BLUE ORCA CAPITAL

"Meet the new boss. Same as the old boss." **-The Who**

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COMPANY: Samsonite International S.A. | HK: 1910
INDUSTRY: Retail

Price (as of close 05/23/2018):
HKD 34.05

Market Cap:
HKD 48.5 billion

Daily Volume:
3.67 mm shares
(30 Day Avg.)

Blue Orca Valuation:
HKD: 17.59

Samsonite International SA (HK: 1910), the world's largest luggage maker, is listed in Hong Kong and headquartered in Mansfield, Massachusetts, in the United States. Despite a history of mediocrity which included lurching from the precipice of one restructuring to another, today Samsonite trades near all-time highs. Indeed, Samsonite trades at a premium valuation in line with luxury brands such as Burberry (BRBY) on an EV/EBITDA multiple. We believe this premium is entirely unjustified, especially given Samsonite's questionable accounting practices and poor corporate governance.

We suspect that Samsonite has concealed slowing growth through debt fueled acquisitions and that it has massaged earnings and inflated margins through highly questionable purchase price accounting. Samsonite should trade at a discount to its peers because of corporate governance concerns regarding its audit profile, dodgy related party transactions between the Company and Indian entities controlled by the CEO and his family, and CEO's Ramesh Tainwala's resume fraud of claiming to be a doctor when he is not.

Samsonite is a mid-level brand masquerading as a premium luxury player. Samsonite is more sensibly compared to a peer group of mid-tier brands such as Michael Kors (KORS), Tapestry (TPR) and PVH.N. Using this peer group, we value Samsonite as a blended average of four methodologies yielding a share price of HKD 17.59 per share, 48% below Samsonite's last traded price.

We also call on Samsonite's board of directors, and in particular the audit committee, to appoint an independent audit firm to scrutinize all transactions involving its South Asian joint venture, the Company's treatment of inventory, its purchase price accounting and disclosed and undisclosed connections between Samsonite and its CEO. Ultimately, we believe that Samsonite is simply carrying too much baggage to trade at such a high premium.

1. **Purchase Price Accounting Games**. We believe that Samsonite has used purchase price accounting to inflate margins and earnings, masking what we believe to be a core business which is likely struggling. Like an addict searching for its next fix, Samsonite has already announced its search for its next acquisition (in women's handbags). The market should be skeptical.

   a. **Tumi: Payables from Thin Air**. On August 1, 2016, Samsonite acquired US-listed bag maker Tumi Holdings Inc. ("Tumi") for $1.8 billion. Samsonite paid 13.6x EV/EBITDA for Tumi, leaving the Company with $1.88 billion in debt. In its last 10-Q filed with the SEC prior to the acquisition, Tumi reported only $39 million in accounts payable as of June 26, 2016. Yet in Samsonite's purchase price accounting of the Tumi acquisition, Samsonite claimed that Tumi had $139 million of payables as of August 1, 2016, $100 million more than Tumi reported just one month earlier. Tumi's payables were historically predictable and were subject to short term maturities. To put it in context, in the previous 10 quarters, Tumi had never reported over $48 million in payables (and never more than $79 million if we include accrued expenses). Yet Samsonite's purchase price accounting valued Tumi's trade and other payables at an amount almost exceeding Tumi's pre-acquisition balance of total liabilities. In our view, this is a significant red flag and evidence of purchase price accounting games. By overstating Tumi's balance of payables at acquisition, we estimate that Samsonite can avoid having to run at least $62-$100 million in subsequent expenses through its income statement, thereby artificially inflating reported profits. This amount is material given Samsonite's slim margins and likely enabled the misperception of growth upon which its premium valuation is based.

   b. **Tumi's Asian Distributors: Under-Reported Inventory Balance**. In 2017, Samsonite acquired Tumi's Asian distributors (including China) for $64.9 million. Notably, Samsonite's purchase price accounting reported only $9.4 million in acquired inventory, despite CEO Ramesh Tainwala admitting on a conference call that the acquired distributors carried 5-6 months of inventory on their balance sheets at the time of their acquisition. Acquired inventory should be marked at the cost such distributors previously purchased such inventory from Tumi. Yet Tumi sold $71 million in Asia in 2H 2016, primarily to Asian distributors. Excluding online sales and sales to Japan, India, Thailand and Indonesia, we calculate that the markets for the acquired distributors accounted for 68.9% of Tumi's Asian sales. If Tumi's sales to the acquired Asian distributors were an estimated $46.4 million in 2H 2016, and such distributors carried six months of inventory on their balance sheet upon acquisition, then the value of acquired inventory should be $46.4 million, not $9.4 million as reported by Samsonite. We believe that Samsonite played inappropriate purchase price accounting games by marking down the value of acquired inventory by 80% at the time of the purchase, thereby allowing it to claim inflated margins when such inventory was later sold. That would also explain why margins did not erode in Asia when simple logic indicated there would be compression.

2. **Zero Margin Inventory Foreshadows Falling Profitability**. Pursuant to IFRS rules, Samsonite carries its inventories at **the lower of cost or net realizable value ("NRV")**. By definition, any inventory carried at NRV will not be sold for a positive gross margin (as it is valued below cost). At FYE 2017, Samsonite reported that $229.6 million of its inventory was carried at NRV, on a year-end balance of only $542 million in finished goods. At FYEs 2016 and 2017, Samsonite carried 46% and 42%, respectively, of finished goods at NRV, **or in other words, below cost and at a price where Samsonite does not expect to make a profit!** This raises a troubling question. If at the beginning of Samsonite's most recent fiscal year, almost half of the finished inventory on its balance sheet was carried at below cost, how did the Company maintain its margins in FY 2017? Samsonite supposedly turns its inventory once every four months, meaning the zero-margin inventory should have worked its way through the Company's income statement in FY 2017. But margins were mysteriously unaffected. One possibility is that Samsonite is simply hoarding a growing balance of stale inventory, but this trick cannot work indefinitely. Eventually, such inventory balances must either be written off or sold at or below cost – at which point the Company's margins will come crashing down.

3. **CEO Resume Fraud**. Samsonite's CEO, Ramesh Tainwala, has at various points in his career held himself out as a doctor. Although his bio on Samsonite's website currently omits the reference, on Bloomberg, and in other media sources and regulatory filings, his bio lists a Doctorate Degree in Business Administration from the Union Institute and University in Cincinnati, U.S.A. But when we called Union's registrar, a representative told us that Tainwala never attained a doctorate, but that he merely enrolled in a program from February 1992 to September 1993. Union offers online degree programs, so it is unclear whether he ever physically attended a class. A credential check through the National Student Clearinghouse, which verifies degrees, confirmed his enrollment dates and that Tainwala never got a degree. Yet there are numerous examples in the media, in Samsonite's U.S. SEC regulatory filings (prior to Samsonite's privatization), on the website of family owned Tainwala chemicals, in Indian regulatory filings and **even in a Samsonite earnings call after it went public in Hong Kong**, in which Tainwala is introduced or referred to as a "Dr." or as a "PhD." In our opinion, this is classic resume fraud, and any legitimate fortune 500 company would remove a CEO caught making such material misrepresentations about his educational history.

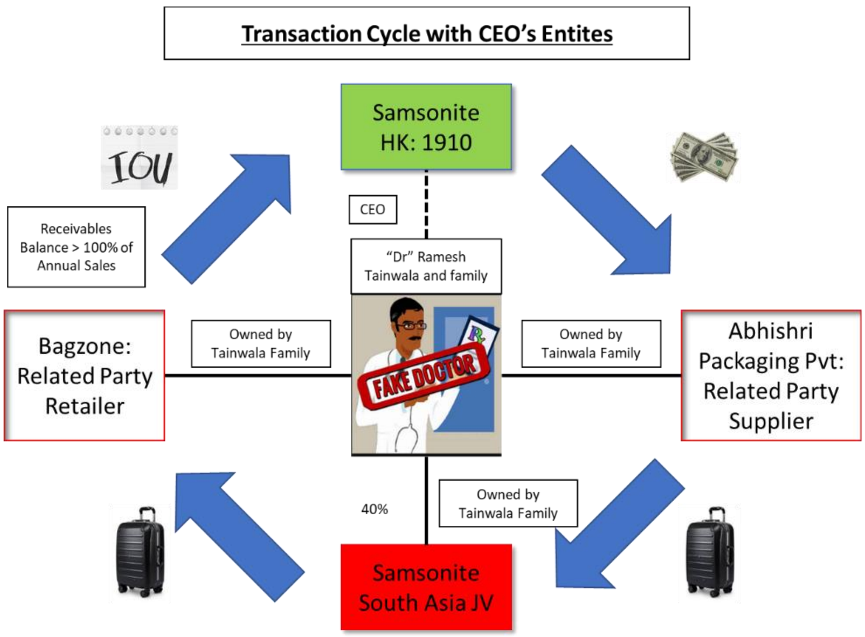
4. **Red Flags at South Asian JV**. From an auditing standpoint, the entity which is likely most vulnerable to accounting manipulation is Samsonite South Asia Private Limited ("Samsonite South Asia"), the Company's 60/40 joint venture with the Tainwala family. Given that Samsonite South Asia is owned in part by the CEO's family and engages in a number of related party transactions with family owned entities Abhishri and Bagzone, its transactions should be subject to a higher degree of oversight by Samsonite's audit team. They are not.

   a. **Indian Auditor Resignations**. In 2016, KPMG's Indian affiliate BSR & Co ("BSR") resigned as auditor of Samsonite South Asia, citing an "unwillingness to be re-appointed." It was replaced by Spark & Co., a small, 5-partner firm based in Pune, India. Spark resigned after only one year and was replaced by another small firm, meaning that Samsonite South Asia is on its third auditor in three years. It is a red flag that such a key subsidiary would replace a KPMG affiliate (which would give the Boston-based audit team a trusted partner to scrutinize the JV's accounts) with a succession of tiny firms which do not appear to have the resources or independence to properly audit the books of a material subsidiary of a global brand.

   b. **Lack of Internal Controls**. Samsonite South Asia's registered email address in its Indian statutory filings is not an @samsonite email account, but a Gmail account Samsonite.secretarial@gmail.com. Proper internal controls require corporate communications to be on a corporate email server and for official business to be conducted only on corporate email. It evinces a weakness in internal controls that Samsonite South Asia is conducting official business through a Gmail account.

5. **Audit Red Flag: Manual Journal Entries?** Samsonite's Boston-based auditor identified revenue recognition policies across jurisdictions as a key audit matter in both FYs 2016 and 2017. Notably, KPMG revealed that it reviewed a number of "**manual journal entries**" recording transactions to revenue at year end. Why is a supposedly sophisticated global brand, and an HKD 49 billion global company, manually recording revenue transactions in journals? Sales first recorded manually in a journal are vulnerable to manipulation. Samsonite is not a neighborhood Chinese restaurant – so why is it conducting internal accounting like one?

6. **Web of Related Party Transactions**. Samsonite engages in a number of related party transactions with entities owned and controlled by its CEO and his family members. Such transactions are unbecoming of a global, professional organization and raise a number of troubling questions about Samsonite's corporate governance structure and the sufficiency of its internal controls.



a. **Disclosed Entity #1 – Abhishri**. Samsonite admits that it sells raw materials to, and buys raw materials and finished goods from, Abhishri Packaging Pvt ("Abhishri"), an Indian manufacturer of hard-side luggage products owned by the CEO's family. In FY 2017, Samsonite disclosed to purchasing $10.5 million from Abhishri, up 51% from FY 2016. Publicly available Indian statutory accounts for Abhishri indicate that Samsonite accounted for 58% of Abhishri's sales in 2017. In addition, Abhishri's statutory Indian accounts indicate that it buys products from Samsonite's Chinese suppliers. Why is a global retail brand purchasing finished products from a low-value Indian luggage manufacturer owned by the CEO and his family? Why is Abhishri also purchasing from Samsonite's Asian supply chain? Couldn't Samsonite simply eliminate the middle man? How is the Company's Boston-based auditor sufficiently positioned to check the integrity of such transactions? The CEO controls both the Company and the supplier, which we believe is a significant red flag creating the risk of accounting impropriety.

b. **Disclosed Entity #2 – Bagzone**. Samsonite also sells luggage to Bagzone Lifestyle Private Limited ("Bagzone"), a Tainwala family owned retailer which sells Samsonite's products through 85 exclusive and 46 multi-brand luggage stores in India. Samsonite disclosed $11.2 million in sales to Bagzone in FY 2017. Notably, Samsonite also discloses a large receivable balance from Bagzone equal to more than 100% of sales. Bagzone's mounting receivables balance raises the question of why the related party retailer gets better credit terms than other distributors? It also raises the possibility that Bagzone is hoarding increasing amounts of worthless inventory on behalf of the Company. Channel stuffing through related parties is always a danger when there are not sufficient controls, and we think the risk is material in this case.

c. **Undisclosed Related Parties**. We have also found evidence of undisclosed connections to entities controlled and owned by the Tainwala family which, according to online corporate record databases such as Informix.In, are registered using an @samsonite email address. For example, in 2017, Samsonite's CEO and his family formed Parikrama Logistics and Holdings LLP ("Parikrama"), which according to the Indian Ministry of Commerce, is listed as a luggage and travel goods manufacturer. Records state that Parikrama's registered contact email is sharad.thanvi@samsonite.com, a Samsonite employee. Yet Samsonite never discloses Parikrama or any transactions with the entity. It is difficult given the limited public information to verify the volume of transactions, if any, between Samsonite and such undisclosed related entities, but family-owned businesses registered with an @samsonite email address are a governance red flag and create the material risk of impropriety. We call on Samsonite's board to appoint an independent auditor to investigate these entities.

VALUATION

Today Samsonite trades near all-time highs. On an EV/EBITDA or FCF multiple, Samsonite trades closer to Louis Vuitton (LVMH), Prada (1913.HK), and other true luxury brands whose gross margins are 900 bps higher. Samsonite even trades at a premium valuation in line with Burberry (BRBY), a significantly more valuable brand with much lower debt.

We think comparing Samsonite to Burberry is ridiculous, given the difference in brand notoriety, gross margins and frequency of purchase. Consumers shopping for a Burberry bag are paying a significant premium and are likely to purchase at least one item per season to keep up with fashions. By comparison, consumers purchase luggage much less frequently. Ask yourself, when was the last time you bought a suitcase?

Nor are the brands comparable. Consumers looking for luxury luggage are not buying Samsonite or Tumi, but luggage produced by luxury fashion brands like Prada, Louis Vuitton or Gucci (Kering). Case in point. In March 2018, Cristiano Ronaldo was named the global brand ambassador for Samsonite's American Tourister brand. But Ronaldo posted this photo to Instagram in April 2018, traveling with an ultra-fashionable Louis Vuitton suitcase. Not Tumi, not Samsonite and clearly not American Tourister. Samsonite's luggage is not luxurious or fashionable enough for even its own celebrity spokesperson.

Source: Instagram

Luxury fashion labels such as LVMH destroy inventory rather than discount it. Their brands are so valuable they would rather set unsold items on fire. But even a cursory browse online turns up retailers offering Samsonite luggage for 50% off, including at Macy's, Sears, and Kohl's.

Tumi is Samsonite's high-end brand. Yet it is popular not with the jet-set crowd, but over-zealous business school students and bleary-eyed McKinsey consultants. Functional, rather than fashionable. Samsonite's name brand is traditionally mid-level. It will never be priced as high as Gucci or Ferragamo. American Tourister is a discount brand sold at Wal-Mart.

Assembling a proper peer group for Samsonite is difficult because of the absence of other pure play luggage makers. But in terms of gross margins and brand reputation, it is smarter to compare Samsonite to a peer group of mid-tier brands, including Tapestry (TPR) (which owns Coach and Kate Spade), PVH.N (which owns Calvin Klein and Tommy Hilfiger), Hugo Boss (BOSS.DE), Michael Kors (KORS.K) and Ralph Lauren (RL). Even this comparison is charitable, as consumers are more likely to care about a fashionable item from Ralph Lauren (and purchase such items far more frequently) than a suitcase they keep in their closet and replace every eight to ten years.

But our point is that even if we are charitable, and value the luggage maker on a median EV/EBITDA multiple (11.0x) as such mid-tier brands (TPR, BOSS, KORS, RL**,** PVH), Samsonite's stock appears grossly overvalued.

There are signs that the wheels are beginning to come off. Samsonite reported negative operating cash flows in Q1 2018 for the first quarter in two years. Without more acquisitions, we believe that the Company will struggle to hide deteriorating cash flows and other material weaknesses in its underlying business.

For the purposes of our valuation, we value Samsonite as a blended average of four methodologies. **Please see the Valuation Section at the end of this Report for our detailed calculations**. A blended average of our four valuation approaches yields a share price of HKD 17.59 per share, 48% below Samsonite's last traded price.

Blended Valuation

Valuation Methodologies	***Est. Stock Price***
Adjusted EV/TTM EBITDA	19.11
Adjusted Forward EV/EBITDA	19.00
EV/TTM FCF	9.51
Adjusted Forward P/E Multiple	22.75
Average	**17.59**
Current trading price	34.05
Downside	***-48%***

Source: Samsonite Public Filings, Blue Orca Calculation

There are reasons to believe that our valuation is conservative, and that the down side could be even more significant to Samsonite's stock price. First, we compare Samsonite to fashion brands like Ralph Lauren, Kate Spade and Calvin Klein, which is likely charitable. Second, our valuation does not quantify the growing balance of stale inventory which we believe will hamper growth and crush margins. Third, we apply only a 15% corporate governance discount.

We believe that Samsonite's board of directors has no choice but to terminate Ramesh Tainwala for fabricating a doctorate credential on his CV. We also believe it is imperative for the board of directors and particularly the audit committee to appoint an independent audit firm to scrutinize all transactions involving Company JV Samsonite South Asia, the Company's treatment of inventory and its purchase price accounting. This inquiry must also scrutinize the litany of disclosed and undisclosed connections between Samsonite South Asia, Abhishri, Bagzone and other entities owned and controlled by the Tainwala family.

Ultimately, we believe that Samsonite is simply carrying too much baggage to trade at such a high premium.

INTRODUCTION: A HISTORY OF MEDIOCRITY

Samsonite traces its origins as far back as 1910, to a Colorado trunk manufacturer. Despite longevity, consistent success has eluded the luggage maker. Samsonite was listed on the Nasdaq from 1994 until 2002, when it was delisted for failing to meet the exchange's minimum listing requirements. In July 2003, a private equity group led by Ares recapitalized the Company, reportedly as Samsonite was only weeks from bankruptcy.

Despite continued unprofitability, the Ares group sold Samsonite to private equity firm CVC for $1.7 billion in 2007. CVC pushed for growth by expanding the number of Samsonite retail stores.

The timing could not have been worse. Secular headwinds during the financial crisis, lagging retail sales from brick-and-mortar stores, and $1.34 billion in debt from the privatization weighed on Samsonite until it declared bankruptcy in 2009 and went into chapter 11 restructuring. As part of the 2009 restructuring, Samsonite wrote down $1.5 billion in debt and closed 84 American retail locations, 49% of its stores in the U.S.

In chapter 11, CVC recapitalized Samsonite with an additional $110 million in cash equity investment. Samsonite's current chairman, Timothy Parker joined as CEO as part of the restructuring. Two years later, Samsonite went public in Hong Kong in a June 2011 IPO. Even the IPO was disappointing, with Samsonite raising just $1.25 billion despite targeting $1.5 billion in capital. Despite an oversubscribed book, Samsonite's shares priced at HKD 14.50 per share, even though just days prior the Company had targeted an IPO at HKD 17.50 per share.

Samsonite's current strategy is to spit in the face of prevailing economic and consumer trends. Brick-and-mortar retail stores are struggling as consumers shift discretionary purchasing online. In 2017, retailers closed almost 7,000 stores in the U.S., beating the previous record for store closures in 2008 during the doldrums of the financial crisis. More than 300 retailers filed for bankruptcy in the first half of last year. It has become axiomatic that Amazon and e-commerce platforms represent an existential threat to the survival of retail operations. Such trends are not limited to North America. Chinese shoppers show an even more aggressive preference for online shopping. Even high-end luxury brands have struggled. Hermes and Louis Vuitton closed 62 stores in China in 2017.

Yet in spite of what has been called a global "retail apocalypse," Samsonite has aggressively expanded its retail footprint. Samsonite added 127 net new company operated retail stores in 2017.[1] This was merely a continuation of Samsonite's recent push to grow through the addition of retail floor space. Samsonite added 285 net new stores in 2016 (202 from the Tumi acquisition), and 162 net new stores in 2015.[2] In aggregate, Samsonite added a startling 574 net new stores in the last three fiscal years.

To date, Samsonite's reported financial performance has not reflected these secular headwinds. Indeed, Samsonite trades at a premium valuation in line with luxury brands such as Burberry on an EV/EBITDA basis, a premium we believe is entirely unjustified. We suspect that Samsonite has concealed slowing growth through debt fueled acquisitions and that it has massaged earnings and inflated margins through inappropriate purchase price accounting. But investors have yet to unpack Samsonite's baggage. Until now.

[1] Samsonite FY 2017 Annual Results Announcement, p. 11.
[2] Samsonite FY 2016 Annual Report, p. 33.

PURCHASE PRICE ACCOUNTING GAMES

We believe that Samsonite has used purchase price accounting to inflate margins and earnings, masking a core business which is likely struggling. Under accounting rules, an acquiror values a target's balance sheet assets and liabilities at fair market value and allocates the excess of purchase price over net assets to goodwill. Because this process leaves the acquiror's management team with significant discretion on the marks, it is vulnerable to accounting impropriety.

Companies like Samsonite buying growth through expensive, debt-fueled purchases and playing accounting games with the acquisitions are like drug addicts. Such habits are easy to begin, but very difficult to stop. The temporary boost to financial statements from an acquisition quickly fades, forcing serial acquirers to look for their next score. Fresh off of a spat of major acquisitions, Samsonite has made rumblings about its next fix, saying in March 2018 that it now desires to acquire a women's handbag company. But if history is any guide, the market should be skeptical. In some ways Samsonite reminds us of an early-stage Valeant, another company which used aggressive accounting and serial acquisitions to mask fundamental weaknesses in its core business.

1) Tumi: Payables from Thin Air

In 2016, Samsonite's core business was flailing. The Company's net profits for the first half of FY 2016 were only $82.4 million, down 12.7% from the same period in FY 2015.[3] The decline in profits was notable because revenue was up slightly in the period, signaling an erosion of operating margins. Like many businesses faced with eroding profitability from a slow-growing business, Samsonite turned to debt-financed acquisitions.

On August 1, 2016, Samsonite completed its acquisition of Tumi Holdings, Inc. ("Tumi"), the luggage and bag maker famous for its popularity among khaki-pants wearing McKinsey consultants and over-zealous business school students. The acquisition did not come cheap.

Samsonite paid $1.8 billion to acquire Tumi, which at the time was a publicly listed company in the United States, taking it out at a multiple of 13.6x EV/EBITDA. To finance the purchase, Samsonite borrowed $2.4 billion in debt (a term loan plus a revolver), which after paying down its existing facilities left Samsonite with $1.88 billion in debt at the end of FY 2016.

We believe that Samsonite has engaged in questionable decisions with respect to the purchase price accounting for the Tumi acquisition. IFRS rules give an acquiror discretion to mark up or down a target company's assets and liabilities to reflect their fair market value at the time of the acquisition. Certain categories allow for more discretion. Estimates of intangible assets for example, involve more of a judgment call than the fair value of receivables or payables, the values of which are more readily verifiable because of their shorter-term maturities, predictability and established billing and credit terms with customers and suppliers.

In Tumi's last quarterly report prior to the acquisition, Tumi reported $39 million in accounts payables as of June 26, 2016. This figure was largely unchanged from the quarter ending December 2015 ($36 million), indicating that Tumi's cash conversion cycle and payables balances were relatively predictable.

[3] Source: Samsonite Public Filings; https://www.cnbc.com/2016/08/29/samsonite-ceo-bets-on-tumi-acquisition-for-future-earnings-growth.html.

TUMI HOLDINGS, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets (continued)
(In thousands, except share and per share data)

	June 26, 2016 (unaudited)	December 31, 2015
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 38,969	$ 35,844
Notes payable	2,204	—
Accrued expenses	37,539	39,130
Income taxes payable	571	615
Short- term debt	4,407	—
Total current liabilities	83,690	75,589
Other long- term liabilities	15,507	12,775
Deferred tax liabilities	43,310	42,734
Total liabilities	142,507	131,098

Source: Tumi 10-Q, for quarter ending June 2016

Yet in Samsonite's purchase price accounting of the Tumi acquisition, the Company claimed that Tumi had $139 million of trade and other payables as of August 1, 2016, $100 million more than Tumi reported just one month before.

(Expressed in thousands of US Dollars)	
Property, plant and equipment	102,309
Identifiable intangible assets	986,984
Other non-current assets	5,441
Inventories	109,735
Trade and other receivables	27,855
Other current assets	26,801
Cash	145,507
Deferred tax liability	(370,183)
Current loans and borrowings	(4,409)
Other non-current liabilities	(1,665)
Trade and other payables	(138,660)
Other current liabilities	(3,205)
Total identifiable net assets acquired	886,510
Goodwill	944,278
Total purchase price	1,830,788

Source: Samsonite 2017 Annual Results

Samsonite's purchase price accounting reported a balance of payables for Tumi ($139 million) that easily exceeded Tumi's pre-acquisition reported payables ($39 million). Even if Samsonite included Tumi's accrued expenses as "trade and other payables," it is only an additional $38 million. Samsonite's purchase price accounting reported a balance of trade and other payables almost as large as the balance of **total liabilities ($143 million) reported by Tumi in its SEC filings for the quarter ending one month before the acquisition**.

The balance of payables should not be an area of purchase price accounting subject to much discretion. It is simply an aggregate of outstanding bills owed to suppliers, papered by invoices that were most likely sent before or around the time of the acquisition. Tumi stated in its SEC filings that such obligations were "short term maturity," making them easier to estimate.

To put this in context, in the previous **10 quarters**, Tumi had never reported a balance of accounts payable higher than $48 million. If we include accrued expenses and income taxes payable, Tumi had never reported a balance of total payables and accrued expenses higher than $78.5 million over the previous ten quarters.

Tumi Trade and Other Payables Grew 80% in a Month?

	2014				2015				2016		
USD M	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Average
Accounts payable	33.5	43.7	47.5	33.9	28.3	38.8	42.3	35.8	28.7	39.0	37.2
Accrued expenses	26.6	29.3	31.0	34.8	31.2	33.4	34.2	39.1	36.4	37.5	33.3
Income taxes payable	4.2	0.0	0.0	2.3	1.1	0.0	0.0	0.6	0.6	0.6	0.9
Total	64.3	73.0	78.5	71.0	60.6	72.2	76.5	75.6	65.7	77.1	71.4
Reported by Samsonite										138.7	138.7
Difference %										***80%***	***94%***

Source: Tumi Quarterly Financials

But on the acquisition date (August 1, 2016), Samsonite reported that Tumi's trade and other payables were $138.7 million. This was $61.6 million more than Tumi reported in payables and accrued expenses just a month prior, and $67.2 million more than Tumi's average balance of payables and accruals in the previous ten quarters.

In our view, it appears that Samsonite simply conjured the additional payables out of thin air. We believe that this is a significant red flag and evidence of accounting impropriety.

The potential benefit to Samsonite is obvious. By overstating Tumi's balance of payables at acquisition, Samsonite can avoid having to run at least $61.6 million in subsequent expenses through its income statement, thereby artificially inflating margins. This amount is certainly a material amount to Samsonite.

We calculate that the Company's EBITDA would be 12% lower and its earnings would be 24% lower than reported if Samsonite had to recognize an additional $61.6 million in expenses on its income statement in H2 FY 2016 and H1 FY 2017. By inflating the balance of acquired payables at Tumi, we believe that Samsonite was able to materially inflate its margins during those periods.

Overstated Tumi Payables to Inflate Samsonite EBITDA

USD M	2016 H2	2017 H1	Cumulative
Samsonite Normalized EBITDA	287	234	521
Less: Overstated Tumi Payables	(31)	(31)	(62)
Estimated Actual Samsonite EBITDA	256	203	459
Difference %	***-11%***	***-13%***	***-12%***
Samsonite Net Profit	173	83	257
Less: Overstated Tumi Payables	(31)	(31)	(62)
Estimated Actual Samsonite Net Profit	142	53	195
Difference %	***-18%***	***-37%***	***-24%***

Source: Company Filings and Blue Orca Calculations

It is no wonder Samsonite's Massachusetts based auditing team at KPMG identified purchase accounting for the Tumi acquisition as a "key audit matter" in FY 2016.

Acquisition of Tumi Holdings Inc. (note 5)

In August 2016, pursuant to a merger agreement negotiated between the boards of directors of the Group and Tumi Holdings Inc. (Tumi), the Group completed its acquisition of Tumi for cash consideration of approximately US$1,830.8 million. This acquisition is significant to the Group's operations and financial results.

Purchase accounting for this transaction includes complex and judgmental estimates and related assumptions necessary for management to determine the fair values of the assets acquired and liabilities assumed, and to allocate purchase consideration to goodwill and separately identifiable intangible assets such as customer contracts and relationships. Significant assumptions include, for example, royalty rates, discount rates, customer attrition rates, revenue growth rates and projected cash flows.

Based on the significance of the acquisition and the complex, judgmental estimation process, this was a key area of audit focus.

Source: [Samsonite 2016 Annual Report]

Payables are not an area subject to much discretion, especially considering that Tumi's payables were relatively predictable based on its historical financial statements. In our opinion, Samsonite's purchase price accounting decision to inflate Tumi's payables by $61.6 million smacks of accounting games to artificially inflate earnings by avoiding the recognition of expenses. But this is far from the only acquisition-related red flag.

2) Tumi's Asian Distributors: Under-Reported Inventory Balance

In 2017, Samsonite acquired Tumi's distribution network in South Korea, Hong Kong, Macau, China, Indonesia and Thailand, for a total consideration of $64.9 million. Notably, Samsonite's purchase price accounting reported that the value of the inventory acquired in the transaction was **only $9.4 million**.

- On January 4, 2017, the Company's wholly-owned subsidiary in South Korea completed the acquisition of certain assets, including inventory, store fixtures and furniture, as well as rights under retail store leases, from TKI, Inc. ("TKI") with effect from January 1, 2017.
- On April 1, 2017, the Company's wholly-owned subsidiaries in Hong Kong, Macau and China acquired certain assets, including inventory, store fixtures and furniture, as well as rights under retail store leases, from Imaginex Holdings Limited ("Imaginex") with effect from April 1, 2017.
- On May 1, 2017, the Company's non-wholly owned subsidiaries in Indonesia and Thailand assumed direct control of the distribution of Tumi products in each respective country with effect from May 1, 2017.

Source: Samsonite 2017 Annual Report

From a strategic standpoint, the decision is curious. Acquiring a distribution network with a host of brick-and-mortar locations is spitting into the winds of a global (and Asian) retail apocalypse. Perhaps predictably, such distributors made a net loss of $0.2 million in FY 2017 (post-acquisition).

Much like the Tumi acquisition, the purchase price accounting for Tumi's Asian distributors raises a number of red flags. Given that Samsonite acquired a network of distributors and physical stores, it is conceivable that Tumi's gross margins would increase. Indeed, the Company reported that Tumi's gross margins increased by 400bp year-over-year in FY 2017.

But it is costly to run brick and mortar stores, so analysts would expect operating and EBITDA margins to come down as Tumi increases its operating footprint. Yet this was not the case. Samsonite's blended operating margins for all brands in its Asian segment barely changed between FY 2016 and FY 2017. Tumi's reported adjusted EBITDA margins even increased year over year by 80bp to 21% in FY 2017.[4]

Samsonite Asian Segment

USD M	2015	2016	2017
Revenues	948	1,029	1,196
Operating Profits	115	196	220
Operating Margin	***12.1%***	***19.1%***	***18.4%***
Depreciation Expense	20	29	39
EBITDA	135	226	259
EBITDA Margin	***14.3%***	***21.9%***	***21.7%***

Tumi

USD M	2016	2017
Revenues	589	665
Gross Profit	368	442
Gross Margin	***62.5%***	***66.5%***
EBITDA	119	140
EBITDA margin	***20.2%***	***21.0%***

Source: Samsonite 2017 Annual Results; Samsonite 2017 Result Presentation

There should have been negative pressure on Tumi's operating and EBITDA margins given that at the time of acquisition, purchase price accounting conventions require Samsonite to mark the acquired inventory at its fair value. But this convention is vulnerable to accounting slights of hand: if Samsonite recorded the acquired inventory at below market value, then after acquiring the distributors it could later sell the inventory for a price above its mark and

[4] Samsonite FY 2017 Annual Results Presentation, p. 9.

maintain (or even grow) its reported margins. That would explain why Tumi's reported EBITDA margins did not decrease when simple logic suggests there would be compression.

There is evidence to confirm this thesis. Samsonite's CEO admitted on Samsonite's Q3 2017 earnings call that the Company was acquiring inventory it previously sold to Tumi's Asian distributors **at the same price** at which it sold such inventory to them. Samsonite's CEO further revealed that the acquired Tumi distributors were carrying about **5 to 6 months of inventory at the time of acquisition**.

Operator

Our next question comes from Edward Lui of Morgan Stanley. Please go ahead.

<Q - Edward Lui>: Hello, Ramesh and Kyle and management. Just two questions here. So I'm just trying to better understand the impact on the financials from taking direct control over some of these, Tumi, some of these other markets for Tumi. So, I think it probably helps to some certain extent on the GP margin improvement of 600 bps from last year to this year, as well as some of these the sales growth as you convert on these wholesale ASP to kind of retail ASP, as you take back some of these markets. So can you just help us better understand, how much of that kind of GP margin improvement was coming from these kind of changing the mix from wholesale and retail? And if you can maybe share some color on what that mix is and how that mix will look three years down the road, in terms of wholesale versus retail?

<A - Ramesh Dungarmal Tainwala>: Well, let me put it like that, the margin expansion that you see in Tumi is only part of it and a smaller part of that is coming because of this conversion from distribution to direct market, because the market that we have to now go in direct. There were not that big – there were not much of sale, which are sitting there. So if you have a 600-basis point improvement in the gross margin, I would say it [ph] has (36:20) partly to do with the less promotional in North American market, so we have been doing less promotional in North America than was done in the previous year pre-acquisition. About 100 basis points to 150 basis point expansion could be seen, because of going direct.

But I must also say that every time [ph] when it buys (36:41) the distributer, the immediate effect of the distributor buyback is margin erosion, because you're buying back the inventory at the price, which you have sold inventory to them and most of the distributors were carrying about let's say five months to six months of inventory, so the immediate impact is there that you buy the inventory at the margin. There the margin was booked in the year before that.

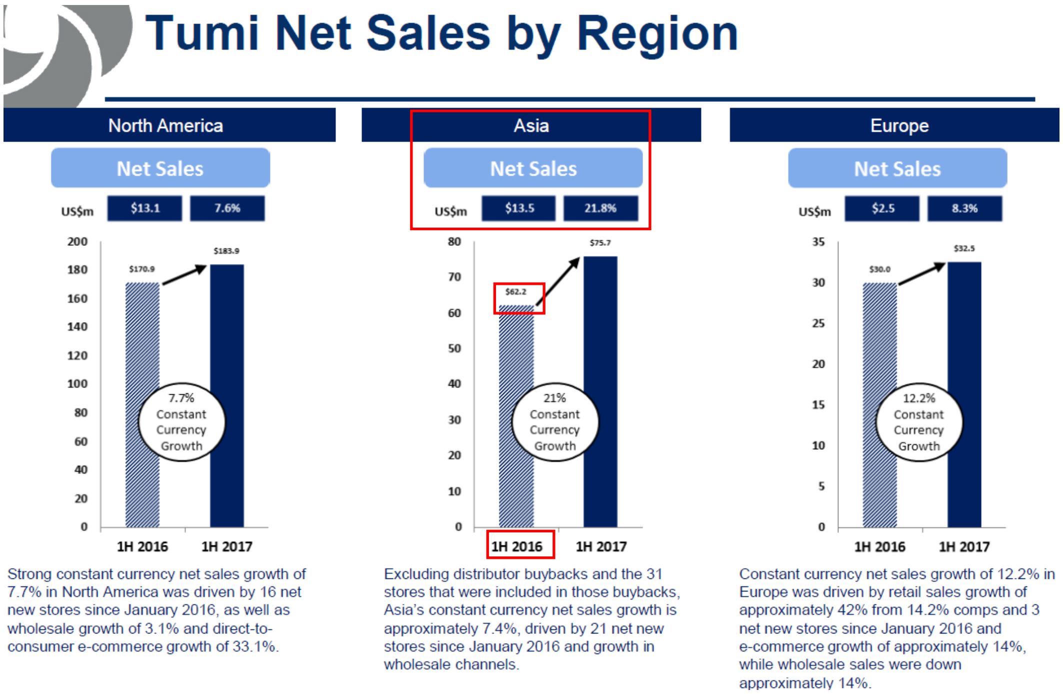
So, the current margin expansion that you've seen is largely because of less promotional base, [ph] some sourcing (37:10) efficiencies also Tumi is able to now ride on let's say on our freight contract of Samsonite and things like that.

Definitely, when you look at 2018, our Tumi gross margin would look more like 70%-plus kind of a level, which will be when you will start to have the full impact of going direct in Asia, will also the negative in Asia, and also the negative effect of buying the inventory at the price at which we have sold inventory in the previous year will also be a – let's say mitigated. And the third is that we're also now trying to – let's say, make their entire supply chain primarily on the logistics side also make it more efficiently.

Source: Q3, 2017, Samsonite Conference Call

The numbers do not add up. Acquired distributors should be carrying inventory at the same price which, pre-acquisition, such distributors purchased the inventory from Samsonite. If the acquired Asian Tumi distributors were carrying 6 months of inventory at the time of the transaction, then by simple logic that balance would represent **six months of prior sales** from Tumi to its acquired Asian distributors.

Samsonite disclosed that in the first half of 2016, Tumi's net sales in Asia were $62 million.



Source: *[Samsonite 2017 Interim Results Presentation]*

Samsonite reported that Tumi's total sales in Asia were $133 million in FY 2016, meaning that sales in the second half of that year were $71 million.[5] Other than a few stores in Japan, we also know from Tumi's prior SEC filings that almost all of its sales in Asia were as a wholesaler to third-party distributors.[6]

Per Samsonite's disclosures, Japan and India accounted for 14.5% and 11.6%, respectively, of its Asian sales in FY 2017. We believe that this blended geographical breakdown of sales in Asia is representative across Samsonite's brands, including Tumi.

(b) Geographical Information Continued (b) 地域資料 續
(i) Revenue from External Customers Continued (i) 來自外部客戶的收益 續

(Expressed in thousands of US Dollars)	(以千美元呈列)	Year ended December 31, 截至12月31日止年度 2017		2016
Asia:	亞洲：			
China	中國	276,929	23.2%	251,729
South Korea	南韓	211,594	17.7%	178,176
Japan	日本	172,861	14.5%	135,041
Hong Kong[1]	香港[1]	145,890	12.2%	109,093
India	印度	138,223	11.6%	128,056
Australia	澳洲	71,908	6.0%	67,959
United Arab Emirates	阿拉伯聯合酋長國	46,623	3.9%	45,881
Thailand	泰國	32,107	2.7%	27,551
Indonesia	印尼	29,372	2.5%	19,069
Singapore	新加坡	29,297	2.4%	26,262
Taiwan	台灣	24,934	2.1%	23,910
Other	其他	16,451	1.4%	15,851
Total Asia	亞洲合計	1,196,189		1,028,578

Source: *[Samsonite 2017 Annual Report]*

Samsonite acquired Tumi's distribution network in China (23.2% of sales), South Korea (17.7% of sales) and Hong Kong (12.2% of sales). Samsonite also disclosed that the acquired Tumi distributor in Hong Kong included sales to distributors in other parts of the Asian region (Australia 6% and other 9.8%). We can therefore calculate that the acquired Tumi distributors should account for 69% of Tumi's Asian sales.

5 FY 2017 Samsonite Annual Results Presentation, p. 10.
6 Prior to the acquisition of its Asian distributors, SEC filings indicate that Tumi operated primarily as a wholesaler in Asia. Tumi FY 2015 10-K.

During the year ended December 31, 2017, net sales attributable to the Tumi business within Asia were recorded in Japan, South Korea (where the Group assumed direct control of the distribution of the *Tumi* brand on January 1, 2017), Hong Kong, Macau and China (where the Group assumed direct control of the distribution of the *Tumi* brand on April 1, 2017) and Indonesia and Thailand (where the Group assumed direct control of distribution on May 1, 2017). Net sales recorded in Hong Kong also included sales to third party distributors of the *Tumi* brand in various markets in the Asia region, excluding Japan, South Korea, Hong Kong, Macau, China, Indonesia and Thailand (from the respective dates of assuming direct control of distribution) where the Group has direct control of the distribution of the *Tumi* brand. Japan experienced strong constant currency growth of 32.0% year-on-year. Excluding amounts

Source: Samsonite 2017 Annual Results

If Tumi's sales in Asia (before Samsonite acquired the Tumi distributors) were $70.8 million in 2H 2016, then excluding online sales (4.7%), sales in Japan (14.5%), Thailand (2.7%), Indonesia (2.5%) and presumably sales in India (11.6%), six months of inventory for the acquired Tumi distributors should have been at least $46.4 million.

Yet Samsonite's purchase price accounting for the acquired distributors valued 5-6 months of their inventory at only $9.4 million, which we calculate is **80% less than the amount of Tumi's sales to such distributors in the previous 6 months**.

Understated Inventory of Tumi Asian Distributors

USD M	2016 H1	2016 H2
Asian Revenue	62.2	70.8
% revenue - ex. JP, TH, ID, IN	68.9%	68.9%
Estimated online sales percentage	4.7%	4.7%
Asian Revenue - ex. JP, TH, ID, IN &online sales	40.8	46.4
Reported Distributors Inventory	9.4	9.4
Understatement	(31.4)	(37.0)
Difference %	***-77%***	***-80%***

Source: Samsonite Public Filings, Blue Orca Calculation

We believe that Samsonite played purchase price accounting games by marking the acquired inventory below both its fair value and the price at which Samsonite sold such inventory to its distributors. Then, post-acquisition, Samsonite was able to sell the acquired inventory, thereby inflating EBITDA and operating profits by at least $37 million.[7]

In further support of our suspicion, Samsonite claimed that of $64.9 million in **total** consideration, $52 million or 80% of the value of the acquired distributors was either goodwill or nebulous "customer relationships."

(Expressed in thousands of US Dollars)	*(以千美元呈列)*	
Property, plant and equipment	物業、廠房及設備	3,834
Identifiable intangible assets	可識別無形資產	16,880
Inventories	存貨	9,370
Other current assets	其他流動資產	253
Trade and other payables	應付賬款及其他應付款項	(791)
Total identifiable net assets acquired	已收購可識別淨資產總額	29,546
Goodwill	商譽	35,369
Total purchase price	總收購價	64,915

Identifiable intangible assets are primarily comprised of customer relationships that will be amortized over the estimated useful life.

可識別無形資產主要包括將按估計可用年期攤銷的客戶關係。

Goodwill in the amount of US$35.4 million was recognized as a result of the acquisitions. The goodwill is attributable mainly to the synergies expected to be achieved from integrating the distributorships into the Group's existing business. All of the goodwill recognized is expected to be deductible for tax purposes.

本集團已就該等收購事項確認35.4百萬美元的商譽。商譽主要由於預期將分銷權合併至本集團現有業務所達致的協同效益所致。預期全部已確認商譽均可就稅務目的予以扣除。

Source: Samsonite 2017 Annual Report

[7] Calculation is as follows. 2H 2016 Tumi sales to Asian distributors was $70.8 million. We assume, based on Samsonite's disclosures, that the acquired distributors held 6 months of inventory on their balance sheets at the time of the acquisitions. If we subtract sales to non-acquired distributors (ex Japan, Thailand, India and Indonesia) and online sales, we estimate that Samsonite sales to acquired distributors was $46.4 million in 2H FY 2016. Given that Samsonite marked the acquired inventory at only $9.4 million, we estimate that the understatement (i.e., market value of acquired inventory minus recognized amount) was at least $37 million.

What customer relationships were so valuable for distributors selling luggage through retail outlets? It is our suspicion that Samsonite inflated the value of nebulous customer contracts to offset the inappropriate markdown in inventory. That would explain why Samsonite's margins in Asia did not compress despite an enlarged operating burden.

There is also evidence to support this suspicion from previous Samsonite acquisitions, albeit at smaller dollars. In February 2015, Samsonite's UK subsidiary Samsonite Limited acquired UK based luggage retailer Rolling Luggage for £11 million. Companies House records from Samsonite Limited show that the Company marked down the value of acquired inventory by 49% upon acquisition.

2 Acquisitions of businesses

Acquisitions in the prior period

On 16 February 2015, the Company acquired the business of Rolling Luggage for cash consideration of £11,048,000. The company is a retailer of luggage and bags with a significant retail footprint in some of the world's leading airports. In the ten months to 31 December 2015 the business contributed revenue of £12,933,000 and net profit of £782,000 to the revenue and net profit for the prior year.

Effect of acquisition

The acquisition had the following effect on the Company's assets and liabilities.

	Book value £000	Fair value adjustments £000	Recognised values on acquisition £000
Acquiree's net assets at the acquisition date:			
Intangible fixed assets	139	(139)	-
Tangible fixed assets	310	(114)	196
Stocks	2,062	(1,004)	1,058
Trade and other debtors	133	-	133
Cash	2	-	2
Trade and other creditors	(1,893)	-	(1,893)
Net identifiable assets and liabilities	753	(1,257)	(504)
Consideration paid:			
Cash price paid			11,048
Total cash consideration			11,048
Goodwill on acquisition			11,552

Source: U.K. Companies House Filings, Samsonite Limited, FY 2016

When it acquired Rolling Luggage, Samsonite slashed the value of the target's inventory by 49% below carrying value. As a result of its purchase price accounting, Samsonite reported that Rolling Luggage had **negative book value** at the time of acquisition and thereby allocated more than 100% of the purchase price to goodwill.

Without the financials of Tumi's acquired Asian distributors, it is impossible to know for sure if Samsonite slashed the value of acquired inventory in its purchase price accounting as it did with Rolling Luggage. But that would explain how Samsonite acquired a network of distributors and brick-and-mortar retailers yet did not report a decline in Tumi's EBITDA margins in FY 2017.

We calculate, based on Samsonite's disclosures, that the acquired Asian distributors accounted for $46.4 million in Tumi sales in 2H 2016 (ex. Online, Japan, Thailand, Indonesia and India), and we know from Samsonite's CEO that the distributors held 5-6 months of inventory at the time of acquisition. We estimate therefore, based on the $9.4 million in disclosed inventory at the distributors in Samsonite's questionable purchase price accounting, that Samsonite inappropriately marked down the value of acquired inventory by approximately 80%.

Samsonite's margins are slim, so the benefit to marking acquired inventory below its market value would be significant. An extra $37 million would flow straight to Samsonite's bottom line and mask a struggling underlying business.[8]

[8] Calculation is as follows. We estimate that the value of six months of acquired inventory at the Tumi Asian distributors was $46.4 million; minus $9.4 million in disclosed value of acquired inventory, yields $37 million in inappropriately recognized profits.

Understated Tumi Asian Distributor Inventory to Inflate Samsonite EBITDA

USD M	2017 H1	2017 H2	Cumulative
Samsonite Normalized EBITDA	234	327	561
Less: Understated Tumi Asian Distributor Inventory	(19)	(19)	(37)
Estimated Actual Samsonite EBITDA	216	309	524
Difference %	***-8%***	***-6%***	***-7%***
Samsonite Net Profit	83	251	334
Less: Understated Tumi Asian Distributor Inventory	(19)	(19)	(37)
Estimated Actual Samsonite Net Profit	65	232	297
Difference %	***-22%***	***-7%***	***-11%***

Source: Blue Orca Calculation

In this report, we have presented evidence of what we believe to purchase price accounting games in connection with both the Tumi acquisition and the rollup of Tumi's Asian distributors. We estimate that inappropriately increasing Tumi's balance of payables, and inappropriately marking down the value of the distributors' inventory, allowed Samsonite to inflate reported profits by an aggregate of $99 million.

Samsonite Inflated EBITDA by Purchase Accounting

USD M	2016 H2	2017 H1	2017 H2	Cumulative
Samsonite Normalized EBITDA	287	234	327	848
Adjustment:				
Overstated Tumi Payables	(31)	(31)	0	(62)
Understated Tumi Asian Distributor Inventory	0	(19)	(19)	(37)
Impact to Samsonite Normalized EBITDA	(31)	(49)	(19)	(99)
Estimated Actual Samsonite EBITDA	256	185	309	749
Difference %	***-11%***	***-21%***	***-6%***	***-12%***
Samsonite Net Profit	173	83	251	507
Adjustment:				
Overstated Tumi Payables	(31)	(31)	0	(62)
Understated Tumi Asian Distributor Inventory	0	(19)	(19)	(37)
Estimated Actual Samsonite Net Profit	142	34	232	409
Difference %	***-18%***	***-59%***	***-7%***	***-19%***

Source: Blue Orca Calculation

We believe that with proper purchase price accounting, Samsonite would have reported 12% less EBITDA and 19% less in earnings over 18 months ending H2 2017. This amount is clearly material, as it would exceed the Company's reported EBITDA growth in FY 2017. As discussed in our valuation, Samsonite trades at a premium valuation in line with luxury brands because of its perceived growth. But we think such growth is largely illusory, and is more likely due to inappropriate purchase price accounting rather than a solid underlying business.

ZERO-MARGIN INVENTORY FORESHADOWS FALLING PROFITABILITY

Despite reporting seemingly impressive margins, Samsonite's balance sheet shows a growing balance of zero-margin inventory. Not only is this mounting balance a red flag which undermines confidence in the Company's reported profitability, but the buildup of effectively stale inventory foreshadows a future margin crash.

Pursuant to IFRS guidelines, Samsonite carries its inventories **at the <u>lower</u> of cost or net realizable value (NRV)**.

3. Summary of Significant Accounting Policies Continued

(g) Inventories

Inventories are carried at the lower of cost or net realizable value. Cost is calculated using the weighted average method. The cost of inventory includes expenditures incurred in acquiring the inventories, production costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Cost also may include transfers from other accumulated comprehensive income (loss) of any gain or loss on qualifying cash flow hedges of foreign currency purchases of inventories. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Source: Samsonite 2017 Annual Report

Samsonite defines NRV as the estimated selling price in the ordinary course of business, less than the estimated costs of completion and selling expenses. Inventory which Samsonite expects to sell at a profit is carried at cost. By contrast, any inventory carried at NRV on its balance sheet is by definition carried **<u>at a mark below cost</u>**, meaning that Samsonite does not expect to sell such inventory at a positive gross margin.

Alarmingly, the percentage of Samsonite's inventory carried at a mark below cost (i.e., at NRV) has risen dramatically in the last two fiscal years (FYs 2016 and 2017).

9. Inventories 9. 存貨

Inventories consisted of the following: 存貨包括以下各項：

(Expressed in thousands of US Dollars)	*(以千美元呈列)*	December 31, 12月31日 2017	2016
Raw materials	原材料	**38,436**	23,913
Work in process	在製品	**2,581**	1,779
Finished goods	製成品	**541,977**	395,642
Total inventories	總存貨	**582,994**	421,334

The amounts above include inventories carried at net realizable value (estimated selling price less costs to sell) of US$229.6 million and US$180.8 million as of December 31, 2017 and December 31, 2016, respectively. During the years ended December 31, 2017 and December 31, 2016, the write-down of inventories to net realizable value amounted to US$6.0 million and US$6.2 million, respectively. During the years ended December 31, 2017 and December 31, 2016 the reversal of reserves recognized in profit or loss amounted to US$2.9 million and US$1.3 million, respectively, where the Group was able to sell the previously written-down inventories at higher selling prices than previously estimated.

以上金額包括按可變現淨值(估計售價減銷售成本)列賬的存貨，於2017年12月31日及2016年12月31日分別為229.6百萬美元及180.8百萬美元。截至2017年12月31日及2016年12月31日止年度，存貨撇減至可變現淨值分別為6.0百萬美元及6.2百萬美元。截至2017年12月31日及2016年12月31日止年度，於損益中確認的儲備撥回分別為2.9百萬美元及1.3百萬美元，因本集團以高於先前估計的售價出售過往撇減的存貨。

Source: Samsonite 2017 Annual Report

In FY 2017, Samsonite reported that $229.6 million of its inventory was carried at NRV, on a year-end balance of only $542 million in finished goods. **In other words, Samsonite did not expect to make a profit on 42% of its inventory of finished goods!**

Samsonite Growing Inventory Carried at NRV

USD M	2011	2012	2013	2014	2015	2016	2017
Raw Materials	15	15	21	18	23	24	38
WIP	2	2	2	2	2	2	3
Finished Goods	220	261	275	313	324	396	542
Total Inventories	237	278	298	332	348	421	583
Inventories carried at NRV	48	70	71	103	95	181	230
% NRV of Finished Goods	**22%**	**27%**	**26%**	**33%**	**29%**	**46%**	**42%**

Source: Samsonite Public Filings

Samsonite's financials show a significant increase in the percentage of inventory carried at NRV in the last two years (42% in FY 2017 and 46% in FY 2016), well above historic averages. Despite the large percentage of inventory at NRV, the write-downs associated with such inventory were only $6 million and $6.2 million in FYs 2017 and 2016 respectively.

If Samsonite did not expect to sell almost half (46%) of its stock of finished inventory for a profit, how did the Company maintain margins in FY 2017?

Samsonite Gross Margins

USD M	2011	2012	2013	2014	2015	2016	2017
Net sales	1,565	1,772	2,038	2,351	2,432	2,810	3,491
Sales Growth %		*13%*	*15%*	*15%*	*3%*	*16%*	*24%*
Cost of sales	708	821	949	1,107	1,154	1,290	1,531
Gross Profit	857	951	1,088	1,244	1,279	1,521	1,960
Gross Margin %	***54.8%***	***53.7%***	***53.4%***	***52.9%***	***52.6%***	***54.1%***	***56.1%***

Source: Samsonite Public Filings

The cash conversion data also suggests that margins should have suffered. Samsonite's average reported day sales in inventory (DSI) was just over 120 days in FY 2017. If the Company is turning over its inventory every four months, and 46% of its inventory was marked below cost at the beginning of FY 2017, how did it churn through the stale inventory without profit margins declining?

Samsonite Days Inventory Outstanding

	2015 H1	2015 H2	2016 H1	2016 H2	2017 H1	2017 H2
Days Inventory Outstanding	106	110	116	114	116	127

Source: Samsonite Public Filings

As the Company acquires distributors, it makes sense for DSIs to increase, but Samsonite still reportedly turns over its inventory roughly three times per year. The NRV-inventory balance raises the question of how the Company sold a little less than half of its inventory balance at zero gross margin without overall margins suffering?

It could be that rather than selling such NRV-carried inventory, Samsonite is merely hoarding it in a warehouse somewhere. In 2017, as part of disclosures around the Company's continuing connected transactions with the CEO's family company, Tainwala Holdings, Samsonite reported an increase in related party transaction volumes due to its "increasing inventory storage requirements."

6. Reasons for, and benefits of, the Tainwala LLA

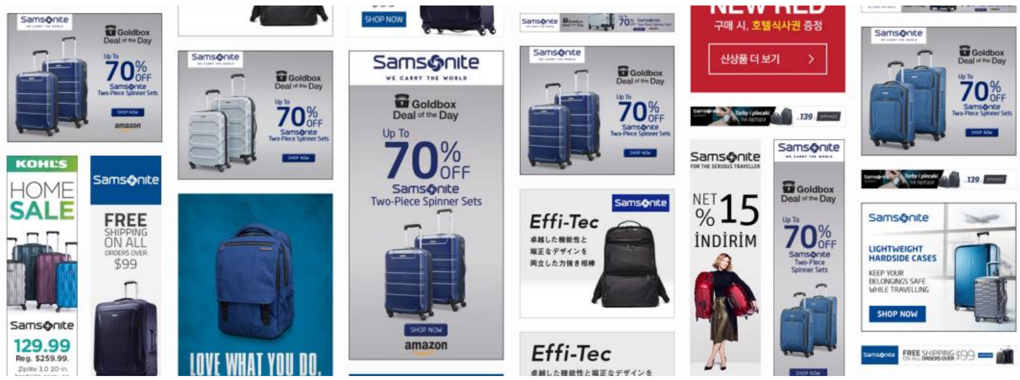
Due to the Group's increasing inventory storage requirements, the existing warehouse space leased by Samsonite India in Nashik, India is no longer sufficient. The warehouse space let by Tainwala

Source: Samsonite Announcement, October 12, 2017

Although the dollar volume under the contract is small, given the increasing balance of NRV-level inventory, it is still a red flag that the Company is turning to related parties controlled by the CEO for its increasing inventory storage needs.

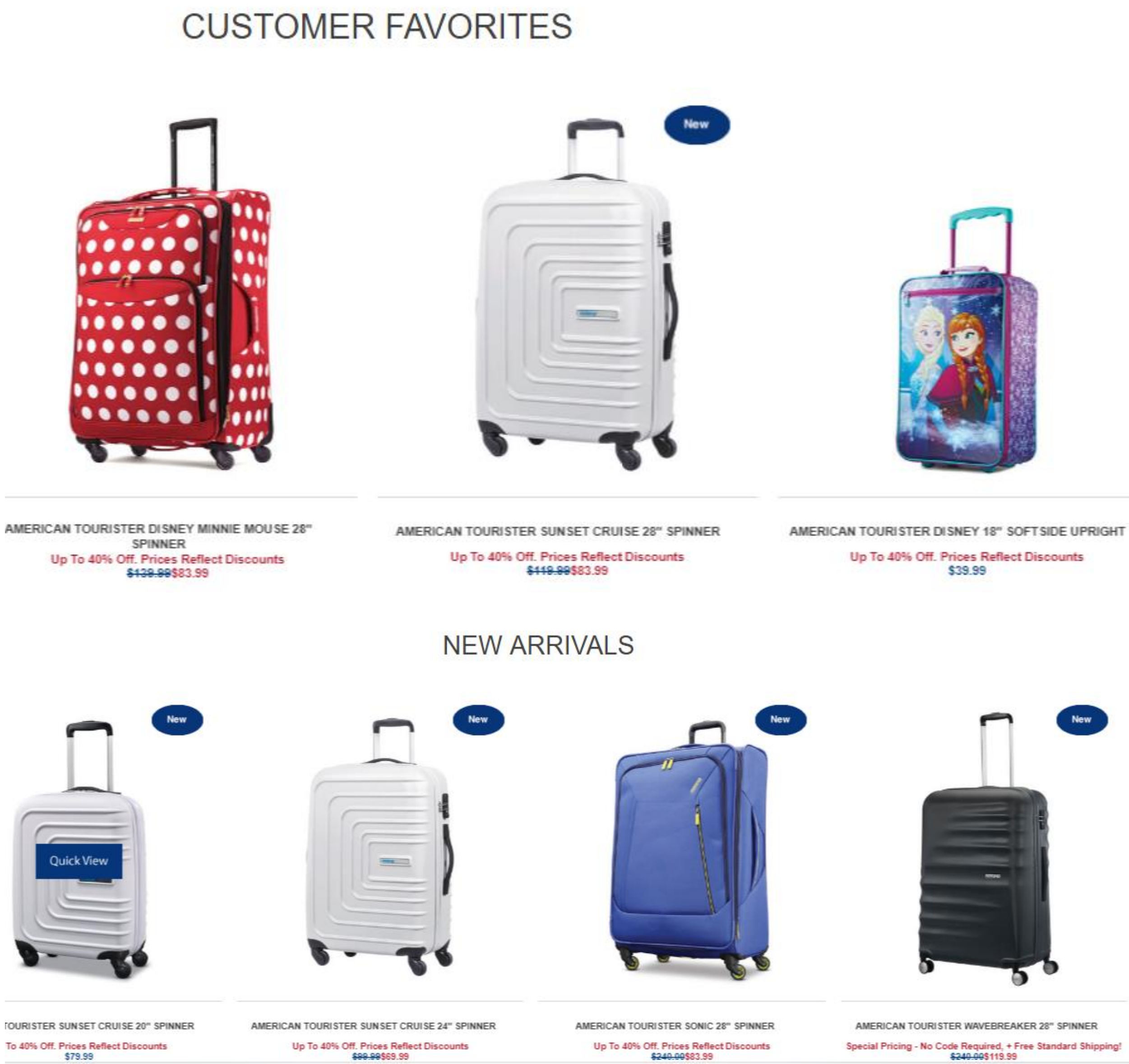
If Samsonite is hoarding increasing amounts of stale inventory, it would explain why margins are apparently immune in the short term to a growing balance of stock marked below cost. But this cannot continue indefinitely. Eventually, such inventory balances must either be written off or sold at zero margin – at which point the Company's margins will come crashing down.

A growing balance of NRV inventory may also explain the heavy discounting of stock that we see in online advertising for Samsonite luggage.



Source: https://moat.com/advertiser/samsonite?report_type=display

A cursory browse online turns up other retailers offering Samsonite luggage for 50% off, including at Macy's, Sears, and Kohl's. Even Samsonite's own websites, including fast growing-brand American Tourister, is offering significant discounts off of customer favorites and new luggage. Marking down inventory 50-70% does not leave much room for Samsonite to achieve its reported 56% gross margins.



Source: https://shop.americantourister.com/home

Such discounting supports our argument of a build-up of zero margin inventory, and foreshadows future margin contraction.

CEO RESUME FRAUD

Any investor who dismisses evidence of questionable purchase price or inventory accounting or other red flags by relying on the credibility of Samsonite's leadership is likely to be sorely disappointed. In our opinion, we have identified a classic case of credential fraud which we believe should lead Samsonite's board of directors to remove its CEO, Ramesh Tainwala.

Although his bio on Samsonite's website omits the reference, evidence suggests that Tainwala has held himself out as doctor, a credential we believe he has falsified.

Tainwala claims that he holds a master's degree in Management Studies from the Birla Institute of Technology and Science in Pilani, India (1982). But a master's degree is no doctorate, and would not confer on him the right to refer to himself as a doctor.

Rather, Tainwala appears to have held himself out as a doctor based on a claimed doctorate degree in Business Administration from the Union Institute & University in Cincinnati, Ohio. Indeed, his bio on Bloomberg lists this credential even though his official Samsonite bio does not.

Education
Birla Institute of Technology & S...
Master's Degree in Management
1982
Union Institute & University
Doctorate Degree in Business Ad...

Source: Bloomberg Screenshot

The Wall St. Journal's online database also refers to him as a doctor and references his supposed doctorate from Union. Indeed, we have found numerous articles in the media, including executive profiles which quote Tainwala and refer to him as a doctor. For example, a March 2017 profile in the magazine Marwar India, quotes Tainwala, and refers to him as a doctor.

The Tainwala Group, founded by Dr Ramesh Tainwala, has prospered and diversified into many segments over time. Dr Tainwala himself heads Samsonite as its CEO today. His son, Ayush Tainwala, at a very young age, has taken over the reins of their business, working as the executive director of Bagzone Lifestyle Private Limited.

Source: http://www.marwar.com/cover-story/family-and-fortune.html

Tainwala's doctor credential also appears in formal settings. A publicly available securities filing in connection with the sale of family business Tainwala Polycontainers Limited to Bombay-listed Time Technoplast from 2006 states that "Dr. Ramesh Tainwala" received a "**Doctorate in Business Administration from the Union Institute Cincinnati**," in the United States.

Dr. Ramesh Tainwala, aged 47 years is a Management graduate from Birla Institute of Technological Sciences (BITS), Pilani. He has also done Doctorate in Business Administration from 'The Union Institute' Cincinnati, U.S.A. Dr. Tainwala is one of the promoters of Tainwala Polycontainers Ltd. He also promoted Tainwala Chemicals & Plastics (I) Ltd in the year 1984, a Company manufacturing extruded plastics sheets . Dr. Ramesh Tainwala is a non-executive Chairman of Tainwala Chemicals & Plastics (I) Limited and Tainwala Polycontainers Limited . He also successfully set up " Samsonite India Private Limited " a joint venture between Samsonite Corporation, U.S.A. and the Tainwala group for manufacturing and distributing " World Class Luggage " sold under the brand name " Samsonite". Dr. Ramesh Tainwala has over 15 years of experience in the plastics industry.

i) The Board of Directors of the Target Company as on the date of Public Announcement was as under:

Name of Director	Date of Birth	Date of appointment	Qualification
Mr. Rakesh Tainwala Managing Director	05/05/1968	28/12/1994	B. Tech. (Computer Engineering)
Dr. Ramesh Tainwala Non-executive Promoter Director-Chairman	08/09/1959	30/09/1992	Management Graduate from BITS Pilani . Doctorate in Business Administration from Cincinnati – U.S.A.

Source: Takeover Code Securities Filing, 2006

There is also evidence that Tainwala used the doctor credential in his time at Samsonite. In Samsonite's SEC filings, made prior to its privatization, including a 2007 S-1 and 10-K, the Company refers to him as a "Dr. Ramesh Tainwala." So does the Company's 2006 10-K.

In Samsonite's S-1 2011 earnings call, **its first call as a public company in Hong Kong**, the Company introduces Tainwala as a doctor.

final

Company Name: Samsonite
Company Ticker: 1910 HK
Date: 2011-08-30
Event Description: S1 2011 Earnings Call

Market Cap: 18,264.64
Current PX: 12.98
YTD Change($): N.A.
YTD Change(%): N.A.

Bloomberg Estimates - EPS
Current Quarter: N.A.
Current Year: 0.091
Bloomberg Estimates - Sales
Current Quarter: N.A.
Current Year: 1537.800

S1 2011 Earnings Call

Company Participants

- William Yue, Investor Relations
- Timothy Charles Parker, Non-Executive Chairman and Chief Executive Officer
- Kyle Francis Gendreau, Chief Financial Officer

Presentation

Operator

Good morning ladies and gentlemen. Welcome to the 2011 Interim Results Announcement for Samsonite International S.A. This the first result announcement for Samsonite since its IPO.

May I now first introduce the management here with us today?

We have on the line Mr. Tim Parker, Chairman and Chief Executive Officer; Mr. Kyle Gendreau, Chief Financial Officer; and with us here in the room today Dr. Ramesh Tainwala, President Asia Pacific and Middle East; and Mr. William Yue, Director of Investor Relations.

Source: Bloomberg Earnings Call Transcript

In a February 2010 slide presentation celebrating Samsonite's 100-year anniversary, Tainwala's profile as President Greater Asia refers to him as a "Dr." and states that he had a PhD in business economics.

Profile – Dr Tainwala

In an increasingly globalised world; few men command the attention that Dr.Ramesh Tainwala does. One of th few Indians to be a part of the ownership structure of an MNC, Ramesh Tainwala could well be corporate India's new global face.

PROFILE

A man; who by his own admission did not know English till he was learning engg. at BITS Pilani, Dr. Ramesh Tainwala has come a long way.

Name : Dr. Ramesh Tainwala
Current Designation : President Greater Asia
Birth Date : 08th Sept 1959
Birth Place : Ranchi Jarkhand
Family : Wife - Shobha Tainwala , Daughter - Anushree Tainwala, Son - Ayush Tainwala
Education – Vikas School Ranchi, BITS Pilani
Bachelors in Industrial Engineering, Masters in Business Administration and a Ph. D in Business Economics.

Work Experience

Started his career as an Entrepreneur by trading in plastic raw material from 1983.
Joined hands with Good Knight in 1985.
Launched wet wipes under the brand name Fresh Ones in 1987.
Got into the Plastic Processing business in 1990.
Launched Samsonite in India 1996
Took over as President Greater Asia of the Samsonite Group in 2004

A advocate of practical retail, Dr.Tainwala has been in the news for steering Samsonite spotlessly through the choppy recessionary phase in 2009. While his targets are stiff; his management style is inclusive and his math is grounded in solid marwadi business

Source: Samsonite 100-year anniversary Slide Presentation

He is even referred to as "Dr." in 2016 Indian regulatory filings of Samsonite subsidiary Samsonite South Asia Private Ltd., the 60/40 JV between the Company and the Tainwala family.

Disclosure of relationship and transactions between related parties [Table] ..(14)

Unless otherwise specified, all monetary values are in INR

Categories of related parties [Axis]	27		28	
	01/01/2016 to 31/12/2016	01/01/2015 to 31/12/2015	01/01/2016 to 31/12/2016	01/01/2015 to 31/12/2015
Disclosure of relationship and transactions between related parties [Abstract]				
Disclosure of relationship and transactions between related parties [LineItems]				
Name of related party	Ms. Amishi Tainwala	Ms. Amishi Tainwala	Dr. Ramesh Tainwala	Dr. Ramesh Tainwala
Country of incorporation or residence of related party	INDIA	INDIA	INDIA	INDIA
Permanent account number of related party	AAAPT9297J	AAAPT9297J	AAAPT9296K	AAAPT9296K
Description of nature of related party relationship	Joint venture	Joint venture	Joint venture	Joint venture
Description of nature of transactions with related party	Joint Venture Investees	Joint Venture Investees	Share Holders	Share Holders

Source: FY 2016 Indian Statutory Filings of Samsonite South Asia Private Limited

Yet when we called Union Institute and University in Cincinnati, the registrar's office told us that Tainwala only enrolled from **February 1992 to September 1993 and that he never obtained any degree**. Union offers online degree programs, so it is unclear whether he ever attended a single class in Cincinnati or enrolled remotely from India.

In the United States, anyone seeking to verify an individual's educational credentials can submit a request through the National Student Clearinghouse ("NSC"). After speaking with the registrar at Union, we submitted a request through the NSC to confirm the registrar's information. The NSC, which any investor or journalist can use to submit a similar request, confirmed that Tainwala never obtained a degree from Union and only attended from 1992 through September 1993.

4/2/2018 National Student Clearinghouse

NATIONAL STUDENT CLEARINGHOUSE

Help Privacy Contact Home

Welcome, Guest | My Account | Log Out

Verification Services

Verification Services

Information verified:

Individual:	RAMESH TAINWALA	Submitted:	03/29/2018
Organization:	UNION INSTITUTE AND UNIVERSITY	Updated:	04/02/2018
Degree:	No Degree -- Enrollment Only		
Dates of Attendance:	02/01/1992 to 09/07/1993		

Source: *http://www.studentclearinghouse.org/*

In our opinion, this is classic credential fraud. We have found numerous articles in the media referring to Tainwala as doctor, suggesting that he has represented himself as a doctorate in his capacity at Samsonite. For example, a 2012 interview refers to him as a doctor and president of Samsonite's Asia Pacific and Middle East. An online record of a 2016 decision by Indian tax authorities likewise refers to him as "Dr. Tainwala."

This misrepresentation is not limited to informal settings. Not only did Samsonite's SEC regulatory filings and Hong Kong earnings call refer to him as a doctor, so does the annual report of Indian public company Basant Agro Tech for which he served as an independent director.

(ii) Dr. Ramesh Tainwala : He is MBA and PhD and was appointed as the Independent Director of the Company on 22.12.2005. He is having wide experience of over 28 years in handling international Business. He is the Head of International Marketing of Samsonite group. With his experience the company will be benefited in the light of its plans of strategic acquisitions and also pursuing new growth opportunities.

Source: Basant Agro Tech Annual Report, 2011-2012

Even today, the website for his own company Tainwala Chemicals refers to him as "Dr. Ramesh Tainwala."

About Us

> *The Tainwala group has diverse production as well as marketing activities in its fold. The core competence of the group lies in plastics processing and marketing. The group has interests in fast moving consumer goods, consumer durables, industrial products, packaging and real estate.*

Tainwala Chemicals & Plastics Ltd. (India)

Flagship of the Tainwala group . The company was founded in september 1985 by Dr. Ramesh Tainwala

Source: *http://www.tainwala.in/about_us.html*

We think that Samsonite is somewhat aware of the problem, because the CEO's official bio on the Samsonite website and the Company's annual reports omit any mention of a supposed doctorate or Union Institute and University. Yet prior Samsonite SEC filings and a Hong Kong earnings call introduced him as Dr. Tainwala, indicating that at some point the Company changed its mind on Tainwala's credentials and how to refer to him.

The abundance of references in the public forum, in media and more official filings, suggests that Tainwala has held himself out as a doctor despite not obtaining such a degree. In our view, this is classic resume fraud, and any legitimate fortune 500 company would remove a CEO caught making such representations.

Yahoo removed CEO Scott Thompson for claiming on his resume that he had a dual major in computer science when he only majored in accounting. Thompson blamed the search firm which had submitted the resume with a false credential to Paypal (where he previously worked), but that excuse did not save him. Nor did it save former Radio Shack CEO David Edmondson who resigned when it was discovered he made up psychology and theology degrees. Corporate boardrooms are littered with the carcasses of executives who have told far more minor lies on their resumes.

Investors are particularly reliant on the creditability of management given the number of related party transactions between the Company and its CEO (and his family), and the considerable discretion of Samsonite's management over critical areas such as purchase price accounting. In our view, evidence of credential fraud is emblematic of a loose relationship with the truth, and Samsonite's board has no choice but to remove him.

RED FLAGS AT SOUTH ASIAN JV

From an auditing standpoint, the entity which is likely most vulnerable to accounting impropriety is Samsonite South Asia Private Limited ("Samsonite South Asia"), the Company's 60/40 joint venture with the Tainwala family. Given that Samsonite South Asia is owned in part by the CEO's family and engages in a number of related party transactions with family owned entities Abhishri and Bagzone, its transactions should be subject to a higher degree of oversight by Samsonite's audit team.

But incredibly, Samsonite South Asia is not audited by a local KPMG affiliate. Rather, it has been audited by a succession of tiny Indian firms, which (if recent past is any guide) resign after one year. There is also evidence of a lack of proper internal controls at Samsonite South Asia.

1) Indian Auditor Resignations

In FY 2015, Samsonite South Asia was audited by Indian KPMG affiliate BSR & Co. But Indian regulatory filings show that BSR then resigned and "expressed their unwillingness to be re-appointed" as statutory auditors.

The retiring Auditors, M/s. BSR & Co LLP, Chartered Accountants, have expressed their unwillingness to be re-appointed as Statutory Auditors of the Company for the Financial Year ending on 31st December, 2016 due to their other commitments. Hence, it was proposed to appoint M/s. Spark & Co., Chartered Accountants (Firm Registration Number: 131242W) as the Statutory Auditor of the Company from the conclusion of upcoming 21st Annual General Meeting of the Company till the conclusion of 22nd Annual General Meeting of the Company.

Source: Indian FY 2015 Statutory Filings of Samsonite South Asia Private Limited

Why would a local KPMG affiliate be unwilling to audit Samsonite South Asia's financials when the Boston-based global audit team remained the Company's auditor of its consolidated Hong Kong financials?

Not only is it a red flag that KPMG-affiliate BSR resigned, but also that it was replaced in FY 2016, by Spark & Co., a small, 5-partner firm based in Pune, India. Until a recent facelift, Spark's website included the hilarious stock photo of a goofy white guy. Nothing about its website or its operation indicate that Spark has the independence or qualifications to be auditing the material subsidiary of a billion-dollar global brand.

Source: screenshot of historical http://spark-ca.com/Spark/about-us website.

This same stock photo is used to sell watches and high-speed internet, hardly a credible look for an auditor.

Source: http://saylifestyleproducts.com/

Curiously, Spark resigned after one year, also citing an "unwillingness to be re-appointed." An odd choice for a tiny firm like Spark to reject a big account for a global brand.

The retiring Auditors, M/s. Spark & Co., Chartered Accountants, have expressed their unwillingness to be re-appointed as Statutory Auditors of the Company for the Financial Year ending on 31st December, 2017 due to their other business commitments.

Source: Indian FY 2016 Statutory Filings of Samsonite South Asia Private Limited

Samsonite South Asia's auditor resigned in FY 2015 and FY 2016. For FY 2017, it appointed Kangude & Waghmode Chartered Accountants, which does not even have a website that we could find. How can such a small, local accountant have the resources, expertise and independence to audit a key subsidiary of a billion-dollar brand?

KPMG's primary audit team is located in Boston, Massachusetts, and likely requires a local Indian partner it can trust to audit a subsidiary which is partly owned by, and transacts with, the Tainwala family. Indeed, KPMG affiliates audit Samsonite's other subsidiaries in the U.K., Australia and the Netherlands.

India is the jurisdiction in which investors want the Company's auditor to be most vigilant in policing transactions between its CEO, his family and Samsonite. Yet the local KPMG affiliate resigned, and now Samsonite South Asia is on its third auditor in its last three years. Moreover, Samsonite South Asia has appointed two tiny audit firms that do not appear, in our opinion, to be in the league required to audit the material subsidiary of a global brand. These audit red flags suggest Samsonite should trade at a corporate governance discount, not a premium to other global brands.

2) Lack of Internal Controls

There is also evidence of a lack of internal controls at Samsonite South Asia. In its Indian regulatory filings, Samsonite South Asia's registered email address is not an @samsonite email account, but a Gmail account listed as Samsonite.secretarial@gmail.com.

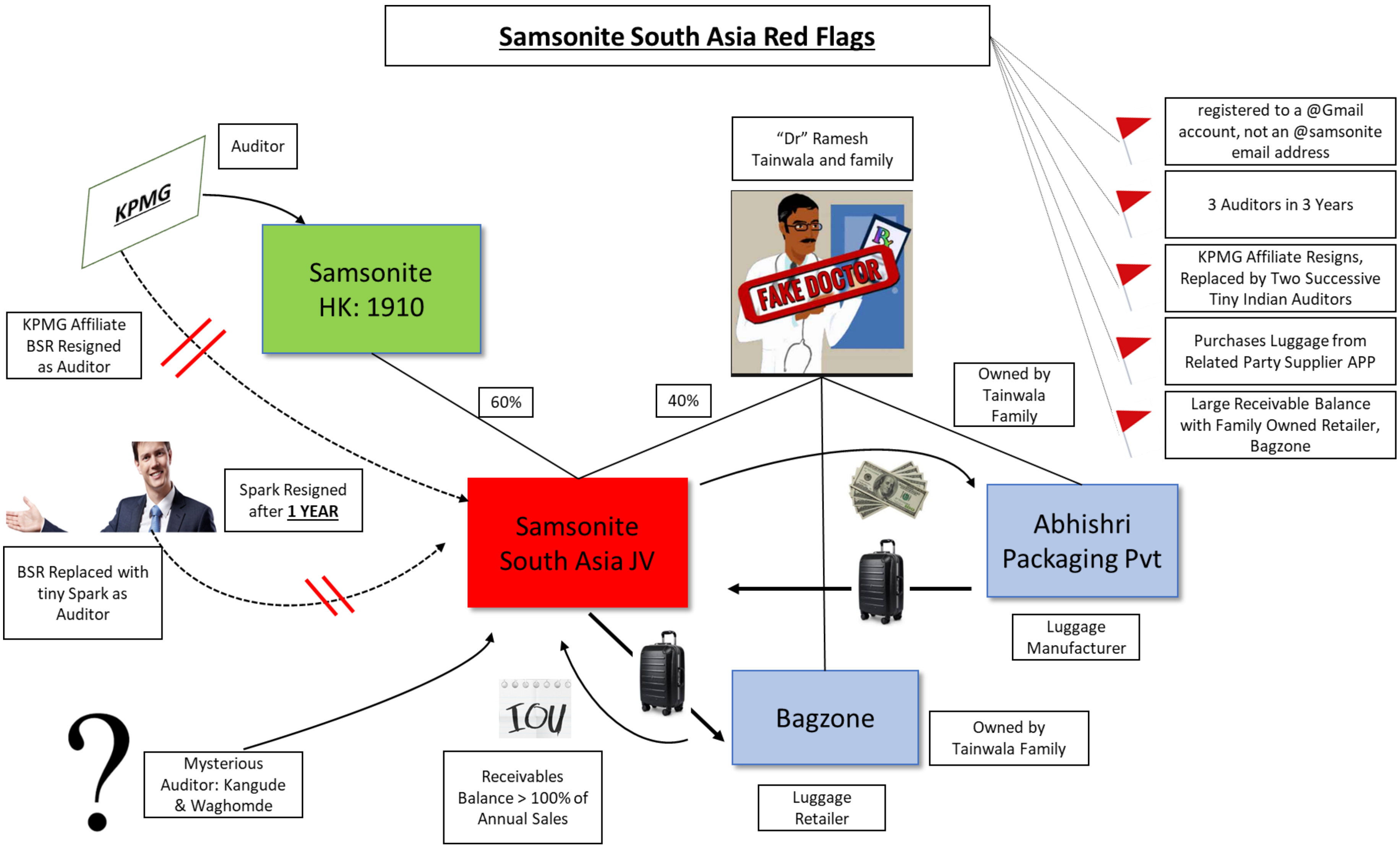
Company Master Data

CIN	U19120MH1995PTC094287
Company Name	SAMSONITE SOUTH ASIA PRIVATE LIMITED
ROC Code	RoC-Mumbai
Registration Number	094287
Company Category	Company limited by Shares
Company SubCategory	Non-govt company
Class of Company	Private
Authorised Capital(Rs)	360000000.0
Paid up Capital(Rs)	354912330.0
Number of Members(Applicable in case of company without Share Capital)	11
Date of Incorporation	08/11/1995
Registered Address	GAT NOS 159 TO 163VILLAGE GONDE (DUMALA) TALUKA IGATPURI NASHIK MH 422403 IN
Address other than R/o where all or any books of account and papers are maintained	-
Email Id	samsonite.secretarial@gmail.com
Whether Listed or not	Unlisted
Suspended at stock exchange	-
Date of last AGM	30/06/2017
Date of Balance Sheet	31/12/2016
Company Status(for efiling)	Active

Source: Samsonite South Asia Indian Regulatory Filings

This email account also appears as Samsonite South Asia's registered email address in online corporate databases. We believe that it is a significant red flag that such a vulnerable entity would conduct business through a generic Gmail account and not through an official @samsonite email account.

Proper internal controls require corporate communications to be on a corporate email server and for official business to be conducted only on corporate email. It allows Company auditors and record keepers to maintain proper records. We consider it suspicious that such a vulnerable entity like Samsonite South Asia would not use an official @samsonite email address for record keeping, which, in our opinion, evinces a material weakness in internal controls.


Samsonite South Asia Red Flags
registered to a @Gmail account, not an @samsonite email address
3 Auditors in 3 Years
KPMG Affiliate Resigns, Replaced by Two Successive Tiny Indian Auditors
Purchases Luggage from Related Party Supplier APP
Large Receivable Balance with Family Owned Retailer, Bagzone
KPMG
Auditor
Samsonite HK: 1910
KPMG Affiliate BSR Resigned as Auditor
"Dr" Ramesh Tainwala and family
FAKE DOCTOR
Owned by Tainwala Family
60%
40%
Spark Resigned after 1 YEAR
Samsonite South Asia JV
Abhishri Packaging Pvt
Luggage Manufacturer
BSR Replaced with tiny Spark as Auditor
IOU
Bagzone
Owned by Tainwala Family
Mysterious Auditor: Kangude & Waghomde
Receivables Balance > 100% of Annual Sales
Luggage Retailer

AUDIT RED FLAGS: MANUAL JOURNAL ENTRIES?

Samsonite's audit profile also raises a number of red flags and corporate governance concerns. Samsonite is audited by a KPMG team led by an engagement partner based in Boston, Massachusetts.[9] Although it is difficult to pin down, we believe that CEO Ramesh Tainwala works from a combination of India, Dubai and Hong Kong. The CFO and General Counsel work out of Samsonite's Massachusetts headquarters.

In its FY 2017 annual report, Samsonite's chairman (Timothy Parker) admits that the Company currently needs greater central oversight. We question whether Samsonite's self-admitted "decentralized management" is appropriate given the number of material transactions in which the Company engages with its CEO and his family-owned related party suppliers and customers.

> We have always seen our business as a specialist in the categories that make up consumers' personal carrying needs. Looking back over 100 years, Samsonite has been through many phases of development, but in recent times the Company has been predominantly a luggage company. It is hard to underestimate just how much change to this model there has been in the last few years. We now have a business that encompasses ten key brands operating in four principal product categories across all the major markets of the world. Although the approach of devolving responsibility to local geographic markets continues to serve us well in terms of responding to often widely differing channel structures and consumer needs, in several key functions we need to have a greater degree of central oversight. Therefore, several new key appointments have been made to the senior management team as Ramesh outlined in his report. In the coming years
>
> category (luggage) and largely wholesale company with net sales of US$1.2 billion in 2010 to the multi-brand, multi-category and multi-channel business we are today, with almost triple the net sales. That said, the complexity of the business has grown considerably along with its size, and it is critical that we fine-tune our decentralized management structure in order to maintain our ability to leverage our global scale, while ensuring that we do not dilute its many benefits that are behind Samsonite's success, particularly the same can-do spirit, sense of ownership, accountability and speed of decision that animates many successful smaller entrepreneurial companies.

Source: Samsonite 2017 Annual Report

How can a Boston-based auditing team effectively scrutinize a decentralized structure in which the supply chain includes material transactions with Chinese manufacturers and an Indian related party owned by the CEO's family?

In our Report, we have identified a number of accounting red flags surrounding Samsonite's inventory, including the increasing balance of inventory carried at NRV which, although it must be sold below cost, does not seem to impact Samsonite's reported margins. Samsonite's treatment of inventory is also a key component of our analysis of purchase price accounting with respect to Tumi's Asian distributors.

It is therefore notable that KPMG has identified Samsonite's revenue recognition as a key audit matter in each of the last two years. Specifically, KPMG has flagged and tested transactions at year end based on the "inherent risk around consistent application of … revenue recognition policies" in the various jurisdictions in which Samsonite operates.

> *Revenue recognition (note 3(o))*
>
> The amount of revenue recognized in the year on the sale of the Groups' products is dependent on the point in time the ownership transfers from the Group to the customer.
>
> The transfer of ownership includes consideration of terms and conditions present in customer contracts, purchase orders or sales orders. This may also be impacted by local regulatory considerations or mode of transport. Since the Group's sales occur in various countries throughout the world, there is an inherent risk around the consistent application of the Group's revenue recognition policies when considering these factors.
>
> Based on these noted risks, we identified revenue transactions recorded at or near year end as a key audit matter.

> **Revenue recognition (note 3(n))**
>
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>
> Based on these noted risks, we identified revenue transactions recorded at or near year end as a key audit matter.

Source: Samsonite 2016 Annual Report; Samsonite 2017 Annual Results

In order to address the key audit matter of revenue recognition, KPMG disclosed a number of procedures it implemented to check the Company's books and records. Notably, KPMG disclosed reviewing "**manual journal entries**" of transactions recorded to revenue during the last month of the last two fiscal years.

[9] Samsonite Annual Results, p. 150.

• We read certain contractual arrangements with key customers enabling us to understand key terms and conditions negotiated, including the provisions for risk of loss, incentives and return rights;	• We read certain contractual arrangements with key customers enabling us to understand key terms and conditions negotiated, including the provisions for risk of loss, incentives and return rights;
• We tested a sample of manual journal entries recorded to revenue during the month ended December 31, 2016;	• We tested a sample of manual journal entries recorded to revenue during the month ended December 31, 2017;
• In order to identify potential material adjustments to 2016 revenue, we tested a sample of credit memos issued subsequent to December 31, 2016;	• We tested a sample of credit memos issued subsequent to December 31, 2017;
• We performed substantive procedures for year-end reserves for selected markdown allowances, returns and discounts; and	• We performed substantive procedures for year end reserves for selected markdown allowances, returns and discounts; and
• We reconciled, on a sample basis, cash receipts back to the customer invoice and purchase order.	• We reconciled, on a sample basis, cash receipts per bank statements to the customer invoice and purchase order.

Source: Samsonite 2016 Annual Report; Samsonite 2017 Annual Results

Why is a global retailer recording revenue from a manual journal entry? We would expect, given the level of supposed sophistication and professionalism of an HKD 49 billion market capitalization company, that revenue transactions would not be jotted down with pen or pencil at year end.

What transactions are papered using a journal? We can assume that the transactions are material, otherwise they would not have been reviewed as part of a key audit matter. Do such journal entries relate to sales or transactions to Tainwala owned related parties?

Samsonite is not a neighborhood Chinese restaurant – so why is it conducting internal accounting like one? Not only is this a corporate governance concern, but an auditing red flag unbecoming of a supposedly professional global brand.

WEB OF DISCLOSED AND UNDISCLOSED RELATED PARTIES

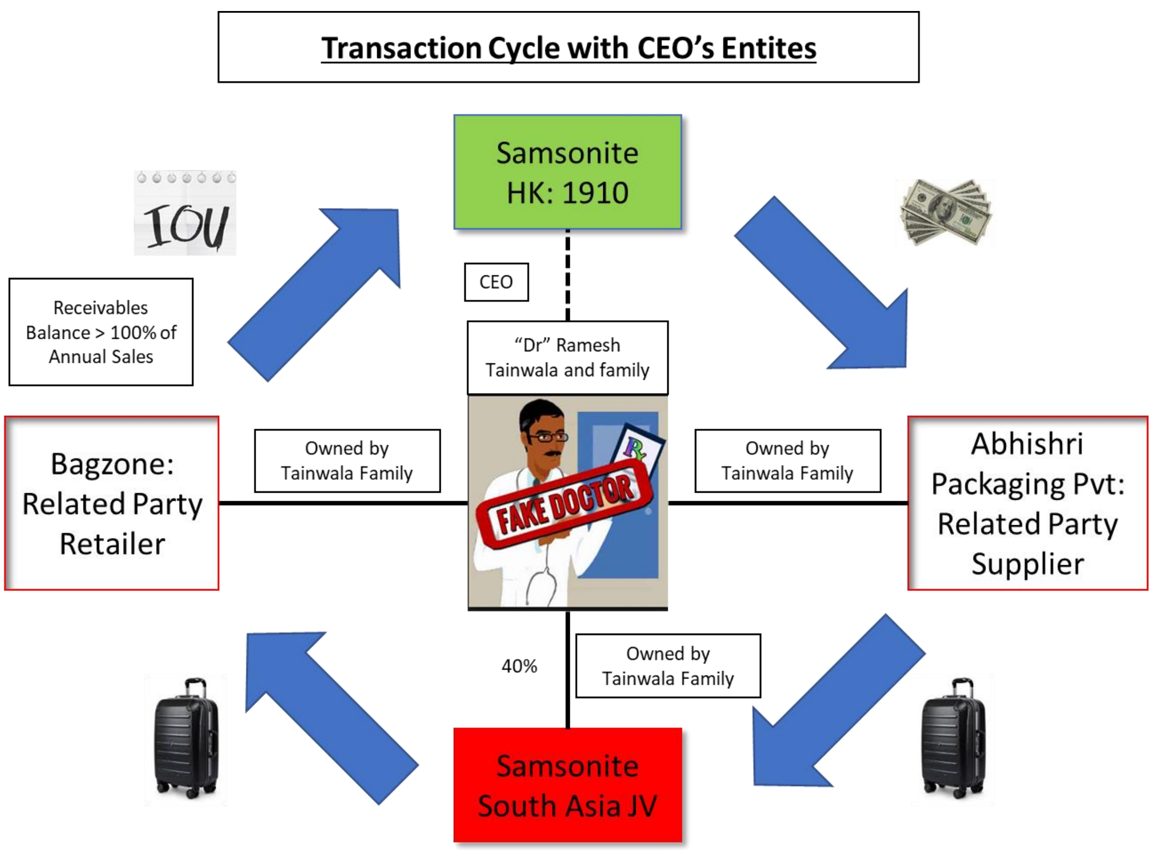
Samsonite continues to engage in a number of related party transactions with entities owned and controlled by its CEO and wanna-be doctor, Ramesh Tainwala and his family members. Such transactions are unbecoming of a global, professional organization and raise a number of troubling questions about Samsonite's corporate governance structure and the sufficiency of its internal controls.

Furthermore, we have conducted independent due diligence on publicly available records in India and have discovered a number of non-disclosed entities owned and controlled by the Tainwala family for which online corporate registration records reveal an "@samsonite" email address. We call on Samsonite's board of directors to appoint an independent auditor or law firm to scrutinize the propriety of these connections.

1) Disclosed Related Party Transactions

Ramesh Tainwala's rise through the ranks of Samsonite is interwoven with the Company's increasing involvement with his family enterprises in India. In 1995, Samsonite entered into a JV with Ramesh Tainwala and companies controlled by him and his family (the "Tainwala Group"). Samsonite continues to own and operate the JV, Samsonite South Asia, with the Tainwala group today. In 2006, the Company entered into another 60/40 JV in the middle east through the joint venture Samsonite Middle East FZCO, incorporated in the United Arab Emirates ("Samsonite Middle East").

In addition to their ownership interest in Samsonite South Asian and Middle Eastern subsidiaries, Tainwala family companies manufacture luggage for Samsonite and sell Samsonite products through a chain of family owned retail stores in India.



Source: Blue Orca

a. Abhishri

Samsonite admits in its disclosures that it sells raw materials to, and buys raw materials and finished goods from, Abhishri Packaging Pvt (“Abhishri”), an Indian manufacturer of hard-side luggage products owned by the Tainwala family.

22. Related Party Transactions Continued

(d) Other Related Party Transactions

I. Certain subsidiaries of the Group purchase raw materials and finished goods from, and Samsonite South Asia Private Limited sells certain raw materials and components to, Abhishri Packaging Pvt. Ltd, which is managed and controlled by the family of Mr. Ramesh Tainwala, Executive Director and Chief Executive Officer of the Group ("Mr. Tainwala"). Abhishri Packaging Pvt. Ltd also manufactures hard-side luggage products on behalf of Samsonite South Asia Private Limited.

Manufacturing agreement with Abhishri

On January 3, 2009, Samsonite India entered into a memorandum of understanding (the "Abhishri Memorandum of Understanding") with Abhishri Packaging Private Limited ("Abhishri"), a company controlled by certain members of the Tainwala Group. Under the Abhishri Memorandum of Understanding, Abhishri purchases certain raw materials and components from Samsonite India and manufactures hard-side luggage products on behalf of Samsonite India. The price paid by Abhishri to Samsonite India for raw materials and components is based on the current market price paid by Samsonite India, and the prices paid by Samsonite India for products manufactured and manufacturing services provided by Abhishri are determined based on Samsonite India's current procurement policies, and are monitored against relevant factors including the cost of raw materials, the range of commercially appropriate margins that Samsonite India is able to make on comparable products and, where available, quotations and market prices for comparable third party products and services. Samsonite India followed its procurement

Source: Samsonite 2017 Annual Report, p. 244, 135

In FY 2017, Samsonite disclosed purchasing $10.5 million from Abhishri, up 51% from FY 2016, when it purchased $6.9 million.

Related amounts of purchases, sales, payables and receivables were the following: 採購、銷售、應付款項及應收款項的相關金額如下：

		Year ended December 31, 截至12月31日止年度	
(Expressed in thousands of US Dollars)	*(以千美元呈列)*	2017	2016
Purchases	採購	10,475	6,944
Sales	銷售	62	165

Source: Samsonite 2017 Annual Report, p. 244

The amount of purchases from Abhishri has increased dramatically in recent years.

Samsonite Purchases from Abhishri Packaging Pvt.

USD'000	FY2014	FY2015	FY2016	FY2017
Purchase	3,631	5,560	6,944	10,475
YoY Change		***53%***	***25%***	***51%***

Source: Samsonite Public Filings

The publicly available Indian statutory accounts for Abhishri indicate that Samsonite accounted for 58% of Abhishri’s sales in 2017, and 52% in 2016.

Samsonite Purchases from Abhishri Packaging Pvt.

USD'000	FY2015	FY2016	FY2017
APP reported sales	9,681	13,320	18,004
Sales to Samsonite	5,560	6,944	10,475
%	***57%***	***52%***	***58%***

Source: Indian Statutory Filings, Blue Orca Calculation

Note: Abhishri’s statutory filings report sales for FY ending March, so our calculation of the percentage of sales to Samsonite is an estimate based on matching Samsonite’s disclosures for FY ending December with Abhishri’s filings for the year ending March.

Why is a global retail brand purchasing finished products from a low-value add Indian luggage manufacturer owned by the CEO and his family? How is the Company's Boston-based auditor sufficiently positioned to check the integrity of such transactions? The CEO controls both the Company and the supplier, which we believe is a significant red flag creating the opportunity for accounting impropriety.

In addition, Abhishri's statutory Indian accounts state that it has unhedged foreign currency obligations to Chinese firms which also supply to Samsonite. These balances imply that Abhishri is also buying products from Samsonite's Chinese suppliers. For example, Abhishri's statutory filings imply that it purchases from JingYu Lock Hong Kong Co. Ltd. and Xian Kombo Import and Export Co. Ltd.

H. Foreign Currency Exposure not hedged as at 31st March 2017 is as follows:

Particulars	Foreign Currency	Amount in Foreign Currency	Equivalent INR ( )
Bao Li Enterprise (Hong Kong) Limited	USD	21315	14,06,000
Guandong Dongguan Light IndstrialPrdtsImp&Exp Co	USD	3130	206483
JingYu Lock HongKong Co Ltd	USD	188268	12418163
TIC (Retail Accessories) PTY LTD	USD	98	6450
WujiangYiwei Textile Co Ltd	USD	54472	3592973
Xian Kombo Import and Export Co Ltd	USD	223507	14742542
Yurongxing Metal Zipper (Shenzhen) Co Ltd	USD	104113	6867321
BorougePte Ltd (Abu Dhabi Br.)	USD	233640	15410894

Source: FY 2017 Abhishri Indian Statutory Filings

Online records indicate that both JingYu Lock Hong Kong Co. Ltd. and Xian Kombo Import and Export Co. Ltd. also supply Samsonite.

Sample shipment record for Jing Yu Lock Hong Kong Co Ltd

Jing Yu Lock (hong Kong) Co., Ltd exports to **Samsonite** through the port of Jacksonville, Florida

BILL OF LADING

Manufacturer / Shipper	Consignee
JING YU LOCK (HONG KONG) CO., LTD UNIT B 5/F, 39A JORDAN RD KLN HONG KONG	SAMSONITE LLC 575 WEST STREET SUITE 110 MANSFIELD MA 02048 US
Notify Party	**Marks and Numbers**
-NOT AVAILABLE -NOT AVAILABLE	N/M
Master Bill of Lading Number	**Container Number**
NYKSHKGU06024600	NYKU9833347
Product Description	
BRASS KEY LOCK 2PC 2PK BRASS KEY LOCK LUGGAGE STRAP	

BILL OF LADING	PNDIEYTJSV180203
ARRIVAL DATE	2018-03-13
WEIGHT (LB)	8,754
WEIGHT (KG)	3,979
QUANTITY	305 CTN
CONTAINER COUNT	1
VOYAGE NO.	071E
PORT OF LOADING	YANTIAN
PORT OF DISCHARGE	JACKSONVILLE, FLORIDA
VESSEL NAME	OSAKA EXPRESS

Source: Import Genius

Sample shipment record for Xian Kombo Import Export Co.ltd

Xian Kombo Import Export Co Ltd is an overseas supplier in **China** that exports products to **Samsonite South Asia Pvt Ltd**.

BILL OF LADING			
Manufacturer / Shipper	**Consignee**	ARRIVAL DATE	2017-09-20
XIAN KOMBO IMPORT EXPORT CO LTD	SAMSONITE SOUTH ASIA PVT LTD	HS CODE	83014010
Origin	**Destination**	QUANTITY / UNIT	5000.00 / PCS
CHINA	INDIA		

Source: Import Genius

We also found records that other companies with whom Abhishri does business also supply Samsonite, including Yurongxing Metal Zipper (Shenzhen) Co Ltd and Wujiang Yiwei Textile Co Ltd.

If Abhishri is buying from Samsonite's Chinese suppliers only to sell luggage to Samsonite, what is its value in the supply chain? Such ties indicate that Abhishri is merely a middle-man between Samsonite and its Chinese suppliers, which raises the question as to why the Company would do business with Abhishri in the first place?

Abhishri's financial profile, evident from publicly available Indian statutory filings, also suggests the supplier is struggling with meager margins and increasing debts.

Abhishri Financial Profile

USD'000	FY2015	FY2016	FY2017
APP reported sales	9,683	13,329	18,048
EBIT	759	885	1,338
Net profit	196	479	292
Net Margins %	***2%***	***4%***	***2%***
Long-term Borrowings	1,800	1,937	3,703
Short-term Borrowings	2,384	3,751	4,567
Cash	55	156	178
Net Debt	4,128	5,533	8,091
Net Debt to EBIT	5.4	6.2	6.0
Payables	1,701	2,113	3,332
Other Current Liabilities	2,512	1,442	3,070

Source: Indian Statutory Filings; FYE March

Given the lack of audit oversight over transactions between the Company, its 60/40 JV Samsonite South Asia, and Abhishri, we think it is a significant red flag that the CEO's family owned entity is also a middle man between Samsonite and its Chinese suppliers.

Why doesn't Samsonite just transact directly with its Chinese suppliers and eliminate Abhishri from the supply chain? What is the purpose of such related party transactions? Such related party transactions suggest Samsonite should trade at a corporate governance discount, not a premium valuation on par with Burberry.

b. Bagzone

Samsonite also sells luggage to Bagzone Lifestyle Private Limited ("Bagzone"). In 2009, Samsonite entered into a deal with Bagzone, which is controlled by the Tainwala Group, to be the preferred dealer of Samsonite and American Tourister products in India. As of FY 2017, Bagzone operated 85 exclusive Samsonite retail outlets and 46 multi-brand outlets in India.

II. The Group's Indian subsidiary, Samsonite South Asia Private Limited, sells finished goods to Bagzone Lifestyle Private Limited. The Group's Chinese subsidiary, Samsonite China, provides sourcing support and quality inspection services in respect of products under certain other brands sold by Bagzone Lifestyle Private Limited. Bagzone Lifestyle Private Limited is managed and controlled by the family of Mr. Tainwala. Mr. Tainwala and his family also own non-controlling interests in Samsonite South Asia Private Limited and in the Group's United Arab Emirates subsidiary, Samsonite Middle East FZCO.

Source: Samsonite 2017 Annual Report, p. 245

Samsonite disclosed $11.2 million in sales to Bagzone in FY 2017. Notably, Samsonite also discloses a large receivable balance from Bagzone equal to more than 100% of annual sales. Although Samsonite is recognizing sales to the family-controlled entity, the receivables balance suggest Bagzone is struggling to pay the Company for the luggage it buys.

II. The Group's Indian subsidiary, Samsonite South Asia Private Limited, sells finished goods to Bagzone Lifestyle Private Limited. The Group's Chinese subsidiary, Samsonite China, provides sourcing support and quality inspection services in respect of products under certain other brands sold by Bagzone Lifestyle Private Limited. Bagzone Lifestyle Private Limited is managed and controlled by the family of Mr. Tainwala. Mr. Tainwala and his family also own non-controlling interests in Samsonite South Asia Private Limited and in the Group's United Arab Emirates subsidiary, Samsonite Middle East FZCO.

	Year ended December 31,	
(Expressed in thousands of US Dollars)	**2017**	2016
Sales	**11,211**	10,337
Support and Services	**110**	143
Rent	**57**	59

	Year ended December 31,	
(Expressed in thousands of US Dollars)	**2017**	2016
Receivables	**13,429**	11,741

Source: Samsonite 2017 Annual Results, p. 79

Samsonite Sales to Bagzone

USD'000	**2014**	**2015**	**2016**	**2017**
Sales	11,415	10,606	10,337	11,211
YoY Change		*-7%*	*-3%*	*8%*
Receivables from Bagzone	8,573	8,919	11,741	13,429
% of sales	***75%***	***84%***	***114%***	***120%***

Source: Samsonite Public Filings

As of FY 2017, Bagzone's receivables balance owed to the Company exceeded 100% of Samsonite's sales to the related party.

Bagzone's mounting receivables balance raises the question of why the related party retailer gets better credit terms than other distributors. It also raises the possibility that Bagzone is hoarding increasing amounts of worthless inventory on behalf of the Company.

Channel stuffing through related parties is always a danger when there are not sufficient controls, and we think such a risk is material in this case. Indian statutory filings indicate that Bagzone purchased $18.1 million in stock in trade in 2017 (FY ending March), of which $11.2 million came from Samsonite. Although Bagzone appears to purchase 62% of its inventory from Samsonite, it has failed to consistently generate a profit.

Samsonite Sales to Bagzone

USD'000	**FY2015**	**FY2016**	**FY2017**
Bagzone Stock in Trade Purchase	15,146	16,466	18,071
Samsonite Sales to Bagzone	10,606	10,337	11,211
%	***70%***	***63%***	***62%***
Bagzone Reported Sales	27,997	30,609	33,855
Bagzone Profit and Loss	**(1,424)**	**794**	**(459)**
**INR to USD conversion rate of*	*0.0156*	*0.0149*	*0.0154*

Source: *Indian Statutory Filings, Samsonite Annual Reports*

Note: Bagzone's statutory filings report sales for FY ending March, so our calculation of the percentage of sales to Samsonite is an estimate based on matching Samsonite's disclosures for FY ending December with Bagzone's filings for the year ending March.

Like its relationship with other Tainwala controlled entities, Samsonite's dealings with Bagzone are suspicious and unbecoming of a global retailer. The relationship presents a myriad of corporate governance risks, including channel stuffing of low or zero margin inventory, which can essentially sit with a CEO-controlled Indian distributor. The appeal of Bagzone to the Tainwala family is also confusing: the Indian distributor lost money in two of the last three fiscal years.

Samsonite might try and retort that transactions with Bagzone are not material, as they account for $11 million of the Company's consolidated FY 2017 revenues of $3.5 billion. But investors will recall that Valeant made a similar excuse with respect to Philidor. When short sellers alerted the market that Valeant secretly controlled an obscure distributor, Valeant dismissed the allegations on account that sales to Philidor were immaterial and about 5% of company revenues. Yet the dollar volumes of transactions with Philidor did not have to be large in order to artificially inflate Valeant's earnings.

There is a similar risk with the related party transactions between Samsonite and the private entities controlled by its CEO and his family. Measured as a percentage of revenues, such transactions appear small. But Samsonite's profit margins are thin, so even small dollars are material to the Company's reported growth and profitability.

Samsonite is stuck between a rock and a hard place. If transactions with Abhishri and Bagzone are supposedly immaterial to the Company's financial position, then there seems little reason to justify the corporate governance stink of a supposedly global retailer continuing to buy luggage from, and sell luggage through, entities controlled by the CEO and his family. Put simply, if such transactions are immaterial, why doesn't Samsonite get rid of them?

But if Samsonite continues such dealings, despite their malodorous appearance, then shareholders are in their rights to question such transactions. To start, how can Samsonite's auditor, whose principal engagement partner sits in Boston, Massachusetts, have any hope of verifying the transactions between Tainwala Group entities which sell luggage to and buy luggage from the Company's Indian subsidiary – which is itself 40% owned by the Tainwala Group?

We question whether an auditor sitting in India could adequately police such transactions. We think it is hopeless for an auditor in Boston to safeguard shareholder's rights on dealings between Indian entities under the thumb of its CEO.

2) Undisclosed Related Party Connections

We have also found evidence of undisclosed related party entities controlled and owned by the CEO and/or his family which, according to online corporate record databases, are registered using an @samsonite email address. Some of these entities also appear to operate in the luggage space. It is difficult given the limited public information to verify the volume of transactions, if any, between Samsonite and such undisclosed related party entities, but such entities are significant governance red flags and create the material risk of impropriety. We call on Samsonite's board to appoint an independent audit firm to investigate these entities and their connection to the Company.

a. Parikrama

Corporate records show that in May 2017, Samsonite CEO, his wife and daughter incorporated a partnership Parikrama Logistics and Holdings LLP ("Parikrama"). On the Indian Ministry of Commerce website, Parikrama is listed as a luggage and travel goods manufacturer.

1016 19/06/2017	PARIKRAMA LOGISTICS AND H-OLDINGS LLP 403 4TH FLR ACKRUTI STAR, MIDC CENTRAL ROAD,ANDHERI EAST,MUMBAI, MAHARASHTRA-400093.	NASHIK (NASIK) MAHARASHTRA	LUGGAGE COMPONENT,LUGGAGE,OTHER TRAVEL GOODS MANUFACTURING AND ASSEMBLY

Source: Indian Ministry of Commerce

PARIKRAMA LOGISTICS AND HOLDINGS LLP AAJ-4510

Email	sharad.thanvi@samsonite.com
Registered Address	403, 4th Floor, Ackruti Star Building Central Road, MIDC, Andheri East Mumbai Mumbai City MH 400093 IN

Directors

DIN	NAME	DESIGNATION	DATE OF APPOINTMENT
293802	ANUSHREE RAMESH TAINWALA	Director	19 May 2017
294369	SHOBHA RAMESH TAINWALA	Director	19 May 2017

Source: Online Corporate Records Database

Indian Ministry of Commerce records state that Parikrama is an Indian luggage manufacturer privately controlled by the CEO's family members. According to online record databases, Parikrama is registered to Sharad Thanvi using an @Samsonite email address. LinkedIn results indicate that Thanvi works for Samsonite subsidiary Samsonite South Asia Pvt Ltd.

Sharad Thanvi
Semi Qualified Company Secretary & Legal Representative
Mumbai Area, India | Leisure, Travel & Tourism
Current Samsonite South Asia Pvt Ltd
Education Institute of Company Secretaries of India
60 connections

Source: LinkedIn

That a privately held entity like Parikrama is registered using a company email address by a company employee suggests it transacts with the Company, yet it is an undisclosed related party which is not, to our knowledge, mentioned in any of Samsonite's annual reports or announcements.

b. Other Entities

We also found five other entities either owned and/or controlled by Ramesh Tainwala or his family for which an online corporate record database lists an @samsonite email as the registered contact address.

Entity	Jurisdiction	Disclosed Related Party?	Relationship to Tainwala Group	Connection to Samsonite
Parikrama Logistics and Holdings	India	No	Tainwala Family are Directors	@samsonite email address Involved in luggage manufacturing
Newcon Interiors Private Limited	India	No	Tainwala Family are Directors	@samsonite email address
Shoezone Lifestyle Private Limited	India	No	Tainwala Family are Directors	@samsonite email address Involved in luggage manufacturing
Samtain Sales Private Limited	India	Not Currently	Tainwala Family are Directors	@samsonite email address
Planet Retail Holdings Private Limited	India	Yes	Tainwala Family are Directors	@samsonite email address
Satya Buildmart Private Limited	India	Yes	Tainwala Family are Directors	@samsonite email address

Source: Online Record Databases

For example, online corporate records database indicate that the CEO's daughter and wife are directors of Newcon Interiors Private Limited ("Newcon"), and that the contact or registered email is another @samsonite address.

4 July 2011

Active

Unlisted

Newcon Interiors Private Limited Company

City: New delhi | State: Delhi

Newcon Interiors Private Limited is a company registered in India having its registered office at C-96, Anand Niketan,:,New Delhi,Delhi,India-110021. The company was registered on May 22, 2008 with Registrar of Companies Delhi as a Private Company limited by shares. Anushree Ramesh Tainwala, Mahendra Kumar Singhania, Shobha Ramesh Tainwala are directors in the company. The current status of the company is Active.

Company Information

CIN	U74994DL2008PTC178447
Company Name	NEWCON INTERIORS PRIVATE LIMITED
ROC Code	RoC-Delhi
Registration Number	178447
Company Category	Company limited by shares
Company SubCategory	Indian Non-Government Company

CONTACT INFO

Address: C-96, Anand Niketan,:,New Delhi,Delhi,India-110021

Phone: Not Available

Email: pranav.mewada@samsonite.com

AUTHORIZED CAPITAL

Authorized Capital: 15,000,000.00

Paidup Capital: 4,555,650.00

Source: http://business.indiafilings.com/newcon-interiors-private-limited

Pranav Mewada is the company secretary for Samsonite South Asia, the Company's 60/40 JV with the Tainwala family.

	01/01/2016 to 31/12/2016
Name of company secretary	PRANAV KR PRADIP KR MEWADA
Permanent account number of company secretary	AKMPM3980B
Date of signing of financial statements by company secretary	29/06/2017

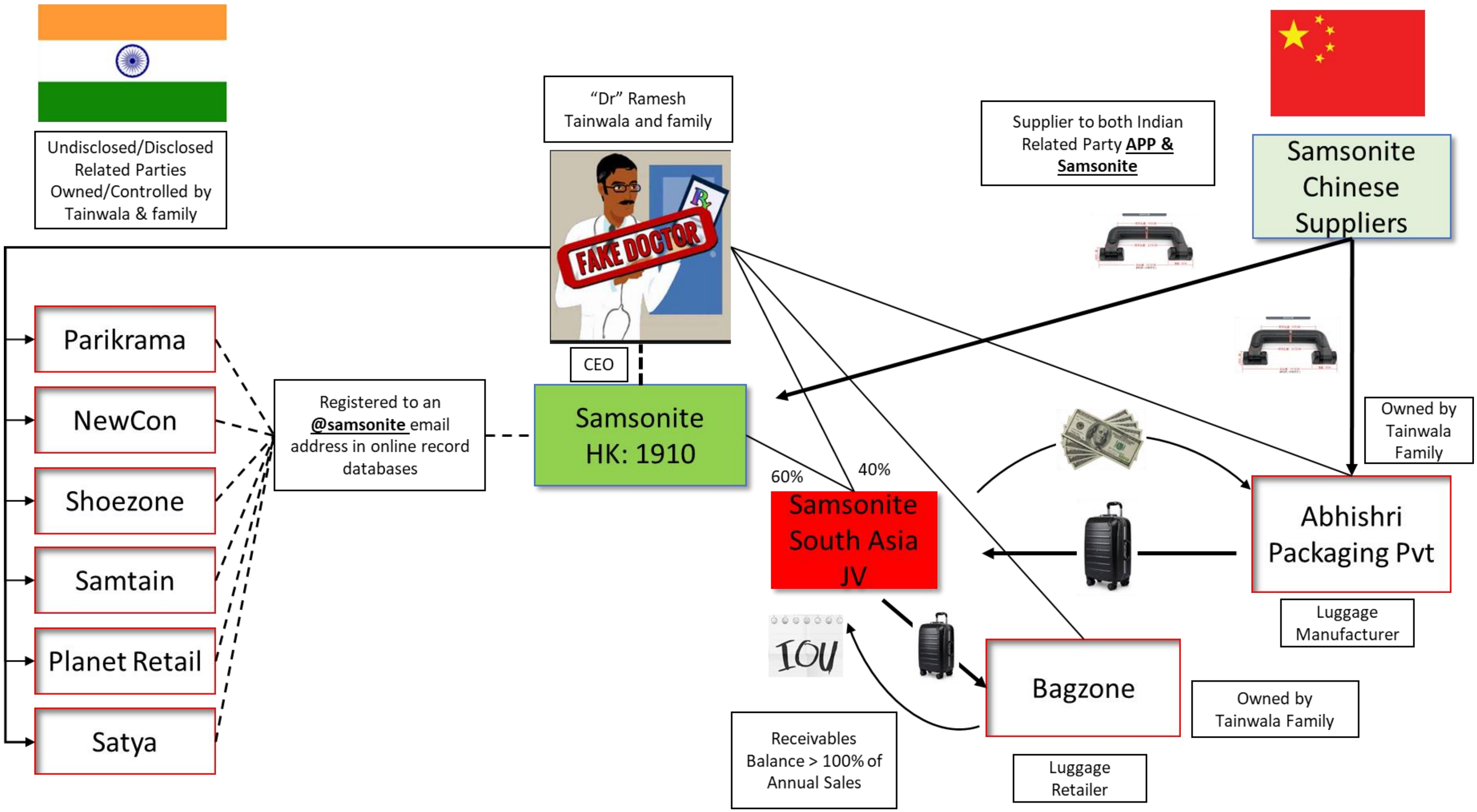
Source: FY 2016 Samsonite South Asia Indian Statutory Filings

The online corporate database, Informix.In, states that it is pulling information from "official company registers and other public data sources." We question why such privately held entities are using @samsonite email addresses if they are not affiliated with or transacting with the Company. Another possibility is that Company resources are being inappropriately used by the CEO and his family to handle private business concerns.

That said, we must caveat that in the case of every entity listed above except Parikrama, registration emails found in Indian statutory filings list Tainwala.secretarial@gmail.com, not an @samsonite email address. We are unsure why there would be a discrepancy, but the presence of an @samsonite email address in online record databases suggest that perhaps Company employees may be involved in the record filing process.

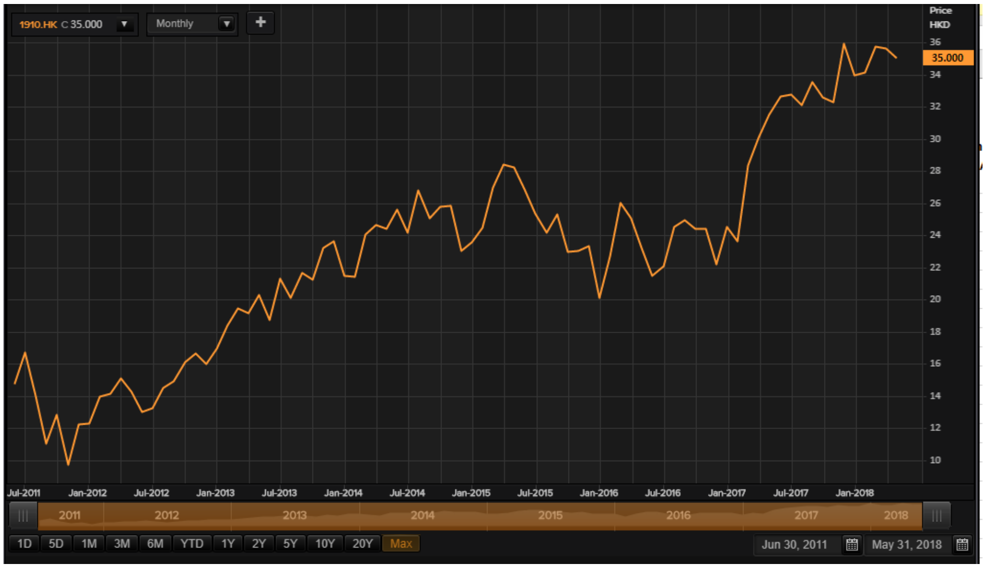
Rather than trade at a premium valuation in line with peers like Burberry, webs of connections with related party entities (some disclosed, others not) suggest Samsonite should trade, in our opinion, at a corporate governance discount.

Web of Disclosed and Undisclosed Related Parties



VALUATION

Today, despite purchase price accounting games, a growing balance of inventory carried at NRV, a number of governance and audit red flags, and a host of highly dubious related party connections (disclosed and undisclosed) between the Company and its CEO, Samsonite trades near all-time highs.



Source: Thompson Reuters - Samsonite Historical Price Chart

On an EV to EBITDA basis, Samsonite trades at a premium valuation in line with Burberry (BRBY), a significantly more valuable brand with much lower debt.

Company	Gross Margin	EBITDA Margin	EV/ TTM EBITDA	Forward EV/EBITDA	EV/ TTM FCF	Forward P/E Multiple
Luxury Brand						
Prada SpA	74%	19%	21.8	17.0	49.0	35.3
Kering SA	65%	22%	18.7	15.7	28.7	23.8
Salvatore Ferragamo SpA	64%	18%	16.3	16.4	25.8	32.2
LVMH Moet Hennessy Louis Vuitton SE	65%	24%	16.5	14.2	35.5	26.0
Burberry Group PLC	69%	20%	13.8	13.0	13.1	25.6
Median	65%	20%	16.5	15.7	28.7	26.0
Average	68%	21%	17.4	15.3	30.4	28.6
Mid-tier Brand						
Tapestry Inc	65%	17%	14.3	10.0	21.2	15.8
Hugo Boss AG	66%	18%	11.0	10.7	22.5	20.7
Michael Kors Holdings Ltd	60%	23%	10.1	9.9	12.0	14.0
Ralph Lauren Corp	61%	15%	8.8	8.8	10.2	18.8
PVH CORP	55%	12%	14.1	11.0	42.4	16.3
Median	61%	17%	11.0	10.0	21.2	16.3
Average	63%	19%	11.6	10.0	21.6	17.0
Samsonite International SA	**56%**	**16%**	**13.8**	**11.9**	**50.2**	**19.4**

Source: Thompson Reuters

We think comparing Samsonite to Burberry is ridiculous, given the difference in brand notoriety, gross margins and frequency of purchase. Consumers shopping for a Burberry or Louis Vuitton bag are paying a significant premium and are likely to purchase at least one item per season to keep up with fashions. By comparison, consumers purchase luggage much less frequently. Ask yourself, when was the last time you bought a suitcase?

Nor are the brands comparable. Consumers looking for luxury luggage are not buying Samsonite or Tumi, but luggage produced by luxury fashion brands like Prada, Louis Vuitton or Gucci (Kering). Case in point. In March 2018, Cristiano Ronaldo was named the global brand ambassador for Samsonite's American Tourister brand. But Ronaldo posted this photo in April 2018, traveling with an ultra-fashionable Louis Vuitton suitcase. Not Tumi, not Samsonite and clearly not American Tourister. Even celebrities paid to promote Samsonite's brands prefer higher end luggage.

Source: Instagram

Luxury fashion labels such as LVMH destroy inventory rather than discount it. Their brands are so valuable they would rather set unsold items on fire. But even a cursory browse online turns up retailers offering Samsonite luggage for 30-50% off, including at Macy's, Sears and Kohl's and Samsonite's own website.

Tumi is Samsonite's high-end brand. Yet it is popular not with the jet-set crowd, but over-zealous business school students and bleary-eyed McKinsey consultants. Functional, rather than fashionable. Samsonite's name brand is traditionally mid-level. American Tourister is a discount brand sold at Wal-Mart.

Assembling a proper peer group for Samsonite is difficult because of the absence of other pure play luggage makers. But in terms of gross margins and brand reputation, it is smarter to compare Samsonite to a peer group of mid-tier brands, including Tapestry (TPR) (which owns Coach and Kate Spade), PVH.N (which owns Calvin Klein and Tommy Hilfiger), Hugo Boss (BOSS.DE), Michael Kors (KORS.K) and Ralph Lauren (RL). Even this comparison is charitable, as consumers are more likely to care about a fashionable item from Ralph Lauren (and purchase such items far more frequently) than a suitcase they keep in their closet and replace every eight to ten years.

But our point is that even if we are charitable, and value the luggage maker on a median EV/EBITDA multiple (11.0x) as such mid-tier brands (TPR, BOSS, KORS, RL, PVH), Samsonite's stock appears grossly overvalued.

For the purposes of our valuation, we value Samsonite as a blended average of four methodologies. First, using historical figures, we believe it is appropriate to adjust Samsonite's reported EBITDA for the year ending Q1 2018 to deduct dubious purchase price accounting benefits from the Tumi and Asian distributor acquisitions.

We believe that Samsonite inappropriately inflated Tumi's reported payables and accrued expenses by at least $62 million in its purchase price accounting. The inflation of such liabilities allows Samsonite to avoid having to recognize subsequent expenses on its income statement. Because Samsonite purchased Tumi in August 2016, we adjust Samsonite's Q1 2018 EBITDA to deduct 33% of that amount, or $21 million, in expenses we believe should have flowed through the Company's income statement over the last four quarters.

In addition, we also deduct what we believe to be illusory profits from inappropriate purchase price accounting with respect to the acquired inventory for Tumi's Asian distributors. By marking the value of such inventory down to only $9.4 million at the time of acquisition, even though the distributors carried 5-6 months of inventory on their balance sheets, we believe that Samsonite was able to unjustly inflate reported EBITDA by at least $32 million in the year ending Q1 2018.[10]

Such deductions are not de minimis. Samsonite's shares trade at a premium because its growth trajectory is seemingly immune from the global retail apocalypse. Yet such adjustments suggest that Samsonite's reported growth is likely not as robust as the company claims. Samsonite claimed that its EBITDA grew by $58.8 million in TTM ending Q1 2018 (11%), but by our estimates, purchase price accounting games with payables and inventory inflated reported EBITDA by $53 million in that period. Had the Company used proper purchase price accounting, we believe that its reported growth would have been far lower. Not only would Samsonite then trade off of a lower EBITDA number, but we believe the share multiple premium Samsonite enjoys over other mid-tier brands would disappear once its financials reflected slower growth.

If we take Samsonite's adjusted EBITDA and apply the **median multiple** of our peer group of five mid-tier brands (11.0x), we get a 34% downside to Samsonite's stock before applying any corporate governance discount.

[10] Calculation is as follows. 2H 2016 Tumi sales to Asian distributors was $70.8 million. We assume, based on Samsonite's disclosures, that the acquired distributors held 6 months of inventory on their balance sheets at the time of the acquisitions. If we subtract sales to non-acquired distributors (ex Japan, Thailand, India and Indonesia) and online sales, we estimate that Samsonite sales to acquired distributors was $46.4 million in 2H FY 2016. Given that Samsonite marked the acquired inventory at only $9.4 million, we estimate that the understatement (i.e., value of acquired inventory minus recognized amount) was at least $32 million as of LTM ending Q1 2018.

Valuation - Adjusted EV/TTM EBITDA

USD M

Samsonite Normalized EBITDA	573
Adjustment:	
Understatement of Tumi Payables	(21)
Understatement of Tumi Asian Distributors Inventories	(32)
Adjusted EBITDA	521
Peers Median EV/TTM EBITDA	11.0
Adjusted Enterprise Value	5,739
Less: Net Debt	1,605
Implied Market capitalization	4,134
Shares outstanding	1,434
Estimate of stock price (USD)	2.9
Estimate of stock price (HKD)	22.5
Corporate Governance Discount	15%
Blue Orca estimate of stock price (HKD)	19.11
Current trading price (HKD)	34.05
Downside	***-44%***

Exchange rate: HKD to USD *7.8*

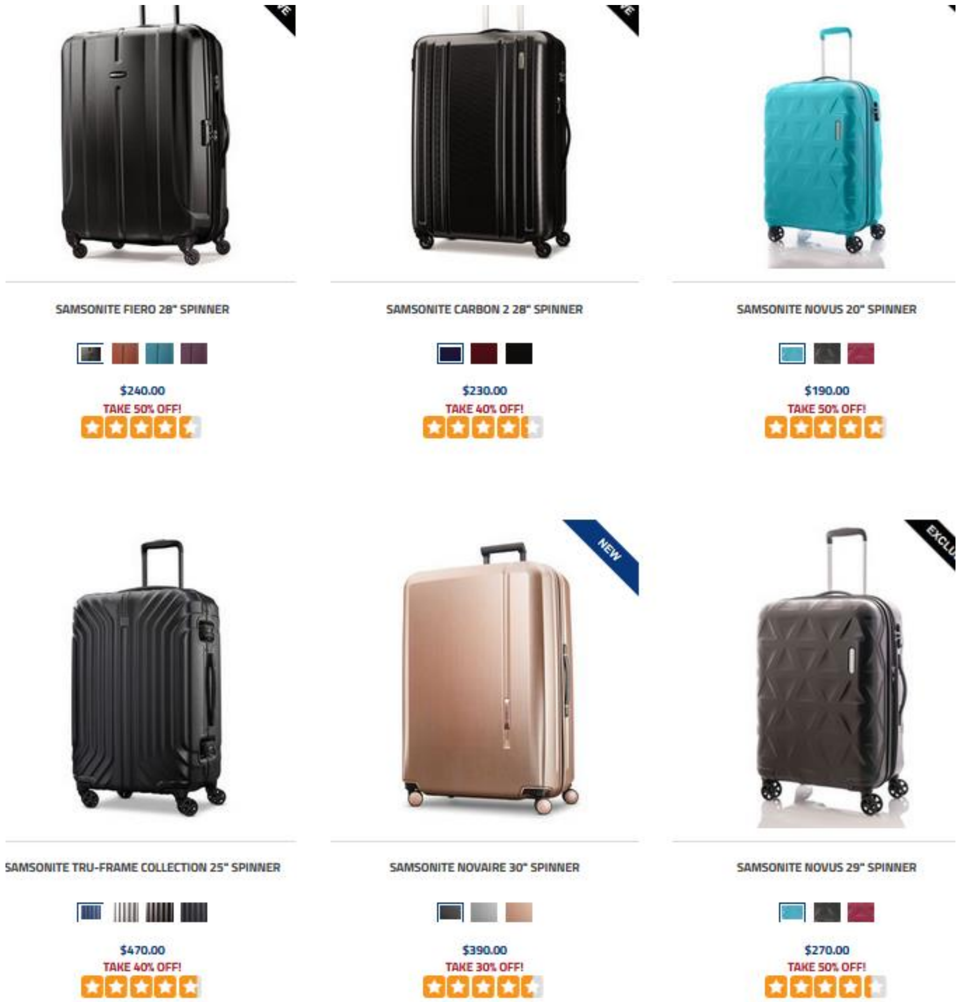
Source: Samsonite Public Filings, Sell-side reports, Blue Orca Calculation

Simply adjusting for two instances of inappropriate purchase price accounting and applying a median multiple of a charitable peer group, we calculate that Samsonite's shares are worth 34% less than their current trading price. But we also believe a corporate governance discount is appropriate given the CEO's resume embellishment, the accounting red flags such as auditor resignations at Samsonite South Asia, and the number of questionable transactions between the Company and related parties owned or controlled by the CEO and his family. If we apply only a 15% governance discount, we value Samsonite's shares at HKD 19.11 on an EV/TTM adjusted EBITDA basis.

We reach a similar conclusion on a forward basis. The consensus street forecast is that Samsonite's EBITDA will grow by 17.15% in FY 2018. But we think much of this growth is likely illusory.

As discussed in this report, Samsonite is carrying an increasing balance of inventory at NRV. At the beginning of FY 2018, Samsonite disclosed that 42% of its finished goods were carried at NRV. Such inventory, by definition, must be sold at zero margin. Samsonite's margins have thus far not been affected by this growing balance of unprofitable luggage, but the pain cannot be delayed indefinitely.

It is difficult to be precise about the exact effect on such NRV inventory on Samsonite's margins and growth. But the trend, in our opinion, clearly indicates that Samsonite's growth is not as robust as the market believes. It would also corroborate anecdotal evidence from Samsonite's online sales practice in which **Samsonite's very own website** offers luggage for sale at deep discounts to its list price.



Source:https://shop.samsonite.com/luggage/?src=google&utm_source=google&utm_medium=cpc&utm_campaign=Brand%20-%20Luggage%20-%20Exact

If Samsonite's online retail platform is offering luggage at a 50% discount, how will the Company sustain its 56% gross margins going forward?

In order to be conservative, we assign a growth rate of 10%, rather than the 17.5% consensus forecast for EBITDA growth. We believe this growth rate is generous yet still accounts for the ill effects of the growing balance of NRV inventory on the Company's balance sheet. Analysts forecast that Samsonite's peer group will report less than 1% EBITDA growth, given global retail headwinds, so we think our use of 10% growth in our model is highly generous.

Peers Forecasted EBITDA Growth Rate

Company	FY 18
TPR*	0.15%
RL	-4.46%
BOSSn.DE	0.59%
KORS.K	-4.90%
PVH.N	13.42%
Median	0.15%
Average	0.96%

Source: Thompson Reuters

Because Samsonite is trading at all-time highs, by assigning a more modest growth rate (10%) to Samsonite's adjusted TTM Q1 2018 EBITDA, we value its shares at a significant discount to current market price on a forward EBITDA basis.

Valuation - Adjusted Forward EV/EBITDA
USD M

Samsonite TTM Q1 18 Normalized EBITDA	573
Adjustment:	
Understatement of Tumi Payables	(21)
Understatement of Tumi Asian Distributors Inventories	(32)
Adjusted TTM Q1 18 EBITDA	521
Growth rate	10%
Estimated TTM Q1 19 EBITDA	573
Peers Median Forward EV/EBITDA	10.0
Adjusted Enterprise Value	5,717
Less: Estimated Net Debt	1,605
Implied Market capitalization	4,112
Shares outstanding	1,434
Estimate of stock price (USD)	2.9
Estimate of stock price (HKD)	22.4
Corporate Governance Discount	15%
Blue Orca estimate of stock price (HKD)	19.00
Current trading price (HKD)	34.05
Downside	***-44%***

Exchange rate: HKD to USD 7.8
Source: Samsonite Public Filings, Sell-side reports, Blue Orca Calculation

Applying only a 15% corporate governance discount and a median multiple of peers, we value Samsonite's shares on a forward basis at HKD 19.00 per share, 44% below Samsonite's current price.

Another way to value Samsonite's shares is as a multiple of free cash flow. This metric will generally be immune to the purchase price accounting games played by management. If we simply value Samsonite's shares at the **median multiple** of mid-tier brands on an EV/TTM FCF basis (21.2x), without applying a corporate governance discount we would value Samsonite's shares at HKD 9.51 per share.

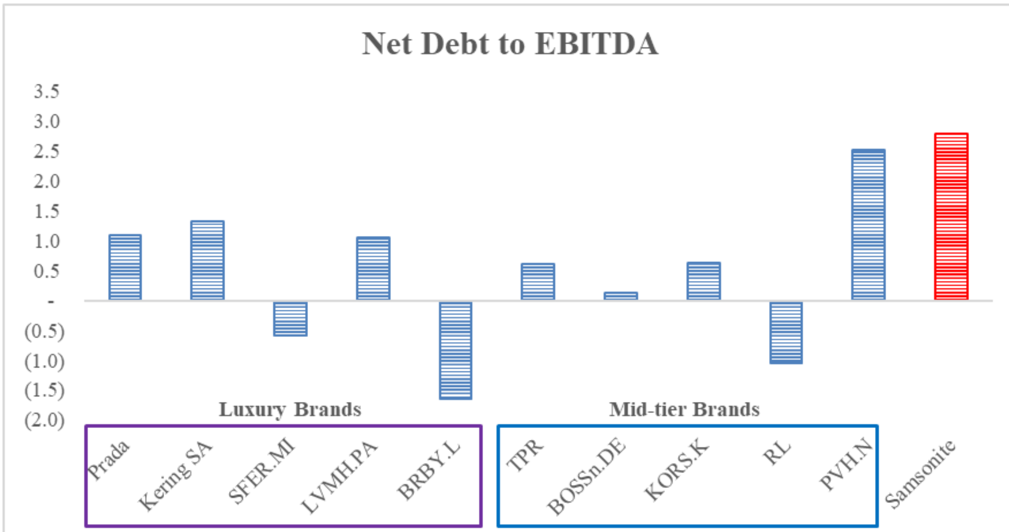
Valuation - EV/TTM FCF
USD M

Q1 18 TTM FCF	158
Peer EV/ TTM FCF (median)	21.2
Adjusted Enterprise Value	3,354
Less: Net Debt	1,605
Implied Market capitalization	1,750
Shares outstanding	1,434
Estimate of stock price (USD)	1.2
Blue Orca estimate of stock price (HKD)	9.51
Current trading price (HKD)	34.05
Downside	***-72%***

Exchange rate: HKD to USD 7.8
Source: Samsonite Public Filings, Blue Orca Calculation

The table above underscores just how overvalued Samsonite is. Without a corporate governance discount or any deductions for purchase price accounting, valued on the same multiple of free cash flows as its peer, we estimate Samsonite's shares to be worth 72% less than its last traded price.

We believe that an EV/EBITDA multiple is the best valuation method for Samsonite, because it accounts for the high amount of debt it has relative to its peers. Comparing Samsonite's 2.8x net/debt to EBITDA ratio to both luxury and mid-tier comps, Samsonite is the obvious and massive outlier. Indeed, three have net cash (SFER.MI, BRBY, and RL) and only one comp, PVH.N, has close to Samsonite's leverage.



Source: Thompson Reuters

Although we believe a valuation on an EV/EBITDA multiple is superior because it accounts for Samsonite's substantial debt, we are sensitive that the sell-side analyst community prefers to value Samsonite on a P/E basis. When we value Samsonite on forward P/E basis, the impact of adjustments for purchase price accounting games or NRV inventory are just as significant.

Valuation - Adjusted Forward P/E Multiple
USD M

Q1 18 TTM Earnings	341
Adjustment:	
Understatement of Tumi Payables	(21)
Understatement of Tumi Asian Distributors Inventories	(32)
Adjusted Q1 18 TTM Earnings	288
Growth rate	5%
Estimated Q1 2019 Earnings	303
Shares outstanding	1,434
Diluted Earnings per Share (USD)	0.2
Diluted Earnings per Share (HKD)	1.6
Peers Median Forward P/E Multiple	16.3
Estimate of stock price (HKD)	26.8
Corporate Governance Discount	15%
Blue Orca estimate of stock price (HKD)	22.75
Current trading price (HKD)	34.05
Downside	***-33%***

Exchange rate: HKD to USD *7.8*

Source: Samsonite Public Filings, Blue Orca Calculation

In our model, we assume a 5% organic growth rate in earnings, which we believe is in line with analyst forecasts and consistent with the Company's reported historic organic growth (excluding acquisitions). Even on a forward P/E basis, at a median multiple of our peer list, we value Samsonite's shares at 33% below current price.

A blended average of our four valuation approaches yields a share price of HKD 17.59 per share, 48% below Samsonite's last traded price.

Blended Valuation

Valuation Methodologies	***Est. Stock Price***
Adjusted EV/TTM EBITDA	19.11
Adjusted Forward EV/EBITDA	19.00
EV/TTM FCF	9.51
Adjusted Forward P/E Multiple	22.75
Average	**17.59**
Current trading price	34.05
Downside	***-48%***

Source: Samsonite Public Filings, Blue Orca Calculation

There are reasons to believe that our valuation is conservative, and that the down side could be even more significant to Samsonite's stock price. First, we compare Samsonite to fashion brands like Ralph Lauren, Kate Spade and Calvin Klein, which is likely charitable. Second, our valuation does not quantify the growing balance of stale inventory which we believe will hamper growth and crush margins. Third, we apply only a 15% corporate governance discount.

We believe that Samsonite's board of directors has no choice but to terminate Ramesh Tainwala for fabricating a doctorate credential on his CV. We also believe it is imperative for the board to appoint an independent audit firm to scrutinize all transactions involving Company JV Samsonite South Asia, the Company's treatment of inventory and its purchase price accounting. This inquiry must also scrutinize the litany of disclosed and undisclosed connections between Samsonite South Asia, Abhishri, Bagzone and other entities owned and controlled by the CEO and his family.

Ultimately, we believe that Samsonite is simply carrying too much baggage to trade at such a high premium.

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We are short sellers. We are biased. So are long investors. So is Samsonite. So are the banks that raised money for the Company. If you are invested (either long or short) in Samsonite, so are you. Just because we are biased does not mean that we are wrong. We, like everyone else, are entitled to our opinions and to the right to express such opinions in a public forum. We believe that the publication of our opinions about the public companies we research is in the public interest.

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