

Small Talk  
March 24, 2014

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Director, Rocky Mountain Chapter


# Fossil Group, Inc

**FOSL**



Fossil Group, Inc

## Disclaimer



All stock references are meant to be used for educational purposes.

No recommendation for purchase or sale is intended or implied.

Please perform your own due diligence.

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# Completed SSG ????

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## BUSINESS INTRODUCTION

- >SECTOR: Consumer Discretionary  
Sub-Industry = Apparel, Accessories & Luxury Goods
- >Worldwide designer, manufacturer, & distributor of consumer fashion accessories:
- >Majority of products are watches: also includes jewelry, handbags, small leather goods, belts, sunglasses, soft accessories & clothing

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**Company Data**

**General Company Information**

**Address**  
 901 S. Central Expressway  
 Richardson, TX 75080 United States  
 Phone: 972 234-2525

**Country**  
 United States

**Ticker/NSADQ**  
 FOSL

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**Company Data**

**Date of Incorporation**  
 1984, TX, United States

**Number of Employees**  
 14,000 (Approximate Full-Time as of 12/29/2012)

**CEO** Kosta N. Kartsotis, has served as Fossil, Inc.'s Chief Executive Officer since October 2000 and Chairman of the Board since May 2010. He has been a Director of Fossil, Inc. since 1990.

**-CEO owns 10% of the stock (in position to affect Board)**

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## **BUSINESS DATA**

- Fossil markets its own brand of watches & also proprietary brands.
- Licensing since 1997: most run thru 2017 & average 56% product margin
- Licensed brands = 60% of watch sales: Adidas, Armani, Exchange, Burberry, Diesel, DKNY, Emporio Armani, Marc by Marc Jacobs, & Michael Kors.

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## **BUSINESS DATA**

- Products (about 75%) distributed thru wholesales agreements & has about 473 stores of its own selling the remaining products
- Approximately 1/2 of the sales from North America, 1/3 Europe, & remaining from Asia.

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## **BUSINESS STRENGTHS**

- Brand Names
  - Acquired or Licensed Companies: Adidas, Armani, Burberry, Diesel, DNKY, Emporio Armani, Karl Lagerfeld, Marc by Marc Jacobs, Michael Kors, Michele, Relics, Skagen, Zodiac
- Broad range of prices, appeal to broad range of ages, & income groups
- International penetration

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## **BUSINESS STRENGTHS**

- Large breadth of distribution
- In House Creativity Team (design stores, Web sites, products, packaging = decreases advertising cost)
- International Sourcing: most Fossil watches made in Asia

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## **BUSINESS OPPORTUNITIES**

- Growth Expansion: increase its own brands = leverage distribution agreements & increasing own existing stores
- Increase its own jewelry & licensing of Emporio Armani & Michael Kors
- Acquired Skagen Designs Limited/231.7 M/cash & \$231 M/cash & 150,000 FOSL stock: watches, jewelry, sunglasses, & clocks

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## **BUSINESS OPPORTUNITIES**

- International expansion = wholesale & retail stores, China is specific target for this.
- Company has strong free cash flow about \$350 M/yr: has ability to use for acquisitions or repurchase shares
- Company has \$615 M of the \$1B share buyback program of Sep 2013

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## **WEAKNESS/THREATS**

- Deteriorating global economic environment
- Economic cycles, terrorism, acts of War, retail industry conditions
- Ability of Company to anticipate & respond to changing Fashion trends
- Loss of License agreements = loss of products

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## **WEAKNESS/THREATS**

- Limited supply of components of products
- Need to continue to develop innovate products: new products
- Comply with Rules/Regs of Countries
- Reduced lending by Banks

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## WEAKNESS/THREATS

- Seasonality of business: 3<sup>rd</sup> & 4<sup>th</sup> are best sales periods
- Privacy Breach
- License agreement problems
- Failure of Companies to follow labor practice Rules/Regs

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## WEAKNESS/THREATS

- Highly competitive E-commerce & catalog areas
- Ability to integrate Businesses they acquire
- Ability to avoid contingent problems & liabilities of businesses they acquire
- See Annual report for more details of Strengths & Threats (very good explanations)

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## SSG TOOL

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## Graph Lines

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### Estimated Sales Growth

2014 **VL** = 3580, 16-18 = 5200

2014 **Yahoo** = 3580, 2015 = 3888

2014 **S&P** = 3543

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### Estimated Future EPS

- 2014 **VL** = \$7.25, 16-18 = \$10.50
- 2014 **Yahoo** = \$7.21, 2015 = \$8.21
- 2014 **S&P** = \$7.30

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### TOOLKIT ESTIMATES

- MS Estimated EPS Growth rate = 18.5%
- EPS Estimate = 12.5%
- Projected EPS = \$12.85
- EPS by Revenue = \$11.93
- Analyst 5 yr EPS = \$12.59

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### Choice of Low Price

Option	Value
Forecast Low Price	73.5
Average Low Price for Last 5 Years	52.1
Recent Severe Market Low Price	62.8
Price Dividend Will Support	0.0
Price Variant Quotient	67.96
80% of Current Price	93.42
Other	0.00

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**Is FOSL a candidate for  
your portfolio?**

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**MORE  
INFORMATION???**

**QUESTIONS ???**

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**THANK YOU**



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