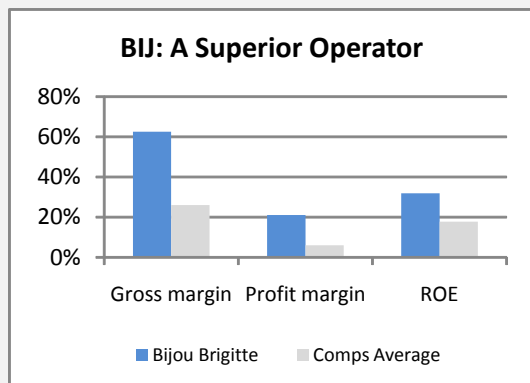




Recommendation: **BUY**



Company: Bijou Brigitte
 Ticker: BIJ
 Headquarters: Hamburg, Germany

Intrinsic Value: € 130.71
 Current Price: € 79.50
 52 Week Range: € 57.82 - 104.23
 Dividend Yield: 8.20%

Market Cap (millions): € 644.0
 TEV (current, millions): € 504.0
 TEV/EBITDA (ttm): 4.0
 P/E (ttm): 8.2
 P/E (2009): 8.4

Debt (Q2 2008, millions): € 0.4
 Debt Ratio (Q2 2008): 0.001
 Current Ratio (Q2 2008): 5.1
 Cash (Q2 2008, millions): € 140.4

INVESTMENT THESIS

We recommend investors **BUY** Bijou Brigitte (BIJ) shares.

- Owners of BIJ shares partner with a best-in-class management team, which is reflected in the company's superior margins and returns.
- While BIJ is not immune to the current economic downturn, investors are compensated with a well-protected 8.2% dividend yield until operating conditions improve.
- Bijou has a conservative balance sheet with only €400 thousand in debt and €140 million in cash and short-term investments. There's no liquidity risk of rolling over debt.
- Based on our DCF valuation, BIJ shares should be trading around €130, a 64% premium their current price.

COMPANY OVERVIEW

Bijou Brigitte (Bijou) manufactures and sells fashion accessories at discount prices. Its product line includes jewelry, such as necklaces, bracelets, rings and earrings, as well as handbags, scarves and sunglasses.¹ Bijou targets primarily female "fashion conscious" consumers.

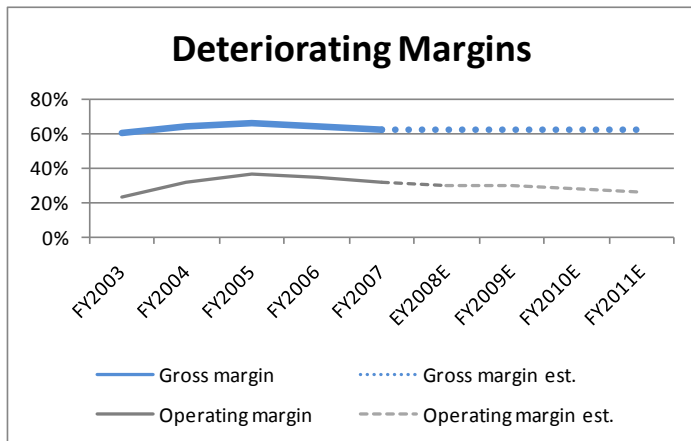
As of January 1, 2009, the company operated 1,085 stores located primarily in Europe with roughly 80% of its sales derived from stores in the Euro Zone.² Consequently, currency movements will not materially affect Bijou's performance. This could change in the future as the company recently expanded into the U.S. and other non-Euro countries. Moreover, company-owned stores are predominately rented. As such, fixed costs are held low, creating less operating leverage. Bijou also franchises stores to independent operators.

Bijou's strategy entails manufacturing high-quality and fashionable accessories in Hong Kong and selling them around the world at low price points. To achieve this, Bijou management strives to hold expenses at minimal levels. Its ability to operate with high margins and low costs is substantially due to the company's vertical integration. It sells its manufactured products in its own stores, eliminating distributor and wholesaler costs.¹ To date, management's cost-containment efforts have been successful, and the company's margins and returns have consistently outperformed industry averages.

¹ Bijou Brigitte website. www.bijou-brigitte.com. Accessed 2/6/09.

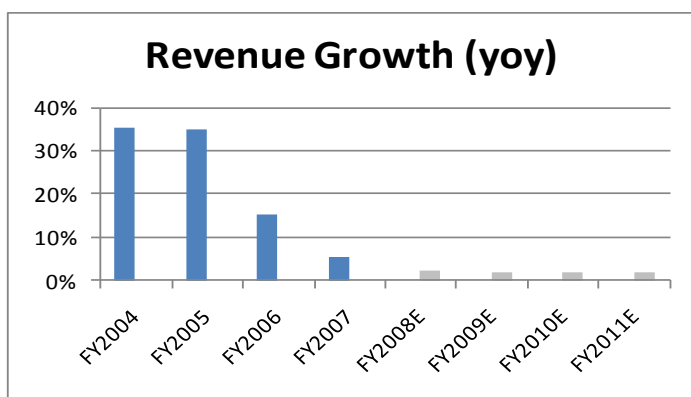
² Bijou Brigitte 2008 Half-Year Report, www.bijou-brigitte.com, pg. 9. Accessed 2/6/09.

However, in recent years Bijou has endured intensifying competitive pressure in the fashion accessories segment, putting downward pressure on margins.³



We expect competitors to continue to chip away at Bijou's above-average operating margins. Bijou will have to devote marketing dollars at an increasing rate to sustain its historic revenue growth rates and to increase its awareness as it expands globally.

We believe revenue growth will primarily come from new store openings in the future and not from same store sales growth. Though sales growth galloped at an annualized 18% between 2004 and 2007, the actual year-over-year trend has been decidedly negative.



We anticipate revenue growth will continue to struggle in throughout our explicit forecast period, averaging 2% a year until 2011.

Bijou management has been conservative in expanding its geographic reach. The company has leveraged its balance

³ Bijou Brigitte, Annual Press Conference, April 29, 2008. www.bijou-brigitte.com. Accessed 2/6/09.

sheet with €400 thousand in debt. With almost €300 million in total assets, Bijou's debt ratio stands at 0.001. As of Q3 2008, Bijou had €140 million in cash and short-term investments. Management can use this capital to fund additional store openings and maintain its €6.50 per share dividend if its cash flows should deteriorate.

INDUSTRY ANALYSIS

Bijou's closest competitor in the fashion accessories industry is Claire's, which was taken private by Apollo Management in 2007. New competitors continue to enter the fashion jewelry segment, lured by the high margins of Bijou. Chain fashion stores such as H&M and Zara, along with SIX and Monsoon/Accessorize continue to replace low-margin product space with high-margin fashion jewelry and other accessories.

In order to accelerate its retail reach and fend off competition, Bijou has commenced a new strategy to place its products in stores other than its own. Called BB Concessions, the strategy involves placing Bijou display stands in department stores.⁴ The company has introduced 90 such stands since the first quarter of 2008.⁴

BB Concession is, in part, a counter to recent activity by department stores, which have developed their own product lines and display stands, due to the industry's low barriers to entry.

In terms of comparables, the following table provides a list of several companies with similar models or products.

Comparables Considered		
Claire's	Private	No info
Six	Private	No info
Monsoon/Accessorize	Private	No info
Fielmann	Public	Included
Douglas Holding (Christ)	Public	Included

Bijou Brigitte does not have any direct competitors that are publicly traded, which obscures comparable analyses. Douglas Holdings and Fielmann operate in similar geographic markets, but do not specialize in fashion jewelry. However, we felt their status as "specialty retailers," along with the fact that they are based in Germany, forms an acceptable basis for comparison. As seen below, Bijou Brigitte's operating and performance metrics are considerably better than those of Douglas Holding and Fielmann.

Bijou Outperforms Comps				
	Bijou	Average	Douglas	Fielmann
Gross margin (ttm)	62.5%	26.0%	19.5%	32.4%
Profit margin (ttm)	21.0%	6.0%	-0.2%	12.1%
ROE (ttm)	31.8%	17.8%	13.4%	22.2%
ROA (ttm)	26.4%	12.1%	5.9%	18.2%

Though Bijou's margins are contracting, which will continue to have a dampening effect on ROE and ROA, it is quite evident that Bijou has a first-class management team that has minimized costs and maximized shareholder value.

INSIDER HOLDINGS AND SHARE BUYBACKS

Bijou's founder and former chairman Friedrich W. Werner holds a majority stake of 50.3% of the company. Werner retired from management of Bijou on Dec. 31, 2008.⁴ Though the company has prospered under his leadership, Werner's son, Roland, is now running the company, and he appears equally capable. In addition, Friedrich will continue to serve in a consultative role to the company,⁴ preserving the focus on its core values and strategy.

Bijou's board recently approved stock buybacks totaling €10 million, or 1.5% of the shares outstanding, indicating executives believe shares are undervalued.

Bijou's daily trading volume is roughly 6,800 shares, so even if management continues to buy back shares there should be sufficient liquidity available for the size of position the APM class would consider establishing.

VALUATION

We performed two different valuation scenarios: discounted cash flow (DCF) and relative value.

The key variables in our DCF model included a 35% tax rate, a 2.0% perpetuity rate, and a 9.1% WACC.

FREE CASH FLOWS			
	2009	2010	2011
EBITDA	129.1	124.3	119.3
Less: Cash taxes	45.2	43.5	41.8
Less: Capex	20.0	15.0	20.0
Less: Inc. in NWC	25.8	-0.3	-12.4
Free Cash Flow	38.1	66.1	69.9
TV Perpetuity			1005.4
TV 2011 EV/EBITDA			755.0

⁴ Bijou Brigitte press release, "Change in Management Board." Issued on July 16, 2008.

After discounting the free cash flows to the present value, we analyzed the intrinsic per share value produced by a 2.0% perpetuity TV and a 2011 EV/EBITDA TV.

Intrinsic Value: DCF		
	Perpetuity	EV/EBITDA
Implied EV	918.7	725.9
less Debt	0.4	0.4
plus Cash	140.4	140.4
Implied Equity Value	1058.7	865.9
Shares outstanding (FD)	8.1	8.1
P*	130.71	106.90
Current Price	79.5	79.5
Premium/(discount)	-39%	-26%

Both TVs resulted in undervaluation of Bijou shares based on their current market price. Our relative valuation, however, yielded a contrasting result, a 5.0% overvaluation.

Intrinsic Value: 2011 TEV/EBITDA	
Comparable TEV/EBITDA Ratio	6.3
x 2011 EBITDA Forecast	119.3
TEV*	755.0
- Cash	140.4
+ Debt	0.4
Implied Equity Value	615.0
÷ Shares Outstanding (FD)	8.1
P*	75.93
Current Price (2/6/09)	79.50
Premium/(discount)	5%

Because our comparables (Douglas and Fielmann) have several critical dissimilarities to Bijou, we placed less confidence in the relative value's resulting valuation.

We also conducted a sensitivity analysis on several key variables. If the perpetuity rate decreases to 1.0% or increases to 3%, the intrinsic share price goes to €108 and €147, respectively, in our DCF model. If sales fall to 1% in the explicit forecast and operating margins decline to 20% by 2011 (a 1,160 bps decrease), the DCF intrinsic price falls to €105 and the relative value price to €55.

CONCLUSION

Our DCF model, which we believe to be the best valuation model for Bijou's shares, has revenues growing at only 2% from now into perpetuity and operating margins falling from their current levels at 31.6% to 26.0% by 2011. Despite these lackluster operating metrics – that management very well could exceed – shares are roughly 40% undervalued. Tack on Bijou's safe 8.3% dividend yield and we believe Bijou's shares have a considerable margin of safety and should be purchased at current levels.