

# Henderson State University

**Analysis Report- Limited Brands**

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| <b>Market Profile</b>         |                    |
|-------------------------------|--------------------|
| <b>Corning Inc.</b>           |                    |
| <b>Ticker Symbol</b>          | <b>LTD</b>         |
| <b>Exchange</b>               | <b>NYSE</b>        |
| <b>Industry</b>               | <b>Clothing</b>    |
| <b>Sector</b>                 |                    |
| <b>Peer</b>                   | <b>GAP</b>         |
| <b>Shares Owned</b>           | <b>500</b>         |
| <b>Purchase Date</b>          | <b>-</b>           |
| <b>Purchase Price</b>         | <b>-</b>           |
| <b>Current Price</b>          | <b>8.85</b>        |
| <b>52-wk Low</b>              | <b>6.90</b>        |
| <b>52-wk High</b>             | <b>22.16</b>       |
| <b>52-wk Change</b>           | <b>-51.05%</b>     |
| <b>52-wk Relative</b>         |                    |
| <b>1 Year Target Price</b>    | <b>10.73</b>       |
| <b>Market/Book</b>            | <b>1.40</b>        |
| <b>Market Cap.</b>            | <b>\$2,754.16M</b> |
| <b>Beta</b>                   | <b>1.76</b>        |
| <b>EPS (ttm)</b>              | <b>1.70</b>        |
| <b>Price/Earnings</b>         | <b>8.4</b>         |
| <b>PEG</b>                    | <b>0.59</b>        |
| <b>Dividend &amp; (Yield)</b> | <b>0.60 (7.02)</b> |
| <b>Dividend Payout</b>        | <b>34.15</b>       |
| <b>Interest Coverage</b>      | <b>10.66</b>       |
| <b>ROE</b>                    |                    |
| <b><u>Recommendation:</u></b> |                    |
|                               |                    |

### **Company History:**

The original board consisted of only the three family members: Bella Wexner (who served as secretary until her death in 2001), Harry as chairman (who served until his death in 1975) and Leslie who succeeded his father as the chairman and later became CEO. He and his family continue to control 17% of LTD. In 1969, Wexner took The Limited Brands public, listed as LTD on the NYSE. In 1977, The Limited moved into its main headquarters on Morse Road in Columbus, Ohio, where it still operates from today.

The 1980s started a string of acquisitions: In 1982, the Victoria's Secret brand, store, and catalogue were purchased from Roy Raymond for \$4 million. Also in 1982, 207 Lane Bryant stores were purchased. In 1985, a single Henri Bendel store was purchased for \$10 million and 798 Lerner stores for \$297 million. Finally, in 1988, 25 Abercrombie & Fitch stores were purchased for \$46 million. The Limited then faded out its ownership of the A&F brand in 1996.

The 1990s saw the initial development of the Limited Too, Bath & Body Works, Structure, and Victoria's Secret Beauty. Later in 1998, several Bath & Body Works stores were converted to The White Barn Candle Company stores to begin a home fragrance brand.

## Product Mix

Limited Brands currently operates the following retail brands:

- \* Victoria's Secret
- \* Pink (Victoria's Secret)
- \* Bath & Body Works
- \* Henri Bendel
- \* C. O. Bigelow
- \* The White Barn Candle Company
- \* La Senza
- \* The Limited & The Limited Too

## Stock Chart- Six Months



## Recent Headlines

Fri, Jan 23, 2009

- Trade Off of Heidi Klum's Success

at TheStreet.com (Fri, Jan 23)

Wed, Jan 21, 2009

- Sinners, Saints and Stocks: Victoria's Secret

at TheStreet.com (Wed, Jan 21)

Tue, Jan 20, 2009

- Wexner tops list of Columbus inaugural donors

at bizjournals.com (Tue, Jan 20)

Sun, Jan 18, 2009

- [video] Sinners & Saints: Victoria's Secret

at TheStreet.com (Sun, Jan 18)

Sat, Jan 17, 2009

- Lane Bryant parent cutting 28 Columbus jobs

at bizjournals.com (Sat, Jan 17)

- [video] News You Need: Apple, General Electric

at TheStreet.com (Sat, Jan 17)

Thu, Jan 15, 2009

- Stock Picks: Tech, Retail & More

at CNBC (Thu, Jan 15)

- Four Hot Stocks in Four Diverse Sectors

at CNBC (Thu, Jan 15)

Tue, Jan 13, 2009

- [video] Sinners & Saints: Victoria's Secret

at TheStreet.com (Tue, Jan 13)

- Limited Brands to Present at the ICR Xchange Conference

PR Newswire (Tue, Jan 13)

- Consumer Deleveraging and December Retail Sales: What the Numbers Say

at Seeking Alpha (Tue, Jan 13)

Mon, Jan 12, 2009

- Finish Line's Glass Seems Half-Full

at Motley Fool (Mon, Jan 12)

- Wal-Mart and the Retail-Stock Markdown

at BusinessWeek (Mon, Jan 12)

Fri, Jan 9, 2009

- PREVIEW-Retail convention likely to be a survival course

at Reuters (Fri, Jan 9)

- Coach shares fall after company reduces forecast

at MarketWatch (Fri, Jan 9)

Thu, Jan 8, 2009

- Stocks end mostly higher after mortgage deal

### **Industry Overview**

**Current Rank:**

**Portfolio Percentage Rank:**

**Monetary Policy Indicator:** expansive top

**Industry Opinion:**

Safety Rank: 3

**Key Issues Affecting the Industry:**

### **Porter's Five Forces**

- 1. Rivalry: newest competitor: Frederick's of Hollywood**
- 2. Threats of Substitutes: no threat I could find on line for high-end lingerie.**
- 3. Buying Power: Offer large sales discounts.**
- 4. Supplier Power: Get raw material cheaper than competitors shown by larger profit margin compared to industry.**
- 5. Barriers to Enter: Substantial cost associated with high-end lingerie.**

## **Recent Results- 10Q**

### **LIMITED BRANDS, INC. CONSOLIDATED STATEMENTS OF INCOME (in millions except per share amounts) (Unaudited)**

|  | <u>Third Quarter</u> |                | <u>Year-to-Date</u> |                |
|--|----------------------|----------------|---------------------|----------------|
|  | <u>2008</u>          | <u>2007</u>    | <u>2008</u>         | <u>2007</u>    |
| Net Sales  | \$ 1,843             | \$ 1,923       | \$ 6,052            | \$ 6,858       |
| Costs of Goods Sold, Buying and Occupancy            | (1,263)              | (1,315)        | (4,070)             | (4,645)        |
| Gross Profit   | 580                  | 608            | 1,982               | 2,213          |
| General, Administrative and Store Operating Expenses | (539)                | (546)          | (1,655)             | (1,954)        |
| Gain on Divestiture of Express                       | —                    | —              | —                   | 302            |
| Loss on Divestiture of Limited Stores                | —                    | —              | —                   | (72)           |
| Net Gain on Joint Ventures                           | —                    | —              | 109                 | —              |
| Operating Income                                     | 41                   | 62             | 436                 | 489            |
| Interest Expense                                     | (44)                 | (47)           | (136)               | (103)          |
| Interest Income                                      | 5                    | 6              | 16                  | 12             |
| Other Income   | 1                    | 1              | 23                  | 117            |
| Minority Interest                                    | —                    | 1              | 4                   | 23             |
| Income Before Income Taxes                           | 3                    | 23             | 343                 | 538            |
| (Benefit) Provision for Income Taxes                 | (1)                  | 11             | 139                 | 209            |
| Net Income   | <u>\$ 4</u>          | <u>\$ 12</u>   | <u>\$ 204</u>       | <u>\$ 329</u>  |
| Net Income Per Basic Share                           | <u>\$ 0.01</u>       | <u>\$ 0.03</u> | <u>\$ 0.60</u>      | <u>\$ 0.86</u> |
| Net Income Per Diluted Share                         | <u>\$ 0.01</u>       | <u>\$ 0.03</u> | <u>\$ 0.60</u>      | <u>\$ 0.85</u> |

## **Economic Outlook- 10K**

**FORWARD-LOOKING STATEMENTS.**

Limited Brands, Inc. (the “Company”) cautions that any forward-looking statements (as such term is defined in the Private Securities Litigation Reform Act of 1995) contained in this report or made by the Company or management of the Company involve risks and uncertainties and are subject to change based on various important factors, many of which are beyond our control. Accordingly, our future performance and financial results may differ materially from those expressed or implied in any such forward-looking statements. Words such as “estimate,” “project,” “plan,” “believe,” “expect,” “anticipate,” “intend,” “planned,” “potential” and similar expressions may identify forward-looking statements.

A number of important factors could cause our results to differ materially from those indicated by such forward-looking statements, including those detailed under the heading, “Risk Factors” in Part I, Item 1A.

**GENERAL.**

We operate in the highly competitive specialty retail business. We are a specialty retailer of women’s intimate apparel, beauty and personal care products and accessories under various trade names. We sell our merchandise through our retail stores in the United States and Canada, which are primarily mall-based, and through e-commerce and catalogue direct response channels.

**FISCAL YEAR.**

Our fiscal year ends on the Saturday nearest to January 31. As used herein, “2008” and “2007” refer to the 52 week periods ending January 31, 2009 and February 2, 2008, respectively. “2006” refers to the 53 week period ended February 3, 2007. “2005” and “2004” refer to the 52 week periods ended January 28, 2006 and January 29, 2005, respectively.

**DESCRIPTION OF OPERATIONS.**

As of February 2, 2008, we conducted our business in two primary segments: Victoria’s Secret and Bath & Body Works.

***VICTORIA’S SECRET***

The Victoria’s Secret segment sells women’s intimate and other apparel, personal care and beauty products and accessories marketed under the Victoria’s Secret and La Senza brand names. Victoria’s Secret merchandise is sold through retail stores, its e-commerce site, *www.VictoriasSecret.com*, and catalogue. Through its e-commerce site and catalogue, certain of Victoria’s Secret’s merchandise may be purchased worldwide. La Senza products may also be purchased through its e-commerce site, *www.LaSenza.com*.

In January 2007, we completed our acquisition of La Senza Corporation (“La Senza”). La Senza is a Canadian specialty retailer offering lingerie and sleepwear as well as apparel for girls in the 7-14 year age group. In addition, independently owned La Senza stores operate in 40 other countries. The results of La Senza are included in the Victoria’s Secret segment. For additional information, see Note 3 and Note 18 to the Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data.

The Victoria’s Secret segment had net sales of \$5.607 billion in 2007 and operated 1,020 stores in the United States and 312 stores in Canada.

**Financial Ratios**

**Valuations Ratios**

|                      | Company | Industry | Sector | S&P 500 |
|----------------------|---------|----------|--------|---------|
| P/E Ratio (TTM)      | 5.03    | 0.55     | 5.52   | 14.22   |
| P/E High-Last 5 Yrs. | 19.32   | 0.54     | 0.29   | 32.31   |
| P/E Low-Last 5 Yr    | 5.42    | 0.11     | 0.09   | 7.66    |

|                               |       |       |       |       |
|-------------------------------|-------|-------|-------|-------|
| Beta                          | 1.56  | 0.71  | 0.93  | 0.90  |
| Price to Sale                 | 0.30  | 0.03  | 0.24  | 1.62  |
| Price to Book                 | 1.43  | 3.65  | 1.23  | 2.90  |
| Price to Tangible Book (MRQ)  | ----- | 4.29  | 1.45  | 6.67  |
| Price to Cash Flow (TTM)      | 2.88  | 0.28  | 1.19  | 9.22  |
| Price to Free Cash Flow (TTM) | 6.08  | 16.13 | 13.80 | 29.30 |

#### Dividends

|                           | Company | Industry | Sector | S&P 500 |
|---------------------------|---------|----------|--------|---------|
| Dividend Yield            | 7.02    | 0.05     | 0.06   | 3.29    |
| Dividend Yield 5-Yr Avg.  | 3.48    | 1.17     | 1.31   | 1.88    |
| Dividend 5 Yr Growth Rate | 14.87   | 20.76    | 23.47  | 11.80   |
| Payout Ratio              | 34.15   | 0.98     | 17.56  | 52.07   |

#### Growth Rates

|                               | Company | Industry | Sector | S&P 500 |
|-------------------------------|---------|----------|--------|---------|
| Sales(MRQ) vs Qtr. 1 Yr Ago   | -4.16   | 10.94    | -0.54  | 11.63   |
| Sales(TTM) vs TTM 1 yr Ago    | -14.29  | 0.18     | 0.32   | 13.27   |
| Sales-5 Yr. Growth Rate       | 3.71    | 12.28    | 9.61   | 14.74   |
| EPS(TTM) vs TTM 1 yr. Ago     | -11.24  | -----    | -----  | -----   |
| EPS-5 Yr. Growth rate         | 14.74   | 15.35    | 17.21  | 19.32   |
| Capital Spending-5 Yr. Growth | 19.61   | 14.67    | 14.35  | 12.84   |

|      |  |  |  |  |
|------|--|--|--|--|
| Rate |  |  |  |  |
|------|--|--|--|--|

### Financial Strength

|                      | Company | Industry | Sector | S&P 500 |
|----------------------|---------|----------|--------|---------|
| Quick Ratio          | 0.81    | 1.51     | 1.22   | 1.04    |
| Current Ratio        | 2.03    | 2.16     | 1.53   | 1.28    |
| LT Debt to Equity    | 148.38  | 12.99    | 35.83  | 151.80  |
| Total Debt to Equity | 148.34  | 24.14    | 66.01  | 197.45  |
| Interest Coverage    | 10.66   | 0.96     | 0.20   | 31.97   |

### Profitability Ratios

|                              | Company | Industry | Sector | S&P 500 |
|------------------------------|---------|----------|--------|---------|
| Gross Margin                 | 35.23   | 1.48     | 12.11  | 39.67   |
| Gross Margin 5 Yr Avg.       | 36.20   | 43.74    | 26.40  | 38.96   |
| EBITD Margin                 | 14.05   | --       | --     | --      |
| EBITD 5 Yr Avg               | 14.02   | 13.86    | 12.13  | 22.44   |
| Operating Margin             | 11.33   | 0.45     | 3.03   | --      |
| Operating Margin 5 Yr Avg.   | 10.77   | 12.20    | 7.77   | 18.20   |
| Pre-Tax Margin(TTM)          | 10.01   | 0.44     | 3.16   | 15.84   |
| Pre-Tax Margin-5 yr. Avg.    | 11.19   | 12.41    | 8.11   | 17.96   |
| Net Profit Margin(TTM)       | 6.36    | 0.30     | 1.88   | 11.58   |
| Net Profit Margin-5 Yr Avg.  | 7.13    | 6.19     | 4.91   | 12.58   |
| Effective Tax Rate(TTM)      | 36.51   | 0.97     | 20.59  | -1.05   |
| Effective Tax Rate-5 Yr Avg. | 36.30   | 76.35    | 38.58  | 31.55   |

## Management Effectiveness

|                                | Company | Industry | Sector | S&P 500 |
|--------------------------------|---------|----------|--------|---------|
| Return on Assets (TTM)         | 8.23    | 2.11     | 2.32   | 8.05    |
| Return on Assets 5-Yr Avg.     | 10.02   | 9.68     | 4.52   | 7.50    |
| Return on Investment           | 10.26   | 2.90     | 3.71   | 10.94   |
| Return on Investment-5 Yr Avg. | 12.82   | 14.18    | 6.78   | 10.00   |
| Return on Equity (TTM)         | 29.43   | 3.71     | 6.51   | 19.09   |
| Return on Equity-5 yr Avg.     | 21.01   | 15.30    | 10.24  | 20.10   |

## Efficiency

|                     | Company | Industry | Sector     | S&P 500 |
|---------------------|---------|----------|------------|---------|
| Revenue/Employee    | 480,825 | 29,702   | 32,378,992 | 967,332 |
| Net Income/Employee | 30,567  | 496      | 1,225,572  | 110,829 |
| Receivable Turnover | 22.92   | 2.12     | 6.04       | 11.80   |
| Inventory Turnover  | 3.51    | 0.12     | 5.17       | 9.79    |
| Asset Turnover      | 1.29    | 0.06     | 0.48       | 0.86    |

## DCF Model

|                         |       |
|-------------------------|-------|
| Beta                    | 1.76  |
| Valueline Safety Rating | 3     |
| Expected Growth (EPS)   | 4.50% |
| Projected Growth &      | 2.50% |

|                                   |        |
|-----------------------------------|--------|
| Projected Growth & Dividend Yield | 2.50%  |
| Required Rate Return              | 28.14% |
| Projected Future P/E              | 15     |
| Annualized HPR                    | 4.23   |
| PV of Future Price                | 32.10  |

Current calculated value=  
12.86

| <b>Earnings Sensitivity</b> |                   |                  |                 |                 |                      |
|-----------------------------|-------------------|------------------|-----------------|-----------------|----------------------|
| <b>Present Value</b>        | <b>Price 2014</b> | <b>P/E 20014</b> | <b>EPS 2014</b> | <b>HPR 2014</b> | <b>Annual Return</b> |
| 9.15                        | 22.20             | 15.0             | 1.48            | 3.15            | 21.78%               |
| 10.38                       | 25.20             | 15.0             | 1.68            | 3.51            | 24.08%               |
| 11.62                       | 28.20             | 15.0             | 1.88            | 3.87            | 26.19%               |
| 12.86                       | 31.20             | 15.0             | 2.08            | 4.23            | 28.14%               |
| 14.09                       | 34.20             | 15.0             | 2.28            | 4.59            | 29.95%               |
| 15.33                       | 37.20             | 15.0             | 2.48            | 4.96            | 31.65%               |
| 16.56                       | 40.20             | 15.0             | 2.68            | 5.32            | 33.26%               |

| <b>P/E Sensitivity</b> |                   |                  |                 |                 |                      |
|------------------------|-------------------|------------------|-----------------|-----------------|----------------------|
| <b>Present Value</b>   | <b>Price 2014</b> | <b>P/E 20014</b> | <b>EPS 2014</b> | <b>HPR 2014</b> | <b>Annual Return</b> |
| 7.71                   | 18.72             | 9.0              | 2.08            | 2.73            | 18.83%               |
| 9.43                   | 22.88             | 11.0             | 2.08            | 3.23            | 22.32%               |
| 11.14                  | 27.04             | 13.0             | 2.08            | 3.73            | 25.39%               |
| 12.86                  | 31.20             | 15.0             | 2.08            | 4.23            | 28.14%               |
| 14.57                  | 35.36             | 17.0             | 2.08            | 4.73            | 30.62%               |
| 16.28                  | 39.52             | 19.0             | 2.08            | 5.23            | 32.90%               |
| 18.00                  | 43.68             | 21.0             | 2.08            | 5.74            | 35.01%               |

## Momentum



## Analyst's Opinion

Why Buy GLW? Undervalued price

**Why not buy GLW? Retail division**

**Final Discussion: sell 200 to 300 shares when momentum investing shows stock to be over valued.**

Work Cited

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