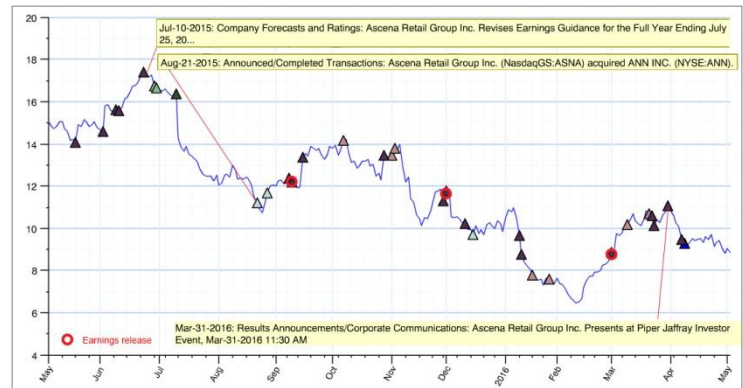


Current capitalization	Summary financials	FY 2013	FY 2014	FY 2015	FY 2016 F	FY 2017 F	FY 2018 F	Valuation	10Yavg.	Current
Price	Sales	4,715	4,791	7,355	7,287	7,386	7,539	P / E	15.2	28.7
Shares in issue	Sales % yoy	40.6%	1.6%	53.5%	-0.9%	1.4%	2.1%	EV / EBITDA	5.6	6.7
<b>Market capitalization</b>	Consensus sales				7,176	7,039	6,508	EV / sales	0.6	0.5
Net debt	Forecast vs. consensus				1.6%	4.9%	15.8%	P / B	1.5	1.0
<b>Enterprise value</b>	EBITDA	476	451	622	547	736	867	P / TB	3.1	NM
	EBITDA margin	10.1%	9.4%	8.5%	7.5%	10.0%	11.5%			
<b>Trading statistics</b>	Consensus sales				688	735	787	<b>DCF summary</b>		
Performance YTD	Forecast vs. consensus				-20.5%	0.2%	10.1%	Beta		1.0
52 week high	EPS	1.31	1.18	0.82	0.32	0.92	1.33	Cost of equity		8.0%
52 week low	Net debt	192	264	107	1,681	1,495	1,274	Cost of debt		5.3%
% of 52 week range	CFO	450	375	431	459	570	614	<b>WACC</b>		<b>5.5%</b>
3M avg. daily traded val	Capex	(291)	(478)	(313)	(377)	(385)	(393)	Target price		31.8
Short interest								Implied upside		258.8%

**Thesis summary**

- Ascena Retail Group Inc. (ASNA) is a retailer of women's apparel, shoes and accessories. They offer specialty product for missy<sup>1</sup> and plus size women through their **Lane Bryant, Maurices, Dressbarn and Catherines** brands; teenage girls through their **Justice** brand; and work and casual wear through their recently acquired **Ann Taylor** and **LOFT** brands.



source: Capital IQ

- Recently, ASNA's shares have come under pressure as the company has been forced to reduce year-end guidance
- Comparable-store-sales (comps) and margins in their Justice business came under pressure due to a poorly implemented promotion strategy that has severely pressured earnings
- In addition to the problems at Justice, ASNA completed the acquisition of ANN INC. during Q1 2016. This has resulted in a number of non-recurring acquisition and integration expense charges to the income statement totaling \$76mm over the last twelve months. ASNA has also incurred \$306mm in impairment charges related to its Lane Bryant and Justice brands. With the company issuing a range of adjusted non-GAAP EBITDA calculations the complexity in parsing these adjustments and the impact of the ANN INC. acquisition - as well as purchase accounting adjustments, litigation expenses, losses on extinguishment of debt, store closure expenses and tax items - has resulted in reduced earnings visibility (please see appendix for a full schedule of earnings adjustments).
- We expect ASNA stock to rally as it delivers above consensus EBITDA through a turnaround of Justice, realization of synergies from the integration of ANN INC. and distribution expense savings as its distribution center is brought fully on-line.
- We use a DCF methodology to arrive at a valuation for ASNA that indicates a price per share F \$31.75 implying a 259% upside to the current price of \$8.85. Thus, we recommend a **Long** position in ASNA.

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

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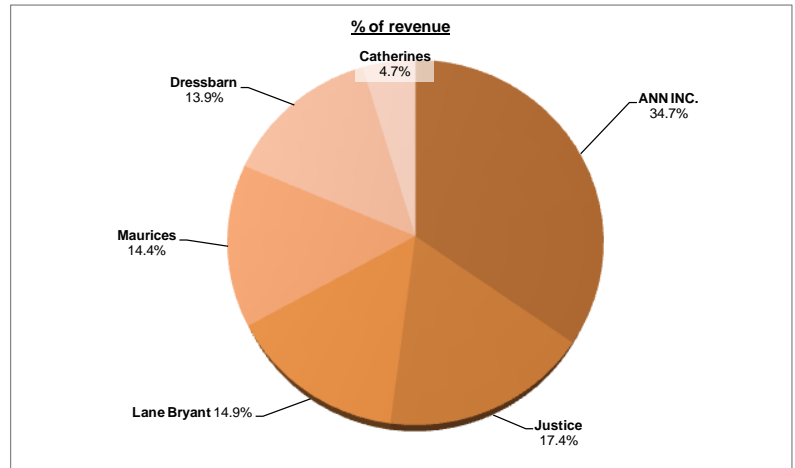
<sup>1</sup> Missy size is the most common women's size category. For women of about average height (5'4") with an average bust height and an hourglass figure. (source: Wikipedia)

## Business Overview

Ascena Retail Group Inc. (ASNA) is a retailer of women's apparel, shoes and accessories. They offer specialty product for missy<sup>2</sup> and plus size women through their **Lane Bryant, Maurices, Dressbarn and Catherines** brands; teenage girls through their **Justice** brand; and work and casual wear through their recently acquired **Ann Taylor** and **LOFT** brands.

ASNA's retails merchandise through its store footprint of 3,891 store locations largely across the US - ASNA has a negligible international presence (75 stores in Canada) and minimal revenue from online sources (8% of total revenue).

ASNA has pursued an acquisitive strategy by acquiring Maurices in 2005, Justice in 2010, Lane Bryant and Catherines in 2012 and ANN INC. in 2015.



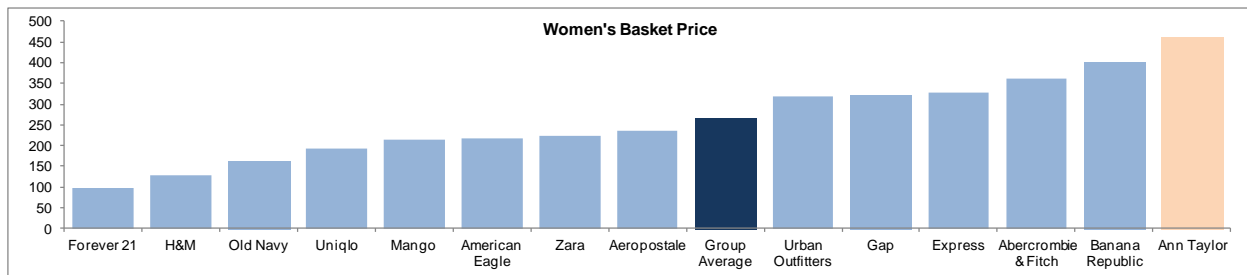
Source: company filings

## Background

Recently, ASNA's shares have come under pressure as the company has been forced to reduce year-end guidance:

- Comparable-store-sales (comps) and margins in their Justice business came under pressure due to a poorly implemented promotion strategy. The price-plus-promotions strategy caused traffic to stall in anticipation of promotion periods damaging both comps and profitability. This has severely pressured earnings as EBITDA from the legacy business (excluding ANN INC.) has declined by \$100mm since mid-2014
- \$306mm in charges from impairment of goodwill and intangible assets as well as \$76mm in acquisition integration expenses have clouded earnings visibility as complex non-GAAP adjusted EBITDA calculations have come under fire from regulators.
- ASNA is coming off an elevated capex cycle due to the establishment of its 695,000 sq. ft. distribution center in Etna, Ohio. This has pressured free cash flow generation.

## Industry perspective



Source: Credit Suisse pricing survey

ASNA's positioning as a specialty retailer primarily of missy and plus-size apparel has historically insulated it from pricing pressure across the wider industry. With the acquisition of ANN INC., ASNA has further diversified its product offering to cater to casual and work-wear shoppers. Ann Taylor is positioned towards the premium end of the price spectrum and offers a product sufficiently differentiated to protect it from the impact of fast fashion retailers near term.

<sup>2</sup> Missy size is the most common women's size category. For women of about average height (5'4") with an average bust height and an hourglass figure. (source: Wikipedia)

## Income Statement

Ascena Retail Group Inc. (ASNA) year ended January 31 (USD, mm)	FY 2012	FY 2013	FY 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	FY 2015	Q1 2016	Q2 2016	LTM
<b>Adjusted income statement</b>											
Sales	3,353	4,715	4,791	1,841	1,936	1,748	1,830	7,355	1,794	1,842	7,214
Sales % yoy	15.1%	40.6%	1.6%	53.9%	52.9%	52.7%	54.8%	53.5%	-2.6%	-4.9%	-1.9%
Cost of goods sold	(1,506)	(2,138)	(2,131)	(791)	(962)	(760)	(852)	(3,366)	(826)	(884)	(3,322)
<b>Gross profit</b>	<b>1,848</b>	<b>2,577</b>	<b>2,660</b>	<b>1,050</b>	<b>974</b>	<b>988</b>	<b>978</b>	<b>3,989</b>	<b>968</b>	<b>958</b>	<b>3,892</b>
Buying, distribution and occupancy	(523)	(771)	(832)	(320)	(322)	(312)	(320)	(1,274)	(322)	(320)	(1,273)
SG&A expense	(893)	(1,331)	(1,376)	(524)	(548)	(522)	(499)	(2,093)	(527)	(550)	(2,097)
SG&A	(1,417)	(2,101)	(2,209)	(845)	(870)	(834)	(818)	(3,367)	(848)	(870)	(3,370)
<b>EBITDA</b>	<b>431</b>	<b>476</b>	<b>451</b>	<b>206</b>	<b>104</b>	<b>154</b>	<b>159</b>	<b>622</b>	<b>120</b>	<b>89</b>	<b>522</b>
Depreciation and amortization	(107)	(162)	(185)	(78)	(81)	(81)	(83)	(324)	(88)	(89)	(342)
<b>Operating income</b>	<b>323</b>	<b>314</b>	<b>266</b>	<b>127</b>	<b>23</b>	<b>73</b>	<b>76</b>	<b>299</b>	<b>32</b>	<b>(1)</b>	<b>180</b>
Interest expense	(4)	(14)	(7)	(27)	(28)	(27)	(27)	(108)	(27)	(28)	(109)
Interest income	5	0	(1)	1	(0)	0	0	1	1	(1)	-
<b>Pretax profit excl. unusual items</b>	<b>324</b>	<b>301</b>	<b>259</b>	<b>101</b>	<b>(5)</b>	<b>46</b>	<b>49</b>	<b>191</b>	<b>5</b>	<b>(29)</b>	<b>71</b>
Unusual items	14	-	-	-	-	-	-	-	-	-	-
<b>Pretax profit incl. unusual items</b>	<b>338</b>	<b>301</b>	<b>259</b>	<b>101</b>	<b>(5)</b>	<b>46</b>	<b>49</b>	<b>191</b>	<b>5</b>	<b>(29)</b>	<b>71</b>
Tax expense	(107)	(87)	(65)	(37)	2	(12)	(10)	(58)	(1)	13	(11)
Effective tax rate	31.7%	29.1%	25.2%	36.8%	40.0%	26.7%	20.6%	30.1%	17.6%	43.5%	14.8%
<b>Net income</b>	<b>231</b>	<b>213</b>	<b>194</b>	<b>64</b>	<b>(3)</b>	<b>34</b>	<b>39</b>	<b>134</b>	<b>4</b>	<b>(17)</b>	<b>60</b>
Weighted avg. basic shares in issue	154	157	162	162	163	163	163	163	185	196	196
Weighted avg. diluted shares in issue	159	163	165	165	164	165	163	163	185	196	196
Basic EPS	1.50	1.36	1.20	0.39	(0.02)	0.21	0.24	0.82	0.02	(0.08)	0.31
Diluted EPS	1.45	1.31	1.18	0.39	(0.02)	0.20	0.24	0.82	0.02	(0.08)	0.31
Cost of sales % of sales	44.9%	45.3%	44.5%	43.0%	49.7%	43.5%	46.6%	45.8%	46.0%	48.0%	46.1%
Buying, distribution and occupancy expense	15.6%	16.3%	17.4%	17.4%	16.6%	17.8%	17.5%	17.3%	17.9%	17.4%	17.6%
SG&A expense % of sales	26.6%	28.2%	28.7%	28.5%	28.3%	29.9%	27.3%	28.5%	29.4%	29.8%	29.1%
Gross margin	55.1%	54.7%	55.5%	57.0%	50.3%	56.5%	53.4%	54.2%	54.0%	52.0%	53.9%
EBITDA margin	12.8%	10.1%	9.4%	11.2%	5.4%	8.8%	8.7%	8.5%	6.7%	4.8%	7.2%
Operating margin	9.6%	6.7%	5.6%	6.9%	1.2%	4.2%	4.2%	4.1%	1.8%	0.0%	2.5%
Pretax margin	9.7%	6.4%	5.4%	5.5%	-0.3%	2.6%	2.7%	2.6%	0.3%	-1.6%	1.0%

Source: company filings

ASNA's profitability peaked in FY 2013, generating EBITDA of \$476mm. Since then, EBITDA has contracted \$46mm to \$522mm over the last twelve month period. Excluding incremental EBITDA due to the acquisition of ANN INC. in 2015, EBITDA at legacy brands has contracted roughly \$100mm.

Ascena Retail Group Inc. (ASNA) year ended January 31 (USD, mm)	FY 2012	FY 2013	FY 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	FY 2015	Q1 2016	Q2 2016	LTM
<b>Comparable store sales % yoy</b>											
ANN INC.	--	--	--	--	--	--	--	--	--	-2.0%	--
Justice	8.0%	2.0%	-4.0%	-7.0%	-6.0%	-12.0%	-17.0%	-10.0%	-15.0%	-17.0%	-15.3%
Lane Bryant	3.0%	-2.0%	3.0%	0.0%	1.0%	4.0%	3.0%	2.0%	4.0%	2.0%	3.3%
maurices	2.0%	0.0%	1.0%	0.0%	8.0%	6.0%	8.0%	5.0%	7.0%	0.0%	5.3%
dressbarn	3.0%	-4.0%	-1.0%	0.0%	2.0%	-4.0%	-3.0%	-1.0%	-5.0%	-4.0%	-4.0%
Catherines	11.0%	8.0%	8.0%	4.0%	9.0%	4.0%	3.0%	5.0%	-1.0%	-3.0%	0.8%
<b>Ascena</b>	<b>5.0%</b>	<b>0.0%</b>	<b>-2.0%</b>	<b>-4.0%</b>	<b>-2.0%</b>	<b>-3.0%</b>	<b>-4.0%</b>	<b>-3.0%</b>	<b>-2.5%</b>	<b>-4.0%</b>	<b>-3.4%</b>
ANN INC. adj. EBITDA	--	--	--	80	30	56	82	248	(15)	27	151
Justice adj. EBITDA	215	239	160	56	28	4	(28)	60	57	31	63
Lane Bryant adj. EBITDA	(5)	14	41	3	1	19	22	45	9	5	54
maurices adj. EBITDA	129	139	139	38	40	58	34	169	51	39	182
dressbarn adj. EBITDA	89	69	80	20	(2)	7	37	61	9	(15)	38
Catherines adj. EBITDA	(3)	16	32	10	7	11	11	38	7	2	30
<b>Total adj. EBITDA</b>	<b>425</b>	<b>476</b>	<b>451</b>	<b>206</b>	<b>104</b>	<b>154</b>	<b>159</b>	<b>622</b>	<b>119</b>	<b>89</b>	<b>519</b>
Legacy EBITDA	425	476	451	126	74	98	77	374	133	62	368
ANN INC. adj. EBITDA margin	--	--	--	12.4%	4.6%	9.4%	12.5%	9.7%	-2.3%	4.2%	6.0%
Justice adj. EBITDA margin	16.5%	17.0%	11.6%	15.6%	6.8%	1.4%	-11.4%	4.7%	18.7%	9.5%	5.5%
Lane Bryant adj. EBITDA margin	-4.1%	1.3%	3.8%	1.2%	0.5%	6.8%	7.5%	4.1%	3.6%	1.6%	4.9%
maurices adj. EBITDA margin	15.1%	15.1%	14.3%	14.9%	14.2%	21.1%	13.4%	16.0%	18.1%	13.4%	16.5%
dressbarn adj. EBITDA margin	8.6%	6.7%	7.8%	7.7%	-1.0%	2.7%	12.9%	6.0%	3.5%	-6.5%	3.8%
Catherines adj. EBITDA margin	-8.8%	5.1%	9.5%	12.0%	8.2%	11.9%	12.0%	11.0%	9.0%	1.8%	8.8%
<b>Total adj. EBITDA margin</b>	<b>12.7%</b>	<b>10.1%</b>	<b>9.4%</b>	<b>11.2%</b>	<b>5.4%</b>	<b>8.8%</b>	<b>8.7%</b>	<b>8.5%</b>	<b>6.6%</b>	<b>4.8%</b>	<b>7.2%</b>

Source: company filings

- As indicated above, the decline in EBITDA is largely a result of problems with the Justice division. With Justice comps coming under pressure during H1 2015, management implemented an aggressive strategy of price-plus-promotion strategy that had a damaging impact on traffic and margins. Under the new strategy, item ticket prices were raised 52% during an

environment of general ticket price deflation with promotion prices discounted up to 50%. In response, customer traffic simply stalled in anticipation of promotions. Lack of pricing discipline resulted in deteriorating profitability resulting in EBITDA margin contraction from 17% in FY 2014 to 5.5% over the last twelve months.

- Against this backdrop, ASNA's most mature brand, Dressbarn, continues to experience erosion in market share and profitability.
- In addition to the problems at Justice, ASNA completed the acquisition of ANN INC. during Q1 2016. This has resulted in a number of non-recurring acquisition and integration expense charges to the income statement totalling \$76mm over the last twelve months. ASNA has also incurred \$306mm in impairment charges related to its Lane Bryant and Justice brands. With the company issuing a range of adjusted non-GAAP EBITDA calculations the complexity in parsing these adjustments and the impact of the ANN INC. acquisition - as well as purchase accounting adjustments, litigation expenses, losses on extinguishment of debt, store closure expenses and tax items - has resulted in reduced earnings visibility (please see appendix for a full schedule of earnings adjustments).

## Balance Sheet

Ascena Retail Group Inc. (ASNA) year ended January 31 (USD, mm)	FY 2012	FY 2013	FY 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	FY 2015	Q1 2016	Q2 2016	LTM
<b>Total debt</b>	567.1	378.5	420.5	236.0	369.5	398.4	347.9	347.9	2,224.6	2,056.7	2,056.7
Cash & equivalents	164.3	186.4	156.9	169.1	202.1	222.0	240.6	240.6	322.9	293.8	293.8
Net debt	402.8	192.1	263.6	66.9	167.4	176.4	107.3	107.3	1,901.7	1,762.9	1,762.9
Total debt / EBITDA	1.3	0.8	0.9	1.9	5.0	4.2	13.4	1.1	19.7	23.2	6.4
Total debt % of assets	20.2%	13.2%	13.5%	7.3%	11.9%	12.4%	12.0%	12.0%	38.3%	37.6%	37.6%

Source: company filings

ASNA has historically maintained a relatively unlevered balance sheet. The acquisition of ANN INC. was funded partly through the issuance of a seven-year variable rate \$1.7bn term loan. The loan bears interest at a rate of LIBOR + 450bps.

## Cash Flow Statement

Ascena Retail Group Inc. (ASNA) year ended January 31 (USD, mm)	FY 2012	FY 2013	FY 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	FY 2015	Q1 2016	Q2 2016	LTM
<b>Cash from operations</b>	<b>362</b>	<b>450</b>	<b>375</b>	<b>23</b>	<b>189</b>	<b>71</b>	<b>148</b>	<b>431</b>	<b>(46)</b>	<b>208</b>	<b>380</b>
Capital expenditures	(150)	(291)	(478)	(97)	(58)	(81)	(78)	(313)	(93)	(80)	(331)
Cash acquisitions	(684)	-	-	-	-	-	-	-	(1,495)	-	(1,495)
Proceeds from sale of assets	38	16	42	-	9	-	-	9	-	-	-
Purchase of investments	(100)	(3)	(28)	(13)	-	(9)	(0)	(22)	-	(1)	(10)
Proceeds from sales and maturities of invest	294	6	0	27	1	0	-	28	13	14	27
Investment in life insurance policies	-	-	-	-	-	-	-	-	-	-	-
<b>Cash from investing</b>	<b>(602)</b>	<b>(272)</b>	<b>(463)</b>	<b>(83)</b>	<b>(48)</b>	<b>(89)</b>	<b>(78)</b>	<b>(298)</b>	<b>(1,575)</b>	<b>(67)</b>	<b>(1,809)</b>
Issuance of LT debt	-	-	-	-	-	-	-	-	1,764	-	1,764
Issuance of ST debt	322	447	1,249	214	224	326	68	832	524	232	1,149
Repayment of LT debt	-	-	-	-	-	-	-	-	-	(62)	(62)
Repayment of ST debt	(144)	(641)	(1,213)	(150)	(333)	(298)	(108)	(888)	(552)	(319)	(1,276)
Payment of deferred financing costs	(7)	(4)	-	-	-	-	(2)	(2)	(41)	(1)	(45)
Repurchases and retirements of common stock	(37)	-	-	-	-	-	-	-	-	(19)	(19)
Proceeds from stock options exercised and e	17	29	18	2	2	2	3	9	8	0	14
Excess tax benefits from stock-based compen	12	14	4	0	0	(0)	-	-	1	(1)	(0)
<b>Cash from financing</b>	<b>162</b>	<b>(156)</b>	<b>59</b>	<b>66</b>	<b>(107)</b>	<b>30</b>	<b>(38)</b>	<b>(50)</b>	<b>1,704</b>	<b>(169)</b>	<b>1,526</b>
Cash - beginning	244	164	186	157	164	198	209	157	241	323	198
Net change in cash	(79)	22	(29)	7	34	11	32	84	82	(29)	96
<b>Cash and equivalents - close</b>	<b>164</b>	<b>186</b>	<b>157</b>	<b>164</b>	<b>198</b>	<b>209</b>	<b>241</b>	<b>241</b>	<b>323</b>	<b>294</b>	<b>294</b>
Capex % of depreciation	140.0%	165.3%	246.6%	191.1%	111.3%	141.5%	132.0%	143.2%	112.7%	89.7%	115.2%
Depreciation % of PP&E	15.9%	21.3%	17.4%	17.8%	18.6%	20.0%	20.1%	18.6%	5.1%	5.6%	17.9%

Source: company filings

ASNA is one of the few apparel retail companies that has not pursued a strategy of aggressively returning capital to shareholders - it does not pay a dividend and has only sparingly implemented buybacks. Instead, ASNA has used cash flow to fund acquisition and expansion of its store footprint.

## Investment Thesis

We expect ASNA stock to rally as it delivers above consensus EBITDA through a turnaround of Justice, realization of synergies from the integration of ANN INC. and distribution expense savings as its distribution center is brought fully on-line.

- ASNA has implemented a clear and simple strategy to restore pricing discipline to Justice in order to mitigate traffic and margin effects. Under this strategy, average ticket price is reduced 39% from \$26 to \$16 resulting in a gross margin impact to EBITDA margin of 9 percentage points. This, combined with operational expense efficiencies of 3 percentage points from the company's distribution center, is expected to result in 12 percentage points of accretion to EBITDA margin in Justice.

Ascena Retail Group Inc. (ASNA) year ended January 31 (USD, mm)	FY 2012	FY 2013	FY 2014	FY 2015	LTM	FY 2016 F	FY 2017 F	FY 2018 F	FY 2019 F	FY 2020 F
ANN INC. adj. EBITDA margin	--	--	--	9.7%	6.0%	6.0%	9.9%	11.5%	11.5%	11.5%
Justice adj. EBITDA margin	16.5%	17.0%	11.6%	4.7%	5.5%	6.5%	12.5%	17.5%	17.5%	17.5%
Lane Bryant adj. EBITDA margin	-4.1%	1.3%	3.8%	4.1%	4.9%	5.0%	5.2%	5.4%	5.4%	5.4%
maurices adj. EBITDA margin	15.1%	15.1%	14.3%	16.0%	16.5%	16.8%	17.0%	17.0%	17.0%	17.0%
dressbarn adj. EBITDA margin	8.6%	6.7%	7.8%	6.0%	3.8%	4.0%	3.8%	4.3%	4.3%	4.3%
Catherines adj. EBITDA margin	-8.8%	5.1%	9.5%	11.0%	8.8%	7.5%	8.0%	9.3%	9.3%	9.3%
<b>Total adj. EBITDA margin</b>	<b>12.7%</b>	<b>10.1%</b>	<b>9.4%</b>	<b>8.5%</b>	<b>7.2%</b>	<b>7.5%</b>	<b>10.0%</b>	<b>11.5%</b>	<b>11.5%</b>	<b>11.5%</b>

Source: company filings

- The integration of ANN INC. is expected to result in 2.5 percentage points of EBITDA margin accretion to the division (in addition to 3 percentage points of accretion due to the impact of the distribution center)

Ascena Retail Group Inc. (ASNA) year ended January 31 (USD, mm)	FY 2012	FY 2013	FY 2014	FY 2015	LTM	FY 2016 F	FY 2017 F	FY 2018 F	FY 2019 F	FY 2020 F
ANN INC. adj. EBITDA margin	--	--	--	9.7%	6.0%	6.0%	9.9%	11.5%	11.5%	11.5%
Justice adj. EBITDA margin	16.5%	17.0%	11.6%	4.7%	5.5%	6.5%	12.5%	17.5%	17.5%	17.5%
Lane Bryant adj. EBITDA margin	-4.1%	1.3%	3.8%	4.1%	4.9%	5.0%	5.2%	5.4%	5.4%	5.4%
maurices adj. EBITDA margin	15.1%	15.1%	14.3%	16.0%	16.5%	16.8%	17.0%	17.0%	17.0%	17.0%
dressbarn adj. EBITDA margin	8.6%	6.7%	7.8%	6.0%	3.8%	4.0%	3.8%	4.3%	4.3%	4.3%
Catherines adj. EBITDA margin	-8.8%	5.1%	9.5%	11.0%	8.8%	7.5%	8.0%	9.3%	9.3%	9.3%
<b>Total adj. EBITDA margin</b>	<b>12.7%</b>	<b>10.1%</b>	<b>9.4%</b>	<b>8.5%</b>	<b>7.2%</b>	<b>7.5%</b>	<b>10.0%</b>	<b>11.5%</b>	<b>11.5%</b>	<b>11.5%</b>

Source: company filings

- ANN's legacy brands are expected to experience 2.5 percentage points of EBITDA margin decrction as intensifying industry-wide competitive pressure impacts ASNA's ability to maintain pricing in these mature divisions. A summary of margin assumptions across divisions is indicated below:

					Net EBITDA margin impact
ANN INC.		3.0%	2.5%	integration synergies	5.5%
Justice		3.0%	9.0%	pricing strategy impact	12.0%
Lane Bryant	Distribution center impact	3.0%	-2.5%	pricing pressure impact	0.5%
maurices		3.0%	-2.5%		0.5%
dressbarn		3.0%	-2.5%		0.5%
Catherines		3.0%	-2.5%		0.5%

## Forecast and Valuation

Ascena Retail Group Inc. (ASNA) year ended January 31 (USD, mm)	FY 2012	FY 2013	FY 2014	FY 2015	LTM	FY 2016 F	FY 2017 F	FY 2018 F	FY 2019 F	FY 2020 F
<b>Store footprint</b>										
ANN INC. net new stores						-	10	10	10	10
Justice net new stores	40	29	26	(19)	(53)	(35)	(10)	(10)	(10)	(10)
Lane Bryant net new stores	-	(17)	(17)	(6)	(6)	(6)	(5)	(5)	(5)	(5)
maurices net new stores	48	45	45	29	39	45	40	35	30	25
dressbarn net new stores	(3)	(1)	(6)	4	2	(1)	-	-	-	-
Catherines net new stores	(4)	(25)	(11)	(9)	(7)	(5)	(5)	(5)	(5)	(5)
Total net new stores	81	31	37	(1)	(25)	(2)	20	15	10	5
ANN INC. end	--	--	--	--	1,027	1,027	1,037	1,047	1,057	1,067
Justice end	942	971	997	978	955	943	933	923	913	903
Lane Bryant end	805	788	771	765	763	759	754	749	744	739
maurices end	832	877	922	951	976	996	1,036	1,071	1,101	1,126
dressbarn end	827	826	820	824	821	823	823	823	823	823
Catherines end	422	397	386	377	376	372	367	362	357	352
Total end	3,828	3,859	3,896	3,895	3,891	3,893	3,913	3,928	3,938	3,943
<b>Ascena Retail Group Inc. (ASNA) year ended January 31 (USD, mm)</b>										
	FY 2012	FY 2013	FY 2014	FY 2015	LTM	FY 2016 F	FY 2017 F	FY 2018 F	FY 2019 F	FY 2020 F
<b>Comparable store sales % yoy</b>										
ANN INC.	--	--	--	--	--	0.0%	2.5%	2.5%	2.5%	2.5%
Justice	8.0%	2.0%	-4.0%	-10.0%	-15.3%	-8.0%	-5.0%	-2.5%	-1.0%	-1.0%
Lane Bryant	3.0%	-2.0%	3.0%	2.0%	3.3%	3.0%	2.5%	2.5%	2.5%	2.5%
maurices	2.0%	0.0%	1.0%	5.0%	5.3%	3.8%	3.0%	3.0%	2.5%	2.5%
dressbarn	3.0%	-4.0%	-1.0%	-1.0%	-4.0%	-4.3%	-1.0%	-1.0%	-1.0%	-1.0%
Catherines	11.0%	8.0%	8.0%	5.0%	0.8%	-2.5%	5.0%	5.0%	5.0%	5.0%
<b>Ascena</b>	<b>5.0%</b>	<b>0.0%</b>	<b>-2.0%</b>	<b>-3.0%</b>	<b>-3.4%</b>	<b>-1.0%</b>	<b>1.1%</b>	<b>1.5%</b>	<b>1.7%</b>	<b>1.7%</b>
<b>Footprint impact</b>										
ANN INC. footprint impact						0.0%	-1.3%	-1.3%	-1.3%	-1.3%
Justice footprint impact	2.2%	1.8%	-0.4%	1.9%	5.0%	1.8%	1.8%	1.8%	1.8%	1.8%
Lane Bryant footprint impact	--	788.6%	2.1%	1.0%	-1.8%	1.8%	1.8%	1.8%	1.8%	1.8%
maurices footprint impact	2.7%	1.7%	-0.4%	-0.1%	-3.4%	-1.3%	-1.3%	-1.3%	-1.3%	-1.3%
dressbarn footprint impact	2.5%	2.6%	1.6%	1.2%	2.2%	1.8%	0.0%	0.0%	0.0%	0.0%
Catherines footprint impact	--	799.7%	1.0%	1.8%	-1.6%	1.8%	1.8%	1.8%	1.8%	1.8%
<b>Sales / store</b>										
ANN INC. sales / store	--	--	--	--	2.45	2.45	2.48	2.51	2.54	2.57
ANN INC. sales / store % yoy	--	--	--	--	--	--	1.2%	1.2%	1.2%	1.2%
Justice sales / store	1.42	1.47	1.41	1.29	1.16	1.31	1.27	1.26	1.27	1.28
Justice sales / store % yoy	10.2%	3.8%	-4.4%	-8.1%	-10.3%	1.6%	-3.2%	-0.7%	0.8%	0.8%
Lane Bryant sales / store	0.15	1.32	1.39	1.43	1.45	1.44	1.50	1.57	1.63	1.70
Lane Bryant sales / store % yoy	--	786.6%	5.1%	3.0%	1.5%	1.0%	4.3%	4.3%	4.3%	4.3%
maurices sales / store	1.06	1.07	1.08	1.13	1.15	1.21	1.24	1.26	1.27	1.29
maurices sales / store % yoy	4.7%	1.7%	0.6%	4.9%	1.8%	6.8%	2.2%	1.7%	1.2%	1.2%
dressbarn sales / store	1.25	1.23	1.24	1.25	1.22	1.11	1.10	1.08	1.07	1.06
dressbarn sales / store % yoy	5.5%	-1.4%	0.6%	0.2%	-1.8%	-11.1%	-1.0%	-1.0%	-1.0%	-1.0%
Catherines sales / store	0.09	0.78	0.85	0.91	0.90	0.85	0.91	0.97	1.03	1.10
Catherines sales / store % yoy	--	807.7%	9.0%	6.8%	-0.8%	-6.5%	6.8%	6.8%	6.8%	6.8%
<b>Division Revenue split</b>										
ANN INC. sales	--	--	--	2,551.9	2,518.4	2,520.8	2,563.5	2,619.4	2,676.2	2,734.1
ANN INC. sales % yoy	--	--	--	--	-1.3%	-1.2%	1.7%	2.2%	2.2%	2.2%
Justice sales	1,306.7	1,407.4	1,384.3	1,276.8	1,138.8	1,261.9	1,192.9	1,171.9	1,168.5	1,165.0
Justice sales % yoy	13.6%	7.7%	-1.6%	-7.8%	-10.8%	-1.2%	-5.5%	-1.8%	-0.3%	-0.3%
Lane Bryant sales	119.7	1,050.1	1,080.0	1,095.9	1,109.2	1,097.7	1,136.6	1,177.7	1,220.1	1,264.1
Lane Bryant sales % yoy	--	777.3%	2.8%	1.5%	1.2%	0.2%	3.5%	3.6%	3.6%	3.6%
maurices sales	852.9	917.6	971.4	1,060.6	1,103.2	1,177.7	1,256.2	1,324.7	1,381.9	1,433.9
maurices sales % yoy	9.8%	7.6%	5.9%	9.2%	4.0%	11.0%	6.7%	5.5%	4.3%	3.8%
dressbarn sales	1,037.6	1,020.7	1,022.5	1,023.6	1,002.6	911.4	901.7	892.7	883.8	874.9
dressbarn sales % yoy	5.1%	-1.6%	0.2%	0.1%	-2.1%	-11.0%	-1.1%	-1.0%	-1.0%	-1.0%
Catherines sales	36.4	319.1	332.4	346.0	341.4	317.7	334.8	352.7	371.5	391.3
Catherines sales % yoy	--	776.6%	4.2%	4.1%	-1.3%	-8.2%	5.4%	5.4%	5.3%	5.3%
<b>Total sales</b>	<b>3,353.3</b>	<b>4,714.9</b>	<b>4,790.6</b>	<b>7,354.8</b>	<b>7,213.6</b>	<b>7,287.1</b>	<b>7,385.6</b>	<b>7,539.0</b>	<b>7,702.1</b>	<b>7,863.3</b>
<b>Total sales % yoy</b>	<b>15.1%</b>	<b>40.6%</b>	<b>1.6%</b>	<b>53.5%</b>	<b>-1.9%</b>	<b>-0.9%</b>	<b>1.4%</b>	<b>2.1%</b>	<b>2.2%</b>	<b>2.1%</b>

Divisional revenue forecasts are constructed based on the following assumptions:

- **Store footprint:** ASNA's store footprint expansion will continue at ANN INC. and Maurices, offset by net closures in Justice, Lane Bryant and Catherines. Dressbarn's footprint is expected to remain flat on a net basis. This is in-line with historical trends and management's guidance

- **Comparable store sales:** Comparable store sales are expected to grow, on average, at 2.5% year-on-year (1.5% inflation + 1.0% real growth). Justice comps are expected to contract as it more directly exposed to competitive pressure from fast fashion retailers. Dressbarn comps are expected to contract as the mature business is cannibalized by ASNA's own younger brands.
- **Footprint impact:** Historically, brands that have expanded footprint have experienced 1.3 percentage points decrement from comp growth as new stores operate at lower efficiency levels. Brands that have contracted footprint have experienced 1.8 percentage points accretion to comp growth as underperforming stores are closed down.
- **Sales / store:** Comp growth and footprint impact are added to arrive at a sales / store growth factor resulting in a sales / store number that is applied to each division's store footprint to arrive at a sales revenue number

Margin assumptions are calculated as indicated resulting in each division's EBITDA margin:

				Net EBITDA margin impact	
ANN INC.		3.0%	2.5%	integration synergies	5.5%
Justice		3.0%	9.0%	pricing strategy impact	12.0%
Lane Bryant	Distribution center impact	3.0%	-2.5%	pricing pressure impact	0.5%
maurices		3.0%	-2.5%		0.5%
dressbarn		3.0%	-2.5%		0.5%
Catherines		3.0%	-2.5%		0.5%

Ascena Retail Group Inc. (ASNA) year ended January 31 (USD, mm)	FY 2012	FY 2013	FY 2014	FY 2015	LTM	FY 2016 F	FY 2017 F	FY 2018 F	FY 2019 F	FY 2020 F
<b>Adjusted income statement</b>										
Sales	3,353	4,715	4,791	7,355	7,214	7,287	7,386	7,539	7,702	7,863
Sales % yoy	15.1%	40.6%	1.6%	53.5%	-1.9%	1.0%	1.4%	2.1%	2.2%	2.1%
Cost of goods sold	(1,506)	(2,138)	(2,131)	(3,366)	(3,322)	(3,282)	(3,215)	(3,242)	(3,312)	(3,381)
<b>Gross profit</b>	<b>1,848</b>	<b>2,577</b>	<b>2,660</b>	<b>3,989</b>	<b>3,892</b>	<b>4,005</b>	<b>4,170</b>	<b>4,297</b>	<b>4,390</b>	<b>4,482</b>
Buying, distribution and occupancy	(523)	(771)	(832)	(1,274)	(1,273)	(1,304)	(1,292)	(1,282)	(1,309)	(1,337)
SG&A expense	(893)	(1,331)	(1,376)	(2,093)	(2,097)	(2,155)	(2,142)	(2,149)	(2,195)	(2,241)
SG&A	(1,417)	(2,101)	(2,209)	(3,367)	(3,370)	(3,459)	(3,434)	(3,430)	(3,504)	(3,578)
<b>EBITDA</b>	<b>431</b>	<b>476</b>	<b>451</b>	<b>622</b>	<b>522</b>	<b>547</b>	<b>736</b>	<b>867</b>	<b>886</b>	<b>904</b>
Depreciation and amortization	(107)	(162)	(185)	(324)	(342)	(342)	(350)	(357)	(365)	(372)
<b>Operating income</b>	<b>323</b>	<b>314</b>	<b>266</b>	<b>299</b>	<b>180</b>	<b>204</b>	<b>386</b>	<b>510</b>	<b>521</b>	<b>532</b>
Interest expense	(4)	(14)	(7)	(108)	(109)	(109)	(109)	(109)	(109)	(109)
Interest income	5	0	(1)	1	-	-	-	-	-	-
<b>Pretax profit excl. unusual items</b>	<b>324</b>	<b>301</b>	<b>259</b>	<b>191</b>	<b>71</b>	<b>96</b>	<b>278</b>	<b>401</b>	<b>412</b>	<b>423</b>
Unusual items	14	-	-	-	-	-	-	-	-	-
<b>Pretax profit incl. unusual items</b>	<b>338</b>	<b>301</b>	<b>259</b>	<b>191</b>	<b>71</b>	<b>96</b>	<b>278</b>	<b>401</b>	<b>412</b>	<b>423</b>
Tax expense	(107)	(87)	(65)	(58)	(11)	(33)	(97)	(140)	(144)	(148)
Effective tax rate	31.7%	29.1%	25.2%	30.1%	14.8%	35.0%	35.0%	35.0%	35.0%	35.0%
<b>Net income</b>	<b>231</b>	<b>213</b>	<b>194</b>	<b>134</b>	<b>60</b>	<b>62</b>	<b>180</b>	<b>261</b>	<b>268</b>	<b>275</b>
Weighted avg. basic shares in issue	154	157	162	163	196	196	196	196	196	196
Weighted avg. diluted shares in issue	159	163	165	163	196	196	196	196	196	196
Basic EPS	1.50	1.36	1.20	0.82	0.31	0.32	0.92	1.33	1.37	1.40
Diluted EPS	1.45	1.31	1.18	0.82	0.31	0.32	0.92	1.33	1.37	1.40
Cost of sales % of sales	44.9%	45.3%	44.5%	45.8%	46.1%	45.0%	43.5%	43.0%	43.0%	43.0%
Buying, distribution and occupancy expense	15.6%	16.3%	17.4%	17.3%	17.6%	17.9%	17.5%	17.0%	17.0%	17.0%
SG&A expense % of sales	26.6%	28.2%	28.7%	28.5%	29.1%	29.6%	29.0%	28.5%	28.5%	28.5%
Gross margin	55.1%	54.7%	55.5%	54.2%	53.9%	55.0%	56.5%	57.0%	57.0%	57.0%
EBITDA margin	12.8%	10.1%	9.4%	8.5%	7.2%	7.5%	10.0%	11.5%	11.5%	11.5%
Operating margin	9.6%	6.7%	5.6%	4.1%	2.5%	2.8%	5.2%	6.8%	6.8%	6.8%
Pretax margin	9.7%	6.4%	5.4%	2.6%	1.0%	1.3%	3.8%	5.3%	5.4%	5.4%

The resulting income statement forecast indicates an earnings recovery that fully materializes over a 3-year time horizon resulting in EBITDA of \$867mm, 10% above the consensus measure of \$787mm.

year ended January 31 (USD, mm)	FY 2013	FY 2014	FY 2015	FY 2016 F	FY 2017 F	FY 2018 F	FY 2019 F	FY 2020 F
Sales	4,715	4,791	7,355	7,287	7,386	7,539	7,702	7,863
Sales % yoy	40.6%	1.6%	53.5%	-0.9%	1.4%	2.1%	2.2%	2.1%
Cost of goods sold	(2,138)	(2,131)	(3,366)	(3,282)	(3,215)	(3,242)	(3,312)	(3,381)
<b>Gross profit</b>	<b>2,577</b>	<b>2,660</b>	<b>3,989</b>	<b>4,005</b>	<b>4,170</b>	<b>4,297</b>	<b>4,390</b>	<b>4,482</b>
SG&A	(2,101)	(2,209)	(3,367)	(3,459)	(3,434)	(3,430)	(3,504)	(3,578)
<b>EBITDA</b>	<b>476</b>	<b>451</b>	<b>622</b>	<b>547</b>	<b>736</b>	<b>867</b>	<b>886</b>	<b>904</b>
Depreciation and amortization	(162)	(185)	(324)	(342)	(350)	(357)	(365)	(372)
<b>Operating income</b>	<b>314</b>	<b>266</b>	<b>299</b>	<b>204</b>	<b>386</b>	<b>510</b>	<b>521</b>	<b>532</b>
Effective tax rate	29.1%	25.2%	30.1%	35.0%	35.0%	35.0%	35.0%	35.0%
<b>Tax-affected EBIT</b>				<b>133</b>	<b>251</b>	<b>331</b>	<b>339</b>	<b>346</b>
(+) Depreciation				342	350	357	365	372
(-) Capex				(377)	(385)	(393)	(401)	(410)
(+) Net changes in working capital				54	40	(4)	(1)	(1)
<b>Free cash flow to the firm</b>				<b>153</b>	<b>256</b>	<b>292</b>	<b>301</b>	<b>307</b>
PV of FCF				145	230	248	243	235

Cost of equity	
rf	1.8%
Market risk premium	6.2%
Beta	1
<b>Cost of equity</b>	<b>8.0%</b>
Cost of debt	
Estimated all-in cost of debt	5.3%
Marginal tax rate	35.0%
<b>Cost of debt</b>	<b>3.4%</b>
WACC	5.5%

Terminal value	
Terminal growth rate	1.5%
<b>Terminal value</b>	<b>7,750</b>
Implied EBITDA multiple	8.6
PV of terminal value	5,923
Implied enterprise value	7,024
Net debt	807
<b>Implied equity value</b>	<b>6,217</b>
Shares in issue	195.8
Implied price	31.75
Implied upside	258.8%

We use a DCF methodology to arrive at a valuation for ASNA that indicates a price per share F \$31.75 implying a 259% upside to the current price of \$8.85. Thus, we recommend a **Long** position in ASNA.

### Risk to the thesis

	Terminal FCF					
	50	100	150	200	250	300
<b>-6.5%</b>	-77.2%	-57.9%	-38.5%	-19.2%	0.2%	19.5%
<b>-5.5%</b>	-75.5%	-54.4%	-33.3%	-12.2%	8.9%	30.1%
<b>-4.5%</b>	-73.4%	-50.2%	-27.0%	-3.7%	19.5%	42.7%
<b>-3.5%</b>	-70.8%	-45.0%	-19.2%	6.6%	32.3%	58.1%
<b>-2.5%</b>	-67.6%	-38.6%	-9.6%	19.4%	48.4%	77.4%
<b>-1.5%</b>	-63.5%	-30.3%	2.8%	35.9%	69.0%	102.2%
<b>-0.5%</b>	-58.0%	-19.3%	19.3%	57.9%	96.5%	135.2%
<b>0.5%</b>	-50.3%	-4.0%	42.4%	88.7%	135.0%	181.3%
<b>1.5%</b>	-38.8%	19.1%	76.9%	134.7%	192.5%	250.4%

The data table above indicates the outcomes that would result in a neutral outlook on ASNA and hence embody feasible scenarios for the market's outlook on the company. The cells highlighted yellow indicate the terminal FCF and terminal growth rate combinations that result in a close-to-zero forecast upside. In its current state of earnings distress, ASNA generated \$120mm in FCF over the last twelve months. For the stock to be anything less than a strong buy, earnings would have to continue to contract meaningfully into perpetuity.

Current Fiscal Year End: Jul-31-2016						FQ3 2016 Earnings Release Date: May-31-2016	
Non-Periodic Data Items						NasdaqGS:ASNA - Recommendation: Outperform (1.92)	
NasdaqGS:ASNA (USD)	Mean	Median	High/Low	Std. Dev.	No. of Est.		
Target Price	14.08	14.50	18.00/9.00	3.57	12/12	Buy 1 2 3 4 5 Sell 1.92 Outperform	
LT Growth	20.00%	20.00%	20.00%/20.00%	0.00	2/2		

It is important to note that street is almost unanimously positive on ASNA with a consensus target price of \$14 which implies a 60% upside.



**APPENDICES**  
**Income Statement**

Ascena Retail Group Inc. (ASNA) year ended January 31 (USD, mm)	FY 2012	FY 2013	FY 2014	FY 2015	LTM	FY 2016 F	FY 2017 F	FY 2018 F	FY 2019 F	FY 2020 F
<b>Adjusted income statement</b>										
Sales	3,353	4,715	4,791	7,355	7,214	7,287	7,386	7,539	7,702	7,863
Sales % yoy	15.1%	40.6%	1.6%	53.5%	-1.9%	1.0%	1.4%	2.1%	2.2%	2.1%
Cost of goods sold	(1,506)	(2,138)	(2,131)	(3,366)	(3,322)	(3,282)	(3,215)	(3,242)	(3,312)	(3,381)
<b>Gross profit</b>	<b>1,848</b>	<b>2,577</b>	<b>2,660</b>	<b>3,989</b>	<b>3,892</b>	<b>4,005</b>	<b>4,170</b>	<b>4,297</b>	<b>4,390</b>	<b>4,482</b>
Buying, distribution and occupancy	(523)	(771)	(832)	(1,274)	(1,273)	(1,304)	(1,292)	(1,282)	(1,309)	(1,337)
SG&A expense	(893)	(1,331)	(1,376)	(2,093)	(2,097)	(2,155)	(2,142)	(2,149)	(2,195)	(2,241)
SG&A	(1,417)	(2,101)	(2,209)	(3,367)	(3,370)	(3,459)	(3,434)	(3,430)	(3,504)	(3,578)
<b>EBITDA</b>	<b>431</b>	<b>476</b>	<b>451</b>	<b>622</b>	<b>522</b>	<b>547</b>	<b>736</b>	<b>867</b>	<b>886</b>	<b>904</b>
Depreciation and amortization	(107)	(162)	(185)	(324)	(342)	(342)	(350)	(357)	(365)	(372)
<b>Operating income</b>	<b>323</b>	<b>314</b>	<b>266</b>	<b>299</b>	<b>180</b>	<b>204</b>	<b>386</b>	<b>510</b>	<b>521</b>	<b>532</b>
Interest expense	(4)	(14)	(7)	(108)	(109)	(109)	(109)	(109)	(109)	(109)
Interest income	5	0	(1)	1	-	-	-	-	-	-
<b>Pretax profit excl. unusual items</b>	<b>324</b>	<b>301</b>	<b>259</b>	<b>191</b>	<b>71</b>	<b>96</b>	<b>278</b>	<b>401</b>	<b>412</b>	<b>423</b>
Unusual items	14	-	-	-	-	-	-	-	-	-
<b>Pretax profit incl. unusual items</b>	<b>338</b>	<b>301</b>	<b>259</b>	<b>191</b>	<b>71</b>	<b>96</b>	<b>278</b>	<b>401</b>	<b>412</b>	<b>423</b>
Tax expense	(107)	(87)	(65)	(58)	(11)	(33)	(97)	(140)	(144)	(148)
Effective tax rate	31.7%	29.1%	25.2%	30.1%	14.8%	35.0%	35.0%	35.0%	35.0%	35.0%
<b>Net income</b>	<b>231</b>	<b>213</b>	<b>194</b>	<b>134</b>	<b>60</b>	<b>62</b>	<b>180</b>	<b>261</b>	<b>268</b>	<b>275</b>
Weighted avg. basic shares in issue	154	157	162	163	196	196	196	196	196	196
Weighted avg. diluted shares in issue	159	163	165	163	196	196	196	196	196	196
Basic EPS	1.50	1.36	1.20	0.82	0.31	0.32	0.92	1.33	1.37	1.40
Diluted EPS	1.45	1.31	1.18	0.82	0.31	0.32	0.92	1.33	1.37	1.40
Cost of sales % of sales	44.9%	45.3%	44.5%	45.8%	46.1%	45.0%	43.5%	43.0%	43.0%	43.0%
Buying, distribution and occupancy expense	15.6%	16.3%	17.4%	17.3%	17.6%	17.9%	17.5%	17.0%	17.0%	17.0%
SG&A expense % of sales	26.6%	28.2%	28.7%	28.5%	29.1%	29.6%	29.0%	28.5%	28.5%	28.5%
Gross margin	55.1%	54.7%	55.5%	54.2%	53.9%	55.0%	56.5%	57.0%	57.0%	57.0%
EBITDA margin	12.8%	10.1%	9.4%	8.5%	7.2%	7.5%	10.0%	11.5%	11.5%	11.5%
Operating margin	9.6%	6.7%	5.6%	4.1%	2.5%	2.8%	5.2%	6.8%	6.8%	6.8%
Pretax margin	9.7%	6.4%	5.4%	2.6%	1.0%	1.3%	3.8%	5.3%	5.4%	5.4%

**Balance Sheet**

Ascena Retail Group Inc. (ASNA) year ended January 31 (USD, mm)	FY 2012	FY 2013	FY 2014	FY 2015	LTM	FY 2016 F	FY 2017 F	FY 2018 F	FY 2019 F	FY 2020 F
<b>Balance sheet</b>										
Cash & equivalents	164	186	157	241	294	376	562	783	1,013	1,250
Prepaid expense and other	123	121	167	132	284	287	290	296	303	309
Inventory	535	544	553	489	660	593	533	537	549	560
Deferred Tax Assets, Curr.	49	53	47	89	-	-	-	-	-	-
<b>Current assets</b>	<b>1,005</b>	<b>943</b>	<b>924</b>	<b>950</b>	<b>1,237</b>	<b>1,256</b>	<b>1,385</b>	<b>1,616</b>	<b>1,865</b>	<b>2,119</b>
PP&E - close	674	825	1,111	1,170	1,605	1,639	1,674	1,710	1,746	1,783
Goodwill	593	581	581	320	1,268	1,268	1,268	1,268	1,268	1,268
Other Intangibles	454	451	435	388	1,283	1,283	1,283	1,283	1,283	1,283
Other Long-Term Assets	81	72	73	78	84	84	84	84	84	84
<b>Non-current assets</b>	<b>1,803</b>	<b>1,929</b>	<b>2,200</b>	<b>1,956</b>	<b>4,240</b>	<b>4,274</b>	<b>4,309</b>	<b>4,345</b>	<b>4,381</b>	<b>4,418</b>
<b>Total assets</b>	<b>2,807</b>	<b>2,872</b>	<b>3,124</b>	<b>2,906</b>	<b>5,477</b>	<b>5,530</b>	<b>5,694</b>	<b>5,961</b>	<b>6,246</b>	<b>6,537</b>
Accounts payable	253	259	253	239	379	375	367	370	378	386
Accrued expense and other	261	285	309	403	420	415	406	410	419	427
Curr. Port. of LT Debt	4	1	-	-	18	18	18	18	18	18
Curr. Income Taxes Payable	6	9	6	12	-	-	-	-	-	-
Deferred income	43	61	64	64	137	137	137	137	137	137
Liabilities related to discontinued operations	119	22	-	-	-	-	-	-	-	-
<b>Current liabilities</b>	<b>686</b>	<b>637</b>	<b>632</b>	<b>718</b>	<b>955</b>	<b>945</b>	<b>929</b>	<b>935</b>	<b>952</b>	<b>969</b>
Long-Term Debt	322	135	172	107	1,641	1,641	1,641	1,641	1,641	1,641
Lease-related liability	241	243	249	241	398	398	398	398	398	398
Def. Tax Liability, Non-Curr.	61	132	148	182	482	482	482	482	482	482
Other Non-Current Liabilities	157	169	186	141	179	179	179	179	179	179
<b>Non-current liabilities</b>	<b>781</b>	<b>679</b>	<b>754</b>	<b>670</b>	<b>2,699</b>	<b>2,699</b>	<b>2,699</b>	<b>2,699</b>	<b>2,699</b>	<b>2,699</b>
<b>Total liabilities</b>	<b>1,466</b>	<b>1,315</b>	<b>1,386</b>	<b>1,388</b>	<b>3,654</b>	<b>3,644</b>	<b>3,628</b>	<b>3,635</b>	<b>3,651</b>	<b>3,668</b>
Common Stock	2	2	2	2	2	2	2	2	2	2
Additional Paid In Capital	529	593	642	670	1,037	1,037	1,037	1,037	1,037	1,037
Retained Earnings	812	963	1,096	859	800	862	1,042	1,303	1,571	1,846
Comprehensive Inc. and Other	(1)	(1)	(2)	(13)	(15)	(15)	(15)	(15)	(15)	(15)
<b>Total equity</b>	<b>1,341</b>	<b>1,556</b>	<b>1,738</b>	<b>1,518</b>	<b>1,823</b>	<b>1,885</b>	<b>2,066</b>	<b>2,327</b>	<b>2,594</b>	<b>2,869</b>

## Cash Flow Statement

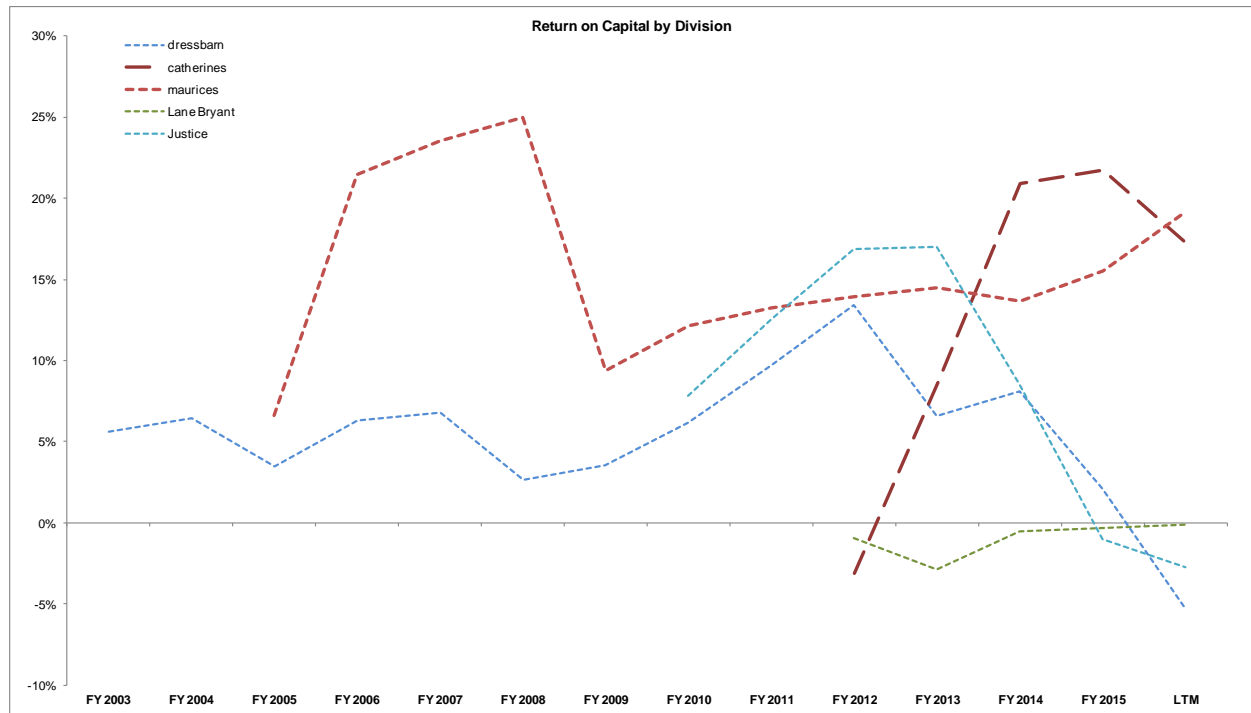
Ascena Retail Group Inc. (ASNA) year ended January 31 (USD, mm)	FY 2012	FY 2013	FY 2014	FY 2015	LTM	FY 2016 F	FY 2017 F	FY 2018 F	FY 2019 F	FY 2020 F
<b>Cash flow statement</b>										
Net income from cont. ops.	172	155	138	(237)	(340)	62	180	261	268	275
Income from disc. ops.	(10)	(4)	(5)	-	-	-	-	-	-	-
<b>Net income</b>	<b>162</b>	<b>151</b>	<b>133</b>	<b>(237)</b>	<b>(340)</b>	<b>62</b>	<b>180</b>	<b>261</b>	<b>268</b>	<b>275</b>
Depreciation and Amortization of Long-lived	107	176	194	218	288	342	350	357	365	372
Change in:										
Inventories	27	(10)	(12)	64	89	67	60	(4)	(12)	(11)
Accounts receivable						(3)	(4)	(6)	(6)	(6)
Accounts payable, accrued liabilities and inc	(18)	68	33	54	(108)	(10)	(16)	6	17	17
<b>Cash from operations</b>	<b>362</b>	<b>450</b>	<b>375</b>	<b>431</b>	<b>380</b>	<b>459</b>	<b>570</b>	<b>614</b>	<b>631</b>	<b>646</b>
Capital expenditures	(150)	(291)	(478)	(313)	(331)	(377)	(385)	(393)	(401)	(410)
<b>Cash from investing</b>	<b>(602)</b>	<b>(272)</b>	<b>(463)</b>	<b>(298)</b>	<b>(1,809)</b>	<b>(377)</b>	<b>(385)</b>	<b>(393)</b>	<b>(401)</b>	<b>(410)</b>
Issuance of LT debt	-	-	-	-	1,764	-	-	-	-	-
Issuance of ST debt	322	447	1,249	832	1,149	-	-	-	-	-
Repayment of LT debt	-	-	-	-	(62)	-	-	-	-	-
Repayment of ST debt	(144)	(641)	(1,213)	(888)	(1,276)	-	-	-	-	-
Payment of deferred financing costs	(7)	(4)	-	(2)	(45)	-	-	-	-	-
Repurchases and retirements of common sto	(37)	-	-	-	(19)	-	-	-	-	-
Proceeds from stock options exercised and e	17	29	18	9	14	-	-	-	-	-
Excess tax benefits from stock-based compen	12	14	4	-	(0)	-	-	-	-	-
<b>Cash from financing</b>	<b>162</b>	<b>(156)</b>	<b>59</b>	<b>(50)</b>	<b>1,526</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Cash - beginning	244	164	186	157	198	294	376	562	783	1,013
Net change in cash	(79)	22	(29)	84	96	82	186	221	230	237
<b>Cash and equivalents - close</b>	<b>164</b>	<b>186</b>	<b>157</b>	<b>241</b>	<b>294</b>	<b>376</b>	<b>562</b>	<b>783</b>	<b>1,013</b>	<b>1,250</b>

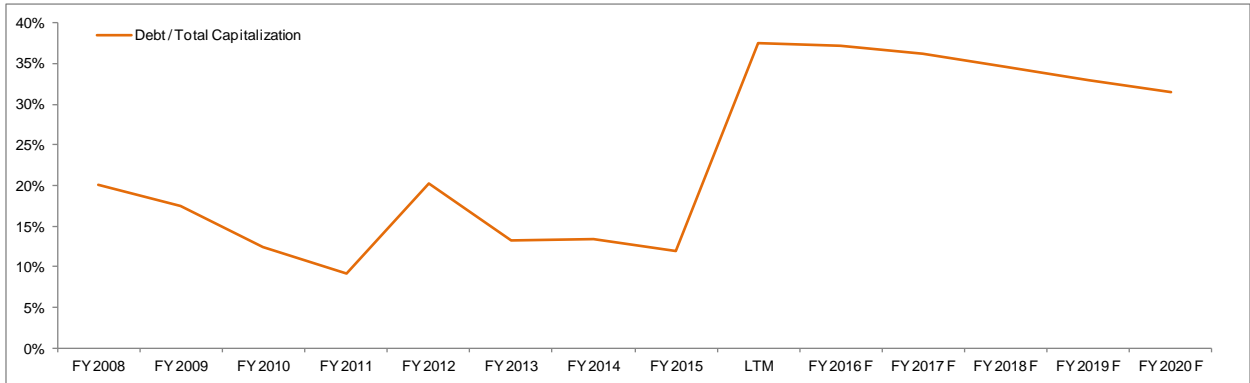
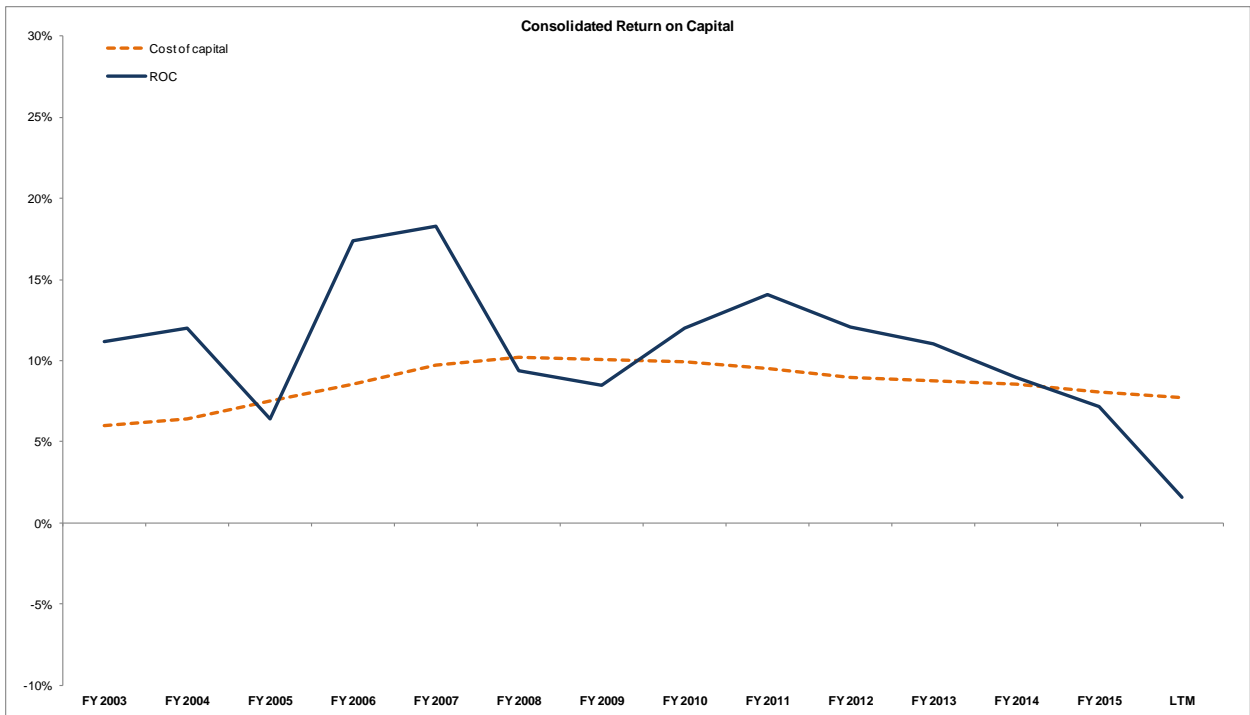
## Schedule of Income Statement Adjustments

Ascena Retail Group Inc. (ASNA) year ended January 31 (USD, mm)	FY 2012	FY 2013	FY 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	FY 2015	Q1 2016	Q2 2016	LTM
<b>Sales</b>	-	-	-	646.8	647.4	597.7	660.0	2,551.9	122.0	1.0	1,380.7
ANN acquisition purchase price	1	-	-	-	-	-	-	-	-	1.0	1.0
ANN earnings	1	-	-	646.8	647.4	597.7	660.0	2,551.9	122.0	-	1,379.7
<b>Cost of goods sold</b>	13.5	19.9	-	(291.1)	(335.7)	(285.1)	(320.1)	(1,232.0)	54.4	22.7	(528.1)
ANN acquisition purchase price	1	13.5	19.9	-	-	-	-	-	104.2	22.7	126.9
ANN earnings	1	-	-	(291.1)	(335.7)	(285.1)	(320.1)	(1,232.0)	(49.8)	-	(655.0)
<b>Buying, distribution &amp; occupancy</b>	-	-	-	(106.0)	(105.6)	(97.5)	(107.7)	(416.8)	(25.1)	(2.7)	(233.0)
ANN acquisition purchase price	1	-	-	-	-	-	-	-	-	(2.7)	(2.7)
ANN earnings	1	-	-	(106.0)	(105.6)	(97.5)	(107.7)	(416.8)	(25.1)	-	(230.3)
<b>SG&amp;A expense</b>	5.4	-	-	(169.8)	(176.3)	(157.0)	(99.2)	(602.2)	(39.9)	1.7	(294.3)
ANN acquisition purchase price	1	-	-	-	-	-	-	-	-	1.7	1.7
ANN earnings	1	-	-	(169.8)	(176.3)	(158.9)	(150.0)	(654.9)	(39.9)	-	(348.7)
Justice pricing lawsuits	1	-	-	-	-	-	50.8	50.8	-	-	50.8
Brothers closure expense	1	-	-	-	-	1.9	-	1.9	-	-	1.9
Executive contractual obligation	1	5.4	-	-	-	-	-	-	-	-	-
Corporate-related reorganization	1	-	-	-	-	-	-	-	-	-	-
<b>Depreciation &amp; amortization</b>	-	14.2	8.6	(27.8)	(28.7)	(24.6)	(24.3)	(105.3)	0.6	7.2	(41.0)
ANN acquisition purchase price	1	-	-	-	-	-	-	-	6.5	7.2	13.7
Accelerated depreciation	1	-	14.2	8.6	0.5	0.1	2.8	3.1	-	-	5.9
ANN earnings	1	-	-	(28.3)	(28.8)	(27.4)	(27.4)	(111.8)	(5.9)	-	(60.6)
<b>Interest expense</b>	-	-	-	(25.2)	(26.0)	(25.5)	(25.5)	(102.2)	(6.8)	-	(57.8)
ANN earnings	1	-	-	(0.3)	(0.5)	-	-	(0.8)	-	-	-
Impact of acquisition on debt	1	-	-	(24.9)	(25.5)	(25.5)	(25.5)	(101.4)	(6.8)	-	(57.8)
ANN interest expense	-	-	-	-	-	-	-	-	-	-	45.0
<b>Interest income</b>	-	-	-	0.7	(0.4)	-	-	0.3	-	-	-
ANN earnings	1	-	-	0.7	-	-	-	0.7	-	-	-
Loss on extinguishment of debt	1	-	-	-	-	-	-	-	-	-	-
Impact of acquisition on debt	1	-	-	-	(0.4)	-	-	(0.4)	-	-	-

Schedule of Income Statement Adjustments (contd.)

		39.4	43.9	47.0	9.0	5.3	4.6	319.2	338.1	42.5	15.2	381.5
<b>Unusual items</b>												
Acquisition and integration expense	1	25.4	34.6	34.0	9.0	5.3	4.6	12.8	31.7	42.5	16.0	75.9
Gain on extinguishment of debt	1	-	9.3	-	-	-	-	-	-	-	(0.8)	(0.8)
Impairment of goodwill	1	-	-	-	-	-	-	261.7	261.7	-	-	261.7
Impairment of intangible assets	1	-	-	13.0	-	-	-	44.7	44.7	-	-	44.7
Acquisition-related transaction	1	14.0	-	-	-	-	-	-	-	-	-	-
Litigation expense	1	-	-	-	-	-	-	-	-	-	-	-
<b>Tax expense</b>					(26.2)	8.3	(3.6)	(39.9)	(61.4)	(58.4)	(20.8)	(122.7)
Acquisition and integration expense	1	-	-	-	(3.4)	(1.9)	(1.8)	(3.1)	(10.2)	(16.9)	(9.5)	(31.3)
Accelerated depreciation	1	-	-	-	(0.2)	-	(1.1)	(1.2)	(2.5)	-	-	(2.3)
Discrete tax item	1	-	-	-	(13.4)	-	-	-	(13.4)	-	-	-
ANN acquisition purchase price	1	-	-	-	-	-	-	-	-	(43.7)	(11.6)	(55.3)
Gain on extinguishment of debt	1	-	-	-	-	-	-	-	-	-	0.3	0.3
ANN earnings	1	-	-	-	(19.0)	0.2	-	-	(18.8)	(0.5)	-	(0.5)
Impact of acquisition on debt	1	-	-	-	9.8	10.0	-	-	19.8	2.7	-	2.7
Impairment of goodwill	1	-	-	-	-	-	-	-	-	-	-	-
Impairment of intangible assets	1	-	-	-	-	-	-	(16.7)	(16.7)	-	-	(16.7)
Justice pricing lawsuits	1	-	-	-	-	-	-	(18.9)	(18.9)	-	-	(18.9)
Brothers closure expense	1	-	-	-	-	-	(0.7)	-	(0.7)	-	-	(0.7)
Effective tax rate adjustment	-	-	-	-	-	-	-	-	-	-	-	(10.0)





### Sell-side consensus

Current Fiscal Year End: Jul-31-2016						FQ3 2016 Earnings Release Date: May-31-2016	
Non-Periodic Data Items						NasdaqGS:ASNA - Recommendation: Outperform (1.92)	
NasdaqGS:ASNA (USD)	Mean	Median	High/Low	Std. Dev.	No. of Est.		
Target Price	14.08	14.50	18.00/9.00	3.57	12/12		
LT Growth	20.00%	20.00%	20.00%/20.00%	0.00	2/2		

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