

Childrens Place, Inc.

NASDAQ:PLCE

Analyst: Peter Gadze
Sector: Consumer
Discretionary

Buy

Price Target: \$129.68

Key Statistics as of 12/10/2016

Market Price: \$110.50
Industry: Specialty Retail
Market Cap: \$1.99 B
52-Week Range: \$53.00 – 110.95
Beta: .27

Catalysts:

- Fleet Optimization
- International Expansion

Company Description:

The Children's Place is the largest children's specialty apparel retailer in North America. This company sells apparel, accessories, and other items for children. They design, manufacture, and sell quality merchandise at valuable prices under the proprietary brand names "The Children's Place", "Place", and "Baby Place." They also sell their products through their online store. The Children's Place was founded in 1969 and its headquarters is based in Secaucus, New Jersey.



Thesis

Fashion has been a growing theme through the years for children. Children's apparel is on the rise as companies compete with one another to expand. The Children's Place makes shopping fast and convenient for customers with having quality apparel for low costs. They also have the highest brand awareness among other retailers in the industry. The way the company seems to be doing in the market is below of what it can be. The company is doing well financially and expanding as new ideas of increasing productivity are in action.

People

Jane Elfers serves as the President, Chief Executive Officer, Director of Children's Place Retail Stores Inc., since January 2010. She has over three decades of experience at Macy's as a retail executive. Before she became President of The Children's Place, she was the President and Chief Executive Officer at Lord & Taylor.

Anurup Pruthi is the Chief Financial and Senior Vice President. He has over 20 years of experience dealing with global financial and operational management. Prior to working for The Children's Place, he was the Chief Financial Officer of Reliance Retail Limited, the largest retailer in India.

Michael Scarpa is the Chief Operating Officer of this company and has over 30 years of financial experience. Prior to joining The Children's Place, he was the Chief Financial Operator The Talbotts Inc., then spent 25 years at Liz Claiborne Inc. where he had an increase in responsibility.

3rd Quarter Earnings

The Children's Place had a significant rise compared to last year's 3rd Quarter Earnings. Last year, they had \$39.61 million in profit for they're quarter earnings and this year it rose to \$42.8 million. The Earnings Per Share rose from \$1.93 to \$2.29. This beat Zacks' consensus estimate of \$2.01. There also had growth in revenue to \$473.78 million compared to last years of \$455.91.

Here are the growth ratios:

Profit	8.05%
EPS	18.65%
Revenue	3.92%

Business Segments and Outlook

The company divides its business into two segments:

- The Children's Place US, which deals with stores in the US and Puerto Rico.
- The Children's Place International, which deals with stores in Canada and some countries across the globe.

Within each of these segments, they have an e-commerce business that's located on their website, www.childrensplace.com. E-commerce gives customers an easy commercial transaction through to internet to ship and deliver products fast to customers. This business strategy interrupts growth in small companies and eventually those companies would default. Prior to developing on the company through the use of technology, the Vice President of the E-Commerce for The Children's Place stated that "If you're not a technology company, you shouldn't attempt to be one." But nowadays, omnichannel retailers have to be both technological and data analytic companies to deal with competition.

Targeted Customers

Every company has a group of customers they want to target to boost they're sales. The Children's Place is known for head-to-toe outfits for children starting from when they are born to age 10. The targeted customers are value-conscious moms who are dealing with a tight budget and higher income moms who appreciate the quality that's offered. The average customer has two children with an annual household income around \$70,000. In recent study, moms have ranked this company as a great place to shop for children. All different kinds of races come to The Children's Place whether it'd be Caucasian, Latino, Asian, or African American. There has been potential new customers to expand the wholesale distribution in the future.

International Expansion

The Children's Place has recently taken some action to expand their company. The company has 1,061 stores in the United States, Canada, and Puerto Rico. About 85% of the revenue that is generated into the company comes from these stores. The Children's Place also has 139 points of distribution that are being operated by 6 franchise partners in 17 countries. The Children's Place is going to continue to pursue new channels of distribution and develop stores in the Middle East. The company opened stores in UAE, Kuwait, Qatar, Bahrain, Oman, and Saudi Arabia. The Children's Place signed franchise agreements with two local retailers for this expansion in the Middle East. As of now, the company has been dealing with some competition with other children's apparel but over the years their relationship with their partners will strengthen.

Fleet Optimization

After there was an extensive store to store review, there was a decision made in 2013 that could help increase the amount of revenue for The Children's Place. They decided to close approximately 125 underperforming stores to improve fleet profitability and productivity. Given this excess cash, new studies will be made to see which location would be profitable to build a new store whether it'd be in malls or different shopping centers where they can meet the hurdle rate for productivity and try to perform above expectations.

Summary

The Children's Place has a growing partnership with franchises and that's going to lead to development on expansion. The Middle East has countries that are growing at a faster rate due to being underdeveloped the past century. Closing stores and developing new ones where they would make more sales will also give the company more information on customer data for the future. As of now I wouldn't buy this stock at the price it's at. I'd say to buy if it goes below \$110.

The Children's Place, Inc.
(PLCE)

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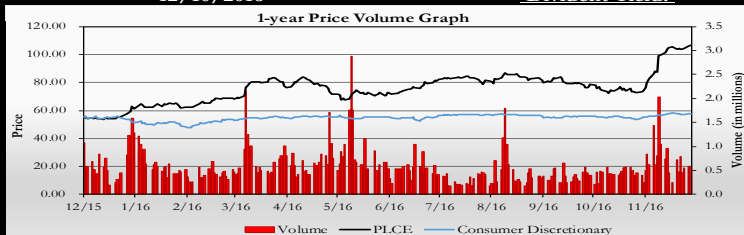
NEUTRAL

Analysis by Peter Gadze
12/10/2016

Current Price: **\$110.45**
Divident Yield: **0.7%**

Intrinsic Value: **\$120.12**
Target Price: **\$129.68**

Target 1 year Return: 18.12%
Probability of Price Increase: 93.6%

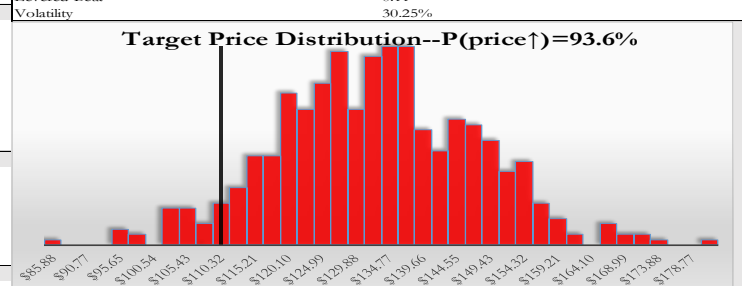


Description	
The Children's Place, Inc. operates as a children's specialty apparel retailer.	
General Information	
Sector	Consumer Discretionary
Industry	Specialty Retail
Last Guidance	November 3, 2015
Next earnings date	March 16, 2017
Estimated Country Risk Premium	6.25%
Effective Tax rate	40%
Effective Operating Tax rate	42%

Market Data	
Market Capitalization	\$1,978.09
Daily volume (mil)	0.14
Shares outstanding (mil)	18.04
Diluted shares outstanding (mil)	19.40
% shares held by institutions	127%
% shares held by investments Managers	106%
% shares held by hedge funds	13%
% shares held by insiders	1.25%
Short interest	25.38%
Days to cover short interest	9.00
52 week high	\$110.40
52-week low	\$53.00
Levered Beta	0.11
Volatility	30.25%

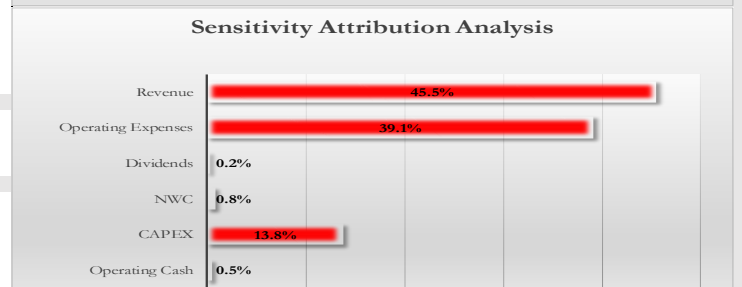
Past Earning Surprises	
Quarter ending	Revenue
10/31/2015	-6.44%
1/30/2016	-2.25%
4/30/2016	-3.14%
7/30/2016	-0.74%
10/29/2016	0.77%
Mean	-2.36%
Standard error	1.2%

Peers	
Express, Inc.	-100% per annum over 4y
Abercrombie & Fitch Co.	9.59% per annum over 1y
American Eagle Outfitters, Inc.	-100% per annum over 3y
Chico's FAS, Inc.	6.06% per annum over 3y
Kate Spade & Company	12.18% per annum over 2y
Urban Outfitters, Inc.	N/M
Lululemon Athletica Inc.	N/M
The Finish Line, Inc.	N/M



Management	
Elfers, Jane	Chief Executive Officer, Pre
Pruthi, Anurup	Chief Financial Officer, Pri
Scarpa, Michael	Chief Operating Officer and
Poole, Gregory	Senior Vice President of Glo
Low, Kevin	Senior Vice President of Sto
Maini, Manish	Chief Information Officer an

Total compensations growth	
Chief Executive Officer, Pre	-100% per annum over 4y
Chief Financial Officer, Pri	-100% per annum over 1y
Chief Operating Officer and	-100% per annum over 3y
Senior Vice President of Glo	-100% per annum over 3y
Senior Vice President of Sto	-100% per annum over 2y
Chief Information Officer an	N/M



Profitability	
ROIC	11.3%
NOPAT Margin	9%
Revenue/Invested Capital	1.31
ROE	16.6%
Adjusted net margin	7%
Revenue/Adjusted Book Value	2.29

PLCE (5 years historical average)	
EBITDA	-3.96%
	1.28%
	13.75%
	59.68%
	0.39%
	14.23%
	11.7%

Valuation	
NOPAT margin	8.6%
ROIC/WACC	2.56
	2.96
	2.75
	2.39
	2.22
	2.06
	1.92
	1.81
	1.70
	1.61
	1.54
	1.46

Invested Funds	
Total Cash/Total Capital	18.9%
Estimated Operating Cash/Total Capital	12.9%
Non-cash working Capital/Total Capital	5.2%
Invested Capital/Total Capital	94.2%

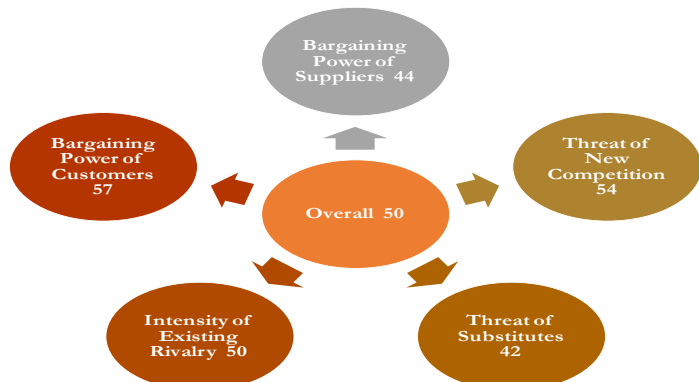
PLCE (5 years historical average)	
EBITDA	11.41%
	10.40%
	1.10
	17.14%
	9.30%
	1.84

Net Claims	
Base Year	\$588.57
10/29/2017	\$400.82
10/29/2018	\$233.78
10/29/2019	\$13.52
10/29/2020	-\$189.26
10/29/2021	-\$384.64
10/29/2022	-\$573.23
10/29/2023	-\$755.59
10/29/2024	-\$932.18
10/29/2025	-\$1,103.38
10/29/2026	-\$1,263.13

Capital Structure	
Total Debt/Common Equity (LTM)	0.49
Cost of Existing Debt	6.24%
Estimated Cost of new Borrowing	6.11%
CGFS Risk Rating	D
Unlevered Beta (LTM)	0.08
WACC	4.40%

PLCE (LTM)	
Revenue	11.3%
EBITDA	11.41%
Operating Expenses	10.40%
Dividends	0.2%
NWC	0.8%
CAPEX	13.8%
Operating Cash	0.5%

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



Period	
Base Year	3.3%
10/29/2017	-0.1%
10/29/2018	-0.8%
10/29/2019	-0.3%
10/29/2020	0.3%
10/29/2021	0.8%
10/29/2022	1.3%
10/29/2023	1.9%
10/29/2024	2.4%
10/29/2025	3.0%
10/29/2026	3.5%
Continuing Period	4.0%

Period	
Base Year	\$1,398.42
10/29/2017	\$1,409.86
10/29/2018	\$1,391.72
10/29/2019	\$1,398.02
10/29/2020	\$1,344.78
10/29/2021	\$1,332.43
10/29/2022	\$1,370.85
10/29/2023	\$1,451.28
10/29/2024	\$1,471.71
10/29/2025	\$1,507.51
10/29/2026	\$1,550.40
Continuing Period	