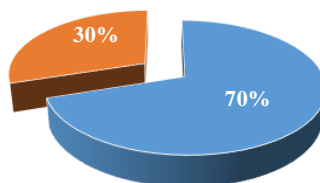


CROWN CRAFTS INC (CRWS: NAQ)

SECTOR: CONSUMER DISCRETIONARY (SMALL-CAP)

Current Price: \$ 7.60
1 YR Change: + 1.67%
Incorporation: 1978
Beta (Public Source): 0.7531
Valuation Type: Growth

■ Bedding Blankets & Accessories ■ Bibs, Bath & Disposables



Company Description

Crown Crafts, Inc. operates indirectly through its subsidiaries, Crown Crafts Infant Products, Inc. and Hamco, Inc., in the infant and toddler products segment within the consumer products industry. Products include infant and toddler bedding, bibs, soft bath products, disposable products and accessories. The company designs all toddler and infant related soft products primarily in U.S market (97% of sales). Company is also involved in licensing products for its own end products as sale of licensed products represented 62% of sales in 2016. Company is headquartered in Gonzales, Louisiana U.S.

SWOT

Strength	Weaknesses
<ul style="list-style-type: none"> - No Debt - Complete toddler bedding & soft products - Stable free cashflow - \$ 11 million net cash 	<ul style="list-style-type: none"> - Low Avg. Daily Volume (59k shares) - Two retailers (Wall-Mart, Toys R Us) counted for ~ 65% of 2016 sales. - Walt Disney license expires 31 Dec 2017
Opportunities	Threats
<ul style="list-style-type: none"> - Global M&A possibilities - Further licensing opportunities 	<ul style="list-style-type: none"> - Falling child birth rate in U.S - Price competitiveness among peers

Poor Man's Valuation:

(millions \$)	Cash From Operations 5 Years	Capex 5 Years	Free Cash Flow 5 Years	(NCA) Current Assets - All Liabilities	WACC	Shares Outstanding (m)	NCA + PV of FFCF	Share Price	Cheap or Expensive
Basic Valuation									
Historical	37	3	34	34	9%	10,03		\$ 7,60	Cheap
Forecasted									
Base Case 20 Years	147	10	137	34	9%	10,03	123	\$ 12,26	61%
Bull 20 Year Forecast (+50%)	221	16	205	34	9%	10,03	167	\$ 16,69	120%
Bear 20 Year Forecast (-50%)	74	5	68	34	9%	10,03	78	\$ 7,82	3%

Investment Summary

A good company that makes easy products and comes at an attractive valuation. Stable cashflows from the last five years do give me a strong conviction of good future free cash generation. Comparing the current market valuation of \$ 76m, buying the entire enterprise at current valuation will enable you to get the ask back in ~ 11 years when measured purely on free cashflow. The judgement is again on the sustainability of free cashflows which in my view are reasonably sustainable. The debt is low (credit limit) to non-existent which justifies my conviction that management is prudent and strong free cashflow generation is their priority. Digging further, with \$11 m in net cash, essentially the equity is valued at \$ 65m which in my view is cheap for such an enterprise. A stable, capex light little researched and overlooked company, Crown Crafts Inc is a good company to add in the portfolio for the long run.

CHEAP

P/E (TTM)	11.82
Average Volume (K)	58.93
EPS (\$ TTM)	0.643
Free float (m)	8.60
Shares outstanding (m)	10.03
Market Cap. (m \$)	76.23

VALUATION

Base Growth Rate	2%
Wacc	9%
Forecast Period FCF (m)	25
Terminal value (m)	100
PV terminal value (m)	65
Total Equity value	90
Plus Debt	0
Minus Cash	8
EV	83
Avg W. Shares Outstanding (m)	10,057

Fair Value Share Price \$ 9,0

FINANCIALS

Return on Equity (5yr Avg)	15,89%
Return on I. Capital (5yr Avg)	15,73%
Interest Coverage (2016)	186x
Current Ratio (2016)	3,75
Quick Ratio (2016)	2,33

Business Model & Segments Source: Annual Report/Company Website

Business Model

- The company outsources all production from China whereas it keeps the designing in-house as significant portion ~49% of sales were generated from trademarked designs in 2016.
- Business is asset light; all properties are leased as the biggest asset company owns is the intellectual property or the designers designing the bedding and toddler related soft product ranges.

Segments

Bedding Blankets & Accessories

Revenue Buildup (m \$)	2012	2013	2014	2015	2016	2017e	2018e	2019e	2020e	2021e
Bedding Blankets & Accessories	63,8	55,7	58,3	64,0	59,0	59,6	60,2	60,8	61,4	62,0
% change		-13%	5%	10%	-8%	1%	1%	1%	1%	1%

Brand:



Products

- NoJo Bedding Collections
- Licensed Brands
- The Gro Company

- The segment is responsible for bedding products from infants to toddlers. The sales have been relatively lower than 2012 with moderate recovery expected. **NoJo** represent 23% of total sales in 2016. The Gro Company offers the most exciting prospects due to online association with retailers.

Bibs, Bath & Disposables

Revenue Buildup (m \$)	2012	2013	2014	2015	2016	2017e	2018e	2019e	2020e	2021e
Bibs, Bath & Disposables	21,5	22,7	23,0	21,9	25,3	26,5	27,5	28,9	31,0	32,6
% change		6%	1%	-4%	15%	4%	4%	5%	7%	5%

Brand:



Products

Bib and Burp Solutions

Bath Solutions

"On the Go" Solutions

- The segment is responsible for soft products such as bibs and other towel/bathing solutions for babies. **Neat Solutions** accounted for 26% of total sales in 2016 and the brand is trademark protected.

Risks

- Key risks include high sales dependence on two retailers (Toys R Us & Wall-Mart) and expiring franchise agreements in a year (Disney). Another key risk is costs and pricing as the market is highly competitive. I believe that with no debt, asset light business model and reliable free cashflows, risks can be mitigated.

Model & Assumptions

Revenue Buildup (m \$)	2013	2014	2015	2016	2017e	2018e	2019e	2020e	2021e
Revenue	78,0	81,0	86,1	84,3	86,1	87,8	89,7	92,4	94,6
% Growth	-8%	4%	6%	-2%	2%	2%	2%	3%	2%
EBIT	8,4	10,3	10,6	11,1	11,0	11,4	12,6	13,9	14,2
% Growth	3%	22%	3%	5%	-1%	4%	10%	10%	2%
Depreciation	0,23	0,30	0,31	0,31	0,27	0,23	0,30	0,31	0,31
% Sales	0,3%	0,4%	0,4%	0,4%	0,3%	0,3%	0,3%	0,3%	0,3%
Capex	1,24	0,16	0,26	0,36	0,37	0,32	0,33	0,34	0,35
% Sales	1,6%	0,2%	0,3%	0,4%	0,4%	0,4%	0,4%	0,4%	0,4%
NWC	24,0	28,0	33,0	34,0	35,3	36,9	38,6	40,7	42,6
% Sales	31%	35%	38%	40%	41%	42%	43%	44%	45%

Explanation

- > Revenue & EBIT growth built on individual segment growth forecasts.
- > Depreciation, Capex and NWC as percentage of sales.
- > Modest growth forecasted for base case scenario.

Reporting Quality

Annual Report	Comprehensive
Auditor's Opinion for Parent Organization	KPMG: Clear.
ESG & Sustainability reporting	None.

Explanation

- > Auditors opinion is clear whereas reporting is comprehensive too. Company operates two core segments and reporting on revenue segregation is satisfactory. However, no reporting on future ventures and corporate strategy is a key limitation.

ESG Materiality Matrix Reported & Assessed	N/A
Quantitative Identification of all key ESG metrics	N/A
Usefulness of ESG metrics in current scenario?	Quite significant, the company operates in a specialized (toddler soft care) segment, therefore marketing ESG products may well have a benefit in product pricing. Competition is tough in the market as peers compete for prices (after manufacturing it all in China), therefore ESG can be a differentiating factor.