

Guess?, Inc. (GES)

\$16.69 (As of 02/26/20)

Price Target (6-12 Months): **\$18.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/25/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM: C

Value: C

Growth: C

Momentum: C

Summary

Shares of Guess? have surpassed the industry in the past six months. This can be attributable to consistent growth in Europe, driving the company's top line. Such factors drove third-quarter fiscal 2020 results, with earnings and revenues improving year on year and the former beating the consensus mark. Strength in Europe and Americas Wholesale is expected to keep aiding the company's performance. Apart from this, Guess?'s gross margin is likely to keep gaining from IMUs. However, rising SG&A expenses and currency headwinds are likely to continue. Also, Guess? continues to battle weakness in Asia and Americas Retail, wherein sales are expected to decline in the fourth quarter and fiscal 2020. Nonetheless, strength in other regions and solid cost control encouraged the company to raise earnings view for fiscal 2020.

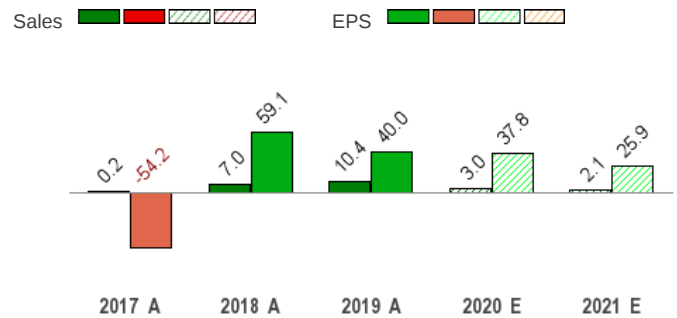
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$23.58 - \$13.34
20 Day Average Volume (sh)	855,601
Market Cap	\$1.1 B
YTD Price Change	-25.4%
Beta	0.44
Dividend / Div Yld	\$0.45 / 2.7%
Industry	Textile - Apparel
Zacks Industry Rank	Bottom 41% (151 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	15.8%
Last Sales Surprise	-0.7%
EPS F1 Est- 4 week change	-2.3%
Expected Report Date	03/18/2020
Earnings ESP	0.0%
P/E TTM	15.9
P/E F1	9.8
PEG F1	0.6
P/S TTM	0.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	542 E	696 E	635 E	877 E	2,743 E
2020	537 A	683 A	616 A	851 E	2,687 E
2019	521 A	646 A	605 A	837 A	2,610 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	-\$0.27 E	\$0.53 E	\$0.27 E	\$1.18 E	\$1.70 E
2020	-\$0.25 A	\$0.38 A	\$0.22 A	\$1.11 E	\$1.35 E
2019	-\$0.23 A	\$0.36 A	\$0.13 A	\$0.70 A	\$0.98 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 02/26/2020. The reports text is as of 02/27/2020.

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.

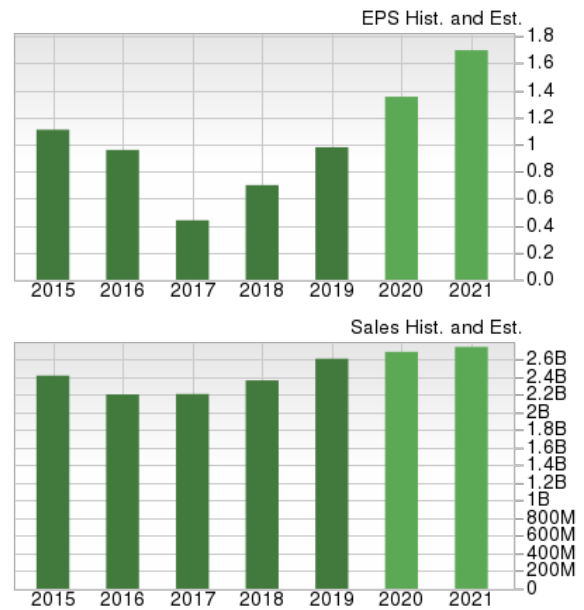
Products of the company are sold through retail, wholesale, e-Commerce and licensing distribution channels.

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 Buy:

- ▲ **Strong European Unit Aids:** Strength in the Europe business has long been driving Guess?'s top line. During the third quarter of fiscal 2020, revenues in the European region advanced 9.1% (up 13.2% at cc), owing to store openings, improvement in wholesale revenues and comps growth. Markedly, comps improved for the 17th straight quarter in Europe.

We expect Europe to continue fuelling the company's performance, courtesy of constant store openings and e-commerce growth. Moreover, management is undertaking growth efforts in the European region such as optimizing network, inducing efficiency in sourcing and product development as well as managing costs. Net revenues from this region are expected to increase low-double digits in the fourth quarter and high-single digits in fiscal 2020. Continued strength in Europe, along with a raised earnings view for fiscal 2020, has boosted investors' optimism in the stock. Guess?'s shares have gained 12.2% in the past six months compared with the industry's growth of 1.3%.

Guess? is gaining from sturdy growth in European operations. Further, the company focuses on efficient capital allocation, product development and distribution optimization.

- ▲ **Solid Q3 Results & Earnings Outlook:** Guess? reported solid third-quarter results, wherein earnings beat the Zacks Consensus Estimate for the third straight time. Also, both top and bottom lines grew year over year, with sales marking its 13th straight period of growth. Despite weakness in Asia and Americas Retail, management raised the lower end of its earnings outlook, courtesy of solid expense management and strength in Europe and Americas Wholesale.

In fiscal 2020, management now envisions adjusted earnings per share of \$1.31-\$1.36 compared with the previous guidance of \$1.28-\$1.36. Moreover, adjusted operating margin is now anticipated to be 5.4-5.6% compared with the previous projection of 5.3-5.6%. For fourth-quarter fiscal 2020, adjusted earnings are expected in the range of \$1.07-\$1.12 per share compared with the prior-year quarter's 70 cents.

- ▲ **Digital Operations to Drive Performance:** Guess? is 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 has enabled customers to reserve merchandise online and pick them up in stores. In fact, e-commerce aided the company's comps in the third quarter of fiscal 2020.

Management is 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 should help it continue drive sales.

- ▲ **Gross Margin Improvement Efforts:** The company is on track with boosting gross margin through initial markups or IMU improvement and realignment of prices. Further, the company is progressing well with improving cost structures. The impact of these endeavors was reflected well in the first, second and third quarters, wherein the gross margin expanded nearly 50 basis points (bps), 180 bps and 90 bps to 33.9%, 38.9% and 37.3%, respectively. This was largely backed by increased IMUs. Moreover, management expects gross margin to expand in fiscal 2020, backed by continued gains from IMUs as well as lower markdowns.

- ▲ **Capital Allocation & Other Key Strategies:** Guess? is focused on its key priorities. These include efficient capital allocation, product development and distribution optimization, efficient leveraging of global business, cost containment, and having customer-centric focus. With regard to capital allocation, the company announced intentions to curtail its quarterly cash dividend from 22.5 cents a share to 11.25 cents, when it reported first-quarter fiscal 2020 results. This move is aimed at redistributing capital and returning excess cash in the form of share buybacks. Under the accelerated share repurchase ("ASR") program, the company delivered 5.2 million shares in the first quarter of fiscal 2020 and the remaining 5.4 million shares were delivered in the third quarter. Apart from this, the company repurchased nearly 5.8 million shares for \$110.6 million in the first three quarters of fiscal 2020, including repurchases of 5.1 million and 0.7 million shares in the second and first quarters, respectively.

The company expects that combined gains from lowered dividends and shares retired through buybacks will positively impact cash flow by almost \$30 million in fiscal 2020 and \$40 million in fiscal 2021. Apart from these, the company is on track with making investments for overall business development. In this context, the company is dedicated toward improving inventory, store operations, optimizing distribution network and developing new products.

Reasons To Sell:

▼ **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) and 50 bps in the first and second quarters of fiscal 2020, respectively, the metric increased 90 bps in the third quarter due to higher corporate investments. Management expects adjusted SG&A expenses to increase in fiscal 2020, due to higher performance-based compensation.

▼ **Hurdles in Asia:** Guess? has been witnessing sluggishness in Asia for the past few quarters, owing to broad-based softness in significant markets like China, Korea, and Japan. Traffic remained sluggish across all these regions during the third quarter of fiscal 2020. During the quarter, Asia revenues declined 8% (up 4.6% at cc). Retail comp sales, including e-commerce, lost 21% (down 19% at cc) due to a deterioration in store traffic. Comps in Asia declined 15% and 13% in the first and second quarters of fiscal 2020, respectively.

This is a concern for the near term. Net revenues in the region are expected to decline in mid-teens in the fourth quarter and mid-single digits in fiscal 2020. Soft comps and cost deleverage have long been weighing on the operating margin in the region, which collapsed 520 bps during the third quarter.

▼ **Weakness in Americas Retail:** Guess? has long been witnessing softness in this segment due to macroeconomic factors. During the third quarter, revenues in the Americas Retail segment decreased 4.9% year over year in U.S. dollar and 4.5% at cc. Moreover, retail comp sales, including e-commerce, declined 3% each in U.S. dollar and at cc, caused by negative traffic and AURs. Net revenues in the region are likely to decline low to mid-single digits in the fourth quarter, whereas it is expected to be down low-single digits in fiscal 2020.

▼ **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.

Notably, management expects adverse currency impacts of nearly 5 cents and 6 cents for fourth quarter and fiscal 2020 earnings, respectively. Moreover, currency headwinds are expected to weigh on revenues for both periods.

▼ **Intense Competition:** The company operates in a highly fragmented market and competes with a number of well-established players. The company primarily competes on the basis of fashion, quality and service. Failure to offer high-quality distinguished products at a competitive price may hamper Guess?'s market share, consequently resulting in reduced top and bottom lines.

Management expects SG&A expenses to continue rising in fiscal 2020, due to higher performance-based compensation. Further the company grapples with soft traffic in Asia.

Last Earnings Report

Guess? Q3 Earnings Top Estimates; Sales Miss

Guess? posted third-quarter fiscal 2020 adjusted earnings of 22 cents per share, which surpassed the Zacks Consensus Estimate of 19 cents and increased 69.2% from the year-ago quarter's figure. This can be attributable to improved revenues and gross margin.

Net revenues amounted to \$615.9 million that missed the consensus mark of \$620.3 million. However, the top line improved 1.7% year over year. On a constant-currency (cc) basis, revenues grew 4.2%.

The company's gross margin expanded 90 basis points (bps) to 37.3%, owing to increased initial markups (IMUs).

Also, adjusted operating profit came in at \$23.1 million, up 3.6% year over year. Adjusted operating margin was flat from the year ago period at 3.7%. Lower logistics costs, expense leverage, reduced markdowns in Europe, along with greater initial markups in Americas Retail and Europe was offset by greater markdowns and negative comparable sales in Americas Retail and Asia.

Segment Performance

Revenues in the **Americas Retail** segment decreased 4.9% year over year in U.S. dollar and 4.5% at cc. Moreover, retail comp sales, including e-commerce, declined 3% each in U.S. dollar and at cc, caused by negative traffic and AURs.

Net revenues in the **Americas Wholesale** segment climbed 7% (up 8.1% at cc), backed by robust growth in U.S. department store and off-price business.

The **Europe** segment's revenues advanced 9.1% (up 13.2% at cc). Store openings, improvement in wholesale revenue and comps growth boosted the region's performance. Retail comp sales, including e-commerce, improved 1% in U.S. dollar, while it grew 5% at cc. This marks the 17th successive quarter of positive comps for the European region.

Asia revenues declined 8% (up 4.6% at cc). Retail comp sales, including e-commerce, lost 21% (down 19% at cc) due to soft traffic in stores. Licensing revenues descended 0.3%, in U.S. dollar.

Guidance

Management lowered its sales guidance for fiscal 2020, wherein net revenues are now guided to grow 2.7-3% (up 5.7-6% at cc). Earlier, the company projected revenues to increase 3-3.5% (up 6-6.5% at cc). In fiscal 2020, management envisions adjusted earnings per share of \$1.31-\$1.36, including adverse currency impacts of 6 cents. Earlier, management anticipated adjusted earnings per share of \$1.28-\$1.36 for fiscal 2020, including adverse currency impact of around 8 cents.

For fourth-quarter fiscal 2020, the company anticipates net revenues to rise 1-2% (up 2.5-3.5% at cc). Adjusted operating margin is anticipated in the range of 11.5-12%. Foreign currency translation is projected to adversely impact operating margin by 20 bps.

Region-wise, net revenue in Americas Retail is likely to decline by low-mid single digits in the fourth quarter, whereas it is expected to be down by low-single digits in fiscal 2020. Net revenue in Americas Wholesale is likely to be down by low-single digits in the fourth quarter but up high-single digits in fiscal 2020.

In Europe, net revenues are expected to increase by low-double-digits in fourth quarter and up high-single digits in fiscal 2020. In Asia, net revenues are expected to be decline by mid-teens in the fourth quarter and down mid-single digits in fiscal 2020. Licensing revenues are anticipated to drop to low-single digits in both periods.

For the fourth quarter, Guess? expects adjusted earnings of \$1.07-\$1.12 per share. Bottom line is likely to be hurt by 5 cents per share from currency fluctuations.

Quarter Ending 10/2019

Report Date	Nov 26, 2019
Sales Surprise	-0.70%
EPS Surprise	15.79%
Quarterly EPS	0.22
Annual EPS (TTM)	1.05

Recent News

Guess? Issues Fiscal 2025 Guidance With Strategic Plan - Dec 3, 2019

Guess unveiled a five-year strategic plan that includes global expansion, profit growth and value creation for its shareholders.

To this end, Guess? plans to keep its brand relevant by focusing on strategic collaborations to enhance customer engagement. Further, the company intends to be customer centric and provide differentiated products to its buyers. Moreover, management is committed to search for efficiencies in its global model to optimize operations and penetrate into untapped markets worldwide.

Strength in the Europe and Americas Wholesale segments as well as solid cost-control measures encouraged the company to raise earnings view for fiscal 2020 during its third-quarter fiscal 2020 earnings call. This guidance along with management's sales and operating margin projections were reiterated when the company revealed its five-year strategic plan on Dec 3, 2019.

Additionally, the company stated that it expects gross margin to increase 160 basis points (bps) year over year in fiscal 2020. Free cash flow is forecast in the range of \$57-\$62 million compared with negative \$28 million reported in fiscal 2019.

Further, the company provided a fresh outlook for the fiscal 2021 to fiscal 2025 period. Sales are expected to rise by low single-digits CAGR, whereas earnings are likely to increase high-teens digit on a CAGR basis. Guess? expects operating profit to increase by a mid-teens number on a CAGR basis and operating margin to rise 90 bps annually on an average during the same time period. Moreover, management envisions gross margin to increase 80 bps annually on an average.

Free cash flow is forecast to be up by low-twenties on a CAGR basis from fiscal 2021 through fiscal 2025. Apart from this, net revenues in all the segments are likely to increase by low single digits in fiscal 2025 compared with fiscal 2020 figures.

Valuation

Guess? shares are down 25.4% in the year-to-date period, and 23.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary sector are down 17.1% and 8.5% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is down 7.8% while the sector increased 3.2%.

The S&P 500 index is down 3% in the year-to-date period and up 13.4% in the past year.

The stock is currently trading at 9.7X forward 12-month earnings, which compares to 15.35X for the Zacks sub-industry, 19.01X for the Zacks sector and 17.88X for the S&P 500 index.

Over the past five years, the stock has traded as high as 31.36X and as low as 9.42X, with a 5-year median of 19.22X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$18 price target reflects 10.46X forward 12-month earnings.

The table below shows summary valuation data for GES

Valuation Multiples - GES					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	9.7	15.35	19.01	17.88
	5-Year High	31.36	23.06	23.34	19.34
	5-Year Low	9.42	14.31	16.15	15.18
	5-Year Median	19.22	18.29	20.05	17.47
P/S F12M	Current	0.4	2.06	2.13	3.29
	5-Year High	0.89	2.58	3.19	3.43
	5-Year Low	0.35	1.55	1.81	2.54
	5-Year Median	0.57	2.06	2.54	3
EV/EBITDA F12M	Current	6.79	16.69	10.74	13.54
	5-Year High	9.27	19.11	12.69	13.72
	5-Year Low	3.07	11.66	8.55	9.08
	5-Year Median	5.43	14.63	10.76	10.81

As of 02/26/2020

Industry Analysis Zacks Industry Rank: Bottom 41% (151 out of 254)



Top Peers

G-III Apparel Group, LTD. (GIII)	Outperform
Ralph Lauren Corporation (RL)	Outperform
Gildan Activewear, Inc. (GIL)	Neutral
Hanesbrands Inc. (HBI)	Neutral
lululemon athletica inc. (LULU)	Neutral
Under Armour, Inc. (UAA)	Neutral
Columbia Sportswear Company (COLM)	Underperform
Delta Apparel, Inc. (DLA)	Underperform

Industry Comparison Industry: Textile - Apparel				Industry Peers		
	GES Neutral	X Industry	S&P 500	COLM Underperform	GIII Outperform	RL Outperform
VGM Score	C	-	-	B	C	B
Market Cap	1.10 B	1.08 B	22.59 B	5.70 B	1.11 B	7.49 B
# of Analysts	3	4	13	6	6	4
Dividend Yield	2.70%	0.00%	1.92%	1.14%	0.00%	2.71%
Value Score	C	-	-	B	B	B
Cash/Price	0.08	0.08	0.04	0.11	0.05	0.22
EV/EBITDA	16.93	9.24	13.29	12.85	7.46	8.61
PEG Ratio	0.53	2.03	1.93	2.34	0.66	1.37
Price/Book (P/B)	1.87	1.36	3.03	3.08	0.88	2.40
Price/Cash Flow (P/CF)	9.09	9.09	12.33	12.81	6.29	9.13
P/E (F1)	9.25	13.02	17.79	17.48	7.53	13.13
Price/Sales (P/S)	0.41	0.61	2.47	1.87	0.35	1.17
Earnings Yield	10.19%	7.68%	5.60%	5.72%	13.30%	7.62%
Debt/Equity	1.74	0.65	0.70	0.20	0.74	0.65
Cash Flow (\$/share)	1.84	1.63	7.02	6.59	3.70	11.12
Growth Score	C	-	-	A	D	B
Hist. EPS Growth (3-5 yrs)	-1.48%	2.54%	10.85%	19.86%	3.67%	1.80%
Proj. EPS Growth (F1/F0)	25.43%	4.44%	6.79%	-0.07%	-1.33%	7.61%
Curr. Cash Flow Growth	21.93%	9.60%	6.53%	30.70%	55.48%	9.60%
Hist. Cash Flow Growth (3-5 yrs)	-9.92%	4.10%	8.38%	17.53%	14.76%	-3.42%
Current Ratio	1.52	1.82	1.22	2.97	2.36	1.94
Debt/Capital	63.63%	39.94%	42.37%	16.73%	42.58%	39.49%
Net Margin	1.48%	2.98%	11.57%	10.86%	4.50%	10.40%
Return on Equity	12.56%	10.58%	16.80%	18.53%	12.27%	20.83%
Sales/Assets	1.21	1.14	0.54	1.11	1.23	0.91
Proj. Sales Growth (F1/F0)	2.07%	0.00%	4.06%	5.50%	4.99%	0.25%
Momentum Score	C	-	-	D	F	F
Daily Price Chg	-7.89%	-0.57%	-0.98%	-0.34%	-2.11%	-1.15%
1 Week Price Chg	-4.73%	-2.01%	-0.94%	-0.59%	-4.61%	-3.59%
4 Week Price Chg	-23.65%	-9.12%	-6.27%	-10.96%	-18.05%	-10.26%
12 Week Price Chg	-11.65%	-11.36%	-3.33%	-7.43%	-16.67%	-6.54%
52 Week Price Chg	-24.99%	-31.35%	6.81%	-19.61%	-35.55%	-20.16%
20 Day Average Volume	855,601	71,177	2,109,774	513,110	506,985	1,060,580
(F1) EPS Est 1 week change	-2.26%	0.00%	0.00%	0.00%	0.00%	-0.99%
(F1) EPS Est 4 week change	-2.26%	-0.68%	-0.08%	-5.67%	0.87%	0.57%
(F1) EPS Est 12 week change	-1.31%	-1.95%	-0.22%	-5.99%	-0.74%	0.62%
(Q1) EPS Est Mthly Chg	-1.92%	-4.88%	-0.61%	-20.16%	0.00%	-43.30%

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	C
Growth Score	C
Momentum Score	C
VGM Score	C

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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