Q. Jones

Industry: Consumer Cyclicals

RATING:	**BUY**
PRICE:	**$47.39**
TICKER:	**RL**

Polo Ralph Lauren

Stock has larger earnings potential for FY 2005

Stock Data

12 Month Price Target	47.39
52-Week Range	21.25-34.9
Avg. Daily Volume (3 Mth)	528,227
50-Day Moving Average	32.80

Capitalization

Market Capitalization (BB)	3.45
Shares Oustanding (MM)	99.670
Book Value/ Share	12.63

Valuations

	Weight	
Currrent Price		34.6
P/E	70%	50.7
Price/Sales (LTM)	10%	39.0
Price/Book Current1	10%	31.3
Price/ EBITDA (LTM)	10%	48.6
Weighted Average		47.39

Only P/E and Sum Of The Parts Used (See Discussion in section 9)

Earnings Per Share

FY ends March	2003	2004E	2005E
Q1	$0.07	$0.05	$0.17
Q2	$0.52	$0.54	$0.69
Q3	$0.43	$0.35	$0.57
Q4	$0.74	$0.80	$0.99
Fiscal Year EPS	$1.76	$1.74	$2.42
P/E			

EPS - 5 Yr. Annual Growth Rate	15.03%
5Year Historical P/E Average	20.54

Current Multiples

Price/Sales (LTM)	1.367
Price/Book Current1	2.660
Price/ EBITDA (LTM)	9.513
EV/EBITDA	7.645

All estimates are in italics. Current price as of 4/02/04

Executive Summary

- The Polo Ralph Lauren company can expect to increase gross profit margins by 99.44 basis points as a result of the European consolidation, 69.8 basis points improvement as a result startup costs associated with the Lauren Line and at least an 80 basis point improvement in Lauren line profit margins.
- The Ralph Lauren name and Polo logo represent a strong brand with considerable awareness among consumers around the world.
- For the latest fiscal year, Ralph Lauren has seen Q1 comparable same store sales up 8.3%, Q2 comps up 8.3% and Q3 comps up 8.8%.
- The trailing twelve month ROE and ROA for Polo Ralph Lauren are higher than the market capitalization weighted averages for the peer group. The higher efficiency of Polo is primarily attributable to its stronger earnings power, better pricing power and higher margins than most of its peer group.
- Valuation target of $47.39 incorporates the benefits of margin improvement into FY 2005.

1. General Company Overview

"I've lived through the frenzies of over 100 designers. Some make it, some don't. What I admire is consistency, a builder. Certain names don't disappear." –Lauren in W

Polo Ralph Lauren (NYSE:RL) was created by Ralph Lauren, originally Ralph Lifshitz of Bronx, NY, when he first started selling creatively designed ties in 1967. The popularity of the Polo label led to the first boutique being opened in Bloomingdales in 1969 and a women's line added to the men's collection in 1971. Success of the line continued with the establishment of the first American boutique in Europe, in London, in 1981 with a further store opened in Paris in 1986. Also, the Ralph Lauren Home Collection was started in 1983. Of note, the Polo sport line was launched in 1993 for men and in 1996 for women. The company opened the first European children's store by an American designer in 1999. The Polo Ralph Lauren clothing line is often described as all-American, timeless sportswear and classic chic.

The Polo Ralph Lauren Company (NYSE:RL) has its fiscal year-end in March and can be broken down into its respective wholesale, retail and licensing segments. Polo Ralph Lauren first went public in 1997 and the key persons on the board are Ralph Lauren (Chief Executive Officer), F. Lance Isham (Vice Chairman since 2000) and Roger Farah (Chief Operating Officer since 2000). The company's key growth strategies involve expanding their global presence and creating an efficient base of operations. Ralph Lauren still controls 90% of the company's votes.

2. Favorable Economic Outlook

According to the Federal Reserve Chairman Alan Greenspan, the US economy is expected to undergo "vigorous expansion" based on "a notable reduction in geopolitical concerns, strengthening confidence in economic prospects, and an improvement in financial conditions." In addition, the chairman stated that "With short-term real interest rates close to zero, monetary policy remains highly accommodative. And it appears that the impetus from fiscal policy will stay expansionary, on net, through this year." According to the Wall Street Journal, US retail sales rose 5.8% in January compared to January 2003 due to cold weather and an expanding economy (based on data from the International Council on Shopping Centers) with gains being made in all sections: discounters, department stores, apparel, miscellaneous and teen apparel. The January number is considered key since retailers can gauge how consumers will react to full price spring merchandise. March retail same store sales, using a Lazard Retail Index, rose 7.2% compared to a 0.3% decline a year earlier as consumers continued to spend tax cuts savings and embraced the favorable spring weather[1]. US nonfram payroll

[1] 2nd UPDATE: March Retail Sales Surge At Full Price, DOW JONES NEWSWIRES, April 8, 2004 3:53 p.m.

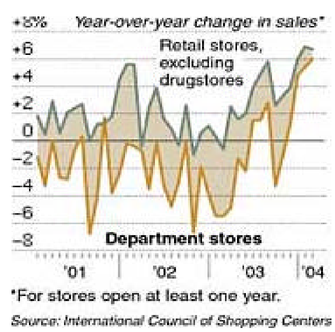
employment rose 308,000 in March showing further strength in the US economic recovery. While the economy in Europe has been sluggish through 2003 due to increases in the Euro currency, according to Pedro Solbes[2], growth in the Euro area is expected to increase from 0.4% in 2003 to 1.7% in 2004 and 2.3% in 2005. This growth is based on structural reforms and better expected growth in the world economy.

3. Industry Analysis

In general, the apparel, accessories and luxury goods industry (AALG) can be volatile for brands that are either inconsistent with their designs or fail to meet the changing consumer tastes of that year. As a result, apparel companies can overstock goods due to changes in consumer sentiment, confidence and tastes. An increasingly global apparel industry has forced commercial apparel designers to develop designs up to a year in advance for global manufacturers rather than copy current trendy high-end designers.

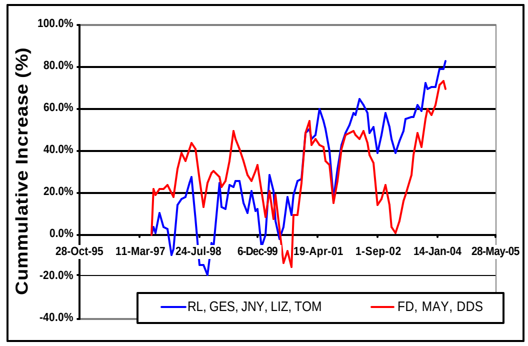
According to Datamonitor, the global apparel, accessories and luxury goods industry was $778 billion in 2002 with a five year CAGR of 3.8%. A strong forecasted growth rate of 5.9% is projected for 2004 and 5.6% in 2005[3]. Clothing accounted for 86.1% of the AALG industry followed by jewellery at 11.8% in 2002. The market was dominated by Europe which had 32.9% market share of the global industry followed by North America at 30.7% and Asia Pacific at 24.30%. Strong brands like Polo Ralph Lauren are able to perform well during weak economic times due to strong brand presence and high margins. During 2001, Polo Ralph Lauren was ranked 5th in the world in terms of market share behind Sara Lee, VF, Levi Strauss and Liz Claiborne. After the 2001 recession, retailers like Liz Claiborne started to produce cheaper lines for department stores as they faced stiff competition from discount retailers like Wal-Mart and Target.

However, more recent trends indicate that department stores are shifting their strategy towards high-end luxury lines due to a luxury goods rebound. Most department stores have completely redesigned their strategy to focus on presentation, service, luxury and style. According to the New York Times, “Bloomingdales’ has been remodeling stores, cleaning up the aisles and bringing



[2] Member of the European Commission responsible for Economic and Financial Affairs, Commission Spring Economic Forecasts 2004-2005, **Brussels, Breydel Press Room, 7 April 2004**
[3] Global Apparel, Accessories and Luxury Goods Industry Profile. May 2003, Datamonitor

in new lines like Ralph Lauren, Tommy Hilfiger and others[4]. Federated Department stores, which owns Macy's and Bloomingdale's has managed to stay away from margin competition with other companies by also focusing on Ralph Lauren and Tommy Hilfiger, as well as Jones Signature. Department stores same store sales as a whole have risen 6.4% in March with Macy's same store sales rising 6.8% and JCPenny same store sales rising 11.4%. Lord & Taylor same store sales rose 10% in March and was their best in a decade. Same store sales at May, Dillards and Federated were up 5.3%, 5.5% and 2% in January due to an improving economy. Yet, low margin competitors like Kohl's that fared well during the 2001 recession are now experiencing a 0.9% same store sales decline further emphasizing the failure of its low cost strategy. The department store channel is important to track since Dillards, Federated and May Department Stores accounted for 35% of Ralph Lauren's trade accounts receivables in FY 2002. The relationship in cumulative returns for market capitalization weighted indices for apparel companies and department stores closely track each other as shown in the graph above.



3.1 Fashion Trends

There has also been a noticeably important shift in women's clothing with new lines being offered this spring by Ralph Lauren, Tommy Hilfiger and Jones New York. In the later half of the 1990's, department stores moved away from older female customers in search of younger and hipper customers since it was assumed that they had a shorter expiration date. However, women 50+ have been rediscovered by major brands due to their spending power and loyalty[5]. Multiple brand acquisitions have increased as fashion retailers deal with more complex consumer tastes than in the past.

Menswear has remained sluggish but younger, urban styles appear to be getting a boost from the economy. According to the Daily News Record, "in the red-white-and-blue zone, where Polo Ralph Lauren, Tommy Hilfiger and Nautica have faced difficult times, there is a sense that a turnaround is near."[6]

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[4] Rediscovering Glorious Past Pays Off for Some Stores,By TRACIE ROZHON, Published: April 9, 2004, The New York Times.

[5] Rediscovering the Forgotten Woman,By TRACIE ROZHON, Published: April 7, 2004, New York TImes

[6] outlook for menswear, Daily News Record: 92, February 23, 2004. ISSN: 1092-5511

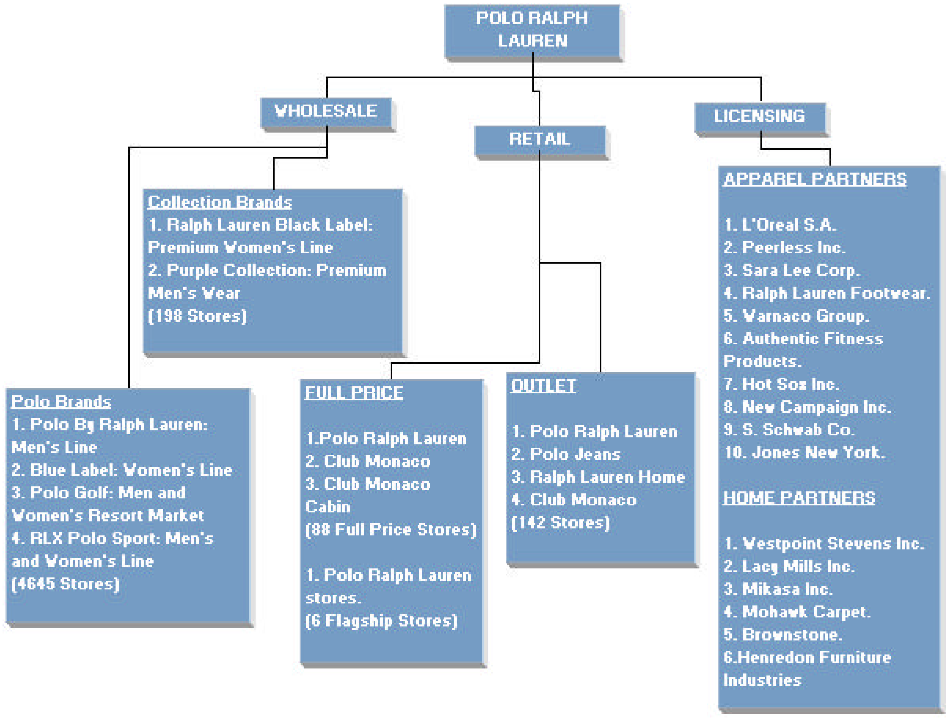
New expansion in the luxury goods market is expected from new wealthy individuals in China and Russia while Japan remains a saturated market. According to the chairman of Christian Dior, “the biggest potential is China” however counterfeiting will be a challenge to many brands.

Recently there has been a shift of power to suppliers from fashion designers with Philips-Van Heusen buying Calvin Klein, VF Corporation buying Nautica and Liz Claiborne buying Juicy Couture. Traditionally fashion designers licensed their designs to suppliers for a fee.

Key competitors in this industry for Polo Ralph Lauren are GUCCI Group (GUC), Liz Claiborne (LIZ), Tommy Hilfiger (TOM), Jones New York (JNY) and Guess (GES). Liz Claiborne and Jones New York have adopted different strategies but both focus on specialty stores and large department stores. While Jones New York has grown through a number of fashion buyouts, Liz Claiborne has diversified its portfolio. Investors are attracted to LIZ and JNY as apparel defensive stocks since they both have several brand names that help to diversify against changing fashion trends. Liz Claiborne has Claiborne, Dana Buchman, Ellen Tracy, Enyce and licenses Kenneth Cole and DKNY while Jones New York has Nine West, Anne Klein and Polo Jeans. Tommy Hilfiger includes retail, licensing, international, childrenswear, menswear and womenswear. The menswear line of Tommy Hilfiger focuses on 18-35 age range for classic sportwear and is probably the closest competitor to Ralph Lauren in terms of style since Polo Ralph Lauren can be described as “American Classic” and Tommy Hilfiger as “American Classic with a twist”. Tommy Hilfiger has been recently quoted as saying that he wants to acquire other brands and reduce his dependence on retailing. Unlike Ralph Lauren, Tommy Hilfiger actually controls only 4% of the company’s voting stock but remains the principal designer. Gucci is the worlds third largest luxury goods maker and is facing management and designer changes (removal of Tom Ford). While other brands in the Gucci company have seen revenue grow (Yves Saint Laurent, Alexander McQueen and Stella McCartney), the Gucci brand itself is the only positive contribution to earnings as of April this year. Guess? Is a clothing store that has a wide age demographic for both men and women through traditional retail stores as well as Federated and Marshal Fields.

4. Company Analysis

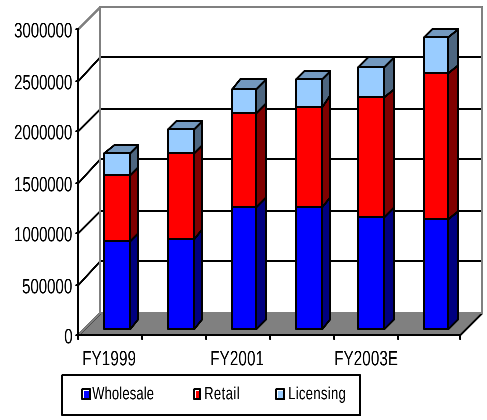
Polo Ralph Lauren operates three major business segments: wholesale, retail and licensing which allow the company to design, market and sell the premier lifestyle brand of the classic American lifestyle for over thirty five years. The company has a strong portfolio of brands that range from Chaps to the high-end purple and black labels. Recently, the Polo Ralph Lauren company has made radical structural designs aimed at improving the efficiency of its global platform. The company plans to grow in the future by focusing on extending the depth of retail market penetration across the world by opening new stores and buying back licenses to reduce the number of low end retailers. Management describes its overall strategy as improving its infrastructure and supply chain partners to create a solid base for growth. The company clearly uses a classic positioning strategy where it portrays an image of high quality and sophistication for the brand. A dividend payment of 20 cent per year was initiated starting in May 2003.



The Polo Ralph Lauren company does not actually manufacture its products but rather, oversees manufacturers in Asia. As of 3Q FY2003, 81.8% of its revenues came from the United States and Canada, 14.6% from Europe and 3.7% from other regions around the world combined. In terms of regional seasonality, sales in the United States typically contribute only approximately 50% of their total yearly revenue contribution in the first quarter of the year and approach almost full contribution in the second quarter. Sales in Europe have historically dropped in half by the second quarter and then lose and additional 50% of their second quarter value during the rest of the year. At the end of Q3 2004, the company had 265 stores compared to 251 stores twelve months earlier. Future plans are to open 100 more stores in the next three to five years with approximately 50 new full price Polo stores and 25 Club Monaco stores as well as 25 new international Ralph Lauren stores.

4.1 Wholesale

The wholesale segment licenses brands under Polo Brands and Collection Brands. The major conceptual difference is that Polo Brands offers outerwear at varying price points while Collection brands are luxury brands with higher margins and limited distribution. This wholesale segment was consolidated into this structure in 1999 as an effort to streamline operations and reduce its cost structure. The Polo Ralph Lauren wholesale division is organized as follows:



4.1.1 Polo Brands:

- **Polo By Ralph Lauren:** Provides a complete menswear wardrobe at varying price points with distribution through Ralph Lauren stores and Department stores.
- **Polo Sport:** A line of men's active sportswear that distributes products through Ralph Lauren Stores and Department stores. Price points match those of Polo By Ralph Lauren.
- **RLX Polo Sport:** Competes in the sports apparel market by offering clothing for running, skiing, cycling etc. and distributes through Ralph Lauren stores and athletic stores.
- **Polo Golf:** This collection of men and women's golf wear is sold primarily at golf clubs and resorts as well as department stores and Ralph Lauren Stores.
- **Blue Label:** Classic women's weekend wear that is distributed through Ralph Lauren stores.

4.1.2 Collection Brands

- **Black Label:** Includes current fashion trends as well as timeless classics at price points that are in the luxury range. Distributed through Ralph Lauren stores and high-end retailers.
- **Purple Label:** High-end tailored menswear sold exclusively through high-end retailers.

Polo Ralph Lauren distributes Polo Brands through a network of 1,982 Department stores, 558 specialty stores, 112 Polo Ralph Lauren stores and 1993 Golf and Pro shops. Collection brands have a smaller distribution and is offered through 129 department stores,38 specialty stores and 31 Polo Ralph Lauren stores. Ralph Lauren Home is offered through 1,481 department stores, 25 specialty stores and 19 Polo Ralph Lauren stores. Together Federated, Dillards and the May department stores accounted for 49% of wholesale sales in FY 03 showing the significant dependence on this channel.

Polo Ralph Lauren also uses shop within shops and RL had 2600 shop within shops of approximately 2.3 million square feet in FY 2003. This is a notably important aspect of the company's department store merchandising, brand presentation and image recognition strategy.

Wholesale revenues were lower in Q3 FY2004 by 18% due to a planned reduction in the off price market as management believes that the off-price sales market may hurt the overall brand image. While the off price channel is profitable in the near term, it has potential to hurt the luxury appeal of the other high-end brands. Also, startup costs associated with the new Lauren line taken over from Jones New York further contributed to a 3.3 million loss in this segment. Consequently, management has reduced sales 40% year to date[7] in the off price channel as of Q3 FY2004 and has stated that the company is no longer taking back returns of their product. Future plans for the wholesale segment are to continue a reduction in off price sales that will reduce the men's wholesale business in Fiscal Year 2005. Farah states that 80% of their business is done in 40% of its stores and the company will focus on large impact doors.

The cyclical nature of the wholesale business clearly shows a peak in the second quarter and fourth quarters that occurs primarily due to timing of wholesale shipment to retailers as well as major vacation and holiday periods.

4.2 Retail

The retail segment of Polo Ralph Lauren is divided into full price and outlet stores. Under full price stores, In FY 2003, the company operated 6 flagship Ralph Lauren Stores, 33 Polo Ralph Lauren Stores and 55 Club Monaco stores. There are a total of 142 outlet stores. Full priced stores are used to distribute high-end merchandise and emphasize the luxury appeal of the brand. These stores are typically located in upscale malls and major downtown areas. 142 outlet channel stores are used to clear old merchandise in preparation for the next season and also to distribute specific merchandise items. Outlet stores typically buy from Polo Ralph Lauren at cost or can source directly from suppliers.

For the latest fiscal year, Ralph Lauren has seen Q1 comparable same store sales up 8.3%, Q2 comps up 8.3% and Q3 comps up 8.8%. Retail continues to be driven by comp sales and store expansion. Retail sales have recently shown positive comps in all formats and Club Monaco stores are starting to show improvements after improved styling, reduced sales and a completion of the integration associated with the acquisition. Club Monaco was acquired in 2000 for approximately $90 million. Club Monaco has been known for a younger clientele and helps Polo Ralph Lauren diversify its portfolio. Attempts to attract younger buyers with Polo Sport and RLX were poor as the major customer clientele for RL remained Generation X as opposed to Generation Y. A number of Club Monaco stores were closed and the headquarters has finally been moved from Canada to New York and 8 new stores are planned for the next fiscal year. As of Q3 FY 2004, reorganizations and charges associated with the Club Monaco are complete, as Polo is poised to reap benefits from this strategy.

[7] Polo Ralph Lauren Conference Call on Q3 FY2003 Results

Retail expansion continues with a new 3500 sq.ft. Ralph Lauren specialty store in New Caanan Connecticut, a 4200 sq.ft flagship store in Seoul and a 2300 flagship store in Singapore in the current fiscal year. The company's future retail strategies include ramping up the exclusivity of their products since 75% of products were limited editions only available at SAKs and Niemann Marcus compared to 50% three years ago.[8]

The new Lauren line was recently acquired by Polo Ralph Lauren and a civil suit with Jones New York is in progress. The Lauren line under Jones New York generated 476 million dollars in the previous fiscal year with a margin of 20%. Management at Polo claim that they can reach margins in the mid teens. Detractors claimed that Polo would not be able to execute on time millions of pounds of summer goods by January and R. Farah admitted, "It's a big challenge to start and deliver product at this scale, but we're absolute on track. We're ready to roll." According to Women's wear daily[9] the new Lauren line is "selling like gangbusters" and is doing so well that Ralph Lauren may extend the line into fragrances and furniture. Lord and Taylor was quoted as saying that the line was "selling phenomenally" in the same article.

4.3 Licensing

Polo Ralph Lauren licenses products and receives royalties from 16 partners, 11 home collection partners and 12 international licensing partners. The company has recently acquired a 50% stake in their Japanese master license which has driven profits in this segment for a 3.5 million dollar transaction cost. The company has also acquired an 18% equity stake in the company that sub licenses the Japanese license previously owned by Seibu Department stores. These recent acquisitions have led to a 20% increase in license revenue in Q3 FY 2004. Typical license agreements are structured so that the brand owners receive a fixed percentage that increases over the life of the license. Licensed brands in menswear include Chaps, Polo Jeans and Polo Ralph Lauren underwear. Brands that are licensed in women's are Ralph by Ralph Lauren, Polo Jeans, Ralph Lauren Swimwear, Ralph Lauren Underwear and Intimates. The Polo Jeans license to Jones New York accounted for 27% of license revenue in FY 2003.

5. Key Management

In general it should be noted that the Polo Ralph Lauren has hired and replaced a number of managers in the global management team in an effort to foster growth in areas like Asia. To further increase growth in Asia, Andreas Kurtz was appointed Division President of International Licensing in Q3 FY2004.

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[8] Q3 2004 Conference Call

[9] Resources: Women's Wear Daily, March 24 (subscription only). Off The Record Research, Trend Trax Report, March 23

Ralph Lauren has been in charge of the company from its humble beginnings in 1967 and has served as the company's Chairman and Chief Executive Officer since it initial public offering. Ralph Lauren plays a crucial role in dictating the fashion sensibility of the company's many brands and all lines are designed under his direction.

F Lance Isham has been part of the Polo Ralph Lauren team since 1982 where he has progressed from VP of sales and merchandising to his current position as Vice Chairman since 2000. Roger Farah serves as the company's President and Chief Operating Officer since 2000 and has extensive experience in the industry.

R. Farah (currently chief operating officer) was chief operating officer of RH Macy & Co. from July 1994 to October 1994 as well as Chief Executive Officer of Federated Merchandising, the buying arm of Federated Department stores. R. Farah has over 25 years of retailing experience starting at Saks in 1975.

Gerald Chaney has over 15 years experience and serves as the company's Chief Financial Officer. He previously served as CFO of Kellwood company.

6. SWOT Analysis

6.1 STRENGTHS:

6.1.1 Brand Recognition/ Equity

The Ralph Lauren name and Polo logo represent a strong brand with considerable awareness among consumers around the world. According to Interbrand, the company's brand is ranked 95 in the world above FedEx with a 6% increase in brand value since 2002. Polo Ralph Lauren has leveraged his vision of classic American style into home furnishings, cosmetics and accessories and has created a portfolio of products at varying price points. The increased loyalty associated with this brand allows the company to receive higher margins for their products than most apparel companies. Buying the Ralph Lauren brand typically involves more than buying high quality fashion and according to Scott Davis[10], " Lauren apparel becomes part of who the customer is by striking a deep emotional chord with that customer…Ralph Lauren customers feel good about themselves". The strong brand equity also supports lower price sensitivity and is responsible for the company's good performance during the 2001-2002 recessionary period. The company has actually

[10] Brand Asset Managemnt: Driving Profitable Growth through Your Brands, Scott Davis (Jossey-Bass)

reduced the number of distribution doors for the Lauren line from 1100 to 900 and reduced off price sales to keep the brand "aspirational"[11].

For the owner of a company that bears his name, the Ralph Lauren name and Polo logo have become synonymous with classic American styling rather than the man himself. According to Martha Stewart, "When you see Polo, you don't see Ralph Lauren"[12]

6.1.2 Product Diversity

The company has numerous brands at different price points ranging from Chaps at the low end to the high-end black and purple labels. The brand is also used in footwear, childrenswear, furniture, paint, perfumes and luggage.

6.1.3 Infrastructure Improvement

Growth in European operations has remained low with Europe still representing only about 15% of Polo Ralph Lauren's revenues. In the past, European operations were typically handled by third party centers. However, Polo has consolidated 12 distribution centers down to a planned 3 in fiscal 2004 and finally one in Parma, Italy in fiscal 2005. The objective of this consolidation is to increase efficiency and foster long-term growth. Management indicated in the FY 2004 Q3 Conference call that the cost per unit is 62% less in Europe as a result of consolidation.

North American distribution and shipping occurs in Greensoboro, North Carolina which has increased cross-stocking of merchandise to give better expense management and customer service. Costs at the Greensboro facility are 22% lower than they were two years ago.[13]

Additionally, the cleanup of Club Monaco is complete with the headquarters moved to New York from Canada and a number of stores closed in poorly performing areas. Club Monaco has recently shown low twenties retail sales comps in 3Q 2004 and mid teens comps in Q2 2004.

6.1.4 Margin Improvement

6.1.4.1 European Operations

The most formidable drivers of Ralph Lauren's earning growth in the next year will be improvements in operating margin associated with management's realization of several new initiatives. For the European consolidation effort, until Q3 F04, 10.4 million dollars was paid as part of severance benefits and $18 million associated with restructuring charges in FY 2003 and 2004. Therefore, Ralph Lauren plans to reap at least

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[11] POLO FOCUSES ON RETAIL, Women's Wear Daily: 3, February 05, 2004
[12] A BAD THING by JEFFREY TOOBIN Why did Martha Stewart lose?, The New Yorker Issue of 2004-03-22
[13] Fiscal 2004 Conference Call

28.5 million dollars of cost benefit in Fiscal 05 as a result of benefits from removal of these major restructuring charges. Running a spreadsheet model on Ralph Lauren's income statements shows that reducing the Cost of Goods Sold by 28.5 million dollars results in a 99.4 basis point improvement in gross profit and increases earnings per share by approximately 28.77 cents per share.

6.1.4.2 Lauren Line

Polo Ralph Lauren charged $25 million against no sales for startup costs associated with the Lauren line in FY 04. An analysis of Ralph Lauren's income statement shows that removal of these charges with the launch of the new line in Spring 2004 will result in 20.19 cents of improved earnings per share or an equivalent 69.8 basis point improvement in gross profit for the company in the next fiscal year.

As was previously mentioned, the Lauren line brought in 474.6 million dollars for Jones New York[14] of which Ralph Lauren expects to receive 400 million in FY 2005 from taking over the line. The company also maintains it can make "mid teens" margins[15]. This results in 60 million dollars of operating profit from which we can deduct the loss of 37 milllion dollars in operating revenue from the original Jones New York License. Running through the Ralph Lauren earnings projection model indicates that this will result in 23.22 cents of additional earning power for the company in FY 2005 or a margin improvement of 80 basis points.

6.1.5 Department Store Channel Improvement

The recent improvement in full price sales for March in department stores as well as significant increases in comparable same store sales at department stores indicates that after almost a decade, there appears to be significant improvement in this channel. Early this year, upscale department stores like Nieman Marcus led with an early recovery followed by Federated Department stores.

6.1.6 Positive Fashion History & Outlook

Ralph Lauren has been selling clothes for over 30 years and has a consistent, timeless sense of style. Spring and summer lines for Polo Ralph Lauren started shipping in January and were well received by buyers with quality for the Lauren line meeting Ralph Lauren's personal expectations. According to Women's Wear Daily, a Lord and Taylor executive stated that the new Lauren line was "selling phenomenally"[16].

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[14] Jones Apparel Now Targets Same Hot Market as Former Partner Polo Ralph Lauren,By Don Steinberg, The Philadelphia Inquirer Knight Ridder/Tribune Business News

[15] Polo Ralph Lauren 8K, Filed Feb 2004

[16] Resources: Women's Wear Daily, March 24. Off The Record

6.1.7 Financial Position

Ralph Lauren is a financially strong company with low debt to capital as well as high return on equity relative to other major competitors in the industry.

6.2 Weaknesses

6.2.1 Department Store Dependence

Polo Ralph Lauren has a significant dependence on department stores for the generation of revenue and profits. All three of Polo's major department stores (May, Federated and Dillards) accounted for 30.5% of wholesale net sales in Fiscal year 2003. Also, the financial stability of department stores as a distribution channel is important since 30% of trade account receivables in March 2003 were from the three major department stores used.

6.2.2 Manufacture Dependence

It should also be noted the Polo operates in competitive environment and other apparel manufacturers compete for capacity and quotas on imports. As a result, large increases in demand may result in sourcing new manufacturers for which guarantees cannot be placed. The company also strives to create quality products and relies on manufacturers meeting their design quality criteria. Hence, manufacturing could be a possible bottleneck to future growth. Also, violation of labor practices by any of Ralph Lauren's licensee's could have a material impact on the business.

6.2.3 Licensee Dependence

Revenue from licenses accounted for 10% of revenue generated in FY 2003 and the Polo company depends on them to run a fiscally sound businesses and maintain good labor practices. More importantly, 45% of all earnings generated in FY 2003 came from licensing.

6.2.4 Currency Fluctuations

One would have to listen to the conference call to realize that sales in Europe for the most recent quarter have actually been sluggish since changes in the eurocurrency have masked these effects. While the company purchases many of its products in American dollars, international license revenue, primarily in Yens and Euros, is a function of the local currency. Ralph Lauren hedges against currency fluctuations but recently lost money in the Q3 2004 due to fluctuations in the Euro compared to the Dollar for unhedged inventory purchases.

6.3 Opportunities

6.3.1 Technology

High-end luxury brands like Ralph Lauren are prone to significant loss of revenue from counterfeiting. The company has recently developed a "smart thread technology" that prevents counterfeit RL merchandise from entering supply channels by imprinting information on the product destination and source onto the thread. This technology was successful in stopping the largest shipment of a designer brand in Canada's history in the most recent fiscal quarter.

Polo Ralph Lauren plans to reposition its brand in department stores by leveraging information obtained from a pilot program at Macy's which showed that upgrading fixtures, enhancing renovations and increasing staff training could reverse the negative comp. same store sales to mid single digits. The target date for leveraging this research is spring 2004, which coincides well with the release of the Lauren line.

6.3.2 Exploitations of New Markets

Revenue from Europe represented 18.8% of Fiscal 2003 revenues and 14.6 of Q3 2003 revenues, indicating that the true potential of Europe has not been realized. Europe has 32.9% of the global apparel, accessories and luxury goods market (Datamonitor), which is larger than the US market. According to R. Farah, "Europe is a luxury play"[17] and strength has not yet returned to this market. However, there are signs that this market is recovering since LVMH Moet Hennesey Louis Vuitton SA stated that sales rose 2% for the first time in five years or 10% adjusted for divestments in the most recent quarter. Also, Gucci posted a 2% fourth quarter profit and according to Bloomberg, "the (Gucci) earnings increase marks a continuation of a recovery in the 58 billion-euro luxury goods industry"[18]

Also the potential for expansion in the Chinese market is considerable, given the increase in the upper and middleclass population in that region.

6.4 Threats

6.4.1 Jones New York Lawsuit

Jones New York filed a $550 million suit against Polo Ralph Lauren on June 3, 2003 for breach of license agreement after Polo invoked the Cross Default and Term extension agreement and dropped the company as their licensor of the Ralph and Lauren lines. The reason Polo invoked the cross default was because Jones New York was unable to meet the

[17] Polo Ralph Lauren Q3 2004 Conference Call
[18] Gucci Fourth-Quarter Net Rises 2%; YSL Loss Widens (Update6), April 1 (Bloomberg)

$100 million minimum required at the end of December 2002, only $37 million was made. It should also be noted that the original license was set to expire in 2006 and generated $476 million dollars of revenue in 2003. Initially, Jones was to pay Polo a mere 7% royalty fee however sales soon leapt from $48 million in 1995 to $500 million in 2000. Jones offered a 10% royalty rate to please Polo but in January but Polo did not accept. It is clear that Jones New York does not want the Lauren business back and is focusing on their new Signature Line so the only option is a cash settlement or a victory in favor of Polo. As of December 2003, Polo had 337 million dollars in cash and a ruling in favor of Jones New York would have a material impact on the company.

6.4.2 Competition in Department Stores Heats Up

The Polo Ralph Lauren corporation faces stiff women's wear competition for department store traffic in the spring and summer seasons. Jones New York has recently launched their Signature line which is modeled after the Lauren line. Liz Claiborne will be releasing Realities, which will not only compete with the Signature line, but also with Tommy Hilfiger's new "H" line. The new Lauren line will feature jackets from $230 to $250 and pants from $119 to 139 while Calvin Klein will offer pants and skirts priced at $125. The new "H" line will offer dresses at $180.

6.4.3 China Quota's lifted in 2005

Ten years ago, GAAT agreed to lift all textile quotas on China on January 2005 but, an Istanbul Declaration composed of the American Textile Manufacturers Institute, American Manufacturing Trade Action Coalition (AMTAC) and ITKIB (Istanbul Tekstil Ve Konfeksiyon Ihracatci Birlikleri) have sought extensions of the agreement to 2007. According to Chinaview sources[19], garment and textile exports from China would increase 150 percent if the quotas were removed. With the large influx of clothing, the apparel market could see prices fall on many items.

7. Analysis Using Michael Porter's Five Forces

7.1 Threat of Rivalry

Growth in the apparel industry is projected to be around 5% for 2005 and suggests that this low growth will foster competition and removal of weak competitors. Key tools used by competitors are price, quality and design. New rivals such as Jones New York and Michael Koors have entered the department store channel with new products. Polo also faces competition from Liz Claiborne, Guess? and Tommy Hilfiger. In the luxury range, Ralph Lauren competes directly with major design houses like Prada, Gucci and Versace. However, the strength of the Ralph Lauren brand, loyal consumers and the classic American styling allow it to mitigate these threats. Also, competition is less fierce as Ralph Lauren targets the upper

[19] US unwilling to remove textile quotas: www.chinaview.cn 2004-04-04

price point range where consumers are less price sensitive. For Ralph Lauren, the threat of competition is moderate.

7.2 Threat of Entry

It requires considerable resources to launch, market and distribute products in this industry, not to mention a recognizable brand. Traditionally, designers loved suppliers like Jones New York because they were better able to handle the logistics of coordinating a global network of manufacturers and distributors. Suppliers had historically liked designers, which gave them customer appeal. Hence the threat of entry is considered to be low. Also, access to distribution channels and the ability to negotiate with retailers is difficult for new entrants.

7.3 Threat of Substitutes

Threat of substitutes can be considered to be low since there are no considerable apparel substitutes that would cause customers to switch to another industry.

7.4 Threat of Suppliers

The degree of supplier power is significant since a large portion of Ralph Lauren revenue comes from licenses over which the company has no operational control. Therefore, Ralph Lauren depends on the financial viability and operational ability of licensees. The same applies to many of Ralph Lauren's manufacturers in Asia which are subject to the potential of political instability or workers rights violations. In general, the threat of suppliers is high since major brands compete for manufacturers and it is costly to switch manufacturers.

7.5 Threat of Buyers

Polo Ralph Lauren relies on a few department stores to supply its product in the wholesale channel. Since buyers order product in quantity and could always integrate backwards and control this channel of distribution, the threat of buyers can be considered moderate.

8. Catalysts

8.1 Margin Expansion from Restructuring Benefits & Lauren Line

The most significant catalyst for the performance of Polo Ralph Lauren stock over the next two years will be the margin improvements as the company begins to reap the benefits of multi-year initiatives. As discussed in **section 6.1.4.2**, the Polo Ralph Lauren company can expect to increase gross profit margins by 99.44 basis points as a result of the European consolidation, 69.8 basis points improvement as a result of charging the startup costs associated with the Lauren Line with no sales over the last eight months . Also, the new Lauren line is estimated to generate at least an 80 basis point improvement in profit margins for the company resulting in a calculated total profit margin improvement of 250 basis points.

8.2 European Expansion

Currently Europe accounts for approximately 19% of total revenues based on the FY 2003 and it was estimated that the company has only 3% of the menswear business in that country compared to 13% in the US[20]. Yet, although the opportunity for expansion is large most Europeans, for example, will not purchase a suit that is not made in Europe. This makes RL's foray into the menswear market difficult since most of his clothes are manufactured in Hong Kong.

9. Financial Analysis

9.1 Peer Group Analysis

With reference to **Exhibit 1**, the companies included in the peer group analysis were Guess? (GES), Jones Apparel (JNY), Liz Claiborne (LIZ), Tommy Hilfiger (TOM) and Gucci Group (GUC) and all data provided were calculated based on 10-Q and 10-K information. Total net sales for the last twelve months for Polo Ralph Lauren were 2523.2 million dollars and is slightly below the peer group market capitalization weighted average of 2790 million dollars.

9.1.1 Margin Analysis

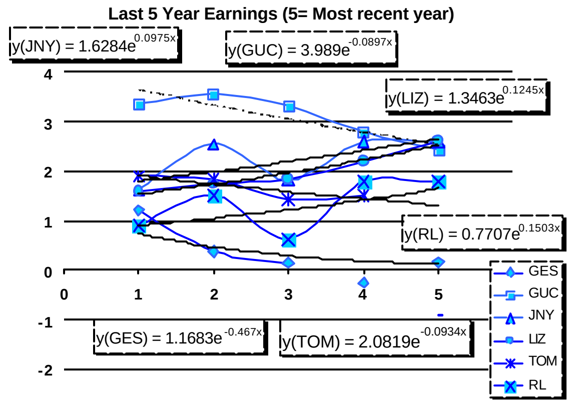
Company Name	Polo Ralph Lauren	GUCCI Group	GUESS	Jones Apparel	LIZ Claibourne	Tommy Hilfiger	Average
Ticker Symbol	RL	GUC	GES	JNY	LIZ	TOM	
Margin Analysis (LTM)							
Net Sales	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of Sales	46.4%	32.9%	59.9%	60.3%	53.0%	55.0%	46.3%
Gross Margin	53.6%	67.1%	40.1%	39.7%	47.0%	45.0%	53.7%
SG&A	39.2%	57.8%	31.0%	24.2%	33.5%	30.1%	41.3%
EBITDA	14.4%	8.7%	10.8%	15.5%	13.6%	14.9%	12.2%
Net Income	6.6%	5.3%	1.1%	7.5%	6.6%	-0.5%	5.6%

Over the last twelve months, the cost of sales as a percentage of total revenue was 46.4%, which was lower than all of the competitors, except for Gucci, by at least 660 basis points. The gross margin, defined as the difference between net sales and cost of sales was higher than all of the competitors except for Gucci and suggests that these two companies are able to leverage their strong brand equity. While the higher margins support the concept of the company as having "aspirational" brands, this positioning is also quite lucrative since it reduces rivalry among low cost competitors. The lucrative result of this brand positioning are shown by

[20] The Wall Street Fashion Game,Phyllis Berman, 03.04.02 , Forbes

the EBITDA and Net Income which are both higher than the peer group at 14.4% of net sales and 6.6% of net sales, respectively. SG&A expenses are 39.2% of net sales which is lower than the peer group market capitalization weighted average of 41.3%. However, this is primarily due to the weighting of GUCCI and Polo Ralph Lauren's SG&A expenses appear to be higher than the rest of the peer group.

9.1.2 EPS Growth Rates



Five year average growth rates, determined by regression (see Appendix), show that Polo Ralph Lauren has had the largest earnings growth rate of 15% compared to the peer group market cap weighted average of only 2%. The trend and EPS average imply that the company has been consistently delivering earnings even during the last recession. EPS estimates for FY 2004E were determined by detailed analysis of the company's income statements while FY 2005E was assumed to follow the year over year growth rate from FY 2003 to FY2004. The projected EPS for FY 2004E implies a 39% growth rate in annual earnings.

9.1.3 Ratio Analysis (Exhibit 4)

Company Name Ticker Symbol	Polo Ralph Lauren RL	GUCCI Group GUC	GUESS GES	Jones Apparel JNY	LIZ Claibourne LIZ	Tommy Hilfiger TOM	Average
Ratio Analysis (LTM)							
Efiiciency							
Receivables Turnover	8.6	6.6	19.5	11.3	10.9	17.7	9.8
Average Collection Period	42.3	55.3	19.5	32.3	32.8	20.6	41.3
Inventory Turnover	2.8	1.6	4.3	4.7	4.7	4.2	3.2
Profitability							
Return on Equity	13.0%	2.8%	4.2%	13.6%	19.5%	-0.7%	9.2%
Return on Assets	8.5%	3.2%	4.3%	9.6%	12.7%	1.4%	6.8%
Liquidity							
Quick Ratio	1.32	4.39	0.90	1.17	1.30	2.36	2.49
Current Ratio	2.45	2.32	1.90	2.31	2.56	3.95	2.48
Leverage							
Debt to Equity	0.22	0.22	0.30	0.33	0.28	0.29	0.26
Debt to Capital	0.41	0.82	0.54	1.01	0.54	0.55	0.72

9.1.3.1 Efficiency

The latest twelve-month receivable turnover for Polo Ralph Lauren of 8.6 is lower than the peer group average of 9.8. Again, it should be noted that Dillards, May and Federated department stores account for 30% of trade account receivables in FY 2003. Additionally, the rate of receivables turnover for the company is related to the seasonal timing of shipments and the absolute value can fluctuate based on eurocurrency rates. The historical trend in Exhibit 4 shows that there was a slight uptick in March 2003 for receivables turnover. The average collection period of 42.3 days is 1 day longer than the peer group average but also significantly higher than Guess, Jones New York, Liz Claiborne and Tommy Hilfiger which are all less than 33 days. As the trend shows in Exhibit 4, the average collection period improved in Q3 2004 compared to Q4 2002 and the company explains that the discrepancy between increasing account receivables and the average collection period is due to increased receivables for licensing.[21]

The trailing twelve-month inventory turnover rate for Polo Ralph Lauren of 2.8 is slightly lower than the industry average of 3.2. The historical trend shows a modest increase from 2.3 in 1999 and can be partly explained by the company's 2001 Operational Plan to improve its supply chain. However, major supply chain initiatives were completed recently with the consolidation in Europe and increased cross stocking efficiency in the Greesnboro, CT distribution site so there is an expected improvement. But, changes in the absolute value of inventory will tend to fluctuate with changes in eurocurrency for which the company tries to hedge.

9.1.3.2 Profitability

Notably, the trailing twelve month ROE and ROA for Polo Ralph Lauren are higher than the market capitalization weighted averages for the peer group. Only Jones New York and Liz Claiborne have higher rates of efficiency. While Tommy Hilfiger, Guess and Gucci show a downward trend in efficiency as measured by ROA and ROE (see Exhibit 2), Polo Ralph Lauren, Liz Claiborne and Jones New York all show stable rates. The higher efficiency of Polo is primarily attributable to its stronger earnings power, better pricing power and higher margins than most of its peer group.

9.1.3.3 Liquidity

While the quick ratio for Polo Ralph Lauren of 1.32 is lower than the peer group market capitalization weighted average of 2.49, the current ratio of 2.45 for the company is closer to the peer group average of 2.48 and suggests that the difference is due to the value of inventories. If inventory is considered liquid then Polo is on par with the rest of its peer group in terms of liquidity. However both historical trends show consistent improvements in both measures of liquidity over time.

9.1.3.4 Leverage

The Polo Ralph Lauren debt to capital ratio and debt to equity ratio are both lower than any company in the peer group and have been improving over time. The company appears to be vigilant about maintaining the debt

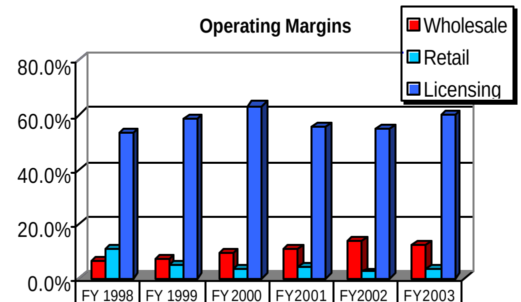
[21] Polo Ralph Lauren 10K 2003 FY

load of the company and paid down short-term debt in the first half of 2004.

10. Ralph Lauren Company Specific Analysis (Exhibit 5)

10.1 Profit Margins

Earnings were projected by analyzing the seasonal trends in revenues, expenses and profit margins on an overall and divisional basis. Please note that company information is only available until Q3 2004 and all other quarters are projected. As Figure 10 shows in Exhibit 5, gross profit as a percentage of revenue has been improving over the last two years moving from 46.51% in Q3 FY 2002 to 48.17% in Q3 FY 2003 and most recently 51.6% in Q3 FY 2004. The company attributes this consistent margin improvement to improvements in inventory management which manage the off price channel. The improvements in inventory are not strongly reflected in the inventory ratio due to appreciation of the euro. Also, increasing licensing revenue and an increase in retail sales as opposed to wholesale sales also helped with the improvement in margins. The sales mix was 39.1% retail in FY 2002, 41% in FY2003 and projected to be 45.6% in FY2004. In general, the gross profit margin is lowest in the third quarter and improves in the fourth quarter due to seasonal results from wholesale and retail revenues.



	FY 1998	FY 1999	FY 2000	FY2001	FY2002	FY2003
Wholesale	6.6%	7.0%	9.2%	10.5%	13.2%	12.1%
Retail	10.8%	4.8%	3.1%	4.0%	2.0%	3.0%
Licensing	53.4%	58.9%	63.4%	55.2%	54.7%	59.8%

As the chart above shows, licensing revenue has the highest operating margin since little overhead is involved. Also, wholesale margins have shown a constant improvement over the last six years while retail margins have fallen slightly. Projected profit margins for fiscal 2004 and 2005 incorporate the impact of the margin improvements previously dicussined in section 7.1 .

10.2 SG&A Expenses

Figure 12 shows that SG&A expenses also show a seasonal trend and decrease over the course of the year reaching a low in the fourth quarter. This is mainly a function of net revenues being lower in the first quarter due to the seasonality in wholesale shipments. SG&A expenses were 35.44% of revenue in FY 2002 and increased to 37.09% of revenue in FY 2003 and a projected 39.8% in FY 2004E. According to company documents, the increase is attributable to (1) higher costs related to increases in European retail expansion, (2)eurodollar currency fluctuation and (3) inconsistent reporting of some European subsidiaries which would have lowered the FY2002 number from 80 basis points, for example.

10.3 Wholesale Revenues

Wholesale revenues exhibit strong seasonal fluctuations with revenues peaking in the second quarter due to timing of wholesale shipments to department store retailers (see Figure 14). In FY 2003, wholesale revenue in the first quarter decreased 24% over the previous year and revenues for FY 2004 decreased to 13% driven by elimination of the Lauren women's sportline and unfavorable European business due to the economy. Fiscal 2003 shows a decrease in wholesale revenue of 4% over the previous year that increases to an 18 percent decline in 2004 compared to the previous year. The drop in wholesale revenue in the most recent quarter is primarily due to removal of off price sales to protect the integrity of the brand in the long run. Management has stated that they will continue to downsize the off price channel through 2005 and the projections reflect this. However, the decrease in the off price channel will be somewhat mitigated by an increase in revenues from the new Lauren line (25% of the revenue is expected to go to wholesale[22])

10.4 Retail Revenues

Retail revenues for fiscal year 2003 increased between 5 and 9 percent on a quarter over quarter basis driven by strong comp sales performance. To date, FY 2004 has shown retail increases of 12 to 14 percent driven by strong retail comps and an improving economy. The strong uptick in change in retail revenue projected for Q4 2004 is due to some of the benefits of the margin improvement (as discussed in section 6.1.4.2) starting to take effect. Retail is conservatively expected to show year over year improvements that are approximately 6% better in 2005 than 2004.

10.5 Licensing Revenues

Licensing revenue has shown strong performance in FY 2003 over FY 2002 rising 24% in the fourth quarter. Equally impressive is the FY 2004 results which show that license revenue has increased between 16 and 20% over FY 2003 due to consolidation of the Japanese Master license as well as better license revenue from partners. Licensing revenue is conservatively projected to increase approximately five percent in FY 2005 compared to 2004.

[22] Company Q3 2004 Conference Call

11. Valuation Analysis

"We're still dissatisfied with our stock price. Wall Street hasn't yet accorded us the luxury multiple we deserve." – R. Farah

Before a sound valuation can be completed on the Polo Ralph Lauren company, it is critical to decide whether or not the company is deserving of a luxury multiple like Gucci. Although the company does retail luxury apparel, accessories and perfumes in much the same way as other luxury brands like Louis Vuitton, the majority of its business still comes from apparel. Therefore RL appears to suit the apparel retailing industry more than the luxury goods although this could change with increased presence in Europe's luxury market. Arithmetic averages were used for peer group valuations to reduce the dominant effect of Gucci which has a significant market capitalization and could potentially skew the results. Gucci was not removed since the Polo Ralph Lauren company considers it a competitor and luxury still accounts for a relatively significant, albeit smaller, part of the business at this time.

Four techniques were used to determine the intrinsic value of Polo: P/E ratio, P/B ratio, P/Sales ratio and P/ EBITDA. Based on a weighted average (more weight attached to P/E), one can conclude that shares of Polo Ralph Lauren appear to be undervalued at current prices and a target price of $47.39 is used.

11.1 Price to Earnings (P/E) Ratio

Polo Ralph Lauren has a projected P/E multiple of 19.90 for FY 2004 which is lower than an industry average multiple of 39.09. It should also be noted that the FY 2004 multiple for Polo is trading at a discount to its five year historical average of 20.54. More importantly, when the earnings projections have been calculated for FY 2005, we can observe that the P/E ratio is 14.32 which is significantly lower than the industry average of 20.99 and indicates it will be trading at a projected discount in the future. The intrinsic value determined by using the projected industry average P/E and the FY 2005 projected earnings which yields a price of $50.70 per share. This indicates that the company is currently underpriced.

Company Name	Polo Ralph Lauren	GUCCI Group	GUESS	Jones Apparel	LIZ Claibourne	Tommy Hilfiger	Market Cap. Average
Valuation Analysis							**Arith, Average**
P/E 2003 EPS	19.66	31.19	NA	15.05	16.67	11.40	21.3
P/E 2004 EPS	19.90	36.99	110.13	14.32	14.12	NA	39.09
P/E 2005 EPS	14.32	40.89	32.63	13.01	12.95	12.14	20.99
P/E 2006 EPS	10.31	30.96	24.82	11.57	11.73	11.56	16.82
5 Year Avg. P/E[1]	20.54	27.76	41.1	15.02	12.26	11.45	21.36
Price/Sales (LTM)	1.37	2.76	1.21	1.02	0.94	0.83	1.36
5 Year Avg. P/Sales[1]	1.09	4.74	0.71	1.02	0.80	0.87	1.54
Price/Book Current[1]	2.66	2.4	4.14	1.8	2.58	1.29	2.48
5 Year Avg. P/Book	2.68	3.2	2.55	2.2	2.466	1.278	2.40
Price/ EBITDA (LTM)	9.51	31.82	11.21	6.59	6.94	5.54	11.93
5-Year Avg. Price/EBITDA	7.01	21.65	7.29	6.78	5.89	4.44	8.84
EV/EBITDA	9.37	17.48	11.02	7.31	7.19	5.36	9.62

11.2 Price to Sales (Price/Sales) Ratio

The price to sales ratio was used primarily since a number of companies in this industry are undergoing rapid consolidation (Jones New York bought Nautica and Liz Claibourne purchased Juicy, for example) or they may have one time restructuring charges like Polo Ralph Lauren that negatively impacts earnings. The PSR can be used to give an indicator of the companies future growth. Also James O'Shaughnessy's What Works Well on Wall street provides some statistical evidence for using this multiple. Using projected sales for FY2 005 and an industry average multiple of 1.36 yields a price of $39 per share. It should be noted that Polo Ralph Lauren is trading at a premium to it 5 year price to sales average and close to the industry average.

11.3 P/B (Price/Book) Ratio

In principal, we can used the ratio of price to book value as a measure of a stocks value relative to an industry. The five year historical average P/E for Polo Ralph Lauren is 2.68 compared to its current P/B of 2.66. This multiple suggests that the stock is slightly overvalued relative to the industry and combining the current book value per share of $12.63 with industry average yields a price of 31.30 suggesting that the stock is slightly over valued.

11.4 Price/EBITDA (Price/Earnings Before Income Tax and Depreciation and Amortization) Ratio

Price/EBITDA is simply used as a refinement over P/E since it allows us to compare firms regardless of financing levels, which varies significantly in the peer group analysis (see debt to capitalization ration in Exhibit 1). Results indicate that using projected EBITDA combined with an industry average Price to EBITDA of 11.93 yields a price of $49. It should also be noted that Polo Ralph Lauren’s P/EBITDA multiple is trading at a discount to the industry average but a premium over its five year average.

Conclusion

At this point in time, Polo Ralph Lauren appears to have strong earnings potential for the next fiscal year combined with a strong brand that has performed well during the previous recession. Improvements in margin forecast for the next fiscal year combined with significant operations enhancement make this stock a buy.

Exhibit 4: Ratio Analysis

FIG 1. Receivables Turnover: Peer Group Historical Trend

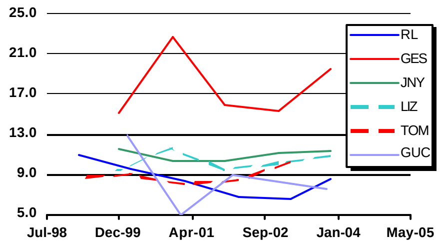


FIG 2. Average Collection Period: Peer Group Historical Trend

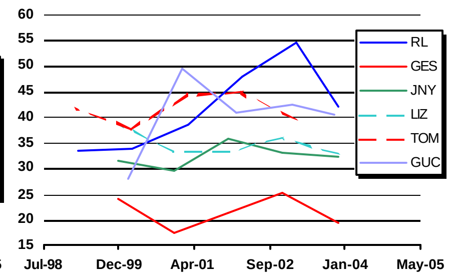


FIG 3. Inventory Turnover: Peer Group Historical Trend

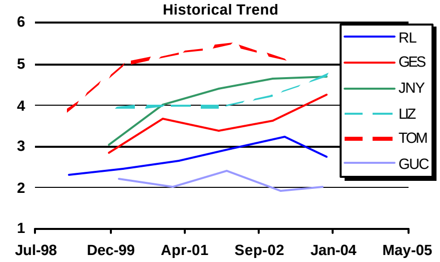


FIG 4. Return On Equity: Peer Group Historical Trend

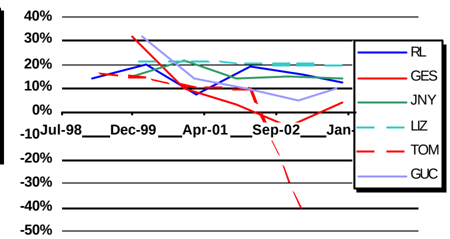


FIG 5. Return On Assets: Peer Group Historical Trend

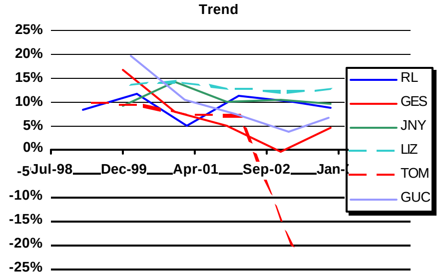


FIG 6. Quick Ratio: Peer Group Historical Trend

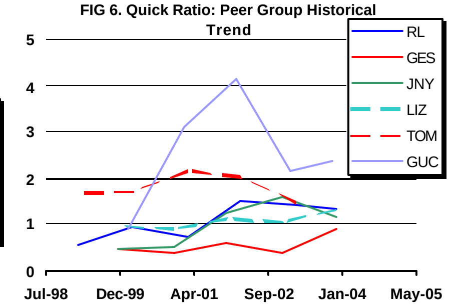


FIG 7. Current Ratio: Peer Group Historical Trend

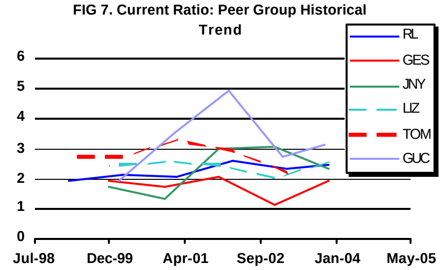


FIG 8. Debt to Equity: Peer Group Historical Trend

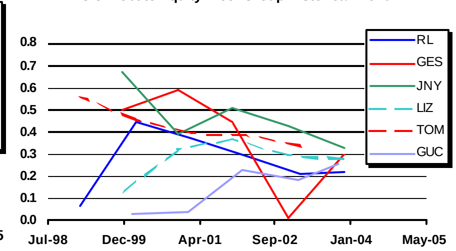


FIG 9. Debt to Capital: Peer Group Historical Trend

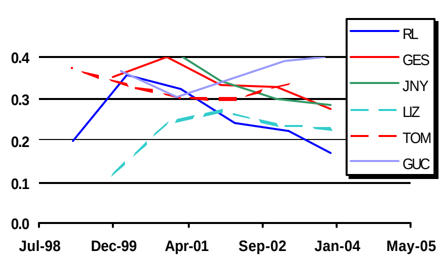


Exhibit 5: Income Statement Analysis

FIG. 10. GROSS PROFIT (% of Revenue)

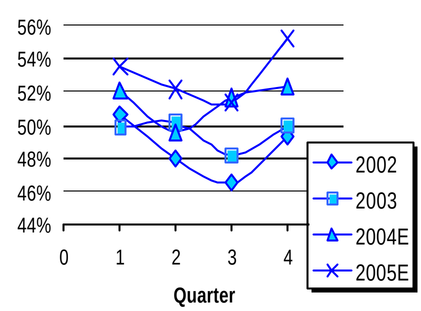


FIG 11. NET REVENUES (Period Over Period)

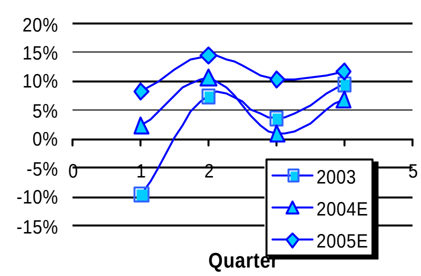


FIG 12. SG&A EXPENSES (% of Revenue)

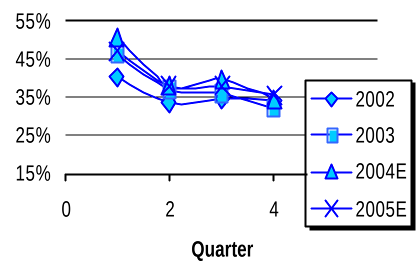


FIG 13. NET REVENUES: RETAIL (Period over period change)

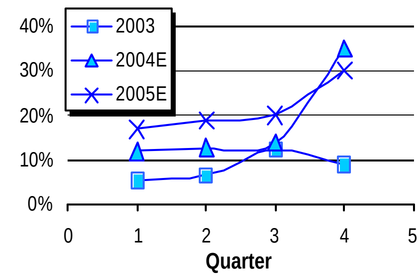


FIG 15. NET REVENUES: LICENSING (Period Over Period Change)

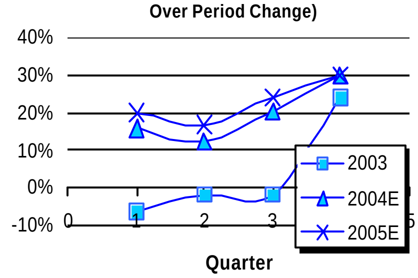


FIG 14. NET REVENUES: WHOLESALE (Period over period Change)

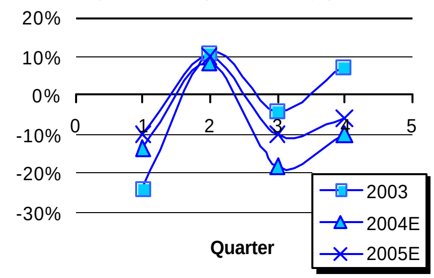
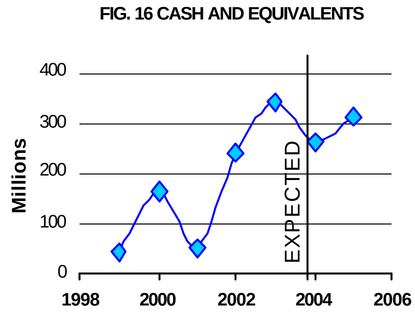
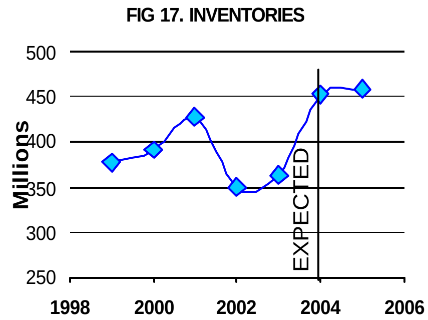
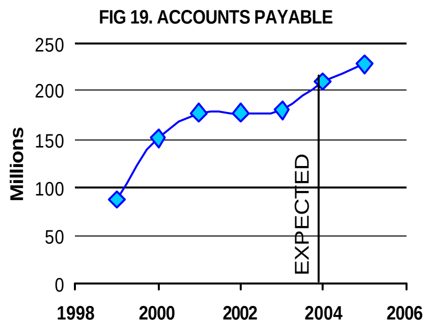


Exhibit 6: Balance Sheet Analysis







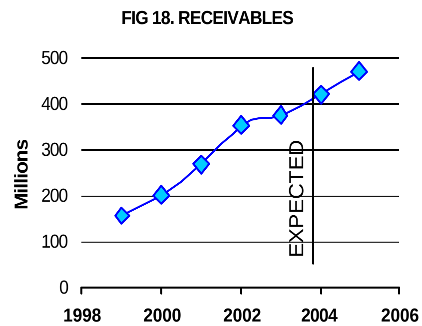


Exhibit 1- Peer Group Analysis for Polo Ralph Lauren (RL)

Company Name	Polo Ralph Lauren	GUCCI Group	GUESS	Jones Apparel	LIZ Claibourne	Tommy Hilfiger	Market Cap. Average
Ticker Symbol	RL	GUC	GES	JNY	LIZ	TOM	
Fiscal Year End	March	January	December	December	December	March	
Shares Outstanding (mill)	99.67	100.2	43.82	126.1	110.8	90.7	
Weight (by market cap.)	0.151	0.376	0.034	0.196	0.175	0.068	
Book Value Per Share[2]	12.63						
Market Capitalization (Billion)	3.45	8.565	0.7721	4.478	3.99	1.541	
Price Data							
Closing Price	34.61	85.45	17.62	35.51	36.01	16.99	
52-Week High	34.9	99.8	18.3	38.18	38.9	17.18	
52-Week Low	21.25	83.91	3.38	26.5	29.87	6.85	
Sales Information (LTM)							
Net Sales (mill)	2523.2	3097.9	636.6	4375.3	4241.1	1863.7	2790
Latest Date	12/03	10/03 (Reuters)	12/03	12/03	12/03	12/03	
Margin Analysis (LTM)							
Net Sales	2523.2	3097.9	636.6	4375.3	4241.1	1863.7	
Cost of Sales	1170.4	1020.3	381.5	2639.0	2246.4	1025.0	
Gross Margin	1352.8	2077.6	255.1	1736.3	1994.7	838.7	
SG&A	990.2	1789.5	197.1	1056.8	1419.7	560.5	
EBITDA	362.6	269.1	68.9	679.4	575.0	278.2	
Net Income	167.7	164.1	7.3	328.6	279.7	-8.5	
Net Sales	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of Sales	46.4%	32.9%	59.9%	60.3%	53.0%	55.0%	46.3%
Gross Margin	53.6%	67.1%	40.1%	39.7%	47.0%	45.0%	53.7%
SG&A	39.2%	57.8%	31.0%	24.2%	33.5%	30.1%	41.3%
EBITDA	14.4%	8.7%	10.8%	15.5%	13.6%	14.9%	12.2%
Net Income	6.6%	5.3%	1.1%	7.5%	6.6%	-0.5%	5.6%
EPS Growth Rate							
Actual 5 Yr. EPS Growth Rate	15.0%	-9.0%	-46.70%	9.75%	12.45%	9.34%	2%
EPS 2004	1.74	2.31	0.16	2.48	2.55	-0.92	
EPS 2003	1.76	2.74	-0.26	2.36	2.16	1.49	
1 Year EPS Growth	-1.2%	-15.7%	161.5%	5.1%	18.1%	-161.7%	-7%
EPS 2005 (Consensus)	2.42	2.09	0.54	2.73	2.78	1.40	
EPS 2006 (Consensus)	3.36	2.76	0.71	3.07	3.07	1.47	
	39.0%	32.1%	31.5%	12.5%	10.4%	5.0%	

** All EPS Numbers Are Consensus Except For Polo Ralph Lauren Which Are Calculated*

Valuation Analysis	Polo Ralph Lauren	GUCCI Group	GUESS	Jones Apparel	LIZ Claibourne	Tommy Hilfiger	**Arith, Average**
P/E 2003 EPS	19.66	31.19	NA	15.05	16.67	11.40	21.3
P/E 2004 EPS	19.90	36.99	110.13	14.32	14.12	NA	39.09
P/E 2005 EPS	14.32	40.89	32.63	13.01	12.95	12.14	20.99
P/E 2006 EPS	10.31	30.96	24.82	11.57	11.73	11.56	16.82
5 Year Avg. P/E[1]	20.54	27.76	41.1	15.02	12.26	11.45	21.36
Price/Sales (LTM)	1.37	2.76	1.21	1.02	0.94	0.83	1.36
5 Year Avg. P/Sales[1]	1.09	4.74	0.71	1.02	0.80	0.87	1.54
Price/Book Current[1]	2.66	2.4	4.14	1.8	2.58	1.29	2.48
5 Year Avg. P/Book	2.68	3.2	2.55	2.2	2.466	1.278	2.40
Price/ EBITDA (LTM)	9.51	31.82	11.21	6.59	6.94	5.54	11.93
5-Year Avg. Price/EBITDA	7.01	21.65	7.29	6.78	5.89	4.44	8.84
EV/EBITDA	9.37	17.48	11.02	7.31	7.19	5.36	9.62
5-Year Avg. EV/EBITDA	7.65						

Company Name	Polo Ralph Lauren	GUCCI Group	GUESS	Jones Apparel	LIZ Claibourne	Tommy Hilfiger	Market Cap. Average
Ratio Analysis (LTM)							
Efiiciency							
Receivables Turnover	8.6	6.6	19.5	11.3	10.9	17.7	9.8
Average Collection Period	42.3	55.3	19.5	32.3	32.8	20.6	41.3
Inventory Turnover	2.8	1.6	4.3	4.7	4.7	4.2	3.2
Profitability							
Return on Equity	13.0%	2.8%	4.2%	13.6%	19.5%	-0.7%	9.2%
Return on Assets	8.5%	3.2%	4.3%	9.6%	12.7%	1.4%	6.8%
Liquidity							
Quick Ratio	1.32	4.39	0.90	1.17	1.30	2.36	2.49
Current Ratio	2.45	2.32	1.90	2.31	2.56	3.95	2.48
Leverage							
Debt to Equity	0.22	0.22	0.30	0.33	0.28	0.29	0.26
Debt to Capital	0.17	0.49	0.27	0.29	0.23	0.23	0.33

Source: 1. moneycentral.msn.com/investor
2. www.money.cnn.com

Exhibit 2- Income Statement Projections for Polo Ralph Lauren (RL) in thousands

	06/29/01 1Q02	09/28/01 2Q02	12/28/01 3Q02	03/30/02 4Q02	03/30/02 FY2002	06/29/02 1Q03	09/28/02 2Q03	12/28/02 3Q03	03/30/03 4Q03	03/30/03 FY2003	06/28/03 1Q04	09/27/03 2Q04	12/27/03 3Q04	03/29/04 4Q04E	03/29/04 FY2004E	06/28/04 1Q05E	09/27/04 2Q05E	12/27/04 3Q05E	03/29/05 4Q05E	03/29/05 FY2005E
Net sales	461,058	528,202	560,293	572,780	2,122,333	413,866	574,554	583,303	617,598	2,189,321	416,089	633,241	578,131	644,006	2,271,467	443,185	723,307	628,013	700,587	2,495,093
Wholesale	245,173	280,437	279,955	392,495	1,198,060	186,728	310715	268,251	421,669	1,187,363	161,625	336,105	219,147	379,502	1,096,379	145,463	369,716	197,232	356,732	1,069,142
Retail	215,885	247,765	280,338	180,285	924,273	227,138	263,839	315,052	195,929	1,001,958	254,464	297,136	358,984	264,504	1,175,088	297,723	353,592	430,781	343,855	1,425,951
Licensing	56,771	67,493	56,802	60,308	241,374	53,134	66,285	55,867	74,733	250,019	61,642	74,536	67,234	97,153	300,565	73,970	87,207	83,370	126,299	370,846
Net revenues	517,829	595,695	617,095	633,088	2,363,707	467,000	640,839	639,170	692,331	2,439,340	477,731	707,777	645,365	741,159	2,572,032	517,156	810,514	711,383	826,886	2,865,940
US& Canada	NA	NA	NA	NA	1919587	186,728	477,936	511,086	740,346	1916096	161,625	519,744	527,612	592,927	1,801,908	413,725	648,412	569,107	661,509	2,292,752
Europe	NA	NA	NA	NA	358382	227,138	153,999	81,472	(3,982)	458627	254,464	156,032	94,051	111,174	615,721	77,573	121,577	106,707	124,033	429,891
Other Regions	NA	NA	NA	NA	85,738	53,134	8,904	46,612	(44,033)	64,617	61,642	32,001	23,702	37,058	154,403	25,858	40,526	35,569	41,344	143,297
Cost of goods sold	255,468	310,055	330,086	321,295	1,216,904	234,396	319,573	331,260	346,510	1,231,739	228,979	357,211	312,363	353,135	1,251,688	240,428	387,600	346,500	370,792	1,345,319
Gross profit	262,361	285,640	287,009	311,793	1,146,803	232,604	321,266	307,910	345,821	1,207,601	248,752	350,566	333,002	388,024	1,320,344	276,728	422,914	364,883	456,095	1,520,620
Selling, general and administrative expenses	208,773	199,507	212,561	216,750	837,591	214,916	236,618	230,391	222,816	904,741	243,226	267,613	256,614	256,238	1,023,691	243,226	307,755	269,445	294,674	1,115,100
Restructuring charge				16,000	16,000			8,000	6,443	14,443			15,930		15,930					0
Income from operations	53,588	86,133	74,448	79,043	293,212	17,688	84,648	69,519	116,562	288,417	5,526	82,953	60,458	131,786	280,723	33,502	115,160	95,439	161,420	405,520
Foreign currency (gains) losses	(2,827)	5,664	(3,036)	(1,621)	(1,820)	3,531	220	(1,262)	(1,960)	529	(2,299)	(1,784)	3,552	(239)	(770)	(327)	(219)	(86)	(86)	(718)
Interest expense	5,924	4,779	4,501	3,829	19,033	5,335	4,383	4,845	(1,061)	13,502	3,863	2,890	2,969	5,753	15,475	6,735	6,977	5,972	5,972	25,656
Interest income	0	0	0	0	0	(1,351)	(1,441)	(1,486)	4,278		(945)	(694)	(459)	(175)	(2,273)	(413)	(451)	(492)	(492)	(1,848)
	5,924	4,779	4,501	3,829	19,033															
Income before provision for income taxes and other (income) expense, net	50,491	75,690	72,983	76,835	275,999	10,173	81,486	67,422	115,305	274,386	4,907	82,541	54,396	126,447	268,291	27,507	108,853	90,044	156,026	382,430
Provision for income taxes	19,440	27,880	27,369	28,810	103,499	3,713	29,742	24,610	42,086	100,151	1,791	30,128	19,854	45,521	97,294	9,903	39,187	32,416	56,169	137,675
Other (income) expense, net											(1,939)	(1,597)	(816)		(4,352)					0
Net income	31,051	47,810	45,614	48,025	172,500	6,460	51,744	42,812	73,219	174,235	5,055	54,010	35,358	80,926	175,349	17,605	69,666	57,628	99,857	244,755
Net income per share Basic	0.32	0.49	0.47	0.49	1.77	0.07	0.53	0.44	0.73	1.77	0.05	0.55	0.36	0.8168	1.78	0.1777	0.7032	0.5817	1.0079	2.4705
Net income per share Diluted	0.32	0.49	0.46	0.48	1.75	0.07	0.52	0.43	0.74	1.76	0.05	0.54	0.35	0.7989	1.74	0.1738	0.6878	0.5689	0.9858	2.4163
Weighted average common shares outstanding Basic	97,108,788	97,437,461	97,506,076	97,470,342	97,470,342	98,161,220	98,301,441	98,412,022	98,330,626	98,330,626	98,377,228	98,703,840	99,072,270	99,072,270	99,072,270	99,072,270	99,072,270	99,072,270	99,072,270	99,072,270
Weighted average common shares outstanding Diluted	98,493,077	98,483,031	98,504,094	98,522,718	98,522,718	99,333,199	99,319,019	99,311,085	99,263,054	99,263,054	99,544,131	100,781,395	101,291,472	101,291,472	101,291,472	101,291,472	101,291,472	101,291,472	101,291,472	101,291,472
Margin Analysis																				
Gross Profit (% of Revenue)	50.67%	47.95%	46.51%	49.25%	48.52%	49.81%	50.13%	48.17%	49.95%	49.51%	52.07%	49.53%	51.60%	52.35%	51.33%	53.51%	52.18%	51.29%	55.16%	53.06%
Selling, general and administrative expenses	40.32%	33.49%	34.45%	34.24%	35.44%	46.02%	36.92%	36.05%	32.18%	37.09%	50.91%	37.81%	39.76%	34.57%	39.80%	47.03%	37.97%	37.88%	35.64%	38.91%
Operating Income	10.35%	14.46%	12.06%	12.49%	12.40%	3.79%	13.21%	10.88%	16.84%	11.82%	1.16%	11.72%	9.37%	17.78%	10.91%	6.48%	14.21%	13.42%	19.52%	14.15%
Interest Expense	1.14%	0.80%	0.73%	0.60%	0.81%	0.85%	0.46%	0.53%	0.46%	0.55%	0.61%	0.31%	0.39%	0.75%	0.51%	1.22%	0.81%	0.77%	0.66%	0.83%
Net Income	6.0%	8.0%	7.4%	7.6%	7.3%	1.4%	8.1%	6.7%	10.6%	7.1%	1.1%	7.6%	5.5%	10.9%	6.8%	3.4%	8.6%	8.1%	12.1%	8.5%
Period/Period Change																				
Net Revenues						-10%	8%	4%	9%	3%	2%	10%	1%	7%	5%	8%	15%	10%	12%	11%
Wholesale						-24%	11%	-4%	7%	-1%	-13%	8%	-18%	-10%	-8%	-10%	10%	-10%	-6%	-2%
Retail						5%	6%	12%	9%	8%	12%	13%	14%	35%	17%	17%	19%	20%	30%	21%
Licensing						-6%	-2%	-2%	24%	4%	16%	12%	20%	30%	20%	20%	17%	24%	30%	23%
Gross Profit						-11%	12%	7%	11%	5%	7%	9%	8%	12%	9%	11%	21%	10%	18%	15%

Operating Income	-67%	-2%	-7%	47%	-2%	-69%	-2%	-13%	13%	-3%	506%	39%	58%	22%	44%
Net Income	-79%	8%	-6%	52%	1%	-22%	4%	-17%	11%	1%	248%	29%	63%	23%	40%
EPS, Basic	-78%	8%	-6%	49%	0%	-29%	4%	-18%	12%	0%	255%	28%	62%	23%	39%

Exhibit 3- Balance Sheet Projections for Polo Ralph Lauren (RL)

Annual Balance Sheet (Values in Millions)	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**
Assets						**EXP**	**EXP**
Current Assets							
Cash and Equivalents	45	165	52	239	344	263	315
Receivables	157	204	269	354	376	418	473
Inventories	377	391	426	350	364	452	458
Other Current Assets	101	93	156	66	83	135	137
Total Current Assets	680	853	902	1008	1166	1268	1382
Non-Current Assets							
Property, Plant & Equipment, Gross	414	606	605	704	763	847	925
Accum. Depreciation & Depletion	152	233	276	360	408	462	524
Property, Plant & Equipment, Net	262	373	329	344	355	384	401
Intangibles	0	278	249	273	327	391	452
Other Non-Current Assets	163	117	146	124	191	302	327
Total Non-Current Assets	425	768	724	741	873	1077	1180
Total Assets	**1105**	**1621**	**1626**	**1750**	**2039**	**2345**	**2562**
Liabilities & Shareholder's Equity							
Current Liabilities							
Accounts Payable	89	151	178	178	181	209	229
Short Term Debt	116	86	86	33	101	0	0
Other Current Liabilities	144	169	175	181	218	311	340
Total Current Liabilities	348	406	440	392	500	521	569
Non-Current liabilites							
Long Term Debt	44	343	297	285	249	297	325
Deferred Income Taxes	0	0	0	0	0	0	0
Other Non-Current Liabilities	54	99	80	74	81	82	84
Minority Interest	0	0	0	0	0	0	
Total Non-Current Liabilities	98	442	377	360	330	379	409
Total Liabilities	**446**	**848**	**817**	**751**	**830**	**900**	**978**
Shareholder's Equity							
Preferred Stock Equity	0	0	0	0	0	0	0
Common Stock Equity	659	772	809	998	1209	1445	1584
Total Equity	659	772	809	998	1209	1445	1584
Total Liabilities & Stock Equity	**1105**	**1621**	**1626**	**1750**	**2039**	**2345**	**2562**