

September 5, 2008

**Key Metrics**

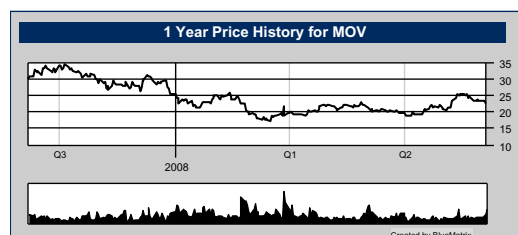
|                              |                 |
|------------------------------|-----------------|
| MOV - NYSE                   | \$22.41         |
| Pricing Date                 | 09/04/2008      |
| Price Target                 | \$28.00         |
| 52-Week Range                | \$34.99-\$17.16 |
| Shares Outstanding (mm)      | 18.1            |
| Market Capitalization (\$mm) | \$405.6         |
| 3-Mo Average Daily Volume    | 166,039         |
| Institutional Ownership      | 98%             |
| Debt/Total Capital           | 12.0%           |
| ROE                          | 9.7%            |
| Book Value/Share             | \$17.33         |
| Price/Book                   | 1.3x            |
| Dividend Yield               | 1.4%            |

**EPS(\$)** FY: January

|        | 2008A | Prior 2009E | Curr. 2009E | Prior 2010E | Curr. 2010E |
|--------|-------|-------------|-------------|-------------|-------------|
| 1Q-Apr | 0.09  | --          | 0.05A       | --          | 0.17E       |
| 2Q-Jul | 0.45  | --          | 0.39A       | --          | 0.55E       |
| 3Q-Oct | 0.78  | 0.82E       | 0.88E       | --          | 1.01E       |
| 4Q-Jan | 0.40  | 0.46E       | 0.56E       | --          | 0.67E       |
| FY     | 1.71  | 1.71E       | 1.85E       | 1.93E       | 2.40E       |
| P/E    | 13.1x |             | 12.1x       |             | 9.3x        |

**Revenue(\$mm)**

|        | 2008A | Prior 2009E | Curr. 2009E | Prior 2010E | Curr. 2010E |
|--------|-------|-------------|-------------|-------------|-------------|
| 1Q-Apr | 101.4 | --          | 101.4A      | --          | 110.0E      |
| 2Q-Jul | 139.5 | 132.0E      | 129.7A      | --          | 141.9E      |
| 3Q-Oct | 180.2 | --          | 177.5E      | --          | 186.4E      |
| 4Q-Jan | 153.6 | --          | 152.5E      | --          | 156.3E      |
| FY     | 574.6 | 563.4E      | 561.0E      | --          | 594.6E      |



**Company Description:** Movado Group, Inc. ([www.movadogroup.com](http://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 Hilfger, 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

#### F2Q09 EPS Inline; Cost Reductions To Drive Material EPS Gains; \$28PT from \$23

**Investment Highlights:**

- **F2Q09 EPS of \$0.39 inline with our estimate yet \$0.06 lower than LY.** Movado reported F2Q09 EPS of \$0.39, which was in-line with our estimate yet \$0.02 below the Street consensus. Better than expected gross margins offset slightly lower sales results.
- **Mid-teen EBIT margin expectation accelerated to next FY; expect 270 bps Y/Y expansion in FY10.** Our longer-term expectation was for Movado to gradually increase EBIT margins to 15%. The announced cost reduction initiative could accelerate that target to next fiscal year.
- **Sales down slightly Y/Y, geographic diversity/new licenses providing help to offset challenging economy.** Total sales declined Y/Y 7% to \$129.7mm. If you exclude liquidated sales LY, revenues declined only 1.1%. Domestic results were weak (wholesale domestic down 14%) but offset by strong license (up 29% Y/Y) and international (up 12%) gains. The mix was not surprising to us. While we are maintaining our sales projections going forward, 2H upside could materialize as retailers appear to be placing orders closer to the selling season, which could push some revenues from 1H to 2H.
- **Gross margins remain strong - up 110 bps Y/Y.** Excluding liquidated sales, F2Q09 gross margins increased 110 bps Y/Y to 64.7%. While 70 bps above our expectation, the results fall roughly inline with recent quarters. Upside going forward could materialize should license sales growth and profit margins continue expanding.
- **Cost reductions expected to materially improve EPS; expanding FY10 EPS to \$2.40 from \$1.93.** As previously announced, Movado has reduced its payroll by approximately 10% with additional reductions expected within discretionary expenses. Current year savings are estimated at \$6mm (\$9mm in one-time charges in FY09) and annual savings projected at \$25mm. Factoring in these expected reductions, we are raising our FY09E EPS to \$1.85 from \$1.71 and FY10 EPS to \$2.40 from \$1.93.
- **Balance sheet remains strong - fuels share repurchases.** Despite repurchasing 1.9mm shares at a cost of roughly \$39mm, the company's cash position remained strong at \$85mm. Total debt declined sequentially \$12mm to \$60mm. Inventories increased Y/Y \$23mm. The increase was apparently planned in preparation for the upcoming holiday season and should normalize by the end of the year.
- **Increasing price target to \$28 to reflect expected profitability improvement; reiterating our Buy rating.** We are raising our price target to \$28 from \$23 to reflect expected improvements in profitability. Our target multiple remains at roughly 13x FTM EPS expectations.

EQUITY RESEARCH

Movado reported F2Q09 EPS of \$0.39 versus \$0.45 in last year's comparable period. EPS were inline with our estimates yet \$0.02 below the Street consensus estimate of \$0.41. Higher gross profit margins offset slightly lower sales results with lower interest expense offset by a lower than projected share count.

**Sales, ex-liquidation, down roughly 1.1%: International/license growth offsets expected domestic weakness**

Movado reported second quarter sales of \$129.7mm. The results were down 7% Y/Y and roughly \$2mm below our \$132mm projection. Last year's second quarter results included roughly \$8mm in liquidated sales, excluding those sales, comparable revenues declined approximately 1.1%. Broken out by categories, accessible luxury (Movado and ESQ lines) and luxury (Ebel and Concord lines) declined Y/Y 18.2% and 3.3%, respectively. With sales within accessible luxury primarily generated in North America and the Movado brand in the midst of a door rationalization program, the decline was not surprising. US wholesale revenues declined 13.7% Y/Y. On the positive side, licensed brands and international sales expanded 28.5% and 11.8%, respectively, with Y/Y improvements seen within Coach and Tommy Hilfiger coupled with ongoing development of the relatively recently launched Hugo Boss, Juicy Couture, and Lacoste lines. Going forward, we expect this trend to continue and we maintain our sales projection for a slight decline in FY09 (up roughly 3% excluding FY08 liquidated sales) and 6% Y/Y gains in FY10. Upside to our 2H09 estimates could exist as retailers appear to be timing purchases closer to the selling season, which could move some sales from 1H09 to 2H09.

**Gross margins remain strong; cost reductions expected to materially improve EBIT margins going forward**

Gross margins in the quarter expanded, excluding liquidated sales sold at roughly cost LY, by approximately 110 bps Y/Y to 64.7%, with gains generated from apparently improved accessible luxury and licensed brand profitability. Despite a challenging environment, the company was able to achieve its fourth consecutive quarter, once again excluding liquidated sales, of 64% plus gross margins. We do not expect the streak to end with potential cost increases being offset by licensed sales growth, which in the early stages of development typically generate lower margins, as its critical mass of sales are not sufficient to achieve mature lines' profit levels. SG&A was in line with expectations but should primarily benefit from the recently announced cost reduction initiative that has targeted annual cost savings of \$25mm. The initiative should reduce the company's payroll expense by approximately 10% with additional savings generated from discretionary expense reductions. Roughly \$6mm in savings (approximately \$9mm in one-time charges expected in FY09) are targeted for FY09, which primarily generates the increase in our FY09 estimates, with the full \$25mm projected for FY10 and beyond. Based upon these expectations, we expect EBIT margins to approach 15% in FY10 and drive material 29.6% EPS expansion in FY10. Accordingly, we are increasing our FY10 EPS estimate from \$1.93 to \$2.40.

**Time frame for long term annual mid-teen EBIT margin accelerated to next year; longer-term upside exists**

Our initial expectations were for Movado to gradually expand its EBIT margin from 11% LFY to 15% over a two to three year period. With the recent implementation of the cost reduction initiative, that time frame could be accelerated to a year and a half with longer term EBIT margin gains possible. While we did expect the discretionary cost reductions to eventually materialize, the reduced headcount was somewhat surprising. Additionally, should the economy turn positive and improve top-line growth, increased profitability could also be generated from improved sales leverage.

**Balance sheet remains solid with cash exceeding debt by \$25mm**

Despite repurchasing roughly 1.9mm shares at a cost of approximately \$39mm, the company's cash position remained strong at \$85mm and exceeded total debt levels by \$25mm. Total debt declined sequentially by \$12mm with a Y/Y reduction of \$7mm. Inventories did expand Y/Y 11%; however, the increase was planned by the company in anticipation of the upcoming holiday season and should normalize over the course of the fiscal year. At quarter end, the company's tangible book value per share was about \$17.30, up roughly \$3 Y/Y, and could limit, in our opinion, downside risk from today's closing price of \$22.41.

**Reiterating Buy rating and increasing price target to \$28 from \$23**

We are increasing our price target to \$28 from \$23. Our new \$28 price target assumes a similar, to our old target, 13x FTM P/E multiple and reflects our expectations for materially improved EPS growth.

**Movado Group (MOV)**

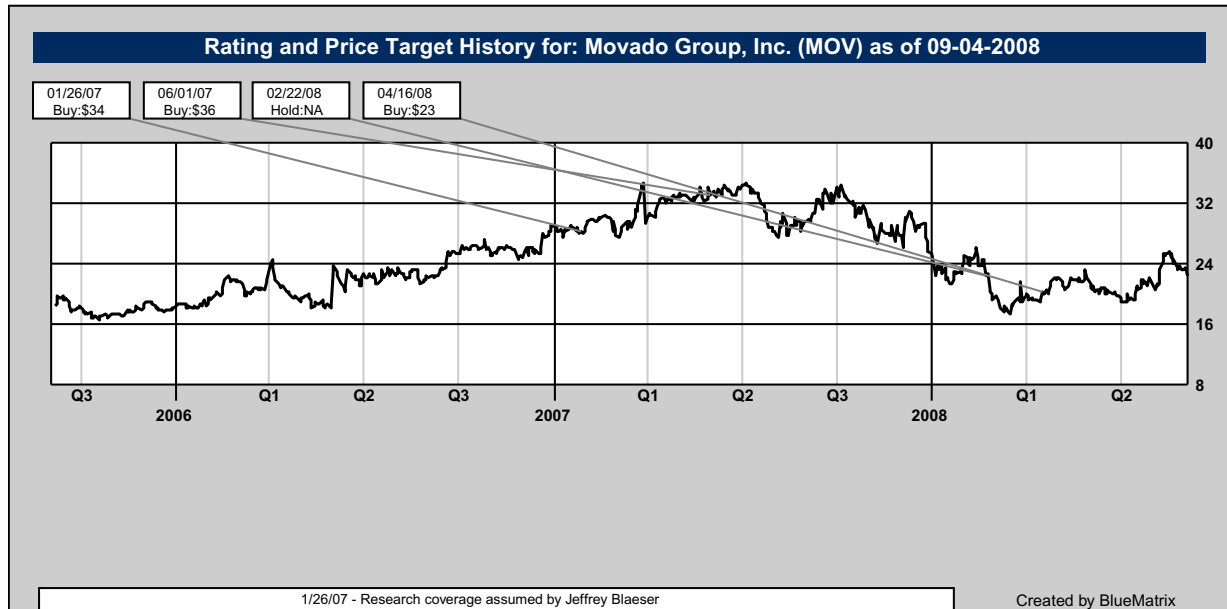
(In Millions, Except Per Share Data)

Days in quarter

| Quarter End              | FY<br>2007   | Q1<br>Apr-07 | Q2<br>Jul-07 | Q3<br>Oct-07 | Q4<br>Jan-08 | FY<br>2008   | Q1<br>Apr-08 | Q2<br>Jul-08 | Q3E<br>Oct-08 | Q4E<br>Jan-09 | FYE<br>2009  | Q1E<br>Apr-09 | Q2E<br>Jul-09 | Q3E<br>Oct-09 | Q4E<br>Jan-10 | FYE<br>2010  |
|--------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|--------------|---------------|---------------|---------------|---------------|--------------|
| <b>Sales</b>             | <b>532.9</b> | <b>101.4</b> | <b>139.5</b> | <b>180.2</b> | <b>153.6</b> | <b>574.6</b> | <b>101.4</b> | <b>129.7</b> | <b>177.5</b>  | <b>152.5</b>  | <b>561.0</b> | <b>110.0</b>  | <b>141.9</b>  | <b>186.4</b>  | <b>156.3</b>  | <b>594.6</b> |
| <i>% Increase</i>        | 13.1%        | 3.7%         | 10.2%        | 8.3%         | 7.9%         | 7.8%         | 0.0%         | -7.0%        | -1.5%         | -0.7%         | -2.4%        | 8.5%          | 9.4%          | 5.0%          | 2.5%          | 6.0%         |
| Cost of Goods Sold       | 209.9        | 39.7         | 56.1         | 70.3         | 60.8         | 226.9        | 36.3         | 45.8         | 63.0          | 55.7          | 200.8        | 39.6          | 50.4          | 66.2          | 56.7          | 212.9        |
| <i>As % Sales</i>        | 39.4%        | 39.2%        | 40.2%        | 39.0%        | 39.6%        | 39.5%        | 35.8%        | 35.3%        | 35.5%         | 36.5%         | 35.8%        | 36.0%         | 35.5%         | 35.5%         | 36.3%         | 35.8%        |
| <i>% Increase</i>        | 13.7%        | 4.1%         | 16.7%        | 2.8%         | 9.8%         | 8.1%         | -8.5%        | -18.4%       | -10.3%        | -8.4%         | -11.5%       | 9.0%          | 10.0%         | 5.0%          | 1.9%          | 6.0%         |
| <b>Gross Profit</b>      | <b>322.9</b> | <b>61.7</b>  | <b>83.3</b>  | <b>109.9</b> | <b>92.8</b>  | <b>347.7</b> | <b>65.0</b>  | <b>83.9</b>  | <b>114.5</b>  | <b>96.8</b>   | <b>360.2</b> | <b>70.4</b>   | <b>91.5</b>   | <b>120.2</b>  | <b>99.6</b>   | <b>381.7</b> |
| <i>Margin</i>            | 60.6%        | 60.8%        | 59.8%        | 61.0%        | 60.4%        | 60.5%        | 64.2%        | 64.7%        | 64.5%         | 63.5%         | 64.2%        | 64.0%         | 64.5%         | 64.5%         | 63.7%         | 64.2%        |
| <i>% Increase</i>        | 12.8%        | 3.5%         | 6.2%         | 12.2%        | 6.7%         | 7.7%         | 5.5%         | 0.7%         | 4.2%          | 4.4%          | 3.6%         | 8.2%          | 9.1%          | 5.0%          | 2.8%          | 6.0%         |
| G&A                      | 266.8        | 58.9         | 67.0         | 81.4         | 78.6         | 285.9        | 63.4         | 70.6         | 84.5          | 77.5          | 296.0        | 64.3          | 72.0          | 85.0          | 76.0          | 297.3        |
| <i>As % Sales</i>        | 50.1%        | 58.1%        | 48.0%        | 45.2%        | 51.2%        | 49.8%        | 62.6%        | 54.4%        | 47.6%         | 50.8%         | 52.8%        | 58.5%         | 50.7%         | 45.6%         | 48.6%         | 50.0%        |
| <i>% Increase</i>        | 11.6%        | 4.9%         | 4.0%         | 9.5%         | 9.3%         | 7.1%         | 7.7%         | 5.3%         | 3.8%          | -1.4%         | 3.5%         | 1.4%          | 2.0%          | 0.6%          | -1.9%         | 0.4%         |
| <b>Operating Profit</b>  | <b>56.1</b>  | <b>2.8</b>   | <b>16.3</b>  | <b>28.5</b>  | <b>14.2</b>  | <b>61.8</b>  | <b>1.6</b>   | <b>13.3</b>  | <b>30.0</b>   | <b>19.3</b>   | <b>64.3</b>  | <b>6.1</b>    | <b>19.5</b>   | <b>35.2</b>   | <b>23.6</b>   | <b>84.4</b>  |
| <i>Margin</i>            | 10.5%        | 2.7%         | 11.7%        | 15.8%        | 9.2%         | 10.8%        | 1.6%         | 10.3%        | 16.9%         | 12.7%         | 11.5%        | 5.5%          | 13.8%         | 18.9%         | 15.1%         | 14.2%        |
| <i>% Increase</i>        | 18.7%        | -19.3%       | 16.1%        | 20.9%        | -5.7%        | 10.1%        | -41.8%       | -18.4%       | 5.3%          | 36.4%         | 4.0%         | 276.9%        | 46.5%         | 17.4%         | 21.9%         | 31.3%        |
| Interest Expense         | 3.8          | 0.9          | 0.9          | 0.9          | 0.8          | 3.5          | 0.7          | 0.8          | 0.8           | 0.8           | 3.1          | 0.8           | 0.8           | 0.8           | 0.8           | 3.2          |
| Interest Income          | 3.3          | 1.2          | 1.1          | 1.1          | 1.3          | 4.7          | 1.0          | 0.5          | 0.5           | 0.5           | 2.5          | 0.5           | 0.5           | 0.5           | 0.5           | 2.0          |
| Other Income             | 0.4          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0           | 0.0           | 0.0          | 0.0           | 0.0           | 0.0           | 0.0           | 0.0          |
| <b>Pretax Profit</b>     | <b>56.0</b>  | <b>3.1</b>   | <b>16.5</b>  | <b>28.6</b>  | <b>14.7</b>  | <b>63.0</b>  | <b>1.9</b>   | <b>13.1</b>  | <b>29.7</b>   | <b>19.0</b>   | <b>63.7</b>  | <b>5.8</b>    | <b>19.2</b>   | <b>34.9</b>   | <b>23.3</b>   | <b>83.2</b>  |
| <i>Margin</i>            | 10.5%        | 3.1%         | 11.9%        | 15.9%        | 9.6%         | 11.0%        | 1.8%         | 10.1%        | 16.7%         | 12.5%         | 11.3%        | 5.3%          | 13.5%         | 18.7%         | 14.9%         | 14.0%        |
| <i>% Increase</i>        | 29.8%        | -7.2%        | 20.0%        | 20.8%        | -2.9%        | 12.5%        | -40.6%       | -21.0%       | 3.7%          | 29.8%         | 1.1%         | 210.1%        | 47.2%         | 17.6%         | 22.2%         | 30.7%        |
| Taxes(benefit)           | 13.3         | 0.6          | 4.1          | 7.2          | 3.7          | 15.6         | 0.6          | 3.2          | 7.4           | 4.8           | 16.0         | 1.6           | 5.2           | 9.4           | 6.3           | 22.5         |
| <i>Rate</i>              | 23.8%        | 20.6%        | 24.9%        | 25.0%        | 25.0%        | 24.8%        | 30.4%        | 24.6%        | 25.0%         | 25.0%         | 25.1%        | 27.0%         | 27.0%         | 27.0%         | 27.0%         | 27.0%        |
| Minority Interest        | 0.1          | 0.1          | 0.1          | 0.2          | 0.2          | 0.6          | 0.0          | 0.1          | 0.0           | 0.0           | 0.1          | 0.0           | 0.0           | 0.0           | 0.0           | 0.0          |
| <b>Net Income--Oper.</b> | <b>42.5</b>  | <b>2.4</b>   | <b>12.3</b>  | <b>21.3</b>  | <b>10.8</b>  | <b>46.7</b>  | <b>1.2</b>   | <b>9.8</b>   | <b>22.3</b>   | <b>14.3</b>   | <b>47.6</b>  | <b>4.2</b>    | <b>14.0</b>   | <b>25.5</b>   | <b>17.0</b>   | <b>60.7</b>  |
| <i>Margin</i>            | 8.0%         | 2.4%         | 8.8%         | 11.8%        | 7.0%         | 8.1%         | 1.2%         | 7.5%         | 12.5%         | 9.4%          | 8.5%         | 3.8%          | 9.9%          | 13.7%         | 10.9%         | 10.2%        |
| <i>% Increase</i>        | 29.9%        | -15.9%       | 8.1%         | 24.0%        | -3.2%        | 9.9%         | -48.0%       | -20.3%       | 4.5%          | 32.4%         | 1.8%         | 237.8%        | 43.5%         | 14.5%         | 19.0%         | 27.7%        |
| <b>EPS--Operations</b>   | <b>1.59</b>  | <b>0.09</b>  | <b>0.45</b>  | <b>0.78</b>  | <b>0.40</b>  | <b>1.71</b>  | <b>0.05</b>  | <b>0.39</b>  | <b>0.88</b>   | <b>0.56</b>   | <b>1.85</b>  | <b>0.17</b>   | <b>0.55</b>   | <b>1.01</b>   | <b>0.67</b>   | <b>2.40</b>  |
| <i>% Increase</i>        | 26.9%        | -18.3%       | 5.3%         | 22.0%        | -3.9%        | 7.9%         | -46.8%       | -14.3%       | 12.1%         | 41.8%         | 8.1%         | 254.7%        | 44.0%         | 14.9%         | 19.4%         | 29.6%        |
| Shares Out. Diluted      | 26.8         | 27.2         | 27.3         | 27.2         | 27.2         | 27.3         | 26.6         | 25.4         | 25.4          | 25.4          | 25.7         | 25.3          | 25.3          | 25.3          | 25.3          | 25.3         |

Source: Company reports and Morgan Joseph estimates

## Required Disclosures



### Price Target

Our price target is \$28.

### Valuation Methodology

Our \$28 price target is based on a 13x multiple, which is conservatively below the peer group's average multiple and in line with the company's historical average, on our FTM 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<br>Services/Past 12 Mos. |         |
|----------|---|---------|
|          | Percent                                     | Percent |
| BUY [B]  | 55.68                                       | 34.69   |
| HOLD [H] | 43.18                                       | 31.58   |
| 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.

**Other Disclosures**

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