

The Buckle, Inc.

NYSE: BKE

Analyst: Kara Carman
Sector: Cyclical Consumer Goods

BUY

Price Target: \$42.13

Key Statistics as of 12/9/2016

Market Price: \$26.00
Industry: Specialty Retail
Market Cap: \$1,290.9M
52-Week Range: \$19.95-35.02
Beta: 0.90
P/E: \$11.02

Catalysts:

- Change in footwear trends, including the push for short boots at lower prices
- Initiatives to offer more detailed higher-priced denim and various brands
- Q4 Earnings
- Buckle App
- Store remodeling

Company Description:

The Buckle, Inc. is a retailer specializing in men and women's medium to better-priced casual apparel, footwear, and accessories. Products consist of denim, casual tops and bottoms, sportswear, outerwear, footwear, and accessories. Brands that Buckle offers include Buffalo jeans, Flying Monkey, Hurley, Billabong, Under Armour, Reef, Fossil and many more. Currently, Buckle operates approximately 470 retail stores in 44 states which are typically located in shopping malls and lifestyle strip mall centers. Buckle's competitors include American Eagle Outfitters, Urban Outfitters, Abercrombie & Fitch, and Zumiez. Buckle's central office functions are controlled from headquarters and distribution center in Kearney, Nebraska.



Thesis

The Buckle, Inc. is a specialty retailer that offers men's and women's casual clothing, footwear, and accessories. The company has experienced significant growth in the past ten years and has established and operated with large, positive margins, outperforming its competitors. The number of specialty retail stores that Buckle operates has increased from 338 at the beginning of fiscal 2006 to 470 most recently. Buckle has no debt and has a large amount of cash available to further its expansion and investments in higher-end brands. Buckle's gross margin is 41.62%, which is substantially larger than that of its closest competitors. Its EBITDA margin is 20.76% where as the average of its closest competitors is just over 12%. Buckle's net income margin is 11.33% and American Eagle Outfitters and Urban outfitters have the next best net income margin, however it's only 6.62%. For fiscal 2015 Buckle's ROIC to WACC was 3.05, which is nearly three times that of its competitors, indicating it is adding three times as much value. Historically, the company's ROIC/WACC has been even larger, amounting to 5.40. All retail store locations that are operated by Buckle are leased facilities and the company currently has no debt. The Buckle, Inc. is currently undervalued at \$26.00 with an intrinsic value of \$37.97.

Industry Outlook

The retail industry is impacted by seasonal fluctuations in net sales and operating income primarily reflecting the impact of the holidays. Such seasonality impacts companies' working capital requirements, specifically in regards to inventory. Buckle is subject to this seasonality and recognizes a large portion of its net sales and operating income in the fourth quarter of each year. Buckle, along with the rest of the specialty retail industry, also experiences fluctuations due to the impact of the back-to-school season that occurs beginning in late summer through early fall.

Business Model

The Buckle, Inc.'s target consumer is fashion-conscious young men and women between the ages of 15 and 30. The company operates its business operations as one reportable segment with sales all within the United States.

Buckle's merchandise mix consists of denims, casual tops and bottoms, sportswear, outerwear, footwear, and accessories. Buckle aims to continually change its selection of the most up-to-date, casual fashion trends. In doing so, Buckle deemed it necessary to design a computerized system for tracking merchandise from the time it is checked in at the distribution center until it arrives at the stores and is sold to a customer. This model allows stores to carry a reduced inventory while satisfying varying customer demand. Buckle makes merchandising and pricing decisions centrally but they have a unique distribution system. The system allows for Buckle's variation in product mix to be distributed to each store effectively and efficiently. Individual store inventories have the ability to be tailored in order to tend to different customer buying patterns by location. The company has also instituted a transfer program that allows it to relocate merchandise from locations where its not selling as well to locations where it is selling best. In turn, this reduces the need to markdown items that may not be selling as fast at certain locations. Buckle has various federally registered trademarks in which it believes are valuable to its business as a whole.

People

Daniel J. Hirschfeld is chairman of Buckle's Board of Directors. He has served on the Board since 1991, and during that time also served as Buckle's President and Chief Executive Officer. Mr. Hirschfeld has especially been involved in the development of Buckle's management information systems. Dennis H. Nelson is Buckle's current President, Chief Executive Officer, and Director. Mr. Nelson has served as CEO since 1997 but prior to working for Buckle he was a salesmen, and since as worked his way up Buckle's operations. Karen B. Rhoads serves as Buckle's Chief Financial Officer, Senior Vice President, and Finance Director. Prior to joining Buckle's upper management, Ms. Rhoads practiced as a CPA and dealt with tax and accounting matters for Buckle.

Product Differentiation

The Buckle, Inc. aims to offer and maintain a high level of personalized services and it offers a wide selection of fashionable, quality merchandise. The consumer experience at its locations differs Buckle as a specialty retailer. Buckle's salespersons are highly educated to help create a complete

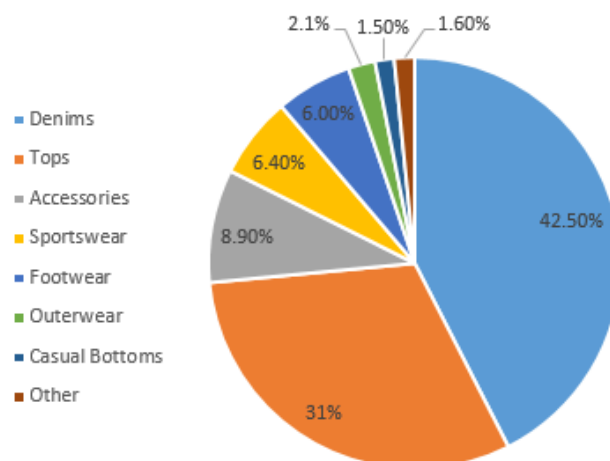
look for all customers and are trained to find guests the best fits while composing and offering coordinating outfits. Buckle offers customer services such as free hemming, free gift-wrapping, a private label credit card, and a frequent shopper program. The company also offers easy layaway. The layaway plan allows customers make partial payments on purchased merchandise. The merchandise is held by the store until the consumer pays the remaining balance. Buckle attracts fashion-conscious consumers with its extensive selection of branded and private label denim along with a wide variety of fits, finishes, and styles. Buckle has also designed and instituted a computerized system for tracking merchandise from the time it is checked in at the distribution center until it arrives at the stores and is sold to a customer. This allows stores to carry a reduced inventory while satisfying customer demand. Buckle offers a variety of high-demand, brand name denims such as Big Star Vintage and Buffalo Jeans while also offering other various brand names such as Under Armour, Reef, O’Neill, and Billabong. There are few specialty retailers that offer the same wide range of higher-end denims to the same extent and as efficiently as Buckle.

Financials

Buckle generated \$1,119,616,000 in net sales for fiscal 2015, which is a 2.9% decrease from fiscal 2014. However Buckle had increased cost of goods sold and increased selling expenses throughout FY 2015. In FY 2015, Buckle spent about 1.2% of net sales, or \$13.3 million, on seasonal marketing campaigns, advertising, promotions, internet marketing, and other point-of-sale materials necessary to operate stores. Denim is a key to Buckle’s strategy and is a significant contributor to total sales. Approximately 42.50% of Buckle’s net sales can be attributed to the sale of denims and 31% can be attributed to the sale of tops. The remaining percent of net sales can be attributed to the sale of Buckle’s other product categories and products including accessories, footwear, sportswear, outerwear, bottoms (not denim), and its “other” category. Q4 sales were \$332,031,000 whereas Q1 sales were \$271,345,000. This illustrates the net effect of the seasonality of the business. Quarterly results also very significantly depending on the timing and amount of sales and costs associated with opening and closing stores, along with the timing and level of markdowns and the timing of remodeling of existing sores. Brand name merchandise accounted for approximately 64% of Buckle’s net sales during fiscal 2015. Buckle had a substantial amount of cash and cash

equivalents at the end of fiscal 2015 compared to fiscal 2014. The amount of cash available, along with the lack of presence of debt, suggests that Buckle has the means and capability to further its expansion initiatives and push growth even further.

Sales by Merchandise Group



Important Dates and Catalysts

Buckle plans to further its expansion by continuing to open stores in existing markets. With its already existing retail stores, the company plans to complete various remodeling projects on different locations across the country. Impacts from these growth plans are expected to occur throughout the next few fiscal years as projects are completed. The Buckle, Inc. also has its 2016 fiscal year end earnings approaching.

Summary

The Buckle, Inc. is a bargain investment with the means and capabilities to further expansion as well as improve its already existing operations. Buckle is an undervalued company that is significantly outperforming most, if not all, of its competitors. With no debt, Buckle is well positioned to continue to improve its already best in class margins and continue to add value at a rate well above that of its competitors.

The Buckle, Inc. (BKE)

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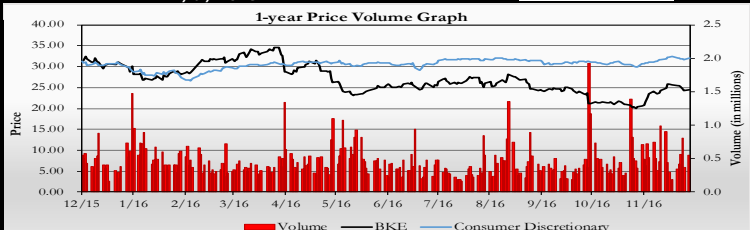
BULLISH

Analysis by Kara Carman
12/9/2016

Current Price: **\$26.55**
Divident Yield: **3.1%**

Intrinsic Value: **\$37.97**
Target Price: **\$42.37**

Target 1 year Return: **62.66%**
Probability of Price Increase: **100%**

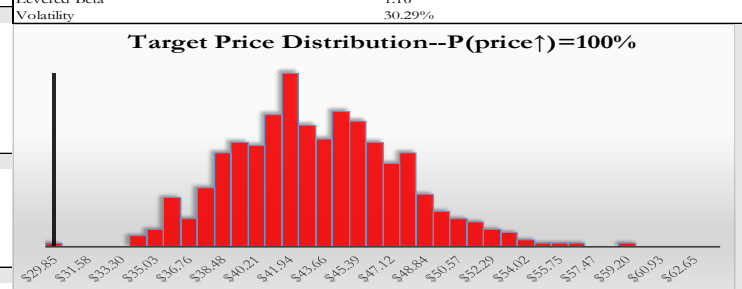


Description	
The Buckle, Inc. operates as a retailer of casual apparel, footwear, and accessories for young men and women in the United States.	
General Information	
Sector	Consumer Discretionary
Industry	Specialty Retail
Last Guidance	November 3, 2015
Next earnings date	February 4, 2017
Estimated Country Risk Premium	6.25%
Effective Tax rate	37%
Effective Operating Tax rate	37%

Market Data	
Market Capitalization	\$1,272.43
Daily volume (mil)	0.48
Shares outstanding (mil)	48.11
Diluted shares outstanding (mil)	48.22
% shares held by institutions	75%
% shares held by investments Managers	60%
% shares held by hedge funds	3%
% shares held by insiders	42.23%
Short interest	15.64%
Days to cover short interest	15.51
52 week high	\$35.02
52-week low	\$19.95
Levered Beta	1.16
Volatility	30.29%

Past Earning Surprises	
Quarter ending	Revenue
10/31/2015	-6.52%
1/30/2016	-3.38%
4/30/2016	-4.51%
7/30/2016	-4.25%
10/29/2016	-9.15%
Mean	-5.56%
Standard error	1.0%

EBITDA	
10/31/2015	-11.92%
1/30/2016	-1.44%
4/30/2016	-13.03%
7/30/2016	-10.86%
10/29/2016	-15.79%
Mean	-10.60%
Standard error	2.4%

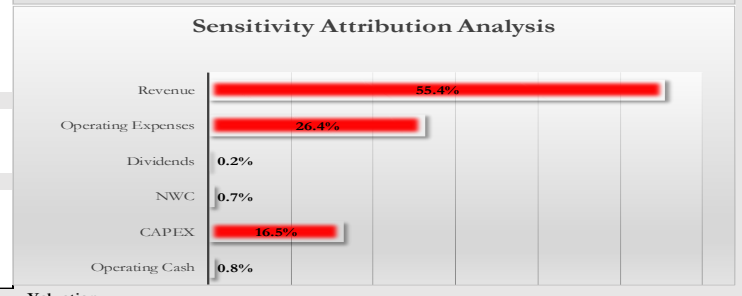


Management	
Nelson, Dennis	Chief Executive Officer, Pre
Rhoads, Karen	Chief Financial Officer, Sen
Milkie, Brett	Senior Vice President of Lea
Smith, Kari	Executive Vice President of
Hanson, Kyle	Vice President, General Cou
Hoffman, Michelle	Vice President of Sales

Peers	
Zumiez Inc.	3.37% per annum over 4y
The Cato Corporation	3.37% per annum over 4y
Express, Inc.	3.37% per annum over 4y
Francesca's Holdings Corporation	3.37% per annum over 4y
DSW Inc.	3.37% per annum over 4y
Citi Trends, Inc.	N/M
Chico's FAS, Inc.	N/M
Abercrombie & Fitch Co.	N/M

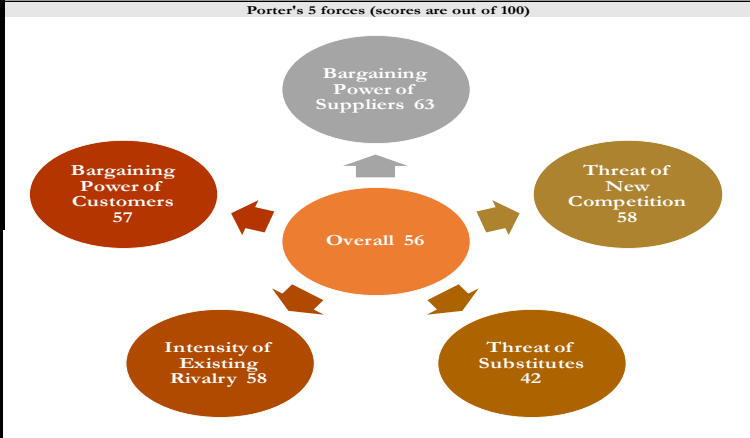
Profitability	
ROIC	11.6%
NOPAT Margin	15%
Revenue/Invested Capital	0.75
ROE	19.6%
Adjusted net margin	15%
Revenue/Adjusted Book Value	1.30

BKE (5 years historical average)	
ROIC	22.70%
NOPAT Margin	21.32%
Revenue/Invested Capital	1.06
ROE	42.28%
Adjusted net margin	21.06%
Revenue/Adjusted Book Value	2.01



Invested Funds	
Total Cash/Total Capital	14.5%
Estimated Operating Cash/Total Capital	9.3%
Non-cash working Capital/Total Capital	5.5%
Invested Capital/Total Capital	94.2%

BKE (5 years historical average)	
Total Cash/Total Capital	13.8%
Estimated Operating Cash/Total Capital	10.5%
Non-cash working Capital/Total Capital	3.4%
Invested Capital/Total Capital	95.4%



Revenue growth	
Base Year	-10.0%
10/29/2017	-4.4%
10/29/2018	0.2%
10/29/2019	3.4%
10/29/2020	3.5%
10/29/2021	3.6%
10/29/2022	3.7%
10/29/2023	3.8%
10/29/2024	3.8%
10/29/2025	3.9%
10/29/2026	4.0%
Continuing Period	4.1%

Valuation	
NOPAT margin	15.4%
ROIC/WACC	1.47
	1.29
	1.02
	1.30
	1.39
	1.43
	1.48
	1.51
	1.54
	1.56
	1.59
	1.61

Invested Capital	
Base Year	\$952.18
10/29/2017	\$1,013.19
10/29/2018	\$1,183.19
10/29/2019	\$1,270.28
10/29/2020	\$1,364.79
10/29/2021	\$1,387.90
10/29/2022	\$1,370.63
10/29/2023	\$1,201.96
10/29/2024	\$1,229.41
10/29/2025	\$1,278.09
10/29/2026	\$1,319.29
Continuing Period	

Net Claims	
Base Year	\$562.63
10/29/2017	\$389.95
10/29/2018	\$90.17
10/29/2019	-\$35.05
10/29/2020	-\$159.20
10/29/2021	-\$308.32
10/29/2022	-\$469.63
10/29/2023	-\$643.14
10/29/2024	-\$829.66
10/29/2025	-\$1,030.66
10/29/2026	-\$1,247.74
Continuing Period	