

Ralph Lauren Corp RL (NYSE) | ★★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
93.98 USD	150.00 USD	105.00 USD	202.50 USD	Medium	Narrow	Stable	Standard	Manufacturing - Apparel & Furniture

Despite Near-Term Worries, We Maintain Our Ralph Lauren Valuation on Brand Reinvigoration Potential

See Page 2 for the full Analyst Note from 31 Mar 2016

Paul Swinand
Equity Analyst
paul.swinand@morningstar.com
+1 (312) 696-6220

The primary analyst covering this company does not own its stock.

Research as of 31 Mar 2016
Estimates as of 16 Mar 2016
Pricing data through 22 Apr 2016
Rating updated as of 22 Apr 2016

Currency amounts expressed with "\$" are in U.S. dollars (USD) unless otherwise denoted.

Contents

Investment Thesis	1
Morningstar Analysis	
Analyst Note	2
Valuation, Growth and Profitability	2
Scenario Analysis	3
Economic Moat	3
Moat Trend	4
Bulls Say/Bears Say	5
Financial Health	6
Enterprise Risk	6
Management & Ownership	8
Analyst Note Archive	9
Additional Information	-
Morningstar Analyst Forecasts	11
Comparable Company Analysis	15
Methodology for Valuing Companies	17

Investment Thesis 30 Dec 2015

Over the past four decades, Ralph Lauren Corp. has constructed a considerable portfolio of brands mainly incorporating the Ralph Lauren and Polo brand names. The brands and the distinctive style they project have become embedded in consumers' minds, both domestically and abroad, which we view as important, given the competitive marketplace and low customer switching costs in apparel and accessories. The company has developed a long record of top-line growth and profits over the years through a combination of internal growth and acquisitions, which we believe can continue. Ralph Lauren has delivered midteens or higher returns on invested capital, ahead of our cost of capital estimate, supporting our narrow economic moat rating.

Ralph Lauren historically has been able to distribute its products around the world without diluting its brand image or materially cannibalizing sales, which is not always the case in the apparel industry. Management has executed well, operating nearly 20 labels and has done a particularly good job of segmenting target customers and product price points to ensure apparel differentiation.

Ralph Lauren is targeting international markets for growth and has assumed direct distribution control from select licensees. Revenue outside North America has increased faster than at home over the past five years, and in the long run the company targets balanced revenue from Europe, the Americas, and Asia. An increased focus on building out its retail presence should help the firm further control its brands and boost gross margins. With over 1,000 retail stores (466 total branded stores plus 536 concession shops as of fiscal 2015 year-end), the firm has ample room for retail expansion over the next decade, in our view. It has also begun to build out its Web-based operations and runs more than 10 e-commerce sites. It is important to put the firm's focus on brand elevation into context; it closed more than two thirds of its Chinese retail outlets in 2012 after reacquiring the license. We believe that at this time, the repositioning in China is largely over, and brand elevation is the right strategy.

Vital Statistics

Market Cap (USD Mil)	7,896
52-Week High (USD)	141.03
52-Week Low (USD)	82.15
52-Week Total Return %	-29.6
YTD Total Return %	-15.3
Last Fiscal Year End	31 Mar 2015
5-Yr Forward Revenue CAGR %	2.8
5-Yr Forward EPS CAGR %	10.7
Price/Fair Value	0.63

Valuation Summary and Forecasts

	Fiscal Year:	2014	2015	2016(E)	2017(E)
Price/Earnings		—	16.7	14.6	13.9
EV/EBITDA		9.3	7.8	8.0	6.5
EV/EBIT		11.3	9.9	12.3	9.2
Free Cash Flow Yield %		3.6	4.4	6.2	5.7
Dividend Yield %		1.0	1.4	2.3	2.4

Financial Summary and Forecasts (USD Mil)

	Fiscal Year:	2014	2015	2016(E)	2017(E)
Revenue		7,450	7,620	7,372	7,235
Revenue YoY %		7.3	2.3	-3.3	-1.9
EBIT		1,184	1,077	614	822
EBIT YoY %		4.0	-9.0	-43.0	33.8
Net Income, Adjusted		814	732	552	553
Net Income YoY %		7.4	-10.1	-24.5	0.1
Diluted EPS		—	7.87	6.45	6.76
Diluted EPS YoY %		—	—	-18.1	4.8
Free Cash Flow		440	451	422	380
Free Cash Flow YoY %		-41.3	2.5	-6.5	-9.9

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

Ralph Lauren markets, designs, sources, and distributes a wide range of apparel and accessories through department stores, specialty retailers, and its own chain of retail stores and outlets. Selected brand names include Polo, Ralph Lauren, Lauren, Women's Polo, Ralph Lauren Purple Label, Blue Label, RLX, Polo Sport, and Chaps. The company also operates its own portfolio of retail stores under the Ralph Lauren, Club Monaco, and Denim & Supply names.

Ralph Lauren Corp RL (NYSE) | ★★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
93.98 USD	150.00 USD	105.00 USD	202.50 USD	Medium	Narrow	Stable	Standard	Manufacturing - Apparel & Furniture

Morningstar Analysis

Despite Near-Term Worries, We Maintain Our Ralph Lauren Valuation on Brand Reinvigoration Potential 31

Mar 2016

We are maintaining our stance that Ralph Lauren is one of the most undervalued names in our luxury and apparel coverage, and despite ongoing worries in the apparel sector, we are maintaining our \$150 fair value estimate and narrow moat rating. With the stock trading in the mid-\$90s, the price/fair value is roughly 0.65, modestly up off lows following the company's last quarterly update.

Fourth-quarter results from department stores and apparel makers have been rather poor and inventory levels need to be cleared in multiple channels. Although the inventory backup began with warm weather before the holidays, apparel suppliers will be called on to help liquidate inventory, cut or push out future orders, and in general share the pain the retailers are experiencing. While we prefer wholesale businesses to retail because of higher returns on capital, Ralph Lauren is not immune and lists Macy's as its largest customer.

In its last update, management gave preliminary guidance for the next fiscal year ending March, noting that revenue would be down again. New CEO Stefan Larsson is conducting research and a review of the business before elaborating on strategic changes or operating initiatives. We believe Larsson will not be timid in initiating changes or weak in his leadership. But it is also our view that with a strong brand such as Ralph Lauren, Larsson will be able to reinvigorate desire for the name, which should drive the top line and improve operating margins in the long run.

Although there is potential for further volatility in the stock, we believe Larsson will ultimately strengthen Ralph Lauren's moat, which supports our valuation even if near-term reported financials get worse before getting better. We also believe that the potential for restructuring and the bad news in the apparel sector have hardly gone unnoticed

and theoretically should be priced into the stock.

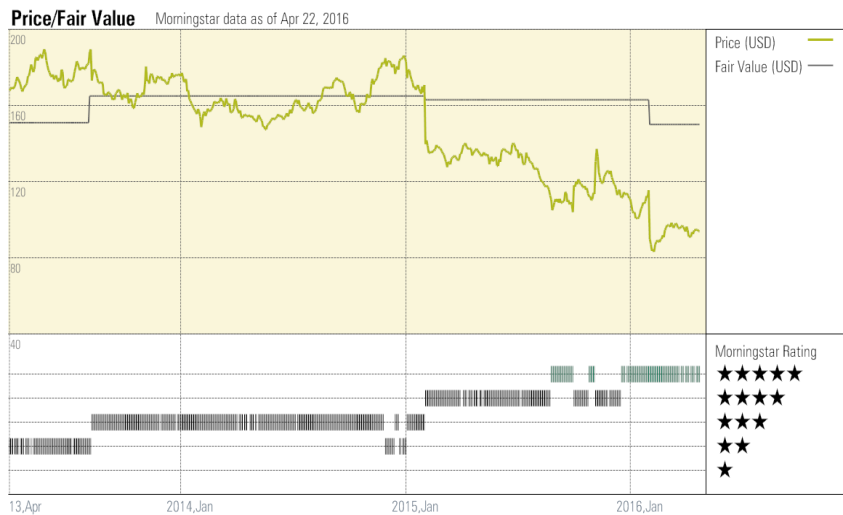
Valuation, Growth and Profitability 04 Jan 2016

Our fair value estimate is now \$150, down approximately 8% from \$163. We have adjusted our model for the most recent quarter and are aligned with current management guidance, and also accounted for a preliminary outlook for negative revenue growth in fiscal 2017 but with increasing operating margins. Our valuation implies fiscal 2016 (March 2016) price/earnings of 34 times, enterprise value/EBITDA of 9.7 times, and free cash flow yield of just around 4.7% on revenue of just under \$7.4 billion, representing negative 3% growth versus our prior model of negative 2% growth. We project fiscal 2016 operating margins to be just 11.2% versus a prior 12.1%, compared with 14.1% in fiscal 2015. Our forecast is just over the midpoint of company guidance of roughly 290 to 320 basis points of operating margin headwind for the fiscal year and mid-single-digit revenue growth in constant currency, with the impact of the strong dollar lowering reported revenue by 4%-5% assuming current exchange rates hold through the fiscal fourth quarter. Our earnings model calls for earnings per share of \$5.95 compared with a previous \$7.25 for fiscal 2016 and \$7.58 for fiscal 2017. We do assume infrastructure spending in the following years reverses and leverages on higher sales, with earnings power of over \$11 per share in fiscal 2019 and \$15 per share by 2021.

Over the long run, we forecast just below mid-single-digit top-line growth on average throughout our 10-year explicit forecast period excluding the current year's drop. As input cost conditions improve and comparable-store sales grow, we believe Ralph Lauren can sustain an operating margin in the mid-teens over our forecast horizon, growing to over 17% by the end of the 10-year forecast. As the mix of sales shifts more to international retail from wholesale, gross margins should continue to move higher and scale should leverage fixed costs in selling, general, and administrative.

Ralph Lauren Corp RL (NYSE) | ★★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
93.98 USD	150.00 USD	105.00 USD	202.50 USD	Medium	Narrow	Stable	Standard	Manufacturing - Apparel & Furniture



Our base case calls for gross margins to climb to just around 60% and for SG&A to trend toward 42% and below by the end of the 10-year period.

Scenario Analysis

We rate Ralph Lauren a medium uncertainty given its size and global reach, and the spread in the potential outcomes suggested in our scenario analysis. Our upside scenario considers the case where top-line growth resumes and picks up more strongly midcycle in our 10-year explicit forecast period. Under this scenario, top-line growth again approaches double digits in two years of the cycle. The assumed midcycle dip is much less pronounced than the base case assumes, with revenue still growing just around 6%, but eventually growth returns to the prior near double-digit pace. Average revenue growth for the full forecast period would come in just around 8%. For this scenario to play out, we assume retail growth would be roughly twice the pace of the base case and make up most of the difference in the top line between the two scenarios. Gross margins would gradually gain traction and then accelerate with the faster growth of retail, going from just under 58% in the current year to nearly 61% by the end of

the forecast period, with some volatility. SG&A would leverage less strongly with the growth in retail, but still would end the period at less than 42% of sales, compared with just over 43% of sales in the most recent period. Under these assumptions, our fair value would be \$204.

In our pessimistic scenario, China's macroeconomic situation would continue to worsen and Europe's recovery would not be swift, taking the wind out of retail expansion opportunities and global wholesale. North American mature business such as department stores would slow growth on shrinking doors and tepid comparable store sales. Under this scenario, top-line growth would still be positive but average only around 2% over the 10-year explicit forecast period. Gross margins would still improve, but at roughly half the pace of our base case, reaching just about 59% at the forecast period end and 58% on average. SG&A would show more volatility as the firm attempts to reinforce the brand and drive sales, but would not leverage given the tepid top-line growth, ending the forecast period at just around 43% of sales, still lower than the current period. Under these assumptions, our fair value would be \$107.

Economic Moat

Ralph Lauren has a narrow economic moat, in our view, primarily because of the strength of its brands and other intangible assets such as real estate locations and key customer relationships. During roughly the past 50 years, Ralph Lauren has evolved into one of the best-known aspirational brands despite a highly competitive consumer marketplace. Ralph Lauren has developed key relationships with wholesale department store partners, ranging from the high-end Saks to a major relationship with Macy's and exclusive products at Kohl's, which give it an advantage over smaller competitors with less-established brands. In addition, Ralph Lauren's specialty retail push can contribute to brand desire, more tightly controlling the brand image as it is introduced to emerging markets, and telling the brand story at home. Ralph Lauren charges premium prices for its

Ralph Lauren Corp RL (NYSE) | ★★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
93.98 USD	150.00 USD	105.00 USD	202.50 USD	Medium	Narrow	Stable	Standard	Manufacturing - Apparel & Furniture

products, allowing it to steadily increase gross margins from more than 50% to near 60% currently, and to deliver midteens returns on invested capital.

Moat Trend

We believe Ralph Lauren's economic moat trend is stable. In our view, the firm has established a solid foundation with its category-leading brands, from which it can prudently increase its scale and distribution. Although lower growth and volatility may cause some to question the moat trend, and there is the risk that becoming too large could damage its premium brands' images, we view investments in global brand management and infrastructure positively. We also see the current management team's vision and increased focus on the core brands as a mild positive to counter past division of resources across the portfolio. We believe Ralph Lauren is well-positioned to succeed as a larger supplier, in both its direct-to-consumer and international expansion initiatives, solidifying its competitive position. Still, given the long-term, enduring nature of the brand, we don't see these ongoing improvements or growth as fundamentally changing the competitive nature of the business, or vastly extending Ralph Lauren's competitive position compared with where it is today. We also remark that wholesalers fundamentally have more flexibility and make better returns on capital. Continued growth in retail allows greater control of the brand and drives growth, but also increases investment and risk.

Ralph Lauren Corp RL (NYSE) | ★★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
93.98 USD	150.00 USD	105.00 USD	202.50 USD	Medium	Narrow	Stable	Standard	Manufacturing - Apparel & Furniture

Bulls Say/Bears Say

Bulls Say

- ▶ With a small owned retail footprint outside North America, Ralph Lauren has ample runway for international expansion, both in Europe, but particularly in Asia and China.
- ▶ Ralph Lauren and the Polo brand still have premium images that department stores need, giving merchants the incentive to devote stores space to drive traffic and a premium image.
- ▶ Ralph Lauren should see solid growth in China and emerging markets. Although it has not been as successful in China as other premium brands, its American heritage and style will be highlighted by the new global brand management structure.

Bears Say

- ▶ Weakness at home and an overdependence on department stores suggest that the brand is not as premium as it once was, and is overexposed to a shrinking sales channel.
- ▶ Although Ralph Lauren has been successful at placing its products in both luxury and more aspirational channels, overdistribution and the proliferation of sub-brands could dilute the core brand's equity.
- ▶ Despite the fact that Ralph Lauren's styles have a certain heritage, if consumer tastes depart from the brand's fashion imagery, sales could suffer.

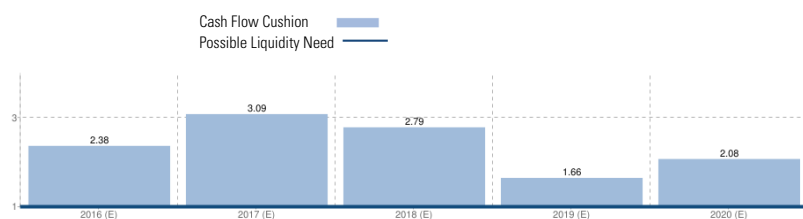
Ralph Lauren Corp RL (NYSE) | ★★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
93.98 USD	150.00 USD	105.00 USD	202.50 USD	Medium	Narrow	Stable	Standard	Manufacturing - Apparel & Furniture

Five Year Adjusted Cash Flow Forecast (USD Mil)

	2016(E)	2017(E)	2018(E)	2019(E)	2020(E)
Cash and Equivalents (beginning of period)	500	875	760	659	244
Adjusted Available Cash Flow	635	574	621	719	936
Total Cash Available before Debt Service	1,135	1,449	1,381	1,379	1,180
Principal Payments	—	—	—	-300	—
Interest Payments	-20	-20	-21	-23	-24
Other Cash Obligations and Commitments	-458	-449	-474	-510	-543
Total Cash Obligations and Commitments	-478	-469	-495	-832	-567

Cumulative Annual Cash Flow Cushion



Adjusted Cash Flow Summary

	USD Millions	% of Commitments
Beginning Cash Balance	500	17.6
Sum of 5-Year Adjusted Free Cash Flow	3,485	122.7
Sum of Cash and 5-Year Cash Generation	3,985	140.3
Revolver Availability	—	—
Asset Adjusted Borrowings (Repayment)	—	—
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	3,985	140.3
Sum of 5-Year Cash Commitments	-2,841	—

Financial Health

Ralph Lauren remains in fine financial shape, with about \$300 million in long-term debt and roughly \$1.3 billion in cash and short-term investments projected for fiscal 2016 year end. The company generates ample free cash flow to fund growth initiatives and handle debt payments. As such, we have assigned Ralph Lauren an issuer credit rating of A, implying low default risk.

Debt/capital has remained below 0.13 for the past five years and has been trending downward. The company spent more than \$180 million on acquisitions over the past five years, which was down from more than \$1 billion in the five years prior because of management's ongoing strategy of acquiring licensees. Few signs suggest that any potential acquisitions will saddle the firm with significant leverage, so we project similar debt levels going forward.

Ralph Lauren generated average annual cash flow from operations of over \$800 million over the past 7 years, and we project that EBIT will cover interest expense about 40 times in fiscal 2016. Debt maturities are not a concern, given that cash is also projected to be roughly 3 times debt. Although we anticipate a ramp-up in capital spending over the next three years, this is not a major concern, as management has a record of consistently investing in value-added projects.

Enterprise Risk

Ralph Lauren, despite developing a portfolio of related sub-brands, depends on the Polo and Ralph Lauren names. In addition, there is risk that the extension of the core brands has gone too far, and dilution could occur, or that sub-brands and derivative brands could confuse the images of the core. Efforts to increase women's accessories, and international sales also entails risk. While diversified across regions and demographics, the business carries some fashion risk and could limit the long-term appeal of the brands as well.

Ralph Lauren Corp RL (NYSE) | ★★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
93.98 USD	150.00 USD	105.00 USD	202.50 USD	Medium	Narrow	Stable	Standard	Manufacturing - Apparel & Furniture

Macy's accounted for about 12% of total sales last fiscal year (26% of wholesale sales), which is a sizable dependence on one customer. Should the department store decide to drastically cut its orders, Ralph Lauren's top line would feel some pressure. Macy's business was solid in 2014, but it also has net closed stores. In addition, retailers may continue to manage inventories more tightly, which could take a toll on the apparel manufacturer's near-term sales. Management initiatives such as supply chain improvement or global brand management restructuring pose execution risk. A portion of our international growth forecast depends on increased retail and wholesale penetration in China, a country that has produced strong growth historically, but with well-known structural imbalances in its economy that pose risks to companies that do business there. As such, we assign Ralph Lauren a medium uncertainty rating.

Ralph Lauren Corp RL (NYSE) | ★★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
93.98 USD	150.00 USD	105.00 USD	202.50 USD	Medium	Narrow	Stable	Standard	Manufacturing - Apparel & Furniture

Management & Ownership

Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
MR. RALPH LAUREN	Director	456,246	15 Apr 2016	—
MR. ROBERT C. WRIGHT	Director	20,733	01 Apr 2016	—
MR. FRANK A. BENNACK, JR	Director	20,099	01 Apr 2016	—
PROF. JOEL L. FLEISHMAN	Director	19,793	01 Apr 2016	3,410
MR. JOHN R. ALCHIN	Director	16,340	01 Apr 2016	1,389
MR. DAVID LAUREN	Director	10,500	01 Jun 2015	—
MITCHELL A. KOSH		8,749	04 Jun 2015	—
MR. HUBERT JOLY	Director	7,610	01 Apr 2016	—
DR. JOYCE F. BROWN	Director	6,415	01 Apr 2016	—

*Represents the date on which the owner's name, position, and common shares held were reported by the holder or issuer.

Fund Ownership

Top Owners	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
VA CollegeAmerica AMCAP	1.90	0.35	—	31 Mar 2016
Vanguard Mid-Cap Index Fund	1.50	0.18	0	31 Mar 2016
Vanguard Windsor™ Fund	1.24	0.68	51	31 Dec 2015
VA CollegeAmerica Washington Mutual	1.38	0.15	-61	31 Mar 2016
Vanguard Total Stock Mkt Idx	1.34	0.03	3	31 Mar 2016

Concentrated Holders

Neuberger Berman Large Cap Value Fund	0.69	4.51	—	29 Feb 2016
Neuberger Berman Value Fund	0.01	4.51	—	29 Feb 2016
JHancock Fundamental Global Franchise	0.25	4.49	30	29 Feb 2016
Neuberger Berman AMT Large Cap Val	0.03	4.45	—	29 Feb 2016
EdRF Premiumsphere	0.03	4.44	3	29 Feb 2016

Institutional Transactions

Top 5 Buyers	% of Shares Held	% of Fund Assets	Shares Bought/Sold (k)	Portfolio Date
Manulife Asset Management (US) LLC	5.00	—	4,196	31 Dec 2015
Manufacturers Life Insurance Co	5.15	0.46	858	31 Dec 2015
Bt Alex Brown Inc	0.99	0.51	832	31 Dec 2015
Capital Research Global Investors	2.56	0.08	652	31 Dec 2015
Neuberger Berman LLC	1.14	0.14	592	31 Dec 2015

Top 5 Sellers

Citadel Advisors Llc	0.23	0.02	-1,076	31 Dec 2015
Ceredex Value Advisors LLC	1.01	0.96	-658	31 Dec 2015
Fidelity Management & Research Company	0.60	0.16	-595	29 Feb 2016
Millennium Management LLC	0.03	0.01	-357	31 Dec 2015
AQR Capital Management LLC	0.52	0.09	-286	31 Dec 2015

Management 30 Dec 2015

Ralph Lauren founded the firm in 1967 and has been CEO and chairman since the initial public offering in 1997. Changes in management, including a new outsider CEO Stefan Larsson, are in our view positive and show that the founder recognizes the need for new ideas and younger talent to guide the company for the future.

While in the past we've noted that management and governance somewhat favored insiders, we rate stewardship of capital as Standard, and we believe it has been net value-added to the enterprise. Lauren owns about 2% of Class A stock and more than 80% of Class B stock (B shareholders are all Lauren family members or related trusts), which in aggregate gives the family about 81% of total voting power. Four directors are categorized as Class A, while the remaining nine are Class B. Shareholders may only vote for directors who are in their designated class, meaning that Ralph Lauren effectively controls who sits in 9 of the 12 seats. Additionally, if Lauren or his family trusts sells any B shares, they immediately convert to A shares. We think this indicates that the company will always be controlled by insiders. We also note that several board members have served for long periods, but in doing so have approached an age where they might consider retirement. Ralph Lauren himself was 75 as of the last proxy, although management consistently assures us that he is engaged in the business. Recent amendments to incentive programs are bringing more emphasis on long-term performance, which we appreciate, and proxy materials indicate the board continues to seek shareholder input into executive compensation and corporate governance. We still frown upon related-party transactions, but these have diminished in past years.

Ralph Lauren Corp RL (NYSE) | ★★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
93.98 USD	150.00 USD	105.00 USD	202.50 USD	Medium	Narrow	Stable	Standard	Manufacturing - Apparel & Furniture

Analyst Notes

Ralph Lauren Not Immune to Apparel Slowdown; Shares Still Undervalued Despite Lower Outlook 04 Feb 2016

We have reduced our fair value estimate for Ralph Lauren by approximately 8% to \$150 per share from \$163 after the company's third-quarter 2016 update. The firm is now calling for a revenue decline of about 3% for fiscal 2016, which ends in March, from a previous expectation of a 1% decline, and management made preliminary comments suggesting that revenue is expected to decline again in fiscal 2017. We have adjusted our model to show a bit more than a 3% revenue reduction in fiscal 2016 and are penciling in a 2% drop in fiscal 2017 revenue. We had previously modeled a 2% decline for the fiscal year to end this March and 5% growth in the year to end March 2017. Management did say that it believes operating margins would be up in fiscal 2017, but we already forecast a gain of 120 basis points to 13.4%, and we are trimming that to 12.7%, spreading improvement over a longer period. We've made little change to our long-run outlook, which still stands at 5% average annual growth excluding the two fiscal years of decline, with midteen operating margins.

Given the sharp drop in shares after the announcement, even with our reduced fair value estimate we expect shares to trade in a range that we would consider 5 stars, or a high margin of safety. Given the discount to our fair value estimate and our view that Ralph Lauren possesses a narrow moat because of its strong brands, with growth opportunities in Asia, Europe, and in product categories such as women's and accessories, we find shares attractive at these levels for long-term investors.

In the quarter, revenue declined 1% in constant currency, or 4% in U.S. dollars to \$1.9 billion. North American revenue declined 4% in constant currency, while international segment revenue gained 6% before accounting for the strength in the U.S. dollar. The wholesale reporting segment declined 3% in constant currency, retail was flat because

of store openings, and online sales growth offset same-store sales that were down 5%.

Looking to the long term, incoming CEO Stefan Larsson has begun a review of the business, and has already concluded that the Ralph Lauren brands are very strong based on consumer research. This supports our own view that most of Ralph Lauren narrow moat is the result of its brands and know-how, built with roughly 50 years of image making. While Larsson sounded excited and upbeat on the conference call, and we agree with his optimism for the long term, we also conclude that his comments on focusing the teams and the businesses are the correct course of action, but could mean further restructuring in 2017. We would not rule out the closure, reduction, or sale of sub-brands or peripheral brands in the portfolio, which we would applaud, though they would further muddy near-term results. We believe these expectations are captured in the outlook for a revenue decline but with improved operating margin, as it is likely lower-performing brands or business lines will be reduced first. We are encouraged that he believes further costs can be reduced as the business is improved on the top line, which we believe can be a result of further focus, as was the case at his prior tenures at H&M and Old Navy. In all, despite near-term worries over the U.S. economy and the apparel sector and near-term pain in reported results, we are at the margin more confident that the firm can produce the financial metrics necessary (mid-single-digit revenue growth and midteens operating margins) to prove shares substantially undervalued.

Ralph Lauren Shares up but Still Undervalued; Initiatives and New CEO Still Have Upside in Long Term 05 Nov 2015

We continue to rate Ralph Lauren a narrow-moat stock given its brand equity and competitive advantages in distribution and sourcing. Although top-line growth has slowed and margins have been depressed, we believe that foreign-exchange headwinds will dissipate and a number of

Ralph Lauren Corp RL (NYSE) | ★★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
93.98 USD	150.00 USD	105.00 USD	202.50 USD	Medium	Narrow	Stable	Standard	Manufacturing - Apparel & Furniture

Analyst Notes

operating initiatives are only just beginning to bear fruit. Despite some appreciation in share price, we view the stock as undervalued and one of our top picks. We believe that continued progression through a number of infrastructure and restructuring initiatives will work to revive growth and return operating margins to prior levels. Our \$163 fair value estimate remains unchanged, and we believe there is a sufficient margin of safety up to around \$145 per share.

Fiscal second-quarter 2016 results showed revenue down 1% to \$2.0 billion on a reported basis. Wholesale revenues were up 3%, Retail gained 5% and Licensing grew by 7%, all in constant currencies. Retail is now just over half of total annual projected revenue, with store openings and expansions accounting for all the retail segment growth, as same-store sales declined 1% in same-currency terms. Consistent with prior management comments, dollar strength clipped around 5% off the top line, yet gross margins declined only 30 basis points to 56.5%. We view this as surprisingly strong since it should still take some time for dollar strength to be offset by price increases and lower sourcing costs that are locked in far in advance. Operating expenses came in at 43.0% of revenue, slightly better than our model and the mean of analysts' forecasts. The firm is investing in a number of infrastructure items, including an e-commerce transformation and an ongoing SAP rollout but management attributed the improvement to early savings coming from the global brand reorganization. The reorganization is reducing stock-keeping units and headcount, and reducing complexity, and is expected to yield approximately \$100 million in annual savings next year.

Despite only maintaining annual guidance, we believe that the early read on a number of operating initiatives suggests that everything is tracking to plan and management is only being conservative (not forecasting a worsening environment in the next six months). Some additional spending on e-commerce is being offset by lower spending

on SAP implementation. Foreign-exchange headwinds are lessening as the strong dollar situation started in late 2014, but hedges are rolling off as an offset. With sourcing negotiations going on for fiscal 2017, and price increases starting to be implemented for the spring season, the gross margin improvement is looking more and more probable. Although exact figures are still not disclosed, the approach of the 2017 elimination of fees to eBay, now seems to be recognized by investors as more significant, and brand mix and markdown improvement are also showing promise early in the brand reorganization. Our forecast for operating margins will remain around 200 basis points lower than last year's 14.1%, which again looks increasingly achievable.

Looking longer term, we are encouraged by early comments by the new CEO, Stefan Larsson, and believe that telling unique brand stories and offering something special to the customer are particularly important to the long run brand equity of both the Polo and the Ralph Lauren brands. Some worries from investors that founder and Chairman Ralph Lauren might not mesh with the incoming executive, have likely been put to rest after some eloquent opening remarks on the what was the new CEO's first quarterly conference call.

Ralph Lauren Corp RL (NYSE) | ★★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
93.98 USD	150.00 USD	105.00 USD	202.50 USD	Medium	Narrow	Stable	Standard	Manufacturing - Apparel & Furniture

Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in March

	3-Year Hist. CAGR	Forecast					5-Year Proj. CAGR
		2013	2014	2015	2016	2017	
Growth (% YoY)							
Revenue	3.6	1.2	7.3	2.3	-3.3	-1.9	2.8
EBIT	0.8	8.2	4.0	-9.0	-43.0	33.8	4.4
EBITDA	2.4	9.6	3.0	-4.9	-30.8	23.8	5.1
Net Income	2.0	10.0	7.4	-10.1	-24.5	0.1	4.3
Diluted EPS	4.4	—	—	—	-18.1	4.8	9.8
Earnings Before Interest, after Tax	-1.9	4.7	-5.9	-4.3	-41.4	27.8	3.9
Free Cash Flow	-11.6	15.0	-41.3	2.5	-6.5	-9.9	8.3

	3-Year Hist. Avg	Forecast					5-Year Proj. Avg
		2013	2014	2015	2016	2017	
Profitability							
Operating Margin %	15.5	16.4	15.9	14.1	8.3	11.4	12.3
EBITDA Margin %	19.2	20.2	19.4	18.0	12.9	16.2	17.1
Net Margin %	10.5	10.9	10.9	9.6	7.5	7.6	8.7
Free Cash Flow Margin %	7.5	10.8	5.9	5.9	5.7	5.3	6.0
ROIC %	15.4	16.2	16.0	14.0	8.6	10.8	11.6
Adjusted ROIC %	18.4	19.5	19.2	16.5	10.0	12.6	13.3
Return on Assets %	13.0	13.8	13.5	11.5	6.6	8.6	9.8
Return on Equity %	19.2	20.2	19.9	17.7	10.6	13.8	15.7

	3-Year Hist. Avg	Forecast					5-Year Proj. Avg
		2013	2014	2015	2016	2017	
Leverage							
Debt/Capital	0.09	0.07	0.07	0.12	0.17	0.17	0.16
Total Debt/EBITDA	0.26	0.19	0.21	0.39	0.87	0.70	0.61
EBITDA/Interest Expense	72.03	63.33	72.10	80.65	46.73	58.96	61.97

Valuation Summary and Forecasts

	2014	2015	2016(E)	2017(E)
Price/Fair Value	0.98	0.81	—	—
Price/Earnings	—	16.7	14.6	13.9
EV/EBITDA	9.3	7.8	8.0	6.5
EV/EBIT	11.3	9.9	12.3	9.2
Free Cash Flow Yield %	3.6	4.4	6.2	5.7
Dividend Yield %	1.0	1.4	2.3	2.4

Key Valuation Drivers

Cost of Equity %	9.0
Pre-Tax Cost of Debt %	5.8
Weighted Average Cost of Capital %	8.8
Long-Run Tax Rate %	31.0
Stage II EBI Growth Rate %	4.3
Stage II Investment Rate %	14.3
Perpetuity Year	15

Additional estimates and scenarios available for download at <http://select.morningstar.com>.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	3,916	34.0	45.84
Present Value Stage II	2,142	18.6	25.08
Present Value Stage III	5,475	47.5	64.09
Total Firm Value	11,532	100.0	135.02
Cash and Equivalents	1,144	—	13.39
Debt	-532	—	-6.23
Preferred Stock	—	—	—
Other Adjustments	-158	—	-1.84
Equity Value	11,987	—	140.34

Projected Diluted Shares 85

Fair Value per Share (USD) —

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

Ralph Lauren Corp RL (NYSE) | ★★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
93.98 USD	150.00 USD	105.00 USD	202.50 USD	Medium	Narrow	Stable	Standard	Manufacturing - Apparel & Furniture

Morningstar Analyst Forecasts

Income Statement (USD Mil)

Fiscal Year Ends in March

	2013	2014	2015	Forecast	
				2016	2017
Revenue	6,945	7,450	7,620	7,372	7,235
Cost of Goods Sold	2,789	3,140	3,242	3,236	3,140
Gross Profit	4,156	4,310	4,378	4,136	4,095
Selling, General & Administrative Expenses	2,972	3,142	3,301	3,340	3,250
Other Operating Expense (Income)	19	-16	—	157	—
Other Operating Expense (Income)	27	—	—	24	24
Depreciation & Amortization (if reported separately)	—	—	—	—	—
Operating Income (ex charges)	1,138	1,184	1,077	614	822
Restructuring & Other Cash Charges	12	18	10	—	—
Impairment Charges (if reported separately)	—	1	7	—	—
Other Non-Cash (Income)/Charges	—	35	25	—	—
Operating Income (incl charges)	1,127	1,130	1,035	614	822
Interest Expense	22	20	17	20	20
Interest Income	-15	-14	-31	-16	0
Pre-Tax Income	1,089	1,096	987	578	801
Income Tax Expense	339	320	285	161	248
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	—	—	—	—	—
(Preferred Dividends)	—	—	—	—	—
Net Income	750	776	702	417	553
Weighted Average Diluted Shares Outstanding	94	92	89	86	82
Diluted Earnings Per Share	8.00	8.43	7.88	4.86	6.76
Adjusted Net Income	758	814	732	552	553
Diluted Earnings Per Share (Adjusted)	8.09	8.85	8.21	6.45	6.76
Dividends Per Common Share	1.36	1.62	1.77	2.09	2.30
EBITDA	1,388	1,388	1,329	949	1,175
Adjusted EBITDA	1,400	1,442	1,371	949	1,175

Ralph Lauren Corp RL (NYSE) | ★★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
93.98 USD	150.00 USD	105.00 USD	202.50 USD	Medium	Narrow	Stable	Standard	Manufacturing - Apparel & Furniture

Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in March

	2013	2014	2015	Forecast	
				2016	2017
Cash and Equivalents	974	797	500	875	760
Investments	325	488	644	623	611
Accounts Receivable	458	588	655	505	496
Inventory	896	1,020	1,042	1,050	1,029
Deferred Tax Assets (Current)	120	150	145	140	138
Other Short Term Assets	191	286	338	327	324
Current Assets	2,963	3,329	3,324	3,520	3,359
Net Property Plant, and Equipment	932	1,322	1,436	1,572	1,765
Goodwill	968	964	903	903	903
Other Intangibles	328	299	267	267	267
Deferred Tax Assets (Long-Term)	22	39	45	44	43
Other Long-Term Operating Assets	125	135	131	127	124
Long-Term Non-Operating Assets	81	—	—	—	—
Total Assets	5,418	6,088	6,106	6,432	6,460
Accounts Payable	147	203	210	210	203
Short-Term Debt	267	—	234	226	222
Deferred Tax Liabilities (Current)	43	77	27	26	26
Other Short-Term Liabilities	665	690	715	692	679
Current Liabilities	1,121	970	1,186	1,154	1,130
Long-Term Debt	—	298	298	600	600
Deferred Tax Liabilities (Long-Term)	150	132	116	112	110
Other Long-Term Operating Liabilities	362	654	615	595	584
Long-Term Non-Operating Liabilities	—	—	—	—	—
Total Liabilities	1,634	2,054	2,215	2,461	2,424
Preferred Stock	—	—	—	—	—
Common Stock	1	1	1	1	1
Additional Paid-in Capital	1,752	1,979	2,117	2,117	2,117
Retained Earnings (Deficit)	4,647	5,257	5,787	6,025	6,390
(Treasury Stock)	-2,709	-3,317	-3,849	-4,007	-4,307
Other Equity	94	114	-165	-165	-165
Shareholder's Equity	3,785	4,034	3,891	3,971	4,036
Minority Interest	—	—	—	—	—
Total Equity	3,785	4,034	3,891	3,971	4,036

Ralph Lauren Corp RL (NYSE) | ★★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
93.98 USD	150.00 USD	105.00 USD	202.50 USD	Medium	Narrow	Stable	Standard	Manufacturing - Apparel & Furniture

Morningstar Analyst Forecasts

Cash Flow (USD Mil)

Fiscal Year Ends in March	Forecast				
	2013	2014	2015	2016	2017
Net Income	750	776	702	417	553
Depreciation	232	258	294	334	353
Amortization	29	—	—	—	—
Stock-Based Compensation	—	59	73	74	72
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	14	1	11	2	1
Other Non-Cash Adjustments	23	-9	11	—	—
(Increase) Decrease in Accounts Receivable	82	-104	-96	150	9
(Increase) Decrease in Inventory	-68	-77	-97	-8	21
Change in Other Short-Term Assets	44	-56	-96	11	3
Increase (Decrease) in Accounts Payable	-57	43	50	0	-6
Change in Other Short-Term Liabilities	-30	16	42	-23	-13
Cash From Operations	1,019	907	894	955	993
(Capital Expenditures)	-277	-390	-391	-470	-546
Net (Acquisitions), Asset Sales, and Disposals	-22	-40	-12	—	—
Net Sales (Purchases) of Investments	182	-56	-285	21	12
Other Investing Cash Flows	3	-2	-1	-16	-9
Cash From Investing	-113	-488	-689	-465	-543
Common Stock Issuance (or Repurchase)	-497	-558	-532	-158	-300
Common Stock (Dividends)	-128	-149	-158	-179	-188
Short-Term Debt Issuance (or Retirement)	—	—	234	-8	-4
Long-Term Debt Issuance (or Retirement)	—	31	-24	302	—
Other Financing Cash Flows	30	77	59	-74	-72
Cash From Financing	-595	-599	-421	-116	-564
Exchange Rates, Discontinued Ops, etc. (net)	-9	3	-81	—	—
Net Change in Cash	302	-177	-297	375	-114

Ralph Lauren Corp RL (NYSE) | ★★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
93.98 USD	150.00 USD	105.00 USD	202.50 USD	Medium	Narrow	Stable	Standard	Manufacturing - Apparel & Furniture

Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Valuation Analysis

Company/Ticker	Price/Fair Value	Price/Earnings			EV/EBITDA			Price/Free Cash Flow			Price/Book			Price/Sales		
		2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)
LVMH Moet Hennessy Louis Vuitton SE	0.94	20.4	18.3	17.6	9.4	9.1	8.8	19.8	18.2	17.2	3.0	2.8	2.6	2.0	2.0	1.9
Cie Financiere Richemont SA CFR CHE	0.75	21.3	15.7	16.4	12.0	9.1	9.1	23.7	15.3	14.6	2.9	2.1	1.9	4.1	2.9	2.8
Hermes International SA RMS FRA	1.14	—	30.0	30.5	—	15.1	14.9	—	31.4	31.2	—	11.0	10.5	—	6.3	6.1
Coach Inc COH USA	0.90	—	21.2	17.7	10.4	10.8	9.3	13.0	48.7	24.6	3.8	4.1	3.7	2.3	2.5	2.3
PVH Corp PVH USA	0.84	15.1	10.3	14.9	10.7	8.1	10.1	17.0	9.4	18.0	2.1	1.3	1.4	1.1	0.8	1.0
Average		18.9	19.1	19.4	10.6	10.4	10.4	18.4	24.6	21.1	3.0	4.3	4.0	2.4	2.9	2.8
Ralph Lauren Corp RL US	0.63	16.7	14.6	13.9	7.8	8.0	6.5	22.6	16.3	17.7	2.9	2.0	2.0	1.5	1.1	1.1

Returns Analysis

Company/Ticker	Last Historical Year Total Assets (Mil)	ROIC %			Adjusted ROIC %			Return on Equity %			Return on Assets %			Dividend Yield %		
		2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)
LVMH Moet Hennessy Louis Vuitton SE	57,601 EUR	10.2	10.3	10.5	12.4	12.6	12.7	15.5	16.0	15.1	6.4	7.2	7.4	2.6	2.4	2.8
Cie Financiere Richemont SA CFR CHE	— EUR	18.9	16.5	16.4	19.5	16.9	16.7	10.1	14.5	13.6	7.3	10.3	9.8	1.5	2.0	2.5
Hermes International SA RMS FRA	— EUR	36.8	37.3	35.5	37.2	37.7	35.9	28.3	34.1	35.3	20.1	23.3	23.4	—	2.7	2.8
Coach Inc COH USA	— USD	14.2	14.3	14.7	15.9	15.9	16.1	16.4	20.1	22.0	9.7	11.0	13.1	3.9	3.4	3.4
PVH Corp PVH USA	— USD	6.7	6.8	7.0	9.6	9.6	10.1	10.1	13.0	10.4	3.9	5.4	4.7	0.1	0.2	0.2
Average		17.4	17.0	16.8	18.9	18.5	18.3	16.1	19.5	19.3	9.5	11.4	11.7	2.0	2.1	2.3
Ralph Lauren Corp RL US	— USD	14.0	8.6	10.8	16.5	10.0	12.6	17.7	10.6	13.8	11.5	6.6	8.6	1.4	2.3	2.4

Growth Analysis

Company/Ticker	Last Historical Year Revenue (Mil)	Revenue Growth %			EBIT Growth %			EPS Growth %			Free Cash Flow Growth %			Dividend/Share Growth %		
		2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)
LVMH Moet Hennessy Louis Vuitton SE	35,664 EUR	16.4	4.2	5.2	17.6	7.8	3.0	-36.4	15.3	3.9	14.0	37.9	5.4	—	—	—
Cie Financiere Richemont SA CFR CHE	10,410 EUR	-2.2	9.3	4.4	10.4	-4.1	2.1	2.3	11.1	-4.2	-14.7	38.5	5.6	—	—	25.0
Hermes International SA RMS FRA	4,831 EUR	17.3	5.5	3.4	27.4	9.6	-1.3	14.5	10.9	-1.8	39.5	16.8	0.6	165.4	6.5	4.4
Coach Inc COH USA	4,192 USD	-12.8	6.9	9.6	-44.8	25.8	17.2	—	—	19.8	-102.2	-1,045.3	169.5	1.2	-0.6	—
PVH Corp PVH USA	8,241 USD	0.7	-4.0	1.1	-4.8	-6.9	-9.4	3.8	-2.0	-10.1	-129.3	25.6	-43.8	—	—	—
Average		3.9	4.4	4.7	1.2	6.4	2.3	-4.0	8.8	1.5	-38.5	-185.3	27.5	83.3	3.0	14.7
Ralph Lauren Corp RL US	7,620 USD	2.3	-3.3	-1.9	-9.0	-43.0	33.8	—	-18.1	4.8	2.5	-6.5	-9.9	9.5	17.8	10.0

Ralph Lauren Corp RL (NYSE) | ★★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
93.98 USD	150.00 USD	105.00 USD	202.50 USD	Medium	Narrow	Stable	Standard	Manufacturing - Apparel & Furniture

Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Profitability Analysis

Company/Ticker	Last Historical Year Net Income (Mil)	Gross Margin %			EBITDA Margin %			Operating Margin %			Net Margin %			Free Cash Flow Margin %		
		2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)
LVMH Moet Hennessy Louis Vuitton SE	3,573 EUR	64.8	65.2	64.7	23.7	23.7	23.4	17.9	18.5	18.2	10.0	11.1	11.0	10.3	11.1	11.2
Cie Financiere Richemont SA CFR CHE	1,334 EUR	66.1	63.5	63.5	30.5	27.1	26.1	25.7	22.5	22.0	12.8	19.3	19.1	17.2	18.9	19.0
Hermes International SA RMS FRA	966 EUR	66.0	67.0	66.0	38.0	39.5	38.7	34.3	35.6	34.0	20.0	21.1	20.1	18.1	20.1	19.5
Coach Inc COH USA	402 USD	69.4	69.1	69.9	19.3	22.1	23.6	14.7	17.4	18.6	9.6	11.8	12.9	17.6	5.1	9.3
PVH Corp PVH USA	608 USD	52.5	52.7	51.5	14.1	14.1	13.0	11.2	10.8	9.7	7.4	7.5	6.6	6.5	8.0	5.4
Average		63.8	63.5	63.1	25.1	25.3	25.0	20.8	21.0	20.5	12.0	14.2	13.9	13.9	12.6	12.9
Ralph Lauren Corp RL US	732 USD	57.5	56.1	56.6	18.0	12.9	16.2	14.1	8.3	11.4	9.6	7.5	7.6	6.6	6.6	6.2

Leverage Analysis

Company/Ticker	Last Historical Year Total Debt (Mil)	Debt/Equity %			Debt/Total Cap %			EBITDA/Interest Exp.			Total Debt/EBITDA			Assets/Equity		
		2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)
LVMH Moet Hennessy Louis Vuitton SE	8,280 EUR	34.0	15.0	12.4	25.4	13.0	11.0	108.5	42.6	44.1	1.0	0.5	0.4	2.4	2.1	2.0
Cie Financiere Richemont SA CFR CHE	3,093 EUR	21.5	20.2	19.0	17.7	16.8	16.0	3.3	15.4	15.5	1.0	1.0	1.1	1.4	1.4	1.4
Hermes International SA RMS FRA	48 EUR	1.4	1.7	1.6	1.4	1.7	1.6	—	—	—	0.0	0.0	0.0	1.4	1.5	1.5
Coach Inc COH USA	890 USD	35.8	32.7	15.0	26.3	24.7	13.0	126.5	37.5	58.0	1.1	0.9	0.4	1.9	1.8	1.6
PVH Corp PVH USA	3,547 USD	81.3	67.7	50.3	44.8	40.4	33.5	8.4	9.9	8.7	3.0	2.8	2.7	2.5	2.3	2.1
Average		34.8	27.5	19.7	23.1	19.3	15.0	61.7	26.4	31.6	1.2	1.0	0.9	1.9	1.8	1.7
Ralph Lauren Corp RL US	532 USD	13.7	20.8	20.4	12.0	17.2	16.9	80.6	46.7	59.0	0.4	0.9	0.7	1.6	1.6	1.6

Liquidity Analysis

Company/Ticker	Market Cap (Mil)	Cash per Share			Current Ratio			Quick Ratio			Cash/Short-Term Debt			Payout Ratio %		
		2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)
LVMH Moet Hennessy Louis Vuitton SE	75,294 EUR	7.12	4.20	7.30	1.49	1.81	2.04	0.70	0.76	0.92	0.95	2.23	5.67	53.2	44.4	49.1
Cie Financiere Richemont SA CFR CHE	36,143 CHF	9.99	12.35	14.78	3.13	3.19	3.32	2.06	2.18	2.39	2.10	2.47	2.86	48.7	29.9	36.3
Hermes International SA RMS FRA	32,094 EUR	11.98	6.79	7.44	2.38	1.87	1.91	1.52	1.02	1.04	62.85	35.61	39.04	84.7	81.0	86.1
Coach Inc COH USA	11,186 USD	4.66	4.66	3.09	3.00	2.26	2.50	2.42	1.74	1.78	114.32	4.32	—	93.6	71.2	59.4
PVH Corp PVH USA	7,809 USD	5.76	6.70	12.29	2.03	1.84	2.11	1.15	0.98	1.28	4.45	21.48	10.12	2.9	2.2	2.3
Average		7.90	6.94	8.98	2.41	2.19	2.38	1.57	1.34	1.48	36.93	13.22	14.42	56.6	45.7	46.6
Ralph Lauren Corp RL US	7,896 USD	5.61	10.21	9.30	2.80	3.05	2.97	1.92	2.14	2.06	2.14	3.86	3.42	22.5	42.9	34.0

Research Methodology for Valuing Companies

Components of Our Methodology

- ▶ Economic Moat™ Rating
- ▶ Moat Trend™ Rating
- ▶ Moat Valuation
- ▶ Three-Stage Discounted Cash Flow
- ▶ Weighted Average Cost of Capital
- ▶ Fair Value Estimate
- ▶ Scenario Analysis
- ▶ Uncertainty Ratings
- ▶ Margin of Safety
- ▶ Consider Buying/Selling
- ▶ Stewardship Rating

We believe that a company’s intrinsic worth results from the future cash flows it can generate.

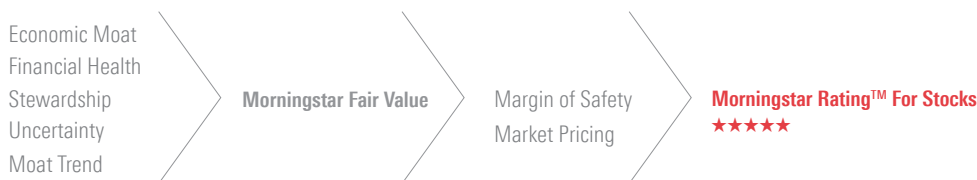
The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth. Four key components drive the Morningstar rating: our assessment of the firm’s economic moat, our estimate of the stock’s fair value, our uncertainty around that fair value estimate and the current market price. This process ultimately culminates in our single-point star rating. Underlying this rating is a fundamentally focused methodology and a robust, standardized set of procedures and core valuation tools used by Morningstar’s equity analysts.

The concept of the Morningstar Economic Moat™ Rating plays a vital role not only in our qualitative assessment of a firm’s investment potential, but also in our actual calculation of our fair value estimates. We assign three moat ratings—none, narrow, or wide—as well as the Morningstar Moat Trend™ Rating—positive, stable, or negative—to each company we cover. Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns on invested capital over at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for

10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. The assumptions that we make about a firm’s economic moat play a vital role in determining the length of “economic outperformance” that we assume in the terminal sections of our valuation model. To assess the sustainability of excess profits, analysts perform ongoing assessments of what we call the moat trend. A firm’s moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don’t anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

At the heart of our valuation system is a detailed projection of a company’s future cash flows. The first stage of our three-stage discounted cash flow model can last from 5 to 10 years and contains numerous detailed assumptions about various financial and operating items. The second stage of our model—where a firm’s return on new invested capital (RONIC) and earnings growth rate implicitly fade until the perpetuity year—can last anywhere from one year (for companies with no economic moat) to 10-15 years (for wide-moat companies). In our third stage, we assume the firm’s RONIC equals its weighted average cost of capital, and we calculate a continuing value using a standard perpetuity formula. In deciding on the rate at which to discount future cash flows, we use a building block approach,

Morningstar Research Methodology for Valuing Companies



Source: Morningstar, Inc.

Detailed Methodology Documents and Materials*

- ▶ Comprehensive Equity Research Methodology
- ▶ Uncertainty Methodology
- ▶ Cost of Equity Methodology
- ▶ Morningstar DCF Valuation Model
- ▶ Stewardship Rating Methodology

*Please contact a sales representative for more information.

which takes into account expectations for market real return, inflation, country risk premia, corporate credit spread, and any additional systematic risk.

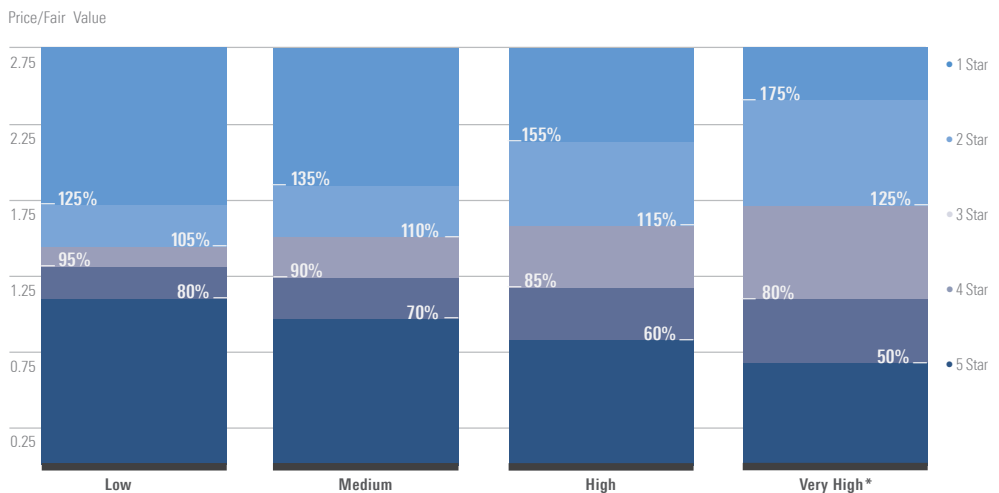
We also employ a number of other tools to augment our valuation process, including scenario analysis, where we assess the likelihood and performance of a business under different economic and firm-specific conditions. Our analysts model three scenarios for each company we cover, stress-testing the model and examining the distribution of resulting fair values.

The Morningstar Uncertainty Rating captures the range of likely potential fair values and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts’ ability to bound the estimated value of the shares in a company around the Fair Value Estimate, based on the characteristics of the business underlying the stock, including

operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors.

Our corporate Stewardship Rating represents our assessment of management’s stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies’ investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they’ve had a demonstrated impact on shareholder value. Analysts assign one of three ratings: “Exemplary,” “Standard,” and “Poor.” Analysts judge stewardship from an equity holder’s perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions. ■■■

Morningstar Margin of Safety and Star Rating Bands



* Occasionally a stock’s uncertainty will be too high for us to estimate, in which case we label it Extreme.

Source: Morningstar, Inc.

Ralph Lauren Corp RL (NYSE) | ★★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
93.98 USD	150.00 USD	105.00 USD	202.50 USD	Medium	Narrow	Stable	Standard	Manufacturing - Apparel & Furniture



Unless stated otherwise, this Research Report was prepared by the person(s) noted in their capacity as Equity Analysts employed by Morningstar, Inc., or one of its affiliates. This Report has not been made available to the issuer of the relevant financial products prior to publication.

The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic value. Five-star stocks sell for the biggest risk-adjusted discount whereas one-star stocks trade at premiums to their intrinsic value. Based on a fundamentally focused methodology and a robust, standardized set of procedures and core valuation tools used by Morningstar's Equity Analysts, four key components drive the Morningstar Rating: 1. Assessment of the firm's economic moat, 2. Estimate of the stock's fair value, 3. Uncertainty around that fair value estimate, and 4. Current market price. Further information on Morningstar's methodology is available from <http://global.morningstar.com/equitydisclosures>.

This Report is current as of the date on the Report until it is replaced, updated or withdrawn. This Report may be withdrawn or changed at any time as other information becomes available to us. This Report will be updated if events affecting the Report materially change.

Conflicts of Interest:

-No material interests are held by Morningstar or the Equity Analyst in the financial products that are the subject of the Reports.

-Equity Analysts are required to comply with the CFA Institute's Code of Ethics and Standards of Professional Conduct.

-Equity Analysts' compensation is derived from Morningstar's overall earnings and consists of salary, bonus and in some cases restricted stock.

-Equity Analysts do not have authority over Morningstar's investment management group's business arrangements nor allow employees from the investment management group to participate or influence the analysis or opinion prepared by them. Morningstar will not receive any direct benefit from the publication of this Report.

- Morningstar does not receive commissions for providing research and does not charge companies to be rated.

-Equity Analysts use publicly available information.

Ralph Lauren Corp RL (NYSE) | ★★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
93.98 USD	150.00 USD	105.00 USD	202.50 USD	Medium	Narrow	Stable	Standard	Manufacturing - Apparel & Furniture

-Morningstar may provide the product issuer or its related entities with services or products for a fee and on an arms' length basis including software products and licenses, research and consulting services, data services, licenses to republish our ratings and research in their promotional material, event sponsorship and website advertising.

-Further information on Morningstar's conflict of interest policies is available from <http://global.morningstar.com/equitydisclosures>.

If you wish to obtain further information regarding previous Reports and recommendations and our services, please contact your local Morningstar office.

Unless otherwise provided in a separate agreement, you may use this Report only in the country in which the Morningstar distributor is based. Unless stated otherwise, the original distributor of this document is Morningstar Inc. Redistribution, in any capacity, is prohibited without permission. The information, data, analyses and opinions presented herein do not constitute investment advice; are provided solely for informational purposes and therefore are not an offer to buy or sell a security; and are not warranted to be correct, complete or accurate, nor may they be construed as a representation regarding the legality of investing in the security/ies concerned, under the applicable investment or similar laws or regulations of any person or entity accessing this report. The opinions expressed are as of the date written and are subject to change without notice. Except as otherwise required by law, Morningstar, its affiliates, and their officers, directors and employees shall not be responsible or liable for any trading decisions, damages or other losses resulting from, or related to, the information, data, analyses or opinions or their use. You should seek the advice of your financial, legal, tax, business and/or other consultant, and read all relevant issue documents pertaining to the security/ies concerned, including without limitation, the detailed risks involved in

the investment, before making an investment decision.

Please note that investments in securities are subject to market and other risks and there is no assurance or guarantee that the intended investment objectives will be achieved. Past performance of a security may or may not be sustained in future and is no indication of future performance. As the price / value / interest rate of a security fluctuates, the value of your investments in the said security, and in the income, if any, derived therefrom may go up or down.

For Recipients in Australia: This report has been authorized by the Head of Equity and Credit Research, Asia Pacific, Morningstar Australasia Pty Limited and is circulated pursuant to RG 79.26(f) as a full restatement of an original report (by the named Morningstar analyst) which has already been broadly distributed. To the extent the report contains general advice it has been prepared without reference to your objectives, financial situation or needs. You should consider the advice in light of these matters and, if applicable, the relevant Product Disclosure Statement before making any decision to invest. Refer to our Financial Services Guide (FSG) for more information at www.morningstar.com.au/fsg.pdf.

For Recipients in Hong Kong: The research is distributed by Morningstar Investment Management Asia Limited, which is regulated by the Hong Kong Securities and Futures Commission to provide services to professional investors only. Neither Morningstar Investment Management Asia Limited, nor its representatives, are acting or will be deemed to be acting as an investment advisor to any recipients of this information unless expressly agreed to by Morningstar Investment Management Asia Limited. For enquiries regarding this research, please contact a Morningstar Investment Management Asia Limited Licensed Representative at <http://global.morningstar.com/equitydisclosures>.

Ralph Lauren Corp RL (NYSE) | ★★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
93.98 USD	150.00 USD	105.00 USD	202.50 USD	Medium	Narrow	Stable	Standard	Manufacturing - Apparel & Furniture

For Recipients in India: This research on securities [as defined in clause (h) of Section 2 of the Securities Contracts (Regulation) Act, 1956], such research being referred to for the purpose of this document as “Investment Research”, is issued by Morningstar Investment Adviser India Private Limited.

Morningstar Investment Adviser India Private Limited is registered with the Securities and Exchange Board of India under the SEBI (Investment Advisers) Regulations, 2013, vide Registration number INA000001357, dated March 27, 2014, and in compliance of the aforesaid regulations and the SEBI (Research Analysts) Regulations, 2014, it carries on the business activities of investment advice and research. Morningstar Investment Adviser India Private Limited has not been the subject of any disciplinary action by SEBI or any other legal/regulatory body. Morningstar Investment Adviser India Private Limited is a wholly owned subsidiary of Morningstar Associates LLC, which is a part of the Morningstar Investment Management group of Morningstar, Inc., and Morningstar, Inc. is a leading provider of independent investment research that offers an extensive line of products and services for individual investors, financial advisors, asset managers, and retirement plan providers and sponsors. In India, Morningstar Investment Adviser India Private Limited has only one associate, viz., Morningstar India Private Limited, and this company predominantly carries on the business activities of providing data input, data transmission and other data related services, financial data analysis, software development etc.

The author/creator of this Investment Research (“Research Analyst”) or his/her associates or his/her relatives does/do not have (i) any financial interest in the subject company; (ii) any actual/beneficial ownership of one per cent or more securities of the subject company, at the end of the month immediately preceding the date of publication of this Investment Research; and (iii) any other material conflict of interest at the time of publication of this Investment

Research.

The Research Analyst or his/her associates or his/her relatives has/have not received any (i) compensation from the subject company in the past twelve months; (ii) compensation for products or services from the subject company in the past twelve months; and (iii) compensation or other material benefits from the subject company or third party in connection with this Investment Research. Also, the Research Analyst has not served as an officer, director or employee of the subject company.

The terms and conditions on which Morningstar Investment Adviser India Private Limited offers Investment Research to clients, varies from client to client, and are spelt out in detail in the respective client agreement.