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BUSINESS & ECONOMICS

# Equity Valuation – Ralph Lauren Corp.

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## Abstract

This dissertation was developed with the purpose of performing a valuation of Ralph Lauren Corp. and to arrive at a reasonable and fair value for the company's stock, along with a buy, hold or sell recommendation.

The valuation methods used in this dissertation consider macroeconomic events that impact Ralph Lauren Corp. and incorporates industry trends along with the company's historical financial performance. Two methods were used to arrive at a fair value for Ralph Lauren Corp., those being a Discounted Cash Flow Model and a Relative Valuation Model. After developing the two methods, it was possible to arrive a final target price of 127.84$ as of the 31st of March of 2023 which results in a BUY recommendation for Ralph Lauren's stock. To complement the Discounted Cash Flow valuation, both a sensitivity analysis and a scenario analysis were conducted to assess the sensitivity of the share price to changes in the WACC and Nominal GDP Growth, and to account for different scenarios that can impact Ralph Lauren Corp.

At the end, a comparison with an Investment Bank report was conducted in which it was concluded that the target price of the investment bank report of 138$ (as of 01-02-2022) resulted in a similar recommendation as the one from the models developed in this dissertation.

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## Abstrato

Esta dissertação foi desenvolvida com o objetivo de realizar uma avaliação da Ralph Lauren Corp. e chegar a um valor justo e razoável para as ações da empresa, juntamente com uma recomendação de comprar, manter ou vender.

Os métodos de avaliação utilizados nesta dissertação consideram eventos macroeconômicos que afetam a Ralph Lauren Corp. e incorporam tendências do setor, juntamente com o desempenho financeiro histórico da empresa. Dois métodos foram utilizados para chegar a um valor justo para a Ralph Lauren Corp., sendo eles um *Discounted Cash Flow Model* e uma *Relative Valuation.* Após o desenvolvimento dos dois métodos, foi possível chegar a um preço-alvo final de 127,84$ em 31 de março de

2023, o que resulta em uma recomendação de COMPRA para as ações da Ralph Lauren. Para complementar o *Discounted Cash Flow Model*, foram realizadas análises de sensibilidade e de cenário para avaliar a sensibilidade do preço das ações às mudanças no *WACC* e no Crescimento do PIB Nominal, e para considerar diferentes cenários que podem impactar a Ralph Lauren Corp.

No final, foi realizada uma comparação com um relatório de um banco de investimento no qual foi concluído que o preço-alvo do relatório do banco de investimento de 138$ (em 01-02-2022) resultou numa recomendação semelhante à dos modelos desenvolvidos nesta dissertação.

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This dissertation challenged me to put my knowledge in the topic of Equity Valuation to the test, along with skills that I was taught at Católica Lisbon. I am grateful for this experience, and it helped me to develop skills beyond the theoretical ones.

I would like to thank my supervisor, professor Tudela Martins, who always showed interest in the progress and helped me bring the project across the finish line.

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**Introduction**

This dissertation aims to value Ralph Lauren Corp., with the final purpose of determining a fair and reasonable share price for the company. The share price represents an important indicator of a company's financial health and provides information concerning the future of the company.

In order to arrive at a share price, it is necessary to first go through a series of steps and valuation tools that are designed to value a company the best and most efficient way possible,

This dissertation starts with a literature review of the topics being discussed further. This review is followed by an analysis of the macroeconomic environment, the company, and the industry it is inserted in. In addition to what was already mentioned, two models will be developed and explained in detail, these being a Discounted Cash Flow model and a Relative Valuation. To complement the first model, a sensitivity analysis and a scenario analysis will be conducted in order to account for different factors that impact Ralph Lauren Corp. Once that is completed, a comparison with two different reports will be conducted, one from BNP Paribas and another from MarketScreener, in order to test the valuation from this dissertation against valuations conducted by professional analysts.

In this equity research, there will also be present a SWOT analysis and a Porter's Five Forces analysis along with a Forecasted Balance Sheet.

**Motivation**

The motivation for the choice of Ralph Lauren Corp. as the company to be analyzed, is due to the interest of finding out more about the competitive industry it's inserted in. It was also due to the size and dominance of the brand throughout the world. Besides what was already mentioned, with macroeconomic events such as the COVID-19 pandemic and the Russia-Ukraine war, impacting different industries, there was also the desire to understand how this industry was affected and responded to these circumstances.

# 1. Literature Review

## 1.1 Intrinsic Valuation

When valuing a company there are two common approaches, Intrinsic Valuation and Relative Valuation. When it comes to Intrinsic Valuation, the models used are developed

based on the intrinsic characteristics rather than comparing and valuing the business relative to other companies or assets. For cash flow generating assets (or businesses) such as the one being valued in this dissertation, "the intrinsic value will be a function of the magnitude of the expected cash flows on the asset over its lifetime and the uncertainty about receiving those cash flows" (Damodaran, 2012).

### 1.1.1 Discounted cash flow Method

One of the most commonly used valuation tools is the Discounted Cash Flow Model (DCF) and it is considered to be the most reliable practice to arrive at the value of a certain asset (or business). This method aims to discount future cash flows at a rate that is able to reflect the riskiness of the cash flows, resulting in the present value of those cash flows and ultimately, the value of the asset (or business).
The previous description of the method is mirrored in the following equation:

- $V_0 = \sum_{t=1}^{n} \frac{CF_t}{(1+r)^t}$

Where:

- $V_0$ = value of the asset at t= 0
- $CF_t$ = cash flow at time t
- $r$ = required rate of return
- $n$ = number of cash flows

For the valuation of Ralph Lauren Corp., the DCF model is going to be used since the company's capital structure is stable and assumed to remain without changes for the forecasted period.

### 1.1.2 FCFF & FCFE

The Free cash flow to the firm (FCFF) is defined by Damodaran as a "cash flow after taxes and reinvestment needs but before any debt payments", (Damodaran, 2006). It is used when valuing the entire business, in contrast to using models that are linked to equity valuation and use Free Cash Flows to equity (FCFE) to value the equity stake of the business.

In a FCFF model, the value of the business or asset being analysed is achieved by discounting the cash flows to the firm at the appropriate discount rate, which in the

majority of cases and in this dissertation is going to be the weighted average cost of capital (WACC), in order to account for the whole capital structure of the business and to arrive at the Enterprise Value (EV).

The formulas for the FCFF and FCFE are the following:

- **FCFF** = EBIT*(1 – Tax Rate) + Depreciation – CAPEX – Δ Net Working Capital
- **FCFE** = Net Income +Depreciation-CAPEX- Δ Net Working Capital- (New debt issued – Debt repayments)

As referred previously, through the FCFF it is also possible to derive the Enterprise Value and the Terminal Value (TV), and the formulas to achieve such metrics are the following:

- **Enterprise Value** = $\sum_{t=1}^{n} \frac{FCFF_t}{(1+WACC)^t} + \frac{Terminal\ Value}{(1+WACC)^t}$
- **Terminal Value** = $\frac{FCFF_n(1+g)}{(WACC-g)}$

Where:

- FCFF = Free Cash Flows to the Firm
- WACC = Weighted Average Cost of Capital
- g = Growth Rate

### 1.1.3 WACC

The WACC is the discount rate used to obtain the same value that results from the usage of Equity Cash Flow (ECF) and where the cost of equity would be used as the discount rate.

The WACC is considered to be the weighted average of a cost and a required return. Referring to the WACC as the "cost of capital" can constitute what Pablo Fernández (Fernández, 2010) refers to as misleading information since it is not a cost.

The formula to obtain the WACC is the following:

- $WACC_t = \frac{[E_t * Ke_t + D_t * Kd_t(1-T)]}{(E_t + D_t)}$

Where:

- D = Value of Debt
- E = Value of Equity
- Ke = Required return to levered equity
- Kd = Required return to debt
- WACC = Weighted average cost of capital

It is important when using the WACC to be aware of some mistakes that are commonly made in order to be the most successful on valuing a company. Fernández points to multiple errors due to not considering the definition of WACC (Fernández, 2011). Amongst the errors, the most appropriate to be addressed in this literature review are, the fact that often analysts use a wrong tax rate to compute the WACC, when the tax that should be used is the one that is also used to relate the Equity Cash flows and the Free Cash Flows; and the fact that many calculate the WACC assuming a capital structure that is not current or the forecasted one (Fernández, 2011). It is more appropriate to apply the WACC when the capital structure of the business is maintained during the forecasted period, when this cannot be assured, the usage of the WACC can be considered challenging (Luehrman, 1997).

### 1.1.4 Cost of Equity

Following the WACC topic, it is important to further understand the cost of equity. The cost of equity is related to the rate of return that is expected by Equity holders for their investment on the company being valued. There are three factors that are considered the basis for the metric: the risk-free rate, the market risk premium, and a company-specific risk adjustment (Beta) (Koller, TM and James, M., and Wessels, D., 2005). Adding to this, there are three different methods that allow the person that is conducting a valuation to arrive at values for the cost of equity, these being, the Capital Asset Pricing Model (CAPM), the Fama-French three-factor model and the Arbitrage Pricing Theory.

#### 1.1.4.1 CAPM

According to Ross, the CAPM introduces, “the idea that, in competitive equilibrium, assets earn premia over the riskless rate that increase with their risk, by showing that the determining influence on risk premia is the covariance between the asset and the market portfolio, rather than the own or intrinsic risk of the asset”, (Ross, 1978). With this said, the formula for the CAPM is a simple one that adds the risk-free rate to the product of beta with the Risk Premium, as shown in the formula bellow:

$$k_e = r_f + \beta_e[E(r_m) - r_f]$$

Where $k_e$ is the Cost of Equity, $r_f$ is the risk-free rate, $\beta_e$ the equity beta, and finally $E(r_m)$ the expected market return.

#### 1.1.4.2 Fama-French Three Factor Model

Fama & French developed the Fama-French three factor model (FF) that adds complexity to the one factor CAPM. The developers of the model construct three portfolios that replicate underlying risk factors, these being size, market factor and book to market factor. They then proceed to relate expected stock returns to these factors, finding a linear relationship. The portfolios constructed are the following:

- "Small Minus Big" (SMB)
- "High Minus Low" (HML)
- Excess Return on Market

The three-factor is presented in the formula bellow:

$$k_e = r_f + \beta_e\left[E(r_m) - r_f\right] + \beta_s * SMB + \beta_v * HML$$

Where, SMB is the difference in returns of small and big market capitalization companies and HML the difference in returns of companies with high and low book-to-market companies.

#### 1.1.4.3 Arbitrage Pricing Theory

Finally, the last alternative to arrive at the Cost of Equity mentioned in this literature is the Arbitrage Pricing Theory (APT). In comparison to the CAPM model, the APT allows more than one generating factor (Ross, 1980). Also, it is common sense that no arbitrage profits are integrated on the conception of the market equilibrium, so, the APT will demonstrate that, "every equilibrium will be characterized by a linear relationship between each asset's expected return and its return's response amplitudes on the common factors" (Ross, 1980). In this alternative approach, there is usage of different betas for each asset, so that the multiple factors that impact risk and returns are weighted.

When comparing all options to arrive at the Cost of Equity, the CAPM, although it has its limitations, can still be considered a reliable option when valuing a company. When tested against the Fama & French three-factor model, although some variables are not

being considered in the CAPM, and FF takes these into consideration, hence their model being more complex, the results and differences between the two approaches are usually not significant.

#### 1.1.4.4 Risk-Free rate

The Risk-Free rate is one of the most important factors when it comes to valuing a business or asset through any model. To better understand and have guidance on how to correctly indicate the risk-free rate, we start by analysing what should not be indicated as such. Fernández defines the wrong choosing of the risk-free rate for valuation as one of the most common errors when valuing an asset or business. Further investigating this error, it is not acceptable, in valuation, to use the historical average of the risk-free rate as the actual risk-free rate, nor is acceptable to use a short-term government bond rate (Fernández, 2004).

By definition, the risk-free rate should be the rate that an investor can obtain right now, for an investment, in an asset, in the market, that is considered riskless and has an appropriate maturity, usually a maturity matching the one for the forecasted cash flows of the company we are valuing. With this said, the appropriate risk-free rate to be used in a model, such as the CAPM would be highly liquid, long-term government bonds (Koller, TM and James, M., and Wessels, D., 2005).

#### 1.1.4.5 Beta

A beta, in the context of the CAPM, is considered to be a risk parameter. In this particular model, the beta is used to measure the market risk of what we are valuing relative to a market portfolio (Damodaran, 1999). The risk, in this context, lies in the deviation of the returns from what is considered to be the expected returns. In that case, a riskless asset would be the asset that manages returns to match expected returns. As a proxy for the riskless asset, it is common that we use a stock index, and the beta will represent the degree to which a stock deviates from the returns of the stock market.

#### 1.1.4.6 Equity Risk Premium

It is intuitive that investments that are riskier should have higher expected returns than investments that do not incorporate that much risk, and therefore, should have lower expected returns. So, as Damodaran puts it, “the expected return on any investment can be written as the sum of the risk-free rate and an extra return to compensate for the risk”

(Damodaran, 2002). The question that comes with the risk-premium is related to the way we measure risk, and how investors react to this risk. In the context of the CAPM the risk premium should reflect what investors demand, on average, to take on the perceived extra risk relative to the riskless asset.

#### 1.1.4.7 Country Risk Premium

The country risk premium is considered to be the premium that investors demand in order to invest in a foreign country. The premium will depend on the country's default risk and naturally, for countries with higher default risk, investors demand a higher premium, and vice-versa.

As Ralph Lauren Corp is present in a large number of countries across the globe, it is considered that the country risk is diversified and so the country risk premium is assumed to be null.

### 1.1.5 Cost of debt

The cost of debt reflects the costs that are linked to the action of borrowing funds. Financial distress, debt overhang, and agency disputes between managers and investors or between various groups of investors are examples of these expenses (Jules H. van Binsbergen, John Graham, Jie Yang, 2010). The value that is used as the cost of debt in valuation is usually retrieved from the outstanding debt associated with the business we are valuing. Outstanding debt reflets the risk of default of the company and from that value we are able to derive the cost of debt.

### 1.1.6 Growth Rate

When it comes to the growth rate, according to Harris (Harris, 1986), one can estimate growth in earnings by:

- looking at historical data;

- Look at another's analyst growth rate;

Damodaran introduces another way of estimating the growth rate which analyses the fundamentals of the company being valued (Damodaran, 2013). This approach determines the growth rate as a function of the quantity and quality of asset investments, such as acquisitions, mergers, or new distribution channels.

### 1.1.7 Dividend Discount Model

The dividend discount model is a simple method that can estimate the value of a company through expected dividends as the cost of equity.

$$P_0 = \sum_{t=1}^{t=\infty} \frac{E(DPS_t)}{(1+k_e)^t}$$

Where, $P_0$ is the Price at year 0, $E(DPS_t)$ corresponds to the expected dividend per share in year t, and finally $k_e$ is the cost of equity.

There are two main versions to this model, these being the Gordon Growth Model and the Two-Stage Dividend Discount Model. The first one mentioned considers that the company's dividend growth rate is stable while the second one considers it to be unstable in the short term and expects them to stabilize in the long-term.

For the valuation of Ralph Lauren Corp, the Dividend Discount Model is not going to be used due to the fact that the model has some limitations that can lead to a misleading valuation of the company. The company can be paying dividends that are either too big or too little when compared to its cash capacity (Damodaran, 2013).

### 1.1.8 Adjusted Present Value

The Adjusted Present value (APV) is considered one of the "variants of discounted cash flow models" (Damodaran, 2006). The variant values the asset (or business) by looking at its value without the impacts of the debt and financing side effects that come with the cash flows. Only after considering these cash flows will the model measure the effects mentioned earlier, these effects being either positive or negative. Adjusted Present Value valuations come as an alternative to the standard use of the WACC as the discount rate used to arrive at the present value of the cash flows. The APV approach manages to take into account the information provided by the WACC and other relevant information that is not present on the typical valuation that uses the WACC as the discount rate.

Using this approach, the value of the asset (or business) being valued is provided by the following formula:

- Value of the Firm = $V_u + PV_{tx} + PV_{bc}$

Where the $V_u$ is the value of the unlevered asset, $PV\ _{tx}$ the present value of the interest tax shield, and $PV_{bc}$ the pesent value of bankruptcy costs.

With this said, it is possible to carry out a valuation using the APV method through 4 steps. The first step is to do typical projections as in any DCF approach. The second step is to discount Base-Case Cash flows to the Present Value, along with the terminal value using an appropriate discount rate. As the third step, the side effects of financing, namely interest tax shields, costs of financial distress, subsidies, hedges, issue costs and other related costs will be discounted, as we would a normal cash flow, again, at an appropriate discount rate, and finally, join all the present values for both the Based-Case Cash flows including the terminal value and the side effects.

There are, nevertheless, some limitations that lead to the APV method not being used as much as a typical DCF model. This problem derives from the bankruptcy costs and the indirect costs associated with this issue. When accounting for these costs, the type of industry and company being valued is very important and it impacts directly the value for the indirect costs and may constitute a limitation when using the model, and hence why this approach is not used in this dissertation.

### 1.2 Relative Valuation

By recurring to Damodaran, in "relative valuation, the value of an asset is compared to the values assessed by the market for similar or comparable assets" (Damodaran, 2012). For Ralph Lauren Corp, relative valuation will be used in order to complement the DCF valuation method mentioned earlier on the literature review.

For the relative valuation to be carried out for Ralph Lauren Corp., it is necessary to:

- Find comparable companies (peer group) and retrieve market values for these companies;
- "Convert these market values into standardized values, since the absolute prices cannot be compared" (Damodaran, 2012). By standardizing the values, price multiples are created;
- Finally, compare the multiples created to the standardized value for the company being valued.

There are two different types of multiples that can be used in relative valuation, these being the forward-looking multiples and the enterprise-value multiples. “Empirical evidence suggest that forward looking multiples are more accurate predictors of value” (Goedhart, Koller and Wessels, 2005) while the enterprise-value multiples are not affected by the company’s capital structure.

With this said, three multiples were selected for Ralph Lauren Corp: Price to Earnings Ratio, Price to Book Ratio and finally, Enterprise Value to EBITDA Ratio.

## 2. Macroeconomic Outlook

For the year of 2023, economy is expected to slow down in comparison to prior years mainly due to impacts caused by Russia’s invasion of Ukraine, alongside with repercussions of COVID-19 that are still felt around the globe. According to the International Monetary Fund, the expected growth of the economy from 2021 to 2023 constitutes the weakest growth profile seen since 2001.

The war between Russia and Ukraine has had a detrimental influence on the global economy. Countries all across the world and the United States included have imposed sanctions on Russia related to exportations and other trade restrictions and we see companies deciding to suspend operations as a way to speak against the conflict. It is unclear how the conflict might develop with time and the global economy feels this uncertainty in various ways.

It is impossible to talk about a macroeconomic outlook and not mention the current state of inflation. IMF refers to it as “higher than expected inflation worldwide” and it has been tightening financial conditions all over the word. The cause for this inflation can be traced back to the COVID-19 pandemic and the amounts of government programs that enhanced consumers savings during that time, leading to consumption and a spike in search for goods, to a point that in many cases, supply does not meet the amount of demand. Besides the impacts of COVID-19 on inflation, Russia invading Ukraine also contributed for a surge in prices of goods such as wheat and corn that is causing groceries to rise in price. Energy prices also rose significantly and finally, due to shortages of supply, it is also perceivable higher shipping rates for goods. According to Statista, the value of inflation for the United States was 7.68% for 2022 and is expected to drop from 2022 to 2023 to

2.86%. For the forecasting period (FY2022-FY2028) the value of inflation projected by Statista (as of September 2022), is expected to stabilize until it reaches 2% in 2028.

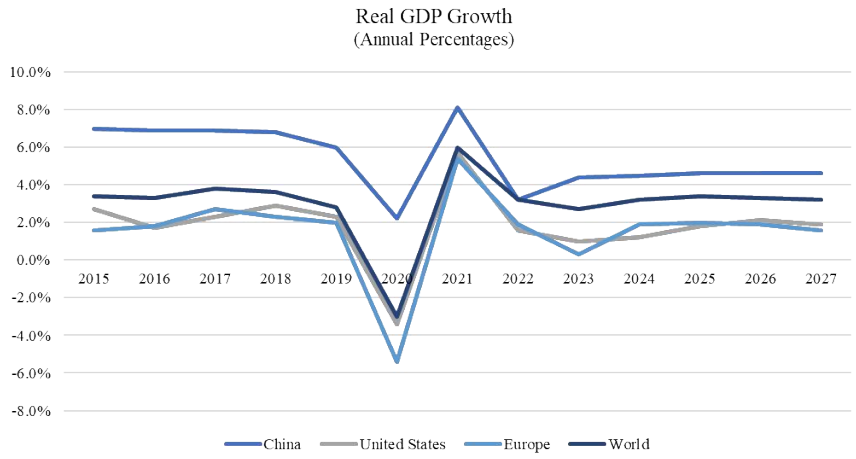
In response to inflation, we see countries worldwide act on their monetary policy and increase interest rates, looking for higher borrowing costs, and attempting to reduce spending from consumers and reducing amounts of money circulating.

When it comes to currency, looking at the U.S Dollar, we saw increasing interest rates strengthening the currency, making Treasuries and other assets denominated in dollars become more attracting and flooding the country with capital flowing from all around the globe. This strength of the U.S Dollar is observable in the event that has not been seen since 2002, the parity between U.S Dollar and Euro, with the Euro also suffering from the consequences of the war between Russia and Ukraine that has brought uncertainty regarding Europe's energy supply and has put downward pressure on the currency.

Finally, it is also important to take into account the impacts that China's "zero COVID-19" policy has had on the world economy. With lockdowns continuing in China, disruptions in the global supply chain are inevitable and severe as China accounts for a significant percentage of the world's total output.

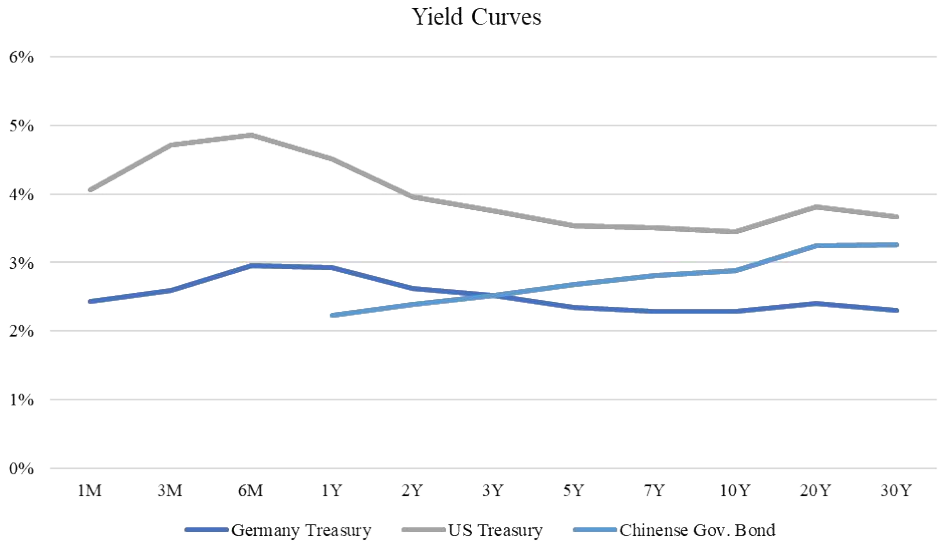
Based on IMF, the United States growth rate is expected to decrease in 2023. The following chart shows historical evolution of Real GDP Growth and a period of forecasted values for the metric for United States, Europe, China, and the World (IMF, 2022).

Figure 2 - IMF Real GDP Growth (October 2022)




The next chart displays the yield curves for the U.S. Treasury, Germany Government Bonds and Chinese Government Bonds. It is observable the inverted yield curve for the United States, which signals what was mentioned before of a possible recession coming soon.

Figure 1 - Yield Curves (March 2023)




## 3. Industry Analysis

Ralph Lauren is inserted in the Textile, Apparel and Luxury Goods industry and for this particular industry, there is optimism concerning the future. Despite the pessimism and conservativism due to the pandemic when it came to results and growth of the industry, the aftermath revealed that it was not as dramatic as it seemed in the beginning of the COVID-19 pandemic.

According to Bain & Company, in 2022, the industry generated positive growth for the vast majority of brands that compete in the market, with US and Europe leading and contributing the most for the positive scenario. By recurring to Mckinsey analysts in their "State of Fashion 2023" report, it is stated that "the luxury sector is expected to grow between 5 and 10 percent in 2023" (McKinsey, 2022), projecting that China will grow between 9 and 14 percent due to its momentum, the United States are projected to grow between 5 and 10 percent and finally, Europe, due to high pressure felt due to currency and the ongoing energy crisis is expected to grow between 3 and 8 percent.

For an outlook of the long-term growth of the industry, Statista provides forecasts, stating that the industry is expected to grow annually by 3.17% (CAGR 2023-2028), acknowledging that most of the industry's revenues will be generated in the United Sates.

The industry is still relying on the new generation trends as "Gen Y" and "Gen Z" keep contributing immensely to the growth of the industry and it expects that the contribution it will see from "Gen Y" and "Gen Alpha" will be three times larger than any other generation for the upcoming decade. The reason for the evolution and impact from these particular generations comes from the fact that unlike "Millennials", these generations participate actively in the market 3 to 5 years earlier, starting at 15 years-old rather than waiting to reach 18-20, (Bain & Company, 2022).

## 4. Company Analysis

Ralph Lauren was founded in 1967 under the name "Ralph Rueben Lifshitz", an American fashion designer that named the company after him and built his brand based on an image of what it was back then, an elite American lifestyle. The brand started in the tie business, and it was only in 1968 that Ralph Lauren, as known today, released its first menswear line, followed by the womenswear line in 1971.

Besides the luxury and representation of a desired lifestyle by consumers, the brand became recognizable all over the world when in 1974, Ralph Lauren dressed the male actors of a film adaptation of "The Great Gatsby". The film provided the perfect scenario for the integration of the classic line of clothing of Ralph Lauren as it was set in the lost, elegant era of F.Scott. This was a very important moment in the history of the company has it would bring a lot of attention and credibility to the brand. After that, the brand was

also involved with famous actors Woody Allen and Diane Keaton in a different movie called “Annie Hall” which furthered increased knowledge of the brand.

Currently, Ralph Lauren is inserted in the Textile, Apparel and Luxury Goods industry and the company is involved in the design, marketing, and distribution of upscale lifestyle products for both genders. These lifestyle products that go from mid-range to luxury segments, produced and distributed by the company, can be divided into five different categories, these being, apparel, accessories, home, fragrances and hospitality. The Company divides itself into several brands, these being, Ralph Lauren, Ralph Lauren collection, Ralph Lauren Purple Label, Polo Ralph Lauren, Double RL, Lauren Ralph Lauren, Polo Ralph Lauren Children and Chaps, and others.

Amongst the wide variety of products provided by Ralph Lauren, there were, throughout the history of the company, key products that also helped establish a credible and recognizable brand. Products such as the Teddy Bear T-Shirts, the classic Polo Shirt, the Cabled Cashmere Sweaters, the Olympic Uniform Gear and the Striped Rugby Shirt are, still to this day, one of the main reasons for the success of the brand worldwide.

At the moment, Ralph Lauren Corp. has its headquarters located in New York, United States. The corporation diversifies its business by region (North America, Europe, and Asia, among others) and distribution channel (retail, wholesale and licensing). According to the annual report published in May 2022, the company reaches customers through 504 retail stores, 684 concession-based shop-within-shops, and, inevitably, digital stores, and organizes its business into three reportable segments, with North America accounting for approximately 48% of net revenues for the fiscal year 2022, Europe accounting for 28%, and Asia accounting for approximately 21%. The remaining 3% of net revenues for the

fiscal quarter come from a non-reportable component that includes Ralph Lauren and Chaps branded royalties collected through the company's global licensing relationships.

Figure 3 - Regions (% of Revenues)

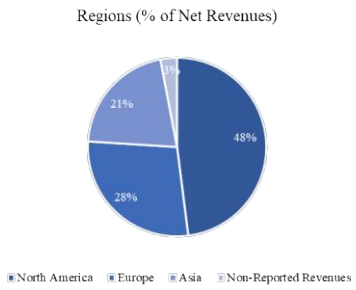



Figure 4 - Ralph Lauren Physical Stores (2022)


### 4.1 COVID-19 Pandemic

The COVID-19 Pandemic impacted the whole world, and consequently it also had impacts on the company causing Ralph Lauren to go through business disruptions and periods where stores, distribution centers, corporate facilities had to be closed. During the fiscal year of 2021, due to government mandatory lockdowns, the company saw key stores in important locations to be closed for long periods of time, which inevitably impacted significantly operating results. During the time stores were allowed to be opened again, it still felt impacts through limited hours that stores could be open and restrictions such as number of costumers allowed in stores. During this time, digital commerce played a very important role, growing exponentially.

In 2022, even though COVID-19 is not as present as it once was, the company still felt constants disruptions due to the pandemic, with shortages of supply, temporary factory closures, labor shortages and other issues mainly caused by China's still "zero covid" policy that leads to occasional lockdowns. These disruptions have impacted the amount of inventory available, which leads to a surge in costs for this inventory and for their transportation.

### 4.2 Share Price Evolution

Thirty years after its foundation, Ralph Lauren becomes a publicly traded company on the 12$^{th}$ of June of 1997 on the New York Stock Exchange after filing to offer shares to the public on an IPO led by Goldman, Sachs & Co. Ralph Lauren issued 29.5 million shares and raised approximately $767 million. Today, most shares are owned by institutional investors located mainly in North America and Europe, with for example,

The Vanguard Group, Inc. alone, owning 10.88% of total shares totaling approximately $432 million.

### 4.3 Financial Performance

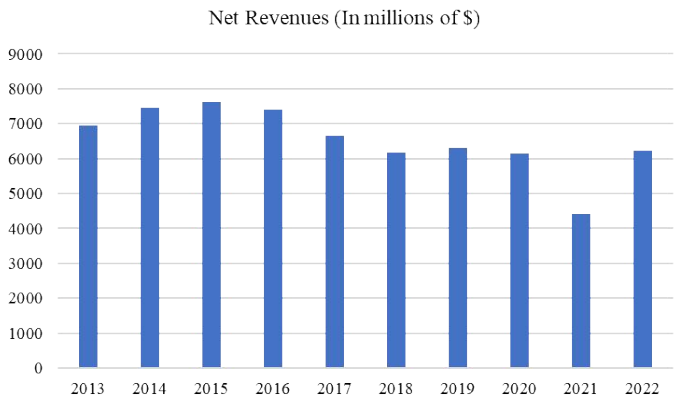
When analyzing a company's financial performance, there are different indicators that can be looked at. In order to assess its own financial performance, according to the annual report 2021/2022, Ralph Lauren recurs to revenues, gross profit, SG&A and net income to analyses its operating results and goes further to evaluate its financial condition and liquidity by looking at net cash and short-term investment position.

#### 4.3.1 Operating Results

##### 4.3.1.1 Revenues

In terms of Revenue, we can see from the performance of the last 5 years that the company was showing a negative trend. This negative trend became more significant from 2020 to 2021, incorporating the negative impacts of the COVID-19 pandemic that caused stores all around the globe to be closed and imposed restrictions to the operations of the company as was mentioned earlier. During this period, revenues went from $6159.8 million in 2020 to $4400.8 million in 2021. Nevertheless, the company has seen its revenues go back to values prior to 2021 after restrictions were lifted accompanied with growth in digital commerce and general increase in consumer demand.

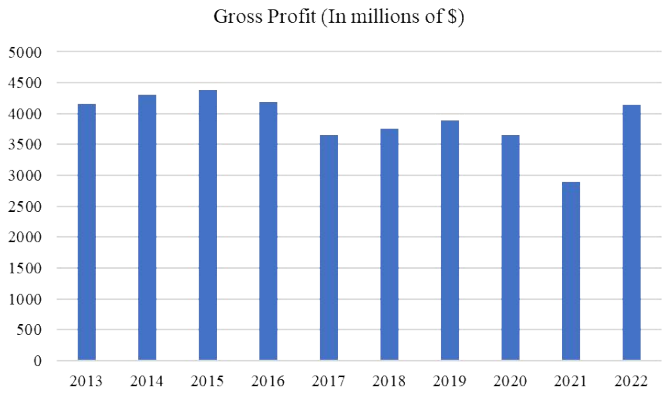
Figure 5 - Revenues (in millions of $) - FY2013-FY2022




#### 4.3.1.2 Gross Profit

When looking at the historical values for gross profit, it is perceivable a positive trend up until 2021, once again, the year significantly impacted by the issues raised with the COVID-19 pandemic. In 2022 the company managed to increase gross profit by 26,6% in comparison to the prior year, getting back to similar values registered prior to 2021. According to the annual report 2021/2022, the recovery was achievable through lower non-routine inventory charges, improved pricing, and lower levels of promotional activity.

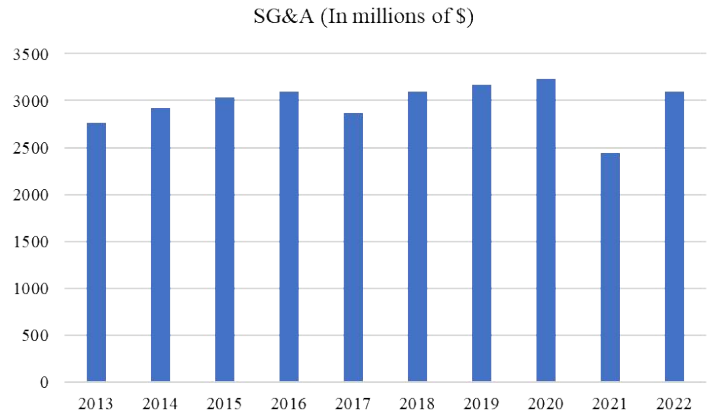
Figure 6 - Gross Profit (In millions of $) - FY2013-FY2022



#### 4.3.1.3 SG&A

When analyzing the evolution of selling, general and administrative expenses, the observable trend when looking at historical values is similar to the one founded in Gross Profit. Up until 2021, the company had been registering growing expenses. The impacts of COVID-19 pandemic caused SG&A expenses to drop significantly, going from $3232,7 million in 2020 to 2443,7 million in 2021. As seen for previous metrics analyzed, the value went back to pre-pandemic values in 2022. To better understand the item's development, it is crucial to assess SG&A costs as a proportion of net sales. In the fiscal year 2022, SG&A expenses as a percentage of net revenues fell by 680 basis points to 53,2%, according to the company's annual report for 2021–2022. Ralph Lauren uses operating leverage on increasing net revenues to defend the decline in percentage of net revenues.

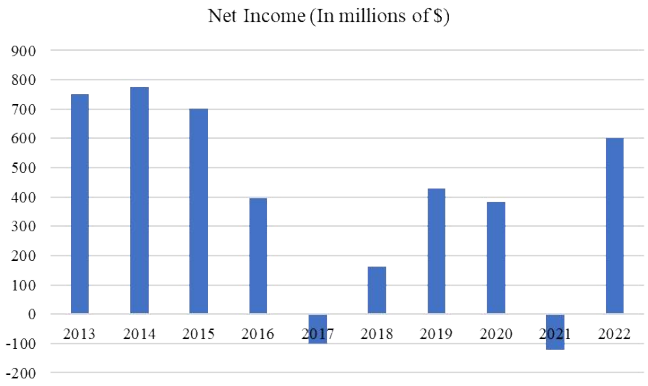
Figure 7 - SG&A (in millions of $) - FY2013-FY2022




#### 4.3.1.4 Net Income

Net income has had a significant increase from 2021 to 2022, growing from a negative value of $121.1 million to a positive value of 600.1 in the fiscal year of 2022. The increase sums up to $721.2 million. The increased is justified by the increase in operating income.

Figure 8 - Net Income (In millions of $) - FY2013-FY2022




### 4.3.2 Financial Condition and Liquidity

#### 4.3.2.1 Net cash and Short-term investments position

In terms of net cash and short-term investments, Ralph Lauren ended the fiscal year of 2022 with a position worth $962.1 million, representing a decrease from the position of the previous year, when it had registered $1.144 billion. The decrease is justified by the use of cash in a share repurchase conducted during the last fiscal year, related to Class A common stock. According to the annual report the operation amounted to $492.6 million and included withholdings in satisfaction of tax obligations for stock-based compensation awards.

### 4.3.3 Peers

It is important to find a reasonable peer group for Ralph Lauren Corp. to be compared to. For the process of the selection of a peer group for the company being valued, different criteria were taken into consideration.

A system was designed to select five different companies that will form the peer group. First, nine companies were selected and looked at closely amongst four different main criteria, these being size, profitability, leverage and Growth. The values found in table below (table 4) were retrieve from Thomson Reuters.

When it comes to size, market capitalization, revenues and EBITDA were analyzed and the top five companies with the closest values to the values of Ralph Lauren Corp were attributed one point.

For profitability, ROIC and EPS were looked into, and once again, the five companies with the closest values to the company being valued were attributed one point.

Finally, to account for leverage and growth, Net Debt, Net debt/EBITDA and LT Growth were considered, and the process for the selection of the top five companies was the same as mentioned earlier for the other criteria.

The table below displays the system that was referred previously and highlights the chosen company after integrating all the criteria together.

Table 1 - Ralph Lauren's Peer Group

| | Industry | Size | | | Profitability | | Leverage | | Growth | Top 10 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Company name** | **GICS Industry name** | **Market Cap** | **Revenue** | **EBITDA** | **ROIC** | **EPS** | **Net Debt** | **Net Debt/EBITDA** | **LT Growth** | **Score** |
| Ralph Lauren | Textiles, Apparel & Luxury Goods | 7,190,613 | 6,218,500 | 1,038,300 | 14.03 | 7.22 | -611,000 | -0.588 | 8.5% | |
| Burberry Group PLC | Textiles, Apparel & Luxury Goods | 10,135,777 | 3,748,406 | 1,134,072 | 14.14 | 94.5 | 230,794 | 0.204 | 12.6% | 6 |
| PVH Corp | Textiles, Apparel & Luxury Goods | 4,136,087 | 9,154,700 | 1,370,900 | 13.01 | 13.01 | 1,129,900 | 0.824 | -6.0% | 5 |
| VF Corp | Textiles, Apparel & Luxury Goods | 12,844,898 | 11,841,840 | 1,926,654 | 18.79 | 1.08 | 4,144,831 | 2.151 | -6.0% | 2 |
| Estée Lauder | Personal Products | 83,358,294 | 17,737,000 | 3,929,000 | 20.7 | 6.01 | 1,455,000 | 0.370 | 6.6% | 3 |
| Hugo Boss AG | Textiles, Apparel & Luxury Goods | 3,685,730 | 3,141,172 | 593,906 | 8.22 | 3.04 | 676,910 | 1.140 | 23.0% | 6 |
| ABERCROMBIE & FITCH CO | Specialty Retail | 995,058 | 3,712,768 | 490,967 | 24.07 | 1.23 | -519,565 | -1.058 | 18.0% | 5 |
| Nike Inc | Textiles, Apparel & Luxury Goods | 165,614,820 | 46,710,000 | 7,790,000 | 26.79 | 3.52 | -3,567,000 | -0.458 | 6.9% | 3 |
| TAPESTRY INC | Textiles, Apparel & Luxury Goods | 8,439,588 | 6,684,500 | 1,311,600 | 20.63 | 3.16 | 740,700 | 0.565 | 12.3% | 6 |
| Adidas | Textiles, Apparel & Luxury Goods | 24,784,729 | 23,940,062 | 3,498,446 | 17.12 | 7.13 | 1,164,646 | 0.333 | 23.8% | 3 |

# 5. DCF Valuation

In the following sections the forecasted process is explained in detail. This process is divided into 3 different stages, these being the forecasting of sales, followed by the forecast of net income, and finally the FCFF are forecasted. The projections are done for the next five years.

## 5.1 Sales Projection

In order to arrive at reasonable values for revenues for the forecasted period, different variables that directly impact Ralph Lauren's sales were selected. These variables were analyzed for each region that the company operates in, and after getting the growth projections for each region it was possible to forecast total revenues until 2028.

The variables considered were the number of stores and digital commerce. Both variables impact Ralph Lauren's sales both in the short-term as well as in the long-term. In addition to the impact that these variables have on the company, they also account for macroeconomic issues such as the Covid-19 pandemic and conflicts such as the Russia-Ukraine war.

With this said, after performing the forecasting of Ralph Lauren's revenues, a CAGR of 6.54% was achieved for the forecasted period.

Table 2 - Total Revenues - Combined Impact of Regions on Revenues

**Total Revenues**

| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|
| Revenues | 6652.8 | 6182.3 | 6313 | 6159.8 | 4400.8 | 6218.5 |

| | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | CAGR |
|---|---|---|---|---|---|---|---|---|
| Revenues | 6218.50 | 7119.69 | 7933.99 | 8750.31 | 9071.57 | 9411.80 | 9772.28 | 6.54% |
| *% Revenue Growth* | | *14.49%* | *11.44%* | *10.29%* | *3.67%* | *3.75%* | *3.83%* | |

| **North America** | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Revenues | 4140.15 | 3693.66 | 3717.24 | 3486.68 | 2409.20 | 2948.85 | 3040.03 | 3132.73 | 3226.96 | 3254.43 | 3282.13 | 3310.06 |
| *Increase in Stores* | | | | | | | *2.09%* | *2.05%* | *2.01%* | *0.85%* | *0.85%* | *0.85%* |
| *Increase in Digital Sales* | | | | | | | *1.00%* | *1.00%* | *1.00%* | *0.00%* | *0.00%* | *0.00%* |

| **Europe** | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Revenues | 1242.05 | 1113.34 | 1146.67 | 1138.98 | 778.97 | 1172.14 | 1344.26 | 1531.96 | 1710.52 | 1740.88 | 1771.78 | 1803.23 |
| *Increase in Stores* | | | | | | | *13.68%* | *12.96%* | *10.66%* | *1.77%* | *1.77%* | *1.77%* |
| *Increase in Digital Sales* | | | | | | | *1.00%* | *1.00%* | *1.00%* | *0.00%* | *0.00%* | *0.00%* |

| **Asia** | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Revenues | 1270.60 | 1375.30 | 1449.09 | 1534.14 | 1076.11 | 2097.51 | 2735.40 | 3269.31 | 3812.83 | 4076.26 | 4357.90 | 4658.99 |
| *Increase in Stores* | | | | | | | *29.41%* | *18.52%* | *15.63%* | *6.91%* | *6.91%* | *6.91%* |
| *Increase in Digital Sales* | | | | | | | *1.00%* | *1.00%* | *1.00%* | *0.00%* | *0.00%* | *0.00%* |

### 5.1.1 Stores

After the disclosure of 2022 annual report containing the data regarding the closure or opening of stores, we can reflect that the COVID-19 pandemic did not significantly impact these numbers. The decrease in the number of stores in 2022 for North America and Europe comes from the sale of a type of stores owned by Ralph Lauren called "Club Monaco" that had, in the year before, 72 stores associated with the name. In addition to the sale of the "Club Monaco", the Board of Directors for Ralph Lauren agreed to take actions when it comes to the growth of the number of physical stores and stated that they had been closing a number of stores with the objective of increasing overall profitability. Nevertheless, according to Forbes, the company is expected to open more stores in the coming years. For the US, it is stated that the company will open 15 to 20 more stores until the beginning of 2025. For the Asia Pacific, it is expected that around 200 new stores will be open and for Europe the increase for the number of stores is forecasted to be between 40 to 50. For the projections of the number of stores in the North American Region, it will be considered an increase of 15 stores for the North America region up until 2025, spread across the timeframe, and then it is assumed that the growth will stabilize, and the number of stores will return to the historical average growth registered during the period in between 2017 and 2021.

For the Asia Pacific, it is clear the strategy adopted by Ralph Lauren of increasing the number of stores as a consequence of the decision made by the company a decade ago, according to Financial Times. The trend will continue, and it is forecasted an increase of 150 stores until 2025, and for the remains of the forecasted period it is expected that the growth will slow down to 50% of the average historical average growth between 2017 and 2022, due to the fact that the values for that period already reflect Ralph Lauren's plan to increase the reach of its stores in the region.

Finally, for Europe, it will be assumed 40 stores increase until 2025 and a stabilization of the increase in stores for the remaining forecasted period, meaning that after 2025 it is assumed that the growth will go back to the historical average between the period of 2017 and 2022.

Table 3 - Stores Impact

**Stores Impact**

| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | CAGR (%) |
|---|---|---|---|---|---|---|---|
| **North America** | 290 | 282 | 295 | 300 | 300 | 239 | 0.85% |
| **Δ Stores** | | -8 | 13 | 5 | 0 | -61 | |
| **% of Total Stores** | 62.23% | 59.75% | 58.88% | 56.60% | 54.74% | 47.42% | |
| **Europe** | 87 | 85 | 91 | 98 | 97 | 95 | 1.77% |
| **Δ Stores** | | -2 | 6 | 7 | -1 | -2 | |
| **% of Total Stores** | 18.67% | 18.01% | 18.16% | 18.49% | 17.70% | 18.85% | |
| **Asia** | 89 | 105 | 115 | 132 | 151 | 170 | 13.82% |
| **Δ Stores** | | 16 | 10 | 17 | 19 | 19 | |
| **% of Total Stores** | 19.10% | 22.25% | 22.95% | 24.91% | 24.45% | 33.73% | |
| **Total** | 466 | 472 | 501 | 530 | 548 | 504 | 1.58% |

| | Forecasted Years | | | | | |
|---|---|---|---|---|---|---|
| | **2023** | **2024** | **2025** | **2026** | **2027** | **2028** |
| **North America** | 244 | 249 | 254 | 256 | 258 | 261 |
| **% Growth** | 2.09% | 2.05% | 2.01% | 0.85% | 0.85% | 0.85% |
| **Europe** | 108 | 122 | 135 | 137 | 140 | 142 |
| **% Growth** | 13.68% | 12.96% | 10.66% | 1.77% | 1.77% | 1.77% |
| **Asia** | 220 | 270 | 320 | 342 | 366 | 391 |
| **% Growth** | 29.41% | 18.52% | 15.63% | 6.91% | 6.91% | 6.91% |
| **Total** | 572 | 641 | 709 | 736 | 764 | 794 |

### 5.1.2 Digital Commerce

With the pandemic of COVID-19 having major impacts across all markets and consumers, it forced these consumers to adapt and accelerate the growth of digital sales as a solution to restrictions imposed due to the circumstances. With this said, analysts project that by 2025, online sales will become the biggest channel with 28-30% of the global market. The growth in this channel of sales will be spread across the forecasted period and will be more significant for the first forecasted years (2023-2025) and it is expected to slow down growth for the rest of the years of the forecasted period.

## 5.2 Net Income Forecast

Table 4 - Digital Commerce

**Digital Sales - Growth**

| | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 |
|---|---|---|---|---|---|---|---|
| Digital Sales (% of Total Sales) | 26% | 27% | 28% | 29% | 29% | 29% | 29% |

| | Forecasted Years | | | | | |
|---|---|---|---|---|---|---|
| | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 |
| North America | 1% | 1% | 1% | 0% | 0% | 0% |
| Europe | 1% | 1% | 1% | 0% | 0% | 0% |
| Asia | 1% | 1% | 1% | 0% | 0% | 0% |

With the revenues forecasted for the period 2023-2028 (6 years) and assumptions made for other variables that are detrimental to the computation of the net income (explained further in the following sections), the net income was also computed for the forecasted period.

Table 5 - Net Income Forecast

**Net Income Forecast**

| | | | | | | | Forecasted Years | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 |
| Revenues | 6652.80 | 6182.30 | 6313.00 | 6159.80 | 4400.80 | 6218.50 | 7119.69 | 7933.99 | 8750.31 | 9071.57 | 9411.80 | 9772.28 |
| *% Revenue Growth* | | *-7.07%* | *2.11%* | *-2.43%* | *-28.56%* | *41.30%* | *14.49%* | *11.44%* | *10.29%* | *3.67%* | *3.75%* | *3.83%* |
| Costs of Goods Sold | 3001.70 | 2423.00 | 2419.80 | 2504.30 | 1510.10 | 2071.00 | 2607.63 | 2976.21 | 3363.95 | 3576.29 | 3807.29 | 4058.81 |
| *% Revenue* | *45.12%* | *39.19%* | *38.33%* | *40.66%* | *34.31%* | *33.30%* | *36.63%* | *37.51%* | *38.44%* | *39.42%* | *40.45%* | *41.53%* |
| Gross Profit | 3651.1 | 3759.3 | 3893.2 | 3655.5 | 2890.7 | 4147.5 | 4512.06 | 4957.79 | 5386.36 | 5495.28 | 5604.52 | 5713.47 |
| *Gross Profit Margin* | *54.88%* | *60.81%* | *61.67%* | *59.34%* | *65.69%* | *66.70%* | *63.37%* | *62.49%* | *61.56%* | *60.58%* | *59.55%* | *58.47%* |
| Selling, General and Admin | 2866 | 3095.5 | 3168.3 | 3232.7 | 2443.7 | 3094.2 | 3449.39 | 3843.91 | 4239.41 | 4395.05 | 4559.89 | 4734.54 |
| *% Revenue* | *43.08%* | *50.07%* | *50.19%* | *52.48%* | *55.53%* | *49.76%* | *48.45%* | *48.45%* | *48.45%* | *48.45%* | *48.45%* | *48.45%* |
| EBITDA | 785.1 | 663.8 | 724.9 | 422.8 | 447 | 1053.3 | 1062.67 | 1113.87 | 1146.95 | 1100.22 | 1044.62 | 978.93 |
| *EBITDA Margin* | *11.80%* | *10.74%* | *11.48%* | *6.86%* | *10.16%* | *16.94%* | *14.93%* | *14.04%* | *13.11%* | *12.13%* | *11.10%* | *10.02%* |
| Other Expenses | 0 | -5.5 | -2.5 | -23.4 | -21.4 | 7.1 | -8.17 | -9.10 | -10.04 | -10.41 | -10.80 | -11.21 |
| *% Revenue* | *0.00%* | *-0.09%* | *-0.04%* | *-0.38%* | *-0.49%* | *0.11%* | *-0.11%* | *-0.11%* | *-0.11%* | *-0.11%* | *-0.11%* | *-0.11%* |
| Depreciation and Amortization | 307.5 | 295.2 | 281.3 | 269.5 | 247.6 | 229.7 | 390.52 | 435.18 | 479.96 | 497.58 | 516.24 | 536.01 |
| *% Revenue* | *4.62%* | *0.00%* | *0.00%* | *4.38%* | *5.63%* | *3.69%* | *5.49%* | *5.49%* | *5.49%* | *5.49%* | *5.49%* | *5.49%* |
| | | | | | | | | | | | | |
| EBIT | -94.80 | 498.20 | 561.80 | 317.00 | -43.60 | 798.40 | 680.32 | 687.79 | 677.03 | 613.05 | 539.18 | 454.13 |
| *% EBIT Growth* | | *-625.53%* | *12.77%* | *-43.57%* | *-113.75%* | *-1931.19%* | *-14.79%* | *1.10%* | *-1.56%* | *-9.45%* | *-12.05%* | *-15.77%* |
| *EBIT Margin* | *-1.42%* | *8.06%* | *8.90%* | *5.15%* | *-0.99%* | *12.84%* | *9.56%* | *8.67%* | *7.74%* | *6.76%* | *5.73%* | *4.65%* |
| Interest Expense | -12.40 | -18.20 | -20.70 | -36.60 | -48.50 | -54.00 | -61.83 | -68.90 | -75.99 | -78.78 | -81.73 | -84.86 |
| *% Revenue* | *-0.19%* | *-0.29%* | *-0.33%* | *-0.59%* | *-1.10%* | *-0.87%* | *-0.87%* | *-0.87%* | *-0.87%* | *-0.87%* | *-0.87%* | *-0.87%* |
| Other Net Interest/Investment Inc. | 2.30 | 14.70 | 43.90 | 69.40 | 18.30 | 5.50 | 27.91 | 31.10 | 34.30 | 35.56 | 36.89 | 38.30 |
| *% Revenue* | *0.03%* | *0.24%* | *0.70%* | *1.13%* | *0.42%* | *0.09%* | *0.39%* | *0.39%* | *0.39%* | *0.39%* | *0.39%* | *0.39%* |
| Tax Expenses | -5.60 | 105.00 | 124.00 | 67.40 | 32.50 | 154.50 | 183.69 | 185.70 | 182.80 | 165.52 | 145.58 | 122.61 |
| *% Taxable Income* | *5.34%* | *21.22%* | *21.20%* | *19.27%* | *-44.04%* | *20.60%* | *27.00%* | *27.00%* | *27.00%* | *27.00%* | *27.00%* | *27.00%* |
| | | | | | | | | | | | | |
| Net Income | -99.30 | 162.80 | 430.90 | 384.30 | -121.10 | 600.10 | 462.71 | 464.29 | 452.54 | 404.31 | 348.76 | 284.96 |
| *% Net Income Growth* | | *-263.95%* | *164.68%* | *-10.81%* | *-131.51%* | *-595.54%* | *-22.89%* | *0.34%* | *-2.53%* | *-10.66%* | *-13.74%* | *-18.30%* |

### 5.3 Cost of Goods Sold Impact

In the Fashion Industry, and therefore, for Ralph Lauren Corp, cotton goods constitute one of the most important materials used in the production of goods for the industry. In the 2022 Annual Report, Ralph Lauren Corp. states that cotton is, in fact, a key raw material used in the production of its products.

In the current situation regarding the outburst of the Russia-Ukraine war, the material is expected to be negatively impacted in the short-term with consequences such as high inflation, cutbacks on consumer spending and rising interest rates. Up until now, for recent years, Ralph Lauren managed to decrease GOGS in terms of percentage of revenue. According to Forbes, that was explained mainly by improved pricing, along with lower levels of promotional activity. After the COVID-19 Pandemic hit and the impacts of the Pandemic itself and other events mentioned earlier, it is expected that the costs of goods sold represented as a percentage of revenue will increase.

For the first year of our forecasted period, the CAGR of the cotton goods material cost, according to Beroe, is going to be 4.4%. After that, for the remaining forecasted period, the CAGR is going to be based on the report developed by Mordor Intelligence where they estimate a CAGR of 5.1%.

Besides considering the impact caused by the rise in costs one of the most important materials in the production of Ralph Lauren, it is also considered the historical average of COGS in revenues between 2017 and 2022.

Finally, to project COGS growth rate for the forecasted period, an equal weighted average was computed between the historical average of COGS in revenues and the expected impacts of cotton goods value.

Table 6 - Cost of Goods Sold

**Cost of Goods Sold Impact**

| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|
| Costs of Goods Sold | 3001.7 | 2423 | 2419.8 | 2504.3 | 1510.1 | 2071 |
| % Revenue | 45.12% | 39.19% | 38.33% | 40.66% | 34.31% | 33.30% |

| | |
|---|---|
| Average Historical % Revenue | 38.49% |

| | Forecasted Years | | | | | |
|---|---|---|---|---|---|---|
| | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 |
| Cotton goods growth rate | 4.4% | 5.1% | 5.1% | 5.1% | 5.1% | 5.1% |

**Impact on COGS (% of Revenues)**

| | | Forecasted Years | | | | | |
|---|---|---|---|---|---|---|---|
| | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 |
| Revenue | 6218.50 | 7119.69 | 7933.99 | 8750.31 | 9071.57 | 9411.80 | 9772.28 |
| COGS | 2071.00 | 2607.63 | 2976.21 | 3363.95 | 3576.29 | 3807.29 | 4058.81 |
| % Revenue | 33.30% | 36.63% | 37.51% | 38.44% | 39.42% | 40.45% | 41.53% |

## 5.4 SG&A

SG&A is assumed to be constant through the forecasted period and is achieved by using the expected weight as a percentage of Revenues by looking at historical data[1].

Table 7 - SG&A

**SG&A Forecast**

| | | | | | | | Forecasted Years | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 |
| Selling, General and Admin | 2866 | 3095.5 | 3168.3 | 3232.7 | 2443.7 | 3094.2 | 3449.39 | 3843.91 | 4239.41 | 4395.05 | 4559.89 | 4734.54 |
| % Revenue | 43.08% | 50.07% | 50.19% | 52.48% | 55.53% | 49.76% | 48.45% | 48.45% | 48.45% | 48.45% | 48.45% | 48.45% |

| Auxiliary | | | | | | |
|---|---|---|---|---|---|---|
| 15 | 5 | 4 | 3 | 2 | 1 | 0 |
| 7.267299645 | 2.153980279 | 2.002814487 | 1.505607477 | 1.049612 | 0.555285403 | 0 |

| Expected Weight (% of Revenues) |
|---|
| 48.45% |

[1] The "Auxiliary" table is used to compute the expected weight in percentage of revenues. The first row of the table is the difference in years between the period and 2022. The second and last row, is the product of the historical SG&A as a percentage of revenues and the difference in years. The final forecasted expected wight as a percentage of revenues is the product of the sums of the two rows mentioned earlier. This method is basically a weighted average to take in to account the history of the company.

## 5.5 Other Expenses

By applying the expected weight as a percentage of revenues based on previous data, other expenditures are assumed to remain constant during the forecasted period[2].

Table 8 - Other Expenses

**Other Expenses Forecast**

| | | | | | | | Forecasted Years | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 |
| Other Expenses | 0 | -5.5 | -2.5 | -23.4 | -21.4 | 7.1 | -8.17 | -9.10 | -10.04 | -10.41 | -10.80 | -11.21 |
| % Revenue | 0.00% | -0.09% | -0.04% | -0.38% | -0.49% | 0.11% | -0.11% | -0.11% | -0.11% | -0.11% | -0.11% | -0.11% |

| Auxiliary | | | | | | |
|---|---|---|---|---|---|---|
| 15 | 5 | 4 | 3 | 2 | 1 | 0 |
| -0.017206972 | 0 | -0.003558546 | -0.001188025 | -0.007597649 | -0.004862752 | 0 |

| Expected Weight (% of Revenues) |
|---|
| -0.11% |

[2] "Auxiliary" table explained in section 5.4.

## 5.6 Interest & Tax Expenses Forecast

### 5.6.1 Interest Expenses Forecast

As already mentioned in this dissertation, no changes in debt policy are expected ando so, the last of the historical values for interest expenses is assumed to remain constant over the forecasted period.

### 5.6.2 Tax Expenses Forecast

It is assumed the Statutory Corporate Tax Rate of the United States (27%), derived from Damodaran ("Regional Weighted Averages" Sheet) for the forecasted period.

## 5.7 Gross Intangible Assets and Property, Plant, and Equipment (PP&E)

To later compute D&A in relation to PP&E and Intangible assets, it is necessary that first we forecast values for Gross PP&E and Gross Intangible Assets values, as D&A are directly derived from those values.

With that said, it is used the historical average % of revenues for both Gross PP&E and Gross Intangible assets from 2017 to 2022 and the computations can be seen in appendix 11.1.

## 5.8 D&A Expenses Forecast

To forecast Depreciation and amortization, the historical percentage of depreciation and amortization relative to PP&E and Intangible assets between 2017 and 2022 was considered. As there are no expectation in changes for D&A accounting methods, it is assumed that for the forecasted period the value for D&A will be in accordance with historical values for depreciation and amortization relative to PP&E and Intangible Assets.

Table 9 - D&A Expenses Forecast

**D&A Expenses Forecast**

| | | | | | | | Forecasted Years | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 |
| Depreciation and Amortization | 307.5 | 295.2 | 281.3 | 269.5 | 247.6 | 229.7 | 390.52 | 435.18 | 479.96 | 497.58 | 516.24 | 536.01 |
| PP&E | 3,336.7 | 3,379.8 | 3,142.0 | 4,619.5 | 4,545.2 | 4,329.9 | 4776.11 | 5322.37 | 5869.98 | 6085.50 | 6313.73 | 6555.55 |
| Intangible Assets | 518.0 | 517.4 | 506.6 | 501.9 | 502.9 | 503.4 | 610.32 | 680.12 | 750.10 | 777.64 | 806.80 | 837.70 |
| Total | 3,854.7 | 3,897.2 | 3,648.6 | 5,121.4 | 5,048.1 | 4,833.3 | 5,386.4 | 6,002.5 | 6,620.1 | 6,863.1 | 7,120.5 | 7,393.3 |
| % PP&E and Intangible Assets | 7.98% | 7.57% | 7.71% | 5.26% | 4.90% | 4.75% | 7.25% | 7.25% | 7.25% | 7.25% | 7.25% | 7.25% |

### 5.9 Net Working Capital

Net working capital was computed and forecasted by using percentage of sales, DPO Ratio, DSO Ratio and Inventory turnover Ratio, along with the historical average of the last 3 historical periods for these metrics, constituting the period between 2019 and 2022. With this said, historical data was retrieved for the variables that are necessary to compute Net Working Capital and the Change in Net working capital was achieved as represented in appendix 11.2.

### 5.10 Other Net Interest/Investment Income and Minority Interests

The forecasted years' Other Net Interest/Investment is expected to be constant, and the values of its weight in terms of Revenues can be found in appendix 11.3.

As for minority interest, the company does not disclose future possible investments, and by looking at the financial statements of Ralph Lauren Corp. it is perceivable that the value of the company's minority interest is null from 2017-2022. With that said, minority interests are not dealt with in this valuation.

### 5.11 Free Cash Flow to the Firm Forecast

The final part of the DCF Valuation was the projection of the FCFF for the forecasted period.

The marginal tax rate considered was the corporate tax rate of the United States based on values retrieved from the sheet "Regional Weighted Averages" from Damodaran. For Capital Expenditures, these are expected to grow in accordance with the growth rate of revenues for the forecasted period.

### 5.12 Weighted Average Cost of Capital (WACC)

To compute the Weighted Average Cost of Capital which will be the discount rate used to arrive at the present values of the free cash flows to the firm for the forecasted period, the formula stated in the literature review was used.

First, to compute the firm's cost of equity, this approach applies the CAPM model formula, as introduced in the literature review, which combines the firm's beta with the excess returns of the market.

- **Beta:** The Levered Beta for Ralph Lauren is obtained from Thompson Reuters and is known as "5 Year Monthly Beta." It is a measure of the company's common stock price volatility relative to market price volatility over a 5-year period using a least squares linear regression line. 5 Year Beta is calculated using monthly Price Close change values, with a minimum of 40 required within the 5-year trading period. In this case, beta is leveraged.

- **Risk-Free:** The Yield of US 10-year Treasury (As of 10:47 AM ET 26/11/2022)

- **Implied Market Risk Premium:** Current implied risk premium using the weighted average Equity Risk Premium for the North American Region. Aswath Damodaran's World Bank GDP estimates were used.

After all the necessary valuables were retrieved, the CAPM model formula is applied, and

Table 10 - Cost of Equity

| | |
|---|---|
| **Beta** | 1.41 |
| **Risk Free** | 3.71% |
| **MRP** | 4.24% |

the Cost of Equity was computed.

Table 11 - Cost of Equity

| | |
|---|---|
| **Cost of Equity** | **9.69%** |

For the cost of debt, it is known that Ralph Lauren became a bond issuer back in 2006 and has been issue bonds regularly since then. With this said it is reasonable to use the yield to maturity of the bonds currently issued to arrive at a justified cost of debt. Current Bonds Outstanding are used, along with their correspondent Yield-To-Maturity, retrieved from Thompson Reuters. With all the data extracted, it is possible to compute the cost of debt for Ralph Lauren.

Table 12 - Cost of Debt

| Bonds Outstanding | YTM |
|---|---|
| 400,000,000 | 4.8482 |
| 750,000,000 | 5.0895 |
| **Cost of Debt** | **5.01%** |

Lastly, the WACC is calculated using market prices for both the debt and equity and accounting for interest tax shields.

Table 13 - WACC

| | |
|---|---|
| **Marginal tax rate** | 27.00% |
| **Cost of Equity** | 9.69% |
| **Debt** | 1799 |
| **Equity** | 7922 |
| **Cost of Debt** | 5.01% |
| | |
| **WACC** | 8.57% |

## 5.13 DCF Valuation – Target Price

According to Statista, Real GDP Growth of the United States is expected to reach 1.62% in 2028. As for the value of inflation for the last forecasted year in the DCF Valuation, according to Statista, is expected to reach 2%.

Table 14 - Inflation, Real GRP Growth, Nominal GDP Growth and WACC

| | 2028 |
|---|---|
| **Forecasted Inflation Rate of United States** | 2.00% |
| **Forecasted Real GDP Growth of United States** | 1.62% |
| **Nominal GDP Growth of United States** | 3.65% |
| | |
| **WACC** | 8.57% |

For this valuation, Capital Expenditures are expected to increase at the same growth rate as Revenues and for net working capital the values forecasted earlier for the change in Net Working Capital are used.

Depreciation & Amortization follow the previously stated assumption.

Table 15 - Free Cash Flows to the Firm

| | | Forecasted Years | | | | | |
|---|---|---|---|---|---|---|---|
| | mar-22 | mar-23 | mar-24 | mar-25 | mar-26 | mar-27 | mar-28 |
| **EBIT** | 798.40 | 680.32 | 687.79 | 677.03 | 613.05 | 539.18 | 454.13 |
| **Tax rate** | 20% | 27% | 27% | 27% | 27% | 27% | 27% |
| **NOPAT** | 634.93 | 496.63 | 502.09 | 494.23 | 447.53 | 393.60 | 331.51 |
| **CAPEX (Net)** | -166.90 | -191.09 | -212.94 | -234.85 | -243.47 | -252.61 | -262.28 |
| **NWC** | 112.60 | 101.49 | 127.88 | 132.14 | 64.90 | 70.05 | 75.68 |
| **Depreciation** | 229.70 | 390.52 | 435.18 | 479.96 | 497.58 | 516.24 | 536.01 |
| **FCFF** | 585.13 | 594.57 | 596.44 | 607.20 | 636.74 | 587.19 | 529.56 |

After deducting CAPEX and the change in NWC from the previously calculated NOPAT and adding back D&A, the value of the Free Cash Flows to the Company for the forecasted period was determined.

The Terminal Value was reached using the Perpetuity Growth Method after the Free Cash Flows to the Company for 2024–2028 were discounted at the Weighted Average Cost of Capital. For the final technique, the FCFF of the previous forecasted year was multiplied by the nominal GDP growth for 2028 and divided by the difference between the weighted average cost of capital and the US inflation rate. The WACC was also used to discount the Terminal Value.

Table 16 - Present Value of FCFF

| | Forecasted Years | | | | | | TV | PV (TV) |
|---|---|---|---|---|---|---|---|---|
| | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2029 |
| PV (FCFF) | 594.57 | 549.35 | 515.11 | 497.52 | 422.58 | 351.02 | 11158.17 | 6812.29 |

After all the previous steps, the last thing to do is to compute the target price for Ralph Lauren Corp. For this, the Enterprise value was achieved by adding the present values of the FCFF and the Terminal Value. To derive Equity Value from the Enterprise Value, Cash & Cash Equivalents and the market value of debt were subtracted to the EV. Finally, by multiplying the Equity Value to the number of outstanding shares, it was possible to arrive at the final price for Ralph Lauren Corp.

Table 17 – DCF Model Target Price

| | |
|---|---|
| **Enterprise Value** | 9147.87 |
| **Cash & Equivalents** | 1863.80 |
| **Debt** | 1798.88 |
| **Equity** | 9212.79 |
| **Nº of shares** | 69.90 |
| **Target Price** | **$ 131.80** |

## 5.14 Sensitivity Analysis

A sensitivity analysis was performed due to the turbulence felt around the globe due to consequences that are still felt from the COVID-19 pandemic as well as the conflict between Russia and Ukraine in Europe and the uncertainty that these events bring to the valuation.

The sensitivity analysis developed aims to test Enterprise Value and the Current Share Price and their sensitivity to changes in the value of the WACC and Nominal GDP Growth. Both the values computed for WACC, and Nominal GDP Growth were used as the intermediate values, and the rest of the values were achieved by adding or subtracting

0.1% and 0.25% from the initial values of the Nominal GDP Growth and WACC, respectively.

With this said, it was possible to retrieve two ranges of values for both Enterprise Value and share price. For the Enterprise Value the values range from 8,098.59€ to 10,165.73€ and the share price range from 116.79€ to 146.36€.

Table 18 - Sensitivity Analysis

Sensitivity Analysis

| **Based on the Enterprise value:** | | WACC | | | | |
|---|---|---|---|---|---|---|
| | € 9,147.87 | 8.07% | 8.32% | 8.57% | 8.82% | 9.07% |
| **Nominal GDP Growth** | 3.45% | 9,813.51 € | 9,316.90 € | **8,869.10 €** | 8,465.90 € | 8,098.59 € |
| | 3.55% | 9,648.60 € | 9,170.09 € | **8,737.73 €** | 8,347.69 € | 7,991.78 € |
| | 3.65% | **9,648.60 €** | **9,170.09 €** | **8,737.73 €** | **8,347.69 €** | **7,991.78 €** |
| | 3.75% | 9,813.51 € | 9,316.90 € | **8,869.10 €** | 8,465.90 € | 8,098.59 € |
| | 3.85% | 10,165.73 € | 9,629.38 € | **9,147.87 €** | 8,716.04 € | 8,324.05 € |

| **Based on the Current Share Price:** | | WACC | | | | |
|---|---|---|---|---|---|---|
| | € 131.80 | 8.07% | 8.32% | 8.57% | 8.82% | 9.07% |
| **Nominal GDP Growth** | 3.45% | 141.32 € | 134.22 € | **127.81 €** | 122.04 € | 116.79 € |
| | 3.55% | 138.96 € | 132.12 € | **125.93 €** | 120.35 € | 115.26 € |
| | 3.65% | **138.96 €** | **132.12 €** | **125.93 €** | **120.35 €** | **115.26 €** |
| | 3.75% | 141.32 € | 134.22 € | **127.81 €** | 122.04 € | 116.79 € |
| | 3.85% | 146.36 € | 138.69 € | **131.80 €** | 125.62 € | 120.01 € |

## 5.15 Scenario Analysis

Ralph Lauren Corp. is still exposed to factors that can impact their valuation in different ways. The Covid-19 pandemic, according to Ralph Lauren Corp. 2022 Annual Report, still impacts its business through occasional occurrences such as periods of closure of stores, factories and distribution centers. The future impact of the pandemic is still unclear for analysts. The company being analyzed believes that the pandemic is still highly volatile and can keep having an impact on consumer sentiment and confidence.

Economic, political and other factors may impact the level of consumer spending. During this time where the world is watching a military confront being held in Europe between Russia and Ukraine, there is a lot of uncertainty, which can impact Ralph Lauren Corp. The level of purchases of discretionary items and luxury retail products tends to be negatively impacted during a recession or high inflation environment. The increase of interest rates across the world may also impact directly consumer spending as consumers see their debt responsibilities increase.

With this said, to have a more robust analysis of Ralph Lauren Corp, a scenario analysis is going to be performed, were a pessimistic scenario, along with an optimistic one is going to be considered.

The Pessimistic Scenario is going to be based on the premises that COVID-19 consequences are still going to be felt for at least 2 years, with the already mentioned periods of closure of stores, distribution centers and factories (especially in Asia), still being present for that considered period. Besides that, it is going to be considered that the military confront between Russia and Ukraine is going to have even deeper impacts on the industry.

For this to be accounted for in the DCF, assumptions were made to represent the impacts mentioned. The impacts will be represented in the expected number of stores for the forecasted period. For the pessimistic scenario, the most impacted region is going to be Asia, due to its recent history dealing with the Covid-19 Pandemic, but also due to the trade war between China and the United States, which might also impact Ralph Lauren's business in that region. So, for Asia, the number of stores goes from 150 stores to be open until 2025, to 75 stores, representing 50% of what the baseline model predicted. In Europe, due to the conflict between Russia and Ukraine, but also due to the uncertainty concerning the economy and the banking sector, with banks such as Credit Suisse going through trouble with mismanagement of funds that were discovered in 2022, the increase in number of stores is going to be assumed to be lower than expected, 60% of what the baseline model forecasts. Finally, for the North American region, the increase in the number of stores is going to be 75% of what the baseline model expects. When it comes to digital commerce, the growth is going to represent 80% of what was forecasted in the baseline model.

As in the baseline model, Capital Expenditures are expected to grow at the growth rate of revenues, and net working capital is going to be estimated the same way as in the baseline model, along with the previously taken assumption to estimate Depreciation and Amortization. With the assumptions previously stated, a target price of 112.62$ with the DCF model was achieved, representing a 14.55% decrease when comparing to the target price achieved in the baseline model (131.80$).

Moving on to the Optimistic Scenario, it was considered that the impacts considered on the Pessimistic Scenario would not significantly impact Ralph Lauren's business. Across all regions was considered that the growth of stores would be 10% higher than expected. It was assumed that digital commerce would reach 35% of total sales in 2028, instead of the 29% considered in the baseline model. The rest of the assumptions, as in the pessimistic scenario, are considered to be the same as in the baseline model.

With this said, a share price of 143.38$ was achieved, representing an upside of 8.79% from the target price of the DCF from the baseline model.

## 6. Relative Valuation Model – Target Price

To perform a Relative Valuation effectively, three multiples were selected, these being the P/E Ratio, the EV/EBITDA Ratio, and the P/BV Ratio. With these multiples it was possible to compare Ralph Lauren's Value to its peers that were previously selected. The values for the multiples of the companies selected were extracted directly from Thompson Reuters.

After gathering all the multiples for the 5 companies selected as Ralph Lauren's peer group, it was important to be careful and look at the median instead of the average of the multiples, so it was possible to account for outliers in the group.

The P/E Ratio led to a value of Ralph Lauren share price of 145€. As for the EV/EBITDA Ratio, the achieved share price was 98.44€ and finally, for the Price-to-book Ratio, this one led to a value of 122.26€ for the share price of Ralph Lauren Corp.

To reach a final value for the share price of Ralph Lauren Corp. an equally weighted average between the share prices achieved through the 3 multiples mentioned earlier. With that said, a final value of 121.9€ was achieved.

Table 19 - Relative Valuation Model

**RELATIVE VALUATION MODEL**

| Company | Burberry Group PLC | PVH Corp | Hugo Boss AG | ABERCROMBIE & FITCH CO | TAPESTRY INC | Average | Median |
|---|---|---|---|---|---|---|---|
| P/E | 20.06 | 10.07 | 18.84 | 16.89 | 11.62 | 15.50 | 16.89 |
| EV/EBITDA | 8.81 | 6.66 | 6.60 | 3.89 | 8.83 | 6.96 | 6.66 |
| Price To Book | 5.55 | 1.09 | 3.37 | 1.76 | 4.05 | 3.16 | 3.37 |

| Ralph Lauren | | | | | |
|---|---|---|---|---|---|
| P/E | Net Income | Median | Implied Equity Value | Shares Outstanding | Price/Share |
| | 600.10 | 16.89 | 10135.69 | 69.90 | $ 145.00 |

| EV/EBITDA | EBITDA | Median | Implied Equity Value | Implied Enterprise Value | Net Debt | Shares Outstanding | Price/Share |
|---|---|---|---|---|---|---|---|
| | 1053.30 | 6.66 | 6881.08 | 7014.98 | 133.90 | 69.90 | $ 98.44 |

| Price To Book | Equity (Book) | Median | Implied Equity Value | Shares Outstanding | Price/Share |
|---|---|---|---|---|---|
| | 2536.00 | 3.37 | 8546.32 | 69.90 | $ 122.26 |

| Target Price | $ 121.90 |
|---|---|

## 7. Target Price

Finally, after developing both a Discounted Cash Flow Model and a Relative Valuation for Ralph Lauren Corp. it is possible to arrive at a final target price for the share price of the company, by combining both of the techniques used. For this final target price, it is reasonable to perform a weighted average between the two methods but assigning a higher weight to the DCF as it is more a more complex and reliable method overall.

Table 20 - Target Price

| Target Price | | |
|---|---|---|
| Current Share Price as of 16-02-2023 | $ | 116.67 |
| Relative Valuation Price (40%) | $ | 121.90 |
| DCF Valuation Price (60%) | $ | 131.80 |
| | | |
| **Target Price** | $ | 127.84 |

## 8. Comparison with Investment Bank Report

To compare the findings mentioned above to a credible investment bank report, BNP Paribas' equity research was used.

Table 21 - BNP PARIBAS Equity Research

| BNP PARIBAS' Equity Research | |
|---|---|
| Issue Date | 01-02-2023 |
| Price Target (In $) | $ 138.00 |
| Recommendation | BUY |

The target price issued by BNP Paribas was achieved through a DCF model where the analyst estimated a WACC of 8.5%, which is in line with the value used previously in the DCF model from this dissertation of 8.57%.

The forecasted period used by BNP Paribas was from 2023-2025, where it estimated a CAGR of 1% in sales, which differs from the CAGR of 6.54% in the DCF Model developed earlier, which can be explained by differences in assumptions between the ones used in this dissertation and the ones used by BNP Paribas (which are not disclosed).

In terms of EBITDA margin, BNP's analyst forecast a 1% growth for 2023, while the approach in this dissertation is more conservative and projects -2%. For the remaining forecasted period, according to BNP's report, the growth will be similar to the one

forecasted for 2023, expecting 1% growth each year. As for the EBITDA margin computed in this dissertation, the growth is expected to be close to -1% each year.

In terms of the Target Price, the one from the Investment Bank and the one mentioned in chapter 9 yield the same recommendation, with the BNP's analyst target price reaching a value of 138$ and consequently a BUY recommendation, and the final target price of this dissertation reaching a value of 128.48$, which also results in a BUY recommendation.

In order to complement BNP's analyst report, it was decided to get more information from a report issued by MarketScreener on the 30/03/2023 which contains forecasts for important metrics used in this dissertation and its models, and it contains information regarding different analysts and their valuations.

When it comes to the Income Statement, the report forecasts values from 2023 to 2025, and for that period, a CAGR 5.10% for Net Sales was achieved, which although it is more conservative, is in line with a CAGR of 6.54% found in this dissertation.

According to the report, EBITDA is expected to grow by 9.52% from 2022 to 2025, which is also in line with the expected growth of 8.89% for EBITDA, for the same period, in this dissertation.

In terms of Free Cash Flow to the Firm, the report being analysed, forecasts the following values:

Table 22 - FCFF Comparison with MarketScreener

| | 2023 | 2024 | 2025 |
|---|---|---|---|
| FCFF (Dissertation) | 594.57 | 596.44 | 607.20 |
| FCFF (MarketScreeer) | 453.00 | 645.00 | 665.00 |

From table 22, it is perceivable that the values differ from one another, with the MarketScreener report being more conservative for 2023, and then forecasting an increase of 42.38% from 2023 to 2024, while in this dissertation the value forecasted for FY2023 is already higher, and the growth from 2023 to 2024 is less significant.

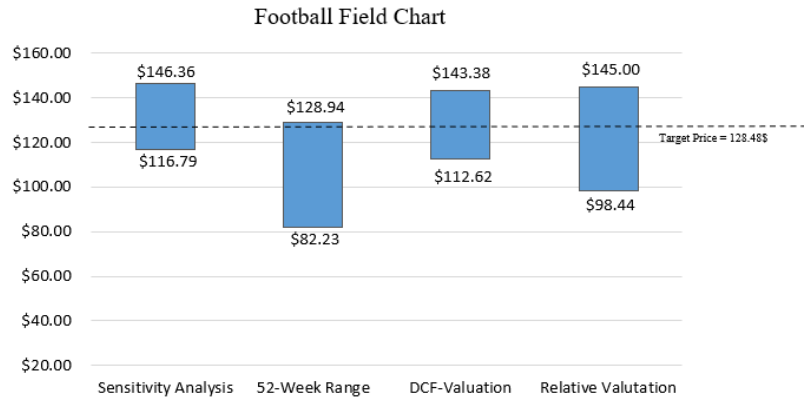
In terms of EBITDA Margin, the values forecasted in the report result in a -1.32% growth from 2022 to 2023, which is in accordance with the growth of -2% estimated in this dissertation. For the remaining forecasted period from the report, the growth is 0.5% each

year. The model developed in this dissertation, as mentioned earlier, is more conservative and predicts close to -1% growth each year for the remaining forecasted period.

Finally, MarketScreener incorporates a section named “Analysts’ Consensus” where a group of 20 different analysis from 20 different analysts are used in order to arrive at an average target price. The value for the average target price ascended to 130.86$, which once again, it is considered to be in line with the target price of 127.84$ from this dissertation. The highest price target from the 20 analyst was 154$ and the lowest price target was 100$. In terms of recommendation, the majority of analysts issued a BUY recommendation.

# 9. Conclusion

Figure 9 - Football Field Chart




Two methods were used to arrive at the target price for Ralph Lauren Corp., those methods being the DCF Valuation and Relative Valuation.

For the DCF Valuation, a price of 131.80$ was achieved which constitutes a BUY recommendation. A sensitivity analysis and a scenario analysis were performed in addition to the DCF model. From the sensitivity analysis, it was possible to retrieve a range of share prices by making the WACC and the Nominal GDP Growth change. This range went from a share price of 116.79$ (representing a downside of 12.10%) to a share price of 146.36$ (representing an upside of 10.16%), which resulted in a BUY recommendation. From the scenario analysis, it was possible to arrive at a share price of 112.62$ for the pessimistic scenario and 143.38$ for the optimistic scenario, which yields a BUY recommendation.

A share price of $121.9 was obtained using the relative valuation approach, and a BUY recommendation was also produced.

Finally, the Equity Research conducted by the investment bank report and the MarketScreener report also resulted in a BUY recommendation.

After taking into consideration everything mentioned earlier a BUY recommendation was achieved for Ralph Lauren Corp.

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## 11. Appendix

## 11.1 Appendix 1 – Gross Intangibles and PP&E

Table 23 - Gross Intangible and PP&E

| | | | | | | | Forecasted Years | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | Average (FY2017-FY2022) |
| **Gross PP&E** | 3,336.7 | 3,379.8 | 3,142.0 | 4,619.5 | 4,545.2 | 4,329.9 | 4776.11 | 5322.37 | 5869.98 | 6085.50 | 6313.73 | 6555.55 | |
| **% of Revenues** | *50.15%* | *54.67%* | *49.77%* | *74.99%* | *103.28%* | *69.63%* | *67.08%* | *67.08%* | *67.08%* | *67.08%* | *67.08%* | *67.08%* | *67.08%* |
| **Gross Intangible Assets** | 517.4 | 506.6 | 501.9 | 502.9 | 503.4 | 491.8 | 610.32 | 680.12 | 750.10 | 777.64 | 806.80 | 837.70 | |
| **% of Revenues** | *7.78%* | *8.19%* | *7.95%* | *8.16%* | *11.44%* | *7.91%* | *8.57%* | *8.57%* | *8.57%* | *8.57%* | *8.57%* | *8.57%* | *8.57%* |
| **Total** | 3,854 | 3,886 | 3,644 | 5,122 | 5,049 | 4,822 | 5,386 | 6,002 | 6,620 | 6,863 | 7,121 | 7,393 | |

## 11.2 Appendix 2 – Net Working Capital

Table 24 - Net Working Capital

| Ralph Lauren Corp. NWC | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | Average (-3Y) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Inventories** | **791,5** | **761,3** | **817,8** | **736,2** | **759** | **977,3** | **1042** | **1189** | **1344** | **1429** | **1521** | **1621** | |
| change % | | -3,82% | 7,42% | -9,98% | 3,10% | 28,76% | 6,6% | 14,1% | 13,0% | 6,3% | 6,5% | 6,6% | |
| Inventory Turns | 3,8 | 3,2 | 3,0 | 3,4 | 2,0 | 2,1 | 2,5 | 2,5 | 2,5 | 2,5 | 2,5 | 2,5 | **2,5** |
| **Trade receivables** | **673,8** | **635,1** | **607,1** | **415,4** | **571,9** | **542,8** | **675,6** | **752,9** | **830,3** | **860,8** | **893,1** | **927,3** | |
| change % | | -5,74% | -4,41% | -31,58% | 37,67% | -5,09% | 24% | 11% | 10% | 4% | 4% | 4% | |
| DSO Ratio | 37,0 | 37,5 | 35,1 | 24,6 | 47,4 | 31,9 | 34,6 | 34,6 | 34,6 | 34,6 | 34,6 | 34,6 | **34,6** |
| **Other current assets** | **32,8** | **27,8** | **70,9** | **24** | **23,6** | **22,6** | **30,6** | **34,1** | **37,6** | **39,0** | **40,4** | **42,0** | |
| % of sales | 0,49% | 0,45% | 1,12% | 0,39% | 0,54% | 0,36% | 0,43% | 0,43% | 0,43% | 0,43% | 0,43% | 0,43% | **0,43%** |
| **Trade payables** | **147,7** | **165,6** | **202,3** | **246,8** | **355,9** | **448,7** | **478,8** | **546,5** | **617,7** | **656,7** | **699,1** | **745,3** | |
| change % | | 12,12% | 22,16% | 22,00% | 44,21% | 26,07% | 6,72% | 14,13% | 13,03% | 6,31% | 6,46% | 6,61% | |
| DPO Ratio | 18,0 | 24,9 | 30,5 | 36,0 | 86,0 | 79,1 | 67,0 | 67,0 | 67,0 | 67,0 | 67,0 | 67,0 | **67** |
| **Other current liabilities** | **223,3** | **201,4** | **126,9** | **96,8** | **112,1** | **95,4** | **134,2** | **149,5** | **164,9** | **170,9** | **177,3** | **184,1** | |
| % of sales | 3,36% | 3,26% | 2,01% | 1,57% | 2,55% | 1,53% | 1,88% | 1,88% | 1,88% | 1,88% | 1,88% | 1,88% | **1,88%** |
| **Income tax payables** | **201,7** | **224,2** | **187,7** | **113** | **115,2** | **114,7** | **149,4** | **166,5** | **183,7** | **190,4** | **197,5** | **205,1** | |
| % of sales | 3,03% | 3,63% | 2,97% | 1,83% | 2,62% | 1,84% | 2,10% | 2,10% | 2,10% | 2,10% | 2,10% | 2,10% | **2,10%** |
| **NWC** | **925,4** | **833** | **978,9** | **719** | **771,3** | **883,9** | **985,4** | **1113,3** | **1245,4** | **1310,3** | **1380,4** | **1456,0** | |
| **Change in NWC** | | **-92,4** | **145,9** | **-259,9** | **52,3** | **112,6** | **101,5** | **127,9** | **132,1** | **64,9** | **70,0** | **75,7** | |

## 11.3 Appendix 3 - Other Net Interest/Investment Income and Minority Interests[3].

Table 25 - Other Net Interest/Investment Inc. Forecast

**Other Net Interest/Investment Inc. Forecast**

| | | | | | | | Forecasted Years | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 |
| Other Net Interest/Investment Inc. | 2.3 | 14.7 | 43.9 | 69.4 | 18.3 | 5.5 | 27.91 | 31.10 | 34.30 | 35.56 | 36.89 | 38.30 |
| % Revenue | 0.03% | 0.24% | 0.70% | 1.13% | 0.42% | 0.09% | 0.39% | 0.39% | 0.39% | 0.39% | 0.39% | 0.39% |

| Auxiliary | | | | | | |
|---|---|---|---|---|---|---|
| 15 | 5 | 4 | 3 | 2 | 1 | 0 |
| 0.058792867 | 0.001728595 | 0.009511023 | 0.020861714 | 0.022533199 | 0.004158335 | 0 |

| Expected Weight (% of Revenues) |
|---|
| 0.39% |

[3] "Auxiliary" table explained in section 5.4.

## 11.4 Appendix 4 – Historical Balance Sheet

Table 27 - Historical Balance Sheet

| | mar-13 | mar-14 | mar-15 | mar-16 | mar-17 | mar-18 | mar-19 | mar-20 | mar-21 | mar-22 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Assets ($ Millions)** | | | | | | | | | | |
| Cash and Short Term Investments | 1,299 | 1,285 | 1,144 | 1,085 | 1,353 | 2,004 | 1,988 | 2,116 | 2,777 | 2,598 |
| 1Y Growth | | -1.08% | -10.97% | -5.16% | 24.70% | 48.12% | -0.82% | 6.48% | 31.20% | -6.41% |
| Total Receivables, Net | 535 | 768 | 819 | 700 | 674 | 635 | 607 | 415 | 572 | 543 |
| 1Y Growth | | 43.55% | 6.64% | -14.53% | -3.74% | -5.74% | -4.41% | -31.58% | 37.67% | -5.09% |
| Total Inventory | 896 | 1,020 | 1,042 | 1,125 | 792 | 761 | 818 | 736 | 759 | 977 |
| 1Y Growth | | 13.84% | 2.16% | 7.97% | -29.64% | -3.82% | 7.42% | -9.98% | 3.10% | 28.76% |
| Prepaid Expenses | 98 | 98 | 107 | 110 | 103 | 120 | 112 | 83 | 77 | 76 |
| 1Y Growth | | 0.00% | 9.18% | 2.80% | -6.00% | 16.25% | -7.24% | -25.29% | -7.56% | -1.04% |
| Other Current Assets, Total | 135 | 158 | 212 | 33 | 33 | 28 | 71 | 24 | 24 | 23 |
| 1Y Growth | | 17.04% | 34.18% | -84.43% | -0.61% | -15.24% | 155.04% | -66.15% | -1.67% | -4.24% |
| Total Current Assets | 2,963 | 3,329 | 3,324 | 3,053 | 2,955 | 3,548 | 3,595 | 3,375 | 4,208 | 4,217 |
| 1Y Growth | | 12.35% | -0.15% | -8.15% | -3.23% | 20.10% | 1.31% | -6.11% | 24.67% | 0.22% |
| | | | | | | | | | | |
| Property/Plant/Equipment, Total - Net | 932 | 1,322 | 1,436 | 1,583 | 1,316 | 1,186 | 1,039 | 2,491 | 2,254 | 2,081 |
| 1Y Growth | | 41.85% | 8.62% | 10.24% | -16.87% | -9.86% | -12.40% | 139.71% | -9.54% | -7.66% |
| Goodwill, Net | 968 | 964 | 903 | 918 | 905 | 951 | 920 | 916 | 935 | 909 |
| 1Y Growth | | -0.41% | -6.33% | 1.66% | -1.46% | 5.07% | -3.25% | -0.45% | 2.09% | -2.77% |
| Intangibles, Net | 328 | 299 | 267 | 244 | 220 | 188 | 164 | 141 | 121 | 103 |
| 1Y Growth | | -8.84% | -10.70% | -8.61% | -9.92% | -14.47% | -12.93% | -13.87% | -14.11% | -15.03% |
| Long Term Investments | 81 | -- | -- | 187 | 21 | 86 | 45 | 0 | -- | 12 |
| 1Y Growth | | - | - | - | -88.56% | 302.80% | -47.91% | -100.00% | - | - |
| Other Long Term Assets, Total | 146 | 174 | 176 | 228 | 236 | 184 | 181 | 357 | 370 | 403 |
| 1Y Growth | | 19.18% | 1.15% | 29.55% | 3.38% | -21.98% | -1.79% | 97.73% | 3.70% | 8.83% |
| Total Assets | 5,418 | 6,088 | 6,106 | 6,213 | 5,652 | 6,143 | 5,943 | 7,280 | 7,888 | 7,725 |
| 1Y Growth | | 12.37% | 0.30% | 1.75% | -9.03% | 8.69% | -3.26% | 22.50% | 8.35% | -2.06% |
| **Liabilities ($ Millions)** | | | | | | | | | | |
| Accounts Payable | 147 | 203 | 210 | 151 | 148 | 166 | 202 | 247 | 356 | 449 |
| 1Y Growth | | 38.10% | 3.45% | -28.10% | -2.19% | 12.12% | 22.16% | 22.00% | 44.21% | 26.07% |
| Accrued Expenses | 533 | 510 | 497 | 584 | 565 | 668 | 661 | 851 | 982 | 1,077 |
| 1Y Growth | | -4.32% | -2.55% | 17.51% | -3.32% | 18.37% | -1.11% | 28.76% | 15.38% | 9.72% |
| Current Port. of LT Debt/Capital Leases | 271 | 16 | 253 | 137 | 23 | 318 | 22 | 309 | 20 | 520 |
| 1Y Growth | | -94.10% | 1481.25% | -45.85% | -83.50% | 1305.31% | -92.98% | 1287.44% | -93.63% | 2537.56% |
| Other Current liabilities, Total | 170 | 241 | 226 | 326 | 425 | 426 | 315 | 210 | 227 | 210 |
| 1Y Growth | | 41.76% | -6.22% | 44.25% | 30.37% | 0.14% | -26.08% | -33.31% | 8.34% | -7.57% |
| Total Current Liabilities | 1,121 | 970 | 1,186 | 1,198 | 1,160 | 1,587 | 1,200 | 2,092 | 1,585 | 2,256 |
| 1Y Growth | | -13.47% | 22.27% | 1.01% | -3.18% | 36.84% | -24.39% | 74.32% | -24.24% | 42.33% |
| | | | | | | | | | | |
| Total Long Term Debt | 38 | 553 | 536 | 863 | 839 | 524 | 902 | 586 | 2,003 | 1,478 |
| 1Y Growth | | 1355.26% | -3.07% | 61.01% | -2.77% | -37.50% | 71.95% | -35.03% | 241.99% | -26.22% |
| Deferred Income Tax | 180 | 213 | 203 | 98 | 75 | 116 | 129 | 99 | 102 | 104 |
| 1Y Growth | | 18.33% | -4.69% | -51.72% | -23.98% | 55.30% | 11.50% | -23.33% | 3.24% | 2.25% |
| Other Liabilities, Total | 294 | 318 | 290 | 310 | 279 | 459 | 425 | 1,810 | 1,593 | 1,351 |
| 1Y Growth | | 8.16% | -8.81% | 6.90% | -10.03% | 64.43% | -7.37% | 326.11% | -12.00% | -15.21% |
| Total Liabilities | 1,633 | 2,054 | 2,215 | 2,469 | 2,352 | 2,686 | 2,656 | 4,587 | 5,283 | 5,189 |
| 1Y Growth | | 25.78% | 7.84% | 11.47% | -4.72% | 14.18% | -1.13% | 72.72% | 15.18% | -1.79% |
| **Shareholders Equity ($ Millions)** | | | | | | | | | | |
| Common Stock, Total | 1.00 | 1.00 | 1.00 | 1.00 | 1.20 | 1.30 | 1.30 | 1.30 | 1.30 | 1.30 |
| 1Y Growth | | 0.00% | 0.00% | 0.00% | 20.00% | 8.33% | 0.00% | 0.00% | 0.00% | 0.00% |
| Additional Paid-In Capital | 1,752 | 1,979 | 2,117 | 2,258 | 2,309 | 2,383 | 2,494 | 2,594 | 2,667 | 2,749 |
| 1Y Growth | | 12.96% | 6.97% | 6.66% | 2.25% | 3.23% | 4.63% | 4.03% | 2.80% | 3.06% |
| Retained Earnings (Accumulated Defici | 4,647 | 5,257 | 5,787 | 6,015 | 5,752 | 5,752 | 5,979 | 5,994 | 5,873 | 6,275 |
| 1Y Growth | | 13.13% | 10.08% | 3.94% | -4.37% | 0.01% | 3.94% | 0.25% | -2.02% | 6.84% |
| Treasury Stock - Common | (2,709) | (3,317) | (3,849) | (4,349) | (4,564) | (4,581) | (5,084) | (5,778) | (5,816) | (6,309) |
| 1Y Growth | | 22.44% | 16.04% | 12.99% | 4.94% | 0.37% | 10.97% | 13.67% | 0.65% | 8.47% |
| Other Equity, Total | 94 | 114 | (165) | (181) | (198) | (99) | (103) | (118) | (121) | (180) |
| 1Y Growth | | 21.28% | -244.74% | 9.70% | 9.61% | -50.35% | 4.97% | 14.31% | 2.20% | 49.25% |
| Total Equity | 3,785 | 4,034 | 3,891 | 3,744 | 3,300 | 3,457 | 3,287 | 2,693 | 2,604 | 2,536 |
| 1Y Growth | | 6.58% | -3.54% | -3.78% | -11.87% | 4.78% | -4.92% | -18.07% | -3.29% | -2.63% |
| Total Liabilities & Shareholders' Equity | 5,418 | 6,088 | 6,106 | 6,213 | 5,652 | 6,143 | 5,943 | 7,280 | 7,888 | 7,725 |
| 1Y Growth | | 12.37% | 0.30% | 1.75% | -9.03% | 8.69% | -3.26% | 22.50% | 8.35% | -2.06% |

## 11.5 Appendix 5 – Forecasted Balance Sheet

Table 28 - Forecasted Balance Sheet

| | mar-22 | mar-23 | mar-24 | mar-25 | mar-26 | mar-27 | mar-28 |
|---|---|---|---|---|---|---|---|
| **Assets ($ Millions)** | | | | | | | |
| Cash and Short Term Investments | 2,598 | 2,458 | 2,409 | 2,397 | 2,757 | 3,124 | 3,500 |
| 1Y Growth | -6.41% | | | | | | |
| Total Receivables, Net | 543 | 676 | 753 | 830 | 861 | 893 | 927 |
| 1Y Growth | -5.09% | | | | | | |
| Total Inventory | 977 | 1,042 | 1,189 | 1,344 | 1,429 | 1,521 | 1,621 |
| 1Y Growth | 28.76% | | | | | | |
| Prepaid Expenses | 76 | 72 | 71 | 70 | 81 | 92 | 103 |
| 1Y Growth | -1.04% | | | | | | |
| Other Current Assets, Total | 23 | 31 | 34 | 38 | 39 | 40 | 42 |
| 1Y Growth | -4.24% | | | | | | |
| Total Current Assets | 4,217 | 4,278 | 4,456 | 4,679 | 5,166 | 5,670 | 6,194 |
| 1Y Growth | 0.22% | | | | | | |
| | | | | | | | |
| Property/Plant/Equipment, Total - Net | 2,081 | 2,358 | 2,539 | 2,676 | 2,422 | 2,163 | 1,900 |
| 1Y Growth | -7.66% | | | | | | |
| Goodwill, Net | 909 | 859 | 843 | 838 | 964 | 1,093 | 1,224 |
| 1Y Growth | -2.77% | | | | | | |
| Intangibles, Net | 103 | 177 | 198 | 213 | 184 | 155 | 125 |
| 1Y Growth | -15.03% | | | | | | |
| Long Term Investments | 12 | 11 | 11 | 11 | 13 | 14 | 16 |
| 1Y Growth | - | | | | | | |
| Other Long Term Assets, Total | 403 | 381 | 374 | 372 | 428 | 485 | 543 |
| 1Y Growth | 8.83% | | | | | | |
| Total Assets | 7,725 | 8,065 | 8,419 | 8,790 | 9,177 | 9,580 | 10,002 |
| 1Y Growth | -2.06% | 4.40% | 4.40% | 4.40% | 4.40% | 4.40% | 4.40% |
| **Liabilities ($ Millions)** | | | | | | | |
| Accounts Payable | 449 | 479 | 547 | 618 | 657 | 699 | 745 |
| 1Y Growth | 26.07% | | | | | | |
| Accrued Expenses | 1,077 | 1,122 | 1,161 | 1,201 | 1,252 | 1,304 | 1,357 |
| 1Y Growth | 9.72% | | | | | | |
| Current Port. of LT Debt/Capital Leases | 520 | 541 | 560 | 579 | 604 | 629 | 655 |
| 1Y Growth | 2537.56% | | | | | | |
| Other Current liabilities, Total | 210 | 219 | 226 | 234 | 244 | 254 | 265 |
| 1Y Growth | -7.57% | | | | | | |
| Total Current Liabilities | 2,256 | 2,361 | 2,494 | 2,633 | 2,756 | 2,886 | 3,022 |
| 1Y Growth | 42.33% | | | | | | |
| | | | | | | | |
| Total Long Term Debt | 1,478 | 1,540 | 1,593 | 1,648 | 1,717 | 1,789 | 1,863 |
| 1Y Growth | -26.22% | | | | | | |
| Deferred Income Tax | 104 | 109 | 113 | 116 | 121 | 126 | 132 |
| 1Y Growth | 2.25% | | | | | | |
| Other Liabilities, Total | 1,351 | 1,407 | 1,456 | 1,506 | 1,569 | 1,634 | 1,702 |
| 1Y Growth | -15.21% | | | | | | |
| Total Liabilities | 5,189 | 5,417 | 5,655 | 5,904 | 6,164 | 6,435 | 6,718 |
| 1Y Growth | -1.79% | 4.40% | 4.40% | 4.40% | 4.40% | 4.40% | 4.40% |
| **Shareholders Equity ($ Millions)** | | | | | | | |
| Common Stock, Total | 1.30 | 1.36 | 1.42 | 1.48 | 1.54 | 1.61 | 1.68 |
| 1Y Growth | 0.00% | | | | | | |
| Additional Paid-In Capital | 2,749 | 2,870 | 2,996 | 3,128 | 3,265 | 3,409 | 3,559 |
| 1Y Growth | 3.06% | | | | | | |
| Retained Earnings (Accumulated Defici | 6,275 | 6,551 | 6,839 | 7,140 | 7,454 | 7,782 | 8,125 |
| 1Y Growth | 6.84% | | | | | | |
| Treasury Stock - Common | (6,309) | (6,586) | (6,876) | (7,179) | (7,494) | (7,824) | (8,168) |
| 1Y Growth | 8.47% | | | | | | |
| Other Equity, Total | (180) | (188) | (197) | (205) | (214) | (224) | (233) |
| 1Y Growth | 49.25% | | | | | | |
| Total Equity | 2,536 | 2,648 | 2,764 | 2,886 | 3,013 | 3,145 | 3,284 |
| 1Y Growth | -2.63% | 4.40% | 4.40% | 4.40% | 4.40% | 4.40% | 4.40% |
| Total Liabilities & Shareholders' Equity | 7,725 | 8,065 | 8,419 | 8,790 | 9,176 | 9,580 | 10,002 |
| 1Y Growth | -2.06% | 4.40% | 4.40% | 4.40% | 4.40% | 4.40% | 4.40% |

## 11.6 Appendix 6 – Historical Income Statement

Table 29 - Historical Income Statement

| INCOME STATEMENT | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | 6,945.0 | 7,450.0 | 7,620.0 | 7,405.0 | 6,652.8 | 6,182.3 | 6,313.0 | 6,159.8 | 4,400.8 | 6,218.5 |
| Net Sales | 6,945.0 | 7,450.0 | 7,620.0 | 7,405.0 | 6,652.8 | 6,182.3 | 6,313.0 | 6,159.8 | 4,400.8 | 6,218.5 |
| Total Revenue | 6,945.0 | 7,450.0 | 7,620.0 | 7,405.0 | 6,652.8 | 6,182.3 | 6,313.0 | 6,159.8 | 4,400.8 | 6,218.5 |
| Cost of Revenue, Total | 2,789.0 | 3,140.0 | 3,242.0 | 3,218.0 | 3,001.7 | 2,423.0 | 2,419.8 | 2,504.3 | 1,510.1 | 2,071.0 |
| Cost of Revenue | 2,789.0 | 3,140.0 | 3,242.0 | 3,218.0 | 3,001.7 | 2,423.0 | 2,419.8 | 2,504.3 | 1,510.1 | 2,071.0 |
| Gross Profit | 4,156.0 | 4,310.0 | 4,378.0 | 4,187.0 | 3,651.1 | 3,759.3 | 3,893.2 | 3,655.5 | 2,890.7 | 4,147.5 |
| | | | | | | | | | | |
| Selling/General/Admin. Expenses, Total | 2,765.0 | 2,919.0 | 3,032.0 | 3,103.0 | 2,866.0 | 3,095.5 | 3,168.3 | 3,232.7 | 2,443.7 | 3,094.2 |
| Selling/General/Administrative Expense | 2,765.0 | 2,919.0 | 2,951.0 | 3,006.0 | 2,802.4 | 3,021.0 | 3,079.7 | 3,132.1 | 2,106.0 | 2,556.2 |
| Labor & Related Expense | -- | -- | 81.0 | 97.0 | 63.6 | 74.5 | 88.6 | 100.6 | 72.7 | 81.7 |
| Advertising Expense | -- | -- | -- | -- | -- | -- | -- | -- | 265.0 | 456.3 |
| Depreciation/Amortization | 233.0 | 258.0 | 294.0 | 310.0 | 307.5 | -- | -- | 18.1 | 247.6 | 229.7 |
| Depreciation | 206.0 | 223.0 | 269.0 | 286.0 | 283.4 | -- | -- | 18.1 | 227.4 | 211.8 |
| Amortization of Intangibles | 27.0 | 35.0 | 25.0 | 24.0 | 24.1 | -- | -- | -- | 20.2 | 17.9 |
| Unusual Expense (Income) | 31.0 | 3.0 | 17.0 | 192.0 | 572.4 | 165.6 | 163.1 | 87.7 | 243.0 | 25.2 |
| Restructuring Charge | 12.0 | 18.0 | 10.0 | 143.0 | 318.6 | 115.6 | 137.3 | 56.1 | 236.8 | 22.8 |
| Impairment-Assets Held for Use | 19.0 | 1.0 | 7.0 | 49.0 | 253.8 | 50.0 | 25.8 | 31.6 | 26.6 | -- |
| Other Unusual Expense (Income) | 0.0 | (16.0) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | (20.4) | 2.4 |
| Total Operating Expense | 5,818.0 | 6,320.0 | 6,585.0 | 6,823.0 | 6,747.6 | 5,684.1 | 5,751.2 | 5,842.8 | 4,444.4 | 5,420.1 |
| Operating Income | 1,127.0 | 1,130.0 | 1,035.0 | 582.0 | (94.8) | 498.2 | 561.8 | 317.0 | (43.6) | 798.4 |
| Interest Expense, Net Non-Operating | (22.0) | (20.0) | (17.0) | (21.0) | (12.4) | (18.2) | (20.7) | (36.6) | (48.5) | (54.0) |
| Interest Expense - Non-Operating | (22.0) | (20.0) | (17.0) | (21.0) | (12.4) | (18.2) | (20.7) | (36.6) | (48.5) | (54.0) |
| Interest/Invest Income - Non-Operating | (16.0) | (14.0) | (31.0) | (9.0) | 2.3 | 14.7 | 43.9 | 69.4 | 18.3 | 5.5 |
| Interest Income - Non-Operating | 6.0 | 3.0 | 6.0 | 6.0 | 6.4 | 12.3 | 40.8 | 34.4 | 9.7 | 5.5 |
| Investment Income - Non-Operating | (22.0) | (17.0) | (37.0) | (15.0) | (4.1) | 2.4 | 3.1 | 35.0 | 8.6 | -- |
| Interest Inc.(Exp.),Net-Non-Op., Total | (38.0) | (34.0) | (48.0) | (30.0) | (10.1) | (3.5) | 23.2 | 32.8 | (30.2) | (48.5) |
| Other, Net | -- | -- | -- | -- | -- | (5.5) | (2.5) | (23.4) | (1.0) | 4.7 |
| Other Non-Operating Income (Expense) | -- | -- | 0.0 | 0.0 | 0.0 | (5.5) | (2.5) | (23.4) | (1.0) | 4.7 |
| Net Income Before Taxes | 1,089.0 | 1,096.0 | 987.0 | 552.0 | (104.9) | 489.2 | 582.5 | 326.4 | (74.8) | 754.6 |
| Provision for Income Taxes | 339.0 | 320.0 | 285.0 | 156.0 | (5.6) | 105.0 | 124.0 | 67.4 | 32.5 | 154.5 |
| Net Income After Taxes | 750.0 | 776.0 | 702.0 | 396.0 | (99.3) | 384.2 | 458.5 | 259.0 | (107.3) | 600.1 |
| Net Income Before Extra. Items | 750.0 | 776.0 | 702.0 | 396.0 | (99.3) | 384.2 | 458.5 | 259.0 | (107.3) | 600.1 |
| | | | | | | | | | | |
| Extraordinary Item | -- | -- | -- | -- | -- | (221.4) | (27.6) | 125.3 | (13.8) | -- |
| Total Extraordinary Items | -- | -- | -- | -- | -- | (221.4) | (27.6) | 125.3 | (13.8) | -- |
| Net Income | 750.0 | 776.0 | 702.0 | 396.0 | (99.3) | 162.8 | 430.9 | 384.3 | (121.1) | 600.1 |

## 11.7 Appendix 7 – SWOT Analysis

**Strengths:**

- As mentioned previously in this dissertation, Ralph Lauren is considered, due to its global reach, a recognized brand in the industry. The brand is known for its quality, style and luxury and the reputation it has created since the beginning can be traced back to consistent branding and recognizable marketing efforts.
- Another strength attached to the brand is its variety or range of products. With a vast product portfolio, Ralph Lauren can target a wider range of customers.
- As one of the variables considered for the forecast of revenues in this dissertation, the digital commerce is an important factor for the company's success. Ralph Lauren is considered to have a strong e-commerce presence that includes a website and a mobile app.
- As mentioned earlier and now singled out, Ralph Lauren Corp. has global reach, with its business spread over 100 countries in North America, Europe, and Asia. This reach provides the company with a high level of diversity, reducing its reliance on any particular market.

**Weaknesses:**

- Despite Ralph Lauren spreading its business across the globe, it still generates a significant portion of its revenue from its home market (North America), which can contribute to vulnerability towards changes in the economy of that region.
- Since Ralph Lauren integrates the "Luxury" industry, its prices are considered to be high, resulting in a lot of costumers not being able to afford company's products. These prices can limit the company's potential market.
- Ralph Lauren Corp. may be vulnerable to ongoing supply chain disruptions or price increases due to its dependency on a few key suppliers.

**Opportunities:**

- Despite the macroeconomic environment and the uncertainty surrounding it, Ralph Lauren Corp. can still chase opportunities such as expanding to emerging

markets like Asia and South America. This can help the company to widen its costumer reach and increase revenues.

- Collaborations and partnerships with other brands are reasonable opportunities to attract new customers and create "buzz" around the brand, keeping it relevant.
- With the tech industry developing at a fast pace, the integration of technology into Ralph Lauren's products can be a great opportunity for the company to attract new customers that value technology and stay competitive in the market.

**Threats:**

- As mentioned in chapter 2 of this dissertation, the economic instability and uncertainty can have an impact on Ralph Lauren due to the fact that consumer spending can be affected.
- The competition within the industry can also be considered a threat for Ralph Lauren Corp. This competition can make it hard for the company to stand out and differentiate itself from other luxury brands.
- A threat that concerns brands in the industry, and Ralph Lauren included, is costumer preferences changing fast. If the company is not able to adapt to these changes it can have an impact on the performance and success of the company.

11.8 Appendix 8 - 5 Porter Forces

**Threat of New Entrants:**

- As mentioned earlier, the fashion industry is a very competitive industry, and it can be easy to enter this industry. It is with ease that entrepreneurs set up an online shop and start selling products. With this said, the threat of new entrants in Ralph Lauren's industry is relatively high.

**Bargaining Power of Suppliers:**

- Taking into consideration the size and reputation of Ralph Lauren Corp. the company has a significant amount of bargaining power over its suppliers. Nevertheless, it is important to be aware that the company relies on few suppliers, which can result in an increase of bargaining of its suppliers.

**Bargaining Power of Buyers:**

- Due to the competitive industry, buyers have significant bargaining power has they have abundance of choices. Ralph Lauren needs to account for this and strive to meet customer needs and desires in order to remain competitive in the industry.

**Threats of Substitutes:**

- As mentioned previously, there are an immense number of brands and products available to consumers, which results in a high threat of substitutes. This forces Ralph Lauren to continue to innovate to stay relevant and be competitive.

**Competitive Rivalry:**

- The rivalry in the industry is high, with a lot of players competing for market share. As mentioned in chapter 4.3.3 of this dissertation, Ralph Lauren faces competitors such as Burberry Group PLC., PVH Corp., Hugo Boss AG, and others which have a lot of the same strengths as does Ralph Lauren.
- To help the company remain competitive, Ralph Lauren Corp. accounts for a strong brand reputation, along with high quality products and a loyal customer base.

## 11.9 Appendix 9 – DCF Model (Pessimistic Scenario)

Table 30 - DCF Model (Pessimitic Scenario)

| | | Forecasted Years | | | | | |
|---|---|---|---|---|---|---|---|
| | mar-22 | mar-23 | mar-24 | mar-25 | mar-26 | mar-27 | mar-28 |
| EBIT | 798.40 | 641.42 | 623.37 | 592.94 | 535.60 | 469.90 | 394.80 |
| Tax rate | 20% | 27% | 27% | 27% | 27% | 27% | 27% |
| NOPAT | 634.93 | 468.24 | 455.06 | 432.85 | 390.98 | 343.03 | 288.20 |
| CAPEX (Net) | -166.90 | -180.16 | -192.99 | -205.67 | -212.70 | -220.13 | -228.00 |
| NWC | 112.60 | 101.49 | 127.88 | 132.14 | 64.90 | 70.05 | 75.68 |
| Depreciation | 229.70 | 368.16 | 394.38 | 420.30 | 434.66 | 449.85 | 465.93 |
| FCFF | 585.13 | 554.75 | 528.57 | 515.34 | 548.05 | 502.70 | 450.45 |

| | Forecasted Years | | | | | | TV | PV (TV) |
|---|---|---|---|---|---|---|---|---|
| | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2029 |
| PV (FCFF) | 554.75 | 486.84 | 437.18 | 428.22 | 361.77 | 298.58 | 9491.17 | 5794.56 |

| | |
|---|---|
| Enterprise Value | 7807.15 |
| Cash & Equivalents | 1863.80 |
| Debt | 1798.88 |
| Equity | 7872.07 |
| Nº of shares | 69.90 |
| Target Price | $ 112.62 |

## 11.10 Appendix 10 – DCF Model (Optimistic Scenario)

Table 31 - DCF Model (Optimistic Scenario)

| | | Forecasted Years | | | | | |
|---|---|---|---|---|---|---|---|
| | mar-22 | mar-23 | mar-24 | mar-25 | mar-26 | mar-27 | mar-28 |
| EBIT | 798.40 | 691.56 | 706.31 | 703.66 | 646.59 | 577.07 | 493.21 |
| Tax rate | 20% | 27% | 27% | 27% | 27% | 27% | 27% |
| NOPAT | 634.93 | 504.84 | 515.60 | 513.67 | 472.01 | 421.26 | 360.05 |
| CAPEX (Net) | -166.90 | -194.24 | -218.67 | -244.08 | -256.78 | -270.34 | -284.84 |
| NWC | 112.60 | 101.49 | 127.88 | 132.14 | 64.90 | 70.05 | 75.68 |
| Depreciation | 229.70 | 396.94 | 446.85 | 498.78 | 524.74 | 552.46 | 582.07 |
| FCFF | 585.13 | 606.05 | 615.91 | 636.24 | 675.07 | 633.33 | 581.60 |

| | Forecasted Years | | | | | | TV | PV (TV) |
|---|---|---|---|---|---|---|---|---|
| | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2029 |
| PV (FCFF) | 606.05 | 567.28 | 539.74 | 527.47 | 455.79 | 385.52 | 12254.65 | 7481.71 |

| | |
|---|---|
| Enterprise Value | 9957.51 |
| Cash & Equivalents | 1863.80 |
| Debt | 1798.88 |
| Equity | 10022.43 |
| Nº of shares | 69.90 |
| Target Price | **$ 143.38** |