HD 2.DEL REGNSKAB & ØKONOMISTYRING

IC COMPANYS

Assessment of IC Companys' share price on 30th June, 2011 from the investor's point of view.

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Summary

This assignment is about value assessment for IC Companys (ICC), one of the Danish market leaders in fashion. The company's share's fluctuation during the last 5 years was the reason for the author's interest of making "Assessment of one IC Company's share price on the 30th June, 2012 from the investor's point of view**".**

Being markets number two fashion producer in Denmark, ICC has experienced a turbulent market since 2008/2009. A look at external environment revealed that ICC's performance during the last 5 years was not only a consequence of itself, but also the result of a chaotic market. ICC's recovery during the 2010/2011 was admirable, despite heavy loss at starting of the finance crisis.

ICC differentiates among competitors with multi-brands strategy in the middle-price segment. The company has entered the low segment of high-end market by purchasing two competitors: Tiger of Sweden and By Marlene Birger in 2003. The company's vision is to be "one of the best developers of sport and fashion brands", highlighted that ICC is not only a fashion producers, but also a sport clothing maker. ICC is selling through wholesale and retail shops, although business to business is the main part or 61 % of total revenue in year 2010/2011. ICC's performance in the last 5 years against its competitors in the industry was examined thoroughly from available information such as released annual reports and diverse sources of information. In comparison with the middle-price segment, ICC was doing well with higher return from operating activities. Benchmarking with Esprit, ICC has lower cost of goods sold and other operation costs, despite of having high staff costs and paying higher corporate tax. ICC financial structure is solid at the rate 76/24 for equity and debt. The company aims to reduce debt further thus reduce cost of debt in the future. ICC's future growth from 2012 to 2016 was estimated positive based on the company's historical performance and forecast growth on major markets. Estimations and assumptions for ICC's budget are the subjected of adjustment, as they can be changed with time.

Budgeting future cash flow for ICC was to find the answer for ICC's enterprise value and share value. By the Discounted Cash Flow method, ICC was evaluated at 3589,4 million DKK and share value at 217,3 DKK per share at 30th June, 2011. The assessments also tested ICC's enterprise value at different scenarios, where ICC's value was lowest when profit margin change and nearly

unaffected at change of capital structure. Evaluated at a price that is slightly lower than the actual market price, ICC's share is recommended "hold" status.

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1. Introduction

1.1. IC Companys

In the analysis "Passion for fashion" for the textile industry in January 2011, Deloitte has excluded IC Companys and Bestseller from its statistics due to their significant influences to the sector[1]. Between the two, only IC Companys (ICC) is noted on the Copenhagen Stocks Exchange.

Being number two Danish fashion producer, ICC has 11 clothing brands for men and women, targeting the young and middle- age customer groups: By Marlene Birger, Cottonfield, Designers Remix, Jackpot, InWear, Matinique, Part Two, Peak Performance, Saint Tropez, Soaked in Luxury and Tiger of Sweden. 11 brands are selling through 450 company's own retail shops and franchise stores in more than 40 countries. Sales in Scandinavian countries, Denmark, Sweden and Norway, accounted for 55% of the total sales in 2010/2011. The company is operating mainly on the European markets; only around 5% of revenue comes from outside the region[2].

Opposite to sales activities, 87% of the company's production is going on in Asia while production in Europe only accounts for 13% of the total production. ICC's products are produced by sub-suppliers in low-cost countries. Sourcing activities are carried out though sourcing offices in China, Hong Kong, Bangladesh, Vietnam, India and Romania; limited sourcing activities are taken by local agents. ICC's operating strategies are similar to other big players in the fashion industry with outsourcing production activities to low- wage countries and product & development (R&D) and sales are placed in the high-income countries.

The main competitor for ICC brands in the middle-priced segment is Bestseller, the market leader of the fashion industry in Denmark. The two companies are pursuing identical strategies in branding (multi-branding), targeting the same customer groups and having the same operation strategies. The only different is their corporate ownership structure: while ICC is a public company, Bestseller is in the control of its founder and owner Troels Holch Povlsen[3]. Bestseller could be the best candidate

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[1] P.Mølkjær, P.Toft, *Passion for fashion: Analyse af modebranchen*, Deloitte, 1/2011, page 4

[2] All internal information are from ICC's website: http://www.iccompanys.com

[3] Source: http://en.wikipedia.org

for bench-marking ICC's performance, but public information was not sufficient for benchmarking analysis in this assignment.

During the last period 2006-2011 ICC, like many others in the fashion industry, has experienced turbulence time with sales falling, costs rising and shop closures. It seems the worst part for ICC is over with a recovered growth of 12,3 % in revenue in year 2010/2011, slightly higher than sales growth before the finance crisis in 2008. The crisis is also an opportunity for ICC to acquire upper-market brand By Marlene Birger, thus expanding to the high-end segment with "affordable luxury" fashion products. It is also the right time for the company to reorganise from administration to supply chain for cost saving and restructuring. The company weighs values of each brand on its contribution to the total income, new markets will be opened or closed depend on cost and benefit result, there will be fewer suppliers for the benefit of cost efficiency and control[4].

1.2. Problem formulation

Being a listed company, ICC's performance is of great interest for the public, especially for shareowners and investors. Despite of a rosy annual report publicised in August 2011, ICC saw its share price shrink 54% (note) in the second haft of year 2011. It stirred the question of what is the fair value for ICC's share? And what were the reasons for market's response to ICC's share during the second half of year 2011? The author of this analyse also noticed that ICC's share seems swinging more violently than the market in general.

That was the motivation for making:

Assessment of IC Company's share price on the 30th June, 2011, from the investor's point of view.

The assessment will be seen from the investor's point of view, as there is a significant gap between the insiders' knowledge of the company and the outsiders' accessibility to this information.

To resolve the assignment the report will first start with analysing the business environment for ICC from the macro level to the industrial level. A closer look at the company's strategies in response to its external environment will be necessary in order to understand its performance in the fashion

[4] IC Companys' Annual Reports 2010/2011

industry. After business environment analyses the report will go deep down in ICC's business result during the last 5 years 2006-2011 where income, balance sheet and changes in equity are in focus. The purpose of this process is to understand the company performing in the past and to forecast its future. Accounting analyses set foundation for a step further to budget ICC performance in the coming years 2012-2018 and the terminal period.

Analysing of ICC external environment, its performance in the past and budgeting its future performance leads to answering the main question: at what price is the right price for ICC's share. In assessing the fair-value of a ICC's share at a fixed date, said the 30th June 2011, we are able to find the answer for the actual market price kr. 223,13 that day[5] was overpriced or underpriced. In assessing the share price, other factors, prospective and possible biases will be taken in consideration in order to give a fair and true view for ICC's market value.

1.3. Choice of analysing and assessment methods

The chosen methods for analysing ICC's external business environment at macro level are the PESTEL framework (politic, economic, social, technologic, environmental and legal aspects)[6] and Porter's Five Forces[7] analysis at industrial level. We will than go closer to ICC's current strategies in managing its supply chain, growth and branding in response to its environment.

The Du Pont model[8] will be used to analyse ICC's performance during the last 5 year. Heavy weigh is put on internal accounting analysis and budgeting as this is vital to evaluate the company's present market value, hence its share price.

Price of one ICC share price will be assessed by two methods: the Multiple method and the Discounted Cash Flow method[9]. They are most used methods and have certain advantages, which will be discussed further in this assignment. Although there are some more sophisticated methods in

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[5] Source: Euroinvestor, http://www.euroinvestor.dk

[6] Johnson, Scholes and Whittington, *Exploring Corporate Strategy*, 8th edition, Pearson Education Limited, 2008, page 55

[7] Johnson, Scholes and Whittington, *Exploring Corporate Strategy*, 8th edition, Pearson Education Limited, 2008, page 59

[8] Ole Sørensen, *Regnskabsanalyse og værdiansættelse*, Gjellerup, 2009, page 254

[9] Ole Sørensen, *Regnskabsanalyse og værdiansættelse*, Gjellerup, 2009, page 25-65

accessing value of a share, mostly based on the Discounted Cash Flow method, but it will be unnecessary for an ordinary investor and for the scope of this assignment.

The scope of time covers a 5- year's period, in consideration of the fashion industry at a saturate stage and the company competiveness. On the European market growth rate in one company will be at the expense of another's. ICC doesn't have significant competitiveness in comparison with other competitors; its growth in future is expected to settle down in a steady stage with the economy.

1.4. Scope and limitation

The assignment only covers information from the 30th June 2011 and earlier for financial analysis. Information after this date will be used solely in forecasting budgeting.

ICC is operating in more than 40 countries. A big quantity of macro information is the reason for limitation of scope in this research. External environment analysis focused in the main markets for ICC: Denmark, Sweden, Norway and the European Union. The industrial analysis covered further countries in Asia, where the company has outsourcing activities.

Market research was built on information from official sources, such as companies' annual reports, homepages, press releases, market surveys and statistics from agencies, newspapers and the internet. The author was aware of quoting source of information in footnote and the list of biography. Hopefully they are sufficient in this assignment.

Theories and analysis models that are used in this assignment come from textbooks in the program HD 2.del Regnskab & Økonomistyring. Some analyses and opinions might come from outside of the classroom and the scope of the program, due to the author's previous educational background and working experience.

2. The business environment

ICC's business environment will be analysed from macro level to the industrial level. For analysing ICC's macro business level PESTEL framework is employed to understand the environment for fashion producers. At the industrial level Porter's Five Forces analysis will be used to analyse the industry, from suppliers of raw materials to buyers and most importantly the rivalry within the industry.

2.1. The PESTEL framework

ICC's external business environment will be analysed on 5 areas: political aspects, economy, sociology, technology, environment and legal matters.

2.1.1. Political aspects

With the main markets concentrated in Europe, especially in the EU area, ICC's business is strongly influenced by European political environment. EU area has one of hardest policies on environmental, social and ethical regulations. The fashion industry is getting increasing pressure not only in fulfilling safety requires for clothing products, but also for the processing of the products. Example are ban on using child labour, worker's working condition and corporate social responsibility (CSR). Controlling the producing process is a big problem for clothing producers, due to production mostly is outsourced to foreign sub-producers, who might follow another set of ethic policies than the EU countries'. The last summer's scandal of clothing with harmful chemicals, found on products of both ICC and its competitors Bestseller, possibly causes a tighter control in Denmark and other Scandinavian countries[10]. More control on chemical clothing means more cost for the company in making quality control and fulfil the public requirement.

Financial policies also have the important role for international producers like ICC, where sales come from more than 40 countries and 87% of suppliers are from outside of the area. Any change of the money policy and financial transaction means extra cost or lost for the business. The biggest

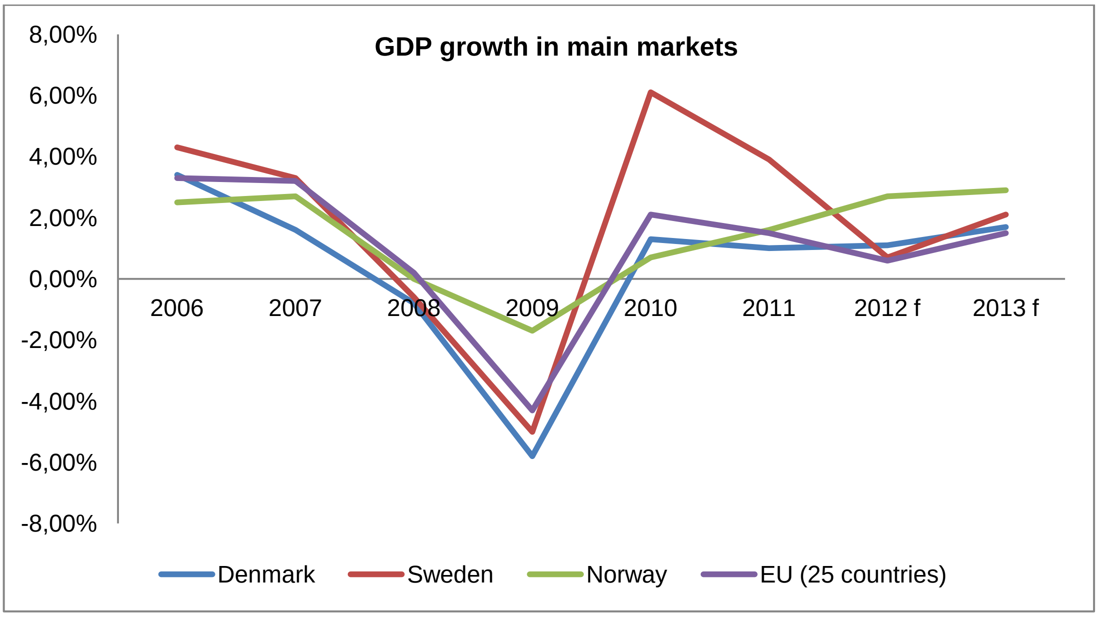
[10]Source: Euroinvestor, http://www.euroinvestor.dk

financial threat for ICC in the EU area is the unstable euro and debt crisis. At the present interest rates are kept at historic low level, thank to ECB and EU's effort in saving the Euro currency.

EU enlargement to the east has opened new opportunities for the industry. The process started in 2004 with Poland and the Baltic States (Lithuania, Latvia and Estonia), Czech Republic, Slovenia, in 2007 Rumania and Bulgaria jointed in to EU with 27 countries. EU enlargement opened new markets to western producers and also sales for fashion producers.

Problems in outsourcing countries are inflation (18,7 % in Vietnam and 8,3% in India) and minimum salary increase[11] that lead to higher cost of productions. Fashion industry's cost of production is very much depended on the local policies in economy and labour. Producers don't have much influence to these external factors rather than hedging against change or finding new outsourcing destinations, all requires more resources.

2.1.2. Economy



Source: Eurostat statistics

Figure 1: GDP growth in main markets

[11] Anonym, *Output, prices and jobs*, The Economist, 1/12/2011

Economy in the European area is the biggest external challenge for the fashion industry. The global downturn seems to last longer and is more painful in European countries than the rest of the world. Three years after the crisis, growth in Euro area recovered on average 1,7% in 2011 and may fall back at 0,6 % in 2012, while USA steadily recover growth to 1,7%. In three main markets for ICC's products, only Sweden has a positive growth rate 3,9% while Denmark's growth was below the European average in year 2011[12]. The present debt crisis in Euro zone area caused many European economies being down grated (note article in January 2012, France, Austria and others) and economical uncertainty for the region[13]. Future growth in the region will be deeply depended on how the Euro zone countries solve the debt crisis and we do not expect an instant improvement for European market in year 2012.

The only positive outcome of the current crisis is the record low interest rate 1% in the Euro zone and 0,7 % in Denmark in January 2012[14].

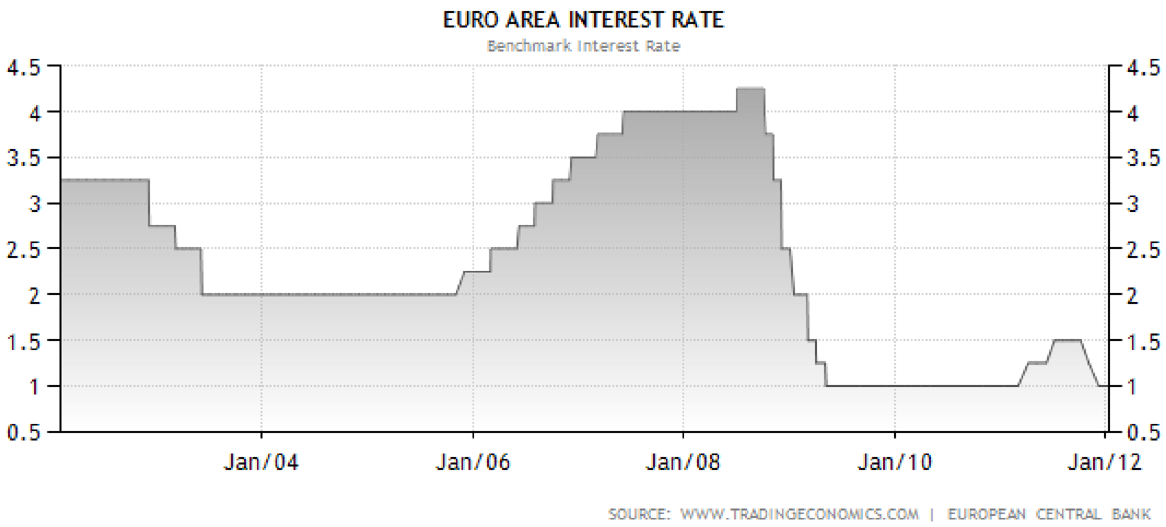


Figure 3: Euro area interest rate

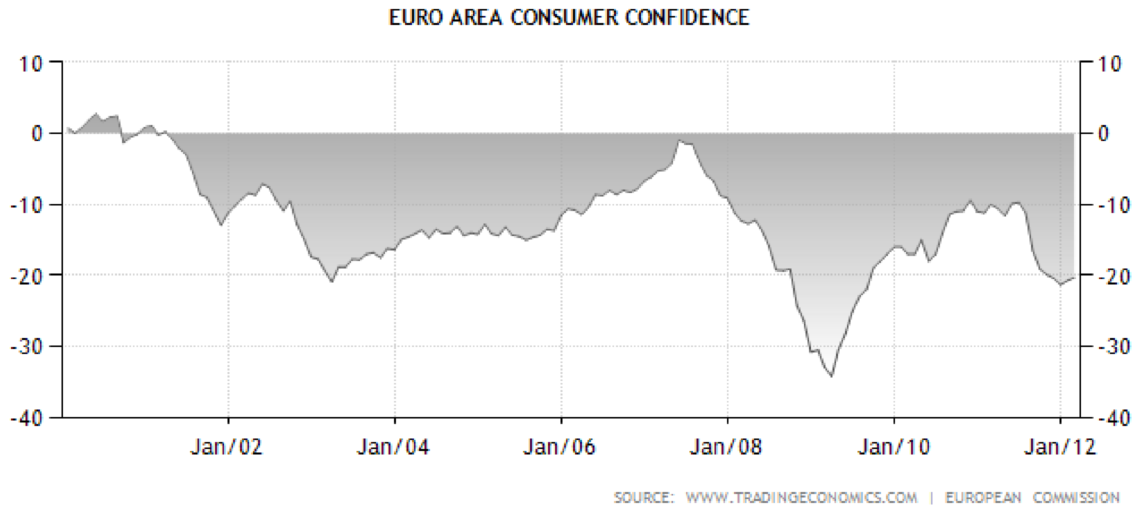
[12] Eurostat, *Real GDP growth rate*, 2012

[13] Anonym, *EU criticises Standard & Poor's ratings downgrade*, BBC, 14/01/2012

[14] Anonym, *Euro Area Interest Rate*, Trading economics.com, 2012

Figure 4: Denmark risk-free interest rate

Both the short term and the long term interest rate have followed the same pattern: they was steady heating up during the period 2006 – 2008, followed by a sharp fall in 2009 and now at the low recorded level. The present European economy doesn't indicate any rise in interest in the near future, and we don't expect any significant change in interest in our budgeted cost of capital. Low interest leads to lower cost of capital, companies might be tempted to make new loan or convert the old one. But risk is high in the turbulent time and banks are not willing to loan out to business after the bank crack started in 2008/2009. This is the reason for a lower-than- expected growth in the economy, despite of the government efforts in several financial injections into the banking sector.



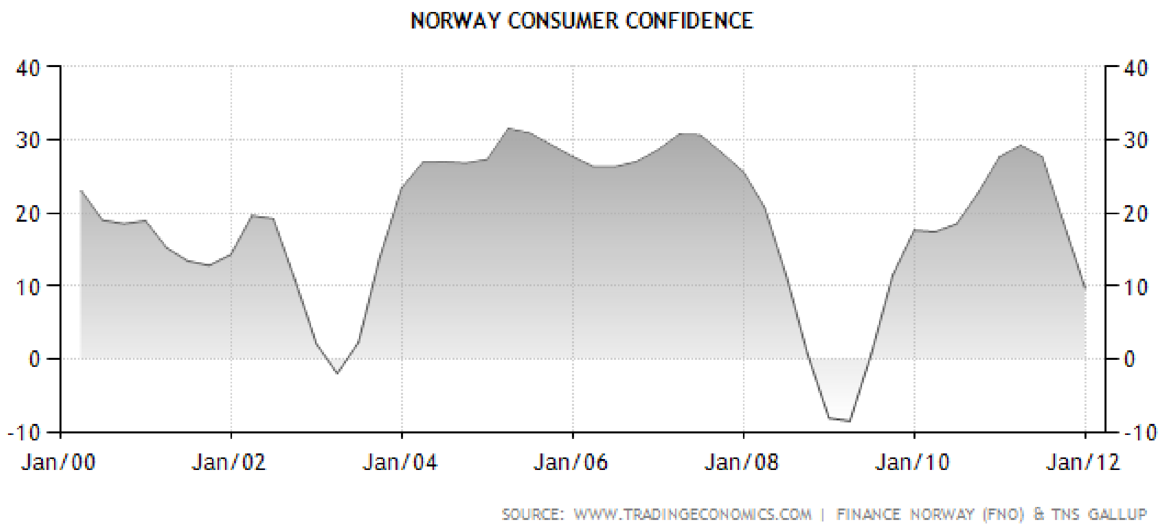


Figure 5&6: Consumer confidence in Europe and Norway

Unemployment is the consequence of the global downturn. In comparison with European unemployment average of 10,3 %, Scandinavian countries have much lower percentage of unemployed work forces with 3,3 % in Norway, 4,2% in Denmark and 6,9% in Sweden[15]. Employment is the important indicator for consumer confidence and retail trade. Job uncertainty almost immediately impacts trade in the retail sector: sales index in Denmark plunged from a growth rate of 4,6 % in 2006 to negative1,4% in 2007, minus 3,1% in 2008 and minus 4,3% in 2009. Sweden and Norway also feel the crisis, although not so severe like Denmark, from 6,2% growth in 2006 to 0,7% in 2009 for Sweden and 5,6% growth down to 0,9% in retail growth for Norway[16]. Difference in GDP and unemployment rate led to the difference in consumer confidence between the three Scandinavian countries: consumers in Norway have highest confidence, Swedish consumers come up number 2 and the Danish consumers have lowest confidence about their private economy [17]. Scandinavian in compared with the Euro region still is the good area for retail trade. Future growth in Nordic countries will be higher and come earlier than the rest of Europe, thank to their monetary policy.

[15] Anonym, *Output, prices and jobs*, The Economist, 1/12/2011

[16] Eurostat, *Wholesale and retail trade turnover and volumes of sales - annual data*, 2012

[17] Source: Trading economics.com

Customer confident is an important factor for customer buying behaviour. Customers with lower confident about their financial situation are more willing to swift to cheaper brands. This phenomenon is well observed since 2008. People will go to discounted store instead of Mad og Vin in Magasin, buying H&M clothes instead of the usual favourite brand. It is not a surprise to see H&M gaining market share during the crisis at the expense of the middle brands like Esprit, Benetton and ICC. The crisis hit hardest the middle class; many find them self become jobless and homeless in a short time. Many middle classes are working in the public sector, who now in turn get fired as the consequence of saving and reform in the sector.

Declining in sales in the developed countries and rising cost of labour and raw materials in the producing countries are a poisonous combination for the clothing industry. Main fashion producers find the solution in sales opportunities in the emerging markets like China and India. In Denmark Bestseller is the pioneer with 5.100 shops in China, being one of the biggest European fashion companies in the country and "the only foreign company successful at penetrating the middle price range Chinese consumer market"[18] . Meanwhile ICC is selling mainly in the European market therefore being depended on development in this area.

2.1.3. Sociology

The European market has an aging population, high income and high number of working women. These demographic characters are important for targeting customer for fashion products. European also is getting married and having children later, therefore they have longer time and more money to spend on sport, leisure and fashion.

The hard and prolonged economical crisis in EU region has changed consumer shopping behaviour. The recession and saving in the public sector lead to shrinking of the middle class. Fashion retailers are struggling when sales drop and customers became much more price conscious. In turbulence time human tends to look for comfort and securities in traditional values, therefore classic fashion is popular again.

[18] Wikipedia, http://en.wikipedia.org

The European customers are characterised with high social-environmental awareness. Ethical values like environmental friendly, anti-child labour, fair trade and sustainability are valued highly especially on the Scandinavian markets. Public demands mean higher costs for production and marketing, obstacles for traditional products (fur and seal products in the western markets) but create market opportunities for organic clothing and fair trade products.

The cultural trend of body-health consciousness increases the demand for training clothes. In many ways it is the market response to a rising obesity epidemic in the high and middle income countries. The new segment of extra large clothes and shoes also is market opportunity for fashion producers.

2.1.4. Technology

Technology in the last 20 year has increased in the producing countries. From being the work-shop of the world China nowadays is competing with other global producers in high-tech sectors such as car, computer/software and green technology. It would be wrong to conclude that Chinese designers didn’t learn from many decades of cloth producing for the west, and Chinese clothing brands might one day competing with other global high-end fashion brands. The same can be said about development in India, the second largest outsourcing destination for fashion industry. Improvement in cotton production in China and India is the main reason for the record 40-years high price for cotton cooling down in the spring 2011[19]. Technology development is movement behind China’s and India’s success in the global economy. Combining technology and cost of production, they are the potential players in the fashion industry. What if they decide to conquer the west like in automobile and electronic industry? It is a serious question for the fashion industry.

Internet development is the foundation for global information revolution, among other fashion trends and design, technology knowledge and commerce. E-commercial is a “must have” for any respectable retailer and being seen nowadays not as a competitive advantage. Development in internet web site and internet shop contribute to the death of paper print media, certainly blamed for income decrease in traditional marketing and retailing. Free and quick information exchange on the internet bring saving for many, but also complicities involving copy right and legal matters.

[19] Agrimoney.com

2.1.5. Environment

At the present economy is the key word for every continent, but not long ago it was climate change and global warming. Climate change doesn't go away with the global crisis, and the latest wet summer and unusual warm winter in 2011/2012 is the evidence. Historical cotton price up in March 2011 is the result of bad weather in USA and flood in Pakistan, the 3rd and 4th world cotton producer[20]. Beside the recession, weather changes in Europe during the summer and winter 2011 also caused slugging sales and massive discount for clothing retailers.

Access to information is the reason for environmental awareness in developing countries; many are outsourcing destinations for the fashion industry. Its take many years from the industrial revolution to realisation of environmental consequences for human in the west, now the process is much shorter in the developing world. Environmental awareness also means higher and tighter requirement for producers, which leads to higher cost of production.

2.1.6. Legal matters

Operating in global scale creates complicities in legal matter with the local taxation authorities. Most notable is the VAT dispute between ICC and Canadian tax authority, which resulted in ICC has to adjust basic value for its products back from 2006 to 2010. This cost 15 million DKK plus 4 million interest expense for the company in year 2010/2011[21]. Furthermore the company decided to close 51 stores and withdraw from Canada adding more costs in this legal battle.

Global production also leads to copy right problem. In many developing countries, copy products are not strictly forbidden and consumers use them as substitute for the original product. Some of these copy products found ways to the west through tourism or smuggling through internet order. In Denmark it is legal using copy product but illegal for trading. Law for copy consumption is much harder in France and Italia, who sufferer much more from copy fashion designs. Copy right

[20] Anonym, *Cotton prices - are they in for another trouncing in 2012*? Agrimoney.com, 4/01/2012

[21]Niels Mikkelsen Adm. Direktør, *Toldsag mellem IC Companys A/S og toldmyndighederne i Canada*, Proinvestor.com, 16/9 2010

violence should be taken seriously to avoid further damage like what Apple is dealing with iPad brand name in China currently.

Health security in dying and processing cloth was highlighted during the last summer 2011, when harmful chemical was found on both Bestseller's and ICC's products. Surely it will attract more attention from the authority and possible cost of compensation to the consumers.

Macro analyse has covered the external business environment for ICC with focus on factors that influence its business: the political aspects, economical and social factors, environmental and legal matters. The overall business environment is not a rosy picture for fashion producers in the European region; it also reveals new opportunities from the social trend and technological development. Macro environment analyse cover a big scope of information, and the analyst chose to focus on the European market especially Scandinavian countries as they are the main markets for ICC.

2.2. The industrial level

After analysing the external business environment a closer look at the fashion industry is necessary to define the forces that are driving supply and demand for fashion products. Porter's 5 Forces will be used in analysing the industry environment. Fashion industry is going to be examined on 5 dimensions: supplier of goods and material, the consumer, potential entrants into the industry, substitutes and rivalry among competitors on the market. Each force's strength will be analysed and measured in the five forces diagram at the end of the section.

2.2.1. Supplier

Rising costs of material and labour from suppliers in Asia are putting pressure on the industry. Raw material and labour costs seem go the other direction than economic growth, pressing pressure on profit margin for producers. One example is the cotton price picked up to the 30 years- high price record of 227 cents a pound in March 2012 before falling down on to 95 cents a pound, still a historical high price[22]. High inflation in producing countries (18,7 % in Vietnam and 8,3 % in India in 2011)[23]adding to higher price in production.

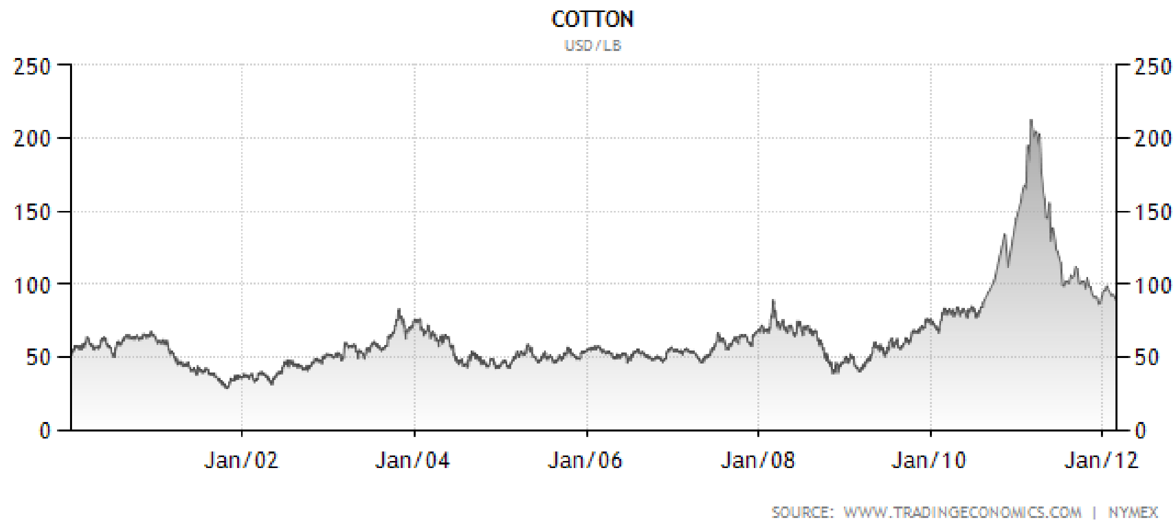


Figure 7: Cotton price 2000- 2012

Fashion producers apply different strategies to this pressure: H&M has up to 700 suppliers (some in new low cost countries like Cambodia and Sri Lanka) to reduce minimum supplier's bargaining power, others like ICC concentrate in fewer, bigger supplier for better control of best practice, volume per style and CSR issues[24]. Some might chose the third solution of moving production back in Europe, because outsourcing to oversea destinations seems not low cost as it sounds[25].

General tendency in the fashion industry is most of the production process, except designing, outsourced to sub-contractors in low cost countries, notably China. Beside of being the world's biggest cotton producer China also is the main supplier of finished products and now becoming the raising powerful retail market. Chinese sub-suppliers can easily enter the local retail market and

[22] Source: Agrimoney.com
[23] Source: Anonym, *Output, prices and jobs*, the Economist, 1/12/2012
[24] IC Companys' Annual Reports from 2010/2011, page 19

[25] Anonym, *Modeproducenten Ilse Jacobsen Hornbæk stopper næsten al produktion af sko og tøj i Kina*, Berlingske Business, 2/07/2011

competing effectively with foreign brands at low and middle segment. It will take time before Chinese producers going global; internationally they are strong already, for instance in the neighbouring countries. In Vietnam Chinese clothing has dominated the market since 1990's[26]. They are likely the competitors' western producers going to compete with, not the local producers.

The relationship between sub- suppliers and fashion producers is a win-win relationship. For its threat of forward integration in emerging markets, bargaining power from suppliers is considered at high- middle level in the fashion industry.

2.2.2. Consumer

Many fashion producers sell products both to business customers and end-user in their own shops. To make it simple the buyer in this analysis will be defined as the end-user. Buyer in the fashion industry has high bargaining power when it is easy to switch between brands and segments. In recession customers became much more price conscious and are willing to switch to lower brands. The big losers are brands in the middle-price segment that lost customers to the low-cost segment.

Socio- geographical trends in the customer group set new demands and create new opportunities for fashion producers. Dressing is not simply to show how much money you have. Nowadays fashion is a mean to reflect individual believe, social attitude and ideas. Fashion producers have produced organic products, fair trade products, anti-allergic textile, extra large clothing to fulfil end-buyer's desire.

Changes in customers buying behaviour also reflect in the tendency of second-hand shopping and anti-flashy attitude. Fashion of the year 2012 is more discreet and classic than the glamour style during the booming years. The economical down turn sees second-hand shops mushrooming in big town, some for high-end brands in vintage boutiques. Clothing budget can be reduced significantly if cloths can be brought in second-hand outlets and even cheaper home made.

There is no doubt that consumer has strong bargaining power to fashion producers. Like everywhere else, the fashion market is the market of buyers at the moment.

[26] the author's own observation

2.2.3. New entrant

The fashion industry is easy to enter but difficult to make it big. There are opportunities in niche market but going international requires big investment, R&D and expertise in production and distribution. This results in an industry of countless small business and only few big chains. Small companies often concentrated in serving niche markets and easily to be squeezed out during the recession. Meanwhile low-cost, single brands that serving the mass market will gain market share and expanding to new locations.

Celebrity brands with the advantage of having strong, well-known brand can pose potential threat to established brands. The most successful celebrity brand is Victoria Beckham, started in year 2004 with up-scale market jeans and developed to exclusive clothing and accessories. For the season 2012 Victoria Beckham's bag is marketed at £ 2900, higher than Dior's of £ 2400[27]. Celebrity brands tend to enter the market at middle segment and move forward to higher segment. Nowadays any known person in the show biz business could start marketing their own line of fashion, cosmetic or perfume.

Retailers also can be a threat to wholesale suppliers by making their own private label brand or buying into the fashion industry. It is the case of Debenham hiring Jasper Conran to design clothes and accessories for the chain. Retailer can enter the industry by simply buying an established brand like E-land, the Korean retail group that has acquired two Italian fashion brands Mandarina Duck and Coccinelle in attempt to enter the European and emerging markets[28] (note).

As mentioned before suppliers can also enter the market with their price advantage. All what they need is to acquire a good design team, a sales and marketing team and they can start as wholesale to retailer. Market knowledge and design are the two main barriers for suppliers entering the retail market.

The entry barrier to the fashion industry is low; therefore there are always new entry and exit players in the fashion business. As mentioned before the industry is easy to enter but difficult to make it big, generally new entrants only pose a low-middle threat to established brands.

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[27] Marie Claire April number, page 114

[28] Anonym, *E-Land inks deal to buy Italian fashion brand Coccinelle*, Korea Times, 2/2012

2.2.4. Substitute

Clothing is a basic need for human therefore there is no substitute for cloth. If we consider buying new cloth as a need, then home- made cloths or second-hand/vintage cloths can play as substitute for new, branded cloths. The only alternative for not wearing any cloth is being nude. This can apply on the nude beach and in private. Generally substitute has low threat to the fashion industry.

2.2.5. Rivalry

There is intense competition within every segment of the fashion industry. Competition is fiercely in the western European market, although the EU enlargement to eastern European countries has opened new markets and eased down the tension.

On the Scandinavian market big players in the middle segment are: Bestseller, ICC, Benetton and Esprit. The middle-range brands are under thread of mighty Inditex/Zara and H&M, the two world's leaders of fashion retail[29]. Middle- segment brands are fighting with a shrinking market lost to the lower segment, but also to the pressure of rising production costs from suppliers. Strategies applied in the segment are often reorganising the supply chain and the market structure. Choice of branding is relevant: the single branded company seems doing better than the multi-branded, according to Deloitte report for the industry in 2006-2010[30]. We are going to examine ICC's main competitors on the European market.

Bestseller

Bestseller is the market leader in the fashion industry in Denmark. Similar to ICC, Bestseller has multiple branding with 11 brands for men, women (included maternity line) and children. Bestseller has reached outside of the European region to North America (Canada), Middle East, India and is

[29] Source: Wikipedia

[30] P.Mølkjær, P.Toft, *Passion for fashion: Analyse af modebranchen*, Deloitte, 1/2011, page 30

strongly represented in China. The company's main customer groups are low-middle income and younger consumers. Bestseller is the only company among key players on the market controlled by family ownership; therefore it is independent from the stock market and the public influence. The most possible plant that Bestseller might take in the future is to strengthen its position in China and expanding in emerging markets.

In 2010/2011 Bestseller achieved a net revenue increase of 20% and result before tax increased 17% % (against 9,3 % and 11 % from ICC). Overall Bestseller is doing well during the financial crisis with net sales increase averagely 14% during the period 2007-2011[31].

Hennes and Mauritz (H&M)

H&M[32] is the key player in the low-price segment for young consumer. For many years H&M was pursuing single brand for children, men, women, cosmetics and accessories. In 2008-2010 the company acquired Swedish Fabric Scandinavien AB thus extent to 3 new brands Cheap Monday, Weekday and Monki. The company also build up the new brand COS (Collection of Style) launched in 2007 for the low-middle segment "high end design and good quality at an affordable price"[33]. The next attack to the middle-price segment is a new outlet pricier than the current chain H&M[34]. From 2009 the H&M brand was extended to home interior, selling on line or in limited stores. H&M is the big winner of the global recession with increasing revenue steadily from 2008-2011, beating share analysts' expectation[35]. In the coming years H&M will pursue market expansion and market development using financial gain from the current crisis.

Inditex/Zara

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[31] Bestseller's homepage: http://www.bestseller.com/

[32] H&M's website: http://www.hm.com/dk/

[33] COS' website: http://www.cosstores.com/

[34] Jessica Vince, *H&M Confirm Their New Chain Of Stores IS Called '& Other Stories'*, 2/04/2012

[35] Veronica Ek and Katarina Gustafsson, *H&M profit beats forecast*, Reuters, 25/06/2009

The company is the world's leader in fashion although its representation in Scandinavian is far from matching its size. Inditex is dealing with textile design, production and distribution. Within fashion retailing Inditex has a strong base in Latin America, which differentiates itself from other competitors. Inditex price level is slightly higher than the rock-bottom price at H&M, their style is also more suitable for up-scale market. In comparison with other western producers Inditex is more willing to explore the developing world (Latin America, Asia, the Middle East, Africa)[36]. In Scandinavia Inditex only sells Zara in their own stores in big cities and a limited number of brands online. Sales in the region were unsatisfied as a number of Zara's stores were closed during the financial crisis[37].

Esprit

The Hong Kong based fashion producer is a strong player in the middle-segment market. Esprit is pursuing a clearly single brand strategy for fashion products for men, women, teenage and children. The company has diversified into home furniture and home interior to B2B market. Esprit has developed into a potential player on the home furnishing market with its full range of home furniture, floor, carpet and lightning.

The financial crisis has hit Esprit's fashion division hard. In 2011 the company announced shop closing in Europe and USA (including closing all own retail shops in Denmark). Esprit retains only their activities in franchising and wholesale in the region. In the future key markets for Esprit are Asia and middle Europe countries.

Esprit is chosen company for benchmarking ICC performance due to its position in the middle-price segment and being a public company. Although no company is identically like the other, Esprit is the closest competitor that the analyst can use for bench-marking with ICC.

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[36] Inditex/Zara website: http://www.inditex.com/en/who_we_are/concepts/zara

[37] Anonym, *Esprit lukker danske butikker***,** Dansk mode & textil**,** 16/09/2011

Porter's 5 forces analyse will be sum up in a diagram, where the strength of each forces is expressed visually[38].

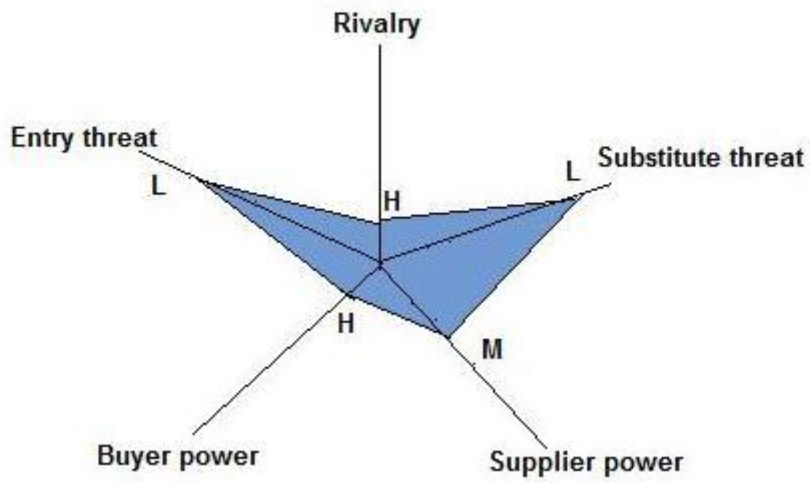


Figure 8: Comparative industry structure analysis

2.3. ICC strategies

In the annual report 2011 ICC's strategic statement is targeting 5 strategic areas in order to archive growth and increase profitability[39]:

- To build strong brand
- To have a focused market approach
- To increase controlled distribution
- To optimise processes and value chain
- To practice world class leadership

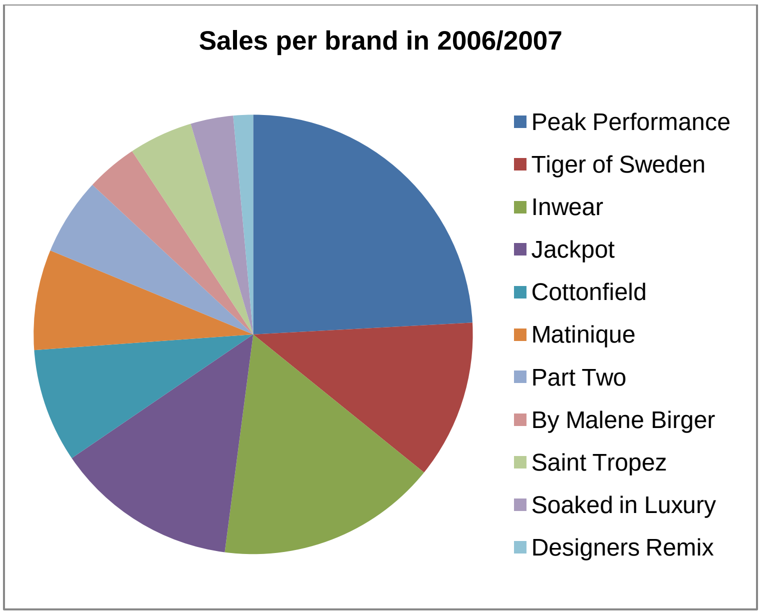
[38] Johnson, Scholes and Whittington, *Exploring Corporate Strategy*, 8th edition, Pearson Education Limited, 2008, page 72

[39] IC Companys' Annual Reports 2010/2011, page 7

We are going to examine ICC's strategies in order to achieve its goal and response to the market condition.

2.3.1. Branding strategy

At the present the company is pursuing the multiple brand strategy, having 11 brands for the middle and high end market. Having multiple brands with their own markets is a costly strategy. Furthermore ICC's strategic move to the high end market also requires more resource for marketing and product research and development. In the coming years they are going to strengthen own brands and capitalise on brand equity rather acquiring new brand[40].



[40] Peder Poulsen, *IC Companys/CEO: Ikke fokus på nye brands*, Ritzau Finans, 11/05/2011

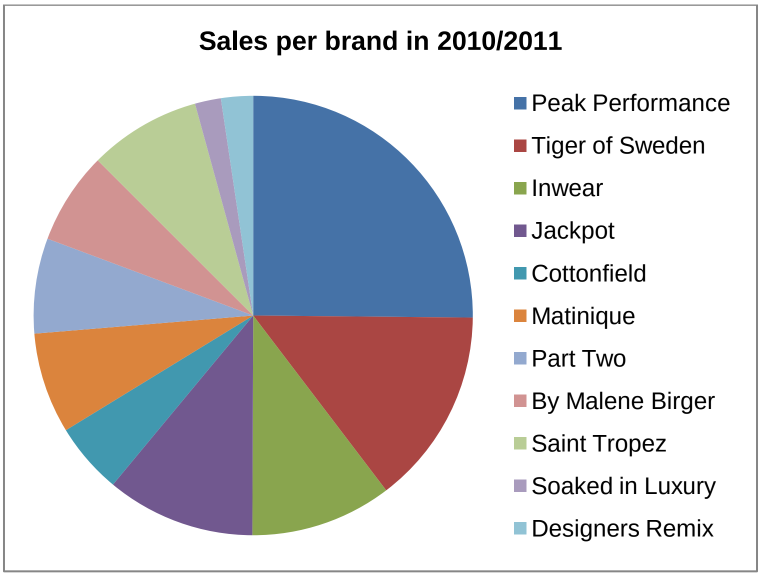


Figure 9&10: Sales per brand in 2006/2007 and 2010/2011

ICC's sales per brand in the last 5 years show a significant share increase of Peak performance and Tiger of Sweden, both are at the high price segment. The brands that are losing share in total revenue are at the middle segment: Inwear, Jackpot and Cottonfield. If the economical down turn get longer than expected, we are going to see a polarising of revenue toward the low and high price segment.

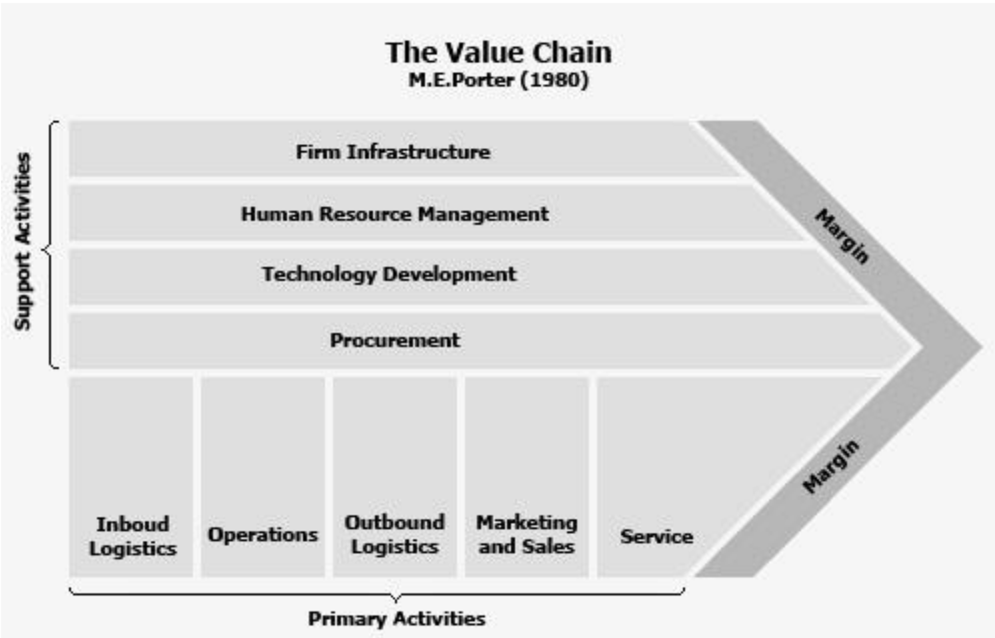
2.3.2. Growth strategy

After a period of applying market development by moving to new segment and develop to new markets in Eastern Europe, ICC is focusing on increasing its market share. Market penetration strategy can be carried out by strengthen branding and effective cost control. This will lead to two benefits: increase customer awareness of the company brands and lower cost of productions, which make market penetration possible through promotion and sales campaign. It is less likely ICC will apply product development or diversification strategy like competitors Esprit or H&M, as these strategies require much more capital resource and contain high risk.

Setting against the company's product range mainly for the middle income and niche markets (sport and training clothes) it would be easier for ICC on the Russian market and Eastern European markets than the Chinese market. Values of sport and pleasure are easier to communicate to other similar culture than to an unfamiliar world to skiing and sailing. All ICC's brands are in the middle segment that would be marketed on the up-scale market in China or India[41] while their brands are not in the league of high end luxury brands. In 2009 ICC has closed all 40 shops in China and existed after 3 years on the market[42]. Market extension in Canada was a big disappointment for ICC with the legal battle so far that costs 17 million DKK (note) in 2010/2010 and closing of all 51 concession shops in the country. This might result in the company's reluctance in expanding to new markets in the future.

2.3.3. Supply chain and value chain strategy

Better control of distribution, optimising process and value chain are the two key strategic areas for ICC at the present. The analyse is going to use Porter's Value Chain model for analysing values that are created in the supply chain (primary activities) and the overall value chain.



Source: http://www.outsourcing.lt

Figure 11: Value Chain model

[41] Lower brands from Bestseller are selling on the middle market in China
[42] Ole Hall, *Danske kæder skuffer I Kina*, Berlingske Business, 3/05/2012

Primary activities

Like in many producers in the industry all activities in supply of raw materials and production are outsourced to sub-contractors. Within the supply chain of fashion products only marketing, sales and service created value by the parent companies.

Marketing and branding

Well known local brands on Scandinavia markets are the biggest assets for ICC. All 11 brands are marketed independently on their separated market/segment. Like many others competitors all brand are having their own website and web shop for marketing and e-contribution directly to consumers[43]. On the Scandinavian market ICC has the advantage of being a local producer with local knowledge in comparison with outside competitors like Esprit and Inditex/Zara. Local preference is high among Scandinavian consumers.

Sales and service

ICC's sales team are experienced in exporting to foreign countries with over 80% of revenue come from exporting markets[44]. Sales are enhanced by massive investment in e-commercial targeting internet customers and distant markets. The company's multiple brand strategy requires more sophisticated sales skills, which gave the staffs a good opportunity to upgrade their qualification. Exchange staffs and information between brands creates a sales force with wide knowledge about customers.

Supporting activities are where ICC creates value. The company's competitiveness comes from its design team for new products and designs, from its access to technology, high educated work force and IT procurement.

Firm infrastructure

ICC's infrastructure is similar like other players' in the industry. Production is outsourced and distribution, sales & marketing and customer service function are placed in the home country. This

[43] Soaked in Luxury only has web shop to wholesale customers
[44] IC Companys' Annual Reports 2010/2011

infrastructure makes a flexible structure, less investment in fixed assets and working assets. Light firm infrastructure creates value for the firm in general but not a competitive advantage to the organisation.

Human resource management

The company has policy of developing and maintaining talent[45] although it was not clear if the company also employ international design talents. One disadvantage of ICC is the high labour cost in Scandinavian.

Technology development

ICC is located in high tech area with newest development in textile, for example gore-tex (water resistant) technology in sport clothes. The northern countries are also pioneers of product development and trendsetting for environmental friendly, anti- allergic fashion products. This is a good platform for niche products and specialised products.

Procurement

The process only takes part from purchasing finished goods from sub-suppliers forward to distribution/sales and after sales service. Value added in procurement is the organising of all 11 brands under one supply chain from the head office for cost saving and sales volume efficiency. Supplying should be reduced about 20 %- 25% to fewer but bigger sub-suppliers[46]. Change in strategy can be the consequence of ICC moving to up-scale segment, which requires tighter control in quality and image management.

Overall values are created mostly in the supporting activities, notably design and product development, new textile technologies in the home country and procurement organisation. Within the supporting activities procurement is vital for cost controlling and distribution. In the primary activities value are created at marketing, sales and customer service. The whole production process was resourced totally to sub-supplier in China, Vietnam, India and Sri Lanka. Cost control, quality control and ethic problems at sub-suppliers can be potential threads to ICC's products.

[45] IC Companys' Annual Reports 2010/2011, page 7

[46] Tine Heinricy, *ICC/CEO: Få leverandører ruster os til krisen*, Ritzau Finans, 28/09/2011

2.4. Conclusion for the industry environment

Fashion industry is characterised with high competition between rivals, high bargaining power to consumers and supplier, low entry barrier and nearly non-existed substitute for clothing. ICC found its self in the most pressing segment, the middle-price segment. The company advantages are mainly in the company's infrastructure, its human resource, local market knowledge and most important its brands. In comparing with its competitors in the segment, these advantages are not unique and impossible to acquire. The company's market value is very much depended on their strategy and their operating performance. That is where analysing the environment, the industry and the company's strategy is not enough to evaluate a company. It is where accounting analyse takes place for a deeper knowledge of the corporation.

3. ICC financial report analysis 2006-2011

The financial analyse will be studied in a 5 years period and be constructed on released ICC annual reports. For analysing purpose, official annual reports will be re- constructed (see more in enclosures).

3.1. Reconstruction of the financial report

Details of reconstructed equity, balance and annual income are enclosed at the end of this assignment. Basic information is presented here in a simplified version.

Reformulated total equity *in mill. DKK*	**2010/2011**	**2009/2010**	**2008/2009**	**2007/2008**	**2006/2007**
Equity primo	733,3	495,6	465,0	559,5	578,0
Net dividend	-184,7	-10,6	-75,6	-288,8	-287,2
Total income	182,3	243,0	106,2	188,1	244,5
Equity ultimo	**730,9**	**728,0**	**495,6**	**458,8**	**535,3**
Reformulated balance					
Core operating assets (DA)	1.838,8	1.695,9	1.667,1	1.774,7	1.680,0
Operating liabilities	819,0	741,3	660,3	687,8	580,2
Net core operating assets	1.019,8	954,6	1.006,8	1.086,9	1.099,8
Non-core operating assets	33,8	36,0	35,4	25,6	24,4
Net operating assets (NDA)	1.053,6	990,6	1.042,2	1.112,5	1.124,2
Financial liabilities (FF)	364,7	315,3	615,3	771,0	702,5
Financial assets (FA)	-53,8	-71,9	-82,2	-132,0	-144,9
Net financial liabilities (NFF)	310,9	243,4	533,1	639,0	557,6
Total equity (EK)	**742,7**	**747,2**	**509,1**	**473,5**	**566,6**
Minorities	-4,1	-13,9	-13,5	-8,5	-7,1
Equity to share owners of ICC A/S	**738,6**	**733,3**	**495,6**	**465,0**	**559,5**
Reformulated annual income					
Net sales	3.925,4	3.495,3	3.600,6	3.737,2	3.353,8
Cost of goods sold	-1.603,8	-1.370,9	-1.464,7	-1.478,4	-1.370,9
Staff costs	-1.016,4	-927,0	-928,1	-931,2	-807,2
Other operating costs	-867,4	-785,2	-909,5	-871,0	-739,3
Operation profit from sales after tax	**437,8**	**412,2**	**298,3**	**456,6**	**436,4**

Tax on operating profit from sales	-53,0	-58,8	-36,9	-91,5	-82,3
Operation profit from sales after tax	**384,8**	**353,4**	**261,4**	**365,1**	**354,1**
Other operation profits after tax	6,4	0,0	7,9	4,1	0,0
Depreciation, amortization and impairment	-125,0	-129,6	-146,7	-112,8	-96,3
Other incomes and costs after tax	-60,3	13,3	4,7	-30,6	9,5
Total operation profits (DO)	**205,9**	**237,1**	**127,3**	**225,8**	**267,3**
Net financial expenses after tax (NFO)	-10,1	-3,9	-8,1	-23,9	-24,6
Total income before minorities	195,8	233,2	119,2	201,9	242,7
Minorities	3,7	6,1	7,7	5,3	5,6
Total income to share owners of ICC A/S	**192,1**	**227,1**	**111,5**	**196,6**	**237,1**

Table 1: Simplified reformulated accounting: equity, balance and income

3.2. Profitability analysis

In this section we are going to examine ICC's profitability through a number of key ratios: return on equity (ROE), return on invested capital (ROIC), profit margin drivers, asset turnover drivers and cost of capital. The Du Pont pyramid model will be used in the profitability analyse.

According to Du Pont pyramid model[47], profitability of a business, or ROE, is the result of profit from operating activities and from financial activities. The process of profitability analyse will be carried out at 3 levels: from the overall key ratio ROE to the key ratio ROIC, profit margin (OG) and assets turnover (AOH)(note for using short terms in Danish) at level 2, and go deep down to the elements that drive behind profit margin, asset turnover and cost of capital r at level 3.

[47] Ole Sørensen, *Regnskabsanalyse og værdiansættelse*, Gjellerup, 2009, page 255

3.2.1. Level 1

Level 1	2010/2011	2009/2010	2008/2009	2007/2008	2006/2007
ROE	26,2%	37,1%	23,2%	38,6%	42,6%
ROE before minorities	26,4%	37,3%	24,3%	39,1%	
ROIC	20,1%	23,3%	11,8%	20,2%	
SPREAD*FGEAR	6,2%	13,9%	12,4%	18,7%	
Drivers for financial gearing					
r	3,6%	1,0%	1,4%	4,0%	
SPREAD	16,5%	22,3%	10,4%	16,2%	
FGEAR	37,4%	62,1%	119,3%	115,7%	
MIA	0,99	1,00	0,96	0,99	
ROE (MIA)	0,26	0,37	0,23	0,38	

Table 2: Return on equity, return on invested capital and financial gearing

Return on equity for ICC from the high level of 42,6% in 2006/2007 dropped down to 23,2% in the financial crisis year 2008/2009, get improved in 2009/2010 and dropped down again to 26,2 % in 2010/2011. Profit falling in 2008/2009 was the result of a decline 57,4% in return from operating activities while profit from the financial activities declined 33,7%. In 2007/2008 turnover from financial activities was 18,7 %, nearly half the total return on equity. In 2010/2011 financial activity profit only was 23,7 %, or 6,2 % out of 26,2 % total ROE. It is positive to see the recovery of ICC's profit from operating activities during 2009-2011, which indicates the business realised on the core business of clothing production and distribution rather than on financial activities.

At level 1 key ratio for minorities ROE and MIA were calculated, and ROE total before minorities gives a better view at the company's overall profitability.

3.2.2. Level 2

Level 2	2010/2011	2009/2010	2008/2009	2007/2008	2006/2007
ROIC	20,1%	23,3%	11,8%	20,2%	
OG	5,2%	6,8%	3,5%	6,0%	8,0%
AOH	3,84	3,44	3,34	3,34	

Table 3: Return on invested capital and components

At level 2 return from operating activities was broken down to two components: profit margin and asset turnover. During the period 2006/2011 ICC's average profit margin was 5,92 %, and rate of asset turnover on average 3,49 time/year. Compared with the branch's average of 14,51 % and 20,3% respectively[48] ICC company was doing much better than average.

Looking into ICC's strategy of moving forward high-end segment by acquired Tiger of Sweden and By Marlene Birger, profit margin in the coming years is expected to be improved and asset turnover could be slowed down as a trade off for the strategic move to the high-end segment. At the present we see asset turnover increased since 2008/2009. Explanations for this development can be the company has lowered inventory level or season clear off. It could be the result of ICC's strategic purchasing policy, so finish products are purchased just-in-time thus storing time is reduced as low as possible. Notice that supply chain is the central of ICC's strategy. From 2010/2011 and the coming years, a number of sub-suppliers will be reduced to fewer selective sub-producers. ICC's annual report in 2010/2011 stated that the process' purpose is for best practice, volume per style and CSR issues. In another words supply efficiency, better purchased price and bargaining power, and better image control.

3.2.3. Level 3

Level 3	**2010/2011**	**2009/2010**	**2008/2009**	**2007/2008**	**2006/2007**
Profit margin drivers (%)					
Net sales	100,0%	100,0%	100,0%	100,0%	100,0%
Cost of goods sold	-40,9%	-39,2%	-40,7%	-39,6%	-40,9%
Other operating costs	-22,1%	-22,5%	-25,3%	-23,3%	-22,0%
Staff costs	-25,9%	-26,5%	-25,8%	-24,9%	-24,1%
OG sales before tax	11,2%	11,8%	8,3%	12,2%	13,0%
Tax on operating profit	-1,4%	-1,7%	-1,0%	-2,4%	-2,5%
OG sales (after tax)	9,8%	10,1%	7,3%	9,8%	10,6%
OG other posts (after tax)	-4,6%	-3,3%	-3,7%	-3,7%	-2,6%
OG	**5,2%**	**6,8%**	**3,5%**	**6,0%**	**8,0%**
Effective tax rate	12,1%	14,3%	12,4%	20,0%	18,9%

48 Ole Sørensen, *Regnskabsanalyse og værdiansættelse*, Gjellerup, 2009, page 266

AOH-drivers (1/AOH)				
Intangible assets	9,7%	10,4%	9,8%	9,5%
Property, plant and equipment	6,8%	8,2%	8,5%	8,4%
Inventories	12,5%	12,4%	13,5%	13,4%
Trade receivables	7,9%	7,4%	7,7%	7,5%
Other operating assets	8,1%	9,7%	8,3%	7,5%
Core DA	45,0%	48,1%	47,8%	46,2%
Operating liabilities	1,8%	2,5%	2,8%	2,3%
Trade payables	9,0%	9,2%	8,4%	8,2%
Other operating liabilities	9,1%	8,3%	7,5%	6,5%
(1/AOH)core DA	25,1%	28,1%	29,1%	29,3%
(1/AOH)non- core DA	0,9%	1,0%	0,8%	0,7%
(1/AOH)	**26,0%**	**29,1%**	**29,9%**	**29,9%**
r-drivers				
Interest on liabilities	3,9%	2,9%	5,0%	5,4%
Other financial costs	0,4%	0,7%	0,2%	0,1%
Losses, derivates and currency	1,4%	0,9%	0,2%	0,1%
Interest on bank deposits	0,0%	-0,1%	-0,3%	-0,5%
Other financial incomes	-1,8%	-2,5%	-0,2%	-0,5%
Incomes from derivates and currency	-0,2%	-0,9%	-3,5%	-0,7%
r	**3,6%**	**1,0%**	**1,4%**	**4,0%**

Table 4: Drivers for profit margin, asset turnover and cost of capital

At this stage the purpose is to analyse the drivers behind profit margin, asset turnover and cost of capital. Elements that control the profit margin were broken down to cost of goods sold, other operating costs (which unfortunately were not specified in detail in ICC's annual report) and tax on operating profit. Profit margin was classified into profit margin from sales and profit margin from other sources of income, for instance other comprehensive incomes, depreciation and impairment, and non-core operating incomes.

During the last 5 financial years cost of goods sold stayed stable at the interval 39%- 40,9 % of net sales, but staff costs increasing from slightly over 24 % to nearly 26 %. Operation costs have increased steady in 2006/2009 before fell down in 2009/2010. Costs of enter and exit the Chinese market between 2006/2009 might contributed to this development. Profit margin from other posts contributed negatively to the overall profit margin, due to heavy losses in derivates held as cash flow hedge, foreign currency translation with foreign Group's enterprises and losses in depreciation, amortisation and impairment. The financial crisis is to blame for these losses, which deepened from 2,6 % of profit margin in the year before the crisis to 4,6 % in year 2011. Losses from other incomes led to profit margin still struggling at 5,2 % of total net sales in 2010/2011, 35 % lower than profit margin in pre- crisis year 2006/2007.

The forces drives behind an increase in asset turnover from 3,34 in 2007/2008 to 3,84 in 2010/2011 are decreases in property, plant and equipment held in core operating assets, decrease in inventories, less capital binding in operating activities, and larger share of capital from trade creditors and from other creditors. Overall ICC's own capital binding in creating sales was reduced from 29,9 % in 2007/2008 to 26 % per one kroner in net sales in 2010/2011. Operating activities at ICC were operated efficiently during the last 5 years with less capital in core operating assets and more borrowed capital from trade creditors.

Cost of capital *r* was driven by cost of interest on liabilities, other financial costs, losses on derivates and currency, minus interest incomes from bank deposits and other financial incomes. During the last 5 years the company has succeeded in reducing cost of interest on liabilities from 5,4 % to 3,9 %. Unfortunately it goes the other way for costs of derivates and currency held as cash flow hedge. Within 5 years costs of derivates and currency increased from 0,1 % to 1,4 % in 2010/2011. Cost of capital was compensated partly by other financial incomes and incomes from derivates and currency. Setting cost of capital against ICC's financial strategy of reducing debt and binding capital in operating assets, the future cost of capital will be reduced further on cost of interest on liabilities. Future cost of capital is also depended on losses and gains from derivates and transaction currency, a nature part of the business. Costs of derivates and foreign currency are complicated to monitor, therefore they are difficult to predict for the future.

3.2.4. Benchmarking between ICC and Esprit

Bestseller is the closest competitor to ICC with similar strategy, operating in the same segment and from the same country. Unfortunately Bestseller is a private held company and its accounting data is very limited to the public. Among the other competitors, Esprit is the most suitable company to be used for benchmarking against ICC. Esprit is operating in the same middle price segment, and Esprit's size is not overwhelming to ICC like H&M or Inditex/Zara.

First we are going to benchmark ICC's annual income against Esprit annual income in year 2010/2011.

Reformulated annual income 2010/2011				
in mill.DKK/HK$	**IC Company A/S**	**%**	**Esprit**	**%**
Revenue	3.925,4	100,0%	33.767,0	100,0%
Whole sales	2.394,8	61,0%	14.475,0	42,9%
Retail	1.530,6	39,0%	19.059,0	56,4%
Others			233,0	0,7%
Cost of goods sold	-1.603,8	-40,9%	-15.569,0	-46,1%
Gross profit	2.321,6	59,1%	18.198,0	53,9%
Staff costs	-1.016,4	-25,9%	-4.933,0	-14,6%
Other operating costs	-867,4	-22,1%	-10.963,0	-32,5%
Operation profit from sales before tax	**437,8**	11,2%	**2.302,0**	6,8%
Tax on operating profit from sales	-53,0	-1,4%	-239,9	-0,7%
Operation profit from sales after tax	**384,8**	9,8%	**2.062,1**	6,1%
Other operation profits after tax	6,4	0,2%		
Depreciation, amortisation and impairment	-125,0	-3,2%	-1.610,0	-4,8%
Other incomes and costs after tax	-60,3	-1,5%	1.964,0	5,8%
Total operation profits (DO)	**205,9**	5,2%	**2.416,1**	7,16%
Net financial expenses after tax (NFO)	-10,1	-0,3%	15,0	0,04%
Total income before minorities	195,8	5,0%	2.431,1	7,2%
Minorities	3,7	0,1%		
Total income to share owners of ICC A/S	**192,1**	4,9%	**2.431,1**	7,2%

Table 5: Annual income benchmarking for year 2010/2011

Obviously ICC has bigger share of revenue from business customer than Esprit that earned 56,4% of its revenue from end-consumers. Sales to private customers requires higher cost as we can see this figure is 6,1% higher at Esprit. Sales to business customer have not only the advantage of lower costs but also better profit margin. In total ICC is doing better than Esprit with a higher gross profit margin. With the advantage of placing head quarter in Asia in term of low labour costs and low corporate tax (16,5 % in Hong Kong [49]), Esprit has significant lower staff costs and tax on operating profit in comparison with the Danish counterpart ICC. In spite of low staff costs and low taxation, Esprit has a significant high other operating costs of 32,5 % of net sales, which can relate to shop closures in North American and partly in Europe, among other Denmark. Closing down store brought heavier write- off in depreciation, amortisation and impairment, and total income from other incomes and financial incomes up to 6,2 % of total revenue. For ICC these figures were purely loss of 1,8 % of total revenue from other non-core incomes and financial losses. Overall ICC was doing better than Esprit in generating profit from operation activities, but after deducting losses from non-core incomes and financial activities, the company came out with a lower rate of total income to the shareholders than what Esprit can transfer to its shareowners.

Reformed balance 2010/2011				
in mio.DKK/HK$	**IC Company A/S**	%	**Esprit**	%
Core operating assets (Core DA)				
Goodwill	199,4	20,7%*	7.672,0	34,5%
Software and IT systems	28,6			
Trademark rights	0,1			
Leasehold rights	20,5			
Leasehold improvements	118,0			
IT systems under development	13,8			
Land and buildings	257,5	14,0%	4.415,0	19,9%
Equipment and furniture				
Property, plant and equipment under construction				
Inventories	556,5	30,3%	4.218,0	19,0%
Trade receivable	358,0	19,5%	3.101,0	14,0%
Tax receivable	35,2	1,9%	1.018,0	4,6%
Deferred tax	99,0	5,4%	808,0	3,6%
Other receivables and prepayments	152,2	8,3%	987,0	4,4%
Total core DA	**1.838,8**	100,0%	**22.219,0**	100,0%
Operating liability (DF)				

[49] Esprit´s annual report 2010/2011: www.esprit.com

Retirement benefit obligations	5,8	0,7%		
Deferred tax	56,3	6,9%	850,0	9,7%
Provisions			1.992,0	22,8%
Other non-current liabilities	44,0	5,4%		
Trade payables	348,9	42,6%	1.320,0	15,1%
Tax payable	10,2	1,2%	1.156,0	13,3%
Other current liabilities	353,8	43,2%	3.403,0	39,0%
Total DF	819,0	100,0%	8.721,0	100,0%
Net core operating assets	**1.019,8**	55,5%	**13.498,0**	60,7%
Non-core operating assets				
Property investment and other investments			21,0	
Operating financial assets	33,8			
	33,8	3,2%	21,0	0,2%
Net operating assets (NDA)	**1.053,6**		**13.519,0**	
Net financial liabilities				
Cash and cash equivalents	-53,8	-17,3%	-4.794,0	176,6%
Non-current liabilities to credit institutions	140,0	45,0%	1.560,0	-57,5%
Current liabilities to credit institutions	224,7	72,3%	520,0	-19,2%
NFF	**310,9**	100,0%	**-2.714,0**	100,0%
Total equity (EK)	742,7		16.233,0	
Equity attributable to non-controlling interests	-4,1			
Equity to shareholders of the parent company	**738,6**	70,1%	**16.233,0**	120,1%

**Sum of all intangible assets*

Table 6: Benchmarking balance

ICC has significant more capital placing in inventories, trade receivables and other receivables than Esprit. The reason for more capital placing in current than non-current assets at ICC is the company operates at the same level, while Esprit is reducing its activities in the fashion industry and diversifying into housing furniture and interior sector. In 2010/2011 Esprit's intangible assets were evaluated, according to their book, to 34,5 % of total core operating assets. In September 2011, the market evaluated Esprit's brand value at 26,39 billions HK $. At the same time the company's book value was only 10,87 billion HK $(a loss of 90% in market value just 4 years ago)[50]. The market's evaluation of Esprit's intangible assets was evaluated 3,4 timer higher than its book value, something to think about Esprit's share value for the investors.

ICC operational liabilities reflex the company's activities with higher percent of creditor debt, other liabilities and deferred tax. ICC's operating liabilities take a bigger share in the total operating assets than in Esprit. Overall ICC net core operating assets is less solid than Esprit, taking 55,5 % of total operating assets while it is 60,7 % in Esprit's balance. This is not necessary bad for ICC, it just shows the company's active operation in the fashion industry, while the other is closing down partly its business.

ICC's net financial liabilities show the typical composition of an active business: low cash and cash equivalents, high share of long-term and short-term debts, while Esprit's liquidity is enough to pay off all its debt, plus a positive cash flow of 2 714 million HK$. The result is ICC shareholders' equity percentage in net operating assets is 70,1 % while Esprit's shareholder has 20 % equity over the net operating assets, it means they owned all of Esprit's assets plus 20% more over that, mainly in cash.

The question is long-term commitment to the business is more profitable or possible instant payout dividend. Or it is better for investors to invest in Esprit than in ICC. If we look at return on equity of the two companies in 2010/2011, the picture is clear: ROE of ICC was 26,2 % and for Esprit it was only 12,6 %. Revenue was not generated high enough against equity at Esprit as at ICC. The market rational answer was a downfall of Eprit's share price 90 % from 2008- 2011/September.

Comparing ICC's operating performance with other players in the branch, the company is doing well over the average, and better than its competitors in the sector (except the fast growing brand Odd Molly). This benchmarking used data from published information for all companies, including ICC. ROIC for ICC in official annual reports is higher than calculated ROIC in this assignment.

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[50] Wikipedia: http://en.wikipedia.org, exchange rate of 7,76072 USD/HKD

Bench-marking in ROIC	2010/2011	2009/2010	2008/2009	2007/2008	2006/2007	Average
ICC	26,6%	24,1%	14,2%	29,3%	30,4%	24,9%
Benetton	7,3%	8,9%	10,2%	12,2%	12,9%	10,3%
Odd Molly	16,2%	40,2%	55,6%	99,1%	67,6%	55,7%
Bestseller*		19,9%	-8,2%			
Esprit**						0,4%
Average industry**						**20,3%**
Average sector**						**14,51%**

Table 7: Benchmarking ROIC in the middle- price segment[51]

3.3. Growth and earning analysis

In this section ICC's growth in revenue, growth on total income and changes in equity will be analysed. Residual income to shareholders is the sum of total income and changes in equity after deduction the cost of equity. Growth of residual income is driven of growth in ROE and growth in equity.

Growth in residual income	2010/2011	2009/2010	2008/2009	2007/2008
Growth in revenue	12,3%	-2,9%	-3,7%	11,4%
Growth in equity	19,7%	27,4%	-5,7%	
Growth in comprehensive incomes	-15,4%	103,7%	-43,3%	-17,1%
RI	**113,8**	**156,1**	**53,9**	**135,0**
Re	*10,70%*	*11,60%*	*12%*	*12,10%*
Analysis of growth in equity				
(Δ sales x 1/AOHt-1)	125,1	-31,5	-40,9	
(Δ 1/AOH x sales)	-119,4	-29,4	-0,1	
Δ NGR1*	-115,8	-195,1	-9,1	
Δ EK	**121,5**	**134,15**	**-31,95**	
**1 incl. Change in minorities*				
Change in equity	120,3	131,5	-28,85	
Change in unrealised share option	-1,2	-2,65	3,1	
	121,5	**134,15**	**-31,95**	

Table 8: Growth and earning

[51] *Source:*Deloitte **CNBC*

3.3.1. Growth in revenue

Growth in revenue is the starting point of income and growth in equity during the year. Income from sales might not increase, but equity can be increased by for example transaction with owners, that can manipulate the total rate of return on equity. That is where accounting analyse is important and hard work budgeting makes sense.

It is not surprised to see ICC's sales plunged down to 3,7 % in the accounting year 2008-2009. That was the worst Xmas sales season with panic discount on the high street, even before December 2008. Sales decreased throughout 2008-2009 and recovered to a healthy growth 12,3 % in season 2010/2011. In comparison with the local competitor Bestseller, ICC was hit harder by the crisis and recovered later.

Growth in revenue is only one part of the total income for a company. In 2008/2009 sales revenue only declined 3,7 %, but other incomes (derivates and foreign currencies) contributed to a total fall of 43,3 % in comprehensive income. During 2008/2010 dividend payout and share buying back were significant reduced. Less payout together with year's result in 2009/2010 have helped to increase equity and residual income for shareowners in 2009/2010.

3.1.2. Growth in comprehensive income

Comprehensive income fluctuated down 17,1 % in 2007/2008 and 43,3 % in 2008/2009, increased to 103,7 % the year after and plunged down again 15,4 % in 2010/2011. Income decreased was the consequence of increased staff costs, other operation costs and heavy losses on foreign currency translation and derivates. Decrease in comprehensive income also was the result of write-down in tangible and intangible assets during the period. It is difficult to estimate growth for ICC's comprehensive income in the coming years when the important component, loss and gain in foreign currency translation and derivates held as cash flow hedge, is hard to predict.

3.1.3. Growth in equity

Change in equity is the sum of change in sales over asset turnover, change in asset turnover and change in net financial liability (NFF). During the period 2008- 2011 sales were driven by an increasing asset turnover and deceasing net financial liabilities and minorities. Sales were generated by lower level of operating asset and significant less debt. In 2007/2008 ICC needed 29,9 øre in operating assets in order to generate 1 kroner sales, four years later they just needed to invest 26 øre to generate the same sales kroner. Debt is a central strategy of ICC during the last 5 years. Debt (and minorities) decreased significantly from 2007-2011 and the company aims at reduce total bank debt to zero (note in financial report). Sales and asset turnover increased in the same time while debt decreased is partly the reason for ICC equity increased during the last two years.

3.1.4. Cost of equity and residual income

Cost of equity Re	**2010/2011**	**2009/2010**	**2008/2009**	**2007/2008**
Rf	2,7%	3,6%	4,0%	4,1%
Beta	1,04	1,04	1,04	1,04
Rm	7,7%	8,6%	9,0%	9,1%
Using CAPM for expecting Re	**7,9%**	**8,8%**	**9,2%**	**9,3%**
Re= Rf+ Beta(Rm-Rf)				
Liquidity premium	2,8%	2,8%	2,8%	2,8%
Total Re	**10,7%**	**11,6%**	**12,0%**	**12,1%**

Table 9: Cost of equity

Cost of equity during the period 2007- 2011 were inconstant due to the market condition. As risk-free rate decreased steadily from 2007-2011, Re decreased from 12,1 % in 2007/2008 to 10,7 % in year 2010/2011. At the present the interest rate is at historic low level, the debt crisis in Europe seems not over, therefore cost of equity is expected to be at the rate of 10,7 %[52].

[52] Kathrine Rossau, *Økonomer spår flere år med lave renter*, Berlingske Business, 2/05/2012

For calculating cost of equity we have used Price Waterhouse Cooper's estimation for the expecting market premium at 5 % and liquidity premium at 2,8%[53]. Beta for ICC was set at 1,04 against the sector average 0,88[54]. Specific risk in investing in ICC is higher than the industry in general. ICC's beta indicates a bigger variance between the company's share and the market in general, which are shown in figures number x og x (update)

Using the formula[55]: RI= (ROE*t*- Re)*EK*t-1*

We have residual incomes for the period 2007-2011. Residual incomes reflected the company's development in total income, changes in equity and cost of equity during the period. Residual income was at the lowest level in 2008/2009 and recovered in the second half of 2009 to 2011.

3.4. ICC share price development

One important part of ICC performance is its share development on the stock exchange market. ICC's shares are traded on the Copenhagen Stock Exchange .

Source: Yahoo Finance

Figure 12: ICC's share and OMXC mid-cap share from 4/2007 to 4/2012

[53] Price Waterhouse Copper: http://www.pwc.dk/

[54] Website of Aswath Damodaran, Professor of Finance at the Stern School of Business at New York University

[55] Ole Sørensen, *Regnskabsanalyse og værdiansættelse*, Gjellerup, 2009, page 298

Within 5 years the company has lost 66,5 % of its market value. Its share swings more violently than the overall market. ICC's share performed under the market in the starting of the crisis 2008/2009 and outperformed the market during middle 2009 and the first quarter of 2012. Between 2007 -2009 the company has spent big sums in buying back own shares and payout dividend, which lead to an increase of equity in these 3 years. In June 2011 market analyst suggested that ICC's share can be 25 % lower, if not for Nordea has been intensively buying ICC shares[56]. Paying out dividends and buying back own share in 2006-2009 could be ICC's manoeuvre in keeping its price at a certain level.

Source: Yahoo Finance

Figure 13: Share performance of ICC, Esprit, Benetton and Odd Molly from 4/2007 to 4/2012

In comparing with its peer group in the middle segment for clothing and accessories, especially against Esprit and Benetton, ICC's share swung more than its peer during the last 5 years, started with the first half below the peer and the second half outperformed the peer. ICC's volatility in comparison with the peer reflected its systematic risk beta at 1,04, much higher than the average beta for apparel sector of 0,88. In total ICC's share price decreased 66,5 % during the 5 years-period, slightly lower than the market during the same time. ICC's share development during the

[56] Claus Mikkelsen, *IC Companys: Aktien overvurderet – ugebrev*, Ritzau Finans, 20/06/2011

last 5 years was not the consequence of bad performance them self, but also was the result of a general turbulent market.

3.5. Conclusion for accounting analysis

In sync with the market ICC has experience traumatic failure and recovering during the last 5 financial years. ICC historical accounting reported fall in profit from operating activities, in profit margin and big losses in derivates and foreign currencies during the period 2008/2009. Since then the company has recovered in every front: sales, asset turnover, profit margin, total income and residual income to the shareholders. The external environment also contributed to ICC's recovering in form of low interest rate. Recovering is the effort the ICC itself by improving its purchasing process, close down unprofitable stores and reducing work force.

In comparison with its peer ICC is doing better than the average with higher return on invested capital both in Denmark and in the branch. Benchmarking between ICC and the Hong Kong based Esprit indicated recovering at ICC was not due to cost saving in the products or labour force or a favourable tax, it was the result of reforming the corporate structure and efficiency in process.

3.6. Conclusion for business environment and the company situation

The analysis has gone through ICC's business environment and the company's situation in the last two sections. The market condition since 2008/2009 has been one of the worst since the Great Depression in 1930's. Many believe that we have seen the depth of this crisis and the world is recovering. Remember that it took the world 10 years to come over the depression in the 1930's. We might, or might not, have seen the end of this economical crisis at least in Europe.

At the end of 2008, the world's economical balloon went bust suddenly. Gone the days of buying new thing to casting away the old one, and investing in property and share were everyman's talk. Cloth consumption, like many other private consumptions, decreased. Even after 3 and a half year, the global economy has not really recovered while a new debt crisis is shadowing the euro zone. As consequence of an economical down turn, growth declined in most developed countries to under zero and now struggling between zero and one percent. Other more direct macro consequences to the fashion industry are unemployment rate increase overall in Europe, shrinking consumer confident, cost cutting in the public sector and inflation. When the overall economy slowed down, interest rate went down to historical low record is the only compensation in the crisis.

The fashion industry has been hit hard by the crisis. Fortunately there is no alternative for cloth; people still have to buy cloths, but maybe not in the same class like before. The middle class consumers' shifted to low-price brands created problems for middle price producers like ICC. At the present the fashion industry is a market of buyers, producers have to compete on price for consumers' shrunken budget and increasing production cost from suppliers. Rivalry in the industry and consumers are biggest challenges for producer, not new entrants and substitutes. At a certain level suppliers are posing a threat to the industry, which has been pressed already from sales at discount to end-users. The assignment has gone through briefly some of ICC's main competitors on the European market: Bestseller, H&M, Inditex/Zara and Esprit. Esprit was chosen for benchmarking against ICC.

ICC position against its competitors was analysed in two areas: strategies and financial position. During the last 5 years ICC has completed its strategic move in expanding to the low segment of high-end market. The company has acquired two new brand: Tiger of Sweden, a 100-years classic brand and the rising fashion star By Marlene Birger. ICC is not expected to acquire more brands in the near future. Beside branding, sales, value chain, supply, contribution, human resource and management are strategic areas for the company.

ICC's financial position reflexes both failure and success during the last 5 years. Sales decrease is one problem. Losses in non-core operating activities like derivates and foreign currencies held as cash flow hedge seems out of control, the same with other one-time costs like shop closures and legal expenses. In the other side the company's has improved its profit margin and asset turnover since 2008/2009. Share of financial activities were reduced significantly in the total return of equity. In comparison with its benchmarked competitors Esprit and others in the branch, ICC is doing better than average with higher turnover from operating activities. Its share on the stock exchange market also reflexes this, even at a higher risk beta.

The next section we are going to budget ICC accounting in the next period 2012-2018 and beyond. Analysis of the external business environment, the industry situation and ICC's performance among other competitors is the foundation for budgeting ICC's future.

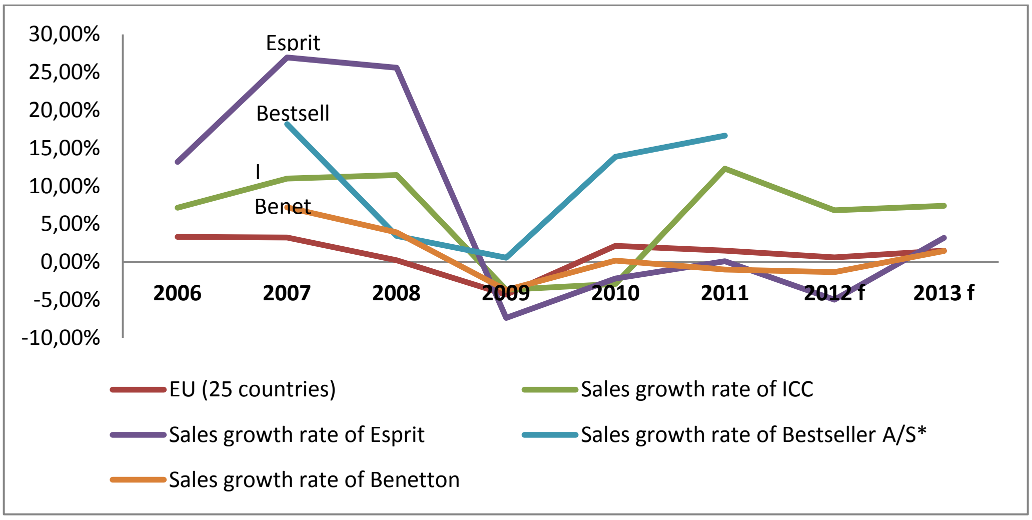
4. Budgeting for 2012-2016

Budgeting horizon for ICC will be covered the period of 5 years. Starting point of budgeting is the growth rate of expecting revenue.

4.1. Budgeting operating activities

4.1.1. Budgeting growth rate g

The starting point of budgeting for a business is expected revenue for the coming years. In estimating ICC's growth rate for the next 5 years period, GDP in Europe and GDP in Sweden, Norway and Denmark were chosen as the main indicator for revenue growth. In Europe private consumption contributed from 42,1 % to 80 % of the total economy, lowest in Norway and highest in Macedonia[57].



**Sales for Bestseller are not included Villa A/S and Friheden Invest A/S*

Figure 14: GDP and sales growth for EU countries and fashion producers

Between 2005 and 2012 ICC's sales growth was 5,9 % on average, much lower than its local competitor Bestseller. Looking at the development of sales during the past, the company recovered later but at a higher rate than many others', except Bestseller. For year 2012 Eurostat forecasts a decrease of 45% in GDP growth rate in the EU, although GDP growth rate in the three

[57] Eurostat, *Real GDP growth rate*, 2004

Scandinavian countries were expected at higher rate than the average (see enclose). According to Eurostat's forecast, in 2013 GDP in EU countries will recover at the same growth level in year 2011, but the future is very much depended on the outcome of the European debt crisis.

Luckily ICC's main markets are Denmark, Sweden and Norway, who are doing better than the EU average and none of the main market is in the Euro zone. We have the confidence to project a positive growth rate of 6,8 % in year 2011/2012 and 7,4 % in 2012/2013 for ICC future sales. Revenue in year 2013/2016 and after that is projected slowing down to 3% in the terminal period, which is reasonable in long term budgeting.

Time horizon for our budgeting is 5 years. ICC is at the saturate stage in a saturate industry, therefore there is little space to expect significant growth in the firm.

4.1.2. Budgeting assumptions

Budgeting assumptions	Current period	Budgeting period					Terminal
	2010/2011	2011/2012	2012/2013	2013/2014	2014/2015	2015/2016	from 2016
Growth in revenue	0,0%	6,8%	7,4%	6,0%	4,0%	3,0%	3,0%
Operating capital	18,3%	20,4%	20,4%	20,4%	20,4%	20,4%	20,4%
Fixed capital	6,8%	7,5%	7,5%	7,5%	7,5%	7,5%	7,5%
1/AOH	25,1%	27,9%	27,9%	27,9%	27,9%	27,9%	27,9%
$OG_{\text{sales before tax}}$	11,2%	11,7%	12,2%	12,7%	13,2%	13,7%	14,2%
Tax rate	25,0%	25,0%	25,0%	25,0%	25,0%	25,0%	25,0%
Other operating incomes	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
Depreciation, amortisation and impairment	-3,4	-3,4	-3,4	-3,4	-3,4	-3,4	-3,4
Other incomes/losses	-0,4%	-0,4%	-0,4%	-0,4%	-0,4%	-0,4%	-0,4%

Table 10: Budgeting assumptions

Asset turnover 1/AOH is budgeted to 27,9 % based on the historical rate of asset turnover during the last 5 years. Operating profit is budgeted to increase 0,5 % annually and recovered to the pre-crisis growth rate in 2014/2015.

Other operating incomes, which only takes 0,1 % of total revenue in 2010/2011, are projected to zero in our budgeting. While incomes from other non-core operating activities are unsure, depreciation, amortisation and impairment is an annual post, which is projected to minus 3,4 % of revenue based on the average level during the last 5 years.

Other incomes and losses before tax are budgeted at minus 0,4 % based on the average income/loss during the last 5 years. This is projected losses on foreign currency translation with foreign enterprises, foreign currency and derivates held was cash flow hedge. Corporate tax rate is projected at 25% in the budgeting period.

4.1.3. Pro-forma accounting for 2012-2016 and beyond

Pro-forma accounting	Current period		Budgeting period				Terminal
	2010/2011	2011/2012	2012/2013	2013/2014	2014/2015	2015/2016	from 2016
Annual income:							
Net sales	3.925,4	4.192,3	4.504,4	4.774,7	4.965,7	5.114,7	5.268,1
Costs of production		-3.703,8	-3.957,0	-4.170,6	-4.312,5	-4.416,3	-4.522,5
Operation profit from sales before tax		488,5	547,4	604,1	653,1	698,3	745,6
Taxation		122,1	136,9	151,0	163,3	174,6	186,4
Operation profit from sales after tax		366,4	410,6	453,1	489,9	523,7	559,2
Other operation profits after tax		0,0	0,0	0,0	0,0	0,0	0,0
Depreciation, amortisation and impairment		-142,5	-153,2	-162,3	-168,8	-173,9	-179,1
Other incomes and costs after tax		-16,8	-18,0	-19,1	-19,9	-20,5	-21,1
Total operation profits (DO)		**207,1**	**239,4**	**271,7**	**301,2**	**329,4**	**359,0**

Balance :							
Working capital		917,2	972,3	1.011,1	1.041,5	1.072,7	1.104,9
Fixed capital		339,5	359,9	374,3	385,5	397,1	409,0
Net operating assets (NDA)	**1.053,6**	**1.256,7**	**1.332,1**	**1.385,4**	**1.427,0**	**1.469,8**	**1.513,9**
Change in NDA		203,1	75,4	53,3	41,6	42,8	44,1
Growth in NDA		19,3%	6,0%	4,0%	3,0%	3,0%	3,0%
Average NDA		**1.155,2**	**1.294,4**	**1.358,8**	**1.406,2**	**1.448,4**	**1.491,8**
Cash flow :							
Total operating profit (DO)		207,1	239,4	271,7	301,2	329,4	359,0
Change in NDA		203,1	75,4	53,3	41,6	42,8	44,1
FCF (C-I)		**4,0**	**164,0**	**218,4**	**259,6**	**286,6**	**314,9**
Growth rate g, in terminal							3,0%
ROIC	20,1%	17,9%	18,5%	20,0%	21,4%	22,7%	24,1%

Note: Sales in year after terminal will increase 3 % to 5426,1 million DKK

Table 11: Pro-forma accounting: annual income, balance and cash flow

From the budgeting consumptions we can build up our pro-forma accounting for annual income, balance and cash flow for the period 2012- 2016 and terminal period.

We assumed that change in net operating assets is proportional with change in working capital and change in invested fixed capital. Consequence of investing in operating assets in order to generate sales in budgeting period are return on invested capital (ROIC) will decrease from the present rate of 20,1 % to 17,9 % in 2011/2012, recover in 2014/2015 and increase in the coming years.

The outcome of this pro-forma accounting is free cash flow to shareholders from operating activities after deduction of expenses in investing activities.

$$FCF = C - I$$

$$\text{Or } FCF = DO - \Delta NDA$$

Expecting free cash flow in the budgeting period will be used in estimating market value of ICC's equity, after deduction of its market value of net liabilities.

4.2. Budgeting cost of operating activities

WACC	
Rs	5,00%
Corporate tax rate	25,0%
Rf	2,7%
Costs of debt Rd = (Rf+Rs)*(1-t)	5,8%
Rm	7,7%
Beta	1,04
Cost of equity Re=Rf+Beta*(Rm-Rf)	10,7%
Weighted equity	0,76
WACC = We* Re+ Wd*Rd	**9,5%**

Table 12: Weighted average cost of capital

ICC's beta is higher than the sector's average can be explained by the company's revenue concentrated mainly in the European region. ICC doesn't have sales income from emerging markets like Bestseller or H&M to counter declining sales. ICC historical share price also reflected this systematic risk; its share price swung more than the market's average.

The capital structure, or the share of equity and debt in total assets, shows how solid a company is. A company has high market price for its share with high percent of debt doesn't have the same value as a company with the same market price but lower share of debt. High debt means higher risk, higher cost of capital and the company is more vulnerable to changes in macro environment and financial creditors. Some of peer group companies like Esprit and Odd Molly don't have financial liabilities but financial assets available to the business. In ICC the weighted equity and net financial liability are 0,76 and 0,24 (see enclosure for Equity)

Using the formula[58] :

$$WACC = V_E / V_{NDA} * R_{EK} + V_F / V_{NDA} * R_{FK}$$

Weighted average cost of capital for ICC is calculated at 9,5 %. We are going to use this cost of capital to calculate the company's value in the Discounted Cash Flow model.

4.3. Conclusion

Budgeting of ICC financial accounting was built on the GDP growth rate, which leads to expecting growth for the company in 2012- 2016 and in terminal period. In sync with the European economy sales are expected to growth at 6,8 % in 2012, 7,4 % in 2013, 4 % in 2014 and slow down to 3 % in years after. Beside assumption for sales, other assumptions are made for asset turnover, margin profit before taxation, corporate tax rate and other operating costs and incomes.

Pro-forma accounting budgets annual income, change of net operating assets and free cash flow to shareholders after each period. The total return from operating activities ROIC are expected to decrease in 2012 and then increase to pre-crisis level 2004/2005. Cost of capital in operating activities was measured on weighted average cost of capital in equity and net debt. With the present capital structure ICC's weighted average cost of capital is measured at 9,2 %.

[58] Ole Sørensen, *Regnskabsanalyse og værdiansættelse*, Gjellerup, 2009, page 54

5. Value assessment of ICC's share price

After budgeting ICC's ability in generating cash flow in the future the next step is to evaluate its value to shareholders. Two models are chosen for their applicability on the financial market: Multiple model and Free Cash Flow model.

5.1. Multiple model

The Multiple model is a simple valuation method that uses information from official accounting reports and the exchange market. Market value for a company can be calculated by simply multiple its share price and the number of share trading on the market. The problem is market value of debt was included in the total market value. Companies' value may look different when debt is deducted from the total market value. In this assignment we choose to use adjusted Multiple evaluation by using enterprise value to eliminate debt effect in the evaluation[59].

Three companies: Esprit, Benetton and Odd Molly are chosen for calculating in the Multiple model. It is impossible to find completely identical companies with the same size and in the same segment with ICC. Therefore our priority is to select companies in the same middle-price segment and at different stage of their product life cycle: Esprit in the slow down and diversification stage, Benetton at the maturity stage and Odd Molly at the rapid growth stage. Our intention is to build up a general picture of the segment, where ICC is operating.

Enterprise value *in million*	**Nr. of share**	**Share price**	**Market value**	**Debt**	**Enterprise value**
Esprit	1.290,0	16,2	20.872,2	-2.255,9	23.128,1
Benetton	182,7	5,5	1.004,7	1.422,2	-417,4
Odd Molly	5,8	55,8	320,7	-42,1	362,8

Table 13: Enterprise value for Esprit, Benetton and Odd Molly

[59] Ole Sørensen, *Regnskabsanalyse og værdiansættelse*, Gjellerup, 2009, page 34

Using Financial Time's forecast for sales of all peer-group companies and ICC in 2011/2012[60], we calculated the market expectation in general to fashion companies in term of revenue and earnings before interest and taxes (EBIT). Expecting booked value of equity (excluded minorities) and value of debt are calculated based on the companies' present capital structure.

Price multiple model							
in millions	**Net sales**	**EBIT**	**Booked value of equity**	**Enterprise value**	**EV/S**	**EV/E**	**EV/B**
Esprit	32.087,0	657,6	15.415,9	23.128,1	0,7	35,2	1,5
Benetton	2.005,0	147,1	1.467,2	-417,4	-0,2	-2,8	-0,3
Odd Molly	290,5	20,0	126,2	362,8	1,2	18,2	2,9
ICC	3.805,5	311,5	716,0				
Average for peer companies					0,6	16,8	1,4

Using average values for ICC	**Ave. Multiple**	**ICC**	**Value**
Net sales	0,6	3.805,5	2.234,3
EBIT	16,8	311,5	5.242,8
Booked value of equity	1,4	716,0	976,3
Value average			**2.817,8**
Number of share			16.519.900
Value per share in DKK			**170,6**

Table 14: ICC's enterprise value

From multiple valuation value of one ICC's share was estimated at 170,6 DKK.

The question is if value of a company can be evaluated based on the market price, why should investors bother to pay for share analyses and financial analyse? If the market pays the fair value of enterprise, companies couldn't lose its value overnight like the stock market might. Multiple valuation method is based on observation of the market expectation to a specific company and its branch. It is the evaluation from the outside world to estimating (or guessing) market value of a company. Discounted cash flow model is another valuation method often used by financial and

[60] Financial Time, http://www.ft.com/home/europe

share analysts, which offer evaluation from available information to the public from the company's financial reports and macro information.

5.2. Discounted Cash Flow model

Discounted Cash Flow model calculates expecting free cash flow to the shareholders in the budgeting period. Free discounted cash flow is the maximum of cash flow generated from operating activities, investing activities and financial activities. This cash flow can be paid as dividend to shareholders or can be invested into the business.

The author has chosen to calculate the discounted cash flow to the business, excluded value of net financial liabilities to financial creditors, to eliminate effect of capital structure. Cash flow to the shareholder is calculated according to formula[61]:

$$V_0 = \sum_{t=1}^{T} \frac{FCF_t}{(1+WACC)^t} + \frac{TV_T}{(1+WACC)^T}$$

And value of financial liabilities V_{NFF} will be deducted from the total value of business V_0

DCF model	Current period	Budgeting period					
		0,5	1,5	2,5	3,5	4,5	Terminal
FCFF		4,0	164,0	218,4	259,6	286,6	314,9
PV of FCFF		3,8	143,1	174,0	188,8	190,3	
Total PV of budgeting period	699,9						
Terminal value							4.825,9
PV of terminal value	3.204,5						
Value of net operating assets (NDA)	3.904,4						
Market value of non-operating assets	0,0						
Assets total	**3.904,4**						
Booked value of net liabilities (NFF)	-310,9						
Equity value	**3.593,5**						
Minorities	-4,1						
Equity to the Parent company	**3.589,4**						

[61] Brealey, S.Myers, F.allen, *Principles of Corporate Finance*, 10th edition, McGraw-Hill Irwin

Number of share	16.519.900	
Value per share in DKK	**217,3**	

Table 15: ICC's enterprise value according to Discounted Cash Flow model

We have chosen to budget free cash flow at the end of December rather than at the end of ICC's accounting period in June. The reason comes from the nature of fashion retailing with a heavier share of revenue from the first 6 months of the year, especially the X-mass sales season. For ICC sales in July-December contribute 53,7 % of total sales at the present. Therefore free cash flow released from the business is available already from the first 6 months of the year.

Free cash flow from the business was discounted at rate 1,095 to the present value of 699,9 million DKK for year 2012-2016 and terminal present value was calculated to 4825,9 millions DKK at a constant growth rate 3 % in terminal period. We assume that ICC will not acquire any non-operating assets during the budgeting period, and its market value of debt is equal to its booked value. The number of share for evaluation was eliminated from treasury share and with adjustment of unrealised share options and warrants. Our share evaluation is at 217,3 DKK per share, slightly lower than the actual market price 223,1 DKK in 30th June 2011.

5.3. Scenario analysis

Discounted Cash Flow valuation for ICC was based on assumption from the external business environment, the industry and the company historical performance. Changes in any of those factors can lead to changes in the assignment and its outcome. Scenario analysis will take three possible case scenarios: sales decline, change of capital structure and change of cost of goods sold.

5.3.1. Worst case scenario

Revenue is the most vulnerable assumption in a valuation. Sales of product that is very sensitive to changes in income, consumer confident and fashion trend beside internal financial structure. Since

30th of June 2011 the market condition didn't develop in favour for the retail branch. A wet summer and a warm winter were the reason for ICC didn't archive sales target. Market expectation to ICC's revenue is somewhat lower than the analyst's assumptions. On Financial Time ICC's revenue were forecasted to decrease 3,8 % in 2011/2012 and 2,8 % in 2012/2013, a dramatic turn from a rise 12,3 % a year before. FT's forecasts will be used for our worst scenario.

DCF model	**Current period**	**Budgeting period**					
		0,5	**1,5**	**2,5**	**3,5**	**4,5**	**Terminal**
FCFF		217,1	133,5	177,7	211,3	233,2	256,3
PV of FCFF		207,5	116,4	141,6	153,7	154,9	
Total PV of budgeting period	774,0						
Terminal value							3.927,6
PV of terminal value	2.608,0						
Value of net operating assets (NDA)	3.382,0						
Market value of non-operating assets	0,0						
Assets total	**3.382,0**						
Booked value of net liabilities (NFF)	-310,9						
Equity value	**3.071,1**						
Minorities	-4,1						
Equity to the Parent company	**3.067,0**						
Number of share	**16.519.900**						
Value per share in DKK	**185,7**						

Table 16: Sales decrease in 2011/2012 and 2012/2013

With the same capital structure and unchanged performance but unfavoured business environment, ICC enterprise market value will lower to 3067 million DKK and ICC's share value will decline to 185,7 DKK.

How much this scenario is possible? The year 2011/2012 was not the best year for ICC. Beside economical and industrial unfavoured environment, ICC also has its own quality scandal. ICC's expecting revenue were adjusted not only on Financial Time, but also on Yahoo Finance. Within one week ICC's revenue was adjusted to negative growth from a forecast of 10 % growth rate annually on Yahoo Finance's homepage. The author's growth rate assumptions, which were based on Eurostat's GDP forecasts and ICC's historical data, are being the best case scenario evaluation.

5.3.2. Change of capital structure

Change of capital structure is a possibility in ICC. In the annual report 2010/2011 the company stated its target of reducing bank loan to zero while only maintains liabilities in derivates and foreign currencies as cash flow hedge. The second scenario takes a hypothesis of debt reduced to 20 % in total capital. When share of own capital increases, risk in fixed assets increases therefore WACC also increases to 9,7 %.

DCF model	**Current period**	**Budgeting period**					
		0,5	**1,5**	**2,5**	**3,5**	**4,5**	**Terminal**
FCFF		4,0	164,0	218,4	259,6	286,6	314,9
PV of FCFF		3,8	142,7	173,2	187,7	188,8	
Total PV of budgeting period	696,1						
Terminal value							4.689,7
PV of terminal value	3.089,9						
Value of net operating assets (NDA)	3.786,1						
Market value of non-operating assets	0,0						
Assets total	**3.786,1**						
Booked value of net liabilities (NFF)	-310,9						
Equity value	3.475,2						
Minorities	-4,1						
Equity to the Parent company	**3.471,1**						
Number of share	16.519.900						
Value per share in DKK	**210,1**						

Table 17: Change of capital structure

Change in capital structure doesn’t affect the company’s valuate very much. Equity reduced to 3471,1 million DKK and share price fell slightly to 210,1 DKK.

5.3.3. Change of margin profit

The third possible hypothesis is a change of profit margin only 0,2 % per year instead of 0,5 % as projected. Increase in cost of goods sold can take part in profit margin, or costs of production increase more than the retail price that consumers can bear. Goods sold at discount also hurt the profit margin.

DCF model	Current period	Budgeting period					
		0,5	1,5	2,5	3,5	4,5	Terminal
FCFF		-5,5	164,0	186,2	259,6	229,0	243,8
PV of FCFF		-5,2	143,1	148,3	188,8	152,1	
Total PV of budgeting period	627,1						
Terminal value							3.740,3
PV of terminal value	2.484,4						
Value of net operating assets (NDA)	3.111,5						
Market value of non-operating assets	0,0						
Assets total	**3.111,5**						
Booked value of net liabilities (NFF)	-310,9						
Equity value	2.800,6						
Minorities	-4,1						
Equity to the Parent company	**2.796,5**						
Number of share	16.519.900						
Value per share in DKK	**169,3**						

Table 18: Change of margin profit

Change in profit margin worsens company's value. Free cash flow in both short term and long term are reduced. Just a lower profit margin of 0,3 % company's value decreased to 2796,5 million DKK and share value fell 22 % to 169,3 DKK per share. That is a lesson to retailers. It is tempted to use discount and sale to increase revenue, but the consequence is larger than estimated. Unfortunately this is a widespread method used by retailers. Long term existence was trade off for short term interest.

5.4. Comparison of the valuation methods

The Multiple method is easy to communicate to the share buyers. The method measures rate of price over earning before tax and interest of the year, over booked value and over sales. It is easy to highly earning per share or the rate between the market value and the booked value to investors. The method is simple and at a low cost: there is no need of having a high education in finance and accounting for using this method.

Multiple valuation method is helpful if the company is not a public company, and comparing with similar corporations is the last and only solution in evaluating the enterprise. One strength of multiple method is it measures company's value according to *accounting principle*[62]: assets should be measured by market's willing to pay for it, not the booked value.

Even adapted to the company capital structure like in our calculation, multiple evaluation method starting point is from the outside, not from the actual company itself. The method of calculating expected values from other peer companies for coming up with the subjected company cannot give a precise result, because companies are not identical in size, scope of business and strategy with each other even in the same segment.

Advocators of efficient market might argue that the market price is the best price for evaluating a company value. This argument is based on an assumption of investors are rational and the market will swift to equilibrium if an asset is over or under-priced. But they have forgotten that investors are human with preferences and feeling like everybody else.

Discounted cash flow method is a widely used by financial analysts. Starting point of this method is from the publicised financial reports, press releases and available public information. We can't say that these information are sufficient to study inside a corporate, but that is financial analyst's effort to come as close as possible to the internal information, and the value of a company. Discounted cash flow based its assumption on the historic facts in the company to budget income and expenditure for the future. The company's value today is budgeted often based on a 5 years period in the past and 5 years ahead in the future, like in this assignment, before coming up with the present value of a company. We still have to make assumption for the future, but these assumptions are based on the historic reality.

Precisely assumption in budgeting period is the weakness of discounted cash flow model. Budgeting of free cash flow comes from a budgeted growth rate in the future. Growth is a business depends partly on growth in the economy, income in the population and market competition from rivals. The macro factors contain unsystematic risks that are out of the company's influence. It only

[62] Tine Harboe, *Skattelovsamling for studerende*, Magnus Informatik, 2011/1, page 764,TSS-cirkulære nr. 2000-9 af 28.marts 2000

can influence growth itself by manipulate on price, products, or geographical outlet but not the whole business environment.

Specifically in our assignment, assumption is made for ICC's market value of financial liabilities is equal to booked value. There are situations when booked value of debt is not necessary the same as its market value, for instance when debts are default or forgiven. The Danish accounting law requires losses and gains in liabilities only recorded when realised, therefore it will take time before a loss or gain in debt is recognised in the official accounting.

5.5. Conclusion

Assess a company's value is a time-consumed process. It demands the analyst a deep knowledge of the company internal operation and external environment. Evaluation is the last outcome of a long analytical process from the macro environment, the industrial condition to the company's direction and performance. After layer of layer analysis we came to the ultimate answer of initial interest: at what price is the right value of ICC's share. There is no absolute answer for this question, as there are different approaches for assessing a company's value.

This assignment has chosen two most used valuation method: Multiple valuation and Discounted Cash Flow method. They are built on two different points of view to the same object: from outside like the first method or from inside like the second method. The author is a supporter of Discounted Cash Flow valuation as this method offers a deep understanding of the business at a long time horizon. After all profit is the core interest of investors. Most investors are risk averse, who are more interest in safe, long term investment rather than short term.

Not surprisingly evaluation outcomes are different between the two methods. ICC's share value was evaluated at 170,6 DKK at the Multiple method and somewhat higher at 217,3 DKK with the Discounted Cash Flow method. The gap between them would be narrower if market condition was stable at a steady growth and there are no different between producers. The present business environment makes this impossible.

Hypothesis of different scenarios are made for a better judgement of ICC's assessment. The author has used 3 most possible scenarios: sales decrease as result of worsen market condition, change of capital structure and lower profit margin growth rate as the consequence of higher cost of goods sold. Among the 3 scenarios, change in profit margin reduced company value the most in short term cash flow and long term terminal value. Decline in sales also lower company value and change in capital structure does not affect the company's value very much. Conclusion from scenario analysis is company has to consider long-term and short-term benefit before setting a target or a strategy. Whatever they might choose, value to shareowners should be in the central of their decision.

6. Perspective

ICC's value assessment was built on a number of assumptions. Those assumptions would change with time that leads to change in the reliability of the evaluation. They are the reason for a gap between this assignment's share price conclusion and other sources of information.

Since 30th June 2011 ICC has experienced a worse than expected market. GDP for Europe was readjusted to less than 1 %. Economical growths in emerging countries were also readjusted at a lower rate (note-china). The debt crisis accelerated in Europe, started from Greece and spread to Spain and Italy and we don't see the end of this crisis. Retail industry is still in struggle. Growth revenue was estimated at 40 % lower than growth in the year before, but possibility of negative sales is real as Financial Time and Yahoo projected. ICC's hope lie in growth of brands at the high-end and low-end of its brand polio: By Marlene Birger, Saint Tropez, Design Remix and Tiger of Sweden.

Cost of production was estimated at the current rate, but inflation in producing countries and raw material price can change our assumption. As we can see in the third scenario, changes in cost of goods sold led to significant reduced cash free flow hence the company's value. Unfortunately they are directed by the macro environment, and the company has limited influence.

Cost of invested capital is least likely to be different, or may be changed in favour for industrial borrowers. Interest rate is at the record low level and financial analysts expected interest rate to be the same level in the next three years. Cost of debt is likely to be reduced at ICC, if the company fulfil its target of minimize bank loan to zero.

From inside ICC's effort in optimizing supply and distribution process can lower purchasing price and increase profit margin. Either saving will be used in promotion to generate sales or not, it will add to the overall profit for the company. The decision may depend on other competitors in the industry. Effect of promotion also depends on consumer confidence.

7. Conclusion

The subject of this assignment is ICC, Denmark’s second largest fashion producer. Well organised and effective ICC has turned the down fall during the crisis 2008/2009 in to a healthy growth over 12 % during the last financial year 2010/2011.

ICC’s recovering came out on a background of a difficult business environment. The external business environment posed more threats than opportunities to the fashion industry. Worst were the economical factors: GDP, unemployment, cost saving in both the private and the public sector. Economical change led to change of consumer shopping behaviour. Uncertainty and saving are keeping down retail sales, but new trends in life-style and environmental awareness are opening opportunities for the industry. Other demographic characters like ageing population and obesity require adaptation from fashion producers. The PESTEL framework was chosen for analysing the company’s external environment.

From the external environment the analysis went closer to the fashion industry. Porter’s 5 forces model was used to analyse the industry on 5 dimensions: supplier, buyer, new entrant, substitute and rival. Among 5 forces, buyers and suppliers have biggest bargaining power to fashion producers. Threat from new entrants is insignificant and substitute for clothing is close to non-existed. Rivalry in the industry is fiercely among keys players on the European market. A short description of ICC’s competitors on the Scandinavian and European market was carried out. They are Bestseller, H&M, Inditex/Zara and Esprit. Esprit was chosen for benchmarking against ICC’s performance in accounting analysis section.

ICC’s strategic movement against the business environment was analysed in the next section. This step is necessary to under causes and consequences of the company’s performance. Strategic decisions also build the foundation for the company’s future. Strategic analysis was build surround ICC’s strategic areas that were stated in the company’s annual report in year 2010/2011: branding strategy, growth strategy, value chain and supply chain strategy. ICC’s most significant strategic decision during the last 10 years was its move to the lower segment of high-end market. The purchase of Tiger of Sweden (2003) and By Marlene Birger (completed in 2011) has established ICC at the “affordable luxury” segment. ICC in future will focus on maintaining and gaining market share, to create value and reorganise its supply process.

We can't evaluate a company without looking inside the accounting report. Before analysing the company's financial performance, official accounting were reconstructed to serve analytical purpose. Simplified accounting data was represented in the assignment and full detailed accounting information are presented in the enclosure section. From reformulated accounting data, analysis of profitability through key ratios and analysis of growth and earning were carried out. Beside ICC's financial performance, its share's performance on the stock exchange market was included in the section. The Du Pont model was employed in profitability analysis. ICC's performance was benchmarked with Esprit and other key players in the middle-price segment.

After studying the company's external and internal situation, ICC's budgeting for 2012 to 2016 was projected. Future growth was budgeted based on ICC's historical growth, and the assignment's assumptions were somewhat more optimistic than analysts' on Financial Time and Yahoo. Growth of ICC's revenue were forecasted to slower down from 12,3 % in 2010/2011 to 6,8 % in 2012 and 7,4 % in 2013. After the next two financial years growth will slow down to join the overall economy growth of 3% in the long term.

Evaluation ICC's value is the final process. Two most popular methods were chosen: Multiple method and Discounted Cash Flow method. The fist method is popular among the public. Multiple ratios are often stated in companies' official annual report and in diverse financial sources. Second method Discounted Cash Flow is popular among financial analysts. This method gives a deep understanding of the business from inside. Value of a company is not simply measured against its present performance, but also against the past and expecting future. Using the Discounted Cash Flow ICC's value in 30th June 2011 was evaluated at 3589,4 million DKK and share value at 217,3 DKK. This share value is slightly lower than actual market price at 223,1 DKK that day. Multiple valuation gave a lower value at 170,6 DKK per share. Scenario analysis was added to measure value sensibility to possible changes in growth, in company's financial structure and cost. At a price 217,3 DKK that is slightly lower than the actual market price, ICC's share is recommended "hold" status.

Differences between two valuation methods are the reason for a comparison between them in the last part of evaluation process. Each model was evaluated on its strength and weakness, and Discounted Cash Flow was the winner for its in-deep knowledge and long-term horizon.

Future prospect was considered at the end of the assignment. Possibilities of change in the external environment are main consideration to ICC’s valuation. Notably change in revenue, interest rate, change in capital structure and cost of goods sold are analysed subjects. Despite of being organised and effective, ICC’s future is under the influence of external environment and the business situation.

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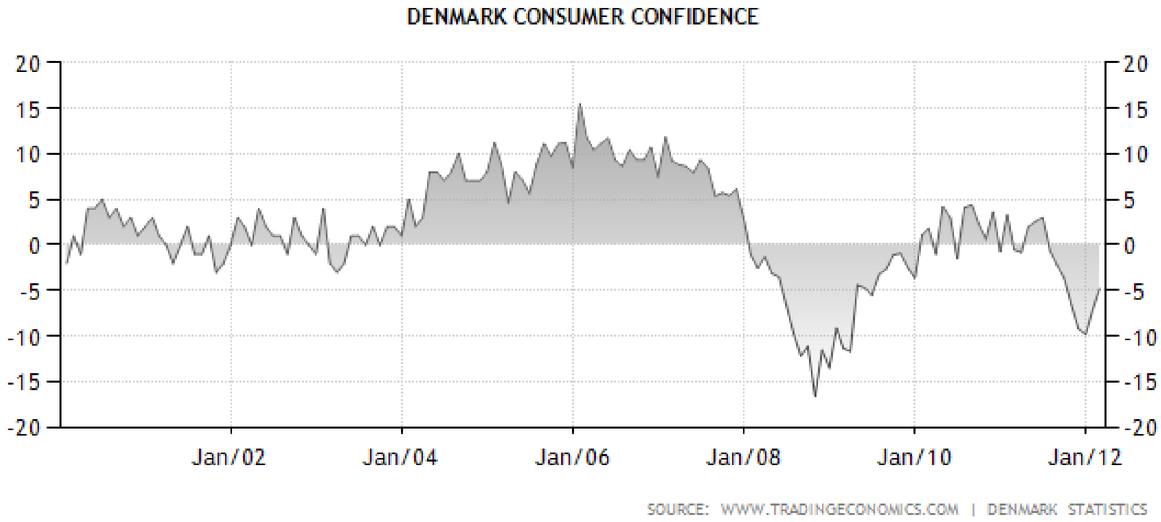
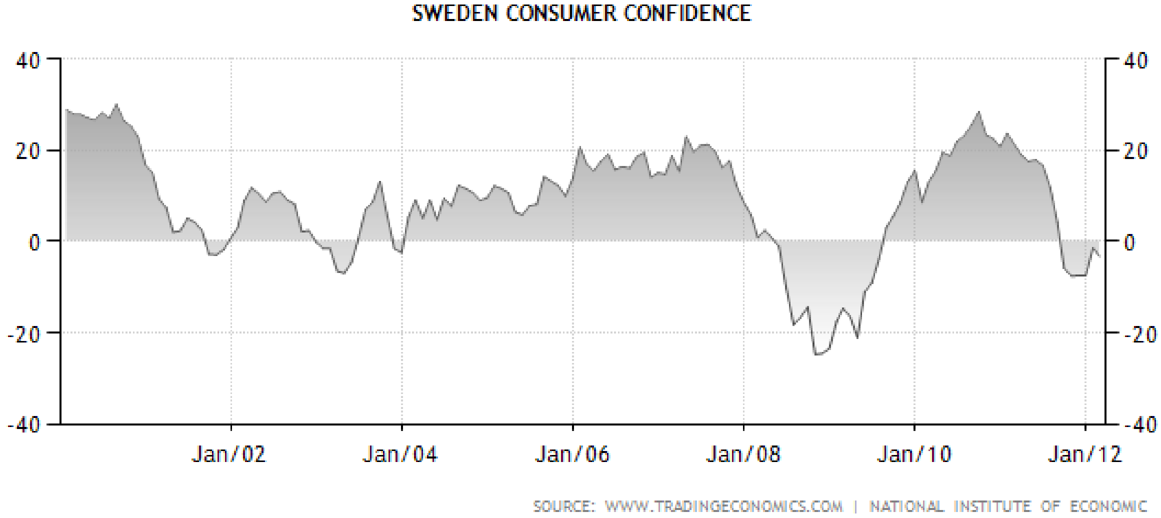
9. Enclosure

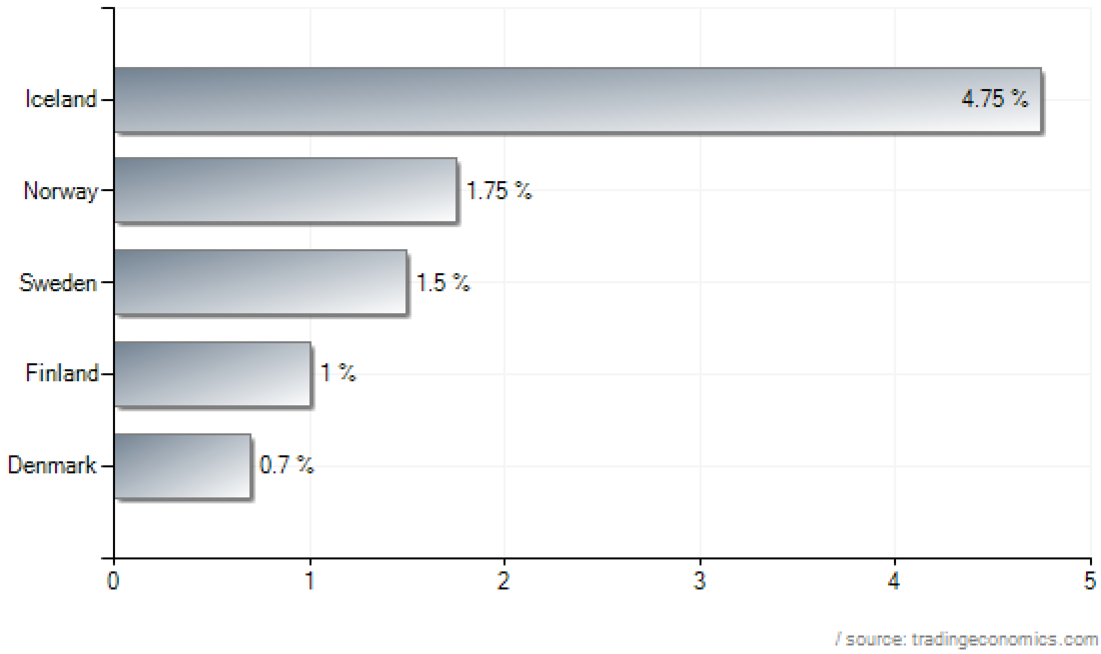
9.1. Consumer confidence in Denmark and Sweden





9.2. Commodity-price index 2000-2011

9.3. Scandinavian interest rate 1/2012



9.4. ICC's official annual income

Consolidated income statement *in mill.DKK*					
	2010/2011	**2009/2010**	**2008/2009**	**2007/2008**	**2006/2007**
Revenue	3.925,4	3.495,3	3.600,6	3.737,2	3.353,8
Cost of sales	-1.603,8	-1.370,9	-1.464,7	-1.478,4	-1.370,9
Gross profit	**2.321,6**	**2.124,4**	**2.135,9**	**2.258,8**	**1.982,9**
Staff costs	-1.016,4	-927,0	-928,1	-931,2	-807,2
Other operating expenses	-867,4	-785,2	-909,5	-871,0	-739,3
Other incomes and costs	8,5	0,0	10,5	5,5	0,0
Depreciation, amortisation and impairment losses	-125,0	-129,6	-146,7	-112,8	-96,3
Operation profit	**321,3**	**282,6**	**162,1**	**349,3**	**340,1**
Financial income	7,4	18,3	31,5	13,2	16,9
Financial costs	-20,8	-23,5	-42,3	-45,1	-36,6
Profit before tax	**307,9**	**277,4**	**151,3**	**317,4**	**320,4**
Tax on profit of the year	-61,6	-41,6	-42,1	-93,4	-79,8
Profit for the year	**246,3**	**235,8**	**109,2**	**224,0**	**240,6**
Profit allocation					
Shareholders of ICC A/S	242,6	229,7	101,5	218,7	235,0
Non-controlling interests	3,7	6,1	7,7	5,3	5,6
Profit for the year	**246,3**	**235,8**	**109,2**	**224,0**	**240,6**
Earning per share					
Earning per share, DKK	14,8	13,9	6,1	12,6	13,1
Diluted earnings per share, DKK	14,7	13,9	6,1	12,6	13,0

9.5. Official balance

Consolidated statement of financial position

in mill. DKK	**2010/2011**	**2009/2010**	**2008/2009**	**2007/2008**	**2006/2007**
Assets					
Non current assets					
Goodwill	199,4	194,3	178,8	198,2	201
Software and IT systems	28,6	21,4	21,5	30,5	24
Trademark rights	0,1	0,1	0,1	0,2	0,2
Leasehold rights	20,5	19,6	19,8	22,5	20,6
IT systems under development	13,8	13,6		1	
Total intangible assets	**262,4**	**249**	**220,2**	**252,4**	**245,8**
Land and buildings	155	161,5	167,3	174,6	177,6
Leasehold inprovements	118	132,5	124,5	108	100,2
Equipment and furniture	96,6	106,9	119,6	129,8	122,8
Property, plant and equipment under construction	5,9	7,5	7,7	11,5	8,2
Total property, plant and equipment	**375,5**	**408,4**	**419,1**	**423,9**	**408,8**
Financial assets	**33,8**	**36**	**35,4**	**25,6**	**24,4**
Deffered tax	99	99,9	129	123,9	137,1
Total other non-current assets	132,8	135,9	164,4	149,5	161,5
Total non-current assets	**770,7**	**793,3**	**803,7**	**825,8**	**816,1**
Current assets					
Inventories	556,5	428,7	439,6	532,4	466,4
Trade receivable	358	262,1	257,6	296,7	266,6
Tax receivable	35,2	30,2	48,3	1,6	3,1
Other receivables	45,4	112,9	61,2	35	54,3
Prepayments	106,8	104,7	92,1	108,8	97,9
Cash and cash equivalents	53,8	71,9	82,2	132	144,9
Total current assets	**1155,7**	**1010,5**	**981**	**1106,5**	**1033,2**
Total assets	**1926,4**	**1803,8**	**1784,7**	**1932,3**	**1849,3**
Equity and Liabilities					
Equity					
Share capital	169,4	169,4	169,4	179,2	183,9
Reserve for hedging transactions	-47,7	2,4	21,2	-22,1	-4,7
Translation reserve	-40,6	-30,4	-62,5	-23,9	-10,7

Retained earnings	657,5	591,9	367,5	331,8	320,8
Proposed dividend					70,2
Equity attributed to shareholders of the Parent company	738,6	733,3	495,6	465	559,5
Equity attributable to non-controlling interests	4,1	13,9	13,5	8,5	7,1
Total equity	**742,7**	**747,2**	**509,1**	**473,5**	**566,6**
Liabilities					
Retirement benefit obligations	5,8	6,9	4,6	5,7	5,1
Deffered tax	56,3	47,5	39,3	44,9	29
Provisions		2,2			
Other liabilities	44		10,9		
Non-current liabilities to credit institutions	140	140	168	168	168
Total non-current liabilities	**246,1**	**196,6**	**222,8**	**218,6**	**202,1**
Current liabilities to credit institutions	224,7	175,3	447,3	603	534,5
Trade payables	348,9	354,8	291,7	313,8	296,8
Tax payable	10,2	12,3	63,7	45,4	38,9
Other liabilities	353,8	317,6	250,1	278	210,4
Total current liabilities	**937,6**	**860**	**1052,8**	**1240,2**	**1080,6**
Total liabilities	**1183,7**	**1056,6**	**1275,6**	**1458,8**	**1282,7**
Total Equity and Liabilities	**1926,4**	**1803,8**	**1784,7**	**1932,3**	**1849,3**

9.6. Reformulated balance

Reformulated balance

in mill. DKK	**2010/2011**	**2009/2010**	**2008/2009**	**2007/2008**	**2006/2007**
Core operating assets (Core DA)					
Goodwill	199,4	194,3	178,8	198,2	201
Software and IT systems	28,6	21,4	21,5	30,5	24
Trademark rights	0,1	0,1	0,1	0,2	0,2
Leasehold rights	20,5	19,6	19,8	22,5	20,6
Leasehold improvements	118	132,5	124,5	108	100,2
IT systems under development	13,8	13,6	0	1	0
Land and buildings	155	161,5	167,3	174,6	177,6
Equipment and furniture	96,6	106,9	119,6	129,8	122,8
Property, plant and equipment under construction	5,9	7,5	7,7	11,5	8,2
Inventories	556,5	428,7	439,6	532,4	466,4
Trade receivable	358	262,1	257,6	296,7	266,6
Tax receivable	35,2	30,2	48,3	1,6	3,1

Deffered tax	99	99,9	129	123,9	137,1
Other receivables	45,4	112,9	61,2	35	54,3
Prepayments	106,8	104,7	92,1	108,8	97,9
Total DA	1838,8	1695,9	1667,1	1774,7	1680
Operating liability (DF)					
Retirement benefit obligations	5,8	6,9	4,6	5,7	5,1
Deffered tax	56,3	47,5	39,3	44,9	29
Provisions		2,2			
Other non-current liabilities	44	0	10,9	0	0
Trade payables	348,9	354,8	291,7	313,8	296,8
Tax payable	10,2	12,3	63,7	45,4	38,9
Other current liabilities	353,8	317,6	250,1	278	210,4
Total DF	**819**	**741,3**	**660,3**	**687,8**	**580,2**
Net core operating assets	**1019,8**	**954,6**	**1006,8**	**1086,9**	**1099,8**
Non-core operating assets					
Operating financial assets	33,8	36	35,4	25,6	24,4
	33,8	36	35,4	25,6	24,4
Net operating assets (NDA)	**1053,6**	**990,6**	**1042,2**	**1112,5**	**1124,2**
Net financial liabilities					
Cash and cash equivalents	-53,8	-71,9	-82,2	-132	-144,9
Non-current liabilities to credit institutions	140	140	168	168	168
Current liabilities to credit institutions	224,7	175,3	447,3	603	534,5
NFF	**310,9**	**243,4**	**533,1**	**639**	**557,6**
Total equity (EK)	**742,7**	**747,2**	**509,1**	**473,5**	**566,6**
Equity attributable to non-controlling interests	-4,1	-13,9	-13,5	-8,5	-7,1
Equity to shareholders of the parent company	738,6	733,3	495,6	465	559,5

	2010/2011	**2009/2010**	**2008/2009**	**2007/2008**	**2006/2007**
IMA	380,4	381,5	344,7	360,4	346
MA	257,5	275,9	294,6	315,9	308,6
Andre driftsaktiver	286,4	347,7	330,6	269,3	292,4
Gns. Immaterielle anlægsaktiver	380,95	363,1	352,55	353,2	
Gns. Materielle anlægsaktiver	266,7	285,25	305,25	312,25	
Gns. Varebeholdninger	492,6	434,15	486	499,4	
Gns. Tilgodehavender fra salg	310,05	259,85	277,15	281,65	

Gns. Andre driftsaktiver	317,05	339,15	299,95	280,85	
Gns. Ikke-kerne driftsaktiver	34,9	35,7	30,5	25	
Driftsmæssige hensættelser	72,3	68,9	107,6	96	73
Leverandører af varer og tjenesteydelser	348,9	354,8	291,7	313,8	296,8
Andre driftsforpligtelser	397,8	317,6	261	278	210,4
Gns. Hensættelser	70,6	88,25	101,8	84,5	
Gns. Leverandører af varer og tjenesteydelser	351,85	323,25	302,75	305,3	
Gns. Andre driftsforpligtelser	357,7	289,3	269,5	244,2	

9.7

Note	**Reformmulated annual income**		**2010/11**		**2009/10**		**2008/09**		**2007/08**		**2006/07**
	in mill. DKK										
	Revenue		3.925,4		3.495,3		3.600,6		3.737,2		3.353,8
	Cost of sales		-1.603,8		-1.370,9		-1.464,7		-1.478,4		-1.370,9
	Gross profit		**2.321,6**		**2.124,4**		**2.135,9**		**2.258,8**		**1.982,9**
1	Staff costs	-1.016,4		-927,0		-928,1		-931,2		-807,2	
	Other operating expenses	-867,4	-1.883,8	-785,2	-1.712,2	-909,5	-1.837,6	-871,0	-1.802,2	-739,3	-1.546,5
	Operation profit from sales (before tax)		**437,8**		**412,2**		**298,3**		**456,6**		**436,4**
	Tax										
	Reported tax	61,6		41,6		42,1		93,4		79,8	
	Tax on financial posts	3,4		1,3		2,7		8,0		-4,9	
	Tax effect on other operation profit	-2,1		0,0		-2,6		-1,4		0,0	
	Tax on other incomes	-9,8	-53,0	15,9	-58,8	-5,3	-36,9	-8,5	-91,5	7,4	-82,3
	Operation profit from sales (after tax)		**384,8**		**353,4**		**261,4**		**365,1**		**354,1**
	Other operation profits (before tax)										
	Other operating income and costs	8,5		0,0		10,5		5,5		0,0	
	Tax effect 25%	2,1		0,0		2,6		1,4		0,0	
	Other operation profit after tax		6,4		0,0		7,9		4,1		0,0
	Other incomes and costs										
	Depreciation, amortisation and impairment losses	-125,0		-129,6		-146,7		-112,8		-96,3	
2	Other incomes and costs (after tax)	-60,3	-185,3	13,3	-116,3	4,7	-142,0	-30,6	-143,4	9,5	-86,8
	Operation profit (after tax)		**205,9**		**237,1**		**127,3**		**225,8**		**267,3**
	Net financial costs										
3	Financial income	7,4		18,3		31,5		13,2		16,9	
4	Financial costs	-20,8		-23,5		-42,3		-45,1		-36,6	
		-13,4		-5,2		-10,8		-31,9		-19,7	
	Tax effect 25%	3,4		1,3		2,7		8,0		-4,9	
	Net financial expenses after tax		-10,1		-3,9		-8,1		-23,9		-24,6

Total income for concern	**195,8**	**233,2**	**119,2**	**201,9**	**242,7**
Minorities	3,7	6,1	7,7	5,3	5,6
Total income for shareholders of ICC A/S	**192,1**	**227,1**	**111,5**	**196,6**	**237,1**

Note 1

i mio. DKK		**2010/2011**		**2009/2010**		**2008/2009**		**2007/2008**		**2006/2007**
Staff costs										
Costs of external agents		80,6		72,4						
Salaries and remurerations	783,7		701,0		781,3		772,1		669,7	
Contribution and benefits	114,3		107,9		108,8		105,2		91,5	
Share-based payments	7,7		5,3		3,5		6,2		6,0	
Other staff costs	27,9	933,6	38,4	852,6	32,7	926,3	46,0	929,5	38,3	805,5
Remuneration to the board and committee		2,2		2,0		1,8		1,7		1,7
Total		**1.016,4**		**927,0**		**928,1**		**931,2**		**807,2**

Note 2

i mio. DKK	**2010/2011**	**2009/2010**	**2008/2009**	**2007/2008**	**2006/2007**
Other incomes and costs					
Foreign currency translation adjustments arising in connection with foreign Group enterprises	-30,5	-20,0	0,0	0,0	0,0
Foreign currency translation adjustments on intercompany loans	27,0	74,3	-58,4	-13,2	
Fair value adjustments, gain/loss on derivatives held as cash flow hedges	2,0	57,7	0,0	0,0	0,0
Fair value adjustments, losses on derivatives held as cash flow hedges	-68,2	-57,3	25,8	5,9	3,2
Transfer to income statement of gains on realised cash flow hedges	-57,7	-25,8	-0,3	-38,2	-9,6
Transfer to income statement of losses on realised cash flow hedges	57,3	0,3	-5,9	-3,2	-2,7
	-70,1	29,2	-38,8	-48,7	-9,1
Tax on other comprehensive income	9,8	-15,9	38,2	9,6	28,1
Other incomes and costs after tax	**-60,3**	**13,3**	**-0,6**	**-39,1**	**19,0**

Note 3

Financial incomes	**2010/2011**	**2009/2010**	**2008/2009**	**2007/2008**	**2006/2007**
Interest on bank deposits		0,5	2,3	3,9	4,5
Gains on derivatives and foreign currency	0,9	4,7	27,4	5,2	9,0
Other financial incomes	6,5	13,1	1,8	4,1	3,4
Total	**7,4**	**18,3**	**31,5**	**13,2**	**16,9**

Note 4

i mio. DKK

Financial costs	**2010/2011**	**2009/2010**	**2008/2009**	**2007/2008**	**2006/2007**
Interest on liabilities to credit institutions	14,5	15,2	39,2	43,2	31,8
Loss on derivatives and foreign currency	5,0	4,6	1,9	0,8	0,3
Other financial costs	1,3	3,7	1,2	1,1	4,5
Total	**20,8**	**23,5**	**42,3**	**45,1**	**36,6**

9.8

Consolidated statement of changes in equity

in mill. DKK	**Share capital**	**Reseve for hedging transation**	**Transaction reserve**	**Retained earnings**	**Proposed dividend**	**Total equity owned by Parent company shareholders**	**Total equity owned by non-controlled interests**	**Total equity**
Equity at 1 July 2006	**188,5**	**-17,2**	**-8,6**	**347,6**	**67,7**	**578**	**1,5**	**579,5**
Comprehensive income 2005/2006								
Profit for the year				**164,8**	**70,2**	**235**	**5,6**	**240,6**
Other comprehensive incomes								
Foreign currency translation adjustments arising in connection with foreign Group enterprises			-2,1			-2,1		-2,1
Recognition of shared-based payment				6		6		6
Foreign currencyl translation adjustments on intercompany loans								
Fair value adjustments, gains on derivatives held as cash flow hedges		3,2				3,2		3,2
Fair value adjustments, losses on derivatives held as cash flow hedges		-9,6				-9,6		-9,6
Transfer to income statement of gains on realised cash flow hedges		-2,7				-2,7		-2,7
Transfer to income statement of losses on realised cash flow hedges		28,1				28,1		28,1
Tax on other comprehensive income		-6,5		-0,9		-7,4		-7,4
Total other comprehensive income		**12,5**	**-2,1**	**5,1**		**15,5**		**15,5**
Capital reduction	-5,7			5,7				
Share buy back program				-225,5		-225,5		-225,5
Dividends paid					-67,7	-67,7		-67,7
Share-based payments	1,1			23,1		24,2		24,2
Equity at 30 June 2007	**183,9**	**-4,7**	**-10,7**	**320,8**	**70,2**	**559,5**	**7,1**	**566,6**
Comprehensive income 2006/2007								
Profit for the year				**218,7**		**218,7**	**5,3**	**224**
Other comprehensive income								
Foreign currency translation adjustments arising in connection with foreign Group enterprises			-13,2			-13,2		-13,2
Foreign currency translation adjustments on intercompany loans								
Fair value adjustments, gains on derivatives held as cash flow hedges		5,9				5,9		5,9

Fair value adjustments, losses on derivatives held as cash flow hedges		-38,2				-38,2		-38,2
Transfer to income statement of gains on realised cash flow hedges		-3,2				-3,2		-3,2
Transfer to income statement of losses on realised cash flow hedges		9,6				9,6		9,6
Tax on other comprehensive income		8,5				8,5		8,5
Total other comprehensive incomes		**-17,4**	**-13,2**	**218,7**		**188,1**	**5,3**	**193,4**
Capital reduction	-5,8			5,8				
Share buy back program				-237,8		-237,8		-237,8
Dividends paid				-70		-70	-3,9	-73,9
Share-based payment issued	1,1			6,2		6,2		6,2
Share options exercised				25,3		26,4		26,4
Tax on equity movement				-7,4		-7,4		-7,4
Equity at 30 June 2008	**179,2**	**-22,1**	**-23,9**	**331,8**		**465**	**8,5**	**473,5**
Comprehensive income 2007/2008								
Profit for the year				**101,5**		**101,5**	**7,7**	**109,2**
Other comprehensive incomes								
Foreign currency translation adjustments arising in connection with foreign Group enterprises			-58,4			-58,4		-58,4
Foreign currency translation adjustments on intercompany loans								0
Fair value adjustments, gains on derivatives held as cash flow hedges		25,8				25,8		25,8
Fair value adjustments, losses on derivatives held as cash flow hedges		-0,3				-0,3		-0,3
Transfer to income statement of gains on realised cash flow hedges		-5,9				-5,9		-5,9
Transfer to income statement of losses on realised cash flow hedges		38,2				38,2		38,2
Tax on other comprehensive income		-14,5	19,8			5,3		5,3
Total other comprehensive incomes		**43,3**	**-38,6**			**4,7**		**4,7**
Capital reduction	-9,8			9,8				
Transaction between majority and minorities							1,2	1,2
Share buy back program				-13,1		-13,1		-13,1
Dividends paid				-66		-66	-3,9	-69,9
Share-based payment issued								
Share options exercised				3,5		3,5		3,5
Equity at 30 June 2009	**169,4**	**21,2**	**-62,5**	**367,5**		**495,6**	**13,5**	**509,1**
Comprehensive income 2009/2010								
Profit for the year				**229,7**		**229,7**	**6,1**	**235,8**
Other comprehensive incomes								

Foreign currency translation adjustments arising in connection with foreign Group enterprises			-20			-20		-20
Foreign currency translation adjustments on intercompany loans			74,3			74,3		74,3
Fair value adjustments, gains on derivatives held as cash flow hedges		57,7				57,7		57,7
Fair value adjustments, losses on derivatives held as cash flow hedges		-57,3				-57,3		-57,3
Transfer to income statement of gains on realised cash flow hedges		-25,8				-25,8		-25,8
Transfer to income statement of losses on realised cash flow hedges		0,3				0,3		0,3
Tax on other comprehensive income		6,3	-22,2			-15,9		-15,9
Total other comprehensive incomes		**-18,8**	**32,1**			**13,3**		**13,3**
Share buy back program				-10,6		-10,6		-10,6
Dividends paid							-5,7	-5,7
Share-based payments				5,3		5,3		5,3
Equity at 30 June 2010	**169,4**	**2,4**	**-30,4**	**591,9**		**733,3**	**13,9**	**747,2**
Comprehensive income 2010/2011								
Profit for the year				**242,6**		**242,6**	**3,7**	**246,3**
Other comprehensive incomes								
Foreign currency translation adjustments arising in connection with foreign Group enterprises			-30,5			-30,5		-30,5
Foreign currency translation adjustments on intercompany loans			27			27		27
Fair value adjustments, gains on derivatives held as cash flow hedges		2				2		2
Fair value adjustments, losses on derivatives held as cash flow hedges		-68,2				-68,2		-68,2
Transfer to income statement of gains on realised cash flow hedges		-57,7				-57,7		-57,7
Transfer to income statement of losses on realised cash flow hedges		57,3				57,3		57,3
Tax on other comprehensive income		16,5	-6,7			9,8		9,8
Total other comprehensive incomes		**-50,1**	**-10,2**			**-60,3**		**-60,3**
Share buy back program				-13		-13		-13
Dividends paid				-69,7		-69,7	-3,3	-73
Share-based payments				7,7		7,7		7,7
Share options exercised				3		3		3
Other transactions with shareholders				-105	-177	-105	-10,2	-115,2
Equity at 30 June 2011	**169,4**	**-47,7**	**-40,6**	**657,5**		**738,6**	**4,1**	**742,7**

Number of share	16.942.807,0
Price per share at 30 June	223,1

2011

Market value for Equity at 30 June 2012	3.779.940.241,7
EK/EK+FK	0,76

9.9

Reformulated balance

in mill. DKK		**2010/11**		**2009/10**		**2008/09**		**2007/08**		**2006/07**
Equity primo		**733,3**		**495,6**		**465**		**559,5**		**578**
Transactions with share owners										
Paid dividend	-69,7		-10,6		-66		-70		-67,7	
Purchased of own shares	-13				-13,1		-237,8		-225,5	
Share options exercised	3				3,5		26,4		6	
Other transactions with shareholders	-105									
Tax on equity movement		-184,7		-10,6		-75,6	-7,4	-288,8		-287,2
Total income										
Profit for the year	**242,6**		**229,7**		**101,5**		**218,7**		**235**	
Other incomes										
Foreign currency translation adjustments arising in connection with foreign Group enterprises	-30,5		-20		-58,4		-13,2		-2,1	
Foreign currency translation adjustments on intercompany loans	27		74,3							
Fair value adjustments, gains on derivatives held as cash flow hedges	2		57,7		25,8		5,9		3,2	
Fair value adjustments, losses on derivatives held as cash flow hedges	-68,2		-57,3		-0,3		-38,2		-9,6	
Transfer to income statement of gains on realised cash flow hedges	-57,7		-25,8		-5,9		-3,2		-2,7	
Transfer to income statement of losses on realised cash flow hedges	57,3		0,3		38,2		9,6		28,1	
Tax on other comprehensive income	9,8	182,3	-15,9	243	5,3	106,2	8,5	188,1	-7,4	244,5
Equity ultimo		**730,9**		**728**		**495,6**		**458,8**		**535,3**
Reported amount for parent company		738,6		733,3		495,6		465		559,5
Share-based payments (not realised)		-7,7		-5,3		0		-6,2		-24,2
		730,9		**728**		**495,6**		**458,8**		**535,3**
Changes		-2,4		-5,3		6,2		18		
Average		-1,2		-2,65		3,1				

9.10.

Omsætning 2005-2013

i mio.	2005	2006	2007	2008	2009	2010	2011	2012 f	2013 f
Omsætning af ICC	2820,6	3022	3353,8	3737,2	3600,6	3495,3	3925,4	3805,49	3800,18
Værks		7,1%	11,0%	11,4%	-3,7%	-2,9%	12,3%	-3,1%	-0,1%
Omsætning af Bestseller A/S		6155,6	7273,8	7523,5	7565,2	8612,3	10046,5		
Værks			18,2%	3,4%	0,6%	13,8%	16,7%		
Omsætning af Esprit	20632	23349	29640	37227	34485	33734	33767	32087,01	33104,34
Værks		13,2%	26,9%	25,6%	-7,4%	-2,2%	0,1%	-5,0%	3,2%
Omsætning af Benetton		1910,975	2048,632	2127,941	2049,259	2053,059	2032,341	2004,95	2033,93
Værks			7,2%	3,9%	-3,7%	0,2%	-1,0%	-1,3%	1,4%
Omsætning af Odd Molly	21,2	54,5	130,3	267,7	329,8	355,6	292,3	290,5	182
Værks		157,1%	139,1%	105,4%	23,2%	7,8%	-17,8%	-0,6%	-37,3%

9.11.

Aktier information	Ak.pris	Kurs 30/06/2011	Marketsværdi	Gæld	Enterprise value
i mio.					
Esprit	1.290,0	16,2	20.872,2	-2.255,9	23.128,1
United Colors of Beneton	182,7	5,5	1.004,7	1.422,2	-417,4
Odd Molly	5,8	55,8	320,7	-42,1	362,8

9.12.

Forecast for 2012 (FT source)

i mio.	Valuta	Forventet Nettoomsætning	Nettooverskud før ekstra ordinære poster	Bogførtværdi af aktiver	Bogførtværdi af egenkapital	Bogførtværdi af Netto gæld
Esprit	HK dollar	32.087,0	657,6	17.715,5	15.415,9	-2.255,9
United Colors of Beneton	Euro	2.005,0	147,1	3.065,7	1.467,2	1.422,2
Odd Molly	SEK	290,5	20,0	164,3	126,2	-42,1
ICC	DKK	3.805,5	311,5	1.867,6	716,0	1.099,4

9.13.

Kapital strukture i 2010/2011

i mio.	**Nettoomsætning**	**Nettooverskud før ekstra ordinære poster**	**%**	**Bogførtværdi af aktiver**	**% af NO**	**Bogførtværdi af egenkapital**	**% af aktiver**	**Liquidities**	**Netto gæld**	**% af aktiver**
Esprit	33.767,0	692,0	2,0%	18.643,0	55,2%	16.223,0	87,0%	4.794,0	-2.374,0	-12,7%
United Colors of Beneton	2.032,3	149,1	7,3%	3.107,6	152,9%	1.487,2	47,9%	178,8	1.441,6	46,4%
Odd Molly	292,3	20,1	6,9%	165,3	56,6%	127,0	76,8%	80,7	-42,4	-25,6%
ICC	3.925,4	321,3	8,2%	1.926,4	49,1%	738,6	38,3%	53,8	1.134,0	58,9%