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## Financial Analysis and Valuation of Duluth Holdings, Inc.

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# Duluth Holdings, Inc.

DLTH / NASDAQ

*Initiating Coverage*

**Investment Rating: HOLD**

PRICE: USD 23.84 S&P 500: 2,834.40 DJIA: 25,928.68 RUSSELL 2000: 1,539.74

- During 2018, Duluth opened 15 retail stores, totaling approximately 250,000 gross square feet, and ended the year with a total of 46 stores.
- During 2018, Net sales increased 20.5% to USD 568.1 million compared to USD 471.4 million in prior years.
- I am recommending a hold on Duluth stock, due to the closing price on March 29, 2019 is only 1.3 percent below my estimated price per share.

Valuation	2018 A	2019 E	2020 E
EPS	0.73	0.72	0.81
P/E	29.1	30.6	28.6
P/CFPS	22.5	17.9	17.8
P/BVPS	4.2	4.0	3.7
EV/EBITDA	15.0	15.7	14.8

## Market and Trading Information

Equity Market Cap (USD) (M):	573	52-Week Range (USD): 16.52 – 35.67
Enterprise Value (USD) (M):	889.1	12-Month Stock Return: 28.38%
Shares Outstanding (M):	29.21	Dividend / Capital Gain Yields: 0% / 28.38%
Estimated Float (M):	9.98	12-Month Russell 2000 Return: 4.64%
3-mo Avg. Daily Volume (K):	197.16	Beta: 0.66

## Company Quick View:

**Location:** 201 East Front Street, Mount Horeb, WI 53508

**Industry:** Apparel and accessory (SIC 2389)

**Description:** Duluth Holdings Inc. sells casual wear, workwear and accessories for men and women under the Duluth Trading brand in the United States. It provides shirts, pants, underwear, tanks, outerwear, footwear, accessories and hard goods. Duluth Holdings Inc. markets its products through its website, catalogs and retail stores.

**Key Products & Services:** Duluth is known for its Buck Naked underwear, Longtail T-shirts and Fire Hose Workwear. For women, Duluth offers No-Yank Tanks, NoGA Performance wear and Sol Survivor wear.

**Website:** <http://www.duluthtrading.com>

**Analyst:** Joshua Drewlow



## STOCK PRICE PERFORMANCE



Figure 1: 5-year Stock Price Performance (4)

The stock closed at USD 23.84 per share on March 29, 2019. The YTD total return for Duluth's stock was -6.73%. The 1-Year total return was 27.28%. The 5-Year total return was 74.65%. Duluth's competitor, Lands' End, Inc., had a total return of -24.16 percent from March 31, 2018 to March 29, 2019. Lands' End has seen a gradual decline in its stock performance price, dramatically dropping in Q4 2018. Land's End stock price performance has grown slightly in 2019, with a closing price of USD 16.61 on March 29, 2019. Given these returns, Duluth is doing noticeably better than its competitor Lands' End. The Russell 2000, which is an index used as a benchmark for small-cap stocks in the United States, shows a YTD return of 4.64 percent. Duluth has provided a higher YTD and annual return compared to that of both Lands' End and the Russell 2000.

Part of the price behavior of Duluth is due to both external variables such as the economy, and company-specific events that occurred during the year. Starting in 2018, Duluth saw a noticeable rise in its stock price during Q2 and Q3. Duluth took a little dip in Q4 of 2018 heading into Q1 of 2019. Some of Duluth's growth in stock price performance for 2018 may be due to Duluth's growth of its retail store presence. In addition to having a healthy economy to help drive growth in company revenues, Duluth is hoping to gain benefits from the continued growth of retail stores.

## INVESTMENT DECISION SUMMARY

I recommend a hold on Duluth Holdings, Inc stock. The current stock price of Duluth as of March 29, 2019 is USD 23.84. Under the model I have used for forecasting, Duluth's stock should be priced at USD 24.14. There is only a difference of USD 0.30 between my projected stock price and the closing stock price on March 29, 2019. Since the current stock price is only 1.3 percent below where I project the stock price to be, I am recommending a hold on Duluth Holdings, Inc stock.

## COMPANY DESCRIPTION

Duluth Holdings Inc. was founded in 1989, when two brothers, Bob and Dave Fierek in the home construction industry, were tired of dragging tools from job to job using discarded five-gallon drywall compound buckets. The two brothers were never satisfied with the status quo and believed ‘there’s gotta be a better way’. So, they invented the Bucket Boss® - a ruggedly durable canvas tool organizer that fits around a drywall bucket and transformed the way construction workers organized their tools.

Capitalizing on their initial success, the brothers launched a catalog that later became known as Duluth Trading Company. Under the initial philosophy of ‘Job Tough, Job Smart’, this catalog was dedicated to improving and expanding on existing methods of tool storage, organization and transportation.

In December 2000, GEMPLER’S Inc., a Wisconsin corporation and an agricultural and horticultural supply catalog business founded and owned by Stephen L. Schlecht, acquired Duluth Trading and brought the two mail order companies together. Both catalogs had customers who worked outside and embraced the spirit of hands-on self-reliant Americans.

In February 2003, the GEMPLER’S catalog business was sold to W.W. Grainger (NYSE: GWW) and proceeds from that sale were used to fund the growth of Duluth Trading. With that transaction, GEMPLER’S changed its corporate name to Duluth Holdings Inc.

Stephen Schlecht has served as Chairman of the Board of Directors and Chief Executive Officer from February 2003 to February 2015 and as President from February 2003 to February 2012 at Duluth Holdings Inc. Stephanie Pugliese now serves as President of the company since February 2012 and as Chief Executive officer since February 2015. Duluth Holdings Inc. had its initial public offering on November 19<sup>th</sup>, 2015 at a price of USD 12.00 per share.

Duluth Holdings Inc., better known as Duluth Trading, operates in direct sales segment, consisting of its website and catalogs, and retail sales, through its retail stores. Duluth has retail or outlet stores in Alaska, Colorado, Iowa, Illinois, Indiana, Kentucky, Massachusetts, Maine, Michigan, Minnesota, Missouri, North Carolina, North Dakota, Nebraska, New Jersey, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Dakota, Texas, Virginia and Wisconsin.

Duluth operates in the apparel, footwear and accessories industry (SIC 2389). It sells casual wear, workwear and accessories for men and women under the Duluth Trading brand in the United States. Some of the products Duluth offers includes: shirts, pants, underwear, tanks, outerwear, footwear, accessories and hard goods.

To help protect the integrity of the Duluth Trading brand, Duluth offers its products exclusively through its own omni-channel distribution network, consisting of its website, catalogs and retail stores. This model creates multiple touch points with Duluth’s customers and enables Duluth to control both its brand expression and the pricing of its products. Duluth’s distribution strategy eliminates the need to sell through third-party retailers, allowing the company to focus on its core competencies of product development, storytelling and serving customers.

Duluth targets modern self-reliant Americans and tries to satisfy its customers’ needs for everyday casual wear. This includes men, women, tradesmen and craftsmen. Some competitors that deal in the same sectors as Duluth include Lands’ End, Express Inc. and The Buckle. Duluth operates primarily in the apparel, footwear and accessories industry (SIC 2389), which is highly

competitive. It competes with a diverse group of direct-to-consumer companies and retailers, including men's and women's specialty apparel chains, department stores, outdoor specialty stores, apparel catalog businesses and online apparel businesses.

## **MANAGEMENT AND CORPORATE GOVERNANCE**

The management team of Duluth Holdings Inc. consists of four members. At the top, is Stephen Schlecht, Executive Chairman of the Board and Founder. Mr. Schlecht is the founder of the company and has served as Executive Chairman of the Board since February 2015. He has served on the board of directors since the company's founding in 1986 and previously served as President and Chief Executive Officer from February 2003 to February 2015. In addition to Duluth, he founded GEMPLER's Inc. in 1986 and served as its President and Chief Executive Officer until February 2003. Mr. Schlecht holds a B.S.B.A. degree and an M.B.A. from Northwestern University.

Stephanie Pugliese is the current President and Chief Executive Officer. Ms. Pugliese has served as President of Duluth since February 2012 and as Chief Executive Officer since February 2015. She joined Duluth in 2008 and has previously served as the company's Chief Operating Officer from February 2014 to February 2015, as its Senior Vice President and Chief Merchandising Officer from July 2010 to February 2012, and as its Vice President of Product Development from November 2008 to July 2010. Ms. Pugliese previously served as a senior executive in several position with Lands' End, Inc. from 2005 to 2008, including General Merchandising Manager of Women's Apparel, Men's Apparel and the Home Division. She also previously held the position of Vice President of Merchandising at Ann Inc. from 2000 to 2003. Ms. Pugliese holds a B.A. degree in marketing from New York University Stern School of Business.

Dave Loretta is the Senior Vice President and Chief Financial Officer. Mr. Loretta was appointed Chief Financial Officer in July 2017. Prior to joining Duluth, Mr. Loretta served as President and Chief Financial Officer of Nordstrom Bank from 2009 to 2013 and was responsible for the financial and operating functions of its proprietary card operations. Previously at Nordstrom, Inc., he served as corporate Vice President and Treasurer overseeing treasury, investor relations and corporate development from 2005 to 2009 and held other senior finance positions during his 13-year career with Nordstrom. From 1996 to 1999, Mr. Loretta was Director of Planning and Analysis for Restoration Hardware, Inc. Following his time at Nordstrom, he launched and operated his own company, Pacific Time, LLC, a unique food and beverage business. Mr. Loretta earned an MBA from San Diego State University and a B.A. in Business Economics from the University of California, Riverside.

Allen Dittrich is Senior Vice President and Chief Operating Officer. Mr. Dittrich joined Duluth in February 2015 and served on its advisory board for fiscal 2014. He has held multiple senior executive roles and has over 38 years of experience in the direct marketing and retail industries. Prior to Duluth, Mr. Dittrich served as Senior Vice President of Retail at Allen-Edmonds Shoe Corporation from 2009 until 2015, as Chief Executive Officer of Retail Associates Ltd. from 2006 to 2008, and at Gander Mountain as Executive Vice President and Chief Operating Officer from 2003 to 2005 and Chief Merchandising and Marketing Officer from 1998 to 2003. Earlier in his career, Mr. Dittrich served as a senior executive in several

positions with the department store division at Dayton Hudson, where he was employed from 1977 to 1998, including Senior Vice President General Merchandising Manager Home and Cosmetics and Senior Vice President General Merchandising Manager of Men’s and Children’s. Mr. Dittrich holds a B.A. degree in Business Administration and Marketing from Winona State University.

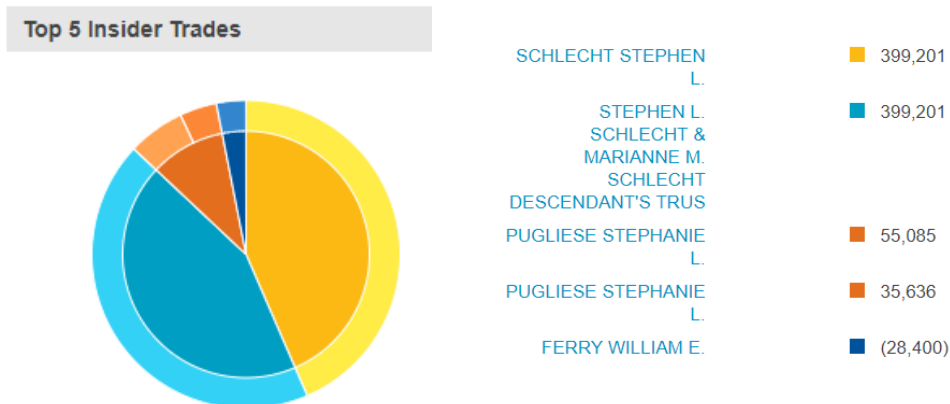
Duluth is classified as an “emerging growth company”, as defined in the JOBS Act. As an emerging growth company: (i) Duluth is exempt from the requirement to obtain an audit of its internal control over financial reporting pursuant to the Sarbanes-Oxley Act; (ii) Duluth is permitted to provide less extensive disclosure about its executive compensation arrangements; and (iii) Duluth is not required to hold non-binding advisory votes on executive compensation or golden parachute provisions. Total compensation for three key executives of Duluth are as stated: Mr. Schlecht (USD 440,160), Mrs. Pugliese (USD 1,322,652) and Mr. Dittrich (USD 556,688). (9)

The Board of Directors is made up of 8 members, which include Stephen Schlecht, Stephanie Pugliese, Edgar David Coolidge III, Francesca Edwardson, David Finch, Thomas Folliard, Brenda Morris and Scott Williams. Of the 8 members, 6 are independent directors. The Board of Directors has 5 male members and 3 female members. Institutional Ownership in the company, as of March 31<sup>st</sup>, 2019, is 42.38%.

Duluth Holdings Inc.’s ISS Governance QualityScore as of February 1, 2019 is 9. The pillar scores are Audit: 2; Board: 8; Shareholder Rights: 10; Compensation: 8. Corporate governance scores are courtesy of Institutional Shareholder Services (ISS). Scores indicate decile rank relative to index or region. A decile score of 1 indicates governance risk, while a score of 10 indicates higher governance risk (2).

**OWNERSHIP AND SHAREHOLDER ANALYSIS**

Information about investors in the company, other than institutional or insiders, was not readily available during my research. Company insiders that own Duluth stock include Stephen Schlecht, Schlecht Descendant’s Trust, Stephanie Pugliese and William Ferry. (5)

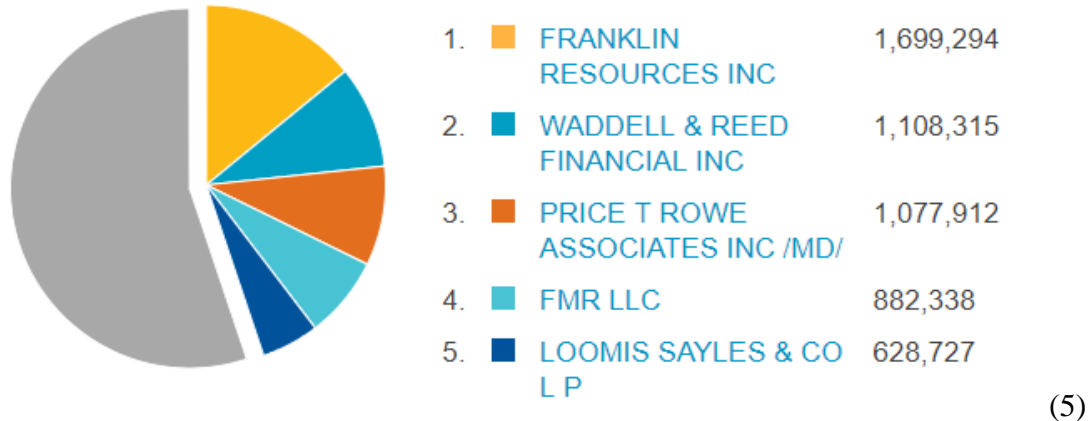


(5)

Institutional investors hold 41.10% ownership in Duluth Holdings Inc. There is a total of 122 institutional holders. Between those holders, total number of shares held equal 12,036,674.

Total value of holdings are equal to USD 194,151,552. The top 5 holders of institutional holdings are as follows: Franklin Resources Inc (14.12%), Waddell & Reed Financial Inc (9.21%), Price T Rowe Associates Inc (8.96%), FMR LLC (7.33%) and Loomis Sayles & Co LP (5.22%). (5)

**Top 5 Holders of Institutional Holdings**



According to Duluth's 2018 financial statements, it reported USD 92,000 of treasury stock. Insider transactions over the last year show insiders selling off portions of what each owner owned. Q1 in 2018 had insiders selling stock totaling USD 1.15M. The trend of selling continued into Q2, totaling USD 1.27m. Insiders slowed selling shares in Q3 and Q4 in 2018, totaling USD 710,430 and USD 127,350 respectively. A noticeable trend within the insider transactions is that Allen Dittrich sold stock on multiple dates, totaling 50,000 shares, during 2018. (10)

## INDUSTRY ANALYSIS

Duluth Holdings Inc. is a growth company that operates in the apparel and accessory industry. With a SIC 2389, Duluth faces a wide variety of competition. Various industry and risk factors make the apparel and accessory industry an ever-changing one. As the demand for new trends, better quality and cheaper costs continue to increase, it is important for Duluth to keep up with the industry leaders.

The apparel and accessories industry has the potential for many new entrants within this space. There are far fewer barriers for entry in the apparel industry than other areas. The apparel industry has very few issues with government intervention and is lightly regulated. Not to mention that the startup costs are fairly low compared to heavy manufacturing or pharmaceuticals industry, where millions may be needed to be poured in before the business actually starts.

This means that the industry can be flooded by new competitors at any time. A new competitor could set up shop anywhere at any time, whether it be a physical store location or an online retail presence. The potential for new threats exists around every corner and do need to be watched. That does not mean that the company should be overly concerned about the potential of new threats. If the company spends too much time worried about new threats emerging into the

market, it will lose focus of its customers by trying to deal with the new entrants rather than trying to keep the current customers it does have.

Within the apparel and accessory industry, the threat of substitutes are heavily available. It is the job of each competitor to find a way to deal with the substitutes or differentiate themselves from the others. Duluth goes after working men and women who are looking for durable and reliable wears. This is one way Duluth deals with substitutes. By targeting working men and women, Duluth gives its customers unique products that have been field-tested to withstand the harshest working conditions.

Many competitors within the apparel and accessories industry do not directly target durable and reliable workwear like Duluth does. There are competitors out there that go for reliable clothing, but market them off as more fashionable clothing that may be used for other occasions as well. Duluth has built a reputation around clothes for the blue collar workers. Duluth has even used some of its products for its key marketing campaigns. The Buck Naked underwear has become one of the main things Duluth has become known for and not many substitutes out there can make the same claims to match the quality and reliability the company makes for them.

In the apparel and accessory industry, the bargaining power of customers is a relatively large force. Clothes shoppers are typically individuals with little to no direct bargaining power. However, individuals do have many alternative stores to shop at for their apparel needs. This means that individuals have little to no incentive to stay with one particular apparel company. By doing this, individuals gain plenty of indirect bargaining power against this industry.

Bargaining power of suppliers is a relatively small and an insignificant force. Most apparel companies source products from manufacturers in emerging economies who receive just a fraction of the profit from actually selling the product. Suppliers have little control over the apparel industry as, unfortunately, they are dispensable and can always be swapped out for another supplier. As a result, input prices for this industry are relatively low and will stay there until the global development gap closes up significantly.

Duluth competes within the apparel and accessory industry. This is a very competitive industry that has numerous competitors trying to capture the same market share. Many of these competitors try to differentiate themselves from each other by targeting a slightly different market within the industry. Duluth, for instance, started in the industry by targeting the blue collar group. This gave the blue collar group good reliable clothes to wear while on the job. From there, Duluth was able to grow itself into accessories that worked with those clothes and finally, even put some effort into clothes that targeted the females within the blue collar group, as well.

Some of the competitors that Duluth competes against also have unique ways to compete for the same space within the apparel and accessory industry. Lands' End offers casual clothing, accessories, footwear and home products. The Buckle targets the younger crowd, those who are looking for a fashion statement and high-quality clothing but offers options for those of all ages. Express Inc. offers a wide variety of apparel and accessory options for its shoppers. Anything from work to casual or going-out occasions.



## **INVESTMENT RISK**

A company like Duluth can run into a variety of risks dealing with the apparel and accessories industry (SIC 2389). If Duluth fails to offer products that its customers want to purchase, its business and operations could be affected. Duluth's products need to satisfy the desires of customers, whose tastes are always changing over time. In order to do that, Duluth needs to design, obtain and offer customers innovative and high-quality products on a continuous and timely basis. By failing to respond to customer's needs and preferences in a timely matter, Duluth could lose out on gaining or retaining customers. It also falls on management to accurately forecast consumer demand, in respect to inventory levels, so Duluth does not experience an excess or a shortage of certain inventory items.

With Duluth expanding its retail store locations, it also faces risks and new challenges associated with geographic expansion. Duluth has just recently expanded into the Western region of the United States during its third quarter of fiscal 2017. By expanding its retail store locations, Duluth encounters difficulties in attracting customers due to lack of customer familiarity with its brand, lack of familiarity with local customer preferences, competition with new competitors or with existing competitors with a large, established market presence and seasonal differences in the market. To help Duluth succeed in new geographical markets, it will depend upon acceptance of its retail store experience by customers in the market, its ability to design its stores in a manner that resonates with the locals and offer the correct product assortment to appeal to the consumers in the new market. Also, Duluth's management has to factor in additional management time and attention to retail stores the farther it gets from its headquarters of Belleville, Wisconsin.

Duluth's business depends on its ability to maintain a strong brand. Duluth currently offers a differentiated brand to its customers defined by solution-based products manufactured with high quality craftsmanship, humorous and distinctive marketing and an outstanding customer experience. The need to maintain and enhance the Duluth Trading brand is critical to expanding its base of customers. As Duluth raises its profile nationally and attracts an increasing amount of competition, maintaining and enhancing its brand may become increasingly difficult, expensive and may require additional investments in marketing, store operations, merchandising, technology and personnel. So far, Duluth has been successful in marketing its products by associating its brand and products with a heritage of workwear and the Modern, Self-Reliant American Lifestyle. To help sustain long-term growth, Duluth must continue to be successful in promoting its products to customers who identify with the lifestyle. Duluth may need to adjust marketing strategy if its customer base declines through natural erosion and is not replaced by new customers. An example of this would be if Duluth lacked a personal identification with the lifestyle of its customers.

## **PEER ANALYSIS**

Duluth is faced with a variety of competition within the states it does business. Not only does Duluth Holdings have to compete with local competition within each state, but also big-name competitors like The Gap and American Eagle who are established nationwide. With a market cap of 573 million, Duluth still manages to compete against larger apparel, footwear and accessory companies. One company Duluth competes against is Lands' End, Inc. (LE). Lands'

End is a retailer of casual clothing, accessories and footwear, as well as home products. It provides services through direct sales to consumers and sales through retail outlets. While slightly smaller than Duluth, Lands' End is more comparable in size and services offered, with a market cap of USD 535 million.

Duluth also sees competition from The Buckle. The Buckle, Inc. is a retailer of medium to better-priced casual apparel, footwear and accessories for fashion-conscious young men and women. The Buckle has established a nationwide reach, totaling 456 retail stores within 43 states. It also competes within the segments of direct and retail sales, similar to that of Duluth. The Buckle does offer other services, such as hemming, gift wrapping, layaways, guest loyalty programs and a special order system that allows Buckle stores to obtain requested merchandise from other company stores or its online order fulfillment center. These are just a few things that set The Buckle apart from its competition within the same market. While the Buckle, Inc. has a market cap of USD 915 million and can be found in a variety of locations across the United States, it proves to give Duluth much competition.

Finally, Duluth sees competition from Express, Inc. Express, Inc. operates as an apparel and accessories retailer, offering apparel and accessories for men and women for work, casual, Jeanswear and going-out occasions. While Express has a current market cap of USD 285 million, it is still considered a competitor of Duluth. Smaller in size, Express operates within the United States, as well as Latin America. Express sells its products through its e-commerce website, as well as franchisees locations in Latin America and the United States. Though, Express Inc may not have the market cap of what Duluth has, it still shows that Express has growth opportunities that may rival Duluth.

Company	Ticker Symbol	Market Cap (USD)	PE Ratio	P / BV	EV / EBITBA	Debt / Assets (%)	ROA (%)	ROE (%)
Duluth Holdings, Inc.	DLTH	537 M	22.45	3.29	11.99	16.73	8.94	15.47
Lands' End, Inc.	LE	595 M	51.27	1.84	12.68	59.92	2.38	3.68
Buckle, Inc. (The)	BKE	929 M	9.66	2.35	4.80	N/A	14.91	24.35
Express, Inc.	EXPR	262 M	29.75	0.46	1.37	N/A	1.56	1.56

(1)

## HISTORICAL FINANCIAL ANALYSIS

In comparing various productivity, liquidity, leverage, and profitability ratios between Duluth and a primary competitor Lands' End, there are various ratios worth pointing out. The receivables turnover ratio for Duluth for the years 2015 to 2018 is noticeably higher than that of Lands' End's receivables turnover ratios. Duluth had a receivables turnover ratio of 122.46 in 2018, while Lands' End had a receivables turnover ratio of 42.02 in 2018. This is a good sign for Duluth, as they can collect funds more efficiently than Lands' End. The growth in sales for Duluth has been gradual falling from 2014 to 2016, with a small rebound in 2017 just to drop again in 2018. Lands' End, on the other hand, has seen a volatile change in sales growth. While Duluth's growth in sales between 2014 and 2016 ranged from 42.2 percent to 23.7 percent, in

2018, its growth in sales came to 20.5 percent. Lands' End has seen its highest growth in sales in 2017, with 5.3 percent, while the rest of the years fluctuated between -5.9 in 2016, -8.7 in 2015 and -0.5 percent in 2014. The relevant productivity ratios for Duluth and Lands' End are depicted below.

### Productivity Ratio Analysis

Productivity Ratios	2018	2017	2016	2015	2014
<b>Duluth Receivables Turnover</b>	122.46	1450.61	954.61	3168.30	2528.95
<b>Lands' End Receivables Turnover</b>	42.02	28.21	34.0	44.28	51.72
<b>Duluth Growth in Sales %</b>	20.5%	25.3%	23.7%	31.2%	42.2%
<b>Lands' End Growth in Sales %</b>	3.2%	5.3%	-5.9%	-8.7%	-0.5%
<b>Duluth Total Asset Turnover</b>	1.91	2.11	2.41	2.52	3.27
<b>Lands' End Total Asset Turnover</b>	1.05	1.01	0.96	1.02	1.15

In terms of liquidity, Lands' End seems to be slightly more liquid than Duluth. However, both companies maintain liquidity ratios comparable to one another which can be seen in the table below. Lands' End had five years with a current ratio above 1.0. While Duluth's current ratios are just in line with Lands' End, a few points higher or lower, except for 2015, when Duluth had a current ratio of 3.94. Lands' End also exhibits an overall higher quick ratio from 2016 to 2018. While Lands' End quick ratio for 2018 was 1.10, they did see a ratio of 1.25 in the year 2015. Duluth has seen an increase in their quick ratio, from 0.40 in 2014 to 1.70 in 2015, but fell in later years, to 0.43 in 2018. Duluth's primary sources of liquidity for the year ended February 3, 2019 were from cash proceeds generated from operating activities and from proceeds generated from investing activities. Duluth has various short and long-term liquidity needs arising from capital expenditures and working capital requirements in order to support the business's growth model.

### Liquidity Ratio Analysis

Liquidity Ratios	2018	2017	2016	2015	2014
<b>Duluth Current Ratio</b>	2.26	2.22	2.89	3.94	1.89
<b>Lands' End Current Ratio</b>	2.44	2.37	2.44	2.69	2.44
<b>Duluth Quick Ratio</b>	0.43	0.44	0.89	1.70	0.40
<b>Lands' End Quick Ratio</b>	1.10	1.07	1.13	1.25	1.19

Overall, Lands' End has higher leverage ratios than Duluth. Total debt-to-equity ratios for Lands' End was highest at 2.34 in 2014, but has been dropping in later years, to 1.33 in 2018.

Duluth's debt-to-equity ratios had a high in 2014 at 0.85, decreasing in 2015 to 0.33, but increased in 2016, 2017 and 2018, ending at 0.81 in 2018. Duluth's interest coverage ratio had been increasing from 2014 to 2016, ending at 180.42 in 2016. In 2018, Duluth had a decrease, falling down to 6.28. Lands' End interest coverage ratio had been decreasing from 2014 to 2016, falling from 6.81 down to 0.83. In 2018, Lands' End increased its interest coverage ratio to 1.47, but is still far below that of Duluth. Financial leverage ratios comparison can be seen in figure below.

<b>Leverage Ratio Analysis</b>					
<b>Leverage Ratios</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Duluth Total Debt-to-Equity</b>	0.81	0.60	0.37	0.33	0.85
<b>Lands' End Total Debt-to-Equity</b>	1.33	1.41	1.55	1.87	2.34
<b>Duluth Interest Coverage Ratio</b>	6.28	18.65	180.42	95.26	70.44
<b>Lands' End Interest Coverage Ratio</b>	1.47	1.12	0.83	3.75	6.81
<b>Duluth Debt-to-Assets Ratio</b>	0.45	0.38	0.27	0.25	0.46
<b>Lands' End Debt-to-Assets Ratio</b>	0.57	0.59	0.61	0.65	0.70
<b>Duluth Total Financial Debt over Invested Capital Ratio</b>	0.16	0.01	0.00	0.04	0.08
<b>Lands' End Financial Debt over Invested Capital Ratio</b>	0.35	0.35	0.36	0.36	0.38

Profitability ratios for Duluth are better than Lands' End. Lands' End's net margin has seen fluctuation from 2014 to 2018, starting at 4.7% in 2014, up to a high of 5.5% in 2015 and falling to 0.8% in 2018. Duluth's net margins has seen a decrease from 2014 to 2018, starting at 10.4% in 2014, before gradually dropping down to 4.1% in 2018. Lands' End has also seen some fluctuation in their NOPAT margin, going from a NOPAT of 4.3% in 2014 to 0.9% in 2016, but rebounded in 2018 at 2.2%. Duluth's NOPAT margin has been slowly decreasing from 2014 to 2018, starting at 10.4% and ending at 6.2%.

Duluth has ROIC ratios of 62.22 percent in 2015, 23.83 percent in 2016, 20.98 percent in 2017, and 21.60 percent in 2018. Lands' End has ROIC ratios of 6.4 percent in 2015, 1.08 percent in 2016, 1.27 percent in 2017 and 2.75 percent in 2018. While Duluth's most recent ROIC ratio is higher than Lands' End, both ROIC values remain above Duluth's estimated WACC of 7.53 percent. The ROIC values above Duluth's WACC suggests value is being added to Duluth. Lands' End has a ROE ratio of 18.26 percent for 2014, -5.08 percent for 2015, -40.45 percent for 2016, 9.18 percent for 2017, and 3.59 percent for 2018. Duluth has a ROE ratio of 63.0 percent for 2014, 30.6 percent for 2015, 18.92 percent for 2016, 16.96 percent for 2017, and 14.55 percent for 2018. In 2018, Duluth's ROE decreased compared to prior years, which could be viewed as a negative sign for investors, as the ability to generate profit without needing as

much capital is decreasing. The profitability ratios of Duluth in comparison to Lands' End is in the figure below.

### Profitability Ratio Analysis

Profitability Ratios	2018	2017	2016	2015	2014
<b>Duluth NOPAT Margin</b>	6.2%	5.3%	6.1%	9.1%	10.4%
<b>Lands' End NOPAT Margin</b>	2.2%	1.0%	0.9%	5.0%	4.3%
<b>Duluth Net Margin</b>	4.1%	5.0%	5.7%	9.1%	10.4%
<b>Lands' End Net Margin</b>	0.8%	2.0%	4.7%	5.5%	4.7%
<b>Duluth ROIC Ratio</b>	21.60%	20.98%	23.83%	62.22%	64.54%
<b>Lands' End ROIC Ratio</b>	2.75%	1.27%	1.08%	6.4%	6.75%
<b>Duluth ROE Ratio</b>	14.55%	16.96%	18.92%	30.60%	63.0%
<b>Lands' End ROE Ratio</b>	3.59%	9.18%	-40.45%	-5.08%	18.26%

### PROSPECTIVE FINANCIAL ANALYSIS

Over the next three years, I estimate that Duluth's physical retail presence will continue to grow. Duluth has been actually growing its retail presence within the United States, in a marketplace where other retailers have been closing retail stores in effort to focus on online sales. The company has found itself in a unique place, where it has already established its online presence before trying to open any kind of retail locations. From there, Duluth has given its retail stores the ability to show off its products to prospective customers, the white-collar workers, who might be more inclined to seeing and feeling physical products before buying them.

The prospective financial analysis of Duluth started with estimating beta to calculate WACC. I used a beta of 0.66, averaging out different betas found during my research. I assumed a risk-free rate of 2.49 percent and a market risk premium of 8.5 percent to get a cost of equity of 8.10 percent. The estimated cost of long-term debt came to 5.49 percent or after-tax cost of long-term debt came to 4.34 percent. The estimated cost of short-term debt was 5.5 percent or after-tax cost of 4.35 percent. Using all of this, my estimated WACC came out to be 7.53 percent.

Over the next three years, I have estimated Duluth's projected financials to hold steady, all except sales growth rate. The sales growth rate of Duluth has been decreasing over the last few years, falling from 42.2% in 2014, down to 20.5% in 2018. I forecast that Duluth will continue this downward sales growth rate for the next few years into the future, as the company continues to grow its presence in the retail market. As for the rest of the inputs for projecting future earnings, I predict that they all will hold steady going forward, as they have in the past recent years.

Given the above projections, Duluth's estimated price for the closing date of March 29, 2019 is USD 24.14. This price per share is just above the market closing price of USD 23.84 on March 29, 2019, a difference of USD 0.30. My projected operating revenue for 2019 is USD 647

million, which is a 1.14 percent overall growth from 2018. Duluth has a forecasted NOPAT margin of 31.1 percent for 2020, 12.9 percent for 2021 and 13.0 percent for 2022. In addition, Duluth has an ROIC value of 21.48 percent in 2018, which I forecasted to decrease to 13 percent in 2019 and hold steady going forwards. Duluth's forecasted ROIC is about double of the forecasted WACC of 7.53 percent, suggesting that value might be added to Duluth.

## **VALUATION AND INVESTMENT DECISION**

I used a valuation model based on discounting expected Free Cash Flows at the Weighted Average Cost of Capital. I used Mergent Online to download financial statements for the latest five-year period. The most recent audited information for Duluth is February 3, 2019.

The forecasted projections for Duluth give an estimated price of USD 24.14 per share for March 29, 2019, suggesting the stock market value for Duluth is lower than Duluth's intrinsic equity value per share. Comparing my stock price estimate of USD 24.14 to the price of USD 23.84 at market close on March 29, 2019, in my opinion, the stock is priced correctly. It would be better just to hold the stock at this point.

The forecasted estimated price per share for Duluth is expected hold at or near current market price per share of USD 23.84. The stock is likely to hold unless something unforeseen happens, such as emotional trading due to optimistic outlook given the current economy. The low unemployment rates and tax law changes that benefit businesses, may lead to some reaction to recent positive non-company-specific news. Finally, the overall stock price performance of Duluth seems optimistic as the company continues to grow retail operations and expanding its brand.

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<b>Duluth Holdings Inc.</b>								
<i>In thousands of USD</i>								
<b>Income Statement (in Thousands)</b>	<b>01/29/2017</b>	<b>01/28/2018</b>	<b>2/3/2019</b>	<b>2/3/2020</b>	<b>2/3/2021</b>	<b>2/3/2022</b>	<b>2/3/2023</b>	<b>2/3/2024</b>
Sales	376,116.00	471,447.00	568,102.00	647,636.28	738,305.36	834,285.06	942,742.11	1,065,298.59
Costs of goods sold (COGS)	157,272.00	203,098.00	245,106.00	278,483.60	317,471.30	358,742.57	405,379.11	458,078.39
Sales, general and administrative expense (SGA)	179,145.00	223,947.00	273,221.00	310,865.41	354,386.57	400,456.83	452,516.21	511,343.32
Depreciation	4,698.00	7,330.00	12,594.00	14,571.82	16,611.87	18,771.41	21,211.70	23,969.22
<b>Operating profit</b>	<b>35,001.00</b>	<b>37,072.00</b>	<b>37,181.00</b>	<b>43,715.45</b>	<b>49,835.61</b>	<b>56,314.24</b>	<b>63,635.09</b>	<b>71,907.65</b>
Interest expense	194.00	1,988.00	5,949.00	2,848.01	7,827.63	8,440.41	9,076.65	9,760.87
Interest income	247.00	421.00	383.00	259.47	1,614.25	1,800.56	2,073.82	2,375.57
Nonoperating income (Expense)	-	-	-	-	-	-	-	-
Earnings before taxes (EBT)	35,054.00	35,505.00	31,615.00	41,126.91	43,622.22	49,674.38	56,632.26	64,522.35
Tax expense	13,525.00	11,878.00	8,450.00	8,636.65	9,160.67	10,431.62	11,892.78	13,549.69
Net income before extraordinary items	21,529.00	23,627.00	23,165.00	32,490.26	34,461.56	39,242.76	44,739.49	50,972.66
After-tax extraordinary income (Expense)	-	-	-	-	-	-	-	-
<b>Net income (NI)</b>	<b>21,529.00</b>	<b>23,627.00</b>	<b>23,165.00</b>	<b>32,490.26</b>	<b>34,461.56</b>	<b>39,242.76</b>	<b>44,739.49</b>	<b>50,972.66</b>
Dividends-- preferred	-	-	-	-	-	-	-	-
Dividends-- common	222.00	457.00	35.00	38.50	42.35	46.59	51.24	55.34
Additions to RE	21,307.00	23,170.00	23,130.00	32,451.76	34,419.21	39,196.18	44,688.25	50,917.32
<b>Balance Sheet (in Thousands)</b>	<b>01/29/2017</b>	<b>01/28/2018</b>	<b>2/3/2019</b>	<b>2/3/2020</b>	<b>2/3/2021</b>	<b>2/3/2022</b>	<b>2/3/2023</b>	<b>2/3/2024</b>
<b>Assets</b>								
Cash	24,042.00	2,865.00	731.00	32,381.81	36,915.27	41,714.25	47,137.11	53,264.93
Inventory	70,368.00	89,548.00	97,685.00	116,574.53	132,894.96	150,171.31	169,693.58	191,753.75
Accounts receivable	394.00	325.00	4,639.00	5,181.09	5,906.44	6,674.28	7,541.94	8,522.39
Other short-term operating assets	5,312.00	8,270.00	15,041.00	12,952.73	14,766.11	16,685.70	18,854.84	21,305.97
Short-term investments	1,435.00	10,541.00	8,649.00	53,808.24	60,018.52	69,127.46	79,185.68	90,292.04
Total current assets	101,551.00	111,549.00	126,745.00	220,898.40	250,501.30	284,373.00	322,413.14	365,139.08
Net plant, property, & equipment (PPE)	52,432.00	109,705.00	167,109.00	194,290.88	221,491.61	250,285.52	282,822.63	319,589.58
Other long-term operating assets	1,984.00	1,848.00	2,905.00	3,238.18	3,691.53	4,171.43	4,713.71	5,326.49
Long-term investments	-	-	-	-	-	-	-	-
<b>Total assets</b>	<b>155,967.00</b>	<b>223,102.00</b>	<b>296,759.00</b>	<b>418,427.46</b>	<b>475,684.43</b>	<b>538,829.94</b>	<b>609,949.49</b>	<b>690,055.15</b>
<b>Liabilities and Equity</b>								
Accounts payable (AP)	9,330.00	17,320.00	25,363.00	25,905.45	29,532.21	33,371.40	37,709.68	42,611.94
Accruals	25,047.00	32,892.00	26,748.00	32,381.81	36,915.27	41,714.25	47,137.11	53,264.93
Other operating current liabilities	-	-	-	-	-	-	-	-
All short-term debt	742.00	84.00	500.00	-	-	-	-	-
Total current liabilities	35,119.00	50,296.00	52,611.00	58,287.27	66,447.48	75,085.66	84,846.79	95,876.87
Long-term debt	35.00	1,424.00	51,282.00	142,320.62	153,462.08	165,030.03	177,470.37	190,848.93
Deferred taxes	1,567.00	2,100.00	9,722.00	5,828.73	6,644.75	7,508.57	8,484.68	9,587.69
Preferred stock	-	-	-	-	-	-	-	-
Other long-term liabilities	5,458.00	29,933.00	23,034.00	19,429.09	22,149.16	25,028.55	28,282.26	31,958.96
Total liabilities	42,179.00	83,753.00	136,649.00	225,865.70	248,703.47	272,652.80	299,084.10	328,272.44
Par plus PIC Less treasury (and other adjustments)	105,393.95	107,784.95	105,415.95	105,415.95	105,415.95	105,415.95	105,415.95	105,415.95
Retained earnings (RE)	8,394.05	31,564.05	54,694.05	87,145.81	121,565.02	160,761.19	205,449.44	259,366.76
Total common equity	113,788.00	139,349.00	160,110.00	192,561.76	226,980.97	266,177.14	310,865.39	361,782.71
<b>Total liabilities and equity</b>	<b>155,967.00</b>	<b>223,102.00</b>	<b>296,759.00</b>	<b>418,427.46</b>	<b>475,684.43</b>	<b>538,829.94</b>	<b>609,949.49</b>	<b>690,055.15</b>



<b>Duluth Holdings Inc.</b>								
<i>In thousands of USD</i>								
<b>Statement of Cash Flows</b>	<b>01/29/2017</b>	<b>01/28/2018</b>	<b>2/3/2019</b>	<b>2/3/2020</b>	<b>2/3/2021</b>	<b>2/3/2022</b>	<b>2/3/2023</b>	<b>2/3/2024</b>
<b>Operating Activities</b>								
Net income	21,529.00	23,627.00	23,165.00	32,490.26	34,461.56	39,242.76	44,739.49	50,972.66
Depreciation	4,698.00	7,330.00	12,594.00	14,571.82	16,611.87	18,771.41	21,211.70	23,969.22
Change in deferred tax	1,536.00	533.00	7,622.00	(3,893.27)	816.02	863.82	976.11	1,103.01
Change in inventory	(15,065.00)	(19,180.00)	(8,137.00)	(18,889.53)	(16,320.43)	(17,276.35)	(19,522.27)	(22,060.17)
Change in accounts receivable	(298.00)	69.00	(4,314.00)	(542.09)	(725.35)	(767.84)	(867.66)	(980.45)
Change in other short-term operating assets	(1,330.00)	(2,958.00)	(6,771.00)	2,088.27	(1,813.38)	(1,919.59)	(2,169.14)	(2,451.13)
Change in accounts payable	(1,281.00)	7,990.00	8,043.00	542.45	3,626.76	3,839.19	4,338.28	4,902.26
Change in accruals	11,690.00	7,845.00	(6,144.00)	5,633.81	4,533.45	4,798.98	5,422.85	6,127.82
Change in other current liabilities	-	-	-	-	-	-	-	-
<b>Net cash from operating activities</b>	<b>21,479.00</b>	<b>25,256.00</b>	<b>26,058.00</b>	<b>32,001.72</b>	<b>41,190.50</b>	<b>47,552.39</b>	<b>54,129.37</b>	<b>61,583.22</b>
<b>Investing Activities</b>								
Investment in PPE	(35,601.00)	(64,603.00)	(69,998.00)	(41,753.70)	(43,812.59)	(47,565.32)	(53,748.81)	(60,736.16)
Investment in other long-term oper. ass.	(147.00)	136.00	(1,057.00)	(333.18)	(453.35)	(479.90)	(542.29)	(612.78)
<b>Net cash from investing activities</b>	<b>(35,748.00)</b>	<b>(64,467.00)</b>	<b>(71,055.00)</b>	<b>(42,086.88)</b>	<b>(44,265.94)</b>	<b>(48,045.22)</b>	<b>(54,291.10)</b>	<b>(61,348.94)</b>
<b>Financing Activities</b>								
Change in short-term investments	(1,435.00)	(9,106.00)	1,892.00	(45,159.24)	(6,210.28)	(9,108.94)	(10,058.22)	(11,106.37)
Change in long-term investments	-	-	-	-	-	-	-	-
Change in short-term debt	20.00	(658.00)	416.00	(500.00)	-	-	-	-
Change in long-term debt	(4,266.00)	1,389.00	49,858.00	91,038.62	11,141.45	11,567.95	12,440.34	13,378.56
Preferred dividends	-	-	-	-	-	-	-	-
Change in preferred stock	-	-	-	-	-	-	-	-
Change in other long-term liabilities	4,346.00	24,475.00	(6,899.00)	(3,604.91)	2,720.07	2,879.39	3,253.71	3,676.69
Change in common stock (Par + PIC)	1,995.00	2,391.00	(2,369.00)	-	-	-	-	-
Common dividends	(222.00)	(457.00)	(35.00)	(38.50)	(42.35)	(46.59)	(51.24)	(55.34)
<b>Net cash from financing activities</b>	<b>438.00</b>	<b>18,034.00</b>	<b>42,863.00</b>	<b>41,735.98</b>	<b>7,608.90</b>	<b>5,291.82</b>	<b>5,584.59</b>	<b>5,893.54</b>
Net cash flow	(13,831.00)	(21,177.00)	(2,134.00)	31,650.81	4,533.45	4,798.98	5,422.85	6,127.82
Starting cash	37,873.00	24,042.00	2,865.00	731.00	32,381.81	36,915.27	41,714.25	47,137.11
<b>Ending cash</b>	<b>24,042.00</b>	<b>2,865.00</b>	<b>731.00</b>	<b>32,381.81</b>	<b>36,915.27</b>	<b>41,714.25</b>	<b>47,137.11</b>	<b>53,264.93</b>

Ratios	2018	2017	2016	2015	2014	2013
<b>Productivity Ratios</b>						
Growth in sales	20.5%	25.3%	23.7%	31.2%	42.2%	#DIV/0!
Receivables turnover	122.46	1450.61	954.61	3168.30	2528.95	347.56
Inventory turnover	5.82	5.26	5.34	5.50	5.61	5.29
Operating working capital turnover	8.61	9.28	5.72	4.15	8.86	7.50
Net fixed asset turnover	3.34	4.23	6.91	13.02	12.48	10.94
Total asset turnover	1.91	2.11	2.41	2.52	3.27	2.94
Invested capital turnover	2.41	2.90	3.13	3.15	5.18	4.45
<b>Liquidity Ratios</b>						
Current ratio	2.41	2.22	2.89	3.94	1.89	2.06
Quick ratio	0.55	0.44	0.89	1.70	0.40	0.49
Cash ratio	0.18	0.27	0.73	1.53	0.29	0.38
Short-term investments over invested capital	0.04	0.06	0.01	0.00	0.00	0.00
Operating Cycle	65.74	69.58	68.67	66.48	65.26	70.00
Cash Cycle	49.45	56.17	59.62	53.75	42.90	47.78
<b>Financial Risk (Leverage) Ratios</b>						
Total debt-to-equity ratio	0.85	0.60	0.37	0.33	0.85	0.78
Total debt-to-equity ratio (excluding deferred taxes)	0.79	0.59	0.36	0.33	0.85	0.78
Total financial debt-to-equity ratio	0.32	0.01	0.01	0.06	0.15	0.16
Interest coverage ratio (accounting-based)	6.25	18.65	180.42	95.26	70.44	65.30
Interest coverage ratio (cash-based)	8.37	22.34	204.63	104.53	75.78	70.32
Total debt-to-assets ratio	0.46	0.38	0.27	0.25	0.46	0.44
Total financial debt over invested capital	0.17	0.01	0.00	0.04	0.08	0.09
Long-term financial debt over invested capital	0.22	0.01	0.00	0.04	0.10	0.11
<b>Profitability/Valuation Ratios</b>						
Gross profit margin	56.9%	56.9%	58.2%	58.0%	57.3%	57.2%
EBITDA margin	8.8%	9.4%	10.6%	10.5%	11.1%	10.7%
Operating profit margin	6.5%	7.9%	9.3%	9.6%	10.4%	9.9%
NOPAT margin	6.1%	5.3%	6.1%	9.1%	10.4%	9.9%
Earnings before taxes margin	5.6%	7.5%	9.3%	9.5%	10.4%	9.8%
Net margin	4.1%	5.0%	5.7%	9.1%	10.4%	9.8%
Return on Assets	12.53%	16.62%	22.44%	24.17%	33.86%	29.24%
Net investment rate	211.24%	167.42%	102.06%	186.77%	33.63%	226.08%
Dividend payout ratio	0.15%	1.93%	1.03%	218.40%	63.92%	30.42%
ROIC	21.48%	20.98%	23.83%	62.12%	65.55%	#DIV/0!
ROE	14.47%	16.96%	18.92%	30.60%	63.00%	51.41%