

Analyst: Sung Nam

Exceed Co Ltd (EDS)

Market Price:	\$5.28	EBITDA/Share:	\$2.68	Net Asset/Share:	\$7.59
DCF: EV/EBITDA Terminal Value	37.472%	DCF: Net Tangible Asset excluding Cash/Debt Terminal Value	27.223%		
Current Net Tangible Asset	18.328%	EVA Analysis:	14.270%		

Overview

Recently read cotton prices are depressed with a glut from China, India and Australia, although U.S. hasn't fared well. Also, depressed global economy has seen a weaker demand for fabrics, which benefit apparel makers.

The company is relatively young. Historical financials only traced back 3 years. Net tangible assets are worth more than the equity price and the company has zero debt.

A/R have been generous (80 days outstanding) and it will be their main priority to shorten the cash cycle.

Main concern is brand recognition. We never heard of the Xidelong. Reason? It is a Chinese brand. Exposure to China and sector diversification for portfolio will kill 2 birds, but we remain cautious of the financials.

D.B. Research has claimed the firm is committing fraud by reporting fake numbers. If the reported numbers are correct, it is worth much more than the current price. The fraud implication is very serious.

<http://seekingalpha.com/article/286271-exceed-a-real-business-trading-at-an-unreal-valuation>

<http://seekingalpha.com/article/284509-exceed-company-hardly-exceeding-expectations>

Dividend?

Dividend yield is 0%.

Cashflow Generation

Cashflows are \$40 MM from operating cashflow. 14% EBITA margin, 15% EBITDA margin. Capex is \$5.0 MM. The company has \$0.00 in cash and \$0.00 in debt.

Profitability

ROA is a respectable 20.2%, and ROC is 22.1%.

LBO?

We don't believe a 80% debt/20% equity would be sustainable.

Price

We are forecasting a \$26.85/share in Year 5, or a 400% holding return, or 38% annual return.

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LBO Analysis

WACC Terminal Value:		Intrinsic Price in 5 Years:	26.85	Non-LBO Forecast	Non-LBO Forecast	Desired Return Rate	20.00%
EV/EBITDA with 5X Multiple Terminal Value:	\$25.92	Market Price:	5.28	Year 1 Target	7.31	Implied Today's Price	10.79
Net Tangible Asset Terminal Value:	\$17.60	LBO Price:	10.00	Year 2 Target	10.12	Overvalued/(Undervalued)	-51.07%
EV/EBITDA with Today's Multiple Terminal Value:	\$35.32	Premium to Market Price:	89.39%	Year 3 Target	14.01		
EVA Enterprise Value:	\$28.57	LBO Price/Intrinsic Price Target:	21.84%	Year 4 Target	19.40		
Dividend Discount Model:	N/A	LBO Price/EV/EBIT Exit Price:	28.71%	Year 5 Target	26.85		
Average:	\$26.85	Implied IRR at today's EV/EBIT:	46.24%	Implied IRR (Market Price):	38.44%		

Current Evaluation				Exit Evaluation			
Current Market Price:	5.28	LBO Price:	10.00	Exit Price:	26.85	Exit Price:	35.32
Outstanding Shares:	30,120,000	Outstanding Shares:	30,120,000	Outstanding Shares:	30,120,000	Outstanding Shares:	30,120,000
Market Capitalization:	159,033,600	Market Capitalization:	301,200,000	Market Capitalization:	808,777,991	Market Capitalization:	1,063,751,935
Available Cash:	115,580,000	Available Cash:	115,580,000	Available Cash:	259,256,492	Available Cash:	259,256,492
Debt:	2,730,000	Debt:	2,730,000	Debt:	2,730,000	Debt:	2,730,000
Net Cash:	112,850,000	Net Cash:	112,850,000	Net Cash:	256,526,492	Net Cash:	256,526,492
Enterprise Value:	46,183,600	Enterprise Value:	188,350,000	Enterprise Value:	552,251,499	Enterprise Value:	807,225,443
Original EV/EBIT:	0.74	EV/EBIT:	3.03	EV/EBIT at 5 Years:	6.37	EV/EBIT at 5 Years:	9.00
Original EV/EBITDA:	0.57	EV/EBITDA:	3.03	EV/EBITDA at 5 Years:	8.67	EV/EBITDA at 5 Years:	9.00
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:	10.00	5.90	7.19	8.76	10.68	13.01	15.85
Shares Outstanding:	30,120,000	30,120,000	30,120,000	30,120,000	30,120,000	30,120,000	30,120,000
Market Capitalization:	301,200,000	177,823,906	216,663,132	263,985,387	321,643,485	391,894,917	477,490,243
Available Cash:	0	0	43,544,015	91,974,660	144,861,647	200,560,970	259,256,492
Debt:	2,730,000	2,730,000	2,730,000	2,730,000	2,730,000	2,730,000	2,730,000
Net Cash:	-2,730,000	-2,730,000	40,814,015	89,244,660	142,131,647	197,830,970	256,526,492
Enterprise Value:	303,930,000	180,553,906	175,849,117	174,740,728	179,511,837	194,063,947	220,963,751
EBIT	59,520,000	59,520,000	66,334,821	73,014,344	78,220,246	82,399,394	86,653,979
EV/EBIT:	5.11	3.03	2.65	2.39	2.29	2.36	2.55
EBITDA	62,090,000	62,090,000	68,444,461	75,334,948	81,353,062	85,419,140	89,691,716
EV/EBITDA:	4.89	3.03	2.57	2.32	2.21	2.27	2.46

Enterprise Valuation Calculation During Holding Period							
Time Period	0	Adjusted for LBO	1	2	3	4	5
Annualized Price Targets based off LBO Price:	10.00	5.90	8.04	10.32	12.60	14.87	17.24
Shares Outstanding:	30,120,000	30,120,000	30,120,000	30,120,000	30,120,000	30,120,000	30,120,000
Market Capitalization:	301,200,000	177,823,906	242,040,677	310,733,656	379,412,746	447,789,511	519,391,315
Available Cash:	0	0	43,544,015	91,974,660	144,861,647	200,560,970	259,256,492
Debt:	2,730,000	2,730,000	2,730,000	2,730,000	2,730,000	2,730,000	2,730,000
Net Cash:	-2,730,000	-2,730,000	40,814,015	89,244,660	142,131,647	197,830,970	256,526,492
Enterprise Value:	303,930,000	180,553,906	201,226,663	221,488,996	237,281,099	249,958,542	262,864,824
EBIT	59,520,000	59,520,000	66,334,821	73,014,344	78,220,246	82,399,394	86,653,979
EV/EBIT:	5.11	3.03	3.03	3.03	3.03	3.03	3.03
EBITDA	62,090,000	62,090,000	68,444,461	75,334,948	81,353,062	85,419,140	89,691,716
EV/EBITDA:	4.89	3.03	2.94	2.94	2.92	2.93	2.93

LBO Price	10.00	Equity Partners:	301,200,000	Weighting	100.00%	Annualized Return for Equity Partners:	28.71%
Shares Outstanding	30,120,000	Debt Partners:	0		0.00%		
Market Capitalization	301,200,000	Total Funds for LBO:	301,200,000		100.00%		

Book Value	Enterprise Value	Stock Valuation	Debt Reduction
Beginning Book Value	301.20	Current Market Price	Starting Debt
Year 5 Book Value	571.84	Year 5 Market Price	Debt Repayment
Annualized Return	13.68%	Annualized Return	46.24%
			Year 5 Ending Debt
			% of Starting Debt
			#DIV/0!

LBO Pro Forma Income Statement

Name: Exceed Co Ltd

Ticker:

EDS

	Historical				Forecasted				
	12 months ending 2007-12-31	12 months ending 2008-12-31	12 months ending 2009-12-31	12 months ending 2010-12-31	2011	2012	2013	2014	2015
Revenue	0.09	1.00	304.42	408.92	449.81	494.79	534.38	561.10	589.15
COGS (excluding depreciation)	0.00	0.00	214.60	281.40	314.87	346.36	374.06	392.77	412.41
Gross margin	0.09	1.00	89.82	127.52	134.94	148.44	160.31	168.33	176.75
SG&A	0.08	0.93	45.80	60.22	67.47	74.22	80.16	84.16	88.37
R&D	0.00	0.00	3.66	6.18	0.00	0.00	0.00	0.00	0.00
Unusual expense	0.00	0.35	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other operating expense	0.00	0.00	-0.75	-0.97	-0.97	-1.12	-1.20	-1.25	-1.32
Depreciation	0.00	0.00	2.37	2.57	2.11	2.32	3.13	3.02	3.04
Operating Income (EBITA)	0.01	-0.28	38.74	53.52	66.33	73.01	78.22	82.40	86.65
Interest income/(expense)	0.00	0.00	0.00	-0.29	0.00	0.00	0.00	0.00	0.00
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	0.01	-0.27	36.89	61.80	66.33	73.01	78.22	82.40	86.65
Tax	0.00	0.01	0.55	8.52	19.90	21.90	23.47	24.72	26.00
Income after tax	0.01	-0.28	36.34	53.28	46.43	51.11	54.75	57.68	60.66
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	0.01	-0.28	36.34	53.28	46.43	51.11	54.75	57.68	60.66
*Figures are in millions (\$)									
Revenue Growth	N/A	1011.11%	30342.00%	34.33%	10.00%	10.00%	8.00%	5.00%	5.00%
Tax Rate	0.00%	-3.70%	1.49%	13.79%	30.00%	30.00%	30.00%	30.00%	30.00%
Implied Debt Interest Rate	0.00%	0.00%	0.00%	-10.62%	-8.00%	-8.00%	-8.00%	-8.00%	-8.00%
Margins									
COGS (excluding depreciation)	0.00%	0.00%	70.49%	68.82%	70.00%	70.00%	70.00%	70.00%	70.00%
Gross margin	100.00%	100.00%	29.51%	31.18%	30.00%	30.00%	30.00%	30.00%	30.00%
Depreciation	0.00%	0.00%	0.78%	0.63%	0.47%	0.47%	0.59%	0.54%	0.52%
SG&A	88.89%	93.00%	15.05%	14.73%	15.00%	15.00%	15.00%	15.00%	15.00%
R&D	0.00%	0.00%	1.20%	1.51%	0.00%	0.00%	0.00%	0.00%	0.00%
Unusual expense	0.00%	35.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Other operating expense	0.00%	0.00%	-0.25%	-0.24%	-0.22%	-0.23%	-0.22%	-0.22%	-0.22%
Operating Income (EBITA)	11.11%	-28.00%	12.73%	14.56%	14.75%	14.76%	14.64%	14.69%	14.71%
Interest income/(expense)	0.00%	0.00%	0.00%	-0.07%	0.00%	0.00%	0.00%	0.00%	0.00%
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	11.11%	-27.00%	12.12%	15.11%	14.75%	14.76%	14.64%	14.69%	14.71%
Tax	0.00%	1.00%	0.18%	2.08%	4.42%	4.43%	4.39%	4.41%	4.41%
Income after tax	11.11%	-28.00%	11.94%	13.03%	10.32%	11.36%	12.17%	12.82%	13.49%
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	11.11%	-28.00%	11.94%	13.03%	10.32%	10.33%	10.25%	10.28%	10.30%

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LBO Adjusted Proforma Balance Sheet

	As of 2010-12-31	Adjustment		Adjusted Proforma	2011	2012	2013	2014	2015
		+	-						
Cash	0.00			0.00	43.54	91.97	144.86	200.56	259.26
Short term investment	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Cash and Short term	0.00			0.00	43.54	91.97	144.86	200.56	259.26
Accounts Receivable	92.68			92.68	92.68	92.68	92.68	92.68	92.68
Other receivables	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Total Receivables	92.68			92.68	92.68	92.68	92.68	92.68	92.68
Deferred Income Tax	115.57			115.57	115.57	115.57	115.57	115.57	115.57
Total Inventory	6.78			6.78	6.78	6.78	6.78	6.78	6.78
Prepaid Expenses	3.00			3.00	3.00	3.00	3.00	3.00	3.00
Other Current Assets	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Current Assets	218.03	0.00	0.00	218.03	261.57	310.00	362.89	418.59	477.29
PP&E, Gross	1.91			1.91	6.91	11.91	16.91	21.91	26.91
Change in Depreciation	2.57			2.57	2.11	2.32	3.13	3.02	3.04
Accumulated Depreciation	4.94			4.94	7.05	9.37	12.50	15.52	18.56
PP&E, Net	-3.03			-3.03	-0.14	2.54	4.41	6.39	8.35
Goodwill	0.00	68.37		68.37	68.37	68.37	68.37	68.37	68.37
Intangibles	4.33			4.33	4.33	4.33	4.33	4.33	4.33
Long term investments	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Other long term assets	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Long Term Assets	1.30			69.67	72.56	75.24	77.11	79.09	81.05
Total Assets	264.26	68.37	0.00	287.70	334.13	385.24	440.00	497.68	558.34
Accounts Payable	16.82			16.82	16.82	16.82	16.82	16.82	16.82
Accrued Expense	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Other current Liabilities	11.88			11.88	11.88	11.88	11.88	11.88	11.88
Total Current Liabilities	28.70	0.00	0.00	28.70	28.70	28.70	28.70	28.70	28.70
Notes Payables/Short Term Debt	2.73			2.73	2.73	2.73	2.73	2.73	2.73
Current port. Of LT Debt/Capital Leases	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
Capital Lease Obligations	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Total Interest Bearing Debt	2.73	0.00	0.00	2.73	2.73	2.73	2.73	2.73	2.73
Deferred Income tax	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Minority Interest	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Other liabilities	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Total Liabilities	31.43	0.00	0.00	31.43	31.43	31.43	31.43	31.43	31.43
Redeemable Preferred Stock	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
Common Stock	0.00		0.00	0.00	0.00	0.00	0.00	0.00	0.00
Additional Paid-in capital	0.00	301.20	0.00	301.20	301.20	301.20	301.20	301.20	301.20
Dividends Paid	0.00		0.00	0.00	0.00	0.00	0.00	0.00	0.00
Retained Earnings	232.83		232.83	0.00	46.43	97.54	152.30	209.98	270.64
Treasury Stock	0.00		0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other Equity	0.00		0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Equity	232.83	301.20	232.83	301.20	347.63	398.74	453.50	511.18	571.84
Liability + Equity	264.26	301.20	232.83	332.63	379.06	430.17	484.93	542.61	603.27
Variance	0.00			-44.93	-44.93	-44.93	-44.93	-44.93	-44.93
Debt/Equity	0.01			0.01	0.01	0.01	0.01	0.01	0.00
Inventory Turnover	60.31			60.31	66.34	72.98	78.82	82.76	86.90
Inventory Turnover Days	6.05			6.05	5.50	5.00	4.63	4.41	4.20
Days Inventory Outstanding	8.79			8.79	7.86	7.14	6.62	6.30	6.00
Accounts Receivable Turnover	4.41			4.41	4.85	5.34	5.77	6.05	6.36
Accounts Receivable Turnover Days	82.73			82.73	75.21	68.37	63.30	60.29	57.42
Days Payable Outstanding	21.82			21.82	19.50	17.73	16.41	15.63	14.89

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LBO Adjusted Proforma Cash Flow

	12 months ending 2010-12-31	2011	2012	2013	2014	2015
Net Income	61.80	46.43	51.11	54.75	57.68	60.66
Depreciation	2.57	2.11	2.32	3.13	3.02	3.04
Amortization	0.00	0.00	0.00	0.00	0.00	0.00
Deferred Taxes	0.00	0.00	0.00	0.00	0.00	0.00
Non Cash Items	1.17	0.00	0.00	0.00	0.00	0.00
Change in Working capital	16.05	0.00	0.00	0.00	0.00	0.00
Accounts Receivable	26.39	0.00	0.00	0.00	0.00	0.00
Other Receivables	0.00	0.00	0.00	0.00	0.00	0.00
Inventory	1.42	0.00	0.00	0.00	0.00	0.00
Prepaid Expenses	-0.22	0.00	0.00	0.00	0.00	0.00
Accounts Payable	-11.83	0.00	0.00	0.00	0.00	0.00
Cash from Operating Activities	81.59	48.54	53.43	57.89	60.70	63.70
Capital Expenditures	-1.28	-5.00	-5.00	-5.00	-5.00	-5.00
Long term investment	0.00	0.00	0.00	0.00	0.00	0.00
Intangibles	-1.55	0.00	0.00	0.00	0.00	0.00
Cash from Investing Activities	-2.83	-5.00	-5.00	-5.00	-5.00	-5.00
Financing Cash flow items	-0.23	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
Issuance (Retirement) of Stock	3.77	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	-6.06	0.00	0.00	0.00	0.00	0.00
Cash from Financing Activities	-2.52	0.00	0.00	0.00	0.00	0.00
Foreign Exchange effect	-0.40	0.00	0.00	0.00	0.00	0.00
Beginning Cash Balance	0.00	0.00	43.54	91.97	144.86	200.56
Net Change in Cash	75.85	43.54	48.43	52.89	55.70	58.70
Ending Cash Balance	75.85	43.54	91.97	144.86	200.56	259.26

Depreciation to Sales	0.63%	0.47%	0.47%	0.59%	0.54%	0.52%
Amortization to Sales	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
A/R to Sales	22.66%	20.60%	18.73%	17.34%	16.52%	15.73%

Appreciation Potential:

#DIV/0!

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LBO Debt Schedule

	Proforma	2011	2012	2013	2014	2015
CSS						
Net Change in Cash	75.85	43.54	48.43	52.89	55.70	58.70
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	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		4.00%	4.50%	5.00%	5.50%	6.00%
Spread		4.00%	3.50%	3.00%	2.50%	2.00%
Interest Rate		8.00%	8.00%	8.00%	8.00%	8.00%
Interest Expense		0.00	0.00	0.00	0.00	0.00
EBITDA		66.33	73.01	78.22	82.40	86.65
EBITDA/Interest Expense Coverage		#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!

Interest Rate Coverage Table

Debt Rating	2011	2012	2013	2014	2015
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