

Steve Madden, Ltd.

NASDAQ:SHOO

Analyst: Kara Carman

Sector: Consumer Disc.

BUY

Price Target: 38.09

Key Statistics as of 10/28/2016

Market Price:	\$34.04
Industry:	Textiles, Apparel and Luxury Goods
Market Cap:	2.00B
52-Week Range:	27.80 – 38.48
Beta:	0.77
P/E:	17.91

Catalysts:

- Quarter 3 Earnings Announcement – November 1, 2016
- Cold weather months
- Shift in fashion trends
- Improved relationships with Amazon and Zappos

Company Description:

Steve Madden, Ltd. (SHOO) began as a \$1,100 investment and is now one of the most well-known footwear brands. The company primarily designs, manufactures, and sells footwear for women, men and children. Aside from its wholesale footwear segment, Steve Madden also operates through wholesale accessories, first cost, retail and licensing. Its shoe brands include Steven and Dolce Vita, and its accessory brands include Betseyvill and Luv Betse. Steve Madden operates a majority of its 170 retail stores in urban street locations while maintaining a presence in shopping malls. The wholesale segment consists of designing, sourcing and marketing its brand to department stores, luxury retailers, national chains, online retailers, etc. Steve Madden brands are sold in over 80 countries across the world. Some notable competitors include Sketchers, Crocs, Footlocker and Rocky Brands.



Thesis

Steve Madden, Ltd. started as a home-grown company from a whopping \$1,100. Steve Madden, founder and former CEO started selling shoes out of the trunk of his car in 1990. Now the company is a powerhouse in the textiles, apparel and luxury goods industry. For the fiscal year 2015, Steve Madden reported \$1.41 billion in revenue. Through the acquisitions of other companies, such as Dolce Vita and Blondo, the company continues to not only increase its revenues but also increase its product diversification. Dolce Vita alone experienced a 50% sales growth increase in Q2. Blondo, Inc. was acquired by Steve Madden in early January, 2015 and Dolce Vita Holdings, Inc. was acquired in August, 2014. Since its initial public offering in 1993, Steve Madden has been a significant player in the industry. Although revenues for its wholesale footwear segment have continued to increase over the years, there has definitely been a slowdown of growth. That being said, other segments such as first cost and licensing have taken off, and are continuing to grow, therefore providing Steve Madden with even more revenue. The company has historically outperformed its competitors and there are many reasons for that trend to continue.

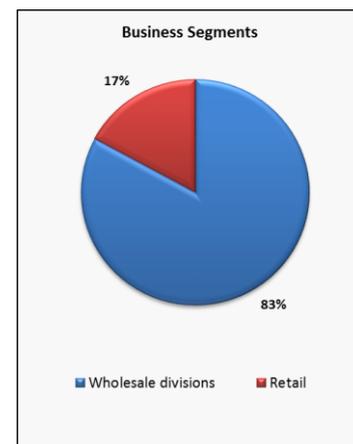
Industry Outlook

In September the total United States footwear sales fell 5% year over year, amounting to \$2.4B. Footwear stocks are said to have “gone in reverse” potentially due to warmer weather delaying the purchase of fashion shoes. Although the industry faced a major decline, Steve Madden didn’t decline as much as some of its competitors. However, on the upside, millennial demand has helped uplift the footwear industry. A continuing trend that has been observed is the increased spending by millennials on footwear in comparison to other retail segments. That being said, millennials tend to show a higher loyalty to power brands such as a Steve Madden brand, or Nike. The fashion industry tends to be cyclical in nature, causing an uncertainty about demand for the products and the industry’s performance as a whole.

Business Model

The company performs operations under five separate business segments. The wholesale footwear segment’s operations include designing, manufacturing, and

distributing various Steve Madden brands to retailers such as department stores, national chains, online shopping sites, and luxury stores. These brands include Dolce Vita and Madden Girl. The wholesale accessories segment operates similarly, but includes products such as scarves, handbags, and other fashion accessories. Steve Madden stores make up their own segment, the retail segment. Not only are there physical store locations but there are internet shopping sites for brands such as Steve Madden and Betsey Johnson. Another operation includes licenses the Steve by Steve Madden and its Steve Madden for the manufacturing of luxury goods such as bedding, jewelry, luggage, watches, etc. The first cost segment’s operations include acting as an agent for the buying of footwear products under private labels. In doing so, Steve Madden earns commission from mid-tier retailers such as Kohl’s and Payless. When analyzing Steve Madden, the primary segments are broken into wholesale divisions and retail.



People

Steve Madden, the founder of the company was forced to resign as the CEO and from the board of directors after being convicted of stock manipulation and money and securities fraud. Four years later, Steve Madden, Ltd. Was named “Company of the Year” at the Footwear News Achievement Awards after increasing revenues by approximately \$100 million. After Jamieson Karson resigned as CEO, Edward Rosenfeld was named interim CEO. Prior to being named interim CEO, Rosenfeld was the executive vice president of strategic planning and finance. As the Vice President of Peter J. Solomon Company, Mr. Rosenfeld has plenty of relative experience in the retail and apparel industries

Product Differentiation

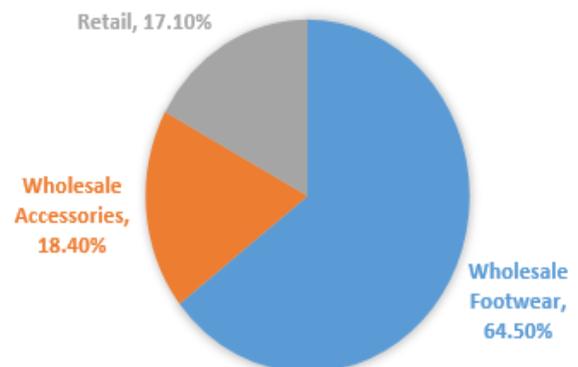
What separates Steve Madden is its business model and the products offered. Although the company is primarily known for its footwear products, it is sufficiently diversified in other apparel markets giving them a competitive advantage over other companies in the industry. Steve Madden also offers products that other brands don't, such as fashion sneakers or open toe dress "booties". This is pertinent to Steve Madden's product differentiation because the demand for such fashions have grown immensely, especially amongst younger women. The switch from a demand for tall shaft boots to casual and dress "booties" creates a significant opportunity for Steve Madden to further its growth.

Financials

Revenue growth was about 5.3% from year 2014 to year 2015. The growth from 2014 to 2015 was significantly larger than the year prior. This can partially be attributed to acquisitions made in 2014 and 2015. Revenues for the wholesale footwear segment grew almost 3% in 2015 and accounted for about 64.5% of net sales, while the wholesale accessories segment grew about 5% and accounted for about 18.4% of net sales. The accessories segment is a young, growing business, therefore still growing and has major drivers such as the success of Betsey Johnson and private label handbags. The retail segment experienced a major growth from 2014 to 2015 of 15.9% and accounted for 17.1% of net sales. The growth experienced by the retail segment is driven by an increase in fashion trends, a further increase in product assortment and the changes in conversion rate. On top of that, the company opened nine additional stores in 2015. The growth of revenues from the licensing segment was even greater than that of the retail segment amounting to a 35% growth. The cost segment's revenues only grew about 5.5%. In 2015 cost of sales was 64.4% of net sales which is .5 percentage points lower than that of the previous year. The decrease in cost of sales, although it may appear small, is significant because it suggests that the company is managing operating costs more efficiently. This can be partially be attributed to Steve Madden's growth through product diversification. When acquiring another firm, a company has the ability to expand its products while maintaining similar

operating costs. What we can make out of this is that the wholesale footwear continues to consistently grow but the company's other segments are continuously evolving and expanding therefore spiking revenues even further. The company's operating income margin is 12.17%, almost three percentage points higher than that of its competitors. Steve Madden generates a majority of its cash from operations suggesting that it operates a healthy business.

PERCENT OF REVENUES BY SEGMENT



Important Dates and Catalysts

The Q3 earnings announcement and earning call are set to take place on November 1, 2016. It is expected that the earnings call will include the success of Nordstrom's anniversary sale and the impact on Steve Madden and its subsidiaries and the continuous improvement of relationships with Amazon and Zappos. With colder weather months approaching, the shift in demand for high-shafted boots and luxury fashion booties will be on the rise. Although there is some skepticism about the demand for high fashion footwear and other products that are offered by Steve Madden and its subsidiaries, it has been proven that the demand for millennials for luxurious fashion trends has been continuously on the rise. With that being said, improved relationships with Amazon and Zappos are crucial and will certainly have an effect on how the company continues to grow. For a price conscious shopper or a shopper looking for convenience, an e-commerce site such as Zappos or Amazon will drive their likeliness of purchasing products designed by Steve Madden.

Summary

Since its IPO, Steve Madden has been a continuously strong company. Of course with the cyclical nature of the industry, there have been some down times. The increasing demand for luxury footwear by millennials and the continuous loyalty to Steve Madden brands provide the assurance that the company will continue to perform not only with, but above the industry. On top of that, the Q3 earnings announcement and earning call are set to take place on November 1, 2016. It is expected that the earnings call will include the success of Nordstrom's anniversary sale and the impact on Steve Madden and its subsidiaries and the continuous improvement of relationships with Amazon and Zappos. We are approaching colder weather months therefore the demand for fashion tall-shafted boots and booties.

Steven Madden, Ltd. (SHOO)

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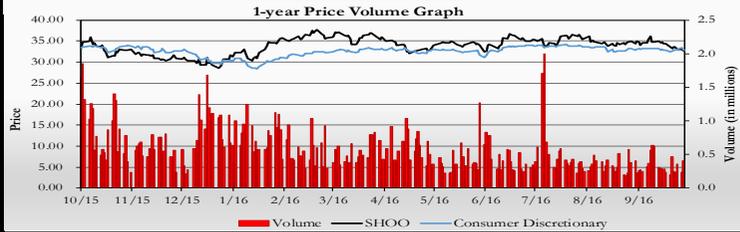
NEUTRAL

Analysis by Kara Carman
10/28/2016

Current Price: \$33.96
Divident Yield: 0.0%

Intrinsic Value: \$34.00
Target Price: \$38.09

Target 1 year Return: 12.17%
Probability of Price Increase: 87.2%

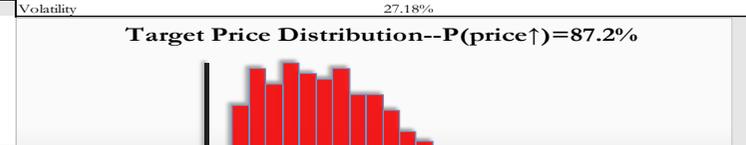


Description	
Steven Madden, Ltd. designs, sources, markets, and sells fashion-forward name brand and private label footwear for women, men, and children.	
General Information	
Sector	Consumer Discretionary
Industry	Textiles, Apparel and Luxury Goods
Last Guidance	November 3, 2015
Next earnings date	November 1, 2016
Estimated Country Risk Premium	6.68%
Effective Tax rate	38%
Effective Operating Tax rate	38%

Market Data	
Market Capitalization	\$1,995.54
Daily volume (mil)	0.36
Shares outstanding (mil)	61.27
Diluted shares outstanding (mil)	60.01
% shares held by institutions	96%
% shares held by investments Managers	91%
% shares held by hedge funds	6%
% shares held by insiders	10.30%
Short interest	4.36%
Days to cover short interest	6.50
52 week high	\$38.48
52-week low	\$27.80
Levered Beta	0.90
Volatility	27.18%

Past Earning Surprises	
Quarter ending	Revenue
6/30/2015	0.77%
9/30/2015	-3.50%
12/31/2015	-4.88%
3/31/2016	-0.25%
6/30/2016	-2.95%
Mean	-2.16%
Standard error	1.1%

EBITDA	
6/30/2015	2.76%
9/30/2015	6.55%
12/31/2015	-0.16%
3/31/2016	-2.22%
6/30/2016	-7.67%
Mean	-0.15%
Standard error	2.4%



Management	
Rosenfeld, Edward	Chairman and Chief Executive
Varela, Amelia	President and Director
Dharía, Arvind	Chief Financial Officer, Chi
Sinha, Awadhesh	Chief Operating Officer
Frieders, Karla	Chief Merchandising Officer
Madden, Steven	Founder and Creative & Desig

Peers	
Deckers Outdoor Corp.	
Wolverine World Wide Inc.	
Cros, Inc.	
Finish Line Inc.	
Skechers U.S.A., Inc.	
DSW Inc.	
Kate Spade & Company	
Genesco Inc.	

Total compensations growth	
44.27% per annum over 5y	
-7.64% per annum over 5y	
7.9% per annum over 5y	
-22.02% per annum over 5y	
N/M	
N/M	

Profitability	
ROIC	17.9%
NOPAT Margin	10%
Revenue/Invested Capital	1.80
ROE	21.9%
Adjusted net margin	9%
Revenue/Adjusted Book Value	2.35

SHOO (LTM)	
29.79%	
13.76%	
2.17	
33.86%	
13.38%	
2.53	



Invested Funds	
Total Cash/Total Capital	8.7%
Estimated Operating Cash/Total Capital	6.1%
Non-cash working Capital/Total Capital	14.9%
Invested Capital/Total Capital	68.3%

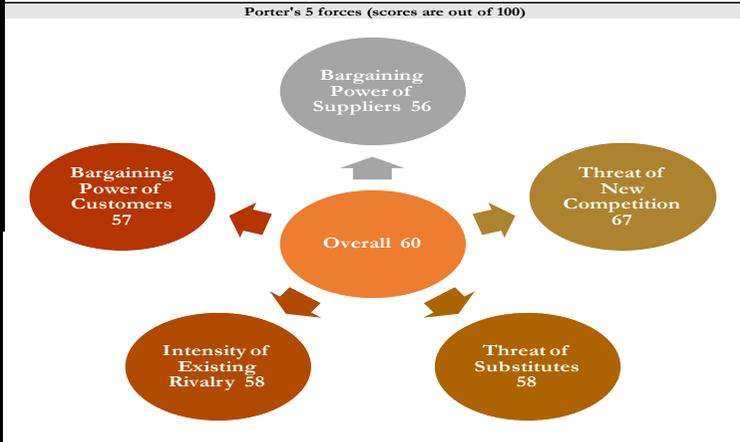
SHOO (5 years historical average)	
12.9%	
8.6%	
14.1%	
64.6%	

Industry (LTM)	
13.72%	
8.4%	
1.63	
15.52%	
7.7%	
2.02	

Capital Structure	
Total Debt/Common Equity (LTM)	0.15
Cost of Existing Debt	4.98%
Estimated Cost of new Borrowing	4.80%
CGFS Risk Rating	CC
Unlevered Beta (LTM)	0.82
WACC	9.11%

SHOO (5 years historical average)	
0.12	
4.83%	
4.80%	
CC	
1.35	
12.80%	

Industry (LTM)	
0.16	
3.92%	
3.92%	
CC	
0.79	
8.91%	



Revenue growth	
Base Year	2.2%
6/30/2017	1.6%
6/30/2018	5.5%
6/30/2019	5.3%
6/30/2020	5.2%
6/30/2021	5.0%
6/30/2022	4.9%
6/30/2023	4.7%
6/30/2024	4.5%
6/30/2025	4.4%
6/30/2026	4.2%
Continuing Period	4.1%

Valuation	
NOPAT margin	
10.0%	1.96
8.6%	1.58
8.8%	1.58
9.1%	1.64
9.4%	1.70
9.7%	1.75
10.0%	1.80
10.2%	1.85
10.5%	1.90
10.8%	1.95
11.1%	2.00
11.3%	1.92

Invested Capital	
Base Year	\$479.81
6/30/2017	\$556.08
6/30/2018	\$667.17
6/30/2019	\$697.18
6/30/2020	\$786.79
6/30/2021	\$853.60
6/30/2022	\$927.93
6/30/2023	\$972.82
6/30/2024	\$1,016.80
6/30/2025	\$1,068.49
6/30/2026	\$1,120.80
Continuing Period	

Net Claims	
\$239.18	\$33.36
\$173.40	\$37.05
\$55.09	\$41.18
-\$91.48	\$45.78
-\$219.61	\$50.19
-\$357.60	\$54.76
-\$505.93	\$59.50
-\$665.09	\$64.39
-\$835.54	\$69.44
-\$1,017.71	\$74.64
-\$1,212.02	\$79.97