

## Steven Madden, Ltd. (SHOO)

**\$22.41** (As of 07/30/20)

Price Target (6-12 Months): **\$24.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 07/01/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**4-Sell**

Zacks Style Scores:

VGM:F

Value: C

Growth: D

Momentum: D

### Summary

Shares of Steven Madden have underperformed the industry in the past three months, driven by sluggishness at its wholesale business. Decline in the wholesale footwear and accessories/apparel revenues has been marring the unit's performance. This coupled with significant order cancellations due to COVID-19, hurt the segment in second-quarter 2020. Lower revenues at both wholesale and retail divisions dented the company's overall top line, which plunged 68.2% year over year and lagged the Zacks Consensus Estimate. Nevertheless, the company posted narrower-than-expected loss driven by reduced operating expenses. Moreover, its e-commerce business has been a bright spot. Revenues on stevemadden.com surged 88% in the quarter, buoyed by robust digital endeavors. The company's flagship brand's performance has also been standing out.

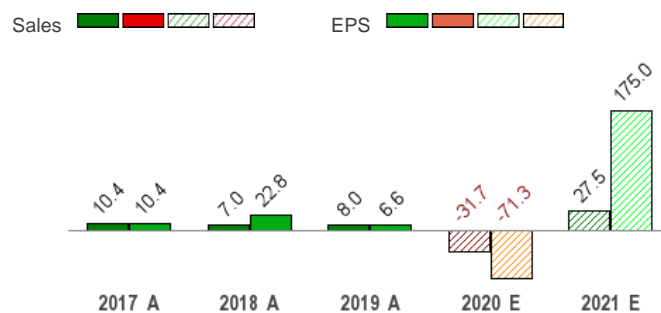
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	<b>\$44.80 - \$16.38</b>
20 Day Average Volume (sh)	<b>682,606</b>
Market Cap	<b>\$1.9 B</b>
YTD Price Change	<b>-47.9%</b>
Beta	<b>1.14</b>
Dividend / Div Yld	<b>\$0.60 / 2.7%</b>
Industry	<a href="#">Shoes and Retail Apparel</a>
Zacks Industry Rank	<b>Bottom 14% (218 out of 253)</b>

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	<b>26.9%</b>
Last Sales Surprise	<b>-21.8%</b>
EPS F1 Est- 4 week change	<b>-14.8%</b>
Expected Report Date	<b>11/03/2020</b>
Earnings ESP	<b>-4.1%</b>

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	379 E	394 E	458 E	418 E	1,557 E
2020	359 A	143 A	391 E	381 E	1,221 E
2019	411 A	445 A	497 A	415 A	1,787 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.34 E	\$0.34 E	\$0.60 E	\$0.33 E	\$1.54 E
2020	\$0.16 A	-\$0.19 A	\$0.37 E	\$0.29 E	\$0.56 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.

P/E TTM	<b>21.8</b>
P/E F1	<b>40.0</b>
PEG F1	<b>4.5</b>
P/S TTM	<b>1.3</b>

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/30/2020. The reports text is as of 07/31/2020.

## 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.

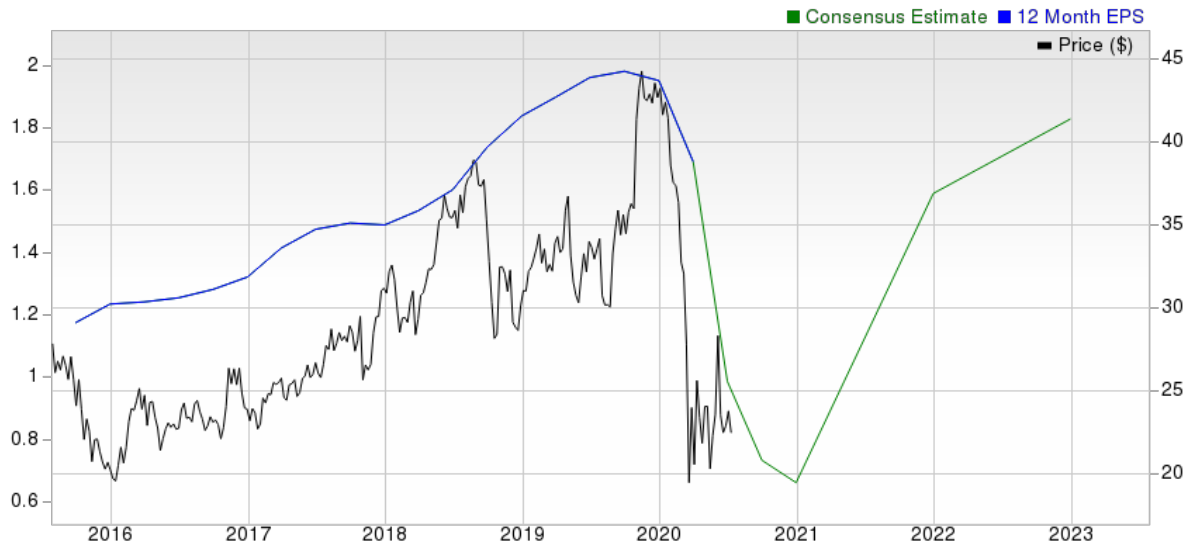
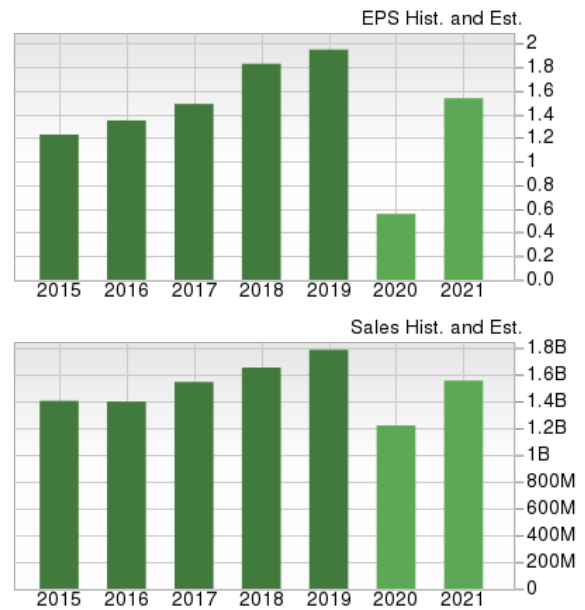
Wholesale Footwear offers footwear under the Steve Madden Women's, Madden Girl, Steve Madden Men's, Madden, Madden NYC, Dolce Vita, DV by Dolce Vita, Mad Love, Steven by Steve Madden, Report, Superga, Betsey Johnson, Betseyville, Steve Madden Kids, FREEBIRD by Steven, Stevies, B Brian Atwood, Blondo 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 Jun 30, 2020, the company operated 225 company-operated retail outlets including eight Internet stores, along with 17 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.



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## Reasons To Buy:

▲ **Q2 Highlights:** Steven Madden reported narrower-than-expected loss in second-quarter 2020. It delivered adjusted loss of 19 cents a share, narrower than the Zacks Consensus Estimate of a loss of 26 cents. We note that cost of sales decreased significantly to \$86.9 million and operating expenses dropped 36.4% to \$76.9 million in the reported quarter. Further, gross margin expanded 130 basis points (bps) to 39.1%, driven by retail gross-margin increase of 770 bps to 67.4%. This was mainly buoyed by a shift in sales mix to the higher-margin e-commerce business. In fact, e-commerce business has been a bright spot. Revenues on stevemadden.com surged 88% in the quarter, up from 58% increase registered in the same quarter a year ago. Its increased digital-marketing investments are generating impressive returns and initiatives like 'try before you buy' bode well. The company's flagship brand's performance has been robust.

Management remains optimistic about its flagship brand Steve Madden's significant growth opportunities. The company's e-commerce business also exhibits strength.

▲ **Strategic Buyouts & Partnerships:** Steven Madden 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. Management remains on track to launch the BB Dakota Steve Madden product. 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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## Reasons To Sell:

- ▼ **Sluggish Wholesale Unit Hurts Stock:** Shares of Steven Madden have lost 6.6% against the industry's 14.3% rally over the past three months. It has been witnessing sluggishness across its wholesale business for a while, which continued in the second quarter of 2020. Decline in the wholesale footwear and accessories/apparel revenues has been marring the unit's performance. During the second quarter, revenues for the Wholesale business tumbled 72.5% to \$100 million. This is much wider than the declines of 13% and 1.1% registered in the preceding quarters. Apart from a decline in the wholesale footwear and accessories/apparel revenues, the metric was hurt by significant order cancellations due to COVID-19 in the most-recent quarter. We note that wholesale footwear revenues declined 72.8% and accessories/apparel revenues tumbled 71.5%. Although the company has experienced a significant uptick in shipping for the month of July, overall wholesale revenues still remain under pressure year over year. For the third quarter, management estimates wholesale footwear revenues to decrease roughly 35% and wholesale accessories/apparel revenues to be down nearly 40% compared to the last year.
- ▼ **Dismal Sales in Q2:** Steven Madden posted soft top-line results during second-quarter 2020. Revenues missed the Zacks Consensus Estimate and plunged 68.2% year over year to \$142.8 million in the quarter. Moreover, net sales decreased 68.2% and commission and licensing fees income tumbled 70.2%. Lower revenues at the company's Wholesale and Retail businesses weighed on the top line. While revenues at Wholesale fell 72.5%, the metric plunged 49.2% at Retail, owing to the closure of most of its retail outlets with respect to the pandemic, partly offset by robust e-commerce performance. Going forward, management expects its Retail business sales to decline roughly 25% in the third quarter.
- ▼ **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.

Steven Madden is witnessing sluggishness across its wholesale business for a while now, owing to lower footwear and accessories/apparel revenues.

## Last Earnings Report

### Steven Madden's Loss Narrower, Revenue Miss in Q2

Steven Madden reported narrower-than-expected loss in second-quarter 2020. However, revenues lagged the Zacks Consensus Estimate after a beat in the previous quarter. Also, both top and bottom lines compared unfavorably with the year-ago quarter's respective figures.

Steven Madden delivered adjusted loss of 19 cents a share, narrower than the Zacks Consensus Estimate of a loss of 26 cents. However, the bottom line compared unfavorably with adjusted earnings of 47 cents reported in the year-ago quarter. We note that operating expenses dropped 36.4% to \$76.9 million and cost of sales decreased significantly to \$86.9 million in the reported quarter.

Total revenues plunged 68.2% year over year to \$142.8 million. This takes into account a 68.2% decline in net sales of \$141.4 million and decrease of 70.2% in commission and licensing fee income of \$1.4 million. The Zacks Consensus Estimate for total revenues was \$183 million.

### Detailed Discussion

Revenues for the **Wholesale** business fell 72.5% to \$100 million, reflecting a drop in wholesale footwear and accessories/apparel revenues. Also, the metric was hurt by significant order cancellations due to COVID-19. We note that wholesale footwear revenues declined 72.8% and accessories/apparel revenues tumbled 71.5%.

**Retail** revenues plunged 49.2% to \$41.4 million, owing to the closure of most of its retail outlets with respect to the pandemic. This was partly compensated with the robust performance across its e-commerce business. Management remains encouraged by solid digital commerce channels, with 88% revenue growth on stevemadden.com in the reported quarter. This has been gaining from strength in the company's brands coupled with continued consumer demand for its products.

Consolidated gross profit tumbled 67.1% year over year to \$55.9 million, while gross margin expanded 130 basis points (bps) to 39.1%. We note that gross margin in the wholesale business shrunk 550 bps to 26.6%, mainly due to the shift in sales mix to the lower-margin private-label business. However, retail gross margin expanded 770 bps to 67.4%, mainly buoyed by a shift in sales mix to the higher-margin e-commerce business.

Further, the company reported adjusted operating loss of \$21 million compared with adjusted operating profit of \$49.1 million in the same quarter a year ago.

Steven Madden ended the second quarter with 225 company-operated retail outlets including eight Internet stores, along with 17 company-operated concessions in international markets.

### Other Financial Aspects

Steven Madden ended the reported quarter with cash and cash equivalents of \$318.1 million, marketable securities of \$38.8 million, and shareholders' equity of \$755.1 million, excluding non-controlling interests of roughly \$12 million. Moreover, advances from factor were \$42.7 million as of Jun 30, 2020.

On July 22, 2020, Steven Madden entered into a five-year asset-based revolving credit facility worth \$150 million. This replaced the company's earlier credit facility with its factor.

As of Jun 30, net cash provided by operating activities was \$57.9 million. Management incurred capital expenditures of approximately \$4.3 million during the first six months of 2020. The company also paid cash dividends of \$12.5 million in the aforementioned period.

Quarter Ending 06/2020

Report Date	Jul 29, 2020
Sales Surprise	-21.79%
EPS Surprise	26.92%
Quarterly EPS	-0.19
Annual EPS (TTM)	1.03

## Valuation

Steven Madden shares are down 49.2% in the year-to-date period and 30.1% in the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary sector are down 6.2% and 7.8%, respectively, in the year-to-date period. Over the past year, the Zacks sub-industry is up 13.8% but the sector is down 0.9%.

The S&P 500 index is up 1% in the year-to-date period and 10.4% in the past year.

The stock is currently trading at 19.87X forward 12-month earnings, which compares to 32.7X for the Zacks sub-industry, 33.7X for the Zacks sector and 22.59X 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 Neutral recommendation indicates that the stock will perform in-line with the market. Our \$24 price target reflects 21.28X 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	19.87	32.7	33.7	22.59
	5-Year High	26.82	33.63	33.7	22.59
	5-Year Low	9.65	18.63	16.12	15.25
	5-Year Median	17.08	23.38	19.85	17.55
P/S F12M	Current	1.24	2.89	2.3	3.58
	5-Year High	2.04	3.02	3.22	3.58
	5-Year Low	0.82	1.99	1.68	2.53
	5-Year Median	1.54	2.6	2.5	3.02
EV/EBITDA TTM	Current	8.47	19.58	10.47	12.07
	5-Year High	15.5	24.5	17.78	12.85
	5-Year Low	5.4	12.39	8.33	8.25
	5-Year Median	11.39	16.01	12.23	10.89

As of 07/30/2020

## Industry Analysis Zacks Industry Rank: Bottom 14% (218 out of 253)



## Top Peers

Company (Ticker)	Rec	Rank
Rocky Brands, Inc. (RCKY)	Outperform	1
Adidas AG (ADDYY)	Neutral	3
Columbia Sportswear Company (COLM)	Neutral	3
Deckers Outdoor Corporation (DECK)	Neutral	2
NIKE, Inc. (NKE)	Neutral	4
Skechers U.S.A., Inc. (SKX)	Neutral	3
Wolverine World Wide, Inc. (WWW)	Neutral	3
Under Armour, Inc. (UAA)	Underperform	4

Industry Comparison Industry: Shoes And Retail Apparel				Industry Peers		
	SHOO	X Industry	S&P 500	ADDYY	DECK	WWW
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	3	2	3
VGM Score	F	-	-	C	C	F
Market Cap	1.86 B	1.56 B	22.57 B	54.77 B	6.00 B	2.00 B
# of Analysts	6	5	14	8	7	7
Dividend Yield	2.68%	1.01%	1.83%	0.00%	0.00%	1.62%
Value Score	C	-	-	C	C	C
Cash/Price	0.13	0.28	0.07	0.05	0.11	0.25
EV/EBITDA	7.76	7.80	12.96	12.19	14.53	10.05
PEG Ratio	4.30	2.66	3.04	19.35	1.57	1.95
Price/Book (P/B)	2.43	1.36	3.13	6.93	5.26	2.72
Price/Cash Flow (P/CF)	9.92	8.91	12.61	15.62	19.02	8.64
P/E (F1)	38.73	29.81	22.06	100.63	26.05	19.46
Price/Sales (P/S)	1.32	0.79	2.42	2.19	2.80	0.91
Earnings Yield	2.50%	3.03%	4.31%	0.99%	3.84%	5.16%
Debt/Equity	0.00	0.48	0.75	0.23	0.22	0.77
Cash Flow (\$/share)	2.26	2.85	6.94	8.95	11.26	2.85
Growth Score	D	-	-	A	D	F
Hist. EPS Growth (3-5 yrs)	12.77%	4.76%	10.85%	18.63%	24.51%	12.63%
Proj. EPS Growth (F1/F0)	-71.37%	-39.47%	-7.75%	-74.43%	-14.55%	-43.75%
Curr. Cash Flow Growth	5.46%	0.00%	5.39%	36.19%	1.85%	-5.09%
Hist. Cash Flow Growth (3-5 yrs)	8.40%	6.40%	8.55%	23.10%	8.34%	1.05%
Current Ratio	1.80	2.14	1.31	1.25	3.97	1.12
Debt/Capital	0.00%	42.21%	44.32%	18.43%	17.75%	43.59%
Net Margin	2.56%	3.33%	10.44%	6.11%	13.44%	4.61%
Return on Equity	10.70%	10.04%	14.73%	18.83%	27.12%	22.11%
Sales/Assets	1.17	1.05	0.52	1.12	1.20	0.86
Proj. Sales Growth (F1/F0)	-30.94%	-0.89%	-1.95%	-17.44%	-1.77%	-18.47%
Momentum Score	D	-	-	F	D	F
Daily Price Chg	-1.23%	-1.12%	-0.92%	-2.57%	-2.14%	-1.12%
1 Week Price Chg	0.72%	0.72%	0.37%	2.18%	2.20%	3.46%
4 Week Price Chg	-5.52%	0.00%	4.14%	1.91%	10.27%	6.99%
12 Week Price Chg	-1.54%	9.23%	12.21%	23.27%	48.14%	31.78%
52 Week Price Chg	-28.33%	-17.12%	-1.73%	-14.49%	43.10%	-6.35%
20 Day Average Volume	682,606	242,247	1,887,986	29,411	330,243	429,426
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-14.76%	-0.45%	0.38%	-17.77%	1.54%	-0.45%
(F1) EPS Est 12 week change	-59.59%	-18.03%	-0.07%	-17.95%	3.40%	-1.76%
(Q1) EPS Est Mthly Chg	-11.20%	-0.56%	0.16%	2.26%	0.98%	-0.56%

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## 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.

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### 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	D
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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