Gordmans Stores (GMAN)

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Disclaimers

- I am not a registered investment advisor and I do not offer any investment advise
- No parts of this talk are suggestions to invest, not invest, buy or sell any kind of securities or other financial instruments

Gordmans Stores - business

- Discount department stores – Kohl’s and TJ Maxx hybrid?

Gordmans Stores - business (cont'd)

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Gordmans Stores – Misc thoughts

- What can go wrong?
  - No moat
  - Competition from below (TGT, WMT), same level (Kohl’s, TJ Maxx, Ross) and above (Macy’s, etc.)

Gordmans Stores- Misc thoughts

- Opportunities:
  - Small size, room to grow
  - Budget segment continues to flourish?

Strategic considerations

- Moat (*switching costs*, *habit*, *low cost*):
    - What are the moats? None
    - What does it take to sustain the moats? None
    - Bargaining power of suppliers/customers? None
- Is it a low risk business? Somewhat.
- Is there high uncertainty? Yes.
- How capital intensive is the business? Somewhat.
- Future growth – Unknown
- Are the revenues and cash flows of the business sustainable or overstated / understated due to boom or bust conditions? No

Management

- I don’t usually do management analysis. Included for template completeness
- Some dilution
- Can I trust management?
- Management shareholding (> 10%)
- Management incentives?
- Are the salaries too high?
- Is there heavy insider buying?
- Is there heavy insider selling?
- Do I like the management? (Operators, capital allocators, integrity)
- Profitable reinvestment
- What has management done with the cash?
- Where is Free Cash Flow invested? Share buybacks, dividends, reinvested, ROE & ROCE, incremental BV

Piotroski Score

Only applicable to Graham Cos – N/A to GMAN

1. Net Income: Bottom line. Score 1 if last year net income is positive.
2. Operating Cash Flow: Better earnings gauge. Score 1 if last year cash flow is positive.
3. Return On Assets: Measures Profitability. Score 1 if last year ROA exceeds prior-year ROA.
4. Quality of Earnings: Warns of Accounting Tricks. Score 1 if last year operating cash flow exceeds net income.
5. Long-Term Debt vs. Assets: Is Debt decreasing? Score 1 if the ratio of long-term debt to assets is down from the year-ago value. (If LTD is zero but assets are increasing, score 1 anyway.)
6. Current Ratio: Measures increasing working capital. Score 1 if CR has increased from the prior year.
7. Shares Outstanding: A Measure of potential dilution. Score 1 if the number of shares outstanding is no greater than the year-ago figure.
8. Gross Margin: A measure of improving competitive position. Score 1 if full-year GM exceeds the prior-year GM.
9. Asset Turnover: Measures productivity. Score 1 if the percentage increase in sales exceeds the percentage increase in total assets.

- Total: / 9

Is it a good business?

- 3 year history of profits (newish IPO)
- ROE:
  - 2010: 60 2011:30 2012: 32 2013 9mo:22
- Margins
  - 2010:3 2011:3 2012:4 2013 9mo:4
- 3 year sales growth 5%, earnings growth 9%
- Some dilution
- Strong balance sheet
  - Cash >> debt
- ROIC = Earnings / (Equity + Debt – Cash) = Earnings / (Assets – non-debt liabilities - Cash)
  - >= ROE

Is it a good business? Cash flow

- Weak cash flow:
  - 2013 9mo 15.6M earnings, 15M operating cash flow, 0 FCF (FCF = OCF – capital expenditures)
    - But they are growing # of stores
  - Free Cash Flow/Share higher than dividends paid

Is business cheap? - Buffettology calculations

- ROE 15%
- Earnings in 10 years = ROE*Equity*$(1+ROE)^9$ = $50M
- Equity in 10 years = Equity*$(1+ROE)^9$ = $331M
- Market cap = 50B x P/E (15) = $750M
- Rate of return = 9% after tax (calculations omitted)

- 3 year earnings growth: 9%. Assuming 9% earnings growth: 13% share price growth.

Is business cheap? DCF

- Discounted cash flow
  - Current earnings of 21M (FCF 0M)
  - 10% growth for 5 years, leveling after that
    - 15% discount -> $204M current valuation
  - 5% growth for 10 years, leveling after that
    - 15% discount -> $188M current valuation
  - 10% growth for 10 years, leveling after that
    - 15% discount -> $255M current valuation
- Owner's yield = earnings / (market cap + debt - cash) = earnings/EV
  - 21M / (291M-32M) = 8%
- What makes up the margin of safety? Valuation
- Is there a sufficient margin of safety? No.

Is business cheap? - Graham investment considerations

- N/A for GMAN – included for completeness
- 10 P/Book – not a net net
- Altman Z score (http://en.wikipedia.org/wiki/Altman_Z-score)