# Columbia Sportswear (COLM)

**December 2, 2002**

As of close 12/2/2002:

| | |
|---|---|
| **S&P 500:** | **901.77** |
| **10-Year Bond:** | **4.2%** |
| **COLM** | **44.85** |

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**See Back of Report for Important Disclaimer**

## Keeping A Stiff Upper Lip with COLM

"Mother" Gert Boyle, Chairman of the Board

Recommendation
**Hold**

Timeframe
**12 months**

Definition of Ratings

**Buy: Equity is at least 20% undervalued.**
**Hold: Equity is approximately fairly valued.**
**Sell: Equity is at least 20% overvalued.**

- Revenues a little cloudy but costs under control.
- Record 3Q loses a little luster because of pre-buying that will steal from 4Q.
- Thanksgiving sales strong.
- Next year's orders looking fairly strong.
- International expansion should provide a kick, but we think they will proceed carefully.
- Management's hesitant to use debt financing.

# Summary


- Colombia Sportswear, through its aggressive branding campaigns, is positioned as one of the most dominant brands in the outdoor apparel industry. Known for its rugged, durable, and uniquely American style, the Company's image continues to fuel growth and should continue to do so during our investment horizon of the next 12 months.
- Although the revenue picture is a bit cloudy because of slow consumer spending in the United States, we think Columbia can continue to post positive numbers through continued expansion into Europe and Asia, although we believe the company will proceed carefully in the international arena.
- A real economic recovery in the United States would provide significant movement in the apparel stocks, many of which have recently seen upticks. We are not able to predict a full recovery at this time, despite recent positive signs for consumer spending.
- COLM is currently trading at high level historically, and seems fairly expensive relative to its peers. Although the company's past growth story is compelling, we are cautious about its ability to fully replicate the Columbia model internationally.
- Management seems extremely hesitant about assuming debt, which we view as a sign of risk aversion due to uncertainty about future prospects.
- We think COLM is worth at least a wait-and-see approach for 2003.


# Business Overview

## A Dominant Brand in the Outdoor Apparel Industry

- The company was founded in 1938 in Portland, Oregan. In 1998, the company issued its IPO of common stocks. It is currently the highest ranked fishing, hunting, and skiwear brand. It is best known for quality and at a reasonable price.
- The company pays attention to technical details of its product design such as pockets that double as vents, double storm flaps over zippers, and "gutters" that facilitate water run-off. [1]

## Well-Diversified Product Mix and Innovative Designs

- Columbia offers four categories of products – (1) outerwear, (2) sportswear, (3) rugged footwear, and (4) related accessories.
- The products are well-diversified -- 52% of sales from outerwear; the rest comes from footwear, accessory, and sportswear. The following table summarizes its sales composition in 2001:

[1] 10K Financial Statement 2001

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| Outerwear | 51.7% | 52.5% | 54.9% |
| Sportswear | 29.9 | 33 | 31.7 |
| Footwear | 13.9 | 11.2 | 9.4 |
| Accessories | 4.5 | 3.3 | 4.0 |

Source: 2001 10-K.

- Outerwear is the company's most established product category. It is for a variety of outdoor activities including skiing, snowboarding, hiking, hunting and fishing. Many of its jackets feature 3- or 4-jackets-in-1 design, which allows the wearer to wear the outershell and the liner separately. This design provides the wearer with a jacket for all seasons.
- Sportswear line is made up of outdoor sportswear and targets at serious outdoorsman and casual wearer who want to project an outdoor image. One of its product lines is called GRT (Gear for Rugged Trekking, Travel and Training) which is for consumers interested in training, trekking and adventure travel. These products feature lightweight and system of moisture management.
- Footwear category features innovative technical designs such as waterproof/breathable constructions, thermal insulation, enhanced cushioning and high abrasion, slip-resistant outsoles.
- The company started licensing its brand in 1999. The product types are very wide including socks, traveling bags, personal leather goods, watches, eyewear, sleeping bags and tents, etc.

## Brand Competition

- The company competes against a wide range of competitors in the highly fragmented markets. Its main competition is grouped into two types – sportswear and fashionwear. In the first category, the company faces a strong competition from The North Face, Inc., which was recently acquired by the VF Corporation, Marmot Mountain Ltd., Woolrich Woolen Mills, Inc., The Timberland Company, Patagonia Corporation, Helly-Hansen A/S, Burton and Pacific Trail. The sales for COLM and competitors with public filings for the past three years are summarized in the table (in thousands):

| Brand/Sales | 2001 | 2000 | 1999 |
|---|---|---|---|
| Columbia | 779,581(K) | 614,825(K) | 470,503(K) |
| North Face | N/A | 237,977 | 247,096 |
| Timberland | 1,183,623 | 1,091,478 | 917,216 |

Source: Global Disclosure for individual company's sales.

- For fashion-oriented competitors, the company faces Polo Ralph Lauren Corporation, Nautica Enterprises, Inc., and Tommy Hilfiger Corporation. Their sales are summarized as follows:

| Brand/Sales | 2001 | 2000 | 1999 |
|---|---|---|---|
| Polo Ralph Lauren | 172,500 | 159,262 | 143,497 |
| Nautica | 692,092 | 627,731 | 564,888 |
| Tommy Hilfiger | 1,876,721 | 1,880,935 | 1,977,180 |

Source: Global Disclosure for individual company's sales

- As revealed in the tables above, Columbia has the strongest and most stable sales growth of the past three years.

- Similar marketing and design concepts can result in serious market cannibalization in the apparel industry. In 1998, for example, Columbia boosted its sales through "Concept Shops" that were similar to North Face's "Summit Shops". Since then, North Face started to decline from its peak. In the following two years, the company experienced some management turmoil such as ill-considered relocation to Colorado, an aborted management buyout, and executive turnover. After 2 years of turmoil, rather than filing Chapter 11, the company opted to be bought by VF Corporation in 2000. [2]

## Fashion Risk

- The company faces risks associated with its brand popularity. These risks may come from (a) a rapid sales growth and broad licensing practices that fails to maintain an exclusive brand image; (b) the reversal of the casual attire trend; (c) unable to adapt to changing consumer tastes; and (d) unable to continue its product innovation.

[2] http://www.hoovers.com/premium/profile/0/0,2147,51292,00.html

Management Risk

- The Boyle family owns approximately 65% of all the common stock of the company. Acting in concert, the family can make all decisions requiring shareholder approval without requiring the cooperation of other common shareholders.
- If the Boyle family's goals and objectives are in conflict with those of the shareholders, shareholders will essentially be powerless to make changes. For example, the Company has shown a reluctance to take on debt in order to fund growth, although the use of debt could provide positive benefits for equity holders.

# Revenues

Overview

- Columbia Sportswear sells its products through independent sales agencies that work with retail accounts that vary in size from single specialty store operations to the large chains made up of many stores in several locations.
- They also operate nine outlet stores of their own in various locations throughout North America. These outlet stores are designed to sell excess and distressed inventory without adversely affecting retail accounts.
- A flagship store located in Portland, Oregon provides the company with the ability to test new marketing and merchandising techniques and keep in touch with customer trends and preferences.
- Net income for the year ended December 31, 2001 was approximately $780 million.

Revenues by Geographic Location

- Almost 50% of the retail outlets that sell Columbia products are situated in the United States and Canada. The sales in these two countries accounted for 81.1% of total revenues in 2001.
- The company has European sales offices in France, Germany, and the United Kingdom, with the European headquarters office located in Strasbourg, France. Products are mainly sold directly to retailers but direct sales are also employed. Combined, these mechanisms resulted in net direct sales in Europe of $82.3 million in 2001.
- Other major international markets include Japan, Australia, New Zealand, South America, Europe, Russia and China.

| Net Revenues (Geographic Distribution) | | | |
|---|---|---|---|
| | | | |
| | 2001 | 2000 | 1999 |
| United States | 70.70% | 71.40% | 72.60% |
| Canada | 10.40% | 10.30% | 10.70% |
| Europe | 10.60% | 9.60% | 8.80% |
| Other International | 8.30% | 8.70% | 7.90% |

## Revenues By Product Category

- Products are grouped into 4 major categories: outerwear, sportswear, rugged footwear and accessories.
- Outerwear is the most prominent product category. It includes items designed to protect the wearer from stormy weather in everyday use and in a variety of outdoor activities, including skiing, snowboarding, hiking, hunting and fishing.
- Columbia's skiwear line is the best selling brand of skiwear in the United States and includes products such as parkas, vests, ski pants and pullovers.
- Snowboard apparel is another important component of the outerwear category. Columbia was able to identify the potential emergence of snowboarding as a popular sport and position itself to take advantage
- Sportswear consists of outdoor sportswear and GRT (r) (Gear for Rugged Trekking, Travel and Training) and accounted for approximately 29.9% of net sales for 2001. The outdoor sportswear product line includes hiking shorts, water sport trunks, fleece and pile products, sweaters, chinos, knit shirts, woven shirts, sweats, and jeans.
- The Rugged Footwear category consists of both fall and spring seasonal outdoor footwear for adults and youth as well as cold weather, hiking/trail and rugged comfort styles. Rugged footwear as a percentage of net sales was approximately 13.9% in 2001.
- The company also produces a line of accessories that includes hats, caps, scarves, gloves, mittens and headbands to complement the outerwear and sportswear lines.

| Net Revenues (By Product) | | | |
|---|---|---|---|
| | | | |
| | 2001 | 2000 | 1999 |
| Outwear | 403.26 | 322.88 | 258.30 |
| Sportswear | 233.22 | 202.95 | 149.15 |
| Footwear | 108.42 | 68.88 | 44.23 |
| Accessories | 35.10 | 20.30 | 18.82 |

Amounts in Millions of USD

## Revenue Recognition

- Revenue for wholesale operations and licensing is recognized at the point in time that the merchandise is shipped to the customer.
- Retail store revenue is recognized at the time at which the sale is made.
- Allowances for estimated returns are provided when sales are recorded and vary depending on the product and the retailer. All of the company's products carry lifetime limited warranty provisions for defects in quality and workmanship.

## Credit and Collection

- Credit is extended to customers based on an assessment of the customer's financial circumstances, generally without requiring collateral.
- Customers are given discounts for placing pre-season orders and extended payment terms for taking delivery before the peak shipping season as an incentive to ensure more accurate production scheduling.

## Seasonality of Revenues

- The business is affected by general seasonal trends with sales and profits highest in the third quarter.
- Columbia's products are marketed on a seasonal basis, with a product mix weighted substantially toward the fall season.

## Revenue Outlook

- International sales in European markets have been steadily increasing in the last 3 years. Also, Japan represents a growing opportunity. Accelerated sales growth in this region is projected as economic conditions improve.
- Rugged footwear as a percentage of consolidated net sales has increased from approximately 2.9% in 1994 to approximately 13.9% in 2001. This represents a substantial revenue growth opportunity.
- However, current credit terms and processes, i.e. the life-time product warranty, expose the company to risks of uncollectible receivables and could impact revenue projections.

# Costs

**Summary**

- Columbia has aggressively reduced costs in the last 5 years, bringing down SG&A an impressive 510 basis points. Its Operating Margin has increased, accordingly, from 8.9% in 1996 to over 19% currently. This leads us to continue to believe in the future cost cuts projected by the Company.
- Columbia's current model of having Company employees in regional contractor sites, enables Columbia to be extremely responsive. Management attributes recent growth to the agility that this framework enables. Given the last 5 years as evidence, we believe that this model results in products that are highly responsive to changing consumer preferences.
- Rounding out our outlook for the company's costs is a recent acquisition. Paying only $8 million for its recent acquisition of Sorel of Canada, the Company's management identified and capitalized on a bargain. The Sorel unit contributed $16.5 million to sales in 2001 and is expected to grow significantly. We have every reason to believe, given the Company's good cash position and available credit, that future accretive acquisitions are likely.

## Advertising & Product Warranty

- Branding and Advertising play a critical role in the Company's success, enabling a pricing premium and sales growth. The print and broadcast advertising campaigns have created an image of Columbia's products as premium quality and rugged, durable, authentic, and uniquely American.
- Advertising is aggressive but costly. Advertising expense was $35,011,000, $27,343,000, and $20,725,000 for the years ended December 31, 2001, 2000, and 1999, respectively.
- A big part of the premium image is COLM's Lifetime Product Warranty. Almost all of the Company's products carry lifetime limited warranty provisions for defects in quality and workmanship.
- The warranty is also costly, but not nearly as much as might be expected. A reserve is established at the time of sale to cover estimated warranty costs based on the Company's history of warranty repairs and replacements. Warranty expense was approximately $2,672,000, $3,325,000, and $3,127,000 for the years ended December 31, 2001, 2000 and 1999, respectively.

## Sourcing

- Like other branded apparel manufacturers, COLM's apparel and footwear products are produced by independent manufacturers abroad. The company believes that the use of these independent manufacturers increases production capacity and flexibility and reduces costs.

- Quality control, like other branded apparel companies, is monitored and coordinated overseas by Columbia employees.
- Unlike many apparel companies, COLM houses quality control and manufacturing coordination specialists in the country that manufactures their goods. COLM maintains 15 sourcing and quality control offices in the Far East, each staffed by Columbia employees and managed by personnel native to the region. Personnel in these offices direct sourcing activities, help to ensure quality control and assist with the monitoring and coordination of overseas shipments.[3]
- This framework enables better responsiveness to customer demand, and more flexibility. This model seems to be working for the company as evidenced by the ability of this system to create useful and highly demanded products in the last 5 years (5 year CAGR is 21%).
- This framework also enables COLM to foster a strong relationship with its vendors. The company believes that this model enables a long-term competitive advantage over its competitors. While we do not agree, we are impressed by the Company's ability to pick winning designs and quickly and consistently respond to the market with agility.
- Lastly, this framework builds on COLM's image of providing high quality offerings.
- Personnel from the U.S. headquarters approve final pricing for all orders.

## Buyer Power

- 97% of products by sales were produced outside the United States, principally in the Far East.
- None of the vendors accounts for more than 10% of sales, and few have formal long-term contracts. In this respect COLM operates just like other branded apparel companies.
- The company believes there to be no shortage of vendors and also believes that the relationships with contractor to be good.
- Two methods of production utilized by contractors:
  - The contractor can purchase the raw materials needed to produce the garment from suppliers approved by COLM.
  - Or, the contractor can purchase the raw materials from COLM. In this situation, the COLM has pre-ordered the raw material and can offer the price savings inherent in this strategy to the contractor.

[3] Columbia Sportswear 10-K, 2001.

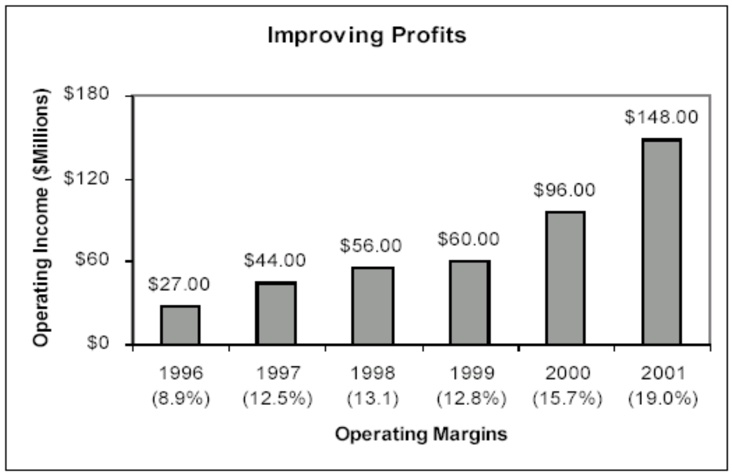
## Properties

- The company owns/leases four properties: Corporate Headquarters, Portland Oregon; U.S. Distribution Facility, Portland, Oregon; Canadian Operation, Strathroy, Ontario (leased); and Europe Distribution Facilities (2), Cambrai, France

## SG&A

- SG&A declined substantially as a percentage of sales in 2001 (from 29.9% in 2000 to 26.8% in 2001). We believe SG&A will level off at about 25% of sales in 2002 and beyond.
- The Company attributes this to aggressive cost control measures and suggests that further measures are in place, the fruits of which will be realized in FY2002.

The Company's improving profits are largely a result of the 510 basis point cut in **SG&A Expense** over the 1996 to 2001 time period




Source: D.A. Davidson & Co. Equity Research Report, October 1, 2002

## Interest Expense

- Interest expense is a small percentage of sales. In 2000 it accounted for approximately 0.7% and in 2001 it was 0.3%.
- The company cut this expense in half by decreasing borrowings and paying down debt.
- We are optimistic about the lack of debt that this company has incurred. While creditors have made available more than $100 million in a revolving credit facility, nearly none of this has been utilized. Further, many creditors reduced COLM's borrowing rates in 2001, yet another signal of a healthy Company.

## Employees

- At December 31, 2001, the Company had 1,636 full-time employees. Of these employees, 907 were based in the United States, 102 in Canada, 98 in Europe and 529 in Asia.

## Unions

- The Company's 10-K and 10-Q make no mention of any Unions. In all of the other branded apparel companies we researched, specific mention was made of this if Unions existed. We are assuming that company employees are not part of any unions.

## Recent Acquisition

- Sorel was acquired for $8 million in Canadian bankruptcy proceedings.
- In 2001, Sorel contributed $16.5 million to sales.
- We believe the success of this acquisition is a signal of good management. COLM hopes to grow this brand significantly in the years to come.
- Because of COLM's low debt and affluent cash position, COLM may be a potential acquisition target. However, no such moves were found in the industry news. Therefore, this report does not calculate its equity value accordingly.

## Valuation

We evaluated Columbia Sportswear's equity value using two methods:

1) Comparable Companies
2) Discounted Cash Flows Available to Equity Holders

As you can see from the price chart below, COLM has been bid up by almost 50% over the last two months. The current trading level is easily a 52-week high.

## Comparables

- COLM appears a little pricey compared with the other equities in our coverage universe.
- Price to Sales can be explained by COLM's high margins.
- Price to Book can be explained by a balance sheet relatively free of goodwill and intangibles.
- However, we are not sure if there is enough growth left in the business model to justify even higher Price/Earnings and Price/CF ratios.

| Company | Price/ Earnings (ttm) | Price/ Book | Price/ Sales (ttm) | Price/ Cash Flow (ttm) |
|---|---|---|---|---|
| Columbia Sporstwear | 18.5 | 4.1 | 2.2 | 15.5 |
| Coverage Universe Median | 16.2 | 2.4 | 1.0 | 14.0 |
| Liz Claiborne | 16.2 | 2.8 | 1.0 | 11.1 |
| Jones Apparel Group | 16.0 | 2.1 | 1.2 | 14.4 |
| Polo Ralph Lauren | 15.7 | 2.3 | 1.0 | 10.2 |
| Quiksilver | 24.5 | 2.6 | 1.0 | 15.8 |
| Tommy Hilfiger | 5.7 | 0.6 | 0.4 | 3.1 |
| VF Corporation | 24.0 | 2.4 | 0.8 | 14.0 |

Source: Multex, Marketguide

## Discounted Cash Flow

### All-Equity Firm

- As Columbia has more than enough cash on hand to cover its current debt load, we are assuming that it is all-equity financed. We feel this is reasonable given management's penchant for keeping debt levels extremely low.

Assumptions

Risk Free Rate = 4.2% (10-yr. Treasury)
Beta = 1.7
Mkt. Value Equity = 1,745,110,000
Equity Proportion = 100%
Debt Proportion = 0%
Firm Value = 1,745,110,000
Shares Outstanding = 39,530,000

Equity Cost of Capital for given Market Risk Premium

| Market Risk Premium | Cost of Capital |
|---|---|
| 5.0% | 12.7% |
| 6.0% | 14.4% |
| 7.0% | 16.1% |
| 8.0% | 17.8% |
| 9.0% | 19.5% |
| 10.0% | 21.2% |

## Equity Value Per Share

- We applied the range of discount rates above to free cash flows in order to derive the following matrix of possible share prices.
- The average of all three scenarios is 43.06, which is slightly lower than the current trading price.
- The average for 2% terminal growth is 40.87, which is less than 10% below the current trading price.
- If we exclude the worst case and use only the Base and Best Cases at 3% terminal growth, the average is 50.61, which is less than 15% higher than the current trading price.
- Triangulation of these values leads us to believe that the equity should be trading near its current price (plus/minus 10%).

NPV of Discounted Cash Flows to Equity given Growth Assumptions and Equity Cost of Capital

| | | Terminal Growth Rate | | |
|---|---|---|---|---|
| **Case** | **Discount Rate** | **2%** | **3%** | **4%** |
| Worst | 21.2% | 20.66 | N/A | N/A |
| 27.60 | 19.5% | 22.67 | N/A | N/A |
| | 17.8% | 25.11 | N/A | N/A |
| | 16.1% | 28.13 | N/A | N/A |
| | 14.4% | 31.99 | N/A | N/A |
| | 12.7% | 37.07 | N/A | N/A |
| Best | 21.2% | 40.48 | 42.34 | 44.43 |
| 55.05 | 19.5% | 43.75 | 45.98 | 48.49 |
| | 17.8% | 47.65 | 50.37 | 53.47 |
| | 16.1% | 52.41 | 55.79 | 59.74 |
| | 14.4% | 58.35 | 62.71 | 67.90 |
| | 12.7% | 66.04 | 71.88 | 79.07 |
| Base | 21.2% | 34.40 | 35.95 | 37.67 |
| 46.54 | 19.5% | 37.14 | 38.98 | 41.07 |
| | 17.8% | 40.40 | 42.64 | 45.22 |
| | 16.1% | 44.36 | 47.17 | 50.44 |
| | 14.4% | 49.32 | 52.93 | 57.23 |
| | 12.7% | 55.71 | 60.56 | 66.51 |
| 43.06 | | 40.87 | 50.61 | 54.27 |

Calculation of Free Cash Flow to the Firm Over a Five-Year Horizon

Assumptions:

- Each free cash flow case (Base, Best, Worst) refers to Pro Forma calculations of Net Income, which are each included in subsequent tables.
- CAPEX ramps down from current level of 5% of sales to 4% of sales over the 5-year horizon.
- Working Capital levels remain constant at 25% of sales.

| BASE CASE | Y1 | Y2 | Y3 | Y4 | Y5 |
|---|---|---|---|---|---|
| NET INCOME | 167,091 | 180,458 | 191,285 | 200,850 | 208,884 |
| POST TAX INT | 293 | 317 | 336 | 352 | 366 |
| NOPAT | 167,384 | 180,774 | 191,621 | 201,202 | 209,250 |
| DELTA WC | 28,455 | 25,040 | 20,283 | 17,916 | 15,050 |
| CAPEX | 44,715 | 45,877 | 46,071 | 45,687 | 44,719 |
| DEPRECIATION | 26,829 | 27,526 | 27,642 | 27,412 | 26,832 |
| FREE CASH | 121,043 | 137,383 | 152,910 | 165,011 | 176,313 |

| BEST CASE | Y1 | Y2 | Y3 | Y4 | Y5 |
|---|---|---|---|---|---|
| NET INCOME | 174,686 | 197,395 | 219,108 | 236,637 | 246,102 |
| POST TAX INT | 306 | 346 | 384 | 415 | 432 |
| NOPAT | 174,992 | 197,741 | 219,493 | 237,052 | 246,534 |
| DELTA WC | 30,487 | 30,386 | 29,053 | 23,454 | 12,665 |
| CAPEX | 46,747 | 50,183 | 52,772 | 53,827 | 52,687 |
| DEPRECIATION | 28,048 | 30,110 | 31,663 | 32,296 | 31,612 |
| FREE CASH | 125,806 | 147,282 | 169,330 | 192,067 | 212,794 |

| WORST CASE | Y1 | Y2 | Y3 | Y4 | Y5 |
|---|---|---|---|---|---|
| NET INCOME | 157,977 | 162,716 | 165,970 | 169,290 | 172,675 |
| POST TAX INT | 277 | 285 | 291 | 297 | 303 |
| NOPAT | 158,254 | 163,001 | 166,261 | 169,587 | 172,978 |
| DELTA WC | 8,130 | 6,341 | 4,354 | 4,442 | 4,530 |
| CAPEX | 42,276 | 41,367 | 39,974 | 38,508 | 36,968 |
| DEPRECIATION | 25,366 | 24,820 | 23,984 | 23,105 | 22,181 |
| FREE CASH | 133,213 | 140,113 | 145,917 | 149,742 | 153,661 |

Source: Yale SOM Team Estimates

## Pro Forma Income Statements Over a Five-Year Horizon

Assumptions:

- We assume that expenses will remain constant as a percentage of sales. Common size expense levels can be found in the subsequent income statement table under the column for current fiscal year (ending 12/31/2002).
- For the Base Case, we assume that sales will bounce back in 2003, but then will taper off towards a reasonable long-term growth rate.
- For the Best Case, we assume that sales will continue to be very strong for several years.
- In the Worst Case, sales in the upcoming year match the expected results for 2002 and then taper off towards the low end of the long-range growth rate.

| | Fiscal Years Ending | | | | | |
|---|---|---|---|---|---|---|
| BASE CASE | 12/31/02E | 12/31/03E | 12/31/04E | 12/31/05E | 12/31/06E | 12/31/07E |
| NET SALES | 812,998 | 894,298 | 965,842 | 1,023,792 | 1,074,982 | 1,117,981 |
| COST OF GOODS | 432,106 | 456,092 | 492,579 | 522,134 | 548,241 | 570,170 |
| GROSS PROFIT | 380,892 | 438,206 | 473,262 | 501,658 | 526,741 | 547,811 |
| SG&A | 207,880 | 205,688 | 222,144 | 235,472 | 247,246 | 257,136 |
| OPERATING INCOME | 173,012 | 232,517 | 251,119 | 266,186 | 279,495 | 290,675 |
| INTEREST EXPENSE | 69 | 447 | 483 | 512 | 537 | 559 |
| EBT | 172,943 | 232,070 | 250,636 | 265,674 | 278,958 | 290,116 |

| | | | | | | |
|---|---|---|---|---|---|---|
| TAXES | 59,578 | 64,980 | 70,178 | 74,389 | 78,108 | 81,232 |
| NET INCOME | 113,365 | 167,091 | 180,458 | 191,285 | 200,850 | 208,884 |
| | | | | | | |
| Assumed Sales Growth | | 1.10 | 1.08 | 1.06 | 1.05 | 1.04 |

| | | | Fiscal Years Ending | | | |
|---|---|---|---|---|---|---|
| BEST CASE | 12/31/02E | 12/31/03E | 12/31/04E | 12/31/05E | 12/31/06E | 12/31/07E |
| NET SALES | 812,998 | 934,948 | 1,056,491 | 1,172,705 | 1,266,521 | 1,317,182 |
| COST OF GOODS | 432,106 | 476,823 | 538,810 | 598,079 | 645,926 | 671,763 |
| GROSS PROFIT | 380,892 | 458,124 | 517,681 | 574,625 | 620,595 | 645,419 |
| SG&A | 207,880 | 215,038 | 242,993 | 269,722 | 291,300 | 302,952 |
| OPERATING INCOME | 173,012 | 243,086 | 274,688 | 304,903 | 329,296 | 342,467 |
| INTEREST EXPENSE | 69 | 467 | 528 | 586 | 633 | 659 |
| EBT | 172,943 | 242,619 | 274,159 | 304,317 | 328,662 | 341,809 |
| TAXES | 59,578 | 67,933 | 76,765 | 85,209 | 92,025 | 95,706 |
| NET INCOME | 113,365 | 174,686 | 197,395 | 219,108 | 236,637 | 246,102 |
| | | | | | | |
| Sales Growth Factor | | 1.15 | 1.13 | 1.11 | 1.08 | 1.04 |

| | | | Fiscal Years Ending | | | |
|---|---|---|---|---|---|---|
| WORST CASE | 10/31/02E | 10/31/03E | 10/31/04E | 10/31/05E | 10/31/06E | 10/31/07E |
| NET SALES | 812,998 | 845,518 | 870,883 | 888,301 | 906,067 | 924,188 |
| COST OF GOODS | 432,106 | 431,214 | 444,151 | 453,034 | 462,094 | 471,336 |
| GROSS PROFIT | 380,892 | 414,304 | 426,733 | 435,268 | 443,973 | 452,852 |
| SG&A | 207,880 | 194,469 | 200,303 | 204,309 | 208,395 | 212,563 |
| OPERATING INCOME | 173,012 | 219,835 | 226,430 | 230,958 | 235,577 | 240,289 |
| INTEREST EXPENSE | 69 | 423 | 435 | 444 | 453 | 462 |
| EBT | 172,943 | 219,412 | 225,994 | 230,514 | 235,124 | 239,827 |
| TAXES | 59,578 | 61,435 | 63,278 | 64,544 | 65,835 | 67,152 |
| NET INCOME | 113,365 | 157,977 | 162,716 | 165,970 | 169,290 | 172,675 |
| | | | | | | |
| Assumed Sales Growth | | 1.04 | 1.03 | 1.02 | 1.02 | 1.02 |

Source: Yale SOM Team Estimates

## Statements of Income – Actual and Estimated – 1994 through Current FY

| | Current FY | | | QUARTERS ENDING | | | | | FISCAL YEARS ENDING | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 12/31/2002E | 12/31/02E | 9/30/02 | 6/30/02 | 4/30/02 | 12/31/01 | 12/31/00 | 12/31/99 | 12/31/98 | 12/31/97 | 12/31/96 | 12/31/95 | 12/31/94 |
| NET SALES | 812,998 | 214,000 | 331,504 | 124,195 | 143,299 | 779,581 | 614,825 | 470,503 | 427,278 | 353,452 | 298,988 | 303,797 | 256,426 |
| COST OF GOODS | 432,106 | 109,140 | 170,717 | 70,101 | 82,148 | 422,430 | 334,689 | 259,609 | 240,457 | 198,946 | 176,859 | 182,971 | 148,940 |
| GROSS PROFIT | 380,892 | 104,860 | 160,787 | 54,094 | 61,151 | 357,151 | 280,136 | 210,894 | 186,821 | 154,506 | 122,129 | 120,826 | 107,486 |
| SELL GEN & ADMIN EXP | 207,880 | 49,220 | 69,646 | 42,787 | 46,227 | 181,220 | 142,888 | 124,479 | 91,508 | 65,424 | 54,379 | 46,810 | 35,014 |
| OPERATING INCOME | 173,012 | 55,640 | 91,141 | 11,307 | 14,924 | 175,931 | 137,248 | 86,415 | 95,313 | 89,082 | 67,750 | 74,016 | 72,472 |
| INTEREST EXPENSE | 69 | 107 | 129 | -276 | 109 | 2,568 | 4,238 | 4,822 | 4,075 | 3,593 | 4,220 | 8,267 | 3,220 |
| EBT | 172,943 | 55,533 | 91,012 | 11,583 | 14,815 | 173,363 | 133,010 | 81,593 | 91,238 | 85,489 | 63,530 | 65,749 | 69,252 |
| TAXES | 59,578 | 15,549 | 34,130 | 4,047 | 5,852 | 56,789 | 33,544 | 22,235 | 18,979 | 1,413 | 1,468 | 1,750 | 1,893 |
| NET INCOME | 113,365 | 39,984 | 56,882 | 7,536 | 8,963 | 116,574 | 99,466 | 59,358 | 72,259 | 84,076 | 62,062 | 63,999 | 67,359 |
| OUTSTANDING SHARES | 39,530 | 39,530 | 39,451 | 39,451 | 39,342 | 38,283 | 25,709 | 25,350 | 25,267 | 18,792 | 18,792 | 28 | NA |

| | Current FY | | QUARTERS ENDING | | | | | | FISCAL YEARS ENDING | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| COMMON SIZE INCOME | 12/31/2002E | 12/31/02E | 9/30/02 | 6/30/02 | 4/30/02 | 12/31/01 | 12/31/00 | 12/31/99 | 12/31/98 | 12/31/97 | 12/31/96 | 12/31/95 | 12/31/94 |
| NET SALES | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| COST OF GOODS | 53.1% | 51.0% | 51.5% | 56.4% | 57.3% | 54.2% | 54.4% | 55.2% | 56.3% | 56.3% | 59.2% | 60.2% | 58.1% |
| GROSS PROFIT | 46.9% | 49.0% | 48.5% | 43.6% | 42.7% | 45.8% | 45.6% | 44.8% | 43.7% | 43.7% | 40.8% | 39.8% | 41.9% |
| SELL GEN & ADMIN EXP | 25.6% | 23.0% | 21.0% | 34.5% | 32.3% | 23.2% | 23.2% | 26.5% | 21.4% | 18.5% | 18.2% | 15.4% | 13.7% |
| OPERATING INCOME | 21.3% | 26% | 27.5% | 9.1% | 10.4% | 22.6% | 22.3% | 18.4% | 22.3% | 25.2% | 22.7% | 24.4% | 28.3% |
| INTEREST EXPENSE | 0.0% | 0.1% | 0.04% | -0.2% | 0.1% | 0.3% | 0.7% | 1.0% | 1.0% | 1.0% | 1.4% | 2.7% | 1.3% |
| EBT | 21.3% | 26.0% | 27.5% | 9.3% | 10.3% | 22.2% | 21.6% | 17.3% | 21.4% | 24.2% | 21.2% | 21.6% | 27.0% |
| TAX RATE | 34.4% | 28.0% | 37.5% | 34.9% | 39.5% | 32.8% | 25.2% | 27.3% | 20.8% | 1.7% | 2.3% | 2.7% | 2.7% |
| NET INCOME | 13.9% | 18.7% | 17.2% | 6.1% | 6.3% | 15.0% | 16.2% | 12.6% | 16.9% | 23.8% | 20.8% | 21.1% | 26.3% |
| ANNUAL YOY SALES GROWTH | 4.3% | | | | | 27% | 31% | 10% | 21% | 18% | -2% | 18% | |
| CAPEX (ANNUAL) | 37,000 | | | | | 39,727 | 21,233 | 12,591 | | | | | |
| CAPEX/SALES | 0.05 | | | | | 0.05 | 0.03 | 0.03 | | | | | |
| 5-Yr Sales CAGR | 18.1% | | | | | | | | | | | | |

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