

# WESTPEAK RESEARCH ASSOCIATION

## Ralph Lauren Co. (NYSE: RL)

Consumer Discretionary – Apparel, Accessories and Luxury Goods

### Ralph Lauren is Back in Style

February 17, 2021

*Ralph Lauren is a leading American apparel and fashion company, founded in 1976, with stores across North America, Europe, and Asia. They are known for their mid-range to luxury priced apparel, home products, accessories, and fragrances. Ralph Lauren distributes products to their consumers via their retail, wholesale, licensing, and growing e-commerce operations.*

#### Thesis

Ralph Lauren is one of the most highly regarded apparel companies in North America. Their share price fell approximately 50% during the pandemic while competitors fared disproportionately better. However, Ralph Lauren's growing digital ecosystem will provide them with a competitive advantage while their "Next Great Chapter Plan" attracts a whole new customer segment allowing for strong revenue growth. On the operational side, the implementation of a SG&A cost cutting initiative and culling of inefficient wholesale operations will improve margins. For these reasons wall street has missed on their valuation and we think Ralph Lauren is a buy.

#### Drivers

The advancement and dispatch of COVID-19 vaccinations have sped up the timeline for global economic recovery, which will lead to an increase in discretionary income for consumers to spend on apparel. On top of this a shift towards e-commerce in the apparel industry will allow Ralph Lauren's digital ecosystem to flourish.

#### Valuation

Our target share price of \$125.00 is based on our EV/EBITDA exit multiple and the perpetuity growth method from our DCF as well as the PE/EBITDA and the EV/EBITDA multiple from our comparable company analysis, all weighted at 25%.

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#### Equity Research US

<b>Price Target</b>	<b>USD\$ 125.00</b>
<b>Rating</b>	Buy
<b>Share Price (Feb. 17 Close)</b>	USD\$ 111.41
<b>Total Return</b>	12.2%

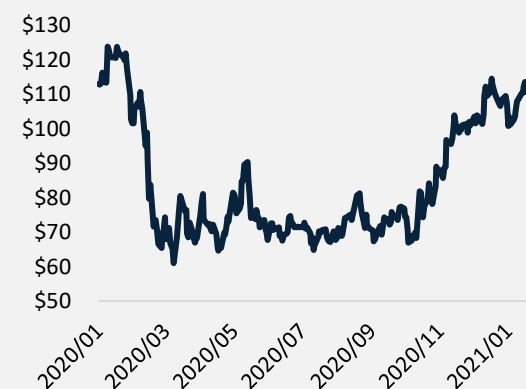
#### Key Statistics

<b>52 Week H/L</b>	\$122.6/\$59.8
<b>Market Capitalization</b>	\$8.15B
<b>Average Daily Trading Volume</b>	\$1.35M
<b>Net Debt</b>	\$156.1M
<b>Enterprise Value</b>	\$9.09B
<b>Net Debt/EBITDA</b>	2.5x
<b>Diluted Shares Outstanding</b>	\$73.4M
<b>Free Float</b>	97%
<b>Dividend Yield</b>	2.47%

#### WestPeak's Forecast

	<u>FY21E</u>	<u>FY22E</u>	<u>FY23E</u>
<b>Revenue</b>	\$4.55B	\$6.00B	\$6.24B
<b>EBITDA</b>	\$311M	\$925M	\$961M
<b>Net Income</b>	\$18.2M	\$488M	\$514M
<b>EPS</b>	\$0.25	\$6.64	\$6.99
<b>P/E</b>	344.6x	16.8x	15.9x
<b>EV/EBITDA</b>	20.4x	8.6x	7.4x

#### 1-Year Price Performance



## Business Overview/Fundamentals

### Company Overview

Ralph Lauren is an American fashion company, founded in 1967, that offers mid-range to luxury priced items. They are most well-known for their clothing, but also produce footwear, accessories, home furnishings, fragrances, and hospitality. Under all of these main categories, Ralph Lauren has a diverse offering of specialized products and product lines. They operate in various parts of the world and organize their business into three reportable segments: North America (51% of revenues), Europe (26%), and Asia (17%). In terms of distribution channels, Ralph Lauren relies on retail, wholesale, and licencing to generate revenues. Ralph Lauren's global reach, breadth of product offerings, and multi-channel distribution are unique among luxury and apparel companies.

### Segment 1: Retail

Ralph Lauren's retail business sells directly to customers throughout the world via 530 retail stores and 654 concession-based shop-within-shops, as well as through their own digital commerce sites and those of various third-party digital partners.

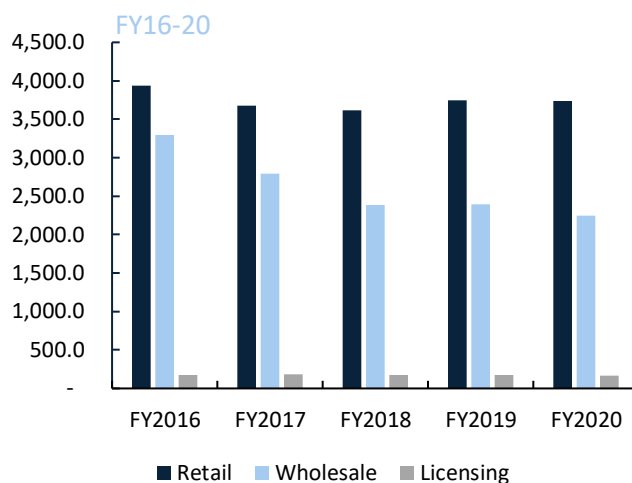
#### Ralph Lauren Stores

Ralph Lauren stores feature a broad range of apparel, footwear, accessories, watch and jewelry, fragrance, and home product assortments in an atmosphere reflecting the distinctive attitude and image of the Ralph Lauren, Polo, and Double RL brands, including exclusive merchandise that is not sold in department stores. During Fiscal 2020, 23 new Ralph Lauren were opened and 6 were closed.

#### Factory Stores

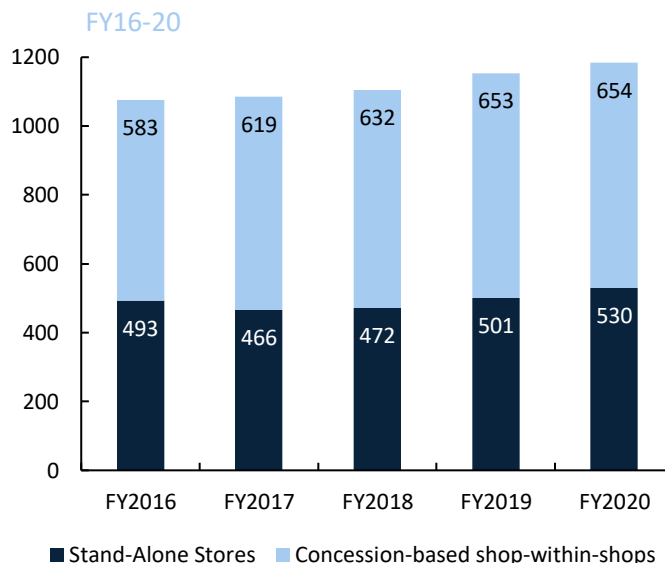
Ralph Lauren has 318 factory stores worldwide, which are typically located in major outlet centers. Worldwide factory stores offer selections of their apparel, footwear, accessories, and fragrances. In addition to these product offerings, certain factory stores in North America and Europe offer home furnishings. Factory stores also serve as a secondary distribution channel for excess and out-of season products. During Fiscal 2020, Ralph Lauren opened 24 new factory stores and closed 11 factory stores.

Revenue per Segment



Source: Company Filings

Total Retail Stores



Source: Company Filings

### Concession-based Shop-within-Shops

The shop-within-shops that Ralph Lauren operates tend to be conducted on a concession basis, meaning inventory is owned by them until the final sale to the end consumer. Salespeople involved in the transaction are generally Ralph Lauren employees and not those of the department store. They sometimes share the cost of building out some of these shop-within-shops with their department store partners. Since FY2016 the number of concession-based shop-within-shops has grown from 583 to 654 as a result of Ralph Lauren's overall efforts to grow retail operations by opening new stores.

### Club Monaco Stores

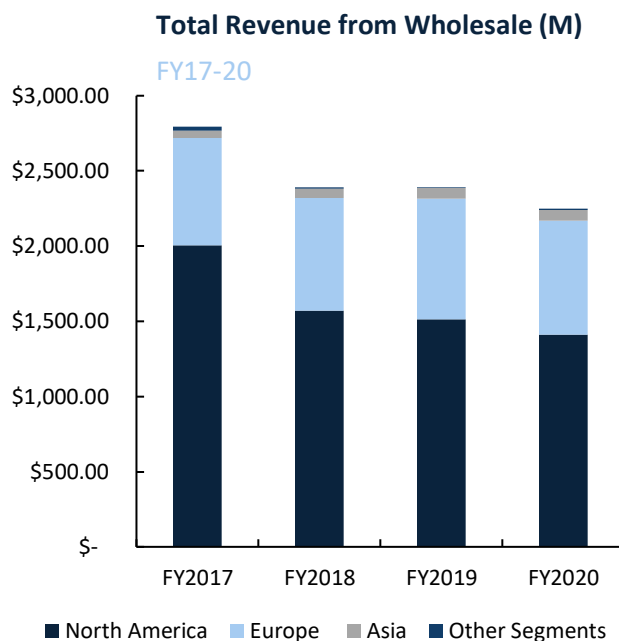
Club Monaco stores feature fashion apparel, footwear, and accessories for both men and women with clean and contemporary signature styles. During Fiscal 2020, Ralph Lauren opened one new Club Monaco store and closed two stores. Club Monaco stores generate a small portion of Ralph Lauren's revenue and have remained relatively stable with around 75 stores being in operation over the past 5 years.

### Directly-Operated Digital Commerce Websites

Ralph Lauren's retail business sells products online in North America and Europe through [www.ralphlauren.com](http://www.ralphlauren.com) and [www.clubmonaco.com](http://www.clubmonaco.com), as well as through their Polo mobile app in North America and the United Kingdom. In Asia, they sell products online through [www.ralphlauren.cn](http://www.ralphlauren.cn), which launched in September 2018. Investing in digital commerce operations remains a primary focus for Ralph Lauren as part of their overall investment into their integrated omni-channel strategy. The rapid growth of their digital ecosystem will provide them with a competitive advantage over other companies in the apparel market over the coming years.

## Segment 2: Wholesale

Ralph Lauren's wholesale business sells products globally to leading upscale and certain mid-tier department stores, speciality stores, golf and pro shops, as well as to various third-party digital partners. As of the end of Fiscal 2020, their wholesale products were sold through over 11,000 stores worldwide, with the majority in specialty stores. In North America, the wholesale business is comprised primarily of sales to department stores, and to a lesser extent, specialty stores. In Europe, the wholesale business is comprised of a varying mix of sales to both department stores and specialty stores, depending on the country, as well as to various third-party digital partners. In Asia, the wholesale business is comprised primarily of sales to department stores, with related products distributed through shop-within-shops. As displayed by the graph on the right, Ralph Lauren's wholesale revenue has been declining steadily over the past few years. Fortunately, this is by design as Ralph Lauren is undergoing a reduction in unproductive wholesale doors, particularly in



Source: Company Filings

North America as part of their overall plan to lean out company operations and drive margin expansion. Alongside leaning out wholesale operations, Ralph Lauren is aggressively pulling back on promotions as part of their initiative to restore brand health and help the company stay on a path of long-term growth and success.

### Worldwide Wholesale Distribution Channels

There are three key wholesale customers that generate significant sales volume for Ralph Lauren. During Fiscal 2020, sales to these three customers, which are all located in the North America segment, accounted for 18% of their total revenues. Relying heavily on three key wholesale customers may pose high concentration risk for Ralph Lauren and will be an important part of their wholesale channel to monitor. Ralph Lauren does not state who these customers are.

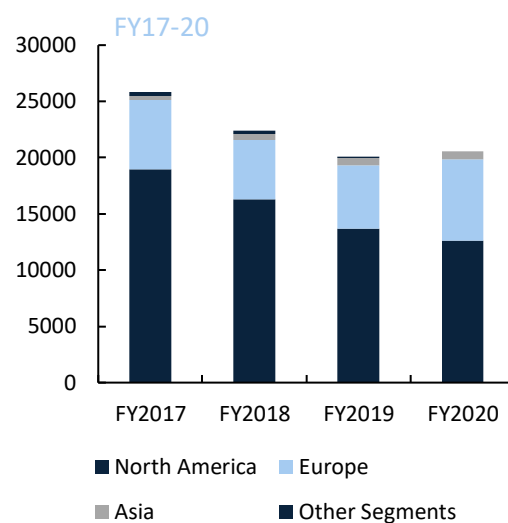
### Shop-within-Shops

In addition to Ralph Lauren’s concession-based shop-within-shops they have a large number of shop-within-shops that rely on wholesale distribution. Ralph Lauren normally shares in the costs of building out these shop-within-shops with their wholesale customers. The department store then operates these shops and sells Ralph Lauren Products. In accordance with Ralph Lauren’s overall initiative to lean out wholesale operations in North America, we see a steady decline in the number of shop-within-shops in this area.

### Replenishment Program

Core products such as knit shirts, chino pants, oxford cloth shirts, select accessories, and home products can be ordered by Ralph Lauren’s wholesale customers at any time through their replenishment program.

### # of Shop-within-Shops



Source: Company Filings

## Segment 3: Licensing

Ralph Lauren generally seeks out licensing partners who are leaders in their respective markets, contribute the majority of product development costs, provide the operational infrastructure required to support the business, and own the inventory. Their licensing business has been aggregated with other non-reportable segments.

Category	Licensed Products	Licensing Partners
<b>Men’s Apparel</b>	Underwear and Sleepwear	Hanesbrands, Inc.
	Chaps, Lauren, and Ralph Tailored Clothing	Peerless Clothing International, Inc.
<b>Women’s Apparel</b>	Outerwear	S. Rothschild & Co., Inc.
	Swimwear	Manhattan Beachwear, Inc.
<b>Beauty Products</b>	Fragrances, Cosmetics, Colour, and Skin Care	L’Oréal S.A.
<b>Accessories</b>	Eyewear	Luxottica Group S.p. A
<b>Home</b>	Bedding and Bath	Ichida Co., Ltd.
	Utility and Blankets	Ichida Co., Ltd. and Hollander Sleep Products
	Fabric and Wallpaper	P. Kaufmann, Inc.

Source: Company Filings

### Product Licensing (North America)

Each product licensing partner pays royalties based upon its sales of Ralph Lauren products, generally subject to a minimum royalty requirement for the right of use to trademarks and design services. Licensing partners may also be required to allocate a portion of their revenues to advertising Ralph Lauren products and share in the creative costs associated with the products. License agreements generally have two-to-five-year terms and may grant the licensees conditional renewal options.



Source: US Fashion Network

### International Licensing

Ralph Lauren's international licensing partners acquire the right to sell, promote, market, and/or distribute various categories of our products in a given geographic area and source products from Ralph Lauren, their product licensing partners, and independent sources. International licensees' rights may include the right to own and operate retail stores. As of March 28, 2020, their international licensing partners operated 80 Ralph Lauren stores, 31 Ralph Lauren concession shops, and 139 Club Monaco stores and shops.



Source: Crunchbase

## Company Strategy

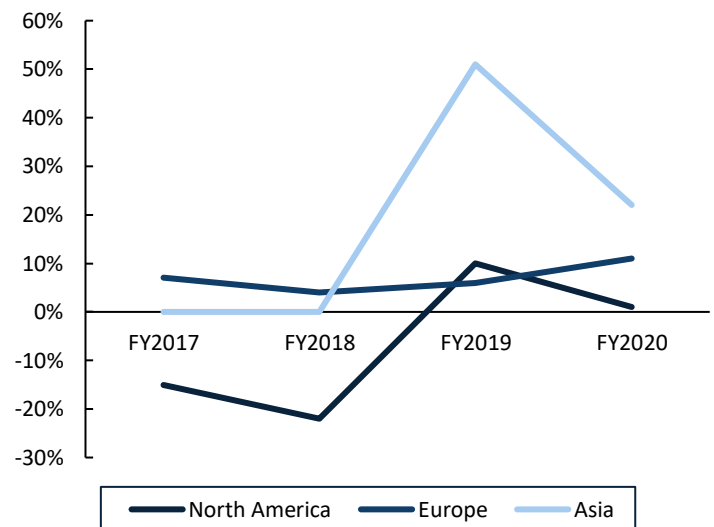
### Digital Growth & Profitability Improvement

One of Ralph Lauren's main strategies to meet shifting consumer preferences is to place an emphasis on improving their digital ecosystem which is a key component of their integrated global omni-channel strategy. Management outlined four main digital channels: Ralph Lauren's owned and operated e-commerce site (pre-pandemic single digit growth, growing in mid-teens during pandemic), wholesale commerce (departmentstores.com), pure plays (Asos, Zalando, JD.com, Tmall), and social commerce (Instagram, WeChat, Checkout) with all four factors contributing to Ralph Lauren's digital ecosystem growth. Throughout 2020, Ralph Lauren has been efficiently capitalizing on consumers shopping patterns through the expansion of its digital presence which includes virtual clientelling, buy-online ship-to-store (BOSS), buy-online-pick-up-in-store (BOPUS), curbside pickup, appointment scheduling, virtual store representation etc. Consequently, the company's digital revenues in second-quarter fiscal 2021 grew year over year in the mid-teens. This shift to direct-to-consumer (DTC) sales is likely to improve margins and will allow Ralph Lauren to be less dependent on third parties such as department

### YOY% Change in Digital Sales

FY17-20

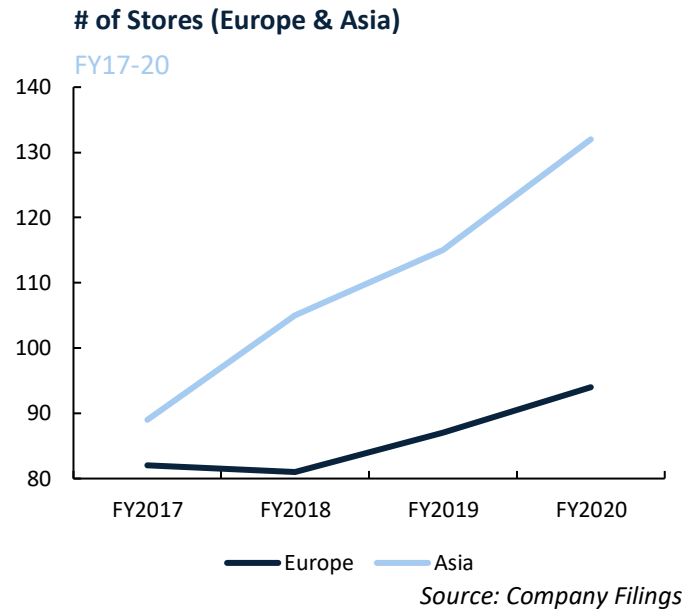
Source: Company Filings



stores. Management aims for Ralph Lauren’s directly operated digital platform to be gradually improving margins for the remainder of the fiscal year following a 10% increase in profitability across all regions in the first half of the fiscal year.

## Europe and China Opportunity

Since Ralph Lauren’s announcement of a focus on increasing their international presence on 2018’s investor day they have opened 230 international stores (100 on a net basis) as well as expanded to 150 digital partners across Europe and Asia. Management continues to see significant growth opportunities in both Europe and Asia and will look to continue exploiting these. China is furthest along in its recovery path after COVID-19 with revenue decreasing by only 7% in the second quarter compared with 25% in Europe and 38% in North America. On top of this, CEO Louvet has emphasized an increased focus on the Chinese consumer as whole, rather than just on the region, and key cities in China such as Beijing and Shanghai. In Europe, store footprint expansion is on track with Ralph Lauren currently operating 31 full-price stores compared to 19 in 2018. Unfortunately, the COVID-19 pandemic is jeopardizing operations in Europe with the majority of their stores being closed and the future of these stores being left up to the evolution of the virus over the coming year. We believe Ralph Lauren’s continued focus on international opportunities will allow them to make up for revenue that they will lose as a result of cutting back on wholesale operations in North America. Sale of apparel in China has been on a track of steady growth for the past few years and is forecasted to continue steady growth until 2024. Ralph Lauren has the opportunity to grab a large market share in Asia as they continue to open more stores and focus marketing efforts on this area.



## Win Over a New Generation of Consumers

Ralph Lauren is focused on broadening the brand’s reach to a younger consumer which will be driven by increased and improved marketing which will utilize social media, influencers, celebrities, and brand collaborations. Second quarter highlights from FY21 include the Ralph Lauren x Bitmoji Collection, a customizable branded wardrobe on Snapchat, their sponsorship of the US Open Tennis Championship, and a partnership with popular Netflix show Elite, as well as an exclusive virtual concert featuring Chance the Rapper. Ralph Laurens proprietary survey work shows a “fair” market share of Millennials and “strong progress” with Gen Z. Early consumer segmentation efforts in their digital commerce and factory channels are contributing to revenues and growth margins through the expanded use of personalized communications and promotional offers. A key part of Ralph Lauren’s “Next Great Chapter Plan” is to win over younger consumer and ensure that the brand stays relevancy and desired in the everchanging fashion culture. We believe that if Ralph Lauren is able to successfully win over a new generation and remain as a desired brand in the eyes of consumers, they will be able to reach the revenue growth that we have predicted.

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## Reduce SG&A Costs

In September, Ralph Lauren announced a \$180M-\$200M cost savings initiative under their “Fiscal 2021 Strategic Realignment Plan”, the majority of which will be realized in FY22. Ralph Lauren plans to achieve this SG&A cost reduction by reducing their global workforce by approximately 15% by the end of FY21. This severe cost reduction will likely flow through to Ralph Lauren’s bottom line by FY22.

## Industry Analysis

Ralph Lauren’s broad range of products means that they operate across a variety of industries, however, they generate the majority of revenue from the sale of its apparel making this their main focus. Ralph Lauren also offers a range of expensive and luxury products under their *Ralph Lauren Luxury* brand which places a portion of their business in the fashion industry.

### Men’s and Women’s Apparel (Worldwide)

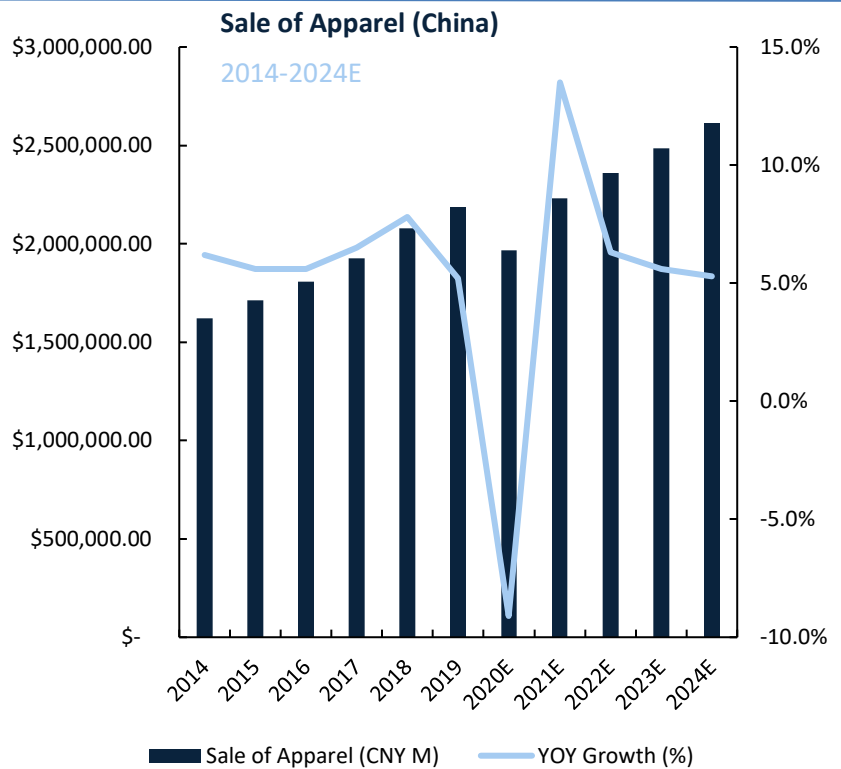
#### Industry Snapshot

Apparel was among the industries hit hardest by the COVID-19 pandemic. Global retail value sales were damaged by temporary store closures and a reduction in discretionary income among consumers resulting in a predicted decline of 16% in 2020. The pandemic also accelerated a channel shift to e-commerce as continuous lockdowns and growing fears about visiting malls scared consumers away from brick-and-mortar stores. Even prior to the pandemic, e-commerce sales posted a compounded annual growth rate (CAGR) of 20% from 2014-2019, compared to a CAGR for store based retailing of 1% over the same period. As many consumers are now spending the majority of time at home, they are increasingly choosing loungewear and casual clothing, resulting in formal dresses, suits and office clothing seeing a large decline in sales. In terms of region, Asia Pacific is the only area that is forecasted to grow from 2019-2024 after being the fastest growing region from 2014-2019, with sales growing by a (CAGR) of 4%. Contrastingly North America and Europe have been hit hard by COVID-19 and are expected to see sales declines of 19-22% in 2020.

#### Key Trends

Both a combination of pre-COVID trends as well as new developments caused by COVID-19 have ultimately culminated into five key trends that will shape the apparel industry in the near future: digitalization, sustainability & ethics, wellness, value, and supply chain changes. Concerns surrounding safety and **digital** habits caused by the COVID-19 lockdown have turned consumers towards online shopping and a survey conducted by Euromonitor International in July 2020 showed that 64% of industry professionals anticipate the trend toward online shopping to be a permanent change. New digital retail strategies, such as curbside pick-up and order delivery, as well as virtual shopping appointments and livestream shopping will be common as the online channel continues to expand. **Sustainability and ethical behaviour** are another key trend shaping the apparel industry as consumers are prioritising brands that produce ethically sourced items and marginalizing companies that fail to do so. This trend should not be taken lightly as another survey by Euromonitor International found that 31% of global consumers said they buy from brands that support social and political issues aligned with their values. In terms of **wellness**, consumers have shifted towards more healthy lifestyles, and as a result are turning towards brands that sell athleisure products. This could prove to be problematic for Ralph Lauren as the majority of their products are geared

towards casual and fashionable attire. Widespread global recession and rising unemployment rates have made price and **value** much more important for consumers, posing as another problem for Ralph Lauren which tends to price in the luxury range. Unit prices of all apparel categories have declined in 2020, with the biggest decrease being -8% from 2019 to 2020 in menswear. Unbranded products and private label will likely benefit from offering basic items at low prices if the economic downturn continues. Finally, the pandemic has exposed the vulnerability of manufacturing **supply chains** as components were mainly manufactured by one country: China. Manufacturers will now have to rethink their supply and logistics strategies, by looking at more diversification and alternatives away from China.



Source: GMID Passport

### Global Outlook

The apparel industry will struggle to recover from the impact of COVID-19 as growth declined by approximately -17% in 2020. It is expected that sales will see a return to growth in 2021 of around 8%, and then continue to grow in the single digits from 2022-2024 depending on recovery from the pandemic. Countries where COVID-19 cases continue to rise, and restrictions remain in place will continue to see in-store retail sales plunge. Fortunately for Ralph Lauren, the COVID-19 crisis has accelerated the pace of digital transformation and Asia will remain as a key growth region with a predicted growth of USD 14B from 2020-2024.

### Fashion (Worldwide)

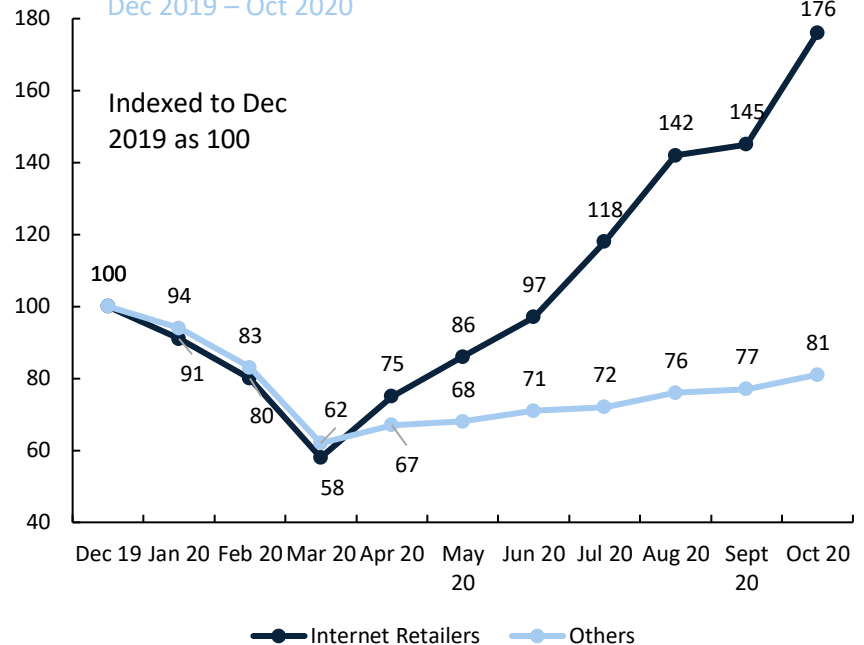
Part of Ralph Lauren’s business model includes offering luxury and high-priced items which places a portion of the company’s revenue stream in the fashion industry. The past year will go down in history as one of the most challenging for the fashion industry with fashion companies expected to post approximately a 90% decline in economic profit in 2020, after a 4% rise in 2019. The pandemic is accelerating trends that were in motion prior to the crisis, as shopping shifts to digital and consumers continue to emphasize the importance of fairness and social justice among companies they are buying from. 2021 will bring continuing opportunities in both the value and luxury segments, with the former benefiting from consumers trading down in uncertain times, and the latter benefiting from a strong recovery in markets such as China. With this being said, the primary driver of growth in the coming years will continue to be digital channels, with McKinsey anticipating more than 30% online growth in Europe and the US and over 20% growth in the already highly digitised Chinese market in 2021 compared to 2019 under their “Early Recovery” scenario. However, in McKinsey’s less favourable scenario, the US would



see sales decline by 22-27% in 2021 compared to 2019, and pre-COVID performance in the country would not return until 2025. Europe would be expected to fare slightly better than the US in this scenario with sales being down 14-19% compared to 2019. Both consumers increased preference towards digital shopping as well as increased opportunity in China and other Asian counties will fare very well for Ralph Lauren as they have placed emphasis on both these areas in their “Next Great Chapter” plan. On top of this they will need to ensure that they place a strong emphasis on sustainability and corporate responsibility as consumers have become more aware of vulnerable employees in the fashion industry and will avoid buying from companies that treat employees poorly.

**Market Cap for Internet Retailers vs Others**

Dec 2019 – Oct 2020



Source: Mckinsey Fashion Index

## How Ralph Lauren Compares

**Digitalization (Industry Leader):** One of the key components of Ralph Lauren’s “Next Great Chapter Plan” is to grow their digital ecosystem alongside their omni-channel capabilities. The onset of COVID-19 has accelerated this initiative and Ralph Lauren has used the pandemic as an opportunity to implement new e-commerce capabilities that have been outlined in the Company Strategy section. While key competitors such as American Eagle (NYSE: AEO), Tommy Hilfiger (NYSE: PVH), and Calvin Klein (NYSE: PVH) have focused on updating their digital presence through investments, Ralph Lauren remains an industry leader due to a variety of unique features present in their digital ecosystem, such as the Ralph Lauren x Bitmoji partnership. If Ralph Lauren continues to invest into their digital ecosystem while implementing unique innovations, they will remain as an industry leader and attract a large number of consumers as a result.

**Sustainability (On Pace with Competitors):** Ralph Lauren has placed a strong emphasis on Global Citizenship and Sustainability and published a 43-page document in June of 2020 outlining their plan to act as responsible company. They have named their strategy “Design the Change” which outlines their approach to waste management, water stewardship, carbon & energy, sustainable product design, sourcing & traceability, chemical management, diversity & inclusion, worker empowerment & well-being, and community engagement. Key competitors of Ralph Lauren, such as American Eagle, Tommy Hilfiger, and Calvin Klein have very similar sustainability initiatives outlined on their company websites and throughout annual filings. American Eagle aims to have carbon neutrality in their owned and operated facilities by 2030, while Tommy Hilfiger launched it’s first collection of 100% recycled. If Ralph Lauren continues to place an emphasis on sustainability they will remain on pace with key competitors.

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## Investment Thesis

### Market View

The market views Ralph Lauren as a well respected North American apparel company that has limited growth potential and is aging in the eyes of younger generations. We believe the market is underestimating Ralph Lauren's post-COVID recovery potential and numbers will likely be revised upwards as the market recognizes this. Part of Ralph Lauren's poor stock performance came as a result of weak revenue growth compared to peers throughout 2020, but as we move forward and Ralph Lauren's digital ecosystem flourishes, we expect Ralph Lauren to outperform competitors.

### Thesis 1: Strong Investments to Boost Digital Ecosystem

One of the pillars of our buy rating is that Ralph Lauren continues to build their digital ecosystem and grows revenue through increased sales across their retail and wholesale e-commerce platform. While they currently have a strong focus on improving these platforms through the implementation of virtual changing rooms and other improvements, we believe a large investment will allow them to gain a competitive edge over other industry leaders. A strong investment would show potential investors that they are ready for the continuing shift towards and digital shopping and that they plan on being industry leaders in terms of e-commerce.

### Thesis 2: Shift in Styling and Marketing to Appeal to Younger Consumers

In order to ensure they stay relevant in modern culture and style; Ralph Lauren must market their brand towards younger consumers. As part of their "Next Great Chapter Plan" Ralph Lauren is looking to further attract the younger generation by implementing new marketing strategies (specifically on social media) or by making adjustments to current clothing items to make them more attractive to younger consumers. Successful marketing efforts and the successful launch of clothing aimed at younger consumers will prove to investors that Ralph Lauren has a bright future ahead of them.

### Thesis 3: Growth in Asia and Europe

As displayed by revenue growth and additional store openings in their Asian and European operations, Ralph Lauren is capitalizing on huge potential in the Asian and European markets. Sale of apparel in China has been on a track of steady growth for the past few years and is forecasted to continue steady growth until 2024. In Europe, we are anticipating more than 30% online growth which matches up perfectly with Ralph Lauren's focus on digitalization. Ultimately, it is crucial that Ralph Lauren continues experiencing growth in Asia and Europe as these areas are much less consolidated than America.

## Catalysts

### End of COVID-19 Pandemic increases Demand for Presentable Attire

With stay-at-home orders preventing consumers from working in the office and attending social gatherings there has been a shift away from presentable attire and dresswear towards more comfortable and athleisure products. With the majority

of Ralph Lauren’s attire being dress wear and fashion focused items, this has been detrimental to their sales. Over the course of the pandemic, Ralph Lauren’s revenue has declined twice as much as some of its peers with sales falling 40% during Q1 FY2020 – Q3 FY2020 vs peers only falling by 20% during the same time period. With this being said, the categories that Ralph Lauren operates in have seen the greatest hit during the pandemic and because of this the market view is skewed, thus putting downward pressure on their share price. When consumers are permitted to return to the office and have the opportunity to attend dinner parties and other social gatherings, they will look to spruce up their attire and look to purchase the exact type of items that Ralph Lauren is known for. On top of this, post pandemic economic growth will lead consumers to purchase more expensive items with newfound discretionary income. Both of these factors will directly affect Ralph Lauren’s top line and subsequently their share price.

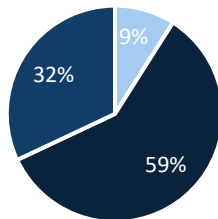
### Posting of Strong FY2021 & FY2022 Financial Statements

Current Wall Street views of Ralph Lauren are too low and are discounting Ralph Lauren’s top and bottom-line recovery prospects. Post COVID-19, the general consensus on Wall Street is that Ralph Lauren will return to 85% and 60% of its pre-COVID (FY2019) revenue and EPS levels vs peers who Wall Street expects to return to 95% and 85% respectively. Once Ralph Lauren successfully implements their plan to cut 180-200M in SG&A expenses by FY2022 and simultaneously returns to pre-COVID revenue numbers due to a shift towards their dressware and fashionable attire their top and bottom line will be very similar if not better than peers. As they release financial statements after a successful implementation of their cost cutting initiative, investors will become aware of their increased EPS and their share price will rise as a result of this.

## Management Team

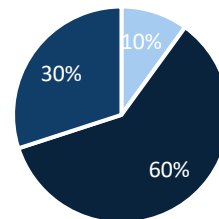
### Target Total Direct Compensation

Executive Chairman / CCO



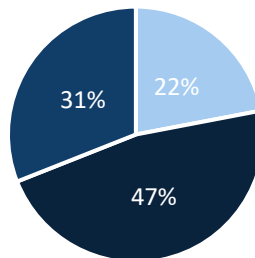
■ Salary ■ Equity ■ Bonus

CEO



■ Salary ■ Equity ■ Bonus

Other NEOs



■ Salary ■ Equity ■ Bonus

Source: Company Presentation

Out of 48.22M Class A shares outstanding, Ralph Lauren directors and executives own 753, 729 shares, representing 1.57%. Founder, Ralph Lauren owns all 24.8M Class B shares. The key components of the executive compensation program for the

Named Executive Officers (“NEOs”) consists of base salary, annual cash incentive, and long-term equity-based incentive opportunities. The compensation plans are designed to link pay and performance, reward sustained business growth and results, and drive stockholder value. We believe this demonstrates that management compensation is aligned with shareholder interests. Additionally, every NEO reduced their salaries by at least 20% for the first quarter of Fiscal 2021 due to COVID-19.

## Ralph Lauren, Executive Chairman and Chief Creative Officer

Mr. Ralph Lauren founded the business in 1967 and for five decades has led Ralph Lauren into becoming a global lifestyle brand. He has been the Executive Chairman and Chief Creative Officer since November 2015, and a director of the Company since prior to their IPO in 1997. He has previously acted as the Chief Executive Officer and held this role up until November 2015. The Council of Fashion Designers of America (CFDA) has awarded Lauren many high honors, including Womenswear and Menswear Designer of the Year, Retailer of the Year, the prestigious Lifetime Achievement Award, Humanitarian Leadership Award, American Fashion Legend Award, and the first ever CFDA Members Salute. Lauren attended Baruch College, where he studied business, but he enlisted in the U.S. Army prior to his graduation. After two years of service, he noticed that his passion was for designing clothing and designed men’s ties out of a drawer in the Empire State Building.



Mr. Lauren has foregone his entire salary for Fiscal 2021 as well as foregoing his full Fiscal 2020 bonus, which would have been \$6,000,000. Ralph Lauren owns approximately 415,000 Class A shares and all Class B shares.

## Patrice Louvet, President and Chief Executive Officer

Mr. Louvet has served as the President and Chief Executive Officer, and a director of the company since July 2017. Prior to joining Ralph Lauren, he served as the Group President, Global Beauty, of Proctor & Gamble Co. since February 2015. Before this, Mr. Louvet held other senior leadership positions at P&G, including the roles of Group President, Global Grooming (Gillete), and President of P&G’s Global Prestige Business. Before he joined P&G, he served as a Naval Officer, Admiral Aide de Camp in the French Navy from 1987 to 1989. Mr. Louvet graduated from Ecole Supérieur de Commerce de Paris and received his M.B.A from the University of Illinois. Over the course of his career, Mr. Louvet has overseen several different multi-billion brands, such as Gillete and Pantene, and has a proven track record of growing major global brands across diverse distribution channels.



Mr. Louvet is accountable for driving Ralph Lauren’s Next Great Chapter strategy and execution. He is focused on delivering sustainable, long-term growth and value creation for the iconic brand globally, in partnership with Mr. Ralph Lauren and the broader leadership team. Mr. Louvet reduced his salary by 50% for the duration of the COVID-19 crisis. Mr. Louvet owns approximately 145,000 Class A shares.

## Jane Nielsen, Chief Financial Officer and Chief Operating Officer

Ms. Nielsen has been the Chief Financial Officer since September 2016 and the Chief Operating Officer since April 2019. She served as Chief Financial Officer of Coach, Inc. from September 2011 to August 2016. From 2009 to 2011, she was Senior Vice President and Chief Financial Officer of PepsiCo, Inc., with responsibility for all financial management including financial reporting, performance management, capital allocation, and strategic planning. She has also served on the board of directors of Pinnacle Foods Inc. Ms. Nielsen received her M.B.A from the Harvard Business School and B.A. from Smith College.



Ms. Nielsen leads Ralph Lauren's global finance, business development and real estate organizations, and drives the company's financial strategy to deliver sustainable profitable growth. In addition, she oversees the global functions of Internal Audit, Investor Relations, IT and Procurement. Ms. Nielsen owns approximately 42,000 Class A shares.

## David Lauren, Chief Innovation Officer and Strategic Advisor to the CEO

Mr. David Lauren is the Chief Innovation Officer, Strategic Advisor to the CEO, and Vice Chairman of the Board. He has served as the Chief Innovation Officer and Vice Chairman of the Board since October 2016. From November 2010 to October 2016, he served as the Executive Vice President of Global Advertising, Marketing and Communications. Prior to that, he served in numerous leadership roles at Ralph Lauren with responsibility for advertising, marketing, and communications. He has been a director of the company since August 2013. Before joining Ralph Lauren in 2000, he was Editor-In-Chief and President of Swing, a general interest publication for Generation X. Mr. D. Lauren is the son of Mr. R. Lauren.



Mr. D. Lauren oversees Ralph Lauren's innovation processes and capabilities to drive its brand strength and financial performance across all channels. He has been instrumental in growing the company's global digital commerce business and pioneering technology initiatives. As Strategic Advisor, he surfaces opportunities in partnership with the Executive Leadership Team and supports solutions to challenges across the company. He also acts as a spokesperson and brand ambassador for the company. Mr. D. Lauren owns approximately 34,000 Class A shares.

## Shareholder Base, Liquidity, Market Depth

### Shareholder Base

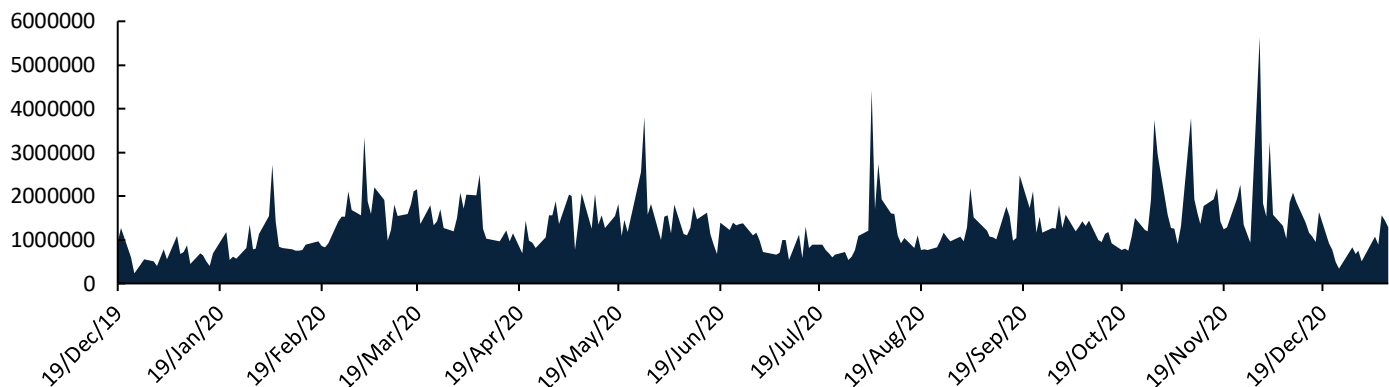
Ralph Lauren has a very concentrated shareholder base, with the top 10 shareholders holding over 62% of shares outstanding. BlackRock is the top outside holder with 8.47% of the shares outstanding, while Mr. Ralph Lauren holds the highest insider position with an astounding 23.96% of shares outstanding. The fact that Mr. Ralph Lauren has such a large portion of shares outstanding shows his confidence in the brand and is a positive for potential investors. Seven of the ten top shareholders took their position after Ralph Lauren's latest earnings release, September 30<sup>th</sup>, 2020, and see RL as a growth stock.

Shareholder (Name)	Shares Owned (mm)	% of Shares Outstanding (%)	Investment Style (Type)	Insider? (Y/N)	Position Date (Date)
Ralph Lauren	17.52	23.96%	-	Y	Dec-09-2020
BlackRock Inc.	6.19	8.47%	Growth	N	Sep-30-2020
Lauren Family, L. L. C.	5.84	7.99%	Unclassified	N	Jun-01-2020
The Vanguard Group Inc.	4.64	6.35%	Growth	N	Sep-30-2020
J.P. Morgan Asset Management	2.99	4.10%	Growth	N	Sep-30-2020
Renaissance Technologies Corp.	2.64	3.61%	Growth	N	Sep-30-2020
State Street Global Advisors	2.53	3.61%	Growth	N	Sep-30-2020
T. Rowe Price Group Inc.	2.30	3.14%	Growth	N	Sep-30-2020
BNY Mellon Asset Management	1.64	2.24%	Growth	N	Sep-30-2020
Mackenzie Financial Corporation	1.60	2.19%	Growth	N	Sep-30-2020
<b>Top 10 Identified Shareholders</b>	<b>47.89</b>	<b>62.05%</b>			

## Liquidity

Ralph Lauren has an average trading volume of 1.28M over the past year, with liquidity spikes generally occurring during earnings season. Given the high average trading volume, we believe there is no significant liquidity risk for shareholders.

### 1 Year Trading Volume (NYSE: RL)



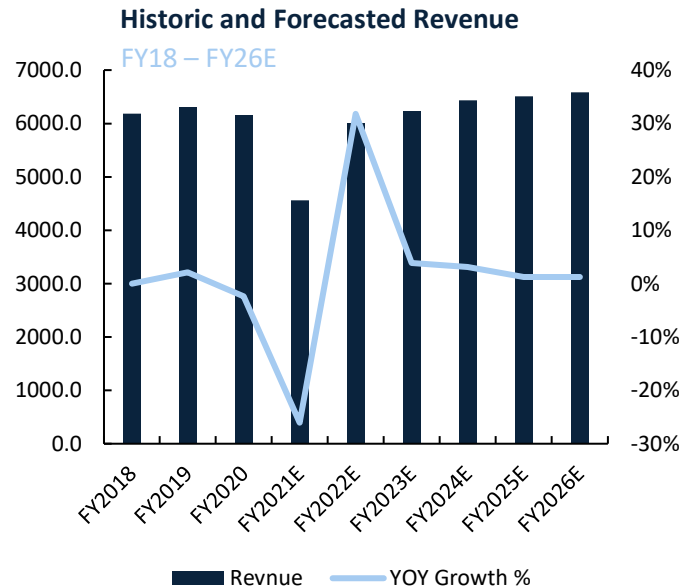
Source: Bloomberg

## Valuation

### Discounted Cash Flow

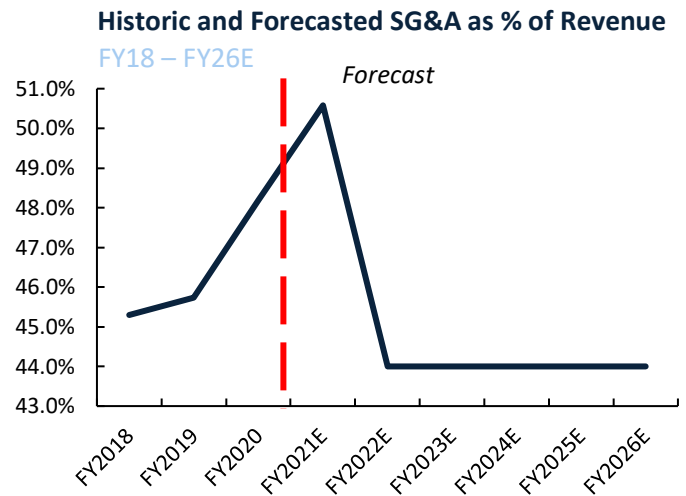
#### Revenue

We decided to forecast Ralph Lauren’s revenue by breaking it down into their three main streams (retail, wholesale, and license) and driving each of these individually. As Ralph Lauren’s retail operations have historically provided the greatest portion of their overall revenue, this is where we placed our main focus; forecasting it based on store growth and sales per store while taking into account their growing e-commerce presence in these calculations. We expect Ralph Lauren’s retail revenue to fully recover from COVID by FY2022 and reach \$3960 M. Ralph Lauren plans on cutting wholesale operations in the coming year and thus their wholesale revenue will slightly recover in FY2022 and remain relatively flat after this, staying steady at around \$2100 M. With licensing only making up a small portion of revenue we have returned revenues to pre-COVID level by FY2022 and flatlined it after this year.



#### Costs

We believe one of the key drivers of Ralph Lauren’s bottom line in the coming years will be the successful implementation of their plan to severely cut SG&A costs by around 180-200M. Thus, we have forecasted their SG&A costs to be reduced from a historical average of about 50% of revenue to 44% from FY2022 into the future. This has very crucial effects on their bottom line and makes the company very attractive in the coming 5 years. COGS has been forecasted at a flat 38% of revenue based on historical values.



#### Dividend Policy

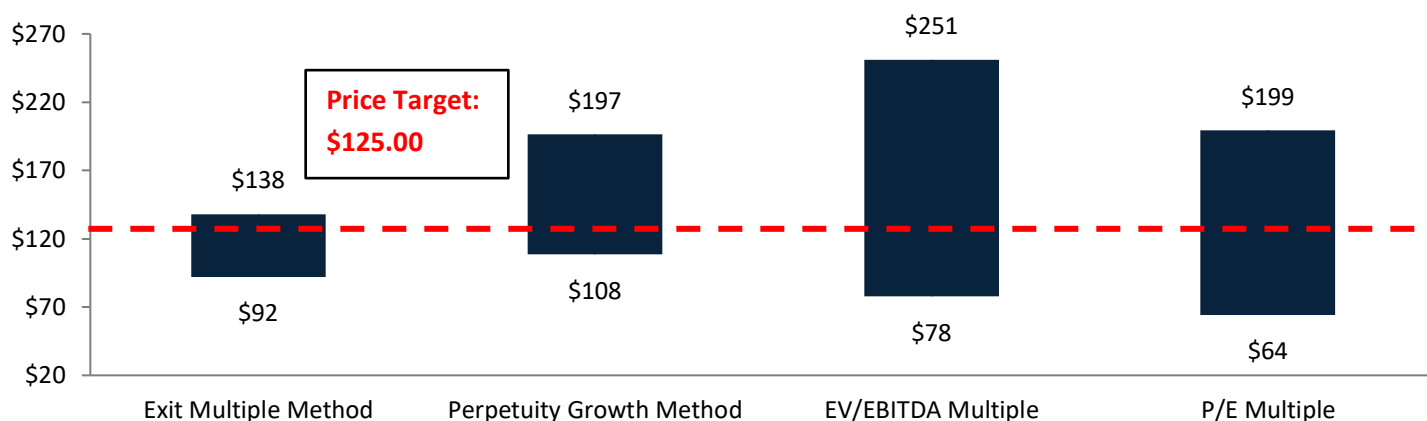
Ralph Lauren refrained from paying a dividend in Q2 FY2021 due to negative net income. They have recently began paying a dividend and will continue to do this in the coming years as their net income recovers. We have forecasted a dividend of \$2.00 per share from FY2022 on based on historical values.

### Weighted Average Cost of Capital

The figures utilized in calculating the weighted average cost of capital (WACC) for Ralph Lauren were retrieved from Bloomberg. Cost of equity was calculated under the assumption of a 1.1% risk-free rate as well as an 8.9% expected market return, combining to produce a 7.9% market risk premium. A beta of 1.36 was employed to get a cost of equity of 11.8%. Debt was calculated with an assumed 1.3% pre-tax cost of debt alongside a 0% effective tax rate leading to an overall cost of debt of 1.3%. These retrieved values ultimately resulted in the calculation of an 8.9% WACC.

### Weighted Price Target

We have decided to drive our price target based on both a perpetuity growth method as well as an EV/EBITDA exit multiple method from our DCF as well as the PE/EBITDA multiple and the EV/EBITDA multiple from our comps all weighted at 25%. This has led us to an implied share price of \$125.00.



### Comparable Company Analysis Set

**American Eagle (NYSE: AEO):** American Eagle Outfitter operates as a speciality retailer that provides clothing, accessories, and personal care under the American Eagle and Aerie brands. The company provides jeans, and speciality apparel and accessories for men and women; and intimates, activewear, and swim collections, as well as personal care products for women. In addition, it offers sports apparel under the Tailgate brand, and menswear products under the Todd Snyder New York brand name.

**Urban Outfitters (NASDAQ: URBN):** Urban Outfitters Inc. engages in the retail and wholesale of general consumer products. The company operates through three segments: retail, wholesale, and subscription. It operates Urban Outfitters stores, which offer women's and men's fashion apparel, activewear, intimates, footwear, accessories, home goods, electronics, and beauty products for young adults aged 18 to 28; and Anthropologie stores that provides women's casual wear, accessories, and wellness products for women aged 18 to 25. Also, under their umbrella are the Bhdn, Terrain, Free People, and Nuuly brand names.



**Abercrombie & Fitch (NYSE: ANF):** Abercrombie & Fitch Co., through its subsidiaries operates as a speciality retailer. The company operates under two segments, Hollister and Abercrombie. It offers an assortment of apparel, personal care products, intimates, and accessories for men, women, and children under the Hollister, Abercrombie & Fitch, Abercrombie kids, Moose, Seagull, and Gilly Hicks brands.

**PVH Corp (NYSE: PVH):** PVH Corp. operates as an apparel company in the United States and internationally. The company operates through six segments: Tommy Hilfiger North America, Tommy Hilfiger International, Calvin Klein North America, Calvin Klein International, Heritage Brands Wholesale, and Heritage Brands Retail. It designs, markets and retails a wide variety of men's and women's apparel and accessories.

**Macy's (NYSE: M):** Macy's Inc., an omnichannel retail organization, operates stores, websites, and mobile applications under the Macy's, Bloomingdale's, and bluemercury brands. It sells a range of merchandise, including apparel and accessories for men, women, and kids; cosmetics; home furnishings; and other consumer goods.

**Hanesbrands Inc. (NYSE: HBI):** Hanesbrands Inc., a consumer goods company, designs, manufactures, sources, and sells a range of basic apparel for men, women, and children. Hanesbrands provides its products primarily under the Hanes, Champion, Maidenform, Bali, Must my Size, Playtex, DKNY, Wonderbra, Zorba, Lovable, etc. brands names.

**V.F. Corporation (NYSE: VFC):** V.F. Corporation engages in the design, production, procurement, marketing, and distribution of branded lifestyle apparel related products for men, women, and children in the Americas, Europe, and the Asia-Pacific. It operates through three segments, Outdoor, Active, and Work. It provides its products under the North Face, Timberland, Icebreaker, Smartwool, Altra, Vans, Kipling, JanSport, Timberland, etc. brand names.

## Recommendation

We believe that Ralph Lauren is currently undervalued by the market as the general consensus is that their revenue will struggle to return to pre-COVID levels as the global pandemic comes to an end. However, its strong focus on improving their digital and e-commerce presence alongside their initiatives to attract a new generation of consumers will allow their revenue to recover within the next year and a half. On top of this, their key initiative to heavily reduce SG&A costs by FY2022 will consequently be increasing their margins and improving their bottom line. The culmination of these factors has led us to the conclusion that RL should be regarded as a buy.

Based on our Discounted Cash Flow model and our Comparable Companies Analysis, we determine a fair share price of \$125.00. We initiate a **buy** rating on Ralph Lauren.

## Risks

### Loss of the Services of Mr. Ralph Lauren

Mr. Ralph Lauren is currently 80 years old, meaning the risk of death and disability is becoming increasingly likely as the years go on. His leadership has been crucial in the design and marketing of Ralph Lauren products and losing him would have devastating effects on the brands. On top of this, the value and reputation of the Ralph Lauren brand is one of the key

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factors to the success of the business and this would almost certainly be put in jeopardy if Mr. Lauren passes away or has to step away from his role in the company. It is very likely that if this were the case, the share price would shoot down.

### Consumer's Discretionary Income dependant on COVID-19

If the economic recovery from COVID-19 takes longer than expected due to new strains of the disease or problems with the vaccine it is likely that consumers will continue to suffer from a lack of discretionary income. This will cause serious problems for Ralph Lauren and will likely postpone their return to pre-COVID revenue figures. This means shareholders would likely have to wait a few years for Ralph Lauren's share price to rise to our price target and could also lead to other cash flow issues.

### Foreign Exchange Risk

As Ralph Lauren continues to expand internationally and puts more emphasis on Asia specifically, they are continuing to expose themselves to sovereign risk, foreign currency risk, and changes in international trade policies (tariffs). COVID-19 adds on to this uncertainty as the state of international travel is entirely dependent on the state of the pandemic.

### Brand No Longer Desired

Ralph Lauren has been a staple in American fashion since its founding in 1967. With fashion trends and general streetwear trends changing swiftly it is possible that Ralph Lauren becomes a brand that is no longer desired by consumers. Many of Ralph Lauren's loyal customers are part of older generations, and if Ralph Lauren is unable to capture the attention of younger generations, they run the risk of fizzling out as a brand.

## Appendix 1: Model Summary

	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Mar-21	Mar-22	Mar-23	Mar-24	Mar-25	Mar-26
(Figures in mm USD)	FY2016	FY2017	FY2018	FY2019	FY2020	Q1-2021	Q2-2021	Q3-2021	Q4-2021	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026
<b>Income Statement</b>															
Revenue	7,405.2	6,652.8	6,182.3	6,313.0	6,159.8	487.5	1,193.5	1,428.9	1,444.9	4,554.8	6,003.2	6,237.0	6,433.4	6,509.8	6,587.0
EBITDA	892.2	215.2	793.4	843.1	586.5	(104.3)	41.2	185.8	187.8	310.5	924.5	960.5	990.7	1,002.5	1,014.4
Net Income	396.4	(99.3)	162.8	430.9	384.3	(127.7)	(39.1)	91.3	93.7	18.2	488.3	513.8	548.6	568.6	587.9
Earnings Per Share	\$ 4.61	\$ (1.20)	\$ 1.97	\$ 5.27	\$ 4.98	\$ (1.75)	\$ (0.53)	\$ 1.24	\$ 1.28	\$ 0.25	\$ 6.64	\$ 6.99	\$ 7.46	\$ 7.74	\$ 8.00
<b>Cash Flow Statement</b>															
Capital Expenditures	(417.7)	(284.0)	(161.6)	(197.7)	(270.3)	(21.3)	(32.6)	(46.1)	(45.3)	(145.3)	(174.3)	(159.1)	(147.5)	(136.7)	(126.7)
Acquisitions	(1,085.0)	(860.4)	(1,605.6)	(3,030.8)	(1,289.7)	(63.6)	(343.4)	-	-	(407.0)	-	-	-	-	-
Divestitures	942.7	942.4	1,582.7	2,357.5	2,240.4	301.9	169.6	-	-	471.5	-	-	-	-	-
Dividend Payment	(170.3)	(164.8)	(162.4)	(190.7)	(203.9)	(49.8)	-	-	-	(49.8)	(147.0)	(147.0)	(147.0)	(147.0)	(147.0)
Dividend Per Share	\$ 2.00	\$ 1.99	\$ 1.99	\$ 2.37	\$ 2.69	\$ 0.68	\$ -	\$ -	\$ -	\$ 0.68	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00
Dividend Payout to Earnings	43.0%	-166.0%	99.8%	44.3%	53.1%	-39.0%	-	-	-	273.1%	30.1%	28.6%	26.8%	25.9%	25.0%
Dividend Payout to Core FCF	13.0%	16.4%	19.2%	18.0%	21.4%	-45.7%	-	-	-	12.8%	16.5%	16.5%	16.3%	16.4%	16.5%
Dividend Yield	1.8%	2.1%	2.1%	1.9%	2.7%	0.9%	-	-	-	0.8%	1.8%	1.8%	1.8%	1.8%	1.8%
<b>Balance Sheet</b>															
Current Assets	3,052.7	2,954.5	3,548.4	3,594.8	3,375.2	3,857.0	3,907.1	4,002.4	4,123.3	4,123.3	4,678.0	4,917.0	5,386.4	5,874.1	6,558.7
Non-Current Assets	3,160.4	2,697.5	2,594.9	2,348.0	3,904.7	3,883.4	3,844.5	3,830.0	3,815.6	3,815.6	3,760.6	3,699.3	3,642.5	3,589.9	3,541.1
Assets	6,213.1	5,652.0	6,143.3	5,942.8	7,279.9	7,740.4	7,751.6	7,832.4	7,939.0	7,939.0	8,438.6	8,616.3	9,028.9	9,464.0	10,099.8
Current Liabilities	1,198.3	1,159.9	1,587.2	1,200.1	2,092.0	1,486.9	1,553.7	1,543.2	1,556.0	1,556.0	1,714.3	1,525.3	1,536.2	1,549.7	1,563.4
Non-Current Liabilities	1,271.3	1,192.5	1,098.7	1,455.5	2,494.8	3,698.0	3,653.8	3,653.8	3,653.8	3,653.8	3,653.8	3,653.8	3,653.8	3,653.8	3,653.8
Liabilities	2,469.6	2,352.4	2,685.9	2,655.6	4,586.8	5,184.9	5,207.5	5,197.0	5,209.8	5,209.8	5,368.1	5,179.1	5,190.0	5,203.5	5,217.2
Shareholders' Equity	3,743.5	3,299.6	3,457.4	3,287.2	2,693.1	2,555.5	2,544.1	2,635.4	2,729.1	2,729.1	3,070.5	3,437.3	3,838.9	4,260.5	4,701.4
Cash	456.3	668.3	1,304.6	584.1	1,620.4	2,451.3	2,012.0	1,792.6	1,894.2	1,894.2	2,148.6	3,073.4	3,500.3	3,971.5	4,639.4
Debt	713.1	588.2	596.2	689.1	1,459.4	2,244.7	1,948.7	1,948.7	1,948.7	1,948.7	1,948.7	1,948.7	1,948.7	1,948.7	1,948.7
Net Debt	256.8	(80.1)	(708.4)	105.0	(161.0)	(206.6)	(63.3)	156.1	-	54.5	(199.9)	(1,124.7)	(1,551.6)	(2,022.8)	(2,690.7)
Minority Interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Debt/EBITDA	0.8 x	2.7 x	0.8 x	0.8 x	2.5 x	-	-	-	-	0.2 x	n/a	n/a	n/a	n/a	n/a
<b>Operating Metrics</b>															
Return on Equity (ROE)	10.6%	-3.0%	4.7%	13.1%	14.3%	-	-	-	-	0.7%	15.9%	14.9%	14.3%	13.3%	12.5%
Return on Assets (ROA)	6.4%	-1.8%	2.7%	7.3%	5.3%	-	-	-	-	0.2%	5.8%	6.0%	6.1%	6.0%	5.8%
Return on Invested Capital (ROIC)	9.1%	-2.7%	-18.3%	10.7%	10.9%	-	-	-	-	0.6%	11.5%	14.3%	15.3%	16.0%	17.7%
<b>Valuation Metrics</b>															
Stock Price (High)	\$ 141.08	\$ 114.00	\$ 119.33	\$ 147.79	\$ 133.63	\$ 93.11	\$ 82.83	\$ 105.91	\$ 111.41	\$ 111.41	\$ 111.41	\$ 111.41	\$ 111.41	\$ 111.41	\$ 111.41
Stock Price (Low)	\$ 82.15	\$ 75.62	\$ 66.06	\$ 95.63	\$ 62.01	\$ 59.82	\$ 63.90	\$ 65.20	\$ 111.41	\$ 59.82	\$ 111.41	\$ 111.41	\$ 111.41	\$ 111.41	\$ 111.41
Stock Price (Average)	\$ 111.62	\$ 94.81	\$ 92.70	\$ 121.71	\$ 97.82	\$ 76.47	\$ 73.37	\$ 85.56	\$ 111.41	\$ 85.62	\$ 111.41	\$ 111.41	\$ 111.41	\$ 111.41	\$ 111.41
Diluted Shares Outstanding (Average)	85.9	82.7	82.5	81.7	77.2	73.1	73.5	73.5	73.5	73.4	73.5	73.5	73.5	73.5	73.5
Market Capitalization (Average)	9,587.7	7,840.8	7,647.3	9,943.7	7,551.7	5,589.6	5,392.3	6,288.3	8,188.6	6,284.1	8,188.6	8,188.6	8,188.6	8,188.6	8,188.6
Enterprise Value (Average)	9,844.5	7,760.7	6,938.9	10,048.7	7,390.7	5,383.0	5,329.0	6,444.4	8,243.1	6,338.6	7,988.8	7,063.9	6,637.0	6,165.8	5,497.9
P/E	24.2 x	n/a	47.0 x	23.1 x	19.7 x	-	-	-	-	344.6 x	16.8 x	15.9 x	14.9 x	14.4 x	13.9 x
EV/EBITDA	11.0 x	36.1 x	8.7 x	11.9 x	12.6 x	-	-	-	-	20.4 x	8.6 x	7.4 x	6.7 x	6.2 x	5.4 x
FCF Yield to Market Capitalization	4.6%	2.2%	7.8%	4.2%	5.9%	-	-	-	-	-1.4%	7.4%	15.9%	9.9%	10.5%	10.8%
FCF Yield to Enterprise Value	4.5%	2.2%	8.6%	4.1%	6.1%	-	-	-	-	-1.4%	7.6%	18.4%	12.2%	14.0%	16.1%
<b>Free Cash Flow</b>															
EBIT	582.8	(92.3)	498.2	561.8	317.0	(168.0)	(20.3)	125.1	128.2	65.0	695.1	740.1	786.5	813.2	838.9
Tax Expense	(155.4)	5.6	(326.4)	(151.6)	57.9	44.9	(10.0)	-	-	-	-	-	-	-	-
D&A	309.4	307.5	295.2	281.3	269.5	63.7	61.5	60.6	59.7	245.5	229.4	220.4	204.3	189.3	175.5
Capital Expenditures	(417.7)	(284.0)	(161.6)	(197.7)	(270.3)	(21.3)	(32.6)	(46.1)	(45.3)	(145.3)	(174.3)	(159.1)	(147.5)	(136.7)	(126.7)
Changes in NWC	122.0	233.6	289.0	(77.0)	73.9	59.9	15.7	(325.2)	(6.4)	(256.1)	(142.1)	496.7	(31.5)	(3.0)	(3.1)
Unlevered Free Cash Flow	441.1	170.4	594.4	416.8	448.0	(20.8)	14.3	(185.6)	136.1	(90.9)	608.1	1,288.1	811.8	862.8	884.6
<b>Valuation Summary</b>															

<b>Current Price</b>	\$	111.41
Target Price	\$	125.03
Total Return		12.2%
<b>Recommendation</b>		BUY

<b>DCF Valuation</b>	
Perpetuity Growth Implied Price	\$ 139.74
Exit Multiple Implied Price	\$ 122.13
<b>Comps Valuation</b>	
Comps - EV/EBITDA Implied Price	\$ 120.73
Comps - P/E Implied Price	\$ 117.53

## Appendix 2: Discounted Cash Flow Analysis

	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Mar-21	Mar-22	Mar-23	Mar-24	Mar-25	Mar-26
(Figures in mm USD)	FY2016	FY2017	FY2018	FY2019	FY2020	Q1-2021	Q2-2021	Q3-2021	Q4-2021	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026
<b>WACC Calculations</b>															
<b>Cost of Equity</b>															
Risk-free rate	1.1%														
Expected market return	8.9%														
Market Risk Premium	7.9%														
Beta	1.36														
Cost of Equity	11.8%														
<b>Cost of Debt</b>															
Pre-tax cost of debt	1.3%														
Effective tax rate	-														
Cost of Debt	1.3%														
<b>WACC</b>															
Market value of equity	8,188.6														
Market value of debt	3,091.0														
Total Capitalization	11,279.6														
Cost of equity	11.8%														
Cost of debt	1.3%														
WACC	8.9%														
<b>Free Cash Flow</b>															
EBIT	582.8	(92.3)	498.2	561.8	317.0	(168.0)	(20.3)	125.1	128.2	65.0	695.1	740.1	786.5	813.2	838.9
Less: Tax expense	(155.4)	5.6	(326.4)	(151.6)	57.9	44.9	(10.0)	-	-	-	-	-	-	-	-
Add: Depreciation and amortization	309.4	307.5	295.2	281.3	269.5	63.7	61.5	60.6	59.7	245.5	229.4	220.4	204.3	189.3	175.5
Less: Capital expenditures	(417.7)	(284.0)	(161.6)	(197.7)	(270.3)	(21.3)	(32.6)	(46.1)	(45.3)	(145.3)	(174.3)	(159.1)	(147.5)	(136.7)	(126.7)
Less: Change in net working capital	122.0	233.6	289.0	(77.0)	73.9	59.9	15.7	(325.2)	(6.4)	(256.1)	(142.1)	496.7	(31.5)	(3.0)	(3.1)
Unlevered Free Cash Flow	441.1	170.4	594.4	416.8	448.0	(20.8)	14.3	(185.6)	136.1	(90.9)	608.1	1,298.1	811.8	862.8	884.6
Discount factor						-	-	0.25	0.50	0.50	1.50	2.50	3.50	4.50	5.50
Present Value of Unlevered Free Cash Flow						-	-	(181.6)	130.4	(51.3)	554.5	1,048.8	602.2	587.7	553.3
<b>Discounted Cash Flow Valuations</b>															
<b>Perpetuity Growth Method</b>															
Perpetuity Growth Rate	2.0%														
PV sum of unlevered FCF	3,295.2														
Terminal value	8,172.3														
Enterprise Value	11,467.6														
Add: Cash	1,894.2														
Less: Debt	3,091.0														
Less: Other EV adjustments	-														
Equity Value	10,270.8														
Shares outstanding	73.5														
Implied Share Price	\$ 139.74														
<b>Exit Multiple Method</b>															
Terminal EV/EBITDA Multiple	10.8 x														
PV sum of unlevered FCF	3,295.2														
Terminal value	6878.307														
Enterprise Value	10,173.5														
Add: Cash	1,894.2														
Less: Debt	3,091.0														
Less: Other EV adjustments	-														
Equity Value	8,976.8														
Shares outstanding	73.5														
Implied Share Price	\$ 122.13														
<b>WACC</b>															
Perpetuity Growth Rate	1.00%	\$ 108.48	\$ 116.17	\$ 124.83	\$ 134.67	\$ 145.94									
	1.50%	\$ 113.74	\$ 122.22	\$ 131.85	\$ 142.87	\$ 155.61									
	2.00%	\$ 119.67	\$ 129.09	\$ 139.88	\$ 152.35	\$ 166.93									
	2.50%	\$ 126.40	\$ 136.96	\$ 149.16	\$ 163.44	\$ 180.35									
	3.00%	\$ 134.11	\$ 146.06	\$ 160.02	\$ 176.57	\$ 196.50									
Terminal EV/EBITDA Multiple	8.8 x	\$ 99.47	\$ 101.98	\$ 104.55	\$ 107.19	\$ 109.91									
	9.8 x	\$ 107.69	\$ 110.40	\$ 113.18	\$ 116.05	\$ 119.00									
	10.8 x	\$ 115.90	\$ 118.82	\$ 121.82	\$ 124.91	\$ 128.08									
	11.8 x	\$ 124.11	\$ 127.24	\$ 130.45	\$ 133.76	\$ 137.17									
	12.8 x	\$ 132.32	\$ 135.66	\$ 139.09	\$ 142.62	\$ 146.25									



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