ANN INC.

Rating: SELL

Ann Inc. (ANN) is currently overvalued. Our **DCF scenario analysis** arrives at a value of **$28.20 per share,** compared to the **current market value of $34.03**. This implies a **downside of 17%.**

Our **Comparables approach confirms the DCF valuation**, with ANN's multiples **trading above industry average**. In our industry report from September, we have established that the industry is currently fairly valued (no material changes have occurred since then).

After **18 consecutive years of top-line growth,** in 2008, ANN experienced two years of consecutive same-store sales declines due to a **lack of compelling merchandise, the weak economic climate and a tougher competitive environment**. This also resulted in a **significant decrease in margins** (operating margin decreased to 0.2% vs. double-digit figures in 2003) and a **sharp decline in the share price** (from over $32 to $3.30).

ANN's top line rebounded in 2010, benefitting from an improved economic environment and increased fashion focus, headed by a new creative director. Additionally, **margins recovered** as the firm is running on a **leaner structure,** thanks to a restructuring program that lead to **closure of underperforming stores** and **cost-cutting initiatives**.

The shift towards smaller, more productive stores should continue to boost sales per square feet in the near term. However, current topline growth is almost exclusively **driven by online and outlet channels, which is not sustainable as a growth driver**. Moreover, the low hanging fruit at ANN has been picked during the recent restructuring program.

We think the **structural challenges in the competitive landscape**, mainly trends towards more casual clothes in the work environment, new entrants in the marketplace, successful strategies being implemented by competitors and brain drain within ANN's management team, **are going to limit ANN's topline growth** in the future and will also put a cap on ANN's profitability.

US Branded Apparel Industry

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Please see the disclaimer at back of this report for important information.

Company Rating SELL

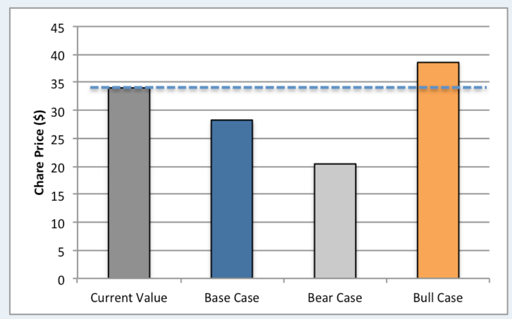
Upside Case **13% upside**

Better reaction/positioning of ANN with respect to the new competitive landscape, meaning higher sales growth rate (CAGR for the next 10 years of 8.91%). In addition, larger lift in operating margin due to better inventory management; favourable sales mix shift and improvements from the store rationalization program undertaken.

Downside Case **40% downside**

Even tougher competitive environment for ANN, meaning lower sales growth rate (CAGR for the next 10 years of 4.0%). Moreover, we have assumed that the baseline EBIT margin will not see a meaningful recovery, due to increased competition impacting sales and inventory

Upside/downside scenarios



Source: PEC Research

Share price (Past 60 months)

Source: Nasdaq, Bloomberg

Key Figures

Share price ($)	34.03
P/E (TTM)	18.1
Market Cap ($B)	1.61
Sales LTM($MM)	2,285
Gross Profit LTM($MM)	941
EBIT margin LTM	10.9%

Source: Company reports, Capital IQ

Company Overview[1]

Specialty retailer operating more than 900 stores in North America trough two different brands (Ann Taylor and LOFT)

ANN is a specialty retailer for fashionable women's clothing, serving clients across the United States, Puerto Rico and, since October, also in Canada. Over the **Company's fifty year heritage** it has become a **well-known resource for quality suits, separates, dresses, shoes and accessories** with a feminine, polished approach to updated classic style. The Company **meets the needs of modern women's busy lifestyles by providing a full range of career, casual and occasion offerings in one location**. ANN plans collections with versatile styles that coordinate not only from head-to-toe, but also from season-to-season, enabling the client to build a full wardrobe suitable to her needs from the company's collections.

The **Ann Taylor and LOFT brands are marketed in 947 stores in 46 states**, the District of Columbia, Puerto Rico and Canada through **four channels, Ann Taylor stores, LOFT stores, Ann Taylor Factory and LOFT Outlet, and also available online** at www.anntaylor.com and www.anntaylorloft.com.

Ann Taylor, through 272 store locations and online, competes in the "better" priced category, and caters to the successful, relatively affluent career woman, who needs appropriate, fashion conscious attire for her professional life and special events, and prefers stylish, coordinated looks for her leisure activities.

LOFT (established in 1996), through 501 store locations and online, competes in the "upper moderate" priced category. LOFT collections are designed for the value conscious women with a more relaxed lifestyle both at work and at home.

Ann Taylor Factory and LOFT Outlet stores, with 169 store locations, are shopping destinations in their own right, with clothing merchandise specifically.

Key Executive Management[2]

Ms. **Kay Krill** has been the **Company's chief executive officer since 2005.** She has served as the president of the company and as a member of the board of directors since 2004. Previously, Ms. Krill served as the president of LOFT from 2001 to 2004. Before that, she served as the vice president of merchandising and held various management positions at several retailers including The Talbots, Inc. and Hartmarx Corporation.

New Ann Taylor division president to revive the struggling label

In February 2012, the **company replaced its Ann Taylor brand president**, Christine Beauchamp, with **Brian Lynch**, who had been president of the Ann Taylor Factory and Loft Outlet divisions and has led the website sales for those brands. Brian Lynch, who has been with ANN for over 8 years, is **trying to turn around the Ann Taylor label by adding more colours to the merchandise and offering a greater choice of "opening" prices.** Historically, Ms. Krill has become disappointed with the leaders of the individual brands, getting involved herself to right foundering ships. In February 2007, for example, after the departure of

1 Extracted from Ann Inc. Investor relations website and Annual reports
2 Extracted from Ann Inc. Earnings calls, Company presentations and Press releases

Loft President Donna Noce Colaco, Ms. Krill led the brand herself for almost 2 years, until appointing Gary Muto in November 2008.

The right fit for managing the two brands is still not found

Brian Lynch has significant experience in outlet and online, and the fact that both of those channels have been growing steadily, might be beneficial for Ann Taylor retail stores. However, we think that history is not on his side, as Mr. Lynch is the **third president in the past six years to try to recapture the brand's glory days.**

The Management Team remains as follow:

- *Kay Krill* – President & Chief Executive Officer
- *Gary Muto* – Brand President, LOFT division
- *Brian Lynch* – Brand President, Ann Taylor division
- *Michael J. Nicholson* – Executive Vice President, Chief Financial Officer and Treasurer

Company Positioning[3]

The Company's Ann Taylor and LOFT brands offers a range of career and casual separates, dresses, tops, weekend wear, shoes and accessories for women:

- **Ann Taylor customer** profile is a working woman in her mid-30s with an average household income of $125-150K.[4]
- **LOFT customers** cater to a more casual customer, being characterized as a woman in her early 30s with an average household income of $75-100K.[5]

Figure 1: LOFT offering

Source: Company Data; PEC Research

Figure 2: ANT offering

Source: Company Data; PEC Research

3 Description of product offering extracted from Ann Inc. Investor relations website and Annual reports
4 2011 Annual Report
5 2011 Annual Report

Ann Taylor

Ann Taylor is the go-to destination for women for wear-to-work clothing and accessories, offering sophisticated style, versatility and outstanding quality and fit. Ann Taylor has attracted a loyal following of clients who rely on Ann Taylor for their everyday wardrobing needs.

Since 2010 Ann Taylor collections turned to be much more fashion focus

Ann Taylor has suffered from the structural shift towards more casual outfits at the workplace. In 2010 the company brought in former Club Monaco and Gap executive **Lisa Axelson** as **head of design** to give Ann Taylor a new look. She got rid of the *"boring"* beige jackets and livened up the collections, emphasizing more fashion focus within the brand. As part of its image change, Ann Taylor has been rotating a string of actresses through its ad campaigns, including Katie Holmes, Demi Moore and, this spring, Kate Hudson.

Ann Taylor's target customer is a well educated, professional woman in her early 30's to mid 40's. During interviews with customers in the target age group, we have realized that it is the **opportunity to look nice and classy but still be in style and fashionable at the same time**. When asking about substitute brands, the answers were a broad bunch or brands (J.Crew, Polo Ralph Lauren, The Gap, Talbot, Tommy Hilfiger, H&M, Zara and some new entrants in the US market as Massimo Dutti). This is similar to what management and analysts consider the 'true' competitors.

LOFT

The hallmark of the **LOFT** brand has always been a combination of fashion, quality and value. LOFT's client knows she can count on LOFT for the latest styles and colors, and she feels good that she is getting **value for the price** as she updates her wardrobe.

Figure 3: Price comparison

	$	Liz Claiborne	LOFT	H&M	Zara	Massimo Dutti	Tommy Hilfiguer	Talbot	Ann Taylor	Polo Ralph Lauren
Skirt	Min	30	**49.5**	5.95	35.9	98.5	54	89.59	**88**	69.5
	Max	70	**79.5**	129	89.9	128	148	159	**275**	598
	Average	**50.0**	**64.5**	**67.5**	**62.9**	**113.3**	**101.0**	**124.3**	**181.5**	**333.8**

	$	Liz Claiborne	LOFT	H&M	Zara	Massimo Dutti	Ann Taylor	Tommy Hilfiguer	Talbot	Polo Ralph Lauren
Top/Shirt/Blouses	Min	15	**19.5**	9.95	35.9	69.5	**48**	48	39.99	79.5
	Max	25	**69.5**	149	129	98.5	**145**	148	189	498
	Average	**20.0**	**44.5**	**79.5**	**82.5**	**84.0**	**96.5**	**98.0**	**114.5**	**288.8**

Source: Company websites; PEC Research

Competitive Landscape

Competitive landscape appears to be one of the key challenges of ANN in the near future

Competition has been getting tougher for both, Ann Taylor and LOFT, over the past years (Figure 4). Apart from its **traditional competitors** (J.Crew, Polo Ralph Lauren, The Gap, Talbot, Tommy Hilfiger etc.) new competition has been entering ANN's markets. This includes domestic brands, such as **White House|Black Market**, which is headed by Ms. Colaco [6], the former Loft president, and also **foreign firms,** such as **H&M** and **Inditex** (Zara and recently

[6] Ms. Donna M. Colaco has been Brand President of White House Black Market of Chico's FAS Inc., since August 8, 2007. Ms. Colaco served as President of Ann Taylor LOFT. During her 10 years with the company, she served in numerous capacities.

Massimo Dutti), which have recently decided to aggressively pursue a broader expansion in the United States

In addition, **department stores** such as **Macy's** and **Nordstrom** have the advantage of offering a wide assortment of accessories, which helps to get women in the door.

Figure 4: Women's retailers landscape

Source: Company reports; William Blair & Company Research; PEC Research

Company Strategy

After hiring Lisa Axelson, Ann Taylor has been promoting **trendier collections, shrinking its store sizes** for a more intimate feel, and **offering a wider assortment at lower prices** to attract budget-sensitive consumers but without entering discount territory.

Cannibalization risk between Ann Taylor and LOFT as offering boundaries are getting blurrier

LOFT traditionally has been appealing to younger consumers with its casual, less-costly merchandise. Ann Taylor, by contrast, has had trouble attracting younger generations without alienating its core, mature customers. While Mr. Lynch plans to continue positioning prices toward the entry-level, he also needs to **make sure he doesn't end up competing with the lower-priced Loft**, initiating cannibalization within the organization.

Mr. Lynch is also keen on **store size optimization**[7]. Ann Taylor stores historically measured near 6,000 square feet. As part of the restructuring program, store size in new and remodelled stores is being reduced towards 4,000 square feet. Such cuts are designed to add a specialized, boutique-like feel, as opposed to a big-box shopping experience. Moreover, the store optimization results in lower occupancy cost.

International expansion as one of the future sales drivers for ANN

In the last shareholder meeting ANN Management Team also highlighted the excitement about **expanding beyond US by entering Canada in late 2012**. Plans are underway for opening of small number of locations in Toronto as there is already strong brand awareness for Ann Taylor/LOFT.

[7] According to Ann Inc. Earning calls: "*One of the highlights of Ann Taylor's performance continues to be the smaller new concept stores. These stores have achieved outstanding results, delivering approximately 50% higher productivity than the balance of the chain. During the year, ANN opened 17 of these stores and downsized or converted another 23 existing stores to the new smaller format, giving a total of 44 of these stores at fiscal year-end. Based on the strong results, ANN continues to be very excited about the strategy to expand the fleet of new concept stores, and it will be adding another 40 in fiscal 2012*"

Talking about **LOFT**, the Managing Team pointed out in the last Earnings Call the intention to expand the brand's broad appeal by **adding stores in small to mid-sized markets**, currently underserved.

Finally, in line with the rest of the industry, ANN plans to continue **shifting sales channels towards** the **more profitable** online and factory/outlets stores for both, Ann Taylor and LOFT, brands.

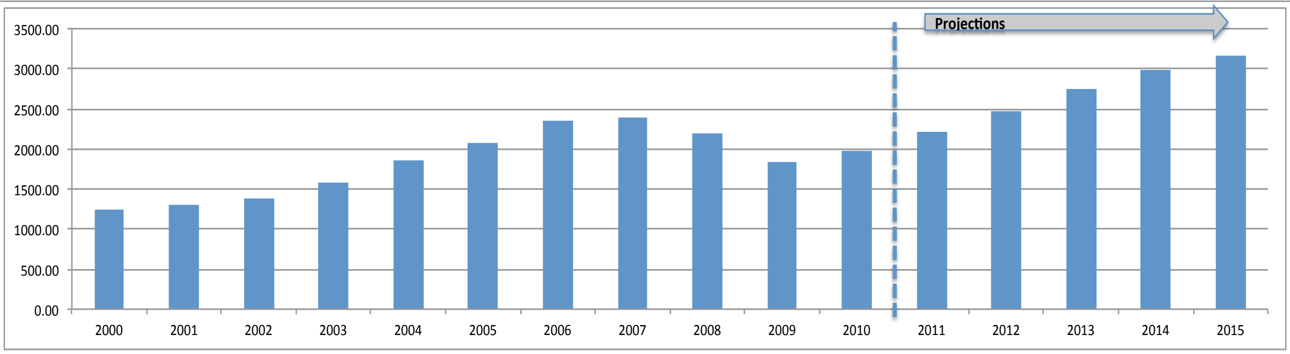
Upcoming company strategy will slightly decrease Ann Inc. margins in the following years

Looking forward, we believe margins are going to slightly decrease as the company keeps executing on its proclaimed strategy: 1) promote more trendy collections which implies higher manufacturing costs; 2) offer a wider assortment of products and 3) focus at lower prices/lower margins to attract budget sensitive clients.

Sales analysis

As we are about to show in more detail, **ANN has experienced tremendous sales growth up until 2007**. Sales have grown from $790MM in 1997 to $2,400MM in 2007 (Figure 5). This translates into a CAGR of 12% over this time period. However, the **picture changes when we look at ANN's performance from 2007 onwards**. Sales dropped to $1,830MM in 2009 and but have recovered to $2,210MM in 2011.

Figure 5: ANN Sales (in $MM), projections reflect base case



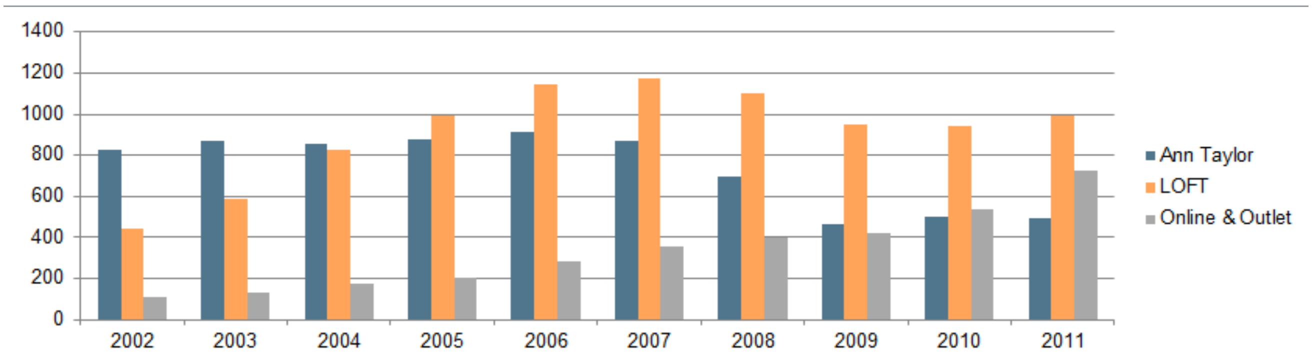
Source: Company data; PEC Research

Sales decrease not only due to economic crisis but also to important structural reasons both internal and external

This slowdown in top line growth was the result of: 1) **ANN not being adequately positioned for an economic slowdown**, 2) **Ann Taylor's core concept's** (formal apparel to be wearing at the office) **becoming increasingly obsolete**, 3) Increasing **competition** for both Ann Taylor and LOFT concept and 4) **Loss of Management talent**, with Ms. Colaco (President of LOFT Division and key responsible for LOFT growth) quitting in 2007.

When looking at Figure 6, one can see that the rapid sales growth from 2002 up to the peak in 2007 was driven by the roll-out of the LOFT and an increase in Online and Outlet sales. It becomes apparent that the Ann Taylor brand has been struggling to increase sales, even before the economic crisis hit in 2008. When the economic crisis hit, it was also the Ann Taylor brand that was consequently hit the hardest with respect to sales decline.

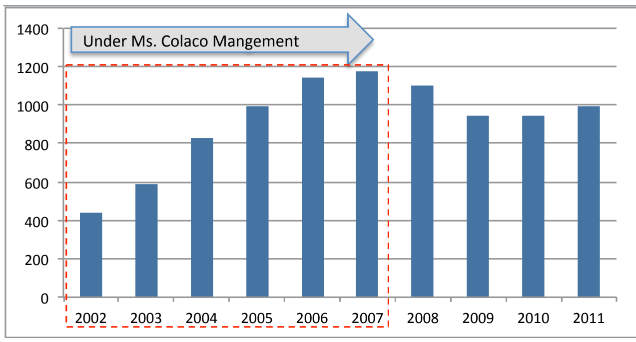
Figure 6: ANN Sales by Segment



Source: Company data; PEC Research

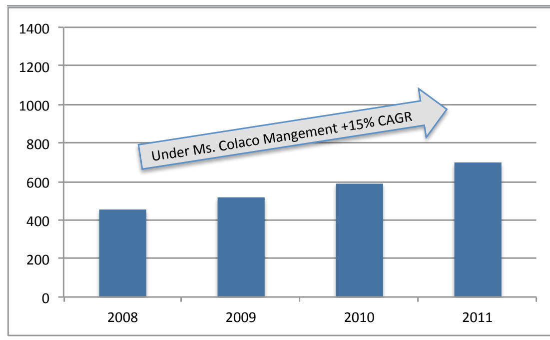
As mentioned previously, competition is getting tougher for both Ann Taylor and LOFT in the last years. **White House | Black Market** (which is headed by Ms. Colaco[8], the former Loft president) evolution is one clear example. When looking at Figure 7 and Figure 8, one can see that White House I Black Market sales have been significantly growing since 2008 under the management of MS. Colaco, while LOFT (without the direction of MS. Colaco) has experienced a decrease in sales, reflecting the fact that having the right management taking the right decisions about fashion offering, customer relationship and brand awareness (three key pillars of White House I Black Market strategy) is turning key to success in the highly competitive branded women apparel sector.

Figure 7: LOFT Sales (in $MM)



Source: Company Data; PEC Research

Figure 8: White House|Black Market sales (in $MM)



Source: Company Data; PEC Research

ANN, **sources clothes through third party suppliers**, primarily from Asia and Africa. It then **sells the merchandise through its over 900 stores and its online channel.** The company has opened its first store outside the US (and Puerto Rico) in Toronto on October 13, 2012. Management plans to open further stores in Canada (both for Ann Taylor and LOFT) but has currently no plans for an international expansion beyond Canada.

ANN sells its merchandise through two main channels; **1) Stores** and **2) Online**

1) **Store sales** are driven by **a) the total number of square feet** and **b) the sales per square feet**.

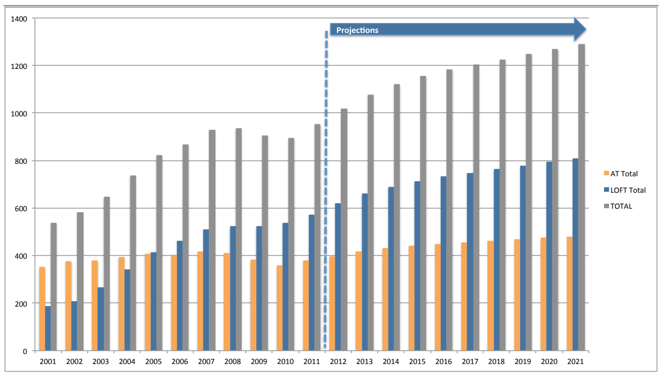
   a) The number of total square feet for ANN has grown with a CAGR of 5.6% from 3,617,000 sq. ft. in 2003 to 5,580,000sq. ft. in 2011. The total number of stores has increased with a CAGR of 4.9% from 648 stores in 2001 to 953 stores in 2011. Over the same time period, although as part of the restructuring program, store size in the new and remodelled stores is being reduced towards 4,000 square feet (from 6,000 square feet), the average store size has increased from 5,582 sq. ft. to 5,859 sq. ft. (0.6% CAGR) due to the increasing weight of outlets (vs. mainline stores) in the stores portfolio (Figure 11)

   Nevertheless, the **store growth has slowed down significantly since 2007** (Figure 9 and 10). In fact, ANN decreased its overall store base in 2009 and 2010, as part of the restructuring effort. Looking at Figure 9, it

[8] Ms. Donna M. Colaco has been Brand President of White House Black Market of Chico's FAS Inc., since August 8, 2007. Ms. Colaco served as President of Ann Taylor LOFT and served with it for more than 10 years in numerous capacities.

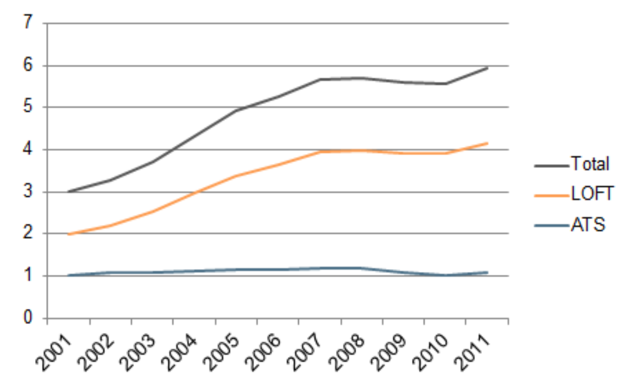
also becomes apparent that the store growth over the past 10 years was driven by the LOFT division, as the Ann Taylor Stores (ATS) store count has remained virtually flat over the past 10 years (352 stores in 2001, 379 stores in 2011). Over the same period of time, LOFT expanded with a CAGR of 12%, from 186 stores in 2001 to 574 stores in 2011.

Figure 9: Total number of stores, Projections reflect base case



Source: Company Data; PEC Research

Figure 10: Store growth rate

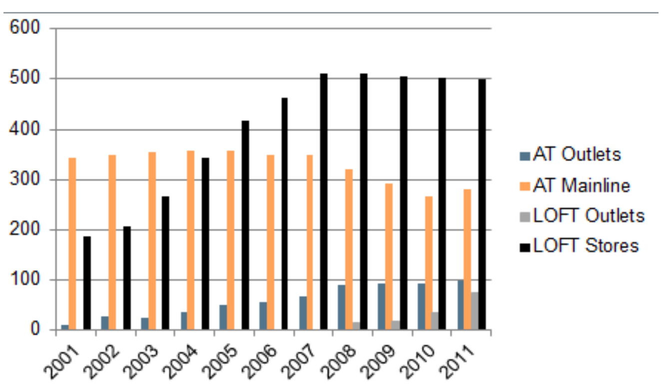


Source: Company Data; PEC Research

Store growth fueled exclusively by outlets openings

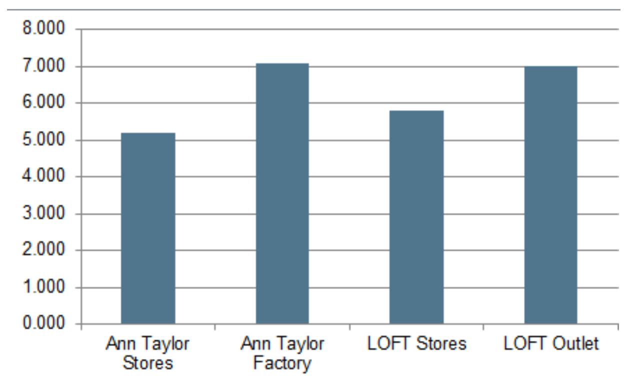
When looking at the number of stores and the resulting square feet in selling space, we also have to consider **that both brands, ATS and LOFT, operate mainline and outlet stores**. The outlet stores, with about 7,000 Sq. Ft. per store (Figure 12), are significantly larger than the mainline stores (ATS 5,200 Sq. Ft. for mainline stores, LOFT 5,800 Sq. Ft. for mainline stores). In Figure 11, one can see that since restructuring in 2007/08, the number of LOFT mainline stores has remained flat and that the AT mainline store portfolio was decreased by about 70 stores. This was offset by the **rollout of LOFT outlet stores (started in 2007 and reached 36 stores by end of 2011)**, reflecting the company's strategic direction. As the rest of the industry is already doing, ANN plans to **shift sales channels towards** the **more profitable** online and factory/outlets stores for both Ann Taylor and LOFT brands

Figure 11: Store portfolio composition



Source: Company Data; PEC Research

Figure 12: # of Sq. Ft. by store type



Source: Company Data; PEC Research

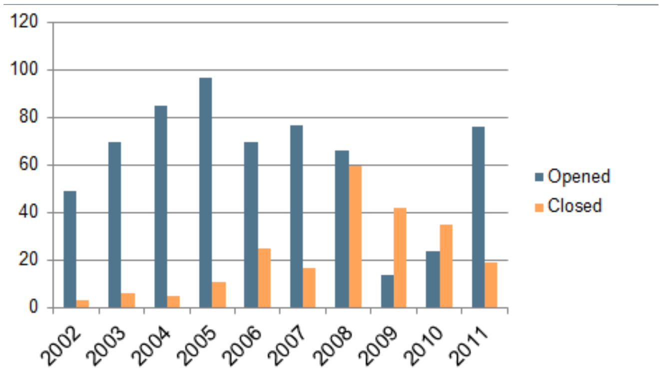
When forecasting the store growth, one has to differentiate first, between the Ann Taylor brand and the LOFT brand and then between outlet and mainline stores.

Ann Taylor

Limited store growth based on international expansion in Canada and some outlets opening

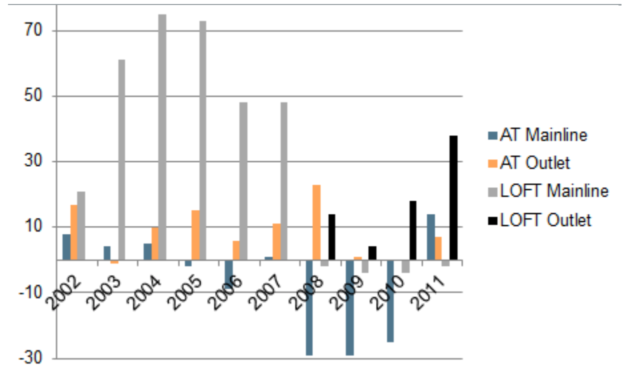
We believe that **Ann Taylor's North American mainline store** portfolio is approaching saturation, which is in line with management's current strategy. Management is focused on store optimization (Figure 13 and Figure 14), converting old stores to the new concept, as opposed to rolling out new stores. As mentioned above, the growth for the Ann Taylor stores has been around 1% per annum for the last ten years (including the rollout of outlet stores), pointing towards a saturated market. Therefore, in our base case we are assuming that the store growth trend for Ann Taylor observed over the previous 10 years will continue, and **North American mainline store growth will taper-off towards zero**.

Figure 13: Store closures/ openings



Source: Company Data; PEC Research

Figure 14: Store closures/openings by type



Source: Company Data; PEC Research

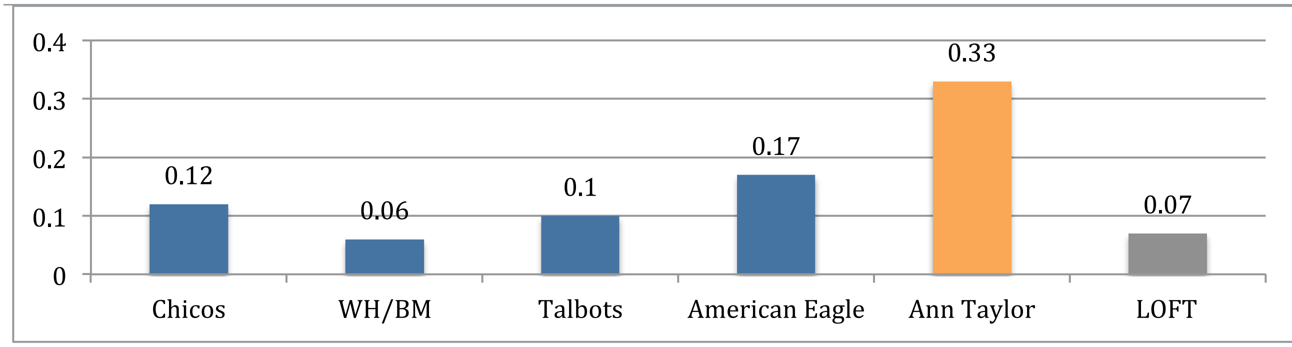
As mentioned previously, **ANN has started international expansion in Canada** with the recent opening of the first mainline store. **Based on the deployment of other US Branded Retailers in Canada[9], we think Ann Taylor might end up with up to 20 mainline stores in 2020**, meaning between 2 to 3 openings per year.

Regarding **outlet stores**, Ann Taylor's current number of outlet stores is 92 (compared with the 272 mainline stores). Although one of the strategic pillars of the company is the opening of new outlet stores, **we believe that ANN has already exploited this opportunity in the last years with not much additional room remaining**. As one can see in the Figure 15, the ratio of outlet store over mainline store is already the highest among different competitors. On top of that, according to some industry experts, North America might be able to absorb around 200 outlet stores per brand at the most (growth limited by cities/population distribution). This way, we think Ann Taylor might slightly increase its

[9] Number of US Branded Retailers strores in Canada: Gap (93); Banana Republic (40); Old Navy (64); Talbot (14); Liz Clairbone (38)

current outlet ratio (vs. mainline stores), reaching around 150 outlet stores by 2020.

Figure 15: Outlet Store over Mainline Store (2011)



Source: Company data; PEC Research

LOFT

Still some room for mainline store growth in North America

We believe that there is **room** for a total of **600 LOFT mainline stores in North America**. Ms. Colaco has recently stated that there might be room for up to 600/700 LOFT/White House I Black Market in North America. The high range (700 stores) seems somewhat unrealistic when looking at the evidence from LOFT sales performance. This is why our baseline forecast assumes a total **rollout of approximately 100 LOFT mainline stores in North America over the next 10 years**.

ANN has also started LOFT's international expansion in **Canada** with the recent opening of the first LOFT mainline store in Toronto. Based on the deployment of other US Branded Retailers in Canada[10], we think LOFT might end up with up to **40 mainline stores** in 2020, meaning around 5 stores openings per year.

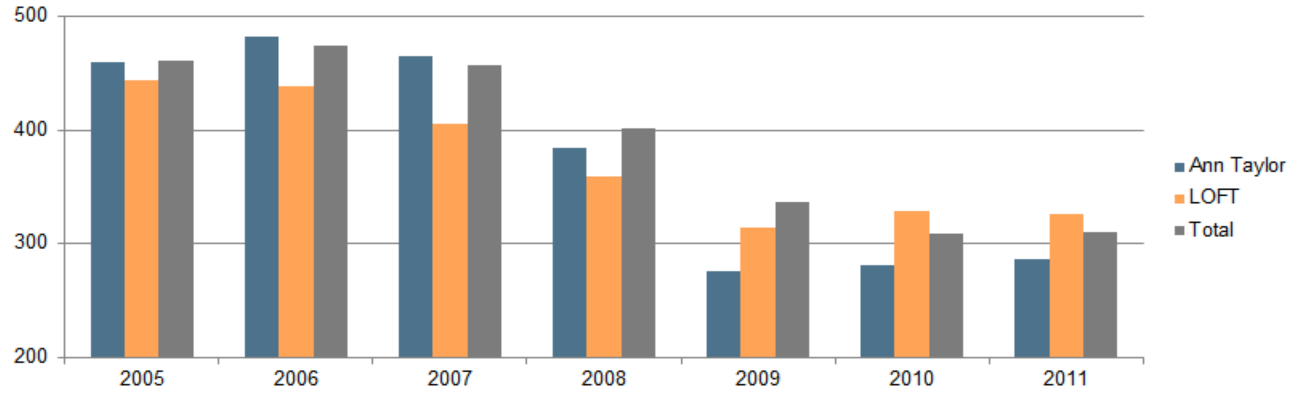
Regarding **outlet stores**, LOFT will have 72 outlet stores by the end of the year (compared with the 502 mainline stores). We think there is still **room to grow the LOFT outlet concept**. As one can see in the Figure 15, the ratio of outlet stores over mainline stores (0.07) is in the low range when compared to other players. On top of that, according to some industry experts, North America might be able to absorb around 200 outlet stores per brand at the most (growth limited by cities/population distribution). For this reason we think **LOFT** might increase its outlet ratio (vs. mainline stores), reaching around **150 outlet store by 2020**.

b) Company wide Sales per square foot have declined with a CAGR of -6.4% from $461 in 2005 to $310 in 2011(Figure 16). This company wide decline in SSF was driven by both brands, AT and LOFT. However, AT's SSF have fared considerably worse than LOFT's. AT's SSF have declined from $460 in 2005 to $286 in 2011. LOFT's SSF have declined from $444 in 2005 to 326 in 2011. When looking at Figure 16, it is also obvious that the majority of this decline occurred in 2008 and 2009. As explained

[10] Number of US Branded Retailer stores in Canada: Gap (93); Banana Republic (40); Old Navy (64); Talbot (14); Liz Clairbone (38)

above, ANN has gone through a **major restructuring from 2008 through 2010**. Over the past two years, SSF have stabilized at a lower level.

Figure 16: ANN Sales per Sq. Ft., Projections reflect base case



Source: Company data; PEC Research

Sales per square foot are a function of **1) # of Units sold 2) Average Unit Retail Price (AUR).** As can be seen in the table below (Figure 17), the large drop in SSF for both brands was driven by a combination of a decline in AUR and a decline in # of units sold. While the magnitude within AT was stronger than at LOFT, we can see a similar pattern in the decline in SSF for both brands. It seems that a sharp drop in AUR (2008) was followed by a sharp decline in units sold (2009). This is consistent with merchandise inventory levels throughout that period, which we will show later in this report. ANN used heavy promotions throughout the holiday season in 2008, at the onset of the economic crisis, to get through the inventory. This obviously resulted in the large drop in AUR in 2008. As mentioned before, AT has fared significantly worse with respect to SSF decline than the LOFT brand. This makes sense as **customers were inclined to switch to lower priced LOFT brand during the recession**.

Figure 17: ANN SSF composition over time

AT	2007	2008	2009	2010	2011
Change in Average Unit Retail	-4.2%	-24.4%	-1.8%	5.9%	-3.7%
Change in # of Units sold	0.5%	9.2%	-26.8%	-3.9%	5.9%
Change in SSF	-3.7%	-17.4%	-28.1%	1.8%	1.9%

LOFT	2007	2008	2009	2010	2011
Change in Average Unit Retail	-6.5%	-7.9%	-4.6%	1.9%	-3.8%
Change in # of Units sold	-1.1%	-3.7%	-8.6%	2.8%	3.0%
Change in SSF	-7.5%	-11.3%	-12.8%	4.7%	-1.0%

Source: Company data; PEC Research

Sales growth mainly based in online and store channels

We can see **some successes of the company's restructuring program**, as the substantial decline in SSF from 2008 and 2009 has been stopped (Figure 17). However, when we dig one level deeper, we can also see that **the performance of the AT mainline stores remains problematic**

(Figure 18). These stores have posted negative comps sales in each of the past 4 quarters. This is troubling, as the company has already cut the AT sore base from 357 stores in 2005 to 280 stores in 2011, closing the least productive stores. It also becomes apparent that the AT outlets are doing better than the troubled AT mainline stores. The outlets have achieved positive comp sales in each of the past 9 quarters. With respect to LOFT, both, mainline stores and outlet stores have been performing well over the past 10 quarters.

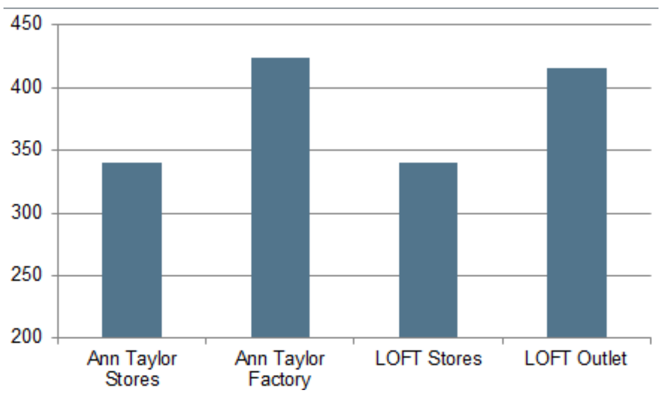
Figure 18: Quarterly Comp. Sales

	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012
Ann Taylor Stores	-38.0%	-25.8%	-10.0%	15.1%	19.6%	23.4%	19.0%	13.7%	7.0%	-5.8%	-11.0%	-15.5%	-6.6%
Ann Taylor Factory	-13.0%	-3.4%	0.0%	10.7%	6.3%	11.3%	9.0%	9.2%	7.8%	1.8%	6.0%	0.7%	1.5%
LOFT Stores	-15.4%	-9.7%	1.0%	9.3%	-3.1%	-0.6%	3.0%	-1.0%	3.8%	5.9%	8.0%	10.0%	6.9%
LOFT Outlet	n/a	15.6%	10.0%	24.1%	13.2%	22.0%	27.0%	15.7%	20.0%	10.9%	10.0%	6.1%	2.5%

Source: Company data; PEC Research

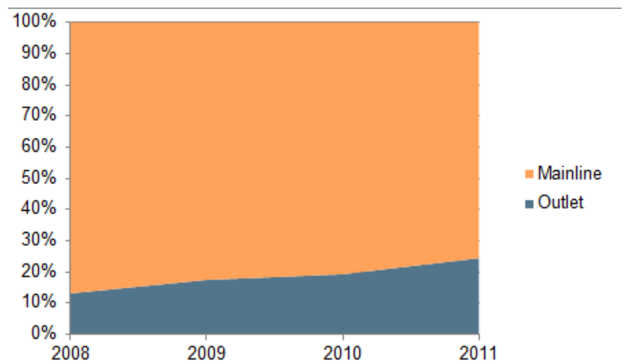
When analyzing the SSF for the company, we also have to account for the fact that **the company has been shifting and will continue to shift towards an increased overall share of outlets** (Figure 20). This will continue to positively impact the SSF. Outlets achieve SSF that are about 25% higher than the SSF of traditional mainline stores (Figure 19). As the share of outlet sales as a share of total sales will continue to increase, average SSF across the company will increase, all else equal.

Figure 19: SSF (in $) by channel



Source: Company Data; PEC Research

Figure 20: Sales composition (% of total sales)

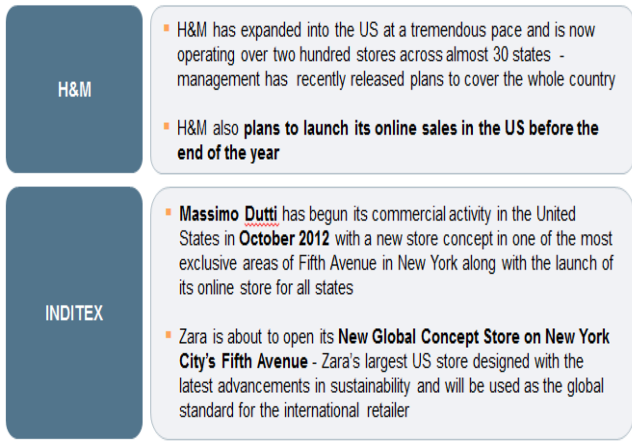


Source: Company Data; PEC Research

Competitive landscape threating sales growth for both Ann Taylor and LOFT

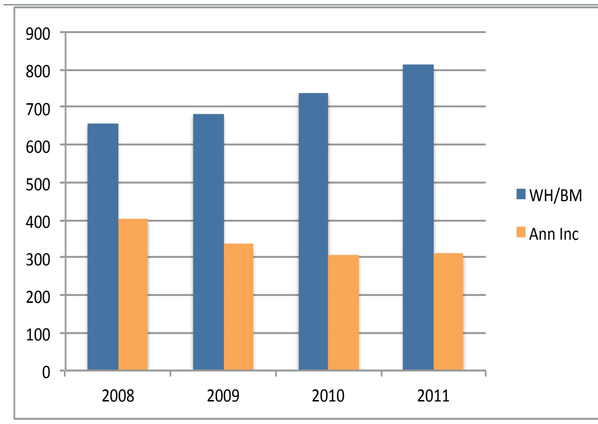
We believe that the **competition** within the segments in which ANN competes **will continue to increase** in the coming years because of: a) the decision of the foreign competitors (mainly H&M and Zara) to aggressively expand into the American market and b) successful strategies being implemented by ANN's competitors and c) loss of brand attractiveness/awareness for ANN (See Figure 21, 22 and 23).

Figure 21: Inditex/H&M expansions plan for North American



Source: Company Data; PEC Research

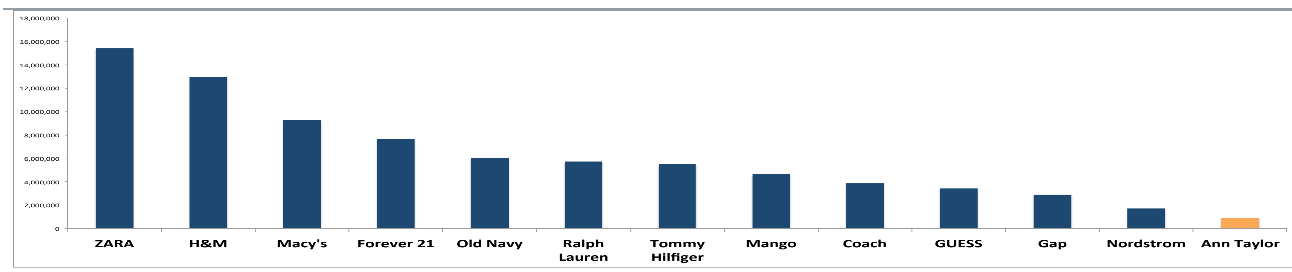
Figure 22:White House I Black Market SSF performance



Source: Company Data; PEC Research

A proxy for Brand attractiveness/awareness is the number of Facebook likes. This figure is obviously influenced by the current size of the client base. This is why Ann Taylor, which operates only in the US market, will never reach the same amount of likes as H&M, which has worldwide presence. Nevertheless, it is a helpful metric when thinking about a brand's future; The higher a brands presence in social media (for example in number of Facebook "likes") the higher its brand awareness in the future. Given the current presence of Ann Taylor on Facebook, we believe that the company has a rocky road ahead compared to some other brands offering similar products at similar price points (Figure 23).

Figure 23: Brand attractiveness (number of Facebook "likes")



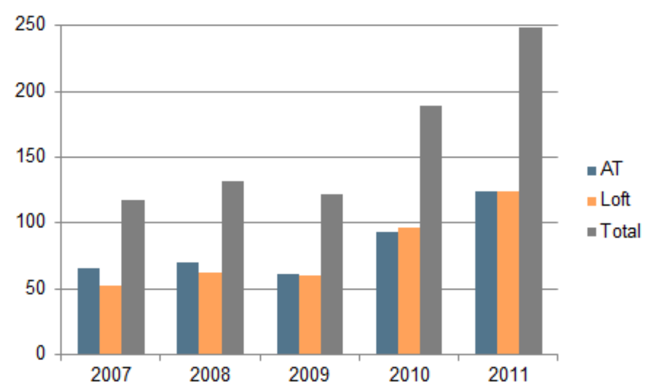
Source: Fan Page List; PEC Research

In turn, we believe that ANN's strategy (focus on entry price point products in Ann Taylor, the on-going store restructuring program[11] for both brands and shift towards outlets with high SSF) will only contribute to a **slight increase in SSF**, but will neither bring a structural increase, nor allow returning to the peak levels reached in 2007.

[11] According to Ann Inc. earning calls: "*One of the highlights of Ann Taylor's performance continues to be the smaller new concept stores. These stores have achieved outstanding results, delivering approximately 50% higher productivity than the balance of the chain. During the year, ANN opened 17 of these stores and downsized or converted another 23 existing stores to the new smaller format, giving a total of 44 of these stores at fiscal year-end. Based on the strong results, ANN continues to be very excited about the strategy to expand the fleet of new concept stores, and it will be adding another 40 in fiscal 2012*"

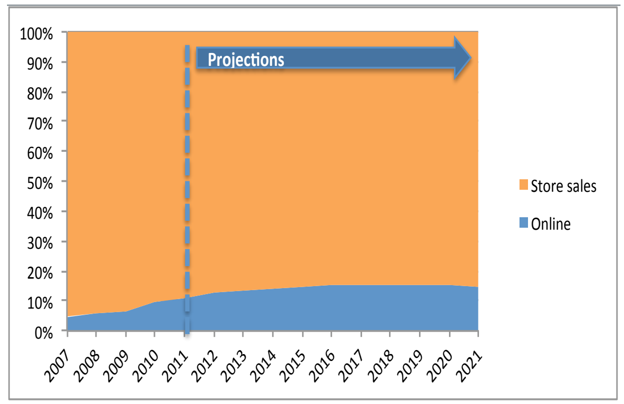
2) **Online sales** have grown with a CAGR of 20.6% from $117MM in 2006 to $248MM in 2011 (Figure 24). This is the result of the adoption of the online channel by domestic customers and also a major revamp of ANN's online offerings with the launch of new websites during 2009. However, as online sales are growing in an absolute dollar amount, and as their share of total sales increases (Figure 25), the growth rate will taper off.

Figure 24: Online Sales ($MM)



Source: Company Data; PEC Research

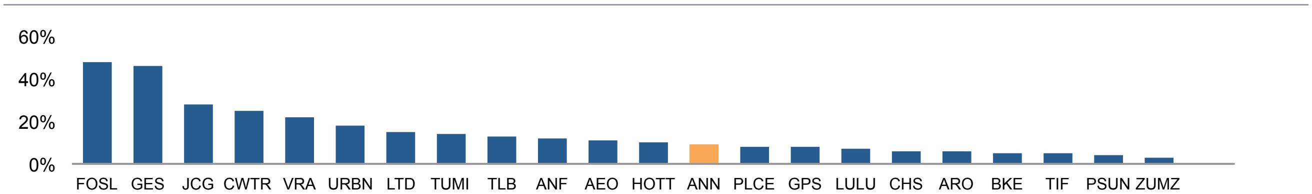
Figure 25: Online vs. Store sales (Forecast on base case)



Source: Company Data; PEC Research

We forecast online sales continuing to grow significantly faster than store sales[12] but we also believe that the growth rate for online sales will continue its decline (See Figure 25). This is the result of increasing maturity described above. The online channel has been available in the apparel industry for almost 15 years now. Hence, one would expect that a certain level of maturity with respect to adaption, at least domestically, has been achieved. As one can see in the Figure 26, e-commerce as a percentage of sales seems to reach a sector a maximum around 20-25%[13] in the case of heavily online focused companies, such us J.Crew, which was one of the pioneers in the online business, starting online operations in 1996. .For this reason we believe that in the following years **ANN can eventually reach a share of up to 20% of its sales from the online channel**.

Figure 26: E-commerce as % of total sales (Estimation 2011)



Source: Company reports; William Blair & Company Research; PEC Research

[12] As example of the trend towards e-commerce one can take a look at the figures of the past Black Friday. comScore (leading internet technology company that provides analytics) figures indicate that Black Friday saw a 26% year-over-year increase in retail e-commerce. The comScore report finds that the apparel and accessories category was the most successful online category on Black Friday, drawing more than one-quarter of all money spent.

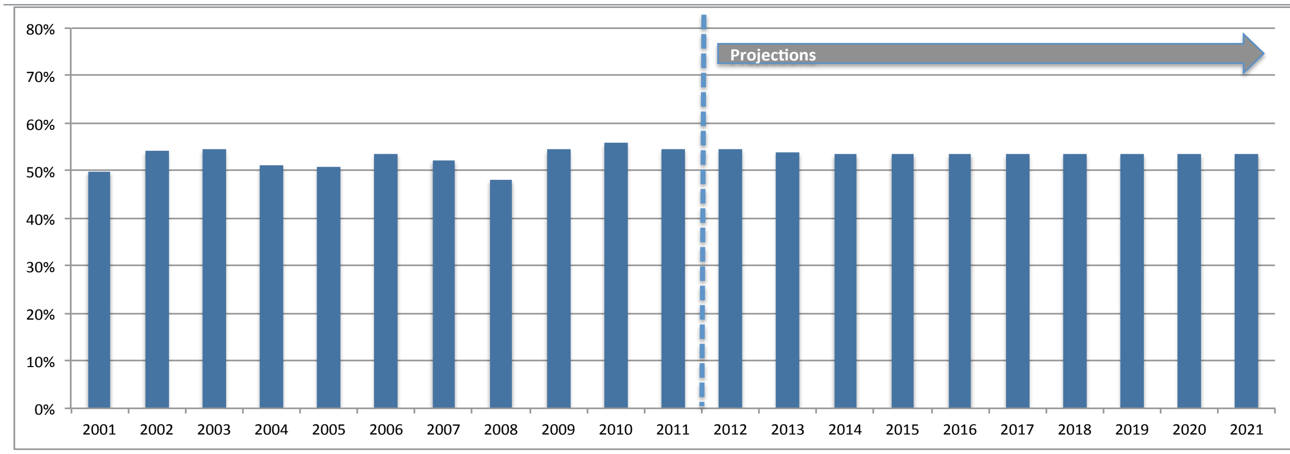
[13] This cap is motivated for the fact that customers need mainline store to know their size before ordering online. This issue is especially relevant for fashion focused women apparel, such as the ones Ann Taylor or LOFT sells, versus for example core products as jeans or shirts.

Margin analysis

Gross Margin

Over the past 12 years, the **gross margin has fluctuated around 52.5%** (Figure 27) with a standard deviation of 2.5%. The gross margin dropped to an historical low of around 48% in 2008 but has since recovered to historical levels.

Figure 27: ANN Gross Margin evolution (% over sales)



Source: Company data; PEC Research

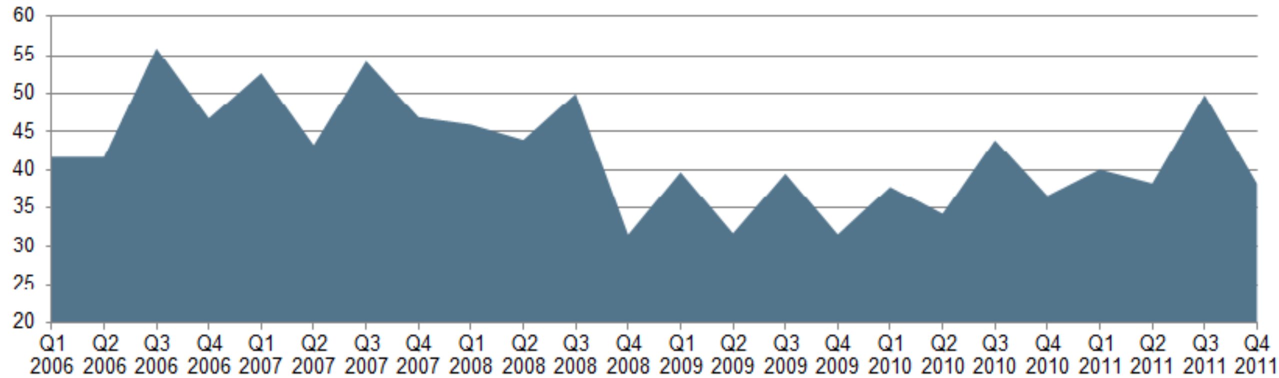
Successful restructuring and rationalization program to bring margins back to historical levels

Cost of sales for ANN consist of direct inventory costs for merchandise sold, including all costs to transport merchandise from third-party suppliers to distribution centers. Therefore, the main drivers of gross margin are the selling price of the merchandise and the input cost at which the buyers source the merchandise.

The selling price is heavily impacted by the discounts and clearance sales applied throughout the year. This in turn is a result of the inventory levels. **High inventory levels will always be accompanied by promotions and clearance sales**, as the retailer has to work through the inventories to make room for the new collections. **The elevated inventory levels throughout 2007 and most of 2008** (Figure 28) **correspond with the low gross margins that ANN achieved in 2007 and 2008** (Figure 27). The quick recovery with respect to gross margin can be attributed to the restructuring program, during which over 100 of the least productive stores were closed and which focused on increased discipline with respect to inventories. The input prices are determined by the terms ANN's sourcing teams achieve with its suppliers. These terms are mainly influenced by the price of cotton and labor. Although we do not have precise information on the input costs, it seems that ANN has dealt better with the recent spike in cotton prices than most other firms in the industry. Management stated that the sourcing teams "were able to successfully mitigate sourcing pressures from rising raw material costs by making advance commitments on key core fabrics, leveraging our strong vendor relationships and using country sourcing flexibility."[14]

[14] 2011 Annual Report

Figure 28: Inventory per Sq. Ft. ($)



Source: Company data; PEC Research

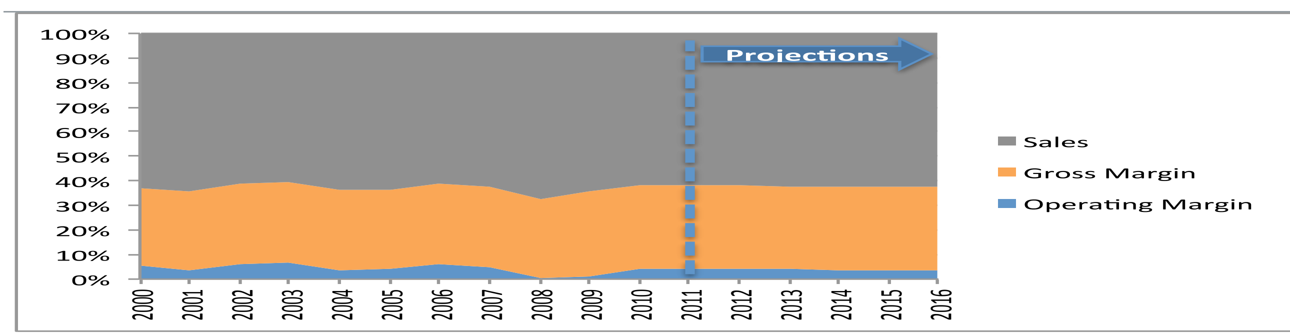
Rationalization and optimization potential already achieved by ANN

Looking forward, we believe gross margin is going to mean revert towards the range of the **historical level of 52.5 – 53.5%** (from 54.6% in 2011). On the one hand, not only is there is not much "low hanging fruit" left for the company to exploit, but also the upcoming company strategy will negatively affects gross margin: 1) promote more trendy collections which implies higher manufacturing costs; 2) offer a wider assortment of products and 3) focus at lower prices/lower margins to attract budget sensitive clients. On the other hand, during the recent restructuring, the company has managed to implement a strategy that we believe shields the operations from the volatility experienced 2007 - 2009: 1) management has decided to refrain from setting promotional activities as the basis for competition, 2) unprofitable stores motivating high inventory have already been closed and 3) disciplined approach to inventory management has been applied across the entire company during the successful restructuring process.

Operating margin

The **main drivers for the operating margin are COGS and SG&A expenses** (Figure 29). As discussed above, the gross margin has been somewhat volatile (between 48% and 58% of sales), driven by fluctuations in AUR and Inventory.

Figure 29: ANN margin evolution (% over sales)

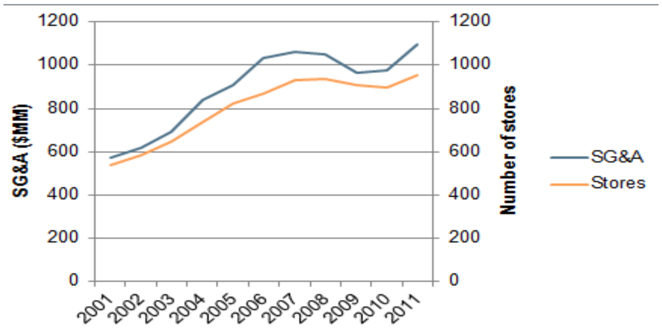


Source: Company data; PEC Research

SG&A for ANN consists of rental and operating costs for the stores, payroll, and distribution cost from the warehouse to the store and marketing. **The main**

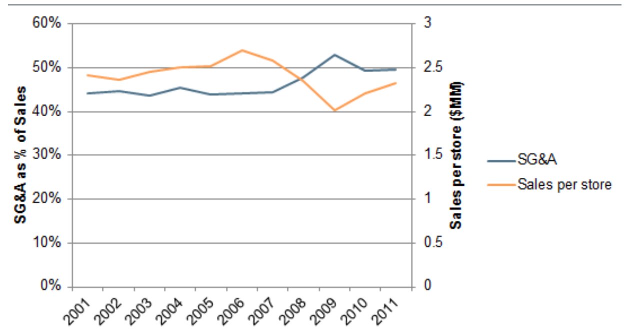
driver for SG&A in absolute terms is the # of stores, as this drives rental and operating cost for the stores (Figure 30). For the relative measure, SG&A as a percentage of sales, we can see that it spiked from 2008 onwards (44% in 2007, 48% in 2008, 53% in 2009). This was caused by the significant decline in sales per store ($2.6MM in 2007, $2.3MM in 2008, $2.0MM in 2007). As the vast majority of the SG&A cost are fixed – at least in the short run – SG&A as % of sales rises when sales per store decrease (Figure 29).

Figure 30: SG&A vs. # of stores



Source: Company Data; PEC Research

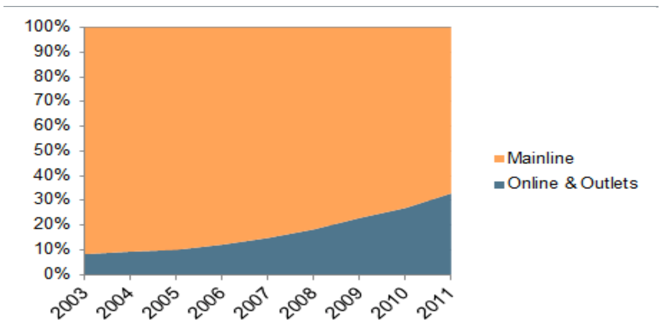
Figure 31: SG&A vs. Sales per Store



Source: Company Data; PEC Research

SG&A per dollar of sales for online sales and outlet sales is considerably lower compared to the traditional mainline stores. Outlet stores achieve higher sales per square foot (1.25x), while the rental cost per sq. ft. and the cost for merchandise presentation are both lower. For online sales the difference is even larger, as there are no rental and merchandise presentation cost associated with these sales. Moreover, the expenses for the servers and the web-site are scalable. We estimate that EBITDA contribution for the online sales is 1.5x that of mainline stores and that the EBITDA contribution for outlet sales are 1.4x that of mainline stores.[15] Online & Outlet sales for ANN have risen from 8% in 2003 to 33% in 2011 (Figure 32). This trend has had a positive effect on SG&A, lowering it as percentage of sales, but was obviously not enough to offset the sharp decline in sales per store (Figure 33; please refer to appendix for regression output).

Figure 32: Online & Outlet as % of total sales



Source: Company Data; PEC Research

Figure 33: Offsetting SG&A developments

SG&A as share of sales	Sales per store	Share of sales from Online and Outlet
0.4438	2.4534	0.1484
0.4787	2.2060	0.1830
0.5286	1.8820	0.2290
0.4942	1.9986	0.2696
0.4803	2.0610	0.3288

Source: Company Data; PEC Research

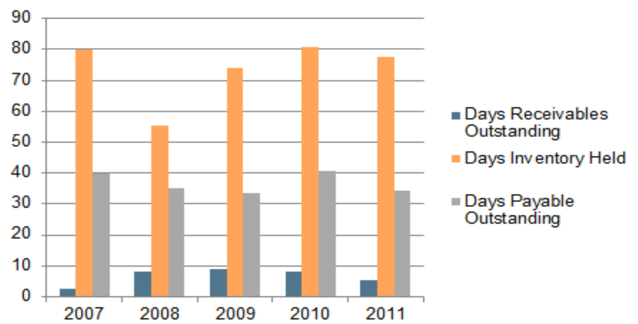
15 In line with Industry averages and estimates by Trefis

As mentioned, the different channels achieve different EBIT margins (Outlet sales traditionally achieve about 1.4x EBIT contribution compared to Store retail sales, Online sales achieve about 1.5x EBIT contribution), as a result of differences in the SG&A expenses associated with sales in each channel. Therefore, **the shift towards the more profitable factory and online sales, will positively affect the baseline EBIT margin, offsetting part of the decrease in gross margin driven by the changing company strategy** (similar to what we have seen in the recent past). **We believe all these effect will bring operating margin toward 2006/2007 levels (around 6%).**

Working Capital/ CAPEX

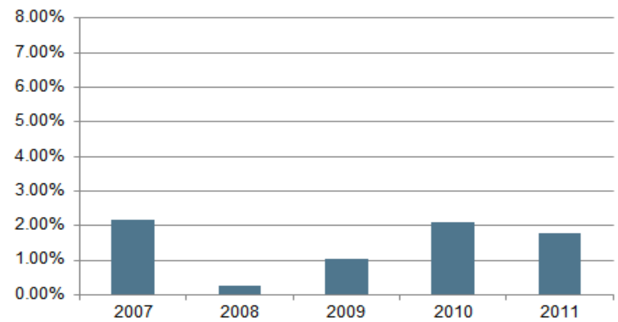
Working capital as a % of sales has fluctuated between 0.3% and 2.2% over the past 5 years (Figure 35).The fluctuations in 2008 and 2009 were driven by lower Days Inventory Held, resulting in lower NWC as a % of sales (Figure 34). This was a reaction to the onset of the economic crisis, as management focused on a very lean inventory to counter uncertain demand. **We forecast working capital to remain around 2.0% of sales going forward.**

Figure 34: Working capital composition



Source: Company Data; PEC Research

Figure 35: Net working capital as % of Sales

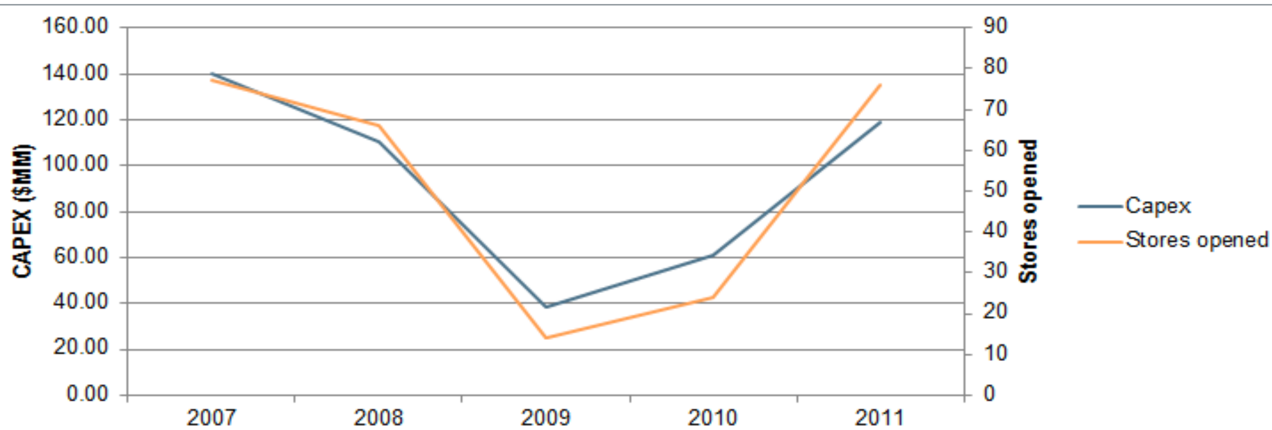


Source: Company Data; PEC Research

The CAPEX breaks down between **1) Cost associated with opening new stores** and **2) Maintenance CAPEX**

The cost per net CAPEX per new store opening is about to $1.3MM depending on the location of the store. The maintenance CAPEX runs at about $24MM per year. We have treated the remodelling programs as maintenance CAPEX, as the remodelling has been an on-going effort and we expect this to continue. Consequently, **we believe CAPEX to be in the region of $120-165 MM per year over the next 5 years.**

Figure 36: CAPEX vs. stores opened



Source: Company Data, PEC Research

Valuation

We believe that ANN's equity is currently **overvalued**. The company's share price has recovered from a low of $3.40 to over $34 as part of the restructuring efforts**. While we believe that management has reacted well to challenges the company faced late in 2008, we also believe that at the current valuation**, **the market is neglecting some structural challenges that still remain**, which he have alluded to during the report.

Figure 37: Share price (5 year chart)

Source: NASDAQ

In our opinion, the market is overly focused on the fact that sales and margins have recovered significantly as the firm is now running on a much leaner structure thanks to the closure of underperforming stores, cost-cutting initiatives and a shift towards outlet and online channels. This is the reason why current market valuation implies a **CAGR of 7% for sales growth over the next 10 years and an on-going improvement in margins bringing operating margin up to 7%, above 2006/2007 levels.**

However, the market seems to be neglecting 1) that **optimization measures cannot drive future growth**, as the low hanging fruit has been picked and 2) that there are **structural challenges in the competitive landscape** (mainly new customers trends towards a more casual clothes in the work environment, new entrants in the marketplace, successful strategies being implemented by competitors and brain drain within the management team).

In order to arrive at this conclusion, we used a two pronged approach based on 1) DCF forecast and 2) Comparables analysis.

DCF Valuation

Sales Forecast

Sales projections influenced by a tougher competitive landscape

When forecasting ANN's sales, we differentiate between **store sales, outlet sales and online sales per brand**. The **retail and outlet store sales are a function of total square feet available and sales per sq. ft**.

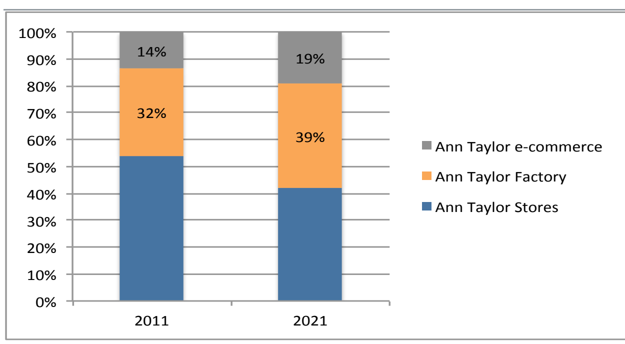
- **Ann Taylor** – For our baseline scenario, we are assuming a growth in total **mainline store** count of 1% going forward. As described earlier in the report, we believe that Ann Taylor has reached a certain level of saturation in North America with respect to its store network, offset in part by the international expansion in Canada. As mentioned earlier, Ann Taylor is undergoing a store size restructuring process for its mainline stores. Consequently, we are not assuming growth in the store size, projecting average size of 5214 sq per store over the next years.

  The portfolio shift towards an increased share of **outlet stores** will have a positive impact on the average sales per square foot of the total stores. The factory stores currently achieve sales per sq. ft. of about $424 compared to about $340 for a traditional retail store. However, we also believe that **sales per square foot** growth for both channels (mainline store and outlet stores) will be **influenced by the a tougher competitive landscape** (mainly new customers trends towards a more casual clothes in the work environment, new entrants in the marketplace, successful strategies being implemented by domestic competitors as WHIBM and brain drain within Ann Taylor's management team).

  In our base case, we are forecasting that Ann Taylor will open 57 factory stores during the next 5 years and additional 16 factory stores between 2016 and 2021[16]. This shifts the share of outlet stores as a percentage of total stores from 32% in 2011 to 39% in 2021. (Figure 38). The increased share of factory stores positively affects Ann Taylor's average sales per square foot, as the factory stores outsell the retail stores by a factor of about 1.25x.

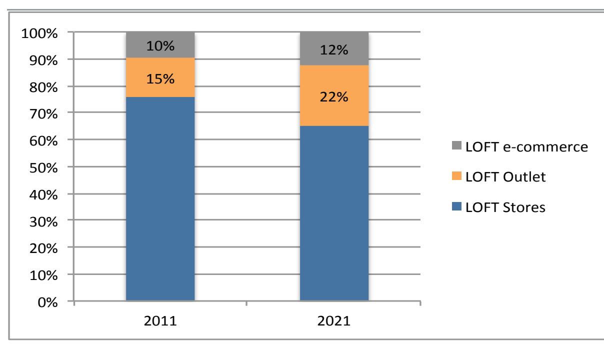
  With respect to the **online sales**, we believe that Ann Taylor will continue to experience double-digit growth over the next 4 years. However, consistent with recent trends and the increased total share of online sales, we predict that the growth rate will continue to taper off and stall at a rate of 2% in 2021.

Figure 38: Ann Taylor sales split by channel



Source: Company Data; PEC Research

Figure 39: LOFT sales split by channel



Source: Company Data; PEC Research

- **LOFT** – For our baseline scenario, we are assuming a growth in total **mainline store** count of 5% in the first years. However, we predict that the growth rate will continue to taper off and stall at a rate of 2% in 2021,

[16] Considering also expansión into Canada

ending up with **659 LOFT mainline stores in 2012** [17], in line with the maximum number of stores that experts predict are feasible in North America for this kind of format.[18] Given the focus on store size reduction at Ann Taylor, we are not assuming growth in the store size for LOFT, projecting average size of 5808 sq per store in the next years.

Similar to Ann Taylor, the portfolio shift towards an increased share of **outlet stores** will have a positive impact on the average sales per square foot of the total stores. The factory stores currently achieve sales per sq. ft. of about $416 compared to about $340 for a traditional retail store. However, we believe that **sales per square foot** grow for both channels (mainline store and outlet stores) will also be **impacted by a tougher competitive landscape** (mainly new customers trends towards a more casual clothes in the work environment, new entrants in the marketplace, successful strategies being implemented by domestic competitors as WHIBM and brain drain within Ann Taylor's management team).

In our base case, we are forecasting that LOFT will open 97 factory stores during the next 5 years and additional 62 outlet stores between 2016 and 2021, **ending up with 152 outlet stores**[19]. This shifts the share of outlet stores as a percentage of total stores from 15% in 2011 to 22% in 2021. (Figure 39). The increased share of factory stores positively affects LOFT's average sales per square foot, as the factory stores outsell the retail stores by a factor of about 1.22x.

With respect to the **online sales**, we believe that LOFT will continue to experience double-digit growth over the next 4 years. However, consistent with recent trends and the increased total share of online sales, we predict that the growth rate will continue to taper off and stall at a rate of 2% in 2021.

Putting this together, we receive a **CAGR of 6.14% for sales growth over the next 10 years** (Figure 38).

[17] Including Canada stores
[18] Ms. Colaco (former LOFT president and current White House|Black Market) has recently stated again that there might be room for up to 600/700 LOFT/White House|Black Market if supported by sales growth
[19] Canada openings included also in the forecast

Figure 40: Sales Forecast

	Historical	Projection								
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Beginning Stores										
Ann Taylor Stores	266	280	283	286	288	291	294	297	300	303
Ann Taylor Factory	92	99	114	131	144	151	156	159	162	165
LOFT Stores	502	500	525	546	562	579	597	609	621	633
LOFT Outlet	36	74	96	115	127	133	137	140	143	146
Net New Stores										
Ann Taylor Stores	14	3	3	3	3	3	3	3	3	3
Ann Taylor Factory	7	15	17	13	7	5	3	3	3	3
LOFT Stores	-2	25	21	16	17	17	12	12	12	13
LOFT Outlet	38	22	19	12	6	4	3	3	3	3
Ending Stores										
Ann Taylor Stores	280	283	286	288	291	294	297	300	303	306
Ann Taylor Factory	99	114	131	144	151	156	159	162	165	169
LOFT Stores	500	525	546	562	579	597	609	621	633	646
LOFT Outlet	74	96	115	127	133	137	140	143	146	149
Avg. Sq. Ft. per Store										
Ann Taylor Stores	5214	5214	5214	5214	5214	5214	5214	5214	5214	5214
Ann Taylor Factory	7071	7071	7071	7071	7071	7071	7071	7071	7071	7071
LOFT Stores	5808	5808	5808	5808	5808	5808	5808	5808	5808	5808
LOFT Outlet	7027	7027	7027	7027	7027	7027	7027	7027	7027	7027
Sales per Sq. Ft.										
Ann Taylor Stores	340	347	354	361	368	375	383	391	398	406
Ann Taylor Factory	424	432	441	450	459	468	477	487	497	507
LOFT Stores	340	347	354	361	368	375	383	391	398	406
LOFT Outlet	416	424	433	441	450	459	468	478	487	497
Sales Exisiting Stores										
Ann Taylor Stores	471.6	506.3	521.6	537.4	553.6	570.3	587.5	605.3	623.6	642.4
Ann Taylor Factory	275.8	302.7	355.1	416.5	467.4	500.5	525.9	547.1	569.2	592.2
LOFT Stores	991.3	1007.1	1078.6	1144.2	1202.1	1262.9	1326.8	1380.4	1436.2	1494.2
LOFT Outlet	105.2	220.6	292.6	358.1	401.8	430.3	452.1	470.4	489.4	509.1
Sales New Stores										
Ann Taylor Stores	19.4	3.9	4.1	4.2	4.3	4.4	4.6	4.7	4.9	5.0
Ann Taylor Factory	16.4	35.4	41.5	32.5	18.2	11.7	8.2	8.5	8.9	9.2
LOFT Stores	-3.1	39.3	33.7	26.8	28.1	29.6	20.7	21.5	22.4	23.3
LOFT Outlet	86.6	51.6	45.6	27.9	15.7	10.1	7.1	7.3	7.6	7.9
TOTAL Store Sales	**1963.2**	**2167.1**	**2372.8**	**2547.6**	**2691.2**	**2819.9**	**2932.9**	**3045.3**	**3162.1**	**3283.5**
Ann Taylor e-commerce	124.4	155.5	186.6	214.6	236.1	254.9	270.2	281.1	289.5	296.7
LOFT e-commerce	123.9	154.9	185.9	213.8	235.1	254.0	269.2	280.0	288.4	295.6
Total e-commerce Sales	**248.3**	**310.4**	**372.5**	**428.4**	**471.2**	**508.9**	**539.4**	**561.0**	**577.8**	**592.3**
TOTAL Sales	**2212**	**2478**	**2745**	**2976**	**3162**	**3329**	**3472**	**3606**	**3740**	**3876**
y-o-y growth	11.7%	12.0%	10.8%	8.4%	6.3%	5.3%	4.3%	3.9%	3.7%	3.6%

Source: Company Data; PEC Research

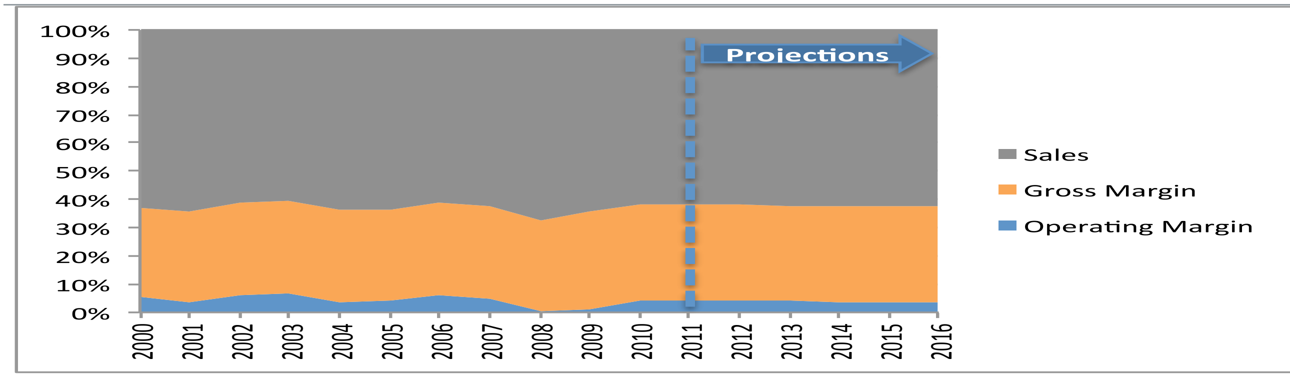
Margin Forecast

Shift towards more profitable channel will offset increase in COGS driven by the upcoming company strategy

As discussed earlier in this report, **ANN's gross margin** has been at a historical low of 48% in 2008. The elevated inventory levels throughout 2007 and most of 2008 correspond with the low gross margins that ANN achieved in 2007 and 2008. The quick recovery with respect to gross margin can be attributed to the restructuring program, during which over 100 of the least productive stores were closed and which focused on increased discipline with respect to inventory management. Looking forward, we believe gross margin is going to tend towards the historical mean range **of 52.5 - 53.5%** (from 55.6% in 2011) as the company keeps executing on its proclaimed strategy: 1) promote more trendy collections which implies higher manufacturing costs; 2) offer a wider assortment of products and 3) focus at lower prices/lower margins to attract budget sensitive clients.

In addition to the gross margin, we have to take into consideration that the **sales mix shift** is changing towards a larger share of factory store and online sales. As mentioned, the different channels achieve different EBIT margins (Outlet sales traditionally achieve about 1.4x EBIT contribution compared to Store retail sales, Online sales achieve about 1.5x EBIT contribution), as a result of differences in the SG&A expenses associated with sales in each channel. Therefore, **the shift towards the more profitable factory and online sales, will positively affect the baseline EBIT margin, offsetting part of the decrease in gross margin mentioned.**

Figure 41: ANN margin evolution (% over sales)



Source: Company data; PEC Research

Valuation Inputs

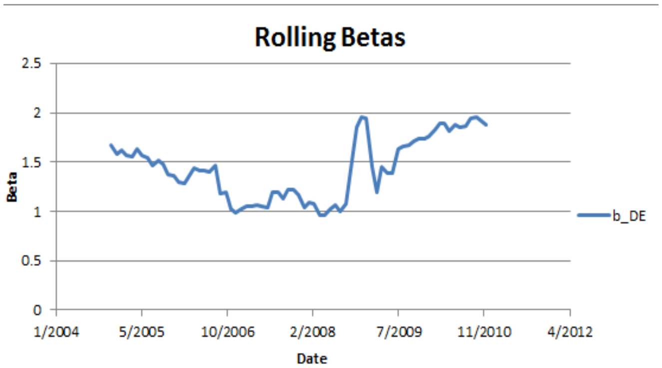
- **WACC vs. APV** – ANN is completely equity financed and we assume that the firm won't change its capital structure in the near future. Therefore, it WACC and APV will yield the same results.

- **Estimating beta** – Our approach to estimating the equity beta was to regress the rolling monthly excess returns of ANN over a 60 months period (Data from CRSP) on the excess returns of the market for the same period (Data from Fama French) since January 2001 (Figure 42). Since ANN does not use debt financing, the equity beta equals the unlevered asset beta.

- **Calculating the WACC** – As ANN does not use leverage, we are using an **asset beta of 1.68** (Figure 43) to calculate the required equity using the Capital Asset Pricing Model: RE=RF+βE(Rm-Rf). This resulted in a **cost of equity of 11.8%**. We used the 10-year treasury yield of 1.58%, as our risk free rate. While we are aware that in "normal times" this rate might be overstated, as it includes an implicit risk premium over buying one year bonds over a period of 10 years, we believe that we do not need to make an adjustment given the current interest rate environment. An historic market risk premium of 6.1% was used (Figure 43).

  The cost of equity is also ANN's cost of capital, as the company is entirely equity financed.

Figure 42: Beta Calculation



Source: Company Data; CRSP, PEC Research

Figure 43: WACC Calculation

WACC Calculation			
Target Capital Structure			
Debt-to-Total-Capitalization(1)	- %		
Equity-to-Total-Capitalization(2)	100.0%		
Cost of Debt		*Cost of Equity*	
Cost of debt(3)	- %	Risk-free Rate(5)	1.58%
Tax rate(4)	40.0%	Market Risk Premium	6.1%
After-tax Cost of Debt	- %	Levered Beta	1.68
		Cost of Equity	11.8%
WACC	11.8%		

1) 2011 ratio - annual reports
2) 2011 ratio - annual reports
3) Total Interest Payments in 2011 ($111m) divided by total Debt Outstanding in 2011 ($2.047bn)
4) http://www.taxrates.cc/html/us-tax-rates.html
5) yield on 10 year treasury, Source: US Treasury Department
6) Ashwath Damodaran - http://pages.stern.nyu.edu/~adamodar/

Source: Company Data; CRSP, PEC Research

Base case outputs

	Historical Period					Projection Period									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total sales	**2396.51**	**2194.559**	**1828.523**	**1980.195**	**2212.493**	**2478**	**2745**	**2976**	**3162**	**3329**	**3472**	**3606**	**3740**	**3876**	**4014**
y-o-y growth	*n/a*	*-8.4%*	*-16.7%*	*8.3%*	*11.7%*	*12.0%*	*10.8%*	*8.4%*	*6.3%*	*5.3%*	*4.3%*	*3.9%*	*3.7%*	*3.6%*	*3.6%*
COGS	1145.25	1139.75	834.19	876.20	1004.35	1124.79	1262.85	1383.832	1470.52	1547.892	1614.628	1676.95	1739.092	1802.233	1866.354
Gross Profit	**1251.26**	**1054.81**	**994.34**	**1103.99**	**1208.14**	**1352.72**	**1482.48**	**1592.15**	**1691.89**	**1780.91**	**1857.69**	**1929.39**	**2000.89**	**2073.54**	**2147.31**
% margin	*52.2%*	*48.1%*	*54.4%*	*55.8%*	*54.6%*	*54.6%*	*54.0%*	*53.5%*	*53.5%*	*53.5%*	*53.5%*	*53.5%*	*53.5%*	*53.5%*	*53.5%*
SG&A	1061.87	1050.56	966.60	978.58	1062.64	1189.205	1304.03	1413.592	1502.144	1581.18	1649.351	1713.013	1776.492	1840.991	1906.491
Restructuring charges	32.26	59.71	36.37	5.62	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Impairment charges	1.75	316.17	15.32	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
EBIT	**155.386**	**-371.637**	**-23.954**	**119.790**	**145.499**	**163.516**	**178.446**	**178.559**	**189.745**	**199.728**	**208.339**	**216.381**	**224.399**	**232.546**	**240.820**
% margin	*6.5%*	*-16.9%*	*-1.3%*	*6.0%*	*6.6%*	*6.6%*	*6.5%*	*6.0%*	*6.0%*	*6.0%*	*6.0%*	*6.0%*	*6.0%*	*6.0%*	*6.0%*
Taxes	63.805	-37.516	-7.902	45.725	57.881	62.13596	67.80956	67.8524	72.10291	75.89662	79.16884	82.22463	85.27162	88.36755	91.51155
EBIAT	**91.58**	**-334.12**	**-16.05**	**74.06**	**87.62**	**101.38**	**110.64**	**110.71**	**117.64**	**123.83**	**129.17**	**134.16**	**139.13**	**144.18**	**149.31**
Plus: Depreciation & Amortization	116.80	122.22	104.35	95.52	94.19	125.0204	138.535	150.1744	159.5818	167.9782	175.2205	181.9837	188.7275	195.5795	202.538
Plus: Non-cash charges	36.61	355.94	35.14	2.07	2.29	0	0	0	0	0	0	0	0	0	0
Less: Capital Expenditures (net)	-140.00	-110.34	-38.57	-61.21	-118.92	-123.9	-137.3	-148.8	-158.1	-166.4	-173.6	-180.3	-187.0	-193.8	-200.7
Less: Increase in Net Working Capital	n/a	46.19	-13.38	-22.29	2.15	-6.70	-6.81	-6.09	-3.68	-3.29	-2.84	-2.65	-2.64	-2.68	-2.73
Unlevered Free Cash Flow	105.00	79.88	71.48	88.16	67.32	95.82	105.10	105.99	115.42	122.08	127.94	133.17	138.21	143.29	148.44

WACC	11.84%
PV of FCF from '13 to '20	659.83
Terminal Growth	2.00%
PV of Terminal Value	582.24
Enterprise Value	1242.07
Less: Net Debt	92.63
Equity Value	1334.70
Current Market Cap	1611.9
Shares outstanding	47.324
Per share	28.20

Discount Per	0.5	1.5	2.5	3.5	4.5	5.5	6.5	7.5	8.5	9.5
Discount Fac	0.95	0.85	0.76	0.68	0.60	0.54	0.48	0.43	0.39	0.35
PV of Cashflo	90.60	88.85	80.12	78.00	73.77	69.12	64.33	59.69	55.33	51.25

Bull and Bear case

Scenario analysis asymmetry towards the bear case confirm a sell recommendation

In addition to our base case, we have also created a bull and a bear case scenario. We are most confident in our base case and therefore also base our valuation off this scenario. The motivation behind including a bear and bull case was to give the reader an idea of potential upside and downside scenarios when thinking about investing into ANN Both, the bull and the bear case valuation can be found in the appendix.

For our **bull case**, we have assumed a better reaction/positioning of ANN with respect to the new competitive landscape. We are forecasting a higher sales growth rate (CAGR for the next 10 years of 8.91%). In addition, we are also assuming a larger lift in operating margin due to better inventory management; favourable sales mix shift and improvements from the store rationalization program undertaken.

In contrast, for our **bear case** we have assumed an even tougher competitive environment for ANN We are forecasting a lower sales growth rate (CAGR for the next 10 years of 4.0%). Moreover, we have assumed that the baseline EBIT margin will not see a meaningful recovery, due to increased competition.

Under the **bull case** scenario, we believe that the fair equity value is about \$1825MM, implying a 13% upside potential to the current market value of the equity (Figure 44). Under the **bear case scenario**, we believe that the fair equity value is $967MM, implying that the ANN is currently overvalued by about 40% (Figure 45). **The payoff is quite asymmetric, with significant downside exposure. Therefore, the scenario analysis confirms our sell recommendation.**

Figure 44: Bull Case

PV of FCF from '13 to '20	514.56
Terminal Growth	2.00%
PV of Terminal Value	360.61
Enterprise Value	875.17
Less: Net Debt	92.63
Equity Value	967.81
Current Market Cap	1611.9
Shares outstanding	47.324
Per share	20.45
Current discount	-39.96%

Source: PEC Research

Figure 45: Bear Case

PV of FCF from '13 to '20	859.97
Terminal Growth	2.00%
PV of Terminal Value	873.35
Enterprise Value	1733.33
Less: Net Debt	92.63
Equity Value	1825.96
Current Market Cap	1611.9
Shares outstanding	47.324
Per share	38.58
Current premium	13.28%

Source: PEC Research

Comparables Analysis

As a sanity check to our DCF valuation, we created a Comparables table to asses ANN's valuation relative to other companies in the industry (Figure 46). It can be seen that ANN's ratios lie above the industry median on most of the metric. In our previous industry report from September 16, we have established that the **industry as a whole is currently fairly valued**. Since then, we have not observed any material events that would change our opinion regarding the industry. Hence, **ANN's valuation above industry averages confirms our DCF valuation.**

Figure 46: Comparables table

Company	P/E (NTM)	P/E (2011)	P/E (T12M)	EV/EBITDA (T12M)	EV/Sales (T12M)	P/S (T12M)	P/B	EV ($MM)	Mkt Cap ($MM)
ABERCROMBIE & FITCH	12.76	14.34	18.76	8.89	0.74	0.80	1.79	3,230	3,420
AMERICAN EAGLE	13.15	13.74	17.79	6.83	0.90	1.10	2.78	3,010	3,710
GAP INC/THE	13.87	14.92	16.77	7.21	1.04	1.04	5.39	15,850	16,370
ANN INC	13.81	15.02	17.91	5.92	0.64	0.72	3.52	1,470	1,580
AEROPOSTALE INC	12.42	13.34	14.77	5.41	0.37	0.44	3.92	874	1,040
GUESS? INC	10.95	9.93	9.62	4.44	0.70	0.84	2.50	1,830	2,090
LIMITED BRANDS	15.25	16.35	17.91	8.82	1.68	1.40	n/a	17,040	13,700
CHICOS	15.39	16.99	18.67	7.31	1.10	1.24	2.33	2,650	3,010
EXPRESS	8.20	7.89	6.52	3.04	0.49	0.47	4.81	1,040	973
Mean	**12.87**	**13.61**	**15.41**	**6.43**	**0.85**	**0.89**	**3.15**		
High	15.39	16.99	18.76	8.89	1.68	1.4	5.39		
Low	8.20	7.89	6.52	3.04	0.37	0.44	1.79		
ANN INC	13.81	15.02	17.91	5.92	0.64	0.72	3.52		

Source: Bloomberg; PEC Research

Appendix

Bull Case Valuation

	Historical 2011	2012	2013	2014	2015	Projection 2016	2017	2018	2019	2020	2021
Beginning Stores											
Ann Taylor Stores	266	280	283	286	288	291	294	297	300	303	306
Ann Taylor Factory	92	99	114	131	144	151	156	159	162	165	169
LOFT Stores	502	500	550	594	624	655	688	701	715	730	744
LOFT Outlet	36	74	89	102	112	118	121	124	126	129	132
Net New Stores											
Ann Taylor Stores	14	3	3	3	3	3	3	3	3	3	3
Ann Taylor Factory	7	15	17	13	7	5	3	3	3	3	3
LOFT Stores	-2	50	44	30	31	33	14	14	14	15	15
LOFT Outlet	38	15	13	10	6	4	2	2	3	3	3
Ending Stores											
Ann Taylor Stores	280	283	286	288	291	294	297	300	303	306	309
Ann Taylor Factory	99	114	131	144	151	156	159	162	165	169	172
LOFT Stores	500	550	594	624	655	688	701	715	730	744	759
LOFT Outlet	74	89	102	112	118	121	124	126	129	132	134
Avg. Sq. Ft. per Store											
Ann Taylor Stores	5214	5214	5214	5214	5214	5214	5214	5214	5214	5214	5214
Ann Taylor Factory	7071	7071	7071	7071	7071	7071	7071	7071	7071	7071	7071
LOFT Stores	5808	5808	5808	5808	5808	5808	5808	5808	5808	5808	5808
LOFT Outlet	7027	7027	7027	7027	7027	7027	7027	7027	7027	7027	7027
Sales per Sq. Ft.											
Ann Taylor Stores	340	347	354	361	368	375	383	391	398	406	414
Ann Taylor Factory	424	445	467	491	515	526	536	547	558	569	580
LOFT Stores	340	357	375	394	413	434	456	478	502	527	554
LOFT Outlet	416	437	459	482	506	531	557	585	615	645	678
Sales Exisiting Stores											
Ann Taylor Stores	471.6	506.3	521.6	537.4	553.6	570.3	587.5	605.3	623.6	642.4	661.8
Ann Taylor Factory	275.8	311.6	376.3	454.4	524.8	562.1	590.5	614.4	639.2	665.0	691.9
LOFT Stores	991.3	1036.7	1197.4	1357.9	1497.1	1650.5	1819.7	1948.9	2087.3	2235.4	2394.2
LOFT Outlet	105.2	227.1	286.2	345.6	399.1	440.1	475.9	509.7	545.9	584.7	626.2
Sales New Stores											
Ann Taylor Stores	19.4	3.9	4.1	4.2	4.3	4.4	4.6	4.7	4.9	5.0	5.2
Ann Taylor Factory	16.4	36.5	44.0	35.4	20.5	13.2	9.2	9.6	10.0	10.4	10.8
LOFT Stores	-3.1	80.9	74.7	53.0	58.4	64.4	28.4	30.4	32.6	34.9	37.3
LOFT Outlet	86.6	35.4	33.5	27.0	15.6	10.3	7.4	8.0	8.5	9.1	9.8
TOTAL Store Sales	**1963.2**	**2238.5**	**2537.8**	**2814.8**	**3073.4**	**3315.2**	**3523.3**	**3730.9**	**3951.8**	**4186.9**	**4437.1**
Ann Taylor e-commerce	124.4	161.7	202.2	242.6	279.0	306.9	331.4	351.3	361.9	370.9	378.3
LOFT e-commerce	123.9	161.1	201.4	241.7	277.9	305.7	330.1	350.0	360.5	369.5	376.9
Total e-commerce Sales	**248.3**	**322.8**	**403.5**	**484.2**	**556.9**	**612.6**	**661.6**	**701.3**	**722.3**	**740.4**	**755.2**
TOTAL Sales	**2212**	**2561**	**2941**	**3299**	**3630**	**3928**	**4185**	**4432**	**4674**	**4927**	**5192**
y-o-y growth	11.7%	15.8%	14.8%	12.2%	10.0%	8.2%	6.5%	5.9%	5.5%	5.4%	5.4%

	Historical Period					Projection Period									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total sales	**2396.51**	**2194.559**	**1828.523**	**1980.195**	**2212.493**	**2561**	**2941**	**3299**	**3630**	**3928**	**4185**	**4432**	**4674**	**4927**	**5192**
y-o-y growth	*n/a*	*-8.4%*	*-16.7%*	*8.3%*	*11.7%*	*15.8%*	*14.8%*	*12.2%*	*10.0%*	*8.2%*	*6.5%*	*5.9%*	*5.5%*	*5.4%*	*5.4%*
COGS	1145.25	1139.75	834.19	876.20	1004.35	1162.863	1335.385	1517.542	1669.91	1806.788	1925.031	2038.806	2150.103	2266.544	2388.442
Gross Profit	**1251.26**	**1054.81**	**994.34**	**1103.99**	**1208.14**	**1398.51**	**1605.99**	**1781.46**	**1960.33**	**2121.01**	**2259.82**	**2393.38**	**2524.03**	**2660.73**	**2803.82**
% margin	*52.2%*	*48.1%*	*54.4%*	*55.8%*	*54.6%*	*54.6%*	*54.6%*	*54.0%*	*54.0%*	*54.0%*	*54.0%*	*54.0%*	*54.0%*	*54.0%*	*54.0%*
SG&A	1061.87	1050.56	966.60	978.58	1062.64	1229.459	1397.154	1550.532	1706.213	1846.066	1966.879	2083.127	2196.845	2315.817	2440.365
Restructuring charges	32.26	59.71	36.37	5.62	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Impairment charges	1.75	316.17	15.32	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
EBIT	**155.386**	**-371.637**	**-23.954**	**119.790**	**145.499**	**169.051**	**208.838**	**230.930**	**254.117**	**274.946**	**292.939**	**310.253**	**327.190**	**344.909**	**363.459**
% margin	*6.5%*	*-16.9%*	*-1.3%*	*6.0%*	*6.6%*	*6.6%*	*7.1%*	*7.0%*	*7.0%*	*7.0%*	*7.0%*	*7.0%*	*7.0%*	*7.0%*	*7.0%*
Taxes	63.805	-37.516	-7.902	45.725	57.881	64.23923	79.35832	87.75354	96.56437	104.4795	111.317	117.8961	124.3321	131.0654	138.1143
EBIAT	**91.58**	**-334.12**	**-16.05**	**74.06**	**87.62**	**104.81**	**129.48**	**143.18**	**157.55**	**170.47**	**181.62**	**192.36**	**202.86**	**213.84**	**225.34**
Plus: Depreciation & Amortization	116.80	122.22	104.35	95.52	94.19	129.2523	148.4281	166.4748	183.1896	198.2051	211.1764	223.6575	235.8669	248.6405	262.0127
Plus: Non-cash charges	36.61	355.94	35.14	2.07	2.29	0	0	0	0	0	0	0	0	0	0
Less: Capital Expenditures (net)	-140.00	-110.34	-38.57	-61.21	-118.92	-128.1	-147.1	-165.0	-181.5	-196.4	-209.2	-221.6	-233.7	-246.4	-259.6
Less: Increase in Net Working Capital	n/a	46.19	-13.38	-22.29	2.15	-8.26	-7.04	-8.84	-6.36	-5.71	-4.94	-4.75	-4.65	-4.86	-5.09
Unlevered Free Cash Flow	105.00	79.88	71.48	88.16	67.32	97.74	123.80	135.86	152.87	166.57	178.62	189.66	200.37	211.26	222.65
Discount Per						0.5	1.5	2.5	3.5	4.5	5.5	6.5	7.5	8.5	9.5
Discount Fac						0.95	0.85	0.76	0.68	0.60	0.54	0.48	0.43	0.39	0.35
PV of Cashflc						92.42	104.66	102.70	103.32	100.65	96.50	91.61	86.54	81.58	76.87

WACC	11.84%
PV of FCF from '13 to '20	859.97
Terminal Growth	2.00%
PV of Terminal Value	873.35
Enterprise Value	1733.33
Less: Net Debt	92.63
Equity Value	1825.96
Current Market Cap	1611.9
Shares outstanding	47.324
Per share	38.58
Current premium	13.28%

Bear Case Valuation

	Historical 2011	Projection 2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Beginning Stores											
Ann Taylor Stores	266	280	280	280	280	280	280	280	280	280	280
Ann Taylor Factory	92	99	107	112	116	118	118	118	118	118	118
LOFT Stores	502	500	525	546	562	574	585	585	585	585	585
LOFT Outlet	36	74	81	88	92	95	97	99	99	99	99
Net New Stores											
Ann Taylor Stores	14	0	0	0	0	0	0	0	0	0	0
Ann Taylor Factory	7	8	5	3	2	0	0	0	0	0	0
LOFT Stores	-2	25	21	16	11	11	0	0	0	0	0
LOFT Outlet	38	7	7	4	3	2	2	0	0	0	0
Ending Stores											
Ann Taylor Stores	280	280	280	280	280	280	280	280	280	280	280
Ann Taylor Factory	99	107	112	116	118	118	118	118	118	118	118
LOFT Stores	500	525	546	562	574	585	585	585	585	585	585
LOFT Outlet	74	81	88	92	95	97	99	99	99	99	99
Avg. Sq. Ft. per Store											
Ann Taylor Stores	5214	5214	5214	5214	5214	5214	5214	5214	5214	5214	5214
Ann Taylor Factory	7071	7071	7071	7071	7071	7071	7071	7071	7071	7071	7071
LOFT Stores	5808	5808	5808	5808	5808	5808	5808	5808	5808	5808	5808
LOFT Outlet	7027	7027	7027	7027	7027	7027	7027	7027	7027	7027	7027
Sales per Sq. Ft.											
Ann Taylor Stores	340	347	354	361	368	375	383	391	398	406	414
Ann Taylor Factory	424	432	441	450	459	468	477	487	497	507	517
LOFT Stores	340	347	354	361	368	375	383	391	398	406	414
LOFT Outlet	416	424	433	441	450	459	468	478	487	497	507
Sales Exisiting Stores											
Ann Taylor Stores	471.6	506.3	516.5	526.8	537.3	548.1	559.0	570.2	581.6	593.2	605.1
Ann Taylor Factory	275.8	302.7	333.5	357.2	375.2	390.4	398.2	406.2	414.3	422.6	431.0
LOFT Stores	991.3	1007.1	1078.6	1144.2	1202.1	1250.7	1301.2	1327.2	1353.7	1380.8	1408.4
LOFT Outlet	105.2	220.6	247.6	272.7	292.1	306.9	319.3	332.2	338.8	345.6	352.5
Sales New Stores											
Ann Taylor Stores	19.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ann Taylor Factory	16.4	18.9	13.0	8.4	5.9	0.0	0.0	0.0	0.0	0.0	0.0
LOFT Stores	-3.1	39.3	33.7	26.8	18.8	19.5	0.0	0.0	0.0	0.0	0.0
LOFT Outlet	86.6	17.2	15.4	10.6	6.8	4.8	5.0	0.0	0.0	0.0	0.0
TOTAL Store Sales	**1963.2**	**2112.2**	**2238.2**	**2346.6**	**2438.2**	**2520.3**	**2582.7**	**2635.7**	**2688.5**	**2742.2**	**2797.1**
Ann Taylor e-commerce	124.4	149.3	171.7	188.9	204.0	216.2	224.8	231.6	236.2	240.9	245.8
LOFT e-commerce	123.9	148.7	171.0	188.1	203.2	215.4	224.0	230.7	235.3	240.0	244.8
Total e-commerce Sales	**248.3**	**298.0**	**342.7**	**377.0**	**407.1**	**431.6**	**448.8**	**462.3**	**471.5**	**481.0**	**490.6**
TOTAL Sales	**2212**	**2410**	**2581**	**2724**	**2845**	**2952**	**3031**	**3098**	**3160**	**3223**	**3288**
y-o-y growth	11.7%	9.0%	7.1%	5.5%	4.5%	3.7%	2.7%	2.2%	2.0%	2.0%	2.0%

	Historical Period 2007	2008	2009	2010	2011	Projection Period 2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total sales	**2396.51**	**2194.559**	**1828.523**	**1980.195**	**2212.493**	**2410**	**2581**	**2724**	**2845**	**2952**	**3031**	**3098**	**3160**	**3223**	**3288**
y-o-y growth	*n/a*	*-8.4%*	*-16.7%*	*8.3%*	*11.7%*	*8.9%*	*7.1%*	*5.5%*	*4.5%*	*3.7%*	*2.7%*	*2.2%*	*2.0%*	*2.0%*	*2.0%*
COGS	1145.25	1139.75	834.19	876.20	1004.35	1094.228	1171.743	1252.856	1308.838	1357.843	1424.791	1456.07	1485.191	1514.895	1545.193
Gross Profit	**1251.26**	**1054.81**	**994.34**	**1103.99**	**1208.14**	**1315.97**	**1409.19**	**1470.74**	**1536.46**	**1593.99**	**1606.68**	**1641.95**	**1674.79**	**1708.29**	**1742.45**
% margin	*52.2%*	*48.1%*	*54.4%*	*55.8%*	*54.6%*	*54.6%*	*54.6%*	*54.0%*	*54.0%*	*54.0%*	*53.0%*	*53.0%*	*53.0%*	*53.0%*	*53.0%*
SG&A	1061.87	1050.56	966.60	978.58	1062.64	1168.944	1251.751	1320.946	1379.97	1431.639	1470.263	1502.54	1532.591	1563.243	1594.508
Restructuring charges	32.26	59.71	36.37	5.62	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Impairment charges	1.75	316.17	15.32	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
EBIT	**155.386**	**-371.637**	**-23.954**	**119.790**	**145.499**	**147.022**	**157.437**	**149.798**	**156.491**	**162.351**	**136.416**	**139.411**	**142.199**	**145.043**	**147.944**
% margin	*6.5%*	*-16.9%*	*-1.3%*	*6.0%*	*6.6%*	*6.1%*	*6.1%*	*5.5%*	*5.5%*	*5.5%*	*4.5%*	*4.5%*	*4.5%*	*4.5%*	*4.5%*
Taxes	63.805	-37.516	-7.902	45.725	57.881	55.8683	59.82598	56.92326	59.46675	61.6933	51.83815	52.97616	54.03569	55.1164	56.21873
EBIAT	**91.58**	**-334.12**	**-16.05**	**74.06**	**87.62**	**91.15**	**97.61**	**92.87**	**97.02**	**100.66**	**84.58**	**86.43**	**88.16**	**89.93**	**91.73**
Plus: Depreciation & Amortization	116.80	122.22	104.35	95.52	94.19	121.6235	130.2392	137.4387	143.5798	148.9557	152.9744	156.3327	159.4594	162.6486	165.9015
Plus: Non-cash charges	36.61	355.94	35.14	2.07	2.29	0	0	0	0	0	0	0	0	0	0
Less: Capital Expenditures (net)	-140.00	-110.34	-38.57	-61.21	-118.92	-120.5	-129.0	-136.2	-142.3	-147.6	-151.6	-154.9	-158.0	-161.2	-164.4
Less: Increase in Net Working Capital	n/a	46.19	-13.38	-22.29	2.15	-5.46	-3.16	-4.47	-2.34	-2.05	-4.92	-1.35	-1.26	-1.28	-1.31
Unlevered Free Cash Flow	105.00	79.88	71.48	88.16	67.32	86.81	95.64	89.66	96.00	99.98	81.06	86.51	88.36	90.13	91.93

WACC	11.84%
PV of FCF from '13 to '20	514.56
Terminal Growth	2.00%
PV of Terminal Value	360.61
Enterprise Value	875.17
Less: Net Debt	92.63
Equity Value	967.81
Current Market Cap	1611.9
Shares outstanding	47.324
Per share	20.45
Current discount	-39.96%

Discount Per	0.5	1.5	2.5	3.5	4.5	5.5	6.5	7.5	8.5	9.5
Discount Fac	0.95	0.85	0.76	0.68	0.60	0.54	0.48	0.43	0.39	0.35
PV of Cashflo	82.09	80.86	67.77	64.88	60.41	43.79	41.79	38.16	34.81	31.74

SG&A Regression

SG&A as share of sales	Sales per store	Share of sales from Online and Outlet
0.4438	2.4534	0.1484
0.4787	2.2060	0.1830
0.5286	1.8820	0.2290
0.4942	1.9986	0.2696
0.4803	2.0610	0.3288

SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.995125753
R Square	0.990275265
Adjusted R Square	0.980550529
Standard Error	0.004267134
Observations	5

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	2	0.00370835	0.001854175	101.8305626	0.009724735
Residual	2	3.64169E-05	1.82084E-05		
Total	4	0.003744767			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	0.885996753	0.034589178	25.61485407	0.001520634	0.73717153	1.03482197	0.73717153	1.034821975
Sales per Store	-0.16978977	0.013018466	-13.04222558	0.005827567	-0.225803714	-0.11377583	-0.225803714	-0.113775835
Share of sales from Online and Outlet	-0.17641557	0.04029667	-4.377919292	0.048417304	-0.349798142	-0.00303299	-0.349798142	-0.003032992

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