

MII Investment Memo



To: McIntire Investment Institute
From: Pete Taylor, Pre-COMM 2012
Subject: Long Fund Election Memo – RL
Date: Nov. 30th, 2009

Polo Ralph Lauren

Sector: Consumer Cyclical | Industry: Apparel/Accessories | NYSE: RL

Thesis: The Ralph Lauren Polo Corporation presents itself as a long-term investment opportunity for MII for a few key reasons. Polo Ralph Lauren has solidified itself in many industries and categories as a strong reputable brand that epitomizes the “desired” standard of living. RL’s iconic brand image is beginning to expand into new markets that present themselves as huge catalysts for the companies growth. As Polo Ralph Lauren buys back many of its licensed products in an attempt to “condense” its operations, it will have greater control over its operations and future success.

I. Financial Summary*

Share Price (11/30/09)	\$76.31
Shares Outstanding	99.05 M
Market Cap	7.64 B
LT Debt	483.00M
P/E (forward)	16.34
52 Week Range	31.64 – 83.50
Float	98.28M
Short Interest	3.78M
Avg Volume (3m)	1,253,140
Beta	1.71

POLO RALPH LAUREN CORP
as of 27-Nov-2009



*Information cross-referenced from Google finance & Yahoo finance

II. Business Overview

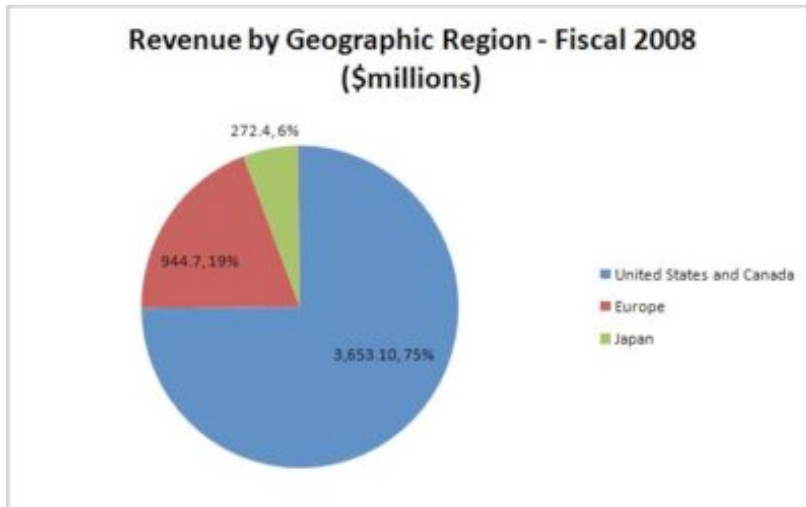
Polo Ralph Lauren Corporation is a primary international player in the design, market, and distribution of high-quality lifestyle products. Started in 1967 by Ralph Lauren, Polo Ralph Lauren has grown to be one of the largest retailers in the world marked by its high-end apparel, accessories, fragrances, and home furnishings. For over 40 years the companies distinctive image has grown to become one of the worlds most highly recognized brands. Polo Ralph Lauren operates through 3 segments: Wholesale, Retail, and Licensing. The Wholesale sales are primarily between RL and major department and specialty stores throughout the United States and Europe. The Retail segment consists of full-price and factory retail stores located throughout the United States, Canada, Europe, South America and Asia coupled with the sales it brings in from www.Polo.com. Lastly, RL gives out licenses to third parties allowing them to use RL's different trademarks for a given amount of time in a specified geographical region. Polo Ralph Lauren employs roughly 17,000.

Ralph Lauren Brand's: (in order from most luxurious to least)

- Ralph Lauren Collection (womenswear)
- Ralph Lauren Purple Label (menswear)
- Ralph Lauren Blue Label (womenswear)
- Ralph Lauren Black Label
- Polo Ralph Lauren
- Lauren Ralph Lauren
- Chaps Ralph Lauren

Polo Ralph Lauren also owns certain forte lines such as RLX, Ralph Lauren Golf, Rugby, Double RL, and Club Monaco.

Polo Ralph Lauren's entry into the home furnishings department is covered within its Ralph Lauren Home, Lauren Home, and American Living lines.



Wholesale

The Wholesale segment made up for 57% of Polo Ralph Lauren's fiscal year 2009 sales (increasing by 4.68% from FY '08 to over \$2.8 billion).

Polo Ralph Lauren's Wholesale segment sells its products to department stores domestically and internationally. RL has great relationships with numerous large department stores allowing the company to market its products to a wide variety (both geographically and socioeconomically) of customers. Besides large department stores such as J.C. Penney, Bergdorf Goodman, Saks, and Macy's, Polo Ralph Lauren sells its products to specialty stores such as golf and pro shops.

Ralph Lauren brands were sold in approximately 6,100 stores worldwide during fiscal year 2009. In the United States and Canada, the company's wholesale customers are primarily department stores, while in Europe, Ralph Lauren Collection, Black Label, and Purple Label are often allocated through top of the line fashion retailers. As shown in the above graph, Japan itself plays a large role in Polo Ralph Lauren's sales, as the wholesale customers there are mainly "shops-within-shops" at the large department specialty stores.

Retail

The Retail segment made up for 39% of Polo Ralph Lauren's fiscal year 2009 sales.

Polo Ralph Lauren has 326 retail stores worldwide. These stores serve as Ralph Lauren's very own platform for him to showcase his new lines and develop his brand image. Through their competitive advantage in brand icon recognition, Polo Ralph Lauren's retail stores are able to price their products higher than most of their competitors without losing sales.

Ralph Lauren stores highlight the entirety of the RL apparel, accessories, and home products. Rugby is a vertical retail format that according to www.rugby.com is where “casual campus style meets downtown prep for a sensibility that is youthful and, at times, irreverent. The signature of the brand is the authentic Rugby shirt,” (one can design their own through the website) “a symbol of our classic, sporting heritage.” Ralph Lauren’s niche retail stores like Rugby and Club Monaco reach out to a certain group of customers while still maintaining the classic Polo image and a solid number of patrons.

Licensing

The Licensing segment made up for 4% of Polo Ralph Lauren’s fiscal year 2009 sales.

Fashion designers often license their products out to be produced by third parties independently. Licensing once stood as one of Polo Ralph Lauren’s largest sources of revenue, however Ralph Lauren has recently initiated a re-purchasing program, buying back several of these licensed products. The move away from licensed products has the potential to set the company apart from many of its competitors by giving it much greater control over its brand operation.

Approximately 29% of Polo Ralph Lauren’s licensing revenue of fiscal year 2009 came from just three partners: Luxottica Group (11%) – mainly from sunglasses and the Club Monaco line, L’Oreal (9%) – mainly from fragrances, and Peerless, Inc. (9%) – mainly from the Chaps line.

Competitors

Polo Ralph Lauren has much competition as they play a prominent role in wide array of different products depending on which brand is mentioned. The men’s Purple and Black Label luxury brand compete with Giorgio Armani, Hugo Boss Collection, and Faconnable. The Ralph Lauren Collection and Women’s Black Label compete with Donna Karan, Calvin Klein and Hermes. The Blue Label (both men’s and women’s) competes with DKNY, Michael Kors, and Calvin Klein. Polo by Ralph Lauren competes with Lacoste, Nautica, Armani Exchange, DKNY, IZOD, Kenneth Cole Productions, and Van Heusen. Lauren by Ralph Lauren competes with Liz Claiborne, Michael by Michael Kors, and Jones New York Signature. RLX competes with Prada Sport. Polo Golf & Polo Tennis compete with Nike, Reebok, and Adidas. Rugby competes with Abercrombie and Fitch, J. Crew Group, American Eagle Outfitters, and Guess?. Club Monaco competes with Banana Republic, Zara, Reiss, Theory, and Armani Exchange. And Lastly Ralph Lauren’s Home Living line competes with Hotel Collection, Calvin Klein, Charter Club, and DKNY. What makes Polo Ralph Lauren so unique is not only how diversified it is, but also how strong of a player it with each of these segmented markets.

Management

When it comes to fashion design, Ralph Lauren is as good as it gets. The 67 year old self-made fashion guru is the current Chairman and CEO of Polo Ralph Lauren and has been since 1967 when he started the company. Roger N. Farah serves as the President and COO of Polo Ralph Lauren and has since April of 2000 and before that was Chairman of the Board of Directors at Venator Group, Inc. (what is now Foot Locker, Inc.). Tracey Travis is the Senior Vice President of Finance and CFO of the corporation and has been since January 2005, having served as the Senior Vice President of Limited Brands, Inc. before hand. This is clearly a strong group of core leaders just as the rest of the board holds very reputable backgrounds.

III. Investment Theses

1.) The Polo Ralph Lauren Corporation has solidified itself as a superior iconic brand in all categories that it participates.

Amid the current state of our economy, Polo Ralph Lauren still managed to increase its September-quarter operating results, capture market share, and witness large increases in its retail orders. During this year many apparel companies/competitors of Polo Ralph Lauren cut back on their inventories and distribution due to hard times, whereas Polo Ralph Lauren has recently expanded its wholesale distribution with Bergdorf Goodman and Saks, proving Polo Ralph Lauren's superior brand strength and promising stability.

In the short term, Polo Ralph Lauren has a competitive advantage in the sheer quality of their products. As the macroeconomic environment plays it course over the coming quarters, Polo Ralph Lauren should stand strong as consumers and retailers are drawn to the overall quality of the RL Corporation. Consumers are certainly heading towards the frugal and conservative mentality, however this will likely hurt the more trendy or "fad" fashion brands, rather than a stalwart company who has proven itself over the years as customers base their decisions off of quality for value.

Overall, Polo Ralph Lauren is thought of as the quintessential "American Brand". This alone doesn't mean much in regards to the valuation of RL stock, but it does equate to stability. Once a corporation garners the reputation that Polo Ralph Lauren has, it can often explicitly be noticed to translate into consistent strength. Coupled with Ralph Lauren's innovative thinking and great eye for fashion, Polo Ralph Lauren Corporation is certainly primed for a big move.

2.) Expansion into new markets provide great growth potential.

Roger Farah stated in Polo Ralph Lauren's most recent conference call with its investors on Nov. 3, " I believe our year-to-date performance confirms that we have a credible and resilient strategy to grow shareholder value over the long term. This

strategy is focused on elevating our brands and is grounded in three key areas, one, growing our international presence, two, developing innovative new products and three, expanding our direct-to-customer reach.” Farah’s first key component mentions expansion into an international presence. Developing brand awareness, expanding distribution, and introducing new products has already proven to be successful in Japan as Polo Ralph Lauren only emerged in that location in 2006. Southeast Asia presents an enormous market potential of spreading the Polo Ralph Lauren seed.

Beginning January 1, 2010, Polo Ralph Lauren Corporation will assume direct control of its retail and wholesale distribution in Southeast Asia. Ralph Lauren himself said, ““The appetite for our brand and products in Southeast Asia is strong and growing, and we expect to build on the momentum by reinforcing our luxury lifestyle positioning and elevating our distribution in the region.” There is no doubt that the Southeast Asian market is a great opportunity as those areas have begun to develop high-class standards of living synonymous with the lifestyle that Polo Ralph Lauren portrays (stereotypical but undoubtedly true). China has approximately 1.6 million wealthy households as of 2008 and currently is not even among Polo Ralph Lauren’s top 5 Asian costumers. This number is projected to jump to roughly 4.5 million by 2015, putting China in the top 4 worldwide of concentration of wealthy households. Luxury spending will without a debt rise proportionately to this growth in wealth and therefore Polo Ralph Lauren has a great opportunity to capitalize on a fairly untapped market. In the long term, Polo Ralph Lauren Corporation has stated the goal of eventually receiving a third of its consolidated sales in North America, a third in Europe, and a third in Asia. This is a huge jump from its 2008 and 2009 sales mix (2008 is pictured in the aforementioned graph, 2009 sales mix was 72% US and Canada, 20% Europe, 8% Japan).

3.) Giving Polo Ralph Lauren more control of its already brilliant business plan by buying back profitable licensing ventures will be very beneficial

Historically, Polo Ralph Lauren Corporation has used international licensing partners to “spread their seed” and enter new markets conservatively. If this market proves to be profitable, then Polo Ralph Lauren has often bought back its licensed products and brought retail stores right into the epicenters of these markets (It did this in the early 2000’s with Japan and is now seeing great success there).

Currently, Polo Ralph Lauren penetrates new markets by forming licensing contracts. Based on the results of these licensing ventures, Polo Ralph Lauren has decided to buy back many of their licensed businesses first domestically, and now internationally, as it gains a tighter grasp on its brand. This strategy has proved to be very successful in Japan and will hopefully prove to also be successful in the Southeast Asian market.

For lack of a better word, as Polo Ralph Lauren moves away from “outsourcing” its companies products and begins to tread towards a unified dense approach to doing business, there is no reason to believe it will not become a stronger well-oiled machine than it already is.

IV. Value-Added Research

- *Deborah Cole, Financial Planner for Polo Ralph Lauren for over 20 years (left in 2008)*

- Claimed that Polo Ralph Lauren’s consistently strong cash flow and balance sheet were always looked at as great strengths in comparison to competitors.

-Gave a great rundown of how Polo Ralph Lauren’s licensing works and how the company does make a lot from these license royalties but if it continues to see the success in buy-backs as it did in Japan then “the sky is the limit”.

-Claimed that Polo Ralph Lauren upper management vehemently stick to their key strategic elements of: 1. Continuing to build and extend the brand. 2. Focusing on specialty retail that is exclusive to Ralph Lauren, and 3. Expanding the International Presence.

-Loved her time spent working with the Polo Ralph Lauren Corporation.

- *Alan Riggio, Polo Ralph Lauren sales clerk in Clinton, CT for past year and a half*

-Stated that he was surprised how busy the store always is even during the summer months when our economy was down.

-Described how Ralph Lauren utilizes their strong brand image to charge higher prices and how managers teach sales clerks this from day 1.

-Shopped at Polo Ralph Lauren during Black Friday.

-It was clear that Polo had the largest crowd of any retail store in the mall that I was at.

- Polo Ralph Lauren still managed to charge noticeably higher prices for their high quality apparel than their competitors in the same mall even after their Black Friday special sales.

V. Ideas for MII Improvement

-*Education*: One of the main reasons many people join MII is to gain valuable knowledge about investing. Educating the members is definitely done through the application questions but I personally feel that the research I have done *on my own*

has brought me up to par with the lingo used during meetings. There are links on the website that are useful, but I feel as if maybe something as easy as a typed out packet of “key terms” and their meanings could be extremely helpful to some of the students in the club who have not taken any finance or investing classes on their own.

-Community: I feel as if MII would greatly benefit if it could develop a much tighter-knit feeling between its members. Uncertain of exactly how to go about this, I would suggest a few possibilities. First, I suggest some sort of forum that could be implemented onto the MII collab site where any member could post his/her thoughts on potential investments or just questions regarding a given subject. Realizing the potential barriers in creating a forum, I think a secondary option to this would be just creating an optional mailing list that included the MII managers and any members of MII who would like to have the opportunity to ask questions or bring up certain stocks that should be watched.