SINGULAR DILIGENCE

Movado (NYSE: MOV)

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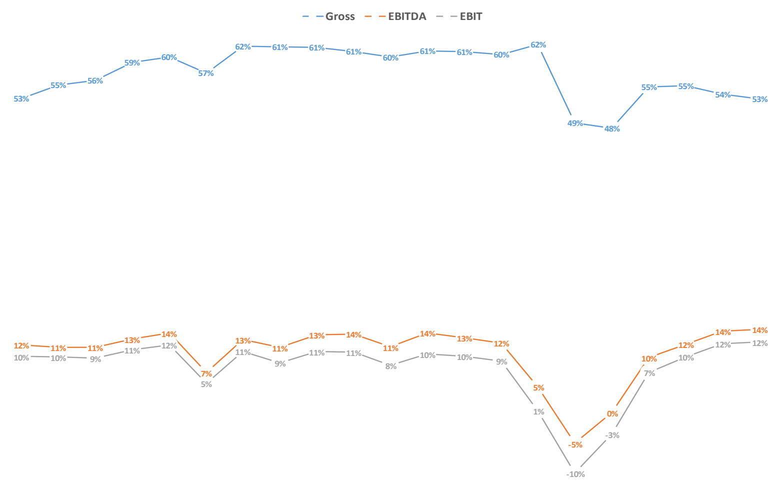
Stock Price: $27.02

	EV/Sales	EV/Gross Profit	EV/EBITDA	EV/EBIT	EV/Owner Earnings
Seiko	0.69	2.06	8.13	15.23	13.77
Citizen	0.92	2.40	7.54	12.08	10.34
Fossil	1.30	2.28	7.95	8.18	8.18
Inter Parfums	1.98	3.45	15.58	18.54	18.54
Swatch	2.40	NMF	9.91	11.93	10.24
Minimum	0.69	2.06	7.54	8.18	8.18
Maximum	2.40	3.45	15.58	18.54	18.54
Median	1.30	2.34	8.13	12.08	10.34
Mean	1.46	2.55	9.82	13.19	12.21
Standard Deviation	0.64	0.53	2.99	3.48	3.64
Variation	44%	21%	30%	26%	30%
Movado (Market Price)	0.77	1.45	5.37	6.30	6.30



	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Minimum	Maximum	Median	Mean	Standard Deviation	Variation
Sales	161	186	215	237	278	295	321	300	300	330	419	471	533	560	461	378	382	468	505	570	587	134	587	330	358	143	40%
Gross Profit	85	102	120	140	166	168	197	184	184	200	250	286	323	337	285	185	183	256	278	305	310	66	337	185	204	84	41%
EBITDA	19	21	24	30	38	21	40	34	40	45	48	65	69	67	22	-18	2	45	60	80	84	-18	84	40	40	25	64%
EBIT	16	18	20	26	33	16	34	26	32	35	35	48	52	51	3	-36	-12	34	49	68	71	-36	71	32	28	24	86%
Receivables			76	84	101	106	101	95	93	92	97	107	111	103	86	72	63	61	61	65	71	61	111	92	87	17	20%
Inventory			88	93	101	91	86	97	105	117	154	192	196	199	217	216	193	173	165	174	176	86	217	165	149	48	32%
PP&E			13	17	21	25	30	36	39	41	47	52	54	63	68	57	43	37	40	46	47	13	68	41	41	15	36%
Working Liabilities			35	40	46	47	57	64	52	47	64	78	79	80	75	63	60	73	79	75	68	35	80	64	62	14	23%
Net Tangible Assets			142	153	177	176	161	165	186	202	234	273	283	285	295	282	240	197	188	210	227	142	295	202	215	50	23%
MARGINS																											
Gross	53%	55%	56%	59%	60%	57%	62%	61%	61%	61%	60%	61%	61%	60%	62%	49%	48%	55%	55%	54%	53%	48%	62%	57%	56%	5%	0.08
EBITDA	12%	11%	11%	13%	14%	7%	13%	11%	13%	14%	11%	14%	13%	12%	5%	-5%	0%	10%	12%	14%	14%	-5%	14%	12%	10%	5%	0.46
EBIT	10%	10%	9%	11%	12%	5%	11%	9%	11%	11%	8%	10%	10%	9%	1%	-10%	-3%	7%	10%	12%	12%	-10%	12%	10%	8%	5%	0.65
TURNS																											
Sales/Receivables			2.85	2.82	2.76	2.77	3.17	3.14	3.22	3.60	4.33	4.39	4.82	5.44	5.39	5.26	6.02	7.74	8.24	8.77	8.22	2.76	8.77	4.39	4.89	2.05	42%
Sales/Inventories			2.44	2.56	2.75	3.26	3.71	3.08	2.85	2.83	2.73	2.45	2.72	2.81	2.12	1.75	1.98	2.71	3.05	3.27	3.33	1.75	3.71	2.75	2.76	0.48	18%
Sales/PPE			16.0	13.9	13.2	11.6	10.6	8.37	7.63	8.05	8.86	9.00	9.78	8.93	6.81	6.63	8.90	12.51	12.51	12.3	12.43	6.63	16.02	9.78	10.43	2.63	25%
Sales/NTA			1.51	1.55	1.57	1.68	1.99	1.82	1.61	1.64	1.79	1.72	1.89	1.96	1.56	1.34	1.60	2.38	2.69	2.71	2.59	1.34	2.71	1.72	1.87	0.42	22%
RETURNS																											
Gross Profit/NTA			84%	91%	94%	96%	123%	112%	99%	99%	107%	105%	114%	118%	96%	65%	76%	130%	148%	145%	137%	65%	148%	105%	107%	22%	0.21
EBITDA/NTA			17%	20%	21%	12%	25%	21%	22%	22%	20%	24%	24%	24%	7%	-6%	1%	23%	32%	38%	37%	-6%	38%	22%	20%	11%	0.54
EBIT/NTA			14%	17%	18%	9%	21%	16%	17%	17%	15%	18%	19%	18%	1%	-13%	-5%	17%	26%	32%	32%	-13%	32%	17%	15%	11%	0.73
GROWTH																											
Sales	13%	16%	16%	10%	17%	6%	9%	-7%	0%	10%	27%	12%	13%	5%	-18%	-18%	1%	22%	8%	13%	3%	-18%	27%	9%	8%	11%	1.47
Gross Profit	19%	20%	17%	16%	19%	1%	17%	-7%	0%	9%	25%	14%	13%	4%	-15%	-35%	-1%	40%	8%	10%	2%	-35%	40%	9%	8%	15%	1.81
EBITDA		11%	16%	23%	27%	-45%	93%	-16%	19%	11%	7%	36%	6%	-2%	-68%	-	-	2697	33%	33%	5%	-181%	2697%	11%	130%	607%	4.68
EBIT	10%	15%	13%	27%	26%	-52%	116%	-23%	21%	9%	1%	37%	9%	-3%	-93%	-	-67%	-377%	47%	37%	6%	-1175%	116%	10%	-64%	265%	-4.15
Receivables				22%	18%	-5%	-5%	-7%	3%	-6%	18%	5%	1%	-15%	-19%	-12%	-11%	2%	0%	12%	8%	-19%	22%	1%	1%	12%	22.25
Inventories				13%	6%	-26%	24%	3%	13%	9%	53%	7%	-3%	6%	12%	-11%	-11%	-10%	2%	8%	-6%	-26%	53%	6%	5%	17%	3.34
PP&E				26%	22%	20%	19%	18%	3%	5%	25%	-1%	9%	21%	-3%	-29%	-19%	-6%	23%	7%	-2%	-29%	26%	8%	8%	16%	2.03
Working Liabilities				10%	16%	-10%	58%	-17%	-21%	9%	58%	0%	0%	3%	-16%	-16%	6%	39%	-14%	5%	-24%	-24%	58%	2%	5%	25%	5.11
Net Tangible Assets				20%	12%	-12%	-4%	9%	17%	1%	30%	7%	0%	1%	6%	-14%	-16%	-19%	14%	10%	6%	-19%	30%	6%	4%	13%	3.57

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SINGULAR DILIGENCE

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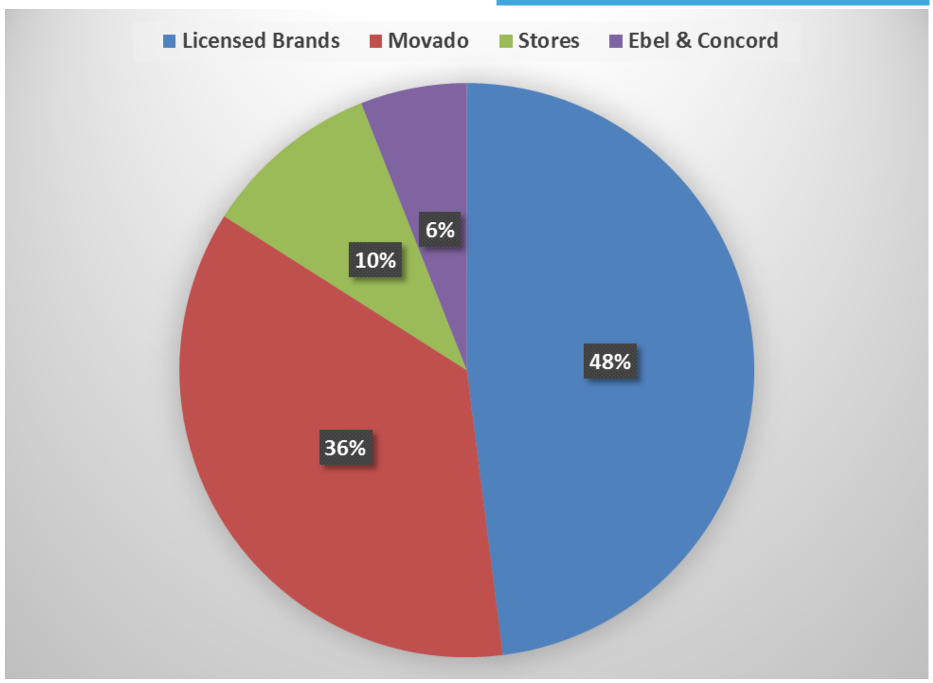
Movado (NYSE: MOV) the Business is a Combination of the Movado Brand the Company Owns and the Fashion Brands It Licenses

OVERVIEW

Movado traces its history back to 1960 when the company's founder, Gedalio Grinberg, left Cuba after Fidel Castro's takeover of that country. In 1961, Grinberg started a Piaget watch distributor in New York City. The company distributed other Swiss watches as well and by the early 1980s it had become the most successful Swiss watch distributor in the United States. Grinberg's company – then called North American Watch Company – acquired the Movado brand in 1983. Movado can trace its roots back to a Swiss watchmaker founded in 1881. By 1900, that company had become the biggest watchmaker in Switzerland. And in 1905, it chose the name "Movado". Movado was an innovator in the first decades of the 1900s. It experimented with digital watches in the 1930s and introduced the world's first automatic winding watch (the "Tempomatic") in 1945. None of this has much to do with today's Movado. The history of the Movado brand as it exists in people's mind today really dates back to 1947.

Nathan George Horwitt, an American artist, designed a watch featuring a black dial without any numbers, lines, or symbols of any kind except for a single gold dot at the 12 o'clock position. In 1959, this watch was made part of the permanent collection in New York's Museum of Modern Art (MOMA). That is why Movado calls this design its "Museum Dial".



Movado gets 84% of its revenue from the wholesale – not retail – sale of its Movado brand (36%) and the fashion brands (48%) it licenses.

So, in the middle of the 20th century, that Swiss company founded back in the 1800s manufactured watches under the Movado name using Horwitt's "Museum Dial" design. We are getting close to Movado as it exists today. But, we're not quite there. Because the Grinberg family has not entered the picture. Even though the Swiss company Movado had both the Movado name and the Museum Dial design, it was losing money when Grinberg's North American Watch Company acquired it in 1983. After the acquisition, Grinberg focused the company on Museum watches. He expanded the line. Just three years after acquiring Movado, North American Watch was selling 24 different models of the Museum Dial. The company started sponsoring cultural institutions (like Lincoln Center) to promote the Movado name and the Museum Dial design. By 2007, Movado's sales were $200 million. The Movado brand is well known in the U.S. where it is the second most recognized watch brand – behind Rolex. However, Movado is not well known in the rest of the world. This makes sense. The Movado name is Swiss. But the company is really American. The Museum Dial was designed by an American. And it only became popular in the United States once a New York City based distributed acquired the Movado name and focused on selling many variations on that one Museum Dial design.

The Movado brand is really the Museum Dial design. In fact, the Movado brand is really the Museum Dial design as sold in the U.S. Because about 80% of Movado's sales are made to Americans – this includes some sales reported as foreign because they are made in the Caribbean but which are most likely purchases by vacationing Americans – and 90% of revenue comes from the Museum Dial. In other words, more than 70% of the Movado brand's sales are sales of Museum Dial watches made to Americans. So, when we talk about the Movado brand we are really talking about the mindshare that the Museum Dial has in the U.S. What foreigners think of the Movado name or the Museum Dial is not relevant. Nor is it especially important what Americans think of Movado generally – only the Museum Dial design specifically. That is where most of the Movado brand's profits come from.

But Movado the company is more than just the Movado brand. Movado has been making licensed watches for about 15 years now. In 1999, it introduced Coach watches. Coach branded watches generated $16 million in sales that first year. Movado eventually got the license for Tommy Hilfiger in 2001, Hugo Boss (2005), Lacoste (2006), Juicy Couture (2006), and Ferrari (2012). The company also owns a couple other brands of its own. The three company owned brands are the namesake Movado brand, Concord, and Ebel.

Concord and Ebel are luxury watches. Concord watches usually sell for over $10,000 a piece. Ebel sells for mostly $1,500 to $5,000. About 80% of Ebel sales are to women. Concord and Ebel combined contribute about 6% of the company's sales.

The Movado brand is considered an "accessible luxury" brand. It is focused on Museum Dial watches sold in the U.S. for between $500 and $1,500. Only 10% of Movado brand sales are from designs other than the Museum Dial. The sales breakdown for the Movado brand is a perfect 50-50 split between men and women.

Licensed brands make up just under half of the company's total sales. Ferrari watches sell in the $300 to $400 range. Coach watches go for $150 to $400. Sales skew 75% women for Coach watches because Coach handbags are targeted at women. Hugo Boss watches sell for $225 to $775. Lacoste for $100 to $300. Tommy Hilfiger for $100 to $300. Tommy Hilfiger – like Movado – is a fairly gender balanced brand with 60% of sales to women and 40% to men. Juicy Couture sells for $100 to $300.

The other 10% of Movado's sales come from its retail operations. Movado runs 35 outlets. These stores sell discontinued models and factory "seconds" from all the brands in the company's lineup.

The company owned brands: Movado, Concord, and Ebel are all made in Switzerland. Licensed watches are made in China. Licensed watches are made more cheaply. But the brand is more expensive for Movado as Movado has to pay the brand owner a licensing fee.

Movado went public in 1993 (though it was still called the North American Watch Company back then). It is a controlled company to this day. The Grinberg family has a 24% economic interest in the company. But it maintains 67% voting control through ownership of Class A stock that has 10 times the votes of the shares you can buy.

The Grinberg family runs Movado fairly conservatively. They have only made 2 acquisitions in 35 years. The first acquisition was in 1983. That was when North American Watch bought Movado. It was losing money when the Grinberg family bought it. But, they managed to turn it around.

The second deal was also a money losing brand. Movado bought Ebel from the French luxury goods conglomerate LVMH in 2005. Movado paid $47 million in cash for $50 million of net assets (mostly inventory). Ebel also came with a Net Operating Loss (NOL) in Switzerland. Ebel was a big loser for LVMH. The brand managed to lose $15 million on $50 million of sales. Movado cut costs and integrated Ebel into its supply chain. Under Movado's ownership, the Ebel brand turned a profit by 2005.

Today, Movado has about $200 million in cash. Sales peaked around 2008 at $560 million and then again this past year at $587 million. Holding over 30% of sales in cash is very conservative for a company that consistently turns a profit.

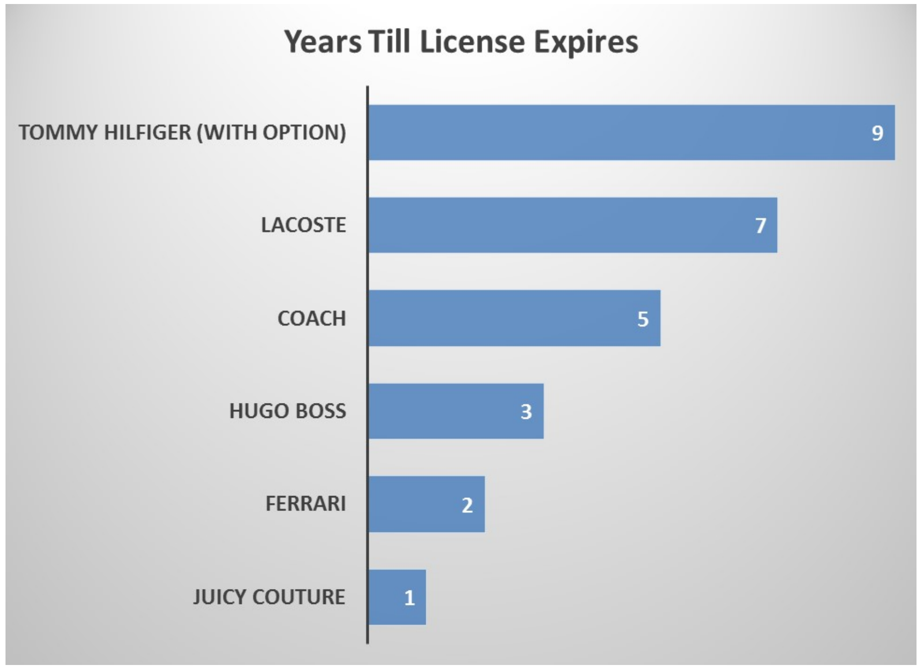
The added revenue from licensing has made Movado into a bit of a growth stock over the last 25 years. We can look at sales growth in one of two ways. The first is simply to take the good period from 1993-2008 which includes no major recession in the U.S. (the early 2000s recession was very mild). This mostly boom time (in the 1990s for stocks and the 2000s for houses) produced 10% annual sales growth for the company. Realistically, we know this was an unusual period. Taking the full history of Movado as a public company from 1993 to 2015, we see sales growth of 7% a year. It's possible this number could be a little understated as the most recent recession was especially severe. Movado's sales are actually only a little higher now than they were back in 2008. Movado is not priced like a growth stock. Enterprise value to EBIT is a little over 7. That's equivalent to an unleveraged P/E of 10 or 11. However, Movado has net cash on hand. So, the actual market cap of the company is $200 million more than the enterprise value. As always, we will use the company's enterprise value as the best measure of price and suggest you do the same. On that basis, Movado is selling for about 10 times after-tax earnings.

DURABILITY

Movado's Durability Depends on the Brand Awareness of Movado in the U.S. and the Company's Ability to Renew its Licensed Brands

Movado's durability as a company has two parts. One is the durability of its licensed brands. The other is the Museum Dial's mindshare in the U.S. Movado's two other owned brands – Concord and Ebel – are unimportant. And sales of the Movado brand that do not make use of the Museum Dial design are also so small as to be unimportant. So, the two things to think about are whether Movado brand watches using the Museum Dial will continue to sell well in the U.S. and whether Movado will keep the licenses it has.

We can make some estimates of the Movado brand's sales based on past figures disclosed by the company's management. In 1998, Movado had a total of $194 million in sales from its three company owned brands. The Movado brand was $120 million of that total. Sales of the Movado brand increased at a single digit annual growth rate and peaked at over $200 million in 2007. Then the financial crisis hit. The Movado brand's sales dropped by about 50% from $200 million in 2007 to $100 million in 2010. It's very important to remember that these are sales made by the company we're talking about. The actual retail sales of the watches never declined anywhere near 50%. Watches – like jewelry – can take a long time for a retailer to "turn". A watch that sells for $500 to $1,500 can sit in inventory for many months. When retailers see their sales declining in the store and fear they will decline even further in the future – they order fewer watches. Store shelves get barer. Eventually, the retailer needs to replenish their stock when sales start to pick up again. This is what happened to Movado. Retailers were bullish in 2007 and bearish in 2010. So, the consumer confidence cycle has this extra cyclical factor of retailer confidence on top of it. This can exaggerate booms and busts for watchmakers beyond the actual change in consumer behavior. But, it is always a temporary influence. If retailers buy more watches than the public wants today – they will need to buy fewer watches in the future. The reverse is also true. Coming out of 2010, it was clear that retailers didn't have enough Movado watches to meet demand from their customers – so they started ordering more.



Within the next 5 years, two of Movado's important licenses – Hugo Boss (in 2018) and Coach (in 2020) – will expire if not renewed.

The durability of the Movado brand sales in the U.S. depends on distribution, brand awareness, brand positioning, and design. Movado – like Fossil – has good distribution in the U.S. The U.S. watch market is different from watch markets in most other parts of the world. Luxury watch makers like Swatch do not do very well in the U.S. because they are used to selling to smaller, upscale retailers who focus on watches and jewelry. That's where people in the rest of the world tend to buy their watches. Americans don't do that as much. They buy more watches in department stores, in malls, and online. There is a big market for "accessible luxury" in the U.S. The Movado brand is positioned very well for the U.S. market. It may not be a good price position for the rest of the world.

Perception of the Movado brand comes from perception of the Museum Dial design. It is seen as clean, simple, and modern. Movado puts its brand name on sponsoring some cultural institutions like Lincoln Center. The brand is generally positioned as being something that many people could afford but that is at the top of the range of what they might spend on a watch. This is different from the kind of true luxury brands that some Swiss companies sell. Concord and Ebel are Movado's only luxury brands. They contribute very little profit relative to the Movado brand.

The Movado brand can be cheapened by extending the name in a harmful way. Before the financial crisis, ESQ was an entry-level Swiss watch brand selling for $150 to $500. Meanwhile, Movado sold for $300 to $3,000. But, it focused on $500 to $1,500. So, ESQ was a cheaper watch. When The Great Recession hit, Movado re-branded ESQ into "ESQ by Movado". In other words, it put the Movado name on cheaper watches. Eventually, the company changed the brand name further to just "ESQ Movado". It does not seem ESQ ever caught on especially well. However, it is easy to see why Movado did this. There are retail outlets where you can sell a $150 to $500 watch – but can't sell a $500 to $1,500 watch. Movado already sells licensed watches in the ESQ range. So, why not try to reach some of the same places you sell licensed brands with a company owned brand. But there is a risk in putting the same brand name on watches in such a wide price range. In theory, you could find the Movado name on a $150 "ESQ by Movado" watch and a $3,000 "Movado" watch. This can cause confusion among consumers about the price position of the brand.

The company took a similar risk when it introduced Movado Bold. Again, this was an experiment that used the Movado name on cheaper watches. During The Great Recession, the company introduced Movado Bold starting at $300. Today, the price has risen to $400 for the cheapest models. And you can find some Movado Bold watches for much, much more. Bold Bangle watches go for $400. Bold Ceramic for $800. And Bold with Diamonds can sell for $1,500. This experiment seems to have worked in the sense that it extended the Movado brand without cheapening it. The Movado Bold watches are now priced in about the same range as other Movado watches. And they have a very different feel to them. The idea was to get into the fashion segment by attracting younger customers and using different materials and colors than Movado's 20th century "modern" designs tend to allow.

There is a risk that the Movado brand moves into cheaper prices and more cluttered designs. This is always a temptation for a watch brand. Omega is a good example. It vastly increased volume in the 1970s and 1980s. This lead the brand to lower price positions for the decades that followed. Swatch has rehabilitated that brand in much of the world. But, in the U.S. Omega is not seen as being equal to Rolex. If Omega hadn't cheapened the brand 30-40 years ago, we might be talking about Omega watches the same way we do about Rolex watches. That's not true in the U.S. Rolex is the best known brand. Movado is the second best known. Omega is much less well known.

The other risk to Movado's durability as a company is the risk it will lose key licenses. Movado is less dependent on licensed brands than Fossil. And no single licensed brand accounts for as big a part of revenue as Michael Kors watches do for Fossil. In 2014, Movado's licensed brands generated $274 million in sales. The biggest licensed brand is Coach. Movado has been making Coach watches since 1999. Last year, Movado sold about $100 million worth of Coach watches. The company doesn't give breakdowns for revenue by each specific license. However, we can assume that Juicy Couture and Ferrari (which just launched in 2014) contributed very little revenue in 2014. Even so, that means that Tommy Hilfiger, Lacoste, and Hugo Boss combined for no more than $150 million in sales. So, Coach contributes the most with $100 million in sales (which is only half what the Movado brand does), and then Tommy and Lacoste and Hugo Boss might each do about half of what Coach does.

Movado entered the licensed watch business in 1999 with Coach. Over the last 16 years, Movado has never lost a contract. The Juicy Couture license expires in 2016. It's not an important license. Ferrari expires in 2017. The company has a history of switching its license frequently. Even now, its high end watches are made by Hublot. Movado has the low end ($300 to $400) license. It's entirely possible Ferrari could leave Movado after 2017. Hugo Boss expires in 2018. Coach in 2020. Lacoste in 2022. And Tommy Hilfiger in 2024 (assuming Movado exercises its 5-year extension).

Most watchmakers aren't very good at licensing. Some don't have the scale. Others are focused on higher end (and lower unit volume) brands. The biggest maker of licensed watches is Fossil. Fossil has some real advantages over Movado when it comes to licensed brands. However, there are some anti-trust issues with a license switching to Fossil. In 2005, the company that made watches under the Guess license sued Fossil when Guess decided to give the license to Fossil. The company claimed that Fossil already had 40% market share in the U.S. fashion watch segment. There are a couple large licensed brands that don't elect to use either Fossil or Movado. But, it's definitely the case that the two best options for licensing your brand is to go with either Fossil or Movado. New licenses don't start off with enough sales to make much of a difference. It takes several years for a newly licensed brand to generate a large portion of a company's revenue. So, the biggest licenses tend to be the ones that have been in place the longest. For example, Movado's biggest license is with Coach. It's had the license for 16 years and will keep it for at least another 5 years. For the most part, neither Fossil nor Movado look for new licenses on their own. There are a limited number of good brands to license out there. And there's an even more limited number of watchmakers with the scale in distribution. So, companies interested in licensing their brand probably approach Fossil or Movado on their own. Historically, the licenses come from brands that never had anyone making watches under their brand name before or they come from a licensor switching from a very small watchmaker to someone like Movado or Fossil. In the last 15-20 years, very few big licenses have switched from one manufacturer to another. Finally, it's worth reiterating that – so far – Movado has never lost a license.

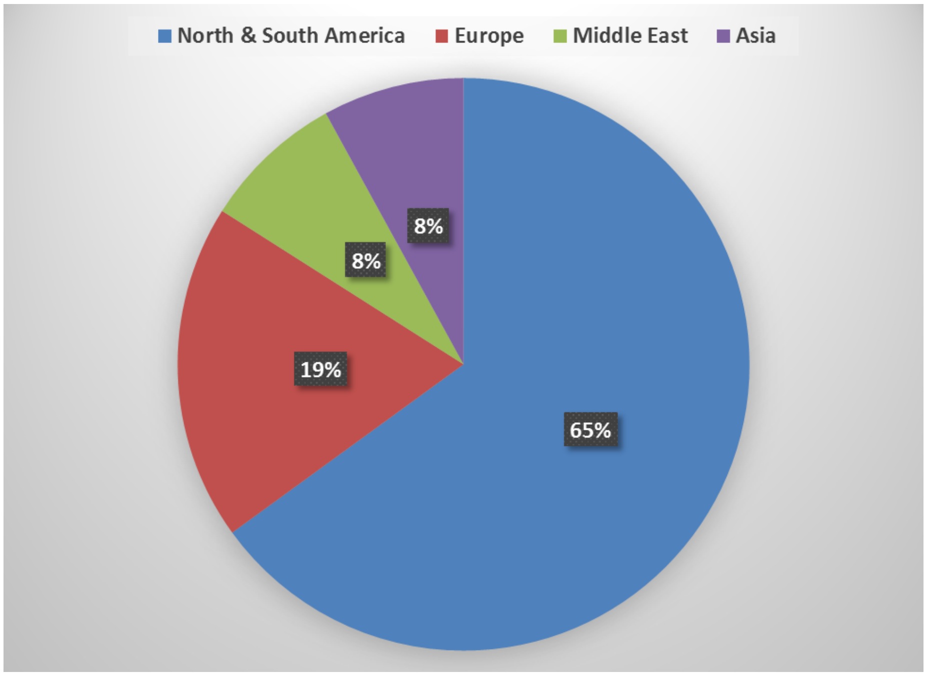
MOAT

Movado's Company Owned Brands Are Smaller than Swatch's and Movado's Licensed Brands Are Smaller than Fossil's – But the Movado Brand is Big in the U.S.

Movado's moat comes from the scale provided by its existing stable of licensed brands, its distribution power in the U.S., and the high brand awareness of the Movado Museum Dial design in the U.S. Movado's licensed business is not superior to Fossil's. Fossil's licensed business is bigger. And Fossil owns its Asian factories while Movado outsources the production of its licensed brands.

Movado is the #1 watch brand in the U.S. for watches between $500 and $1,500. It is the #2 watch brand in the U.S. for watches between $1,500 and $3,000. In the $500 to $1,500 segment that Movado focuses on most – it has over 30% market share. In the last couple years, this market share grew even further. Movado grew sales at retail by 17% to 18% a year in 2014 and 2015 while the U.S. watch market grew just 1% to 2% over the same time period. The most recognized watch brand in the U.S. is Rolex. The second most recognized is Movado. Although Movado is not an especially large watchmaker compared to Fossil, Swatch, Richemont, etc. – it is a pretty big watch brand. Most of the world's biggest watch brands get lots of sales from China and Europe. There are very few brands that get $150 million or more in sales from the U.S.

Like other watchmakers, Movado spends a lot on advertising. The company spends 15% to 18% of sales on advertising. Gross margins on watches are good. But this is only because they are heavily advertised. Two big reasons why a watch brand might decline over time are insufficient marketing investment and insufficient distribution power. Even a watch brand with the best heritage needs an owner that continually spends on marketing. It also needs to get into a lot of different stores. That is one reason that you see many brands consolidated under one owner. It's also probably one of the reasons that LVMH sold the Ebel brand to Movado. LVMH did not have sufficient distribution power because although it's a huge company, it doesn't sell a lot of similar goods to the same retail outlets. Swatch is very good at getting its brand into high end watch and jewelry stores around the world. Fossil and Movado are good at getting licensed brands into the more moderately priced retail outlets. You can see the difference if you compare Swatch and Movado. Swatch probably gets close to half its profits from China. Movado gets less than 5% of its sales from China. Meanwhile, Swatch's U.S. sales account for a small portion of its business. And it makes a very small amount from licensed brands. In fact, Swatch has no interest in getting more licenses. Swatch is unique in that it has huge production synergies in Switzerland. For other watchmakers, the synergies are in distribution. It makes much more sense to own a portfolio of watch brands at different price points than to own a single brand.



Movado Gets Two-Thirds (65%) of its Sales from North and South America

Movado's only scale advantages are in licensed brands and in the U.S. "affordable luxury" category. Movado's Museum Dial design is more distinct than any other watch brand. Unless someone is knowledgeable about watches, they can't instantly recognize what brand a watch is based solely on the look of the design. Movado's Museum Dial doesn't look like other brands. And most of Movado's sales come from variations on the Museum Dial design. So, Movado has the clearest image of any watch brand in the U.S. The brand is well known, well liked, and already widely owned in the U.S.

It is not well known, well liked, or widely owned in the rest of the world. Brand awareness is low outside the U.S. Movado is not a big company and is not as internationally focused as its competitors. It would be expensive to try to open company owned retail stores, buy advertising, and make other marketing investments in the rest of the world that would take years to pay off – if they ever paid off at all. It is harder for Movado to introduce its brand in a big way in some country than it is for Swatch. In the rest of the world, Movado is just another – much lesser well known – Swiss watch brand. Movado's position is especially weak in China. Movado probably gets $10 to $15 million in sales from China. Swatch and Richemont are huge in China. Movado has been in China for 12 years but it still has just 150 to 175 points of sale in the entire country. Movado has no moat in China.

But Movado does have a moat in the U.S. Movado competes with several of Swatch's brands. Tissot sells $300 to $500 watches. Hamilton sells $500 to $1,500 watches. And Longines and TAG Heuer sell $1,000 to $3,000 watches. To some extent, all of these brands compete with Movado. They are all Swiss made (as are Movado brand watches). Tissot and Hamilton (despite Hamilton's history as an American brand) are not well known in the U.S. Longines and TAG Heuer seem to be much more focused on the rest of the world. This lack of focus on the U.S. is important. For example, Longines spends $100 million in advertising globally. Movado spends $30 to $40 million – but it focuses most of that on the U.S. As a result, none of Swatch's individual brands in Movado's price range advertise nearly as much as Movado does. It can be difficult to get a U.S. benefit from global sponsorships. For example, Longines sponsors the French Open but Movado sponsors events at Lincoln Center, the Kennedy Center, etc. It's unlikely that as many dollars of advertising for one of Swatch's brands will actually reach U.S. watch buyers as the amount Movado spends in its home country. Swatch's controlling Hayek family doesn't seem very focused on the U.S. Meanwhile, the Grinberg family has always been focused on the U.S.

Another area where Swatch is not focused is licensed brands. Licensed brands under the same corporate umbrella can share back office, global supply chain, and local distribution and advertising. Watchmakers have separate distribution for their licensed and company owned brands. There is no distribution synergy between Movado watches and Coach watches for example. Another limitation is that the licensing brand has to already be big in a specific market. For example, Coach was already big in the U.S. and Japan because of its handbags being sold through company owned retail stores in those countries. So, Movado was able to market Coach branded watches in the U.S. and Japan successfully. Movado isn't able to sell its company owned Movado brand watches in Europe very successfully at all. But it has the licenses for Lacoste, Hugo Boss, and Tommy Hilfiger. It has no problem selling those watches in the E.U. because those clothing brands were well known in Europe for their apparel before Movado launched watches under those names. This is why Movado's geographic sales seem diversified even though its brands are not. Movado is big in the U.S. and not the rest of the world. Many of Movado's licenses are bigger outside the U.S. than inside it.

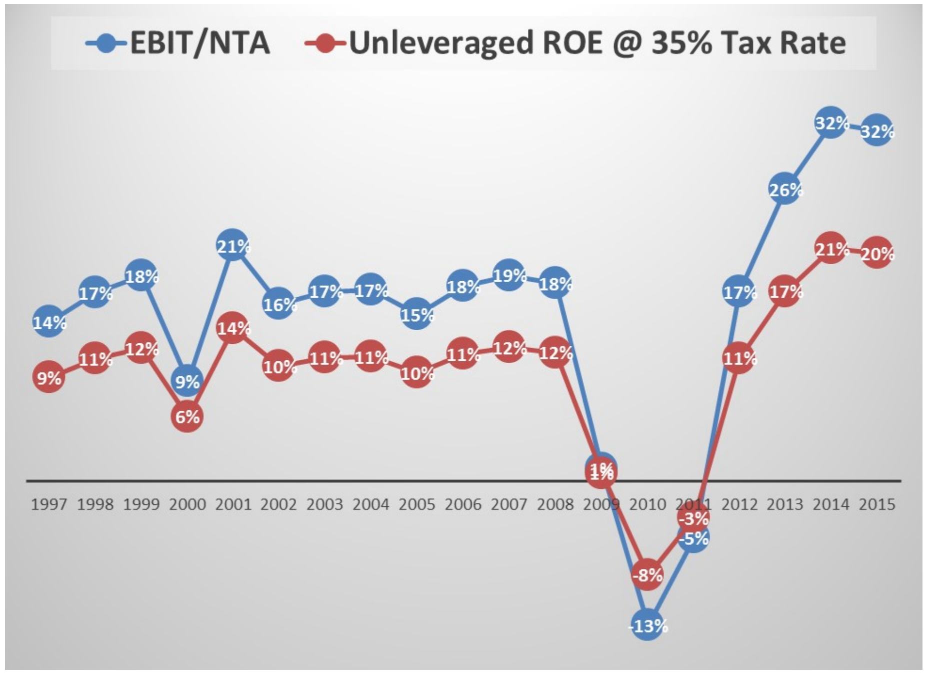
Movado is a much bigger maker of licensed watches than most other companies. But, it's smaller than Fossil. Fossil is the leader in licensed watches. It has the licenses for Adidas, Armani, Burberry, Diesel, DKNY, Karl Lagerfeld, Marc Jacobs, Tory Burch, Kate Spade, and Michael Kors (which is the biggest licensed brand in watches with over $900 million in sales). Fossil has 300 employees in its design department. It has higher revenue per brand. Although this is mainly due to Michael Kors being a $900 million brand and Armani being a $100 million brand. But, even setting those two outliers aside – there are 5 other brands in Fossil's lineup that average $100 million. The average Fossil licensed brand probably sells twice as much as the average Movado licensed brand. Fossil's licensed brand revenue was $1.88 billion last year. Movado's was just $274 million. However, Movado is probably the world's #2 licensed brand watchmaker after Fossil (despite being one-seventh the size). Swatch isn't interested in new licenses. But it does have the Calvin Klein license. And Richemont isn't interested in new licenses. But it has the Ralph Lauren license. Timex and Seiko have some licenses. Timex licenses are held under the Callanen subsidiary. This is the company that sued Fossil when Guess tried to leave Timex and go to Fossil.

The licensors usually don't make much money from watches. For example, Movado wants brands that can sell $50 million in watches after a few years. That would only generate $5 to $10 million a year under a typical licensing agreement. It's unlikely that a licensee would switch purely over the percentage terms of the agreement. However, a hit licensor might be able to get better terms from its licensee when it renews the license. Most switching seems to be "upgrading" to a bigger maker of licensed watches. Hugo Boss and Lacoste switched from small manufacturers to the bigger Movado. And Guess – which had been with Callanen for 20 years – wanted to switch to Fossil in 2005. Guess wanted to make the switch to increase sales by using Fossil's bigger network. Callanen sued Fossil. And Guess ended up renewing with Callanen. At the time, Callanen argued that Fossil had 40% market share in fashion watches. That was 2005. It is definitely higher today. Fossil has 50% market share in all watches between $100 and $1,000 sold in the U.S. Depending on how you define "fashion watch" – Fossil's market share could be anywhere from 50% to 80%. Fossil has been able to get new licenses in the last few years. But, it's possible Fossil will face anti-trust problems if a major licensor tries to switch from another company to Fossil. It's also worth mentioning that any merger between Fossil and Movado seems incredibly unlikely. One, Movado is family owned. And two, combining the two companies would definitely create a monopoly in licensed and "affordable luxury" watches. Fossil had advantages over Movado when it comes to licensed brands. But, it's not clear if large existing brands could switch to Fossil without anti-trust problems. New brands could pick Fossil and probably will. So far, Movado has not lost a license to Fossil. But Guess did try to leave Callanen for Fossil after 20 years with the company. So, it is always possible that a license could be lost at the contract expiration. The first meaningful license expiration for Movado is Hugo Boss on December 31, 2018. In the long-term, all of these licenses do eventually expire and some might switch. Again, it's unclear if someone like Hugo Boss could switch from Movado to Fossil without an anti-trust problem. However, they could certainly switch to any other company besides Fossil with no legal issues at all.

QUALITY

Movado is a Good Business in a Great Industry: It Can Earn Returns on Equity of Between 10% and 20% Without Using Debt

The watch industry is a great business to be in. Companies like Swatch, Richemont, Fossil, and Movado all earn good or even great returns on capital. Movado's position in the watch industry is not especially good. But, it is defensible. It is difficult for one watchmaker to do great harm to another watchmaker's business. Watch buyers are not very sensitive to which brand to pick based on small price differences between two comparable brands. In general, Tissot does not try to win sales from a potential Movado buyer based on price or vice versa. Instead, each brand competes in a particular price range which defines its brand positioning and at particular retail outlets. Where you buy the watch and at what price helps create the perception of the watch's quality. Advertising does the rest. How well a brand does over time has a lot to do with how much its corporate parent is willing to invest, how much they focus on the brand, and what strengths and weaknesses they have in distributing to certain countries and certain types of retailers. Swatch and Richemont put a lot of effort into small watch and jewelry stores and into China. Movado and Fossil don't. To put this in perspective, Swatch and Fossil are theoretically competitors in the sense that they are both multi-billion dollar watchmakers. Swatch gets probably 50% of its profits from China. Fossil probably gets 1% of its profits from China. Or, consider profit from the United States. Movado probably gets more than 50% of its profits from the U.S. Swatch probably gets less than 8% of its profits from the U.S. It's important to keep these extreme skews in terms of the price ranges of the watches sold, the types of retailers they are sold through, and the countries where sales come from for these companies. We will compare the quality of Movado against Fossil and



Movado's Pre-Tax Return on Capital was Good Enough to Provide an After-Tax Return on Equity of 10% or Higher in Non-Recession Years

Swatch as a yardstick of what a watchmaker can be. But, it's important not to overstate the actual harm that one watchmaker can do to another. Swatch is focused a lot on China and very little on the U.S. Movado is focused a lot on the U.S. and very little on China. Swatch invests a lot in production in Switzerland. Fossil focuses on having its own company owned production in Asia. Meanwhile, Movado assembles in Switzerland using parts bought from suppliers like Swatch and it outsources all of its Asian production. So, companies like Swatch and especially Fossil are good comparisons for Movado. But, they aren't necessarily as important when thinking about competitive threats.

Movado's return on capital is good rather than great. Right now, EBIT/NTA – the pre-tax return on the net tangible assets financed with shareholder equity – is 32%. This can be broken down into a 12% EBIT margin and 2.6 times net tangible asset turnover (Sales/NTA is 2.6). Both are higher than they have been in the past. In its history as a public company, Movado's median EBIT/NTA was 17.6%. This came from a 10% EBIT margin and a 1.76 times net tangible asset turnover. So, we can think of return on capital as being 32% pre-tax right now or 18% in the past. If we use the past number, the after-tax result – without using any leverage – would be a return on equity of 12% or higher. This is a good result. Of course, the current figure – a return on equity of 20% or higher – is an even better result.

Where does this return come from? In general, the watch business has very high gross margins. Operating costs are also high though. Advertising expense is especially high. Fossil spends 6% to 7% of its sales on advertising. Ad spending on licensed brands is lower than it is on company owned brands. Movado doesn't break down advertising spending by licensed brands versus company owned brands. However, if Movado spends about as much as a percent of sales on its licensed brands as Fossil does, then it would spend perhaps as much as 20% of the Movado brand's sales on advertising that brand. It's very possible that – lacking Fossil's scale – Movado actually spends more on advertising licensed brands. However, it's probably reasonable to assume that you generally spend something like 5% to 10% of sales advertising a licensed brand and 15% to 20% of sales advertising a company owned brand like Movado. Licensed brands have lower gross margins because of the license fees. However, if we keep the advertising difference between licensed brands and company owned brands in mind – you'll notice that if you pay the brand owner something like 5% to 10% of sales, licensing plus advertising costs will be the same (15% to 20% of sales) regardless of whether you own the brand or license it.

So, it is not necessarily a disadvantage to have a lot of licensed brands instead of company owned brands or vice versa. With enough volume, you can make money selling your own brands and advertising a lot or licensing someone else's brand and advertising very little.

Fossil's financial results are better than Movado's. Fossil has more scale than Movado. Does that make Fossil the higher quality company?

Maybe. But Fossil has some risks – they could be problems or they could be opportunities depending on the future – that Movado does not. Fossil depends on a few brands for most of its revenue. The Fossil brand makes $1.33 billion in sales. Michael Kors makes $923 million. And Armani makes $300 million. That's more than 73% of Fossil's total companywide sales. Michael Kors sold $923 million last year. But it only sold $300 million in 2011. Is it a fad? Michael Kors's sales of its own products increased eight fold in the last 5 years. The watch sales haven't outpaced this growth. But the Michael Kors name is very hot right now. It could cool. In fact, 90% of Fossil's Michael Kors watch revenue comes from women. So, there is an extreme brand and gender concentration that is unusual among watch companies. You have something like $800 million in sales of women's Michael Kors watches. That's an incredible number. It's hard to know whether it's sustainable.

Another issue in comparing Movado with other watch makers is the gross margin. Movado does not seem to have raised prices the way other watch makers have. A lot of the growth at Swatch comes from price increases that move their highest end brand up even higher and then move a somewhat lower end brand into a higher price position over time. Over a decade or two, you can move the real price of your brand portfolio up quite a bit this way. And truly luxury watch companies have done this. Movado doesn't seem to have done this. Its gross margin is lower now than it was in the past. Before the financial crisis, Movado's gross margin was higher than 60%. Today, it is 53%. This is remarkable when you consider Fossil has a 57% gross margin. Generally, company owned watches should have higher gross margins (and higher advertising expense) than licensed brands. Watches have higher margins than other accessories (which Fossil also sells but Movado does not). And more expensive watches have higher margins than less expensive watches. Fossil watches tend to be cheaper than Movado watches. So, you'd expect Movado to have a high gross margin relative to Fossil. But, it doesn't. This could be due to Fossil's tremendous unit volume in Michael Kors and Armani compared to Movado's much lower volumes for its licensed brands. Or, it could be due to cost increases that Movado didn't pass on. Since the financial crisis, the Swiss Franc has strengthened and commodity and energy costs had risen (though this has reversed recently). The cost of making watches in Switzerland and in China have risen faster than the retail price of Movado watches. It may be that Movado is simply too afraid to raise prices coming out of the financial crisis.

There is a good reason for that. Movado is focused on "affordable luxury" in the U.S. especially. From January 2008 to January 2010, revenue of Concord and Ebel dropped 55% (this is the luxury brands), Movado and ESQ declined 50% (this is the affordable luxury brands), and licensed brands grew slightly. Fossil sells a lot of licensed brands. Those cheaper watches weren't hardest hit in the crisis. Swatch and Richemont sell into emerging markets. Those markets recovered quickly while U.S. households were still deleveraging. The idea that Movado watches are now underpriced is supported by the recent volume numbers. Since the crisis, Movado's volume has increased faster than the overall market.

In 2015, Movado's Chief Operating Officer said: "…Pricing has not been a major factor…we really have provided excellent price value proposition to the consumer… we certainly will be looking at pricing as one of the components. But we do see volume as being a critical component to our growth propositions, but pricing certainly will come into play next year and probably over the next couple years." So, it does not seem Movado is committed to increasing prices at the expense of volume. But, they may increase prices in each of the next few years now that The Great Recession is a distant memory.

Movado's return on capital is burdened by its need to hold inventories. It's important to discuss two points about inventory, because the company's heavy investment in inventory influences both return on capital and cyclicality. Movado's earnings are highly cyclical. But, actual cash flow is less cyclical. Fine watch retailers usually have a year of inventory on hand. They might have 3 months of inventory on hand if they retail fashion watches. So, for more expensive watches – the retailer has the choice of delaying their next order by a long time and running down inventory until they see sales pick up again. This is what they did in the crisis. This immediately lowers Movado's reported sales. But, Movado does not keep buying parts and assembling them in Switzerland when they notice a big drop in orders. They can reduce their inventory on hand as well. They did that in the crisis. So, earnings can fluctuate a lot because 90% of Movado's sales are wholesale. These are not direct to customer sales (only Movado outlets make those). So, earnings cyclicality is much higher for Movado than for a retailer of Movado watches. But, cash flow can be more stable than the losses suggest.

Inventories also present two problems for Movado versus Fossil. One, Movado has higher inventories and so they have lower inventory turns and thus lower returns on capital than Fossil. Two, Fossil's lead time for its Asian factories (which are company owned) is 6 weeks. Movado's lead time is at least 6 months. Of course, Fossil invests in factories while Movado's investment in fixed capital is minimal. For Movado, investment really takes the form of inventories.

Finally, it is worth mentioning one other quality concern. Movado, Concord, and Ebel watches are made in Switzerland. Swatch dominates the market for movements and other key parts for Swiss Made watches. Movado is not a vertically integrated manufacturer. Like other Swiss watchmakers it depends on a competitor – Swatch – for some of its components. If Swatch stops selling components to some of its competitors, they might have to invest in production capabilities of their own. Or they might have higher prices. Of all the Swiss watchmakers, Movado probably depends on the "Swiss Made" label the least. Even so, it's unlikely that Movado could ever move production from Switzerland to Asia without damaging the quality and reputation of its Movado brand. So, Movado is at a relative disadvantage to Swatch in terms of production. Swatch is an important supplier. Movado does not disclose its suppliers. But, we assume that Movado needs access to either Swatch or Sellita parts to make its Swiss Made watches. And Movado is at a scale disadvantage to Fossil in terms of licensed brands. So, Movado lacks relative scale versus both Swatch (in production) and Fossil (in licensed brand synergies).

Watches are a great industry. And Movado is a good business. It is not as good a business as Swatch or Fossil. But, it can earn an adequate return on equity without using any debt. The business is certainly durable – Movado does not depend on China the way Swatch does or Michael Kors the way Fossil does – and the stock is cheap. So, Movado might not be as good a business as Swatch or Fossil. But it might be a better stock than both of them.

CAPITAL ALLOCATION

Movado is a Conservatively Run Family Controlled Company

Movado is controlled by the Grinberg family. They determine the capital allocation. The current CEO of Movado is Efraim Grinberg. He has been the CEO since 2001. Efraim is the son of Movado's founder, Gedalio Grinberg. Grinberg has 67% voting power through ownership of a separate class of Movado stock from the one you can buy in the stock market.

Movado's capital allocation has been conservative in the past. The company has a record amount of cash on hand today. For the last few years, they have had almost $200 million in net cash. Previously, Movado had a much smaller amount of net cash on hand from 2004-2011. Movado has not had any net debt since 2003.

Movado's most recent acquisition was the purchase of Ebel. This was a very conservative acquisition. Ebel was basically a Ben Graham style net-net. It was also in exactly the same business that Movado is in. So, there was no aggressiveness in this acquisition in terms of moving out of the company's circle of competence. Nor was there any aggressiveness in terms of paying up. Ebel came very cheap. LVMH sold Ebel to Movado for $47 million in cash. Ebel had $50 million in equity. Most of that was inventory. Ebel also came with a net operating loss carryforward in Switzerland. Movado was eventually able to use over 90% of this tax shield to reduce the taxes Movado paid in Switzerland. A small portion of the net operating losses expired.

The risk Movado took in buying Ebel was operational. Ebel had sales of $50 million. But it was losing $15 million a year under LVMH's ownership. The $50 million price paid for Ebel was low. But the risk of losing $15 million a year was probably why others were not willing to pay more than one times sales or one times book value for Ebel. Usually, a watch brand sells for a much higher multiple of sales. But, a money losing watch brand could be a risk. Movado put Ebel into its supply chain and cut costs. Ebel turned its first profit for Movado in 2005.

In the last 20 years or so, Movado has created less value for its shareholders than Fossil has. In 1996, Movado and Fossil were the same size. Movado made $20 million in operating profit on $215 million of sales. Fossil made $24 million of operating profit on $206 million of sales. Today, Movado makes $68 million in operating profit on $570 million of sales. Meanwhile, Fossil now makes $567 million of operating profit on $3.51 billion of sales.

Fossil has obviously been much more successful than Movado over the last 20 years. Why?

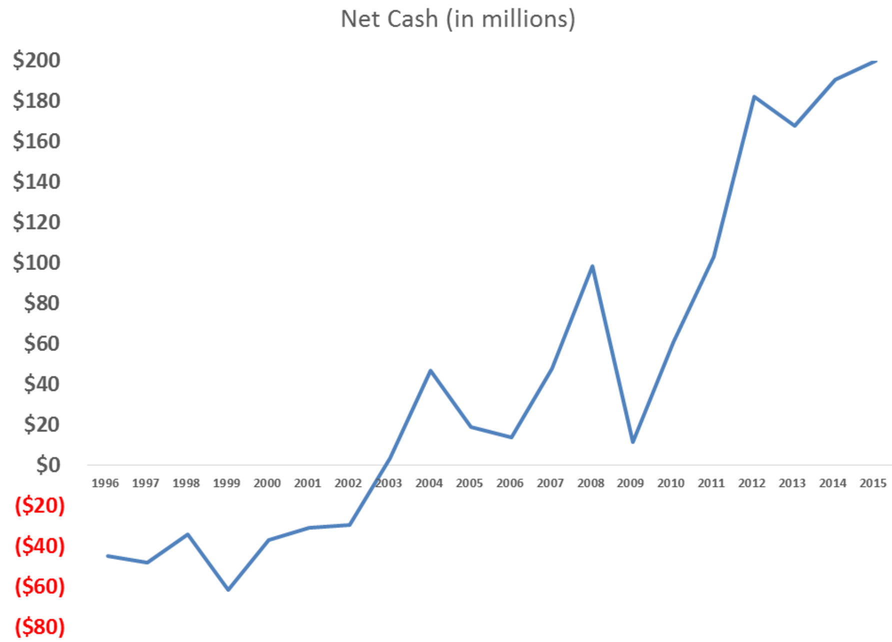
Fossil grew its namesake brand faster than Movado did. The Movado brand is limited to watches. But Fossil expanded the Fossil brand into leather goods and fashion jewelry. A big difference between Movado and Fossil is retail operations. Movado never successfully expanded into company owned stores in a big way. Fossil did. There are now 469 Fossil branded stores. Movado never got beyond 27 Movado boutiques. Movado opened its first boutique in 1998. They never turned a profit. By the time Movado closed its boutiques, they were losing $10 million a year. A big reason for Movado's lack of success was probably its price level. The company only tried to open boutiques in upscale areas. It didn't offer cheaper jewelry like Fossil. For example, the average price of a Movado diamond engagement ring was $7,000. Prices were as high as other fine jewelers in the U.S. Because Movado watches are "accessible luxury", the boutiques were also accessible luxury. It's hard for Movado to grow the brand internationally. It is not well known outside the U.S. Richemont and Swatch are much stronger. Richemont owns the Cartier name. Swatch now owns Harry Winston. They sell more true luxury watches. They focus less on the U.S. and more on the rest of the world – especially Asia.

Basically, Movado was boxed out at the high end internationally by companies like Swatch and Richemont. Meanwhile, it was boxed out on the low end by Fossil. This is due to synergies. Fossil and Movado both produce licensed watches. But Fossil's company owned brand watches have much more in common with licensed watches than Movado brand watches do. Fossil watches are made in China. Movado watches are made in Switzerland. Licensed watches are made in China. This gives Fossil synergies that Movado does not have. Movado's production of its company owned brands and its licensed brands are separate. They use separate parts and assemble them in separate regions of the world.

In the 10 years before the financial crisis, Movado was a steady grower. It was also very conservative. Sales grew 10% a year from 1998 to 2008. Profit also grew just under 10% a year. Meanwhile, the company went from a net debt position of $48 million to a net cash position of $99 million. So, it added about $15 million a year to its cash hoard while also paying out a little over $6 million a year to shareholders. That is a lot of free cash flow generation for a company growing 10% a year.

Recently, Movado has paid out dividends and bought back stock. The quarterly dividend went from 5 cents in 2013 to 10 cents in 2014 to 11 cents in 2015. The company also paid two special dividends of 50 cents and 75 cents in 2012. They bought back $10 million of stock in 2014 and $26 million in 2015. The buyback authorization under the current share repurchase plan was increased to $100 million.

Shareholders should not count on seeing all that cash. Obviously, if Movado was ever sold a buyer would consider the cash to have its full value. So, enterprise value is the right way to



Since the financial crisis, Movado has built up $8.30 per share in net cash

value the stock. But, this is a family controlled company. There is no reason for them to sell. They built up cash for the last 12 years. They have paid out some in dividends and bought back some stock. This may stop cash from building further. But it does not mean they are eager to do large buybacks and special dividends to get rid of that cash. The only acquisition they ever did since the Movado deal was buying Ebel. So, acquisitions are an unlikely use of cash. A watch company like Fossil, Swatch, or Richemont would value Movado very highly in an acquisition. The current stock price is far, far below what the brand would sell for to an acquirer. But, as a family controlled company it may never be acquired.

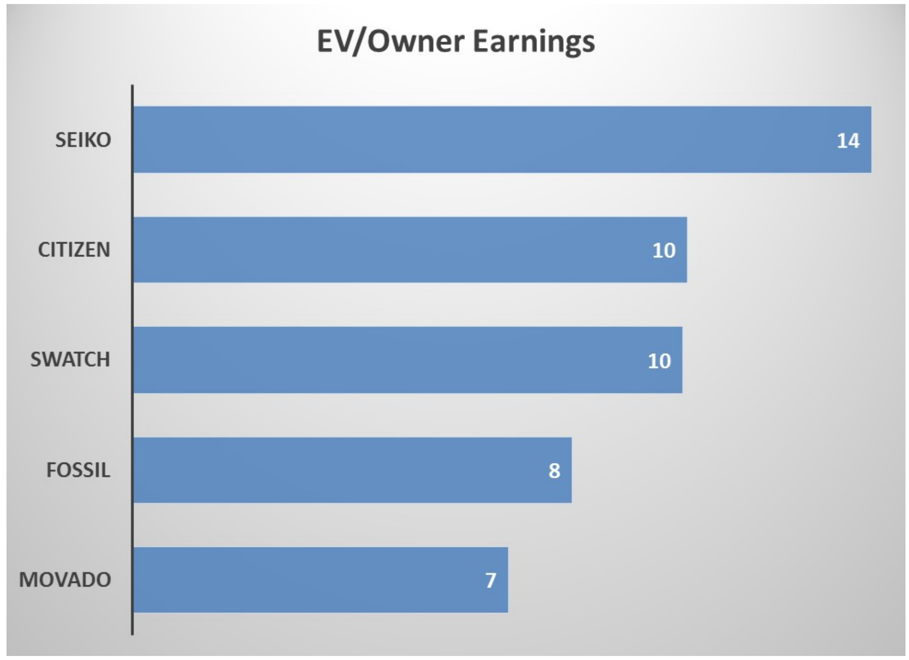
Even today, Movado's expansion plans sound more conservative than other watch companies: "Well right now, Movado has…just launched very recently in the U.K. That is one of our international markets of focus. So we're not thinking of expanding to many different markets…we want to be very thoughtful. It's not adding doors; it's building one door at a time. So we have a position in China now that there are certain concessions that we run which are performing really well. So, we want to be, again, very focused on how we build this, and again it's not every market. Right now, the main focuses are the U.K., certainly China, and in Brazil, we're also…seeing very good traction."

Movado has signed fewer licensing deals than Fossil. They opened fewer stores than Fossil. They also opened fewer stores than Swatch. And they have made fewer and smaller acquisitions than Swatch. Swatch did a deal with Tiffany that fell apart. And after that deal fell apart, they bought Harry Winston to enter the jewelry business – which is very synergistic with watches in terms of a retail presence and distribution power in the luxury price range. Movado does not have the scale of either Fossil or Swatch in terms of licensed brands (like Fossil) or production (like Swatch) or a retail presence (like either of them). But, the Movado brand is a good brand. And Movado is focused more on a single brand and a single country than its competitors. Growth prospects may be more limited. And the pursuit of growth will definitely be less aggressive than at those companies. But the Movado brand is a very good watch brand that would sell for a lot more to an acquirer than the market values it at. Movado is also probably the number two company in licensed watches. However, the number one in that category – Fossil – is many, many times bigger than anyone else in the world.

VALUE

Movado is the Cheapest Publicly Traded Watchmaker

There are 3 ways to value Movado. One way is to look at what a strategic buyer would pay. The answer to that question is that they'd pay a very high price. The market generally has not valued Movado as highly as an acquirer like Swatch would pay for the company. But, this is probably because Movado is family controlled and not a likely acquisition target. It may also be because Movado does not use debt or pay a particularly high dividend. So, the market may not give Movado full credit for its $200 million of net cash. But, an acquirer would.



Movado trades at about a 15% discount to its nearest peer (Fossil) and a 30% discount to most other publicly traded watchmakers

The second way of valuing Movado is to use peers. Swatch, Fossil, Citizen, Seiko, and Interpafums are good peers. Swatch and Fossil are watch companies. Both are better businesses than Movado. However, Swatch is heavily exposed to China. And Fossil is heavily exposed to Michael Kors. A lot of the value of Fossil is speculative to the extent Michael Kors is speculative. So, while Fossil might deserve a higher multiple of "normal" earnings than Movado – Movado's current earnings might be closer to its normal earnings than Fossil's. There is probably more risk of a decline in Fossil's earnings than Movado's. Swatch is more complicated. It is very, very vulnerable to a decrease in watch buying in China. However, the risk of China being a bubble permanently is not the same as the risk of Michael Kors being a fad. Chinese watch buyers may reduce purchases if the economy slows down, enters a recession, or enters a depression – but they will eventually increase in wealth per person and may buy more watches and more expensive watches over the decades. So, there is still long-term value in having a strong position in China even if China is a tough place to sell watches for the next year or 3 or 5 or even 10. Michael Kors is different. There is a risk the brand becomes permanently less popular. Overall, it is probably fair to say that both Fossil and Swatch should trade at a premium price to Movado. However, Movado may not have as big risks as either Fossil or Swatch.

The third way – and the most conservative way – of valuing Movado is as a stand alone business. This just looks at the business as a stock without considering what peers trade for or what an acquirer would pay. This price depends a lot on Movado's future capital allocation. The company could pay 25% of its stock price out as a special dividend tomorrow – and it still wouldn't have any debt. Likewise, it could decide to do a tender offer for almost 25% of the shares outstanding. It wouldn't really need to borrow to buy back that much stock. Obviously, actions like that would greatly increase the stock's value. We don't think they are likely. They are possible in theory. But there is no evidence the controlling shareholder – and CEO – would want to do anything like that. A special dividend only creates a problem for a major shareholder because they would still have to invest a large amount of cash themselves once it was paid out. They have control of the cash whether it is paid out or not because they have voting control of the company. So, why pay out cash? Generally, a controlling shareholder has a somewhat different attitude toward the stock price. Investors who want to trade the stock fairly frequently and even those who might hold the stock for 5 years or more would like to see the price rise so they can sell. The controlling shareholder doesn't really care about that. He just wants the intrinsic value of the company to increase. When he sells, he won't just sell a small piece of the stock in the open market. He will sell control of the entire company to a strategic buyer. He will get a premium over the market price when he does that. So, even if a controlling shareholder does care about the value of the company – he always has the idea of a change of control price in mind. He doesn't care whether the market price is high enough to sell off little bits of what he owns. Swatch is run the same way.

Movado's current EBIT is probably not much higher than its normal EBIT. It made $71 million pre-tax last year. The long-term median operating margin has been 10% to 11%. The company always targets a 15% EBIT margin. But, they haven't achieved this because they had some losses in retail before the financial crisis. And then the EBIT margin has been poor since the crisis because gross margin was poor. By the way, a 15% EBIT margin is not an unreasonable target for a watchmaker. Fossil's EBIT margin is 17%. Swatch's EBIT margin is 20%. Some of Swatch's highest end brands probably have EBIT margins around 30%. Swatch and Fossil have more scale. Corporate overhead is much less of a drag on them than it is at Movado. In fact, the Movado brand would contribute a 15% EBIT margin or better for an acquirer. There would be a lot of cost savings. Movado's SG&A costs are much lower now than they were in the past. Historically, these operating expenses were about 50% of sales. Today, they are 40%. However, the company's gross margin is lower. It is 55% today versus 60% before the financial crisis. Even Fossil has a 57% gross margin. Movado has not raised its prices the way other watchmakers have. As we mentioned earlier, Movado will consider raising prices this year and for the next few years. But, even then, management has said that volume growth rather than just price growth is an important part of their plan for revenue growth. Movado's management has said that they expect sales to grow faster than SG&A. But, the easiest way to do that is through pricing growth. Over the last few decades, some watchmakers have been very aggressive in how quickly they've increased real prices of their watches.

Movado is cheaper than its peers. Movado trades for about 7 times pre-tax profit. Swatch trades for 12 times pre-tax profit. However, we think it's closer to 10 times normal profit. Swatch has had some higher expenses in recent years that are unlikely to continue. Even though Swatch trades for at least a 30% (and possibly even more) premium over Movado, Quan would rather buy Swatch than Movado. We did an issue on Swatch. You can read that to understand why Swatch is so much more attractive than Movado. However, the certainty of Movado's earnings may be higher. Swatch gets about half its profit from China. Movado gets half its profit (or more) from the U.S.

Fossil trades for over 8 times EBIT. So, a little more than Movado. It deserves a premium over Movado. But it is very dependent on Michael Kors. Fossil may be riskier than Movado. Movado doesn't derive profit from anything that appears especially faddish. Fossil may have more upside. But it may also have more downside. It is hard to tell which is a better stock. But Movado may be more of an investment. Fossil may be more of a speculation. It's worth mentioning here that Fossil is seen as a growth stock and Movado is not. But, for the last 3 years, Fossil's growth has really come from Michael Kors. If you take that single license out of the calculation, you wouldn't see much difference between Movado's growth and Fossil's growth. There is nothing wrong with creating a lot of value through a hit license like that. And Michael Kors just extended the license with Fossil in November 2014. But, it's not really clear if – in the future – Fossil will always grow faster than Movado. Movado grew quite nicely from 1998-2008. The two companies may be more similar than they appear.

Movado's stock is less expensive than either Seiko (14 times EBIT) or Citizen (10 times EBIT). Neither of these companies is better than Movado. Comparing Movado with Inter Parfums is difficult. They are both licensing businesses. We wanted to find a peer that was a big user of licenses because Movado's licensed brand business is a big part of its value. Inter Parfums trades for 19 times pre-tax profit. Movado trades for a little over 7 times. Movado is cheaper than all of its peers. However, several of the peers – Swatch, Fossil, and Inter Parfums – might deserve a premium over Fossil. Citizen and Seiko certainly don't deserve a higher multiple than Movado and yet they do trade at prices that are 30% or more above Movado's price. This could be due to Movado trading in the U.S. and those companies trading in Japan. Movado is the cheapest publicly traded watchmaker. And its focus on the U.S. and the long time before its important licenses expire make it possibly safer than some other watchmakers. That's hard to say. What isn't hard to say is that an acquirer would pay a much higher price than the market values Movado at. A strategic buyer would be very comfortable paying 2 times sales for Movado's company owned brands and 1.5 times sales for Movado's licensed business. Swatch trades for about 2.6 times sales and Fossil for 1.3 times sales. It might seem odd to say an acquirer would pay so much for Movado – but a lot of Movado's expenses are actually in corporate overhead. You can see this by looking at the segment breakdown. Movado reports a 20% EBIT margin for U.S. retail and for International Wholesale. It reports a loss for U.S. Wholesale. However, we know that without the allocation of all corporate costs to U.S. wholesale – it would be turning a good profit. So, while Movado has historically only had a 10% or 11% EBIT margin – an acquirer would probably count on a 15% to 20% EBIT margin once they integrated Movado into their operations. In this issue, we don't value Movado based on its potential value in an acquisition. We value it as a stand alone company. On that basis, we would have to say its returns and its safety seem fairly average. Its position in its industry is not especially strong. But it is in an especially wonderful industry. So we assign it a value of 10 times pre-tax profits. As always, we use enterprise value instead of market cap. This gives Movado full credit for the $200 million it has in cash.

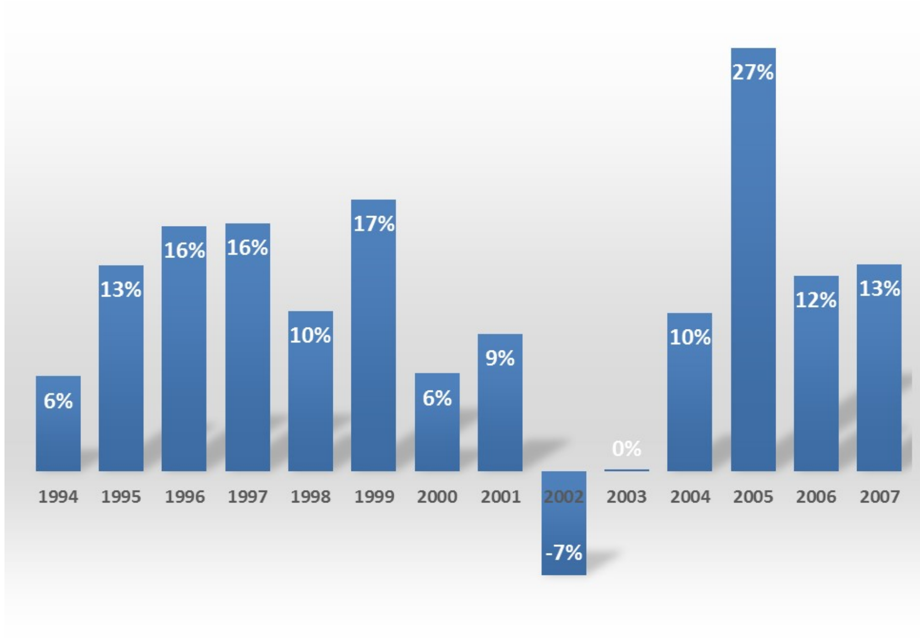
GROWTH

Movado's Growth May Be Very Slow Outside of Boom Times

Movado is in a weaker position for future growth around the world than companies like Swatch, Fossil, and Richemont. The Movado brand is very popular in the United States. Remember, Movado is a Swiss Made watch brand. As a point of comparison, consider that the U.S. accounts for 10% of Swiss watch exports but 80% of the Movado brand's sales. In other words, Movado gets proportionately 8 times more sales from the U.S. than Swiss watch brands usually get. Companies like Swatch and Richemont are better positioned in emerging markets because they have a focus on the very high end. Movado is an affordable luxury brand. The U.S. combines a large population with a large percentage of people who can buy "affordable luxury". This means you can do a high volume of business with the general public in the U.S. That's not how you do business in jewelry and watches in much of the rest of the world. Right now, the kind of consumers that Movado targets in the U.S. don't exist in very big numbers in China. There are some very rich people in China buying Omega watches. But, that is a true luxury product. Omega and Rolex aim for a price position that is different from Movado. It isn't just more expensive. It's meant for a different kind of watch buyer.

In 2012, the CEO of Fossil said: "…the Swiss watch market has been very, very successful in Asia, especially in China and even China travelers buying Swiss watches around the world. And the prices of those products have gone up dramatically and so has scarcity. It's I think given us an additional white space opportunity for us to put Swiss made products in the Asian market."

Movado has a unique brand position in the U.S. But not in Asia. In Asia, a Movado would simply be seen as another Swiss made watch. Watches are sold through different types of



From the 1990s till the financial crisis, Movado often grew sales by 10% a year in good economic times.

retailers in Asia than in the United States. And Swatch has more brands to sell through these retailers. The have been there longer.

Movado's Chief Operating Office said: "Swatch is probably one of the strongest brands in Asia. They have been – particularly in China, but throughout all of Asia, they have been there the longest. So they are a formidable competitor there…. some brands have been there longer, and basically Omega has been there, the Swatch Group has been there the longest."

In the United States, Movado is the second best recognized watch brand behind Rolex. In China, it is Omega that is closest to Rolex in terms of awareness and even positioning there in terms of quality. This is not something that is easy to reverse. Omega's position in China was built over decades. Movado's position in the U.S. was built over decades. It is not realistic to think that Movado has the same international potential as either Swatch or Richemont. Movado has not historically been in these markets. It doesn't own a jeweler. Swatch owns Harry Winston. Richemont owns Cartier. And it doesn't have a wide portfolio of luxury brands to offer through retailers. It also does not have its own stores. Movado's only stores are the outlets it operates that sell discontinued models and factory "seconds". It closed the boutiques it had operated. And those boutiques never turned a profit.

So, Movado's long-term growth potential outside the U.S. is less than Swatch and Richemont. It has not historically had the same fast growth as Fossil in licensed brands. Fossil has been more successful. But it's unclear if Fossil will grow licensed brands faster in the future than Movado will. A lot of Fossil's recent growth was Michael Kors. And Fossil already has such a large position in the fashion watch market that there might be anti-trust concerns if an established watch brands tries to switch its license over to Fossil. Movado may have more success with its licensed brands in the future.

It seems that Movado has done fine growing its licensed brands. If we look at revenue per licensed brand starting from the crisis and recovering through to today we see it was $27 million in 2007, $28 million in 2008, $28 million in 2009, $29 million in 2010, $31 million in 2011, $39 million in 2012, $45 million in 2013, $46 million in 2014, and $49 million in the 2015 fiscal year. The Movado brand is not quite back to where it was in sales before the crisis. It had revenue of about $200 million before the crisis. Today, it is closer to $180 million. So, it is maybe 10% below its prior peak. U.S. consumer spending has not been very strong since the crisis. The average American household is only just now seeing higher incomes than they had before. There had been very little growth in household income from 2008-2014. So, it is not surprising that such an expensive consumer item as a Movado brand watch wouldn't be able to grow sales during that period.

Movado increased revenue per licensed brand from $27 million to $49 million over 8 years. If it is able to increase the revenue per licensed brand by doubling it from $49 million today to $100 million in 2025, the company can achieve a 3% annual sales growth even if Movado, Ebel, and Concord don't grow at all and Movado doesn't get any new licenses. In a good U.S. economy, Movado should be able to grow. It was a growing brand throughout the economic expansion of the 2000s. But it is now below the sales level it had just before the financial crisis. In a strong period for U.S. household income, the Movado brand might be able to grow its sales again. Historically, watchmakers have been able to raise the price of their products by the rate of inflation. In the true luxury categories, some brands have raised their prices quite a bit faster than that in local currency terms. Movado has not raised prices much. Gross margin is much lower at around 53% today than the 60% it had been in the past. So, there is some potential for short to medium term growth in the Movado brand and in sales in the U.S. – especially in terms of simply increasing the price of Movado watches. The long-term growth prospects are not as good. I don't think it is a good idea to count on more than 3% annual growth in sales. However, it is possible that – like at many watchmakers – earnings can grow faster than sales. Movado has a lot of corporate costs. It also spends some money trying to break into new markets. The company took out some costs during The Great Recession. If it saw strong revenue growth in a good economy for U.S. consumers, it is very possible it would be able to grow its earnings faster than its sales. Movado's EBIT margin at 12% is much lower than Fossil's 15% EBIT margin or Swatch's 20% EBIT margin or the company's usual goal of a 15% EBIT margin. We don't know what inflation will be. But we do know that growth wasn't unusually good since the financial crisis. We can conservatively expect 3% annual sales growth. Earnings growth could be even stronger. It is best not to count on more than 3% growth. However, Movado might add licenses. And the Movado brand might grow sales again in a good U.S. economy. Sales growth shouldn't be lower than 3%. And it's not impossible that earnings per share growth could be as high as 3% to 5%. It could be in some range between the rate of inflation and the rate of nominal GDP growth. Movado is not a growth stock. But, it's not in decline either.

MISJUDGMENT

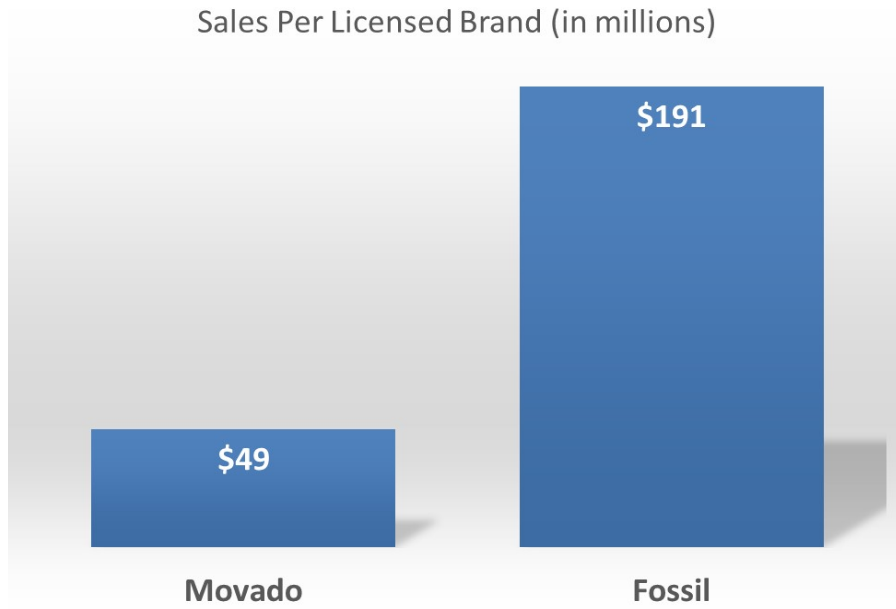
Fossil is a Better Home for Licensed Brand Than Movado

The biggest risk of misjudgment when valuing Movado is the risk that its competitive position may be weaker than it appears. Movado is at a disadvantage in some ways to two competitors: Fossil and Swatch. Fossil is a direct competitor in licensed brands. And Fossil is a direct competitor for licensed brands. Brands that Movado now controls might want to work with Fossil instead. That would make sense. If you look at Movado's average revenue per licensed brand it is just $49 million compared to Fossil's $191 million in sales per licensed brand. That comparison is a little misleading, because we know how much bigger Michael Kors (and to a much lesser extent) Armani are for Fossil than all the other brands. Still, if you take out the biggest two brands – you'd be left with something like $100 million in sales per brand for Fossil's portfolio of licensed brands versus just $50 million in sales per brand for those that go with Movado. Naturally, a brand that is now licensed to Movado might consider switching to Fossil in the hopes this would eventually double their sales. The impact can be meaningful. A brand owner who manages to increase sales of their licensed watches from $50 million to $100 million could add $5 million a year to their company's profits (since the royalty can be as low as 10% of sales). There are some risks in switching. But, if Movado has been successful in selling your brand – it's likely Fossil could be even more successful. Fossil has a huge team of designers, dedicated manufacturing in Asia that can work faster in getting your product to market than Movado can. It has scale advantages in selling a lot of licensed brands. Fossil's licensed watch business is 7 times the size of Movado's. It has more licensed brands than Movado. And it has been able to sell more per licensed brand than Movado. So, it is natural to think that those brands that license with Movado might consider switching to Fossil when their license expires. The next contract to expire for Movado is the Ferrari contract. It's very possible Ferrari will leave Movado. Ferrari has been unusually active in making licensing changes. Most licensing contracts tend to be for 5 to 10 years. Ferrari's contract with Movado was for just 4. Most licensed watches are made in Asia. Ferrari watches are made in Switzerland. Most watch licenses give all of the watches under that brand to one company. Production is all done by just one manufacturer. That's not the case with Ferrari watches. The "low-end" watches (which are still quite high end for a licensed watch brand) are made by Movado while the high end Ferrari watches are made by Hublot. Ferrari used three different licensees for its low end watches before switching to Movado. All three are small manufacturers of luxury Swiss watches. Movado is a better choice than those companies. And Movado might even be a better choice than Fossil – since Fossil makes its watches in Asia, but Ferrari wants its watches made in Switzerland. Ferrari wants to expand its brand beyond cars. It may worry more about licensing for watches – and other products – than many licensors do. It's very possible Ferrari could leave Movado. That would be bad news. And the stock might react to it. But, Ferrari is a relatively new license. So far, it probably hasn't provided much in sales for Movado. Usually, a new license doesn't make a big difference to the overall company sales for a couple years.

The risk of Hugo Boss leaving at the end of 2018 is a clearer risk. Hugo Boss probably contributes a meaningful amount to Movado's profit. If it contributes say $50 million of sales, the marginal loss of profit from losing the license could easily be more than $5 million. Ten years ago, Fossil tried to get the Guess license. They were sued over an anti-trust issue and the license switch never happened. At the time, Guess was the biggest fashion watch brand. We don't know if there was a serious anti-trust issue. And we can't predict if Fossil would behave the same way if it got sued today as it did 10 years ago. Obviously, Fossil's market share is much, much higher today than it was 10 years ago. So, if there was a real anti-trust issue in 2005 with getting the Guess license, there would be one today when getting a big license.

There is really no way to predict future license losses or wins. In the past, Movado never lost a license. But, Fossil makes more per license than Movado and can be assumed to be a better partner than Movado. However, Fossil may have some anti-trust concerns while Movado certainly has none.

So, the big risk to Movado is the risk of losing a license. The first license that we know contributes a meaningful amount of sales is Hugo Boss. It expires at the end of 2018. So, Movado could lose sales 3 years from now. This is speculative. But, it is a real risk for any business that depends on licenses.



Movado's Sales Per Licensed Brand Are Almost 75% Lower than Fossil's

Another possible risk is that other Swiss made watches – particularly Swatch Group brands – could gain market share in the U.S. So far, Swatch has not been very successful in the U.S. It has three watch brands that are in price ranges that could compete with the Movado brand in the U.S. They are Tissot, Longines, and TAG Heuer. Movado has between 30% and 40% market share in the $500 to $1,500 price range. That means any gains in market share are likely to have to come from Movado. So, if Swatch makes a big push in the U.S. in that price range, it would probably need to take market share from Movado to succeed.

The CEO of Swatch – Nick Hayek – made a comment that shows Swatch's attitude toward U.S. sales: "…if you would show me a retailer…that knows how to sell quality watches, I would be happy. Unfortunately, I don't see one. You see, that is the problem with the U.S.…I think it's an interest for all Swiss-made watches that we increase the quality of presentation in the U.S. In the U.S., we decided at one point of time, many years ago – I think it was 2003 or 2002 or 2001 – we stopped the distribution in the department stores and to the independents. We go only for own stores, because we are fed up with the short-term politics of measuring the success per square feet turnover every three hours. And then they change… strategy. They put you somewhere else. They put you in competition with Chinese-made products. So we said stop. Here we need a 100% own distribution."

That was what Swatch's CEO said in 2009. And Swatch does have some of its own distribution in the U.S. But, Swatch's brands are unlikely to end up in as many places as Movado does. Swatch's management seems more hopeful about its opportunities in emerging markets like China and the Middle East than it does in the U.S. And that is selling to a very different kind of customer. Swatch brands have moved even further upscale in the last 15 years. And that probably puts them in a worse position to sell into the U.S. But there is always a risk that some brand will gain share in the U.S. Movado has an unusually large share of the Swiss made watch market in the U.S. and an unusually large share of the $500 to $1,500 price range market, because other Swiss watchmakers have not made the U.S. a big part of their strategy. Movado has reduced advertising along with sales since the financial crisis. And it closed the Movado boutiques. Those actions saved the company a lot of money. But, they could risk the brand's long-term strength in the U.S. There is also the risk that Swatch now owns Harry Winston. Swatch is a very powerful potential competitor. But they don't actually own brands that are that well known in the U.S. They own Hamilton which is a U.S. brand that had some history to it – but Hamilton's sales are not very meaningful at all. Harry Winston – although small – is a recognized name in the U.S. But, the price range for Harry Winston seems too high to help Swatch sell affordable luxury brands. More likely, it can only benefit Swatch selling true luxury watches in the U.S. or opening Harry Winston locations in other countries. The risks from Fossil and Swatch are speculative. So far, Fossil hasn't taken any licenses from Movado. And, so far, Swatch hasn't taken any market share from Movado in the U.S. In fact, the Movado brand has certainly gained market share over the last couple years. But, both Fossil and Swatch have advantages that Movado lacks. They are both much bigger than Movado in ways that matter. They should always achieve higher EBIT margins than Movado. It is easy to see they are better businesses than Movado. It is harder to know how serious a competitive threat they are to Movado.

CONCLUSION

Movado is a Cheap Stock in a Great Industry

Movado is a decent company in a good industry. It is weaker than Swatch as a luxury watch company. And it is weaker than Fossil as a watch licensee. But, that does not mean it is a worse business than the average stock. In fact, Movado's return on capital is now above what most companies can expect. Its past growth had been above average. And it does not make any value destroying capital allocation decisions. The stock is very volatile. But, this does not mean it is risky. Swatch is also a volatile stock. The stock can be volatile because quarterly and even annual earnings are volatile in the sense that they are sensitive to changes in inventory at retailers. Movado is even more sensitive to this than Swatch. Movado gets just 10% of its sales from its own outlets. So, 90% of the business is selling watches to retailers. Those retailers can cut their inventory in bad times. And in good times, they can replenish their depleted inventories faster than customers buy the watches. This exaggerates the actual cycle of consumer spending changes. Traders who are trying to predict quarterly and annual EPS numbers may try to bet on these changes. But, they aren't very important to a long-term investor. Movado is a very safe stock. It has $200 million in net cash. And cash flows are not as volatile as reported earnings. Inventories of watches are also not risky in the same way that inventories of tech and fashion items are. There is very little risk of obsolescence. And Movado's major capital requirement is the inventory it holds. So, when you buy Movado stock you are buying a lot of cash, inventory, the economic goodwill of the Movado brand in the U.S., and the remaining years of the licenses Movado has. It is fairly easily to analyze the risks to each of these assets. The risk to cash and inventory is minimal. Movado has never done value destroying acquisitions. It's only made two acquisitions in over 30 years. They did operate money losing boutiques for years. And they may sometimes try to enter foreign markets with the Movado brand. But these are very small speculations for a company with $200 million in cash. So, misuse of that cash is not a big risk here. The CEO is the controlling shareholder. It's not in his interest to destroy shareholder value with any deals.

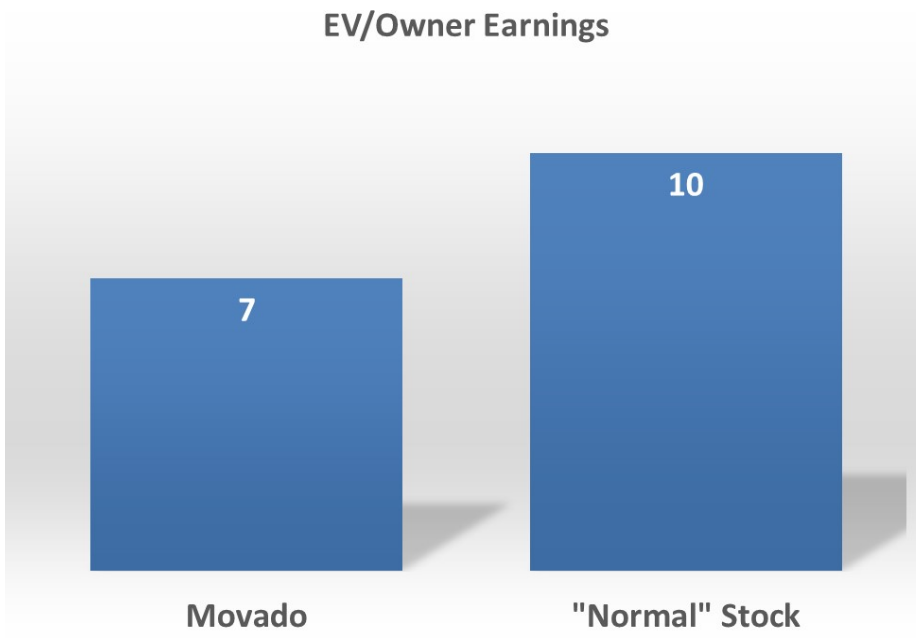
It's harder to evaluate the risks of losing licenses long-term. We know that in the next 5 years there is really only one meaningful brand that would need to be renewed. Hugo Boss is probably a meaningful contributor to Movado's profits. Ferrari probably isn't. Those are the only licenses that expire reasonably soon. And it may be that within 5 years, the Movado brand is able to grow again beyond the peak it reached before the financial crisis.

Movado's luxury brands – Concord and Ebel – declined in importance. They mattered to Movado in the past. As licensed brands grew from $30 million in 2001 to $274 million last year, the luxury brands shrank to about 5% of sales. If brands like Concord and Ebel could decline in importance, it is possible there could be some risk of that for the Movado brand as well. Movado's sales as a brand are lower today than they were in 2007. However, people in the U.S. aren't spending much more on watches now than they were then. And Movado closed 26 of its 27 boutiques and cut its advertising spending along with the decline in sales. We also know that Movado has increased its market share in recent years. It's also probably been slower to increase prices than watchmakers have been generally. So, it may not be the case that Movado's weak sales growth since the crisis is a company specific problem. It may just be that Movado's core customer – Americans spending between $500 and $1,500 on a watch – have not done as well from 2008-2015 as the customers (often rich Chinese watch buyers) of a company like Swatch. When comparing Movado to Fossil, there is no doubt Fossil has done better long-term. However, in the last few years, much of the difference between Fossil's results and

Movado's is simply the explosive growth of Michael Kors. And the growth of Michael Kors watches has not been faster than other Michael Kors branded products. The brand has simply grown incredibly fast. If you exclude Michael Kors, Fossil's licensed brands haven't grown much more than 4% a year recently. Fossil has advantages over Movado in licensed brands. But, sales growth at the average Fossil licensed brand probably hasn't been much different than sales growth at the average Movado licensed brand these last few years.

Movado is in a good industry. And it is a cheap stock. It's the cheapest among all peers. But, it's also about 30% cheaper than you'd expect an "average" quality stock to trade at. And the industry it operates in is a lot better than average. In an acquisition, it would be valued much higher than the current stock price. That might not matter because it is a controlled company.

Family control probably makes Movado a safer than average stock. Like I said before, the stock is quite volatile. I think if you look up the Beta of MOV shares you'll see something like 1.5. That would mean it moves a lot more than the market does. But, this means the price is volatile – not that it's a risky investment. Movado is in a good and predictable industry. It doesn't use any debt. It has excess cash. It is diversified between a stable of licensed brands and a company owned brand. It is diversified by country. In fact, by brand and country it is actually more diversified than some of its peers. Movado's geographic concentration in the U.S. is less worrying that Swatch's geographic concentration in China. And Movado's brand concentration on the Movado brand is certainly less worrying than Fossil's brand concentration on the Michael Kors license. Movado may have less upside than both Fossil and Swatch. As I said before, Quan prefers Swatch at today's price over Movado at today's price. Movado is the cheaper stock. But, he thinks Swatch is definitely the much better business.



Movado's EV/EBIT of 7 means it trades for a price about one-third less than a typical stock with a P/E of 15 and no debt

You could choose to diversify instead of investing in Movado alone. Movado, Swatch, and Fossil are all in a very good industry. And they are all reasonably priced. Any of the three might make a good investment. Perhaps a basket of all three would be the best decision. We have no plans to do an issue on Fossil right now. We are less certain of that stock's future – or at least less comfortable with it – than we are with Movado or Swatch. Swatch is the highest quality stock in the group. The one risk Swatch faces is its extreme dependence on China. That is worrying because it is tied to one country, one price range (quite high), and also somewhat exposed to actual corruption. As we explained in the Swatch issue, a small but meaningful portion of Swatch's sales in China are for watches that are eventually given as gifts to officials in the Communist Party. These are bribes. Swatch could easily survive having all of that business go away. Even if all corruption was eliminated in China, there would still be plenty of demand for high end watches. And it could grow over time with the purchasing power of households. So, Swatch has more upside than Movado. It's unclear if Fossil has more upside. I'm not sure they can get a lot of new licenses in the future. And usually licenses start out making very little money. So, normally, the more licenses you have in total the harder it should be to get a new license that is at all meaningful. But, Fossil had tremendous success with Michael Kors very quickly. I am not sure if Movado is the best stock among the choices of Swatch, Fossil, and Movado. And I'm not sure if it is better to buy just Movado or to buy all three stocks. But, I do think Movado is the safest of the three right now.

The upside for Movado is limited. It is unrealistic to think it can achieve the kind of growth in other countries that Swatch has.

The CEO of Fossil explained this well in 2014: "…especially in China, there's not a lot of places where we can just automatically go and sell. We have to build concessions, our own distribution, our own store, etc.…When we first go into a market, typically the brands that are in our portfolio are much more well known than Fossil. So Armani is an extremely powerful brand throughout Asia, particularly in China. So, it's a door opener. (It) enables us to get locations, and we add the other brands, and we bring our own brands along…Fossil and Skagen and we get the benefit of getting distribution in those locations.”

Movado does not have the kind of “door openers” that Fossil has in licensed brands or Swatch has in owned brands. It also does have its own stores in other countries the way those companies do. So, if you look at Movado compared to Fossil, Swatch, and Richemont – I think you have to expect it to be much harder for them to have good market share in other parts of the world. They are a geographically diversified company to the extent they have the licenses for brands that were already big in the rest of the world. But, it may be that the Movado brand will never be big anywhere else in the world. It may be a purely U.S. brand.

But limited growth prospects don’t justify such a low price for the stock. Movado trades at about 7 times pre-tax earnings. And – at least for the Movado brand – those aren’t really peak results. Normal earnings shouldn’t be any lower than last year’s earnings. So, you are talking about putting the equivalent on an EV/EBIT basis of a 10 times P/E with no debt. Most stocks today are more expensive than normal. Normally, a stock would trade for about 15 times earnings. Movado really trades for just two-thirds of that. So, it isn’t just a cheap stock compared to other stocks today. Nor is it just cheap compared to peers. It’s actually cheap compared to the price the average stock has traded for in the past. Movado is not a growth stock. But it is a value stock.

Movado (NYSE: MOV)

Appraisal: $37.94

Price/Appraisal: 71%

Movado Owner Earnings	(in millions)
Pre-tax Owner Earnings	
EBIT	$71.5
+Adjustment	$0.0
= Pre-tax Owner Earnings	$71.5

Business Value

Movado's business value is between **$715 million** and **$936 million**.

- As a standalone business: $715 million
    - Pre-tax owner earnings are $71.5 million
    - Fair multiple = 10x pre-tax owner earnings
    - $71.5 million * 10 = $715 million
- As an acquisition target: $936 million
    - Luxury revenue: $213 million
    - Licensed revenue: $294 million
    - Fair multiple:
        - 2.6x luxury revenue
        - 1.3x licensed revenue
    - ($213 million * 2.6) + ($294 million * 1.3) = $936 million

Fair Multiple

Movado's business is worth 10x pre-tax owner earnings as a standalone business

- This is an average organization
- Tax rate is about 30%

Movado brand is comparable to Swatch's average brands

- Swatch is trading at **2.62** EV/S

Movado's licensing business is comparable to Fossil

- Fossil is trading at **1.34** EV/S

Share Value

Movado stock is worth between **$37.94** and **$47.10** a share

- Business value is between $715 million and $936 million
- Net cash is $200 million
- Equity value is between **$915 million** and **$1,136 million**
    - $715 million + $200 million = $915 million
    - $936 million + $200 million = $1,136 million
- Equity Value is between **$36.34** and **$47.10** per share
    - 24.12 million shares
    - As a standalone business: $37.94
        - $915 million / 24.12 million = $37.94
    - As an acquisition target: $47.10
        - $1,136 million / 24.12 million = $47.10

Price to Appraisal

The more conservative approach is to appraise Movado at $37.94 a share

- $27.02 / $37.94 = ***71% Price/Appraisal***

	EV/Sales	EV/Gross Profit	EV/EBITDA	EV/EBIT	EV/Owner Earnings
Seiko	0.69	2.06	8.13	15.23	13.77
Citizen	0.92	2.40	7.54	12.08	10.34
Fossil	1.30	2.28	7.95	8.18	8.18
Inter Parfums	1.98	3.45	15.58	18.54	18.54
Swatch	2.40	NMF	9.91	11.93	10.24
Minimum	0.69	2.06	7.54	8.18	8.18
Maximum	2.40	3.45	15.58	18.54	18.54
Median	1.30	2.34	8.13	12.08	10.34
Mean	1.46	2.55	9.82	13.19	12.21
Standard Deviation	0.64	0.53	2.99	3.48	3.64
Variation	44%	21%	30%	26%	30%
Movado (Market Price)	0.77	1.45	5.37	6.30	6.30
Movado (Appraisal Value)	1.22	2.31	8.54	10.00	10.00

ABOUT THE TEAM

Geoff Gannon, Writer

Geoff is a writer, blogger, podcaster, and interviewer. He has written hundreds of articles for Seeking Alpha and GuruFocus. He hosted the Gannon On Investing Podcast, The Investor Questions Podcast, and The Investor Questions Podcast Interview Series. He wrote the Gannon On Investing newsletter in 2006 and two GuruFocus newsletters from 2010-2012. In 2013, he co-founded The Avid Hog (the predecessor to Singular Diligence) with Quan Hoang. Geoff has been blogging at Gannon On Investing since 2005.

Quan Hoang, Analyst

Quan is a stock analyst. Quan won first prize in Vietnam's National Olympiad in Informatics in 2006. He graduated from Manhattanville College in 2012 with a B.A. in finance and a minor in math. In 2013, Quan co-founded The Avid Hog (the predecessor to Singular Diligence) with Geoff Gannon.

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Tobias Carlisle is the founder and managing director of Eyquem Investment Management LLC, and serves as portfolio manager of the Eyquem Fund LP and the separately managed accounts.

He is best known as the author of the well regarded website Greenbackd, the book Deep Value: Why Activists Investors and Other Contrarians Battle for Control of Losing Corporations (2014, Wiley Finance), and Quantitative Value: a Practitioner's Guide to Automating Intelligent Investment and Eliminating Behavioral Errors (2012, Wiley Finance). He has extensive experience in investment management, business valuation, public company corporate governance, and corporate law.

Prior to founding Eyquem in 2010, Tobias was an analyst at an activist hedge fund, general counsel of a company listed on the Australian Stock Exchange, and a corporate advisory lawyer. As a lawyer specializing in mergers and acquisitions he has advised on transactions across a variety of industries in the United States, the United Kingdom, China, Australia, Singapore, Bermuda, Papua New Guinea, New Zealand, and Guam. He is a graduate of the University of Queensland in Australia with degrees in Law (2001) and Business Management (1999).

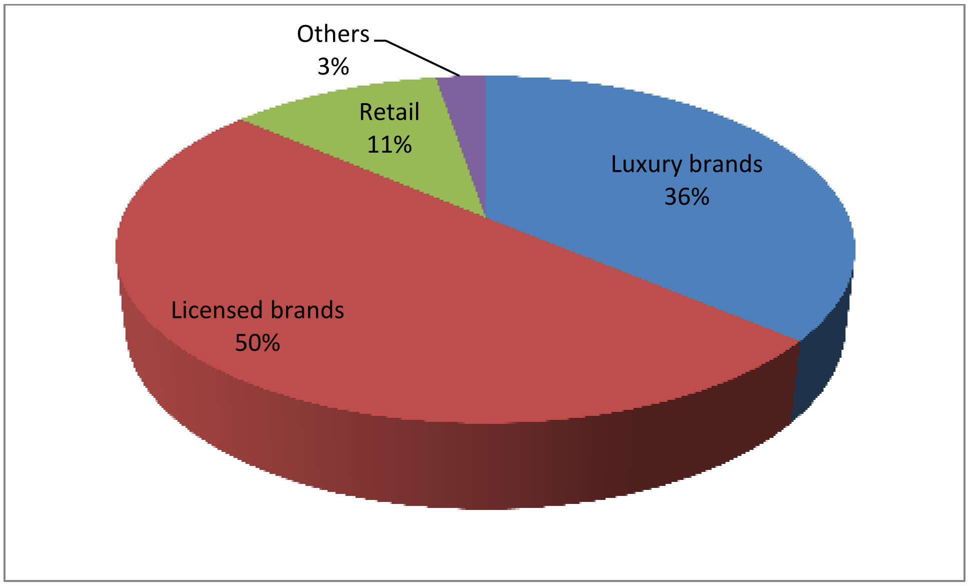
SINGULAR DILIGENCE

NOTES

Movado (NYSE:MOV)

Overview

Movado: A Watch Company with Two Different Businesses



Movado has both owned luxury brands and licensed brands

- History
  - Gedalio Grinberg
    - Was born in Quivican, Cuba
      - September 26, 1931
    - He sold the first clock at the age of 15
      - For $18
      - His father owned a jewelry shop
      - He was able to secure an alarm clock when a shoemaker asked for one
    - That led to a little alarm clock business
    - He later attended the University of Havana
      - Switched his business to specialize in watches
  - Gedalio Grinberg came to the U.S. in 1960
    - After Fidel Castro's takeover of Cuba
  - He got the opportunity to establish a Piaget distributorship in NYC
    - The Piaget Watch Company
    - In 1961
    - With two other refugees
    - Piaget is a luxury Swiss watch brand

        - Owned by Richemont Group
  - He became the exclusive distributor for Piaget and Corum
      - In North America
  - The company name was changed into the North American Watch company
  - He helped make Americans conscious of their watches as a status symbol[1]
      - Before him, most Americans regarded watches as a gift for high school graduation
  - Revenue exceeded $30 million
  - The company acquired Concord
      - A prestigious watch brand
      - In 1969
  - The company was the most successful Swiss watch distributor in the US
      - In early 1980s
  - The landmark move was made in 1983
      - Acquired Movado
  - Movado was a small Swiss watchmaker
      - Founded in 1881
      - By a young Swiss, Achille Ditesheim
      - In La Chaux-de-Fonds, Switzerland
      - By 1897, Movado become one of the largest watch manufacturer in Switzerland
          - Employed 80 watchmakers
          - Was noted for its technological sophistication
      - Achille Ditesheim gave his company the name Movado in 1905
          - Meaning "always in motion"
      - Movado was always an admired innovator in technology and design
          - In 1912: Its Polyplan watch pioneered a curved design
          - Movado's designs won top awards at the Paris, Brussels, and Liege world expositions
          - By 1920, Movado was making more than 700 different wristwatch models
          - In 1930s, Movado manufactured one of the first digital watches

        - In 1945, Movado debuted the world's first automatic winding wristwatch
            - Called Tempomatic
    - Movado made its signature Museum Dial watch in 1962
    - The Museum Dial was designed by Nathan George Horwitt
        - An American artist
        - In 1947
        - Features a black dial without numbers, symbols or lines to mark hours and minutes
            - Only a single gold dot at the twelve o'clock position
                - Evocative of a sun dial
        - It became part of the permanent collection of New York's Museum of Modern Art
            - In 1959
        - Today it's in about 16 museums around the world
    - Movado made Museum Dial watches without his authorization
        - Finally settled with Horwitt in 1975
            - Paid him $29,000
- Movado was losing money when the North American Watch acquired
    - The name North American Watch was eventually changed into Movado
        - In 1996
- After the acquisition, Movado started focusing on the Museum watches[2]
    - Expanded the line to include dozens of variants
    - In 1986, there were at least 24 different models of Movado Museum Watch
    - The name "Museum Watch" as used to exploit the fact that The Museum of Modern Art displayed the original Horwitt watch
    - Sponsors some of the country's most prestigious cultural institutions
        - (To build a premium image)
        - Lincoln Center
        - Jazz at Lincoln Center
        - John F. Kennedy Center for the Performing Arts
        - American Ballet Theatre
        - Miami City Ballet
        - Miami International Film Festival

        - Etc.
    - Movado became extremely popular in the U.S.
        - Was making $120 million revenue by 2000
            - Exceeded $200 million revenue in 2007
            - Brand awareness in the U.S. is second only to Rolex
- The company went public in 1993
    - Two classes of shares
        - Common Stock
        - Class A Common Stock
    - Each share of common stock is entitled to one vote per share
    - Each share of Class A common stock is entitled to 10 votes per share
    - Each share of Class A common stock can be converted into a share of common stock
        - Receive the same dividend
    - The Grinberg family control 67.2% of voting power
        - Owns about 24% of shares
- Movado started making licensed Coach watches[3]
    - Coach approached Movado
    - Courtship took about a year
    - Movado designed the new watches for a couple of year
    - Introduced Coach watches in 1999
        - Achieved $16 million revenue in the first year
- Movado later got other licenses
    - Tommy Hilfiger: 2001
    - Hugo Boss: 2005
    - Lacoste: 2006
    - Juicy Couture: 2006
    - Ferrari: 2012
- Today, Movado has 9 brands
    - Luxury: About **6%** of revenue
        - Concord: Over $10,000 per watch
        - Ebel: $1,000 - $10,000 per watch
            - Focused on $1,500 - $5,000 per watch
            - 80% of watches sold are to women
    - Accessible luxury: About **36%** of revenue
        - Movado: $300-$3,000 per watch
            - The sweet spot is $500-$1,500 per watch

            - Museum Dial represent over 90% of revenue
            - Men/Women: 50/50
    - Licensed brands: **48%** of revenue
        - Ferrari
            - \$300-\$400
        - Coach
            - \$150-\$400
            - Men/Women: 25/75
        - Hugo Boss
            - \$225-\$775
        - Lacoste
            - \$100-\$300
        - Tommy Hilfiger
            - \$100-\$300
            - Men/Women: 40/60
        - Juicy Couture
            - \$100-\$300
    - Retail: **10%** of revenue
        - 35 outlets
        - Sells discontinued models and factory seconds of all of the company's watches
    - Luxury and accessible luxury watches are made in Switzerland
    - Licensed watches are made in China
        - Movado pays a licensing fee to brand owners
- The management is conservative
    - Made only 2 acquisition in the last 35 years
        - Acquired Ebel in 2005
            - Ebel was basically a net-net acquisition
                - Acquired from LVMH
                - Movado paid \$47.3 million cash
                - Got
                    - \$50 million net asset
                        - The majority of net asset was inventories
                    - CHF 180 million Net Operating Losses (NOLs)
                        - Was able to use NOLs to reduce tax paid in Switzerland

                - Only CHF 10 million expired
            - Ebel was losing $15 million
                - On $50 million sales
            - Movado put Ebel into its supply chain
                - Cut costs
                - Turned into a profitable business in 2005
        - Acquired Movado in 1983
    - Movado currently has $200 million cash
    - The business grew steadily
        - Annual sales growth was 10% from FY 1993 to FY 2008
            - (before the Great Recession)
            - 1993: $134 million
            - 2008: $560 million
        - Annual sales growth was 7% from FY 1993 to FY 2015
            - 1993: $134 million
            - 2015: $587 million
    - At $30 per share, EV/EBIT is 7.32

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[1] "**Mr. Grinberg said his inspiration was a book by Vance Packard, "The Status Seekers"** (1959), which told how Americans strove to communicate special status amid the general abundance of postwar America. In an interview last year with WWD, Mr. Grinberg said **he wanted people to believe that a watch on a wrist could be as impressive as a Cadillac in a driveway**.

In 1988, Forbes said, "**Grinberg helped make Americans conscious of their watches and made the glint of gold on a male wrist a status symbol." The magazine said that before him, most Americans, unlike Europeans, regarded watches as a gift for high school graduation**. WatchTime, an industry magazine, said Mr. Grinberg had led "a revolution in watch marketing in America." – *G. Grinberg, Watch Baron, Dies at 77*, Douglas Martin, The New York Times, 06 January 2009

[2] "**After its great success earlier in the century, Movado was ailing. In fact the company was losing money at the time of the acquisition**. But it was a good match for North American Watch, forming the least expensive end of its four brands. **Movado watches were priced from around $200 to $2,500, while Concord watches ran from around $500 to $10,000. Piaget and Corum, the**

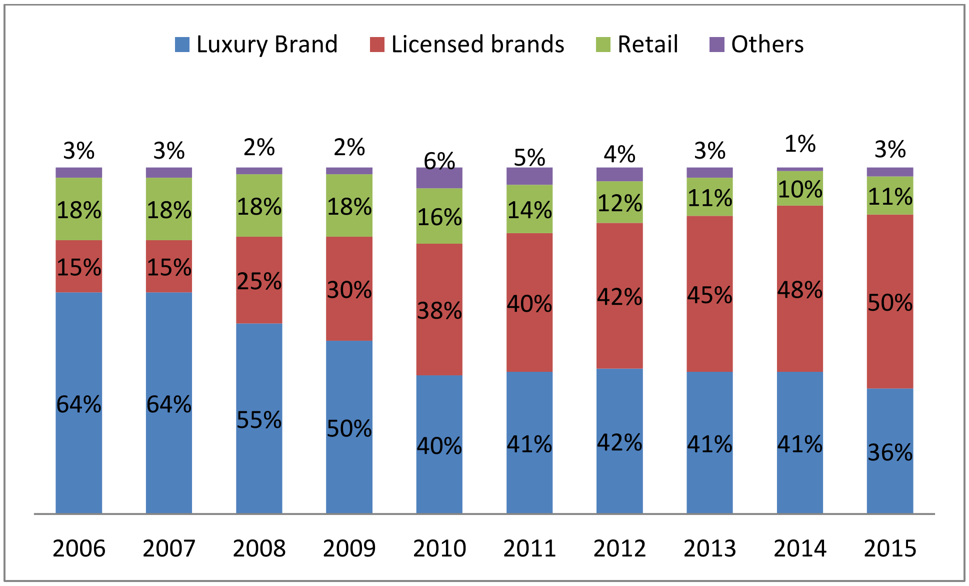
two brands North American distributed but did not own, were even more expensive.

North American Watch made the most of Movado. **The black Museum Watch was already well known, and the company expanded the line to include dozens of variants. There were at least 24 different watches being sold under the name Movado Museum Watch in 1986**, and some of these were a far cry from the gaunt simplicity of Horwitt's original design. One watch even had numbers on the dial, and it was ringed with diamonds. **The name "Museum Watch" had a certain cachet that the company's advertising exploited as well as it could**. The Museum of Modern Art, which displayed the original Horwitt watch, even put up a disclaimer in 1984, noting that "**the Movado watch is not a Museum of Art watch, nor is there any connection between the Museum of Modern Art and the Movado Watch Corporation." Sol Flick, a lawyer for North American Watch countered that the "museum" in "Museum Watch" might refer to any museum. "It could be the Museum of Natural History**," he said in a November 1986 *Consumer Reports* article." – *History of Movado*, http://www.fundinguniverse.com/company-histories/movado-group-inc-history/

[3] "Perhaps the most exciting aspect to Movado - at least in the sense that it shows what the company can do in terms of adding to its already substantial sales presence - was the introduction last year of the Coach line." **They approached us," recalls Grinberg. "Courtship took about a year, followed by a couple of years when we designed the new watches**. But it's now probably the most successful introduction of a new watch brand that I can recall. **We went from zero to $16 million sales in year one, and we expect to grow the brand at least a further 50% this year. Within five years, it will be a $100 million brand.**" – A Timely Story, Jay Palmer, Barron's, 02 August 1999

Durability

Movado Has a Portfolio of Durable Brands



Licensed brands become more important overtime

- Movado brand
  - The brand is focused on one design in one country
    - 75% of sales are from the U.S.
      - Used to have 80% of sales from the U.S.[1]
      - Movado has little business in Europe
        - Most of revenue in Europe is from licensed brands[2]
      - Movado brand makes only $10-20 million revenue in China
      - The most important market outside the US is Caribbean
        - Duty-free
        - Perhaps mostly sell to US customers
      - US customers may account over **80%** of revenue
    - The Museum Dial represents **over 90%** of revenue[3]
  - The Museum Dial has staying power
    - Was designed by Nathan George Horwitt
      - In 1947
    - Features a black dial without numbers, symbols or lines to mark hours and minutes
      - Only a single gold dot at the twelve o'clock position
        - Evocative of a sun dial

        - It’s part of the permanent collection of New York’s Museum of Modern Art
            - In 1959
        - Today it’s in about 16 museums around the world
        - After the North American Watch company acquired Movado
            - In 1983
            - Movado focused on the Museum watches
        - It became very popular
        - Revenue didn’t decline except for the crisis
            - Revenue was about $120 million in 1998
                - Revenue from Concord, Movado and ESQ was $194 million in 1998
                - Movado’s CEO said in an interview that Concord was about 20% of total revenue in 1998
                    - About $47 million
                - ESQ revenue was $29 million in 1997
                    - Grew double digit in 1998
            - Grew in mid-to-high single digit until 2007
                - Over $200 million revenue
            - Revenue declined to about $100 million in FY 2010
                - Due to the financial crisis
                    - Had the most impact on Movado’s customers
                        - $500-$1,500 price range
                - Sales at retailers didn’t decline as much
                - Retailers tightened inventories
            - Revenue is about $200 million today
        - The Museum Dial watch will be relevant 20 years from now
    - Brand management is important
        - Perception of the brand
            - Clean, simple and modern design
            - $500-$1,500 price
                - Average $1,000
        - The biggest risk was ESQ Movado
            - ESQ is an entry-level Swiss watch brand
                - Price between $150 - $500
            - When the Great Recession came
                - The brand was changed into ESQ by Movado

      - And then later to ESQ Movado
    - ESQ Movado may cheapen the Movado brand
      - But ESQ Movado was took out[4]
        - To give retail space to Movado brand
  - Movado Bold is another risk
    - Introduced Movado Bold in late 2009
      - Initially the price was from $295
    - Currently the price is from $395
      - Bold Bangle: $395
      - Bold Ceramic: $795
      - Bold with diamonds: $1,395 - $1,495
    - Movado Bold is an entry into the fashion segment[5]
      - Brings younger consumers into the brand
      - Utilizes unconventional materials and colors[6]
      - Create a dynamic fresh presentation of the iconic Museum Dial[7]
    - Movado Bold may cheapen the brand
      - Cheap watches or cheap materials cheapen the brand
        - Omega went into trouble when they wanted to increase volume in 1970s and 1980s
      - Cheap interpretation of Museum Dial can make the brand no longer clean and simple

- Licensed brands
  - Coach
    - A New York-based luxury handbag and leather goods brand
      - "Represents a blend of classic American style with a distinctive New York spirit" – Coach's 2013 10-K
    - Founded in 1941
    - $300-$1,000 handbag
    - Revenue is almost $4.8 billion
    - Main markets are
      - US
        - North America represents 65% of revenue
      - Japan: 14% of revenue
      - Growing fast in China
  - Hugo Boss

        - A German luxury fashion brand
        - Founded in 1924
        - Sells $600-$1,000 suits
        - Revenue: EUR 2,572 million
        - Hugo Boss is a global brand
            - 7,600 points of sales worldwide
                - In 130 countries
            - Over 1,041 owned retail stores
                - 57% of total revenue
            - Europe: 61% of revenue
            - Americas: 23% of revenue
            - Asia/Pacific: 14% of revenue
            - Licenses: 2% of revenue
    - Lacoste
        - A French affordable luxury apparel brand
            - Sale price of Lacoste polo is between $60 and $80 at Macy's
        - Founded in 1933
        - Recognized by its green crocodile logo
        - A global brand
            - US: 22%
            - France: 10%
            - Rest of Europe and the Middle East: 38%
            - Asia: 21%
            - Latin America: 11%
        - Revenue is over $2 billion in wholesale
            - Over $5 billion in retail
    - Tommy Hilfiger
        - A US premium lifestyle brand
            - Sale price of Tommy polo is between $30 and $50 at Macy's
        - Founded in 1985
        - A global brand
        - 2013 revenue is $3,433 million
            - North America: 45% of revenue
            - Europe: 43% of revenue

        - Others: 12% of revenue
- Ferrari
    - An Italian supercar brand
    - Founded in 1947
    - Is ranked the most powerful luxury brand by Brand Finance
    - Ferrari is trying to become a luxury lifestyle brand
        - Like Hermes and Prada
        - Include a complete range of products
            - Fragrance
            - Clothing
            - Eyewear
            - Watches
            - Etc.
    - They have theme parks in
        - Dubai
        - Barcelona
    - They have over 30 flagship stores
        - In 14 countries
    - Target customers
        - Ferrari fans
        - The aficionados of the Ferrari lifestyle
        - Men looking for exclusive luxury products
- Juicy Couture
    - Founded in 1997
    - Famous for its tracksuits
        - Sells at about $200
        - Wore by celebrities in late 1990s and early 2000s
            - Madonna
            - Britney Spears
            - Jennifer Lopez
            - Paris Hilton
    - But it's been on the wane since the velour tracksuits went out of fashion
    - Used to be sold at high-end stores
        - Saks Fifth Avenue
        - Nordstrom
        - Neiman Marcus

        - Juicy Couture will be available only at Kohl's
            - Working to develop a contemporary-priced line
            - New owner Authentic Brands Group believes it can reach $2.5 billion revenue
        - Movado perhaps isn't making much revenue from Juicy Couture
    - Licensing brands have staying power
        - They went into crisis sometimes but always came back strongly
        - Example:
        - Tommy Hilfiger
            - Was founded in 1985
            - By mid-1990s, Tommy's oversize jeans and puffer jackets became the teen uniform[8]
            - They became greedy
                - Start selling $20 T-Shirt
                - Tommy became a mainstay of down-market department stores
                    - Belk
                    - Kohl's
                    - Dillard's
            - Revenue in the US declined
                - FY 2000 (ended in March 31): $1,855 million
                - FY 2005: $1,068 million
            - Was sold to Apax Partners
                - For $1.54 billion
                - In 2005
                - Some other bidders planned to sell Tommy products at Wal-Mart
            - Apax revived Tommy as a premium brand
                - Making better products
                - Giving much less discount
                - Having Macy's as the only partner
                    - 800 stores
                    - Represented 60% of Tommy's wholesale business
                - Stopped making oversize jeans and tees
                - Started making structure and slim-fit sweaters
            - Apax later sold Tommy to PVH for a big profit

        - For $3 billion
        - In 2010
      - Today Tommy is PVH's biggest brand
        - 2013 revenue is $3,433 million
          - North America: $1.5 billion
          - Europe: $1.5 billion
          - Others: $0.44 billion
        - More than 1,400 Tommy Hilfiger stores worldwide
        - Distribution in over 90 countries
    - Lacoste
      - Its polo was design by Rene Lacoste
        - He was a former number 1 tennis player
        - His nickname was "the Alligator"
      - He partnered with Andre Gillier
        - In 1933
        - President of one of the largest French knitwear manufacturing companies of the time
      - They first produced the breathable knit tennis shirts
        - With the crocodile logo displayed on the chest
      - They began exporting to the US in early 1950s
        - Positioning as a luxury sport must-have
      - By 1970s, the polo shirts became a nearly ubiquitous component of the preppy dress code
      - By 1900s it had become something of a preppy joke
        - It was available at mass U.S. retailers
          - JC Penney
          - Wal-Mart
      - In 2002, Lacoste hired Robert Siegel as CEO
      - Siegel rebuilt its luxury status
        - Raised prices
        - Trimmed distribution
          - Took the shirts from non-luxury retailers
            - T.J. Maxx
            - A number of Macy's
          - Narrowing distribution to high-end shops
            - Barneys
            - Neiman Marcus

                - Nordstrom
            - Added new designs
                - Avoids overexposing one product
            - Sponsor tennis stars
                - Andy Roddick
                - Richard Gasquet
                - Stanislas Wawrinka
                - Etc.
        - Undertook an aggressive strategy of product expansion
            - Ladies apparel
            - Shoes
            - Fragrances
            - Leather bags
        - Today, Lacoste's revenue is over $2 billion in wholesale
            - Over $5 billion in retail
- Changes in ownership didn't have any impact on the license
    - Example:
    - Tommy
        - Ownership changed twice
            - 2005: Apax
            - 2010: PVH
        - Movado remains Tommy's watch licensee
    - Lacoste
        - Swiss group Maus Frères took 100% control of Lacoste
            - In 2012
        - Movado recently renewed the license with Lacoste
            - Through December 31, 2022
- A portfolio of brands smooth out performance of the license business
- Movado isn't over-dependent on a brand
    - 2014 Revenue from licensed brands is about $274 million
        - Coach is about $100 million
        - 5 other brands account for $194 million
            - $39 million each
        - Ferrari has just launched in 2014
        - Juicy Couture is perhaps very small
        - Guestimate:

            - Revenue from Tommy, Lacoste, Hugo Boss is close to $50 million each

- Smart watches won't have a big impact
  - Movado brand
    - Apple watches are in Movado's price range
      - From $349 to $17,000
    - Apple watches are too expensive for either
      - A gadget, or
        - More expensive than an iPhone
      - A fashion item
        - People don't want to pay a lot for something that doesn't last
    - It's not a luxury item
      - It's a mass product
        - No scarcity
  - Licensed brands
    - Fashion watch consumers tend to buy 2 to 5 watches a year[9]
      - They have a collection of watches
      - They rotate based on their outfit
    - Brand and design are perhaps more important
      - Tend to sell to consumers of the brand's main products
    - Smart watches have been in the market for a while
      - Didn't seem to have a big impact
      - Attract people who love having more functions
    - It can be a risk if smart watch makers offer a wide variety of designs
      - Consumer electronics companies tend to have a one-size-fit-all design
    - An analyst estimates that the smart watch market can cannibalize from 2% to 12% of Fossil's annual watch sales[10]
    - Licensed brand watches may need smart functions in the long run
      - Movado is currently working on some projects related to smart watches

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[1] "**Our accessible luxury segment comprised of Movado and ESQ was impacted the most by the slowdown in the domestic economy as this**

category generates approximately 80% of its sales from the U.S." – Efraim Grinberg, Movado's CEO, 2009 Q1 Earnings Call Transcript

[2] "**Most of our Business in Europe, the largest part of our Business is licensed brand**, and I think as Rick alluded to, the performance in Southern Europe was more challenging, the performance in Northern Europe was stronger, and it's basically continuing to execute against our strategy which is trying to offer great product to gain product innovation and continue to focus on offering value to the consumer as well." – Efraim Grinberg, Movado's CEO, 2013 Q1 Earnings Call Transcript

[3] "Movado is truly an icon of modernism. The heritage, it has been around since 1881. **The Museum Dial was created in late 1940s, it has been very strong. It still represents more than 90% of our sales of the Movado brand. And again, it's all about its functional purity and simplicity, great design, association with arts and modernism**. That is what the brand is about, and obviously we hold true to that. We do that by having strong associations and ambassadors associated with our product, people like Kerry Washington, Wynton Marsalis, Baryshnikov, etc. Again, our advertising, we get strong spokespeople. That reinforces what the brand stands for, but they are not greater than the brand. It is all about the product, that's very important in our advertising.

Example of another bit of our advertising whereas last year the focus was all about 60 years of modern design. And again, **60 years ago is when the Museum Dial was created and today it represents over 90% of our sales, realizing that that Dial has been around for 60 years.**" – Rick Cote, Movado's COO at Cowen 2008 Conference

[4] "Well first of all, the ESQ doesn't have a build-out. **ESQ, what we did is we took the opportunity of taking ESQ out of the market and scaling it back quite a bit with some major accounts and switching that to Movado**. So that has taken place.

So ESQ in our plans is, again, relatively a minor part of the overall business. Going forward will be a minor part of the business. It really was about taking and allowing us to take Movado to another level both from retail space and performance.

We have received the retail space. And obviously, if we're performing in the US at a 10% growth and the market is at 1% and we're growing share, we're doing extremely well. And we're very pleased with our plans." – Rick Cote, Movado's COO, Movado Discusses FY 2015 Outlook Transcript

[5] "**We really view this as an entry into the fashion segment for Movado and bringing in a new younger consumer into the brand and an introduction into the brand, or also Movado consumers and owners today buying their second or third Movado, as well.**" – Efraim Grinberg, Movado's CEO, said in 2010 when Movado discussed the Multi-Year strategic plan

[6] "Movado Bold is a new product introduction that presents the distinctive iconic Museum Dial in a new perspective. **The collection utilizes unconventional materials and colors in this groundbreaking design. It creates a reason for current non-Movado buyers, and younger consumers, to experience this dramatic new collection, accessibly priced starting at $295**. We have quantitative testing that confirms Movado Bold is attracting a new consumer, helping to expand the current consumer base. **Movado Bold creates a dynamic fresh presentation of the iconic Museum Dial**, as seen in this advertising shot. It positions the Movado brand as continuing to be relevant and innovative.

The new Movado Bold collection has demonstrated the ability to attract a new, first-time purchaser to the Movado brand, as seen in recently conducted research. In fact, one-third of research participants listed Bold as their first Movado watch. **This consumer is younger, well educated, and falls into a high income demographic, and creates a tremendous new opportunity for the Movado business' growth initiatives.**" – Rick Cote, Movado's COO, said in 2010 when Movado discussed the Multi-Year strategic plan

[7] "JENNIFER MILAN: Hi. Yes, can you talk about who -- which brands you see Movado Bold competing with? And then also whether you have any new major collection launches planned to appeal to that younger, more-fashionable consumer within Movado?

EFRAIM GRINBERG: Well, Movado Bold is a family that we expect to continue, and we're developing new product within that segment, and the beauty of -- **it really is an interpretation of the Museum Dial, and the Museum Dial appeals to a certain segment of customers and really doesn't have much competition within -- from a design point of view**. So although we're going to be competing in the $300, right now, to $500 price range but **we also expect to have introductions in the $500 to $1,000 range from Movado Bold**. It really is about innovative design and not about sharp price points. **The purpose is to**

make it a fairly easy purchase for somebody since it is a more fashionable product, but not about buying an inexpensive watch." - Movado discussed the Multi-Year strategic plan in 2010

[8] "By the mid-1990s Tommy Hilfiger's oversize jeans and puffer jackets became the teen uniform of the era. "**All the preppies, all the cool kids, the surfers, the skateboarders–everyone was wearing it**," he says today, perched on a leather couch in his company's Fifth Avenue flagship store. A 16-year-old Beyoncé and her group, Destiny's Child, wore his denim overalls over logo bikini tops to a 1998 photo call. The designer dressed the 17-year-old breakout star of the day, Britney Spears, for her "Baby One More Time" tour in 1999.

But by 2000, when revenues reached the $2 billion mark, Hilfiger had gotten greedy. What started as a preppy menswear label making colorful button-downs was now selling $20 T-shirts, accessories, perfume, sunglasses, bags, homewares. His nautical flag logo was a mainstay of down-market department stores. The company's wholesale business–the sale of red, white and blue ephemera to Belk, Kohl's, Dillard's and anywhere that would take it–swelled to $1.5 billion in 2000." – *Turnaround Tommy: How Hilfiger's Once-Dead Brand Had Its Biggest Year Ever*, Clare O'Connor, Forbes Magazine, 29 December 2014

[9] "So if you think from a consumer point of view and then how the watch market segments -- I think it's three segments. **The first is the -- let's call it the status seeker. The watch aficionado. So Swiss made, high price point** -- let's say $800,000. You can -- all the brands that play in that space including us. There may be some early adopters, **I don't think you are going to get many techs switching from [varied] brands to a tech-branded smart watch**. That's the first segment.

The second segment, let's call it the fashionable or the fashionista. That is a predominantly female segment. Think Michael Kors, Tory Burch consumer. They buy 2 to 5 watches year, they have a large collection of watches, they rotate based on their outfit and whether they're going to work, whether they're going to a club or whether they're going to dinner.

That status and style that they look for in those product lines -- again, that's a pretty big leap from taking a tech-branded product and replacing the behavior in a way that they engage with the category today.

On the flipside -- right, and that's our core segment today, that gives us tremendous opportunity as we look at ways that we can take technology and I would say it's a much broader strategy. It's more wearable technology than it is Smart watches, but taking technology, figuring out how to infuse it into our business model in a way to reach those consumers -- serve those consumers with brands they love, products they love, but with technology and some function comes with that.

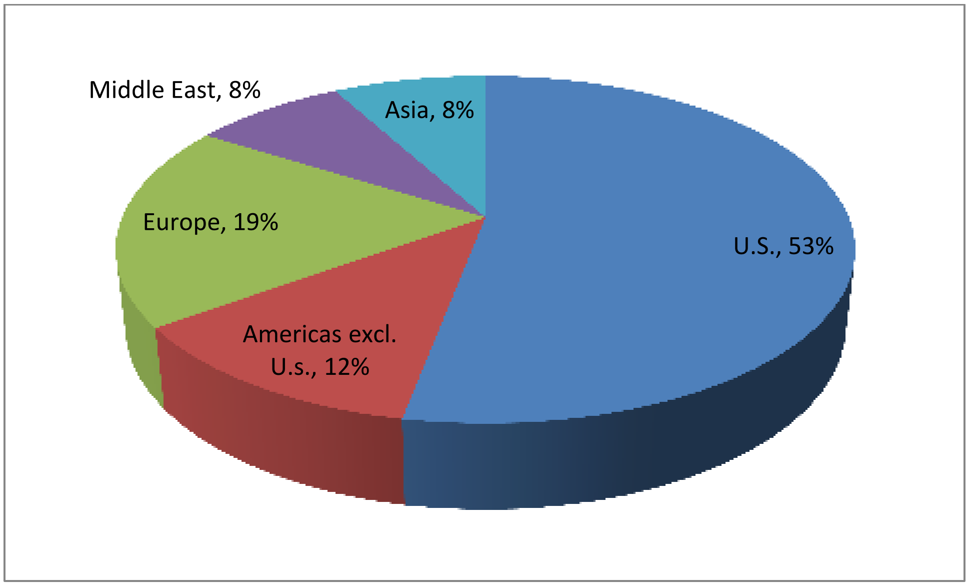
Third segment is just consumers that either dabble in the cate -- are in the watch category, but it's more functional driven today or consumers that just aren't even in the watch category. Huge number of consumers that aren't in the first two segments that we believe if we can bring a more functional tech-enabled product to market, would still fit the status and the style desires of some of those customers but that -- we have the opportunity to bring new consumers into the category.

So that's how we think about it. So as we see it developing, there will be some early adopters but we see our ability to bring, apply technology to our brands and our products as that's a huge upside for us over time." – Greg McKelvey, Fossil's Chief Strategy & Marketing Officer, said at Piper Jaffray 2014 Consumer Conference

[10] "Any degree of success among smart watch makers would be a blow to Fossil. Ike **Boruchow, an analyst at Sterne Agee & Leach, estimates that the smart watch market could cannibalize anywhere from 2 percent to 12 percent of Fossil's annual watch sales.**" – *Keep Watch on Fossil's Michasel Kors Addiction*, John Jannarone, CNBC, 24 July 2014

Moat

Movado Is Strongest in the U.S.



The U.S. accounts for 53% of Movado's revenue

- Movado brand
    - Dominates the US market
        - 30-40% market share in watches between $500 and $1,500
            - 30% market share in 2012[1]
            - Movado grew faster than market in 2013 and 2014
                - Movado grew 17% at retail in 2013
                    - And 18% in 2014
                - The US market grew only 1-2%
                - Movado gain 2% market share in 2014 alone[2]
        - #2 market share in watches between $1,500 and $3,000
    - Brand awareness is second only to Rolex[3]
        - 33% of US consumers citing Movado as one of their favorite watch brands
        - 50% citing Movado as a watch brand they would consider purchasing
    - Has been associated with arts and culture for years
        - Sponsors some of the country's most prestigious cultural institutions
            - Lincoln Center

            - Jazz at Lincoln Center
            - John F. Kennedy Center for the Performing Arts
            - American Ballet Theatre
            - Miami City Ballet
            - Miami International Film Festival
            - Etc.
        - Brand ambassadors include
            - Kerry Washington
                - Actor
            - Lilly Collins
                - Actor
            - Wynton Marsalis
                - A true visionary in the world of jazz music
            - Baryshnikov
                - The world-renowned dancer
            - Derek Jeter
                - Basketball superstar
        - Spend 15-18% of revenue in advertising
        - The Movado image is
            - Clean
            - Elegant
            - Artistic
            - The consumer can feel part of that artistic lifestyle with the brand
        - Targets intellectually oriented consumers
            - Appreciates the beauty and design of the Movado brand
    - Unique design is an advantage
        - People can easily recognize Movado by looking at the dial
            - It’s not as easy to recognize Rolex or other brands
        - The brand has a positive image
    - Movado doesn’t have that advantage in other markets
        - Low brand awareness
        - People may love the design
            - but the positive image isn’t as established as in the US
        - In Vietnam, people see Movado as one of the Swiss watch brands

        - With the unique design
    - Movado doesn't have good distribution outside the U.S.
        - Watches are mostly sold at mom-and-pop jewelry and watch stores in Europe
        - Movado entered China in around 2003
        - Movado had a two-prong approach[4]
            - US
            - China
        - But today has only about 150-175 points of sales in China
            - 1/3 are shop-in-shop
            - Revenue is about $10-15 million
        - Swatch and Richemont have great distribution power outside the US
            - Especially in China
    - Asian customers prefer mechanical watches
  - Movado has to compete against Swiss watch brands in the US
    - Tissot: $300-$500 price range
        - Tissot doesn't advertise
        - Relies on words of mouth
            - May not be a big threat to Movado
    - Hamilton: $500-$1,500 price range
        - Focuses on mechanical watches
        - Has a lot of association with Hollywood movies
        - Doesn't has the status as Movado
    - Longines/TAG Heuer: $1,000-$3,000 price range
        - These are global brands
        - Longines spends over $100 million in advertising annually
            - Sponsor "global" events like French Open (tennis)
        - Movado spends $30-40 million in advertising annually
            - But focus mostly on the US market
- Licensed brands
  - Depend on brand awareness of the licensing brands
    - Only go to markets where the licensing brands are strong[5]
  - Having many licensed brands leads to synergies in
    - Back office
    - Supply chain
        - Sourcing

            - Share the same distribution company in a country/region
        - Local advertising
    - License brands have separate distribution[6]
        - Licensed watch brands follow the licensing brands
            - Example:
                - Coach focuses on
                    - US
                    - Japan
                    - Japanese travel destination
        - There's synergy when brands are strong in the same place
            - Europe is an example
            - Sells to mom & pop jewelry and watch stores
            - Lacoste, Hugo Boss, Tommy, and Ferrari are strong in Europe
    - Movado is at a disadvantage against Fossil
        - Fossil's licensed brands are
            - Adidas
            - Armani
                - Emporio Armani
                - Armani Exchange
            - Burberry
            - Diesel
            - DKNY
            - Karl Lagerfeld
            - Marc by Marc Jacobs
            - Tory Burch
            - Kate Spade
        - Fossil has the best platform for licensed brands
            - 30,000 doors
            - 90 countries
            - 300 employees in design department
        - They can open multi-brand concession stores in Asia
            - Currently, China is insignificant for Fossil
                - Less than 1% of total revenue
            - But Fossil can distribute better than Movado
        - Success with Michael Kors makes Fossil the partner of choice

                - $923 million revenue from Michael Kors watch and jewelry
                    - In 2014
                    - Mostly from Michael Kors watches
                - Some hot brands recently gave licenses to Fossil
                    - Karl Lagerfeld
                        - In 2011
                    - Tory Burch
                        - In 2013
                    - Kate Spade
                        - In 2015
            - Fossil has higher revenue per brand
                - Total licensed revenue was $1,727 million in 2014
                - Michael Kors: $923 million
                - Armani: Over $300 million
                    - For both Emporio Armani and Armani Exchange
                - Other brands: $504 million
                    - Karl Lagerfeld and Tory Burch are newly launched
                        - Insignificant
                    - So, 5 other brands averaged almost $100 million revenue
        - Fossil is focused on growing existing brands[7]
            - Getting new brands doesn't move the needle
            - It's hard to manage a lot of small brands
            - Fossil only gets brands with great potential
        - Movado is perhaps the second biggest player in the licensing business
            - Fossil's licensing business is 7 times larger than the nearest competitor[8]
            - Fossil's licensed revenue was $1,877 million in 2014
            - Movado's licensed watch revenue was about $274 million in 2014
        - Other competitors are
            - Swatch
                - Has Calvin Klein license
                - Isn't interested in getting new licenses
                    - Focused on luxury Swiss watches
            - Richemont
                - Has Polo Ralph Lauren license
                - Isn't interested in getting new licenses

        - Focuses on luxury Swiss watches
    - Timex
      - Its subsidiary Callanen International makes have license contracts with
        - Salvatore Ferragamo
        - Guess?
        - Versace
        - Versus
        - Nautica
    - Seiko
      - Keneth Cole
      - Ted Baker
      - Asics
    - Other companies are tiny
- It's unclear about customer behavior
    - Licensing revenue isn't significant
      - Movado wants brands that can make $40-50 million revenue
        - Results in only $4-10 million licensing revenue
    - Perhaps maximizing revenue isn't the primary goal
      - Other concerns can be keeping the product consistent with the brand
    - Most brands already have license contracts for watches[9]
      - Movado doesn't actively look for new licenses
        - Hugo Boss and Lacoste switched to Movado from other licensees
          - Wanted to upgrade the relationship from a manufacturer to a brand builder
    - There can be risk that Movado's licensors switch to Fossil
      - Example:
      - Guess watch was the largest licensing business in 2005[10]
        - About $150 million annually[11]
      - Guess had had over 20 years of relationship with Callanen International
        - A subsidiary of Callanen
      - Guess and Fossil discussed about a new contract

            - Utilize Fossil's network to further expand sales of Guess watches
        - Callanen sued Fossil
            - The contract would violate the Federal antitrust laws
                - Fossil already had 40% market share
        - Callanen eventually renewed the contract with Guess
        - Fossil today has 50% market share in the US for watches between $100 and $1,000
            - Some sources say Fossil has 80% of the US fashion watches market
- Movado never lost a contract
    - Recently renewed with Lacoste and Coach
    - Expiration dates are
        - Juicy Couture:
            - December 31, **2016**
            - Juicy Couture is currently not an important brand for Movado
        - Ferrari:
            - December 31, **2017**
            - Ferrari is a fickle licensor
            - They're trying to build a luxury lifestyle brand
            - Ferrari watches are made in Switzerland
            - Ferrari's high-end watches are made by Hublot
            - Ferrari's low-end watches average $300-400[12]
            - Ferrari changed licensees of low-end watches several times
                - Girard-Perregaux
                - Panerai
                - Cabestan
            - These companies are tiny manufacturer of luxury Swiss watches
            - Movado is the better choice for low-end Swiss watch
            - There's risk that Ferrari may switch again after 2017
        - Hugo Boss:
            - December 31, **2018**
        - Lacoste:
            - December 31, **2022**

- Coach
  - June 30, **2020**
- Tommy Hilfiger
  - December 31, **2019**
  - May be extended by Movado
    - December 31, **2024**

- Movado tends to get more licenses overtime

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[1] "**So Movado has a very important market share in the US in the $500 to $1500 segment, the number one market share, about 30%. We have the number two market share in the $1500 to $3000 market share**. So we believe -- market segment -- so we believe we have growth opportunities, for example, in that segment within our existing assortment. So we will develop product geared toward that, as well. And that -- we do that across each of our brands." – Efraim Grinberg, Movado's CEO, said at Telsey Advisory Conference in 2012

[2] "**Multiple sources indicate that the global watch market grew about 2% to 3% in the year 2014. The U.S., one of the world's largest watch markets, is growing at 3%**. This is our home market, representing approximately 50% of our global sales. **Movado, our flagship brand, continues to strengthen its leadership position in this market, growing sell-through by 18% in the holiday season and gaining two full market share points in our price segment of $300 to $3,000 for the full year**. We're extremely pleased with the strength of Movado in the US, which is driven by the strength of our core assortment as well as our Movado Bold collection." – Ricardo Quintero, Movado's President, 2015 Q4 Earnings Call Transcript

[3] "**In quantitative and qualitative consumer studies, Movado consistently receives number two placement in awareness and ownership, second only to Rolex.**

The brand's strong market position in the $1,500 to $2,000 segment, along with its leadership in the fine watch $500 to $1,500 category, are some of the key reasons why Movado is our flagship brand. It positions us as an important vendor to our retail partners, who look to Movado to drive consumer traffic. In fact, **Movado Group's portfolio of brands generally represent the largest portion of our retail partners' fine watch sales.**

The Movado Brand has tremendous opportunity for continued growth. **Current consumer research has illustrated Movado's brand strength, with 33% of US consumers citing Movado as one of their favorite watch brands, and 50% citing Movado as a watch brand they would consider purchasing.**" – Rick Cote, Movado's COO, said when Movado discussed the multi-year strategic plan in 2010

[4] "At the very high-end I think they're doing well because of the wealth that exists in China particularly. At the low end, it's getting in there and it's having a business. But when you are done, it's easier for people to go buy goods and it's much cheaper to go buy goods in Hong Kong. So if they're traveling, it's important to have the presence but a lot of the purchasing power will take place outside of China because of all of the duties and taxes going into China. But for us and I think for a lot of our competitors, it's important to position yourself really for the future. **And that's (inaudible) Movado it's a two-prong approach, the U.S. market for the Movado brand and the China market because we want to position ourselves first 10, 15 years down the road and we think the Chinese consumer will very much mimic the U.S. consumer.**" – Rick Cote, Movado's COO, said at Cowen 2008 Conference

[5] "Our philosophy is very consistent. I've talked about this every [time] I've presented here. We're very selective in who we will partner with. We want to have very powerful brands with a global presence. We want to make sure they have staying power. Again, when we go back to our core competencies of being about brand building, we really want to partner with people who are focused about enhancing their brand and being able to have watches represent what they stand for and really enhance their brand image.

We clearly focus as we do with the rest of our business on the long-term nature, so our relationship with our partners is about the long-term nature, therefore the timing of it, the association with that. **Each one of our contracts is a long-term and we want to make sure that they are complementary to what we do, both from a competency standpoint but also from a global standpoint, that they can enhance our infrastructure and that we're able to leverage some of our infrastructure as a result of bringing those brands aboard**.

Obviously, we focus on producing and distributing watches on behalf of the licensors. **We will only go into markets where the brand is strong**. So for instance Coach, they're very dominant, very strong in the U.S. and the Japanese marketplace**.** Obviously, we will sell there. **We will not launch watches in a new market where the mother brand is not based. So we're not the leader, we're the follower of the mother brand in each of the marketplaces.**" – Rick Cote, Movado's COO, said at Cowen 2008 Conference

[6] "The increase in the number of watches produced has been made possible because of a decrease in the average price of Hugo Boss watches. **This price cut is due to decisive strategic policies as well as, undoubtedly, to certain synergies within the MGI Group.**

The group has two quite distinct 'legs'—the Swiss brands (Movado, Ebel, and Concord) and the licensed brands (in the order of their acquisition: Coach, Tommy Hillfiger, Hugo Boss, Juicy Couture (a very 'girlie' Californian brand) and recently Lacoste). **With these latter brands, Boss shares the *back office* (financial matters) and the *supply chain* (management of supplies), which is handled from Hong Kong. Distribution, however, is totally independent.**" – *The Successful Re-positioning of Hugo Boss, Pierre Maillard*, Europa Star WorldWatchWeb, 16 January 2008

[7] "**The size of the Company now is such that new licenses don't move the needle. And we also don't want to end up with -- somewhere down the road with a large number of licenses that are hard to manage**.

So, we're really have been focused the last several years on making our existing businesses much larger, starting with Fossil and then making Armani much larger has been a huge focus. We think Armani could potentially double or triple over the next several years, just based on the huge potential, for example, in Asia.

I would say that is true for all the brands as Kors becomes -- continues to develop the world with a branding, that business will continue to grow. Burberry has got a huge long-term potential as well as Diesel, Marc by Marc and the rest of the brands. So, we think we have got a great portfolio of brands that all of them can get much larger, and we're focused on that.

We think that Karl Lagerfeld has a unique positioning that is a great opportunity for us in a long-term, global opportunity. And we continue to look out there to see what other brands potentially could make a difference in the watch business, and we continue to talk to them and we will continue to look. **But we are really focused mostly on the larger businesses that we have and**

making each one of the larger." – Kosta Kartsotis, Fossil's CEO, 2011 Q4 Earnings Call Transcript

[8] "While we certainly admire those who we compete within our space, our licensing business is roughly seven times larger than our nearest competitor. That makes us the natural partner, the licensee of choice for the best brands in the world today and, we believe, in the future. And that's how we look at our brand portfolio." – Dennis Secor, Fossil's CFO, Fossil 2015 Investor Day

[9] "A couple of things. Number one is, right now, we have a great portfolio of brands so we are very satisfied with our business plan. **We don't need to expand licenses or have an acquisition to achieve our business plans**. However, that does not mean that if there's great opportunities, we won't seize on that. Licensing, again, we're very selective. We have a strategy and a philosophy that we follow. **There -- most brands are already licensed in watches. The last two that we brought aboard or two of the last three we brought aboard -- Hugo Boston and Lacoste -- they were already with another party and basically the licensor decided to upgrade to someone that was rather than purely manufacturing, really brand building**. So there may be opportunities like that out there and if they meet the criteria that we are looking at, we have no problem with continuing to expand in that arena. **We're not out there actively knocking on doors or anything like that. The way we achieve the ones that we have is more through our relationships and conversations. And they all seem to materialize at the same time, but they were initiated three, four years ago.**" – Rick Cote, Movado's COO, said at Cowen 2008 Conference

[10] "T**he public dispute between Callanen and Fossil began Aug. 26, when Fossil and Guess announced they were in "advanced negotiations" for a 10-year global license agreement, which was to become effective Jan. 1, 2007**. The agreement called for Fossil to establish a separate company to make and distribute Guess and Guess Collection watches.

Kosta Kartsotis, Fossil's president and chief executive officer, said at the time that the company was very excited about the proposed long-term partnership with Guess and expected the agreement to be finalized in a week.

Marciano said at the time that the proposed partnership would be "a strong one and contribute to the further expansion [of Guess watches] domestically and internationally."

On Aug. 31, however, Callanen sued Fossil, but not Guess, asking the federal court in Los Angeles to stop the proposed pact, claiming it violated

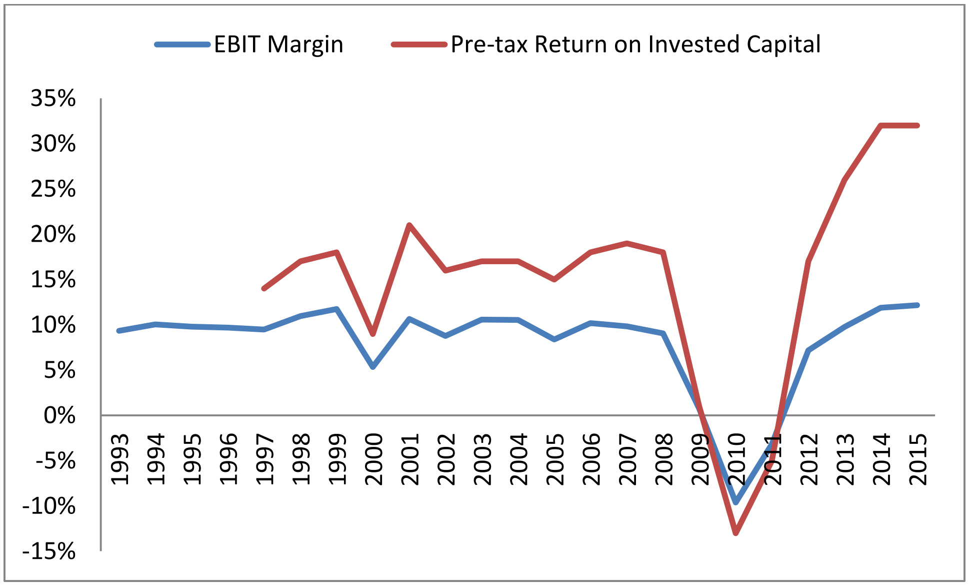
federal antitrust and state unfair competition laws, "interfered with Callanen's contractual relationship" with Guess, and **would give Fossil a monopoly of the fashion watch market, which it already dominates with a 40 percent share.**" – *New Callanen-Guess License Ends Dispute with Fossil*, William George Shuster, JCK Magazine, November 2005

[11] "Guess said its watch sales total about $150 million a year.
…
Richardson, Texas-based Fossil said it would form a separate company for the Guess business and would rely on its worldwide network to expand sales beyond the $150 million global business it is now." – *Fossil to Make Watches for Guess*, Jennifer Waters, MarketWatch, 26 August 2005

[12] "**Ferrari prices are going to be between EUR95 and EUR600 on average. There could -- there will be some watches that will go up to $1000, but on average, we expect the average price to be about $300 to $400, the opening price point is about $95**." – Efraim Grinberg, Movado's CEO, 2013 Q4 Earnings Call Transcript

Quality

Movado Is a Decent Player in a Good Industry



Movado earned high ROIC except for some bad years

- Cyclical business
  - Very sensitive to the economy
    - From January 2008 to January 2010
      - Revenue of Concord and Ebel declined by 55%
        - From $84 million to $38 million
      - Revenue of Movado and ESQ declined by 50%
        - From $224 million to $114 million
      - Revenue of licensed brands increased slightly
        - From $140 million to $144 million
  - Customers of Movado brand are the most sensitive to the economy
    - $500-$1,500 price range
  - 90% of business is wholesale
    - Retailers' inventory turnover of fine watch is slower
      - Once a year for luxury watches
      - 3-4 times a year for fashion watches
    - Fine watch retailers usually have a year supply of inventory on hand[1]
      - They can stop replenishing inventories for a while in bad times

            - Movado sales at retail declined much lower than at wholesale[2]
    - Fixed cost is high
        - Historically
            - Gross margin is about 60%
            - SG&A is about 50%
                - Advertising expense is 15-20% of sales
        - EBIT margin always declined in bad times
            - 5% in FY 2000 (end in January)
            - 1% in FY 2009
            - -10% in FY 2010
            - -3% in FY 2011
- Free cash flow is much smoother than earnings
    - FCF was negative in only one of the last 15 years
    - Movado can reduce inventories when sales decline
        - Positive to cash flow in bad years
    - Movado increase inventories when sales grow
        - Negative to cash flow in good years
- High gross margin
    - Fossil watches have higher than 50% gross margin
    - Licensed watches have lower margin but low advertising
    - Historically
        - Movado watches has well over 60% gross margin
        - Licensed brand watches have over 50% gross margin
    - Advertising expenses is much lower for licensed brands
        - Fossil always spends **6-7%** of sales in advertising throughout its history
        - Historically, Movado spent about 16% of revenue in advertising
        - Last year, Movado spent 13% of revenue in advertising
            - $74 million
            - Assuming Movado spent 7% of revenue in advertising licensed brands
                - $19 million
            - => $55 million for the rest of the business
                - **Over 20%** of revenue
    - Gross margin has declined to 53%
        - Gross margin was over 60% before the crisis

            - Swiss francs strengthened
            - Costs increased
                - Labor cost in China
                - Energy cost in China
                - Commodity cost
            - Movado was reluctant to raise price
                - Due to the fragile economy
            - Movado will consider increasing price going forward[3]
- There's potential of EBIT margin expansion
    - Gross margin is high
    - Sales growth can leverage SG&A
        - Movado has 20% EBIT margin for
            - U.S. Retail
            - International Wholesale
        - Movado has operating loss in U.S. Wholesale
            - U.S. Wholesale include unallocated corporate expenses
            - U.S. Wholesale is very profitable without unallocated corporate expenses
                - The majority of U.S. wholesale is Movado brand
                - Movado always had higher than average EBIT margin
    - Historically made 10% EBIT margin
    - Movado always target 15% EBIT margin
    - In 2006:[4]
        - Established businesses were making 14% EBIT margin
            - SG&A of these businesses was only 46% of sales
                - 51% for the whole company
        - Movado Boutiques was losing money
        - Ebel had just turned profitable
        - Hugo Boss, Juicy Couture, and Lacoste were in their infancy
            - Expected 15% EBIT margin at $30-50 million sales
    - Movado later closed the boutique
    - Licensed brands grew
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- But the Great Recession came
- Today SG&A is 40.5% of sales
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- Movado expects sales will grow faster than SG&A
- The only problem is gross margin
  - Gross margin was higher than 60% before the crisis
    - 53% today
    - Lower than even Fossil
      - 57% gross margin
      - Fossil has business with inherently lower gross margin
        - Licensed brand watches: 49.2% of revenue
        - Other accessories: 22% of revenue
          - Lower margin than watches
        - Even Fossil watch brand should have lower gross margin
          - Cheap watches
  - Movado will consider increasing price in the next several years

- Movado has lower EBIT margin than Fossil
  - Fossil is making 17% EBIT margin
  - Movado has smaller scale than Fossil
  - Movado also has lower revenue per licensed brand
    - Fossil
      - Michael Kors: $923 million
      - Armani: Over $300 million
        - For both Emporio Armani and Armani Exchange
      - Other brands: $504 million
        - Karl Lagerfeld and Tory Burch are newly launched
          - Insignificant
      - So, 5 other brands averaged almost $100 million revenue
    - Movado
      - Coach is about $100 million
      - 5 other brands account for $194 million
        - $39 million each
      - Ferrari has just launched in 2014
      - Juicy Couture is perhaps very small
      - Guestimate:

        - Revenue from Tommy, Lacoste, Hugo Boss is close to $50 million each
  - Movado's revenue per licensed brand is similar to Fossil in 2004
- Movado is less dependent on big brands than Fossil
  - Fossil:
    - Fossil brand: $1.33 billion
    - Michael Kors: $923 million
    - Armani: over $300 million
    - => three brands account for more than 73% of the business
    - Michael Kors is very hot
      - Revenue was about $300 million in 2011
        - Added $106.6 million in 2010
        - => $193.4 million in 2010
        - Added over $100 million in 2010
        - => Less than $100 million in 2009
      - Revenue was $923 million in 2014
    - Women account for 90% of Michael Kors watch revenue
    - Fossil's licensed revenue from Michael Kors follow the growth in Michael Kors brand
      - $508 million revenue in FY 2010
      - $3,311 million revenue in FY 2014
      - $4,208 million revenue TTM
    - Fossil brand is a lifestyle brand
      - Fashion watches
      - Leather goods
      - Fashion jewelry
- Inventory risk is low
  - Lower than other accessories
  - Much lower than apparels
  - Movado brand has lower risk than licensed watches
    - Design doesn't change often
  - Movado captures retail sell-through results for major accounts of licensed brands[5]
    - 60% of revenue
- Turnover is lower than Fossil
  - PPE is insignificant
    - Sales/Average PPE is more than 10x

- The main investment is in inventories
  - Median Sales/Average Inventories is **2.78**
  - Median Sales/Average NTA is **1.76**
- Turnover is currently higher than historical level
  - **2.71**
  - Inventories turnover is now higher than historical level
    - 2013: 3.05
    - 2014: 3.27
    - 2015: **3.33**
  - Two reasons
    - Licensed brands grew
      - Historically, turnover declined when Movado got new licenses
    - Improvement in lead times
    - Movado expects inventories will grow slower than sales[6]
- Current turnover is more relevant than historical level
  - Still lower than Fossil
  - Fossil's median Sales/Average Inventories is **5.94**
  - Fossil's median Sales/Average NTA is **3.04**
  - Fossil's current Sales/Average NTA is **3.3**
  - The main difference in inventories turnover is
    - Fossil's lead time is 75 days in Asia
    - Movado's lead time is 6 months or longer
    - (from the time putting orders out to the time getting the finished goods)
    - More than half of Fossil's non-Swiss watches are assembled by Fossil's owned factories
      - Fossil has to make more investment in PPE than Movado

- ROIC is good
  - Median EBIT/NTA is 17.6%
    - 1.76x turnover
    - 10% EBIT margin
  - Current EBIT/NTA is 32%
    - 2.59x turnover
    - 12% EBIT margin
- 8 dimensions of quality

- Relative size
  - Supplier of movements are concentrated
    - For licensed watches
      - Citizen
      - Seiko
    - For Movado, Ebel and Concord
      - Two suppliers
      - Possibly
        - ETA (owned by Swatch)
        - Sellita
  - Movado is much smaller than competitors
    - Movado's revenue: $570 million
    - Fossil's revenue: $3.5 billion
    - Swatch's revenue: almost $9 billion
- Focus
  - Focuses on watches
  - Focuses on existing brands
    - Follows each brand's DNA
- Customer engagement
  - No information
- Cross-selling
  - May sell several watch brands to the same retailer
- Retention
  - No information
- Words of mouth
  - No information
- Reinvestment rate
  - Invested hundreds of millions of dollars in advertising the Movado brand
- Stock's popularity
  - Float: 18 million shares
  - Short % of float: 4.4%
  - Share turnover: 266%
  - Number of analysts covering the stock: 5

[1] "**Fine retailers usually have a year supply of inventory on hand so they can aggressively pull back on new inventory purchases**. Retailers are realigning

their inventories to a new level of sales, and we expect this trend to continue throughout the first half of fiscal 2010, with an improvement beginning in the second half of the year, as retailers prepare for the holiday selling season." – Efraim Grinberg, Movado's CEO, 2009 Q4 Earnings Call Transcript

[2] "While we experienced a significant sales decline in the first quarter, **our retail partner sales of our products has not declined anywhere near those levels. In fact, in Movado, we've seen certain retail sales at wholesale ranging from down single digits to slightly up on a per door basis**. We can also see that trend in our own direct retail business. Movado boutiques and our outlets, which combined recorded a 2.3% comparable store sales decrease." – Efraim Grinberg, Movado's CEO, 2010 Q1 Earnings Call Transcript

[3] "RICK PATEL: And as you think about your outlook for mid-single-digit sales growth, can you touch upon how much of this will be driven by distribution versus organic growth? And then also comment on pricing -- just curious how that's changed given the performance of the Movado brand versus the license ones, and if there's any opportunity to take pricing higher, down the road?

RICK COTE, MOVADO's COO: Well, I think, first of all, we look at -- our philosophy has been with the strategic planning continues that we will be outperforming the watch category growth. So, we see that as being much more in that flattish to low single-digit -- low-single digits and, therefore, our mid-single digits continues to outperform that. **That will be -- historically has been driven very much by volume. Pricing has not been a major factor from a standpoint of we really have provided excellent price value proposition to the consumer**. As we look forward and as we see the watch category growth being at a much lower level, **we certainly will be looking at pricing as one of the components. But we do see volume as being a critical component to our growth propositions, but pricing certainly will come into play next year and probably over the next couple of years.**" – Movado's 2015 Q3 Earnings Transcript

[4] "To better understand how we're going to increase our operating margin to the mid-teens level, let me give you a sense of our current metrics by looking at our business in three different stages of development. **First, our established businesses. Today, these businesses are already generating healthy operating margins of approximately 14%, with an expense infrastructure at about 46% of sales**. Clearly, this is a good example of how we've been able to

leverage our infrastructure as we've grown the size of this business. **Looking ahead, we expect to raise this operating margin to an even higher level to the combination of further leverage and gross margin improvement.**

Second, our investment businesses, Movado Boutiques and Ebel. Here we are focused on converting our Movado Boutiques into a profitable operation, which we project will take place in fiscal 2008. With Ebel having just turned profitable last year, we will continue toward expanding the brand and improving the image and financial performance. Over the next several years, our focus will be on improving the operating margin of both of these businesses to be in line with our targeted mid-teen level. We will seek to achieve this through increased scale and a combination of gross margin improvement and leverage.

Finally, our newest businesses, which consist of Hugo Boss, Juicy Couture, and Lacoste. These businesses are truly in their infancy. Hugo Boss just recently launched at Basel this year. Juicy will launch in the fall of this year and Lacoste in the spring of 2007. **As each of our license businesses mature, we would expect sales in excess of $20 million, and ideally in the $30 million to $50 million range** and obviously be significant profit contributors over the long term. Here again, **we will focus on growing these brands with the appropriate metrics and expanding their operating margins to our mid-teen target.**" – Rick Cote, Movado's COO, 2007 Q1 Earnings Call Transcript

[5] "Independent consolidated global market information does not exist for the watch category. However, **we do capture retail sell-through results for our major accounts and approximately 60% of our worldwide licensed brand distribution markets**. And our retail sell-through results outpace our wholesale sales." – Rick Cote, Movado's COO, said when Movado discussed FY 2015 outlook

[6] "Kristine Koerber - Barrington Research Associates

Okay. **If we look at the inventory levels, you were down about 6% coming out of the year**, how should we think about inventory for 2016?

Richard J. Coté - President and COO

And again I think from the standpoint -- we've been very conscious on inventory. **Our supply chain organization and our operational teams have done a good job of improving our speed to market and reducing our lead times and all that**. So therefore we've been able to react to the marketplace situation that took place in the second half of last year. **So our intention is to basically either keep inventory flat, or if it does grow, it certainly will grow at a lower level than our growth out there, so we believe we have further opportunities of improving our inventory turn performance levels**.

Kristine Koerber - Barrington Research Associates

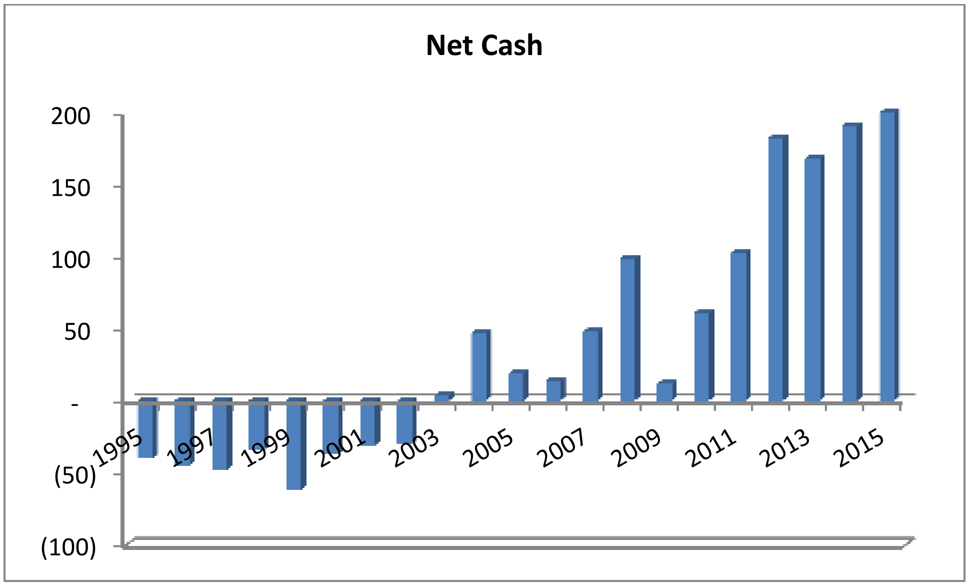
The inventory that you have, is it pretty clean at this point?

Richard J. Coté - President and COO

The inventory we have is in excellent shape, both in our facilities as well as our retail facilities. So again we have done -- **this has been a major focus of ours over the last five, six years**. I think as an organization, we’ve done a great job. So very pleased with our inventory levels again and the composition of that inventory, both at retail and in our own distribution centers.” – Movado 2015 Q4 Earnings Call Transcript

Capital Allocation

Efraim Grinberg Runs the Company Conservatively



Net cash has increased to $200 million in FY 2015

- Movado is controlled by the Grinberg family
  - Founded by Gedalio Grinberg
    - In 1961
    - Distributed Piaget watches in the U.S.
    - Acquired Movado in 1983
  - Efraim Grinberg has been Movado's CEO since 2001
    - He is Gedalio Grinberg's son
  - Efraim Grinberg controls 67.2% of voting power
- Capital allocation is conservative
  - They never have net debt since 2003
  - They made few acquisitions
    - The last was the acquisition of Ebel
      - December 2003
    - Prior to that was the acquisition of Movado
      - In 1983
  - Ebel was basically a net-net acquisition
    - Acquired from LVMH
    - Movado paid $47.3 million cash
    - Got

                - $50 million net asset
                    - The majority of net asset was inventories
                - CHF 180 million Net Operating Losses (NOLs)
                    - Was able to use NOLs to reduce tax paid in Switzerland
                    - Only CHF 10 million expired
            - Ebel was losing $15 million
                - On $50 million sales
            - Movado put Ebel into its supply chain
                - Cut costs
                - Turned into a profitable business in 2005
- Movado didn't create as much value as Fossil
    - The two companies were of the same size in 1996
        - Movado FY 1997 (end in January)
            - Revenue: $215 million
            - EBIT: $20 million
        - Fossil FY 1997 (End in December)
            - Revenue: $206 million
            - EBIT: $24 million
    - Fossil is 8 times bigger than Movado in 2014
        - Movado FY 2014
            - Revenue: $570 million
            - EBIT: $68 million
        - Fossil FY 2014
            - Revenue: $3,510 million
            - EBIT: $567 million
    - Explanations
        - Fossil brand became much bigger than Movado brand
            - $2 billion brand in retail sales
                - $1.33 billion revenue for Fossil[1]
            - Expanded into other accessories
                - Leather goods
                - Fashion jewelries
            - Expanded internationally
            - The growth was driven by retail operations
                - 469 Fossil branded stores

- Movado also invested in Movado boutique
- But it's more difficult
- Movado is an accessible luxury brand
- Selling watches alone doesn't get enough traffic
- Can't sell cheap jewelry like Fossil
- Movado must sell high-end jewelry
    - Movado diamond is from $3,000 to $30,000
    - Movado diamond engagement rings were sold for $7,000 on average[2]
- Movado boutique's sales mix was[3]
    - Jewelry: 43%
    - Watches: 40%
    - Others: 17%
        - After-sales
        - Service
        - Gift items
- Movado could only open boutique in high-end locations
    - => Lacked scale
- Movado opened boutiques in 1998
    - Lost money every year
    - Closed in 2010
        - Had 27 boutiques
        - Losing $10 million annually
        - Kept only one flagship store
            - In the Rockefeller Center
- It's also very difficult for Movado brand to grow international markets
    - Swatch and Richemont are much stronger

- Fossil outperformed Movado in the licensing business
    - Fossil was more aggressive and quicker
        - Fossil's milestones:
            - 1997: Emporio Armani
            - 1999:
                - DKNY
                - Diesel
            - 2001:
                - Burberry

        - 2004:
            - Michael Kors
        - 2005:
            - Adidas
            - Marc Jacobs
        - 2006:
            - Marc by Marc Jacobs
        - 2009:
            - Armani Exchange
        - 2011:
            - Karl Lagerfeld
        - 2013:
            - Tory Burch
        - 2015:
            - Kate Spade
    - Movado's milestone:
        - 1998: Coach
        - 2001: Tommy
        - 2005: Hugo Boss
        - 2006:
            - Lacoste
            - Juicy Couture
        - 2012:
            - Ferrari
- Fossil already has 3 brands in 1999
    - Movado had only one
- There's more synergy between the licensing business with the Fossil brand
    - Fossil watches are made in China
    - Movado watches are made in Switzerland
    - Fossil watches are fashion watches
    - => Fossil has the capability to churn out a lot of designs quickly
- Fossil's brands are generally stronger than Movado's
- The phenomenon of Michael Kors made Fossil the licensee of choice
    - Revenue was less than $100 million in 2009

        - $923 million in 2014
- Movado is slow and conservative
    - Gedalio Grinberg built one business at a time[4]
    - Today, Movado brand isn't expanding to many market [5]
        - It's building "one door at a time"
    - They grew the business and created value overtime
    - 10 years before the financial crisis
        - 1998-2008
        - Revenue grew 10% annually
            - 1997: $215 million
            - 2008: $560 million
        - EBIT grew 9.8% annually
            - 1997: $20 million
            - 2008: $51 million
        - Accumulated $147 million cash
            - 1997: $48 million net debt
            - 2008: $99 million net cash
        - While returning $63 million to shareholders
- The management can be good stewards of shareholder value
    - (or their own money)
    - Going forwards
        - Keep expanding existing business
        - May get some more licenses
        - Expect sales grow faster than SG&A[6]
        - Will return cash to shareholders
            - Currently has $200 million cash
            - They raised regular dividend
                - 2013: $0.05 quarterly
                - 2014: $0.10 quarterly
                - 2015: $0.11 quarterly
            - Paid special dividends
                - May 15, 2012: **$0.5** per share
                - December 21, 2012: **$0.75** per share
            - Repurchased shares
                - 2014 FY: $10 million
                - 2015 FY: $26 million

- Increase the authorized share repurchase plan to $100 million[7]

- It's likely that they won't return all cash to shareholders

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[1] "Fossil, as you know, is an American-based lifestyle brand, based on accessories and rooted in vintage. It works everywhere in the world.

It's about a $2 billion business at retail. About two-thirds of that we capture ourselves in our own Company. There's a number of stores that communicate the brands, and we have successful stores all over the world and we know the brand works in Europe, Asia and the US and is a very significant long-term opportunity." – Kosta Kartsotis, Fossil's CEO, ICR 2014 Conference

[2] "Our focus on the jewelry category continues to be well received by our customers. More specifically, the introduction of our proprietary Movado Diamond generated great excitement in our stores. For example, **the average Movado Diamond engagement ring that we sold had an average selling price of almost $7000.**" – Efraim Grinberg, Movado's CEO, 2004 Q4 Earnings Call Transcript

[3] "ELIZABETH MONTGOMERY: And could you remind me again on what the mix of jewelry versus watches in the boutiques has been over the past year.

EFRAIM GRINBERG: **It's approximately 40% watches and about 43% jewelry, and then the balance is after sales, service and gift items.**" – Movado's 2007 Q4 Earnings Transcript

[4] "Q. How did your father build this business into what it is today?

A. **He built one business at a time**. At the time expensive watches weren't really sold in the United States. He believed if he educated consumers that they would buy good products. He started slowly, and they did. That has pretty much been our philosophy ever since. We believe very heavily in advertising and promoting and building our brands." - *Westchester Q&A: Efraim Grinberg*, Donna Greene, The New York Times, 02 June 1996

[5] "Rick Patel - Stephens Inc.

Great. Then just one more, if I may. Can you talk about the Movado distribution footprint and what it looks like internationally? I'm curious which inning you're in, in Europe and the UK in particular, and where the white space is as we think about geographic expansion over the next few years.

Efraim Grinberg - Chairman, Chief Executive Officer

Well right now, Movado has -- we just launched very recently in the UK. That is one of our international markets of focus. **So we're not thinking of expanding to many different markets**. There is markets we've already had a position where we need to grow the business. But we want to be very thoughtful. **It's not adding doors, it's building one door at a time. So we have a position in China now that there are certain concessions that we run which are performing really well**. So we want to be, again, very focused on how we build this, and again it's not every market. Right now, **the main focuses are the UK, certainly China, and in Brazil** we're also, as I mentioned in my remarks, seeing very good traction." – Movado 2015 Q4 Earnings Call Transcript

[6] "When we look at the gross margin again the 54% guidance that we have this year, we think that's kind of our base level as we look at moving forward. Obviously we will continue leveraging and getting some benefit of some of our fixed costs in there and then obviously it is our job to look at opportunities of being able to move that forward. **But we think it has been very important for the last couple of years and we see this really for the next couple of years as well of having a great price value relationship for consumers out there**.

So when we are done, we are not afraid of having a 54% margin for the next couple of years. Obviously we'd like to move that up a little bit but we are comfortable with doing that because when we are done **we see our operating expenses growing at a significantly lower level than our topline sales growth, so we see our opportunity and our strategy of being able to grow our operating profit percent of sales to a very nice level**.

So it's an opportunity above and beyond, but we see ourselves in that 54% range for this year and probably the next year or two." – Rick Cote, Movado's COO, 2014 Q2 Earnings Call Transcript

[7] "JEREMY HAMBLIN, ANALYST, DOUGHERTY & COMPANY: Wanted to -- just have a follow-up on the buyback. Has the Company, since the pre-announcement on November 14 -- has the Company been any more aggressive then you have been the rest of the year in terms of utilizing the currently authorized share plan -- buyback plan that you have in place?

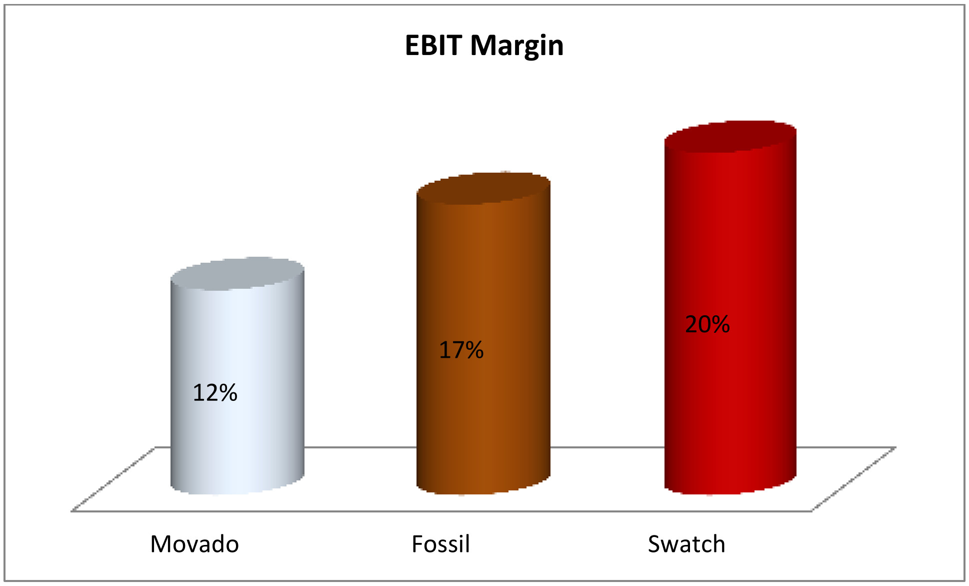
SALLIE DEMARSILIS, MOVADO's CFO: Jeremy, we have an automatic purchase plan in place that is allowed to trade even during closed periods, and that is what was operating currently from the pre-announcement until now. So, it's been on the regular volume of our repurchases that we've had in place for -- throughout this entire quarter. We will now look at it going forward, now that this has been approved, as to what the appropriate purchase level would be with the stock price and with the open authorization.

JEREMY HAMBLIN: And then, a follow-up to your comment on the revolving line of credit: **Is it something that you would potentially do, in looking at this new buyback plan or the increase in authorization to $100 million, that you would utilize a revolver in terms to -- in the sense to repurchase shares more aggressively moving forward**? Or would you be willing to borrow at all, in doing that?

SALLIE DEMARSILIS, MOVADO's CFO: **I think the rates are very attractive right now, and we have a supportive bank group and a current deal that does allow us to borrow with a lot of flexibility. So, yes, that would absolutely be something we would look to.**" – Movado's 2015 Q3 Earnings Call Transcript

Value

Movado Is More Valuable For a Strategic Buyer than Being Alone



Movado has lower EBIT margin than Fossil and Swatch

- Key inputs
    - Common Stock: 17.47 million shares
    - Class A Common Stock: 6.64 million shares
    - Total shares: 24.12 million
    - Share price: $30
    - Market cap: $723 million
    - Net cash: $200 million
    - EV: $524 million
    - Tax rate is about 30%[1]
- Normal EBIT can be higher than current EBIT
    - Current EBIT is $71 million
    - EBIT margin is higher than historical level
        - Historical level is 10-11%
        - Current EBIT margin is 12%
    - Movado always target 15% EBIT margin
    - In 2006:[2]
        - Established businesses were making 14% EBIT margin
            - SG&A of these businesses was only 46% of sales
                - 51% for the whole company

        - Movado Boutiques was losing money
        - Ebel had just turned profitable
        - Hugo Boss, Juicy Couture, and Lacoste were in their infancy
            - Expected 15% EBIT margin at $30-50 million sales
    - Movado later closed the boutique
    - Licensed brands grew
        - Revenue per brand was $27 million in 2006
        - Today is $46 million
    - Movado started cutting cost in 2009
        - To achieve the 15% EBIT margin target
    - But the Great Recession came
    - Today SG&A is 40.5% of sales
        - Historically was over 50%
    - Movado expects sales will grow faster than SG&A[3]
    - The only problem is gross margin
        - Gross margin was higher than 60% before the crisis
            - 55% today
            - Lower than even Fossil
                - 57% gross margin
                - Fossil has business with inherently lower gross margin
                    - Licensed brand watches: 49.2% of revenue
                    - Other accessories: 22% of revenue
                        - Lower margin than watches
                    - Even Fossil watch brand should have lower gross margin
                        - Cheap watches
        - Costs increased
            - Swiss franc strengthened
            - Labor cost in China increased
            - Energy cost in China increased
        - Movado has been reluctant to raise price
            - Due to the fragile economy
        - Movado will consider increasing price in the next several years[4]
- Movado is cheaper than peers
    - Movado's EV/EBIT: **7.32**
        - Using $30 per share

- Swatch
    - Share price: CHF 410 (about $410)
    - EV: CHF 20.9 billion
    - EV/EBIT: **11.93**
    - EV/Pre-tax Owner Earnings: **10.24**
    - Swatch is better than Movado in the luxury segment
        - A portfolio of strong luxury brands
        - Very strong distribution power
        - Strong exposure to emerging markets
    - Swatch deserve a premium over Movado
- Fossil
    - Share price: $82.45
    - EV: $4.6 billion
    - EV/EBIT: **8.18**
    - Fossil is better than Movado in the licensing business
        - More brands
        - Higher speed
            - Shorter lead time
            - 300 employees in the design department
        - Stronger distribution capability
            - Higher revenue per brand
    - Fossil deserves a higher multiple than Movado
    - But Fossil's earnings power is uncertain
    - Fossil depends a lot on
        - Fossil brand
        - Michael Kors
    - Michael Kors accounts for **85%** of Fossil's growth in licensing business
        - From 2011 to 2014
        - Licensed revenue increased by $730 million
        - Michael Kors revenue increased by $623 million
            - 2011: $300 million
            - 2014: $923 million
        - 623/730 = 85%
    - Excluding Michael Kors, licensing business grew only **4%** annually
    - Michael Kors can be a bubble

        - The brand grew very fast
        - 90% of watches sold were to women
      - Fossil might have made 30% margin on Michael Kors revenue
        - Will likely make lower margin in the future
      - Fossil renewed the licensing agreement with Michael Kors
        - In November 2014
        - 1 year before the expiration of the existing agreement
      - Fossil possibly had to pay a higher licensing rate
        - Paid only 10% of revenue in the previous contract
      - Movado is possibly cheaper than Fossil
        - Even after paying a premium to Fossil's quality
  - Movado is cheaper than Japanese watchmakers
      - Movado is of higher quality than Seiko and Citizen
        - Movado brand is a strong luxury brand in the U.S.
        - Licensed watch brands inherit strong brand awareness
        - Seiko and Citizen are more production-focused
          - Low margin
      - Yet Japanese competitors are more expensive
        - Seiko
          - A Japanese competitor
          - 49% of revenue is from watch and clocks
          - 87% of profit is from watch and clocks
          - **Seiko is trading at 13.77x EBIT**
          - Share price: Yen 595 ($5)
          - EV: Yen 213 billion ($1.8 billion)
          - Expected 2014 EBIT: Yen 15.5 billion ($130 million)
          - EV/Expected 2014 EBIT: 13.77
        - Citizen
          - 52% of revenue is from watch and clocks
          - About 70% of profit is from watch and movements
          - **Citizen is trading at 10.34x EBIT**
          - Share price: Yen 908 ($7.6)
          - EV: Yen 286 billion ($2.4 billion)
          - Expected 2014 EBIT: Yen 27.7 billion ($230 million)
          - EV/Expected 2014 EBIT: 10.34
  - Inter Parfums
      - Make fragrance products under license agreements

        - Some brands are
            - Dunhill
            - Karl Lagerfeld
            - Mont Blanc
            - Van Cleef & Arpels
        - Sales declined from the peak in 2012
            - 2012: $654 million
            - 2014: $499 million
        - Burberry exercised its option to buy-out the license
            - Effective on December 31, 2012
        - The licensing business is done through Interparfums SA
            - Inter Parfums owns only 73%
        - This business is similar to Movado's licensing business
            - Both do licensing
            - Sales mix is quite even between brands
                - (after Inter Parfums losing Burberry)
            - Watches and fragrance are quite similar
                - But fragrance is better than watch
                    - Consumable product
                    - Brand loyalty can be higher
                - Both can grow in emerging markets
        - Inter Parfums is very expensive
            - Share price: $32.62
            - EV: $990 million
                - Market cap of Inter Parfums: $1,010 million
                - Net cash: $280 million
                    - Net cash including cash of Inter Parfums SA
                        - Inter Parfums owns only 73%
                - Inter Parfums SA's market cap: EUR 892 million
                    - About $962 million
                - Total EV for the consolidated profit is:
                    - $1,010 + 27% * $962 - $280 = $990 million
            - EBIT: $53 million
            - EV/EBIT: **18.54**
- Movado and Fossil might be cheap because of smart watch
    - But they shouldn't be cheaper than Japanese competitors

- Movado is more valuable for strategic buyers
  - Swatch or Fossil can easily improve Movado's margin
    - Movado has 20% EBIT margin for
      - U.S. Retail
      - International Wholesale
    - Movado has operating loss in U.S. Wholesale
      - U.S. Wholesale include unallocated corporate expenses
  - Swatch can grow Movado into a $1 billion brand
    - Movado didn't succeed in growing outside the U.S.
    - Movado doesn't has wide distribution
      - Can't advertise aggressively
    - Swatch can promote Movado more efficiently
  - Swatch can unlock hidden value in Ebel
    - Ebel has some legacy
    - Ebel a global luxury brand
      - Focus on women watches
        - $1,500 - $5,000 price range
    - Ebel's heyday was in 1980s and 1990s
      - Revenue was about $100 million
    - LVMH acquired Ebel in 1999
      - Paid $200 million
      - Swatch acquired Breguet in the same year
        - Paid CHF 65 million
          - About $45 million using 1999 exchange rate
      - Higher price didn't mean higher prestige
        - Breguet is the most prestigious brand in Swiss watch
        - Swatch bought Breguet cheaply simply because the brand was in trouble
      - But $200 million is a big price for a watch brand in 1999
        - That means Ebel had some reputation
    - When Movado acquired Ebel
      - Hundreds of millions of dollars had spent on building the Ebel brand[5]
    - Today Ebel makes less than $30 million revenue
    - Movado didn't do any damage to the brand
      - Stayed true to Ebel's legacy
      - Just revived Ebel's classic collections

        - Swatch was able to revive Breguet or Omega
            - Even after years of mismanagement by previous owners
            - Today Breguet is making over $700 million revenue
        - A women watch brand can be a good supplement to Swatch's portfolio
    - Strategic buyers can easily pay
        - 2x sales for Movado and Ebel
        - 1.5x sales for Movado's licensing business
- As a standalone business, Movado deserves an average multiple
    - 10-11 times EBIT
    - (30% tax rate)

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[1] "ERIC BEDER, ANALYST, BREAN CAPITAL, LLC: Congratulations on a solid quarter. One of your licensees, Juicy, just got sold. Could you talk about how you -- what you think about and how that potentially is a positive? And how should we be thinking about the tax rate going forward? Is the 30% level what we should be using in 2014?

EFRAIM GRINBERG, MOVADO's CEO: So, why don't I let Sallie take the tax question first and then I'll answer the Juicy question.

SALLIE DEMARSILIS, MOVADO's CFO: Traditionally, Eric, we do give guidance on things like that with our year-end call. So, for now, **it's probably best to keep that -- use that 30% as the rate, based on the mix of our business on a global basis.**" – Movado 2014 Q3 Earnings Call Transcript

[2] "To better understand how we're going to increase our operating margin to the mid-teens level, let me give you a sense of our current metrics by looking at our business in three different stages of development. **First, our established businesses. Today, these businesses are already generating healthy operating margins of approximately 14%, with an expense infrastructure at about 46% of sales**. Clearly, this is a good example of how we've been able to leverage our infrastructure as we've grown the size of this business. **Looking ahead, we expect to raise this operating margin to an even higher level to the combination of further leverage and gross margin improvement.**

Second, our investment businesses, Movado Boutiques and Ebel. Here we are focused on converting our Movado Boutiques into a profitable operation, which we project will take place in fiscal 2008. With Ebel having just turned profitable last year, we will continue toward expanding the brand

and improving the image and financial performance. Over the next several years, our focus will be on improving the operating margin of both of these businesses to be in line with our targeted mid-teen level. We will seek to achieve this through increased scale and a combination of gross margin improvement and leverage.

Finally, our newest businesses, which consist of Hugo Boss, Juicy Couture, and Lacoste. These businesses are truly in their infancy. Hugo Boss just recently launched at Basel this year. Juicy will launch in the fall of this year and Lacoste in the spring of 2007. **As each of our license businesses mature, we would expect sales in excess of $20 million, and ideally in the $30 million to $50 million range** and obviously be significant profit contributors over the long term. Here again, **we will focus on growing these brands with the appropriate metrics and expanding their operating margins to our mid-teen target.**" – Rick Cote, Movado's COO, 2007 Q1 Earnings Call Transcript

[3] "When we look at the gross margin again the 54% guidance that we have this year, we think that's kind of our base level as we look at moving forward. Obviously we will continue leveraging and getting some benefit of some of our fixed costs in there and then obviously it is our job to look at opportunities of being able to move that forward. **But we think it has been very important for the last couple of years and we see this really for the next couple of years as well of having a great price value relationship for consumers out there**.

So when we are done, we are not afraid of having a 54% margin for the next couple of years. Obviously we'd like to move that up a little bit but we are comfortable with doing that because when we are done **we see our operating expenses growing at a significantly lower level than our topline sales growth, so we see our opportunity and our strategy of being able to grow our operating profit percent of sales to a very nice level**.

So it's an opportunity above and beyond, but we see ourselves in that 54% range for this year and probably the next year or two." – Rick Cote, Movado's COO, 2014 Q2 Earnings Call Transcript

[4] "RICK PATEL: And as you think about your outlook for mid-single-digit sales growth, can you touch upon how much of this will be driven by distribution versus organic growth? And then also comment on pricing -- just curious how that's changed given the performance of the Movado brand versus the license ones, and if there's any opportunity to take pricing higher, down the road?

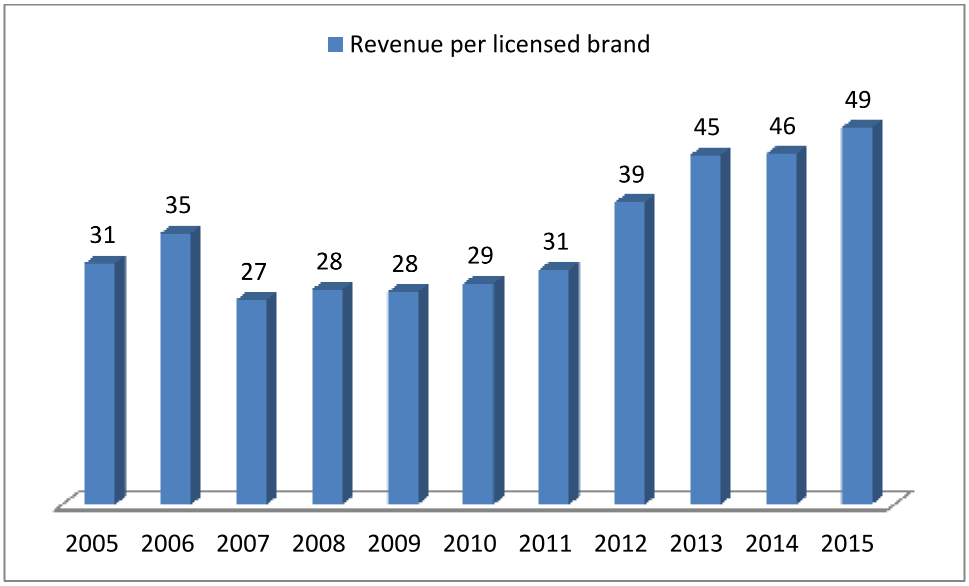
RICK COTE, MOVADO's COO: Well, I think, first of all, we look at -- our philosophy has been with the strategic planning continues that we will be outperforming the watch category growth. So, we see that as being much more in that flattish to low single-digit -- low-single digits and, therefore, our mid-single digits continues to outperform that. **That will be -- historically has been driven very much by volume. Pricing has not been a major factor from a standpoint of we really have provided excellent price value proposition to the consumer**. As we look forward and as we see the watch category growth being at a much lower level, **we certainly will be looking at pricing as one of the components. But we do see volume as being a critical component to our growth propositions, but pricing certainly will come into play next year and probably over the next couple of years.**" – Movado's 2015 Q3 Earnings Transcript

[5] "BOB POOLE, ANALYST, PRICORIA CAPITAL: Hi guys. It does look like a pretty interesting sort of deep value acquisition on your part and congratulations to you. What in your view would it cost to recreate the brand awareness that Ebel has today?

EFRAIM GRINBERG: **Well I think over a long period of time, there's been hundreds of millions of dollars spent on building the Ebel brand, really over the last 15 years to 20 years and that's what it would take**. I mean it's a huge investment that's been on this brand and we think the brand has a tremendous future on the Movado Group and we look at this great opportunity to expand it going forward." – Movado's Conference Call on the Acquisition of Luxury Watch Brand Ebel from LVMH

Growth

Licensed Watch Will be the Main Growth Driver



Revenue per licensed brand has increased to $49 million in FY 2015

- Movado brand has great potential
  - US is just 10% of Swiss watch exports
  - U.S. customers account for well over 80% of Movado brand's revenue
- But it's difficult for Movado to grow in international market
  - Movado is much weaker than Swatch or Richemont
  - Movado is focused on China
    - Built presence in around 2003
    - Movado used to have a two-prong approach
      - US
      - China
    - Movado took a patience approach[1] [2]
      - Position as an accessible luxury brand
      - Build presence by setting up shop-in-shop format
        - About six feet of case space with a Movado wall behind
      - Chinese consumers can mimic U.S. consumers 10-15 years down the road
    - Today Movado has only about 150-175 points of sales in China
      - 1/3 are shop-in-shop

        - $10-15 million revenue
    - The main focuses today are[3]
        - U.S.
        - China
        - U.K.
            - Launched Movado in the U.K. very recently
        - Brazil
- Movado can grow much faster as part of Swatch Group
    - Movado's price range is between Tissot and Longines
        - Tissot: $300 - $1,000
        - Movado: $500 - $3,000
            - Strongest is from $500 to $1,500
        - Longines: $1,000 - $4,000
    - Swatch's strategy is to have small brands grow and protect strategic brands
    - Movado's unique design is a good fit for Swatch's portfolio
- Revenue per licensed watch brand can grow
    - Movado has licenses with big global brands
        - Coach
            - Revenue is almost $4.8 billion
            - Main markets are
                - US
                    - North America represents 65% of revenue
                - Japan: 14% of revenue
                - Growing fast in China
        - Tommy Hilfiger
            - 2013 revenue is $3,433 million
            - North America: 45% of revenue
            - Europe: 43% of revenue
            - Others: 12% of revenue
        - Hugo Boss
            - Revenue: EUR 2,572 million
            - Europe: 61% of revenue
            - Americas: 23% of revenue
            - Asia/Pacific: 14% of revenue
            - Licenses: 2% of revenue
        - Lacoste

                - Revenue is over $2 billion in wholesale
                    - Over $5 billion in retail
                - Revenue breakdown:
                    - US: 22%
                    - France: 10%
                    - Rest of Europe and the Middle East: 38%
                    - Asia: 21%
                    - Latin America: 11%
            - Ferrari
                - Movado will benefit from Ferrari's focus on growing its lifestyle brand
    - Revenue per brand is much less than Fossil's
        - Fossil
            - Michael Kors: $923 million
            - Armani: Over $300 million
                - For both Emporio Armani and Armani Exchange
            - Other brands: $504 million
                - Karl Lagerfeld and Tory Burch are newly launched
                    - Insignificant
            - So, 5 other brands averaged almost **$100 million revenue**
        - Movado
            - Coach is about $100 million
            - 5 other brands account for $194 million
                - $39 million each
            - Ferrari has just launched in 2014
            - Juicy Couture is perhaps very small
            - Guestimate:
                - Revenue from Tommy, Lacoste, Hugo Boss is close to **$50 million each**
        - Power of Movado's licensed brands isn't as far below Fossil's
            - Coach is similar to Michael Kors
            - Hugo Boss is lower than Armani
                - But makes more revenue
                    - Hugo Boss: EUR 2,572 million
                    - Armani: EUR 2,186 million
            - Tommy Hilfiger is possibly bigger than DKNY
    - Movado's revenue per brand is similar to that of Fossil in 2004

        - Movado may follow Fossil's path
- Movado targets $750 million revenue in 2017
    - (According to the 2014-2017 strategic plan)
    - Most growth will come from
        - North America
            - Driven by Movado
            - The Movado brand is still recovering from the crisis
                - Had been growing in the mid to high single digit before the Great Recession
                - Revenue was well over $200 million in 2007
                - Current revenue is just about $180 million
            - Further penetrate the $1,500-$3,000 price range
                - Currently hold #2 market share
            - Movado bold
                - Attracts younger and fashion-forward consumers
            - Recently Movado took out ESQ
                - To give more retail space to Movado brand
        - Europe
            - Mostly licensing business
            - Further penetration in existing markets
    - Movado expect Asia to account for a small part of growth
    - Movado recently said the plan is now invalid
        - Due to
            - Current environment
            - The exchange rate
- Asia is a long-term opportunity
    - Asia is a big market for Swiss watches
        - Especially mechanical watches
        - Price went up to maintain scarcity
            - Led to a huge white space below Swiss watch price point[4]
    - Licensed watch brands didn't enjoy as much success
        - One reason is distribution
            - Fossil has to open concession stores to grow in Asia[5]
            - China is still an insignificant portion of Fossil's revenue
        - Another potential reason is income gap
            - Some rich people have money to buy luxury goods
            - But middle class in Asia isn't strong

    - Mother brands didn’t really penetrate Asia
      - Asia/Pacific is just 14% of Hugo Boss’s revenue
        - Less than 12% of Tommy Hilfiger’s revenue
  - Long-term growth can comes from Asia
    - As middle class grows
    - Quan’s scuttlebutt:
      - A very big % of professionals in Vietnam wear watches
      - Managers may wear Swiss watches
        - Tissot and above
      - Employees at lower positions will wear cheaper watches
        - People with some money wear fashion watches
          - Mango
          - Zara
          - Michael Kors
          - Marc Jacobs
          - Etc.
          - They buy online from Amazon
            - There’s no dealer selling these watches in Vietnam
        - Others wear even cheaper watches
  - Movado hired Ricardo Quintero as President[6]
    - In July 2014
    - He hold a senior leadership role at Clinique
    - He will add global brand building and marketing expertise
- Low single digit growth is quite obtainable
  - Example:
    - Revenue of Movado, retail sales, Ebel, and Concord are flat
    - No more license
    - Revenue per licensed watch brand increase to $100 million
      - In 10 years
      - No revenue from Juicy Couture
    - 5 brands => $500 million
    - Total revenue will be $800 million
      - => 2.9% compounding growth

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[1] “ARNOLD BRIEF: Could you -- just -- one of your growth initiatives and I understand it's a -- just started and it's a low level, percentage gains don't mean

too much at this point although it would be nice to get. But China -- I don't know that we have an idea how -- how many doors you're adding, how many -- what your goal is, three, four, five years down the road, how significant China could be if everything goes right on a longer term basis? I'm not looking for quarter to quarter kind of things, but could you flesh out China and your strategic?

EFRAIM GRINBERG, MOVADO’s CEO: Sure I'll talk a little bit and then I'll turn it over to Rick and talk to you a little bit about the doors. **We look at China as being a promising market down the road in terms of -- we believe the accessible luxury category, which Movado is the power in the U.S. in that category will play a similar role in the Chinese marketplace**. But obviously affluence has to gain in the marketplace. We've had very good initial results and albeit a small business and with that I'll turn it over to Rick and he can highlight a little bit of -- of the door structure as well.

RICHARD COTE, MOVADO’s COO: And again just to give you a sense. **We're currently in about 130 doors and that's versus about 80 doors last year. We would expect at the end of the year to be at about 160 doors**, so obviously still looking at some growth there. From a standpoint of -- when we look at these doors, **very importantly we have what we call shop and shops or corners which is the Movado look, in those stores and a lot of the -- the stores are structured so that each brand has its own look and that puts us on an equal playing field with all the other competitors in the marketplace. We have approximately a third of our doors that we have opened in the shop and shop format**, which is a very strong looking presence. So the focus for us is to continue that expansion, to get that presence, **to be on at least an equal playing field with a lot of the other very large competitors** that have been there for a longer period of time, and **position Movado for that accessible luxury position, which we believe is going to be strong for China in the -- in the long term**.

ARNOLD BRIEF: Can you give us some idea, is China losing -- a lot of your growth initiatives, the boutiques, Ebel, probably Hugo are losing money at this point, would the -- you know, the potential for making good money as we go down the road. I would assume China is losing money at this point, is it significant?

RICHARD COTE, MOVADO's COO: First of all, let me make a couple things clear. Clearly we look at our investments and we do that in a structured manner so that, yes, we have investments today that are improving to a profitability. We have other ones that are increasing in profitability. **China clearly is an investment from a standpoint of the marketing presence, the imaging that we have in there, and some of it is -- is the spending that we have on these shop and shops, which again is all image building, focus and advertising. So, yes, there are losses there, albeit relatively minor**. From a standpoint of Hugo Boss I did mention before that we would expect that to be immaterial to us this year, both on a sales and a profitability standpoint, but certainly we would expect that that would be profitable as we move forward as opposed to years of investment and then turn it to profitability. So each of our positions is in a -- in a different stage and that's obviously what we manage and we feel that we are in a position of being able to step up some investments, which we have been doing over the last number of years as well." – Movado's 2006 Q1 Earnings Call Transcript

[2] "RICK COTE, MOVADO's COO: Swatch is probably one of the strongest brands in Asia. They have been -- particularly in China, but throughout all of Asia, they have been there the longest. So they are a formidable competitor there. But all of the brands are in all of those marketplaces. **China, some brands have been there longer, and basically Omega has been there, the Swatch Group has been there the longest**. So we compete on all of those, and again each one of our brands has a different level of competing. Ebel, that is an important market -- Japan, Hong Kong, the China market is an important market for Ebel. It's part of a global brand there. Concord, more opportunistic. We're at the standpoint of again that's going to be a niche brand so not overly concerned about the level of growth there. It's more positioning and making that a global player and being out there. Licensing brands is vitally important. It's a very strong business force out there in all of those markets, so that is a strong growth opportunity for us and we are in Japan, we are in Hong Kong getting into China a step at a time. **Movado, China is a very important market for us strategically.**

UNIDENTIFIED AUDIENCE MEMBER: (inaudible - microphone inaccessible) any traction (inaudible - microphone inaccessible) my understanding is that brands that have great recognition can gain traction (inaudible - microphone inaccessible) brands that don't already have (inaudible - microphone inaccessible).

RICK COTE: I would sit there and also differentiate between price point. **At the very high-end I think they're doing well because of the wealth that exists in China particularly. At the low end, it's getting in there and it's having a business**. **[Quan: high-end brands were performing better than low-end brands]** But when you are done, it's easier for people to go buy goods and it's much cheaper to go buy goods in Hong Kong. So if they're traveling, it's important to have the presence but a lot of the purchasing power will take place outside of China because of all of the duties and taxes going into China. **But for us and I think for a lot of our competitors, it's important to position yourself really for the future. And that's (inaudible) Movado it's a two-prong approach, the U.S. market for the Movado brand and the China market because we want to position ourselves first 10, 15 years down the road** and we think the Chinese consumer will very much mimic the U.S. consumer." – Movado at Cowen 2008 Conference

[3] "Rick Patel - Stephens Inc.

Great. Then just one more, if I may. Can you talk about the Movado distribution footprint and what it looks like internationally? I'm curious which inning you're in, in Europe and the UK in particular, and where the white space is as we think about geographic expansion over the next few years.

Efraim Grinberg - Chairman, Chief Executive Officer

Well right now, Movado has -- we just launched very recently in the UK. That is one of our international markets of focus. **So we're not thinking of expanding to many different markets**. There is markets we've already had a position where we need to grow the business. But we want to be very thoughtful. **It's not adding doors, it's building one door at a time. So we have a position in China now that there are certain concessions that we run which are performing really well**. So we want to be, again, very focused on how we build this, and again it's not every market. Right now, **the main focuses are the UK, certainly China, and in Brazil** we're also, as I mentioned in my remarks, seeing very good traction." – Movado 2015 Q4 Earnings Call Transcript

[4] "As we said, the Swiss watch market has been very, very successful in Asia, especially in China and even China travelers buying Swiss watches around the world. **And the prices of those products have gone up dramatically and so has scarcity. It's I think given us an additional white space opportunity for**

us to put Swiss made products in the Asian markets" – Kosta Kartsotis, Fossil's CEO, 2012 Q2 Earnings Call Transcript

[5] "**And if you look at our distribution over there [Quan: Asia], especially in China, there's not a lot of places where we can just automatically go and sell. We have to build concessions, our own distribution, our own stores, et cetera**, so having Watch Station as a catalyst for that over there, whether it's an actual store on the street, or it's a concession in a mall or in a department store, it all fits together and it enables us to do exactly what you said.

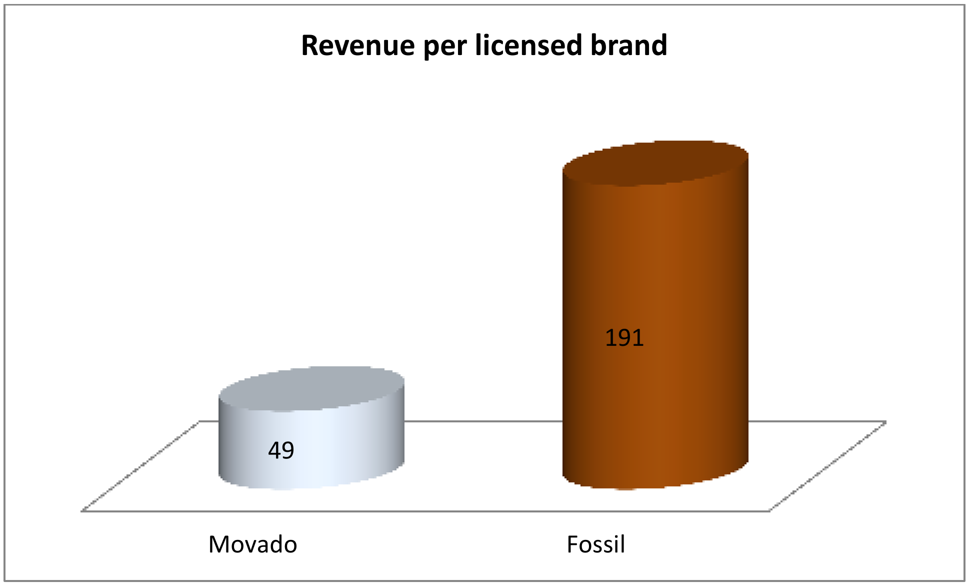
When we first go into a market, typically the brands that are in our portfolio are much more well known than Fossil. So Armani is an extremely powerful brand throughout Asia, and especially in China. So it's a door opener, enables us to get locations, and we add the other brands, and we bring our own brands, along so FOSSIL and SKAGEN and we will get the benefit of getting distribution in those locations." – Kosta Kartsotis, Fossil's CEO, 2014 Q2 Earnings Call Transcript

[6] "In support of our strategic plan, which calls for annualized 10% sales growth and 20% operating profit growth, we continue to make investments in expanding our global competencies and capabilities. **As previously announced, we are extremely pleased to have Ricardo Quintero join us as President of Movado Group. He adds a level of global brand building and international marketing expertise that will greatly enhance our worldwide business expansion capabilities.**

We continue to invest in and expand our personnel around the world, focusing on global growth opportunities. In the wearable device arena we are investing in developing strategic alliances that will position us to potentially launch product consistent with our luxury product branding philosophy." – Rick Cote, Movado's COO, 2015 Q2 Earnings Call Transcript

Misjudgment

Will Movado Lose Licensed Brands to Fossil?



Fossil makes almost 4 times more revenue per licensed brand than Movado

- What's the impact of smart watches on fashion watches?
  - Most people Quan talks to say they don't care about smart watches
  - People already pay a lot for a simple function
    - Because of
      - Brand
      - Design
    - They pay more for a jewelry piece instead of a timepiece
  - Will smart watches make it difficult to justify paying $200 for a simple watch?
    - Smart phones already make it difficult to justify paying for smart watches
- Will other Swiss watch brands gain market share from Movado in the U.S.?
  - Omega, Tissot or Longines has only 10% of revenue in the U.S.
  - Big Swiss watch brands may compete with Movado are
    - Tissot
    - Longines
    - TAG Heuer
  - Movado has 30-40% market share in the $500-$1,500 price range
    - Gains for competitors will come from Movado

- But Movado dominated the U.S. market for years
  - U.S. consumers might be different
  - Distribution in the U.S. is different
    - Dominated by
      - Department stores
      - Jewelry chains
    - Swatch's CEO said U.S. retailers don't know how to sell quality watches[1]
      - U.S. retailers are obsessive with sales per square foot
        - Check every 3 hours
      - Swatch (group) has to open own stores
  - Boutique is more appropriate for brands like Omega
    - Not for
      - Longines
      - TAG Heuer
      - Tissot

- Did Movado's brand awareness in the U.S. declined?
  - Total advertising expenses declined
    - 2006: $76 million
    - 2007: $79 million
    - 2008: $86 million
    - 2009: $80 million
    - 2010: $54 million
    - 2011: $59 million
    - 2012: $64 million
    - 2013: $68 million
    - 2014: $74 million
    - 2015: $72 million
  - Movado closed boutiques in 2010
  - Movado has been gaining market share in the U.S. in recent years
    - Gained 2% in 2014
  - Movado will spend more in advertising next year[2]
    - Advertising expenses tend to move in line with sales
- Is the management long-term oriented?
  - They seem very patient in building brands
    - Invested in Movado boutiques for more than 10 years

            - With operating losses
        - Building Movado's presence in China, U.K., and Brazil for future
    - But there's no compensation based on long-term performance
        - Cash and equity-based awards are based on earnings per share
            - Adjusted for unusual items
- It's unclear about Ferrari's behavior
    - The current contract end on December 31, **2017**
    - This contract last only 4 years
        - Most contracts are 5 or 10 years
    - Ferrari is a fickle licensor
    - They're trying to build a luxury lifestyle brand
    - Ferrari watches are made in Switzerland
    - Ferrari's high-end watches are made by Hublot
    - Ferrari's low-end watches average $300-400[3]
    - Ferrari changed licensees of low-end watches several times
        - Girard-Perregaux
        - Panerai
        - Cabestan
    - These companies are tiny manufacturer of luxury Swiss watches
    - Movado is the better choice for low-end Swiss watch
    - There's risk that Ferrari may switch again after 2017
        - Would be a big negative impact on share price
            - But Ferrari is relatively new
            - Just launched for 2 years
            - Might not have contributed much to Movado's revenue
- We may underestimate Movado's disadvantage against Fossil
    - Fossil is an attractive partner
    - All of Movado's big brands may want to work with Fossil
        - The contract with Hugo Boss will end on December 31, 2018
    - Fossil might want Movado's big brands
        - They wanted to get Guess in 2005
        - Guess watches were making $150 million revenue
            - The biggest fashion watch brand at that time
        - Yet Guess wanted to work with Fossil
        - Callanen managed to renew the contract only by suing Fossil[4]

[1] "EDOUARD CROWLEY, ANALYST, EXANE BNP PARIBAS: Yes, good afternoon. It's Edouard Crowley for (inaudible) Exane. Just actually most of the questions have already been answered, but could you just follow up on what could be a midterm sales split between retail and wholesale in a three years' time, for instance?

Secondly, could you give any color on the likely CapEx we can forecast for 2010?

And just to elaborate also on the retail strategy, given that you are seeing some first signs of improvement in the US do you plan maybe to take maybe some opportunities to develop some retail activities in the country? That would be interesting. Thank you.

NICK HAYEK, SWATCH's CEO: Mr. Crowley, **if you would show me a retailer on the chain that knows how to sell quality watches, I would be happy. Unfortunately, I don't see one. You see, that is the problem with the US**.

At the moment, we have three Tourbillon stores installed -- one in Wall Street; one in South Coast Plaza, Los Angeles; and one in Las Vegas. And they perform very well, but we are studying what kind of approach we could take. **I think it's an interest for all Swiss-made watches that we increase the quality of presentation in the United States.**

But at the moment we are not looking at an existing chain or something. It's just ideas and an opportunity perhaps to move in this direction. **I know that many other brands are looking at the same situation.**

So don't think that we go and buy a chain that is existing. We don't want to ruin us, because all the chains I know are probably in red numbers or close to it. So we are not interested in something like that, so you can be calm.

…

Swatch is the best example. In the US, we decided at one point of time, many years ago -- I think it was 2003 or 2002 or 2001 -- we stopped the distribution in the department stores and to the independents. We go only for own stores, because we are fed up with the short-term politics of measuring the success per square feet turnover every three hours.

And then they change again strategy. They put you somewhere else. **They put you in competition with Chinese-made products. So we said stop. Here we need a 100% own distribution.**" – Swatch 2009 Q4 Earnings Call Transcript

[2] "Kristine Koerber - Barrington Research Associates

Okay, and then lastly, can you talk about marketing spend, what your plans are for fiscal 2016?

Efraim Grinberg - Chairman, Chief Executive Officer

We will increase marketing spend this year and continue to invest in our brand building efforts around the world. So that is a continued focus of ours. Obviously we'll do it in line with our sales growth." – Movado 2015 Q4 Earnings Call Transcript

[3] "**Ferrari prices are going to be between EUR95 and EUR600 on average. There could -- there will be some watches that will go up to $1000, but on average, we expect the average price to be about $300 to $400, the opening price point is about $95**." – Efraim Grinberg, Movado's CEO, 2013 Q4 Earnings Call Transcript

[4] "T**he public dispute between Callanen and Fossil began Aug. 26, when Fossil and Guess announced they were in "advanced negotiations" for a 10-year global license agreement, which was to become effective Jan. 1, 2007**. The agreement called for Fossil to establish a separate company to make and distribute Guess and Guess Collection watches.

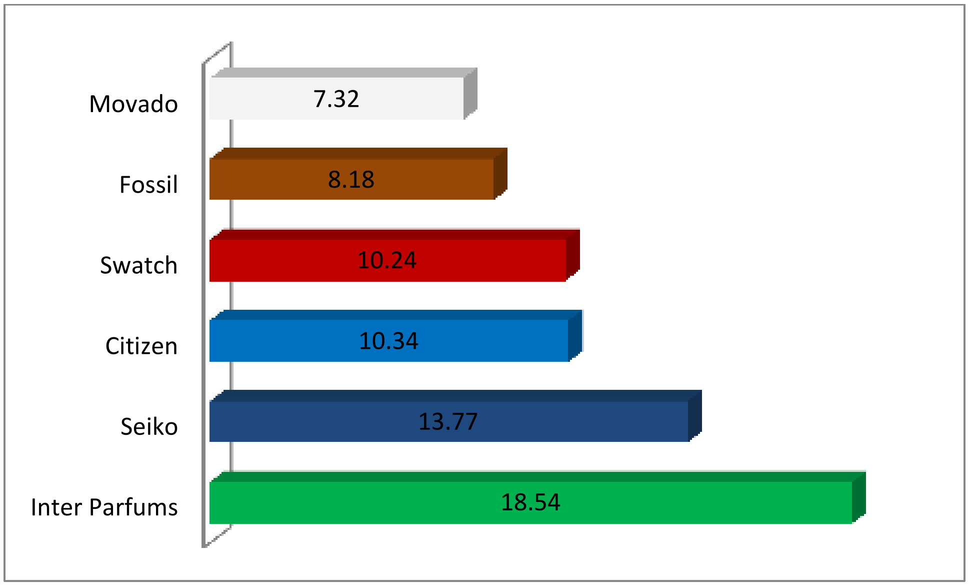
Kosta Kartsotis, Fossil's president and chief executive officer, said at the time that the company was very excited about the proposed long-term partnership with Guess and expected the agreement to be finalized in a week.

Marciano said at the time that the proposed partnership would be "a strong one and contribute to the further expansion [of Guess watches] domestically and internationally."

On Aug. 31, however, Callanen sued Fossil, but not Guess, asking the federal court in Los Angeles to stop the proposed pact, claiming it violated federal antitrust and state unfair competition laws, "interfered with Callanen's contractual relationship" with Guess, and **would give Fossil a monopoly of the fashion watch market, which it already dominates with a 40 percent share.**" – *New Callanen-Guess License Ends Dispute with Fossil*, William George Shuster, JCK Magazine, November 2005

Conclusions

Movado Deserves 10 or 11 EV/EBIT



Movado is trading at only 7.32 times EBIT

- Movado is an decent company in a good business
    - Watch is a high margin item
    - Low inventory risk
    - Movado is weaker than Swatch as a luxury watch company
    - Movado is weaker than Fossil as a watch licensee
- Capital allocation is decent
    - They don't destroy value
    - They don't move fast
    - They do a fine job at managing the brands
    - Movado (brand) may grow in China in the long run
        - Tissot spent little in advertising
        - Entered China in 1992
        - Positioned itself as a product that's not expensive yet is a status symbol
        - Relies on high brand loyalty and word of mouth
        - Movado now has 50-60 shop-in-shop stores in China
            - May grow brand awareness for the next 10-15 years
    - Movado may return cash to shareholders
- Like Swatch, Movado is very volatile stock

    - Beta is 1.53
    - Reason:
        - 90% of revenue is wholesale
        - Wholesale business is very sensitive
            - Retailers can cut inventory when they're pessimistic
    - Recent concern about smart watches add some volatility
- The main risk is from smart watches
    - Otherwise, this is a very predictable business
- Movado deserves 10-11x EV/EBIT
    - Movado is an above average business
        - ROIC is above average
        - Past growth was above average
        - Capital allocation is decent
    - Not a great business
        - Lose money in bad time
        - Inferior to peers
    - 30% tax rate