

## Movado Group, Inc. (MOV:NYSE)

Personal Goods – Clothing & Accessories

### “Watch the Cash”

#### Company Profile

Movado Group, Inc. (Movado) is a Swiss watch designer, marketer and distributor based out of New Jersey, USA and is best known for their Movado Museum Watch. The firm operates in two main business segments, wholesale and retail. Movado primarily competes in the accessible luxury and luxury watch categories. The company’s largest distribution faculty is in Moonachie, New Jersey, USA, but has smaller operations located in Switzerland, France, Hong Kong, Canada, China and Singapore.

#### Stagnant Growth with Strong Dividends

Although demand for Movado’s products has benefited from an increase in tourist spending, primarily from Chinese consumers travelling to Europe, the trend is not expected to continue due to the appreciation of the Swiss Franc. Additionally, the higher cost of the Swiss Franc has increased input costs for the firm and smaller margins should be expected. Although the firm has been implementing selective price increases, the strategy likely is not sustainable in the long term. Movado’s dividend policy has been strong in the past and we believe that, based on historical trends and the firm’s excess of cash, it will continue to grow.

#### Valuation & Recommendation

We determined the weighted target share price for Movado to be \$32.76. Utilizing the EV/EBITDA ratio, we calculated the target share price to be \$31.35, which we decided to place a 60% weighting. Additionally, our discounted cash flows was weighted at 40% and provided a target share price of \$34.87. Given Movado’s current share price and our target, we believe that the market is pricing the stock fairly and therefore, we decided to initiate a hold rating.

Henry Zhang, Analyst  
Bachelor of Commerce 2018

#### Equity Research Canada

<b>Price Target</b>	<b>USD \$ 32.76</b>
<b>Rating</b>	Hold
<b>Current Share Price, close</b>	USD\$ 30.38
<b>Total Return</b>	7.8%

#### Key Statistics

<b>52 week H/L</b>	\$32.21/\$21.18
<b>Market Capitalization</b>	\$699.6M
<b>Net Debt</b>	-\$181.8M
<b>Enterprise Value</b>	\$517.8M
<b>Net Debt/Enterprise Value</b>	-35.1%
<b>Diluted Shares Outstanding</b>	23.0M
<b>Free Float %</b>	95.2%
<b>Dividend Yield</b>	1.5%
<b>LTM P/E</b>	14.5x
<b>LTM EV/EBITDA</b>	6.0x

#### WestPeak’s Forecast

	<u>2015E</u>	<u>2016E</u>	<u>2017E</u>
<b>Revenue</b>	\$589M	\$612M	\$613M
<b>EBITDA</b>	\$93.5M	\$97.9M	\$98.0M
<b>EBIT</b>	\$80.0M	\$77.3M	\$81.4M
<b>Net Income</b>	\$60.7M	\$52.5M	\$55.3M

#### Price Performance – 1 Year



# The Company

## Business Overview

Movado Group Inc. (Movado) focuses on the designing, sourcing, marketing and distribution of watches. Movado is based out of New Jersey, USA with the main distribution centre located in Moonachie, New Jersey and the executive offices located in Paramus, New Jersey. Additionally, for the firm's Swiss watch brand, Movado operates a smaller facility in Bienne, Switzerland, mainly for distribution purposes. For distribution within Asia, Movado relies heavily on a third party warehouse and fulfillment provider. Unlike many companies, Movado's fiscal year starts on January 31<sup>st</sup> of each year.

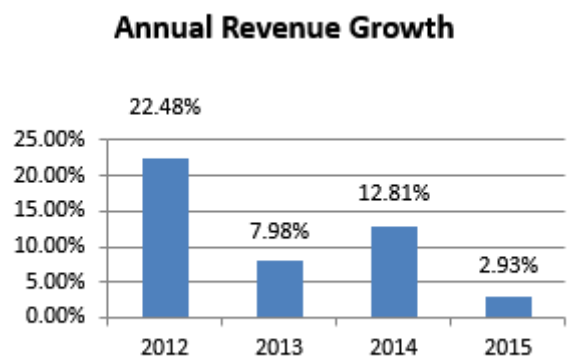
## Business Model and Supply Chain

Movado does not manufacture products. Rather, the firm relies on independent manufacturers to meet any shifts in marketplace demands. The watches are manufactured in Switzerland, China and Hong Kong. The watch components used for the Movado, Ebel, Concord and ESQ Movado watches are purchased from two suppliers, while all other components are sourced from several different suppliers. Currently, Movado has no long-term commitments with any of its component parts suppliers and therefore any changes in demand can potentially cause a backlog of orders due to the company waiting for watch parts. As for the watch assembly, Movado (with the exception of Movado Bold), Ebel and Concord watches are assembled in Switzerland by an independent party, while all of the company's other watch brands are assembled by independent contractors in Asia.

## Growth

Movado Group has seen an increase in revenue every year for the past 6 years, with an average revenue growth of 11.1%. Although the firm has seen revenue growth annually, the growth rate has quickly diminished in the last four years.

Because a significant portion of Movado's inventory purchases are denominated in Swiss Francs, the exchange rate of the Swiss Franc directly affects Movado's gross margins. One of Movado's growth strategies against exchange rate fluctuations is to selectively increase their prices for certain products. The idea behind the price increases is to increase the company's gross margins as a measure to offset higher costs. Despite the negative effects caused by unfavourable currency exchanges, the firm's selective price increases allowed the company to increase gross margins by approximately 1%. However, an increase in price will most likely lead to a negative correlation with demand for Movado's products in the long run.



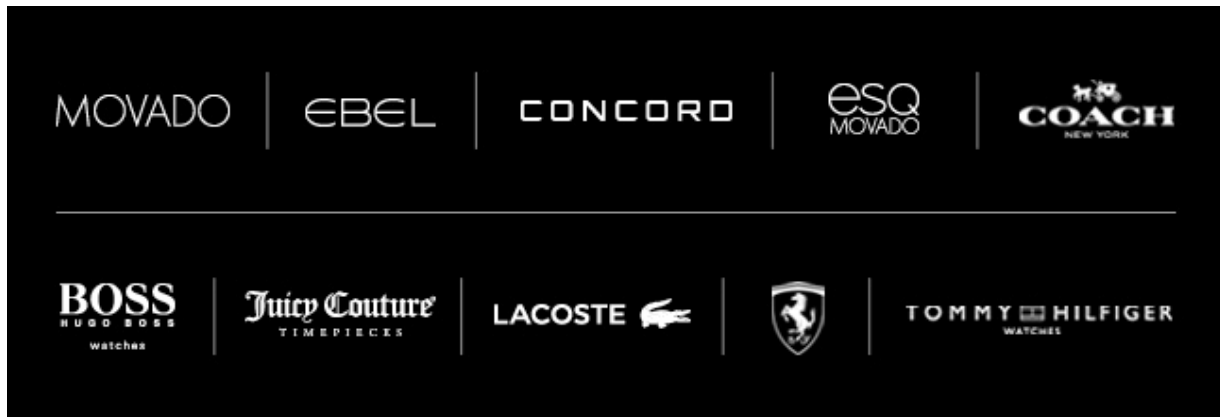
## Stock Repurchase Program

In March of 2013, Movado's board approved a share buyback program which expired on January 31<sup>st</sup> 2016. At the time, Movado was authorized to purchase up to \$50 million of its outstanding common stock. In November 2014, the board increased the authorization amount to \$100 million. Movado repurchased a total 1,106,506 shares during the 24 months prior to January 2015 at an average share price of \$38.48. This was followed by a repurchase 1,747,966 common shares during the nine months prior to October 31<sup>st</sup> 2015 at an average share price of \$26.28. Since the inception of the Share Repurchase Program, Movado repurchased almost \$56.4 million worth of shares.

Although stock repurchase programs often occur because management believes that their stock is undervalued, we believe that the management performed the program poorly as our target share price is much less than the average price the firm paid for each share during the initial purchase. However, after repurchasing an extra 1.7 million shares, the average price per share was dropped to approximately \$31, which is close to our target share price, indicating that the company paid fair value.

## Product Lines and Smartwatch Introduction

The company is responsible for watches under their own brand as well as brands that are licensed. Under the company's own luxury brand, they have acquired Concord, Movado and Ebel watches. Concord and Ebel operate in the luxury watch category, meaning the suggested retail price ranges from \$2,000 to \$9,999, while Movado operates in the accessible luxury watch category, meaning the suggest retail price ranges from \$500 to \$2,499.



*Luxury and Licensed Brands (Source: Movado's LinkedIn)*

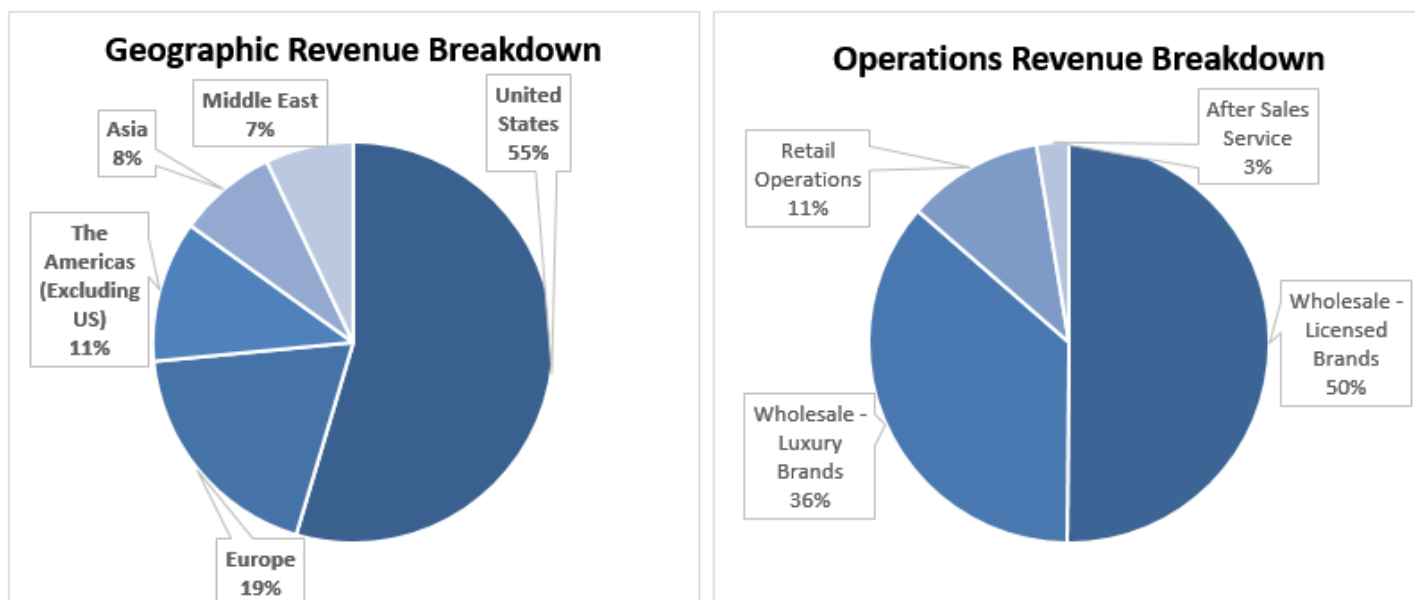
The licensed brands that Movado is responsible for are ESQ, Coach, Tommy Hilfiger, Hugo Boss, Juicy Couture, Lacoste and Scuderia Ferrari. All brands licensed by Movado sell in the moderate and fashion watch category, where the suggested retail price ranges from \$75 to \$500. Movado strives on their highly selective licensing strategy, which has shown positive results. Currently, 53% of the company's total wholesale revenue comes from their licensed brand category. Recently, Movado discontinued the production of ESQ watches in favour of their more profitable Movado Brand and has the right to sell its remaining inventory of ESQ watches for up to six months after the license expiration date, ending December 31<sup>st</sup> 2016. Refer to Figure A for more information about the licensed watch brands.

During Q4 2016, Movado introduced two new smartwatches in order to expand their offerings. The company introduced the Movado Swiss Museum Motion, a watch that focuses on the traditional design the company is known for, and the Movado Bold Motion, a more casual, trendier watch created in collaboration with Hewlett-Packard. The strategic expansion in the company's breadth demonstrates the firm's desire to stay up to date with the latest trends. The introduction of the company's new smartwatches compete directly with the introduction of smartwatches from other Swiss watchmakers such as Tag Heuer and Breitling, as well as other fashion watch designers such as Fossil.

## Geographic and Segmentation Revenue Breakdown

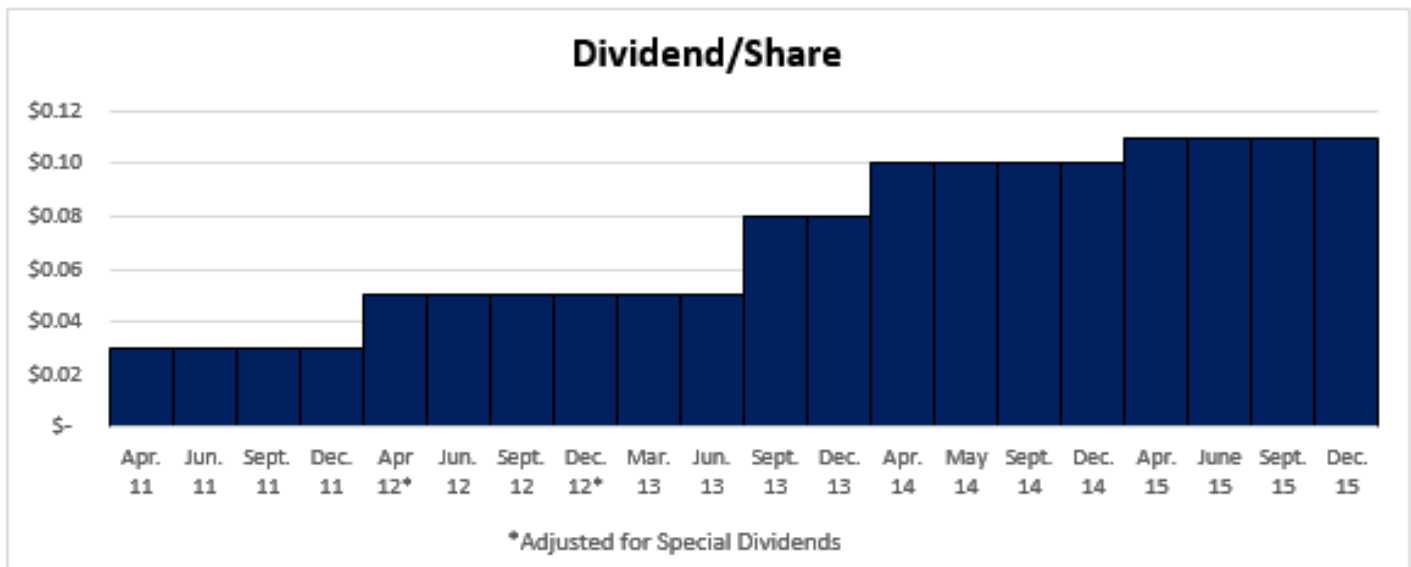
The company operates two business segments, wholesale and retail. It's important to note that Movado recognizes revenue differently between their wholesale and retail segments. In the wholesale segment, revenue is recognized when the title and risk is transferred in accordance to FOB shipping, after the sale price is fixed and collectability is reasonably assured. For their retail segment, revenue is recognized at the time of register receipt, which indicates that the title and risk has been transferred. Estimations for sales returns, volume-based programs and discounts are reduced from revenue in the same period that the sale is recorded.

While the wholesale side of the company distributes worldwide, Movado's retail locations are only situated within the United States. Movado operates 38 outlet stores in the United States. For Fiscal Year 2015, the company saw retail sales increase to \$64.7 million, which was a 9.2% increase compared the previous fiscal year.



## Dividends

Movado has been very consistent with their dividends since 2011. Most recently, Movado declared a \$0.11 dividend per share on December 2<sup>nd</sup> 2015. Over the last four years, Movado has been steadily increasing their dividends, from \$0.03/share in April 2011 to \$0.11/share in December 2015. Movado's steady growth in dividend payments is in line with their continued growth in cash generation.



## Macro Environment Factors

### Disposable Income

With luxury goods, demand is partly controlled by disposable income. This is because a luxury product's demand is mainly based on an individual's ability to purchase discretionary goods. With a higher disposal income per capita and the number of households with a total income of over \$100,000 expected to grow twice as fast from 2015 – 2020 compared to the previous five years, Movado should see an increase in their revenue. On average, the per capita disposable income within the United States is expected to increase 2.5% for 2015 to 2020. This is compared to the compound growth of 1.3% from 2010 – 2015. The low compound growth during the last five years can mainly be attributed to the 2.1% drop in per capita disposable income in 2013. The decline in per capita disposable income was partly caused by tax regulations regarding the Affordable Care Act and the payroll tax hike associated with it. Other than 2009 and 2013, per capita disposable income increased each year with low volatility and there is no reason to believe this trend will deviate in the foreseeable future.

### Tourism and Currency Exchange

The luxury goods industry is increasingly being driven by tourist spending. Chinese consumers, in particular, represent the fastest growth, with their international spending covering their domestic spending by threefold. The trend is best shown in 2014 with China having a 2% decline in domestic luxury spending. Additionally, the amount spent on luxury goods within the United States has grown by 3%, which is partly due to the increase of spending by tourists. Especially for Chinese consumers, the exchange rate for the destination country would play a factor in determining their spending. In January 2015, the Swiss National Bank removed the currency cap on the Euro, causing the Swiss Franc to soar in value by about 15 – 20%. Because of the appreciation of the Swiss Franc, tourism in the country will see a decline in the near future due to the higher costs in Switzerland. Additionally, it will increase the cost of goods sold for Movado, forcing them to either increase prices, which they are strategically implementing at the moment, or suffer with slimmer margins.

## Newly Formed and Rapidly Growing Smartwatch Industry

After the introduction of the Apple watch, more watch executives are viewing smartwatches as a competitive threat. Smartwatches are seen as the next stage of growth for the Swiss watch industry. In 2014, the smartwatch industry grew by 82% from \$711 million USD to \$1.3 billion USD and with the introduction of the Apple watch, it is expected that the industry will increase to \$8.9 billion USD, which is equivalent to the industry growing by 585%. Even with the exponential growth, there is still room for Swiss companies to develop their own smartwatch alternatives since they would essentially be creating a niche market. Several Swiss watch brands have started entering the market with Breitling introducing the B55 connected and Tag Heuer with their Carrera Wearable 01, which would be considered the direct competitors for Movado in the Swiss watch wearable technology category. Through an online survey conducted by Deloitte, the results showed that 61% of consumers in China and 31% of consumer in the United States were likely to purchase a smartwatch in the next 12 months, emphasizing the importance of considering the smartwatch industry as a credible competitor.

The reasons for why consumers are unlikely to purchase a smartwatch in the next 12 months varies depending on the region, however, one of the top reasons for virtually all countries is that smartwatches are currently too expensive. If smartwatch companies were to lower the cost due to economies of scale or produced cheaper alternatives to reach the mass market, the smartwatch industry could reach a larger target market. Once economies of scale is reached and the prices of smartwatches drop to a price point that would reach the masses, companies like Movado, who are producing luxury smartwatches, will struggle to remain competitive.

## Jewelry and Watch Wholesaling Industry

Projected growth within the jewelry and watch wholesaling market is expected to be slow, but steady within the United States. Due to improving economic conditions, spending on luxury watches is expected to increase; however, revenue growth for the whole industry is expected to grow at a very modest pace, indicating a reduction in volatility. From 2016 to 2021, The US jewelry and watch wholesaling market is expected to grow, on average, 1.6% annually.

## Catalysts

### Smartwatch Introduction

Movado recently entered the smartwatch category in order to be part of an exponentially growing industry. At this time, we cannot determine whether or not Movado's decision to enter the category was a smart move. Since Movado just released the watches in Q4 of fiscal year 2016, we would need to wait to determine the success of the product. Although investors should be provided information about the product's current success through quarterly reports, the fiscal year 2017 annual report should be the clear indicator of whether or not the product was perceived well by the general public. Although entering the smartwatch industry may seem like a great idea initially because of the large growth potential and the industry still being fairly new, there has already been a proliferation of sizable entrants into the space. With the introduction of



*Movado Bold Motion  
(Source: Movado)*

Apple Watch, Apple created and seized 75% of the market share primarily due to brand loyalty. With Movado's new smartwatches being priced from \$695 to \$2,495, the watches will be viewed as a luxury product and will mainly target a niche market of individuals who enjoy the new technology, but their top priority is the design of the watch. If they are able to successfully target their products to the correct market, their entrance into the smartwatch category should produce positive results.



*Museum Sport Motion  
(Source: Movado)*

## Consistent Dividend Policy

Since 2011, Movado's dividend policy has been very consistent. Historically, dividends have been increased annually and there is no reason to believe that this will change. With dividends currently sitting at \$0.11 per share, investors should expect to see dividends go up by approximately \$0.01 to \$0.02 per share based on historical growth. However, although Movado's dividend yield is growing, their yield is less than the industry average and should not be considered as a dividend stock.

## Management Team

### Mr. Efraim Grinberg – CEO, Chairman of the Board

Efraim Grinberg replaced his father, Gedalio Grinberg as the Chief Executive Officer in May 2011 when his father decided to retire. With over 35 years of industry experience with Movado, Grinberg has an extensive understanding of the watch industry. His annual compensation of \$3,449,399 is composed of a base salary of \$1,000,004, bonus of \$950,000, restricted stock awards of \$755,422 and other compensation totalling \$743,973.

### Mr. Richard (Rick) Cote – COO, Vice Chairman of the Board

Richard Cote first joined the company in January 2000 as Movado's Executive Vice President – Finance and Administration. Prior to joining Movado, Cote was the Vice President and CFO for Colgate-Palmolive, worked in public accounting and is a certified public accountant. His annual compensation of \$2,013,739 is composed of a base salary of \$742,116, a bonus of \$498,750, restricted stock awards of \$392,390 and all other compensation totalling \$380,483.

### Mr. Ricardo Quintaro - President

Ricardo Quintaro joined the company in July 2014 as Movado Group's President. Immediately prior to joining, Quintaro was a Senior Vice President at Clinque Laboratories LCC and a General Manager of Celestar de Mexico. His annual compensation of \$2,000,844 is composed of a base salary of \$419,665, restricted stock awards of \$1,000,034 and all other compensation totaling \$581,145.

### Ms. Sallie DeMarsilis - CFO, Principal Accounting Officer

DeMarsilis joined Movado Group in January 2008 as the Senior Vice President of Finance and was appointed as the Chief Financial Officer and Principal Accounting Officer shortly afterwards. Before joining Movado, She held senior finance positions at The Warnaco Group, Inc. and Ann Inc. and is a certified public accountant. Her annual

compensation of \$1,063,656 is composed of a base salary of \$482,625, a bonus of \$223,250, restricted stock awards of \$185,117 and all other compensation totalling \$172,654.

Overall, Movado’s management team is fairly strong. The industry experience that both Grinberg and Cote has gained through their time with Movado will prove to be an asset in order for the company to stay competitive within the industry. Although Quintaro and DeMarsilis lack the industry knowledge, their past experiences with large consumers good firms provide them with the knowledge base needed to understand the market.

## Risks

### Supply Chain Risks

Movado has no vertical integration in to their supply chain. The company relies on independent manufacturers to meet demand and has no long-term commitments with any of its manufacturers. Additionally, the independent manufacturers rely on third parties for the watch components. This results with a major risk in the bullwhip effect. Delays, especially during the holiday season, are very detrimental to the company’s success and profitability due to the seasonality factor within the watch industry, where sales are often much higher during Movado’s fourth quarter compared to any other quarter. Quality control can be an issue since Movado is not directly in contact with the product’s manufacturing process. Movado must trust that there’s no violation of the Company’s vendor code of conduct or other laws.

### Licensed Brand Risks

In fiscal year 2015, approximately 51% of Movado’s net sales came solely from their license brands line. However, no individual brand made up greater than 20% of Movado’s net sales. Movado has seven licensed brands, and all contracts are expiring within the next five years. None of the companies are under any contractual agreement that requires them continue their partnership upon expiration. Movado is currently discontinuing ESQ and has been given an additional six months on top of the expiration date to sell any leftover inventory. Dropping the ESQ brand was a strategic move by Movado in order to expand the Movado brand offering. Additional information about the brands’ licenses and their contract expiration date can be found in the table below. Because the license are contingent on certain requirements, failure to reach any of the requirements can result in a loss of the license.

Licensed Brand	Licensor	Year Launched	License Expiration Date
ESQ	Hearst Communication, Inc.	1992	Dec 31 2016
Coach	Coach, Inc.	1999	June 30 2020
Tommy Hilfiger	Tommy Hilfiger Licensing LLC	2001	Dec 31 2019
HUGO BOSS	HUGO BOSS Trade Mark Management GmbH & Co	2006	Dec 31 2018
Juicy Couture	ABG Juicy Couture, LLC	2007	Dec 31 2016
Lacoste	Lacosta S.A., Sporloisirs S.A. and Lacoste Alligator S.A.	2007	Dec 31 2020
Scuderia Ferrari	Ferrari Brand S.p.A	2013	Dec 31 2017

*Movado’s Licensed Watch Business Information*



## Industry Risk

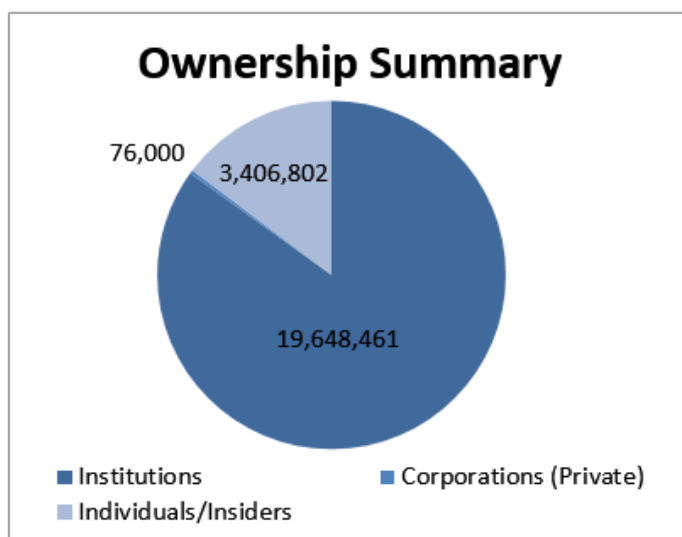
The whole traditional wristwatch industry faces increased competition from the introduction of the wearable technology category. The category, of which includes smartwatches, fitness trackers and many more. With the increasing trend of smartwatches and other wearable technologies, the traditional wristwatch could become a niche or fashion product, which would greatly affect the company's revenue. Currently, Movado has attempted to enter the smartwatch category through the introduction of the Movado Bold Motion and the Movado Swiss Movement Motion watches. Although the company has entered the smartwatch industry, there's no guarantee that the company's products will gain enough market share to become competitive since they do not have any credibility within the smartwatch industry.

## Foreign Exchange Risk

With Movado's exposure to multiple geographies, primarily the United States and Switzerland, its business runs best on a strong USD/Swiss Franc exchange rate. Movado generally prefers a strong USD relative to other currencies, so having a positive foreign exchange rate is very important. A majority of Movado's inventory purchases are paid in Swiss Francs, but the company headquarter is located in the United States. Because of the appreciation of the Swiss Franc, Swiss watch companies are seeing a large increase with their input costs. The appreciation of the Swiss Franc comes after the Swiss National Bank decided to remove the currency cap on the Euro in January 2015. Additionally, a rise in the Swiss Franc could potentially hurt the company's exports, since demand would be lower. Movado has a hedging program in place in order to mitigate foreign exchange rate risks and the program has the potential to take advantage of changes in the foreign currency. The hedging program used could be unsuccessful in minimizing the risk because of Movado's exposure to multiple currencies.

## Shareholder Base, Liquidity, Market Depth

Currently, Movado has 16,384,852 common shares with 99.3% of outstanding shares. This number does not include the 6,644,105 outstanding class A common shares. Movado's stock is of institutional quality since 83% of total shares outstanding are held by institutions. Movado's top holders include Grinberg Partners LP with 15.8%, Royce & Associates, LLC with 10.5% and Mr. Efraim Grinberg, the Chairman of the Board and CEO holding 9.4%. Looking at just the common shares, the ones that are publically traded, 15,492,877 are free float shares, making up 95% of outstanding shares and therefore, it can be seen as a fairly stable stock.



# Valuation

## Comparable Company Analysis

For our comparable company analysis, we decided to focus on companies that targeted similar consumer segments and were within the consumer discretionary goods sector. Majority of the companies chosen for the analysis are small cap firms with the exception of Fossil, Swatch and Tiffany & Co. Fossil was used because it was Movado's closest trading comparable and had similar historical growth. Swatch and Tiffany & Co. were used because they targeted similar consumer segments and had similar historical percentage return on invested capital. Many other watch companies were excluded from the analysis because their business focused on several other segments outside of watches.

Looking at Movado's EV/EBITDA ratio of 6.9x, the firm is seen as being only slightly undervalued when compared to the industry median of 7.2x. Additionally, the P/E ratio tells a similar story with the firm's ratio being 14.89x compared to the industry median of 15.3x. Utilizing the EV/EBITDA multiple, we were given a target share price of \$31.35 and with the P/E ratio, the target share price was calculated to be \$31.22. Since both ratios yield a very close target share price, we decided to use just the EV/EBITDA ratio because the firm has a neutral capital structure and follows industry standard accounting principles. We decided to place a total of 60% weighting on our comparable company analysis.

## WACC Calculation

For the purpose of our discounted cash flow analysis, we decided to calculate the weighted average cost of capital, rather than using 7.26%, which is the cost of capital for the apparel industry within the United States, taken from Aswath Damodaran's website.

We began by determining Movado's current weighted average debt yield-to-maturity, where we used Movado's long-term interest debt rate of 2.65%. This was determined from Movado's fiscal year 2016 Q3 report, where they stated the long-term interest rate was LIBOR plus 1.5%, which we assumed to be the 12 month USD LIBOR rate. To determine the LTM equity market return rate, we used the implied equity risk premium rate as of February 1<sup>st</sup> 2015 from Damodaran's website, which was 5.61%. Next, we used a risk free rate of 1.827%, which was the 10 year US Treasury Rate as of March 1<sup>st</sup> 2016, in line with our 10 year forecast and finally, we determined their LTM equity beta to be 1.36x, which was taken from Bloomberg.

Using the numbers provided, we calculated our WACC to be 6.65%.

## Discounted Cash Flow Analysis

### Assumptions

For the most part, we assumed that everything will remain relatively constant over the foreseeable future. At this time, we could not determine any drastic actions that would change our opinion otherwise. We took the historical values from the past three or four fiscal years and used the average. Additionally, we assumed that there will be no change to share capital in the foreseeable future.

We assumed a tax rate of 32%, which was what the firm stated to be their estimated effective tax rate. We believe that 32% is a fair assumption since the effective tax rates each quarter have been fairly close. We assumed that dividends will grow in line with the historical trend, which has been approximately 1 – 2% annually.

For the revolving credit facilities interest rate and the long-term debt interest rate, we assumed a rate of 2.65%. This consisted of the USD 12 month LIBOR rate of 1.15% + 1.5%, as stated in the fiscal year 2016 Q3 report. Therefore, we believe that Movado's revolving credit facilities interest rate and the long-term debt interest rate can fluctuate anywhere from 1.86% to 2.93%. These rates are % calculated using the USD 12 month LIBOR rate's 52-week high and low.

For the long-term perpetuity growth rate, we assumed a modest 1.84%, indicating that the firm will grow in line with the United States Per-Capita Disposal Income. This comes from the belief that growth of consumer discretionary goods will be directly correlated with disposable income growth and that an increase in disposable income would mean an increase in amount spent on consumer discretionary goods. Considering that Movado is in a mature industry, we decided to keep it conservative, despite Movado recent entry into the rapidly growing smartwatch industry.

For our revenue projections, we assumed an initial growth rate of 4.0% for fiscal year 2017 (In the model, it is listed as fiscal year 2016 estimate). Although this seems high, the 4.0% growth rate estimates Movado's revenue to be \$612M, which is slightly less than the consensus estimate of \$615M (Thomson One). In order to maintain conservative projections, we assumed a very small growth of 0.1% annually starting in fiscal year 2018 since the firm is not taking effective action with their free cash flows and is currently operating in a mature industry.

### Conclusion

Our discounted cash flow analysis provided us with a valuation of \$34.87/share. We feel that since we utilized conservative growth assumptions and that there's no reason to believe that Movado will deviate from their current course of business in the forecasted future, our valuation of \$34.87/share is reasonable. However, our DCF analysis shows that the target price is very sensitive to changes in the discount rate.

## Weighted Target Price

Due to the sensitivity of the discount rate affecting the target share price, we believe that the DCF should be weighted less than the comparable company analysis. Therefore, we decided to weight the comparable company analysis and discounted cash flow analysis 60% and 40% respectively. This produced a target share price of \$32.76.

## Recommendation

Overall, Movado is a financially stable company, especially considering that the firm has no long term debt. In the recent years, the company had been able to benefit from an increase in tourist spending, primarily driven by Chinese consumers traveling abroad. We expect the company to continue to experience the benefits from the growth of the United States nominal disposable income. However, we believe that the market has already priced the company fairly. Due to the appreciation of the Swiss Franc, we expect that Movado will suffer from slimmer margins since the firm's current strategy, which involves selectively increasing prices of certain products, is not sustainable long term strategy and will eventually cause a decrease in demand. Based on our discounted cash flows analysis and comparable company analysis, we decided to place a Hold rating and a target share price of \$32.76 for Movado.

## Appendix #1: Balance Sheet

### BALANCE SHEET

### Movado Group Inc. (NYSE:MOV)

	2013A	2014A	2015A	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Cash & Cash Equivalents	157659	199852	181180	185625	230578	271650	310939	348442	384107	420267	456451	492421	528055
Other Current Operating Assets	327651	285426	339375	342741	343084	343427	343770	344114	344458	344803	345148	345493	345838
Net Property, Plant & Equipment	47796	46673	41331	33273	31765	34037	36988	40461	44394	46360	47344	47835	48081
Other Non-Current Assets	45504	51072	51232	51791	51842	51894	51946	51998	52050	52102	52154	52206	52259
<b>* Total Assets</b>	<b>578610</b>	<b>583023</b>	<b>613118</b>	<b>613429</b>	<b>657269</b>	<b>701008</b>	<b>743644</b>	<b>785016</b>	<b>825010</b>	<b>863532</b>	<b>901096</b>	<b>937955</b>	<b>974233</b>
Revolving Credit Facilities	0	0	40000	0	0	0	0	0	0	0	0	0	0
Short-Term Portion of Debt	0	0	0	0	0	0	0	0	0	0	0	0	0
Other Current Operating Liabilities	87111	69542	90291	88868	88957	89046	89135	89224	89313	89402	89492	89581	89671
Long-term Debt	0	0	0	0	0	0	0	0	0	0	0	0	0
Other Non-Current Liabilities	25509	29196	29918	29623	29652	29682	29712	29741	29771	29801	29831	29860	29890
<b>* Total Liabilities</b>	<b>112620</b>	<b>98738</b>	<b>160209</b>	<b>118491</b>	<b>118609</b>	<b>118728</b>	<b>118846</b>	<b>118965</b>	<b>119084</b>	<b>119203</b>	<b>119322</b>	<b>119442</b>	<b>119561</b>
Share Capital	-15686	-48547	-114402	-114402	-114402	-114402	-114402	-114402	-114402	-114402	-114402	-114402	-114402
Additional Paid-In Capital	165342	174826	179879	179879	179879	179879	179879	179879	179879	179879	179879	179879	179879
Retained Earnings	316334	358006	387432	429462	473183	516803	559320	600573	640448	678852	716297	753037	789195
<b>* Total Shareholder Equity</b>	<b>465990</b>	<b>484285</b>	<b>452909</b>	<b>494939</b>	<b>538660</b>	<b>582280</b>	<b>624797</b>	<b>666050</b>	<b>705925</b>	<b>744329</b>	<b>781774</b>	<b>818514</b>	<b>854672</b>

## Appendix 2: Income Statement

### INCOME STATEMENT

### Movado Group Inc. (NYSE:MOV)

	2013A	2014A	2015A	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
			1.04	1.001	1.001	1.001	1.001	1.001	1.001	1.001	1.001		
Revenue	570255	586980	588498	612038	612650	613263	613876	614490	615104	615719	616335	616951	617568
Cost of Goods Sold	252761	264529	254814	269297	269566	269836	270105	270375	270646	270917	271187	271459	271730
* <b>Gross Profit</b>	<b>317494</b>	<b>322451</b>	<b>333684</b>	<b>342741</b>	<b>343084</b>	<b>343427</b>	<b>343770</b>	<b>344114</b>	<b>344458</b>	<b>344803</b>	<b>345148</b>	<b>345493</b>	<b>345838</b>
Sale of Goods and Administration	237519	238495	240205	244815	245060	245305	245550	245796	246042	246288	246534	246781	247027
* <b>EBITDA</b>	<b>79975</b>	<b>83956</b>	<b>93479</b>	<b>97926</b>	<b>98024</b>	<b>98122</b>	<b>98220</b>	<b>98318</b>	<b>98417</b>	<b>98515</b>	<b>98614</b>	<b>98712</b>	<b>98811</b>
				1.65	0.81	0.95	1.07	1.09	1.09				
Depreciation, Depletion and Amortization	12233	12469	12503	20666	16636	15882	17018	18494	20230	22197	23180	23672	23918
* <b>EBIT</b>	<b>67742</b>	<b>71487</b>	<b>80976</b>	<b>77261</b>	<b>81388</b>	<b>82240</b>	<b>81202</b>	<b>79824</b>	<b>78186</b>	<b>76318</b>	<b>75433</b>	<b>75040</b>	<b>74893</b>
Interest Expense (Income)	-1176	323	151	0	0	0	0	0	0	0	0	0	0
* <b>Pre-Tax Earnings</b>	<b>68918</b>	<b>71164</b>	<b>80825</b>	<b>77261</b>	<b>81388</b>	<b>82240</b>	<b>81202</b>	<b>79824</b>	<b>78186</b>	<b>76318</b>	<b>75433</b>	<b>75040</b>	<b>74893</b>
<b>Tax</b>	<b>17373</b>	<b>19264</b>	<b>20138</b>	24723	26044	26317	25985	25544	25020	24422	24139	24013	23966
* <b>Net Income</b>	<b>51545</b>	<b>51900</b>	<b>60687</b>	<b>52537</b>	<b>55344</b>	<b>55923</b>	<b>55217</b>	<b>54280</b>	<b>53167</b>	<b>51896</b>	<b>51295</b>	<b>51027</b>	<b>50927</b>

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## Appendix 3: Cash Flow Statement

	2013A	2014A	2015A	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Net Income	51545	51900	60687	52537	55344	55923	55217	54280	53167	51896	51295	51027	50927
Depreciation, Depletion and Amortization	12233	12469	12503	20666	16636	15882	17018	18494	20230	22197	23180	23672	23918
Changes in Current Operating Assets	-37610	-14904	-10825	3366	343	343	343	344	344	344	345	345	345
Changes in Current Operating Liabilities	28012	7315	10305	-1423	89	89	89	89	89	89	89	89	90
Change in Net Working Capital	-9598	-7589	-520	-4789	-254	-254	-254	-255	-255	-255	-255	-256	-256
• Cash from Operations	54180	56780	72670	68413	71726	71551	71981	72520	73142	73838	74220	74444	74589
Capital Expenditures	-16707	-11132	-10506	-12607	-15129	-18154	-19970	-21967	-24163	-24163	-24163	-24163	-24163
Dispositions	0	0	0	0	0	0	0	0	0	0	0	0	0
Other Investing Activities	-31188	32725	-224	-854	-22	-22	-22	-22	-22	-22	-22	-22	-22
• Cash from Investing	-47895	21593	-10730	-13461	-15151	-18177	-19992	-21989	-24186	-24186	-24186	-24186	-24186
Revolving Credit Facilities			0.02	0.02	0.11	0.06	0.03	0.03	0.02	0.02	0.03	0.03	0.03
Dividends	-6637	-10104	-10284	-10507	-11622	-12303	-12700	-13027	-13292	-13493	-13850	-14288	-14769
Change in Debt	0	-936	39064	0	0	0	0	0	0	0	0	0	0
Change in Equity	-9878	-25140	-58365	0	0	0	0	0	0	0	0	0	0
• Cash from Financing (Pre-Revolver)	-16515	-36180	-29585	-10507	-11622	-12303	-12700	-13027	-13292	-13493	-13850	-14288	-14769
Beginning Cash Balance	167889	157659	199852	181180	185625	230578	271650	310939	348442	384107	420267	456451	492421
Changes in Cash (Pre-Revolver)	-10230	42193	32355	44445	44953	41072	39289	37504	35665	36159	36184	35970	35634
Ending Cash Balance (Pre-Revolver)				225625	230578	271650	310939	348442	384107	420267	456451	492421	528055
• Ending Cash Balance	157659	199852	232207	185625	230578	271650	310939	348442	384107	420267	456451	492421	528055

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## Appendix 4: Comparable Company Analysis

### TRADING COMPARABLES ANALYSIS

Movado Group Inc. (NYSE:MOV)

Company	Price	Mkt-Cap	Cash	T. Debt	EV	LTM				EV/Sales	EV/EBITDA	EV/EBIT	P/E
						Sales	EBITDA	EBIT	Net Income				
Express Inc. (NYSE:EXPR)	20.45	1676.50	187.00	0.00	1489.50	2350.00	282.10	207.20	117.00	0.63	5.28	7.19	14.33
Fossil Group, Inc. (NasdaqGS:FOSL)	48.95	2355.40	289.00	809.60	2876.00	3229.00	422.80	335.10	221.00	0.89	6.80	8.58	10.66
Zumiez Inc. (NasdaqGS:ZUMZ)	21.88	583.90	21.00	4.40	567.30	820.00	93.10	62.30	33.00	0.69	6.09	9.11	17.69
Tiffany and Co. (NYSE:TIF)	70.48	9036.40	730.00	1116.50	9422.90	4176.00	1012.40	813.40	497.00	2.26	9.31	11.58	18.18
Genesco Inc. (NYSE:GCO)	67.70	1495.50	113.00	29.20	1411.70	2983.00	250.40	172.60	100.00	0.47	5.64	8.18	14.96
The Cato Corporation (NYSE:CATO)	36.66	1000.70	94.00	0.00	906.70	1001.00	115.50	92.80	64.00	0.91	7.85	9.77	15.64
Vera Bradley, Inc. (NasdaqGS:VRA)	19.53	741.70	98.00	0.00	643.70	503.00	74.80	52.60	28.00	1.28	8.61	12.24	26.49
Winnebago Industries, Inc. (NYSE:WGO)	20.20	545.00	70.00	0.00	475.00	966.00	63.00	58.20	40.00	0.49	7.54	8.16	13.63
Finish Line Inc. (NasdaqGS:FINL)	18.67	828.10	150.00	0.00	678.10	1860.00	133.40	91.90	59.00	0.36	5.08	7.38	14.04
The Swatch Group AG (SWX:UHR)	367.09	19838.50	1297.00	47.60	18589.10	8563.00	1879.50	1470.20	1103.00	2.17	9.89	12.64	17.99
<b>Movado Group Inc. (NYSE:MOV)</b>	<b>30.38</b>	<b>699.60</b>	<b>181.00</b>	<b>40.00</b>	<b>558.60</b>	<b>586.00</b>	<b>81.00</b>	<b>71.30</b>	<b>47.00</b>	<b>0.95x</b>	<b>6.90x</b>	<b>7.83x</b>	<b>14.89x</b>
High										2.5x	9.9x	12.6x	26.5x
Average										1.0x	7.2x	9.5x	16.4x
Median										0.8x	7.2x	8.8x	15.3x
Low										0.4x	5.1x	7.2x	10.7x
										EV/Sales	EV/EBITDA	EV/EBIT	P/E
Implied Market Capitalization - High										\$1,463	\$942	\$1,043	\$1,245
Implied Market Capitalization - Average										\$736	\$725	\$817	\$769
Implied Market Capitalization - Median										\$605	\$722	\$772	\$719
Implied Market Capitalization - Low										\$355	\$553	\$654	\$501

## Appendix 5: EV/EBITDA & P/E Target Share Price

EBITDA	\$81,000,000	Net Income	\$47,000,000.00
Median Industry EV/EBITDA Ratio	7.2x	Total Shares Outstanding	23,028,957
Implied Enterprise Value	\$580,849,101	Earnings Per Share (EPS)	\$2.04
Net Debt	-\$141,180,000	Market P/E Ratio	15.3
Implied Equity Value	\$722,029,101	<b>P/E Target Share Price</b>	<b>\$31.22</b>
Total Shares Outstanding	23,028,957		
<b>EBITDA Target Share Price</b>	<b>\$31.35</b>		

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# Appendix 6: Discounted Cash Flows Analysis

## DISCOUNTED CASH FLOW ANALYSIS

Movado Group Inc. (NYSE:MOV)

	2013A	2014A	2015A	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Current Debt to Total Capitalization			7%										
Current Tax Rate			25%										
Current Weighted Average Debt Yield-to-Maturity			2.67%										
Current LTM Equity Market Return			5.61%										
Current Risk Free Rate			1.83%										
Current LTM Equity Beta			1.36x										
<b>Current Weighted Average Cost of Capital (WACC)</b>			<b>6.648%</b>										
<b>Long-term Perpetuity Growth Rate</b>			<b>1.84%</b>										
EBIT				77261	81388	82240	81202	79824	78186	76318	75433	75040	74893
Tax Rate				32%	32%	32%	32%	32%	32%	32%	32%	32%	32%
Depreciation, Depletion and Amortization				20666	16636	15882	17018	18494	20230	22197	23180	23672	23918
Capital Expenditure				-12607	-15129	-18154	-19970	-21967	-24163	-24163	-24163	-24163	-24163
Change in Net Working Capital				-4789	-254	-254	-254	-255	-255	-255	-255	-256	-256
<b>Unlevered Free Cash Flow</b>				<b>55806</b>	<b>56597</b>	<b>53397</b>	<b>52011</b>	<b>50553</b>	<b>48979</b>	<b>49675</b>	<b>50056</b>	<b>50280</b>	<b>50426</b>
Discounted Unlevered Free Cash Flow				52327.4	49761.2	44020.6	40205.6	36642.3	33288.1	31656.5	29911.0	28172.1	26492.4
Present Value of Projected Cash Flows		\$	372,477										
Present Value of Perpetuity Cash Flows		\$	289,478										
<b>Total Enterprise Value</b>		\$	<b>661,955</b>										
Total Debt		\$	40,000										
Cash		\$	181,180										
<b>Total Equity Value</b>		\$	<b>803,135</b>										
Shares Outstanding (thousands)			23,029										
<b>Price/Share</b>		\$	<b>34.87</b>										

		Discount Rate							
		5.00%	5.50%	6.00%	6.50%	7.00%	7.50%	8.00%	8.50%
Long-term Growth Rate	0.00%	\$40.10	\$36.83	\$34.17	\$31.97	\$30.13	\$28.57	\$27.23	\$26.07
	0.50%	\$41.93	\$38.19	\$35.21	\$32.77	\$30.75	\$29.06	\$27.62	\$26.38
	1.00%	\$44.22	\$39.86	\$36.45	\$33.71	\$31.48	\$29.63	\$28.07	\$26.74
	1.50%	\$47.17	\$41.95	\$37.96	\$34.84	\$32.34	\$30.29	\$28.58	\$27.15
	2.00%	\$51.10	\$44.63	\$39.86	\$36.22	\$33.37	\$31.07	\$29.19	\$27.62
	2.50%	\$56.60	\$48.20	\$42.30	\$37.95	\$34.62	\$32.01	\$29.90	\$28.17
	3.00%	\$64.85	\$53.20	\$45.55	\$40.17	\$36.20	\$33.15	\$30.75	\$28.81
	3.50%	\$78.61	\$60.71	\$50.10	\$43.13	\$38.22	\$34.58	\$31.80	\$29.59

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## Appendix 7: Valuation Summary and Weighted Target Share Price

### VALUATION SUMMARY

### Movado Group Inc. (NYSE:MOV)

Market Capitalization Valuation	Low	Average	High
Discounted Cash Flow	\$ 27.90	\$ 34.87	\$ 41.85
EV/Sales	\$ 17.98	\$ 28.86	\$ 66.19
EV/EBITDA	\$ 26.60	\$ 33.95	\$ 43.53
EV/EBIT	\$ 30.98	\$ 36.11	\$ 47.89
P/E	\$ 21.78	\$ 31.26	\$ 54.13
EBITDA Target Share Price (60%)	\$ 31.35		
DCF Target Share Price (40%)	\$ 34.87		
Weighted Target Share Price	\$ 32.76		



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