

## Zumiez Inc. (ZUMZ): 19 years of FCF; No debt; 14% of o/s shares repurchased in the last two years; Recent price crash

- M.Cap: \$356 million | Debt: \$246 million | Cash: \$155 million | EV: \$447 million
- EV/Revenue: 0.49X
- Volume: 319,996
- Major shareholders: Blackrock - 14.37% | Thrivent Financial For Lutherans - 8.72% | Dimensional - 8.28% | Massachusetts Financial - 7.46% | Vanguard - 7.22% | State Street Corp. - 4.10% | Fort Washington Investment - 2.73%.
- Screen: Price crash

### I. BASICS

- The company is a leading specialty retailer of apparel, footwear, accessories, and hardgoods for young men and women who want to express their individuality through the fashion, music, art, and culture of action sports, streetwear, and other unique lifestyles.
- The company's stores are located mostly in shopping malls.
- Target customer's age: 12 to 24
- Breakup of revenue

	FY 2023
Men's Apparel	43%
Hardgoods	13%
Accessories	18%
Footwear	15%
Women's Apparel	11%

- Others: For fiscal 2022, 2021 and 2020, the company's private label merchandise represented 18.4%, 13.3%, and 11.4% of our net sales, respectively.

### II. WHY ARE WE FLAGGING THIS?

Fashion is a challenging business.

Moreover, fashion apparel and accessories, being discretionary expenses, have recently faced headwinds.

So, why are we highlighting this?

#### 1. Generated 19 year of consistent free cash flow

- In the last 20 years (FY ended Jan 2004 to FY 2023), the company has reported positive free cash flow for all years except for the recent FY 2023.
- In the last 10 years (FY 2013 to FY 2022), the company generated a cumulative free cash flow of \$574 million.

(\$, mm)	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Cash from Operations	66	67	90	49	48	66	65	106	138	135	0
Capital	41	36	36	35	20	24	21	19	9	16	26

expenditure											
Free cash flow	25	31	54	14	28	41	44	87	129	119	-26

## 2. Strong balance sheet

- No debt
- Cash: \$155 million

## 3. Consistent growth

- Richard M. Brooks was appointed as CEO in June 2000.
- Under Mr. Brooks' watch, revenue grew from \$84 million in FY 2001 to approximately \$958 million in FY 2023.

(\$, mm)	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Revenue	669	724	812	804	836	927	979	1034	991	1184	958
Gross profit	241	262	287	269	275	310	336	367	350	457	325
Operating income	69	73	72	46	40	49	61	86	97	158	31
Net income	42	46	43	29	26	27	45	67	76	119	21

- The number of stores increased from 500 in FY 2013 to 758 in FY 2023.

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Total store count	500	551	603	658	685	698	707	718	721	739	758

## 4. Solid digital presence

- The company has over 1.1 million followers on Instagram.
- The company's website attracts over 2.9 million visitors per month.

## 5. Long history; depth of offering; exclusive brands

- The company has been in business for approximately 45 years.
- The breadth of merchandise offered through its sales channels exceeds that offered by many of the company's competitors and includes some brands and products that are available exclusively from the company.
- 100 new brands every year

- The company launches 100 new brands each year to stay competitive

We remain focused on executing many of the long-term strategies that have driven our results for 45 years, including launching over 100 new brands each year to bring the newness and excitement that our customers expect while also focusing on the critical role our sales teams play in delivering a highly differentiated and highly localized product mix and sales experience.

## 6. International growth

- The company is aggressively expanding its operations in the international market, particularly in Europe and Australia.
- Revenue from international markets grew from 8% of total revenue in FY 2013 to 21% of total revenue in FY 2023.

### • Store count

Store Count	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
USA	472	511	550	592	603	607	608	607	602	604	608
Canada	20	28	35	42	48	50	50	52	52	52	51
Europe	8	12	18	24	29	34	41	48	54	66	78
Australia	0	0	0	0	5	7	8	11	13	17	21

<b>Total</b>	<b>500</b>	<b>551</b>	<b>603</b>	<b>658</b>	<b>685</b>	<b>698</b>	<b>707</b>	<b>718</b>	<b>721</b>	<b>739</b>	<b>758</b>
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• **Revenue break-up**

(\$, mm)	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
USA	619	644	708	690	711	774	814	856	813	978	754
Foreign	50	80	103	115	125	153	164	178	178	205	205
Total sales	669	724	812	804	836	927	979	1034	991	1184	958
Foreign as a % of total revenue	8%	11%	13%	14%	15%	17%	17%	17%	18%	17%	21%

**7. Management quality**

• **Long-tenure**

- Richard M. Brooks, CEO, since June 2000
- Christopher C. Work, CFO, since August 2012
- Thomas D. Campion, Co-founder (Chairman, since June 2000)

• **Ownership**

- CEO: 13%
- Campion, Chairman & Co-founder: 5%

• **The top management team has overseen recession**

We've led into the recession in '08 and '09. We came out much stronger out of the recession than what happened to us during the recession. So we're looking at some of those periods anticipating there'll be a recovery in our North America business. – CEO, Q1 2023

Our team has navigated economic down cycles before and while each cycle has some unique characteristics, the one constant is that they eventually turn positive and Zumiez has historically outperformed the market on the way up. – CFO, Q4 2022

• **Discipline**

- The management doesn't expand its store count hastily.
- We've always had a list of I think roughly 40 locations that we wanted to be in, but we either couldn't -- we didn't believe we could afford the deals that the landlords had for us, or that we couldn't find a good location that we would want in those centers

**8. 14% of o/s shares repurchased in the last two years**

- In the last two years, the company repurchased shares worth \$282 million from the massive free cash flow it generated in FY 2021 and FY 2022.

**9. Price crash and depressed valuation**

- The company is currently trading at a 5-year low price.
- In the last 10 years (FY 2013 to FY 2022), the company generated a cumulative free cash flow of \$574 million. Yet, the current enterprise value is \$420 million (including lease liabilities).

• **Comp**

- Tilly's (TLYS): \$358 million
  - EV/Revenue: 0.55X
  - 0.46 million followers in Instagram - <https://www.instagram.com/tillys/?hl=en>
- Zumiez Inc. (ZUMZ): \$426 million
  - EV/Revenue: 0.46

- 1.1 million followers in Instagram  
<https://www.instagram.com/zumiez/?hl=en>

## **COMMENTS**

In two years (FY 2021 and FY 2022), the company capitalized on strong consumer spending, which was buoyed by record levels of savings due to U.S. stimulus and child tax credit measures

Now, the company is facing declining demand, high operating costs, a continued tight labor market and unfavorable changes in foreign currency exchange rates. Moreover, the company is facing industry-wide discounting.

Nevertheless, the management has demonstrated resilience, with the company remaining profitable over the last two decades and consistently generating positive free cash flow.

Given this history, we believe the management team can navigate the current headwinds, and the company will emerge stronger from these challenges.