BUSINESSES EXPAND E-COMMERCE, D2C CHANNELS AS PANDEMIC RESHAPES RETAIL

APPAREL, FOOTWEAR, & ACCESSORIES INDUSTRY UPDATE | JANUARY 2021

Capstone Headwaters

Apparel, Footwear, & Accessories Industry

Businesses Focus on E-Commerce, D2C Channels

TABLE OF CONTENTS

KEY INDUSTRY TAKEAWAYS

Capstone Headwaters' Consumer & Retail Group (CRG) is pleased to share its Apparel, Footwear, & Accessories report. Through our ongoing conversations with active industry players and analysis of trends during COVID-19, we have identified several key takeaways below, followed by an in-depth overview of industry dynamics on the following pages.

1. 2020 was a transformational year for the Apparel, Footwear, & Accessories industry as many years of change were compressed into a few months.
2. The rise of digitally native brands continues to disrupt the industry as the shift from brick-and-mortar to e-commerce has been intensified.
3. Product category nimbleness will continue to pay off as companies adapt to evolving consumer preferences.
4. Public equity valuations in the sector bounced back from their March 2020 lows as investors overweight the winners from the pandemic.
5. Strategic buyers in the sector are well-capitalized and increasingly focused on mergers and acquisitions (M&A) to propel further growth in 2021.
6. Armed with $1.3 trillion in dry powder, private equity buyers are on the hunt for companies with strong brands and well-defined growth opportunities.
7. In 2021, we expect M&A activity in the sector to heat up as the year progresses, driven by widespread vaccine roll-out, rising consumer confidence, and the continued reopening of the economy.

Sophea Chau
Apparel, Footwear, & Accessories
Managing Director
617-619-3307
schau@capstoneheadwaters.com

Jesse Betzner
Apparel, Footwear, & Accessories
Vice President
617-619-3355
jbetzner@capstoneheadwaters.com

INDUSTRY OUTLOOK

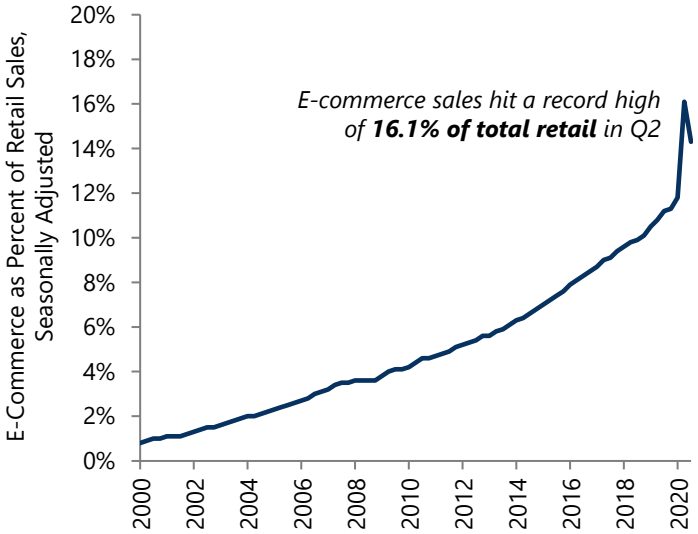
Apparel, footwear, and accessories companies have been forced to rapidly adapt their business models amid the COVID-19 pandemic, as state-mandated lockdowns restricted in-store sales and consumer spending retracted due to job losses and economic uncertainty. The technology changes that were accelerated and the possibilities that were illuminated during this era will undoubtedly reshape much of the Retail industry going forward as winners and losers are assessed in the aftermath of the pandemic and their business models replicated. Companies that have survived—or have been among the few that have managed to thrive—will be poised for continued growth as the economy recovers and a vaccine becomes widely available. On the other hand, operators that have not been able to navigate the environment will likely continue to struggle from the wide-reaching changes to the industry and store closures and bankruptcies will continue into the new year. This changing landscape is expected to heighten M&A activity in 2021 as buyers seek to either invest in winning, high-growth companies or opportunistically purchase strong brands that have failed to successfully pivot their business model during the COVID-19 pandemic.

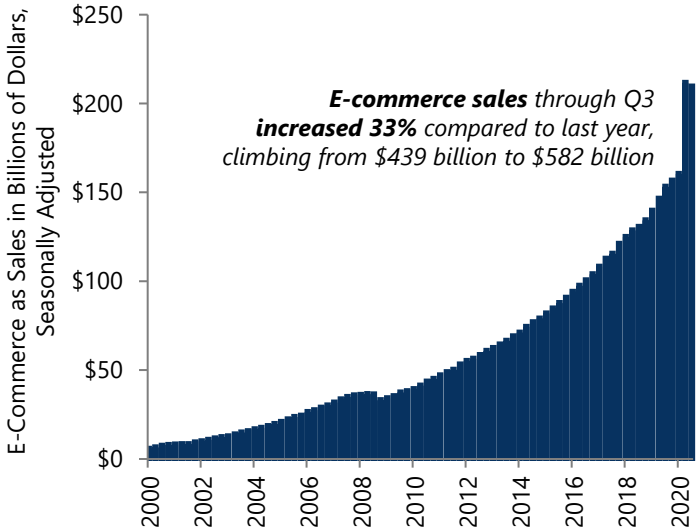
Clear winners during the pandemic have been operators that swiftly expanded digital initiatives and omnichannel distribution to drive sales despite the loss of foot traffic. Notably, this has included Crocs (Nasdaq:CROX) and Stitch Fix (Nasdaq:SFIX) who reported year-over-year growth of 16% and 11%, respectively (see page 12). Additionally, operators with the agility to react to changing consumer preferences have created an opportunity to secure a growing share of the evolving market. For instance, in the remote workforce setting, function has become in vogue over fashion and has benefited retailers with diverse product lines or nimble design and manufacturing teams. Above all, having an attuned ear to consumers' needs and interests as well as a continued focus on growing the brand will be paramount for businesses to successfully navigate the ensuing months until a vaccine is widely available.

E-commerce sales have also been a bright spot amid the pandemic and have proven to be a lifeline for many operators as consumers seek a safe and convenient way to shop. Online sales through Q3 have increased 33% compared to last year, climbing from $439 billion to $582 billion, according to the U.S. Census Bureau.[1] Additionally, e-commerce sales as a share of total retail hit an all-time high of 16% in Q2 and have remained elevated at 14.3% in Q3. While the spike in e-commerce may be temporary, the pandemic has been a catalyst for widespread digital adoption and will create new long-term users.

Though instantly transformative for industry operators, the COVID-induced recession is not expected to have long-lasting impacts on demand for the Retail industry. Following a record-setting 16.4% drop in April, retail sales have climbed for six consecutive months and are up 8.5% year-over-year (YOY), according to the U.S. Census Bureau.[2] This, and other macroeconomic metrics including those on the following page, suggests that consumer spending will improve in 2021.

E-Commerce Sales Surge as Consumers Seek Alternatives to In-Store Shopping



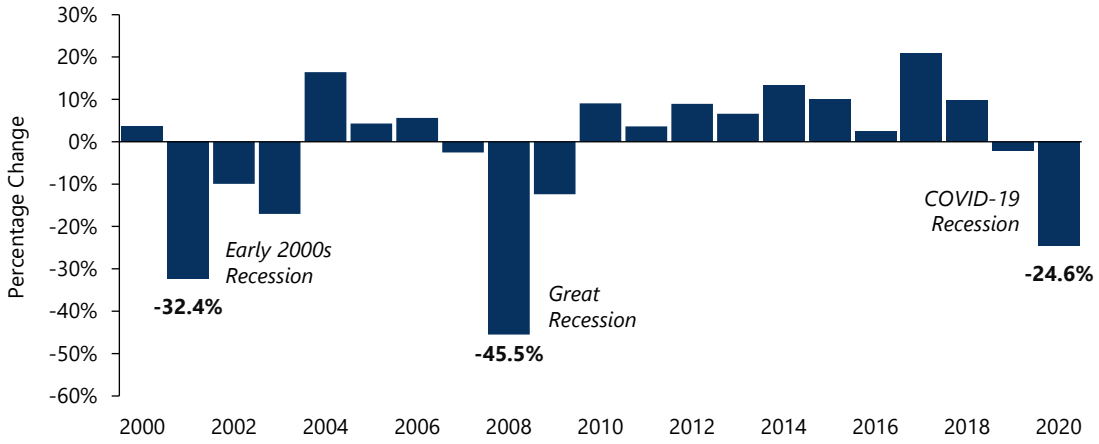


Source: U.S. Census Bureau and Capstone Research

MACROECONOMIC BACKROP

Consumer Confidence Remains Above Prior Recession Lows

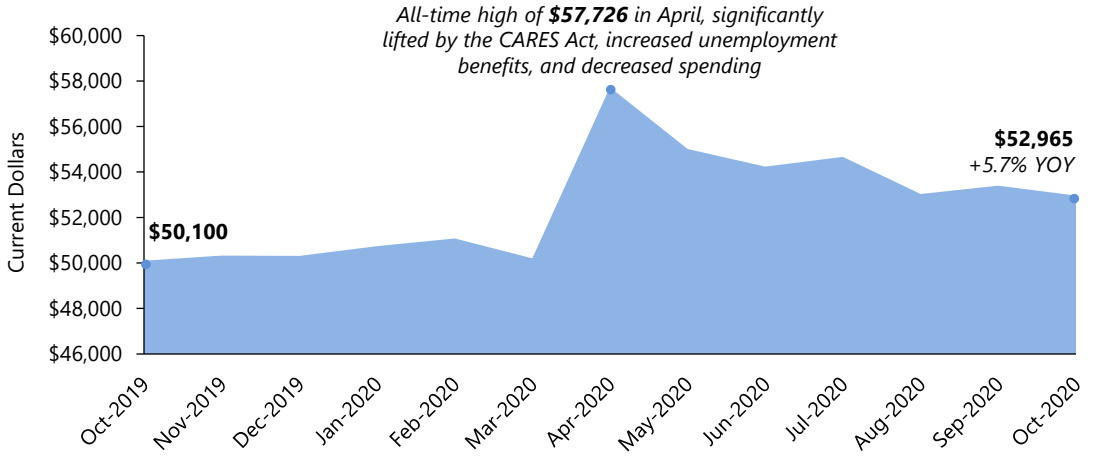
Despite a year-to-date decline of 24.6%, consumer confidence has remained above previous recession lows and is expected to improve in 2021 as economic and employment conditions gain clarity and a COVID-19 vaccine becomes available.



Source: OECD

Per Capita Disposable Income Buoyed by COVID-19 Relief Efforts

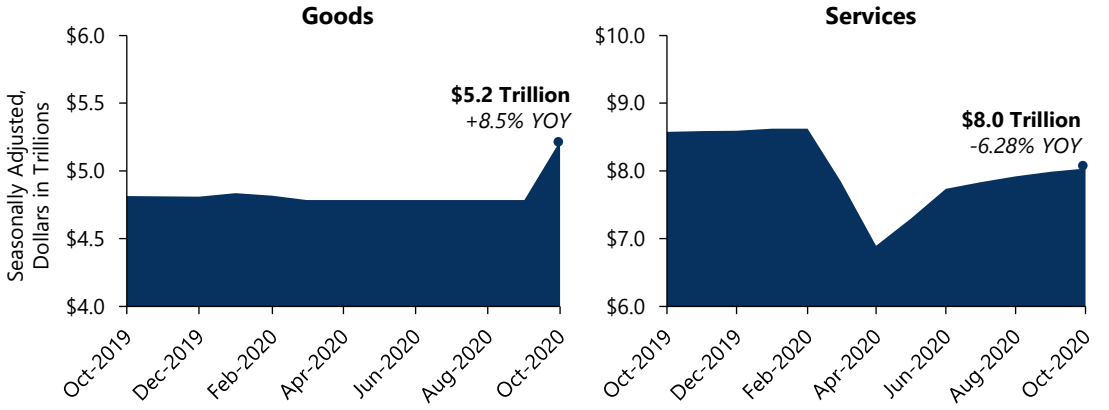
Consumer spending power was buoyed in April by COVID-19 relief efforts following its 2% drop in March. As of October, per capita disposable income has remained above the 2019 average and is up 5.7% year-over-year (YOY).



Source: U.S. Bureau of Economic Analysis

Personal Consumption Expenditures on Goods Increases Almost 9% YOY

Consumer spending declined 2.9% YOY due to a sharp decline in Services spending, including household services and healthcare. Spending on Goods saw only a slight dip in Q3, while spending on Apparel & Footwear specifically was down 10.1%.

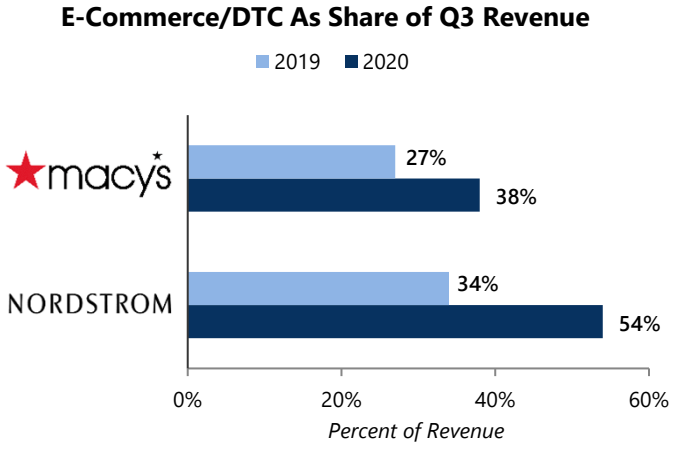


Source: U.S. Bureau of Economic Analysis

KEY TRENDS & DRIVERS

Brands Heighten Emphasis on E-Commerce/Direct-to-Consumer

The decline in foot traffic to department stores, a persistent trend in recent years that has been dramatically accelerated by COVID-19, has dried up key sales channels nearly over night. The devastation was epitomized by the soaring number of bankruptcies this year (see page nine). Department stores like Macy's (NYSE:M) and Nordstrom (NYSE:JWN) have experienced significant sales depression, with year-to-date (YTD) declines of 35% and 37%, respectively, compared to 2019, according to Q3 earnings reports.[3,4] These stores would have seen even steeper decline were it not for established digital channels that accounted for a growing share of their total revenue.



Source: Company earnings reports

Online sales have proven to be a lifeline for companies that have been investing in their digital infrastructure during the years leading up to the pandemic. Mandated lockdowns and social distancing measures facilitated a surge in e-commerce and accelerated the shift away from brick-and-mortar retail. This year saw the largest online shopping day in U.S. history, with consumers spending $10.8 billion on Cyber Monday, according to Adobe Analytics.[5] Additionally, while in person Black Friday store visits dropped 52% from 2019 figures, retail website sales reached a new high of $9 billion, climbing 22% YOY, further validating the necessity of online sales channels. As a result, apparel, footwear, & accessories stores with established direct-to-consumer (D2C) models are ideally positioned to emerge from the pandemic as winners. Companies with existing digitally-native platforms like Stitch Fix, which saw YOY revenue gains (see page 12), were able to take the COVID-induced disruptions in stride and demonstrated the effectiveness of digital investments to drive their business operations. Large, established companies have also reprioritized spending toward digital channels to drive customer engagement and retention. These have included improving mobile applications as well as adding more promotions, inventory, and finesse to their websites. One example of this was NIKE (NYSE:NKE), who took advantage of the opportunity offered by the pandemic to double down on digitalization. The strategy paid off, with online sales growing by 82% during the first quarter of its 2021 fiscal year (June through August 2020), and impressive triple digit growth in Europe, the Middle East and Africa (EMEA), according to the its earnings release.[6] The influx of digital sales helped offset lower revenues in its wholesale business and branded stores, ultimately resulting in a modest sales decline of just 1% during the quarter.

> "Our **results** this quarter continue to **demonstrate NIKE's full competitive advantage,** as we strengthen our position in the midst of disruption. In this dynamic environment, no one can match our pace of launching **innovative product** and our **Brand's deep connection to consumers**. These strengths, coupled with our **digital acceleration,** are **unlocking NIKE's long-term market potential.**"
>
> - John Donahoe, NIKE President & CEO
> Fiscal Q1 2021 Results

V.F. Corporation (NYSE:VFC) is another prime example of a company focused on digital acceleration. After launching its own digital investment and infrastructure transformation four years ago, the company transitioned from a wholesale-dominated retailer with 5% digital revenue to "a streamlined portfolio with over 40% D2C and more than 25% total digital penetration," according to Steven E. Rendle, V.F. Corporation Executive Chairman, President & CEO on the company's October earnings call.[7] As a result, the company experienced a robust D2C digital sales increase of 44% in Q3. The company has employed consumer-centric strategies tailored to engage and connect with customers in each of its leading brands to foster this level of digital growth. These have included purpose-led marketing activations for brands such as North Face and a collaboration with luxury brand Jimmy Choo for brands such as Timberland—once again, demonstrating that companies with a continued focus on brand loyalty and digital adoption can position themselves to capture a growing share of the industry.

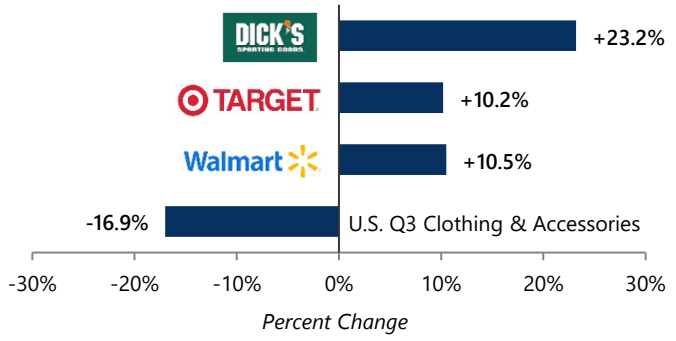
KEY TRENDS & DRIVERS (CONTINUED)

Big Box Retailers Help Private Labels Offset Sales Declines

Big box retailers such as Walmart (NYSE:WMT) and Target (NYSE:TGT) have helped offset declining sales for private label brands and wholesalers in the Apparel, Accessories & Footwear industry as they continue to see foot traffic growth rather than declines amid the pandemic. These mass merchandise retailers have taken advantage of the woes of department stores and have generally benefited from higher apparel sales with above average margins.

U.S. retail store sales for clothing and accessories have remained repressed since their April plummet, and were down 16.9% YOY in Q3, according to the U.S. Census Bureau.[8] Target reported a 10.2% YOY increase in Apparel & Accessories sales while Walmart subsidiary Sam's Club reported a 10.5% YOY increase in Home & Apparel sales, both for the quarter ending October 31.[9,10] Other big box retailers that have seen significant gains in apparel sales, include Tractor Supply (Nasdaq:TSCO) and DICK'S Sporting Goods (NYSE:DKS), who reported a 23.2% increase in consolidated same store sales across hardlines, apparel & footwear—the company's best performance since going public in 2002, according to its Q3 filing.[11]

Year-Over-Year Apparel* Sales



**Apparel grouped with other categories as reported*
Source: Company earnings reports

Notably, major footwear retailer Steve Madden (Nasdaq:SHOO) discussed the advantages of partnering with Walmart and Target on its Q2 earnings call, referring to them as "growth customers."[13] In 2019, Walmart represented 17.9% and Target 13.6%, of Steve Madden's accounts receivable according to the company's annual report.[12] Levi Strauss & Co (NYSE:LEVI) also began selling its higher end Red Tab label in ~20 Target locations last August, and in October, Target announced that the label would be expanded to 500 locations as well as online.[14]

> "One of the things that we've done well over the course of the company's history is to **lean into distribution channels that are growing and deemphasize ones that aren't.** Digital would certainly be at the top of that list…and **we're very focused on continuing to grow our business with folks like Walmart and Target.**"
>
> - Edward Rosenfeld
> Steve Madden Chairman & CEO, Q2 Earnings Call

While some apparel retailers will be hesitant to partner with mass market retailers out of caution for their brand's reputation, most private labels would be wise to review their brand portfolios and consider the opportunity that big box retailers can provide. Not only is it an opportunity to offset losses from channels weakened by the pandemic, but it will allow companies to expand their footprint and customer reach, and to stay agile in the rapidly evolving industry.

Function Prevails Over Fashion, Companies Adjust Inventories

The pandemic has brought significant changes to consumer preferences, causing companies to review and adapt inventory to meet shifting industry dynamics. This has included trends towards high demand categories like at-home and outdoor footwear, fitness apparel, and casualwear as consumers become increasingly entrenched in the work from home environment. For example, Stitch Fix saw Q3 revenue for women's activewear increase 350% YOY (see page 12).

Rebranding or contextualizing current inventory items for at-home life is another strategy for maximizing sale potential. Women's retailer M.M. LaFleur, who caters to finance, law, and politics workwear, was a prime example. By renaming its wrinkle-free, business trip friendly "Origami Suiting" pant to "Colby joggers," with a new emphasis on the pant's comfort and elastic waistband, sales jumped 7x and became a top selling item.[15]

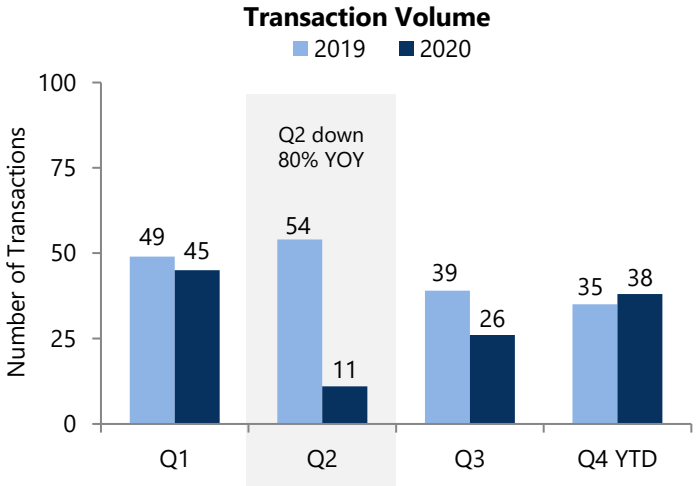
Companies can only achieve this nimbleness by staying close to their customers, listening to what they are saying, and utilizing data to measure consumer preference and predict where the demand will lie. Companies that have been unable or unwilling to adjust their inventory and marketing strategy risk getting left behind in this rapidly changing environment.

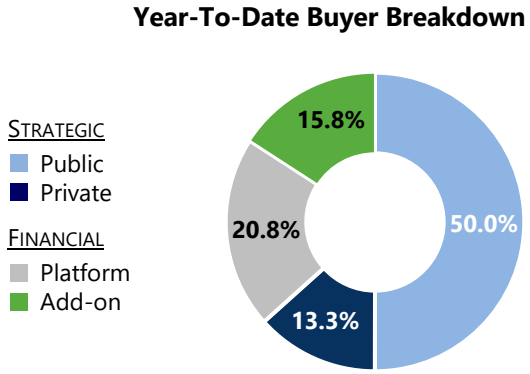
M&A OVERVIEW

Across all industries in the middle market, merger and acquisition (M&A) activity dropped 22.5% YOY through Q3, as the pandemic and its induced recession forced businesses to focus on internal operations and employee safety rather than growth initiatives. Following a 41% decline in M&A transactions from Q1 to Q2, deal volume in Q3 increased 28.1% from the prior quarter and buyers with strong balance sheets began to reengage in M&A (read our Q3 Capital Markets Update for details).

The Apparel, Footwear, & Accessories industry, has experienced a sharper drop than the broader market. Year-to-date (YTD), 120 transactions have been announced or closed compared to 177 over the same period in 2019. This 32% YOY decline was almost entirely due to an industry-wide M&A standstill in Q2, with many retailers reporting their steepest sales declines in April. In Q2 alone, YOY M&A activity plummeted 79.6%. The second half of the year, however, has shown strong promise of a recovery with Q3 activity rebounding while Q4 YTD volume has outpaced that of 2019.

Public companies remain the most active buyers to-date and have accounted for 50% of acquisitions while PE firms have accounted for 36.7%, and private companies 13.3%. Notable transactions in 2020 have included the acquisition of Supreme by VF Corporation (NYSE:VFC) for $2.1 billion in November 2020; the acquisition of Lucky Brand by SPARC Group (consortium between Simon Property Group and Lucky Brands) for $192 million in July 2020 out of bankruptcy (see page nine); and the sale of Speedo North America by PVH NYSE:PVH) to Pentland Group for $170 million in January 2020.





Note: Year-to-date ended December 28
Source: Capital IQ, PitchBook, FactSet, and Capstone Research

Sophea Chau, Managing Director

"We expect a surge in M&A activity next year driven by pent-up demand and excess capital that potential buyers are eager to deploy. Companies that remained relatively stable or grew during the pandemic will be viewed favorably from a valuation perspective."

Jesse Betzner, Vice President

"While deal activity was down in 2020, companies that have successfully adapted their business models, continued to invest in their brands, and navigated the migration to e-commerce are likely to command premium valuations. However, none are likely to garner as much investor attention as digitally native brands demonstrating strong customer loyalty metrics."

NOTABLE TRANSACTIONS

Several notable transactions have been announced or completed in the industry in 2020. Select transactions are outlined below, followed by a more comprehensive list on the following pages.

V.F. Corporation to acquire Supreme Holdings, Inc. (November 2020, $2.1 Billion)

Acquires

V.F Corporation has entered a definitive agreement to acquire Supreme Holdings, Inc. for $2.1 billion equating approximately 15x EBITDA. Through this transaction, V.F. Corporation will gain exposure to the Streetwear market which has a projected size of $50 billion, according to V.F Corporation's investor presentation.[16] Additionally, Supreme's 100% direct-to-customer business model aligns with V.F. Corporation's digitally-led, retail-centric strategy. The acquisition of Supreme is projected to enhance both V.F. Corporation's profitability and cash flow profile. The deal is expected to close by the end of the 2020 calendar year.

"The acquisition of the *Supreme*® brand is further validation of our vision and strategy to further evolve our portfolio of brands to align with the total addressable market opportunities we see driving the Apparel and Footwear sector. The *Supreme*® brand will further accelerate VF's hyper-digital business model transformation and will be a meaningful driver of VF's commitment to top quartile total shareholder return and long-term value creation," said Steve Rendle, V.F. Corporation's Chairman, President, and Chief Executive Officer.[17]

New York-based Supreme is a privately-owned global streetwear brand that manufactures and retails apparel and accessories. Once a local skate shop in downtown Manhattan, Supreme now owns and operates 12 retail stores across the U.S., EMEA, and Japan. Over the course of the past year, Supreme has generated upwards of $500 million in revenue.

V.F. Corporation is a worldwide apparel and footwear designer, producer, and distributor that owns several large brands including: the North Face, Timberland, Icebreaker, Smartwool, Altra, Vans, Kipling, Napapijri, Eastpak, JanSport, Eagle Creek, Dickies, and Timberland PRO.

Pentland Group plc acquired Speedo North America Business (April 2020, $170 Million)

Acquires

PVH, Corp. (NYSE:PVH), one of the world's largest apparel companies, has completed the sale of its Speedo North America Business to Pentland Group plc, parent company of Speedo International Ltd., for $170 million in cash (subject to a working capital adjustment).

London-based Pentland Group manufactures and retails sports, outdoor, and fashion products. The acquisition of Speedo North America Business unites the Speedo brand globally under Pentland Group. Speedo is the world's leading swimwear brand.

"The completion of the Speedo North America acquisition, during these uncertain times, demonstrates our long-term commitment to the business and our passion for building a truly global brand. We're looking forward to welcoming the team to the Pentland family and, while our current priority is the health and wellbeing of all our employees, this acquisition will allow us to offer our customers a stronger global brand proposition when demand resumes," said Andy Long, Chief Executive Officer of Pentland Group's Pentland Brand Division.[18]

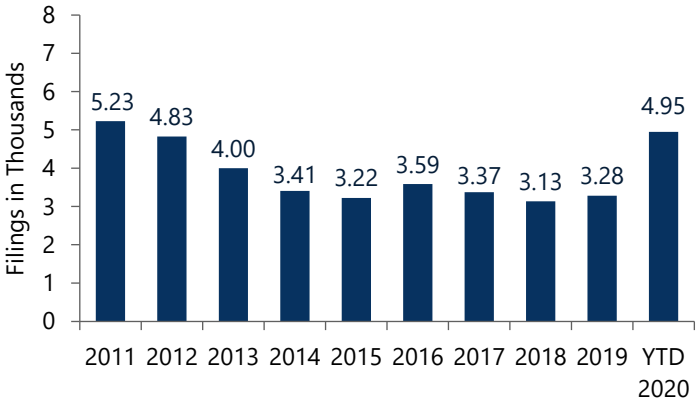
BANKRUPTCY ACQUISITIONS

29 MAJOR RETAILERS FILED CHAPTER 11 BANKRUPTCY IN 2020 TO-DATE

Total corporate bankruptcies in the U.S. have hit a nine-year high as headwinds from the COVID-19 pandemic continue to challenge many economic sectors. Retailers have particularly suffered as brick-and-mortar sales have plunged due to lockdowns and safety guidelines. The Apparel, Footwear & Accessories industry has been disproportionately affected, accounting for 10 of the 29 major retailers that have filed for Chapter 11 bankruptcy in 2020. These have included: Tailored Brands (parent of Men's Warehouse, Jos. A Bank, Moores Clothing, and K&G), Ascena (OTCPK:ASNA.Q) (parent of Ann Taylor, LOFT, Lane Bryant, Justice, and Catherines), Century 21, J.C Penney (OTCPK:JCPN.Q), and True Religion.[19]

To-date, Chapter 11 filings are up 30% YOY, according to Epiq Systems, Inc.[20] A Chapter 11 filing, also known as a reorganization bankruptcy, allows a company to continue operating while it reorganizes and restructures its finances. Additionally, the reorganization presents a unique investment opportunity for strategics and PE groups to acquire reputable brands that will ultimately be successful following the reorganization.

Commercial Bankruptcy Filings



Year-to-date (YTD) ended November 30
Source: Epiq Systems, Inc.

SPARC Group LLC to acquire Lucky Brand Dungarees, LLC (August 2020, $140.1 Million)

SPARC, the 50-50 consortium of Authentic Brands Group and Simon Property Group (NYSE:SPG), has won the bankruptcy court bidding to acquire Lucky Brand for $140.1 million. Lucky Brand manufactures and retails casual apparel and footwear. The California-based retailer, which filed for Chapter 11 bankruptcy protection in July, currently has more than 175 stores in North America. SPARC has indicated that they plan on keeping key stores open.[21]

David Rychalsky, Managing Director, Financial Advisory Services

"The wave of corporate and retail bankruptcies will persist into 2021 and likely crest later in the year as systemic changes brought about by the coronavirus disruption continue to resonate. Opportunistic acquirers will have ample abilities to purchase once iconic and legacy brands and reinvent those business models for the post-COVID commercial world. America loves a comeback, but patience will remain a virtue."

"This acquisition boosts the value of our portfolio to more than $13 billion in global retail sales annually. Lucky Brand's DNA resonates strongly with today's youth and we see tremendous opportunity to unlock its value in key territories around the world. With ABG's social media expertise and content development capabilities we are ready to hit the ground running and expand quickly into new categories and markets," said Jamie Salter, Founder, Chairman, and CEO of ABG.[22]

SPARC Group LLC to acquire Brooks Brothers, Inc. (August 2020, $325 Million)

SPARC was also named the successful bidder for the acquisition of Brook's Brother's, Inc. for $325 million. Brooks Brothers, a clothing retailer that specializes in traditional attire, filed for Chapter 11 bankruptcy in July. As part of the deal, SPARC has agreed to keep 125 of the current 424 Brooks Brothers shops open. By acquiring these large retailers, SPARC enables Simon, the largest operator of shopping malls in America, to control the occupancy rates at its shopping malls.[23]

"Brooks Brothers comes at an important time in ABG's development as we are placing a significant emphasis on growing our retail and eCommerce footprint. We see a great opportunity to strategically expand this powerhouse brand across the globe," said Jamie Salter, Founder, Chairman, and CEO of ABG.[24]

SELECT TRANSACTIONS

Date	Target	Acquirer	Target Business Description	Enterprise Value (mm)	EV / LTM Revenue	EV / LTM EBITDA
12/04/20	private company	private equity firm	E-commerce branded children's apparel.	CF	CF	CF
11/26/20	Ascena Retail Group Assets	Premium Apparel	Comprises apparel brands business	$540.0	-	-
11/23/20	Timex Group USA	The Baupost Group	Designs, manufactures, and markets timepieces and jewelry worldwide.	-	-	-
11/17/20	Rent My Wardrobe	Wardrobe NYC	Facilitates a consumer-to-consumer rental service for women's fashion through an app-based platform.	-	-	-
11/09/20	Supreme Holdings	V.F. Corporation (NYSE:VFC)	Manufactures and retails skateboarding products and accessories.	$2,400.0	4.8x	~15.0x
10/22/20	Posto Del Sole	Madison Techn. (OTCPK:MDEX)	Designs and manufactures jewelry.	-	-	-
10/21/20	Justice Store Assets	Bluestar Alliance	Comprises apparel retail business.	-	-	-
10/17/20	SA Company	TZP Group	Operates as an online retailer of outdoor apparel and other gear.	-	-	-
10/16/20	Le Tote Group Assets	Saadia Group	Comprises fashion retail stores, and e-commerce platform.	$12.0	-	-
10/13/20	Shoes.com	CriticalPoint Capital	Operates as an online retailer of women, men, and kids footwear, apparel, bags, and accessories.	-	-	-
10/05/20	SFLMaven	Sun Kissed (OTCPK:SKDI)	Engages in online retailing of jewelry, precious metals, and watches.	-	-	-
10/02/20	MODASUITE dba Frank and Oak	Unified Commerce Group	Manufactures and sells clothing for men and women.	-	-	-
10/01/20	elope, Inc.	Fun.Com	Engages in designing, manufacturing, and distributing costume hats, glasses, and accessories.	-	-	-
09/29/20	ShoppersChoice & Blaze Outdoor	Brand Velocity & Other PE Investors	Owns and operates online retail stores.	~$140.0	-	-
09/24/20	Analog/Shift	Watches of Switz. (LSE:WOSG)	Retails pre-owned and vintage watches.	-	-	-
09/16/20	E-Commerce Assets of Catherines	Fullbeauty Brands	Comprises e-commerce fashion retail stores.	$40.8	-	-
09/11/20	Organized SportsWear	Spiritwear.com	Provides sports wear products.	-	-	-
09/09/20	J.C. Penney (OTCPK:JCPN.Q)	Simon Property; Brookfield Property	Comprises retail and operating assets of department stores.	$1,192.0	-	-
09/08/20	Compression Z	Glickfeld Capital Ventures	Manufactures apparel products.	-	-	-
09/07/20	Vetta	Fanatics	Comprises headwear apparel manufacturing brand.	-	-	-
08/31/20	E-Commerce Businesses	Saadia Group	Comprises www.nyandcompany.com and www.fashiontofigure.com.	$40.0	-	-
08/25/20	BareWeb	Delta Galil (TASE:DELT)	Operates as an online specialty retailer apparel and underwear for women and men.	-	-	-

Note: CF = confidential; highlighted deals are Capstone's transactions
Source: Capital IQ, PitchBook, and Capstone Research

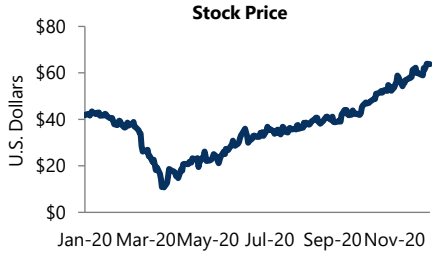
SELECT TRANSACTIONS (CONTINUED)

Date	Target	Acquirer	Target Business Description	Enterprise Value (mm)	EV / LTM Revenue	EV / LTM EBITDA
08/20/20	Wild Things	National Safety Apparel	Designs and manufactures technical outerwear and gear in the United States.	-	-	-
08/14/20	Modell's Sporting Goods	Retail E-commerce Venture	Operator of an e-retail platform focused on selling sports apparel, sporting goods, and accessories.	$3.6	-	-
08/04/20	Rubie's Costume Company	Atalaya; National Entertainment	Manufatcures and distributes Halloween costumes, footwear, and accessories.	$133.0	-	-
07/23/20	Brooks Brothers Group	Authentic Brands; SPARC Group	Comprises apparel and accessories retails stores.	$325.0	-	-
07/03/20	Lucky Brand	SPARC Group	Comprises men and women clothing, shoes, and accessories manufacturing business.	$191.6	-	-
06/24/20	Ashley Stewart Holdings	Monroe Capital Management	Owns and operates women's apparel retail stores.	-	-	-
05/22/20	INTO THE AM	Emazing Lights	Provides apparel and accessories based in Anaheim, Calfornia.	-	-	-
05/06/20	John Varvatos Enterprises, Inc.	Lion Capital	Comprises men's fashion products manufacturing business.	-	-	-
05/04/20	J.Crew Group	Anchorage; GSO; Davidson Kempner	Retails apparel and accessories for both men and women online, in-store, and via other retail channels.	-	-	-
04/14/20	Vision Performance	Exxel Outdoors	Offers wade-wear, outerwear, rainwear, and camo-wear for fishing, hunting, camping, and outdoor activities.	-	-	-
03/20/20	JK Jewelry	Latitude 27 Capital	Comprises jewelry manufacturing business.	-	-	-
03/17/20	Xcel Hawaii	ZG Holdings	Engages in developing and manufacturing sun protection apparel and wetsuit products.	-	-	-
03/09/20	Bluestem Brands	Cerberus Capital Management	Comprises multi-brand online retail store.	$250.0	-	-
03/05/20	Joseph Abboud	Oaktree Capital; WHP Global	Designs and markets suits, sport coats, trousers, sportswear and shirts.	$115.0	-	-
03/05/20	Edward Beiner	New Look Vision (TSE: BCI)	Designs and manufacturer of eyewear, based in Ventura, Florida.		-	-
03/02/20	Universal Athletic Service Division	Athletic Supply, Inc.	Comprises Team Sports Division including sports apparel, footwear, and accessories retail stores.	-	-	-
02/27/20	Aslu	Bedford Ventures	Operates an online retail store offering snow, surf, and skateboard goods to suit individual style.	-	-	-
02/26/20	Foot Petals	Remington Products	Manufactures and markets footwear.	-	-	-
02/26/20	QALO	Win Brands Group	Manufactures and sells silicone-based wedding bands for men and women.	-	-	-
02/24/20	Yandy	PEI Holdings	Offers online lingerie and costume retail services.	$13.1	-	-
02/20/20	KWDZ Manufacturing	Byer California	Manufactures clothing for children.	-	-	-
02/19/20	Longstreth Sporting Goods	Herff Jones; BSN Sports	Sells sporting goods online.	-	-	-

Source: Capital IQ, PitchBook, FactSet, and Capstone Research

STRATEGIES FROM TOP PLAYERS

crocs™
COME AS YOU ARE™
(Nasdaq:CROX)



Trading Data (12/07/2020):	
Stock Price	***$63.77***
52 Week High	***$64.38***
Enterprise Value	***$4,520.8mm***
EV/EBITDA	***16.9x***
EV/Revenue	***3.7x***
Net Debt/EBITDA	***0.8x***

"From a channel perspective, global e-commerce revenue grew by 36%. This represents our 14th consecutive quarter of double-digit ecommerce revenue growth. Our digital business, which combines e-commerce and e-tail grew 36% and represented 38% of our third quarter sales compared to 32% last year. Digital growth rates tempered a bit from Q2 when much of brick and mortar was closed for an extended period, yet our digital penetration remains high and this remains a top priority."

- Andrew Reese, CEO[25]

Performance Highlights, Quarter Ending September 30

- Record Q3 revenue of $362 million, a 16% increase from the prior year
- Digital sales grew 35.5% and accounted for 38% of total revenues
- E-commerce sales grew 36.3% to $80 million, while wholesale increased 12.4%, and retail 8.9%
- Adjusted gross margin increased 380 basis points to 57.2% from 53.6%

Analysis: Crocs' exceptionally strong Q3 results beat the prior year high and was a testament to the company's global brand strength. Revenue in North America increased 26% YOY (the highest globally) and direct-to-consumer sales grew 31%. The company's gross margin gains were attributed to changes in product mix, a decrease in the number of promotions and discounts, and price increases of 8.8% over prior year Q3. Despite reduced store hours due to the pandemic, company-owned retail sales grew 16%, demonstrating a faster recovery than expected.

STITCH FIX
(Nasdaq:SFIX)

Trading Data (12/07/2020):	
Stock Price	***$35.83***
52 Week High	***$42.38***
Enterprise Value	***$3,523.2mm***
EV/EBITDA	***NM***
EV/Revenue	***2.0x***
Net Debt/EBITDA	***NM***

Source: Capital IQ , FactSet, and Capstone Research

"The flexibility in our model allowed us to meet the consumer in this moment – with our overall value proposition anchored on the convenience of shopping at home, and by adapting our inventory to what is most relevant. We will continue to pursue this path of adaptability and personalized relevance, which has been central to Stitch Fix since the beginning. Now more than ever, it will help us capitalize on a forever changed apparel retail environment."

- Katrina Lake, Founder, CEO, & Director[26]

Performance Highlights, Quarter Ending August 1

- Revenue of $443.4 million, an 11% increase from the prior year
- Number of active clients grew 9% to 3.5 million
- Women's activewear revenues increased 350% YOY
- Gross margin increased 410 basis points to 44.9% from 44.1%
- Adjusted EBITDA loss of $8.3 million or 1.9% of revenue

Analysis: Stitch Fix's direct-to-consumer sales approach attracted an influx of new clients as retailers closed due to the pandemic, epitomized by a 50% YOY increased in shipments in July. As retail sales rebound, Stitch Fix expects more than $30 billion of the market share to move online in the 12-18 months, creating further opportunity for expansion. For fiscal year (FY) 2020, revenues increased 10.7% YOY to $1.7 billion. The company attributed its FY adjusted EBITDA loss of $29.1 million to long-term growth investments including $68 million in stock-based compensation, $25 million to enhance its U.K. offerings, and $15 million in COVID-related expenses.

Jesse Betzner, Vice President

"After a heavy sell-off at the onset of the pandemic, public market valuations have recovered as investors increasingly look toward 2021 and beyond. Several companies are trading at or near their 52-week highs, driven by continued investor enthusiasm for strong brands, successful e-commerce strategies, and nimble management through the crisis."

PUBLIC COMPANY TRADING & OPERATING DATA: ACTIVEWEAR

Company	Price 12/29/20	% 52 Wk High	Market Cap	Enterprise Value	LTM Revenue	LTM EBITDA	LTM Margin	EV / LTM Revenue	EV / LTM EBITDA
adidas AG	$366.85	94.3%	$71,548.7	$75,818.7	$23,643.7	$2,576.3	10.9%	3.2x	29.4x
ASICS Corporation	$19.65	91.5%	$3,596.2	$4,113.3	$3,224.5	$146.3	4.5%	1.3x	28.1x
Foot Locker, Inc.	$40.33	93.6%	$4,202.9	$6,035.9	$7,580.0	$1,627.5	21.5%	0.8x	3.7x
Lululemon Athletica Inc.	$353.22	88.3%	$46,038.0	$46,329.9	$4,069.8	$1,206.2	29.6%	NM	NM
NIKE, Inc.	$141.57	95.7%	$222,240.3	$223,233.3	$38,254.0	$5,960.0	15.6%	NM	NM
PUMA SE	$112.59	98.4%	$16,838.5	$17,639.3	$6,097.8	$534.5	8.8%	2.9x	NM
Under Armour, Inc.	$16.87	76.8%	$7,155.9	$8,317.3	$4,512.1	$236.9	5.2%	1.8x	NM
Mean							**13.6%**	**2.0x**	**20.4x**
Median							**10.9%**	**1.8x**	**28.1x**
Harmonic Mean							**9.2%**	**1.5x**	**8.8x**

EV = enterprise value; LTM = last twelve months
$ in millions, except per share data
NM = Not Meaningful

PUBLIC COMPANY TRADING & OPERATING DATA: DIVERSIFIED APPAREL

Company	Price 12/29/20	% 52 Wk High	Market Cap	Enterprise Value	LTM Revenue	LTM EBITDA	LTM Margin	EV / LTM Revenue	EV / LTM EBITDA
Capri Holdings Limited	$43.11	97.8%	$6,494.4	$10,249.4	$4,324.0	$1,185.0	27.4%	2.4x	8.6x
Delta Galil Industries Ltd.	$26.01	84.3%	$663.7	$1,228.4	$1,491.3	$195.8	13.1%	0.8x	6.3x
Fox-Wizel Ltd.	$93.21	93.8%	$1,259.9	$1,722.8	$836.6	$150.3	18.0%	2.1x	11.5x
Gildan Activewear Inc.	$27.98	90.0%	$5,551.9	$6,442.8	$1,949.8	$148.1	7.6%	3.3x	NM
Hanesbrands Inc.	$14.44	81.4%	$5,029.8	$8,780.1	$6,614.5	$1,208.4	18.3%	1.3x	7.3x
Oxford Industries, Inc.	$64.97	83.9%	$1,096.9	$1,386.5	$825.1	$127.6	15.5%	1.7x	10.9x
PVH Corp.	$93.44	86.5%	$6,643.6	$10,590.0	$7,643.6	$963.1	12.6%	1.4x	11.0x
Tapestry, Inc.	$30.11	95.1%	$8,352.7	$11,216.8	$4,775.7	$1,322.3	27.7%	2.3x	8.5x
V.F. Corporation	$84.76	84.5%	$33,056.8	$37,203.0	$8,942.8	$1,582.8	17.7%	4.2x	23.5x
Mean							**17.5%**	**2.2x**	**10.9x**
Median							**17.7%**	**2.1x**	**9.8x**
Harmonic Mean							**15.2%**	**1.7x**	**8.7x**

Source: Capital IQ as of December 29

PUBLIC COMPANY TRADING & OPERATING DATA: FOOTWEAR

Company	Price 12/29/20	% 52 Wk High	Market Cap	Enterprise Value	LTM Revenue	LTM EBITDA	LTM Margin	EV / LTM Revenue	EV / LTM EBITDA
Caleres, Inc.	$14.86	61.6%	$563.3	$1,655.2	$2,245.1	$252.7	11.3%	0.7x	6.5x
Crocs, Inc.	$61.33	92.2%	$4,139.6	$4,356.1	$1,237.4	$278.2	22.5%	3.5x	15.7x
Deckers Outdoor Corporation	$287.45	93.4%	$8,072.8	$7,731.8	$2,220.3	$526.7	23.7%	3.5x	14.7x
Rocky Brands, Inc.	$28.08	85.8%	$203.4	$184.3	$265.0	$25.9	9.8%	0.7x	7.1x
Skechers U.S.A., Inc.	$35.60	80.0%	$5,594.7	$6,445.8	$4,619.2	$307.5	6.7%	1.4x	21.0x
Steven Madden, Ltd.	$34.00	78.2%	$2,828.5	$2,727.2	$1,268.5	$67.4	5.3%	2.1x	NM
Wolverine World Wide, Inc.	$30.48	87.8%	$2,501.5	$3,217.1	$1,888.9	$118.3	6.3%	1.7x	27.2x
Mean							**12.2%**	**2.0x**	**15.4x**
Median							**9.8%**	**1.7x**	**15.2x**
Harmonic Mean							**9.0%**	**1.4x**	**10.5x**

EV = enterprise value; LTM = last twelve months
$ in millions, except per share data
NM = Not Meaningful

PUBLIC COMPANY TRADING & OPERATING DATA: LUXURY BRANDS

Company	Price 12/29/20	% 52 Wk High	Market Cap	Enterprise Value	LTM Revenue	LTM EBITDA	LTM Margin	EV / LTM Revenue	EV / LTM EBITDA
Burberry Group plc	$24.50	77.5%	$9,892.0	$10,639.6	$2,832.2	$710.2	25.1%	3.8x	15.0x
Compagnie Financière Richemont	$91.08	98.6%	$51,469.3	$53,141.4	$14,465.7	$2,610.4	18.0%	3.7x	20.4x
Kering SA	$707.37	91.9%	$88,396.7	$98,284.0	$15,331.3	$5,479.6	35.7%	NM	17.9x
LVMH Moët Hennessy	$628.12	99.5%	$316,171.4	$344,771.3	$52,870.8	$13,659.7	25.8%	NM	25.2x
Pandora A/S	$108.41	98.8%	$10,803.8	$11,934.0	$3,008.8	$1,003.3	33.3%	4.0x	11.9x
Signet Jewelers Limited	$27.00	83.8%	$1,413.1	$3,323.5	$5,193.7	$897.5	17.3%	0.6x	3.7x
The Swatch Group AG	$272.68	85.9%	$13,880.1	$12,907.0	$6,717.6	$584.0	8.7%	1.9x	22.1x
Tiffany & Co.	$131.33	97.7%	$15,945.2	$17,425.1	$3,668.7	$723.4	19.7%	4.7x	24.1x
Mean							**23.0%**	**3.1x**	**17.5x**
Median							**22.4%**	**3.7x**	**19.1x**
Harmonic Mean							**19.3%**	**1.9x**	**11.5x**

Source: Capital IQ as of December 29

APPAREL, FOOTWEAR, & ACCESSORIES REPORT CONTRIBUTORS

Sophea Chau
Managing Director
schau@capstoneheadwaters.com | 617-619-3307

Sophea has 15+ years of experience in M&A, private placements, and financial advisory services. Her responsibilities include asset positioning and strategy articulation, providing financial and valuation analysis, and performing due diligence. Prior to joining Capstone, Sophea was an analyst at FTN Midwest Securities, a full-service investment banking firm based in Cleveland. While working in their New York office, she focused on M&A advisory for middle-market companies in industries including Consumer Products, Healthcare, and Marketing & Advertising. The M&A Advisor named Sophea to its prestigious "Emerging Leaders" deal makers list in 2018. She is on the Board of the Columbia Alumni Association of Boston and holds a BA in Economics from Columbia University.

David Rychalsky
Managing Director
rrychalsky@capstoneheadwaters.com | 617-619-3329

David has 15+ years of experience in financial advisory and restructuring services for debtors in reorganization or liquidation proceedings, unsecured creditor, lender and bondholder committees and post-confirmation trusts. A senior member of Capstone's restructuring practice, David has considerable experience in advising constituencies involved in Chapter 11 proceedings. David also manages the Creditor Trusts for Lake at Las Vegas (LLV) Creditors' Trust and Brown Publishing Co. Liquidating Trust. Prior to Capstone, he was a Senior Vice President with Mesirow Financial Consulting in Boston and an Associate in the Corporate Recovery practice at KPMG LLP in Boston. David received his BA in Political Science and concentration in Economics from Roanoke College. He is a Certified Insolvency and Restructuring Advisor and a member of the American Bankruptcy Institute.

Jesse Betzner
Vice President
jbetzner@capstoneheadwaters.com | 617-619-3355

Jesse is a Vice President with Capstone's Boston investment banking team, where his work includes performing financial analysis, assisting with identification of strategic and financial buyers. Prior to Capstone, he gained seven years of M&A, Corporate Finance, and Entrepreneurship experience including several years at J.P. Morgan in New York City. While there, Jesse worked in sectors including Technology and Diversified Industries, in the Americas and Europe. More recently, he gained investor relations and corporate development experience at B2W Digital, a leading e-commerce company backed by 3G Capital, in Rio de Janeiro, Brazil. In addition to English, Jesse speaks Spanish and Portuguese. He earned his MBA from the London Business School and his BS in Finance & International Business from Georgetown University. He is a FINRA 79 Registered Investment Banking Representative.

Sarah Doherty
Vice President of Research
sdoherty@capstoneheadwaters.com | 617-619-3310

Sarah joined Capstone in 2016 and has more than eight years of research and writing experience. She oversees the firm's corporate Research Team, which produces 100+ reports annually on M&A activity. Previously, Sarah was the Data Graphics Specialist at a think tank in Washington, D.C., where she collaborated with economists and industry experts to analyze and present data for congressional testimonies, and research publications. She holds a BA in Journalism & Political Science from Biola University and is an IIMRA certified Market Research Analyst.

FIRM TRACK RECORD

CONFIDENTIAL

corporate sale

DIRECT-TO-CONSUMER JEWELRY RETAILER

E-COMMERCE BRANDED CHILDREN'S APPAREL

has recapitalized with

PRIVATE EQUITY FIRM

HALO the safer way to sleep

has been acquired by

aden + anais a portfolio company of SPC

karma Loop

has been acquired by

COMVEST PARTNERS

Tiny Love

has been acquired by

DOREL

B·O·B

has been acquired by

Britax a portfolio company of NORDIC CAPITAL

BELSON OUTDOORS

has been acquired by

PLAYCORE Building communities through play

bobble

has been acquired by

O2COOL cool by design

YUKON CHARLIE'S

has been acquired by

Kwik Tek a portfolio company of GUARDIAN CAPITAL PARTNERS

WHOLESOME PRIDE

has been acquired by

outward hound raise the woof

purple

has been acquired by

GPAC GLOBAL PARTNER ACQUISITION CORP

MASTER CUTLERY

has been acquired by

CHAMPLAIN

IGLOO

has been acquired by

cool gear

MANATTS

has divested

IOWA Speedway America's Place To Race

TROPHY RIDGE

has been acquired by

ESCALADE SPORTS

slime

has been acquired by

FRIEND SKOLER & Co.

CITATIONS

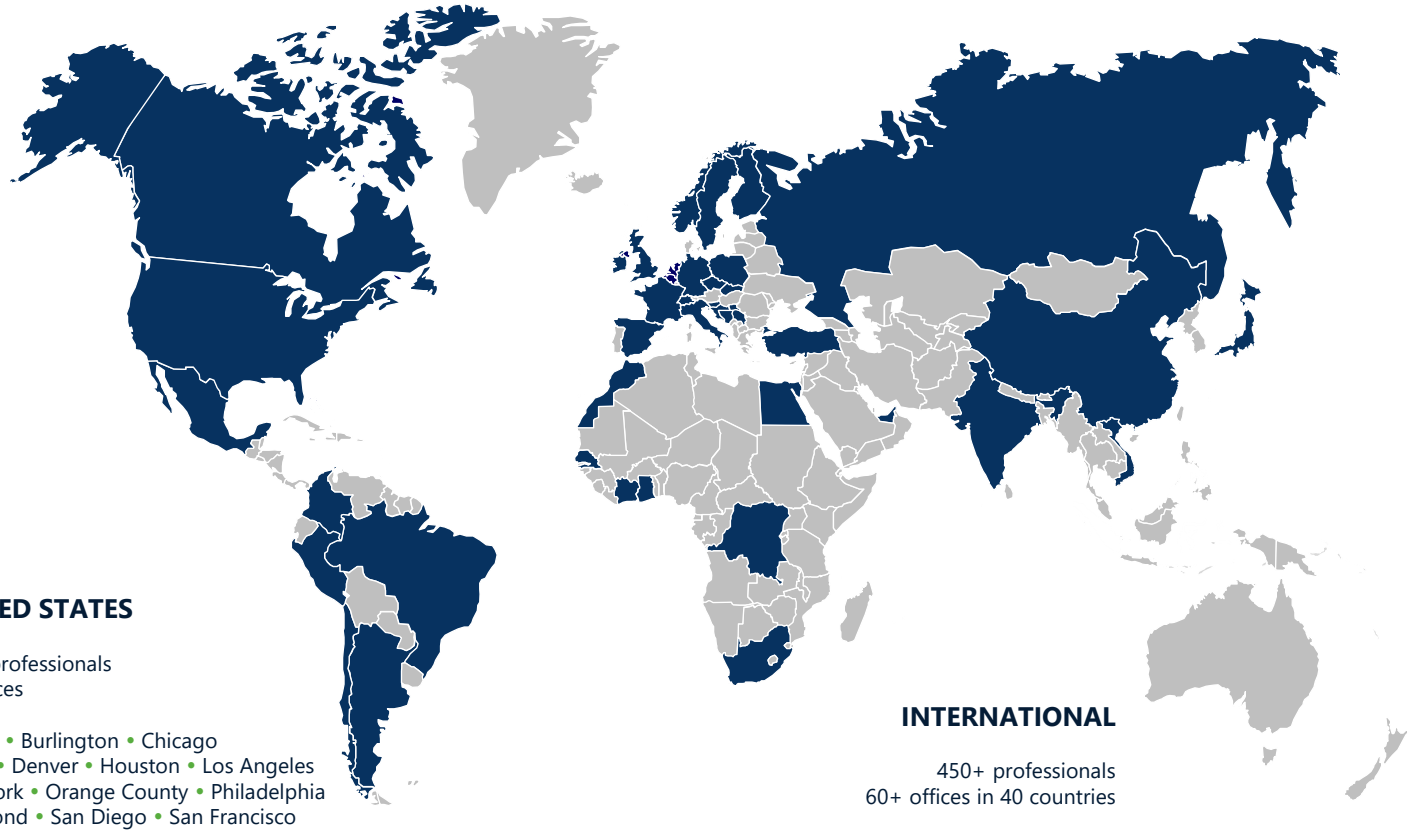
1. U.S. Census Bureau, "Quarterly Retail E-Commerce Sales, 3rd Quarter 2020," https://www.census.gov/retail/mrts/www/data/ pdf/ec_current.pdf, accessed December 12, 2020.
2. U.S. Census Bureau, "Retail Total (Excl. Food Services)," https://www.census.gov/retail/marts/www/adv44000.txt, accessed December 10, 2020.
3. Macy's "Macy's, Inc. Reports Third Quarter 2020 Results," https://www.macysinc.com/investors/news-events/press-releases/detail/1657/macys-inc-reports-third-quarter-2020-results, accessed December 10, 2020.
4. Nordstrom, "Nordstrom Reports Third Quarter 2020 Earnings," https://press.nordstrom.com/static-files/a3f985f0-a772-4693-b67d-e7281512d1de, accessed December 10, 2020.
5. Associated Press, "Black Friday Sees Record Online as US Shoppers Stay Home," https://apnews.com/article/business-shopping-coronavirus-pandemic-online-shopping-790e862ab1101e3d73e30a99ab04b70e?utm, accessed December 10, 2020.
6. NIKE, "NIKE, Inc. Reports Fiscal 2021 First Quarter Results," https://news.nike.com/news/nike-inc-reports-fiscal-2021-first-quarter-results, accessed December 10, 2020.
7. Yahoo! "Edited Transcript of VFC.N earnings conference call or presentation 16-Oct-20 12:30pm GMT," https://www.yahoo.com/amphtml/now/edited-transcript-vfc-n-earnings-123000985.html, accessed December 10, 2020.
8. U.S. Census Bureau, "Clothing & Clothing Accessories Store," https://www.census.gov/retail/marts/www/adv44800.txt, accessed December 10, 2020.
9. Target, "Form 10-Q, Target Corporation," https://investors.target.com/static-files/17bd9b09-91fa-4c76-bc30-a3da0dcc1ca3, accessed December 9, 2020.
10. Walmart, "Form 10-Q, Walmart Inc.," http://d18rn0p25nwr6d.cloudfront.net/CIK-0000104169/4e7fd8ee-8ad8-49f0-85cc-f402bedb7385.pdf, accessed December 9, 2020.
11. SEC, "Form 10-Q Dick's Sporting Goods, Inc.," https://sec.report/Document/0001089063-20-000145/, accessed December 9, 2020.
12. SEC, "Form 10-K Steven Madden, Ltd.,' https://sec.report/Document/0001628280-20-002674/, accessed December 9, 2020.
13. The Motley Fool, "Steven Madden Ltd (SHOO) Q2 2020 Earnings Call Transcript," https://www.fool.com/earnings/call-transcripts/2020/07/29/steven-madden-ltd-shoo-q2-2020-earnings-call-trans.aspx, accessed December 9, 2020.
14. Target, "Try *This* On For Size: Target and Levi Strauss & Co.'s Partnership Expands to 500 Stores," https://corporate.target.com/article/2020/10/levi-strauss-expansion, accessed December 9, 2020.
15. NPR, "How I Built Resilience: Live with Sarah LaFleur," https://www.npr.org/podcasts/510313/how-i-built-this, accessed December 9, 2020.
16. V.F. Corporation, "Supreme :: VF Corporation (VFC)," https://www.vfc.com/supreme, accessed December 8, 2020.
17. Business Wire, "VF Corporation Announces Definitive Agreement to Acquire Iconic, Global Streetwear Leader Supreme®," https://www.businesswire.com/news/home/20201109005300/en/VF-Corporation-Announces-Definitive-Agreement-to-Acquire-Iconic-Global-Streetwear-Leader-Supreme%C2%AE, accessed December 8, 2020.
18. Business Wire, "PVH Corp. Completes Sale of Speedo North America Business to Pentland Group" https://www.businesswire.com/news/home/20200406005562/en/PVH-Corp.-Completes-Sale-of-Speedo-North-America-Business-to-Pentland-Group, accessed December 8, 2020.
19. Retail Dive, "The running list of 2020 retail bankruptcies," https://www.retaildive.com/news/the-running-list-of-2020-retail-bankruptcies/571159/, ,accessed December 7, 2020.
20. Epiq Global, "October New Bankruptcy Filings Remain Stagnant," https://www.epiqglobal.com/en-us/about/news/restructuring-bankruptcy/october-new-bankruptcy-filings-remain-stagnant, accessed December 7, 2020.
21. CNBC, "Mall owner Simon, Authentic Brands to acquire denim retailer Lucky out of bankruptcy for $140.1 million," https://www.cnbc.com/2020/08/14/simon-authentic-brands-to-buy-bankrupt-lucky-brand-for-140point1-million.html, accessed December 7, 2020.
22. ABG News Room, "Authentic Brands Group and SPARC Acquire Lucky Brand," https://abgnewsroom.com/home/authentic-brands-group-and-sparc-group-to-acquire-lucky-brand, accessed December 7, 2020.
23. The Fashion Law, "Why Two Retail Giants Are Buying Distressed Mall Brands Out of Bankruptcy," https://www.thefashionlaw.com/why-two-retail-property-owners-are-buying-distressed-mall-retailers-out-of-bankruptcy/, accessed December 8, 2020.
24. ABG News Room, "Authentic Brands Group and SPARC Group Finalize the Acquisition of Brooks Brothers," https://abgnewsroom.com/home/authentic-brands-group-and-sparc-group-finalize-the-acquisition-of-brooks-brothers, accessed December 7, 2020.
25. Crocs, Inc. "Third Quarter 2020 Earnings Conference Call: October 27, 2020," https://s22.q4cdn.com/133460125/files/doc_financials/2020/q3/final-10272020-crocs-q3-2020-1490945.pdf, accessed December 6, 2020.
26. Stitch Fix, "Q4 and Fiscal Year 2020 Letter to Shareholders," https://investors.stitchfix.com/static-files/ea5725f6-40d3-4f9c-bf62-1b1120d76909, accessed December 6, 2020.
27. Steve Madden, "Steve Madden Announces Third Quarter 2020 Results," https://investor.stevemadden.com/news-releases/news-release-details/steve-madden-announces-third-quarter-2020-results, accessed December 6, 2020.
28. V.F. Corporation, "VF Reports Second Quarter Fiscal 2021 Results," https://www.vfc.com/investors/news-events-presentations/press-releases/detail/1736/vf-reports-second-quarter-fiscal-2021-results, accessed December 7, 2020.

Capstone Headwaters

BUILT FOR THE MIDDLE MARKET

Capstone Headwaters is one of the largest and most active independent investment banking firms in the United States. The firm has a rich, 20-year history of achieving extraordinary results for middle market entrepreneurs, business owners, investors, and creditors. Capstone offers a fully integrated suite of corporate finance services, including M&A, debt and equity placement, corporate restructuring, valuation and fairness opinions, financial advisory, and ESOP advisory services.

Headquartered in Boston, the firm has 175+ professionals across 16 offices in the U.S., with and an international presence including over 450 professionals in 40 countries. With 16 dedicated industry groups, the firm delivers sector-specific expertise through large, cross-functional teams on a global basis.



UNITED STATES

170+ professionals
16 offices

Boston • Burlington • Chicago
Dallas • Denver • Houston • Los Angeles
New York • Orange County • Philadelphia
Richmond • San Diego • San Francisco
St Louis • Tampa • Washington DC

INTERNATIONAL

450+ professionals
60+ offices in 40 countries

Asia: China • India • Japan
Latin America: Argentina • Brazil • Chile • Colombia • Mexico • Peru
Africa: Congo • Egypt • Ghana • Ivory Coast • Mauritius • Morocco • Senegal • South Africa
Europe: Belgium • Bosnia • Croatia • Czech Republic • Finland • France • Germany • Herzegovina
Hungary • Ireland • Italy • London • Netherlands • Norway • Poland • Russia • Serbia • Slovenia
Spain • Sweden • Switzerland • Turkey • United Kingdom

www.capstoneheadwaters.com