

Oxford Industries [NASDAQ: OXM]

Initiate a BUY at 5% Weight | PT: \$177.89

February 11, 2023



CIMG Investment Research

A Clothing Conglomerate

Oxford Industries (NASDAQ: OXM) is a clothing conglomerate, made up of popular brands such as Tommy Bahama, Lilly Pulitzer, Johnny Was, and Southern Tide. Tommy Bahama, which accounts for ~65% of OXM total sales, has seen a recent business turn around resulting in higher growth and higher margins. The recent Johnny Was acquisition, which was announced 22Q2, adds a >\$200M revenue, high teens operating margin brand, growing at 10% annually. The recently created Emerging Brands segment encompasses Southern Tide, Duck Head, and Beaufort Bonnet, and adds a high growth segment to the business. Despite recent business turn around, OXM is trading at its lowest historical EV/EBITDA and P/E multiples in the last five years, and trades at a discount to its closest competitors. We believe that the street is not giving OXM enough credit for this margin turnaround, leading the stock to be undervalued.

Investment Thesis

The Tommy Bahama Turnaround is Here to Stay

Starting in 2021, Tommy Bahama's operating margin started increasing from an average of <10%, to >15%. In 2022, operating margins were in the low 20s, a new high for the brand. This drastic turn around was due to a mix of macro and business factors. Tommy Bahama started to move away from their classic Hawaiian shirt, moving into polos, button ups, and khaki pants. These offerings came at the perfect time, as post COVID retail trends saw a boom in E-Commerce. As lockdowns started letting up and people started going on vacations again, the Tommy Bahama stores saw huge foot traffic increases, furthering the move away from wholesale to DTC that started from COVID. We believe that the brand is fundamentally better now than it was pre-COVID. Hawaiian shirts make up a mid-single digit portion of Tommy Bahama revenue. Their new offerings put them in the same price point and category as Ralph Lauren and Vineyard Vines, yet this has not been reflected in their stock price. With both vacation and retirement trends not going away, an affluent customer group (>100k, 45+ males), and a high returning customer base, we believe that long term, Tommy Bahama is a >\$1B, high teens operating margin brand.

The Johnny Was Acquisition Gives a new Customer Demographic to OXM

The Johnny Was Acquisition, which closed in September of 2022, gives a new customer demographic to OXM. Johnny Was caters to 40+ affluent female customers, a group that none of OXM's other brands really covers. This gives Johnny Was a long runway for growth that does not conflict with any of OXM's other brands. Furthermore, this acquisition replaces the selloff of Lanier Apparel, which closed 21Q4. Lanier Apparel had both decreasing top line revenue and operating margins for the last four years and was OXM's weakest brand. It consistently brought down margins and operated at a loss for multiple years. Replacing it with Johnny Was, a high teens operating company with >\$200M in revenue, further strengthens our belief that OXM's recent success is here to stay.

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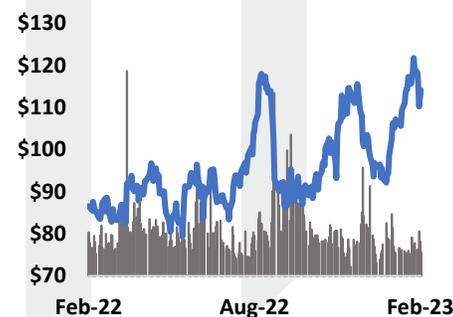
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Figure 1: LTM Stock Chart & Volume



Price	\$114.06
Dividend Yield	1.93%
PT	\$177.89
Upside	56%
52-Week Range	\$77.80-123.37
Dil Shrs Outstand	16.13 M
Mkt Cap	\$1.80 B
Ent Value	\$2.13 B
NTM P/E	10.2x
NTM EV/EBITDA	7.76x

OXM's Emerging Brands Add Strong Top-Line Growth

The Emerging Brands segment of OXM includes Southern Tide, Beaufort Bonnet, and Duck Head. We see Southern Tide as the strongest of these brands. Popular among college-aged males and females in the south, we believe that Southern Tide has a long runway for growth. Last quarter, OXM announced that the Emerging Brands segment would be included in the same advertising agency responsible for both Tommy Bahama and Lilly Pulitzer promotion, as well as a push for the Emerging Brands to be better incorporated into their growing omnichannel. With better advertising and a higher push for E-Commerce, as well as continued Southern Tide store construction (currently at 5 total), we believe that the Emerging Brands segment can continue double digit growth while increasing margins.

Undervalued By the Market

Despite these business turnarounds, OXM continues to be overlooked and undervalued by the market. In 21Q4, when OXM first saw 20% operating margins, Citi downgraded the stock from Neutral to Sell, based on the belief that the margin success was not sustainable. In September of 2022, after Q2 earnings were released, Citi upgraded the stock back to neutral, stating that their thesis of unsustainable margins was no longer valid. Despite this, the stock continues to trade at a discount relative to peers yet has the highest margins in their peer group. We believe that OXM warrants a valuation similar to competitors like Decker's and Columbia Sportswear, which trade at 20x and 18x P/E, respectively. At the minimum, OXM should trade in line with industry averages, not well below them. OXM currently trades at a P/E of 11.8x.

Valuation

We arrive at a \$177.89 price target for OXM, representing an upside of 56% from their closing price on 2/10/2023. We use a DCF with a 10% discount rate and a 2% long term growth rate. We have Tommy Bahama, which represents just under 60% of revenue, slowing down to a consistent 3%-5% growth rate over our projection period, with operating margins stabilizing in the mid-teens. Lilly Pulitzer, which accounts for about 20% of revenue, will also slow growth to a more sustainable 5%-7% YoY rate, with operating margins in the high teens. Johnny Was, which is currently over a \$200M brand, will grow at a faster 8%-10% YoY rate, with operating margins in the mid to high teens. The Emerging Brands segment, which has historically been their fastest growing – yet lowest margin – segment will grow at a faster rate of between 10%-15% YoY.

Industry Overview

OXM operates in the clothing apparel industry, with 98% of revenue coming from the US. The US apparel market is ~\$340 billion in size. OXM sells mainly higher priced, semi-luxurious clothing, with main competitors including Ralph Lauren, PVH Corp, Vineyard Vines, Levi Strauss and more. The overall market has very modest growth, with a projected 2% CAGR expected for the next five years.