

April 11, 2007

Sector: Apparel, Accessories & Luxury Goods

Company Research Report



Polo Ralph Lauren Corp.

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Index: S&P 500
52-Wk Range: \$45.65 - 93.21

Actual Price:
\$92.80 (as of: 4/11/07)

Target Price:
\$86.05 (as of: 3/31/08)

POLO RALPH LAUREN CORP
as of 1-May-2007



EPS

Year	2002	2003	2004	2005	2006	2007E
EPS	\$1.75	\$1.76	\$1.69	\$1.83	\$2.87	\$3.73

Highlights

- For the five years ended FY 2006, RL had an average revenue growth rate of 11%; and a compounded annual growth rate (CAGR) of 8%.
- Co. acquired 3 businesses that it previously licensed, namely Polo Jeans, RL Footwear, and RL Children's wear.
- Co. recognized income from acquisitions, and allocated 75% of related costs to goodwill & intangibles.
- Independent auditor's report discloses material internal control and financial reporting weaknesses.

Key Statistics

52-Week Price Range	\$45.65 - 93.21
Market Capitalization	\$9.4B
Shares Outstanding	105M
Insider Ownership	0.42%
Institutional Ownership	89.50%
Beta	1.86
P/E Ratio (ttm)	\$24.98
Price/Book (mrq)	\$4.08
Price/Sales (ttm)	\$2.21
Debt/Equity (mrq)	22
ROA (ttm)	13.59%
ROE (ttm)	18.22%
Dividend Payout Ratio	6.00%

TTM - Trailing 12 Months

MRQ - Most Recent Quarter

Company Profile and Analysis

Polo Ralph Lauren Corp. (RL) is a global retail Co. engaged in the design, marketing, and distribution of premium lifestyle products. The Co. is structured around three market segments, namely wholesale, licensing, and retail including polo.com. Some of its most recognizable brand names include Polo, Purple Label, Black Label, Chaps, RLX, Club Monaco and, Rugby, the latest sartorial concept.

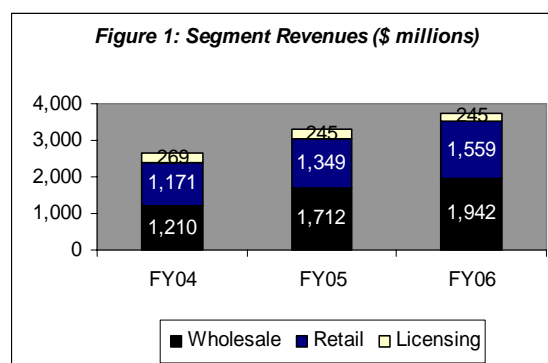
Existing Global Operations and Expansion Pipeline

Ralph Lauren has existing operations in the United States, Europe, Japan, Australia, Pacific Rim/Korea, Canada, and South America. Expansion retail projects in Russia, Asia, Europe, and strategic locations throughout the U.S. are slated for 2007. In addition, RL plans to “grow” the new Rugby brand, a preppy, urban-oriented fashion concept. The Co. opened five Rugby retail stores in the U.S. in 2006 and plans to open an additional 50 stores within three years. Consistent with the Co. strategic growth plan, management has ploughed-back (and forward) greater than \$1 billion into the organization over the last five years to regain control over its licensed brands and to upgrade its infrastructure. The investment is intended to boost profits and reduce costs - via elevated product design (i.e., higher price points) and upgraded business intelligence capabilities.

Market Segments

Ralph Lauren operates in three integrated business segments worldwide: wholesale, retail, and licensing. With multiple product lines, ranging from clothing and footwear to home furnishings and accessories, RL has a robust wholesale distribution operation,

servicing multiple, specialty and chain retail stores, including Ralph Lauren and polo.com. As of fiscal 2006, wholesale revenues of \$1.9 billion are the greatest, followed by retail sales of \$1.5 billion, and licensing sales of \$245 million. RL’s wholesale and retail operations produced double-digit sales growth between 2004 and 2006, resulting from acquisition and organic growth activities. Licensing revenues for the same period were slightly lower and flat, due to vendor license acquisitions and the resulting lost royalty payments.



Competitive Landscape

RL has a market cap of \$9.4 billion, positioning the Co. as a top tier leader in the specialty retail space. RL’s top 3

<i>Table 1:</i> As of April, 2007	Ralph Lauren	Liz Claiborne	Jones Apparel	V.F. Corp
Market Cap (Mil)	\$9,440	\$4,531	\$3,496	\$9,657
12-Mo. EPS	2.87	2.46	-1.32	4.72
P/E Ratio	26	18	NM	18
1-Yr Price Change (%)	52%	9%	-9%	50%
ROE (%)	16.50%	12.30%	NM	17.60%
NM- Not Material				

competitors include Jones of New York, Liz Claiborne, and V.F. Corp. An aggressive organic and acquisition growth strategy separates the Co. from its competition. RL acquired three major operations between

2004 and 2006 that were previously licensed by the Co.; partnered with Kohl's to distribute Chaps brand clothing exclusively to over 700 retail stores; opened six stores in 2006; and 11 international and domestic store openings are slated for 2007.

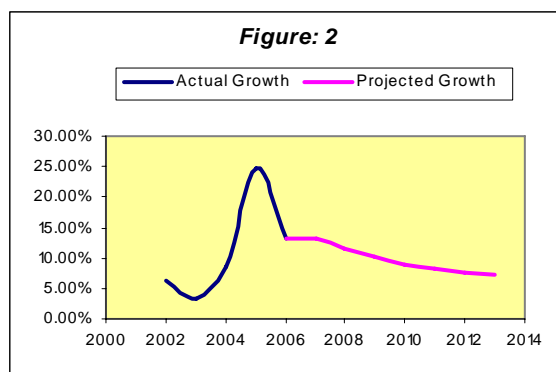
Recent Acquisitions

On February 3, 2006, Ralph Lauren Co. acquired from Jones Apparel Group the "Polo Jean Business." RL paid \$260 million in cash for Polo Jeans, including \$5 million in transactions costs. On July 15, 2005, Ralph Lauren Co. acquired from Reebok International Ltd., all outstanding shares of Ralph Lauren Footwear Co. The Co. paid Reebok \$112 million in cash, including \$2 million in transactions costs, to regain control of its global "Footwear Business." On July 2, 2004, Ralph Lauren Co. acquired RL Children's Wear Co., LLC. The acquisition cost was \$264 million in cash, including transaction costs. Pursuant to the deal, RL regains exclusive control of its license to design, manufacture, and sell its children's wear clothing line.

Financial Trends

Net revenues for fiscal 2006 were \$3,746 million, an increase of \$441 million, compared with \$3,305 million for fiscal 2005. The increase primarily reflects the acquisition of Polo Jeans, RL Footwear, and RL Children's Wear. In addition, the Co. successfully launched its Chaps fashion line; opened 11 new stores (to 289); and increased comparable retail store sales by \$73 million, or 6.5%. Cost of good sold (COGS) for fiscal 2006 were \$1,606 million, compared with \$1,519 million for fiscal 2005. *Despite extraordinary revenue growth – as a common size percentage of sales – COGS decreased from 45.9% in 2005 to 42.9% in 2006.* RL reports that the

COGS reduction reflects "sourcing efficiencies" and "reduced markdown activity." In addition to the reasons reported, the COGS decrease more than likely reflects acquisition activity and an asset reserve balance adjustment, which is discussed further herein.



Operating income for fiscal 2006 was \$517 million, an increase of \$217 million, compared with \$300 million for fiscal 2005. The increase is primarily the result of increased sales volume, greater contribution margins, lower COGS, and the absence of the \$100 million "Jones-Related Litigation" charge – recognized (not settled) in fiscal 2005. Earnings per common share (EPS) for fiscal 2006 were \$2.87, an increase of \$1.04, compared with \$1.83 for fiscal 2005. EPS growth largely results from higher net income associated with operating results and the absence the "Jones-Related Litigation" charge.

Financial Exposure (Threats)

With regard to Sarbanes-Oxley (SOX) Section 404 compliance, Ralph Lauren Co. - with Deloitte & Touche - detected material internal control and financial reporting weaknesses as of fiscal year end 2006. The audit firm, Deloitte & Touche, reported that RL did not have the required operational controls and procedures to prevent and

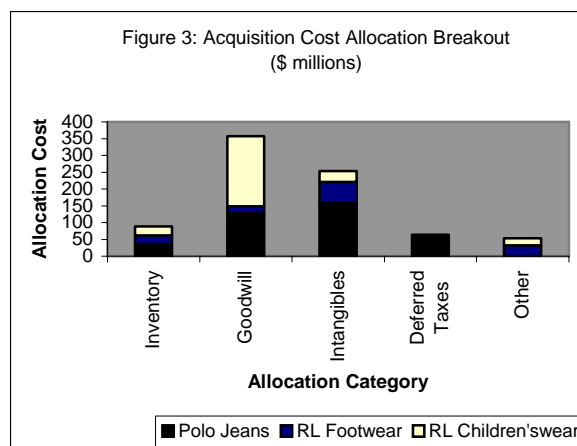
detect errors related to “tax accounting and disclosures.” Deloitte’s report concluded that RL’s material weaknesses were largely related to inadequate tax resources over an extended period, lack of training for tax personnel, and inadequate documentation related to the timely review of income tax accounts.

The most compelling caution sign surrounding RL’s financial statements – related to Deloitte’s audit report – is its acquisition activity between 2004 and 2006. Although the report does not charge RL of egregious financial reporting, it does raise serious concern over the accuracy of Co. financial statements during the same period. Between 2002 and 2006, Co. sales revenue and operating profit grew 58.5% and 67%, respectively. The bulk of the growth took place in 2004, 2005, and 2006; the growth rate in each of these years was 8.6%, 24.8%, and 13.3%, respectively.

That RL’s three-year extraordinary growth is more the result of acquisitions than organic growth is evidenced by several publicly reported events: the results of operations of its three acquisitions (i.e., Polo Jeans, RL Footwear, and RL Children’s Wear) is recognized as income, yet none of the acquisition costs are charged against income; the bulk of the acquisition costs are applied to goodwill & intangibles, excluding inventory; relative to sales COGS decreases; and relative to sales SG&A decreases. *Figure 3* illustrates the cost allocation of RL’s three acquisitions between 2004 and 2006. Total acquisition costs were approximately \$816 million, of which \$610 million (or 75%) was allocated to goodwill & intangibles; 44% allocated to goodwill; and 31% allocated to intangibles.

According to Howard Schilit, president of the Center for Financial Research and

Analysis (CFRA), “the new amortization rules [i.e., FAS 142] are likely to lead to new accounting tricks that attempt to allocate much of the acquisition price to goodwill. And, of course the plan will be not to amortize any of it, but rather to claim that no impairment has taken place. This trick will allow companies to keep most of the acquisitions on the balance sheet, rather than charging those costs against income.” To that end, in its 2006 independent audit report, Deloitte & Touche indicate that based on RL’s annual impairment testing between 2004 and 2006, impairment charges were deemed unnecessary. Moreover, as of fiscal end 2006, the Co. had \$251 million of finite-lived intangible assets on its balance sheet, which can be amortized up to 25 years! RL plans to amortize \$61 million as of fiscal year end 2011 and \$188 million thereafter. Clearly, in the short-term, RL has benefited disproportionately from its recent acquisition activity.



The Co. recognized a pending litigation charge – resulting in the perception of extraordinary revenue growth – when it shifted a future period special charge to a current period. In connection with the “Jones-Related Litigation,” RL recognized \$100 million on its statement of operations in 2005, however, remitted payment to Jones

Apparel Group in 2006—simultaneous with its acquisition of Polo Jeans from Jones.

The litigation commitment in 2005 was consistent with GAAP, yet remarkably timely. Recent acquisitions boosted Co. sales growth from 9.6% in 2004 to 24.8% in 2005. Consequently, by reporting the \$100 million charge in 2005, coupled with its stellar growth the same year, RL still recognized a 9.5% operating profit. Despite the remittance to Jones in 2006, the absence of the litigation charge from RL's 2006 income statement, coupled with its recent acquisitions, boosted operating profit, net income, and the stock price; between fiscal 2005 and 2006, operating profit and net income increased 72.4% and 61.8%, respectively; the stock price increased from \$38.80 to \$60.61 by fiscal year end 2006. On April 3, 2007, the stock price hit \$90.00.

Corporate Governance

Recently Issued Accounting Standards

The Federal Accounting Standards Board (FASB) in December 2004 issued FAS 123R, which addresses the method of accounting for stock-based compensation. FAS 123R is paramount to FAS123, which permitted companies applying APB 25 to disclose in their financial statements only the pro forma effect of stock-based compensation. Pursuant to FAS 123R, RL will have to treat all stock-based compensation as an expense, and recognize the fair value as of the grant date in its statement of operations.

RL will adopt FAS 123R effective fiscal 2007 (i.e., April 1, 2007), however. The new accounting standard will be applied “[to]...awards granted, modified, and settled by the Co. beginning on April 2, 2006,”

according to Deloitte's 2006 independent audit report. FAS 123R is expected to significantly impact future Co. income and earnings per share. As of April 1, 2006, RL had 8.2m stock options outstanding with a weighted average exercise price of \$28.69.

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1 Industry Outlook

The outlook for the apparel, accessories & luxury goods market is positive. Retail sales grew by 5% in 2006. As of March 16, 2007, the S&P apparel, accessories & luxury goods index increased 5.1%, compared with previous year sales growth. Industry analysts report that recent growth is attributable to a trend toward career wear and dressy attire for men and women, particularly men. Consumers are split between either low-end or high-end luxury brands. At the high end, sales continue to grow, bolstered by a fashion conscious consumer with higher than average disposable income.

The long-term outlook in the mature apparel industry will remain highly competitive, resulting in deflationary pricing pressure. Accordingly, companies will continue to explore strategic growth options through sourcing efficiencies, merger & acquisition activity, broad product offerings, and licensing deals.

2 Corporate Valuation

2.1 DCF Model

Based on qualitative research and valuation analysis, RL's current stock price is overvalued—primarily the result of acquisition related top-line growth. For fiscal end 2007, Co. operating costs are expected to increase to better align with post-acquisition revenue growth. The 12-month target price for RL is \$86.05. The discounted cash flow (DCF) model assumes a starting growth rate of 13.3%, fading to 7% by 2013. Thereafter, the continuing value (CV) growth rate is 7%, assuming annual

GDP growth of 2-3%; price inflation of 2%; and organic growth of 2-3%. The estimated weighted average cost of capital (WACC) is 9.62%. The WACC reflects a debt-to-equity capital structure of 18:82 and a 1.2 beta. Sensitivity tables herein reflect the primary drivers of the target price, namely WACC, growth rate (g), and return on invested capital (ROIC). Moderate changes to the primary valuation drivers do not provide a compelling reason to adjust the 12-month target price.

Pro Forma Financial Statements

POLO RALPH LAUREN CORP

In Millions U.S. \$

Income Statement

	Actual					Projected								CV [∞]
	03/31/02	03/31/03	03/31/04	03/31/05	03/31/06	3/31/07E	3/31/08E	3/31/09E	3/31/2010E	3/31/2011E	3/31/2012E	3/31/2013E	3/31/2014E	
Sales	\$ 2,364	\$ 2,439	\$ 2,650	\$ 3,305	\$ 3,746	\$ 4,246	\$ 4,733	\$ 5,210	\$ 5,682	\$ 6,153	\$ 6,628	\$ 7,113	\$ 7,610	
Costs of goods sold (COGS)	1,133	1,153	1,241	1,519	1,606	1,820	2,029	2,233	2,436	2,638	2,841	3,049	3,263	
Sales, general and administrative expense	838	817	1,050	1,385	1,497	1,696	1,891	2,081	2,270	2,458	2,648	2,842	3,040	
Depreciation	84	79	86	102	127	144	160	177	193	209	225	241	258	
Operating profit	\$ 309	\$ 391	\$ 274	\$ 300	\$ 517	\$ 586	\$ 653	\$ 718	\$ 783	\$ 848	\$ 914	\$ 981	\$ 1,049	
Interest expense	19	14	10	11	13	25	24	27	30	32	35	38	40	
Interest income	0	0	0	0	0	0	4	8	15	23	32	44	57	
Nonoperating income (Expense)	(14)	(103)	2	9	(1)	0	0	0	0	0	0	0	0	
Earnings before taxes (EBT)	\$ 276	\$ 274	\$ 266	\$ 298	\$ 503	\$ 561	\$ 632	\$ 700	\$ 769	\$ 839	\$ 911	\$ 987	\$ 1,066	
Tax expense	103	100	95	107	195	207	233	258	284	310	336	364	393	
Net income before extraordinary items	\$ 173	\$ 174	\$ 171	\$ 190	\$ 308	\$ 354	\$ 399	\$ 442	\$ 485	\$ 529	\$ 575	\$ 623	\$ 672	
After-tax extraordinary income (Expense)	0	0	0	0	0	0	0	0	0	0	0	0	0	
Net income (NI)	\$ 173	\$ 174	\$ 171	\$ 190	\$ 308	\$ 354	\$ 399	\$ 442	\$ 485	\$ 529	\$ 575	\$ 623	\$ 672	
Dividends-- preferred	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	
Dividends-- common	\$ 0	\$ 0	\$ 15	\$ 22	\$ 21	\$ 24	\$ 26	\$ 29	\$ 32	\$ 34	\$ 37	\$ 39	\$ 42	
Additions to RE	\$ 173	\$ 174	\$ 156	\$ 169	\$ 287	\$ 330	\$ 373	\$ 413	\$ 453	\$ 495	\$ 538	\$ 583	\$ 630	

Balance Sheet

Assets

Cash	\$ 245	\$ 344	\$ 352	\$ 351	\$ 286	\$ 324	\$ 361	\$ 397	\$ 433	\$ 469	\$ 505	\$ 542	\$ 580
Inventory	350	364	373	430	486	550	613	675	736	797	859	922	986
Accounts receivable	354	376	442	456	484	549	612	673	734	795	857	919	984
Other short-term operating assets	60	83	120	178	123	140	156	171	187	202	218	234	250
Short-term investments	0	0	0	0	0	100	211	368	568	810	1,093	1,416	1,778
Total current assets	\$ 1,008	\$ 1,166	\$ 1,287	\$ 1,414	\$ 1,379	\$ 1,662	\$ 1,953	\$ 2,285	\$ 2,659	\$ 3,074	\$ 3,532	\$ 4,033	\$ 4,579
Net plant, property, & equipment (PPE)	344	355	409	488	549	622	693	763	832	901	971	1,042	1,115
Other long-term operating assets	398	470	544	763	1,098	1,244	1,387	1,527	1,665	1,803	1,942	2,084	2,230
Long-term investments	0	48	58	62	64	72	80	88	96	104	113	121	129
Total assets	\$ 1,749	\$ 2,039	\$ 2,298	\$ 2,727	\$ 3,089	\$ 3,601	\$ 4,113	\$ 4,663	\$ 5,252	\$ 5,883	\$ 6,557	\$ 7,280	\$ 8,053

Liabilities and Equity

Accounts payable (AP)	\$ 177	\$ 181	\$ 189	\$ 184	\$ 202	\$ 229	\$ 255	\$ 281	\$ 307	\$ 332	\$ 358	\$ 384	\$ 411
Accruals	172	209	316	438	361	409	456	502	547	593	639	685	733
Other operating current liabilities	10	9	0	0	0	0	0	0	0	0	0	0	0
All short-term debt	33	101	0	0	280	61	68	74	81	88	95	102	109
Total current liabilities	\$ 392	\$ 500	\$ 505	\$ 622	\$ 844	\$ 699	\$ 779	\$ 858	\$ 935	\$ 1,013	\$ 1,091	\$ 1,171	\$ 1,253
Long-term debt	285	248	277	293	24	328	365	402	438	475	511	549	587
Deferred taxes	0	0	66	0	21	24	26	29	32	34	37	39	42
Preferred stock	0	0	0	0	0	0	0	0	0	0	0	0	0
Other long-term liabilities	74	81	34	136	151	171	190	209	228	247	266	286	306
Total liabilities	\$ 751	\$ 830	\$ 882	\$ 1,051	\$ 1,039	\$ 1,221	\$ 1,361	\$ 1,498	\$ 1,634	\$ 1,769	\$ 1,906	\$ 2,045	\$ 2,188
Par plus PIC Less treasury (and other adju)	217	254	304	396	482	482	482	482	482	482	482	482	482
Retained earnings (RE)	781	955	1,111	1,280	1,567	1,897	2,270	2,683	3,136	3,631	4,169	4,752	5,382
Total common equity	\$ 998	\$ 1,209	\$ 1,415	\$ 1,676	\$ 2,050	\$ 2,380	\$ 2,753	\$ 3,165	\$ 3,619	\$ 4,114	\$ 4,652	\$ 5,235	\$ 5,865
Total liabilities and equity	\$ 1,749	\$ 2,039	\$ 2,298	\$ 2,727	\$ 3,089	\$ 3,601	\$ 4,113	\$ 4,663	\$ 5,252	\$ 5,883	\$ 6,557	\$ 7,280	\$ 8,053

POLO RALPH LAUREN CORP

Common Size Ratios For Historical Financial Statements

Ratios to calculate operating profit

	Average	Trend	Most Recent	2006	2005	2004	2003	2002
Sales growth rate	11.2%	22.0%	13.3%	13.3%	24.8%	8.6%	3.2%	6.2%
COGS / Sales	46.2%	42.7%	42.9%	42.9%	45.9%	46.8%	47.3%	47.9%
SGA / Sales	38.1%	43.3%	40.0%	40.0%	41.9%	39.6%	33.5%	35.4%
Depreciation / Net PPE	22.3%	21.2%	23.1%	23.1%	20.9%	21.0%	22.2%	24.4%

Ratios to calculate operating capital

Cash / Sales	11.2%	8.5%	7.6%	7.6%	10.6%	13.3%	14.1%	10.4%
Inventory/ Sales	14.0%	12.3%	13.0%	13.0%	13.0%	14.1%	14.9%	14.8%
Accts. rec. / Sales	14.7%	13.0%	12.9%	12.9%	13.8%	16.7%	15.4%	15.0%
Other short term operating assets/Sales	3.8%	4.9%	3.3%	3.3%	5.4%	4.5%	3.4%	2.5%
Net PPE / Sales	14.8%	14.9%	14.6%	14.6%	14.8%	15.4%	14.6%	14.5%
Other long-term oper. assets / Sales	21.8%	30.4%	29.3%	29.3%	23.1%	20.5%	19.3%	16.8%
Accts. pay./ Sales	6.6%	4.8%	5.4%	5.4%	5.6%	7.1%	7.4%	7.5%
Accruals / Sales	10.1%	13.0%	9.6%	9.6%	13.3%	11.9%	8.6%	7.3%
Other current liabilities / Sales	0.2%	-0.2%	0.0%	0.0%	0.0%	0.0%	0.4%	0.4%

Ratios to calculate operating taxes

Deferred taxes/Net PPE	4.0%	6.3%	3.8%	3.8%	0.0%	16.1%	0.0%	0.0%
Average tax rate (Taxes/EBT)	36.9%	37.5%	38.8%	38.8%	36.1%	35.7%	36.5%	37.5%
Marginal tax rate	36.9%	37.5%	38.8%	38.8%	36.1%	35.7%	36.5%	37.5%

Dividend and debt ratios

Dividend policy: growth rate	8.4%	19.8%	-4.1%	-4.1%	46.2%	0.0%	0.0%	0.0%
Long-term debt / market value of firm	14.1%	1.9%	1.3%	1.3%	15.4%	16.4%	16.3%	21.1%
Preferred stock / market value of firm	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Coupon rate on preferred stock	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Perm. Short-term debt / market value of firm	4.7%	10.0%	14.5%	14.5%	0.0%	0.0%	6.6%	2.4%

Ratios to calculate rest of income statement and balance sheet

Nonop. inc. / Sales	-0.9%	0.8%	0.0%	0.0%	0.3%	0.1%	-4.2%	-0.6%
Extr. inc. / Sales	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Long-term investments / Sales	1.5%	2.5%	1.7%	1.7%	1.9%	2.2%	2.0%	0.0%
Other long-term liab. / Sales	3.2%	3.9%	4.0%	4.0%	4.1%	1.3%	3.3%	3.1%

POLO RALPH LAUREN CORP

In Millions U.S. \$

DCF Value Drivers	<=====Actual					Projected=====								CV [∞]
	2002	2003	2004	2005	2006	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	
Free Cash Flow														
Marginal tax rate	37%	37%	36%	36%	39%	37%	37%	37%	37%	37%	37%	37%	37%	
Reported income tax expense	103	100	95	107	195	207	233	258	284	310	336	364	393	
Taxes reported but not paid	<u>0</u>	<u>0</u>	<u>66</u>	<u>(66)</u>	<u>21</u>	<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>	
Actual taxes paid	103	100	29	173	174	204	231	256	281	307	334	362	391	
Plus tax saved due to net interest expenses	7	5	4	4	5	9	7	7	6	4	1	(2)	(6)	
Minus tax paid on non-operating income	<u>(5)</u>	<u>(38)</u>	<u>1</u>	<u>3</u>	<u>(0)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	
Tax on operating income	116	143	32	174	179	213	238	263	287	311	335	359	385	
Net operating profit after taxes (NOPAT)	<u>193</u>	<u>248</u>	<u>242</u>	<u>126</u>	<u>337</u>	<u>372</u>	<u>414</u>	<u>456</u>	<u>497</u>	<u>538</u>	<u>579</u>	<u>621</u>	<u>665</u>	
NOPAT adjusted for extraordinary income	193	248	242	126	337	372	414	456	497	538	579	621	665	
Operating current assets	1,008	1,166	1,287	1,414	1,379	1,562	1,742	1,917	2,091	2,264	2,439	2,617	2,800	
Operating current liabilities	<u>359</u>	<u>399</u>	<u>505</u>	<u>622</u>	<u>563</u>	<u>638</u>	<u>711</u>	<u>783</u>	<u>854</u>	<u>925</u>	<u>996</u>	<u>1,069</u>	<u>1,144</u>	
Net operating working capital	649	767	782	791	815	924	1,030	1,134	1,237	1,339	1,443	1,548	1,656	
Operating long term capital	741	825	953	1,251	1,647	1,866	2,080	2,290	2,497	2,704	2,913	3,126	3,345	
Operating capital (adjusted for impaired assets)	<u>1,391</u>	<u>1,592</u>	<u>1,735</u>	<u>2,042</u>	<u>2,462</u>	<u>2,790</u>	<u>3,110</u>	<u>3,424</u>	<u>3,734</u>	<u>4,043</u>	<u>4,356</u>	<u>4,674</u>	<u>5,001</u>	
Investment in operating capital (Current - Prior yr.)	N/A	201	143	308	420	328	320	314	310	310	312	318	327	
Free Cash Flow (including extraordinary income)	N/A	<u>47</u>	<u>99</u>	<u>(182)</u>	<u>(83)</u>	<u>44</u>	<u>94</u>	<u>142</u>	<u>187</u>	<u>228</u>	<u>267</u>	<u>303</u>	<u>338</u>	
Return on Invested Capital (ROIC)	N/A	17.8%	15.2%	7.2%	16.5%	15.1%	14.9%	14.7%	14.5%	14.4%	14.3%	14.3%	14.2%	
Growth Rates														
Growth in Sales	N/A	3.2%	8.6%	24.8%	13.3%	13.3%	11.5%	10.1%	9.1%	8.3%	7.7%	7.3%	7.0%	
Growth in NOPAT	N/A	28.4%	-2.5%	-48.1%	168.4%	10.4%	11.4%	10.0%	9.0%	8.2%	7.7%	7.3%	7.0%	
Growth in Operating Capital	N/A	14.5%	9.0%	17.7%	20.6%	13.3%	11.5%	10.1%	9.1%	8.3%	7.7%	7.3%	7.0%	
WACC	9.62%	9.62%	9.62%	9.62%	9.62%	9.62%	9.62%	9.62%	9.62%	9.62%	9.62%	9.62%	9.62%	

N/A - Prior year required data not included in analysis.

POLO RALPH LAUREN CORP

In Millions U.S. \$

DCF Valuation Drivers

WACC	9.62%
CV ROIC	14.22%
CV Growth Rate	7.00%

Most Recent FY End

03/31/06

DCF Valuation Model	CV								
	2006	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Free Cash Flow		44	94	142	187	228	267	303	338
Horizon value		●—————▶							13,793
Present value of operations	7,591	8,277	8,979	9,700	10,447	11,223	12,036	12,891	13,793
Present value of operations adjusted for half-year convention	7,948	8,666	9,401	10,156	10,937	11,751	12,602	13,496	14,441
Value of investments	<u>64</u>	<u>172</u>	<u>292</u>	<u>456</u>	<u>664</u>	<u>914</u>	<u>1,205</u>	<u>1,537</u>	<u>1,908</u>
Total value of firm	8,011	8,838	9,693	10,613	11,602	12,665	13,807	15,033	16,349
Value of all debt, preferred stock, and other nonoperating liabilities	<u>455</u>	<u>559</u>	<u>623</u>	<u>686</u>	<u>748</u>	<u>810</u>	<u>873</u>	<u>936</u>	<u>1,002</u>
Value of equity	<u>7,556</u>	<u>8,279</u>	<u>9,070</u>	<u>9,927</u>	<u>10,854</u>	<u>11,855</u>	<u>12,934</u>	<u>14,097</u>	<u>15,347</u>
Number of shares	105	105	105	105	105	105	105	105	105
Estimated Price Per Share, FY End	\$ 71.69	\$ 78.55	\$ 86.05	\$ 94.18	\$ 102.98	\$ 112.48	\$ 122.72	\$ 133.74	\$ 145.61

Value-Based Performance Metrics

Economic Value Added (EVA)	141	135	146	157	168	179	190	202	215
Market Value Added (MVA)	5,486	5,876	6,291	6,732	7,204	7,707	8,246	8,822	9,440

POLO RALPH LAUREN CORP

Sensitivity Analysis

DCF Valuation Drivers	
WACC	9.62%
CV ROIC	14.22%
CV Growth Rate (g)	7.00%

		WACC										
		9.15%	9.24%	9.33%	9.43%	9.52%	9.62%	9.72%	9.81%	9.91%	10.01%	10.11%
g	6.66%	91.98	88.54	85.31	82.26	79.39	76.68	74.14	71.73	69.44	67.27	65.20
	6.72%	94.39	90.77	87.37	84.18	81.18	78.34	75.69	73.18	70.80	68.54	66.39
	6.79%	96.96	93.14	89.57	86.22	83.07	80.10	77.33	74.71	72.23	69.88	67.65
	6.86%	99.71	95.68	91.91	88.38	85.07	81.96	79.06	76.33	73.74	71.29	68.97
	6.93%	102.66	98.39	94.41	90.69	87.21	83.94	80.90	78.04	75.34	72.78	70.36
	7.00%	105.83	101.30	97.08	93.16	89.49	86.05	82.86	79.85	77.02	74.35	71.83
	7.07%	109.22	104.40	99.93	95.77	91.89	88.27	84.91	81.76	78.80	76.00	73.37
	7.14%	112.88	107.74	102.98	98.57	94.46	90.64	87.10	83.79	80.68	77.75	75.00
	7.21%	116.86	111.35	106.27	101.58	97.22	93.18	89.44	85.95	82.68	79.61	76.72
	7.28%	121.17	115.26	109.83	104.82	100.19	95.90	91.94	88.26	84.81	81.58	78.55
	7.36%	125.89	119.52	113.68	108.32	103.38	98.82	94.62	90.72	87.08	83.68	80.49

		ROIC										
		13.53%	13.66%	13.80%	13.94%	14.08%	14.22%	14.37%	14.51%	14.65%	14.80%	14.95%
WACC	9.15%	105.83	105.83	105.83	105.83	105.83	105.83	105.83	105.83	105.83	105.83	105.83
	9.24%	101.30	101.30	101.30	101.30	101.30	101.30	101.30	101.30	101.30	101.30	101.30
	9.33%	97.08	97.08	97.08	97.08	97.08	97.08	97.08	97.08	97.08	97.08	97.08
	9.43%	93.16	93.16	93.16	93.16	93.16	93.16	93.16	93.16	93.16	93.16	93.16
	9.52%	89.49	89.49	89.49	89.49	89.49	89.49	89.49	89.49	89.49	89.49	89.49
	9.62%	86.05	86.05	86.05	86.05	86.05	86.05	86.05	86.05	86.05	86.05	86.05
	9.72%	82.86	82.86	82.86	82.86	82.86	82.86	82.86	82.86	82.86	82.86	82.86
	9.81%	79.85	79.85	79.85	79.85	79.85	79.85	79.85	79.85	79.85	79.85	79.85
	9.91%	77.02	77.02	77.02	77.02	77.02	77.02	77.02	77.02	77.02	77.02	77.02
	10.01%	74.35	74.35	74.35	74.35	74.35	74.35	74.35	74.35	74.35	74.35	74.35
	10.11%	71.83	71.83	71.83	71.83	71.83	71.83	71.83	71.83	71.83	71.83	71.83

		g										
		6.66%	6.72%	6.79%	6.86%	6.93%	7.00%	7.07%	7.14%	7.21%	7.28%	7.36%
ROIC	13.53%	76.68	78.34	80.10	81.96	83.94	86.05	88.27	90.64	93.18	95.90	98.82
	13.66%	76.68	78.34	80.10	81.96	83.94	86.05	88.27	90.64	93.18	95.90	98.82
	13.80%	76.68	78.34	80.10	81.96	83.94	86.05	88.27	90.64	93.18	95.90	98.82
	13.94%	76.68	78.34	80.10	81.96	83.94	86.05	88.27	90.64	93.18	95.90	98.82
	14.08%	76.68	78.34	80.10	81.96	83.94	86.05	88.27	90.64	93.18	95.90	98.82
	14.22%	76.68	78.34	80.10	81.96	83.94	86.05	88.27	90.64	93.18	95.90	98.82
	14.37%	76.68	78.34	80.10	81.96	83.94	86.05	88.27	90.64	93.18	95.90	98.82
	14.51%	76.68	78.34	80.10	81.96	83.94	86.05	88.27	90.64	93.18	95.90	98.82
	14.65%	76.68	78.34	80.10	81.96	83.94	86.05	88.27	90.64	93.18	95.90	98.82
	14.80%	76.68	78.34	80.10	81.96	83.94	86.05	88.27	90.64	93.18	95.90	98.82
	14.95%	76.68	78.34	80.10	81.96	83.94	86.05	88.27	90.64	93.18	95.90	98.82

Condensed WACC

Weighted Average Cost of Capital

In Millions

WACC =====> 9.62%

WACC as of: 11-Apr-2007

Market Value of Equity			
Common Shares Outstanding		105	
Current Stock Price	\$	92.80	
Market Capitalization	\$	9,781	82.22%

Market Value of Preferred Stock	
Target Preferred Stock	0.00%

Market Value of Debt	
Target Short-Term Debt	2.78%
Target Long-Term Debt	15.00%

Rates

CAPM		Comments
Beta	1.2	
Risk-Free Rate	4.85%	10-Year Treasury Bond Yield.
Risk Premium	5.00%	
Cost of Equity	10.85%	
Cost of Preferred	0.00%	
Bond Rating Spread	1.00%	
Cost of Long-Term Debt	5.9%	
Cost of Short-Term Debt	8.25%	
Tax Rate	36.91%	

WACC 9.62%

Capital Structure

