

August 8, 2008

Key Metrics

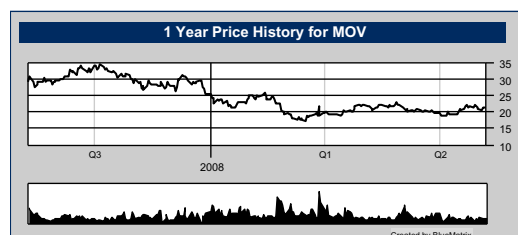
| | |
|------------------------------|-----------------|
| MOV - NYSE | \$21.29 |
| Pricing Date | 08/07/2008 |
| Price Target | \$23.00 |
| 52-Week Range | \$34.99-\$17.16 |
| Shares Outstanding (mm) | 18.1 |
| Market Capitalization (\$mm) | \$384.8 |
| 3-Mo Average Daily Volume | 165,211 |
| Institutional Ownership | 98% |
| Debt/Total Capital | 13.7% |
| ROE | 10.5% |
| Book Value/Share | \$17.01 |
| Price/Book | 1.3x |
| Dividend Yield | 1.7% |

EPS(\$) FY: January

| | 2008A | Prior 2009E | Curr. 2009E | Prior 2010E | Curr. 2010E |
|--------|-------|-------------|-------------|-------------|-------------|
| 1Q-Apr | 0.09 | -- | 0.05A | -- | -- |
| 2Q-Jul | 0.45 | -- | 0.39E | -- | -- |
| 3Q-Oct | 0.78 | -- | 0.82E | -- | -- |
| 4Q-Jan | 0.40 | -- | 0.46E | -- | -- |
| FY | 1.71 | -- | 1.71E | -- | 1.93E |
| P/E | 12.5x | -- | 12.5x | -- | 11.0x |

Revenue(\$mm)

| | 2008A | Prior 2009E | Curr. 2009E | Prior 2010E | Curr. 2010E |
|--------|-------|-------------|-------------|-------------|-------------|
| 1Q-Apr | 101.4 | -- | 101.4A | -- | -- |
| 2Q-Jul | 139.5 | -- | 132.0E | -- | -- |
| 3Q-Oct | 180.2 | -- | 177.5E | -- | -- |
| 4Q-Jan | 153.6 | -- | 152.5E | -- | -- |
| FY | 574.6 | -- | 563.4E | -- | 594.6E |



Company Description: *Movado Group, Inc. (www.movadogroup.com) engages in the design, development, marketing, distribution, and retailing of fine watches and jewelry. It sells watches under the brands, Movado, Ebel, Concord, ESQ Swiss, Coach, HUGO BOSS, Tommy Hilfiger, Juicy Couture, and soon-to-be-launched Lacoste. In addition, the company operates outlet stores and boutiques throughout the United States.*

Movado Group, Inc.

Rating: Buy

Cost Reductions Targeting \$25mm In Savings; Appears Additive To Guidance

Investment Highlights:

- **Expense reduction plan targeting \$25mm, or 8% of operating expenses, in annualized cost reductions.** Movado announced a plan to reduce its payroll expense by approximately 10% (roughly 90 positions and 6% of the company's full-time workforce). The reductions appear to be spread across its corporate and shared services departments and include select consolidation within distribution, finance, administration, and procurement. The plan projects pre-tax cost savings of roughly \$25mm annually, or 8% of operating expenses, with roughly \$6mm of these savings targeted in FY09. Pre-tax charges of roughly \$9mm related to the program are expected in FY09 as well.
- **Management maintains guidance ex-cost savings/charges; could indicate upside FY09 EPS potential.** Within the release, management maintained its FY09 guidance within a range of \$1.65 to \$1.72. This guidance excludes the projected charges and cost savings associated with the plan. While we await more details, which could come when the company reports 2Q09 EPS results in early September, and maintain our current estimates, a \$6mm reduction in operating costs, based off of a 24% tax rate and 26.4mm share count, would equate to upside EPS potential of \$0.17 for FY09. Using a similar methodology beginning in FY10, and assuming \$25mm in annual cost savings, full-year EPS could expand upwards of \$0.70. With \$128mm in cash as of F1Q09 end, the \$3mm estimated (\$9mm in charges less \$6mm in savings) should be negligible and well worth the cost, in our view.
- **Awaiting further details: price target and EPS estimates under review; maintain Buy rating.** While we acknowledge the material impact Movado's cost reduction plan could have on EPS, we are maintaining our current price target and EPS until more detailed information is released. With that said, and just to provide a range of potential scenarios, in our opinion, should the plan fall in line with expectations, a 13x multiple, similar to our current price target multiple, and \$0.17 potential accretion to FY09 EPS from cost cutting initiatives, could equate to a FTM price target north of \$25 per share. For example, if we extend out a year, adding \$0.70 to our FY10 EPS estimate of \$1.93, while reducing the targeted multiple (using a more conservative multiple due to the extended time-frame) to 10x FY10 EPS, a \$27 target would appear to be achievable. Accordingly, we reiterate our Buy rating on the shares.

EQUITY RESEARCH

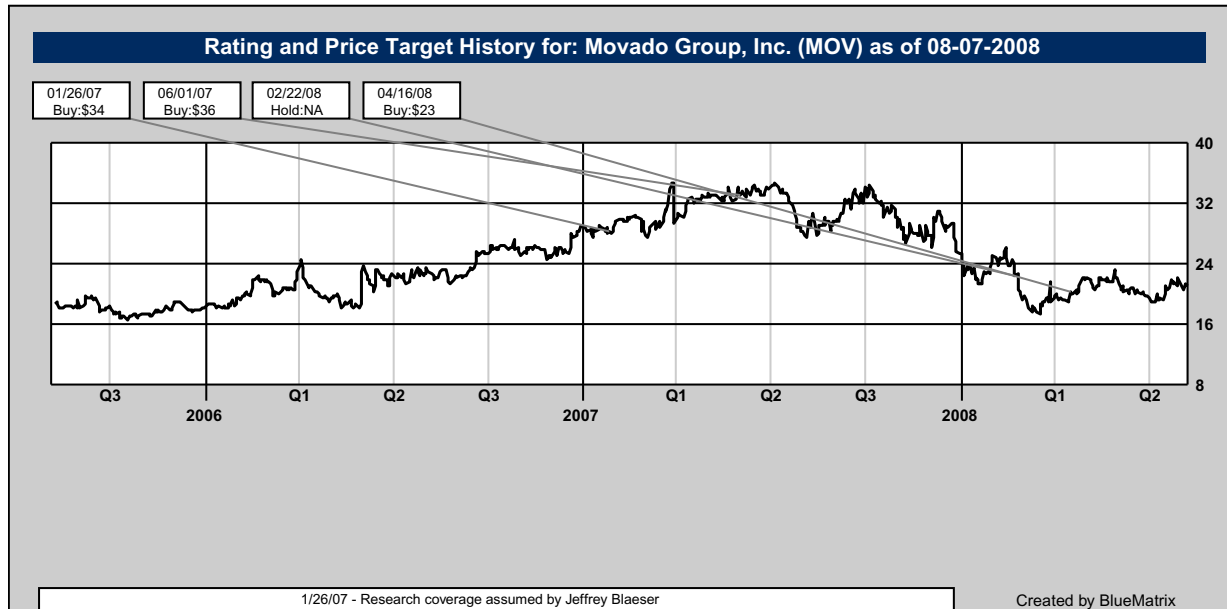
Movado Group (MOV)

(In Millions, Except Per Share Data)

| Quarter End | FY 2006 | Q1 Apr-06 | Q2 Jul-06 | Q3 Oct-06 | Q4 Jan-07 | FY 2007 | Q1 Apr-07 | Q2 Jul-07 | Q3 Oct-07 | Q4 Jan-08 | FY 2008 | Q1 Apr-08 | Q2E Jul-08 | Q3E Oct-08 | Q4E Jan-09 | FYE 2009 | FYE 2010 |
|--------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|---------------|--------------|--------------|
| Sales | 470.9 | 97.7 | 126.6 | 166.3 | 142.3 | 532.9 | 101.4 | 139.5 | 180.2 | 153.6 | 574.6 | 101.4 | 132.0 | 177.5 | 152.5 | 563.4 | 594.6 |
| <i>% Increase</i> | 12.4% | 11.4% | 9.8% | 17.3% | 12.8% | 13.1% | 3.7% | 10.2% | 8.3% | 7.9% | 7.8% | 0.0% | -5.4% | -1.5% | -0.7% | -1.9% | 5.5% |
| Cost of Goods Sold | 184.6 | 38.2 | 48.1 | 68.4 | 55.3 | 209.9 | 39.7 | 56.1 | 70.3 | 60.8 | 226.9 | 36.3 | 47.5 | 63.0 | 55.7 | 202.5 | 213.3 |
| <i>As % Sales</i> | 39.2% | 39.0% | 38.0% | 41.1% | 38.9% | 39.4% | 39.2% | 40.2% | 39.0% | 39.6% | 39.5% | 35.8% | 36.0% | 35.5% | 36.5% | 36.0% | 35.9% |
| <i>% Increase</i> | 9.4% | 9.3% | 6.0% | 23.0% | 13.4% | 13.7% | 4.1% | 16.7% | 2.8% | 9.8% | 8.1% | -8.5% | -15.3% | -10.3% | -8.4% | -10.7% | 5.3% |
| Gross Profit | 286.3 | 59.6 | 78.5 | 97.9 | 86.9 | 322.9 | 61.7 | 83.3 | 109.9 | 92.8 | 347.7 | 65.0 | 84.5 | 114.5 | 96.8 | 360.8 | 381.3 |
| <i>Margin</i> | 60.8% | 61.0% | 62.0% | 58.9% | 61.1% | 60.6% | 60.8% | 59.8% | 61.0% | 60.4% | 60.5% | 64.2% | 64.0% | 64.5% | 63.5% | 64.0% | 64.1% |
| <i>% Increase</i> | 14.5% | 12.8% | 12.2% | 13.6% | 12.4% | 12.8% | 3.5% | 6.2% | 12.2% | 6.7% | 7.7% | 5.5% | 1.4% | 4.2% | 4.4% | 3.8% | 5.7% |
| G&A | 239.1 | 56.2 | 64.4 | 74.3 | 71.9 | 266.8 | 58.9 | 67.0 | 81.4 | 78.6 | 285.9 | 63.4 | 71.0 | 86.0 | 81.0 | 301.4 | 315.1 |
| <i>As % Sales</i> | 50.8% | 57.5% | 50.9% | 44.7% | 50.5% | 50.1% | 58.1% | 48.0% | 45.2% | 51.2% | 49.8% | 62.6% | 53.8% | 48.5% | 53.1% | 53.5% | 53.0% |
| <i>% Increase</i> | 12.2% | 10.8% | 11.7% | 10.7% | 13.3% | 11.6% | 4.9% | 4.0% | 9.5% | 9.3% | 7.1% | 7.7% | 6.0% | 5.7% | 3.0% | 5.4% | 4.5% |
| Operating Profit | 47.3 | 3.4 | 14.1 | 23.6 | 15.0 | 56.1 | 2.8 | 16.3 | 28.5 | 14.2 | 61.8 | 1.6 | 13.5 | 28.5 | 15.8 | 59.4 | 66.2 |
| <i>Margin</i> | 10.0% | 3.5% | 11.1% | 14.2% | 10.6% | 10.5% | 2.7% | 11.7% | 15.8% | 9.2% | 10.8% | 1.6% | 10.2% | 16.0% | 10.4% | 10.5% | 11.1% |
| <i>% Increase</i> | 27.4% | 60.5% | 14.6% | 24.0% | 8.7% | 18.7% | -19.3% | 16.1% | 20.9% | -5.7% | 10.1% | -41.8% | -17.5% | 0.0% | 11.7% | -3.8% | 11.4% |
| Interest Expense | 4.2 | 0.9 | 0.9 | 1.0 | 0.9 | 3.8 | 0.9 | 0.9 | 0.9 | 0.8 | 3.5 | 0.7 | 0.9 | 0.9 | 0.9 | 3.4 | 3.6 |
| Interest Income | 1.1 | 0.9 | 0.6 | 0.8 | 1.0 | 3.3 | 1.2 | 1.1 | 1.1 | 1.3 | 4.7 | 1.0 | 1.1 | 1.0 | 1.1 | 4.2 | 4.4 |
| Other Income | -1.1 | 0.0 | 0.0 | 0.4 | 0.0 | 0.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Pretax Profit | 43.1 | 3.4 | 13.8 | 23.7 | 15.1 | 56.0 | 3.1 | 16.5 | 28.6 | 14.7 | 63.0 | 1.9 | 13.7 | 28.6 | 16.0 | 60.2 | 67.0 |
| <i>Margin</i> | 9.2% | 3.5% | 10.9% | 14.3% | 10.6% | 10.5% | 3.1% | 11.9% | 15.9% | 9.6% | 11.0% | 1.8% | 10.4% | 16.1% | 10.5% | 10.7% | 11.3% |
| <i>% Increase</i> | 28.0% | 154.3% | 20.8% | 33.5% | 19.7% | 29.8% | -7.2% | 20.0% | 20.8% | -2.9% | 12.5% | -40.6% | -17.2% | 0.0% | 9.3% | -4.4% | 11.3% |
| Taxes(benefit) | 10.4 | 0.6 | 2.4 | 6.5 | 3.8 | 13.3 | 0.6 | 4.1 | 7.2 | 3.7 | 15.6 | 0.6 | 3.4 | 7.2 | 4.0 | 15.2 | 16.8 |
| <i>Rate</i> | 24.1% | 17.9% | 17.5% | 27.6% | 25.0% | 23.8% | 20.6% | 24.9% | 25.0% | 25.0% | 24.8% | 30.4% | 25.0% | 25.0% | 25.0% | 25.2% | 25.0% |
| Minority Interest | 0.0 | -0.1 | 0.0 | 0.0 | 0.2 | 0.1 | 0.1 | 0.1 | 0.2 | 0.2 | 0.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net Income--Oper. | 32.7 | 2.9 | 11.3 | 17.2 | 11.1 | 42.5 | 2.4 | 12.3 | 21.3 | 10.8 | 46.7 | 1.2 | 10.3 | 21.5 | 12.0 | 45.0 | 50.3 |
| <i>Margin</i> | 6.9% | 2.9% | 9.0% | 10.3% | 7.8% | 8.0% | 2.4% | 8.8% | 11.8% | 7.0% | 8.1% | 1.2% | 7.8% | 12.1% | 7.9% | 8.0% | 8.5% |
| <i>% Increase</i> | 27.9% | 186.4% | 32.7% | 29.0% | 12.9% | 29.9% | -15.9% | 8.1% | 24.0% | -3.2% | 9.9% | -48.0% | -16.3% | 0.9% | 11.5% | -3.7% | 11.7% |
| EPS--Operations | 1.25 | 0.11 | 0.43 | 0.64 | 0.41 | 1.59 | 0.09 | 0.45 | 0.78 | 0.40 | 1.71 | 0.05 | 0.39 | 0.82 | 0.46 | 1.71 | 1.93 |
| <i>% Increase</i> | 24.9% | 182.3% | 30.4% | 26.1% | 9.8% | 26.9% | -18.3% | 5.3% | 22.0% | -3.9% | 7.9% | -46.8% | -13.6% | 4.8% | 16.7% | 0.0% | 12.9% |
| Shares Out. Diluted | 26.2 | 26.4 | 26.6 | 26.8 | 27.0 | 26.8 | 27.2 | 27.3 | 27.2 | 27.2 | 27.3 | 26.6 | 26.4 | 26.2 | 26.0 | 26.3 | 26.0 |

Source: Company reports and Morgan Joseph estimates

Required Disclosures



Price Target

Our price target is \$23.

Valuation Methodology

Our \$23 price target is based on a 13x multiple, which is conservatively below its peer group's average multiple and in line with the company's historical average, on our FY09 EPS estimate.

Risk Factors

- Movado is somewhat dependent upon licensed product lines.
- Movado outsources manufacturing to independent parties.
- Movado's product lines are considered discretionary and could be impacted by recessions.
- Price changes in precious stones could impact profit margins.
- The watch manufacturing business is highly competitive.
- New technologies are limiting consumer dependency on watches.

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| Rating | Investment Banking Services/Past 12 Mos. | |
|----------|---|---------|
| | Percent | Percent |
| BUY [B] | 55.68 | 36.73 |
| HOLD [H] | 43.18 | 28.95 |
| SELL [S] | 1.14 | 0.00 |

Meaning of Ratings

- A) Buy means reasonable outperformance relative to the market over 12-18 months.
 B) Hold means market-type risk adjusted performance; potential source of funds.
 C) Sell means expected to underperform the market.

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