

April 6, 2019
Movado Group, Inc.
Victor Secco

Sector: Consumer Discretionary
Industry: Textile/Luxury good
Current Price: \$34.43
Target Price: \$36.89

Company Description

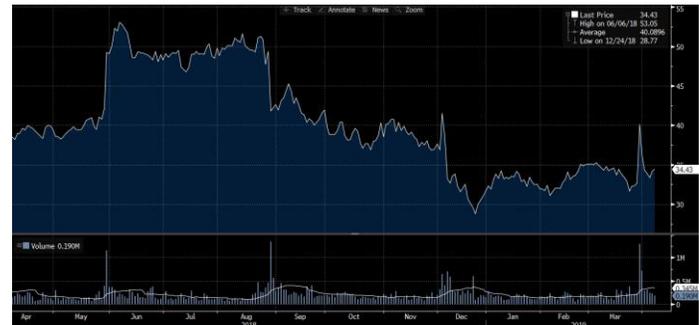
Movado Group, Inc. designs, manufactures, retails, and distributes watches, as well as jewelry, and accessory products. The Company markets several watch brands in North America, Western Europe, and the Far East. Movado Group's brands include Movado, Concord, EBEL and MVMT, plus licensed brands Olivia Burton, Coach, Hugo Boss, Lacoste, Tommy Hilfiger, Scuderia Ferrari, Rebecca Minkoff, and Uri Minkoff

Limit BUY - \$30

Current Price: \$34.43
 Target Price: \$36.89
 Market Cap: 791M
 Target Dividends: \$0.8
 Other key Metrics/Ratios

P/E Ratio: 21.1 EBITA Margin: 14.8%

Total Employee= 1140



Thesis: I am initiating a LIMIT-BUY at \$30 on Movado Group. The company has shown the ability to maintain stable cash flow and flat margin. I view the company as an inexpensive defensive stock to consider in the portfolio. This stock is an answer to fear of the upcoming economic slowdown. Studies done on growth rate of luxury industry have not found evidence that the luxury sector shows different growth during economic turmoil.

Catalysts:

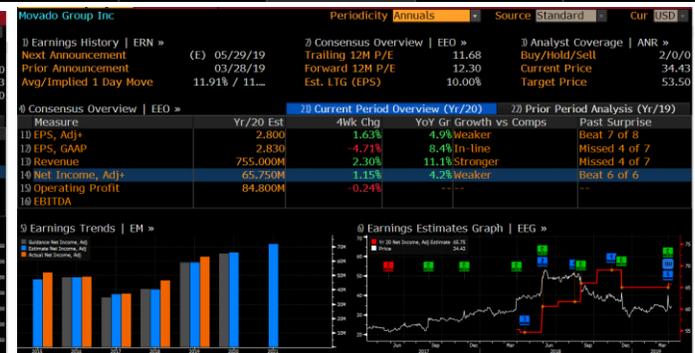
- Asian market development
- Inventory management
- New product issuance (e.g. upcoming smart watches)

Earnings & Financials

For my competitors, I compared MOV to four companies. Three are inferior good compared to what MOV produce (e.g. Fossil Group Inc., Columbia Sportswear Co and Carter's Inc.). The last one is the giant of the industry: LVMH. When it comes to luxury goods, the size of the company does not really matter as long as the value of the product will be similar.

Name	Mkt Cap	Trailing 12M EPS after XO items	NI Mrgn Adj:Y	GM:Y
Median	2.73B	3.55	8.92%	51.10%
MOVADO GROUP INC	791.35M	2.98	9.29%	54.41%
COLUMBIA SPORTSWEA...	7.10B	4.11	10.18%	49.47%
CARTER'S INC	4.66B	6.40	8.55%	43.36%
FOSSIL GROUP INC	681.61M	0.67	1.55%	52.73%
LVMH MOET HENNESSY ...	190.35B	15.20	13.82%	66.63%
WEYCO GROUP INC	332.64M	2.01	6.96%	40.24%

In Millions of USD	2016 Y	2017 Y	2018 Y	2019 Y	Current/LTM	2020 Y Est	2021 Y Est
12 Months Ending	01/31/2016	01/31/2017	01/31/2018	01/31/2019	01/31/2019	01/31/2020	01/31/2021
Market Capitalization	589.6	623.1	701.9	735.5	791.3		
- Cash & Equivalents	228.2	256.3	214.8	189.9	189.9		
+ Preferred & Other	0.6	0.0	0.0	3.7	3.7		
+ Total Debt	40.0	30.0	25.0	50.3	50.3		
Enterprise Value	402.0	396.9	512.1	599.6	655.4		
Revenue, Adj	594.9	552.8	568.0	679.6	679.6	755.0	777.0
Growth %, YoY	1.4	-7.1	2.8	19.7	19.7	11.1	2.9
Gross Profit, Adj	317.6	294.8	300.2	369.8	369.8	409.6	422.3
Margin %	53.4	53.3	52.9	54.4	54.4	54.3	54.4
EBITDA, Adj	87.3	67.3	77.0	93.3	100.7		
Margin %	14.7	12.2	13.6	13.7	14.8		
Net Income, Adj	49.0	37.1	46.5	63.1	69.4	65.8	71.8
Margin %	8.2	6.7	8.2	9.3	10.2	8.7	9.2
EPS, Adj	2.06	1.60	2.01	2.67	2.95	2.80	3.06
Growth %, YoY	2.1	-22.6	26.2	32.7	46.7	4.7	9.3
Cash from Operations	74.6	58.2	54.7	86.2	86.2		
Capital Expenditures	-8.1	-5.9	-5.8	-10.6	-10.6	-12.0	-12.0
Free Cash Flow	66.5	52.2	48.9	75.5	75.5	74.6	84.4



MOV has had very stable financials. They maintain relatively flat gross margin in the ballpark of 55% and are projected to remain at this level in the future. The median gross profit margin for the industry of luxury good is 52% placing MOV slightly above the rate. On the earning side, the company constantly met or slightly exceeded estimates at revenues and net income for the past 5 years. Current guidance is showing expected revenues for 2020 of \$758M and adjusted Net Income of \$65.2M leading the path to a progressive growth of a mature company.

Competitive advantage/ Growth potential

Movado owns a large variety of brands to ensure diversified source of cash flow. The major brands owned are Concord, Ebel, Olivia Burton, and MVMT. The second segment is their licensed brands including Coach Watches, Tommy Hilfiger Watches, Hugo Boss Watches, Lacoste Watches, Scuderia Ferrari Watches and Rebecca Minkoff & Uri Minkoff Watches. All the licensed brands are major players in the watch retail industry. The range of prices is quite wide even if it stays within range of higher quality product. This allows the company to drain cash flow from different customer segments and thus diversify the source of revenues. This diversification is reinforcing my recommendation for this defensive stock.

Looking at the earnings call and the investor presentation, due to their company model of acquiring and expanding, this places them in a good position to generate large revenues. Earnings call is pointing to Asian markets such as Singapore, Korea, Japan, and China as the key target for market development. They did a preliminary attempt to grow in Asian markets by introducing Olivia Burton. The result was very promising and Asian customers reacted well to the brand. Given the similarity of other products in terms of branding and prices, there are no reasons to forecast different results for the other brands. The driver for revenues in Asian markets is e-commerce. While traffic remained challenging, e-commerce performances were stronger. The new product introduction helped drive Movado.com business to over 50% growth for the quarter.

In smart watches, Movado is planning the release of the Movado Connect this fall. The company will apply its usual approach to introduce the product. Size and color choices will be made available to meet the maximum demand requirements. First appearance of the product in the second annual Movado Group Summit in Davos, Switzerland. The product received a strong reaction. The new smart watch will be supported by the Google Wear OS platform and features the Qualcomm chip for Apple compatibility.

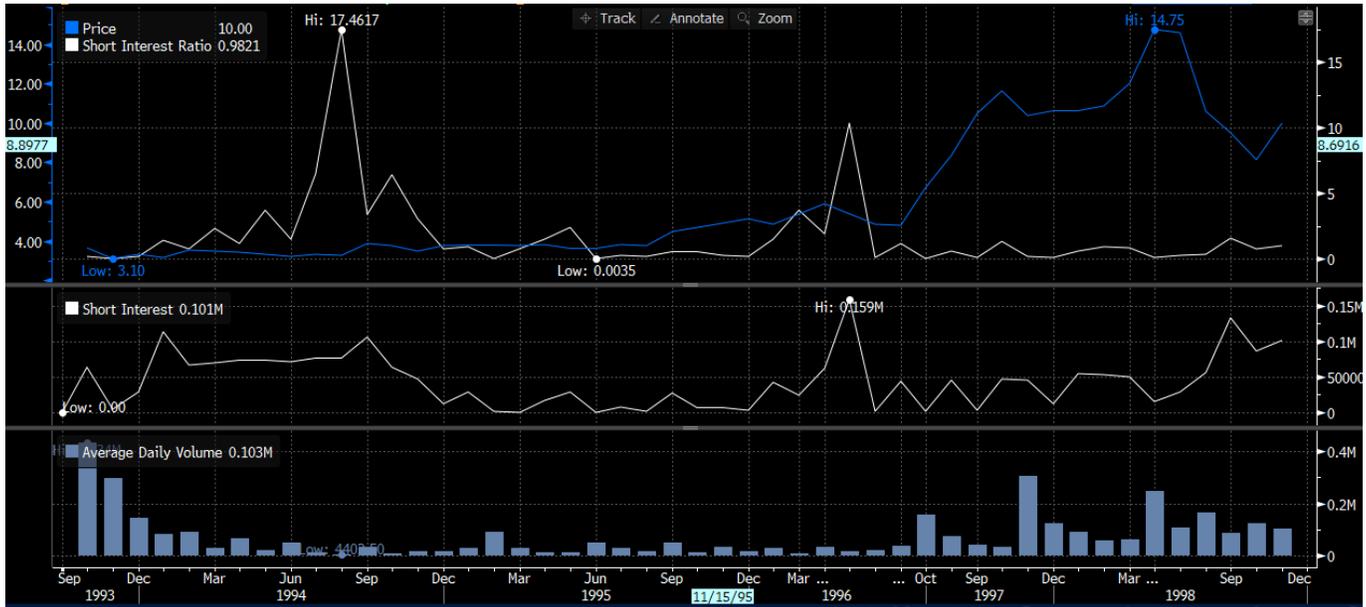
Section 5: Threats/ Downside

Movado is evolving in a super competitive environment and, the brand is facing intense competition in the watch industry. The sources of competition are broader than its “traditional” competitors, which are selling mechanical watches. In our ultra-connected world, smart watches and other smart wearables are no longer gadget for small customer segment but a real alternative considered by clients. From this first threat, a second one is emerging. The design, sourcing, marketing, distribution and after-sales servicing of smart watches involve additional challenges to those applicable to traditional watches. If the company misread current trends, face early electronic problems on its product will add substantial costs to the company and tank the stock price significantly. On a more global scale, the business risk is mainly driven by maintaining favorable brand recognition. Marketing it indeed is essential to the Movado group and all its subsidiary or brands under licensing agreement. Decline of perceived value from customers will have significant impact on sales and shareholder wealth as the competition offer an acceptable alternative for clients. Finally, if the Company loses any of its license agreements, there may be significant loss of revenues and a negative effect on business. Large group such as Hugo Boss or Lacoste detain high bargaining power over Movado Group. Given the large amount of supplier, it is an important risk to consider.

Section 6: Ownership

MOVADO GROUP INC				CUSIP 62458010			
1) Current				2) Historical			
3) Matrix				4) Ownership Summary			
5) Insider Transactions				6) Options			
7) Debt							
Compare Current Stats Against 03/31/19							
Institutional - Based on Current Filings				Insider - Based on Last 6 Months			
51) Institutional	03/31/19	Curr	Change	52) Insider	03/31/19	Curr	Change
11) % of Shares Held	138.81	138.44	-0.37	21) % of Shares Held	4.71	4.71	0.00
12) % of Float Held	146.27	145.88	-0.39	22) % Chg Insider Positions	+6.27	+6.27	0.00
13) # of Institutions	299	297	-0.67%	23) # of Insiders	14	14	0.00%
14) # of Buyers	107	107	0.00%	24) # of Buyers Opn Mkt	0	0	
15) # of Sellers	80	84	+5.00%	25) # of Sellers Opn Mkt	0	0	
16) # of New Buyers	25	25	0.00%	26) # of Shrs Bought Opn Mkt	0	0	
17) # of Selloffs	43	46	+6.98%	27) # of Shrs Sold Opn Mkt	0	0	
18) % Chg in Inst Positions	+23.50	+23.17	-0.33	28) Avg Opn Mkt Buy Price	0	0	0.00
				29) Avg Opn Mkt Sell Price	0	0	0.00
Top Geographic Ownership (%)				Top Ownership Type (%)			
53) Geographic	03/31/19	Curr	Change	54) Ownership Type	03/31/19	Curr	Change
31) UNITED STATES	89.15	89.28	+0.13	41) Investment Advisor	86.54	86.5	-0.04
32) UNITED KINGDOM	5.11	5.03	-0.08	42) Hedge Fund Manager	6.85	6.87	+0.02
33) Unknown	3.54	3.55	+0.01	43) Individual	3.54	3.55	+0.01
34) SWITZERLAND	0.63	0.63	0.00	44) Pension Fund	1.71	1.72	+0.01
35) CANADA	0.42	0.4	-0.02	45) Insurance Company	0.69	0.69	0.00
36) GERMANY	0.33	0.33	0.00	46) Government	0.18	0.19	+0.01
37) DENMARK	0.24	0.24	0.00	47) Bank	0.18	0.18	0.00
38) IRELAND	0.19	0.19	0.00	48) Brokerage	0.18	0.18	0.00
39) LUXEMBOURG	0.17	0.13	-0.04	49) Sovereign Wealth Fund	0.06	0.07	+0.01

Since this is an American company, over 89% of the shares are U.S owned. A majority of that is via investment advisors. Hedge funds and pension fund are slowly increasing their position, which reinforce my assumption of the “defensive role” of this stock within a portfolio. The Short interest is around 7.83% of the float. The short interest ratio is hovering around 2.4323 and 7.8 in the most recent quarters. Considering the strong power of competition and low volatility nature of the retail/luxury industry, I would argue that this short interest is relatively low.

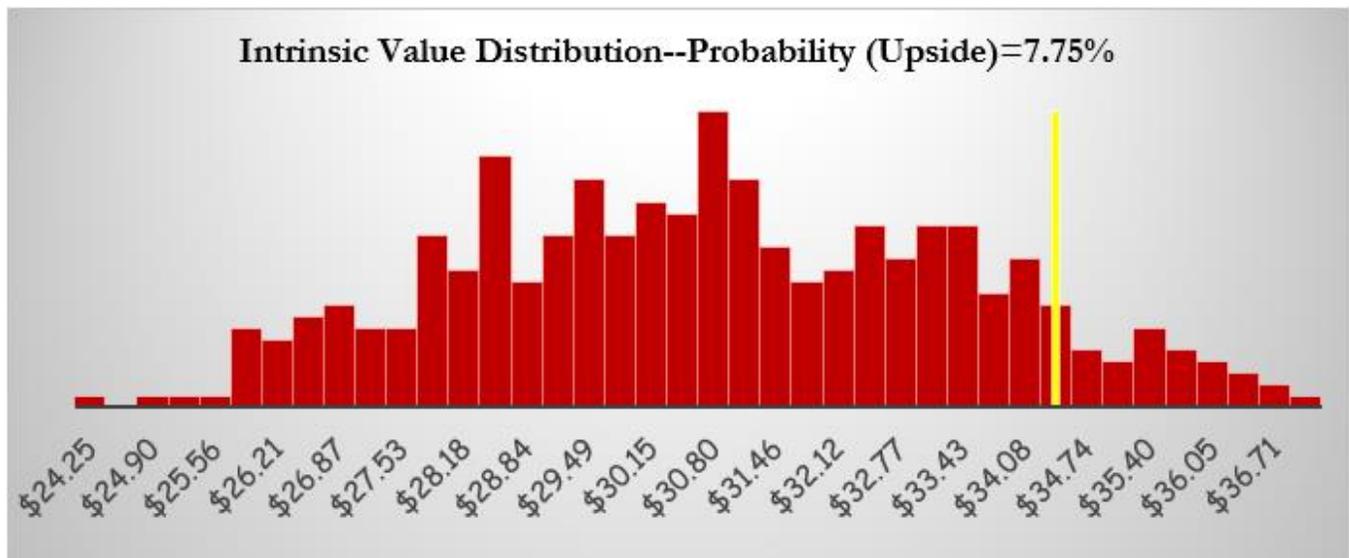


Base/Best/Worst case

Given the mature profile of my company and its historical financial performances, all my forecast are based on DCF valuation.

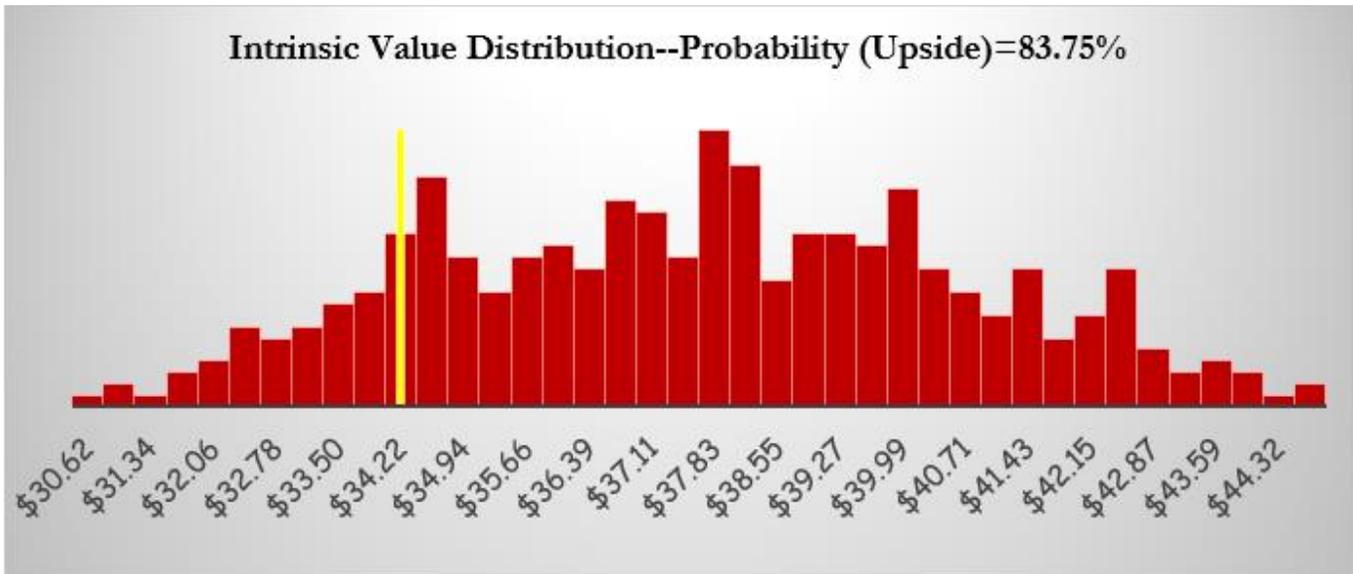
My base case is \$36.89 | Bull case \$38.9 | Bear case is \$29.37

Bear case outcome



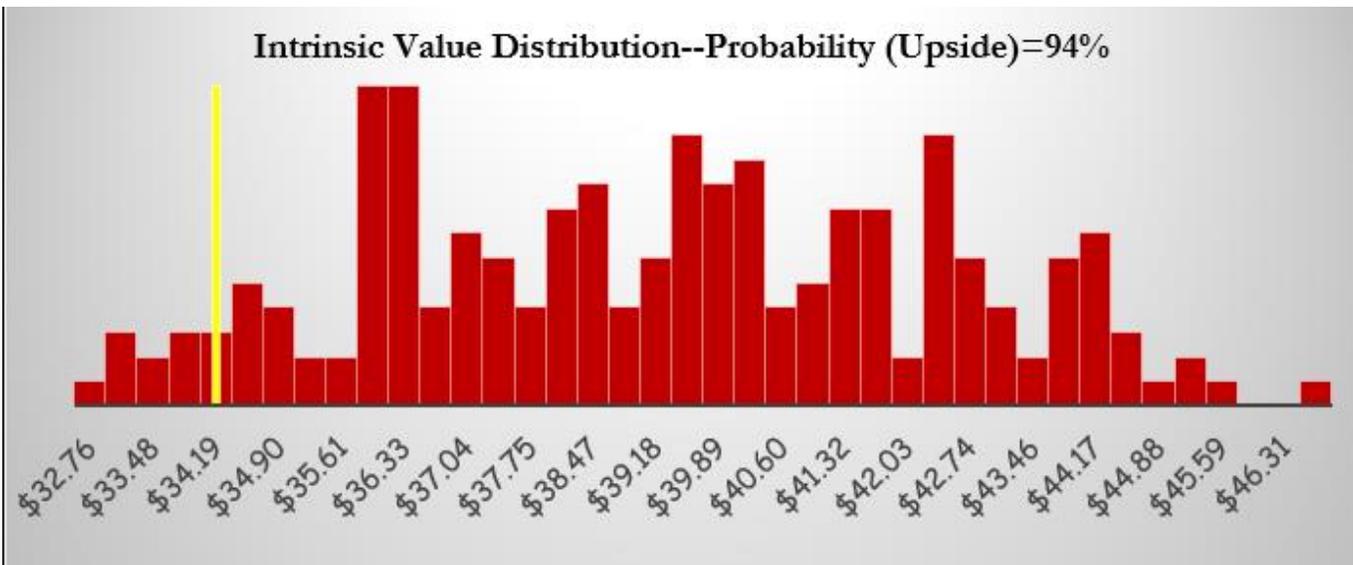
- Growth is pegged around 3% annually
- Operating margin is pegged to 10% until maturity (5 years from now)

Base case outcome



- Use Bloomberg forecasted growth rate (year 1 = 11%) then 3% to perpetuity
- Use Bloomberg forecasted operating margin (14% for next 5 years)

Bull case outcome



- Growth rate 10% for year 1 & 2, 5% year 3 and 3% to perpetuity
- Operating margin 14% for next 5 years

Conclusion:

Name	Mkt Cap (USD)	Last Px	Chg Pct 1D	Chg Pct 1M	Rev - 1 Yr Gr:Y	EPS - 1 Yr Gr:Y	P/E	ROE	Dvd 12M Yld
Median	4.66B	102.69	0.30%	2.22%	9.83%	32.73%	21.30	17.32%	1.70%
100) MOVADO GROUP INC	791.35M	34.43	0.88%	-1.57%	19.65%	32.73%	11.68	14.35%	2.32%
101) FOSSIL GROUP INC	681.61M	13.74	-5.44%	-5.89%	-8.85%	879.97%	21.30	5.81%	--
102) COLUMBIA SPORTSWEA...	7.10B	104.08	-1.06%	2.22%	13.63%	35.20%	25.56	17.32%	0.88%
103) CARTER'S INC	4.66B	102.69	0.30%	10.30%	1.82%	9.02%	16.19	34.06%	1.80%
104) LVMH MOET HENNESSY ...	190.35B	376.95	0.75%	9.80%	9.83%	18.22%	26.60	21.13%	1.61%
Cash from Operating Activities									
+ Net Income			51.8	45.1	35.1	-15.2	61.6	61.6	
+ Depreciation & Amortization			12.5	13.2	11.5	13.5	14.2	14.2	
+ Non-Cash Items			15.6	11.1	7.6	67.6	-5.9	-5.9	
+ Stock-Based Compensation			4.5	6.2	7.3	4.9	6.0	6.0	
+ Deferred Income Taxes			6.3	-1.8	-3.8	0.5	-11.4	-11.4	
+ Other Non-Cash Adj			4.8	6.7	4.1	62.3	-0.6	-0.6	
+ Chg in Non-Cash Work Cap			-20.2	5.3	4.0	-11.1	16.3	16.3	
+ (Inc) Dec in Accts Receiv			-9.3	-0.4	2.9	-9.3	-2.6	-2.6	
+ (Inc) Dec in Inventories			4.5	-3.1	7.4	6.6	-4.2	-4.2	
+ Inc (Dec) in Accts Payable			-5.4	0.8	-0.4	-4.0	6.1	6.1	
+ Inc (Dec) in Other			-10.0	8.0	-6.0	-4.5	17.1	17.1	
+ Net Cash From Disc Ops			0.0	0.0	0.0	0.0	0.0	0.0	
Cash from Operating Activities			59.6	74.6	58.2	54.7	86.2	86.2	

Given the past performance of the company, its mature profile is obvious and there is no reason to believe this would change in the future. My prosoma is showing high sensitivity to growth rate changes. According to the guidance, the future expansion to Asian market with e-commerce is promising and the model shows a satisfactory potential return (26%). In addition, the company is the most inexpensive stock from its entire peer group. Therefore, I am proposing a limit buy at \$30 as I value the intrinsic value of the company around \$34.

Movado Group, Inc.	Symbol: MOV
Analyst	Victor Secco
Buy below	\$30.17
Sell above	\$41.89
Probability of Price Increase	84%
Last Price	\$34.43
Intrinsic Value	\$34.32
Target Dividends	\$0.80
Target Price	\$36.92

Investment Thesis
LUXURY STOCK AS AN ECONOMIC SLOWDOWN HEDGE

I am initiating a LIMIT-BUY at \$30 on Movado Group. The company has shown the ability to maintain stable cash flow and flat margin. I view the company as an inexpensive defensive stock to consider in the portfolio. This stock is an answer to fear of the upcoming economic slowdown. Studies done on growth rate of luxury industry have not found evidence that the luxury sector shows different growth during economic turmoil.

For the long:
1. New product issuance:

Movado owns a large variety of brands to ensure diversified source of cash flow. The majors brand MOV own are Concord, Ebel, Olivia Burton, and MVMT. The second segment is their licensed brands including Coach Watches, Tommy Hilfiger Watches, Hugo Boss Watches, Lacoste Watches, Scuderia Ferrari Watches and Rebecca Minkoff & Uri Minkoff Watches.

2. Asian market expansions:

Looking at the earnings call and the investor presentation, due to their company model of acquiring and expanding, this places them in a get position to generate large revenues. Earning call is pointing Asian market such as Singapore, Korea, Japan, and China as the key target for market development. They did a preliminary attempt to grow in Asian markets by introducing Olivia Burton. The result was very promising and Asian customer reacted well to the brand.

3. Strong Financial history

MOV has had very stable financials. They maintain relatively flat gross margin in the ballpark of 55% and are projected to remain at this level in the future. The median gross profit margin for the industry of luxury good is 52% placing MOV slightly above the rate. On the earning side, the company constantly met or slightly exceeded estimates in revenues and net income for the past 5 years. Current guidance is showing expected revenues for 2020 of \$758M and adjusted Net Income of \$65.2M leading the path to a progressive growth of a mature company.

For the short:
1. Deceleration in the product cycle:

Movado is evolving in a super competitive environment and, the brand is facing intense competition in the watch industry. The sources of competition are broader than its "traditional" competitors, which are selling mechanical watches. In our ultra-connected world, smart watches and other smart wearables are no longer gadget for small customer segment but a real alternative considered by clients.

2. Slower adoption of gross margin initiatives that could delay my margin expansion thesis:

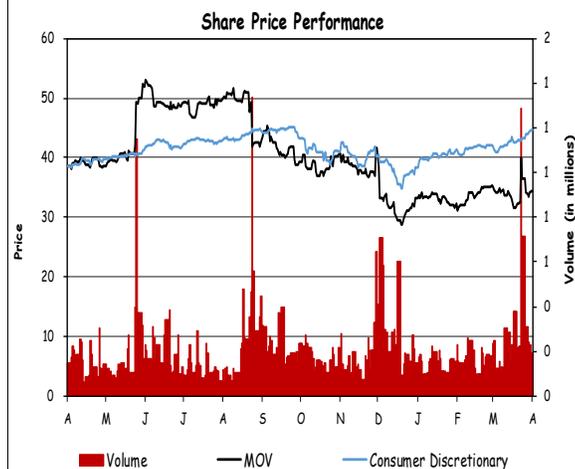
The design, sourcing, marketing, distribution and after-sales servicing of smart watches involve additional challenges to those applicable to traditional watches. If the company misread current trends, face early electronic problems on its product will add substantial costs to the company and tank the stock price significantly.

Key Catalysts for price change

- * Asian market development
- * Inventory management
- * New product issuance (e.g. upcoming smart watches).

Valuation

Given the mature profile of my company and its historical financial performances, all my forecast are based on DCF valuation.


Description

Movado Group, Inc. designs, develops, sources, markets, and distributes fine watches in the United States and internationally.

Sector	Consumer Discretionary
Industry	Textiles, Apparel and Luxury Goods
Last Guidance	December 11, 2018
Next earnings date	May 30, 2019

People

- Grinberg, Efraim, Chairman & CEO
- DeMarsilis, Sallie, CFO & Principal Accounting Officer
- Morelli, Francis, Senior Vice President of Global Information Tec
- Sussis, Mitchell, Senior VP, General Counsel & Secretary
- D'Elia, Vivian, Senior Vice President of Human Resources
- Leach, Mary, Chief Marketing Officer

Top Competitors

Seiko Holdings Corporation	Hugo Boss AG
Perry Ellis International, Inc.	Tapestry, Inc.
Oxford Industries, Inc.	Ralph Lauren Corporation
Fossil Group, Inc.	PVH Corp.
Vera Bradley, Inc.	Fitbit, Inc.

Market Statistics

Market Capitalization (mil)	\$791.35
Last Price per share	\$34.43
52 week high	\$53.73
52-week low	\$28.76
Volatility	43.29%
Daily volume (mil)	0.19
Short interest	5.35%
Days to cover short interest	5.99
Beta	1.14

Ownership

		Change in Ownership ("Input" month)
Shares outstanding (mil)	22.98	
Diluted shares outstanding (mil)	23.60	
Options and Warrants (Shares equivalent)	0.03	
% shares held by institutions	102%	
% shares held by investments Managers	63%	
% shares held by hedge funds	5.19%	
% shares held by VC/PE firms	0.134%	
% shares held by insiders	16.15%	19.22%
Poison Pill Type	NONE	

Movado Group, Inc.	Symbol: MOV
Analyst	Victor Secco
Buy below	\$30.16
Sell above	\$41.87
Probability of Price Increase	84%
Last Price	\$34.43
Intrinsic Value	\$34.29
Target Dividends	\$0.80
Target Price	\$36.90

Quarterly Earning Surprises (Actual Vs. Median Estimates)

Revenue	
1/31/2018	12.96%
4/30/2018	15.59%
7/31/2018	4.79%
10/31/2018	1.73%
1/31/2019	2.77%
Mean (Standard Error)	7.57% (1.04%)

EBITDA	
1/31/2018	26.19%
4/30/2018	-32.14%
7/31/2018	-15.92%
10/31/2018	N/A
1/31/2019	N/A
Mean (Standard Error)	#VALUE!

Valuation

DCF Valuation						
	Revenues	EBITDA Margin	UFCF	WACC	ROIC	Price Per Share
Base Year (Actual)	\$679.57	10%	-\$41.95	6.28%	7.28%	\$34.75
year 1	\$755.00	14%	\$130.75	10.83%	11.71%	\$37.35
year 2	\$776.80	14%	\$88.32	10.89%	11.46%	\$39.70
year 3	\$798.59	14%	\$86.75	10.94%	10.84%	\$42.00
year 4	\$820.32	14%	\$87.43	10.98%	10.29%	\$44.28
year 5	\$841.96	14%	\$88.77	11.01%	9.79%	\$46.53
year 6	\$863.48	9%	\$54.10	11.02%	5.85%	\$48.77
year 7	\$885.55	9%	\$55.48	11.02%	5.85%	\$51.14
year 8	\$908.18	9%	\$56.89	11.02%	5.85%	\$53.65
year 9	\$931.39	9%	\$58.35	11.02%	5.84%	\$56.31
year 10	\$955.20	9%	\$59.84	11.03%	5.84%	\$59.12
year 11	\$979.61	9%	\$61.37	11.03%	5.84%	\$62.11
year 12	\$1,004.64	9%	\$62.94	11.03%	5.83%	\$65.30
year 13	\$1,030.32	9%	\$64.54	11.03%	5.83%	\$68.69
year 14	\$1,056.65	9%	\$66.19	11.03%	5.83%	\$72.31
year 15	\$1,083.66	9%	\$67.89	11.04%	5.82%	\$81.06
Continuing Period	\$1,111.35	9%	\$109.58	11.04%	11.04%	

Relative Valuation			Asset Based Valuation			
Multiple	EV/Rev (FW)	EV/EBITDA (FW)	P/BV (TTM)	P/E (FW)	Recovery Rate	100%
Median (Peers)	1.0x	8.3x	1.8x	16.1x	Capital	\$725.47
Base	Revenue (NTM)	EBITDA (NTM)	Book Value (LTM)	Net Income (NTM)	Intangibles	\$184.22
MOV	\$759.00	\$106.26	\$508.33	\$78.69	Claims	\$222.08
Implied EV	\$776.27	\$886.57				
Total Net Claims	-\$70.65	-\$70.65				
Implied EQ	\$846.92	\$957.22	\$938.82	\$1,266.76		\$319.18

Valuation Summary			
Model	Intrinsic Value	Target Price	Weight
DCF Valuation	\$34.75	\$37.35	100.00%
EV/Rev (FW)	\$35.84	\$38.83	0.00%
EV/EBITDA (FW)	\$40.51	\$44.00	0.00%
P/BV (TTM)	\$39.73	\$43.14	0.00%
P/E (FW)	\$53.60	\$58.52	0.00%
Asset Based Valuation	\$13.51	\$14.08	0.00%
Price per Share	\$34.75	\$37.35	100%

Financials			
Profitability	MOV (LTM)	MOV Historical	Peers' Median (LTM)
Return on Capital	7.3%	14.29%	6.44%
Adjusted EBITDA Margin	10.0%	10.88%	10.54%
Return on Equity	13.1%	11.1%	12.5%
Adjusted Net margin	9.2%	8.2%	6.0%
Invested Funds	MOV (LTM)	MOV Historical	Peers' Median (LTM)
Cash/Capital	29.0%	37.3%	16.3%
NWC/Capital	26.3%	32.7%	14.4%
Operating Assets/Capital	24.0%	26.8%	55.1%
Goodwill/Capital	20.7%	0.0%	3.9%
Capital Structure	MOV (LTM)	MOV Historical	Peers' Median (LTM)
Total Debt/Market Cap.	0.19	0.13	0.46
Reported Cost of Borrowing	2.0%		4.9%
Cash Interest/Total Debt			9.5%
CGFS Credit Rating	D		CCC
Credit Model Rating	bb+		bbb-
Probability of Default	2.15%		0.05%
Cost of Capital			
	CGFS Credit Rating	Credit Model Rating	Probability of Default
Implied Cost of Borrowing (MOV)	9.2%	6.1%	9.2%
Implied Cost of Borrowing (Peers)	6.1%	5.8%	6.8%
Cost of New Debt Estimate	6.5%		
Market Risk Premium Estimate	5.6%		
Cost of Equity Estimate	12.1%		
WACC Estimate	10.8%		

