



Weyco Group (WEYS)

Updated November 7th, 2018 by Bob Ciura

Key Metrics

Current Price:	\$33	5 Year CAGR Estimate:	4.5%	Volatility Percentile:	59.2%
Fair Value Price:	\$31	5 Year Growth Estimate:	3.0%	Momentum Percentile:	79.1%
% Fair Value:	107%	5 Year Valuation Multiple Estimate:	-1.3%	Growth Percentile:	11.0%
Dividend Yield:	2.8%	5 Year Price Target	\$36	Valuation Percentile:	44.3%
Dividend Risk Score:	A	Retirement Suitability Score:	B	Total Return Percentile:	20.6%

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 11/7/18, Weyco Group announced third-quarter earnings. Net sales of \$78.4 million increased 2% from the same quarter a year ago. Net sales in the core North American wholesale segment rose 4%, led by Stacy Adams and Florsheim, which grew sales by 17% and 8%, respectively. These positive sales results were partially offset by a 5% sales decline for the BOGS brand, while net sales of the Nunn Bush brand were flat for the quarter. Diluted earnings per share increased 25% year-over-year due to sales growth and more importantly, a big boost from a lower tax rate.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	\$1.45	\$1.11	\$1.19	\$1.37	\$1.73	\$1.62	\$1.75	\$1.68	\$1.56	\$1.60	\$1.76	\$2.04
DPS	\$0.53	\$0.59	\$0.63	\$0.64	\$0.84	\$0.54	\$0.75	\$0.79	\$0.83	\$0.87	\$0.91	\$1.06
Shares	11.8	11.5	11.4	10.9	10.8	10.9	10.8	10.8	10.5	10.2	10.4	10.5

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, were up 20% for the quarter, due mainly 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 approximately 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 significant boost from tax reform, we expect Weyco to grow earnings by 10% in 2018, and by 3% per year through 2023.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	20.1	22.0	20.1	17.2	13.7	15.9	15.5	16.7	17.3	17.5	18.8	17.6
Avg. Yld.	1.8%	2.4%	2.6%	2.7%	4.2%	1.4%	2.8%	2.8%	3.1%	3.1%	2.8%	3.2%

Weyco stock trades for a price-to-earnings ratio of 18.8, based on our updated 2018 earnings forecast. This is above the 10-year average price-to-earnings ratio of 17.6, which is our estimate of fair value. A declining valuation could reduce Weyco's annual returns by 1.3% per year through 2023.



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Safety, Quality, Competitive Advantage, & Recession Resiliency

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

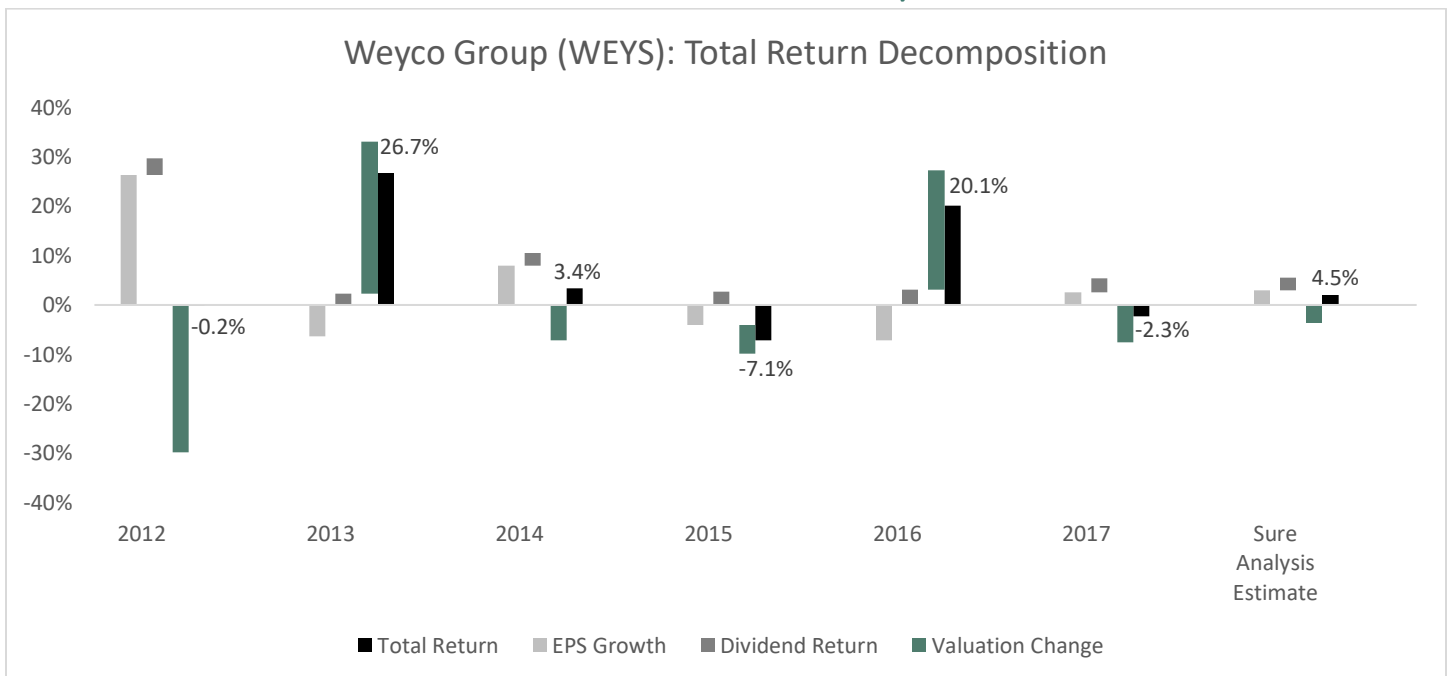
Weyco is having difficulty producing growth, but the company scores well across multiple safety metrics. Thanks to a strong balance sheet with very low levels of interest-bearing debt, the dividend payout is highly secure. Its payout ratio is modestly above 50%, which indicates a comfortable dividend 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 2.8% 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 overvalued. The combination of earnings growth, dividends, and valuation changes is expected to result in total returns of just 4.5% per year over the next five years. This is a low rate of return, which causes Weyco to earn a sell recommendation from Sure Dividend at current prices.

Total Return Breakdown by Year



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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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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	221	225	229	271	293	300	320	321	297	284
Gross Profit	81	84	90	107	115	117	123	122	112	111
Gross Margin	36.6%	37.5%	39.4%	39.4%	39.1%	39.1%	38.4%	37.9%	37.7%	39.0%
SG&A Exp.	57	68	72	84	85	90	92	90	89	87
D&A Exp.	3	3	3	3	4	4	4	4	4	4
Operating Profit	24	17	19	23	30	28	31	32	23	23
Operating Margin	11.1%	7.4%	8.2%	8.6%	10.2%	9.2%	9.6%	9.9%	7.7%	8.3%
Net Profit	17	13	14	15	19	18	19	18	16	16
Net Margin	7.7%	5.7%	6.0%	5.6%	6.5%	5.9%	5.9%	5.7%	5.5%	5.8%
Free Cash Flow	14	36	-2	9	8	27	15	-8	41	32
Income Tax	9	7	7	9	11	10	11	11	5	7

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	191	207	223	274	285	268	277	299	268	263
Cash & Equivalents	11	30	7	10	17	16	12	18	14	23
Accounts Receivable	30	33	39	44	49	49	55	54	51	49
Inventories	47	40	56	63	65	63	69	97	70	60
Goodwill & Int. Ass.	11	11	13	46	49	49	49	48	46	46
Total Liabilities	32	39	46	102	104	71	79	94	60	57
Accounts Payable	7	9	10	13	11	14	16	13	12	9
Long-Term Debt	1	0	5	37	45	12	5	27	4	0
Shareholder's Equity	159	164	172	166	174	190	191	198	202	199
D/E Ratio	0.01	0.00	0.03	0.22	0.26	0.06	0.03	0.13	0.02	0.00

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	8.9%	6.4%	6.3%	6.1%	6.8%	6.4%	7.0%	6.3%	5.8%	6.2%
Return on Equity	10.7%	7.9%	8.1%	9.0%	11.1%	9.7%	10.0%	9.4%	8.2%	8.2%
ROIC	10.6%	7.8%	7.8%	7.8%	8.7%	8.1%	9.2%	8.4%	7.4%	7.9%
Shares Out.	11.8	11.5	11.4	10.9	10.8	10.9	10.8	10.8	10.5	10.2
Revenue/Share	18.83	19.57	19.95	24.29	26.80	27.64	29.44	29.53	28.09	27.51
FCF/Share	1.15	3.17	-0.14	0.80	0.77	2.50	1.37	-0.73	3.87	3.10

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

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