

NR. 80.

Valuation Memo Draft - Project Stone



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From: Investment Banking - Iceland
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Subject: Project Stone
DCF valuation and comparables

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- Aurum experienced a very healthy 7.8% growth in LFL sales in 2007/08. In comparison listed competitor Signet reported a 2% LFL sales increase in the UK during the same period.
- LFL sales during the last months have been exceptionally high. February 2008 figures:
 - Goldsmiths: 13.4%
 - Mappin & Web: 23.8%
 - Watches of Switzerland: 30.2%
- Over the next five years, older age groups with more disposable income, 45+ will continue to increase in the UK, but there will be a even stronger growth among the numbers 25-34s, a prime time to get married.
- Consumer expenditure is expected to grow 11.2% in real terms during 2007-2012.

Key financial figures:

	2004/05	2005/06	2006/07	2007/08	2008/09E	2009/10E	2010/11E	2011/12E	2012/13E
Sales revenue (incl. VAT)	191,011	187,889	282,591	299,578	311,488	339,642	360,406	382,408	404,071
Net sales(excl. VAT)	162,892	160,115	242,884	257,711	267,956	292,175	310,037	328,964	347,600
EBITDA	15,917	5,945	14,757	14,914	16,028	20,519	25,453	28,809	32,866
Depreciation	-4,008	-3,275	-4,464	-4,047	-4,293	-4,867	-5,801	-6,575	-7,373
Contingency						500	1,000	1,500	2,000
EBIT	11,909	2,670	10,293	10,867	11,735	16,152	20,652	23,734	27,513
Interest	-11,502	-14,462	-15,947	-9,564	-9,095	-8,880	-8,551	-7,777	-6,638
Frs4/Frs17 charges	-1,742	-808	-4,439	-562	-558	-545	-517	-442	-100
Springcolor	428	-337	-1,069						
Bonuses	96	0	-672						
Other	-5,036								
PBT	-5,847	-12,937	-11,834	741	2,082	6,727	11,584	15,515	20,775
Taxes									3,751
Sales growth		-1.6%	50.4%	6.0%	4.0%	9.0%	6.1%	6.1%	5.7%
EBITDA margin	9.8%	3.7%	6.1%	5.8%	6.0%	7.0%	8.2%	8.8%	9.5%
EBIT margin	6.2%	1.4%	3.6%	3.6%	3.8%	4.8%	5.7%	6.2%	6.8%

- This plan assumes LFL sales to increase by 3.2% in 2008/09 and 3% the following 4 years, a considerably lower figure than experienced during the last semesters.

* Source: Mintel

Company Valuation

Main conclusions from the DCF analysis:

	2004/05	2005/06	2006/07	2007/08	2008/09E	2009/10E	2010/11E	2011/12E	2012/13E
CAPEX	5,201	4,153	2,236	9,105	7,620	8,500	7,964	8,079	8,746
CAPEX % of net sales	3.2%	2.6%	0.9%	3.5%	2.8%	2.9%	2.6%	2.5%	2.5%
Working capital	19,918	21,910	41,276	36,414	33,036	33,054	31,764	31,419	32,029
% of sales	12.2%	13.7%	17.0%	14.1%	12.3%	11.3%	10.2%	9.6%	9.2%

FCF									Tax adj.	
NOPLAT					11,735	16,152	20,652	23,734	23,762	19,259
Depreciation					4,293	4,867	5,801	6,575	7,373	
Contingency						-500	-1,000	-1,500	-2,000	-2,000
CAPEX					-7,620	-8,500	-7,964	-8,079	-8,746	
Working cap					3,378	-18	1,290	345	-610	
FCF					11,786	12,001	18,779	21,075	19,779	15,276
Discount factor					0.75	1.75	2.75	3.75	4.75	4.75
Discounted FCF					11,050	10,325	14,826	15,268	13,149	

WACC Calculation		Enterprise Value		Ratios	
Risk free rate	5.0%	WACC	9.0%	EV/EBITDA 07/08	13.6
Beta	1.40	Future growth	1.5%	EV/EBITDA 08/09	12.6
Market risk premium	5%	FCF 2008-2013	64,619	EV/EBITDA 12/13	6.2
Cost of Equity	12.0%	FCF after 2013	137,900		
Cost of Debt	8.5%	Enterprise Value	202,519		
Cost of Debt (1-T)	6.0%	Less net debt	81,314		
Average debt proportion	50.0%	Equity Value	121,205		
WACC	9.0%				

- Working capital decreases due to expected reduction in stock levels.

Sensitivity analysis of equity value

		FCF 2012/2013				
		11,200	13,200	15,200	17,200	19,200
Equity ratio	40%	73,387	89,656	105,925	122,194	138,463
	45%	78,691	95,816	112,041	130,066	147,191
	50%	84,409	102,464	120,618	138,572	156,627
	55%	90,596	109,662	128,728	147,794	166,859
	60%	97,311	117,482	137,853	157,824	177,994

		FCF 2012/2013				
		11,200	13,200	15,200	17,200	19,200
Cost of equity	13.0%	75,184	91,742	108,301	124,859	141,418
	12.5%	79,652	96,933	114,214	131,495	148,776
	12.0%	84,409	102,464	120,618	138,572	166,627
	11.5%	89,486	108,370	127,254	146,138	165,022
	11.0%	94,916	114,692	134,468	154,244	174,020

		EBITDA 2012/2013				
		24,900	28,900	32,900	36,900	40,900
Cost of equity	13.0%	57,453	83,237	109,021	134,805	160,589
	12.5%	61,318	88,141	114,965	141,789	168,613
	12.0%	65,432	93,368	121,303	149,238	177,174
	11.5%	69,823	98,949	128,075	157,201	186,326
	11.0%	74,518	104,923	135,327	165,731	196,135

		Growth after 2012/2013				
		0.5%	1.0%	1.5%	2.0%	2.5%
Cost of equity	13.0%	93,732	100,883	106,931	116,055	128,488
	12.5%	98,592	106,237	114,873	124,701	135,992
	12.0%	103,735	111,923	121,205	131,818	144,071
	11.5%	109,188	117,972	127,973	139,460	152,792
	11.0%	114,979	124,423	135,220	147,686	162,238

Comparables

Company	Share Price	Market Cap	Enterprise Value	Trailing P/E	Price to book	EV/EBIDTA	EV/Revenue (ttm)	Beta	52-week chg
Signet Group (SIG)	12.31	2,100	2,610	7.60	1.21	5.83	0.67	1.37	-51.3%
Movado Group (MOV)	19.53	509	440	9.64	1.14	5.48	0.78	1.77	-36.1%
Zale Corporation (ZLC)	20	855	990	32.05	1.04	7.70	0.42	1.05	-23.6%
Tiffany & Co. (TIF)	41.94	5,440	5,540	19.07	3.26	9.43	9.43	1.39	-9.5%
Average		2,226	2,395	17.09	1.66	7.11	2.83	1.40	-30%

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Source: Yahoo finance, 31.03.2008

- ◆ Signet Group plc operates as a specialty jewelry retailer in the United States and the United Kingdom. The company operates its mall stores under Kay Jewelers, Jared The Galleria Of Jewelry, and other regional names in the United States; and H.Samuel The Jeweler, Ernest Jones, The Diamond and Watch Specialist, and Leslie Davis names in the United Kingdom. As of February 3, 2007, Signet operated 1,308 stores in the United States and 581 stores in the United Kingdom.
- ◆ Movado Group, Inc. engages in the manufacture, distribution, and retail of watches and jewelry. Movado Group sells its products directly, as well as through jewelry store chains, department stores, and a network of independent distributors in North America, Europe, Asia, the Middle East, South America, and the Caribbean. As of January 31, 2007, Movado Group operated 31 Movado Boutiques and 30 outlet stores. The company was founded in 1961. It was formerly known as North American Watch Corporation and changed its name to Movado Group, Inc. in 1996. The company is headquartered in Paramus, New Jersey.
- ◆ Zale Corporation operates as a specialty retailer of fine jewelry. The company operates in three segments: Fine Jewelry, Kiosk Jewelry, and all other. The Fine Jewelry segment operates under six brands. As of July 31, 2007, the company operated 1,471 specialty retail jewelry stores and 793 kiosks in the United States, Canada, and Puerto Rico. Zale Corporation was founded in 1989 and is headquartered in Irving, Texas
- ◆ Tiffany & Co., through its subsidiaries, engages in the design, manufacture, and retail of fine jewelry. The company also sells its products through TIFFANY & CO. stores and department store boutiques, as well as through business-to-business, Internet, and wholesale stores internationally. As of January 31, 2007, Tiffany & Co. operated approximately 167 retail stores worldwide. The company was founded in 1837 and is based in New York, New York.

Recent M&A jewellery transactions

- ◆ 10.03.2008. The management of Pandora Jewellery, the Denmark based retailer of jewellery, acquired the company, in a management buyout transaction, backed by Axcel Industriinvestor, the Denmark based private equity firm, for an undisclosed consideration. The Danish paper Børsen, estimated the price to be around DKK 1bn. The current owners and senior managers will co-invest along with Axcel and will own 40% stake in the new company while Axcel will take the remaining 60%. Pandora had approximate annual revenues of about DKK 1.1bn. The transaction is in line with Pandora's strategy to expand the company's presence in current markets as well as enlarge production in Thailand, USA and Canada.

– Exit Multiples: 17.6xEBIDTA(06), 22.5xEarnings(06)

- ◆ 12.09.2007. Morellato & Sector Spa, the Italian designer and manufacturer of luxury watches and jewellery, has acquired Diffusione Italiana Preziosi (DIP), the Italian operator of the Blue Spirit chain of jewellery stores, from Arca Impresa Gestioni SGR SpA, the Italian private equity firm, and Meliorbanca SpA, the listed Italian banking group, for a total consideration of EUR 60m. DIP had a turnover of EUR 43m in 2006 and 287 points of sale worldwide. The acquisition is in line with Morellato's strategy to expand globally, with a focus on Europe. DIP's presence in 10 countries of the world, including Italy, Spain, Portugal and Germany, will help Morellato to achieve this goal.
 - Exit Multiples: 1.4xRevenue(06), 22xEBIDTA(05)
- ◆ 02.08.2007. Fields Ltd, the Irish retail chain of Jeweller, has acquired Fraser Hart Limited, the UK based jeweler retailer, for a minimum estimated consideration of GBP 40m. Fraser Hart has 31 retail stores with over 500 employees. Post acquisition, the combined businesses will operate 50 retail stores in the UK and Ireland, employing 800 people with a turnover in excess of EUR 120m. The acquisition will give Fields a strong and large scale entry in the UK market.
 - Exit Multiples: 0.7xRevenue(06), 5.6xEBITDA(06) and 10.0xEarnings(06)

Balance sheet

	2004/05	2005/06	2006/07	2007/08	2008/09E	2009/10E	2010/11E	2011/12E	2012/13E
FIXED ASSETS	18,635	18,750	18,474	21,053	24,380	28,013	30,177	31,681	33,053
GOODWILL	79,251	81,403	78,742	78,742	78,742	78,742	78,742	78,742	78,742
Stock	64,668	69,146	102,030	107,133	99,347	98,497	99,236	100,415	102,036
Debtors	10,560	12,055	17,399	15,084	15,471	15,569	15,770	15,976	16,190
Creditors	-49,528	-53,585	-72,552	-79,126	-74,024	-72,754	-74,484	-75,714	-76,439
VAT	-5,782	-5,706	-5,601	-6,677	-7,758	-8,258	-8,758	-9,258	-9,758
WORKING CAPITAL	19,918	21,910	41,276	36,414	33,036	33,054	31,764	31,419	32,029
Deferred Tax	-1,024	0	0	0	0	0	0	0	0
Current Tax	-393	-399	-329	-417	-417	-417	-417	-417	-4,168
FRS 4 Costs	3,524	2,839	2,124	1,667	1,209	764	347	5	0
FRS 17 Pension Deficit	-4,582	-6,140	-3,764	-3,224	-2,744	-2,264	-1,784	-1,304	-824
OTHER	-2,475	-3,700	-1,969	-1,974	-1,952	-1,917	-1,854	-1,716	-4,992
ASSETS EMPLOYED	115,329	118,363	136,523	134,235	134,206	137,892	138,829	140,126	138,832
Share Capital	42,697	46,834	74,849	74,849	74,849	74,849	74,849	74,849	74,849
Strig/Frs17	0	0	1,955	1,537	0	0	0	0	0
Reserves b/f	1,715	-11,844	-26,134	-24,179	-21,927	-19,845	-13,118	-2,444	13,071
Profit & Loss - Year	0	0	0	715	2,082	6,726	10,675	15,514	20,774
Taxation									-3,751
NET WORTH	44,412	34,990	50,670	52,922	55,004	61,730	72,406	87,919	104,943
BOS Senior A	41,000	39,000	42,500	39,500	34,500	27,000	15,500	0	0
LB senior B		5,000	5,000	5,000	5,000	5,000	5,000	5,000	0
LB Mezxxanine	31,964	36,152	30,072	32,698	35,622	38,807	42,277	46,057	50,175
Captive Net (Cash)	-2,671	-2,999	-2,762	-3,075	-3,075	-3,075	-3,075	-3,075	-3,075
Mgt Loan Interest		0	2,693	2,693	2,693	2,693	2,693	2,693	2,693
Revolver/Cash	624	6,220	8,350	4,498	4,462	5,736	4,028	1,532	-15,905
NET DEBT	70,917	83,373	85,853	81,314	79,202	76,161	66,423	52,207	33,888
FUNDS EMPLOYED	115,329	118,363	136,523	134,236	134,206	137,891	138,829	140,126	138,831

Trading multiples

Trading multiples - Market data as of 20 March 2008		State		Market		Enterprise		Discretionary		Return		EVA		EBITDA		EBIT		EBITDA		EBIT		Cash		EPS		P/E			
Company	Country	Market Cap	Enterprise Value	Discretionary Capital	Return	EVA	EBITDA	EBIT	EBITDA	EBIT	EBITDA	EBIT	EBITDA	EBIT	EBITDA	EBIT	EBITDA	EBIT	EBITDA	EBIT	EBITDA	Cash	EPS	P/E	EPS	P/E			
		(USD B)	(USD B)	(USD B)	(%)	(USD B)	(USD B)	(USD B)	(USD B)	(USD B)	(USD B)	(USD B)	(USD B)	(USD B)	(USD B)	(USD B)	(USD B)	(USD B)	(USD B)	(USD B)	(USD B)	(USD B)	(USD B)	(USD B)	(USD B)	(USD B)			
Hermes & Mauritz	SEK	330.00	22.685	20.953	(26.7)%	10.6%	3.18x	2.81x	12.3x	10.7x	13.6x	11.8x	19.8x	17.0x	25.8%	23.5%	13.9%	16.9%	20.5%	1.4									
Indtrev	EUR	32.93	16.053	15.688	(38.9)%	6.2%	2.07x	1.79x	9.3x	8.0x	12.1x	10.4x	16.7x	14.6x	22.3%	17.1%	17.7%	19.1%	19.4%	1.1									
Next	GBP	11.08	2.225	2.983	(55.8)%	0.0%	0.90x	0.89x	4.7x	4.7x	5.6x	5.8x	6.7x	6.6x	19.3%	16.0%	1.5%	2.3%	8.5%	0.7									
Burberry Group	GBP	4.16	1.828	1.918	(42.7)%	14.3%	2.04x	1.85x	8.7x	7.7x	10.0x	8.9x	13.9x	12.1x	23.6%	20.4%	12.1%	9.4%	11.2%	1.3									
Gant Company	SEK	315.00	439	458	(7.4)%	40.9%	4.00x	3.51x	18.0x	16.3x	19.4x	17.5x	26.8x	24.8x	22.2%	20.6%	10.2%	13.8%	14.0%	1.7									
Mothercare	GBP	3.89	341	339	(10.8)%	23.1%	0.52x	0.46x	7.2x	6.1x	12.2x	10.1x	14.8x	13.4x	7.3%	4.3%	22.1%	27.5%	12.3%	N/A									
New Wave	SEK	54.00	337	445	(24.8)%	20.8%	1.18x	1.11x	6.4x	5.9x	8.5x	7.8x	10.2x	9.3x	18.3%	13.8%	13.8%	11.4%	12.0%	1.9									
Ted Baker	GBP	4.10	235	431	(51.8)%	3.1%	1.24x	1.06x	11.3x	9.1x	12.8x	10.3x	12.7x	10.3x	11.0%	9.7%	17.6%	21.8%	11.5%	0.8									
Hemtex	SEK	66.50	162	176	(55.2)%	2.0%	1.15x	1.08x	6.0x	5.6x	7.3x	6.8x	11.4x	10.3x	19.1%	15.7%	9.1%	9.9%	9.0%	N/A									
Rib Retail	SEK	31.90	182	219	(67.4)%	23.1%	1.94x	1.19x	9.0x	7.7x	10.4x	9.1x	13.5x	11.9x	14.9%	12.9%	13.4%	8.8%	3.9%	2.7									
Bjorn Borg	SEK	66.00	151	122	(58.6)%	26.6%	0.75x	0.72x	7.3x	6.4x	9.5x	8.1x	9.2x	8.8x	10.3%	7.9%	29.3%	43.5%	29.0%	N/A									
Marimekko	EUR	14.60	137	122	(24.0)%	4.8%	2.96x	2.65x	10.0x	9.4x	10.3x	9.7x	15.8x	14.7x	29.5%	28.7%	30.6%	36.9%	38.3%	N/A									
Fenix Outdoor	SEK	68.25	92	89	(9.0)%	11.5%	1.46x	1.37x	9.5x	8.8x	10.8x	9.9x	15.2x	13.9x	15.3%	13.6%	13.6%	3.2%	2.5%	2.0									
Mulberry	GBP	1.27	75	72	(55.2)%	26.4%	1.02x	0.93x	5.9x	5.5x	7.0x	6.4x	11.1x	9.5x	17.2%	10.6%	14.7%	10.6%	27.9%	N/A									
French Connection	GBP	0.75	73	66	(71.9)%	0.0%	1.36x	1.19x	10.5x	9.6x	12.9x	11.8x	19.6x	15.8x	13.0%	10.6%	0.7%	0.5%	24.7%	N/A									
Liberty	GBP	3.10	70	23	(8.9)%	5.1%	0.10x	0.09x	2.4x	1.7x	14.6x	4.6x	52.8x	15.8x	(7.9)%	N/A	N/A	N/A	N/A	N/A									
Moss Bros	GBP	0.46	44	33	(38.9)%	46.8%	0.25x	0.24x	4.1x	3.8x	9.4x	7.9x	37.7x	33.6x	6.1%	2.7%	1.6%	3.8%	(29.8)%	N/A									
Alexon Group	GBP	0.97	44	26	(61.9)%	54.4%	0.08x	0.09x	1.6x	1.6x	2.1x	1.9x	5.9x	4.6x	5.3%	4.1%	(5.8)%	0.4%	26.1%	0.8									
Waterford	EUR	0.01	42	450	(85.7)%	0.0%	0.80x	0.79x	42.3x	16.1x	N/A	N/A	59.3x	N/A	1.9%	(2.1)%	(1.6)%	211.2%	N/A	N/A									
Jacques Vert	GBP	0.12	24	23	(54.6)%	34.2%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A									
Wednes Skor	SEK	3.65	19	35	(71.9)%	9.0%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A									
Average					(43.5)%	16.9%	1.41x	1.25x	9.8x	7.6x	10.5x	11.5x	17.4x	13.8x	13.9%	12.4%	11.0%	23.9%	13.0%	1.4									
Median					(47.2)%	11.0%	1.21x	1.08x	8.7x	7.7x	10.4x	9.1x	14.3x	12.8x	15.1%	13.6%	11.6%	11.4%	12.1%	1.3									