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Financial Analysis & Valuation of The Buckle, Inc.

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The Buckle, Inc.

BKE / NYSE

Initiating Coverage:

Investment Rating: Buy

PRICE:	USD 18.72	S&P 500:	2,834.40	DIJA:	25,928.68	RUSSELL 2000:	1,539.74

- During the fiscal year 2019, the company plans to open one new store. In the last five years, the net change in number of stores has been zero.
- The company operates in a highly competitive industry but believes its main competitive advantages include merchandise selection and high quality customer service.
- The company overall has more favorable profitability ratios as well as profit margins compared to its main competitors.
- E-commerce shopping has had an adverse effect on shopping center traffic, largely affecting Buckle locations.
- Buckle's business is seasonal, approximately 35 percent of 2018 total sales resulted from the holiday and back-to-school months.

Valuation	2018 A	2019 E	2020 E
EPS	1.95	2.00	1.85
P/E	9.60	10.45	11.20
P/BVPS	2.30	2.32	2.38
EV/EBITDA	4.25	7.00	7.06

Market and Trading Information

Equity Market Cap (USD):	921.78 M	52-Week Range (USD):	29.65 / 16.85
Enterprise Value (USD):	921.16 M	12-Month Stock Return:	-5.98%
Shares Outstanding (M):	49.24	Dividend Yield:	5.34%
Estimated Float (M):	28.42	12-Month Russell 2000 Return	4.69%
6-mo Avg. Daily Volume (M):	543.25K	Beta:	0.67

Company Quick View:

Location: *2407 West 24th Street, Kearney, NE 68845-4915*
Industry: *Family Clothing Stores (SIC 5651) / Family Clothing Stores (NAICS 448140)*
Description: *The Buckle, Inc. is a casual apparel, accessories, and footwear retailer for young women and men. The company was incorporated on August 30, 1948, originally as Mills Clothing in Kearney, Nebraska. The Buckle's target audience is young adults that are fashion conscious and looking for brand name and private label apparel that consists of medium-to better-priced denim, casual tops, bottoms, footwear, sportswear, accessories, and outerwear.*
Key Products & Services: *Buckle offers brand name apparel as well as its own private label, the BKE brand being very popular. Buckle offers services to customers that include layaway, gift wrapping, personalized stylist features, hemming, and, of course, the rewards program and credit card options.*
Website: *http://www.buckle.com*

Analyst: *Danielle Hanneman*

STOCK PRICE PERFORMANCE

The figure below displays Buckle's 5-year stock price performance. It is clear the stock has experienced a downward trend over this period, the lowest point occurred in 2017.

Figure 1: 5-year Stock Price Performance
Source: Yahoo Finance 3/31/2019

Buckle's stock price closed at USD 18.72 on Friday, March 29, 2019. The company has overall recognized a bearish trend in stock price over the past five years. Year to date total return is 2.99%. Buckle's total one-year return with dividends reinvested is -5.91%%. The 5-year total return for Buckle is -36.37%, an average annual total return of -8.65% (https://www.ytdreturn.com/?symbol=bke, 4/18/2019). The Buckle's year to date returns are an improvement compared to the overall 5-year average annual return.

The Buckle and competitor ANF's stock price over the past five years have been mostly highly and positively correlated, recognizing stock price weakness and strengths at similar times, overall with a bearish five-year trend. Abercrombie's close on March 29, 2019 was USD 27.41. ANF's YTD total return is 33.83. A very strong first three months of the year, outshining Buckle's gains. The competitor's one-year return is 19.43%. The 5-year return is -13.21%, an average annualized return of -2.80% (https://www.ytdreturn.com/?symbol=anf, 4/18/2019). Overall ANF's stock price has performed better than Buckle's.

The Russell 2000 had a close of USD 1,539.74 on March 29, 2019 with a YTD return of 13.99%. The one-year total return is 4.64%. The 5-year total return for the Russell 2000 is 40.91%, an average annualized total return of 7.10% (https://www.ytdreturn.com/on-russell-2000/, 4/18/2019).

The best investment to have held for the past five years is the Russell 2000; the only of the three investments discussed here that produced a positive return. Buckle has performed the worst, not only looking at the 5-year period, but also one year and

YTD returns. Buckle's returns have improved recently, recognizing a positive YTD return. ANF recognized the highest returns in the past one year and YTD, largely outperforming the Russel 2000 returns.

INVESTMENT DECISION SUMMARY

After analyzing Buckle's stock price performance and financial statements for the past five years, I recommend a buy rating. I expect sales to continue to decline over the next three years, but turn slightly positive with a modest growth rate going forward. Even so, I believe the stock is undervalued. The stock price has had a large negative decline in the past five years; however, the stock price has become range bound and looks to have found support. I value the stock at $22.78 and believe the stock will turn bullish in the coming years and the company stated in its most recent 10-K it plans to continue its dividend payments to shareholders. The stock is currently undervalued; I expect the value to increase over time. The stock has not been a favorable investment over the past five years, but I believe it will be going forward.

COMPANY DESCRIPTION

The Buckle, Inc. is a casual apparel, accessories, and footwear retailer for young women and men. According to Reuters and the company's website, the company was incorporated on August 30, 1948, originally as Mills Clothing in Kearney, Nebraska with clothing only offered for men. David Hirschfeld was the founder, in 1962 his son Dan Hirschfeld, current Chairman of the Board, took over the business. In 1967, the company decided to expand and a second store was bought, but operated as Brass Buckle instead of Mills Clothing. Three years later, the current CEO and President joined the company, Dennis Nelson.

Women's clothing was first available for purchase from the company in 1977 when the first mall-based location opened up. The company actually became the Buckle, Inc. in 1991, the same year it began to develop a private label, which we know as BKE, originally bkle. By 2006, the private label would be responsible for 45% of the company's denims sales. One year later, the company went public on the NASDAQ where it traded for five years before moving to the NYSE where it currently trades under the ticker BKE. The Buckle decided to start offering a rewards program for its shoppers in 1994, shortly after the company launched a private label credit card.

Buckle entered into the world of e-commerce in 1999 with its website buckle.com, which it would redesign and relaunch in 2011. The Buckle's distribution center in Kearney, Nebraska, finished construction in 2010 with over 240,000 square feet. Currently, Buckle is widely recognized and operates across 42 states with 450 stores as of March 29, 2019. Buckle plans to open one new store in the 2019 fiscal year according to the 2018 annual report. The company's website states its mission is "to create the most enjoyable shopping experience possible for our guests."

The Buckle has four major categories listed on its website to show how it values community, environment, education, and transparency. When it comes to the community, the company participates in charity events, offers health and fitness initiatives to its employees, and has committees formed within the company that consist of volunteers that make it possible for Buckle to work with non-profit organizations. Buckle has done a lot to give back to the communities and support non-profits; corporate social responsibility is a major value the company continuously proves to uphold without destroying shareholder value.

The Buckle has a Green Team Committee that consists of volunteers that raise awareness of the environmental issues we face today and how to make a positive difference. The company also takes pride in working with vendors that also share goals toward being more environmentally friendly.

Buckle supports education through internships, a University of Nebraska Kearney Scholarship Endowment that was announced in 2012, and through supporting the Boys & Girls Clubs of America through donation.

Transparency is important to the company, making sure that everything in the business chain is done in a right and ethical way. Buckle prides itself on a high standard of ethics and respect for human rights, also holding its vendors to these beliefs and values.

Buckle's target audience is young adults, around college age, that are fashion conscious with brand name and private label apparel that consists of medium to better priced denim, the BKE brand being very popular, casual tops, bottoms, footwear, sportswear, accessories, and outerwear according to Mergent Online. Buckle also offers services to customers that include layaway, gift wrapping, personalized stylist features, hemming, and of course the rewards program and credit card options.

According to the Reference for Business website, The Buckle is headquartered in Kearney with a centralized and developed distribution system that is semi-automated. Products are shipped in, repackaged and sent out to the stores. In order to avoid excess inventories in stores, the company warehouses some of its inventory. The distribution system makes it possible for the mix of merchandise from store to store to vary, making it easier for different locations to cater to buying habits of customers in each region. New items are shipped to stores often to avoid a stagnant supply.

The Buckle states in its 2018 10-K that its merchandising and marketing strategy is in place to create customer loyalty through its services and merchandise. The company believes 15-30 aged young adults are the best target for its merchandise; this is also the target market of its main competitors. Personalized service to customers is part of the company's strategy to make the shopping experience more enjoyable for customers; this is ensured by employee compensation through sales commissions.

A couple of Buckle's main competitors in the same industry are Abercrombie & Fitch, Urban Outfitters, and American Eagle, these stores also targeting fashion conscious young adults.

The Family Clothing Stores industry, according to IBISWorld's website, has experienced a modest growth in terms of revenue despite volatility. While large department stores in traditional malls, such as Sears, have a meek outlook, specialty clothing stores are faring in increasingly trending luxury malls.

MANAGEMENT AND CORPORATE GOVERNANCE

The Buckle has five key executives, the first being Dennis Nelson, the President, CEO and Director, was elected as CEO in 1997 after spending almost the previous six years as President and Director. Dennis Nelson has long been with the company, since 1970, and worked his way up from his original position as a part-time salesperson while he was in college. Mr. Nelson had a total compensation in 2017 of USD 3,028,705.

Thomas Heacock is the Senior Vice President of Finance, CFO, Treasurer, and Director, earning a total compensation last year of USD 627,907. He has been with the company since late 2003 and from early 2007 through mid-2017 he served as Corporate Controller. Mr. Heacock served as Vice President of Finance from the end of 2014 through early February of 2018 when he transitioned into his role as Senior Vice President of Finance and Treasurer. He has been a Director since December 2017 and CFO since July of 2017.

Kari Smith has been a Director since February 2018 and is the Executive Vice President of Stores, serving in that role since early 2014, which followed her role as Vice President of Sales since mid-2001. She joined the company in 1978 as a part-time salesperson. Her 2017 total compensation was USD 873,665. (The Buckle, Inc. (2019) Retrieved from Mergent Database).

The Senior Vice President of Leasing, Brett Milkie, earned a total compensation in 2017 of USD 820,793. He served as Vice President of leasing from May 1996 until he was appointed to this role in early 2014. Mr. Milkie joined the company in 1992 as a Director of Leasing.

Robert Carlberg was hired as a salesperson and worked as a store manager in 2001, he is currently serving as the Senior Vice President of Men's Merchandising, going on almost five years in this role. Mr. Carlberg's total compensation in 2017 was USD 816,683. (The Buckle, Inc. Website and Bloomberg Website https://www.bloomberg.com/research/stocks/private/snapshot.asp?privcapId=318463).

Buckle values its employees and considers key personnel, such as senior management, extremely important. Attracting and retaining skilled and quality people is a priority to avoid unfavorable impacts on overall profitability of the company. This is clear when looking at the history of many members of top management; many have worked their way up from the sales floor. The company does experience a high turnover of distribution center and store employees, but that is due mostly to people working part-time. When it comes to positions, where qualifications are higher, finding and retaining quality people is not as challenging (Buckle website, 2017 Annual Report, p. 9, 13).

Some incentives that executive officers of The Buckle, Inc. enjoy include a Deferred Compensation Plan with annual matching by the company for up to 6% of the employees' compensation. There have not been any options granted since 2008 and there are not any options outstanding. However, with a restricted stock plan, which allows non-vested shares of the company's common stock, there are outstanding shares that the company has granted to non-employee directors. Over the past three years, the company has awarded non-vested shares. Buckle has awarded both performance based and non-performance based non-vested shares. The non-performance shares are vested over a four-year period, the first two years will vest 20% and the last two years 30%, all on the last day of each fiscal year. The performance based non-vested shares are also vested over a four year period, 20% is vested when performance objectives are achieved, 20% vested at the end of the following fiscal year, and 30% is vested the last two year at fiscal year end (https://www.marketwatch.com/investing/stock/BKE/SecArticle?countryCode=US&guid=12693925&type=313). Under the 2005 Restricted Stock plan, shares are usually, but not always, granted based on performance. Either way, the shares are vested for four years. With the 2008 Director Plan, shares vest 25% when awarded then equally dispersed annually over the next three years. (Form 2018 10-K pg 44)
The Board of Directors consists of 12 members, two women and ten men, six of those men being Independent Directors. Board members include: Dennis Nelson, Thomas Heacock, Kari Smith, Daniel Hirschfield, Bruce Hoberman, Bill Fairfield, John Peetz III, Karen Rhoads, James Shada, Robert Campbell, Michael Huss, and Hank Bounds. (Bloomberg website, 2019, https://www.bloomberg.com/research/stocks/private/board.asp?privcapId=318463). Th

There were 1,061,691 non-vested shares available as of February 2, 2019 for grants under the restricted stock plans, over 95% of those shares available to executive officers (Form 2018 10-K pg 44). Buckle's website, under Corporate Governance states that The Chairman, CEO, and CFO all should serve on the Board of Directors. Other members of management can be considered, but it is not necessary for any other higher management role to hold a Board position. The Board reviews each member annually to ensure if each member is considered independent or not. The board must have a majority of its members considered independent as required by the NYSE. Ideal size of the Board is 5-15 members that are to include a diverse range of backgrounds as well as qualifications. This target size is to ensure diversity in the group but to not also take away from individual input and engaged conversations. The Board does not establish time limits on terms. There are three committees the Board has, including Compensation, Audit, and Corporate Governance. The Board can create new committees, but these three must remain served by the Independent Directors only. (The Buckle, Inc.'s website, Corporate Governance, 2019).

The Buckle, Inc. has an ISS Governance QualityScore of 5 as of February 1, 2019. The pillar scores are Board: 7; Compensation: 4; Shareholder Rights: 4; Audit: 2. The Institutional Shareholder Services (ISS) provide corporate governance scores. Scores are established based on a decile rank relative to region or index. A score of 1 implies lower governance risk, whereas 10 implies higher governance risk (Yahoo Finance, Feb. 24th, 2019).

SHAREHOLDER ANALYSIS

As of March 29, 2019, Buckle had 49,240,345 shares of stock outstanding totaling over USD 921 million market cap. Institutional holdings account for 69.43% of ownership of the Buckle as reported in the most recent 13F filings according to Nasdaq.com, holding over 34 million shares. A total of 18,239,659 shares belong to the top five institutional investors, representing 37.04% of total shares outstanding as you can see depicted in the table below:

Top 5 Institutional Investors			
Institutional Investor	# Shares Held	% Shares Held	Value (USD)
FMR LLC	7,352,729	14.93%	$137,643,087
BlackRock, Inc.	4,123,876	8.37%	$77,198,959
Vanguard Group, Inc.	3,147,842	6.39%	$58,927,602
Schroder Investment Management Group	2,079,696	4.22%	$38,931,909
State Street Corporation	1,535,516	3.12%	$28,744,860
Total Held by Top 5 Institutional Investors:	18,239,659	37.04%	$341,446,416

Table 2: Source Nasdaq.com March 29, 2019

The table below shows the top five insider trades summary according to the Forms 3 and 4 filings over the past three and twelve months.

Insider Shares Traded		
	3 months	12 months
# of Shares Bought	263,000	264,250
# of Shares Sold	615	179,387
Total Shares Traded	263,615	443,637
Net Activity	262,385	84,863

Table 3: Source Nasdaq.com March 24, 2019

The top insider trades are shown in the table below:

Top 5 Insider Trades	
Insider	# Shares Traded/Awarded
Dennis Nelson	120,000
Dennis Nelson	120,000
Dennis Nelson	60,000
Kyle Hanson	26,700
Karen Rhoads	25,110

Table 4: Source Nasdaq.com March 24, 2019

These trades all took place between February 2018 and February 2019. According to Yahoo Finance, Dennis Nelson, the CEO, now owns over 3.25 million shares following his most recent stock award of 120,000, making him the third largest stockholder owning 6.6% of total outstanding shares. Only the top two institutional investors own more than he currently does. He is by far the largest insider shareholder. Following Karen Rhoads most recent stock award, she is the second largest insider shareholder with 247,437 shares (finance.yahoo.com). Karen Rhoads has served on the board of directors following her retirement in 2017. She was the Senior Vice President of Finance and CFO, she worked for Buckle for 33 years. Other than stock awards, insider transactions have included selling which is not a good sign. One of these sellers includes Karen Rhoads who sold shares on three separate occasions during 2018. The first of those three transactions was by far the most notable and took place in June; she sold 20,000 shares at USD 28.48, totaling USD 569,500. The next two transactions took place one week apart in December, totaling 7,914 shares, 4,000 sold for USD 18.40-19.11 and the rest sold at USD 19.18, a total of USD 150,444 (finance.yahoo.com). Kyle Hanson is the Vice President, General Counsel, as well as Corporate Secretary.

INDUSTRY ANALYSIS

The Buckle is an established, mature company operating in the family clothing industry. Buckle has a SIC of 5651 and NAICS of 448140 and experiences increasing competition, especially from the online world. Not only has the ease of ordering online increased with online retailers, but also it has become lower cost to customers and shipping speeds have increased, pressuring clothing stores to keep up. Amazon is a company that is setting a completely new bar with free two-day shipping and free returns on many clothing items at affordable prices for members, typically with many customer reviews and even customer images. Most clothing store companies are lacking these things. Customers increasingly demand fast and low cost of not free shipping as well as an easy return process; this affects the entire industry. Buckle redesigned their online presence with a new e-commerce platform released mid-2016 that included many enhancements and updates that improved not only the performance of the site, but the overall shopping experience.

The number of stores increased from 387 at the beginning of fiscal year 2009 to 450 at 2018 fiscal year end. (Form 10-K 2018 pg. 8). When deciding on new locations, Buckle takes into account: market area, population, demographic, economic state of potential locations, available locations, especially in malls and cost of rent (Form 10-K 2017 pg. 7-8. Retrieved from Mergent Online website).

The family clothing industry is extremely competitive when it comes to the store environment, location, fashion, price, selection, and quality. The service provided is another competitive factor, one of the most important. The Buckle believes it stands out and has the advantage it needs to not only survive, but also succeed in this industry through the customer service offered along with its selection of merchandise, even though it is a much smaller competitor to other companies in the industry. Although the company is confident in its ability to compete with these larger companies, the sustainability of successfully competing with them is not assured and competing for ideal locations in malls is a difficult battle (Form 10-K 2017 pg. 10. Retrieved from Mergent Online website).

Overall, the U.S. GDP at the end of 2017 and for 2018 versus 2017 has improved relative to previous years. This is a good sign for the family clothing industry, particularly Buckle with their aim toward fashion conscious residential customers who are willing to spend a bit more than bargains you may see at Walmart. The increase in GDP brought an increase in real salaries, especially in 2018. This indicates that households have more disposable income that they could potentially use on new clothing, maybe updating wardrobes. Discount retailers have put pressure on the family clothing industry by finding a way to offer high quality products at a low cost, while keeping overhead costs low. Therefore, Buckle needs to emphasize the brands offered and the quality of service it provides (Reference for Business, Feb 25, 2019, https://www.referenceforbusiness.com/industries/Retail-Trade/Family-Clothing-Stores.html).

The Buckle is in the mature stage of the business life cycle, so GDP tends to affect the company. The state of the economy affects consumers and how they spend, or save, their money. It is important for the economy to be in a healthy state for Buckle to thrive. In this competitive industry, especially when looking for future prime store locations, this could result in increasing rent costs on mall spaces, potentially affecting profit margins.

Competition will continue to increase in this industry, making it important for Buckle to keep setting itself apart through its competitive advantages along with keeping up with consumer demands for online shopping experiences. Buckle believes its competitive advantages include providing customers with a unique store environment accomplished through individualized service from the employees driven to make the shopping experience personalized along with the expansive selection of high quality fashionable items. Some other competitive advantages include the services the company offers such as layaways, free gift-wrapping and hemming, and specialized stylist services (Form 2019 10-K pg. 4). The online shoppers will be the most likely to stray from the brand with the ease of finding other websites and deals. As mentioned above, online retail consumers find it beneficial to view customer images of the product being sold, it is beneficial to see what a variety of body types look like in a product before you buy and see reviews of actual customers. This is something Buckle could consider doing, although also a risk, having a space where customers can share reviews and/or images of their purchases. This gives online customers more confidence in a purchase.

Bargain stores have become an increasing threat to family clothing stores like the Buckle. According to the National Retail Federation website, Mark Mathews, the NRF Vice President for Industry Analysis and Research and Development was quoted: “Regardless of income or generation, virtually everyone wants a bargain whether it’s for everyday necessities or big-ticket splurges.” Finding bargain deals became more popular during the recession and has not lost its luster. Consumers are looking for a good deal regardless of if they make USD 10,000 versus USD 100,000 annually. According to the website, a survey was taken by over 3,000 adults in the U.S. that resulted in 89% that said they shop at discount retailers. People are more money conscious, especially when it comes to fashion, considering how quickly trends are in and out. The chart below shows the region of the U.S. that the 89% of survey takers that shop at discount stores reside, the largest portion being from the South. When it comes to gender, the results were pretty even, women coming in at 53 percent.

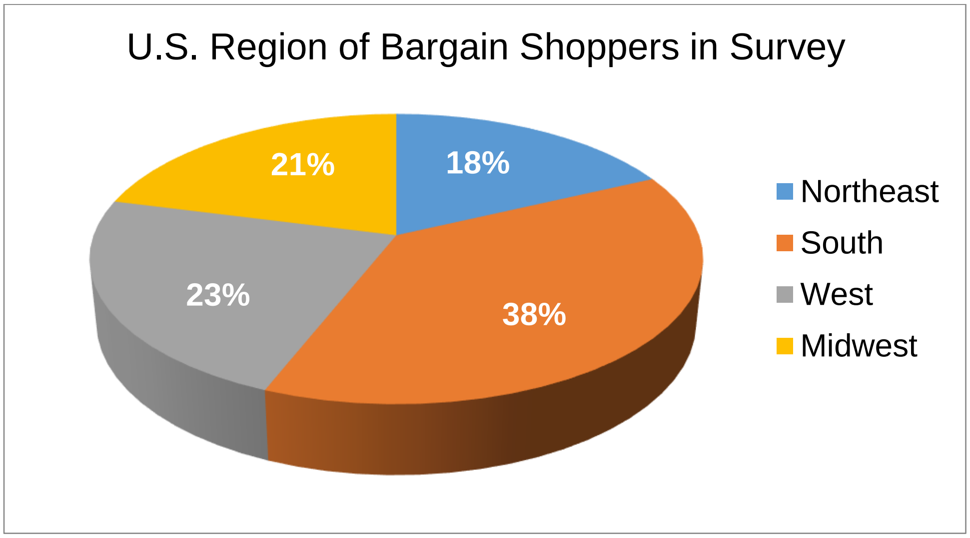

Figure 5
Source: https://nrf.com/media-center/press-releases/nrf-study-says-consumers-shop-discount-retailers-regardless-age-or
Article Date: October 11, 2018

This information shows that product pricing is extremely important and competitive industry wide; this is not likely to change.

Government regulation of the retail industry affects the way these companies, including Buckle, do business. There are restrictions the government has with employees and there are labor relations laws to comply. When it comes to employee restrictions, most common are wages that these companies can pay and length of time employees are allowed to work. This may be a major reason why in most states, applicants of Buckle must be at least 18 years of age to get hired, minors are not allowed to work as many hours, especially during the school year. Another risk of this industry is that it is not difficult for employees, current or former, to bring a lawsuit against the retailers. The Department of Labor regulates the retailers' relationships with their employees while the Federal Trade Commission regulates the relationships of the consumers with the retailers. Not a regulation, but a downside, is that retailers pay a very high corporate tax rate in the U.S. (https://www.investopedia.com/ask/answers/070815/how-does-government-regulation-impact-retail-sector.asp, Feb 26, 2019).

Buckle has always dealt with the tax and regulatory environments. Buckle has also faced a high level of competition within its industry, particularly with pricing, rent and real estate costs, and advertising.

In Buckle's 2018 10-K, the company mentions that its competitors are much larger with greater marketing and financial resources, factors to the statement that there "is no assurance that the Company will be able to compete successfully with them in the future." Also mentioned is the intense competition for prime mall locations to lease.

INVESTMENT RISK

Like its peers, Buckle faces many risks in its highly competitive industry. The company has monitored its stores to track which ones are profitable and which are not. Since 2009, Buckle has gone from 387 open stores at the beginning of the year to 450 at 2018 fiscal year end. The company both opened and closed stores each of these years, other than 2018. In 2018, Buckle closed seven stores and did not open any new ones. The company expects to open one new location in the next fiscal year along with three full remodels that have costs comparable to new store opening costs. Opening a new store costs approximately USD 1 million. All of Buckle's stores are in leased spaces, terms of the leases typically last 10 years. The company has not had problems in the past renewing leases with favorable terms.

A major risk going forward is if the Buckle will be able to expand. Expansion is largely dependent on overall business conditions along with Buckle's ability to find suitable mall locations with reasonable lease terms and trained managers to open the stores. Finding prime mall locations with favorable lease terms could pose a challenge. The competition for these spaces is extremely high. The company makes no assurances that the company will be able to expand or successfully compete with its much larger competitors; therefore I do not see growth on a large scale in the coming several years. In addition, the company believes it will have sufficient funds to cover short-term and long-term capital needs for the coming several years, also implying major growth is not in the plans near-term.

Other major risks the company faces include its dependence on merchandise sensitivity. If the company does not gauge fashion trends correctly and in a timely matter that could result in reduced net sales along with profitability. This could be a higher risk during the most profitable back to school and holiday months where the company makes about 35% of its annual sales. BKE's dependence on its private label merchandise is important. This merchandise accounted for about 37.5% of total sales in 2018. These items have higher profit margins than other items sold, so a reduction in sales in this category would lead to overall reduced profit margins, negatively affecting earnings.

Comparable store sales have fluctuated historically and this fluctuation will continue based on a variety of factors. A few of these factors include: mix of merchandise, competitors actions, and economic conditions. This shows the potential to lower comparable store sales that could lead to reduced profitability.

The company faces risks with changing consumer-shopping trends. The success and profitability of the company will also depend on how it handles less foot traffic in malls and increased demand for online shopping. Online shopping has increased competition rapidly. Buckle believes the individualized shopping experience it gives its customers is a competitive advantage; the company also continues to invest in its e-commerce website. If the company can adapt, it could avoid reduced sales and earnings. (Form 10-K 2018).

A risk the industry faces includes potential data breaches. The company had an incident in 2017; after clearing the threat the company increased its security and monitors it more closely. It will be important to keep the security systems up to day and continue to closely monitor it to prevent a breach going forward. A breach would negatively affect sales as well as investors.

Buckle purchases some of its private label merchandise from overseas, put the company at risk to factors such as political instability, tariffs, duties, and quotas. Some brand names that Buckle carries also purchase merchandise from overseas.

Having only one distribution center is a concern because it can only support growth to an extent before another center will be required. Another risk is that if there are any natural disasters, such as flooding, any technical issues, or damaged/malfunctioning equipment, this is the only location to support this function, this could lead to a major setback affecting sales.

PEER ANALYSIS

Buckle has a number of competitors, many having a larger market cap than the company's USD 921.78 million and with international operations. A few top competitors in Buckle's industry that also specifically target fashion conscious young adults include: American Eagle, Abercrombie & Fitch, and Urban Outfitters. These three competitors have the same SIC and NAICS codes as Buckle, 5651 and 448140 respectively.

American Eagle Outfitters has a market cap of USD 3.876 billion, offering its customers accessories and a variety of apparel under its brands Aerie and American Eagle Outfitters such as jeans, swimwear, active wear, intimates personal care and accessories. American Eagle, unlike Buckle, has stores outside the U.S in Mexico, Canada, China, and Hong Kong. In addition to these physical locations, the company has license agreements to operate stores throughout India, Asia, Latin America, Europe, and the Middle East. There are two more brands that the company operates, Todd Snyder New York, which consists of menswear, and Tailgate, which is a vintage apparel brand inspired by sports. There are over 900 American Eagle Outfitters stores, over 100 Arie stores, 1 Todd Snyder store and 4 Tailgate locations. In addition to the physical locations, the company ships to over 80 countries through its website. Founded in 1977 and headquartered in Pennsylvania, the company currently has about 7,500 full time employees (Yahoo Finance, February 10, 2019).

Abercrombie & Fitch has a market cap of USD 1.874 billion and is headquartered in Ohio. The company was founded in 1892 and currently has about 7,000 full time employees. This specialty retailer has two segments: Abercrombie and Hollister. Products offered include accessories, personal care products, such as perfumes and colognes, intimates, and apparel. Gilly Hicks is Abercrombie's lingerie brand and Abercrombie kids offers clothing for children ages 7 to 14. The company has roughly 850 stores in North America, Asia, Europe and the Middle East (Yahoo Finance, February 10, 2019).

Urban Outfitters has a market cap of USD 3.203 billion and sells apparel targeted to 18 to 28 year olds that include fashionwear, accessories, intimates, active wear, footwear, decorative pieces, and gifts. The company also targets women between the ages of 28 and 45 through its beauty products sold through its Anthropologie brand. Another brand the company has is called Bhldn, this brand offers heirloom quality, wedding wear, party dresses, jewelry, lingerie, headpieces, decorations, and footwear. Under its Terrain brand, products such as outdoor and garden, antique, lifestyle products for the home, life flowers and plants. Free people offers the same types of apparel as the other brands along with beauty products that target women in their mid-20s to early 30s. Urban Outfitters has over 240 stores in the U.S., Asia, and Canada. The Free People brand has over 130 stores spanning across Canada and the U.S. along with almost a dozen restaurants. Free People and Anthropologie Group wholesale sell their products through roughly 2,100 stores globally. The company is based in Pennsylvania and was founded in 1970. Currently there are about 9,660 full time employees (Yahoo Finance, February 10, 2019).

Company	Ticker Symbol	Market Cap (USD)	PE Ratio	P / BV	EV / EBITDA	Debt / Assets	ROA	ROE	ROIC
Buckle	BKE	927.78 M	9.60	2.30	4.25	25.3%	18.0%	24.3%	24.4%
American Eagle	AEO	3.88 B	15.28	3.01	6.78	32.4%	14.2%	20.7%	20.7%
Abercrombie & Fitch	ANF	1.87 B	26.10	1.54	4.64	48.9%	3.4%	6.5%	4.9%
Urban Outfitters	URBN	3.20 B	11.37	2.19	5.06	31.1%	14.5%	21.4%	21.4%

Table 6
Source: finance.yahoo.com, March 29, 2019, D/A source: marketwatch.com February 18, 2018

HISTORICAL FINANCIAL ANALYSIS

The Buckle has recognized negative growth rates in sales over the past three years. The compound annual growth rate over the most recent five-year period ending in February 2018 is -4.6%. This shows that there is a decreasing demand for Buckle's product mix and competition is becoming more detrimental. Abercrombie & Fitch has also experienced negative sales growth rates in this period with a compound annual compound growth rate for the five-year period of -0.8%. When looking at the productivity ratios, Buckle, for the most part, is in better condition than Abercrombie & Fitch, turning over its receivables, inventory, and total assets at a faster pace, although, ANF's inventory and asset turnovers have been improving, whereas BKE's has been overall decreasing.

BKE Productivity Ratios					
Year Ending	Feb 2015	Feb 2016	Feb 2017	Feb 2018	Feb 2019
Sales Growth	2.2%	-2.9%	-12.9%	-6.3%	-3.1%
Receivables Turnover	99.63	60.36	60.77	66.43	66.72
Inventory Turnover	5.08	4.57	4.20	4.38	4.27
Total Asset Turnover	2.12	2.01	1.69	1.63	1.66

Table 7A

ANF Productivity Ratios					
Year Ending	Feb 2015	Feb 2016	Feb 2017	Feb 2018	Feb 2019
Sales Growth	-9.1%	-6.0%	-5.5%	5.0%	2.8%
Receivables Turnover	45.95	40.23	44.18	63.40	61.09
Inventory Turnover	2.89	3.03	3.10	3.42	3.32
Total Asset Turnover	1.40	1.43	1.41	1.51	1.52

Table 7B

Both companies have improved their quick ratios over the five-year period indicating improving liquidity positions. Buckle recognized an improving current ratio over this period, whereas ANF's stayed pretty moderate. Buckle's operating and cash cycles indicate its liquidity position is less favorable now versus the start of the five year time period; ANF however, has improved in both categories.

BKE Liquidity Ratios					
Year Ending	Feb 2015	Feb 2016	Feb 2017	Feb 2018	Feb 2019
Current Ratio	2.65	3.37	3.92	3.68	4.11
Quick Ratio	1.43	1.99	2.62	2.33	2.56
Operating Cycle	74.94	85.17	92.36	88.34	90.33
Cash Conversion Cycle	54.35	65.28	73.74	69.71	69.81

Table 8A

ANF Liquidity Ratios					
Year Ending	Feb 2015	Feb 2016	Feb 2017	Feb 2018	Feb 2019
Current Ratio	2.40	2.20	2.34	2.49	2.39
Quick Ratio	1.18	1.21	1.32	1.49	1.42
Operating Cycle	132.32	126.03	125.84	115.81	117.80
Cash Conversion Cycle	97.57	82.34	73.66	69.71	67.30

Table 8B

Typically, companies use a mix of debt and equity to finance their operations. Buckle does not rely heavily on debt, the company has an unsecured line of credit of USD 25 million available at Wells Fargo Bank for operating needs according to the most recent 10-K. Buckle has held a consistent low level of debt to equity; this implies that they have not been aggressive in trying to finance growth with debt, and from a leverage standpoint these results aren't considered risky. A&F on the other hand has much higher debt to equity ratios. Abercrombie's interest coverage ratio has decreased in the last five years. This shows the company's debt burden has increased over the past five years, which is also clear to see by looking at the increased debt-to-equity ratios over this period.

BKE Leverage Ratios					
Year Ending	Feb 2015	Feb 2016	Feb 2017	Feb 2018	Feb 2019
Debt-to-Equity Ratio	0.53	0.39	0.35	0.38	0.34
Interest Coverage	-	-	-	-	-

Table 9A

ANF Leverage Ratios					
Year Ending	Feb 2015	Feb 2016	Feb 2017	Feb 2018	Feb 2019
Debt-to-Equity Ratio	0.80	0.88	0.83	0.86	0.96
Interest Coverage	7.90	3.99	0.81	4.27	11.58

Table 9B

Abercrombie & Fitch has had higher gross profit margins over the last five years than Buckle. Both companies have lower gross profit margins today versus five years ago, costs accounting for a larger percentage of sales. Although ANF has managed to keep its gross profit margin higher than BKE's, profitability ratios fall apart for ANF as you move down the income statement and calculate the rest of the profitability ratios. ANF spends a very large amount on stores and distribution expense as well as marketing, general and administrative expenses causing the margins to decrease largely after gross profit margin. Buckle noticeably has better margins than Abercrombie after getting past gross profit. The results for both companies are not positive by any means; margins are on a downward trend for Buckle, Abercrombie has made improvement over this most recent fiscal year. ROA for Buckle has declined since fiscal year 2014 while A&F's has improved, A&F improved on ROE as well this past year. Buckle's ROA and ROIC have been decreasing up until this past fiscal year. These trends will be very discouraging to potential and current investors. Overall, BKE is in much better shape than ANF, but BKE is still not in great shape, has been profitability is slipping. Abercrombie made more progress in 2018 than Buckle did while comparing the companies against themselves.

BKE Profitability Ratios					
Year Ending	Feb 2015	Feb 2016	Feb 2017	Feb 2018	Feb 2019
Gross Profit Margin	44.0%	43.0%	40.7%	41.6%	41.3%
EBITDA Margin	25.0%	23.3%	19.0%	18.1%	16.7%
Operating Profit Margin	22.3%	20.5%	15.7%	14.7%	13.7%
Pre-tax Margin	22.5%	21.0%	16.0%	15.3%	14.3%
Net Profit Margin	14.1%	13.2%	10.1%	9.8%	10.8%
Return on Assets	29.9%	26.4%	17.0%	16.1%	18.0%
ROE	45.8%	35.7%	22.8%	22.9%	24.3%
ROIC	48.0%	44.1%	25.9%	22.4%	32.2%

Table 10A

ANF Profitability Ratios					
Year Ending	Feb 2015	Feb 2016	Feb 2017	Feb 2018	Feb 2019
Gross Profit Margin	61.8%	61.3%	61.0%	59.7%	60.2%
EBITDA Margin	9.1%	8.1%	6.3%	7.6%	8.5%
Operating Profit Margin	3.0%	2.1%	0.5%	2.1%	3.6%
Pre-tax Margin	2.7%	1.6%	-0.1%	1.6%	3.2%
Net Profit Margin	1.4%	1.1%	0.2%	0.3%	2.2%
Return on Assets	1.9%	1.6%	0.3%	0.5%	3.4%
ROE	3.7%	3.0%	0.6%	0.8%	6.5%

Table 10B

PROSPECTIVE FINANCIAL ANALYSIS

Buckle reported another year of negative sales growth in its 2018 annual report where the company mentioned comparable store sales have always fluctuated and will continue to do so going forward. Online sales, however, increased 5.6% over the past year. The company will need to continue to grow online sales to offset the declining in-store sales (Form 2018 10-K pg 21). The company's sales drivers are denim, which accounted for 41% of 2018 sales and tops which accounted for 32.8% of 2018 sales; if the company can focus on its key sale items this could help cut costs on less popular merchandise. After reviewing historical data, financial ratios over the past five years and the company's 2018 annual report, I have projected pro-forma financial statements. I used the percentage of sales approach to estimate Buckle's forward looking financial statements. I predict sales growth rates will continue to be negative over the next three years, followed by a positive constant growth rate of about 1%. I believe gross profit margins will stay constant. Buckle currently operates without heavily using debt, I believe they could benefit from using debt going forward and I predict they will in the future. However, in the most recent 10-K the company stated that cash flow from operations along with short-term investments and cash and cash equivalents should be more than sufficient to cover any short-term or long-term expenses in coming several years. I believe income from operations will stay constant as a percentage of sales. I also believe net income will remain reasonably consistent as a percentage of sales even with the sales declines I predict.

The 9.7% cost of equity was calculated by using the Capital Asset Pricing Model with an assumed 0.67 beta, 10 percent market risk premium, and a 3 percent risk free rate. Calculations account for a 39% tax rate and 5.5% prime rate. The after tax cost of short-term debt is 5.5% and long term 3.66%. Using this information, I calculated an estimated WACC of 9.4%.

VALUATION AND INVESTMENT DECISION

Using the Free Cash Flows Model with the estimated horizon value calculated with a long term constant growth rate following three years of negative sales growth, the intrinsic price per outstanding share at the end of fiscal year 2019 is USD 22.78.

Based on the current EV/EBITDA multiple of 4.25 the stock should be valued at USD $21.00. The stock is currently undervalued with a close price of USD 18.72 on March 29, 2019, resulting in my buy rating. I forecast the value of the stock price to slowly increase the coming years.

The company has strong financial ratios in comparison to its larger industry competitors and has not heavily relied on debt in recent years. The company believes it will not have to rely on using its line of credit for the next several years and plans to continue paying dividends.

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Income Statement ($ Thousands)

	Most Recent 01/31/19	Projected 01/31/20	Projected 01/31/21	Projected 01/31/22	Projected 01/31/23	Projected 01/31/24
Sales	$ 885,496	$ 858,931	$ 841,752	$ 833,335	$ 841,668	$ 850,085
Costs of goods sold (COGS)	488,288	472,412	462,964	458,334	462,918	467,547
Sales, general and administrative expense (SGA)	245,145	231,911	227,273	225,000	227,250	229,523
Depreciation & Amortization	31,135	28,620	28,047	27,767	28,044	28,325
Operating profit	$ 120,928	$ 125,988	$ 123,468	$ 122,234	$ 123,456	$ 124,690
Interest expense	0	0	0	0	0	0
Interest income	0	0	0	0	0	0
Nonoperating income (Expense)	5,716	5,583	5,471	5,417	5,471	5,526
Earnings before taxes (EBT)	$ 126,644	$ 131,571	$ 128,940	$ 127,650	$ 128,927	$ 130,216
Tax expense	31,036	33,044	32,384	32,060	32,380	32,704
Net income before extraordinary items	$ 95,608	$ 98,527	$ 96,556	$ 95,591	$ 96,546	$ 97,512
After-tax extraordinary income (Expense)	0	0	0	0	0	0
Net income (NI)	$ 95,608	$ 98,527	$ 96,556	$ 95,591	$ 96,546	$ 97,512
Dividends-- preferred	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Dividends-- common	$ 98,035	$ 95,094	$ 93,192	$ 92,260	$ 93,183	$ 94,114
Additions to RE	$ (2,427)	$ 3,433	$ 3,364	$ 3,331	$ 3,364	$ 3,398

Balance Sheets ($ Thousands)	**Most Recent 01/31/19**	***Projected 01/31/20***	***Projected 01/31/21***	***Projected 01/31/22***	***Projected 01/31/23***	***Projected 01/31/24***
Assets						
Cash	$ 168,471	$ 163,197	$ 159,933	$ 158,334	$ 159,917	$ 161,516
Inventory	125,190	120,250	117,845	116,667	117,834	119,012
Accounts receivable	7,089	6,871	6,734	6,667	6,733	6,801
Other short-term operating assets	18,136	17,179	16,835	16,667	16,833	17,002
Short-term investments	51,546	55,283	65,488	72,171	72,216	72,262
Total current assets	$ 370,432	$ 362,781	$ 366,836	$ 370,505	$ 373,533	$ 376,593
Net plant, property, & equipment (PPE)	130,682	120,250	117,845	116,667	117,834	119,012
Other long-term operating assets	7,443	25,424	24,916	24,667	24,913	25,163
Long-term investments	18,745	18,209	17,845	17,667	17,843	18,022
Total Assets	$ 527,302	$ 526,665	$ 527,442	$ 529,505	$ 534,124	$ 538,789
Liabilities and Equity						
Accounts payable (AP)	$ 29,008	$ 28,345	$ 27,778	$ 27,500	$ 27,775	$ 28,053
Accruals	56,068	54,113	53,030	52,500	53,025	53,555
Other operating current liabilities	5,142	4,982	4,882	4,833	4,882	4,930
All short-term debt	0	0	0	0	0	0
Total current liabilities	$ 90,218	$ 87,439	$ 85,690	$ 84,834	$ 85,682	$ 86,539
Long-term debt	0	0	0	0	0	0
Deferred taxes	0	0	0	0	0	0
Preferred stock	0	0	0	0	0	0
Other long-term liabilities	43,207	41,916	41,078	40,667	41,073	41,484
Total liabilities	$ 133,425	$ 129,355	$ 126,768	$ 125,500	$ 126,755	$ 128,023
Par plus PIC Less treasury (and other adjustments)	149,054	149,054	149,054	149,054	149,054	149,054
Retained earnings (RE)	244,823	248,256	251,620	254,951	258,315	261,712
Total common equity	$ 393,877	$ 397,310	$ 400,674	$ 404,005	$ 407,369	$ 410,766
Total liabilities and equity	$ 527,302	$ 526,665	$ 527,442	$ 529,505	$ 534,124	$ 538,789

Statement of Cash Flows	***Most Recent*** ***01/31/19***	***Projected*** ***01/31/20***	***Projected*** ***01/31/21***	***Projected*** ***01/31/22***	***Projected*** ***01/31/23***	***Projected*** ***01/31/24***
Operating Activities						
Net income	$ 95,608	$ 98,527	$ 96,556	$ 95,591	$ 96,546	$ 97,512
Depreciation	26,848	24,679	24,185	23,943	24,183	24,425
Change in deferred tax	0	0	0	0	0	0
Change in inventory	(7,487)	4,940	2,405	1,178	(1,167)	(1,178)
Change in accounts receivable	(550)	218	137	67	(67)	(67)
Change in other short-term operating assets	(66)	957	344	168	(167)	(168)
Change in accounts payable	276	(663)	(567)	(278)	275	278
Change in accruals	(87)	(1,955)	(1,082)	(530)	525	530
Change in other current liabilities	(5,815)	(160)	(100)	(49)	48	49
Net cash from operating activities	$ 108,727	$ 126,541	$ 121,878	$ 120,091	$ 120,177	$ 121,379
Investing Activities						
Investment in PPE	$ (9,713)	$ (14,247)	$ (21,780)	$ (22,765)	$ (25,349)	$ (25,603)
Investment in other long-term oper. ass.	2,115	(17,981)	508	249	(247)	(249)
Net cash from investing activities	$ (7,598)	$ (32,228)	$ (21,272)	$ (22,516)	$ (25,596)	$ (25,852)
Financing Activities						
Change in short-term investments	$ 0	$ (3,737)	$ (10,205)	$ (6,682)	$ (46)	$ (46)
Change in long-term investments	0	536	364	178	(177)	(178)
Change in short-term debt	0	0	0	0	0	0
Change in long-term debt	0	0	0	0	0	0
Preferred dividends	0	0	0	0	0	0
Change in preferred stock	0	0	0	0	0	0
Change in other long-term liabilities	0	(1,291)	(838)	(411)	407	411
Change in common stock (Par + PIC)	0	0	0	0	0	0
Common dividends	(97,744)	(95,094)	(93,192)	(92,260)	(93,183)	(94,114)
Net cash from financing activities	$ (97,744)	$ (99,587)	$ (103,871)	$ (99,175)	$ (92,998)	$ (93,928)
Net cash flow	$ 3,385	$ (5,274)	$ (3,264)	$ (1,599)	$ 1,583	$ 1,599
Starting cash	165,086	168,471	163,197	159,933	158,334	159,917
Ending cash	$ 168,471	$ 163,197	$ 159,933	$ 158,334	$ 159,917	$ 161,516