

Guess?, Inc. (GES)

\$12.86 (As of 08/10/20)

Price Target (6-12 Months): **\$11.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 08/10/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:F

Value: D

Growth: D

Momentum: D

Summary

Shares of Guess? have lagged the industry year to date. The company's adjusted loss was wider than the consensus mark in first-quarter fiscal 2021. Also, sales missed the consensus mark and plunged 51.5% year over year, thanks to store closures as well as reduced productivity in stores that remained operational amid COVID-19. Further, management expects sales in fiscal second-quarter to see a similar decline. Nevertheless, Guess? is on track with reopening stores as coronavirus-led restrictions are being lifted. In fact, management stated that these reopened stores have been performing above expectations. Also, Guess?'s online business has been operational throughout the pandemic. Apart from this, the company's strategic initiatives to boost operating margin via cost saving efforts and enhancing operating efficiencies bode well.

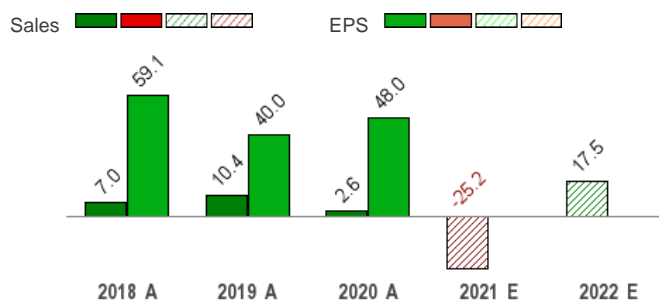
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$23.58 - \$3.64
20 Day Average Volume (sh)	1,267,912
Market Cap	\$869.4 M
YTD Price Change	-42.5%
Beta	1.68
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Textile - Apparel
Zacks Industry Rank	Bottom 12% (222 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-82.8%
Last Sales Surprise	-18.2%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	08/26/2020
Earnings ESP	0.0%
P/E TTM	1,286.0
P/E F1	NA
PEG F1	NA
P/S TTM	0.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022					2,355 E
2021	260 A	331 E	545 E	833 E	2,004 E
2020	537 A	683 A	616 A	842 A	2,678 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	-\$0.60 E	\$0.10 E	\$0.11 E	\$1.35 E	\$1.20 E
2021	-\$1.81 A	-\$0.61 E	-\$0.05 E	\$1.04 E	-\$1.31 E
2020	-\$0.25 A	\$0.38 A	\$0.22 A	\$1.22 A	\$1.45 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/10/2020. The reports text is as of 08/11/2020.

Overview

Founded in 1981 and based in L.A. **Guess?**, Inc. designs, markets, distributes and licenses casual apparel and accessories for men, women and children as per the American lifestyle and European fashion sensibilities.

The company's collection includes contemporary apparel, denim, handbags, eyewear, watches, footwear, and other related consumer products. In the clothing category, the company's collections include jeans, pants, skirts, dresses, shorts, blouses, shirts, jackets, knitwear and intimate apparel. It also designs jewelry and other fashion accessories.

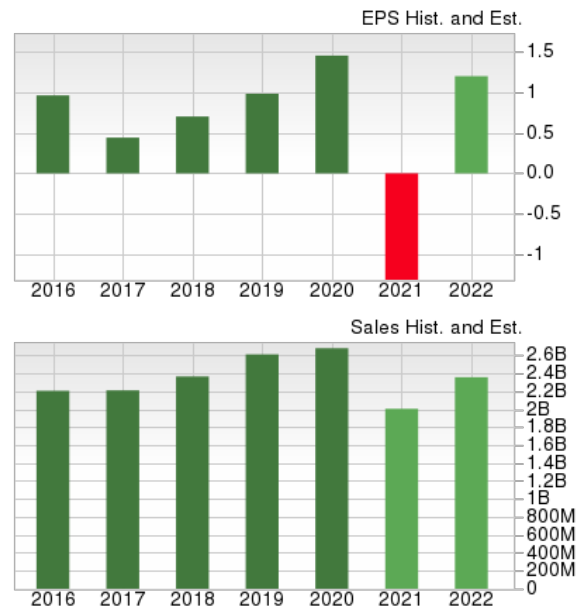
Products of the company are sold through retail, wholesale, e-Commerce and licensing distribution channels.

The company's apparel is marketed under several trademarks such as GUESS, GUESS?, GUESS U.S.A., GUESS Jeans, GUESS? and Triangle Design, MARCIANO, Question Mark and Triangle Design, a stylized G and a stylized M, GUESS Kids, Baby GUESS, YES, G by GUESS (GbG), GUESS by MARCIANO and Gc.

Guess' and its network of licensee partners sell their products primarily through six different store concepts, namely the flagship Guess-Full-price retail stores, Guess-factory outlet stores, Guess by Marciano stores, G by Guess stores, Guess Accessories Stores and Guess Kids Stores.

Further, the products are sold through wholesale, direct-to-consumer and licensing distribution networks. The company's business is classified into five reportable segments: **Europe, Americas Retail, Asia, Americas Wholesale and Licensing.**

The company sources products from numerous suppliers located both locally and globally. Further, the company promotes its products through advertising, public relations and marketing strategies. In fact, strong promotional skills have helped the company in creating a unique name for itself in the fashion space as well as keep driving consumer traffic.



Reasons To Sell:

▼ **COVID-19 Hurts Q1:** Guess? posted dismal first-quarter fiscal 2021 results. The company's adjusted loss came in at \$1.81 per share, wider than Zacks Consensus Estimate of a loss of 99 cents. Also, the metric was wider than a loss of 25 cents reported in the year-ago quarter. The deterioration can be attributed to lower revenues and gross margin during fiscal first-quarter.

Store closures amid the outbreak of the novel coronavirus hurt the company's first-quarter fiscal 2021 results.

Net revenues amounted to \$260.3 million, which missed the consensus mark and fell 51.5% year over year. On a constant-currency basis, revenues plunged 50.1%. Sales in the quarter were affected by store closures as well as reduced productivity in stores that were operational amid the COVID-19 pandemic. In fact, sales declined across all regions where the company operates. Further, management anticipates sales in the fiscal second quarter to witness a similar decline. Notably, shares of Guess? have slumped 42.6% year to date compared with the industry's decline of 16.9%.

▼ **Escalated Costs:** Guess?'s adjusted SG&A expenses, as a percentage of sales, have been rising for a while. After expanding 80 basis points (bps), 50 bps, 90 bps and 70 bps in the first, the second, the third and the fourth quarter of fiscal 2020, respectively, the metric increased significantly in the first quarter of fiscal 2021. We believe that, persistence of headwinds related to higher costs can be a threat to the company's profitability in the future.

▼ **Debt Analysis:** Guess?'s long-term debt (including long-term lease liability) of \$1,005 million as of May 2, 2020, increased 1.1% from the preceding quarter. Moreover, its debt-to-capitalization ratio of 0.71 is higher than the industry's figure of 0.61. Further, the company's times interest earned ratio stands at negative 1, lower than the industry's ratio of a positive 3.5. The times-interest-earned ratio is very important for some companies, as it measures a company's ability to meet its debt obligations based on its current income. The company has drawn about \$212 million under some of its credit facilities and postponed its dividend payment amid the coronavirus outbreak.

▼ **International Exposure Poses Currency Risks:** Owing to Guess?' solid international presence, the company remains exposed to the unfavorable currency fluctuations. The weakening of foreign currencies against the U.S. dollar may require the company to either raise prices or contract profit margins in locations outside the country. We note that, currency headwinds can weigh on the company's revenues in the future.

Risks

- **Efforts to Stay Afloat Amid COVID-19:** Guess? has been undertaking a number of measures to enhance its financial position amid the COVID-19 outbreak. Among other moves, the company is undertaking tiered salary curtailments temporarily for all its U.S. corporate workers at the management level. Further, it is delaying annual merit raises and considerably reducing store occupancy costs, capital expenditures, inventory purchases and overall expenses.
- **Store Reopening on Track:** The company is on track with reopening stores as restrictions to check the coronavirus outbreak are being lifted gradually. As of May 2, all of Guess?'s stores have reopened in Asia along with more than 400 stores operational in Europe. In Canada and the United States more than 180 stores have reopened. Management stated that these reopened stores have been performing above expectations. Further, Guess? plans to reopen all its stores by the end of June. Also, the company has been bringing back a number of store associates as well as its support staff as stores are opening again.
- **Digital Operations to Drive Performance:** Guess? has long been benefitting from its solid digital efforts. The company's online business continued to remain operational amid the coronavirus outbreak. Although its e-commerce websites have witnessed reduced traffic, conversion rates remained strong. Also, management is optimistic about its e-commerce growth in the near-term. Well, Guess? has been on track with its digital-first initiative and has been investing in brand building through social media platforms such as Facebook, Twitter, Instagram and YouTube. Further, the company has been focusing on linking brick-and-mortar stores, e-commerce and mobile sales to improve its online operations. This is likely to have enabled customers to reserve merchandise online and pick them up in stores.

Earlier, management stated that they are on track with upgrading online platform in the European and American regions. It is also planning to improve e-commerce operations by undertaking efforts such as better data capturing, improved customer profiling, personalized marketing and relationship management. These efforts are expected to help the company enhance customer base and enrich their experience, which in turn is likely to aid sales.

- **Strategic Endeavors to Aid Growth:** The company is on track with boosting operating margin through cost saving efforts, enhancing operating efficiencies as well as gross margin improvement efforts. Moreover, Guess?'s focus on its customer centricity initiatives including global ecommerce strategy, salesforce implementation as well as omnichannel experience redesign projects bodes well. Also, the company plans to launch a new customer 360 project to enhance personalization, customer data integration, journey engagement as well as results analysis. Moreover, management believes that such robust customer centric efforts will increase the company's e-commerce business penetration by an additional five points over the coming three years.

Additionally, the company is on track with global consolidation of its functional capabilities with a view to capture new efficiencies, global consistency in performance as well as higher accountability. In this regard, Guess? plans to redesign its organizational structure globally.

Last Earnings Report

Guess?'s Q1 Loss Wider Than Estimates, Sales Down Y/Y

Guess? posted first-quarter fiscal 2021 results with the top and the bottom line missing the Zacks Consensus estimates and declining year over year. During the quarter, the company bore the brunt of store closures and lower customer demand amid coronavirus outbreak.

Due to uncertainties related to the pandemic, management refrained from giving detailed outlook for the fiscal second quarter as well as fiscal 2021. However, the company anticipates sales in the fiscal second quarter to witness a similar decline.

Quarter Ending **04/2020**

Report Date	Jun 10, 2020
Sales Surprise	-18.19%
EPS Surprise	-82.83%
Quarterly EPS	-1.81
Annual EPS (TTM)	0.01

Quarter in Detail

Guess? posted adjusted loss of \$1.81 per share, which was wider than Zacks Consensus Estimate of a loss of 99 cents. Also, the metric was wider than a loss of 25 cents reported in the year-ago quarter. The downside can be attributed to lower revenues and gross margin during fiscal first-quarter.

Net revenues amounted to \$260.3 million, which missed the consensus mark of \$318 million. Further, the top line was down 51.5% year over year. On a constant-currency (cc) basis, revenues plunged 50.1%. Sales in the quarter were affected by store closures as well as reduced productivity in stores that remained operational amid COVID-19.

The company's gross margin contracted significantly to 13.2%, due to inventory markdowns amid COVID-19. Also, occupancy deleverage acted as a deterrent.

For the first quarter of fiscal 2021, adjusted operating loss was \$108.6 million compared with a loss of \$22.4 million in the prior-year quarter. The deterioration was caused by coronavirus-led store closures.

Segment Performance

Revenues in the **Americas Retail** segment declined 57.7% year over year and 57.4% at cc.

Net revenues in the **Americas Wholesale** segment dropped 44% year over year. Also, the metric was down 41.8% at cc.

The **Europe** segment's revenues fell 49.3% year over year. The metric declined 47.4% at cc.

Asia revenues plunged 52.6% on a year-over-year basis. Additionally, the metric dropped 50.6% at cc.

Licensing revenues declined 31.3% year over year.

Other Updates

The company exited the quarter with cash and cash equivalents of \$419.4 million as well as long-term debt and finance lease obligations of \$94.8 million. Further, stockholders' equity was \$471.7 million. Net cash used in operating activities during three months ended May 2 amounted to \$61.6 million.

COVID-19 Related Update

The company is on track with reopening stores as restrictions to check the spread of the coronavirus are being lifted gradually. As of May 2, all of Guess?'s stores have reopened in Asia along with more than 400 stores operational in Europe. In Canada and the United States more than 180 stores have reopened. In fact, management stated that these reopened stores have been performing above expectations. Further, Guess? plans to reopen all its stores by the end of June. Also, the company has been bringing back a number of store associates as well as its support staff as stores are opening again.

Apart from this, Guess? has been undertaking a number of measures to enhance its financial position amid COVID-19 outbreak. Among other moves, the company is undertaking tiered salary curtailments temporarily for all its U.S. corporate workers at the management level. Further, it is delaying annual merit raises and considerably reducing store occupancy costs, capital expenditures, inventory purchases and overall expenses. Also, the company has drawn about \$212 million under some of its credit facilities and has postponed its dividend payment.

Valuation

Guess? shares are down 42.6% in the year-to-date period and 12.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary sector are down 16.9% and 4.7% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is down 0.4% while the sector gained 6.4%.

The S&P 500 index is up 5% in the year-to-date period and 18.6% in the past year.

The stock is currently trading at 0.4X forward 12-month sales, which compares to 2.37X for the Zacks sub-industry, 2.37X for the Zacks sector and 3.66X for the S&P 500 index.

Over the past five years, the stock has traded as high as 0.89X and as low as 0.1X, with a 5-year median of 0.54X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$11 price target reflects 0.3X forward 12-month sales.

The table below shows summary valuation data for GES

Valuation Multiples - GES					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	0.4	2.37	2.37	3.66
	5-Year High	0.89	2.48	2.95	3.66
	5-Year Low	0.1	1.45	1.68	2.53
	5-Year Median	0.54	2.09	2.5	3.05
P/B TTM	Current	1.79	7.74	3.24	4.67
	5-Year High	2.63	7.77	4.93	4.67
	5-Year Low	0.39	3.57	2.22	2.83
	5-Year Median	1.58	6.19	4.22	3.74
EV/EBITDA TTM	Current	11.11	24.11	11.04	12.62
	5-Year High	12.92	25.94	17.86	12.84
	5-Year Low	4.05	11.48	8.32	8.24
	5-Year Median	7.5	18.08	12.3	10.9

As of 08/10/2020

Industry Analysis Zacks Industry Rank: Bottom 12% (222 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Hanesbrands Inc. (HBI)	Outperform	1
American Eagle Outfitters, Inc. (AEO)	Neutral	4
Columbia Sportswear Company (COLM)	Neutral	3
GIII Apparel Group, LTD. (GIII)	Neutral	3
Gildan Activewear, Inc. (GIL)	Neutral	4
lululemon athletica inc. (LULU)	Neutral	3
Ralph Lauren Corporation (RL)	Underperform	4
Under Armour, Inc. (UAA)	Underperform	4

Industry Comparison Industry: Textile - Apparel				Industry Peers		
	GES	X Industry	S&P 500	COLM	GIII	RL
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Neutral	Underperform
Zacks Rank (Short Term)	5	-	-	3	3	4
VGM Score	F	-	-	F	F	F
Market Cap	869.37 M	835.58 M	23.56 B	5.27 B	541.08 M	4.99 B
# of Analysts	4	4	14	7	7	6
Dividend Yield	0.00%	0.00%	1.71%	0.00%	0.00%	4.00%
Value Score	D	-	-	C	C	C
Cash/Price	0.50	0.23	0.07	0.09	1.21	0.57
EV/EBITDA	6.60	8.18	13.39	9.76	3.98	8.85
PEG Ratio	NA	4.61	2.92	14.28	13.52	6.38
Price/Book (P/B)	1.79	1.79	3.18	3.19	0.43	1.95
Price/Cash Flow (P/CF)	4.55	6.20	12.69	12.11	2.76	6.51
P/E (F1)	NA	40.25	22.16	41.26	121.26	63.20
Price/Sales (P/S)	0.36	0.67	2.55	1.92	0.18	0.96
Earnings Yield	-10.19%	1.66%	4.33%	2.42%	0.80%	1.59%
Debt/Equity	2.06	0.86	0.77	0.21	0.91	1.23
Cash Flow (\$/share)	2.83	2.28	6.94	6.59	4.08	10.55
Growth Score	D	-	-	F	F	F
Hist. EPS Growth (3-5 yrs)	-16.06%	-2.10%	10.41%	13.85%	7.78%	-1.38%
Proj. EPS Growth (F1/F0)	-190.34%	-81.00%	-6.51%	-59.98%	-97.09%	-83.43%
Curr. Cash Flow Growth	24.83%	6.85%	5.26%	30.70%	6.85%	-10.72%
Hist. Cash Flow Growth (3-5 yrs)	0.67%	3.96%	8.55%	17.53%	9.97%	-4.88%
Current Ratio	1.54	1.96	1.34	2.99	3.97	2.59
Debt/Capital	67.45%	48.61%	44.59%	17.39%	47.60%	55.19%
Net Margin	-1.68%	-0.51%	10.13%	6.66%	3.15%	2.67%
Return on Equity	1.00%	1.00%	14.59%	10.53%	8.68%	8.21%
Sales/Assets	1.00	0.93	0.51	0.99	1.07	0.70
Proj. Sales Growth (F1/F0)	-25.19%	-6.50%	-1.54%	-15.59%	-29.29%	-27.33%
Momentum Score	D	-	-	F	F	D
Daily Price Chg	3.54%	0.95%	0.91%	4.66%	5.83%	4.12%
1 Week Price Chg	20.12%	1.38%	2.30%	0.46%	7.58%	-7.49%
4 Week Price Chg	40.70%	5.98%	8.54%	3.28%	-0.44%	-1.44%
12 Week Price Chg	61.56%	16.44%	13.68%	18.80%	14.78%	-1.79%
52 Week Price Chg	-13.43%	-25.64%	3.71%	-17.85%	-50.16%	-25.29%
20 Day Average Volume	1,267,912	129,988	2,015,804	318,276	1,182,565	1,225,163
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	-57.96%
(F1) EPS Est 4 week change	0.00%	0.00%	1.67%	-4.55%	0.00%	-61.44%
(F1) EPS Est 12 week change	-1,646.67%	-44.65%	2.27%	-3.15%	-90.59%	-80.31%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.67%	-5.55%	0.00%	-57.98%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	D
Momentum Score	D
VGM Score	F

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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