

Ann Taylor (ANN)

| | |
|--------------------------|-----------------|
| Price: | \$28.71 |
| Market Cap: | \$1,369,754,100 |
| Cash: | \$166,530,000 |
| Debt: | \$0 |
| Net Cash: | \$166,530,000 |
| Enterprise Value: | \$1,203,224,100 |
| Target Market Cap: | \$1,025,995,319 |
| Target Enterprise Value: | \$859,465,319 |

| | |
|-------------------------------|---------------|
| Price/Book: | 2.85 |
| EV/FCF: | 13.57 |
| Net Tang. Asset/Share: | \$6.60 |
| Avg. Year 1-5 FCF/Share: | \$1.31 |
| 5 Years of FCF: | \$6.56 |
| Net Tang. Asset+5 FCF: | \$13.16 |

| | |
|----------------------------------|---------------|
| Net Tang. Asset Yr. 5/Share: | \$14.94 |
| Avg. Year FCF/Share: | \$1.31 |
| Year 5 Disposition FCF Multiple: | 5.0 |
| Year 5 Disposition Price: | \$21.50 |
| Gain Year 5: | \$8.34 |

| | |
|---|----------------|
| Net Tang. Asset+5 FCF+ Gain Disposition: | \$21.50 |
| IRR: | -5.62% |

Assumed Deal Details

| | | |
|--------------------|--------|---------------|
| Debt | 60.00% | \$821,852,460 |
| Equity | 40.00% | \$547,901,640 |
| Shares Outstanding | | 47,710,000 |

Levered Return

| | |
|------------------------------|-----------------|
| New market cap in 5 years | \$1,025,995,319 |
| Nominal Gain for Equity | -\$343,758,781 |
| Levered Equity Return | -17.92% |

SAC building ownership in the co. so we decided to take a look at the co. Fashion related stocks have been performing well with China and party, acquiring premium brand goods at an ongoing basis.

Overview

ANN is a domestic women's retail store. "953 retail stores in 46 states, the District of Columbia and Puerto Rico, comprised of 280 Ann Taylor stores, 500 LOFT stores, 99 Ann Taylor Factory stores and 74 LOFT Outlet stores" ¹ generates \$2.3BB in sales, so requires roughly \$2MM in sales from each store. The goods are imported from Asia, while the clothes are designed in-house. Sourced from 42% China, 13% Phillipines, 14% Indonesia, 14% India, 13% Vietnam.

In a way, fashion houses are like insurance companies, in that they will have the operational piece, similar to underwriting costs, where they might have an annual performance record; it could either be a homerun year, or an off year. However, the portfolio of past goods, which aggregates into the "brand" for the clothing line, otherwise the "float" for the insurance co., becomes the base to generate ongoing revenue to offset the current years' costs (underwriting cost) if it was a missed call on the fashionable trend for the year.

Essentially the co. designs fashionable clothing, manufactures the items in Asia, imports them for about \$15/item and sells them for \$30/item, which is the average retail price for items sold in the Anne Taylor/LOFT stores, which is where we get our 50% GM.

Underwent 5 year restructuring; renegotiating leases, downsizing store formats, and opening more factory/outlet stores. 10Ks are a good indicator of the company's complexity in operations and in explaining the status of current issues. The 10K was straight forward and we liked the simple presentation. No complex news is good news.

Financials/Valuation

The co. has a strong balance sheet - zero debt, ~\$180MM operating cash flow with \$120MM going toward new store openings, leaving \$60MM, which has been mainly used to repurchase stocks, revealed in the treasury stock balance of \$1BB. We love how the co. reported a GAAP loss, but the operating cash flow was fairly untouched in 2008. Should our thesis of the economy being supported by QE prove to be true, and if the economy sours once again, then the co. should be able to withstand the tides.

Book value is \$400MM and generates \$180MM in op. cash flow. So in 8 years, all inclusive, we feel the value will not exceed the cash generated by the co. However, we believe there should be a leeway in paying for a premium, if merited, thereby enlarging our universe from a solely undervalued population of companies, as expounded by Buffett. The merit may be found in the intangible such as brand, management, long history, etc.

Co. approved \$600MM in a repurchase program. The co. is using capital appropriately. It may seem pricey with P/B at 3x, but if the treasury stock was zero, and the balance moved back to cash, the resulting P/B would be near 1. We would not buy this co. since it falls outside of our value range, but nonetheless, a solid co.

¹ 2012 10K Filing

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SN VALUATION

LBO Analysis

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|---|----------------|------------------------------------|--------------|------------------------------------|---------------|-------------------------|----------------------------|------------------------------|---------|
| WACC Terminal Value: | N/A | Intrinsic Price in 5 Years: | 19.34 | Non-LBO Forecast | 26.53 | Non-LBO Forecast | Desired Return Rate | 20.00% | |
| EV/EBITDA with 3X Multiple Terminal Value: | \$18.12 | Market Price: | 28.71 | Year 1 Target | 26.53 | Year 2 Target | 24.51 | Implied Today's Price | 7.77 |
| Net Tangible Asset Terminal Value: | \$13.01 | LBO Price: | 28.71 | Year 3 Target | 22.65 | Year 4 Target | 20.93 | Overvalued/(Undervalued) | 269.39% |
| EV/EBITDA with Today's Multiple Terminal Value: | \$23.49 | Premium to Market Price: | 0.00% | Year 5 Target | 19.34 | | | | |
| EVA Enterprise Value: | \$22.74 | LBO Price/Intrinsic Price Target: | -7.60% | | | | | | |
| Dividend Discount Model: | N/A | LBO Price/EV/EBIT Exit Price: | -3.93% | Implied IRR (Market Price): | -7.60% | | | | |
| Average (Excluding Dividend Discount): | \$19.34 | Implied IRR at today's EV/EBITDA: | -3.93% | | | | | | |
| | | 5 Year Return: | -32.64% | | | | | | |

| Current Evaluation | | | | Exit Evaluation | | | |
|-------------------------------|----------------------|-------------------------------|----------------------|-------------------------------|--------------------|-------------------------------|----------------------|
| Current Market Price: | 28.71 | LBO Price: | 28.71 | Exit Price: | 19.34 | Exit Price: | 23.49 |
| Outstanding Shares: | 47,710,000 | Outstanding Shares: | 47,710,000 | Outstanding Shares: | 47,710,000 | Outstanding Shares: | 47,710,000 |
| Market Capitalization: | 1,369,754,100 | Market Capitalization: | 1,369,754,100 | Market Capitalization: | 922,718,121 | Market Capitalization: | 1,120,912,997 |
| Available Cash: | 166,530,000 | Available Cash: | 166,530,000 | Available Cash: | 479,692,423 | Available Cash: | 479,692,423 |
| Debt: | 0 | Debt: | 0 | Debt: | 0 | Debt: | 0 |
| Net Cash: | 166,530,000 | Net Cash: | 166,530,000 | Net Cash: | 479,692,423 | Net Cash: | 479,692,423 |
| Enterprise Value: | 1,203,224,100 | Enterprise Value: | 1,203,224,100 | Enterprise Value: | 443,025,697 | Enterprise Value: | 641,220,574 |
| Original EV/EBITDA: | 8.27 | EV/EBITDA: | 8.27 | EV/EBITDA at 5 Years: | 3.45 | EV/EBITDA at 5 Years: | 5.00 |
| Original EV/EBITDA: | 5.02 | EV/EBITDA: | 5.02 | EV/EBITDA at 5 Years: | 2.29 | EV/EBITDA at 5 Years: | 2.70 |
| Competitor Average EV/EBIT: | N/A | | | | | | |
| Competitor Average EV/EBITDA: | N/A | | | | | | |

| Enterprise Valuation Calculation During Holding Period | | | | | | | |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|--------------------|--------------------|
| Time Period | 0 | Adjusted for LBO | 1 | 2 | 3 | 4 | 5 |
| Annualized Price Targets based off LBO Price: | 28.71 | 28.71 | 26.53 | 24.51 | 22.65 | 20.93 | 19.34 |
| Shares Outstanding: | 47,710,000 | 47,710,000 | 47,710,000 | 47,710,000 | 47,710,000 | 47,710,000 | 47,710,000 |
| Market Capitalization: | 1,369,754,100 | 1,369,754,100 | 1,265,691,598 | 1,169,534,898 | 1,080,683,382 | 998,582,064 | 922,718,121 |
| Available Cash: | 166,530,000 | 166,530,000 | 218,585,168 | 275,772,700 | 338,246,566 | 406,165,358 | 479,692,423 |
| Debt: | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net Cash: | 166,530,000 | 166,530,000 | 218,585,168 | 275,772,700 | 338,246,566 | 406,165,358 | 479,692,423 |
| Enterprise Value: | 1,203,224,100 | 1,203,224,100 | 1,047,106,430 | 893,762,198 | 742,436,816 | 592,416,706 | 443,025,697 |
| EBIT | 145,500,000 | 145,500,000 | 113,943,235 | 117,361,532 | 5 | 124,508,849 | 128,244,115 |
| EV/EBIT: | 8.27 | 8.27 | 9.19 | 7.62 | 148,487,363.14 | 4.76 | 3.45 |
| EBITDA | 239,690,000 | 239,690,000 | 210,958,935 | 217,287,703 | 223,806,334 | 230,520,524 | 237,436,140 |
| EV/EBITDA: | 5.02 | 5.02 | 4.96 | 4.11 | 3.32 | 2.57 | 1.87 |

| Enterprise Valuation Calculation During Holding Period | | | | | | | |
|--|----------------------|----------------------|----------------------|----------------------|--------------------|----------------------|----------------------|
| Time Period | 0 | Adjusted for LBO | 1 | 2 | 3 | 4 | 5 |
| Annualized Price Targets based off LBO Price: | 28.71 | 28.71 | 24.33 | 26.12 | 7.09 | 30.09 | 32.28 |
| Shares Outstanding: | 47,710,000 | 47,710,000 | 47,710,000 | 47,710,000 | 47,710,000 | 47,710,000 | 47,710,000 |
| Market Capitalization: | 1,369,754,100 | 1,369,754,100 | 1,160,848,029 | 1,246,303,447 | 338,246,608 | 1,435,801,428 | 1,540,217,575 |
| Available Cash: | 166,530,000 | 166,530,000 | 218,585,168 | 275,772,700 | 338,246,566 | 406,165,358 | 479,692,423 |
| Debt: | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net Cash: | 166,530,000 | 166,530,000 | 218,585,168 | 275,772,700 | 338,246,566 | 406,165,358 | 479,692,423 |
| Enterprise Value: | 1,203,224,100 | 1,203,224,100 | 942,262,862 | 970,530,748 | 41 | 1,029,636,070 | 1,060,525,152 |
| EBIT | 145,500,000 | 145,500,000 | 113,943,235 | 117,361,532 | 5 | 124,508,849 | 128,244,115 |
| EV/EBIT: | 8.27 | 8.27 | 8.27 | 8.27 | 8.27 | 8.27 | 8.27 |
| EBITDA | 239,690,000 | 239,690,000 | 210,958,935 | 217,287,703 | 223,806,334 | 230,520,524 | 237,436,140 |
| EV/EBITDA: | 5.02 | 5.02 | 4.47 | 4.47 | 0.00 | 4.47 | 4.47 |

| | | | | | | | |
|------------------------------|----------------------|-----------------------------|----------------------|-----------|----------------|---|---------------|
| LBO Price | 28.71 | Equity Partners: | 1,369,754,100 | Weighting | 100.00% | Annualized Return for Equity Partners: | -3.93% |
| Shares Outstanding | 47,710,000 | Debt Partners: | 0 | | 0.00% | | |
| Market Capitalization | 1,369,754,100 | Total Funds for LBO: | 1,369,754,100 | | 100.00% | | |
| Debt | 0 | | | | | | |
| Cash | 166,530,000 | | | | | | |
| Enterprise Value | 1,203,224,100 | | | | | | |
| Capital Investment | 1,369,754,100 | | | | | | |

| | | | | | | | |
|--------------------------|---------------|----------------------------|----------------|--------------------------|---------------|-----------------------|---------|
| Book Value | | Enterprise Value | | Stock Valuation | | Debt Reduction | |
| Beginning Book Value | 480.43 | Beginning Enterprise Value | 1,203.22 | Current Market Price | \$28.71 | Starting Debt | 0.00 |
| Year 5 Book Value | 878.52 | Year 5 Enterprise Value | 641.22 | Year 5 Market Price | \$23.49 | Debt Repayment | 0.00 |
| Annualized Return | 12.83% | Annualized Return | -11.83% | Annualized Return | -3.93% | Year 5 Ending Debt | 0.00 |
| | | | | | | % of Starting Debt | #DIV/0! |

SN VALUATION

LBO Pro Forma Income Statement

Name:

Ann Taylor

Ticker:

ANN

| | Historical | | | | Forecasted | | | | |
|--|----------------------------|----------------------------|----------------------------|----------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | 52 weeks ending 2009-01-31 | 52 weeks ending 2010-01-30 | 52 weeks ending 2011-01-29 | 52 weeks ending 2012-01-28 | 2013 | 2014 | 2015 | 2016 | 2017 |
| Revenue | 2,194.56 | 1,828.52 | 1,980.19 | 2,212.49 | 2,278.86 | 2,347.23 | 2,417.65 | 2,490.18 | 2,564.88 |
| COGS | 1,139.75 | 834.19 | 876.20 | 1,004.35 | 1,048.28 | 1,079.73 | 1,112.12 | 1,145.48 | 1,179.85 |
| Gross margin | 1,054.81 | 994.33 | 1,103.99 | 1,208.14 | 1,230.59 | 1,267.50 | 1,305.53 | 1,344.70 | 1,385.04 |
| SG&A | 1,050.56 | 966.60 | 976.58 | 1,062.64 | 1,116.64 | 1,150.14 | 1,184.65 | 1,220.19 | 1,256.79 |
| R&D | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Unusual expense | 375.88 | 51.69 | 5.62 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Other operating expense | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Depreciation is: Excluded from COGS | 183.00 | | | | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Operating Income (EBITA) | -554.63 | -23.96 | 119.79 | 145.50 | 113.94 | 117.36 | 120.88 | 124.51 | 128.24 |
| Interest income/(expense) | 0.22 | -2.16 | -0.67 | -1.05 | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 |
| Gain (loss) on sale of asset | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Other | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Income before tax | -371.42 | -26.11 | 119.12 | 144.45 | 115.45 | 118.86 | 122.38 | 126.01 | 129.75 |
| Tax | -37.51 | -7.90 | 45.72 | 57.89 | 40.41 | 41.60 | 42.63 | 44.10 | 45.41 |
| Income after tax | -333.91 | -18.21 | 73.40 | 86.57 | 75.04 | 77.26 | 79.55 | 81.91 | 84.34 |
| Minority Interest | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Equity in affiliates | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Net income | -333.91 | -18.21 | 73.40 | 86.57 | 75.04 | 77.26 | 79.55 | 81.91 | 84.34 |
| *Figures are in millions (\$) | | | | | | | | | |
| EPS (based off today's share count) | -\$7.00 | -\$0.38 | \$1.54 | \$1.81 | \$1.57 | \$1.62 | \$1.67 | \$1.72 | \$1.77 |
| P/E (historical today's price; forecasted intrinsic price) | -4.10 | -75.22 | 18.66 | 15.82 | 16.87 | 15.14 | 13.58 | 12.19 | 10.94 |
| Revenue Growth | N/A | -16.68% | 8.29% | 11.73% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% |
| Tax Rate | 10.10% | 30.26% | 38.38% | 40.07% | 35.00% | 35.00% | 35.00% | 35.00% | 35.00% |
| Implied Debt Interest Rate | 0.00% | 0.00% | 0.00% | 0.00% | NA | NA | NA | NA | NA |
| Margins | | | | | | | | | |
| COGS | 51.94% | 45.62% | 44.25% | 45.39% | 46.00% | 46.00% | 46.00% | 46.00% | 46.00% |
| Gross margin | 48.06% | 54.38% | 55.75% | 54.61% | 54.00% | 54.00% | 54.00% | 54.00% | 54.00% |
| SG&A | 47.87% | 52.86% | 49.42% | 48.03% | 49.00% | 49.00% | 49.00% | 49.00% | 49.00% |
| R&D | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Unusual expense | 17.13% | 2.83% | 0.28% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Other operating expense | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Depreciation is: Excluded from COGS | 8.34% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Operating Income (EBITA) | -25.27% | -1.31% | 6.05% | 6.58% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% |
| Interest income/(expense) | 0.01% | -0.12% | -0.03% | -0.05% | 0.07% | 0.06% | 0.06% | 0.06% | 0.06% |
| Gain (loss) on sale of asset | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Other | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Income before tax | -16.92% | -1.43% | 6.02% | 6.53% | 5.07% | 5.06% | 5.06% | 5.06% | 5.06% |
| Tax | -1.71% | -0.43% | 2.31% | 2.62% | 1.77% | 1.77% | 1.77% | 1.77% | 1.77% |
| Income after tax | -15.22% | -1.00% | 3.71% | 3.91% | 3.29% | 3.29% | 3.29% | 3.29% | 3.29% |
| Minority Interest | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Equity in affiliates | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Net income | -15.22% | -1.00% | 3.71% | 3.91% | 3.29% | 3.29% | 3.29% | 3.29% | 3.29% |

SN VALUATION

LBO Adjusted Proforma Balance Sheet

| | As of 2009-01-31 | As of 2010-01-30 | As of 2011-01-29 | As of 2012-01-28 | As of 2012-10-27 | Adjustment | | Adjusted Proforma | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|------------------|------------------|------------------|------------------|------------------|-------------|-------------|-------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | | | | | | + | - | | | | | | |
| Cash | 112.32 | 204.49 | 226.64 | 150.21 | 166.53 | | | 166.53 | 218.59 | 275.77 | 338.25 | 406.17 | 479.69 |
| Short term investment | 0.00 | 5.66 | 0.00 | 0.00 | 0.00 | | | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Cash and Short term | 112.32 | 210.15 | 226.64 | 150.21 | 166.53 | | | 166.53 | 218.59 | 275.77 | 338.25 | 406.17 | 479.69 |
| Accounts Receivable | 14.08 | 19.27 | 17.50 | 19.59 | 20.00 | | | 20.00 | 20.00 | 20.00 | 20.00 | 20.00 | 20.00 |
| Other receivables | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | | | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Total Receivables | 14.08 | 19.27 | 17.50 | 19.59 | 20.00 | | | 20.00 | 20.00 | 20.00 | 20.00 | 20.00 | 20.00 |
| Total Inventory | 173.45 | 169.14 | 193.62 | 213.45 | 270.38 | | | 270.38 | 270.38 | 270.38 | 270.38 | 270.38 | 270.38 |
| Prepaid Expenses | 63.06 | 45.61 | 57.37 | 49.11 | 66.61 | | | 66.61 | 66.61 | 66.61 | 66.61 | 66.61 | 66.61 |
| Other Current Assets | 25.42 | 35.80 | 28.14 | 31.00 | 34.93 | | | 34.93 | 34.93 | 34.93 | 34.93 | 34.93 | 34.93 |
| Current Assets | 388.33 | 479.97 | 523.27 | 463.36 | 558.45 | 0.00 | 0.00 | 558.45 | 610.51 | 667.69 | 730.17 | 798.09 | 871.61 |
| PP&E, Gross | 1,058.97 | 1,006.76 | 1,051.58 | 1,100.00 | 1,100.00 | | | 1,100.00 | 1,220.00 | 1,340.00 | 1,460.00 | 1,580.00 | 1,700.00 |
| Change in Depreciation | | 104.35 | 95.52 | 94.19 | 94.19 | | | 94.19 | 97.02 | 99.93 | 102.92 | 106.01 | 109.19 |
| Accumulated Depreciation | 589.28 | 640.83 | 719.09 | 800.00 | 800.00 | | | 800.00 | 897.02 | 996.94 | 1,099.87 | 1,205.88 | 1,315.07 |
| PP&E, Net | 469.69 | 365.93 | 332.49 | 300.00 | 300.00 | | | 300.00 | 322.98 | 343.06 | 360.13 | 374.12 | 384.93 |
| Goodwill | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Intangibles | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | | | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Long term investments | 0.00 | 0.00 | 2.80 | 4.15 | 0.00 | | | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Other long term assets | 67.16 | 31.31 | 41.61 | 47.33 | 32.10 | | | 32.10 | 32.10 | 32.10 | 32.10 | 32.10 | 32.10 |
| Long Term Assets | 536.85 | 397.24 | 376.90 | 351.48 | 332.10 | | | 332.10 | 355.08 | 375.16 | 392.23 | 406.22 | 417.03 |
| Total Assets | 925.18 | 877.21 | 900.17 | 814.84 | 890.55 | 0.00 | 0.00 | 890.55 | 965.59 | 1,042.85 | 1,122.40 | 1,204.31 | 1,288.64 |
| Accounts Payable | 109.20 | 76.97 | 97.33 | 94.16 | 94.16 | | | 94.16 | 94.16 | 94.16 | 94.16 | 94.16 | 94.16 |
| Accrued Expense | 150.80 | 150.85 | 135.47 | 121.62 | 121.62 | | | 121.62 | 121.62 | 121.62 | 121.62 | 121.62 | 121.62 |
| Other current Liabilities | 45.58 | 47.55 | 49.10 | 70.12 | 66.22 | | | 66.22 | 66.22 | 66.22 | 66.22 | 66.22 | 66.22 |
| Total Current Liabilities | 305.58 | 275.37 | 281.90 | 285.90 | 282.00 | 0.00 | 0.00 | 282.00 | 282.00 | 282.00 | 282.00 | 282.00 | 282.00 |
| Notes Payables/Short Term Debt | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | | | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Current port. Of LT Debt/Capital Leases | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | | | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Long term Debt | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Capital Lease Obligations | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | | | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Total Interest Earning Debt | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Deferred Income tax | 1.90 | 1.58 | 0.85 | 1.32 | 0.40 | | | 0.40 | 0.40 | 0.40 | 0.40 | 0.40 | 0.40 |
| Minority Interest | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | | | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Other liabilities | 236.45 | 208.00 | 220.62 | 236.59 | 293.41 | | | 293.41 | 293.41 | 293.41 | 293.41 | 293.41 | 293.41 |
| Total Liabilities | 543.93 | 484.95 | 503.37 | 523.81 | 575.81 | 0.00 | 0.00 | 575.81 | 575.81 | 575.81 | 575.81 | 575.81 | 575.81 |
| Redeemable Preferred Stock | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | | | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Non-redeemable Preferred Stock | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | | | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Common Stock | 0.56 | 0.56 | 0.56 | 0.56 | 0.56 | | 0.00 | 0.56 | 0.56 | 0.56 | 0.56 | 0.56 | 0.56 |
| Additional Paid-in capital | 791.85 | 777.79 | 801.14 | 811.71 | 828.05 | 0.00 | 0.00 | 828.05 | 828.05 | 828.05 | 828.05 | 828.05 | 828.05 |
| Dividends Paid | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | | | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Retained Earnings | 432.50 | 414.29 | 487.69 | 574.26 | 674.47 | | 0.00 | 674.47 | 749.51 | 826.77 | 906.32 | 988.23 | 1,072.56 |
| Treasury Stock | -800.70 | -771.30 | -863.57 | -1,017.33 | -1,017.33 | | | -1,017.33 | -1,017.33 | -1,017.33 | -1,017.33 | -1,017.33 | -1,017.33 |
| Other Equity | -7.70 | -4.16 | -2.38 | -5.32 | -5.32 | | 0.00 | -5.32 | -5.32 | -5.32 | -5.32 | -5.32 | -5.32 |
| Total Equity | 416.51 | 417.18 | 423.44 | 363.88 | 480.43 | 0.00 | 0.00 | 480.43 | 555.47 | 632.73 | 712.28 | 794.19 | 878.52 |
| Liability + Equity | 960.44 | 902.13 | 926.81 | 887.69 | 1,056.24 | 0.00 | 0.00 | 1,056.24 | 1,131.28 | 1,208.54 | 1,288.09 | 1,370.00 | 1,454.33 |
| Variance | -35.26 | -24.92 | -26.64 | -72.85 | -165.69 | | | -165.69 | -165.69 | -165.69 | -165.69 | -165.69 | -165.69 |
| Debt/Equity | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | | | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Inventory Turnover | 12.65 | 10.81 | 10.23 | 10.37 | 8.43 | | | 8.18 | 8.43 | 8.68 | 8.94 | 9.21 | 9.49 |
| Inventory Turnover Days | 28.85 | 33.76 | 35.69 | 35.21 | 43.31 | | | 44.61 | 43.31 | 42.04 | 40.82 | 39.63 | 38.48 |
| Days Inventory Outstanding | 55.55 | 74.01 | 80.66 | 77.57 | 94.14 | | | 98.26 | 94.14 | 91.40 | 88.74 | 86.15 | 83.65 |
| Accounts Receivable Turnover | 155.86 | 94.89 | 113.15 | 112.94 | 113.94 | | | 110.62 | 113.94 | 117.36 | 120.88 | 124.51 | 128.24 |
| Accounts Receivable Turnover Days | 2.34 | 3.85 | 3.23 | 3.23 | 3.20 | | | 3.30 | 3.20 | 3.11 | 3.02 | 2.93 | 2.85 |
| Days Payable Outstanding | 34.97 | 33.68 | 40.54 | 34.22 | 32.79 | | | 34.22 | 32.79 | 31.83 | 30.90 | 30.00 | 29.13 |
| Days Sales Outstanding | 2.34 | 3.85 | 3.23 | 3.23 | 3.20 | | | 3.23 | 3.30 | 3.20 | 3.11 | 3.02 | 2.93 |
| Cash Conversion Cycle | 22.92 | 44.18 | 43.34 | 46.58 | 64.56 | | | 67.27 | 64.66 | 62.77 | 60.95 | 59.17 | 57.45 |
| Net tangible assets/share | \$7.99 | \$8.22 | \$8.32 | \$6.10 | \$6.60 | | | \$8.17 | \$9.79 | \$11.46 | \$13.17 | \$14.94 | |

SN VALUATION

LBO Adjusted Proforma Cash Flow

| | 52 weeks ending 2009-01-31 | 52 weeks ending 2010-01-30 | 52 weeks ending 2011-01-29 | 52 weeks ending 2012-01-28 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|----------------------------|----------------------------|----------------------------|----------------------------|----------------|----------------|----------------|----------------|----------------|
| Net Income | -333.91 | -18.21 | 73.40 | 86.57 | 75.04 | 77.26 | 79.55 | 81.91 | 84.34 |
| Depreciation | 122.22 | 104.35 | 95.52 | 94.19 | 97.02 | 99.93 | 102.92 | 106.01 | 109.19 |
| Net Income + Depreciation | -211.69 | 86.14 | 168.92 | 180.76 | 172.06 | 177.19 | 182.47 | 187.92 | 193.53 |
| Amortization | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Deferred Taxes | -23.69 | 16.73 | -1.80 | 7.34 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Non Cash Items | 370.69 | 51.64 | 28.32 | 30.81 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Change in Working capital | 37.50 | -20.81 | -31.14 | -11.07 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Accounts Receivable | 0.00 | -5.19 | 1.77 | -2.09 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Other Receivables | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Inventory | 0.00 | 4.31 | -24.48 | -19.83 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Prepaid Expenses | 0.00 | 17.45 | -11.76 | 8.26 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Accounts Payable | 0.00 | -32.23 | 20.36 | -3.17 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Cash from Operating Activities | 172.81 | 133.70 | 164.30 | 207.84 | 172.06 | 177.19 | 182.47 | 187.92 | 193.53 |
| Capital Expenditures Expenditures | -110.34 | -38.57 | -63.96 | -119.17 | -120.00 | -120.00 | -120.00 | -120.00 | -120.00 |
| Long term investment | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Other Investing Activities | 8.23 | -0.38 | 6.74 | -1.29 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Cash from Investing Activities | -102.11 | -38.95 | -57.22 | -120.46 | -120.00 | -120.00 | -120.00 | -120.00 | -120.00 |
| Financing Cash flow items | 4.46 | -4.24 | 12.16 | 5.93 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Total Cash Dividends Paid | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Issuance (Retirement) of Stock | -96.87 | 1.65 | -97.09 | -169.74 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Issuance (Retirement) of Current Portion Debt | - | - | - | - | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Issuance (Retirement) of Long Term Debt | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Cash from Financing Activities | -92.41 | -2.59 | -84.93 | -163.81 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Foreign Exchange effect | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Beginning Cash Balance | 134.02 | 112.32 | 204.49 | 226.64 | 166.53 | 218.59 | 275.77 | 338.25 | 406.17 |
| Net Change in Cash | -21.70 | 92.17 | 22.15 | -76.44 | 52.06 | 57.19 | 62.47 | 67.92 | 73.53 |
| Ending Cash Balance | 112.32 | 204.49 | 226.64 | 150.20 | 218.59 | 275.77 | 338.25 | 406.17 | 479.69 |
| Capex to Revenue | 5.03% | 2.11% | 3.23% | 5.39% | 5.27% | 5.11% | 4.96% | 4.82% | 4.68% |
| Depreciation to Sales | 5.57% | 5.71% | 4.82% | 4.26% | 4.26% | 4.26% | 4.26% | 4.26% | 4.26% |
| Amortization to Sales | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| A/R to Sales | 0.64% | 1.05% | 0.88% | 0.89% | 0.86% | 0.83% | 0.81% | 0.79% | 0.76% |
| Distributable FCF Yield | 5.88% | 7.87% | 8.90% | 7.26% | 4.33% | 4.75% | 5.19% | 5.64% | 6.11% |
| Dividend Yield | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| FCF (Ops-Investing-Dividends) | 62.47 | 95.13 | 100.34 | 88.67 | 52.06 | 57.19 | 62.47 | 67.92 | 73.53 |

SN VALUATION

LBO Debt Schedule

| | Proforma | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---------------|----------------|----------------|----------------|----------------|----------------|
| Net Change in Cash | -76.44 | 52.06 | 57.19 | 62.47 | 67.92 | 73.53 |
| Current Portion Debt Repayment | | | | | | |
| Long Term Debt Repayment | | | | | | |
| Outstanding Debt | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Current Portion Debt Balance | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Long Term Debt Balance | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Forward Libor Curve | | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% |
| Spread | | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% |
| Interest Rate | | 7.00% | 7.00% | 7.00% | 7.00% | 7.00% |
| Interest Expense | | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Cash Balance | | 150.21 | | | | |
| Interest @ 1.0% | | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 |
| Net Interest Expense/(Income) | | (1.50) | (1.50) | (1.50) | (1.50) | (1.50) |
| Net Interest Rate | | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! |
| EBITDA | | 113.94 | 117.36 | 120.88 | 124.51 | 128.24 |
| EBITDA/Interest Expense Coverage | | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! |

Interest Rate Coverage Table

| Debt Rating | 2013 | 2014 | 2015 | 2016 | 2017 |
|-------------|---------|---------|---------|---------|---------|
| AAA | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! |
| AA | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! |
| A+ | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! |
| A | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! |
| A- | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! |
| BBB | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! |
| BB+ | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! |
| BB | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! |
| B+ | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! |
| B | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! |
| B- | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! |
| CCC | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! |
| CC | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! |
| C | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! |
| D | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! |

*Source: NYU; Professor Damodaran

Altman Z Score

Company Name:

Ann Taylor

Ticker:

ANN

| Period | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|------------------------|--------------|--------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Working Capital | 82.75 | 204.60 | 241.37 | 276.45 | 328.51 | 385.69 | 448.17 | 516.09 | 589.61 |
| Total Assets | 925.18 | 877.21 | 900.17 | 890.55 | 965.59 | 1,042.85 | 1,122.40 | 1,204.31 | 1,288.64 |
| X1 | 0.09 | 0.23 | 0.27 | 0.31 | 0.34 | 0.37 | 0.40 | 0.43 | 0.46 |
| Retained Earnings | 432.50 | 414.29 | 487.69 | 674.47 | 749.51 | 826.77 | 906.32 | 988.23 | 1,072.56 |
| Total Assets | 925.18 | 877.21 | 900.17 | 890.55 | 965.59 | 1,042.85 | 1,122.40 | 1,204.31 | 1,288.64 |
| X2 | 0.47 | 0.47 | 0.54 | 0.76 | 0.78 | 0.79 | 0.81 | 0.82 | 0.83 |
| EBITDA | -371.63 | -23.96 | 119.79 | 145.50 | 113.94 | 117.36 | 120.88 | 124.51 | 128.24 |
| Total Assets | 925.18 | 877.21 | 900.17 | 890.55 | 965.59 | 1,042.85 | 1,122.40 | 1,204.31 | 1,288.64 |
| X3 | -0.40 | -0.03 | 0.13 | 0.16 | 0.12 | 0.11 | 0.11 | 0.10 | 0.10 |
| Market Value of Equity | 1,369.75 | 1,369.75 | 1,369.75 | 1,369.75 | 1,265.69 | 1,169.53 | 1,080.68 | 998.58 | 922.72 |
| Total Liabilities | 543.93 | 484.95 | 503.37 | 575.81 | 575.81 | 575.81 | 575.81 | 575.81 | 575.81 |
| X4 | 2.52 | 2.82 | 2.72 | 2.38 | 2.20 | 2.03 | 1.88 | 1.73 | 1.60 |
| Net Sales | 2,194.56 | 1,828.52 | 1,980.19 | 2,212.49 | 2,278.86 | 2,347.23 | 2,417.65 | 2,490.18 | 2,564.88 |
| Total Assets | 925.18 | 877.21 | 900.17 | 890.55 | 965.59 | 1,042.85 | 1,122.40 | 1,204.31 | 1,288.64 |
| X5 | 2.37 | 2.08 | 2.20 | 2.48 | 2.36 | 2.25 | 2.15 | 2.07 | 1.99 |
| Altman Z Score | 3.32 | 4.63 | 5.35 | 5.88 | 5.56 | 5.39 | 5.25 | 5.11 | 4.99 |

$$Z = 1.2 \times X1 + 1.4 \times X2 + 3.3 \times X3 + 0.6 \times X4 + 1.0 \times X5$$

Z-SCORE ABOVE 3.0 –The company is considered 'Safe' based on the financial figures only.

Blue

Z-SCORE BETWEEN 2.7 and 2.99 – 'On Alert'. This zone is an area where one should 'Exercise Caution'.

Green

Z-SCORE BETWEEN 1.8 and 2.7 – Good chance of the company going bankrupt within 2 years.

Yellow

Z-SCORE BELOW 1.80- Probability of Financial Catastrophe is Very High.

Red