ADDITION ELLE

Penningtons

Reitmans

RW&CO.

SMARTSET

Thyme

hyba

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SMARTSET

Thyme

hyba

How to grow in the fast evolving and heavily competitive clothing retail environment?

ADDITION ELLE

Penningtons

Reitmans

RW&CO.

SMARTSET

Thyme

hyba

Privatize the firm, enhance brands and optimize supply chain

A bit of history

1926 – Company started with a single store on St-Laurent

1926 – 2000 – Organic growth and acquisitions becoming the largest women's fashion retailer in Canada (588 stores)

2000 – 2010 – Raised its dividends 10 times during this period

2000 – Strategic alliance with Inditex Group of Spain – helped them to open Zara stores in Canada

2002 – Largest acquisition in company's history, Shirmax Fashions Ltd (175 stores - Adition-Elle, and Thyme Maternity)

2003 - 2007 – Growth year over year, biggest player in the plus size market, completed its only distribution center in Montreal, repaid loans for acquisitions.

2008 – 2015 – Recession, slowed growth and declining revenues, Reitmans never really recovered after the recession

A bit of history

2010 – Announcing Reitmans.com the company’s online buying platform. Lagging behind its competitors which added online platforms in the late 2000s

2011 – Closes the Cassis brand and converts it to other banners, Jeremy Reitman becomes CEO and Chairman of the board

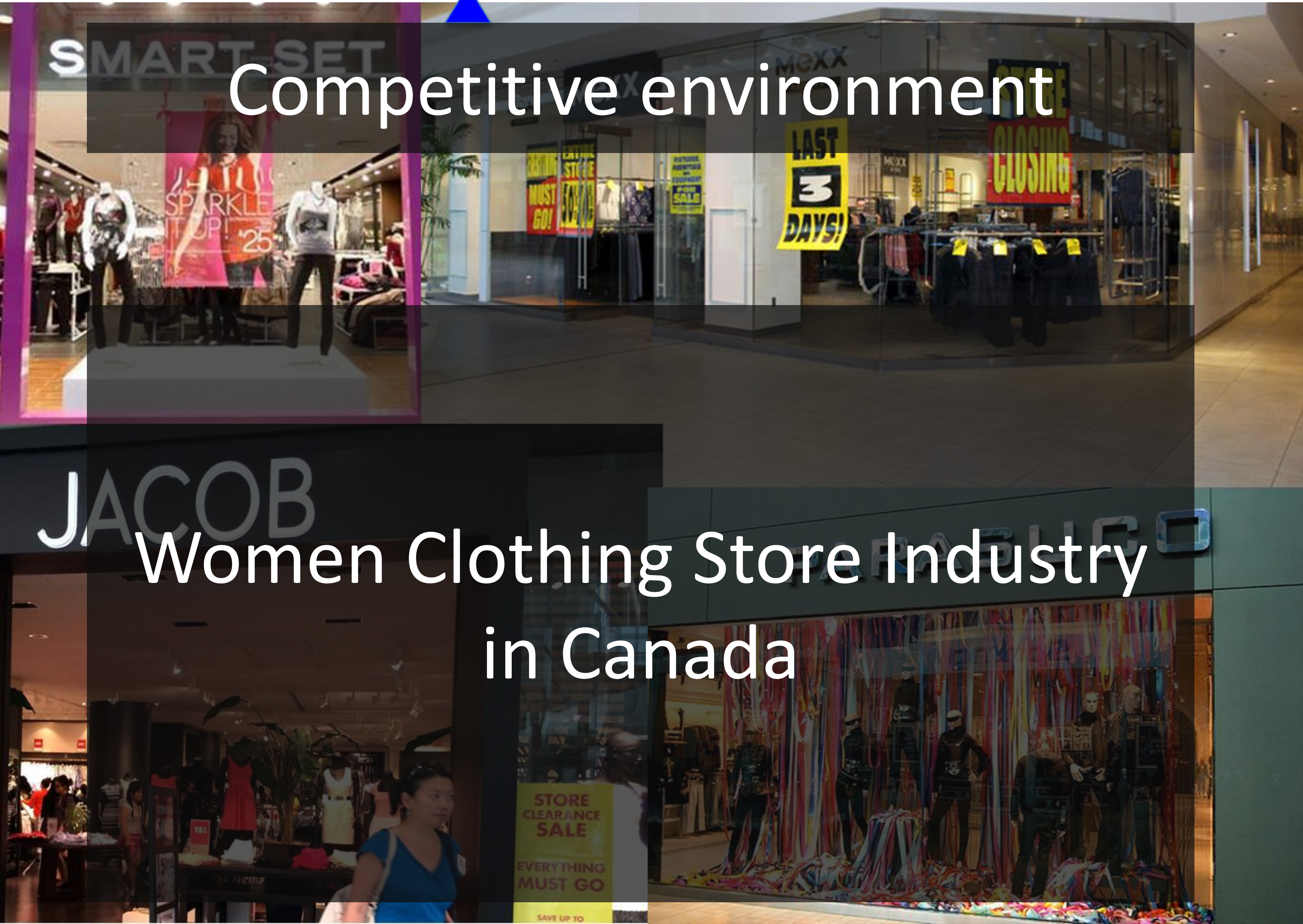
2012 – Partnership with Babies R Us to provide Thyme Maternity apparel in U.S., but closes most of them by the end of 2014 as they are not profitable

2012 – Issues with the distribution centers’ newly installed warehouse management system which adversely impact 3rd quarter sales

2014 – Plans to close the Smart Set banner and/or convert it to other banners, RW&CO and ELLE magazine launch exclusive holiday dress collection

2015 – Drop in sales and reduced foot traffic continues, posted losses of $7.9M for the first 6 months while e-commerce revenues increasing by 81%. More focus on RW&CO for men with Subban, new HYBA active wear banner, Addition Elle’s Ashley Graham opens the New York fashion week, marketing shift to digital by engaging bloggers and creating capsule collections

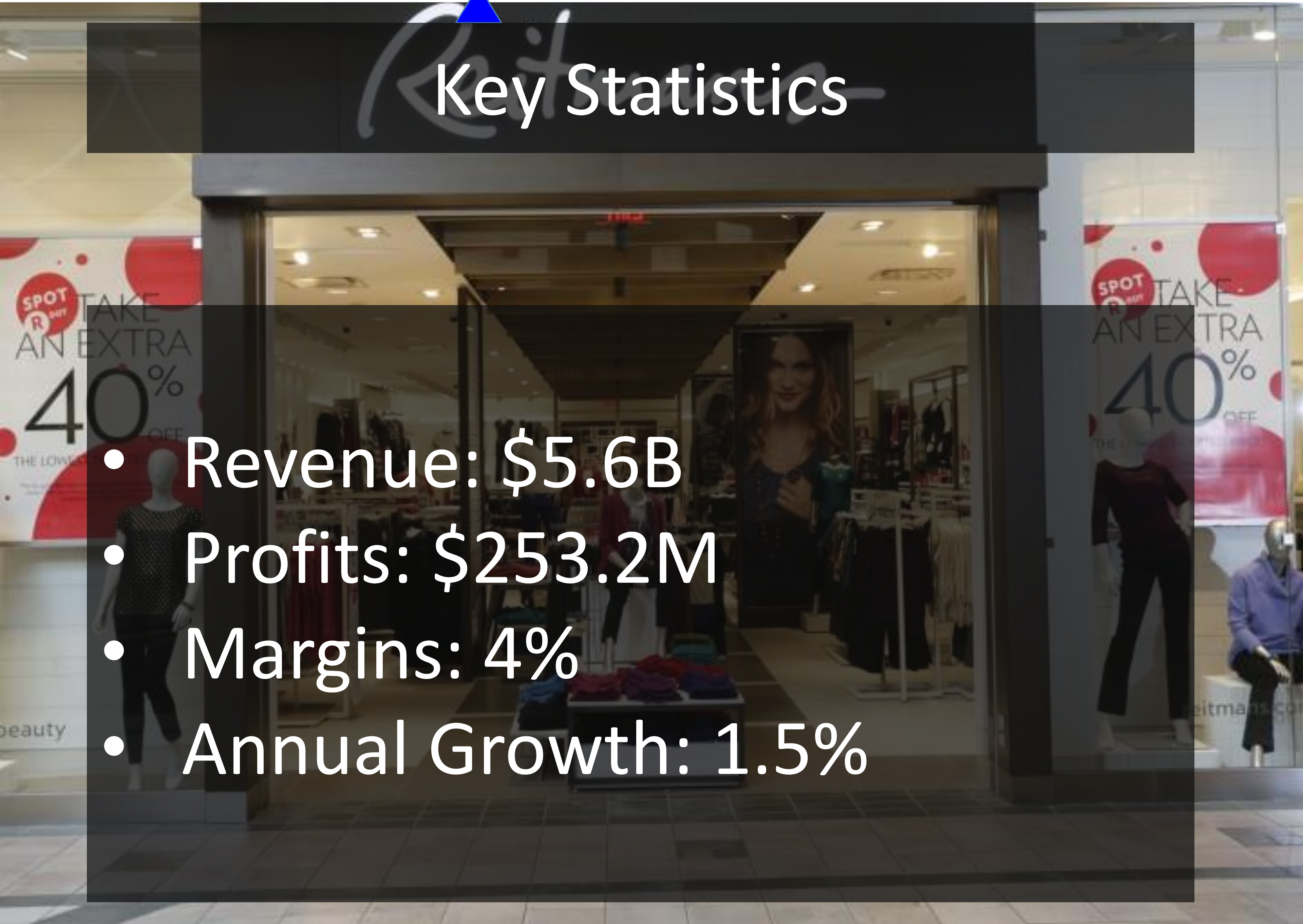
Competitive environment



Women Clothing Store Industry in Canada

Key Statistics

- Revenue: $5.6B
- Profits: $253.2M
- Margins: 4%
- Annual Growth: 1.5%



Economic Drivers

Per Capita Disposable Income

- Slow growth in the past 5 years
- Expected to grow during 2015, creating a potential for discretionary spending

External Competition

- Increase in discount department stores & internet-based retailers

Number of adults aged 20 to 64

- Expected to increase slowly

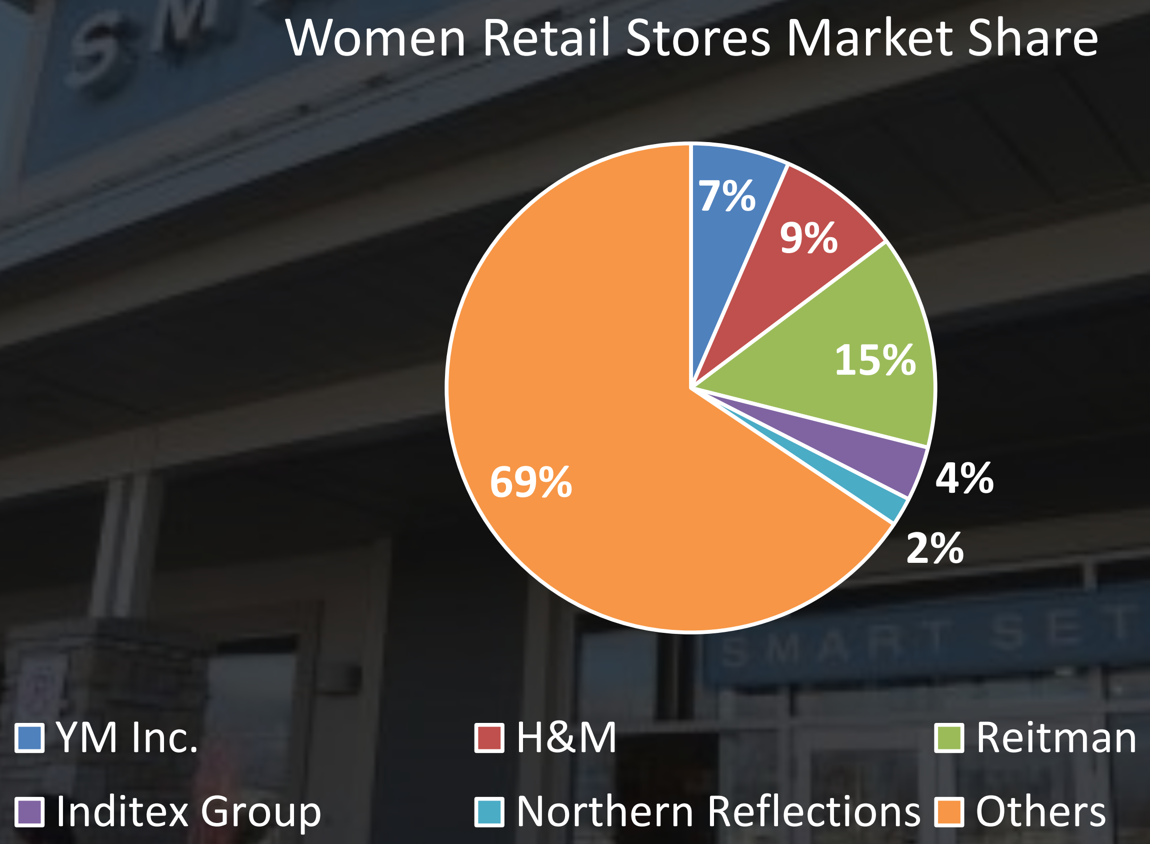
World price of cotton

- Expected to decrease

Value Chain

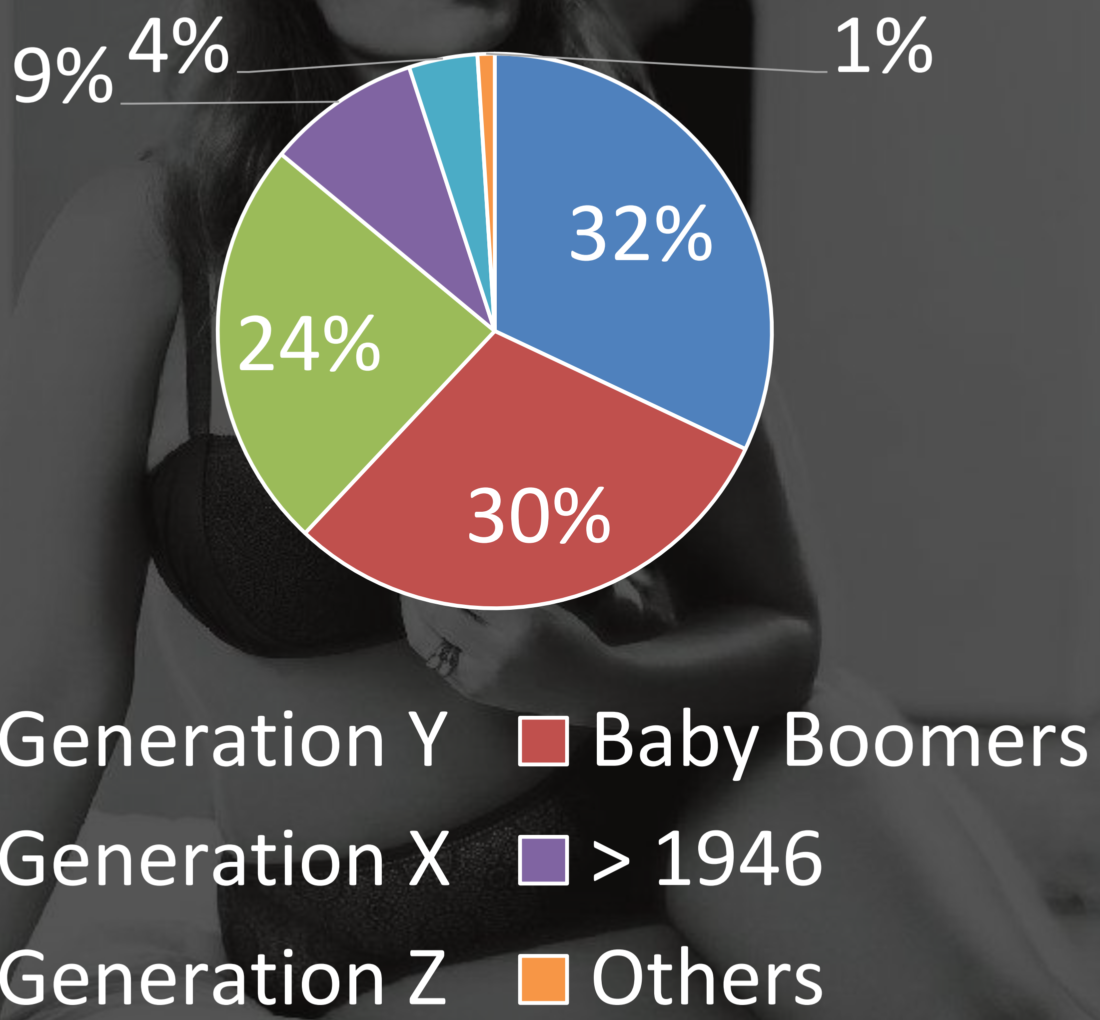
Raw Material Producers → Manufacturers → Wholesalers → Retails Stores → Consumers

Extremely Fragmented Market



Reitman being the largest player

Market Segmentation

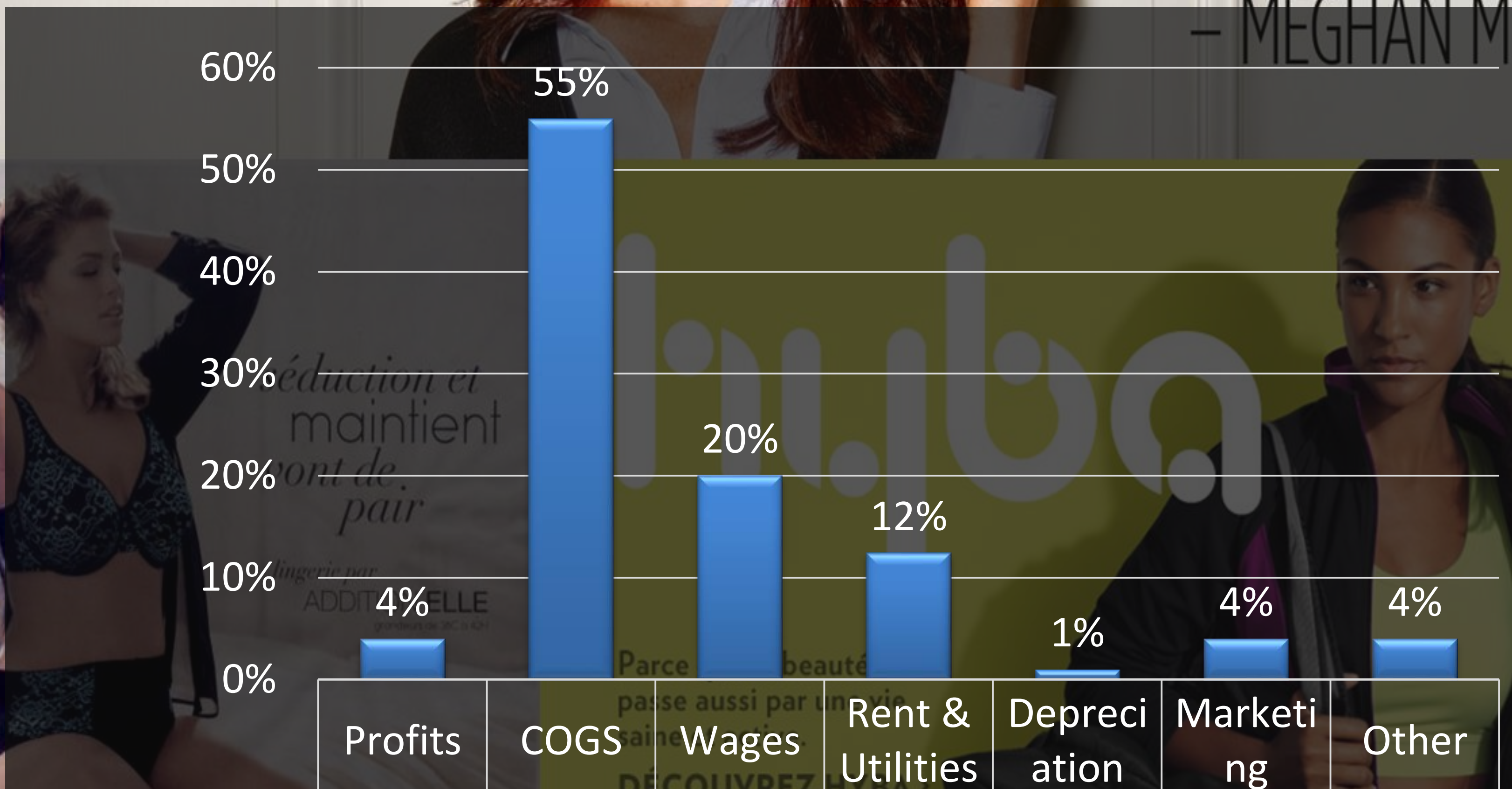


Key Success Factors

- Attractive product presentation
- Establishment of brand names
- Ability to control stock on hand
- Proximity to key markets
- Up-to-date with fashion trends

Areas for improvement At Reitman's

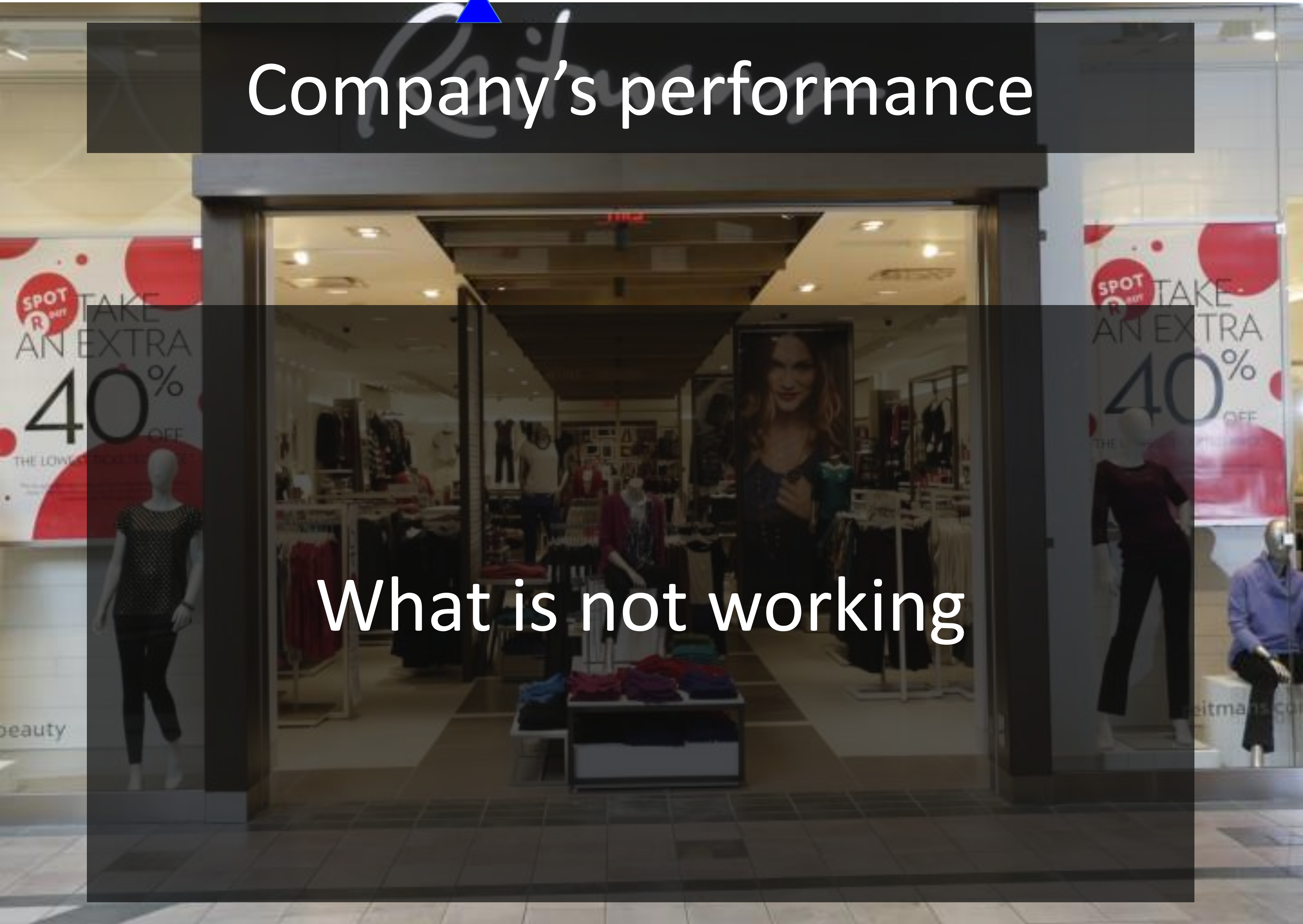
Industry Cost Structure Benchmark



	Profits	COGS	Wages	Rent & Utilities	Depreciation	Marketing	Other
Breakdown	4%	55%	20%	12%	1%	4%	4%

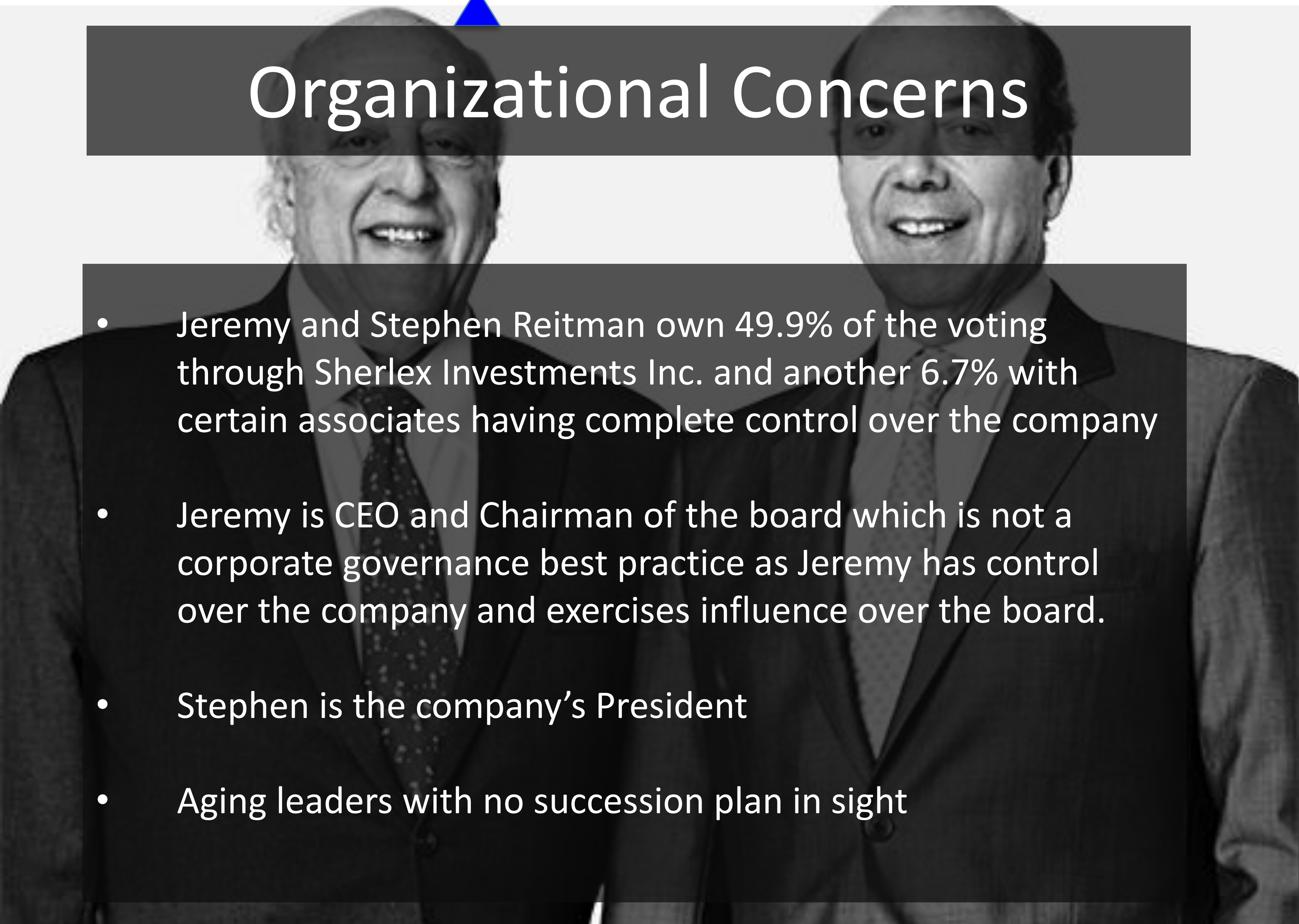
Company's performance

What is not working



Bleeding Financials

- Steady decline in revenues and an 85% drop in net earnings since 2011
- Cost of doing business is increasing since 80% of their products are outsourced from China and bought in US dollars.
- Large cash outflows and unsustainable dividend payouts
- Inventory write-offs doubled in 2015 compared to the year before
- Reitmans’ shares are currently around $3.85, a far cry from the $20 level it was trading in mid-2010



Organizational Concerns

- Jeremy and Stephen Reitman own 49.9% of the voting through Sherlex Investments Inc. and another 6.7% with certain associates having complete control over the company
- Jeremy is CEO and Chairman of the board which is not a corporate governance best practice as Jeremy has control over the company and exercises influence over the board.
- Stephen is the company’s President
- Aging leaders with no succession plan in sight

Organizational Concerns

- Every brand has its own management team run by a brand president. Is Reitmans' business model too complex and fragmented? How efficient are their business operations?

- Each management team has a VP Merchandising, VP marketing, VP Planning and Allocation, and VP Sales and Operations. Coincidentally, the two underperforming brands Reitmans and Thyme have gaps in their leadership team. Reitmans lacks a VP merchandising while Thyme lacks a VP Planning and Allocation. Coincidence? Not really. This could explain the inventory write offs.

- Leadership lacks a design and purchasing team that would oversee the development of a range of products aimed at a specific type of customer and price bracket. That is crucial since every banner has a different target market.

Operational Inefficiencies

- More than 80% of products are outsourced to China. Lead time is huge. Risks are high. Costs keep going up as US dollar gets stronger.
- One distribution center in Montreal to cater to all 823 stores across Canada. This puts Reitmans at a disadvantage when it comes to market responsiveness. Company has no fail over plan if distribution center is disrupted for any reason.
- Poor inventory management system resulting in high inventory costs.

Technology

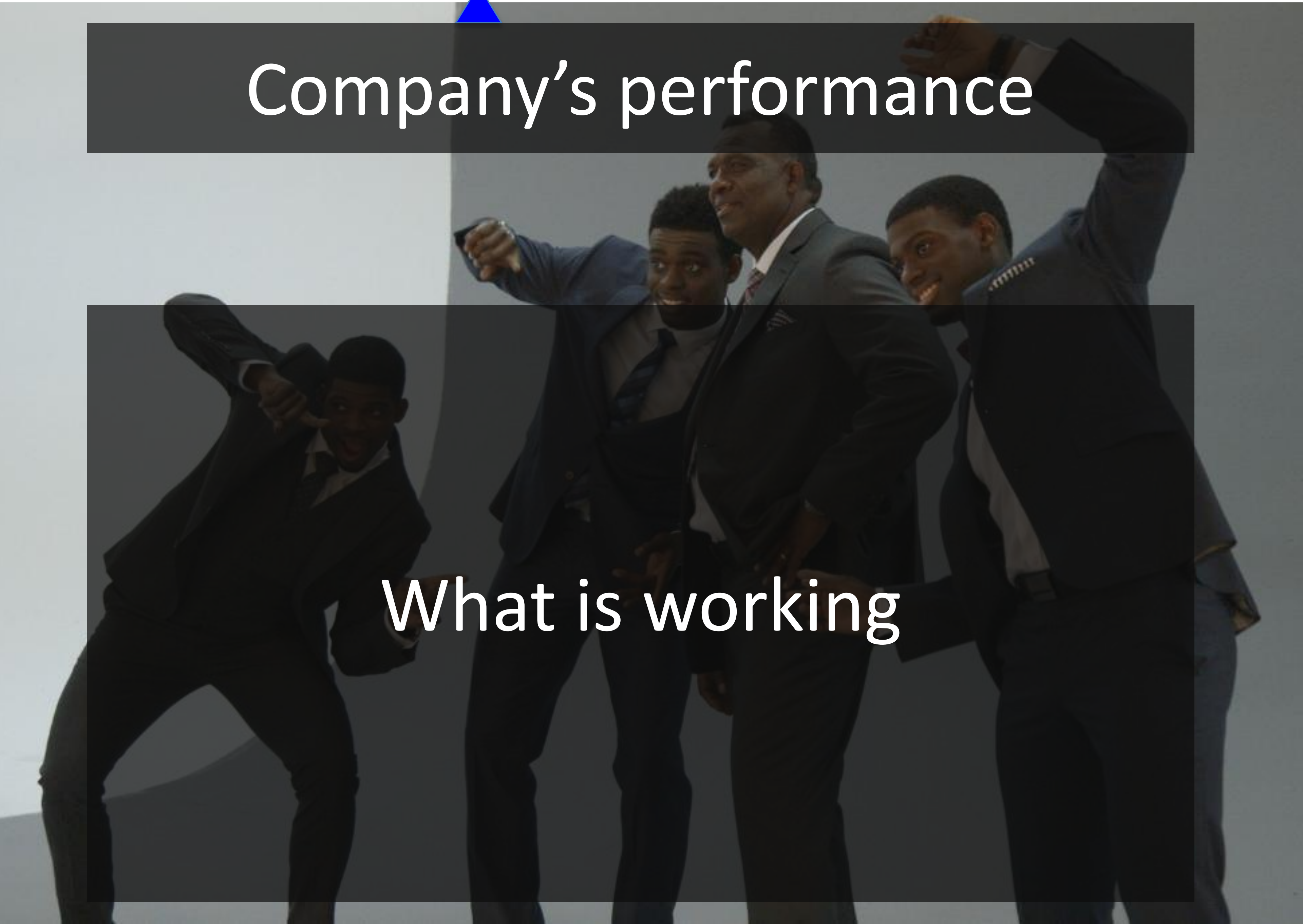
- Failed implementation of a new warehouse management system has led to delays in a major systems development project (“SCORE”) which is supposed to create vertical integration across Reitmans’ supply chain
- Lack of data analytics to determine demand and plan accordingly. As a result, hence markdown cost are higher than competition
- Reitmans entered the e-commerce world later than most competitors

Pricing Strategy

Reitmans has a hybrid pricing strategy that is both competition and cost oriented. This is manifested in their mission statement and their various corporate initiatives aimed at reducing costs.

“We are customer driven, value oriented and committed to excellence. By promoting innovation, growth, development and teamwork, we strive to serve our customers the best quality/value proposition in the marketplace.”

Their current pricing strategy overlooks customer demand and results in a mismatch between production, supply and demand.



Company’s performance

What is working

Shaking things up in 2015

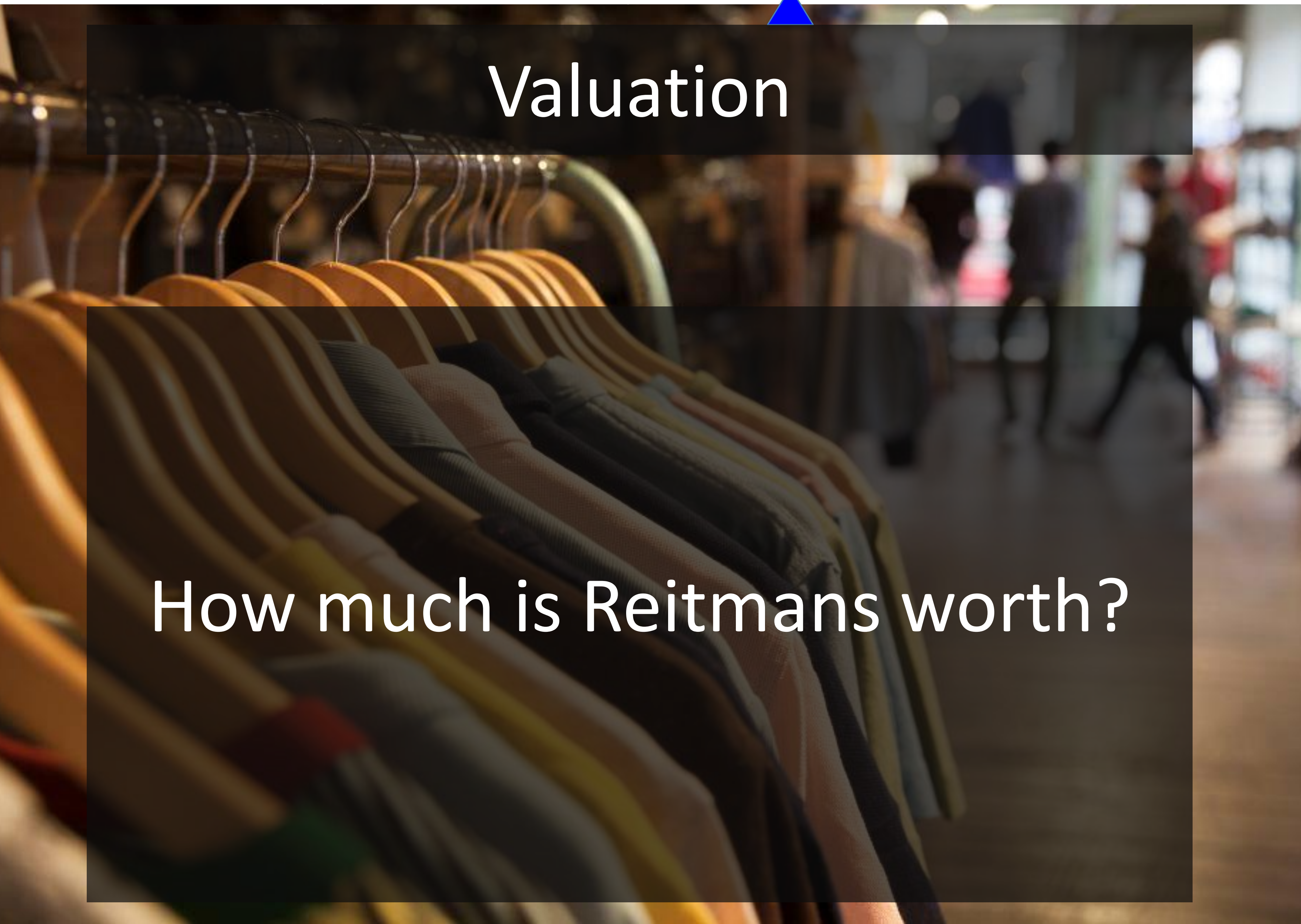
RW&CO is gaining visibility by signing Subban and his family to promote men's products

New HYBA active wear banner's successful introduction in key locations

Addition Elle's Ashley Graham opens the New York fashion week
Addition Elle's sales are increasing in Canada as well as in New Zeeland and Europe via E-Commerce

Penningtons is selling well via Amazon.com

Marketing shift to digital by engaging bloggers and creating capsule collections



Valuation

How much is Reitmans worth?

Financial Performance Forecast

	BEST CASE		BASE CASE		WEAK CASE	
Key Assumptions	2016P -	2020P	2016P -	2020P	2016P -	2020P
Revenue Growth	0.6%	1.5%	0.4%	0.5%	0.3%	(0.5%)
COGS Margin	42.7%	40.0%	42.7%	40.0%	42.7%	44.5%
Operating Expenses Margin	56.8%	53.0%	56.8%	55.0%	56.8%	59.0%
Inventory as Days of COGS	110.0	75	120.0	100.0	120.0	140.0
Capital Expenditures as % of Revenue	3.6%	5.5%	3.6%	3.6%	3.6%	2.0%
Depreciation / Capital Expenditures Ratio	1.2	1	1.3	1.2	1.3	1.4

Scenario Considerations:

- Better than expected 2016 4Q boosts sales in the year stub.
- More Fashionable banners like Addition Elle, RW&Co and Pennington take the leadership in Organic growth at more than 1% Rapidly offsetting Smartset store Conversion/Closing.
- Faster CAD stabilization and good performance of the Global Sourcing Initiative (Hong Kong office) produce COGS improvements.
- Improvements in Opex begins only after fiscal 2017 when "SCORE" initiative is finished. No delays and total success is assumed.
- Improvements in COGS come from "SCORE" initiative success and Global Sourcing unit causing a full integration of RET supply chain and a subsequent reduction in Inventory to historical efficient levels.
- Mgmt. seizes growth opportunities through Capex increases.

Scenario Considerations:

- Smartset restructuration continues until mid Fiscal 2018 causing a poor performance in revenues when shading other banners' results.
- Only at the last portion of the Period, CAD currency could stabilize COGS plus some improvements in the Global Source Unit.
- Improvement in Opex only attributed to the cost reduction and efficiency programs. Results confirmed so far. "SCORE" initiative impact ignored.
- Days Inventory improve until common levels. Global Sourcing initiative impact only included in COGS. Wait and see.
- No major reasons to increase Capex since 2016 3Q current revised value over 2015 Mgmt. guidance

Financial Performance Forecast

	BEST CASE		BASE CASE		WEAK CASE	
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Operating Expenses Margin	56.8%	53.0%	56.8%	55.0%	56.8%	59.0%
Inventory as Days of COGS	110.0	75	120.0	100.0	120.0	140.0
Capital Expenditures as % of Revenue	3.6%	5.5%	3.6%	3.6%	3.6%	2.0%
Depreciation / Capital Expenditures Ratio	1.2	1	1.3	1.2	1.3	1.4

Scenario Considerations:

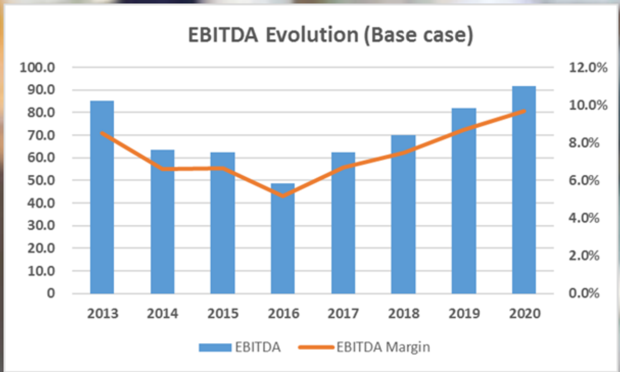
- RET fails to bring an attractive product offer and Fierce competition increase even more than expected. These effects cause additional reduction in number of stores.
- Delay in CAD recovery continues affecting COGS
- Global sourcing Unit fails to deliver results since China is currently out of TPP bloc and other members could be more attractive. Change in strategy and late entry to suppliers market affect COGS even further.
- Opex performance worsened due to delay and failure of "SCORE" initiative. Likely to happen in this kind IT endeavours. Previous failure considered (Warehouse system 2013). No major IT success in recently appointed CIO experience.
- "SCORE" and Global Sourcing initiatives failure ultimately affect Inventory performance.
- Coherently Capex must be revised

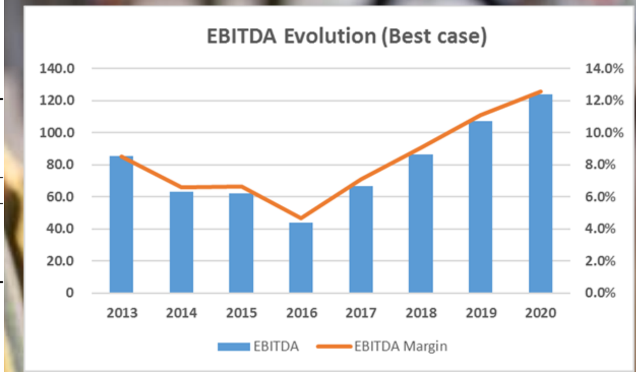
Business Operation Overview

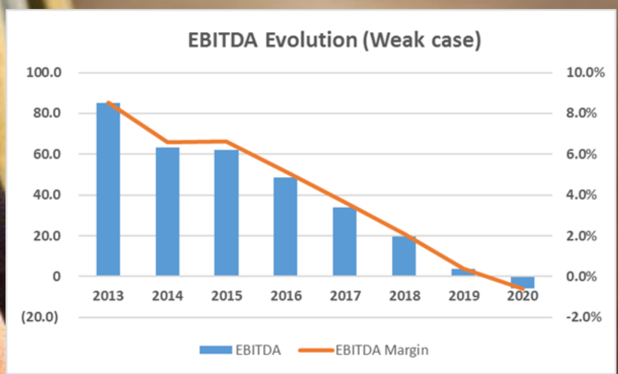
Reitmans (CANADA) Limited
Base Case

Income Statement

$mm	Actuals			Projected				
	2013A	2014A	2015A	2016P	2017P	2018P	2019P	2020P
Revenues	1,000.5	960.4	939.4	943.0	938.3	939.2	943.9	948.6
Cost of Goods Sold (COGS)	(372.1)	(365.5)	(372.0)	(402.7)	(386.6)	(387.0)	(382.3)	(379.5)
Gross Profit	**628.4**	**594.9**	**567.4**	**540.3**	**551.7**	**552.3**	**561.6**	**569.2**
Operating Expenses	(594.8)	(582.0)	(546.7)	(535.6)	(532.9)	(526.0)	(523.9)	(521.8)
Operating Profit (EBIT)	**33.6**	**12.9**	**20.7**	**4.7**	**18.8**	**26.3**	**37.8**	**47.4**
Interest Income	0.9	0.6	0.5	0.8	0.8	0.9	1.1	1.3
Interest Expense	(0.6)	(0.5)	(0.4)	(0.2)	(0.1)	(0.0)	(0.0)	(0.0)
Other Income / (Expense)	3.7	3.5	(4.4)	2.0	2.0	2.0	2.0	2.0
Pretax Income	37.6	16.5	16.4	7.3	21.4	29.2	40.8	50.7
Tax Benefit / (Expense)	(8.4)	(2.7)	(4.1)	(2.1)	(6.3)	(8.5)	(12.0)	(14.9)
Net Income	**29.2**	**13.8**	**12.3**	**5.2**	**15.2**	**20.6**	**28.9**	**35.9**
Depreciation + Amortization	(53.0)	(51.2)	(42.4)	(43.3)	(43.1)	(43.2)	(43.4)	(43.6)
Stock Based Compensation	(1.4)	(0.7)	(0.8)	(0.8)	(0.7)	(0.7)	(0.7)	(0.7)
EBITDA	**85.2**	**63.4**	**62.3**	**48.8**	**62.6**	**70.2**	**81.9**	**91.7**
Basic Shares Outstanding	64.6	64.6	64.6	64.3	64.1	64.2	64.3	64.4
Diluted Weighted-Average Shares Outstanding	64.6	64.6	64.6	64.3	64.1	64.2	64.3	64.4
GAAP Normalized Diluted Earnings Per Share	**$0.45**	**$0.21**	**$0.19**	**$0.08**	**$0.24**	**$0.32**	**$0.45**	**$0.56**
Revenue Growth		(4.0%)	(2.2%)	0.4%	(0.5%)	0.1%	0.5%	0.5%
COGS Margin	37.2%	38.1%	39.6%	42.7%	41.2%	41.2%	40.5%	40.0%
Operating Expenses Margin	59.5%	60.6%	58.2%	56.8%	56.8%	56.0%	55.5%	55.0%
Effective Tax Rate	22.3%	16.4%	25.0%	29.3%	29.3%	29.3%	29.3%	29.3%







Cash Flows Forecast

Free Cash Flow Buildup

Base Case

$mm

			Stub Year	Projected			
			2016P	**2017P**	**2018P**	**2019P**	**2020P**
Fiscal Year-End Date			*2016-01-31*	*2017-01-31*	*2018-01-31*	*2019-01-31*	*2020-01-31*
EBIT			0.7	18.8	26.3	37.8	47.4
Effective Tax Rate			29.3%	29.3%	29.3%	29.3%	29.3%
EBIAT (Unlevered NI)			**0.5**	**13.3**	**18.6**	**26.7**	**33.5**
Depreciation + Amortization			6.5	43.1	43.2	43.4	43.6
Stock Based Compensation				0.7	0.7	0.7	0.7
Accounts Receivable			(0.2)	0.0	(0.0)	(0.0)	(0.0)
Inventory			(3.9)	5.3	10.5	6.6	6.0
Other Current Assets			0.0	0.0	0.0	0.0	0.0
Other Non-Current Assets			(0.2)	0.5	(0.3)	0.1	(0.1)
Accounts Payable			0.4	(2.1)	0.1	(0.6)	(0.4)
Other Current Liabilities			0.0	0.0	0.0	0.0	0.0
Other Non-Current Liabilities			0.0	0.0	0.0	0.0	0.0
Unlevered Cash from Operations			**3.2**	**60.9**	**72.7**	**76.9**	**83.4**
Capital Expenditures			(5.0)	(33.3)	(33.3)	(33.5)	(33.7)
Scheduled LT Debt Repayments			(0.2)	(1.2)	(1.2)	0.0	0.0
Unlevered Free Cash Flows			**(2.0)**	**26.4**	**38.2**	**43.4**	**49.7**
Period			1	2	3	4	5
Period after stub adjustment			0.15	1.15	2.15	3.15	4.15
Assume cash flows are generated at	Mid of Period	Discount factor	99.4%	94.6%	86.8%	79.6%	73.1%
Mid-year adjustment factor	1.044						
Present Value of Free Cash Flows			**(2.0)**	**24.9**	**33.1**	**34.6**	**36.3**

DCF Assumptions

Base Case

General Assumptions	
Previous Fiscal Year End	2015-01-31
Current Date	2015-12-07
Current Share Price	$3.88
Fraction of Year Remaining (stub year)	15.1%
Terminal Value Assumptions	
Terminal Year EBITDA	91.7
Terminal Value EBITDA Multiple	4.9x
Long-Term Growth Rate (g)	2.0%
Cost of Capital Assumptions	
Cost of Debt	6.4%
Effective Tax Rate	29.3%
Debt as % of Total Capital Structure	0.6%
Risk Free Rate	2.1%
Company Beta	0.68
Market Risk Premium	6.0%
Cost of Equity (Discretionary / current market)	9.0%
Cost of Equity (CAPM)	6.2%
Equity as % of Total Capital Structure	99.4%
WACC using CAPM for the Cost of Equity	6.2%
WACC using Cost of Equity (Discretionary / current market)	9.0%
Selected WACC	9.0%

Due to RET revenue volatility is preferred to use a Ke closer to the one commonly used in the whole market (TSX).

Enterprise and Equity Value

Enterprise Value

Base Case

Perpetuity FCF Approach	
FCF in Last Forecast Period (t)	49.7
FCF^{t+1}	50.7
Long-Term Growth Rate (g)	2.0%
Terminal Value	727.2
Terminal Value after Mid Year Adjustment	759.1
Present Value of Terminal Value	531.4
Preent Value of Free Cash Flows	127.0
Enterprise Value	**658.4**
Exit EBITDA Multiple Approach	
Terminal Year EBITDA	91.7
Terminal Value EBITDA Multiple	4.9x
Terminal Value	449.6
Present Value of Terminal Value	328.5
Present Value of Free cash Flows	127.0
Enterprise Value	**455.5**

Follows Target consensus share price

Valuation

Market price = $ 3.88

Base Case

	Perpetuity	Exit EBITDA
Enterprise Value	658.4	455.5
Net Debt	(125.0)	(125.0)
Non-controlling Interest	0	0
Off-balance sheet Items	(201.5)	(201.5)
Investments in associates (at fair value)		0.0
Equity Value	331.8	128.9
Equity Value per Share	**$ 5.20**	**$ 2.02**
% premium / (discount) over market share price	*34.1%*	*-47.9%*

Although RET has a strong Financial Health, Fierce competition in the market and poor performance on sales suggest the inclusion of Off-Balance Sheet items as a mandatory element in the Equity valuation.

The offer

Sensitivity

Base Case

Equity Value per Share (Growth Rate vs WACC)

$5.20	6.0%	7.0%	8.0%	9.0%
1.0%	$9.73	$7.21	$5.41	$4.05
2.0%	$13.07	$9.38	$6.92	$5.16
3.0%	$18.64	$12.64	$9.04	$6.64
4.0%	$29.78	$18.07	$12.22	$8.71

Equity Value per Share (Exit Multiple vs WACC)

$2.02	6.0%	7.0%	8.0%	9.0%
2.0x	($0.67)	($0.80)	($0.92)	($1.03)
3.0x	$0.49	$0.33	$0.17	$0.02
4.0x	$1.66	$1.45	$1.26	$1.07
5.0x	$2.82	$2.58	$2.34	$2.12

Assumptions on the Terminal Growth rate cause higher variations than those caused by Exit Multiple

Considerations:

1. A price of ***$ 5 CAD*** per share would be reasonable to pay for a RET Non-Voting share.
2. This same price we consider includes already a Control Premium, since the spread between the Exit and Perpetuity approach rises questions on the assumption that a perpetual revenue stream will exist for RET based on current performance.

How will we create value?

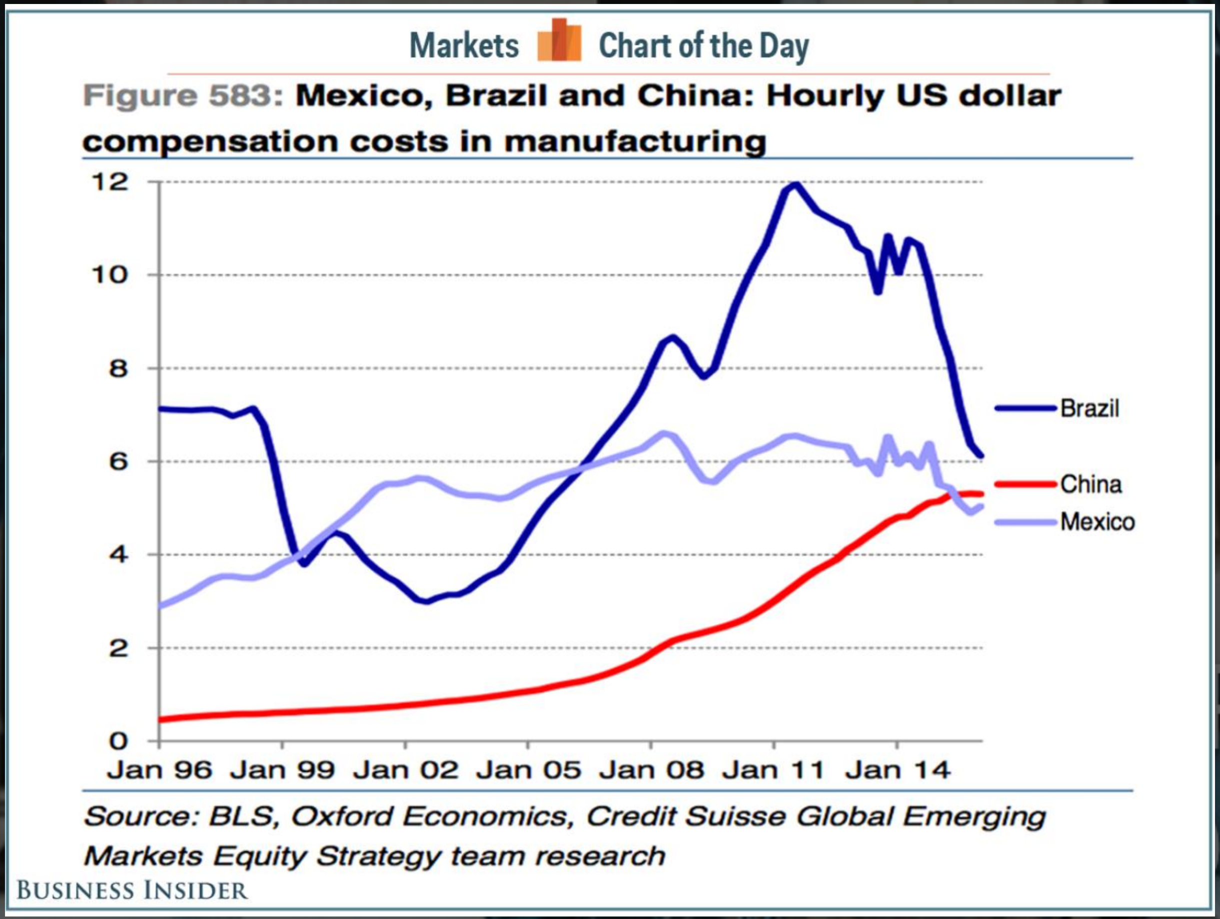
Given our expertise and relationships, we will implement the following initiatives without the pressure of being a public firm...

Near-sourcing

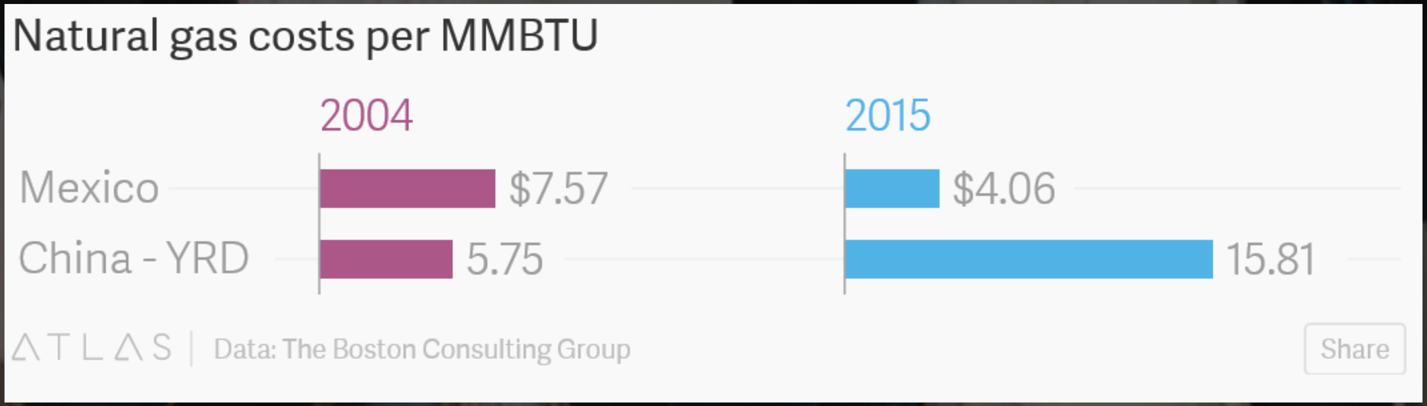
Most of production will be North American based, with Mexico being the main manufacturer. Why?

- Wages are increasing much slower than other economies
- Energy cost inflation has been subdued
- Shipping to the US/Canada is easier and cheaper from Mexico

Wages are lower than China…



Energy costs are much lower in Mexico…



FASHION THE STORY OF TOMORROW

Shipping from Mexico is more efficient…

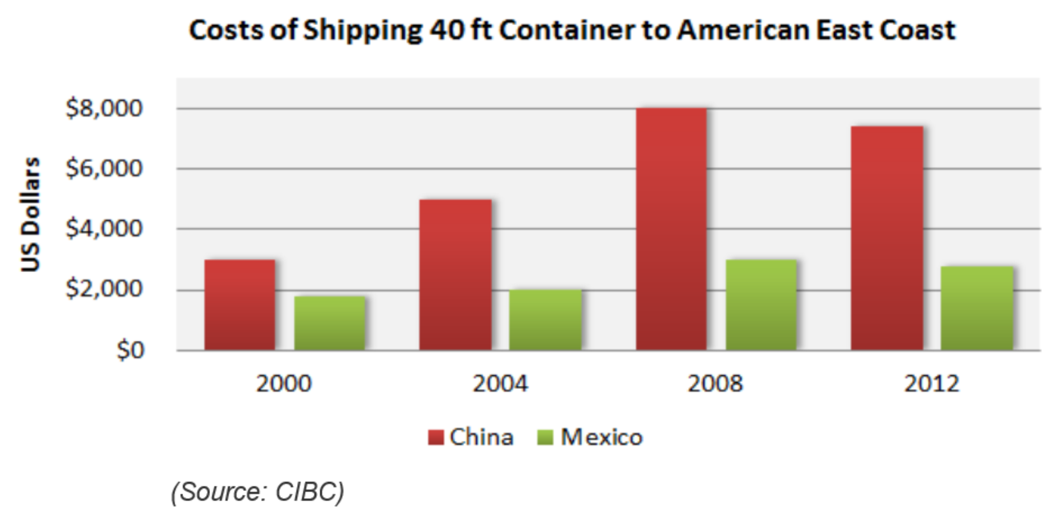


Exhibit 1.36: Shipping Times (Days)

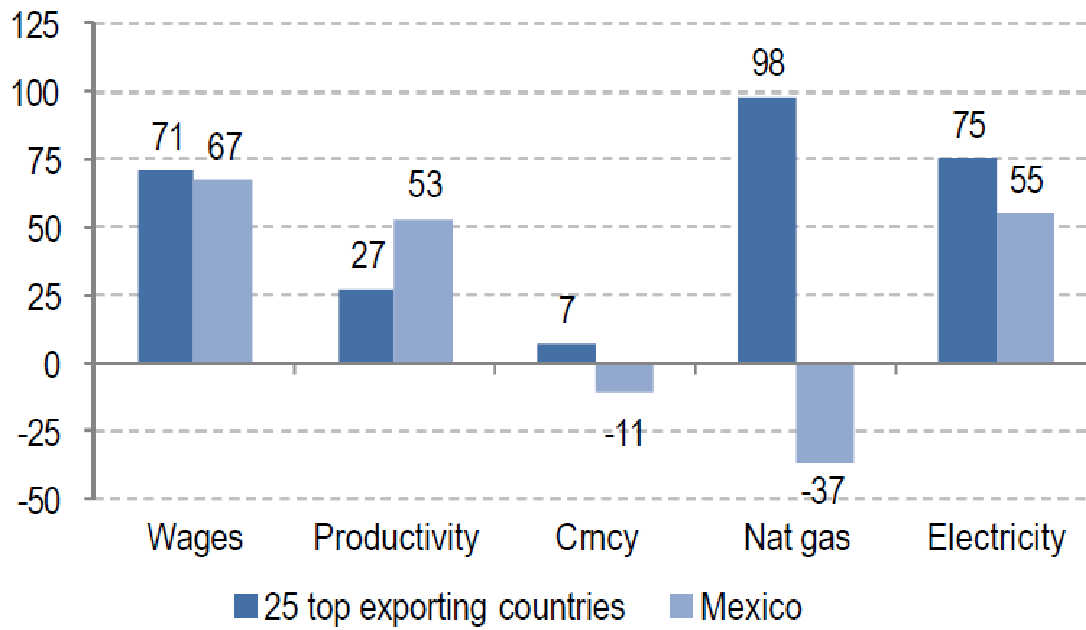
Days to / from	Mexico	China	Brazil	Turkey
NY	5	32	15	16
Rotterdam	16	32	17	10
Yokohama	19	4	35	27

Source: Terrafina IPO prospectus; Scotiabank GBM.

In sum, Mexico is better in most metrics…

Figure 50: Cost Competitiveness: Mexico & Average of 25 Exporting Economies

2004-2014 % change



Source: The Boston Consulting Group, "The Shifting Economics of Global Manufacturing", Aug. 2014.

Near-sourcing benefits

- React better to consumer's preferences
- Reduce production costs
- Reduce inventory levels and shrinkage
- Improve product quality

Differentiate brands

Focus on positioning brands in the portfolio to compete in a particular niche and limit cannibalization:

- Reitmans: focus on clientele 40 years old+
- RW&Co: Continue push for younger market
- Hyba: Stay course but differentiate design from Lululemon and Lolë – mid-range with more offering in + sizes
- Other brands stay the course with focus on better adapting offering to consumer trends

Hybrid strategy

We will execute a hybrid strategy across our brands:

- Seasonal offerings lasting several months
- But also introduce mid-season/fast-fashion items based on local trends

Enhance operational expertise

The firm needs to have dedicated design teams but also:

- Global Head of Design to coordinate design efforts under common themes
- Global Head of Purchasing to improve sourcing efficiency and develop supply chain expertise aided by technological tools

Market the brands as Ethical

Products and services that embrace higher ethical standards benefit from higher customer loyalty, higher brand recognition and less price sensitivity:

- Products made in North America
- “We are Canada” branding with Subban
- Our suppliers will need to subscribe to high ethical standards


Thank You