GROUP III

José Paredes (3170)
João Pinto (3077)
Marko Klipic (3260)
José Luís Lima (3401)

PRIVATE EQUITY
INVESTMENT COMMITTEE PAPER

SuperGroup PLC

| Agenda

0 | Executive Summary

SuperGroup has a great potential for growth and so it is an important target for a Private Equity LBO transaction

SuperGroup Plc, founded in 1985, is a British company which designs, produces and sells clothing and accessories for men and women under the Superdry brand.

We believe it represents a good investment opportunity for the following key aspects:

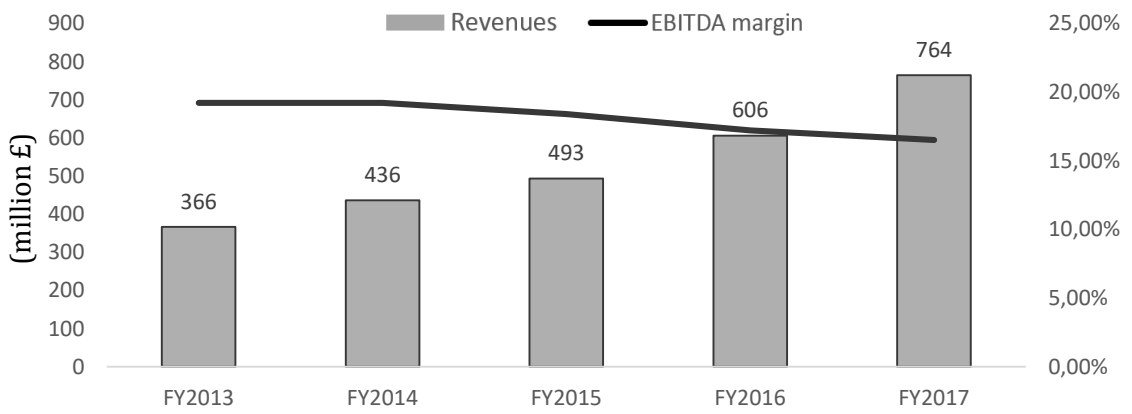
1. **Growth Story:** SuperGroup's revenue CAGR was 20,2% for the past 5 years based on the policy of expansion resulting in the opening of new stores across the world, with gross margin amounting to 60,2% in 2017. Regarding the future prospects, the Company is projected to reach revenues CAGR of 13,1% until FY 2023 (CAGR of 39,8% just in USA) and an improvement of 213 basis points on EBITDA margin.

2. **Leverage Capacity**: The Company continuously operated with robust cash flows - cumulative free cash flow for 2013-2017 period was £122 millions. Therefore, SuperGroup has significant potential to exploit leverage effects, with planned external financing at **6x EBITDA.**

3. **Valuation:** The Company is valued at **12,4x EBITDA** (2017), resulting from analysis of **comparable companies and transactions in the apparel market, as well as DCF valuations**.

4. **Risk & Return:** In the base case, whit entry and exit multiples set at 12,4x EBITDA, the LBO investment opportunity offers a return of 19,6% IRR and a Money Multiple of 3,5x.

Financial Performance



Revenues by Segments

Author: João Pinto (3077)

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1 | Company Overview (1/3)

The Company is aiming to offer affordable, but premium-quality fashion

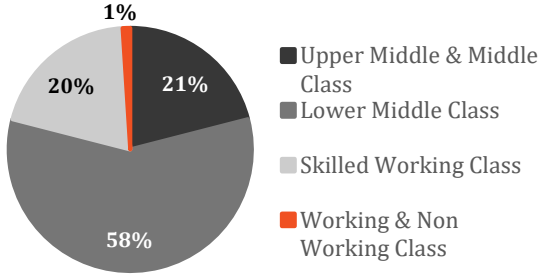
Global Lifestyle Brand

- SuperGroup is a monopolistically competitive firm in the fashion industry. Their fashion apparel and accessories are all unique as they design original, stylish apparel for both men and women with a little twist of "vintage America, Japanese graphics, and British tailoring".
- **Superdry**, launched in 2003, has democratic appeal, offering affordable, premium-quality clothing, accessories and footwear complemented by other lifestyle categories such as Sport and Snow.

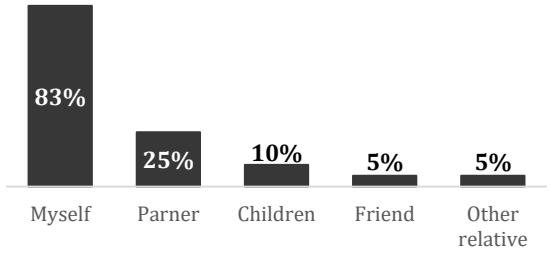
Clients

- Superdry's clients are mostly men, from upper to lower middle class, buying for themselves.
- Superdry resonates across the age spectrum and it appeals to all from under 25 until upper 35.

NRS Social grade:

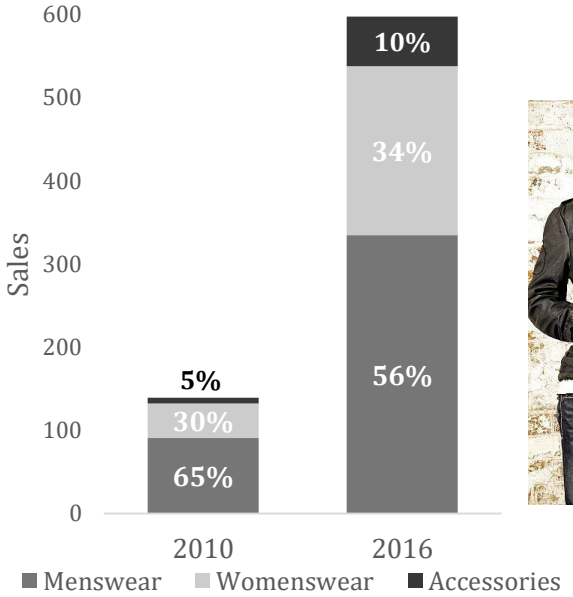


Shops Superdry for:



Products

Product	Men	Women
Outerwear	£60,00 – £500,00	$65,00 – £600,00
Tops	£20,00 – £270,00	£15,00 – £200,00
Bottoms	£40,00 – £100,00	£20,00 – £130,00
Accessories	£10,00 – £130,00	£10,00 – £110,00
Shoes	£15,00 – £380,00	£20,00 – £235,00
Collections/Looks	£7,50 – £380,00	£5,00 – £315,00



Source: Company's Annual Report from 2010-2017; SuperGroup SGP, Peel Hunt Company's Report, September 2017; Company's Markets Day Presentation

Author: José Luís Lima (3401)

1 | Company Overview (2/3)

Global presence through three channels: Retail, Wholesale and E-commerce

Superdry is a well-established brand in its core market (the UK) and continues to gain traction in overseas territories; the Company has a physical presence in 49 countries with 863 stores and concessions globally.

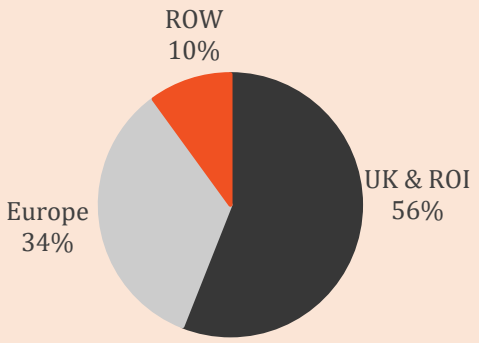
Retail

Own Stores

- Focus: **UK, Europe and North America.**
- Important part of the group's growth strategy. Planning to open up to 100.000sq ft. of new retail space each year.
- Store base highly flexible: sites with no more than 5y from a lease expiry or break clause.

Concessions:

- Location dispersed globally.
- Macy's (US) and El Court Inglés (EU) as example.

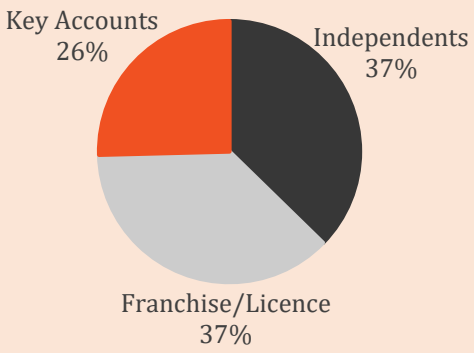


Retail Revenues per Region (FY2017)

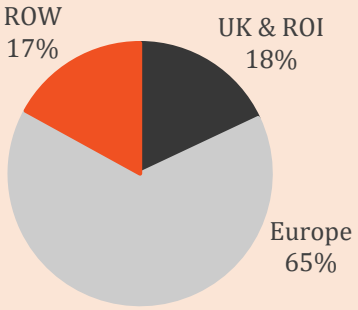
Wholesale

- Supergroup's global wholesale business: 85% of revenues being generated from international markets.
- Wholesale is a key part of management's strategy for breaking into new territories, providing a low capital and low-risk means of gaining a local footprint and growing brand penetration.

Per channel:



Per region:

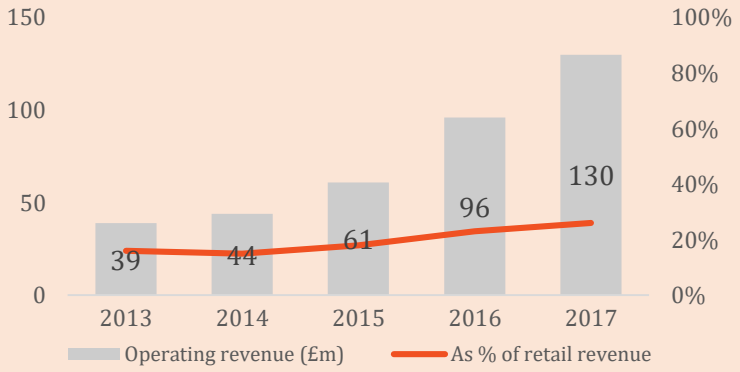


Wholesale Revenue (FY2017)

E-commerce

- This channel includes 27 international websites across 18 countries, delivering products to **148 countries**. Online sales have grown at a **three-year CAGR of 43,7%** to FY17 and now represent >26% of retail sales.
- Market leading proposition and speed.
- The e-commerce creates the **link between Retail and Wholesale** through the Partner Programme, where it offers the product for sale on third sites (e.g., Zalando, La Redoute, and The Iconic.)
- Partner Programmes account for 14% of E-commerce Business.

Growth in e-commerce sales



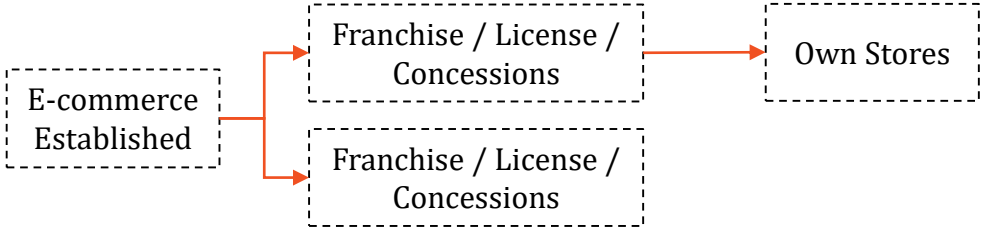
Source: Company's Annual Report from 2010-2017; SuperGroup SGP, Peel Hunt Company's Report, September 2017; Company's Markets Day Presentation

Author: José Luís Lima (3401)

1 | Company Overview (3/3)

Over the last 5 years, SuperGroup has doubled its global retail locations – current company expansion focus is EU, USA and China

International Expansion



- SuperGroup typically operate with owned stores in primary catchment areas, franchise stores in developing markets or secondary catchment areas and use partner websites (Zalando, etc.) to reach different customers and build brand awareness.

Type of stores	2012	2013	2014	2015	2016	2017
Own Stores	103	113	139	178	202	220
Franchise & license	101	162	208	221	260	335
Concessions	71	126	168	174	210	308

Region	# Stores	Revenue	5 yr CAGR	Market Entry	Store typology
Europe	575	£659 mil	+30%	2012	Own/ Franchise/Concessions
- UK & ROI	+99	£326 mil	+7%	2003	Own/Concessions
ROW	288	£92 mil	+33%	-	Franchise/Concessions
- China	8	-	-	JV: 2015	Own/Franchise
- Americas	53	-	-	-	Own/Concessions
- USA	+20	£50 mil	+22%	Licence Buy-Back: 2015	Own/Concessions

*World's presence

US Specifics

- In March 2015, SuperGroup bought out the incumbent US license holder for a cash consideration of £22,3 mil (the license includes Canada and Mexico). Under SuperGroup's direct ownership:
  - 20 owned stores (3 closed, 19 openings);
  - SuperGroup is targeting the top 75 US malls (out of 980).
  - Focus: Eastern Seaboard and West Coast and Florida.

China Specifics

- SuperGroup operates a JV in China with partner Trendy and opened the first Superdry store last year.
- Roll-out strategy:
  - Own Stores: tier 1 and upper tier 2 cities across China
  - Franchise: wider tier 2 cities
- Currently: 5 owned stores and 3 franchise stores
- Management expects China to be profitable from 2020.

Source: Company's Annual Report from 2010-2017

Author: José Luís Lima (3401)

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2 | Historic Performance (1/2)

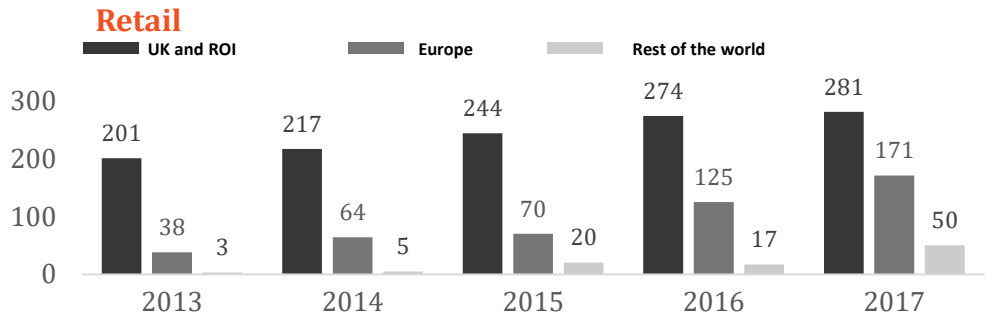
Aggressive expansion resulted in revenue CAGR of 20%, followed by cumulative Free Cash Flow period of £ 112 million during 2013-2017

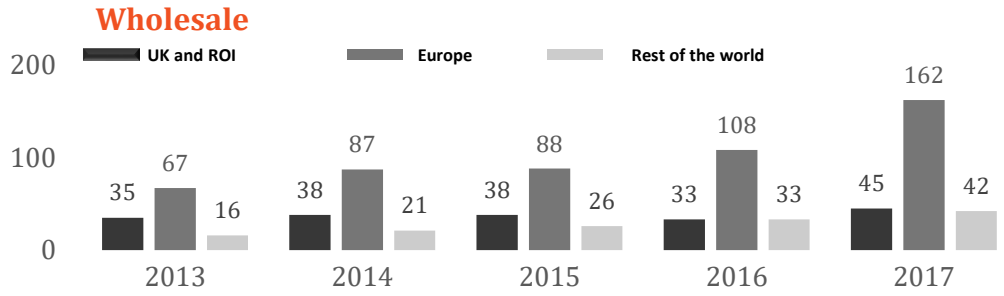
Financial Highlights (£GBP mil)

	2013	2014	2015	2016	2017	2013 - 2017 CAGR
Revenues	366	436	493	606	764	**20,2%**
% growth		*19,1%*	*13,1%*	*23,0%*	*26,0%*	
Gross profit	210	257	296	368	453	**21,2%**
% gross profit margin	*58,3%*	*59,7%*	*60,9%*	*61,6%*	*60,2%*	
EBITDA	70	84	91	104	126	**15,8%**
% EBITDA margin	*19,2%*	*19,2%*	*18,4%*	*17,2%*	*16,5%*	
FCF	23	42	-3	51	-1	
% of EBITDA	*32,4%*	*50,0%*	*-3,3%*	*48,5%*	*-0,8%*	
Net Working Capital	63	59	106	91	143	**22,9%**
% of revenue	*17,1%*	*13,6%*	*21,5%*	*14,9%*	*18,7%*	
CAPEX	18	36	41	53	61	**36,0%**
% of revenue	*4,9%*	*8,4%*	*8,3%*	*8,8%*	*8,0%*	
						Average
Collection period in days	38	38	43	40	45	**41**
Payment period in days	54	55	61	58	56	**57**
Inventory turnover in days	176	164	207	179	192	**183**

- Sales revenue **CAGR** for 2013-2017 period resulted in **20%**, while EBITDA **CAGR** for the same period amounted to **16%**, with **EBITDA margin** ranging from **16,5%** to **19,2%**.
- **EBITDA margin contraction** was a result of growth in operating expenses, mostly coming from rentals increase.
- Store related CAPEX amounted to GBP 113 mil, while GBP 96 mil was invested into infrastructure development, implying an average of **£ 1,1 million** per store.
- Cash cycle ranged from **147 to 180 days**.
- Cumulative free cash flow for the 2013-2017 period amounted to **£ 112 million**, highlighting significant capacity for external financing.

Revenue Segmentation (£GBP mil)





- Retail's cumulative participation in revenues during the 2013-2017 period amounted to **68%,** most of it coming from operations in UK.
- **Operating margin** for retail division ranged from **14%** to **19%**.
- Wholesale division recorded **CAGR** of **16%** during the period.
- Most of the revenues in Wholesale division came from operations throughout Europe **(60%),** while Rest of the world continuously grew at **CAGR of 21%.**
- **Operating margin** for the wholesale division ranged from **30%** to **35%**.

Source: Company's Annual Report from 2013-2017

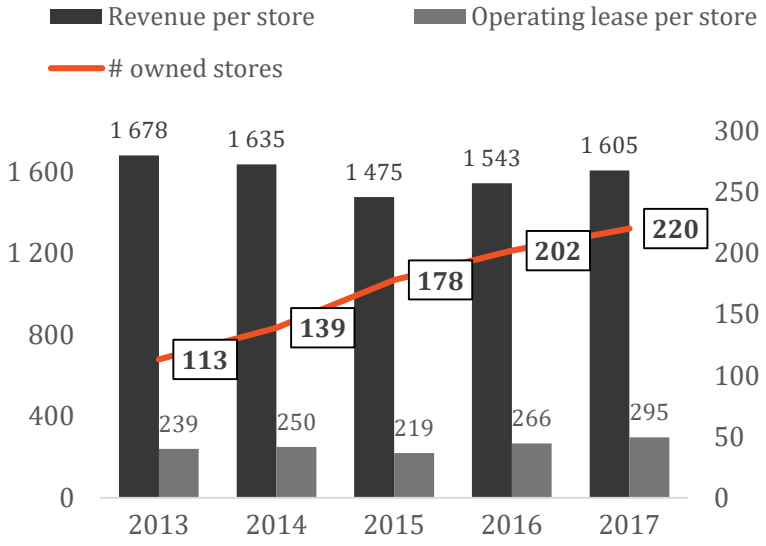
Author: Marko Klipic (3260)

2 | Historic Performance (2/2)

Expansion was followed with positive like for like growth in all segments and improved KPIs

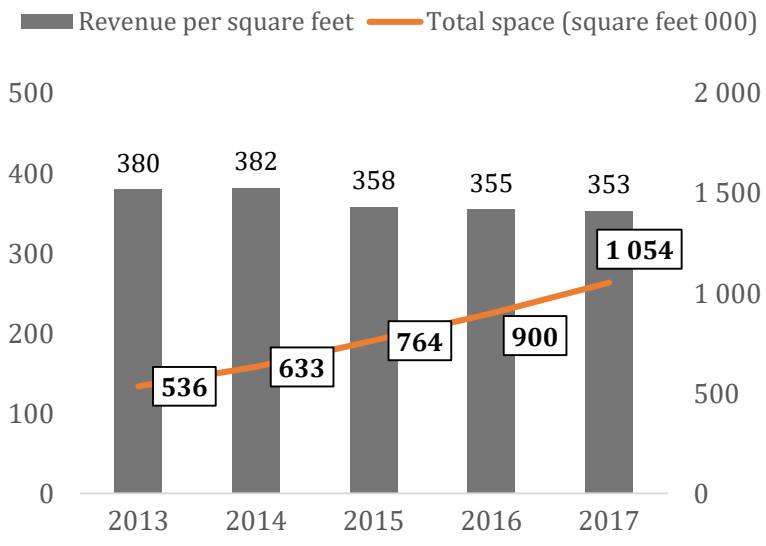
Retail revenue and lease expenses per stores

(£GBP thousand)



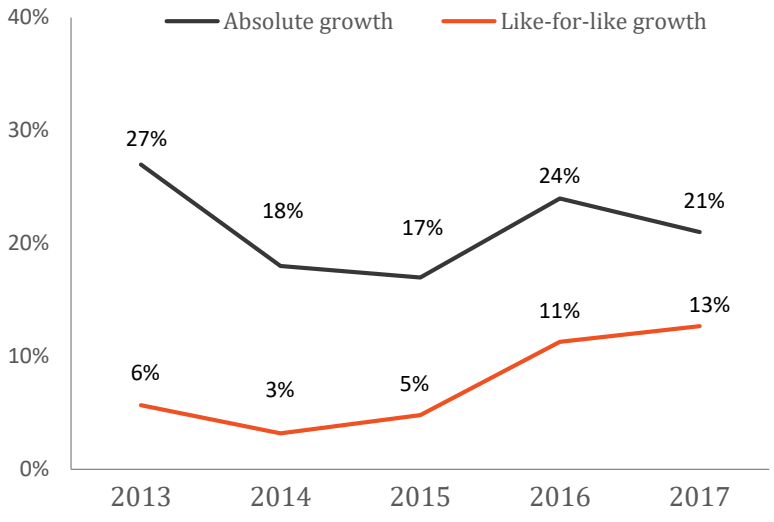
- Heavy expansion in retail sector throughout the world resulted in increased revenues followed by improved KPIs as revenue per store increased up to **£ 1,6 million** in 2017 with 220 owned retail stores, compared to **£ 1,5 million** in 2015.
- Revenue per store in 2015 was at the lowest point in the last 5 years, mostly due to large number of new openings.
- **Effort rate** ranged from **14% to 18%.**

Revenue per SqFt (£GBP) & total retail space



- Revenue per square feet decreased from **£ 380** in 2013 down to **£ 353** in 2017, as high number of newly opened stores did not reach its mature phase yet.

Retail Like-for-Like vs Absolute Growth



- The Company experienced significant growth in revenues during the years, mostly due to heavy expansion. The growth was a consequence of both newly opened stores and development of existing ones, with retail sector reaching average **like-for-like** growth per year of **7,5%.**

Source: Company's Annual Report from 2010-2017

Author: Marko Klipic (3260)

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3 | Market Overview (1/2)

USA and China are the world's two biggest apparel markets

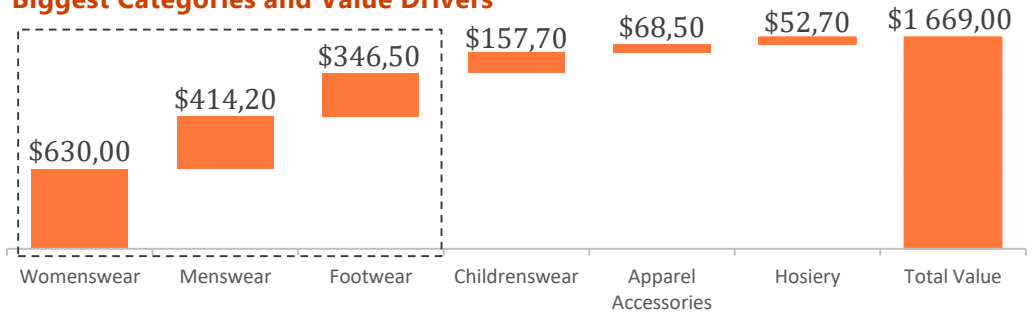
Global Overview

- The apparel and footwear is the second biggest industry considering all the consumer goods industries. **In 2016,** the worldwide **value of the industry** reached **$ 1.669,6 billion.**
- The **whole industry**, globally, has been growing **CAGR of 2%** and it is expected to maintain the **same** growth level until **2021.**
- Whereas **online** apparel market is projected to grow at **13,8% CAGR until 2021.**

Market size by product categories

Global apparel and footwear per category (in billion $)

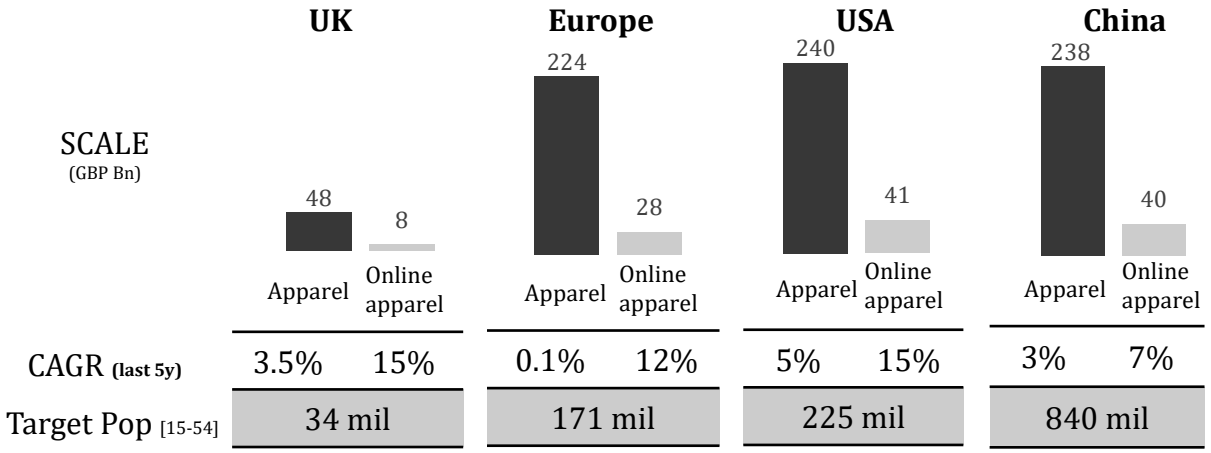
Biggest Categories and Value Drivers



- **Footwear** category is projected to have the highest growth during the next 5 years, with **4% CAGR**.
- **Menswear** and **womenswear,** as the two main categories of Superdry, are also projected to grow with a **CAGR higher than 2%.**

Market trends & Growth drivers

USA and **China** present two **attractive markets** for SuperGroup expansion as they have the **highest** target **population** and **market size,** followed with a **positive** future **CAGR**.



Trends	Historic Impact	Future Impact
Disposable Income	−	+
Consumer Confidence	−	++
Healthy Living	++	++
Ethical Living	+	++
Connected Consumers	++	+
Shopping Reinvented	+	++

- Nowadays, **consumers** are no longer affected by the recent **crisis** and its implications on **disposable income** and respective **confidence** which **negatively impacted sales** in the past.
- Moreover, a **healthy lifestyle** seems to be a **future trend** which is already developed by our **Sports channel** complemented by an improved **shopping experience**.

Source: Company's Annual Report from 2010-2017; Company's Markets Day Presentation; (2017, June). Apparel and footwear global industry overview. Euromonitor international;

Author: José Paredes (3170)

3 | Market Overview – Competitive Environment (2/2)

Superdry has outperformed its peers throughout the past years

Segments & Key Players

- The **Herfindahl-Hirschman Index** for the global apparel industry is 7,6, implying a **very competitive industry** - the company with the biggest market share has only 4% (GAP).
- Superdry operates in the **fragmented premium market**– prices range between 20 - 300 £.

Key Players	Sales (LTM)	EV/EBITDA	EBITDA mg	Sales CAGR% (3y)
Ted Baker	£567,3 mil	16,2x	15,8%	18,16%
A&F	£2,62 bn	2,6x	6,1%	-6,86%
Superdry	**£752 mil**	**10,2x**	**16,5%**	**20,40%**
Next	£4,05 bn	6,8x	22,9%	3,09%
Debenhams	£2,34 bn	6,1x	7,7%	0,32%
GAP	£11,6 bn	4,8x	12,7%	4,12%

- Supergroup recorded **higher CAGR** over the last 3 years than its selected peers with the second highest **EBITDA margin**.

Stores around the world

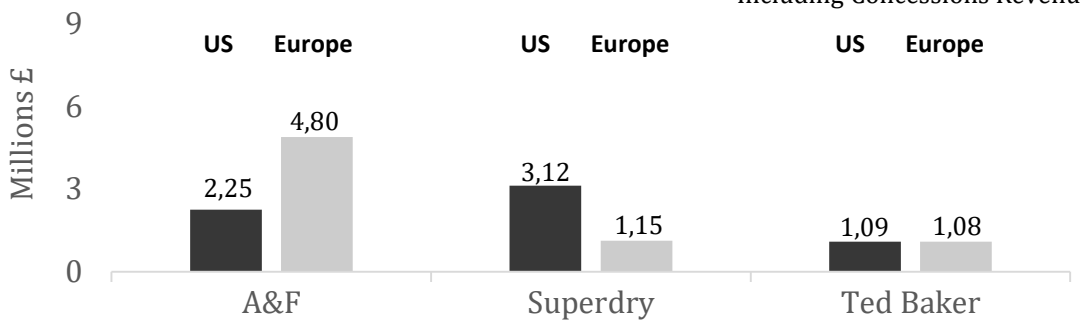
	Superdry	Ted Baker London	Tommy Hilfiger	Abercrombie & Fitch
Stores UK	99	192	21	34*
USA	20	63	240	709*
China	17	12	212	27
Stores Worldwide	863	490	1400	889*

*Includes Hollister

- Superdry still has **insignificant** presence both in the **US** and **China** when compared to its competitors – presenting a viable opportunity for **expansion.**

US vs Europe – Average Sales per store

*Including Concessions Revenues



- Superdry has recorded higher KPIs (**sales per store)** than some of its direct peers, especially in **US** where its recently opened stores reached **mature phase,** implying room for further openings.

Source: Bloomberg; (2016). The State of Fashion 2017. The Business of Fashion and McKinsey & Company; (2012) The Gap between Company's Domestic and Global Market Positioning.

Author: José Paredes (3170)

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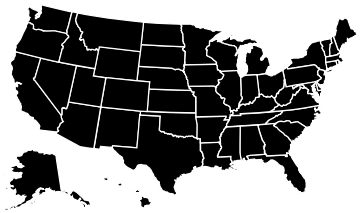
4 | Investment Thesis (1/2)

SuperGroup should increase their presence in the two biggest apparel markets – USA and China

Market Opportunity

- USA - a mature economy, with good prospects of growth but with weak presence of Superdry and already delivering improved results.
- China - an emerging fashion market to western brands in strong growth, the biggest country population on Earth with a growing large middle class.

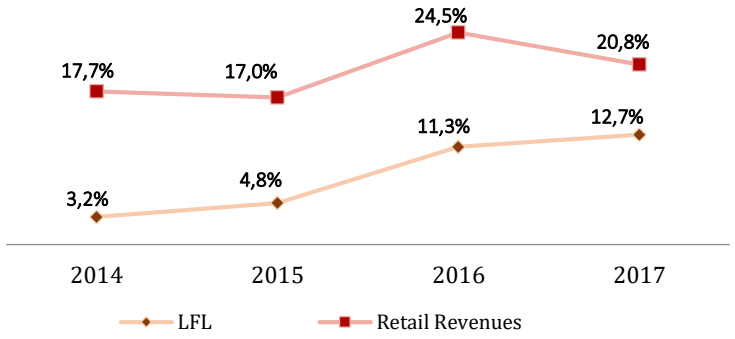


Large Middle Class	28,2% GDP per capita
3,0% Historic Industry CAGR	Biggest market and growing
+9,1 million people	Improved KPIs

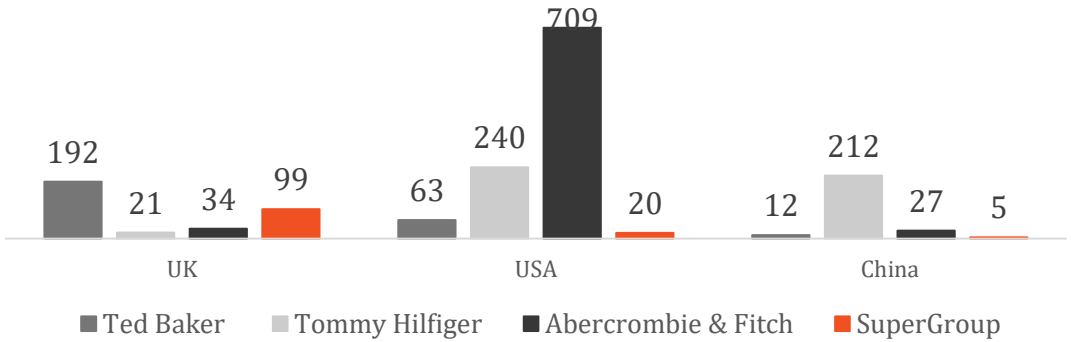
Large Middle Class and growing	+11,7% GDP per capita
5,0% Historic Industry CAGR	2º Biggest market and growing
28 million people	Regional expertise (JV)

Organic Growth

LFL & Retail Revenues Growth Rate



This **LFL growth rate** chart suggests that there is an **opportunity** to **maintain this Organic growth.** Apart from the revenues anticipated to come from the new stores, there is also an opportunity to maintain **positive LFL** growth **of the existing ones.**



There is a **strong evidence** that **SuperGroup** could **increase** the **number of stores** in **USA** and **China** by analyzing the presence of competitors in these regions when compared to the biggest equilibrium in the UK. Among all **4 players**, **SuperGroup** is the one with the **lowest presence** by a large difference in those **2 key markets**. In the **UK** the Company is **well positioned**, with possibility to **reach Ted Baker level.**

4 | Investment Thesis (2/2)

International Expansion will be the main driver of our value creation

International Expansion & Consolidation

Room for utilization of leverage impact due to the healthy financial situation and scalable business model. The Company does not have any financial debt nor it has had utilized significant amounts of external financing in the past. Moreover, since 2013, the Company managed to accumulate over GBP 100m of free cash flow, implying that SuperGroup has strong capacities to bear higher interests and debt repayments.

Capacity for further international expansion by covering markets with high potentials in the apparel industry where the Company currently isn't present yet and utilizing existing markets where the brand Superdry recorded results above benchmark.

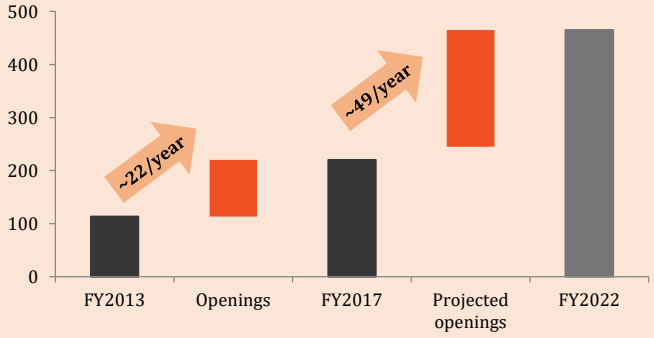
Brand Consolidation by exploring the growth potential of existing stores and e-commerce current network and increasing their activities related with the company's online footprint.

Value Creation Strategy

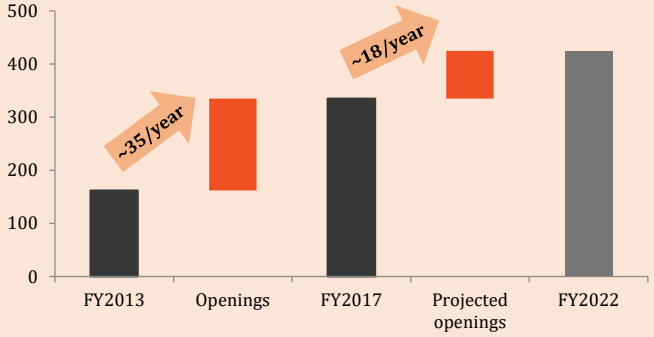
a) New Store Roll-out

- We plan to open **+250 new stores** among **the 3 main regions** which is achievable due to the **financial strength** that SuperGroup has. Our major focus would be **USA** due to the market opportunities, forecasts and strong potential. Further value is seen in **China** by taking advantage of the operating model already established.

Own stores



Franchises



b) Existing Stores and E-commerce Growth

- **Brand awareness**
  - **Invite Social *Influencers*** → to promote across all our customer segments
  - **Increase our online footprint** → 59% percent of American consumers interact with brands on social media about 1-3 times per day
- **E-commerce** channel is recording significant growth rates with CAGR until 2021 estimated at **13,8%**

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5 | Growth Strategy and Value Creation (1/2)

Robust penetration into USA and China by opening more than 200 owned stores and 60 franchises in the next 5 years

a) New Store Roll-out

Priority

USA

Take advantage of the positive signs of our current locations and brand recognition. Use the leverage capacity to tackle this market and have a strong proliferation of its own stores.

- **Plan –** Open **200 own stores** over the next five years.
- **Where** – Placed on **top quality mall** locations (mainly in **West and East Coast**).

China

Where most of our competitors are also taking the first steps towards a market craving for the latest western trends, Superdry should chase the creation of strong presence quickly.

- **Plan –** Open **25 own stores** and **50 franchises** over the next five years.
- **Where –** Focus on **own stores** in **Tier 1** and **Upper Tier 2** cities & establish strong city **franchise** relationships in **Tier 2** cities.

Low Priority

Europe

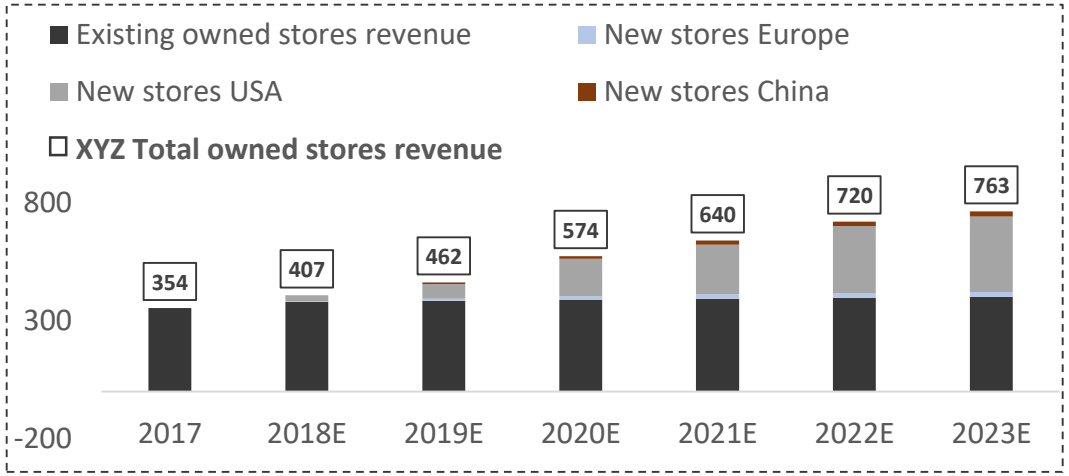
It is important to continue to strengthen the already broad position of the brand in this region.
Region with unpenetrated countries, mostly in South East Europe.

- **Plan –** Open **12 own stores** and **14 franchises** over the next five years.
- **Where –** Own stores in **established markets** (e.g.: Germany, Belgium) and franchises in **developing markets** (South East Europe).

Impact

	2017	2018E	2019E	2020E	2021E	2022E	2023E
Owned stores	**220**	**263**	**320**	**382**	**427**	**457**	**457**
Europe	*195*	*200*	*205*	*207*	*207*	*207*	*207*
USA	*20*	*53*	*95*	*150*	*190*	*220*	*220*
China	*5*	*10*	*20*	*25*	*30*	*30*	*30*
Franchises	**319**	**339**	**374**	**383**	**383**	**383**	**383**

	1st year	2nd year	3rd year
New stores revenue (£ 000)	**689**	**1.000**	**1.706**



5 | Growth Strategy and Value Creation (2/2)

Online marketing campaigns would increase brand awareness among target customers

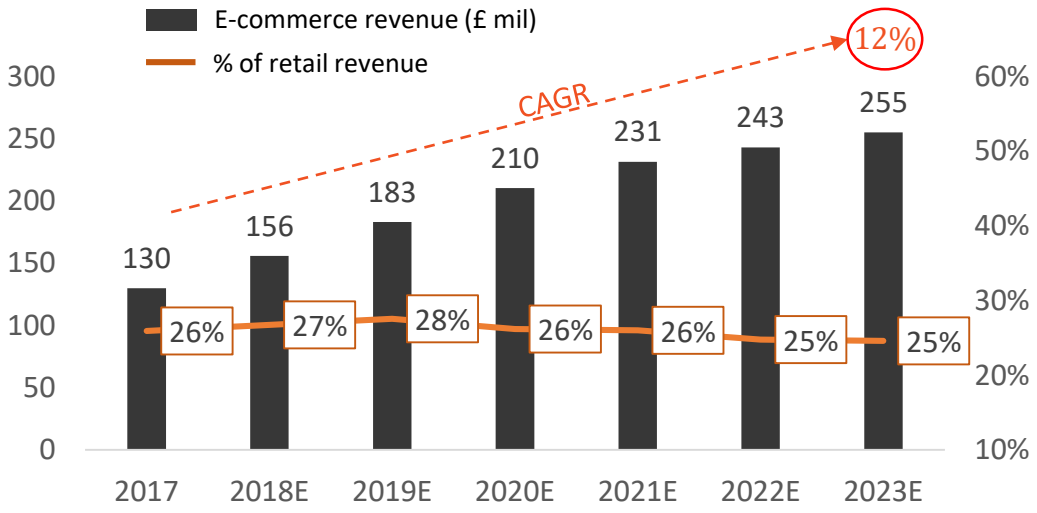
b1) E-commerce

- A global presence through the e-commerce has to continue to be a key goal in the company's strategy.

How to improve?

- To extend the number of languages available (e.g., Portuguese and Arabic) / Increase the number of sites / New partnerships to hone the distribution capacity.

➢ Taking these measures into account complemented by brand awareness, we can assume the following:



BRAND AWARENESS

- **Promotional Campaigns** → aligned with our expansion strategy
- **Invite Social *Influencers*** → to promote across all our customer segments
- **Increase our online footprint** → 59% percent of American consumers interact with brands on social media about 1-3 times per day[1]

SHOPPING EXPERIENCE

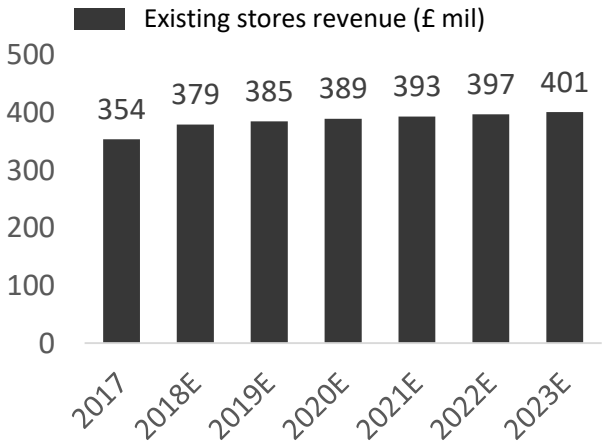
- **Stores Remodeling**

  → to avoid stores that do not perform according to Supergroup's standards

  → to retain and attract new customers

b2) Existing Stores

- To keep the current growth rate in revenues and to improve it over the next years, it is crucial to invest in both Brand Awareness and New Shopping Experience.
- Brand Awareness has a tremendous impact on *millennials* – 47% of their purchase decisions are influenced by social media (19% across all other age groups).



[1]Brands on social media, Statista

Author: José Paredes (3170)

| Agenda

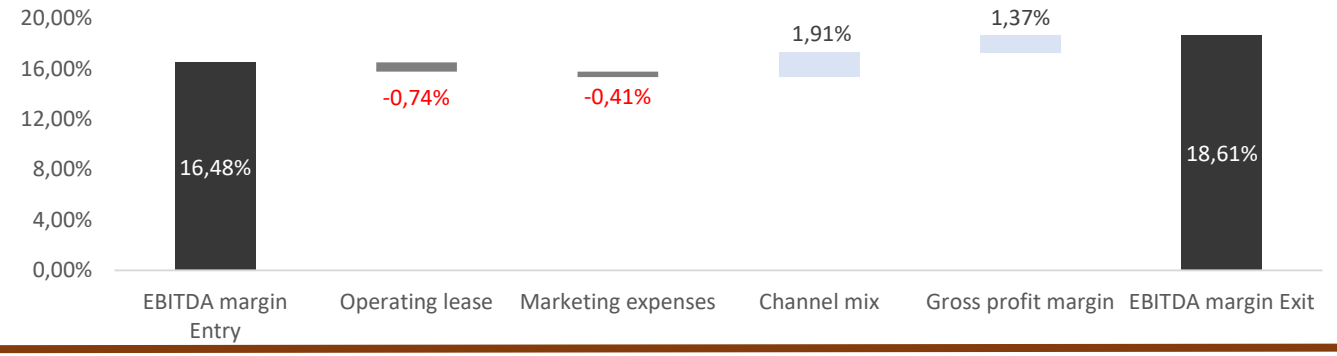
6 | Operational Model (1/2)

Expansion is expected to be followed with increase in EBITDA margin and significant accumulation of Free Cash Flow

Financial Highlights (£GBP mil)

	2017	2018E	2019E	2020E	2021E	2022E	2023E	2017-2023 CAGR
Owned stores	220	243	300	362	407	437	437	**12,1%**
of which in USA	*20*	*53*	*95*	*150*	*190*	*220*	*220*	***49,1%***
Franchises	335	355	390	399	399	399	399	**3,0%**
Total Revenues	752	875	1.002	1.194	1.331	1.472	1.575	**13,1%**
of which in USA	*50*	*74*	*114*	*211*	*264*	*336*	*374*	***39,8%***
of which e-commerce	*130*	*156*	*183*	*210*	*231*	*243*	*255*	***11,9%***
Gross profit	453	525	602	723	806	893	954	**13,2%**
% gross profit margin	*60,2%*	*60,0%*	*60,0%*	*60,5%*	*60,6%*	*60,7%*	*60,6%*	
EBITDA	126	136	145	198	221	259	296	**15,3%**
% EBITDA margin	*16,5%*	*15,4%*	*14,3%*	*16,4%*	*16,4%*	*17,4%*	*18,6%*	
FCF	-1	54	47	71	108	149	203	
% of EBITDA	*-0,8%*	*39,7%*	*32,5%*	*35,7%*	*48,8%*	*57,6%*	*68,8%*	
Net Working Capital	143	160	183	221	254	286	317	**14,2%**
% of revenue	*19,0%*	*18,3%*	*18,2%*	*18,5%*	*19,1%*	*19,5%*	*20,1%*	
CAPEX	61	55	66	70	58	46	24	**-14,4%**
% of revenue	*8,1%*	*6,3%*	*6,6%*	*5,9%*	*4,3%*	*3,2%*	*1,5%*	

EBITDA Margin Bridge



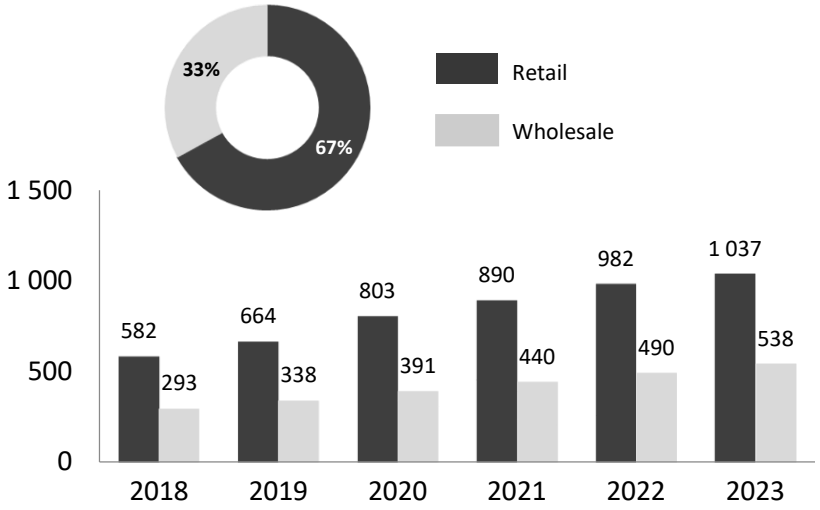
- Projected sales revenue **CAGR** for 2017-2023 amounts to **13,1%,** while heavy expansion in US is expected to result with **CAGR of 49,1%.**
- **E-commerce** sales efforts and market trends are expected to further boost revenues in this channel, with 2017-2023 **CAGR** reaching **11,9%.**
- Due to planned expansion, capital expenditure is projected to reach **£ 320 million** by 2023, out of which **£ 177 million** is related to new stores.
- During the forecasted period, the Company is projected to accumulate **£ 632 million** of **free cash flow** which would be sufficient to cover obligations of newly raised debt.
- Average **FCF conversion** for the period is projected to amount to **47,2%.**

- **EBITDA margin** is expected to improve by **213bp** during the period due to following:
  - Expansion to USA resulted with significant increase of rental expenses, with average rental price per store in USA being higher than Group's average rental price per store;
  - Negative impact on EBITDA margin would come from building brand awareness through social network which would increase marketing expenses;
  - Higher volume of sales, especially in the retail sector;
  - Stronger negotiating power with our suppliers due to increased purchases.

6 | Operational Model (2/2)

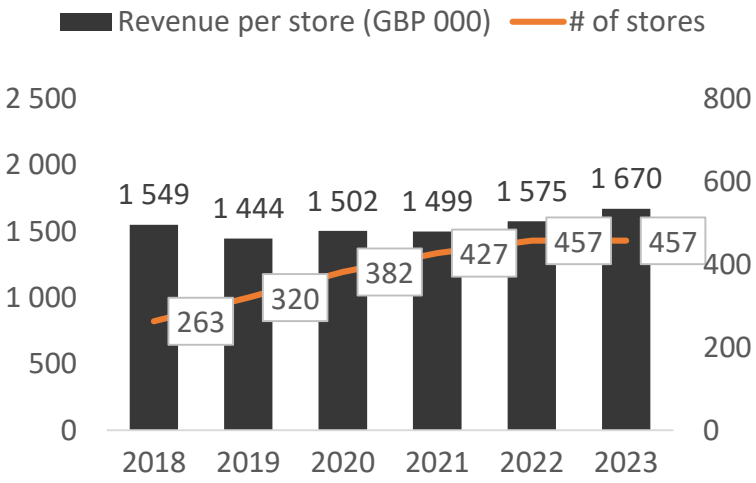
Growth is expected to be followed with improved KPIs

Cumulative Revenue Structure (£GBP mil)



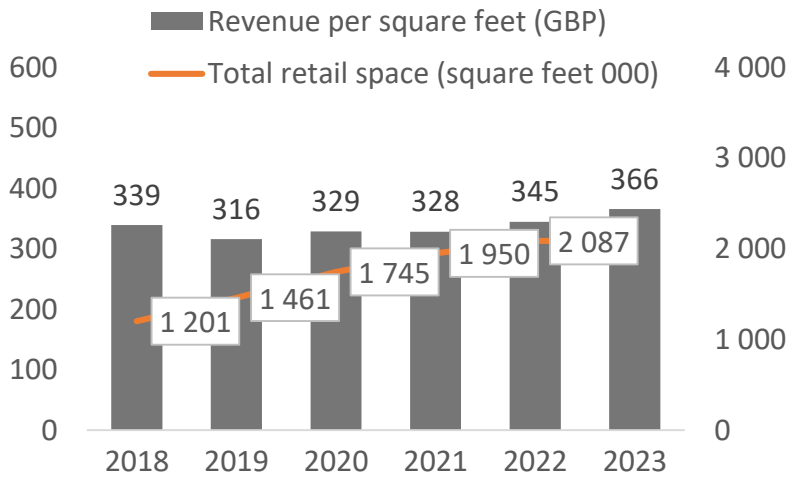
- **CAGR:**
  - Retail **12,2%**
  - Wholesale **12,9%**
- **Gross profit margin:**
  - Retail **70,6%**
  - Wholesale **40%**
- **New stores** are projected to reach mature phase through following revenue stream cycle:
  - 1st year **£ 0,7 mil**
  - 2nd year **£ 1 mil**
  - 3rd year **£ 1,8 mil**

Revenue per Store



- Revenue per store is expected to decrease during first years of expansion as newly opened stores are expected to reach mature phase in the **3rd year** from opening, with revenue per store reaching peak by the end of 2023 with **£ 1,7 mil.**
- Average rental price per store:
  - Retail (without USA) **£ 0,3 mil**
  - Retail (USA) **£ 0,4 mil**
- Average **effort rate 20%.**

Revenue per Square Feet



- Revenue per square feet is expected to decrease in the first years of expansion due to newly opened stores and reach revenue per square feet of **£ 366** by 2023 after they reach mature phase.
- Average store size **4.567 square feet.**
- Average **Like-for-like** growth of retail revenues is projected at **1,3% per year.**

Author: Marko Klipic (3260)

| Agenda

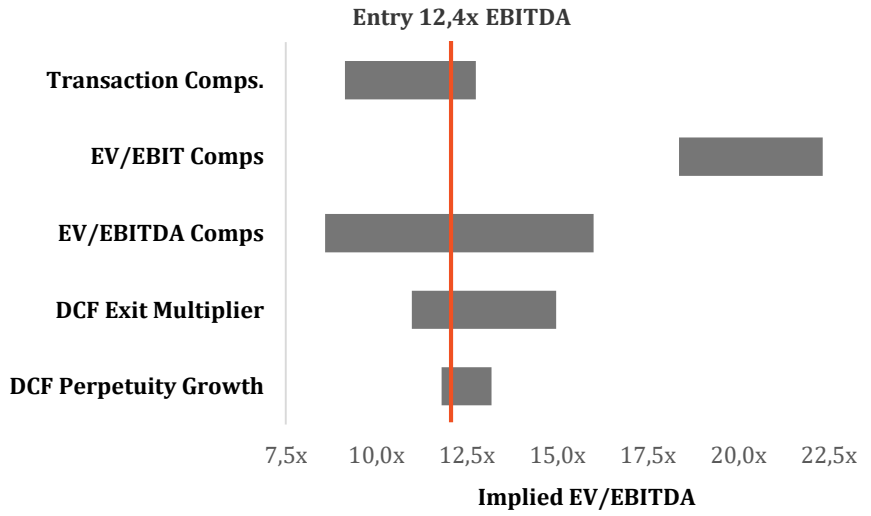
7 | Valuation

Taking into account different parameters, our valuation of the SuperGroup is 12,4x EBITDA

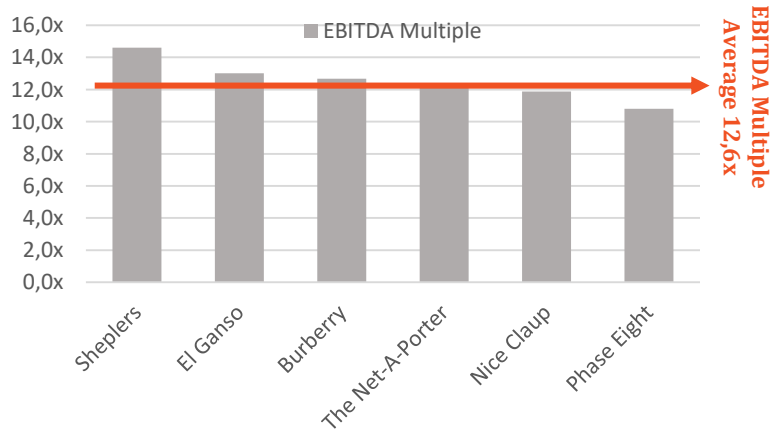
Valuation Methodology

- **LBO:** Through our analysis, the maximum leverage is set at 6,0x EBITDA. Assuming an entry and exit multiple equal to 12,4x, IRR results 19,6% with Money Multiple of 3,5x.
- **Transaction Comps:** We choose to capture comparable transactions for the past three years in order to obtain a recent set of apparel transactions.
- **Market Comps**: Peers selection is based on different aspects such as business model and geographic presence in order to have a good proxy for our multiple.
- **Through-Cycle Comps Behaviour:** To evaluate economic cyclicality, we analyzed the EV/EBITDA of 12 comparable peers over a period of 10 years.
- **Discounted Cash Flows:** We performed a DCF analysis. We calculated 9,2% WACC bearing in mind our capital structure and considering both the EBITDA multiplier and perpetuity growth when calculating Terminal Value.
- **Market:** SuperGroup is listed currently at 12,8x EBITDA.

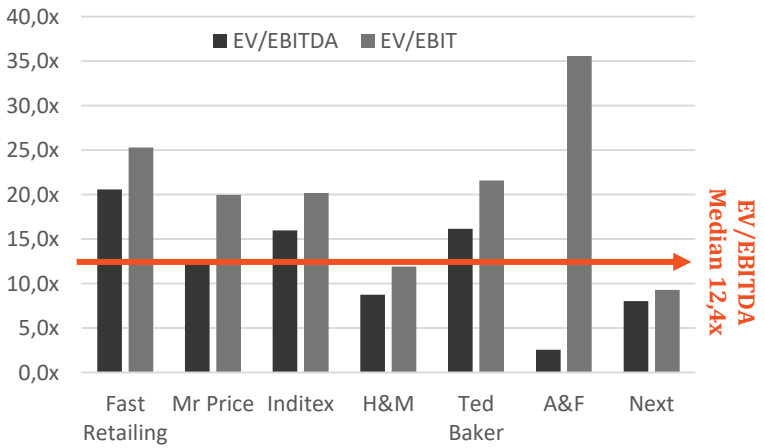
Football Field



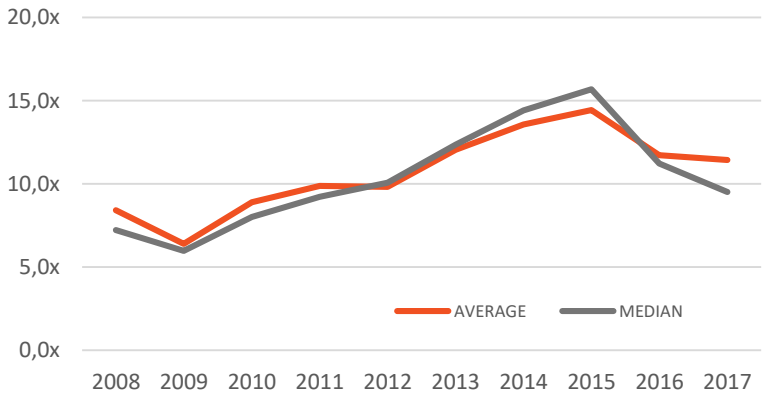
Transaction Comps Sample



Trading Comps



Through-Cycle Comps Behaviour



Market Comps: Bloomberg
Transaction Comps: Mergermarket

Author: José Luís Lima (3401)

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8 | Capital Structure Analysis (1/3)

By observing the debt market, SuperGroup could raise debt up to 6,0x EBITDA with cost of debt around 300 – 400 bps above LIBOR

Bond Market

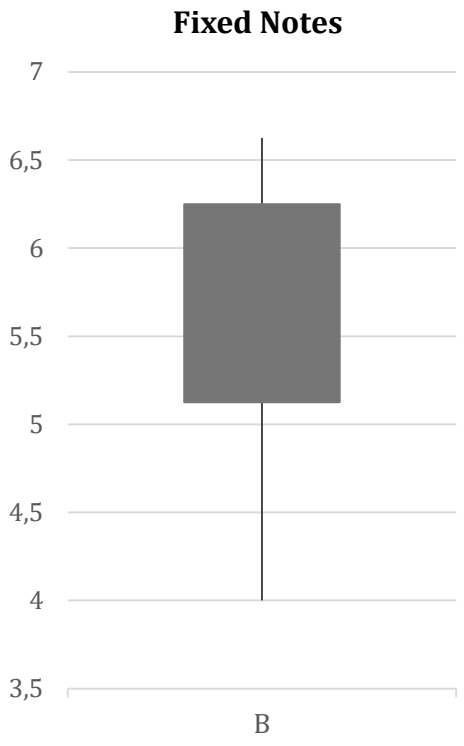
Issuer	Coupon (Fixed)	Amount Issued	Rating	Leverage
Cortifiel	5,00	€ 275 mil	B	3,8x
Schustermann & Borenstein	6,25	€ 260 mil	B	4,9x
SMCP	5,875	€ 370 mil	B	5,7x
New Look	6,5	£ 700 mil	B	6,1x

Recent bonds with single B rating of retail comps are being issued with a coupon between 4,00% - 6,25%. We believe it is possible to negotiate a bond issuance somewhere in this range.

Term Loans Market

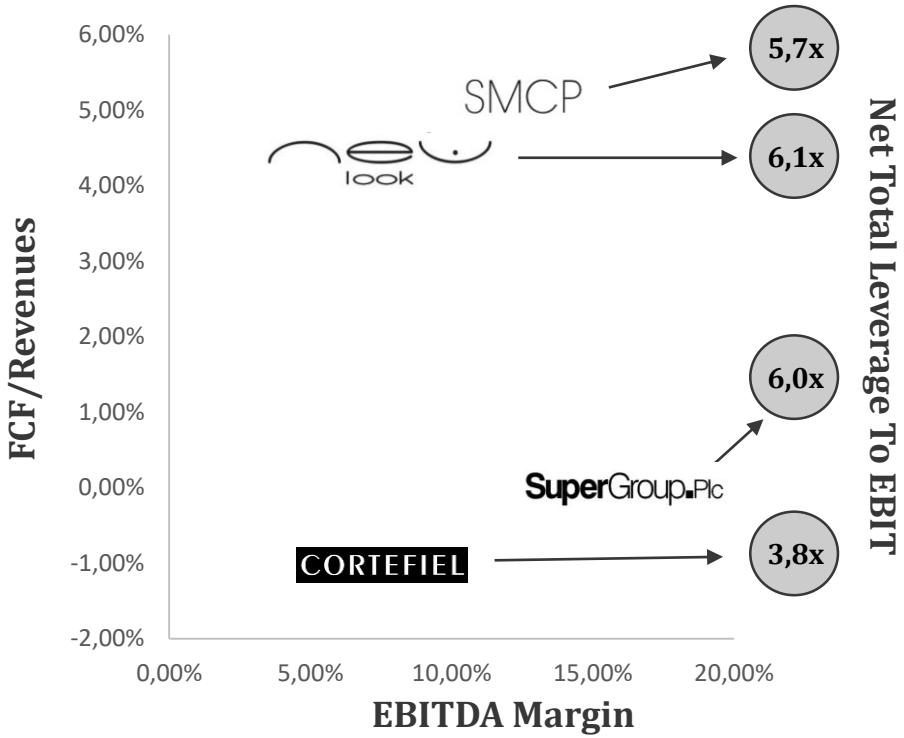
Borrower	Type	Size	Spread
Abercrombie & Fitch	TLB	$300 mil	Libor + 375 bps
Canada Goose	TLB	$114 mil	Libor +400 bps
Burlington	TLA	$1,12 bn	Libor + 250 bps
Outerstuff	TLB	$155 mil	Libor +400 bps

Taking into account the current Loan market, we believe it is possible to negotiate Term Loan B between 325-400 bps above LIBOR.



Market's Maximum Leverage Appetite

- To determine the market's maximum relative appetite (Debt/EBITDA) we compared recent Debt Issuances in LBO situation within the peer group and analyzed the peer group's Unlevered FCF conversion and LTM EBITDA Margin.
- Our position is based on current and past years analysis of the inputs of this matrix.



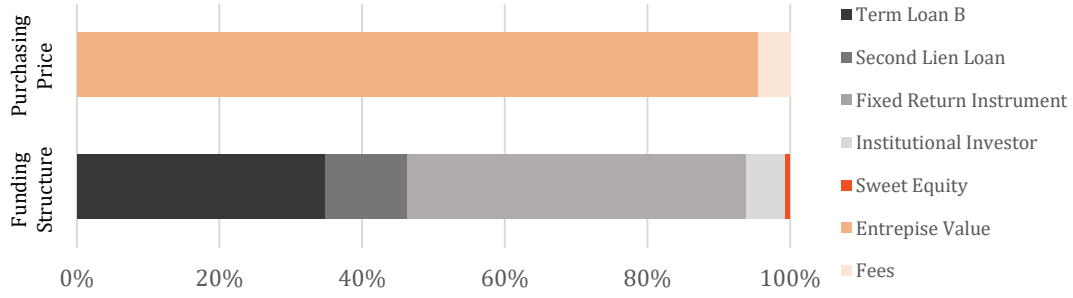
8 | Capital Structure Proposed – Debt (2/3)

We propose a Bullet Structure of Term Loan B (4,5x EBITDA) and Second Lien Loan (1,5x EBITDA) for a total debt of £ 755,4 mil

Sources and Uses

				Uses of funds
FY2017 EBITDA	125,9	**Enterprise Value**	**1.554,9**	**£ 1.628,7 mil**
Entry Multiple	12,4x	Fees	73,9	

Source of funds	£ mil	Leverage
Total Debt	**755,4**	**6,0x**
Term Loan (7y)	566,6	4,5x
Second Lien Loan (8y)	188,9	1,5x
Total Equity	**873,3**	**6,9x**
Fixed Return Instrument (8%)	773,5	6,1x
Institutional Investor	90,0	
Sweet Equity	10,0	
Total Sources	**1.628,7**	



Debt Specifics

Category	Notes
Deal Sources	Term Loan B: GBP / 7 years maturity / bullet Second Lien Loan: GBP / 8 years maturity / bullet
Leverage	Senior Debt: 4,5x EBITDA 2017 Junior Debt: 1,5x EBITDA 2017 Total Leverage: 6,0x EBITDA 2017
Interest Rates	Term Loan B: LIBOR + 3,50% Second Lien Loan: LIBOR + 5,30%
Other	No repayment penalties on Term Loan after year 1 Expected credit rating of Single B within range of debt comps No restrictions for dividend recap and/or acquisitions opportunities

Summary Credit Stats	2018E	2019E	2020E	2021E	2022E	2023E	2024E
Cash	27,0	53,8	104,8	128,2	195,1	318,7	(63,8)
Cash Flow	27,0	26,7	51,1	23,4	66,9	123,6	(382,5)
Cash Cover	1,5x	1,5x	1,9x	1,4x	2,3x	3,6x	0,4x
Interest Cover	2,6x	2,7x	3,5x	4,3x	5,3x	6,3x	7,1x
Net Debt / EBITDA	5,5x	5,2x	3,8x	3,1x	2,3x	1,5x	0,8x

8 | Capital Structure Proposed – Equity (3/3)

We will propose an incentive scheme to align the management team interests with investor's

Sources and Uses

				Uses of funds
FY2017 EBITDA	125,9	**Enterprise Value**	**1.554,9**	**£ 1.628,7 mil**
Entry Multiple	12,4x	Fees	73,9	

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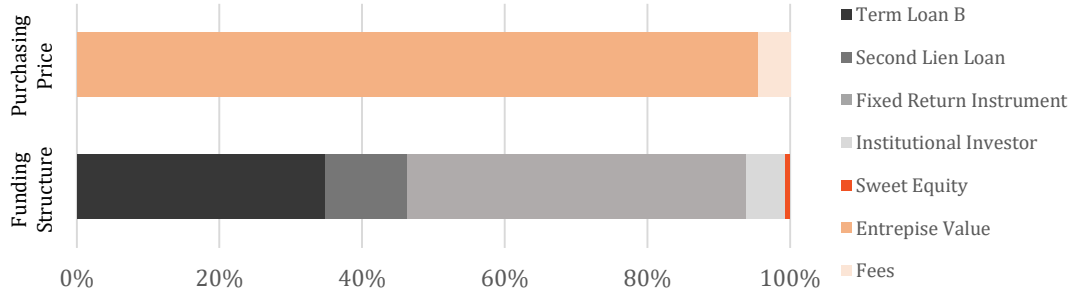
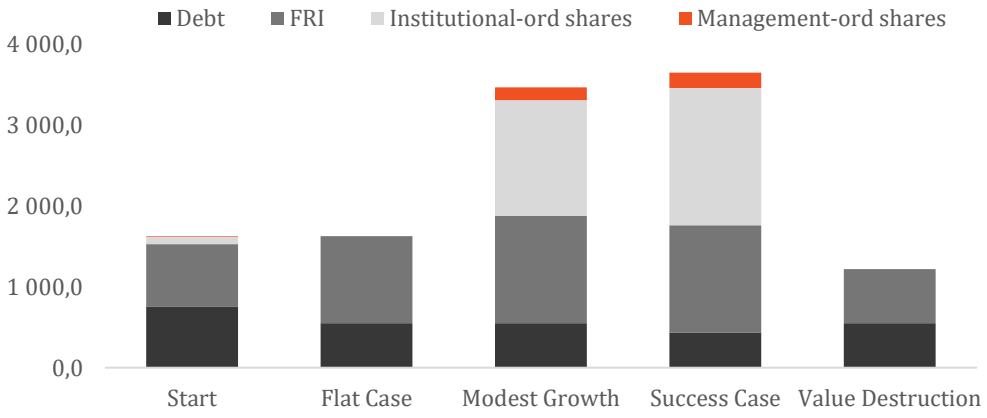


Equity Specifics

- The management is committed to invest £10 mil for a respective stake of 10% as **sweet equity.** The goal is to motivate them as with 10% they get much higher potential returns. The return must be higher than what would they usually get through salaries and bonuses.
- **SuperGroup's management** team has been the **key successful factor** so far regarding company's profitability and growth. K**eeping the team** is essential.



Management/Yr	2018	2019	2020	2021	2022	2023
Exit proceeds (£M)	2,8	5,8	64,5	90,0	137,6	188,9
Equity (£M)	10,0	10,0	10,0	10,0	10,0	10,0
Return	**0,3x**	**0,6x**	**6,4x**	**9,0x**	**13,8x**	**18,9x**

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9 | LBO IRR returns

Our base case operational assumptions and capital structure yield an IRR of 19,6% and a money multiple of 3,5x for an exit in 2023

IRR/Money Multiple

	Exit Multiple		
	10,4x	**12,4x**	**13,4x**
IRR	16,4%	19,6%	21,1%
MOM	2,9x	3,5x	3,8x

- Based on an **entry multiple of 12,4x**, our base case is expected to yield an **IRR of 19,6%** and a **Money Multiple of 3,5x**, exiting in FY2023.
- The higher the exit multiple the higher the IRR and Money Multiple. We also considered an exit multiples below the entry multiple.

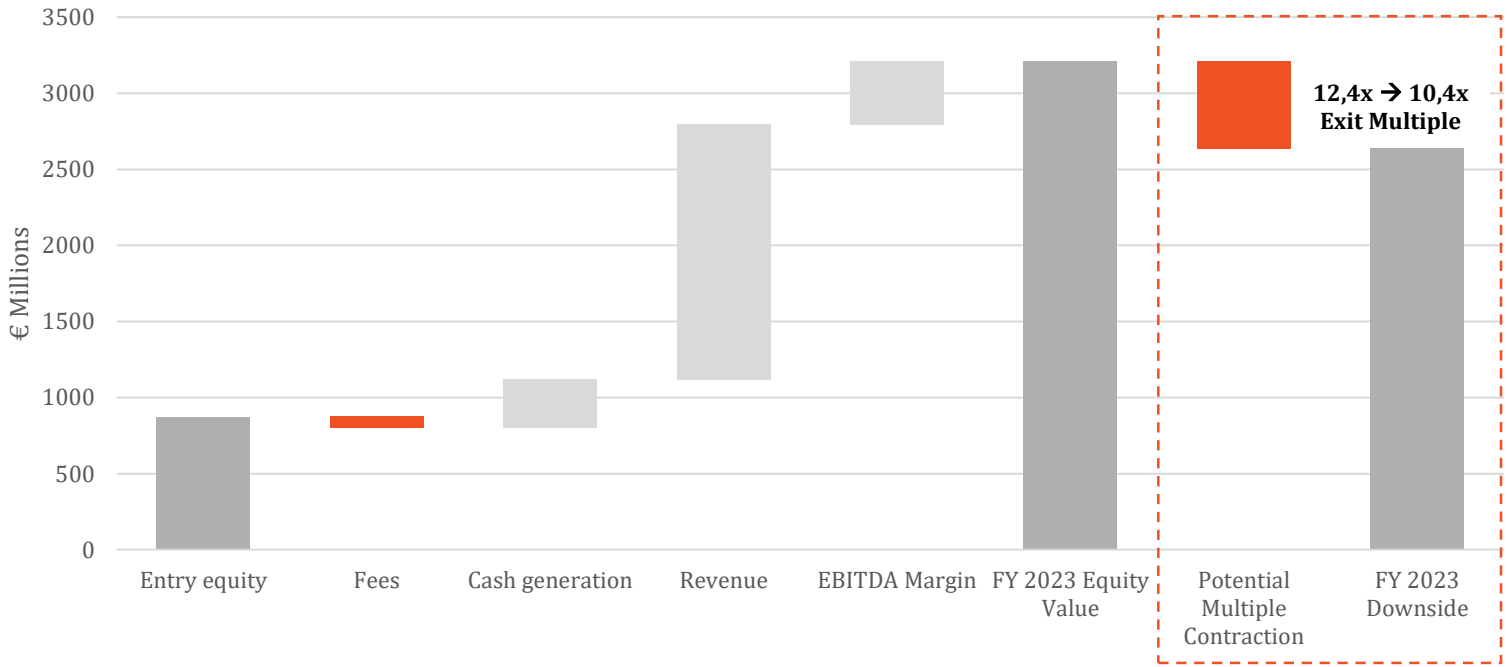
Returns Breakdown

The returns are broken into 2 major components:

- Primarily EBITDA Growth – this component is further broken down into Revenue Growth and growth of EBITDA margins. These two account for 87% of the value created.
- Cash Generation - The repayment of the debt and deleveraging of the company contributes with 13% of the value creation.

Multiple Arbitrage – Based on an entry multiple of 12,4x and assuming an equal exit multiple, this will not contribute to the returns breakdown.

Due to a high entry multiple, there is a potential exit multiple contraction (Assuming exit at 10,4x EV/EBITDA) resulting in a 16,4% IRR / 2,9x Money Multiple.



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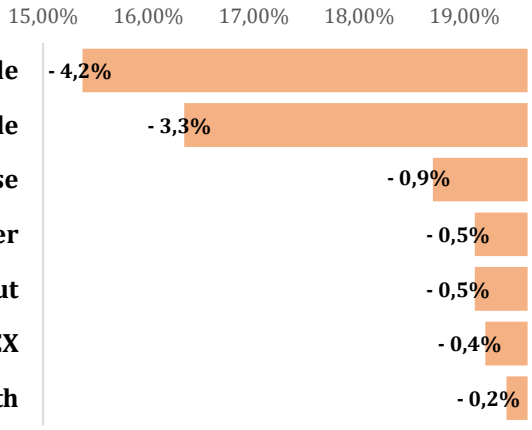
10 | Risks Assessment

A more careful analysis show that the exit IRR is highly sensitive to entry and exit multiples

Risk Sensitivity Analysis



	Base case	Downside case
Entry on a higher Multiple	12,4x	14,4x
Exit on a lower Multiple	12,4x	10,4x
Lower Retail GPM Increase	125bp	25bp
Exit one year earlier	2023	2022
USA Stores Roll-out	200 (5 years)	140 (5 years)
Higher OPEX	10,5% - 9,4%	11,2% - 9,7%
Lower E-commerce Growth	CAGR 12%	CAGR 7%

- IRR is highly sensitive to entry at a higher multiple and exit on a lower risk.
- USA Stores Roll-out program is a key risk, but for an impact of 70 stores less, the shock on IRR is just –0,5 pp.

Entry Multiple \ Exit Multiple	**8,4x**	**10,4x**	**12,4x**	**13,4x**	**14,4x**
8,4x	27,8%	32,5%	36,3%	38,0%	39,6%
10,4x	18,1%	22,3%	25,7%	27,3%	28,7%
12,4x	12,4%	16,4%	19,6%	21,1%	22,4%
13,4x	10,4%	14,2%	17,3%	18,7%	20,1%
14,4x	8,6%	12,3%	15,4%	16,8%	18,1%

Risks

Risk	Mitigation	Probability	Impact
Change on consumer purchase capacity	By considering full price stores through the different regions to satisfy every consumer's needs, even in a recession situation.		
Fashion Risk	Market extremely volatile. We should anticipate fashion trends by investing in product development to always be ahead of any imminent change.		
Political & economic risks	With the international expansion there are legal rules and processes that differentiate among regions. Need to always hire counseling.		
Delayed Strategy Implementation	It is key to closely monitor implementation process and future prospects in order to be aligned with the projected time-frame.		
Failure to create the desired impact on US & Asia	Use trial stores to first test the acceptance of the market.		
Currency Risk	The fact that SuperGroup is located in UK with pounds being the main currency, it is possible to hedge it with financial instruments.		
Specific location of the stores	A full analysis against each location will be performed. Check historical values for clients affluence. Short-term leases contracts.		

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11 | Exit Strategy

In our Exit Strategy we are planning to use a Dual-Track Process to maximize the value

- For our Exit Strategy we assume the same multiple as at the entry – **12.4x EBITDA**. Although Exit multiple was a subject of detailed sensitivity analysis, providing potential returns for various values, it is expected to remain at 12,4x EBITDA as there would still be room for further growth in target markets, USA and China, after 2023, with considerable potential value behind this opportunity. Moreover, we intend to prepare a **Dual-Track Process,** allowing flexibility for the decision - both M&A Sale Process (Private way) and IPO Sale Process (Public way) in order to maximize the valuation of the Exit multiple, to prevent market volatilities while minimizing macroeconomic uncertainties.

Private Market

STRATEGIC BUYER

- **Potential synergies** and **robust cash flows** make SuperGroup an attractive target for strategic buyers, especially the ones with lower market share in US. However, the **size** of the deal limits the number of potential buyers.
- **Potential buyers:**
  - **LVMH** – is the **world's largest luxury group**, with a market cap of $ 130bn. It has a strong presence all over the world (**US**, **Europe**, and **China** included). Recently, LVMH bought Dior for a consideration of $ 13bn. → It could be a viable starting point if they want to expand to the premium market.
  - **VF Corporation** – is an American worldwide apparel and footwear company with a **market cap of $ 47bn**. Recently, it acquired Icebreaker Holding Ltd for $ 25bn (estimated). → Superdry is very similar to the brands VF owns, making it a fit target for their portfolio. Current **market share** in **US 2,1%.**
  - **PVH** – is an American clothing company with **a market cap of $10.5bn** and a strong global presence as well. → It could have the same interest as VF Corporation. Current **market share** in **US 2,1%.**

FINANCIAL BUYER

- With further potential for international expansion and value creation, a secondary sale could be attractive for another private equity firm.
- **Potential buyers**:
  - **Brain SE** which recently **acquired** New Look Group Limited for **$1.2Bn**.
  - **Blackstone Group, Bain Capital, and Apollo Global Management** which already have investments in this industry.

Public Market

IPO

- IPOs are generally triggering **high costs**. However, due to the **size of the company**, an IPO could become a viable exit strategy, depending on the market conditions in the future. Moreover, it can also be used as a **forcing function** to keep pressure on the possible buyer.
- SuperGroup's headquarters are in the UK. However, since a significant percentage of sales would come **from the US market**, we could consider listing in either **London** (LSE) or **New York** (NYSE).

Author: José Paredes (3170)

| Agenda

12 | Due Diligence

These were the most reasonable and important steps that should be further looked into

	Focus	Key areas of focus	Red Flags	Providers
Commercial	Growth Outlook	• 5 to 10 year outlook of the apparel market (premium market) with a particular focus in USA and China • Key risks to growth rates by region and channels (Retail, Wholesale, e-commerce)	Downturn trend	BAIN & COMPANY McKinsey&Company
	Product demand	• Confirm trend of costumer demand outlook for premium apparel • Willingness of costumers to pay for Superdry as a premium offering and drivers of this behavior	Decreasing demand	
	Substitute products	• Consumer preferences for premium apparel vs substitute products • Price sensitivity of Superdry's customers • Threat from low cost manufacturing competitors and their ability to provide substitutes	Change in consumer preferences	
	Competitor Analysis	• Benchmark margins, price, service offering, range, quality and go to market strategy		
Financial	Non-recurring expense Historic Financials	• In depth analysis and valuation of non-recurring expenses • Review of off-balance sheet items • Past revenue, earnings, cash flow conversion, capex requirements and depreciation policies	Emergence of hidden liabilities	Deloitte. pwc
	Working Capital Tax	• In depth analysis of the main cost drivers • Detailed working capital analysis. Focus on inventory and accounts receivable reductions • Analysis of the applied cross border tax rules • Correctness of all group income and repatriation of profits	Fraud	
Legal	Recent Deals	• Review of litigation risk	Potential Litigations	DLA PIPER JONES DAY
	Contracts	• Detailed analysis of China Joint Venture • Review of buyback USA License	Potential obligation to the seller	
	Leases	• Review of major customer and supplier contracts including key terms of agreements • Review store leases		
Other	Management	• Special focus on all the executive members of the Board and key management • Analysis of the background and fitness with our expansion plan of US-Team and China-Team		
	External Environment	• Review of major risk to the business (Trump's Administration, Post-Brexit for UK and EU, etc.)		

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14 | Conclusion

After a deep analysis, we can conclude that SuperGroup is an attractive company for a Private Equity Buyout

Entry

The cost to acquire this company would sum up to **12,4x EBITDA** amounting to **£1,63bn**.

From that amount, **6,0x EBITDA** would come from external financing.

Value Creation

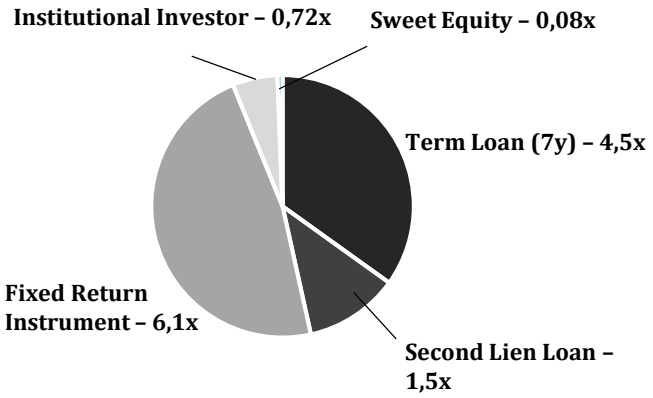
- SuperGroup will open 237 own and 64 franchises **for 2017-2023 period,** while simultaneously increasing marketing efforts through **social media.**
- We have projected **sales CAGR of 13,1%,** while the heavy expansion in **US** is expected to result with **CAGR of 49,1%.**
- **E-commerce** is expected to reach **CAGR of 11,9%.**
- Moreover, we are expecting to improve the average **FCF conversion to 47,7%,** followed by the **EBITDA margin improvement of 213bp.**

Exit

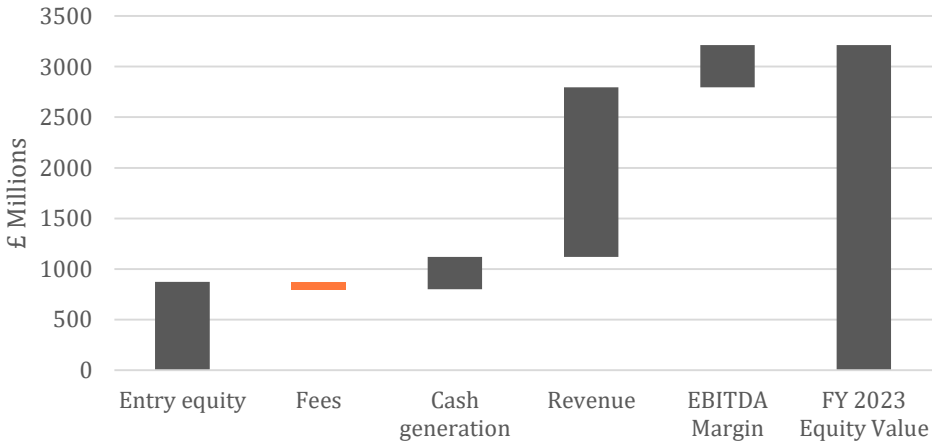
We expect to sell SuperGroup for **12,4x EBITDA** for a **valuation of £ 3,65bn,** generating **19,6% IRR** and **3,5x Money Multiple.**

Potential buyers are identified based on the current expansion strategy, which is expected to be aligned with their strategic goals.

Capital Structure



Equity Bridge



Key Conclusions

- By opening new stores, added to a sustainable like-for-life growth rate, this business is expected to reach 1,6bn revenues by 2023.
- These stores will be strategically well positioned fitting consumers needs in accordance with SuperGroup's goals, establishing a business model that provides positive cash flows for the company.
- Moreover, an improvement on shopping experience together with a strong brand communication, it will be possible to keep high growth in the e-commerce, retail and wholesale channels.

Author: João Pinto (3077)