# PERC *Student Research*

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**Industry: Textile – Apparel Clothing**

# G-III Apparel Group, Ltd.

November 13, 2006

**Ticker: GIII** (Nasdaq)
**Price: $15.89** (close 11/10/2006)

**Recommendation: BUY**
**Price Target: $16.94**

| G-III | 2006 | 2007E | 2008E | 2009E | 2010E | 2011E | 2012E | 2013E | 2014E |
|---|---|---|---|---|---|---|---|---|---|
| **Revenue** | $388,886 | $466,664 | $559,996 | $671,996 | $786,235 | $904,170 | $994,587 | $1,044,317 | $1,096,532 |
| **EBIT** | $14,696 | $17,636 | $21,163 | $25,395 | $29,713 | $34,169 | $37,586 | $39,466 | $41,439 |
| **Taxes (35%)** | $4,066 | $4,879 | $5,855 | $7,026 | $8,221 | $9,454 | $10,399 | $10,919 | $11,465 |
| **EPS** | 0.61 | 0.73 | 0.88 | 1.06 | 1.24 | 1.42 | 1.56 | 1.64 | 1.73 |

Source: Student Estimates

## Highlights

- **We are placing a BUY recommendation on G-III Apparel Group, Ltd. with a price target of $16.94**. We believe that the company has growth potential due to its recent acquisition of two outerwear competitors (Marvin Richards and Winlit) and sizable contracts with Wal-Mart. We concluded that the apparel maker's growth potential was already factored into its stock price.
- **The DCF and Relative Valuation methods were used to determine G-III's stock price.** We estimated a 20% growth rate for the next 4 years, with a transition period of a decreasing growth rate, which concludes in a 5% stable growth phase. A Three-Stage model was used to value the firm. We used the FCFE to estimate the share price.
- **Despite a lack luster performance in Q3. the company has strong potential to meet its estimated revenue target**. Almost 90% of its orders have been received, for the 2006 holiday season which will boost the Q4 revenue outlook.[1]


Splits:28-Mar-06 [3:2]

| Market Profile | |
|---|---|
| 52 wk Range | $6.33-$16.44 |
| Average Daily Volume | 30,918 |
| Beta | 0.91 |
| P/E | $139.83 |
| Forward P/E | $15.58 |
| Market Cap (m) | $228.96 |
| Insider Holding | 53.16% |
| Institution Holding | 28.40% |
| Book Value per share | $6.24 |
| share outstanding (m) | 12.3 |
| Recommendation | BUY |

## Investment Summary

We are placing a BUY recommendation on G-III Apparels with a price target of $16.94. Despite recent losses, the outlook for the year is positive. In our opinion the company has the potential to grow through the benefits and additional resources it received from its recent acquisitions of two former outerwear competitors, Marvin Richards and Winlit. As a result of these strategic acquisitions, G-III not only increased its assets, market share and economies of scale, but it also acquired 5 new licensed brands (Calvin Klein, Guess?, Tommy Hilfiger, Ellen Tracy and Pacific Trail). G-III's expanded relationship with Wal-Mart to produce the retailer's private urban

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**Important disclosures appear at the back of this report**

sportswear line, Exsto will also stimulate growth. We believe that these key growth elements have been factored into G-III's stock price.

G-III is also making a strategic shift from its primary outerwear apparel business to non-outerwear apparel. A diverse portfolio of seasonal and non-seasonal apparel would strengthen its year-round sales, and leave G-III less vulnerable to seasonal demands. The company is positioning itself to grow through acquisitions, brand licenses, and a diverse product selection.

As part of its recent investments, G-III is significantly expanding its sourcing and distribution infrastructure to handle growth. The company has doubled its distribution facility in Secaucus, NJ by adding nearly 130,000 square feet.[2]

## Valuation

G-III outperformed the Russell Micro-cap Index and DJ Clothing and Accessories Index by large margins, as shown on figures 1 and 2 below.

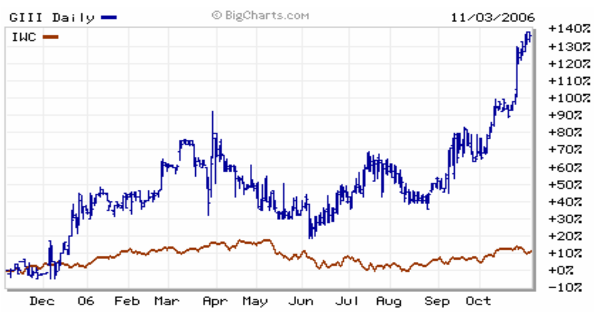



Figure 1: GIII (Blue) vs. Shares Russell Microcap Index (Red)
Past 12 months: Dec. '05 to Oct. '06


Figure 2: GIII vs. DJ Clothing Accessories Index (Green)
Past 12 months: Dec. '05 to Oct. '06

G-III's recent partnership with Wal-Mart to target the urban male market, as well as its strategy to grow through acquisitions and non-outerwear apparel will foster growth in the present apparel market environment. According to a recent S&P report, apparel companies are expected to continue to improve sourcing and efficiencies, through unique product offerings and focus on niche markets through licensing and acquisitions.[3] G-III already has a good selection of brand of licenses, from high equity brand like Calvin Klein, Sean John and Jones New York.

**Relative Valuation**

The table below (Figure 3) highlights a few key valuation ratios for G-III and its competitors. In order to relatively value G-III against its peers and the apparel industry, we examined its P/E, P/S, P/B and PEG ratios.

Figure 3: Valuation Ratios

| Valuation Ratios | P/E | P/S | P/B | PEG |
|---|---|---|---|---|
| **Industry Average** | **25.3** | **1** | **3.9** | **1.06** |
| *GIII* | *88.9* | *0.7* | *2.6* | *0.81* |
| COLM | 16.8 | 1.7 | 2.8 | 1.38 |
| NKE | 18 | 3.7 | 1.5 | 1.09 |
| WLSN | N/A | 0.2 | 1.5 | N/A |
| ZQK | 28.6 | 0.8 | 2.1 | 1.33 |

Source: Morning Star

The P/E ratio for G-III is comparably higher than the industry average and its competitors like Nike and Columbia sports. G-III's acquisition based and organic growth factors resulted in this high P/E. As the firm's growth rate increases, the P/E ratio increases as well. The apparel maker split its stock in Q2 of this year, and offered more shares in Q3 to pay off some of the debt it incurred for different growth opportunities. This can also dilute the earnings per share, further enhancing it P/E ratio. This was evident with the early technology stocks where tremendous growth prospects resulted in higher P/E ratios.

Both earnings and book value are measured through accounting values and principles. An alternative approach used in relative valuation, is finding the ratio of the value of an asset to the revenue that asset generates. P/S (market value for the share divided by the revenue generated per share) can be used to measure the relative value of the company. In G-III's case, its P/S is comparatively less than the industry average and its competitors. In addition, G-III's P/B (Price to Book ratio) is also less than the industry average; however it is comparable to its competitors.

Since G-III is a growth company one of the other ratios we examined against its competitors is the PEG (Price-Earning ratio divided by the expected growth) ratio. From the PEG perspective, G-III also appears to be undervalued relative to the industry and its competitors.

**Discount Cash Flow Analysis**

We used the Three-Stage DCF method to determine the value of G-III's stock price. The Capital Asset Price model (CAPM) was used to calculate cost of equity, which was 10.02%; while the weighted average cost of capital (WACC) method resulted in 9.27%. The current 10-year rate on US treasury bonds was used for the risk free rate (rf) and the geometric mean of the risk premium[4] on stock and T-Bills from 1928 to present was used for the market risk premium. To estimate the long term debt, we used the average interest rate on notes payable by G-III for 2006 and 2005. The free cash flow to equity (FCFE) is negative due to high growth period.

We strongly believe that with its recent acquisitions, brand production and brand licensing deals, G-III will be able to sustain a 20% growth rate for the next 4 years, followed by a transition period of decreasing growth rates, then a 5% stable growth rate. The consecutive decreasing growth rates during the transition period are as follows 20%, 17%, 15%, 10% and 5%.

| | 1/31/2004 | 1/30/2005 | 1/30/2006 | 2006E | 2007E | 2008E | 2009E | 2010E | 2011E | 2012E | 2013E | 2014E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | $224,061.00 | $214,278.00 | $324,072.00 | $388,886.40 | $466,663.68 | $559,996.42 | $671,995.70 | $786,234.97 | $904,170.21 | $994,587.23 | $1,044,316.60 | $1,096,532.43 |
| COGs | $162,229.00 | $161,534.00 | $239,226.00 | $287,267.75 | $344,721.31 | $413,665.57 | $496,398.68 | $580,786.46 | $667,904.42 | $734,694.87 | $771,429.61 | $810,001.09 |
| SG&A | $47,039.00 | $49,678.00 | $64,763.00 | $83,172.27 | $99,806.73 | $119,768.07 | $143,721.68 | $168,154.37 | $193,377.53 | $212,715.28 | $223,351.04 | $234,518.60 |
| EBIT | $14,793.00 | $3,066.00 | $16,958.00 | $14,696.37 | $17,635.65 | $21,162.78 | $25,395.33 | $29,712.54 | $34,169.42 | $37,586.36 | $39,465.68 | $41,438.97 |
| EBIT*(1-Tax) | $9,615.45 | $1,992.90 | $11,022.70 | $9,552.64 | $11,463.17 | $13,755.81 | $16,506.97 | $19,313.15 | $22,210.12 | $24,431.14 | $25,652.69 | $26,935.33 |
| CapEx | $0.00 | $0.00 | $1,300.00 | $0.00 | $0.00 | $1,000.00 | $0.00 | $0.00 | $1,000.00 | $0.00 | $0.00 | $1,000.00 |
| Depr & Amor | $0.00 | $0.00 | $3,125.00 | $3,750.00 | $4,500.00 | $5,400.00 | $6,480.00 | $7,581.60 | $8,718.84 | $9,590.72 | $10,070.26 | $10,573.77 |
| Change in working cap | $0.00 | $792.00 | $23,227.00 | $25,994.19 | $19,737.44 | $23,684.93 | $28,421.91 | $28,990.35 | $29,928.27 | $22,945.01 | $12,619.75 | $13,250.74 |
| FCFE | $9,615.45 | $1,200.90 | ($10,379.30) | ($12,691.55) | ($3,774.27) | ($5,529.12) | ($5,434.94) | ($2,095.60) | $0.69 | $11,076.85 | $23,103.20 | $23,258.36 |
| NPV@WACC | | | | ($11,614.85) | ($3,161.04) | ($4,237.92) | ($3,812.34) | ($1,345.25) | $0.41 | $5,955.38 | $11,367.49 | $10,472.99 |
| | | | | | High Growth- 20% | | | | Transition | | Stable Growth- 5% | |
| | | | | | | | | 17% | 15% | 10% | | |

| | |
|---|---|
| WACC | 9.27% |
| Cost of Equity | 10.0% |
| Value during high growth | ($22,826.16) |
| Value during transistion | $4,610.54 |
| Terminal Value | 227349.7997 |
| Total | $209,134.18 |
| **Price per share** | **$16.94** |

Figure 4: Three-Stage DCF to FCFE; Source: Student Estimates

**WACC Calculations**

| | |
|---|---|
| Risk free rate (%) | 4.61 |
| Beta (β) | 0.91 |
| Equity Risk Premimum | 5.95 |
| Yield to maturity of debt | 5.25 |
| Corporate Tax Rate | 35% |
| Common Shares | 12300000 |
| Share Price ($) | 15.75 |
| After tax cost of debt | 3.4125 |
| Market Value of Debt ($) | 29120000 |
| Market Value of equity ($) | 226170000 |
| Total Capital | 255290000 |
| %age of Debt | 11.41% |
| %age of Equity | 88.59% |
| **WACC** | **9.27%** |

**Got this from market watch 10 yr bond rate**

**Got this from yahoo**

**Got this from Damondran web site. Used the geometric mean of the risk premium on stock and Tbills from 1928-present**

**This debt I got from the 10K report of GIII. In their notes payable section this is mentioned "The weighted average interest rate for ammount borrowed under the domestic loan agreement was 6.5 and 4.0 % for the year 2006 and 2005"**

Figure 5: WACC calculations; Source: Student Estimates

**Risks to Our Price Target**

- G-III's sales to its ten biggest customers accounted for 61% of its net sales in fiscal 2006 as compared to 53% of net sales in fiscal 2005.[5] Federated Dept. Stores and Wal-Mart are two of their biggest clients and any significant reduction in sales to these retailers can decrease G-III's price target.
- If G-III does not seamlessly integrate its two recently acquired outerwear companies into its business matrix, it risks operating at inefficient and high costs levels.
- The apparel maker is currently negotiating the renewal of its NFL brand license agreement.[6] If G-III loses its ability to produce NFL sportswear, a key asset in its sportswear brand portfolio its target price will be comprised.

# Business Description[7]

G-III Apparel Group designs, manufactures and markets outwear and sportswear under licensed brands, its own proprietary brands and private retail labels. Its products include coats, jackets, pants, and other sportswear items, as well as women's suits and dresses. 99% of its sales are come from department, specialty and mass merchant retail stores in the United States. The company was founded by Aaron Goldfarb in 1956 as G&N Sportswear. In 1974, it changed its name to G-III Leather Fashions and then to G-III Apparel Group, Ltd. in 1989.

**Licensed Brands & Non-licensed Brands**

Sales from licensed brands were responsible for 60.8% of the company's 2005 net revenue. G-III produces apparel under the following licensed brands: Calvin Klein, Sean John, Kenneth Cole NY, Reaction Kenneth Cole, Nine West, Cole Haan, Guess?, Jones New York, Jones NY Collection, Cece Cord, IZOD, Ellen Tracy, Tommy Hilfiger, Donald Trump, James Dean and Pacific Trail. G-III also produce sports products under trademarks of National Football League, National Basketball Association, Major league Baseball, National Hockey League, Louis Slugger, World Poker Tour and US colleges and universities.

G-III produces products under its own proprietary labels which include Marvin Richards, G-III, Black Rivet, Siena, Siena Studio, Colebrook, G-III by Carl Banks, Winlit, NY 10018, LNR and La Nouvelle Renaissance. The apparel maker also produces apparel under private labels of Federated, Wal-Mart, JC Penney and Kohl's.

# Other Heading Relative to Company

This holiday season Wal-Mart is giving its fashion strategy a new look and focusing hard on the apparel sales. The upgrade of Wal-Mart fashion strategy is part of its bigger campaign to expand into trendier fashion merchandize. This kind of strategy focus can also help G-III drive bigger revenues since its part of the trendier fashion strategy that Wal-Mart is pursuing.

Also, as part of the proof for the G-III growth strategy, given below is a table showing the change in stock in the DJ US and Apparel Index. G-III is one of the top ten performing stock (YTD)

**Figure 6: Stock Changes**

| Company Name | Percentage Change |
|---|---|
| Originally NewYork Inc | 949.99% |
| Swank Inc | 360.71% |
| Bontex Inc | 233.33% |
| Nitches Inc | 220.16% |
| Tag It Pag Inc | 144.44% |
| Ellis Perry Intl Inc | 92.79% |
| China Stationery and Off Sup | 78.13% |
| **G-III Apparel Group, Ltd.** | **75.39%** |
| Ever Glory Intl Grp Inc | 74.29% |
| Benetton group SPA | 72.18% |

Source: http://bigcharts.marketwatch.com/

# Industry Overview and Competitive Positioning

The US apparel industry is mature, saturated and competitive. According to the US Department of Commerce, sales at US clothing and accessory stores totaled $201.1 billion in 2005, a 6.3% increase from year-end 2004 and a 16.7% increase from year-end 2003.[8] These sales were conducted through several channels. Market research firm, NPD Fashion World reported the breakdown of these channels by 2005's dollar value of apparel sales: specialty stores, 30%; mass merchants, 19%; department stores, 17%; national chains, 14%; off-priced retailers, 8%; direct mail/ e-tail pure plays, 5%; factory outlets, 2%; and other retailers, 4%.[9] The relationships among the players in the apparel industry are constantly changing. New trends have emerged that have forced apparel makers and retailers to reposition themselves in the market.

An increase in GDP since 2002 has supported sales growth in the apparel industry (see appendix 1).[10] Nonetheless, a steady decline in apparel prices has cut into manufacturer and retailer profit margins. According the Bureau of Labor and Statistics, the decrease in the apparel consumer price index (CPI) started in 1998 (see appendix 2).[11] An increase in imports and competition contributed to the lower apparel prices.[12]

**Retailer Consolidation & Manufacturers' Retail Operations**

Retailers are seeking growth through merges and acquisitions (see appendix 3). This growth method allows retailers to increase their economies of scale, product lines and distribution centers. For example, Federated Department Stores acquired May Department Stores in August 2005.[13] As a result, Macy's, Bloomingdale's, Filenes and Marshall Field's are all in Federated's portfolio giving the retailer more bargaining power with manufactures. This trend may cause manufacturer profit margins to shrink. In response to the retailer consolidation trend, some apparel manufacturers have gone into the retail business themselves.[14] Opening stores may be costly in the short run, but this strategy ensures that at least the manufacturers that choose this route would not be at the mercy of other retailers.

**Supply-Push vs. Demand-Pull**

Customers are also reshaping the apparel industry. They are prolonging apparel purchases until they need the merchandise. In the past, manufacturers and retailers based their operations on supply driven demand or "supply-push," but the tables are turning and consumer demand or "demand-pull" is driving supply.[15] This recent trend affects supplier business cycles. To respond quickly to US demand, apparel makers may be required to have a production facility placed strategically nearby. Adapting to this change could increase costs for manufactures and retailers. On the other hand, it could also lead to an increase in "full price" sales. When consumers buy apparel closer to their need for it, they would be more willing to pay full price, rather than wait for it to be discounted.

**G-III's Competitive Positioning**

Product and market extensions are two strategies G-III uses to stimulate growth. Licensing brands with high brand equity from apparel makers like Calvin Klein, Sean John and Jones New York has granted the outerwear company access to other apparel markets.

Operating primarily as an outerwear maker, G-III experiences a seasonal sales cycle and 90% of its sales are derived from its outerwear business.[16] In 2005, its July to November sales were responsible for 82% of its net annual sales. G-III decided to dampen this cyclical sales distortion, by investing in products like Calvin Klein suits and trendy Sean John sports apparel that can be sold year round. In addition, the company markets itself to multiple market segments (high, mid, and low-end apparel) to maximize price points and boost sales.[17] For example, this year G-III produced Wal-Mart's lower-mid range priced Exsto brand apparel, a clothing line for young urban men. Wal-Mart, the world's largest retailer stocked this brand in 300 of its stores this summer.[18]

# Financial Analysis

| Ratios | GIII | NKE | WLSN | COLM |
|---|---|---|---|---|
| Current Ratio | **2.8** | 2.81 | 1.79 | 3.55 |
| Quick Ratio | **1.56** | 1.79 | 1.44 | 1.85 |
| Financial Leverage | **1.69** | 1.57 | 1.66 | 1.28 |
| Debt/Equity | **0.26** | 0.11 | 0.36 | 0.02 |
| Inventory Turnover Ration | **8.8** | 4.3 | 3 | 3.7 |
| Return on Equity (ROE) | **0.0936** | 0.2333 | 0.1209 | 0.1718 |

Source:

The table above compares G-III's asset management, liquidity management, debt management and profitability ratios to its competitors. G-III's current, quick and debt ratios are similar to its competitors. It has a low debt ratio indicating that it would get favorable interest rates on future loans that could be used to invest in growth opportunities. The firm has a high current ratio which indicates that it is in a good position from a liquidity perspective, but from the shareholders point of view it appears that G-III has a lot of cash tied up in non-productive assets. Since G-III is a growth company, concluded that the apparel can use the excess cash to further fuel its growth. G-III's inventory turnover rate far exceeds that of its relative competitors. This indicates that G-III is managing its inventory, demand and production well.

G-III's return on equity is lower than its competitors, but we believe this can be attributed to last year's acquisitions and their integration into the bigger picture. Nonetheless, this shortcoming remains one of our concerns as to how the company will translate growth into bigger returns for the shareholders.

**Earnings**

| Year | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|---|---|---|
| EPS | 0.61 | 0.73 | 0.88 | 1.06 | 1.24 | 1.42 | 1.56 | 1.64 | 1.73 |

*Source: Student Estimates*

G-III has a strong earnings potential. We have assumed that no dividends will be issued.

**Balance Sheet & Financing**

G-III does not have preferred stock and does not offer dividends to its share holders. Its long-term obligation is $29 million, which includes $7.3million as the current portion of debt. G-III is required to make quarterly installments of $1.6 5million as part of the financing agreement. We assumed that G-III will not make any new acquisitions in the near future and the excess cash will be put in risk free marketable securities.

G-III made 2 acquisitions in 2005 Marvin Richards and Winlit, thus incurring a long term debt of $21million. On July 11, 2005, G-III entered into an agreement with CIT Group/Commercial Services Inc. for a senior securitized loan – a revolving line of credit and a 3 year term loan.

# Investment Risks[19]

G-III is faced with several market risks such as inflation and interest rate changes. Inflationary pressure can cause international suppliers and manufacturers to increase their price. Although G-III has no long term contracts with its suppliers /manufacturers (industry standard), inflation risk could be minimal in the short run. A change in the interest rate could cause an increase in the interest payment which might hurt the working capital requirement. However, since interest rates have stabilized, the interest rate risk exposure is minimal as well. Other risks categorized below can affect the stock price as well.

**Integration Risk:** According to G-III's CEO Morris Goldfarb growth strategy is to acquire more companies in order to increase their license portfolio. But acquiring companies is only part of the strategy, they need to be merged seamlessly into the bigger picture, other wise lot of time and money will be wasted.

**Largest Customers:** Since, 60% of G-III sales come from its10 largest customers, like Wal-Mart and Federated Dept stores; G-III's success is partially dependant on the success of these large customers. In addition, price pressure from these key customers can cut into its profit margin.

**Thinner margins and intense competition:** G-III needs to drive operation efficiencies relentlessly in order to efficiently compete with the larger apparel manufacturers.

# Appendix

**Figure 1: G-III 21-Month Stock Price History**

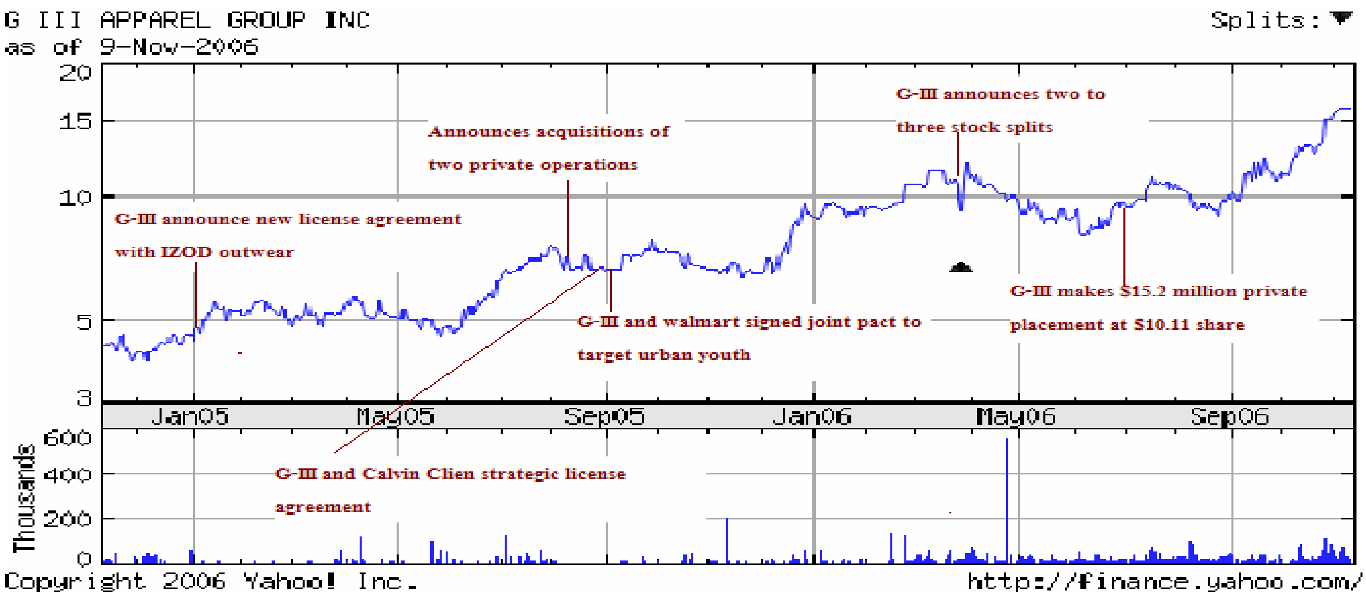
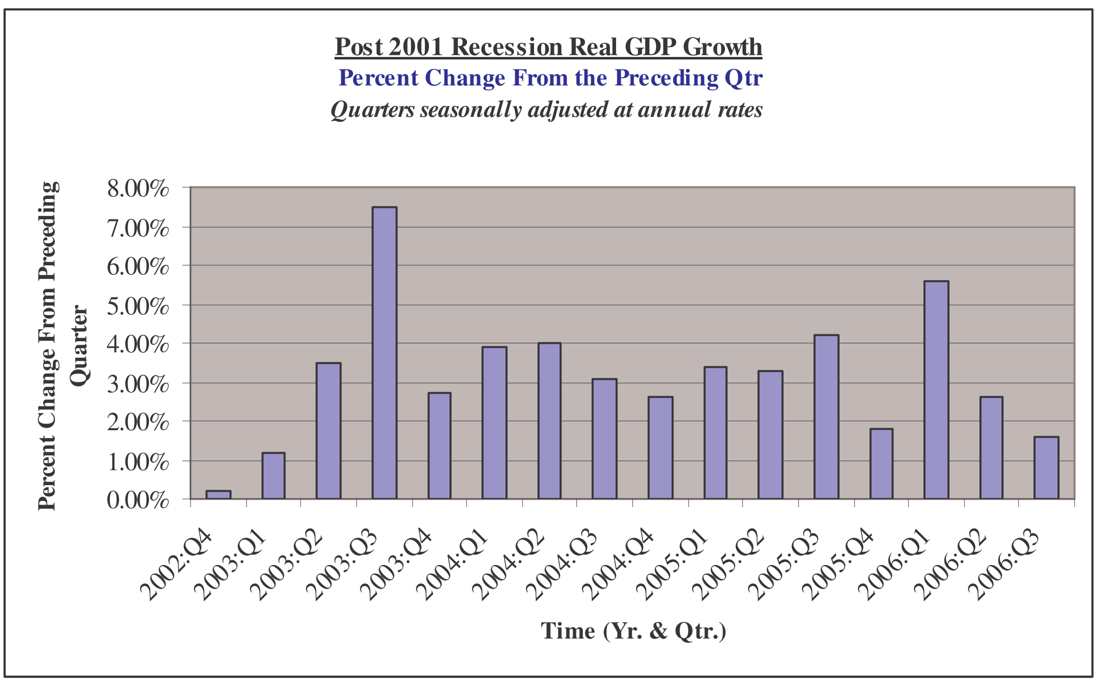
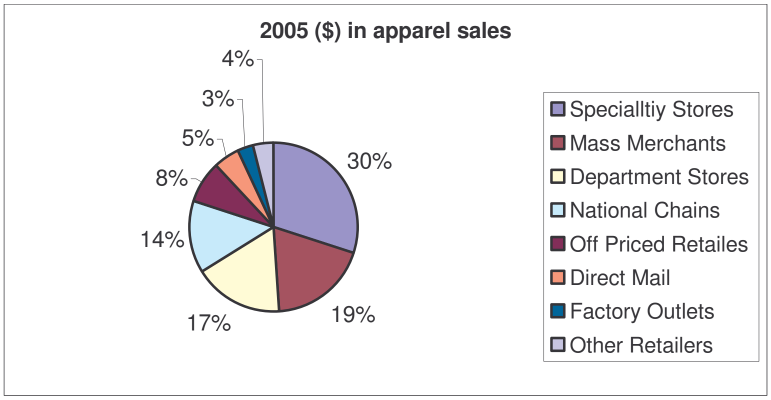



**Figure 2: Post 2001 Recession – Real GDP Growth**



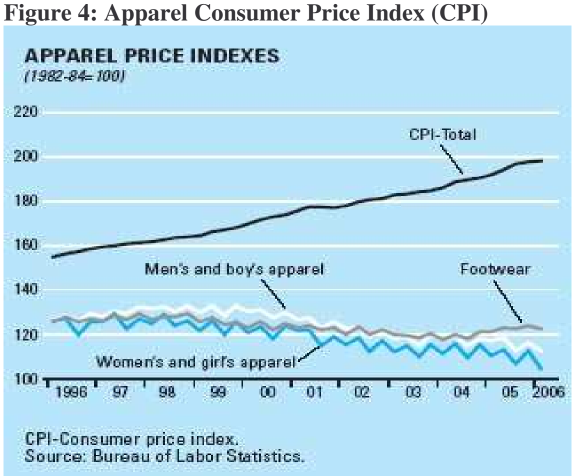

*Source: US Dept. of Commerce, Bureau of Economic Analysis (Endnote #3)*

**Figure 3: Distribution Breakdown of 2005 US Clothing & Accessory as a percentage of Sales**




Source: Standard & Poors Industry Surveys: Apparel & Footwear" (May, 25 2005)
*NPD Fashion World*

**Figure 4: Apparel Consumer Price Index (CPI)**




*Source: Standard & Poors Industry Surveys: Apparel & Footwear (May, 25 2005)(Endnote#4)*

**Figure 4: Apparel Company Mergers 2003-2006**

APPAREL COMPANY MERGERS & ACQUISITIONS — 2003–06

| CLOSING DATE | ACQUIROR | TARGET | APPROXIMATE VALUE |
|---|---|---|---|
| Pending | Berkshire Hathaway | Russell Corp. | $600 million |
| Pending | Talbots | J. Jill | $517 million |
| Pending | Apax | Tommy Hilfiger | $1.6 billion |
| 2/3/06 | Polo Ralph Lauren | Jones Apparel jeans unit | $355 million |
| 1/31/06 | Adidas-Salomon AG | Reebok | $3.8 billion |
| 1/26/06 | Liz Claiborne | Westcoast Contempo | $23.6 million |
| 9/16/05 | Stride Rite Corp. | Saucony | $170 million |
| 7/26/05 | Quiksilver | Rossignol | terms undisclosed |
| 7/25/05 | Iconix Brand Group Inc. | Joe Boxer | $40 million |
| 7/14/05 | Carter's Inc. | Oshkosh B'Gosh | $312 million |
| Summer 2005 | Stride Rite Corp. | Saucony | $170 million |
| 4/22/05 | VF Corp. | Reef Holdings | terms undisclosed |
| 1/6/05 | Liz Claiborne | C&C California | $29.5 million initial payment, with contingent payments. |
| 12/30/04 | Russell Corp. | Brooks Sports | $115 million |
| 12/20/04 | Jones Apparel Group Inc. | Barneys New York Inc. | $286.3 million |
| 8/11/04 | Nike | Official Starter | $47.2 million |
| 7/19/04 | Russell Corp. | Huffy Sports | $30 million |
| 7/8/04 | Jones Apparel Group Inc. | Maxwell Shoe Co. Inc. | $345.8 million |
| 7/6/04 | Polo Ralph Lauren | Certain assets of RL Childrenswear Company LLC | $240 million |
| 6/30/04 | VF Corp. | Vans Inc. | $396 million |
| 6/21/04 | Oxford Industries | Ben Sherman Ltd. | $146 million |
| 6/21/04 | Dick's Sporting Goods | Gaylan Trading | $362 million |
| 6/18/04 | Jones Apparel Group Inc. | Maxwell Shoe Co. Inc. | $346 million |
| 6/17/04 | Reebok | The Hockey Company | $204 million, plus the assumption of $149 million in debt |
| 6/15/04 | VF Corp. | Kipling Brand | $185 million |
| 5/3/04 | Quiksilver | DC Shoes | $144.2 million |
| 2/3/04 | Kellwood Co. | Phat Fashions | $140 million, plus contingent payments |
| 12/1/03 | Jones Apparel Group Inc. | Kasper | $259.3 million |
| 12/1/03 | Liz Claiborne | Enyce Holding | $121.9 million |
| 9/4/03 | Nike | Converse Inc. | $310 million |
| 8/27/03 | VF Corp. | Nautica | $587.6 million |
| 6/13/03 | Oxford Industries | Viewpoint Intl. and its Tommy Bahama lifestyle brand | $250 million, plus contingent payments |
| 4/7/03 | Liz Claiborne | Juicy Couture | $53 million, plus contingent payments |
| 2/12/03 | Phillips Van Heusen | Calvin Klein | $401.6 million |
| 2/4/03 | Kellwood Co. | Briggs NY | $145.7 million |

Source: Company reports.

*Source: Standard & Poors Industry Surveys: Apparel & Footwear (May, 25 2005)*
(Endnote #6)

**Figure 5: Income Statement ($ in thousands)**

| Income Statements (000) | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1/31/2004 | 1/30/2005 | 1/30/2006 | 2006E | 2007E | 2008E | 2009E | 2010E | 2011E | 2012E | 2013E | 2014E |
| **Revenue** | $224,061 | $214,278 | $324,072 | $388,886 | $466,664 | $559,996 | $671,996 | $786,235 | $904,170 | $994,587 | $1,044,317 | $1,096,532 |
| Cost of Goods Sold | $162,229 | $161,534 | $239,226 | $287,268 | $344,721 | $413,666 | $496,399 | $580,786 | $667,904 | $734,695 | $771,430 | $810,001 |
| **Gross Profit** | $61,832 | $52,744 | $84,846 | $101,619 | $121,942 | $146,331 | $175,597 | $205,449 | $236,266 | $259,892 | $272,887 | $286,531 |
| Selling &General & Administrati | $47,039 | $48,796 | $64,763 | $82,639 | $99,166 | $119,000 | $142,800 | $167,076 | $192,137 | $211,351 | $221,918 | $233,014 |
| Depreciation | $0 | $0 | $3,125 | $3,750 | $4,500 | $5,400 | $6,480 | $7,582 | $8,719 | $9,591 | $10,070 | $10,574 |
| Other | $0 | $882 | $0 | $534 | $640 | $768 | $922 | $1,079 | $1,241 | $1,365 | $1,433 | $1,504 |
| Total Ops Expense | $47,039 | $49,678 | $67,888 | $86,922 | $104,307 | $125,168 | $150,202 | $175,736 | $202,096 | $222,306 | $233,421 | $245,092 |
| **Net Operating Income** | $14,793 | $3,066 | $16,958 | $14,696 | $17,636 | $21,163 | $25,395 | $29,713 | $34,169 | $37,586 | $39,466 | $41,439 |
| **EBIT** | $14,793 | $3,066 | $16,958 | $14,696 | $17,636 | $21,163 | $25,395 | $29,713 | $34,169 | $37,586 | $39,466 | $41,439 |
| Interest Expense | $1,179 | $1,086 | $4,349 | $3,079 | $3,694 | $4,433 | $5,320 | $6,224 | $7,158 | $7,874 | $8,268 | $8,681 |
| **EBT** | $13,614 | $1,980 | $12,609 | $11,618 | $13,941 | $16,729 | $20,075 | $23,488 | $27,011 | $29,713 | $31,198 | $32,758 |
| Tax (35%)) | $5,238 | $1,277 | $5,517 | $4,066 | $4,879 | $5,855 | $7,026 | $8,221 | $9,454 | $10,399 | $10,919 | $11,465 |
| **Net Income** | $8,376 | $703 | $7,092 | $7,551 | $9,062 | $10,874 | $13,049 | $15,267 | $17,557 | $19,313 | $20,279 | $21,293 |
| | | | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 |
| Preferred Dividends | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 |
| **Earnings Available to Common** | $8,376 | $703 | $7,092 | $7,551 | $9,062 | $10,874 | $13,049 | $15,267 | $17,557 | $19,313 | $20,279 | $21,293 |
| Common Dividends | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 |
| **Retained Earnings** | $38,797 | $39,500 | $46,592 | $54,143 | $63,205 | $74,079 | $87,128 | $102,396 | $119,953 | $139,266 | $159,545 | $180,838 |
| | | | | | | | | | | | | |
| # Shrs Outstanding (Common) | 10,367 | 10,773 | 11,509 | 12,343 | 12,343 | 12,343 | 12,343 | 12,343 | 12,343 | 12,343 | 12,343 | 12,343 |
| Earnings per Common Share | 0.81 | 0.07 | 0.62 | 0.61 | 0.73 | 0.88 | 1.06 | 1.24 | 1.42 | 1.56 | 1.64 | 1.73 |

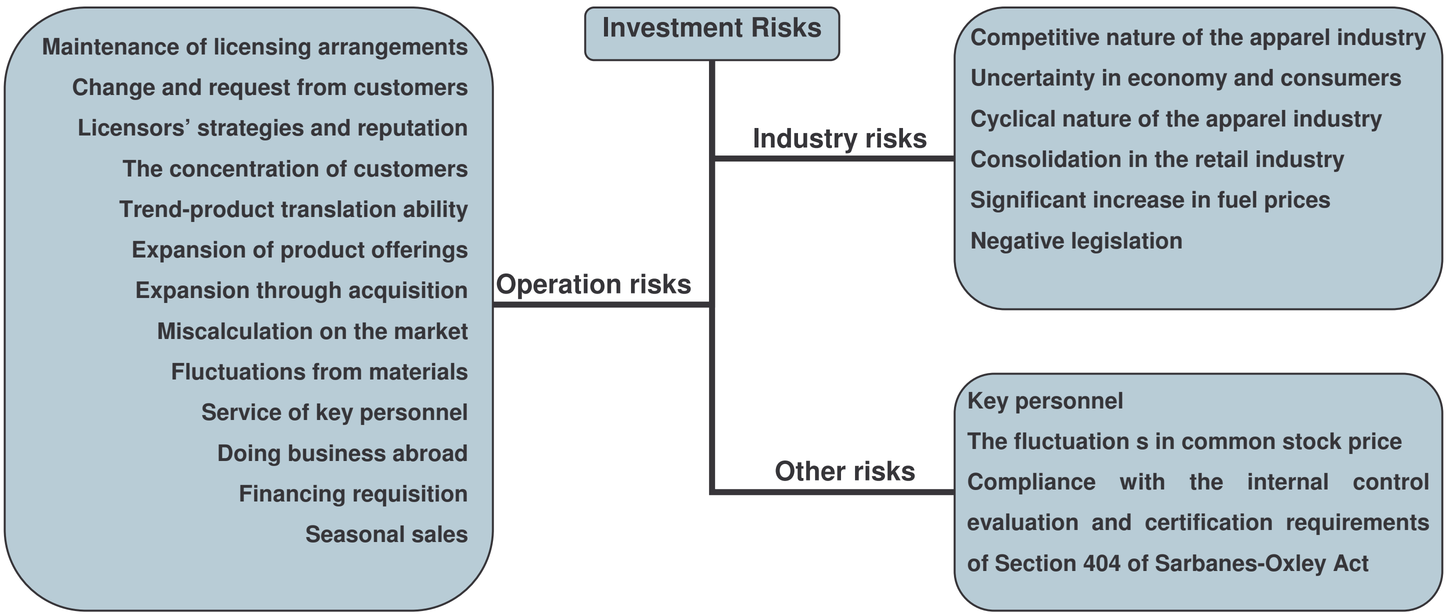
Source: G-III Annual Reports, Company Documents, Mergent Online Database, Student Estimates

**Figure 6: Balance Sheet ($ in thousands)**

| Balance Sheets (000) | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1/31/2004 | 1/30/2005 | 1/30/2006 | 2006E | 2007E | 2008E | 2009E | 2010E | 2011E | 2012E | 2013E | 2014E |
| **ASSETS** | | | | | | | | | | | | |
| Cash | $16,072 | $16,574 | $7,031 | $8,437 | $10,125 | $12,150 | $14,579 | $17,058 | $51,470 | $56,617 | $59,448 | $62,420 |
| Marketable Securites | | | | $50,195 | $84,323 | $124,978 | $176,517 | $247,517 | $303,205 | $414,437 | $558,564 | $723,212 |
| Accounts Receivable | $19,304 | $24,783 | $45,751 | $54,901 | $65,881 | $79,058 | $94,869 | $110,997 | $127,647 | $140,411 | $147,432 | $154,803 |
| Inventory | $28,361 | $24,108 | $30,395 | $43,150 | $51,780 | $62,136 | $74,564 | $87,240 | $100,326 | $110,358 | $115,876 | $121,670 |
| Other Current Assets | $8,823 | $7,244 | $11,945 | $14,265 | $17,118 | $20,541 | $24,650 | $28,840 | $33,166 | $36,483 | $38,307 | $40,222 |
| **Total Current Assets** | $72,560 | $72,709 | $95,122 | $170,949 | $229,227 | $298,863 | $385,179 | $491,651 | $615,813 | $758,306 | $919,626 | $1,102,327 |
| | | | | | | | | | | | | |
| Gross Fixed Assets | $15,616 | $16,848 | $19,504 | $27,028 | $32,434 | $38,921 | $46,705 | $54,645 | $62,842 | $69,126 | $72,582 | $76,211 |
| Accumulated Depreciation | $13,647 | $14,498 | $15,208 | $22,749 | $27,299 | $32,759 | $39,311 | $45,993 | $52,892 | $58,182 | $61,091 | $64,145 |
| Net Property, Plant & Equipm | $1,969 | $2,350 | $4,296 | $4,279 | $5,135 | $6,162 | $7,394 | $8,652 | $9,949 | $10,944 | $11,491 | $12,066 |
| Other Assets | $6,167 | $5,536 | $38,899 | $10,375 | $12,450 | $14,941 | $17,929 | $20,976 | $24,123 | $26,535 | $27,862 | $29,255 |
| **Total Fixed & Other Assets** | $8,136 | $7,886 | $43,195 | $14,655 | $17,585 | $21,103 | $25,323 | $29,628 | $34,072 | $37,479 | $39,353 | $41,321 |
| **TOTAL ASSETS** | $80,696 | $80,595 | $138,317 | $185,603 | $246,812 | $319,966 | $410,502 | $521,279 | $649,885 | $795,785 | $958,979 | $1,143,648 |
| | | | | | | | | | | | | |
| **LIABILITIES & OWNER'S EQUITY** | | | | | | | | | | | | |
| **LIABILITIES** | | | | | | | | | | | | |
| Accounts Payable | $6,155 | $6,565 | $9,749 | $11,699 | $14,039 | $16,846 | $20,216 | $23,652 | $27,200 | $29,920 | $31,416 | $32,987 |
| Accrued Expenses | $6,506 | $5,200 | $10,949 | $13,139 | $15,767 | $18,920 | $22,704 | $26,564 | $30,548 | $33,603 | $35,283 | $37,047 |
| Accrued Taxes | $1,659 | $104 | $2,269 | $1,930 | $2,316 | $2,780 | $3,336 | $3,903 | $4,488 | $4,937 | $5,184 | $5,443 |
| Contigent Purchase price Paya | $0 | $0 | $3,380 | $0.00 | $0.00 | $0.00 | $0.00 | $0.00 | $0.00 | $0.00 | $0.00 | $0.00 |
| Short-term Debt | $852 | $972 | $7,578 | $7,350 | $7,350 | $7,350 | $3,048 | $3,566 | $4,101 | $4,512 | $4,737 | $4,974 |
| **Total Current Liabilities** | $15,172 | $12,841 | $33,925 | 34,118 | 39,472 | 45,896 | 49,303 | 57,685 | 66,338 | 72,971 | 76,620 | 80,451 |
| Long-term Debt | $0 | $0 | $21,750 | 14,700 | 7,350 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other Long-term Liabilities | $252 | $824 | $631 | 631 | 631 | 631 | 631 | 631 | 631 | 631 | 631 | 631 |
| **Total Long-term Liabilities** | $252 | $824 | $22,381 | 15,331 | 7,981 | 631 | 631 | 631 | 631 | 631 | 631 | 631 |
| **NET WORTH** | | | | | | | | | | | | |
| Preferred Stock | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Common Stock | 65,272 | 66,930 | 82,011 | 136,154 | 199,360 | 273,439 | 360,568 | 462,963 | 582,917 | 722,183 | 881,728 | 1,062,566 |
| Retained Earnings | 38,797 | 39,500 | 46,592 | 54,143 | 63,205 | 74,079 | 87,128 | 102,396 | 119,953 | 139,266 | 159,545 | 180,838 |
| **Total Net Worth** | 65,272 | 66,930 | 82,011 | 136,154 | 199,360 | 273,439 | 360,568 | 462,963 | 582,917 | 722,183 | 881,728 | 1,062,566 |
| **TOTAL LIABILITIES & EQUITY** | 80,696 | 80,595 | 138,317 | 185,603 | 246,812 | 319,966 | 410,502 | 521,279 | 649,885 | 795,785 | 958,979 | 1,143,648 |
| **Cumulative AFN** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Annual AFN** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

*Source: G-III Annual Reports, Company Documents, Mergent Online Database, Student Estimates*

**Figure 7: Investment Risks**
Source: G-III 2005 Annual Report



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