

Due Diligence Report: Down 80% on the Year; a Bottom Bounce Approaches

Summary

Iconix Brand Group, Inc., incorporated on June 17, 2005, is a brand management company and owner of a diversified portfolio of 35 global consumer brands across women's, men's, entertainment and home. The Company's brand portfolio includes Candie's, Bongo, Badgley Mischka, Joe Boxer, Rampage, Mudd, London Fog, Mossimo, Ocean Pacific (OP), Danskin, Rocawear, Cannon, Royal Velvet, Fieldcrest, Charisma, Starter, Waverly, Zoo York, Sharper Image, Umbro, Lee Cooper, Ecko Unltd., Marc Ecko and Strawberry Shortcake. The Company also has interest in Artful Dodger, Material Girl, Peanuts, Ed Hardy, Truth or Dare, Billionaire Boys Club, Ice Cream, Modern Amusement, Buffalo, Nick Graham, Pony and Hydraulic brands. The Company licenses its brands with respect to a range of products, including apparel, footwear, fashion accessories, sportswear, home products and decor, and beauty and fragrance, and in the case of its Sharper Image brand, consumer electronics and novelty products, and further, in the case of its Peanuts brands, a range of consumer products and entertainment and media services. Products bearing the Company's brands are sold across a variety of distribution channels from the mass tier to the luxury market and, in the case of the Peanuts brand, through various media outlets, including television, movies, digital and mobile content. The Company has over 50 direct-to-retail licenses and more than 1,100 total licenses across the globe. The licensees are responsible for designing, manufacturing and distributing the licensed products. Additionally, the Company provides its licensees with coordinated trend direction. The Company maintains a Website (www.iconixbrand.com) to further market its brands. In addition, the Company has established an intranet for approved vendors and service providers, who can access additional materials and download them through a secure network. The Company also maintains, in some cases through its licensees, separate, dedicated Websites and e-commerce sites for its brands.

The Company's Candie's is known as a junior lifestyle brand, with products in the footwear, apparel and accessories categories. The primary licensee for Candie's is Kohl's Department Stores, Inc. (Kohl's). Candie's shop-in-shops are in all of Kohl's over 1,100 stores. The Bongo brand is a California lifestyle brand, with a range of women's and children's casual apparel and accessories, including denim, sportswear, eyewear, footwear and watches. The Badgley Mischka brand is known as the couture eveningwear brands. Badgley Mischka products are sold in the United States through luxury department and specialty stores, including Bergdorf Goodman, Neiman Marcus and Saks Fifth Avenue, with its retail categories being women's apparel, bridal, footwear, handbags and other accessories. Joe Boxer is a lifestyle brand in the United States covering apparel, fashion accessories and home products for men, women, teens and children. Its Rampage is known as a contemporary/junior women's sportswear brand. Rampage products are sold through department stores, such as Macy's and Belk Stores, with the retail categories being sportswear, footwear, intimate apparel and swimwear. Mudd is a junior lifestyle brand, sold in the United States, Latin America and Japan. London Fog includes outerwear, cold weather accessories, umbrellas, luggage and travel products. The brand is sold in a variety of categories through wholesale licenses in the United States, primarily through the department store channel, including Macy's and Dillards Department Store.

ICONIX BRAND GROUP INC. (NASDAQ: ICON)

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The Mossimo brand is licensed on a direct-to-retail basis to Falabella Retail S.A. in Latin America and to wholesale licensees in Europe, Latin America, Southeast Asia, Australia, India, Canada and Japan. Ocean Pacific and OP are global action-sports lifestyle apparel brands. The OP brand is distributed by Wal-Mart as a direct-to-retail license in the United States, Canada, parts of Latin America and the Middle East, with products that include apparel, footwear and swim for men, women and children. OP is distributed via a direct-to-retail license with Sports Direct in Europe. Its Danskin brand includes women's active wear, legwear, dancewear, yoga apparel and fitness equipment. The Company's Rocawear is a youth culture brand. The Rocawear brands are licensed in the United States in a variety of categories, including men's, women's and kids' apparel, outerwear, footwear, jewelry and handbags. The Starter brand is sold through all Wal-Mart stores in the United States and Canada. Its Umbro is a global football (soccer) brand. In the United States, the Company has a direct-to-retail license with Dick's Sporting Goods and wholesale licenses for apparel, footwear and accessories for distribution in Department stores. Lee Cooper is a British denim brand that has expanded into multiple lifestyle categories, including men's and women's casual wear, footwear and accessories.

The Company's home brands include Canon, Royal Velvet, Fieldcrest, Charisma, Waverly and Sharper Image. Cannon is a home textile brand, and is licensed in the United States, Canada, Latin America, Europe, Southeast Asia, Middle East, India and Australia. Royal Velvet is a home textile brand. The Royal Velvet brand is sold exclusively in JC Penney stores in the United States. In addition, the brand has been licensed in Europe, Latin America, the Middle East and Australia. Waverly is a home fashion and lifestyle brand, licensed in Europe, Australia, the Middle East, Southeast Asia and Canada. Sharper Image is a lifestyle brand with product assortments across a host of categories, including consumer electronics, home goods, luggage, eclectic gifts and kitchen accessories.

Iconix Brand Group Inc. has a current market capitalization of \$336.44 M with 48.76 M outstanding shares. Its daily average volume traded is 1.66 M shares.

Key Indicators (Q2 2015)

Shares Outstanding	48.76 M
Revenue	98.46 M
Gross Profit	98.46 M
Net Income (basic/diluted)	14.77 M
Cash and Short-term Inv	117.87M
Total Debt	1478.59 M

Performance (6 months)



Recent News and Analysis:

On Monday, the Company reported a third-quarter loss of \$6.3 million, after reporting a profit in the same period a year earlier. The New York-based company said it had a loss of 13 cents per share. Earnings, adjusted for non-recurring costs, were 9 cents per share. The clothing brand licensing company posted revenue of \$88.9 million in the period, a decrease from the previous quarter. Iconix expects full-year earnings in the range of \$1.35 to \$1.40 per share. Iconix shares have declined 80 percent since the beginning of the year and 83 percent in the last 12 months. Analysts have rated the stock a hold based on primary factors that are mixed – some indicating strength, some showing weaknesses, with little evidence to justify the expectation of either a positive or negative performance for this stock relative to most other stocks. The company's strengths can be seen in multiple areas, such as its revenue growth, reasonable valuation levels and good cash flow from operations. However, as a counter to these strengths, analysts point out the weaknesses that include deteriorating net income, generally higher debt management risk and disappointing return on equity.

Management believes in continued prosperity saying, "We have gone through a difficult transition period, but Iconix continues to have significant business strengths including its diversified portfolio of consumer brands, profitable business model and strong free cash flow generation," Chairman and Interim CEO Peter Cuneo said in a statement. "All of us at the Company are focused on capitalizing on these strengths and addressing the issues that have impacted more recent performance to improve our results and enhance value for shareholders."

Whether you choose to believe management or analysts, the facts are that the stock is currently trading near a 52 – week low and has attracted a significant amount of attention; my opinion is that a mean reversion may occur in the near future.

Conclusions:

Shares of ICON are seeing a second straight session as one of the highest-volume names on the NASDAQ, following the firm's third-quarter earnings results. Shares had sold off on Friday, following news that Iconix would need to restate some numbers and cut forecasts. Shares were up 11% Monday afternoon after Iconix reported reserves for losses that were smaller than feared. Despite the rebound on Monday, Iconix's chart still looks broken. Shares had been in a downtrend already for all of 2015, and Friday's big gap lower propelled shares down below the bottom of that trend channel. Telltale signs of an upcoming reversion.

Sources:

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Risk Factors

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Disclosure: I, Robert Borowski, research analyst have no positions in any stocks mentioned, and no plans to initiate any positions within the next 72 hours. I wrote this article myself, and it expresses my own opinions and I have no business relationship with any company whose stock is mentioned in the article.

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