

**Movado Group, Inc. (MOV - \$17.27 - NYSE)**

**EBEL - Wound up**

FYE	PMV	EPS	P/E	
2006P	\$27	\$1.60	11x	Dividend: \$0.16 Current Return: 1%
2005P	\$20	\$1.30	14x	Shares O/S: 18.6m Common (1 vote/share) /
2004E	\$16	\$1.02	18x	6.8m Class A (10 votes/share)
2003A	\$17	\$0.92	20x	52-Week Range: \$19.40 - \$12.78

**INVESTMENT SUMMARY**

Movado Group, Inc., headquartered in Paramus, New Jersey, should generate approximately \$410 million in revenues for the fiscal year ending January 31, 2005 from its position as a leading designer, manufacturer and distributor of branded watches, jewelry and home accessories. Movado appears to have successfully completed the integration of the Ebel brand, acquired in February 2004. Going forward, we believe Movado is well positioned to benefit from the continued demand for luxury goods notably through the company's six watch brands, which address each quality segment of the watch industry.

We continue to recommend purchase of Movado's stock, currently trading at 14x FY05 earnings and 9x FY05 EBITDA. We take this opportunity to review the third quarter results and highlight the Ebel story in FY05.

**EBEL**

***Strengthening by Quarter in FY 2004***

In FY04, Movado focused on setting the stage for the revitalized Ebel's growth by decreasing both the product offerings and points of distribution. Beginning in the second half of FY04, Movado has introduced new Ebel products to the market, in particular the entry-level Sportwatch that has achieved strong sales to date.

On a quarterly basis, Movado has provided financial results including revenues, gross profit, and operating expenses, including and excluding Ebel. This has given us the opportunity to dissect the financial impact of Ebel line by line. Management has estimated that Ebel will generate \$40-\$45 million in revenues and a loss of approximately (\$0.15) per share for the eleven months Movado owned Ebel in FY 2004. Below we chart this information by quarter for FY04, with our estimates for the fourth quarter and year-end.

**Table 1**  
**FYE January 31**

**Movado Group, Inc.**  
**Fiscal Year End January 31, 2005**  
**Quarterly Results and Fourth Quarter Estimates**  
*(\$ in millions, except per share amounts)*

		Three Months Ended,			Nine Months	Three Months	Year Ended
		30-Apr	31-Jul	31-Oct	31-Oct	31-Jan	31-Jan
Revenue	Movado	\$70.8	\$88.4	\$111.0	\$270.2	\$95.1	\$365.3
	Ebel	3.4	9.4	16.0	28.8	16.2	45.0
	Total	\$74.2	\$97.8	\$127.0	\$299.0	\$111.3	\$410.3
Gross Profit	Movado	44.1	58.7				
	Ebel	0.8	0.7				
	Total	43.4	58.0	77.1 <sup>(1)</sup>	178.5	66.4	244.9
<i>Margin</i>		58.5%	59.3%	60.7%	59.7%	59.7%	59.7%
EBITDA		4.4	11.7	18.9	35.0	12.5	47.5
	<i>Margin</i>	5.9%	12.0%	14.9%	11.7%	11.2%	11.6%
EBIT	Movado	6.1	16.2	23.5	45.9		
	Ebel	(4.4)	(7.4)	(7.6)	(19.4)		
	Total	1.7	8.7	16.0	26.4	10.1	36.5
<i>Margin</i>		2.3%	8.9%	12.6%	8.8%	9.1%	8.9%
Net Income	Movado	2.5	8.4	11.4	22.3	7.6	29.9
	Ebel	(1.8)	(1.3)	(0.1)	(3.2)	(0.6)	(3.8)
	Total	0.7	7.1	11.3	19.1	7.0	26.1
EPS	Movado	\$0.10	\$0.33	\$0.45	\$0.88	\$0.29	\$1.17
	Ebel	(\$0.07)	(\$0.05)	(\$0.01)	(\$0.13)	(\$0.02)	(\$0.15)
	Total	\$0.03	\$0.28	\$0.44	\$0.75	\$0.27	\$1.02

(1) Company provided only consolidated gross profit.

**Accretive in FY 2005**

We believe the Ebel brand has several opportunities for growth in FY05 and will be accretive to company earnings, which we estimate at \$1.30. Initiatives in FY05 include:

- *New Products.* Movado plans to introduce over 100 Ebel watches, beginning in April 2005 at the Basel Watch Fair in Basel, Switzerland. These new products will be reengineered versions of traditional Ebel products from Ebel's five watch families, using new materials and styles including the use of gold and diamonds, non-steel and other precious metals.
- *Increasing Customer Base.* Movado has repositioned the Ebel brand in the luxury watch category by decreasing the entry price on the basic Ebel watch to \$1,500 which Movado anticipates will increase the customer base, both bringing new consumers and decreasing the age of the first-time buyer.
- *New Management.* Movado recently announced the hiring of Thomas van der Kallen as the President of Ebel. Prior to joining Movado, Mr. van der Kallen was the President of Piaget North America (Swiss luxury watch brand owned by Richemont). Thomas will begin in January, operating out of Ebel's headquarters in La Chaux-de-Fonds, Switzerland.

**THIRD QUARTER REVIEW**

On December 8th, Movado reported results for its seasonally strongest fiscal third quarter ended October 31, 2004. The company recorded earnings of \$0.44 per share, \$0.45 excluding the less than \$0.01 loss from Ebel, compared to earnings of \$0.40 per share in the prior-year period. These results were driven by (a) continued strength in Movado's core watch businesses, with revenues up 10% to \$111 million; and (b) revenues of \$16 million from Ebel derived from new product introductions and supported by a global marketing campaign featuring Claudia Schiffer. As a result, management increased its earnings guidance for fiscal year 2004 \$0.02 to \$0.98-\$1.02 per share. Our estimates for the year remain unchanged at \$1.02.

**Gross Margin Pressure from Product Mix Shift**

Growth in Movado's core watch business was led by (a) double digit revenue growth in the Tommy Hilfiger watch collection, with particularly strong demand in Asia; and (b) sales of Movado jewelry at Movado boutiques, which drove a comparable sales increase of 13% compared to 3Q03 (overall boutique revenues account for approximately 10% company revenues). Both Tommy Hilfiger watches and Movado jewelry generate lower margins than pre-Ebel company average of 60-61%. As these segments of the business continue to grow at a faster rate than the rest of the company, this margin pressure is expected to continue.

As we have noted in previous reports, Movado has historically controlled existing margins through new product introductions, increasing pricing with little customer resistance. We believe that Movado will pull this lever as necessary, to manage margin deterioration resulting from a changing product mix. We maintain that Movado will return gross margins to the 60-61% range on the consolidated business after Ebel has kicked into growth mode over the next few years, and this year estimate gross margin of 59.7%.

**Boutique Update**

Movado opened three retail boutiques in the third quarter FY04 in Tampa, Florida, Richmond, Virginia and Palm Beach, Florida, bringing the total Movado boutiques to twenty-four. In the last two years, Movado has expanded its boutique base by adding approximately seven stores a year. Movado is expected to slow this rate of growth down in FY05 by adding three to four stores annually for the next few years. Below is a breakdown of the retail sales base and its projected growth.

FYE January 31	Movado Group, Inc. Luxury Boutique Growth Plan					
	2001A	2002A	2003A	2004E	2005P	2006P
<b>Luxury Boutiques:</b>						
Beginning of Year	5	7	10	17	24	28
Added, net	2	3	7	7	4	4
<b>End of Year</b>	<b>7</b>	<b>10</b>	<b>17</b>	<b>24</b>	<b>28</b>	<b>32</b>
<b>Revenue Buildout (1):</b>						
Boutiques previously opened	6.8	7.6	8.3	9.0	9.0	9.0
Opened one year	2.5	3.8	10.3	10.3	5.9	5.9
- two years		2.9	4.3	11.8	11.8	6.7
- three years			3.2	5.7	13.2	13.2
- four years				4.2	6.3	14.7
<b>Total Boutique Revenues</b>	<b>\$9.4</b>	<b>\$14.2</b>	<b>\$26.1</b>	<b>\$40.9</b>	<b>\$46.2</b>	<b>\$49.5</b>

(1) Estimates revenues given four year revenue buildout from the Company and assuming boutiques open before FY03 average 1,800 square feet, FY03 and after 2,100 square feet and all open 1/1 each year.

**RECOMMENDATION**

Given the positive developments at Ebel and the continued expansion of Movado boutiques, we continue to believe MOV shares represent an attractive investment opportunity. Trading at 14x forward P/E and 9x forward EBITDA, we believe Movado's Private Market Value grows to \$27 in FY 2006 ended January 31, 2007.

**Table 3**

**Movado Group, Inc.**

**FYE January 31**

*(\$ in millions, except per share amounts)*

	<b>Earnings Model</b>							<b>CAGR</b>
	<b>2002A</b>	<b>2003A</b>	<b>2004E</b>	<b>2005P</b>	<b>2006P</b>	<b>2007P</b>	<b>2008P</b>	<b>2004E -2008P</b>
Revenue	\$300	\$330	\$410	\$451	\$496	\$546	\$601	8%
Cost of Goods Sold	116	130	165	182	198	212	227	
Gross Profit	184	200	245	269	299	334	374	
SG&A	152	166	208	226	246	271	298	
Operating Income	32	35	37	43	53	63	76	16%
Interest Expense (Income)	4	3	3	(1)	(2)	(4)	(5)	
Pre-Tax Income	28	32	33	45	55	67	81	
Income Tax Expense	8	9	8	11	14	17	20	
Net Income	20	23	25	33	41	50	61	19%
F/D Shares Outstanding	24.4	24.9	25.6	25.6	25.6	25.6	25.6	
Earnings Per Share	\$0.82	\$0.92	\$0.99	\$1.30	\$1.61	\$1.96	\$2.37	19%
EBITDA	\$40	\$44	\$48	\$54	\$68	\$78	\$91	14%
Capex	7	11	15	15	15	15	15	

Source: Company filings and Gabelli and Company, Inc. estimates.

Estimates are pro forma for the Ebel acquisition, conservatively assuming an incremental buildup of Ebel to Movado's margins over the next five years.

**Table 4**

**Movado Group, Inc.**

**FYE January 31**

*(\$ in millions, except per share amounts)*

	<b>Private Market Value Analysis</b>						
	<b>2002A</b>	<b>2003A</b>	<b>2004E</b>	<b>2005P</b>	<b>2006P</b>	<b>2007P</b>	<b>2008P</b>
Revenue	\$300	\$330	\$410	\$451	\$496	\$546	\$601
<b>EBITDA</b>	40	44	48	54	68	78	91
Valuation Multiple	8.5x	8.5x	8.5x	8.5x	8.5x	8.5x	8.5x
Total Private Market Value	341	373	404	462	575	666	771
Less: Debt	(35)	(35)	-	-	-	-	-
Less: Option Payments <sup>(a)</sup>	(1)	(2)	(2)	(3)	(8)	(14)	(22)
Plus: Cash	38	82	12	61	122	193	273
<b>PRIVATE MARKET VALUE</b>	344	418	414	520	689	844	1,022
Shares Outstanding	24.4	24.9	25.6	25.6	25.6	25.6	25.6
<b>PMV PER SHARE</b>	<b>\$14</b>	<b>\$17</b>	<b>\$16</b>	<b>\$20</b>	<b>\$27</b>	<b>\$33</b>	<b>\$40</b>
<i>Current Market - Discount to Private Market Value</i>				11%	33%	45%	55%

Source: Company filings and Gabelli and Company, Inc. estimates.

Note: (a) Includes after-tax payments to buy out option holders at the Private Market Value.

**MOVADO GROUP  
PRICE PERFORMANCE SINCE LAST REPORT**



**Company Reports:** “Time to Buy” 01-27-04  
“Ebel-Update” 03-24-04

Source: Public Data On January 27, 2004, we recommended MOV at a price of \$14.83 per share.  
On March 24, 2004, we recommended MOV at a price of \$14.15 per share.

I, **Pamela Brown**, the Research Analyst who prepared this report, hereby certify that the views expressed in this report accurately reflect the analyst’s personal views about the subject companies and their securities. The Research Analyst has not been, is not and will not be receiving direct or indirect compensation for expressing the specific recommendation or view in this report.

**Pamela Brown (914) 921-5192**

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**Important Disclosures**

**ONE CORPORATE CENTER RYE, NY 10580 GABELLI & COMPANY, INC. TEL (914) 921-3700 FAX (914) 921-5098**

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