

Childrens Place, Inc. (PLCE)

\$17.20 (As of 03/23/20)

Price Target (6-12 Months): **\$15.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 03/24/20)

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: C

Summary

Shares of Children's Place have slid and underperformed the industry in the past three months despite reporting better-than-expected fourth-quarter fiscal 2019 results. While the bottom line grew year over year, the top line declined on soft comps. Further, management deferred fiscal 2020 view in the wake of the prevailing uncertainty due to the coronavirus outbreak. Although the company saw low-single digits growth in comps for the first five weeks of first-quarter fiscal 2020, it cited that after five weeks, the impact of the pandemic increases. Nevertheless, the company has been receiving positive customer feedback for the Gymboree brand. The company also informed that it is not forecasting issues with product deliveries or delays due to the disruption in China, backed by strength in its diversification strategy and vendor partnerships.

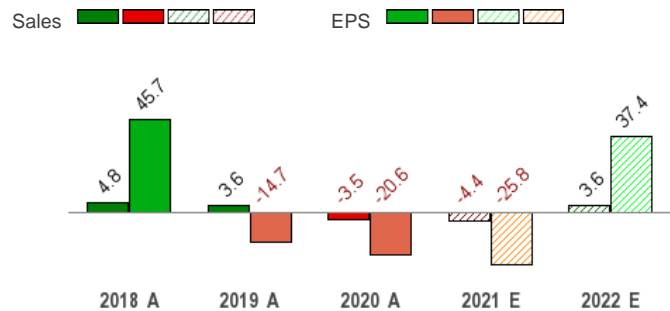
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$116.84 - \$9.25
20 Day Average Volume (sh)	1,489,707
Market Cap	\$249.6 M
YTD Price Change	-72.5%
Beta	0.75
Dividend / Div Yld	\$2.24 / 13.0%
Industry	Retail - Apparel and Shoes
Zacks Industry Rank	Bottom 26% (187 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	16.4%
Last Sales Surprise	0.1%
EPS F1 Est- 4 week change	-36.4%
Expected Report Date	05/20/2020
Earnings ESP	0.0%
P/E TTM	3.2
P/E F1	4.3
PEG F1	0.5
P/S TTM	0.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022					1,854 E
2021	366 E	392 E	545 E	535 E	1,789 E
2020	412 A	420 A	525 A	513 A	1,871 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022					\$5.47 E
2021	-\$0.39 E	-\$0.27 E	\$3.34 E	\$1.95 E	\$3.98 E
2020	\$0.36 A	\$0.19 A	\$3.03 A	\$1.85 A	\$5.36 A

*Quarterly figures may not add up to annual.

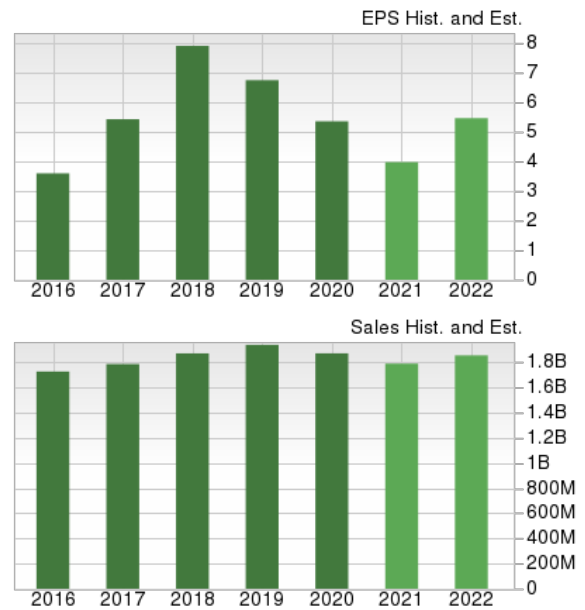
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/23/2020. The reports text is as of 03/24/2020.

Overview

Based in Secaucus, NJ, The Children's Place, Inc. (PLCE) is a pure-play children's specialty apparel retailer. The company sells apparel, footwear, accessories and other items for children; and designs, contracts to manufacture, and sells merchandise under the brand names "The Children's Place", "Place" and "Baby Place". It operates through two segments — The Children's Place U.S. and The Children's Place International.

The Children's Place U.S. comprises stores in the United States and Puerto Rico and revenues from United States-based wholesale business. The Children's Place International (accounted for the rest) consists of Canada-based stores as well as revenues from the company's Canada wholesale business and international franchisees.

As of Feb 1, 2020, the company had 924 stores across the United States, Canada and Puerto Rico as well as the e-commerce business at www.childrensplace.com. The company also had 266 international points of distribution in 19 countries, open and operated by eight franchise partners.



Reasons To Sell:

▼ **COVID-19 Impacts, Stock Underperforms:** Shares of Children's Place have tumbled 72.9% in the past three months, wider than the industry's 56% decline. We note that the company is not immune to the coronavirus pandemic. In the wake of the prevailing uncertainty surrounding the coronavirus outbreak, management deferred the guidance for fiscal 2020. Although the company saw low single-digits growth in comparable sales for the first five weeks of first-quarter fiscal 2020, management cited that after five weeks, the impact of the pandemic increases. It further informed that Children's Place has taken measures in the form of store closures and limited hours across the United States and Canada.

Although the company saw low single-digit comps growth for the first five weeks of first-quarter fiscal 2020, management cited that after five weeks, the impact of the pandemic increases.

▼ **Soft Q4 Comparable Sales:** Children's Place witnessed soft comparable retail sales performance in the fourth quarter of fiscal 2019. After recording an increase of 0.8% in the third quarter of fiscal 2019, the metric fell 3.6% in the fiscal fourth quarter and also impacted the company's overall top line. Despite the company's fourth-quarter sales beating the Zacks Consensus Estimate after two straight quarterly misses, top line fell 3.3% year over year. We remain apprehensive of its comparable retail sales performance going forward, given the increasing impact of the pandemic.

▼ **Stiff Competition May Hurt Results:** The children's apparel, footwear, and accessories retail landscape has been witnessing a sea of change with the focus gradually shifting to online shopping. The company faces stiff competition from bigwigs like Target, J.C. Penney and Kohl's in specialty stores and mass merchandising industry. Further, it faces competition from department stores as well as other discount stores such as Walmart. We believe that unhealthy price competition to gain market share and drive footfall might weigh on the company's results.

▼ **Macroeconomic Factors May Impact Discretionary Sales:** The company's customers remain sensitive to macroeconomic factors including interest rate hikes, increase in fuel and energy costs, credit availability, unemployment levels, high household debt levels and tariffs, which may negatively impact their discretionary spending, and in turn the company's growth and profitability. Any unfavorable changes in trade policy may result in higher prices for our customers and may negatively impact their budgets, consequently their discretionary spending.

Risks

- **Robust Q4 Earnings & Margins:** Children's Place posted better-than-expected results for fourth-quarter fiscal 2019. While the bottom line marked fourth straight beat, top line reverted to positive surprise after two consecutive quarters of miss. Moreover, earnings surged a whopping 68.2% from the year-ago quarter's tally on impressive margins. The reported figure exceeded the management's guided earnings range as well. The company's adjusted operating income surged 62.4%, with adjusted operating margin increasing 280 basis points (bps) to 6.9% in the fiscal fourth quarter. This is driven by higher gross margins and lower adjusted SG&A expenses. Meanwhile, adjusted gross margin expanded 100 bps to 32.5% owing to higher merchandise margins. Further, adjusted SG&A expenses fell 11.9% year over year, while as a percentage of net sales, the metric leveraged 220 bps to 22%. The contraction in SG&A expenses primarily resulted from better expense management and lower incentive compensations.
- **Strategic Initiatives:** Children's Place is leaving no stone unturned to improve its top-line performance and expand customer base. In an effort to provide a hassle-free shopping experience, the company is focusing on digital transformation. It entered into an Asset Purchase Agreement with Gymboree Group, Inc. and related entities to buy intellectual property assets of Gymboree and Crazy 8 (the "Gymboree Assets") for \$76 million. Recently, the company relaunched this iconic brand with an enhanced and personalized online shopping experience at gymboree.com. Also, the brand is expected to have more than 200 shop-in-shop locations in certain Children's Place stores across the United States and Canada.

Furthermore, the company showcased spring 2020 Gymboree collections at a media event supporting the relaunch of the brand. It received positive response along with appreciation from Gymboree fans. Apart from this, the company expects to continue gaining traction from the abandoned Crazy 8 and Gymboree customers.

- **Fleet Optimization:** The company's store fleet optimization plan focuses on striking the right balance between digital and physical stores. As part of store-fleet optimization endeavors, Children's Place opened two stores and shuttered 33 in fourth-quarter fiscal 2019, thereby ending the quarter with 924 stores. Since the announcement of the store-fleet optimization program in 2013, it has shuttered 271 stores. Additionally, its international franchise partners opened six net new points of distribution in fourth-quarter fiscal 2019.

In fact, it is on track to close about 300 stores by 2020 as part of the program. The company has also planned 1000 lease renewals over the next few years. As pointed earlier, this fleet optimization initiative will help Children's Place to achieve a 200-basis point improvement in operating margin from 2013 to 2020.

Last Earnings Report

Children's Place Beats on Q4 Earnings Estimates

Children's Place posted better-than-expected results for fourth-quarter fiscal 2019. While the bottom line registered solid growth year over year, the top line declined on soft comparable retail sales.

Further, management deferred the guidance for fiscal 2020 in the wake of the prevailing uncertainty surrounding the coronavirus outbreak. Although the company saw low single-digit growth in comparable sales for the first five weeks of first-quarter fiscal 2020, management cited that after five weeks, the impact of the pandemic increases. It further informed that Children's Place has taken measures in the form of store closures and limited hours across the United States and Canada.

Nevertheless, the company has been receiving positive customer feedback for the Gymboree brand. The company also informed that it is not forecasting issues with product deliveries or delays due to the disruption in China, backed by strength in its diversification strategy and vendor partnerships.

Q4 Details

The children's specialty apparel retailer reported adjusted earnings of \$1.85 a share, which outshined the Zacks Consensus Estimate of \$1.59. Also, the bottom line surged a whopping 68.2% from the year-ago quarter's \$1.10. Impressively, this marked the company's fourth straight quarter of an earnings beat. The reported figure exceeded management's guided earnings range of \$1.48-\$1.68 as well.

However, net sales fell 3.3% year over year to \$513 million in the fiscal fourth quarter. The decline was mainly due to soft comparable retail sales, which fell 3.6%. Nonetheless, the top line marginally came ahead of the Zacks Consensus Estimate of \$512 million, returning to a positive surprise after two straight quarters of miss. Further, the company's digital business represented nearly 31% of total sales in the quarter under review.

Moreover, adjusted gross profit remained flat year over year at \$166.9 million. Meanwhile, adjusted gross margin expanded 100 basis points (bps) to 32.5% owing to higher merchandise margins. The improvement was somewhat offset by deleveraged fixed expenses and higher penetration of e-commerce business that operates at a lower gross-margin rate.

Adjusted SG&A expenses fell 11.9% from the year-ago period to \$113 million, while as a percentage of net sales, the metric leveraged 220 bps to 22%. The contraction in SG&A expenses primarily resulted from better expense management and lower incentive compensations, somewhat negated by higher fixed expenses.

As a result, the company's adjusted operating income surged 62.4% to \$35.4 million, with adjusted operating margin increasing 280 bps to 6.9%.

Store Update

As part of store-fleet optimization endeavors, Children's Place opened two stores and shuttered 33 in fourth-quarter fiscal 2019, thereby ending the quarter with 924 stores. Since the announcement of the store-fleet optimization program in 2013, it has shuttered 271 stores.

Additionally, its international franchise partners opened six net new points of distribution in fourth-quarter fiscal 2019. Consequently, the company had 266 international points of distribution open and operated by eight franchise partners across 19 countries, as of Feb 1, 2020.

Other Financial Details

Children's Place ended the quarter under review with cash and cash equivalents of \$68.5 million compared with \$69.1 million a year ago. The company exited the quarter with inventories of \$327.2 million, up 7.8% year over year. Shareholders' equity totaled \$235.2 million as of Feb 1, 2020.

Moreover, the company generated operating cash flow of about \$178 million in fiscal 2019. Also, it had \$171 million outstanding on its \$325-million revolving credit facility at the end of the fiscal year. This revolving credit facility also provides an additional \$50 million in liquidity.

During the fiscal fourth quarter, the company bought back 557 thousand shares for roughly \$38 million and paid out quarterly dividends worth nearly \$8 million. In the fiscal year, it bought back about 1.6 million shares for roughly \$131 million and paid out dividends of nearly \$35 million. As of Feb 1, 2020, it had about \$108 million remaining under its existing share repurchase program.

Quarter Ending 01/2020

Report Date	Mar 17, 2020
Sales Surprise	0.13%
EPS Surprise	16.35%
Quarterly EPS	1.85
Annual EPS (TTM)	5.43

Valuation

Children's Place shares are down 72.5% in the year-to-date period and 80.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Retail-Wholesale sector are down 56.3% and 18.6% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are down 66.1% and 10.5%, respectively.

The S&P 500 index is down 30.2% in the year-to-date period and 20.6% in the past year.

The stock is currently trading at 2.6X forward 12-month earnings, which compares to 6.39X for the Zacks sub-industry, 20.4X for the Zacks sector and 13.75X for the S&P 500 index.

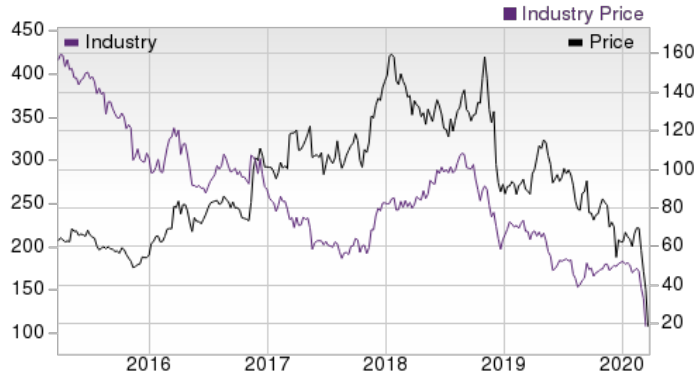
Over the past five years, the stock has traded as high as 20.4X and as low as 2.22X, with a 5-year median of 15.39X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$15 price target reflects 2.27 earnings.

The table below shows summary valuation data for PLCE

Valuation Multiples - PLCE					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	2.6	6.39	20.4	13.75
	5-Year High	20.4	18.38	26.19	19.34
	5-Year Low	2.22	6.39	19.06	13.75
	5-Year Median	15.39	14.2	23	17.42
P/S F12M	Current	0.13	0.28	0.83	2.5
	5-Year High	1.48	1.34	1.11	3.43
	5-Year Low	0.11	0.28	0.8	2.5
	5-Year Median	0.85	0.81	0.92	3
EV/EBITDA TTM	Current	2.41	5.59	12.71	8.52
	5-Year High	13.74	8.93	16.22	12.88
	5-Year Low	2.29	4.66	10.83	8.31
	5-Year Median	7.54	6.73	12.5	10.78

As of 03/23/2020

Industry Analysis Zacks Industry Rank: Bottom 26% (187 out of 254)



Top Peers

Chicos FAS, Inc. (CHS)	Outperform
American Eagle Outfitters, Inc. (AEO)	Neutral
Buckle, Inc. (The) (BKE)	Neutral
Boot Barn Holdings, Inc. (BOOT)	Neutral
Guess?, Inc. (GES)	Neutral
The Gap, Inc. (GPS)	Neutral
Urban Outfitters, Inc. (URBN)	Neutral
Abercrombie & Fitch Company (ANF)	Underperform

Industry Comparison Industry: Retail - Apparel And Shoes				Industry Peers		
	PLCE Underperform	X Industry	S&P 500	ANF Underperform	BOOT Neutral	CHS Outperform
VGM Score	A	-	-	C	A	B
Market Cap	249.56 M	314.28 M	15.21 B	515.79 M	343.24 M	208.09 M
# of Analysts	6	3	13	10	4	6
Dividend Yield	13.02%	0.00%	2.82%	9.73%	0.00%	20.81%
Value Score	A	-	-	A	A	B
Cash/Price	0.26	0.38	0.07	1.23	0.13	0.57
EV/EBITDA	1.54	4.77	9.67	4.68	6.62	8.88
PEG Ratio	0.67	0.54	1.37	0.84	0.31	NA
Price/Book (P/B)	1.10	0.71	1.99	0.48	1.09	0.39
Price/Cash Flow (P/CF)	0.84	2.99	8.15	2.29	6.04	2.39
P/E (F1)	5.35	6.44	11.83	12.88	6.51	NA
Price/Sales (P/S)	0.13	0.21	1.60	0.14	0.40	0.10
Earnings Yield	23.14%	15.34%	8.21%	7.79%	15.34%	-9.25%
Debt/Equity	1.33	0.93	0.70	1.39	0.83	1.13
Cash Flow (\$/share)	20.42	1.44	7.01	3.59	1.98	0.72
Growth Score	A	-	-	D	A	A
Hist. EPS Growth (3-5 yrs)	13.72%	-0.04%	10.85%	-0.50%	18.95%	-31.68%
Proj. EPS Growth (F1/F0)	-25.78%	-0.66%	4.20%	-12.60%	35.74%	-708.35%
Curr. Cash Flow Growth	68.79%	1.12%	5.93%	8.78%	49.02%	-34.05%
Hist. Cash Flow Growth (3-5 yrs)	19.29%	-0.99%	8.55%	-7.00%	27.11%	-19.65%
Current Ratio	0.76	1.50	1.23	1.55	1.23	1.04
Debt/Capital	57.01%	51.06%	42.57%	58.09%	45.46%	53.03%
Net Margin	3.92%	2.75%	11.57%	1.09%	5.99%	-0.63%
Return on Equity	32.90%	11.37%	16.74%	4.61%	17.37%	-0.48%
Sales/Assets	1.48	1.21	0.54	1.04	1.07	1.26
Proj. Sales Growth (F1/F0)	-4.37%	0.00%	2.76%	-0.08%	11.93%	-1.62%
Momentum Score	C	-	-	D	B	F
Daily Price Chg	-5.75%	-4.51%	-3.98%	-5.41%	-4.79%	-6.49%
1 Week Price Chg	-51.35%	-19.95%	-16.96%	-22.96%	-37.94%	-13.15%
4 Week Price Chg	-72.83%	-49.40%	-36.64%	-46.55%	-60.82%	-58.61%
12 Week Price Chg	-72.02%	-53.32%	-37.10%	-51.85%	-73.31%	-54.11%
52 Week Price Chg	-80.65%	-59.10%	-28.90%	-66.92%	-57.44%	-59.10%
20 Day Average Volume	1,489,707	450,264	4,200,337	4,121,131	1,455,371	4,014,869
(F1) EPS Est 1 week change	-37.84%	-0.67%	-0.16%	-18.73%	0.00%	-369.44%
(F1) EPS Est 4 week change	-36.41%	-8.50%	-1.37%	-48.09%	-0.34%	-908.33%
(F1) EPS Est 12 week change	-37.74%	-16.83%	-2.41%	-47.05%	-0.28%	-169.44%
(Q1) EPS Est Mthly Chg	-147.68%	-51.51%	-1.16%	-70.44%	-0.87%	-150.73%

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	C
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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