Siena Market Line
2nd week of December 2015

Express, Inc.

EXPR: NYSE

Analyst: Mark Papuzza
Sector: Consumer Discretionary

BUY

Price Target: $23.40

Key Statistics as of 12/01/2015

Market Price:	$16.97
Industry:	Apparel Retail
Market Cap:	$1.44 B
52-Week Range:	$11.90-20.72
Beta:	1.09

Thesis Points:

- Apparel Retail Industry Outlook
- Advertising Advantage due to Brand Ambassador Success
- Financials – Value Creation, zero net debt

Company Description:

Express, Inc. operates as a specialty apparel and accessories retailer. It offers apparel and accessories for women and men across various aspects of lifestyles, including work, casual, jeans wear, and going-out occasions. The company sells its products through its e-commerce Website, express.com, as well as franchisees Express locations in Latin America, the Middle East, and South Africa. As of January 31, 2015, it operated 641 stores in the United States, Canada, and Puerto Rico. The company was formerly known as Express Parent LLC and changed its name to Express, Inc. in May 2010. Express, Inc. was founded in 1980 and is based in Columbus, Ohio.

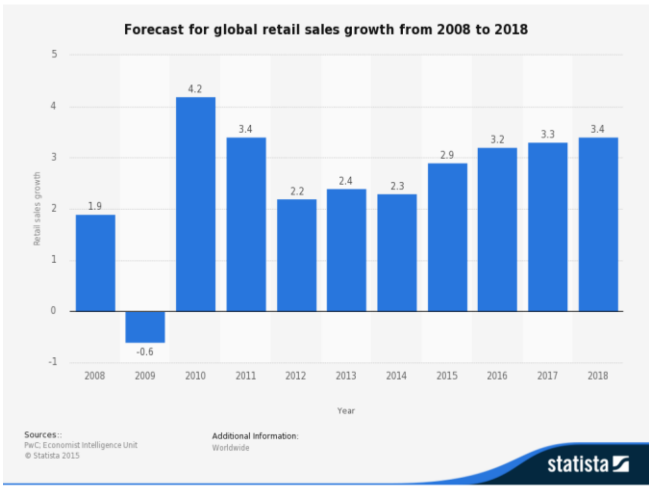
- Capital IQ

Thesis

Express, Inc. operates as a specialty retail apparel store that addresses fashion needs across numerous aspects of one's lifestyle. The company's stylish and quality clothing has made them a very recognizable name in the clothing industry. With their solid reputation, combined with their excellent advertising, value creation and zero net debt, Express will continue to grow and increase the price of their stock.

Industry Outlook

The good news for companies in the apparel industry is that there will always be a need for clothes. People constantly change in size, shrink their clothes in the dryer, stain their clothes, rip their clothes, need clothes for specific occasions, and sometimes simply change their mind on the style they want to wear. The chart below illustrates retail sales growth from 2008-present, and forecasts the growth through 2018. The industry is expected to continue its momentum from the past two years and continue trending upwards in the next three years.



The bad news for the companies in this industry, however, is that the competition only continues to grow stronger. The top priorities for companies looking to differentiate themselves from the large pack of competitors in the near future are to have exceptional marketing, be able to innovate and keep up with market trends, and to have an online/mobile presence. 58% of retailers agree that brick and mortar stores with no online presence will not be able to survive much longer. Shoppers are focused on convenience now more than ever, and continue to shift toward purchasing clothing online rather than make a trip to the store itself. In order to further asses the industry, let's take a look at Porter's Five Forces.

Porter's Five Forces

<u>Threat of New Entrants</u>: High

The clothing industry is a popular, profitable industry and so there is continuous interest from businesses to enter. Individuals typically have a certain style of clothing they prefer, but there are many different companies that offer the same style of clothing. For this reason, brand loyalty is rather low making it easier for a new entrant to entrant the market and succeed. However, there is a need for a significant amount of capital; not for the clothes itself, but for distribution and advertising. That is why a company such as Express has a large advantage over a newcomer, as they are already well known in the industry for being a reputable business.

<u>Threat of Substitution:</u> Low

There is no substitute for clothes. That is why there will always be a high demand for clothes. The only substitute for retail shopping is online shopping, and many companies are working to build an online presence to compete with this "substitute." Express, Inc.'s solid online presence will be discussed later on.

<u>Power of Buyers</u>: Medium

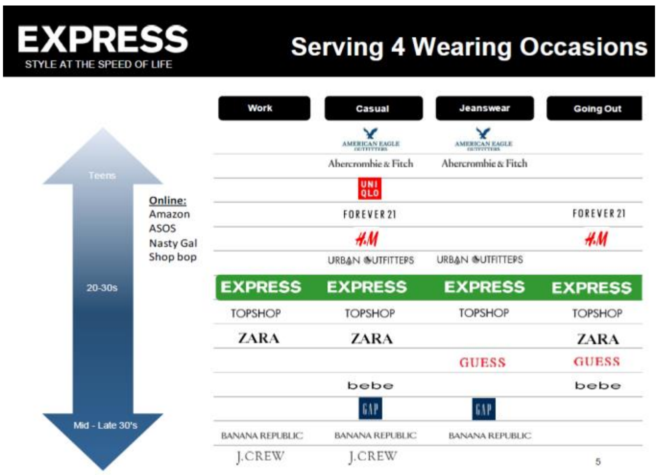
As stated before, there is not much brand loyalty in the apparel industry. Customers have the ability to shop around several stores that sell the style that they are looking for at the price they are looking to pay for it. Customers, however, will not affect how a company prices their apparel. There is such an immense amount of buyers in the market, and each individual buyer purchases only a minimal amount (in the big picture for the industry). As a result, a company can charge what they want for their apparel and expect their target market to purchase it at that price from them. As part of their business model, Express, Inc. prices their clothes relatively high compared to its peers. Due to their brand recognition and clothing that suits several different types of occasions, their higher pricing model has proven successful for their business model, and continues to bring new buyers in and old buyers returning.

Power of Suppliers: Low

There are so many suppliers of the materials needed in this industry that the suppliers have little power. The exclusivity of materials is low, making it easy for companies to switch if they are unhappy with the material or the price. There is no switching costs moving from supplier to supplier; the only cost is the time that would be sacrificed.

Rivalry: High

The competition in the apparel industry is very high. There are many big name players in the market, and new players are continuously entering the market looking to make a splash. That is why it is essential for companies to find a niche market, advertise heavily and differentiate themselves. The target market for Express, Inc. is men and women between the ages of 20 and 30. What differentiates Express from their competitors is the amount of occasions their apparel covers. Express provides casual clothes, work clothes, "going out" clothes, and jeans wear. The wide range that their apparel provides makes their clothing very attractive to customers.



Advertising – Brand Ambassadors

As mentioned in the industry outlook, advertising is crucial to succeeding in this industry. An advertising strategy that has proven to bring success to companies is the signing of celebrities as brand ambassadors. The ultimate goal for advertising is that the company becomes recognizable, and thought of whenever a buyer needs a product from their market. With the amount of people that follow and look up to celebrities, having a successful celebrity associated with a company is a surefire way to catch the attention of buyers in the market. Last year, in December of 2014, Express scored big in signing their first male brand ambassador in the company's history. Stephen Curry, 27 year old point guard for the NBA's Golden State Warriors, was one of the rising stars in the basketball world at the time. His loveable personality, combined with his picture perfect jump shot earned him millions of fans all around the world. Curry became the brand ambassador because Express had always been his go-to, authentic brand that he could relate to personally. Curry's marketing and advertising campaign began in March 2015, and it could not have begun at a better time.

In May 2015, Stephen Curry was named the NBA Most Valuable Player. Although this is one of the biggest accomplishments a player can achieve, Curry did not stop there. Just months after joining Express and winning the MVP award, Curry led his Golden State Warriors to win the NBA Championship. Being the best player on the world's best basketball team comes with a lot of attention, and that is what Curry brings Express. Express stores across the country have posters of Curry wearing their brand, bringing in a new market of men and women who enjoy the game of basketball, and who are fans of Curry. Aside from being one of the most recognizable players in the world, Curry has 3.22 million followers on Twitter. The ability to reach this many people with a single tweet is obviously fantastic for advertising purposes. Express, Inc. signed a rising star at the perfect time, and the brand will continue to benefit greatly from his success and promotion of the company.

Prior to signing Curry, Express teamed up with another popular celebrity for a woman brand ambassador. Kate Upton, one of the world's most popular models, signed with Express in March 2014. With 2.18 million Twitter followers, Upton has the ability to reach a large audience making her a great addition to Express's advertising campaign.

E-Commerce Sales

The need for an online presence in the retail market is necessary, as the amount of online sales in the industry continues to grow. Express launched their website in July 2008, and continues to update and enhance the site by improving analytics and customer targeting. The amount of e-commerce as a percentage of sales has increased each year since the launch of the site, and now accounts for 14% of sales. In the company's third quarter earnings call, CEO David Kornberg reported a 6% growth in e-commerce sales. The company achieved this growth through running new online promotions, and by updating the Express mobile app in September. E-commerce sales are the future in this industry, and Express has proven that they can adapt to this trend, and continue to improve their online sales presence.

Financials – Value Creation, Zero Net Debt

In viewing Express Inc.'s financials, there is clear evidence of value creation year over year. The company's EBITDA margins have consistently outgrown the revenue growth every year. This confirms that the company is eliminating operating expenses that eat into their bottom line, and are creating value.

Another indicator of value creation is a company's ROIC/WACC ratio. When this ratio is greater than 1.0, it is evidence that value is being created. Express, Inc. currently has a solid ROIC/WACC of 1.62. This is not uncommon, as the company has consistently posted an ROIC/WACC greater than 1.0 year over year.

Another notable aspect of Express's balance sheet is their net debt. The net debt is currently -$351 million. This should be encouraging to investors, as the company currently has enough cash on hand to cover all of their debt obligations.

Conclusion

In a highly competitive industry such as the specialty apparel industry, it is essential that companies are innovative and have competitive advantages in order to succeed, and Express, Inc. has just that. With their ability to provide clothing for several different occasions unlike competitors, combined with their immensely popular brand ambassadors and continued value creation, Express Inc. will continue to grow and increase the price of their stock.

CENTER FOR GLOBAL FINANCIAL STUDIES

Express Inc.	expr	Analyst Mark Papuzza	Current Price $16.97	Intrinsic Value $22.78	Target Value $23.41	Divident 0%	1-y Return: 37.95%	BULLISH

General Info		Peers	Market Cap.
Sector	Consumer Discretionary	Chico's FAS Inc.	$1,693.75
Industry	Specialty Retail	American Eagle Outfitters, Inc.	$3,081.92
Last Guidance	August 26, 2015	Urban Outfitters Inc.	$2,731.13
Next earnings date	December 3, 2015	Aéropostale, Inc.	$44.58
Market Data		The Children's Place, Inc.	$994.35
Enterprise value	$1,352.15	Abercrombie & Fitch Co.	$1,729.19
Market Capitalization	$4,449.48	Lululemon Athletica Inc.	$6,894.13
Daily volume	0.22	Guess? Inc.	$1,707.46
Shares outstanding	84.71	Columbia Sportswear Company	$3,382.62
Diluted shares outstanding	84.88	The Buckle, Inc.	$1,567.58
% shares held by institution	26.01%	**Current Capital Structure**	
% shares held by insiders	3.47%	Total debt/Common Equity (LTM	1.16
Short interest	10.57%	Cost of Borrowing (LTM)	14.90%
Days to cover short interes	5.00	Estimated Cost of new Borrowinc	5.91%
52 week high	$20.72	Altman's Z	4.84
52-week low	$11.90	Estimated Debt Rating	B
5y Beta	1.37	Current levered Beta	1.01
6-month volatility	39.37%	LTM WACC	3.16%

Management

Professional	Title	Comp. FY2013	Comp. FY2014	Comp. FY2015
Kornberg, David	Chief Executive Officer, President and	$2,360,596	$2,075,660	$0
Moellering, Matthew	Chief Operating Officer and Executive	$2,001,350	$1,955,986	$0
Person, Test	Executive Vice President of Planning a	$0	$1,303,940	$0
Campbell, Colin	Executive Vice President of Sourcing a	$1,787,631	$1,305,274	$0
Pericleous, Perry	Chief Financial Officer, Senior Vice Pr	$0	$0	$0
Jacobs, Marisa	Vice President of Investor Relations	$0	$0	$0

Past Earning Surprises

	Revenue	EBITDA	Norm. EPS	Standard Error of "Surprise"
Last Quarter	6.17%	27.42%	56.25%	14.51%
Last Quarter-1	3.00%	26.28%	57.14%	15.68%
Last Quarter -2	1.79%	10.09%	6.52%	2.40%
Last Quarter -3	-0.64%	12.75%	6.25%	3.87%
Last Quarter -4	5.19%	53.74%	0.00%	17.11%
Standard error	1.2%	7.7%	12.9%	5.46%
Standard Error of Revenues prediction	1.2%			
Imputed Standard Error of Op. Cost predict	7.7%			
Imputed Standard Error of Non Op. Cost pr	10.3%			

Industry Outlook (Porter's Five Forces)

Bargaining Power of Suppliers (75th Percentile), Bargaining Power of Customers (43th Percentile), Intensity of Existing Rivalry (33th Percentile), Threat of Substitutes (67th Percentile), Threat of New Competition (33th

Proforma Assumptions

Convergence Assumption

All base year ratios linearly converge towards the Sub-industry ratios over an explicit period of 10 years

General Assumptions	
Money market rate (as of today)	0.37%
Risk-Free rate (long term estimate)	2.93%
Annual increase (decrease) in interest rates	0.1%
Marginal Tax Rate	37.5%
Country Risk Premium	6.0%

Forecast Year	Revenue Growth Forecast	Revenue ($) Forecast
LTM		$2,261.37
FY2016	4.1%	$2,353.35
FY2017	4.4%	$2,455.83
FY2018	4.3%	$2,562.08
FY2019	4.0%	$2,664.57
FY2020	7.1%	$2,853.75
FY2021	4.0%	$2,967.90
FY2022	3.5%	$3,071.78
FY2023	3.3%	$3,171.61
FY2024	3.1%	$3,270.72
FY2025	3.1%	$3,370.89
Continuing Period	3.0%	$3,472.02

Items' Forecast Assumptions

	Base year (LTM)	Convergence period (Sub-indust.	Adjustment per yea
Operating Cash/Rev.	0.00%	0.02%	0.0%
NWV/Rev.	1.76%	7.32%	0.6%
NPPE/Rev.	18.88%	17.08%	-0.2%
Dpr/NPPE	16.88%	20.54%	0.4%
NOPAT MARGIN	6.05%	6.67%	0.1%
Op. Exp./Rev.	87.67%	75.00%	-1.3%
SBC/Rev.	0.89%	0.55%	0.0%
Rent Exp./Rev.	9.79%	0.00%	-1.0%
R&D/Rev.	0.00%	0.42%	0.0%
E&D/Rev.	0.00%	0.00%	0.0%
SG&A/Rev.	33.39%	32.45%	-0.1%
ROIC	7%	25.47%	1.85%
EV/Rev.	0.69x	0.72x	0.00x
EV/EBITA	7.52x	6.72x	-0.08x
Debt/Equity	116%	30%	-8.6%
Unlevered beta	0.58	1.20	0.06
Dividends/REV	0%	1%	0.1%

Other Assumptions

Tobin's Q	80%
Excess cash reinvestment	Money market rate
Other claims on the firm's asse	$0.00

Capitalization

100% of all rent expenses are capitalized and amortized 'straightline' over 10 years
100% of all R&D expenses are capitalized and amortized 'straightline' over 10 years
E&P expenses are not capitalized
SG&A expenses are not capitalized

Valuation Focus

DCF Valuation	100%
Relative valuation	0%
Distress Valuation	0%

Monte Carlo Simulation Assumptions

Revenue Growth deviation	Normal (0%, 1%)
Operating expense deviation	Normal (0%, 1%)
Continuing Period growth	Triangular (5.82%, 6%, 6.18%)
Country risk premium	Triangular (2.91%, 3%, 3.09%)
Intrinsic value σ(ε)	$0.09
1-year target price σ(ε)	$0.10

Valuation

Forecast Year	ROIC	WACC	Invested Capital	Implied Enterprise Value	Claims on Assets and Dilution	Shares Outstandin	Price per Share
LTM	7.0%	3.2%	$2,111.39	$4,213.24	$1,782.24	84.71	$22.75
FY2016	8.3%	3.4%	$2,018.24	$4,088.22	$1,593.21	84.71	$22.84
FY2017	9.9%	5.2%	$1,927.44	$4,010.33	$1,340.37	84.71	$24.53
FY2018	11.7%	6.0%	$1,828.11	$3,923.44	$1,052.52	84.71	$26.82
FY2019	14.0%	6.7%	$1,712.44	$3,816.37	$721.10	84.71	$29.87
FY2020	17.2%	7.5%	$1,637.15	$3,731.89	$393.57	84.71	$32.95
FY2021	20.1%	8.2%	$1,493.24	$3,565.19	-$35.35	84.71	$36.81
FY2022	24.3%	8.9%	$1,328.05	$3,354.62	-$517.06	84.71	$41.12
FY2023	30.0%	9.6%	$1,146.26	$3,096.43	-$1,037.29	84.71	$45.76
FY2024	38.0%	10.3%	$949.81	$2,782.62	-$1,605.22	84.71	$50.72
FY2025	49.9%	10.9%	$739.30	$2,401.98	-$2,221.79	84.71	$56.21
Continuing Period	25.5%	11.2%	$909.13				

Monte Carlo Simulation Results

The 3σ(ε)-adjusted intrinsic value is $22.78; the 3σ(ε)-adjusted target price is $23.41; and the analysts' median target price is $22.53

Sensitivity Analysis

Revenue growth variations account for 95.9% of total varian
Risk premium's variations account for 2.5% of total variance
Operating expenses' variations account for 1.4% of total vari
Continuing period growth variations account for 0.2% of tot