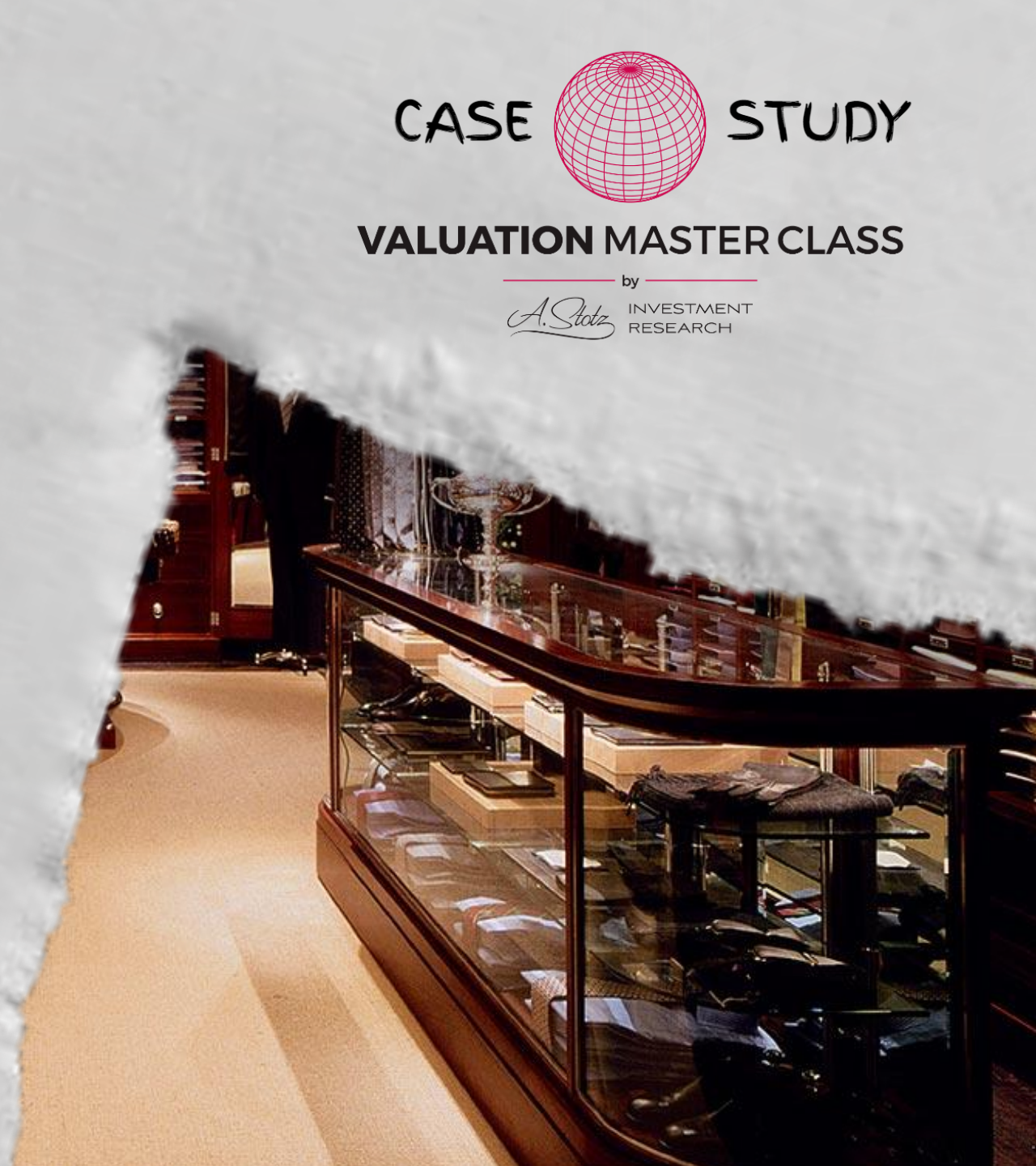


# Is Ralph Lauren's **polo shirt** worth more than its **share price?**



**Valuation Master Class**

CASE  STUDY  
VALUATION MASTER CLASS  
by  
*A. Stoltz* INVESTMENT  
RESEARCH





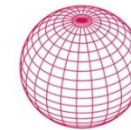
This video is for  
learning purposes only.

\*\*\*This is not  
investment advice or a  
recommendation.\*\*\*



Ask  
Ajarn  
Andrew





Our estimate:

**US\$96**

(Downside 16.5%)

**SELL**



## 3 things to know about this company

- ★ Sector-leading margin reaching a peak
- ★ Shifting away from wholesale increases brand value
- ★ With profits back on track, expect rising share repurchases

## Key statistics

Analyst consensus (22)

**US\$140**

(Upside 21.7%)

**BUY**

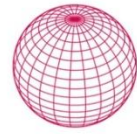
PB ratio

**3.5x**

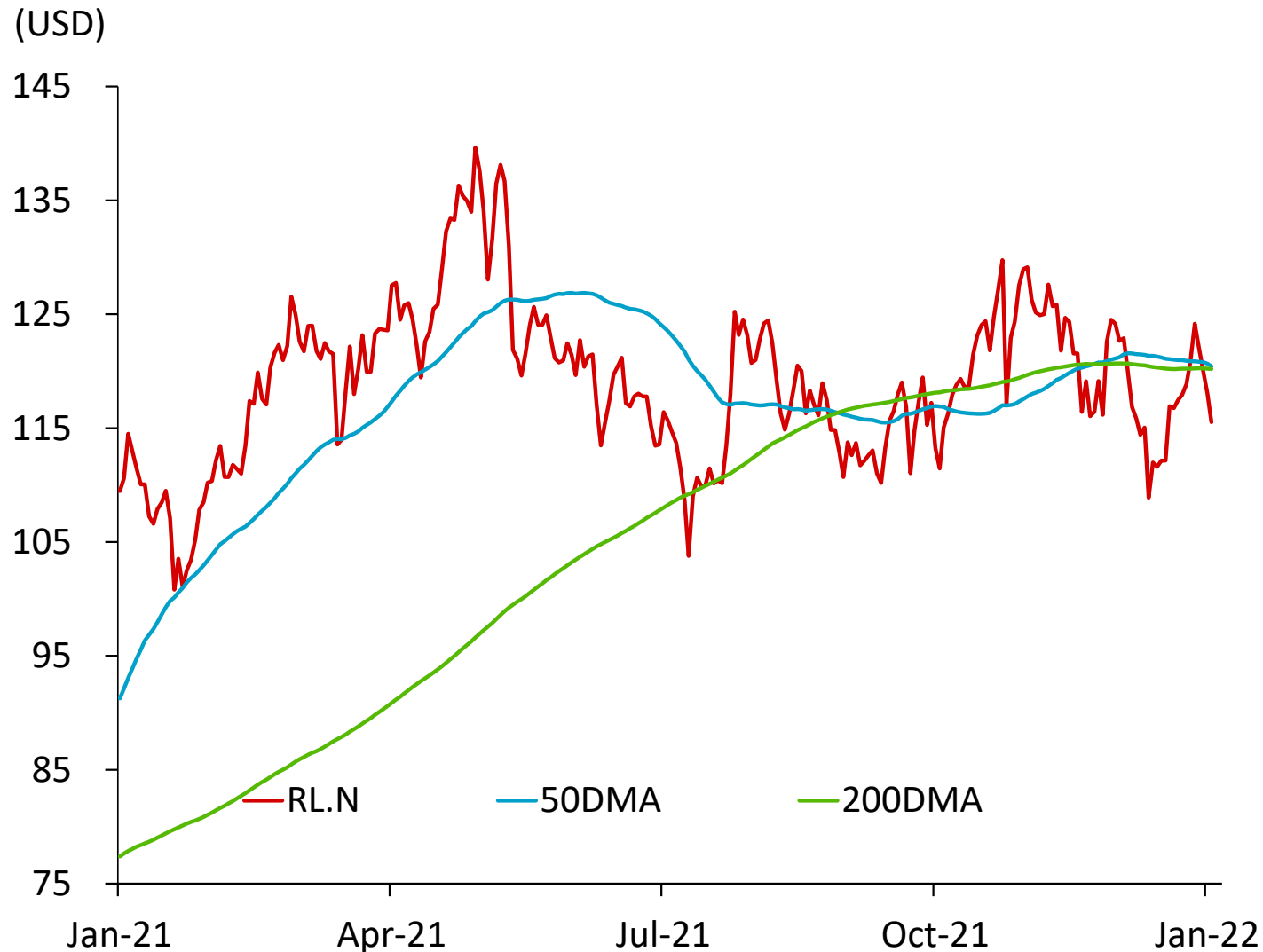
Dividend yield

**1.8%**

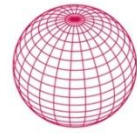
# Price signal might turn bearish soon



VALUATION MASTER CLASS



- ★ In 9M21, Ralph Lauren has seen a strong price rally with the 50 DMA staying above the 200DMA
- ★ However, the 200 DMA closed the gap and it seems like it could cross the 50 DMA very soon
  - **This could mark the start of a bearish trend**



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Risks

## Retail 63%



548 Retail stores  
650 concession shops

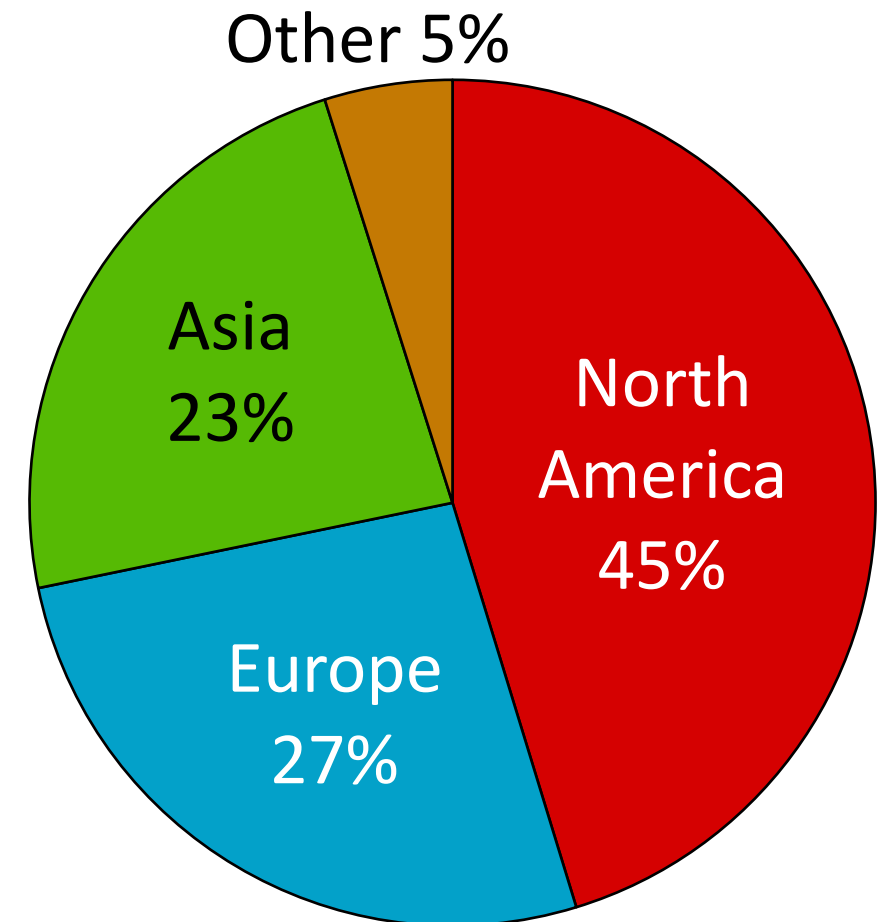
## Wholesale 34%



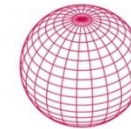
## Licensing 3%



## Breakdown by region



# 1 Sector-leading margin reaching a peak



Sales

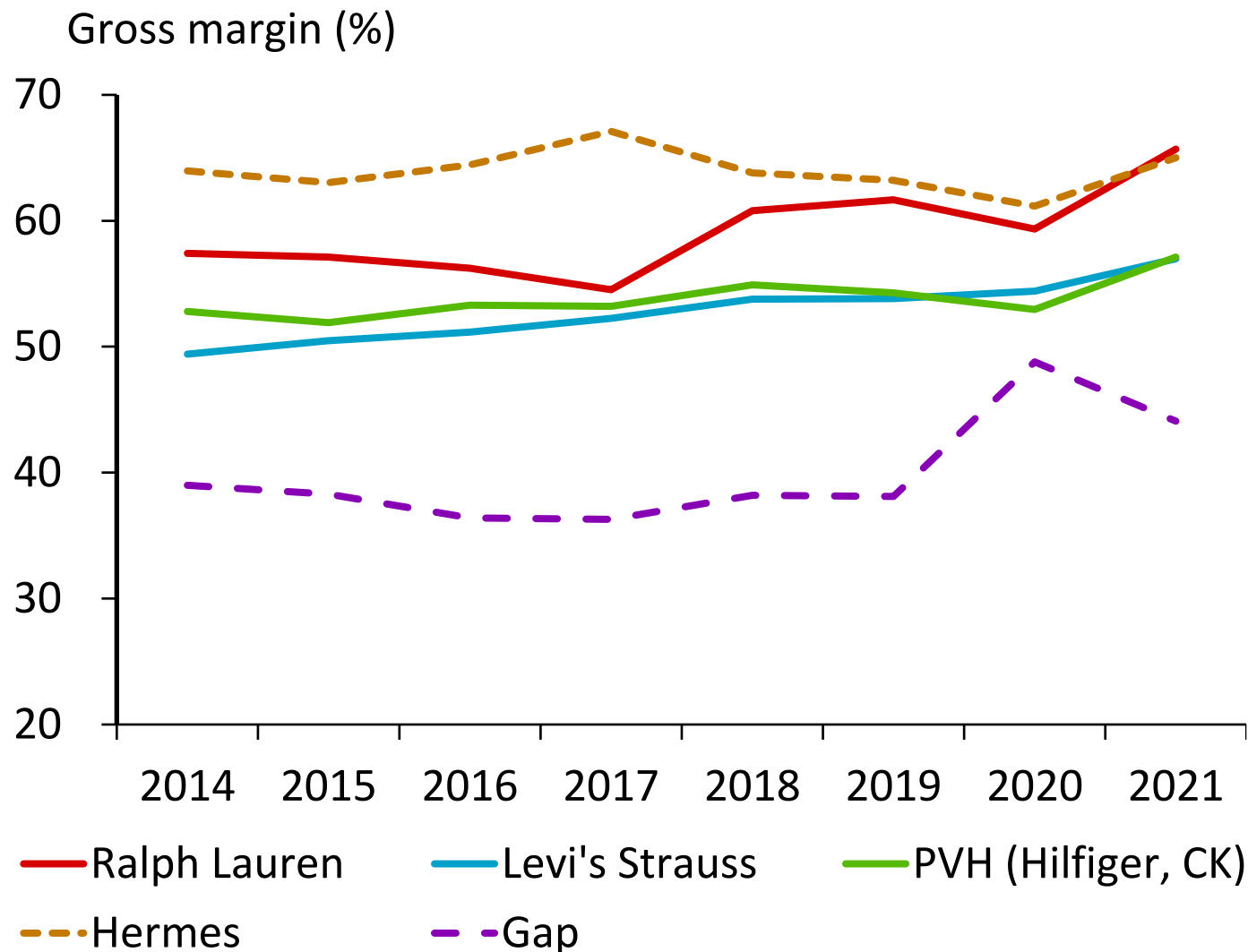
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- ★ Ralph Lauren had an impressive improvement in gross margin which recently converged to the profitability of luxury manufacturer Hermes
  - A higher contribution of online sales boosted the gross margin
- ★ However, there is not much further room to improve, and we think that the market already acknowledged past efforts of margin expansion



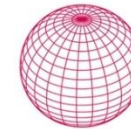
# Avoid overly optimistic gross margin forecast

- Analysts generally tend to be overly optimistic and forecast a high, or rising, gross margin
- However, at some point, companies face a ceiling where they can not further improve their margin
  - **In the case of Ralph Lauren, it seems like that the company converges closely to that point**
- Be careful when forecasting gross margin, because a small percentage change, like even a 1% increase, can have a massive impact on net profit



Ask  
Ajarn  
Andrew

## 2 Shifting away from wholesale increases brand value



Sales

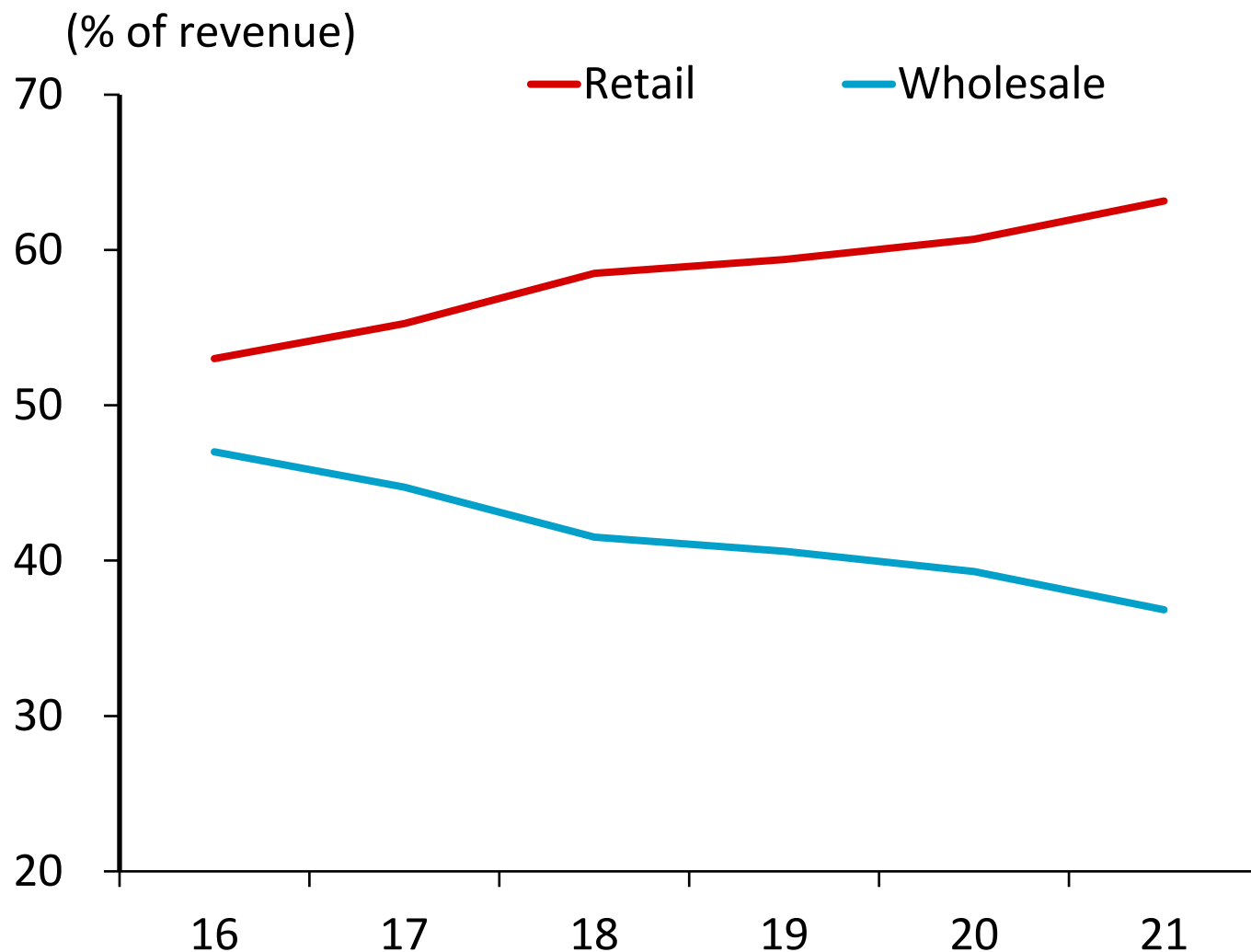
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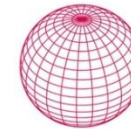
Risks



- ★ Ralph Lauren continues to reduce contracts with wholesale partners
  - **Wholesale partners tend to offer large discounts when reselling, devaluing the brand**
- ★ The company gets better control of the prices by tightening supply
  - **This will allow Ralph Lauren to increase its retail prices which are the company's main driver of growing revenue in the future**



### 3 With profits back on track, expect rising share repurchases



Sales

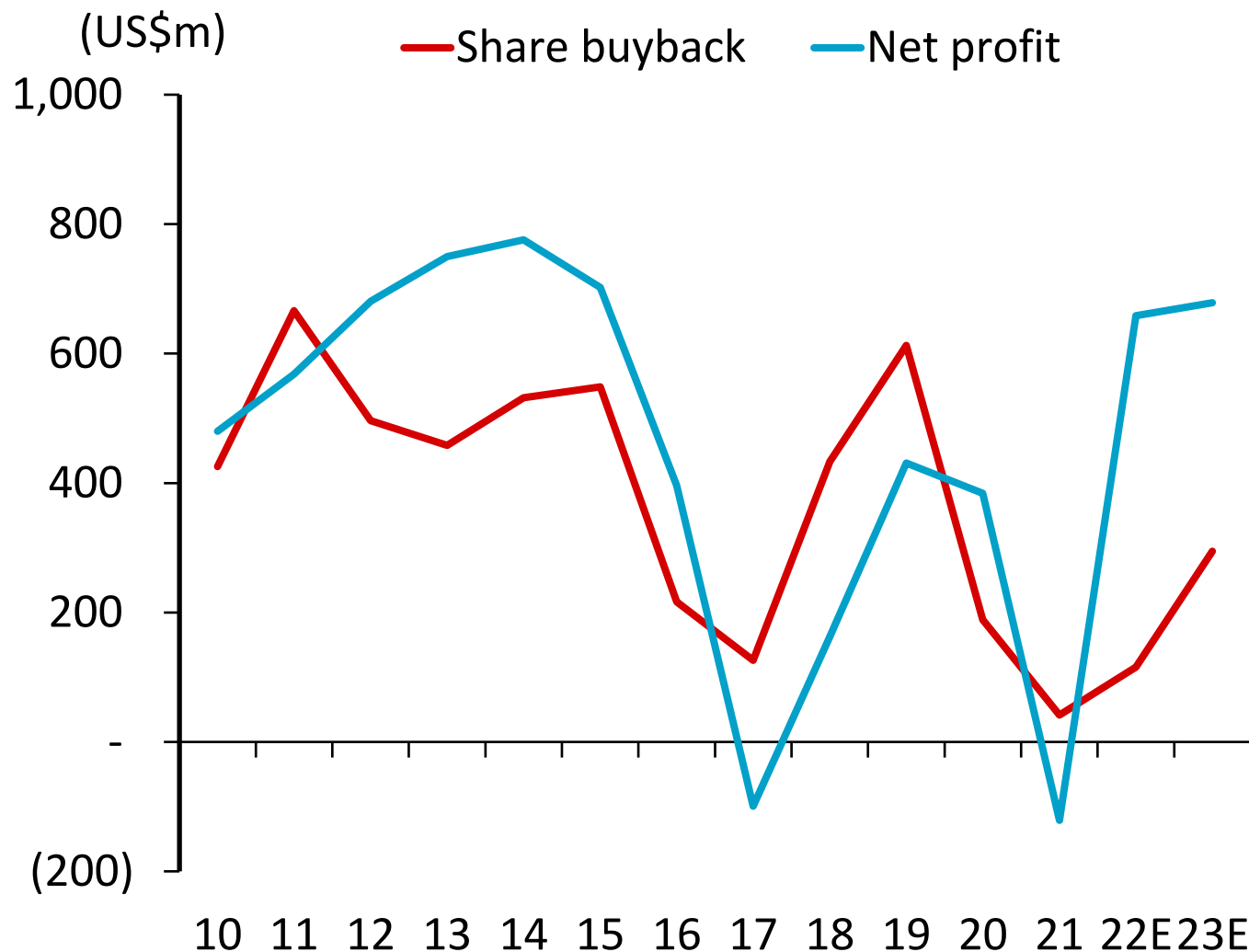
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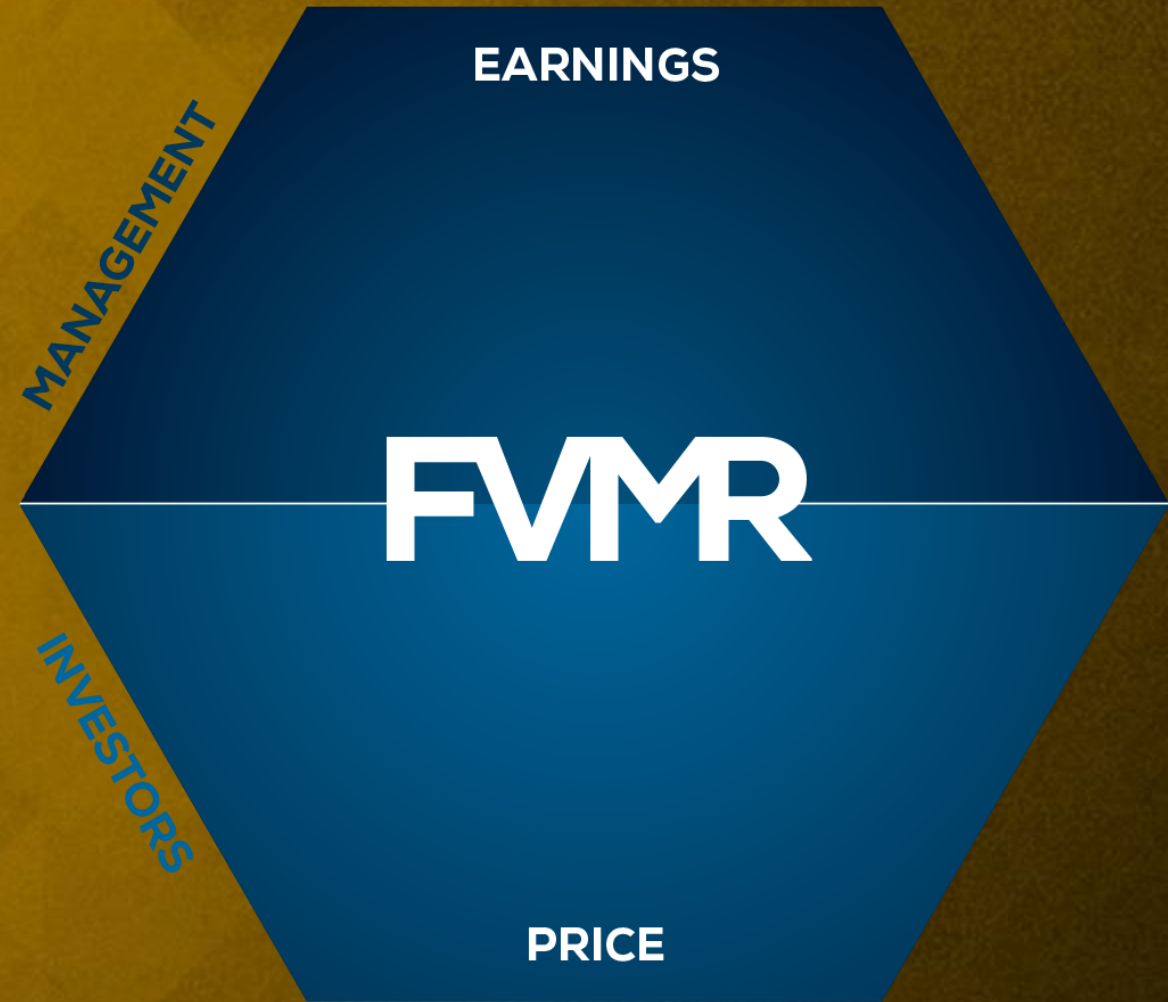
Risks



- ★ Ralph Lauren's share repurchase program is closely linked to its profit generation
  - **This means when profits are good, the company returns it to the shareholders**
- ★ It announced to resume the program in 2H22 onward with still US\$580m left that are authorized for repurchase
  - **Given that Ralph Lauren uses pure cash for its repurchases, it has an accretive effect on EPS**

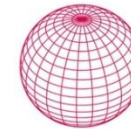
# FVMR Scorecard

- ★ Measures a stock's attractiveness relative to all other companies
- ★ Attractiveness is based on four elements
  - Fundamentals, Valuation, Momentum, and Risk
- ★ Scale from 1 (Best) to 10 (Worst)





# Strong fundamental improvement for a good price



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Risks

Worst

Neutral

Best

Rank relative to all other companies\*



Fundamentals



Valuation



(%)	Mar-18	Mar-19	Mar-20	Mar-21	PTM**
Operating profit margin	10.5	11.3	6.0	3.6	11.4
Recurring net margin	7.5	9.2	5.8	3.1	7.8
Asset turnover	104.8	104.5	93.2	58.0	70.3
Return on assets	7.9	9.6	5.4	1.8	5.5
Recurring return on equity	13.8	17.2	11.9	5.1	16.2

(x)	Mar-18	Mar-19	Mar-20	Mar-21	PTM**
Price-to-sales	1.5	1.7	0.8	2.1	1.6
Price-to-earnings	19.8	18.2	14.6	66.7	20.0
Price-to-book	2.6	3.1	1.8	3.5	3.0
PE-to-EPS growth (PEG)	nm	0.7	nm	nm	0.0
EV/EBIT	12.2	12.7	11.1	52.1	11.2

Momentum



Risk



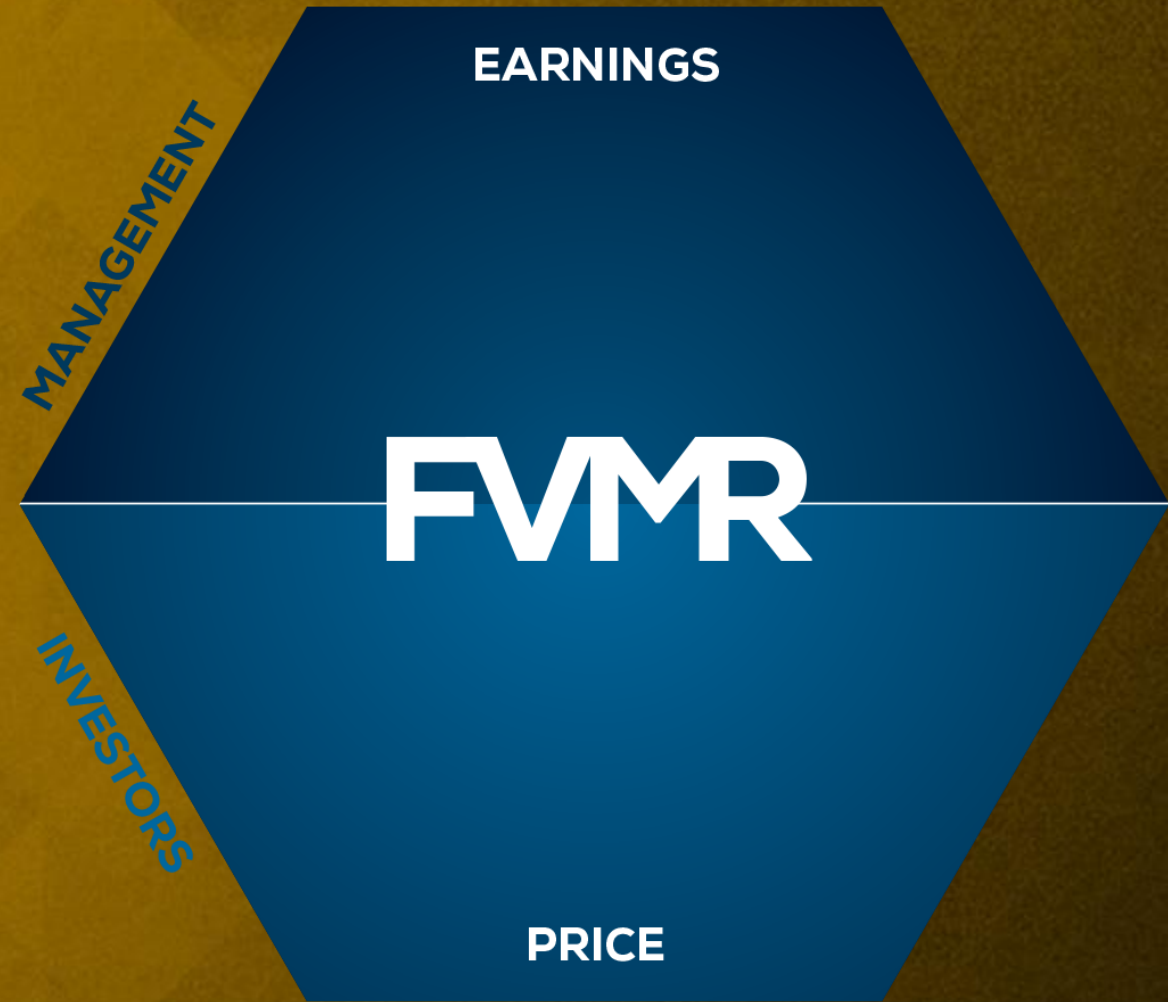
(%)	Mar-18	Mar-19	Mar-20	Mar-21	PTM**
Revenue growth	(7.1)	2.1	(2.4)	(28.6)	19.0
Recurring EPS growth	(0.1)	25.7	(35.4)	(59.8)	663.8
Operating profit margin chg. (bps)	353	79	(532)	(241)	1,152
	6mth	3mth	1mth	3wk	1wk
Price change	(3.8)	1.2	(6.6)	(7.0)	(0.2)

(x)	Mar-18	Mar-19	Mar-20	Mar-21	PTM**
Current ratio	2.2	3.0	1.6	2.7	2.0
Net debt-to-equity (%)	(33.3)	(32.4)	(27.7)	(28.9)	(49.1)
Times-interest-earned	35.8	34.6	10.1	3.3	12.1
	5yr	3yr	1yr	6mth	3mth
Beta	1.3	1.4	1.1	1.3	1.2

Note: Benchmarking against 2,170 non-financial companies in USA.

Recently, I created a short  
online course explaining my  
FVMR investing approach

Get \$97 value  
for FREE  
(limited offer)





A person wearing a dark, possibly black, robe is shown from the chest down, holding a large, smooth, white sphere. The sphere is positioned in the center of the frame. The word "Forecast" is written in a bold, black, sans-serif font across the middle of the sphere. The person's hands are visible, with fingers spread, holding the sphere from the sides. The background is dark and out of focus.

**Forecast**

# Consensus remains optimistic regarding profitability turnaround



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## Analyst consensus valuation

Recommendation	Oct-21	Nov-21	Dec-21	Current
Strong buy	2	2	2	2
Buy	9	9	9	9
Hold	9	10	10	10
Sell	-	-	-	1
Strong sell	-	-	-	-
Average score	2.4	2.4	2.4	2.5

Price target	Aug-21	Sep-21	Oct-21	Current
Median	142.5	140.0	140.0	140.0
Mean	142.9	139.8	139.8	138.1

#22  
analysts



Upside: 21.7%

## Analyst consensus 3-year forecast

(%)	18	19	20	21E	22E	23E
Revenue growth	2.5	(2.4)	(28.6)	35.1	4.5	3.9
Gross margin	61.7	59.3	65.7	66.3	65.7	66.2
EBIT margin	11.5	6.6	4.5	12.6	13.2	13.7
Net margin	6.8	6.2	(2.8)	9.3	10.4	10.3

- ★ Analysts' consensus sees upside but most of them are still have HOLD recommendations
  - What does a HOLD mean these days anyways?
- ★ They expect the company to maintain the increased gross margin and even expand it by 50bps until 2023





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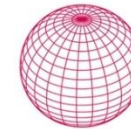
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(YE Mar, US\$ m)	2020A	2021A	2022E	2023E
Revenue	6,160	4,401	5,897	6,204
Cost of goods & services	(2,504)	(1,510)	(1,946)	(2,047)
<b>Gross profit</b>	<b>3,656</b>	<b>2,891</b>	<b>3,951</b>	<b>4,156</b>
SG&A	(3,251)	(2,691)	(3,066)	(3,257)
Other operating (exp)/inc	-	-	-	-
<b>EBIT</b>	<b>405</b>	<b>199</b>	<b>885</b>	<b>900</b>
Interest expense (net)	(2)	(39)	(51)	(52)
Other non-operating inc/(exp)	(23)	(1)	(0)	-
<b>Earnings before taxes (EBT)</b>	<b>379</b>	<b>160</b>	<b>833</b>	<b>848</b>
Income tax	(67)	(33)	(175)	(170)
<b>Earnings after taxes (EAT)</b>	<b>312</b>	<b>127</b>	<b>658</b>	<b>678</b>
Equity income/Minority interest	-	(0)	-	-
<b>Earnings from cont. operations</b>	<b>312</b>	<b>127</b>	<b>658</b>	<b>678</b>
Forex/Exceptionals before tax	73	(248)	-	-
<b>Net profit</b>	<b>384</b>	<b>(121)</b>	<b>658</b>	<b>678</b>

- ★ Net profit sees a strong rebound and exceeds its pre-pandemic level
  - Both higher revenue and margin expansion contributed to the strong bottom-line



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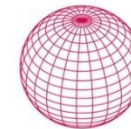
(YE Mar, US\$ m)	2020A	2021A	2022E	2023E
Cash & short-term investments	2,116	2,777	3,085	3,476
Accounts receivable	306	489	475	517
Inventories	736	759	892	938
Other current assets	217	183	201	211
<b>Total current assets</b>	<b>3,375</b>	<b>4,208</b>	<b>4,652</b>	<b>5,142</b>
Long-term investments	-	-	-	-
Net fixed assets	2,491	2,254	2,169	2,199
Intangible assets	141	121	126	132
Goodwill	916	935	951	969
Other long-term assets	357	370	389	408
<b>Total assets</b>	<b>7,280</b>	<b>7,888</b>	<b>8,287</b>	<b>8,850</b>

★ The company has a massive cash position, holding around 33% of its assets in cash as of 2021

- The strong cash generation ability makes us assume that Ralph Lauren can resume its previous share repurchase program



# Balance sheet - liabilities



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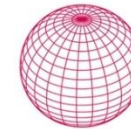
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Risks

(YE Mar, US\$ m)	2020A	2021A	2022E	2023E
Overdrafts & short-term loans	784	20	425	446
Accounts payable	809	1,035	1,189	1,251
Other current liabilities	498	530	531	558
<b>Total current liabilities</b>	<b>2,092</b>	<b>1,585</b>	<b>2,145</b>	<b>2,256</b>
Long-term debt	586	2,003	1,699	1,784
Other long-term liabilities	1,909	1,695	1,525	1,602
<b>Total liabilities</b>	<b>4,587</b>	<b>5,283</b>	<b>5,370</b>	<b>5,642</b>
<b>Minority interest</b>	-	-	-	-
Paid-up capital - Common shares	2,596	2,668	2,668	2,668
Paid-up capital - Preferred shares	-	-	-	-
Retained earnings	5,994	5,873	6,302	6,710
Revaluation/Forex/Others	(5,897)	(5,937)	(6,053)	(6,170)
<b>Total equity</b>	<b>2,693</b>	<b>2,604</b>	<b>2,918</b>	<b>3,208</b>
<b>Total liab &amp; shareholders' equity</b>	<b>7,280</b>	<b>7,888</b>	<b>8,287</b>	<b>8,850</b>

- ★ Large profits in 22E and 23E allow the company to repay part of its previous issued debt

# Cash flow statement



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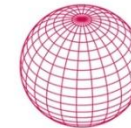
Risks

(YE Mar, US\$ m)	2020A	2021A	2022E	2023E
Net income	384	(121)	658	678
Depreciation & amortization	270	248	265	274
Calculated chg in net working capital	478	85	19	(9)
Other non-cash & balancing items	(377)	170	-	-
<b>Operating cash flow</b>	<b>755</b>	<b>381</b>	<b>943</b>	<b>943</b>
Capital expenditures	(250)	(108)	(203)	(327)
(Inc)/dec in other investments	952	303	(19)	(19)
<b>Investing cash flow</b>	<b>702</b>	<b>195</b>	<b>(221)</b>	<b>(346)</b>
Increase/(dec) in debt	461	453	101	106
Dividend paid	(204)	(50)	(230)	(270)
Change in equity	(695)	(38)	(116)	(118)
Others	(1)	(9)	(169)	76
<b>Financing cash flow</b>	<b>(438)</b>	<b>357</b>	<b>(413)</b>	<b>(206)</b>
<b>Net inc/(dec) in cash &amp; cash equi</b>	<b>1,019</b>	<b>933</b>	<b>308</b>	<b>391</b>
Beginning cash	1,988	2,116	2,777	3,085
Adjustment for historic data	(890)	(273)	-	-
<b>Ending cash</b>	<b>2,116</b>	<b>2,777</b>	<b>3,085</b>	<b>3,476</b>

★ Strong operating cash flow allows the company to pay out dividends which are in line with its pre=pandemic policy

- We expect that the dividend yield over the near-term to range between 2-3%





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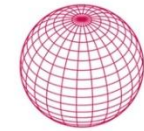
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(YE Mar)	2020A	2021A	2022E	2023E
<b>General growth (YoY, %)</b>				
Revenue	(2.4)	(28.6)	34.0	5.2
Assets	22.5	8.3	5.1	6.8
Gross profit	(6.1)	(20.9)	36.7	5.2
Operating profit	(44.2)	(50.7)	343.6	1.7
Attributable profit	(10.8)	(131.5)	643.7	3.0
EPS	(5.7)	(132.6)	645.4	4.7
Recurring EPS	(40.8)	(58.6)	420.0	4.7
<b>Du Pont analysis (%)</b>				
Net profit margin	6.2	(2.8)	11.2	10.9
Revenue per US\$100 of assets	93.2	58.0	72.9	72.4
Assets/equity (x)	2.2	2.9	2.9	2.8
Return on equity	12.9	(4.6)	23.8	22.1

- ★ After the revenue rebound in 22E, we assume revenue growth to normalize
  - Going forward, we see the revenue growth potential between 3-4%



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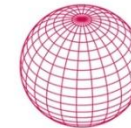
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Risks

(YE Mar)	2020A	2021A	2022E	2023E
<b>Internal liquidity (x)</b>				
Current ratio	1.6	2.7	2.2	2.3
Quick, or acid test ratio	1.3	2.2	1.8	1.9
<b>Working cap. mgmt (Days)</b>				
Inventory conversion period	112	178	153	161
Receivables collection period	22	33	29	29
Days from raw mat to coll	133	211	182	190
Payables deferral period	120	220	206	215
Cash conversion cycle	13	(9)	(24)	(25)
<b>Profitability ratios (%)</b>				
Gross profit margin	59.3	65.7	67.0	67.0
EBIT margin	6.6	4.5	15.0	14.5
EBIT return on avg assets	6.1	2.6	10.9	10.5
Return on average assets	5.8	(1.6)	8.1	7.9
<b>Financial risk (x)</b>				
Liabilities-to-assets (%)	63.0	67.0	64.8	63.7
Debt-to-equity	0.5	0.8	0.7	0.7
Net debt-to-equity	(0.3)	(0.3)	(0.3)	(0.4)
Times-interest-earned	18.4	9.2	18.5	15.4
Effective interest rate (%)	3.2	2.9	3.0	3.5

- ★ EBIT margin is likely to expand significantly through better cost control
  - We see an EBIT margin around 15% as a maximum for this Ralph Lauren
  - So, we already have an optimistic bias





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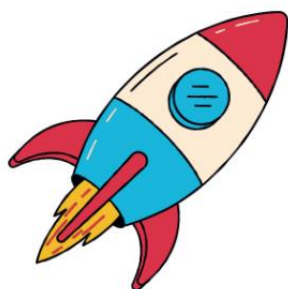
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Ratios

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Risks

## Internal - Earnings

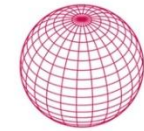


Driver	Potential	Our thoughts
Price	Weak	Retail price faces mid-single-digit growth
Quantity	Weak	Intensified competition from new entrants
Costs	Moderate	Gross margin already close to the peak
Expenses	Weak	Marketing expenses likely to increase
Annual EPS growth likely to be around 5% between 2022 and 2025		

## External - Price



Driver	Potential	Our thoughts
PEG	Weak	Trades in line with US Cons. Disc.
PB-ROE	Good	Trades cheaply compared to US Cons. Disc.
No premium over sector average justified		



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(YE Mar, US\$ m)	2020A	2021A	2022E	2023E
EBIT	404.7	199.4	884.6	899.5
<i>Est tax rate (%)</i>	14.9	-	21.0	20.0
<b>NOPAT</b>	<b>344.3</b>	<b>199.4</b>	<b>698.8</b>	<b>719.6</b>
Add: Depre & amort	269.5	247.6	265.3	273.9
Less: CAPEX	(249.5)	(107.8)	(160.6)	(283.1)
Chg in A/R	131.2	(183.2)	14.1	(41.9)
Chg in inventory	81.6	(22.8)	(132.9)	(46.4)
Chg in oth curr assets	135.6	33.4	(17.1)	(10.4)
Chg in A/P	(53.8)	225.5	154.3	61.8
Chg in oth curr liabs	183.6	32.0	0.5	27.6
<b>Less: Chg in working cap</b>	<b>478.2</b>	<b>84.9</b>	<b>18.9</b>	<b>(9.3)</b>
Less: Chg in invest cap				
<b>Free cash flow to firm</b>	<b>842.5</b>	<b>424.1</b>	<b>822.4</b>	<b>701.2</b>

- ★ Over the past years, Ralph Lauren has proven its consistent cash generation ability
  - **There is no indicator to assume differently for the future**





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Forecast assumptions			
	3-year average	Consensus	My assumptions
Revenue growth (CAGR)		13.6	13.4
Gross margin		66.1	66.5
EBIT margin		13.2	13.5

My valuation method		
Market: United States of America		
Market risk-free rate		2.0
Market equity risk premium		9.0
Market return		11.0
Company beta (x)		1.3
COE		13.3
WACC		10.4
Terminal growth rate		2.0

Valuation Method:  
FCFF

- ★ Similar to consensus, we expect a stronger margin compared to the past
- ★ The revenue growth CAGR might appear huge but is mainly driven by a rebound effect in the current year



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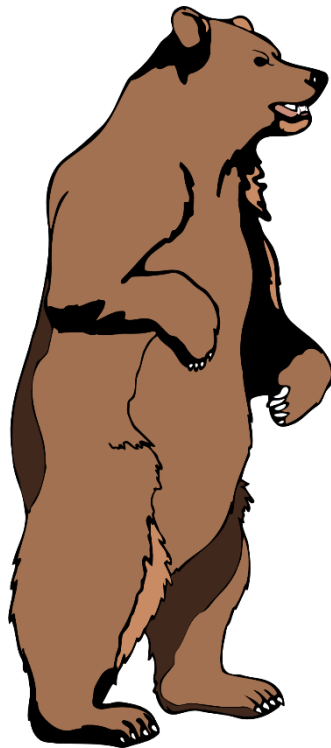
Ratios

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Risks

**Bear**  
**US\$90**

(Downside 21.7%)



**Base**  
**US\$96**

(Downside 16.5%)



**Bull**  
**US\$103**

(Downside 10.4%)



# World Class Benchmarking Scorecard

- ★ Identifies a company's competitive position relative to global peers
- ★ Combined, composite rank of profitability and growth, called "Profitable Growth"
- ★ Scale from 1 (Best) to 10 (Worst)





# Ralph Lauren ranks slightly above average



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WCB

Risks

Profitability  
still average

Profitable Growth				
'18	'19	'20	'21	PTM
4	2	5	7	4

Massive  
rebound in  
Growth

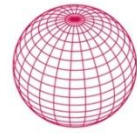
Profitability				
'18	'19	'20	'21	PTM
3	2	4	7	5

Growth				
'18	'19	'20	'21	PTM
7	3	8	7	1

Benchmarked against 1,040 large Cons. Disc. companies worldwide.



**Risks**



Sales

Story

FVMR

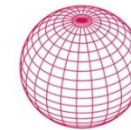
Value

WCB

Risks

- ★ Intensified competition from new entrants and urban-lifestyle brands
- ★ Adverse economic conditions could hamper the cyclical Consumer Discretionary sector
- ★ Failure to meet growing demand for e-commerce





Our estimate:

**US\$96**

(Downside 16.5%)

**SELL**



## 3 things to know about this company

- ★ Sector-leading margin reaching a peak
- ★ Shifting away from wholesale increases brand value
- ★ With profits back on track, expect rising share repurchases

## Key statistics

Analyst consensus (22)

**US\$140**

(Upside 21.7%)

**BUY**

PB ratio

**3.5x**

Dividend yield

**1.8%**

# CONCLUSION

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- Weak potential to drive earnings growth internally
- Strong margin expansion already acknowledged by the market
- Dividend yield and share repurchases are not sufficient to compensate lack of upside

