

Lifetime Brands Inc (LCUT)

Price:	\$12.80	Net Tang. Bk Value Incl. Cash (NTBVIC):	\$173,130,000.00	Net Tang. Book Yr. 5 (Inc. Cash):	\$232,781,052.89
Market Cap:	\$163,328,000	NTBVIC/Market Downside Recovery:	106.00%	Avg. Year FCF/Share:	\$16,533,566.65
Cash:	\$1,870,000	Op. Cash Flow:	\$21,020,588	Year 5 Disposition FCF Multiple:	3.0
Debt:	\$96,380,000	Implied Years to Fill Gap:	-0.47	Year 5 Disposition Price:	\$282,381,752.83
Net Cash:	-\$94,510,000	Today's Equity if 5x Op. CF:	\$236,191,764		
Enterprise Value:	\$257,838,000	Net Tang. Book+5 FCF+ Gain Disposition:		\$282,381,752.83	
Shares Outstanding:	12,760,000	IRR:		11.57%	
		Price:		\$22.13	
		Target Market Cap:		\$282,381,753	
		Target Enterprise Value:		\$376,891,753	

* Our future intrinsic value measures the total return, which includes both capital appreciation and dividend income.

Why is this co. selling below tangible book value? Pots, pan co. sells \$400 MM and I never heard of the brands? Customer is Walmart, but the valuation doesn't give...

Typically, commoditized products wouldn't merit a premium. It is purely a cash flow business so investors wouldn't see the merit of investing in a co. that lacks innovation, which could lead to new, attention grabbing products. Zero R&D, marginal PP&E investment. So this co. is just the perpetual spread between the cost of production and the sale price of the products. The co. only owns the spice rack factory and equity ownership in 3 overseas entities. Other than that, the co. is essentially a big warehouse full of pots and pans, and money due from customers. Not very appealing.

This has to be one of the rare cases where the valuation is compelling, but we will stay away from it because 1) margins are low, 2) products are commoditized, 3) the co. has zero negotiation power with the large customers like Walmart, 4) zero reinvestment in R&D and capex.

It is a good value play and may get bought out later on, but we don't find the business model appealing.

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SN VALUATION

LBO Pro Forma Income Statement

Name:

Lifetime Brands Inc

Ticker:

LCUT

	Historical				Forecasted				
	12 months ending 2009-12-31	12 months ending 2010-12-31	12 months ending 2011-12-31	12 months ending 2012-12-31	2013	2014	2015	2016	2017
Revenue	415.04	443.17	444.42	486.84	491.71	496.63	501.59	506.61	511.67
COGS	257.84	273.77	282.06	310.05	314.69	317.84	321.02	324.23	327.47
Gross margin	157.20	169.40	162.36	176.79	177.02	178.79	180.57	182.38	184.20
SG&A	138.98	139.51	137.78	148.38	152.43	153.95	155.49	157.05	158.62
R&D	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Unusual expense	2.62	0.76	0.00	2.43	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)	15.60	29.03	24.58	25.98	24.59	24.83	25.08	25.33	25.58
Interest income/(expense)	-13.19	-9.35	-7.75	-5.90	-6.73	-6.73	-6.73	-6.73	-6.73
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	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Income before tax	2.42	19.67	16.83	20.07	17.86	18.10	18.35	18.60	18.86
Tax	1.88	4.60	6.13	5.20	6.25	6.34	6.42	6.51	6.60
Income after tax	0.54	15.07	10.70	14.87	11.61	11.77	11.93	12.09	12.26
Minority Interest	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Equity in affiliates	2.17	2.72	3.36	6.08	5.10	5.33	5.42	5.44	5.50
Net income	2.71	17.78	14.07	20.95	16.71	17.09	17.34	17.53	17.76
*Figures are in millions (\$)									
EPS (based off today's share count)	\$0.21	\$1.39	\$1.10	\$1.64	\$1.31	\$1.34	\$1.36	\$1.37	\$1.39
P/E (historical today's price; forecasted intrinsic price)	60.27	9.19	11.61	7.80	9.64	9.29	9.02	8.80	8.57
Revenue Growth	N/A	6.78%	0.28%	9.55%	1.00%	1.00%	1.00%	1.00%	1.00%
Tax Rate	77.69%	23.39%	36.42%	25.91%	35.00%	35.00%	35.00%	35.00%	35.00%
Implied Debt Interest Rate	-13.85%	-12.04%	-7.94%	-6.15%	-7.92%	-7.92%	-7.92%	-7.92%	-7.92%
Margins									
COGS	62.12%	61.78%	63.47%	63.69%	64.00%	64.00%	64.00%	64.00%	64.00%
Gross margin	37.88%	36.22%	36.53%	36.31%	36.00%	36.00%	36.00%	36.00%	36.00%
SG&A	33.49%	31.50%	31.00%	30.48%	31.00%	31.00%	31.00%	31.00%	31.00%
R&D	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Unusual expense	0.63%	0.17%	0.00%	0.50%	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)	3.76%	6.55%	5.53%	5.34%	5.00%	5.00%	5.00%	5.00%	5.00%
Interest income/(expense)	-3.18%	-2.11%	-1.74%	-1.21%	-1.37%	-1.35%	-1.34%	-1.33%	-1.31%
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	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Income before tax	0.58%	4.44%	3.79%	4.12%	3.63%	3.65%	3.66%	3.67%	3.69%
Tax	0.45%	1.04%	1.38%	1.07%	1.27%	1.28%	1.28%	1.29%	1.29%
Income after tax	0.13%	3.40%	2.41%	3.05%	2.36%	2.39%	2.43%	2.46%	2.49%
Minority Interest	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Equity in affiliates	0.52%	0.61%	0.76%	1.25%	1.04%	1.07%	1.08%	1.07%	1.08%
Net income	0.65%	4.01%	3.17%	4.30%	3.40%	3.44%	3.46%	3.46%	3.47%

	As of					Adjustment		Adjusted Proforma	2011	2012	2013	2014	2015
	2009-12-31	2010-12-31	2011-12-31	2012-12-31	2012-12-31	+	-						
Cash	0.68	3.35	2.97	1.87	1.87			1.87	17.89	34.17	50.70	67.49	84.54
Short term investment	0.00	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Cash and Short term	0.68	3.35	2.97	1.87	1.87			1.87	17.89	34.17	50.70	67.49	84.54
Accounts Receivable	61.55	72.80	77.75	97.37	100.00			100.00	100.00	100.00	100.00	100.00	100.00
Other receivables	0.00	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Total Receivables	61.55	72.80	77.75	97.37	100.00			100.00	100.00	100.00	100.00	100.00	100.00
Total Inventory	103.93	99.94	110.34	104.58	104.58			104.58	104.58	104.58	104.58	104.58	104.58
Prepaid Expenses	7.68	5.05	5.26	5.39	5.39			5.39	5.39	5.39	5.39	5.39	5.39
Other Current Assets	0.00	1.12	2.48	3.54	3.54			3.54	3.54	3.54	3.54	3.54	3.54
Current Assets	173.84	182.26	198.80	212.75	215.38	0.00	0.00	215.38	231.40	247.68	264.21	281.00	298.05
PP&E, Gross	91.16	92.98	0.00	92.00	92.00			92.00	97.00	102.00	107.00	112.00	117.00
Change in Depreciation		9.81	8.40	9.32	9.32			9.32	9.41	9.51	9.60	9.70	9.80
Accumulated Depreciation	49.54	56.88	0.00	57.00	57.00			57.00	66.41	75.92	85.52	95.22	105.02
PP&E, Net	41.62	36.10	0.00	35.00	35.00			35.00	30.59	26.08	21.48	16.78	11.98
Goodwill	0.00	0.00	0.00	5.08	5.08	0.00		5.08	5.08	5.08	5.08	5.08	5.08
Intangibles	37.64	30.82	46.94	52.76	52.76			52.76	52.76	52.76	52.76	52.76	52.76
Long term investments	20.34	24.07	34.52	43.69	43.69			43.69	43.69	43.69	43.69	43.69	43.69
Other long term assets	3.27	4.35	4.17	2.87	2.87			2.87	2.87	2.87	2.87	2.87	2.87
Long Term Assets	102.87	95.34	85.63	139.40	139.40			139.40	134.99	130.48	125.88	121.18	116.38
Total Assets	276.71	277.60	284.43	352.15	354.78	0.00	0.00	354.78	366.39	378.15	390.08	402.17	414.43
Accounts Payable	21.89	19.41	18.98	18.55	18.55			18.55	18.55	18.55	18.55	18.55	18.55
Accrued Expense	29.83	31.96	33.88	33.35	33.35			33.35	33.35	33.35	33.35	33.35	33.35
Other current Liabilities	0.89	5.04	2.10	3.62	3.62			3.62	3.62	3.62	3.62	3.62	3.62
Total Current Liabilities	52.61	56.41	54.96	55.52	55.52	0.00	0.00	55.52	55.52	55.52	55.52	55.52	55.52
Notes Payables/Short Term Debt	0.00	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Current port. Of LT Debt/Capital Leases	24.60	4.10	15.00	11.38	11.38			11.38	11.38	11.38	11.38	11.38	11.38
Long term Debt	70.53	73.56	82.62	84.59	85.00	0.00	0.00	85.00	85.00	85.00	85.00	85.00	85.00
Capital Lease Obligations	0.09	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Total Interest Earning Debt	95.22	77.66	97.62	95.97	96.38	0.00	0.00	96.38	96.38	96.38	96.38	96.38	96.38
Deferred Income tax	4.45	1.43	5.38	3.51	3.51			3.51	3.51	3.51	3.51	3.51	3.51
Minority Interest	0.00	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Other liabilities	20.44	14.48	14.60	21.57	21.16			21.16	21.16	21.16	21.16	21.16	21.16
Total Liabilities	172.72	149.98	172.56	176.57	176.57	0.00	0.00	176.57	176.57	176.57	176.57	176.57	176.57
Redeemable Preferred Stock	0.00	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	0.00
Common Stock	0.12	0.12	0.12	0.13	0.13		0.00	0.13	0.13	0.13	0.13	0.13	0.13
Additional Paid-in capital	129.66	131.35	137.47	142.49	142.49	0.00	0.00	142.49	142.49	142.49	142.49	142.49	142.49
Dividends Paid	0.00	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Retained Earnings	-18.95	1.31	14.46	33.85	34.00		0.00	34.00	45.61	57.37	69.30	81.39	93.65
Treasury Stock	0.00	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Other Equity	-6.81	-5.18	-5.88	-3.96	-3.96		0.00	-3.96	-3.96	-3.96	-3.96	-3.96	-3.96
Total Equity	104.02	127.60	146.17	172.51	172.66	0.00	0.00	172.66	184.27	196.03	207.96	220.05	232.31
Liability + Equity	276.74	277.58	318.73	349.08	349.23	0.00	0.00	349.23	360.84	372.60	384.53	396.62	408.88
Variance	-0.03	0.02	-34.30	3.07	5.55			5.55	5.55	5.55	5.55	5.55	5.55
Debt/Equity	0.92	0.61	0.67	0.56	0.56			0.56	0.52	0.49	0.46	0.44	0.41
Inventory Turnover	3.99	4.43	4.03	4.66	4.70			4.66	4.70	4.75	4.80	4.84	4.89
Inventory Turnover Days	91.40	82.31	90.62	78.41	77.63			78.41	77.63	76.86	76.10	75.35	74.60
Days Inventory Outstanding	147.12	133.24	142.79	123.11	121.30			123.11	121.30	120.10	118.91	117.73	116.57
Accounts Receivable Turnover	6.74	6.09	5.72	5.00	4.92			4.87	4.92	4.97	5.02	5.07	5.12
Accounts Receivable Turnover Days	54.13	59.96	63.86	73.00	74.23			74.97	74.23	73.50	72.77	72.05	71.33
Days Payable Outstanding	30.99	25.88	24.56	21.84	21.52			21.84	21.52	21.30	21.09	20.88	20.68
Days Sales Outstanding	54.13	59.96	63.86	73.00	74.23			73.00	74.97	74.23	73.50	72.77	72.05
Cash Conversion Cycle	170.27	167.32	182.08	174.28	174.01			174.28	174.76	173.03	171.31	169.62	167.94
Net tangible assets/share	\$8.15	\$10.00	\$8.77	\$13.36	\$13.57				\$14.48	\$15.40	\$16.33	\$17.28	\$18.24

	12 months ending 2009-12-31	12 months ending 2010-12-31	12 months ending 2011-12-31	12 months ending 2012-12-31	2011	2012	2013	2014	2015
Net Income	2.71	20.26	14.07	20.95	11.61	11.77	11.93	12.09	12.26
Depreciation	11.47	9.81	8.40	9.32	9.41	9.51	9.60	9.70	9.80
Net Income + Depreciation	14.18	30.07	22.47	30.27	21.02	21.27	21.53	21.79	22.05
Amortization	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Deferred Taxes	0.73	-2.69	-1.22	-3.01	0.00	0.00	0.00	0.00	0.00
Non Cash Items	3.85	1.38	0.28	-0.98	0.00	0.00	0.00	0.00	0.00
Change in Working capital	45.22	1.34	-9.34	-3.58	0.00	0.00	0.00	0.00	0.00
Accounts Receivable	0.00	-11.25	-4.95	-19.62	0.00	0.00	0.00	0.00	0.00
Other Receivables	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Inventory	0.00	3.99	-10.40	5.76	0.00	0.00	0.00	0.00	0.00
Prepaid Expenses	0.00	2.63	-0.21	-0.13	0.00	0.00	0.00	0.00	0.00
Accounts Payable	0.00	-2.48	-0.43	-0.43	0.00	0.00	0.00	0.00	0.00
Cash from Operating Activities	63.98	30.10	12.19	22.70	21.02	21.27	21.53	21.79	22.05
Capital Expenditures Expenditures	-2.34	-2.86	-4.96	-4.96	-5.00	-5.00	-5.00	-5.00	-5.00
Long term investment	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other Investing Activities	0.41	0.07	-25.68	-17.24	0.00	0.00	0.00	0.00	0.00
Cash from Investing Activities	-1.93	-2.79	-30.64	-22.20	-5.00	-5.00	-5.00	-5.00	-5.00
Financing Cash flow items	0.02	-3.12	-0.76	0.15	0.00	0.00	0.00	0.00	0.00
Total Cash Dividends Paid	0.00	0.00	-0.91	-1.25	0.00	0.00	0.00	0.00	0.00
Issuance (Retirement) of Stock	0.06	0.17	0.23	0.58	0.00	0.00	0.00	0.00	0.00
Issuance (Retirement) of Current Portion Debt	-	-	-	-	0.00	0.00	0.00	0.00	0.00
Issuance (Retirement) of Long Term Debt	-64.92	-21.69	19.35	-1.66	0.00	0.00	0.00	0.00	0.00
Cash from Financing Activities	-64.84	-24.64	17.91	-2.18	0.00	0.00	0.00	0.00	0.00
Foreign Exchange effect	0.00	0.00	0.17	0.57	0.00	0.00	0.00	0.00	0.00
Beginning Cash Balance	3.48	0.68	3.35	2.97	1.87	17.89	34.17	50.70	67.49
Net Change in Cash	-2.80	2.67	-0.38	-1.10	16.02	16.27	16.53	16.79	17.05
Ending Cash Balance	0.68	3.35	2.97	1.87	17.89	34.17	50.70	67.49	84.54
Capex to Revenue	0.56%	0.65%	1.12%	1.02%	1.02%	1.01%	1.00%	0.99%	0.98%
Depreciation to Sales	2.76%	2.21%	1.89%	1.91%	1.91%	1.91%	1.91%	1.91%	1.91%
Amortization to Sales	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
A/R to Sales	14.83%	16.43%	17.49%	20.00%	19.80%	19.61%	19.41%	19.22%	19.03%
Distributable FCF Yield	24.07%	10.59%	-7.16%	0.19%	6.21%	6.31%	6.41%	6.51%	6.61%
Dividend Yield	0.00%	0.00%	-0.56%	-0.77%	0.00%	0.00%	0.00%	0.00%	0.00%
FCF (Ops-Investing-Dividends)	61.64	27.24	8.14	18.99	16.02	16.27	16.53	16.79	17.05

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LBO Debt Schedule

Ticker:

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	Proforma	2013	2014	2015	2016	2017
Net Change in Cash	-1.10	16.02	16.27	16.53	16.79	17.05
Current Portion Debt Repayment						
Long Term Debt Repayment						
Outstanding Debt	96.38	96.38	96.38	96.38	96.38	96.38
Current Portion Debt Balance	11.38	11.38	11.38	11.38	11.38	11.38
Long Term Debt Balance	85.00	85.00	85.00	85.00	85.00	85.00
Forward Libor Curve		3.00%	3.00%	3.00%	3.00%	3.00%
Spread		4.00%	4.00%	4.00%	4.00%	4.00%
Interest Rate		7.00%	7.00%	7.00%	7.00%	7.00%
Interest Expense		6.75	6.75	6.75	6.75	6.75
Cash Balance		1.87				
Interest @ 1.0%		0.02	0.02	0.02	0.02	0.02
Net Interest Expense/(Income)		6.73	6.73	6.73	6.73	6.73
Net Interest Rate		7.92%	7.92%	7.92%	7.92%	7.92%
EBITDA		24.59	24.83	25.08	25.33	25.58
EBITDA/Interest Expense Coverage		3.64	3.68	3.72	3.75	3.79

Interest Rate Coverage Table

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

*Source: NYU; Professor Damodaran

Altman Z Score

Company Name:

Lifetime Brands Inc

Ticker:

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Period	2009	2010	2011	2012	2013	2014	2015	2016	2017
Working Capital	121.23	125.85	143.84	159.86	175.88	192.16	208.69	225.48	242.53
Total Assets	276.71	277.60	284.43	354.78	366.39	378.15	390.08	402.17	414.43
X1	0.44	0.45	0.51	0.45	0.48	0.51	0.53	0.56	0.59
Retained Earnings	-18.95	1.31	14.46	34.00	45.61	57.37	69.30	81.39	93.65
Total Assets	276.71	277.60	284.43	354.78	366.39	378.15	390.08	402.17	414.43
X2	-0.07	0.00	0.05	0.10	0.12	0.15	0.18	0.20	0.23
EBITDA	15.60	29.03	24.58	25.98	24.59	24.83	25.08	25.33	25.58
Total Assets	276.71	277.60	284.43	354.78	366.39	378.15	390.08	402.17	414.43
X3	0.06	0.10	0.09	0.07	0.07	0.07	0.06	0.06	0.06
Market Value of Equity	163.33	163.33	163.33	163.33	161.02	158.75	156.51	154.30	152.12
Total Liabilities	172.72	149.98	172.56	176.57	176.57	176.57	176.57	176.57	176.57
X4	0.95	1.09	0.95	0.93	0.91	0.90	0.89	0.87	0.86
Net Sales	415.04	443.17	444.42	486.84	491.71	496.63	501.59	506.61	511.67
Total Assets	276.71	277.60	284.43	354.78	366.39	378.15	390.08	402.17	414.43
X5	1.50	1.60	1.56	1.37	1.34	1.31	1.29	1.26	1.23
Altman Z Score	2.68	3.15	3.09	2.84	2.86	2.89	2.92	2.95	2.97

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

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