

Monday, February 11, 2019

Today's Focus

RATINGS CHANGES

Stock	From	To
BBBY	Hold	Sell

EARNINGS CHANGES

Stock	YE	Current Yr		Out Yr	
		Prior	New	Prior	New
BBBY	Feb			2.05	1.63
MHK	Dec	11.94	11.54	-	12.35
TPR	Jun	2.61	2.60	2.65	2.64

Research Highlights

• SPECIALTY HARDLINES RETAILING

[Bed Bath & Beyond Inc.](#) (BBBY – \$15.42)

[Tile Shop Holdings, Inc.](#) (TTS – \$6.89)

• COMPUTER & BUSINESS SERVICES

[PayPal Holdings, Inc.](#) (PYPL – \$91.87)

• DIVERSIFIED RETAIL & SUPPLIERS

[Mohawk Industries, Inc.](#) (MHK – \$128.20)

[Tapestry, Inc.](#) (TPR – \$33.48)

• ECONOMIC UPDATE

• LOOP RESEARCH

Events

February 21st

CBS Corporation (CBS)

Marc DeBevoise, President & COO

CBS Interactive Division

New York

Research Highlights

SPECIALTY HARDLINES RETAILING

Bed Bath & Beyond Inc. (BBBY – \$15.42)

Rating: Sell Price Target: \$12.00

Anthony Chukumba 312-356-5893 anthony.chukumba@loopcapital.com

Downgrading To Sell From Hold As We Question F2019 Guidance... We are downgrading Bed Bath & Beyond (BBBY) to a Sell from a Hold rating while lowering our price target to \$12 from \$13. We believe BBBY's recent stock price appreciation is unwarranted given the fact management's much better-than-expected F2019 financial guidance is unrealistic, particularly given the likely top-line growth and profitability headwinds and management's poor track record of meeting consensus expectations. In addition, we think BBBY shareholders are unlikely to be "bailed out" by a leveraged buyout (LBO) or activist investment. Our new price target is based on 7.4x our revised F2019 diluted EPS estimate, in line with the average valuation of BBBY's "secularly challenged" peers.

[Please click here for the full report](#)

Tile Shop Holdings, Inc. (TTS – \$6.89)

Rating: Hold Price Target: \$7.00

Anthony Chukumba 312-356-5893 anthony.chukumba@loopcapital.com

4Q 2018 Earnings Preview... Tile Shop is scheduled to report 4Q 2018 results on Tuesday, February 19th. Our current 4Q 2018 loss per share estimate is higher than consensus, while our 2019 diluted EPS estimate is slightly above consensus. We expect investors to focus on comparable store sales growth; sales mix; an update on management's current strategic initiatives; and President and CEO Cabby Lolmaugh's high-level strategic vision. We are maintaining our Hold rating and \$7 price target ahead of the earnings release.

[Please click here for the full report](#)

COMPUTER & BUSINESS SERVICES

PayPal Holdings, Inc. (PYPL – \$91.87)

Rating: Hold Price Target: \$86.00

Joseph Vafi 415-944-6447 joseph.vafi@loopcapital.com

While Venmo Gets Investor Mindshare, Zelle Gets More Payment Volume... No doubt PayPal's Venmo franchise is plowing forward, both in terms of growth in payment volume and recently in P&L contribution. And while excitement about the Venmo opportunity abounds, less is being said about Zelle, the multi-bank

February 27th

Viacom Inc. (VIAB)

Chris McCarthy, President MTV, VH1
and Logo
New York

March 14th

Core-Mark Holding Co. (CORE)

Scott McPherson, CEO
Milton Draper, IR
Boston

electronic payments consortium. And where the rubber hits the road, namely payment volume, Zelle is much bigger, processing \$35 billion in payments during 4Q, compared to \$19 billion for Venmo. Further, Zelle's market share and growth rate should not be underestimated when contemplating the trajectory of Venmo monetization. Currently, "instant cash out" is driving approximately half of Venmo's revenue, but this same service is offered for free by Zelle, which saw its payment volume grow an impressive 61% in 2018. At some point, at least some Venmo "instant cash out" users will switch to Zelle, in our view. Finally, given some recovery to peer multiples, we have fine-tuned up our price target from \$82 to \$86.

Please click here for the full report

DIVERSIFIED RETAIL & SUPPLIERS

Mohawk Industries, Inc. (MHK – \$128.20)

Rating: Hold Price Target: \$126.00

Laura Champine 212-823-1315 laura.champine@loopcapital.com

It Could Have Been Worse - Modestly Raising MHK PT... We are reiterating our Hold rating on MHK and raising our PT from \$122 to \$126 as we roll our discounted NOPAT model forward by one year. There is relief in sight as price increases roll through and cost pressures are likely to abate in 2H 2019. We are lowering our sales growth expectations somewhat, as Flooring North America (mostly carpet) continued to miss our targets in 4Q. Our revised model incorporates 1Q operating EPS of \$2.12, marking the high end of management's guidance range. For 2019, our \$11.54 operating EPS estimate reflects a \$0.40 reduction as we expect continued start-up costs from the company's new LVT plants and back-end weighted cost recapture.

Please click here for the full report

Tapestry, Inc. (TPR – \$33.48)

Rating: Hold Price Target: \$36.00

Laura Champine 212-823-1315 laura.champine@loopcapital.com

TPR Misses Our Lowered Expectations... (*Published Friday, February 8th.*) We are reiterating our Hold rating and \$36 price target on shares of Tapestry. We had already significantly reduced our estimates on January 4, so today's estimate cuts are minor for us. Sales and EPS missed our estimates in F2Q, and guidance was worse than we had feared. Our estimates already marked the low on the Street, so we're only cutting our F2019 operating EPS estimate by a penny to \$2.60 on lowered sales estimates for the Kate Spade brand. We had previously expected 8% growth for the brand in F2H, and we've reduced this to 5%. We're three cents below revised consensus EPS for F2019. For the March quarter, we're a penny ahead of the operating EPS consensus at \$0.45. Tapestry shares currently reflect an 8% FCF and 4% dividend yield, and we think this supports the stock at the current level.

Please click here for the full report

ECONOMIC UPDATE

Chris Mier 312-913-5840 christopher.mier@loopcapital.com

Weekly Economic Update... Fourth-quarter 2018 industrial production (IP) performance closed on an uptick, bringing support to the idea that manufacturing could bring some momentum into 2019's first quarter. IP increased for 7 months to close 2018. More importantly, there was a noticeable improvement in the fourth quarter with IP increasing at an annual pace of about 4.9%.

Please click here for the full report

LOOP RESEARCH

Loop Capital Research equity@loopcapital.com

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Stock Ratings

Buy - The stock is expected to trade higher on an absolute basis or outperform relative to the market or its peer stocks over the next 12 months.

Hold - The stock is expected to perform in line with the market or its peer stocks over the next 12 months.

Sell - The stock is expected to trade lower on an absolute basis or underperform relative to the market or its peer stocks over the next 12 months.

Ratings Distribution for Loop Capital Markets as of February 10, 2019

	Count	% of total	IB Serv./Past 12 Mos.	
			Count	% of total
Buy	100	62.50%	9	9.00%
Hold	57	35.62%	1	1.75%
Sell	3	1.88%	0	0.00%

