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Candie's (Nasdaq: CAND) - $2.20
www.candiesinc.com
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Candie's (CAND) is finishing a transition of its business by exiting a money losing business and entering a more predictable and profitable one. How? CAND, renown for its trendy lady's footwear, has left that retail business behind and converted into being a pure licensing company. Although this will mean a lower revenue base, CAND will be able to turn in profits given the lower expense model involved in the licensing business. Backing up this decision of changing its business model has been heavy insider buying of CAND shares by the CEO. Given this change in the business and comparing CAND to other publicly traded licensing companies, shares of CAND could reach $3-$4 within a year's time and the $6-$8 range in 18-24 months.

CAND already has several solid licensing relationships, including one with Steve Madden (SHOO), many of which have multi-year agreements and guaranteed royalty payments. As a result, management has been able to predict what the FY05 and FY06 what the P&Ls will look like. It should be noted that since the costs for the licensing business are mostly fixed, revenues from any new licensing agreements signed, acquired or developed, will fall right to the bottom line. This last statement is especially true given the fact that CAND is sitting on more than $30 million in NOLs (approx. $1.20 per share), which will forego the company from paying any taxes in the near future.

Someone who obviously believes the new business model will revive the stock is CAND's Chairman and CEO Neil Cole. Mr. Cole has purchased approximately 346,200 shares for $568,100 from December 2002 through December 2003.

CAND's fiscal year 2004 ended January 31 and Q4/YE results should be out in the next few weeks and it should be the final reporting quarter that will include the old business. CAND's first quarter (FY05) results should be expected about 6 weeks following the Q4/YE results, and is expected to show some improvements in the company's P&L, probably even show a profit.

To date management expects $14 million in licensing revenues for FY05 and $20 million in FY06. What's great about the licensing business is there are minimal expenses (ie – no cost of goods sold (COGS) involved. Over the next fiscal year, management expects to incur $9 million in expenses, which should be the same in FY06, maybe even lower, assuming some debt is repaid with cash flow. Expenses are broken down as follows: overhead costs of $3 million, interest expense of $2 million (from long-term debt of $29 million), depreciation and amortization costs of $2 million and additional marketing expenses of $2 million. Given those assumptions, CAND could produce $9 million in

EBITDA in FY05 and $14 million in FY06. Net income will also look robust given the fact that CAND will not have to pay taxes with over $30 million in NOLs. Net income should be $5 million in FY05 and double to $10 million in FY06. That could generate earnings of approximately $0.20 per share in FY05 (ends January 31) and $0.40 per share in FY06. Comparing CAND to other publicly traded licensing companies like Cherokee (CHKE) and Mossimo (MOSS), shares of CAND should receive a multiple to earnings of 15x-20x, yielding a stock price of $3-$4 within a year's time. Looking a little further out, the stock could reach $6-$8 range.

Catalysts:

- Massive insider buying by Neil Cole, Chairman and CEO
- Major change in business model to one with profits/cash flow and predictability
- Any new license revenue will go right to the bottom line
- Q4/YE results should be last quarter of showing retail revenues/losses
- Q1 should be announced in early June and show profits

-Adam P. Lowensteiner