

Express Inc.

EXPR

Analyst: Richard Acheson
Sector: Consumer
Discretionary

BUY

Price Target: \$27.96

Key Statistics as of 5/5/16

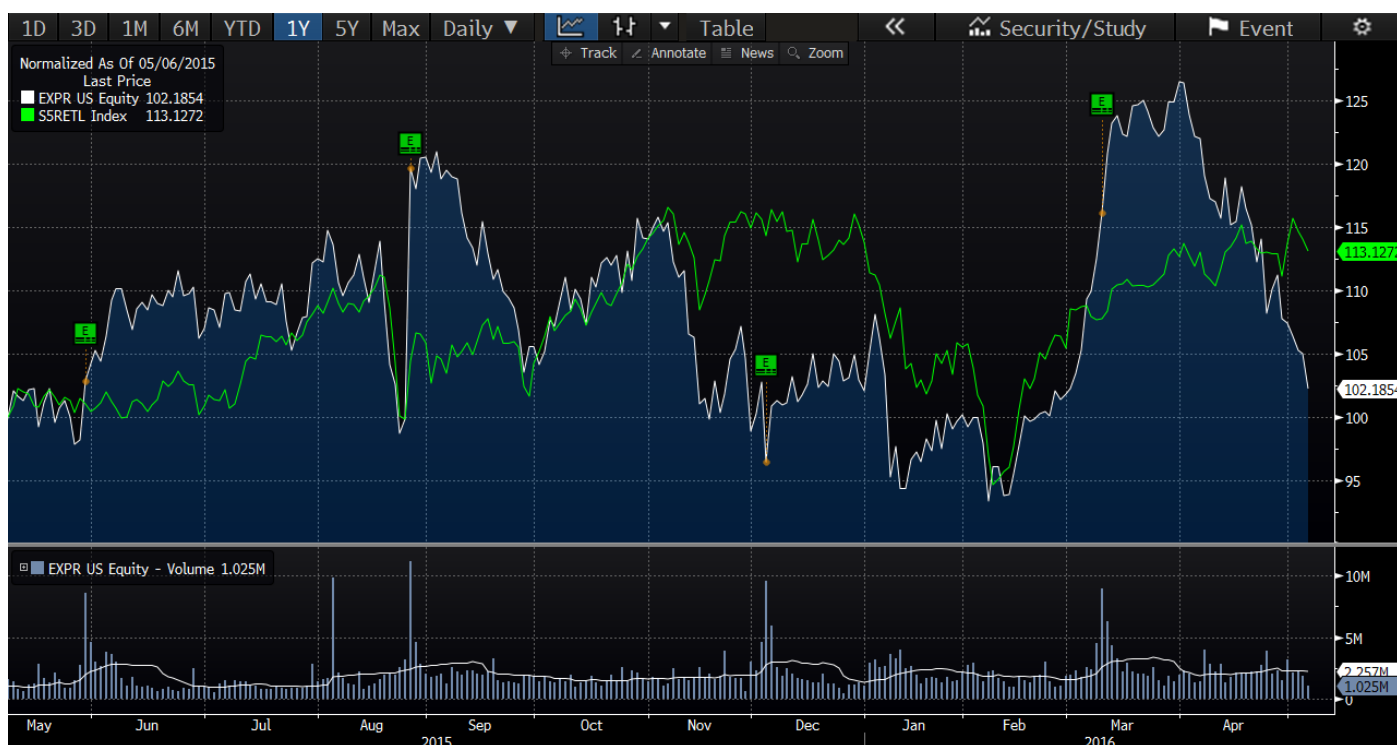
| | |
|----------------|-------------------|
| Market Price: | \$17.34 |
| Industry: | Specialty Retail |
| Market Cap: | \$1.3B |
| 52-Week Range: | \$15.53 – \$21.57 |
| Beta: | .93 |

Thesis Points:

- Express's One Eleven segment contributed to a huge bounce back and provides growth opportunities for the future.
- Strong E-commerce presence shows an opportunity to grow.

Company Description:

Express Inc. is a specialty retail store that sells apparel and accessories with the latest fashion trends for its consumers. They have apparel for all of their customer's basic needs like professional, casual, and going-out occasions. Express is mainly located within the United States and also has an online sector. Their online sector currently accounts for about 17% of total sales. That number has been growing over the past three years. Express has shown signs within the past year that they are capable of creating value over the short and long term.



Thesis

Express has recently created a new expansion of the merchandise that is called One Eleven. One Eleven consist of mainly stylish t-shirts with a very unique design that competitors have not been able to match. A good majority of the growth in the most recent year has been contributed to the One Eleven segment. Sales growth from last year totaled at 8.5% which was a huge increase from the previous year of a -2.4% growth. This new segment has shown huge promise and will continue to do so in future years.

As it is seen for most retailers, brick and mortar sales are decreasing while more and more shoppers buy their products online in the comfort of their own home. In order for a retailer to sustain solid organic growth, they need to have a strong online presence. Express proves its ability to grow within the E-commerce sector with a growth in online sales of 10% this past year.

Porter's Five Forces

Bargaining power of suppliers: **MEDIUM – 38**

Express depends on its suppliers to keep them stocked in order to meet consumer demand. Not only that, but they rely on their suppliers and their ability to keep up with fashion trends. Express is known for keeping up and sometimes even starting fashion trends. This is vital to their competitive advantage.

Bargaining power of customers: **MEDIUM – 36**

Customers have some bargaining power when it comes to Express. Not necessarily as far as price, but they have the option of going to another high quality store. High quality clothing will always charge a premium price, so small price differentials between competitors rarely matter.

Threat of substitutes: **LOW – 92**

There is virtually no threat of substitutes for Express. The high quality apparel and accessories that are offered cannot simply be replaced by any discount clothing outlets. Express and other high quality retailers differentiate their product so there is no one simple substitute.

Existing rivalry: **MEDIUM – 50**

Main competitors of Express consist of other high quality apparel retailers such as Abercrombie and American Eagle mostly. This is a competitive industry that depends on the ability to be creative with new clothing trends and statements.

Threat of new competition: **MEDIUM – 54**

This industry does not suffer from any major threat of new competition. The amount of capital it would take to directly compete with Express would be difficult to obtain. A new competitor would also need to show the ability to keep up with and create new fashion trends. This ability require a high amount of experience and talent within the company, and is not easy to obtain.

Industry Outlook

Express's margins are relatively similar to other competitors within the industry. Their two biggest competitors are Abercrombie & Fitch and American Eagle. All of these companies specialize in high quality clothing according to fashion trends. The margins have their similarities and differences but ultimately, Express is in the middle of the pack.

American Eagle showed revenue growth of 7.4% last year compared to Express's 8.5%. Gross and EBITDA margins for AE have shown steady improvements over the past few years. The margins ended at 37% for gross and 13.3% for EBITDA.

Express has shown increases in those margins as well but are still just slightly lower. Gross and EBITDA margins for Express for the most recent year were 34% and 12.2% respectively. This shows a similar trend with net income, both companies had about a 2% increase in their most recent year. Express's just being slightly lower at 5.3% compared to AE's 6.1%. Comparatively, these companies are showing similar trends with only slight difference in margins.

Abercrombie & Fitch on the other hand is not in very good shape comparatively. Over the past three years they have suffered a negative growth. Gross margins are much higher than Express's at 61.3% but suffer from much lower net and EBITA margins. Net and EBITA margins for Abercrombie are 1.5% and 9.3%

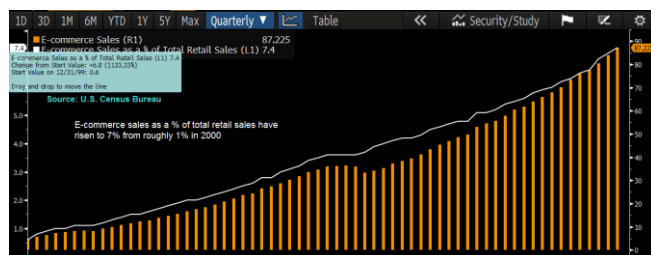
respectively. Express is clearly out competing Abercrombie for a bigger market share.

One Eleven

Express's has a new segment called One Eleven. It consist of some very fashionably design t-shirts that appeal to their current target market. This new segment has had a very positive impact on sales. The One Eleven segment played a huge part in the 8.5% increase in sales for this past year. In the most recent earnings call, management said that this segment would be a part of their strategy going forward. They believe they will see a sustainable amount of growth going forward.

Online Presence

As shown in the graph below, E-commerce as a percent of total sales has increase from less than 1% in 2000, all the way up to 7% in 2015. More of more people are finding that shopping online is much more convenient to shop online. So for all existing retailers, it is important for them to maintain their presence online so their websites will see the same online traffic that their brick and mortar stores do.



Express has shown solid number s when it comes to their online segment, which last year accounted for 16.7% of their total revenue. That number has increased consistently since 2013, all the way up from 12.6%. The revenue growth within that category has been steady as well, showing a 10% from 2014 to 2015. With the trend of total sales becoming and more from the online segment, Express shows that this will not have a huge negative effect on their business as it does for some other retailers.

Valuation

The valuation showed that Express's stock price was undervalued. With the conservate inputs that were provided, it showed the stock has an intrinsic value of \$21.51 with a one year target price of \$27.96. Base year revenue growth was calculated at 4% because of the expected continuing progress of their One Eleven brand. Operating cost were the same as last reported for the explicit period, 87.9%. The operating costs for the continuing period was 87%. The cost of debt input was included at 8.75% which was given from the companies' 10k. Lastly, the beta for the explicit period was input at .745 which was the same as the historical average. The beta for the continuing period is .65 which is closer to what was last reported. 100% of goodwill was also included in the simulation. These inputs show a fairly conservative approach when it comes to valuing Express and should show that the stock price is currently undervalued.

| Income Statement/Operating Components | History | Last Reported | Industry (LTM) | Base Year | C.P. |
|--|---------|-------------------|----------------|-----------|-------|
| Non-adjusted Revenue growth | 3.9% | 8.59% | 7.2% | 4.0% | 2.8% |
| Non-adjusted Operating Costs Revenue | 86.5% | 87.9% | 86.1% | 87.9% | 87.8% |
| DEPR (NFFPE)-1 | 25.7% | 18.4% | 16.9% | 16.4% | 16.4% |
| Common Dividends Revenue | 0.0% | 0.0% | 1.4% | 0.0% | 0.0% |
| Revenue on Cash interest (Interest/Lease) | 0.0% | 0.0% | 1.1% | 0.0% | 0.0% |
| Balance Sheet Operating Components | History | Last Reported | Industry (LTM) | Base year | C.P. |
| (OC) or cash-(OC) Revenue | -1.1% | 0.8% | 9.2% | 0.0% | 0.0% |
| NPPE Revenue | 14.9% | 18.9% | 17.9% | 18.9% | 18.9% |
| Other operating Assets - Other operating (Liabilities) Revenue | -5.7% | -7.7% | 3% | -7.7% | -7.7% |
| Financing Components | History | Last Reported | Industry (LTM) | Base year | C.P. |
| FD (changes annually according to default risk) | 8.9% | 9.0% | 7.3% | 8.7% | 5.82% |
| DE (converges towards impaired value from continuing period) | 0.8% | 1.0% | 0.2% | 1.0% | 0.35% |
| Cost of debt diagnostic | LTM | Continuing Period | | | |
| Cost of debt reported from statements | 8.97% | 5.13% | | | |
| Cost of debt reported by CapitalIQ | 9.34% | 11.1% | | | |
| Cost of own debt based on default rating | 1.94% | 5.05% | | | |
| Cost of debt used | 8.97% | 5.13% | | | |
| EQ BETA, TVR | History | Last Reported | Industry (LTM) | Base year | C.P. |
| EQ | 0.72 | 0.63 | 0.8% | 0.62% | 0.30% |

Conclusion

Express is showing that they are a company that is sustainable long term. It has a segment in One Eleven that will give the company some sustainable growth over the course of the next few years. Their online presence is getting stronger and stronger while the market share for online shoppers continues to increase. The valuations also concluded that Express was currently undervalued, with an intrinsic value of \$21.51 and a one year target price \$27.96. Express is slightly undervalued, but what makes it a buy is the growth to come within the next few years.

Express Inc. (expr)

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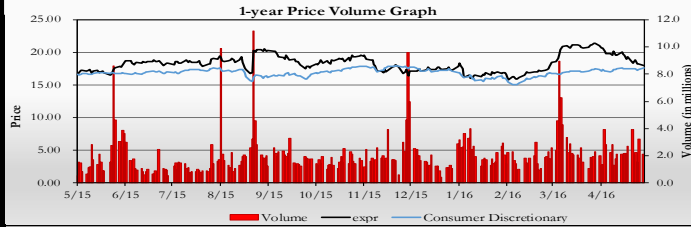
BULLISH

Analysis by **Richard Acheson**
5/5/2016

Current Price: \$17.35
Divident Yield: 0.0%

Intrinsic Value: \$19.86
Target Price: \$26.40

Target 1 year Return: 52.13%
Probability of Price Increase: 95.4%

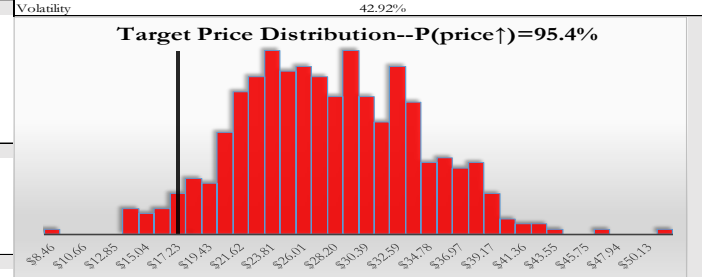


| Description | |
|---|------------------------|
| Express, Inc. operates as a specialty apparel and accessories retailer. | |
| General Information | |
| Sector | Consumer Discretionary |
| Industry | Specialty Retail |
| Last Guidance | November 3, 2015 |
| Next earnings date | May 26, 2016 |
| Estimated Country Risk Premium | 6.00% |
| Effective Tax rate | 40% |
| Effective Operating Tax rate | 42% |

| Market Data | |
|---------------------------------------|------------|
| Market Capitalization | \$1,364.53 |
| Daily volume (mil) | 0.98 |
| Shares outstanding (mil) | 76.79 |
| Diluted shares outstanding (mil) | 84.59 |
| % shares held by institutions | 117% |
| % shares held by investments Managers | 83% |
| % shares held by hedge funds | 19% |
| % shares held by insiders | 3.76% |
| Short interest | 8.51% |
| Days to cover short interest | 2.83 |
| 52 week high | \$21.57 |
| 52-week low | \$15.53 |
| Levered Beta | 0.93 |
| Volatility | 42.92% |

| Past Earning Surprises | |
|------------------------|---------|
| Quarter ending | Revenue |
| 1/31/2015 | -1.00% |
| 5/2/2015 | -0.04% |
| 8/1/2015 | 4.64% |
| 10/31/2015 | -1.51% |
| 1/30/2016 | -1.77% |
| Mean | 0.06% |
| Standard error | 1.2% |

| EBITDA | | Peers | |
|---------------------------------|--------|-----------------------------|--------|
| Chico's FAS Inc. | 12.52% | Urban Outfitters Inc. | 19.24% |
| American Eagle Outfitters, Inc. | 20.88% | Abercrombie & Fitch Co. | 0.40% |
| The Children's Place, Inc. | -1.22% | Finish Line Inc. | 10.36% |
| Lululemon Athletica Inc. | 4.6% | Columbia Sportswear Company | |

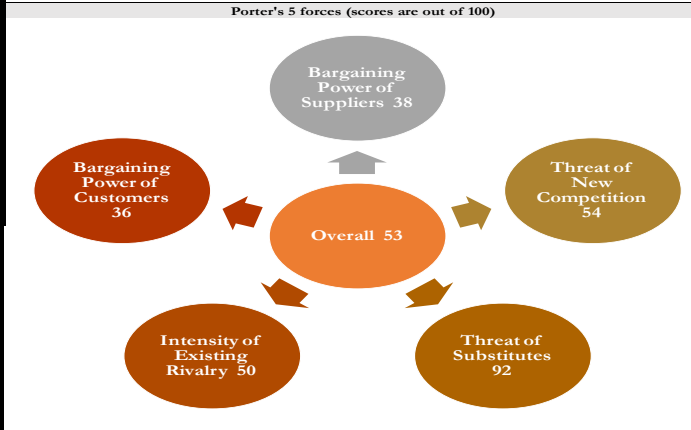
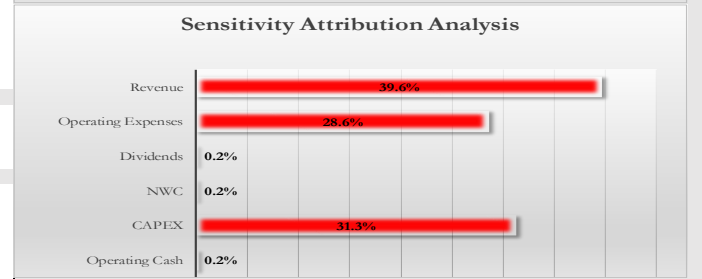


| Management | | Position | |
|----------------------|------------------------------|----------|--|
| Kornberg, David | Chief Executive Officer, Pre | | |
| Moellering, Matthew | Chief Operating Officer and | | |
| Campbell, Colin | Executive Vice President of | | |
| Pericleous, Pericles | Chief Financial Officer, Sen | | |
| Jacobs, Marisa | Vice President of Investor R | | |
| Bundy, Lacey | Senior Vice President, Gener | | |

| Total compensations growth | | Total return to shareholders | |
|----------------------------|--|------------------------------|--|
| -100% per annum over 4y | | 3.25% per annum over 4y | |
| -100% per annum over 4y | | 3.25% per annum over 4y | |
| -100% per annum over 1y | | -24.48% per annum over 1y | |
| N/M | | N/M | |
| N/M | | N/M | |
| N/M | | N/M | |

| Profitability | | Invested Funds | |
|-----------------------------|------|----------------|-------|
| ROIC | 6.9% | expr (LTM) | 4.6% |
| NOPAT Margin | 11% | expr (LTM) | 3.5% |
| Revenue/Invested Capital | 0.61 | expr (LTM) | 0.5% |
| ROE | 8.0% | expr (LTM) | 98.9% |
| Adjusted net margin | 8% | expr (LTM) | 1.00 |
| Revenue/Adjusted Book Value | 0.97 | expr (LTM) | 8.97% |
| Revenue/Invested Capital | 0.61 | expr (LTM) | 1.94% |
| ROE | 8.0% | expr (LTM) | AA |
| Adjusted net margin | 8% | expr (LTM) | 0.53 |
| Revenue/Adjusted Book Value | 0.97 | expr (LTM) | 7.29% |

| Industry (LTM) | | Industry (LTM) | |
|----------------|--------|----------------|-------|
| 19.45% | 19.90% | 20% | 20% |
| 22.53% | 6.9% | N/A | 18% |
| 0.86 | 2.90 | 96.6% | 81% |
| 28.64% | 23.31% | 0.87 | 0.22 |
| 19.77% | 6.5% | 8.88% | 7.32% |
| 1.45 | 3.58 | 1.93% | 7.32% |
| 1.45 | 3.58 | AA | A |
| 1.45 | 3.58 | 0.75 | 0.89 |
| 1.45 | 3.58 | 8.44% | 8.87% |



| Period | | Revenue growth | |
|-------------------|--|----------------|--|
| Base Year | | 8.5% | |
| 1/30/2017 | | 0.7% | |
| 1/30/2018 | | 1.4% | |
| 1/30/2019 | | 1.2% | |
| 1/30/2020 | | 15.2% | |
| 1/30/2021 | | 5.1% | |
| 1/30/2022 | | 4.6% | |
| 1/30/2023 | | 4.1% | |
| 1/30/2024 | | 3.6% | |
| 1/30/2025 | | 3.1% | |
| 1/30/2026 | | 2.6% | |
| Continuing Period | | 2.1% | |

| Valuation | | NO PAT margin | | ROIC/WACC | |
|-------------------|--|---------------|--|-----------|--|
| Base Year | | 11.4% | | 0.95 | |
| 1/30/2017 | | 13.6% | | 1.25 | |
| 1/30/2018 | | 11.5% | | 0.77 | |
| 1/30/2019 | | 11.3% | | 0.82 | |
| 1/30/2020 | | 14.5% | | 1.16 | |
| 1/30/2021 | | 14.5% | | 1.16 | |
| 1/30/2022 | | 14.2% | | 1.06 | |
| 1/30/2023 | | 13.8% | | 1.01 | |
| 1/30/2024 | | 13.3% | | 0.94 | |
| 1/30/2025 | | 12.7% | | 0.87 | |
| 1/30/2026 | | 12.3% | | 0.82 | |
| Continuing Period | | 11.9% | | 0.78 | |