

Kate Spade & Co.

NYSE:KATE

Analyst: Andrew Varone

Sector: Consumer Discretionary

BUY

Price Target: \$29.82

Key Statistics as of 3/3/2016

Market Price:	\$23.07
Industry:	Apparel & Textile Products
Market Cap:	\$2.95B
52-Week Range:	\$15.10-\$35.23
Beta:	1.11

Thesis Points:

- Gaining market share in a competitive industry by making products geared towards consumer taste
- Partnerships with Everpurse and bar bags will help increase same store sales
- Positioning themselves to beat competitors will help create value

Company Description:

Kate Spade & Company designs and markets branded women's and men's apparel, accessories and fragrance products. The company's portfolio of brands include most apparel and non-apparel categories.



Thesis

KATE has positioned itself in a competitive industry to gain market share by giving the consumers what they want. They have paid close attention to consumer taste and have been rewarded for it based on their fourth quarter increase in their share price. The company has made key partnerships over the year which have taken away some of the R&D burden that comes with trying to innovate their handbags. This innovation will keep customers coming back and build up their same store sales. Their main competitor, Michael Kors, has seen continuous decline in same store sales and in sales per square footage. Whereas Kate Spade has continuously been improving these numbers, an area vital for retail. KATE is a recommended a buy with a target price of \$29.82. This is a one-year return of around 29%.

Porter's 5 Forces

The competitive rivalry within the industry is high. There are a multitude of handbags sellers that are within the industry. These handbags sellers compete with each other for market share as there is little growth in handbag sales.

The bargaining power of customers is low to medium. Most of the sales come from their own stores and do not go through other retail distribution channels. This means that they do not have to sell their product at a discount to these other distribution channels. Lastly, Kate Spade has been suited to the taste of young adults which has made customers prefer their luxury handbags to their competitors.

The threat of new entrants is low. This is because there is high amount of capital that need to be raised in order to open the stores and for branding. Also, there is a need for brand recognition when it comes to luxury handbags. Consumers want to have handbags that are recognizable by others to show a status about them. It can take years before the handbag builds up any level of brand recognition.

The bargaining power of suppliers is low. There is a multitude of places where the handbags are crafted. If it gets too expensive in one place, then there factories are outsourced to another country. All of these suppliers have them competing against each other to provide the lowest cost.

The threat of substitute products is low to medium. There are counterfeits that people sell that resemble the real product. Also, the rise of online sales has made it

easier to compare products and to find the best deals and styles when shopping in stores.

Position in Industry

The handbag industry has faced tough times as same store sales have declined industry wide. This is good news as this is macro level issue, where every handbag company is facing seeing their same store sales decline. On a micro level, KATE has been gaining market share because of consumer taste for their handbags. The current trend is handbags that are smaller. This possess a problem as smaller handbags are cheaper and carry less profits than the big handbags on the market. KATE has been cutting down on their promotions to help keep up the profits and revenues on their handbags. The popularity of KATE can be seen in Q4 sales, where the company was the leading seller of handbags for the Christmas season.

What has allowed KATE to see such recent success? They have been following trends of selling smaller handbags at the same time being able to push other bigger handbags onto their customers. Their Kate Spade logo that is present is smaller than their competitors such as Michael Kors or Coach. These competitors have larger and more in your face logos on their bags. Customer taste has preferred these smaller logos of late and that has led to their success.

Going Forward

KATE got rid of their labels such as Juicy Couture in 2013. This has helped the company to focus on its main brand of Kate Spade New York. This focus on Kate Spade New York has allowed the company to be more aggressive with their handbag sales and allow them to gain market share in the industry. Moving away from these other clothing lines and pursuing more on the bags side has allowed to create value to the company as seen is its rise in stock price.

Partnerships

KATE has been continuously to partner with companies to improve their handbags and make getting new ones a necessary to their customers. Their latest partnerships include everpurse and bar bags. Everpurse comes with a charger that is built within the purse, specifically for iPhones. With 25% of the population owning iPhones, this seems like a move that will grow revenues as they have created a need for their handbags. People will look to buy a new handbag and see the

convenience of having one with phone charging capabilities.

Another partnership that the company has is with bar bags. This allows the person to have a bar on the go. Though there are may not seem like much of a demand for this, young adults who is there target market will enjoy this addition when they go out on the town.

Financials

The company has seen a recent spike in its price based on the increase of same store sales that it had seen in Q4. The same store sales was at 14%, 4% higher than they previously have had. This also beats out competitors such as Michael Kors who only have same store sales at 13%.

The sales per square foot was 2,701.57 (in millions USD) for the past year. This was an increase from 1,990.56 from just a year ago. This was the highest sales that the company had ever seen. This is less than one of their major competitors, KORS, who saw 3,788.88 in the past fiscal year. Despite being higher than KATE, KORS has been seeing a decrease with only 4,021.85 sales per square foot last year.

Lastly, the company has been working to cut down on their operating cost which is a key driver for their pricing. And they have an ROIC/WACC that is currently 1.14 which means that they are currently creating value.

Conclusion

Kate Spade is a recommended buy based on their ability to turn around the company. They have positioned themselves where they can be seen as the top handbag seller in the upcoming years. Because of this, KATE is seemed as a growth potential stock as they continue to increase their brand of Kate Spade New York.

**Kate Spade & Company
(KATE)**

Analysis by Andrew Varone
3/5/2016

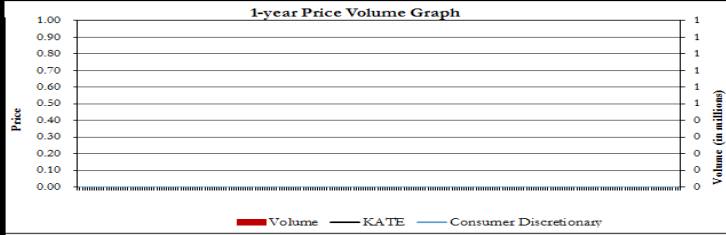
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BULLISH

Current Price: \$23.76
Divident Yield: 0.0%

Intrinsic Value: \$26.63
Target Price: \$29.82

Target 1 year Return: 25.53%
Probability of Price Increase: 92.87%

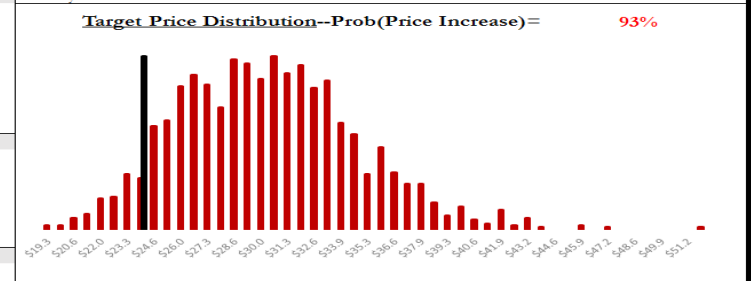


Description	
Kate Spade & Company, together with its subsidiaries, designs and markets apparel and accessories.	
General Information	
Sector	Consumer Discretionary
Industry	Textiles, Apparel and Luxury Goods
Last Guidance	November 3, 2015
Next earnings date	May 4, 2016
Estimated Country	Risk Premium 8.19%
Effective Tax rate	38%
Effective Operating Tax rate	37%

Market Data	
Market Capitalization	\$2,955.43
Daily volume (mil)	1.32
Shares outstanding (mil)	128.11
Diluted shares outstanding (mil)	128.22
% shares held by institutions	107%
% shares held by investments Managers	82%
% shares held by hedge funds	15%
% shares held by insiders	0.31%
Short interest	10.26%
Days to cover short interest	4.64
52 week high	\$35.23
52-week low	\$15.10
Levered Beta	1.08
Volatility	49.70%

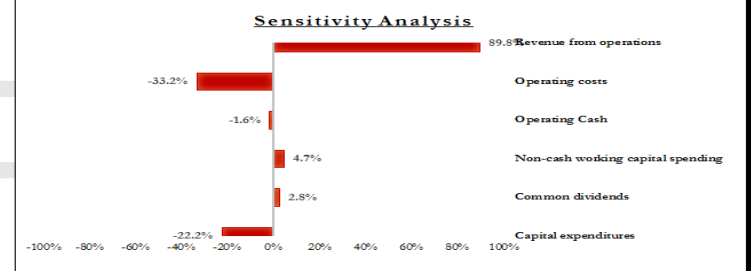
Past Earning Surprises	
Quarter ending	Revenue
1/3/2015	2.00%
4/4/2015	2.86%
7/4/2015	-3.88%
10/3/2015	-0.85%
1/2/2016	-2.84%
Mean	-0.54%
Standard error	1.3%

EBITDA	
1/3/2015	49.24%
4/4/2015	-200.98%
7/4/2015	-25.85%
10/3/2015	10.25%
1/2/2016	-4.34%
Mean	-34.33%
Standard error	43.4%



Management	
Leavitt, Craig	Chief Executive Officer and President and Chief Operatin
Carrara, George	Chief Financial Officer and Chief Information Officer an
Linko, Thomas	Chief Creative Officer and D
Yanussi, Linda	Chief Accounting Officer, Vi
Lloyd, Deborah	
Rinaldo, Michael	

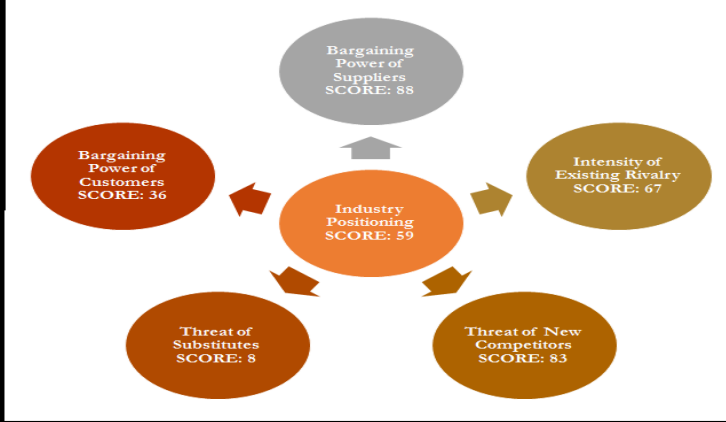
Total compensations growth	
N/M	
-100% per annum over 1y	
N/M	
N/M	
N/M	
N/M	
N/M	
N/M	



Profitability	
ROIC	11.9%
NOPAT Margin	14%
Revenue/Invested Capital	0.83
ROE	13.0%
Adjusted net margin	13%
Revenue/Adjusted Book Value	1.03

Total return to shareholders	
N/M	
1.58% per annum over 1y	
N/M	
0% per annum over 0y	
N/M	
N/M	

Porter's 5 forces (scores are out of 100)



Revenue growth	
Base Year	9.1%
1/2/2017	12.8%
1/2/2018	13.3%
1/2/2019	12.1%
1/2/2020	11.0%
1/2/2021	9.8%
1/2/2022	8.7%
1/2/2023	7.6%
1/2/2024	6.4%
1/2/2025	5.3%
1/2/2026	4.1%
Continuing Period	3.0%

Valuation	
NOPAT margin	ROIC/WACC
14.4%	1.13
16.4%	1.25
19.3%	1.65
19.0%	1.48
18.5%	1.48
18.1%	1.48
17.6%	1.48
17.2%	1.47
16.7%	1.46
16.2%	1.45
15.7%	1.43
15.2%	1.42

Invested Capital	
Base Year	\$1,768.20
1/0/1900	\$1,700.00
1/0/1900	\$1,457.10
1/0/1900	\$1,093.18
1/0/1900	\$1,496.45
1/0/1900	\$1,884.21
1/0/1900	\$2,053.54
1/0/1900	\$2,610.82
1/0/1900	\$2,900.71
1/0/1900	\$3,192.58
1/0/1900	\$3,481.14

Net Claims	
\$831.71	\$26.09
\$790.36	\$29.13
\$948.74	\$33.04
\$810.52	\$37.28
\$643.74	\$41.72
\$460.61	\$46.22
\$251.52	\$50.81
\$15.05	\$55.47
-\$249.68	\$60.16
-\$542.96	\$64.84
-\$864.33	\$69.48