Analyst: Alyssabeth Goodrich

Apparel Retail

Fossil Group, Inc.

Recommendation	**NEUTRAL**
Target (today's value)	$27.83
Current Price	$25.86
52 week range	$23.10- $51.93

Share Data	
Ticker:	FOSL
Market Cap. (Billion):	$1.27
Inside Ownership	14.5%
Inst. Ownership	104.7%
Beta	1.4
Dividend Yield	0.0%
Payout Ratio	0%
Cons. Long-Term Growth Rate	3.0%

	'15	**'16**	**'17E**	**'18E**	**'19E**
Sales (billions)					
Year	$3.51	$3.23	$3.22	$3.25	$3.31
Gr %		-8.0%	-0.2%	0.9%	1.8%
Cons			$3.07	$3.07	$3.09
EPS					
Year	$7.31	$4.71	$1.78	$1.91	$2.28
Gr %		-35.6%	-62.3%	7.3%	19.9%
Cons			$1.83	$1.92	$2.26

Ratio	**'13**	**'14**	**'15**	**'16**	**'17E**
ROE (%)	17.9%	19.5%	20.7%	19.2%	18.1%
Industry	14.3%	11.3%	0.7%	17.3%	18.2%
NPM (%)	10.8%	12.1%	13.3%	15.8%	16.4%
Industry	8.3%	5.5%	2.7%	7.6%	10.1%
A. T/O	0.81	0.83	0.82	0.74	0.72
ROA (%)	8.7%	10.0%	10.9%	11.7%	11.7%
Industry	7.5%	5.4%	2.5%	6.5%	8.4%
A/E	21.5	20.9	19.5		

Valuation	**'14**	**'15**	**'16**	**'17E**
P/E	20.7	22.7	18.7	17.0
Industry	28.1	30.1	22.8	21.0
P/S	2.34	2.87	2.90	2.75
P/B	3.4	4.4	3.2	3.0
P/CF	18.8	24.2	18.1	
EV/EBITDA	12.2	13.0	15.5	15.4

Performance	**Stock**	**Industry**
1 Month	-19.3%	-0.2%
3 Month	-4.1%	10.8%
YTD	2.0%	1.3%
52-week	-27.9%	27.0%
3-year	-78.2%	21.5%

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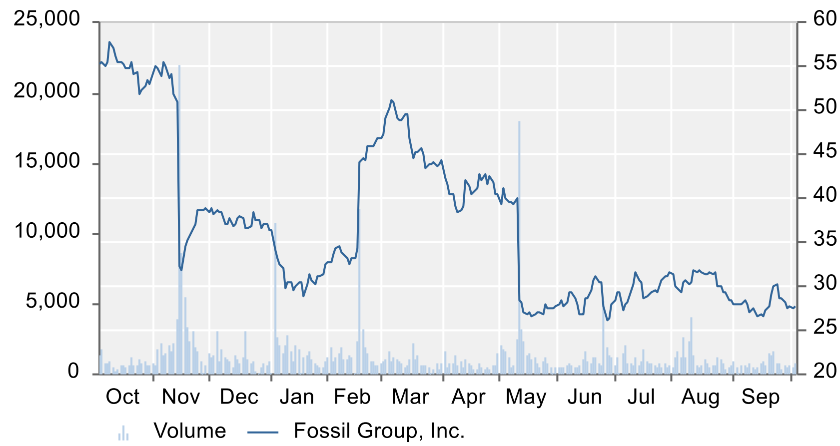


Source: FactSet Prices

Summary: I recommend a neutral rating with a target of $27. FOSL has an opportunity to improve efficiency and increase margins, but declining revenues and competition create strong headwinds. These uncertainties offset my optimism that the core business can significantly improve. The stock is slightly undervalued based on relative and DCF analysis.

Key Drivers:

- International expansion: Over 50% of Fossil's net sales were derived from international operations during the past three fiscal periods. Currency has been a headwind in the recent past but higher margins for watch products in Asia and Europe helped offset clearance activities in the US.

- Competition: Fossil takes part in a highly competitive market with multiple high end luxury brands. Heavy discounting negatively impacted margins the last two years and I only see marginal improvements in sales and margins the next two years.

- Fashion trends and wearable technology: The greatest challenge FOSL is facing is its ability to penetrate the wearable technology market. The firm acquired Misfit in December 2015 to enter this market, but watch sales are down. Wearables have lower margins, therefore negatively affecting margins.

- Direct-to-consumer sales: As Fossil creates a greater online presence, it will be able to reduce costs due to physical locations. E-commerce sales are not allocated to various geographical segments because they are internally managed at the corporate level.

Valuation: Using a relative valuation approach, Fossil Group appears to be slightly undervalued in comparison to the luxury accessories industry. DCF analysis suggests a target price of $27.83. A combination of the approaches suggests that Fossil's stock value is about $27 and the shares trade at $25.86.

Risks: Threats to Fossil Group, Inc. would include inability to predict fashion trends, loss of major licensing agreements, loss of key manufacturing or distribution providers, competition, foreign currency fluctuations, and government regulations.

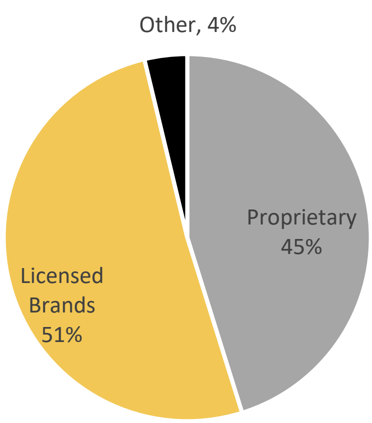
Company Overview

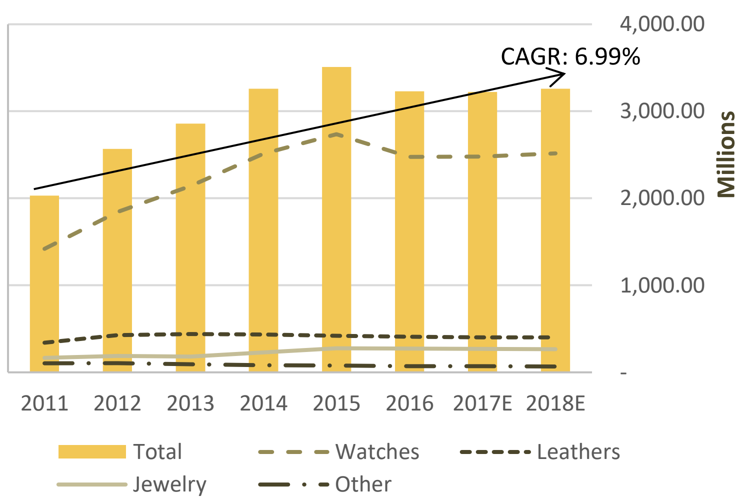
Fossil Group, Inc. is a luxury accessories retailer that specializes in vintage inspired women's and men's watches and jewelry, small leather goods, handbags, and other accessories. Fossil targets young men and women from the upper-middle class to the upper class for its proprietary brand. With a variety of licensing agreements, the company is able to target a wide range of economic classes. Domestically and internationally, Fossil products are sold in higher end department stores and specialty watch and jewelry stores. Over 380 stores are found in 150 countries worldwide with a heavy presence in North America, Asia, and Europe with e-commerce websites in Australia, France, Germany, Japan and the UK. Fossil is headquartered in Richardson, Texas and was formed in 1994.

Fossil is the parent company to its newly acquired timepiece brands including Skagen (April 2012) and Misfit (December 2015). Without the acquisition of Misfit it is possible that sales would have fallen due to inability to compete in the wearable technology's market. It also continues to develop, acquire, or license with Adidas, Michele, Chaps by Ralph Lauren, Diesel, DKNY, Emporio Armani, Karl Lagerfeld, Kate Spade New York, Michael Kors, Tory Burch, Burberry, Marc Jacobs, Relic, and Armani Exchange.

Fossil generates 100% of its revenue from retail operations in stores and direct-to-consumer operations. These retail operations sell watches, leathers, jewelry, and other accessories with its proprietary brand, licensed brands, as well as a small percentage of other private label brands for companies such as Target and Walmart. Sales have rose at a 59% rate from 2011-2015, but have since fallen. I anticipate flat sales the next two years.

Figure 1 and 2: Revenue sources for FOSL, EOY 2015 (left) and revenue history (right)





Source: 10K

Business/Industry Drivers

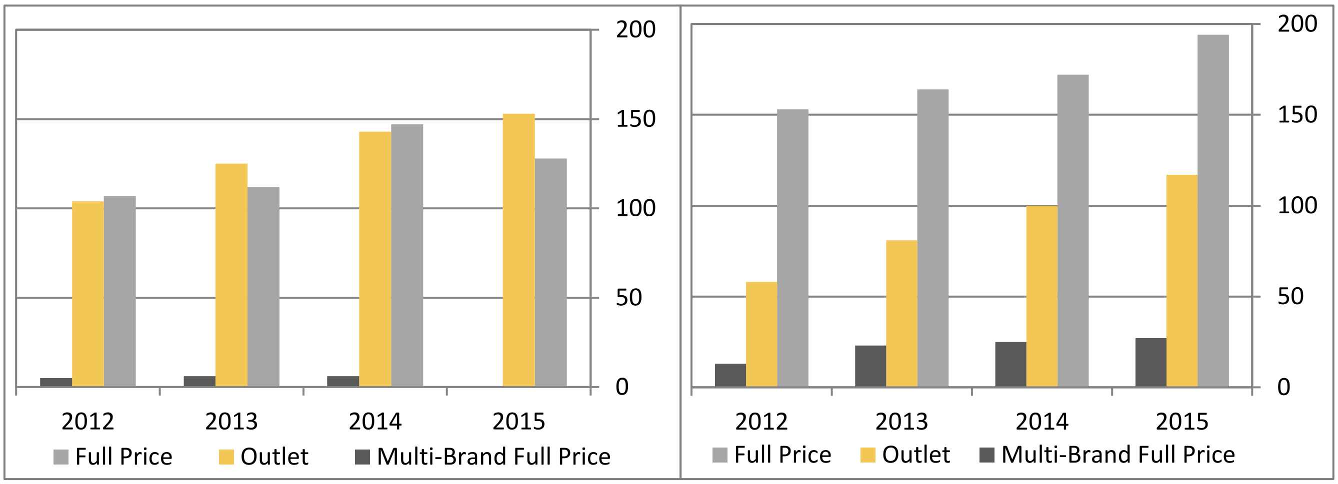
Fossil's success can be affected by multiple factors. The following are the most influential business drivers:

1) International sales, discounting, and margins
2) Fashion trends and wearable technology
3) Direct-to-consumer, e-commerce, and wholesale
4) Same store sales
5) Competitor analysis
6) Economic trends

International sales, discounting, and margins

Fossil plans to open 25 to 30 retail locations during the 2017 fiscal year and close roughly 30 stores. During the past five fiscal periods, the company has closed 60 stores but opened 151, with the majority located internationally. FOSL typically closes stores that are underperforming or ones that have lost existing real estate leases. Most new stores to open this fiscal year will be Fossil full-priced acccesory and outlet stores. FOSL generates 51% of its sales through its own stores and proprietary brands, and the store expansion represents 9% store growth and impacts of overall growth of 4.6% in fiscal 2017.

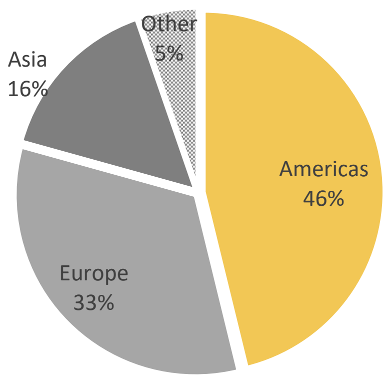
Figure 3 and 4: Type of FOSL locations in, US (left) and international (right)



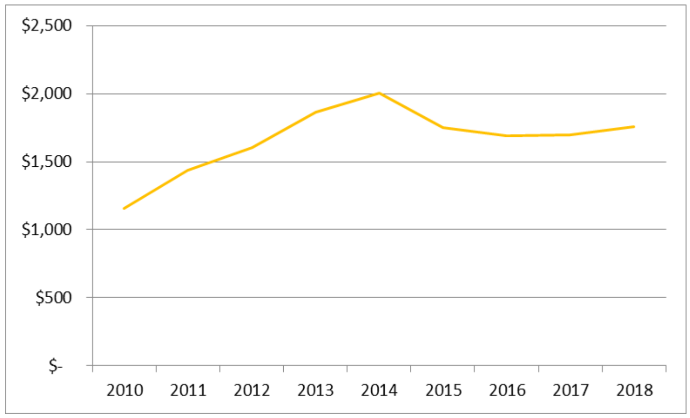
Source: 10K

FOSL is focusing on expansion and is concentrating primarily on international markets. In Asia and Europe, the company is concerned with opening full price retail stores, while in the Americas, the focus is on outlet locations. The company was opening stores faster than closing until 2015 when it slowed growth after reaching capacity of full priced stores in the Americas and Europe. Success of international expansion will come with risks, including currency and geopolitical uncertainty, and will depend on FOSL's ability to keep up with changing trends and the technology market. During fiscal year 2016, gross profit decreased due to changes in foreign currencies and a decrease in sales. Sales decreased in all segments and geographical locations during 2016. The decrease in sales is attributable to a sales decline in traditional watches and currency fluctuations. Fossil has been able to prove itself in international markets with its stylish and fashion forward accessories, and it charges a higher premium in international markets than in the US where it places a higher focus on discounting merchandise. Due to severe currency headwinds, operating margin in international locations are lower at 22.3% and 26.5% in the US. Gross margin fell from 57% to a projected 52.5% in fiscal 2017 (calendar 2016). Gross profit margin in the Americas was negatively impacted by lower margins because of the high discounting and lower margins on wearables. Europe has shown an expansion in profit margin but it has been offset by Asia, due to a weaker Japanese yen. Growth rates have been slowing for FOSL since 2013, with a spike in February, 2016. The US operations have seen a larger decline in sales, with constant currency, than international locations in 2016.

Figure 5 and 6: 2015 revenue by region (left), gross profit, in thousands (right)



Source: 10K



Fashion Trends and Wearable Technology

FOSL entered the wearable technology market after its acquisition of Misfit in 2015

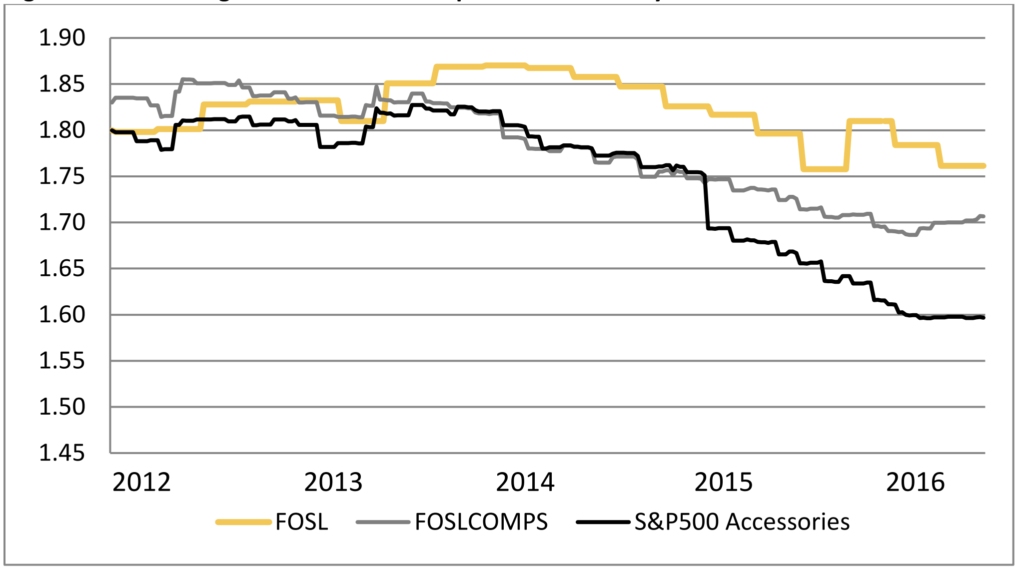
As an accessories retailer, it is crucial that Fossil adjusts to changing trends and styles. Timepiece sales have been slowing due to an increase in tech devices that offer customers with alternative options for telling time. In addition, retailers have been lagging behind in the technology department following the Apple Watch release in April 2015. Wearable technology is a quickly emerging and evolving segment in the market. FOSL has recently entered this market by targeting young adults with trendier wearable technology after its acquisition of Misfit, Inc. in December 2015 for $8.4 million. It is crucial that Fossil and its licensures are able to properly enter this market because it is an important trend in an apparel category that rarely evolves. Fossil, Kate Spade, and Michael Kors have taken initiative towards the wearable technology market. These brands are some of the first to sell smartwatches that are both functional, stylish, and professional looking. Since many consumers look to their watches as statement pieces, it is essential that it can be worn in all settings. Fitness brands, such as FitBit, specialize in styles that look sporty and active which is not the look that all consumers want to portray. Since the recent acquisition of Misfit, FOSL has not separated sales from wearable technology and its watch segment, but it has reported that the wearables have exceeded expectations in sales but have led to lower margins due to the new technology. FOSL also reported in Q3 2016 that these new products have positively driven growth. Apple and Samsung are also competitors in the wearable technology market.

Watches contributed to over 75% of consolidated net sales during the 2015 fiscal year; therefore, it is pertinent that Fossil keep up with changing technology, trends, and styles in order to stay profitable. Fossil has an advantage in the accessory market because during economic downturns consumers have reported spending more on accessories than apparel because it provides more "bang for their buck." Fossil's ability to reach multiple economic groups of consumers is a prime factor in its ability to stay profitable during periods of declining revenues.

FOSL produces a majority of its products through substantially owned entities in order to maintain control over supply chain operations

Most of the watch products are sourced from Asia through its Hong Kong subsidiary while the remaining are Swiss made. During 2015, approximately 59% of the jewelry products were manufactured by one of Fossil's majority owned entities, while the rest were manufactured by other factories located in China. During the year, handbags, small leather goods, and belts were completely outsourced. Fossil believes that outsourcing provides the opportunity to be more flexible with its ability to choose suppliers and also helps it avoid large capital expenditures.

Figure 6: Gross margin % of FOSL vs. comps and subindustry



Source: FactSet

Direct to Consumer, E-Commerce, and Wholesale

A most of FOSL's direct-to-consumer sales come from countries where it does not hold a physical presence

Fossil uses direct-to-consumer through retail stores and commercial websites. Since there is such a heavy focus on the licensed brands, there are a variety of websites to find the respective products. By investing in the direct-to-consumer aspect of the company, the brand is now able to raise awareness of the products and provide a location that all consumers are able to access in countries where there is no physical presence. FOSL operates websites in the US, Australia, France, Germany, Japan, and the UK. Each website features the selection of products available to those geographic regions. Fossil continues to create and open new websites to support the licensed brands. Management expects expansion of the e-commerce and direct-to-consumer segments of the business to lead to higher profitability levels.

Based on historical data, Fossil anticipates direct-to-consumer sales to increase profitability in the fourth quarter due to seasonality

FOSL recently focused on sending catalogs to domestic customers; distributing approximately 8 million during the 2015 fiscal year, 4.9 million more than the previous year. I anticipate the number of catalogs distributed will increase to roughly 10 million. During the year, the direct mail strategy was optimized to drive e-commerce and retail sales. The company catalogs serve as a key advertising product and communication device to enhance the brand and drive sales. It has stopped distributing catalogs internationally to focus solely on domestic sales.

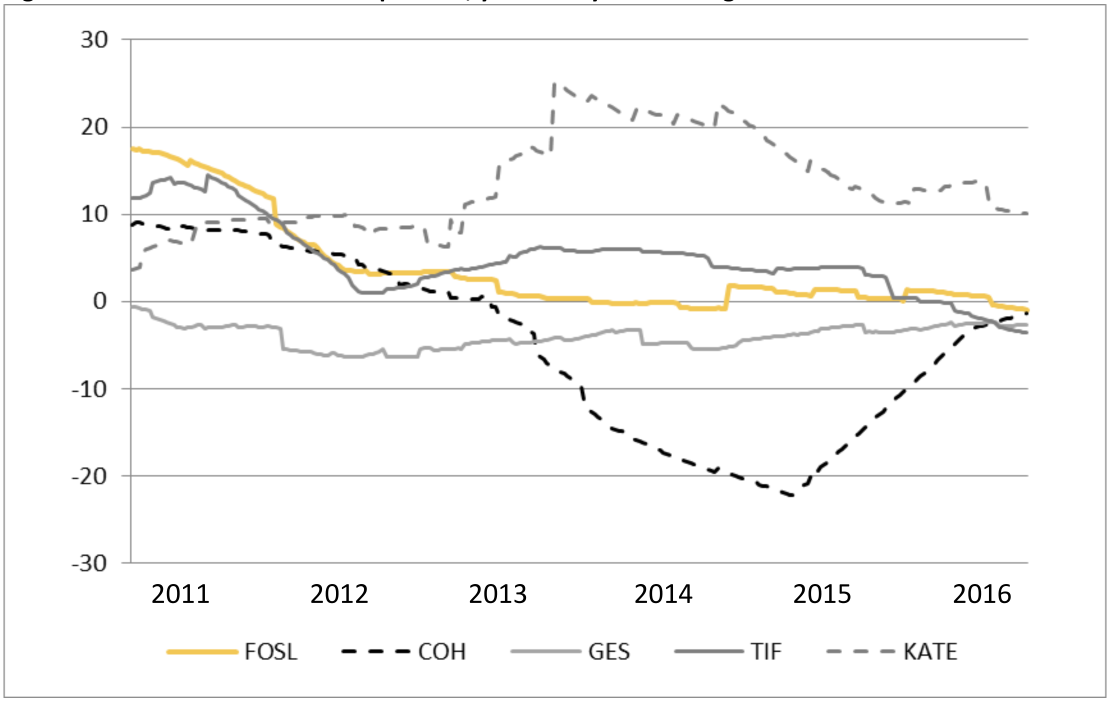
FOSL has a wholesale division which caters to companies including Amazon, Dillard's, JCPenny, Kohl's, Macy's, Neiman Marcus, Nordstrom, Saks Fifth Avenue, Target and Walmart. Fossil has seen sales declining as department stores falter. The companies in the areas that FOSL has a physical presence are the only ones which are able to use the wholesale segment to its advantage. FOSL does not provide access to wholesale products in countries that do not have physical retail locations. The wholesale division is in each of Fossil's three main geographical areas: Americas, Europe, and Asia.

I project SG&A expenses to rise as FOSL continues to incorporate more styles of wearable technology. In 2017 the company plans to add over 200 new wearable designs. These expenses will also rise due to restructuring expenses and a stronger US dollar.

Same Store Sales

Fossil's same store sales have been flat while most off the competition have seen significant losses since 2012. With FOSL's recent licensing for Kate Spade watches (2015), same store sales may rise because KATE has been significantly outperforming its competitors. Fossils current contract with Kate Spade will expire at the end of 2025.

Figure 7: Same store sales vs. competitors, year over year % change



Source: FactSet

Competitor Analysis

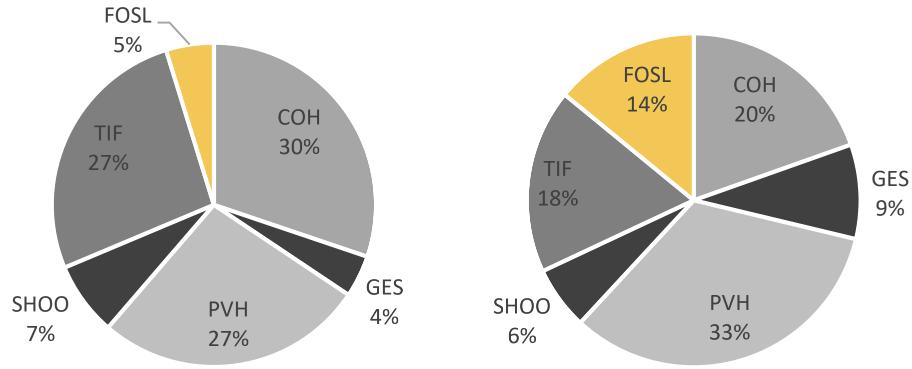
The apparel and accessories industry is a highly competitive and fragmented industry. It is crucial that a retailer is able to keep up with changing trends and styles; therefore, consumers have a considerable amount of power because of lack of switching costs. It is important that a company provides superior quality and a uniqueness that is consistent in all of its products. It is also important that a retailer creates an emotional bond with its customers in order to have a high brand identity. With a strong bond and brand identity, a company is able to keep old customers as well as attract new ones. Fossil has a large number of popular licensed brands as well as its proprietary brand.

FOSL will encounter new competition from tech companies, such as Apple and Samsung, as it enters the wearable technology market

Depicted below, Coach and Tiffany's have a higher market cap versus sales percentage which indicates that the market expects higher margins, growth, and/or lower risk. FOSL's margins were crushed in 2016 and the valuation reflects this. FOSL does not have this advantage. Tiffany's is a luxury accessories retailer that charges a high premium for its products. PVH, which includes brands such as Calvin Klein and Tommy Hilfiger, and TIF also have extremely high end products and long standing histories. FOSL's competitive advantage is diversity with its licensing brands and its ability to reach a wider group of consumers in multiple economic classes.

Figure 8 and 9: % total market cap (left) and retail sales (right)

FOSL: Fossil Group
TIF: Tiffany and Co.
COH: Coach
SHOO: Steve Madden
GES: Guess?
PVH: PVH Corp

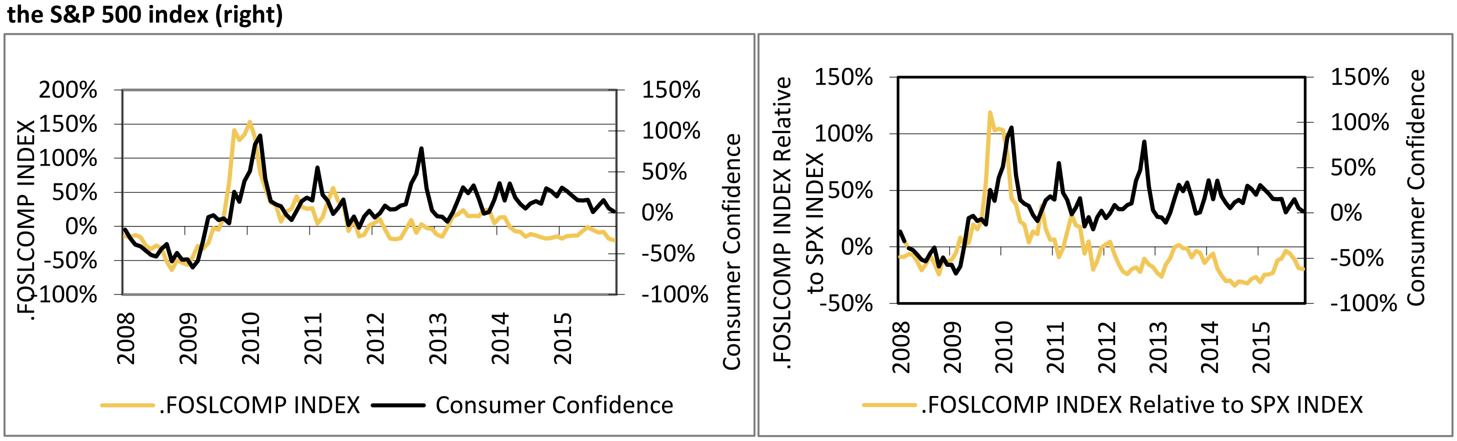


Source: FactSet

Macroeconomic Trends

The accessories and apparel sector is a competitive and cyclical business that is positively correlated with annual changes in consumer confidence and changes in the unemployment rate.

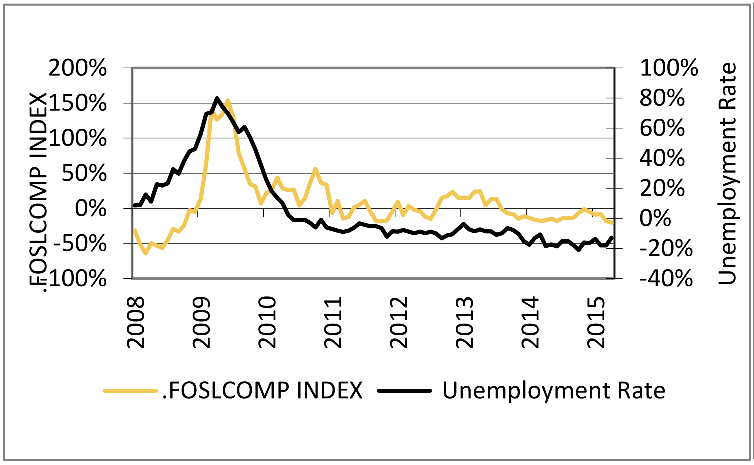
Figure 10 and 11: Consumer confidence compared to FOSL comps (left) and consumer confidence vs. FOSL comps relative to the S&P 500 index (right)

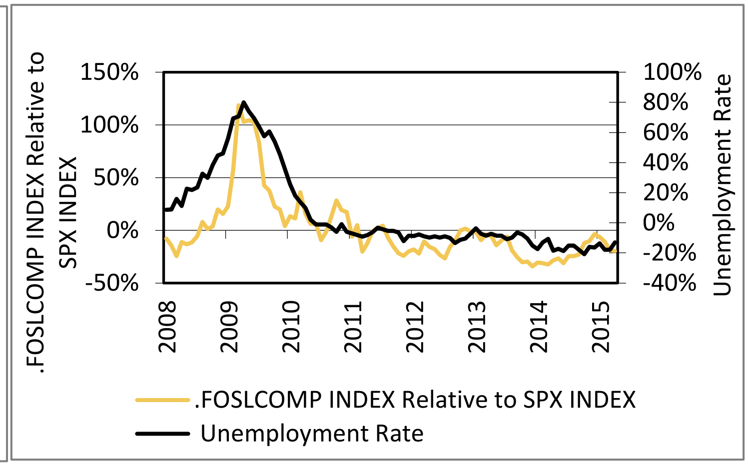


Source: Bloomberg, IMCP

FOSL and its competitor's performance relative to the S&P500 tracked closely with consumer confidence until 2011. The graph shows a 7 month lag with a 0.83 correlation. In 2011, the relationship broke down, likely as same store sales began to slow.

Figures 12 and 13: Unemployment rate, vs. FOSL comps (left) and Unemployment rate, vs. FOSL comps (right) relative to the S&P 500 index





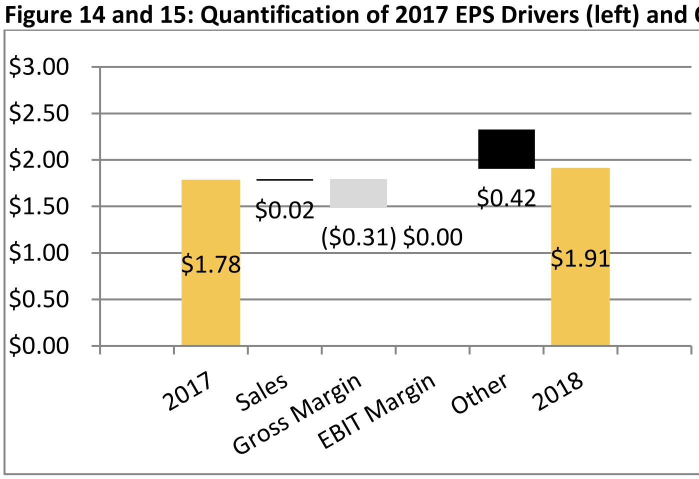
Source: Bloomberg, IMCP

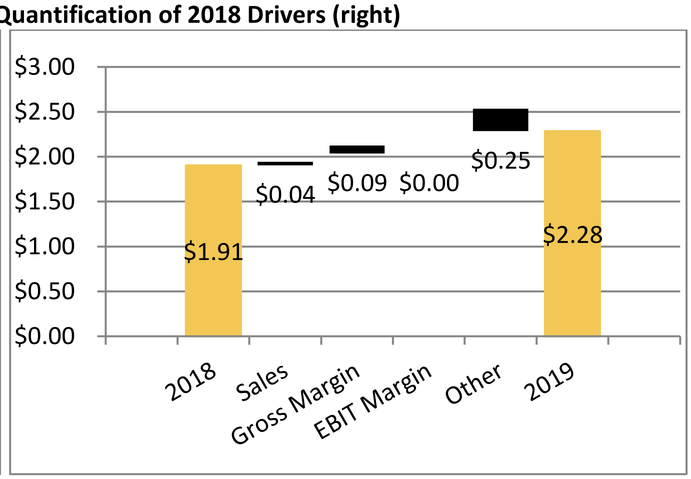
Interestingly, FOSL and its competitors had its best performance on an absolute and relative basis when unemployment was high. Perhaps this is because high end retailers catering to the wealthy performed best the in last recession.

Financial Analysis

I anticipate EPS to grow to $1.91 in FY 2017 after falling to 1.78 in 2016 from $4.71 the prior year. The drop in 2016 was primarily due to a severe decline in margins as I expect sales to be flat. Less than 1% growth in international sales more than offsets 1% drop in US, and adds $0.02. A decrease of $0.31 from falling gross margin is due to increasing production costs in the wearable technology segment. In 2018, I anticipate that EPS will grow to $2.28 due to an increase in sales as the wearable technology segment becomes more popular. I am slightly more optimistic than the market for FY 2018 because I believe the new technology will be quickly accepted by consumers. Due to a higher premium charged for the wearable technology and new sales initiatives, I expect sales and gross margin to increase. Other in 2018 adds $0.42 due to a drop in the tax rate and share buy backs. 2019 share buy backs add most of the $0.25 increase to EPS. Note that fiscal 2017 refers to calendar 2016, 2018 fiscal to calendar 2017, etc.

Figure 14 and 15: Quantification of 2017 EPS Drivers (left) and Quantification of 2018 Drivers (right)





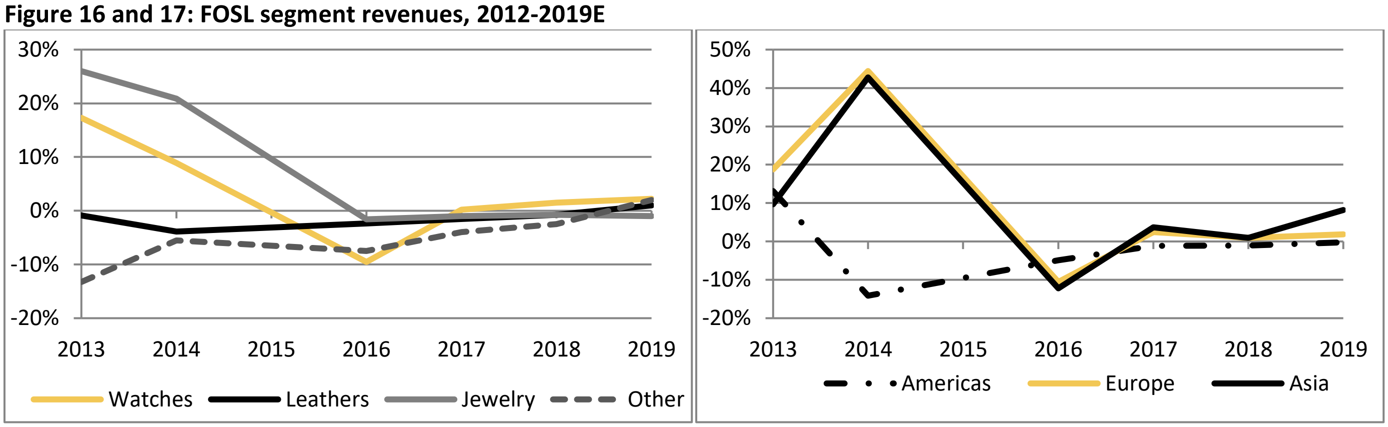
Source: Company Reports, IMCP

Revenues

Fossil's revenue has declined rapidly after peaking in 2013 and has slowly been increasing since its lowest point in 2014. The recent growth in Asia has significantly helped revenue. I expect sales in the Americas to be that due to high discounting at retail locations. Asia and Europe are expected to be flat in 2017, roughly 19%, before Asia rises 8 percent in 2018.

Revenue from the various segments of have been increasing steadily since its low in 2015. Watches were the worst category in 2015, but I expect it to perform the best of the four segments going forward; albeit, at one a 1-2% growth rate.

Figure 16 and 17: FOSL segment revenues, 2012-2019E



Source: Company Reports, IMCP

Estimates versus consensus

My revenue expectations for 2018 and 2019 are more aggressive than consensus because I believe it will take less time before its wearable technology segment becomes profitable than the market consensus. My earnings estimates also match consensus, which alongside my higher revenue assumptions, implies I am less optimistic on margins rebounding. My 2017 estimates are about $200 million higher than consensus because I believe some of the sales initiatives will pay off.

Figure 18: Estimated revenue and EPS vs. Consensus

	Estimates		Consensus	
	2018E	2019E	2018E	2019E
Revenue	$ 3,253	$3,312	$ 3,073	$ 3,094
YoY Growth	0.9%	1.8%	4.4%	-9.4%
EPS	$ 1.91	$ 2.28	$ 1.92	$ 2.26
YoY Growth	7%	20%	5%	18%

Source: Factset, IMCP

Return on equity

Figure 19: ROE Breakdown, 2014-2019E

3-stage DuPont	2014	2015	2016	2017E	2018E	2019E
Net income / sales	11.90%	11.02%	7.12%	2.65%	2.65%	2.93%
Sales / avg assets	1.60	1.59	1.42	1.38	1.42	1.46
ROA	19.06%	17.54%	10.14%	3.66%	3.75%	4.27%
Avg assets / avg equity	1.76	2.14	2.37	2.40	2.28	2.28
ROE	33.51%	37.55%	23.99%	8.79%	8.56%	9.72%

Source: Factset, IMCP

FOSL's ROE fell in 2016 and 2017 due to the severe decline in margins coupled with lower asset turnover due to the drop in sales. ROE will recover somewhat in 2018-2019 as margins and turnover rise modestly. Leverage will decline and limit ROE's improvement.

Free cash flow

Figure 20: Free cash flows 2013- 2019E

Free Cash Flow	2013	2014	2015	2016	2017	2018E	2019E
NOPAT	349	385	390	203	90	94	99
Growth		10%	1%	-48%	-56%	4%	6%
NWC*	563	681	748	687	693	699	712
Net fixed assets	698	751	723	913	868	876	892
Total net operating capital*	1261	1431	1471	1600	1561	1576	1604
Growth		14%	3%	9%	-2%	1%	2%
- Change in NWC*		118	67	-61	6	7	13
- Change in NFA		53	-28	190	-45	8	16
FCFF*		214.35	350.77	74.24	128.90	78.77	70.63
Growth			64%	-79%	74%	-39%	-10%
- After-tax interest expense	4	7	11	14	12	15	14
FCFE**		208	340	60	117	63	56
Growth			64%	-82%	94%	-46%	-11%

Source: Company Reports, IMCP

FOSL's has historically generated high free cash flows that has allowed it to invest into itself, most recently using it for stock repurchasing programs and new licensing opportunities. Fossil has been using a significant amount of its cash for its repurchasing programs, which I expect to continue at $100 million in 2018 and 2019 (about $0.12 to 0.13 per share EPS impact). I forecast that NOPAT and net operating capital will fall due to a decrease in sales in 2017, but both will grow modestly in 2018-19. Fossil does not pay dividends and does not plan to in the future.

I expect FCFF and FCFE to decrease over 39% in 2018 due to an increase in net fixed assets following a large decline in 2017.

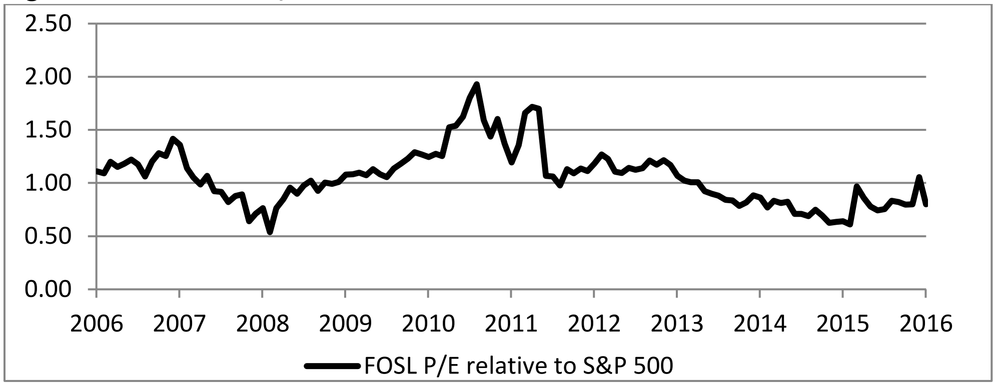
Valuation

FOSL was valued using multiples and a 3-stage discounting cash flow model. Based on these earnings multiples, the stock is cheap relative to other firms and is worth $30; however, due to depressed sales and margins, this metric may be less reliable. Relative valuation shows FOSL to be fairly valued based on its fundamentals versus its peers in the luxury accessories industry. Price to sales valuation yielded a price of $26. A detailed DCF analysis values FOSL, at $27.83. Finally, a probability weighted scenario analysis yields a price of $25. Because of these valuations, I value to stock at $25.

Trading History

FOSL is currently trading near its ten-year low relative to the S&P 500. This is a result of recent earnings depression. Fossil's current NTM P/E is 14.7 versus its five-year average of 8.5. However, its P/E is volatile, therefore I anticipate it to vary.

Figure 21: FOSL NTM P/E relative to S&P 500



Source: Factset

Assuming the firm maintains a 14.7 NTM P/E at the end of 2017, it should trade at $33.56 by the end of the year.

- Price = P/E x EPS = 14.7 x $ 2.28 = $33.56

Discounting $33.56 back to today, given a cost of equity of 11.5% (see discounted cash flow section), will yield a price of $30.06.

Relative Valuation

FOSL is currently trading at a P/E lower than its peers, with a P/E TTM of 12.9 versus the average of 16.1. The low P/E is due to decreasing sales, significant markdowns in the US, and lower margins. FOSL has the lowest P/S of 0.41 while the average of its comps is 1.19. It also has a P/B and ROE of roughly half of the average for its comparable companies.

Figure 21: FOSL comparable companies

		Current	Market	Price Change						Earnings Growth								LT Debt/	S&P	LTM Dividend	
Ticker	Name	Price	Value	1 day	1 Mo	3 Mo	6 Mo	52 Wk	YTD	LTG	NTM	2015	2016	2017	2018	Pst 5yr	Beta	Equity	Rating	Yield	Payout
FOSL	FOSSIL GROUP INC	$24.90	$1,199	(1.7)	(3.7)	(6.0)	(21.2)	(23.6)	(3.7)	3.0	-15.9%	-36.5%	-59.4%	4.4%	8.9%	3.6%	0.74	71.7%	B+	0.00%	
COH	COACH INC	$35.98	$10,086	1.1	2.7	0.7	(16.5)	(2.9)	2.7	9.3	19.0%	-38.1%	3.1%	8.1%	-74.3%	-10.7%	0.62	21.0%	B+	3.85%	74.2%
GES	GUESS INC	$12.32	$1,039	0.2	1.8	(8.9)	(16.3)	(33.5)	1.8	3.7	-16.6%	-41.9%	-13.5%	-53.1%	51.1%	-20.8%	0.07	2.4%	B	7.44%	120.0%
GPS	GAP INC	$22.88	$9,126	1.3	2.0	(15.8)	(11.3)	(7.4)	2.0	3.7	19.7%	4.7%	-15.3%	-19.8%	5.6%	3.3%	0.61	48.4%	A+	4.10%	54.8%
PVH	PVH CORP	$92.28	$7,315	2.2	2.3	(12.9)	(8.7)	25.8	2.3	6.7	-0.3%	3.8%	-3.4%	-4.1%	8.3%	67.2%	0.70	68.9%	B+	0.17%	2.1%
TIF	TIFFANY & CO	$78.05	$9,714	(1.4)	0.8	6.6	21.0	22.3	0.8	9.1	6.0%	-8.8%	-3.1%	5.1%	9.5%	4.6%	1.88	30.5%	A-	2.26%	47.8%
SHOO	MADDEN STEVEN LTD	$33.70	$2,043	(0.7)	(5.7)	(1.0)	(3.8)	4.4	(5.7)	9.0	10.1%	5.1%	9.7%	8.4%	9.5%	9.2%	0.47	0.0%	B+	0.00%	
SIG	SIGNET JEWELERS LTD	$79.16	$5,510	(1.0)	(16.0)	(1.6)	(10.0)	(31.8)	(16.0)	9.3	16.2%	21.8%	8.0%	6.6%	8.5%	20.5%	1.07	59.3%		1.06%	15.2%
Average			$5,754	(0.0)	(2.0)	(4.9)	(8.3)	(5.9)	(2.0)	6.7	4.8%	-11.2%	-9.2%	-5.6%	3.4%	9.6%	0.77	37.8%		2.36%	52.3%
Median			$6,412	(0.3)	1.3	(3.8)	(10.6)	(5.2)	1.3	7.9	8.1%	-2.5%	-3.3%	4.7%	8.7%	4.1%	0.66	39.4%		1.66%	51.3%
SPX	S&P 500 INDEX	$2,281		(0.6)	1.9	7.3	4.9	17.6	1.9			7.7%	1.2%	7.6%	12.4%						

		2016		P/E							2016	2016			EV/	P/CF	P/CF	Sales Growth			Book
Ticker	Website	ROE	P/B	2014	2015	2016	TTM	NTM	2017	2017E	NPM	P/S	OM	ROIC	EBIT	Current	5-yr	NTM	STM	Pst 5yr	Equity
FOSL	http://www.fossilgroup.com	9.1%	1.23	3.5	5.9	16.8	12.1	14.4	13.0	12.0	2.9%	0.39	5.7%	13.4%	6.7	5.4	11.3	-0.9%	-1.1%	9.7%	$20.21
COH	http://www.coach.com	20.3%	3.70	11.6	18.7	18.2	19.8	16.6	16.8	65.4	12.4%	2.25	17.4%	13.3%	14.4	13.4	12.5	1.3%	4.5%	1.6%	$9.73
GES	http://www.guess.com	8.1%	1.04	6.5	11.1	12.8	16.4	19.7	27.4	18.1	3.7%	0.47	3.5%	7.7%	9.9	7.7	8.2	3.6%		-2.4%	$11.83
GPS	http://www.gapinc.com	35.6%	3.35	8.4	8.0	9.4	13.6	11.4	11.7	11.1	6.1%	0.58	9.8%	22.5%	6.7	6.3	8.5	-0.8%	-0.1%	1.5%	$6.83
PVH	http://www.pvh.com	11.7%	1.53	13.1	12.6	13.1	12.9	13.0	13.7	12.6	7.0%	0.91	8.1%	7.4%	11.5	8.4	11.8	1.1%	4.6%	11.6%	$60.33
TIF	http://www.tiffany.com	15.9%	3.34	18.6	20.4	21.0	21.9	20.7	20.0	18.3	11.6%	2.43	19.3%	12.5%	10.7	12.9	15.8	1.4%	3.7%	5.9%	$23.36
SHOO	http://www.stevemadden.com	17.0%	2.82	19.1	18.2	16.6	17.1	15.5	15.3	14.0	8.8%	1.46	11.0%	16.8%	10.7	11.8	13.0	3.2%	4.1%	17.2%	$11.93
SIG	http://www.signetjewelers.com	23.1%	2.47	14.1	11.5	10.7	12.0	10.3	10.0	9.2	8.0%	0.85	7.9%	10.9%	19.6	8.0	14.0	-1.1%	2.5%	13.8%	$32.06
Average		17.6%	2.44	11.9	13.3	14.8	15.7	15.2	16.0	20.1	7.5%	1.17	10.3%	13.1%	11.3	9.2	11.9	1.0%	2.6%	7.4%	
Median		16.4%	2.65	12.4	12.1	14.8	15.0	15.0	14.5	13.3	7.5%	0.88	8.9%	12.9%	10.7	8.2	12.2	1.2%	3.7%	7.8%	
spx	S&P 500 INDEX			21.0	19.5	19.3			18.0	16.0											

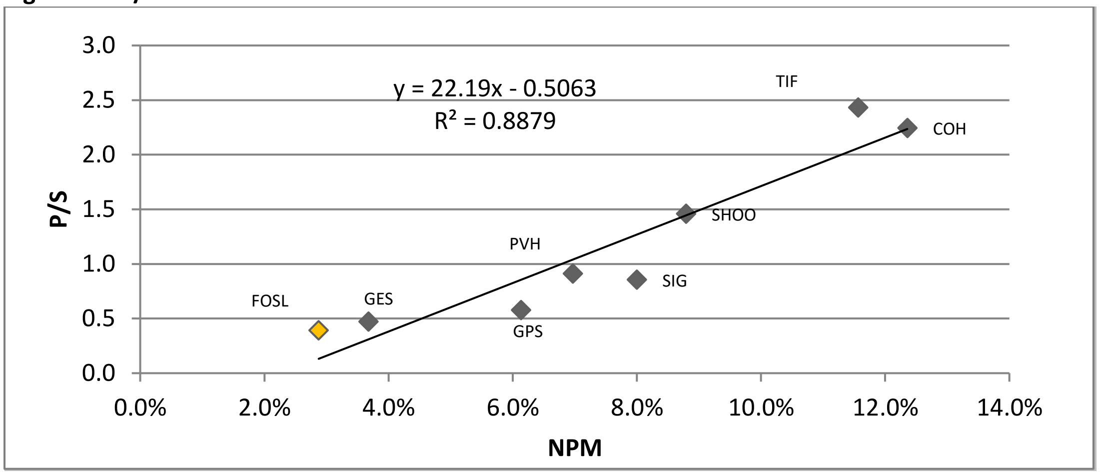
Source: Factset

An analysis of P/S and NPM is shown in the figure below. The calculated R-squared of the regression indicates that over 88% of a firm's P/S is explained by its NTM NPM. FOSL has the lowest P/S and NPM versus its competitors, and per this measure is undervalued.

- Estimated P/S = Estimated 2017 NPM (3.9%) x 22.19 – 0.5063 = 0.37
- Target Price = Estimated P/S (0.37) x SPS ($67.14)= $24.84

Discounting back to the present using an 11.5% cost of equity yields a target price of $5.45 using this model.

Figure 22: P/S vs NTM NPM



Source: IMCP

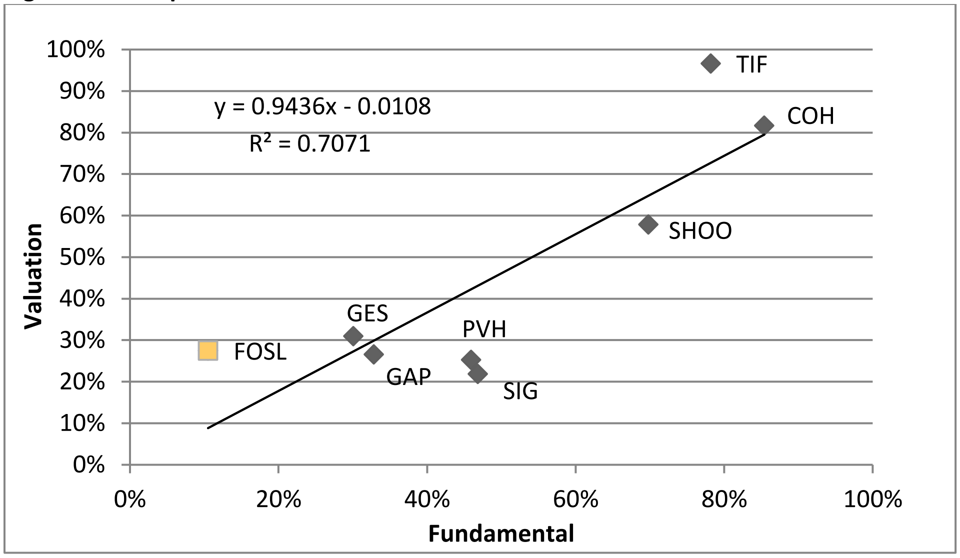
For a final comparison, I created a composite ranking of several valuation and fundamental metrics. Since the variables have different scales, each was converted to a percentile of the maximum before calculating the composite score. A varied weighting of long term growth rate, next twelve months, EPS growth, long term debt to equity, and 2016 net profit margin was compared to P/S. The regression line had an R-squared of .88. FOSL is directly above the line, therefore is fairly priced based on the fundamentals of this valuation.

Figure 23: Composite valuation, % of range

				Fundamental Percent of Range				Valuation Percent of Range				
		Weight		5.0%	10.0%	5.0%	60.0%	20.0%	25.0%	25.0%	25.0%	25.0%
		Weighted		Earnings Growth		1/	2016	es Grov		P/E		
Ticker	Name	Fund	Value	NTM	2017	Beta	NPM	NTM	NTM	2016	P/B	P/S
FOSL	FOSSIL GROUP INC	11%	28%	2%	93%	6%	0%	4%	40%	63%	7%	0%
COH	COACH INC	85%	82%	98%	100%	8%	100%	51%	61%	75%	100%	91%
GES	GUESS INC	30%	31%	0%	0%	100%	8%	100%	90%	29%	0%	4%
GPS	GAP INC	33%	27%	100%	54%	8%	34%	7%	10%	0%	87%	9%
PVH	PVH CORP	46%	25%	45%	80%	6%	43%	47%	25%	32%	18%	26%
TIF	TIFFANY & CO	78%	97%	62%	95%	0%	92%	53%	100%	100%	87%	100%
SHOO	MADDEN STEVEN LTD	70%	58%	74%	100%	11%	62%	91%	50%	62%	67%	52%
SIG	SIGNET JEWELERS LTD	47%	22%	90%	97%	3%	54%	0%	0%	11%	54%	23%

Source: IMCP

Figure 24: Composite relative valuation



Source: IMCP

<u>Discounted Cash Flow Analysis</u>

A three stage discounted cash flow model was also used to value FOSL.

For the purpose of this analysis, the company's cost of equity was calculated to be 11.51% using the Capital Asset Pricing Model. The underlying assumptions used in calculating this rate are as follows:

- The risk free rate, as represented by the ten year Treasury bond yield, is 2.44%.
- A five year beta of 1.2 was utilized because FOSL has about the same risk as its competitors in the same luxury accessories market, therefore I used the average beta of FOSL's competitors. Retail is cyclical, so a beta of great than 1.0 is justified.
- A long term market rate of return of 10% was assumed, since historically, the market has generated an annual return of about 10%.

Given the above assumptions, the cost of equity is 11.51% (2.44 + 1.2 (10.0 – 2.44)).

Stage One – The model's first stage discounts fiscal years ending January, 2018 and 2019 free cash flow to equity (FCFE). These per share cash flows are forecasted to be $1.40 and $1.33, respectively. Discounting these cash flows, using the cost of equity calculated above, results in a value of $2.32 per share. Therefore, stage one of this analysis contributes $2.32 to value.

Stage Two – The next stage of the model focuses on fiscal years ending January, 2020 to 2024. During this period, FCFE is calculated based on revenue growth, NOPAT margin and capital growth assumptions. The resulting cash flows are discounted using the company's 11.51% cost of equity. I assume 2% sales growth in 2020, continuing to rise at different rates between 3.0% to 4.5%, because it is a cyclical company that is dependent on discretionary income of consumers. The ratio of NWC to sales will remain at 2019 levels, and NFA turnover will rise from 3.71 to 5.0 in year 2024. After-tax interest is expected to rise 6% each year. This implies that NFA will fall 1%-5% per year as the firm decreases store investments.

Figure 25: FCFE and discounted FCFE, 2018-2024

	2018	2019	2020	2021	2022	2023	2024
FCFE	1.40	1.33	3.14	3.20	3.53	3.92	4.39
Discounted FCFE	1.26	1.07	2.26	2.07	2.04	2.04	2.05

Added together, these discounted cash flows total $10.47.

Stage Three – Net income for the years 2020-2024 is calculated based upon the same margin and growth assumptions used to determine FCFE for stage two. EPS is expected to grow from $1.91 in 2018 to $5.08 in 2024.

Figure 26: EPS estimates for 2018-2024

	2018	2019	2020	2021	2022	2023	2024
EPS	$1.91	$2.28	$2.51	$3.06	$3.67	$4.34	$5.08

Stage three of the model requires an assumption regarding the company's terminal price-to-earnings ratio. A P/E ratio of 16.75 is assumed at the end of FOSL's terminal year. A higher multiple may be better calculate a fair value to more align with its competitors, but FOSL is the outlier when compared to its comps.

Given the assumed terminal earnings per share of $5.08 and a price to earnings ratio of 16.75, a terminal value of $42.04 per share is calculated. Using the 11.51% cost of equity, this number is discounted back to a present value of $19.61.

Total Present Value – given the above assumptions and utilizing a three-stage discounted cash flow model, an intrinsic value of $27.83 is calculated (2.32 + 10.47 + 19.61). Given FOSL's current price of $25.86, this model indicates that the stock is undervalued.

<u>Scenario Analysis</u>

FOSL is difficult to value with certainty because of cyclicality and uncertainty of how consumers will react to a change in brand identity. Furthermore, it is still not apparent how quickly the company will be able to improve margins on its wearable technology segment. My DCF model assumes margin expansion because I anticipate FOSL will improve production of wearable, therefore increasing margins. I valued FOSL under six scenarios by changing combinations of two key factors in the DCF model, above.

Sales Growth – Strong growth assumes that FOSL's brand is able to quickly draw in more customers and reverse the declining sales by 2019. Modest growth is the base assumption used in the prior DCF analysis, and I gave it a 40% probability. Poor growth assumes that the market does not take interest in FOSL's approach to new technology. I chose 30% for this scenario because although FOSL has experienced a decrease in sales, there is still opportunity for growth online and internationally.

Cost Savings – Moderate cost savings assumes that FOSL is able to continue to charge a premium and not have to increase additional heavy discounting. To do this, Fossil will need to continue to keep up with changing fashion trends and maintain superior quality. A stable gross margin assumes that FOSL will need to continue to heavily discount its merchandise to compete with its rivals. Margins have fallen with the increase in costs for the wearables segment, and if this area is not successful, will lead to more discounting.

Figure 27: Scenario Analysis

Sales	Cost Savings	DCF Value
High Growth	Moderate 0.7	$ 29.22
0.3	Stable .3	$ 26.83
Moderate Growth	Moderate 0.7	$ 29.28
0.4	Stable .3	$ 26.35
Weak Growth	Moderate 0.7	$ 29.58
0.3	Stable .3	$ 26.37

A valuation of FOSL stock was reached using the same discounted cash flow method outlined in the previous section. Each scenario's value was then multiplied by the scenario's probability to yield a probability-weighted value; the sum of these values is the likely price. This technique results in a target price of $25.65.

From this analysis, it is apparent that FOSL is more susceptible to changes in gross margin than revenue growth. Although Fossil does not have a fantastic gross profit margin, it is still able to remain profitable. If the company is able to improve margins the stock should significantly increase regardless of sales growth.

Business Risks

Changing fashion and product trends:

FOSL's success depends on its ability to predict consumers' preferences in a timely matter. The company must also keep up with new developments in wearable technology in order to receive market acceptance. Its inability to do so could result in a significant decrease in sales.

Loss of major licensing agreements:

Over half of sales are from the sales of products that are produced under license agreements, Michael Kors accounted for over 25% of sales in fiscal year 2015. If Fossil is unable to renew its existing agreements, it could result in a significant decrease in sales.

Competitive marketplace:

The accessories market is competitive in both the United States and internationally. Many competitors are larger and have greater control over omni-channel retailing. Fossil believes competition is alleviated due to high entry costs and brand recognition.

Foreign currency fluctuations:

Fossil produces many of its products in China, therefore changes in the Chinese yuan can have a significant impact on manufacturing costs. During the past three fiscal periods, over 50% of net sales were generated outside of the U.S. A weaker U.S. dollar generally creates positive effects for FOSL and the rise in the dollar has been a headwind.

Third party manufacturing:

A significant portion of products are assembled through a third party manufacturer in China. Any significant changes in that relationship could create a large disruption in the manufacturing and distribution of Fossil's products. Protectionist policies, if enacted by the Trump administration and Congress, could pose issues.

Appendix 1: Sales Forecast

Sales							
Items	**Jan-12**	**Jan-13**	**Jan-14**	**Jan-16**	**Jan-17**	**Jan-18**	**Jan-19**
Sales	2,859	$3,260	$3,510	$3,229	$3,223	$3,253	$3,312
Growth		*14.0%*	*7.7%*	*-8.0%*	*-0.19%*	*0.9%*	*1.8%*
Watches	2,143	2,513	2,737	2,476	2,481	2,518	2,575
Growth		*17.3%*	*8.9%*	*-9.5%*	*0.22%*	*1.5%*	*2.3%*
% of sales	*75.0%*	*77.1%*	*78.0%*	*76.7%*	*77.0%*	*77.4%*	*77.7%*
Leathers	440	436	419	409	403	400	404
Growth		*-0.9%*	*-3.9%*	*-2.4%*	*-1.50%*	*-0.8%*	*1.0%*
% of sales	*15.4%*	*13.4%*	*11.9%*	*12.7%*	*12.5%*	*2.0%*	*12.2%*
Jewelry	182	229	277	272	269	267	265
Growth		*26.0%*	*20.8%*	*-1.6%*	*-1.0%*	*-0.8%*	*-1.0%*
% of sales	*6.4%*	*7.0%*	*7.9%*	*8.4%*	*8.4%*	*8.2%*	*6.0%*
Other	94	82	77	72	69	67	68
Growth		*-13.3%*	*-5.5%*	*-7.5%*	*-4.0%*	*-2.5%*	*2.0%*
% of sales	*3.3%*	*2.5%*	*2.2%*	*2.2%*	*2.1%*	*2.1%*	*2.1%*
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Americas	1,799	2,035	1,748	1,662	1,643	1,626	1,623
Growth		*13.1%*	*-14.1%*	*-4.9%*	*-1.1%*	*-1.0%*	*-0.2%*
% of sales	*62.9%*	*62.4%*	*49.8%*	*51.5%*	*51.0%*	*50.0%*	*49.0%*
Europe	697	828	1,196	1,070	1,096	1,106	1,126
Growth		*18.8%*	*44.4%*	*-10.5%*	*2.4%*	*0.9%*	*1.8%*
% of sales	*24.4%*	*25.4%*	*34.1%*	*33.1%*	*34.0%*	*34.0%*	*34.0%*
Asia	362	397	566	497	516	520	563
Growth		*9.7%*	*42.8%*	*-12.2%*	*3.7%*	*0.9%*	*8.2%*
% of sales	*12.6%*	*12.2%*	*16.1%*	*15.4%*	*16.0%*	*16.0%*	*17.0%*

Appendix 2: Income Statement

Income Statement	Jan-13	Jan-14	Jan-15	Jan-16	Jan-17	Jan-18	Jan-19
Sales	$2,859	$3,260	$3,510	$3,229	$3,223	$3,253	$3,312
Direct costs	1,252	1,398	1,509	1,475	1,531	1,574	1,597
Gross Margin	1,607	1,862	2,001	1,753	1,692	1,679	1,716
SG&A, R&D, and other	1,118	1,300	1,435	1,462	1,515	1,529	1,557
EBIT	489	562	567	291	177	150	159
Interest	5	10	16	20	24	25	23
EBT	484	552	551	271	153	125	136
Taxes	138	173	171	82	76	47	51
Income	346	379	379	189	77	78	85
Other	(9)	(9)	(7)	(40)	(8)	(8)	(12)
Net income	354	388	387	230	85	86	97
Basic Shares	60.959	57.401	52.882	48.800	48.127	45.205	42.444
EPS	$5.81	$6.76	$7.31	$4.71	$1.78	$1.91	$2.28

Appendix 3: Balance Sheet

Balance Sheet	Jan-13	Jan-14	Jan-15	Jan-16	Jan-17	Jan-18	Jan-19
Cash	177	320	276	289	275	192	140
Operating assets ex cash	967	1,159	1,178	1,153	1,176	1,204	1,242
Operating assets	1,144	1,479	1,454	1,443	1,451	1,395	1,382
Operating liabilities	404	478	430	466	483	504	530
NOWC	740	1,001	1,024	976	968	891	852
NOWC ex cash (NWC)	563	681	748	687	693	699	712
NFA	698	751	723	913	868	876	892
Invested capital	$1,438	$1,752	$1,747	$1,889	$1,836	$1,767	$1,744
Marketable securities	-	-	-	-	-	-	-
Total assets	$1,842	$2,230	$2,177	$2,356	$2,319	$2,271	$2,274
Short-term and long-term debt	$78	$508	$627	$808	$794	$794	$794
Other liabilities	120	168	136	149	160	105	85
Debt/equity-like securities	-	-	-	-	-	-	-
Equity	1,240	1,075	984	933	1,013	999	996
Total supplied capital	$1,438	$1,752	$1,747	$1,889	$1,967	$1,898	$1,875
Total liabilities and equity	$1,842	$2,230	$2,177	$2,356	$2,450	$2,402	$2,405

Appendix 4: Ratios

Ratios	Jan-13	Jan-14	Jan-15	Jan-16	Jan-17	Jan-18	Jan-19
Profitability							
Gross margin	56.2%	57.1%	57.0%	54.3%	52.5%	51.6%	51.8%
Operating (EBIT) margin	17.1%	17.2%	16.1%	9.0%	5.5%	4.6%	4.8%
Net profit margin	12.4%	11.9%	11.0%	7.1%	2.7%	2.6%	2.9%
Activity							
NFA (gross) turnover		4.50	4.76	3.95	3.62	3.73	3.75
Total asset turnover		1.60	1.59	1.42	1.38	1.42	1.46
Liquidity							
Op asset / op liab	2.83	3.09	3.38	3.09	3.00	2.77	2.61
NOWC Percent of sales		26.7%	28.8%	31.0%	30.2%	28.6%	26.3%
Solvency							
Debt to assets	4.2%	22.8%	28.8%	34.3%	34.2%	35.0%	34.9%
Debt to equity	6.3%	47.3%	63.7%	86.7%	78.4%	79.5%	79.7%
Other liab to assets	6.5%	7.6%	6.2%	6.3%	6.9%	4.6%	3.7%
Total debt to assets	10.7%	30.3%	35.0%	40.6%	41.1%	39.6%	38.7%
Total liabilities to assets	32.7%	51.8%	54.8%	60.4%	62.0%	61.8%	62.0%
Debt to EBIT	0.16	0.90	1.11	2.78	4.48	5.31	4.99
EBIT/interest	94.74	58.82	35.64	14.55	7.31	6.08	6.91
Debt to total net op capital	5.4%	29.0%	35.9%	42.8%	43.2%	44.9%	45.5%
ROIC							
NOPAT to sales		11.8%	11.1%	6.3%	2.8%	2.9%	3.0%
Sales to IC		2.04	2.01	1.78	1.73	1.81	1.89
Total		24.2%	22.3%	11.2%	4.8%	5.2%	5.7%
Total using EOY IC	24.3%	22.0%	22.3%	10.8%	4.9%	5.3%	5.7%
ROE							
5-stage							
EBIT / sales		17.2%	16.1%	9.0%	5.5%	4.6%	4.8%
Sales / avg assets		1.60	1.59	1.42	1.38	1.42	1.46
EBT / EBIT		98.3%	97.2%	93.1%	86.3%	83.6%	85.5%
Net income /EBT		70.3%	70.2%	84.8%	55.9%	68.9%	71.3%
ROA		19.1%	17.5%	10.1%	3.7%	3.8%	4.3%
Avg assets / avg equity		1.76	2.14	2.37	2.40	2.28	2.28
ROE		33.5%	37.6%	24.0%	8.8%	8.6%	9.7%
3-stage							
Net income / sales		11.9%	11.0%	7.1%	2.7%	2.6%	2.9%
Sales / avg assets		1.60	1.59	1.42	1.38	1.42	1.46
ROA		19.1%	17.5%	10.1%	3.7%	3.8%	4.3%
Avg assets / avg equity		1.76	2.14	2.37	2.40	2.28	2.28
ROE		33.5%	37.6%	24.0%	8.8%	8.6%	9.7%
Payout Ratio		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Retention Ratio		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Sustainable Growth Rate		33.5%	37.6%	24.0%	8.8%	8.6%	9.7%

Appendix 5: 3-Stage DCF Model

First Stage			Second Stage				
Cash flows	2018	2019	2020	2021	2022	2023	2024
Sales Growth	*0.9%*	*1.8%*	*2.0%*	*3.0%*	*3.5%*	*4.0%*	*4.5%*
NOPAT / S	*2.9%*	*3.0%*	*3.6%*	*4.2%*	*4.8%*	*5.4%*	*6.0%*
S / NWC	*4.65*	*4.65*	*4.65*	*4.65*	*4.65*	*4.65*	*4.65*
S / NFA (EOY)	*3.71*	*3.71*	*3.97*	*4.23*	*4.49*	*4.74*	*5.00*
S / IC (EOY)	*2.06*	*2.06*	*2.14*	*2.21*	*2.28*	*2.35*	*2.41*
ROIC (EOY)	*5.9%*	*6.2%*	*7.7%*	*9.3%*	*11.0%*	*12.7%*	*14.5%*
ROIC (BOY)		*6.3%*	*7.6%*	*9.3%*	*11.0%*	*12.8%*	*14.7%*
Share Growth		*-6.1%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Sales	$3,253	$3,312	$3,379	$3,480	$3,602	$3,746	$3,914
NOPAT	$94	$99	$122	$146	$173	$202	$235
Growth		*6.3%*	*22.4%*	*20.2%*	*18.3%*	*17.0%*	*16.1%*
- Change in NWC	7	13	14	22	26	31	36
NWC EOY	*699*	*712*	*726*	*748*	*774*	*806*	*842*
Growth NWC		*1.8%*	*2.0%*	*3.0%*	*3.5%*	*4.0%*	*4.5%*
- Chg NFA	8	16	-41	-28	-20	-13	-7
NFA EOY	*876*	*892*	*851*	*823*	*803*	*790*	*783*
Growth NFA		*1.8%*	*-4.6%*	*-3.3%*	*-2.4%*	*-1.6%*	*-0.9%*
Total inv in op cap	15	29	-27	-6	6	18	29
Total net op cap	1576	1604	1577	1571	1578	1595	1625
FCFF	$79	$71	$149	$152	$167	$184	$206
% of sales	*2.4%*	*2.1%*	*4.4%*	*4.4%*	*4.6%*	*4.9%*	*5.3%*
Growth		*-10.3%*	*110.3%*	*2.5%*	*9.6%*	*10.6%*	*11.4%*
- Interest (1-tax rate)	15	14	15	16	17	18	19
Growth		*-6.5%*	*6.0%*	*6.0%*	*6.0%*	*6.0%*	*6.0%*
FCFE w/o debt	$63	$56	$133	$136	$150	$166	$186
% of sales	*1.9%*	*1.7%*	*3.9%*	*3.9%*	*4.2%*	*4.4%*	*4.8%*
Growth		*-11.3%*	*137.0%*	*2.1%*	*10.0%*	*11.2%*	*12.0%*
/ No Shares	45.2	42.4	42.4	42.4	42.4	42.4	42.4
FCFE	$1.40	$1.33	$3.14	$3.20	$3.53	$3.92	$4.39
Growth		*-5.5%*	*137.0%*	*2.1%*	*10.0%*	*11.2%*	*12.0%*
* Discount factor	0.90	0.80	0.72	0.65	0.58	0.52	0.47
Discounted FCFE	$1.26	$1.07	$2.26	$2.07	$2.04	$2.04	$2.05
Third Stage							
Terminal value P/E							
Net income	$86	$97	$106	$130	$156	$184	$216
% of sales	*2.6%*	*2.9%*	*3.1%*	*3.7%*	*4.3%*	*4.9%*	*5.5%*
EPS	$1.91	$2.28	$2.51	$3.06	$3.67	$4.34	$5.08
Growth		*19.9%*	*9.7%*	*22.2%*	*19.8%*	*18.2%*	*17.1%*
Terminal P/E							16.75
* Terminal EPS							$5.08
Terminal value							$85.09
* Discount factor							0.47
Discounted terminal value							$39.68

Summary		
First stage	$2.32	Present value of first 2 year cash flow
Second stage	$10.47	Present value of year 3-7 cash flow
Third stage	$39.68	Present value of terminal value P/E
Value (P/E)	**$52.47**	= value at beg of fiscal yr 2018

Appendix 6: SWOT Analysis

Strengths	Weaknesses
International presence	Consumer trends
Brand/licensing recognition	U.S. retail performance
Variety of price points	Dependency on major licenses
Opportunities	**Threats**
Global expansion	Volatile currency
Acquisitions and licensing	Substitutes
New technology	Highly competitive industry

Appendix 7: Porter's 5 Forces

Threat of New Entrants – Low

The barriers to enter the luxury accessories market include high startup costs and difficulty developing long-term relationships with customers. Fossil faces new threats from technology brands in the wearable technology market.

Threat of Substitutes - High

Fossil relies on its branding and quality to convince customers to pay a premium for its products. There are a large number of lower-cost substitutes and no switching costs.

Supplier Power – Low

Suppliers have little power due to a wide range of alternative suppliers. Since FOSL does not have long-term contracts, only long-term relationships, with suppliers there is little threat.

Buyer Power – Very High

Consumers carry the majority of power over retailers. There is a high number of substitutes and there is no cost to switch. There is little urgency to consistently buy new luxury accessories, so consumers have the opportunity to look for better prices.

Intensity of Competition – Very High

There are many national and international companies that occupy retail space in the same shopping centers, including online retailers, which are a threat to FOSL. The company has had to aggressively markdown prices in the United States due to an increase in competition and a decrease in foot traffic of physical retail locations. There is new threat from technology brands now that FOSL has entered the wearable technology market.