



# Weyco Group (WEYS)

Updated August 8<sup>th</sup>, 2018 by Bob Ciura

## Key Metrics

<b>Current Price:</b> \$37	<b>5 Year CAGR Estimate:</b> 2.0%	<b>Volatility Percentile:</b> 48.8%
<b>Fair Value Price:</b> \$31	<b>5 Year Growth Estimate:</b> 3.0%	<b>Momentum Percentile:</b> 83.9%
<b>% Fair Value:</b> 120%	<b>5 Year Valuation Multiple Estimate:</b> -3.6%	<b>Valuation Percentile:</b> 36.5%
<b>Dividend Yield:</b> 2.6%	<b>5 Year Price Target</b> \$36	<b>Total Return Percentile:</b> 11.7%

## Overview & Current Events

Weyco Group designs and manufactures footwear. It was founded in 1906. Today, it has a market capitalization of \$374 million. Weyco's brand portfolio consists of Florsheim, Nunn Bush, Stacy Adams, BOGS, Rafters, and Umi. The company sells its products mainly through department stores and specialty retailers. It also operates Florsheim concept stores in the U.S. and Australia, as well as in a variety of international markets.

On 8/7/18, Weyco Group announced second-quarter earnings. Revenue of \$60.9 million increased 6% from the same quarter a year ago, while earnings-per-share increased 25%. Sales increased 8% in the North America wholesale segment, where the company derives approximately 75% of total sales. Florsheim brand sales rose 30% for the quarter, driven by new product sales. Net sales of the Nunn Bush and BOGS brands were up 4% and 6%, respectively. Stacy Adams sales declined 2% for the quarter.

## Per-Share Growth

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
<b>EPS</b>	\$1.45	\$1.11	\$1.19	\$1.37	\$1.73	\$1.62	\$1.75	\$1.68	\$1.56	\$1.60	<b>\$1.76</b>	<b>\$2.04</b>
<b>DPS</b>	\$0.53	\$0.59	\$0.63	\$0.64	\$0.84	\$0.54	\$0.75	\$0.79	\$0.83	\$0.87	<b>\$0.91</b>	<b>\$1.06</b>

Weyco Group has positive growth potential, even though the operating environment is uncertain right now. The e-commerce boom has led to major challenges for Weyco Group's retail distribution. Net sales in the North American retail segment declined 3% last quarter. Fortunately, the company is building its availability in new sales channels. Same store sales, including U.S. internet sales, increased 2% for the quarter due to increased sales on the company's websites. Earnings growth will be aided by sales growth as well as tax reform. In the most recent quarter, Weyco's earnings were positively impacted by the lower U.S. federal tax rate of 21%, compared with a 35% tax rate in 2017.

Weyco's earnings-per-share have declined since reaching a peak in 2012, but there is potential for a return to sales growth, as the company unveils new products and expands its e-commerce presence. Due to the greater-than-anticipated boost from tax reform, we are raising our earnings forecast for this year. Weyco is expected to grow earnings by 10% in 2018, while forecasts for 3% annual earnings growth through 2023 remain unchanged.

## Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
<b>Avg. P/E</b>	20.1	22.0	20.1	17.2	13.7	15.9	15.5	16.7	17.3	17.5	<b>21.1</b>	<b>17.6</b>
<b>Avg. Yld.</b>	1.8%	2.4%	2.6%	2.7%	4.2%	1.4%	2.8%	2.8%	3.1%	3.1%	<b>2.6%</b>	<b>3.2%</b>

Weyco stock trades for a price-to-earnings ratio of 21.1, based on our updated 2018 earnings forecast. This is significantly above the 10-year average price-to-earnings ratio, of 17.6, which is our estimate of fair value. Weyco stock has risen significantly in 2018, which explains its expanding valuation. A declining valuation could reduce Weyco's annual returns by 3.6% per year through 2023.

*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.*

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
<b>GP/A</b>	42.6%	40.8%	40.4%	39.0%	40.3%	43.8%	44.3%	40.7%	41.8%	42.1%	<b>42.1%</b>	<b>42.1%</b>
<b>Debt/A</b>	16.8%	20.7%	22.8%	39.3%	38.9%	28.9%	31.2%	33.6%	24.8%	24.5%	<b>24.5%</b>	<b>24.5%</b>
<b>Int. Cov.</b>	395.1	645.4	156.5	38.0	53.1	72.3	172.2	164.5	52.2	1560.8	<b>1282</b>	<b>1282</b>
<b>Payout</b>	36.5%	53.1%	52.9%	46.7%	48.5%	32.1%	42.8%	47.0%	53.2%	54.4%	<b>51.7%</b>	<b>52.0%</b>
<b>Std. Dev.</b>	76.3%	59.2%	28.8%	37.4%	29.0%	24.9%	30.9%	26.8%	26.9%	24.4%	<b>36.5%</b>	<b>36.5%</b>

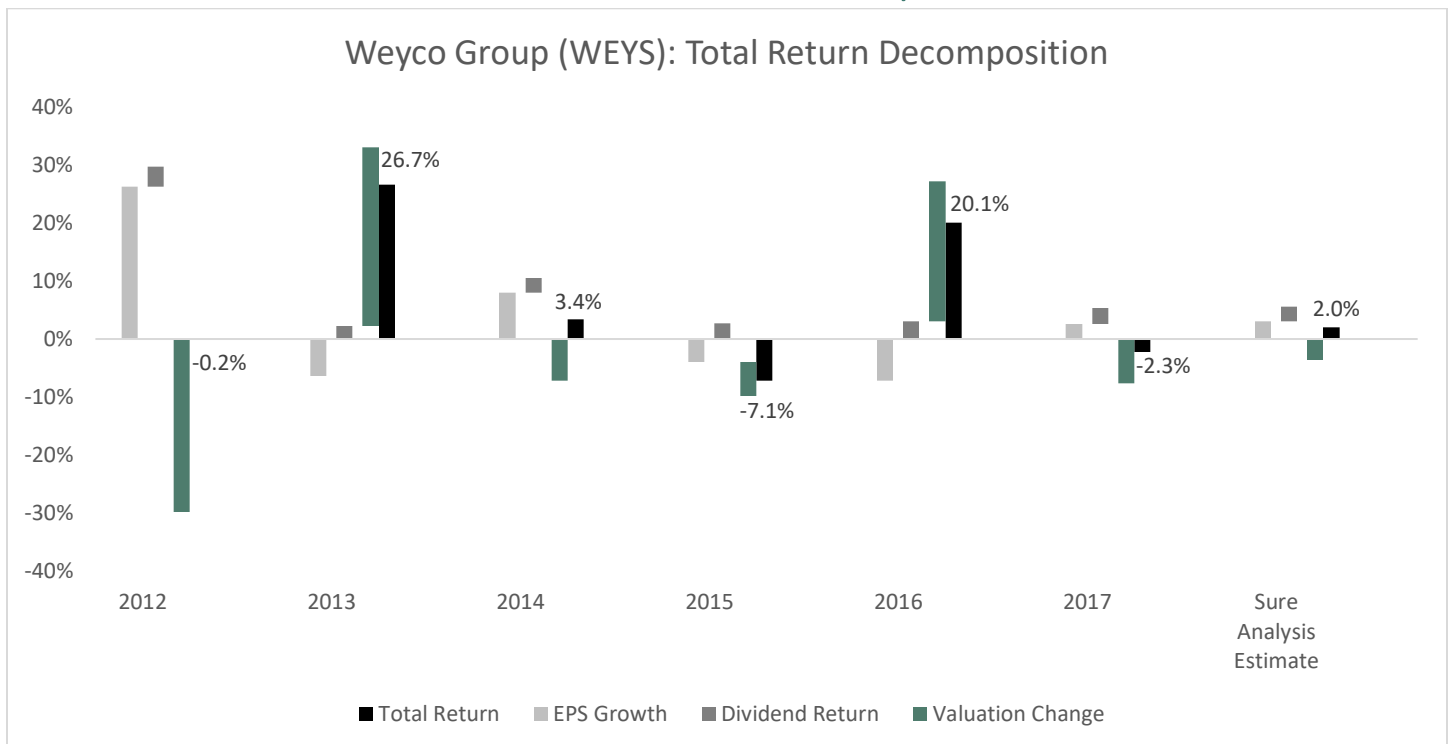
Weyco is having difficulty producing growth, but the company scores well across multiple safety metrics. Thanks to a strong balance sheet with very low levels of interest-bearing debt, the dividend payout is highly secure. Its payout ratio is modestly above 50%, which indicates a comfortable dividend policy. In addition, with very high interest coverage, the company's debt is manageable.

That said, Weyco does not possess many identifiable competitive advantages. Footwear is a highly competitive business, and as a relatively small player, Weyco does not possess economies of scale over its larger competitors. Furthermore, the industry is in decline, due to the broader challenges facing brick-and-mortar retail. Unless Weyco can enter the e-commerce channel more aggressively, it will likely continue to struggle in generating earnings growth.

### Final Thoughts & Recommendation

Weyco is a profitable company with a secure 2.6% dividend yield. But the business model is challenged. Weyco does not have a strong enough brand portfolio to overcome its continued reliance on physical retail, as its wholesale business still dwarfs its online presence. Growth is likely to be restrained as a result. In addition, the stock appears to be considerably overvalued. The combination of earnings growth, dividends, and valuation changes is expected to result in total returns of just 2.0% per year over the next five years. This is a low rate of return, which makes the stock an unattractive choice for investment. We therefore rate Weyco stock as a sell, and would recommend investors look elsewhere for better dividend stocks.

### Total Return Breakdown by Year



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