

October 18, 2018

Ralph Lauren Corp: RL
Ala Saidi

Sector: Consumer Discretionary
Industry: Textiles, Apparel and Luxury Goods
Current Price: \$123.01
Target Price: \$135.36

Company Description: Ralph Lauren Corporation designs, markets, and distributes men's, women's and children's apparel, accessories, fragrances, and home furnishing. The company's products are sold under a wide range of brands. Ralph Lauren's operations include, wholesale, retail and licensing.

BUY @\$110.00

Current Price: \$123.01
Target Price: \$135.36
Market Cap: 10.02B
Average volume: 997.34K
Gross margin: 61.10%
Profit margin: 3.40%
EBITDA Margin: 15.5%



Thesis: Ralph Lauren is an iconic American fashion brand built on essential lifestyle promise. The brand has always been synonymous with high-quality American apparel. The company has been performing poorly in the market. However, RL last results were strong and continued to demonstrate progress on strengthen the brand and show indication that the stock is currently undervalued with a high potential of growth in the future.

Catalysts:

- Short Term(within the year):Drive targeted expansion in all regions and channels
- Long Term (3+): Expand the international business.
A main focus on China's growth.

Company within the industry:



Ralph Lauren built a business empire by sketching out a national fashion identity with each design. However, in the recent years, the influence of the classic styles has vanished. Sales have flaked steadily as shoppers have moved on the casual wear, fast-fashion or even upstart preppy brands. The company wanted to keep its brand image and not move-on or change their designs, and that had them fall behind the retail industry. The company at some time has to adapt and expand within this industry. The industry attracts what is close to 30% of the total consumer spending in the USA alone; and it is a very competitive market. Currently, the 78 year-old designer is trying to make a comeback to the brand. The

company is focusing on becoming trendier in order to increase their sales and experience a higher profit. During the first quarter of 2017 north America revenue have fell 11% where the company's shares were down to 88%, to \$110.62. "We've yet to see that up-stick in sales" said Simon Siegel an analyst at Instinet LLC. "Ultimately, that is what is going to be necessary".

Business Overview:



Ralph Lauren Corporation is galloping at faster clip than when its namesake founder first entered the arena 45 years ago. With golden mallet brands such as Polo by Ralph Lauren, Chaps, RRL, Club Monaco, and RLX Ralph Lauren, the company designs and market apparel and accessories, home furnishing and

fragrances. Its collections are available at more than 13,000 retail locations worldwide, including many upscale and mid-tier department stores as in Macy's that contributes up to 25% of Ralph Lauren's wholesale revenue. The Brand operates more than 470 Ralph Lauren and Club Monaco retail stores worldwide in addition to 615+ concession-based shops-within-shops and 10 e-commerce sites. The company is originally New York based, it operates in the US, Canada, Europe, Japan, China, South Korea, Southeast Asian and finally Latin America. Through a limit number of premier fashion retailers, the company peddles its collection brands worldwide. In the USA and Canada, department stores are a major wholesale customer. In Latin America and Europe, the wholesale products are sold in department stores and specialty stores respectively. As part of its sales effort, the brand distributes its goods to licensed stores operated by franchisees in EU, Middle East and Asia. The main licensing partners of the company are: L'Oréal, Peerless, Luxottica Group and Hanesbrands.

Operations:

Ralph Lauren operates through three main segments: Retail, Wholesale and Licensing. In 2016, the retail segment generated more than 53% of the revenue. It sells directly to customers through their 465 retail stores in the US and internationally. Wholesale represented 44.5% of the total sales, where RL sell their goods to major department stores and specialty shops in North America, EU, Asia and Latin America. The Licensing segment sells unrelated third parties the right to operate retail stores and use its trademarks in

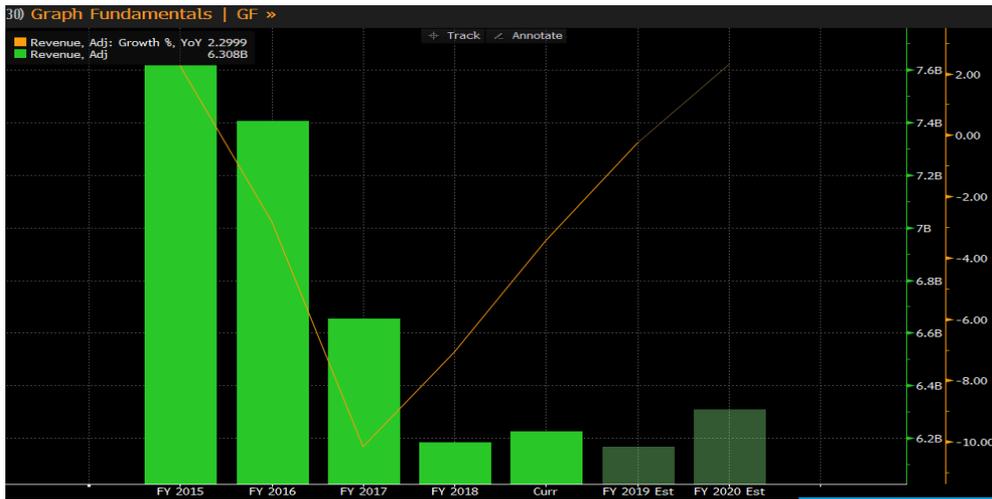
connection with making and selling designated products like apparel, eye ware and fragrances in certain geographical area. In 2017 and 2018. The apparel retail and wholesale represented 100% of the revenue.

In Millions of USD except Per Share 12 Months Ending	2015 Y 03/28/2015		2016 Y 04/02/2016		2017 Y 04/01/2017		2018 Y 03/31/2018	
Revenue	7,620.0	100.0%	7,405.2	100.0%	6,652.8	100.0%	6,182.3	100.0%
Apparel Retail & Wholesale	—		—		6,652.8	100.0%	6,182.3	100.0%
Licensing	169.0	2.2%	174.8	2.4%	—		—	
Wholesale	3,495.0	45.9%	3,297.2	44.5%	—		—	
Retail	3,956.0	51.9%	3,933.2	53.1%	—		—	
Net Sales % Increased at Consta...	—		—		—		—	
Operating Income	1,035.4	100.0%	581.9	100.0%	-92.3		498.2	100.0%
Apparel Retail & Wholesale	—		—		-92.3	100.0%	498.2	100.0%
Unallocated Corporate Expenses	-577.6		-611.0		—		—	
Unallocated Legal & Restructur...	-10.1		-142.6		—		—	
Licensing	152.4	9.4%	155.1	11.6%	—		—	
Wholesale	943.4	58.1%	821.2	61.5%	—		—	
Retail	527.3	32.5%	359.2	26.9%	—		—	

Financial Performance:

Ralph Lauren's has enjoyed healthy revenue and profit growth over the past years as it continued to expand its retail business and international reach. Until 2016, where the company's sales have dipped by 2.8% to \$7.4B. This fall was mostly due to the wholesale sales in the US that decreased by 6%, in addition to lower sales in apparel and accessories business due to the decline in of the foreign tourist traffic. During the same year, the sales declines combined with the increase restructuring changes caused Ralph Lauren's net income to slide to 44% to \$396M. The company's operating cash levels have then increased by 13% to almost \$1B thanks to favorable changed in working capital tied to accounts receivable, prepaid expenses and other current asset. Looking at the following years 2017, 2018 we can see that there is a major decline on the revenue growth rate by -10.2% with and -7.1% respectively. The company has indeed had its worst financial performance these past 2 years.

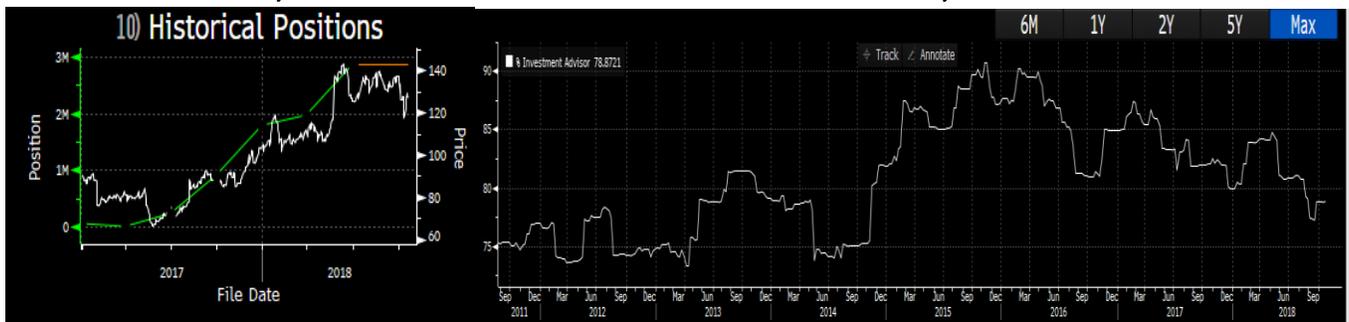
Revenue, Adj	7,620.3	7,405.2	6,652.8	6,182.3	6,225.8	6,166.5
Growth %, YoY	2.3	-2.8	-10.2	-7.1	-3.4	-0.3
Gross Profit, Adj	4,377.9	4,186.7	3,651.1	3,751.7	3,796.2	3,799.1
Margin %	57.5	56.5	54.9	60.7	61.0	61.6
EBITDA, Adj	1,346.8	1,074.2	812.2	948.6	965.1	985.1
Margin %	17.7	14.5	12.2	15.3	15.5	16.0
Net Income, Adj	713.3	506.3	340.6	482.5	525.4	548.8
Margin %	9.4	6.8	5.1	7.8	8.4	8.9
EPS, Adj	8.00	5.90	4.12	5.85	6.38	6.65
Growth %, YoY	-3.9	-26.3	-30.2	41.9	50.6	13.8



Ownerships:

Institutions own 117.40% of Ralph Lauren's Float. Investment advisors own 78.87% of the float with Vanguard Group Inc. being the top holder 11.89%. Bank of New York Mellon Corp come on the second place owning 8.43% of the float. Followed by BlackRock Inc. who also own a big portion of 7.98%. Hedge Fund Managers own 11.47% of the total float. Hedge fund are more optimistic than investment advisors as they have been adding to their positions, there is change in the rate of +3.66 between the past year and the current year. Which means that they see the stock as a safe haven within the retail industry.

54) Ownership Type	10/15/17	Curr	Change
41) Investment Advisor	82.10	78.87	-3.23
42) Hedge Fund Manager	7.81	11.47	+3.66
43) Pension Fund	2.57	2.56	-0.01
44) Bank	2.05	1.89	-0.16
45) Sovereign Wealth Fund	1.25	1.43	+0.18
46) Individual	1.19	1.31	+0.12
47) Government	1.24	1.16	-0.08
48) Insurance Company	0.51	0.84	+0.33
49) Brokerage	1.18	0.35	-0.83



Sales outlook:

Looking at the company's first quarter, the results were strong and showed a continued progress on strengthening the brand a driving execution. The company has delivered a strong AUR growth, lower discount, higher grow margin and operating profit growth. Q1 revenue have increased by 3.7% on reported basic and 1% on constant currency. The revenue growth rate remains negative at a rate of -3.4% and compared to -7.1% during last year's Q1. These positive results were mainly driven by the strong

performance in Asia and the benefit of wholesale shipment timing through North America and EU. Asia revenue growth has increased by 16% in constant currency during Q1. Ralph Lauren have adjusted a high sales growth through their spring-summer product that lead by mid single-digit growth in the Polo brand. Adjusted grow margin expanded a 120 basis points in Q1. Adjusted operating margin was 11.1% up to 90 bps to last year's Q1. Looking at the revenue by segments, wholesale revenue in EU have jumped by 13% in constant currency in the first quarter again it is due to the shift shipment timing. Turning to Asia, the revenue increased by 19%. There was an outstanding performance across the Asian market, 10% growth in japan, and over 40% growth in mainland china and 20% growth in greater China. Looking at the BS, the company has ended its quarter having \$2B in cash and investments compared to \$1.4 of the past year's first quarter. Inventory has increased by 3% reflecting investments in EU factories and direct-to consumer expansion.

The year-to-year revenue growth is currently at -3.4% and expected to keep increasing for the following predicted 7-10 years with a slower pace. Ralph Lauren will keep experiencing a growth rate of -0.3% in 2019 with a revenue of \$6.2 followed by a jump to a positive revenue growth of 2.3% in 2020 with a revenue of \$6.3B, 2.5% in 2021 with a revenue of \$6.4B and 4.1% for 2022 and 2023 similarly with a revenue increasing up to \$7.1B. The growth will be a result of expanding the business internationally, and focusing on achieving the long-term goals of reaching \$500M of revenue in the following 5 years from China alone. The company is also working on accelerating their digital growth. In EU Ralph Lauren will continue to elevate and improve their digital presence by upgrading their technology platform that are directly operated digital flagship, similar to what they implemented in North America. This way the company can target more customers by offering them a better consumer experience and that will act directly on the net sales.

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 EBITDA, Adj	1,346.8	1,074.2	812.2	948.6	965.1	985.1
 Margin %	17.7	14.5	12.2	15.3	15.5	16.0
 Net Income, Adj	713.3	506.3	340.6	482.5	525.4	548.8
 Margin %	9.4	6.8	5.1	7.8	8.4	8.9
 EPS, Adj	8.00	5.90	4.12	5.85	6.38	6.65
 Growth %, YoY	-3.9	-26.3	-30.2	41.9	50.6	13.8

Competition:

Retailers offering products that are unique have a distinct and absolute advantage over their competitors. As mentioned before, Ralph Lauren was slightly falling behind the industry therefore also falling behind their competitors. However, the brand still has its strong image that gives it a high value in comparison to the other brands in the sector. Comparing RL to other brands financially, we can see that the company has a negative 1-year revenue growth with an average of -7.07% and a high EPS of 41.94%. that might resulted due to their operating income that were at 7.6% and increased to almost 11% in the current year, because they managed to drop their cost of goods sold (COGS) by negative 6 points. Yet we can see an increase in their selling and

general admin expenses that might be due to a distribution channels. 3

In Millions of USD except Per Share	2016 Y	2017 Y	2018 Y	Last 12M	2019 Y Est	2020 Y Est
12 Months Ending	04/02/2016	04/01/2017	03/31/2018	06/30/2018	03/31/2019	03/31/2020
Revenue	7,405.2	6,652.8	6,182.3	6,225.8	6,166.5	6,308.4
+ Sales & Services Revenue	97.6%	100.0%	100.0%	96.5%		
+ Other Revenue	2.4%					
- Cost of Revenue	43.5%	45.1%	39.3%	39.0%		
+ Cost of Goods & Services	43.5%	45.1%	39.3%	39.0%		
Gross Profit	56.5%	54.9%	60.7%	61.0%	61.6%	62.1%
+ Other Operating Income	0.0%	0.0%	0.0%	0.0%		
- Operating Expenses	46.2%	47.3%	50.1%	50.2%		
+ Selling, General & Admin	45.8%	47.7%	50.1%	50.0%		
+ Research & Development	0.0%	0.0%	0.0%			
+ Other Operating Expense	0.4%	-0.4%	0.0%	0.2%		
Operating Income (Loss)	10.3%	7.6%	10.6%	10.8%	11.2%	11.7%
- Non-Operating (Income) Loss	0.4%	0.2%	0.1%	0.0%		

Segment	Revenue %	Metric	RL	Low	Comp Range	High
Specialty Apparel Sto...	100%	Est P/E Current Yr	18.56	9.34		105.20
		Sales Growth Yoy...	-7.07	-7.07		17.62
		EBITDA Margin (%)	15.34	-1.14		23.15
		Inv. to Sales Spr...	0.27	-18.78		43.47

Overview	Comp Sheets	Markets	EPS Preview	Ownership	Credit	Custom				
Name (BI Peers)	Mkt Cap (USD)	Last Px	Chg	Chg Pct	1M	Rev - 1 Yr Gr:Y	EPS - 1 Yr Gr:Y	P/E	ROE	Dvd 12M Yld
Median	6.01B	58.06	-2.26%	-7.94%		6.22%	5.80%	15.92	15.50%	1.70%
100) RALPH LAUREN CORP	10.02B	123.48	-2.50%	-7.94%		-7.07%	41.94%	19.35	15.50%	1.82%
101) MICHAEL KORS HOLDIN...	8.67B	58.06	-3.59%	-20.52%		5.00%	5.80%	11.56	42.66%	--
102) G-III APPAREL GROUP ...	1.75B	35.54	-5.38%	-24.50%		17.62%	8.53%	14.77	11.30%	--
103) CARTER'S INC	4.38B	94.36	-1.74%	0.32%		6.29%	12.63%	15.92	36.05%	1.82%
104) UNDER ARMOUR INC-CL...	7.76B	18.20	-2.26%	-2.99%		3.13%	-57.87%	128.25	3.28%	--
105) PVH CORP	9.30B	121.21	-4.03%	-12.83%		8.68%	20.92%	13.26	13.42%	0.12%
106) COLUMBIA SPORTSWEA...	6.01B	85.87	-2.30%	-6.42%		3.75%	8.45%	24.14	15.66%	0.99%
107) PERRY ELLIS INTERNA...	436.81M	27.50	0.15%	0.33%		1.60%	-6.01%	13.26	8.97%	--
108) HANESBRANDS INC	5.88B	16.32	-1.39%	-10.48%		7.35%	4.27%	8.96	72.26%	3.67%
109) OXFORD INDUSTRIES INC	1.38B	81.30	-2.05%	-7.32%		6.22%	-3.10%	20.95	14.91%	1.59%
110) VINCE HOLDING CORP	155.37M	13.37	9.59%	-10.15%		1.63%	-119.85%	--	--	--

Conclusion:

In conclusion, I recommend the Ralph Lauren stock as a buy @ \$110.0 expecting a 22.4% return. I have also projected a one-year target price for the stock that is \$135.06. Based on my analysis, Ralph Lauren stock is on a none-stop fluctuation and instability. However, the company is expecting a growth over the upcoming 10 years (buy low, sell high). Many factors can have a negative effect on the company such as the trade-war. Yet,

there is a good potential on the company's performance and revenue growth.



Ralph Lauren Corporation

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NEUTRAL

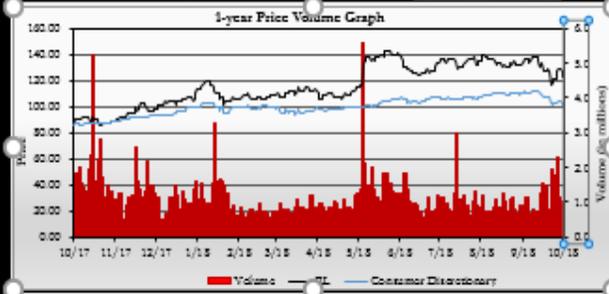
(RL)

Analysis by **ala saidi**
10/19/2018

Current Price: **\$123.06**
Dividend Yield: **2.0%**

Intrinsic Value: **\$126.19**
Target Price: **\$136.13**

Target 1 year Return: **12.6%**
Probability of Price Increase: **92%**



Description	
Ralph Lauren Corporation designs, markets, and distributes lifestyle products in North America, Europe, Asia, and internationally.	
General Information	
Sector:	Consumer Discretionary
Industry:	Textiles, Apparel and Luxury Goods
Next earnings date:	May 8, 2018
Market Assumptions	
Estimated Equity Risk Premium:	8.01%
Effective Taxrate:	24%

Market Data	
Market Capitalization:	\$10,275.13
Daily volume (mil):	0.71
Shares outstanding (mil):	81.13
Diluted shares outstanding (mil):	82.70
% shares held by institutions:	68%
% shares held by investment Managers:	53%
% shares held by hedge funds:	9%
% shares held by insiders:	24.37%
Short interest:	7.40%
Days to cover short interest:	6.01
52-week high:	\$147.79
52-week low:	\$83.91
Volatility:	31.85%

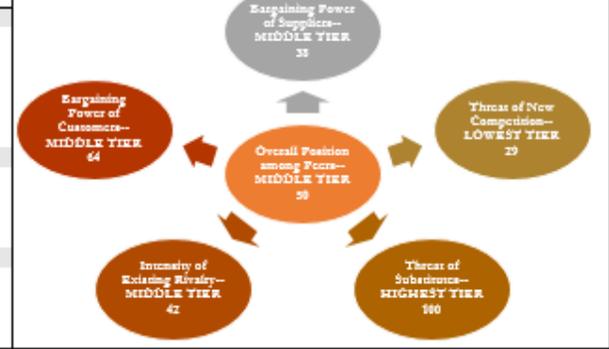
Quarter ending		Part Earning Surprises		Market and Credit Scores	
7/1/2017	0.31%	Revenue	EBITDA	Recommendation (STARS) Value--3	Recommendation (STARS) Description--Hold
9/30/2017	1.29%	19.68%	9.13%	Quality Ranking Value--A	Quality Ranking Description--High
12/30/2017	0.75%	68.20%	1.51%	Short Score--1	Market Signal Probability of Default--(Non-Rating)--0.2%
3/31/2018	3.08%	3.35%	20.37%	Credit Model Score (Non-Rating)--a	
6/30/2018	1.31%	5.6%			
Mean	1.47%				
Standard error	1.0%				

Industry and Segment Information	
LTM Revenue by Geographic Segment	LTM Revenue by Business Segment
The Americas (Excluding United States)--4%	North America--52%
United States--55%	Europe--26%
Europe--26%	Asia--15%
Asia--15%	Other Non-Reportable Segments--7%
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Management		Partitions		Total Compensation Growth		Stock Price Growth During Tenure	
Lauren, Ralph	Executive Chairman & Chief Creative Officer			-32.36% per annum over 6y	-1.71% per annum over 6y		
Lauvet, Patrice Jean	President, CEO & Director			10.64% per annum over 2y	14.69% per annum over 1y		
Lauren, David	Vice Chairman, Strategic Advisor to the CEO & Chief Financial Officer			-4.69% per annum over 2y	2.82% per annum over 2y		
Nielson, Jane	President of Global Brands			-2.24% per annum over 4y	26.45% per annum over 2y		
Hermann, Valérie	Senior Vice President of Investor Relations				-6.09% per annum over 4y		
Kapelman, Evron							

Peers	
Hanesbrands Inc.	V.F. Corporation
Under Armour, Inc.	Ulta Beauty, Inc.
Tapestry, Inc.	Tiffany & Co.
Michael Kors Holding Limited	Cartier, Inc.
PVH Corp.	Fossil Locker, Inc.

Profitability		RL (LTM)		RL Historical		Peers' Median (LTM)	
Return on Capital (GAAP)	9.8%	9.81%	9.81%	12.58%			
Operating Margin	9%	11.05%	11.05%	7.51%			
Revenue/Capital (GAAP)	1.04	0.89	0.89	1.68			
ROE (GAAP)	5.6%	15.3%	15.3%	14.8%			
Net margin	3.0%	8.0%	8.0%	6.9%			
Revenue/Book Value (GAAP)	1.841336844	1.91	1.91	2.16			
Invested Funds		RL (LTM)		RL Historical		Peers' Median (LTM)	
Capx/Capital	20.1%	20.1%	20.1%	22.9%			
HWC/Capital	6.3%	10.7%	10.7%	20.6%			
Operating Assets/Capital	58.4%	51.3%	51.3%	55.7%			
Goodwill/Capital	15.3%	15.3%	15.3%	13.8%			
Capital Structure		RL (LTM)		RL Historical		Peers' Median (LTM)	
Total Debt/Market Capitalization	0.43	0.42	0.42	0.49			
Cost of Debt	2.0%	2.4%	2.4%	4.9%			
CGFS Rating (F, B, C, and default Probability)	B						
WACC	12.3%	9.6%	9.6%	11.9%			



Forecast Assumptions		Explicit Period (13 years)		Continuing Period	
Revenue Growth CAGR	7%	7%	2.5%	2.5%	
Average Operating Margin	16%	16%	16%	16%	
Average Net Margin	9%	9%	9%	9%	
Growth in Capital CAGR	8%	8%	3%	3%	
Growth in Claims CAGR	0%	0%	3%	3%	
Average Return on Capital	13%	13%	11%	11%	
Average Return on Equity	14%	14%	11%	11%	
Average Cost of Capital	12%	12%	13%	13%	
Average Cost of Equity	13%	13%	13%	13%	

