

Steven Madden, Ltd. (SHOO)

\$23.96 (As of 06/25/20)

Price Target (6-12 Months): **\$20.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 06/02/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:F

Value: C

Growth: D

Momentum: F

Summary

Shares of Steven Madden underperformed the industry in the past three months. Much of the stock's downside is caused by a soft first-quarter 2020 performance. Earnings lagged the Zacks Consensus Estimate, with both top and bottom line declining year over year in the quarter. In March, the company's business weakened due to the coronavirus outbreak. Lower revenues and higher operating expenses marred the bottom line. Although top line delivered a beat after a miss in the previous quarter, revenue decline at its Wholesale and Retail businesses hurt the metric. Margins were also dismal and the company continues to witness higher operating costs in first quarter. Also, softness at its wholesale segment due to decline in wholesale footwear and accessories/apparel revenues continued. Moreover, concerns related to stiff competition remain.

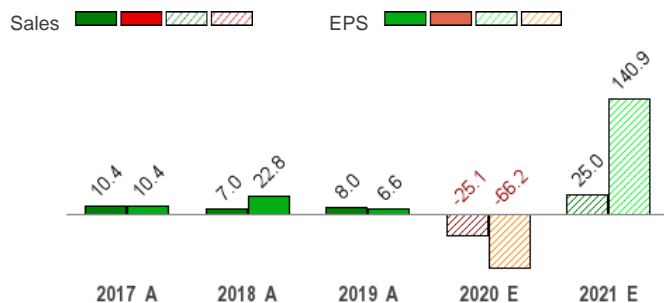
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$44.80 - \$16.38
20 Day Average Volume (sh)	904,955
Market Cap	\$2.0 B
YTD Price Change	-44.3%
Beta	1.09
Dividend / Div Yld	\$0.60 / 2.5%
Industry	Shoes and Retail Apparel
Zacks Industry Rank	Bottom 6% (237 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-15.8%
Last Sales Surprise	1.5%
EPS F1 Est- 4 week change	-44.8%
Expected Report Date	08/04/2020
Earnings ESP	0.0%
P/E TTM	14.2
P/E F1	36.9
PEG F1	4.1
P/S TTM	1.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	402 E	420 E	486 E	418 E	1,674 E
2020	359 A	187 E	400 E	393 E	1,339 E
2019	411 A	445 A	497 A	415 A	1,787 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.35 E	\$0.37 E	\$0.59 E	\$0.32 E	\$1.59 E
2020	\$0.16 A	-\$0.24 E	\$0.42 E	\$0.32 E	\$0.66 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 06/25/2020. The reports text is as of 06/26/2020.

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.

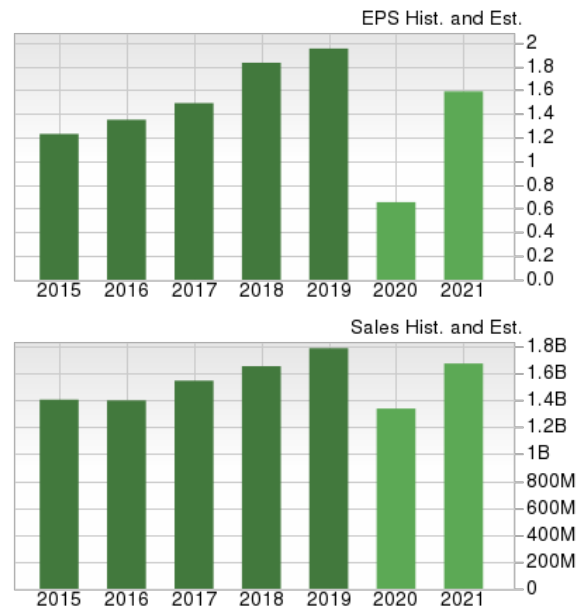
Wholesale Footwear offers footwear under the Steve Madden Women's, Madden Girl, Steve Madden Men's, Madden, Madden NYC, Dolce Vita, DV by Dolce Vita, Mad Love, Steven by Steve Madden, Report, Superga, Betsey Johnson, Betseyville, Steve Madden Kids, FREEBIRD by Steven, Stevies, B Brian Atwood, Blondo 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 Mar 31, 2020, the company operated 224 company-operated retail outlets, comprising eight Internet stores and 30 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:

- ▼ **Soft Q1 Earnings:** Shares of Steven Madden have lost 3.8% against the industry's rise of 22.2% over the past three months. Much of this downside has been caused by the adverse impact of coronavirus, as management had previously withdrawn guidance for 2020 and refrained from providing any updates on the same. In addition, Steven Madden's earnings lagged the Zacks Consensus Estimate, with both the top and the bottom line declining year over year in first-quarter 2020. In March, the company's business weakened due to the coronavirus outbreak, which hurt results. While lower revenues and higher operating expenses marred the bottom line, revenue decline at both its Wholesale and Retail businesses weighed on the top line. Also, a decline of 27.1% in commission and licensing fee income hurt revenues. It also suspended share repurchases and quarterly cash dividend.
- ▼ **Sluggish Wholesale Unit:** Steven Madden has been witnessing sluggishness across its wholesale business. During first-quarter 2020, revenues at the Wholesale business came in at \$302.7 million. This reflects a year-over-year decline of 13%, which is much wider than the drop of 1.1% in the previous quarter. Decline in wholesale footwear and accessories/apparel revenues has been marring the unit's performance. Major order cancellations in the back half of March due to COVID-19 further hurt results. We note that wholesale footwear revenues declined 15% to \$235.1 million. Wholesale accessories/apparel revenues fell 5.4% to \$67.7 million. Moreover, gross margin in the wholesale business shrunk 200 basis points (bps) to 32.5%, thanks to the inventory reserves with respect to COVID-19. For the second quarter, wholesale revenue is trending down roughly 75% for April and May.
- ▼ **Rising Operating Expenses:** Steven Madden has been witnessing a rise in operating expenses for a while now. We note that the metric rose 2.1% during first-quarter 2020, following respective increase of 4%, 10.3%, 12.4% and 9.5% in the fourth, third, second and first quarter of 2019. The same increased 6.4%, 7.2%, 4.7% and 11% in the first, second, third and fourth quarter of 2018. In fact, this has been weighing on the company's profits. In first-quarter 2020, adjusted operating income declined 68.5% to \$14.2 million. Further, adjusted operating margin shriveled 680 bps to 4% in the reported quarter, much wider than the decline of 120 bps and 90 bps, respectively, during the fourth and third quarter of 2019.
- ▼ **Competitive Pressure:** The fashion industry is highly competitive. Steven Madden faces intense competition in the footwear and apparel industry from other big guns on several attributes such as style, price, quality, comfort and brand name. The competitors with significant financial, technological, engineering, manufacturing, marketing, and distribution advantages may dent the company's sales and margins. Moreover, rapid shift in customer shopping patterns to buy athletic footwear, athletic apparel, and sporting goods from e-retailers could significantly hurt the company's business results.

Lower revenues and higher operating expenses marred Steven Madden's bottom-line results in first-quarter 2020. Margins were also soft in the quarter.

Risks

- **Q1 Highlights:** Despite soft earnings in first-quarter 2020, Steven Madden's revenues outshined the Zacks Consensus Estimate after a miss in the previous quarter. Also, cost of sales declined 11.1% in the reported quarter. Moreover, e-commerce revenues grew mid-teens. Notably, the company witnessed mid-single digits growth in revenues through the first two months of the first quarter, on a percentage basis, with low-single digit improvement in comparable store sales. Notably, e-commerce revenues grew nearly 75% for the second quarter-to-date. Furthermore, gross margin at the retail segment expanded 130 basis points (bps) to 59.8% owing to gains from the modification of the company's loyalty program, somewhat offset by the pandemic inventory reserves. The company's Steve Madden brand is also performing well.
- **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.

- **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.
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Last Earnings Report

Steven Madden Q1 Earnings Lag Estimates, Revenues Top

Steven Madden reported mixed first-quarter 2020 results, wherein the bottom line lagged the Zacks Consensus Estimate, while the top line outpaced the same. Moreover, both the top and the bottom line declined year over year.

Notably, the company's revenues and earnings were impressive through the first two months of 2020. Moreover, the company saw positive consumer response to the spring products across its namesake brand. However, in March, business weakened due to the coronavirus outbreak, which hurt the company's results. Owing to uncertainty arising from the pandemic, management withdrew its revenue and earnings guidance for the year.

Nevertheless, management has taken precautionary measures to strengthen its financial position amid the pandemic. It suspended share repurchases and quarterly cash dividend apart from lowering payroll, non-essential operating costs, capital spend and planned inventory receipts. Moreover, the company withdrew \$50 million from its existing credit facility.

Q1 Details

Steven Madden delivered adjusted earnings of 16 cents a share that lagged the Zacks Consensus Estimate of 19 cents. We note that the bottom line also plummeted 61.9% from 42 cents reported in the year-ago quarter owing to lower revenues and higher operating expenses. While operating expenses rose 2.1% to \$119.3 million, cost of sales declined 11.1% in the reported quarter.

Total revenues fell 13.6% year over year to \$359.2 million. This takes into account a 13.4% decline in net sales of \$355.7 million and a decline of 27.1% in commission and licensing fee income of \$3.5 million. The Zacks Consensus Estimate for total revenues was \$354 million.

Revenues for the Wholesale business fell 13% to \$302.7 million, reflecting a drop in wholesale footwear and accessories/apparel revenues. Also, major order cancellations in the back half of March due to COVID-19 hurt performance. We note that wholesale footwear revenues declined 15% to \$235.1 million. Wholesale accessories/apparel revenues fell 5.4% to \$67.7 million.

Retail revenues plunged 15.8% to \$52.9 million owing to the closure of all of its brick-and-mortar stores in the second half of March. However, e-commerce revenues grew mid-teens in the quarter despite a downturn in the e-commerce business over the last three weeks. Notably, the company witnessed mid-single digits growth in revenues through the first two months of the first quarter, on a percentage basis, with low-single digit improvement in comparable store sales.

Margins

Consolidated gross profit came in at \$133.5 million, down 17.5% year over year, while gross margin contracted 170 basis points (bps) to 37.2%. Also, inventory reserves taken due to the pandemic hurt gross margin by 330 bps. Adjusted operating income declined 68.5% to \$14.2 million, while adjusted operating margin contracted 680 bps to 4%.

We note that gross margin in the wholesale business shrunk 200 bps to 32.5%, thanks to the inventory reserves with respect to COVID-19. However, retail gross margin expanded 130 bps to 59.8% owing to gains from the modification of the company's loyalty program, somewhat offset by the pandemic inventory reserves.

Store Update

The company ended the first quarter with 224 company-operated retail outlets, comprising eight Internet stores and 30 company-operated concessions in international markets.

Other Financial Aspects

Steven Madden ended the reported quarter with cash and cash equivalents of \$211.1 million, marketable securities of \$34.3 million, and shareholders' equity of \$761.2 million, excluding non-controlling interest of \$12.4 million.

During the quarter, the company bought back about 878,817 shares for roughly \$29.1 million, before the suspension of share repurchases. This includes shares bought via the net settlement of employee stock awards. Management incurred capital expenditures of approximately \$3.3 million during the quarter.

Quarter Ending **03/2020**

Report Date	May 28, 2020
Sales Surprise	1.49%
EPS Surprise	-15.79%
Quarterly EPS	0.16
Annual EPS (TTM)	1.69

Valuation

Steven Madden shares are down 46% in the year-to-date period and 30.5% in the trailing 12-month period. Stocks in the Zacks sub-industry are up 0.3% but the Zacks Consumer Discretionary sector is down 13% in the year-to-date period. Over the past year, the Zacks sub-industry is up 16.8% but the sector is down 7.8%.

The S&P 500 index is down 4.2% in the year-to-date period but up 5.6% in the past year.

The stock is currently trading at 21.63X forward 12-month earnings, which compares to 33.01X for the Zacks sub-industry, 33.43X for the Zacks sector and 22.1X for the S&P 500 index.

Over the past five years, the stock has traded as high as 26.82X and as low as 9.65X, with a 5-year median of 17.08X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$20 price target reflects 18.06X 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	21.63	33.01	33.43	22.1
	5-Year High	26.82	33.01	33.43	22.11
	5-Year Low	9.65	18.63	16.21	15.23
	5-Year Median	17.08	23.38	19.91	17.49
P/S F12M	Current	1.33	2.87	2.18	3.45
	5-Year High	2.04	3.02	3.19	3.45
	5-Year Low	0.82	1.99	1.67	2.53
	5-Year Median	1.55	2.58	2.51	3.02
EV/EBITDA TTM	Current	8.45	20.32	10	11.43
	5-Year High	15.5	24.5	17.65	12.85
	5-Year Low	5.4	12.39	8.29	8.25
	5-Year Median	11.44	16.01	12.23	10.83

As of 06/25/2020

Industry Analysis Zacks Industry Rank: Bottom 6% (237 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Columbia Sportswear Company (COLM)	Neutral	3
Deckers Outdoor Corporation (DECK)	Neutral	3
NIKE, Inc. (NKE)	Neutral	3
Under Armour, Inc. (UAA)	Neutral	3
Wolverine World Wide, Inc. (WWW)	Neutral	3
Adidas AG (ADDYY)	Underperform	5
Rocky Brands, Inc. (RCKY)	Underperform	5
Skechers U.S.A., Inc. (SKX)	Underperform	4

Industry Comparison Industry: Shoes And Retail Apparel				Industry Peers		
	SHOO	X Industry	S&P 500	ADDYY	DECK	WWW
Zacks Recommendation (Long Term)	Underperform	-	-	Underperform	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	5	3	3
VGM Score	F	-	-	B	C	D
Market Cap	1.99 B	1.54 B	21.24 B	53.20 B	5.41 B	1.83 B
# of Analysts	6	5	14	8	7	7
Dividend Yield	2.50%	0.99%	1.97%	0.99%	0.00%	1.77%
Value Score	C	-	-	D	C	C
Cash/Price	0.13	0.26	0.07	0.05	0.12	0.26
EV/EBITDA	8.38	8.38	12.51	11.83	13.00	9.25
PEG Ratio	3.94	2.84	2.87	14.86	1.55	1.78
Price/Book (P/B)	2.58	1.85	2.90	6.73	4.74	2.49
Price/Cash Flow (P/CF)	10.60	9.44	11.34	15.17	17.15	7.92
P/E (F1)	35.49	27.43	20.76	80.37	23.85	17.76
Price/Sales (P/S)	1.16	0.76	2.18	2.13	2.53	0.84
Earnings Yield	2.71%	3.32%	4.55%	1.25%	4.20%	5.62%
Debt/Equity	0.00	0.64	0.77	0.23	0.22	0.77
Cash Flow (\$/share)	2.26	2.97	7.01	8.95	11.26	2.85
Growth Score	D	-	-	A	D	F
Hist. EPS Growth (3-5 yrs)	12.77%	7.23%	10.84%	18.63%	24.51%	12.63%
Proj. EPS Growth (F1/F0)	-66.41%	-47.03%	-10.73%	-68.90%	-15.85%	-43.49%
Curr. Cash Flow Growth	5.46%	0.43%	5.46%	36.19%	1.85%	-5.09%
Hist. Cash Flow Growth (3-5 yrs)	8.40%	5.48%	8.55%	23.10%	8.34%	1.05%
Current Ratio	2.75	1.90	1.29	1.25	3.97	1.12
Debt/Capital	0.00%	39.81%	45.14%	18.43%	17.75%	43.59%
Net Margin	5.20%	4.91%	10.53%	6.11%	12.95%	4.61%
Return on Equity	17.09%	14.63%	16.06%	18.83%	26.45%	22.11%
Sales/Assets	1.38	1.12	0.55	1.12	1.20	0.86
Proj. Sales Growth (F1/F0)	-24.29%	-0.97%	-2.70%	-18.21%	-1.95%	-18.62%
Momentum Score	F	-	-	D	A	C
Daily Price Chg	0.00%	0.00%	0.93%	2.81%	-0.75%	-2.59%
1 Week Price Chg	-4.52%	-1.12%	0.92%	0.56%	-0.04%	-0.83%
4 Week Price Chg	-3.15%	2.99%	-1.04%	3.60%	3.58%	4.01%
12 Week Price Chg	13.77%	28.29%	22.12%	28.29%	52.39%	67.63%
52 Week Price Chg	-28.20%	-17.41%	-8.70%	-10.18%	10.17%	-17.41%
20 Day Average Volume	904,955	313,368	2,782,477	52,451	523,988	735,730
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	1.80%	0.00%
(F1) EPS Est 4 week change	-44.80%	-0.22%	0.00%	-0.22%	2.74%	3.73%
(F1) EPS Est 12 week change	-61.51%	-47.57%	-12.23%	-63.22%	-19.65%	-45.24%
(Q1) EPS Est Mthly Chg	-306.14%	-5.69%	0.00%	0.00%	2.42%	21.30%

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	C
Growth Score	D
Momentum Score	F
VGM Score	F

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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