

WESTPEAK RESEARCH ASSOCIATION

Tandy Leather Factory, Inc. (NASDAQ:TLF)

Consumer Goods - Leather

Can Tandy be Dandy?

March 15, 2018

Tandy Leather Factory is a consumer goods store specializing in leather and leathercraft tools.

Leader in a Niche Market

Tandy Leather Factory is a dominant player in the leathercraft industry due to a lack of major competition. Prior to 2016, they have maintained positive revenue growth through their leadership position. However, with the rise in globalization, their current position may be disrupted. The firm is now faced with a recent influx of competition through online competitors on e-marketplaces like Amazon. In recent years, the company has experienced a decline in sales. Thus, management has implemented a growth strategy to mitigate this fall. Despite this recent drop, the company's long-standing track record and brand presence has led to a loyal customer base that we believe will ensure Tandy Leather Factory to remain a leader in the niche market of leathercraft.

Declining Market

We believe the leathercraft company is contingent on the status of the leather industry and the leather goods industry. It is predicted that both industries will decline moving forward in the next 5 years. This market decline will have negative effects on the leathercraft industry and Tandy Leather Factory's future growth prospects.

Valuation

Our target price for Tandy Leather Factory is \$8.00 per share which is weighted 50% on our 5-year DCF and our Comparable Company Analysis. From this share price, we expect a 7% upside. Thus, we recommend a **Hold** on Tandy Leather Factory.

Analyst: Beverley Fung, BCom. '21
contact@westpeakresearch.com

Equity Research	Canada
Price Target	CAD\$ 8.00
Rating	Hold
Share Price (Mar. 15 Close)	CAD\$ 7.50
Total Return	6.7%

Key Statistics	
52 Week H/L	\$9.00/\$7.10
Market Capitalization	\$71M
Average Daily Trading Volume	8.5K
Net Debt	-\$10.9M
Enterprise Value	\$58.6M
Net Debt/EBITDA	N/A
Diluted Shares Outstanding	9.3M
Free Float	50.6%
Dividend Yield	N/A

WestPeak's Forecast			
	2018E	2019E	2020E
Revenue	\$83.5M	\$85.1M	\$87.1M
EBITDA	\$9.2M	\$9.4M	\$9.7M
Net Income	\$5.1M	\$5.2M	\$5.4M
EPS	\$0.55	\$0.57	\$0.58
P/E	13.5x	13.1x	12.7x
EV/EBITDA	6.3x	6.2x	6.1x

1-Year Price Performance



Business Overview/Fundamentals

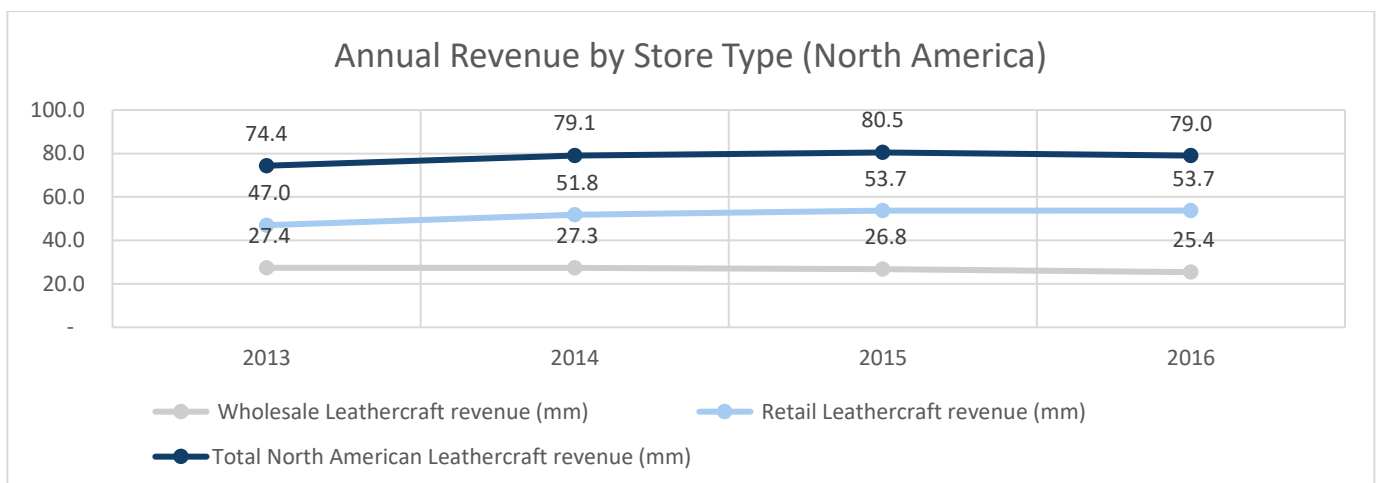
Company Overview

Tandy Leather Factory, Inc. is the only major distributor of leather and leathercraft goods in North America. The company was originally founded under the names Midas Leathercraft Tool Company (1980-1993) and The Leather Factory, Inc. (1993-2005). Stores are found under both names: Tandy Leather Factory and The Leather Factory. Currently, the firm receives its raw materials from 150 vendors in the US and 20 internationally. Tandy Leather Factory operates out of its central warehouse in Fort Worth, Texas with 115 North American stores (comprised of both retail and wholesale stores) and 4 international stores. In addition to brick and mortar stores, Tandy Leather Factory sells its products through its online website and on internet marketplace, Amazon. The company plans to grow its 84 physical retail stores to 120-150 stores. The company has focused on growing its direct-to-consumer sales which makes up 60% of their sales. However, they have not seen similar results in their B2B channel. Tandy Leather Factory's management claims that its decline in Wholesale Leathercraft revenue since 2014 has occurred due to aftereffects on its small business customers from the 2010 recession. From 2018 onwards, the company plans to improve its wholesale revenue to match its retail success.

Revenue Segmentation

Store Type

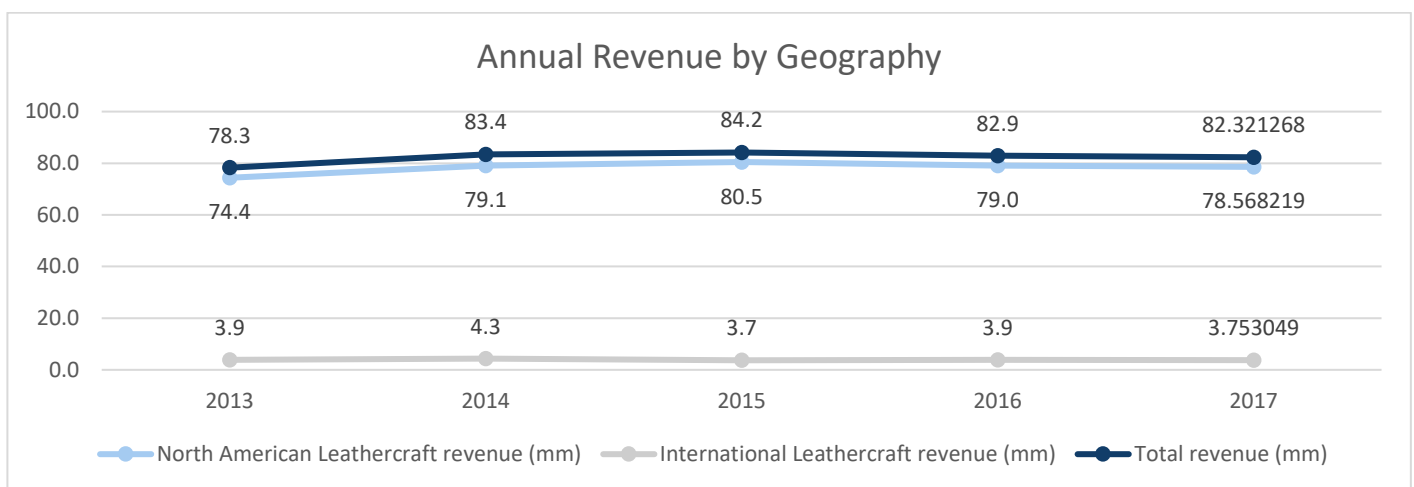
In Canada and the US, Tandy Leather Factory has stores under two categories: wholesale and retail. Over the years, the Retail Leathercraft segment has seen moderate-positive growth with annual revenue increasing by 14% from 2013 to 2016. However, the Wholesale Leathercraft segment has had negative results with annual revenue decreasing by 8% from 2013 to 2016. From 2015 to 2016, total revenue has decreased by 2%. Overall, total annual revenue has had a net positive change, increasing 6% from 2013 to 2016. After 2016, the company no longer reports by store type which prevents us from analyzing the progress of each segment for 2017.



Source: FY2013-FY2016 10-K

Geographic

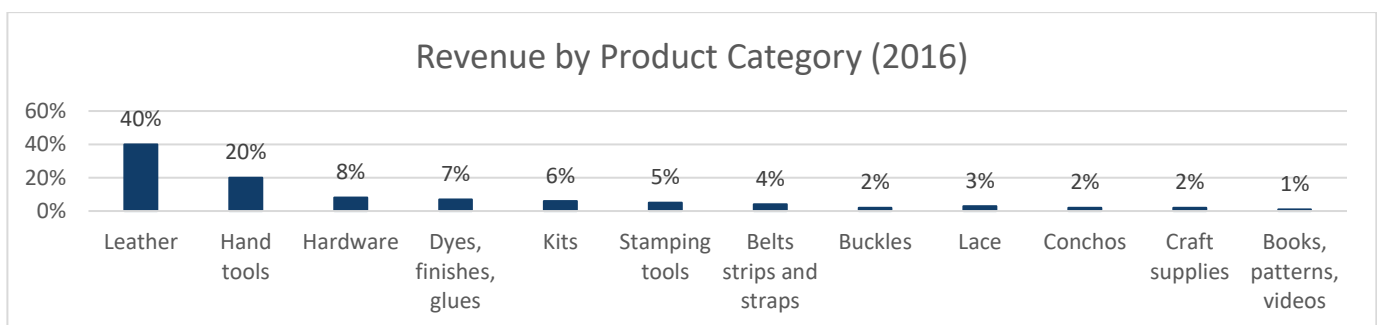
Tandy Leather Factory reports its revenue by North American stores and International stores. Most of the company’s stores are located in North America and thus, the area garners higher revenue. In 2016, North American stores made up 95.3% with the remaining 4.7% coming from International store sales. North American stores generated \$79.0 million in revenue across an average of 110.5 stores while the International stores generated \$3.9 million over 4 stores. The International stores had a higher average revenue of \$0.97 million per store whereas the North American stores had an average revenue of \$0.72 million per store. There has been little growth in international store performance in the past few years. Management has not revealed any plans to grow this segment and thus, it is unexpected for International Leathercraft revenues to change in the future.



Source: FY2013-FY2017 10-K

Product Line

One of Tandy Leather Factory’s strengths is its large breadth of products for all customers’ leathercraft needs. Compared to general arts and craft stores and leather tanneries, Tandy Leather Factory provides a wider number and variety of goods. The company’s vast product selection differentiates them from stores that offer similar products, distinguishing Tandy Leather Factory as a leader in the leathercraft market.



Source: FY2017 10-K

Leather

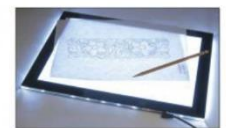
Tandy Leather Factory offers a large selection of leathers that are provided in a range of colours, weights/thicknesses, hide types, and finishes. Leathers are priced in two different ways. Most of the leathers are priced by the whole hide and one price is charged regardless of size. Some leathers can be priced by the square foot or meter and are sold in cut sent by the tannery. Online, the price offered through this method is an approximation which is adjusted when shipped.



Source: Company Website

Hand Tools

The store has a wide variety of leather craft hand tools: tool sets, carving/stamping accessories, quartz slabs (used as a cutting board), knives, cutters, scissors, splitters, mallets, leather punches, punching/cutting pads, setters and anvils, sharpening tools, stitching and lacing tools, and tracing supplies. Many of these tools are collected and sold in sets, allowing first time users to purchase leathercraft essentials easily. The company also carry a premium brand of tools under the name Craftool Pro that offer higher performance for professional leather craftsmen or hobbyists with a demand for premium tools.



Source: Company Website

Hardware, Belt Buckles, Conchos

The leathercraft store has over 450 unique metal attachments for clothing, belts, saddles, etc. These attachments come in the form of snaps, rivets, rings, buckles, bag clasps, conchos, screws, key rings, belt buckles, and tacks. Conchos are a metal adornment that screw into the leather and usually consist of a southwestern or geometric design.



Source: Company Website

Dyes, Finishes, and Glues

Tandy Leather Factory provides dyes and finishes to be used on natural vegetable tanned leather (not for use on dyed leather). Alongside these products, the company also sells dyeing and buffing tools. As well, their product line includes conditioners and sprays to maintain the quality of leather products.



Source: Company Website

Kits

Tandy Leather Factory has a number of different leathercraft kits: starter sets, wallets, billfolds, smartphones, handbags, and more. For users who are starting out, the kits contain all the necessary pre-punched cut leather, pre-attached accessories, needles, thread and instructions. These kits are targeted towards beginning level leathercraft hobbyists and young children.



Source: Company Website

Stamping Tools

Leathercraft stamps create small imprints in leather in different shapes and textures. When used in tandem, the stamps can create intricate designs and images for crafting. They are used as attachments on hand press tools. Tandy Leather Factory has a selection of over 200 stamps. In addition to offering this broad number of stamps, the company has an option for customers to create custom stamps from photographs.



Source: Company Website

Belt Strips and Straps

The company pre-cuts leather strips into belt strips. These strips come blank for users to customize with dyes, finishes and designs, or pre-made with dyes and patterns. Alongside belt strips, the store sells metal belt loops and belt keepers.



Source: Company Website

Lace

The company sells various types of lace, thread, needles, and sewing machines. The store advertises over 15 lace products of differing types: leather, latigo, boot, rawhide, imperial, round leather, suede, and deerskin leather lace. Tandy Leather Factory also offers various hand-sewing and machine thread, sewing needles, sewing machines, and related accessories.



Source: Company Website

Books, Patterns, and Videos

The store offers several leathercraft instructional books, pattern packs and stencils.

Supply Chain

Suppliers

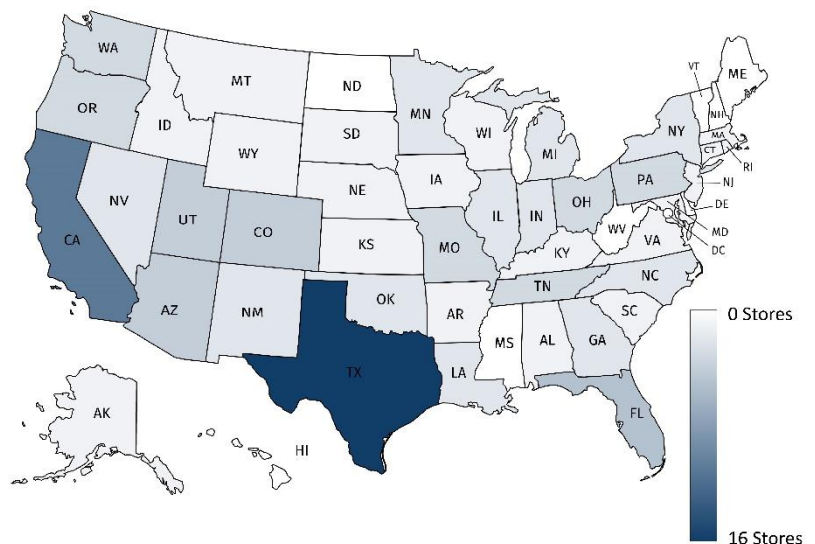
The leathercraft retailer receives its raw leather materials from 150 different vendors located in the United States and 20 international vendors. As the company's products come from numerous suppliers in different countries, supplier risk is generally low.

Manufacturing

Tandy Leather Factory's has one central warehouse in Forth Worth, Texas, where its products are processed. Online deliveries are shipped from these locations. The leather products offered are dyed and finished at this location. As well, custom stamps are made at this warehouse. Having one warehouse allows the company to cut communication inefficiencies and save on building costs; however, it also increases transportation costs and limits the company's production capacity, leaving production highly vulnerable to operational issues in its single warehouse.

Distribution

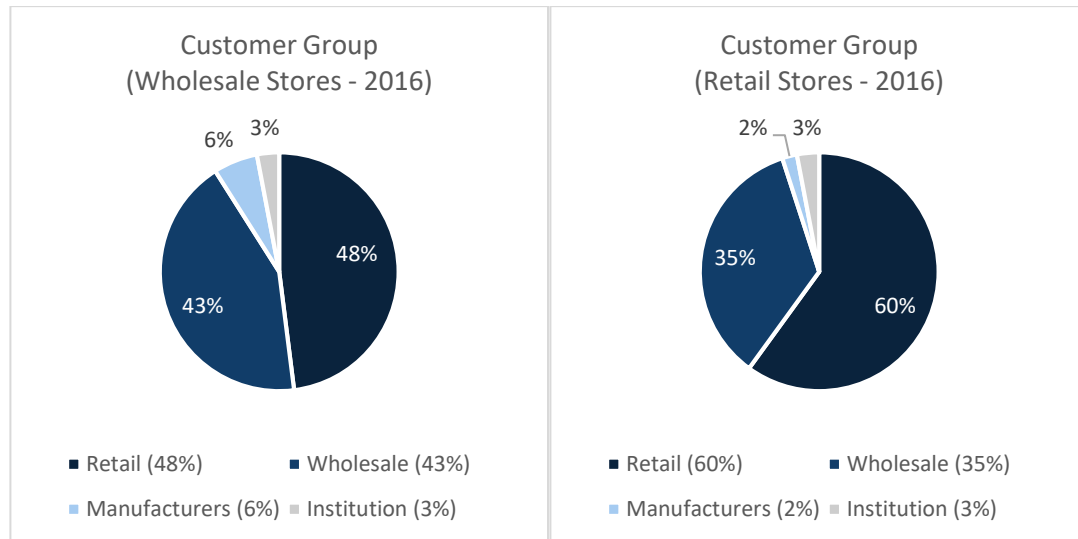
The company's products are distributed through its brick and mortar stores, its online website, and through online marketplaces like Amazon. The company has 105 stores in the United States, 10 in Canada, 2 in the United Kingdom, 1 in Spain, and 1 in Australia. Its US stores are primarily in Texas, California, and Florida. As part of a new growth strategy, the company plans to increase its number of brick and mortar stores while improving its online presence. Both plans will allow for the company to further expand its distribution, allowing them to reach a larger geographical area of consumers. These plans may slightly increase revenue at the expense of greatly increasing costs (building/running more stores, managing more online orders). The success of these changes to distribution will be dependent on leathercraft demand and management's capabilities.



Source: Company Website

Customers

Tandy Leather Factory reports their customer groups by their wholesale stores and their retail stores. Their customer demographic is broken down into retail, wholesale, manufacturers, and institutions (hospitals, schools, and prisons). Most of the firm's sales come from retail (individuals) with no single customer controlling a large portion of sales. As Tandy Leather Factory's primary advantage is their quality brand name and reputation, even individual retail customers can have significant impact through online reviews and word of mouth. Therefore, the customer risk is moderate.



Growth Strategy

Since the introduction of the new CEO in early 2016, Tandy Leather Factory has implemented an ambitious growth strategy in reaction to the company's poor performance in the 2016 fiscal year. The company's strategy is composed of: (1) opening new stores, (2) increasing existing store performance, (3) increasing brand awareness, and (4) revamping management structure.

Opening New Stores

After the end of the 2016 fiscal year, the company had 84 retail locations. Since this sector is their most profitable, this number is set to increase to 120-150 stores. There has been no clear deadline set for this goal to be reached; however, it appears that store count is increasing on track. Before the announcement of the new growth strategy, the number of retail stores was increasing at a rate of 2-3% per year. Assuming the 4 new stores opened in FY2017 are retail stores (not wholesale stores), the company has increased its retail store count by 5% this year. If this 5% growth remains steady per year, Tandy Leather Factory will grow from its 84 stores to its minimum goal of 120 retail stores by 2024. Without a clear timeline on how this goal will be achieved, the progress of this expansion plan seems inefficient. As Tandy Leather Factory experienced a decline in sales in the last two years coupled with their placement in a declining industry, management's plans to increase brick and mortar stores appears to take on more costs than it would revenue. This result is visible in the most recent FY2017 results with operation expenses greatly increasing and sales continuing to fall. Thus, showing that management's key growth strategy primarily centered on physical expansion is unlikely to prove successful.

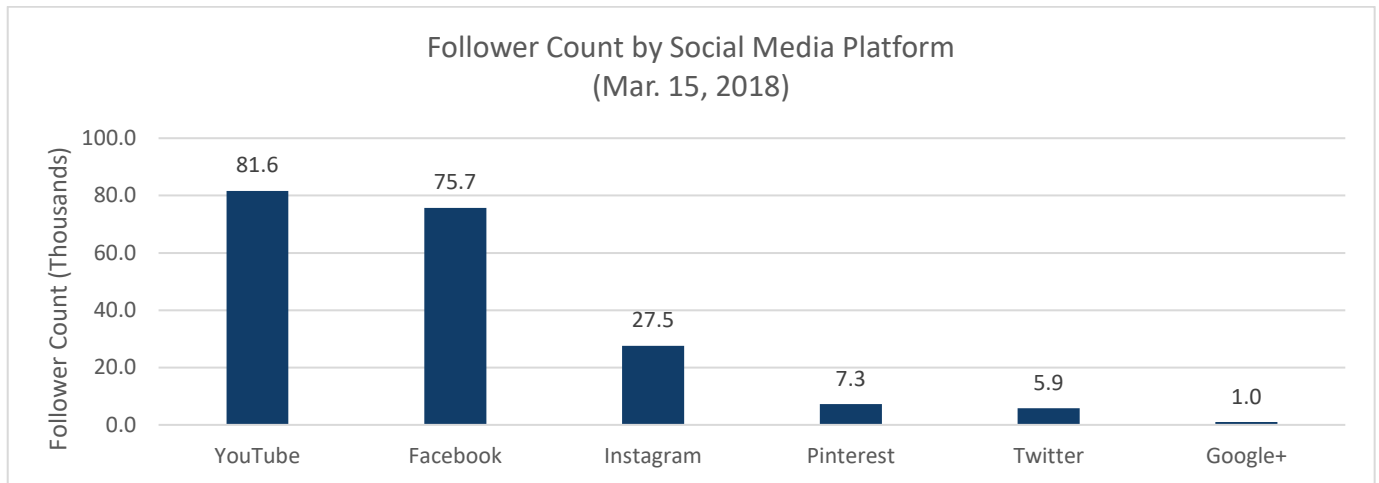


Increasing Existing Store Performance

The company has reset its inventory levels, improving inventory turnover. As well, there have been plans set to strengthen customer experience. As of the end of 2016, stores have new features: public Wi-Fi, new credit card system, workbench that allows customers to interact while crafting, and a military appreciation program. These new features will be costly to maintain in the company's many stores. This may cause a significant increase in operating expenses which will decrease margins. Moving forward, the company plans to install monitors in stores with Tandy Leather Factory's instructional leathercraft videos and implement more promotions and giveaways. Therefore, it can be expected that operating expenses will continue to grow to pay for added advertising fees and to accommodate for these new fixtures.

Increasing Brand Awareness

Tandy Leather Factory is sponsoring trade shows and will be attending 4 conferences across the US to advertise and promote the brand in 2017. In addition to in-person promotions, the company has placed focus on increasing social media presence. They have done this by frequently uploading leathercraft videos on their YouTube channel, releasing 12 videos in only 3 months. As well, the brand is active on 6 social media channels each with over 1000 followers each. Most of their engagement is primarily through Facebook and YouTube.



Source: Company Social Media Pages

Revamping Management Structure

At the end of 2016, the company announced its decisions to add a new middle management level to their business structure. Originally, store managers reported to regional managers over a large area. However, the company has decided to add in a middle-man to handle a smaller concentration of store managers. This change will increase travel costs as district managers will need to travel between stores and to meet with regional managers. In addition to this change, the firm plans to reduce the number of store operation positions to keep employee compensation costs down.

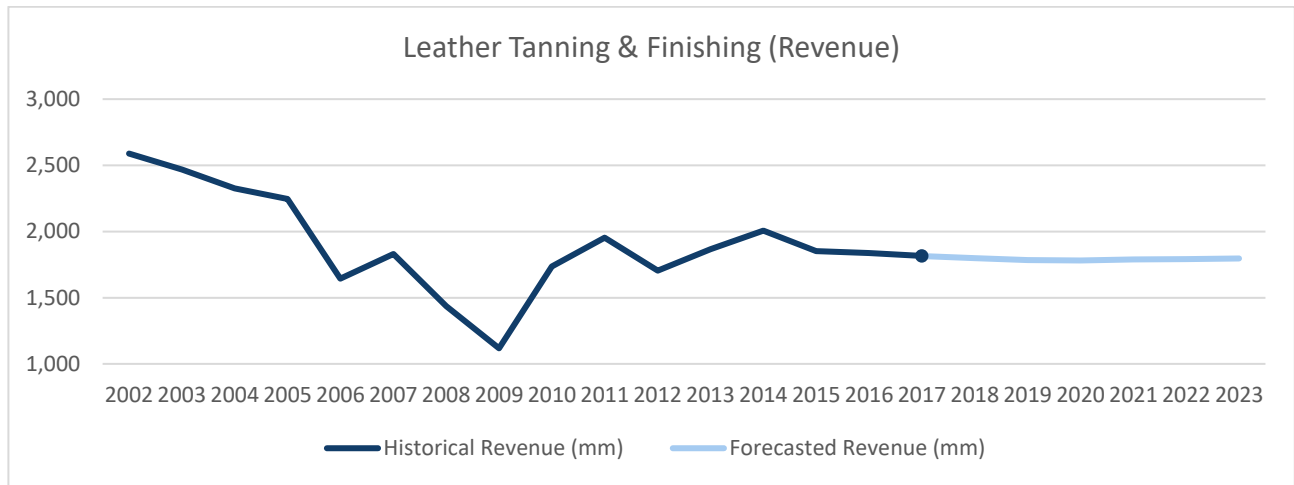
Macro Environment

Leathercraft Demand

The industry caters to a niche selection of consumers consisting of leathercraftsmen and leathercraft hobbyists. Leathercraft can be split into the following sub-segments: (1) Leather Tanning and Finishing, (2) Fabric, Craft, and Sewing Supplies, and (3) Leather Good and Luggage Manufacturing.

Leather Tanning and Finishing

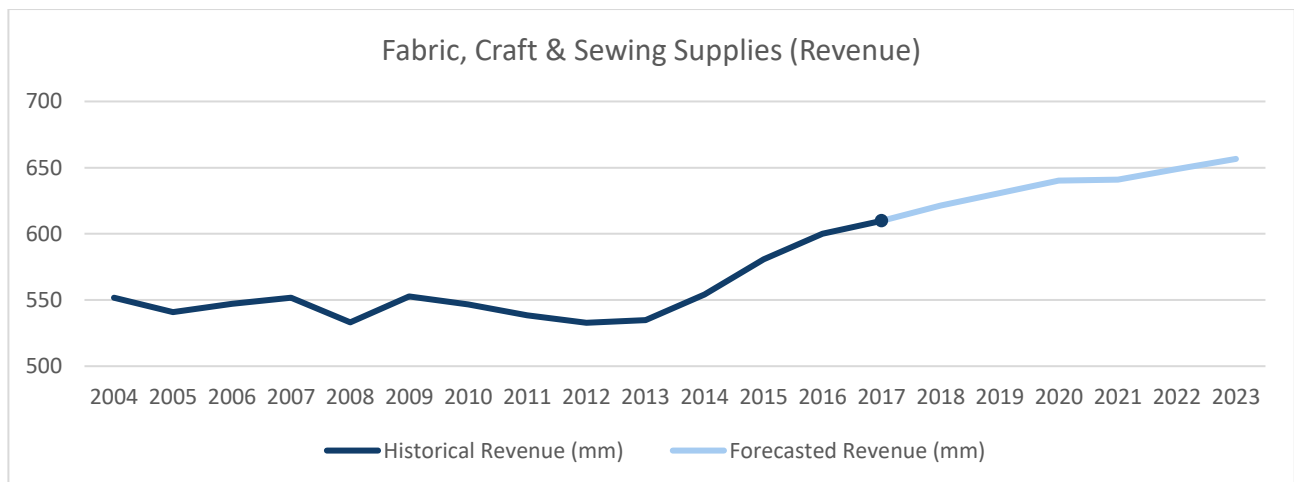
According to the US Department of Commerce, the demand for leather is shrinking. Annual revenues for the industry has fallen 30% from 2002 to 2017. It is projected that industry revenue will remain steady in the next few years; however, the industry has been determined to be in a state of decline as the industry and is predicted to decline at an annualized rate of 0.6% for the next five years. This decrease in leather tanning and finishing demand will have negative effects on Tandy Leather and its leather sales.



Source: IBISWorld

Fabric, Craft, and Sewing Supplies

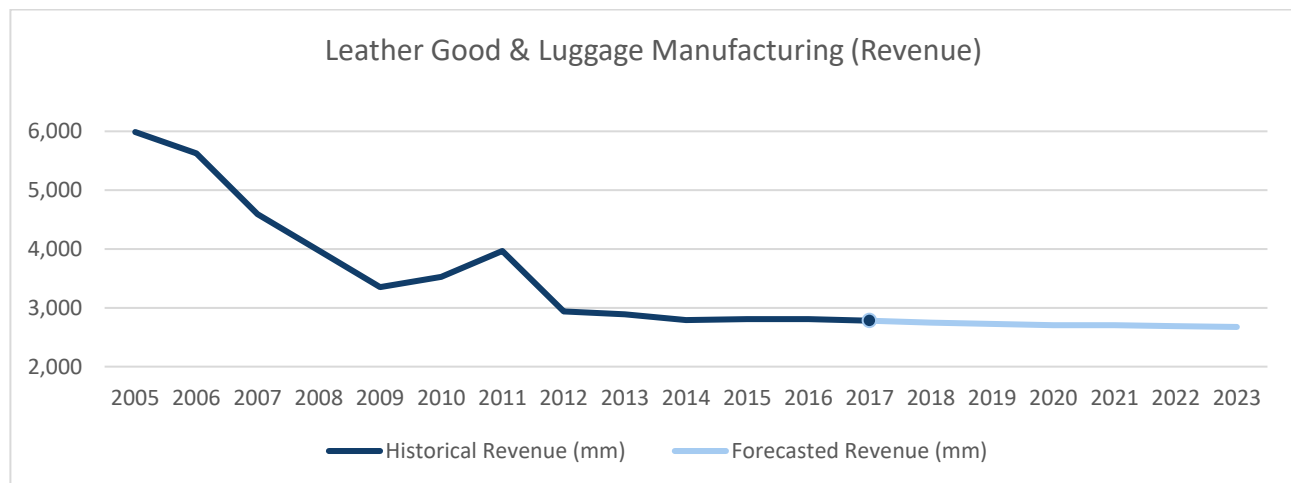
Over time, the Fabric, Craft & Sewing Supplies industry has seen a positive growth. From 2004 to 2017, there has been an increase of 11% in annual revenues with minimal fluctuations. The annual revenues are projected to increase. The rise in popularity of DIY projects online may contribute to this increase. As Tandy Leather Factory relies heavily on DIY leather hobbyist sales, this projected growth will positively benefit Tandy Leather Factory. The industry is in a mature state and it is predicted that the industry will grow at an annualized rate of 2.3% which is slightly faster, but approximately in line with GDP.



Source: IBISWorld

Leather Good and Luggage Manufacturing

The Leather Good and Luggage Manufacturing industry has experienced a decline in annual revenues. From 2005 to 2017, annual revenues have decreased 54% in annual revenues with slight fluctuations. The annual revenues are expected to remain steady, decreasing slowly. As domestic automobile, a major consumer of leather for interior finishing, is expected to be stagnant, the price of leather is projected to increase in the next few years which may affect the performance of domestic leather good and luggage manufacturing. The price of leather is also a major factor in Tandy Leather Factory's production and thus, this could negatively impact the company's growth prospects. The industry is in a declining state and the industry is expected to decline at an annualized rate of 0.5%.



Source: IBISWorld

Leathercraft Demand – Conclusion

The Fabric, Craft, and Sewing Supplies industry's revenues are expected to experience modest growth in the next few years. However, both the Leather Tanning and Finishing and the Leather Good and Luggage Manufacturing industries are expected to fall in the next few years. With two of the three market segments declining, it appears that the overall demand for leathercraft is also expected to fall. This drop demand may negatively impact Tandy Leather Factory's revenue moving forward, working against their growth strategy.

Competition

Within the leather industry, Tandy Leather Factory is the only major leathercraft company and thus, has minimal competition in a fragmented market. Tandy's main competitors are small, local leathercraft or hobby stores and internet-based retailers. Due to its lack of competition, the company is expected to maintain modest profits.

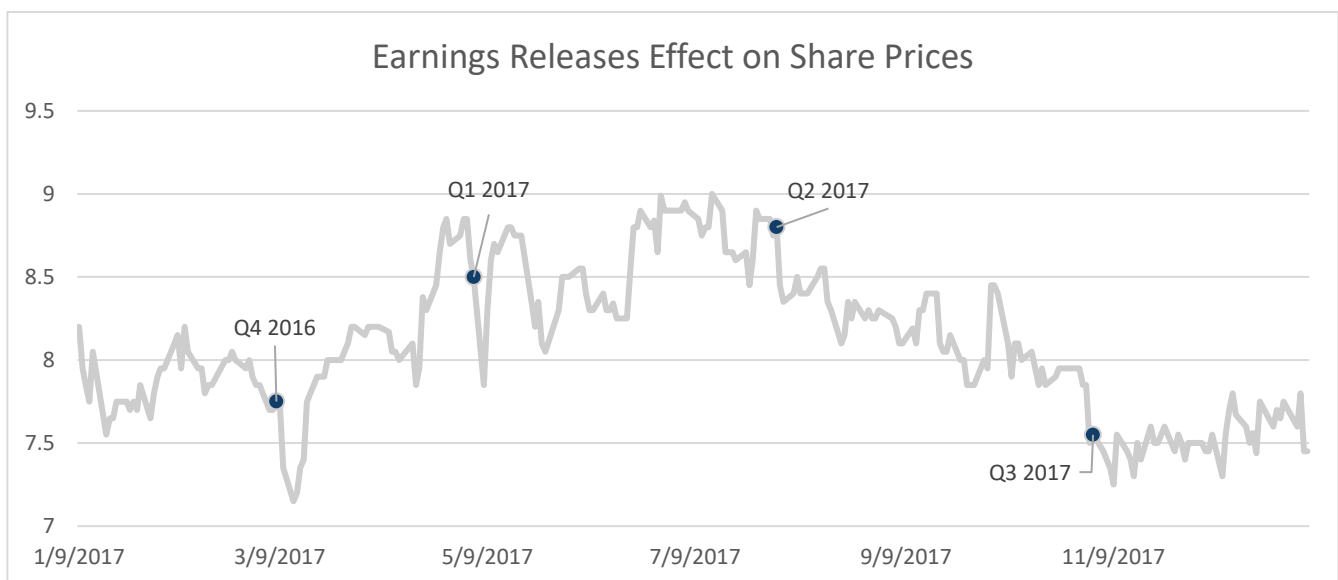
Globalization

Tandy Leather Factory has been able to leverage the fact that the company is the only key player in the leathercraft industry. However, through globalization, the firm has faced increased competition. Though there are no large brick and mortar competitors, the industry is growing with retailers on online marketplaces like Amazon. On Amazon alone, there are over 50 major competing leathercraft supply retailers including stores from Asia and Europe. Although Tandy Leather comprises of a majority of the sites' products, as other companies enter the market, the industry will become increasingly saturated, diminishing Tandy Leather Factory's prime positioning.

Catalysts

Earnings Report

In Q1-Q3 2017, revenue (and net income) has been reported lower on a year-over-year basis. Due to this repeated decrease in sales, share prices have fallen after each quarterly report released this year as seen on the chart below. Investors are adamantly waiting to observe the results of the newly implemented growth strategy. After a fall in sales seen in the 2016 year-end earnings report, the share price dropped; however, they quickly recovered and climbed upwards due to investors' optimistic views on the new expansion plans. Despite this optimistic outlook, investors were again met with disappointing results in Q1 2017, causing prices to drop once more. Since this was the early stages of the growth strategy, investors were more forgiving and prices increased, expecting positive results in the next quarter. As Tandy Leather Factory continued to do poorly with each subsequent earnings report, prices have stopped recovering after earnings releases. Since investors are no longer expecting positive change in the next few quarters, share prices are likely to remain stagnant in the future.



Management Team

Shannon Greene – CEO

Shannon Greene was appointed CEO in February 2016. She has also been a board member for Tandy Leather Factory (formerly known as The Leather Factory) since January 2001. Greene has been with the company since 1997. She started off as an Assistant Controller, then a Controller, and then the CFO. She holds a Bachelors in Accounting from New Mexico State University and the CPA designations. Greene holds 197,082 shares which is worth \$1.43 million and makes up 2.13% of the company's ownership.

William Warren – Secretary and General Counsel

William Warren has been the company's Secretary and General Counsel since June 1993. As well, he has served as a board member since February 2013. In addition to this, since 1979, he has continued to serve as the President and Board Member of Loe Warren Rosenfield Kaitcer, a law firm in Fort Worth, Texas. He holds a JD degree from Southern Methodist University. He owns 65,825 shares which is valued at \$477,230 and amounts to 0.71% of Tandy Leather Factory's ownership.

Mark Angus – President

Mark Angus is the President of Tandy Leather Factory and has been so since June 2016. Prior to his appointment, he was the company's Senior VP and Assistant Secretary from May 2008-June 2016. He has also been a board member since 2009. He holds 61,509 shares which equates to \$445,940 and makes up 0.66% of the company's ownership.

Tina Castillo – CFO and Treasurer

Tina Castillo was recently appointed to CFO and Treasurer of Tandy Leather Factory in February 2017. Before this, she was a Controller at the company for one year. She has served as CFO of several different oil-related companies: Compass Well Services, GoFrac LLC, and Union Drilling Inc. Prior to these, she was a senior manager from June 1994 to June 2009 at Ernst & Young. She holds a Master's Degree in Accounting from the University of Texas at Austin and the CPA designations. She holds 10,101 shares which is worth \$73,230 and makes up 0.11% of the company's ownership.

Shareholder Base, Liquidity, Market Depth

Of Tandy Leather Factory's shareholder base, Bandera Partners owns a large stake. Due to this, the shareholder base is fairly concentrated with over half of the company's ownership belonging to the top shareholders as seen below.

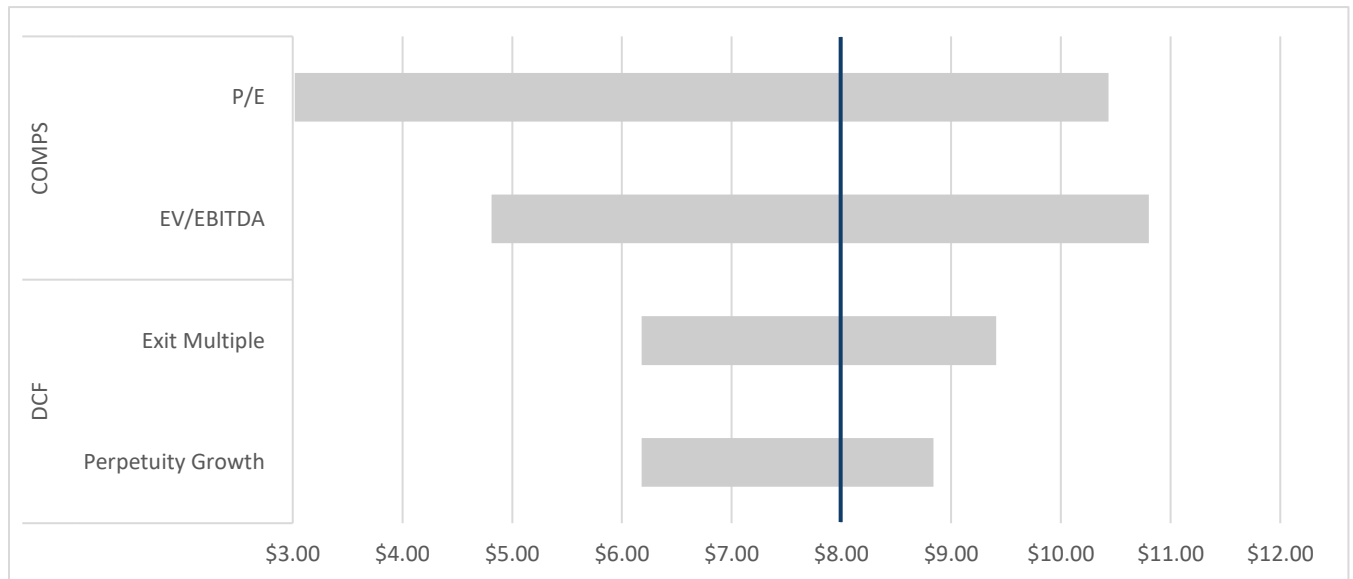
Shareholders (Name)	Shares Owned (mm shares)	% of Free Float (%)	Insider? (Y/N)	Filing Date (Date)
Bandera Partners LLC	2.9	30.8%	N	30-Sep-17
JCP Investment Management	0.8	8.2%	N	15-Sep-17
Central Square Management LLC	0.6	6.7%	N	31-Dec-16
Dimensional Fund Advisors LP	0.5	5.3%	N	30-Sep-17

Beddow Capital Management Inc.	0.5	5.0%	N	30-Sep-17
Royal Bank of Canada	0.4	4.3%	N	31-Dec-16
Shannon Greene, CEO	0.2	2.1%	Y	20-Apr-16
Jon Thompson, Former CEO	0.2	2.0%	Y	3-May-16
Vanguard Group	0.2	1.9%	N	30-Sep-17
Bridgeway Capital Management Inc.	0.1	1.2%	N	30-Sep-17
Total Identified Investors	6.3	67.5%		

The firm's shares trade on the NASDAQ exchange with an average daily trading volume of 11,867 with a value of approximately \$96,131 being traded daily. Insiders hold 4.43% of shares outstanding. 74.26% of the company's shares are owned by institutional investors, controlled by 45 different institutions. Tandy Leather Factory has the largest percentage of institutional interest for any company under \$100 million market capitalization. Having most shares outstanding held by mutual funds indicates institutional quality. The company has a short interest of 12,849 which is 0.25% of the equity float.

Valuation

We used a Discounted Cash Flow Analysis and a Comparable Companies Analysis, both weighted equally, to value Tandy Leather Factory. These yielded an implied share price of \$8.36 and \$7.74, respectively. Overall, we have come to a target share price of \$8.00 with an upside of 7%.



Discounted Cash Flow Analysis

Our DCF was used in a 50% weighting to determine the final valuation. We used a Price-Quantity Analysis to project revenue for the next five years based on our expectations that average store sales will continue its downward trend while the company continues its store location expansion plans, growing by 3 North American and zero International stores per year. We expect EBITDA margins to compress as a result of increasing pricing pressures from increased e-commerce competition.

With a WACC of 8.1% calculated by using CAPM and terminal EV/EBITDA multiple of 7.0x, using the exit multiple method, we have arrived at an implied share price of \$8.36.

Revenue Assumptions

Following management's growth strategy regarding store growth, we used a price-quantity analysis to project out revenue for the next 5 years. To calculate revenue, this method uses (1) store count and (2) average revenue per store.

Store Count

According to management's guidance, Tandy Leather Factory aims to grow their store count by 3-4 stores annually. Thus, we have chosen 3 stores to estimate North American store growth. For the international segment, as there has been no change in store count in 2016 or 2017. Management has not released any plans to focus on this segment and thus, it is expected that store count will remain unchanged.

Average Revenue per Store

Despite management predicting revenue to be approximately \$84-85 million, based on the declining performance in the 2017 fiscal year, this projection appears optimistic. Average revenue per North American store has fallen by approximately \$10,000 from 2016 to 2017 per quarter. Despite implementing several new features to stores and increasing the number of stores, revenue has still fallen. From this, we do not expect any of management's changes in the immediate future to have a significant impact on falling revenue. From our 2017 Q4 prediction, this will result in management failing to reach their 2017 target revenue by around \$3 million. It is expected that revenue will not change significantly in the next 5 years and will remain, for the most part, stagnant.

Comparable Company Analysis

A 50% weighting was placed on our comparable company analysis for our final valuation. As Tandy Leather Factory is the only publicly-traded specialty leathercraft retailer, the company lacked an exact peer group. Thus, we picked companies that were of similar size to Tandy Leather Factory and either produced leather goods or manufactured leather. Using FY2019 EV/EBITDA estimates, we have arrived at a share price of \$7.74. We used the following companies in our analysis:

Boot Barn Holdings

Boot Barn Holdings is a retail chain operating in the US and through e-commerce that specializes in western and work-related footwear, apparel, and accessories. Their product line is primarily made of leather and their success is contingent on the popularity of leather goods, similar to Tandy Leather Factory.

Sac's Bar Holdings

Sac's Bar Holdings is a Japanese retail company that sells leather bags, fashion goods, accessories, and luggage. Their bags and luggage are reliant on leather supply and thus, the company is directly connected to the leather industry.

Baiksan Co.

Baiksan Co. is a manufacturer and supplier of polyurethane suede artificial leather. The company operates in South Korea and internationally. Its leather is mainly used in the production of sports shoes, automobile seats, sport gloves, balls, clothes, semiconductor grinding, and medical specialty films.

Recommendation

We believe Tandy Leather Factory's recent change in management and ambitious growth strategy will allow the company to recover from its short-term revenue decrease in the last fiscal year, leading to positive revenue growth in the next five years. However, we are reluctant about the effectiveness of this growth strategy and we are concerned about its effects on future capital expenditures and margins. In addition, due to the declining conditions of the company's industry, we predict any possible growth to be mild to stagnant. For these reasons, we give Tandy Leather Factory a **Hold** rating with a target share price of \$8.00 with an upside of 7%.

Risks

Supplier Risk

Approximately 40% of Tandy Leather Factory's revenue comes from leather sales. This makes the company volatile to change in leather prices in addition to other items on their product line. As well, changes in cost of goods and availability will affect the firm's profitability.

Distribution Risk

Most of the company's main inventory is situated in Tandy Leather Factory's single warehouse in Fort Worth, Texas. Any disturbances in the warehouse's operations may lead to increased costs or loss in sales.

Foreign Currency

As the firm has vendors and stores in multiple countries (US, Canada, UK, Spain, and Australia), fluctuations in foreign currency values may impact profitability and overall operations.

Appendix 1: Operating Model

Operating Model																						
	Dec-13	Dec-14	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22
	FY2013	FY2014	FY2015	Q1-2016	Q2-2016	Q3-2016	Q4-2016	FY2016	Q1-2017	Q2-2017	Q3-2017	Q4-2017	FY2017	Q1-2018	Q2-2018	Q3-2018	Q4-2018	FY2018	FY2019	FY2020	FY2021	FY2022
Income Statement																						
Revenue	78.3	83.4	84.2	20.7	19.5	18.6	24.1	82.9	20.1	19.3	18.4	24.5	82.3	20.6	19.6	18.7	24.7	83.5	85.1	87.1	89.2	91.2
COGS	27.8	29.9	30.5	7.6	6.2	6.5	9.1	29.5	7.4	5.9	6.2	8.8	28.3	7.6	6.1	6.3	8.9	28.9	29.4	30.2	30.9	31.6
Gross profit	50.5	53.6	53.6	13.1	13.3	12.1	15.0	53.4	12.7	13.4	12.2	15.7	54.0	12.9	13.5	12.3	15.8	54.6	55.7	57.0	58.3	59.7
EBITDA	12.5	13.4	12.0	2.8	3.3	2.0	4.0	12.0	2.2	2.1	1.2	3.6	9.1	2.3	2.2	1.1	3.7	9.2	9.4	9.7	9.9	10.1
Net income	7.3	7.7	6.4	1.5	1.8	1.0	2.1	6.4	1.2	1.0	0.5	1.7	4.5	1.2	1.2	0.5	2.2	5.1	5.2	5.4	5.5	5.7
Earnings per share	\$ 0.71	\$ 0.75	\$ 0.63	\$ 0.16	\$ 0.20	\$ 0.11	\$ 0.23	\$ 0.69	\$ 0.13	\$ 0.11	\$ 0.06	\$ 0.18	\$ 0.48	\$ 0.13	\$ 0.13	\$ 0.05	\$ 0.24	\$ 0.55	\$ 0.57	\$ 0.58	\$ 0.60	\$ 0.61
																			13.1	12.7		
Cash Flow Statement																						
Cash flow from operating activities	7.5	1.2	8.2	1.1	(1.3)	2.1	5.7	7.5	0.2	(1.4)	(2.1)	6.4	3.0	4.3	(0.8)	(2.5)	6.1	7.1	10.1	5.9	6.0	6.2
Cash used in investing activities	(3.8)	(2.2)	(2.2)	(0.6)	(0.3)	(0.5)	(0.2)	(1.5)	(0.6)	(0.4)	(0.5)	(0.1)	(1.7)	(0.4)	(0.2)	(0.3)	(0.2)	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)
Cash from financing activities	(0.4)	0.5	(5.7)	(0.0)	(0.0)	-	(0.1)	(0.1)	-	0.2	-	(0.1)	0.2	-	-	-	-	-	-	-	-	-
Net change in cash	3.4	(0.4)	0.3	0.5	(1.6)	1.6	5.4	5.9	(0.5)	(1.6)	(2.7)	6.2	1.5	4.0	(1.1)	(2.8)	5.9	6.0	8.9	4.8	4.9	5.1
Balance Sheet																						
Assets																						
Current assets	40.5	46.4	47.6	48.0	49.6	52.6	53.3	53.3	53.8	54.7	56.8	57.8	57.8	59.2	60.2	61.7	64.4	64.4	69.9	75.5	81.3	87.3
Non-current assets	15.9	16.5	17.0	17.2	17.0	17.2	17.3	17.3	17.5	17.5	17.6	17.1	17.1	17.2	17.1	17.1	17.0	17.0	17.0	16.9	16.8	16.8
Total assets	56.4	62.9	64.6	65.3	66.6	69.8	70.7	70.7	71.3	72.2	74.4	74.9	74.9	76.3	77.3	78.8	81.5	81.5	86.9	92.4	98.2	104.0
Liabilities																						
Current liabilities	8.2	10.4	8.3	7.4	7.8	8.7	8.2	8.2	7.8	7.6	7.4	7.0	7.0	7.2	7.0	8.0	8.4	8.4	8.6	8.8	9.0	9.2
Non-current liabilities	3.6	3.4	5.3	7.6	7.8	9.0	8.7	8.7	8.2	7.7	9.0	8.4	8.4	8.4	8.4	8.4	8.4	8.4	8.4	8.4	8.4	8.4
Total liabilities	11.8	13.8	13.6	15.0	15.6	17.8	17.0	17.0	15.9	15.2	16.4	15.4	15.4	15.6	15.4	16.4	16.8	16.8	17.0	17.2	17.4	17.6
Shareholders' equity																						
Total shareholders' equity	44.6	49.1	51.0	50.3	51.0	52.0	53.7	53.7	55.3	57.0	57.9	59.5	59.5	60.8	62.0	62.4	64.6	64.6	69.9	75.2	80.8	86.5

Appendix 2: Comparable Company Analysis



Comparable Company Analysis

Company	Ticker	Equity Value	Enterprise Value	EV/EBITDA Multiple			P/E Multiple		
				NTM EV/EBITDA	2018E EV/EBITDA	2019E EV/EBITDA	NTM P/E	2018E P/E	2019E P/E
Boot Barn Holdings	NYSE:BOOT	526.1	672.5	9.8 x	10.7 x	9.5 x	18.8 x	23.4 x	18.5 x
Sac's Bar Holdings	TSE:9990	326.6	334.8	6.4 x	6.7 x	6.3 x	13.0 x	13.5 x	12.7 x
Baiksan Co	KOSE:A035150	147.5	140.0	4.2 x	4.2 x	3.6 x	6.4 x	6.4 x	5.3 x
Tandy Leather Factory	NASDAQ:TLF	69.8	58.6	6.4 x	6.3 x	6.2 x	15.1 x	13.6 x	13.3 x
Median				6.4 x	6.7 x	6.3 x	13.0 x	13.5 x	12.7 x
Mean				6.8 x	7.2 x	6.4 x	12.7 x	14.4 x	12.2 x
High				9.8 x	10.7 x	9.5 x	18.8 x	23.4 x	18.5 x
Low				4.2 x	4.2 x	3.6 x	6.4 x	6.4 x	5.3 x
				EV/EBITDA Implied Price			P/E Implied Price		
Median				\$ 7.47	\$ 7.81	\$ 7.59	\$ 6.46	\$ 7.43	\$ 7.19
Mean				\$ 7.85	\$ 8.33	\$ 7.74	\$ 6.33	\$ 7.93	\$ 6.88
High				\$ 10.79	\$ 11.84	\$ 10.80	\$ 9.35	\$ 12.86	\$ 10.43
Low				\$ 5.29	\$ 5.33	\$ 4.81	\$ 3.16	\$ 3.51	\$ 3.02

Appendix 3: Discounted Cash Flow Analysis

	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22
	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022
WACC Calculations										
Cost of Equity										
Risk-free rate	2.3%									
Expected market return	11.0%									
Market risk premium	8.7%									
Beta	0.76									
Cost of equity	8.9%									
Cost of Debt										
Pre-tax cost of debt	2.5%									
Effective tax rate	35.0%									
Cost of debt	1.6%									
WACC										
Total shareholders' equity	57.9									
Total debt	7.4									
Total capitalization	65.4									
Cost of equity	8.9%									
Cost of debt	1.6%									
WACC	8.1%									
Free Cash Flow										
EBIT	11.3	12.0	10.5	10.3	7.2	8.0	8.3	8.5	8.7	9.0
Less: Tax expense	(3.9)	(4.2)	(3.7)	(3.6)	(2.5)	(2.8)	(2.9)	(3.0)	(3.1)	(3.1)
Add: Depreciation and amortization	1.2	1.4	1.6	1.7	1.9	1.2	1.2	1.2	1.2	1.2
Less: Capital expenditures	(3.8)	(2.2)	(2.2)	(1.7)	(1.7)	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)
Less: Change in net working capital	(1.2)	(7.5)	0.7	(0.8)	(4.2)	0.8	3.6	(0.7)	(0.7)	(0.7)
Unlevered free cash flow	3.5	(0.5)	6.9	5.9	0.7	6.1	9.1	4.9	5.1	5.2
Discount factor						1.00	2.00	3.00	4.00	5.00
Present value of unlevered free cash flow						5.8	7.8	3.9	3.7	3.5
Discounted Cash Flow Valuations										
Perpetuity Growth Method			Exit Multiple Method			WACC				
Perpetuity growth rate	2.0%		Terminal EV/EBITDA			11.27%	10.77%	10.27%	9.77%	9.27%
PV sum of unlevered FCF	24.7		PV sum of unlevered	1.00%	\$ 6.18	\$ 6.45	\$ 6.75	\$ 7.08	\$ 7.45	
PV of terminal value	58.1		PV of terminal value	1.50%	\$ 6.35	\$ 6.64	\$ 6.96	\$ 7.32	\$ 7.73	
Enterprise value	82.8		Enterprise value	2.00%	\$ 6.53	\$ 6.84	\$ 7.20	\$ 7.59	\$ 8.05	
Add: Cash	12.2		Add: Cash	2.50%	\$ 6.73	\$ 7.07	\$ 7.46	\$ 7.91	\$ 8.41	
Less: Debt	7.4		Less: Debt	3.00%	\$ 6.96	\$ 7.34	\$ 7.77	\$ 8.26	\$ 8.84	
Less: Other EV adjustments	-		Less: Other EV adjustments							
Equity value	87.5		Equity value							
Shares outstanding	9.3		Shares outstanding							
Implied share price	\$ 9.44		Implied share price	5.0 x	\$ 6.18	\$ 6.28	\$ 6.39	\$ 6.49	\$ 6.60	
				6.0 x	\$ 6.82	\$ 6.94	\$ 7.06	\$ 7.18	\$ 7.30	
				7.0 x	\$ 7.46	\$ 7.59	\$ 7.73	\$ 7.86	\$ 8.00	
				8.0 x	\$ 8.10	\$ 8.25	\$ 8.40	\$ 8.55	\$ 8.71	
				9.0 x	\$ 8.74	\$ 8.90	\$ 9.07	\$ 9.23	\$ 9.41	
Current price	\$ 7.40		Current price							
Implied price	\$ 9.44		Implied price							
Total return	27.6%		Total return							

Legal Disclaimer

The content, opinions, estimates, and projections contained in this report are those of WestPeak Research Association (known as “WestPeak” or “WestPeak Research”) and its directors, analysts, and affiliates and are subject to change without notice. The content, opinions, estimates, and projections on this report may not have been updated directly by WestPeak and its directors, analysts, and affiliates and may also have been altered or without your or our knowledge. WestPeak and its directors, analysts, and affiliates, without exception, do not accept any liability for factual, typographical, and grammatical errors, omissions, or content in this report. WestPeak and its directors, analysts, and affiliates do not accept any liability for damages arising from the use of or reliance on any of the content, opinions, estimates, and projections on this report. WestPeak and its directors, analysts, and affiliates endeavor to ensure that the content, opinions, estimates, and projections have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. Information may be available to WestPeak and its directors, analysts, and affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This report is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. WestPeak and its directors, analysts, and affiliates may have a personal long or short position in any of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that WestPeak and its directors, analysts, and affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein. The reader, by the viewing of and use of the content, opinions, estimates, and projections contained in this report is assumed by WestPeak and its directors, analysts, and affiliates to have fully read, understood, and unconditionally agreed to all the terms and conditions set forth in this legal disclaimer.

Beverley Fung
Analyst

WestPeak Research Association
contact@westpeakresearch.com