



ALPHA  **CHALLENGE**
Kenan-Flagler Business School
The University of North Carolina

December 5th, 2024

Wildcard Pitch

Team Number: 13

Students: Jonathan Morales, Chad Pinter, Jiajin (Fiona) Sun

NYSE: GRMN
LONG – \$ 295.75
(40% upside)



Recommendation: Long Garmin (NYSE: GRMN). Despite high multiples, we think GRMN is undervalued when accounting for the compounding EPS growth. In addition, GRMN has near-zero debt and significant FCF which will enable the Company to return capital to shareholders or invest in high-growth initiatives that are not captured in our forecast model.

Core Thesis:

1. Garmin's consumer wearables products will grow market share while growing margins
 - Given the Company's vertical integration and engineering capabilities, future products will command similarly high margins. Therefore, with high sales growth and flat OPEX, the Company will have major operating leverage and improved FCF margins
 - Garmin's premium engineering capabilities makes it well positioned for growth in the health and wellness space
2. Garmin's Auto OEM segment is poised for significant growth and profitability
 - BMW's Tier One provider and its agile approach to solving complex challenges. With competitors phasing out contracts, Garmin is well-positioned to secure new deals and exceed market expectations
 - The company's leadership and ability to capture new contracts support its path to surpassing the \$800 million revenue target by 2025
3. Garmin's strong balance sheet provides it flexibility for future capital allocation plans
 - Company may pursue an acquisition of companies that could further improve their segment dominance (health or data-analytics companies for consumer) or return cash to shareholders
 - None of this upside is baked into our financial model

Modeling/Valuation:

1. Base Case Assumptions 13% 2024E-2027E revenue growth driven by increased total market growth and market share growth in the consumer categories, as well as Auto OEM market share growth. EBITDA margins expand modestly from 21.5% in 2024F to 22.8% in 2027E, driven by operating leverage primarily across the consumer segment.

Conclusion: Our Analysis projects stronger-than-expected EPS growth in 2025-2027. **Price target of \$295.75 (40% upside from today's share price of \$210.33).**

Garmin (NYSE: GRMN) Company Overview

Multinational technology company specializing in GPS navigation, wearable technology, and innovative products across fitness, outdoor, automotive, aviation, and marine markets.

Company Description

- Incorporated in Switzerland with main operational HQ in Olathe, KS and employs ~20,000 employees
- Manufacturing sites across North America (USA), Europe (Netherlands, Poland) and Asia (Taiwan, China)
- Diversified presence across five product segments (Fitness, Outdoor, Aviation, Auto and Marine)
- Garmin's focus on research and development enables it to introduce new and innovative products regularly

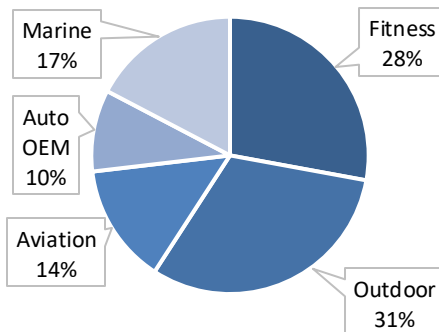
Key Financials and Trading Statistics

(\$ in millions, unless otherwise stated)

Current Price (\$)	\$210.33	52W High / Low (\$)	215.55 / 119.15
Market Cap	\$40,389	Avg. Volume (mm)	0.99
Enterprise Value	\$38,038	Beta	0.98
24F Revenue	\$6,129	Float (%)	80.2%
23-24 Growth (%)	17.2%	Short Interest (%)	2.1%
24F GM (%)	58.5%	EV/24 EBITDA (x)	21.8x
24F EBITDA	\$1,746	FWD PE (x)	25.0x
EBITDA Margin (%)	28.5%	24 ROE	17.1%
24F EPS	\$6.85	24 Current Ratio	3.3

Revenue Segmentation

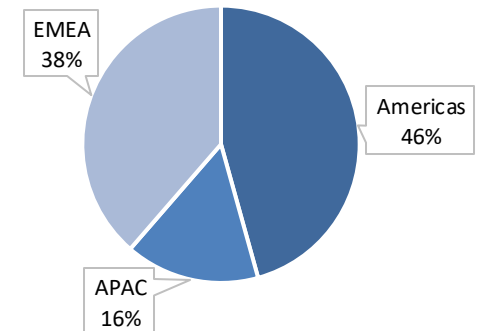
Revenue by Segment



Financials by Segment

Segment	Revenue		Gross Margin	
	\$	YoY Growth	%	YoY Growth
Fitness	\$1,709	27.1%	58.5%	518 bps
Outdoor	\$1,916	12.9%	66.1%	286 bps
Aviation	\$857	1.2%	74.5%	51 bps
Auto OEM	\$585	38.1%	18.1%	-504 bps
Marine	\$1,062	15.8%	54.0%	40 bps
Total	\$6,129	17.2%	58.5%	99 bps

Revenue by Geography



Thesis #1: Garmin’s Consumer product segment is positioned well for future growth

Fitness Segment



Fitness Smartwatch



Hybrid Smartwatch



Health Monitors

Outdoor Segment



Outdoor Smartwatch



Navigation Products



Satellite Products

(\$ in millions)

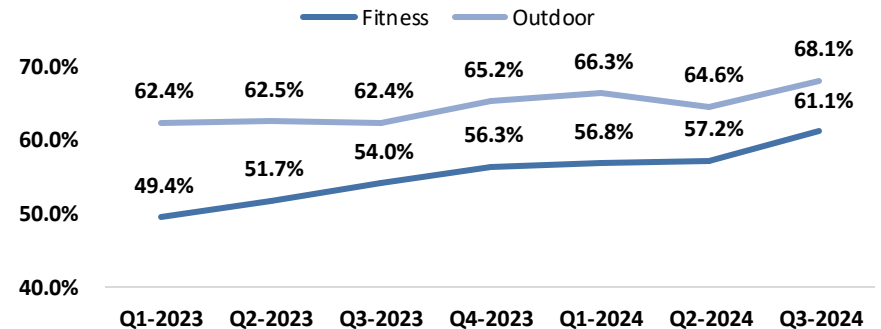
	2022A	2023A	2024F	CAGR ('22-'24)
Fitness Sales	\$1,109	\$1,345	\$1,709	24.1%
Fitness Op. Income	105	232	463	110.1%
<i>Operating Income, %</i>	<i>9.4%</i>	<i>17.3%</i>	<i>27.1%</i>	
Outdoor Sales	\$1,770	\$1,697	\$1,916	4.0%
Outdoor Op. Income	573	515	666	7.7%
<i>Operating Income, %</i>	<i>32.4%</i>	<i>30.4%</i>	<i>34.7%</i>	

- Garmin offers dozens of consumer products with a focus on premium, task focused capabilities
- Garmin incorporates cutting-edge technology into its products, such as advanced sensors, GPS capabilities, and health monitoring features

Gains to Gross Margin and Operating Leverage:

- Suggests Garmin’s recent premium products are able to command higher prices in the market
- In recent quarters, Garmin's gross margins have improved due to lower input costs, a shift in product mix and operating leverage
- Garmin’s vertical integration enables it to capture margin in successive product designs and makes it less sensitive to input pricing
- “Each new design, we try to make gains in terms of the efficiency of the designs as well as the component costs... What we focus on is creating products with unique differentiators that allow us to have premium pricing and offer things that our competitors don’t.” – Garmin CEO

Segment Gross Margin



Thesis #1: Garmin's Consumer product segment is positioned well for future growth

Garmin is well positioned to take advantage of the growing Health and Wellness trend

70%

of survey respondents said Garmin was positioned better than Apple for premium Health and Wellness tracking given its high-quality sensors and trust around accuracy

Survey: HBS Outdoors Club

Former Employee Quotes:

"Garmin Health, for example, is a big initiative. I was working directly with healthcare providers or other businesses and their HR departments."

"Because Garmin's been spending a lot of time, if you look at their feature releases on internal biomarkers, physiological features, things of that nature. So, they're going to continue to push that. And with FDA approval, they can sell more intelligent products to other organizations."

– VP Product Marketing, Garmin Fitness (Feb. 24)

Competitors Quotes:

"But they (Garmin) don't have that many competitors. I think they're out there on their own in terms of that serious runner and a number of the endurance sports, they are still the #1."

– Finance Director, FitBit (Mar. 24)

Health and Wellness Market

"The global market for wearable medical devices for smartwatches is estimated to grow from \$12.4 billion in 2024 to \$40.8 billion by 2029, at a CAGR of 26.9% from 2024 through 2029."

– BCC Research, Feb. 24

"The global clinical-grade wearables industry is in an emerging growth phase and is expected to exhibit an annual growth of between 25-30% over the next 3 to 4 years"

– Frost & Sullivan, Jul. 24

Source: Tegus, BCC Research, Frost & Sullivan, Internal Research

Garmin's Existing Capabilities



Heart Rate Variability



Heart Rate Monitor



Pulse Oxygen



Stress Monitor



Sleep Monitor

Thesis #2: Garmin’s proven leadership and agile approach will drive success in Auto OEM market

Garmin is well-positioned to capitalize on growth and exceed market expectations

Auto Segment Backdrop

Demonstrated Growth

- Auto OEM segment has demonstrated significant growth, with revenues increasing from ~\$243 million at its inception in 2017 to a projected ~\$600 million for fiscal year 2024
- Revenue CAGR = 13.8%
- Company has secured several multi-year contracts, some of which do not start until FY 2026 & 2027

Market Consensus

- Consensus anticipates a sharp decline in revenue growth from ~37% in 2024 to just 5% in 2025.
- This pessimism stems from Garmin management's recent suspension of guidance for the business, raising concerns about meeting the company's \$800 million revenue target for the Auto OEM segment by the end of 2025

Consensus is underestimating:

Proven Leadership

- Garmin is a key Auto OEM player and BMW’s Tier One provider, excelling in a risk-averse market where OEMs avoid unproven partnerships

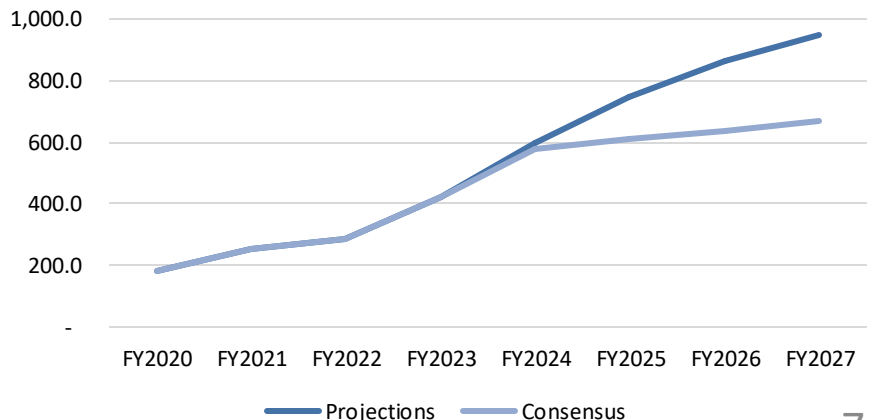
Agile Methodology

- Garmin’s agile approach, drawn from other segments, outperforms competitors’ rigid methods in solving complex challenges

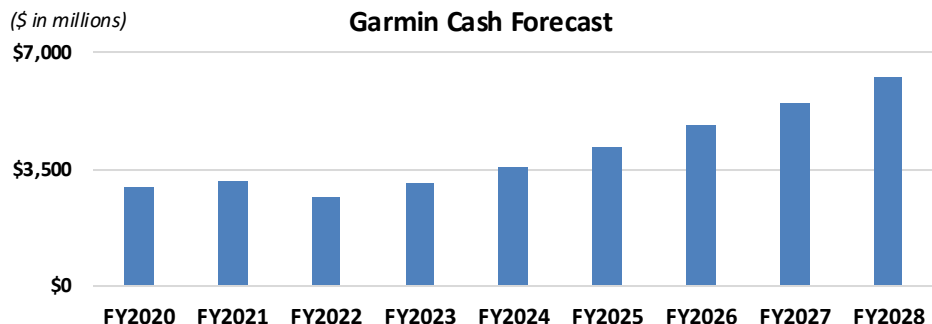
New Contract Opportunities

- As competitors phase out contracts, Garmin’s strong track record positions it to win new Auto OEM deals and drive growth

Auto OEM Revenue Projections



Thesis #3: The Company continues to build a war chest, which could be used to fund future Acquisitions, Buybacks, and Dividend Increases or new product CAPEX



“Our priorities are really reliable dividends, investments back in our business as CapEx, also acquisitions such as JL Audio and then share buybacks. And share buybacks is really depending upon the market and the business conditions. We'll take a look at that every quarter.”

- Garmin CFO July 31, 2024

Note: Financial cash forecast factoring in current share repurchase plan and projected 10% yearly dividend increases

Where will Garmin allocate its excess cash?

Acquisitions			Dividend Increase		Capex		Repurchase Plan Increase	
<ul style="list-style-type: none"> Garmin has a history of acquiring businesses in segments it hopes to grow inorganically Company will have high cash levels and may look to increase M&A activity 			<ul style="list-style-type: none"> Garmin chose a modest dividend increase last year, compared to historical average increases Yield is currently only 1.7%, well below 5-year average of 2.3% 		<ul style="list-style-type: none"> Company may invest heavily into R&D to widen its technology advantage Although, Garmin has provided guidance it doesn't see Capex materially increasing in the next year above its ~\$200 million 3-year average 		<ul style="list-style-type: none"> Garmin's current \$300 million share repurchase plan was confirmed in Feb. 2024 \$270 million left on the plan Company has capability to increase repurchases if desired 	
Company	Date	Segment	Date	Dividend Increase				
Lumishore	Q2'24	Marine	Q2'20	Increased dividend 7%				
JL Audio	Q2'23	Marine	Q2'21	Increased dividend 10%				
Vesper Marine	Q2'22	Marine	Q2'22	Increased dividend 9%				
			Q4'24	Increased dividend 3%				

Source: FactSet, Tegus, Pitchbook

Base Case assumes strong revenue growth across Fitness and Outdoor with modest growth in enterprise segments, and minimal margin expansion

	Income Statement						CAGR
	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY24 - FY27
Net Sales	\$4,860	\$5,228	\$6,129	\$6,843	\$7,615	\$8,483	12.8%
Cost of Goods Sold	\$2,054	\$2,223	\$2,546	\$2,853	\$3,159	\$3,504	12.6%
Gross Profit	\$2,807	\$3,005	\$3,583	\$3,990	\$4,456	\$4,979	13.0%
<i>%, Margin</i>	57.7%	57.5%	58.5%	58.3%	58.5%	58.7%	
Total operating expense	\$1,779	\$1,913	\$2,133	\$2,281	\$2,456	\$2,679	8.5%
Operating Income	\$1,028	\$1,092	\$1,450	\$1,709	\$2,000	\$2,299	19.5%
Net Income	\$974	\$1,290	\$1,319	\$1,466	\$1,683	\$1,936	15.6%
<i>%, Margin</i>	20.0%	24.7%	21.5%	21.4%	22.1%	22.8%	2.0%
EPS	\$5.04	\$6.71	\$6.83	\$7.63	\$8.78	\$10.14	16.1%

	Earnings Per Share in 2027						
	Revenue Growth CAGR						
	9.0%	10.0%	11.0%	12.0%	13.0%	14.0%	
Net Income Margin	26.0%	\$10.81	\$11.11	\$11.41	\$11.72	\$12.04	\$12.36
	25.0%	\$10.39	\$10.68	\$10.97	\$11.27	\$11.58	\$11.89
	24.0%	\$9.97	\$10.25	\$10.53	\$10.82	\$11.11	\$11.41
	23.0%	\$9.56	\$9.82	\$10.10	\$10.37	\$10.65	\$10.94
	22.0%	\$9.14	\$9.40	\$9.66	\$9.92	\$10.19	\$10.46
	21.0%	\$8.73	\$8.97	\$9.22	\$9.47	\$9.72	\$9.99
	20.0%	\$8.31	\$8.54	\$8.78	\$9.02	\$9.26	\$9.51

Based on compounding EPS growth, we arrive at a price target of **\$295.75 or ~40% total upside.**

Increases to capital allocation plan in the long term would bring even more upside.

Source: FactSet, Pitchbook

Valuation Methodologies			
DCF Analysis (Perpetuity)		DCF Analysis (Multiple)	
WACC	8.0%	WACC	8.0%
PGR	4.0%	EBITDA Mult.	23.0x
Discounted Terminal Value	\$46,024	Discounted Terminal	\$46,464
Implied EV	\$50,497	Implied EV	\$50,938
Net Debt	(5,525.5)	Net Debt	(5,525.5)
Equity Value	\$56,023	Equity Value	\$56,463
Shares (M)	190.2	Shares (M)	190.2
Implied PPS	\$294.59	Implied PPS	\$296.91
Upside	40.1%	Upside	41.2%
Average	\$295.75		
Total Upside	40.6%		

Appendix

Comps

Company Name	Market Data		Financial Data					Valuation		
	Market Cap (\$M)	EV (\$M)	Sales (\$M)	EBITDA (\$M)	EBITDA Margin (%)	Earnings (\$M)	Earnings Margin (%)	EV/Sales x	EV/EBITDA x	P/E x
Garmin	40,389	38,074	5,957	1,635	27.4%	1,518	25.5%	6.4x	23.3x	25.1x
<u>Communications Hardware</u>										
Cisco Systems	233,190	246,506	52,976	12,976	24.5%	9,393	17.7%	4.7x	19.0x	26.2x
Arista Networks	128,017	120,588	6,613	2,857	43.2%	2,665	40.3%	18.2x	42.2x	45.3x
Motorola Solutions	83,711	88,893	10,655	2,450	23.0%	1,567	14.7%	8.3x	36.3x	56.7x
Ubiquiti	21,677	22,112	2,016	560	27.8%	390	19.4%	11.0x	39.5x	56.7x
Juniper Networks	11,889	12,414	5,034	416	8.3%	250	5.0%	2.5x	29.9x	49.6x
Ciena	10,129	10,624	4,020	314	7.8%	138	3.4%	2.6x	33.8x	76.9x
Average								6.1x	34.9x	60.0x
Median								5.5x	35.1x	56.7x
<u>Consumer Technology</u>										
Apple	3,474,674	3,516,132	391,035	134,930	34.5%	93,736	24.0%	9.0x	26.1x	37.5x
Microsoft	3,100,345	3,083,394	254,190	136,841	53.8%	90,512	35.6%	12.1x	22.5x	34.1x
Alphabet	2,026,844	1,960,536	339,859	122,186	36.0%	94,269	27.7%	5.8x	16.0x	20.8x
Meta Platforms	1,411,543	1,389,690	156,227	76,354	48.9%	55,539	35.6%	8.9x	18.2x	25.0x
Samsung Electronics	266,291	207,879	217,660	52,237	24.0%	24,557	11.3%	1.0x	4.0x	8.5x
Average								5.2x	12.7x	18.1x
Median								5.8x	16.0x	20.8x

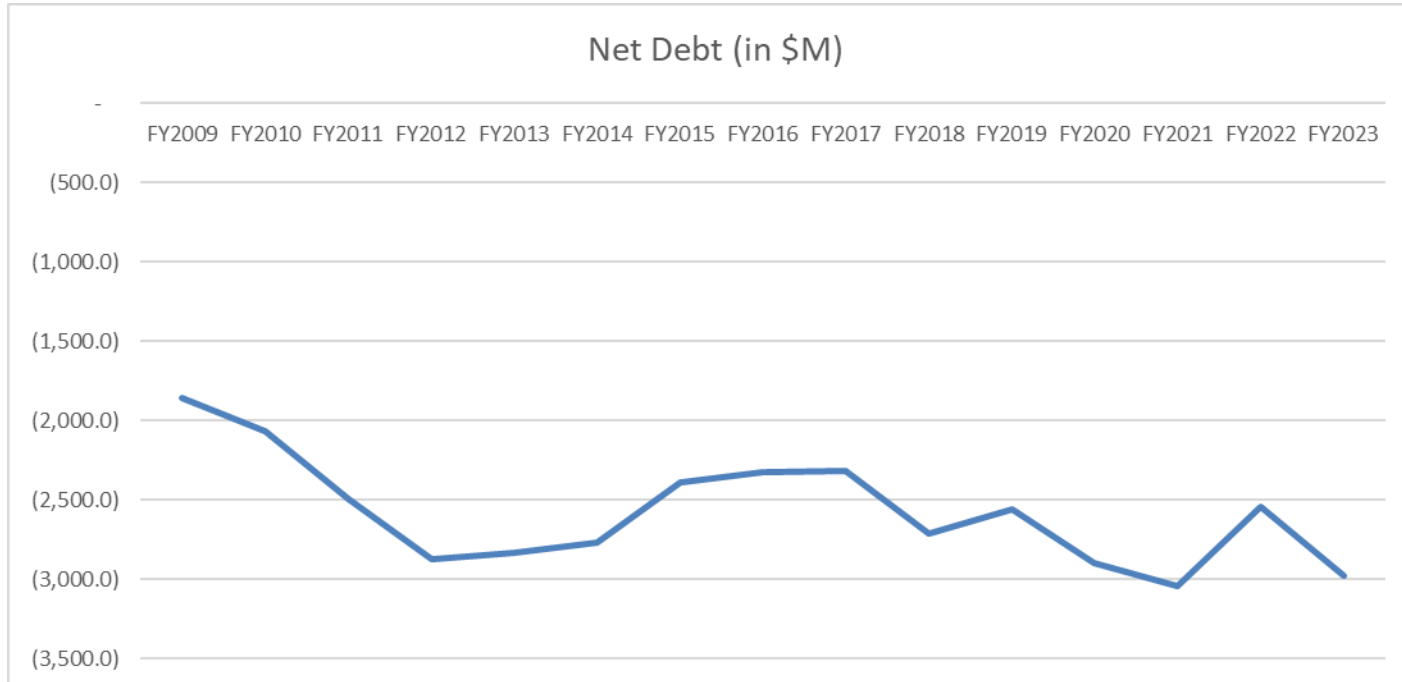


Clifton A. Pemble has been with Garmin since 1989, starting as a software engineer. Over the years, he advanced through various leadership roles, including systems engineering and software engineering management. In 2007, he was appointed President and Chief Operating Officer, and in January 2013, he became Chief Executive Officer, succeeding co-founder Dr. Min Kao. Pemble has also been a member of Garmin Ltd.'s board of directors since August 2004. Clifton owns approximately 78,000 shares worth approximately \$12.7mm.



Dr. Min H. Kao co-founded Garmin in 1989 alongside Gary Burrell, serving as CEO until 2012 and currently holding the position of Executive Chairman. As of November 2023, Dr. Kao's holdings in Garmin were valued at approximately \$2.18 billion, reflecting his significant ownership stake in the company.

Financial Shape



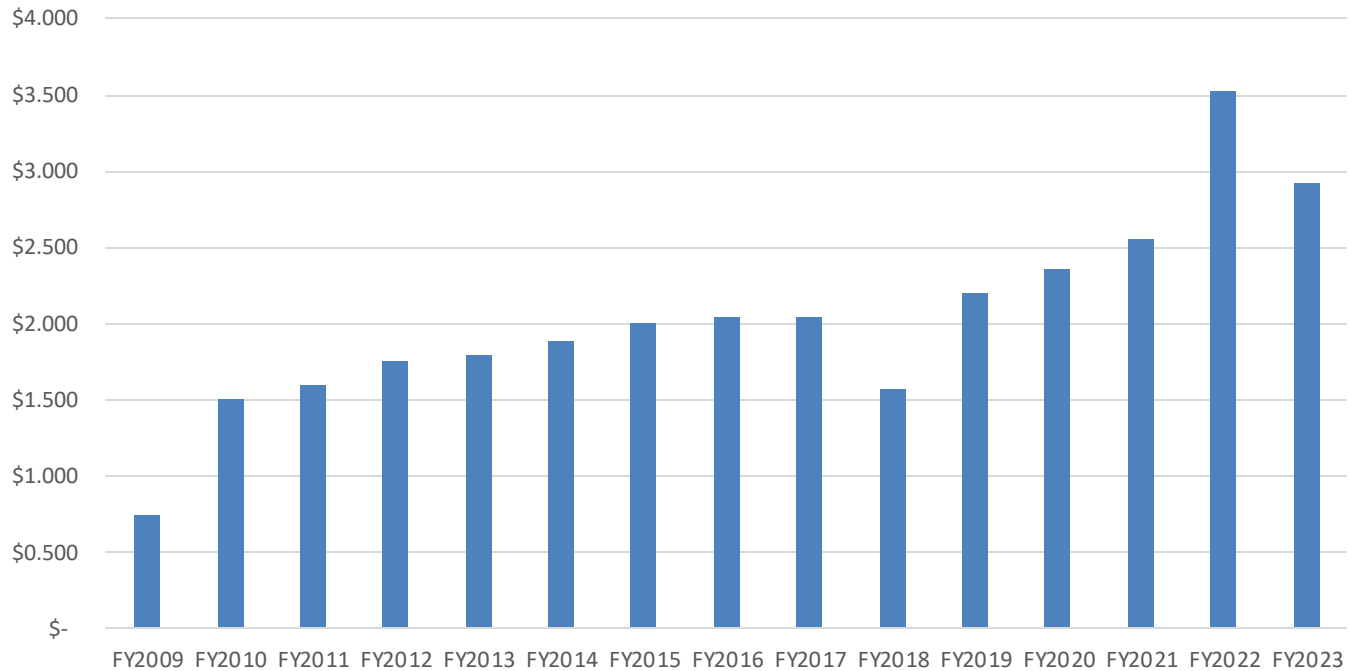
Financial Stability: Maintaining a net cash position for 15 years demonstrates Garmin’s consistent ability to generate free cash flow, ensuring the company remains financially stable and less reliant on external financing

Debt-Free Growth: The absence of significant debt allows Garmin to reinvest in its business, fund R&D initiatives, and expand operations without incurring high-interest costs or credit risk

Resilience in Downturns: A strong cash reserve provides a cushion during economic downturns, enabling Garmin to sustain operations and pursue strategic opportunities without compromising liquidity

Shareholder Returns

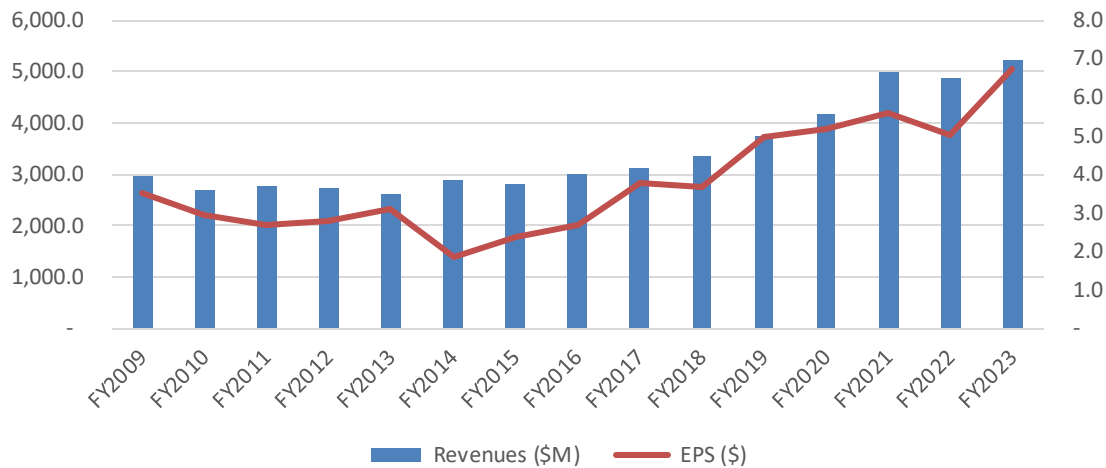
Annual Dividend Payment



Garmin has grown its dividend at a 5.8% CAGR over the past 5 years, reflecting management’s commitment to returning capital to shareholders and signaling stability in its operations and cash flows

Financial Returns

Revenue & EPS



This sustained growth in revenue and EPS underscores Garmin's effective execution of its strategic initiatives and its ability to adapt to evolving market dynamics

Revenue Growth

Steady Increase: From 2009 to 2023, Garmin's annual revenue grew from approximately \$2.69 billion to \$5.23 billion, marking a compound annual growth rate (CAGR) of about 5.2%

Recent Performance: In 2023, Garmin reported an 8% increase in annual revenue compared to the prior year, reaching \$5.23 billion.

Earnings Per Share (EPS) Growth

Consistent Improvement: Garmin's EPS has shown a positive trajectory, increasing from \$3.50 in 2009 to \$6.71 in 2023

Recent Highlights: In 2023, the company achieved a 33% year-over-year increase in GAAP EPS, reaching \$6.71



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December 4, 2024

Team Number: Equity

Students: Zachery Wright, Shikha Garg, Tashi Goenka



Investment Summary

Skechers: Undervalued, expanding fast, and stepping into an era of performance footwear

Recommendation	Valuation	Key Thesis Points
<p>BUY Skechers USA Inc (SKX)</p>	<p>3-yr Price Target: \$99</p> <p>3 year IRR of 17% in Base Case</p>	<ul style="list-style-type: none"> • Capture domestic eCommerce sales • Store Growth Expansion • Entering Performance Shoes segment

Key Statistics
as on 11/22/2024

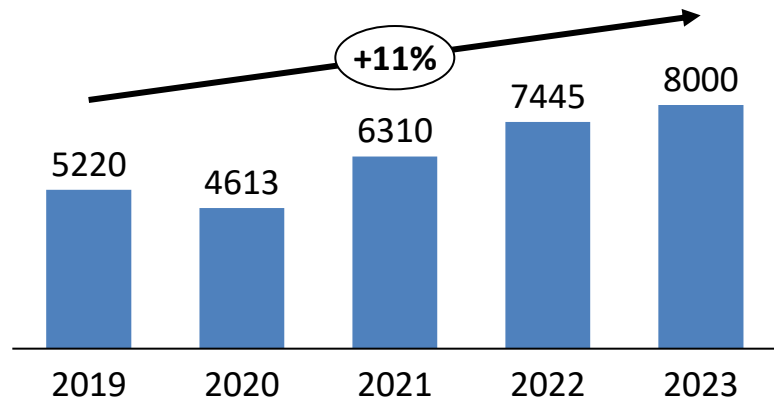
Price	Current P/E	Forward P/E	Market Cap	ROE	EBITDA Margin
\$61.69	11.93	11.71	9.31B	15.76%	12.31%



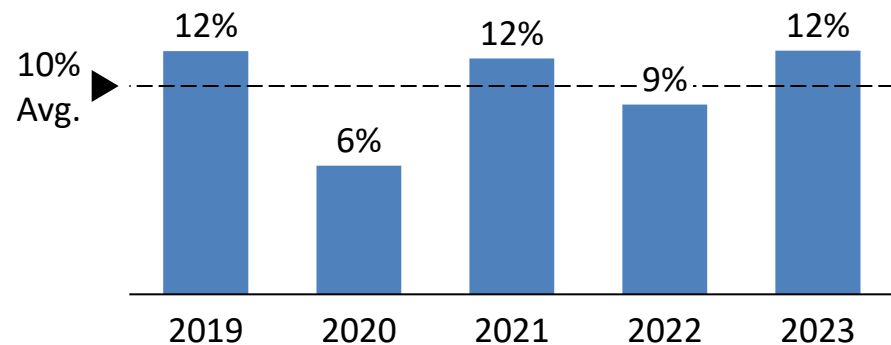
Company Overview: Skechers USA Inc.

- Skechers was established in California in 1992, with a focus on utility boots and skate shoes
- Skechers diversified its product line to encompass casual and athletic footwear, gaining traction for its comfort and affordability, and expanding its reach to 180+ countries
- Skechers has transformed into a lifestyle brand, providing diverse footwear and activewear options.
- As the **third-largest athletic footwear brand in the U.S.**, Skechers is now entering the performance footwear segment

Revenue (in \$ Mil)

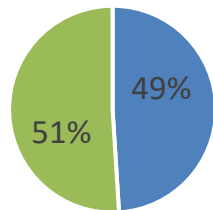


EBITDA Margin

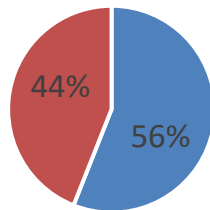


Revenue Breakdown

By Region



By Segment



■ Domestic ■ International ■ Wholesale ■ D2C

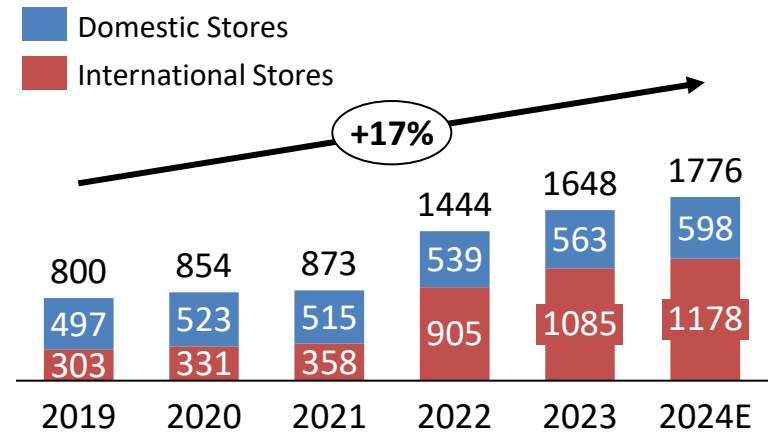
Thesis #1 : Fueling Growth: Skechers' Aggressive Store Expansion Strategy

Physical store expansion for both D2C and wholesale segments

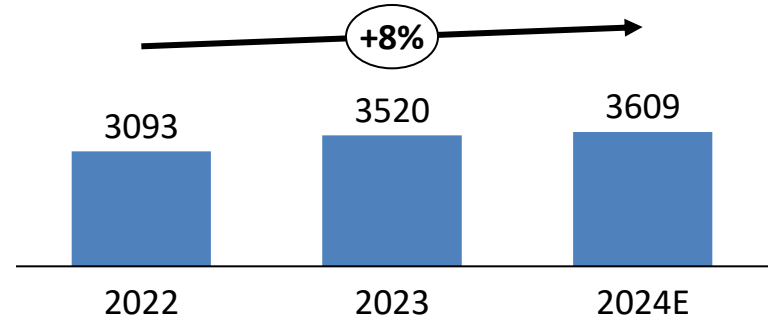
- Skechers is aggressively expanding its **local and global retail presence**, with a focus on key markets like China and India
- Skechers' **strong store growth momentum**, with a **historical CAGR of 17%**, will drive significant revenue expansion
- Skechers' **ample cash reserves** provides support for **store expansion plan**. Historically Capex/Store centers ~\$2M; while projected Capex covers the store expansion at a conservative <\$5M/store

Store expansion is expected to drive 5.5% revenue growth annually

Company Owned Stores (D2C)



Third Party Owned Stores (Wholesale)



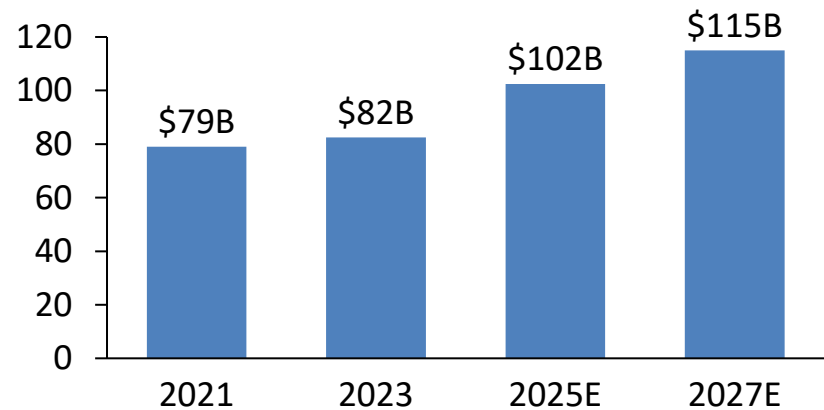
Thesis #2 : Double Down on Domestic e-Commerce Sales

Unlocking Skechers' E-Commerce Potential

- Industry leaders like Nike rely heavily on e-commerce, generating **>25% of their revenue online**
- With an increasing trend of shoe sales being driven online, Skechers investment in its ecommerce initiatives presents opportunity to bring **2% additional sales annually**
- The **acquisition of Sports Connection Holding ApS** will expand Skechers' European footprint and leverage its e-commerce expertise to drive online sales growth



Addressable Global Online Footwear Market

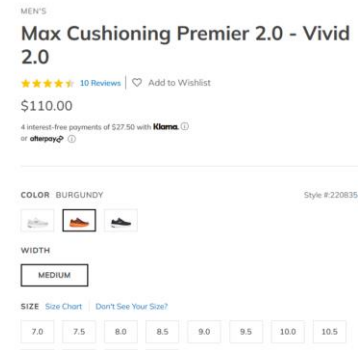


Note: Addressable Global Online Footwear Market is for Sneakers and Textile Shoes; Source: Statista

Thesis #3 : Running For Success with Renewed Focus on the Performance Shoes Segment

Expanding into the Performance Shoe Market with New Launches

- Skechers' performance shoe line prioritizes **high-quality performance at an accessible price point**, setting it apart from premium competitors
- This segment is projected to achieve an average annual **revenue growth of 4.5%** over the **next 5 years**
- **High-profile celebrity collaborations** with icons such as Snoop Dogg and Doja Cat, are elevating Skechers' brand appeal and broadening its audience reach
- By actively **sponsoring major sporting events**, including marathons, Skechers is effectively positioning its performance footwear





Valuation: Bull/Base/Bear Case

Base case analysis indicates a price target of \$99, with a 3-yr upside IRR of 17.0%

- Analysis is anchored in a P/E multiple approach to price targeting
- DCF modelling indicates that multiple is reasonable
- Revenue and multiple are the 2 main variables used to construct the bull/base/bear cases

Base Case: Valuation Methods (\$s in 000s)			
Multiples Method		Terminal Value	
2028 Net Income	1,165	WACC	8.50%
		Terminal Growth Rate	4.00%
Implied EPS	7.6	Discounted Terminal Value	12,098
P/E Multiple	13	Discounted Cumulative Unlevered FCF	1,257
		Implied Enterprise Value	13,355
		- Debt	629
		+ Cash	1,991
		Equity Value	14,717
Shares Outstanding	153.7	Shares Outstanding	153.7
Price per Share	\$99	Price per Share	\$96
Implied 3-yr Annual Upside	17.0%	Implied 3-yr Annual Upside	15.9%

Bull Case	Base Case	Bear Case
Price Target: \$121	Price Target: \$99	Price Target: \$60
3-yr Annual Downside: 25.1%	3-yr Annual Upside: 17.0%	3-yr Annual Downside: -0.7%
<ul style="list-style-type: none"> • Store growth increases to 6.5% • Performance brand and e-commerce accelerate to 6% • Multiple expansion to 14 	<ul style="list-style-type: none"> • Store growth accounts for 5.5% of revenue growth • Performance and e-commerce boost revenue by 4.5% • Slight multiple expansion to 13 as Skechers enters performance space 	<ul style="list-style-type: none"> • Store growth minimized to 1% • Performance brand and e-commerce are delayed to only provide 2% growth in sales • No multiple expansion

Potential Challenges and Mitigating Strategies for Skechers

Risk	Mitigant
<p>Impact of Economic Downturn on Consumer Spending</p>	<p>Skechers' value proposition of affordable, comfortable footwear positions it well during economic downturns. Even during an economic downturn, people look at these shoes as a value purchase</p>
<p>Challenges in Establishing a Niche in the Performance Shoe Market</p>	<p>While dominant players like Nike and ON are leading in the performance shoe segment, Skechers' offering emphasises as performance at a reasonable cost thus differentiating itself from its peers</p>
<p>Supply Chain Disruptions and Their Impact on Skechers</p>	<p>Skechers has third-party manufacturers located globally, including 25% in China. While this could impact supply in the short term, we believe constraints would ease out with the support of APAC (excl. China) and European manufacturers</p>

Price History

1 Day

5 Days

1 Month

YTD

1 Year

5 Years

Max

+13.09% (1Y)





Appendix: Comps Analysis

GPK Comparables					
Name	Mkt Cap (USD, M)	EV (USD, M)	EV/EBITDA FY1	P/E	P/E FY1
Skechers USA	\$9,195	\$10,375	9.38	11.93	11.71
Crocs Inc	\$5,930	\$7,518	6.81	7.84	7.88
On Holding Ag	\$18,287	\$18,036	41.76	115.61	68.46
Nike Inc	\$111,712	\$113,544	20.47	20.17	26.46
Under Armour Inc	\$3,818	\$4,619	15.26	15.18	32.43
Columbia Sportswear Co	\$4,645	\$4,693	11.74	18.97	20.95
Adidas Ag	\$39,852	\$43,902	17.62	99.03	53.84
Industry Average	\$27,634	\$28,955	17.58	41.68	32.04



Appendix: Revenue Build

Revenue Build								
Fiscal Year	2021A	2022A	2023A	2024P	2025P	2026P	2027P	2028P
Wholesale	3,759	4,632	4,505	5,016	5,585	6,141	6,752	7,426
%YoY	33%	23%	-3%	11%	11%	10%	10%	10%
Domestic	2,310	2,801	2,937	3,260	3,619	4,017	4,459	4,949
%YoY	36%	21%	5%	11%	11%	11%	11%	11%
International	1,448	1,832	1,568	1,756	1,967	2,124	2,294	2,477
%YoY	28%	26%	-14%	12%	12%	8%	8%	8%
Direct to Consumer	2,552	2,812	3,496	4,076	4,758	5,474	6,301	7,256
%YoY	43%	10%	24%	17%	17%	15%	15%	15%
Domestic	1,437	1,569	2,013	2,416	2,899	3,392	3,968	4,643
%YoY	45%	9%	28%	20%	20%	17%	17%	17%
International	1,115	1,244	1,482	1,660	1,860	2,083	2,333	2,612
%YoY	42%	12%	19%	12%	12%	12%	12%	12%
Total Revenue	6,310	7,445	8,000	9,092	10,344	11,615	13,053	14,682
DTC Stores	873	1,444	1,648	1,776	1,925	1,996	2,090	2,208
%YoY	2%	65%	14%	8%	8%	4%	5%	6%
DTC Revenue/Store	2.9	1.9	2.1	2.3	2.5	2.7	3.0	3.3



ALPHA  **CHALLENGE**
Kenan-Flagler Business School
The University of North Carolina

November 24th, 2024

Team Number: 5

Students: Isabelle Dow, Justin Ferguson, Luis Cassius

Long: Paramount Global (NasdaqGS:PARA)

Current Price: \$10.88 (11/24/2024) | **1Y Price Target:** \$28.81 (164.8%)

Paramount – Company Overview

Paramount Global (PARA) is positioned to benefit from the convergence of traditional media and streaming, leveraging a robust content portfolio, diversifying content offerings, and strategic merger operations.

Paramount Global is the result of a 2019 merger between Viacom and CBS Corporation

Headquarters: New York

Employees: ~21,900 employees

Major Portfolio Holdings:

- Legacy TV networks (CBS, MTV, Nickelodeon, Showtime)
- Streaming platforms (Paramount+, Pluto TV).
- Paramount Pictures
- Nickelodeon

Share Price:

- Down 23% YTD

Key Statistics	2024
Current Price (\$)	10.8
52 Week High/Low (\$)	9.54-17.50
Market Cap (\$)	7.74B
Average Daily Volume:	8.23M
Enterprise Value	22.79B
Short Percent of Float	10.82%
EBITDA Margin	-15.40
Operating Margin	-0.18
Debt/Equity	0.85
EPS (TTM)	-\$8.22
Dividend Yield	1.84%
Current Ratio	1.32
Quick Ratio	1.17
Cash Ratio	0.03

Paramount – Revenue Streams

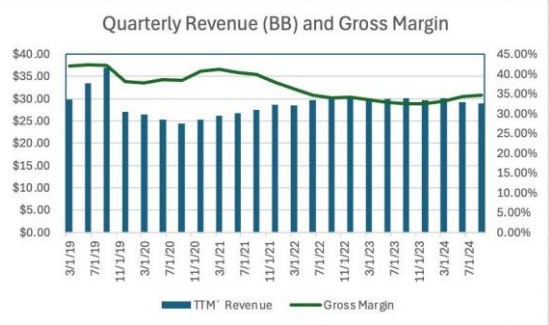
Paramount Global (PARA) is positioned to benefit from the convergence of traditional media and streaming, leveraging a robust content portfolio, diversifying content offerings, and strategic merger operations.

Main Channels:

Industries: TV Media, Direct-To-Consumer, and Filmed Entertainment

Revenue Sources: Advertising, Subscription fees, and licensing

Content Library Highlights:



1968

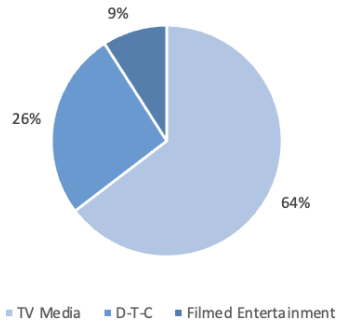


1997



2022

Revenue Channels (Q3'24)



2018-



2023-



2003-

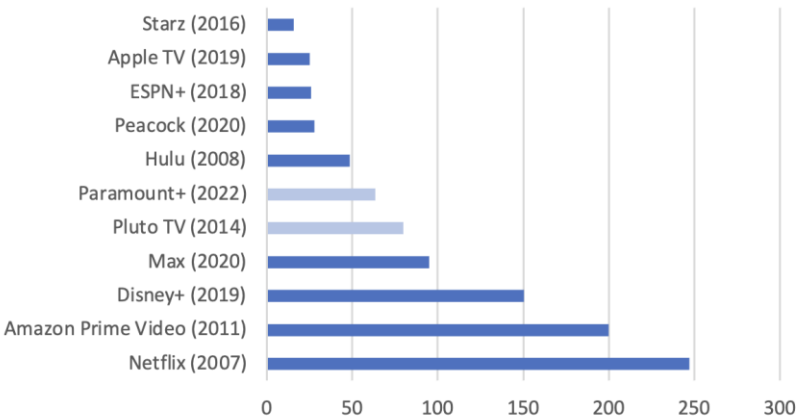
*Nielsen National TV Panel; Live+7

Industry Analysis: Streaming & TV Media

Paramount Global (PARA) is positioned to benefit from the convergence of traditional media and streaming, leveraging a robust content portfolio, diversifying content offerings, and strategic merger operations.

The entertainment industry is highly competitive with high overhead costs

Users of Streaming Platforms 2023 (Millions)



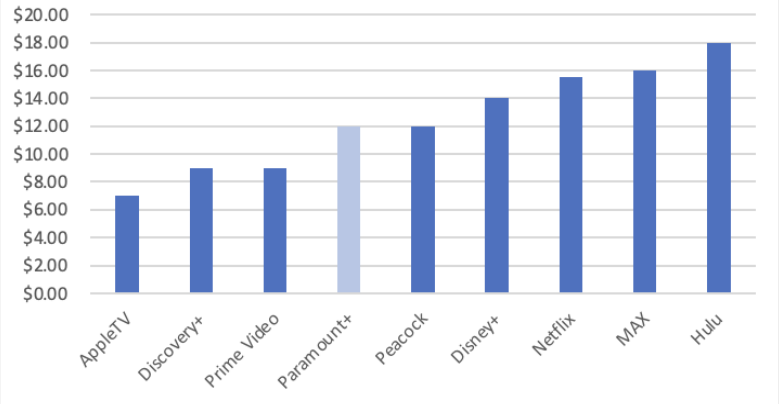
Streaming

- First Move Advantage for streaming platforms
- Customer is not substantially price sensitive
- Competition between own network and other social media

TV Media

- 2023: Currently makes up for > 50% of TV viewership
- CBS
 - Most viewed network for 16+ years

Subscription Costs

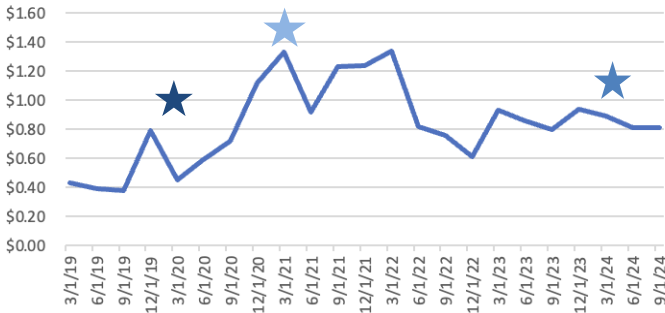


Why does the Opportunity Exist?

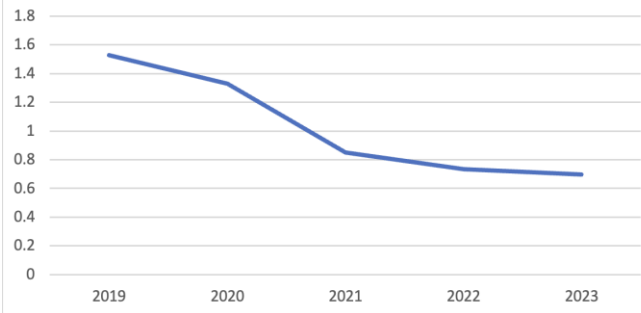
Paramount Global (PARA) is positioned to benefit from the convergence of traditional media and streaming, leveraging a robust content portfolio, diversifying content offerings, and strategic merger operations.

Recent financial hardship has opened a window of opportunity for investors seeking growth opportunity

EPS (Quarterly)



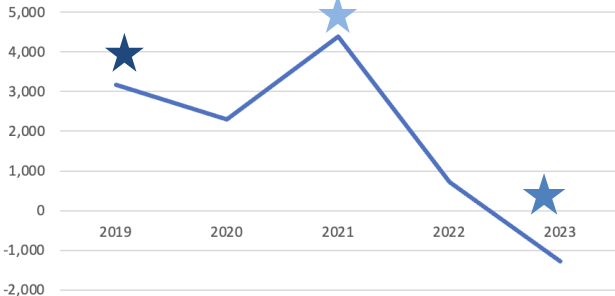
Debt to Equity



Highest concern for investors

LTD: 15,857mm

Net Income



Key Moments:

January 2019: Viacom and CBS Corporation Merger

March 2021: Paramount+ Release

2023: Writer's Strike

2024: Merger with Skydance announced

A Growth Opportunity

Paramount Global (PARA) is positioned to benefit from the convergence of traditional media and streaming, leveraging a robust content portfolio, diversifying content offerings, and strategic merger operations.

Paramount can expect a strong comeback over the next several years

Strong Growth on Streaming Platforms

- Q3'24

- Second profitable quarter (49 million) with revenue growth of 25% YTD
- 3.5 Million Subscriber Additions
- Pluto TV captures audience moving away from traditional broadcast services

Operational Changes

- Set to cut \$500 million in costs
- Shift away from scripted content

Merger proposed with Skydance to take place in 2025:

- Partner for major hits including *Top Gun: Maverick*
- Subject to a 45 day go shop period

What will this mean for Paramount?



An Opportunity for Growth

Paramount Global (PARA) is positioned to benefit from the convergence of traditional media and streaming, leveraging a robust content portfolio, diversifying content offerings, and strategic merger operations.

The Skydance Merger will enable critical growth opportunities for Paramount, though it may take time for them to take hold.

New Leadership:

- CEO: David Ellison as Chairman and Chief Executive Office (Currently Skydance CEO)
- President: Former NBCUniversal CEO Jeff Shell to take over 2025

"New Paramount"

Investing in a New Age:

Ellison Family and RedBird Capital Partners to Invest Over \$8 Billion in New Paramount and to Acquire National Amusements, Inc.

- 4.5 Billion to be paid to shareholders
- Skydance and RedBird will also invest \$1.5 billion in Balance Sheet to combat high debt

A Clear Path Forward:

- Reported \$2 billion in "cost efficiencies and synergies" identified at Paramount
- Transition into a "tech hybrid" to stay competitive (Ellison, July 2024)
- Previous Skydance & Disney Partnerships
- Capitalize on Skydance Media, Animation, and Video Games

Valuation Summary - DCF

12-Month Price Target of \$28.81 (164.8% Upside)

Summary of Free Cash Flow Projections

FYE 12/31; \$ mm	Management Projection					Extrapolation							Terminal Year
	2023A	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034	
Net Sales	29,652.00	29,391.99	29,359.57	30,029.04	30,329.33	30,632.62	30,938.95	31,248.34	31,560.82	31,876.43	32,195.20	32,195.20	
% growth	-2%	-1%	0%	2%	1%	1%	1%	1%	1%	1%	1%	0%	
Adj. EBITDA	2,273.00	3,297.61	3,100.79	3,291.63	3,336.23	3,369.59	3,403.28	3,437.32	3,471.69	3,506.41	3,541.47	3,541.47	
% margin	8%	11%	11%	11%	11%	11%	11%	11%	11%	11%	11%	11%	
Less: D&A	(418.00)	(405.00)	(405.00)	(405.00)	(335.49)	(338.85)	(342.24)	(345.66)	(349.11)	(352.61)	(356.13)	(356.13)	
EBIT	1,855.00	2,892.61	2,695.79	2,886.63	3,000.73	3,030.74	3,061.05	3,091.66	3,122.58	3,153.80	3,185.34	3,185.34	
% margin	6%	10%	9%	10%	10%	10%	10%	10%	10%	10%	10%	10%	
Less: Taxes	(361.00)	(607.45)	(566.12)	(606.19)	(630.15)	(636.46)	(642.82)	(649.25)	(655.74)	(662.30)	(668.92)	(668.92)	
% tax rate	19%	21%	21%	21%	21%	21%	21%	21%	21%	21%	21%	21%	
EBIAT	1,494.00	2,285.16	2,129.68	2,280.44	2,370.58	2,394.29	2,418.23	2,442.41	2,466.83	2,491.50	2,516.42	2,516.42	
Plus: D&A	418.00	325.12	324.77	332.17	335.49	338.85	342.24	345.66	349.11	352.61	356.13	356.13	
% capex	127%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	
Less: Capex	(328.00)	(325.12)	(324.77)	(332.17)	(335.49)	(338.85)	(342.24)	(345.66)	(349.11)	(352.61)	(356.13)	(356.13)	
% sales	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	
Plus: (Inc)/Dec in NWC	(504.00)	476.00	(16.21)	334.74	150.15	151.65	153.16	154.69	156.24	157.80	159.38	-	
% of change in sales	100%	-61%	-50%	-50%	-50%	-50%	-50%	-50%	-50%	-50%	-50%	-50%	
Unlevered FCF	1,080.00	2,761.16	2,113.47	2,615.18	2,520.73	2,545.93	2,571.39	2,597.11	2,623.08	2,649.31	2,675.80	2,516.42	
Discounted FCF		2,761.16	1,966.38	2,263.85	2,030.23	1,907.83	1,792.81	1,684.72	1,583.15	1,487.70	1,398.01	16,353.92	
Sum	35,229.77												
Debt Value	16,014.80												
Equity Value	19,214.97												
Shares Outstanding mm	666.98												
Price/Share	28.81												

Terminal Growth

		-2%	-1%	0%	1%	2%
WACC	5.48%	31.73	38.15	46.91	59.57	79.52
	6.48%	25.60	30.30	36.45	44.83	56.97
	7.48%	20.77	24.32	28.81	34.69	42.71
	8.48%	16.87	19.61	22.99	27.28	32.90
	9.48%	13.65	15.81	18.42	21.65	25.74

* Terminal value calculated using $CF_{2034}/(WACC-g)$ with g being 3% per year

Valuation Summary – Multiples Analysis

Rationale for the Bull-Case

1

Big Discount to Peers

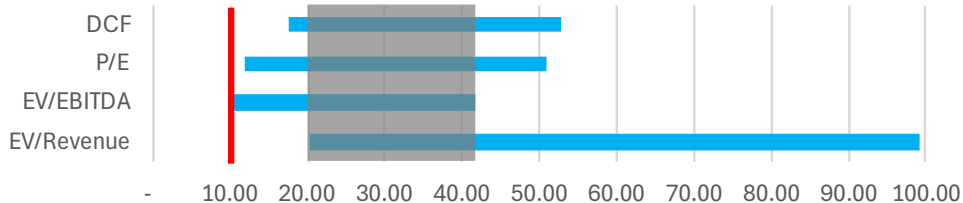
2

Recent Capitalization

3

Growing DTC Business

12-Month Stock Price Range



Company Comp Set

Company Name	NTM EV/Revenue	NTM EV/EBITDA	NTM P/E	GM %	NIM %	LTM Rev G%	LTM NI G%	ND/EBITDA
Paramount Global (NasdaqGS:PARA)	0.73x	7.05x	7.31x	35%	-19%	-4%	0%	5.0
Fox Corporation (NasdaqGS:FOXA)	1.63x	8.17x	12.11x	36%	13%	-4%	85%	2.6
Netflix, Inc. (NasdaqGS:NFLX)	9.24x	31.30x	39.27x	45%	21%	15%	72%	1.7
Warner Bros. Discovery, Inc. (NasdaqGS:WBD)	1.59x	6.59x	31.33x	42%	-28%	-6%	0%	5.2
The Walt Disney Company (NYSE:DIS)	2.72x	13.41x	21.30x	36%	5%	3%	111%	2.6
Nexstar Media Group, Inc. (NasdaqGS:NXST)	2.31x	6.89x	9.71x	58%	11%	2%	37%	4.1
AMC Networks Inc. (NasdaqGS:AMCX)	0.93x	4.38x	2.17x	51%	1%	-17%	0%	4.7
Sinclair, Inc. (NasdaqGS:SBGI)	1.41x	7.02x	10.70x	47%	-6%	3%	0%	21
Gray Television, Inc. (NYSE:GTN)	2.04x	7.65x	8.65x	31%	6%	-1%	66%	6.2
Comcast Corporation (NasdaqGS:CMCSA)	2.12x	6.77x	10.08x	70%	12%	2%	-3%	2.6
TEGNA Inc. (NYSE:TGNA)	1.92x	7.24x	7.26x	42%	17%	-5%	-20%	4

Company Name	NTM EV/Revenue	NTM EV/EBITDA	NTM P/E	GM %	NIM %	LTM Rev G%	LTM NI G%	ND/EBITDA
Paramount Global (NasdaqGS:PARA)	0.73x	7.05x	7.31x	35%	-19%	-4%	0%	5.0
Rank	11	6	9	10	10	8	8	4

Summary Statistics	NTM EV/Revenue	NTM EV/EBITDA	NTM P/E	GM %	NIM %	LTM Rev G%	LTM NI G%	ND/EBITDA
High	9.24x	31.30x	39.27x	70%	21%	15%	111%	21
Low	0.93x	4.38x	2.17x	31%	-28%	-17%	-20%	1.7
Mean	2.59x	9.94x	15.26x	46%	5%	-1%	50%	5.5
Median	1.98x	7.13x	10.39x	44%	9%	1%	66%	4

Risks to Valuation

The Brand Turnaround Yields Positive Results

Increase in Competition

Risk: Paramount Direct-To-Consumer (2nd largest Business Unit – 26% of Revenues) is competing with established players like Netflix, Disney+, Prime Video, Max and Peacock.

Mitigant: This is a competition not only for distribution, but also content creation, which favors Paramount with legacy content. In Q324, this line grew 10% YoY.

High

Secular Decline of TV Media

Risk: The company's most important Business Unit (64% of YTD Revenues) has seen 6% YoY decline in Revenues from lower advertising, affiliate and subscription, and licensing.

Mitigants: The company has been diversifying into DTC market and rapidly growing with the industry and share.

High

Increase in Production Costs

Risk: Hollywood studios have seen strikes and increase in salaries for top actors, directors and writers. EBITDA margins compressed from 20% in 2020 to 10% in 2022 and flattened.

Mitigant: The company has been diversifying content with unscripted content and partnering with other studios to share costs and risks.

Moderate

Questions?

Appendix

Multiples Calculation



Paramount Global (NasdaqGS:PARA)

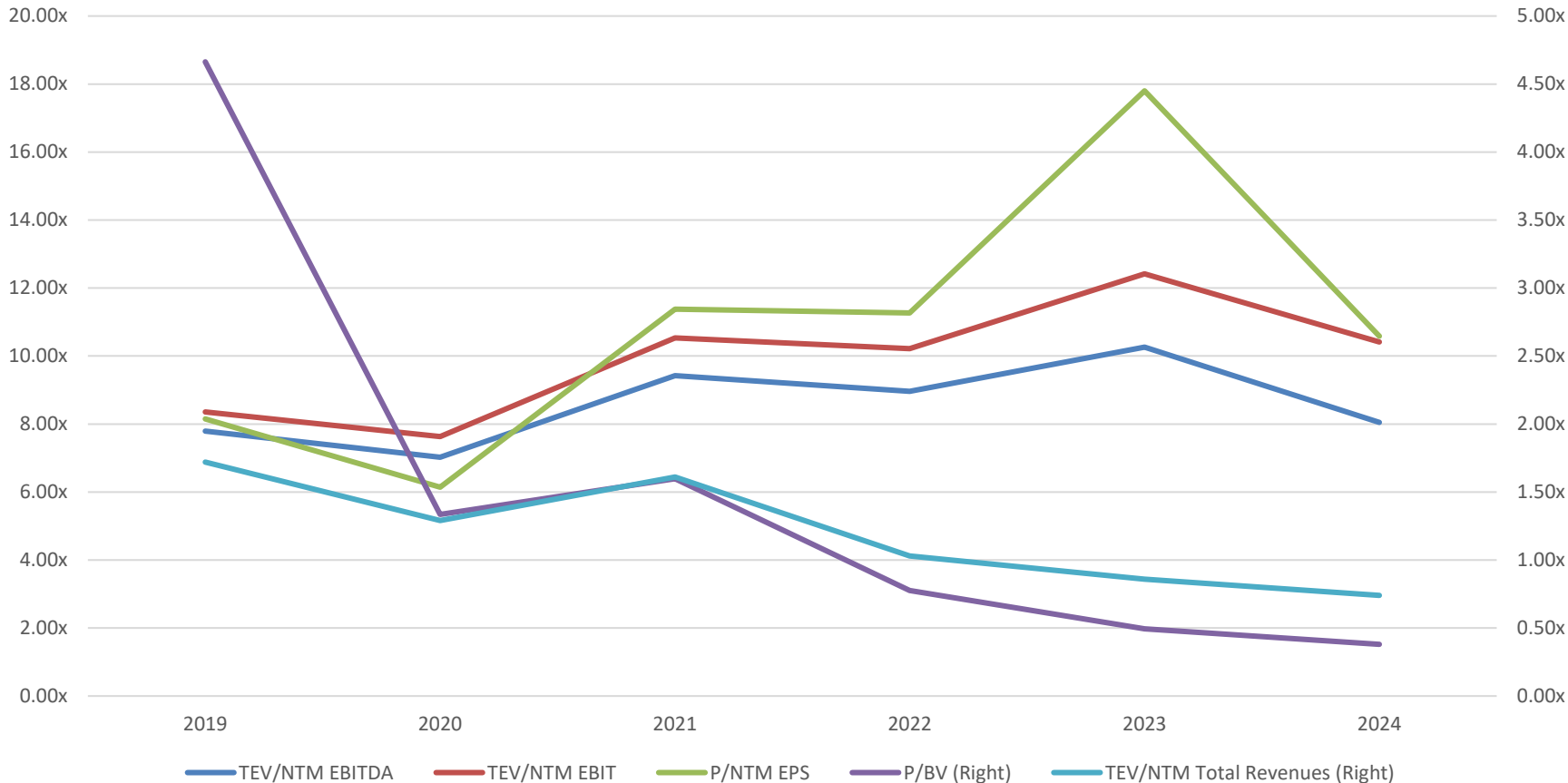
	LTM Total Revenue	LTM EBITDA	LTM EBIT	NTM Revenue	NTM EBITDA	LTM Basic EPS	NTM EPS	LTM TBV/Share
	28,867.00	3,125.00	2,720.00	29,387.08	3,041.50	(8.29)	1.49	5.50
	LTM TEV/Total Revenues	LTM TEV/EBITDA	LTM TEV/EBIT	NTM TEV/Forward Total Revenue	NTM TEV/Forward EBITDA	P/Diluted EPS Before Extra LTM	NTM Forward P/E	LTM P/TangBV
High	10.5x	36.9x	40.8x	9.24x	31.30x	50.9x	39.27x	36.9x
Low	0.9x	4.4x	5.9x	0.93x	4.38x	2.9x	2.17x	5.6x
Mean	2.7x	11.5x	14.6x	2.59x	9.94x	18.5x	15.26x	18.3x
Median	2.0x	7.7x	10.2x	1.98x	7.13x	11.6x	10.39x	12.6x
Implied Enterprise Value								
High	301,863.90	115,459.50	110,891.70	271,664.97	95,197.27			
Low	26,103.10	13,635.90	15,943.30	27,465.26	13,323.57			
Mean	78,835.10	36,010.60	39,699.90	76,168.36	30,245.51			
Median	56,643.40	23,920.80	27,781.30	58,284.48	21,693.24			
+ Total Cash & ST Investments	2,443.0	2,443.0	2,443.0	2,443.0	2,443.0			
- Total Debt	15,696.0	15,696.0	15,696.0	15,696.0	15,696.0			
- Minority Interest	447.0	447.0	447.0	447.0	447.0			
= Implied Equity Value								
High	288,163.9	101,759.5	97,191.7	257,964.97	81,497.27		38,995.25	135,250.76
Low	12,403.1	(64.1)	2,243.3	13,765.26	(376.43)		2,153.2	20,520.56
Mean	65,135.1	22,310.6	25,999.9	62,468.36	16,545.51		15,151.22	67,337.73
Median	42,943.4	10,220.8	14,081.3	44,584.48	7,993.24		10,320.18	46,241.86
/ Shares	666.98	666.98	666.98	666.98	666.98		666.98	666.98
= Implied Price per Share								
High	432.0	152.6	145.7	386.77	122.19		58.47	202.78
Low	18.6	(0.1)	3.4	20.64	(0.56)		3.23	30.77
Mean	97.7	33.5	39.0	93.66	24.81		22.72	100.96
Median	64.4	15.3	21.1	66.85	11.98		15.47	69.33

Graph 1 – Implied Equity Value (Source: Capital IQ)

Appendix

Multiples History

Multiples History



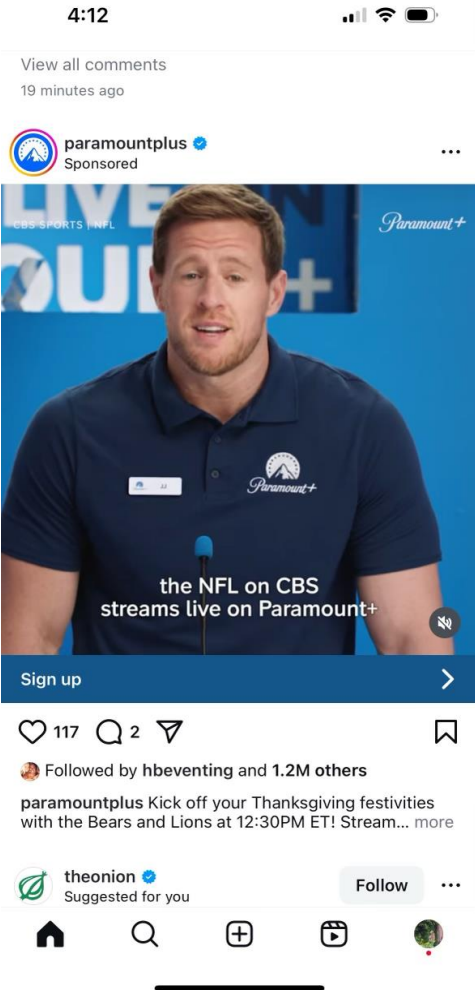
Graph 1 – Implied Equity Value (Source: Capital IQ)

Share Price and Trading Volume



Graph 1 – Implied Equity Value (Source: Capital IQ)

Paramount+ Offerings and Pricing Structure



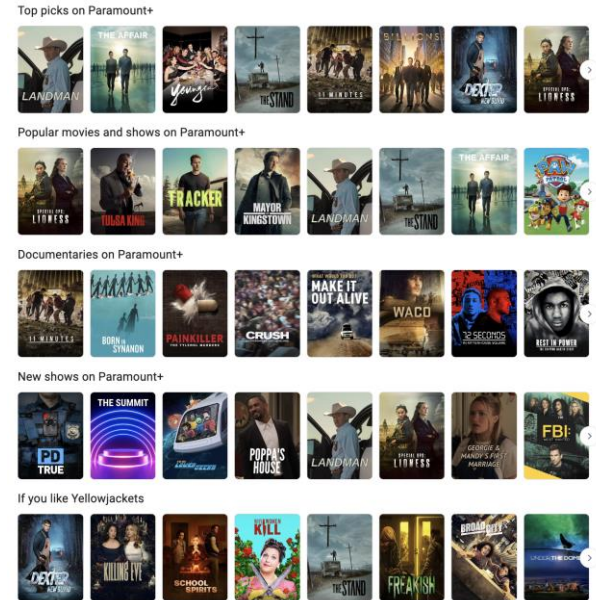
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Paramount+ with SHOWTIME	Paramount+ Essential
<p>WITH 1 WEEK FREE \$12.99/month after trial</p> <p>BEST VALUE</p> <ul style="list-style-type: none"> ✓ Everything in Essential + No ads except live TV + Download movies & shows + Stream CBS live, with more sports & events + Access SHOWTIME® Originals <p>CONTINUE WITH FREE TRIAL</p>	<p>WITH 1 WEEK FREE \$7.99/month after trial</p> <ul style="list-style-type: none"> ✓ Ad supported ✓ Watch 40,000+ episodes & movies ✓ Stream on 3 devices at once ✓ Catch NFL on CBS & UEFA Champions League live <p>CONTINUE WITH FREE TRIAL</p>

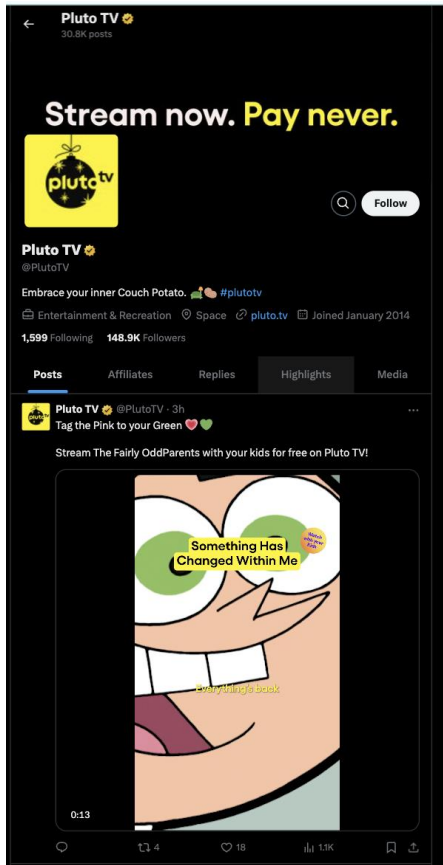
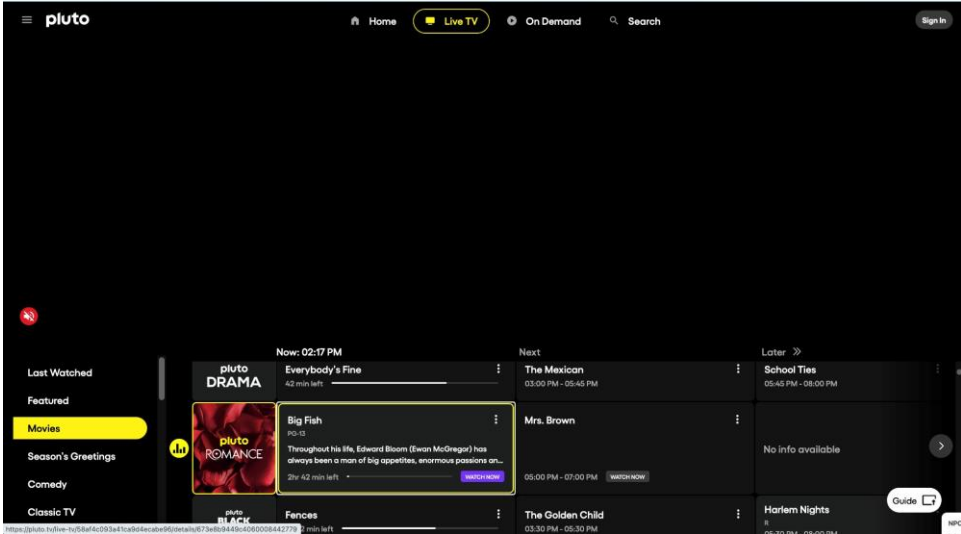
Subscription Terms | Terms of Use | Privacy Policy | Your Privacy Choices | Closed Captioning | Anti-Bias Statement
 Paramount © 2024 Paramount. All Rights Reserved.



Targeted Adds:

Appendix

Pluto TV Homepage & Media Presence on X (formerly known as Twitter)



Graph 1 – Implied Equity Value (Source: Capital IQ)

Announced Upcoming Projects:

- *Smile 2* - October 18, 2024
- *Sonic the Hedgehog 3* - December 20, 2024
- *The Smurfs Movie* - February 14, 2025
- *Avatar: The Last Airbender* (animated film) - October 10, 2025
- *Teenage Mutant Ninja Turtles: Mutant Mayhem 2* - October 9, 2026
- *Paw Patrol 3* - July 31, 2026

Appendix

Private Placement Details:

S&P Capital IQ

Paramount Global (NasdaqGS:PARA) > Transaction Details > Private Placement

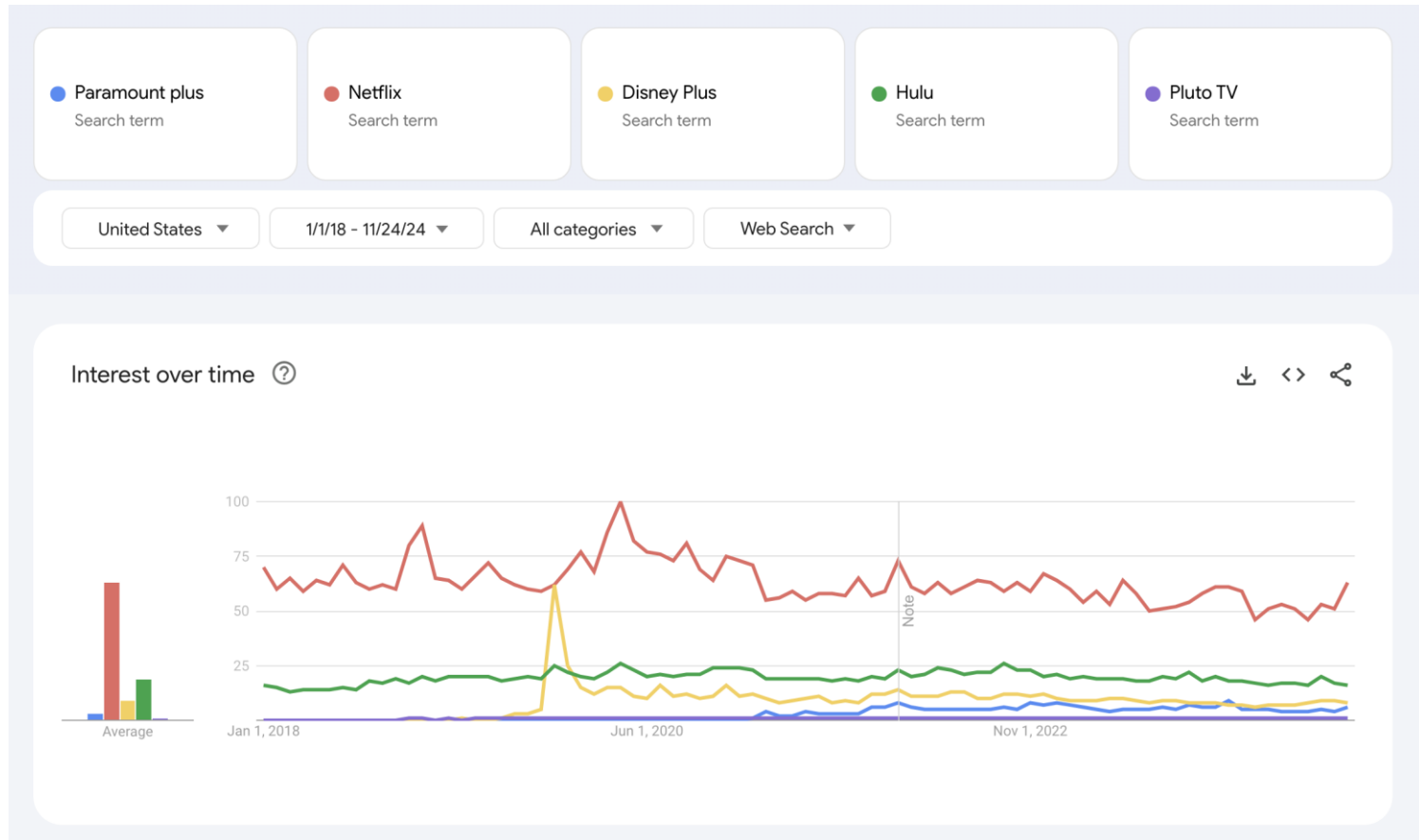
Private Placement			
Currency: Reported Currency			
Deal Summary			
Status	Announced	Primary Transaction Feature	PIPE
Letter of Intent Date	-	Effective Date	-
Definitive Agreement Date	Jul-08-2024	Closed Date	-
CIQ Transaction ID	IQTR1887365590	Cancelled Date	-
Target Company			
Company Name:	Paramount Global (NasdaqGS:PARA)	Primary Industry:	Broadcasting
Headquarters:	United States		
Buy-side Participants			
Buyer Company:	Skydance Productions, LLC		
Deal Values			
Total Transaction Size (\$ mm)	1,500.00		
Synopsis			
Comments			
Paramount Global announced a private placement of 100,000,000 Class B shares at a \$15 share for the gross proceeds of \$1,500,000,000 on July 8, 2024. The transaction will include participation from new investor Skydance Productions, LLC.			
Use Of Proceeds			
Paramount Global will use the proceeds to paydown debt & re-capitalize new balance sheet for strategic initiatives.			
Deal Resolution			
Advisors			
Undisclosed			
Transaction Details			
Features			
Securities Offered by Company, Domestic Offering Only, Minority Stake Investment			
Transaction Values			
Total New Money (\$ mm)	1,500.00	Round Number	1
Disclosed Fees/Expenses (\$)	-	Round Type	PIPE
Total Transaction Size (\$ mm)	1,500.00	Aggregate Amount Raised (\$ mm)†	1,500.00
Issued Securities Information			
Number of Shares	100,000,000.00	Coupon (%)	-
Conversion Price (\$ /share)	-	Price Per Share (\$)	15.00
Target Stock Information 1 Day Before Announcement			
Date	Jul-05-2024	Share Price (\$)	11.81
Market Capitalization (\$ mm)	8,223.60	LTM Total Stock Return (%)	(27.50)%
52 Week High (\$)	17.50	52 Week High (%)	67.49%
52 Week Low (\$)	9.54	52 Week Low (%)	123.79%
Target Company Details			

S&P Capital IQ

Paramount Global (NasdaqGS:PARA) > Transaction Details > Private Placement

Paramount Global (NasdaqGS:PARA)			
Company Name:	Paramount Global (NasdaqGS:PARA)	Primary Industry:	Broadcasting
Website:	www.paramount.com	Headquarters:	New York, United States
Business Description			
Paramount Global operates as a media, streaming, and entertainment company worldwide. It operates through TV Media, Direct-to-Consumer, and Filmed Entertainment segments. The TV Media segment operates CBS Television Network, a domestic broadcast television network; CBS Stations, a television station; and international free-to-air networks comprising Network 10, Channel 5, Telefe, and Chilevisión; domestic premium and basic cable networks, such as Paramount+ with Showtime, MTV, Comedy Central, Paramount Network, The Smithsonian Channel, Nickelodeon, BET Media Group, and CBS Sports Network; and international extensions of these brands. This segment also offers domestic and international television studio operations, including CBS Studios, Paramount Television Studios, and Showtime/MTV Entertainment Studios; CBS Media Ventures, which produces and distributes first-run syndicated programming; and digital properties consisting of CBS News Streaming and CBS Sports HQ. The Direct-to-Consumer segment provides a portfolio of domestic and international pay and free streaming services, including Paramount+, Pluto TV, BET+, and Noggin. The Filmed Entertainment segment produces and acquires films, series, and short-form content for release and licensing around the world, including in theaters, on streaming services, on television, through digital home entertainment, and DVDs/Blu-rays, and operates a portfolio consisting of Paramount Pictures, Paramount Players, Paramount Animation, Nickelodeon Studio, Awesomeness, and Miramax. It also offers production, distribution, and advertising solutions. The company was formerly known as ViacomCBS Inc. and changed its name to Paramount Global in February 2022. The company was founded in 1914 and is headquartered in New York, New York. Paramount Global is a subsidiary of National Amusements, Inc.			
Target LTM Financial Information and Balance Sheet as of: Aug-08-2024 Period Ending: Jun-30-2024 Exchange Rate = 1.000			
Total Revenue (\$ mm)	29,269.00	Total Debt (\$ mm)	15,741.00
EBITDA (Incl. Equity Inc. from Affiliates) (\$ mm)	2,641.00	Total Preferred (\$ mm)	-
EBIT (Incl. Equity Inc. from Affiliates) (\$ mm)	2,227.00	Minority Interest (\$ mm)	449.00
Net Income (\$ mm)	(5,768.00)	Total Cash & ST Investments (\$ mm)	2,315.00
Earnings from Cont. Ops. (\$ mm)	(5,689.00)	Net Debt (\$ mm)	13,426.00
Diluted EPS before extra (\$)	(8.79)	Total Assets (\$ mm)	45,890.00
Total Common Equity (\$ mm)	16,497.00		
Buyer Company Details			
Skydance Productions, LLC			
Buyer Name:	Skydance Productions, LLC	Primary Industry:	Movies and Entertainment
Website:	skydance.com	Headquarters:	California, United States
Business Description			
Skydance Productions, LLC produces entertainment programs. The company produces television series, animated films, interactive trailers, and animations. It also develops and publishes original and internet protocol-based virtual reality and other games. The company was incorporated in 2009 and is based in Santa Monica, California.			
Company Relationship Information			
Relationship Type:	Pending Acquisition/Investment	Lead Investor:	No
Current Investment (\$ mm):	-	Total Investment (\$ mm):	-
Percent Acquired (%):	-	Percent Currently Held (%):	-
Proprietary Relationship Details			
Percent of Funds Invested (%):	-	Return On Investment (%):	-
(Proprietary Data Only)		(Proprietary Data Only)	

Google Trends: Interest overtime





Appendix: Income Statement

Income Statement								
Fiscal Year	2021A	2022A	2023A	2024P	2025P	2026P	2027P	2028P
Revenue	6,310	7,445	8,000	8,976	10,344	11,615	13,053	14,682
COGS	3,186	3,929	3,848	4,208	4,965	5,575	6,266	7,047
Gross Profit	3,124	3,515	4,152	4,768	5,379	6,040	6,788	7,635
SG&A (incl. Depreciation/Amortization)	2,526	2,969	3,368	3,856	4,241	4,762	5,352	6,020
Operating Profit	598	547	785	912	1,138	1,278	1,436	1,615
Interest Expense	15	20	22	30	30	30	30	30
Tax Expense	(246)	93	151	163	204	229	257	289
Other Expense	88	61	66	66	92	103	116	131
Net Income	742	373	546	653	812	916	1,033	1,165
Depreciation/Amortization	140	154	182	193	214	242	268	298
EBITDA	738	700	967	1,105	1,352	1,520	1,704	1,913



Appendix: Balance Sheet

Balance Sheet								
Fiscal Year	2021A	2022A	2023A	2024P	2025P	2026P	2027P	2028P
Cash and Cash Equivalents	895	718	1,263	1,176	1,355	1,711	2,121	2,593
Accounts Receivable	733	848	860	1,070	1,233	1,385	1,556	1,751
Inventory	1,471	1,818	1,525	1,914	2,205	2,477	2,783	3,130
Other Current Assets	274	262	304	342	395	443	498	560
Current Assets	3,372	3,646	3,953	4,503	5,189	6,015	6,958	8,034
Property, Plant, and Equipment (net)	2,353	2,546	2,783	3,128	3,471	3,759	4,079	4,436
Other Long Term Assets	766	701	812	812	812	812	812	812
Total Assets	6,491	6,893	7,547	8,442	9,471	10,586	11,850	13,281
Accounts Payable	1,142	1,252	1,328	1,500	1,728	1,940	2,181	2,453
Current Debt	304	362	333	-	-	-	-	-
Current Liabilities	1,446	1,613	1,661	1,500	1,728	1,940	2,181	2,453
Long-Term Debt	263	216	243	629	629	629	629	629
Long-Term Lease	1,095	1,064	1,108	1,123	1,138	1,153	1,168	1,184
Deferred Income Taxes	12	9	13	13	13	13	13	13
Other Non-Current Liabilities	134	120	123	179	206	231	260	293
Total Liabilities	2,949	3,022	3,147	3,443	3,713	3,966	4,251	4,571
Common Stock	0	0	0	0	0	0	0	0
Retained Earnings	2,878	3,251	3,797	4,396	5,155	6,017	6,996	8,107
Additional Paid in Capital	430	404	296	296	296	296	296	296
Other Equity	(48)	(85)	(73)	(73)	(73)	(73)	(73)	(73)
Minority Interests	283	301	381	381	381	381	381	381
Total Equity	3,542	3,872	4,400	5,000	5,758	6,620	7,599	8,711



Appendix: Statement of Cash Flows

Cash Flows								
Fiscal Year	2021A	2022A	2023A	2024P	2025P	2026P	2027P	2028P
Net Income	742	373	546	653	812	916	1,033	1,165
Depreciation/Amortization	140	154	182	193	214	242	268	298
Change in Accounts Payable	135	107	42	171	229	212	240	272
Changes in Accounts Receivable	(154)	(180)	(3)	(210)	(163)	(152)	(171)	(194)
Changes in Other Assets (incl. Inventories)	(351)	(328)	324	(426)	(344)	(320)	(362)	(409)
Change in Non-Cash Other	(299)	112	141	-	-	-	-	-
Cash Provided by (Used from) Operations	212	238	1,231	381	748	899	1,008	1,132
Capital Expenditure	(286)	(297)	(370)	(538)	(558)	(530)	(589)	(654)
Other Investing Activities	(58)	9	(48)	-	-	-	-	-
Cash Provided by (Used from) Investing	(345)	(287)	(418)	(538)	(558)	(530)	(589)	(654)
Cash from (Repayment) of Debt	(393)	(2)	(38)	53	-	-	-	-
Issuance/Repurchase of Stock	7	(66)	(151)	(54)	(54)	(54)	(54)	(54)
Dividend	-	-	-	-	-	-	-	-
Other Financing Activities	(48)	(50)	(46)	8	2	28	30	32
Cash Provided by (Used from) Financing	(434)	(118)	(235)	8	(52)	(26)	(24)	(22)
Exchange Rate and Other Misc. Impact	(8)	(13)	(4)	-	-	-	-	-
Net Change in Cash Over Period	(575)	(181)	574	(149)	139	343	396	456



ALPHA  **CHALLENGE**
Kenan-Flagler Business School
The University of North Carolina

December 5, 2024

Team Number: 6

Students: Casey Chen, Edward Wang, Lena Zhu

Long: On Holdings (ONON US)

Current Price: \$46.3 | **1Y Target Price:** \$61.00 (+32% Upside)

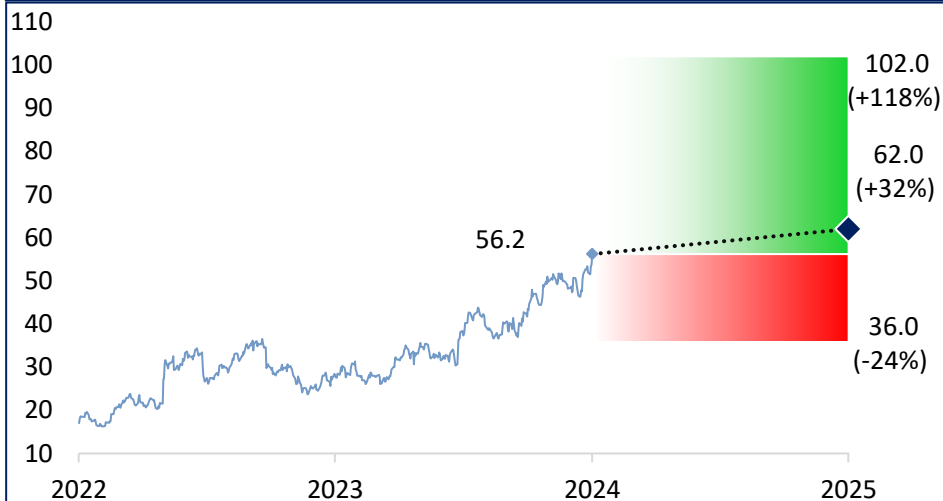
Investment Recommendation

Buy On Holding with a 12-month DCF Target Price of \$74, implying a 32% upside potential from the current price level, and 29.5x 2026E P/E ratio and 1.1x 2026E PEG ratio

Vs. Consensus

Our 2025e rev / adj. EBITDA is 1% / 8% ahead of consensus, mainly driven by higher margins due to higher DTC revenue as % of total revenue, and higher apparel share

Target Price



Investment Theses

1 Expanding Geographic Footprint

On is expanding its global footprint through disciplined multi-channel growth, targeting underpenetrated regions like Asia and strengthening its presence in North America

2 Innovating Through Product Extension

On is leveraging innovation to broaden its product portfolio, including performance running, outdoor gear, and lifestyle categories, to attract a diverse customer base

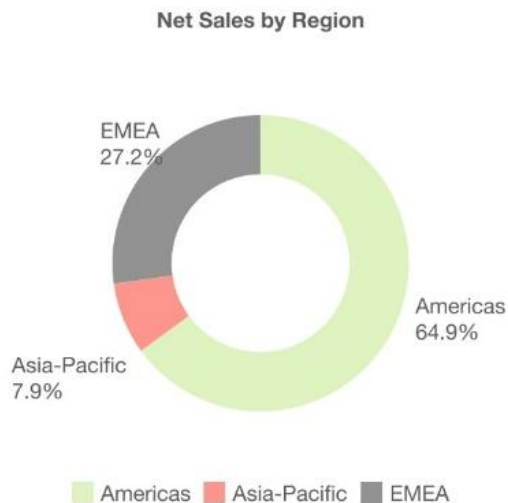
3 Sustaining Margin Growth

Higher DTC sales versus wholesale, supported by operational efficiencies, are expected to drive sustained margin improvement

- Emerging athletic brand founded in 2010
- Value Proposition: Revolutionizes athletic footwear with high-performance running shoes, emphasizing enhanced cushioning technology backed by proprietary “CloudTec” technology
- Target Markets: Global footwear and sportswear markets (\$400B TAM in 2023)
- Distribution: Wholesale and Direct-to-Consumer (DTC)
 - DTC channel includes both digital and physical retail stores
 - Retail models include flagship (10% of new stores), chapter (45%), and commercial (45%)
 - DTC channel contributed 37.5% of net sales in 2023
- Management Profile: A seasoned group with solid sports/strategy/finance backgrounds
 - ❖ David Allemann, Executive Co-Chairman – Co-founder with CMO experience
 - ❖ Caspar Coppetti, Executive Co-Chairman – Co-founder with CSO experience
 - ❖ Olivier Bernhard, Executive Director – Co-founder with professional athlete experience
- Shareholder Information: Top 3 executives holds 15.4% ownership and 53.7% voting power, followed by Fidelity (9.9% ownership), Morgan Stanley (5.6%), American Century Investment (3.6%)

- On Holding AG engages in the development and distribution of sports products worldwide, offering athletic footwear, apparel, and accessories for high-performance running, training, tennis, and outdoor activities
- Sales Breakdown: *(by % of total revenue in 2023)*
 - Sales Regions: Americas (64.9%) vs rest of world (35.1%)
 - ❖ Present in >9,800 stores in over 60 countries
 - Sales Channels: Wholesale (62.5%) and DTC (37.5%)
 - Product Groups: Shoes (95.5%) vs apparel and accessories (4.5%)

Sales Breakdown & Product Portfolio

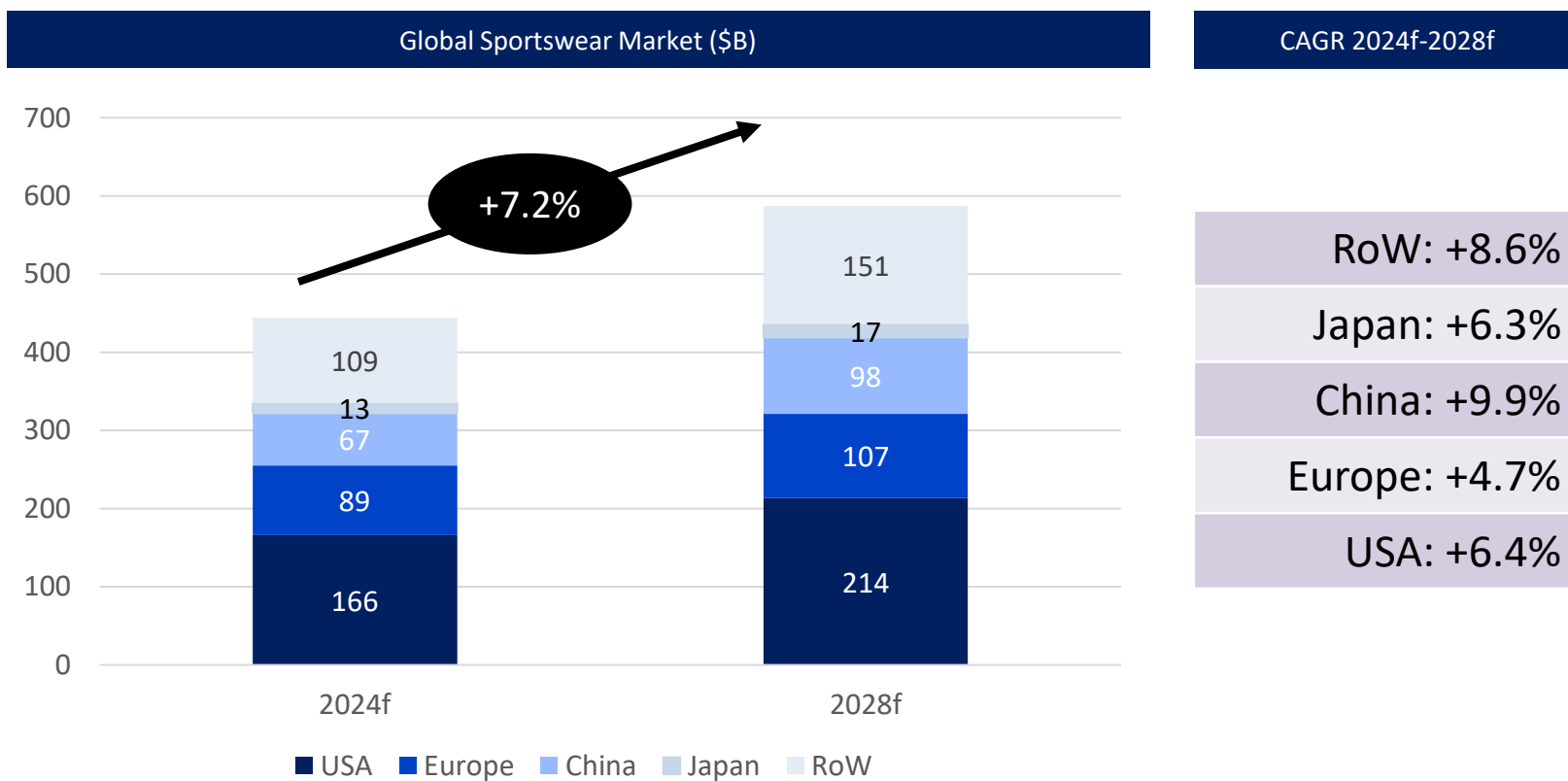


RUN		TRAINING			PAD	TENNIS			OUTDOOR		
Dedicated Run	Everyday Run	Dedicated Training	Everyday Training	Active Lifestyle	Movement Lifestyle	Dedicated Tennis	Everyday Tennis	Court Lifestyle	Dedicated Trail	Everyday Trail	Exploration Lifestyle

Large TAM in Sportswear

➤ Industry Tailwinds:

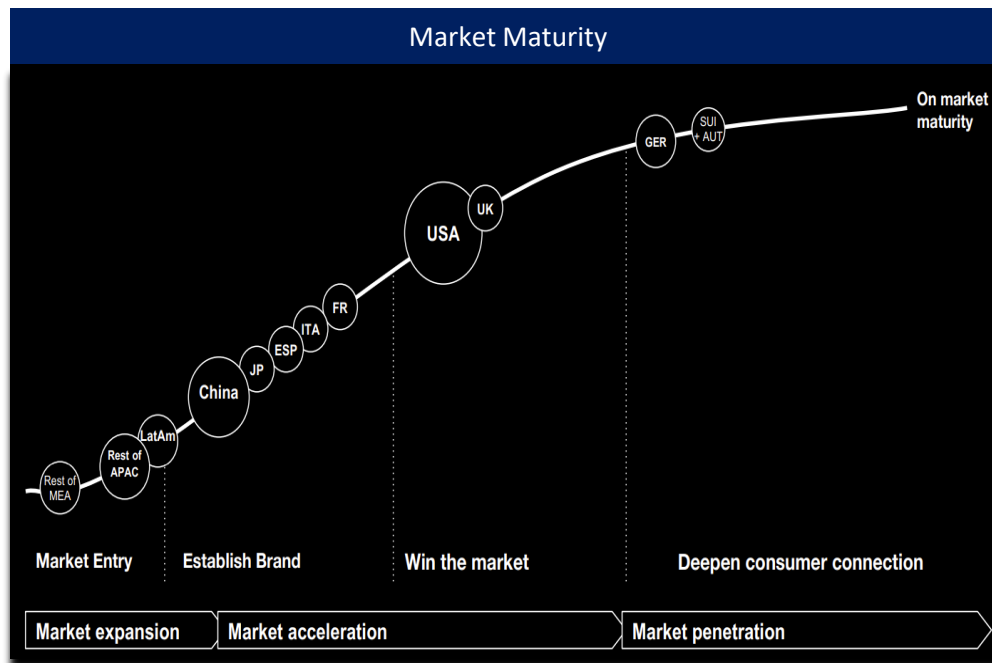
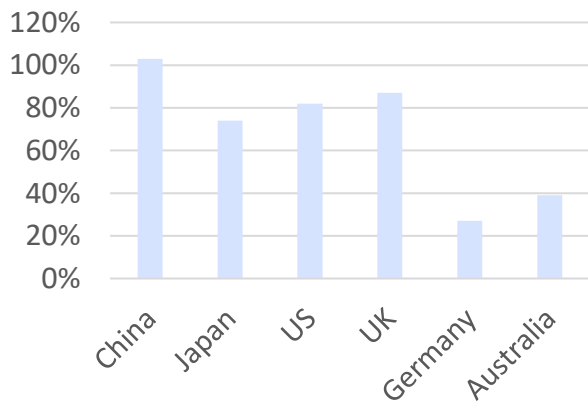
- ❖ **Increasing Focus on H&W:** Consumers are prioritizing active lifestyles that often require sportswear
- ❖ **Sportswear Becoming a Fashion Trend:** Athleisure styles that blend comfort and style are increasingly embraced
- ❖ Sportswear penetration expected to increase by 1-2% across markets between 2024-2026



Thesis 1: Geographic Expansion Drives Continued Growth

- Early-Stage Growth: On is still in the early stages of its global expansion, offering substantial room for growth across multiple regions
 - ❖ Broad-Based Growth: Strong 2-year CAGR across regions (2021-2023), indicating successful traction in key markets
 - ❖ Diverse Market Maturity: Markets like China, Japan, and the US are at varying maturity stages, allowing On to continue pursuing new growth opportunities

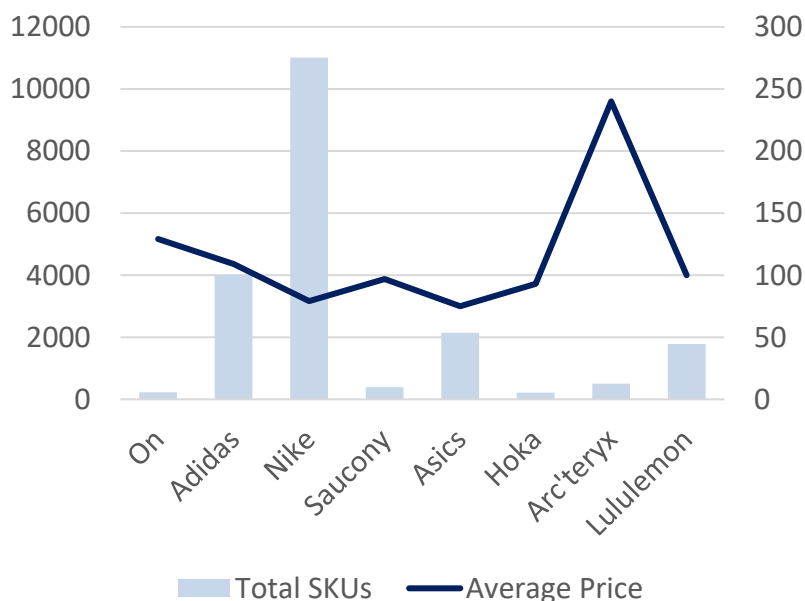
2yr CAGR '21-23



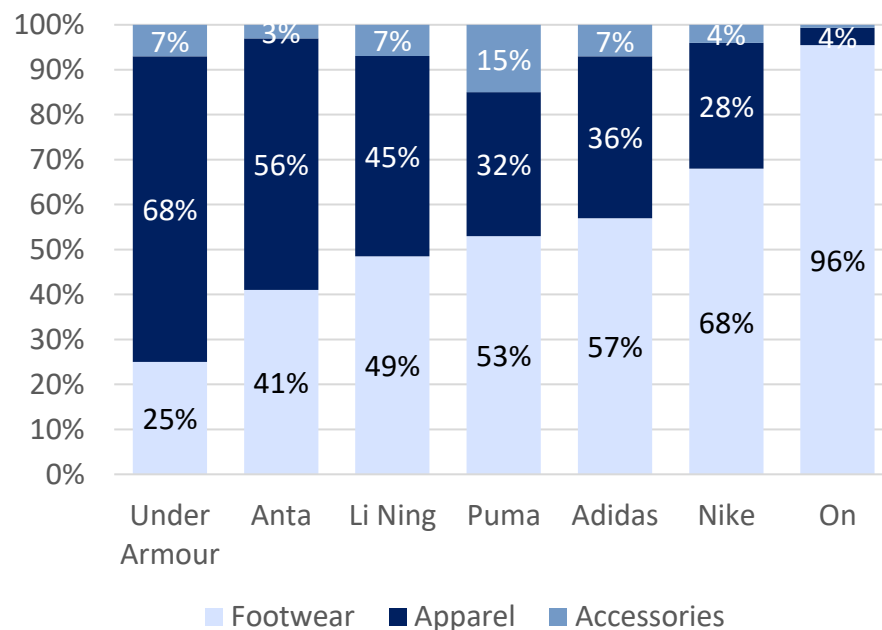
Thesis 2: Product Extension Drives Further Growth

- **Premium Positioning:** On continues to maintain its image as a premium brand, focusing on high-quality materials and innovative design, which supports a higher average price point
- **Room for SKU Expansion:** Compared to peers, On's SKU count is relatively low. There is a significant opportunity to expand its product offerings, both within existing categories and by introducing new ones, to increase apparel sales to management's target of 10% from 4%

SKU Count and Price Comparison (USD)

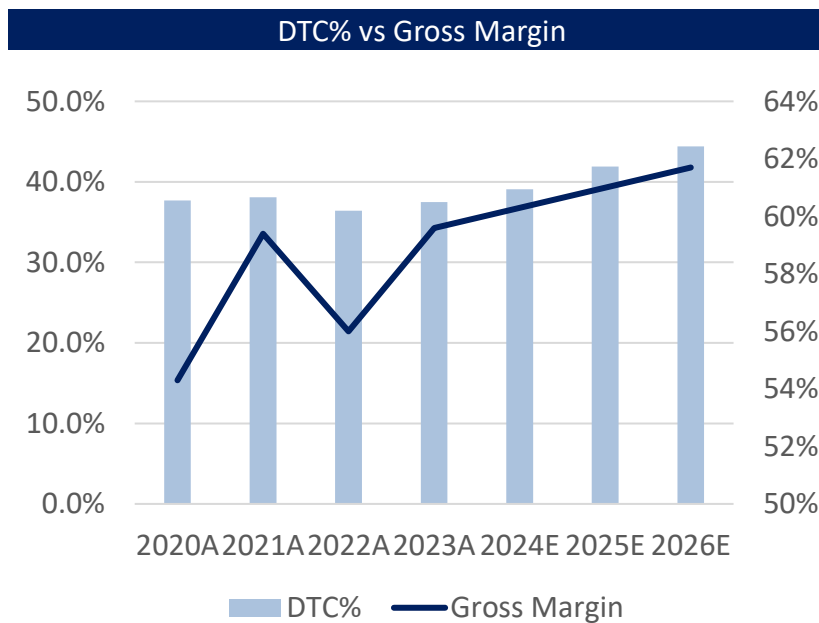


Sales by Group and Product



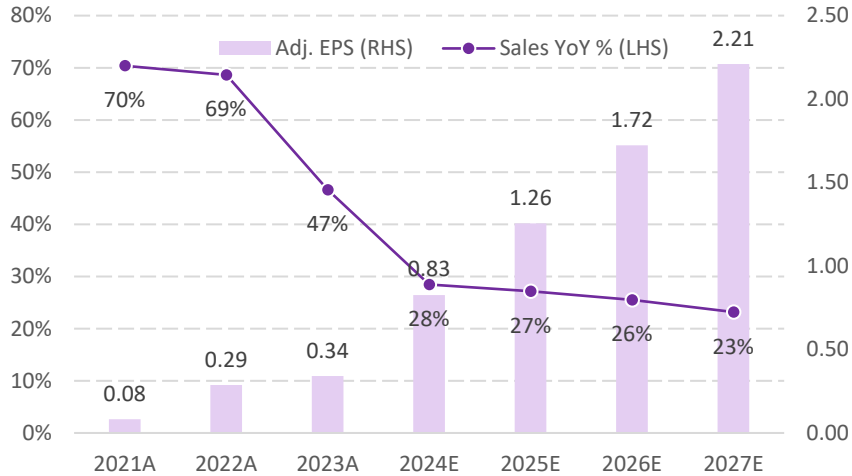
Thesis 3: DTC Drives Margin Expansion

- Shifting sales mix to higher-margin DTC channel and apparel category is expected to drive gross margins above the targeted 60% by 2026
 - ❖ DTC sales growth is expected to outpace wholesale
 - ❖ On is expected to continue premium positioning
 - ❖ Through disciplined inventory control, On is expected to maintain full-price selling across all channels and geographies

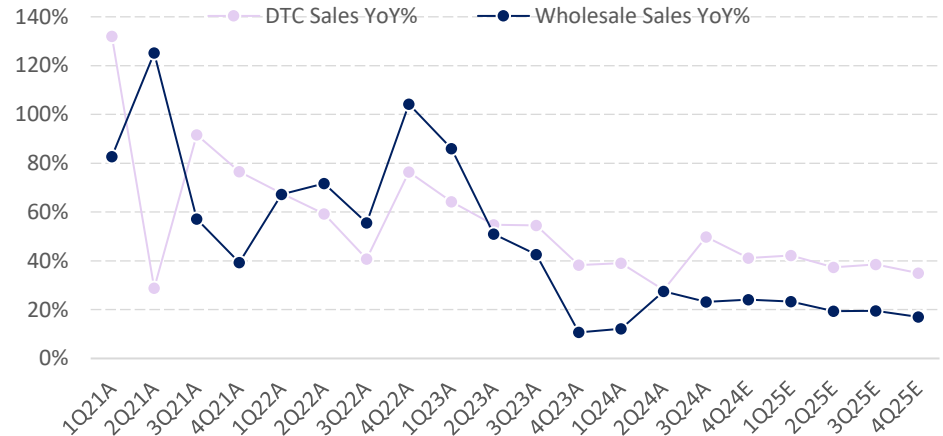


Valuation: Key Financial Assumptions

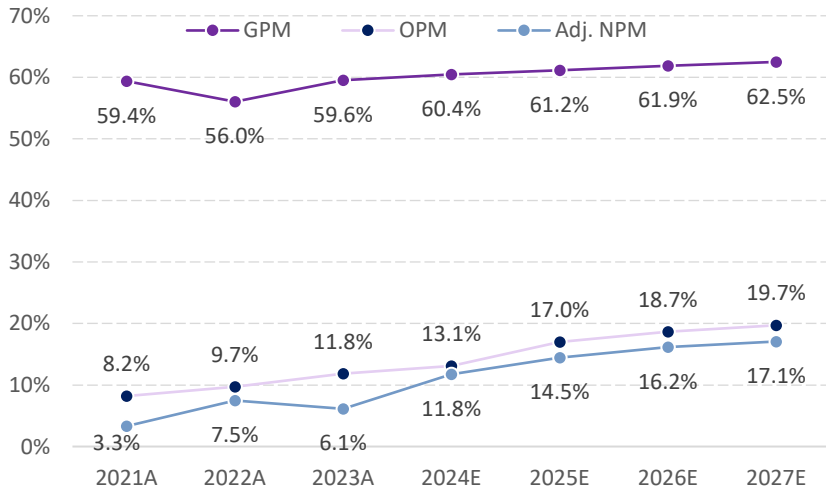
Sales YoY % and Adj. EPS Assumptions



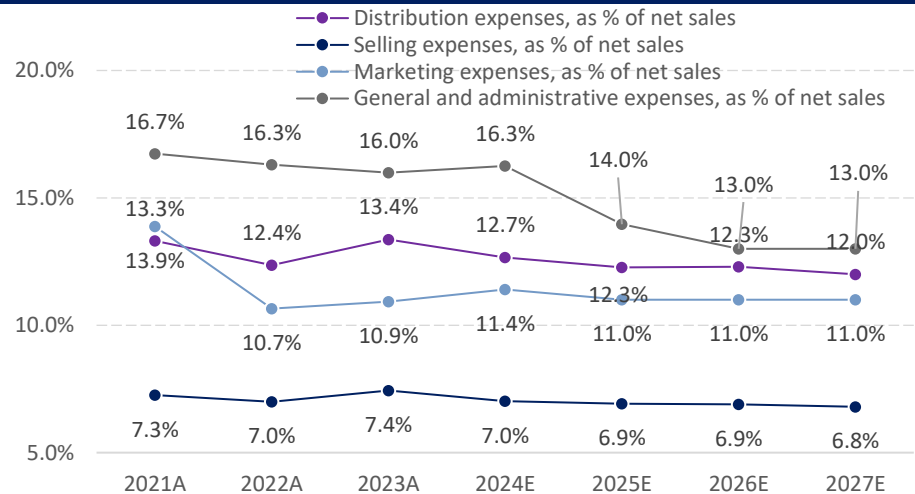
Quarterly Sales YoY % by Channel



Margin Assumptions



Expense Assumptions



Valuation: DCF Analysis

- 12M DCF Target Price of \$61, implying a 32% upside potential from the current price level, and 27.1x 2026E P/E ratio and 1.0x 2026E PEG ratio
- Our 2025e revenue / adj. EBITDA is 1% / 8% ahead of consensus, mainly driven by higher margins due to higher DTC revenue as % of total revenue, and higher apparel share

	Units	2023A	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E	Terminal
Revenues	CHF mn	1,792	2,300	2,894	3,631	4,477	5,358	6,306	7,326	8,401	9,550	10,761	12,072	13,481	
	YoY %	46.6%	28.4%	25.8%	25.4%	23.3%	19.7%	17.7%	16.2%	14.7%	13.7%	12.7%	12.2%	11.7%	
Adjusted EBITDA	CHF mn	277	380	539	720	935	1,183	1,408	1,654	1,918	2,204	2,510	2,846	3,212	
Adj. EBITDA Margin	%	15.5%	16.5%	18.6%	19.8%	20.9%	22.1%	22.3%	22.6%	22.8%	23.1%	23.3%	23.6%	23.8%	
SBC	CHF mn	(31)	(65)	(32)	(33)	(34)	(35)	(41)	(45)	(47)	(48)	(55)	(61)	(68)	
As % of revenue	%	-1.7%	-2.8%	-1.1%	-0.9%	-0.8%	-0.7%	-0.7%	-0.6%	-0.6%	-0.5%	-0.5%	-0.5%	-0.5%	
Income Tax	CHF mn	(19)	57	81	102	132	169	201	237	275	316	361	410	463	
Tax Rate	%	-8.9%	20.5%	18.0%	16.5%	16.5%	16.5%	16.5%	16.5%	16.5%	16.5%	16.5%	16.5%	16.5%	
Adj. NOPAT	CHF mn	200	155	339	483	634	818	976	1,153	1,344	1,552	1,772	2,013	2,276	2,344
	YoY %	279.1%	-22.7%	119.1%	42.7%	31.2%	29.0%	19.3%	18.1%	16.6%	15.5%	14.1%	13.6%	13.1%	
	Margin %	11.2%	6.7%	11.7%	13.3%	14.2%	15.3%	15.5%	15.7%	16.0%	16.3%	16.5%	16.7%	16.9%	
D&A	CHF mn	65	105	87	102	134	161	221	256	294	334	377	423	472	
As % of revenue	%	3.6%	4.5%	3.0%	2.8%	3.0%	3.0%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	
CapEx	CHF mn	(43)	(92)	(116)	(145)	(179)	(214)	(240)	(278)	(319)	(363)	(409)	(459)	(512)	
As % of revenue	%	-2.4%	-4.0%	-4.0%	-4.0%	-4.0%	-4.0%	-3.8%	-3.8%	-3.8%	-3.8%	-3.8%	-3.8%	-3.8%	
Change of NWC	CHF mn	(101)	(140)	(79)	(103)	(126)	(122)	(144)	(167)	(192)	(218)	(246)	(275)	(308)	
As % of revenue	%	-5.6%	-6.1%	-2.7%	-2.8%	-2.8%	-2.3%	-2.3%	-2.3%	-2.3%	-2.3%	-2.3%	-2.3%	-2.3%	
FCFF	CHF mn	121	28	230	336	463	642	813	964	1,127	1,306	1,494	1,701	1,928	29,388
As % of revenue	%	6.7%	1.2%	8.0%	9.3%	10.3%	12.0%	12.9%	13.2%	13.4%	13.7%	13.9%	14.1%	14.3%	
PV of FCF	CHF mn				306	385	486	560	605	645	681	709	736	760	11,584
% of total PV	%				1.8%	2.2%	2.8%	3.2%	3.5%	3.7%	3.9%	4.1%	4.2%	4.4%	66.4%
Implied Forward PE	x		47.0x	34.5x	27.1x	21.6x	17.6x	14.6x	12.2x	10.4x	8.9x	7.8x	6.8x		
Implied PEG (2-year EPS Growth)	x		1.3x	1.1x	1.0x	0.9x	0.8x	0.7x	0.7x	0.6x	0.6x	0.5x			
Implied Forward EV/EBITDA	x		32.4x	24.3x	18.7x	14.8x	12.4x	10.6x	9.1x	7.9x	7.0x	6.1x	5.4x		9.1x
Implied Forward EV/Sales	x		6.0x	4.8x	3.9x	3.3x	2.8x	2.4x	2.1x	1.8x	1.6x	1.4x	1.3x		
Valuation Output															
PV of FCFF	CHF mn	17,457	Assumptions												
Cash	CHF mn	999	USD CHF Exchange Rate		%	0.8820									
Debt	CHF mn	63	Terminal Growth Rate		%	3.0%									
Equity Value	CHF mn	18,392	WACC		%	9.8%									
Equity Value	CHF mn	20,853	Cost of Debt		%	5.0%									
Shares Outstanding	CHF mn	342	Tax Rate		%	16.5%									
Value/Share (T+12)	USD	61.00	Debt to Capital		%	5.0%									
Current Price	USD	46.30	Cost of Equity		%	10.1%									
Return Potentials	%	31.7%	Equity Risk Prem.		%	5.5%									
			Risk-Free Rate		%	4.0%									
			Exp. Mkt Return		%	9.5%									
			Beta		%	1.10									

Valuation: Scenario and Sensitivity Analysis

Scenario Analysis Summary		Bull Scenario	Base Scenario	Bear Scenario
Target Price	US\$	101.0	61.0	35.0
Return potentials	%	118%	32%	-24%
Implied Forward PE (2025E)	x	46.0x	34.5x	25.5x
Implied PEG (2025E)	x	1.2x	1.1x	1.0x
Implied EV/EBITDA (2025E)	x	33.5x	24.3x	17.2x
Implied EV/Sales (2025E)	x	7.5x	4.8x	3.0x
Implied Market Cap	USD mn	34,646	20,853	11,974
Revenue growth (2025E)	%	29.8%	25.8%	20.6%
Revenue growth (2026E)	%	30.6%	25.4%	20.3%
GPM (2025E)	%	61.5%	61.0%	60.6%
GPM (2026E)	%	62.4%	61.7%	61.0%
Operating margin (2025E)	%	17.9%	15.6%	13.7%
Operating margin (2026E)	%	19.5%	17.0%	14.8%
NPM (2025E)	%	15.2%	13.3%	11.7%
NPM (2026E)	%	16.9%	14.8%	12.9%

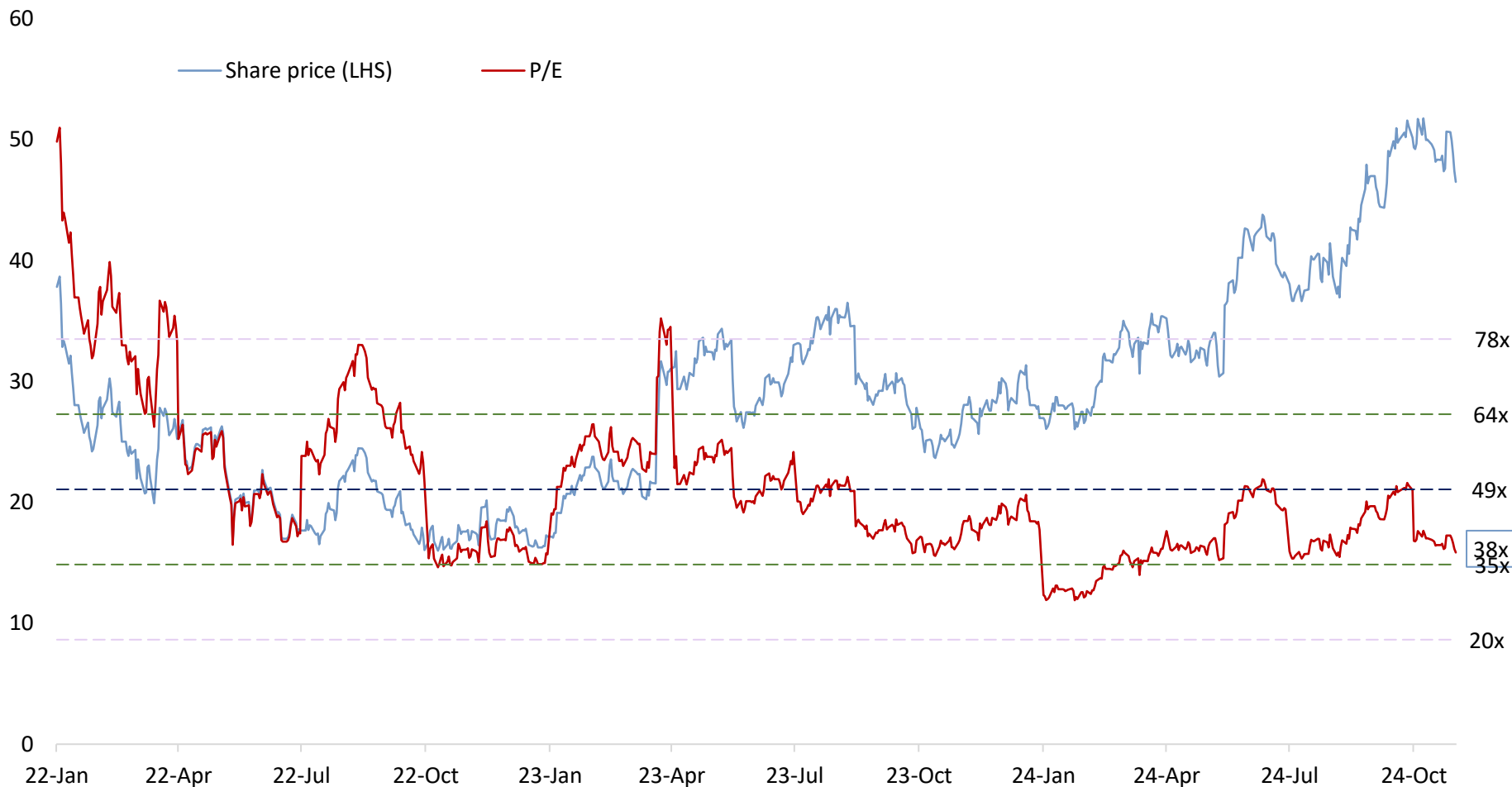
Target Price		WACC							
		8.3%	8.8%	9.3%	9.8%	10.3%	10.8%	11.3%	11.8%
Terminal Growth Rate	2.4%	75.0	68.0	63.0	58.0	53.0	50.0	46.0	44.0
	2.6%	77.0	70.0	64.0	59.0	54.0	50.0	47.0	44.0
	2.8%	79.0	71.0	65.0	60.0	55.0	51.0	48.0	45.0
	3.0%	81.0	73.0	67.0	61.0	56.0	52.0	48.0	45.0
	3.2%	83.0	75.0	68.0	62.0	57.0	53.0	49.0	46.0
	3.4%	86.0	77.0	70.0	64.0	58.0	54.0	50.0	47.0
	3.6%	89.0	79.0	71.0	65.0	60.0	55.0	51.0	47.0

Implied Forward PE (2025E)		WACC							
		8.3%	8.8%	9.3%	9.8%	10.3%	10.8%	11.3%	11.8%
Terminal Growth Rate	2.4%	42.4x	38.5x	35.7x	32.8x	30.0x	28.3x	26.0x	24.9x
	2.6%	43.6x	39.6x	36.2x	33.4x	30.6x	28.3x	26.6x	24.9x
	2.8%	44.7x	40.2x	36.8x	34.0x	31.1x	28.9x	27.2x	25.5x
	3.0%	45.8x	41.3x	37.9x	34.5x	31.7x	29.4x	27.2x	25.5x
	3.2%	47.0x	42.4x	38.5x	35.1x	32.3x	30.0x	27.7x	26.0x
	3.4%	48.7x	43.6x	39.6x	36.2x	32.8x	30.6x	28.3x	26.6x
	3.6%	50.4x	44.7x	40.2x	36.8x	34.0x	31.1x	28.9x	26.6x

Target Price		Revenue Growth Rate (2029E)							
		14.7%	15.7%	16.7%	17.7%	18.2%	18.7%	19.2%	19.7%
EBIT Margin (2029E)	15.3%	42.0	44.0	46.0	48.0	49.0	50.0	52.0	53.0
	16.3%	45.0	47.0	49.0	51.0	53.0	54.0	55.0	56.0
	17.3%	47.0	50.0	52.0	55.0	56.0	57.0	59.0	60.0
	18.3%	50.0	53.0	55.0	58.0	59.0	61.0	62.0	64.0
	19.3%	53.0	55.0	58.0	61.0	62.0	64.0	66.0	67.0
	19.5%	53.0	56.0	59.0	62.0	63.0	65.0	66.0	68.0
	19.7%	54.0	57.0	59.0	62.0	64.0	65.0	67.0	69.0
	19.9%	54.0	57.0	60.0	63.0	64.0	66.0	68.0	69.0

Valuation: Trading Multiples (Past 3-Year)

➤ On Holdings is now trading at 42x NTM P/E, still below its historical average level



➤ From the PEG ratio point, On Holdings is still not that expensive versus its peers

Company name	Mkt. cap	Stock Price	TP	Upside	Div yield	Price change (%)				PS(x)	PE(x)		PEG(x)	Gross margin (%)	EBITDA margin (%)	Net margin (%)	ROA (%)	ROE (%)
	US\$bn	trading ccy	trading ccy	%	%	YtD	1Y	3Y	5Y	2025e	2025e	2026e	2026e	2025e	2025e	2025e	2025e	2025e
On Holding AG	14.8	46.3	51.6	11%	0.0%	72%	65%	18%	n.a.	4.4x	41.0x	30.4x	1.2x	61%	17%	11%	14%	20%

Sportswear and Athletic Apparel Peers

NIKE, Inc.	114.9	77.2	91.6	19%	1.9%	-29%	-28%	-57%	-14%	2.4x	27.4x	23.7x	1.7x	44%	12%	9%	11%	28%
adidas AG	42.9	220.5	251.1	14%	0.3%	20%	29%	-26%	-17%	1.6x	29.8x	20.3x	0.6x	51%	13%	5%	7%	24%
Lululemon Athletica Inc.	39.1	318.1	317.5	0%	0.0%	-38%	-22%	-32%	58%	3.7x	22.6x	21.1x	3.2x	58%	27%	17%	24%	39%
Deckers Outdoor Corporation	24.7	162.3	188.7	16%	0.0%	46%	63%	130%	497%	5.0x	29.3x	25.7x	2.1x	56%	23%	17%	24%	35%
Skechers U.S.A., Inc.	9.4	62.0	82.1	32%	0.0%	-1%	30%	29%	60%	0.9x	12.5x	10.5x	0.7x	54%	13%	8%	8%	15%
V.F. Corporation	8.4	21.5	21.7	1%	1.7%	14%	39%	-71%	-75%	0.9x	45.5x	22.9x	0.5x	52%	7%	2%	2%	11%
Columbia Sportswear Company	4.8	81.8	80.8	-1%	1.5%	3%	5%	-22%	-12%	1.4x	19.0x	16.8x	1.4x	51%	13%	7%	8%	13%
Under Armour, Inc.	3.6	8.6	8.6	-1%	0.0%	-2%	19%	-65%	-52%	0.7x	37.5x	24.6x	0.7x	47%	6%	2%	2%	5%
Mkt cap. Weighted avg.										2.6x	27.3x	22.2x	1.7x					

➤ **Risks:**

- ❖ Operations, distribution network and supplier risks: Given that 90% of its production is based in Vietnam, On is subject to a wide range of supply chain risks
- ❖ Competition: The apparel and accessories space is highly competitive; Nike and other athletic brands could crowd out marketing spend or result in lost sales in any given period
- ❖ Closely Held: Insiders control majority of voting rights of the company, limiting shareholder rights
- ❖ Currency Fluctuations and EPS Volatility: As the company matures and investors start focusing more on EPS, currency fluctuations could result in large swings in EPS
- ❖ Macroeconomic Uncertainty: Economic downturns or prolonged high-interest rates could soften consumer demand

<p>Competitive Market Dynamics</p>	<ul style="list-style-type: none"> ➤ Risk: On faces intense competition from both established global athletic brands and emerging niche players, potentially affecting market share and pricing power ➤ Mitigant: On's innovative product portfolio, combined with strong brand loyalty and direct-to-consumer growth, provides a competitive edge 	<p>High</p>
<p>Supply Chain Constraints</p>	<ul style="list-style-type: none"> ➤ Risk: Vulnerability to shifts in consumer preferences and fashion trends ➤ Mitigant: Ongoing brand momentum, driven by product innovation and customer acquisition, helps maintain relevance and demand 	<p>High</p>
<p>Margin Pressure</p>	<ul style="list-style-type: none"> ➤ Risk: Rising freight and input costs could compress margins ➤ Mitigant: Operational efficiency improvements, including better inventory management and strategic pricing, help offset rising costs 	<p>Moderate</p>
<p>Inventory Management</p>	<ul style="list-style-type: none"> ➤ Risk: Rising inventory levels could lead to overstocking or discounting ➤ Mitigant: Enhanced forecasting and inventory controls are mitigating risks of excessive stock 	<p>Moderate</p>
<p>Macro Headwinds</p>	<ul style="list-style-type: none"> ➤ Risk: Economic uncertainty and reduced consumer spending power ➤ Mitigant: Diversification into e-commerce and international markets reduces reliance on economically volatile regions 	<p>Low</p>



ALPHA  **CHALLENGE**
Kenan-Flagler Business School
The University of North Carolina

December 5th, 2024

Team Number: 11

Presented by:

- Alonso Meza, CFA
- Katherine Pérez, CFA
- Katherine Schlinke, CFA

Abercrombie & Fitch: Retail's Greatest Comeback – Solid execution of its turnaround strategy

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Abercrombie & Fitch: A data-driven, lifestyle-centric brand evolution

CUSTOMER Abercrombie & Fitch

Abercrombie & Fitch
23-40+
 YEARS OLD

TARGETING MILLENNIALS

POST GRAD
 LOVES TO TRAVEL
 FASHION OBSESSED
 DIGITALLY-LED

KEY FOCUSES

TEES ACTIVE DRESSES JEANS/PANTS FLEECE

Abercrombie & Fitch is a global, digitally led omnichannel retailer, offering a range of assortment of apparel, personal care products and accessories for men, women, and kids

CUSTOMER HOLLISTER

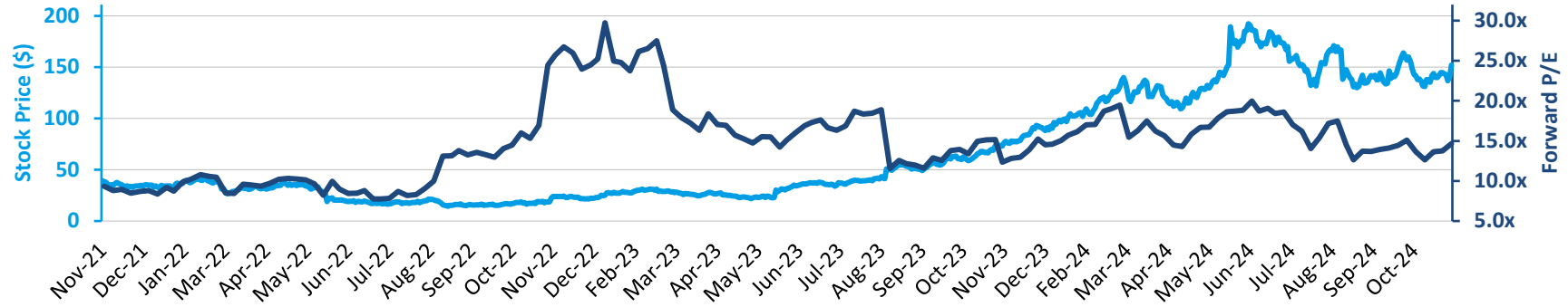
HOLLISTER
13-21
 YEARS OLD

TARGETING GEN Z W/ MILLENNIAL PARENTS

COMING INTO THEIR OWN
 COMFORT OBSESSED
 VALUE VERSATILITY
 FINANCIALLY RELIANT

KEY FOCUSES

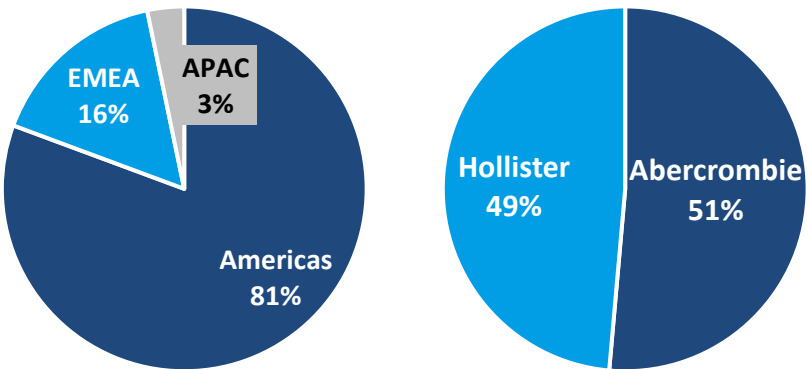
Office Approved KNITS DRESSES Curve Love DENIM FLEECE YPB > YOUR PERSONAL BEST ACTIVE



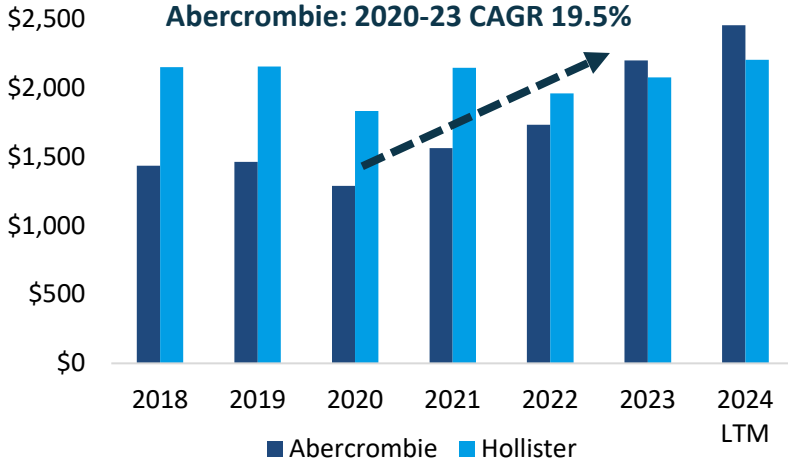
Source: ANF Q2 Earnings Presentation, Capital IQ

Business & Competitive Landscape Overview

Revenue segmentation by geography and product



Revenue growth by product



Channel strategy

765 stores under A&F brands across the Americas, Europe, Asia and the Middle East, as well as the e-commerce sites

Abercrombie & Fitch



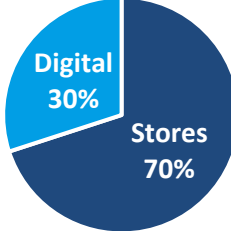
247 STORES GLOBALLY (FY 2023)



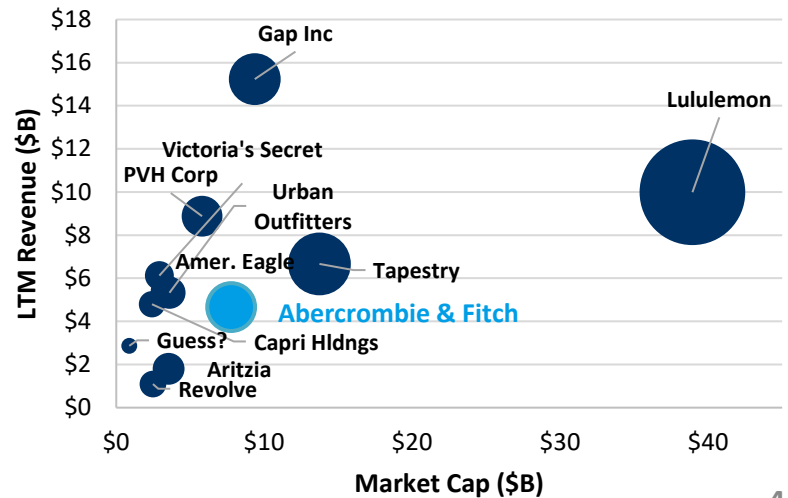
HOLLISTER



518 STORES GLOBALLY (FY 2023)



Competitive landscape (by market cap)



Source: Company data

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Thesis #1: Hollister's growth will accelerate as a result of incremental marketing, revenue recapture opportunities, and key leadership adjustment

Variant View: Consensus prices a deceleration of top-line growth during 2025 and 2026 to 7% and 5%, respectively, from 15% in 2024E. We believe this ignores the acceleration of growth at Hollister from 8% in 2024E to 15% during the next year as a result of marketing investments and revenue recapture

Strong investments in marketing, new customer acquisition, and brand-building to drive growth

- Investments in incremental marketing planned at Hollister spanning across digital & social channels and in-person experiences
- EBITDA Mg of 17.3% highest vs history and peers' average of 13.2%** leaves room for increased expenditures
- Google Search term growth has sequentially accelerated to **+31% YoY in the last two months**

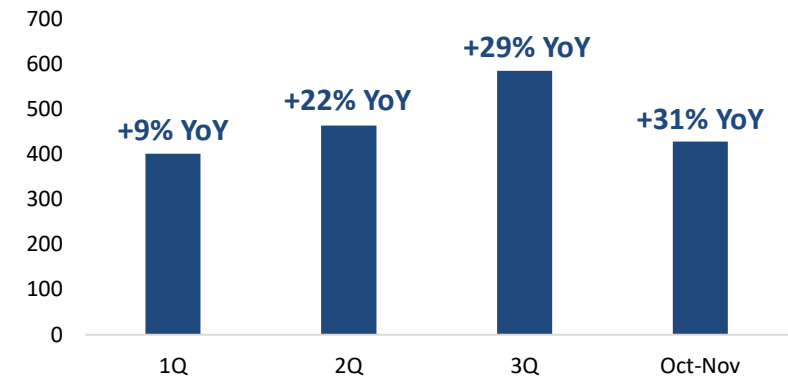
Revenue recapture opportunities for Hollister:

- ~\$400M revenue recapture opportunity relative to pre-pandemic, w/ Europe/APAC significantly underpenetrated at **19% of revenue mix (vs. 33% pre-pandemic)**

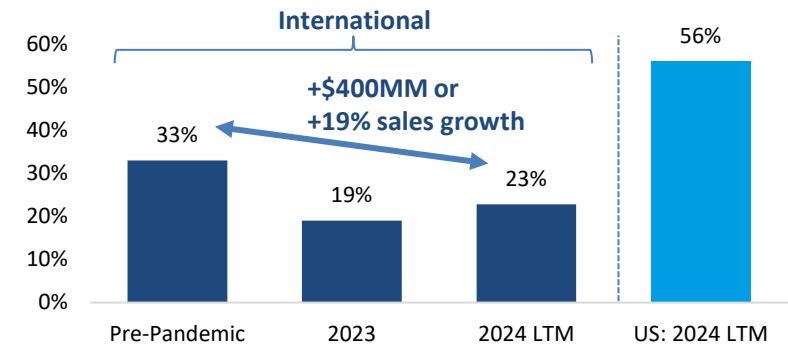
Leadership overseeing Hollister today ran the proven playbook at Abercrombie over last 4 years

- Carey Krug promoted to Chief Marketing Officer in Nov '22 (vs. Head of Abercrombie Marketing from 2018-22)
- Corey Robinson promoted to Chief Product Officer in Sep '22 (vs. SVP of Abercrombie Merchandising, Design, Visual from 2018-22)

of Google Searches for Hollister in 2024



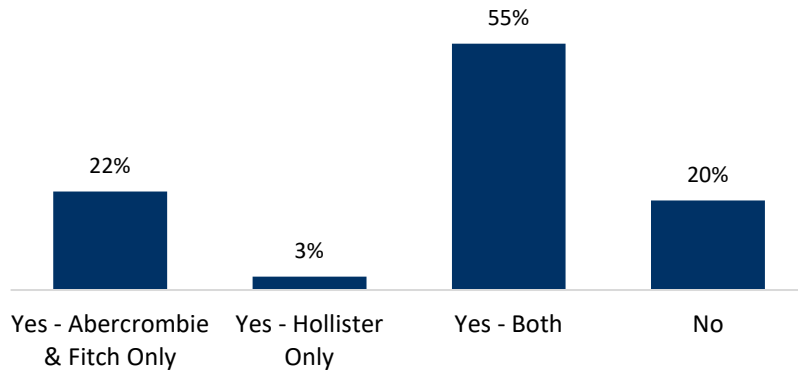
Hollister representation in ANF Revenue



Thesis #1: Hollister's growth will accelerate as a result of incremental marketing, revenue recapture opportunities, and key leadership adjustment

We conducted a survey at the Tuck School of Business with 102 respondents which allowed us to increase our confidence about the [continued growth at the Hollister brand](#)

Q: Have you ever bought at Abercrombie & Fitch?

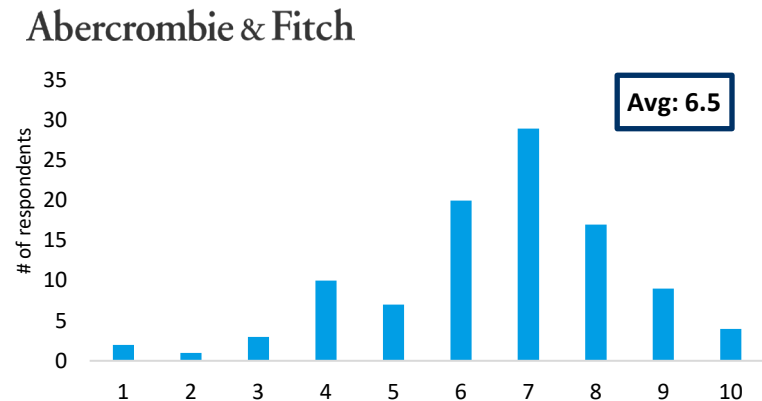
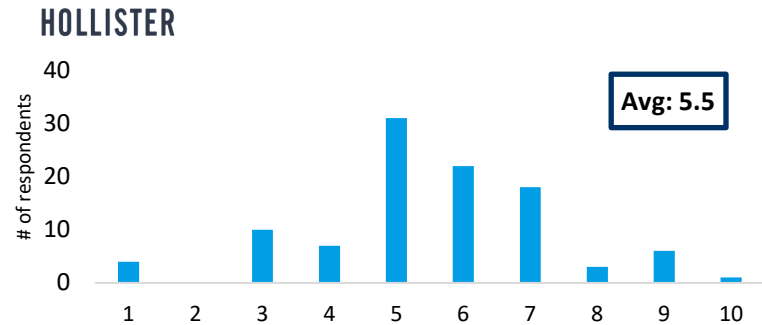


Opinions on trendiness and value

65% of respondents viewed A&F as trendy

47% of respondents viewed A&F as good value

Q: On a scale of 1-10, how likely are you to shop at A&F and Hollister next year?



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Thesis #2: Margin expansion at the top and bottom level driven by disciplined inventory management, lower input costs, and store optimization strategies

Variant View: Consensus expects ANF's operating margin to maintain 2023 levels of 11-13% with little upside. Given macro tailwinds combined with company-level strategies, we expected margins of 14% during the next three years.

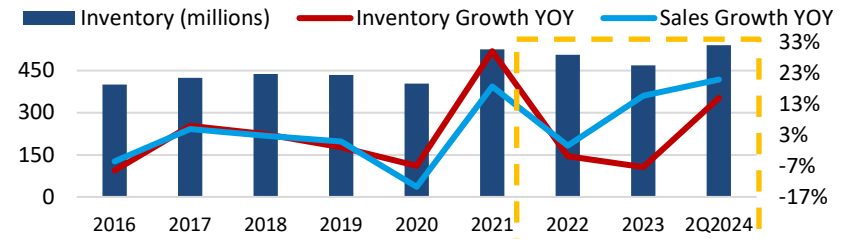
Disciplined Inventory Management minimizes the need for discounts, increasing AUR

- Sales growth has outpaced inventory growth, [reflecting improved inventory management](#). In Q2 2024, sales grew by 21% compared to a 15% increase in inventory
- Inventory turnover has increased since 2021 from 2.9x to 3.4x in 2024 LTM

Declining Freight Costs and Cotton Prices to Support Lower COGS

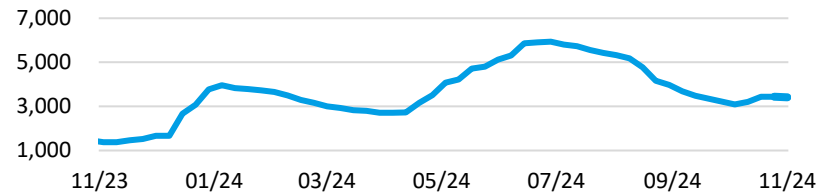
- **Freight Costs to continue falling:**
 - An 8% increase in vessel capacity in 2025 is forecast to outpace demand growth of 3%, leading to [lower ocean shipping rates](#)
- **Cotton prices to stay at current low levels:** The USDA projects a 2025 season-average cotton price of 66 cents/pound, driven by:
 - Higher Stock: World cotton ending stocks are expected to increase by 2.4%, highest level in five years
 - Reduction in China's import demand

Efficient inventory Management...

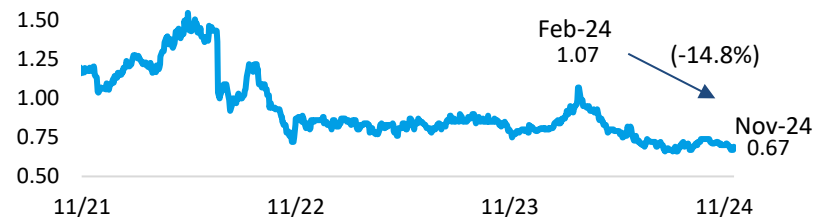


...impulsed by lower freight costs and cotton prices

(Drewry World Container Index - US\$/40ft)



(Cotton Price - USD/Lbs)



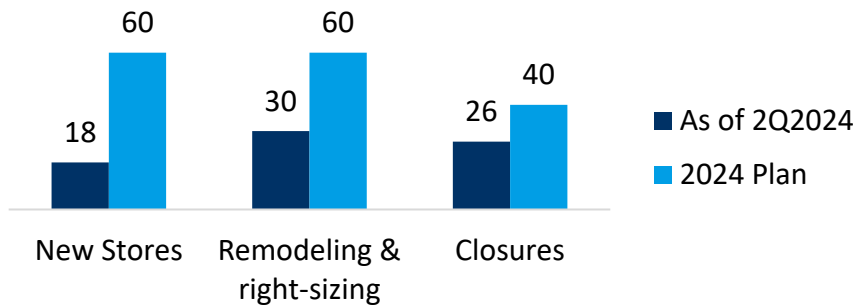
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Remodeling of larger-format flagship locations to smaller omni-channel-enabled stores to drive cost efficiencies

- Strategy: Reducing brick-and-mortar square footage by shutting down the costly and oversized A&F flagships, replacing them with new retail experiences
- New stores: Smaller, more efficient, and less expensive. Involve downsizings, renovations, and tight inventory control
- Stores situated in prime locations and designed with a light, bright aesthetic, featuring natural wood fixtures

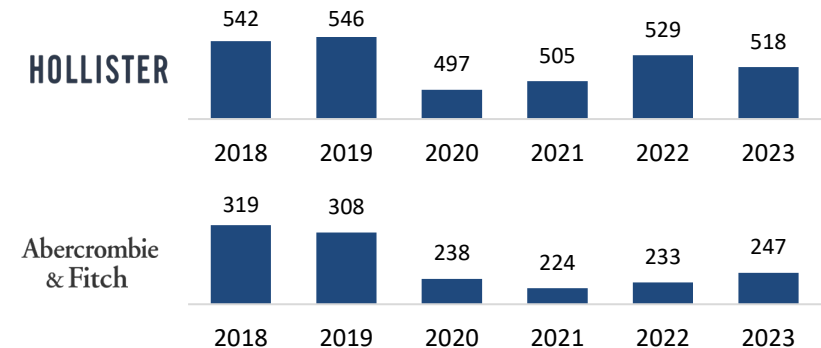
Execution of Store footprint plan for 2024



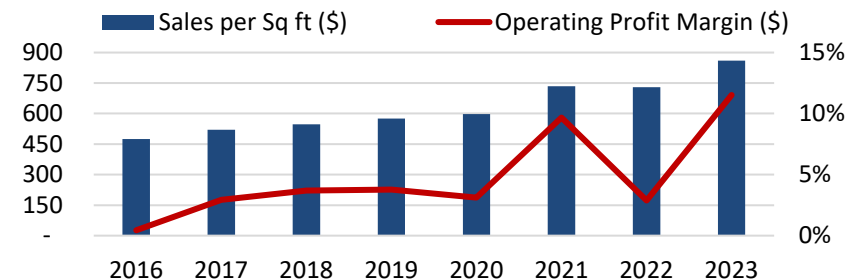
Source: Company data, our estimates

A&F has streamlined its store footprint since 2018 and is now focusing on strategic store growth...

(# of Stores evolution by brand)



... evidenced by increased store productivity per sf.



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Thesis #3: Strong FCF generation and positive net cash position creates opportunities for M&A and EPS accretion

Variante View: Market projects significant cash generation during 2025-26, but funds are assumed to pile up on the balance sheet. We believe that management is actively looking for an attractive M&A deal to diversify its core brand offering leveraging on current ample dry powder

Well-positioned for further acquisitions

- Profitability has never been higher with Net Profit Margin of **10.3%** vs 5Y average of 2.6% and peers' average of 7.6%
- ANF to close 2024 with **\$1.1Bn in cash**, after repaying \$200MM of debt, with a Adj. Net Debt/EBITDA of -0.5x

Robust FCF generation after 2024

- During next 3 years, we estimate OPCF of \$800MM with capex of only \$200M, and FCF conversion ratio of 1.0x
- Given robust margins and healthy capex levels, strong FCF will increase cash to **46% of total assets** in 2025

\$2.3Bn in dry powder = 40% in potential EPS accretion

- Fran Horowitz, CEO, has reiterated that ANF is "on the offense" and "acquisitions are an opportunity on their list"
- Assuming new debt such that net leverage increases to 1.5x, but we estimate that 2026E net leverage **comes down to 0.9x**
- Potential EPS accretion of 40%**

Potential increase in EPS from M&A

Dry Powder Analysis	US\$	
2025 FCF	561	Own estimate
(+) Cash of B/S	1,133	
(+) New Debt	1,000	
Total Capacity	2,694	Increases Net Leverage to 1.5x (Avg 2019-23: 2.4x)
Assumed deal multiple	8.0x	
Acquired EBITDA	337	
Acquired EBIT	303	
Cost Synergies	51	15% of EBITDA
EBIT + Synergies	354	
Interest expense	50	5% of new debt
Implied accretion as % of 2025E EPS	40%	

Potential targets

Target company	Mark Cap	YTD Chg	Benefit
Guess	\$877 MM	-29%	International diversification
American Eagle	\$3,380 MM	-17%	Synergies on similar demographic

Valuation: ANF maintains higher margins than peers

Company Name	Market Capitalization	Enterprise Value	Net Debt / EBITDA	Gross Margin %	EBIT Margin %	Net Income Margin %	NTM P/E	NTM EV / EBITDA
Urban Outfitters, Inc. (URBN)	3,596.3	3,946.2	0.7x	34.0%	7.7%	5.8%	10.3x	6.5x
American Eagle Outfitters, Inc. (AEO)	3,382.2	4,513.4	1.7x	39.4%	8.3%	4.6%	9.8x	6.5x
Guess?, Inc. (GES)	883.7	2,111.2	4.0x	44.1%	8.2%	6.1%	6.7x	7.1x
Tapestry, Inc. (TPR)	13,730.5	15,230.8	1.0x	73.9%	19.0%	12.1%	12.7x	10.1x
The Gap, Inc. (GAP)	9,359.0	12,606.0	2.0x	49.6%	7.3%	5.4%	11.9x	8.1x
Victoria's Secret & Co. (VSCO)	2,912.5	5,573.5	5.1x	44.7%	4.1%	2.3%	17.4x	10.0x
PVH Corp. (PVH)	5,797.4	8,754.7	2.4x	59.5%	10.5%	8.4%	8.8x	7.6x
Lululemon Athletica Inc. (LULU)	38,933.7	38,782.4	-0.1x	58.5%	23.0%	16.3%	22.0x	13.3x
Aritzia Inc. (ATZ)	3,532.0	4,089.0	2.9x	40.8%	7.9%	4.1%	21.7x	10.3x
Capri Holdings Limited (CPRI)	2,414.5	5,706.5	8.4x	64.2%	4.1%	-7.4%	12.9x	14.4x
Revolve Group, Inc. (RVLV)	2,478.0	2,268.2	-5.1x	52.4%	3.3%	3.7%	47.9x	29.7x
Mean	7,910.9	9,416.5	2.1x	51.0%	9.4%	5.6%	16.5x	11.2x
Median	3,532.0	5,573.5	2.0x	49.6%	7.9%	5.4%	12.7x	10.0x
Abercrombie & Fitch Co. (ANF)	7,763.4	7,930.5	0.2x	64.6%	14.4%	10.8%	14.6x	8.5x

Valuation: Asymmetric Risk/Return

Base case provides a 22% 1-year upside based on conservative projections and undemanding multiples.

Very attractive 4:1 R/R ratio.

□ Valuation Methodology (For FY 2026)

- **Base Case:**
 - 11% revenue growth
 - 14% Operating margins
 - Conservative buybacks
- **Bear Case:**
 - 4% revenue growth
 - Higher COGS, 13% op. margin
 - No buybacks
- **Bull Case:**
 - 12% revenue growth
 - 16% operating margin (SG&A leverage)
 - Aggressive buybacks

Base case

Target Date: 11/22/25

Target Price: \$192

Return: 26%

Bull Case

Target Price: \$265

Bear Case

Target Price \$127

R/R Ratio: 4:1

Valuation	Bear	Base	Bull
<u>P/E</u>			
2025E EPS	9.7	11.2	13.0
P/E Multiple	12.0x	16.5x	20.0x
Implied stock price	\$ 116	\$ 185	\$ 260
<u>EV/EBITDA</u>			
2025E EBITDA (\$mm)	829	930	1,043
EV/EBITDA Multiple	8.0x	10.0x	12.0x
Implied EV (\$mm)	6,632	9,300	12,561
-Debt (\$mm)	0	0	0
- Minority Interests (\$mm)	14.8	14.8	14.8
+Cash (\$mm)	1,737	1,694	1,643
Equity value (\$mm)	8,384	10,979	14,189
Implied stock price	\$ 158	\$ 212	\$ 278
P/E (75%)	\$ 118	\$ 185	\$ 260
EV/EBITDA (25%)	\$ 158	\$ 205	\$ 253
Blended-12mth Price Target	\$ 127	\$ 192	\$ 265
Current Share Price (11/22/24)	151.99	151.99	151.99
Upside (%)	-17%	26%	74%

Appendix: Revenue Breakdown

US \$ mm	2019	2020	2021	2022	2023	2024E	2025E	2026E	2026E	2027E
Total Revenue	3,623	3,125	3,713	3,698	4,281	4,821	5,364	5,789	6,078	6,321
YoY Growth %	0.9%	-13.7%	18.8%	-0.4%	15.8%	12.6%	11.3%	7.9%	5.0%	4.0%
ABERCROMBIE	1,465	1,291	1,565	1,735	2,202	2,576	2,782	2,949	3,067	3,190
YoY Growth %	1.9%	-11.8%	21.2%	10.9%	26.9%	17.0%	8.0%	6.0%	4.0%	4.0%
% of Total	40.4%	41.3%	42.1%	46.9%	51.4%	53.4%	51.9%	50.9%	50.5%	50.5%
HOLLISTER	2,159	1,834	2,148	1,963	2,079	2,245	2,582	2,840	3,011	3,131
YoY Growth %	0.3%	-15.0%	17.1%	-8.6%	5.9%	8.0%	15.0%	10.0%	6.0%	4.0%
% of Total	59.6%	58.7%	57.9%	53.1%	48.6%	46.6%	48.1%	49.1%	49.5%	49.5%

US \$ mm	2019	2020	2021	2022	2023	2024E	2025E	2026E	2026E	2027E
Total Revenue	3,623	3,125	3,713	3,698	4,281	4,821	5,364	5,789	6,078	6,321
U.S.	2,411	2,127	2,652	2,758	3,300	3,725	4,152	4,460	4,614	4,707
YoY Growth %		-12%	25%	4%	20%	13%	11%	7%	3%	2%
% of Total	67%	68%	71%	75%	77%	77%	77%	77%	76%	74%
Americas (Non-US)	459	112	134	151	156	168	183	200	218	237
YoY Growth %		-76%	20%	13%	3%	8%	9%	9%	9%	9%
% of Total	13%	4%	4%	4%	4%	3%	3%	3%	4%	4%
APAC		177	172	122	138	159	182	215	258	310
YoY Growth %			-3%	-29%	13%	15%	15%	18%	20%	20%
% of Total	0%	6%	5%	3%	3%	3%	3%	4%	4%	5%
EMEA	753	709	755	666	687	770	847	914	987	1,066
YoY Growth %		-6%	6%	-12%	3%	12%	10%	8%	8%	8%
% of Total	21%	23%	20%	18%	16%	16%	16%	16%	16%	17%

Appendix: Base Case Financials

Income Statement

Income Statement	2020	2021	2022	2023	2024	2025E	2026E	2027E	2028E	2029E
Period Ended	1/31/2020	1/29/2021	1/28/2022	1/27/2023	2/2/2024	FY Jan 25	FY Jan 26	FY Jan 27	FY Jan 28	FY Jan 29
Total Revenue	3,623.1	3,125.4	3,712.8	3,697.8	4,280.7	4,821.3	5,364.2	5,789.3	6,077.7	6,320.8
% Growth		-14%	19%	0%	16%	13%	11%	8%	5%	4%
COGS	1,472.2	1,234.2	1,400.8	1,593.2	1,587.3	1,639.2	1,823.8	1,968.4	2,066.4	2,149.1
% of Sales	41%	39%	38%	43%	37%	34%	34%	34%	34%	34%
Gross profit	2,150.9	1,891.2	2,312.0	2,104.5	2,693.4	3,182.0	3,540.3	3,820.9	4,011.3	4,171.7
Gross margin (%)	59%	61%	62%	57%	63%	66.0%	66.0%	66.0%	66.0%	66.0%
Stores And Distribution Expense	1,551.2	1,391.6	1,429.5	1,482.9	1,571.7	1,783.9	1,984.7	2,142.0	2,248.7	2,338.7
% of Sales	43%	45%	39%	40%	37%	37%	37%	37%	37%	37%
Marketing General And Administrative Expense	464.6	463.8	536.8	517.6	642.9	723.2	804.6	868.4	850.9	884.9
Other SG&A expenses	330.6	345.3	332.2	328.3	425.6	433.9	482.8	521.0	547.0	568.9
% of Sales	9%	11%	9%	9%	10%	9%	9%	9%	9%	9%
Advertising Expense	134.1	118.5	204.6	189.4	217.3	289.3	321.8	347.4	303.9	316.0
% of Sales	4%	4%	6%	5%	5%	6%	6%	6%	5%	5%
Other operating income, net	-1.40	-5.05	-8.33	-2.67	-5.87	0.0	0.0	0.0	0.0	0.0
Reported Operating Expense	2,080.9	1,911.7	1,968.9	2,011.9	2,208.7	2,507.1	2,789.4	3,010.4	3,099.6	3,223.6
Operating income	70.07	-20.47	343.1	92.65	484.7	675.0	751.0	810.5	911.7	948.1
% of Sales		-1%	9%	3%	11%	14%	14%	14%	15%	15%
Interest income	12.2	3.5	3.9	4.6	30.0	36.0	34.0	50.8	69.3	90.7
Interest Expense	-19.9	-31.7	-38.0	-30.2	-30.4	-20.0	-20.0	-20.0	-20.0	-20.0
Non-operating Income/(Expense), Net	-7.7	-28.3	-34.1	-25.6	-0.4	16.0	14.0	30.8	49.3	70.7
Income before income taxes	62.33	-48.74	309.0	67.02	484.3	707.1	779.0	872.2	1,010.2	1,089.5
Income tax expense	17.4	60.2	38.9	56.6	148.9	180.3	198.6	222.4	257.6	277.8
Tax Rate (%)	28%	-124%	13%	84%	31%	26%	26%	26%	26%	26%
Net income	44.96	-109.0	270.1	10.39	335.4	526.8	580.3	649.8	752.6	811.7
Margin (%)	1.2%	-3.5%	7.3%	0.3%	7.8%	11%	11%	11%	12%	13%
BGN Diluted shares						52.7	52.1	51.7	51.2	50.7
Shares repurchased						0.6	0.3	0.5	0.5	0.7
END Diluted shares	65.8	62.6	62.6	52.3	52.7	52.1	51.7	51.2	50.7	50.1
EPS	0.7	-1.7	4.3	0.2	6.4	10.1	11.2	12.7	14.8	16.2

Appendix: Base Case Financials

Balance Sheet

Balance Sheet	2020	2021	2022	2023	2024	2025E	2026E	2027E	2028E	2029E
Period Ended	1/31/2020	1/29/2021	1/28/2022	1/27/2023	2/2/2024	FY Jan 25	FY Jan 26	FY Jan 27	FY Jan 28	FY Jan 29
Cash and equivalents	671.3	1,104.9	823.1	517.6	900.9	1,133.1	1,694.4	2,309.8	3,023.5	3,806.3
Accounts Receivable	80.25	83.86	69.10	104.5	78.35	88.2	98.2	106.0	111.2	115.7
Inventories	434.3	404.1	525.9	505.6	469.5	484.8	539.4	582.2	611.2	635.6
Other Current Assets	78.91	68.86	89.65	100.3	88.57	99.8	111.0	119.8	125.8	130.8
Total Current Assets	1,264.8	1,661.6	1,507.8	1,228.0	1,537.3	1,805.9	2,443.0	3,117.7	3,871.7	4,688.4
Property and Equipment, Net	665.3	550.6	508.3	551.6	538.0	556.9	576.0	589.4	591.1	578.4
Property and Equipment, Gross	2,745.0	2,489.0	2,453.5	2,517.9	2,509.2	2,686.9	2,884.7	3,098.1	3,322.1	3,555.1
Accumulated depreciation and amortization	-2,079.7	-1,938.4	-1,945.2	-1,966.3	-1,971.2	-2,130.0	-2,308.7	-2,508.7	-2,731.1	-2,976.7
Other Assets	388.7	208.7	225.2	210.0	220.7	220.7	220.7	220.7	220.7	220.7
Operating lease right-of-use assets	1,231.0	894.0	698.2	723.6	678.3	678.3	678.3	678.3	678.3	678.3
Total Non-current Assets	2,284.9	1,653.3	1,431.7	1,485.1	1,437.0	1,455.8	1,474.9	1,488.4	1,490.0	1,477.3
Total Assets	3,549.7	3,314.9	2,939.5	2,713.1	2,974.2	3,261.8	3,917.9	4,606.1	5,361.7	6,165.7
Accounts Payable	219.9	289.4	374.8	258.9	297.0	306.7	341.2	368.3	386.6	402.1
Accrued Expenses	302.2	396.4	395.8	413.3	436.7	453.5	470.4	483.7	483.2	490.5
Accrued payroll and related costs	58.59	120.0	90.91	70.82	100.8	113.4	126.2	136.2	133.5	138.8
Other Current Liabilities	205.0	220.3	256.5	303.8	302.6	302.6	302.6	302.6	302.6	302.6
Total Current Liabilities	815.4	959.4	1,015.2	902.2	966.8	1,176.2	1,240.5	1,290.8	1,305.9	1,333.9
Long-Term Portion of Borrowings	232.0	343.9	303.6	296.9	222.1	0.0	0.0	0.0	0.0	0.0
Long-term portion of operating lease liabilities	1,252.6	957.6	697.3	713.4	646.6	646.6	646.6	646.6	646.6	646.6
Other Liabilities	178.5	104.7	86.09	94.12	88.68	99.9	111.1	119.9	125.9	130.9
Total Long-Term Liabilities	1,663.1	1,406.2	1,086.9	1,104.3	957.4	746.5	757.7	766.6	772.5	777.6
Total Liabilities	2,478.5	2,365.6	2,102.2	2,006.5	1,924.3	1,922.7	1,998.2	2,057.4	2,078.4	2,111.5
Class A Common Stock	1.03	1.03	1.03	1.03	1.03	1.03	1.03	1.03	1.03	1.03
Paid-In Capital	405.0	401.3	413.2	416.3	421.6	466.8	517.1	571.3	628.3	687.5
Treasury Stock	-1,552.1	-1,512.9	-1,859.6	-1,953.7	-1,895.1	-1,992.4	-2,042.4	-2,117.4	-2,192.4	-2,292.4
Retained Earnings	2,313.8	2,149.5	2,386.2	2,368.8	2,643.6	3,170.4	3,750.7	4,400.5	5,153.1	5,964.8
Accumulated Other Comprehensive (Loss) Income, net of tax)	-108.9	-102.3	-114.7	-137.5	-136.0	-321.6	-321.6	-321.6	-321.6	-321.6
Total Stockholders Equity	1,058.8	936.6	826.1	694.8	1,035.2	1,324.3	1,904.9	2,533.9	3,268.5	4,039.4
Minority Interest	12.37	12.68	11.23	11.73	14.83	14.83	14.83	14.83	14.83	14.83
Total Equity	1,071.2	949.3	837.3	706.6	1,050.0	1,339.1	1,919.7	2,548.7	3,283.3	4,054.2
Total Liabilities and Equity	3,549.7	3,314.9	2,939.5	2,713.1	2,974.2	3,261.8	3,917.9	4,606.1	5,361.7	6,165.7

Appendix: Base Case Financials

Statement of Cash Flows

Cash Flow Statement	2020	2021	2022	2023	2024	2025E	2026E	2027E	2028E	2029E
Period Ended	1/31/2020	1/29/2021	1/28/2022	1/27/2023	2/2/2024	FY Jan 25	FY Jan 26	FY Jan 27	FY Jan 28	FY Jan 29
Net income	45.0	-109.0	270.1	10.4	335.4	526.8	580.3	649.8	752.6	811.7
Depreciation and Amortization	173.6	166.3	144.0	132.2	141.1	158.9	178.6	200.0	222.4	245.7
Share-Based Compensation	14.0	18.7	29.3	29.0	40.1	45.2	50.3	54.3	57.0	59.2
Changes in Working Capital										
Accounts Receivable						-9.9	-9.9	-7.8	-5.3	-4.4
Inventories	2.3	33.3	-123.2	18.5	35.0	-15.4	-54.6	-42.8	-29.0	-24.4
Accounts Payable and Accrued Expenses	10.8	186.8	77.9	-115.2	82.9	23.7	64.3	50.3	15.1	28.0
Other Current Assets	46.4	-55.7	-93.8	-18.5	-55.7	-11.2	-11.2	-8.8	-6.0	-5.0
Change in Other assets/liabilities	-20.1	38.6	0.4	-86.9	33.6	11.2	11.2	8.8	6.0	5.0
Net cash provided by operating activities	300.7	404.9	277.8	-2.34	653.4	729.3	809.0	903.8	1,012.8	1,115.8
Capex	-202.8	-101.9	-96.98	-164.6	-157.8	-177.7	-197.7	-213.4	-224.0	-233.0
<i>% of Revenue</i>	5.6%	3.3%	2.6%	4.5%	3.7%	3.7%	3.7%	3.7%	3.7%	3.7%
Proceeds from the sale of property and equipment	0			11.89	0.62	0.0	0.0	0.0	0.0	0.0
Net Cash used in investing activities	-202.8	-51.91	-96.98	-140.7	-157.2	-177.7	-197.7	-213.4	-224.0	-233.0
Net debt issuance/(repayments)	-20.0	109.4	-49.0	-8.0	-78.2	-222.1	0.0	0.0	0.0	0.0
Purchase of treasury stock	-63.54	-15.17	-377.3	-125.8	0	-97.2	-50.0	-75.0	-75.0	-100.0
Dividends paid	-51.51	-12.56		0		0.0	0.0	0.0	0.0	0.0
Other financing activities	-12.82	-11.99	-20.62	-21.51	-33.05	0.0	0.0	0.0	0.0	0.0
Net cash used for financing activities	-147.9	69.72	-446.9	-155.3	-111.2	-319.3	-50.0	-75.0	-75.0	-100.0
Effect of foreign currency exchange rates on cash	-3.59	9.17	-23.69	-8.45	-2.92	0.0	0.0	0.0	0.0	0.0
Cash and cash equivalents at beginning	745.8	692.3	1,124.2	834.4	527.6	909.7	1141.9	1703.2	2318.6	3032.3
Cash and cash equivalents at end	692.3	1,124.2	834.4	527.6	909.7	1141.9	1703.2	2318.6	3032.3	3815.1
Net increase (decrease) in cash and equivalents	-53.56	431.9	-289.8	-306.8	382.1	232.2	561.3	615.4	713.8	782.8
Free Cash Flow	97.91	303.01	180.80	-166.91	495.62	551.54	611.29	690.42	788.76	882.77

Appendix: Porter's Five Forces Analysis

Threat of New Entrants: **Medium**

- Relatively low capital requirements for new entrants but difficult for new companies to gain brand recognition and achieve economies of scale

Bargaining Power of Suppliers: **Low/Medium**

- Abercrombie sources its products from multiple suppliers globally, reducing dependence on any single supplier
- Geopolitical factors affecting global supply chains could temporarily increase supplier power

Bargaining Power of Buyers: **High**

- Abercrombie operates in a highly competitive retail space where customers have access to numerous alternatives
- Buyers have no switching costs and can easily move to competitors offering similar styles or lower prices.

Threat of Substitutes: **High**

- Consumers can easily switch to other apparel brands, fast fashion retailers, or even thrifted/non-branded clothing, especially in price-conscious segments

Industry Rivalry: **High**

- The retail industry is highly competitive, fueled by advertising spend and promotional activity
- **Abercrombie** competes *directly* with specialty retailers like **American Eagle**, **Urban Outfitters**, **Aritzia**, and **Gap Inc.** and *indirectly* with major retailers such as **H&M** and **Zara**

Appendix: Key Employees

Employee Name	Job Title	Board	Age	Since
Fran Horowitz	Chief Executive Officer, Director	Executive Board	60	2017
Nigel Travis	Chairman	Executive Board	74	2023
Gregory J. Henchel	Executive Vice President, General Counsel, Secretary	Senior Management	56	2021
Jay Rust	Executive Vice President- Global Human Resources	Senior Management	37	2023
Samir Desai	Executive Vice President, Chief Digital and Technology Officer	Senior Management	43	2021
Scott D. Lipesky	Chief Financial Officer, Chief Operating Officer, Executive Vice President	Senior Management	49	2021

DPZ: A Story of War and Reinvention



December 5, 2024

Team Number: 12

Students: Genna Abele, Harry Kong, Willa Sun

Thesis: Market overreacted to Domino's recent revenue guide-down when in fact, international growth headwinds should not have been new news.

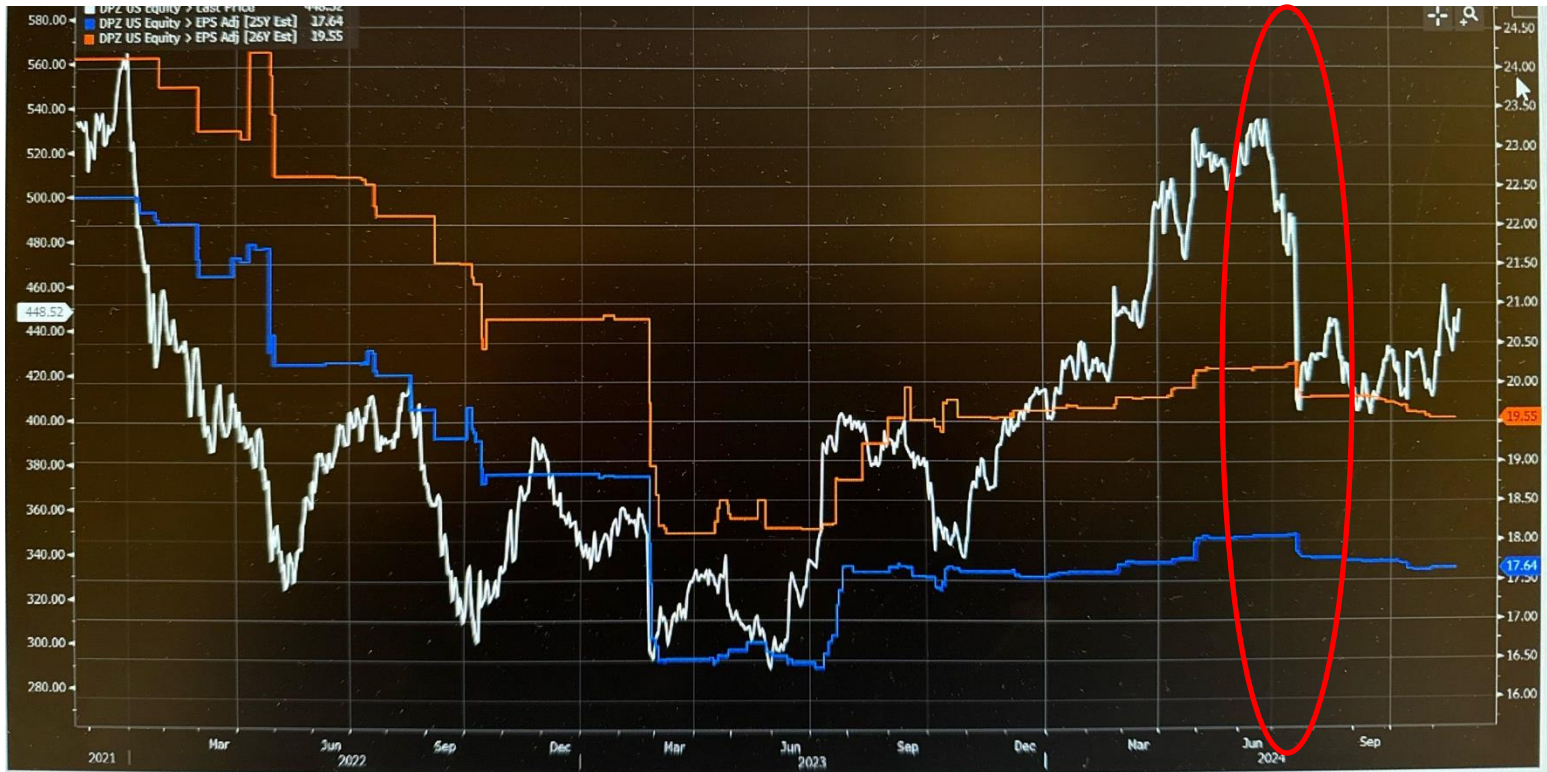
Domino's is well positioned to execute on its multi-pronged growth strategy outlined in investor day, by leveraging its renewed focus on the loyalty program and new 3P delivery partnerships to drive SSS growth and continuing store expansion.

1. Domino's promotional activities focus on driving traffic to its loyalty program, which should benefit SSSG% in the medium term. Abating of industry-wide promotional activities can drive further upside.
2. Growth potential of 3P delivery partnerships is also underestimated. Being on UberEats gives Domino's access to a new, higher-growth end market. Street is modeling the growth conservatively as guided by management, but we have reasons to believe there is further upside.
3. Domino's is now attractively value at 1.1x relative P/E vs. S&P, way below its historical premium valuation of 1.3x-1.6x.
4. Risk/reward is super attractive as the domestic business is well positioned to grow and support current valuation, while any upside to international growth can drive both earnings and multiple expansion.

Why are we getting this opportunity?

Market overreacted to Q2 revenue guide-down

Management guided 7%+ global sales growth during investor day 2023, just to guide down to 6% 10 months later citing weak international store growth.



Modest downward corrections in 2025 and 2026 EPS were accompanied by a massive derating: 1-year forward multiple declined from **26.4x** to **20.2x**.

Why are we getting this opportunity?

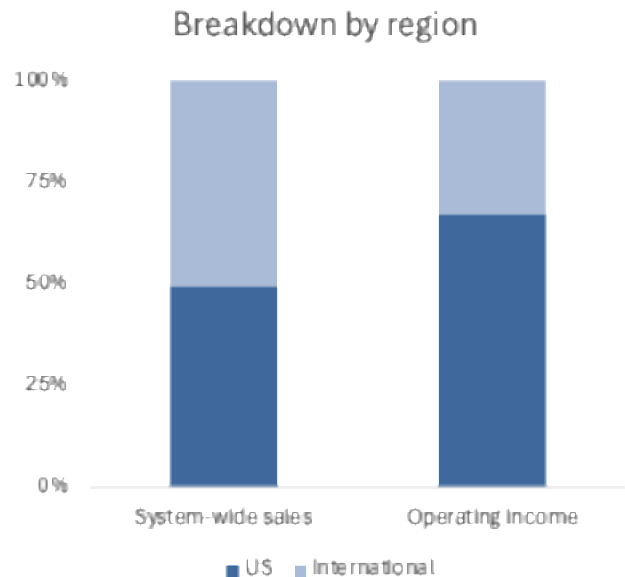
Our view: International macro weakness is not new news and offset by DPZ gaining share against competition domestically

Market is overlooking strength within Domino's domestic business despite intensifying competition and management's goal of 7% EBITDA growth is still attainable in 2025.

US SSS growth has improved steadily post-COVID, which combined with store expansion has supported mid- to high-single digit % US retail sales growth against a competitive environment



US makes up 2/3 of overall profit base given company-owned stores and higher royalty fees in the US



Company overview

Best-in-class pizza operator with a proven multi-pronged growth strategy

- Historically, Domino's has maintained above end market growth (QSR pizza, 0-1% CAGR) by taking share from competitors. We see the industry reverting to pre-COVID growth dynamics after an indiscriminate sales uplift during COVID.
- Domino's **SSS growth** has driven sales growth within the US, while international growth has been driven by **store expansion**.

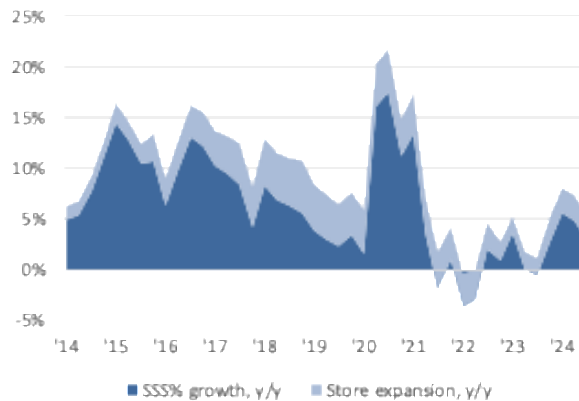
	SSSG, %		Store count		
	5YR CAGR	LTM	Company-owned	Franchisee	5YR CAGR
US	3.7%	4.0%	291	6,639	3.0%
International	3.2%	1.0%	-	14,072	6.2%

- In the US: carryout drives ~50% total transaction and 40% of sales. Delivery drives ~50% of transactions and 60% of sales.

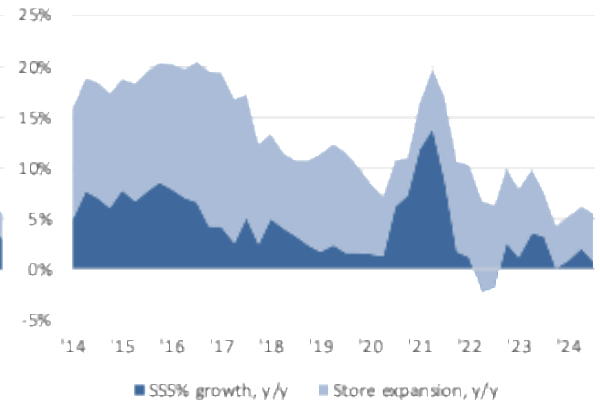
Competitor SSS growth % history



DPZ US growth history



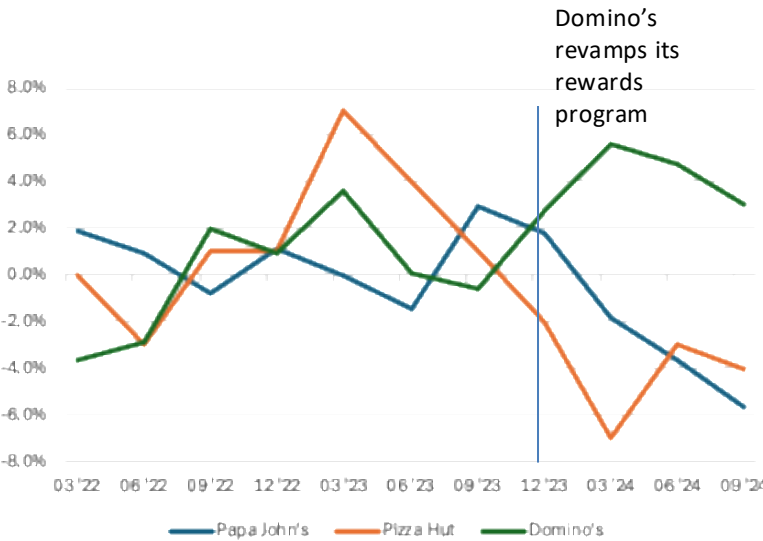
DPZ international growth history



Revamp of Domino's loyalty program has been effective in driving SSS growth by taking share from competitors

Abating of promotional activities in 2025 can drive additional volume (+25bps of 2025 SSSG%)

- Street is underestimating the medium-term benefits from the loyalty programs. Unlike peers, Domino's undertakes promotional activities to **drive traffic** to its loyalty program vs. offering **outright discounts** to salvage near-term SSS. Expansion of the loyalty customer base is already benefitting SSSG, which should sustain over the medium term.
- Current levels of intense promotions have weighed heavily on peers with weaker growth profiles to begin with. Papa John's 3Q profit margin and FCF reached their lowest levels since 2022. Any reduction in competitors' promotional activities can drive volume upside for Domino's.



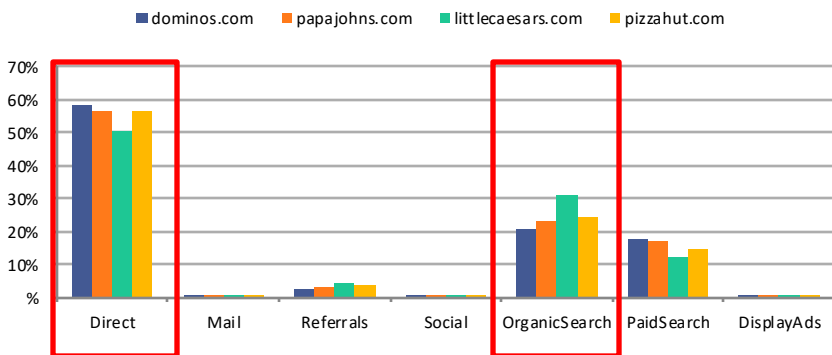
VS

- Market fears of margin give-up are also overblown as most redemptions so far have been concentrated in the 20- and 40-point options.

3P delivery opportunity is underappreciated by market

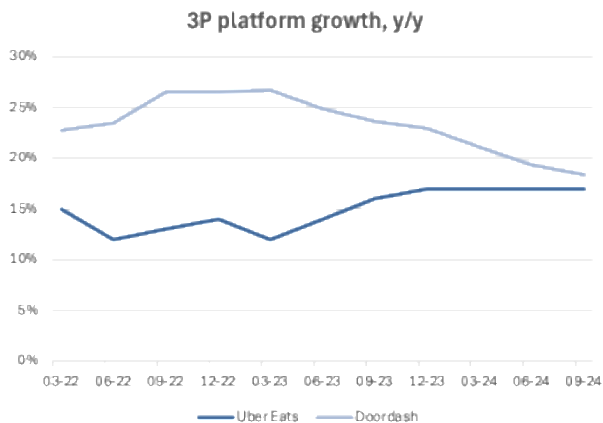
Street is conservative in modeling Domino's 3P growth. DPZ now taps into a higher-growth end market and can take share from QSR categories other than pizza (+50bps of SSSG%)

~80% of current visits to Domino's website are by people who already know they want Domino's/pizza.



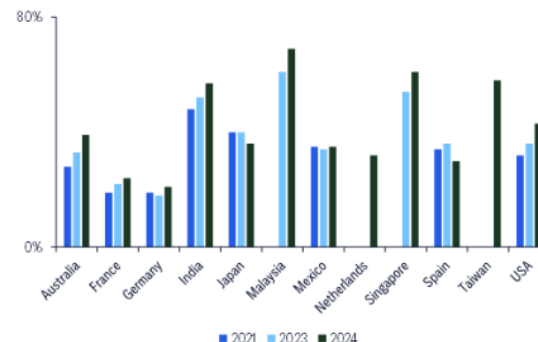
Source: SimilarWeb.

The end market for Domino's 3P sales is different and should be indexed to 3P platform growth in the mid-teens



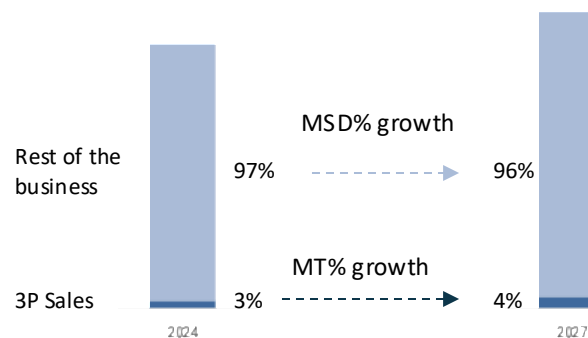
Being on 3P delivery gives Domino's access to those browsing/looking for deals, who they couldn't access before

Figure 16. % of respondents who order pizza when they see an offer, promotions, or discounts that is too good to miss



Source: Citi pizza survey.

Expansion of 3P delivery sales in line with end market growth should drive 50bps of SSSG% above consensus



Outsized reaction to international market guide-down creates an attractive risk-reward opportunity

Quantifying the downside:

- 150 fewer new stores lowers store expansion rate and revenue growth within the international segment by 1% while also impacting supply chain revenue. Overall, we estimate **~50bps of pressure** on Domino's topline.

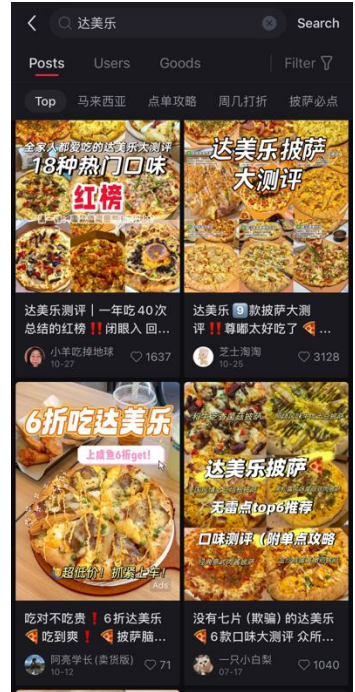
Upside opportunities:

- Pizza Hut and Papa John's have closed >11% of unprofitable stores since 2022, potentially alleviating competitive pressure in some overseas markets
- In some of the fastest-growing international markets such as China, Pizza Hut has enjoyed a huge first-mover advantage, which is now being eroded by Domino's product innovations
 - Growing footprint beyond Beijing and Shanghai to second-tier cities where customers are more price-sensitive aligns well with Domino's better value proposition

2025 # of openings	Revenue growth
825	6.93%
850	7.01%
875	7.09%
900	7.18%
925	7.26%
950	7.34%
975	7.43%
1000	7.51%
1025	7.59%
1050	7.68%
1075	7.76%
1100	7.84%
1125	7.93%

Current consensus

Management guide at investor day



Potential margin upside driven by operating leverage and cost tailwinds

Operating margin has improved by ~100bps over the past 10 years against rising labor costs and raw materials inflation

Domino's has delivered outsized operating margin accretion in 8 out of the last 10 periods with positive revenue growth.

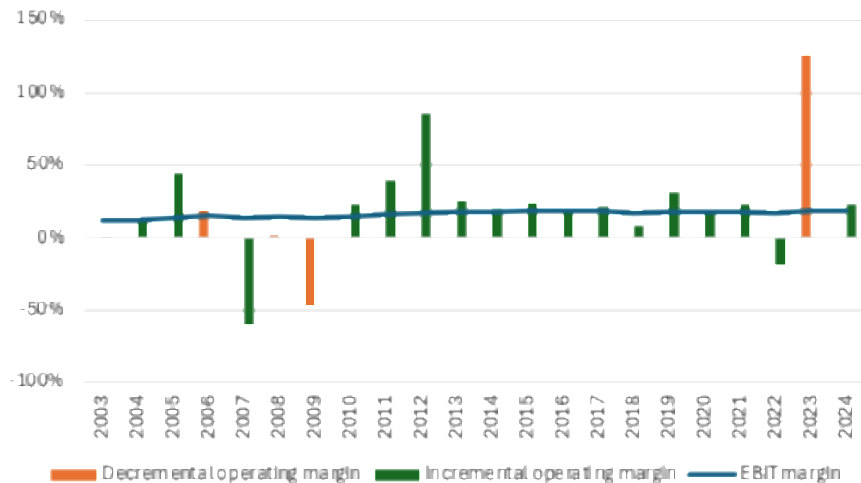
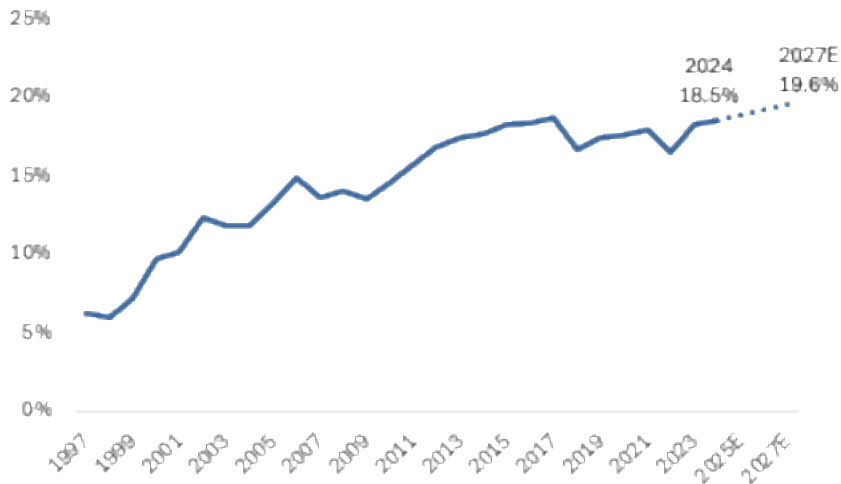
We forecast for EBIT margin to improve by another 110bps from here by 2027:

- 1). 100bps improvement from food costs returning to close to pre-COVID levels (halfway)
 - 2). 50bps from elevated labor costs abating
- Potential offsets (40-50bps): increase in G&A as investments in consumer & store tech, as well as supply chain; rent increases

In 2023, operating income grew 7.8% despite a modest decline in topline growth due to cost control measures

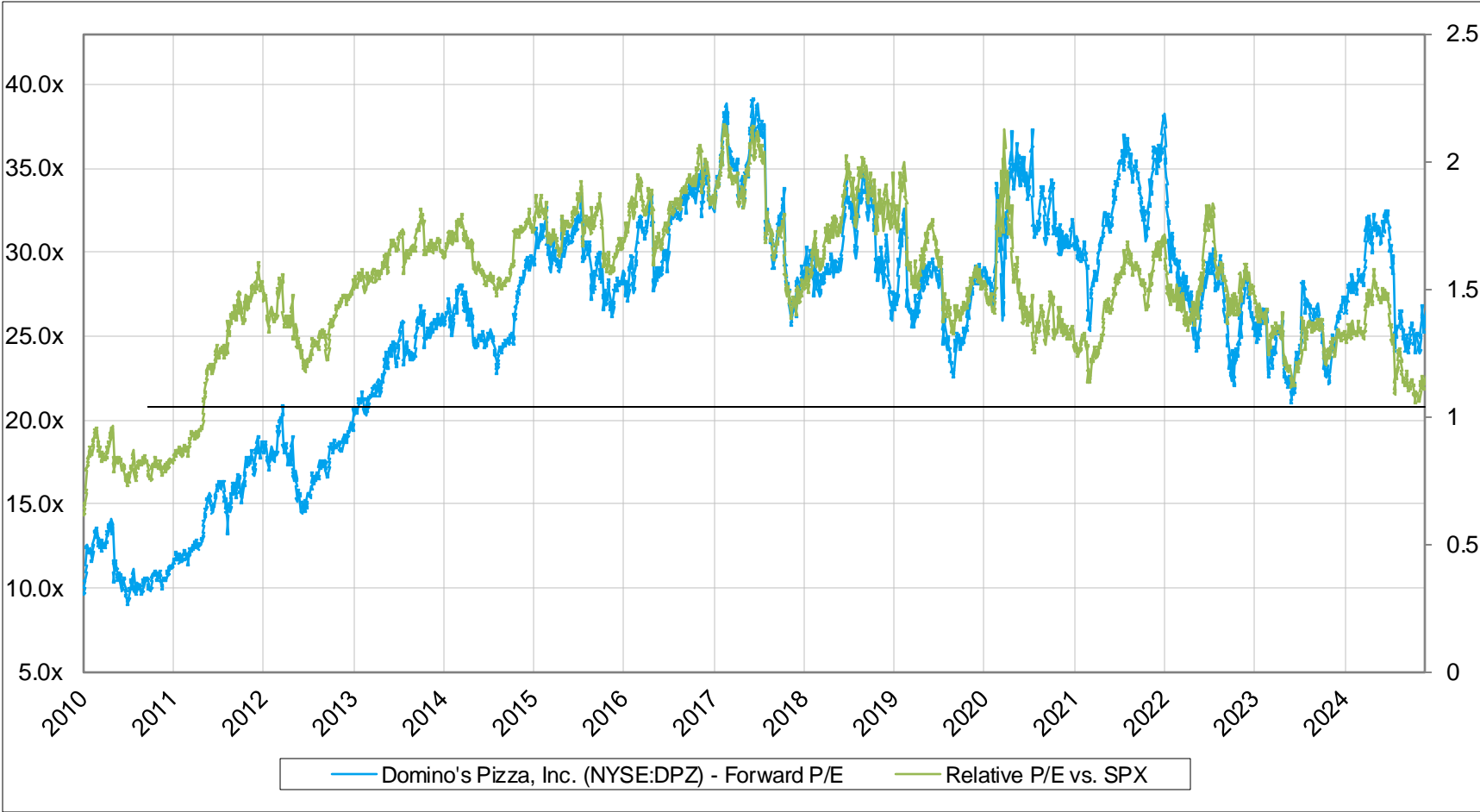
We are 2% above the Street on revenue, which translates into 4% operating income upside and 6% EPS given buybacks..

EBIT margin



Trading history

DPZ is currently trading at its lowest relative P/E to SPX since early 2011, commensurate with the time when DPZ had no store expansion and a decline in company owned SSS, offsetting franchisee growth



Valuation

1Y and 3Y price targets result in 25% and 57% upside, with 16% 3Y IRR

Financial Summary

	FY2023	FY2024	FY2025E	FY2026E	FY2027E
Revenue	\$ 4,479.4	\$ 4,804.3	\$ 5,414.4	\$ 6,031.7	\$ 6,707.2
% Growth		7.3%	12.7%	11.4%	11.2%
Consensus Revenue			5,036.1	5,386.7	5,667.1
% Growth			4.8%	7.0%	5.2%
YoY SSS Growth	1.6%	3.0%	4.3%	3.5%	3.5%
Consensus SSS Growth			3.8%	3.0%	3.0%
Gross Profit	1,254.2	1,349.0	1,543.1	1,713.0	1,918.3
% Margin	28.0%	28.1%	28.5%	28.4%	28.6%
EBITDA	\$939.12	\$1,017.72	\$1,207.42	\$1,302.84	\$1,428.64
% Margin	21.0%	21.2%	22.3%	21.6%	21.3%
Net Income	\$ 519.1	\$ 587.3	\$ 600.2	\$ 676.5	\$ 726.2
% Margin	11.6%	12.2%	11.1%	11.2%	10.8%
EPS	\$14.66	\$16.77	\$18.86	\$21.62	\$24.21
% Growth		14.3%	12.5%	14.6%	12.0%
Implied % Delta from Consensus			7.0%	10.5%	12.1%
Consensus EPS			\$17.63	\$19.56	\$21.59
% Growth			5.2%	10.9%	10.4%
Capex	(105.4)	(100.8)	(120.0)	(140.0)	(140.0)
FCF	9.3	67.6	189.1	248.7	314.2
Net Debt	4,877.6	4,824.3	4,635.2	4,386.5	4,072.4

Valuation

	FY2025	FY2026	FY2027
EPS	\$ 18.9	\$ 21.6	\$ 24.2
Fwd P/E Multiple	24.9x	24.4x	23.9x
Price Target	\$ 538.2	\$ 590.7	\$ 648.0
Target Price	\$ 538.2	\$ 590.7	\$ 648.0
Upside	25%	37%	51%
IRR	25%	17%	15%

Risks and mitigants

Domino's multi-pronged growth strategy and strong execution should insulate it against long-term risks

Risk	Likelihood	Mitigant
International macro heads persist well into 2025	Moderate	<ul style="list-style-type: none"> Core US business remains strong, supporting current valuation Competitors already struggling might have to accelerate store closings, alleviating competitive pressure in overseas markets Growth headwinds become more widespread and markets are less punitive because of it
Industry-wide promotions last beyond 1H25	Moderate	<ul style="list-style-type: none"> Domino's has the biggest war chest if this were to happen Prolonging of any near-term promotions will help expand loyalty customer base and support growth down the road Access to less price-sensitive customers through the UberEats platform
UberEats integration posts operational challenges	Low	<ul style="list-style-type: none"> Domino's is adding features one at a time (ex. limits customization options at the moment) to allow for transition time Better integration of Domino's tracker onto UberEats can better improve customer experience
Category loses appeal over time given shifting consumer preferences	Low	<ul style="list-style-type: none"> Pizzas are one the most customizable food categories and can adapt Domino's menu innovations can offer healthier alternatives to cater to evolving needs Have not seen changes in consumption pattern from initial wave of GLP-1 drug adoption

Management quality

Criteria	CEO Russell Weiner	CFO Sandeep Reddy	President Joe Jordon
Domino's experience	<ul style="list-style-type: none"> • CEO since May 2022 • COO July 2020 – Apr 2022 • President of US business Oct 2014 – Apr 2022 	<ul style="list-style-type: none"> • CFO since Apr 2022 	<ul style="list-style-type: none"> • President since May 2022 • EVP - international from 2018 to 2022 • CMO 2015 to 2018
Industry experience	<ul style="list-style-type: none"> • Marketing for Pepsi's North American cola business 	<ul style="list-style-type: none"> • CFO of Six Flags • CFO of GUESS? 	<ul style="list-style-type: none"> • Senior director of marketing at PepsiCo
Aligned incentives	<ul style="list-style-type: none"> • in fiscal 2023 approximately 91% of the target total direct compensation for our CEO, and an average of approximately 85% of all other named executive officers' target total direct compensation, was variable and tied to Company financial and/or stock price performance 		

New Long-Term Guidance Drives More (2024-2028)



MORE SALES

Annual Global Retail Sales Growth, ex. FX

Current Guidance

4 – 8%

New Guidance

7%+

MORE STORES

Annual Global Net Unit Growth

5 – 7%

1,100+

MORE PROFIT

Annual Operating Income Growth

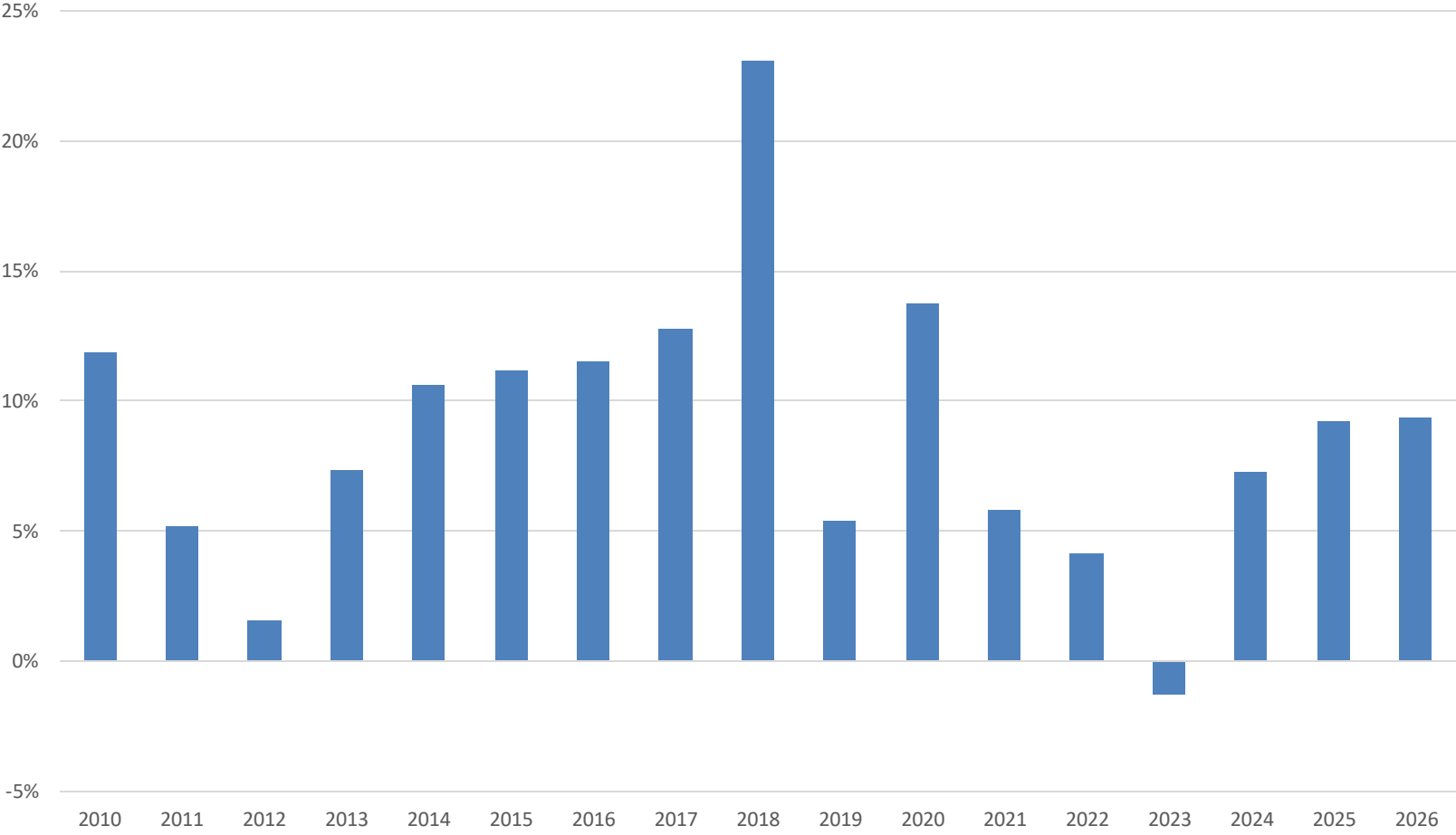
N/A

8%+

Appendix

Revenue growth history

DPZ revenue growth history (y/y)



Appendix

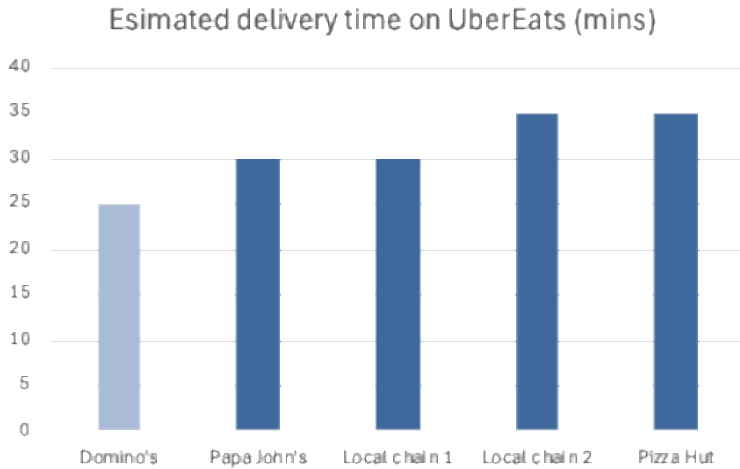
Domino's operational excellence drives below-peer delivery time, in a category already known for its speed

Proprietary research has confirmed the **core competitive advantages** of Domino's remain intact on UberEats: <30 min delivery time, delicious food, and pizza delivered while still hot.

The UberEats app currently lacks the optionality to customize sauce type and cheese level vs. website, and the order tracking experience lags the website, leaving runway for growth and improvement

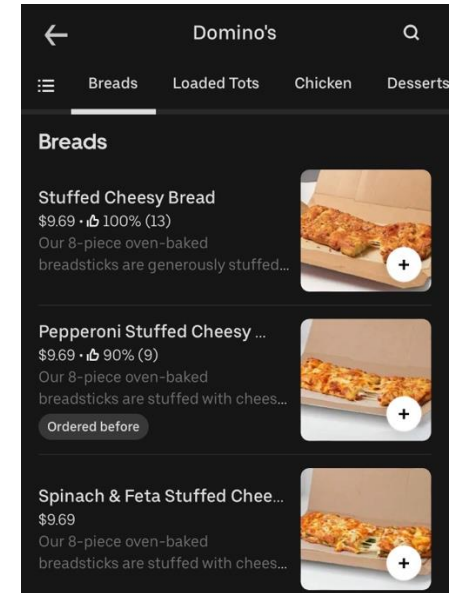
Before joining 3P platforms, 9 out of every 10 orders from Domino's contained pizza, comprising 60% of revenue.

DoorDash and UberEats reports point to sides and appetizer type items suitable for single consumption as the most ordered items. Domino's cheesy breads are already receiving overwhelmingly positive reviews on UberEats, with the potential to rise as a new traffic and sales driver.



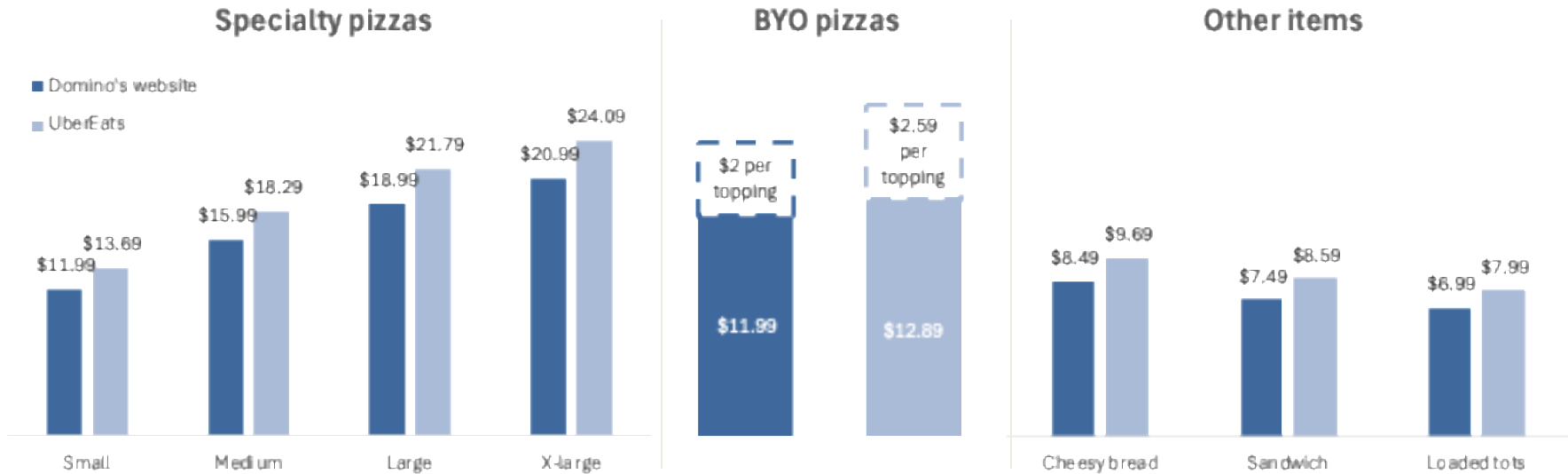
Top Ordered Food Nationwide

1. Fries
2. Chicken Quesadilla
3. Mozzarella Sticks
4. Garlic Naan
5. Spicy Chicken Sandwich
6. Pepperoni Pizza
7. Chips & Queso
8. Traditional Wings
9. Cobb Salad
10. Fried Rice



Appendix

Economics of 3P delivery



Price: UberEats prices are marked up by 14.7% on average vs. its own website. We estimate the take-rate by UberEats to be between 12-20% based on channel checks. Mitigants to pricing pressure include 1). Not offering website promotions on UberEats 2). Limiting customization options on UberEats to reduce costs.

Volume: Management believes the overall overlap between UberEats and website/app customer is ~35%. We expect modest (SD%) cannibalization between 3P and existing website customer given the revamp of the loyalty program for those more price-sensitive. We expect volume from UberEats to be largely incremental.

Margins: UberEats orders are delivered by Domino's own staff. Overall, we expect it to be modestly margin-dilutive given involvement of 3P. However, given this currently makes up a small percentage of overall revenue, any margin headwind could be offset by other cost-reduction and efficiency improvement measures.

Management access

- Call with IR

Primary research

- Order experience from own website and UberEats
- Interviews with customers

Tegus Transcripts

- Franchisees
 - Former Owner at Domino's Pizza
 - Director of Internal Audit (Chief Audit Executive) at Ruiz Foods
- Competitors
 - Former Chief Financial Officer at a Large Pizza Franchise
 - Panel: Blackline and Accounting Software Solutions
 - Former Chief Brand Officer at Papa John's
 - Former Director of Franchise Development, US at Pizza Hut
- Former employees
 - Former Executive at Dominos Pizza Inc.
 - Former Commercial Director at Dominos Pizza Inc
 - Former Vice President of Operations at Domino's
 - Former Director Of Franchise Development at Domino's Pizza Inc

Appendix

Long-term store growth potential

