TAG® TELSEY ADVISORY GROUP

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OFF-PRICE

INITIATING COVERAGE

JANUARY 14, 2021

CTRN - $59.60 **Less Risk**

Price Target (Current) $70.00

Market Statistics	01/13/2021
Market Capitalization ($MM):	$615.2
Enterprise Value (MM):	$518.4
Shares Outstanding (MM):	11.7
Avg. Daily Trading Volume (Shrs, 000s):	178.0
Short Interest/Float:	4.5%
Insider Ownership (% of Total Shrs Out):	0.5%
Dividend Yield:	0.0%
Stock Exchange:	NASDAQ

Price Performance	01/13/2021
52-Week Range:	$6.70 - $61.87
YTD % Change:	22.1%
YTD % Change Relative to Index:	20.9%
Implied Return to Price Target:	17.4%

Valuation Metrics (FYE Jan)	2019	2020E	2021E
P/E Ratio	38.3x	31.3x	25.6x
PEG Ratio (using 5-Yr GR)	1.6x	1.3x	1.1x
EV/Sales	0.5x	0.5x	0.5x
EV/EBITDA	10.3x	8.7x	7.5x
FCF Yield (using EV)	4.6%	17.2%	6.2%

Balance Sheet and Growth Metrics	2019	2020E	2021E
Debt/EBITDA	0.0x	0.0x	0.0x
5-Year Long Term EPS Growth Rate	24.0%	23.5%	24.0%
ROE	9.9%	12.3%	13.9%
ROA	4.4%	4.1%	4.4%

Same-Store Sales			EPS (Operating)		
Period	Current	*Previous*	Period	Current	*Previous*
1Q19	(4.5)%		1Q19	$0.72	
2Q19	(1.2)%		2Q19	$0.06	
3Q19	2.6%		3Q19	$(0.09)	
4Q19	3.1%		4Q19	$0.88	
2019	(0.1)%		2019	$1.56	
1Q20	(44.5)%		1Q20	$(1.94)	
2Q20	15.6%		2Q20	$1.90	
3Q20	6.3%		3Q20	$0.67	
4Q20E	11.0%		4Q20E	$1.30	
2020E	(3.6)%		2020E	$1.91	
1Q21E	40.0%		1Q21E	$0.19	
2Q21E	0.0%		2Q21E	$0.42	
3Q21E	3.0%		3Q21E	$0.25	
4Q21E	1.0%		4Q21E	$1.48	
2021E	7.1%		2021E	$2.33	

Source: FactSet, company reports, and TAG estimates.

Dana Telsey
212.584.4606 / dtelsey@telseygroup.com

Joshua Herrity
212.584.4644 / jherrity@telseygroup.com

Robert Rosenhaus
212.584.4622 / rrosenhaus@telseygroup.com

CITI TRENDS, INC.

CTRN Initiation: Initiating Coverage with a Less Risk Rating and a $70 Price Target

An accelerated turnaround story with a demonstrated track record of success and a long runway for consistent growth. We are initiating coverage on the shares of Citi Trends, Inc. (CTRN) with the rating of Less Risk and a twelve-month price target of $70. Citi Trends is a leading value retailer of apparel, accessories and home products for African American and Latinx families.

Local destination with an engaged customer base in underserved communities. Citi Trends' stores are an important destination in underserved communities, with shoppers averaging a household income of $38K. The store fleet's local positioning and convenience drive engagement and repeat visits, with over half of its customers living within ten minutes of the store. Over 40% of customers visit Citi Trends more than 25 times per year, creating a community environment, and many shoppers spend over an hour in the store per visit.

New management team brings experience and renewed motivation while demonstrating success through a difficult operating environment in 2020. New management has brought a renewed sense of motivation to the culture, leading to an enhanced recognition of the business's potential in our view. The executive chairman, CEO, chief merchant, CFO, and head of supply chain roles have all been filled since 2019, bringing highly relevant retail, off-price, and discounter experience to bear. Importantly, the overhauled management team has demonstrated an impressive track record of early success in 2020 despite the significant operational and economic disruptions brought about by COVID.

New store growth opportunities in large, untapped markets. With 585 stores currently, management sees the potential for 1,000 stores over time, which we view as reasonable given the local convenience nature of the offering and the average store base size of off-mall retailers under our coverage. Importantly, management looks to take a measured approach to new store openings, with about 100 total new stores planned over the next three years. The store footprint has grown out of the southeast of the US towards the Midwest, leaving the important, dense markets of the Northeast and West as largely untapped growth opportunities. Given the beneficial occupancy costs in the centers where its stores are located, the new store opening model is highly productive, with a 50% ROI and a two-year payback period.

Product mix optimization opportunities can drive improved productivity through the existing fleet. We also see the ability for Citi Trends to further optimize its offering, driving improved productivity through the existing fleet. An expansion of the product mix into non-apparel categories has fostered a "one-stop shop" environment located in the heart of its customer's communities. Improved speed to market and curated assortments delivering everyday value can continue to drive faster turns as well, in our view.

A clean balance sheet and cash flow generation potential can fund investments to build a platform for sustainable, long-term growth and operating efficiencies. The company has demonstrated a track record of consistent cash flow generation over the past several years. Combined with a clean balance sheet, we see the ability for the model to self-fund increased investments in improved infrastructure that can lay a foundation to support sustainable long-term topline growth while driving margin efficiencies.

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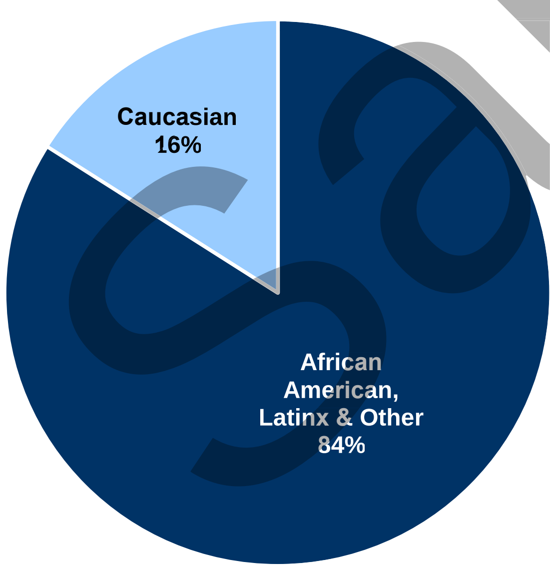
Investment Summary

An accelerated turnaround story with a demonstrated track record of success and a long runway for consistent growth.

We see Citi Trends as a unique investment opportunity at current levels despite the strong run the shares have seen over the past nine months (up more than 700% from the market bottom in the spring). A new management team (CEO David Makuen joined Citi Trends in March 2020) brings experience and renewed motivation to the business while demonstrating a track record of success through the difficult operating environment of 2020. However, as a local destination with an engaged customer base in underserved communities, we see the ability for consistent long-term growth to drive further stock price upside. New store growth opportunities abound in large, untapped markets, while product optimization efforts can drive improved productivity through existing boxes. Finally, with a clean balance sheet and a demonstrated ability to generate free cash flow, the model has the capacity to fund investments to build a platform for long-term sustainable growth while driving operating efficiencies and margin expansion opportunities, in our view. Therefore, we are initiating coverage on the shares of CTRN with a Less Risk rating and a $70 price target, supported both by earnings growth potential and our discounted cash flow analysis.

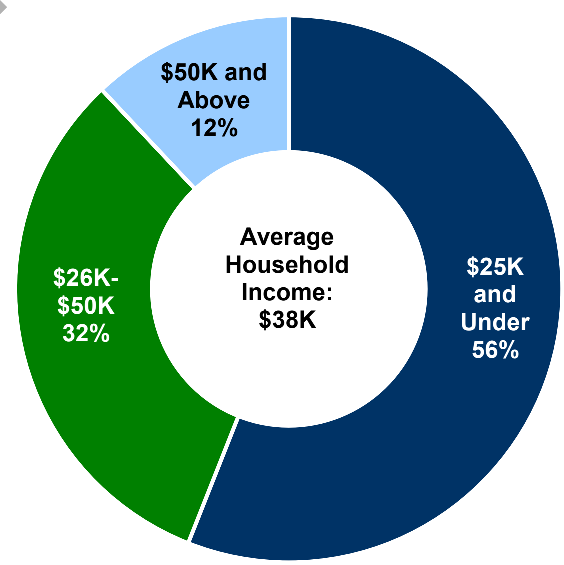
Local destination with an engaged customer base in underserved communities. Citi Trends is a leading value destination for African American and Latinx households, which represent 84% of the company's customer base. Its stores are an important destination in underserved communities, with shoppers averaging a household income of $38K. The stores offer a wide assortment of apparel, accessories, and home goods for the entire family, serving newborns to boomers. However, the customer skews younger with a fashion offering and trend-right sensibility. Citi Trends positions itself as a one-stop neighborhood store in local communities in off-mall strip centers.

CTRN CUSTOMER DEMOGRAPHIC



Source: Company reports and TAG Research.

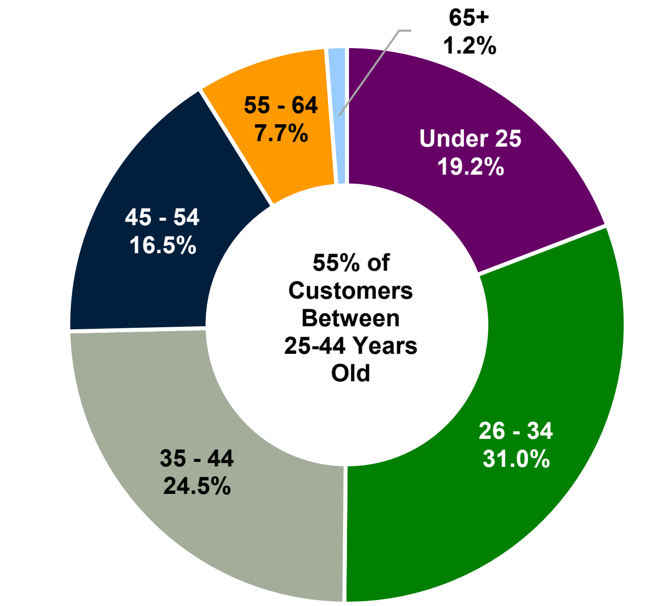
CTRN CUSTOMER HOUSEHOLD INCOME



Source: Company reports and TAG Research.

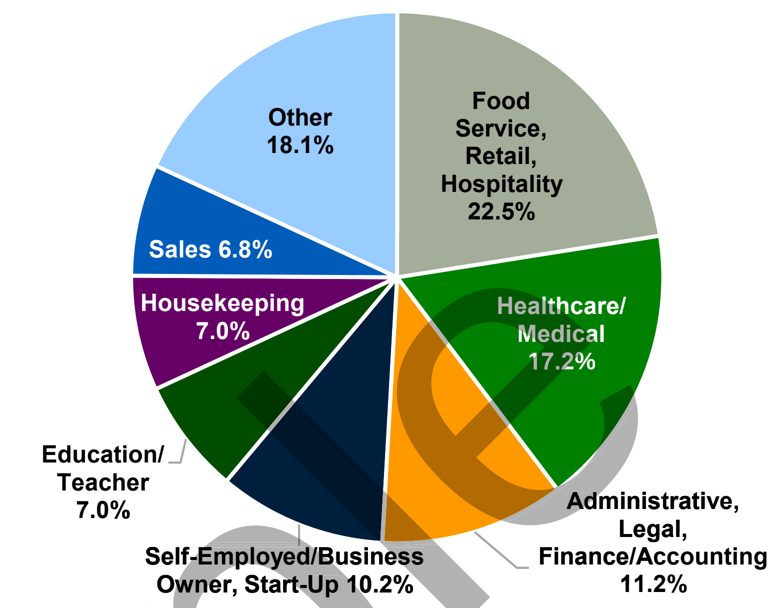
The store is typically 11,000 square feet and located adjacent to a grocery store such as Save A Lot, a value store such as an Ollie's or Big Lots, and a dollar store, in the heart of a community that relies on value. This local positioning and convenience drives customer engagement and repeat visits, with over half of the customers living within ten minutes of the store. Over 40% of customers visit Citi Trends more than 25 times per year, creating a community environment, with many customers spending over an hour in the store per visit.

CTRN CUSTOMER AGE BREAKDOWN



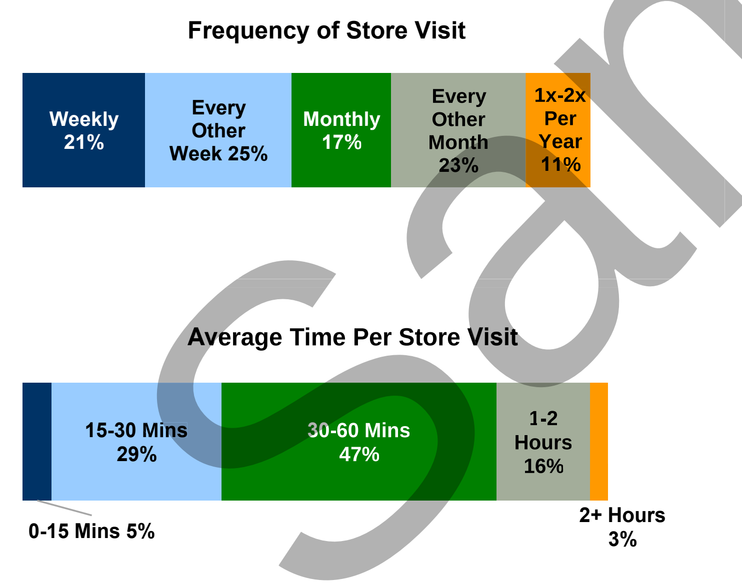
Source: Company reports and TAG Research.

CTRN CUSTOMER OCCUPATION



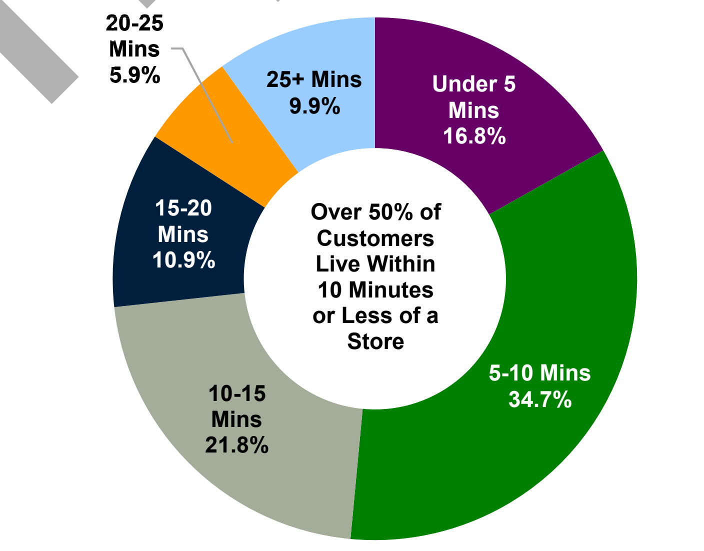
Source: Company reports and TAG Research.

CUSTOMER VISITS BY FREQUENCY AND TIME



Source: Company reports and TAG Research.

CUSTOMER TRAVEL TIME TO STORE



Source: Company reports and TAG Research.

New management team brings experience and renewed motivation, while demonstrating success through a difficult operating environment in 2020. In our view, the unique positioning of the model and its opportunities for growth and value creation have laid somewhat dormant in the years since the company went public in 2005. However, new management has brought a renewed sense of motivation to the culture, leading to an enhanced recognition of the business's potential. The Executive Chairman, CEO, Chief Merchant, CFO, and head of supply chain roles have all been filled since 2019, bringing highly relevant retail, off-price, and discounter experience to bear. Importantly, the overhauled management team has demonstrated an impressive track record of early success with its new growth strategies in 2020 despite the significant operational and economic disruptions brought about by COVID. In fact, we estimate just a 1.6% sales decline for fiscal 2020 (ending January) despite the fact that 16% of store days were lost to COVID-related closures for the year, while the company's fiscal 2020 EPS guidance suggests a 22% bottom line improvement at the midpoint. While federal stimulus certainly supported demand through the year, we are encouraged by the company's strong holiday season comp growth of 10.3%. If stimulus drove visitation earlier in the year, customers came back again during the holiday season, when the impact of fiscal support was likely to have waned in our view. Renewed confidence in a larger stimulus package with the Democratic control of the Senate can now further support demand in 2021, as well.

EXPERIENCED SENIOR LEADERSHIP TEAM

Management Team	Role	Year Joined	Prior Experience
Peter Sachse	Executive Chairman	2019	macy's
David Makuen	Chief Executive Officer	2020	five BELOW, Eddie Bauer, ANN TAYLOR
Lisa Powell	EVP, Chief Merchandising Officer	2019	Century 21 Stores, Saks OFF 5TH, TJX
Pamela Edwards	EVP, Chief Financial Officer	2021	VICTORIA'S SECRET, EXPRESS, OLD NAVY
Ivy Council	EVP, Human Resources	2007	ROSS, Wendy's
James Dunn	SVP, Store Operations	2000	Staples, Dressbarn, JORDACHE ENTERPRISES
Charles Hynes	SVP, Supply Chain	2019	Burlington, AC MOORE ARTS & CRAFTS

Source: Company reports and TAG Research.

New store growth opportunities abound in large, untapped markets. We see new store growth opportunity, a rarity these days in our coverage of the retail landscape, as an important long-term growth opportunity for Citi Trends. With only 585 stores at the end of 2020, management sees the ultimate potential for 1,000 stores over time, which we view as reasonable given the local convenience nature of the offering and the average store base size of off mall retailers under our coverage. Importantly, management looks to take a measured approach to new store openings, with about 35 new stores planned each year over the next three years. The company's 585 stores are currently located in 33 states. The store footprint has grown out of the southeast of the US towards the Midwest, leaving the important, dense markets of the Northeast and West as largely untapped growth opportunities. By demographic, of its 585 stores, the company classifies 394 (or 67%) as African American-centric, 94 (16%) as "melting pot" or African American and Latinx-centric, and 65 (11%) as Latinx-centric. The remaining 32 stores (5%) serve primarily Caucasian communities. The company believes that its greater growth opportunities lie in the "melting pot" and Latinx-centric buckets going forward. In addition, given the beneficial occupancy costs in the centers where its stores are located, the new store opening model is highly productive, with a 50% ROI and a two-year payback period. Lastly, the company plans to complete 150 remodels over the next three years, investing in the existing store base to maintain a fresh and relevant shopping experience.

NEW STORE PAYBACK MODEL

Avg. New Store Sales: $1.25MM - $1.4MM + **New Store Buildout:** ~$350K + **New Store EBITDA:** ~13%

New Stores: 50% ROI **New Store Payback:** 2 Years

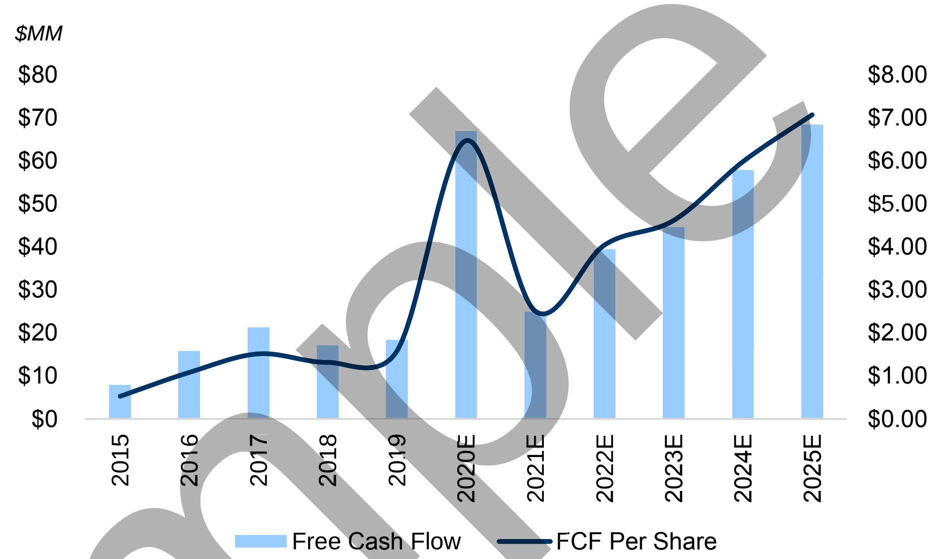
Source: Company reports and TAG Research.

Product mix optimization opportunities can drive improved productivity through existing fleet. While new store growth is one important driver of topline expansion, we also see the ability for Citi Trends to further optimize its product mix, driving improved productivity through the existing fleet. Overall, the company breaks its assortment into seven categories, which it calls the "Seven Cities" of Citi Trends: women, men, kids, footwear, home, beauty/accessories, and lifestyle (which includes tech, consumables, team sports, and impulse). The company's core competency historically has been women's and kids apparel, but it has seen success building on the men's offering as well. In 2020, the company introduced an array of products across several new categories particularly in the lifestyle category, including technology, pets, and toys, in addition to expanding its home goods offering. Recognizing the importance of offering a well-rounded and curated assortment of home trends, the company introduced an expanded home offering in 100 locations in mid-2019. Following the success of that initial test, management rolled out the expanded offering to an additional 100 locations during the third quarter of 2020. The diversified product mix has fostered a "one-stop shop" environment located in the heart of its customer's communities. Recent trends have shown success with the evolving mix, as all product categories generated growth in the third quarter of 2020, led by home (up 22%) and men's (up 20%).

Under new management, the company has worked to curate its assortments, including brands, with a focus on trend-right newness to deliver everyday value. The company has prioritized choice over breadth and depth, improving speed to market and driving faster turns and improved inventory efficiency. In fact, in the third quarter of 2020, Citi Trends posted 6.3% comp growth on 33% less comparable store inventory, resulting in an impressive 55% increase in turns for the period. Further investments in systems and automation looks to allow for smarter buying and allocation, while assisting in the expansion to non-apparel categories.

Clean balance sheet and cash flow generation can fund investments to build a platform for sustainable, long-term growth and operating efficiencies. The company has demonstrated a track record of consistent cash flow generation over the past several years. Combined with a clean balance sheet, we see the ability for the model to self-fund increased investments in improved infrastructure that can lay a foundation to support sustainable long-term topline growth while driving margin efficiencies. The company has categorized its planned infrastructure spend into three areas: "buy," "move," and "sell". Under the "buy" category, the management plans to invest in solutions for buying, planning and allocation, including cloud-based software analytics. Under "move," management looks to invest in improved supply chain speed and productivity, including distribution center upgrades and system enhancements. Finally, in the "sell" category, investments are planned to assist in new store and remodel evaluation along with associate tools such as workflow apps and a new point-of-sale system. Importantly, the improved performance the company has seen over the past year has come with very little assistance of these new tools and system enhancements, which should help to drive growth in a consistent manner over the longer-term horizon, in our view. We also expect management to take a measured approach to the implementation of these new systems and solutions over a multi-year time horizon rather than pushing too much change down on the stores and workforce over a short period of time. As such, we expect capex to roughly double from the $20MM expected in 2020 to about $40MM next year, with a gradual step-up to about $50MM over the following years. However, as we have said, we expect topline growth and margin efficiencies to fund this capex step-up while continuing to generate excess cash flow that can be used to repurchase shares, further benefitting the bottom line.

FREE CASH FLOW (2015-2025E)

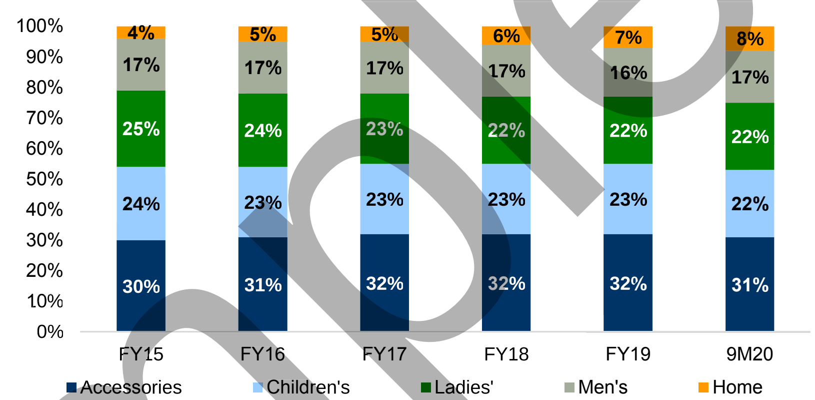


Source: Company reports and TAG Research.

Product Innovation and Distribution

Five key product categories. Citi Trends generates sales across five product categories: accessories, children's, ladies', men's, and home. As seen in the chart below, the accessories category has historically been and remains the company's largest sales segment at 30%-32% historically, followed by ladies' and children's (each at around a low-20% sales penetration) with women's apparel as the anchor within the category. The balance of the company's sales are driven by men's (mid-to-high teens penetration) and the home category (high-single digits), with the home category representing the strongest growth category in recent years, increasing penetration from around 4% of total sales in FY15 to 8% through the first three quarters of FY20. The home category remains a key driver of growth, with plans to further expand the offering going forward.

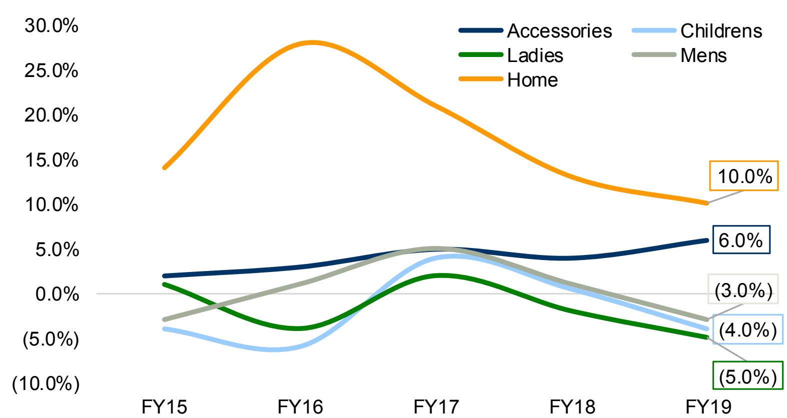
SALES BREAKDOWN BY PRODUCT CATEGORY (FY15-FY19)



Source: Company reports.

New product category introductions. In 2020, the company introduced an array of product across several new categories, including tech, pets, toys, beauty, and team sports, in addition to expanding its home goods offering. The supply team has also worked hard to align the company's vast offering with developing trends, including masks and video streaming kits with lighting and cameras. While the company aims to stay on top of current trends, the company is also mindful of the rapid pace of change in today's consumer shopping habits, and, therefore aims to buy in limited quantities in order to leave space for the next trend. In our view, the products appear to be resonating with consumers, as all product categories generated growth in the third quarter of 2020, led by home (up 22%) and men's (up 20%). Ladies' (up 5%), children's (up 5%) and accessories (up 1%) followed.

COMPS BY PRODUCT CATEGORY (FY15-FY19)

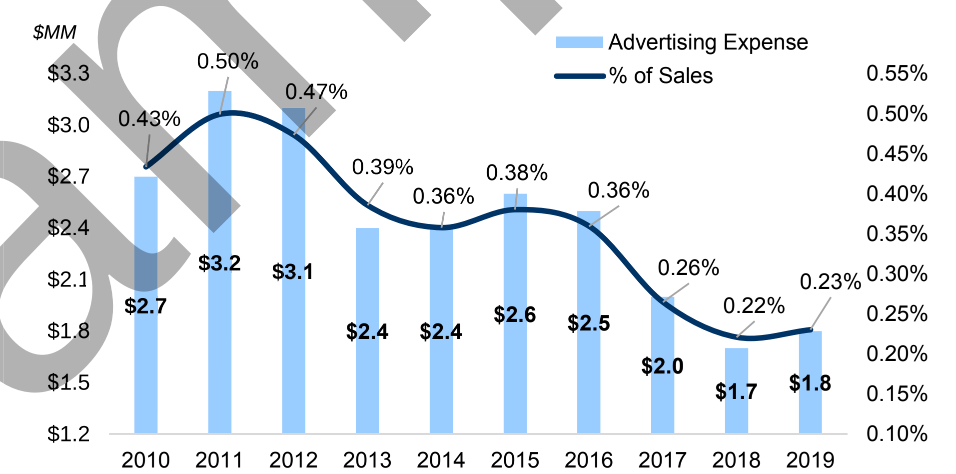


Source: Company reports and TAG Research.

Value pricing strategy. As a value brand, Citi Trends aims to price its products at attractive discounts for its customers. On average, the company looks to price nationally recognized branded products with discounts of 20%-70% below full prices in competitor channels such as department and specialty stores. The company also looks to identify opportunities for further markdowns monthly to help drive inventory turnover, while maintaining newness on its shelves. In the past, the company has used promotions sparingly, mostly to move product, choosing to define its brand as a company with a reputation for everyday low prices. In the past year, Citi Trends has strategically pulled back on promotions further, which has led to greater full-price sell-through and, in turn, delivered impressive year over year margin expansion in FY20 (gross margin leverage of 390 bps and 440 bps in in the second and third quarters, respectively.)

Citi Trends has maintained a minimal marketing and advertising budget. Over the last decade, Citi Trends has spent, on average, approximately $2.4MM annually on advertising, which equates to less than 1% of total sales in each year since 2010. Management sees the opportunity to increase its advertising spend to help boost awareness and drive new customer acquisition. With the company estimating a reach of only about 40% of its total addressable market in the US, increased advertising spend can help drive sustainable growth longer term. The company is working with influencers to help drive buzz on social media and is also rolling out new advertising campaigns to help drive awareness among its core demographics. Historically, the company's advertising efforts can be characterized as more seasonal in nature, focusing on key holiday selling periods to drive business. More specifically, the spring/Easter season has been a focus in the fiscal first quarter, while efforts in the summer and early fall were geared towards back-to-school before shifting to the all-important holiday season to close out the calendar year. We look for the company to move towards a more "always-on" marketing approach in order encourage ongoing repeat visitation.

ADVERTISING EXPENSE (2014-2019)

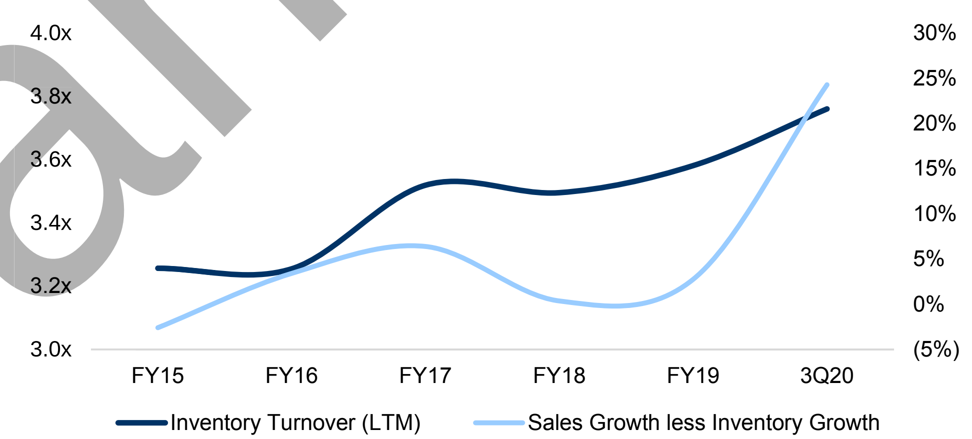


Source: Company reports and TAG estimates.

Diversified sourcing supports value operating model. Citi Trends sources all of its products through domestic manufacturers and importers, often by attending national and regional trade shows. Products are purchased from over 1,700 vendors, with the bulk produced in China and other Asian countries (though the company purchases all of it in the US and pays for the product in US dollars, helping to alleviate FX risk). Relative to other retail peers, CTRN tends to purchase products in-season and later in the buying cycle than department and specialty stores, which allows its buyers to take advantage of any arbitrage opportunities between supply and demand. Some product is purchased in advance of the selling season at reduced prices, while other products are purchased at the end of the selling season and then held for sale anywhere from three to nine months later. These buying practices allow the company to stock up on products that consumers want while maintaining its low-price proposition. In recent months, the company has changed the timing of its purchases to keep new products flowing on to shelves, appealing to their target consumer that tends to prefer freshness. For holiday 2020, the company experimented with a staggered product rollout, which saw a positive response relative to prior seasons when the holiday offering was set out at the beginning of the season in October and left through the duration of the selling period. We expect the company to look to implement increased direct-buying capabilities over the longer-term.

Faster inventory turns remains a strategic priority but 2020 saw a significant sell-through. Over the past five years, Citi Trends has averaged an inventory turnover ratio of approximately 3.3x. During the pandemic, the company adjusted its receipt planning and leveraged changing customer habits to turn inventory even faster, with the third quarter of 2020 demonstrating a 55% improvement over the prior year period. Management remains committed to driving faster turns and believes the company can improve even more through buying what customers want in limited quantities, thereby tightly controlling the flow of newness into stores. However, we see the opportunity to drive faster turns and gross margin expansion as moderated relative to prior expectations as much of the work was accomplished over a significantly accelerated timeframe through the pandemic. The company's continued work to tightly manage inventory levels and deliver newness into stores has helped drive increased full price selling and a noticeable improvement in sales growth outpacing inventory growth last year and through the first three quarters of this year. Given its geographic store footprint, the company operates two distribution centers in the southeast with one located in Darlington, South Carolina and the other in Roland, Oklahoma. Management has commented that it will look to make further investments in its two distribution centers in order to provide greater support for the business as it increases scale. As such, management has brought in a consultant to help it identify efficiencies in its distribution centers and improve its supply chain. In addition, SVP of Supply Chain Charles Hynes joined the company in 2019 from Burlington. We believe his experience will be valuable as the company invests in supply chain systems enhancements.

INVENTORY SNAPSHOT (FY15-3Q20)



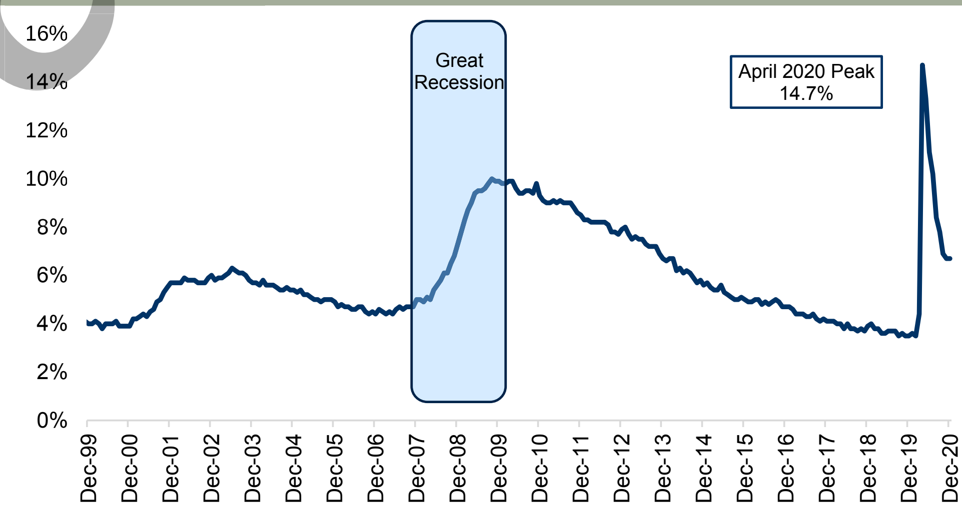
Source: Company reports and TAG estimates.

Macro Considerations for the Citi Trends Core Customer

Distinct core customer demographics. The company describes its core customer as African American, female (90% female and 10% male), most likely single (~60% of customer base), with a household of more than three people, and an annual household income of less than $50,000. The customers skew younger, with nearly three-quarters of the customer base under 44 years old (including approximately 59% under 34). Beyond the African American community, management also sees significant potential in the Latinx demographic, as many of its stores are located in markets with a greater Latinx population density, or in markets with a blend between the Latinx and African American communities (which Citi Trends refers to as "melting pot" stores). Citi Trends customers demonstrate high repurchasing tendencies, with 40% of customers shopping over 20 times per year. Approximately 73% of the company's customers live within a 15-minute drive of a Citi Trends store, allowing for easy access, frequent visits and repeat purchases. The company primarily serves customers in the southeastern United States, with a moderate presence in other markets (Northeast and West coast). While management sees some opportunities to increase store penetration in markets that it currently serves, the greater opportunities lie in new market expansion, in our view.

> **COVID-19 impact on Citi Trends' core customers.** In 2020, the impact of COVID-19 on the macroeconomic environment cannot be ignored. With unemployment spiking, fiscal stimulus spotty, and uncertainty in unemployment benefits, the financial impact on lower-income families has been substantial, further widening the income inequality gap in the US. Nevertheless, as lower-income families have adapted to the pandemic and all the accompanying restrictions, management has observed four key customer patterns in product sales this year. First, as was visible across much of retail in 2020, customers have demonstrated a strong demand for home goods given the increase in time spent at home as compared to prior years. Second, despite all the challenges and uncertainties of 2020, the childrenswear category continued to generate solid growth as the category remains resilient. Third, Citi Trends has seen growing demand in both men's and women's branded and fashion apparel as adults look to get out of the house as restrictions eased and consumers look ahead to the post-pandemic return to more normalized social habits. Fourth, customers have shown an increased appetite for self-care products and casual/comfortable attire, with categories such as beauty, fragrance, athleisure, and loungewear showing strong gains.

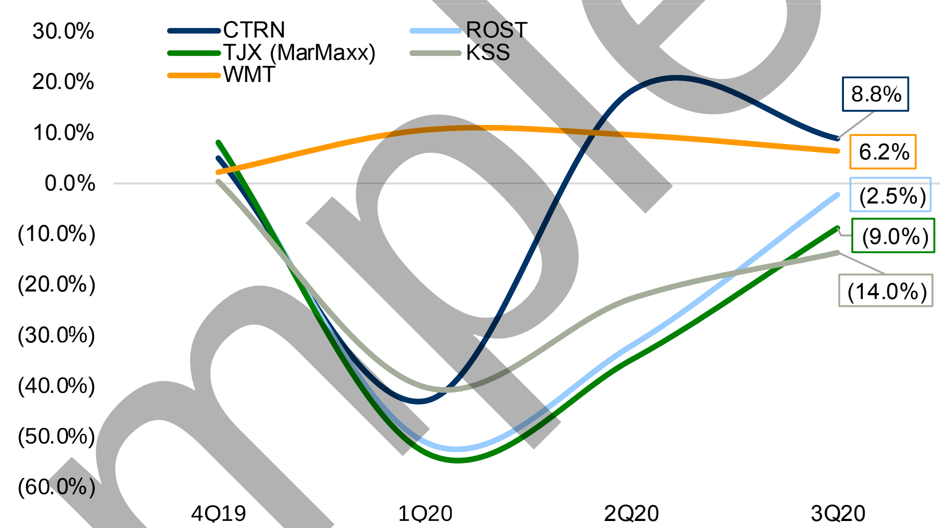
US UNEMPLOYMENT RATE (NOVEMBER 1999-CURRENT)



Source: Federal Reserve and TAG Research.

Higher unemployment could drive consumers to discount retailers. Following the onset of the pandemic and the spread of the virus across the world, businesses were forced to close their doors while furloughing employees to cut costs, pushing the US unemployment rate to a 70-year high in April. Given its positioning as a value retailer offering affordable prices in a local environment, we believe Citi Trends could prove more resilient amid higher unemployment rates than other retail companies. Indeed, in the first three quarters of FY20, the company reported positive comp store sales growth in each quarter (for the duration its stores were open), at a time when many peers were posting negative comps. While the company saw a significant sales decline in its first quarter (ending May 2, 2020), it posted an impressive rebound in the second quarter as stores reopened. The company's strong sales rebound as stores reopened is indicative of its resilience during a time of high unemployment, uneven fiscal stimulus, and lower consumer confidence.

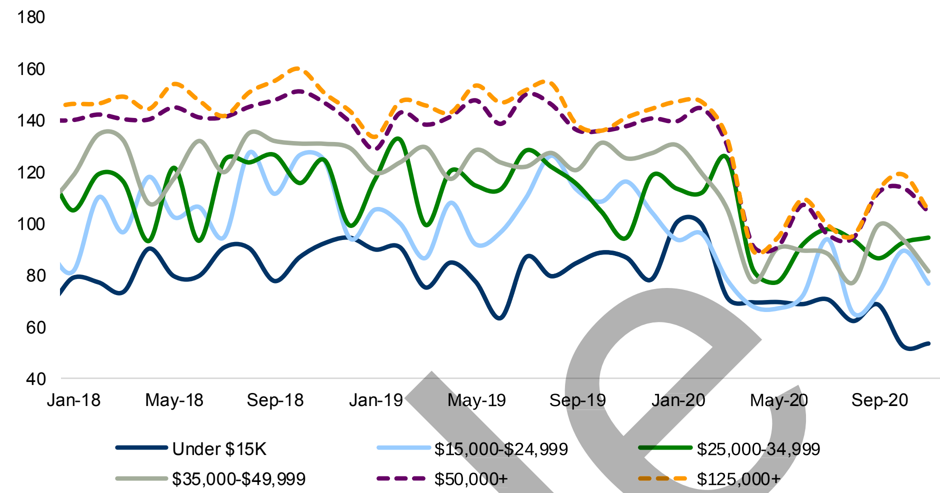
CTRN SALES GROWTH VS. PEERS US SALES GROWTH (4Q19-3Q20)



Source: Company reports and TAG Research.

Consumer confidence is lower among Citi Trends' target demographic. As seen in the chart below, consumer confidence in all four below $50K household income brackets lag those in the $50K and above and $125K and above brackets (dotted lines in the chart below). Unlikely to have benefitted from the wealth effect as stock markets have soared during the pandemic, consumers earning between $15K and $49K are not surprisingly less confident than they were last year and the year before. However, confidence has improved in recent months from the depths of the pandemic last year. The improvement in confidence could be supportive to Citi Trends as the macroeconomic environment continues to improve and consumers become more hopeful about a return to "normal."

US CONSUMER CONFIDENCE BY HOUSEHOLD INCOME (2018-CURRENT)



Source: Conference Board, FactSet, and TAG Research.

Limited foreign exchange and interest rate exposure. Citi Trends has very limited FX and interest rate exposure. The company sources its products from vendors in the US and pays for merchandise in US dollars, which reduces its foreign exchange risk relative to larger competitors with an international presence. Additionally, the company does not have any outstanding debt and fully paid down its credit revolver in the third quarter of 2020, which greatly curbs its exposure to interest rates as they are broadly unaffected near-term. The company's sourcing strategy encounters limited FX risk when currency moves impact some suppliers, thereby affecting the purchasing power of Citi Trends' buyers. In FY19, the company sourced from over 1,700 vendors. The company does not hedge currency or interest rate exposures.

Long-Term Strategy

Earlier this week at the ICR conference, management updated its three-year strategic plan to drive topline growth and margin improvement. Specifically, management is aiming to exceed $1B in revenues by 2023, primarily through new store openings (at least 100 new stores by 2023) and remodels (at least 150 targeted over the same time frame). In addition, management plans for 3% comps annually over that time frame. The company's three-year plan targets an EBIT CAGR of 20% plus over the next three years, and an EPS CAGR of 25%-plus. In addition, the company plans to invest in infrastructure improvements for merchandising, supply chain and stores. We elaborate on key drivers underpinning the long-range plan below.

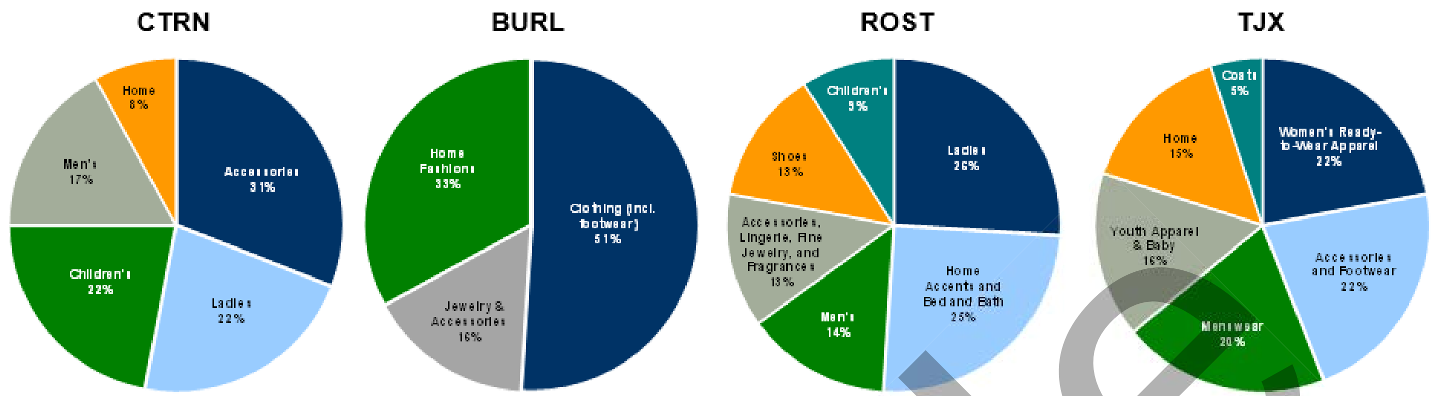
New management, new mindset. Since his arrival less than a year ago (just as the pandemic shutdown began), CEO David Makuen has established a more collaborative work culture that has supported more interaction among departments. The benefits of this cultural shift are best illustrated by the collaboration between merchandising and sourcing, in our view, which has driven cost reduction through more intelligent purchasing from vendors. Mr. Makuen has also assembled a management team of veteran retail executives from companies such as L Brands, Burlington and TJX. Altogether, the depth of experience that Mr. Makuen's team brings to the table looks to play an important role in the execution and success of the new business strategy. Outside of the corporate office, more focus has been dedicated to enhancing store workplace culture for store employees, which was less of a focus under previous management.

Data and technology are focal points of revamped corporate strategy. For the first time, Citi Trends will utilize in-house and third-party customer data to inform strategy development in several areas of the business, including store placement and remodeling, product assortment optimization, and improvement in supply chain efficiency. In turn, the enhanced use of data analytics looks to support the development of a more customer-focused, insight-driven culture.

It's all about the customer. African American and Latinx households comprise approximately 84% of Citi Trends' overall customer base, reflecting its attention on catering to the demographic through targeted store placement, product offerings and marketing campaigns. Over the past year, this focus has included the sale of Black Lives Matter-themed apparel as well as the launch of Citi CARES immediately following the death of George Floyd in Minnesota that sparked racial tensions across the country. Citi CARES is a ten-person employee-led council tasked with creating solutions that make an impact in the communities it serves. Going forward, management will seek new ways to resonate further with this demographic, including collaboration with influencers as well as partnering with black-owned businesses to deepen its relationships with its customers and ties to its local communities. The company will also approach the higher-growth Hispanic demographic from a similar angle, primarily through data-driven store placement and influencer collaboration.

Category diversification. Optimizing Citi Trends' product mix is another key focus of management's long-term growth strategy. Currently, accessories is the largest product category at 31% of sales through the first three quarters of 2021, followed by ladies' and children's clothing, each accounting for 22% of total sales, respectively. However, the company is currently expanding its offering into other categories, with the end goal of creating a local one-stop shop; examples include tech, toys, and particularly home, a fast-growing category that is higher margin than apparel. Specific examples of product introductions that have resonated with consumers have included impulse buys such as gummy bears and consumable items such as pet food. In the accessories category, the company has expanded its technology offering with products like Bluetooth headphones. Management has also expressed interest in developing a stronger beauty offering that will resonate with African American women, in particular, citing a lack of products targeted towards this demographic. That said, apparel will continue to remain a core category and the main draw.

SALES BY PRODUCT CATEGORY COMPARISON (FY19)

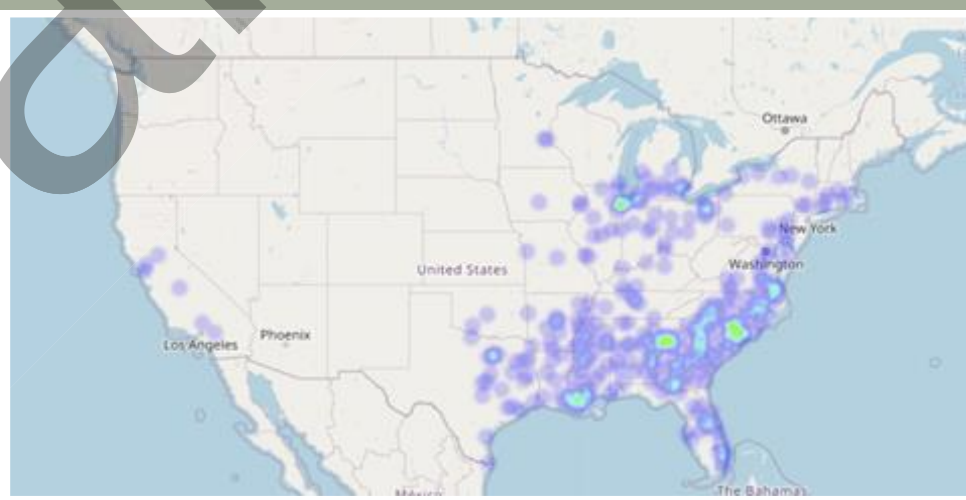


Source: Company reports and TAG Research.

New store openings will serve as a key driver of this initiative. The company will aim to remodel approximately 50 stores per year over the next three years (or 150 total by the end of FY23), with some flexibility baked into that number depending upon the overall ROI impact at the store level. Remodeling work completed thus far has accelerated the category diversification process. The company will also utilize cloud-based data solutions to plan seasonal inventory purchasing more effectively, as well as to rationalize inventory when necessary. Remodeling and new store openings will also play a role, as both will afford the company opportunities to shift product mix towards non-apparel items.

Expansion looks to center within Northeast Corridor. Pursuant to its three-year strategy, Citi Trends is targeting 150 new stores over the next three years, primarily located in the northeastern region of the US, where the company's store penetration is relatively light (as seen in the graphic below).

CTRN US STORE CONCENTRATION HEAT MAP



Source: Company reports and TAG Research.

The company will expand selectively in the Northeast, targeting regions with both underserved African American populations and adequate store capacity. Within this region, management has identified the Northeast Corridor (region stretching from Boston to Washington D.C.) as perhaps the most attractive area for expansion. Population density is not as much of a concern, as the company's data-based approach provides its expansion model considerable flexibility to locate in either lightly or heavily populated regions with minimal difference in outcome. As shown in the map, further expansion into large markets such as Texas and California represent important growth opportunities as well, particularly as the company increases its focus on Latinx-centric store locations.

Management seeks rent concessions. Seeking to capitalize on broader retail softness, Citi Trends and its landlords are currently engaged in discussions around lease terms. Given the pandemic-generated turnover in local stores, we expect that with increased vacancies Citi Trends can generate some occupancy cost relief given the highly fragmented nature of the company's landlord base, which ensures that no landlord holds significant negotiating power individually.

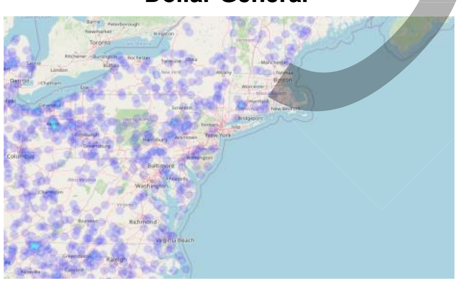
Future investment aimed at modernizing operations, preparing business to scale. Management has outlined several opportunities to drive better operating efficiency through targeted, strategic investments. Along with maintaining high-touch vendor interaction, investments will be directed towards the replacement of outdated factory and distribution center equipment as well as creating the infrastructure necessary to support more aggressive store growth. The company will also seek more efficient carrier solutions, an important step to driving faster inventory turns allowing the company to restock currently lean inventories more efficiently. As a result, capex spend is likely to double in 2021 from 2020 levels ($20MM) in our view, with more gradual increases thereafter until 2023.

Competition. Citi Trends competes with a wide range of competitors in the US market, from off price retailers like TJX, Ross Stores, and Burlington, to general retailers like Walmart and Target, to dollar stores and discount merchandise stores. In addition, localized and more fragmented discount women's apparel stores, such as Rainbow, Forman Mills, and Variety Wholesalers compete in various markets. Peers that also target the lower and moderate-income consumer segments include DD's Discounts and the It's Fashion Metro stores from Cato. The competitive advantages that help distinguish Citi Trends from its peers include a more inviting store format, carpeted flooring, and more prominently displayed brands, as well as a diverse product offering with strength in trend-right fashion apparel at value prices.

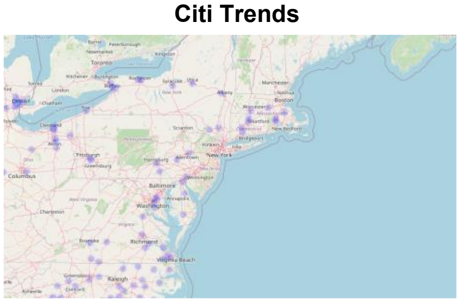
Northeast store concentration. We compiled and mapped out store location data belonging to several of Citi's primary competitors above, including Dollar General, Rainbow Shops, TJ Maxx/Marshalls, and DD's Discounts. We did so with an emphasis on the Northeast Corridor given the region's importance within Citi Trends' current expansion plans. That said, we note that Citi's more direct competitors, Rainbow Shops and DD's Discounts maintain a relatively small presence within the region, while TJX's TJ Maxx and Marshalls stores share minimal demographic overlap with Citi Trends as it relates to customer base.

NORTHEAST CORRIDOR STORE CONCENTRATION HEAT MAP

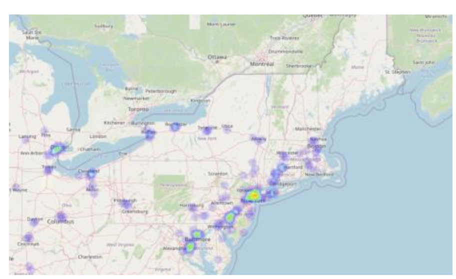
Dollar General



Citi Trends



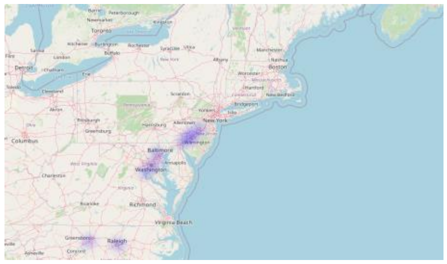
Rainbow



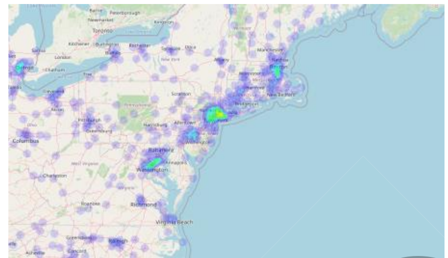
Source: Company reports and TAG Research.

NORTHEAST CORRIDOR STORE CONCENTRATION HEAT MAP

DD’s Discounts



TJX- TJ Maxx and Marshalls



Source: Company reports and TAG Research.

Store Layout and Opportunities

Citi Trends stores are typically around 11,000 square feet on average, with an open layout that displays most of the inventory and allows for easy traffic flow throughout. Most store space is organized in a racetrack format with ladies' sportswear in the center of each store and complementary categories arranged around the core. On one side, the men's and boy's categories are placed adjacent to one another, while dresses, ladies' footwear, and accessories can be found on the opposite side of the store. Products for children and home goods are most often arranged in the back. Each section is marked by a hanging banner so customers can see the layout from the moment they enter the store. Near the checkout area, the company displays impulse buys, such as jewelry, beauty, sunglasses, and consumables. National brands and current fashion trends are displayed at the front of each section.

A LOOK AT THE OUTSIDE

Source: Company reports, Instagram and TAG Research.

OPEN LAYOUT

Source: Company reports, Instagram and TAG Research.

As the company works to remodel stores going forward, the aim is to be more data-driven with a focus on allocating more square footage to trending, high-demand product categories. Recent remodeling efforts have included adding a queue line, expanding categories like beauty and pet, and changing the way the team showcases merchandise to be more consistent in presentation across stores.

KID'S SECTION

Source: Company reports, Instagram and TAG Research.

FOOTWEAR

Source: Company reports, Instagram and TAG Research.

HOME GOODS SECTION

Source: Company reports, Instagram and TAG Research.

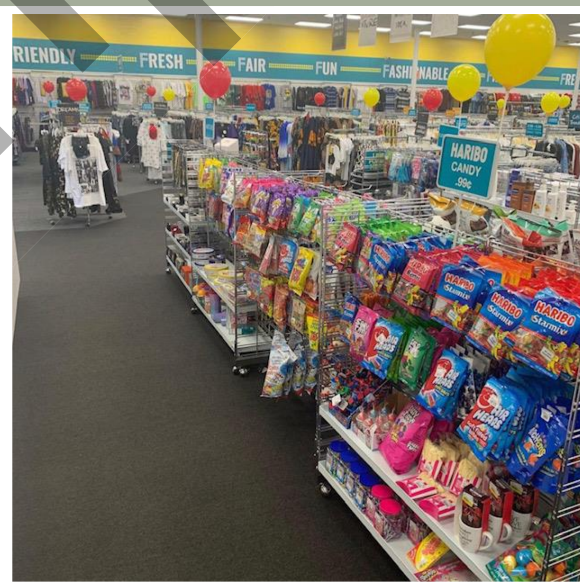
ACCESSORIES (HANDBAGS & LUGGAGE)

Source: Company reports, Instagram and TAG Research.

KIDS/BABY SECTION

Source: Company reports, Instagram and TAG Research.

CONSUMABLES AT CHECKOUT



Source: Company reports, Instagram and TAG Research.

Valuation

Current Trends Suggest Continued Strength in Momentum

Earlier this week ahead of its presentation at the annual ICR Conference, management unveiled its latest three-year strategic plan while also providing updated fourth quarter and annual 2020 guidance.

> **Quarter-to-date comps up 10.3%.** The company reported that total sales through the first nine weeks of the fourth quarter (through January 2, 2021) had increased 12.9% to $192.5MM, with comps increasing 10.3% over the same time period (against 3.6% growth in the prior year period). The update came as a significant acceleration from management's previous commentary that the nine-week holiday period was trending to a low-single digit comp increase provided on December 22 when the company announced a new $30MM share repurchase program. For the quarter, comps are now expected in the low double-digit range (vs. a 3.1% increase last year). In the release, CEO David Makuen commented that the strong comp for the holiday period came as a result of curated merchandising strategies and on-trend gift assortments resonating with the customer.

> **Fourth quarter EPS guided to $1.22-$1.32 (vs. $0.88 in the prior year).** The company also provided fourth quarter earnings guidance with the bulk of the period on the books at this point. For the quarter, the company now expects EPS in the range of $1.22-$1.32 vs. $0.88 last year. Management commented that earnings continued to benefit from meaningful gross margin and operating margin expansion driven by full-priced selling and accelerated inventory turns.

> **Full year sales expected to be only slightly below prior year levels.** For the full year, the company now expects total sales to be just slightly below 2019 levels, despite the fact that 16% of total store days were lost to COVID-related closures this year. The company expects full year 2020 diluted earnings per share of $1.85-$1.95 compared to $1.56 in 2019.

> **We look for fourth quarter comps of 11.0% and EPS of $1.30.** With this report, we are introducing our Citi Trends financial model. For the fourth quarter, we estimate EPS of $1.30 (vs. $0.88 last year), which assumes an 11.0% comp (vs. 3.1% growth last year), 130 bps of gross margin expansion to 41.0% and 25 bps of SG&A leverage to 31.5%. Taken together, we look for operating margin expansion of 160 bps to 7.2% for the quarter. For 2020, we look for a total sales decline of 1.6% to $769.5MM, which assumes a 3.6% comp decline for the year (vs. a 0.1% decline in the prior year period). We estimate 2020 EPS of $1.91 vs. $1.56 in 2019.

4Q20 AND 2020 GUIDANCE SUMMARY

	Quarterly		Annual	
	4Q20E	4Q19A	2020E	2019A
Total Sales ($MM)	-	$211.0	"slightly below" 2019	$781.9
Comps	+LDD	3.1%	-	(0.1%)
EPS	$1.22 - $1.32	$0.88	$1.85 - $1.95	$1.56

Source: Company reports.

Three-Year Strategic Plan Intact, with a COVID-Induced One-Year Pause

Beyond the holiday update, the company also provided an update to its three-year strategic plan that had been unveiled a year ago before both the new management team had been fully formed and the COVID impact was contemplated. In general, the framework is similar, with the target to reach $1B in sales extended by a year due to the COVID impact this year, while the EBIT growth target was elevated to a 20%-plus CAGR from the prior level of 15%-20% growth.

The bottom-line target for a 25% CAGR over the three-year planning horizon was also elevated from the prior target of 20%-25%. We summarize the company's updated financial targets relative to its prior plan in the chart below:

UPDATED THREE-YEAR GROWTH TARGETS SUMMARY

	Three-Year Plan	
	January 2021	**January 2020**
Total Sales	More than $1B in FY23	$1B by FY22
Comps	~3% per year	~3% per year
New stores	at least 100 new stores through FY23	~30 new stores per year
Remodels	at least 150 through FY23	~50 per year
Operating Income Growth	20%-plus CAGR	15%-20% CAGR
EPS Growth	25%-plus CAGR	20%-25% CAGR

Source: Company reports.

Beyond the points above, the company highlighted that it has planned investments in infrastructure improvements for merchandising, supply chain, and stores. Last year, management noted expectations for improvement to inventory turns of 8%-10% per year along with merchandise margin expansion of 70-80 bps annually. However, we believe these points came off the table this year given the unexpected ability to push out excess inventory at fuller prices as COVID influenced shopping patterns and behavior this year.

As shown in our summary financial model at the end of this report, we estimate total sales of $1.00B for FY23, with operating income of $45.7MM (a 20% CAGR from our FY20 estimate of $26.1MM) and EPS of $3.72 (a 25% CAGR from our FY20 EPS estimate of $1.91).

Valuation Supported by Growth Potential and Free Cash Flow Generation

Our valuation analysis of Citi Trends is supported by what we see as an attractive blend of growth potential and free cash flow generation. In our view, new management has bolstered visibility to the growth algorithm of the model, with improved merchandising, marketing and data analytics already showing benefits within the difficult operating environment of 2020. Plans to take advantage of white space both regionally and by target customer demographic to ramp up store growth further supports the topline potential. Finally, increased investments in systems infrastructure in buying, planning, allocation, and supply chain can support longer-term topline growth while driving efficiencies and operating margin expansion potential. Finally, with no debt and consistent free cash flow, the company has the ability to return cash to shareholders through repurchases, further bolstering bottom line growth potential. Therefore, we see the company's growth and multiple potential as one important support of valuation upside. As shown below, applying a blended three-year historical average NTM multiple between the off-price and discounter groups of 22.8x to our Citi Trends two year forward (or FY22) EPS estimate of $3.00 yields one parameter of our twelve-month price target of $70. We would note that both groups currently trade at significant premiums to their three-year averages. Applying the current average one-year forward multiple of 28.2x for the off-price and discounters group to our two-year forward EPS estimate would yield even greater stock upside potential to $85.

COMP MULTIPLE ANALYSIS

3-YEAR NTM P/E	Peak	Trough	Mean	Current	Premium / (Discount)
Discounters					
BIG	13.2x	3.3x	8.0x	6.9x	(14.3%)
COST	39.1x	24.0x	31.3x	36.5x	16.5%
DG	23.7x	14.0x	19.2x	20.9x	8.6%
DLTR	20.8x	13.0x	17.1x	17.4x	2.1%
FIVE	49.6x	14.8x	36.2x	43.7x	20.5%
TGT	23.5x	10.9x	16.2x	21.0x	29.5%
WMT	27.5x	16.6x	21.8x	25.6x	17.6%
Average	**28.2x**	**13.8x**	**21.4x**	**24.5x**	**11.5%**
Off Price					
BURL	49.7x	15.0x	26.3x	41.1x	56.2%
ROST	48.4x	12.5x	23.7x	27.7x	16.9%
TJX	46.8x	13.6x	22.8x	26.9x	18.0%
Average	**48.3x**	**13.7x**	**24.3x**	**31.9x**	**30.3%**
Blended Average	**38.3x**	**13.7x**	**22.8x**	**28.2x**	**20.9%**

CTRN FY22E EPS	$3.00
Implied Equity Value	$69

Source: FactSet. Current multiples as of January 11, 2021.

Beyond a comparable multiple analysis, our price target is also supported by our discounted cash flow model, which we show below. We see the ability for the model to generate funds to invest in growth opportunities while still throwing off excess cash, further supporting valuation upside. As shown in the exhibit below (with further detail provided in our summary financial model on the last page of the report), we incorporate the company's three-year earnings targets into our forecasts. We believe our analysis is based on relatively conservative assumptions beyond the company's strategic plan. We look for an average annual operating margin expansion of 40 bps over the next five years, reaching 5.7% in FY25. We significantly ramp up our capex forecast to $40MM for FY21 from the planned $20MM in FY20, and then further step up to $50MM over the following several years as management plans to invest in infrastructure to support longer-term topline growth. We look for a comp of 7.1% in FY21 driven in part by the easy compare of the first quarter, when comps declined 44.5% (including closed stores). However, for FY22 and beyond, we estimate 3% comp growth annually, with average square footage growth of 6% per year.

Our analysis also assumes a WACC of 11.0% and a terminal value growth rate of 1.5%. Our terminal value assumption equates to an EBITDA multiple of 6.8x, which we see as reasonable as compared to the 10.8x one-year forward ten-year historical average multiple for the discounter group and 11.8x for the off-price category. Using these assumptions, we arrive at an implied equity value of $71 per share as well. Therefore, using our comparable multiple analysis which yielded a $69 implied equity value and the $71 implied equity value from our discounted cash flow analysis, we arrive at a $70 twelve-month price target on the shares of CTRN.

DISCOUNTED CASH FLOW ANALYSIS

$ in millions	2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E	2024E	2025E
Net Income	$15.5	$13.3	$14.6	$21.4	$16.5	$19.1	$23.2	$29.3	$36.1	$44.2	$53.1
Plus: Depreciation	18.6	17.1	18.9	18.9	18.5	20.0	23.9	26.8	29.9	33.5	37.6
Non-cash operating lease costs	0.0	0.0	0.0	0.0	45.5	48.5	45.4	46.4	48.1	45.7	47.1
Asset impairment	0.0	0.3	0.5	1.3	0.5	0.3	0.0	0.0	0.0	0.0	0.0
Stock-based compensation expense	4.1	2.9	1.6	2.2	2.1	2.2	2.5	2.7	2.9	3.1	3.4
Other charges / adjustments	(0.6)	2.5	4.2	0.2	0.9	0.1	(0.8)	(0.6)	(0.6)	(0.7)	(0.8)
Change in working capital	(10.2)	3.6	2.5	(13.5)	(41.4)	(0.7)	(28.9)	(17.6)	(19.3)	(20.9)	(23.7)
Less: Capex	(19.6)	(23.9)	(21.0)	(13.3)	(24.2)	(19.9)	(40.0)	(45.0)	(50.0)	(50.0)	(50.0)
Free Cash Flow	**$7.9**	**$15.8**	**$21.3**	**$17.2**	**$18.4**	**$69.5**	**$25.2**	**$41.9**	**$47.0**	**$54.9**	**$66.7**
Terminal value growth rate											1.5%
WACC											11.0%
Terminal value											707.4
Total Cash Flow						$69.5	$25.2	$41.9	$47.0	$54.9	$774.0
Number of periods to discount						0.25	1.25	2.25	3.25	4.25	5.25
PV of cash flow						67.7	22.1	33.1	33.4	35.2	447.2
Implied enterprise value											638.8
Less debt											0.0
Plus cash											96.8
Implied equity value											735.6
Shares outstanding											10.4
Implied Equity Value per Share											**$71**

Source: Company reports and TAG estimates.

Investment Risks

Location, location, location. Relative to other chain retailers whose landlords are more consolidated, Citi Trends deals with hundreds of landlords for its fleet of 585 stores. As such, the company has some negotiating power and may be able to effectively negotiate for rent concessions. The company is eyeing the success of its co-tenants that help attract traffic and monitoring their financial stability as well. As many companies re-evaluate the role of brick-and-mortar stores, looking to right-size their store fleets, while others have gone out of business in the face of COVID disruptions, Citi Trends may be left with stores in suboptimal locations in centers with vacancies that are not able to generate sufficient foot traffic relative to prior levels. Moreover, as it looks to expand into new markets, there is a risk that it is unable to secure favorable lease terms or foot traffic underperforms expectations in these new markets.

Continued ability to anticipate fashion trends and products. One of Citi Trends' competitive advantages relative to its peers is its ability to carry trends that appeal to African American consumers. Inherent in fashion cycles is the risk that the company will be unable to identify and anticipate the latest trends or procure the hottest products in order to meet demand. Recently, the merchandising team captained by Lisa Powell has been successful with procuring product in demand for current momentum, including masks and lighting and cameras for at-home video recording, greater home product selection, and more casualwear, all of which have been received enthusiastically by consumers. Should the company struggle to anticipate future trends, consumers may turn elsewhere to fill their needs, which would affect the company's sales and profitability. In addition, the opening of new Latinx-focused stores may introduce execution risk as the company pursues more tailored assortments for different demographics.

Execution risk from expansion into new markets and new categories. The company is planning to roll out new stores in both new and existing markets and working to expand its product category assortment. There is some risk in its ability to execute this strategy, successfully entering new markets and introducing customers to new categories with new competitors, potentially different occupancy structures, and less familiar local market conditions. So far, customers have responded well to new product categories such as home, technology, and pet, though these categories only account for single-digit sales penetration.

Ongoing impact of COVID and the changing retail landscape. COVID has shifted the way that many retailers operate and fundamentally accelerated changes in consumer behavior. For Citi Trends, that means accelerating its improvement in inventory turnover, relying less on markdowns, rolling out new categories, and generating greater sales and stronger margins. It also means that consumers are shopping more online, and the company has said that it does not see a need to develop an online presence, choosing instead to focus on brick-and-mortar. This single channel strategy could pose a risk if the company's core customers shift towards e-commerce as their preferred channel of choice. COVID also has affected the financial security of many of Citi Trends' peers and anchor stores, which could affect store traffic if the anchors close and landlords are unable to find a suitable tenant to replace them.

Threat of e-commerce. Citi Trends does not sell its products through the digital channel, though it maintains a website and a social media presence on Facebook and Instagram to help build awareness. Retail has seen a growing percentage of sales online over the past few years, and COVID has only accelerated that shift, with many retailers reporting double digit (or higher) e-commerce growth during the pandemic. Should this trend continue and become the new normal with consumers preferring more than ever to buy products online, Citi Trends may lag its peers that have an omni-channel presence. However, the company's strong comp performance through the last three quarters of fiscal 2020 suggests that its local and convenient store locations and value proposition have served its customers well despite the spike in online shopping across the broader retail landscape.

Economically vulnerable customer base. The company's customer base may be more exposed to an economic recession and higher unemployment levels. However, its value-based offering, increased consumable offering, and local store fleet can provide some cushion against macro headwinds in our view. In addition, despite the significant economic dislocation and store closures seen during 2020 as a result of COVID, the company was able to largely maintain prior-year sales levels while generating expected operating margin expansion and earnings growth. While stimulus and enhanced unemployment programs may have supported demand in 2020, topline remained elevated through the holiday season when their benefits likely had waned. In addition, an increased likelihood of further stimulus programs this year should further support demand.

Management Biographies

Recent appointments to senior management team bring significant relevant experience. Over the last fifteen months, Citi Trends has transformed its senior leadership team through key appointments that bring a wealth of relevant retail experience. At the top, CEO David Makuen joined the company in March 2020 after eight years at Five Below, bringing with him a wealth of marketing and operational expertise in the value-retail space. On January 4, 2021, Pam Edwards's appointment as CFO became effective. Ms. Edwards spent the prior fifteen years at L Brands as CFO of Mast Global, Victoria's Secret, and the Express division. In late-2019, Charlie Hynes joined Citi Trends as SVP of Supply Chain having spent the previous ten years at off-price retailer Burlington. EVP and Chief Merchandising Officer Lisa Powell joined the company in late-2019 after twenty years at TJX, where she served in a variety of merchandising and planning/allocation roles.

- **David Makuen, Chief Executive Officer.** Prior to assuming his current role as CEO at Citi Trends on March 9, 2020, Mr. Makuen spent much of his career in retail, where he has served in a variety of roles. Mr. Makuen joined the company having spent the previous eight years at Five Below serving mostly recently as EVP of Marketing and E-commerce as well as EVP of Marketing and Strategy prior to that. Prior to Five Below, he worked at companies such as Ann Taylor and Eddie Bauer and alongside the likes of Neil Fiske (CEO of Marquee Brands) and Kay Krill (Former CEO of ANN Inc.). Mr. Makuen plans to leverage his extensive experience in data analytics to build awareness for Citi Trends in both new and current markets.
- **Lisa Powell, EVP and Chief Merchandising Officer.** Ms. Powell assumed her role as Chief Merchant of Citi Trends in 2019. She brings extensive off-price retail experience, working at TJX, Inc. for twenty years in various merchandising and planning/allocation positions, including VP and GMM of Ladies Sportswear. Following her career at TJX, Ms. Powell had served for the previous five years prior to joining Citi Trends as VP and GMM of Men's and Ladies Omni Channel at Century 21 Department Stores.
- **James Dunn, SVP of Store Operations.** James Dunn began his professional career as a regional manager at County Seat Stores, where he spent roughly eight years before transitioning to Jordache Outlet Stores. Following a one-year stint there, Mr. Dunn served as a regional manager at Dress Barn for approximately eight years, followed by one-year at Staples before transitioning to his current role as SVP of Store Operations for Citi Trends in January 2000.
- **Christina Short, SVP and General Merchandise Manager.** Prior to assuming her current role, Christina Short spent ten years as a buyer at TJX, then two years at Ideeli in the same capacity. She then transitioned to Citi Trends, where she began as a buyer and then worked her way up first to VP and GMM of Merchandising & Planning and Allocation and now to her current role as Senior Vice President over a nearly eight-year time span. She has been in her current role for nearly three years.
- **Pam Edwards, Chief Financial Officer.** Prior to joining Citi Trends as CFO effective January 4, 2021, Pam Edwards held CFO positions at Mast Global (the logistics division of L Brands, Inc.) as well as at Victoria's Secret and EXPRESS. Along with her time spent as VP of Finance at Sears, Ms. Edwards thirty-year career in retail brings significant financial experience to Citi Trends.
- **Charlie Hynes, SVP of Supply Chain.** Mr. Hynes began his career as a sales consultant at Merck, before transitioning into several retail-based roles before landing at Burlington Stores in late-2010 as VP logistics. Following nine-years at Burlington Stores, Mr. Hynes assumed his current role as SVP of Supply Chain at Citi Trends.
- **Jason Moschner, VP of Finance.** Mr. Moschner assumed the role of VP of Finance following the retirement of Stuart Clifford in late March 2020. Mr. Moschner has held various roles within the organization since joining in 2017, including Director of Internal Audit from 2017-2018 and Director of Finance from 2018-2019. Mr. Moschner's career

spans over a decade and includes roles at companies such as PureSpectrum and TMX Finance Family.

> **Kyle Koenig, VP, Real Estate & Construction.** Mr. Koenig assumed his role as VP of Real Estate and Construction in 2016. Prior to joining Citi Trends, Mr. Koenig's career reflects nearly twenty years of real estate experience in various roles, including Divisional VP of Real Estate & Construction at Dots, LLC and Director of Real Estate at Rue21.

Ownership

Among Citi Trends shareholders, insiders currently account for less than 9%% of total shares outstanding with the top five insiders holding approximately 7% of the shares outstanding. Institutional investors account for approximately 91% of shares outstanding with the top 15 largest holders owning just over 62% of share outstanding. AllianceBernstein is the only institutional holder that owns more than 10%, while three others also own greater than 5% of the shares outstanding as shown below.

TOP INSTITUTIONAL/INSIDER OWNERSHIP (AS OF 9/30/20)

	# Shares Out. (Thousands)	% Shares Out.
Institutions (Top 15)		
AllianceBernstein LP	1,146.6	10.8%
Dimensional Fund Advisors LP	905.7	8.5%
J. Goldman & Co. LP	662.0	6.2%
BlackRock Fund Advisors	581.2	5.5%
Macellum Capital Management LLC	486.9	4.6%
The Vanguard Group, Inc.	468.4	4.4%
Paradigm Capital Management, Inc.	346.0	3.3%
Renaissance Technologies LLC	285.8	2.7%
AWM Investment Co., Inc.	285.3	2.7%
Ancora Advisors LLC	271.4	2.6%
Stormborn Capital Management LLC	260.3	2.4%
Columbia Management Investment Advisers LLC	249.5	2.3%
Northern Trust Investments, Inc.	230.3	2.2%
SSgA Funds Management, Inc.	212.3	2.0%
Royce & Associates LP	208.6	2.0%
Insiders/Stakeholders (Top 5)		
Duskin Jonathan David	494.3	4.6%
Smith Bruce D	103.8	1.0%
Council Ivy D	74.8	0.7%
Sachse Peter R	59.3	0.6%
Dunn James A	52.2	0.5%

Source: FactSet.

CTRN SUMMARY FINANCIAL MODEL

$ in millions, except per share data. FYE Jan.

	2015	2016	2017	1Q18	2Q18	3Q18	4Q18	2018	1Q19	2Q19	3Q19	4Q19	2019	1Q20	2Q20	3Q20	4Q20E	2020E	2021E	2022E	2023E	2024E	2025E
	TOTAL	TOTAL	TOTAL	APR	JUL	OCT	JAN	TOTAL	APR	JUL	OCT	JAN	TOTAL	APR	JUL	OCT	JAN	TOTAL	TOTAL	TOTAL	TOTAL	TOTAL	TOTAL
INCOME STATEMENT HIGHLIGHTS																							
Net sales	**$683.8**	**$695.2**	**$755.2**	**$211.0**	**$182.0**	**$175.4**	**$201.2**	**$769.6**	**$205.0**	**$182.8**	**$183.1**	**$211.0**	**$781.9**	**$116.1**	**$216.2**	**$199.1**	**$238.1**	**$769.5**	**$857.4**	**$928.5**	**$1,003.3**	**$1,086.3**	**$1,180.5**
Gross Profit	267.0	267.0	289.2	81.6	71.6	64.9	75.1	293.2	76.8	68.2	68.5	83.7	297.2	31.8	89.0	83.3	97.6	301.6	335.7	368.7	403.1	440.9	483.0
Selling, General, and Administrative Expense	224.2	230.7	244.5	63.0	62.3	61.2	61.5	247.9	62.4	63.0	65.5	67.1	258.0	53.5	57.6	69.2	75.1	255.5	282.3	304.7	327.5	351.3	378.2
Depreciation	18.6	17.1	18.9	5.0	4.7	4.6	4.6	18.9	4.6	4.6	4.5	4.8	18.5	4.9	4.9	4.7	5.4	20.0	23.9	26.8	29.9	33.5	37.6
Income from Operations	**$24.2**	**$18.9**	**$25.3**	**$13.6**	**$4.6**	**($0.8)**	**$9.0**	**$26.4**	**$9.8**	**$0.6**	**($1.6)**	**$11.8**	**$20.6**	**($26.7)**	**$26.4**	**$9.3**	**$17.0**	**$26.1**	**$29.6**	**$37.3**	**$45.7**	**$56.1**	**$67.2**
EBITDA	**$42.8**	**$36.3**	**$44.7**	**$18.6**	**$9.3**	**$3.8**	**$13.6**	**$45.3**	**$14.4**	**$5.2**	**$2.9**	**$16.6**	**$39.2**	**($21.8)**	**$31.4**	**$14.0**	**$22.4**	**$46.1**	**$53.4**	**$64.0**	**$75.6**	**$89.6**	**$104.7**
Net Interest Expense (Income)	(0.1)	(0.4)	(0.7)	(0.3)	(0.3)	(0.3)	(0.3)	(1.2)	(0.3)	(0.4)	(0.4)	(0.3)	(1.4)	(0.1)	0.4	0.2	(0.2)	0.2	(0.9)	(1.2)	(1.8)	(2.0)	(2.6)
Pre-Tax Income	24.3	19.4	26.0	13.9	5.0	(0.6)	9.3	27.6	10.1	1.0	(1.2)	12.1	22.1	(26.7)	26.1	9.2	17.3	25.9	30.5	38.5	47.4	58.1	69.8
Income taxes (benefit)	8.8	6.0	8.3	2.6	1.0	(0.2)	1.8	5.2	1.5	0.2	(0.1)	2.3	3.8	(6.4)	6.2	2.2	4.1	6.1	7.3	9.2	11.4	13.9	16.7
Net Income (loss)	**$15.5**	**$13.3**	**$17.7**	**$11.3**	**$4.0**	**($0.4)**	**$7.5**	**$22.4**	**$8.6**	**$0.8**	**($1.1)**	**$9.9**	**$18.2**	**($20.3)**	**$19.9**	**$7.0**	**$13.1**	**$19.7**	**$23.2**	**$29.3**	**$36.1**	**$44.2**	**$53.1**
Diluted Shares Outstanding	15.1	14.7	14.1	13.6	13.4	12.8	12.5	13.1	12.0	11.9	11.6	11.3	11.7	10.4	10.5	10.4	10.1	10.3	10.0	9.8	9.7	9.7	9.7
Diluted EPS	**$1.03**	**$0.91**	**$1.26**	**$0.83**	**$0.30**	**($0.03)**	**$0.60**	**$1.71**	**$0.72**	**$0.06**	**($0.09)**	**$0.88**	**$1.56**	**($1.94)**	**$1.90**	**$0.67**	**$1.30**	**$1.91**	**$2.33**	**$3.00**	**$3.72**	**$4.56**	**$5.48**
YoY % Change	0.0%	(11.8%)	38.2%	25.1%	870.6%	(159.3%)	19.3%	36.4%	(13.1%)	(78.5%)	230.7%	46.6%	(9.1%)	(369.2%)	2842.9%	(818.8%)	48.4%	22.3%	22.1%	28.9%	24.2%	22.5%	20.1%
SELECT GROWTH RATES AND MARGINS																							
Net Sales Growth YoY % Change		1.7%	8.6%	5.5%	9.5%	(0.9%)	(5.2%)	1.9%	(2.8%)	0.5%	4.4%	4.9%	1.6%	(43.4%)	18.2%	8.8%	12.8%	(1.6%)	11.4%	8.3%	8.0%	8.3%	8.7%
% of sales																							
Gross Profit Margin	39.0%	38.4%	38.3%	38.7%	39.3%	37.0%	37.3%	38.1%	37.5%	37.3%	37.4%	39.7%	38.0%	27.3%	41.2%	41.8%	41.0%	39.2%	39.2%	39.7%	40.2%	40.6%	40.9%
YoY bps change		(60)	(10)	(10)	80	(70)	(80)	(20)	(120)	(200)	40	240	(10)	(1,010)	390	440	130	120	0	60	50	40	30
SG&A Expense Ratio	32.8%	33.2%	32.4%	29.9%	34.2%	34.9%	30.6%	32.2%	30.4%	34.5%	35.8%	31.8%	33.0%	46.1%	26.7%	34.8%	31.5%	33.2%	32.9%	32.8%	32.6%	32.3%	32.0%
YoY bps change		40	(80)	40	(120)	40	(40)	(20)	60	20	90	120	80	1,560	(780)	(100)	(25)	20	(30)	(10)	(20)	(30)	(30)
YoY % change		2.9%	6.0%	7.0%	5.7%	0.1%	(6.3%)	1.4%	(1.0%)	1.1%	7.1%	9.1%	4.1%	(14.2%)	(8.5%)	5.6%	12.0%	(1.0%)	10.5%	7.9%	7.5%	7.3%	7.7%
Operating Margin	3.5%	2.7%	3.3%	6.5%	2.5%	(0.5%)	4.5%	3.4%	4.8%	0.3%	(0.9%)	5.6%	2.6%	(23.0%)	12.2%	4.7%	7.2%	3.4%	3.4%	4.0%	4.6%	5.2%	5.7%
YoY bps change		(80)	60	(70)	230	(90)	(10)	10	(170)	(220)	(40)	110	(80)	(2,780)	1,190	560	160	80	10	60	50	60	50
EBITDA Margin	6.3%	5.2%	5.9%	8.8%	5.1%	2.1%	6.8%	5.9%	7.0%	2.9%	1.6%	7.9%	5.0%	(18.7%)	14.5%	7.1%	9.4%	6.0%	6.2%	6.9%	7.5%	8.2%	8.9%
YoY bps change		(100)	70	(50)	200	(110)	(40)	0	(180)	(230)	(50)	110	(90)	(2,580)	1,170	550	160	100	20	70	60	70	60
Tax Rate	36.1%	31.1%	31.8%	18.7%	19.4%	36.1%	19.7%	18.8%	14.5%	23.0%	10.1%	18.5%	17.4%	24.0%	23.8%	23.9%	24.0%	23.8%	24.0%	24.0%	24.0%	24.0%	23.9%
REVENUE DRIVERS																							
Same-Store Sales Growth	(0.1%)	(0.4%)	4.5%	2.2%	3.3%	0.7%	0.2%	1.6%	(4.5%)	(1.2%)	2.6%	3.1%	(0.1%)	(44.5%)	15.6%	6.3%	11.0%	(3.6%)	7.1%	3.0%	3.0%	3.0%	3.0%
Square Footage Growth		3.2%	3.0%	2.8%	1.7%	1.5%	2.4%	2.4%	1.4%	1.4%	1.6%	1.6%	1.6%	2.3%	3.0%	3.4%	2.5%	2.5%	5.1%	6.5%	5.3%	6.5%	6.1%
Store Count	521	533	549	553	554	557	562	562	561	562	566	571	571	574	579	585	585	585	615	655	690	735	780
Net Change YoY	10	12	16	15	9	8	13	13	8	8	9	9	9	13	17	19	14	14	30	40	35	45	45
BALANCE SHEET HIGHLIGHTS																							
Total Debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	43.7	41.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash and Short Term Investments	71.8	87.3	80.0	87.5	77.0	71.3	68.2	68.2	72.6	65.2	56.0	47.5	47.5	108.1	146.7	96.8	103.2	103.2	117.4	148.2	195.2	250.1	316.8
Net Debt (Cash)	(71.8)	(87.3)	(80.0)	(87.5)	(77.0)	(71.3)	(68.2)	(68.2)	(72.6)	(65.2)	(56.0)	(47.5)	(47.5)	(64.4)	(105.1)	(96.8)	(103.2)	(103.2)	(117.4)	(148.2)	(195.2)	(250.1)	(316.8)
Total Debt/LTM EBITDA	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x	14.5x	1.4x	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x
Total Debt/Capital	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	23.4%	20.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Inventory	137.0	134.6	137.7	125.3	138.8	139.7	139.8	139.8	131.3	132.1	135.4	138.3	138.3	121.9	94.5	114.4	130.7	130.7	145.7	156.3	167.6	180.2	194.8
YoY % change	4.5%	(1.7%)	2.3%	0.6%	5.2%	4.8%	1.6%	1.6%	4.7%	(4.9%)	(3.1%)	(1.1%)	(1.1%)	(7.1%)	(28.4%)	(15.5%)	(5.5%)	(5.5%)	11.5%	7.3%	7.2%	7.5%	8.1%
Inventory per Retail Square Foot	24.1	23.0	22.8	20.6	22.8	22.8	22.6	22.6	21.3	21.4	21.7	22.0	22.0	19.3	14.8	17.8	20.3	20.3	21.5	21.7	22.1	22.3	22.7
YoY % change		(4.8%)	(0.7%)	(2.1%)	3.5%	3.3%	(0.8%)	(0.8%)	3.2%	(6.2%)	(4.6%)	(2.7%)	(2.7%)	(9.2%)	(30.5%)	(18.2%)	(7.8%)	(7.8%)	6.1%	0.7%	1.8%	1.0%	1.8%
Inventory Turnover Ratio	3.3x	3.3x	3.5x	3.6x	3.6x	3.6x	3.5x	3.5x	3.5x	3.5x	3.6x	3.6x	3.6x	3.3x	3.6x	3.8x	3.6x	3.6x	3.6x	3.6x	3.6x	3.6x	3.6x
Return on Assets	4.9%	4.2%	5.5%	6.0%	7.2%	7.0%	7.2%	7.2%	5.9%	4.6%	4.1%	4.4%	4.4%	(2.3%)	1.8%	3.5%	4.1%	4.1%	4.4%	4.9%	5.1%	5.6%	5.9%
Return on Equity	7.2%	6.1%	8.3%	9.0%	11.0%	10.6%	11.1%	11.1%	10.0%	8.6%	8.4%	9.9%	9.9%	(6.1%)	5.0%	10.1%	12.3%	12.3%	13.9%	15.9%	16.9%	17.3%	17.3%
Book Value per Share	$14.10	$15.25	$14.84	$15.89	$15.05	$15.33	$15.03	$14.34	$15.87	$15.77	$15.52	$15.18	$14.62	$13.70	$15.63	$15.47	$16.15	$15.74	$17.82	$20.33	$24.51	$29.39	$35.22
FREE CASH FLOW CALCULATION																							
Net Income	$15.5	$13.3	$14.6	$11.3	$3.2	($0.5)	$7.3	$21.4	$7.8	$0.4	($1.1)	$9.4	$16.5	($20.9)	$19.9	$7.0	$13.1	$19.1	$23.2	$29.3	$36.1	$44.2	$53.1
Plus: Depreciation	18.6	17.1	18.9	5.0	4.7	4.6	4.6	18.9	4.6	4.6	4.5	4.8	18.5	4.9	4.9	4.7	5.4	20.0	23.9	26.8	29.9	33.5	37.6
Non-cash operating lease costs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	11.8	11.3	10.9	11.5	45.5	11.8	12.1	12.3	12.4	48.5	45.4	46.4	48.1	45.7	47.1
Asset impairment	0.0	0.3	0.5	0.0	0.9	0.2	0.2	1.3	0.0	0.5	0.0	0.0	0.5	0.3	0.0	0.0	0.0	0.3	0.0	0.0	0.0	0.0	0.0
Stock-based compensation expense	4.1	2.9	1.6	0.6	0.5	0.6	0.6	2.2	0.7	0.3	0.4	0.7	2.1	0.5	0.5	0.5	0.7	2.2	2.5	2.7	2.9	3.1	3.4
Other charges / adjustments	(0.6)	2.5	4.2	0.3	(0.4)	(0.8)	1.1	0.2	0.2	1.0	0.1	(0.3)	0.9	(7.7)	7.1	1.7	(1.0)	0.1	(0.8)	(0.6)	(0.6)	(0.7)	(0.8)
Change in working capital	(10.2)	3.6	2.5	(6.7)	(5.2)	(4.0)	2.3	(13.5)	(16.1)	(6.9)	(13.8)	(4.6)	(41.4)	23.9	(1.9)	(18.5)	(4.2)	(0.7)	(28.9)	(17.6)	(19.3)	(20.9)	(23.7)
Less: Capex	(19.6)	(23.9)	(21.0)	(2.0)	(3.7)	(3.3)	(4.2)	(13.3)	(2.3)	(6.1)	(4.9)	(10.9)	(24.2)	(4.0)	(1.9)	(6.0)	(8.0)	(19.9)	(40.0)	(45.0)	(50.0)	(50.0)	(50.0)
Free Cash Flow	**$7.9**	**$15.8**	**$21.3**	**$8.5**	**$0.0**	**($3.3)**	**$11.9**	**$17.2**	**$6.6**	**$5.1**	**($3.8)**	**$10.6**	**$18.4**	**$8.8**	**$40.7**	**$1.6**	**$18.3**	**$69.5**	**$25.2**	**$41.9**	**$47.0**	**$54.9**	**$66.7**
Free Cash Flow per Share	$0.52	$1.08	$1.51	$0.63	$0.00	($0.26)	$0.95	$1.31	$0.55	$0.43	($0.33)	$0.94	$1.58	$0.85	$3.89	$0.15	$1.82	$6.71	$2.53	$4.29	$4.85	$5.67	$6.89

Source: Company reports and TAG estimates.

ADDENDUM
Important Disclosures:

Valuation Method for Target Price: Price-to-Earnings, enterprise-value-to-EBITDA, P/E to growth, price to free cash flow, and discounted cash flow analysis.

Investment Risks: Telsey Advisory Group's (TAG's) equity research department covers consumer-focused sectors including apparel manufacturers, cannabis, children's and teen retailers, consumer electronics retailers, cosmetics, department stores, discounters, footwear, home furnishings retailers, home improvement retailers, internet, luxury goods, office supply retailers, off-price retailers, restaurants, specialty apparel retailers, sporting goods retailers, and supermarkets. Risks across or specific to one or more of these sectors include volatility of commodity costs, consumer spending, currency, rising interest rates, weaker consumer confidence and unemployment rates. Additionally, access to capital, supply chain disruptions, commodity costs, private label distribution, currency, geopolitical uncertainty, unfavorable government regulations, lack of appropriate real estate sites, and the use of the World Wide Web to sell merchandise represent unique industry risks.

Analyst Certification
The Research Analysts, Dana Telsey, Joshua Herrity and Robert Rosenhaus, who prepared the research report hereby certify that the views expressed in this report accurately reflect the Analyst(s) personal views about the subject companies and their securities. The Research Analyst(s) also certify that the Analyst(s) have not been, are not, and will not be receiving direct or indirect compensation for expressing the specific recommendation(s) or view(s) in this report.

Company Specific Disclosures
Compensation

Compensation Telsey Advisory Group (TAG) received a flat fee of $100,000 renewable annually from Citi Trends, Inc, the company discussed in this report.

Citi Trends, Inc. Rating History as of 01/13/2021

* Telsey with ratings are effective as of 09/11/14

Ratings Distribution & Investment Banking Disclosure

Rating	Count	Ratings Distribution	Count	*Investment Banking
Less Risk	1	33.33%	0	0.00%
Moderate Risk	2	66.67%	0	0.00%
High Risk	0	0.00%	0	0.00%

Compensation

Telsey Advisory Group (TAG) received a flat fee renewable annually from the company discussed in this report for the creation and dissemination of an Initiation Report and Quarterly Reports (three quarters first year, four quarters thereafter). The purpose of the fee is to subsidize the high costs of research and monitoring. TAG may receive additional compensation from the company for arranging and hosting investor meetings.

Ratings Definition and Distribution:

Smaller capitalized stocks, including microcaps, tend to exhibit more price volatility and bear certain inherent risks. These risks include but are not limited to liquidity risk, greater sensitivity to economic cycles, customer concentration, and access to funding. Any of these risks when combined with a lack of liquidity can add to greater short term price volatility.

Our recommendation system assumes inherent stock price volatility and an evaluation of company fundamentals relative to the industry and comparable universe over the next 12 months. We divide stocks under coverage into three categories, each defined by a prospective level of risk:

Less Risk – while the company's shares may be subject to high price volatility, the company's fundamentals tend to exhibit less risk over the next 12 months relative to the industry and comparable universe.

Moderate Risk – while the company's shares may be subject to high price volatility, the company's fundamentals tend to exhibit moderate risk over the next 12 months relative to the industry and comparable universe.

High Risk – while the company's shares may be subject to high price volatility, the company's fundamentals tend to exhibit more risk over the next 12 months relative to the industry and comparable universe.

Disclosures required by United States laws and regulations

See company-specific regulatory disclosures above for any of the following disclosures required as to companies referred to in this report: manager or co-manager in a pending transaction; 1% or other ownership; compensation for certain services; types of client relationships; managed/co-managed public offerings in prior periods; directorships; market making and/or specialist role.

The following are additional required disclosures:

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