U.S. RETAIL INDUSTRY REPORT

SHOP 'TILL YOU DROP

Over the last 5 years, the apparel market, a subsector of the U.S. Retail Industry, has seen limited growth. In this mature and highly competitive apparel market, many companies are trying to survive and adjust to the fast-changing and innovative economy. The discretionary nature of the market, along with the current complications created by COVID-19, including lockdown measures, as well as the decrease in spending and disposable income have forced some retailers to declare bankruptcy and many others to rethink their future.

This report examines the strengths and shortcomings of the apparel market, evaluates the current market conditions, analyzes the social and financial implications of COVID-19, and provides a future outlook of the market.

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Introduction

Industry Definition

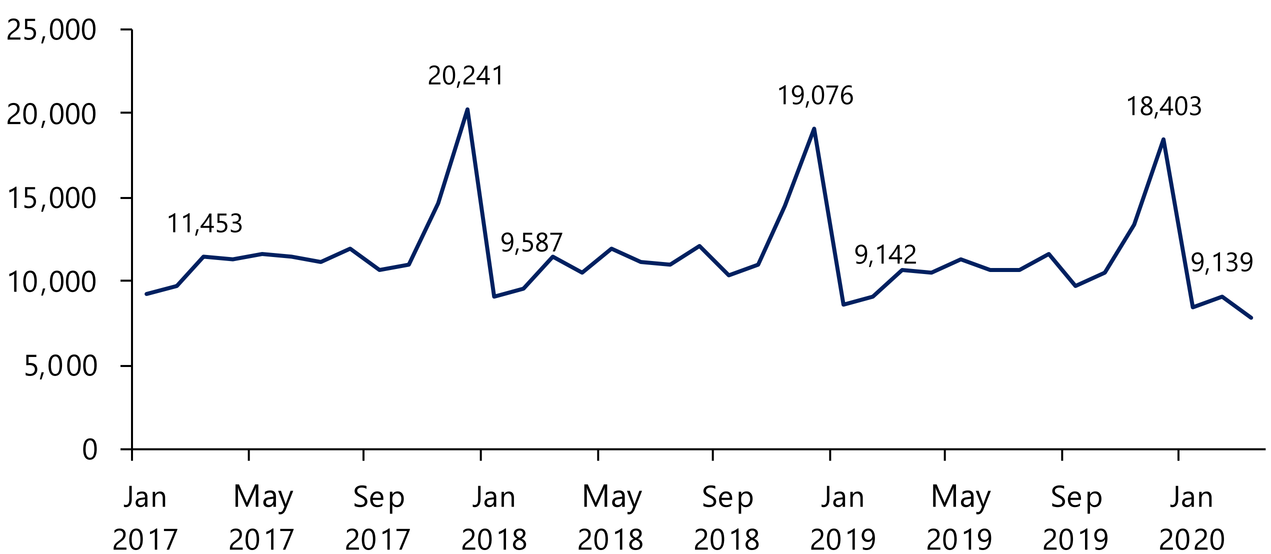
The apparel market is fragmented and highly competitive. There are several major players, but there are also countless niche stores and private companies that cater to specific demographics. General merchandisers and foreign companies bring more competition to the sector. Consequently, companies in the apparel market need to be nimble and highly efficient in order to survive. Having the right product is also essential; fashion trends change frequently, and companies need to adapt to varying consumer tastes quickly. The apparel market consists of companies that design and sell clothing, footwear and accessories. Product categories include everything from basics, such as underwear, to luxury items, for example, cashmere sweaters and alligator-skin handbags.

Throughout the apparel market cyclicality is prevalent. Performance tends to increase from Black Friday to the Christmas holiday season, while remaining stagnant during the late winter and summer months. This results in a spike in earnings performance during Q4.

Apparel Market Key Statistics

Total Revenue in 2020	$115.7bn
Average Annual Growth 2015-2020	0.8%
Projected Average Annual Growth 2020-2025	1.2%
Profit Margin in 2020	3.8%
Wages as a share of Revenue in 2020	11.8%
Average Growth in number of Businesses 2015-2020	5.1%

Monthly retail sales of department stores in the United States from 2017 to 2020 (in million U.S. dollars)



SHOP 'TILL YOU DROP

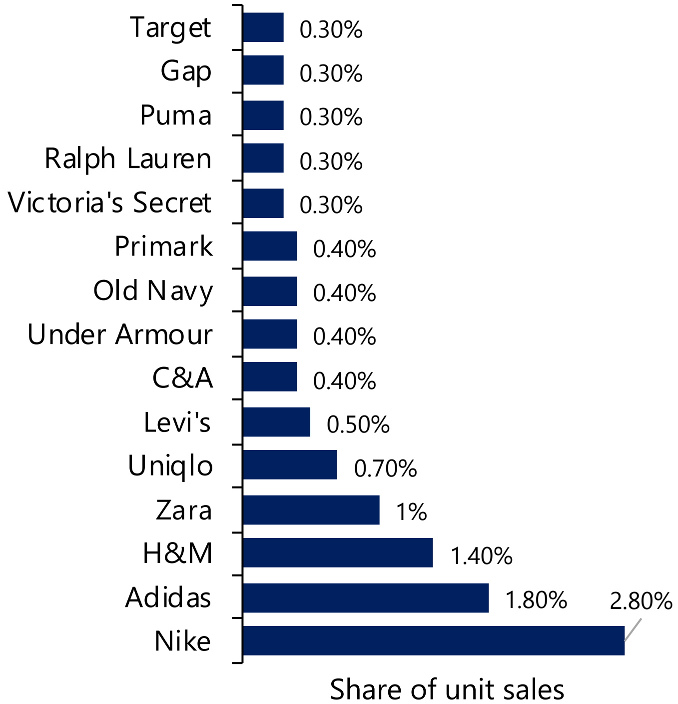
Introduction

Department Store Retailers

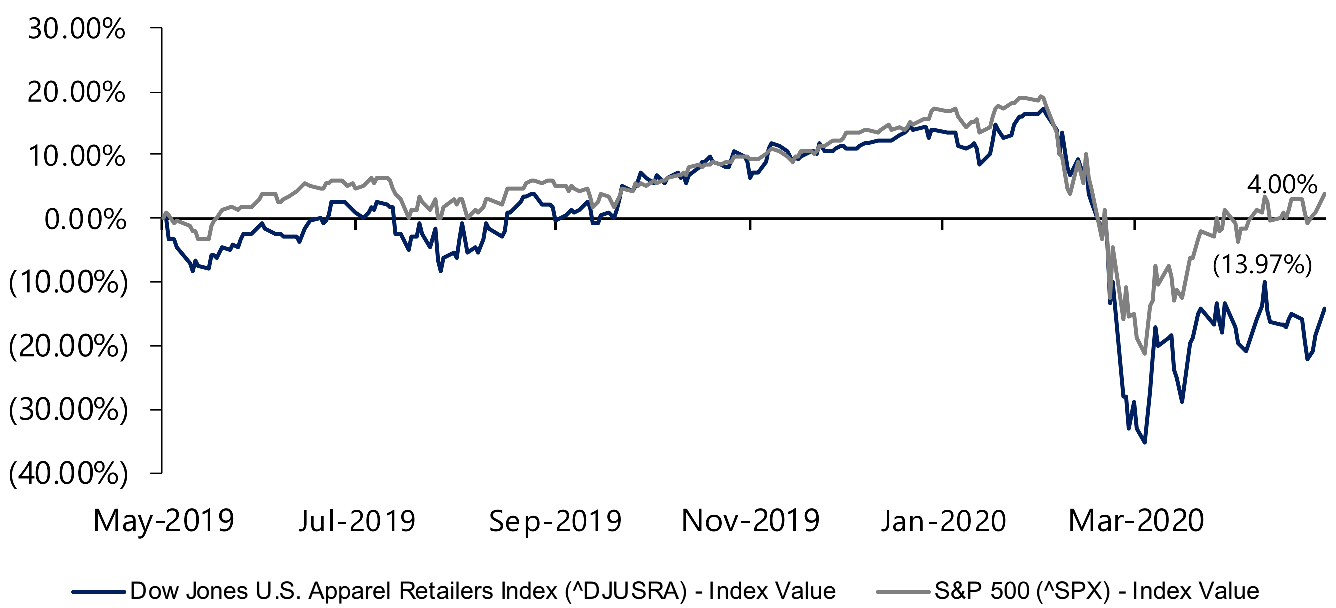
Department stores retail a broad range of general merchandise, such as apparel, jewelry, cosmetics, home furnishings, general household products, toys, appliances and sporting goods. Discount department stores, which are also included in this industry, retail similar lines of goods at low prices. However, big-box retailers and supercenters that offer fresh groceries in their stores, in addition to warehouse clubs that operate under membership programs, are not included in this industry.

Family clothing retailers stock a general line of new clothing for men, women and children, without specializing in apparel for a particular gender or age group. Additional services include basic alterations, such as hemming, taking in or letting out seams and lengthening or shortening sleeves. Traditionally, apparel companies were wholesalers, selling large quantities of goods to retailers, which then marked-up items and sold them to consumers at a profit. However, it's become more difficult to draw a line between wholesalers and retailers; most apparel companies now have both types of operations.

Market Share of Clothing Brands Worldwide



Dow Jones U.S. Apparel Retailers Index (^DJUSRA) Compared with the S&P 500 (^SPX)



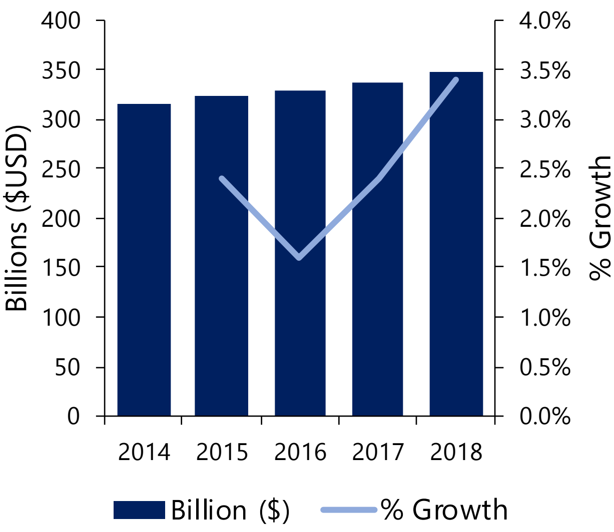
Source(s): CapIQ, Statista

Developments & Trends

General

The U.S. apparel market has seen limited growth in the last 5 years with a compound annual growth rate (CAGR) of 2.4%. Rising disposable income and consumer confidence over the period have contributed to a rise in discretionary spending and retail growth. It is anticipated this industry will continue to grow through 2025 at a CAGR of 3.6%. Despite the weak growth numbers, the industry has players on different sides of the growth spectrum. The struggles of brick and mortar stores have coincided with the success of online retailers.

U.S. Apparel Market Value



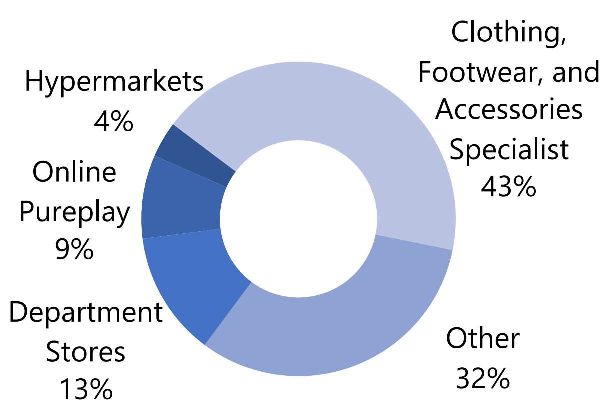
Brick and Mortar

The mature and highly saturated brick and mortar segment of the apparel market has seen growth of -3% over the last five years. This trend is likely to continue over the next five years with growth projected to be around -3%. With consumers valuing convenience, variety, and lower prices, competition from online retailers have led to the decline of brick and mortar stores. Declining revenues have and will continue to lead to cost cutting by retailers.

9300 stores were closed in the U.S. in 2019, an increase of 59% from 2018. U.S. retailers are also projected to cut 2.4% of its labour force over the next 5 years. As a result of the industry's decline, it is expected that there will be a rise in M&A deals. This includes like-for-like acquisitions by companies in the same sector and acquisitions made by companies in other sectors for the purposes of channel expansion and vertical integration.

Despite brick and mortar's bleak prospects and online retailers' ever-growing prominence, the reality is that many apparel retailers still have a physical presence. Data shows that purely online retailers only make up 8.6% of the industry's value. Instead of focusing all out on one model, many retailers have chosen to adapt an omnichannel strategy known as the click and mortar as it combines the best attributes. Companies following this model have a physical presence as well as an online presence giving customers the accessibility and ease of online and the experience and reliability of in-person shopping. However, as technology continues to advance, it is likely that this model will also become obsolete.

U.S. Apparel Market Distribution
% Share



Source(s): CNN, IBISWorld, MarketLine, McKinsey

Developments & Trends

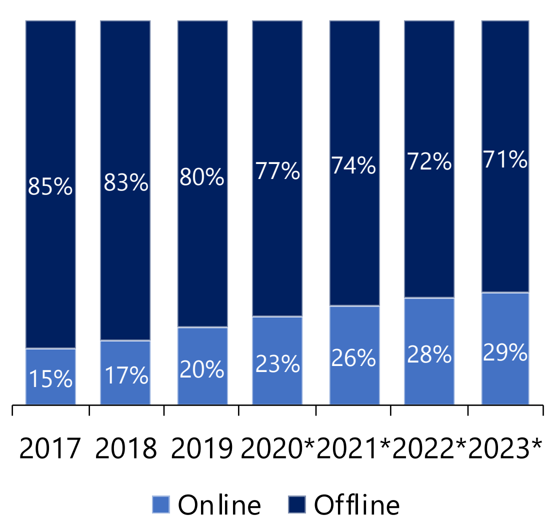
Online

The U.S. online apparel market has seen 15% growth over the last 5 years. The substantial growth in this segment is due to a variety of factors. Increased internet access has provided a larger customer base for online retailers. Consumer confidence in the U.S. has risen past OECD standards at an annualized rate of 6.6%. In addition, consumer online shopping affinity has grown. Consumers' growing confidence is in part as a result of the development of secure payment systems, such as PayPal. In addition, the rising U.S. per capita disposable income, increasing at a rate of 2.1% yearly, has further accelerated the segment's expansion.

Despite the strong growth over the last few years, analysts believe that growth in the online apparel market will steadily decelerate over the next five years. Projections illustrate that the industry will only see 4% growth over the period. The deceleration is predominately due to additional costs incurred as a result of increased competition within the market. The sector's low barriers to entry has inevitably seen an increase in competitors as the number of businesses over the last five years has risen by 10%. As a result, retailers have had to hire additional workers, spend more on marketing, and compete with other retailers on price and customer satisfaction. Furthermore, online retailers have spent more on optimizing their online space by focusing on search engine optimization and introducing machine learning. Along with the costs associated with increased competition, U.S. tax regulations also threaten to hurt online retailers' bottom line. Presently, online retailers selling to states in which they have no physical presence are exempt from collecting sales tax. Some states have already enacted legislation that requires online retailers to collect tax and more states could pass such laws in the future.

Even though the growth of the industry is likely to be hindered by increased competition and regulation, there are still many reasons to be optimistic about the online apparel market's future prospects. Over the coming years, internet access and usage in the U.S. is likely to continue growing. As well, consumers will continue to become more confident with the reliability and safety of online shopping. Further innovation within the market, such as the optimization of virtual reality, search engine algorithms, and machine learning, will improve the online shopping experience and entice consumers to shop online. Furthermore, the comfort of online shopping also attracts online consumers. Statistics show that 63% of shoppers prefer browsing online because they can shop without the added pressure from sales associates. These advantages that online retailers offer has resulted in the growing adoption of online channels over the last few years. This trend will continue in the coming years as more retailers choose to implement online channels into their business strategy.

Sales Channels



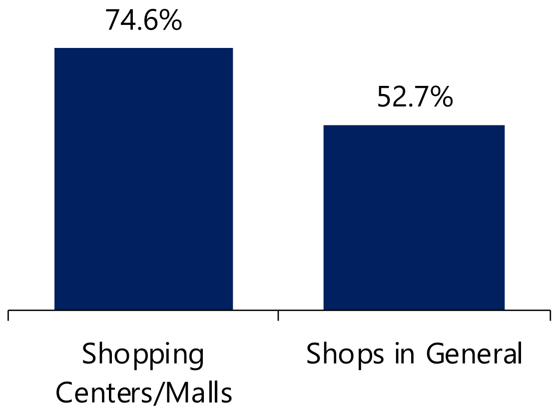
Pre-COVID-19 Projections

Developments & Trends

COVID-19 Development

The apparel market's long-term prospects amid COVID-19 are uncertain. However, developments from short-term data could provide clues about future trends. It has become increasingly clear that COVID-19 has and will continue to have serious financial, social, and health ramifications. In the short term, these ramifications will severely impact supply and demand in the industry.

Likeliness of Consumers to Avoid Stores in the U.S.



Supply

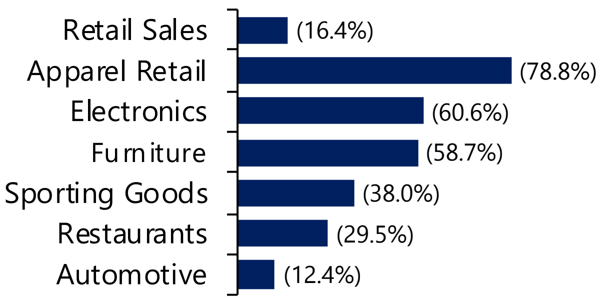
For retailers, many of the streamlined and efficient supply chain and logistics networks are now being exposed by the effects of the virus. Apparel retailers are having difficulties transporting goods as a result of cargo restrictions. February data reveals that air cargo fell by 9.1%, the largest ever monthly decline. These numbers are expected to fall further in the coming months. The stock that retailers have already acquired and shipped is piling up in their stores and warehouses. The shifting seasonality of the apparel market means that the stock will either be heavily discounted or written off completely in the near future.

Demand

Demand in the industry has fallen sharply. The closure of many stores, strict lockdown guidelines, and consumer's diminished income has put a strain on retailers. 52% of consumers have said that they will be avoiding physical stores during the outbreak. In addition, nearly 50% of consumers have said that they will be saving their money through the pandemic. These shockwaves have been felt across the retail industry, as sales fell by 16% in March, much lower than expectations and four times lower than the largest decline during the 2007-09 recession. The numbers are far more grim for apparel retailers. The discretionary nature of the industry has made it extremely vulnerable to the effects of COVID-19. April data shows that sales in the apparel market were down 90%. Projections estimate that the monthly average could be -50% through all of 2020.

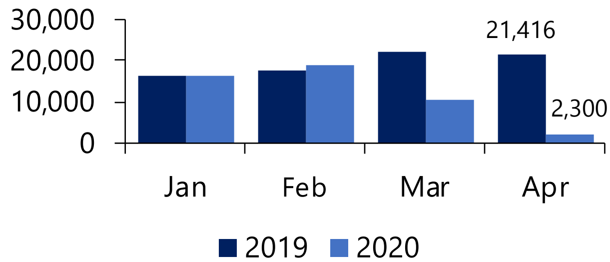
April Retail Sales

Percentage Change (March-April)



U.S. Apparel Market Sales

Year over year monthly sales comparison (in millions of dollars)



Source(s): CNBC, NPD, Passport, Statista, U.S. Census Bureau

Bankruptcy due to COVID-19

J.Crew Group

The J.Crew Group has become the first national U.S. retailer to file for bankruptcy protection due to the COVID-19 pandemic, forcing many stores to close. J.Crew filed Chapter 11 bankruptcy proceedings and has reached a deal with its investors to convert about $1.65 billion of debt into equity. The basis of a Chapter 11 bankruptcy code allows for a proposal plan of reorganization to keep its business alive and pay creditors overtime. The J.Crew Group will continue all day-to-day operations.

Neiman Marcus

In early May, Neiman Marcus filed for Chapter 11 bankruptcy protection. Prior to COVID-19, Neiman Marcus was making solid progress towards long-term profitability and sustainable growth. With lockdown orders in place due to COVID-19, Neiman Marcus was forced to close operations and as part of the bankruptcy filing; was able to secure $675 million in financing from creditors to keep operating during the restructuring process. Neiman Marcus expects to emerge from bankruptcy this coming fall.

JCPenney

JCPenney, the 118-year-old company, is the most recent U.S. retailer to undergo Chapter 11 bankruptcy and was forced to close all its 850 stores as pressure mounted from the COVID-19 pandemic. JCPenney was amid a turnaround plan in order to reduce its roughly $4 billion debt. On May 14, JCPenney made a $17 million interest payment and within 24 hours, declared bankruptcy allowing the company to secure $900 million in debtor-in-possession financing. JCPenney had been struggling for years, failing to turn a profit since 2011.

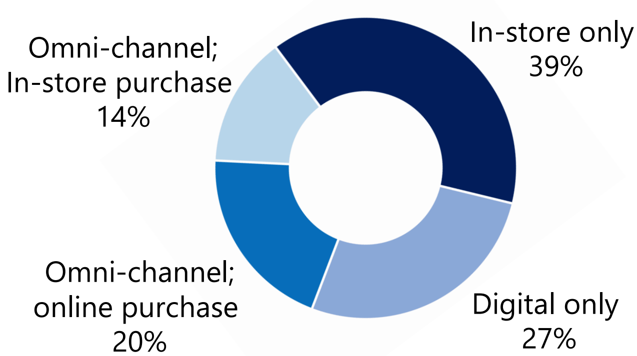
Source(s): Business Insider, CBC, CNN

Revenue Drivers

Omni-Channel Strategy

Omni-channel retail strategy approaches sales and marketing with an aim to provide an integrated shopping experience by connecting user experience from brick-and-mortar to mobile-browsing and everything in between. Today six out of ten consumers are using at least one digital channel in their shopping journey and this has major implications on physical stores. In 2019 alone, more than 9300 stores were forced to close. However, for most apparel businesses brick-and-mortar stores are still important as many of the "best" customers are using a combination of both online & offline channels in their shopping journeys.

Breakdown of shopping journeys in apparel, *% of shoppers*

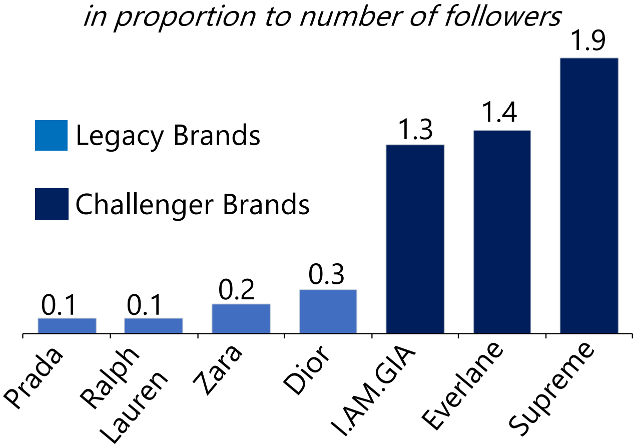


Omni-channel shopping is fast becoming the new standard. More than 60% of shopping journeys have a digital component for research or transaction, and this is projected to grow three times faster than in-store sales. The average omni-channel customer purchases 70% more often than an offline-only shopper and on average spends $2000/year on apparel goods. Therefore, omni-channel customers are simply better customers for apparel brands. Many of the existing businesses are investing heavily in developing omni-channel strategies to blur the line between online and offline shopping experience, in accordance with the changing consumer demands.

Customer Retention & Loyalty

With the increase in accessibility of technology & social media, a new breed of "challenger" brands are disrupting the existing landscape of the apparel market. McKinsey survey of millennials suggests that younger generation are more inclined to set themselves apart through new brands that regularly challenge the fashion conventions, through creative branding, communication and distribution. Simultaneously, social media has leveled the turf, allowing new brands to give fierce competition to established businesses. Social media followers of challenger brands are far more active, than those of traditional brands.

Instagram likes per follower, *in proportion to number of followers*



Retaining existing customers is integral in the apparel market. Studying consumer behavior closely, indicates that returning customers spend double the amount of what new customers spend. Therefore, focusing on customer loyalty results in higher revenue and overall company success. Brands that consistently give customers a motive to engage and reengage with their brands through loyalty programs or giveaways, often create the most buzz. Especially in the era where shoppers are increasingly more social, the awareness created can be a game changer in retaining customers and growing revenue year over year.

Source(s): Business Insider, IBISWorld, McKinsey

Revenue Drivers

Go-to-Market

Go-to-market (GTM) strategy is the way in which a business brings a product to the market. Since the apparel market is highly competitive by nature, reducing the time between the start of development and the launch of the product, can be integral for a company's success. The shorter this time span is, the lower is the danger of inaccurately anticipating what the market will demand by the time the product hits the shop floor. If the go-to-market process is longer, it can lead to higher overlap, with designers working on numerous collections at the same time. This can have a chain effect of inefficiency on other components, in pursuit of getting the product to the end-user. Such circumstances are not favorable to any business in the fashion industry. As a result, many companies are planning and actively investing in prioritizing improvements to their go-to-market strategies. In the apparel fashion market, time is indeed money.

Marketing

Fashion marketing is the practice of managing the flow of merchandise from the initial selection of designs to be manufactured, to the presentation of the products, to reaching out to the retail customer. All of this, with the goal of boosting the company's sales and profitability. Businesses spend much of their effort on truly understanding their target group and the appropriate products desired by consumers. Methods such as sales tracking data, attention to media coverage, focus groups and others are used to gain essential insights about the quality and quantity of the goods to be produced. Thus, by identifying and defining a clear marketing strategy, businesses are better able to respond to the preferences of consumers, which materialize in form of increased revenue.

Expense Drivers

Material Cost

Material cost is the cost of commodities supplied for production. This usually includes freight charges, taxes and insurance costs. These activities are directly attributable for the acquisition of materials, and therefore included in the material costs. Here the material can be defined as any substance from which the good is made. It may be in the raw material state, for instance fiber for fabric and raw chemicals for dyeing. Or it may be in a "made" state, for example buttons, zippers, etc. Resources that become an integral part of the finished product are one of the major expense items. Much of it is constantly affected by macro-economic trends and trade deals amongst countries, where materials are sourced from.

Labour Costs

Employees are an essential part of businesses in the fashion industry. Typically, companies have two types of employees, those who are directly involved in converting raw materials into finished products and those who assist in operations, sales, distribution and other roles. The labour cost is a significant expense, often paid in the form of wages, salary, bonuses and commission.

Other Costs

These expenses are the overhead costs of manufacturing, incurred during production. Another significant cost is the administrative expense, which is incurred in the form of general organizational functions and doesn't have a direct connection with production or sales activity. Additionally, research and development (R&D) is also a major cost for businesses in the fashion market. This is an integral part of a business and has had a steady growth year over year.

Source(s): Business of Fashion, Encyclopedia Britannica, KPMG, Marketline, McKinsey

Short-Term Outlook

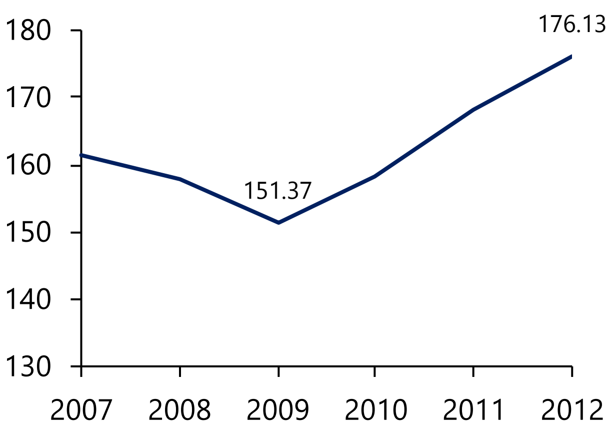
Comparison to Previous Economic Crises

The financial crisis that started in 2007 had a significant impact on the global apparel market, but the impact of the financial crisis seemed to be unevenly distributed. Luxury apparel companies, such as Louis Vuitton, achieved stable sales while quite a few mass apparel companies, such as GAP, experienced significant drop of sales and profits. Apparel retailers in the United States experienced decreased revenues and slow inventory turnover, overall experiencing a 12.8% and 5% decline in sales in 2008 and 2009, respectively.

For fashion retailers, one of the lingering and most damaging effects of the 2008 recession was a dependence on discounts. After their sales dropped, companies depended on promotions to clear out all the unsold inventory and to get shoppers buying again. Players in the market saw their margins decline and their brand diminish as consumers became known for always having discounted goods.

Consumers became more cautious and realized that they could survive off less. As such, retailers have had to adapt their strategies to provide consumers with more value for less money. Sales for apparel slowly began growing in 2010 and took four years for the apparel market to return to the pre-recession sales volume.

Impact on the Apparel Market during the 2008 Recession ($ Billions USD)



Short-Term Outlook

With the U.S. unemployment rate nearing 15%, price appears to be the major issue for shoppers, which means that all retailers will have to implement price reductions to sell off inventory. Unsurprisingly, retailers are heavily discounting spring and summer 2020 inventory. Data shows that sales in apparel retail were down 90% in April and projections show that the monthly average could be -50% through all of 2020, posing as a threat to many retailers across the U.S. Depending on the duration of the lockdown, 75% of apparel companies could face challenges in managing debt.

Once the dust settles on the immediate crisis, apparel will face a recessionary market and an industry landscape still undergoing dramatic transformation. The market's recovery will include a continued lull in spending and a decrease in demand across the market. The COVID-19 crisis will hurt the weak, toughen the strong, and accelerate the decline of those that were already struggling prior to the pandemic. This will lead to massive levels of consolidation, M&A, and bankruptcy as the weak companies go out of business and the strong companies thrive on the failure of others.

On the consumer side, there will be significant changes to consumer behavior and spending patterns as consumers try to recover from the effects of the pandemic. Shoppers will likely cut discretionary spending as they anticipate the outcome of the current global economic situation. For the time being, online clothing purchases will be the new normal.

Overall, the market could regain a growth of 2 to 4 percent in 2021. As things begin to go back to "normal", the apparel market will have to reinvent itself by adapting to new consumer behavior and by taking actions to mitigate risk across the industry.

Source(s): McKinsey, NPD, Statistica

Long-Term Outlook

Trend Toward Online Retail

Moving forward, the general consensus in the apparel retail space is that the market faces a "New Normal." Many retailers with inefficient supply chains and low resources will continue to cut operations or declare bankruptcy. The market is likely to see thinner revenues in the coming years, even if there is any sort of recovery from COVID-19. Also, any sort of "revenge spending" to make up for the lack of spending over the last few months is unlikely to materialize as a result of the continuing fear and anxiety surrounding the virus.

Despite the grim nature of the current apparel retail market, there are many opportunities for innovation. As a result of the COVID-19 pandemic, e-commerce has benefitted. Traffic on online sites are up 23% and online transactions are up 44%. It is likely that in the near future, companies will introduce sustainable alternative business models, consisting of online retail. However, online retail is only a fragment of what is needed to innovate the apparel retail market. The future of this industry will see further optimization of supply chains, brand new business parameters, further digitalization, and a shift in consumer culture. Apparel retailers will begin to shift their focus on flexible supply chains, centered on 'made in America.' Many will look to onshoring or nearshoring, as they begin to value a flexible supply chain over a low-cost one.

Before the COVID-19 crisis, 27% of apparel sales were online; however, with the effects of the pandemic, more and more consumers will begin to purchase apparel online in the long run. The convenience of e-commerce, as well as the desire to continue with contactless transactions into the future, is driving accelerated adoption of digital shopping that will continue after the COVID-19 crisis.

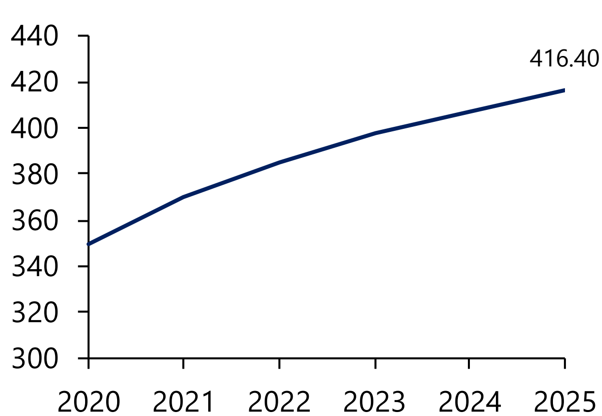
Downsizing America's Apparel Market

The COVID-19 crisis is teaching retailers a lesson they had probably suspected, but were forced to confront: There are too many stores in the U.S. In 2018, the United States had the highest square footage of retail space per capita worldwide at 23.5 square feet per person. As such, the American apparel market was already oversaturated prior to the pandemic. With up to 75% of apparel companies facing difficulty in managing debt, many of the "temporary" store closures from COVID-19 are going to be permanent. By the end of the post-pandemic economic recovery, thousands of apparel stores could shut their doors for good.

Future Outlook

The American apparel market is expected to grow annually by a CAGR of 3.6% between 2020 and 2025. As consumers globally grow increasingly concerned regarding the environmental impact of their apparel purchases, a growing section of the market providing sustainable materials is likely to appeal. Going forward, the growth of e-commerce and the increasing presence of sustainable apparel will continue to drive growth into the future.

Apparel Sales Projections in the U.S. ($ Billions USD)



Clothing Comparable Companies

Sports Sector

Looking at a company such as Nike Inc, it is relatively clear that it is one of the largest among major firms, holding a market capitalization of $153.11 billion compared to the mean of $37.99 billion. Under Armour, Columbia Sportswear Company, Deckers Outdoor Corp, and V.F. Corp are all below the mean in terms of market capitalization and enterprise value, ranging between $3.50 to $27.00 billion.

Capital structure is able to describe the mix of a firm's long-term capital and is a permanent type of funding that outlines the sources by which a company is able to achieve growth. Both Columbia Sportswear Co and Deckers Outdoor Corp rely heavily on equity, making up 80.3% and 82.9% of the company's capital structure respectively and are above the equity market average of 73.1%. While the rest of the firms also depend on equity more than debt, they are above the mean for debt of 26.9%, with Under Armour near the respective market capital structure. Columbia Sports Company and Deckers Outdoor Corp both have Net Debt/EBITDA multiples that are less than the mean of 2.1x, signaling a strong ability to handle its debt burden. Under Armour has the largest multiple of 4.4x, displaying they are less likely to be able to take on additional debt that may be needed for growth. In terms of EV/EBITDA, V.F Corp Inc has the highest average multiple of 27.8x indicating a cause for concern as the mean throughout the LTM, FY1, and FY2 is 20.3x. This may be a sign that the firm is currently overvalued although it has one of the largest enterprise values within the sports clothing market.

Analyzing same store sales and revenue 3-year CAGR, an outlier rises in Under Armour, having the lowest percent amongst its peers at 1.4% and 2.9% (SSS, Revenue 3yr CAGR), significantly varying from the average of 5.1% and 6.1%. Companies such as Nike Inc, Columbia Sportswear Company, and Deckers Outdoor Corp are above the mean, showing potential growth in times where many stores are closing.

Valuation & Operating Tables

Company Name	Market Capitalization	Enterprise Value	Capital Structure Debt	Capital Structure Equity	Net Debt / EBITDA	EV/EBITDA LTM	EV/EBITDA FY1	EV/EBITDA FY2	Price / Earnings	SSS	Dividend Yield	Revenue 3yr CAGR
Nike Inc	$153,110	$156,580	36.9%	63.1%	2.4x	23.8x	23.2x	22.7x	36.4x	5.5%	1.1%	6.8%
Under Armour	$3,890	$5,170	26.2%	73.8%	4.4x	24.0x	25.4x	27.0x	n.a	1.4%	n.a	2.9%
Columbia Sportswear Company	$4,890	$4,820	19.7%	80.3%	1.0x	10.8x	10.5x	10.3x	19.3x	8.6%	1.6%	7.3%
Deckers Outdoor Corp	$5,220	$4,860	17.1%	82.9%	0.4x	15.1x	14.6x	14.0x	19.0x	6.5%	n.a	6.2%
V.F. Corp	$22,860	$26,700	34.4%	65.6%	2.4x	25.4x	27.8x	30.4x	33.0x	3.4%	3.4%	7.5%
Mean	**$37,994**	**$39,626**	**26.9%**	**73.1%**	**2.1x**	**19.8x**	**20.3x**	**20.9x**	**21.5x**	**5.1%**	**2.0%**	**6.1%**
Median	**$5,220**	**$5,170**	**26.2%**	**73.8%**	**1.0x**	**10.8x**	**10.5x**	**10.3x**	**19.3x**	**5.5%**	**1.6%**	**6.8%**

**Market Capitalization and Enterprise Value are in millions*

Source(s): Company Filings, Seeking Alpha, Yahoo Finance

Clothing Comparable Companies

Luxury Sector

Analyzing the luxury clothing market, it is easy to see that Oxford Industries Inc and G-III Apparel Group Ltd stand out in terms of their relatively low market capitalization in comparison to their peers. The companies have a $750 million and $540 million market cap (respectively), compared to the market average of $2.69 billion, while Ralph Lauren Corp is above the mean at $5.81 billion. Looking at the various companies' capital structure, most vary around the mean of 37.1% debt and 62.9% equity. Nordstrom on the other hand has a capital structure of 78.9% debt and 21.1% equity meaning the company can increase the amount of financial leverage used to expand and grow. Although, too much debt in a company's capital structure might find that its creditors can restrict its freedom of action; or potentially experience diminished profitability as a result of paying steep and recurring interest costs.

In terms of Net Debt/EBITDA, PVH Corp and Nordstrom have respective multiples of 6.8x and 5.4x, which are larger than the mean of 4.0x. This can indicate these companies are less likely to handle their debt burden and take on the added debt that is required to grow a business.

The average of the EV/EBITDA multiples throughout the luxury clothing market is smaller than that of the sports clothing market, 7.4x compared to 20.3x. The firms range close to the mean, with the highest multiples stemming from Ralph Lauren Corp (11.2x, 11.8x, 12.3x) and the lowest occurring from G-III Apparel Group Ltd (3.7x, 3.9x, 4.1x). Same store sales are a large factor in measuring the performance in the consumer & retail industry. The average SSS throughout the luxury clothing market is 1.1%, with one company displaying negative SSS. Nordstrom currently has a -2.3% same store sales growth in the past year, showing a decline in customer traffic and the ability for its employees to convert potential customers into buyers.

The dividend yield shows how much a company pays out in dividends relative to its share price, in a percentage. PVH Corp and Nordstrom are on opposite sides of the spectrum in terms of their deviation from the mean. The average dividend yield is 4.1% in the luxury clothing market, with PVH Corp having a 0.4% dividend yield and Nordstrom sitting at 8.6%. While higher dividend yields are attractive, it may come at the cost of growth potential, as every dollar a company pays to its shareholders, it does not use for reinvesting purposes.

Valuation & Operating Tables

Company Name	Market Capitalization	Enterprise Value	Capital Structure Debt	Capital Structure Equity	Net Debt / EBITDA	EV/EBITDA LTM	EV/EBITDA FY1	EV/EBITDA FY2	Price / Earnings	SSS	Dividend Yield	Revenue 3yr CAGR
Oxford Industries Inc	$750	$1,040	26.7%	73.3%	3.3x	7.1x	7.2x	7.3x	10.5x	1.4%	3.5%	3.2%
PVH Corp	$3,520	$7,680	32.4%	67.6%	6.8x	8.7x	9.7x	10.8x	8.1x	2.6%	0.4%	6.5%
Ralph Lauren Corp	$5,810	$6,920	17.8%	82.2%	0.7x	11.2x	11.8x	12.3x	15.2x	1.2%	3.9%	-2.8%
G-III Apparel Group Ltd	$540	$1,050	29.5%	70.5%	3.8x	3.7x	3.9x	4.1x	3.5x	2.7%	n.a	9.8%
Nordstom	$2,830	$6,770	78.9%	21.1%	5.4x	4.0x	4.3x	4.7x	n.a	-2.3%	8.6%	1.7%
Mean	$2,690	$4,692	37.1%	62.9%	4.0x	6.9x	7.4x	7.8x	7.5x	1.1%	4.1%	3.7%
Median	$2,830	$6,770	29.5%	70.5%	0.7x	11.2x	11.8x	12.3x	15.2x	1.4%	3.7%	3.2%

**Market Capitalization and Enterprise Value are in millions*

Source(s): Company Filings, Seeking Alpha, Yahoo Finance

Clothing Comparable Companies

Casual Sector

The casual clothing market analyzes large retail brands that one can find at their local mall, with companies such as Urban Outfitters Inc, The Gap Inc, American Eagle Outfitters Inc, Abercrombie & Fitch Co, and Levi Strauss & Co. Out of all the clothing industries, the casual sector has the lowest market capitalization average of $2.59 billion, with Abercrombie & Fitch Co contributing to that factor by having a market capitalization of $710 million. Levi Strauss & Co have the largest market capitalization of $5.40 billion within the casual clothing industry, followed by The Gap Inc ($3.57 billion) and Urban Outfitters Inc ($1.73 billion).

The Gap Inc have the largest enterprise value of $9.60 billion in relation to the average ($4.69 billion); almost $3 billion more than the next leading enterprise value of $6.52 billion from Levi Strauss & Co. The mean of the various firms' capital structure is made up of 45.2% debt and 54.8% equity, displaying a very even structure. The Gap Inc is the only firm that does not vary around the average, having a capital structure ratio of 60% debt and 40% equity, meaning increased need of resources for financial growth. The assumption is that management can earn more on borrowed funds than what it would pay in fees and interest expense with the funds borrowed. In terms of EV/EBITDA, the average for the LTM is 5.0x, while the FY1 is 5.4x and the FY2 is 5.8x. Levi Strauss & Co have the largest EV/EBITDA multiple amongst its peers with a multiple average of 7.1x, which correlates to the fact that it is also one of the largest firms in terms of its enterprise value.

As same store sales is an important metric to measure in the consumer & retail industry, for casual clothing specifically, the average is 1.7%. American Eagle Outfitters Inc inflates the market average with a SSS multiple of 6.8%, as most of its competitors have a SSS multiple ranging from -1.2% (The Gap Inc) to 1.2% (Levi Strauss & Co). With a SSS multiple that is rising, it means that the average ticket for existing customer bases is rising, which can be based on the factors of better cross-selling or higher margins on a product.

Valuation & Operating Tables

Company Name	Market Capitalization	Enterprise Value	Capital Structure Debt	Capital Structure Equity	Net Debt / EBITDA	EV/EBITDA LTM	EV/EBITDA FY1	EV/EBITDA FY2	Price / Earnings	SSS	Dividend Yield	Revenue 3yr CAGR
Urban Outfitters Inc	$1,730	$2,630	33.8%	66.2%	4.4x	4.5x	5.1x	5.8x	n.a	0.8%	n.a	4.0%
The Gap Inc	$3,570	$9,600	60.0%	40.0%	5.7x	5.7x	6.4x	7.2x	9.7x	-1.2%	13.5%	1.8%
American Eagle Outfitters Inc	$1,580	$2,760	40.8%	59.2%	3.5x	5.6x	6.0x	6.4x	8.2x	6.8%	7.4%	6.1%
Abercrombie & Fitch Co	$710	$1,950	47.8%	52.2%	6.3x	2.2x	2.4x	2.5x	n.a	0.9%	8.3%	2.9%
Levi Strauss & Co	$5,400	$6,520	43.6%	56.4%	4.0x	7.2x	7.1x	7.1x	13.9x	1.2%	2.7%	8.3%
Mean	$2,598	$4,692	45.2%	54.8%	4.8x	5.0x	5.4x	5.8x	6.4x	1.7%	8.0%	4.6%
Median	$1,730	$2,760	43.6%	56.4%	3.5x	5.6x	6.0x	6.4x	8.2x	0.9%	7.9%	4.0%

**Market Capitalization and Enterprise Value are in millions*

Source(s): Company Filings, Seeking Alpha, Yahoo Finance