UCD Michael Smurfit Graduate Business School

Yale SCHOOL OF MANAGEMENT

Steve Madden Analysis Report 2023

29th November 2023

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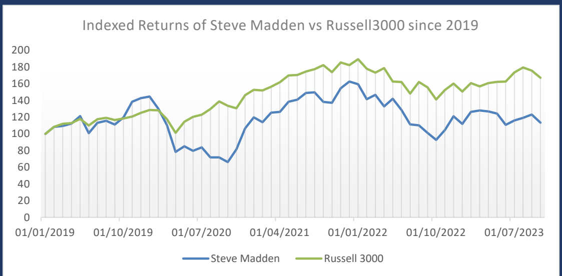
Performance Rating: **SELL**

Price Target: $ 33.63

Current Price: $ 37.78

Stock Performance since 2019 vs Russel 3000



- ✓ Steve Madden Ltd (SHOO) has had a surge in revenues post-COVID, however 2023 performance is substantially down (-6.74% FY2023). This is largely due to wholesale orders being significantly reduced in 2023 from weakened demand – a result of wholesale customers prioritizing inventory control.

- ✓ SHOO US market share is staggering. The market share declines facing the US portion of their business prior to 2020 should begin to take effect once again as competition intensifies.

- ✓ SHOO revenue is highly dependent on the US market, consisting of 84% of total revenue in FY2022. Management is focusing on international expansion due to growth opportunities, but with revenues of only 16% FY2022, this won't have a significant influence on total revenue yet. In addition, recent tensions in the Middle East will affect their joint ventures in the area.

- ✓ The company has been expanding into the apparel market, acquiring 'BB Dakota' in 2019 and recently acquiring 'Almost Famous' in Oct 2023. This is a strategic move by the firm to further growth prospects and create synergies.

- ✓ SHOO has had positive growth in DTC via online sales and increases in retail stores. However, they have seen a slowdown as of September 2023 in this segment, due to negative macroeconomic factors, which is likely to persist going forward.

Company Overview

Steve Madden Ltd. is an American fashion brand that specializes in designing, marketing, and selling footwear, accessories, and apparel for men, women, and children. Their sales are conducted primarily through their Steve Madden Brand; however, they also have several other owned and licenced brands in their arsenal.

Figure 1 - A sample of Steve Madden Brands (Source: Annual Report 2023)

Although predominantly known as a footwear brand, the company has expanded into apparel in recent years – they acquired BB Dakota in August 2019 (initial entry into apparel) and Almost Famous in October 2023. The BB Dakota brand has since been converted into Steve Madden Apparel as of fall 2022, and there are similar plans to convert Almost Famous into Madden Girl Apparel. As of Q3 2023 there are no further planned acquisitions in the near future.

Steve Madden sales are primarily US based, with an 84/16 split (US/International) as of 2022. Their international sales are continuously growing YoY, and as of Q3 2023 this split has adjusted to approximately 80/20. This revenue shift is a result of much higher revenue growth in their international segment (55% growth YoY in 2022, whereas US-only had growth of 8% YoY).

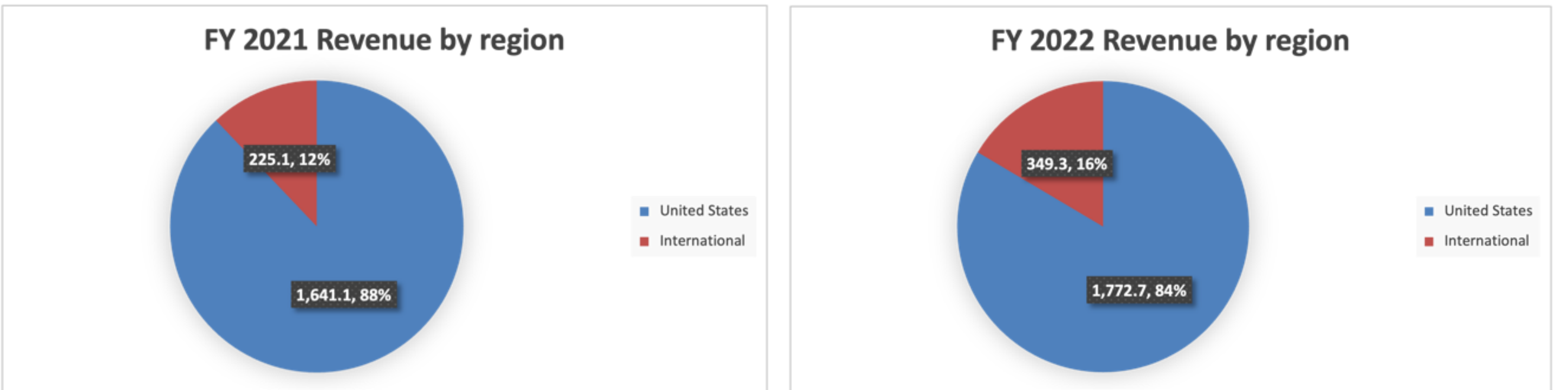


Figure 2 - FY 2021 & 2022 Revenue by Region (Source: Bloomberg)

Strategic Overview

Steve Madden has identified the following four business drivers:

1) **International Expansion:** Steve Maddens international revenue growth has been exceptional in recent years, with recent Q3 revenue split being 80/20, a record quarterly high. Driving this growth is strong momentum in the EMEA region – South Africa achieved 87% revenue growth and Europe had 13% growth (Q3 2023 vs Q3 2022). However, may be dampened in the near future with the current tensions in the Middle East since Oct 2023 – Steve Madden has a high number of retail stores in the area – and the company has factored in a $8-9 million decrease in FY 2023 revenue guidance directly resulting from the crisis.
2) **Categories outside Footwear:** This is predominately lead by the firm's venture into apparel segments, utilising acquisitions such as that of Almost Famous to gain market share in the area as well as benefitting from synergies.
3) **Direct-to-Consumer growth lead by digital:** DTC is now 50% bigger than pre-COVID, largely driven by digital sales growth. Company is also still prioritising Retail store openings, with a 19-store increase (+8%) as of Q3 2023 compared to FY 2022 – bringing the store count to an all-time high of 251 retail stores.
4) **Strengthening core US wholesale footwear business:** This objective has been proving difficult due to a large pullback from US wholesale customers in 2023, signalling lower demand. Management state that this is primarily due to a vast number of customers prioritising inventory control in 2023 – they believe the issue will subside in the near future and that orders will bounce back in the first half of 2024.

Forecasting Analysis

Revenue

We decided to take a multi-factor approach to forecast Steve Madden revenues.

Steve Madden segments their revenues two ways in their accounts:

1) **Geographical:** US vs International Split
2) **Segmentation:** Consisting of Wholesale Footwear, Wholesale Apparel, Direct-to-Consumer, First Cost, and Licences.

In addition, they also provide FY revenue guidance, updated on a quarterly basis, which we will use for our 2023 FY Forecast.

FY 2023 Forecast

Rev Forecast 2023 Q4			
Year	Q3 Prediction	FY Actual	Diff
2013	7%	8.70%	1.700%
2014	1.50%	1.58%	0.077%
2015	6.50%	5.27%	-1.235%
2016	0.50%	-0.40%	-0.905%
2017	10%	10.47%	0.471%
2018	6.50%	8.51%	2.014%
2019	7.25%	6.52%	-0.728%
2022	13%	13.71%	0.711%
2023	-7%	-6.74%	0.263%

Table 1 - Management Accuracy Calculation (Source: Earnings Calls)

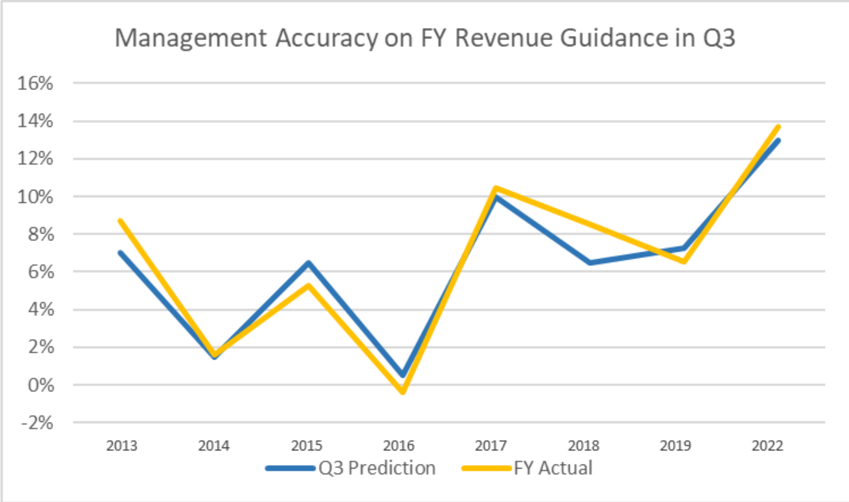


Figure 3 - Management Accuracy (Source: Steven Madden Earnings Calls)

We calculated the accuracy of management earnings guidance from the last 10 years and found there was a slight underestimation of FY Revenue Guidance (0.263%) in Q3 earnings calls on average, so we applied this change to this year's Q3 guidance to get out FY2023 growth figure of -6.74%. Note that we omitted 2020 and 2021 due to a lack of earnings guidance in this period as a result of COVID-19.

We used the Q1-Q3 2023 average % over Revenue for COGS and D&A. We adjusted Q4 operating expenses as per management guidance; they expect a 4% increase on operating expenses YoY due to the Almost Famous acquisition. We checked this year's earning calls for non-recurring expenses and since all non-GAAP adjustments are included in operating expenses thus far, we assume no non-recurring expenses for 2023. These assumptions allow us to arrive at our FY 2023 forecasted figures.

2023 Forecast ($millions)									
Forecast	2022 Q1	2022 Q2	2022 Q3	2022 Q4	2023 Q1 F	2023 Q2 F	2023 Q3 F	2023 Q4 F	2023FYF
Revenue	559.73	534.99	556.64	470.64	463.83	445.30	552.73	517.19	**1,979.06**
% Change YOY					-17.1%	-16.8%	-0.7%	9.9%	-6.7%
COGS	331.84	317.22	327.17	271.95	268.74	255.43	320.11	298.62	**1,142.90**
% of Revenue	59.3%	59.3%	58.8%	57.8%	57.9%	57.4%	57.9%	57.7%	57.7%
Gross Profit	**227.90**	**217.77**	**229.48**	**198.70**	**195.09**	**189.87**	**232.63**	218.57	**836.16**
% Change					-14.4%	-12.8%	1.4%	10.0%	
Operating Expenses	124.78	147.28	145.77	153.79	145.22	141.94	146.01	159.94	**593.10**
% of Revenue	22.3%	27.5%	26.2%	32.7%	31.3%	31.9%	26.4%	30.9%	30.0%
D&A	5.22	5.25	4.95	5.15	3.37	3.89	3.88	3.97	**15.11**
% of Revenue	0.9%	1.0%	0.9%	1.1%	0.7%	0.9%	0.7%	0.8%	0.8%
Operating Income	97.90	65.24	78.75	39.76	46.51	44.04	82.74	54.67	**227.95**
% Change YOY					-52.5%	-32.5%	5.1%	37.5%	
Non-Recurring Income/Expense	0	0	0	0	0	0	0	-	-
EBIT	**97.90**	**65.24**	**78.75**	**39.76**	**46.51**	**44.04**	**82.74**	54.67	**227.95**
% Change YOY					-52.5%	-32.5%	5.1%	37.5%	

Table 2 - 2023 Forecast (Source: Bloomberg)

FY 2024-2028 Forecast

We based our 2024-2028 forecasts on the US vs international business segments, utilising important segmental information in order to further enhance our forecasted values.

Footwear Market Analysis

In order to accurately reflect the market that Steve Madden operates within, we narrowed our footwear industry 'company set' to firms that primarily operate within the retail and wholesale market. We then used this company set to reflect the Global footwear market, and also created a sub-set of firms to reflect US-owned firms' US-only revenues. This allowed us to analyse how Steve Madden has been competing on a domestic and international level thus far.

The international footwear industry is highly fragmented and is dominated by a few companies, namely Nike and Adidas. Steve Maddens market share, while small, has remained relatively stable despite a small decline in market share prior to 2020. This can largely be attributed to US revenue: only 10% of total revenue during the period was international. Due to their lower international presence compared to other competing firms, there is scope for growth, and management aims to utilise this opportunity in the future, as mentioned in their business strategy. This segment has achieved impressive growth since 2020, achieving 75% overall revenue growth from 2019-2023, capturing 7% of the firm's total revenue in the process.

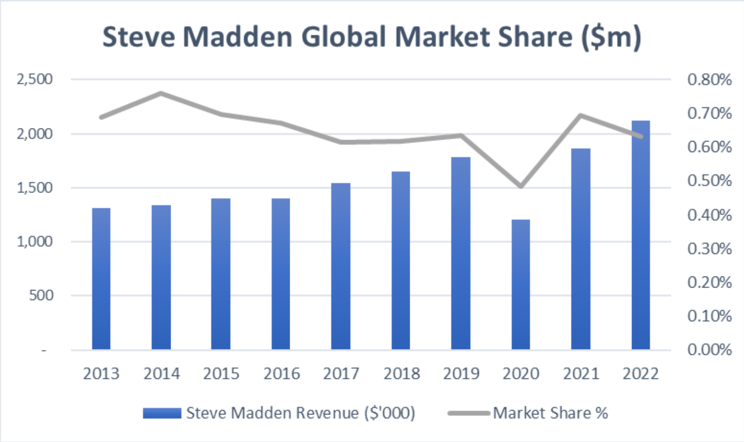


Figure 4 - Steve Madden Global Market Share (Source: Bloomberg)

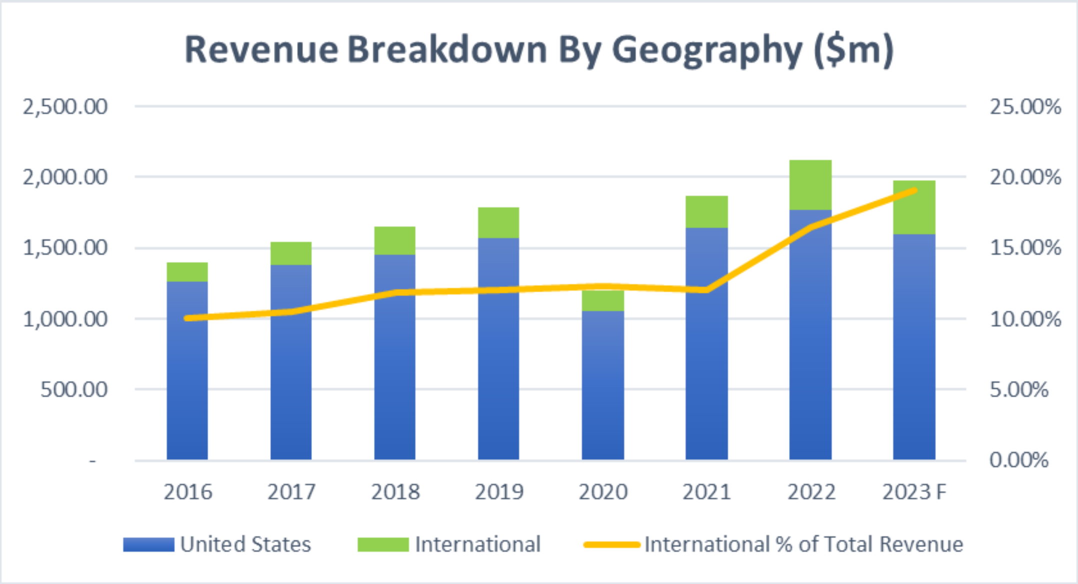


Figure 5 - Revenue Breakdown by Region (Source: Bloomberg)

The 7% increase in international revenue proportion has been exacerbated by the faltering of US market share. Since the initial recovery from its decline in 2020, Steve Madden has gradually lost market share among its US competitors, which is concerning as the majority of the company's revenues are US-based (80% in Q3 2023). Steve Madden US market share has declined in the past after reaching of peak market share of 7.72% in 2012, and this trend seems to be reappearing since 2021, with a similar decrease in market share (18.4% decrease 2012-2014 vs 18.1% decrease 2021-2023).

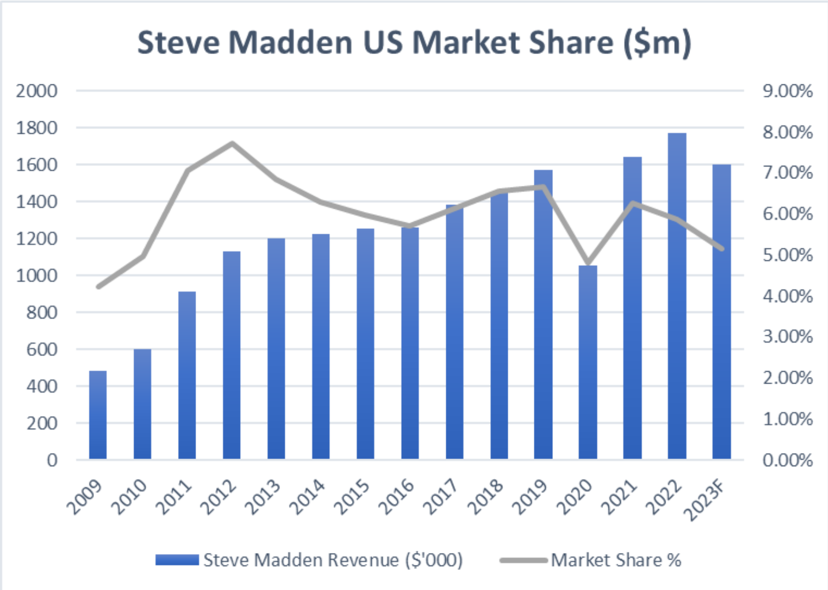


Figure 6 – Steve Madden US Market Share: US-only revenues (Source: Bloomberg)

<u>US Revenue Forecast</u>

As a result of the above analysis, following a dismal 2023 for US revenues (-9.66% decrease from 2022), we believe that Steve Madden's US revenues will decline at a CAGR of 2.01% in 2024, and will gradually recover, following the pattern of the 2012-2019 market share decline and stabilisation. This will ultimately end in revenue growth 2026-2028 as the below issues subside.

Assumptions:

- Market share for Steve Madden has been declining since 2021. We believe this downward trend will continue on, triggered by the decline in US revenue in 2023, and the below issues experienced in this year, but will stabilise once again as conditions improve.
- DTC, especially in the US, has been softening since September. Outlet stores have been outperforming full price stores, signalling a desire for cheaper goods. This slowdown in DTC revenues in their full price retail stores is expected to persist as long as macroeconomic factors remain negative, but it is expected that the higher performance in outlet stores will help to offset some of the slowdown.

- Difficulties in the US wholesale market dampened US revenues in 2023 so far and are expected to do so until year end. There is a positive outlook that orders will increase again from 2024 onwards, and therefore we assume this difficulty will not persist far past this year.
- While the expansion into apparel could increase scope for growth, it is worth noting the majority of the US footwear industry also have apparel segments, and that the competitive environment should remain similar as a result.

We projected the gradual decline in market share with an eventual recovery, as seen in the Table below. We decided to use the market share decline and recovery period 2012-2019 due to several similarities:

- Both declines start with a market share decline of approximately 18% over two years.
- Industry CAGR in the 2012-2019 period begins with high growth, and then stabilises (3.29% US Footwear industry CAGR 2023-2028 from Statista is reflective). The difference in the two periods is accounted for in our calculation as we adjusted for the % change in market share.
- 2023 is reflective of 2014: both were difficult years for the firm. 2014 saw decreases in the company's wholesale and retail segments YoY (which were offset by their acquisitions made that year to return a total revenue increase of 1.8%). 2014 also saw disruptions due to union disputes which caused delays in shipments through California (one of their primary ports).

We used the market share % change figures from 2015-2019 to project our 2024-2028 US revenues. Using the projected US CAGR of 3.29% to estimate future industry revenue growth, we then adjusted the revenue CAGR to match the market share changes from the sample period – thus arriving at our revenue forecast.

($m)	2012	2013	2014	2015	2016	2017	2018	2019
US Footwear Revenue	14670.81	17540.70	19409.38	21011.20	22064.75	22554.70	22226.60	23568.80
Industry CAGR		19.6%	10.7%	8.3%	5.0%	2.2%	-1.5%	6.0%
SM US Revenue	1133.08	1200.8	1222.72	1255.67	1258.98	1383.84	1455.18	1572.06
SM CAGR		6.0%	1.8%	2.7%	0.3%	9.9%	5.2%	8.0%
SM Market Share	**7.72%**	**6.85%**	**6.30%**	**5.98%**	**5.71%**	**6.14%**	**6.55%**	**6.67%**
% change YoY		***-11.36%***	***-7.98%***	***-5.13%***	***-4.52%***	***7.53%***	***6.71%***	***1.88%***
	2021A	**2022A**	**2023A+F**	**2024F**	**2025F**	**2026F**	**2027F**	**2028F**
Total	26198.58	30223.93	31218.29	32245.38	33306.25	34402.02	35533.85	36702.91
Industry CAGR	19.27%	15.36%	3.29%	3.29%	3.29%	3.29%	3.29%	3.29%
SM Market Share	6.26%	5.87%	5.13%	4.87%	4.65%	5.00%	5.33%	5.43%
% change YoY		***-6.37%***	***-12.54%***	***-5.13%***	***-4.52%***	***7.53%***	***6.71%***	***1.88%***
SM US Revenue	**1641.1**	**1772.7**	**1,601.5**	**1,569.3**	**1,547.6**	**1,718.8**	**1,894.5**	**1,993.6**
SM CAGR		8.02%	-9.66%	-2.01%	-1.38%	11.07%	10.22%	5.23%

Table 3 - US Revenue CAGR Calculation (Source: Bloomberg & Statista)

International Revenue Forecast

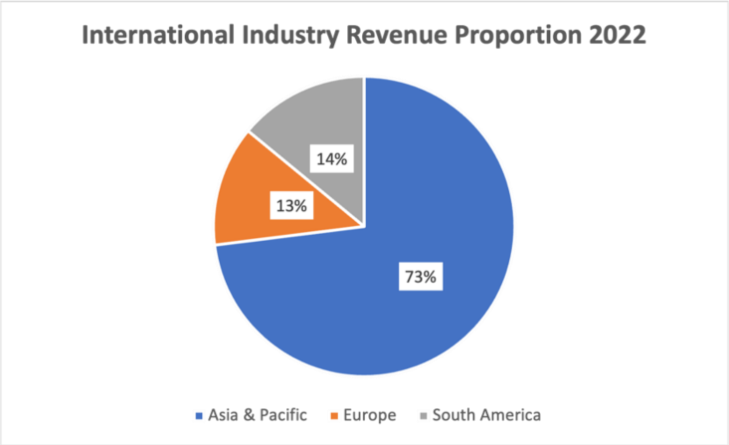


Figure 5 - International Industry Revenue Proportion (Source: Bloomberg)

International expansion is a business driver for Steve Madden and has been prioritised (successfully so) over the last number of years. Excluding 2020 this segment has seen growth of over 8% per year since 2017. We believe that this rapid growth will be dampened post 2023 for the following reasons:

- The rapid revenue growth mentioned has slowed, with 2023 on track to be the lowest year of growth (other than 2020) at 8.09%.
- Steve Madden has a significant presence in the Middle East, including Israel, through joint ventures in the area. The current tensions in the area will cause disruptions to international revenue growth indefinitely, and management has stated that there will be an impact on revenues as well as their expansion plans due to delayed store openings.

Ultimately due to the above reasons we believe the period of rapid growth will slow down to around the International Industry CAGR in the forecasting period. We attained an adjusted international CAGR of 4% (non-US growth) for our forecasting period 2024-2028. This was done by weighting the industry revenues by region and using regional CAGRs to get a weighted average CAGR for our international segment. This breakdown can be seen in the formula:

$$\underline{\boldsymbol{International\ CAGR}}$$
$$\underline{= \mathbf{0.73} * \boldsymbol{ExpCAGR\ Asia}(\mathbf{4.4}\%) + \mathbf{0.13} * \boldsymbol{ExpCAGR\ Europe}(\mathbf{2.6}\%) + \mathbf{0.14} * \boldsymbol{ExpCAGR\ America}(\mathbf{3.2}\%)}$$

Revenue Forecast

Revenue Forecast	2022	2023 F	2024F	2025F	2026F	2027F	2028F
Revenue	2,122.01	1,979.1	1,961.9	1,955.9	2,143.5	2,336.1	2,452.9
% Change	13.71%	-6.74%	-0.87%	-0.31%	9.59%	8.99%	5.00%
Breakdown by Geography							
United States	1,772.71	1,601.5	1,569.3	1,547.6	1,718.8	1,894.5	1,993.6
% Change	8.02%	-9.66%	-2.01%	-1.38%	11.07%	10.22%	5.23%
International	349.30	377.6	392.6	408.3	424.7	441.7	459.3
% Change	55.21%	8.09%	4.00%	4.00%	4.00%	4.00%	4.00%

Table 4 - Complete Revenue Forecast (Source: Bloomberg)

COGS

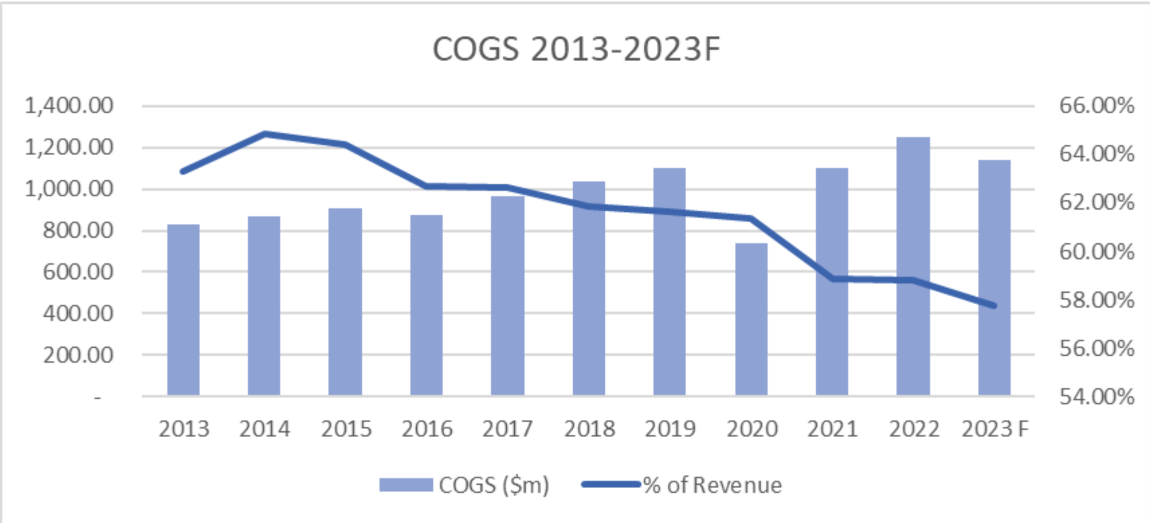


Figure 6 - COGS (Source: Bloomberg)

Cost Of Goods Sold (COGS) for Steve Madden is directly linked to Revenues, with revenue % change and COGS % change showing a correlation of 0.983 since their IPO 1997. During the last 10-year period, the company has been cutting COGS back down to historical COGS levels (59.5% on average from 2000-2010), after a period increasing costs particularly during 2011-2015. Management believe they have brought it down to the near minimum and are planning on maintaining this ratio. Therefore, we expect COGS to remain stable at approximately 58.85%% of revenues, which is the average COGS ratio from 2021-2022.

Operating Expenses

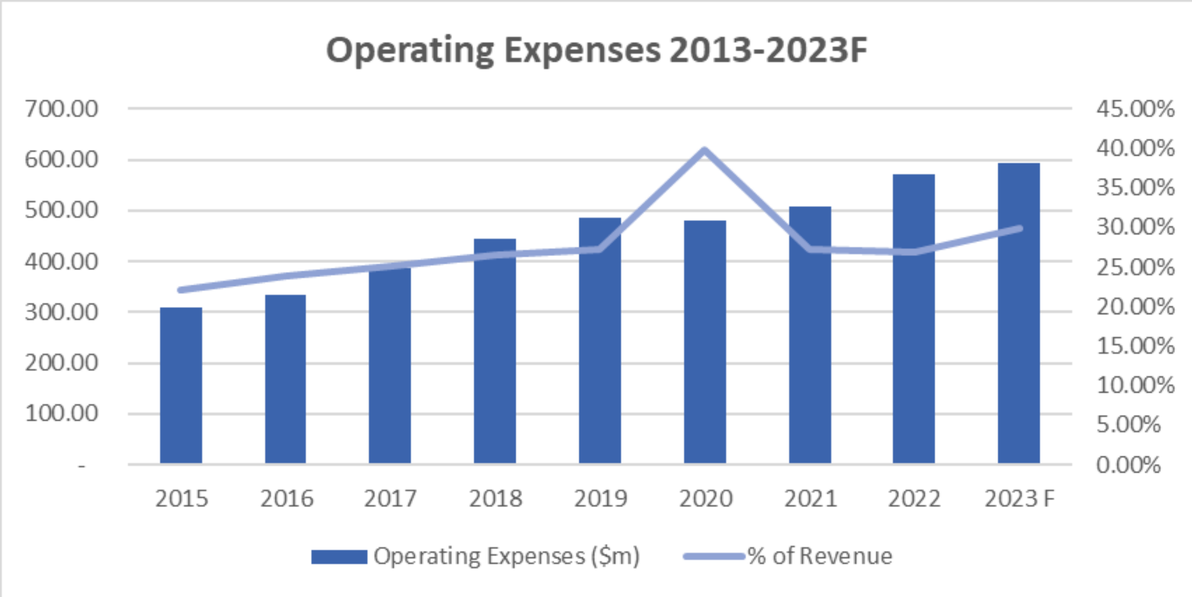


Figure 7 - Other Operating Expenses (Source: Bloomberg)

Due to the change of accounting practices Steve Madden has every few years, and their lack of reporting a single SG&A figure, SG&A costs are difficult to separate from operating expenses. We will therefore use operating expenses for our forecast. Operating Expenses include SG&A, advertising, shipping costs and typically D&A (however, we have removed D&A in order to forecast it separately).

Operating Expenses have gradually increased since 2015, with a jump in 2020 due to the low revenues resulting from the COVID pandemic. This gradual increase is likely a result of the acquisitions made by the company as they have expanded into other segments such as apparel. While management expects operating expense synergies to develop post-acquisition, it is clear these synergies have not occurred since their acquisition of BB Dakota in 2019. In addition, due to the recent acquisition of Almost Famous, 2023 Q4 has had an adjustment to operating expenses to account for the acquisition, causing the increased 2023 figure. As a result, we project operating expenses to be approximately 27.6% of revenues in our forecasted period, which is the average from 2019-2023 (post-expansion into apparel) excluding 2020 & 2021 due to abnormal revenue.

Depreciation & Amortisation (D&A)

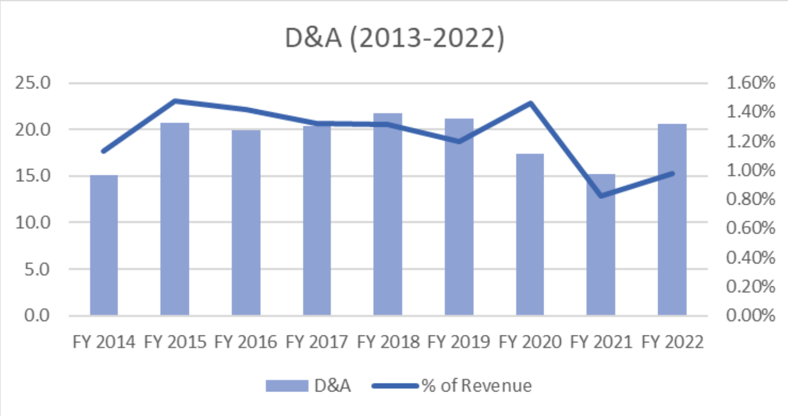


Figure 9 - D&A (Source: Bloomberg)

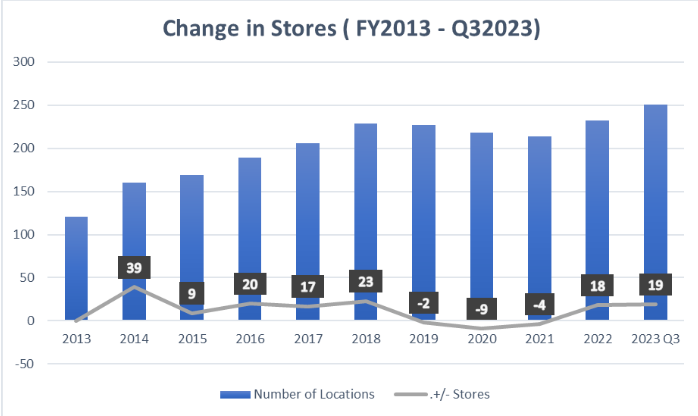


Figure 10 - No. of Location Changes (Source: Bloomberg)

The D&A figure for Steve Madden considers fixed asset and inventory D&A. From our analysis we found that D&A is affected by location changes (i.e., properties opened/closed). During the pandemic, Steve Madden had to close a number of locations, resulting in a decrease in D&A. Since then, the company has increased its store openings, with 18 new locations in 2018 and 19 more 2023 so far, resulting in a higher store count that pre-Covid. As a result, we expect D&A to revert back to its prior levels during the forecast period at 1.33% of revenue, the average D&A between 2015-2019.

Capex & NWC

Capex as a % of Revenue had been on a decline until 2022. However, the 2020-2021 period is uncharacteristically low due to store closures resulting from global lockdowns. We expect Capex to bounce back to typical levels, around 1.12% of revenue, in 2023 due to the expansion efforts being made by management, especially in store openings, as discussed above. We believe that due to our projected revenue decline in the near future and then recovery, this ratio will remain stagnant around this 1.12% on average over the 2025-2028 period.

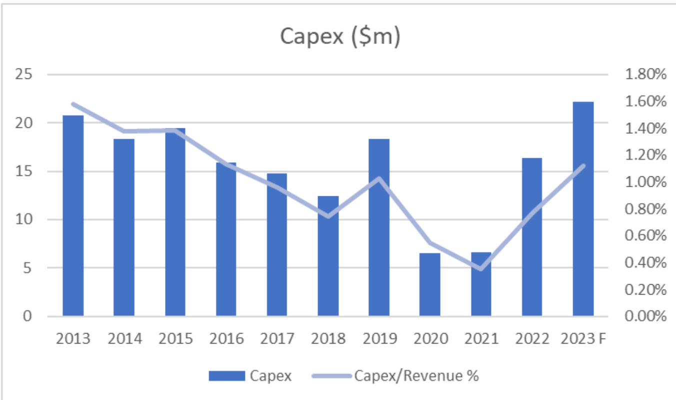


Figure 11 - Capex (Source: Bloomberg)

For full net working capital calculation please see the appendix. Notes to NWC calculation:

- Inventory control has been successfully prioritised, with Q3 inventory down 16% YoY despite wholesale order challenges this year.
- Q4 and thus FY 2023 cash was adjusted to consider the acquisition of Almost Famous, which was acquired for $52 million in cash.

Valuation

Steve Madden has had zero long-term debt in the past, and there is no indication of any debt being issued in the near future. Therefore, we will value this firm using Weighted Cost of Capital (WACC).

Beta

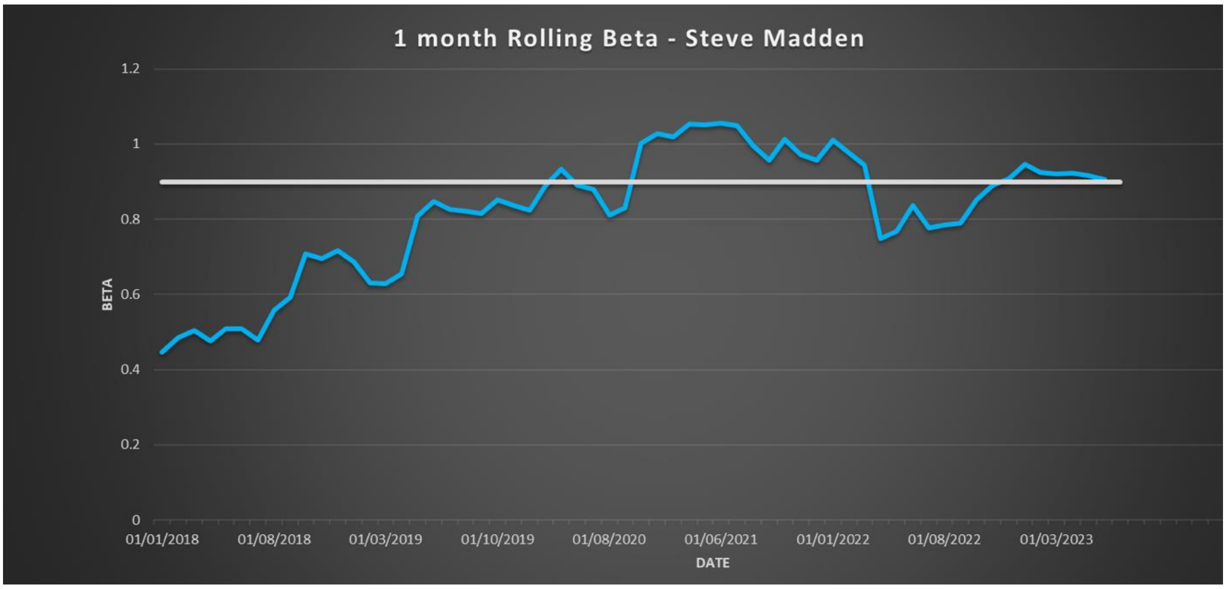


Figure 12- Beta Calculation (Source: Bloomberg & Yahoo Finance)

We estimated Steve Maddens Beta by using 10 years of monthly returns of SHOO and the Russell 3000 to calculate the rolling beta for the last five years. We then removed the period of abnormal returns during February to April 2020 (caused by COVID shock), and the period October to December 2020 due to the abnormally high returns of Steve Madden during their COVID recovery (66% price increase over the three-month period). The removal of those two abnormalities brought the rolling beta down significantly. We have decided to take a Beta of 0.9 which seems representative for the period 2019-2023 and going forward.

WACC Inputs

Input	Reasoning	Figure
Tax Rate	23.1% is the YTD2023 and FY2022 tax rate, no indication it will change	**23.1%**
Risk Free Rate	US Treasury 10Y	**4.39%**
Equity Premium	Statista MRP 2023	**5.7%**
Unlevered Beta	See graph	**0.9**
re/WACC	Calculated using CAPM	**9.52%**
Long term Growth	Inflation Target	**2%**
Current Year Remaining		**8.3%**

Table 5 - WACC Inputs (Source: Bloomberg, Statista, Annual Reports)

Equity Value

We rate Steve Madden a SELL with a target price of $33.63, which is 11% lower than the current price of $37.78. We believe that while total revenues have bounced back well since 2020, largely thanks to international growth, the market share declines facing the US portion of their business will continue to take effect over the next two years as competition intensifies. 2023 has been a difficult year for the company, and many of their business driving segments have faced issues that are leading them to lose their competitive edge in those segments – and therefore future growth prospects have been dampened. In addition, ambitions to increase operating margins by cutting costs and realising synergies from recent acquisitions seem unlikely to happen in the near future, further contributing to the lower valuation.

Equity	2023 F	2024F	2025F	2026F	2027F	2028F
EBIT	227.95	230.92	230.21	252.29	274.96	288.71
Less: Tax	175.30	177.58	177.03	194.01	211.45	222.01
Plus: D&A	190.40	203.71	203.09	222.57	242.57	254.70
Less: Capex	168.22	181.73	181.17	198.55	216.39	227.20
Less NWC	204.59	163.41	181.87	176.57	193.82	213.52
FCF	17.05	163.41	181.87	176.57	193.82	213.52
Disc Factor	1.004	1.054	1.155	1.265	1.385	1.517
PV of CF	**16.98**	**154.97**	**157.48**	**139.60**	**139.92**	**140.74**

Table 6 - FCF Calculation (Source: Bloomberg)

Terminal Growth	($m)
2028F Equity	140.74
1 + g	1.02
rE - g	7.52%
TV Equity	1,909.04
PVTV Equity	**1,567.81**

Table 7 - PVTV Calculation (Source: Bloomberg)

Valuation	($m)
PV of CF Equity	750
PVTV Equity	1568
Enterprise Value	2318
Less Debt	0
Plus Cash	192
Estimated Market Cap	$2,509
Actual Market Cap	$2,819
Difference	**-11%**
No. Shares outstanding (mill)	74.62
Share Price	**($)**
Current Price	$37.78
Target Price	$33.63

Table 8 - Equity Value (Source: Bloomberg & Yahoo Finance)

Appendix

Comparison to Market Value

In order to demonstrate the difference between our estimate and the market value, we will demonstrate what we believe the market is assuming to get close to the market price – and put forward what we think the market is missing

Our Forecast

Forecast	2022	2023 F	2024F	2025F	2026F	2027F	2028F
Revenue	2,122.01	1,979.1	1,961.9	1,955.9	2,143.5	2,336.1	2,452.9
% Change	13.71%	-6.74%	-0.87%	-0.31%	9.59%	8.99%	5.00%
COGS	1,248.17	1,142.9	1,154.5	1,151.0	1,261.4	1,374.7	1,443.4
% of Revenue	58.82%	57.75%	58.85%	58.85%	58.85%	58.85%	58.85%
Gross Profit	873.8	836.2	807.4	804.9	882.1	961.4	1,009.5
% Change	13.86%	-4.31%	-3.44%	-0.31%	9.59%	8.99%	5.00%
Operating Expenses	571.61	593.1	550.3	548.7	601.3	655.3	688.1
% of Revenue	26.94%	29.97%	28.05%	28.05%	28.05%	28.05%	28.05%
D&A	20.58	15.1	26.1	26.1	28.6	31.1	32.7
% of Revenue	0.97%	0.76%	1.33%	1.33%	1.33%	1.33%	1.33%
Operating Income	281.6	228.0	230.9	230.2	252.3	275.0	288.7
% Change	15.62%	-19.06%	1.30%	-0.31%	9.59%	8.99%	5.00%
Non-Recurring Income/Expense	-	-	-	-	-	-	-
EBIT	281.6	228.0	230.9	230.2	252.3	275.0	288.7
% Change	13.17%	-19.06%	1.30%	-0.31%	9.59%	8.99%	5.00%

Table 9 – Our Forecast (Source: Bloomberg)

Market Forecast

Forecast	2022	2023 F	2024F	2025F	2026F	2027F	2028F
Revenue	2,122.01	1,973.5	2,041.9	2,112.8	2,186.1	2,262.0	2,340.5
% Change	13.71%	-7.00%	3.47%	3.47%	3.47%	3.47%	3.47%
COGS	1,248.17	1,142.9	1,195.3	1,236.7	1,279.7	1,324.1	1,370.0
% of Revenue	58.82%	57.91%	58.54%	58.54%	58.54%	58.54%	58.54%
Gross Profit	873.8	830.6	846.7	876.1	906.5	937.9	970.5
% Change	13.86%	-4.95%	1.94%	3.47%	3.47%	3.47%	3.47%
Operating Expenses	571.61	593.1	480.5	497.1	514.4	532.2	550.7
% of Revenue	26.94%	30.05%	23.53%	23.53%	23.53%	23.53%	23.53%
D&A	20.58	15.1	27.2	28.1	29.1	30.1	31.2
% of Revenue	0.97%	0.77%	1.33%	1.33%	1.33%	1.33%	1.33%
Operating Income	281.6	222.4	339.0	350.8	363.0	375.5	388.6
% Change	15.62%	-21.05%	52.46%	3.47%	3.47%	3.47%	3.47%
Non-Recurring Income/Expense	-	-	-	-	-	-	-
EBIT	281.6	222.4	339.0	350.8	363.0	375.5	388.6
% Change	13.17%	-21.05%	52.46%	3.47%	3.47%	3.47%	3.47%

Table 10 - Market Forecast (Source: Bloomberg)

**Note: we forecasted zero non-recurring income/expenses in both forecasts, as this has been zero since 2021 and is usually negligible if present (apart from 2020 when used to account for asset impairment).*

We believe that the market is currently pricing Steve Madden revenues to increase in line with the footwear market, at a CAGR of 3.47%, given management's belief that many of the issues faced in 2023 will subside significantly from 2024 onwards. Also, we have included the 2023 revenue guidance figure of -7%, as supposed to our adjusted figure from our forecast.

Our estimated COGS figure is also slightly higher, as we believe the market is pricing in the more current COGS ratio information – despite it being relatively low compared to historical data. The revenue change in 2023 has adjusted the estimated COGS figure as well.

The third difference between the market forecast and ours is our estimate of operating expenses (28.05%) vs the market (23.53%). The 23.53% is the historical figure (2013-2018) that we believe management are aiming towards in order to increase their operating margins – however, this ratio is too ambitious in our opinion, and we believe the average post-acquisition of BB Dakota (and thus from their expansion into apparel onwards) is more likely to be the operating expense figure in the near future.

Beta

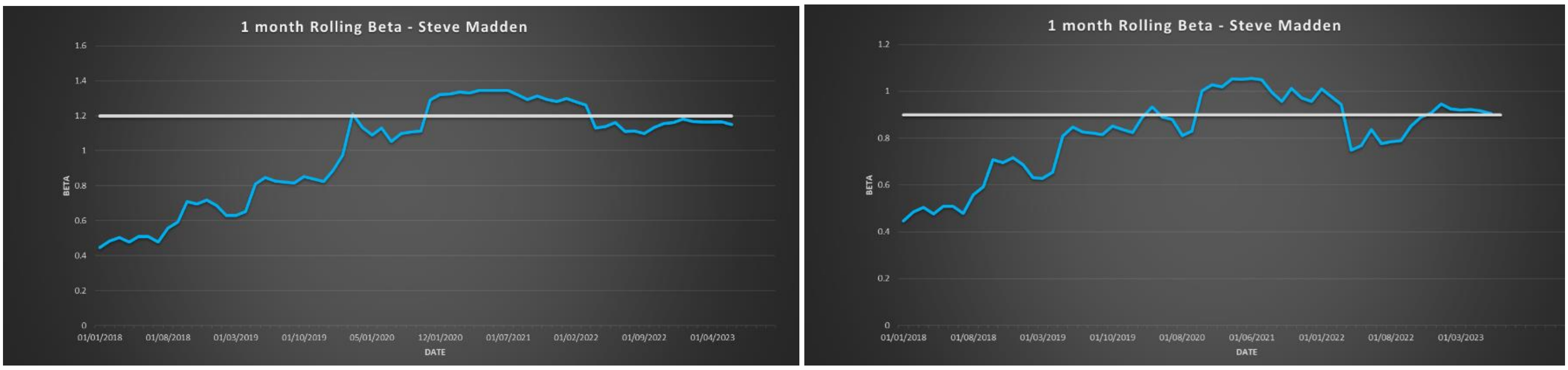


Figure 13 - Comparison of Steve Madden Beta pre-outlier removal and post-outlier removal (Pre = Left) (Post = Right) (Source: Bloomberg)

The final reason for our SELL rating is that we believe the market is pricing in a Beta of 1.2 (seen left), which is not reflective of the company historically and had been adjusted upwards due to abnormal Covid jumps. As explained in our analysis, we omitted outliers that we believed will not occur going forward in order calculate the more representative-going-forward Beta of 0.9.

Terminal Growth	**($m)**
2028F Equity	180.83
1 + g	1.02
rE - g	9.23%
TV Equity	1,998.39
PVTV Equity	**1,641.19**
Valuation	**($m)**
PV of CF Equity	1048
PVTV Equity	1641
Enterprise Value	2689
Less Debt	0
Plus Cash	192
Estimated Market Cap	$2,881
Actual Market Cap	$2,819
Difference	**2%**
No. Shares outstanding (mill)	74.62
Share Price	**($)**
Current Price	$37.78
Target Price	$38.61

Table 11 - Market Value (Source Bloomberg)

Working Capital

Working Capital	2017	2018	2019	2020	2021	2022	2023 F	2024F	2025F	2026F	2027F	2028F
Revenue	1,546.1	1,677.7	1,787.2	1,201.8	1,866.1	2,122.0	1,979.1	1961.91	1955.91	2143.51	2336.13	2452.90
COGS	968.4	1,037.6	1,101.1	737.3	1,098.7	1,248.2	1,142.9	1154.52	1150.99	1261.38	1374.73	1443.44
Accounts Receivable	39.5	25.1	38.2	25.0	26.5	37.9	46.7	37.54	37.42	41.01	44.70	46.93
Inventory	110.3	137.2	136.9	101.4	255.2	228.8	174.7	152.61	152.14	166.74	181.72	190.80
Other Current Assets	314.5	340.8	279.7	323.9	443.4	302.2	286.1	380.37	379.21	415.58	452.92	475.56
Total Current Assets (less cash)	**464.3**	**503.1**	**454.8**	**450.4**	**725.2**	**568.8**	**507.5**	**570.52**	**568.77**	**623.33**	**679.34**	**713.30**
Accounts Payable	67.0	79.8	61.7	73.9	136.8	130.5	152.1	133.98	133.57	146.38	159.54	167.51
Other Current Liabilities	139.7	144.9	219.6	162.0	298.4	190.4	143.8	206.65	206.02	225.78	246.07	258.37
Total Current Liabilities (less debt)	**206.6**	**224.7**	**281.3**	**235.9**	**435.2**	**320.9**	**295.9**	**340.63**	**339.59**	**372.16**	**405.60**	**425.88**
Working Capital	257.7	278.4	173.5	214.5	290.0	247.9	211.6	229.89	229.18	251.17	273.73	287.42
WC as % of Revenue	17%	17%	10%	18%	16%	12%	11%	12%	12%	12%	12%	12%
Change in WC		**20.7**	**(104.9)**	**41.0**	**75.5**	**(42.0)**	**(36.4)**	**18.32**	**-0.70**	**21.98**	**22.57**	**13.68**
Accounts Receivable Days	9.3	5.5	7.8	7.6	5.2	6.5	8.6	6.98	6.98	6.98	6.98	6.98
Accounts Payable Days	15.8	17.4	12.6	22.4	26.8	22.5	28.1	24.93	24.93	24.93	24.93	24.93
Inventory Days	41.6	48.3	45.4	50.2	84.8	66.9	55.8	48.25	48.25	48.25	48.25	48.25
OCA % of Revenue	20%	20%	16%	27%	24%	14%	14%	19%	19%	19%	19%	19%
OCL % of COGS	14%	14%	20%	22%	27%	15%	13%	18%	18%	18%	18%	18%
Total Current Assets	*645.5*	*703.1*	*718.9*	*698.2*	*944.7*	*843.6*	*799.3*					
Cash & Cash Eq	*181.2*	*200.0*	*264.1*	*247.9*	*219.5*	*274.7*	*291.8*					
Total Current Liabilities	*206.6*	*224.7*	*281.3*	*235.9*	*435.2*	*320.9*	*295.9*					
Debt portions of CL*	-	-	-	-	-	-	-					

Table 12 - NWC Calculation (Source: Bloomberg)

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