

Mossberg's Investor Digest

Best Idea Profile

Iconix Brand Group (Nasdaq:ICON)

DESCRIPTION:

Headquartered in New York, Iconix Brand Group is a brand management company focused on licensing and marketing a portfolio of consumer brands. The company markets, designs and licenses clothing, footwear, fashion accessories, and houseware brands to retailers primarily in the United States. Its brands include Candies, Bongo, Starter, London Fog, Joe Boxer, Badgley Mischka, Ocean Pacific, Mossimo, Cannon Fieldcrest, Ecko, and many others. Together the 17 brands generate approximately \$8 billion of retail sales. Customers include retailers up and down the spectrum including Walmart, Kmart, Target, JCPenny, Kohl's, Macy's, Neiman Marcus, and others.

KEY INVESTMENT CONSIDERATIONS:

Disaggregated business model delivers high returns and low risk

Guaranteed royalties offer significant visibility –

In exchange for exclusive rights to sell branded products in their stores, ICON's retail customers pay guaranteed minimum royalty payments. According to ICON, 70% of its 2009 revenue forecast is guaranteed.

No inventory or operational risk – ICON is essentially an intellectual property company. They do not manufacture anything and do not have any inventory on the balance sheet.

Highly scalable – Other than financing accounts receivable, which average about 80 to 90 days, the company has very limited working capital of fixed capital requirements. In addition, there is some leverage in the business model as incremental revenue should grow faster than SG&A.

Wise use of capital markets – The company has \$576 million in attractive long term debt financing with an average cost under 4%. The company has \$288 million in convertible notes that bear interest at 1.875% and have a conversion price of \$27.56. The company's \$217.5 million term loan facility bears interest at LIBOR + 225 basis points. The company has the ability to borrow an additional \$37 million under the terms of the term loan. Finally the company has \$106 million in notes that bear interest at fixed rates of 8% to 9%. None of these facilities are due prior to 2012.

Diversified Portfolio – ICON has 17 brands that are sold across distribution channels from general, mid-tier, and luxury retailers. They have over 15 direct to retail licenses as well as 200 traditional licensing partners. No one customer accounts for more than 10% of revenue.

Acquisition opportunities – The company completed a stock offering in June and has built a war chest of approximately \$230 million in cash to make acquisitions. In the current economic environment, quality brands are becoming available at better prices. This week, the company announced plans to acquire a 51% interest in Ecko brands for \$109 million. This price reflects a valuation of approximately 4.2X gross royalties. Comparatively, the company paid multiples of 5.5x for Starter in December 2007, and 6.4x for Pillotex in October 2007.

VALUATION:

Since late September, when the company cut its outlook by 10%, shares have lost a disproportionate 30% of their value and are currently trading 22% below the offering price of the 11.5 million shares that were placed in a secondary during June. Management guided to \$145 million in free cash flow next year, which was below the streets expectations, and combined with dilution from the offering, is likely the cause of the price decline. However, at current levels, shares are trading at a free cash flow yield of 12%, which is an attractive valuation for a company with limited execution risk and lots of visibility.

(Nasdaq: ICON)

Investment Data (as of 10/30/09)

Recent Price	\$11.66
52-Week Range	5.11 - 18.10
Fiscal Year End	December
Shares Outstanding	71 MM
Average Trading Volume (3 mos)	1.4 MM
Market Capitalization	831
Cash	\$233 MM
Long Term Debt*	\$576 MM
Enterprise Value (EV)	1.2 B
LT Debt/ Equity	0.44
BV/ Share	12.33
TTM Revenue	220
P/ Revenue	3.8x
TTM EPS	1.16
P/ EPS	10.1x
TTM EBITDA	159 MM
EV/ EBITDA	7.4x

*As of June 30, 2009

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