Stock	Buy / Sell	Thesis	Current Price	Target Price
FIZZ	BUY	National Beverage Corp. represents the future of the soda industry. The world is changing and the demand for healthier products is increasing while the consumption of soda decreased considerably in the United States near its 30-year low. National Beverage business model based on innovation and creativity, and its growth strategy are supported by strong financial performance and FIZZ represents an opportunity for investors seeking for growth investment. Given the actual economic and political outlook, incentives to save and lower healthcare costs are omnipresent. As a matter of fact, the company recorded outstanding financial results in 2016 outperforming all expectations, and is expected to settle its success in the following years.	$ 46.21	$ 54.38
HIBB	BUY	Undervalued sector due to current consolidation Superior margin creation Superior value creation Sustainable growth of comparable store sales Drastic control or decrease of COGS and SG&A per store Only company with zero debt in the sector Overall, best in class investment in the industry	$ 42.35	$ 49.00
PANW	BUY	· Palo Alto Networks is positioned very well to withstand a shift from traditional to robust solutions. Revenue growth and a booming cybersecurity market will enable PANW to continue moving in the right direction. The upcoming earnings call on the 21st will provide clarity and confidence to investors.	$ 156.01	$ 179.61
PAYC	BUY	Paycom Software Inc., is a growth company who has continued to grow revenue year after year. Providing evidence that demand for their product is growing. The main reasons corporations' partner with Paycom is due to their on-site implementation, to improve talent and retention, customize and create a communication channel to employees, work efficiency with strategic organizations, and compliance by design. Plus Paycom is one of the only human resource software that is together on a single database. Which provides extreme ease to payroll and human capital management.	$ 41.60	$ 51.62

SKX	BUY	Skechers U.S.A., Inc. has continued to be a valuable and successful company in the footwear industry. Their ability to market and advertise their brand stands out amongst all competitors. Skechers does this through connecting to their customers by either endorsing superstars or sponsoring public events. In addition to branding, SKX has the financial success to prove there are an undervalued company. They grow at a faster rate than competitors and have margins at or around the industry average. Also, they have a low P/E ratio which leads me to believe SKX is an undervalued company. Many investors must see this too, since SKX has a short interest ratio of 1.27, lower than any big competitors. Overall the future is bright for Skechers and I believe it is a BUY at $21.47 with a potential gain of 19.52%.	$ 21.47	$ 25.66
SWX	BUY	Southern Gas Corp. is a holding company that has an abundant source of energy and natural gas. They are growing very slowly compared to the market. With a company that has a volume of 360,084, there aren't any irregular fluctuations. For example, if you were to buy a share at $72, it's very likely that it will stay near that price range when trying to sell your shares. It's possible that you would only profit very little from selling your shares since they grew very little when you first bought them, but what about the company's dividends? The benefit for investing in Southwest Gas Corp. is receiving they're dividend payments quarterly. You will always make money on the side with your dividends rather than just buying high and selling low.	$ 71.59	$ 79.40

VRA	BUY	Vera Bradley, Inc. is an affordable, functional, and innovate brand that designs fashionable feminine products ranging from wallets to bedding. The company is unique due to its foundation arising from a friendship between Barbara Bradley Baekgaard and Patricia Miller, whom developed a passion-driven and customer service orientated culture. Vera Bradley has been publicly traded since 2010, and since has turned itself into an iconic, memorable women's fashion brand. For fiscal 2016, gross profit increased to 55.9% from 52.9% in fiscal 2015. With a recognizable, vibrant style, Vera Bradley maintains its strong brand identity and positioning amongst its competitors. Furthering its competitive strengths, Vera Bradley has a substantial number of loyal consumers, and a creative product development team providing those consumers with modern brand products to advocate for. November and December are huge months for Vera Bradley. Due to the holidays and gift-giving trends, higher sales and increasing operating income tend to occur during Q4. However, fluctuations do occur due to the impact of the timing of seasonal wholesale shipments and other events such as Black Friday. For the last reported fiscal year, Vera Bradley's ROIC/WACC was 1.33, whereas historically it has been 2.06. Although the company's ROIC/WACC is lower than its historical average, it remains well above the industry, suggesting that it is adding more value than its competitors. Vera Bradley is a company that has continued to add value, while continuously expanding and growing. The company is currently undervalued, priced at $13.88.	$ 14.15	$ 26.75

Macroeconomic Overview

U.S. Markets

	Index	Weekly % Change	YTD % Change
SPX Index	S&P 500	3.79%	5.89%
INDU Index	Dow Jones Industrial	5.35%	8.15%
CCMP Index	NASDAQ Composite	3.78%	4.59%
RTY Index	Russell 2000	9.99%	12.47%

Stocks rallied around a Donald Trump presidency. Investors welcome the economic environment of growth, higher interest rates, lower corporate and income taxes, and fiscal stimulus that follow not only a Trump presidency but a republican sweep of the both Houses of Congress. Financials gained ground on the prospect of higher interest rates while Industrials were driven by expected infrastructure spending. Healthcare also regained strength after being under pressure from expected regulations by a continued democratic administration. Tech sold off as some of Trump's remarks concerning Silicon Valley worry investors and their forecasts. Utilities lost ground as investors no longer desire their fixed income nature amongst the expected economic growth. There is a positive outlook for consumer spending as it is expected to increase under the new Administration's likelihood of lowering income tax. A sell off in Treasuries triggered by a high growth environment and the possible change of power in the central bank. During the week both Canadian Prime Minister Justin Trudeau and Mexican President Enrique Peña Nieto announce they are open to discuss revisions to the North American Free Trade Agreement easing uncertainty of trade relations with neighboring countries.

Commodities

Crude oil goes back down to around $43 a barrel at the weeks' end. Increasing reserves and no reduction in the production of crude have continued the expectation that OPEC will not be able to effectively cap the production soon and oil prices will continue to fall.

Gold settled down about 3.3% at $1,224 an ounce as a high growth economy is attracting those who sought safety in gold during the pre-election environment.

Looking Forward

In the coming week, US Retail sales data will be released on Tuesday and Industrial data on Wednesday. Consumer Spending has been down as of late and with improving economic conditions we should see an increase in discretional spending. FED chair Janet Yellen will speak Thursday for the first time since the election and will hopefully give clarity on the FED's rate hike plans given recent events. Japan reports Q3 Gross Domestic Product on Monday, the UK CPI are released, as well as Q3 GDP for the Eurozone on Tuesday.

Europe

Eurozone equities gain following the trend caused by the US Presidential Election. Financials, especially banks with higher US exposure, gain on the week under growth prospects. London's FTSE decreased following the strengthening pound versus the Euro and Dollar on positive sentiment from expected Trump-UK trade relations. Brexit continues to be the cause of a lot of volatility in European equities. Investors are waiting on the UK high court's decision of parliament voting to continue the Brexit process.

Asia

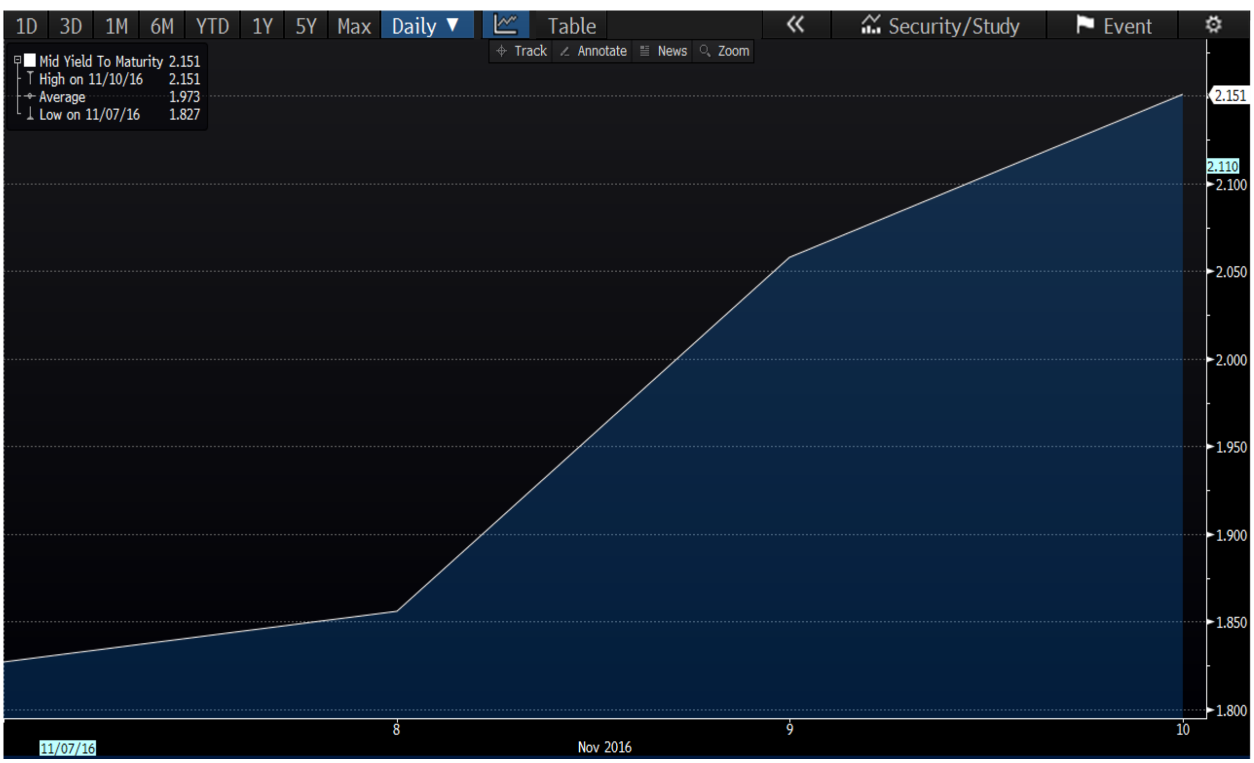
The Japanese Nikkei 225 Ends the week up on a positive note following a sell off caused by the election. Most gains are found in companies with higher exposure to the US markets like Toyota, Toshiba, and Sony; and Banks. The Yen continues to lose value vs the Dollar as a Trump Administration might strain trade relations with Japan hurting the Yen in the future. Japan and India attempt to strengthen their trade relationship by Japan sharing infrastructure technology, like High Speed Rail tech, with India showing there are still investment opportunities in emerging markets. Japan has struggled to show growth despite the negative rate environment and with them announcing Q3 GDP data on Monday we should expect to see some proof of growth.

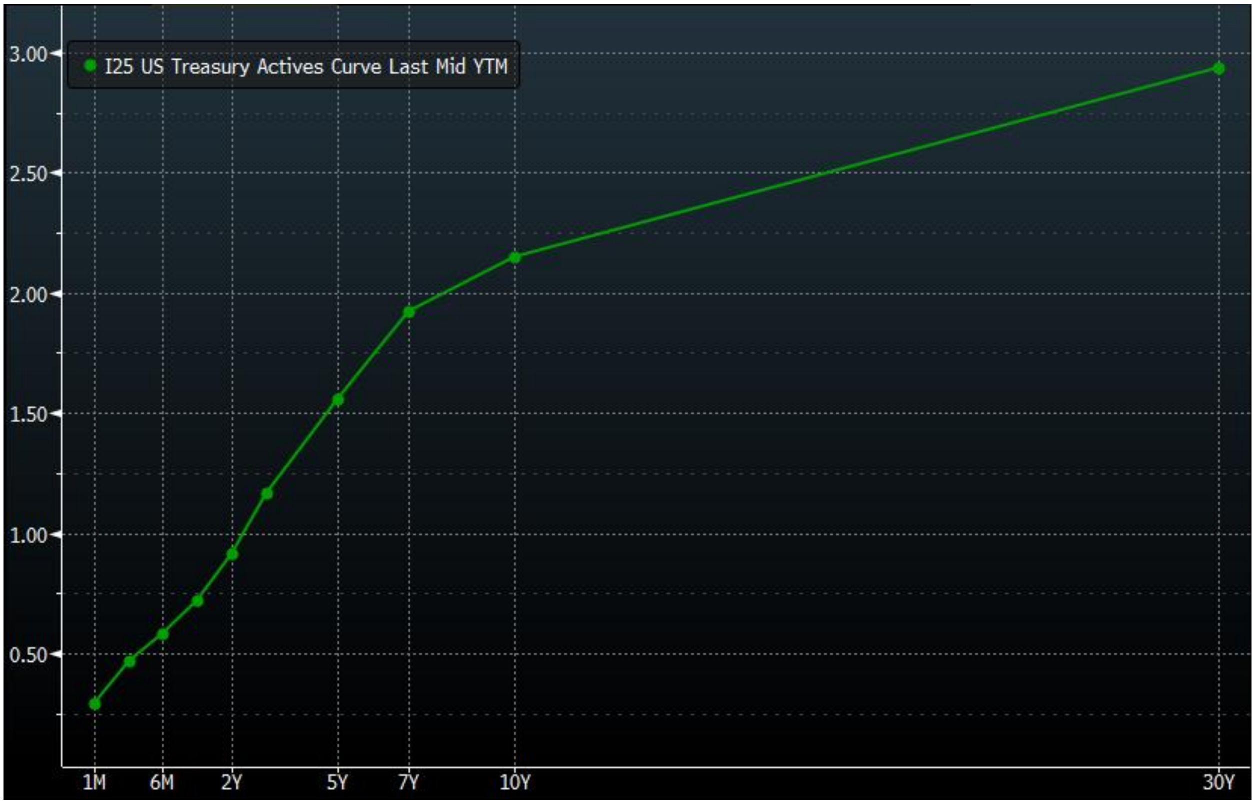
China

China is still showing signs of weakness and slower growth as exports slow down and foreign currency reserves are lower than the previous quarter. China's Shanghai composite index continues to make progress as it looks to recover from its January lows. The Chinese government's fiscal stimulus is showing progress mainly in commodity producers and construction from investment in infrastructure. Investors are still reluctant to allocate capital to China because its slowing growth and lower yield is not very attractive given the regulation risk and high growth prospects in the US.

Bond Report

This week, the major, if not sole concern of the market, has been the presidential election and its outcome. After rallying in the first half of the week on expectations of Democrat candidate Clinton's victory, yields briefly dropped before increasing again at a 3-year record pace based on high inflationary expectations due to the various fiscal and spending policies that president-elect Donald Trump is expected to implement once he is at the White House. On Monday, yields increased after the Federal Bureau of Investigation stated it dropped charges against presidential candidate Clinton regarding the use of unauthorized private email server. One of the reasons for that rally was that investors believed the Fed would be more likely to increase interest rates at a steady rate under Clinton presidency. Also, investors were concerned about a Trump victory, as he was deemed more unpredictable, and Clinton's charges drop sent them back to the riskier equity assets. On Tuesday, Treasury yields kept on increasing as various (not so accurate) projections showed Hillary Clinton largely ahead of Donald Trump, supposedly leading in all seven swing states. Consequently, a selloff in Treasuries occurred, pushing yields higher. On Wednesday, after a brief peak in Treasury buying due to Trump victory announcement, the Republican sweep across the Senate and the House send yields back up. Because of that control, it is likely that high fiscal stimuli, as well as increased deregulation and tax reform will lead to issuance of a large amount of Treasury securities, increasing the country's debt burden (and supply of Treasuries) as well as stronger inflationary pressures. The 10-year Treasury note jumped by as much as 20.3 basis points, its biggest daily move since July 2013. Finally, on Thursday, investors were relieved by Trump's conciliatory tone during his victory speech, and are now expecting him to be more of a traditional president, which gives more certainty to the market and contributed to a selloff of Treasury securities. Overall, the yield on the 10-year note reached 2.118% on Thursday, its highest level since January, while the two-year yield had its largest weekly rise since May, reaching 0.906%. The 30-year yield had its largest four-day rise in 7 years to reach 2.928%.





What's next and key events

Besides the outcome of the election that was the major concern of the market throughout the week, Jobless Claims numbers have been released. Number of people applying for unemployment benefits fell by 11,000 to 254,000 over the last period, keeping claims under 300,000 for the 88th consecutive week. For the coming week. A few significant events are expected. First, on Tuesday, monthly Retail Sales growth numbers will be released. That will give a better overview of consumer confidence and overall consumer spending. On Wednesday, the Housing Market will be under scrutiny as MBA Mortgage Applications data will be released early in the day, followed by the Housing Market Index. Finally, Consumer Price Index and Jobless Claims releases are expected on Thursday. These two will give an overview of where the economy is headed right now. The job market being at record lows currently, number of Jobless Claims is expected to slightly increase by 3,000 to 257,000, still below the 4-week moving average of 259,750. Regarding CPI, investors are expecting a sharp rise for October, by as much as 0.4% for the headline CPI (which would equal the 3-year record) and by 0.2% for the core CPI (excluding food and energy).

Siena Market Line
2nd week of November 2016

Fizz Inc.
NASDAQ:FIZZ

Analyst: Cindy Missaoui
Sector: Consumer Staples

BUY

Price Target: $54.38

Key Statistics as of 11/10/2016

Market Price:	$46.21
Industry:	Beverages
Market Cap:	$2.1B
52-Week Range:	$32.35-64.73
Beta:	0.60
NOPAT Margin:	10%.
ROIC:	28.7%
ROE:	24.6%

Catalysts:

- Short-Term: Earnings call on December, 8th 2017.
- Mid/Long-Term: Health and wellness awareness.
- Mid/Long-Term: President-elect healthcare program.

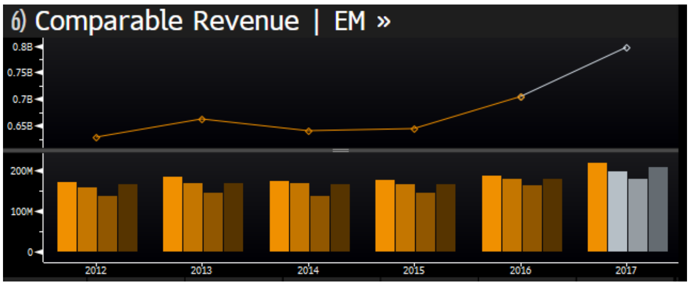
Company Description:

Headquartered in Fort Lauderdale, FL National Beverages Corp. is a holding company founded in 1985 that markets, manufactures, and distributes a diverse portfolio of flavored beverage products. Its portfolio includes multi-flavored and cola soft drinks, juice, flavored carbonated and spring water products. The company sells principally its products to supermarkets, restaurants, schools, hospitals, national chains and convenience stores. As of 2016, National Beverage Corp. was ranked as the fourth largest branded carbonated soft-drink in the United States.

Thesis

National Beverage Corp. represents the future of the soda industry. The world is changing and the demand for healthier products is increasing while the consumption of soda decreased considerably in the United States near its 30-year low. National Beverage business model based on innovation and creativity, and its growth strategy are supported by strong financial performance and FIZZ represents an opportunity for investors seeking for growth investment. Given the actual economic and political outlook, incentives to save and lower healthcare costs are omnipresent. As a matter of fact, the company recorded outstanding financial results in 2016 outperforming all expectations, and is expected to settle its success in the following years (Exhibit 1).

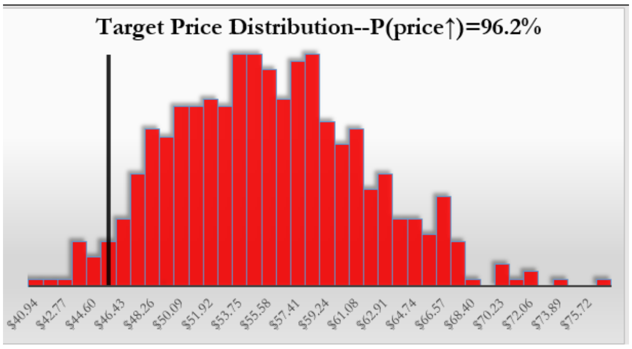
Exhibit1:



That being said, National Beverage Corp. emphasizes organic growth through a diverse portfolio of products composed of juices, water, soft drinks, teas, lemonades, and sports drinks that satisfy and target the preference of crossover consumers.

In a changing society, National Beverage Corp. appears as a lifestyle brand that meets customers demand on a perfect timing.

I recommend that we buy National Beverage Corp. stock which is currently undervalued – I expect the price to rise around $50-$55 in the future.



Breakout Year

National Beverage Corp. beat and surpassed all expectations in FY2016. Through innovation and creativity, the company succeeded to reach strong financial performance and to expand its brand recognition in the United States; the company has been rewarded for leading innovations and was ranked 1st line of diet soft drinks, and 1st nationally distributed full flavor line. As of today, National Beverage owns the leadership role in the healthy sparkling water category, and its future growth is undeniable. First, the company's revenues and net income outperformed and surpassed expectations offering high revenues and growth margin, which will lead the price to rise (Exhibit 1). Second, because health and wellness awareness has increased significantly, the demand for healthy products increased while the soda consumption falls to 30-year low (Exhibit 2).

Exhibit1:

(Dollars in millions except EPS)

For the Fiscal Year Ended April 30, 2016 –

	Revenues	Op. Income	Net Income	EPS	EBITDA*	Cash
FY 2016	$704.8	$ 93.1	$61.2	$1.31	$104.9	$105.6
Growth	*9%*	*26%*	*24%*	*24%*	*21%*	*101%*

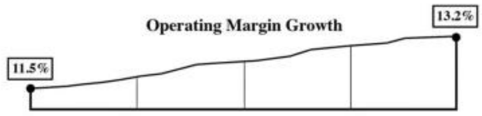
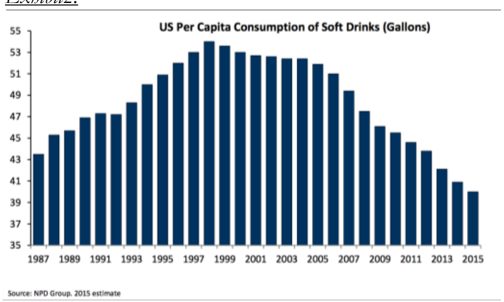


Exhibit2:



National Beverage Corp. proves in 2016 that it differentiates itself from its peers and its strong performance in FY 2016 is a clear foretaste of what will happen in the future.

Unique in Beverages Industry

The soft drink industry has always been dominated by three main companies: Coca Cola, Pepsi, and Cadbury Schweppes. Even though their products are still famous and consumed by people all around the world, these companies probably reached their maturity stage. In fact, as explained before, there is an increasing trend towards healthier soft drinks, and National Beverage Corp. benefits and will benefit from this trend in the future. Besides, the company's marketing strategy is based on innovative packaging, ingenious product design with colors, attractive bottles (Exhibit 3), and imaginative flavors. Furthermore, its ability to adapt to trend changes and customers' needs in an environment where health becomes more and more important allows the company to become unique. In fact, the United States market is saturated with soft-drink such as Coca Cola, Pepsi, or Cadbury Schweppes and is seeking for a healthier experience offered by National Beverage Corp. Even if National Beverage Corp. is a small company within an industry dominated by three main companies, it succeeded to capture new trends, and satisfy customers' demand on a perfect timing. For these reasons, the company can be considered as unique in the beverages industry and has nothing to envy to its competitors.

Exhibit 3:

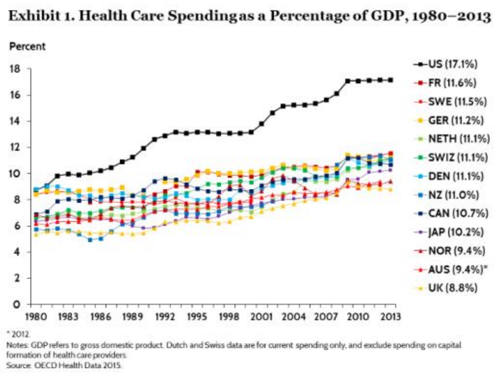
Peers

National Beverage Corp. mains competitors' status is increasingly being questioned. Due to an increase in health concerns, Coca Cola, Pepsi, and Dr Pepper Snapple Group are becoming less reliable. The world is changing, and compared to its peers National Beverage tries to understand the challenges and do something about them. In fact, in February 2016 the company announced the first ever 'Soft Drink Alternative', called Shasta Sparkling, a product that took four years to develop. This healthier soft drink offers no calories, no sodium, no sugar and 100% all-natural ingredients. On the other hand, its peers are facing hefty pressure from policymakers who want to impose taxes on sugary drinks due to a high number of health issues. Besides, on November 8th, the World Health Organization urges countries to impose that tax in order to limit the growing obesity rate. It would implies for companies such as Coca Cola, Pepsi, and Dr Pepper Snapple to rise their price by 20%, and would create another incentive for customers to buy National Beverage products. The reality is that the tax implementation and the changing world represent a significant opportunity for growth for National Beverage Corp. Its stock price rise by 30.1% since April 2016 and incomparably outperformed Pepsi (+0.3%), and Coca Cola (-3.5%) stocks. Finally, in term of investments, National Beverage has a significant opportunity of growth compared to its peers, which reached maturity stage. With a significant timing advantage and competitive advantage, National Beverage Corp. represents the healthy trend and the future of the beverage industry.

Make America Healthier

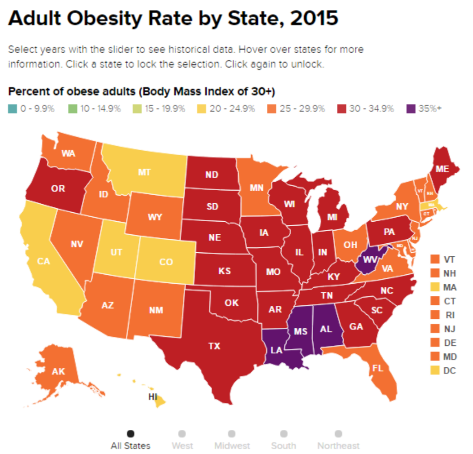
Health has always been a major issue in the United States economy. As shown in Exhibit 4, health care spending as a percentage of GDP has been raising year over year since 1980.

Exhibit 4:



According to the OECD, U.S health care costs are projected to rise from $1.4 trillion in 2000 to more than $4.4 trillion in 2020. In addition to that, the repeal of the Obama Care by the president-elect Donald Trump is an incentive to save and lower healthcare costs. On the other hand, the obesity rates have doubled among adult in America reaching more than 35% in some states such as Missouri, West Virginia, Alabama, and Louisiana (Exhibit 5). The increasing health and wellness awareness lead the United States to experience an evolution away from sugary beverages towards healthier option. Once again, National Beverage Corp. had the possibility to meet customers' and governments demand by inciting people to consume healthier drink.

In fact, as reported by the Department of Agriculture, American adults are choosing healthier foods, and most of them consume healthier diets. By positively affecting the industry and the society, National Beverage is creating value for its shareholders and its growth is once again assured in the long term.



Financials

National Beverage Corp. financial health strength can be seen in multiples areas. First, as explained before the company reported strong financial results in FY 2016 and outperformed estimations on revenues and net income. Revenues rose by 9% from $646M to $705M and Net Income rose by 21% from $49M to $61M (Exhibit 6).

(In thousands, except per share and footnote amounts)	April 30, 2016	May 2, 2015
SUMMARY OF OPERATIONS:		
Net sales	$704,785	$645,825
Cost of sales	463,348	426,685
Gross profit	241,437	219,140
Selling, general and administrative expenses	148,384	145,157
Interest expense	203	371
Other expense (income)—net	145	(1,101)
Income before income taxes	92,705	74,713
Provision for income taxes	31,507	25,402
Net income	$ 61,198	$ 49,311

In term of revenue, the potential forecasted growth for 2017 and 2018, based on the assumption that the demand for healthier drink would rise due to a health awareness and to the actual societal and political environment, would be respectively $797M and $878M. As a matter of fact, the EBITDA margin growth would be $133M and $149M for 2017 and 2018 leading the Net Income to be $80M for 2017 and $90M for 2018. As can be seen with the numbers, the company will continue to create value year over year. Besides, National Beverage Corp. ROIC and WACC ratios highlight the company strong ability to generate return on invested capital and so to create value. The ROIC without Goodwill ratio (Exhibit 8) which allows to have a better measure of the company's performance in comparison to its peers, highlights also the company's capacity to create value compared with that of its peers.

Exhibit8:

ROIC	*History*	*LFY*
FIZZ	35.0%	32.3%
Competitors	13.8%	14.9%

ROIC W/O GW	*History*	*LFY*
FIZZ	38.6%	34.5%
Competitors	19.9%	22%

When analyzing the key drivers of value which are revenue growth and ROIC, it seems obvious that the company's trend in the long run performance would be positive and will generate positive free cash flow.

Furthermore, National Beverage Corp. is debt free and used to use cash on hand to fund capital expenditure. In FY 2016, cash on hand grew by 101%, and the conservative effective management of the company allows National Beverage Corp. to have more financial flexibility as they do not depend on debt to grow their business. The company's culture adds even more value to the company and enforces company's success and profitable growth on the long run.

Capitalization (Debt/Equity)	*History*	*LFY*
FIZZ	0.01	-
Competitors	0.21	0.22

Given the company's competitive advantage, strong financial performance, financial health and the increasing demand towards healthier drinks, the company stock price will continue to rise making National Beverage Corp. a growth opportunity company which is currently undervalued in its industry.

Five Procter Forces

Bargaining Power of Suppliers: High – 56

Because National Beverage belongs to the food and beverages industry, it highly depends on suppliers. The company does not have as much as bargaining power when it comes to suppliers.

Bargaining Power of Customers: Low – 36

When it comes to price, customers does not have a lot of bargaining power. However, because National Beverage Corp. offers healthy products that correspond to an increasing demand, customers pay less attention to prices.

Intensity of Existing Rivalry: Low - 17

National Beverage Corp. mains competitors are Coca Cola Company, Pepsi, and Dr Pepper Snapple. National Beverage succeeds to differentiate itself from its peers through products mix, marketing strategy, and by creating a lifestyle brand. Even if the company is considerably small compared to its peers which almost have the monopoly on the food and beverages industry, it can be seen as a reliable company with a strong competitive advantage and a high growth opportunity.

Threat of Substitutes: Medium – 33

Customers have access to a diversified choice of substitutes. One of the major issue associated with goods substitutions is the fact that customers can choose to purchase the substitutes instead of the industry's product, which can drive the price and so profitability down. However, National Beverage's timing advantage and ability to adapt to the current market demand decrease the threat of substitutes. As can be seen earlier with numbers, National Beverage Corp. outperformed its peers in terms of profitability.

Threat of New Competition: Medium - 33

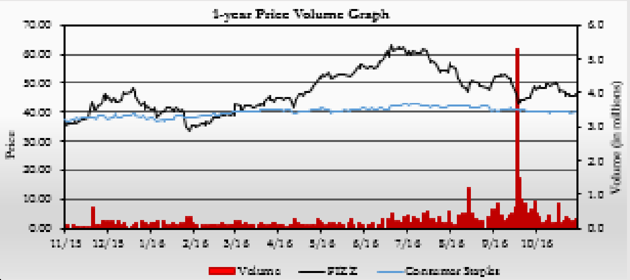
National Beverage faces many competitors on the market for goods and services. However, its business model and strategy helped the company to become unavoidable in the soft drinks market.

Important dates and Catalysts

The company announced Q3 2017 Earnings call on December 8th 2016. As can be seen on Exhibit 9, the stock price used to rise considerably on the day of the earnings call as National Beverage Corp. uses to beat analysts' estimates on revenue and net income. Moreover, the current environment is in favor of National Beverage, several states should passed a sugary beverage tax leading beverage industry giants such as Pepsi or Coca Cola Company to invest billions of dollars in marketing and advertising to counter the measures. Consequently, shares of Coca Cola and Pepsi have decreased by 2% this week and Dr Pepper Snapple Group shares have decreased by 4%. Here is a clear open door that will reinforce National Beverage Corp success.

Exhibit9:

Analysis by Cindy Missaoui	Current Price:	$47.06	Intrinsic Value	$50.88	Target 1 year Return: 17.75%
11/11/2016	Divident Yield:	2.2%	Target Price	$54.38	Probability of Price Increase: 94.



Description

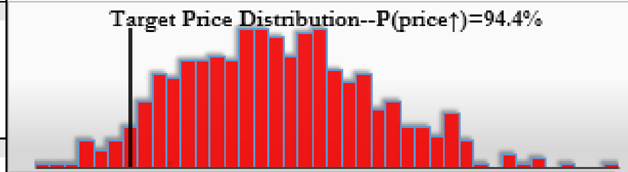
National Beverage Corp., through its subsidiaries, develops, produces, markets, and sells a portfolio of flavored beverage products primarily in North America.

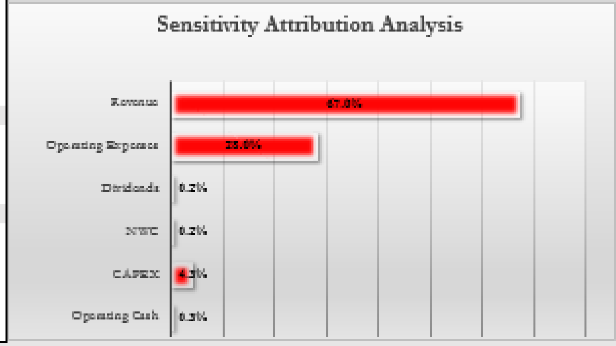
General Information	
Sector	Consumer Staples
Industry	Beverages
Last Guidance	November 3, 2015
Next earnings date	December 11, 2016
Estimated Country Risk Premium	6.25%
Effective Tax rate	40%
Effective Operating Tax rate	40%

Market Data	
Market Capitalization	$2,191.05
Daily volume (mil)	0.43
Shares outstanding (mil)	46.56
Diluted shares outstanding (mil)	46.72
% shares held by institutions	17%
% shares held by investments Managers	13%
% shares held by hedge funds	3%
% shares held by insiders	3.51%
Short interest	5.47%
Days to cover short interest	5.88
52 week high	$64.73
52-week low	$32.35
Levered Beta	0.60

Management	Position	Total compensation growth	Total return to shareholders
Caporella, Nick	Chairman of the Board, Chief	2.71% per annum over 6y	4.27% per annum over 6y
Caporella, Joseph	President and Director	0.05% per annum over 6y	4.27% per annum over 6y
Bracken, George	Executive Vice President of	2.94% per annum over 6y	4.27% per annum over 6y
Cook, Gregory	Chief Accounting Officer, Vi	-1.27% per annum over 2y	59.95% per annum over 2y
Thompson, Dennis	Executive Vice President of	N/M	N/M
0	0	N/M	N/M

Profitability	FIZZ (LTM)	FIZZ (5 years historical avg.)	Industry (LTM)
ROIC	28.7%	20.93%	11.81%
NOPAT Margin	10%	8.30%	15.1%
Revenue/Invested Capital	3.00	2.52	0.78
ROE	24.6%	24.62%	14.05%
Adjusted net margin	9%	7.87%	12.8%
Revenue/Adjusted Book Value	2.71	3.13	1.10
Invested Funds	**FIZZ (LTM)**	**FIZZ (5 years historical avg.)**	**Industry (LTM)**
Total Cash/Total Capital	37.5%	23.8%	23%
Estimated Operating Cash/Total Capital	15.3%	14.2%	N/A
Non-cash working Capital/Total Capital	12.5%	16.4%	9%
Invested Capital/Total Capital	72.4%	83.6%	72%
Capital Structure	**FIZZ (LTM)**	**FIZZ (5 years historical avg.)**	**Industry (LTM)**
Total Debt/Common Equity (LTM)	0.01	0.06	0.23
Cost of Existing Debt	15.21%	11.88%	3.13%
Estimated Cost of new Borrowing	16.14%	16.14%	3.13%
CGFS Risk Rating	F	F	CCC
Unlevered Beta (LTM)	0.59	0.43	0.64
WACC	7.83%	6.82%	7.51%





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

Valuation

Period	Revenue growth	NOPAT margin	ROIC/WACC
Base Year	12.2%	9.5%	3.66
7/30/2017	12.3%	10.1%	4.22
7/30/2018	9.8%	9.3%	2.71
7/30/2019	9.2%	9.9%	2.65
7/30/2020	8.6%	10.5%	2.75
7/30/2021	7.9%	11.1%	3.03
7/30/2022	7.3%	11.8%	3.35
7/30/2023	6.6%	12.4%	3.71
7/30/2024	6.0%	13.0%	4.10
7/30/2025	5.4%	13.6%	4.53
7/30/2026	4.7%	14.2%	5.02
Continuing Period	4.1%	14.8%	4.22

Period	Invested Capital	Net Claims	Price per share
Base Year	$215.40	-$47.79	$50.70
7/30/2017	$214.64	$51.98	$53.79
7/30/2018	$232.53	$80.55	$57.17
7/30/2019	$243.37	$86.51	$60.69
7/30/2020	$245.16	$49.28	$64.33
7/30/2021	$256.14	-$1.75	$68.00
7/30/2022	$404.18	-$65.77	$71.68
7/30/2023	$477.11	-$143.58	$75.33
7/30/2024	$532.60	-$235.74	$78.93
7/30/2025	$552.39	-$342.59	$82.44
7/30/2026	$566.23	-$464.18	$85.83
Continuing Period			

Hibbett Sports Incorporation

NYSE:HIBB

Analyst: Lionel Krupka
Sector: Consumer Discretionary

BUY

Price Target: $49

Key Statistics as of 11/10/2016

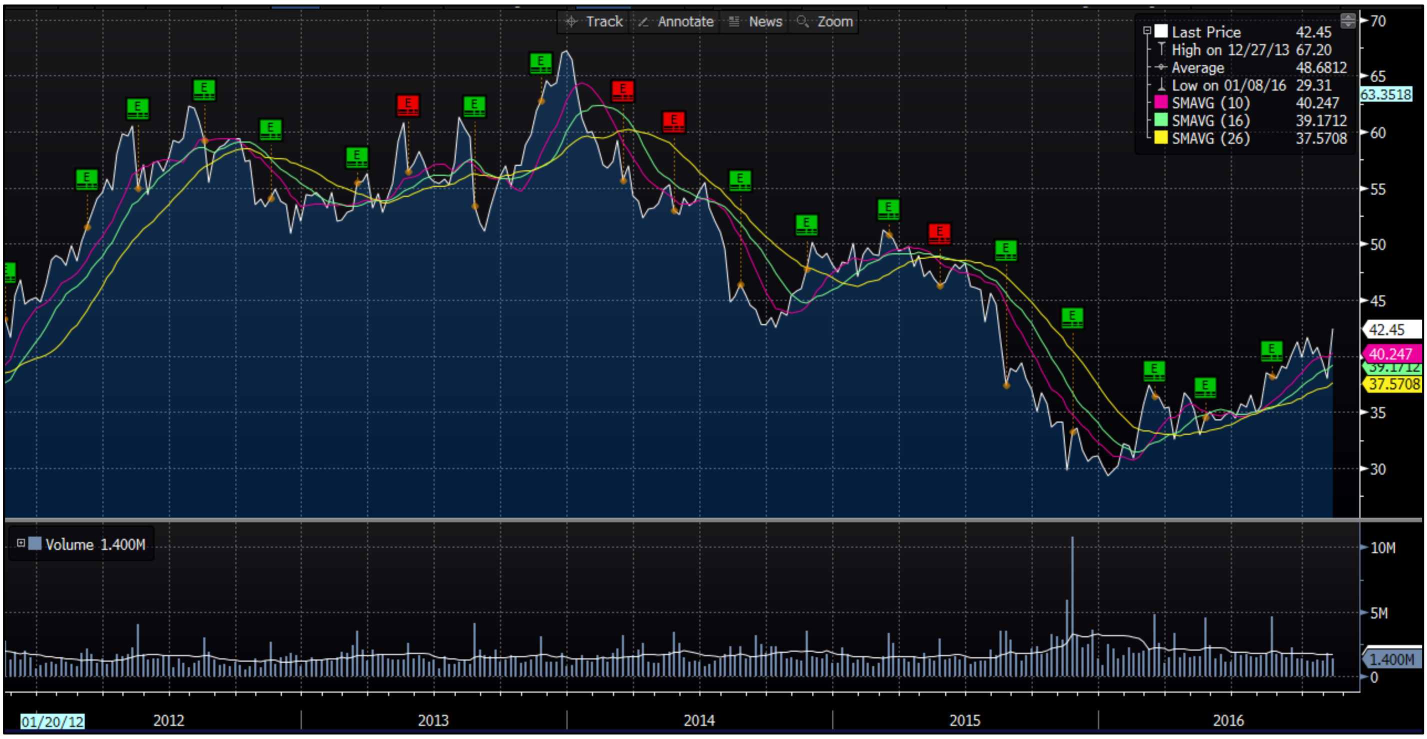
Market Price:	$42.35
Industry:	Sporting Goods
Market Cap:	$961 M
52-Week Range:	$27.58 – $43.45
Beta:	0.85

Catalysts:

- **Short-term (within 3 months):** volatility after earnings may create momentum to reach target price in a very short time
- **Mid-term (within 6 months):** Inactivity in the U.S has started to decrease in most age groups in 2016
- **Long-term (1 to years):** End of consolidation in the sector, New tax environment, Improvement in the overall economy

Company Description:

Hibbett Sports is a chain of sporting goods stores, founded in 1945. It counted 1,047 retail stores across the country in January 2016, composed of 1,027 Hibbett Sports and 20 Sports Additions stores, which are athletic shoe stores. The company is mainly present in the Midwest, Mid-Atlantic, Southwest and South, and its stores are usually 5,000 square foot large. Around 20% of the stores are located in shopping centers while the remaining 80% are in strip malls or free standing locations. Sales are composed of 49% footwear, 29% apparel and 22% equipment. Hibbett Sports mainly sell Nike products, which represent 57.5% of purchases, Under Armour, 15.9% of purchases, Reebok, Adidas, The North Face, Easton and Yeti.

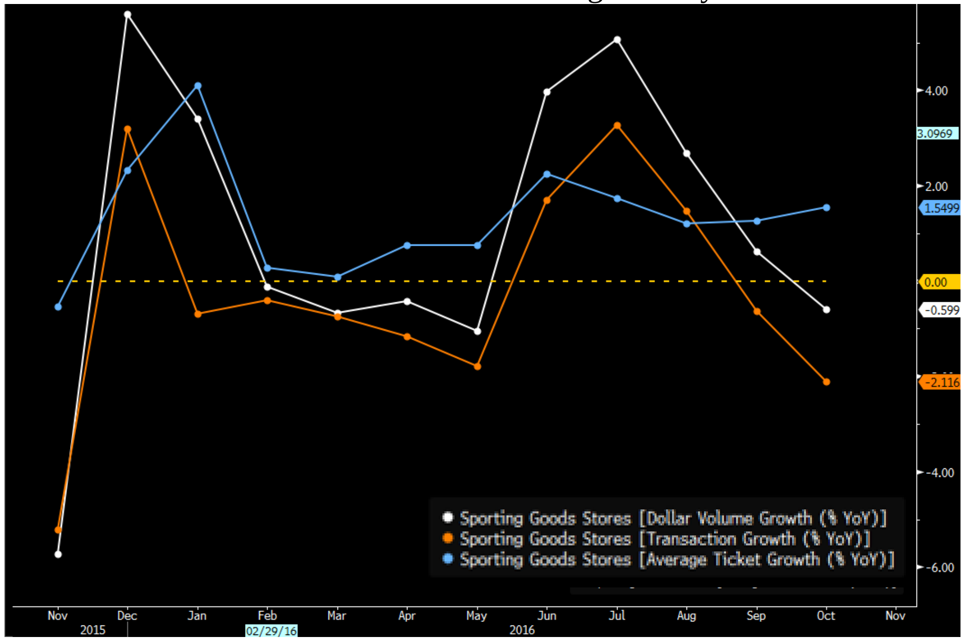


Thesis

- Undervalued sector due to current consolidation
- Superior margins creation
- Superior value creation
- Sustainable growth of comparable store sales
- Drastic control or decrease of COGS and SG&A per store
- Only company with zero debt in the sector
- Overall, best in class investment in the industry

Industry Environment

The sporting goods chain is a niche market with few competitors in the country. With the bankruptcy of Sport Chalet on April 2016 and the one from Sports Authority in May 2016, the industry entered a consolidation phase, and got smaller. Conversely to what certain analysts think, the consolidation phase is far from being over. On October 31, Performance Sports, the famous manufacturer of Bauer hockey gear and Easton baseball equipment, filed petitions for bankruptcy after suffering of the decreasing demand for months. In addition, last data reports showed that same-store sales and transaction growth of sporting goods industry have decreased since the beginning of the year, except for a short expansion period that followed the bankruptcy filings between May and July. However, it is a reasonable assumption to see the end of the consolidation period before 2018. With the overall economy forecasted to improve next year, consumer spending should increase, and the sporting goods industry should see the profit of this trend. Therefore, it is important that investors position themselves within the industry beforehand. To do so, I recommend to invest in the best in class firm in this shrinking industry.



I defined the sporting goods retailer industry by carefully picking the competitors that I used for my analysis. I chose to work with a mix of generalists and outdoor focused companies, which include Big 5 Sporting Goods, Tractor Supply Company, Dick's Sporting Goods, Sportman's Warehouse and Cabela's.

Superior Margins

As my analysis focuses at finding the best in class investment in an industry that have been suffering from the latest economic development, it is determinant to take a look at some profitability metrics. The average margin for the industry is at 10.09% for earnings before interest, tax, depreciation and amortization in the last twelve months period. Hibbett Sports' EBITDA margin is higher than the average at 13.29%, also the highest among its peers. This trend can also be observed when analysis is pushed further away than the last twelve months. The 3 year EBITDA margin average is the greatest among the industry group, and historically, EBITDA margin is at 12.9% for Hibbett versus 8.9% for its competitors. Hibbett's operating income margin, which is at 11.43%, also beats industry average, which is at 7.86%. It is also the highest margin among the industry, and it confirms that Hibbett Sports has the most profitable operations even after depreciation and amortization. This superior margin creation is driven by strong initiatives from management, mainly systems improvement and promotional management. According, to Scott Bowman, the Chief Financial and Accounting Officer, product margin increased by 23 basis points while gross profit increased by 27 basis points in the last quarter. Net profit margin is also above industry average at 7.20%.

Name	EBITDA Margin	Operating Income Margin	Net Profit Margin	EBITDA Mgn 3Yr Avg
Average	10.09%	7.86%	4.68%	10.85%
100) HIBBETT SPORTS INC	13.29%	11.43%	7.20%	14.38%
101) SPORTSMAN'S WAREHOUS...	9.66%	8.00%	3.92%	9.91%
102) BIG 5 SPORTING GOODS ...	4.10%	2.46%	1.43%	5.58%
103) TRACTOR SUPPLY COMPANY	12.43%	10.34%	6.53%	12.22%
104) DICK'S SPORTING GOODS...	9.72%	7.07%	4.38%	10.75%
105) CABELA'S INC	11.37%	7.86%	4.64%	12.24%

This ability to create greater margins than its competitors, despite the contraction in which the sector has been in since the beginning of the year is decisive.

Unlevered Firm: The exception which proves the rule

First, it is important to notice that Hibbett has the lowest debt to equity ratio of the industry at 1.07% versus 8.62% for Dick's Sporting Goods, which is at the second place in the ranking.

Ticker	Debt/Equity LF	Curr Adj Mkt Cap
	527.47%	3.46B
HIBB US	1.07%	834.42M
SPWH US	2814.70%	382.74M
BGFV US	13.34%	384.26M
TSCO US	21.94%	8.59B
DKS US	8.62%	6.40B
CAB US	305.14%	4.18B

As of July 2016, Hibbett Sports only has $3.42 million in short and long term debt. This debt is composed of $0.52 million in short term and $2.9 million in long term capital lease obligations. Hibbett leases all of its stores and certain equipment. A low level of financial leverage is also a determinant factor when it comes to industries that are experiencing a slowdown. Hibbett Sports would also be able to profit more easily and more rapidly if the current trend reverses in the near future. Contrary to its competitors, the firm could easily finance bids for bankrupt competitors, acquisitions or growth thanks to its $80 million line of credit and extend its usage of credit with long term debt if necessary.

Best in Class Value Creation

WACC	*History*	*LFY*	ROIC	*History*	*LFY*
HIBB	14.1%	15.4%	HIBB	27.8%	21.4%
Competitors	28.0%	9.0%	Competitors	12.4%	9.4%

Hibbett's weighted average cost of capital is lower by 13.9% in the last fiscal year, but greater by 6.4% historically compared to its competitors. Compared to the competitors again, its return on invested capital is superior by 15.4% historically and by 12% in the last fiscal year. These numbers demonstrate that Hibbett has a business model that is more efficient at turning capital into profits and at lower cost than its competitors. Indeed, the company focuses its opening of new stores in small isolated communities to achieve the perfect mix of products that suit the best the local preferences.

ROIC /WACC		
	History	*LFY*
HIBB	1.87	1.39
Competitors	0.45	1.05

Without any surprise, Hibbett is in pole position for value creation both historically and in the last fiscal year when compared to its peers. It seems that management found the perfect company strategy for the sporting goods retailing industry while being more efficient at deploying marketing efforts. Indeed, selling and administrative expenses to revenue ratio is almost constant, around 21-22%, historically and in the last fiscal year and lower than competitors, which is at 25%.

SGA/Revenue		
	History	*LFY*
HIBB	21.2%	21.9%
Competitors	25.1%	25.3%

Ticker	SG&A Expn as % Tot Sl
	25.57
HIBB US	21.60
TSCO US	21.99
SPWH US	24.55
DKS US	22.08
CAB US	34.50
BGFV US	28.71

Multiples analysis

If we look at multiples, Hibbett Sports is trading at a current cheap price compared to its peers. Enterprise value to EBITDA, enterprise value to EBIT and price to diluted earnings per share are actually the lowest of the industry while enterprise value to total revenues is below the mean.

Company Name	TEV/Total Revenues	TEV/EBITDA	TEV/EBIT	P/Diluted EPS	P/TangBV
Cabela's Incorporated (NYSE:CAB)	2.1x	19.0x	27.7x	25.1x	2.1x
Dick's Sporting Goods Inc. (NYSE:DKS)	0.9x	9.0x	12.4x	20.2x	4.3x
Tractor Supply Company (NasdaqGS:TSCO)	1.4x	11.0x	13.2x	20.9x	6.0x
Big 5 Sporting Goods Corp. (NasdaqGS:BGFV)	0.4x	9.6x	16.4x	29.1x	2.0x
Sportsman's Warehouse Holdings, Inc. (NasdaqGS:SPWH)	0.8x	8.2x	9.9x	13.5x	96.4x
Hibbett Sports, Inc. (NasdaqGS:HIBB)	**0.9x**	**6.4x**	**7.4x**	**13.0x**	**2.7x**
High	2.1x	19.0x	27.7x	29.1x	96.4x
Low	0.4x	8.2x	9.9x	13.5x	2.0x
Mean	1.1x	11.4x	15.9x	21.8x	22.2x
Median	0.9x	9.6x	13.2x	20.9x	4.3x

The same kind of observations can be made when we look at forward multiples. The next twelve months EBITDA, price to earnings and total revenue forecasts show that Hibbett Sports is below average.

Company Name	TEV/Forward Total Revenue	TEV/Forward EBITDA	Forward P/E
Cabela's Incorporated (NYSE:CAB)	2.05x	17.27x	20.41x
Dick's Sporting Goods Inc. (NYSE:DKS)	0.80x	7.99x	17.23x
Tractor Supply Company (NasdaqGS:TSCO)	1.25x	10.13x	18.96x
Big 5 Sporting Goods Corp. (NasdaqGS:BGFV)	0.40x	7.27x	18.89x
Sportsman's Warehouse Holdings, Inc. (NasdaqGS:SPWH)	0.73x	7.74x	11.97x
Hibbett Sports, Inc. (NasdaqGS:HIBB)	**0.83x**	**6.35x**	**12.93x**
High	2.05x	17.27x	20.41x
Low	0.40x	7.27x	11.97x
Mean	1.05x	10.08x	17.49x
Median	0.80x	7.99x	18.89x

The stock is also trading today below its 2 and 5 year historical average on every single metric. According to peers and historical comparison, investors who are willing to enter the position are going to do so at a discount.

Current vs 2Yr Average Historical Multiple						2Yr Historical Multiple Range			Implied @ Hist Avg	
Metric	Current	Hist Avg	Diff	# SD	3M Trend	Low	Range	High	Hist Avg	Price (USD)
Current Price							Current Hist Avg			39.75
BF P/E	12.7x	13.1x	-3%	-0.2		9.3x		17.1x	13.1x	41.01
BF EV/EBITDA	6.3x	6.5x	-3%	-0.2		4.3x		8.9x	6.5x	40.93
BF EV/EBIT	7.7x	7.6x	0%	0.0		5.0x		10.3x	7.6x	39.65
BF EV/Rev	0.8x	0.9x	-9%	-0.4		0.6x		1.3x	0.9x	43.49
LF P/BV	2.7x	3.0x	-9%	-0.4		2.1x		4.2x	3.0x	43.56

Current vs 5Yr Average Historical Multiple						5Yr Historical Multiple Range			Implied @ Hist Avg	
Metric	Current	Hist Avg	Diff	# SD	3M Trend	Low	Range	High	Hist Avg	Price (USD)
Current Price							Current Hist Avg			39.75
BF P/E	12.7x	16.5x	-23%	-1.1		9.3x		23.3x	16.5x	51.45
BF EV/EBITDA	6.3x	8.5x	-26%	-1.1		4.3x		12.6x	8.5x	52.89
BF EV/EBIT	7.7x	9.7x	-21%	-1.0		5.0x		14.2x	9.7x	50.04
BF EV/Rev	0.8x	1.3x	-36%	-1.3		0.6x		1.9x	1.3x	60.65
LF P/BV	2.7x	4.6x	-41%	-1.2		2.1x		7.9x	4.6x	67.09

Retailer metrics: Comp sales growth, COGS, SG&A

New stores sales growth historic average is at 5.04% for Hibbett Sports while comparable store sales growth is at 8.01%. More recently, the comparable store sales has been decreasing, and even entered negative territory at -0.40% in 2016. However, as alarming as these numbers seem to be, it is important to bring some perspective to them. Because of the consolidation in the industry, all companies had negative comparable store sales growth in 2016. Actually, Hibbett is the company that suffered the less after Dick's Sporting Goods, which had a negative growth of 0.2% last year, only two basis points away from Hibbett Sports. For comparison, Cabela's comp sales growth was down by 3.4%.

	2016	2017	2018	2019	2020
New Stores	33,700,000	27,255,590	28,886,134	30,479,981	33,599,271
Comparable Stores	(3,654,000)	12,165,990	21,811,979	20,147,784	26,012,339
Total Sales	**943,100,000**	**982,521,580**	**1,033,219,694**	**1,083,847,459**	**1,143,459,069**
Total Cost of Good Sold	**610,389,000**				
Total SG&A	**203,673,000**				
Change in total sales	29,232,000	39,421,580	50,698,114	50,627,765	59,611,610
Sales/New Store	601,786	619,445	601,794	622,040	671,985
Sales/Comp store	(3,698)	11,653	20,048	17,736	21,951
Total sales per store	**903,352**	**903,053**	**909,524**	**914,639**	**925,878**
New sales growth %	3.60%	2.89%	2.94%	2.95%	3.10%
Comparable sales growth %	-0.40%	1.29%	2.22%	1.95%	2%
Total sales growth %	**3.20%**	**4.18%**	**5.16%**	**4.90%**	**5.50%**
New Stores	56	44	48	49	50
Comparable stores	988	1044	1088	1136	1185
Total stores	**1044**	**1088**	**1136**	**1185**	**1235**

This trend is also expected to reverse in 2017, and analysts forecast a comp sales growth around 1.30%. According to analysts forecasts, we can expect comp sales per store to be below historic average during the recovery year. It is important to note that these forecasts have not been adjusted since the result of the presidential election. The new political environment could be a predominant driver in transaction growth, and hence in sales growth thanks to potential new tax laws. Another important factor to take into account is the fact that the company achieved to the reduce cost of good sold per store by 1.54% between 2015 and 2016. A trend that we can assume to continue next year since management has shifted its focus from growth to cost cutting initiatives to adapt to depressed environment.

Short Interest ratio

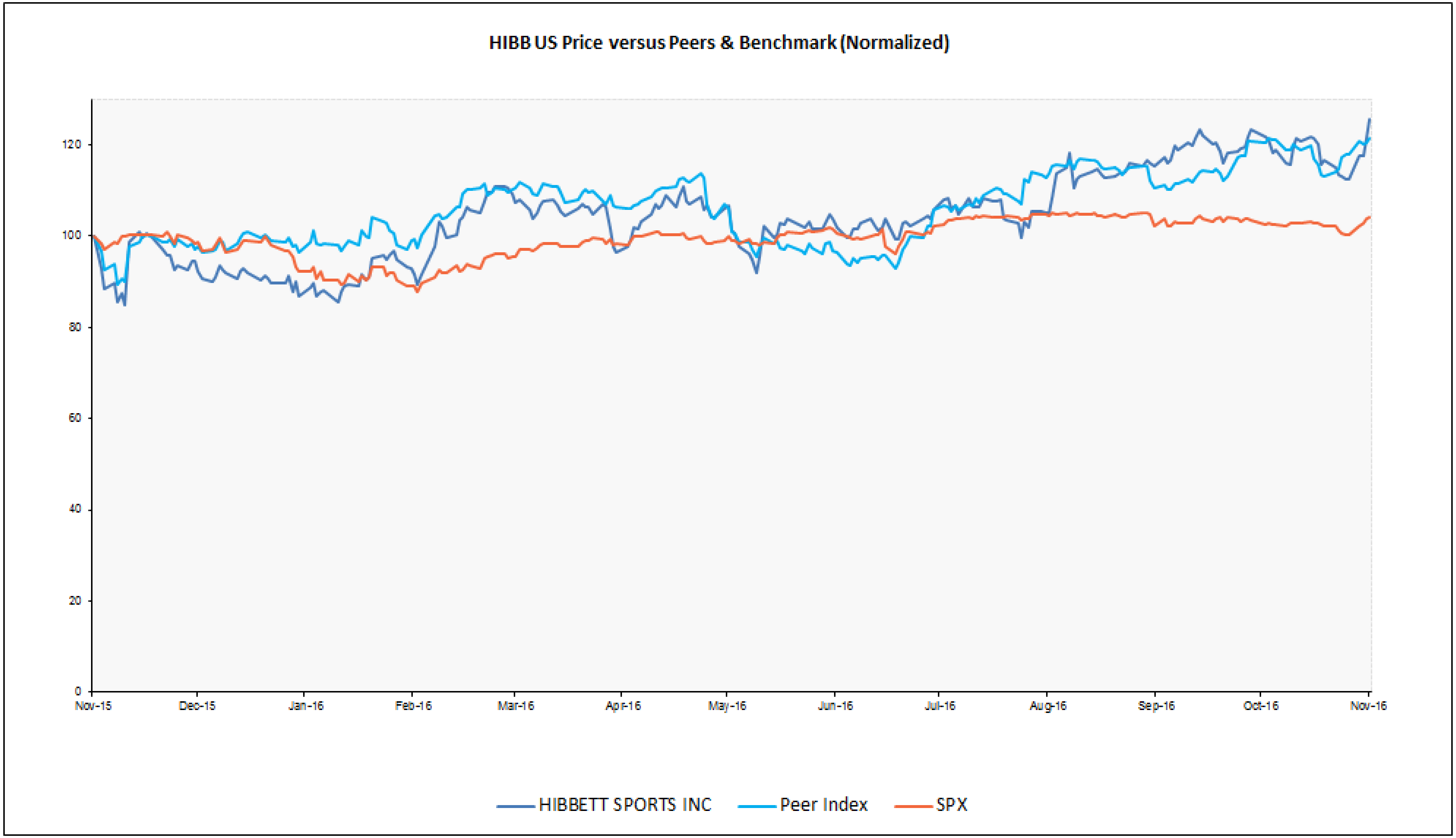
As it is observable from the chart below, the short interest on Hibbett Sports stock is quiet high at 17.83. However, historically, the ratio has been above 10 days, which indicates a strong historical presence of short sellers on the stock. In addition, the ratio has begun to decrease, which indicates a good time to enter the position.

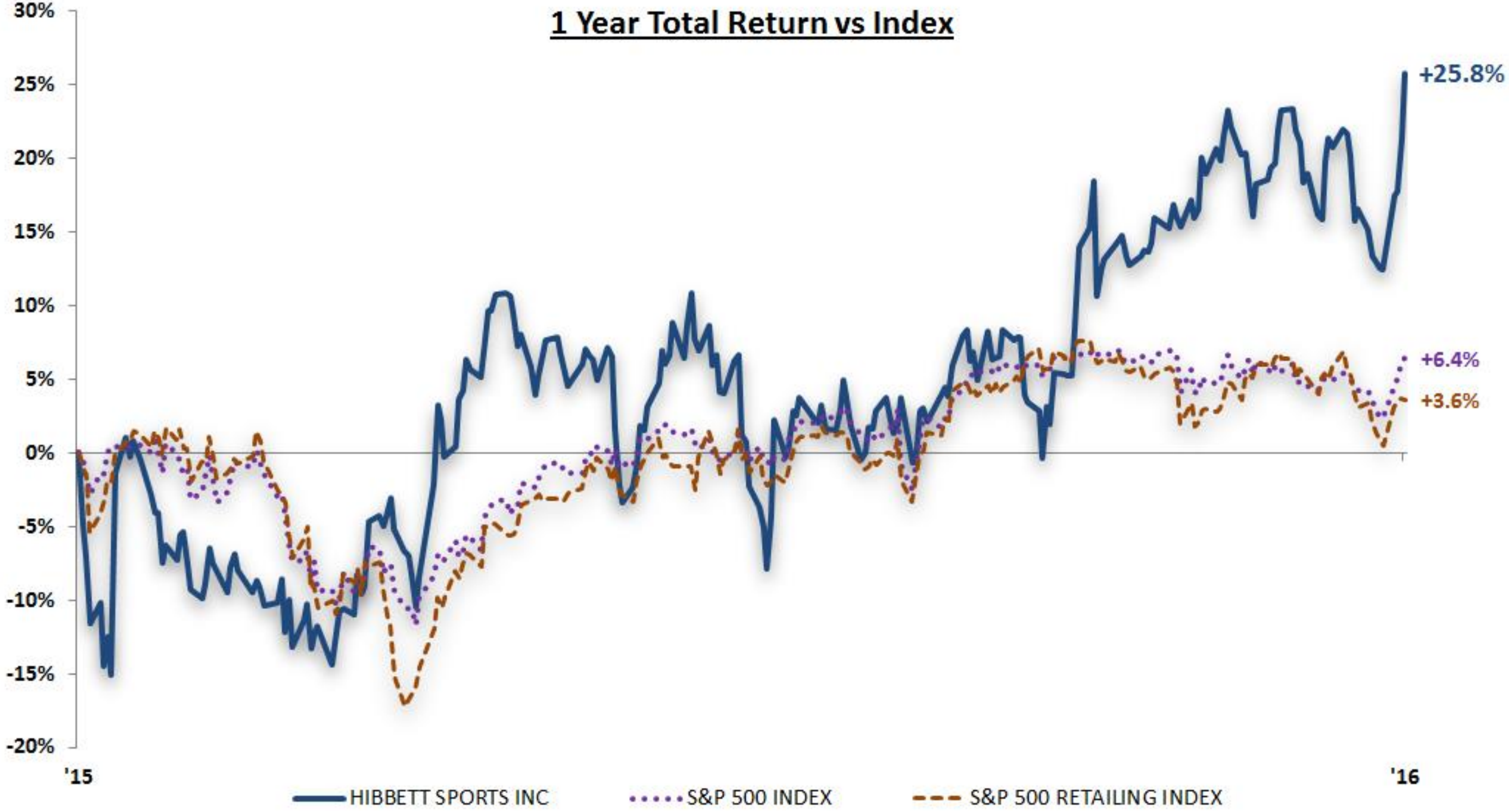
Conclusion

Risks:

- Consolidation in the sporting goods retailing sector longer than expected
- Below expectation openings of new store
- Failure to manage operating costs
- Economic recession
- Failure to implement internet platform strategy

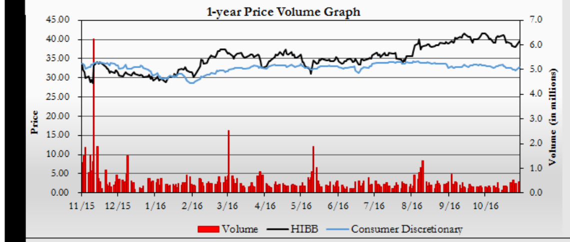
Superior margins and value creation, good comp store sales growth, no debt, good management of COGS and SG&A and both multiple and DCF valuation show that Hibbett Sports (HIBB) is the best in class investment. We recommend an entry point at current market price, $42.5, mainly because Hibbett Sports beat EPS expectation seven times out of the last eight quarters. Our target price is at $49.0 for a target return of 15.0%. If earnings were to disapoint, we recommend entry point at $39.


HIBB US Price versus Peers & Benchmark (Normalized)
120
100
80
60
40
20
0
Nov-15
Dec-15
Jan-16
Feb-16
Mar-16
Apr-16
May-16
Jun-16
Jul-16
Aug-16
Sep-16
Oct-16
Nov-16
HIBBETT SPORTS INC
Peer Index
SPX


1 Year Total Return vs Index
30%
25%
20%
15%
10%
5%
0%
-5%
-10%
-15%
-20%
'15
'16
+25.8%
+6.4%
+3.6%
HIBBETT SPORTS INC
S&P 500 INDEX
S&P 500 RETAILING INDEX

Hibbett Sports, Inc. (HIBB) — CENTER FOR GLOBAL FINANCIAL STUDIES — BULLISH

Analysis by	Current Price:	$42.40	Intrinsic Value	$44.09	Target 1 year Return: 16.48%
11/10/2016	Divident Yield:	0.1%	Target Price	$49.33	Probability of Price Increase: 89.8%



Description

Hibbett Sports, Inc., together with its subsidiaries, operates athletic specialty stores in small and mid-sized markets primarily in the South, Southwest, Mid-Atlantic, and the Midwest regions of the United States.

General Information

Sector	Consumer Discretionary
Industry	Specialty Retail
Last Guidance	November 3, 2015
Next earnings date	November 18, 2016
Estimated Country Risk Premium	6.25%
Effective Tax rate	40%
Effective Operating Tax rate	40%

Market Data

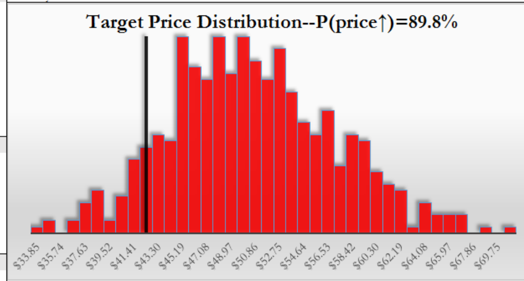
Market Capitalization	$900.39
Daily volume (mil)	0.37
Shares outstanding (mil)	21.99
Diluted shares outstanding (mil)	23.03
% shares held by institutions	74%
% shares held by investments Managers	120%
% shares held by hedge funds	12%
% shares held by insiders	1.02%
Short interest	21.35%
Days to cover short interest	13.04
52 week high	$41.97
52-week low	$27.58
Levered Beta	1.08
Volatility	25.22%

Past Earning Surprises

Quarter ending	Revenue	EBITDA
8/1/2015	-4.98%	-19.80%
10/31/2015	-4.08%	0.10%
1/30/2016	-2.38%	-0.53%
4/30/2016	-2.56%	-2.20%
7/30/2016	-2.71%	-5.40%
Mean	-3.34%	-5.57%
Standard error	0.5%	3.7%

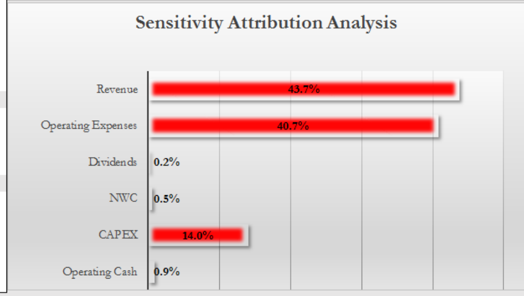
Peers

Big 5 Sporting Goods Corp.
Sportsman's Warehouse Holdings, Inc.
Dick's Sporting Goods Inc.
Cabela's Incorporated
Tractor Supply Company

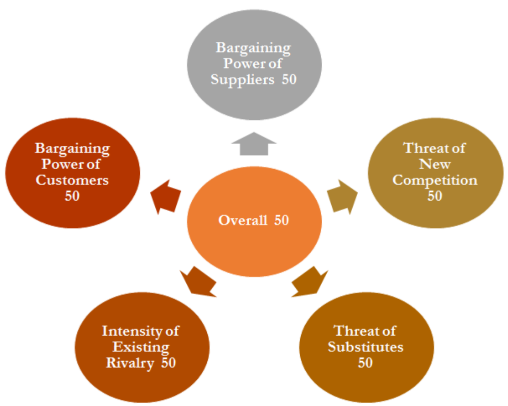


Management	Position	Total compensations growth	Total return to shareholders
Rosenthal, Jeffry	Chief Executive Officer, Pre	4.05% per annum over 6y	7.36% per annum over 6y
Bowman, Scott	Chief Financial Officer and	17.87% per annum over 4y	-0.27% per annum over 4y
Pryor, Cathy	Senior Vice President of Ope	1.98% per annum over 6y	7.36% per annum over 6y
Briskin, Jared	Chief Merchant and Senior Vi	25.07% per annum over 2y	-13.84% per annum over 2y
Mayfield, Terry	Chief Information Officer an	N/M	N/M
Benck, David	Vice President and General C	N/M	N/M

Profitability	HIBB (LTM)	HIBB (5 years historical average)	Industry (LTM)
ROIC	12.5%	15.79%	20.49%
NOPAT Margin	9%	12.68%	7.0%
Revenue/Invested Capital	1.43	1.24	2.93
ROE	12.2%	16.36%	24.53%
Adjusted net margin	6%	10.92%	6.4%
Revenue/Adjusted Book Value	1.90	1.50	3.86
Invested Funds	**HIBB (LTM)**	**HIBB (5 years historical average)**	**Industry (LTM)**
Total Cash/Total Capital	6.5%	9.6%	19%
Estimated Operating Cash/Total Capital	6.5%	8.4%	N/A
Non-cash working Capital/Total Capital	26.4%	26.0%	19%
Invested Capital/Total Capital	100.0%	98.8%	82%
Capital Structure	**HIBB (LTM)**	**HIBB (5 years historical average)**	**Industry (LTM)**
Total Debt/Common Equity (LTM)	0.23	0.14	0.25
Cost of Existing Debt	22.69%	22.51%	7.32%
Estimated Cost of new Borrowing	22.92%	22.92%	7.32%
CGFS Risk Rating	F	F	C
Unlevered Beta (LTM)	0.95	1.11	0.91
WACC	11.35%	11.57%	9.46%



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



Valuation

Period	Revenue growth	NOPAT margin	ROIC/WACC
Base Year	3.9%	8.8%	1.10
7/30/2017	3.6%	8.3%	1.03
7/30/2018	4.0%	9.8%	1.47
7/30/2019	4.0%	9.5%	1.12
7/30/2020	3.9%	10.0%	1.18
7/30/2021	3.9%	10.2%	1.21
7/30/2022	3.9%	10.3%	1.24
7/30/2023	3.9%	10.4%	1.27
7/30/2024	4.0%	10.6%	1.30
7/30/2025	4.0%	10.7%	1.33
7/30/2026	4.0%	10.8%	1.36
Continuing Period	4.1%	11.0%	1.39

Period	Invested Capital	Net Claims	Price per share
Base Year	$490.84	$180.54	$43.49
7/30/2017	$525.03	$159.05	$48.35
7/30/2018	$623.80	$280.97	$53.58
7/30/2019	$653.28	$225.34	$59.57
7/30/2020	$675.45	$148.73	$65.75
7/30/2021	$706.48	$68.75	$72.10
7/30/2022	$744.91	-$14.45	$78.65
7/30/2023	$970.45	-$99.06	$85.29
7/30/2024	$1,012.37	-$186.40	$92.09
7/30/2025	$1,040.53	-$276.50	$99.02
7/30/2026	$1,069.09	-$369.39	$106.07
Continuing Period			

Palo Alto Networks Inc.

NASDGS: PANW

Analyst: David Itoafa
Sector: Networking

Buy

Price Target: 179.61$

Key Statistics as of 11/12/2016

Market Price: 156.01
Market Cap: 14.5 B
52-Week Range: 111.0901-194.728
Beta: 1.103

Catalysts:

- Q3 Earning Call on November 21st
- Policy changes during Trump Presidency

Company Description:

Palo Alto Networks is a company offering network security solutions to clients. The initial public offering was in July of 2012 and has since then taken off to become one of the leaders in cybersecurity. The network security functions offered by PANW include firewall, threat protection, intrusion detection system, intrusion preventive system and uniform resource locator filtering's. This company was founded by Nir Zuk, Rajiv Bartra, and Yuming Mao, but Mr. Zuk is the only member still active in the board of directors. Palo Alto Networks has it's headquarter in Santa Clara California, but offers its services to various countries all over the world.

Thesis

- Palo Alto Networks is positioned very well to withstand a shift from traditional to robust solutions.
- Revenue growth and a booming cybersecurity market will enable PANW to continue moving in the right direction.
- The upcoming earnings call on the 21st will provide clarity and confidence to investors.

Valuation

As of right now Palo Alto Networks is fairly priced due to three main concerns, which can be fixed in the long run. Many analysts are turned off by an overstatement that could have occurred in the growth of free cash flows. In the most recent earnings call CEO Mark D McLaughlin explained that FCF rose to 95%. For the time being analysts or looking at the fact that there has been a Signiant increase in the amount of paid stock compensations. The reason that Palo Alto Networks is giving out these compensations is to attract and keep highly talented individuals to and within the corporation. I believe that the fact that these compensations have not been added to FCF has already been adjusted in the price of PANW. Therefore, once the company expands and starts offering less stock based compensations in the future the price and the company will be positively affected. Moreover, PANW's operating margin is becoming a major problem.

In Millions of USD except Per Share	FY 2014	FY 2015	FY 2016	Last 12M
12 Months Ending	07/31/2014	07/31/2015	07/31/2016	07/31/2016
+ Sales & Services Revenue	598.2	928.1	1,378.5	1,378.5
- Cost of Revenue	159.6	239.2	357.7	363.8
+ Cost of Goods & Services	159.6	239.2	357.7	363.8
Gross Profit	438.6	688.8	1,020.8	1,014.7
+ Other Operating Income	0.0	0.0	0.0	0.0
- Operating Expenses	485.7	809.3	1,198.6	1,192.5
+ Selling, General & Admin	383.5	623.5	914.4	914.4
+ Selling & Marketing	334.8	522.7	776.0	776.0
+ General & Administrative	48.7	100.8	138.4	138.4
+ Research & Development	104.8	185.8	284.2	284.2
+ Other Operating Expense	-2.6	0.0	0.0	-6.1
Operating Income (Loss)	-47.2	-120.5	-177.8	-177.8

Each fiscal year there has been a drastic increase in selling general & Administration expenses because the company is trying to keep up with revenue growth. I believe that this is factored into the price and once PANW is able to reduce its operating expenses there will be a very bright future. These two dilemmas of compensations and operating expenses are interconnected because as explained in their last earnings call compensations will help motivate employees and decrease labor costs. Eventually these two short term fixes will subside and Palo Alto Networks will attract more investors. Advertising expenses could also be on the chopping block for PANW leaving more room for a more impressive bottom line. The final concern that is making investors hesitant is an increase in deferred revenue, which some analysts believe means they are unable to convert unearned revenue into revenue.

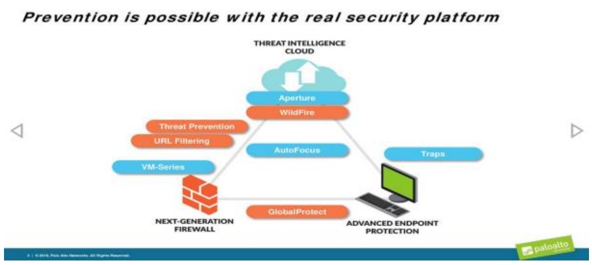
Deferred revenue	$1.2Bn	$713.7Mn	73.9%

Palo Alto Networks Earning's call Slides

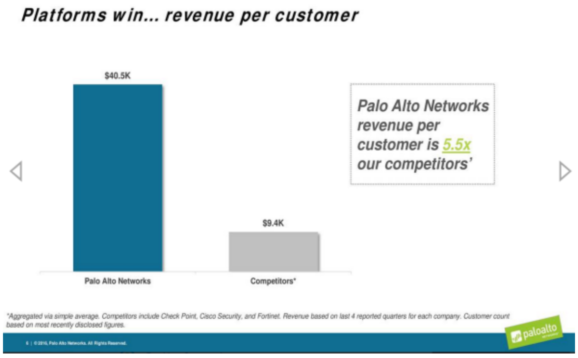
However, this could also mean that there is just far too much demand for their robust security solutions and that they have potential to tap into deferred revenue in the long run as they continue to expand. These are the main reasons why Palo Alto Networks has had such a turbulent past year and all have the potential to be fixed in the long run because they have business model and product that none of their competitors can match.

Business Model

Although certain financials explained seem negative there are far more positives associated with PANW. The main driver of stock price for this company is revenue growth and is why the company has prospered since its IPO in 2012 The company opened publicly with a price trading at roughly $62 and is trading today at around 150 dollars. Before understanding the business model and strategies they have imposed to be successful one must understand the experience Palo Alto Networks offers.



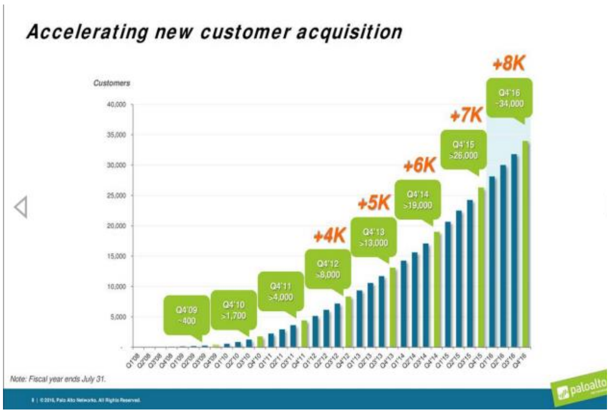
This simple triangle demonstrating how their platform works is the reason for PANW ability to attract new customers. Since basic firewall is no longer enough to protect from hackers companies have invested in comprehensives platforms that offer ongoing support and various means of protection. Therefore, as companies continue to invest more money into cybersecurity PANW stands ready to prosper.



Since the company makes up to 5.5 times more revenue per customer and the cybersecurity industry is booming their no reason for Palo Alto Networks not to be able to maintain or improve their revenue growth In the short and long term. Their business model of switching 1 time subscriptions into longer and more meaningful relationships with clients has enabled them to cash in on this which brings me to the earnings call.

Important Dates and Catalysts

The upcoming earning call on November 21st will have a major impact on this company's future. If PANW is able to demonstrate to investors that operating expenses can decrease in the long run there is great potential in this company. Additionally, there must be some sort of limit on stock compensations because shares are becoming more and more diluted. I believe that the company's $500 million share repurchase program is one way that they are combatting this and is the main reason for its approval by the board of directors last earning's call. In the upcoming earning's call PANW will have less stock compensation leaving investors more satisfied then last quarter in terms of the share buyback program. Revenue growth will also impress investors as seen in the chart more customers means more revenue



Guidance from the previous earnings call had revenue growth for the next two quarters at 12%, which is shockingly low for PANW. The fact that the number of customers they acquired last quarter was an all-time high and the fact that PALO Alto Networks make much more revenue per client and the fact that during the 2 previous fiscal years revenue has been underestimated leads me to believe that revenue growth for this quarter will edge closer to 15%-20%. Another very important event will be in the near future when Donald Trump announces his plans for cybersecurity and technology. He has states previously that he intends to bring cybersecurity to the next level. Although, no specifics were discussed his new policies could also bolster Palo Alto Networks stock price.

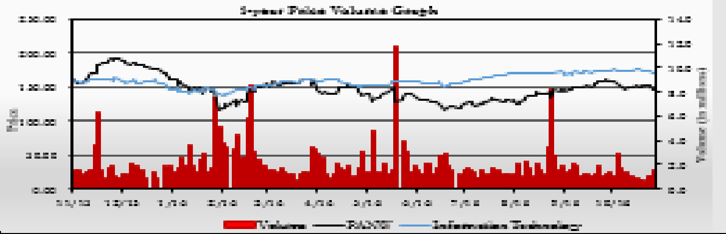
Summary

There are risks associated to Palo Alto Networks, but my stance remains bullish due its main driver of the stock price revenue growth. The valuation at this time remains fair at this moment in time, but once PANW is able to reduce operating expenses and fix their stock compensation dilemma this company will not look back. There will continue to be a high demand for products that follow a similar business model to PANW because it offers their customers not only a deeper sense of security, but also results. The company has a 95% retention ratio In terms of clients along with constant acquisition of new customers. Therefore, the positives outweigh the negatives for this company because a few minor changes that must be addressed in the next earnings call will calm investors. A solid business model along with a booming industry means good times ahead for Palo Alto Networks.

CENTER FOR GLOBAL FINANCIAL STUDIES

Palo Alto Networks, Inc. (PANW) — **NEUTRAL**

Analysis by David Itsefa	Current Price:	$152.93	Intrinsic Value	$153.39	Target 1 year Return: 17.44%
11/12/2016	Divident Yield:	0.0%	Target Price	$179.61	Probability of Price Increase: 93.2%



Description

Palo Alto Networks, Inc. provides security platform solutions to enterprises, service providers, and government entities worldwide.

General Information

Sector	Information Technology
Industry	Communications Equipment
Last Guidance	November 3, 2015
Next earnings date	November 21, 2016
Estimated Country Risk Premium	7.30%
Effective Tax rate	34%
Effective Operating Tax rate	34%

Market Data

Market Capitalization	$13,940.74
Daily volume (mil)	1.10
Shares outstanding (mil)	91.21
Diluted shares outstanding (mil)	87.10
% shares held by institutions	82%
% shares held by investments Managers	67%
% shares held by hedge funds	7%
% shares held by insiders	3.33%
Short interest	0.25%
Days to cover short interest	4.37
52 week high	$194.79
52-week low	$111.83
Levered Beta	1.16
Volatility	0.00%

Past Earning Surprises

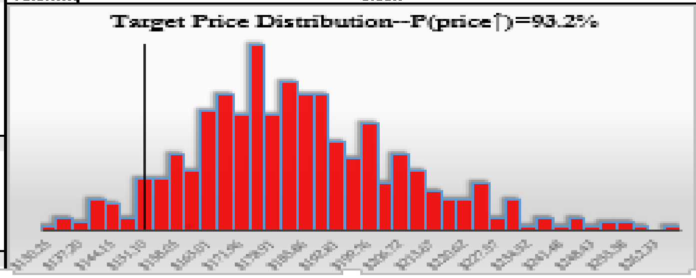
Quarter ending	Revenue	EBITDA
7/31/2015	7.35%	-151.00%
10/31/2015	2.17%	-137.72%
1/31/2016	2.67%	-161.25%
4/30/2016	-2.01%	-145.14%
7/31/2016	2.25%	-137.20%
Mean	2.70%	-147.31%
Standard error	1.6%	5.0%

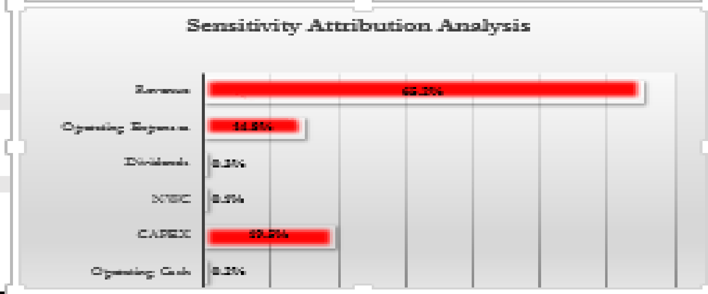
Peers

Infoblox Inc.
Fortinet Inc.
FireEye, Inc.
F5 Networks, Inc.
Arista Networks, Inc.
NetScout Systems, Inc.
Check Point Software Technologies Ltd.
Finisar Corp.

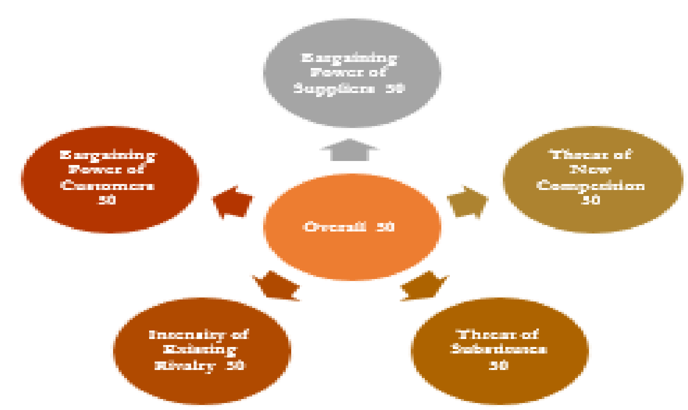
Management	Position	Total compensation growth	Total return to shareholders
McLaughlin, Mark	Chairman and Chief Executive	-10.52% per annum over 4y	2.35% per annum over 4y
Anderson, Mark	President	-100% per annum over 2y	27.23% per annum over 2y
Zuk, Nir	Co-Founder, Chief Technology	123.24% per annum over 5y	N/M
Tomlinson, Steffan	Chief Financial Officer and	42.33% per annum over 4y	2.35% per annum over 4y
Paussa, Rene	Chief Marketing Officer and	84.67% per annum over 5y	N/M
Mao, Yuming	Co-Founder and Chief Architect	N/M	N/M

Profitability	PANW (LTM)	PANW (5 years historical average)	Industry (LTM)
ROIC	25.7%	53.00%	15.54%
NOPAT Margin	17%	26.30%	15.3%
Revenue/Invested Capital	1.37	2.20	1.02
ROE	11.0%	135.23%	10.40%
Adjusted net margin	16%	25.30%	14.0%
Revenue/Adjusted Book Value	0.74	5.22	1.32
Invested Funds	**PANW (LTM)**	**PANW (5 years historical average)**	**Industry (LTM)**
Total Cash/Total Capital	44.3%	47.0%	44%
Estimated Operating Cash/Total Capital	14.2%	13.0%	N/A
Non-cash working Capital/Total Capital	-14.2%	-13.0%	-5%
Invested Capital/Total Capital	47.4%	47.5%	57%
Capital Structure	**PANW (LTM)**	**PANW (5 years historical average)**	**Industry (LTM)**
Total Debt/Common Equity (LTM)	0.03	0.03	0.23
Cost of Existing Debt	4.07%	4.73%	4.83%
Estimated Cost of new Borrowing	1.36%	3.13%	4.83%
CGFS Risk Rating	AA	BB	CCC
Unlevered Beta (LTM)	1.14	1.10	1.02
WACC	12.31%	12.47%	10.32%





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



Valuation

Period	Revenue growth	NOPAT margin	ROIC/WACC
Base Year	48.5%	17.3%	1.33
7/31/2017	4.0%	24.3%	2.17
7/31/2018	30.2%	34.0%	3.25
7/31/2019	60.0%	42.0%	5.16
7/31/2020	40.0%	33.5%	4.71
7/31/2021	30.0%	37.3%	4.04
7/31/2022	20.0%	35.0%	3.23
7/31/2023	16.0%	33.6%	2.70
7/31/2024	13.6%	32.1%	2.41
7/31/2025	10.4%	30.7%	2.10
7/31/2026	7.3%	29.2%	1.82
Continuing Period	4.1%	27.6%	1.50

Period	Invested Capital	Net Claims	Price per share
Base Year	$77.77	-$100.16	$147.00
7/31/2017	$155.67	-$1,011.10	$174.22
7/31/2018	$262.06	-$1,855.76	$200.20
7/31/2019	$025.61	-$3,330.00	$234.72
7/31/2020	$1,001.15	-$4,336.72	$273.66
7/31/2021	$1,375.61	-$6,301.76	$317.00
7/31/2022	$1,645.47	-$3,162.73	$366.10
7/31/2023	$2,065.01	-$11,200.60	$415.10
7/31/2024	$3,000.47	-$13,105.13	$466.53
7/31/2025	$4,305.77	-$15,732.11	$513.75
7/31/2026	$6,123.53	-$17,336.63	$573.05
Continuing Period			

Paycom Software, Inc.

NASDAQ:PAYC

Analyst: Thomas Marano
Sector: Information Technology

BUY

Price Target: $51.62

Key Statistics as of 11/11/2016

Market Price:	$41.60
Industry:	Software
Market Cap:	$2,681.57M
52-Week Range:	$22.42-52.93
Beta:	1.98

Catalysts:

- Presidential Election
- Equal employment compliance

Company Description:

Paycom Software, Inc. (Paycom) is a United States based online payroll and human resources technology provider located in Oklahoma City, Oklahoma. Paycom is known for their multiple online services in areas such as talent acquisitions, time and labor management, payroll, talent management, and human resources. Paycoms broad cloud based HR system helps corporations manage many aspects of their company. With ISO 27001 and ISO 9001 certificates, Paycom Software has extreme security standards.

Thesis

Paycom Software Inc., is a growth company who has continued to grow revenue year after year. Providing evidence that demand for their product is growing. The main reasons corporations' partner with Paycom is due to their on-site implementation, to improve talent and retention, customize and create a communication channel to employees, work efficiency with strategic organizations, and compliance by design. Plus Paycom is one of the only human resource software that is together on a single database. Which provides extreme ease to payroll and human capital management.

Industry Outlook

Continuing through 2016, the software industry and information technology sector continue to grow.

Labor within the software industry has grew since 2015 by nearly 40% with overall confidence of continuous growth going forward into 2017. In the aggregate the US IT sector employs approximately 5.9 million workers in technical and non-technical roles. Spanning from jobs such as software developers, network administrators, human resources, and marketing.

Globally revenue within the IT industry is expected to reach 3.8 trillion, up from 2015's 3.7 trillion, with the United states accounting for nearly 31%.

The driving force within the industry is the cloud computing software. Paycoms Cloud computing software increases efficiency, has a disaster recovery system, and allows associates to work from anywhere. Paycom has many well-known competitors of similar size and revenue that provide a similar service.

COMPETITORS	SYMBOL
Cornerstone OnDemand, Inc.	NasdaqGS:CSOD
The Ultimate Software Group, Inc.	NasdaqGS:ULTI
Paylocity Holding Corporation	NasdaqGS:PCTY
RealPage, Inc.	NasdaqGS:RP
Synchronoss Technologies, Inc.	NasdaqGS:SNCR
Zendesk, Inc.	NYSE:ZEN
Mentor Graphics Corp	NYSE:MENT

Business Model

Paycom Software Inc. provides a comprehensive, cloud oriented payroll and human resources software solution that was created for companies as a software service. With Paycoms key advantage being that their software operates on a single server base. Allowing their customers to access all their data in one area, rather than multiple databases.

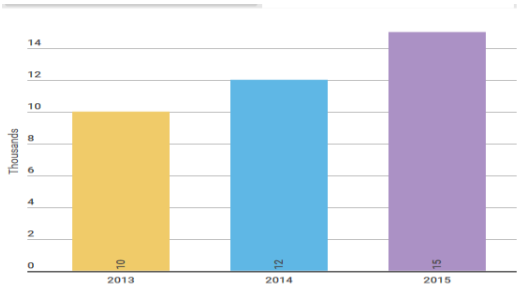
Paycom currently has 39 sales offices across the country that act as their main source of communication for demos or any errors. They plan to open more storefronts within 2017 and increase overall client numbers. Headquarters strategically places Paycom in areas where the software is highly used.

Paycoms target market is mid-size corporations with approximately 2000-8000 employees.

Product Differentiation

With the IT sector and Software industry growing rapidly each year it is extremely crucial that Paycom Software differentiates itself from their competition. Most of Paycoms competition have a similar payroll processing software but not all of them have an HCM (Human Capital Management) solution. Paycom software offers a software program that "Truly Completes Employment Life Cycle Management". Making the everyday tasks of running a business much more efficient and easier. With talent acquisition, which provides convenience when screening for new employees. Payroll, time & labor management which aid in clocking employee hours and their duties. Talent management and HR Management. Many of Paycoms competitors do not offer all of these services and because of this Paycom easily differentiates itself from its competition.

It's proven that Paycom differentiates itself from their competition by maintain their 91% retention rate year after year and increasing their total clients year after year. As you can see from the chart below, Paycom continues to increase their number of clients year after year.



Strong 3rd Quarter Results

Paycom Software's Q3 earnings came out on November 1st 2016 and shows huge signs of success.

-Third quarter revenue of $77.3 million up from prior year Q3 by 40%.

-Third quarter GAAP net income up $6.2 million, 61% from prior year's quarter.

- Third Quarter adjusted EBITDA up 68% to $18.2 million from Q3 2015.

-Projections for quarter ending December 31st 2016 are revenues between $85 million to $87 million and adjusted EBITDA between $14 and $16 million.

Ownership

According to the graph below showing short interest you can see Paycoms short interest began to severely plunge from their all-time high in October. The decline is an indication that investors are beginning to sell their short positions, meaning investors possibly believe that the share price may pick up traction and raise again. This supports my thought for purchasing shares of Paycom Software Inc.

The CEO, Chad Richardson and his leadership team together own approximately 20% of shares outstanding. This shows that internal sources within the company believe in the future and success of the company.

Profit Margins

Paycom Software is financially healthy. They've continued to increased return on invested capital from 2013-2015 and has continued to grow each quarter of 2016. Gross margin has steadily increase year after year and although EBITDA margin took a dip in 2013, they're on track and continue to grow going in the final quarter of 2016. Paycom has also increased their operating margin year after year showing that Paycom is earning more per dollar of sales.

Return on Invested Capital	–	–	4.83	9.79	19.10
Margins					
Gross Margin	76.80	78.74	80.58	81.90	84.21
EBITDA Margin	11.79	15.07	13.90	15.15	19.52
Operating Margin	2.55	7.88	8.80	10.40	15.33

Financials and Multiples

Paycom Software has continued to increase revenue year and after a very strong 2016 Q3 they're predicted to continue this trend through 2016 and into 2017.

ROIC		
	History	*LFY*
PAYC	**16.6%**	**25.7%**
Competitors	**8.1%**	**4.5%**

ROIC /WACC		
	History	*LFY*
PAYC	**1.80**	**1.69**
Competitors	**0.79**	**0.30**

As you can see from the ratio comparison above, in comparison to their top competitors Paycom Software has been demonstrating value creation at a much greater pace. 1.69 LFY compared to the competitors .30 LFY.

Historically the WACC of Paycom has been lower than their competitors but recently they're had a higher value. However due to their very high ROIC value of 25.7% they're still creating value (ROIC/WACC>1 shows value creation). Whereas their competitors have been destroying value.

According to Bloomberg. Paycom has LF Net debt less than 0 million of -$44.41 Million which is significantly less than their competitors.

Long Term Plan

-Increase relationship with current software users and seek new clients.

-Develop more storefronts throughout the country.

-Increase employment; One of Paycoms biggest issue is their number of software engineers. Paycom has a great staff however most of the employees installing the software through the country are not developers. They're just associates. By increasing the number of software developers this will increase the efficiency of the installment of the software in corporations. Providing their customers with ease and adding to their accredited name.

Important Dates and Catalysts

I believe that due to the outcome of the presidential election the market is going to do great. According to CNBC the Trump presidency has already brought the Dow to all-time highs. Showing a promising future for investors. I believe that due to Trumps tax and job creation plan more corporations will take on more employees. Hopefully leading to the use of Paycoms software.

As industries grow they're required to file an Equal Employment Opportunity report annually. As corporations throughout the country continue to grow they'll need to employ and categorize their employees based on race/ethnicity, job category, and gender. As more rules and regulations come into effect I believe that more users will seek a simplified solution to keeping these records, like Paycom Software. The software helps scan potential employees which will provide ease to human resources.

Summary

In conclusion I believe that Paycom Software is undervalued and is a very useful single server software that provides an extremely useful system to many complicated problems. They're financially stable and have meet past quarter goals and are on track to exceeding goals for quarter 4. As we move into the future, I expect the corporation to grow and take on larger clients leading to an increase in value and revenue.

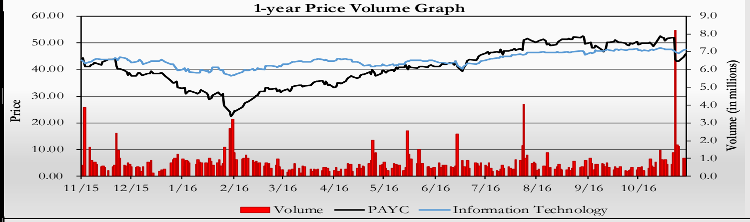
Paycom Software, Inc. (PAYC)

CENTER FOR GLOBAL FINANCIAL STUDIES

BULLISH

Analysis by Thomas Marano	Current Price: $41.60	Intrinsic Value $43.74	Target 1 year Return: 24.21%
11/11/2016	Divident Yield: 0.1%	Target Price $51.62	Probability of Price Increase: 98.4%

1-year Price Volume Graph



Description

Paycom Software, Inc. provides cloud-based human capital management (HCM) software solutions delivered as Software–as-a-Service for small to mid-sized companies in the United States.

General Information

Sector	Information Technology
Industry	Software
Last Guidance	November 3, 2015
Next earnings date	February 9, 2017
Estimated Country Risk Premium	6.25%
Effective Tax rate	40%
Effective Operating Tax rate	41%

Market Data

Market Capitalization	$2,365.98
Daily volume (mil)	1.03
Shares outstanding (mil)	60.11
Diluted shares outstanding (mil)	58.69
% shares held by institutions	72%
% shares held by investments Managers	64%
% shares held by hedge funds	19%
% shares held by insiders	23.53%
Short interest	14.19%
Days to cover short interest	10.19
52 week high	$52.93
52-week low	$22.42
Levered Beta	1.98
Volatility	0.00%

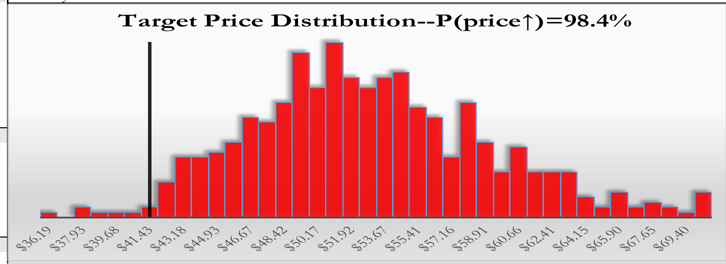
Past Earning Surprises

Quarter ending	Revenue	EBITDA
9/30/2015	6.33%	-8.92%
12/31/2015	5.52%	-36.06%
3/31/2016	0.03%	34.73%
6/30/2016	3.33%	16.51%
9/30/2016	-0.13%	-74.16%
Mean	3.02%	-13.58%
Standard error	1.3%	19.3%

Peers

Cornerstone OnDemand, Inc.
The Ultimate Software Group, Inc.
Paylocity Holding Corporation
Workday, Inc.
HubSpot, Inc.
Zendesk, Inc.
Ellie Mae, Inc.
Bottomline Technologies (de), Inc.

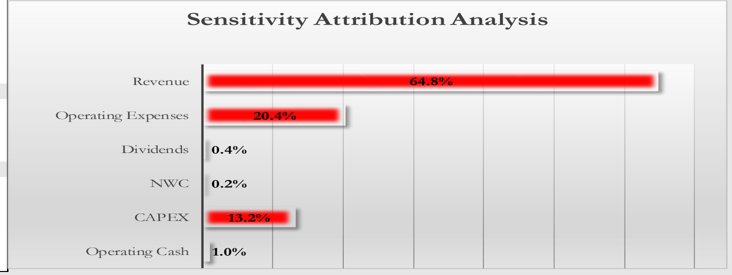
Target Price Distribution--P(price↑)=98.4%



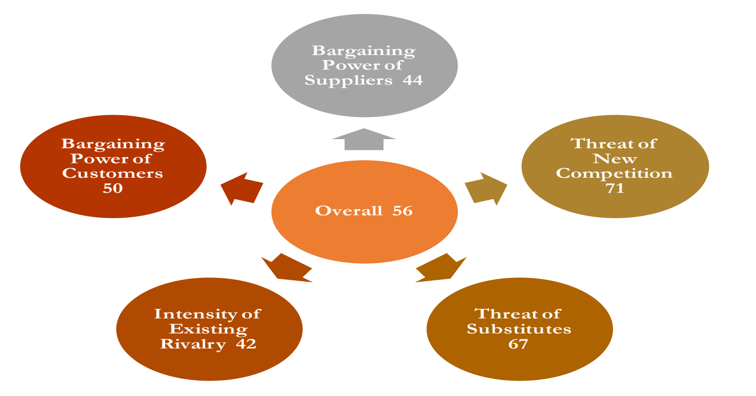
Management	Position	Total compensations growth	Total return to shareholders
Richison, Chad	Founder, Chairman of the Boa	36.19% per annum over 3y	N/M
Boelte, Craig	Chief Financial Officer	50.03% per annum over 3y	N/M
Pezold, Stacey	Chief Operating Officer	N/M	0% per annum over 0y
Kerber, William	Chief Information Officer	46.93% per annum over 3y	N/M
York, Jeffrey	Chief Sales Officer	42.27% per annum over 3y	N/M
Oden-Hall, Kathy	Chief Marketing Officer	N/M	N/M

Profitability	PAYC (LTM)	PAYC (5 years historical average)	Industry (LTM)
ROIC	39.0%	30.11%	9.06%
NOPAT Margin	20%	17.28%	12.9%
Revenue/Invested Capital	1.90	1.74	0.70
ROE	49.1%	-5.32%	10.12%
Adjusted net margin	20%	14.62%	11.0%
Revenue/Adjusted Book Value	2.46	-0.36	0.92
Invested Funds	**PAYC (LTM)**	**PAYC (5 years historical average)**	**Industry (LTM)**
Total Cash/Total Capital	23.8%	18.1%	53%
Estimated Operating Cash/Total Capital	17.4%	12.0%	N/A
Non-cash working Capital/Total Capital	-7.9%	-6.5%	-27%
Invested Capital/Total Capital	76.3%	64.8%	63%
Capital Structure	**PAYC (LTM)**	**PAYC (5 years historical average)**	**Industry (LTM)**
Total Debt/Common Equity (LTM)	0.02	0.01	0.15
Cost of Existing Debt	5.18%	12.63%	3.00%
Estimated Cost of new Borrowing	6.13%	4.12%	3.00%
CGFS Risk Rating	D	B	CCC
Unlevered Beta (LTM)	1.95	1.00	1.17
WACC	16.16%	10.27%	10.92%

Sensitivity Attribution Analysis



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



Valuation

Period	Revenue growth	NOPAT margin	ROIC/WACC
Base Year	50.5%	20.5%	2.41
9/30/2017	46.3%	22.5%	2.68
9/30/2018	42.1%	22.5%	2.71
9/30/2019	37.9%	22.5%	2.65
9/30/2020	33.6%	22.4%	2.60
9/30/2021	29.4%	22.3%	2.55
9/30/2022	25.2%	22.2%	2.50
9/30/2023	21.0%	22.1%	2.44
9/30/2024	16.7%	21.9%	2.37
9/30/2025	12.5%	21.6%	2.29
9/30/2026	8.3%	21.2%	2.19
Continuing Period	4.1%	20.8%	2.07

Period	Invested Capital	Net Claims	Price per share
Base Year	$49.04	$37.44	$43.75
9/30/2017	$57.09	-$12.20	$51.68
9/30/2018	$77.68	-$85.68	$61.01
9/30/2019	$100.24	-$186.89	$71.62
9/30/2020	$160.95	-$322.71	$83.55
9/30/2021	$239.09	-$499.63	$96.74
9/30/2022	$346.83	-$722.71	$111.04
9/30/2023	$502.80	-$994.20	$126.21
9/30/2024	$703.87	-$1,312.31	$141.91
9/30/2025	$953.54	-$1,670.37	$157.73
9/30/2026	$1,251.27	-$2,056.57	$173.23
Continuing Period			

Skechers U.S.A., Inc.

NASDAQ:SKX

Analyst: Brandon Casey
Sector: Consumer Disc.

BUY

Price Target: $25.66

Key Statistics as of 11/10/2016

Market Price:	$21.47
Industry:	Apparel, Footwear, & Acc. Design
Market Cap:	$3.38B
52-Week Range:	$18.81-34.27
Beta:	0.20

Catalysts:

- Continuation of organic growth
- Mid-run: Q4 Earnings 2016
- Continuity of marketing success

Company Description:

Skechers U.S.A., Inc. (SKX) sells casual, active, rugged, and lifestyle footwear for men, women, and children of all ages. It sells its products to stores and retailers. Sketchers also sells its products across the world through distributors, in addition to selling directly to international customers through its own stores. The CEO/Founder Robert Greenberg has been with the company since its birth in 1992 along with co-founder and President Michael Greenberg. They endorse celebrities such as Meghan Trainor, Sugar Ray Leonard, Ringo Starr, Pete Rose, and Mariano Riviera. They believe brand recognition is a key to success in the footwear business, and it shows through their endorsements and advertising.

Thesis

Skechers U.S.A., Inc. has continued to be a valuable and successful company in the footwear industry. Their ability to market and advertise their brand stands out amongst all competitors. Skechers does this through connecting to their customers by either endorsing superstars or sponsoring public events. In addition to branding, SKX has the financial success to prove there are an undervalued company. They grow at a faster rate than competitors and have margins at or around the industry average. Also, they have a low P/E ratio which leads me to believe SKX is an undervalued company. Many investors must see this too, since SKX has a short interest ratio of 1.27, lower than any big competitors. Overall the future is bright for Skechers and I believe it is a BUY at $21.47 with a potential gain of 19.52%.

Financials

SKX's margins and financials show how efficient they operate, and show that SKX may be undervalued. Skechers has a P/E ratio of 12.44. By using Capital IQ I found the median forward NTM P/E of 15.44 Multiplying this number by the NTM EPS gives us a median implied price per share of $27.67. With a current price of $21.41 this P/E shows us that SKX is undervalued.

31) Equity Valuation 32) CDS Spreads 34) Profitability 35) Balance Sheet 36) ESG

	Name (BICS Best Fit)	Sales Growth (%)	EBITDA Growth (%)	EBITDA Margin	Operating Income Margin	Net Income Growth	Net Profit Margin	Capex/Sales (%)	Return on Invested
	Average	0.74%	3.88%	13.40%	11.11%	25.33%	7.62%	2.96%	9.08%
100)	SKECHERS USA INC-CL	17.61%	16.16%	12.95%	11.30%	16.19%	7.58%	3.75%	19.63%
101)	XTEP INTERNATIONAL H	8.06%	21.76%	18.57%	17.54%	22.35%	12.11%	1.48%	10.55%
102)	GEOX SPA	5.48%	18.19%	6.39%	2.47%	326.47%	0.99%	3.44%	2.37%
103)	TOD'S SPA	1.61%	12.76%	21.16%	13.25%	-13.23%	7.96%	4.55%	8.04%
104)	ZHEJIANG AOKANG SHO	1.12%	--	--	15.36%	9.72%	11.63%	6.67%	8.26%
105)	DECKERS OUTDOOR COR	0.49%	-21.56%	12.29%	9.52%	-10.80%	7.07%	3.49%	10.50%
106)	STEVEN MADDEN LTD	0.27%	4.26%	13.63%	12.01%	5.70%	8.18%	1.38%	16.03%
107)	STELLA INTERNATIONAL	-2.61%	-17.20%	8.74%	6.18%	-20.50%	5.88%	4.78%	8.38%
108)	CROCS INC	-2.84%	28.23%	2.35%	-0.82%	-36.97%	-2.17%	1.18%	-3.93%

(Accounting adjustments: Adjusted for abnormal items, when applicable)

Australia 61 2 9777 8600 Brazil 5511 2395 9000 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977
Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2016 Bloomberg Finance
SN 892980 EST GMT-5:00 G397-4072-0

Above is the financial layout of Skechers compared to its competitors. Immediately I realized that Skechers has margins at or above the industry average. Skechers' sales growth of 17.61% is outperforming the industry average of 0.74%. Skechers also has EBITDA growth of 16.16%, which surpasses the industry average. It is clear that Skechers is growing faster than other competitors, but how efficiently are they growing? SKX has an EBITDA margin of 12.95%, barely lower than the average of 13.40%. Their operating income margin of 11.30% is just above the industry average, and net profit margin of 7.58% is just under the average. So overall, SKX is growing much faster than the industry but they are just as efficient as their competitors.

However, I argue that SKX is more efficient than its competitors. In my proforma analysis, SKX had a ROC/WACC of 1.18 compared to a competitor average of 1.17. This does not say much, however, if you split that up into ROIC and WACC we get different results. SKX has an ROIC of 17.9% and WACC of 15.2%, compared to industry averages of 12.8% and 11.0%, respectively. Since SKX has higher values for these measures of efficiency, the stock is clearly undervalued.

Ownership

Skechers is mainly owned by Investment Advisors, but also has 9.91% of themselves owned by Hedge Funds.

<Menu> to Return

SKX US Equity 25) Export 26) Settings Security Ownership

SKECHERS USA INC-CL A CUSIP 83056610

1) Current 2) Historical 3) Matrix 4) Ownership Summary 5) Insider Transactions 6) Options

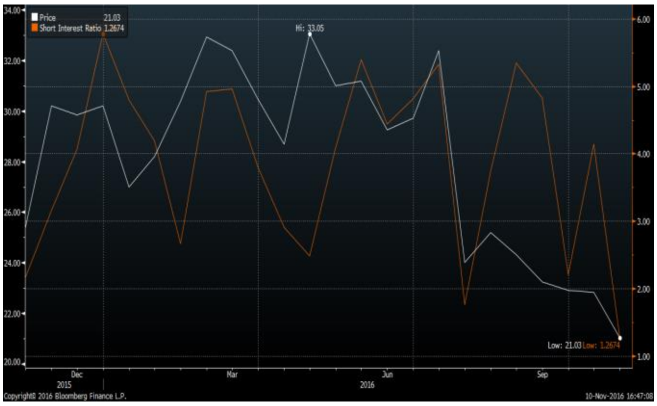
Compare Current Stats Against 11/06/16

	Ownership Type	11/06/16	Curr	Change
11)	Investment Advisor	78.89	80.12	+1.23
12)	Hedge Fund Manager	10.04	9.91	-0.13
13)	Pension Fund	2.95	2.77	-0.18
14)	Individual	2.53	2.53	0.00
15)	Bank	1.86	1.85	-0.01
16)	Government	2.15	1.27	-0.88
17)	Insurance Company	0.75	0.63	-0.12
18)	Brokerage	0.40	0.40	0.00
19)	Foundation	0.18	0.18	0.00
20)	Unclassified		0.10	
21)	Other	0.10	0.10	0.00

At the end of September, a hedge fund called OZ Management LP increased their position by 1,400,423 shares. This is a significant amount of shares to buy at one time, so OZ Management LP must see potential in SKX. They might possibly see how SKX is currently undervalued since the P/E is low and their ROIC and WACC exceed its competitors.

Short Interest

Skechers looks like a great company to invest in due to its financials. Apparently a lot of other investors agree. As of 10/31/16, its short interest ratio sits at 1.27. Over the course of its time on the market, SKX has a low short interest of 0.8257. Its current short interest is not far from the overall low by any means. In the recent past, we can see how volatile the short interest has been.



The current short interest must be a reflection of how financially successful SKX is in comparison to competitors. Comparing short interest with competitors, SKX impresses as well. Competitors like Nike Inc. have a short interest of about 3.1459. Under Armour Inc. has a short interest of 3.7829, and DSW Inc. has a short interest of 7.0598. With a short interest of 1.27, it is easy to see investors have a lot of faith in Skechers in the long run.

Advertising and Marketing

In addition to financial success, Skechers has been able to land many well-known figures and celebrities to endorse. Skechers has claimed that most of its success has come from having a popular brand and it believes it is an important factor in success in the footwear industry. Some endorsees are: Ringo Starr, Demi Lovato, Sugar Ray Leonard, Pete Rose, Joe Montana, Joe Namath, and Mariano Rivera. These household names help Skechers bring popularity to their already popular name.

Skechers in active in engaging consumers through social media. It has accounts on Facebook, Twitter, Instagram, Pinterest, and Snapchat. They use these sites as leverage to attract customers through effective sales techniques and special promotions. They are involved in several charity events, product tie-ins and giveaways, and collaborations with national retailers and radio stations. Last year they appeared at marathons in Boston, New York, London, and Paris. In 2016, they became the sponsor of The Skechers Performance Los Angeles Marathon. Clearly Skechers is doing all it can to become more popular amongst its customers.

Conclusion

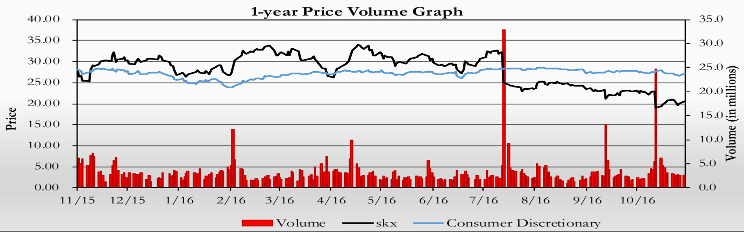
Skechers has already established itself as a big player in the footwear industry. With higher ROIC and WACC than competitors, we see that they are operating more efficiently than competitors and have great organic growth. The market currently has undervalued SKX and now is the time to buy. With a low P/E ratio we notice how SKX is undervalued. Their continued ability to attract customers through marketing and advertising shows us that Skechers is here to stay in the industry for the long run. Having low short interest, successful marketing, and impressive margins and profitability I would consider SKX a BUY at around $21.47.

Siena Market Line
2nd week of November 2016

Skechers U.S.A., Inc. (skx) — CENTER FOR GLOBAL FINANCIAL STUDIES — NEUTRAL

Analysis by Brandon Casey	Current Price:	$21.47	Intrinsic Value	$23.76
11/10/2016	Divident Yield:	0.0%	Target Price	$25.66

Target 1 year Return: 19.52%
Probability of Price Increase: 91.8%



Description

Skechers U.S.A., Inc. designs, develops, markets, and distributes footwear for men, women, and children; and performance footwear for men and women under the Skechers GO brand name worldwide.

General Information

Sector	Consumer Discretionary
Industry	Textiles, Apparel and Luxury Goods
Last Guidance	November 3, 2015
Next earnings date	February 8, 2017
Estimated Country Risk Premium	7.76%
Effective Tax rate	34%
Effective Operating Tax rate	36%

Market Data

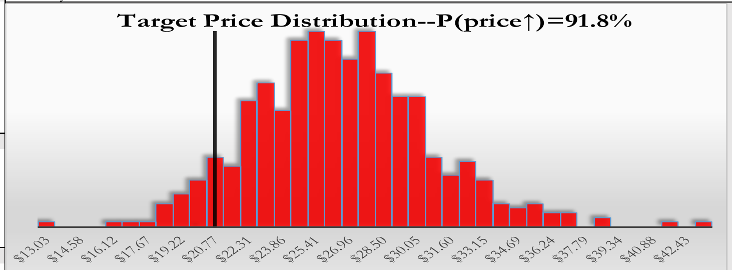
Market Capitalization	$3,346.97
Daily volume (mil)	1.93
Shares outstanding (mil)	157.88
Diluted shares outstanding (mil)	154.89
% shares held by institutions	74%
% shares held by investments Managers	57%
% shares held by hedge funds	9%
% shares held by insiders	11.57%
Short interest	4.71%
Days to cover short interest	2.29
52 week high	$34.27
52-week low	$18.81
Levered Beta	0.14
Volatility	45.89%

Past Earning Surprises

Quarter ending	Revenue	EBITDA
9/30/2015	-2.53%	-20.41%
12/31/2015	3.50%	-28.80%
3/31/2016	3.96%	11.94%
6/30/2016	-1.99%	-16.27%
9/30/2016	-2.40%	2.60%
Mean	0.11%	-10.19%
Standard error	1.5%	7.6%

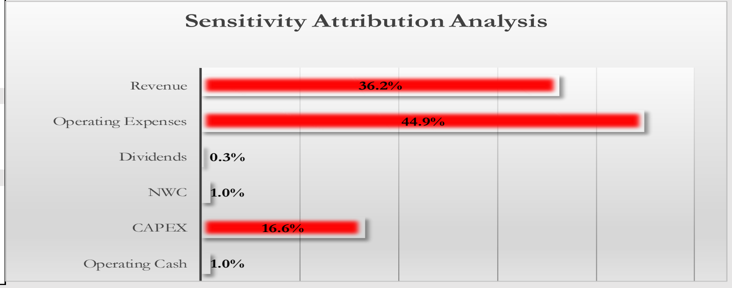
Peers

Wolverine World Wide Inc.
American Eagle Outfitters, Inc.
Genesco Inc.
DSW Inc.
Under Armour, Inc.
Deckers Outdoor Corp.
Columbia Sportswear Company
Finish Line Inc.

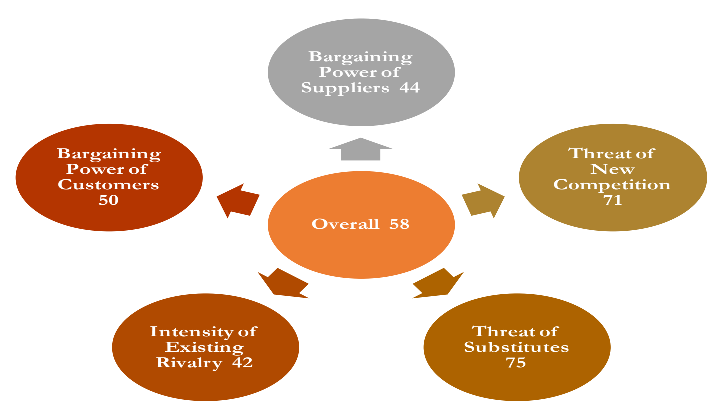


Management	Position	Total compensations growth	Total return to shareholders
Greenberg, Robert	Co-Founder, Chairman of the	8.94% per annum over 5y	-5.91% per annum over 5y
Greenberg, Michael	Co-Founder, President and Di	10.93% per annum over 5y	-5.91% per annum over 5y
Weinberg, David	Chief Financial Officer, Chi	5.73% per annum over 5y	-5.91% per annum over 5y
Paccione, Philip	Executive Vice President of	8.97% per annum over 5y	-5.91% per annum over 5y
Nason, Mark	Executive Vice President of	1.57% per annum over 5y	-5.91% per annum over 5y
Greenberg, Jeffrey	Senior Vice President of Act	N/M	N/M

Profitability	skx (LTM)	skx (5 years historical average)	Industry (LTM)
ROIC	14.4%	7.20%	14.72%
NOPAT Margin	10%	8.10%	8.7%
Revenue/Invested Capital	1.48	0.89	1.69
ROE	15.1%	6.75%	16.53%
Adjusted net margin	8%	6.26%	7.9%
Revenue/Adjusted Book Value	1.83	1.08	2.10
Invested Funds	**skx (LTM)**	**skx (5 years historical average)**	**Industry (LTM)**
Total Cash/Total Capital	23.7%	21.4%	18%
Estimated Operating Cash/Total Capital	23.7%	20.9%	N/A
Non-cash working Capital/Total Capital	20.4%	19.9%	27%
Invested Capital/Total Capital	102.9%	102.1%	82%
Capital Structure	**skx (LTM)**	**skx (5 years historical average)**	**Industry (LTM)**
Total Debt/Common Equity (LTM)	0.14	0.34	0.15
Cost of Existing Debt	18.93%	13.09%	3.92%
Estimated Cost of new Borrowing	22.92%	16.21%	3.92%
CGFS Risk Rating	F	F	C
Unlevered Beta (LTM)	0.13	0.75	0.65
WACC	5.74%	10.17%	8.82%



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



Valuation

Period	Revenue growth	NOPAT margin	ROIC/WACC
Base Year	17.6%	9.7%	2.51
9/30/2017	4.9%	7.9%	1.65
9/30/2018	11.6%	10.4%	2.22
9/30/2019	7.9%	10.2%	1.82
9/30/2020	5.0%	9.9%	1.64
9/30/2021	4.9%	10.1%	1.62
9/30/2022	4.7%	10.4%	1.62
9/30/2023	4.6%	10.6%	1.62
9/30/2024	4.5%	10.9%	1.61
9/30/2025	4.3%	11.1%	1.61
9/30/2026	4.2%	11.4%	1.61
Continuing Period	4.1%	11.6%	0.99

Period	Invested Capital	Net Claims	Price per share
Base Year	$1,851.48	$575.55	$24.11
9/30/2017	$1,875.04	$446.85	$26.01
9/30/2018	$2,003.03	$717.93	$28.58
9/30/2019	$1,996.10	$611.17	$31.27
9/30/2020	$2,392.16	$373.10	$33.98
9/30/2021	$2,890.41	$83.19	$36.78
9/30/2022	$3,084.29	-$235.55	$39.66
9/30/2023	$3,902.52	-$584.03	$42.61
9/30/2024	$4,337.17	-$963.52	$45.61
9/30/2025	$4,628.69	-$1,375.29	$48.66
9/30/2026	$4,896.19	-$1,820.54	$51.73
Continuing Period			

Southwest Gas Corporation
NASDAQ:SWX

Analyst: Peter Gadze
Sector: Consumer Staples

Buy

Price Target: $79.40

Key Statistics as of 11/12/2016

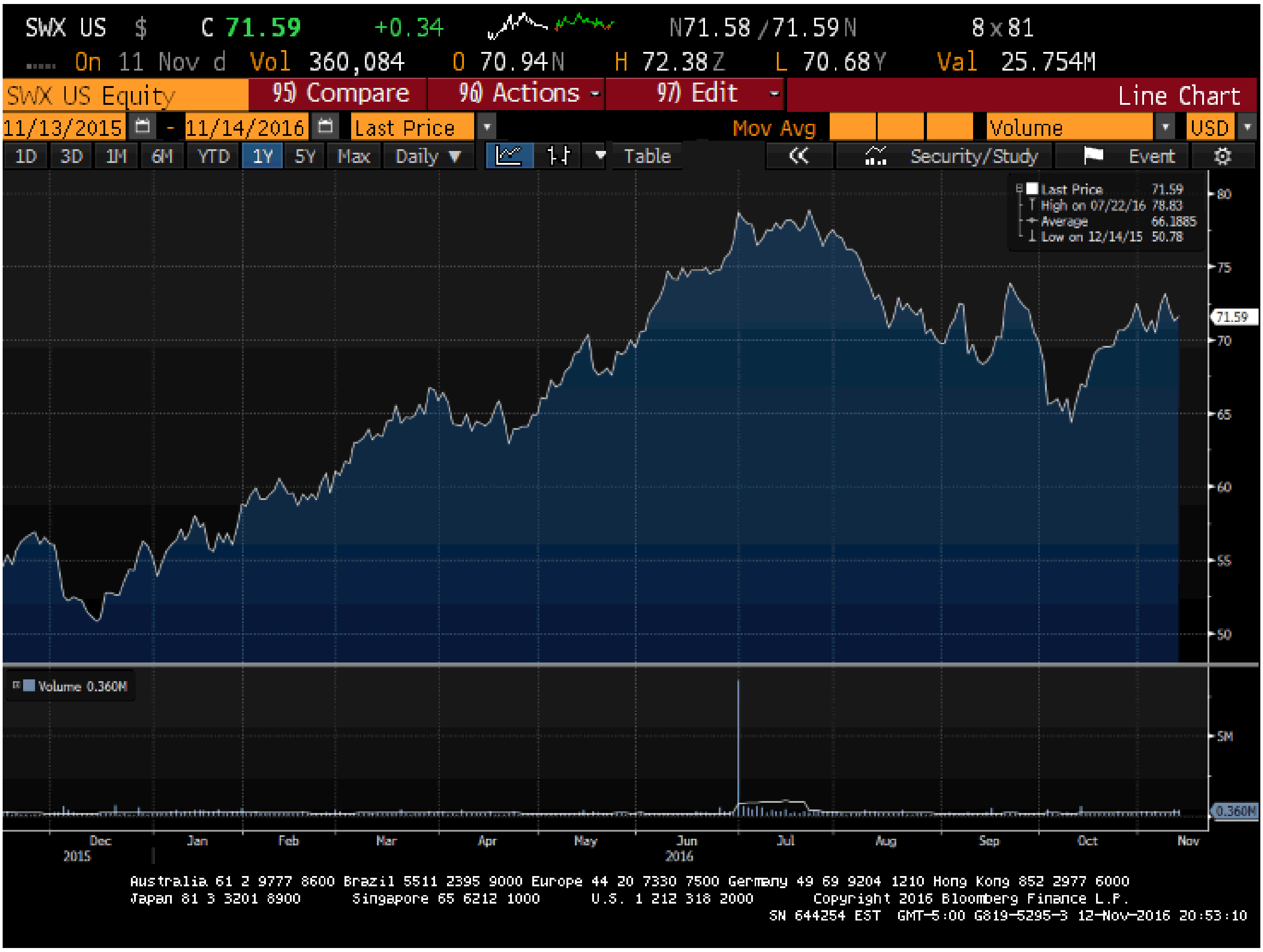
Market Price:	$71.59
Industry:	Gas Utilities
Market Cap:	$3.42 B
52-Week Range:	$50.53 – 79.58
Beta:	.35

Catalysts:

- Increase in Dividend Growth (leads to higher net profit)
- 3rd Quarter Earnings

Company Description:

Southwest Gas Corp. is a public utility that engages in the distribution of natural gas. It operates through two segments; Natural Gas Operations and Construction Services. Natural Gas Operations deal with the purchasing and delivery of natural gas efficiently to its customers. The Construction Services segment through Centuri, an underground piping company, provides companies with trenching and installation for industrial construction projects. This company was founded in Las Vegas, Nevada in March 1931 by Harold Laub and became a publicly owned company in January 1956.



Thesis

Southern Gas Corp. is a holding company that has an abundant source of energy and natural gas. They are growing very slowly compared to the market. With a company that has a volume of 360,084, there aren't any irregular fluctuations. For example, if you were to buy a share at $72, it's very likely that it will stay near that price range when trying to sell your shares. It's possible that you would only profit very little from selling your shares since they grew very little when you first bought them, but what about the company's dividends? The benefit for investing in Southwest Gas Corp. is receiving they're dividend payments quarterly. You will always make money on the side with your dividends rather than just buying high and selling low.

People

John P. Hester Jr serves as the President, Chief Executive Officer, and Director of Southwest Gas Corp. Before becoming President, he was an employee for 25 years and was announced Vice President in 2013. He handles the administration, finance, gas resources, legal marketing and regulatory affairs. Currently he's on the Catholic Charities of Southern Nevada Board of Trustees, College of Southern Nevada Foundation Board of Trustees, and the Las Vegas Metro Chamber Board of Trustees.
Roy Centrella is the Chief Financial Officer and Senior Vice President of Southwest Corp. Prior to receiving this position, he joined the company as an accountant in 1983. Soon he was given managerial and executive roles as time went on.

Why should I Invest in Dividend Stock?

- Dividend investments are easily rewarded if you're in it for the long term.
- Investors who've invested in dividend stocks for a long period of time have a lot of shares. The more shares you have, more income.
- Dividends are less volatile. They're less likely to change rapidly overtime.

Southwest Gas Corp. is a company that is gradually growing. They're prices aren't rising tremendously and they are a holding company. If you were to buy shares now in Southern Gas Corp., you wouldn't have to worry about the price per share rising since they're company doesn't fluctuate much. However, if the price per share does go higher than expected, the company has an increase in net profits, or if the company expend less of its earnings for seeking growth, then the company would increase the amount dividends for their investors.
The dividend payments used to be low in starting at 20 cents per share, but they've only grown within the past decade. Here's their Dividend History:

Ex/Eff Date	Cash Amount
2/13/2006	0.205
2/13/2007	0.215
2/13/2008	0.225
2/11/2009	0.2375
2/11/2010	0.25
2/11/2011	0.265
2/13/2012	0.295
2/13/2013	0.33
2/13/2014	0.365
2/12/2015	0.405
2/11/2016	0.45
Growth from 06-16	29.48%

Competition

Southern Gas Corp. is the largest gas supplier in Arizona and Nevada, with some portions in California. They provide natural gas to roughly under 2 million customers in those states. Southwest Gas Corp has three competitors and they are:

- NV Energy Inc. (NVE)
- UNS Energy Corporation (UNS)
- Pinnacle West Capital Corporation (PNW)

NVE distributes electric service in Northern and Southern Nevada. They don't focus on the whole state and they have less customers compared to Southern Gas Corp. They provide energy services to 1.3 million customers and have market cap of $2.9 billion.
UNS is a parent company of Tucson Electric Power and UniSource Energy Services in Tucson, Arizona. They're Electric Power company provides services to

414, 000 customers and UniSource to 243,000 customers. They also have a lower market cap compared to Southern Gas Corp. of $2.53 billion. PNW is a holding company that provides energy and energy related to products to customers. They have market cap double the size of Southern Gas Corp. but provide services to their 1.2 million customers in Arizona. They have investors that provide a lot of revenue for this company and Southwest Gas Crop. They compete well for the amount of revenue they have compared to PNW. PNW isn't that big of a threat because Southwest Gas Corp. are able to sell more services around areas in Nevada, Arizona, and portions in California.

3rd Quarter Earnings

According to the 3rd quarter earnings, Southwest Gas Corp. had excellent results. Slowly the company is moving towards a strong holding company that will be implemented in 2017. Customer growth grew by 1.5% which was one of their previous. 29,000 new customers were added into the natural gas segment. Added to an increase in customer, operating margin increased by $6 million from the previous quarter. There is an expected infrastructure replacement to be put into work next year as well. $57.3 million costs of pipe replacement was approved by Public Utilities Commission of Nevada making Southwest Gas Corp. build on its Centuri (Construction Service) segment. Centuri also had a record quarterly net income of $14.9 million which was higher than the previous quarter of $14.2 million. Overall expansion in the company grew by $35 million this year and already Paiute Pipeline, a subsidiary of Southwest Gas Corp., announced it will grow up to $17 million by 2018. The continuation of segment building and customer growth will impact the price to gradually increase since it will take the company some time to install the new infrastructure.

Summary

While Southwest Gas Corp.'s competitors focus on specific regions in in the either Arizona or Nevada, they don't cause any threat. Southwest Gas Corp. continues to build on its two segments making business more efficient and stabilized. Although this company isn't expecting staggering growth in the short run, I would recommend that you buy now rather than later for a long term investment. The company has big plans for the future with the new infrastructures and the continued growth in dividends. There aren't any factors that can drive this price down and cause investors to sell their shares. With customer growth growing quarterly, Southwest Gas Corp., would soon be able to expand to other states in that area causing net profit to grow even more. But that would take time and by investing now, you can save money purchasing these shares low and watching them grow gradually annually. You are going to benefit in the long run and in the meantime, you will be receiving your dividend payments which have only been increasing the past decade.

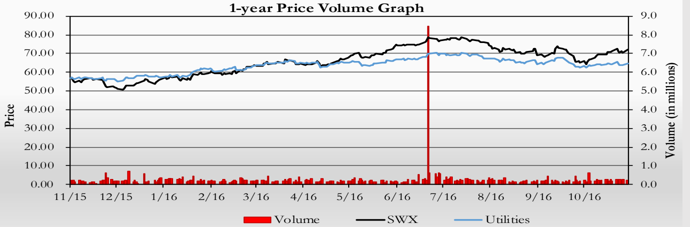
Southwest Gas Corporation (SWX)

CENTER FOR GLOBAL FINANCIAL STUDIES

NEUTRAL

Analysis by	Current Price:	$71.96	Intrinsic Value	$75.30	Target 1 year Return: 12.55%
11/10/2016	Divident Yield:	2.2%	Target Price	$79.40	Probability of Price Increase: 90.8%

1-year Price Volume Graph



Description

Southwest Gas Corporation purchases, distributes, and transports natural gas in Arizona, Nevada, and California.

General Information	
Sector	Utilities
Industry	Gas Utilities
Last Guidance	November 3, 2015
Next earnings date	February 25, 2017
Estimated Country Risk Premium	9.32%
Effective Tax rate	39%
Effective Operating Tax rate	27%

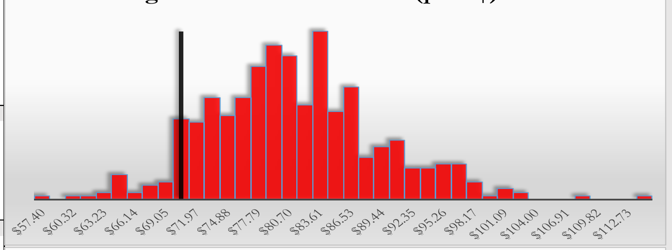
Market Data	
Market Capitalization	$3,416.81
Daily volume (mil)	0.27
Shares outstanding (mil)	47.48
Diluted shares outstanding (mil)	47.79
% shares held by institutions	83%
% shares held by investments Managers	76%
% shares held by hedge funds	3%
% shares held by insiders	1.20%
Short interest	1.81%
Days to cover short interest	0.00
52 week high	$79.58
52-week low	$50.53
Levered Beta	0.55
Volatility	18.04%

Past Earning Surprises

Quarter ending	Revenue	EBITDA
9/30/2015	-2.56%	-5.14%
12/31/2015	7.44%	6.82%
3/31/2016	-3.76%	-2.58%
6/30/2016	-3.57%	-8.31%
9/30/2016	0.83%	-8.09%
Mean	-0.32%	-3.46%
Standard error	2.1%	2.8%

Peers
Atmos Energy Corporation
WGL Holdings Inc.
New Jersey Resources Corp.
National Fuel Gas Company
Vectren Corporation
Northwest Natural Gas Company
South Jersey Industries, Inc.
ONE Gas, Inc.

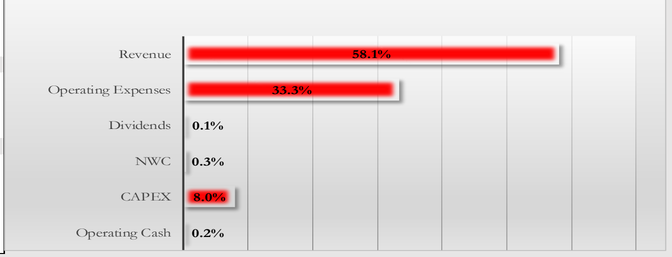
Target Price Distribution--P(price↑)=90.8%



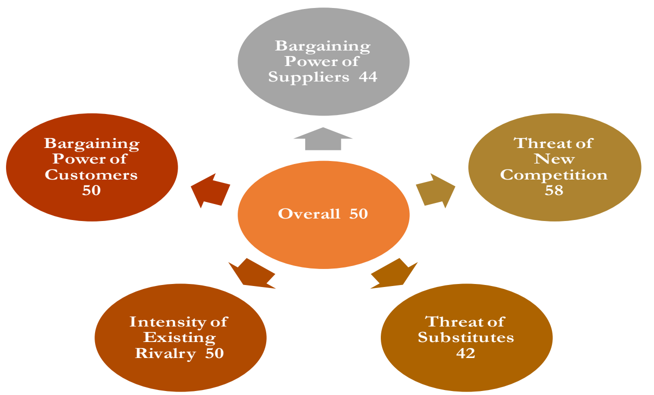
Management	Position	Total compensations growth	Total return to shareholders
Hester, John	Chief Executive Officer, Pre	24.6% per annum over 5y	4.18% per annum over 5y
Centrella, Roy	Chief Financial Officer and	10.8% per annum over 5y	4.18% per annum over 5y
DeBonis, Eric	Senior Vice President of Ope	7.13% per annum over 5y	4.18% per annum over 5y
Haller, Karen	Senior Vice President, Gener	25.91% per annum over 2y	1.96% per annum over 2y
Peterson, Gregory	Chief Accounting Officer, Vi	N/M	N/M
Stanbrough, Frank	Vice President of Risk Manag	N/M	N/M

Profitability	SWX (LTM)	SWX (5 years historical average)	Industry (LTM)
ROIC	7.9%	9.46%	#DIV/0!
NOPAT Margin	13%	14.06%	#DIV/0!
Revenue/Invested Capital	0.62	0.67	#DIV/0!
ROE	10.9%	13.33%	#DIV/0!
Adjusted net margin	11%	11.84%	#DIV/0!
Revenue/Adjusted Book Value	1.02	1.13	#DIV/0!
Invested Funds	**SWX (LTM)**	**SWX (5 years historical average)**	**Industry (LTM)**
Total Cash/Total Capital	2.0%	1.2%	#DIV/0!
Estimated Operating Cash/Total Capital	2.0%	1.1%	N/A
Non-cash working Capital/Total Capital	-2.5%	0.1%	#DIV/0!
Invested Capital/Total Capital	100.5%	100.2%	#DIV/0!
Capital Structure	**SWX (LTM)**	**SWX (5 years historical average)**	**Industry (LTM)**
Total Debt/Common Equity (LTM)	0.54	0.61	#DIV/0!
Cost of Existing Debt	4.88%	5.43%	#DIV/0!
Estimated Cost of new Borrowing	3.30%	3.38%	#DIV/0!
CGFS Risk Rating	BBB	BBB	#DIV/0!
Unlevered Beta (LTM)	0.40	0.50	#DIV/0!
WACC	6.79%	7.78%	#DIV/0!

Sensitivity Attribution Analysis



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



Valuation

Period	Revenue growth	NOPAT margin	ROIC/WACC
Base Year	4.1%	12.7%	1.16
9/30/2017	2.3%	3.5%	0.29
9/30/2018	5.0%	4.3%	0.39
9/30/2019	4.9%	4.9%	0.46
9/30/2020	4.8%	5.6%	0.55
9/30/2021	4.7%	6.3%	0.66
9/30/2022	4.6%	6.9%	0.79
9/30/2023	4.5%	7.7%	0.96
9/30/2024	4.4%	8.5%	1.19
9/30/2025	4.3%	9.3%	1.49
9/30/2026	4.2%	10.1%	1.95
Continuing Period	4.1%	11.0%	2.63

Period	Invested Capital	Net Claims	Price per share
Base Year	$3,080.42	$1,826.43	$76.72
9/30/2017	$3,243.30	$1,623.19	$82.68
9/30/2018	$3,585.49	$1,484.60	$88.54
9/30/2019	$3,943.76	$1,307.73	$94.90
9/30/2020	$4,033.94	$1,079.04	$101.76
9/30/2021	$4,267.84	$794.51	$109.08
9/30/2022	$4,045.80	$439.34	$116.80
9/30/2023	$3,889.18	$33.94	$124.84
9/30/2024	$3,713.27	-$429.03	$133.13
9/30/2025	$3,506.38	-$976.25	$141.54
9/30/2026	$3,266.99	-$1,595.91	$149.93
Continuing Period			

Vera Bradley, Inc.
NASDAQ: VRA

Analyst: Kara Carman
Sector: Cyclical Consumer Goods

BUY

Price Target: $26.75

Key Statistics as of 11/10/2016

Market Price:	$14.15
Industry:	Textiles, Apparel and Luxury Goods
Market Cap:	$491.0M
52-Week Range:	$10.41-20.69
Beta:	1.06
P/E:	$15.65

Catalysts:

- Holiday months expected to increase Q4 sales and operating income
- Earnings call December 7th, 2016
- New stores, including Manhattan to open in FY 2017
- Brand positioning and media plan launch in FY2017

Company Description:

Vera Bradley, Inc. designs and manufactures women's purses, totes, backpacks, accessories including eyewear, luggage and other travel items, blankets and towels, technology accessories, and other textiles. Vera Bradley has been publicly traded since 2010 and currently operates under two business segments. The direct business operations include the sale of merchandise through its e-commerce website, factory outlet stores located in the United States, and other various direct-to-consumer methods. The indirect operations include the sale of products to specialty retail and department stores, and third party sites. Dominant competitors include Coach, Kate Spade, Fossil, Michael Kors, and Vince Holding Corp. Revenues are currently up 1.1% compared to January, 2016.

Thesis

Vera Bradley, Inc. is an affordable, functional, and innovate brand that designs fashionable feminine products ranging from wallets to bedding. The company is unique due to its foundation arising from a friendship between Barbara Bradley Baekgaard and Patricia Miller, whom developed a passion-driven and customer service orientated culture. Vera Bradley has been publicly traded since 2010, and since has turned itself into an iconic, memorable women's fashion brand. For fiscal 2016, gross profit increased to 55.9% from 52.9% in fiscal 2015. With a recognizable, vibrant style, Vera Bradley maintains its strong brand identity and positioning amongst its competitors. Furthering its competitive strengths, Vera Bradley has a substantial number of loyal consumers, and a creative product development team providing those consumers with modern brand products to advocate for. November and December are huge months for Vera Bradley. Due to the holidays and gift-giving trends, higher sales and increasing operating income tend to occur during Q4. However, fluctuations do occur due to the impact of the timing of seasonal wholesale shipments and other events such as Black Friday. For the last reported fiscal year, Vera Bradley's ROIC/WACC was 1.33, whereas historically it has been 2.06. Although the company's ROIC/WACC is lower than its historical average, it remains well above the industry, suggesting that it is adding more value than its competitors. Vera Bradley is a company that has continued to add value, while continuously expanding and growing. The company is currently undervalued, priced at $13.88.

Industry Outlook

General consumer spending trends and economic conditions impact mall traffic, therefore negatively affect any company operating a retail store within the industry. With that being said, the industry can be extremely cyclical due to seasonal trends and holidays, regardless of the state of the economy. The industry is expected to see an upward trend in the upcoming months due to the cyclical nature driven by the holiday season. The months of November and December have historically proven to generate higher revenues and operating incomes for businesses operating retail stores in the consumer cyclical goods sector. Because the industry has been experiencing slower growth in comparison to previous years, companies need to expand into new markets and product categories using innovation and brand recognition. Vera Bradley has not only increased its focus on improving brand recognition, but a large part of its business model is centered on innovation and modernization.

Business Model

Vera Bradley operates a multi-channel distribution model designed to enable operational flexibility and increases the number of consumers who are accessed. The Direct segment consists of full-line stores, factory outlet stores, e-commerce, and the annual outlet sale. The store location selection strategy is pertinent to the success of the direct segment. Stores location decisions are made based upon demand, the location relative to moderate and high-end retailers, and other factors such as the size and shape of the actual space in which the store would be located. Vera Bradley's customer service philosophy thrives off of knowledge, openness, and passion. The indirect segment consists of the sale of Vera Bradley products at approximately 2,600 specialty retail locations such as department stores and third party e-commerce sites. The company's department store presence has nearly doubled since the spring of 2015. Vera Bradley operates under a multi-country manufacturing and supply chain. This model is intended to fulfill orders efficiently and accurately while balancing appropriate inventory levels. The company holds competitive advantage due to brand positioning and recognition, along with customer loyalty.

People

Barbara Baekgaard co-founded Vera Bradley in 1982 and has lead from various rolls since. Over time Ms. Baekgaard has served as director, Co-President, and Chief Creative Officer. Robert Wallstrom has been Vera Bradley's CEO, President and Director since November, 2013. Mr. Wallstrom served as Saks' flagship New York store's Group Senior Vice President and General Manager from 2002 to 2007. During his time there he improved merchandizing, service and consumers' in-store experience by initiating changes to return the store to its luxury heritage. From 2007 until 2013 when he joined Vera Bradley, Mr. Wallstrom was the President of

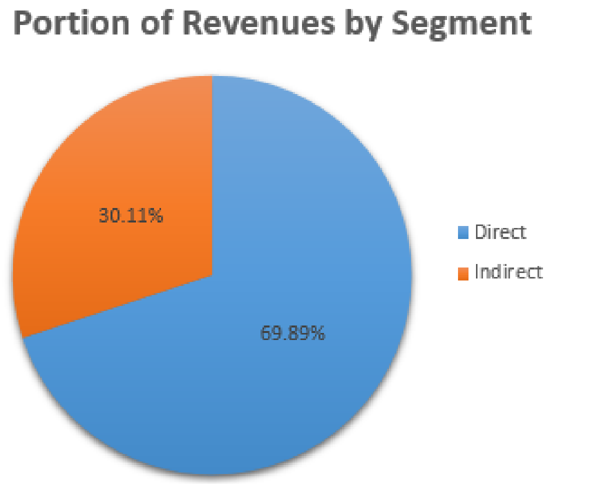
Saks Fifth Avenue's OFF 5th division. Kevin Sierks is Vera Bradley's Executive Vice President – Chief Financial Officer. Mr. Sierks has years of finance experience as he has served as the Controller at Biomet, Inc., the Director of Accounting and U.S. Shared Services at Boston Scientific, Corp. and the Director of Financial Reporting and Business Development at Guidant Corporation. In the earlier half of 2016, Vera Bradley had approximately 2,330 employees engaged in retail, 300 employees in distribution, sourcing and quality, 35 employees in product design, and 285 people employed in corporate and administrative support.

Product Differentiation

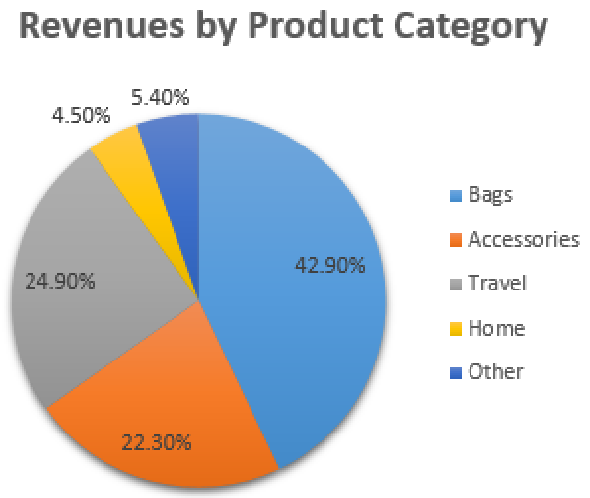
Although Vera Bradley faces strong competition in the market for handbags, the company holds a competitive advantage due to its product diversification. Vera Bradley offers products that are aesthetically appealing, are of high quality, have multi-functionalities, and are consciously priced. Over the past couple years, Vera Bradley has introduced new fabrics to its designs, setting its products apart from its competitors. Vera Bradley's travel products remain an essential differentiator for the company. Products such as collapsible luggage and chic luggage tags are not offered to the same extent by competing brands. On top of diverse products, Vera Bradley operates a unique product release strategy. Approximately eight times per year the company introduces new collections. New collections tend to consist of at least two signature patterns with smaller print and other fabric counterparts. On top of consistent new releases, the company also discontinues patterns and fabrications if they are not amongst their top performers.

Financials

For the fiscal year end January 30th, 2016, revenues generated from the direct business segment equaled $351,286,000 and revenues generated from the indirect segment were $151,312,000. The revenues generated from the direct segment increased from 65.93% percent of net revenues to 69.89% while the revenues generated from the indirect segment's operations decreased from 34.07% of net revenues to 30.11% in the most recent fiscal year end. This can be partially attributed to an addition of 26 retail stores partially offset by gift card breakage which was first recognized for fiscal year 2015. The decrease of the percentage of indirect revenues is primarily due to lower orders from specialty retailers.



Revenues can also be divided amongst five categories: bags, accessories, travel, home and other including apparel and footwear, stationary, gift cards, and licensing revenue. For the fiscal year ending January 30th, 2016, revenues generated from the sale of bags amounted to 42.9% of net revenue, accessories revenue was 22.3%, revenue from travel products was 24.9%, and sales from home products accounted for 4.5% of net revenues.



The gross margin increased from 52.9% to 55.9% year over year for fiscal 2016. The margin increase can be attributed to lower product costs, increased sales of higher-margin products, less promotional activity and lower levels of liquidation sales. In comparison to its competitors, Vera Bradley's operating income margin is well within the industry average. Its competitors Kate Spade and Coach are the only companies operating nearly as efficiently as Vera Bradley. The company's increased selling, general and administrative expenses for fiscal 2016 is due to an employee severance expense and a retail store early termination agreement, both of which are items that didn't occur to the same extent in the previous fiscal year. Vera Bradley also increased investments in new retail stores and increased marketing and advertising efforts. Vera Bradley's primary source of liquidity is cash flows from operations which suggests it is running healthy business operations. The company currently has no long- or short-term debt and as of January 30, 2016 had $125 million available to borrow. This is significant because Vera Bradley has the means to further growth and expansion.

Growth Strategies

Vera Bradley's ideal target consumer is the "Day Maker" which the company has defined as one who is thoughtful, organized and expresses beauty and femininity through prints, colors, and details. In order to deliver the Day Maker "beautiful solutions", Vera Bradley has a strategic growth plan focused on marketing, distribution channels, and product offerings. Five key businesses make up the product offerings deemed necessary to spur future growth. Such businesses include fashion bag and accessories, campus, home, travel, and wellness and beauty. Pattern and fabric innovation, along with modernity are key to future growth. Vera Bradley continues to focus on growing its direct and indirect channel relationships and works towards strengthening its specialty retail channel. Four new full-line stores are set to open in FY2017, including a store in Manhattan, along with six new factory outlet stores. In order to stay current and continue to grow, Vera Bradley discontinues unproductive specialty retail accounts while adding newer relevant accounts. In FY2016 Vera Bradley's marketing focus was increasing brand awareness, whereas for FY2017, its focus is on growing brand relevancy, desire and consumers' purchase intent. In FY2017 Vera Bradley is also activating its new branding and brand positioning, including an updated logo along with a media plan to target its "Day Maker" consumers.

Important Dates and Catalysts

Vera Bradley's ideal target consumer is the "Day Maker" which the company has defined as one who is thoughtful, organized and expresses beauty and femininity through prints, colors, and details. In order to deliver the Day Maker "beautiful solutions", Vera Bradley has a strategic growth plan focused on marketing, distribution channels, and product offerings. Five key businesses make up the product offerings

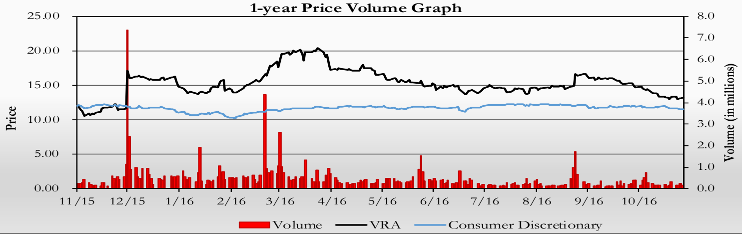
Summary

Vera Bradley is an iconic brand that has proven its intent to further growth and market reach. While developing unique growth strategies, Vera Bradley maintains multi-faceted competitive strengths. Aside from being functional and relatable, Vera Bradley is affordable and recognizable. With various catalysts approaching in the near future, along with some expected to occur in the next year or so, Vera Bradley has multiple opportunities to set itself apart from its competitors even further than it already has. The upcoming holiday season is promising in regards to net revenues. The increase in net revenues is expected to remain steady or take off even further after the introduction of new strategic brand positioning and media plans start to produce beneficial results.

Vera Bradley, Inc. (VRA) | **CENTER FOR GLOBAL FINANCIAL STUDIES** | **BULLISH**

Analysis by Kara Carman	Current Price:	$13.88	Intrinsic Value	$24.28	Target 1 year Return: 92.72%
11/10/2016	Divident Yield:	0.0%	Target Price	$26.75	Probability of Price Increase: 100%

1-year Price Volume Graph



Description

Vera Bradley, Inc., together with its subsidiaries, designs, manufactures, and sells handbags, accessories, and luggage and travel items for women of all ages under the Vera Bradley brand.

General Information

Sector	Consumer Discretionary
Industry	Textiles, Apparel and Luxury Goods
Last Guidance	November 3, 2015
Next earnings date	December 7, 2016
Estimated Country Risk Premium	6.00%
Effective Tax rate	40%
Effective Operating Tax rate	40%

Market Data

Market Capitalization	$507.81
Daily volume (mil)	0.15
Shares outstanding (mil)	36.59
Diluted shares outstanding (mil)	37.77
% shares held by institutions	75%
% shares held by investments Managers	47%
% shares held by hedge funds	8%
% shares held by insiders	48.98%
Short interest	8.18%
Days to cover short interest	11.33
52 week high	$20.69
52-week low	$10.41
Levered Beta	0.10
Volatility	45.14%

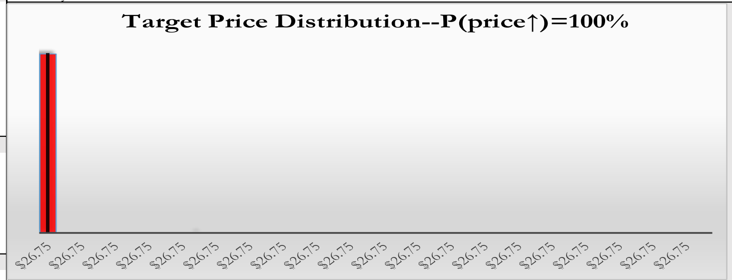
Past Earning Surprises

Quarter ending	Revenue	EBITDA
8/1/2015	3.07%	12.51%
10/31/2015	3.83%	22.94%
1/30/2016	0.00%	15.25%
4/30/2016	-3.01%	-14.41%
7/30/2016	-1.45%	14.85%
Mean	0.49%	10.23%
Standard error	1.3%	6.4%

Peers

Kate Spade & Company
Coach, Inc.
Vince Holding Corp
Oxford Industries Inc.
Fossil Group, Inc.
Movado Group, Inc.
Iconix Brand Group, Inc.
PVH Corp.

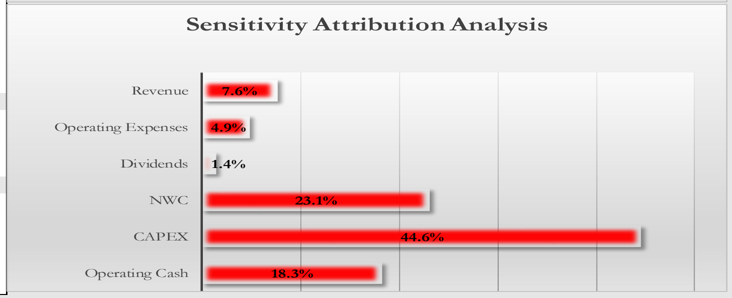
Target Price Distribution--P(price↑)=100%



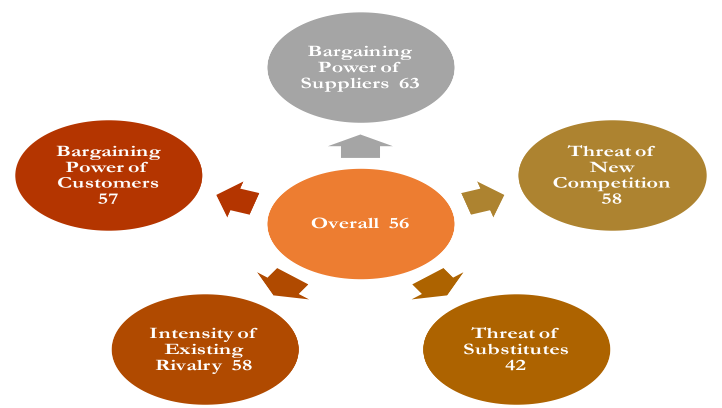
Management	Position	Total compensations growth	Total return to shareholders
Wallstrom, Robert	Chief Executive Officer, Pre	18.92% per annum over 3y	-11.48% per annum over 3y
Baekgaard, Barbara	Co-Founder, Chief Creative O	-0.83% per annum over 5y	-6.46% per annum over 5y
Miller, Patricia	Co-Founder and Director	22.87% per annum over 5y	-6.46% per annum over 5y
Sierks, Kevin	Chief Financial Officer and	37.49% per annum over 4y	-4.72% per annum over 4y
Fuller, Sue	Chief Merchandising Officer	35.2% per annum over 3y	-11.48% per annum over 3y
Sours, Pamela	Senior Vice President of Ope	N/M	N/M

Profitability	VRA (LTM)	VRA (5 years historical average)	Industry (LTM)
ROIC	8.9%	21.46%	13.50%
NOPAT Margin	13%	17.87%	8.1%
Revenue/Invested Capital	0.68	1.20	1.66
ROE	11.6%	35.58%	15.21%
Adjusted net margin	13%	17.64%	7.6%
Revenue/Adjusted Book Value	0.92	2.02	2.00
Invested Funds	**VRA (LTM)**	**VRA (5 years historical average)**	**Industry (LTM)**
Total Cash/Total Capital	9.9%	10.4%	18%
Estimated Operating Cash/Total Capital	6.4%	6.8%	N/A
Non-cash working Capital/Total Capital	11.0%	15.6%	27%
Invested Capital/Total Capital	96.5%	96.4%	82%
Capital Structure	**VRA (LTM)**	**VRA (5 years historical average)**	**Industry (LTM)**
Total Debt/Common Equity (LTM)	0.55	0.25	0.15
Cost of Existing Debt	1.05%	1.21%	3.92%
Estimated Cost of new Borrowing	1.00%	1.00%	3.92%
CGFS Risk Rating	AAA	AAA	A
Unlevered Beta (LTM)	0.08	0.76	0.65
WACC	3.48%	8.78%	7.53%

Sensitivity Attribution Analysis



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



Valuation

Period	Revenue growth	NOPAT margin	ROIC/WACC
Base Year	1.1%	13.0%	2.55
7/30/2017	3.0%	11.6%	2.02
7/30/2018	3.1%	10.9%	1.50
7/30/2019	3.2%	11.4%	1.60
7/30/2020	3.3%	11.6%	1.48
7/30/2021	3.4%	12.0%	1.42
7/30/2022	3.5%	12.4%	1.36
7/30/2023	3.6%	12.7%	1.31
7/30/2024	3.7%	13.1%	1.26
7/30/2025	3.8%	13.4%	1.22
7/30/2026	4.0%	13.7%	1.18
Continuing Period	4.1%	14.1%	1.15

Period	Invested Capital	Net Claims	Price per share
Base Year	$362.08	$265.01	$24.25
7/30/2017	$494.96	$201.08	$26.16
7/30/2018	$624.45	$87.43	$28.32
7/30/2019	$678.24	$33.59	$30.53
7/30/2020	$739.42	-$29.06	$32.89
7/30/2021	$830.42	-$94.77	$35.42
7/30/2022	$856.26	-$163.49	$38.14
7/30/2023	$828.50	-$235.43	$41.04
7/30/2024	$866.27	-$310.83	$44.16
7/30/2025	$897.49	-$389.92	$47.51
7/30/2026	$930.73	-$473.00	$51.11
Continuing Period			