

Under Armour is a company that operates in the Apparel and Textile Products industry, they develop, market, and distributed products that they brand for men, women, and youth. They were founded in 1996 and by a former Maryland football player, Kevin Plank. Under Armour mainly focuses on footwear, athletic and lifestyle products.

SELL

Current Price: \$19.38
 Target Price: \$13.81
 Market Cap: 8.73B
 Beta: -0.55
 EBITA Margin: 2.3
 Average Daily Volume: 3.107M
 D/E ratio: .41














Thesis: Under Armour has consistently raised their revenue over the years but at the same time have accumulated more and more debt. As revenue has grown their net income has dropped substantially. Their cost of goods sold and SG&A expenses have both increased at a rate that is quicker than overall revenue. At the same time they are increasing inventory for products that are not being sold. From the way they have been conducting business and how they look to continue with their changes it seems they may need to play a lot of catch up before any upside and their stock price looks to have more room to decrease in value.

Catalysts:

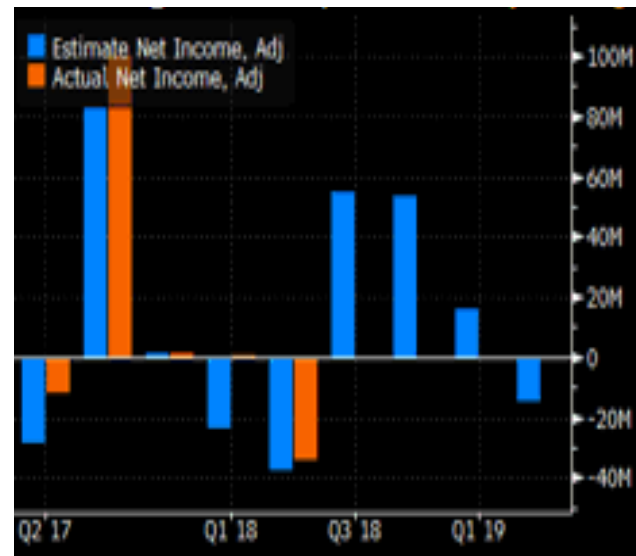
- Short Term(within the year): \$190 to \$210 million in restructuring costs.
- Mid Term(1-2 years):Did not get Real Madrid partnership
- Long Term(3+): decreasing demand in sector

Earnings Performance:

From the 3rd quarter of 2017 Under Armour has decreased in revenue from \$1.4 billion to \$1.36 billion in Q4 then to \$1.2 billion in Q1 of 2018 and lastly to \$1.17 billion in Q2. At the same time that their gross profit has decreased at the same rate.

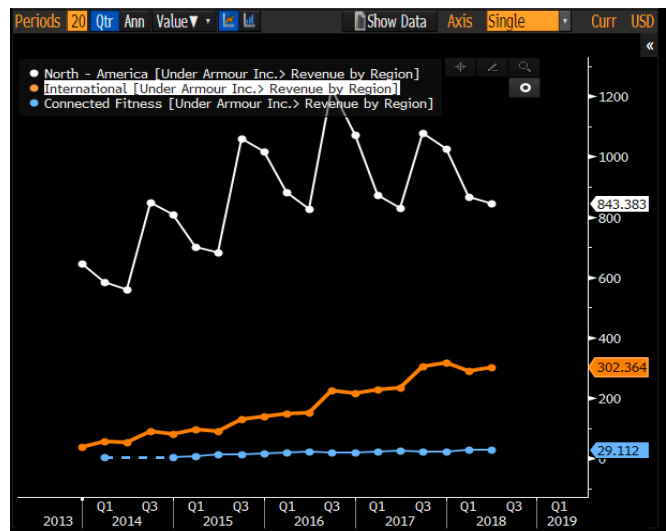
| In Millions of USD | 2017 Q2 | 2017 Q3 | 2017 Q4 | 2018 Q1 | 2018 Q2 | 2018 Q3 Est | 2018 Q4 Est |
|---|------------|------------|------------|------------|------------|-------------|-------------|
| 3 Months Ending | 06/30/2017 | 09/30/2017 | 12/31/2017 | 03/31/2018 | 06/30/2018 | 09/30/2018 | 12/31/2018 |
|  Market Capitalization | 9,594.5 | 7,278.1 | 6,379.3 | 7,260.1 | 10,001.0 | | |
|  - Cash & Equivalents | 165.7 | 258.0 | 312.5 | 283.6 | 196.9 | | |
|  + Preferred & Other | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | |
|  + Total Debt | 954.7 | 1,068.4 | 917.0 | 920.7 | 779.4 | | |
|  Enterprise Value | 10,383.5 | 8,088.4 | 6,983.8 | 7,897.1 | 10,583.5 | | |
|  Revenue, Adj | 1,091.2 | 1,405.6 | 1,365.4 | 1,185.4 | 1,174.9 | 1,417.4 | 1,403.3 |
|  Growth %, YoY | 9.0 | -4.5 | 4.6 | 5.9 | 7.7 | 0.8 | 2.8 |
|  Gross Profit, Adj | 501.2 | 648.9 | 591.2 | 523.5 | 526.6 | 649.8 | 631.6 |
|  Margin % | 45.9 | 46.2 | 43.3 | 44.2 | 44.8 | 45.8 | 45.0 |
|  EBITDA, Adj | 40.8 | 196.7 | 46.4 | 55.1 | 27.4 | 120.1 | 122.6 |
|  Margin % | 3.7 | 14.0 | 3.4 | 4.6 | 2.3 | 8.5 | 8.7 |

Over the last four quarters Under Armour's EBITDA margin has significantly decreased and is showing that they are projecting it to explode back up in the next quarter which seems unlikely. They had a margin of 2.3% the last quarter and from how operations are going they are likely to stay around that low area. Under Armour estimates earning for the next four quarters with the estimates of revenue to still go lower overtime. Also with net income it is projected to after a couple quarters of positive net income to again fall into the negatives. They get 76.5% of their net revenues from North America, 9.4% from EMEA, 8.7% from Asia-Pacific, 3.6% from Latin America and 1.8% from their new program connected fitness. This is significant because as of now they are trying to get more business internationally but they also realize that North America is a big part of their business. Their revenue increase in the US was only 1.6% in the last year and even though it was 30.8% in EMEA, 34.3% Asia-Pacific, and 7.3% in Latin America. These places do not help the case that they are not creating value in the place where they get more than 75% of their revenue.



Industry Outlook

There are many threats to the apparel and textile industry as of now, the strengthening of the dollar is one of the main threats. Apparel and footwear brands have the biggest exposure to weakening when it comes to a strong US dollar, especially companies like Under Armour where 90% of their total stores are outlets. They are more likely to face pressure from tourism unlike mall based stores. Even though the ratio of tourists to domestic shoppers is usually small it still can have an effect on the overall performance of their revenues. A decrease in the value of foreign currencies to the dollar can eliminate the potential benefit. With an overall number of department stores tightening and even tighter inventory management in the ones that are surviving it adds pressure to companies' wholesales. Sales to date from department stores are at about 12% which are down about 20% from a decade ago because of consumer's preference to shop on off-price stores or to go to the stores website directly. This is also where Amazon comes into play. Amazon is expanding into the apparel and footwear business and with their unorthodox business model they could start to take away from business like Under Armour and others in the industry. The charts below show Under Armour's sales in the US, and internationally. The chart on the left shows that UAA is performing under the Russell Textiles, Apparel & Shoes index and the S&P 500 Consumer Discretionary.



Strategy/Competition









Under Armour (UAA) sales are from three main categories; footwear, accessories and apparel with the addition of their newer line, connected fitness. These lines include products from basketball, running, football, and baseball products. They generate more than 60% of their sales through the wholesale business. Places like Cabela's the Army and Air Force Exchange, and Dick's Sporting Goods. UAA promotes their products by selling to high performing athletes and teams. They have sponsored players like Stephen Curry (NBA), Tom Brady (NFL), Andy Murray (Tennis), and George St-Pierre (MMA), and have just started a deal with Dwayne Johnson. As these may be considerable feats it still does not get rid of the fact that they are racking up more debt than the revenue they continue to bring in. Internationally they have sponsored and sold products to several European and Latin American soccer and rugby teams to "drive" brand awareness. UAA states that their main quarters that they produce the most revenue is in the last two quarters because of

their high priced cold weather products. But, at the same time they also expect their inventory, accounts payable, and certain accrued expenses to be higher in preparation for these quarters. After five years of growth Under Armour has got too comfortable. They slowed in sales because of reliance on basketball footwear, struggling retail stores, and not adapting to the changes in fashions. They now have responded with restructurings in mid-2017- early 2018 that sum to \$200-\$220 million... This is indicating that they may be depleting their inventory to cover their debt because the inventory is not selling. Their competitors including Columbia, Guess? Inc., G-III apparel, and bigger companies like Nike and Adidas all have been outperforming them.

| | Name (BICS Best Fit) | Sales Growth (%) | EBITDA Growth (%) | EBITDA Margin | Operating Income Margin | Net Income Growth | Net Profit Margin | NetROIC/WACC Ratio | Capex/Sales (%) | Return on Invested | Return on Assets | Return on Equity |
|------|-------------------------|------------------------|-------------------------|------------------|-------------------------------|-------------------------|-------------------------|-----------------------|--------------------|--------------------------|------------------------|------------------------|
| | Median | 8.53% | 9.44% | 12.75% | 9.50% | 28.07% | 7.05% | 1.02 | 2.49% | 12.53% | 8.86% | 14.17% |
| 100) | UNDER ARMOUR | 2.87% | -38.72% | 6.35% | 2.81% | -70.58% | 1.26% | -0.61 | 5.69% | 2.95% | 1.59% | 3.28% |
| 101) | COLUMBIA SPO | 8.58% | 19.46% | 14.73% | 12.47% | 26.54% | 9.55% | 1.60 | 2.16% | 16.39% | 11.72% | 15.66% |
| 102) | NIKE INC -CL B | 8.49% | -4.82% | 14.26% | 12.54% | 3.65% | 10.96% | 2.43 | 2.82% | 29.29% | 17.71% | 38.93% |
| 103) | SKECHERS USA | 16.95% | 19.34% | 11.18% | 9.11% | 29.61% | 6.57% | 1.61 | 3.27% | 17.23% | 10.42% | 15.60% |
| 104) | PVH CORP | 13.00% | 14.53% | 13.40% | 9.89% | 33.77% | 7.53% | 0.74 | 4.02% | 8.86% | 6.18% | 13.42% |
| 105) | G-III APPAREL | 16.54% | 74.19% | 8.74% | 7.53% | 140.60% | 4.00% | 0.84 | 1.23% | 9.24% | 5.57% | 11.30% |
| 106) | OXFORD INDUS | 6.15% | 4.35% | 12.09% | 8.16% | 29.84% | 5.92% | 1.65 | 3.57% | 13.88% | 9.68% | 14.91% |
| 107) | FOSSIL GROUP | -4.19% | -11.00% | 5.65% | 3.11% | -86.96% | 0.11% | -1.43 | 0.92% | -0.07% | 0.20% | 0.54% |

Profitability

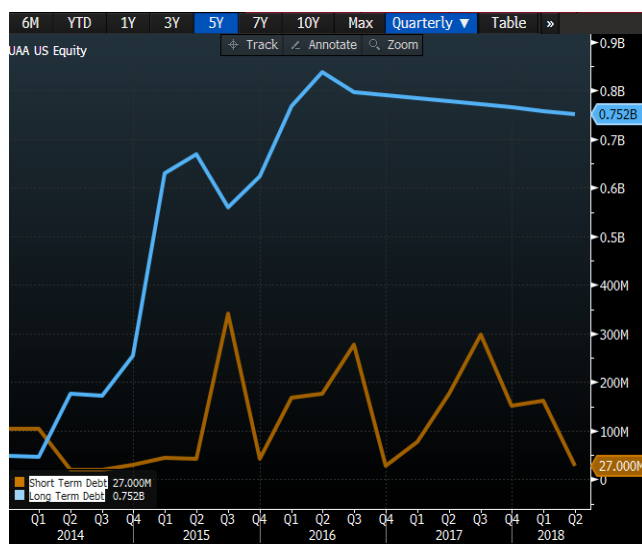
Under Armour went from a revenue growth percentage of 28% in 2015 to 21% in 2016, then all the way down to only 3.1% in 2017 and as of 6/30/2018 they are at 2.9%. As they continue their operations it's weird to see that their capital expenditures are decreasing but UAA says they are improving their stores and have also opened more store locations. They went from being a profitable company with an operating margin of 10.3 in 2015 to .60 as of 12/21/2017. From their current operations UAA has seen revenue coming in but their cost of goods sold and SG&A have been increasing right with their revenue. Over the last three quarters UAA has have EBITDA margins of 3.4, 4.6, and 2.3 showing that as a company they are not producing earnings. As of now UAA has a return on assets of 1.59% and a return on equity of 3.28%.

| In Millions of USD except Per Share | | 2015 Y | 2016 Y | 2017 Y | Last 12M | 2018 Y Est | 2019 Y Est* |
|---|----------------------------|------------|------------|------------|------------|------------|-------------|
| 12 Months Ending | | 12/31/2015 | 12/31/2016 | 12/31/2017 | 06/30/2018 | 12/31/2018 | 12/31/2019 |
|  | Revenue | 3,963.3 | 4,825.3 | 4,976.6 | 5,131.2 | 5,177.3 | 5,470.0 |
|  | + Sales & Services Revenue | 3,963.3 | 4,825.3 | 4,976.6 | 5,131.2 | | |
|  | - Cost of Revenue | 2,057.8 | 2,584.7 | 2,732.8 | 2,841.0 | | |
|  | + Cost of Goods & Services | 2,057.8 | 2,584.7 | 2,732.8 | 2,841.0 | | |
|  | Gross Profit | 1,905.5 | 2,240.6 | 2,243.8 | 2,290.2 | 2,340.8 | 2,510.7 |
|  | + Other Operating Income | 0.0 | 0.0 | 0.0 | 0.0 | | |
|  | - Operating Expenses | 1,490.2 | 1,798.6 | 2,084.5 | 2,146.2 | | |
|  | + Selling, General & Admin | 1,490.7 | 1,823.1 | 2,086.8 | 2,156.3 | | |

From the picture above you can also see that their ROIC/WACC is -0.61 which shows that this company is currently destroying value as they invest more capital. As a whole they are paying out more than they are earning on their investments but yet UAA still talks about investing more. If they want to become a more profitable company they need to start by fixing their ROIC before they invest more capital. This shows that the revenue increase that UAA had is inefficient because at the same time they have cost of revenue increasing at almost the same rate, also SG&A is increasing every year. All of this tied together at the same time as inventory continues to increase shows that UAA is not selling their products. As of 12/31/2017 UAA had a net income of -\$48 million and LTM -\$159 million.

Debt

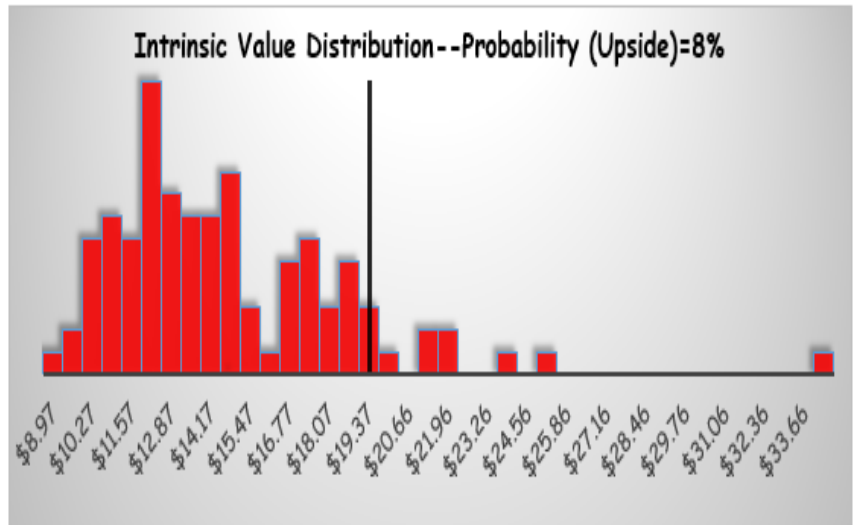
In the most recent earnings call, David E. Bergman, talks about the financials of Under Armour. The total debt was down 18% to \$779 million. Capital expenditures were down 59% to \$34 million and inventory was up 11% to \$1.3 billion. UAA's 2018 outlook shows that they expect revenue to be up approximately 3% to 4% with international growth of greater than 25% being offset by a low-to-mid single digit decline in North America. This can pose a threat because over 75% of their business is in North America. They expect third quarter revenue to be in-line to slightly down versus last year. Third quarter adjusted gross margin is expected to be down approximately 50 basis points due to continued inventory management action. The problem is still based on the portion of their ROIC/WACC which is -.61. They are still a value destroying company even with the lowering of their debt to \$779 million. Also, when it comes to debt UAA has had total debt to equity on a steady increase since 2012. From 7.58 in 2012 to 45.43 as of the year ended in 2017. As their debt has been on a steady increase they still are not getting any return from their assets, equity or capital.



| In Millions of USD except Per Share 12 Months Ending | 2012 Y 12/31/2012 | 2013 Y 12/31/2013 | 2014 Y 12/31/2014 | 2015 Y 12/31/2015 | 2016 Y 12/31/2016 | 2017 Y 12/31/2017 |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Long-Term Debt/Equity | 6.46 | 4.55 | 18.90 | 37.41 | 38.92 | 37.90 |
| Long-Term Debt/Capital | 6.00 | 3.98 | 15.62 | 26.73 | 27.75 | 26.06 |
| Long-Term Debt/Total Assets | 4.56 | 3.04 | 12.18 | 21.78 | 21.69 | 19.10 |
| Total Debt/Equity | 7.58 | 14.52 | 21.05 | 39.93 | 40.25 | 45.43 |
| Total Debt/Capital | 7.04 | 12.68 | 17.39 | 28.53 | 28.70 | 31.24 |
| Total Debt/Total Assets | 5.35 | 9.69 | 13.57 | 23.24 | 22.43 | 22.89 |

Conclusion

Under Armour showed bad results for 2017 and have made very little improvement for the first two quarters of 2018. They are trending down compared to all of their competitors and they are below even the industry itself, they have many threats when it comes to the retail business at it is and the problems they have gotten themselves in with their debt do not help their case. As the price continues to drop the short interest is growing. It is now at 12.44 and there is a 20% short float even though there is low volume it still is indicating more seller positions. With the threats, the debt that was incurred, the amount of inventory that is not being sold, and the fact that they have a ROIC/WACC that is .61 I believe that Under Armour still has a lot of catching up and strategizing to do before they can see the price of their stock increase. I believe that Under Armour can find their way back to a strong company in the future but as of now they are in too deep with their financial troubles that they still have room to go down. Based on the picture of probability there is an upside probability of only 8% and can see the company decreasing in value from now until 2019.



Under Armour, Inc. (UAA)

CENTER FOR GLOBAL FINANCIAL STUDIES

BEARISH

Analysis by Kyle Agresta
10/5/2018

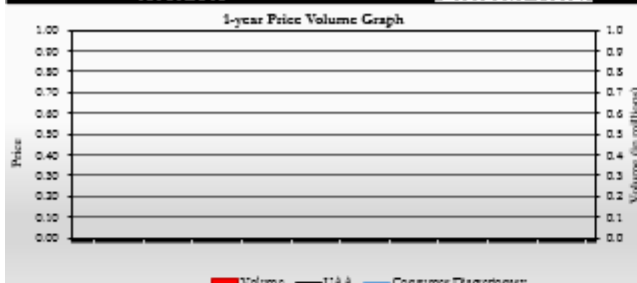
Current Price:
Dividend Yield:

\$19.38
0.0%

Intrinsic Value
Target Price:

\$13.20
\$12.62

Target 1 year Return: -34.88%
Probability of Price Increase: 8%



| Description | |
|---|------------------------------------|
| Under Armour, Inc., together with its subsidiaries, develops, markets, and distributes branded performance apparel, footwear, and accessories for men, women, and youth primarily in North America, Europe, the Middle East, Africa, the Asia-Pacific, and Latin America. | |
| General Information | |
| Sector | Consumer Discretionary |
| Industry | Textiles, Apparel and Luxury Goods |
| Last Guidance | September 20, 2018 |
| Next earnings date | October 26, 2018 |
| Market Assumptions | |
| Estimated Equity Risk Premium | 0.00% |
| Effective Tax Rate | 0% |

| Market Data | |
|--------------------------------------|------------|
| Market Capitalization | \$8,488.56 |
| Daily volume (mil) | 2.81 |
| Shares outstanding (mil) | 444.94 |
| Diluted shares outstanding (mil) | 442.70 |
| % Shares held by institutions | 70% |
| % Shares held by investment managers | 59% |
| % Shares held by hedge funds | 6% |
| % Shares held by insiders | 16.30% |
| Short interest | 8.69% |
| Days to cover short interest | 8.63 |
| 52-week high | \$24.69 |
| 52-week low | \$11.40 |
| Volatility | 43.71% |

| Quarter Ending | |
|----------------|--------|
| 6/30/2017 | 1.26% |
| 9/30/2017 | -5.03% |
| 12/31/2017 | 4.18% |
| 3/31/2018 | 6.08% |
| 6/30/2018 | 2.14% |
| Mean | 1.73% |
| Standard error | 28.1% |

| Part Earning Surprises | |
|------------------------|---------|
| Revenue | EBITDA |
| 6/30/2017 | 366.76% |
| 9/30/2017 | -5.03% |
| 12/31/2017 | -0.67% |
| 3/31/2018 | -11.40% |
| 6/30/2018 | -28.77% |
| Mean | 66.94% |
| Standard error | 6.5% |

| Market and Credit Scores | |
|---|---------|
| Recommendation (STARS) Value | 3 |
| Recommendation (STARS) Description | Hold |
| Quality Ranking Value | B+ |
| Quality Ranking Description | Average |
| Short Score | 5 |
| Market Signal Probability of Default % (Non-Rating) | 1.01% |
| Credit Model Score (Non-Rating) | bb |

| Management | |
|----------------|---|
| Blank, Kevin | Founder, CEO & Chairman |
| Frisk, Patrik | President & COO |
| Bergman, David | Chief Financial Officer |
| Fipps, Paul | Chief Digital Officer |
| Allega, Lance | Vice President of Investor Relations |
| Stanton, John | Senior VP, General Counsel & Corporate Seco |

| Industry and Segment Information | |
|-----------------------------------|---|
| LTM Revenue by Geographic Segment | LTM Revenue by Business Segments |
| United States--73% | North America--76% |
| Foreign--27% | Europe, The Middle East and Africa (EMEA)--9% |
| -- | Asia-Pacific--9% |
| -- | Latin America--4% |
| -- | Connected Fitness--2% |

| Peers | |
|-------------------------------|---------------------------|
| Lululemon Athletica Inc. | V.F. Corporation |
| Tapestry, Inc. | Foot Locker, Inc. |
| Hanesbrands Inc. | G-III Apparel Group, Ltd. |
| Michael Kors Holdings Limited | PVH Corp. |
| Ralph Lauren Corporation | Fazili Group, Inc. |

| Profitability | |
|---------------------------|--------|
| Return on Capital (GAAP) | -3.3% |
| Operating Margin | -2% |
| Revenue/Capital (GAAP) | 1.56 |
| ROE (GAAP) | 8.3% |
| Net margin | 4.6% |
| Revenue/Book Value (GAAP) | VALUE! |

| Total Compensation Growth | |
|---------------------------|--------------------------|
| 21.41% per annum over 5y | 14.32% per annum over 5y |
| 0% per annum over 0y | 0% per annum over 0y |
| 0% per annum over 0y | 0% per annum over 0y |

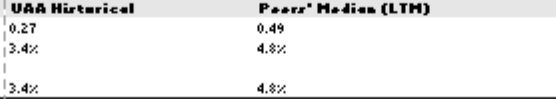
| Porter's 5 Forces (Scores are percentiles) | |
|---|---|
| Bargaining Power of Suppliers--MIDDLE TIER 33 | Threat of New Competitors--LOWEST TIER 29 |
| Bargaining Power of Customers--MIDDLE TIER 64 | Intensity of Existing Rivalry--MIDDLE TIER 42 |
| Overall Position among Peers--MIDDLE TIER 39 | Threat of Substitution--HIGHEST TIER 100 |

| Invested Funds | |
|--------------------------|-------|
| Cost of Capital | 9.5% |
| NWC/Capital | 19.8% |
| Operating Assets/Capital | 53.9% |
| Goodwill/Capital | 16.8% |

| Capital Structure | |
|---|------|
| Total Debt/Market Capitalization | 0.42 |
| Cost of Debt | 4.2% |
| CGFS Rating (Firm, Zero, and default Probability) | CC |
| WACC | 5.0% |

| Valuation | |
|---------------------------|-------------------|
| Explicit Period (6 years) | Continuing Period |
| Revenue Growth CAGR | 5% |
| Average Operating Margin | 5% |
| Average Net Margin | 1% |
| Growth in Capital CAGR | -1% |
| Growth in Claims CAGR | 0% |
| Average Return on Capital | -1% |
| Average Return on Equity | -1% |
| Average Cost of Capital | 5% |
| Average Cost of Equity | 5% |

| Forecast Assumptions | |
|---------------------------|-----|
| Revenue Growth CAGR | 5% |
| Average Operating Margin | 5% |
| Average Net Margin | 1% |
| Growth in Capital CAGR | -1% |
| Growth in Claims CAGR | 0% |
| Average Return on Capital | -1% |
| Average Return on Equity | -1% |
| Average Cost of Capital | 5% |
| Average Cost of Equity | 5% |



October 5th, 2018

Diamondback Energy, Inc. (FANG)

Sam Gerardi

Sector: Energy

Industry: Oil/ Natural gas

Current Price: 136.5

Target Price: 150.55

Company Description: Diamondback Energy Inc. operates as an independent oil and natural gas company currently focused on the acquisition, development, exploration, and exploitation of unconventional, onshore oil, and natural gas reserves in the Permian Basin in West Texas.

BUY

Current Price: \$135.40

Target Price: \$152.33

Market Cap: 13.799B

Beta: 0.832

Other key Metrics/Ratios

P/E Ratio: 20.5 EPS: 6.82

ROACE/WACC = 1.57



Thesis: I am recommending a BUY on Diamondback Energy. FANG has shown the ability to weather volatile oil price fluctuations and still maintain a profit. Energy securities are underrepresented in our portfolio. FANG is undervalued and shows strong indications of growing. This is not only a lucrative company to invest in.; it would give some much-needed diversification to an extremely underrepresented sector of the economy.

Catalysts: Forward looking projections that call for positive/negative outlook that will strengthen your thesis. Example:

- Short Term: Recent acquisition of has expanded oil field to 390,000 acres
- Mid Term(1-2 years): Develop and utilize new land and explore more acquisitions.
- Long Term(3+): adjust their capital structure to help elevate the cost of debt.

Earnings Performance

For my competitors, I compared FANG to seven other oil companies in the Permian Basin in West Texas. They are Energen Corp, Parsley Energy Inc-Class A, Approach Resources Inc, Cimarex Energy Co, Pioneer Natural Resources Co, Concho Resources Inc, Laredo Petroleum Inc

| | | | | |
|----------------------------|-----------------|------------|-------------------|---------------------|
| FANG US \$ | 136.35 | +1.10 | Q136.32 / 136.35Q | 3x18 |
| At 16:00 d | Vol 1,428,593 | 0 136.21Q | H 136.69D | L 133.89B |
| FANG US Equity | 90 Actions | 97 Export | 90 Settings | Financial Analysis |
| ADJ Diamondback Energy Inc | | | | |
| Key Stats | 1/S | 5/S | C/F | Ratios |
| Adj Highlights | GAAP Highlights | Earnings | Enterprise Value | Periodicity Annuals |
| In Millions of USD | 2014 Y | 2015 Y | 2016 Y | 2017 Y |
| 12 Months Ending | 12/31/2014 | 12/31/2015 | 12/31/2016 | 12/31/2017 |
| Market Capitalization | 3,400.7 | 4,468.7 | 9,109.9 | 12,393.6 |
| - Cash & Equivalents | 30.2 | 20.1 | 1,666.6 | 112.4 |
| + Preferred & Other | 234.2 | 233.0 | 320.8 | 326.9 |
| + Total Debt | 673.5 | 487.8 | 1,105.9 | 1,477.3 |
| Enterprise Value | 4,278.3 | 5,169.4 | 8,870.1 | 14,085.4 |
| Revenue, Adj | 506.1 | 591.6 | 528.3 | 1,211.8 |
| Growth % YoY | 152.1 | 16.9 | -10.7 | 96.5 |
| Gross Profit, Adj | 244.4 | 251.4 | 220.7 | 670.8 |
| Margin % | 48.3 | 42.5 | 41.8 | 55.4 |
| EBITDA, Adj | 395.3 | 437.8 | 356.6 | 938.4 |
| Margin % | 78.1 | 74.0 | 67.5 | 77.7 |
| Net Income, Adj | 121.6 | 74.4 | 140.6 | 508.8 |
| Margin % | 24.0 | 12.6 | 26.6 | 41.2 |
| EPS, Adj | 2.24 | 1.18 | 1.87 | 5.21 |
| Growth % YoY | 85.5 | -47.5 | 59.0 | 178.5 |
| Cash from Operations | 356.4 | 416.5 | 332.1 | 888.6 |
| Capital Expenditures | -1,447.6 | -902.1 | -1,190.0 | -2,233.7 |
| Free Cash Flow | -1,091.2 | -485.6 | -857.9 | -2,345.1 |

| | | | | |
|--------------------------|---------------------------------|--------------------------------|------------------------|---------------|
| FANG US \$ | 136.265 | +1.015 | Q136.27 / 136.30Q | 1x1 |
| At 15:56 d | Vol 1,266,286 | 0 136.21Q | H 136.69D | L 133.89B |
| FANG US Equity | 97 Actions | | | |
| Diamondback Energy Inc | | | | |
| Earnings History ERN | Consensus Overview EEO | Analyst Coverage ANR | | |
| Next Announcement | Trailing 12M P/E | Buy/Hold/Sell | 28/2/0 | |
| Prior Announcement | Forward 12M P/E | Current Price | 136.33 | |
| Avg/Implied 1 Day Move | Est. LTG (EPS) | Target Price | 167.83 | |
| Consensus Overview EEO | Current Period Overview (Q3/18) | Prior Period Analysis (Q2/18) | | |
| Measure | Q3/18 Est | 4Mk Chg | YoY Gr Growth vs Comps | Past Surprise |
| 10 EPS, Adj | 1.621 | 1.15% | 21.9% Weaker | Beat 7 of 8 |
| 10 EPS, GAAP | 1.681 | 3.26% | 127.2% Stronger | Beat 4 of 8 |
| 10 Revenue | 526.750M | -0.04% | 71.4% Stronger | Beat 7 of 8 |
| 10 Net Income, Adj | 156.467M | 1.65% | 10.4% Weaker | Beat 7 of 8 |
| 10 Operating Profit | 277.750M | -1.35% | --- | --- |
| 10 EBITDA | 401.133M | -0.43% | 72.6% Stronger | Beat 6 of 8 |
| Earnings Trends EH | Q3s Only | Earnings Estimates Graph EEG | | |

FANG has had very strong financials. Their year-to-year growth rate hovering around triple digits three out of the last five years and is projected to grow in a similar manner for the near future. Being in the oil industry, their EBITDA is consistent and above all other competition in their area. It is hovering around 75% and expecting to continue the next few years. Another factor that reinforces the BUY decision is their net income margin. With a simple average of around 30%, this company blows the competition out of the water. There are many factor that all point to this stock being a BUY. Over the past year, FANG has outperformed or matched EPS and Revenue estimates. When comparing to competition in the same industry and area of operation, FANG stands out as the leader due to thing such as best revenue growth year over year and third lowest P/E ratio in this class. In addition, using industry specific ratio of ROACE/WACC is 1.57 and ROIC/WACC is 1.35 from Bloomberg, both of which indicate that the firm is creating value.

| | | | | |
|---|----------------------|--------------------|--------------------------|--------------------|
| FANG US \$ | 136.35 | +1.10 | Q136.32 / 136.35Q | 3x18 |
| At 16:30 d | Vol 1,428,593 | 0 136.21Q | H 136.69D | L 133.89B |
| FANG US Equity | 90 Actions | 97 Export | 90 Settings | Relative Valuation |
| Comp Source | Analyst Curated (BI) | Name | BI Permian B Oil Gas Val | Curr USD |
| Segment | Revenue % | Metric | FANG | Low Comp Range |
| Exploration & Production | 99% | Est P/E current Yr | 20.42 | 6.51 |
| Midstream - Oil & Gas | 1% | EV/EBITDAx | N.A. | 34.32 |
| | | Sales Growth Yoy | 129.39 | 4.72 |
| | | EBITDA Margin (%) | 77.43 | 38.38 |
| | | Oil & Gas Prod (M) | 79.22k | 11.60k |
| Overview | Comp Sheets | Markets | EPS Preview | Ownership |
| Add Column | Fields | 19 Save | 20 Discard | |
| Name (BI Peers) | Last Px | Chg Pct 1D | Pct 1M | Rev - 1 Yr |
| Median | 9.52E | 1.01% | 14.24% | 39.69% |
| 1001 DIAMONDBACK ENERGY | 136.35 | 0.81% | 16.08% | 129.39% |
| 1002 CIMAREX ENERGY CO | 99.18 | 1.08% | 15.15% | 51.54% |
| 1003 PIONEER NATURAL RESO | 183.38 | 1.21% | 8.97% | 27.04% |
| 1004 ENERGEN CORP | 86.97 | 0.49% | 15.77% | 60.87% |
| 1005 PARSLY ENERGY INC-C | 30.26 | 1.10% | 13.33% | 83.27% |
| 1006 APPROACH RESOURCES | 2.17 | 0.93% | 3.33% | 4.72% |
| 1007 CONCHO RESOURCES INC | 158.23 | 1.66% | 16.78% | 17.91% |
| 1008 LAREDO PETROLEUM INC | 7.26 | -4.10% | -11.46% | 7.04% |
| (Accounting Adjustments: Adjusted for Abnormal Items When Applicable) | | | | |

Competitive advantage/ Growth potential

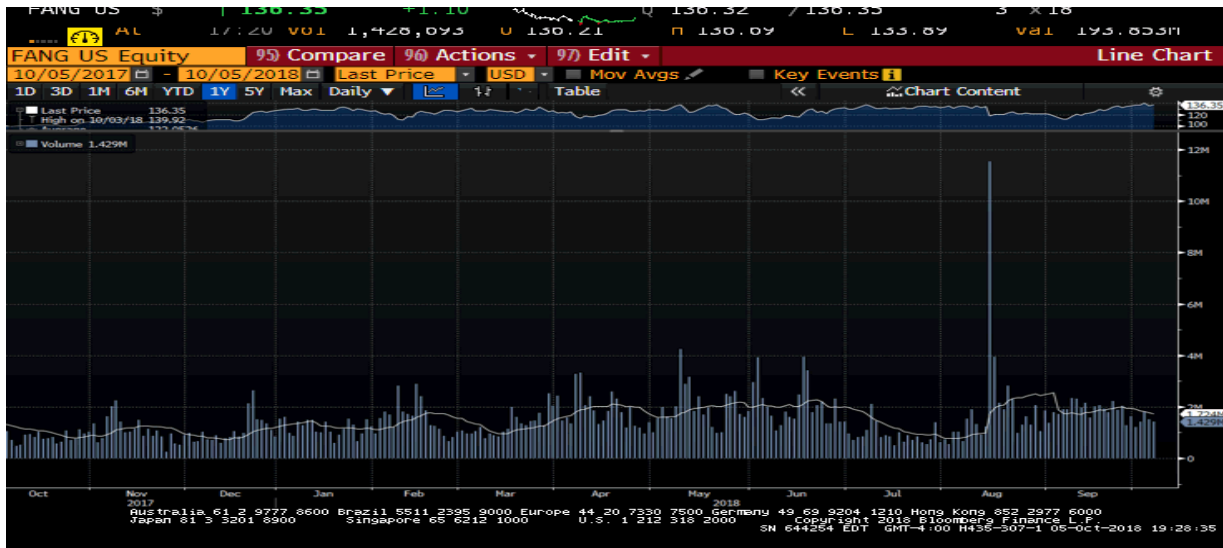
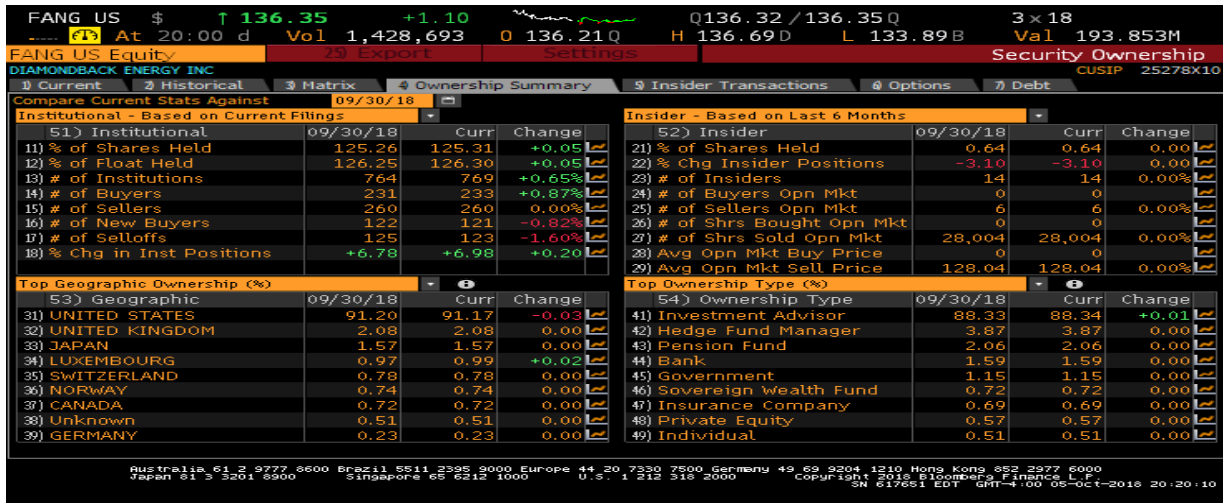
Diamondback Energy has some very impressive industry specific ratios. 73% of every well drilled is productive and of those well 97% have their cost paid back in the first year. Their daily production is up 46% from 76,977 to 11,592 Bo/D. Their cash margins are up 36% from a year ago and the cash cost is down 11%. This all points to an increase in efficiency. Of the oil produced, 92% is on pipe moving closer to 95%. This demonstrates that Diamondback Energy can effectively get its product to market. Diamondback completed a record 465,000 lateral feet across our portfolio this quarter, up 72% from 2Q 2017. They continue to maximize long laterals and efficient pad development across our acreage. Longer laterals improve capital efficiency, and pad development reduces cost for both drilling and completions.

Looking at the earnings call and the investor presentation, due to their company model of acquiring and expanding, this places them in a great position to generate large revenues. Due to the increase in horizontal drilling and other alternate drilling methods, the Permian Basin region is one of the most active oil producing areas in the country. The basin accounts for about 18% of US crude oil production and 23% of the country's oil reserves. FANG has positioned themselves to become one of the majority holders on land on the Permian basin. FANG's assets in the Permian Basin as well as their prospective plays within the region will stabilize the company as it continues on its growth path.

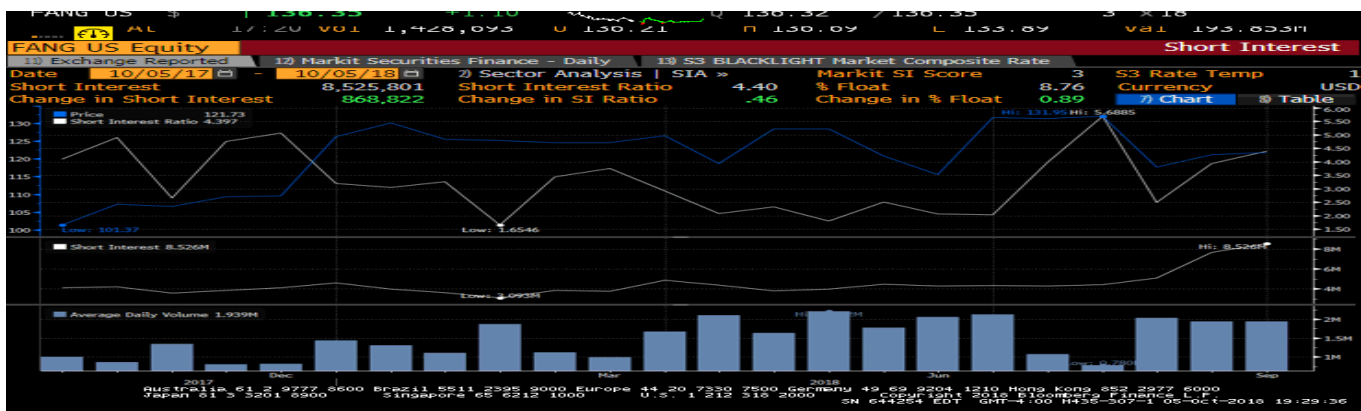
Section 5: Threats/ Downside

When participating in the oil industry there are some obvious and unavoidable threats. The largest threat is the crude oil price. Diamondback Energy is able to still produce a profit if oil prices get as low as \$44/barrel. Given that oil prices are hovering around 70 and could potentially increase in the coming few years, that is a positive, if things go their way. Due to global tensions, there is not a clear indication on where oil prices will be. The true chink in this company's armor is their current capital structure. They are financing their capital expenditure with debt. This could potentially be a crippling issue if there is an unforeseen drop in oil prices. If oil prices fall, this would increase their cost of debt to a fatal level. The beauty of an oil company, especially one that is well managed like FANG, if prices rise over \$100/barrel, they can virtually wipe out their debt due to their large cash margins and low cash cost.

Section 6: Ownership



Since this is an American company, over 91% of the shares are U.S. owned. A majority of that is via investment advisors. Besides the exception on August 15th, which was when Diamondback acquired Engeren, the trading volume is around 1.3 - 1.4 million shares a day, which makes this security fairly liquid. The short interest is around 8.76% of the float. The short interest ratio is hovering around 2.5 and 5.5. Considering the ruthless competition and cutthroat nature of the oil industry this short interest is low.



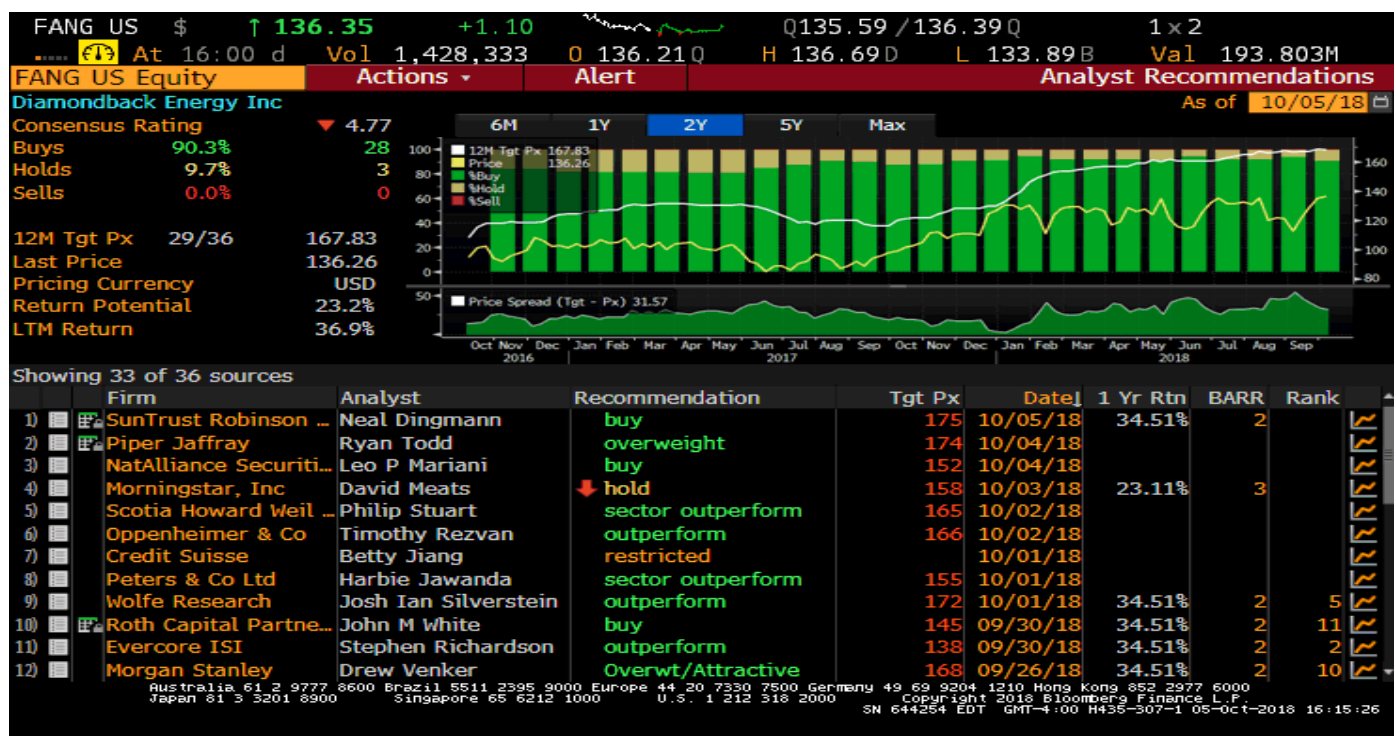
Base/Best/Worst case

For my intrinsic value I found that it was every close to the market value. The main factors that influenced the price was the projected revenue growth and CAPEX. With a revenue/CAPEX ratio of 50%, it is clear that this company has huge CAPEX expense, so any change in things such as the average life of an asset, like with wells and drilling platforms, had an enormous effect on the value of the stock. Therefore, with my proforma I was conservative with my growth rate and assumed that the average life of the asset is only 12 years.

My base case is 134.80 | best case is $1.01 \times 134.8 = 136.15$ | worst case is $0.99 \times 134.8 = 133.45$

My one-year price is 152.33 and the market says it is going to be 168.04. Due to my conservative assumptions, that justifies why my one-year price is lower than the market, but I assume it while converge closer to the market price. Both Bloomberg and Capital IQ predict that the stock with increase anywhere north of 20%.

Conclusion:



With the company's ratios and business model, Diamondback Energy is position to create a great increase in value. Like Girard says, "Listen to the smart people". In this case, 90.3% of the analysis on Bloomberg that cover FANG recommend a buy and 9.7% say hold with 0% recommending selling. This company has the ability to justify over 20% in price over the next year, which would a nice return on top of helping to diversify the overall Fund portfolio. FANG is the perfect energy company to add to the unrepresented energy sector and can provide great enough returns to justify for the potential volatility if oil prices drop. This is why I am recommending a BUY on FANG.

Diamondback Energy, Inc. (fang)

CENTER FOR GLOBAL FINANCIAL STUDIES

NEUTRAL

Analysis by Al Capone
10/5/2018

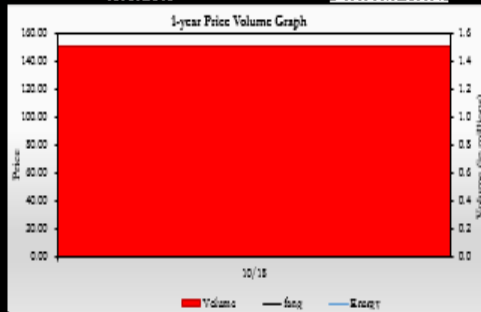
Current Price:
Divident Yield:

\$135.53
0.4%

Intrinsic Value
Target Price

\$133.45
\$150.55

Target 1 year Return: 11.45%
Probability of Price Increase: 47%



| Description | |
|--|-------------------------------|
| Diamondback Energy, Inc., an independent oil and natural gas company, focuses on the acquisition, development, exploration, and exploitation of onshore oil and natural gas reserves in the Permian Basin in West Texas. | |
| General Information | |
| Sector | Energy |
| Industry | Oil, Gas and Consumable Fuels |
| Last Guidance | August 8, 2018 |
| Next earnings date | November 2, 2018 |
| Market Assumptions | |
| Estimated Equity Risk Premium | 5.10% |
| Effective Tax rate | 21% |

| Market Data | |
|--------------------------------------|-------------|
| Market Capitalization | \$13,338.55 |
| Daily volume (mil) | 1.14 |
| Shares outstanding (mil) | 98.62 |
| Diluted shares outstanding (mil) | 99.14 |
| % shares held by institutions | 105% |
| % shares held by investment Managers | 94% |
| % shares held by hedge funds | 5% |
| % shares held by insiders | 0.55% |
| Short interest | 3.64% |
| Days to cover short interest | 5.27 |
| 52 week high | \$140.78 |
| 52 week low | \$97.81 |
| Volatility | 36.01% |

| Quarter ending | |
|----------------|--------|
| Revenue | EBITDA |
| 6/30/2017 | 3.74% |
| 9/30/2017 | 1.91% |
| 12/31/2017 | 6.26% |
| 3/31/2018 | 9.11% |
| 6/30/2018 | 8.89% |
| Mean | 5.98% |
| Standard error | 1.0% |

| Part Earning Surprise | |
|-----------------------|--------|
| Revenue | EBITDA |
| 6/30/2017 | 3.74% |
| 9/30/2017 | 1.91% |
| 12/31/2017 | 6.26% |
| 3/31/2018 | 9.11% |
| 6/30/2018 | 8.89% |
| Mean | 5.98% |
| Standard error | 1.0% |

| Market and Credit Scores | |
|---|------------|
| Recommendation (STARS) Value | 4 |
| Recommendation (STARS) Description | Buy |
| Quality Ranking Value | NR |
| Quality Ranking Description | Not Ranked |
| Short Score | -3 |
| Market Signal Probability of Default % (Non-Rating) | 0.124% |
| Credit Model Score (Non-Rating) | bbb |

| Management | |
|----------------------|---|
| Stice, Travis | CEO & Director |
| Hall, Michael | President, COO & Director |
| Dick, Teresa | Executive VP, CFO & Assistant Secretary |
| Pantomichel, Russell | Executive Vice President of Reservoir Engineering |
| Mahar, Paul | Executive Vice President of Exploration & Burin |
| Blubaugh-Fau, Kara | VP - Accounting & Controller |

| Participation | |
|---|--------------------------|
| CEO & Director | 23.27% per annum over 5y |
| President, COO & Director | 29.01% per annum over 5y |
| Executive VP, CFO & Assistant Secretary | 20.72% per annum over 5y |
| Executive Vice President of Reservoir Engineering | 13.47% per annum over 4y |
| Executive Vice President of Exploration & Burin | 35.42% per annum over 3y |
| VP - Accounting & Controller | |

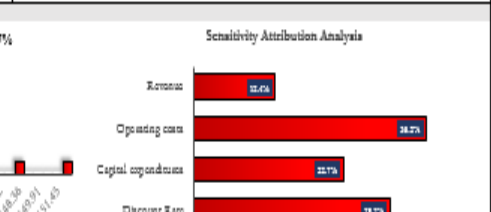
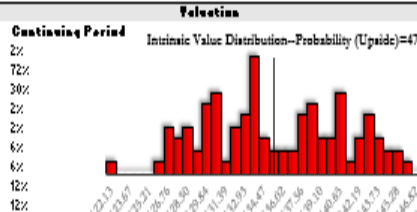
| Industry and Segment Information | |
|-----------------------------------|--|
| LTM Revenue by Geographic Segment | LTM Revenue by Business Segment |
| United States--100% | Oil & Gas - Exploration & Production--100% |
| Peer | |
| Pattar Energy, Inc. | -- |
| WPR Energy, Inc. | Oilfield Exploration Company |
| Enbridge Energy Co. | Enbridge Energy Co. |
| Enbridge Energy Co. | Enbridge Energy Co. |
| Enbridge Energy Co. | Enbridge Energy Co. |

| Profitability | |
|--|-----------------|
| fang (LTM) | fang Historical |
| Return on Capital (GAAP) | 12.8% |
| Operating Margin | 53% |
| Revenue/Capital (GAAP) | 0.24 |
| ROE (GAAP) | 9.3% |
| Net margin | 26.6% |
| Revenue/Book Value (GAAP) | 0.35 |
| Invested Funds | |
| fang (LTM) | fang Historical |
| Capex/Capital | 12.2% |
| HWOC/Capital | -3.4% |
| Operating Assets/Capital | 91.2% |
| Goodwill/Capital | 0.0% |
| Capital Structure | |
| fang (LTM) | fang Historical |
| Total Debt/Market Capitalization | 0.24 |
| Cost of Debt | 3.3% |
| OGFS Rating (F=excellent, Z=excess, and default Probability: A | |
| WACC | 10.6% |

| Peer's 5 factors (Scores are percentiles) | |
|---|--|
| Bargaining Power of Suppliers--MIDDLE TIER 44 | |
| Bargaining Power of Customers--MIDDLE TIER 64 | |
| Threat of New Competition--LOWEST TIER 29 | |
| Threat of Substitution--HIGHEST TIER 100 | |
| Intensity of Existing Rivalry--MIDDLE TIER 42 | |
| Overall Position among Peers--MIDDLE TIER 51 | |



| Forecast Assumptions | |
|---------------------------|-----|
| Revenue Growth CAGR | 11% |
| Average Operating Margin | 73% |
| Average Net Margin | 37% |
| Growth in Capital CAGR | 12% |
| Growth in Claims CAGR | 0% |
| Average Return on Capital | 12% |
| Average Return on Equity | 14% |
| Average Cost of Capital | 11% |
| Average Cost of Equity | 12% |



Below, insert a screenshot of your “OUTPUT” page from the Pro-Forma. Or, if you built your own model, insert screenshot of it here.

October 2, 2018

First Solar Inc: (FSLR)

Zachary Girvin

Sector: Information Technology

Industry: Semiconductors

Current Price: \$46.74

Target Price: \$48.23

Company Description: First Solar manufactures solar modules. The company uses a thin film, semiconductor to manufacture photovoltaic solar modules. FSLR is an international corporation with operations in Malaysia and Vietnam, as well as a domestic operation based out of Ohio. Their main target market is within the U.S. but they are expanding their existing sales in Western Europe India, Turkey, and Australia.

SELL / WEAK HOLD

| | |
|-----------------|---------|
| Current Price: | \$46.74 |
| Target Price: | \$48.23 |
| Market Cap: | 5.16 B |
| Beta: | 0.98 |
| Adj. EBITDA '15 | 1004.8B |
| Adj. EBITDA '16 | 566.1B |
| Adj. EBITDA '17 | 377.7B |
| Adj. EBITDA LTM | 349.8 B |
| ROC | -3.44 |
| ROIC | -2.59 |



Thesis:

First Solar is reinvesting in themselves at a tremendous rate. However their revenues are down and their return on capital is below the industry average. Their capital expenditures for the past year are pushed up by two expansion products, and this has not only raised their debt levels enough to give them a poor Kd, but it has impacted current operations and destroyed revenue growth. An increase number of bookings have been dropped in recent years which negatively impacts the forward outlook of the company.

Catalysts:

- Short Term): Expected completion of modules in Vietnam to begin commercial shipments in Q4
- Mid Term(1-2 years): Completion of U.S. based G6 manufacturing plant.
- Long Term(3+): Rollout of new modules with increased efficiency should spark revenue growth, but it is uncertain by how much.

Earnings Performance:

First Solar hit a record high revenue level of \$4.11 Billion, in 2015. Compared to their last twelve months revenue of \$2.30 Billion, revenue has dropped 44%. The company has made a lot of moves in their industry trying to outperform competitors, but it hasn't done much so far. Investors have become skeptical of the projected growth of the company with the many unknowns surrounding First Solar. Their earnings have dipped in part do to a focus of constructing new facilities that will produce modules more efficient than their current product. This has impacted their current productions and revenue levels with their product cycle times. First Solar says this is not a long term issue and will be back up to normal soon, but their Adj. EBITDA margins have been steadily declining over the past 3 years.

| | | | | | | | |
|----------------------|---------|---------|---------|---------|---------|---------|---------|
| Revenue, Adj | 3,391.2 | 4,112.7 | 2,904.6 | 2,941.3 | 2,302.8 | 2,522.9 | 2,927.6 |
| Growth %, YoY | 2.5 | 21.3 | -29.4 | 1.3 | -8.9 | -14.2 | 16.0 |
| Gross Profit, Adj | 824.9 | 1,132.8 | 638.4 | 548.9 | 518.6 | 526.7 | 710.7 |
| Margin % | 24.3 | 27.5 | 22.0 | 18.7 | 22.5 | 20.9 | 24.3 |
| EBITDA, Adj | 672.9 | 1,004.8 | 566.1 | 377.7 | 349.8 | 314.6 | 608.6 |
| Margin % | 19.8 | 24.4 | 19.5 | 12.8 | 15.2 | 12.5 | 20.8 |
| Net Income, Adj | 373.0 | 562.3 | 372.8 | 319.9 | 288.2 | 173.1 | 336.4 |
| Margin % | 11.0 | 13.7 | 12.8 | 10.9 | 12.5 | 6.9 | 11.5 |
| EPS, Adj | 3.67 | 5.52 | 3.62 | 3.06 | 2.72 | 1.62 | 3.01 |
| Growth %, YoY | -27.6 | 50.4 | -34.5 | -15.4 | 31.1 | -47.2 | 86.2 |
| Cash from Operations | 735.5 | -325.2 | 206.8 | 1,340.7 | 1,099.2 | | |
| Capital Expenditures | -257.5 | -166.4 | -229.5 | -514.4 | -669.5 | -845.8 | -550.0 |
| Free Cash Flow | 478.0 | -491.6 | -22.7 | 826.3 | 429.7 | -664.9 | 60.2 |

Cost of Capital:

First Solar has taken on more debt in the past year to fuel expansion and growth. They had previously not taken on as much debt as similar competitors in their sector, and looking at the financials, it is clear. They have a cost of debt of 7.82%, which suffocates their possibility of significant growth. They have a calculated WACC of 12.559% which has primarily not been achieved by projects IRR, leading to value destruction. One reason their ROC/WACC has been lower than competitors is due to the larger cost of capital and a lower earning performance.

Although First Solar did have promising financial sin years past, they have hit a roadblock after spending a significant portion on R&D for the Series 5, which they ultimately scrapped before returning anything for those costs.




| | ROC /WACC | |
|-------------|-----------|--------|
| | History | LTM |
| FSLR | 0.26 | (0.17) |
| Competitors | 0.71 | 0.07 |
| Target | -0.16 | |

Another reason of their WACC being higher than competitors is their market size. Sun Power is simply a larger company, as well as Flex Ltd. This allows the companies to have a better credit rating with more assets

and therefor more collateral to put up against loans. SunPower is even owned by a larger company based in France, which they have a healthy relationship with. These factors reduce the likelihood of default and

improve their ability to access more debt at a cheaper cost. These competitors within the solar industry can now fuel growth and require a smaller RRR.

As shown below, First Solar has destroyed value in the past years, in order to fuel a R&D program that may possibly fuel their future growth. While the debt that they have incurred has been to fuel this growth it has impacted the investor's outlook on this company as a more long term investment. The growth of First Solar isn't expected to pick up for another fiscal year which has already impacted earnings and growth with high costs on capital projects.

| In Millions of USD | 2014 Y | 2015 Y | 2016 Y | 2017 Y | Current/LTM |
|---|------------|------------|------------|------------|-------------|
| 12 Months Ending | 12/31/2014 | 12/31/2015 | 12/31/2016 | 12/31/2017 | 06/30/2018 |
|  Market Capitalization | 4,472.4 | 6,715.6 | 3,338.5 | 7,053.7 | 4,993.8 |
|  - Cash & Equivalents | 1,991.1 | 1,830.3 | 1,955.1 | 2,988.9 | 3,134.9 |
|  + Preferred & Other | 0.0 | -333.9 | -371.3 | -424.8 | 0.0 |
|  + Total Debt | 213.5 | 289.4 | 188.4 | 393.5 | 456.3 |
|  Enterprise Value | 2,694.8 | 4,840.8 | 1,200.4 | 4,033.6 | 2,315.2 |

Cash on Hand:

For the past few years, the level of cash that is held by First Solar has increased dramatically as seen in the chart. Due to CAPEX for the current year being approximately

| ADJ First Solar Inc | | Periods 10 Annuals | | | | | Cur USD | | | | | | | | | | |
|--|--|--------------------|--|----------------|--|------------------------|---------|------------|--|-------------|--|------------|--|------------|--|-----------|--|
| 1) Key Stats | | 2) I/S | | 3) B/S | | 4) C/F | | 5) Ratios | | 6) Segments | | 7) Addl | | 8) ESG | | 9) Custom | |
| 10 Standardized | | 12 As Reported | | 13 Common Size | | 14 Fair Value Analysis | | | | | | | | | | | |
| In Millions of USD except Per Share | | | | 2012 Y | | 2013 Y | | 2014 Y | | 2015 Y | | 2016 Y | | 2017 Y* | | | |
| 12 Months Ending | | | | 12/31/2012 | | 12/31/2013 | | 12/31/2014 | | 12/31/2015 | | 12/31/2016 | | 12/31/2017 | | | |
|  Total Assets | | | | 6,348.7 | | 6,883.5 | | 6,721.0 | | 7,316.3 | | 6,824.4 | | 6,864.5 | | | |
| Total Assets | | | | | | | | | | | | | | | | | |
|  + Cash, Cash Equivalents & STI | | | | 15.8% | | 25.6% | | 29.6% | | 25.0% | | 28.6% | | 43.5% | | | |
|  + Cash & Cash Equivalents | | | | 14.2% | | 19.2% | | 22.1% | | 15.4% | | 19.7% | | 33.0% | | | |
|  + ST Investments | | | | 1.6% | | 6.4% | | 7.6% | | 9.6% | | 8.9% | | 10.5% | | | |

\$400 million for a new manufacturing plant this is understandable. However as discussed previously, the company also took on a lot more debt, which is typical for the industry but, they have paid a premium to get this funding. The outflow of cash to fuel this expansion shows that the company is betting on their Series 6 module to gain a large market share and lead the industry. This capital project is not expected to start generating returns for over a year, which calls into question the true value of this stock. Now that the cash has began to leave the company, returns will need to be realized soon in order to keep investors satisfied.

Macro Outlook:

The solar industry is poised for growth and the sector seems to be doing well. An issue that First Solar will face is their international production of solar modules. With impending tariffs on solar imports to the United States, First Solar could face severe penalties with plants in both Vietnam and Malaysia. Their prime competitor Sun Power has just bought out a rival's production facility in Oregon based on the threat of this Tariff on solar imports. To make the matter even more risky First Solar just reinvested in their Vietnam facility to build series 6 modules, while continuing their Series 4 at the same level.



On a positive, First Solar's largest capital expenditure will be a brand new facility in Ohio to exclusively produce the Series 6 PV modules. This will benefit the company in the long run with increased efficiency and no threat of a tariff on its production.

The solar industry is growing and First Solar is investing in this trend. Their issue lies with time to production and ability to capture market share when they are able to provide cost efficient PV systems and modules on a large scale.

ADDING CAPACITY: NEW U.S. SERIES 6 FACTORY

- Announcing new U.S. Series 6 manufacturing
 - Located near existing factory in northwest Ohio
 - Nameplate capacity of 1.2GW
 - First production in late 2019
 - Expected capital expenditures of ~\$400M
 - Creates 500 new high-quality manufacturing jobs



- Increases planned Series 6 capacity to 6.6GW

- Increases planned U.S. Series 6 capacity to 1.8GW



17

Conclusion:

The fund should decide whether the reduced short-term growth is worth the risk of this holding. The growth potential in the near term future is dismal, and the firm's primary competitors are showing much better returns on capital. The company had increased cash holdings in 2017 to over 40% of revenues, and they still had to raise debt to finance the new Series 6 Factory in Ohio. The first production from this plant is expected at the earliest one year from now, which doesn't seem likely after production issues in Q2 with their Series 6 production in other plants. These have caused yields to drop and unexpected costs to rise in production. Currently operating is a factory in Malaysia and a half scale unit in Ohio.

While the future of the solar industry seems bright, First Solar is quite dull in their financial outlook.

First Solar, Inc. (FSLR)

CENTER FOR GLOBAL FINANCIAL STUDIES

NEUTRAL

Analysis by Zachary Girvin
10/5/2018

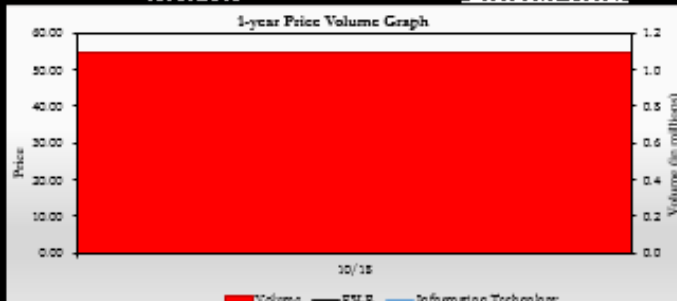
Current Price:
Dividend Yield:

\$46.74
0.0%

Intrinsic Value
Target Price:

\$46.74
\$48.23

Target 1 year Return: 3.2%
Probability of Price Increase: 2



| Description | |
|--|--|
| First Solar, Inc. provider photovoltaic solar energy solutions in the United States and internationally. | |
| General Information | |
| Sector | Information Technology |
| Industry | Semiconductors and Semiconductor Equipment |
| Last Guidance | July 26, 2018 |
| Next earnings date | NM |
| Market Assumptions | |
| Estimated Equity Risk Premium | 5.37% |
| Effective Tax rate | 27% |

| Market Data | |
|--------------------------------------|------------|
| Market Capitalization | \$4,993.82 |
| Daily volume (mil) | 0.54 |
| Shares outstanding (mil) | 104.80 |
| Diluted shares outstanding (mil) | 104.55 |
| % shares held by institutions | 58% |
| % shares held by investment managers | 46% |
| % shares held by hedge funds | 5% |
| % shares held by insiders | 28.33% |
| Short interest | 4.90% |
| Days to cover short interest | 3.88 |
| 52 week high | \$61.72 |
| 52 week low | \$45.27 |
| Volatility | 46.96% |

| Quarter Ending | | Part Earning Surprise | EBITDA |
|----------------|---------|-----------------------|--------|
| 6/30/2017 | 6.75% | 38.38% | |
| 9/30/2017 | 28.69% | 48.96% | |
| 12/31/2017 | -22.50% | 8.22% | |
| 3/31/2018 | 34.58% | 23.90% | |
| 6/30/2018 | -24.14% | -15.80% | |
| Mean | 2.64% | 20.73% | |
| Standard error | 1.0% | 2.5% | |

| Management | | Part Earning Surprise | EBITDA |
|--------------------|--------------------------|---------------------------|---------------------------|
| Widmar, Mark | CEO & Director | 5.73% per annum over 5y | 11.72% per annum over 5y |
| Bradley, Alexander | Chief Financial Officer | 227.92% per annum over 1y | 110.41% per annum over 1y |
| deJong, Philip | Chief Operating Officer | 52.31% per annum over 1y | 110.41% per annum over 1y |
| Garabedian, Raffi | Chief Technology Officer | 25.15% per annum over 4y | -1.7% per annum over 4y |
| Antoun, George | Chief Commercial Officer | -5.77% per annum over 5y | 11.72% per annum over 5y |
| Schumaker, Bryan | Chief Accounting Officer | | |

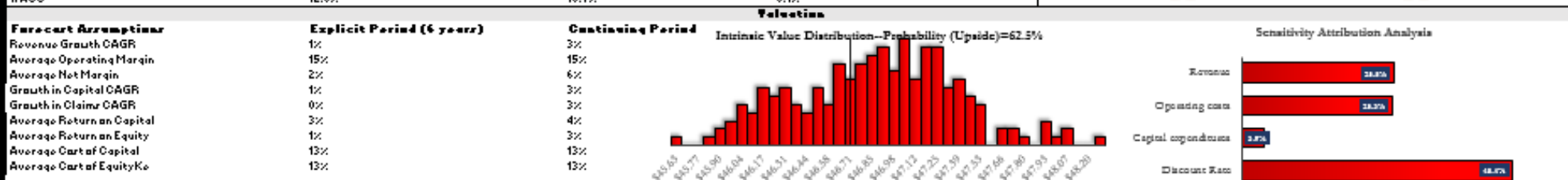
| Profitability | | FSLR (LTM) | FSLR Historical | Peers' Median (LTM) |
|---------------------------|----------|------------|-----------------|---------------------|
| Return on Capital (GAAP) | -3.1% | 4.42% | 0.88% | |
| Operating Margin | -6% | 12.25% | 5.55% | |
| Revenue/Capital (GAAP) | 0.53 | 0.36 | 0.16 | |
| ROE (GAAP) | | 5.4% | 7.6% | |
| Net margin | | 7.8% | 1.5% | |
| Revenue/Book Value (GAAP) | \$VALUE! | 0.69 | 5.02 | |

| Inverted Funds | | FSLR (LTM) | FSLR Historical | Peers' Median (LTM) |
|--------------------------|-------|------------|-----------------|---------------------|
| Cash/Capital | 51.7% | 35.6% | 20.7% | |
| NWC/Capital | -5.2% | 4.8% | 8.4% | |
| Operating Assets/Capital | 53.3% | 56.8% | 57.6% | |
| Goodwill/Capital | 0.2% | 1.3% | 0.1% | |

| Capital Structure | | FSLR (LTM) | FSLR Historical | Peers' Median (LTM) |
|--|-------|------------|-----------------|---------------------|
| Total Debt/Market Capitalization | 0.09 | 0.06 | 0.68 | |
| Cost of Debt | 4.8% | 5.7% | 5.0% | |
| CGFS Rating (F+care, Z+care, and default Probability: CCC) | | | | |
| WACC | 12.6% | 10.7% | 6.1% | |

| Industry and Segment Information | |
|-----------------------------------|--------------------|
| LTM Revenue by Geographic Segment | United States--77% |
| LTM Revenue by Business Segment | Modules--27% |
| | Systems--73% |
| | -- |
| | -- |
| | -- |

| Peers | |
|---------------------------------|----|
| SunPower Corporation | -- |
| Flex Ltd. | -- |
| Cree, Inc. | -- |
| Canadian Solar Inc. | -- |
| GCL-Poly Energy Holding Limited | -- |



Dave & Buster's entertainment: (PLAY)

Louise LAPRAS

Sector: Dining and entertainment

Industry: Restaurants

Current Price: 63.79

Target Price: 69.46

Company Description: Dave and Buster's Entertainment owns and operate small and large stores across the United States, Puerto Rico and Canada, combining dining and entertainment. As their tag line states: "Eat, Drink, Play and Watch – All under one roof". Their target is families and young men in their 20s. They opened their first store in Dallas, Texas, in 1982, and as of February 2018, they owned and operated 106 stores. They focus on a quality customer experience that is not found at any of Dave and Buster's competitors.

HOLD

Current Price: \$63.79
 Target Price: \$69.46
 Market Cap: 2,477.8M
 Beta: 1.16
 ROE: 28.7%
 P/E: 22.7



Thesis:

Dave and Buster's offers one of a kind experience compared to its restauration and entertainment competitors. Their segment mix is evolving toward more entertainment than food and beverage, which should lead to an increasing EBITDA margin. They will be investing in new locations and innovation these following years. They seem to be slightly undervalued, but strong Q2 earnings report lessen the price gap.

Catalysts:

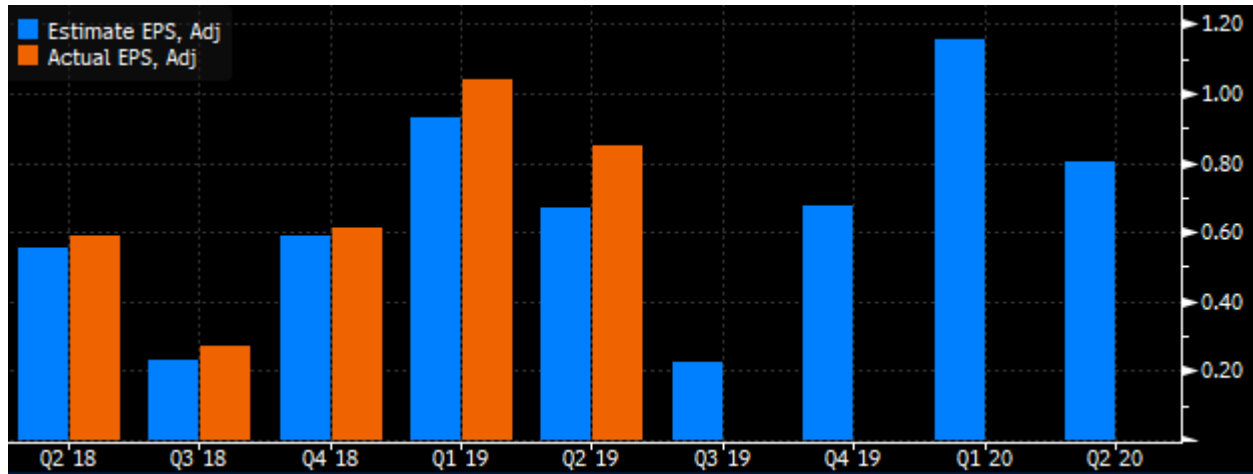
- Short Term(within the year): **13% unit growth, opening of 15 new stores location**
- Mid Term(1-2 years): **Product differentiation in the entertainment section: new games, increasing VR titles**
- Long Term(3+): **new capital allocation, increase in share repurchase authorization, quarterly dividend**

Earnings Performance:

Dave and Buster's Entertainment Inc. (D&B), missed on revenue by 4.36% for fiscal year ended February 2018, but beat on EBITDA margin, as they have for the past years. Over the past 5 years, they have shown a positive

EBITDA surprise compared to estimates of 7.39%, but of 0.85% on revenues. For the first half of fiscal year 2018, D&B reported \$651.38M of revenues, with an EBITDA margin of \$161.1M, so 25% of revenues. For the Fiscal year ending in February 2018, they reported an increase in revenues of 13%, reaching \$1.14B, with a slight negative leverage: EBITDA margin decreased by 18bps. They also report a more efficient employee management, making in 2017 \$300 per \$1 spent on employee salary. CEO Brian Jenkins announced this year a new focus on customer service, hiring new employees to welcome and direct customers for a more personalized experience.

In Q2, they announced encouraging growth figures in all segments, but not to forget that it is a cyclical business, therefore the summer quarter is always impressive, compared to the other quarters. Revenue grew by 14% year to year, with a growth of 17% in the amusement section, which accounts for over 60% of their revenues. Food sales grew by 14%, and beverage by 10%. However, their EBITDA margin, adjusted, grew by 17%. Indeed, with the proportion of revenues attributed to entertainment, original costs are high but low maintenance and operating costs are clearing appreciable margins. With these factors, I think that an average growth in revenues of 9.8% for the next 15 years is reachable, with an EBITDA margin flourishing around 21%.



Business description:

Dave and Buster's Entertainment offers a wide variety of activities in its owned stores. Indeed, they offer all at the same location to watch sports, drink cocktails, eat traditional American food, and play various attractions. They have small and large stores depending on the location, and launched their 17K stores earlier this year. These new type of store are smaller, with an emphasis on the D&B sports area. They will enable Dave and Buster's in the near future to enter new markets, such as areas with lower population density, and target families even more. Up until now, D&B stores were mainly located in high population areas, such as New-York, California, and Texas.

D&B went public on October 1, 2014 at a price of \$17 a share. Since 2014, the stock reached a peak at \$73.48 in June 2017 after strong earnings growth announcement. For the year ended October 1, 2018, the trading average has been around \$50.74 crossing this average in August after earnings call, and announcement of further geographical expansion, quarterly dividend to be declared, increase in share repurchase authorization, as well as new product differentiation.

Industry and competition:

Dave & Buster's has been doing significantly great comparing to the industry's growth. The company is expected to keep doing well and sustain a momentum going forward due to their exclusive business style and various sales-building initiatives (Eat, Drink, Play and watch). The company is both performing well on the Food-Beverage food chain and on their amusement and entertainment chain that is accounted for 56.6% of the company's revenue. Both sectors are moving hand-on-hand through forward growth.

With its combination of activities, Dave and Buster's has a true competitive advantage over the rest of the industry. There are a lot of dining chains, fast food chains, some offers to watch sports games at the same time but none has the same variety. Therefore, it is not fair to compare D&B to its restauration competitors, considering that only 40% of its revenues are from food and beverages.

There is only one real competitors in terms of activity: Champps, a chain of nightspots popular for karaoke and game, but Champps is a privately owned company.

| 1) By Measure | | 12) By Geography | | 13) By Segment | |
|-------------------------------------|----|------------------|--------|----------------|--------|
| In Millions of USD except Per Share | | 2015 Y | | 2016 Y | |
| 12 Months Ending | | 02/01/2015 | | 01/31/2016 | |
| | | 01/29/2017 | | 02/04/2018 | |
| ▼ Revenue | \$ | 746.8 | 100.0% | 867.0 | 100.0% |
| Amusement & Other | \$ | 387.6 | 51.9% | 461.1 | 53.2% |
| Food & Beverage | \$ | 359.1 | 48.1% | 405.8 | 46.8% |
| ▼ Percentage of Revenue | | — | | — | |
| Amusement & Other | | — | | 53.20 | |
| Food & Beverage | | — | | 46.80 | |
| ▼ Cost of Revenue | \$ | 146.5 | 100.0% | 162.8 | 100.0% |
| Food & Beverage | \$ | 92.1 | 62.9% | 104.8 | 64.3% |
| Amusement & Other | \$ | 54.4 | 37.1% | 58.1 | 35.7% |
| ▼ Same Store Sales % | | — | | — | |
| Food & Beverage | | 7.30 | | 8.90 | |
| ▼ Number of Locations | \$ | 73 | 100.0% | 81 | 100.0% |
| Food & Beverage | \$ | 73 | 100.0% | 81 | 100.0% |

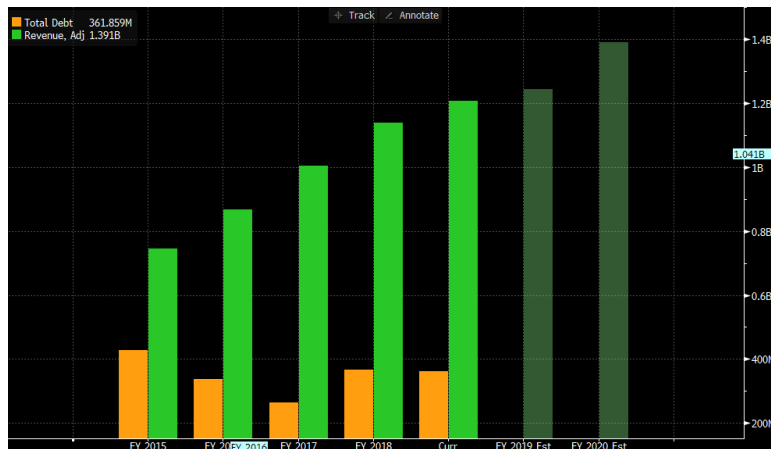
Expansion and transformation:

In Q2 earnings call was announced further geographical expansion with their new store model. In Q2 only, they have opened 5 new locations, and plan on opening 14 to 15 during the year, which would represent a 13% increase in unit growth.

According to Dave and Buster's CEO, The Company is looking for a laser-focused on four strategic priorities. First, they are willing to evolve offering to drive a better differentiation by introducing new games and enhancing the food and beverage. During the last quarter, the company has had their biggest game launching in their history, launching their first VR title and Jurassic World VR expedition. The company is also looking forward to release other high-tech games into their platform in the very near future. Secondly, Dave and Buster's has also rolled out their new menu where they upgraded in the food and beverages. The menu includes more and better choices and options. The menu size yet will be reduced by 20% of the offering, however the company believes that they are offering a better quality and taste of the food. Third, the firm is also working on improving their services and reducing friction once guests are inside their stores, since

they were dealing with this obstacle for the past years. Finally, PLAY is also focusing on ensuring to reach their audience more effectively and to communicate the new news and values, which will help them to understand their costumers and consumers better.

Debt:



Dave & Buster's has \$366M of debt outstanding. This represents their total debt combining short-term and longterm debt. This debt is divided between two borrowings, a short term portion of \$15M and a long term borrowing of \$351M. The total debt represents 46.48% of the total revenue of the company.

| Name (BI Peers) | S&P Rating | Moody's | Fitch Rating | Total Debt/ EBITDA | Total Debt/ Book Cap | EBITDA minus CAPEX/ | EBITDA/ Interest |
|--------------------------------|------------|---------|--------------|-----------------------|-------------------------|---------------------------|---------------------|
| Median | | | | 1.30 | 40.74% | 4.48 | 17.43 |
| (100) DAVE & BUSTER'S ENTER... | NR | -- | -- | 1.30 | 46.48% | 5.03 | 27.95 |
| (101) CRACKER BARREL OLD C... | NR | -- | -- | 1.01 | 40.74% | 15.49 | 26.00 |
| (102) BLOOMIN' BRANDS INC | BB | Ba2 | -- | 2.87 | 95.76% | -- | -- |
| (103) BRINKER INTERNATIONAL... | BB+ | Ba1 | WD | 3.73 | 191.11% | 4.68 | 6.78 |
| (104) BJ'S RESTAURANTS INC | -- | -- | -- | 0.89 | 38.72% | -- | -- |
| (105) FIESTA RESTAURANT GR... | NR | -- | -- | 1.35 | 24.84% | -21.56 | 22.07 |
| (106) CHUY'S HOLDINGS INC | -- | -- | -- | 0.00 | 0.00% | -124.68 | 611.06 |
| (107) TEXAS ROADHOUSE INC | -- | -- | -- | 0.01 | 5.76% | -- | -- |
| (108) DARDEN RESTAURANTS INC | BBB | Baa2 | BBB | 0.83 | 33.39% | 4.18 | 6.73 |
| (109) CHEESECAKE FACTORY IN... | -- | -- | -- | 0.09 | 1.60% | 19.50 | 39.99 |

(Accounting Adjustments: Adjusted for Abnormal Items When Applicable)

10 Analyze List

Ownership:

| 54) Ownership Type | 09/30/18 | Curr | Change | |
|---------------------------|----------|-------|--------|---|
| 41) Investment Advisor | 84.79 | 84.64 | -0.15 | ↘ |
| 42) Hedge Fund Manager | 9.04 | 9.13 | +0.09 | ↗ |
| 43) Pension Fund | 1.41 | 1.43 | +0.02 | ↗ |
| 44) Insurance Company | 1.23 | 1.24 | +0.01 | ↗ |
| 45) Individual | 0.92 | 0.93 | +0.01 | ↗ |
| 46) Bank | 0.61 | 0.62 | +0.01 | ↗ |
| 47) Holding Company | 0.52 | 0.53 | +0.01 | ↗ |
| 48) Sovereign Wealth Fund | 0.51 | 0.52 | +0.01 | ↗ |
| 49) Government | 0.41 | 0.41 | 0.00 | ↔ |

Institutions own 143.37% of the float of Dave & buster's. Investment advisors own 84.79% of the total float with BlackRock Inc. having the largest holding of 18.91%. This indeed represents a large amount of holding. Followed by Vanguard group that also has a significant amount of holding of 9.95%. Hedge funds own 9.04% of the total float with Hill Path Capital LP coming on the top of the list owning 3.36% of total shares outstanding. Hedge funds have

been adding to their position, trusting that the company's stock will keep rising. Most holders see a potential of growth in the company.



Conclusion:

Dave and Buster's Entertainment is a promising long position on the long term. The financials of the company, along with recent announcements of the CEO Brian Jenkins suggest that over the next ten years, the company's profit margin should increase, due to the increasing proportion of entertainment in the revenue mix. The combination of unit growth, customer focus, and product differentiation using movies VR games, D&B is completely changing its future, for the better.

**Dave & Buster's
Entertainment, Inc. (PLAY)**

CENTER FOR GLOBAL FINANCIAL STUDIES

NEUTRAL

Analysis by Louise Lapras
10/6/2018

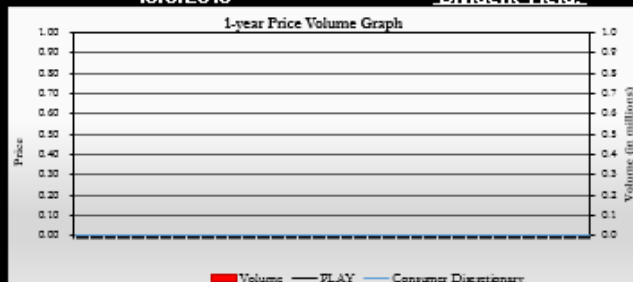
Current Price:
Dividend Yield:

\$63.79
0.9%

Intrinsic Value
Target Price:

\$64.89
\$69.46

Target 1 year Return: 9.84%
Probability of Price Increase: 75%



| Description | |
|--|---------------------------------|
| Dave & Buster's Entertainment, Inc. owns and operates entertainment and dining venues for adults and families. | |
| General Information | |
| Sector | Consumer Discretionary |
| Industry | Hotels, Restaurants and Leisure |
| Last Guidance | September 14, 2018 |
| Next earnings date | December 14, 2018 |
| Market Assumptions | |
| Estimated Equity Risk Premium | 5.08% |
| Effective Tax rate | 21% |

| Market Data | |
|---------------------------------------|------------|
| Market Capitalization | \$2,477.02 |
| Daily volume (mil) | 0.82 |
| Shares outstanding (mil) | 38.83 |
| Diluted shares outstanding (mil) | 41.21 |
| % shares held by institutions | 11% |
| % shares held by investments Managers | 83% |
| % shares held by hedge funds | 11% |
| % shares held by insiders | 1.31% |
| Short interest | 11.87% |
| Days to cover short interest | 5.22 |
| 52 week high | \$67.05 |
| 52-week low | \$37.85 |
| Volatility | 0.00% |

| Past Earning Surprises | |
|------------------------|---------|
| Quarter ending | Revenue |
| 7/30/2017 | -0.01% |
| 10/29/2017 | -1.39% |
| 2/4/2018 | -0.03% |
| 5/6/2018 | 3.45% |
| 8/5/2018 | 2.24% |
| Mean | 0.85% |
| Standard error | 1.0% |

| EBITDA | |
|----------------|--------|
| 7/30/2017 | 4.28% |
| 10/29/2017 | 5.26% |
| 2/4/2018 | 5.27% |
| 5/6/2018 | 6.24% |
| 8/5/2018 | 15.31% |
| Mean | 7.39% |
| Standard error | 26.3% |

| Market and Credit Scores | |
|--|--|
| Recommendation (STARS) Value--0 | |
| Recommendation (STARS) Description--0 | |
| Quality Ranking Value--NR | |
| Quality Ranking Description--Not Ranked | |
| Short Score--3 | |
| Market Signal Probability of Default % (Non-Ratings)--0.457% | |
| CreditModel Score (Non-Ratings)--bb+ | |

| Management | |
|--------------------|---|
| Jenkins, Brian | CEO & Director |
| Gleason, John | Chief Marketing Officer & Senior VP |
| Mulleady, John | Senior Vice President of Development |
| DeProspero, Joseph | VP of Finance & Interim Chief Financial Officer |
| Manning, Margo | COO & Senior VP |
| Metzinger, Michael | Vice President of Accounting & Controller |

| Total Compensation Growth | |
|---------------------------|-------------------------|
| Jenkins, Brian | -100% per annum over 3y |
| Gleason, John | -100% per annum over 2y |
| Mulleady, John | -100% per annum over 3y |

| Industry and Segment Information | |
|------------------------------------|-----------------------------------|
| LTM Revenues by Geographic Segment | LTM Revenues by Business Segments |
| United States--98% | Restaurants--100% |
| Canada--2% | -- |
| -- | -- |
| -- | -- |
| -- | -- |

| Profitability | |
|---------------------------|-----------------|
| PLAY (LTM) | PLAY Historical |
| Return on Capital (GAAP) | 10.7% |
| Operating Margin | 12% |
| Revenue/Capital (GAAP) | 0.86 |
| ROE (GAAP) | 28.3% |
| Net margin | 10.1% |
| Revenue/Book Value (GAAP) | 2.80 |

| Peers' Median (LTM) | |
|---|--|
| Bargaining Power of Suppliers--MIDDLE TIER 44 | |
| Bargaining Power of Customers--MIDDLE TIER 36 | |
| Threat of New Competition--MIDDLE TIER 42 | |
| Intensity of Existing Rivalry--MIDDLE TIER 50 | |
| Threat of Substitutes--LOWEST TIER 0 | |

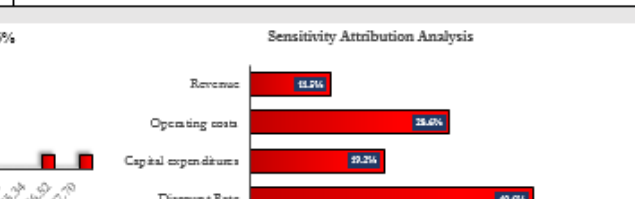
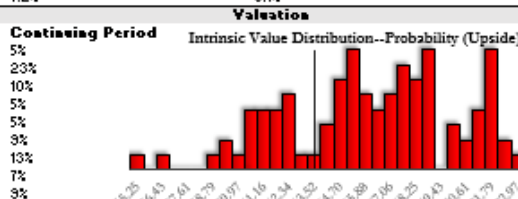
| Invested Funds | |
|--------------------------|-----------------|
| PLAY (LTM) | PLAY Historical |
| Cash/Capital | 1.8% |
| NWC/Capital | -12.0% |
| Operating Assets/Capital | 87.5% |
| Goodwill/Capital | 22.7% |

| Capital Structure | |
|---|-----------------|
| PLAY (LTM) | PLAY Historical |
| Total Debt/Market Capitalization | 0.65 |
| Cost of Debt | 3.3% |
| CGFS Rating (F-score, Z-score, and default Probability) | BBB |
| WACC | 6.2% |

| Peers' Median (LTM) | |
|--------------------------|--------|
| Cash/Capital | 5.4% |
| NWC/Capital | -12.3% |
| Operating Assets/Capital | 92.8% |
| Goodwill/Capital | 11.7% |

| Capital Structure | |
|---|-----------------|
| PLAY (LTM) | PLAY Historical |
| Total Debt/Market Capitalization | 0.67 |
| Cost of Debt | 5.5% |
| CGFS Rating (F-score, Z-score, and default Probability) | BBB |
| WACC | 7.2% |

| Forecast Assumptions | |
|----------------------------|-------------------|
| Explicit Period (12 years) | Continuing Period |
| Revenue Growth CAGR | 10% |
| Average Operating Margin | 22% |
| Average Net Margin | 10% |
| Growth in Capital CAGR | 12% |
| Growth in Claims CAGR | 8% |
| Average Return on Capital | 11% |
| Average Return on Equity | 13% |
| Average Cost of Capital | 6% |
| Average Cost of Equity | 9% |



October 4, 2018

Steven Madden: SHOO

Ala Saidi

Sector: Consumer Discretionary

Industry: Textiles, Apparel and Luxury Goods

Current Price: \$49.00

Target Price: \$71.04

Company Description: Steven Madden, Ltd. Designs and manufactures fashion footwear for women, men and children. The company's shoes are sold through Steven Madden retail stores, department stores, and apparel and footwear specialty stores and online. Steven Madden offers include sportswear, jeans, outerwear, intimate apparel, eyewear, hosiery and jewelry and retail.

BUY

Current Price: \$49.00

Target Price: \$71.04

Market Cap: 2.92B

Beta: 0.91

P/E Ratio: 22.08



Thesis: Steven madden is a brand that is highly positioned in the retail industry. The company delivered robust financial results and is making its way to important investments for the future. Steven madden is experiencing a very high growth in their international business. Their revenue has been growing significantly the past years and still estimating a high growth in their sales and earnings, as well as generating shareholders return over the long-term.

Catalysts:

- Short Term(within the year):International Business growth, expanding the company's capabilities through acquisition
- Mid Term(1-2 years): High growth in the retail industry
- Long Term (3+): Opening new platforms and expanding more internationally.

Industry Performance Store/Web:

Retail industry ranks among the top US industries. The retail sales attracts close to 30% of the total consumer spending in the US. Yet, Rough times may be hitting the industry hard; but quick look at Steven Madden's performance during the past year gives a hint that anything in the retail industry is actually amiss. 2017 was the year of digital discovery. So many people has assumed that Amazon for instance was the giant of the industry and every good will be purchased online. Well, that was not the case. Most big stores like Walmart and Target were all moving aggressively into the same online pitch. Analysts believe that 2018 will be the year of technology, were most retailers will focus on creating a new operating models that will be mainly let the customers have control on what is the most convenient way for them to shop whether it is in store or online. Steven Madden stated that they are looking forward for the upcoming year for them to create what is most trendy for their loyal customers.

Exhibit 1: Online sales growth dwarfs that of the retail industry as a whole



Business Description:

STEVE MADDEN

Steven Madden, Ltd. Designs and manufactures fashion footwear for women, men and children. The company's shoes are sold through Steven Madden retail stores, department stores, and apparel and footwear specialty stores and online. Steven Madden offers include sportswear, jeans, outerwear, intimate apparel, eyewear, hosiery and jewelry and retail. It operated through five business segments: wholesale footwear, wholesale accessories, retail, first cost, and licensing. The wholesales business boasts seven divisions: Madden Girl, Steven. Steve Madden Men's and Stevies; in addition to Daisy Fuentes, Betsey Johnson, Olsdenboye accessories business through licenses. The company is New York based and rings up to 92% of its sales in the United States. Steven Madden shoes and accessories are similarly sold in Mexico, South America, Europe, Asia, Australia and Middle East and India. There 120+ Steven Madden-owned stores in the USA. Steven Madden have a 3y growth on their revenue in US and 4.21% 3y international growth.

Geographic Segmentation

| | 2017 Rev | 3Yr Gr |
|---------------|----------|--------|
| United States | 1.38B | 4.21% |
| International | 162.26M | 13.07% |

Operations:

Steven Madden's wholesale operations represents almost 85% of the revenue. Where footwear contributes 65% of that total. Their company's retail owns 120 stores. The retail business accounted for 15% of sales in year 2012. Steve Madden's success is a result of its focus on the wholesale operations. As the company is growing their segments, their gaining is not only from their footwear but also in their accessories business. Indeed, gains by the wholesale business is the primary sales driver in recent years.

| 12 Months Ending | 12/31/2015 | 12/31/2016 | 12/31/2017 | 06/30/2018 | 12/31/2018 | 12/31/2019 |
|-------------------------------|------------|------------|------------|------------|------------|------------|
| Revenue | 1,405.2 | 1,399.6 | 1,546.1 | 1,590.3 | 1,650.0 | 1,743.9 |
| + Sales & Services Revenue | 1,405.2 | 1,399.6 | 1,546.1 | 1,590.3 | | |
| - Cost of Revenue | 904.7 | 877.6 | 967.8 | 997.3 | | |
| + Cost of Goods & Services | 904.7 | 877.6 | 967.8 | 997.3 | | |
| Gross Profit | 500.5 | 522.0 | 578.3 | 593.1 | 616.6 | 654.5 |
| + Other Operating Income | 16.6 | 11.9 | 14.3 | 14.1 | | |
| - Operating Expenses | 343.7 | 364.0 | 406.3 | 422.2 | | |
| + Research & Development | 0.0 | 0.0 | 0.0 | | | |
| + Other Operating Expense | 343.7 | 364.0 | 406.3 | 422.2 | | |
| Operating Income (Loss) | 173.5 | 169.8 | 186.3 | 185.0 | 191.5 | 207.8 |
| - Non-Operating (Income) Loss | -0.9 | -2.5 | -2.5 | -2.9 | | |
| + Interest Expense, Net | -2.2 | - | - | | | |
| + Interest Expense | 0.5 | - | - | | | |
| - Interest Income | 2.7 | - | - | | | |

Financial Performance:

Steven Madden's sales have been jumping since year 2012. Their total sales have jumped by 24% in year 2012 compared to year 2011. After rising more than 50% in their previous annual comparison. 2012 was a main year for rapid rising sales. Followed by the same continued success. Looking at 2017, the year was great for the company. Net sales have increased by 10.5% to \$1.5B. The adjusted EPS rose by 10.3% to \$2.24.

| | | | | | | | |
|-------------------|---------|---------|---------|---------|---------|---------|---------|
| Revenue, Adj | 1,335.0 | 1,405.2 | 1,399.6 | 1,546.1 | 1,590.3 | 1,650.0 | 1,743.9 |
| Growth %, YoY | 1.6 | 5.3 | -0.4 | 10.5 | 7.1 | 6.7 | 5.7 |
| Gross Profit, Adj | 469.0 | 500.5 | 522.0 | 578.3 | 593.1 | 616.6 | 654.5 |
| Margin % | 35.1 | 35.6 | 37.3 | 37.4 | 37.3 | 37.4 | 37.5 |
| EBITDA, Adj | 183.0 | 194.2 | 190.9 | 207.6 | 207.1 | 214.7 | 232.0 |
| Margin % | 13.7 | 13.8 | 13.6 | 13.4 | 13.0 | 13.0 | 13.3 |
| Net Income, Adj | 112.5 | 114.1 | 121.8 | 130.2 | 137.6 | 154.5 | 167.9 |
| Margin % | 8.4 | 8.1 | 8.7 | 8.4 | 8.7 | 9.4 | 9.6 |
| EPS, Adj | 1.77 | 1.87 | 2.04 | 2.25 | 2.39 | 2.70 | 3.00 |
| Growth %, YoY | -10.2 | 5.6 | 9.3 | 10.2 | 7.1 | 19.9 | 11.2 |



Ownerships:

Institutions own 115.42% of Steven Madden Float. Investment advisors own 81.52% of the float with BlackRock Inc being the top holder 12.82%. Individuals come on the second place owning 8.03% of the float with the founder and creator himself Madden Steven that holds 7.59% on hand followed by Rosenfeld Edward 0.82%. Hedge Fund Managers own 3.84% of the total float. There are no interesting movements in the ownerships; this could mean that investment advisors and hedge fund managers are not expecting anything outstanding for the moment.

| 54) Ownership Type | 09/30/18 | Curr | Change | |
|---------------------------|----------|-------|--------|---|
| 41) Investment Advisor | 81.52 | 81.51 | -0.01 | ↔ |
| 42) Individual | 8.03 | 8.03 | 0.00 | ↔ |
| 43) Hedge Fund Manager | 3.48 | 3.48 | 0.00 | ↔ |
| 44) Pension Fund | 2.66 | 2.66 | 0.00 | ↔ |
| 45) Sovereign Wealth Fund | 1.49 | 1.49 | 0.00 | ↔ |
| 46) Insurance Company | 1.38 | 1.38 | 0.00 | ↔ |
| 47) Bank | 0.59 | 0.59 | 0.00 | ↔ |
| 48) Government | 0.46 | 0.46 | 0.00 | ↔ |
| 49) Holding Company | 0.29 | 0.29 | 0.00 | ↔ |

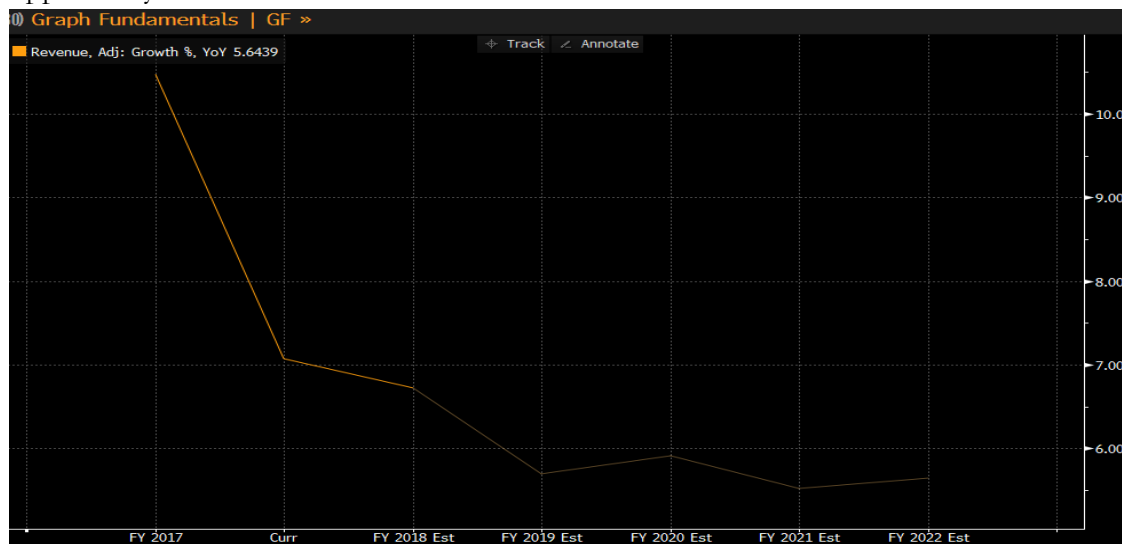


Revenue:

As stated, the company has been doing great for the past year the company grew by 10.51% in their revenue. The Company's revenue was a little over \$1.55B. Currently the Company has a revenue of \$1.59B. Most revenue generated from their wholesale division that represents 82.41% of the total sales, that is \$1.27. Looking at the segments, Footwear is where the company gets its most revenue from that is 65.8%, retail 17.6% and accessories 16.6%. Accordingly, the company's gross profit is 71.5% from total wholesales and 28.5% from retail.

| In Millions of USD except Per Share | | 2014 Y | | 2015 Y | | 2016 Y | | 2017 Y | |
|-------------------------------------|--|------------|--------|------------|--------|------------|--------|------------|--------|
| 12 Months Ending | | 12/31/2014 | | 12/31/2015 | | 12/31/2016 | | 12/31/2017 | |
| ▼ Revenue | | 1,335.0 | 100.0% | 1,405.2 | 100.0% | 1,399.6 | 100.0% | 1,546.1 | 100.0% |
| ▶ Wholesale divisions | | 1,129.0 | 84.6% | 1,164.9 | 82.9% | 1,136.8 | 81.2% | 1,273.9 | 82.4% |
| ▶ Retail | | 206.0 | 15.4% | 240.3 | 17.1% | 262.8 | 18.8% | 272.2 | 17.6% |
| ▼ Revenue - Supplementary Brea... | | 1,335.0 | 100.0% | 1,405.2 | 100.0% | 1,399.6 | 100.0% | 1,546.1 | 100.0% |
| ▶ Footwear | | 882.4 | 66.1% | 905.8 | 64.5% | 881.9 | 63.0% | 1,017.6 | 65.8% |
| ▶ Retail | | 206.0 | 15.4% | 240.3 | 17.1% | 262.8 | 18.8% | 272.2 | 17.6% |
| ▶ Accessories | | 246.6 | 18.5% | 259.1 | 18.4% | 254.9 | 18.2% | 256.3 | 16.6% |
| ▶ Other Footwear Brands | | — | | — | | — | | — | |
| ▼ Gross Profit | | 469.0 | 100.0% | 500.5 | 100.0% | 522.0 | 100.0% | 577.7 | 100.0% |
| ▶ Total Wholesale | | 345.1 | 73.6% | 354.2 | 70.8% | 364.3 | 69.8% | 413.1 | 71.5% |
| ▶ Retail | | 123.9 | 26.4% | 146.3 | 29.2% | 157.7 | 30.2% | 164.6 | 28.5% |
| ▶ Adjustments | | — | | — | | — | | — | |
| ▼ Gross Margin | | — | | — | | — | | — | |
| ▶ Retail | | 60.10 | | 60.90 | | 60.00 | | 60.50 | |
| ▶ Total Wholesale | | 35.10 | | 35.60 | | 32.00 | | 32.40 | |

The year-to-year revenue growth is currently at 7.1% and expected to keep increasing for the following 10-15 years with a slower pace. The major revenue growth in 2017 was due to the expanding of the company's international business. As their international net sales have increased by 15% for the year. The operated markets Canada and Mexico have both show a very strong growth also the SM in EU joint venture have continued on exceeding the company's expectation in sales and earnings. Steven Madden will keep experiencing a high growth with a slower pace for the upcoming 5-12 years. A growth rate of 6.7% in 2018 with a revenue of \$1.6B, 5.7% in 2019 with a revenue of \$1.7B, 5.9% in 2020 with a revenue of \$1.8B and 5.6% for 2021 and 2022 similarly with a revenue reaching \$2B. The growth will be a result of the high growth in the retail industry as well as the new launching of the new joint ventures in China and Taiwan and the 24 new locations in Asia and eventually other countries. The firm believes that Asia represents a major growth opportunity for them.



Competition:

Given the diversity of brands within every retail category, retail firms often launch and manage brands that compete with one another. Certainly, retail is known for being a very competitive industry. Most companies in this sector are looking for new ways to be creative and unique in order to attract customers and sell their products. Retailing does not only focus on tangible stores now but also on online stores, which brings even a higher competition between the firms. Looking at the table below, we notice that few of the competitors have a negative revenue while Steven Madden is on the top. Mainly reflecting the revenue and EPS growth that the company experienced. Steven Madden has a ROIC/WACC ratio of 1.40, which means that the company is creating value.

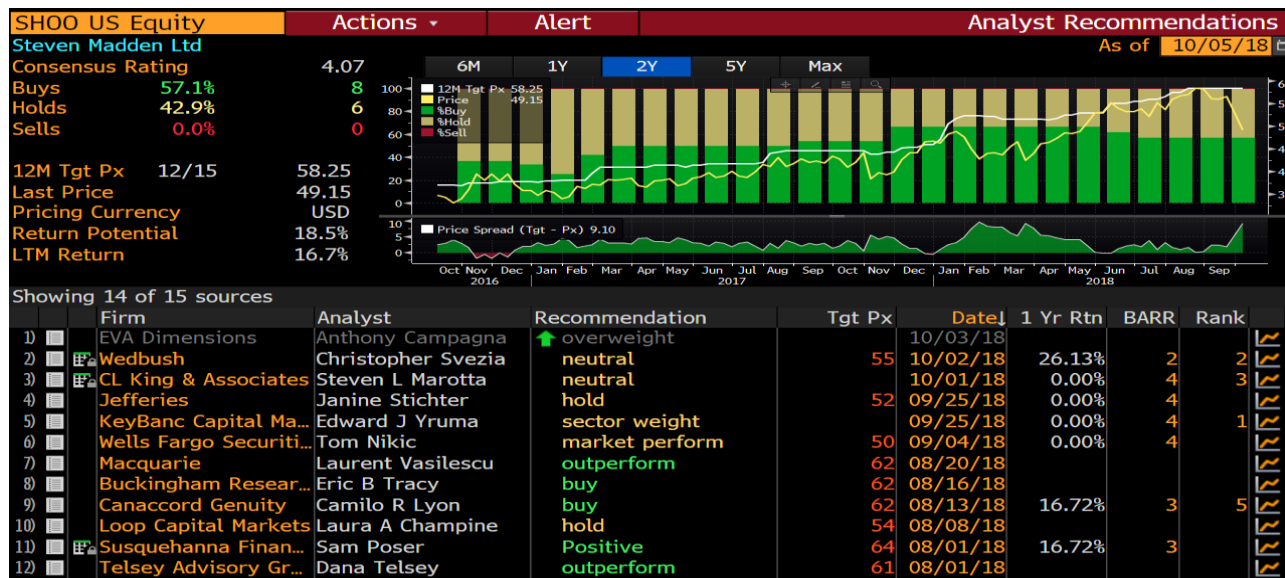
| Name (BICS Best Fit) | Mkt Cap (USD) | Last Px | Chg Pct 1D | Chg Pct 1M | Rev - 1 Yr Gr:Y | EPS - 1 Yr Gr:Y | P/E | ROE | Dvd 12M Yld | C/WACC Ratio |
|-------------------------------|------------------|---------|------------|------------|--------------------|--------------------|--------|--------|----------------|-----------------|
| Median | 4.16B | 49.15 | -0.78% | -6.36% | 5.96% | 12.58% | 20.53 | 15.66% | 0.95% | 1.40 |
| 100) STEVEN MADDEN LTD | 2.88B | 49.15 | -1.36% | -14.30% | 10.47% | 10.15% | 20.53 | 17.51% | 1.22% | 1.40 |
| 101) DECKERS OUTDOOR CORP | 3.30B | 109.58 | 2.43% | -8.18% | 6.32% | 49.85% | 18.17 | 21.45% | -- | 1.60 |
| 102) WOLVERINE WORLD WIDE ... | 3.42B | 35.97 | -0.08% | -7.72% | -5.80% | 20.96% | 18.61 | 18.26% | 0.83% | 0.04 |
| 103) CROCS INC | 1.30B | 19.13 | -0.78% | -6.36% | -1.23% | 83.72% | 50.99 | 13.65% | -- | 0.64 |
| 104) SKECHERS USA INC-CL A | 4.16B | 26.07 | -1.21% | -9.13% | 16.86% | 12.58% | 13.98 | 15.60% | -- | 1.60 |
| 105) NIKE INC -CL B | 127.24B | 80.12 | -0.07% | 0.25% | 5.96% | -4.47% | 32.20 | 38.93% | 1.00% | 3.75 |
| 106) COLUMBIA SPORTSWEAR CO | 6.26B | 89.53 | -0.03% | -0.65% | 3.75% | 8.45% | 25.17 | 15.66% | 0.95% | 1.59 |
| 107) UNDER ARMOUR INC-CLA... | 8.25B | 19.42 | -2.31% | -5.04% | 3.13% | -57.87% | 136.85 | 3.28% | -- | -0.60 |
| 108) PVH CORP | 10.20B | 132.90 | -0.93% | -2.95% | 8.68% | 20.92% | 14.53 | 13.42% | 0.11% | 0.74 |

(Accounting Adjustments: Adjusted for Abnormal Items When Applicable)

10 Analyze List

Conclusion:

In conclusion, I recommend the Steven Madden stock as a buy at its current price of \$49.8. I have also projected a one-year target price for the stock that is \$71.04. Based on my analysis, Steven Madden will keep experiencing a high growth on their upcoming years. The industry as well has a high potential of increasing and growing in the long-term. Financial analyst have a recommendation of 57.1% Buy and 42.9% sells and 0.00% which means that they believe that there is a potential of growth within the company.



Bloomberg

SHOO US Equity

STEVEN MADDEN LTD (Apparel, Footwear & Acc Design)

Steven Madden, Ltd. designs and markets fashion footwear for women. The Company's shoes are sold through Steve Madden retail stores, department stores, apparel and footwear specialty stores, and online. Steven Madden has licensees, including sportswear and jeans, outerwear, intimate apparel, eyewear, hosiery, and jewelry, and owns and operates a retail store under its David Aaron brand. [FIGI BBG000BLV2Q3]

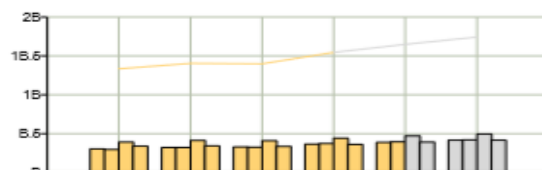
Earnings & Estimates

| | |
|------------------------|----------|
| Next Announcement Date | 10/30/18 |
| P/E USD | 20.53 |
| Est P/E 12/18 | 18.21 |
| T12M EPS | 2.39 |
| Est EPS | 2.70 |

Corporate Info

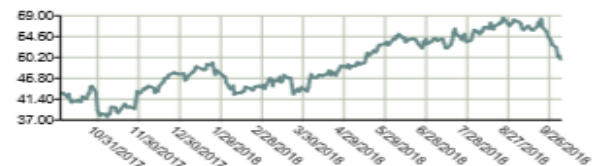
| | |
|----------------------------|----------------------------|
| 52-16 Barnett Avenue | www.stevemadden.com |
| Long Island City, NY 11104 | T: 1-718-446-1800 |
| United States | Employees 2,497 (12/31/17) |
| Chairman/CEO | Edward R. Rosenfeld |
| President | Amelia Newton Varela |
| CFO/Secretary | Arvind Dharma |

Revenue



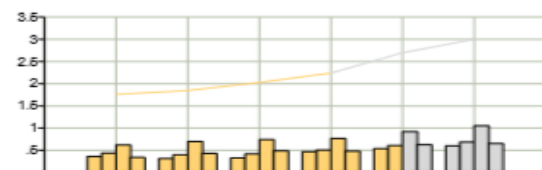
| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|----|---------|---------|---------|---------|---------|---------|
| FY | 1,33B | 1,41B | 1,40B | 1,55B | 1,65B | 1,74B |
| Q1 | 304.62M | 323.95M | 329.36M | 366.39M | 389.01M | 416.00M |
| Q2 | 295.71M | 323.58M | 325.40M | 374.15M | 395.75M | 421.00M |
| Q3 | 391.99M | 413.46M | 408.38M | 441.19M | 472.62M | 497.40M |
| Q4 | 342.62M | 344.25M | 336.41M | 364.37M | 392.77M | 416.60M |

Market Data



| | |
|--------------------|--------------|
| Px/Chg 1D (USD) | 49.15/-1.36% |
| 52 Wk H (08/24/18) | 58.95 |
| 52 Wk L (11/02/17) | 37.25 |
| YTD Change/% | 2.45/5.25% |
| Mkt Cap USD | 2,875.3M |
| Shrs Out/Float | 58.5M/53.1M |
| SI/% of Float | 2.8M/5.28% |
| Days to Cover | 11.8 |

Earnings Per Share



| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|----|------|------|------|------|------|------|
| FY | 1.76 | 1.85 | 2.03 | 2.24 | 2.70 | 3.00 |
| Q1 | 0.36 | 0.32 | 0.33 | 0.47 | 0.54 | 0.60 |
| Q2 | 0.44 | 0.40 | 0.42 | 0.51 | 0.61 | 0.68 |
| Q3 | 0.62 | 0.70 | 0.74 | 0.77 | 0.92 | 1.05 |
| Q4 | 0.34 | 0.43 | 0.49 | 0.48 | 0.63 | 0.66 |

Ratios

| Fiscal Year End | | * Last Quarter End | ~ Current/T12M |
|---------------------------|-----------|--------------------|----------------|
| 12/2017 | | 06/18 Q2 | USD |
| Issue Data | | | |
| ~ Last Px | USD/49.15 | | |
| ~ P/E | 20.5 | | |
| ~ Dvd Ind Yld | 1.6% | | |
| * P/B | 3.49 | | |
| ~ P/S | 1.7 | | |
| ~ Curr EV/T12M EBITDA | 13.3 | | |
| ~ Mkt Cap | 2,875.3M | | |
| ~ Curr EV | 2,624.5M | | |
| Per Share Data | | | |
| ~ EPS T12M | 2.39 | | |
| ~ DPS | 0.00 | | |
| * Bk Val Per Sh | 14.08 | | |
| Rev/Bas Sh | 28.03 | | |
| CPS | 2.86 | | |
| * Curr Shares Out | 58.5M | | |
| FCF/Basic Sh | 2.60 | | |
| Cash Flow Analysis | | | |
| P/CF | 17.5 | | |
| Curr P/FCF | 19.0 | | |
| CF/NI | 1.3 | | |
| Dvd P/O | 0.0% | | |
| Cash Gen/Cash Reqd | 10.7 | | |
| Cash Dvd Cov | N.A. | | |
| CFO/Sales | 10.2% | | |
| Eff IR | N.A. | | |

| Growth Potential | | Profitability | | Structure | |
|---------------------------|--------|---------------|--------|------------------|-------|
| Dil EPS Frm Cont Op 1Y Gr | 10.2% | EBITDA | 191.2M | Curr Ratio | 3.1 |
| Cap 1Y Gr | 9.2% | EBIT | 169.8M | Quick Ratio | 1.4 |
| BPS 1Y Gr | 11.5% | OPM | 11.0% | Debt/Assets | 0.0% |
| R&D To SI | 0.0% | Prbx Mrgn | 11.1% | Debt/Com Eq | 0.0% |
| Retn Rt | 100.0% | ROA | 12.4% | A/R Trnvr | 39.3 |
| Rev - 1 Yr Gr | 10.5% | ROE | 16.5% | Inv Turnover | 7.8 |
| Empl 1Y Gr | 3.2% | ROC | N.A. | GM | 37.4% |
| Ast 1Y Gr | 10.0% | Ast TO | 1.5 | EBIT/Tot Int Exp | N.A. |

Steven Madden, Ltd. (shoo)

CENTER FOR GLOBAL FINANCIAL STUDIES

BULLISH

Analysis by alysa.sidi

10/5/2018

Current Price:

\$49.00

Dividend Yield:

1.6%

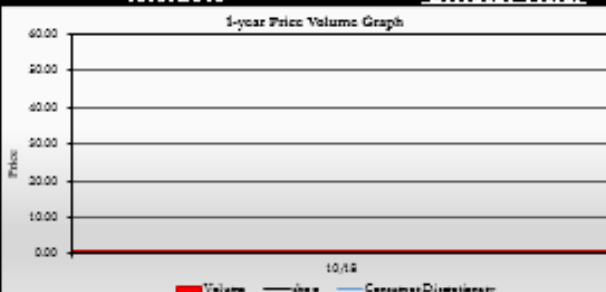
Intrinsic Value

\$381.93

Target Price:

\$90.57

Target 1 year Return: 86.44%
Probability of Price Increase: 10



| 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 | |
| ticker | Consumer Discretionary |
| industry | Footwear, Apparel and Luxury Goods |
| last dividend | July 31, 2018 |
| last earnings date | October 30, 2018 |
| Market Assumptions | |
| estimated Equity Risk Premium | 5.80% |
| Effective Tax rate | 24% |

| Market Data | |
|---|------------|
| Market Capitalization | \$2,315.88 |
| Daily volume (mil) | 8.51 |
| Shares outstanding (mil) | 58.58 |
| Diluted shares outstanding (mil) | 57.55 |
| X shares held by institutions | 100% |
| X shares held by institutional Managers | 98% |
| X shares held by hedge funds | 5% |
| X shares held by insiders | 8.57% |
| Short interest | 4.75% |
| Days to next short interest | 5.62 |
| 52 week high | \$58.35 |
| 52 week low | \$37.25 |
| Volatility | 25.65% |

| Quarter ending | Revenue | EBITDA |
|----------------|---------|--------|
| 6/30/2017 | 5.45X | 14.35X |
| 3/30/2017 | 4.87X | 14.43X |
| 12/31/2017 | 8.88X | 45.82X |
| 9/30/2018 | 2.72X | 5.27X |
| 6/30/2018 | 1.32X | 2.82X |
| Mean | 2.85X | 92.85X |
| Standard error | 1.8X | 4.6X |

| Market and Credit Scores | |
|--|--|
| Recommendation (STAR5) Value--I | |
| Recommendation (STAR5) Description--I | |
| Quality Ranking Value--II | |
| Quality Ranking Description--Average | |
| Short Score--I | |
| Market Signal Probability of Default X (Max-Rating)--II/II | |
| Credit/Model Score (Max-Rating)--II/II | |

| Industry and Segment Information | |
|-----------------------------------|---------------------------------|
| LTM Revenue by Geographic Segment | LTM Revenue by Business Segment |
| International--18% | Wholesale Footwear--55% |
| United States--82% | Wholesale Accessories--47% |
| .. | Retail--18% |
| .. | .. |
| .. | .. |

| Management | Position |
|--------------------|-------------------------------------|
| Reuterfeld, Edward | Chairman & CEO |
| Vasile, Amelia | President & Director |
| Dhar, Arvind | COO & Secretary |
| Sieck, Rudolph | Chief Operating Officer |
| Frederick, Karla | Chief Merchandising Officer |
| Madden, Steven | Founder and Creative & Design Chief |

| Total Compensation Growth | Stock Price Growth During Tenure |
|---------------------------|----------------------------------|
| 11.24% per annum over 5y | 4.32% per annum over 5y |
| 16.87% per annum over 5y | 4.32% per annum over 5y |
| -3.82% per annum over 5y | 4.32% per annum over 5y |
| 11.5% per annum over 5y | 4.32% per annum over 5y |
| 3.86% per annum over 2y | 24.54% per annum over 2y |

| Peer's 5 Scores (Scores are provided) | |
|---------------------------------------|-----------------------------|
| Volvo/WorldWide, Inc. | Columbia Sportswear Company |
| Brooks Outdoor Corporation | Under Armour, Inc. |
| DDW, Inc. | Groves, Inc. |
| Shoemaker U.S.A., Inc. | .. |
| Crown, Inc. | China's P&S, Inc. |

| Peer's 5 Scores | Peer's 5 Scores |
|---------------------------|-----------------|
| Return on Capital [GAAP] | 15.4% |
| Operating Margin | 3% |
| Revenue/Capital [GAAP] | 1.5% |
| ROE [GAAP] | 15.4% |
| Net margin | 3.5% |
| Revenue/Book Value [GAAP] | 2.8% |

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|---------------------------|-----------------|
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