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BJORKLUND FUND

September 29th, 2017

The Children's Place: PLCE

Joshua Weiss

Sector: Services
Industry: Apparel Stores
Current Price: $117.55
Target Price: $143.65

The Children's Place is a retailer that specializes in children's apparel. They sell apparel, accessories, footwear and other items mainly for ages newborn to 12.

BUY

Current Price: $117.55
Target Price: $143.65
Market Cap: 2.08B
Beta: .31
ROE: 26.32%
EPS: 6.97
Net Income Margin: 7.1%

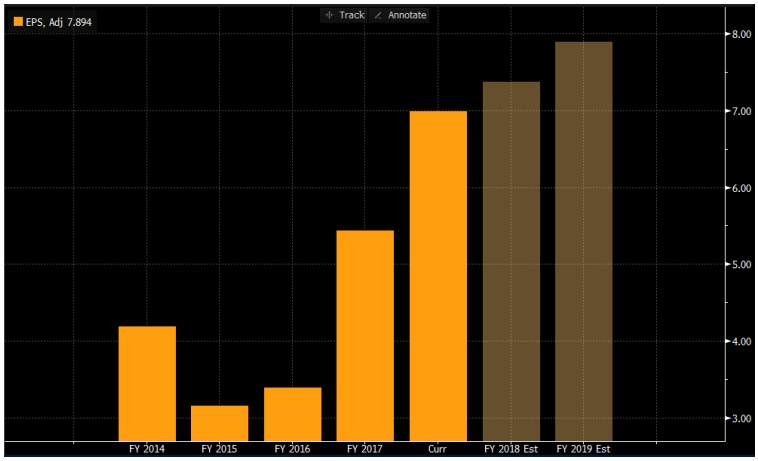
Thesis:

The Children's Place is one of the largest children's apparel retailers. With the bankruptcy of their largest competitor and growth with digital sales over the next few years, the company's EPS will continue to increase at the exponential rate that it did this past year. Due to these large EPS and EDITDA increases I believe that The Children's Place in undervalued.

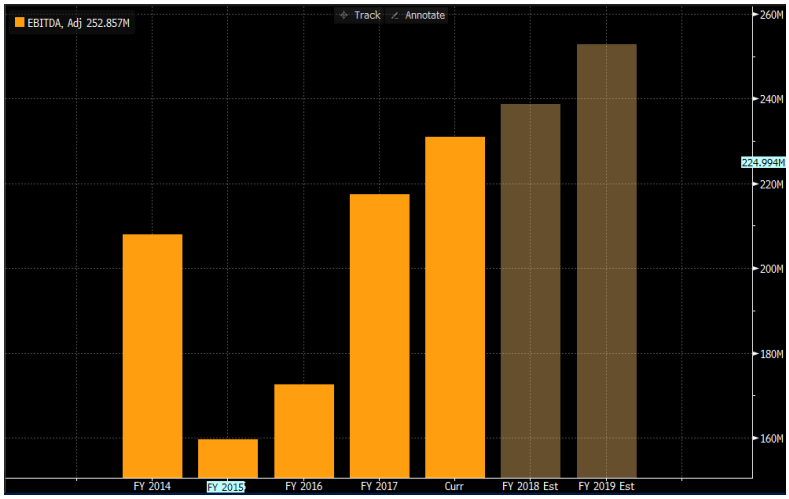
Catalysts:

- Some Short Term catalysts are that their largest competitor Gymboree filed for bankruptcy and will be closing over 300 stores. Also another catalysts in the next few months is the start of the partnership with Amazon Canada.
- Increase from 300 SKUs to 4000 SKUs with their partnership in Amazon along with the growth of their PLCC/loyalty programs and the creation of the CRM system.
- The main long term catalysts that The Children's Place has been focusing on is the expansion of points of distribution internationally. They currently have 161 points in 19 different countries and plan to expand that to over 300 points of distribution by the end of 2020

Earnings Performance:



As shown in the picture to the right the Earnings per Share for The Children's Place since last year has went from 3.39 to 5.44, an increase in 60%. Looking at their competitors such as Target, Walmart, Gap, Gymboree and Carter's, The Children's Place has a greater increase in 1 year % change of EPS than all of them. Compared to these competitors except for Gap Inc., it beats all of them in ROE while being significantly smaller than all of these companies. Along with beating there competitors on all of this, they also dominate the industry as a whole by beating the industry median in everything except DVD 12M Yld and Chg PCT 1M. The Children's Place Price to Earnings ratio is at 16.91 which is higher than all the competitors besides Walmart which is at 17.92, only 1.01 greater than The Children's Place. Another way to show that The Children's Place is doing extremely well is by the increase in the companies EBITDA. As shown below in the chart, the companies EBITDA has been growing drastically from January of 2016 at 172.6 to 217.4 in January of 2017. This is an increase in 26% over the year duration and when you take into account the EBITDA from the end of July of 2017, EBITDA has increased 33.78% from January 2016. This shows that the company is growing at a very fast rate right now and the projections show that they will not be slowing down and are projected to be at 252.9 by the beginning of 2019.



	Name (BICS Best Fit)	Mkt Cap (USD)	Last Px	Chg Pct 1D	Chg Pct 1M	Rev - 1 Yr Gr:Y	EPS - 1 Yr Gr:Y	P/E	ROE	Dvd 12M Yld
	Median	1.42B	21.48	0.25%	15.92%	0.23%	0.57%	15.08	15.47%	3.50%
100)	CHILDREN'S PLACE INC/...	2.08B	118.15	0.51%	11.30%	3.45%	60.26%	16.91	26.32%	1.18%
101)	WINMARK CORP	555.40M	131.75	-0.19%	-0.08%	-4.13%	9.35%	24.72	--	0.32%
102)	DULUTH HOLDINGS INC -...	658.59M	20.29	0.25%	3.57%	23.66%	-37.74%	34.98	17.97%	--
103)	GUESS? INC	1.42B	17.03	-1.90%	9.31%	0.23%	-56.11%	33.71	4.31%	5.28%
104)	TAILORED BRANDS INC	710.38M	14.44	1.91%	22.17%	-3.36%	-7.07%	7.58	--	4.99%
105)	URBAN OUTFITTERS INC	2.62B	23.90	-0.13%	16.93%	2.92%	3.92%	15.08	14.45%	--
106)	GAP INC/THE	11.58B	29.53	0.03%	25.02%	-1.78%	-16.16%	14.45	29.66%	3.12%
107)	DSW INC-CLASS A	1.73B	21.48	0.47%	15.92%	3.48%	-7.71%	16.00	11.50%	3.72%
108)	AMERICAN EAGLE OUTFIT...	2.53B	14.30	0.63%	19.67%	2.50%	14.94%	12.37	18.94%	3.50%
109)	CALERES INC	1.31B	30.52	-0.23%	13.12%	0.08%	0.57%	14.51	14.06%	0.92%
110)	CHICO'S FAS INC	1.15B	8.95	1.36%	16.54%	-6.92%	21.50%	12.03	15.47%	3.66%

Business Overview:

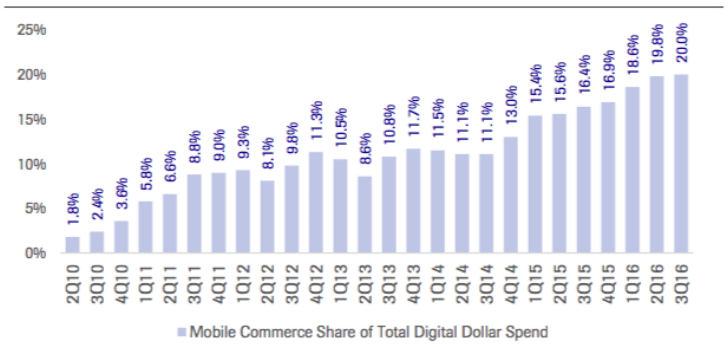
The Children's Place is an apparel store that specializes in children's apparel retail. It was founded in 1969 and then after 19 years was sold to the Dabah family in 1981 who still own it today. The company went public in 1997 and 1/3rd of the stocks are owned by the CEO Ezra Dabah and his family. Their product line is aimed at children ages from newborn to 12. In the market of retail, they offer prices that are much lower than most of the principal brand name competitors. Although a majority of their stores are in malls and sales of malls have been decreasing due to online shopping, The Children's Place has done a great job over the past few years to do extremely well. They have been closing stores that have been underperforming and are using their real estate to optimize their revenues. With doing this it leaves them with maximum flexibility and leverage to adjust and react to rapid and major changes that could happen in the real estate industry. It controls a majority of the market share for the U.S baby and infant market and throughout the past year have done extremely well in every category. From the data that is shown below in The Children's Place's 10K, their Operating income has grown by almost 50% which is the direct cause in the almost doubling of the net income in one year. The increase in operating income coming from the $60,000,000 increase in net sales and only a $13,000,000 increase in cost of sales can come from many different factors such as the partnership with amazon, more online shopping such as ordering online and picking up at the store or even just the closing of poorly performing stores in order to gain back the real estate value.

	Fiscal Year Ended		
	January 28, 2017	January 30, 2016	January 31, 2015
	(In thousands, except earnings per share)		
Net sales	$ 1,785,316	$ 1,725,777	$ 1,761,324
Cost of sales (exclusive of depreciation and amortization)	1,113,723	1,100,645	1,139,024
Gross profit	671,593	625,132	622,300
Selling, general, and administrative expenses	454,143	469,898	470,686
Depreciation and amortization	65,734	62,685	60,494
Asset impairment charges	4,026	2,371	11,145
Other (income) costs	282	98	(68)
Operating income	147,408	90,080	80,043
Interest expense	(1,953)	(1,718)	(1,323)
Interest income	1,558	1,020	1,155
Income before provision for income taxes	147,013	89,382	79,875
Provision for income taxes	44,677	31,498	22,987
Net income	$ 102,336	$ 57,884	$ 56,888
Earnings per common share			
Basic	$ 5.51	$ 2.83	$ 2.62
Diluted	$ 5.40	$ 2.80	$ 2.59
Weighted average common shares outstanding			
Basic	18,584	20,438	21,681
Diluted	18,959	20,702	21,924

Industry Outlook:

The industry as a whole is actually struggling a lot. With the use of online shopping more frequently, less people go into the retail stores and buy the products. This goes especially for most of The Children's Place and their competitor's stores where they are mainly set up in malls. One of these reasons is the drastic increase in online shopping, including mobile commerce. Since 2010, mobile commerce has increased from 2% to 20% of total share of digital dollars spent. To put into perspective as well, since 2010 Amazon sales has risen from $16 billion to $80 billion, while Sears revenue last year was $22 billion. With Amazon sales basically tripling Sears, reports also show that almost half of U.S households have Amazon Prime accounts. Another issue with the retail industry is that there are way too many malls built. There is expected to be a decrease from 1200 malls to about 900 malls within the next decade. Lastly a key issue for retail companies is that a lot more people instead of being materialistic with their money and going out to buy clothes or accessories from stores, they spend a lot more of their money on going out

The Growth of Mobile Shopping



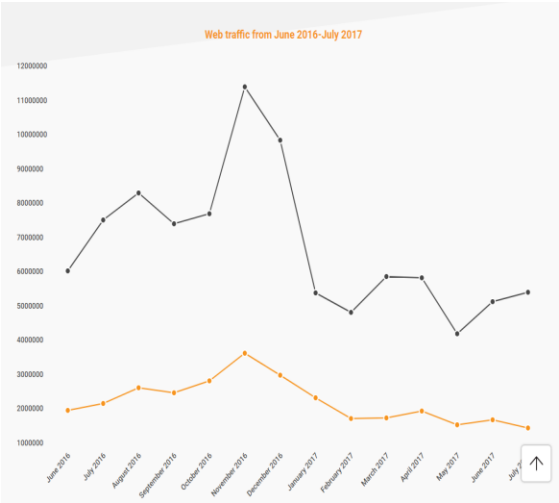
to get food with friends. This seems like it is due from a social media standpoint because many teens are not going to the malls and stuff as much or even retail stores because they are driven to do anything that will make them social media acceptable. Although these all seem like the industry is doing very poorly, the companies that are well established and have a good online buying basis have been doing very well and beating the market in almost every quarter, just like The Children's Place has.

Gymboree Bankruptcy Effect on Children

Many large retail companies such as JC Penney, RadioShack, and Macy's along with 6 others have already filed for bankruptcy this year. Along with these companies, a major competitor of The Children's Place, Gymboree also filed for bankruptcy very recently. With this they will be closing 330 stores nationwide, and of these 330 stores, 75% or 248 stores are located in malls. Of these 248 stores located in malls, 189 of them are located in A or B malls. Malls are classified by the amount of sales they make. An A mall is a mall that make over $400 million in sales, a B mall that is anything above $200 million in sales and below $400 million and then a C mall is anything below $200 million in sales. Of the 248 stores located in malls that are closing, The Children's place have stores that are 72% directly co-located in the same mall, which means they have a store in the same mall that Gymboree is closing in. Of these 179 stores that are co-located, 139 of them are located in the A or B malls that Gymboree are closing down in. That means that almost 80% of the stores that are directly co-located are in malls that are making well anywhere from $200 million and up as a whole. I believe that this will further increase The Children's Place total market share that they have on the industry. I also believe that it will greatly increase sales due to the fact of so many closing stores from their main competitor that many people will turn to them now to go and purchase at their store instead.

Online Distributions and Partnerships

The Children's Store has been very keen on doing everything in their power to become better at digital sales due to the increase in online shopping over the past decade. One of the ways they did this was by bringing in a new Chief Digital Officer, Steve Rado. He has a great background of the industry and has done significantly well since he has got there. One partnership that has definitely benefited them has been their partnership with Amazon. With the partnership in Amazon, The Children's Place is looking to increase from 300 SKUs since they started their partnership in 2014, to 4,000 SKUs for holiday time in 2017. They said they partnership with Amazon in order to utilize key tools that they have to increase sales and also increase their brand recognition since Amazon has such a large online purchasing audience. The partnership has gone very well with The Children's Place



being the number two overall brand for kids and babies on prime day. Another thing they are planning on doing is that an outside retailer is building them a new CRM system. A CRM system allows you to keep tract of everything your customer does up to date. It allows you to track every interaction they have with your business and manage their account. They are used to help improve customer relationships and also get a customer to come back as much as possible. Lastly, one thing they have done to greatly increase their online shopping is allowing customers to do a digital delivery. They have two options, they can either have it shipped to their house or even buy it online and just walk into the store and pick it up already paid for. This has done very well for them because many parents are in a rush and don't always have time to go shopping for their kids, so now instead they order online and pick it up in the store and skip the hassle of shopping and waiting in lines. Below is a chart of the web traffic of The Children's Place (black line) vs Gymboree (orange line) in the past year.

Conclusion:

The Children's Place is a must buy. With all their earnings being either very close or doing better than all their competitors that are much bigger than them shows that they have what it takes to do very well in the market at this time. They are weeding out all the stores that have been underperforming and I believe that this will help there company because they will not be wasting money on stores that are losing them money. Also those companies that are marked as their competitors are in the same apparel industry but are not solely focused on children's apparel and accessories which is why I think they will always be around and doing well because they

have a great brand association with anything children related. With all of these earning growths, their largest competitor going bankrupt and the increase of digital sales with Amazon I believe that The Children's Place is undervalued and will do very well for us in the next year or so.

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The Children's Place, Inc. (PLCE)

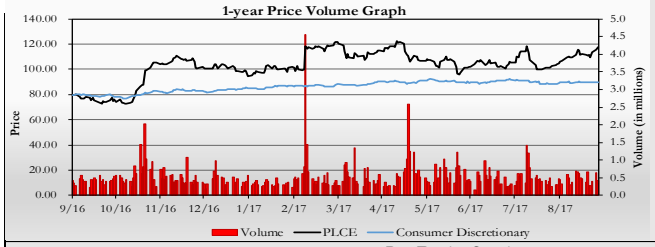
CENTER FOR GLOBAL FINANCIAL STUDIES

BULLISH

Analysis by Joshua Weiss
9/30/2017

Current Price:	$117.55	Intrinsic Value	$140.85
Divident Yield:	1.0%	Target Price	$153.11

Target 1 year Return: 31.24%
Probability of Price Increase: 99.8%



Description

The Children's Place, Inc. operates as a children's specialty apparel retailer.

General Information

Sector	Consumer Discretionary
Industry	Specialty Retail
Last Guidance	November 3, 2015
Next earnings date	November 9, 2017
Estimated Country Risk Premium	5.69%
Effective Tax rate	40%
Effective Operating Tax rate	45%

Market Data

Market Capitalization	$2,073.57
Daily volume (mil)	0.30
Shares outstanding (mil)	17.64
Diluted shares outstanding (mil)	18.43
% shares held by institutions	84%
% shares held by investments Managers	111%
% shares held by hedge funds	10%
% shares held by insiders	1.31%
Short interest	26.28%
Days to cover short interest	9.55
52 week high	$125.30
52-week low	$70.90
Volatility	31.68%

Past Earning Surprises

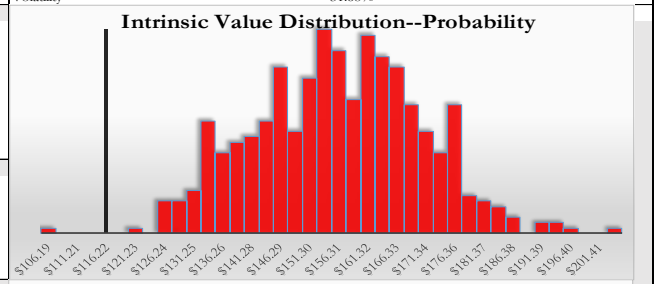
Quarter ending	Revenue	EBITDA
7/30/2016	-0.74%	59.68%
10/29/2016	0.77%	0.39%
1/28/2017	-2.29%	3.28%
4/29/2017	1.90%	4.72%
7/29/2017	-2.48%	-7.71%
Mean	-0.57%	12.07%
Standard error	0.9%	12.1%

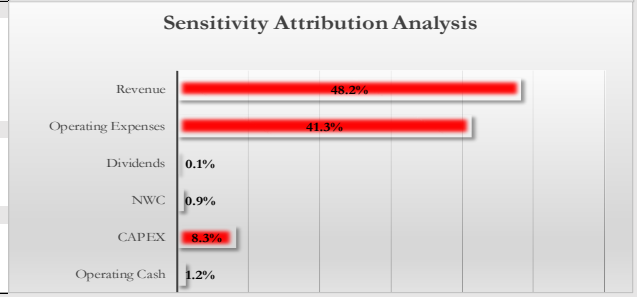
Peers

Express, Inc.
American Eagle Outfitters, Inc.
DSW Inc.
The Finish Line, Inc.
Urban Outfitters, Inc.
Lululemon Athletica Inc.
Chico's FAS, Inc.
Carter's, Inc.

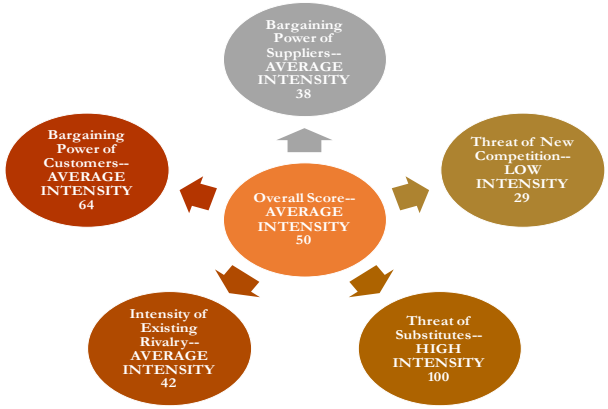
Management	Position	Total compensations growth	Total return to shareholders
Elfers, Jane	CEO, President & Director	-100% per annum over 4y	4.78% per annum over 4y
Pruthi, Anurup	Chief Financial Officer and	-100% per annum over 2y	26.86% per annum over 2y
Scarpa, Michael	Chief Operating Officer and	-100% per annum over 4y	4.78% per annum over 4y
Low, Kevin	Senior Vice President of Sto	-100% per annum over 3y	13.36% per annum over 3y
Poole, Gregory	Senior Vice President of Glo	-100% per annum over 4y	4.78% per annum over 4y
Kovac, John	Senior VP & Chief Informatio	N/M	N/M

Profitability	PLCE (LTM)	PLCE (5 years historical average)	Peers' Median (LTM)
Return on Capital (GAAP)	36.3%	15.65%	28.02%
Operating Margin	5%	3.67%	4.58%
Revenue/Capital (GAAP)	6.72	4.27	6.12
ROE (GAAP)	26.0%	9.8%	15.5%
Net margin	7.1%	3.4%	5.8%
Revenue/Book Value (GAAP)	3.64	2.93	2.67
Invested Funds	**PLCE (LTM)**	**PLCE (5 years historical average)**	**Peers' Median (LTM)**
Cash/Capital	46.7%	38.3%	28.4%
NWC/Capital	10.2%	19.1%	19.1%
Operating Assets/Capital	43.1%	42.4%	47.9%
Goodwill/Capital	0.0%	0.0%	4.6%
Capital Structure	**PLCE (LTM)**	**PLCE (5 years historical average)**	**Peers' Median (LTM)**
Total Debt/Market Capitalization	0.10	0.00	0.09
Cost of Existing Debt	4.6%	4.0%	4.3%
CGFS Rating (F-score, Z-score, and default Probability)	AA	BBB	A
WACC	7.1%	9.7%	9.5%





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



Valuation

Period	Revenue Growth Forecast	NOPAT Margin Forecast	Revenue to Capital Forecast
Base Year	3%	8.9%	1.61
7/29/2018	1%	12.5%	1.57
7/29/2019	2%	12.7%	1.26
7/29/2020	2%	12.5%	1.08
7/29/2021	2%	12.3%	0.95
7/29/2022	2%	12.1%	0.84
7/29/2023	2%	11.9%	0.77
7/29/2024	2%	11.7%	0.71
7/29/2025	2%	11.6%	0.66
7/29/2026	2%	11.4%	0.62
7/29/2027	2%	11.3%	0.58
Continuing Period	2%	11.1%	0.55

Period	Return on Capital Forecast	WACC Forecast	Price per share Forecast
Base Year	14.3%	7.1%	$141.54
7/29/2018	19.7%	5.8%	$154.00
7/29/2019	16.0%	6.5%	$168.11
7/29/2020	13.5%	6.6%	$182.16
7/29/2021	11.6%	6.8%	$196.23
7/29/2022	10.2%	7.0%	$210.37
7/29/2023	9.1%	7.2%	$224.62
7/29/2024	8.3%	7.4%	$239.03
7/29/2025	7.6%	7.6%	$253.69
7/29/2026	7.0%	7.9%	$268.68
7/29/2027	6.6%	8.2%	$284.11
Continuing Period	6.2%	8.5%	