North face essay

Sally Chin Monique Harper Marmeline Petion Eric Yaker Advanced Financial Analysis Final Group Project The North Face, Inc. December 5, 1999 Table of Content 2 Industry Analysis Overview The US apparel industry is large, mature, and highly fragmented and its sales are driven by economic conditions, demographic trends, and pricing. The average American spends about $800 a year on apparel. This translates into a market of about $215 billion for a population of close to 270 million.

The market is divided into two tiers: national brands and other apparel. National brands are produced by about 20 sizable companies and currently account for some 30% of all US wholesale apparel sales. The second tier accounts for 70% of apparel and is comprised of small brand and private label products. As can be expected for a mature industry, growth for the sector is relatively small and companies within the industry have to constantly find ways to reduce costs, which explains the outsourcing of manufacturing to Asia and the Caribbean.

As a result the industry has benefited from an increase in offshore manufacturing and favorable prices for raw materials, thereby reducing overall operating costs. The technical outdoor apparel segment is one segment of the highly fragmented apparel industry, which has managed to create a niche of its own. Professional climbers and outdoor enthusiasts are the primary consumers of this segment of the industry. In recent years however, these products have become increasingly popular among a broader group of consumers. This growth is due to an increase in outdoor recreational activities and adventure travel by the general population.

There has also been a shift in consumer preferences, leading to a growing demand for highly functional products. The last and most important trend is the fact that there is now a growing acceptance of outdoor apparel as casual wear. Another positive for the industry as a whole is the fact that the U. S. economy as a whole has experienced modest inflation, low unemployment, and a booming stock market. The effects of these factors have trickled down to the apparel industry in the form of increased spending. On the negative side, the apparel industry is extremely competitive and highly fragmented.

Due to the fact that the industry is characterized by simple technologies, low fixed assets per employee, and ease of expansion, barriers to entry are relatively insignificant. Though it is easy to enter the market, it is very hard to remain a viable competitor, as profit margins are very slim in such a competitive environment. Consumers also have considerable power over apparel and have expressed no loyalty to a particular brand. Such consumer behavior has increased costs for the 3 companies operating in the industry, as they constantly have to spend money on advertising to build brand awareness.

Industry Trends ! Increased Number of Teenagers/Aging Population The apparel industry will change with demographic trends. It is expected that over the next ten years, the number of both younger and older households will increase, while the number of middle households will contract. Companies are accustomed to servicing the middle group, and will now have to find new strategies to meet the new faces of the consumers. There is good news associated with the shift in demographic trends as the teenager and young adult markets provide new profit opportunities.

On the other hand, the aging segment of the population with more disposable income at its reach is also a good niche for companies. Also, older individuals will have more time for leisure/outdoor activities increasing their need for casual clothes. 1998 Number (Thous.) 19, 117 39, 396 19, 426 17, 451 18, 568 20, 189 22, 579 21, 811 18, 813 15, 707 22, 662 34, 823 270, 542 U. S. Population Projections 1998 2005 2005 % of Number % of Total (Thous.) Total 7. 1 19, 127 6. 7 14. 6 40, 147 14. 0 7. 2 20, 997 7. 3 6. 5 19, 960 7. 0 6. 9 18, 057 6. 3 7. 5 18, 249 6. 4 8. 4 19, 802 6. 9 8. 1 22, 363 7. 8 7. 0 21, 988 7. 7 5. 8 19, 518 6. 8 8. 4 29, 606 10. 12. 9 36, 970 12. 9 100. 4 286, 784 100. 2 2015 Number (Thous.) 21, 174 40, 795 21, 194 21, 876 20, 836 20, 248 18, 872 18, 726 19, 594 21, 602 39, 650 45, 832 310, 399 2015 % of Total 6. 8 13. 2 6. 8 7. 1 6. 7 6. 5 6. 1 6. 0 6. 3 7. 0 12. 8 14. 8 100. 1 Age Group Under 5 5 to 14 15 to 19 20 to 24 25 to 29 30 to 34 35 to 39 40 to 44 45 to 49 50 to 54 55 to 64 65 & over All ages ! Rising Income Baby boomers are experiencing a rise in income associated with the bull market.

Increased gain in personal income has led to an increase in personal consumption expenditures with individuals in higher income brackets spending more money.

It is important to note that consumers are spending more in general but are very reluctant to spend significant amounts of money on one particular item. Pricing is very important to these savvy consumers and companies now need to create extremely sophisticated advertising mechanisms as a way to justify the increased expenditures. ! Changes in Lifestyles 4 Consumers are becoming more active outdoors as can be seen with their increased participation in a variety of outdoors activities such as camping, hiking, and backpacking. A 1997 survey by the Travel Industry Association of America indicated that one-half of U.

S adults, or 74 million people, have taken an adventure travel trip in the past five years. ! Dressing Differences The US has experienced a shift toward casual attire both at home and in the work place increasing the amount on money spent on such items. A growing number of employers have implemented casual dress days, which has significantly benefited the apparel industry. ! Globalization With fierce competition, companies have turned to foreign companies as a way to boost sales, cut costs and increase operating efficiencies. This has led to the expansion of offshore manufacturing, which is highly influenced by trade regulations.

In addition, many companies have elected to increase sales operations overseas in an effort to boost revenues. ! Financial Trend There is one glimpse of bad news lingering in the industry however. Even with increases in revenue and favorable demographic trends, pressure on margins has intensified. With intensifying competition and price conscious consumers, companies within the industry find it hard to generate high profit margins. It is expected however that branded products will fare better in the market in terms of healthier profits, as they will be able to shift sales abroad.

Competitive Landscape The main competitors for North Face are LL Bean, K2, Lost Arrow, and Columbia Sportswear. Both LL Bean and Lost Arrow are privately held companies and we were not able to retrieve much information for comparison. Columbia Sportswear is the number one US skiwear seller and one of the world's largest outerwear companies. The company also makes rugged footwear, sportswear, gloves and caps. Columbia went public in March of 1997 and has been quite successful since then. In 1998 sales were $427. 3 million with NI of $32. 7 million. The company's ROE was 17. %, ROA was 8. 4% and revenue growth was 20. 9%. The company is barely leveraged with a long-term debt/equity ratio of 0. 15. Columbia has benefited from the Asian crisis due to the fact that most of its items are made in Asia. In other words, the company has seen a decrease in cost due to the crisis, but its revenue stream has not been affected. The company also has a strong international reach as it sells its products in 5 more than 30 countries. Columbia is deemed to be very risky by the market with a beta of 2. 3. As of November 30, 1999, the stock was trading at $20. 5. K2 is a Los Angeles based company whose product line includes fishing rods, mountain bikes, sports apparel, activewear, outdoor gear, surf apparel and skis. The company also has a fairly strong industrial business segment selling plastic and fiberglass based product. The company's strategy has been to acquire sports equipment makers with strong brand names and a leading share of a niche market. In 1998 sales were $574. 5 million and NI was $3. 9 million. Industry pressures on margin is apparent with K2 as its profit margin declined to 2. 9% in 1998 from 6. % in 1997. Though K2 is doing better financially than North Face, the company is also fighting a battle to remain competitive. ROA is 4. 1% and ROE is 8%, long-term debt/equity ratio is . 47 but the company is deemed less risky as its beta is only 0. 1. As of November 30, 1999, the stock price was $7. 38. The Company ! Background The North Face, Inc whose name refers to the most treacherous side of a mountain in the Northern Hemisphere, was started in 1965 as a retail store by Doug Tompkins and is devoted to mountaineering equipment and supplies.

Throughout the 70s and the 80s, the company was very successful, as its product innovation was the best in the industry. Its design of geodesic dome tents and synthetic bags set the industry standards for these items. During the late 1980s the company made a fatal move by entering the manufacturing side of the business. The company experienced a severe downturn leading to its acquisition by Odyssey Holdings International (OHI). Unfortunately for North Face, OHI declared bankruptcy in 1993 and North Face was sold at auction to J. H. Whitney & Company.

Three years later the company went public. The company’s problems have persisted throughout the late 1990s. Accounting problems plagued the company, which has led to consecutive financial restatements. The restatement for 1998 lowered previously reported earnings by 62%. Though the company is in severe financial difficulties, its customers seem to be somewhat oblivious to its misfortune. For the six months ending June 1999, sales rose 19% and in 1998 sales grew by 18. 6%. North Face's product line consists of high-end outerwear, skiwear, and equipment for mountaineers.

The company makes Tekware, which is a synthetic sportswear line for men and women who are active outdoors. The company also makes rugged shoes and owns the right to La Sportiva rock climbing and mountaineering footwear in the US. The company's goal is to increase brand awareness by projecting a high quality, technically sophisticated and authentic image that appeals to professionals and serious outdoor enthusiasts. To successfully promote its products, the company employs a series of world class athlete in its 6 advertising. North Face's products are sold primarily through specialty outdoor, premium-sporting goods.

In 1996, the company introduced the Summit Shop concept, which is a store within a retail store dedicated to selling North Face products. ! Sales by Segments Sales Breakdown Other 22% Tekware 13% Equipment 15% Outerwear 50% Strategy Insight-SWOT Analysis ! Strengths To truly value and analyze the future prospects of North Face, we felt it necessary to gain an insight into the company's strategy, its future plans, its position vis-a-vis its competitors, and the industry dynamics that affect the long-term performance. We started by performing a SWOT analysis.

North Face's strengths lie in its brand equity. The company's products are well known and accepted not only by the individuals looking to climb Mt. Everest, but also by the college age group who sports the company's jacket and backpacks. North Face Products range from casual apparel to equipment to outerwear to rugged footwear and snowsports gear. These represent main categories under which you will find such items as T-shirts, thermal underwear, anoraks, jackets, parkas, sleeping bags, pullovers, vests, sweatshirts, full body suits, etc.

The company's goal is to offer the most technically advanced products in its industry and to establish the industry standard for quality and performance. Though it is hard to continuously be profitable selling consumer durables, the company has been able to be successful because it regularly reviews its product lines and actively seeks input from a variety of sources including elite athletes, retailers, consumers and suppliers. The company has an excellent product development team, which includes experts in textiles and design engineering.

The company also enhances the reputation of its products by including climbers, explorers, and extreme skiers in its research and development team. With these factors, North Face has been able to sell its product by pushing the status button reaping premium prices for its products. 7 ! Weaknesses Unfortunately, the premium brand is the extent of North Face's success. Its major weakness is with its internal management who has consistently done a poor job managing the company financially. As a result, returns to shareholders have been minimal and the stock price has continued to decline.

With an accounting restatement that lowered 1998 earnings by 62%, the company's return on equity is –22. 60, ROA is –11. 59 and ROI is –19. 75 for 1998. With such dismal numbers, the company has been unable to secure funds through equity and has been forced to finance its operations with debt financing, resulting in a debt-to-equity ratio of 73%. Analysts expect negative Diluted EPS for the year ending 1999 with the worst being -$1. 18 and the best at -$0. 65. By 2000, analysts predict a small turnaround with a high estimate of $. 35.

The poor financial performance of the company has affected its standing in the market and has also affected its ability to take advantage of the different opportunities present in the industry. ! Opportunities North Face's opportunities are few as the company already carries a diverse line of products. With proper positioning and advertising, the company can maintain and enhance its brand equity, drawing consumers to its stores. Currently, the company only operates three retail stores in California, three in Illinois, two in Colorado and one in Washington.

The main opportunity for North Face is to open more retail stores through the United States as a way of expanding its customer base. E-Commerce is also another form of outlet that needs to be developed as more consumers are now turning to the net for shopping. However, such expansion in both infrastructure and technology would require significant cash outlays to which the company currently has no access. ! Threats Threats for North Face is in the form of the competition. More companies are popping up with similar product line and are very successful at building their own brand equity.

Amongst the most important ones are Columbia Sportswear Company, LL Bean, and K2. These companies are well positioned with strong financials, which will enable them to continue building their brand equity and taking advantage of opportunities that come their way as they grow their business.

From the analysis, it is clear that with regards to products and market recognition, North Face is well positioned for success. However, management has been extremely ineffective, destroying value for their shareholders. With negative ROA, ROE and ROI, North Face is currently a " dog" in the market.

With such a major setback, the company would need to financially rebuild the company, reduce its debt to equity ratio, and improve its profitability ratio before it can even take the company into the next big strategic market positioning move. 8 Porter's Five Forces Analysis ! Threat of New Entrants Even a quick review of Porter's five forces with regards to North Face indicates that the company's major issue lies with its financial ability. Threat of new entrants in the consumer apparel industry is forever present, as new designers and companies are always entering the market.

Barriers to entry are not large enough to prevent entry. However, since the fashion industry is highly volatile and consumers are so fickle, the risk of failure is high for new entrants. Furthermore, these companies' ability to effectively compete against North Face, LL Bean or Colombia Sportswear (firms with established brand equity), is minimal. ! Bargaining Power of Consumers Porter's five forces did bring to light the ever-growing bargaining power of customers. Customers are now more savvy and even more demanding.

Consumer loyalty is an eroding factor especially with respect to fashion. Consumers are demanding more value for their dollars and they do not hesitate to move to the competitor if an item falls short of their expectation.

Status customers are also very quick to move when a certain line starts to lose its associated profile. Eroding status and eroding customer loyalty are major factors to North Face, and with the company in financial difficulty, it will not be long before investors start making the switch to a more stable competitor. Bargaining Power of Suppliers North Face relies on approximately 50 unaffiliated manufacturers to produce nearly all of its products, with ten of the manufacturers producing nearly all of the company's products for 1998. There is no long-term contract and any disruption in the company's ability to obtain manufacturing services could have a material adverse effect on the company's business. Another foreseeable problem is the ability of the suppliers to stop supplying to North Face for non-payments or bad credit terms.

As the company's financial difficulty worsen, it will not be able to manage its suppliers who in turn will stop supplying the company, causing a domino effect. ! Threat of Substitutes Threat of substitute is also not a major factor. Apparel is apparel and there is often no major differentiation amongst the items, with the exception of the brand. As long as North Face remains in production and continues to produce high quality products, substitutes will not affect the company's ability to grow. Last but not least is the threat from the industry itself.

As mentioned before, the apparel industry is very volatile and subject to consumer change in fashion. There has been some 9 consolidation as companies look to gain economies of scale and create brand equity across product lines. The industry however, after a string of bankruptcies, is now very stable and has experienced modest growth. It is very sensitive to the economy and the bull market has increased consumers' purchasing power, which has been very positive for the industry. E-commerce is changing the face of the industry as it has provided an extra outlet for sales.

This has forced companies within the industry to quickly adapt to the technology as a way of remaining competitive. Overall, the outlook for the industry is very favorable and well positioned/established companies within the industry will definitely reap some of the profits to be generated in future years. Accounting Analysis ! Cash Flow Analysis The next step in determining the attractiveness of North Face as an investment opportunity is to analyze the quality of their financial statements, as well as determine if management is engaged in earnings manipulation.

We started our analysis by looking at the health of the company's cash flows (Appendix A). Operating cash flow has been significantly negative for the past three years, implying that management has been unable to properly manage its working capital. Cash flow from financing has been supporting the growth of the company as well as the operations. This is an alarming trend for North Face, as it will not be able to continuously fund its operations through debt or equity. It is important to note that the alarming trend in negative cash flow from operations is a result of cash being tied up in receivables and inventory.

An increase in accounts receivable is a symptom of either management loosening credit to attract sales or loading wholesalers at the end of the year as a way to improve sales. The significant increase in inventory is more alarming as it is suggesting that the company is having problems selling its products at a time when consumer spending is high. Another red flag regarding North Face's cash flow is the disparity between Net Income and cash flow from operations. Generally these two numbers are supposed to track together to be perceived as quality operations.

North Face's cash flow from operations is substantially less than Net Income, which is a sign of low quality of earnings. We also realized that free cash flow was negative both in 1997 and 1998. The bad news for current investors is that the forecasted 10 year free cash flows were negative as well. Therefore, from a liquidity standpoint, North Face is not performing up to expectations. ! Quality of Earnings We then proceeded to apply the Lev & Thiagarajan model, which assesses the quality of the balance sheet and the income statement by using financial numbers from 1997 to 1998.

Only six out of 12 items of the original model were found to be statistically significant and they were the six 10 variables we looked at (Appendix A). Out of the six items deemed to be significant, two were not relevant to the analysis. First the company does not have order backlog, and second there is evidence that increases or decreases in capital expenditures are good or bad news and thus hard to provide evidence of quality. The remaining four provided some evidence that both the balance sheet and income statements' quality is deteriorating.

Inventory increased slighter quicker than sales between 1997 and 1998 suggesting inability to move the merchandise. The change in account receivables significantly outpaced the change in sales, reaffirming the cash flow analysis. Gross Margin deteriorated slightly in 1998 while SG&A as a percent of sales has increased slightly. This is right in line with industry trends predicting lower margins. ! Earnings Manipulation We also wanted to make sure that management was not manipulating earnings. We started by rummaging the footnotes to look for any unusual change in accounting policy. There were none.

The company has maintained its accounting policy and no major changes have been made that could have resulted in higher earnings. Another way to detect possible earnings manipulation was to use the Beneish model. We therefore downloaded the financial numbers into the Model to calculate an overall M-score for North Face. Using the 8-variable model, the M-score reported is –1. 81, which is significantly greater than the threshold of –2. 22 implying that North Face is likely an earnings manipulator. Out of the eight variables only three were higher than one: Days Sales in Receivable index is at 1. 0, Sales growth index is at 1. 21 and leverage is at 1. 19. It is interesting to note that these results support the result of our cash flow statement analysis, showing that the firm is experiencing a liquidity crush as receivables are increasing, and it needs more financing to keep afloat. The next alarming result was with TATA, which returned a score of 0. 078, which is above the 0. 05 threshold. Therefore based on the Beneish model, it is possible that North Face is manipulating earnings by loosening credit terms and increasing sales, leading to a buildup in account receivable.

The company is also in a liquidity crush because they are operating with negative cash flows, which would explain manipulation of accruals to delay payment as much as possible. 11 Financial Analysis Dupont Decomposition Dupont Formula ROE: NI/SE= (843)/123210 = -0. 00684 Return on Sales

Asset Turnover Financial Leverage EBI/SALES (1371)/45704 -0. 029997 SALES/TOTAL ASSETS 45704/232644 0. 196455 NI/EBI * TA/SE (843)/(1371) * 232644/123210 1. 1161011 ROS * Asset Turnover * Financial Leverage = -0. 02997 * 0. 19455* 1. 161011 = -0. 06842 The Dupont decomposition results reinforced the fact that the company is financially underperforming. Its ROS is approximately –3%, its asset turnover is almost 20%, and its financial leverage is 1. 12. All together this equates to an ROE of –0. 6%, which means that investors are gradually losing their investment. Discounted Cash Flow Model ! Sales Assumptions The first major assumption in the DCF was the sales growth. We projected sales to grow at a rate of 25% for the first five years. This number was retrieved from Market Guide 5 year average trend for North Face.

We then projected 15% growth rate for the next five years, due to the fact that with increased competition and globalization, the company will not be able to sustain a 25% growth rate. Furthermore, the bull market is really pushing consumer expenditures, but consumers are however very reluctant to spend extra money on clothes. The growth rate in sales is expected to come from outerwear, equipment, and Tekware. In the past, outerwear has represented about 50% of total sales, and we expect it to remain the biggest segment in future years. ! Cost Assumptions We assumed COGS to be 54. 6% of sales, and SG&A to be 37. 8% of sales.

These numbers were derived by using the past two-year averages for these line items. Taxes were also based on the average of the past two years. Cost of good sold has been steady for the past couple of years, and we 12 do not expect it to deviate from the norm. Because of the Asian crisis, cost of goods sold might even be lower as we may see a decline in manufacturing costs. Selling, General and Administrative has been increasing slightly, which could be the result of poor operations. ! Balance Sheet Assumptions Similar to the income statement forecasting, balance sheet accounts were forecasted on the average ratio for the past two years.

Currently, North Face does not seems to have a particular strategy that will give it a boost in sales, or reduce its cost, and so, we felt it safe to base our forecast on historical trends. ! Terminal Value No growth rate was assumed with the calculation of the terminal value. ! Discount Rate/WACC We calculated WACC using two different approaches. The first approach was the CAPM traditional model, and the second was the implied cost-of-capital model. Under CAPM we used a risk free rate of 6. 3% because it is the current reported number on he market, a market premium of 3% based on the “ Market Risk Premiums by Industry”. We then figured out an adjusted beta of 1. 62 from a raw beta of 1. 93. Our calculation resulted in a discount rate of 11. 6%. Under the implied cost-of-capital model, we took a risk free rate of 6. 3% as explained above and added to it the risk premium of 2. 48% for the retail sector leading to a discount rate of 8. 78%. DCF Results With the above assumptions we were able to derive free cash flows, which we discounted. The market value of debt was subtracted and the DCF resulted in a share price of $0. 0; the stock price using the CAPM discount rate was negative 52 cents. A price of $9. 16 was derived using the implied cost-of-capital. Such a big difference in price is due to the fact that there is a very big gap in discount rate, which significantly affects the value of the discounted cash flow and terminal value. We also performed a sensitivity analysis by varying income and balance sheet items such as COGS, SG&A, cash, accounts receivable and the discount rate. For example a 1% percent decrease in accounts receivable (balance sheet improvement) as a percentage of sales would increase the stock price by $0. 1 using the CAPM discount rate. Whereas if SG&A goes down by 1% (income statement improvement), the stock price would increase by $4. 92. ! Market Multiple Valuation Finding comparable companies to perform a multiple valuation analysis on North Face is a difficult task. Most of the companies that are most like North Face, such as REI, LL Bean, and Eastern Mountain Sports, are private companies. However, of all the consumer cyclical companies, 13 we feel that Columbia Sportswear, K2, Nike, Nautica, and Tommy Hilfiger are most similar to North Face in terms of reputation.

A multiple valuation analysis was performed using the following three multiples: Price/Earnings (P/E), Price/Book (P/B), and Price/Sales (P/Sales). Using the industry average P/E of 16. 91, North Face’s implied stock price is $4. 91, which is approximately where the stock is currently trading. If we use the average P/B of 1. 59, North Face’s implied price is $16. 28. If the average P/Sales of 0. 878 is used to calculate the stock price, it is $17. 02. Using these three multiples, the stock price for North Face can range from $4. 91 to $17. 02.

However, it should be noted that the size of the chosen competitors is significantly larger than North Face. North Face’s market capitalization is $62. 2M whereas K2, which is the smallest of the other competitors, is twice as big with a market capitalization of $133. 2M. EBO Valuation ! North Face EBO Valuation The EBO valuation for North Face returned an implied price of

$8. 82. This number was calculated using a 1997 ESP for FY1 of 0. 84 and 1998 EPS for FY2 of 0. 70 and longterm growth rate of 17. 10%. The book value used was 12. 83 and using the CAPM model and the parameters used in the DCF, a discount rate of 11. 6%. The company has never paid dividends, resulting in a dividend yield of zero. The industry average used was 0. 1015. Performing the EBO valuation using 1999E EPS of zero (negative at -$. 91) for FY1 and 2000E of $0. 05 for FY2, the implied price would have been $4. 35 which is the current selling price of the stock. We also performed sensitivity analysis around the long-term growth rate where we increased the long-term growth to 19. 00, the implied price rises slightly to $4. 37. Similarly increasing the target ROE to 0. 1704, which is the industry target, will increase the implied price to $7. 3. A one percent decrease in the discount rate returns an implied price of $9. 33 and a one percent increase in the discount rates returns an implied price of $6. 63. Conclusion At this point, we initiate coverage of The North Face, Inc. with a ' Hold' rating. With new management on board coupled with strong brand equity, the company has the potential to turn itself around. However, new management has a long road in front of them. 14 Operations, such as A/R and inventory management, need to improve in the near term as management has already tapped into the debt and equity markets for funds. 15

THE NORTH FACE, Inc Analysts' Recommendation HOLD NASD: TNFI $4. 75 $16. 69 $3. 94 $60. 52mil $187, 409 $8. 20 $0. 59 1. 11 1998 (TTM) EPS 1999E EPS 2000E EPS P/E Year-End P/E (1999 Earnings) P/E (2000 Earnings) 60-Month Beta Price Target $0. 29 ($0. 91) $0. 05 45. 14 NA 95. 00 1. 90 5.

00-9. 00 Current Price 52 Week High 52 Week Low Market Capitalization 30-Day Average Volume Book Value (MRQ) Price/Book(MRQ) Debt/Equity(MRQ) The North Face, Inc. — TheChallenge Ahead The North Face, Inc. is a Carbondale, Colorado-based company which makes high-end outerwear, skiwear, and equipment for serious mountaineers.

North Face sells its products primarily through nearly 4, 000 retail outlets in the US, Canada and Europe, limiting distribution to resellers with high levels of technical expertise. The company was founded in 1965 and went public in 1996. Recommendation Highlights The technical outwear industry is experiencing growth due to favorable trends in casual wear, demographic trends, and increase in participation for outdoor activities. The bullish market is also increasing personal income, thereby raising personal expenditures. There is new management which seems to be well prepared to turn the company around.

The company has been facing financial and accounting difficulties, but with new management and a new strategy, there is a reasonable chance that operations will improve. The company has a very strong brand equity which can be leveraged to improve sales and push growth for the company. The company is currently experiencing deteriorating operations and negative quality of financial reporting. The company also has a very high debt to equity ratio which makes the company succeptible to liquidity issues. Chin, Harper, Petion, Yaker Appendix A Quality of Earnings Analysis

Accounting Analysis – Quality of Earnings via the Balance Sheet and Income Statement Lev & Thiagarajan Improve Difference Earnings? Change in

Inventory (23. 1%) – Change in Sales (21. 6%) 1. 5% no Change in A/R (46. 6%) – Change in Sales (21. 6%) 25. 0% no 1998 Gross Margin (45. 3%) – 1997 Gross Margin (45. 5%) -0. 2% no 1998 SG/Sales (38. 0%) – 1997 SG/Sales (37. 6%) 0. 4% no Order Backlog N/A N/A Capital Expenditures N/A N/A Accounting Analysis – Quality of Earnings via the Cash Flows Statement Net Income Cash Provided by (Used in) Operations Cash Provided by (Used in) Investing Cash Provided by (Used in) Financing 998 (000's) 3592 (14534) (20044) 43366 1997 (000's) 7955 (21339) (13935) 31475 1996 (000's) 4801 (6164) (4621) 15626 Appendix B Beneish Model The Full Beneish model for earnings manipulation detection (Based on Eight Variables) INPUT VARIABLES 1998 1997 Net Sales 247, 096 203, 247 CGS 135, 134 110, 764 Net Receivables 71, 460 48, 682 Current Assets (CA) 164, 919 117, 961 PPE (Net) 25, 916 17, 524 Depreciation 7, 728 5, 130 Total Assets 232, 644 167, 449 SGA Expense 101, 276 76, 350 Net Income (before Xitems) 3, 592 7, 955 CFO (Cash flow from operations) (14, 534) (21, 339) Current Liabilities 96, 373 55, 966 Long-term Debt 5, 360 5, 177

DERIVED VARIABLES Other L/T Assets [TA-(CA+PPE)] 41, 809 1. 207 1. 004 0. 941 1. 216 0. 986 0. 917 0. 078 1. 198 31, 964 DSRI GMI AQI SGI DEPI SGAI Total Accruals/TA LVGI M = -6. 065+ . 823 DSRI + . 906 GMI + . 593 AQI + . 717 SGI + . 107 DEPI M-score (5-variable model) -2. 63 M = -4. 84 + . 920 DSRI + . 528 GMI + . 404 AQI + . 892 SGI + . 115 DEPI -. 172 SGAI + 4. 679 Accrual to TA – . 327 Leverage M-score (8-variable model) -1. 81 Note: if M > -2. 22, firm is likely to be a manipulator Appendix C DCF Model

The North Face Inc. FISCAL YEAR ENDING NET SALES COST OF GOODS GROSS PROFIT SELL GEN & ADMIN EXP INC BEF DEP & AMORT NON-

OPERATING (INC)/EXP INTEREST (INC)/EXP INCOME BEFORE TAX PROV FOR INC TAXES NET INC BEF EX ITEMS EX ITEMS & DISC OPS NET INCOME Add: Int Exp (1-t) EBI (NOPLAT) Add: Depreciation Add: Amort of Intangible (Inc) Dec in Other Assets Inc. in Def. Tax Liab WCFO (excl. int.) (Inc.) Dec. in A/R (Inc.) Dec. in Inventories (Inc.) Dec. in Other C. Assets Inc. (Dec.) in A/P Inc. (Dec. in Other Accruals CFO (excl. int.) Less: Capital Expenditures FCF (free cash flow) PV Factor PV of cash flow Cumulative PV PV of perpetuity PV for given term T Less: PV(debt) Plus: idle assets (liabs) PV of sh equity Shrs Outstanding Price per share BALANCE SHEET FISCAL YEAR ENDING Cash Receivables Inventories Other Cur. Assets Total Cur. Assets Net PPE Intangibles Other Assets TOTAL ASSETS Notes Payable Accounts Payable Accrued Expenses Total Cur Liab (excl L/T Debt) Def. Taxes L/T Debt (incl. cur. ortion) TOTAL LIABILITIES COMMON STOCK NET CAPITAL SURPLUS RETAINED EARNINGS OTHER EQUITIES SHAREHOLDER EQUITY TOT LIAB & NET WORTH Tax Rate Free Cash Flow Deduct: Int. expense (net of tax) Add: Increase in L/T debt Subtotal (net cash to Shrholdrs) (Dividend) or New Equity Net Inc. (Dec.) in Cash per SCF Net Inc. (Dec.) in Cash per B/S Actual 1997 203, 247 110, 764 92, 483 76, 350 16, 133 749 2, 238 13, 146 5, 191 7, 955 0 7, 955 1, 354 9, 309 5, 130 (1, 674) 0 14, 439 (24, 596) (15, 207) (12, 654) 6, 786 3, 604 (27, 628) (13, 935) (41, 563)

Actual Assumptions 1998 247, 096 25% for 5 years 15% thereafter 135, 134 54. 600% 111, 962 101, 276 37. 800% 10, 686 (64) 0 4, 907 5, 843 2, 251 0. 38625 3, 592 0 3, 592 3, 017 6, 609 7, 728 . 30 of Net PP&E (3, 233) 0 14, 337 (22, 715) (10, 775) (4, 527) 4, 660 6, 140 (12, 880) (17, 236) (30, 116) from B/S from B/S from B/S from B/S from B/S from B/S from B/S bring net

PPE to . 096*sales 0. 1116 Beta = 1. 93 Risk Free Rate = 6. 3% Risk Premium = 3. 0% Adjusted Beta = 1. 62 Cost-of-Capital = 8. 78% Risk Free Rate = 6. 3% Retail risk premium = 2. 8% Shares Outstanding Forecast 1999 308, 870 168, 643 140, 227 116, 753 23, 474 0 23, 474 9, 067 14, 407 Forecast 2000 386, 088 210, 804 175, 284 145, 941 29, 343 0 29, 343 11, 334 18, 009 Forecast 2001 482, 609 263, 505 219, 105 182, 426 36, 678 0 36, 678 14, 167 22, 511 Forecast 2002 603, 262 329, 381 273, 881 228, 033 45, 848 0 45, 848 17, 709 28, 139 Forecast 2003 754, 077 411, 726 342, 351 285, 041 57, 310 0 57, 310 22, 136 35, 174 Forecast 2004 867, 189 473, 485 393, 704 327, 797 65, 906 0 65, 906 25, 456 40, 450 Forecast 2005 997, 267 544, 508 452, 759 376, 967 75, 792 0 75, 792 29, 275 46, 518 Forecast 2006 1, 146, 857 626, 184 520, 673 433, 512 87, 161 0 87, 161 33, 666 53, 495 Forecast 2007 1, 318, 886 720, 112 598, 774 498, 539 100, 235 0 100, 235 38, 716 61, 519 Forecast 2008 1, 516, 718 828, 128 688, 590 573, 320 115, 271 0 115, 271 44, 523 70, 747 14, 407 8, 803 1, 133 730 (1, 508) 23, 565 (10, 082) (13, 892) (5, 248) 5, 334 1, 424 1, 100 (12, 229) (11, 129) 1. 116 (10, 012) (10, 012) 116, 136 106, 125 (68, 270) 0 37, 855 11, 200 3. 38 18, 009 11, 003 1, 133 1, 313 0 31, 458 (20, 385) (17, 837) (6, 950) 7, 027 4, 401 (2, 286) (18, 339) (20, 625) 1. 2357 (16, 692) (26, 704) 130, 596 103, 892 (68, 270) 0 35, 622 11, 200 3. 18 22, 511 13, 754 1, 133 (1, 448) 0 35, 950 (25, 482) (22, 297) (8, 687) 8, 783 5, 502 (6, 230) (22, 924) (29, 154) 1. 3736 (21, 225) (47, 929) 146, 856 98, 927 (68, 270) 0 30, 657 11, 200 2. 74 28, 139 17, 193 1, 133 (1, 810) 0 44, 655 (31, 852) (27, 871) (10, 859) 10, 979 6, 877 (8, 070) (28, 655) (36, 725) 1. 5268 (24, 053) (71, 982) 165, 140 93, 158 (68, 270) 0 24, 888 11, 200 2. 22 35, 174 21, 491 1, 133 (2, 262) 0 55, 535 (39, 815) (34, 838) (13, 573) 13, 724 8, 596 (10, 371) (35, 819) (46,

190) 1. 972 (27, 215) (99, 196) 185, 701 86, 505 (68, 270) 0 18, 235 11, 200 1. 63 40, 450 24, 715 1, 133 (1, 697) 0 64, 601 (29, 861) (26, 129) (10, 180) 10, 293 6, 447 15, 171 (35, 460) (20, 290) 1. 8866 (10, 754) (109, 951) 192, 116 82, 165 (68, 270) 0 13, 895 11, 200 1. 24 46, 518 28, 422 1, 133 (1, 951) 0 74, 121 (34, 341) (30, 048) (11, 707) 11, 837 7, 414 17, 277 (40, 780) (23, 503) 2. 0972 (11, 207) (121, 157) 198, 752 77, 595 (68, 270) 0 9, 325 11, 200 0. 83 53, 495 32, 685 1, 133 (2, 244) 0 85, 069 (39, 492) (34, 555) (13, 463) 13, 613 8, 527 19, 698 (46, 896) (27, 198) 2. 3312 (11, 667) (132, 824) 205, 618 72, 794 (68, 270) 0 4, 524 11, 200 0. 40 61, 519 37, 588 1, 133 (2, 580) 0 97, 660 (45, 416) (39, 739) (15, 483) 15, 655 9, 806 22, 483 (53, 931) (31, 448) 2. 914 (12, 135) (144, 959) 212, 721 67, 762 (68, 270) 0 (508) 11, 200 -0. 05 70, 747 43, 226 1, 133 (2, 967) 0 112, 139 (52, 228) (45, 699) (17, 805) 18, 003 11, 276 25, 686 (62, 021) (36, 335) 2. 8806 (12, 614) (157, 573) 220, 070 62, 497 (68, 270) 0 (5, 773) 11, 200 -0. 52 1997 4, 511 48, 745 46, 682 18, 023 117, 961 17, 524 29, 066 2, 898 167, 449 25, 734 18, 113 10, 042 53, 889 2, 077 11, 342 67, 308 29 81, 727 18, 068 317 100, 141 167, 449 0. 395 (41, 563) (1, 354) 1998 13, 452 71, 460 57, 457 22, 550 164, 919 25, 916 33, 975 7, 834 232, 644 As a % of Sales 0. 0380 0. 2640 0. 2310 0. 0900 0. 0950 30 years 0. 0230 11, 737 81, 542 71, 349 27, 798 192, 426 29, 343 32, 843 7, 104 261, 715 52, 343 28, 107 17, 606 98, 056 0 15, 703 113, 759 4, 671 101, 927 89, 186 34, 748 240, 533 36, 678 31, 710 5, 791 314, 712 62, 942 35, 134 22, 007 120, 083 0 18, 883 138, 966 18, 339 127, 409 111, 483 43, 435 300, 666 45, 848 30, 578 7, 239 384, 330 76, 866 43, 917 27, 509 148, 292 0 23, 060 171, 352 22, 924 159, 261 139, 353 54, 294 375, 832 57, 310 29, 445 9, 049 471, 636 94, 327 54, 897 34, 386 183, 610 0 28, 298 211, 908 28, 655 199, 076 174, 192 67, 867 469,

790 71, 637 28, 313 11, 311 581, 051 116, 210 68, 621 42, 982 227, 814 0 34, 863 262, 677 32, 953 228, 938 200, 321 78, 047 540, 259 82, 383 27, 180 13, 008 662, 829 132, 566 78, 914 49, 430 260, 910 0 39, 770 300, 680 37, 896 263, 278 230, 369 89, 754 621, 297 94, 740 26, 048 14, 959 757, 044 151, 409 90, 751 56, 844 299, 004 0 45, 423 344, 427 3, 581 302, 770 264, 924 103, 217 714, 492 108, 951 24, 915 17, 203 865, 561 173, 112 104, 364 65, 371 342, 847 0 51, 934 394, 781 50, 118 348, 186 304, 663 118, 700 821, 666 125, 294 23, 783 19, 783 990, 526 198, 105 120, 019 75, 176 393, 300 0 59, 432 452, 732 57, 635 400, 414 350, 362 136, 505 944, 916 144, 088 22, 650 22, 751 1, 134, 405 226, 881 138, 021 86, 453 451, 355 0 68, 064 519, 420 55, 910 0. 1970 22, 773 0. 0910 16, 182 0. 0570 94, 865 1, 508 0. 0000 12, 360 0. 0610 108, 733 31 101, 049 21, 660 1, 171 123, 911 232, 644 0. 385 Unreconciled Difference (30, 116) (3, 017) Debt*cost of debt*(1-t) 31, 194 from B/S (1, 939) 507 from B/S (1, 432) from B/S Unreconciled Difference 147, 956 261, 715 0 (11, 129) (3, 908) (224) (15, 261) 13, 546 (1, 715) (1, 715) 0 75, 746 314, 712 0 (20, 625) (4, 297) 13, 779 (11, 143) 14, 077 2, 934 2, 934 (0) 212, 978 384, 330 0 (29, 154) (5, 211) 18, 101 (16, 264) 19, 932 3, 668 3, 668 0 259, 728 471, 636 0 (36, 725) (6, 381) 22, 699 (20, 406) 24, 991 4, 585 4, 585 (0) 318, 374 581, 051 0 (46, 190) (7, 847) 28, 448 (25, 589) 31, 320 5, 731 5, 731 0 362, 150 662, 829 0 (20, 290) (9, 272) 21, 262 (8, 299) 12, 598 4, 298 4, 298 (0) 412, 617 757, 044 0 (23, 503) (10, 584) 24, 496 (9, 591) 14, 534 4, 943 4, 943 0 470, 780 865, 561 0 (27, 198) (12, 095) 28, 214 (11, 079) 16, 763 5, 684 5, 684 0 537, 794 990, 526 0 (31, 448) (13, 836) 32, 491 (12, 793) 19, 330 6, 537 6, 537 0 614, 985 1, 134, 405 0 (36, 335) (15, 840) 37, 409 (14, 766) 22, 284 7, 518 7, 518 (0) Financial Ratio Analysis Net Income EBI Return on Beg.

Equity Profit Margin Asset Turnover Leverage Ret on Average equity Return on Assets 7, 955 9, 309 3, 592 (EBI- Int. after tax) 6, 609 (N. I. /Beg. Shr Eq) (N. I. /Sales) (Sales/Avg. TA) (Avg. TA/Avg. Shr. Eq.) (EBI/Avg TA) 10, 499 14, 407 0. 085 0. 034 1. 250 1. 818 0. 077 0. 058 13, 712 18, 009 0. 093 0. 036 1. 340 1. 781 0. 085 0. 062 17, 301 22, 511 0. 098 0. 036 1. 381 1. 798 0. 089 0. 064 21, 759 28, 139 0. 102 0. 036 1. 410 1. 811 0. 092 0. 066 27, 327 35, 174 0. 105 0. 036 1. 433 1. 821 0. 095 0. 067 31, 178 40, 450 0. 098 0. 036 1. 394 1. 828 0. 092 0. 065 35, 933 46, 518 0. 099 0. 036 1. 405 1. 833 0. 093 0. 066 41, 400 53, 495 0. 100 0. 036 1. 414 1. 837 0. 094 0. 066 47, 684 61, 519 0. 101 0. 036 1. 421 1. 840 0. 095 0. 066 4, 908 70, 747 0. 102 0. 036 1. 428 1. 843 0. 095 0. 067 Appendix D DCF Sensitivity The North Face, Inc. With a WACC of 11. 16% (CAPM) Share Price = $-0. 52 price apprec $4. 92 implied price $4. 40 WACC = 8. 78% (Implied Cost-of-Capital) Share Price = $9. 16 price apprec $6. 74 implied price $15. 90 Income Statement Improvements 1% Decrease of CGS or SG&A as a % of Sales Income Statement Improvements 1% Decrease of CGS or SG&A as a % of Sales Balance Sheet Improvements 1% Decrease of A/R or Inventory as a % of Sales $0. 81 $0. 29 Balance Sheet Improvements 1% Decrease of A/R or Inventory as a % of Sales $0. 89 $10. 05 Appendix E EBO Valuation Model

The North Face, Inc as of 12/1/93 PARAMETERS EPS Forecasts Book value/share (last fye) Discount Rate Dividend Payout Ratio Next Fsc Year end Current Fsc Mth (1 to 12) Target ROE (industry avg.) Year Long-term EPS Growth Rate (Ltg) Forecasted EPS Beg. of year BV/Shr Implied ROE ROE Abnormal ROE growth rate for B Compounded growth growth*AROE required rate (r) discount rate div. payout rate (k) Add to P/B Cum P/B Add: Perpetuity beyond current yr Total P/B Implied price Check: Beg. BV/Shr Implied EPS Implied EPS growth (Beg. ROE, from the DCF model) (ROE-r) (1-k)*(ROEt-1) FY1 0. 00 12. 83 11. 16% 0. 000 1999 12 0. 1015 1999 0. 00 12. 830 FY2 0. 05 Ltg 17. 10% (using the mean analyst forecast) 2000 0. 05 12. 830 0. 004 0. 004 -0. 108 0. 000 1. 00 -0. 108 0. 112 1. 236 -0. 09 0. 81 -0. 78 0. 03 0. 45 2001 0. 1710 0. 06 12. 880 0. 005 0. 005 -0. 107 0. 004 1. 004 -0. 107 0. 112 1. 374 -0. 08 0. 73 -0. 70 0. 03 0. 47 2002 0. 1710 0. 07 12. 939 0. 005 0. 005 -0. 106 0. 005 1. 008 -0. 107 0. 112 1. 527 -0. 07 0. 66 -0. 63 0. 03 0. 50 2003 0. 1710 0. 08 13. 007 0. 006 0. 006 -0. 105 0. 005 1. 014 -0. 107 0. 112 1. 697 -0. 06 0. 60 -0. 56 0. 04 0. 52 2004 0. 1710 0. 09 13. 087 0. 007 0. 007 -0. 104 0. 006 1. 020 -0. 107 0. 112 1. 887 -0. 06 0. 54 -0. 51 0. 04 0. 55 2005 0. 1710 0. 11 13. 181 0. 008 0. 008 -0. 103 0. 007 1. 027 -0. 106 0. 112 2. 097 -0. 05 0. 49 -0. 45 0. 04 0. 58 2006 2007 008 0. 112 0. 000 PV(growth*AROE) 0. 000 -0. 112 0. 000 1. 000 -0. 112 0. 112 1. 112 -0. 10 0. 90 -0. 90 0. 00 0. 00 0. 027 -0. 085 0. 008 1. 036 -0. 088 0. 112 2. 331 -0. 04 0. 46 -0. 34 0. 12 1. 70 0. 046 -0. 066 0. 027 1. 064 -0. 070 0. 112 2. 591 -0. 03 0. 43 -0. 24 0. 19 2. 66 0. 064 -0. 047 0. 046 1. 112 -0. 053 0. 112 2. 881 -0. 02 0. 41 -0. 16 0. 25 3. 52 (Assume this yr’s AROE forever) (P/B if we stop est. this period) 12. 83 0. 00 12. 83 0. 05 #DIV/0! 12. 88 0. 06 0. 171 12. 94 0. 07 0. 171 13. 01 0. 08 0. 171 13. 09 0. 09 0. 171 13. 18 0. 11 0. 171 13. 29 0. 36 2. 258 13. 65 0. 62 0. 736 14. 27 0. 92 0. 473 Appendix F EBO Sensitivity

The North Face Summary PARAMETERS EPS Forecasts Book value/share (last fye) Discount Rate Dividend Payout Ratio Next Fsc Year end Current Fsc Mth (1 to 12) Target ROE (industry avg.) Year Long-term EPS Growth Rate (Ltg)

Forecasted EPS Beg. of year BV/Shr Implied ROE Implied price FY1 0. 84 12. 83 11. 16% 0. 000 1997 12 0. 1015 1997 0. 84 12. 830 FY2 0. 70 Ltg 17. 10% (using the mean analyst forecast) Basic 1998 0. 70 13. 670 0. 051 6. 27 8. 37 1999 0. 1710 0. 82 14. 370 0. 057 6. 61 2000 0. 1710 0. 96 15. 190 0. 063 6. 96 2001 0. 1710 1. 12 16. 150 0. 070 7. 33 2002 0. 1710 1. 32 17. 274 0. 076 7. 72 2003 0. 1710 1. 54 18. 590 0. 083 8. 14 2004 2005 2006 2007 2008 8. 28 8. 44 8. 62 8. 82 9. 04 The North Face as of 12/31/96

PARAMETERS EPS Forecasts Book value/share (last fye) Discount Rate Dividend Payout Ratio Next Fsc Year end Current Fsc Mth (1 to 12) Target ROE (industry avg.) Year Long-term EPS Growth Rate (Ltg) Forecasted EPS Beg. of year BV/Shr Implied ROE FY1 0. 84 12. 830 11. 16 0. 000 1997 12. 00 0. 1015 FY2 0. 70 Ltg 19. 00% (using the mean analyst forecast) (Sensitivity around long term growth rate) 1997 0. 84 12. 83 1998 0. 70 13. 67 0. 05 6. 27 FY2 0. 70 Ltg Implied price The North Face as of 12/31/96 PARAMETERS EPS Forecasts Book value/share (last fye) Discount Rate Dividend Payout Ratio Next Fsc Year end Current Fsc Mth (1 to 12) Target ROE (industry avg.) FY1 8. 37 1999 0. 19 0. 83 14. 37 0. 06 6. 71 2000 0. 19 0. 99 15. 20 0. 07 7. 19 2001 0. 19 1. 18 16. 19 0. 07 7. 70 002 0. 19 1. 40 17. 37 0. 08 8. 24 2003 0. 19 1. 67 18. 78 0. 09 8. 82 2004 2005 2006 2007 2008 8. 88 8. 96 9. 05 9. 16 9. 29 0. 84 12. 83 12. 16 0. 00 1997 12. 00 0. 1015 0. 171 (using the mean analyst forecast) Sensitivity around discount rate Year Long-term EPS Growth Rate (Ltg) Forecasted EPS Beg. of year BV/Shr Implied ROE Implied price 1997 0. 840 13 1998 0. 700 14 0. 0512 5. 76 7. 75 1999 0. 171 0. 820 14 0. 0570 6. 01 2000 0. 171 0. 960 15 0. 0632 6. 27 2001 0. 171 1. 124 16 0. 0696 6. 55 2002 0. 171 1. 316 17 0. 0762 6. 84 2003 0. 171 1. 541

19 0. 0829 7. 14 2004 2005 2006 2007 2008 7. 20 7. 28 7. 37 7. 47 7. 59 Appendix F EBO Sensitivity

The North Face as of 12/31/96 PARAMETERS EPS Forecasts Book value/share (last fye) Discount Rate Dividend Payout Ratio Next Fsc Year end Current Fsc Mth (1 to 12) Target ROE (industry avg.) FY1 0. 84 12. 83 10. 16 0. 000 1997 12 0. 1015 FY2 0. 70 Ltg 0. 171 (using the mean analyst forecast) Sensitivity around discount rate Year Long-term EPS Growth Rate (Ltg) Forecasted EPS Beg. of year BV/Shr Implied ROE Implied price The North Face as of 12/31/96 PARAMETERS EPS Forecasts Book value/share (last fye) Discount Rate Dividend Payout Ratio Next Fsc Year end Current Fsc Mth (1 to 12) Target ROE (industry avg.) 1997 0. 84 12. 830 1998 0. 70 13. 670 0. 05 6. 89 9. 11 FY1 0. 84 12. 83 11. 16 0. 000 1997 12 0. 170 1999 0. 17 0. 82 14. 370 0. 06 7. 32 Ltg 2000 0. 17 0. 96 15. 190 0. 06 7. 79 2001 0. 7 1. 12 16. 150 0. 07 8. 28 2002 0. 17 1. 32 17. 274 0. 08 8. 80 2003 0. 17 1. 54 18. 590 0. 08 9. 35 2004 2005 2006 2007 2008 9. 60 9. 88 10. 18 10. 51 10. 87 FY2 0. 70 0. 17 (using the mean analyst forecast) Sensitivity around target roe Implied price Year 1997 Long-term EPS Growth Rate (Ltg) Forecasted EPS 84. 00% Beg. of year BV/Shr 12. 830 Implied ROE 16. 88 1998 0. 700 13. 670 0. 051 23. 39 1999 0. 171 0. 820 14. 370 0. 057 25. 47 2000 0. 171 0. 960 15. 190 0. 063 27. 74 2001 0. 171 1. 124 16. 150 0. 070 30. 20 2002 0. 171 1. 316 17. 274 0. 076 32. 88 2003 0. 171 1. 541 18. 590 0. 083 35. 81 2004 2005 2006 2007 2008 37. 21 38. 09 38. 37 8. 02 37. 02 The North Face as of 12/31/98 PARAMETERS EPS Forecasts Book value/share (last fye) Discount Rate Dividend Payout Ratio Next Fsc Year end Current Fsc Mth (1 to 12) Target ROE (industry avg.) Year Long-term EPS Growth Rate (Ltg)

Forecasted EPS Beg. of year BV/Shr Implied ROE FY1 0. 00 12. 83 10. 16 0. 000 1999 12 0. 170 FY2 0. 05 Ltg 0. 17 (using the mean analyst forecast) (using current fy1, fy2) 1999 0. 000 12. 83 2000 0. 050 12. 83 0. 00 0. 49 Implied price 0. 00 2001 0. 171 0. 059 12. 880 0. 00 0. 52 2002 0. 171 0. 069 12. 939 0. 01 0. 56 2003 0. 171 0. 080 13. 007 0. 01 0. 59 2004 0. 171 0. 094 13. 087 0. 01 0. 63 2005 0. 171 0. 10 13. 181 0. 01 0. 67 2006 2007 2008 2009 2010 2. 98 5. 06 7. 11 9. 33 11. 90 Appendix G Multiple Valuation As of Dec. 2, 1999 The North Face, Inc. (TNFI) Columbia Sportswear Co. (COLM) K2, Inc. (KTO) Nike, Inc. (NKE) Nautica Enterprises, Inc. (NAUT) Tommy Hilfiger, Inc. (TOM) Mean Trading Price Book Values $4. 8750 $10. 27 $17. 9375 $6. 78 $7. 7500 $11. 77 $45. 5938 $18. 36 $13. 0000 $6. 00 $25. 1250 $23. 16 Earnings $0. 29 $1. 36 $0. 29 $1. 57 $1. 45 $3. 72 P/E 16. 81 13. 19 26. 72 29. 04 8. 97 6. 75 16. 91 P/B 0. 475 2. 646 0. 658 2. 483 2. 167 1. 085 1. 59 P/Sales 0. 252 1. 061 0. 232 1. 455 0. 814 1. 454 0. 878 Market Cap ($ in M) $62. $453. 2 $133. 2 $12, 768. 1 $450. 1 $2, 381. 1 North Face's Stock Price Using Mean $4. 91 $16. 28 17. 015 TBLDCF. XLS The North Face Inc. FISCAL YEAR ENDING NET SALES COST OF GOODS GROSS PROFIT SELL GEN & ADMIN EXP INC BEF DEP & AMORT NON-OPERATING (INC)/EXP INTEREST (INC)/EXP INCOME BEFORE TAX PROV FOR INC TAXES NET INC BEF EX ITEMS EX ITEMS & DISC OPS NET INCOME Add: Int Exp (1-t) EBI (NOPLAT) Add: Depreciation Add: Amort of Intangible (Inc) Dec in Other Assets Inc. in Def. Tax Liab WCFO (excl. int.) (Inc.) Dec. in A/R (Inc.) Dec. in Inventories (Inc.) Dec. in Other C. Assets Inc. (Dec.) in A/P Inc. (Dec.) in Other Accruals CFO (excl. int. Less: Capital Expenditures FCF (free cash flow) PV Factor PV of cash flow Cumulative PV PV of perpetuity PV for given term T Less: PV(debt) Plus: idle assets (liabs) PV of sh equity Shrs Outstanding Price per share BALANCE SHEET FISCAL YEAR ENDING Cash Receivables Inventories Other Cur. Assets Total Cur. Assets Net PPE Intangibles Other Assets TOTAL ASSETS Notes Payable Accounts Payable Accrued Expenses Total Cur Liab (excl L/T Debt) Def. Taxes L/T Debt (incl. cur. portion) TOTAL LIABILITIES COMMON STOCK NET CAPITAL SURPLUS RETAINED EARNINGS OTHER EQUITIES SHAREHOLDER EQUITY TOT LIAB & NET WORTH Tax Rate Free Cash Flow Deduct: Int. expense (net of tax) Add: Increase in L/T debt Subtotal (net cash to Shrholdrs) (Dividend) or New Equity Net Inc. (Dec.) in Cash per SCF Net Inc. (Dec. in Cash per B/S Actual 1997 203, 247 110, 764 92, 483 76, 350 16, 133 749 2, 238 13, 146 5, 191 7, 955 0 7, 955 1, 354 9, 309 5, 130 (1, 674) 0 14, 439 (24, 596) (15, 207) (12, 654) 6, 786 3, 604 (27, 628) (13, 935) (41, 563) Actual Assumptions 1998 247, 096 25% for 5 years 15% thereafter 135, 134 54. 600% 111, 962 101, 276 37. 800% 10, 686 (64) 0 4, 907 5, 843 2, 251 0. 38625 3, 592 0 3, 592 3, 017 6, 609 7, 728 . 30 of Net PP&E (3, 233) 0 14, 337 (22, 715) (10, 775) (4, 527) 4, 660 6, 140 (12, 880) (17, 236) (30, 116) from B/S from B/S from B/S from B/S from B/S from B/S from B/S bring net PPE to . 096*sales 0. 1116 Beta = 1. 93 Risk Free Rate = 6. 3% Risk Premium = 3. 0% Adjusted Beta = 1. 62 Cost-of-Capital = 8. 78% Risk Free Rate = 6. 3% Retail risk premium = 2. 8% Shares Outstanding Forecast 1999 308, 870 168, 643 140, 227 116, 753 23, 474 0 23, 474 9, 067 14, 407 Forecast 2000 386, 088 210, 804 175, 284 145, 941 29, 343 0 29, 343 11, 334 18, 009 Forecast 2001 482, 609 263, 505 219, 105 182, 426 36, 678 0 36, 678 14, 167 22, 511 Forecast 2002 603, 262 329, 381 273, 881 228, 033 45, 848 0 45, 848 17, 709 28, 139 Forecast 2003 754, 077 411, 726 342, 351 285, 041 57, 310 0 57, 310 22, 136 35, 174 Forecast 2004 867, 189 473, 485 393, 704 327, 797 65, 906 0 65, 906 25, 456 40, 450 Forecast 2005

997, 267 544, 508 452, 759 376, 967 75, 792 0 75, 792 29, 275 46, 518 Forecast 2006 1, 146, 857 626, 184 520, 673 433, 512 87, 161 0 87, 161 33, 666 53, 495 Forecast 2007 1, 318, 886 720, 112 598, 774 498, 539 100, 235 0 100, 235 38, 716 61, 519 Forecast 2008 1, 516, 718 828, 128 688, 590 573, 320 115, 271 0 115, 271 44, 523 70, 747 14, 407 8, 803 1, 133 730 (1, 508) 23, 565 (10, 082) (13, 892) (5, 248) 5, 334 1, 424 1, 100 (12, 229) (11, 129) 1. 1116 (10, 012) (10, 012) 116, 136 106, 125 (68, 270) 0 37, 855 11, 200 3. 38 8, 009 11, 003 1, 133 1, 313 0 31, 458 (20, 385) (17, 837) (6, 950) 7, 027 4, 401 (2, 286) (18, 339) (20, 625) 1. 2357 (16, 692) (26, 704) 130, 596 103, 892 (68, 270) 0 35, 622 11, 200 3. 18 22, 511 13, 754 1, 133 (1, 448) 0 35, 950 (25, 482) (22, 297) (8, 687) 8, 783 5, 502 (6, 230) (22, 924) (29, 154) 1. 3736 (21, 225) (47, 929) 146, 856 98, 927 (68, 270) 0 30, 657 11, 200 2. 74 28, 139 17, 193 1, 133 (1, 810) 0 44, 655 (31, 852) (27, 871) (10, 859) 10, 979 6, 877 (8, 070) (28, 655) (36, 725) 1. 5268 (24, 053) (71, 982) 165, 140 93, 158 (68, 270) 0 24, 888 11, 200 2. 22 35, 174 21, 491 1, 133 (2, 262) 0 55, 535 (39, 815) (34, 838) (13, 573) 13, 724 8, 596 (10, 371) (35, 819) (46, 190) 1. 6972 (27, 215) (99, 196) 185, 701 86, 505 (68, 270) 0 18, 235 11, 200 1. 63 0, 450 24, 715 1, 133 (1, 697) 0 64, 601 (29, 861) (26, 129) (10, 180) 10, 293 6, 447 15, 171 (35, 460) (20, 290) 1. 8866 (10, 754) (109, 951) 192, 116 82, 165 (68, 270) 0 13, 895 11, 200 1. 24 46, 518 28, 422 1, 133 (1, 951) 0 74, 121 (34, 341) (30, 048) (11, 707) 11, 837 7, 414 17, 277 (40, 780) (23, 503) 2. 0972 (11, 207) (121, 157) 198, 752 77, 595 (68, 270) 0 9, 325 11, 200 0. 83 53, 495 32, 685 1, 133 (2, 244) 0 85, 069 (39, 492) (34, 555) (13, 463) 13, 613 8, 527 19, 698 (46, 896) (27, 198) 2. 3312 (11, 667) (132, 824) 205, 618 72, 794 (68, 270) 0 4, 524 11, 200 0. 40 61, 519 37, 588 1, 133 (2, 580) 0 97, 660 (45, 416) (39, 739) (15, 483) 15, 655 9, 806 22, 483 (53, 931) (31, 448) 2. 5914 (12, 135) (144, 959) 212, 721 67, 762 (68, 270) 0 (508) 11, 200 -0. 05 0, 747 43, 226 1, 133 (2, 967) 0 112, 139 (52, 228) (45, 699) (17, 805) 18, 003 11, 276 25, 686 (62, 021) (36, 335) 2. 8806 (12, 614) (157, 573) 220, 070 62, 497 (68, 270) 0 (5, 773) 11, 200 - 0. 52 1997 4, 511 48, 745 46, 682 18, 023 117, 961 17, 524 29, 066 2, 898 167, 449 25, 734 18, 113 10, 042 53, 889 2, 077 11, 342 67, 308 29 81, 727 18, 068 317 100, 141 167, 449 0. 395 (41, 563) (1, 354) 1998 13, 452 71, 460 57, 457 22, 550 164, 919 25, 916 33, 975 7, 834 232, 644 As a % of Sales 0. 0380 0. 2640 0. 2310 0. 0900 0. 0950 30 years 0. 0230 11, 737 81, 542 71, 349 27, 798 192, 426 29, 343 32, 843 7, 104 261, 715 52, 343 28, 107 17, 606 98, 056 0 15, 703 113, 759 14, 671 101, 927 89, 186 34, 748 240, 533 36, 678 31, 710 5, 791 314, 712 62, 942 35, 134 22, 007 120, 083 0 18, 883 138, 966 8, 339 127, 409 111, 483 43, 435 300, 666 45, 848 30, 578 7, 239 384, 330 76, 866 43, 917 27, 509 148, 292 0 23, 060 171, 352 22, 924 159, 261 139, 353 54, 294 375, 832 57, 310 29, 445 9, 049 471, 636 94, 327 54, 897 34, 386 183, 610 0 28, 298 211, 908 28, 655 199, 076 174, 192 67, 867 469, 790 71, 637 28, 313 11, 311 581, 051 116, 210 68, 621 42, 982 227, 814 0 34, 863 262, 677 32, 953 228, 938 200, 321 78, 047 540, 259 82, 383 27, 180 13, 008 662, 829 132, 566 78, 914 49, 430 260, 910 0 39, 770 300, 680 37, 896 263, 278 230, 369 89, 754 621, 297 94, 740 26, 048 14, 959 757, 044 151, 409 90, 751 56, 844 299, 004 0 45, 423 344, 427 43, 581 302, 770 264, 924 103, 217 714, 492 108, 951 24, 915 17, 203 865, 561 173, 112 104, 364 65, 371 342, 847 0 51, 934 394, 781 0, 118 348, 186 304, 663 118, 700 821, 666 125, 294 23, 783 19, 783 990, 526 198, 105 120, 019 75, 176 393, 300 0 59, 432 452, 732 57, 635 400, 414 350, 362 136, 505 944, 916 144, 088 22, 650 22, 751 1, 134, 405 226, 881 138, 021

86, 453 451, 355 0 68, 064 519, 420 55, 910 0. 1970 22, 773 0. 0910 16, 182 0. 0570 94, 865 1, 508 0. 0000 12, 360 0. 0610 108, 733 31 101, 049 21, 660 1, 171 123, 911 232, 644 0. 385 Unreconciled Difference (30, 116) (3, 017) Debt*cost of debt*(1-t) 31, 194 from B/S (1, 939) 507 from B/S (1, 432) from B/S Unreconciled Difference 147, 956 261, 715 0 (11, 129) (3, 908) (224) (15, 261) 13, 546 (1, 715) (1, 715) 0 175, 746 314, 712 0 (20, 625) (4, 297) 13, 779 (11, 143) 14, 077 2, 934 2, 934 (0) 212, 978 384, 330 0 (29, 154) (5, 211) 18, 101 (16, 264) 19, 932 3, 668 3, 668 0 59, 728 471, 636 0 (36, 725) (6, 381) 22, 699 (20, 406) 24, 991 4, 585 4, 585 (0) 318, 374 581, 051 0 (46, 190) (7, 847) 28, 448 (25, 589) 31, 320 5, 731 5, 731 0 362, 150 662, 829 0 (20, 290) (9, 272) 21, 262 (8, 299) 12, 598 4, 298 4, 298 (0) 412, 617 757, 044 0 (23, 503) (10, 584) 24, 496 (9, 591) 14, 534 4, 943 4, 943 0 470, 780 865, 561 0 (27, 198) (12, 095) 28, 214 (11, 079) 16, 763 5, 684 5, 684 0 537, 794 990, 526 0 (31, 448) (13, 836) 32, 491 (12, 793) 19, 330 6, 537 6, 537 0 614, 985 1, 134, 405 0 (36, 335) (15, 840) 37, 409 (14, 766) 22, 284 7, 518 7, 518 (0) Financial Ratio Analysis Net Income EBI Return on Beg. Equity Profit Margin Asset Turnover Leverage Ret on Average equity Return on Assets 7, 955 9, 309 3, 592 (EBI- Int. fter tax) 6, 609 (N. I. /Beg. Shr Eq) (N. I. /Sales) (Sales/Avg. TA) (Avg. TA/Avg. Shr. Eq.) (EBI/Avg TA) 10, 499 14, 407 0. 085 0. 034 1. 250 1. 818 0. 077 0. 058 13, 712 18, 009 0. 093 0. 036 1. 340 1. 781 0. 085 0. 062 17, 301 22, 511 0. 098 0. 036 1. 381 1. 798 0. 089 0. 064 21, 759 28, 139 0. 102 0. 036 1. 410 1. 811 0. 092 0. 066 27, 327 35, 174 0. 105 0. 036 1. 433 1. 821 0. 095 0. 067 31, 178 40, 450 0. 098 0. 036 1. 394 1. 828 0. 092 0. 065 35, 933 46, 518 0. 099 0. 036 1. 405 1. 833 0. 093 0. 066 41, 400 53, 495 0. 100 0. 036 1. 414 1. 837

0. 094 0. 066 47, 684 61, 519 0. 101 0. 036 1. 421 1. 840 0. 095 0. 066 54, 908 70, 747 0. 102 0. 036 1. 428 1. 843 0. 095 0. 067