

BUY

Current Price:	\$42.05
Target Price:	\$52.49
Market Cap:	2.5B
Average Volume:	.574M
Beta:	0.18
WACC:	9.7%
ROIC:	26.0%
EPS:	2.08

Company Description: Steven Madden, LTD., designs, markets, and sells brand name and private label footwear for women, men and children as well as private label fashion handbags and accessories within the United States and abroad as well.



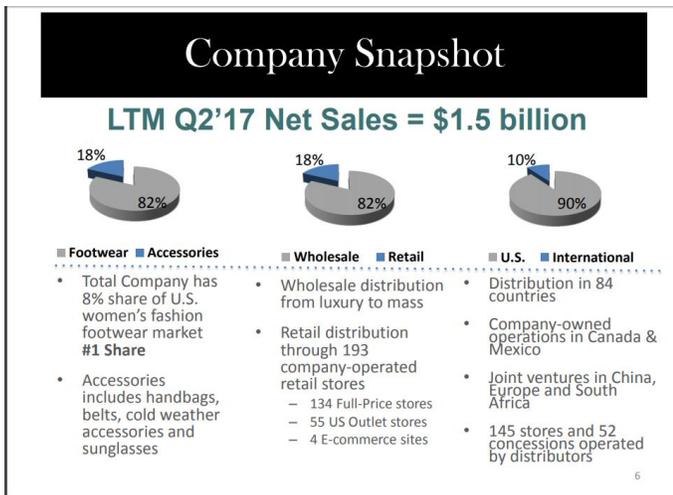
Thesis: Steven Madden LTD., is a leader in the footwear and apparel industry. Steven Madden generates the majority of their revenue from their wholesale women’s footwear segment. This segment has been experiencing double-digit growth and can continue to see this growth through the rest of 2017 and 2018 as well. Steven Madden LTD., generates their value from increasing revenues, consistently exceeding earnings estimates, acquisitions of competitors, and a growing international segment.

Catalysts:

- **Short Term (within the year):** Acquisition and integration of Schwartz & Benjamin. Will continue to see positive margins through 2017 and large profit margins through 2018.
- **Mid Term (1-2 years):** Enhanced distribution channels while online shopping continues to increase. Relationship with Amazon.
- **Long Term (3+):** Increasing international exposure. Increased number of Joint Ventures to aid in becoming an international brand. Expect double-digit revenue growth in international segments going forward.

Business Description:

Steven Madden LTD., designs, markets, and sells fashion-forward footwear for women, men, and children. The



company operates its business through the following segments: Wholesale Footwear, Wholesale Accessories, Retail, First Cost and Licensing. Steven Madden LTD., currently has 190+ retail stores that operate in the United States, Mexico, Canada, South Africa, and China. Steven Madden utilizes department stores, specialty stores, and certain boutique stores for the majority of its revenue. Some of Steven Madden's major accounts include Macy's, Bloomingdale's, Nordstrom, and Wal-Mart. Steven Madden has been able to establish great relationships with their distributors, which allows exposure to countries all over the world. The company's wholesale operation

accounts for about 85% of its revenue, with women's wholesale footwear contributing to about 63% of that. In addition, Steve Madden's private handbag label and other accessories are making substantial contributions to revenue as well.

Earnings Performance:

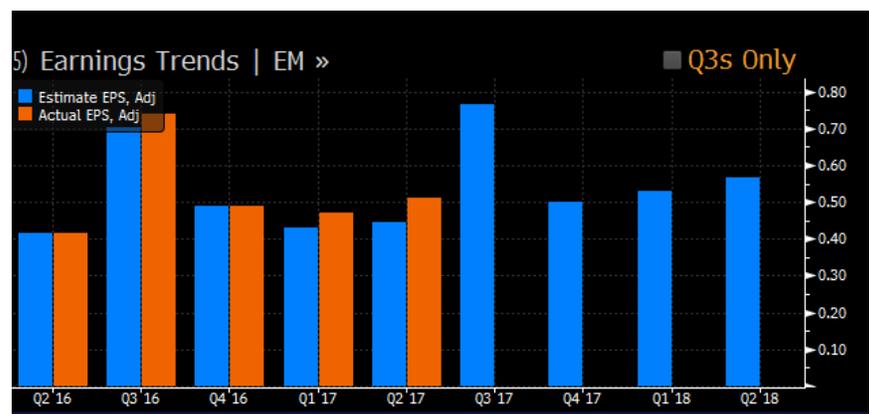
Steven Madden LTD., like many other retail companies, experiences fluctuations during certain seasons due to certain trends and holidays, such as Christmas. With that being said, Steven Madden LTD. has met or exceeded all of their earnings calls since 2012.

Throughout 2017, Steven Madden LTD. has exhibited above estimated earnings performance and is expecting to have even larger earnings in Quarter 3.

Edward Rosenfeld, CEO, commented, "The strong momentum in our business continued into the second quarter, as we

delivered another quarter of robust sales and earnings growth despite the challenging retail environment.

Once again, we saw outstanding performance in our core Steven Madden Women's wholesale footwear division, where our trend-right product assortment continues to resonate with consumers and drive market share gains". Last quarter, net sales growth totaled 15%, and diluted EPS increased 24%. Steven Madden's wholesale segment, which is their largest segment, experienced double-digit organic sales growth. An important statistic to consider when valuing retail companies is the company's same store growth, which is a better indicator of actual sales growth. Steven Madden has had large success in this category; they have experienced a 5.4% growth in same store sales since 2016 Q2.



Growth Strategy:

As mentioned, Steven Madden LTD. is experiencing huge growth numbers and will continue to do so for the next couple of years. The picture to the left shows the increasing net sales of the company and reports a CAGR of 14%. As of last quarter earnings, Steven Madden reported an 8% organic growth. They plan to take advantage of these growth numbers by opening eight more outlet stores and seven more full-price stores in the United States by the end of this year. With the addition of these stores, Steven Madden would have more than 200 stores in the U.S. Aside from their growth, Steve Madden LTD. maintains a direction of long-term stability by renewing their store leases and signing long-term leases for stores through 2027. Not only is growth occurring



organically, they also are expanding in other ways. Over the past 8-10 years, Steven Madden has made leaps and bounds to acquire and license other brands and producers to beat out their competitors. Currently, Steven Madden's major focus through 2017 is to focus on trending and marketing the right products at the right time to stay ahead of the constantly changing fashion industry. Second, they would like to maintain the momentum that they have had in their women's footwear division. Steven Madden has a clear and distinct plan for how they are going to achieve these goals, which include developing new and distinctive brands and increasing international exposure, both of which will be touched upon a little later.

Acquisitions:

As per management, "The size of our business continues to grow organically and as a result of business acquisitions". During 2016, Steve Madden acquired Schwartz & Benjamin LLC, MadLove LLC, SM Europe, and Blondo (EBIT of +122% TTM 2017). Schwartz & Benjamin is Steven Madden's largest acquisition out of all of these, and is continuing to be integrated and implemented. Schwartz & Benjamin specializes in design, sourcing, and the sale of licensed private label footwear. Throughout 2017, there has been higher than expected margins and profits due to this acquisition and are expected to continue all the way through 2018. Edward Rosenfeld, CEO, commented after finalizing the acquisition, "We are very pleased to complete the acquisition of Schwartz & Benjamin, a company known for its outstanding capability in designer and accessible luxury footwear. We see opportunity to expand the business by combining Schwartz & Benjamin's strengths – which include premier execution in the design and sourcing of high-quality footwear as well as a strong



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portfolio of brand partners – with our proven business model and infrastructure”. This acquisition was financed through cash at closing plus an earn-out provision based on financial performance through January 31st, 2023. As of right now, Steven Madden LTD. does not have any debt and finances the majority of their acquisitions in a similar manner. Schwartz TTM net sales as of 2016 were approximately 87.6 million. Last quarter, Schwartz & Benjamin accounted for 20.7 million of net sales, which was approximately 6% of sales during that quarter. In describing the acquisition, senior management said “There will be meaningful profit contribution in 2018”. Steven Madden will continue to implement their growth strategy by acquiring and licensing more companies and brands both domestically and internationally.



International Exposure:

Another highlight that Steven Madden has just finished up at the end of the last quarter was Madden Asia’s joint venture in China. In May 2017, they closed on a deal with C.Banner, which is one of the largest women’s footwear retailers in China. Both Steven Madden and C.Banner have seen positive results. With this joint

venture, they are expecting to have opened 15-20 new shop-in-shops by the end of the year. Going forward, this joint venture plans on opening 150 new stores in China by the end of 2020. As depicted in the picture to the left, there has been an increasing amount of international involvement, and despite some slowing down within European economies, Steven Madden has still experienced profitability. With this being said, and the success of the China JV, there are talks of other



potential joint ventures with partners in Taiwan, Macau, Singapore, and Malaysia. Management is hopeful that these joint ventures can be put into place by the end of the year. Along with these partnerships internationally, a primary focus for Steven Madden is continuing to develop and improve their distribution channels. Currently, they are working with Amazon to create a private label for Amazon that will be able to be distributed through Amazon, which will promote more exposure abroad. With double-digit growth

internationally and an increase in international exposure, we can expect to see even larger growth numbers and higher margins.

Industry Outlook:

Normally, the Consumer Discretionary Industry benefits the most right after the economy emerges from a recession. Many believe that since the market is at the most bullish it has ever been, a recession or an adjustment in the economy is near. This thought leaves some hesitant about investing in the Consumer Discretionary Industry, however, I believe that the market is still climbing and has potential to grow even more before it gets to its next peak. Reports from the Census Bureau even show a 0.6% gain in net sales for the industry. Many Consumer Discretionary companies are taking a hit due to the online shopping trend that is occurring among millennials and others as well. One counter to this problem is a strong brand name; this allows companies to protect themselves from substitution from other online providers. As mentioned, with the market being at the most bullish it has ever been, many are nervous about this industry. With this being said, the housing market is strong, unemployment is low, wage growth has started to pick up again, and interest rates will remain relatively low. All of these are signs that would indicate a healthy economy. The current industry outlook and economy has placed Steven Madden in the perfect position going forward. With their negotiations, and upcoming relationship with Amazon, they are going to be able to get a step ahead of competitors with these distribution channels. On top of this, Steven Madden has established a strong brand name and has a flexible price range that would make products still appealing in the event that the economy does begin to slow down, which it does not look likely any time soon.

Ownership/Management:

Primarily Investment Advisors currently hold Steven Madden, which is at about 80%. Out of that 80%, Vanguard, Blackrock, and Fidelity hold about 20%. Followed by individual investors holding close to 9% and finally hedge fund investors holding about 5% of shares. I believe that this is a good indication because it shows that there is confidence in holding the stock as well as hedge fund investors believing that there is extreme upside potential. In addition to this, Steven Madden in Q1 repurchased about a million shares and in Q2 purchased back another 900,000 shares. This is another indicator that internally they believe that their

Ownership Type	09/24/17	Curr ↓	Change
11) Investment Advisor	79.77	79.76	-0.01
12) Individual	8.94	8.94	0.00
13) Hedge Fund Manager	4.94	4.94	0.00
14) Pension Fund	2.15	2.15	0.00
15) Insurance Company	1.22	1.22	0.00
16) Sovereign Wealth Fund	1.13	1.13	0.00
17) Bank	0.88	0.88	0.00
18) Government	0.48	0.48	0.00
19) Holding Company	0.35	0.35	0.00
20) Endowment	0.06	0.06	0.00
21) Brokerage	0.05	0.05	0.00

company is undervalued. This also would be a good sign for investors because this now means that their shares are worth more going forward and are less likely to be impacted by dilution.

Competitors Comparison:

In the fashion industry, competition is extremely high; there are so many different products, brands, and substitutes for whatever you may need/want. Steven Madden lists this as one of their major risks and impacts on performance. According to management, their major competitors are Guess, Ugg, Crocs, and Aldo.

Name (BICS Best Fit)	Sales Growth (%)	EBITDA Growth (%)	EBITDA Margin	Operating Income Margin	Net Income Growth (%)	Net Profit Margin	Net Profit /Sales (%)	Return on Invested Capital	Return on Assets	Return on
Median	3.48%	5.52%	12.93%	9.41%	8.38%	6.16%	2.49%	13.88%	9.21%	13.66%
100) STEVEN MADDEN LTD	5.16%	7.39%	14.03%	12.63%	10.51%	8.80%	1.14%	17.24%	13.37%	18.04%
101) DECKERS OUTDOOR CORP	-0.56%	8.94%	13.16%	10.32%	8.38%	7.42%	2.49%	13.88%	10.30%	14.80%
102) WOLVERINE WORLD WIDE ...	-2.62%	5.52%	11.05%	9.41%	12.74%	6.14%	2.22%	9.82%	6.26%	15.34%
103) CROCS INC	-6.57%	394.51%	4.82%	1.49%	86.56%	0.10%	1.28%	1.69%	0.16%	-7.69%

With this in mind, Steven Madden has outperformed competitors and is leading this sector at their tier level. They are beating their competitors and are way above industry median in many profitability sections. One of the most important ratios to look at in the picture above is ROIC. Currently, Steven Madden is leading their competitors with a 17.24% ROIC. This is only second to Nike, however. Nike is not comparable due to size and difference in offered products. Steven Madden by far is best in class and has positioned themselves to increase these returns and increase their margins going forward.

Market Share – Key Customers

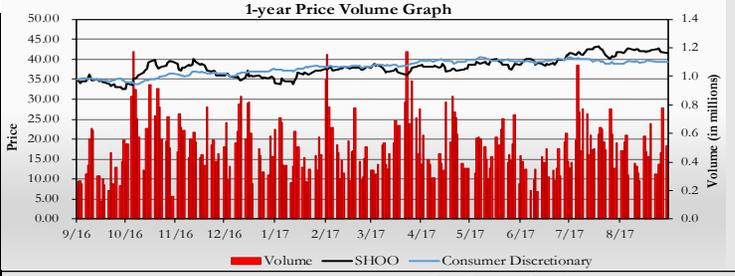
Retailer	Rank in Department
Nordstrom	#1
Macy's	#1
Lord & Taylor	#1
Dillard's	#2
DSW	#1
Zappos	#1

Conclusion:

Steven Madden is only going to increase throughout 2017 and 2018 and would definitely fit well into our portfolio. Steven Madden has set growth strategies that are propelling them forward and have distinct plans on how they want to accomplish their goals moving forward. With their three pillars of growth, there is only upside for this company. Organic growth coming from correct positioning marketing and brand recognition. Their increasing amount of international exposure through joint ventures and established distribution

channels. Finally, their acquisition strategy that has allowed them to lock in more brands and profits without entering into any debt. Steven Madden is as buy.

Analysis by Paul Martinez Current Price: **\$42.95** Intrinsic Value: **\$46.78** Target 1 year Return: 22.2%
 9/29/2017 Divident Yield: **0.0%** Target Price: **\$52.49** Probability of Price Increase: 97.8%

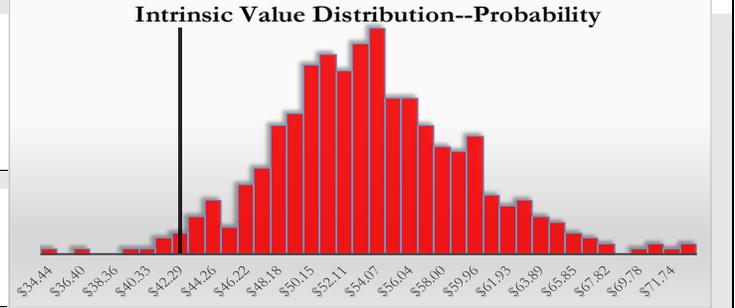


Description	
Steven Madden, Ltd. designs, sources, markets, and sells fashion-forward name brand and private label footwear for women, men, and children worldwide.	
General Information	
Sector	Consumer Discretionary
Industry	Textiles, Apparel and Luxury Goods
Last Guidance	November 3, 2015
Next earnings date	October 30, 2017
Estimated Country Risk Premium	5.69%
Effective Tax rate	26%
Effective Operating Tax rate	32%

Market Data	
Market Capitalization	\$2,487.61
Daily volume (mil)	0.33
Shares outstanding (mil)	59.16
Diluted shares outstanding (mil)	58.54
% shares held by institutions	84%
% shares held by investments Managers	84%
% shares held by hedge funds	4%
% shares held by insiders	9.67%
Short interest	3.94%
Days to cover short interest	5.04
52 week high	\$43.80
52-week low	\$32.30
Volatility	24.21%

Past Earning Surprises		
Quarter ending	Revenue	EBITDA
6/30/2016	-2.95%	-7.67%
9/30/2016	-1.21%	2.93%
12/31/2016	-3.52%	-13.86%
3/31/2017	0.30%	4.67%
6/30/2017	3.78%	8.44%
Mean	-0.72%	-1.10%
Standard error	1.3%	4.2%

Peers	
Deckers Outdoor Corporation	
The Finish Line, Inc.	
Wolverine World Wide, Inc.	
DSW Inc.	
Skechers U.S.A., Inc.	
Crocs, Inc.	
Under Armour, Inc.	
Columbia Sportswear Company	

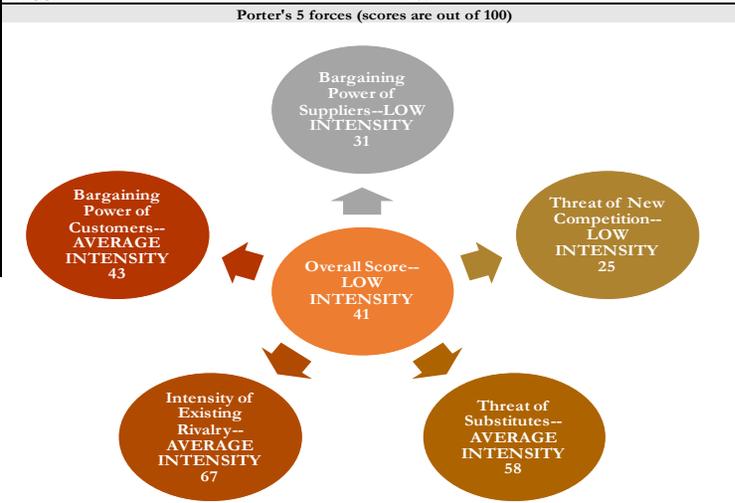
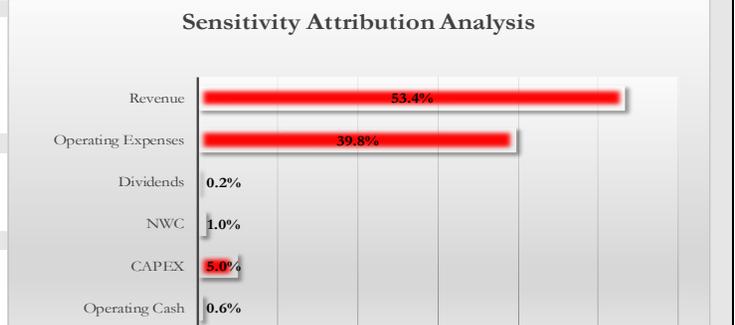


Management	Position	Total compensations growth	Total return to shareholders
Rosenfeld, Edward	Chairman and Chief Executive	22.12% per annum over 5y	5.37% per annum over 5y
Varela, Amelia	President and Director	-12.18% per annum over 5y	5.37% per annum over 5y
Dharia, Arvind	Chief Financial Officer, Chi	-3.06% per annum over 5y	5.37% per annum over 5y
Sinha, Awadhesh	Chief Operating Officer	6.11% per annum over 5y	5.37% per annum over 5y
Paradise, Michael	Executive Vice President and	N/M	0% per annum over 0y
Madden, Steven	Founder and Creative & Desig	N/M	N/M

Profitability	SHOO (LTM)	SHOO (5 years historical average)	Peers' Median (LTM)
Return on Capital (GAAP)	24.5%	26.03%	19.20%
Operating Margin	9%	10.39%	4.94%
Revenue/Capital (GAAP)	2.58	2.51	3.89
ROE (GAAP)	16.4%	17.8%	9.3%
Net margin	8.2%	8.6%	4.0%
Revenue/Book Value (GAAP)	2.00	2.06	2.34

Invested Funds	SHOO (LTM)	SHOO (5 years historical average)	Peers' Median (LTM)
Cash/Capital	20.9%	22.6%	23.5%
NWC/Capital	29.5%	22.2%	37.2%
Operating Assets/Capital	29.1%	36.9%	31.0%
Goodwill/Capital	20.5%	17.1%	8.2%

Capital Structure	SHOO (LTM)	SHOO (5 years historical average)	Peers' Median (LTM)
Total Debt/Market Capitalization	0.00	0.00	0.11
Cost of Existing Debt	4.0%	4.0%	6.5%
CGFS Rating (F-score, Z-score, and default Probability)	A	BB	BBB
WACC	9.0%	9.7%	11.8%



Period	Revenue Growth Forecast
Base Year	5%
6/30/2018	8%
6/30/2019	7%
6/30/2020	6%
6/30/2021	6%
6/30/2022	5%
6/30/2023	5%
6/30/2024	4%
6/30/2025	4%
6/30/2026	3%
6/30/2027	3%
Continuing Period	2%

Valuation	Revenue to Capital Forecast
NOPAT Margin Forecast	
Base Year	1.46
6/30/2018	1.52
6/30/2019	1.34
6/30/2020	1.20
6/30/2021	1.09
6/30/2022	1.00
6/30/2023	0.92
6/30/2024	0.84
6/30/2025	0.78
6/30/2026	0.72
6/30/2027	0.67
Continuing Period	0.62

Period	Return on Capital Forecast	WACC Forecast	Price per share Forecast
Base Year	16.5%	9.0%	\$46.09
6/30/2018	14.5%	8.7%	\$51.04
6/30/2019	13.2%	8.6%	\$56.26
6/30/2020	11.9%	8.6%	\$61.72
6/30/2021	10.9%	8.7%	\$67.64
6/30/2022	10.1%	8.7%	\$73.28
6/30/2023	11.4%	8.8%	\$79.05
6/30/2024	10.4%	8.8%	\$85.10
6/30/2025	9.6%	8.9%	\$91.34
6/30/2026	8.9%	9.0%	\$97.57
6/30/2027	8.2%	9.0%	\$103.94