April 18, 2014

SN VALUATION [Stocks, Real Estate, Bonds]

Children Place (PLCE)

Price:	**$48.45**
Shares Outstanding:	**22,010,000**
Market Cap:	**$1,066,384,500**
Cash:	**$236,500,000**
Debt:	**$0**
Net Cash:	**$236,500,000**
Enterprise Value:	**$829,884,500**

Net Tang. Bk Value Incl. Cash, Excl. Goodwill (NTBVIC):	**$631,220,000.00**
NTBVIC/Market Downside Recovery:	59.19%
Op. Cash Flow:	**$112,307,790**
Implied Years to Fill Gap:	3.87
Today's Equity if 5x Op. CF:	**$968,143,370**

Net Tang. Book Yr. 5 (Inc. Cash):	**$868,458,950.00**
Avg. Year Op. Cash:	$112,307,790.00
Year 5 Disposition FCF Multiple:	3.0
Year 5 Disposition Price:	**$1,205,382,320.00**

Net Tang. Book+ Gain Disposition:	**$1,205,382,320.00**
IRR:	**2.48%**

Price:	**$54.77**
Target Market Cap:	**$1,205,382,320**
Target Enterprise Value:	**$968,882,320**

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

Apparel store for kids. Kids clothing always have high margins because parents are willing to spend more for their children's clothing, more so than other items.

Love the strong balance sheet - no debt, $200MM in cash. Worried about the large inventory balance ($300MM). Inventory turnover has been slow, from 7x in 2011 to 5x today.

However, Co. generates positive operating cash flow of $150MM, reinvestes $70MM into capex, and the balance into stock buy backs or other misc. investments.

The stock has taken a hit recently as the economy is still stuck in a rut. The apparel companies, in particular the teen retailers, like Aeropostale, Abercrombie and Fitch, and American Eagle are solid businesses but hit a rough patch. We are bullish on these apparel stocks, and believe the same for PLCE.

The Co. has $300MM in PP&E. 1100 stores in N. America. The Co. leases all of their stores, in 10 year leases. The PP&E are leashold improvements, meaning signage, storefront, store renovation, which all means nothing. They are scrap. Meaning, the Co. has no real PP&E. If 1100 stores close down, there is no residual PP&E, since the new tenant would not be willing to pay for the renovations made in the store. The new tenant will change the signage, interior after stripping the existing furniture, cashier counter. This makes sense if we imagine another apparel company such as GAP signs a lease for the space. They would have no use for PLCE's store furniture and inventory. So, this brings to mind, whether we should give full face value to their PP&E, or if we should discount it by a liquidation value, south of 50%. If that is the case, this stock is a dud. However, we are not facing any liquidation concerns for the Co. Their main issue is the secular, economic environment, and the underlying business and balance sheet is rock solid, in our opinion.

The Co. is issuing dividends, although it is only 1%. However, we feel the 1100 store foot print is signaling maturation for the Co. in the US, and growth may only come from online sales, which is $200MM and international expansion.

We anticipate strong cash flow generation in the future, and we love the business model and their execution to date. We will add, although it is not valued at an attractive price at the moment.