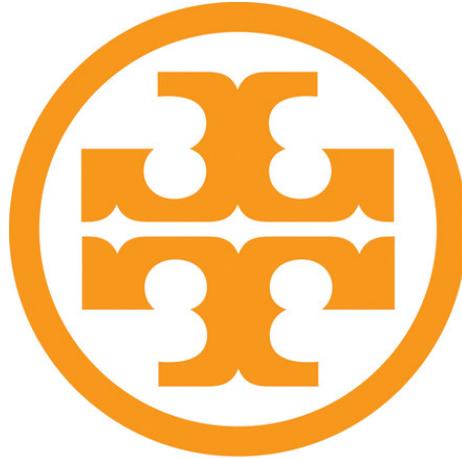


# Pre-IPO / Capital Markets Analysis for Tory Burch, LLC



**TORY BURCH**

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June 2013



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## Executive Summary

Thank you for giving me the opportunity to present some ideas to you about capital raising for Tory Burch LLC. In particular, this report will focus on a potential Initial Public Offering (IPO) of Tory Burch LLC, and why I believe the company is ideally suited for an IPO.

While more research and analysis is needed, this document provides the starting point when assessing if and how to execute a potential IPO to ensure a successful capital raise. It will also provide guidance for post IPO investor relations to enable successful secondary offerings.

The key points of my report are that:

- I believe the company should be **valued at \$4 billion, which places it at the highest end** of the luxury retail, apparel, accessories and footwear valuation table, and in-between its closest equity comparable company's - Prada and Michael Kors
- Operating under the assumptions that a) the company's strategic direction requires growth capital to remain competitive and achieve objectives, and b) Private Equity and management owners may want to monetize all or part of their investment, **there is an urgency to ready the company for an IPO so that it can go public within one year.** This is especially true given market conditions are very favorable now but the farther out in time we go, market conditions become increasingly uncertain.
- Tory Burch LLC is **an ideal IPO candidate** for many reasons
- **A transaction could be structured to enable Tory Burch and current investors to maintain control** of the company
- I would expect to **raise capital of between \$200 and \$600 million** in an IPO depending upon the assumptions made above. This would represent **selling 5%-15% of the company** publicly
- **There are risks to IPO execution.** Planning and preparing well will help ensure the highest probability of success

## Background & Strategic Rational

The company is managed by CEO, Tory Burch and her team, and is governed by a Board of Directors. Based on publicly available information, it appears that the company is owned by five key investors, the largest being Tory Burch herself, as well as some minority partners.

Based on the transaction between Chris Burch, minority partners, and investors General Atlantic LLC and BDT Capital Partners for 23% of the company, the company was valued at \$3.55 billion on January 1, 2013. Tory Burch's ownership position of 28.3% is valued at least \$1 billion. Based on April 4, 2013 luxury retail apparel, accessories and footwear valuations, and Tory Burch LLC's growth rate, I estimate that the company would be presently valued at \$4 billion. The company is not believed to be highly levered.

When assessing whether to pursue an IPO, the following factors need to be considered: Does Tory Burch, LLC need growth capital to support the company's strategic plan, and do the private equity and management owners want to monetize part or all of their holdings? To support the company's strategic plan, Tory Burch, LLC would sell primary shares in an offering and the proceeds would go to the company. In the case of private equity (PE)/management ownership monetization, they would sell secondary shares and proceeds would go to the owners.

One may assume Tory Burch LLC and owners would want to raise equity by selling a small portion of the company (possibly 5%-15%). This represents capital of \$200-\$600 million. The final amount raised would depend upon what amount of capital the company needs, whether the PE/management partners wish to exit, as well as valuation at the time of the offering.

Selling only 5%-15% of the company would be a very good IPO amount, however, investors would likely expect that over time liquidity and free



float would improve by the issuance of follow-on equity offerings. The company could stagger its follow-on issuance – but assuming market conditions were favorable, the success of those would be highly dependent upon the results of the company at the time of the issuances.

Also, depending upon market conditions, it has been common for companies to follow a successful IPO with 1-2 follow-on offerings within 18 months of the IPO. The expectation would be that growth trends would have accelerated or remained strong given the utilization of IPO capital to grow the company.

In addition to selling only a small portion of the company during the IPO, a transaction could be structured to include dual class voting shares. This would enable Tory Burch and/or PE partners to maintain control of the company by owning super-voting shares while ordinary shares would be issued to the investment community. This structure, is not generally perceived favorably by investors, and tends to contribute to a lower valuation versus peer group – all else being equal. The company and its bankers would have to assess the appetite of the market at the time of the IPO to determine whether or not to do the IPO with super-voting provisions.

Given the financial position of the company, Tory Burch would have to determine a reasonable amount of equity to raise to support its long-term strategy. Importantly, if the PE investors are looking to exit, the total size of the IPO would reflect this and Tory Burch, LLC could trim back the amount of primary shares the company sells. This not only would accomplish getting shares in the public market, but would also limit the amount of dilution to Tory Burch herself and other current shareholders.

If Tory Burch herself wished to monetize a small portion of her ownership – representing \$50-\$75 million, I don't believe it would be frowned upon by investors. However, if Tory were to monetize a much

larger portion of her holdings in the IPO, it may be difficult to price the IPO well.

The investment bankers will request from the major shareholders a lock-up provision, which would prevent sales immediately following the IPO that were not included in the IPO. The lock-up provisions would likely prevent Tory Burch and PE from monetizing any more equity for at least six months after the IPO. They could include shares in later follow-on equity issuances though assuming conditions and results remain positive.

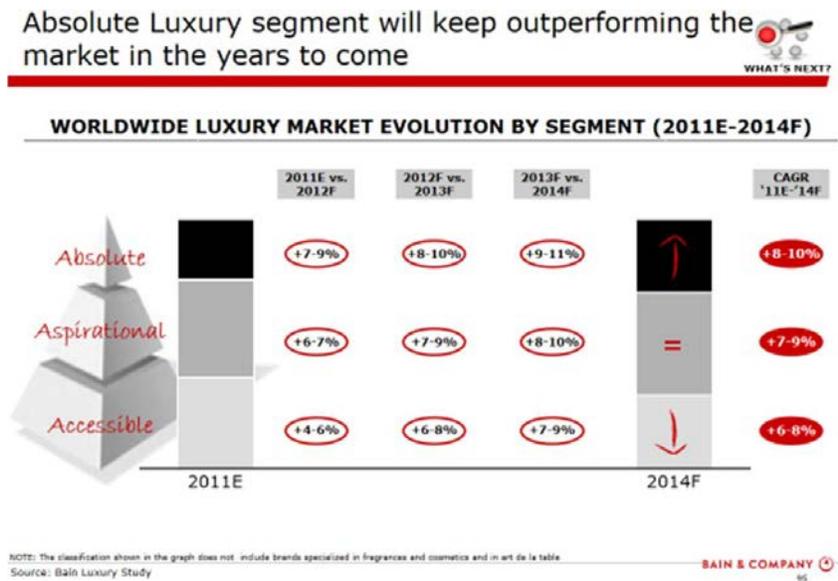
In addition to investors understanding the growth opportunities and management's strategies to achieve these goals, reasons for the equity offering, amount of equity offering and use of proceeds are all critical questions that would need to be addressed in any S-1/IPO document. The drafting process would likely take 3-6 months.

As the SEC review period can be lengthy – approximately 4-6 months, I would advise the company to begin the preparation process as soon as possible if the company would like to raise capital within the next year. While it would be possible to do an “accelerated” IPO in December, this is highly dependent upon whether or not the financial statements have been audited and corporate governance practices.

### **What makes Tory Burch, LLC an attractive IPO candidate?**

- The brand is recognized globally. The merchandise is sold directly in Tory Burch boutiques across the U.S., Europe, Middle East and Asia. Merchandise is also sold through a wholesale network through more than 1,000 select department and specialty stores worldwide. The merchandise is available on-line through the Tory Burch website, and through a few select outlet stores. The company's intent is to continue growing its distribution worldwide.

- The brand is already one of the most searched for brands on-line. An IPO would not only enable the company to raise capital, but also might drive significantly more interest in the brand as in the case of Michael Kors.
- The luxury apparel, accessories and footwear category is growing very rapidly worldwide. According to Bain & Company worldwide personal luxury goods have grown in the double digits since 2009, and they are expected to grow between 6% and 10% (a Cumulative Annual Growth Rate / CAGR of 7%- 9%) through 2014. “Absolute luxury”, the highest level of luxury and the most aspirational (which is the category that Tory Burch is in) is the fastest growing (8%-10% outpacing lower levels of luxury consumption) according to Bain & Co.



- Several sources, including Goldman Sachs, expect the global luxury goods market to quadruple between 2010 and 2025. The global luxury goods industry is projected to grow to a trillion-

dollar market by 2025. This is expected to be largely driven by the BRIC economies, particularly China, as well as the U.S. and Japan.

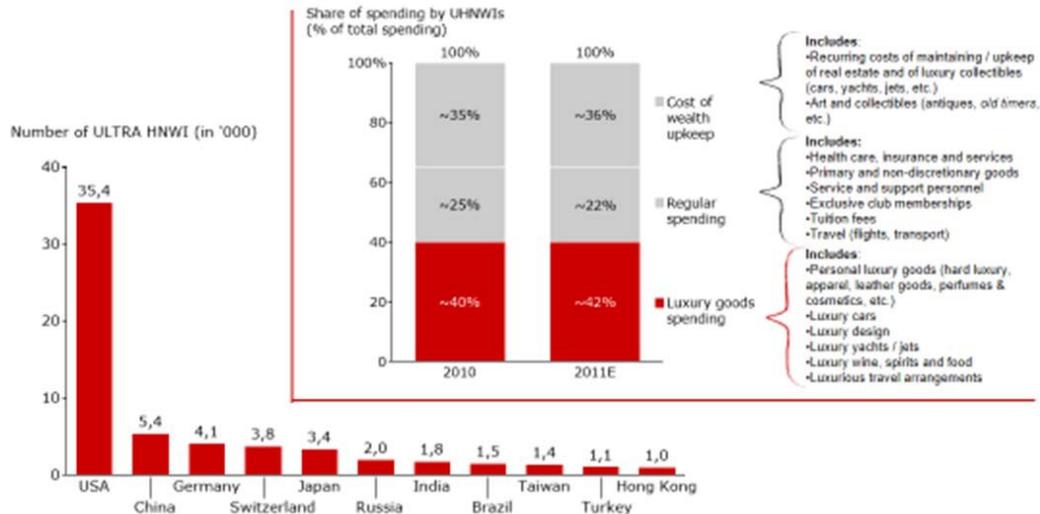


- Fueling this demand and growth in consumer goods is the steady increase of Ultra High Net Worth (UHNW) and High Net Worth (HNW) individuals and families globally. According to Bain & Company, Boston Consulting Group (BCG) as well as other sources, UHNW and HNW are spending increasing amounts on luxury goods and their worth is expected to grow in the high single-digit and double-digits through 2025. This will be driven primarily by growth in emerging markets, such as the BRIC (Brazil, Russia, India and China) countries, as well as continued growth of UHNW/HNW individuals in the US, Japan and Europe.

UHNWI contribute relevantly to luxury and especially absolute luxury growth



**2011 ULTRA-HNWI Population by Country and spending**



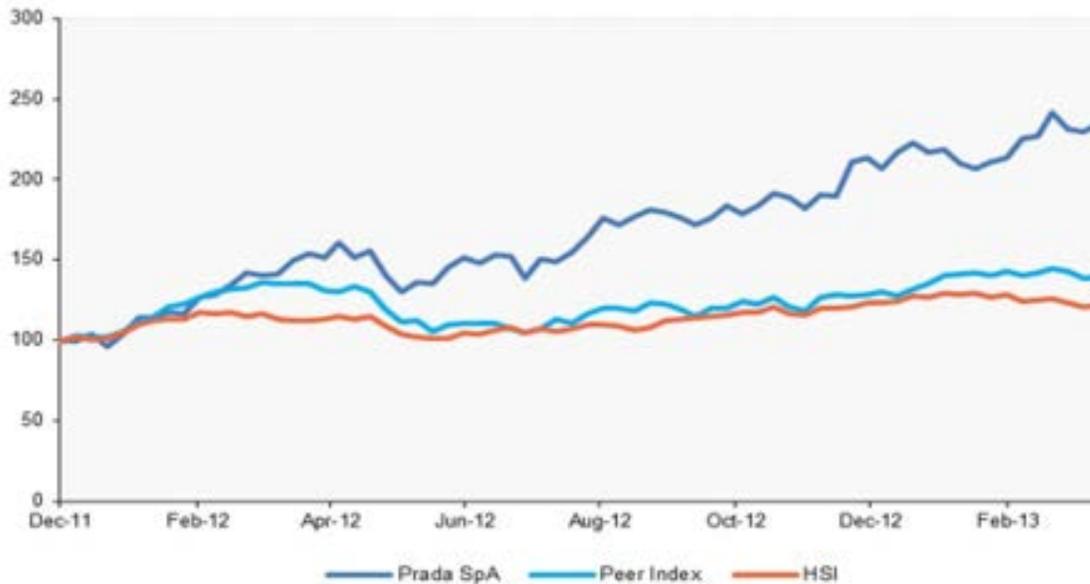
Source: Credit Suisse Global Wealth Databook 2011, Credit Suisse Global Wealth Databook 2010. According to Credit Suisse classification, an UHNWI possesses more than €50M of net assets.

- Global private financial wealth is expected to grow from \$123 trillion in 2011 to \$151 trillion in 2016 – a CAGR of 4.3% globally. However, regionally the numbers are most impressive in developing regions: Asia Pacific ex-Japan with a CAGR of 11.1%, Latin America with 8.9%, Eastern Europe & Russia with 8.7% and the Middle East and Africa with 6.6%. Developed regions such as North America, Japan and Western Europe are all projected to see private financial wealth grow between 0.8% and 1.8%.

All this data combined strongly supports the continued strong growth expectations of a brand like Tory Burch worldwide.

- The equities market is presently amenable for luxury goods equities. Recent IPO's of Michael Kors (KORS-US), Salvatore Ferragamo (SFER-MI) and Prada (1913-HK) were completed at attractive multiples. Follow-on equity issuance has also been strong further increasing the public float and attracting more investors. Additionally, established equities such as Ralph Lauren (RL-US) and others continue to perform well.

**1913 HK Price versus Peers & Benchmark (Normalized)**



**KORS Price versus Peers & Benchmark (Normalized)**



- According to Private Company reports, Tory Burch, LLC has grown to \$760 million in revenues in 2012. The same year, the company generated \$229 million in EBITDA (earnings before

interest, taxes, depreciation and amortization) a margin of 30%. These results represent both a revenue growth rate and EBITDA growth rate of over 50% in the last year with strong EBITDA margins. Three-year growth rates are estimated to be above 50% as well. By comparison, KORS' past year growth rate was 62% and Prada's growth was 25%.

- As a privately held company, detailed financial information on Tory Burch, LLC is not readily available. The following information has been reported in the media and via Private Company. According to Private Co., these are the company's financials:

<b>Income Statement</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Revenue	\$760mm	\$490mm	\$313mm	\$223mm	\$201mm	\$113mm
EBITDA	\$229	\$150	NotAvail	NotAvail	NotAvail	NotAvail
<b>Employee Figures</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Total Employees	1,800	1,000	700	600	400	NotAvail
Productivity (Revenue/Employee)	\$422m	\$490m	\$447m	\$372m	\$503m	NotAvail
<b>Online Revenues</b>	NotAvail	\$59mm	\$31mm	NotAvail	NotAvail	NotAvail

One-year revenue growth rate: 55.1%  
 Three-year revenue growth rate: 50.5%  
 One-year employee growth rate: 80%  
 Three-year employee growth rate: 44.2%

- One could assume that the reason for both Kors and Prada sustaining these high growth rates relates to their ability to better compete within the market – expand and grow their brand relative to the competition. This was made possible in part by the additional capital raised by the equity offerings. Similarly, Tory

Burch LLC could greatly benefit from an equity capital raise that would be used to accelerate growth and remain competitive in the luxury apparel, accessories and footwear category.

In summary, Tory Burch, LLC meets key criteria investors are looking for and the market timing is ideal.

### **Other Considerations:**

- Not all IPOs are successful. For example, Graff, a luxury jeweler, recent IPO would be characterized as failed. There were a few reasons for this including Graff's reasons for the IPO and the amount of family ownership being monetized, but market timing was not ideal for Graff. Graff attempted to price its IPO two weeks after the IPO of Facebook, which received criticism by the market as being priced too high, and therefore Graff suffered the consequences of bad market timing. Market timing wasn't the only issue with the Graff IPO but timing it right after Facebook certainly didn't help. This example underscores the importance of good market timing when doing an IPO.
- Certainly, the company would be wise to ensure it is well prepared for an IPO before considering a filing of an S-1 document with the SEC in preparation for an IPO. Key among these factors is the strength of the finance team, including the Financial Planning & Analysis team and determining if there are any weakness in financial controls. The company may wish to begin this time consuming process and file confidentially with the SEC, so that at the appropriate time the company can pull the trigger, as market timing is critical to any issuance.

If the company determines that strategically, equity capital would significantly enhance its growth opportunities, then the company needs to go through a lengthy process of readying itself for the public markets.

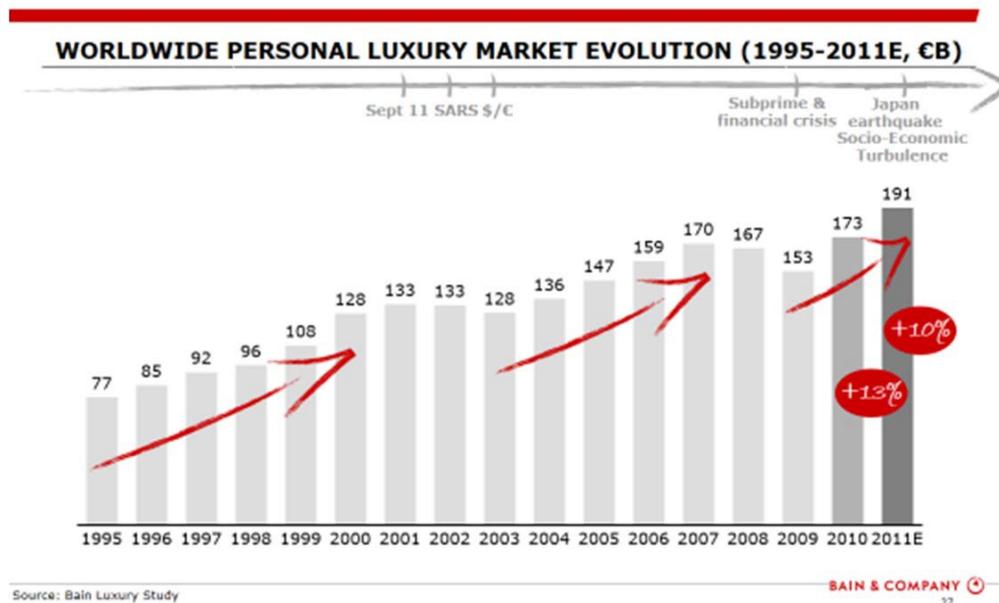
As previously stated, I believe the company has the strength of brand name, attractive financial profile, the growth opportunities and the right market to do a significant capital raise. We would need to ensure that the company's infrastructure, the risks, and management team and Board of Directors would meet the tests required of a public company to begin moving forward on the road toward a successful IPO.

## Valuation and Comparables Analysis

### Sector Dynamics

The company is in the luxury apparel, accessories and footwear industry. The sector is characterized by very strong, globally recognized brand names, many of which are publicly listed. Presently, the sector is favored as the wealth trends in both emerging and developed markets are very favorable, which supports expected strong growth in the sector for many years into the future.

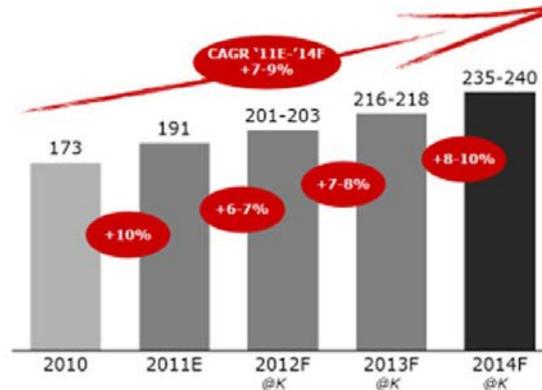
2011: a new peak for luxury goods consumption



Luxury fundamentals will remain strong in the medium term



**WORLDWIDE PERSONAL LUXURY GOODS  
MARKET EVOLUTION (2010-2014F, €B)**



Source: Bain Luxury Study

BAIN & COMPANY

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## Sector Comparables

I chose fourteen luxury apparel, accessories and footwear sector comparables, which I believe would be most closely correlated to Tory Burch if it were to go public. The fourteen companies have their primary listing on a variety of exchanges including New York (5), London (1), Paris (2), Hong Kong (1), Milan (4) and Frankfurt (1).

1. MC-FR - LVMH – Moët Hennessy Louis Vuitton Luxury apparel and accessories
2. PP-FR – PPR Luxury apparel and accessories
3. COH – Coach Luxury accessories and footwear
4. 1913-HK – Prada Luxury apparel and accessories
5. RL – Ralph Lauren Luxury apparel and accessories
6. BRBY-LN – Burberry Luxury retail apparel and accessories
7. FOSS – Fossil Accessories
8. TOD-MI - TOD'S Luxury accessories and footwear
9. SFER-MI - Salvatore Ferragamo Luxury apparel and accessories
10. GEO-MI – Geox Luxury footwear



11. BOSS-XE - Hugo Boss Luxury apparel and accessories
12. LUX-MI – Luxottica Luxury Eyewear
13. VRA - Vera Bradley Retail accessories
14. KORS – Michael Kors Luxury apparel and accessories

## Valuation Table

Based on the comparable analysis, considering multiples of net sales/turnover and EBITDA, as well as taking into consideration sales and earnings growth rates, it appears that based on an estimated 2012 numbers that Tory Burch LLC would command an enterprise value in a range between \$2.5 billion and \$4.5 billion. In my view, under current market conditions, Tory Burch LLC should earn an enterprise value of approximately \$4 billion, which places it between the valuations of Prada and Kors. Both Prada and KORS have similar growth, profit and branding profiles.

The low end of the range at \$2.5 billion is based on the average for the luxury retail sector globally. Of note it includes outliers on both the high side (Michael Kors, Prada) and low side (Geox). The \$4.5 billion is based on a comparison only to Michael Kors, which trades at significant premium to the group based on its high growth rate this past year of 62%.

It is justifiable to use both Prada and Kors multiples to value Tory Burch LLC at approximately \$4 billion (in-between the two) as I believe they are the most appropriate benchmarks. This enterprise value represents 17.2x latest twelve months (LTM) EBITDA and 5.2x LTM Sales. These are “rich” compared to the sector but fair given the growth potential and brand name recognition of Tory Burch LLC and they are in line with Kors/Prada. These valuations are also consistent with the valuation provided in recent Bloomberg and Forbes articles from early 2013 stating that Chris Burch’s 15% holding is valued at \$530 million based on the sale transaction completed on January 1<sup>st</sup>, 2013.

Using this valuation, the total enterprise was estimated to be \$3.5 billion at the end of last year. This valuation equates to an LTM sales multiple of 4.7x 2012 sales, and an EBITDA multiple of 15.5x estimated 2012 EBITDA.



Tory Burch, LLC target valuation multiples would be between Prada and Kors (\$3.5-\$4.5 billion) and potentially higher than Kors at the end of this year (\$5 billion) as Tory Burch arguably has a longer and better runway than Kors.

## Preparation of Deal Documents and IPO Readiness

### Exchange Listing Considerations

The only market I would recommend Tory Burch LLC list on would be the US market – either the New York Stock Exchange or the NASDAQ. Being listed solely in the U.S. would give the company access to the capital markets and at the lowest cost. Some companies have dual listed such as Prada (whose primary listing is on the Hong Kong Exchange), but I don't believe it is necessary unless the company wishes to access significantly higher levels of capital, which it believes can be found outside the US. My opinion is that an IPO in the range of \$200MM - \$600MM can be successfully raised in the US.

### Targeting Buy-Side Investors

A targeting analysis would be performed closer to the time of an IPO and would include similar investors to those already in the sector.

### Sell-Side Equity Coverage

Potential sell-side analysts may include: North America

- Oliver Chen – Citibank Luxury and Specialty Retail Goods (New York)
- Lindsay Drucker Mann – Goldman Sachs & Co Retail Softlines (New York)
- Brian Tunick – JPMorgan Consumer Cyclical (New York)
- David Wu – Telsey Advisory Group Luxury Retail (New York)
- Erika K Maschmeyer – Robert W. Baird & Co. Consumer Retail (Chicago)
- Paul Lejuez – Nomura/Wells Fargo Luxury Retail (New York)
- Kimberly Greenberger - CSFB
- Erinn Murphy - Piper Jaffrey



Europe (depending upon investor base may want to seek coverage both in Europe and Asia)

- Francesca DiPasquantonio – Deutsche Bank Luxury Goods (Milan)
- Louise Singlehurst – Morgan Stanley Luxury Goods (London)
- Daniela Nedialkova – Atlantic Equities Retail (London)

Asia

- Erwan Rambourg – HSBC Securities Asia Ltd (Hong Kong)
- Ebru Sener Kurumlu – JPMorgan Consumer Cyclical (Hong Kong)

Note Prada has much more coverage than KORS, but that does not necessarily equate to generating higher value. More coverage will generally give you access to a larger investor base, which would ideally result in higher demand for the equity. There is a point of diminishing returns, however, and so quality of coverage is much more important than quantity of coverage.

**Financial Media Plan**

Generally, the plan would be closely coordinated with public relations and the company would target traditional financial media such as The Wall Street Journal / Barron's, The New York Times, Reuters, Women's Wear Daily, Bloomberg, CNBC, etc.

**Potential Investment Bankers/Financial Advisors**

The decision on which bankers to use is likely a decision the management team has already thought quite a bit about. My only recommendation here would be to ensure that the bankers chosen also work for firms with broad distribution networks, solid equity/capital markets experience, and those that have strong luxury goods analysts that could cover the story and market it well. Strong banking partners would help ensure the highest valuation is maintained.

### **Accounting and Legal Advisors**

It would be advantageous to go with a big four accounting firm given their expertise in IPO preparation and support. Additionally, it has been reported by the media that Tory Burch has used Wachtell, Lipton, Rosen & Katz as the legal advisors in the past. They are also very experienced in handling IPO's.

### **IPO Considerations and Jobs Act Considerations**

President Obama signed the Jumpstart our Business Startups Act (The JOBS Act) into law in April 2011. Emerging growth companies (EGCs) defined as having less than \$1 billion in total gross revenues in their most recent fiscal year are allowed to submit their IPO draft registration statements confidentially as opposed to making them immediately public. The JOBS Act also allows test-the-water oral and written communications between EGCs and potential investors either prior to or following the date of filing a registration statement. It also allows for pre-deal research though companies have been hesitant to do so over liability concerns.

This Act would provide some relief to Tory Burch LLC by allowing the company to confidentially file with the SEC to gain review and test-the-water statements prior to going public.

### **Launch Timing**

There are a few gating concerns when choosing the timing of an IPO. The primary gating item would be the status of the financial reporting. Assuming the financial reporting meets the tests of a public company, including SOX compliance, an IPO could potentially be accelerated to be completed by the end of the current calendar year. The timing would place pricing of the IPO between Thanksgiving and Christmas – targeting early December to price and close. This is similar timing that was used by Michael Kors on their IPO.

Within that timing an S-1/IPO document and related communications materials would have to be drafted. The drafting process would likely take 3-6 months. The filing would be made and reviewed by the SEC confidentially taking 4-6 months. Then related updates would be made.

If the company was not interested in “rushing” the process to price this year, a more realistic timeframe would be to ready the company to price and list next spring-summer. Either way, if the company determines an IPO may be a strong possibility, it would be prudent to start the process now as market conditions appear to be favorable for the foreseeable future. However, as all markets do, the longer out we look the more uncertain the outcome will be.

### **Post – IPO Investor Relations Activities**

As an advisor, I would be pleased to help you with all of your pre and post IPO needs. To give management a sense of what time would be required of them after a successful IPO, these charts are useful. The management would be expected to be present on the IPO road show as well as at various events after the IPO. Ideally, the Investor Relations Officer would handle the vast majority of the needs, while the CEO, CFO etc. would be encouraged to participate in quarterly and annual investor calls, periodic conferences and financial media opportunities. Additionally, I always encourage management to allow IR to piggy-back on events such as a seasonal fashion launch to invite key investors and analysts too.

### **Questions and Additional Follow-up:**

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