

Steven Madden, Ltd. (SHOO)

\$41.61 (As of 01/10/20)

Price Target (6-12 Months): **\$44.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/22/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:B

Value: D

Growth: A

Momentum: D

Summary

Shares of Steven Madden have risen and outpaced the industry so far in the year. The stock has been gaining from the company's impressive performance that continued in third-quarter 2019. The quarter marked fourth straight quarter of earnings and revenue beat. Notably, both the top and bottom lines continued to improve year over year. The company gained from sturdy performance across its Steve Madden and Blondo brands. The company witnessed incremental sales at its wholesale and retail businesses. Moreover, Steven Madden stated that the acquisitions of GREATS and BB Dakota are likely to be key catalysts. Sturdy results prompted management to lift full-year net sales and earnings per share forecast. The company raised view in spite of incremental earnings pressure due to the imposition of the 15% tariff on products imported from China.

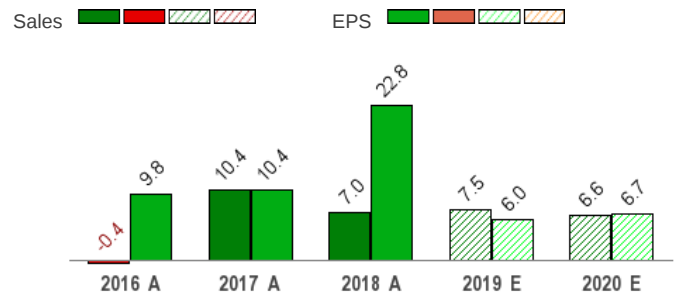
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$44.80 - \$28.95
20 Day Average Volume (sh)	510,220
Market Cap	\$3.5 B
YTD Price Change	-3.3%
Beta	0.79
Dividend / Div Yld	\$0.60 / 1.4%
Industry	Shoes and Retail Apparel
Zacks Industry Rank	Top 44% (111 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	15.5%
Last Sales Surprise	1.5%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/26/2020
Earnings ESP	0.0%
P/E TTM	21.0
P/E F1	20.1
PEG F1	2.2
P/S TTM	2.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	440 E	474 E	530 E	448 E	1,895 E
2019	411 A	445 A	497 A	425 E	1,778 E
2018	389 A	396 A	458 A	410 A	1,654 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.42 E	\$0.48 E	\$0.76 E	\$0.41 E	\$2.07 E
2019	\$0.42 A	\$0.47 A	\$0.67 A	\$0.38 E	\$1.94 E
2018	\$0.36 A	\$0.41 A	\$0.65 A	\$0.42 A	\$1.83 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 01/10/2020. The reports text is as of 01/13/2020.

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, Retail, First Cost and Licensing.

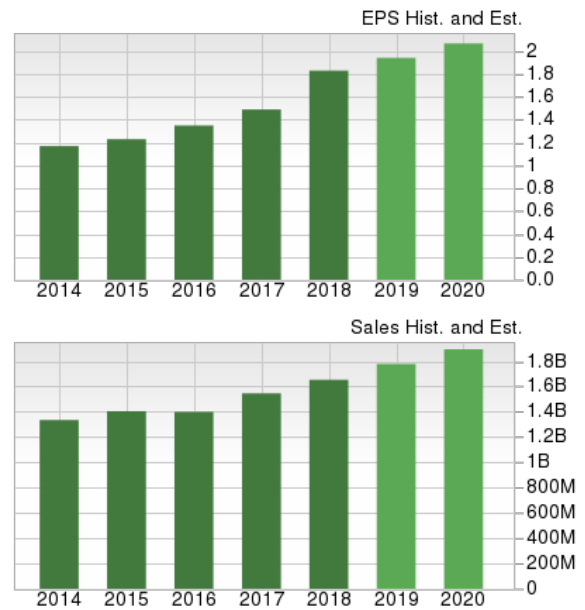
Wholesale Footwear offers footwear under the Steve Madden Women's, Madden Girl, Steve Madden Men's, Madden, Madden NYC, Dolce Vita, DV by Dolce Vita, Mad Love, Steven by Steve Madden, Report, Superga, Betsey Johnson, Betseyville, Steve Madden Kids, FREEBIRD by Steven, Stevies, B Brian Atwood, Blondo, Kate Spade, and Avec Les Filles brands, Alice & Olivia 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, DKNY and Donna Karan 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 September 30, 2019, the company operated 227 company-operated retail outlets, comprising eight Internet stores and 32 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 Buy:

▲ **Robust Q3 Results:** Steven Madden reported better-than-expected third-quarter 2019 results, marking fourth successive quarter of earnings and revenue beat. Notably, both the top and bottom lines continued to improve year over year. The company gained from sturdy performance across its Steve Madden and Blondo brands. The company witnessed incremental sales at its wholesale and retail businesses. Moreover, Steve Madden stated that the acquisitions of GREATS and BB Dakota are likely to be key catalysts.

Notably, impressive performance prompted management to lift full-year net sales and earnings per share forecast. The company raised view in spite of incremental earnings pressure due to the imposition of the 15% tariff on List 4 products imported from China. Steve Madden now envisions net sales growth of 7-7.5% and adjusted earnings per share in the band of \$1.92-\$1.95 for 2019. The company had reported earnings of \$1.83 in the prior year. The stock has increased 33.9% so far in the year compared with the industry's growth of 32.7%.

Management remains optimistic about its flagship brand Steve Madden and newer brands such as Anne Klein and Blondo with growth opportunities in e-commerce business.

▲ **Strong International Performance:** The company is focusing on expanding business globally. Notably in 2018, the company witnessed 24% revenue growth internationally. The company's directly-owned subsidiaries in Canada and Mexico, SM Europe JV as well as the distributor business remained strong. Steven Madden had earlier guided double-digit sales growth in the international market on the back of the SM Europe JV and SM Mexico along with its new JV in Israel. 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.

▲ **Strong Wholesale Business:** The company's wholesale business continues with its sturdy performance during the third quarter as well. After increasing 5.1% and 13.1% in the first and second quarters, net sales for the wholesale business rose 8.5% to \$421.6, reflecting robust gain in wholesale footwear and accessories businesses. We note that wholesale footwear net sales advanced 6.3% to \$315.9 million driven by sturdy performance in Blondo, Steve Madden Women's and private label. Wholesale accessories/apparel net sales improved 15.8% to \$105.7 million on the back of solid gain in Steve Madden handbags and the addition of the BB Dakota apparel business.

▲ **Strategic Buyouts & Partnerships:** Steven Madden is on a buyout spree. The company acquired a direct-to-consumer company, BB Dakota. 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. 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. The company also intends to open first store in Shanghai during the fourth quarter and to open two-three additional locations in spring 2020.

In January 2018, Steven Madden acquired the license for Anne Klein footwear and handbags. The company's wholesale accessories and footwear segments gained from this acquisition. Some of Steven Madden's other notable buyouts include 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.

Reasons To Sell:

▼ **Trade War A Concern:** Escalating trade war between the United States and China is a concern. Imposition of tariffs on additional consumer goods such as shoes, handbags and others imported from China are likely to undermine business prospects of Steven Madden and have a direct impact on the bottom line. To offset tariffs, the company is steadily moving production out of China, primarily to Cambodia and raising selling prices. Also, it is receiving price concessions from factories that remained in China.

A greater percentage of the company's handbags are made in China. However, to lower its dependency on China, the company is contemplating to shift more of its handbag production to Cambodia. Management has estimated an incremental headwind of roughly 7 cents a share on 2019 earnings due to higher tariffs.

Management highlighted that headwinds related to bankruptcy of Payless ShoeSource, tariff and higher tax rate are likely to adversely impact third quarter earnings by approximately 10 cents a share.

▼ **Rise in Operating Expenses a Concern:** Steve Madden is witnessing a rise in operating expenses. We note that the metric rose 10.3%, 12.4% and 9.5% in the third, second and first quarters of 2019. The same increases 6.4%, 7.2%, 4.7% and 11% in the first, second, third and fourth quarters of 2018. Analysts believe that if the top-line growth fails to offset rise in operating expenses, it may hurt the company's margins. Adjusted operating margin contracted 90 bps to 14.5% during the third quarter of 2019.

▼ **Increase in Cost of Goods Sold:** We note that cost of goods sold has been rising. After increasing 2.3% and 12.8% during the first and second quarters of 2019, cost of sales rose 8.1% year over year to \$306.3 million during the third 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. Experts believe that if the top-line growth fails to offset rise in cost of goods sold, it may hurt the company's gross margin. We note that gross margin in the wholesale business shrunk 40 bps to 33.9% on account of contraction in the wholesale accessories/apparel gross margin thanks to the imposition of the tariff.

▼ **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.

Last Earnings Report

Steven Madden Beats on Q3 Earnings, Raises FY19 View

Steven Madden, Ltd. reported better-than-expected third-quarter 2019 results, wherein both the top and the bottom lines continued to improve year over year. This NY-based company gained from sturdy performance across its Steve Madden and Blondo brands. The company witnessed incremental sales at its wholesale and retail businesses.

Moreover, Steven Madden stated that the acquisitions of GREATS and BB Dakota are likely to be key catalysts. Notably, impressive performance prompted management to lift full-year net sales and earnings per share forecast. The company raised view in spite of incremental earnings pressure due to the imposition of the 15% tariff on List 4 products imported from China.

Quarter Ending **09/2019**

Report Date	Oct 29, 2019
Sales Surprise	1.52%
EPS Surprise	15.52%
Quarterly EPS	0.67
Annual EPS (TTM)	1.98

Q3 Details

This designer and marketer of fashion footwear and accessories delivered adjusted quarterly earnings of 67 cents a share that surpassed the Zacks Consensus Estimate of 58 cents, marking the eighth straight quarter of beat.

The quarterly earnings increased 3.1% from 65 cents reported in the year-ago period. Although the company witnessed increase in cost of sales (up 8.1%) and adjusted operating expenses (up 10.3%), the bottom line improved on account of higher net sales and share repurchase activity.

The top line increased 8.5% year over year to \$497.3 million and beat the Zacks Consensus Estimate of \$490 million. This was the fourth successive quarter of revenue beat.

Net sales for the **wholesale business** rose 8.5% to \$421.6 million, reflecting robust gain in wholesale footwear and accessories/apparel businesses.

We note that wholesale footwear net sales advanced 6.3% to \$315.9 million driven by sturdy performance in Blondo, Steve Madden Women's and private label. Wholesale accessories/apparel net sales improved 15.8% to \$105.7 million on the back of solid gain in Steve Madden handbags and the addition of the BB Dakota apparel business.

Retail net sales jumped 8.3% to \$75.7 million, while same-store sales increased 5.1% on account of sturdy performance in e-commerce business.

Margins

Gross profit climbed 9% to \$191 million, while gross margin expanded 20 bps to 38.4%.

We note that gross margin in the wholesale business shrunk 40 bps to 33.9% on account of contraction in the wholesale accessories/apparel gross margin thanks to the imposition of the tariff. This was partly mitigated by an increase in the wholesale footwear gross margin. Meanwhile, retail gross margin expanded 320 bps to 63.3%, mainly due to lower promotional activity.

Adjusted operating income increased 2.3% to \$72.3 million, however, adjusted operating margin contracted 90 bps to 14.5%.

Store Update

The company ended the reported quarter with 227 company-operated retail outlets, comprising eight Internet stores and 32 company-operated concessions in international markets.

Other Financial Aspects

Steve Madden ended the reported quarter with cash and cash equivalents of \$167.5 million, marketable securities of \$27.5 million, and shareholders' equity of \$838.7 million, excluding non-controlling interest of \$11.5 million. During the quarter, the company bought back about 784,757 shares for approximately \$25.3 million. The company also raised quarterly dividend by 7% to 15 cents a share.

Outlook

Steve Madden now envisions net sales growth of 7-7.5% for 2019. The company expects adjusted earnings in the band of \$1.92-\$1.95. The company had reported earnings of \$1.83 in 2018. Management had earlier projected net sales increase of 5-7% and adjusted earnings of \$1.78-\$1.86 per share for the current year.

Recent News

Steven Madden's Apparel Unit Gains on BB Dakota Acquisition – Aug 13, 2019

Steven Madden is on a buyout spree. The company has recently acquired a direct-to-consumer, California-based company, BB Dakota. With this acquisition, Steve Madden will be able to expand its apparel category.

Steven Madden Concludes Buyout of Greats, Ups Sneaker Game – Aug 12, 2019

Steven Madden recently concluded the acquisition of Italian sneakers company — Greats Brand, Inc. The booming athleisure business makes this a lucrative move. The acquisition is also in sync with the company's plans to expand its sneakers business. Financial details of the deal were undisclosed.

Valuation

Steven Madden shares are up 33.9% over the trailing 12-month period. Over the past year, the Zacks sub-industry and the Zacks Consumer Discretionary sector are up 32.7% and 21%, respectively.

The S&P 500 index is up 25.6% in the past year.

The stock is currently trading at 20.05X forward 12-month earnings, which compares to 26.1X for the Zacks sub-industry, 20.25X for the Zacks sector and 18.88X for the S&P 500 index.

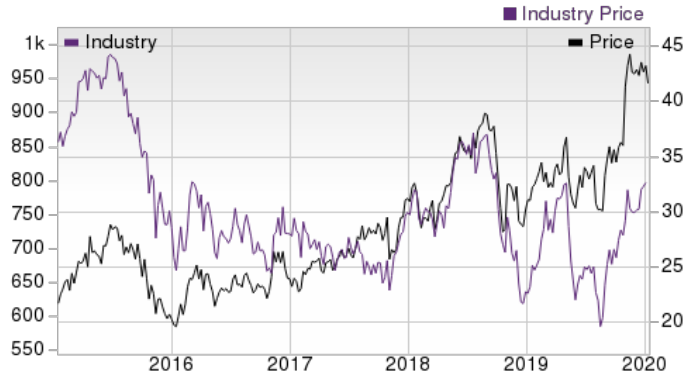
Over the past five years, the stock has traded as high as 22.2X and as low as 13.12X, with a 5-year median of 17.24X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$44 price target reflects 21.2X forward 12-month earnings.

The table below shows summary valuation data for SHOO

Valuation Multiples - SHOO					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	20.05	26.1	20.25	18.88
	5-Year High	22.2	26.48	23.35	19.34
	5-Year Low	13.12	18.63	16.16	15.17
	5-Year Median	17.24	23.22	20.11	17.44
P/S F12M	Current	1.84	3.04	2.35	3.5
	5-Year High	2.04	3.04	3.19	3.5
	5-Year Low	1.2	1.99	1.81	2.54
	5-Year Median	1.57	2.58	2.54	3
EV/EBITDA TTM	Current	13.98	24.27	12.71	12.12
	5-Year High	15.43	24.5	17.76	12.86
	5-Year Low	9.06	13.14	11.07	8.48
	5-Year Median	11.54	15.96	12.43	10.67

As of 01/10/2020

Industry Analysis Zacks Industry Rank: Top 44% (111 out of 254)



Top Peers

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

Industry Comparison Industry: Shoes And Retail Apparel				Industry Peers		
	SHOO Neutral	X Industry	S&P 500	ADDYY Neutral	DECK Neutral	WWW Neutral
VGM Score	B	-	-	C	D	D
Market Cap	3.50 B	1.90 B	24.03 B	68.30 B	4.62 B	2.69 B
# of Analysts	5	4	13	7	5	6
Dividend Yield	1.44%	0.97%	1.78%	0.78%	0.00%	1.20%
Value Score	D	-	-	D	C	C
Cash/Price	0.05	0.05	0.04	0.04	0.04	0.05
EV/EBITDA	16.54	12.34	14.04	19.60	12.34	11.09
PEG Ratio	2.23	1.92	2.02	1.92	1.50	0.88
Price/Book (P/B)	4.15	2.79	3.32	8.65	5.20	3.38
Price/Cash Flow (P/CF)	20.20	10.86	13.52	26.53	15.54	12.97
P/E (F1)	20.10	17.06	18.82	28.76	18.19	13.26
Price/Sales (P/S)	1.98	1.00	2.63	2.62	2.21	1.20
Earnings Yield	4.97%	5.85%	5.31%	3.48%	5.50%	7.56%
Debt/Equity	0.00	0.55	0.72	0.23	0.25	0.73
Cash Flow (\$/share)	2.06	2.68	6.94	6.46	10.62	2.56
Growth Score	A	-	-	B	F	D
Hist. EPS Growth (3-5 yrs)	13.26%	9.89%	10.56%	28.59%	18.60%	9.89%
Proj. EPS Growth (F1/F0)	6.49%	10.89%	7.49%	11.90%	2.62%	10.92%
Curr. Cash Flow Growth	19.61%	7.54%	14.83%	19.27%	33.19%	24.22%
Hist. Cash Flow Growth (3-5 yrs)	4.53%	6.27%	9.00%	10.81%	15.19%	3.89%
Current Ratio	2.80	1.68	1.23	1.37	2.44	1.14
Debt/Capital	0.00%	39.81%	42.99%	18.38%	20.22%	42.29%
Net Margin	7.71%	6.90%	11.08%	8.27%	13.36%	7.51%
Return on Equity	20.01%	14.85%	17.16%	26.81%	27.89%	22.50%
Sales/Assets	1.46	1.25	0.55	1.24	1.30	0.95
Proj. Sales Growth (F1/F0)	6.55%	5.98%	4.20%	7.50%	5.98%	4.05%
Momentum Score	D	-	-	C	B	D
Daily Price Chg	-0.93%	-0.61%	-0.33%	-0.64%	-2.52%	-0.92%
1 Week Price Chg	1.29%	0.31%	-0.30%	-0.37%	3.59%	1.42%
4 Week Price Chg	-2.44%	0.00%	1.71%	10.59%	2.00%	0.00%
12 Week Price Chg	15.26%	3.89%	6.05%	9.02%	4.39%	15.75%
52 Week Price Chg	33.07%	3.30%	22.39%	52.24%	45.26%	3.30%
20 Day Average Volume	510,220	91,126	1,580,816	28,749	319,352	429,095
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 12 week change	4.66%	-1.73%	-0.50%	-3.77%	4.30%	-0.33%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

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	A
Momentum Score	D
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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