Oct 11, 2024

General
SCS
NYSE

Rating
Outperform
Unchanged

Current Price
$12.60
Target Price
$16.00

Market Capitalization
1.44B

Shares Outstanding
94M

Float
81.1M

Institutional Holdings
60.9%

12-Month Low/High
$10.29/$14.74

Average 90-Day Volume
587000

Fiscal Year End
02/28/2025

Revenues ($ MIL)

Period	2024A	2025E	2026E
Q1	751.9	727.3A	750.0E
Q2	854.6	855.8A	900.0E
Q3	777.9	790.0E	825.0E
Q4	775.2	835.0E	830.0E
	3,159.6	3,208.1E	3,305.0E

EPS ($)

Period	2024A	2025E	2026E
Q1	0.09	0.16A	0.13E
Q2	0.31	0.39A	0.44E
Q3	0.30	0.22E	0.26E
Q4	0.23	0.22E	0.27E
	0.93	0.99E	1.11E

Steelcase

A New 10b5-1 Plan

A New Plan. Yesterday, after the market closed, Steelcase filed an 8-k with the Securities & Exchange Commission reporting the Company has entered into a stock repurchase agreement with an independent third party broker. The agreement was established in accordance with Rule 10b5-1 of the Securities Exchange Act of 1934. We believe share repurchases are a good use of excess cash on the balance sheet at current prices.

Details. The broker is authorized to repurchase up to 1.5 million shares of the Company's common stock on behalf of the Company during the period from October 11, 2024 through December 20, 2024, subject to certain price, market and volume constraints specified in the agreement. At yesterday's closing price, acquiring the shares would cost approximately $19 million and the 1.5 million shares represent approximately 1.6% of the outstanding Class A shares. The Company has $79.9 million remaining under its $100 million share repurchase plan authorization.

Maintaining Outperform Rating. We are maintaining our Outperform rating and $16 price target on Steelcase shares. Already the global leader in the office furniture marketplace, we believe there is a substantial opportunity to capture additional wallet share. The Company's research driven approach is a competitive differentiator, in our view.

Equity Research
Joe Gomes, CFA, Managing Director, Equity Research Analyst, Generalist
561-999-2262, jgomes@noblecapitalmarkets.com, Connect on LinkedIn

Joshua Zoepfel, Research Associate - jzoepfel@noblecapitalmarkets.com

Noble Capital Markets, Inc.
Trading: (561) 998-5489 Sales: (561) 998-5491
noblecapitalmarkets.com | Follow Noble on LinkedIn

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Company Profile

Founded in 1912 and publicly traded since 1998, Steelcase is the world's largest office furniture company. Through a network of 770 independent and wholly-owned dealers, Steelcase provides a comprehensive portfolio of furniture and architectural products for individual and collaborative work across a range of price points. The Company's furniture portfolio includes furniture systems, seating, storage, fixed and height-adjustable desks, benches and tables and complementary products such as work accessories, lighting, mobile power and screens. Steelcases's family of brands that includes Steelcase, AMQ, Coalesse, Designtex, HALCON, Orangebox, Smith System and Viccarbe.

Steelcase employs a research and analytical driven approach towards helping people reach their full potential at work, wherever work happens. The Company focuses on translating research-based insights into products, applications, and experiences that help organizations around the world amplify the performance of their people, teams, and enterprises. Steelcase helps customers create office, healthcare, and educational environments that support attraction and retention of talent, employee well-being and engagement, organizational culture and productivity, and other needs of employees. Steelcase's global scale and reach allows for a consistent experience to global customers while offering local differentiation through a local dealer network and tailored solutions.

In fiscal 2024 (ended February 23, 2024), Steelcase generated revenue of $3.16 billion and net income of $81.1 million or EPS of $0.68. Adjusted EPS was $0.93. During fiscal 2024, the Americas accounted for 76.6% of consolidated revenue and the International business 23.4%.

Fundamental Analysis 4.0/5.0 checks

Our fundamental assessment rating, separate from our investment rating and valuation, is based on five attributes. We assign 4.0 checks out of 5.0 checks, which falls within our "Above Average" range. In terms of Governance, all directors are elected annually and eight of the ten Directors are independent. The Chairman and CEO positions are separated, with an independent Chairman. Executive compensation is driven by a pay-for-performance philosophy. There are stock ownership guidelines for executive officers and Directors. Directors cannot be reappointed once they have reached 75 years old. Offsetting these positives are a dual class structure with 93.8 million Class A shares outstanding as of May 3, 2024 and 20.27 million Class B shares outstanding. The Class B shares have 10 votes per share, with the Class B shares effectively controlling the Company.

From a business perspective, we believe Steelcase can use its already market leading position to capture additional market share, driving revenue higher. The Company has a goal of reducing costs by $50 million over the next couple of years which should drive margins higher. The capital structure remains a source of strength, in our view, with cash and the cash value of the Company owned life insurance exceeding debt. Historically, cash flow has been solid and we expect this to continue. On the negative side, the office furniture sector is competitive and subject to cyclicality based on the overall economy.

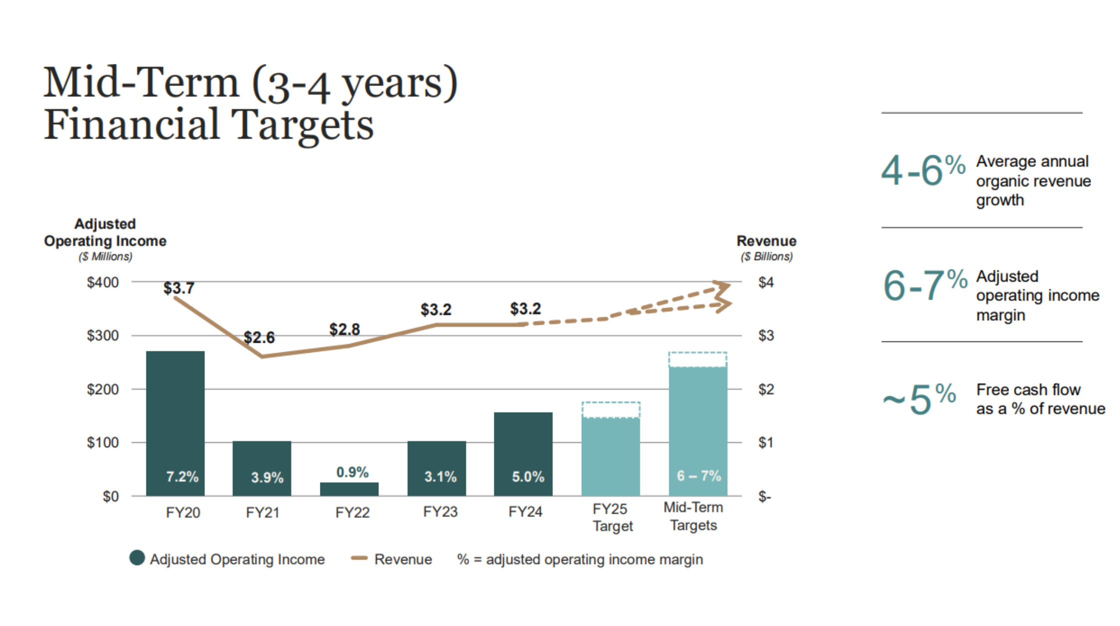
Valuation Summary

We are maintaining our Outperform rating and $16 price target on Steelcase shares. Already the global leader in the office furniture marketplace, we believe there exists substantial opportunity to capture additional wallet share. The Company's research driven approach is a competitive differentiator, in our view.

At our target price, SCS shares would trade at 16.2x projected fiscal 2025 EPS, 7.5x EV/projected fiscal 2025 adjusted EBITDA, and 0.64x EV/projected fiscal 2025 revenue. If we also subtracted out the cash value of Company owned life insurance from our EV calculation, the EV multiples would decline to 6.9x adj. EBITDA and 0.59x revenue. Historically, SCS shares have traded in the 14-15x EPS range and about 7x on an EV/adjusted EBITDA range.

There is not a solid peer group to Steelcase. The closest competitor is MillerKnoll, which trades at 27x 2024 projected EPS, 8.5x EV/projected 2024 adjusted EBITDA, and 0.90x EV/projected 2024 revenue. If we expand the peer group out to include firms that provide various products to other companies, such as Pitney Bowes, ARC Document, and ACCO, the group trades at an average 12x 2024 projected EPS, 5.2x EV/projected adjusted EBITDA, and 0.83x EV/projected 2024 revenue.

Longer term, we believe Steelcase will benefit from expanding margins over a higher revenue base. Management's near-term financial goals are highlighted in the following chart. We believe the 6-7% adjusted operating margin is a conservative goal as the Company has come close to the 7% level in the past and is in the midst of implementing $50 million of cost savings.



Source: Company reports

To illustrate what achieving these goals could mean to Steelcase, we would point to fiscal 2020 results (calendar 2019). The Company generated $3.7 billion of revenue, a 32.6% gross margin, $257 million of operating income, a 6.9% margin, and an estimated $340 million of adjusted EBITDA. This compares to our fiscal 2025 estimates of $3.2 billion, a 33.2% gross margin, $177 million of operating income, a 5.5% margin and $272 million of adjusted EBITDA. We are confident in management's ability to hit the near-term financial targets.

Investment Risks include, but are not limited to:

1) Advances in technology, changing workforce demographics, remote work, shifts in work styles and behaviors and the globalization of business have been changing the world of work and impacting the types and amounts of workplace products and services purchased by customers. In recent years, these trends have resulted in changes such as:

- a decrease in overall demand for office furniture from corporate customers,
- an increase in demand for products that support individual privacy and focused work,
- an increase in demand for products that facilitate distributed collaboration, including those that enhance remote work experiences,
- an increase in demand for ancillary furniture for social and collaborative spaces in office settings,
- refreshment of workplace settings, and
- customer interest in a broader range of price points, quality and warranty coverage.

2) Demand for office furniture is influenced by macroeconomic factors, such as corporate profits, non-residential fixed investment, white-collar employment, and commercial office construction and vacancy rates. The office furniture industry has experienced periodic major declines in demand, driven by economic downturns in the Americas, EMEA, and Asia Pacific.

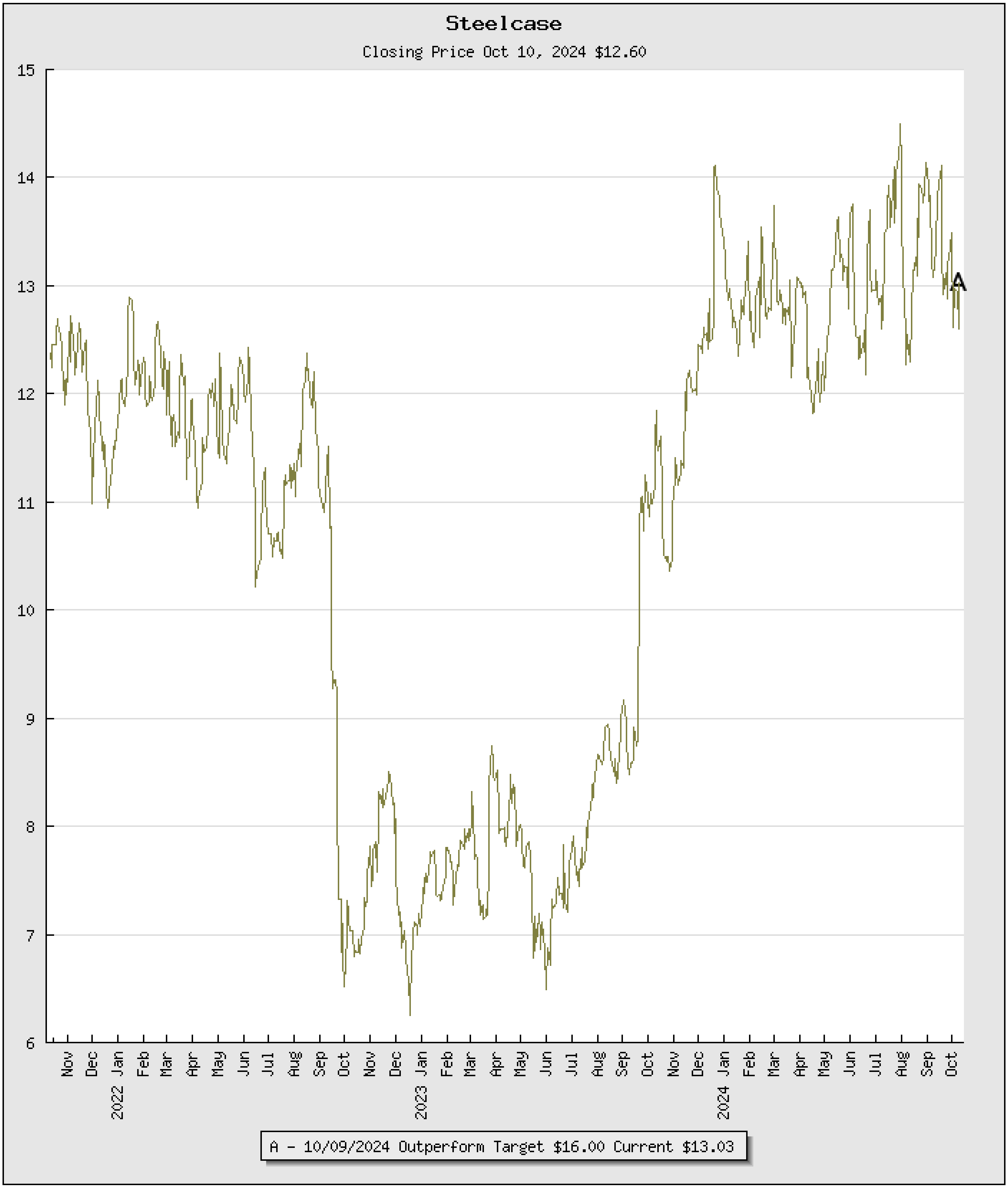
3) Changes in raw material, commodity, and other input costs. In the short term, significant increases in raw material,

commodity, and other input costs can be very difficult to offset with price increases because of existing contractual commitments with customers, and it is difficult to find effective financial instruments to hedge against such changes. As a result, gross margins can be adversely affected in the short term by significant increases in these costs.

4) Steelcase relies largely on a network of independent dealers to market, deliver and install products, and disruptions and increasing consolidations within the dealer network could adversely affect business.

5) The Company's global presence subjects Steelcase to risks that may negatively affect profitability and financial condition.

6) Unforeseen complexity or delay in the design or implementation of the new global enterprise resource planning (“ERP”) system could adversely affect the business. Steelcase is reliant on a global ERP system to support processes critical to manufacturing operations, financial reporting, and executive decision-making. In the third quarter of fiscal 2024, the Company entered the application-development phase of a multi-year, phased implementation of a new cloud-based ERP system which is expected to replace the current ERP system and various other supporting systems for operating and financial processes. The new system is expected to be deployed beginning in 2026.


Steelcase
Closing Price Oct 10, 2024 $12.60
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2022
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2024
A
A - 10/09/2024 Outperform Target $16.00 Current $13.03

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Noble intends to seek compensation for investment banking services and non-investment banking services (securities and non-securities related) within the next 3 months.

Noble is not a market maker in the Company.

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The fundamental assessment rating system is designed to provide insights on the company's fundamentals both on a macro level, which incorporates a company's market opportunity and competitive position, and on a micro/company specific level. The micro/company specific attributes include operating & financial leverage, and corporate governance/management. The number of check marks that a company receives is designed to provide a quick reference and easy determination of the company's fundamentals based upon the following five attributes of the company (weighting reflects the importance of each attribute in the overall scoring of company's fundamental analysis):

Attribute	Weighting
Corporate Governance/Management	20%
Market Opportunity Analysis	20%
Competitive Position	20%
Operating Leverage	20%
Financial Leverage	20%

For each attribute, the analysts score the company from a low of zero to a high of ten based upon the analysis described below. The final rating and resulting check marks is a result of dividing the overall score (out of 100%) by ten.

Rating	Score	Checks
Superior	9.1 to 10	Five Checks
Superior	8.1 to 9	Four & A Half Checks
Above Average	7.1 to 8	Four Checks
Above Average	6.1 to 7	Three & A Half Checks
Average	5.1 to 6	Three Checks
Average	4 to 5	Two & A Half Checks
Below Average	3 to 3.9	Two Checks
Below Average	2 to 2.9	One & A Half Checks
Low Quality	0 to 1.9	One Check

While these are the attributes currently used for the analyst's fundamental analysis, the attributes and weighting may be reviewed, updated with additional attributes, and/or changed in the future based on discussions with the analysts and recommendations from the Director of Research.

Following is the description of each attribute in the fundamental analysis.

Corporate Governance/Management

We believe that a review of corporate governance and assessment of the senior management are important tools to determine investment merit. Good corporate governance aligns management with the interests of stakeholders. As such, analysts are to rank the company on the basis of good corporate governance principles that may include rules and procedures, board composition and staggered term limits, rights and responsibilities, corporate objectives, monitoring of actions and policies, and accountability. In addition, analysts will assess issues with controlling shareholders and whether decisions have been made in the past that were in the interests of all shareholders. In addition, management will be assessed based on industry experience, expertise, and/or track record.

High ranking example: Board and management that is aligned with the interests of shareholders with incentives based on stock price appreciation and with an experienced management team known for exceptional shareholder returns.

Low ranking example: Concentrated ownership without independent directors that do not necessarily align with all shareholders' interests.

The Market Opportunity Analysis

In this review, the analyst assesses the company's macro environment as a measure of understanding the industry. Factors considered include the size and growth potential of the industry under various economic conditions, the emerging demands in the market, technological benefits/disruptions, competition, geographical opportunities, and customer demands/needs, and an assessment of supply and distribution channels. In addition, the analyst will review legal and regulatory trends, as well as potential shifts in consumer or social behavior and natural environment changes.

High rank example: A company in an industry that is growing revenues well above GDP rates (which are on average 2% plus) and/or may have unmet or under-served needs in a rapidly growing market opportunity.

Low rank example: A mature industry that is in secular decline and likely to grow below GDP rates.

Competitive Position

The evaluation of the company's competitive position is another macro environment attribute designed to measure the relevance, market share, position and value proposition, and sustainable differentiations of the company and its products/services within its industry. Ease of entry into the industry and the ability of other well-funded players to potentially enter the market would be determined. As such, the assessment would consider the company's strengths and advantages of its products/services against weaknesses and limitations. This may include the company's current brand awareness, pricing and cost structure, current market strategies and geographic penetration that may affect demand for its products/services. In addition, the company's competitors would be evaluated.

High rank example: An analyst would consider the company's product to be superior to its competitors and that should allow the company to gain market share.

Low rank example: A company with a "me-too" product that does not have any significant technology advantages in an industry that has low barriers to entry.

Operating Leverage

Simplistically, operating leverage is determined by the operating income relative to changes in revenue. The analyst will calculate the impact on sensitivity on gross margins and variable costs to determine operating leverage. The analyst will take into account the ability of the company to cut fixed and variable costs in a challenged revenue environment and technological changes that may impact operating expenses. In addition, the analyst is to assess corporate strategies that include capital investment, which may be required for sustainable revenue growth, marketing expenses, and the company's ability to attract and retain talent and/or employees. The analyst should focus on the revenue opportunity and determine the price elasticity of demand for the company's products or services. In other words, the analyst is to rank the company based on improved operating margins going forward on an absolute and relative basis.

High rank example: A company that has improving margins for the foreseeable future, with significant price elasticity.

Low rank example: A company that is in a challenged revenue environment with a fixed cost structure and limited ability to cut costs, indicating an outlook for declining margins.

Financial Leverage

A strict definition of financial leverage is total debt divided by total shareholder's equity. Financial leverage analysis is to determine the company's ability to improve shareholder value by means of utilizing its balance sheet to grow organically or to acquire assets. Analysts may look at the company's debt to cash flow leverage ratio, interest coverage ratios, or debt to equity ratios. In addition, the interest rate environment and the outlook for interest rates are a factor in determining the company's ability to manage financial leverage. Finally, the analyst is expected to determine the ability to service the debt given the industry and/or company profile, such as cyclicality, barriers to entry, history of bankruptcy, consistency in revenue and profit growth, or predictability in sales and profits and large cash reserves. The analyst is expected to take into account capital intensity of the company and the anticipated of capital allocation decisions.

High rank example: A company with predictable and growing revenue and cash flow with modest debt levels. This may indicate that the company could improve shareholder value through growth investments, including acquisitions, using debt financing.

Low rank example: A company in a cyclical industry in a late stage economic cycle that has above average debt leverage and is in an industry that has a history of financial challenges, including bankruptcies.

ANALYST CREDENTIALS, PROFESSIONAL DESIGNATIONS, AND EXPERIENCE

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NOBLE RATINGS DEFINITIONS	% OF SECURITIES COVERED	% IB CLIENTS
Outperform: potential return is >15% above the current price	90%	25%
Market Perform: potential return is -15% to 15% of the current price	10%	3%
Underperform: potential return is >15% below the current price	0%	0%

NOTE: On August 20, 2018, Noble Capital Markets, Inc. changed the terminology of its ratings (as shown above) from "Buy" to "Outperform", from "Hold" to "Market Perform" and from "Sell" to "Underperform." The percentage relationships, as compared to current price (definitions), have remained the same.

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Noble Capital Markets, Inc.
150 E Palmetto Park Rd, Suite 110
Boca Raton, FL 33432
561-994-1191

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