



## Samsonite (1910 HK)

The leader in the global luggage market is seeing a travel recovery take shape



ASIAN  
CENTURY  
STOCKS

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# Summary



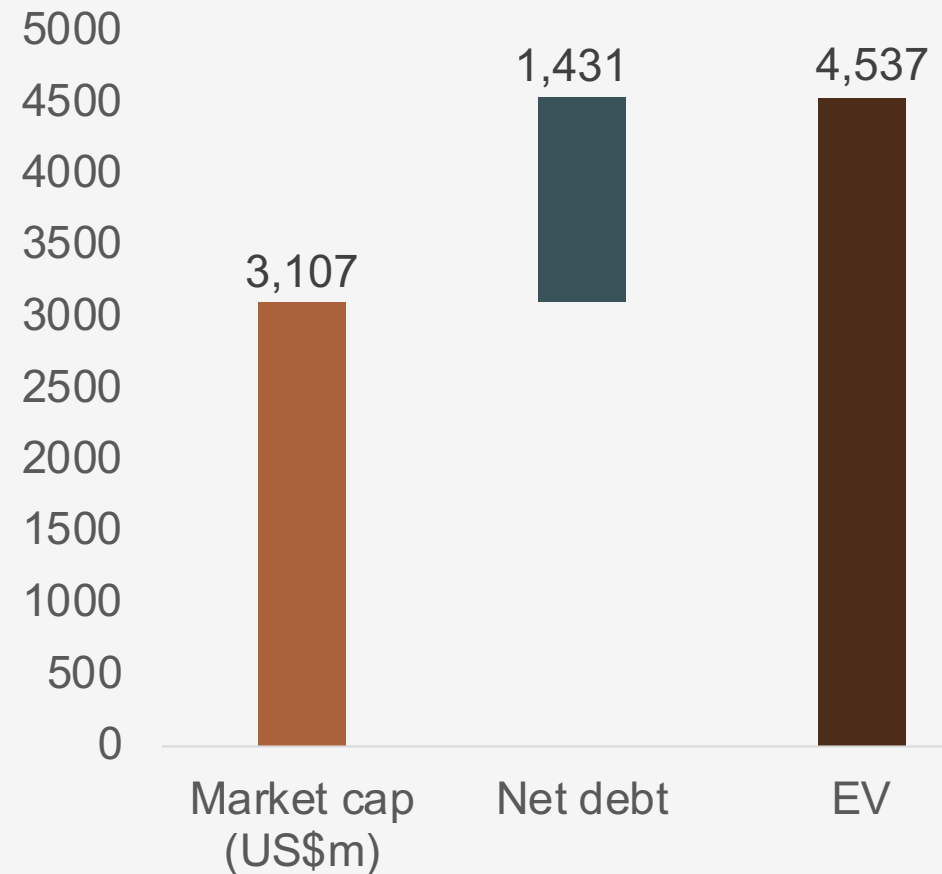
1. Samsonite is the world's largest producer of luggage and other travel related products. It dominates the mass-market segment while fully owned subsidiary Tumi is one of the two most-recognisable names in the premium luggage market (the other being Rimowa).
2. Before COVID-19, the luggage market has grown in the mid-single digits. Samsonite itself grew in line with the market, though with its top-line growth boosted by acquisitions of companies such as Tumi in 2016. Tumi is a growth brand with excellent prospects, focusing on the luxury business travel market for those wanting high-quality, functional items.
3. The previous CEO Ramesh Tainwala was ousted in 2018 after a short-seller pointed out earnings manipulation, fake credentials and related party transactions. Since then, a new management team has taken over and the company's corporate governance has clearly improved.
4. The company was then hit by US tariffs on Chinese travel goods. Since Samsonite at the time produced 85% of its luggage in China, it had to increase prices and therefore lost market share in 2019 in the process.
5. Then came COVID-19, which hurt the luggage industry in line with lower tourist arrivals globally.
6. There are now clear signs that the global travel industry is recovering. IATA expects global travel to exceed the 2019 baseline by 2024. Under such a scenario, Samsonite is likely to trade somewhere around 13-14x P/E, far below the historical level of 20x and the peer group's 20-30x.
7. Another catalyst would be a reduction in US tariffs on Chinese travel goods.
8. Given that Samsonite has a fair amount of debt, the main risks are that US interest rates continue higher.

# Samsonite has a fair amount of debt



- Share price: HK\$16.96\*
- Shares outstanding: 1,438 million
- Market cap: US\$3.1 billion
- Net debt: US\$1.4 billion
- Enterprise value: US\$4.5 billion

US\$ million



\* HK\$ = Hong Kong Dollar. HKD/USD = 7.85

# Business overview

Samsonite



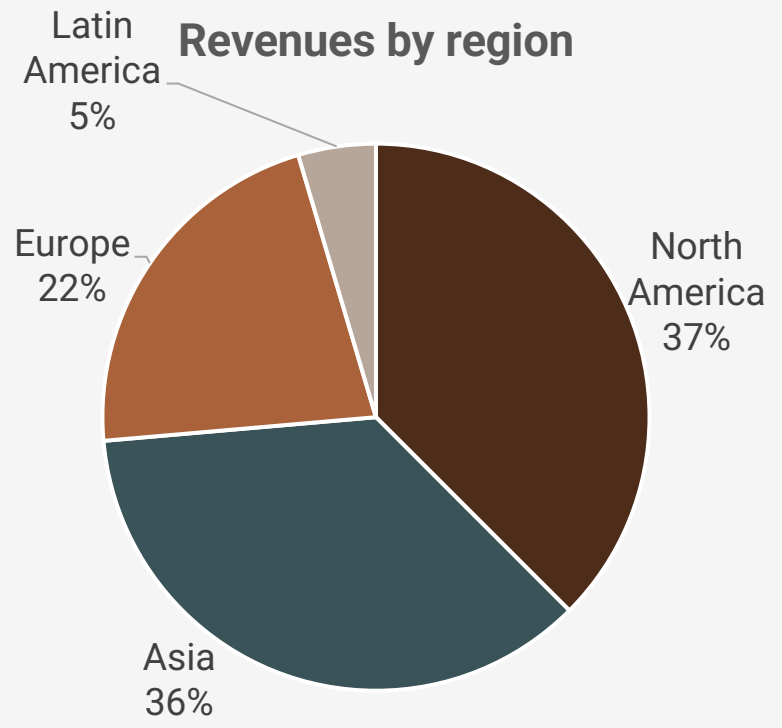
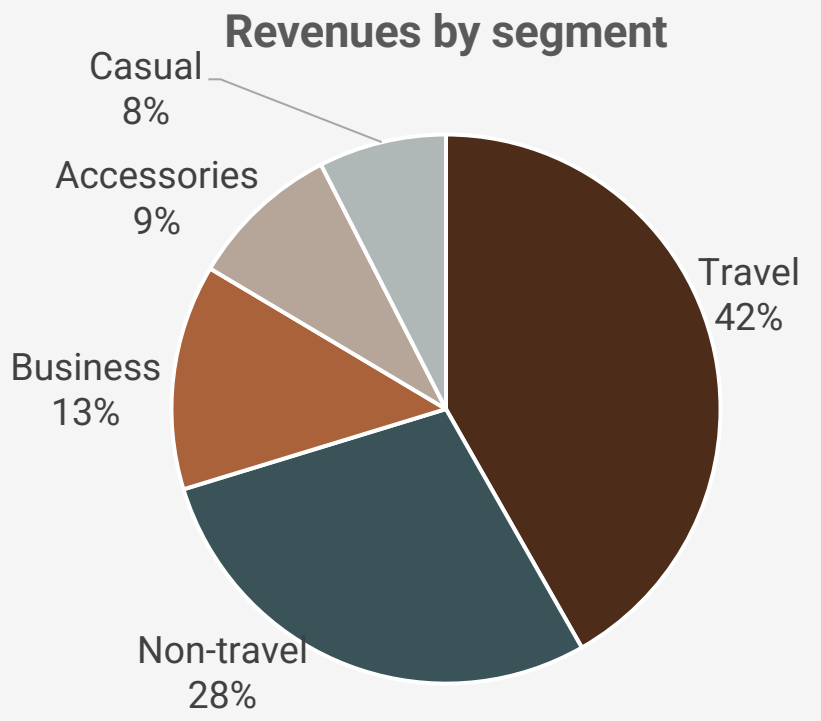
- Samsonite is an American, Hong Kong-listed company that produces travel bags. The company's global market share is around 17%, dwarfing its number two competitor LVMH, owner of Louis Vuitton and Rimowa.
- Its brand names include Samsonite, Tumi, American Tourister, etc. Samsonite and American Tourister focus exclusively on luggage, whereas Tumi also has a significant women's handbag and men's briefcase business.
- The company was founded in 1910 in Denver, Colorado. Today, it's a global decentralized organization with revenues from all corners of the world. Since 2011, Samsonite has been listed in Hong Kong, reflecting its reliance on the Asian market for growth.
- Most sales are to wholesale customers, representing close to 61% of the total.
- Samsonite outsources 90% of its production, while design and manufacturing R&D remains in-house. China continues to be the largest source of supply, though the company has been trying to diversify away to other manufacturing centres outside of China, including Vietnam.







# Segment split for pre-pandemic revenues



Source: Bloomberg

# The brand portfolio



Sams<sup>o</sup>nite



Colorado, US  
ASP: ~US\$200  
Mass / premium  
Global focus

TUMI



New Jersey, US  
ASP: ~US\$1,000  
Premium / luxury  
Global focus

AMERICAN  
TOURISTER



Rhode Island, US  
ASP: ~US\$150  
Value  
Global focus

GREGORY



Utah, US  
ASP: ~US\$300  
Premium technical  
Developed markets

HIGH SIERRA



Illinois, US  
ASP: ~US\$150  
Value  
Developed market

Lipault  
PARIS



Paris, France  
ASP: ~US\$200  
Mass fashion  
Developed markets

hartmann

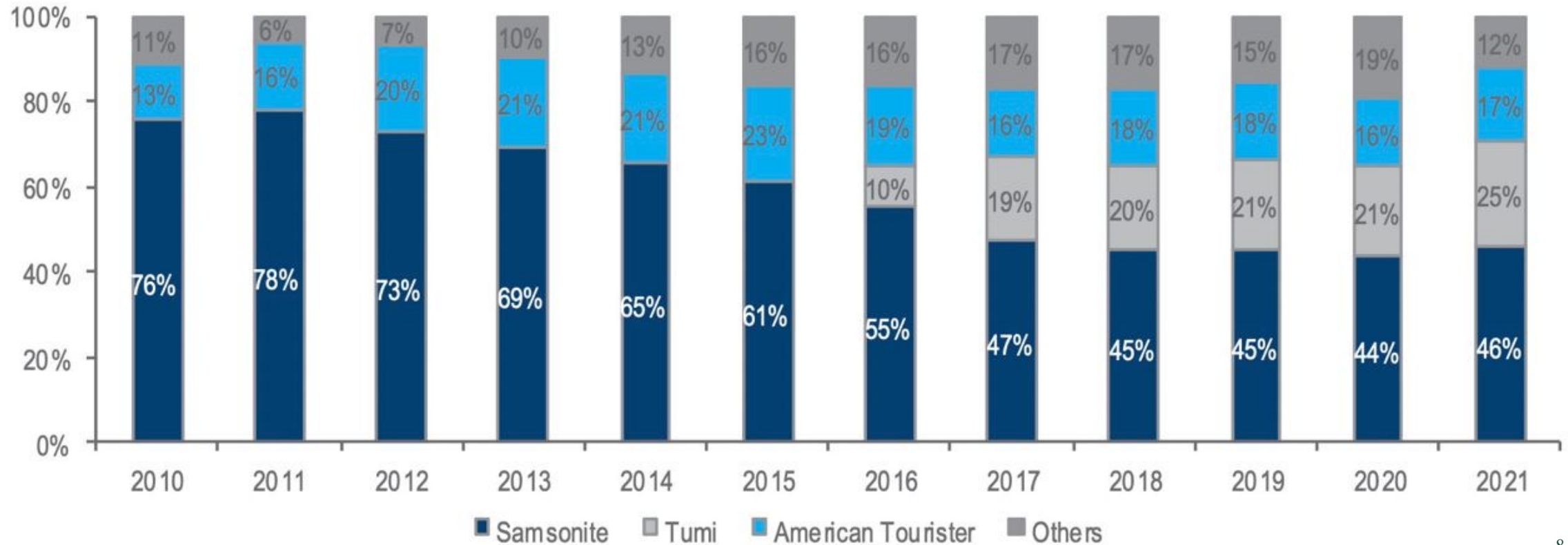


Wisconsin, US  
ASP: ~US\$1,000  
Luxury  
Developed markets

# Tumi is a growing brand while Samsonite and American Tourister are simply maintaining their share



## Samsonite: net sales contribution by brand



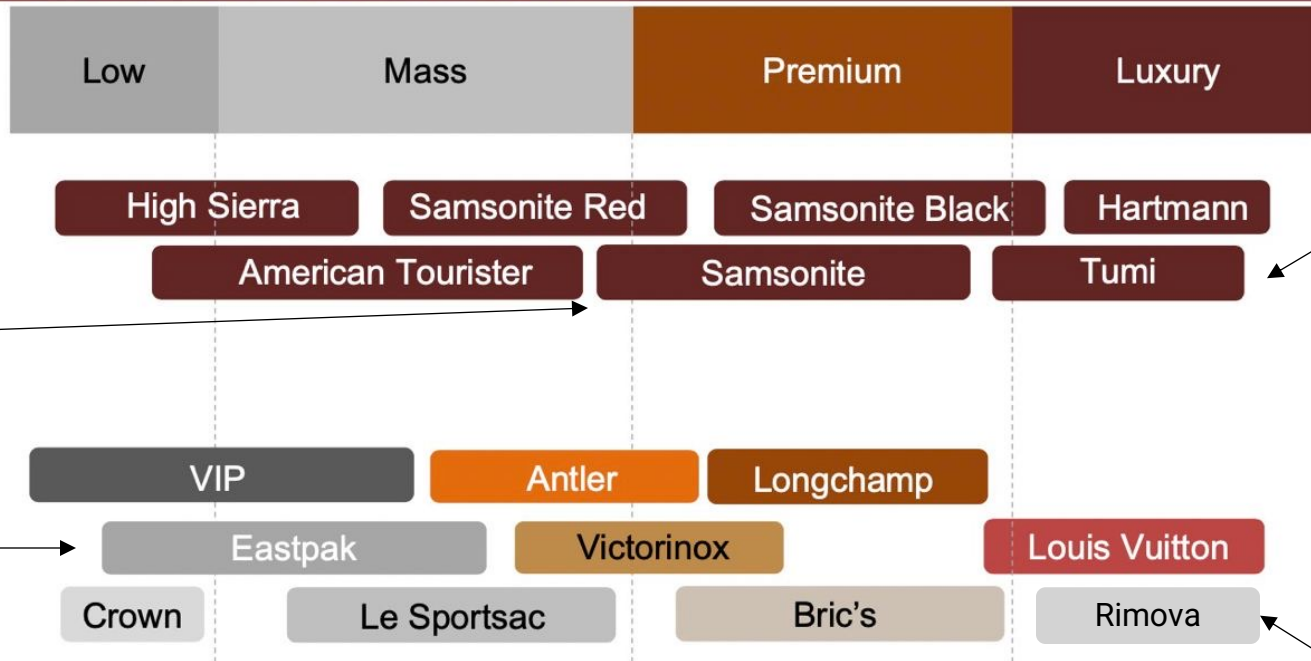
Source: Company, Daiwa



Samsonite Black, Tumi and Hartmann are premium brands.  
American Tourister and High Sierra are entry-level brands.



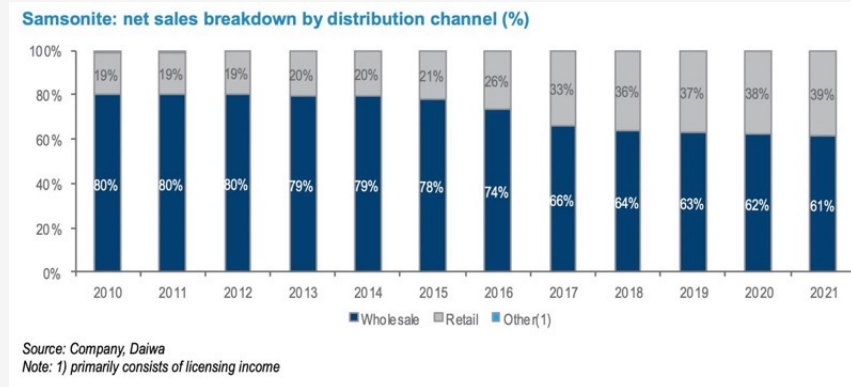
Figure 6: Positioning of Samsonite brands vs. others



Source: Corporate filings, CICC Research



# Samsonite is transitioning from a wholesale business to a direct-to-consumer brand. But the transition might be challenging.



- In the old days, Samsonite was the king of wholesale distribution. Roughly 2/3 of revenues comes from the wholesale business.
- Tumi's business, on the other hand, is direct-to-consumer and thus well-adapted to the new threat and opportunity from e-commerce. Direct-to-consumer (DTC) now represents roughly 1/3 of sales and is growing.
- As part of DTC business, Samsonite has close to 1,250 stores and access to almost 50,000 point of sales through third-party distributors. This is far above any of its peers.
- The acquisition of eBags in 2017 was meant to grow the DTC business, though the website has not performed well. Today, you can buy bags on any of Samsonite's brand websites as well as on other platforms such as Amazon and Tmall.
- The e-commerce business has the highest margins, then company operated stores and finally wholesale with the lowest margins.

# Typical Samsonite and Tumi stores



Source: Samsonite, Tumi

# Samsonite outsources almost all of its manufacturing, and has some exposure to the crude oil price



- The luggage are primarily of two types:
  - Soft luggages use fabrics such as nylon, polyester and vinyl
  - Hard luggages use plastic materials
- Samsonite outsourced 90% of production, only retaining in-house manufacturing for some hard luggages to protect intellectual property. It's therefore an asset-light business, with expenses more focused on R&D, marketing and distribution.
- They also use aluminium, steel, and leather across both of these types of luggages.
- Raw materials represents roughly 65% of the overall cost of goods sold, and the biggest factor in the raw materials price is the crude oil price.
- But the correlation between the crude oil price and the gross margin has historically been tenuous, at best.
- Only 45% of production is in China vs 84% in 2010, making it less exposed to the risk of the country's zero-COVID policy than many of its competitors.



*Soft luggage*



*Hard luggage*



# Samsonite has been owned by private equity firms on and off since the 1970s, often with a significant amount of debt.

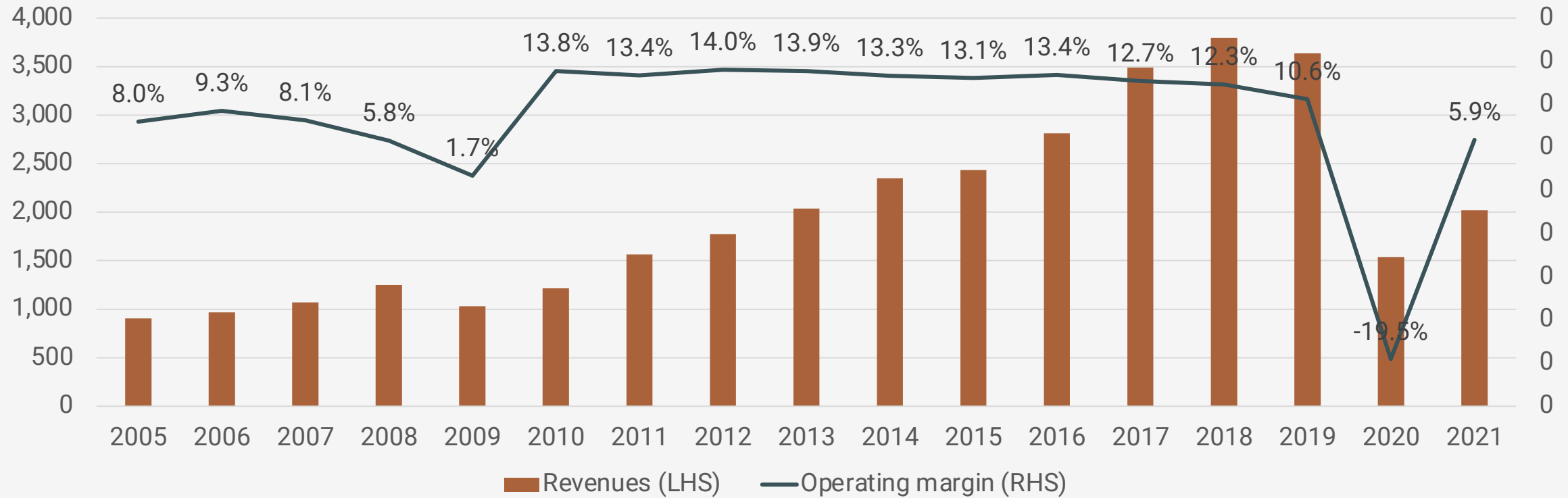


- Samsonite was founded in **1910** as a wooden trunk company by Jesse Shwayder in Denver, Colorado. The first Samsonite-branded luggage was launched in **1941**.
- The company remained family owned until the late **1970s** when it was sold to Beatrix. Its ownership then changed hands between KKR, CVC, Bain Capital and Ontario Teachers' Pension Plan.
- In **1993**, Samsonite acquired Rhode Island-based luggage brand American Tourister
- In **1994**, Samsonite listed on NASDAQ while controlled by Apollo. It was then delisted in 2002 after failing to meet the exchange's minimum listing requirements
- The first entry into the Asian market came in **1995** through a subsidiary in India, followed by Singapore, South Korea, Hong Kong, Thailand and China.
- In **2003**, a private equity group led by Ares recapitalized the Company as the business at the time was heavily indebted.
- Ares then sold Samsonite to UK private equity firm CVC for US\$1.7 billion in **2007**.
- **2008**, Samsonite launched its first product with the internally-developed Curv material
- In **2009**, Samsonite declared bankruptcy due weak sales during financial crisis and an US\$1.34 billion debt burden from CVC's privatization and CVC then listed the company on the Hong Kong Stock Exchange in **2011**.
- Further acquisitions came in **2012** with High Sierra and Hartmann, then **2014** with Speck, Gregory, Lipault and Rolling Luggage, Tumi in **2016** and finally eBag in **2017**
- From **2017**, after the US-China trade war broke out, Samsonite relocated sourcing from China to elsewhere
- In **2018**, Blue Orca wrote a report on Samsonite and CEO Tainwal resigned from the CEO position
- In **2020**, Samsonite suffered from the onset of the COVID-19 pandemic, and the impact it had on global travel





# Consistent growth until 2019



Source: TIKR

# Samsonite's management team



- Samsonite has a decentralised management structure with senior management team at the top and four regional management teams below (Asia, Europe, North America and Latin America). The regional divisions have great deal of autonomy with regards to product development, marketing, sourcing and distribution. On top of this, there's a separate team for Tumi in North America.
- Key management functions for the group such as finance, treasury and legal are managed centrally from the US.
- Samsonite's Chairman is **Timothy Charles Parker**. He has long experience as a CEO of Kenwood Appliances from 1989 to 1995, shoemaker Clarks from 1997 to 2002, car-repair firm Kwik-Fit from 2002 to 2004 and the Automobile Association from 2004 to 2007. He then joined as a director of UK private equity firm CVC Capital Partners. He is also Chairman of Post Office Limited and HM Courts and Tribunals Service. He's a British citizen who started his career as an economist at the British Treasury in the 1970s after degrees from Oxford and LSE.
- Samsonite's CEO is American citizen **Kyle Gendreau**. He's been on Samsonite's board since the IPO in 2011 and served as CEO following Ramesh Tainwala's resignation in 2018. Prior to his current position, he was the CFO for the group under Tainwala. He joined Samsonite as a Vice President of Corporate Finance and previously worked for start-up Zoots, Specialty Catalog Corporation and Cooper & Lybrand. He's an American citizen and a CPA, with a university degree from Stonehill College in Easton, Massachusetts.
- CFO **Reza Taleghani** joined Samsonite from Brightstar, a telecom business where he was CFO as well. Prior to that, Taleghani worked in investment banking and asset management at JP Morgan. He has a bachelor's degree from Brown University and a JD / MBA from Villanova University.



*Timothy Charles Parker*

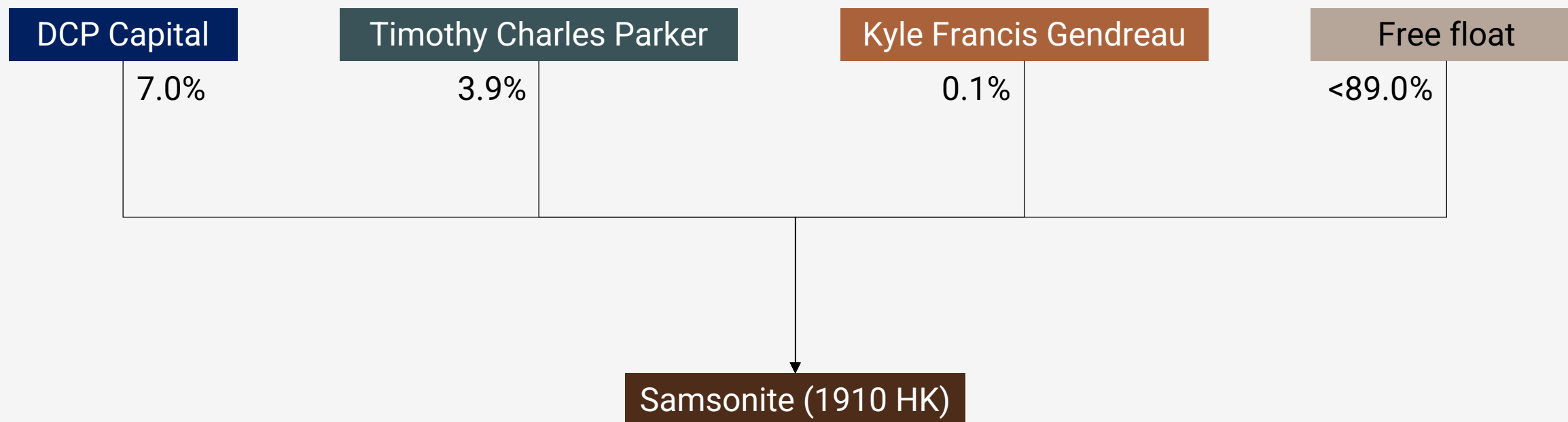


*Kyle Gendreau*



*Reza Taleghani*

Tim Parker is the single individual with the most influence on the group's overall strategy

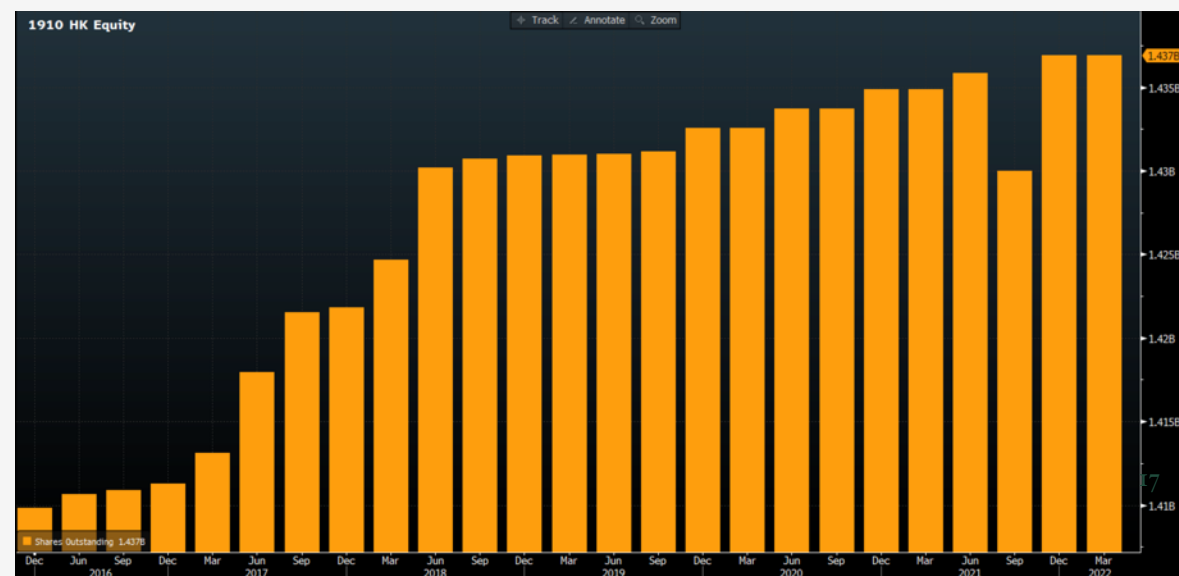




# Capital allocation and corporate governance

- The 2011 IPO was a mix of primary and second shares whereas the the 2012-13 issues were all sell-downs by CVC, NatWest and Sunset SARL.
- CVC no longer shows up as a major shareholder
- Samsonite was extremely acquisitive in the period immediately following its IPO in 2011, including the following companies at a median EV/Sales of 2.4x:
  - High Sierra for US\$110 million in 2012 at 1.5x sales
  - Hartmann for US\$35 million in 2012 at 2.3x sales
  - Speck for US\$85 million in 2014 at 0.7x sales
  - Gregory for US\$85 million in 2014 at 2.5x sales
  - Tumi for US\$1.8 billion in 2016 at 2.7x sales
  - eBags for US\$105 million in 2017 at 2.5x sales
- Since Tainwala's resignation in 2018, Samsonite has stopped acquiring other companies, and the share count has only increased 0.1% per year.
- The new CEO has even started selling loss-making assets, e.g. Speck in 2021, which lost \$30 million per year.

Effective Action Type	Ticker / ID	Summary
07/30/21 Divestiture	1910 HK	Unit: Speculative Product Design LLC, Seller: Samsonite International SA
01/23/18 Divestiture	1910 HK	WITHDRAWN - Unit: Speculative Product Design LLC, Seller: Samsonite International SA
10/04/17 Acquisition	1910 HK	Target: eBags Inc, Sought: 100.00%
08/02/16 Acquisition	1910 HK	Target: Tumi Holdings Inc, Sought: 100.00%
09/30/15 Acquisition	1910 HK	Target: Chic Accent, Sought: 100.00%
02/16/15 Acquisition	1910 HK	Target: Business & assets of Rolling Luggage, Sought: 100.00%
12/11/14 Acquisition	1910 HK	Target: Speck Products, Sought: 100.00%
07/23/14 Acquisition	1910 HK	Target: Gregory Mountain Products LLC, Sought: 100.00%
05/28/14 Acquisition	1910 HK	Target: Speculative Product Design LLC, Sought: 100.00%
04/01/14 Acquisition	1910 HK	Target: Multiple, Sought: 100.00%
03/25/13 Equity Offering	1910 HK	INTL Equity Offering: ADDL
01/14/13 Equity Offering	1910 HK	INTL Equity Offering: ADDL
09/17/12 Equity Offering	1910 HK	INTL Equity Offering: ADDL
08/02/12 Acquisition	1910 HK	Target: HL Operating Corp, Sought: 100.00%
07/31/12 Acquisition	1910 HK	Target: Substantially all assets, Sought: 100.00%
04/11/12 Equity Offering	1910 HK	INTL Equity Offering: ADDL
06/16/11 Equity Offering	1910 HK	INTL Equity Offering: IPO



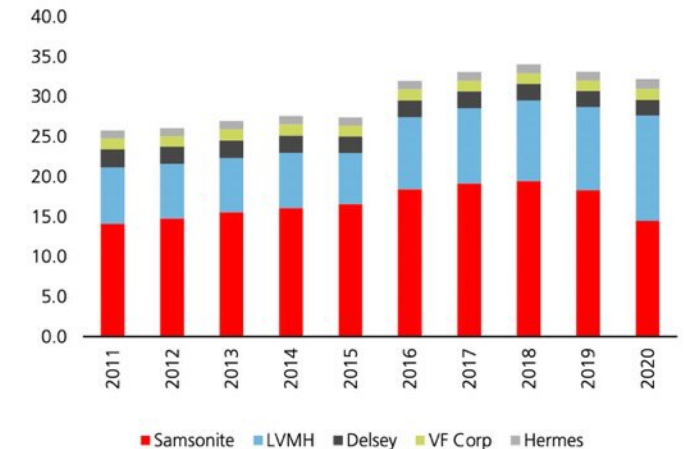
Source: Bloomberg

# Competitive advantages



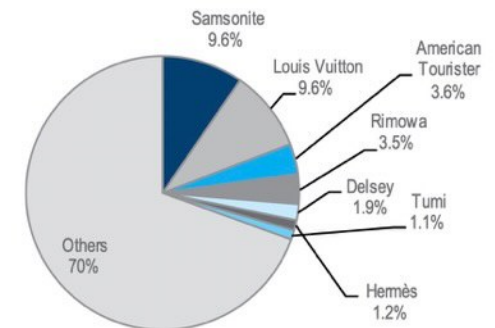
- **Brand name:** Samsonite is the largest luggage company in the world with a 15% combined market share, and the “Samsonite” and “Tumi” brand names have incredible consumer mindshare across the world. These brand names reduce risk for the customer as they rely on the brand name to assess quality. In Tumi’s case, the brand name might also be used to show off the buyer’s wealth or fashion sense. Perhaps the only comparable brand names are LVMH’s Rimowa in the luxury segment and TravelPro and Away Travel in the premium segment.
- **Economies of scale:** It’s possible that scale in product development might help reduce cost and maintain high margins, as those are divided across greater volume.
- **Distribution network:** Samsonite’s distribution network is unparalleled, especially in the wholesale business with access to 50,000 points of sales. While some of the business is moving online, it still represents a comparative advantage for the company.

Global Market Share in luggage market (%)



Source: UBS

Global luggage market share by brand (2020)



Source: Euromonitor, Daiwa



The top-20 selling luggage brands on Amazon include 5 Samsonite bags. Samsonite is probably doing quite well online thanks to its brand name.



1. Rockland Melbourne Hardside Expandable Spinner Wheel Luggage, Black, 2-Piece Set (20/28)
2. COOLIFE Luggage 3 Piece Set Suitcase Spinner Hardshell Lightweight TSA Lock 4 Piece Set
3. Rockland Fashion Softside Upright Luggage Set, Black, 2-Piece (14/19)
4. Samsonite Winfield 2 Hardside Luggage with Spinner Wheels, Brushed Anthracite, 2-Piece Set (20/24) (\$154)
5. U.S. Traveler Rio Rugged Fabric Expandable Carry-on Luggage Set, Black, 2 Wheel
6. SHOWKOO Luggage Sets Expandable Suitcase Double Wheels TSA Lock (ArmyGreen)
7. Simple Houseware 43-Inch Heavy Duty Garment Bag w/Pocket for Dresses, Coats
8. Beach Bag, F-color Mesh Beach Bag Oversized Beach Tote 9 Pockets Beach Toy Bag
9. Samsonite Freeform Hardside Expandable with Double Spinner Wheels, Navy, 2-Piece Set (21/28) (\$199)
10. Samsonite Omni PC Hardside Expandable Luggage with Spinner Wheels, Black, 2-Piece Set (20/24) (\$157)
11. Travelers Club Sky+ Luggage Set, Black, 3 Piece
12. Samsonite Omni 2 Hardside Expandable Luggage, Lagoon Blue, 2-Piece Set (20/24) (\$170)
13. SwissGear Sion Softside Luggage with Spinner Wheels, Black, 3 Piece Set (21/25/27)
14. Travelpro Maxlite 5 Softside Expandable Luggage with 4 Spinner Wheels, Lightweight Suitcase, Men and Women, International, Azur
15. Coolife Luggage Expandable(only 28") Suitcase PC+ABS Spinner Built-In TSA lock 20in 24in 28in Carry on
16. Amazon Basics 2-Piece Set Hardside Spinner, Black
17. Samsonite Winfield 2 Hardside Expandable Luggage, Cactus Green, 2-Piece Set (20/24) (\$210)
18. Kenneth Cole Reaction Out Of Bounds 2-Piece Lightweight Hardside 4-Wheel Spinner Luggage Set: 20" Carry-On & 28" Checked
19. Explore Land Travel Luggage Cover Suitcase Protector Fits 18-32 Inch Luggage
20. U.S. Traveler Aviron Bay Expandable Softside Luggage with Spinner Wheels, Black, 2-Piece Set (23/31)



*Winfield 2*



*Freeform*



*Omni PC*



*Omni 2*

# Review website Wirecutter's top cabin luggages include Travelpro, Away Travel and Briggs & Riley luggage but no Samsonite or Tumi



## Our pick



### Travelpro Platinum Elite 21" Expandable Spinner

**Great carry-on luggage, great value**

This spinner carry-on offers the best balance of size, value, reliability, and durability, with high-end details. It's backed by a lifetime warranty.

**\$370\* from Amazon**

**\$370 from Travelpro**

May be out of stock

\*At the time of publishing, the price was \$227.



## Upgrade pick



### Briggs & Riley Baseline Domestic Carry-On Expandable Spinner

**A carry-on that fits more in less**

This carry-on bag offers superlative build quality, plenty of expandable room, and a uniquely effective compression system. It's a buy-it-for life suitcase.

**\$649\* from Amazon**

\*At the time of publishing, the price was \$579.



## Also great



### Away The Carry-On

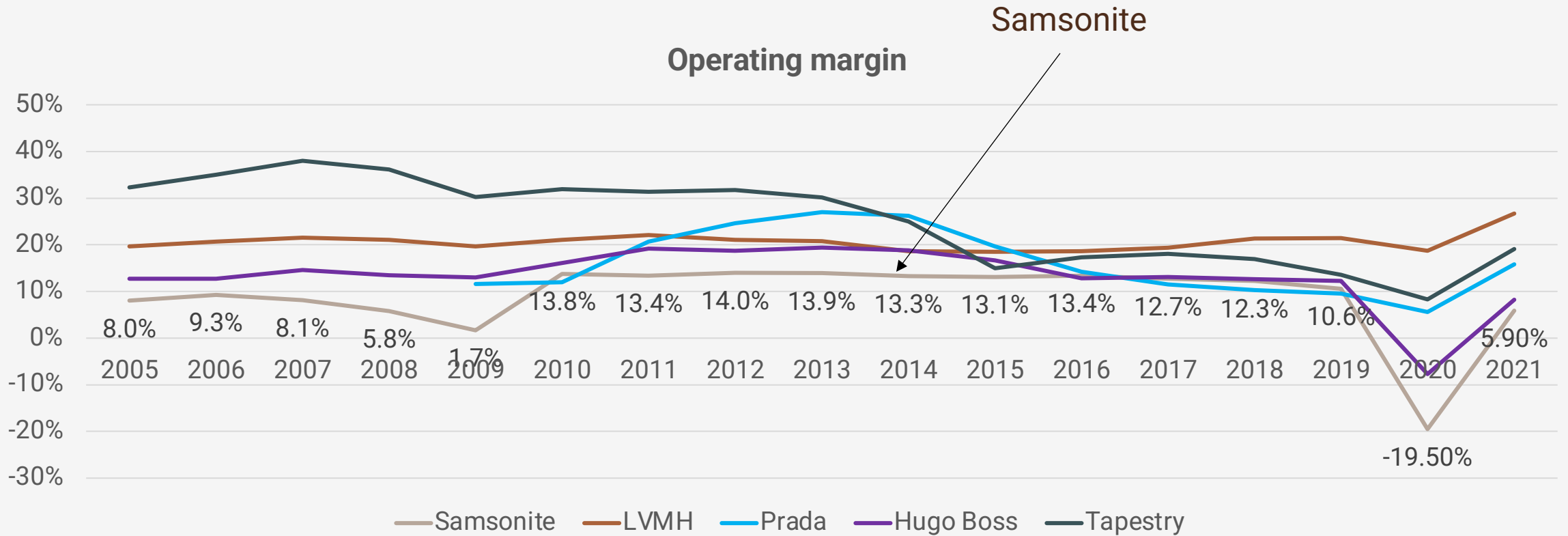
**The best hard-sided carry-on**

This great-looking and relatively resilient piece of hard-sided luggage has top-of-the-line components—including YKK zippers and wheels as smooth-rolling as any we've tested.

**\$275 from Away**

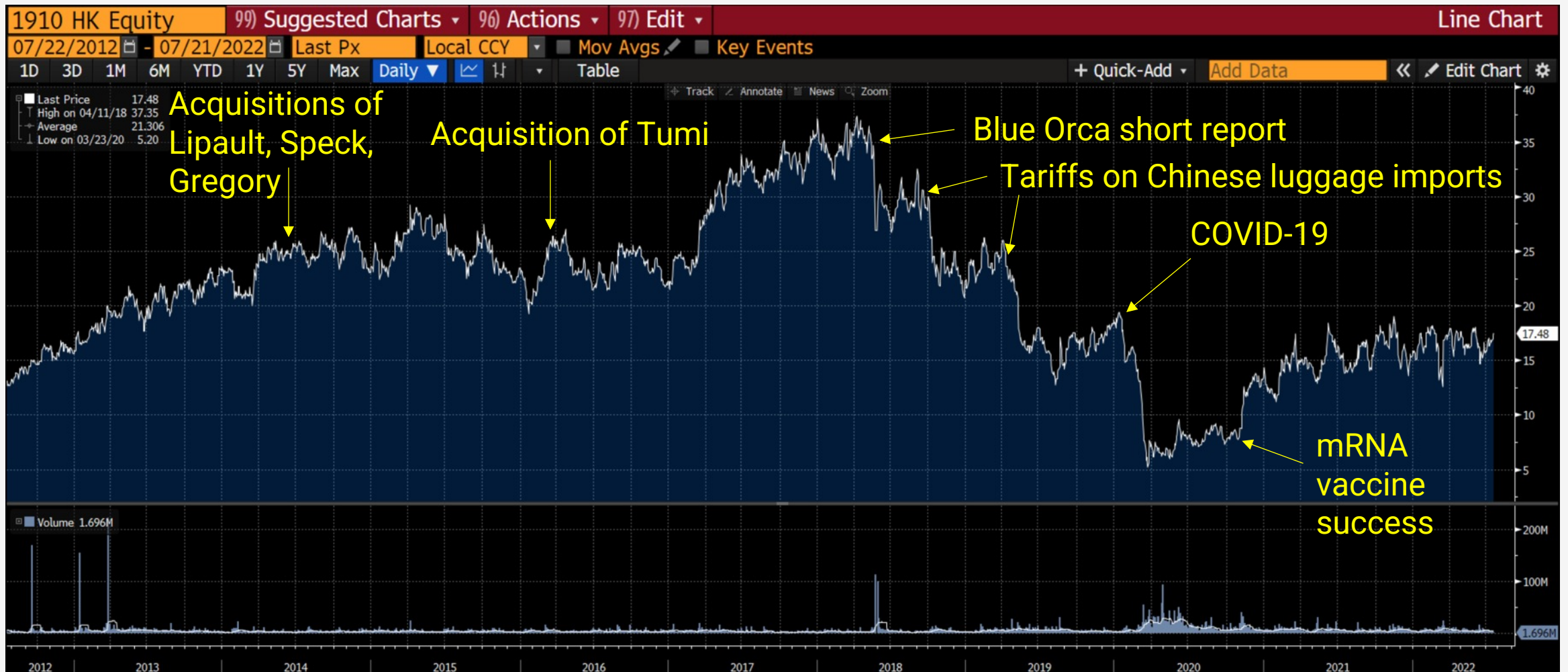


# Samsonite's margins have been average, at best



Source: TIKR

# Samsonite's share price has been battered by Blue Orca's short call, the US-China trade war and COVID-19



Source: Bloomberg



# What went wrong?



- **Aggressive accounting, as highlighted by Blue Orca:** Short-seller Blue Orca released a report on Samsonite in 2018 criticizing then-CEO Tainwala of engaging in related party transactions with the ListCo and faking his CV. There were also minor instances of purchase price accounting irregularities, i.e. boosting earnings through post-M&A kitchen sinks. These allegations were broadly accurate, in my view.
- **Chinese tariffs:** US tariffs on Chinese travel goods of 25% from 2018 to 2019 caused producers to increase prices and volumes to drop.
- **COVID-19:** In early 2020, international travel ground to a halt due to the spread of COVID-19. It was driven partly by border closures and partly by caution on the part of travellers out of fear of the pandemic.



Source: Tumi



# Blue Orca's report made the following arguments:



1. **Purchase price accounting:** After Samsonite acquired Tumi in 2016, it wrote up its trade payables balance in an effort to reduce future expenses. Conversely, after Samsonite acquired several Asian distributions in 2017, it wrote down its inventory, reducing future COGS. There seems to be some merit to this allegation.
2. **Significant zero-margin inventory:** In 2017, Samsonite carried 42% of its inventory at net realizable value (=below cost), suggesting low future margins. They wondered how margins could hold up if inventory was valued below cost. In 2021, roughly US\$40 million in inventory was valued at net realizable value, about 12% of the total, so this problem has almost gone away.
3. **CEO resume fraud:** Former CEO Ramesh Tainwala claims to have a doctorate degree, which Blue Orca confirmed not to be the case. Mr Tainwala therefore resigned from Samsonite in 2018 as he lost the board's support.
4. **Red flags at South Asian JV and related party transactions:** Samsonite had a 60/40 JV with the former CEO Tainwala's family called Samsonite South India. It engaged in related party transactions with other family owned entities such as Bagzone and Abhishri Packaging. Blue Orca felt there was a lack of oversight, and also commented on the fact that auditor Spark & Co was a no-name auditor brand.
5. **Manual journal entries:** In 2017, then-auditor KPMG noticed manual journal entries recording transactions at year-end, and Blue Orca felt that this suggested weak internal controls.
6. **High valuation:** At the peak, Samsonite traded at 12x EV/EBITDA which compared to Hugo Boss's 11x, Tapestry's 10x, Prada's 17x, Kering's 16x and LVMH's 17x. Blue Orca felt 12x was too high since Samsonite is a mass-market brand. I personally don't think 12x it out of the norm at all.

Source:

<https://static1.squarespace.com/static/5a81b554be42d6b09e19fc09/t/5b16ade38a922d0c6b5473b8/1528212972487/Blue+Orca+-+Short+Samsonite+%28HK+1910%29.pdf>



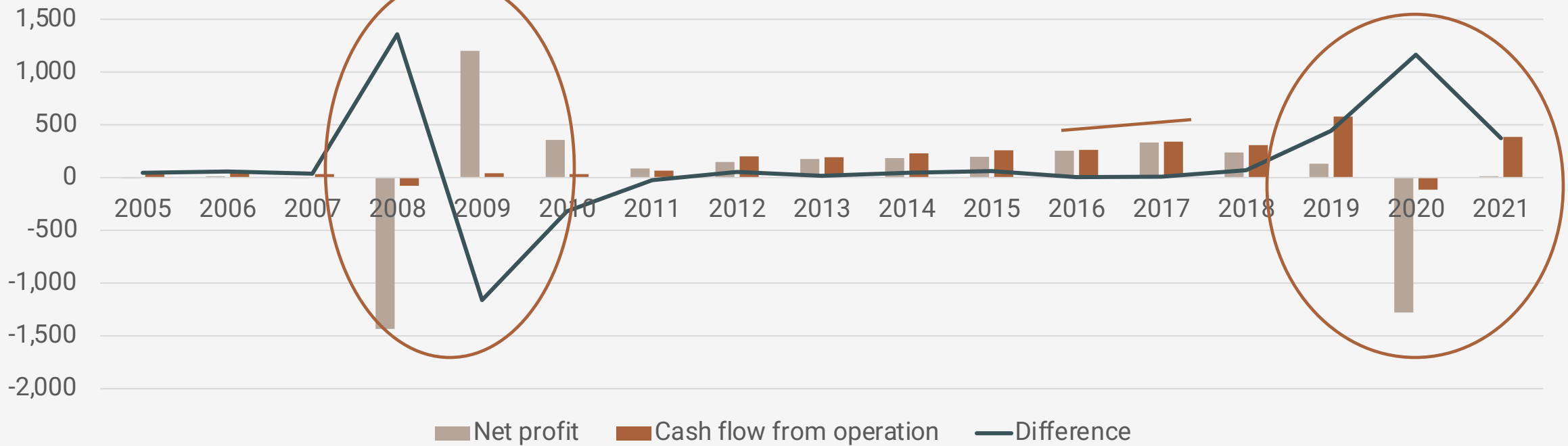
Soren Aandahl from Blue Orca Capital



Cash flow should ordinarily be > net income. There has clearly been some manipulation of earnings, with significant impairments in 2019/2020.

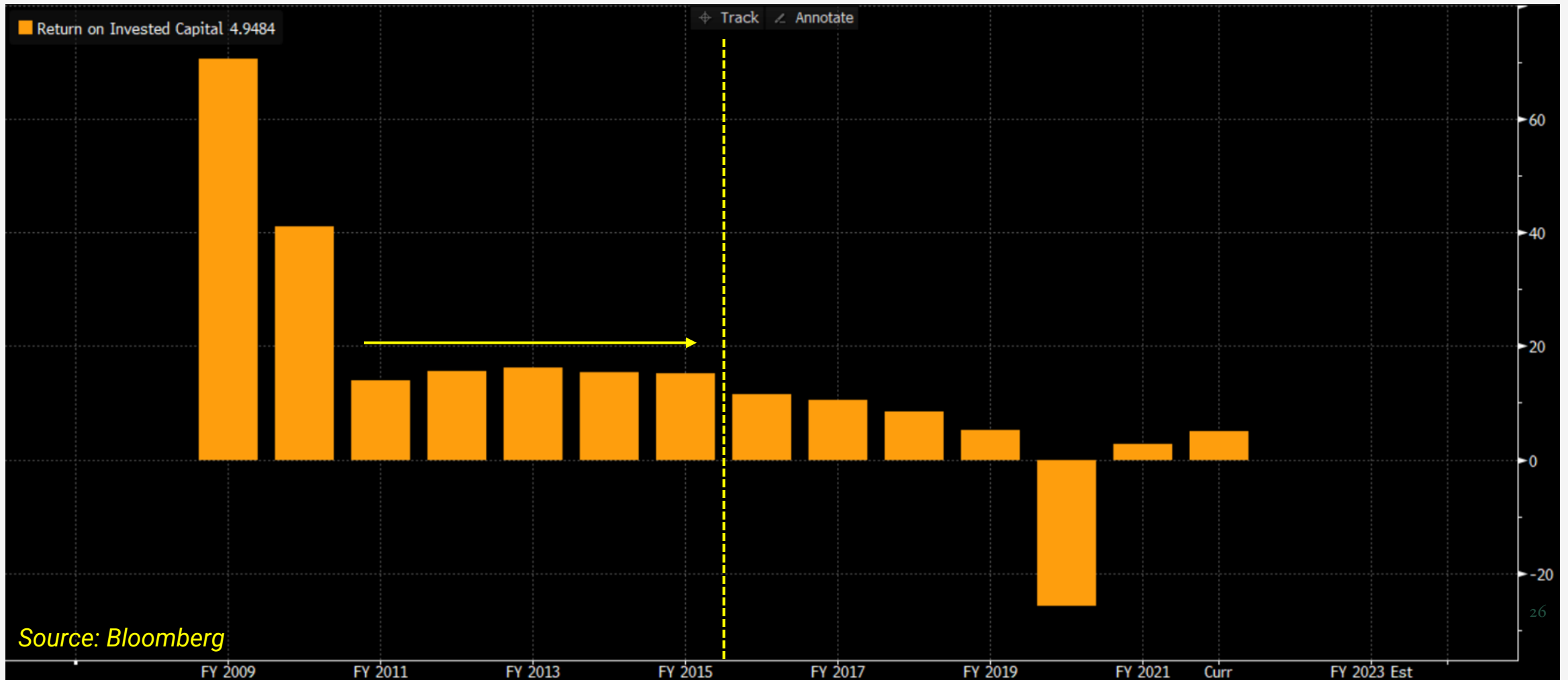


Cash flow vs net profit



Source: TIKR

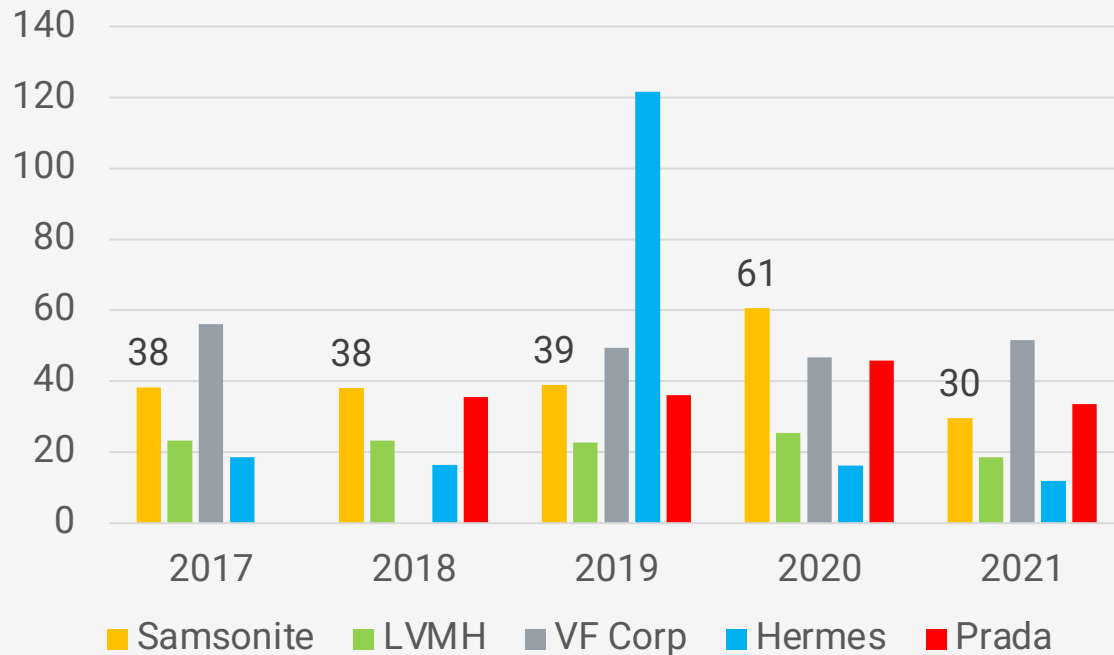
# Weakening ROIC from 2016 suggest some earnings manipulation



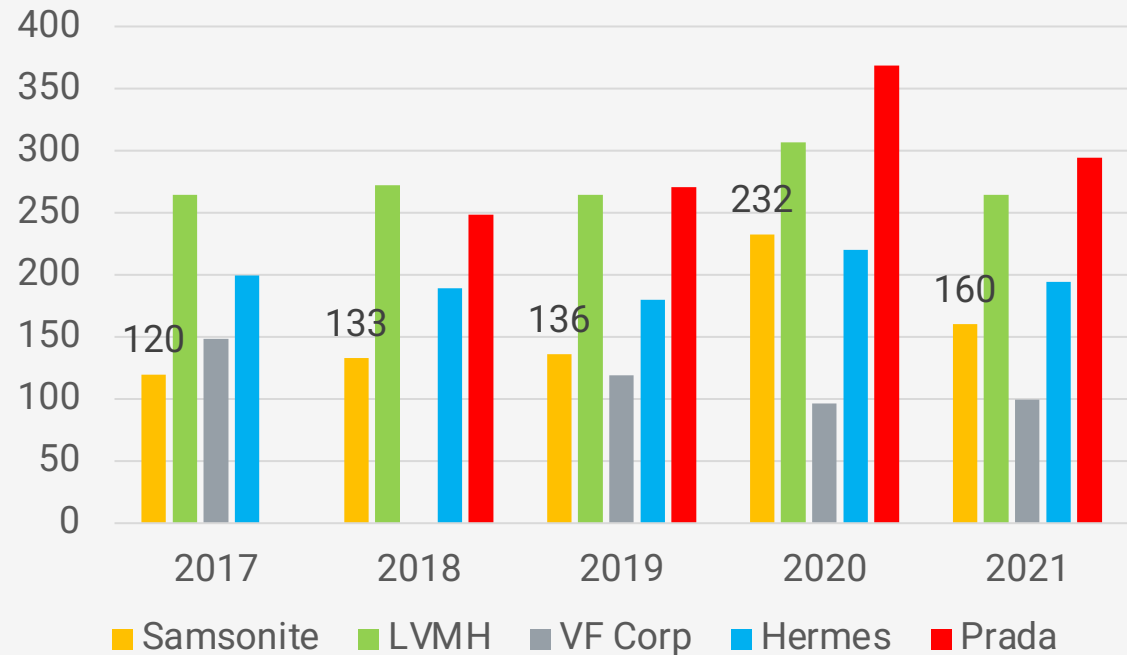
Samsonite's working capital levels do not seem problematic... though we don't know how inventories look like at the distributor level



Receivable days



Inventory days

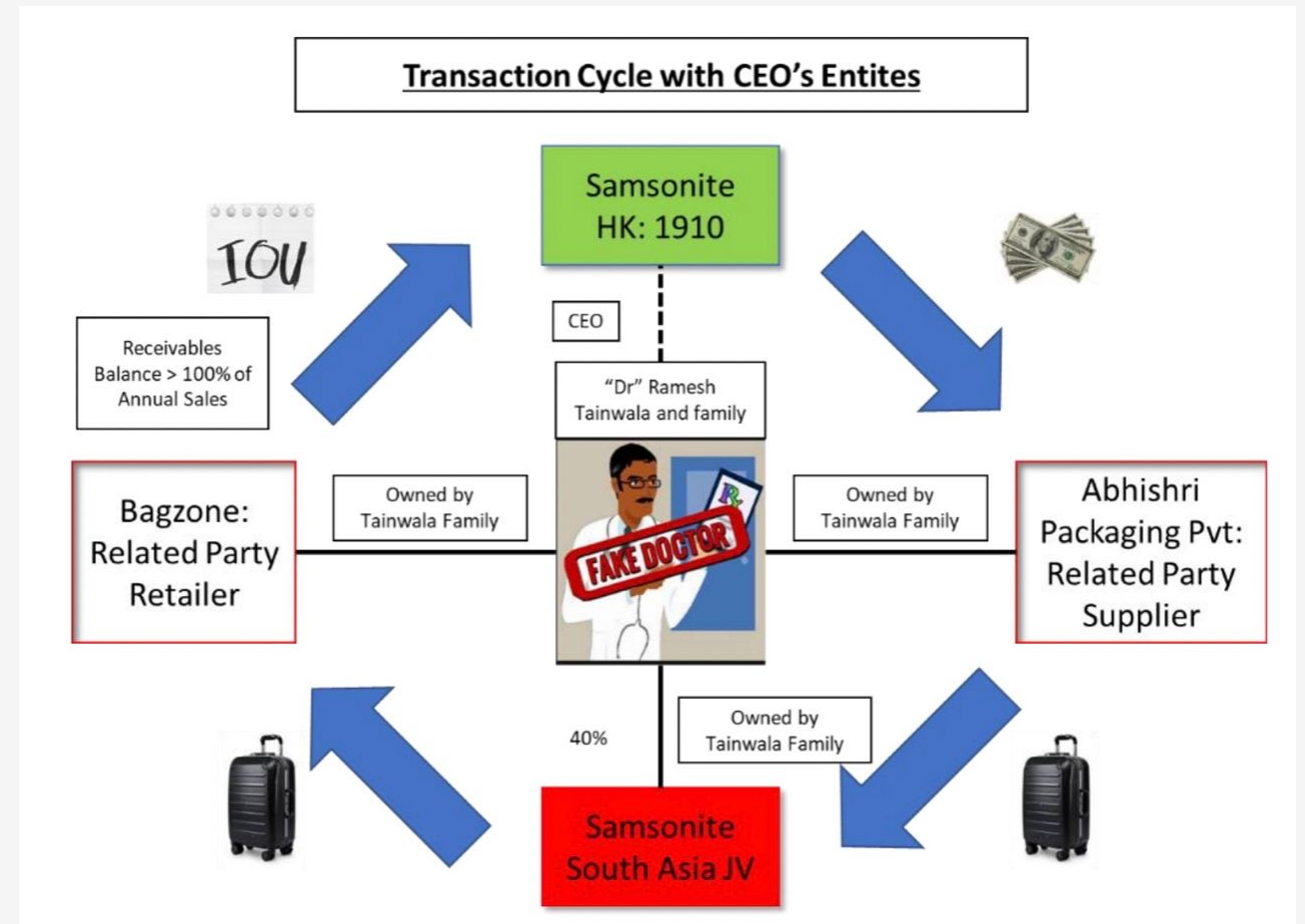


Source: TIKR

# Related party transactions with the Tainwala Group are nowadays minuscule but his presence in the group remains



- Blue Orca correctly pointed out the significant conflicts of interest inherent in then-CEO Tainwala controlling both the ListCo, 60/40 JV Samsonite South Asia and fully-controlled suppliers and retailers Abhishri Packaging and Bagzone.
- Tainwala continues to hold 40% of Samsonite South Asia.
- Further, Samsonite continues to do business with Tainwala's Abhishri Packaging until at least 31 December 2022.
- Samsonite also continues to sell products to Bagzone's two retail stores in India.
- The aggregate consideration paid by Tainwala to Samsonite in 2021 was minuscule at just US\$0.3 million. There's a cap at maximum US\$0.85 million for 2022.
- It's annoying that Samsonite has not cut its ties with the verifiably dishonest Ramesh Tainwala, but his small presence in the group is not a deal breaker.



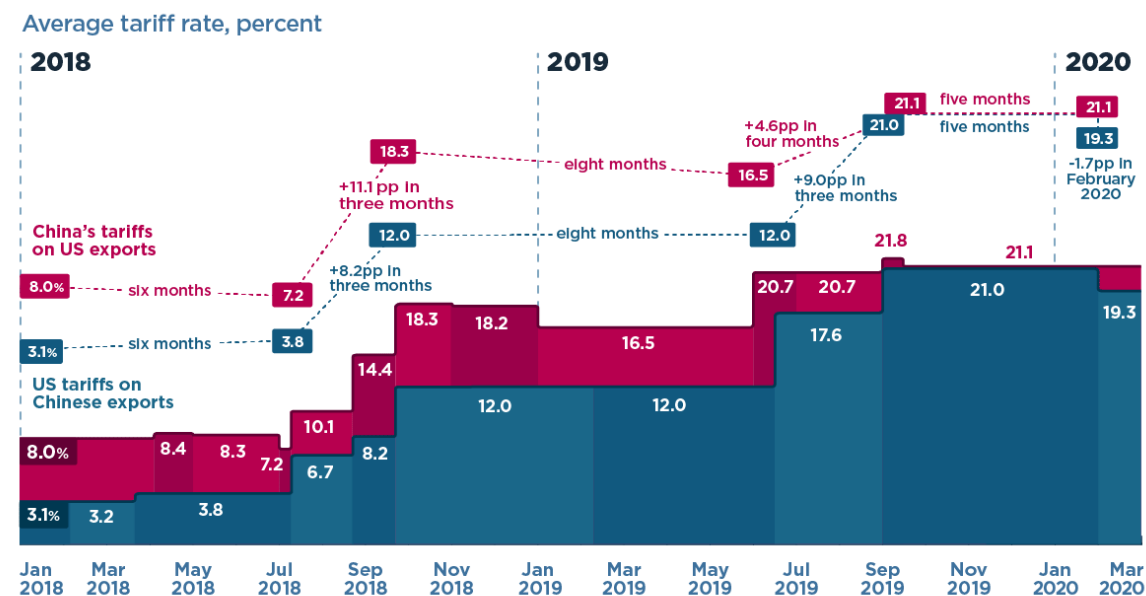




# The tariffs on Chinese goods hurt Samsonite badly

- The US-China trade war increased tariffs on Chinese goods in the “travel goods” category to 10% in 2018 and then 25% in May 2019.
- A tariff of 25% necessitates a 10% price hike to maintain margins. So a certain market share loss and / or weaker margins was close to certain. US sales of luggage dropped in the single digits in 2019, despite a 6% price rise.
- Since Samsonite produced 85% of its products in China at the time and almost 40% of sales came from the US, the company was hit hard by the tariffs. Since then, Samsonite has moved production out of China with only 45% left today.
- US President Biden is now considering whether to cut tariffs on Chinese goods, spurred on by Treasury secretary Janet Yellen who is in favour.

## US-China Trade War Tariffs: An Up-to-Date Chart



#PIIECharts

Learn more at [piie.com/research/piie-charts](https://www.piie.com/research/piie-charts)



pp = percentage point; MFN = most favored nation

Note: Trade-weighted average tariffs computed from product-level (6-digit Harmonized System) tariff and trade data, weighted by exporting country's exports to the world in 2017.

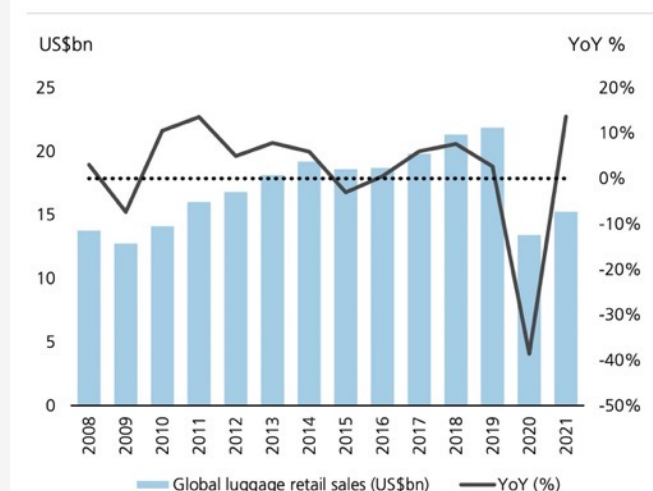
Source: Updated on December 13, 2019, with data available in Chad P. Bown's forthcoming blog post on the latest US-China trade development.



# Long-term industry trends

1. The luggage market is a subset of the broader bags market, which is dominated by women's handbags.
2. Prior to COVID-19, global luggage sales was growing around 5-7% per year on a secular basis. Much of this growth came from the Asian regions, and especially China as outbound tourism took off.
3. But Samsonite has 2/3 of its sales from mature markets such as North America, Europe and Japan, causing its growth profile to be closer to low single digits for the top-line.
4. COVID-19 hit luggage sales hard, down roughly 40% in 2020 but there's been recovery in North America, Latin America and Europe. Asia has been lagging until now, with some positive trends in Southeast Asia and negative trend in China due to its renewed lockdowns.
5. Total revenue passenger-kilometre (RPK) is currently down -15% for the US, and -36% for Europe and -71% for Asia. The trajectory is positive for all regions except Asia.
6. Most of luggage sales is for leisure customers, whereas before the pandemic, business only accounted for 11% of international inbound tourism.

Figure 15: In 2021, global luggage retail sales were US \$15bn, up 14% YoY and around 70% of pre-COVID levels



Source: UBS

Source: Euromonitor

Total Market – Revenue Passenger-Kilometers (RPKs) – comparison to same month in 2019



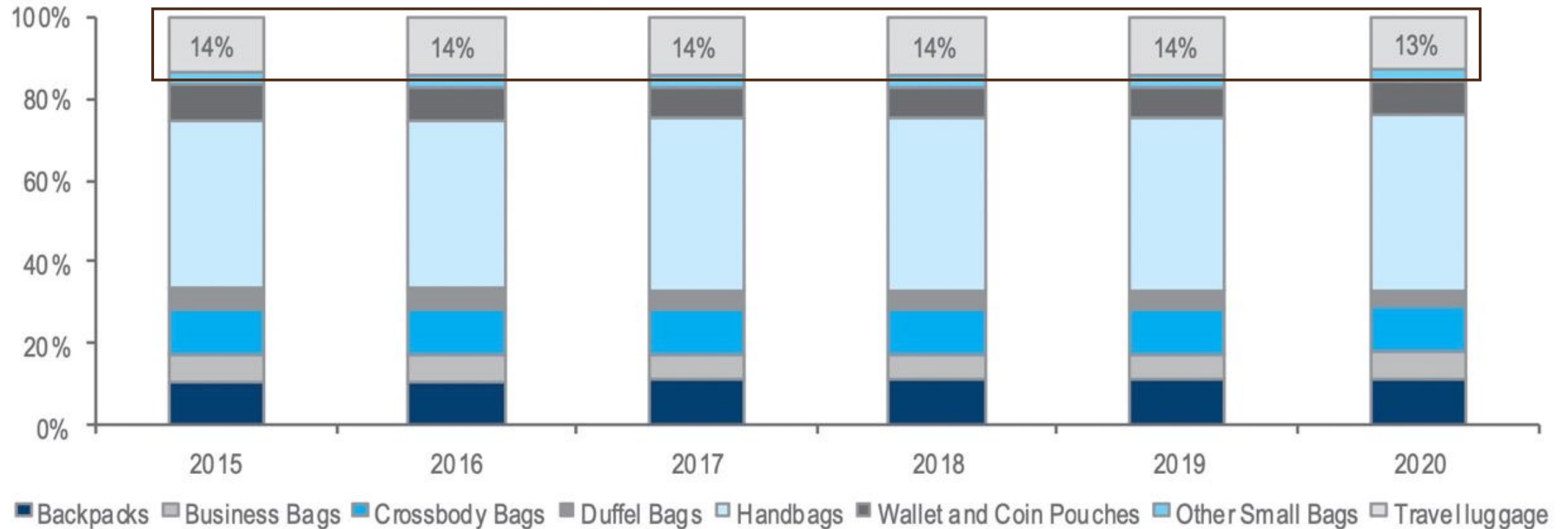
Source: IATA Monthly Statistics

Source: IATA, Samsonite

Before COVID-19, the travel luggage market had a stable share of the broader global bag market



Global bags and luggage market by category

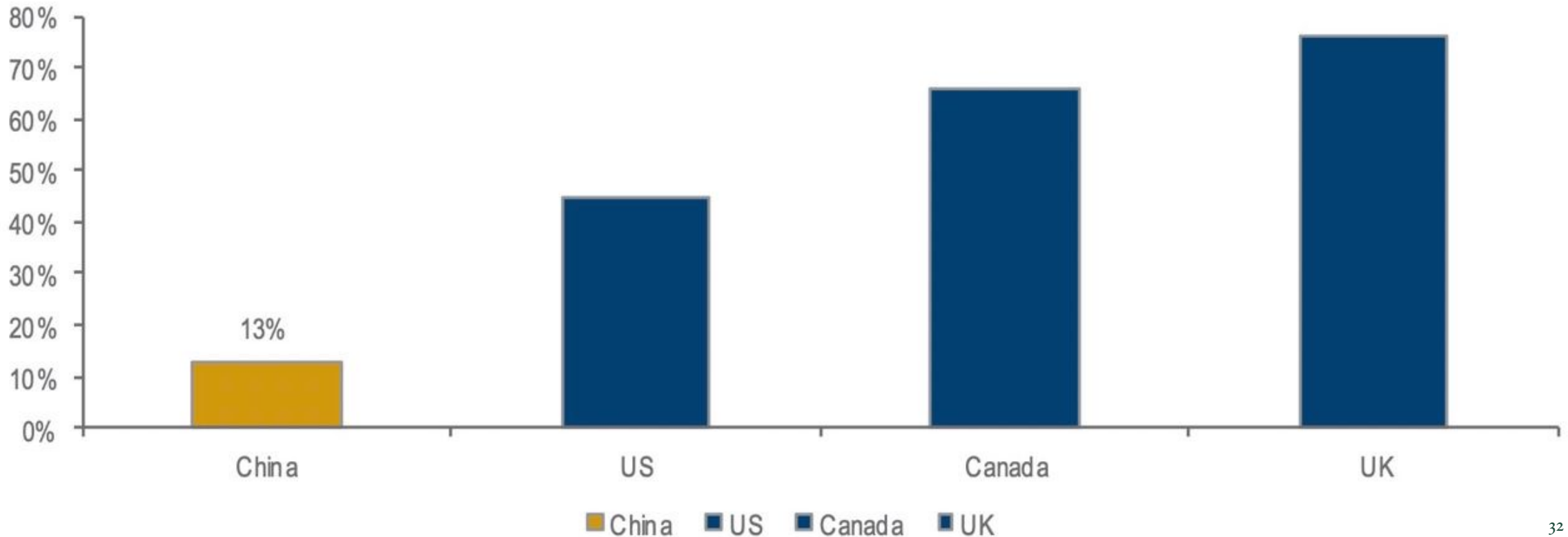


Source: Euromonitor, Daiwa

The Chinese outbound travel opportunity is massive... but I have great doubt that outbound tourism will ever recover completely



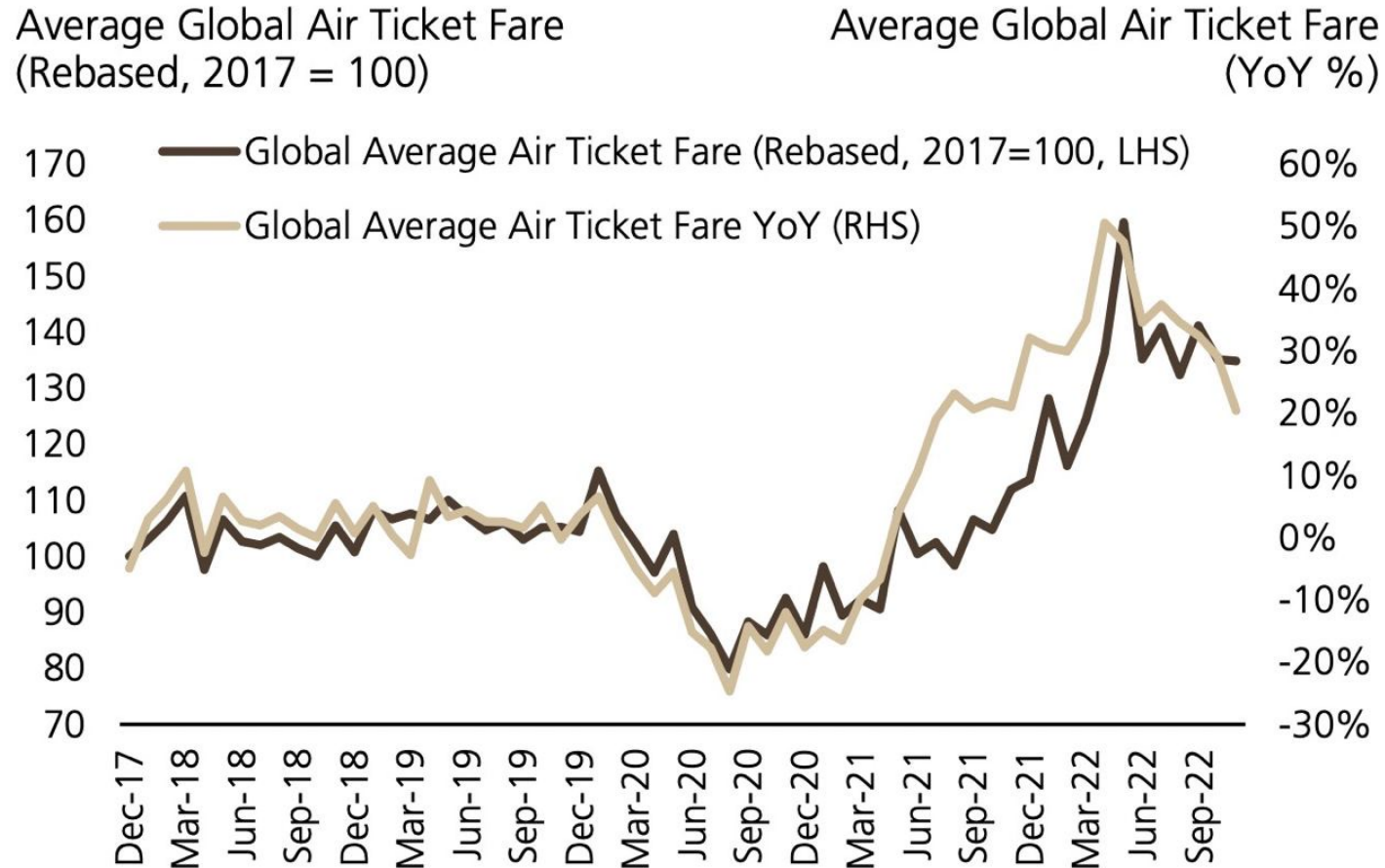
Passport holders as % of total population by 2019



Source: Government data

Source: Daiwa

Air ticket fares have shot up, hurting the recovery. Part of the culprit is prices for jet fuel. But also a temporary lack of manpower, including pilots.



Source: UBS

# What will change for Samsonite in the future?



1. The biggest single factor for Samsonite will be the recovery in global air travel, both domestic and international. IATA forecasts overall traveller numbers to reach 4 billion in 2024, exceeding pre-pandemic levels by a few per cent.
2. Global tourist arrivals are now recovering in most regions, although somewhat slowly. They reached 44% of pre-COVID levels in March 2022 and almost completely in the key markets of North America and Europe. The only lagging region is Asia, where the Chinese government persists with its zero-COVID policy leading to recurring lockdowns and a closed border. China's borders may not open up but domestic tourism could recover even in a scenario of prolonged border closures.
3. In 2020, Samsonite undertook a serious cost-cutting program, laying off over 1/3 of its total employees and closing down 260 stores, and renegotiating leases on another 200 stores.
4. Samsonite made EBITDA a little bit above US\$600 million before the pandemic. With the cost-cutting program of >US\$200 million, expect full-recovery EBITDA to go well above US\$600 million.
5. Management is guiding that M&A will not be probable in the near future. Dividends will be reinstated at some point around 40-50% of EPS. The company is now preparing to meet rising demand through inventory accumulation.

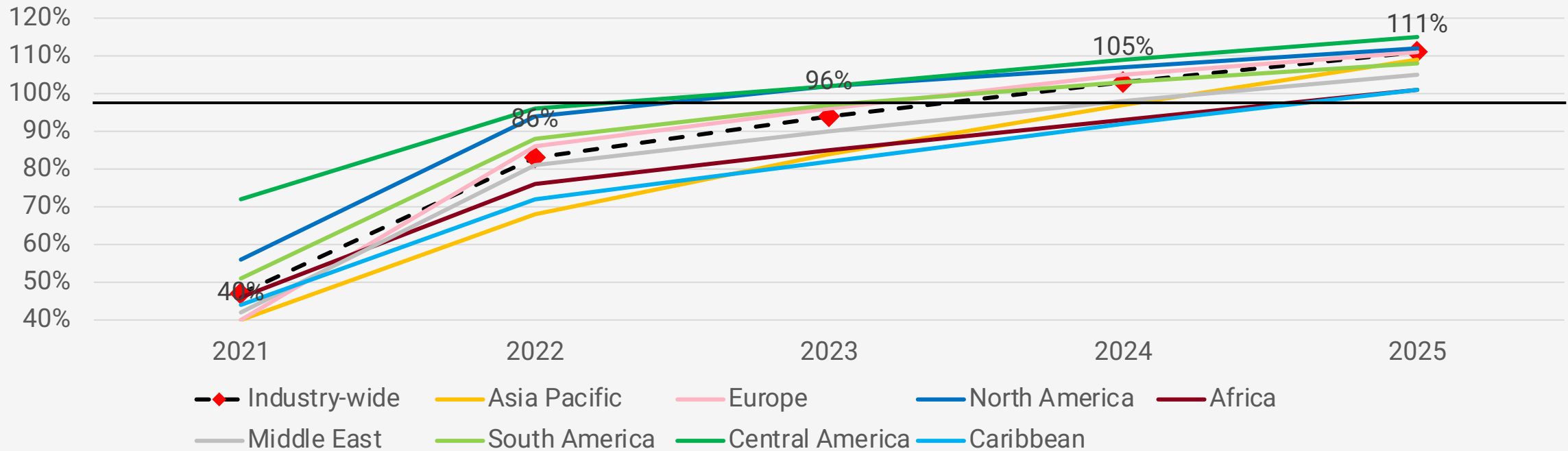




# IATA expects full recovery in passenger volumes by 2024



### Global passenger numbers vs the 2019 baseline



Source: IATA

# Samsonite's guidance is emphasizing the need to meet the demand from rising air travel

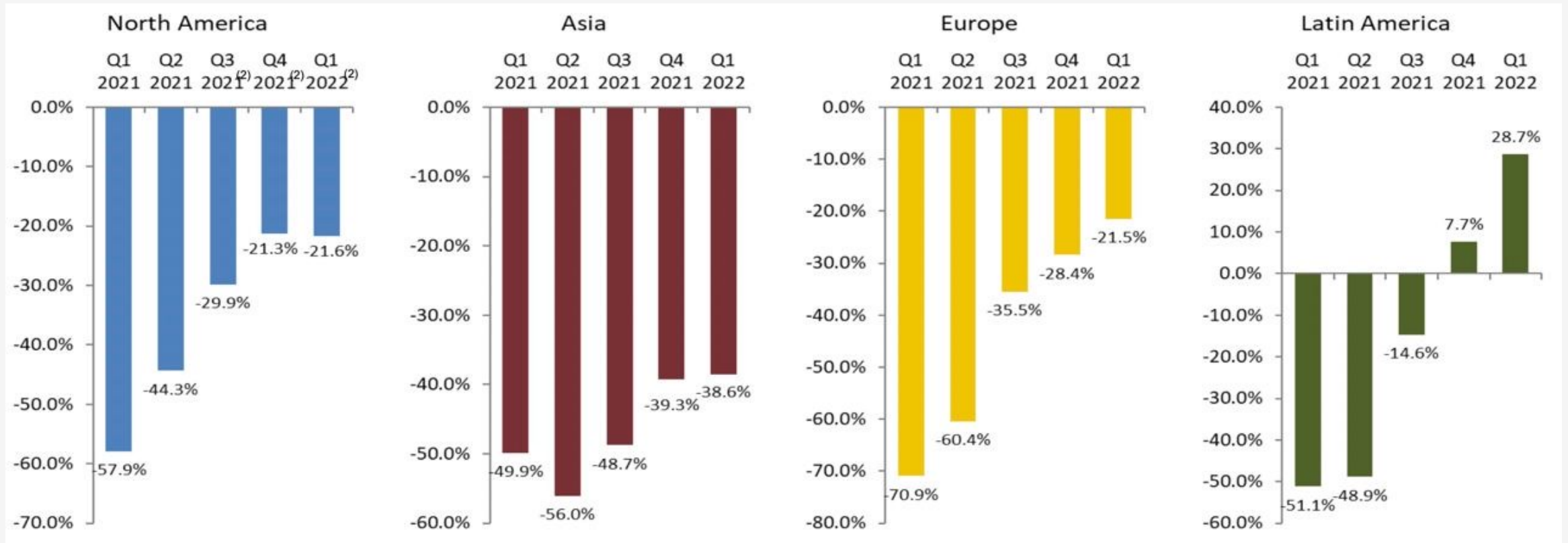


- Our strong momentum and financial results at the end of 2021 have continued into 2022, and we are well positioned to grow market share at a **fundamentally higher operating margin** as shown in our Q1 2022 results.
- We remain focused on improving and maintaining our gross margins through **reduced discounting and promotional activity**; price increases to mitigate increased product costs, duties, and freight; and working closely with our suppliers to manage these increasing cost pressures.
- **We suspended all commercial activities in Russia from mid-March 2022 due to the war in Ukraine**, and while this suspension had a minimal impact on net sales in the first quarter of 2022, it will negatively impact our business for the rest of 2022. We are monitoring this situation closely and will take further action as necessary.
- **China's strict zero-COVID policy and resulting quarantines could continue to impact our sales recovery in Asia in Q2**. However, excluding China, the pace of recovery in Asia showed signs of acceleration in April as governments relaxed travel and other restrictions.
- We intend to **increase our investment in marketing spend in 2022** to drive growth and capitalize on the continued recovery in travel.
- We will maintain **disciplined expense management** on our fixed SG&A expenses, but will look to make selective investments in core strategic functions going forward when opportunities arise.
- We are **investing more into our working capital, primarily inventory**, to support the ongoing recovery in the demand for our products, but stock replenishments may be slightly delayed due to some continuing shipping delays and factory capacity constraints due to the lockdowns in China.
- We have made a concerted effort to **bring our teams back to the workplace** with added flexibility and believe that our leading brands, coupled with our teams working in person and our ongoing commitment to sustainability and innovation, will help strengthen our long-term market position as travel returns to pre-COVID levels.
- With significant liquidity of US\$1.4 billion and ongoing sales recovery, we are **confident that we have the capacity to navigate the business through the ongoing challenges**.



Kyle Gendreau

# Samsonite quarterly revenue by region... Asia is clearly lagging

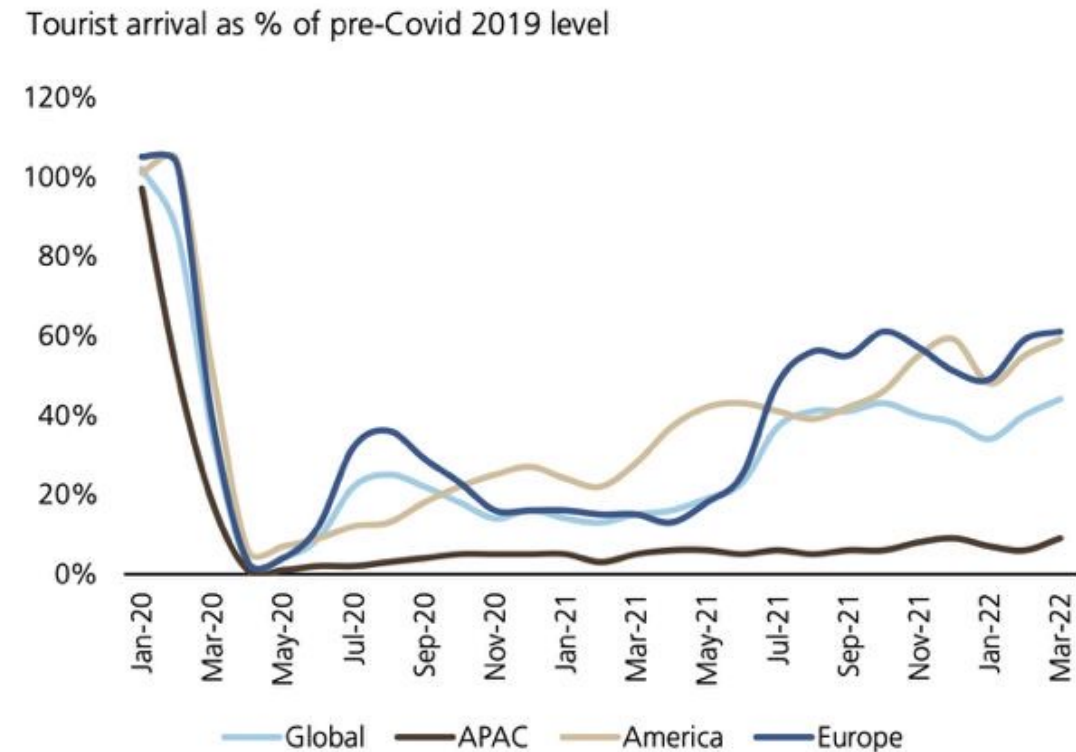


Source: Samsonite

# Tourism arrivals are recovering nicely everywhere except APAC

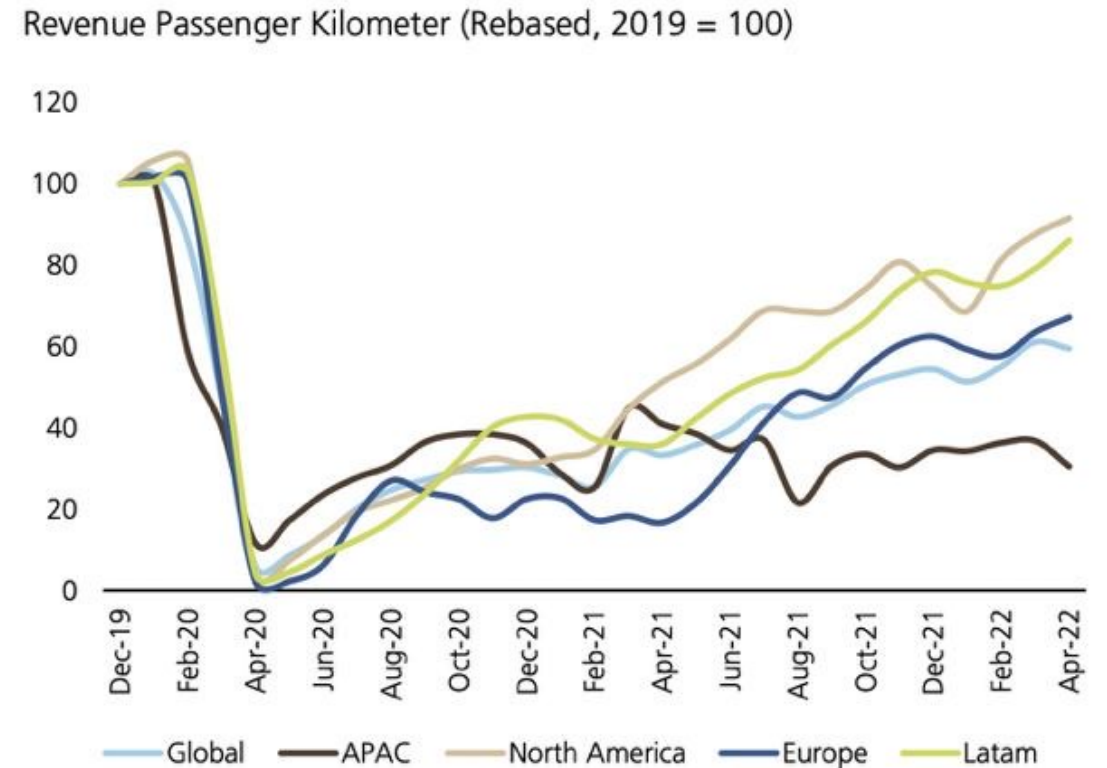


**Figure 1: Global tourism arrivals continue to improve, reaching 44% of pre-COVID levels in Mar 22**



Source: UNWTO (United Nations World Tourism Organization)

**Figure 2: Similarly, global RPK continues to recover, reaching 59% of pre-COVID levels in Apr 22**



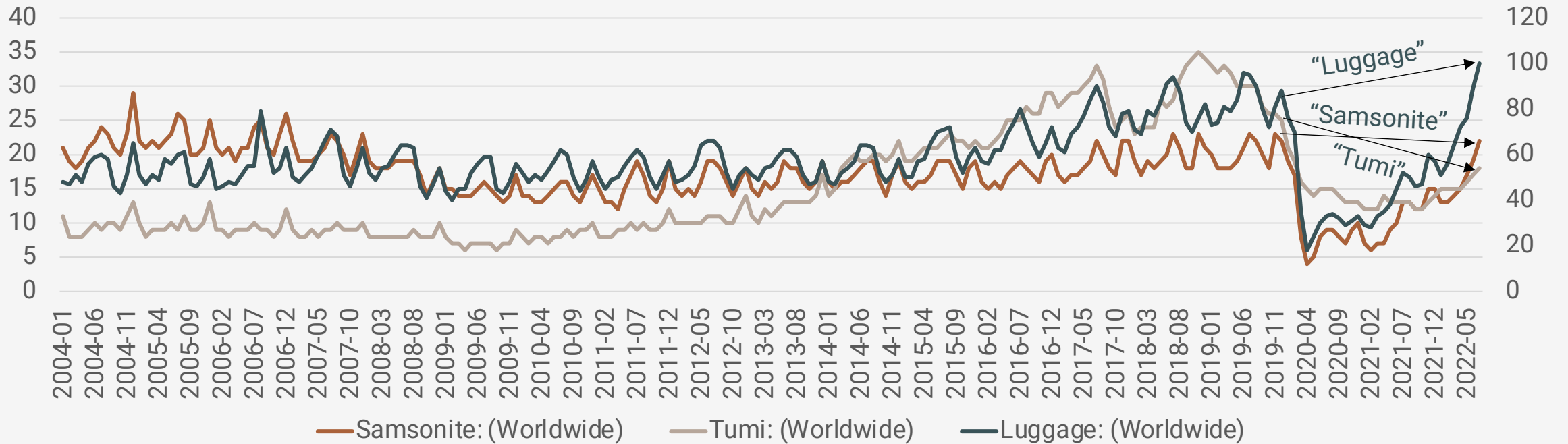
Source: IATA (International Air Transport Association)

Source: UBS

# Google search queries for luggage-related search queries are recovering fast though searches for Samsonite's brands have not recovered as much



Google search queries (normalized)





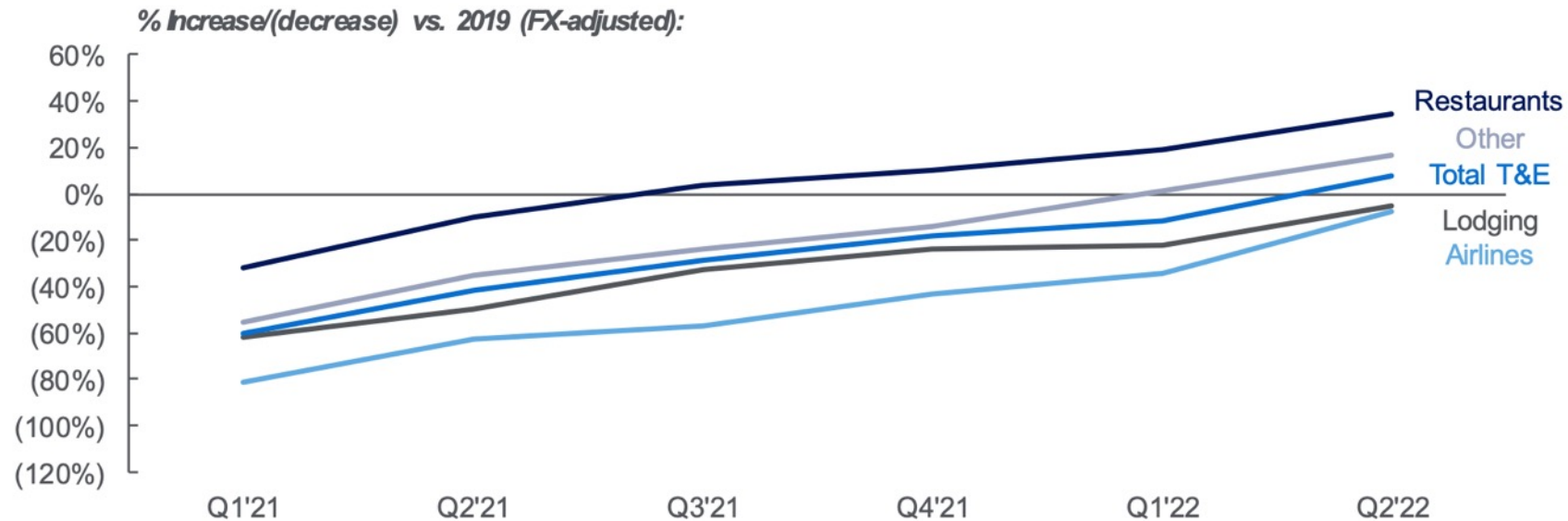
American Express is showing that travel is recovering fast. Travel spend by S&P 500 clients is now >50% of the 2019 level



## Travel & Entertainment Billed Business



### T&E by Industry



Q2'22	Restaurants	Lodging	Airlines	Other	Total
vs. '19	35%	(5%)	(8%)	17%	8%
YoY	48%	90%	148%	80%	84%
% of Total	26%	21%	24%	28%	100%

Source:  
American  
Express

Note: All growth rates reflect FX-adjusted rates.



# Plenty of anecdotal evidence of strong luggage sales

## Luggage sales are strong

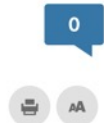
"One of the biggest improvements is luggage. And so really dormant in 2020, and you just feel customers are getting ready to travel. And you see that about the activities that they're most, they're not international travel, they get into a car, or they get into a plane and they're going somewhere, they're visiting relatives that they haven't seen in a year and a half, and we're seeing that in our luggage business." - [Macy's](#) (M) CEO Jeffrey Gennette

Source: *The Transcript Substack*

## U.S. luggage sales more than double year-over-year

Published: March 24, 2022 at 1:13 p.m. ET

By Tonya Garcia



### Referenced Symbols

XLY -0.86% ▼ SPX +0.13% ▲

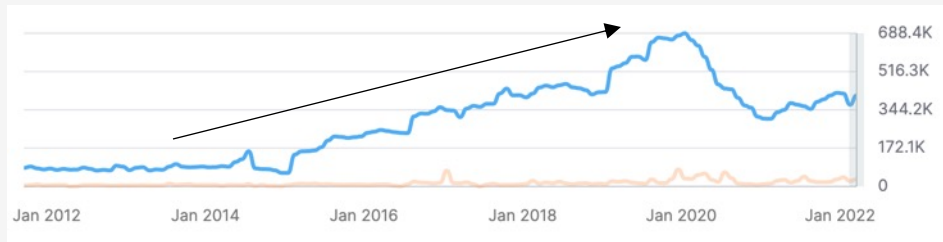
Looks like everyone is ready for a vacation. NPD Group data shows that luggage sales skyrocketed 129% for the 12 months ending Feb. 2022. The average selling price for luggage was up 19% for the period. "Pent-up demand from consumers yearning for travel and experiences is moving from aspiration to reality," said Beth Goldstein, NPD's fashion footwear and accessories analyst. Luggage revenue is still down from 2019, but going in the right direction after sales dropped by more than half in 2020. Family and leisure travel has recovered more quickly than business travel. And carry-on luggage sales fell 6% over the last year compared with two years ago. The Consumer Discretionary Select Sector SPDR ETF XLY, -0.86% has gained 12% over the past year while the benchmark S&P 500 index SPX, +0.13% is up 15.5%.

Source: *Marketwatch*

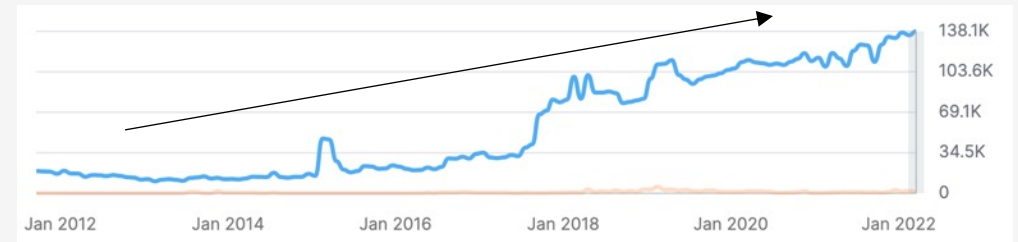
# Semrush website traffic data suggest that the recovery is still some way off... Samsonite's traffic is comparable to Away Travel and lower than Tumi



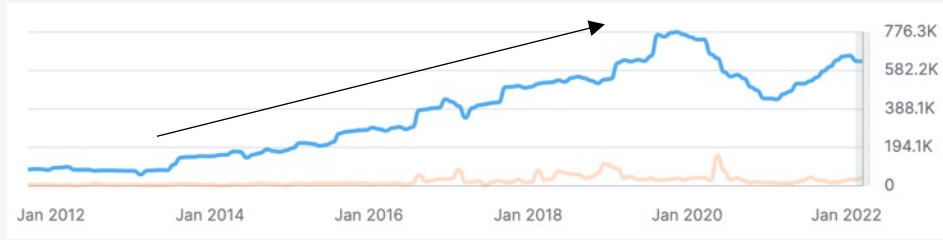
Samsonite.com



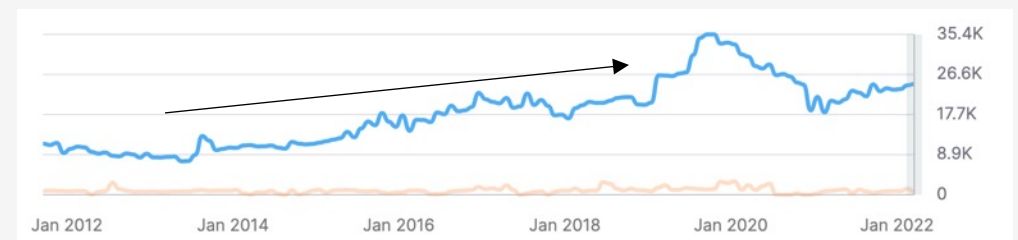
Gregorypacks.com



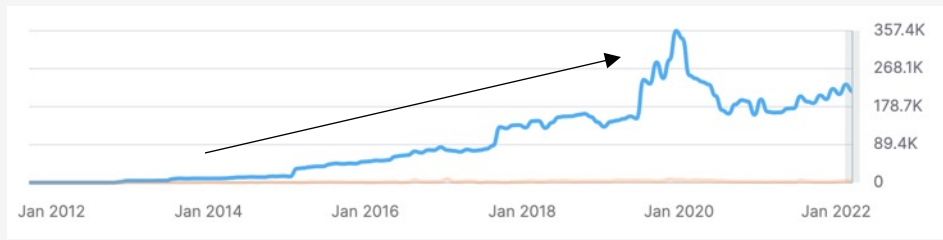
Tumi.com



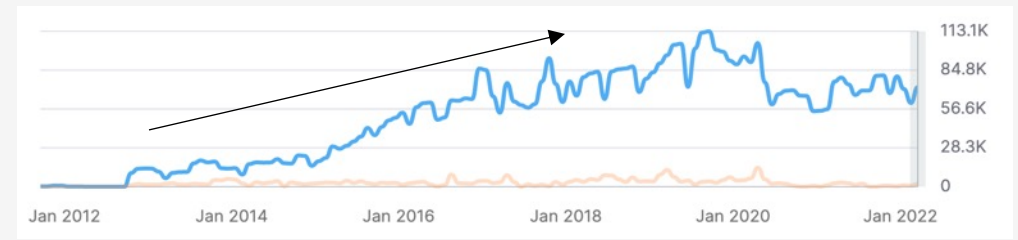
Hartmann.com



Americantourister.com



Highsierra.com



Source: Semrush

# Italian peer Piquadro (PQ IM) has seen full recovery in revenues



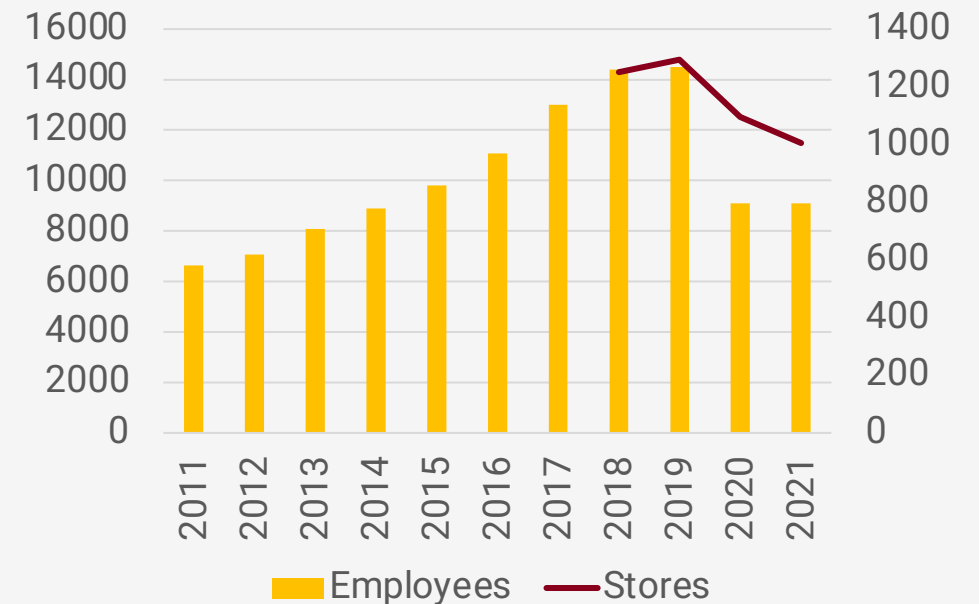
Source: TIKR

# Samsonite's cost-cutting program has reduced cost by >US\$200m



- In 2020, Samsonite laid off 37% of its employees in one of the most proactive cost-cutting programs I have ever seen. Samsonite streamlined the organization to become more productive.
- It also reduced its company-operated stores by 22% (260 post of sale) over the course of two years and renegotiated 200 store leases.
- Samsonite estimates that fixed costs were cut over US\$200 million per year thanks to the program.

Samsonite employees & company-operated stores



Source: Samsonite



# Samsonite's strong commitment to sustainability might help score investor ESG brownie points



- Samsonite has recently hired a global head of sustainability, reporting directly to the CEO.
- It's already doubled the share of products with recycled materials since 2019 and generated 1.4 GWh of renewable energy from on-site solar panels.
- By 2025, Samsonite wants to:
  - Reducing carbon intensity of operations by 15%
  - Powering its operations with 100% renewable energy
  - Achieving carbon neutrality for its operations
- By 2030, it wants to estimate, track and support actions to reduce Scope 3 emissions in the supply chain
- Samsonite wants to reach net-zero emissions no later than 2050



## In our 6th annual ESG Report we share 2021 accomplishments and 2022 priorities

### In 2021, we:

- ◆ Launched **Magnum Eco**, our most sustainable Samsonite product to date.
- ◆ **Doubled our share** of products with **recycled materials** since 2019.
- ◆ Generated **1.7 GWh of renewable energy** from on-site solar panels (>4% of our electricity use).
- ◆ Set up **diversity & inclusion committees** and developed custom plans in each of our regions.
- ◆ Hired a **new Global Head of Sustainability** – reporting directly to CEO.



### Looking ahead, 2022 priorities include:

- ◆ Developing a **circular economy** sustainable product strategy.
- ◆ Measuring our **Scope 3** (value chain) greenhouse gas emissions.
- ◆ Conducting a **TCFD-aligned climate risk assessment**.
- ◆ Implementing a comprehensive cross-functional global **sustainability governance structure** to accelerate our ESG efforts.

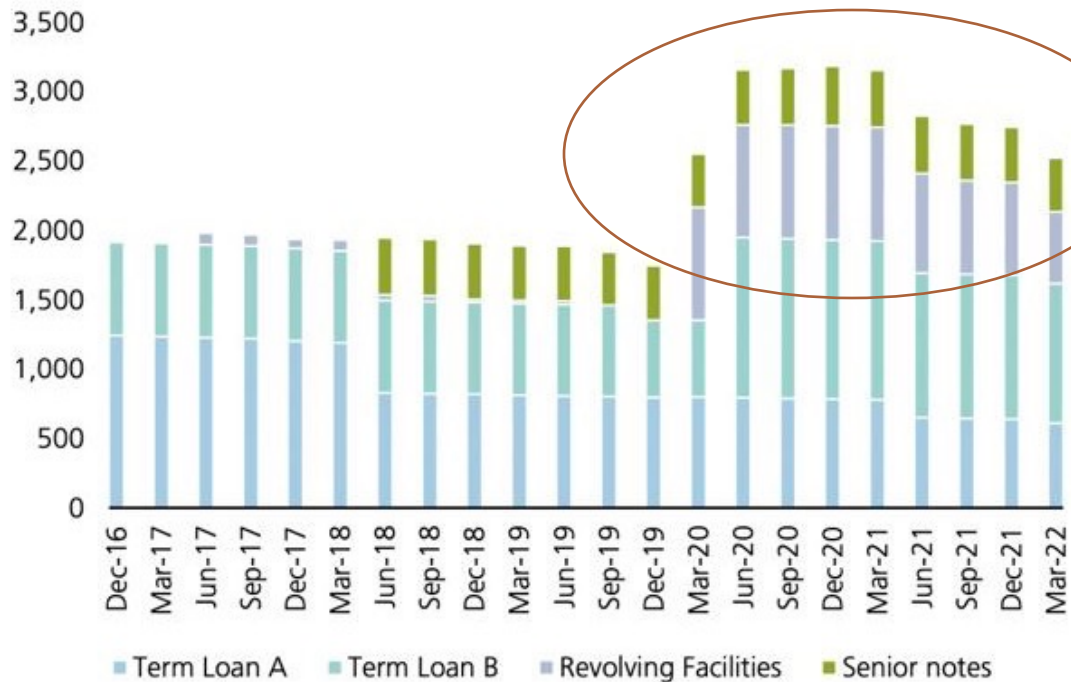


Samsonite

# The interest burden went up somewhat during COVID but improved thanks to the cost cutting program... but higher rates is now a headwind



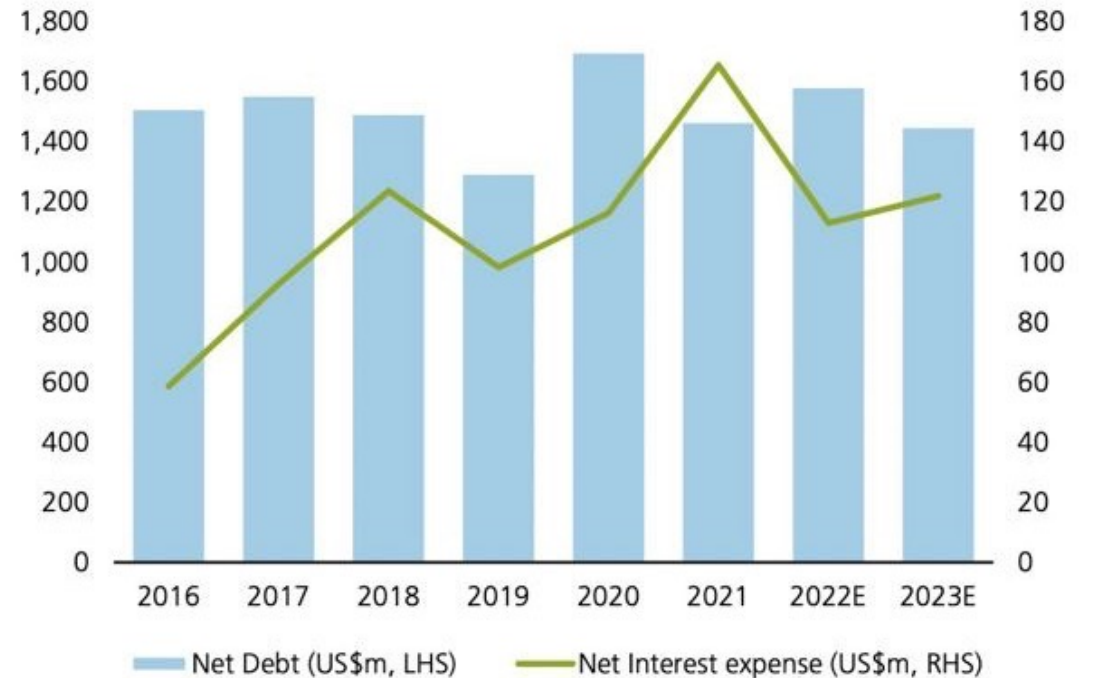
Amount of Debt Outstanding (US\$m)



Source: Company data

Source: UBS

Net Debt (US\$m)



Source: Company data, UBS estimates

# Samsonite's debt burden is not insignificant... but probably manageable if the travel industry continues to recover



Debt	Principal	Currency	Interest rate	Maturity	Outstanding (US\$m)	Price	YTM
Senior unsecured	EUR 350m	Euro	3.5% fixed	May-26	358	86.7	7.6%
Amended Term Loan A Facility	USD 800m	US Dollar	LIBOR + 1.375%	Mar-25	610	98.3	n.a.
Term Loan B Facility	USD 665m	US Dollar	LIBOR + 1.750%	Apr-25	538	95.8	n.a.
Revolver	USD 850m	US Dollar	LIBOR + 1.375%	Mar-25	516	n.a.	n.a.
2021 Incremental Term Loan B Facility	USD 496m	US Dollar	LIBOR + 3.0%	Apr-25	466	97.6	n.a.

Source: Bloomberg

- Samsonite has US\$2.5 billion in debt outstanding against US\$1.1 billion in cash = net debt of US\$1.3 billion
- Against 2019 EBITDA of US\$695 million, net/EBITDA is 2.1x. So in a full-recovery scenario, the debt will be manageable.
- 3-month LIBOR has gone up to 2.7%, meaning that interest expense will rise, most likely to around US\$170 million per year. That means that the EBITDA interest coverage ratio end up at 4.1x.
- On the plus side, the US\$1.1 billion in cash plus capacity on the revolver will help Samsonite weather any short-term issues.
- So Samsonite has a not insignificant amount of debt. It will be manageable under normal scenario but a prolonged pandemic could eventually cause the cash position to be run down.

Samsonite's 3.5 maturing in 2026 now trade at 87 cents on the dollar, now yielding 7.6%. It is not pricing in severe distress.



Source: Bloomberg



# Credit rating agency commentary points out a significant debt burden but also substantial liquidity and a positive trajectory



## Moody's, 30 March 2022

- New York, March 30, 2022 – Moody's Investors Service ("Moody's") today affirmed Samsonite International S.A.'s ("Samsonite") **Ba2 Corporate Family Rating**, Ba2-PD Probability of Default Rating, and Ba2 secured bank credit facility rating. Moody's also affirmed Samsonite IP Holdings S.ar.l's Ba2 secured bank credit facility ratings and Samsonite Finco S.ar.l's B1 unsecured bond rating. Samsonite's SGL-1 Speculative Grade Liquidity is unchanged. The outlook was changed to stable from negative.
- The affirmations of the ratings reflect Moody's view that **Samsonite's operating performance will continue to materially improve over the next year as global air and other modes of travel continue to recover**. Moody's expects that the lifting of travel restrictions related to the pandemic will increase consumer travel and will lead to higher pent-up demand for travel and the need for luggage. Strong revenue growth coupled with the recent implementation of cost cutting initiatives will facilitate improvement in Samsonite's margins as the company benefits from economies of scale. **Over the next 12-18 months, Moody's expects annual revenue to increase 40% to 45% compared to 2021 levels and Moody's-adjusted EBIT margins to recover by roughly 700 basis points to around 12%**. Moody's anticipates that the company will continue to focus on debt reduction such that **Debt to EBITDA will decline to around 4.5x by the end of 2022 and further decline to around 3.5x by the end of 2023, through both debt repayment and EBITDA improvement**.
- Samsonite's SGL-1 reflects its **very good liquidity position as highlighted by \$1.3 billion of cash on hand and \$177 million of revolver availability as of December 31, 2021**. Moody's believes that the company continues to have ample flexibility to manage its business, though some volatility may arise from coronavirus variant outbreaks resulting in short term travel disruptions. Large cash balances also give the company the ability to meaningfully de-lever once stability in the sector is obtained. Moody's rating and outlook is predicated on an expectation that Samsonite will follow a more conservative financial policy and not return to cash distributions until Moody's Adjusted Debt to EBITDA falls below 4.0x.

## Fitch, 10 February 2022

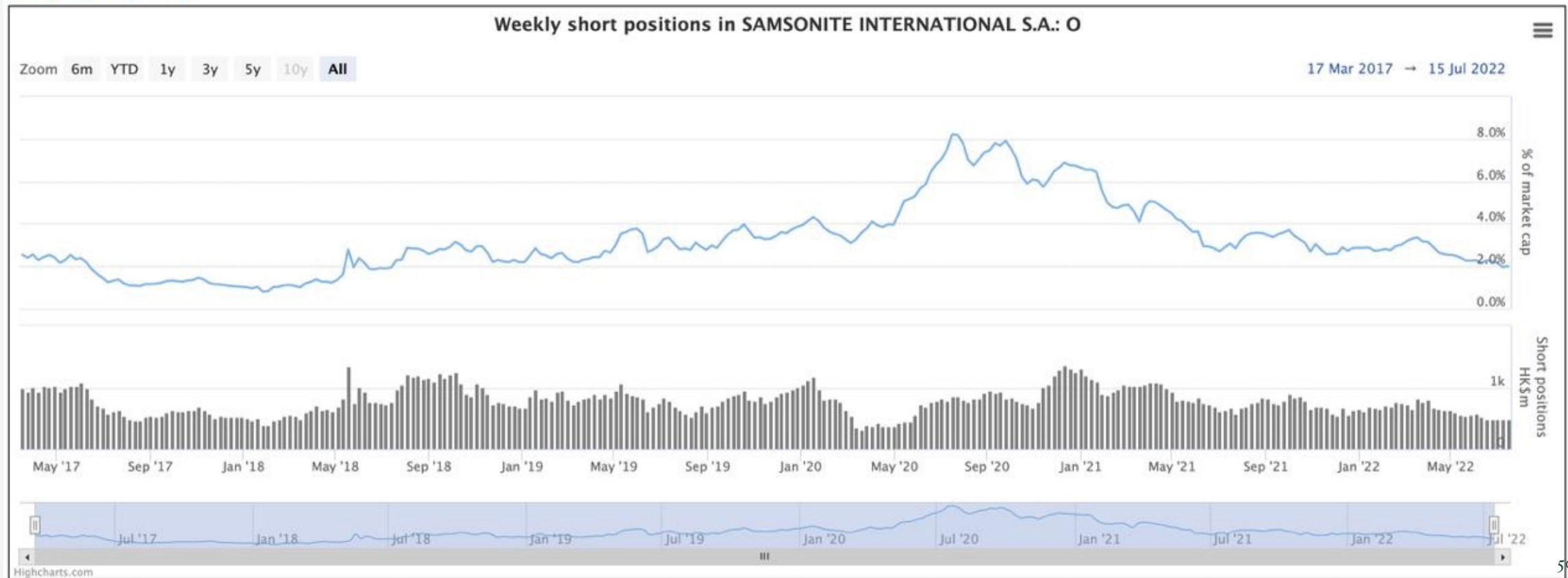
- Samsonite International S.A.'s **'BB-' Issuer Default Rating (IDR) and Negative Outlook** reflect Fitch Ratings' view that operating results will remain challenged until travel-related spending recovers, with lingering uncertainty regarding the exact timing and trajectory of a rebound.
- Samsonite's **substantial liquidity position of over USD1.3 billion** as of Sept. 30, 2021 – largely held as cash – provides a significant buffer against the current environment and offers strong prospects for deleveraging.
- **Fitch expects Samsonite to return to pre-pandemic revenue and EBITDA levels by 2023, and continue to focus on debt repayment.**
- **Fitch expects adjusted leverage to remain elevated, projected at low-6x in 2022 compared with 5.0x in 2019, gradually approaching the high-4x range, as appropriate for the rating, by 2023.**
- Samsonite's ratings reflect the company's position as the world's largest travel luggage company, with **strong brands and historically good organic growth**.
- The rating also reflects the adverse impact on performance since the onset of the pandemic.



# Samsonite's short interest ratio has come down from the peak in mid-2020 as the business is recovering from COVID-19



## Short positions



Source: Webb-site.com

The luxury peers trade at close to 20-30x P/E. There is no direct luggage peer to Samsonite.



Global luggage (2023e)	Ticker	Country	Mkt cap (US\$m)	EV/S	EV/EBITDA	EV/EBIT	P/E	Div yield
Samsonite	1910 HK	United States	3,103	1.40x	7.61x	10.8x	12.1x	2.1%
LVMH	MC FP	France	320,055	4.19x	12.48x	15.2x	20.8x	2.0%
VF Corp	VFC US	United States	17,606	1.88x	11.68x	14.3x	13.9x	4.5%
VIP Industries	VIP IN	India	1,164	5.13x	29.81x	37.5x	51.2x	0.6%
Safari Industries	SII IN	India	311	2.60x	25.02x	37.0x	4.4x	0.0%
Hermes	RMS FP	France	27,613	10.40x	24.08x	27.6x	41.1x	0.8%
Prada	1913 HK	Italy	14,197	3.78x	10.48x	19.7x	27.4x	2.3%
Kering	KER FP	France	66,429	3.24x	9.05x	11.1x	15.1x	3.0%
Average			63,911	4.46x	17.51x	23.2x	24.8x	1.9%
Median			17,606	3.78x	12.48x	19.7x	20.8x	2.0%

Before the pandemic, Samsonite used to trade at roughly 20x P/E



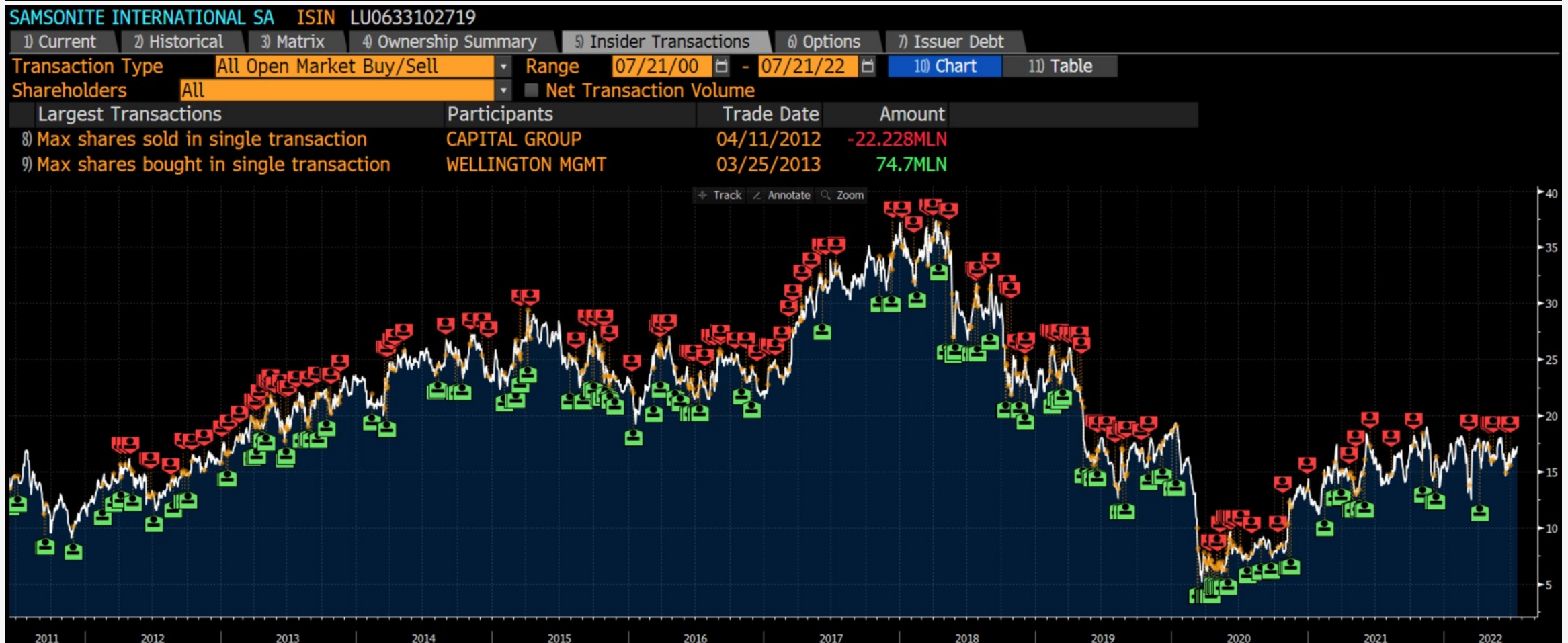
Source: Bloomberg

Using IATA assumptions of a global travel recovery (111% of 2019 baseline by 2025) and zero price increases plus 11.7% OPM, the P/E ends up at 13.7x



Samsonite (1910 HK)	2018	2019	2020	2021	2022	2023	2024	2025
Revenues	3,797	3,639	1,537	2,021	3,129	3,493	3,821	4,039
COGS	-1,652	-1,622	-830	-919	-1,377	-1,537	-1,681	-1,777
Gross profit	2,145	2,017	706	1,102	1,752	1,956	2,140	2,262
Distribution	-1,212	-1,203	-745	-700	-1,001	-1,118	-1,223	-1,293
Marketing	-221	-190	-73	-82	-182	-203	-222	-234
General and admin	-233	-230	-200	-206	-194	-217	-237	-250
Impairment	0	-86	-971	15	0	0	0	0
Other expenses	-11	-25	16	5	-11	-11	-11	-11
Operating profit	467	283	-1,266	133	364	408	447	473
Finance income	1	3	4	4	4	4	4	4
Finance costs	-125	-101	-120	-169	-170	-170	-170	-170
Pretax profit	344	185	-1,382	-33	198	242	281	307
Income tax	-87	-32	94	56	-40	-48	-56	-61
Net profit	257	153	-1,288	24	158	193	225	246
Non-controlling shareholders	-21	-21	10	-9	-13	-15	-18	-20
NPAT to controlling	237	133	-1,278	14	146	178	207	226
EPS (USD)	0.16	0.09	-0.89	0.01	0.10	0.12	0.14	0.16
GPM	56%	55%	46%	55%	56%	56%	56%	56%
OPM	12.3%	7.8%	-82.4%	6.6%	11.6%	11.7%	11.7%	11.7%
NPM	6.8%	4.2%	-83.8%	1.2%	5.1%	5.5%	5.9%	6.1%
P/E	13.1x	23.4x	-2.4x	217.2x	21.3x	17.5x	15.0x	13.7x
EV/EBIT	9.7x	16.0x	-3.6x	34.2x	12.5x	11.1x	10.1x	9.6x
Div yield	4.2%	n.a.	0.0%	0.0%	2.1%	2.6%	3.0%	3.3%

Some continued selling from Kyle Gendreau. No insider buying since COVID-19 yet.



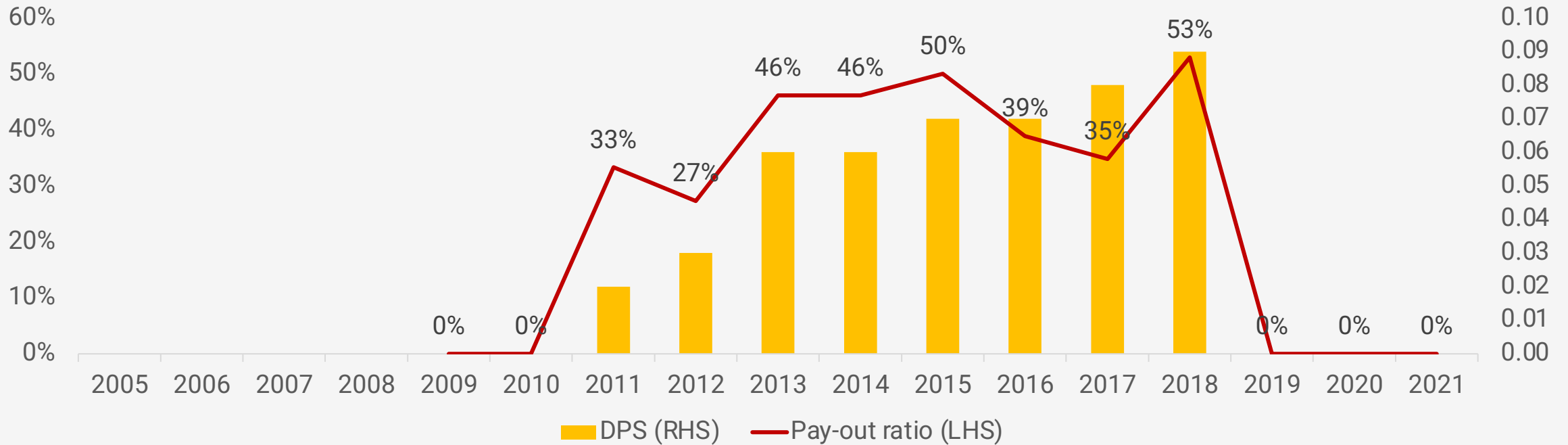
Source: Bloomberg



Samsonite has a policy to pay out 40-50% of earnings as dividend but the company has yet to reinstate the dividend.



Samsonite's dividend per share / pay-out ratio



Source: TIKR





## Potential downside risks

- **Higher interest rates:** Samsonite is highly leveraged and if LIBOR continues to rise then the company would end up paying higher interest expense and may even breach its covenants.
- **Strengthening USD:** Samsonite reports in US Dollar yet almost 2/3 of revenues come from non-US-linked currencies. On the cost side, the Renminbi remains the most important factor.
- **China's zero-COVID policy:** Roughly 8% of pre-pandemic sales came from China, and lockdowns in the country could hurt sales in the short term. The zero-COVID policy could also complicate manufacturing since 45% of Samsonite's production takes place in China.
- **Slow reopening of borders:** Somewhat related to China's zero-COVID policy, it's not clear whether the government wants to open up its borders, even under a living-with-COVID strategy. Domestic travel can partly make up the shortfall, however, as we saw with China's robust travel numbers in the second half of 2020.



# Catalysts



- **Reduced US tariffs on Chinese goods:** Biden is considering removing tariffs on Chinese travel goods and will meet with Xi Jinping in early August. Or, the tariffs are absorbed by Samsonite's US customers as they simply have no choice but to pay up.
- **Higher global tourist arrivals throughout 2022 and 2023:** The pent-up demand for travel is massive. Business travel will recover as companies must compete for business by building relationships with their clients.
- **Opening up of borders:** If China opens up its borders, expect outbound Chinese "revenge travel" for a period of time.

