

Steven Madden, Ltd. (SHOO)

\$32.72 (As of 03/02/20)

Price Target (6-12 Months): **\$28.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 03/01/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:B

Value: C

Growth: A

Momentum: F

Summary

Shares of Steven Madden slid, underperforming the industry in the past three months. Much of the downside is caused by a soft fourth-quarter 2019 performance and cautious 2020 outlook. Adverse impacts of tariffs, coronavirus, termination of the Kate Spade footwear license and higher tax rate are likely to hurt 2020 earnings by 35 cents a share. Management further notes that the impact of these headwinds will be largely visible in first-half 2020. Moreover, sales lagged the Zacks Consensus Estimate while bottom line fell year over year on higher cost of sales and increased operating expenses. Also, the company saw weakness in its wholesale unit driven by lower accessories/apparel revenues. However, it reported in-line earnings during the reported quarter. Moreover, its retail unit and e-commerce business exhibit strength.

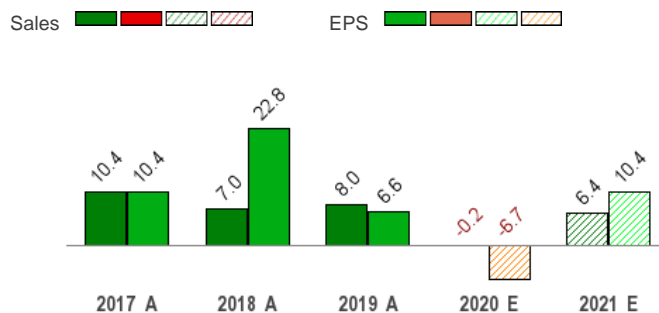
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$44.79 - \$28.95
20 Day Average Volume (sh)	920,946
Market Cap	\$2.8 B
YTD Price Change	-23.9%
Beta	0.96
Dividend / Div Yld	\$0.60 / 1.8%
Industry	Shoes and Retail Apparel
Zacks Industry Rank	Top 42% (108 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	-2.4%
EPS F1 Est- 4 week change	-13.5%
Expected Report Date	04/23/2020
Earnings ESP	0.0%
P/E TTM	16.8
P/E F1	18.0
PEG F1	2.0
P/S TTM	1.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	409 E	436 E	548 E	448 E	1,899 E
2020	406 E	436 E	526 E	445 E	1,784 E
2019	411 A	445 A	497 A	415 A	1,787 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.36 E	\$0.40 E	\$0.80 E	\$0.44 E	\$2.01 E
2020	\$0.33 E	\$0.38 E	\$0.70 E	\$0.42 E	\$1.82 E
2019	\$0.42 A	\$0.47 A	\$0.67 A	\$0.39 A	\$1.95 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 03/02/2020. The reports text is as of 03/03/2020.

Overview

Steven Madden, Ltd. (SHOO) designs, sources, markets and sells fashion-forward name brand and private label footwear for women, men, and children and private label fashion handbags and accessories across the world. The company operates through five segments — Wholesale Footwear, Wholesale Accessories/Apparel, Retail, First Cost and Licensing.

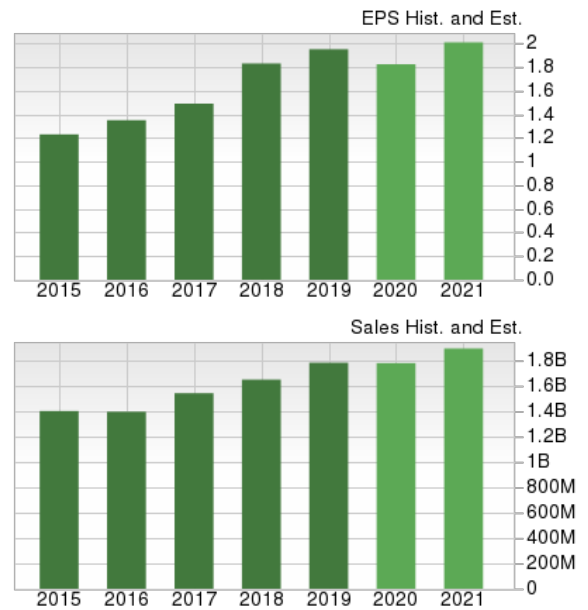
Wholesale Footwear offers footwear under the Steve Madden Women's, Madden Girl, Steve Madden Men's, Madden, Madden NYC, Dolce Vita, DV by Dolce Vita, Mad Love, Steven by Steve Madden, Report, Superga, Betsey Johnson, Betseyville, Steve Madden Kids, FREEBIRD by Steven, Stevies, B Brian Atwood, Blondo brands, and includes the International operations along with private label footwear.

Wholesale Accessories comprises Big Buddha, Madden NYC, Betsey Johnson, Steve Madden, Steven by Steve Madden, Madden Girl, Cejon, B Brian Atwood, Luv Betsey and DKNY accessories brands. It also includes international operations and few private label accessories business.

Retail consists of Steve Madden, Steven, Superga, and International retail stores, along with Steve Madden, Superga, Betsey Johnson, and Dolce Vita e-commerce websites. As of Dec 31, 2019, the company operated 227 company-operated retail outlets, comprising eight Internet stores and 31 company-operated concessions in international markets.

First Cost acts as a buying agent for footwear products under private labels for many of the country's large mass-market merchandisers, shoe chains, and other value priced retailers.

Licensing segment licenses Steve Madden, Steven by Steve Madden and Madden Girl trademarks for use in the manufacture, marketing and sale of outerwear, hosiery, jewelry, watches, sunglasses, hair accessories, umbrellas, bedding, luggage, and men's leather accessories.



Reasons To Sell:

- ▼ **Dismal 2020 View Hurts Stock:** Shares of Steven Madden have lost 21.8% in the past three months, wider than industry's 5.8% decline. Much of the downside is caused by a soft revenue performance and cautious 2020 outlook. Steven Madden envisions earnings in the band of \$1.70-\$1.80 per share, which suggests year-over-year decline from \$1.95 earned in 2019. The projected figure reflects an adverse impact of about 35 cents from the coronavirus, tariffs on goods from China, the termination of the Kate Spade footwear license and a higher tax rate. Further, management highlighted that the impact of these headwinds will be largely visible in the first half of 2020. Consequently, Steven Madden expects first-half revenue to fall in mid-single digits on a percentage basis and first-half earnings per share are expected to decline roughly 25%.
- Management highlighted that the impacts of tariffs, coronavirus, termination of the Kate Spade footwear license and higher tax rate are likely to hurt 2020 earnings by 35 cents a share.
- ▼ **Q4 Revenue Miss & Soft Wholesale Unit:** Despite earnings matching the Zacks Consensus Estimate, total revenues came below the consensus mark. Bottom line also declined 7.1% from the year-ago period, mainly owing to increase in cost of sales and adjusted operating expenses. Moreover, the company's wholesale business remained soft in the quarter, as its revenues fell 1.1%, reflecting decrease in wholesale accessories/apparel revenues. While the wholesale footwear revenues declined 0.2%, wholesale accessories/apparel revenue tumbled 3.6% on account of fall in private label handbags and cold weather accessories. Moreover, wholesale gross margin fell 90 bps to 29.2%, thanks to the imposition of tariffs on goods imported from China. We note that the company's various wholesale customers had a challenging overall performance in the reported quarter.
- ▼ **Increase in Cost of Sales:** We note that Steven Madden has been witnessing higher cost of sales for a while now. After increasing 2.3%, 12.8% and 8.1% for the respective first, second and third quarters of 2019, cost of sales rose 8.1% year over year to \$261.3 million during the fourth quarter. We note that cost of sales increased a respective 2.9%, 5.6%, 6.3% and 14.9% in the first, second, third and fourth quarters of 2018. Higher cost of sales is hurting the company's gross margin, as adjusted gross margin contracted 30 bps to 37.8% in the fourth quarter.
- ▼ **Rise in Operating Expenses a Concern:** Steven Madden is witnessing a rise in operating expenses. We note that the metric rose 4%, 10.3%, 12.4% and 9.5%, respectively, in the fourth, third, second and first quarters of 2019. The same increased 6.4%, 7.2%, 4.7% and 11% in the first, second, third and fourth quarters of 2018. In fact, this has been weighing on the company's operating profits. In fourth-quarter 2019, adjusted operating income decreased 12.9% to \$33 million. Further, adjusted operating margin shriveled 120 bps and 90 bps, respectively, during the fourth and third quarters of 2019.
- ▼ **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, and high household debt levels, which may negatively impact their discretionary spending, and in turn the company's growth and profitability.
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Risks

- **Q4 Highlights:** Steven Madden reported in-line earnings during fourth-quarter 2019. While total revenues improved 0.7% year over year, net sales increased 1.1% in the reported quarter. Revenue growth is backed by strength in the company's Retail business. Revenues at Retail business grew 8.7%, while same-store sales increased 6.7% on account of sturdy performance in e-commerce business. In fact, sales at stevemadden.com increased 60% in the fourth quarter. Meanwhile, adjusted retail gross margin expanded 60 basis points (bps) to 61.6%, primarily due to lower promotional activity in stevemadden.com. The company's Steve Madden brand is also performing well. For full-year 2020, Steven Madden projects revenues to be flat to up 1% year over year.
- **Strong International Performance:** Steven Madden is focusing on expanding business globally, with a greater emphasis on Europe. Notably, the company's flagship brand is experiencing momentum in international markets. The Steve Madden brand international revenue grew in high-single digit percentage in 2019. This was backed by robust performance in the European joint venture, which has been expanding with the existing as well as new wholesale accounts. Moreover, the company's directly-owned subsidiaries in Canada and Mexico, SM Europe JV as well as the distributor business bode well. The company transitioned to an ownership model from the distributor model in Israel by forming a joint venture and plans to add roughly 10 stores in the next three years.
- **Strategic Buyouts & Partnerships:** Steven Madden is on a buyout spree. The company acquired a direct-to-consumer company, BB Dakota, a California-based women's apparel company. With this acquisition, the company will be able to expand its apparel category. Per recent market trends, BB Dakota is yet another DTC brand looking to fortify its presence among a wide customer base. This buyout follows Steven Madden's purchase of Italian sneakers company — Greats Brand, Inc. Management stated that the company is likely to focus on acquisitions of GREATS and BB Dakota to deliver profitable growth.

Earlier, the company formed a new joint venture in China with Channel Link. The company has a 51% stake in the new JV, while the remaining is owned by Channel Link. Some of Steven Madden's other notable buyouts include the license for Anne Klein footwear and handbags in January 2018, Schwartz & Benjamin in 2017, and footwear brands Dolce Vita and Blondo, to name a few. We believe these acquisitions have benefited the company's top line.

- **Shareholder-Friendly Moves:** Steven Madden repurchased roughly 590,000 shares for \$25.3 million in the fourth quarter of 2019. This also includes shares acquired by the net settlement of employee stock awards. In October 2019, the company's board of directors hiked the quarterly dividend to 15 cents per share from the prior payout of 14 cents. It also announced a quarterly cash dividend that is payable on Mar 27, 2020 to stockholders of record as on March 17. During the full year 2019, management repurchased about 2,381,340 shares of common stock for \$78 million and paid dividends of \$48.4 million. Following this, the company had roughly \$137 million remained available for repurchases under the Share Buyback Program. Since 2013, it has returned more than \$865 million to shareholders via share repurchases and dividends.
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Last Earnings Report

Steven Madden Q4 Earnings Meet Estimates, Revenues Lag

Steven Madden came up with its fourth-quarter 2019 results, wherein the bottom line met the Zacks Consensus Estimate, while the top line missed the same. We note that net sales improved year over year but earnings per share came below the prior-year reported figure. Notably, the company witnessed incremental sales at its retail business but registered a decline across its wholesale business.

Looking ahead, management remains concerned about the coronavirus outbreak, China tariffs and the termination of the Kate Spade footwear license. As a result, the company disappointed investors with its 2020 projection.

Quarter Ending **12/2019**

Report Date	Feb 27, 2020
Sales Surprise	-2.41%
EPS Surprise	0.00%
Quarterly EPS	0.39
Annual EPS (TTM)	1.95

Q4 Details

Steven Madden delivered adjusted earnings of 39 cents a share that came in line with the Zacks Consensus Estimate, following positive surprises in the preceding eight quarters. We note that the bottom line declined 7.1% from 42 cents reported in the year-ago period, in spite of higher net sales, lower effective tax rate and share repurchase activity. Quite apparently, increase in cost of sales (up 1.3%) and adjusted operating expenses (up 4%) hurt the bottom line.

Total revenues improved 0.7% year over year to \$419.6 million. This comprises an increase of 1.1% in net sales of \$414.9 million but a decline of 27.3% in commission and licensing fee income of \$4.7 million. The Zacks Consensus Estimate for the quarter under review was pegged at \$425.2 million.

Revenues for the **Wholesale** business fell 1.1% to \$313.8 million, reflecting decrease in wholesale accessories/apparel revenues.

We note that wholesale footwear revenues declined 0.2% to \$233.4 million. Wholesale accessories/apparel revenue tumbled 3.6% to \$80.4 million, on account of declines in private label handbags and cold weather accessories, partly offset by the addition of the BB Dakota apparel business.

Retail revenues jumped 8.7% to \$101.1 million, while same-store sales increased 6.7% on account of sturdy performance in e-commerce business.

Margins

Adjusted gross profit came in at \$158.7 million, almost flat year over year, while adjusted gross margin contracted 30 bps to 37.8%. Adjusted operating income decreased 12.9% to \$33 million, while adjusted operating margin shriveled 120 bps to 7.9%.

We note that gross margin in the wholesale business shrunk 90 basis points to 29.2% thanks to the imposition of tariffs on goods imported from China. Meanwhile, adjusted retail gross margin expanded 60 bps to 61.6%, primarily due to lower promotional activity in stevemadden.com.

Store Update

The company ended the reported quarter with 227 company-operated retail outlets, comprising eight Internet stores and 31 company-operated concessions in international markets.

Other Financial Aspects

Steven Madden, which carries a Zacks Rank #4 (Sell), ended the reported quarter with cash and cash equivalents of \$264.1 million, marketable securities of \$40.5 million, and shareholders' equity of \$828.5 million, excluding non-controlling interest of \$12.7 million. During the quarter, the company bought back about 589,809 shares for approximately \$25.3 million. Management incurred capital expenditures of approximately \$9.1 million during the quarter.

Outlook

Steven Madden envisions revenues for the year 2020 to be flat to up 1% from the prior year. Management expects full-year adjusted earnings in the band of \$1.70-\$1.80 per share, which is below the current Zacks Consensus Estimate of \$2.01. This also suggests year-over-year decline from earnings of \$1.95 per share reported in 2019. The projected figure reflects an adverse impact of about 35 cents from the coronavirus, tariffs on goods from China, the termination of the Kate Spade footwear license and a higher anticipated tax rate.

Further, management highlighted that the impact of these headwinds will be largely visible in the first half of 2020. Consequently, Steven Madden expects first half revenue to fall in mid-single digits on a percentage basis and first half earnings per share is expected to decline roughly 25%. Nonetheless, the company anticipates reverting back to growth in both the metrics in the back half.

Valuation

Steven Madden shares are down 24% in the year-to-date period but up 0.5% in the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary sector are down 9.3% and 10%, respectively, in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are up 7.6% and 1.4%, respectively.

The S&P 500 index is down 3.9% in the year-to-date period but up 11.8% in the past year.

The stock is currently trading at 17.93X forward 12-month earnings, which compares to 23.72X for the Zacks sub-industry, 18.31X for the Zacks sector and 17.66X for the S&P 500 index.

Over the past five years, the stock has traded as high as 22.2X and as low as 13.12X, with a 5-year median of 17.25X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$28 price target reflects 15.34X forward 12-month earnings.

The table below shows summary valuation data for SHOO

Valuation Multiples - SHOO					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	17.93	23.72	18.31	17.66
	5-Year High	22.2	26.48	23.23	19.34
	5-Year Low	13.12	18.63	16.15	15.18
	5-Year Median	17.25	23.26	19.96	17.46
P/S F12M	Current	1.45	2.74	2.07	3.26
	5-Year High	2.04	2.9	3.19	3.43
	5-Year Low	1.2	1.99	1.81	2.54
	5-Year Median	1.57	2.58	2.53	3.01
EV/EBITDA TTM	Current	11.62	20.27	11.14	10.93
	5-Year High	15.43	24.5	17.59	12.88
	5-Year Low	9	13.14	10.77	8.49
	5-Year Median	11.54	15.97	12.32	10.79

As of 03/02/2020

Industry Analysis Zacks Industry Rank: Top 42% (108 out of 255)



Top Peers

Deckers Outdoor Corporation (DECK)	Outperform
Rocky Brands, Inc. (RCKY)	Outperform
Adidas AG (ADDYY)	Neutral
NIKE, Inc. (NKE)	Neutral
Skechers U.S.A., Inc. (SKX)	Neutral
Under Armour, Inc. (UAA)	Neutral
Wolverine World Wide, Inc. (WWW)	Neutral
Columbia Sportswear Company (COLM)	Underperform

Industry Comparison Industry: Shoes And Retail Apparel				Industry Peers		
	SHOO Underperform	X Industry	S&P 500	ADDYY Neutral	DECK Outperform	WWW Neutral
VGM Score	B	-	-	C	B	A
Market Cap	2.75 B	1.71 B	22.14 B	54.77 B	5.01 B	2.17 B
# of Analysts	6	5	13	7	5	6
Dividend Yield	1.83%	1.06%	1.98%	0.97%	0.00%	1.51%
Value Score	C	-	-	C	C	B
Cash/Price	0.11	0.10	0.05	0.05	0.13	0.08
EV/EBITDA	12.29	11.73	12.79	15.66	12.19	12.27
PEG Ratio	2.00	1.51	1.92	2.16	1.51	0.76
Price/Book (P/B)	3.27	1.96	3.00	6.93	4.46	2.75
Price/Cash Flow (P/CF)	11.77	9.54	11.97	21.27	16.85	9.28
P/E (F1)	17.98	14.01	17.43	23.05	18.75	11.34
Price/Sales (P/S)	1.56	0.84	2.48	2.10	2.33	0.95
Earnings Yield	5.56%	7.14%	5.74%	4.34%	5.33%	8.81%
Debt/Equity	0.01	0.53	0.70	0.23	0.20	0.74
Cash Flow (\$/share)	2.78	2.92	6.94	6.46	10.62	2.85
Growth Score	A	-	-	B	A	A
Hist. EPS Growth (3-5 yrs)	13.74%	8.64%	10.85%	28.59%	21.81%	11.70%
Proj. EPS Growth (F1/F0)	-6.50%	11.01%	6.48%	10.95%	7.94%	3.63%
Curr. Cash Flow Growth	29.74%	0.43%	6.03%	19.27%	33.19%	-5.09%
Hist. Cash Flow Growth (3-5 yrs)	12.99%	6.46%	8.52%	10.81%	15.19%	1.05%
Current Ratio	1.73	1.55	1.23	1.37	2.89	1.23
Debt/Capital	1.07%	39.81%	42.57%	18.38%	16.56%	42.40%
Net Margin	7.99%	6.55%	11.57%	8.27%	13.20%	5.65%
Return on Equity	19.44%	14.82%	16.66%	26.81%	27.93%	23.60%
Sales/Assets	1.40	1.25	0.54	1.24	1.27	0.93
Proj. Sales Growth (F1/F0)	2.55%	4.11%	4.07%	7.79%	6.93%	2.12%
Momentum Score	F	-	-	C	D	D
Daily Price Chg	0.06%	0.61%	3.82%	-1.20%	2.96%	0.61%
1 Week Price Chg	-9.92%	-10.30%	-12.06%	-9.11%	-10.67%	-15.79%
4 Week Price Chg	-15.32%	-10.00%	-6.43%	-12.82%	-4.62%	-16.95%
12 Week Price Chg	-23.68%	-10.64%	-5.15%	-9.22%	9.56%	-19.92%
52 Week Price Chg	-1.03%	-15.60%	4.77%	12.48%	23.43%	-25.11%
20 Day Average Volume	920,946	67,430	2,363,047	70,521	456,804	496,416
(F1) EPS Est 1 week change	-11.70%	0.00%	0.00%	0.00%	0.00%	-6.51%
(F1) EPS Est 4 week change	-13.54%	-2.13%	-0.04%	-2.16%	0.00%	-7.03%
(F1) EPS Est 12 week change	-13.62%	-1.94%	-0.33%	-2.16%	5.18%	-6.92%
(Q1) EPS Est Mthly Chg	-23.08%	-4.38%	-0.38%	0.00%	0.00%	-39.15%

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	A
Momentum Score	F
VGM Score	B

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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