Fossil Inc Fundamental Stock Research Analysis

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of F.A.S.T. Graphs

Growth stocks are defined as companies with high rates of change of earnings growth of 15% to 20% or better. Growth stocks offer the potential for share prices to rise in lockstep with their profit growth in the long run. Therefore, the PEG ratio formula (price equals growth rate) tends to be the most appropriate formula used to value growth stocks. However, due to the exponential nature of compounding large numbers, PEG ratio forecasts are capped at 40%.

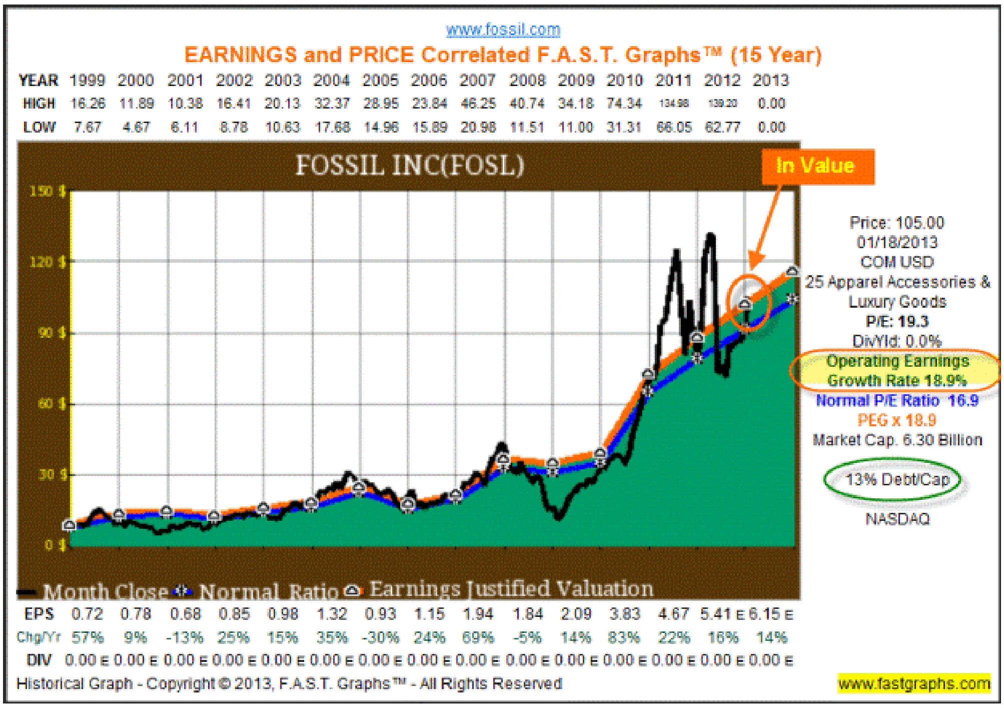
Because of the higher valuation typically awarded to fast growth, growth stocks offer the potential for greater capital appreciation. On the other hand, they also offer higher risk. First of all, they tend to command much higher than average PE ratios, and second, achieving very high levels of growth is very difficult to sustain. Consequently, forecasting future earnings growth is more important with high growth stocks than any other class of stock. Also, the average growth stock typically ploughs all of its profits back into the company to fund its future growth, instead of paying dividends.

Fossil Inc: Large-cap Growth at an Attractive Price

Fossil Inc. (FOSL) is a global design, marketing and distribution company that specializes in consumer fashion accessories. The Company's principal offerings include an extensive line of men's and women's fashion watches and jewelry sold under proprietary and licensed brands, handbags, small leather goods, belts, sunglasses, soft accessories, shoes and clothing.

Earnings Determine Market Price: The following earnings and price correlated FAST Graphs™ clearly illustrates the importance of earnings. The Earnings Growth Rate Line or True Worth™ Line (orange line with white triangles) is correlated with the historical stock price line. On graph after graph the lines will move in tandem. If the stock price strays away from the earnings line (over or under), inevitably it will come back to earnings.

Fossil Inc: Historical Earnings, Price and Normal PE Since 1999



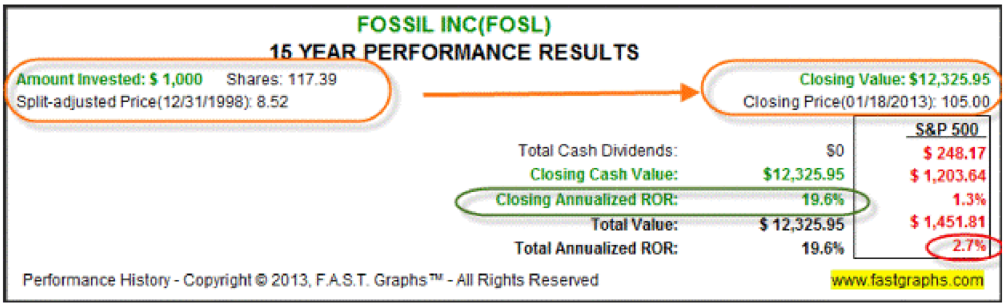
Performance Table Fossil Inc

The Two Keys to Long-Term Performance

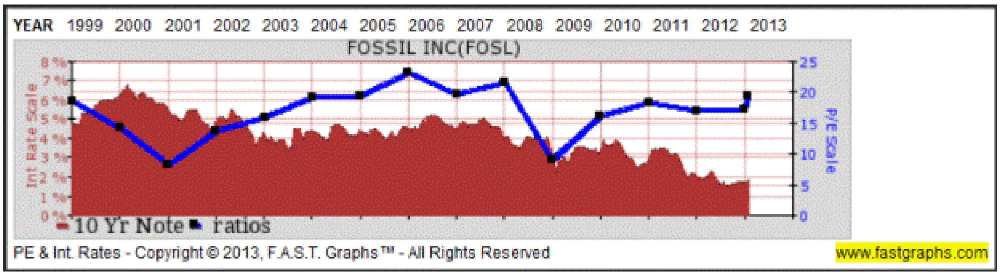
Years of research and experience have taught us that there are two critically important keys to achieving above-average, long-term shareholder returns at reasonably controlled levels of risk. The first key is earnings growth, or what we like to call the rate of change of earnings growth. The faster a company can grow its business (i.e. earnings), the larger the income stream it can produce with which to reward shareholders. This is because of the power of compounding, which Albert Einstein was alleged to have called " *the most powerful force on earth."*

The second key is valuation. When a company can be purchased at its intrinsic value based on earnings and cash flow generation, the shareholders' rate of return or long-term capital appreciation will inevitably correlate to and/or equal its earnings growth rate. Overvaluation will lower that rate of return and conversely, undervaluation will increase it. Consequently, paying strict attention to the valuation you pay to buy a stock is a critical component of both greater return and taking lower risk to achieve it. Because, ironically, when you overpay for even the best business, you simultaneously lower your return potential while increasing your risk of achieving the lower return.

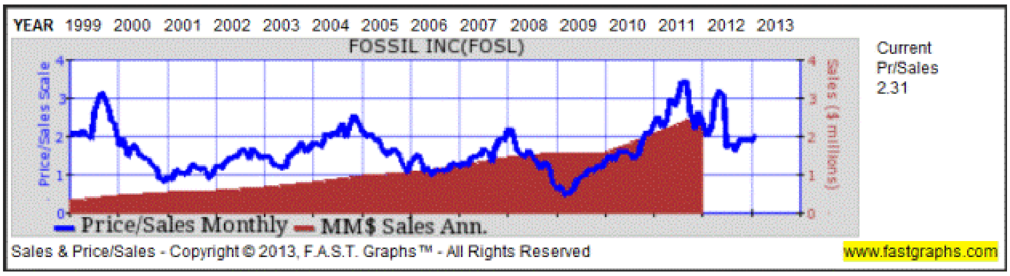
The associated performance results with the earnings and price correlated graph, validates the above discussion regarding the two keys to long-term performance. Notice the impact that valuation (black line above or below orange earnings justified valuation line) had on the following performance results.



The following graph plots the historical PE ratio (the dark blue line) in conjunction with 10-year Treasury note interest. Notice that the current price earnings ratio on this quality company is as high as it has been since 1999.



A further indication of valuation can be seen by examining a company's current price to sales ratio relative to its historical price to sales ratio. The current price to sales ratio for Fossil Inc is 2.31 which is historically normal.



Looking to the Future

Extensive research has provided a preponderance of conclusive evidence that future long-term returns are a function of two critical determinants:

1. The rate of change (growth rate) of the company's earnings

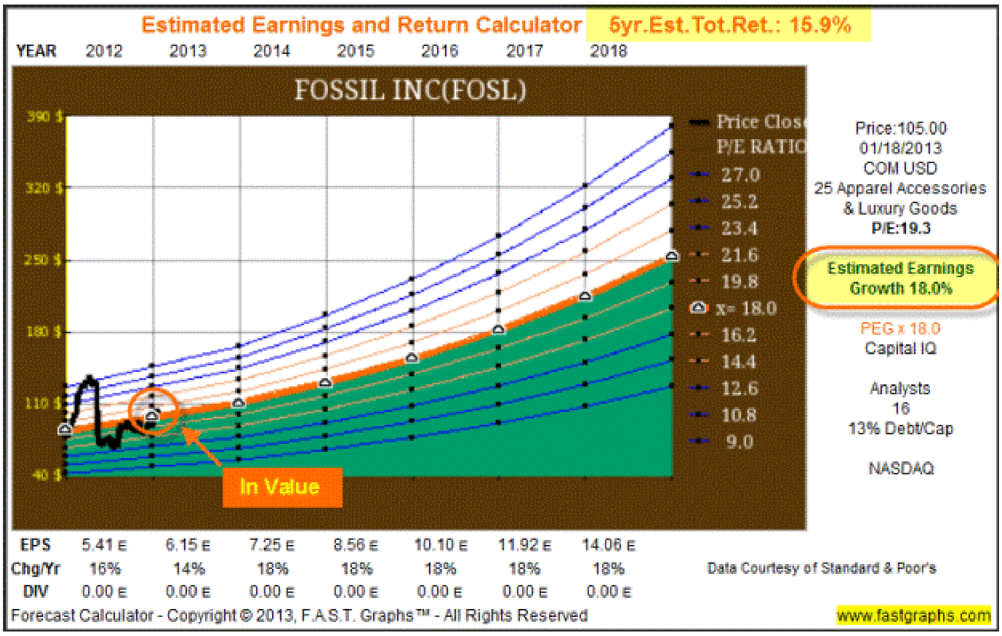
2. The price or valuation you pay to buy those earnings

Forecasting future earnings growth, bought at sound valuations, is the key to safe, sound, and profitable performance.

Therefore, it logically follows that measuring performance without simultaneously measuring valuation is a job half done. Fossil Inc is clearly an industry leading superior business, which based on the consensus estimates from leading analysts, appears to be capable of growing earnings at an above-average rate for the foreseeable future. At its current price, which is attractively aligned with its True Worth™ valuation, Fossil Inc represents an opportunity for growth at a reasonable price. The important factor is that Fossil Inc, with its strong balance sheet and potential for future earnings growth, has real assets and cash flow underpinning its stock price. This solid economic foundation offers shareholders the potential for both a strong margin of safety and an opportunity for outsized future returns.

The Estimated Earnings and Return Calculator Tool is a simple yet powerful resource that empowers the user to calculate and run various investing scenarios that generate precise rate of return potentialities. Thinking the investment through to its logical conclusion is an important component towards making sound and prudent commonsense investing decisions.

The consensus of 16 leading analysts reporting to Capital IQ forecast Fossil Inc's long-term earnings growth at 18%. Fossil Inc has low long-term debt at 13% of capital. Fossil Inc is currently trading at a P/E of 19.3, which is inside the value corridor (defined by the five orange lines) of a maximum P/E of 21.6. If the earnings materialize as forecast, Fossil Inc's True Worth™ valuation would be $253.13 at the end of 2018, which would be a 15.9% annual rate of return from the current price.



Earnings Yield Estimates

Discounted Future Cash Flows: All companies derive their value from the future cash flows (earnings) they are capable of generating for their stake holders over time. Therefore, because Earnings Determine Market Price in the long run, we expect the future earnings of a company to justify the price we pay.

Since all investments potentially compete with all other investments, it is useful to compare investing in any perspective company to that of a comparable investment in low risk Treasury bonds. Comparing an investment in Fossil Inc to an equal investment in 10 year Treasury bonds, illustrates that Fossil Inc's expected earnings would be 6.1 times that of the 10 Year T-Bond Interest. (See EYE chart below). This is the essence of the importance of proper valuation as a critical investing component.

10 YEAR EARNINGS YIELD ESTIMATES

Closing Price(01/18/2013): $105.0000 - Assume an Investment of $1,000

Estimated Earnings $1,168.40 -vs- T-Bond Earnings $190.00

	FOSSIL INC(FOSL)							10 Yr Treasury Bond	
# Year	9.52 Shares @	Dividends per Share	EPS Gr 18.0% PEG x 18.0	Earnings Yield	Div. Yield	Estimated Dividends	Target Prc Est Tot Ret	T-Bond Rate 1.86%	Annual Yield
1) 2012	$ 5.41 E	$ 0.00 E	$51.50 E	5.2%	0.0%	*$	$97.38 0.0%	$19.00	1.9%
2) 2013	$ 6.15 E	$ 0.00 E	$58.52 E	5.9%	0.0%	*$	$110.65 5.7%	$19.00	1.9%
3) 2014	$ 7.25 E	$ 0.00 E	$69.05 E	6.9%	0.0%	*$	$130.56 11.8%	$19.00	1.9%
4) 2015	$ 8.56 E	$ 0.00 E	$81.48 E	8.2%	0.0%	*$	$154.06 13.9%	$19.00	1.9%
5) 2016	$10.10 E	$ 0.00 E	$96.15 E	9.6%	0.0%	*$	$181.79 14.9%	$19.00	1.9%
6) 2017	$11.92 E	$ 0.00 E	$113.46 E	11.4%	0.0%	*$	$214.52 15.5%	$19.00	1.9%
7) 2018	$14.06 E	$ 0.00 E	$133.88 E	13.4%	0.0%	*$	$253.13 15.9%	$19.00	1.9%
8) 2019	$16.59 E	$ 0.00 E	$157.98 E	15.8%	0.0%	*$	$298.69 16.2%	$19.00	1.9%
9) 2020	$19.58 E	$ 0.00 E	$186.41 E	18.6%	0.0%	*$	$352.46 16.4%	$19.00	1.9%
10) 2021	$23.11 E	$ 0.00 E	$219.97 E	22.0%	0.0%	*$	$415.90 16.6%	$19.00	1.9%
Totals			$1,168.40 E	Ratio 6.1:1		$ 0.00 E		$190.00	

* Sub-total dividends is less than the breakeven point of investing in T-bonds

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Summary & Conclusions

This report presented essential "fundamentals at a glance" illustrating the past and present valuation based on earnings achievements as reported. Future forecasts for earnings growth are based on the consensus of leading analysts. Although, with just a quick glance you can know a lot about the company, it's imperative that the reader conducts their own due diligence in order to validate whether the consensus estimates seem reasonable or not.

Disclosure: No position at the time of writing.

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