Dillard's (DDS)

Updated November 17th, 2018 by Jonathan Weber

Key Metrics

Current Price:	$65	**5 Year CAGR Estimate:**	9.8%	**Volatility Percentile:**	96.0%
Fair Value Price:	$67	**5 Year Growth Estimate:**	8.7%	**Momentum Percentile:**	75.0%
% Fair Value:	97%	**5 Year Valuation Multiple Estimate:**	0.5%	**Growth Percentile:**	82.1%
Dividend Yield:	0.6%	**5 Year Price Target**	$101	**Valuation Percentile:**	58.0%
Dividend Risk Score:	A	**Retirement Suitability Score:**	C	**Total Return Percentile:**	58.0%

Overview & Current Events

Dillard's is a department store company that sells fashion apparel, cosmetics and home furnishings through 290 stores and clearance centers. Dillard's was founded in 1938 and is headquartered in Little Rock, AR. Dillard's currently trades with a market capitalization of $1.8 billion.

Dillard's reported its third quarter earnings results on November 15. The company recorded revenues of $1.42 billion during Q3, which represents a growth rate of 5.2% compared to the prior year's quarter. Sales were primarily driven by a 3% increase in Dillard's comparable store sales. Dillard's was negatively impacted by gross margin compression, which management blamed on markdowns. Due to lower-than-expected margins Dillard's earned just $0.27 per share, widely missing estimates. Dillard's has invested $54 million in share repurchases during the quarter, which equals an annual pace of ~$220 million, an amount that is equal to 12% of Dillard's market capitalization. Since Dillard's profits are heavily weighted towards Q4 (holiday quarter), the earnings miss during Q3 is not overly important.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	-	$0.74	$2.52	$4.29	$6.32	$6.99	$7.79	$6.91	$4.93	$4.89	***$5.54***	***$8.41***
DPS	$0.16	$0.16	$0.16	$0.18	$0.20	$0.22	$0.24	$0.26	$0.28	$0.34	***$0.40***	***$0.75***
Shares	73	74	60	49	48	44	41	36	32	28	***26***	***20***

Dillard's recovered quickly from the financial crisis. By 2010 earnings-per-share were above pre-crisis levels again. For several years Dillard's produced strong growth rates, but starting in 2015 profits started to decline. Revenue growth has not been strong over the last decade. Sales in 2017 actually were lower than sales in 2008. Dillard's profit growth in the early 2010s was primarily driven by margin expansion, as gross and operating margins rose substantially – a trend that has unfortunately reversed, which was the reason for the declining profits over the last couple of years.

Dillard's results during the first nine months of 2018 were not bad, as rising comps sales should help stabilize margins going forward. As fixed costs per store do not change materially, higher sales (and gross profits) per store are a tailwind for Dillard's margins. Markdowns, which were responsible for gross margin compression during Q3, will likely not be a recurring headwind. Dillard's has returned a massive amount of cash to its owners via share repurchases in the past. The company's share count declined by more than 60% over the last decade. This means that each remaining share's portion of the company's earnings has risen by ~160% over those ten years. Dillard's is likely to continue lowering its share count at a compelling pace. Together with a low-single digits sales growth rate and stable margins these share repurchases should lead to a high-single digits earnings-per-share growth rate. Dillard's has grown its dividend by 13% annually over the last five years, but from a very low starting point. The dividend yield remains very low for now.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	-	15.1	11.4	10.1	11.3	12.1	13.8	14.7	13.4	11.6	***11.7***	***12.0***
Avg. Yld.	1.4%	1.4%	0.6%	0.4%	0.3%	0.3%	0.2%	0.3%	0.4%	0.6%	***0.6%***	***0.5%***

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.

Dillard's (DDS)

Updated November 17th, 2018 by Jonathan Weber

Dillard's has traded at a price to earnings multiple of 10-15 throughout the last decade. Right now shares trade at slightly less than 12 times annual net profits. We believe that shares would be fairly valued at 12 times earnings, which means that Dillard's is marginally undervalued today. Competition from online retailers such as Amazon, which makes investors wary of traditional retailers, means that Dillard's price-to-earnings ratio is not likely to expand to 15 again.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	48.4%	45.5%	46.1%	52.1%	54.8%	61.9%	60.9%	60.1%	62.2%	57.9%	***59.0%***	***61.0%***
Debt/A	49.2%	52.6%	50.0%	52.3%	52.3%	51.3%	50.8%	51.6%	53.5%	55.8%	***56.0%***	***58.0%***
Int. Cov.	-	-	2.1	4.6	6.5	7.8	8.6	9.3	7.7	5.0	***5.5***	***6.0***
Payout	-	21.6%	6.3%	4.2%	3.2%	3.1%	3.1%	3.8%	5.7%	7.0%	***7.2%***	***8.9%***
Std. Dev.	90.6%	82.5%	56.6%	43.6%	31.8%	24.1%	25.4%	26.7%	43.8%	43.9%	***32.0%***	***29.0%***

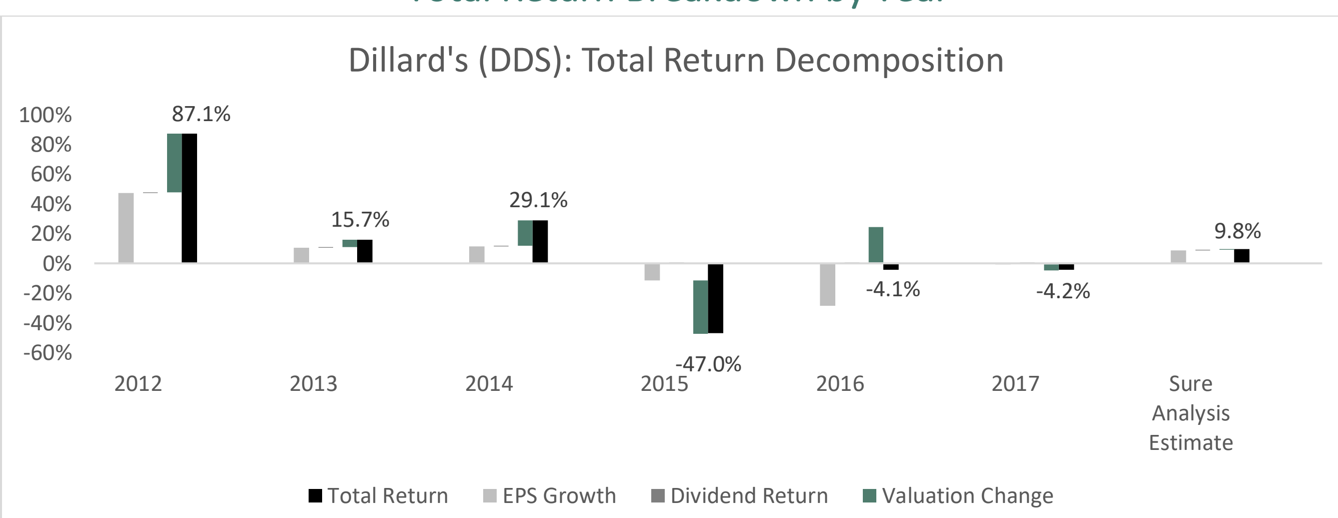
Dillard's gross profits to assets ratio has been rising for most of the last decade, and with comps sales being on the rise again, the ratio will likely improve further over the next couple of years. Dillard's liabilities to assets ratio has increased as well, partially due to the fact that the company's share repurchases have lowered the equity on its balance sheet. Interest coverage is not overly high but is at a safe level – paying down some of the debt could be an opportune move, as rising interest rates will make Dillard's debt more expensive to refinance in the future. Dillard's dividend payout ratio is extremely low. Should the company decide that dividend payments are a better use of its cash flows than buybacks, there would be room for tremendous dividend increases, but that seems unlikely right now.

One advantage over some of its competitors is that Dillard's is not only active in apparel and cosmetics, but also in home furnishings, which provides some diversification and makes it less reliant on the performance of apparel sales – which are more easily done online compared to furniture. Dillard's has not been resilient versus recessions in the past.

Final Thoughts & Recommendation

Dillard's is a department store company with a somewhat unique product lineup, which does not only include apparel, but also furniture and other items for one's home. Dillard's has generated strong comparable store sales growth rates during the most recent quarter, but gross margin compression was a headwind. The company's total returns will be weighted towards EPS growth through share buybacks. We rate Dillard's a hold at the current price.

Total Return Breakdown by Year



Click here to rate and review this research report. Your feedback is important to us.

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.

Dillard's (DDS)

Updated November 17th, 2018 by Jonathan Weber

Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	6988	6227	6258	6405	6752	6692	6780	6755	6418	6423
Gross Profit	2161	2124	2277	2358	2504	2468	2508	2404	2252	2223
Gross Margin	30.9%	34.1%	36.4%	36.8%	37.1%	36.9%	37.0%	35.6%	35.1%	34.6%
SG&A Exp.	1994	1702	1677	1679	1706	1659	1691	1697	1682	1720
D&A Exp.	286	265	263	259	262	257	252	252	246	234
Operating Profit	-93	158	339	422	539	554	566	457	326	271
Operating Margin	-1.3%	2.5%	5.4%	6.6%	8.0%	8.3%	8.3%	6.8%	5.1%	4.2%
Net Profit	-241	69	180	464	336	324	332	269	169	221
Net Margin	-3.4%	1.1%	2.9%	7.2%	5.0%	4.8%	4.9%	4.0%	2.6%	3.4%
Free Cash Flow	160	479	415	385	386	407	460	284	412	144
Income Tax	-141	13	84	-63	145	173	179	141	89	-8

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	4746	4606	4374	4306	4049	4051	4170	3864	3888	3673
Cash & Equivalents	97	342	343	224	124	237	404	203	347	187
Accounts Receivable	88	63	26	29	32	31	57	47	48	40
Inventories	1374	1301	1290	1304	1295	1345	1374	1375	1406	1464
Total Liabilities	2495	2302	2287	2254	2079	2059	2151	2069	2171	1965
Accounts Payable	457	494	492	452	469	465	531	494	636	642
Long-Term Debt	1183	949	946	892	815	815	815	813	813	726
Shareholder's Equity	2251	2304	2087	2052	1970	1992	2019	1795	1717	1708
D/E Ratio	0.53	0.41	0.45	0.43	0.41	0.41	0.40	0.45	0.47	0.43

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	-4.8%	1.5%	4.0%	10.7%	8.0%	8.0%	8.1%	6.7%	4.4%	5.9%
Return on Equity	-10.1%	3.0%	8.2%	22.4%	16.7%	16.3%	16.5%	14.1%	9.6%	12.9%
ROIC	-6.6%	2.0%	5.7%	15.5%	11.7%	11.6%	11.8%	9.9%	6.6%	8.9%
Shares Out.	73	74	60	49	48	44	41	36	32	28
Revenue/Share	94.08	84.39	93.17	117.64	138.04	146.79	159.15	173.17	187.07	217.81
FCF/Share	2.16	6.49	6.17	7.08	7.89	8.92	10.79	7.29	12.01	4.88

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

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.