. If the North American portion saw accelerated growth from 2% to mid-single digits while keeping margins constant. This would also need to be paired with management raising full year guidance or signs that the retail industry is recovering. If this were the case, the 1-year price target would be 167.60 for a return of 32%.



PVH Corp. (PVH)

CENTER FOR GLOBAL FINANCIAL STUDIES

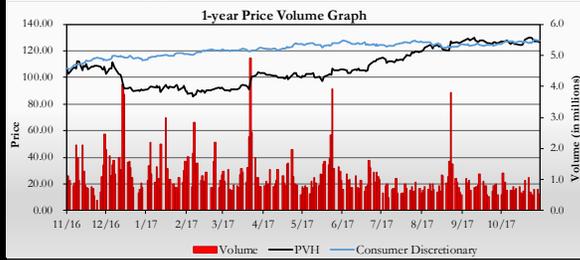
NEUTRAL

Analysis by John Graziano
11/2/2017

Current Price: **\$127.84**
Dividend Yield: **0.1%**

Intrinsic Value: **\$126.07**
Target Price: **\$147.72**

Target 1 year Return: 15.68%
Probability of Price Increase: 90.67%

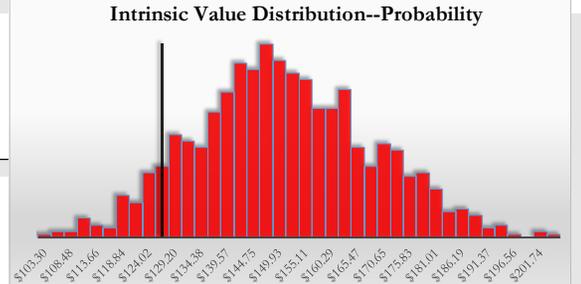


Description	
PVH Corp. operates as an apparel company in the United States and internationally.	
General Information	
Sector	Consumer Discretionary
Industry	Textiles, Apparel and Luxury Goods
Last Guidance	November 3, 2015
Next earnings date	November 15, 2017
Estimated Country Risk Premium	7.49%
Effective Tax rate	23%
Effective Operating Tax rate	23%

Market Data	
Market Capitalization	\$9,903.36
Daily volume (mil)	0.06
Shares outstanding (mil)	77.42
Diluted shares outstanding (mil)	79.50
% shares held by institutions	90%
% shares held by investments Managers	77%
% shares held by hedge funds	16%
% shares held by insiders	0.31%
Short interest	1.35%
Days to cover short interest	1.27
52 week high	\$135.24
52-week low	\$84.53
Volatility	28.43%

Past Earning Surprises		
Quarter ending	Revenue	EBITDA
7/31/2016	-0.18%	6.82%
10/30/2016	0.65%	8.13%
1/29/2017	0.86%	12.93%
4/30/2017	1.58%	1.48%
7/30/2017	2.32%	-0.51%
Mean	1.05%	5.77%
Standard error	0.4%	2.4%

Peers	
V.F. Corporation	13.65% per annum over 5y
Ralph Lauren Corporation	8.73% per annum over 5y
Hanesbrands Inc.	7.72% per annum over 5y
Under Armour, Inc.	18.15% per annum over 2y
Tapestry, Inc.	16.05% per annum over 2y
Foot Locker, Inc.	N/M
L Brands, Inc.	N/M
Burlington Stores, Inc.	N/M

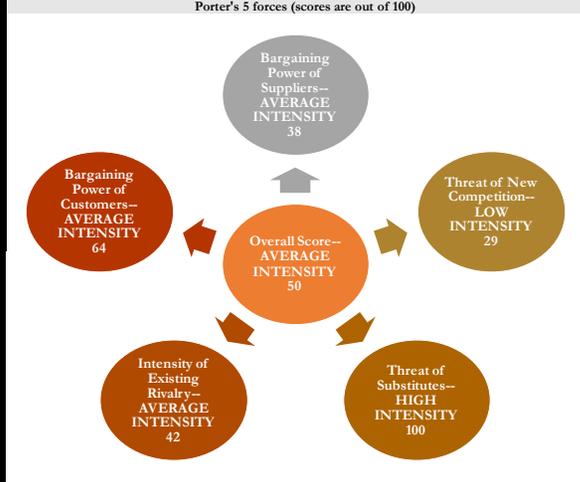
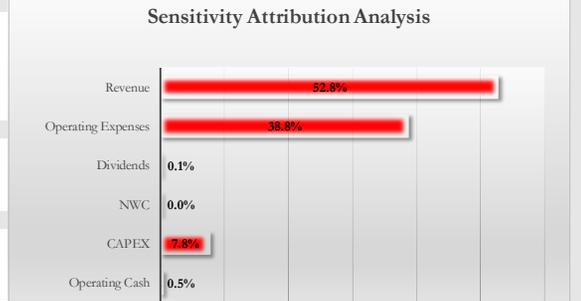


Management	Position	Total compensations growth	Total return to shareholders
Chirico, Emanuel	Chairman and Chief Executive	13.65% per annum over 5y	7.63% per annum over 5y
Shaffer, Michael	Chief Operating & Financial	8.73% per annum over 5y	7.63% per annum over 5y
Duane, Francis	Chief Executive Officer of H	7.72% per annum over 5y	7.63% per annum over 5y
Shiffman, Steven	Chief Executive Officer of C	18.15% per annum over 2y	-21.95% per annum over 2y
Grielder, Daniel	Chief Executive Officer of P	16.05% per annum over 2y	-21.95% per annum over 2y
Mahoney, Eileen	Chief Information Officer an	N/M	N/M

Profitability	PVH (LTM)	PVH (5 years historical average)	Peers' Median (LTM)
Return on Capital (GAAP)	5.2%	5.51%	13.19%
Operating Margin	6%	5.90%	7.99%
Revenue/Capital (GAAP)	0.88	0.93	1.65
ROE (GAAP)	7.9%	9.9%	-206.2%
Net margin	4.6%	4.8%	7.9%
Revenue/Book Value (GAAP)	1.73	2.06	-26.10

Invested Funds	PVH (LTM)	PVH (5 years historical average)	Peers' Median (LTM)
Cash/Capital	4.1%	6.3%	22.0%
NWC/Capital	9.0%	8.8%	11.7%
Operating Assets/Capital	50.4%	55.6%	56.0%
Goodwill/Capital	36.5%	29.3%	10.4%

Capital Structure	PVH (LTM)	PVH (5 years historical average)	Peers' Median (LTM)
Total Debt/Market Capitalization	0.55	0.56	0.64
Cost of Existing Debt	3.7%	5.7%	4.0%
CGFS Rating (F-score, Z-score, and default Probability)	A	BB	BBB
WACC	7.6%	9.7%	9.3%



Period	Revenue Growth Forecast	NOPAT Margin Forecast	Revenue to Capital Forecast
Base Year	3%	12.9%	0.86
7/30/2018	3%	-3.4%	0.82
7/30/2019	3%	-2.9%	0.86
7/30/2020	2%	-2.6%	0.88
7/30/2021	2%	-1.8%	0.91
7/30/2022	2%	13.6%	0.93
7/30/2023	2%	13.7%	0.83
7/30/2024	2%	13.7%	0.76
7/30/2025	2%	13.8%	0.69
7/30/2026	2%	13.8%	0.65
7/30/2027	2%	13.9%	0.60
Continuing Period	2%	13.9%	0.57

Period	Return on Capital Forecast	WACC Forecast	Price per share Forecast
Base Year	11.0%	7.6%	\$121.64
7/30/2018	-2.8%	10.0%	\$143.06
7/30/2019	-2.5%	10.3%	\$163.47
7/30/2020	-2.3%	10.1%	\$183.40
7/30/2021	-1.7%	10.0%	\$203.13
7/30/2022	12.6%	10.1%	\$222.72
7/30/2023	11.4%	10.1%	\$242.35
7/30/2024	10.4%	10.0%	\$262.02
7/30/2025	9.6%	10.2%	\$282.01
7/30/2026	8.9%	10.3%	\$302.34
7/30/2027	8.4%	10.3%	\$322.68
Continuing Period	7.9%	10.4%	

Valuation	Revenue Growth Forecast	NOPAT Margin Forecast	Revenue to Capital Forecast
Base Year	3%	12.9%	0.86
7/30/2018	3%	-3.4%	0.82
7/30/2019	3%	-2.9%	0.86
7/30/2020	2%	-2.6%	0.88
7/30/2021	2%	-1.8%	0.91
7/30/2022	2%	13.6%	0.93
7/30/2023	2%	13.7%	0.83
7/30/2024	2%	13.7%	0.76
7/30/2025	2%	13.8%	0.69
7/30/2026	2%	13.8%	0.65
7/30/2027	2%	13.9%	0.60
Continuing Period	2%	13.9%	0.57