

WESTPEAK RESEARCH ASSOCIATION

The Children's Place (NASDAQ: PLCE)

Consumer Goods – Clothing and Accessories

No PLCE to Grow

February 28, 2020

The Children's Place Inc. is a clothing retailer selling exclusively children's, toddler and baby apparel. The business was established in 1969 and currently operates 955 brick-and-mortar stores in the U.S. and Canada as well as an e-commerce business. The company also generates sales and royalty revenue from 8 international franchise partners operating 260 points of distribution (stores and shop in shops with e-commerce) in 19 countries.

Thesis

The Children's Place is a well-established children's clothing retailer focused on value-conscious parents. The company is currently undergoing strategic transformations in fleet optimization and business digitalization, as well as expansion of sourcing and distribution points internationally. Though it remains competitive, heavy influence from external industries such as e-commerce and department stores will stifle future growth.

Drivers

The company's acquisition of former competitor Gymboree will allow them to capture previously loyal customers to the brand when inventory is rolled out in Spring 2020. Their acquisition of the company's sales data also opened them to new store locations. Additionally, as U.S. mall sales slow down, the company will continue to take advantage of new international franchise locations. However, fierce competition from other industries, as well within will continue to stifle company growth.

Valuation

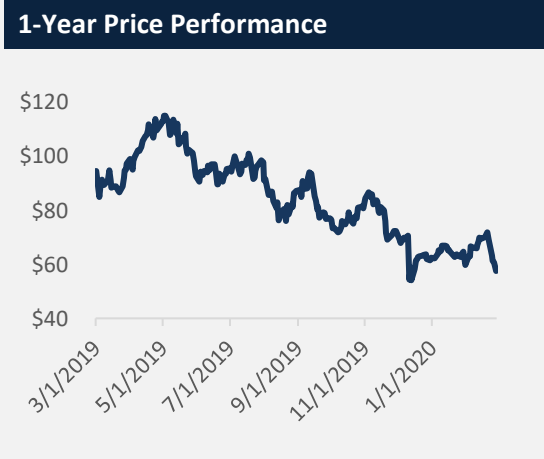
By weighing our DCF and Comparables 40/60 we arrived at a price target of \$57.00. This indicates that with recent decrease in share price, the market now fairly values the company. Despite industry competition, we believe there is potential for slow growth given recent developments and initiate a HOLD rating.

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Equity Research	U.S.
Price Target	USD \$57.00
Rating	Hold
Share Price (Feb. 28 Close)	\$57.60
Total Return	-0.4%

Key Statistics	
52 Week H/L	\$116.84/\$53.62
Market Capitalization	\$895M
Average Daily Trading Volume	895.0k
Net Debt	\$1.03B
Enterprise Value	\$1.86B
Net Debt/EBITDA	5.7x
Diluted Shares Outstanding	15.5M
Free Float	99.7%
Dividend Yield	3.6%

WestPeak's Forecast			
	2018E	2019E	2020E
Revenue	\$1.94B	\$1.90B	\$1.92B
EBITDA	\$179M	\$169M	\$166M
Net Income	\$101M	\$69M	\$65M
EPS	\$6.01	\$4.37	\$4.40
P/E	13.3x	10.4x	11.1x
EV/EBITDA	8.4x	10.7x	10.2x



Business Overview/Fundamentals

Company Overview

The Children's Place Inc. is an American children's apparel company, whose primary value proposition is to provide high quality clothing for lower prices. The company sells clothing, footwear and accessories for children (size 4-17), toddlers (6 months-size 5T) and baby (0-24 months). Children's Place does most of its business domestically with 834 stores owned and operated in the U.S. and Puerto Rico. There are also 121 Children's Place stores in Canada and 260 international points of distribution through franchise partners in 19 countries such as in the UAE and Indonesia. In addition to brick-and-mortar stores, the company also runs an e-commerce business.

Target Market

Children's Place largely caters towards price-conscious millennial mothers. As a result, business performance depends heavily on these individuals' ability and willingness to spend: too much spending power and customers would opt for more fashionable and expensive competitors of Children's Place. By reverse logic, the company would benefit more from slow or stagnant wage growth and consumer confidence. Due to the competitive nature of the clothing retail industry, Children's Place emphasizes the importance of brand loyalty. The company offers a point-based rewards program and a private label credit card. There is evidence to believe these loyalty incentives appear to be fairly efficient: 76% of transactions of all sales were from customers part of the rewards program and 23% of sales were conducted with the private label credit card in fiscal year 2018. Over the past 2 fiscal years, the percentage of rewards program customers has remained fairly consistent, whereas percentage of credit card users increased rapidly from 12% in fiscal year 2016 to where it is now.

Geographic Expansion

The Children's Place derives the majority of its business from its U.S. operations, with \$1.727 billion in revenue in the 2018 fiscal year. By comparison, Children's Place International generated \$0.21 billion. It is important to note that Children's Place International includes revenue for the company from both its Canada operations and franchise partners. Children's Place stores in the U.S., Canada and Puerto Rico are owned by the company, whereas its 260 international locations in 19 countries are owned by eight franchise partners. Most recent and significant is its 2018 partnership with Chinese clothing retailer Semir. Together, they have opened 8 out of a planned 15 locations in China. This is in line with the company's vision to expand their alternate channels of distribution, as brick-and-mortar stores decline in the U.S. Franchisors with which the Children's Place partners are organizations that possess proven retail operations success and have more experience in the geography and local market. Being specialists of an area, Children's Place likely finds it optimal to hand off operations to them rather than running business themselves internationally. There is currently no plan to halt international expansion through franchises and its growth appears to be a continuing trend.

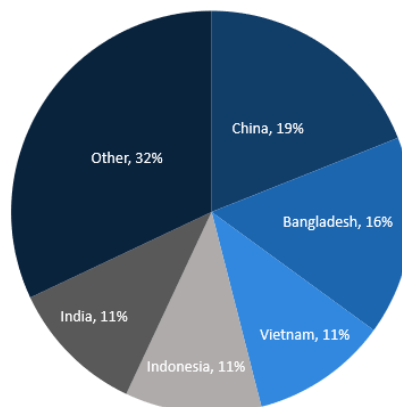


Source: Investor Presentations

Merchandise sourcing

Children’s Place acquires nearly all merchandise from international producers, mainly China, Bangladesh, Vietnam, India, and Indonesia in an effort to source from a diverse array of vendors, reducing exposure to instability. Imports from China are currently being adversely affected by tariffs due to ongoing trade policy. There is a 25% tariff on select items such as backpacks and hats from China and 15% on footwear and certain accessories. There exists future uncertainty for the rest of the products imported from China to be taxed as well. As of fiscal year end 2018, the company sourced 19% of total merchandise from China. The Children’s Place took preventative measures against tariffs in Q3 2019, attempting to move sourcing elsewhere.

Merchandise Sourcing (FY 2018)

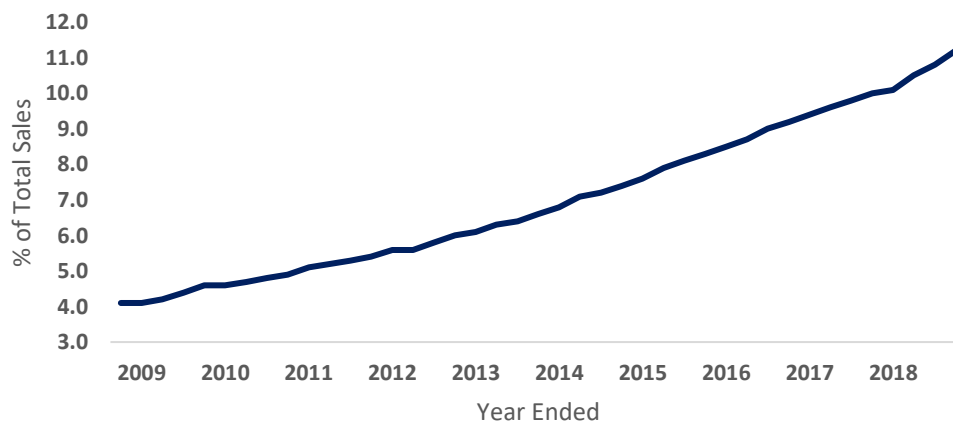


E-Commerce Development

Digital transformation is an important strategic initiative of Children’s Place, a key aspect of which is the improvement of its e-commerce business. Brick-and-mortar sales continue to slowly give way to e-commerce in the retail industry, prompting the need to implement such aspects into business. Children’s Place has properly leveraged technology in recent years through investments in digital inventory management and forecasting tools. Future plans to improve digital sales involve the incorporation a more individual online shopping experience with personalized promotions and dynamic display targeting on their e-commerce website. Management currently projects e-commerce penetration of 31% of net sales for fiscal year 2019, up from 22.7% in 2017 and 28% in 2018; the rapid growth in penetration shows management’s ability to effectively execute on this growing trend. Additionally, at 31%, Children’s Place e-commerce penetration is much higher than the 11.2% industry average. Also as a result of e-commerce emergence, Children’s Place has reinforced their inventory management systems, most recently partnering with Radial Inc. The third-party logistics company is to provide logistical assistance starting in Q4, delivering faster shipping times to customers.

U.S. Retail E-Commerce Sales as % of Total Sales (E-Commerce Penetration)

[Adjusted for Seasonal Variance]



Source: U.S. Census Bureau, retrieved from FRED, Federal Reserve Bank of St. Louis

Fleet Optimization

The Children’s Place undertook fleet optimization measures starting in 2013 with the aim of closing underperforming stores in geographical locations that are no longer strategic to operate. Since the initiative, the company has closed 238 stores and plans to close a total of 300 stores through fiscal 2020. An average lease term of 2.5 years and numerous property lease events upcoming give it the flexibility to close stores. It is important to note that these closures are stores that the company own and operate, and do not apply to international franchises. As such, these closures take place in the U.S., Puerto Rico and Canada. Through its acquisition of Gymboree sales data, the Children’s Place has recently identified 25 new store opening locations, of which 10 have already been opened. All planned openings are to be in operation by 2021.

Share Repurchase and Dividend Policy

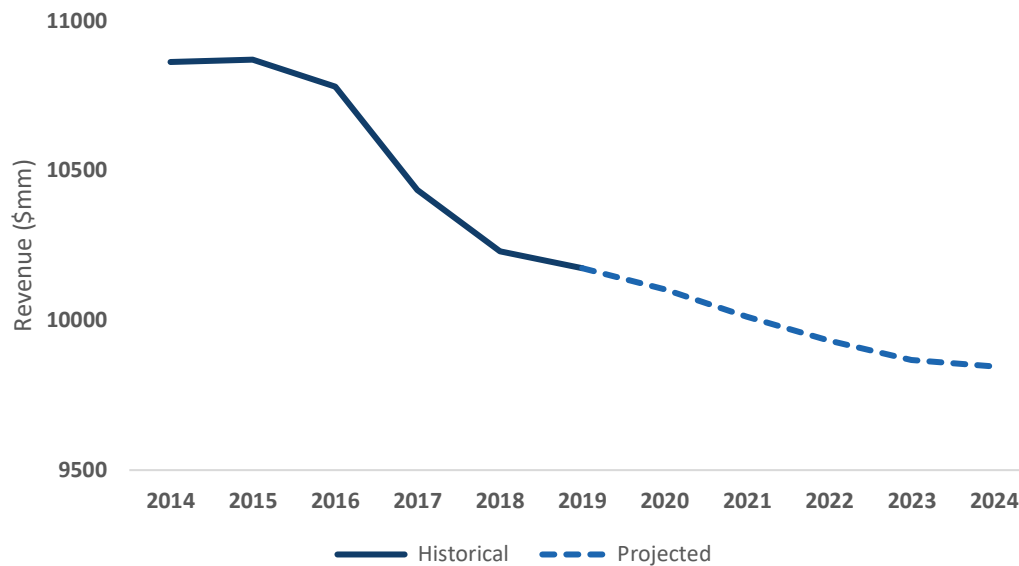
The Children's Place continues to reward shareholders through its buyback and dividend programs. The company began issuing dividends in 2014 and has continued to increase their dividend payout per share every fiscal year. It is currently at \$0.56 per share and delivered a payout ratio of approximately 33% for FY2018. Payout ratio for FY2019 is predicted to be 51% for FY2019; this ratio is higher than past years as a result of the acquisition of Gymboree increasing D&A levels and thereby lowering net income. There is no statement of what future dividends may be, however it is likely to continue at the current rate so long as the business remains profitable. The company began to repurchase shares in 2009 and have done so every year since, implementing an official buyback program in 2010. In fiscal year 2018, Children's Place paid \$33.0 million in dividends and repurchased 2.1 million shares for approximately \$254 million. The majority of shares repurchased every year are retired: this year only 2,000 out of the 2.1 million shares repurchased were held in treasury. Children's Place has exhibited fairly high ROE since 2016, thus the company's willingness to provide value for shareholders provides a good sign that it is confident in its business.

	2014	2015	2016	2017	2018
Quarterly Dividend per Share (\$)	0.1325	0.15	0.2	0.4	0.5
Shares Repurchased (mm)	1.5	2.0	1.9	1.0	2.1
Basic Shares Outstanding (mm)	21.7	20.4	18.6	17.6	16.5
Payout Ratio (%)	20.2%	21.1%	14.4%	33.2%	32.7%

Industry Analysis

The children's clothing industry refers to stores which sell clothing apparel exclusively to ages 17 and younger. When analyzing The Children's Place, it is necessary to also consider competitors in the family clothing industry, which offer clothing apparel for all ages. Major players within the children's and family clothing industry are The Children's Place, The Gap, Ascena Retail Group, J.C. Penney Company and Kohls. The clothing retail industry is exceptionally competitive, as companies compete on price, brand recognition, product quality, customer service and store location. There is often differentiation between target markets: for instance, Children's Place caters primarily towards value seeking millennial moms, whereas The Gap focuses on style-conscious customers of all ages. Companies still compete on the same products and steal market share from one another. Certain large corporations, such as Walmart and Target also sell family clothing amongst other items. These department stores offer one-stop shopping for all household items and are much greater in scale than many clothing stores, providing them greater purchasing power and therefore ability to compete on price and convenience. Rising popularity of e-commerce will continue stealing revenue from the industry, as many companies have limited e-commerce offerings. For an industry with very slim profit margins of 4% on average, shrinkage in revenues has put significant pressure on company profitability and will continue to hamper revenues until businesses can compete on e-commerce offering. Industry revenue is projected to decline at an average annual rate of -0.65% to 2024.

Children's Clothing: Industry Revenue



Source: IBISWorld

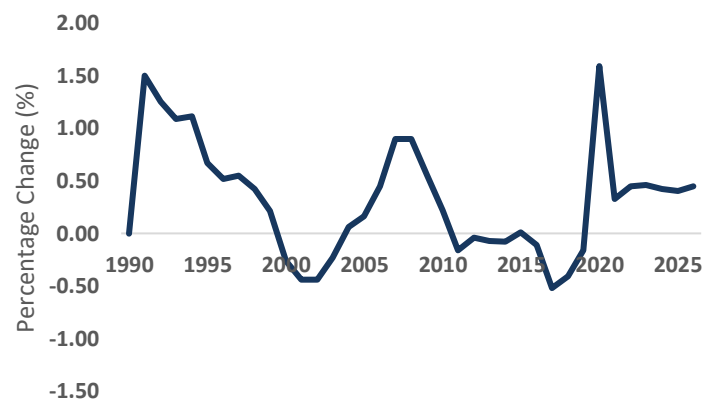
Revenue Determinants

Population Growth

The demand for children’s clothing can be assessed with the projected number of U.S. children aged nine and younger. As opposed to often used birth rates, this metric also accounts for the population impact of migration. The annualized growth to 2025 is a slow 0.4%. While opening up industry players to new customers, this annual growth is not significant enough to revitalize the industry.

While it is a fact that Children’s Place continues its expansion internationally, the large majority of business will likely continue to take place in the U.S in the next few years and will continue to be impacted by potentially neutral to minimal customer growth.

Change in the Number of Children Aged 9 and Younger in the U.S.



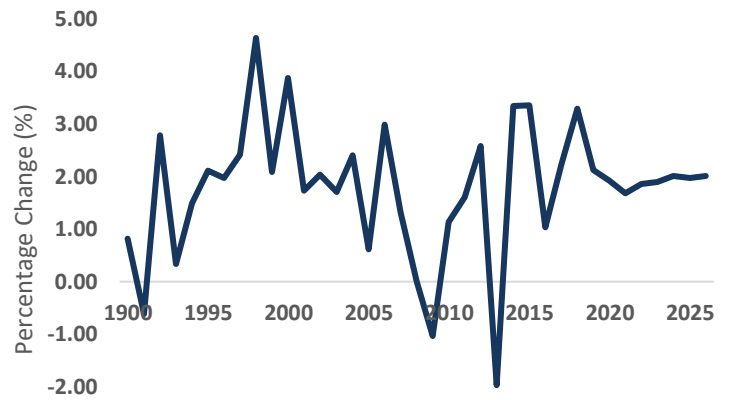
Source: IBISWorld

Disposable Income

Demand for clothing in general is partially determined by how much consumers are able to spend. Projections show that disposable income (adjusted for inflation) in the next 5 years will grow at an annualized rate of 1.9% per year. This is driven by a continued steady job market at close to full employment as well as taxes being eased for the next few years.

Children's Place is focused on value clothing products. By consequence, customers will purchase fewer items from the store, as higher disposable income would incentivize consumers to shop at more style-focused locations as opposed to value. As such, revenue for the company will grow more slowly than style-focused competitors such as American Eagle Outfitters.

Change in U.S. Disposable Income Per Capita



Source: IBISWorld

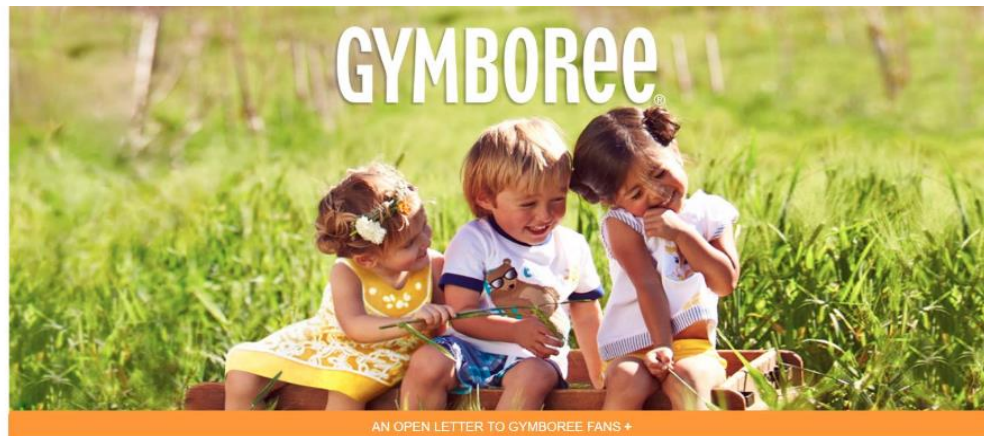
The Bottom Line

While there are predicted increases in potential customers, the children's clothing businesses will continue to be heavily impacted by competition, with increased pressure from e-commerce businesses, department stores and family clothing on top of already intense competition within the industry. Businesses will need to further compete on price and brand recognition, reducing their revenue and increasing marketing costs in order to differentiate themselves. The Children's Place in particular is relatively well positioned to handle e-commerce demand. However, working against the company in particular are higher disposable income levels. For this reason, we predict slow or stagnating growth.

Catalysts

Gymboree Acquisition

On March 1, 2019, Children's Place acquired ailing company Gymboree for \$76 million cash. It is important to note that Children's Place acquired Gymboree intellectual property (e.g. trademarks, right-of-use assets, customer databases) but not the physical assets, which are in bankruptcy liquidation. Before its bankruptcy, Gymboree was a rival retailer focused on selling high quality children's clothing and apparel; the acquisition is highly sensible, as both companies' value propositions are in close alignment. The acquired company had a strong customer following, which the Children's Place is now able to efficiently exploit, particularly with the acquisition of Gymboree customer databases. The Children's Place delivered an open letter to concerned Gymboree fans, reassuring them that Gymboree quality and style would remain as prior to the company's bankruptcy. We believe that Children's Place will honor this promise, as it is the primary selling point of this merchandise; any compromised quality would deter loyal customers, rendering the acquisition worthless. Children's Place plans to roll out Gymboree inventory in-store and online starting in Spring of 2020.



RETURNING SPRING 2020

HELP US BRING BACK THE GYMBOREE YOU LOVED...

TELL US YOUR THOUGHTS

SHARE YOUR PHOTOS

Source: Investor Presentations

International Franchise Strategy

While Children's Place may have been a net closer of stores in the U.S. and Canada since 2013, the company has simultaneously pursued its international franchise partnerships, opening 260 locations. Presently, there are plans to open 13 more locations in China with partner Semir. Based upon recent trends of declining U.S. mall sales, combined with slow U.S. industry growth prospects, it is reasonable to assume that management will continue to actively search for international franchise expansion opportunities. While there are no direct plans to close stores beyond the planned 300 store closures, management has indicated that multiple lease actions are available in the next few years. This gives them flexibility to potentially close further locations and instead shift more of their business internationally.

Management Team

Jane Elfers – Director, President & Chief Executive Officer

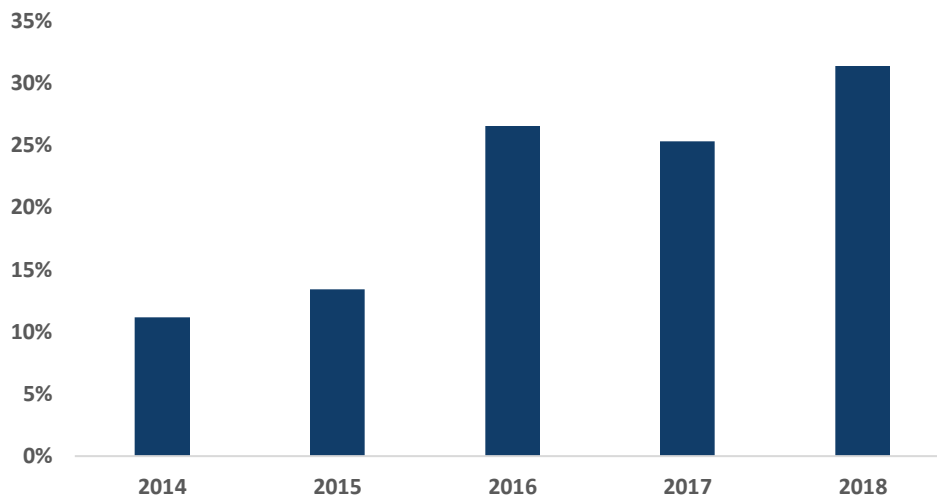
Ms. Elfers joined as President and CEO of The Children's Place in 2010. She had previously served as the CEO of Lord and Taylor from 2000 to 2008, where she became renowned by industry professionals for turning the poorly performing company around. Upon joining Children's Place, she spearheaded various initiatives in inventory management, expansion into global markets, digital improvements and fleet optimization. She earned a BSc in Business Administration from Bucknell University. With regard to compensation, Ms. Elfers earned a cash salary of \$1.1 million for FY2018. She earned no bonuses that year due to unmet compensation targets regarding adjusted operating income. She was also elected to return 100% of stock awards for the year to provide financial support for business decisions, likely in anticipation of the all-cash Gymboree acquisition that came in 2019. Her compensation structure is strongly based on performance of the company, through metrics



Source: Company Website

such as adjusted operating income, EPS, ROIC and margin expansion. Her stock awards are based upon the company’s adjusted ROIC performance relative to 15 companies in a peer group. For instance, due in part to strong ROIC expansion in 2016 that sent PLCE stock price up 90% that year, she was awarded over \$14 million in cash and stock bonus incentives.

Historical ROIC



Mike Scarpa – Chief Financial Officer & Chief Operating Officer

Mr. Scarpa joined as CFO in 2012 and was later appointed by Ms. Elfers to add COO to his role in 2013. He was previously the COO of fashion company Talbots Inc. since 2008 and has over 35 years of financial and operational experience. Mr. Scarpa graduated with an MBA from Rutgers University and is a CPA. For compensation, he earned \$775 thousand in cash as well as approximately \$1 million in stock awards for FY2018; he and all other named executive officers were elected to return 50% of stock awards for the year for the same reasons as Ms. Elfers.



Source: Company Website

Shareholder Base, Liquidity, Market Depth

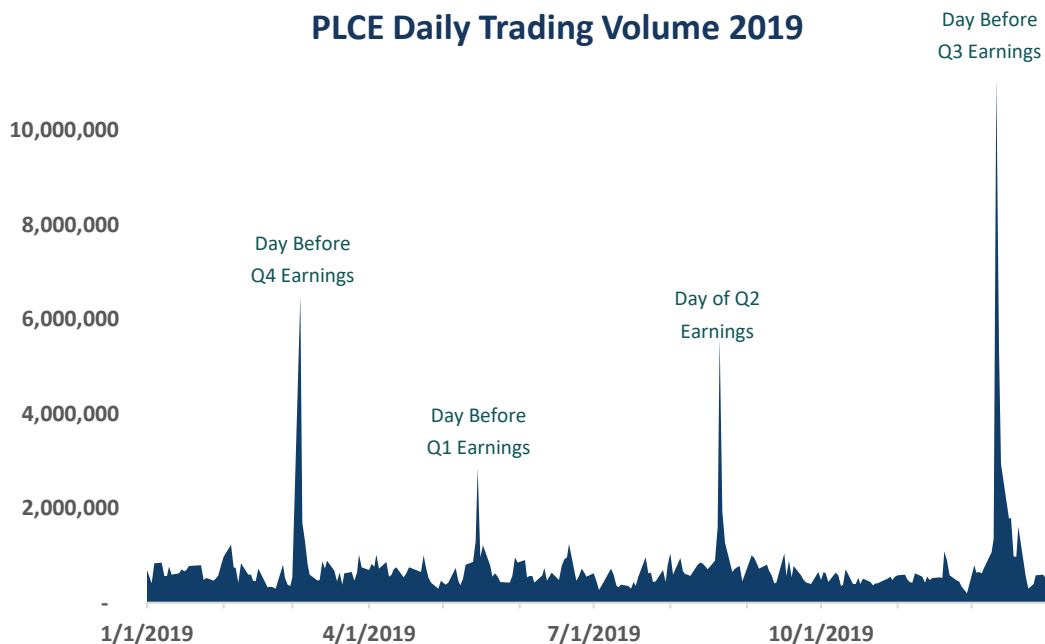
Children’s Place has 15.5 million basic shares outstanding currently. The company has pursued its share buyback policy consistently since 2010, decreasing shares outstanding from 26 million shares since. The company’s consistency in this as well as its intent in rewarding shareholders is indicative of the high likelihood of buybacks continuing.

A total of 282 institutions hold Children’s Place shares, of which FMR, LLC is the largest shareholder, owning 15.5% of shares outstanding. Institutional shareholders own 150.2% of free float, which is made possible by fact that Children’s Place has a very high short interest, at 49.5% of shares outstanding. This interest is likely the result of sharp declines in share price since December 2018, partially attributed to earnings expectations being beat only once in the since that point. As such, short sellers expect this downward price momentum to continue. We believe that unless Children’s Place achieves monumental success in the aforementioned catalysts, stock price will remain around our target range; until it reaches these catalysts occur, short interest will remain high.

Shareholder	Shares Held	% of Shares Outstanding
FMR, LLC	2,335,143	15.50%
BlackRock Inc.	2,290,348	15.20%
Vanguard Group, Inc. (The)	1,576,675	10.47%
Wellington Management Company, LLP	975,484	6.48%
Ceredex Value Advisors LLC	722,390	4.80%
Greenvale Capital, LLP	700,000	4.65%
Dimensional Fund Advisors LP	689,131	4.57%
Royce & Associates LP	599,248	3.98%
Bank Of New York Mellon Corporation	552,250	3.67%
Westwood Holdings Group Inc.	546,835	3.63%
Top Ten Shareholders	10,987,504	72.95%

Liquidity

An average of 895,000 shares are traded daily. Though appropriate for the company's size, it is largely below many of its competitors (based on comparables). Major spikes in trading volume seen below were either in anticipation of financial reports or in reaction to them.



Source: Yahoo Finance

Valuation

To form our analysis, we created a Discounted Cash Flow (DCF) at a 2% perpetuity growth rate, as well as a five-year exit multiple (9.6x) derived from the mean EV/EBITDA of our comparables. In addition, we made a Comparable Companies Analysis using the mean of 2020 EV/EBITDA multiples (9.6x) and the median of 2020 P/E multiples (12.7x).

Comparable Company Analysis

In order to create an accurate comparison, we selected companies within the clothing retail industry that are of similar size to The Children's Place. These businesses are also direct competitors of one another and have similar business plans. All companies selected have international involvements and are affected by many of the same factors.

The Gap Inc. (NYSE:GPS)

The Gap Inc. operates stores under the names Gap, Banana Republic, Old Navy, Athleta and Intermix. The company operates stores across North America, Asia and Europe. They are much larger in size, having 3938 stores in operation, a 6.8% increase in the number stores over the prior year. They most recently posted revenues of \$4.00 billion with a market cap of \$6.60 billion.

Abercrombie & Fitch Co. (NYSE:ANF)

Abercrombie & Fitch is a specialty clothing retailer, conducting wholesale, franchise and licence-based store operations in 860 locations across the world, such as Canada, Western Europe, China and the UAE. The company also sells its clothing under its Hollister and Gilly Hicks brands. They generated revenues of \$863 million and has a market cap of \$1.04 billion.

American Eagle Outfitters, Inc. (NYSE: AEO)

American Eagle is a specialty clothing retailer under brands AEO, Tailgate and Todd Snyder New York. They operate 935 stores in the United States, Canada, Mexico, China, Hong Kong and the United Kingdom, creating revenues of 1.07 billion and a market cap of \$2.42 billion.

Urban Outfitters, Inc (NASDAQ:URBN)

Urban Outfitters is a lifestyle retail company operating under retail and wholesale segments. Retail brands include Urban Outfitters, Anthropologie, Free People, Terrain and Bhldn and its wholesale brand Free People. The company operates 520 stores in the U.S., 65 in Europe and 35 in Canada. They also operate the Vetri Family restaurant group. Total revenue for the company was \$987 million and it had a market cap of \$2.55 billion.

Carter's, Inc. (NYSE:CRI)

Carter's is a children's clothing retailer operating 850 stores in the U.S. and 200 stores in Canada under brands Carter's, Skiphop and OshKosh in the U.S., Canada and Mexico. Their products are also sold under various brands through Amazon, Walmart and Target. They delivered revenues of \$943 million and has a market cap of \$4.77 billion.

Discounted Cash Flow

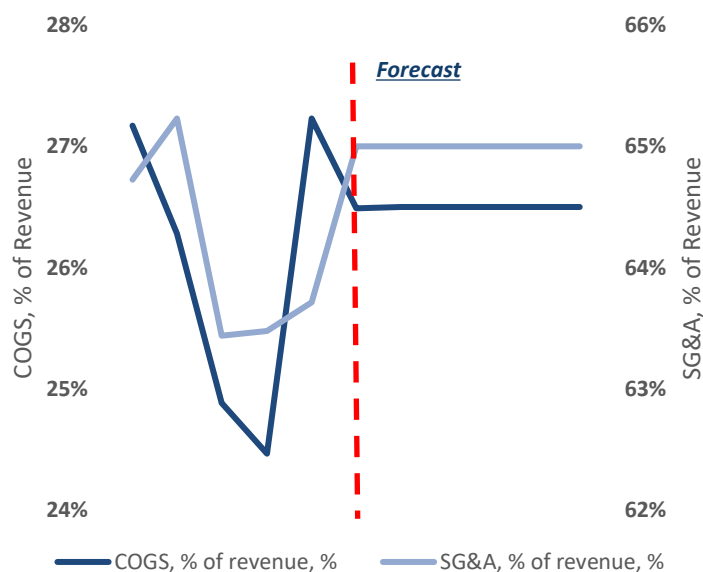
Revenue Growth

Revenue projections were driven on the number of stores operated, as an average of past yearly per store revenue improvements. Given the company's growth trends, strong management, competitiveness and expansion plans, we believe that revenues are predicted to continue growing at the average rate of \$0.1 million per store every year. In addition, due to fleet optimization, underperforming stores closures will improve this value while individual stores perform better. On top of this, Gymboree additions starting Spring 2020 will drive sales further higher. Lastly, the company has established plans to open new stores in China and has expressed interest in additional international franchisee ventures, leading to higher revenues from its international segment. Historically, certain quarters have been more productive for the company due to seasonal fluctuations and quarterly projections have reflected this.

Costs of Business

Children's Place's Cost of Goods Sold (COGS) represents the cost of acquiring their clothing inventory from various international facilities, which they design and contract for manufacture from various third parties. Manufacturing costs depend heavily on raw materials and as such, variations in the price of raw goods such as cotton may affect COGS. However, we cannot foresee any large changes that would significantly affect the cost of material procurement. As such, COGS should remain at the average of 64% of revenues. We project SG&A levels to remain consistent at 27% of revenues, as there are no indicated ventures or expansions that would drive these costs significantly higher than at the rate of revenue increase.

Historical & Projected Costs of Doing Business



Capital Expenditures

Given that there is no indication of increasing their rate of current expansion aggressiveness we believe that CAPEX will remain steady at 22% of property and equipment. In the case of future economic slowdown, the value is subject to decrease given the cyclical nature of the children's clothing industry. With the increase in store expansion globally, however, there is the possibility that certain quarters will see an increase in CAPEX reflecting the creation of new distribution centres such as storage warehouses.

Weighted Average Cost of Capital (WACC)

In formulation of our WACC, the cost of equity was determined using the 5-year U.S. Treasury Bill rate of 1.6% to represent the risk-free rate of return and using the 10-year S&P 500 annualized returns for an 8.7% expected market return. A beta of 1.93 was found through Bloomberg, giving us a 15.3% cost of equity. For our cost of debt, our pre-tax cost of debt was 1.7% and our effective tax rate was 16.7%, both found through Bloomberg, giving us a 1.4% cost of debt. All of the aforementioned information provided us a WACC of 7.9%.

Recommendation

Our Discounted Cash Flow and Comparable Company Analysis were weighted 40/60, with discounted revenues being less predictable as a result of continued store closure and the effects of the Gymboree brand launch soon to come. We produce through this analysis a target of \$57.34/share.

We believe that Children's Place is fundamentally a solid company with continued international franchise expansion, diversification in sourcing, strategic business acquisitions and e-commerce adaptations. The factors allow Children's Place to remain a competitive force in the industry. However, we predict that heavy competition from much larger companies both within the clothing industry as well as large department and e-commerce businesses will continue to stifle their growth. Given a total return of -0.4%, we believe that the stock is fairly valued by the market with recent decrease in the stock price. Thus, we issue a **HOLD** rating on this stock.

Risks

Macroeconomic Risks

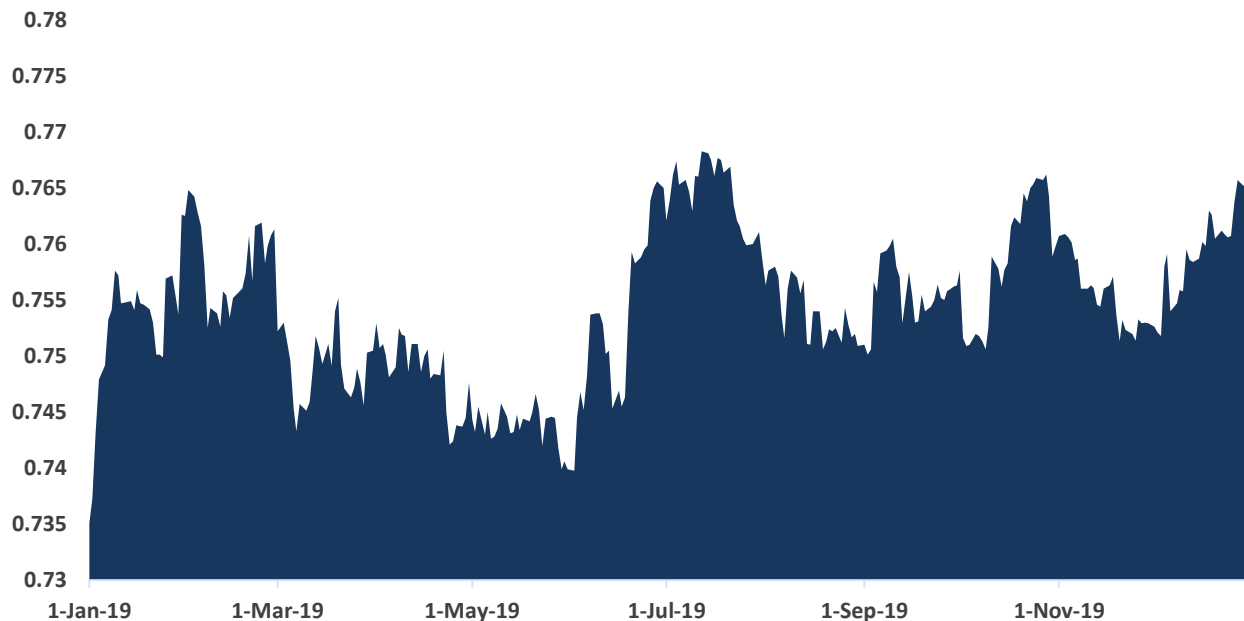
Economic Health

The Children's Place's delivery of value clothing makes it more of a need-based business than many of its fashion clothing competitors. This gives it more of a protection than style-based competitors against economic downturns. However, these competitors' business models, in turn, allow them to take better advantage of economic prosperity than Children's Place. Despite their relative protection against economic declines, the company is ultimately still liable to fluctuations in economic wellbeing of the countries in which they operate. For instance, factors such as lowered disposable income through excess inflation or weak wage growth are a byproduct of poor economic health. These reduce consumer spending on Children's Place clothing (albeit to a lesser extent than the company's competitors) and would nevertheless prevent them from growing revenues or expanding business. As such, the company thrives in a slow growth economy; too much or too little economic activity will cause them to lose their advantage.

Foreign Exchange

Internationally operating Children's Place stores conduct business in foreign currencies, presenting the possibility of value loss through fluctuating foreign exchange rates. The company is most liable to fluctuations in the Canadian Dollar, however the Hong Kong dollar and Chinese Yuan are also notable currencies that are dealt with. In order to mitigate risks in exchange rate variation, the company enters into forward contracts maturing within 12 months. The cost of entering into these contracts themselves are dependent on volatility and macroeconomic factors such as interest rate changes and political events. Futures are a form of forward contract; volatility on prices of Canadian Dollar futures for 2019 can be seen below:

Canadian Dollar Futures Prices (2019)



Source: Investing.com

Sourcing Disruptions

The Children's Place purchases products from a variety of third-party international manufacturers, which are subject to local political and economic changes that could negatively affect business. In addition, the company does not closely observe manufacturers' compliance with legal or ethical labour standards, nor do they monitor where they source raw materials from. Any legal disruptions or product quality challenges facing manufacturers will negatively affect business. Because they source from a number of geographical locations, risk of not being able to do business at all is lowered, as they are not dependent on any single country. However, risk of disruption is higher than many competing businesses with more countries being involved.

In addition to manufacturing risk, recent trade protectionist measures have already affected Chinese material imports, forcing Children's Place to begin searching for new manufacturers. Should tariffs escalate or be placed on another country that the company sources from, profitability will decrease and resources will need to be spent in search of new locations.

Misunderstanding of Consumer Tastes

Children's Place has been a long-time player in the children's clothing space and has thus far provided strong product offering. However, it remains possible that, like Gymboree incorrectly switching to a more mature style of clothing, they may at some point misunderstand the material or styles of clothing that consumers truly demand. Due to the competitiveness of the retail clothing space, the company easily risks dissatisfied customers losing loyalty to the brand.

Distribution Centre Risk

Despite numerous store locations throughout the world, the company relies heavily on few locations for distribution which serve warehousing and e-commerce functions. There exists one distribution center for the U.S., one serving Canada and one third-party warehouse dedicated to the majority of international franchises. Any damage that prevents the usage of these three facilities either momentarily or permanently due to weather or unsafe conditions will heavily disturb business operations.



Source: Fort Payne Website

Exhibit 1: Model Summary

	Feb-15	Feb-16	Feb-17	Feb-18	Feb-19	Feb-20	Feb-21	Feb-22	Feb-23	Feb-24	Feb-25
(Figures in mm USD)	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
Income Statement											
Revenue	1,761.3	1,725.8	1,785.3	1,870.3	1,938.1	1,896.3	1,923.4	2,005.5	2,101.6	2,197.6	2,293.6
EBITDA	140.5	152.9	213.4	229.7	179.2	169.4	166.1	173.5	182.1	190.8	199.4
Net Income	56.9	57.9	102.3	84.7	101.0	68.7	65.4	71.8	80.0	88.1	96.1
Earnings Per Share	\$ 2.59	\$ 2.80	\$ 5.40	\$ 4.67	\$ 6.01	\$ 4.37	\$ 4.40	\$ 4.93	\$ 5.50	\$ 6.06	\$ 6.61
Cash Flow Statement											
Capital Expenditures	(72.2)	(42.1)	(34.7)	(58.7)	(71.1)	(55.9)	(52.7)	(50.0)	(47.5)	(45.1)	(42.9)
Dividend Payment	(11.5)	(12.2)	(14.8)	(28.1)	(33.0)	(35.0)	(35.5)	(36.2)	(37.7)	(39.1)	(40.6)
Dividend Per Share	\$ 0.53	\$ 0.60	\$ 0.80	\$ 1.60	\$ 2.00	\$ 2.24	\$ 2.40	\$ 2.50	\$ 2.60	\$ 2.70	\$ 2.80
Dividend Payout to Earnings	20.2%	21.1%	14.4%	33.2%	32.7%	51.0%	54.3%	50.5%	47.1%	44.4%	42.2%
Dividend Payout to Core FCF	5.3%	6.5%	6.9%	9.9%	12.3%	9.5%	9.8%	10.0%	10.3%	10.6%	10.9%
Dividend Yield	1.0%	1.0%	1.0%	1.3%	1.6%	2.6%	4.2%	4.3%	4.5%	4.7%	4.9%
Balance Sheet											
Current Assets	609.3	581.3	611.2	656.5	435.4	597.4	728.9	852.7	1,006.1	1,165.6	1,331.1
Non-Current Assets	349.3	316.6	299.3	283.7	291.7	766.9	756.1	744.4	733.3	722.8	712.8
Assets	958.6	897.9	910.5	940.2	727.0	1,364.3	1,484.9	1,597.1	1,739.4	1,888.4	2,043.9
Current Liabilities	274.5	275.0	329.2	360.5	331.4	747.8	753.7	731.0	750.9	770.8	790.6
Non-Current Liabilities	95.0	95.1	85.0	106.0	81.2	370.7	370.7	370.7	370.7	370.7	370.7
Liabilities	369.5	370.2	414.2	466.5	412.6	1,118.4	1,124.4	1,101.7	1,121.6	1,141.4	1,161.3
Shareholders' Equity	589.1	527.8	496.3	473.7	314.4	265.5	295.4	330.9	373.2	422.1	477.6
Cash	173.3	187.5	193.7	244.5	69.1	35.9	159.6	305.5	432.7	566.0	705.3
Debt											
Net Debt	(173.3)	(187.5)	(193.7)	(244.5)	(69.1)	(35.9)	(159.6)	(305.5)	(432.7)	(566.0)	(705.3)
Minority Interests	-	-	-	-	-	-	-	-	-	-	-
Debt/EBITDA	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Operating Metrics											
Return on Equity (ROE)	9.7%	11.0%	20.6%	17.9%	32.1%	25.9%	22.1%	21.7%	21.4%	20.9%	20.1%
Return on Assets (ROA)	5.9%	6.4%	11.2%	9.0%	13.9%	5.0%	4.4%	4.5%	4.6%	4.7%	4.7%
Return on Invested Capital (ROIC)	4.7%	5.1%	9.6%	6.0%	9.3%	5.0%	4.6%	5.0%	5.4%	5.6%	5.9%
Valuation Metrics											
Stock Price (High)	\$ 63.65	\$ 69.01	\$ 110.60	\$ 161.65	\$ 160.23	\$ 116.84	\$ 57.60	\$ 57.60	\$ 57.60	\$ 57.60	\$ 57.60
Stock Price (Low)	\$ 45.93	\$ 47.25	\$ 53.62	\$ 93.60	\$ 87.05	\$ 57.60	\$ 57.60	\$ 57.60	\$ 57.60	\$ 57.60	\$ 57.60
Stock Price (Average)	\$ 54.79	\$ 58.13	\$ 82.11	\$ 127.63	\$ 123.64	\$ 87.22	\$ 57.60	\$ 57.60	\$ 57.60	\$ 57.60	\$ 57.60
Diluted Shares Outstanding (Average)	21.9	20.7	19.0	18.2	16.8	15.7	14.8	14.5	14.5	14.5	14.5
Market Capitalization (Average)	1,201.2	1,203.4	1,556.7	2,316.5	2,077.8	1,370.6	855.1	837.8	837.8	837.8	837.8
Enterprise Value (Average)	1,027.9	1,015.9	1,363.0	2,072.0	2,008.6	1,334.7	695.6	532.4	405.1	271.8	132.5
P/E	21.1 x	20.8 x	15.2 x	27.4 x	20.6 x	20.0 x	13.1 x	11.7 x	10.5 x	9.5 x	8.7 x
EV/EBITDA	7.3 x	6.6 x	6.4 x	9.0 x	11.2 x	7.9 x	4.2 x	3.1 x	2.2 x	1.4 x	0.7 x
FCF Yield to Market Capitalization	5.1%	9.6%	9.9%	3.7%	2.0%	-7.4%	10.8%	13.9%	12.1%	13.1%	14.2%
FCF Yield to Enterprise Value	6.0%	11.4%	11.4%	4.1%	2.1%	-7.6%	13.3%	21.9%	24.9%	40.5%	89.8%
Free Cash Flow											
EBIT	80.0	90.2	147.7	161.5	110.3	97.2	102.6	111.8	123.5	135.1	146.6
Tax Expense	(23.0)	(31.5)	(44.7)	(76.5)	(7.6)	(16.2)	(17.1)	(18.7)	(20.6)	(22.6)	(24.5)
D&A	60.5	62.7	65.7	68.2	68.9	72.2	63.5	61.7	58.6	55.7	52.9
Capital Expenditures	(72.2)	(42.1)	(34.7)	(58.7)	(71.1)	(55.9)	(52.7)	(50.0)	(47.5)	(45.1)	(42.9)
Changes in NWC	16.4	36.4	20.7	(9.5)	(58.6)	(198.2)	(3.9)	11.9	(13.0)	(13.0)	(13.0)
Unlevered Free Cash Flow	61.7	115.6	154.7	85.0	41.9	(101.0)	92.4	116.7	101.0	110.1	119.0
Valuation Summary											
Current Price	\$ 57.60										
Target Price	\$ 57.34										
Total Return	-0.4%										
Recommendation	HOLD										
DCF Valuation											
Perpetuity Growth Implied Price	\$ 51.36										
Exit Multiple Implied Price	\$ 46.04										
Comps Valuation											
Comps - EV/EBITDA Implied Price	\$ 55.34										
Comps - P/E Implied Price	\$ 70.73										

Exhibit 2: Discounted Cash Flow

	Feb-15	Feb-16	Feb-17	Feb-18	Feb-19	May-19	Aug-19	Nov-19	Feb-20	Feb-20	Feb-21	Feb-22	Feb-23	Feb-24	Feb-25
(Figures in mm USD)	FY2014	FY2015	FY2016	FY2017	FY2018	Q1-2019	Q2-2019	Q3-2019	Q4-2019	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
WACC Calculations															
Cost of Equity															
Risk-free rate	1.6%														
Expected market return	8.7%														
Market Risk Premium	7.1%														
Beta	1.93														
Cost of Equity	15.3%														
Cost of Debt															
Pre-tax cost of debt	1.7%														
Effective tax rate	16.7%														
Cost of Debt	1.4%														
WACC															
Market value of equity	895.4														
Market value of debt	1,031.3														
Total Capitalization	1,926.7														
Cost of equity	15.3%														
Cost of debt	1.4%														
WACC	7.9%														
Free Cash Flow															
EBIT	80.0	90.2	147.7	161.5	110.3	5.0	3.8	58.0	30.4	97.2	102.6	111.8	123.5	135.1	146.6
Less: Tax expense	(23.0)	(31.5)	(44.7)	(76.5)	(7.6)	1.2	(0.0)	(12.7)	(5.1)	(16.2)	(17.1)	(18.7)	(20.6)	(22.6)	(24.5)
Add: Depreciation and amortization	60.5	62.7	65.7	68.2	68.9	18.6	18.5	18.8	16.3	72.2	63.5	61.7	58.6	55.7	52.9
Less: Capital expenditures	(72.2)	(42.1)	(34.7)	(58.7)	(71.1)	(11.0)	(10.8)	(20.6)	(13.5)	(55.9)	(52.7)	(50.0)	(47.5)	(45.1)	(42.9)
Less: Change in net working capital	16.4	36.4	20.7	(9.5)	(58.6)	(52.0)	(48.6)	(32.0)	(65.7)	(198.2)	(3.9)	11.9	(13.0)	(13.0)	(13.0)
Unlevered Free Cash Flow	61.7	115.6	154.7	85.0	41.9	(38.2)	(37.2)	11.5	(37.6)	(101.0)	92.4	116.7	101.0	110.1	119.0
Discount factor						-	-	-	0.25	0.25	1.25	2.25	3.25	4.25	5.25
Present Value of Unlevered Free Cash Flow						-	-	-	(36.9)	(36.9)	88.5	98.4	78.9	79.8	80.0
Discounted Cash Flow Valuations															
Perpetuity Growth Method															
Perpetuity Growth Rate	2.0%														
PV sum of unlevered FCF	388.7														
Terminal value	1,375.0														
Enterprise Value	1,763.7														
Add: Cash	66.1														
Less: Debt	1,031.3														
Less: Other EV adjustments	-														
Equity Value	798.4														
Shares outstanding	15.5														
Implied Share Price	\$ 51.36														
Current Price	\$ 57.60														
Implied Price	\$ 51.36														
Total Return	-10.8%														
Exit Multiple Method															
Terminal EV/EBITDA Multiple	9.6 x														
PV sum of unlevered FCF	388.7														
Terminal value	1,292.3														
Enterprise Value	1,680.9														
Add: Cash	66.1														
Less: Debt	1,031.3														
Less: Other EV adjustments	-														
Equity Value	715.7														
Shares outstanding	15.5														
Implied Share Price	\$ 46.04														
Current Price	\$ 57.60														
Implied Price	\$ 46.04														
Total Return	-20.1%														
WACC															
Perpetuity Growth Rate															
		9.60%	9.10%	8.60%	8.10%	7.60%									
1.00%	\$ 17.17	\$ 22.39	\$ 28.30	\$ 35.05	\$ 42.83										
1.50%	\$ 20.60	\$ 26.37	\$ 32.95	\$ 40.53	\$ 49.37										
2.00%	\$ 24.49	\$ 30.90	\$ 38.30	\$ 46.91	\$ 57.08										
2.50%	\$ 28.92	\$ 36.13	\$ 44.53	\$ 54.44	\$ 66.30										
3.00%	\$ 34.02	\$ 42.21	\$ 51.87	\$ 63.44	\$ 77.52										
Terminal EV/EBITDA Multiple															
		9.60%	9.10%	8.60%	8.10%	7.60%									
8.1 x	\$ 25.57	\$ 27.48	\$ 29.44	\$ 31.46	\$ 33.53										
9.1 x	\$ 33.50	\$ 35.60	\$ 37.76	\$ 39.98	\$ 42.27										
10.1 x	\$ 41.43	\$ 43.72	\$ 46.08	\$ 48.51	\$ 51.00										
11.1 x	\$ 49.36	\$ 51.84	\$ 54.40	\$ 57.03	\$ 59.74										
12.1 x	\$ 57.29	\$ 59.97	\$ 62.72	\$ 65.56	\$ 68.47										

Exhibit 3: Comparable Company Analysis

(Figures in mm USD)

Company	Ticker	Equity Value	Enterprise Value	EV/EBITDA Multiple			P/E Multiple				
				2018A EV/EBITDA	2019E EV/EBITDA	2020E EV/EBITDA	2018A P/E	2019E P/E	2020E P/E		
The Gap, Inc.	(NYSE:GPS)	6,640.2	13,685.2	6.7 x	7.1 x	9.0 x	8.3 x	6.8 x	10.0 x		
Abercrombie & Finch Co.	(NYSE:ANF)	1,084.6	2,434.3	9.1 x	8.0 x	10.1 x	172.7 x	16.0 x	25.0 x		
American Eagle Outfitters, Inc.	(NYSE:AEO)	2,484.3	3,834.9	8.1 x	7.6 x	7.3 x	12.7 x	13.0 x	10.0 x		
Urban Outfitters, Inc.	(NASDAQ:URBN)	2,715.6	3,881.8	10.0 x	7.8 x	9.5 x	28.9 x	10.2 x	12.7 x		
Carter's, Inc.	(NYSE:CRI)	4,856.3	6,322.2	13.1 x	12.7 x	12.3 x	18.4 x	18.1 x	15.7 x		
The Children's Place, Inc.	(NASDAQ:PLCE)	895.4	1,860.7	8.1 x	10.3 x	9.8 x	12.3 x	9.6 x	10.3 x		
Median					7.8 x	9.5 x		13.0 x	12.7 x		
Mean					8.6 x	9.6 x		12.8 x	14.7 x		
High						12.7 x		18.1 x	25.0 x		
Low						7.1 x		6.8 x	10.0 x		
					EV/EBITDA Implied Price		P/E Implied Price				
Median				\$	28.03	\$	54.05	\$	78.18	\$	70.73
Mean				\$	37.81	\$	55.34	\$	77.11	\$	82.00
High				\$	85.57	\$	87.45	\$	109.03	\$	139.91
Low				\$	19.68	\$	27.16	\$	40.98	\$	55.77

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