



Collectors Universe (CLCT)

Updated November 9th, 2020 by Nikolaos Sismanis

Key Metrics

Current Price:	\$72	5 Year CAGR Estimate:	7.9%	Market Cap:	\$665M
Fair Value Price:	\$63	5 Year Growth Estimate:	10.0%	Ex-Dividend Date:	11/12/2020
% Fair Value:	115%	5 Year Valuation Multiple Estimate:	-2.7%	Dividend Payment Date:	11/27/2020
Dividend Yield:	1.0%	5 Year Price Target	\$101	Years Of Dividend Growth:	N/A
Dividend Risk Score:	C	Retirement Suitability Score:	F	Last Dividend Increase:	N/A

Overview & Current Events

Collectors Universe is the market leader in third-party grading and authentication services for high-value collectibles. The company authenticates and grades collectible coins, trading cards, tickets, autographs, and other memorabilia through its three brands: Professional Coin Grading Service (PCGS), the world's leading third-party coin grading service; Professional Sports Authenticator (PSA); the world's leading third-party sports card grading service; and PSA/DNA Authentication Services (PSA/DNA), the largest and most respected autograph authentication provider. Over the past couple of years, collectibles, and especially sports cards, have been gaining popularity. Streamers opening packs online have revived what was previously a childhood pastime. Add the gambling element and, most recently, a global health crisis boosting such activity, and the industry has been booming. Collectors Universe's shares have increased by more than 700% over the past two years, as the only public company to capitalize on this relatively new trend. Collectors Universe generates around \$100 million in annual revenues and is headquartered in Santa Ana, California.

On November 2nd, the company reported its Q1 2021 results for the period ending September 30th, 2020. Revenues hit a new quarterly high at \$30.8 million, a 51% year-over-year increase, while EPS jumped by 65% to \$0.66, further boosted by increased margins amid higher authentication volumes. The company is fully capitalizing on the sports cards/autographs trend, with the segment seeing revenue growth of 130% to 18.6 million. To push the industry's reach further, the company announced its intentions to increase its operational capacity in China, which could potentially be a growth market. Additionally, the company leased an additional 62K square feet of space, doubling its current operational capacities, anticipating that its industry will continue booming.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$0.67	\$0.85	\$0.71	\$0.90	\$0.89	\$0.90	\$1.00	\$0.72	\$1.12	\$1.20	\$2.50	\$4.03
DPS	\$1.28	\$1.30	\$1.30	\$1.30	\$1.35	\$1.40	\$1.40	\$1.05	\$0.70	\$0.70	\$0.70	\$0.89
Shares¹	7.8	8	8.1	8.2	8.5	8.5	8.6	8.8	9	9.1	9.1	9.5

Over the past decade, Collectors Universe's EPS had been struggling to grow, while dividends would come out of the company's own cash, deteriorating shareholders' equity in order to offer a high enough yield before eventually cutting it in 2018. Ever since, however, the company's growth has been accelerating, not only covering distributions but also on their way to double earnings compared to last year, assuming they follow their current trajectory. While it is quite speculative to forecast its future EPS due to the fluidity of the current trend, we estimate an annualized growth of around 10% as the company takes advantage of its new workspace to expand its operations. Management mentioned that it has a significant backlog ahead, which should smooth out revenue growth, assuring investors that profitability growth should remain strong. Considering that no significant mentions were made in regards to capital returns, and the company's next quarterly DPS was maintained at \$0.175, we expect no dividend growth in the medium term. We expect the company to focus on growing the business further and strike while the iron is hot, by leasing additional space or perhaps acquiring some of its smaller competitors.

¹ Share count is in millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	23	24.2	17.3	25.1	21.4	20.1	22.8	21.4	20.4	35.0	28.6	25.0
Avg. Yld.	8.5%	9.2%	12.2%	6.1%	8.5%	6.9%	5.4%	4.6%	4.0%	2.0%	1.0%	0.9%

Collectors Universe's P/E ratio had been hovering in the low 20's. Despite its lack of growth, the stock's often sky-high yield due to management's unsustainable distributions would keep shares quite pricy.

As shares have skyrocketed over the past couple of years, the stock's yield is currently just around 1%, while a valuation premium of around 28 times earnings remains as the market expects EPS' growth to continue. We believe that in the medium term, the stock's P/E will settle around 25, as the current trend eventually matures.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	191%	153%	183%	144%	152%	156%	140%	146%	63%	58%	28%	22%

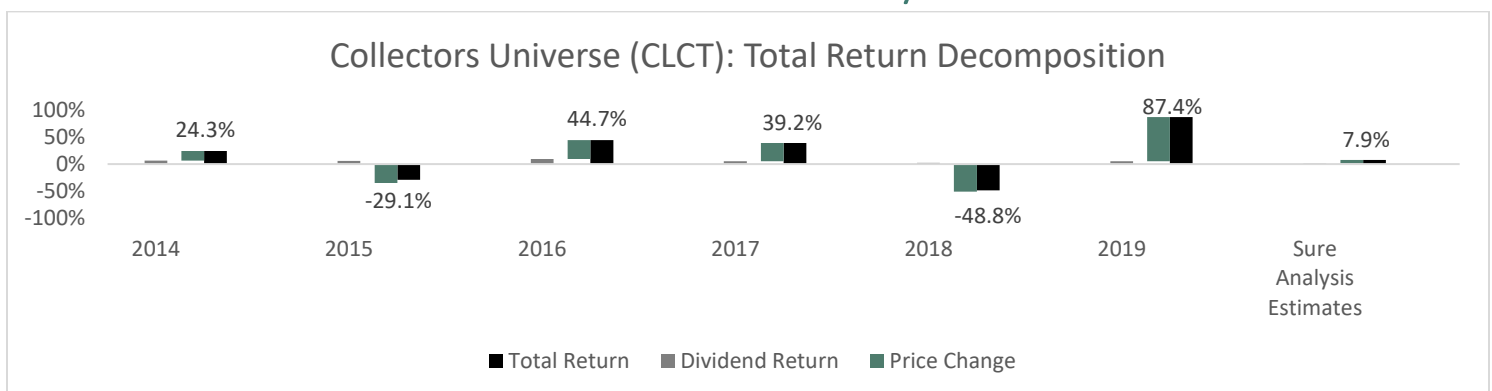
While Collectors Universe's payout ratio has become healthier, with earnings currently fully supporting distributions, it's worth mentioning that management's previous policy was rather irresponsible and definitely not in line with shareholder value creation. This concern is quite significant. While management has been successfully capitalizing on the current sports cards' growth trend, it remains unclear if shareholders remain on the company's "Priorities" list.

However, the biggest risk for current investors is whether the admittedly well-established, current trend will continue booming or if it will quickly fade out, sending shares back to their 5-figure market cap. Simultaneously, should growth continue at its current rate, which management's comments towards having a "backlog" to authenticate could support, then shares may also be cheap at their current valuation. Collectors Universe's case remains speculative and quite high risk/high reward, mostly subject to how well the current collectibles' trend lasts and remains relevant in the future.

Final Thoughts & Recommendation

Collectors Universe is a truly unique stock, offering exposure in a very niche and recently in-demand market. While the company's future is highly dependent upon the trajectory of the current collectibles' trend, shares may have further upside if sports cards and rare coins remain relevant over the next few years. Collectors Universe's expected returns are quite speculative. However, assuming a reasonable capacity expansion of the company's operations, we estimate annualized returns of just around 8% in the medium term. The stock's investment remains a high risk/high reward one.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	44.4	48.4	49.1	60.6	61.7	61.0	70.2	68.4	72.5	78.9
Gross Profit	27.2	29.0	30.0	37.9	38.6	38.1	43.3	39.0	42.3	45.2
Gross Margin	61.2%	59.9%	61.2%	62.6%	62.6%	62.4%	61.7%	56.9%	58.4%	57.3%
SG&A Exp.	17.5	19.8	20.5	25.4	26.5	25.7	30.1	30.0	28.0	30.6
D&A Exp.	0.8	0.8	1.0	1.3	1.3	1.5	1.7	2.3	2.8	3.0
Operating Profit	9.7	9.2	9.5	12.5	12.1	12.4	13.2	9.0	14.3	14.6
Op. Margin	21.7%	18.9%	19.3%	20.6%	19.6%	20.3%	18.8%	13.1%	19.8%	18.5%
Net Profit	5.1	6.7	5.7	7.4	7.4	7.6	8.5	6.2	10.0	10.8
Net Margin	11.5%	14.0%	11.7%	12.1%	12.0%	12.5%	12.1%	9.1%	13.8%	13.7%
Free Cash Flow	9.9	8.9	7.9	10.7	9.3	6.7	9.7	6.8	15.6	16.5
Income Tax	3.3	2.4	3.8	5.1	4.7	4.7	4.7	2.8	4.1	3.4

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	36.5	36.4	33.0	35.6	32.2	28.2	28.6	32.2	37.7	55.5
Cash & Equivalents	21.9	21.2	18.7	19.9	17.3	12.0	9.8	10.6	19.2	28.6
Accounts Receivable	1.5	1.8	2.1	2.1	2.5	3.9	3.6	2.6	2.4	2.3
Inventories	1.4	2.3	1.7	1.9	1.6	1.8	2.7	2.6	2.0	2.5
Goodwill & Int. Ass.	3.2	3.9	3.6	3.4	3.6	3.8	4.3	4.4	4.4	4.1
Total Liab.	11.4	11.9	12.5	14.9	13.7	13.2	12.7	17.9	18.7	30.5
Accounts Payable	1.4	1.6	1.6	2.1	2.0	2.7	2.7	2.5	2.5	3.4
Long-Term Debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.0	2.4	1.7
Total Equity	25.1	24.5	20.6	20.6	18.5	15.0	15.9	14.3	18.9	25.0
D/E Ratio	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.1	0.1

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	13.6%	18.5%	16.5%	21.5%	21.8%	25.3%	30.0%	20.5%	28.5%	23.2%
Return on Equity	19.4%	27.2%	25.4%	35.7%	37.8%	45.7%	55.1%	41.3%	60.1%	49.1%
ROIC	19.4%	27.2%	25.4%	35.7%	37.8%	45.7%	55.1%	37.6%	51.6%	44.9%
Shares Out.	7.8	8.0	8.1	8.2	8.5	8.5	8.6	8.8	9.0	9.1
Revenue/Share	5.70	6.05	6.06	7.34	7.24	7.13	8.13	7.76	8.08	8.70
FCF/Share	1.27	1.12	0.98	1.30	1.10	0.78	1.13	0.77	1.73	1.82

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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