G-III Apparel Group Inc. — Abbreviated[3] Version

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Most of the information in this case has been obtained from public sources, first and foremost the IPO prospectus of G-III, the industry reports provided by the Department of Commerce, and the data bases of Compustat, CRSP, and SDC. More IPO information is available at http://www.iporesources.org/. Alan Feller (CFO and COO of G-III) and Aron Goldfarb (founder of G-III), and Richard White (Oppenheimer) graciously provided additional insights. Boris Grinberg added assistance, and Antonio Bernardo, Jos van Bommel, Francesca Cornelli, Jay Ritter, and Mike Vetsuypens added helpful comments. Most of all, the author thanks his mother, Charlotte Welch—who owns and runs a beautiful mid-sized clothes-store, COME PRIMA BY CHARLOTTE WELCH, in Fulda, Germany—for explaining the apparel business and using the store to finance his education.

I Introduction

In late 1989, Clive How was managing the portfolios of high-net worth individuals. A number of his clients had read about unusually high IPO returns, and had requested a substantial part of their assets to be invested in new firms. Clive agreed with this strategy, believing that new firms were one of the few opportunities where an intelligent portfolio manager could outperform. After all, new firms were not yet widely followed by analysts and other investors. While scouting for good opportunities, he had stumbled into a road show of the G-III Apparel Company. G-III (pronounced "gee-three") was a leading producer of leather apparel, and was proposing an IPO for early December. Clive believed that, like smart portfolio managers, smart company management would always outperform. G-III seemed to be an interesting opportunity, so Clive decided to evaluate it as a potential investment.

II The Company

A The Business

G-III produced a wide range of leather apparel, primarily moderately-priced women's wear: coats, jackets, pants, and skirts. Although some product was produced under private label, most product was sold under G-III's own brand names: G-III, Siena, and Cayenne. The G-III women's division sold items from $40–$300 (retail price), Siena sold items between $260 and $1,800, the new Cayenne division sold items between $100 and $500, and a recent push into men's wear under the G-III label sold items with prices between $150 and $500. Most of G-III's sales were to chains, both general stores (such as Dillards, The May Company and Sears Roebuck) and specialty chains (The Limited [20% of sales], and Wilson's House of Suede [8% of sales, down from 15% two years earlier]),[1] and sold under G-III's brand names. As is common in the high-volume apparel business, the company was not focused on design choices, but followed the styles of the rest of the industry or the specific sample designs provided by its customers. The company also had just begun to export, primarily to Canada, and expected foreign sales to be a growth venue.

[1] Wilson's was both a producer of leather goods (and thus a competitor of G-III) and a customer.

III The Initial Public Offering

A The IPO Prospectus

Exhibits 1–3 contain the first three text pages of the IPO prospectus. (Pages 1 and 2 of the IPO prospectus show fashion models wearing G-III leather fashions.) G-III's prospectus format was mostly boilerplate, the first page describing the offering, the second page the company, the third page the financials. (The full G-III IPO prospectus is available at http://welch.som.yale.edu/.)

B The Underwriter Syndicate

In May 1988, the EQUITY SECURITIES TRADING CO had performed a limited IPO, and as a result had received a warrant for 20,000 shares at a price of $7.20, expiring on May 5, 1993. Basically, G-III had merged into ANTE CORP., a very small publicly traded vehicle, which had not been large enough to be listed on a prominent exchange. In the end, this neither helped nor hurt G-III's "real" IPO, but left it with 46 other holders of record and 195 beneficial holders of common stock even before the IPO.

The proposed general IPO was handled by Richard White on behalf of OPPENHEIMER. A private attorney in the law firm of BELL, KALNICK, KLEE & GREEN had introduced Richard White after finding out of Morris Goldfarb's interest to go public. In exchange, the law firm received a finder's fee. OPPENHEIMER ranked somewhere between 15 and 20 in terms of underwritten IPO's, competing for the G-III IPOs with the likes of BEAR STERNS, LADENBURG, or even LEHMAN, PAINE-WEBBER, DEAN-WITTER, and PRUDENTIAL. In G-III's case, the presence of an apparel analyst (Dennis Rosenberg) was an advantage.

The IPO process began in late August/early September and culminated in the offering in December. G-III had changed auditors on July 31, 1989 from MCMICHAEL to GRANT THORNTON, who had audited the financial statements for the three years prior to the offering. The selection of a more well-known auditor was not unusual in preparation of an initial public offering, and MCMICHAEL had confirmed that it was in agreement with the new auditors' assessments.

As lawyers, OPPENHEIMER had retained MORGAN, LEWIS & BOCKIUS of New York City, G-III had retained FULBRIGHT JAWORSKI & REAVIS MCGRATH. The company had renamed itself (dropping its prior name "ANTE CORP"), consolidated its subsidiaries (G-III LEATHER FASHIONS and SIENA LEATHER), and incorporated in Delaware prior to the offering (previously, Minnesota). The company was slated to begin trading on NASDAQ/NMS under the symbol GIII immediately after the IPO.

Oppenheimer conducted road shows in New York, Boston, Minneapolis, Chicago, Los Angeles, San Francisco, Zürich, Paris, and London. Attending institutional investors appeared to be quite receptive to the offering. (The firm or the underwriters had no intrinsic preference in favor of either institutional or individual investors.) The formal book-building process began about 2 weeks before the offering. The prospectus stated that Oppenheimer had agreed to underwrite 612,500 shares itself; 20 underwriters, including almost all the tier-1 underwriters, had agreed to underwrite 35,000 shares each; 10 underwriters had agreed to underwrite 25,000 shares; and 25 underwriters had agreed to underwrite 17,500 shares each.

> **A Note on Syndication:** The real IPO process is more intricate, mostly due to historical (and perhaps archaic) conventions. Underwriting and selling are two different activities. In IPOs of the size of G-III, the lead underwriter sells almost all the shares himself. Historically, underwriters had different and unique investor networks and thus a syndicate had more placing ability than an individual Investment bank. Today, however, practically all investment banks share the same institutional clients, and thus there is little need for an underwriter to ask fellow syndicate members to help sell shares. One disadvantage of sharing distribution is that lead underwriters wish to avoid investors' "flipping" of shares into the aftermarket immediately after the offering. Controlling such flipping is more difficult when shares are placed by other brokers. Still, syndicate participants may, on occasion, receive some IPO shares to place, say, 3,500 shares if they underwrite 35,000 shares.
>
> The main reason underwriters give for the presence of a syndicate today is "shared liability." If investors in the offering later sue the company and its experts, underwriter liability is distributed according to their participation in the syndicate. In exchange for their syndicate participation, non-lead underwriters receive 20%[2] of the 7% fee ($0.91 per share) paid by the issuer. However, underwriter expenses (attorneys, travel, entertainment, stabilization costs) are allocated to the same 20%, and, in offerings of the size of G-III, syndicate underwriters receive close to nothing. In effect, investment banks consider selling shares (for commissions) to be the profitable component, and underwriting to be the unprofitable liability component. Receiving primarily liability and practically no compensation, why underwriters would agree to participate in a syndicate? The main reason for participating in another underwriter's offering is *reciprocity*—in exchange for their participation, Oppenheimer would participate as a syndicate member in the future IPOs of these underwriters. Thus, syndicates are de facto a complicated mechanism to share liability risk. (In larger initial public offerings, however, syndicate participation can become profitable.)

In G-III's case, the underwriter discount was $0.91 per share, and underwriters agreed to sell to other dealers at no greater a discount than $0.53, who in turn could sell at a discount no greater than $0.10. In addition, the underwriters received a 30-day overallotment option to purchase 300,000 shares, exercisable at $12.09. These shares had to be bought from Morris Goldfarb, and had to be distributed among

[2] Oppenheimer would receive 20% as a management fee, the brokers distributing the shares would receive the remaining 60%. Because most brokers would end up being Oppenheimer brokers, Oppenheimer would in turn recapture some of these commissions.

the underwriter syndicate in the same fraction that the original shares were allocated. Further, underwriters were allowed to exercise the option *only* to cover over-allotments made in connection with the offering. G-III indemnified the underwriters against liabilities, losses and expenses under the 1933 Act, but it was understood by all participants that such indemnification would provide only limited protection to the underwriter. G-III also agreed to sell five-year warrants to purchase 200,000 shares at a price of $15.60 for $200,000. These warrants were not transferable and not exercisable for one year. Finally, the underwriters agreed not to have intent to make sales to discretionary accounts in excess of 5% of the total numbers of shares of stock offered.[3]

C Use of Proceeds and Risks

Of the 1.5 million primary shares sold, most were slated to facilitate the company's operational growth (necessary additions to working capital, financing of inventory and accounts receivable). In addition, the company planned to repay a $2 million note to its bank. (The note was guaranteed by the Goldfarbs.)

The prospectus specifically mentioned the following risk factors:

- Reliance on Foreign Manufacturers.
- Dependence on Key Personnel.
- Dependence on Key Customers.
- The Nature of the Apparel Business.
- Seasonality.
- Control by the Goldfarbs.
- Future share sales.
- Lack of significant trading, causing NASDAQ to drop G-III.
- Uncertainty about the right offering price.

IV Pricing The Offering

The most important issue-at-hand was determining the appropriate pricing of the IPO.

Analysts typically value firms in two ways. (The two are typically seen as complementary.) The first way is to project free cash flows for a "net present value" analysis. The second way is to compute ratios on everything in sight in order to "benchmark" the IPO to its public comparables. (It is common in the industry to

[3] The underwriter for a previous offering had also received a warrant for 20,000 shares, 4 years from April 1989, at strike price of $7.20, for $100.

compute such ratios based on projected, next-year's financials, not historical financials.) Some such ratios are computed in Exhibit 4. Typically, the combination of multiple techniques is hoped to help analysts "triangulate" on the appropriate firm value.

V The Questions

Clive would now have to make some decisions:

1. Why had G-III opted for an IPO rather than searching for alternative forms of capital?
2. Was the money raised in the offering put to good purpose?
3. How sophisticated had G-III dealt with its financial situation? What situation was G-III in pre-IPO? Why had it chosen to list on NASDAQ/NMS?
4. Who is OPPENHEIMER? What was the role of OPPENHEIMER in the process? Was OPPENHEIMER's role commensurate with its fees?
5. Was $13 an appropriate price for G-III? What was the intrinsic value of a share of G-III?
6. How would picking the wrong comparables influence estimates?
7. How hot would demand for shares be?
8. Should an investor purchase G-III in the IPO or in the after-market?
9. How long should an investor hold onto G-III?
10. How would institutions react? What would institutional participation mean for G-III and its stockholders?
11. Would G-III come back to raise more money soon? Would it matter?
12. What skeletons could potentially hide in the closet?
13. What had Clive forgotten to check into?

Exhibit 1 IPO Prospectus: Coverpage.

2,000,000 Shares

G-III

APPAREL GROUP, LTD.

Common Stock

Of the 2,000,000 shares of Common Stock offered hereby, 1,500,000 shares we being sold by G-III Apparel Group, Ltd. and 500,000 shares are being sold by a Selling Stockholder. See "Principal and Selling Stockholders." The Company will not receive any proceeds from the sale of shares by the Selling Stockholder. See "Underwriting" for factors considered in determining the public offering price.

Prior to this offering, there has been a limited market for the Common Stock of the Company. The Common Stock has been approved for quotation on the NASDAQ National Market System under the trading symbol "GIII". See "Common Stock Market Information."

See "Investment Considerations" for a discussion of certain factors that should be considered by prospective purchasers of the Common Stock.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	Price to Public	Underwritting Discount(1)	Proceeds to Company(2)(3)	Proceeds to Selling Stockholders(3)
Per Share...	$13.00	$.91	$12.09	$12.09
Total (3)...	$26,000,000	$1,820,OOO	$18,135,000	$6,045,000

(1)See "Underwriting" for information concerning indemnification of the Underwriters and other information.
(2) Before deduction expenses of the offering estimated at $452,000 payable by the Company.
(3) The Underwriters have been granted an option, exercisable within 30 days of the date hereof, from either a second Selling Stockholder or the Company, to purchase up to 300,000 additional shares of Common Stock at the Price to Public per share, less the Underwriting Discount, for the purpose of covering over-allotments, if any. If the Underwriters exercise such option in full, the total Price to Public, Underwriting Discount and Proceeds to Selling Stockholders would be $29,900,000, $2,093,000 and $9,672,000, respectively, if such shares are sold by the Selling Stockholder. If such shares are sold by the Company, Proceeds to Selling Stockholders would not change and total Proceeds to Company would be $21,762,000. See "Underwriting."

The shares of Common Stock are offered by the Underwriters when, as if delivered to and accepted by them, subject to their right to withdraw, cancel or reject orders in whole or in part and subject to certain other conditions. It is expected that delivery of certificates representing the shares will be made against payment on or about December 21, 1989, at the office of Oppenheimer & Co., Inc., Oppenheimer Tower, World Financial Center, New York, New York 10281.

Oppenheimer & Co., Inc.

The date of this Prospectus is December 14, 1989

Exhibit 2 IPO Prospectus: Page 3.

PROSPECTUS SUMMARY

The following summary is qualified in its entirely by the more detailed information and consolidated and combined financial statements (including the notes thereto) appearing elsewhere in this Prospectus. Unless otherwise noted, all financial information, share and per share data in this Prospectus (a) have been adjusted to reflect (i) a reorganization of the Company effective July 31, 1989, (ii) the one-for-two reverse stock split of the Common Stock effected as of July 31, 1989, and (iii) the one-for-three reverse stock split of the Common Stock effected as of November 1, 1989 and (b) assume no exercise of (i) warrants for an aggregate of 220,000 shares of Common Stock or (ii) the over-allotment option.

THE COMPANY

G-III Apparel Group, Ltd. (the "Company") designs, manufactures and markets an extensive range of leather apparel. The Company's primary market is moderately priced women's leather apparel and, to a lesser extent, upscale, more fashion oriented women's leather apparel and men's leather outerwear. The Company's products include leather coats, jackets, pants, skirts and other sportswear.

The Company sells its products under its brand labels G-III,™ Siena™ and Cayenne™ and, to a lesser extent, under private retail labels, to approximately 1,000 customers ranging from nationwide chains of retail and department stores to specialty boutiques. A majority of the Company's net sales are made to national and regional retail chains such as the Lerner, Limited, and Lane Bryant divisions of The Limited, Inc., Wilson's House of Suede, Maurices Inc., Petrie Stores Corp., Burlington Coat Factory Warchouse Corp., Sears, Roebuck & Co., Dillards Department Stores, Inc., May Company and Casual Corner.

In its fiscal year ended July 31, 1989, the Company manufactured approximately 31% of its products at its factories in New York City with the remainder manufactured for the Company by independent contractors, principally in South Korea, and also in New York, Hong Kong and South America.

Over the past three fiscal years, the Company's net sales have grown at a compound annual rate of 68%, and pro forma net income has increased from approximately $700,000 to $5,900,000. The Company believes that as a result of this growth it is one of the largest independent wholesale manufacturers of leather apparel in the United States. The Company's success has been due in part to its ability to offer a broad selection of styles, colors, sizes and skin varieties, and to anticipate retailers' near term buying requirements by adjusting its production and delivery schedules towards well received and in demand styles. The Company believes that its reputation for servicing retailers with quality merchandise, on-time delivery and competitive prices has positioned the Company for continued growth.

The Company's strategy is to increase sales to existing customers and attract new customers by expanding its product lines. The Company plans to further develop its Siena line of higher priced, more fashion oriented leather apparel, its Cayenne line of mid-priced leather apparel, its line of men's apparel and various private label programs for national retail chains and catalog merchants. The Company also expects to introduce a leather outerwear line for children within the next 12 months.

THE OFFERING

Common Stock Offered by:	
The Company	1,500,000 shares
The Selling Stockholder	500,000 shares
Common Stock to be Outstanding immediately after this Offering	6,144,444 shares
Use of Proceeds	To finance the growth of the Company's operations, primarily by additions to working capital, to permit the financing of additional inventory and accounts receivable relating to increased sales and to repay a $2,000,000 note.
NASDAQ Symbol	GIII

Exhibit 3 IPO Prospectus: Page 4.

CONSOLIDATED AND COMBINED SUMMARY FINANCIAL INFORMATION

(Dollars in thousands except per share data)

	Year Ended July 31, (1)					Three Months Ended October 31,	
	1985	1986	1987	1988	1989	1988	1989
INCOME STATEMENT DATA:							
Net sales	$11,100	$21,375	$30,260	$50,002	$98,786	$30,734	$53,778
Gross profit	2,089	2,922	4,673	7,882	17,129	5,023	9,930
Selling, general and administrative expenses	2,018	2,350	2,635	3,951	5,416	1,558	2,460
Operating profit	71	572	2,038	3,931	11,713	3,465	7,470
Income before income taxes	48	301	1,533	3,086	10,347	3,191	6,652
Net income	40	154	727	2,719	9,526	2,921	3,780
Pro forma net income (2)	40	154	727	1,724	5,940	1,813	3,780
Pro forma net income per common share based upon 4,644,444 shares outstanding in each period	$.01	$.03	$.16	$.37	$1.28	$.39	$.81

	July 31, 1989	October 31, 1989 (1)	
BALANCE SHEET DATA:		Actual	As Adjusted (3)
Working capital	$ 6,199	$ 9,827	$25,510
Total assets	38,089	41,181	41,181
Short-term debt	20,547	18,778	4,938
Long-term debt	3,547	3,480	1,480
Total stockholders' equity	5,317	9,096	26,779

(1) See Note 1 to "Selected Consolidated and Combined Financial Data."

(2) Pro forma net income represents net income less a pro forma provision for income taxes. A subsidiary of the Company elected to be treated as a Subchapter S corporation for the years ended July 31, 1988 and 1989 and, as a result, was not subject to Federal and New York State income taxes for such years.

(3) Adjusted to reflect the sale of 1,500,000 shares of Common Stock by the Company hereby and the anticipated use of the net proceeds therefrom.

Exhibit 4 Accounting Ratios in Percent: Panel A (Current Assets)

	Company	CUSIP	Date	Assets_t	$\frac{\text{Sales}_t}{\text{Assets}_t}$	$\frac{\text{Receivables}_t}{\text{Assets}_t}$	$\frac{\text{Inventories}_t}{\text{Assets}_t}$	$\frac{\text{Operating Income}_t}{\text{Assets}_t}$	$\frac{\text{Market Value}_{EOY}}{\text{Assets}_t}$	$\frac{\text{Backlog}_t}{\text{Assets}_t}$	$\frac{\text{Employees}_t}{\text{Assets}_t}$	$\frac{\text{Working Capital Accruals}_t}{\text{Assets}_t}$	$\frac{\Delta\text{Sales}_t}{\text{Assets}_t}$
	G-III	**36237H**	**7-89**	**38.1**	**259.4**	**55.0**	**26.9**	**31.2**	**158.5**	**NM**	**0.6**	**30.7**	**127.8**
Individual Comparables	Gitano	376365	12-88	292.5	158.8	21.9	51.9	17.8	99.9	63.0	1.4	.	.
	Leslie Fay	527010	12-88	363.0	188.0	30.3	29.5	17.5	48.6	54.0	1.1	3.8	27.7
	Liz Claiborne	539320	12-88	629.1	188.2	10.9	26.7	29.1	240.7	46.1	0.8	-5.8	20.8
	Mayfair	578074	12-88	24.0	242.2	38.6	44.0	23.8	125.6	43.5	1.4	26.6	106.4
	Beeba's	65476M	8-88	51.1	200.4	39.9	38.2	1.2	68.6	72.4	0.8	2.3	-10.2
	Oshkosh B'Gosh	688222	12-88	139.1	181.9	14.6	53.1	24.5	233.4	66.9	4.2	4.9	19.2
	Yes Clothing	985832	3-88	6.2	458.6	25.0	63.8	45.5	.	.	.	.	.
	Gitano	376365	12-89	440.9	142.0	26.4	51.5	15.2	93.9	77.5	1.0	19.6	36.6
	Leslie Fay	527010	12-89	387.3	203.0	30.3	31.3	18.7	49.3	50.9	1.1	9.7	26.7
	Liz Claiborne	539320	12-89	848.5	166.3	15.5	23.4	31.0	249.4	37.8	0.6	4.8	26.7
	Beeba's	65476M	8-89	51.8	248.0	50.3	41.8	14.0	84.1	95.1	1.1	13.8	50.5
	Oshkosh B'Gosh	688222	12-89	163.3	193.0	14.1	54.7	41.0	366.3	48.4	3.8	15.4	38.0
	Yes Clothing	985832	3-89	12.8	315.6	69.3	21.7	43.4	224.4	62.6	0.8	55.3	92.6
Wide Comparables	Mean		88	232.8	198.3	24.8	34.6	3.6	183.6	52.3	2.3	1.2	10.0
	Median	27 Firms	88	32.9	181.9	25.0	38.2	14.5	99.9	52.6	1.6	4.1	18.1
	Stddev		88	452.9	120.3	14.4	18.1	48.6	223.6	27.7	2.1	19.4	99.6
	Mean		89	296.5	192.3	26.0	36.0	10.9	191.1	55.2	2.0	14.8	45.6
	Median	24 Firms	89	41.3	187.8	25.3	40.1	16.4	133.0	48.4	1.4	12.4	31.7
	Stddev		89	531.9	98.9	16.1	17.2	42.4	174.1	49.2	1.4	22.1	92.8
	Mean		88+89	262.2	195.5	25.3	35.3	7.0	187.4	53.8	2.1	8.0	28.6
	Median	51 Firms	88+89	38.2	182.7	25.2	38.8	15.2	103.0	48.4	1.4	5.9	20.0
	Stddev		88+89	487.0	109.7	15.1	17.5	45.5	197.7	39.3	1.8	21.7	96.7

Notes: Table Description Follows at End.

Exhibit 4 Accounting Ratios in Percent: Panel B (Lagged Assets)

	Company	CUSIP	Date	$Assets_{t-1}$	$\frac{Sales_t}{Assets_{t-1}}$	$\frac{Receivables_t}{Assets_{t-1}}$	$\frac{Inventories_t}{Assets_{t-1}}$	$\frac{Operating\ Income_t}{Assets_{t-1}}$	$\frac{Market\ Value_{EOY}}{Assets_{t-1}}$	$\frac{Backlog_t}{Assets_{t-1}}$	$\frac{Employees_t}{Assets_{t-1}}$	$\frac{Working\ Capital\ Accruals_t}{Assets_{t-1}}$	$\frac{\Delta Sales_t}{Assets_{t-1}}$
	G-III	**36237H**	**7-89**	**17.8**	**553.6**	**117.4**	**57.4**	**66.5**	**338.3**	**.**	**1.3**	**.**	**.**
Individual Comparables	Gitano	376365	12-88	.	.	.	.	.	.	.	.	.	.
	Leslie Fay	527010	12-88	305.4	223.5	36.0	35.0	20.8	57.8	64.2	1.3	4.5	33.0
	Liz Claiborne	539320	12-88	482.4	245.5	14.2	34.8	37.9	313.9	60.1	1.0	-7.6	27.1
	Mayfair	578074	12-88	20.2	287.9	45.9	52.3	28.3	149.3	51.7	1.6	31.6	126.5
	Beeba's	65476M	8-88	57.9	176.8	35.2	33.7	1.1	60.5	63.9	0.7	2.0	-9.0
	Oshkosh B'Gosh	688222	12-88	113.3	223.4	17.9	65.1	30.1	286.5	82.1	5.2	6.0	23.6
	Yes Clothing	985832	3-88	.	.	.	.	.	.	.	.	.	.
	Gitano	376365	12-89	292.5	214.0	39.8	77.7	22.9	141.6	116.8	1.5	29.5	55.2
	Leslie Fay	527010	12-89	363.0	216.6	32.3	33.4	19.9	52.6	54.3	1.2	10.3	28.5
	Liz Claiborne	539320	12-89	629.1	224.2	20.9	31.5	41.8	336.4	51.0	0.9	6.4	36.0
	Beeba's	65476M	8-89	51.1	251.6	51.0	42.4	14.2	85.3	96.5	1.1	14.0	51.2
	Oshkosh B'Gosh	688222	12-89	139.1	226.6	16.6	64.2	48.1	430.0	56.8	4.5	18.1	44.6
	Yes Clothing	985832	3-89	6.2	649.1	142.6	44.5	89.2	461.5	128.8	1.7	113.7	190.5
Wide Comparables	Mean	23 Firms	88	192.5	206.1	24.5	35.7	13.3	169.1	57.1	2.5	2.1	28.4
	Median		88	34.0	223.4	18.2	34.8	15.5	141.8	63.9	1.6	4.4	15.7
	Stddev		88	392.1	109.8	19.0	23.0	20.3	149.7	35.2	2.2	17.3	76.9
	Mean	24 Firms	89	260.9	307.9	41.1	48.7	6.1	370.2	71.7	2.7	20.5	112.4
	Median		89	42.0	225.4	28.2	45.8	19.0	138.7	54.3	1.9	10.3	44.6
	Stddev		89	483.1	313.2	40.1	31.7	114.6	544.7	62.9	2.4	82.2	297.5
	Mean	47 Firms	88+89	227.5	258.1	33.0	42.3	9.6	276.3	64.9	2.6	11.3	71.3
	Median		88+89	38.3	223.5	26.4	42.4	16.8	141.6	56.8	1.7	7.8	25.0
	Stddev		88+89	437.5	239.7	32.3	28.2	82.3	419.0	51.6	2.3	59.5	221.1

Notes: Table Description Follows at End.

Exhibit 4 Accounting Ratios in Percent: Panel C (Current Sales)

	Company	CUSIP	Date	Sales_t	$\frac{\text{Assets}_t}{\text{Sales}_t}$	$\frac{\text{Receivables}_t}{\text{Sales}_t}$	$\frac{\text{Inventories}_t}{\text{Sales}_t}$	$\frac{\text{Operating Income}_t}{\text{Sales}_t}$	$\frac{\text{Market Value}_{\text{EOY}}}{\text{Sales}_t}$	$\frac{\text{Backlog}_t}{\text{Sales}_t}$	$\frac{\text{Employees}_t}{\text{Sales}_t}$	$\frac{\text{Working Capital Accruals}_t}{\text{Sales}_t}$	$\frac{\Delta\text{Sales}_t}{\text{Sales}_t}$
	G-III	**36237H**	**7-89**	**98.8**	**38.6**	**21.2**	**10.4**	**12.0**	**61.1**	**NM**	**0.2**	**11.8**	**49.3**
Individual Comparables	Gitano	376365	12-88	464.5	63.0	13.8	32.7	11.2	62.9	39.7	0.9	.	.
	Leslie Fay	527010	12-88	682.7	53.2	16.1	15.7	9.3	25.9	28.7	0.6	2.0	14.7
	Liz Claiborne	539320	12-88	1,184.2	53.1	5.8	14.2	15.5	127.8	24.5	0.4	-3.1	11.1
	Mayfair	578074	12-88	58.1	41.3	15.9	18.2	9.8	51.9	18.0	0.6	11.0	43.9
	Beeba's	65476M	8-88	102.4	49.9	19.9	19.0	0.6	34.2	36.1	0.4	1.1	-5.1
	Oshkosh B'Gosh	688222	12-88	253.0	55.0	8.0	29.2	13.5	128.3	36.8	2.3	2.7	10.6
	Yes Clothing	985832	3-88	28.5	21.8	5.4	13.9	9.9	.	.	.	.	.
	Gitano	376365	12-89	625.9	70.4	18.6	36.3	10.7	66.2	54.6	0.7	13.8	25.8
	Leslie Fay	527010	12-89	786.3	49.3	14.9	15.4	9.2	24.3	25.1	0.5	4.8	13.2
	Liz Claiborne	539320	12-89	1,410.7	60.2	9.3	14.0	18.6	150.0	22.8	0.4	2.9	16.1
	Beeba's	65476M	8-89	128.6	40.3	20.3	16.8	5.7	33.9	38.3	0.4	5.6	20.3
	Oshkosh B'Gosh	688222	12-89	315.1	51.8	7.3	28.4	21.2	189.8	25.1	2.0	8.0	19.7
	Yes Clothing	985832	3-89	40.3	31.7	22.0	6.9	13.7	71.1	19.9	0.3	17.5	29.3
Wide Comparables	Mean		88	259.1	76.8	16.2	21.5	-14.9	88.4	28.6	1.8	1.0	4.3
	Median	28 Firms	88	53.2	54.3	14.5	17.0	9.1	63.5	28.7	1.0	2.0	10.8
	Stddev		88	376.2	70.3	12.4	18.5	116.9	68.1	16.0	2.6	14.7	36.9
	Mean		89	338.8	70.8	15.2	22.4	2.9	128.7	28.1	1.2	6.4	18.9
	Median	24 Firms	89	79.3	53.3	14.6	16.9	9.2	72.5	25.1	1.0	5.3	17.9
	Stddev		89	464.6	45.6	8.6	21.3	30.5	128.3	20.0	0.8	15.7	28.8
	Mean		88+89	295.9	74.0	15.8	22.0	-6.7	109.0	28.4	1.5	3.6	11.8
	Median	52 Firms	88+89	64.4	54.1	14.6	16.9	9.2	71.1	25.1	1.0	3.3	13.8
	Stddev		88+89	417.0	59.7	10.8	19.6	88.0	104.2	17.8	1.9	15.3	33.5

Notes: Table Description Follows at End.

Exhibit 4 Accounting Ratios in Percent: Panel D (Market-Value Based)

	Company	CUSIP	Date	$\text{Market-Value}_{EOY}$	$\frac{\text{Sales}_t}{\text{Market-Value}_{EOY}}$	$\frac{\text{Receivables}_t}{\text{Market-Value}_{EOY}}$	$\frac{\text{Inventories}_t}{\text{Market-Value}_{EOY}}$	$\frac{\text{Operating Income}_t}{\text{Market-Value}_{EOY}}$	$\frac{\text{Assets}_t}{\text{Market-Value}_{EOY}}$	$\frac{\text{Backlog}_t}{\text{Market-Value}_{EOY}}$	$\frac{\text{Employees}_t}{\text{Market-Value}_{EOY}}$	$\frac{\text{Working Capital Accruals}_t}{\text{Market-Value}_{EOY}}$	$\frac{\Delta\text{Sales}_t}{\text{Market-Value}_{EOY}}$
	G-III Pre-Offering	**36237H**	**7-89**	**60.4**	**141.0**	**29.9**	**14.7**	**17.0**	**54.4**	**NM**	**0.4**	**13.6**	**56.6**
	G-III Post-Offering	**36237H**	**7-89**	**80.0**	**123.7**	**26.2**	**12.9**	**14.9**	**47.7**	**NM**	**0.3**	**11.9**	**49.6**
Individual Comparables	Gitano	376365	12-88	292.3	158.9	21.9	51.9	17.8	100.1	63.0	1.4	.	.
	Leslie Fay	527010	12-88	176.5	386.8	62.3	60.6	36.0	205.7	111.0	2.3	7.8	57.0
	Liz Claiborne	539320	12-88	1,514.0	78.2	4.5	11.1	12.1	41.6	19.2	0.3	-2.4	8.6
	Mayfair	578074	12-88	30.1	192.8	30.7	35.1	19.0	79.6	34.7	1.1	21.2	84.7
	Beeba's	65476M	8-88	35.1	292.0	58.2	55.6	1.8	145.7	105.5	1.1	3.3	-14.8
	Oshkosh B'Gosh	688222	12-88	324.5	78.0	6.2	22.7	10.5	42.9	28.7	1.8	2.1	8.2
	Yes Clothing	985832	3-88	.	.	.	.	.	.	.	.	.	.
	Gitano	376365	12.89	438.5	142.7	26.5	51.8	15.3	100.5	77.9	1.0	19.7	36.8
	Leslie Fay	527010	12.89	195.7	401.8	59.9	61.9	36.9	197.9	100.7	2.2	19.1	52.9
	Liz Claiborne	539320	12.89	2,204.6	64.0	6.0	9.0	11.9	38.5	14.6	0.2	1.8	10.3
	Beeba's	65476M	8.89	49.2	261.5	53.1	44.1	14.8	105.4	100.3	1.1	14.6	53.2
	Oshkosh B'Gosh	688222	12.89	601.7	52.4	3.8	14.8	11.1	27.1	13.1	1.0	4.2	10.3
	Yes Clothing	985832	3.89	30.6	131.8	29.0	9.0	18.1	41.8	26.2	0.3	23.1	38.7
Wide Comparables	Mean	23 Firms	88	241.7	201.4	27.3	43.6	14.2	129.1	80.2	3.3	1.8	17.8
	Median		88	30.1	157.4	23.0	28.1	11.7	100.1	44.7	1.8	2.2	18.4
	Stddev		88	436.1	166.2	25.1	39.5	19.8	113.3	103.7	4.5	18.9	71.0
	Mean	24 Firms	89	355.7	222.4	31.4	43.9	15.4	115.1	61.6	2.6	10.5	23.1
	Median		89	31.9	138.0	19.8	20.9	13.3	79.2	37.7	1.1	11.4	20.8
	Stddev		89	588.7	227.6	32.3	46.6	16.8	97.3	88.7	3.9	12.2	107.9
	Mean	47 Firms	88+89	299.9	212.1	29.4	43.7	14.8	121.9	70.6	2.9	6.2	20.6
	Median		88+89	30.1	140.6	21.9	22.7	12.4	97.0	37.7	1.3	4.9	19.4
	Stddev		88+89	517.3	198.0	28.8	42.8	18.1	104.5	94.9	4.2	16.2	91.6

Notes: Table Description Follows at End.

Exhibit 4 Accounting Ratios in Percent: Explanations To Panels

Data Sources: The primary data source for comparable firms is the COMPUSTAT data base. The primary data source for G-III is its IPO prospectus. November 1989 prices are obtained from the CRSP data base.

Notation: All ratios are quoted in percent. A period denotes a missing value. The subscript t denotes the fiscal year, "EOY" denotes end of year (the last trading day in December for 1988, the last trading day in November for 1989).

Data Items: Assets, sales, and market-values in the fifth column are quoted in million dollars. G-III's pre-offering (post-offering) market-value was computed as 4.644 (6.144) million shares times $13 per share, or $80 ($60.4) million dollars, i.e., based on the number of shares outstanding pre-offering (post-offering). Sales are Net Sales. Operating Income is before depreciation and amortization. *Working Capital Accruals* are defined as

$$\Delta[\text{current assets (4)} - \text{cash (1)}] - \Delta[\text{current liabilities (5)} - \text{current maturity of long-term debt (44)}]$$

Working capital accruals (WKA) for G-III are computed from data in the IPO prospectus, page F3:

	July 1988	July 1989	Oct. 1989
Current Assets	$16.0	$35.4	$38.4
Current Liabilities	$12.3	$29.2	$28.6
Cash	$0.4	$3.5	$1.1
Current Maturities of LT Debt	$8.2	$20.5	$18.8

Therefore, $WKA = (\$31.9 - \$15.6) - (\$8.7 - \$4.1) = \$11.7$. In Oct. 1989, $WKA = (\$37.3 - \$31.9) - (\$9.8 - \$8.7) = \$4.3$. G-III sales were $98.8 million in 1989 (a change of $48.7 million from 1988), $53.8 million in the first quarter of fiscal year 1990. Assets were $38.1 million as of 1989, $41.2 million as of the first quarter of fiscal year 1990. G-III's IPO prospectus (p.19) describes its backlog as "not meaningful."

Comparables: The set of "wide comparable" firms consisted of the following firms: • Al's Formal Wear (except in lagged-assets panel B due to a non-sensical figure) • American Consumer Products • Andover Togs • Benetton • Biscayne • Brenner • Bruce • Canadian Piper • Eastco • Fruit of the Loom • Gitano • Land's End • Legends Co • Leslie Fay • Liz Claiborne • Martinez • Mayfair • Nantucket • New Retail • Beeba's • Oshkosh • Pacad • Pannill • Quicksilver • Rocky Mountain Undergarment • Wacoal • Yes. The number of firms (angled box for "wide comparables") are based on firms for which sales/{denominator} could be computed, but most other ratios have a similar number of firms. The exception is "Backlog" which is typically available for only half of these firms.

VI To Potential Instructors

From: Ivo Welch, http://welch.som.yale.edu/
To: Potential Instructors
Date: May 1997
Subject: G-III Case

Please notify the author (me) by email if you are planning to use this case, or if you are actually using this case. I have written a 15-page teaching note that describes how one can teach this case *in all detail* (with references to relevant academic publications). The note also includes a 4-page postscript with additional exhibits. However, I want to keep this note out of the hands of students, so I am controlling access to this teaching note quite tightly.

If you are interested to obtain this teaching note, I can either send you a hardcopy, or I can email this document in Acrobat *.pdf* format to a valid instructor email address at your request. Please provide details, such as your background and the institutions and course in which you plan to use the case.

I am planning to improve the substance of the G-III case in the next 12 months. This explains the limited time period (until December 1998) during which I permit free copying of this version for teaching purposes. (Eventually, the case will be published and command [no more than] the customary case fees.) In general, I will announce any new versions or updates of this case on http://welch.som.yale.edu, where I will also make full printable and searchable versions of the case publicly accessible in Adobe Acrobat *.pdf* format.

I hope you will find this case to be useful. Any feedback would of course be appreciated.