

Analyst: Sung Nam

Kid Brands Inc (KID)

Market Price:	\$3.68	EBITDA/Share:	\$1.21	Net Asset/Share:	\$2.35
DCF: EV/EBITDA Terminal Value	4.002%	DCF: Net Tangible Asset excluding Cash/Debt Terminal Value		5.382%	
EBITDA-Cap Ex/Share	\$0.94	EVA Analysis:		-0.390%	

Overview**Dividend?**

Dividend yield is 0.0%.

Price to Book

Price to book is 0.62. Price to book excluding goodwill is 1.57.

Cashflow Generation

Cashflows are \$16 MM from operating cashflow.

Capex is \$2 MM, minority interest payment is \$0 MM, intangibles are \$0 MM and dividend is \$0 MM.

Free cash flow is about \$14 MM.

8.1% EBITA margin and FCF yield is 9.4%.

The company has \$1 MM in cash/short term investment and \$73 MM in debt.

We are projecting a \$10 MM paydown annually.

Profitability

ROA is 14.3%, and ROC is 27.1%.

Bankruptcy Risk

Altman Z is above 3.0. Low Risk.

LBO?

We don't believe a 60% debt/40% equity would be sustainable.

Price

Altman Z Score

Company Name:

Kid Brands Inc

Ticker:

KID

Period	2007	2008	2009	2010	2011	2012	2013	2014	2015
Working Capital	48.99	61.86	55.32	77.17	78.98	82.17	84.52	89.97	96.51
Total Assets	340.12	235.43	206.88	242.50	242.37	243.42	243.52	246.58	250.61
X1	0.14	0.26	0.27	0.32	0.33	0.34	0.35	0.36	0.39
Retained Earnings	200.23	88.67	100.38	135.05	144.92	155.97	168.07	181.13	195.16
Total Assets	340.12	235.43	206.88	242.50	242.37	243.42	243.52	246.58	250.61
X2	0.59	0.38	0.49	0.56	0.60	0.64	0.69	0.73	0.78
EBITDA	16.92	-118.99	11.00	22.36	20.27	21.28	21.92	22.58	23.26
Total Assets	340.12	235.43	206.88	242.50	242.37	243.42	243.52	246.58	250.61
X3	0.05	-0.51	0.05	0.09	0.08	0.09	0.09	0.09	0.09
Market Value of Equity	79.71	79.71	79.71	79.71	82.28	84.93	87.66	90.48	93.40
Total Liabilities	135.49	157.56	115.77	114.51	123.10	113.10	101.10	91.10	81.10
X4	0.59	0.51	0.69	0.70	0.67	0.75	0.87	0.99	1.15
Net Sales	163.07	229.19	243.94	275.78	289.57	304.05	313.17	322.56	332.24
Total Assets	340.12	235.43	206.88	242.50	242.37	243.42	243.52	246.58	250.61
X5	0.48	0.97	1.18	1.14	1.19	1.25	1.29	1.31	1.33
Altman Z Score	1.99	0.45	2.77	3.02	3.10	3.29	3.49	3.67	3.88

$$Z = 1.2 \times X1 + 1.4 \times X2 + 3.3 \times X3 + 0.6 \times X4 + 1.0 \times X5$$

Z-SCORE ABOVE 3.0 –The company is considered 'Safe' based on the financial figures only.

Blue

Z-SCORE BETWEEN 2.7 and 2.99 – 'On Alert'. This zone is an area where one should 'Exercise Caution'.

Green

Z-SCORE BETWEEN 1.8 and 2.7 – Good chance of the company going bankrupt within 2 years.

Yellow

Z-SCORE BELOW 1.80- Probability of Financial Catastrophe is Very High.

Red

SN VALUATION

LBO Analysis

WACC Terminal Value:		Intrinsic Price in 5 Years:	4.31	Non-LBO Forecast	Non-LBO Forecast
EV/EBITDA with 5X Multiple Terminal Value:	\$4.48	Market Price:	3.68	Year 1 Target	3.80
Net Tangible Asset Terminal Value:	\$4.78	LBO Price:	3.68	Year 2 Target	3.92
EV/EBITDA with Today's Multiple Terminal Value:	\$2.33	Premium to Market Price:	0.00%	Year 3 Target	4.05
EVA Enterprise Value:	\$5.66	LBO Price/Intrinsic Price Target:	3.22%	Year 4 Target	4.18
Dividend Discount Model:	N/A	LBO Price/EV/EBIT Exit Price:	-19.87%	Year 5 Target	4.31
Average (Excluding Dividend Discount):	\$4.31	Implied IRR at today's EV/EBITDA:	-8.73%	Implied IRR (Market Price):	3.22%
		5 Year Return:	17.18%	Desired Return Rate	20.00%
				Implied Today's Price	1.73
				Overvalued/(Undervalued)	112.36%

Current Evaluation				Exit Evaluation			
Current Market Price:	3.68	LBO Price:	3.68	Exit Price:	4.31	Exit Price:	2.33
Outstanding Shares:	21,660,000	Outstanding Shares:	21,660,000	Outstanding Shares:	21,660,000	Outstanding Shares:	21,660,000
Market Capitalization:	79,708,800	Market Capitalization:	79,708,800	Market Capitalization:	93,399,096	Market Capitalization:	50,474,164
Available Cash:	1,070,000	Available Cash:	1,070,000	Available Cash:	20,413,584	Available Cash:	20,413,584
Debt:	73,120,000	Debt:	73,120,000	Debt:	39,710,000	Debt:	39,710,000
Net Cash:	-72,050,000	Net Cash:	-72,050,000	Net Cash:	-19,296,416	Net Cash:	-19,296,416
Enterprise Value:	151,758,800	Enterprise Value:	151,758,800	Enterprise Value:	112,695,512	Enterprise Value:	69,770,580
Original EV/EBITDA:	6.79	EV/EBITDA:	6.79	EV/EBITDA at 5 Years:	4.85	EV/EBITDA at 5 Years:	3.00
Original EV/EBITDA:	5.81	EV/EBITDA:	5.81	EV/EBITDA at 5 Years:	6.08	EV/EBITDA at 5 Years:	2.51
Competitor Average EV/EBIT:	N/A						
Competitor Average EV/EBITDA:	N/A						

Enterprise Valuation Calculation During Holding Period							
Time Period	0	Adjusted for LBO	1	2	3	4	5
Annualized Price Targets based off LBO Price:	3.68	3.68	3.80	3.92	4.05	4.18	4.31
Shares Outstanding:	21,660,000	21,660,000	21,660,000	21,660,000	21,660,000	21,660,000	21,660,000
Market Capitalization:	79,708,800	79,708,800	82,276,072	84,926,032	87,661,341	90,484,750	93,399,096
Available Cash:	1,070,000	1,070,000	2,877,566	6,065,547	8,424,935	13,869,203	20,413,584
Debt:	73,120,000	73,120,000	81,710,000	71,710,000	59,710,000	49,710,000	39,710,000
Net Cash:	-72,050,000	-72,050,000	-78,832,434	-65,644,453	-51,285,065	-35,840,797	-19,296,416
Enterprise Value:	151,758,800	151,758,800	161,108,506	150,570,484	138,946,406	126,325,547	112,695,512
EBIT	22,360,000	22,360,000	20,269,830	21,283,322	21,921,821	22,579,476	23,256,860
EV/EBIT:	6.79	6.79	7.95	7.07	6.34	5.59	4.85
EBITDA	26,110,000	26,110,000	24,207,330	25,417,697	26,180,227	26,965,634	27,774,603
EV/EBITDA:	5.81	5.81	6.66	5.92	5.31	4.68	4.06

Enterprise Valuation Calculation During Holding Period							
Time Period	0	Adjusted for LBO	1	2	3	4	5
Annualized Price Targets based off LBO Price:	3.68	3.68	2.71	3.64	4.50	5.42	6.40
Shares Outstanding:	21,660,000	21,660,000	21,660,000	21,660,000	21,660,000	21,660,000	21,660,000
Market Capitalization:	79,708,800	79,708,800	58,740,244	78,806,859	97,499,786	117,407,600	138,549,433
Available Cash:	1,070,000	1,070,000	2,877,566	6,065,547	8,424,935	13,869,203	20,413,584
Debt:	73,120,000	73,120,000	81,710,000	71,710,000	59,710,000	49,710,000	39,710,000
Net Cash:	-72,050,000	-72,050,000	-78,832,434	-65,644,453	-51,285,065	-35,840,797	-19,296,416
Enterprise Value:	151,758,800	151,758,800	137,572,678	144,451,312	148,784,851	153,248,397	157,845,849
EBIT	22,360,000	22,360,000	20,269,830	21,283,322	21,921,821	22,579,476	23,256,860
EV/EBIT:	6.79	6.79	6.79	6.79	6.79	6.79	6.79
EBITDA	26,110,000	26,110,000	24,207,330	25,417,697	26,180,227	26,965,634	27,774,603
EV/EBITDA:	5.81	5.81	5.68	5.68	5.68	5.68	5.68

LBO Price	3.68	Equity Partners:	152,828,800	Weighting	100.00%	Annualized Return for Equity Partners: -19.87%
Shares Outstanding	21,660,000	Debt Partners:	0		0.00%	
Market Capitalization	79,708,800	Total Funds for LBO:	152,828,800		100.00%	
Debt	73,120,000					
Cash	1,070,000					
Enterprise Value	151,758,800					
Capital Investment	152,828,800					

Book Value	Enterprise Value	Stock Valuation	Debt Reduction
Beginning Book Value	127.97	Current Market Price	Starting Debt
Year 5 Book Value	188.08	Year 5 Market Price	Debt Repayment
Annualized Return	8.01%	Annualized Return	-8.73%
			Year 5 Ending Debt
			% of Starting Debt
			51.22%

SN VALUATION

LBO Pro Forma Income Statement

Name:

Kid Brands Inc

Ticker:

KID

	Historical				Forecasted				
	12 months ending 2007-12-31	12 months ending 2008-12-31	12 months ending 2009-12-31	12 months ending 2010-12-31	2011	2012	2013	2014	2015
Revenue	163.07	229.19	243.94	275.78	289.57	304.05	313.17	322.56	332.24
COGS	111.36	160.47	168.74	199.48	211.39	221.95	228.61	235.47	242.54
Gross margin	51.71	68.72	76.20	78.30	78.18	82.09	84.56	87.09	89.71
SG&A	34.79	50.78	48.58	53.94	57.91	60.81	62.63	64.51	66.45
R&D	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Unusual expense	0.00	136.93	15.62	0.00	0.00	0.00	0.00	0.00	0.00
Other operating expense	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Depreciation is: Excluded from COGS					0.00	0.00	0.00	0.00	0.00
Operating Income (EBITA)	16.92	-118.99	11.00	22.36	20.27	21.28	21.92	22.58	23.26
Interest income/(expense)	-3.92	-9.57	-6.61	-4.21	-5.04	-4.24	-3.26	-2.48	-1.68
Gain (loss) on sale of asset	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other	0.23	0.19	0.16	0.31	0.28	0.30	0.31	0.32	0.33
Income before tax	13.22	-128.37	4.54	18.46	14.95	16.75	18.33	19.79	21.25
Tax	4.12	-29.03	-7.17	-16.21	5.08	5.69	6.23	6.73	7.23
Income after tax	9.10	-99.34	11.71	34.67	9.87	11.05	12.10	13.06	14.03
Minority Interest	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Equity in affiliates	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net income	9.10	-99.34	11.71	34.67	9.87	11.05	12.10	13.06	14.03
*Figures are in millions (\$)									
Revenue Growth	N/A	40.55%	6.44%	13.05%	5.00%	5.00%	3.00%	3.00%	3.00%
Tax Rate	31.16%	22.61%	-157.93%	-87.81%	34.00%	34.00%	34.00%	34.00%	34.00%
Implied Debt Interest Rate	-5.86%	-9.31%	-7.95%	-5.76%	-12.29%	-10.34%	-8.00%	-6.05%	-5.42%
Margins									
COGS	68.29%	70.02%	69.17%	72.33%	73.00%	73.00%	73.00%	73.00%	73.00%
Gross margin	31.71%	29.98%	30.83%	27.67%	27.00%	27.00%	27.00%	27.00%	27.00%
SG&A	21.33%	22.16%	19.91%	19.56%	20.00%	20.00%	20.00%	20.00%	20.00%
R&D	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Unusual expense	0.00%	59.75%	6.40%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Other operating expense	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Depreciation is: Excluded from COGS	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Operating Income (EBITA)	10.38%	-51.92%	4.51%	8.11%	7.00%	7.00%	7.00%	7.00%	7.00%
Interest income/(expense)	-2.40%	-4.18%	-2.71%	-1.53%	-1.74%	-1.39%	-1.05%	-0.77%	-0.51%
Gain (loss) on sale of asset	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Other	0.14%	0.08%	0.07%	0.11%	0.10%	0.10%	0.10%	0.10%	0.10%
Income before tax	8.11%	-56.01%	1.86%	6.69%	5.16%	5.51%	5.85%	6.13%	6.40%
Tax	2.53%	-12.67%	-2.94%	-5.88%	1.76%	1.87%	1.99%	2.09%	2.17%
Income after tax	5.58%	-43.34%	4.80%	12.57%	3.41%	3.82%	4.18%	4.51%	4.84%
Minority Interest	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Equity in affiliates	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Net income	5.58%	-43.34%	4.80%	12.57%	3.41%	3.64%	3.86%	4.05%	4.22%

					Adjustment		Adjusted Proforma	2011	2012	2013	2014	2015
	As of 2007-12-31	As of 2008-12-31	As of 2009-12-31	As of 2010-12-31	+	-						
Cash	21.93	3.73	1.59	1.07			1.07	2.88	6.07	8.42	13.87	20.41
Short term investment	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Cash and Short term	21.93	3.73	1.59	1.07			1.07	2.88	6.07	8.42	13.87	20.41
Accounts Receivable	62.10	39.51	42.94	55.27			55.27	55.27	55.27	55.27	55.27	55.27
Other receivables	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Total Receivables	62.10	39.51	42.94	55.27			55.27	55.27	55.27	55.27	55.27	55.27
Deferred Income Tax	-48.33	9.79	-2.06	2.16			2.16	2.16	2.16	2.16	2.16	2.16
Total Inventory	59.66	47.17	37.02	48.56			48.56	48.56	48.56	48.56	48.56	48.56
Prepaid Expenses	3.14	3.25	2.95	3.84			3.84	3.84	3.84	3.84	3.84	3.84
Other Current Assets	1.62	0.94	2.61	6.37			6.37	6.37	6.37	6.37	6.37	6.37
Current Assets	100.12	104.39	85.05	117.27	0.00	0.00	117.27	119.08	122.27	124.62	130.07	136.61
PP&E, Gross	62.07	9.99	10.39	10.79			10.79	12.79	14.79	16.79	18.79	20.79
Change in Depreciation							3.75	3.94	4.13	4.26	4.39	4.52
Accumulated Depreciation	0.00	0.00	3.84	7.59			7.59	11.53	15.66	19.92	24.31	28.82
PP&E, Net	62.07	9.99	6.55	3.20			3.20	1.26	-0.87	-3.13	-5.52	-8.03
Goodwill	120.78	0.00	0.00	0.00	0.00		0.00	0.00	0.00	0.00	0.00	0.00
Intangibles	51.17	84.02	80.35	77.15			77.15	77.15	77.15	77.15	77.15	77.15
Long term investments	0.00	4.50	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Other long term assets	5.98	32.53	34.93	44.88			44.88	44.88	44.88	44.88	44.88	44.88
Long Term Assets	240.00	131.04	121.83	125.23	0.00	0.00	125.23	123.29	121.16	118.90	116.51	114.00
Total Assets	340.12	235.43	206.88	242.50	0.00	0.00	242.50	242.37	243.42	243.52	246.58	250.61
Accounts Payable	20.41	23.55	17.42	22.94			22.94	22.94	22.94	22.94	22.94	22.94
Accrued Expense	28.85	13.25	8.68	16.95			16.95	16.95	16.95	16.95	16.95	16.95
Other current Liabilities	1.87	5.73	3.63	0.21			0.21	0.21	0.21	0.21	0.21	0.21
Total Current Liabilities	51.13	42.53	29.73	40.10	0.00	0.00	40.10	40.10	40.10	40.10	40.10	40.10
Notes Payables/Short Term Debt	23.34	12.11	15.10	18.59			18.59	18.59	18.59	18.59	18.59	18.59
Current port. Of LT Debt/Capital Leases	11.50	14.93	13.53	13.53			13.53	22.12	12.12	0.12	0.12	0.12
Long term Debt	32.00	75.77	54.49	41.00	0.00	0.00	41.00	41.00	41.00	41.00	31.00	21.00
Capital Lease Obligations	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Total Interest Earning Debt	66.84	102.81	83.12	73.12	0.00	0.00	73.12	81.71	71.71	59.71	49.71	39.71
Deferred Income tax	3.74	0.00	0.00	0.33			0.33	0.33	0.33	0.33	0.33	0.33
Minority Interest	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Other liabilities	13.78	12.22	0.96	0.96			0.96	0.96	0.96	0.96	0.96	0.96
Total Liabilities	135.49	157.56	115.77	114.51	0.00	0.00	114.51	123.10	113.10	107.10	91.10	81.10
Redeemable Preferred Stock	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Non-redeemable Preferred Stock	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Common Stock	2.67	2.67	2.67	2.67		0.00	2.67	2.67	2.67	2.67	2.67	2.67
Additional Paid-in capital	90.84	89.17	89.76	90.64	0.00	0.00	90.64	90.64	90.64	90.64	90.64	90.64
Dividends Paid	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Retained Earnings	200.23	88.67	100.38	135.05		0.00	135.05	144.92	155.97	168.07	181.13	195.16
Treasury Stock	-106.08	-102.78	-102.17	-100.89			-100.89	-100.89	-100.89	-100.89	-100.89	-100.89
Other Equity	16.98	0.13	0.46	0.50		0.00	0.50	0.50	0.50	0.50	0.50	0.50
Total Equity	204.64	77.86	91.10	127.97	0.00	0.00	127.97	137.84	148.89	160.99	174.05	188.08
Liability + Equity	340.13	235.42	206.87	242.48	0.00	0.00	242.48	260.94	261.99	262.09	265.15	269.18
Variance	-0.01	0.01	0.01	0.02			0.02	-18.57	-18.57	-18.57	-18.57	-18.57
Debt/Equity	0.33	1.32	0.91	0.57			0.57	0.59	0.48	0.37	0.29	0.21
Inventory Turnover	2.73	4.86	6.59	5.68			5.68	5.96	6.26	6.45	6.64	6.84
Inventory Turnover Days	133.54	75.12	55.39	64.27			64.27	61.21	58.29	56.60	54.95	53.35
Days Inventory Outstanding	195.55	107.29	80.08	88.85			88.85	83.85	79.86	77.53	75.27	73.08
Accounts Receivable Turnover	2.63	5.80	5.68	4.99			4.99	5.24	5.50	5.67	5.84	6.01
Accounts Receivable Turnover Days	139.00	62.92	64.25	73.15			73.15	69.67	66.35	64.42	62.54	60.72
Days Payable Outstanding	66.90	53.57	37.68	41.97			41.97	39.61	37.72	36.63	35.56	34.52
Days Sales Outstanding	139.00	62.92	64.25	73.15			73.15	73.15	69.67	66.35	64.42	62.54
Cash Conversion Cycle	267.65	116.65	106.65	120.03			120.03	117.39	111.80	107.25	104.13	101.10

SN VALUATION

LBO Debt Schedule

	Proforma	2011	2012	2013	2014	2015
Net Change in Cash	-0.52	1.81	3.19	2.36	5.44	6.54
Current Portion Debt Repayment		10.00	10.00	12.00		
Long Term Debt Repayment					10.00	10.00
Outstanding Debt	73.12	63.12	53.12	41.12	31.12	21.12
Current Portion Debt Balance	32.12	22.12	12.12	0.12	0.12	0.12
Long Term Debt Balance	41.00	41.00	41.00	41.00	31.00	21.00
Forward Libor Curve		4.00%	4.00%	4.00%	4.00%	4.00%
Spread		4.00%	4.00%	4.00%	4.00%	4.00%
Interest Rate		8.00%	8.00%	8.00%	8.00%	8.00%
Interest Expense		5.05	4.25	3.29	2.49	1.69
Cash Balance		1.07				
Interest @ 1.0%		0.01	0.01	0.01	0.01	0.01
Net Interest Expense/(Income)		5.04	4.24	3.28	2.48	1.68
Net Interest Rate		12.29%	10.34%	8.00%	6.05%	5.42%
EBITDA		20.27	21.28	21.92	22.58	23.26
EBITDA/Interest Expense Coverage		4.01	5.01	6.66	9.07	13.76

Interest Rate Coverage Table

Debt Rating				
AAA				AAA
AA				
A+				A+
A			A	
A-		A-		
BBB	BBB			
BB+				
BB				
B+				
B				
B-				
CCC				
CC				
C				
D				

*Source: NYU; Professor Damodaran