

Guess?, Inc. (GES)

\$7.99 (As of 03/26/20)

Price Target (6-12 Months): **\$7.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 03/25/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:A

Value: A

Growth: A

Momentum: D

Summary

Shares of Guess? have lagged the industry in the past year. Recently, the company announced temporary store closures across U.S. and Canada due to the coronavirus outbreak. Also, company-operated stores in various countries across Europe are shut. Moreover, management decided to postpone the announcement of any quarterly dividend for the first quarter of fiscal 2021. Also, rising SG&A expenses and currency headwinds are a concern. Further, Guess? continued to battle weakness in Asia and Americas Retail in fourth-quarter fiscal 2020. Nevertheless, consistent growth in Europe and strong online presence are aiding growth. Apart from this, Guess?'s gross margin has been gaining from initial mark-up improvements. The same were reflected in the company's fiscal fourth-quarter results, with earnings and sales rising year over year.

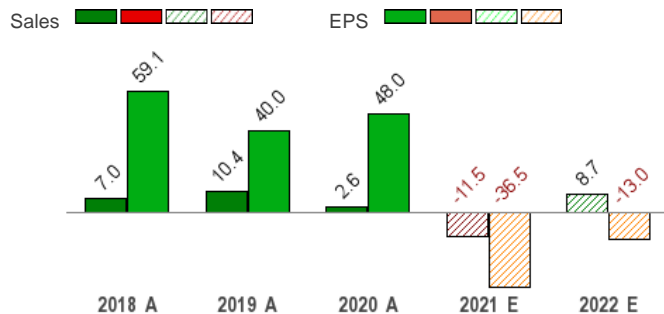
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$23.58 - \$3.64
20 Day Average Volume (sh)	2,991,004
Market Cap	\$524.5 M
YTD Price Change	-64.3%
Beta	0.73
Dividend / Div Yld	\$0.45 / 5.6%
Industry	Textile - Apparel
Zacks Industry Rank	Bottom 9% (231 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	8.9%
Last Sales Surprise	-1.1%
EPS F1 Est- 4 week change	-45.7%
Expected Report Date	06/04/2020
Earnings ESP	0.0%
P/E TTM	5.1
P/E F1	8.7
PEG F1	0.5
P/S TTM	0.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022					2,577 E
2021	402 E	530 E	585 E	853 E	2,370 E
2020	537 A	683 A	616 A	842 A	2,678 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022					\$0.80 E
2021	-\$0.76 E	\$0.04 E	\$0.15 E	\$1.09 E	\$0.92 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 03/26/2020. The reports text is as of 03/27/2020.

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.

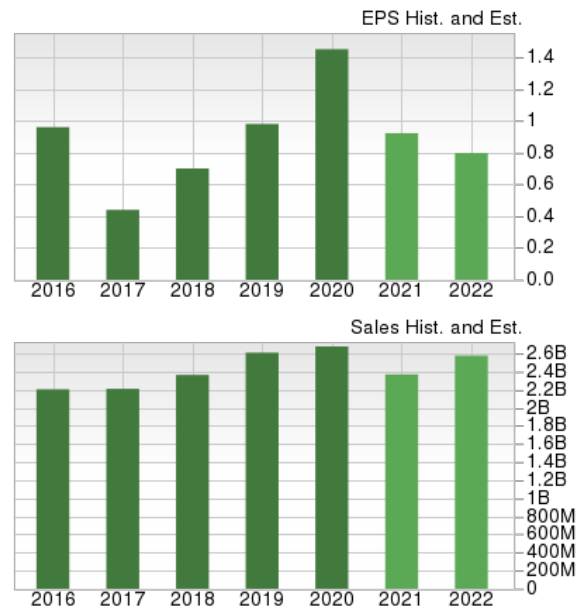
Products of the company are sold through retail, wholesale, e-Commerce and licensing distribution channels.

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 Sell:

▼ **Coronavirus-Led Store Closures:** The coronavirus pandemic has affected the global market and disrupted economic activities worldwide, hurting demand and supply chain, slowing production, and leading to temporary closure of brick-and-mortar stores. In this regard, Guess? has temporarily closed all stores across the United States and Canada. Also, company-operated stores in various countries across Europe are shut. Guess?'s shares have declined 59.3% in the past year compared with the industry's decline of 33.9%.

The outbreak of the novel coronavirus compelled Guess? to temporarily close all stores across the United States and Canada.

▼ **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 and 90 bps in the first, second and third quarters of fiscal 2020, respectively, the metric increased 70 bps in the fourth quarter due to higher performance-based compensation. Persistence of headwinds related to higher costs can be a threat to the company's profitability in the future.

▼ **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 fourth quarter of fiscal 2020. During the quarter, Asia revenues declined 27.7% (down 26.4% at cc). Retail comp sales, including e-commerce, lost 26% (down 25% at cc). The downside can be attributed to a deterioration in store traffic. Comps in Asia declined 15%, 13% and 21% in the first, second and third quarters of fiscal 2020, respectively.

Moreover, soft comps have long been weighing on the operating margin in the region, which collapsed 200 bps year over year during the fourth quarter. Persistence of these trends in the region is a concern for the company.

▼ **Weakness in Americas Retail:** Guess? has long been witnessing softness in this segment due to macroeconomic factors. During the fourth quarter, revenues in the Americas Retail segment decreased 4.1% year over year in U.S. dollar and 4.4% at cc. Moreover, retail comp sales, including e-commerce, declined 3% each in U.S. dollar and at cc, caused by negative traffic. We believe that persistence of this trend along with recent store closures due to the coronavirus outbreak could adversely impact the region's performance.

▼ **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.

▼ **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.

Risks

- **Solid Q4 Results:** Guess? reported solid fourth-quarter results, wherein earnings beat the Zacks Consensus Estimate for the fourth straight time. Also, both top and bottom lines grew year over year, with sales marking its 14th straight period of growth.

During the fourth quarter, the company's adjusted earnings of \$1.22 per share increased 74.3% from the year-ago quarter's figure. The upside can be attributed to higher revenues and gross margin. The top line inched up 0.6% year over year in the quarter. On a constant-currency (cc) basis, revenues moved up 1.8%. Revenues in the quarter were backed by strength in Europe and licensing businesses.

- **Strong European Unit Aids:** Strength in the Europe business has long been driving Guess?'s top line. During the fourth quarter of fiscal 2020, revenues increased 13.2% (up 15.8% at cc). Store openings, improvement in wholesale revenues and comps growth boosted the region's performance. Retail comp sales, including e-commerce, inched up 1% year over year and rose 3% at cc in the quarter. This marks the 18th successive quarter of positive comps for the European region.

We expect Europe to continue fuelling the company's performance, courtesy of constant store openings and e-commerce growth. Moreover, management has been undertaking growth efforts in the European region such as optimizing network, inducing efficiency in sourcing and product development as well as managing costs.

- **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 fourth quarter of fiscal 2020.

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 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, third and fourth quarters, wherein the gross margin expanded nearly 50 bps, 180 bps, 90 bps and 360 bps to 33.9%, 38.9%, 37.3% and 40.2%, respectively. This was largely backed by increased IMUs. We believe that continued gains from IMUs as well as lower markdowns are likely to help Guess? boost its performance in the future.

- **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 repurchased nearly 6.1 million shares for \$118.1 million in fiscal 2020, including repurchases of nearly 0.3 million shares (for \$7.5 million) in the fourth quarter.

The company expects that combined gains from lowered dividends and shares retired through buybacks will positively impact cash flow. 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.

Last Earnings Report

Guess?'s Earnings Beat Estimates in Q4, Sales Miss

Guess? Inc. posted fourth-quarter fiscal 2020 results with earnings beating the Zacks Consensus Estimate for the fourth straight time. Also, the top and the bottom line increased year over year. Revenues in the quarter were backed by strength in Europe and licensing businesses.

However, the company refrained from providing guidance for fiscal first quarter ending May 2, and fiscal year ending Jan 30, 2021, given the coronavirus outbreak and its unpredictable impact on the company's performance. Moreover, management resorted to temporary closures in major regions worldwide.

Quarter Ending **01/2020**

Report Date	Mar 18, 2020
Sales Surprise	-1.06%
EPS Surprise	8.93%
Quarterly EPS	1.22
Annual EPS (TTM)	1.57

Quarter in Detail

Guess? posted adjusted earnings of \$1.22 per share, which surpassed the Zacks Consensus Estimate of \$1.12 and increased 74.3% from the year-ago quarter's figure. The upside can be attributed to higher revenues and gross margin.

Net revenues amounted to \$842.3 million that missed the consensus mark of \$851.3 million. However, the top line inched up 0.6% year over year. On a constant-currency (cc) basis, revenues moved up 1.8%.

The company's gross margin expanded 360 basis points (bps) to 40.2%, owing to increased initial markups (IMUs).

Also, adjusted operating profit came in at \$101.7 million, up 32.2% year over year. Adjusted operating margin expanded 290 bps from the year-ago quarter's figure to 12.1%. The uptick was led by lower logistics costs in Europe along with greater initial markups in Americas Retail and Europe.

Segment Performance

Revenues in the **Americas Retail** segment declined 4.1% year over year and 4.4% at cc. Retail comp sales, including e-commerce, declined 3% each on a year-over-year basis and at cc due to negative traffic.

Net revenues in the **Americas Wholesale** segment declined 3% (down 3.8% at cc), thanks to the timing of shipments.

The **Europe** segment's revenues increased 13.2% (up 15.8% at cc). Store openings, improvement in wholesale revenues and comps growth boosted the region's performance. Retail comp sales, including e-commerce, inched up 1% year over year and rose 3% at cc. This marks the 18th successive quarter of positive comps for the European region.

Asia revenues declined 27.7% (down 26.4% at cc). Retail comp sales, including e-commerce, lost 26% (down 25% at cc) due to soft softness across all major markets including China, Korea and Japan.

Licensing revenues increased 22.7%.

Other Updates

The company exited the quarter with cash and cash equivalents of \$284.6 million as well as long-term debt and finance lease obligations of \$32.8 million. Further, stockholders' equity was \$639.7 million. Net cash provided by operating activities during fiscal 2020 amounted to \$197.9 million.

Apart from the accelerated share repurchase program, the company repurchased nearly 6.1 million shares for \$118.1 million in fiscal 2020, including repurchases of nearly 0.3 million shares (for \$7.5 million) in the fourth quarter.

In view of the coronavirus outbreak, management decided to postpone the announcement of any quarterly cash dividend for first quarter of fiscal 2021.

Recent News

Guess? Closes Store Due to Coronavirus – Mar 17, 2020

The outbreak of the novel coronavirus compelled the apparel and accessories retailer, Guess? to temporarily close all its stores across the United States and Canada. The shutdown, which is scheduled to last till Mar 27, will be effective effect from today. Also, company-operated stores in various countries across Europe are shut.

Moreover, management stated that customers can continue to make online purchases via the Guess, Marciano, Guess Factory and gbyguess websites. Also, majority of the company-operated stores, which were earlier closed in the Asia region, have been reopened.

Valuation

Guess? shares are down 64.3% in the year-to-date period, and 59.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary sector are down 37.9% and 54.4% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is down 33.9% while the sector declined 16.2%.

The S&P 500 index is down 23.1% in the year-to-date period and 12.8% in the past year.

The stock is currently trading at 5.37X forward 12-month earnings, which compares to 12.84X for the Zacks sub-industry, 16.8X for the Zacks sector and 14.92X for the S&P 500 index.

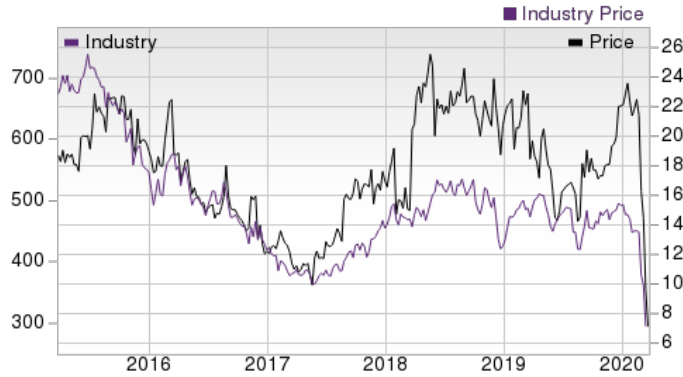
Over the past five years, the stock has traded as high as 31.36X and as low as 2.65X, with a 5-year median of 19.21X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$7 price target reflects 4.7X forward 12-month earnings.

The table below shows summary valuation data for GES

Valuation Multiples - GES					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	5.37	12.84	16.8	14.92
	5-Year High	31.36	23.06	23.23	19.34
	5-Year Low	2.65	12.84	16.15	14.92
	5-Year Median	19.21	17.99	19.89	17.42
P/S F12M	Current	0.2	1.54	1.75	2.68
	5-Year High	0.89	2.58	3.19	3.43
	5-Year Low	0.1	1.54	1.75	2.54
	5-Year Median	0.56	2.05	2.53	3
EV/EBITDA F12M	Current	6.79	15.91	10.46	12.28
	5-Year High	9.27	19.11	12.52	12.64
	5-Year Low	3.07	11.66	8.58	9.09
	5-Year Median	5.45	14.49	10.78	10.8

As of 03/26/2020

Industry Analysis Zacks Industry Rank: Bottom 9% (231 out of 253)



Top Peers

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

Industry Comparison Industry: Textile - Apparel				Industry Peers		
	GES Underperform	X Industry	S&P 500	COLM Underperform	GIII Neutral	RL Neutral
VGM Score	A	-	-	B	D	A
Market Cap	524.46 M	452.73 M	18.50 B	4.75 B	381.01 M	5.48 B
# of Analysts	4	4	13	5	7	6
Dividend Yield	5.63%	0.00%	2.35%	1.48%	0.00%	3.70%
Value Score	A	-	-	C	B	A
Cash/Price	0.62	0.19	0.07	0.17	0.19	0.39
EV/EBITDA	10.42	7.66	11.16	8.41	4.73	6.34
PEG Ratio	0.50	1.30	1.74	3.74	0.43	1.05
Price/Book (P/B)	0.82	0.83	2.44	2.57	0.30	1.76
Price/Cash Flow (P/CF)	2.65	4.53	9.87	10.70	1.95	6.68
P/E (F1)	8.68	8.90	15.29	15.13	4.92	9.86
Price/Sales (P/S)	0.20	0.46	1.93	1.56	0.12	0.86
Earnings Yield	11.51%	11.23%	6.47%	6.61%	20.30%	10.15%
Debt/Equity	1.55	0.65	0.70	0.20	0.74	0.65
Cash Flow (\$/share)	3.02	2.16	7.01	6.59	4.08	11.12
Growth Score	A	-	-	B	D	B
Hist. EPS Growth (3-5 yrs)	4.98%	3.50%	10.85%	19.86%	6.78%	1.80%
Proj. EPS Growth (F1/F0)	-36.38%	-9.60%	2.89%	-3.52%	-49.13%	4.82%
Curr. Cash Flow Growth	33.03%	9.47%	5.93%	30.70%	6.85%	9.60%
Hist. Cash Flow Growth (3-5 yrs)	1.96%	4.12%	8.55%	17.53%	9.97%	-3.42%
Current Ratio	1.67	1.75	1.23	2.97	2.36	1.94
Debt/Capital	61.47%	39.71%	42.57%	16.73%	42.58%	39.49%
Net Margin	3.58%	3.58%	11.64%	10.86%	4.55%	10.40%
Return on Equity	17.78%	11.95%	16.74%	18.53%	12.97%	20.83%
Sales/Assets	1.12	1.13	0.54	1.11	1.17	0.91
Proj. Sales Growth (F1/F0)	-11.51%	0.00%	2.37%	3.61%	-16.40%	-0.55%
Momentum Score	D	-	-	B	F	D
Daily Price Chg	-2.44%	3.56%	6.21%	9.32%	5.42%	5.27%
1 Week Price Chg	-25.97%	-19.20%	-16.96%	-14.07%	-60.08%	-20.39%
4 Week Price Chg	-50.77%	-30.40%	-15.70%	-15.76%	-63.73%	-26.86%
12 Week Price Chg	-64.03%	-44.83%	-23.67%	-30.14%	-76.26%	-37.44%
52 Week Price Chg	-59.30%	-57.14%	-13.99%	-32.73%	-79.79%	-42.57%
20 Day Average Volume	2,991,004	128,566	4,286,768	612,009	1,602,205	1,750,188
(F1) EPS Est 1 week change	-0.81%	-0.85%	-0.15%	-0.85%	-14.52%	-0.22%
(F1) EPS Est 4 week change	-45.66%	-7.77%	-2.28%	-3.45%	-47.40%	-2.60%
(F1) EPS Est 12 week change	-46.37%	-16.01%	-3.22%	-9.24%	-47.21%	-1.99%
(Q1) EPS Est Mthly Chg	-185.85%	-36.75%	-1.60%	-7.03%	-323.44%	-38.18%

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	A
Growth Score	A
Momentum Score	D
VGM Score	A

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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