WESTPEAK RESEARCH ASSOCIATION

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Oxford Industries Inc. (NYSE: OXM)

Consumer Discretionary - Consumer Durables & Apparel

What's 'In-Store' for Oxford Industries?

April 2nd, 2018

Oxford Industries Inc. is an international apparel design, sourcing, and marketing company. The Company distributes its lifestyle branded products through a variety of high-end department and specialty stores, as well as its own retail stores and e-commerce websites. Their business currently includes four segments: Tommy Bahama, Lilly Pulitzer, Lanier Apparel, and Southern Tide.

Thesis

We believe that Oxford Industries will continue to acquire market share by growing both organically and inorganically. The firm will grow organically through onboarding new employees and increasing their online presence. Further organic growth will be realized through the opening of new stores. We have forecasted the firm to open a total of 15 new stores per year until FY2020, and 10 new stores per year until FY2022. Given that the company is not highly levered, we see acquisitions as an immense opportunity for OXM to increase revenue growth, as well as diversifying their portfolio in terms of new styles and brands. Such acquisitions would also allow the company to mitigate its seasonality risk of heavily depending on their summer weather clothing.

Drivers

Recently, margin expansions have been a driver to the firm, as the company has been steadily increasing their average revenue per store numbers, while at the same time decreasing their COGS. The average revenue per store is forecasted to increase by approximately $100K each year, while cost of goods sold are forecasted to decrease by ~1% per year. One of the many reasons for this decrease in COGS is a future rise in online sales as a fraction of their overall revenue.

Valuation

Using 50% of the DCF implied share price of $86.94, and 50% of the P/E multiple from our comparables priced at $89.50, we arrived at a target share price of $88.22. Given that the firm is undervalued in the market, we place a buy rating on OXM.

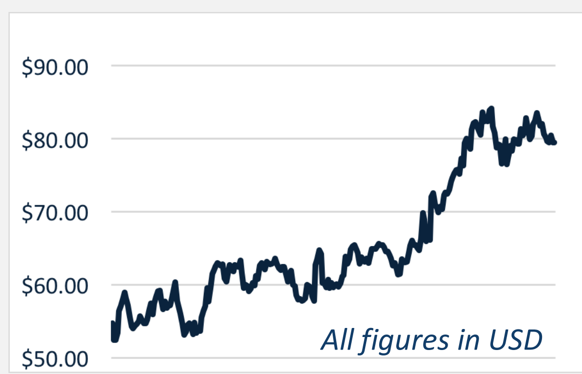
Equity Research	Canada
Price Target	**USD$ 88.22**
Rating	BUY
Share Price (March 29th close)	USD$ 74.56
Total Return	18.32%

Key Statistics	
52 Week H/L	$84.32/$49.50
Market Capitalization	$1.34B
Average Daily Trading Volume	111K
Net Debt	$72M
Enterprise Value	$1.4B
Net Debt/EBITDA	0.42x
Diluted Shares Outstanding	$16.7M
Free Float	96.8%
Dividend Yield	1.36%

WestPeak's Forecast

	2017E	2018E	2019E
Revenue	$1.10B	$1.50B	$1.71B
EBITDA	$156M	$195M	$222M
Net Income	$58M	$117M	$136M
EPS	$3.46	$7.02	$8.14
P/E	18.6x	22.4x	18.1x
EV/EBITDA	5.95x	4.75x	4.17x

1-Year Price Performance

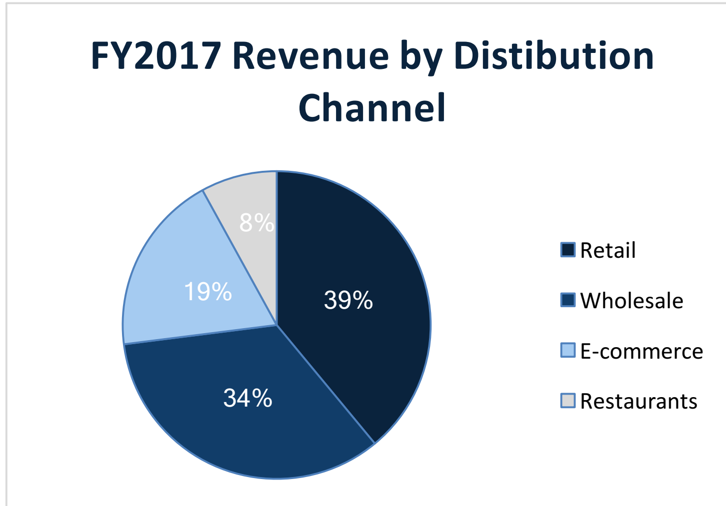


Source: Nasdaq

Business Overview/Fundamentals

Business Overview

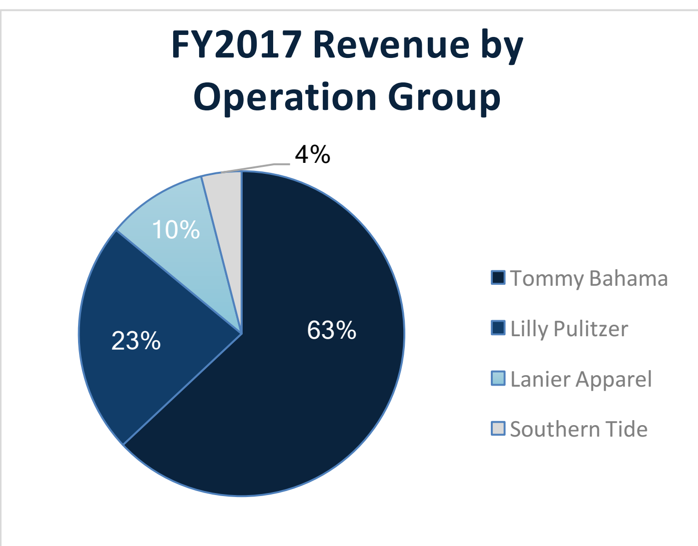
Oxford Industries Inc. is an international and publicly traded company based in the United States that specializes in lifestyle clothing. The company designs, sources, markets, and distributes products under their four primary brand names. These brands consist of: Tommy Bahama, Lilly Pulitzer, Lanier Apparel, and Southern Tide. Oxford Industries' sales primarily come from the United States; in fiscal year 2016, a total of 96% of consolidated net sales came from the U.S. The company also has brick and mortar stores internationally in areas such as Canada, Australia, and the Asia-Pacific region, which make up a small percentage of consolidated net sales. Additionally, their distributional channels consist of 39% retail, 34% wholesale, 19% E-commerce, and 8% restaurants.



Company Investor Presentation

Tommy Bahama

Tommy Bahama has been fully operated by Oxford Industries Inc. since 2003. The brand makes men's and women's activewear, meant for affluent people 35 and older who enjoy living casually and relaxed. During Fiscal 2016, the brand sold 95% of products to customers located in the United States, with the remaining 5% coming from Canada, Australia, and Asia. All transactions took place either in a Tommy Bahama store, their e-commerce website (tommybahama.com), or high-end department stores and independent specialty stores located in the United States. Tommy Bahama also operates 18 Tommy Bahama restaurants, generally located adjacent to a full-price retail location, offering the complete shopping experience. The brand carefully handpicks a select tier of retailers and department stores to distribute product to, in order to ensure they are operating in profitable deals. Oxford Industries plans to continue to invest in their primary source of revenue (responsible for 63% of Oxford Industries revenue, FY2017), the Tommy Bahama brand, by enhancing their e-commerce presence, opening new stores, restaurants, remodeling, and relocating existing stores.



Company Investor Presentation

Lilly Pulitzer

Lilly Pulitzer creates upscale dresses, sportswear, and accessories for women and girls. Based on the Palm Beach resort lifestyle, the affluent brand sets itself apart by generating a multi-generational appeal; from girls in college to mothers. Lilly Pulitzer products can primarily be found in Lilly Pulitzer Stores, on their website (lillypulitzer.com), and in high-end department and independent specialty stores in the United States. In Fiscal 2016, the brand's net sales stemmed from women's sportswear and dresses, 46% and 38% respectively. Oxford Industries plan to continue investing in Lilly Pulitzer (responsible for 23% of Oxford Industries revenue, FY2017) primarily by enhancing their e-commerce presence, opening new stores, remodeling and relocation of existing stores, increased employment, and increased advertising. The brand is focused on generating long-term benefits through the above-mentioned investments, however, they note a possibility for short-term losses on the Lilly Pulitzer operating margin due to these investments.

Lanier Apparel

Lanier Apparel carries both branded and private label men's apparel at a moderate price point. Clothing includes: tailored clothing, sportswear, and casual pants. The bulk of Lanier Apparel products are sold under licensed brands including Kenneth Cole® and Dockers®. Their products are sold in more than 5,000 retail locations primarily via large retailers and department stores throughout the United States. Lanier Apparel was responsible for 10% of Oxford Industries' revenue in FY2017.

Source: Glassdoor

Southern Tide

The lifestyle apparel brand, Southern Tide, was launched in 2006 and acquired by Oxford Industries Inc. on April 19, 2016 (accounting for 4% of Oxford Industries revenue in FY2017). Clothing primarily includes: men's shirts, pants, shorts, outerwear, ties, swimwear, footwear, accessories, and women's and youth collections. The brand is one that appeals to all ages who enjoy classic design, bright colors, and a coastal lifestyle. Southern Tide products are primarily sold in independent specialty retail stores, high-end department stores, online (southerntide.com) and a total of 7 Southern Tide Signature Stores. In FY2017, Southern Tide's sales were 81% wholesale, and 19% e-commerce. Oxford Industries plans to continue investing in their newest business segment, primarily through increasing employment, advertising, enhancing their e-commerce presence, increasing the number of specialty stores, department stores, and Signature Stores of the brand. Southern Tide is focused on generating long-term benefits through the above-mentioned investments, however, they note a possibility for short-term losses on the Southern Tide operating margin, given the current size of the business.

Source: WestPeak Research Estimates

	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022
Southern Tide	0	7	13	18	23	27	31
Lilly Pulitzer	40	57	63	69	75	79	83
Tommy Bahama	168	167	171	175	179	181	183

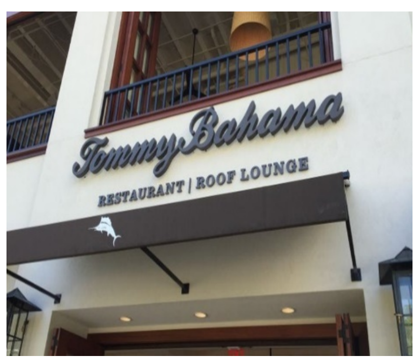
Growth Strategy

The company notes that they plan on focusing on the following in the near future: introducing new retail concepts and products, opening new retail locations based on consumer demographics, sourcing appropriate levels of inventory, hiring and training qualified personnel, innovate in terms of sales and marketing technology, and maintaining brand specific websites and other social media presence.

We see new retail store openings to be an important part of Oxford Industries' future. Over their three lifestyle brands, we forecast 15 new stores to open each FY through 2020, with 10 new stores forecasted to open until FY2022. This will consist of approximately 5 new Southern Tide stores until FY2020, and 4 new stores until FY2022. Tommy Bahama is forecasted to open 4 new stores until FY2020, and 2 new stores until FY2022. Lastly, Lilly Pulitzer is forecasted to open 6 new stores until FY2020, and 4 new stores until FY2022. The reason for the forecasted decrease in store openings over time is due to the fact that e-commerce sales are projected to produce an increasing amount of the company's revenue; hence, an inverse relationship exists with store openings and e-commerce sales. Given that average revenue per store is forecasted to grow at $100K per year for all segments, these new stores will prove to be a significant revenue driver.

In terms of Oxford Industries distribution, they primarily distribute through their direct to consumer channels, such as their Tommy Bahama and Lilly Pulitzer retail stores, their online sites for their three lifestyle brands, and through their wholesale distribution channels. In particular, their direct to consumer operations enable them to interact with their customers in person, allowing the company to further immerse their customers in the theme of the particular lifestyle brand. Direct to consumer operations (i.e. brick and mortar stores) are valuable to the brand as average revenue per store, as mentioned, is forcasted to increase by $100K each year for each segment. Tommy Bahama goes one step further in connecting with its customers by providing 18 restaurants attached to a select number of full-price Tommy Bahama retail locations, further strengthening the brand's image with its customers.


Source: EaterWire



Source: Hawaii Aloha


Source: Legacy West

The firm practices an effective strategy when it comes to managing inventory. Their three lifestyle brands, Tommy Bahama, Lilly Pulitzer, and Southern Tide, host flash clearance sales on their websites in order to sell off discontinued and out-of-season products. Tommy Bahama's 38 outlet stores also play a role in clearing unwanted inventory.

We believe that Oxford Industries should focus on investing into their online presence in order to keep up with online giants such as Amazon and its' subsidiary Zappos. In FY2017, e-commerce sales represented 19% of Oxford Industries' consolidates net sales. It is vital that the firm increases this percentage continuously in order to keep up with consumer preferences. Management has set the target for e-commerce sales to represent 20% of their net sales going forward.

Aside from investment into their online presence, we believe that Oxford Industries could increase shareholder value with inorganic growth through acquisitions. The firm's CEO, Mr. Thomas Chubb, mentioned in his presentation at the 2018 ICR Conference that Oxford Industries is always open to the opportunity to acquire. Acquisitions are something that have been a big part of Oxford Industries past, with their most recent notable acquisition being the purchase of Southern Tide in April 2016. The acquisition of Southern Tide proved to be an accretive acquisition as Oxford Industries' earnings per share were positively impacted. Additionally, economic trends suggest that department stores are on the decline. We believe that the firm should slowly halt their distribution to department stores in order to keep up with changing consumer preferences. Nevertheless, we have confidence in Oxford Industries' experienced management team in that they will adapt to economic and societal trends and changes, particularly when it comes to changes in technological means.

Industry Analysis

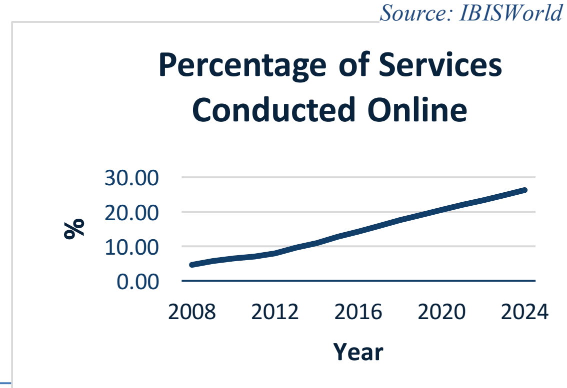
Industry Overview

All of Oxford Industries' operating groups compete in highly competitive markets in which many domestic and international firms compete. Additionally, they compete in a market with low barriers to entry, as minimal capital is needed in order to get a clothing company started. Although there is no single apparel firm that dominates the industry, there are some key factors that can help apparel firms set themselves apart. This includes but is certainly not limited to: reputation, value, image of brand names, design, price, quality, marketing, and customer service. Given that the industry is subject to the level of consumer spending, the industry as a whole is labelled as cyclical and heavily dependent on consumer spending levels which fluctuate based on changing economic conditions. Negative economic events tend to severely hurt the apparel industry, as when consumers have less disposable income, they cut back on things such as apparel. This economic uncertainty presents an ongoing risk to apparel firms. Qualified personnel is also something that is difficult to achieve in the competitive apparel industry. As attracting and retaining experienced individuals is often difficult, especially when a firm faces financial constraints compared to other firms with more financial resources. Lastly, over the last several years the retail industry has been shifting towards online transactions, resulting in numerous department store closures.

External Drivers

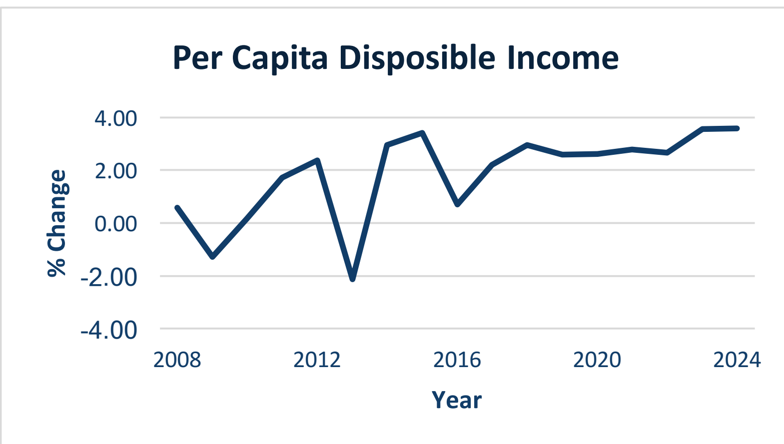
The wholesale and retail store apparel industries are led by a few external economic conditions that drive revenue for the firm. These drivers include: services conducted online, per capita disposable income, and consumer confidence index.

Source: IBISWorld



The percentage of services conducted online is one of, if not the most important driver for the industry as a whole. The fact that more and more consumers have the ability to purchase almost whatever they want, wherever they want with often times access to enormous amounts of inventory and even discounted prices is certainly a key factor. A plateau for the conduction of online services is nowhere in sight, as the younger generations are highly literate when it comes to computers and will expect more and more of their activities to take place behind an electronic display in the comfort of their own home. According to IBISWorld, the percentage of services conducted online has been rising at nearly 8% growth over the last five years, and that number is expected to stay over the next five years. IBISWorld also predicts that by the year 2023, approximately 25% of services will be conducted online, meaning online services are here to stay and gathering steam.

Per capita disposable income is another noteworthy measure in the apparel industry as it essentially determines an individual's ability to purchase such goods. Oxford Industries' business segments, for the vast majority, sell high-end clothing which is generally sold at high price points, making their customers' disposable income an important factor. In the U.S. economy, employment rates continue to rise, which is a key component to the country's GDP and overall state of the economy. The current Republican administration is not expected to significantly increase the tax burden on consumers over the next five years, however, the long-term remains somewhat uncertain with government spending potentially outpacing revenues, creating an increased federal deficit. This means there is potential for an increased tax burden in the long-run which typically signals increased saving rates among consumers. IBISWorld expects per capita disposable income to grow just under 3% over the next five years, which is slightly higher than the 2.4% growth observed in the previous five years.



Source: IBISWorld

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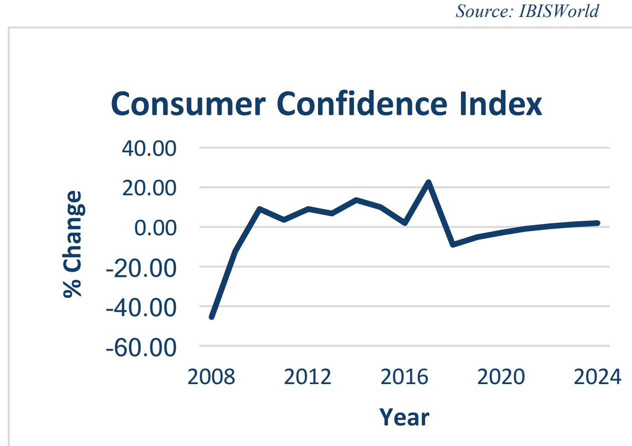


The Consumer Confidence Index (CCI) represents consumers' sentiments towards their current and future financial standings. Consumer confidence plays a big role in the demand for discretionary products such as apparel, as their confidence has a positive relationship with purchasing goods such as apparel. The CCI is difficult to predict given that it relies heavily on the unemployment rate and the overall wellbeing of the economy. IBISWorld expects CCI to retract at -1.5% over the next five years, whereas the CCI was growing at 8.8% over the last five years. This uncertainty presents a risk going forward to apparel companies such as Oxford Industries.

Catalysts

New Store Openings

As set out by management, Oxford Industries plans on opening new specialty stores for their three lifestyle brands: Tommy Bahama, Lilly Pulitzer, and Southern Tide. Overall, we see the company opening a total of 15 new stores per fiscal year through FY2020, with 10 new stores per fiscal year through FY2022. New stores will be opened in the United States, where 96% of their revenue is made. We believe this will aide in driving revenue, as allowing their lifestyle brands to have brick and mortar stores will enable the brands to create physical interactions with their customers which is so important in their high-end market. All of Oxford Industries' store locations are chosen very specifically, based on geographic location and the consumer demographic. With this in mind, we are confident these new stores will be placed strategically yielding effective revenue growth. Additionally, management notes that they plan on relocating and remodeling certain stores in order to ensure they remain operating in revenue maximizing areas, as well as in an inviting setting.

Lilly Pulitzer stores are one-of-a-kind…
Source: Jessie Holeva

Online Presence

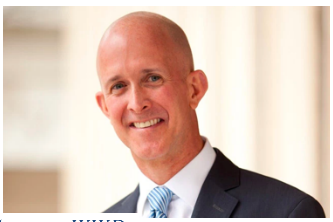
Given that year after year, more services are being conducted online, Oxford Industries plans on increasing their online presence for their three lifestyle brands. Their brands plan on increasing the ease and pleasure delivered to customers when shopping with them online. Furthermore, the three brands plan on communicating with their customers online through personalized emails and social media advertising. Emails will be sent out to customers with updates on new clothing, as well as tips on enjoying the resort-lifestyle. Social media will be leveraged in order to increase the touchpoints the brands have with their customers. Lastly, the lifestyle brands will benefit greatly from their increased online presence as they will allow people from around the world to access even more of their products at their convenience.

Future Acquisitions

Oxford Industries currently holds a concentrated portfolio primarily made up of brands that offer their customers resort-lifestyle clothing. This can be seen as a risk to investors, as the style is very seasonal and dependent on consumer tastes of the time. This presents Oxford Industries with the opportunity to grow inorganically through potential acquisitions. Given that the firm is not highly levered, unlike the majority of the apparel industry, they have the flexibility to expand their portfolio by acquiring a differentiated brand compared to their current portfolio. In doing so, the firm's portfolio of brands will be more diversified and less dependent on resort-style living. Management has mentioned that they are open to acquisitions going forward, and we recommend that they take advantage of this opportunity, provided they acquire a differentiated brand.

Management Team

Mr. Thomas C. Chubb III – Chairman, CEO and President



Source: WWD

Mr. Thomas (Tom) C. Chubb III was named chairman in 2015 after having worked with Oxford Industries in various executive management capacities over the span of 30 years. Mr. Chubb started off as a summer intern with the firm in 1988, throughout his many years he has continuously provided direct oversight of many of Oxford Industries' operating groups. In FY2016, his total calculated compensation was $2.23 million, which consisted of $1.31M in cash, $0.83M in short term compensation, and $1.04M in other long-term compensation. Incorporating long term compensation into his pay, ensures that it is in Mr. Chubb's best interests to ensure long term growth in shareholder value.

Mr. Douglas B. Wood – CEO, Tommy Bahama Group

Mr. Douglas (Doug) B. Wood was named CEO of The Tommy Bahama Group in January 2016 after being with the company for 17 years. In FY2016, his total calculated compensation was $1.25 million, which consisted of $0.76M in cash, $0.70M in short term compensation, and $0.55M in other long-term compensation. Given that a large portion of Mr. Wood's total compensation is classified as long-term compensation, shareholders can be assured that Mr. Wood has their best interests in mind.

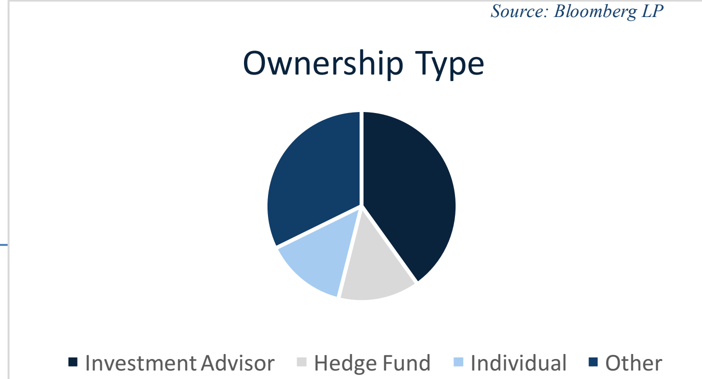
Mr. K. Scott Grassmyer – Executive Vice President - Finance, CFO and Controller

Mr. K Scott Grassmyer has been Oxford Industries' CFO since January 2008, and has been with the company since 1995. Mr. Grassmyer, who previously worked for Ernst & Young, LLC, is a Certified Public Accountant who has over twenty years of expertise in both the public and private financial sectors. In FY2016, his total calculated compensation was $0.82 million, which consisted of $0.54M in cash, $0.40 in short term compensation, and $0.33 in other long-term compensation.

Shareholder Base, Liquidity, Market Depth

Oxford Industries currently has 16,833,204 shares outstanding. The company's largest shareholders are

Source: Bloomberg LP



Blackrock Inc, Vanguard Group Inc, and Dimensional Fund Advisors LP with 12.65%, 8.77%, and 4.67% respectively of total shares outstanding. A total of 199 Institutions hold 86.03% of the total shares outstanding. Insider ownership makes up roughly 3% of total shares outstanding with Oxford Industries' CEO holding over 100,000 shares. The average daily trading volume over the last three months is ~134,070 shares daily, which implies moderate liquidity given their market cap. Short interest is at ~927,000 shares, or 5.70% of shares are shorted. As of October 28th, 2017, the company has $72.13 million in debt and $407.2 million in shareholder's equity resulting in a debt-to-equity ratio of 0.18 which is far below the industry average. This moderate liquidity implies a small liquidity risk to institutional investors, as Oxford Industries is traded slightly less to its competitors such as The Buckle (NYSE:BKE) which has an average volume of approximately 600,000 shares. However, this will pose no liquidity risk to the average investor who trades smaller amounts of shares. Given that the firm is a low leveraged firm, Oxford Industries can increase their leverage in the future when looking to acquire. This can be seen as an advantage to Oxford Industries as they have the opportunity to explore inorganic growth through acquisitions going forward.

Valuation

Comparable Companies Analysis

The comparable companies listed below were chosen primarily based on market caps within an $500M range of Oxford Industries, as well as firms that operate internationally.

Descente Ltd. (TSSE:8114)
Descente Ltd is a Japanese manufacturer that sells sportswear and sports-related products.

G-III Apparel Group, Ltd (Nasdaq:GIII)
G-III Apparel Group, Ltd designs, manufactures, and markets various apparel products. Their main segments include wholesaling and retailing.

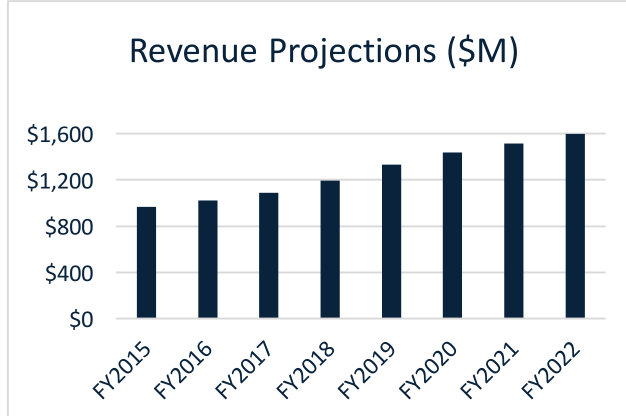
The Buckle, Inc. (NYSE:BKE)
The Buckle sells clothing, footwear, and accessories for men and women in the Unites States.

Abercrombie & Fitch Co. (NYSE:ANF)
Abercrombie & Fitch is a specialty retailer that focuses on selling their product through direct-to-consumer operations.

Esprit Holdings Limited (SEHK:330)
Esprit Holdings Limited is a Hong Kong-based investment company that focuses on investments in the apparel industry. The company has retail, distribution, wholesaling and licensing operations.

Discounted Cash Flows Analysis

Revenue



Source: WestPeak Research Estimates

We expect Oxford Industries' revenue to gradually increase going forward, as they continue to offer their customers more selection through innovating new clothing designs each season, increasing their online presence, as well as opening new stores. Their three main lifestyle brands are expected to continue to grow at an average growth rate of 17% per FY from 2018-2022. This large growth rate is due to their new brand, Southern Tide, which is forecasted to grow at an average rate of 35% over the next 5 FYs (with very steep growth in the initial 2 years of the forecast). Tommy Bahama is forecasted to grow at an average of 5% over the next 5 years, and Lilly Pulitzer at an average of 13%, until FY2022. These three brands will accomplish these targets as they will be focused on increasing the average revenue per store. We have segmentally driven average store sales growth for their three lifestyle brands to increase at approximately $100K per store, per year. This will be realized primarily through repeat customers who will come back to the brands thanks to their exceptional shopping experience, which lacks when compared to the company's peers. We have forecasted Lanier Apparel declining by 2% annually from 2018 through 2022 as the bulk of their sales stem from department stores, which are declining across North America due to decreased mall traffic and an increase in online shopping. Additionally, seasonality remains an impact to the firm as their revenue is expected to be higher in the first half of their fiscal year compared to the latter half.

Costs

We have forecasted COGS to steadily decrease by approximately 1% per year from its current rate of 37%. The reason for this being threefold: we have assumed the firm will continue to source quality product from the cheapest of suppliers in order to sell their products at competitive price points. This will be done by sourcing more of their product from suppliers based in locations such as China and Vietnam. The second reason is due to economies of scale, as the company opens more retail stores and increases their online presence, they will need to produce more inventory which is assumed to result in a lower cost-per-unit. Lastly it is assumed that the company will be slowing down production of their Lanier Apparel line in the years ahead. Additionally, we have forecasted SG&A at 50% of sales, just slightly above the firm's past trends. The slight spike in the percentage of the firm's revenue associated with SG&A is due to the assumption that the firm will be incurring costs to do with onboarding new employees and increasing their online presence as set out by management in the coming years.

Capital Expenditures

Oxford Industries will be expanding their operations by opening new specialty stores for Southern Tide and Lilly Pulitzer in the near future, as well as new stores and restaurants for Tommy Bahama, as set out by management. This results in a capex assumption of 28% for FY2018 through FY2020. Over their three lifestyle brands, we see the company opening

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approximately 13 new retail stores on average through FY2022, alluding to the capex rate. Furthermore, management has also noted in their Q4 FY2017 conference call that other capex expenditures include: IT initiatives, e-commerce, and facility enhancements for distribution and offices.

Weighted-Average Cost of Capital

To determine Oxford Industries' weighted-average cost of capital we used information from multiple sources. In determining the cost of equity, the U.S. 5-Year Treasury Bill was used to determine the risk-free rate of 2.5%. The expected market return of 9.6% from the 10-year average of the S&P 500 was used. A beta of 1.16 was obtained from Bloomberg, leading to a cost of equity of 10.7%. In determining the cost of debt, a pre-tax cost of debt of 3.0% was used as per the interest rate the firm currently has on their long-term debt. The effective tax rate of 21.0% was used as per the U.S. statutory rate, yielding a cost of debt of 2.4%. In summation, we took the weighted average of shareholders equity and outstanding debt to arrive at our weighted-average cost of capital of approximately 9.5%.

Tax Rate

We have assumed an effective tax rate of 21.0% as per the U.S. statutory rate.

Dividend Policy

Oxford Industries has successfully paid dividends every quarter since they went public in July 1960. The firm paid $18.2 million in dividends in FY2017 and intends on continuing to pay quarterly dividends. Overall, we believe an effective use of capital allocation would be for Oxford Industries to remain true-to-self by continuing to pay quarterly dividends to its' shareholders in the short term. As per the company's historicals, we forecast dividends to steadily increase by approximately $0.05 each year. Given that the firm is currently low-leveraged, they have the ability to remain reliable with their payouts to shareholders, as they have for the past nearly 60 years. However, the firm should remain open to using such capital in order to fund potential acquisitions in the long-term, as acquisitions have proven to provide successful inorganic growth to the company in the past.

Conclusion

Our discounted cash flow analysis resulted in an implied share price of $88.22/share using the perpetuity growth method. We believe we have used reasonable assumptions throughout our analysis given the uncertainty going forward in the industry. Our assumptions are based primarily on information given by management in recent filings, investor presentations, as well as basing forecasting on historical trends of the company.

Weighted Price Target

We have chosen to weight our implied share price of $86.94/share from our perpetuity growth value on the discounted cash flow at 50%. We have also chosen to weight our P/E multiple from our comparables analysis of $89.50/share at 50%. This resulted in a share price of $88.22/share, yielding an 18.32% return to future investors. Perpetuity growth was the single method used from the DCF as we assume the company will grow in line with GDP. This equal weighting is appropriate as we are taking an intrinsic approach yet at the same time evaluating based on the firm's peers. Oxford Industries competes in a highly saturated and competitive market, meaning incorporating an intrinsic valuation is needed. Furthermore, we justify our 50% weighting on our comparables in order to include a holistic understanding of where Oxford Industries' competitors are situated in the market. This weighting considers intrinsic and relative valuations of the company and when put together, delivers a reasonable share price.

Recommendation

We believe that Oxford Industries is currently undervalued in the market. The firm currently trades at $74.56, however, we believe a share price of $88.22 would be more appropriate. The firm's experienced management team has made it clear that they are focused on increasing long term shareholder value, this can be reaffirmed as a large portion of management's salary comes overtime in the long run. They will achieve this goal by opening new stores, increasing their online presence, acquiring when they see fit, and creating lasting impressions on customers, amongst many other factors. Management has stated in presentations that they always remain on the look for acquisitions. We feel that acquisitions are a key component for Oxford Industries going forward as they currently hold a concentrated portfolio. Their concentration in holding primarily resort-like lifestyle brands, exposes them to certain risks relating to changing consumer preferences. The opportunity of future acquisitions can greatly benefit the firm in helping them takes steps away from their concentrated portfolio.

Risks

Concentrated Portfolio

Oxford Industies' consolidated net sales in FY2017 consisted of 63% Tommy Bahama sales, and 23% Lilly Pulitzer sales. This clearly demonstrates how the firm has a heavily concentrated portfolio, relying primarily on their two main brands, which sell similar styles, to lead the way. This presents a risk to Oxford Industries, as if one of these two brands underperform or experience hardship, a significant loss could be incurred by the parent firm. The recent acquisition of Southern Tide helps the firm take a step towards diversifying its' portfolio, yet the fact that two brands make up 87% of consolidated net sales remains a risk.

Everchanging Consumer Preferences & Tastes

Apparel companies remain susceptible to the fashion trends of the time. This means Oxford Industries must adapt and innovate in order to keep up, and lead the way when it comes to trends. This presents a risk to the company as consumers may decide to purchase a different style of clothing rather than Oxford Industries' primary style of the island and resort lifestyle. Additionally, consumers are moving away from going to a mall to make purchases, and instead making online purchases from the comfort of their own home. This presents a risk to the company and its many retail stores, as they could experience significantly less traffic in the future as mall traffic continues to decline in the United States. Oxford Industries continues to invest in their online presence and direct to consumer channels in order to mitigate this risk.

Mall traffic continues to decline…
Source: Centirc Digital

Import Regulations

Oxford Industries operates on an order-by-order basis with its' suppliers. In FY2016, the company sourced 58% of its products from China, and 16% from Vietnam, choosing these countries to save on costs. These sourcing activities leave the firm susceptible to changes in laws and regulations that govern the exporting country. Any changes in political, labor, social, or economic conditions can result in disruption of trade from their manufacturing countries. Changes, or the addition of duties, tariffs, taxes, quotas, and the value of the U.S. dollar against foreign currency all pose significant risks to apparel firms such as Oxford Industries.

Restaurant Risk

The firm operates 18 Tommy Bahama restaurants which come with many risks. The restaurant industry as a whole requires compliance with many federal, state, and local regulations. Furthermore, all restaurants serve alcohol which influences the profitability of each restaurant. The potential loss of a liquor licence due to failure(s) to comply with applicable laws and regulations could severely harm that restaurant. Other significant issues include risks related to food quality, food-related illness, injury, health inspection scores, and labor relations. As always, any negative publicity to a Tommy Bahama restaurant, valid or not, may spread and effect the perception of all restaurants. This poses a significant risk to not only Tommy Bahama's restaurants, but also the image of the brand as a whole.

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Exhibit 1: Pro Forma Income Statement

	Jan-14	Jan-15	Jan-16	Jan-17	Jan-18	Jan-19	Jan-20	Jan-21	Jan-22	Jan-23
	FY2013	**FY2014**	**FY2015**	**FY2016**	**FY2017**	**FY2018**	**FY2019**	**FY2020**	**FY2021**	**FY2022**
Income Statement										
Revenue	**917.1**	**997.8**	**969.3**	**1,022.6**	**1,086.2**	**1,192.8**	**1,332.3**	**1,435.2**	**1,515.3**	**1,597.4**
COGS	369.6	405.5	374.8	397.6	431.2	441.3	479.6	502.3	515.2	543.1
Gross profit	**547.5**	**592.3**	**594.5**	**625.0**	**655.0**	**751.5**	**852.7**	**932.9**	**1,000.1**	**1,054.3**
SG&A	447.6	488.9	475.0	507.1	540.5	596.4	666.2	717.6	757.6	798.7
EBITDA	**99.8**	**103.4**	**119.5**	**117.9**	**114.5**	**155.1**	**186.5**	**215.3**	**242.4**	**255.6**
D&A	33.9	37.6	36.4	42.2	42.4	39.9	41.9	45.2	48.9	52.8
EBIT	**65.9**	**65.8**	**83.1**	**75.7**	**72.1**	**115.2**	**144.6**	**170.0**	**193.6**	**202.8**
Interest expense	4.2	3.5	2.5	3.4	3.1	1.8	1.8	1.8	1.8	1.8
Other expenses (income)	(18.7)	(17.8)	(14.4)	(12.1)	(14.3)	-				
EBT	**80.5**	**80.1**	**95.1**	**84.4**	**83.3**	**113.4**	**142.8**	**168.2**	**191.7**	**201.0**
Income taxes	35.2	34.4	36.5	32.0	18.2	23.8	30.0	35.3	40.3	42.2
Net income	**45.3**	**45.8**	**30.6**	**52.5**	**65.1**	**89.5**	**112.8**	**132.9**	**151.5**	**158.8**
Shares outstanding, basic	16.5	16.4	16.5	16.5	16.6	16.6	16.6	16.6	16.6	16.6
Shares outstanding, diluted	16.5	16.5	16.6	16.6	16.7	16.7	16.7	16.7	16.7	16.7
Earnings per share, basic	**$ 2.75**	**$ 2.79**	**$ 1.86**	**$ 3.18**	**$ 3.92**	**$ 5.39**	**$ 6.80**	**$ 8.00**	**$ 9.13**	**$ 9.56**
Earnings per share, diluted	**$ 2.75**	**$ 2.78**	**$ 1.85**	**$ 3.15**	**$ 3.89**	**$ 5.35**	**$ 6.74**	**$ 7.94**	**$ 9.05**	**$ 9.49**

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Exhibit 2: Pro Forma Cash Flow Statement

	Jan-14	*Jan-15*	*Jan-16*	*Jan-17*	*Jan-18*	*Jan-19*	*Jan-20*	*Jan-21*	*Jan-22*	*Jan-23*
	FY2013	**FY2014**	**FY2015**	**FY2016**	**FY2017**	**FY2018**	**FY2019**	**FY2020**	**FY2021**	**FY2022**
Cash Flow Statement										
Operating activities										
Net income	45.3	45.8	30.6	52.5	65.1	89.5	112.8	132.9	151.5	158.8
Depreciation and amortization	33.9	37.6	36.4	42.2	42.4	39.9	41.9	45.2	48.9	52.8
Cash flow before working capital	**74.5**	**85.0**	**91.9**	**109.7**	**116.2**	**129.4**	**154.7**	**178.1**	**200.3**	**211.5**
Cash flow from operating activities	**52.7**	**95.4**	**105.4**	**118.6**	**118.6**	**162.1**	**126.3**	**190.4**	**187.3**	**201.8**
Cash used in investing activities	**(59.1)**	**(50.4)**	**(13.9)**	**(146.5)**	**(54.3)**	**(55.8)**	**(58.7)**	**(63.3)**	**(68.4)**	**(73.9)**
Cash from financing activities	**6.9**	**(47.6)**	**(91.5)**	**27.4**	**(64.7)**	**(20.1)**	**(20.9)**	**(21.8)**	**(22.6)**	**(23.4)**
FX effect	0.4	(0.6)	1.1	0.6	0.4	-				
Net change in cash	**1.0**	**(3.2)**	**1.0**	**0.0**	**0.0**	**86.2**	**46.8**	**105.3**	**96.3**	**104.5**
Beginning cash balance	**7.5**	**8.5**	**5.3**	**6.3**	**6.3**	**6.3**	**92.6**	**139.3**	**244.6**	**340.9**
Ending cash balance	**8.5**	**5.3**	**6.3**	**6.3**	**6.3**	**92.6**	**139.3**	**244.6**	**340.9**	**445.3**

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Exhibit 3: Pro Forma Balance Sheet

	Jan-14	Jan-15	Jan-16	Jan-17	Jan-18	Jan-19	Jan-20	Jan-21	Jan-22	Jan-23
	FY2013	**FY2014**	**FY2015**	**FY2016**	**FY2017**	**FY2018**	**FY2019**	**FY2020**	**FY2021**	**FY2022**
Balance Sheet										
Current assets										
Cash and cash equivalents	8.5	5.3	6.3	6.3	6.3	92.6	139.3	244.6	340.9	445.3
Total current assets	**271.0**	**258.5**	**216.8**	**231.6**	**236.1**	**344.3**	**403.5**	**533.2**	**649.5**	**773.4**
Non-current assets										
Property and equipment	141.5	146.0	184.1	193.9	193.5	209.5	226.2	244.3	263.9	285.0
Total non-current assets	**356.3**	**363.9**	**365.9**	**453.5**	**463.8**	**479.8**	**496.5**	**514.6**	**534.2**	**555.3**
Total assets	**627.3**	**622.4**	**582.7**	**685.2**	**699.9**	**824.1**	**900.0**	**1,047.8**	**1,183.7**	**1,328.7**
Current liabilities										
Accounts payable	75.5	72.8	68.3	76.8	66.2	84.0	81.5	85.4	87.6	92.3
Total current liabilities	**133.0**	**159.9**	**128.9**	**131.4**	**135.0**	**189.7**	**173.7**	**210.4**	**217.4**	**227.1**
Non-current liabilities										
Long-term debt	137.6	104.8	44.0	91.5	45.8	45.8	45.8	45.8	45.8	45.8
Total non-current liabilities	**234.1**	**171.9**	**119.4**	**177.6**	**135.1**	**135.1**	**135.1**	**135.1**	**135.1**	**135.1**
Total liabilities	**367.1**	**331.8**	**248.3**	**309.0**	**270.1**	**324.8**	**308.8**	**345.5**	**352.5**	**362.2**
Shareholders' equity										
Total shareholders' equity	**260.2**	**290.6**	**334.4**	**376.1**	**429.8**	**499.3**	**591.2**	**702.3**	**831.2**	**966.5**
Total equity	**260.2**	**290.6**	**334.4**	**376.1**	**429.8**	**499.3**	**591.2**	**702.3**	**831.2**	**966.5**

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Exhibit 4: WACC Calculation and Sensitivity Analysis

WACC Calculations

Cost of Equity	
Risk-free rate	2.5%
Expected market return	9.6%
Market risk premium	7.2%
Beta	1.16
Cost of equity	**10.7%**

Cost of Debt	
Pre-tax cost of debt	3.0%
Effective tax rate	21.0%
Cost of debt	**2.4%**

WACC	
Total shareholders' equity	429.8
Total outstanding debt	72.1
Total capitalization	502.0
Cost of equity	10.7%
Cost of debt	2.4%
WACC	**9.5%**

		WACC				
	88.4	**10.50%**	**10.00%**	**9.50%**	**9.00%**	**8.50%**
Perpetuity Growth Rate	**1.00%**	$ 70.22	$ 74.47	$ 79.23	$ 84.60	$ 90.68
	1.50%	$ 72.96	$ 77.61	$ 82.84	$ 88.78	$ 95.57
	2.00%	$ 76.03	$ 81.14	$ 86.94	$ 93.57	$ 101.22
	2.50%	$ 79.48	$ 85.14	$ 91.61	$ 99.09	$ 107.81
	3.00%	$ 83.39	$ 89.71	$ 97.01	$ 105.53	$ 115.60

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Exhibit 5: DCF Analysis

	Jan-14	Jan-15	Jan-16	Apr-16	Jul-16	Oct-16	Jan-17	Jan-17	Apr-17	Jul-17	Oct-17	Jan-18	Jan-18	Jan-19	Jan-20	Jan-21	Jan-22	Jan-23
	FY2013	**FY2014**	**FY2015**	**Q1-2016**	**Q4-2016**	**Q4-2016**	**Q4-2016**	**FY2016**	**Q1-2017**	**Q2-2017**	**Q3-2017**	**Q4-2016**	**FY2017**	**FY2018**	**FY2019**	**FY2020**	**FY2021**	**FY2022**
Free Cash Flow																		
EBIT	65.9	65.8	83.1	28.0	35.4	(3.4)	15.8	75.7	26.2	33.1	(1.9)	14.8	72.1	115.2	144.6	170.0	193.6	202.8
Less: Tax expense	(13.8)	(13.8)	(17.4)	(5.9)	(7.4)	0.7	(3.3)	(15.9)	(5.5)	(6.9)	0.4	(3.1)	(15.1)	(24.2)	(30.4)	(35.7)	(40.7)	(42.6)
Add: Depreciation and amortization	33.9	37.6	36.4	10.0	10.4	10.4	11.4	42.2	10.2	20.6	31.5	(19.9)	42.4	39.9	41.9	45.2	48.9	52.8
Less: Capital expenditures	(43.4)	(50.4)	(73.1)	(10.6)	(14.1)	(15.5)	(9.3)	(49.4)	(8.5)	(10.0)	(7.8)	(12.4)	(38.7)	(55.8)	(58.7)	(63.3)	(68.4)	(73.9)
Less: Change in net working capital	(21.8)	10.5	13.5	(34.8)	34.3	(31.4)	40.8	8.9	(18.2)	35.7	(33.0)	17.9	2.4	32.7	(28.4)	12.3	(13.0)	(9.8)
Unlevered free cash flow	**20.8**	**49.7**	**42.4**	**(13.3)**	**58.6**	**(39.1)**	**55.3**	**61.5**	**4.1**	**72.4**	**(10.8)**	**(2.7)**	**63.1**	**107.7**	**69.1**	**128.5**	**120.3**	**129.3**
Discount factor														1.00	2.00	3.00	4.00	5.00
Present value of unlevered free cash flow														**103.7**	**57.6**	**97.7**	**83.6**	**82.0**

Perpetuity Growth Method	
Perpetuity growth rate	**2.0%**
PV sum of unlevered FCF	424.7
PV of terminal value	1,087.1
Enterprise value	**1,511.8**
Add: Cash	6.3
Less: Debt	72.1
Less: Other EV adjustments	-
Equity value	**1,446.0**
Shares outstanding	16.7
Implied share price	**$ 86.41**

Current price	$ 74.56
Implied price	**$ 86.41**
Total return	**15.9%**

Exhibit 6: Comparable Companies Analysis

Comparable Company Analysis

Company	Ticker	EV/EBITDA Multiple: LTM EV/EBITDA	NTM EV/EBITDA	2017E EV/EBITDA	2018E EV/EBITDA	P/E Multiple: LTM P/E	NTM P/E	2017A P/E	2018E P/E
Descente Ltd.	TSE: 8114	9.8 x	10.5 x	10.3 x	10.8 x	24.0 x	20.0 x	20.8 x	19.3 x
G-III Apparel Gr	Nasdaq:GIII	15.4 x	10.8 x	16.7 x	12.7 x	43.3 x	19.5 x	25.0 x	17.8 x
The Buckle, Inc.	NYSE:BKE	5.4 x	6.1 x	4.7 x	5.5 x	12.7 x	13.3 x	13.0 x	13.5 x
Abercrombie & F	NYSE:ANF	7.2 x	5.9 x	6.9 x	6.0 x	n/a	39.7 x	69.2 x	46.6 x
Esprit Holdings I	SEHK:330	(0.2 x)	(0.1 x)	(0.1 x)	(0.1 x)	11.3 x	34.0 x	3.8 x	1.9 x
Oxford Industri	**NYSE:OXM**	**9.8 x**	**8.6 x**	**9.9 x**	**9.5 x**	**23.5 x**	**17.0 x**	**20.4 x**	**16.5 x**
Median		**7.2 x**	**6.1 x**	**6.9 x**	**6.0 x**	**18.4 x**	**20.0 x**	**20.8 x**	**17.8 x**
Mean		**7.5 x**	**6.6 x**	**7.7 x**	**7.0 x**	**22.8 x**	**25.3 x**	**26.3 x**	**19.8 x**
High		**15.4 x**	**10.8 x**	**16.7 x**	**12.7 x**	**43.3 x**	**39.7 x**	**69.2 x**	**46.6 x**
Low		**(0.2 x)**	**(0.1 x)**	**(0.1 x)**	**(0.1 x)**	**11.3 x**	**13.3 x**	**3.8 x**	**1.9 x**

	EV/EBITDA Implied Price			P/E Implied Price		
Median	$ 52.15	$ 50.73	$ 45.25	$ 87.66	$ 75.93	$ 80.34
Mean	**$ 56.87**	**$ 57.24**	**$ 53.59**	**$ 110.80**	**$ 96.17**	**$ 89.50**
High	$ 94.78	$ 129.11	$ 100.96	$ 173.84	$ 252.48	$ 210.44
Low	-$ 4.86	-$ 5.12	-$ 4.77	$ 58.09	$ 13.79	$ 8.54

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