



Dillard's Inc. (DDS)

Updated February 26th, 2019 by Jonathan Weber

Key Metrics

Current Price:	\$66	5 Year CAGR Estimate:	7.3%	Volatility Percentile:	95.5%
Fair Value Price:	\$69	5 Year Growth Estimate:	5.7%	Momentum Percentile:	32.2%
% Fair Value:	95%	5 Year Valuation Multiple Estimate:	1.0%	Growth Percentile:	50.3%
Dividend Yield:	0.6%	5 Year Price Target	\$92	Valuation Percentile:	27.6%
Dividend Risk Score:	A	Retirement Suitability Score:	C	Total Return Percentile:	13.6%

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 \$1.76 billion.

Dillard's reported its fourth quarter earnings results on February 25. The company reported that its revenues totaled \$2.01 billion during the fourth quarter, which was 2.4% less than the revenues that the company generated during the previous year's quarter. Revenues were in line with what the analyst community had forecasted. The revenue number was impacted by calendar shifts and store closings, though, on a comparable-store basis Dillard's grew its sales by 2% during the fourth quarter, which was better than what analysts had estimated.

Rising comparable store sales have a positive impact on retailers' margins due to operating leverage, but Dillard's net profits were still down compared to the prior year's quarter, primarily due to the impact that tax law changes had on Dillard's Q4 2017 results (the company realized a one-time gain during that quarter). Dillard's generated earnings-per-share of \$3.22 during the fourth quarter, which was down from \$5.55 during the fourth quarter of 2017 (which included the one-time gain due to tax law changes). Dillard's has continued to reward shareholders by repurchasing its own stock during the fourth quarter; the company spent \$36 million on share repurchases during the quarter. This equates to an annual buyback pace of roughly 8% of the share count.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$0.74	\$2.52	\$4.29	\$6.32	\$6.99	\$7.79	\$6.91	\$4.93	\$4.89	\$6.23	\$5.80	\$7.65
DPS	\$0.16	\$0.16	\$0.18	\$0.20	\$0.22	\$0.24	\$0.26	\$0.28	\$0.34	\$0.40	\$0.40	\$0.50
Shares	74	60	49	48	44	41	36	32	28	27	26	23

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 2018 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 2018 were not bad, as rising comps sales helped stabilize margins. As fixed costs per store do not change materially, higher sales (and gross profits) per store are a tailwind for Dillard's margins. Dillard's unfortunately was negatively impacted by gross margin declines due to markdowns during Q3 and Q4.

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 considerable 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. Dillard's has now kept the dividend unchanged for 6 quarters in a row.

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	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	15.1	11.4	10.1	11.3	12.1	13.8	14.7	13.4	11.6	9.6	11.4	12.0
Avg. Yld.	1.4%	0.6%	0.4%	0.3%	0.3%	0.2%	0.3%	0.4%	0.6%	0.7%	0.6%	0.5%

Dillard's valuation has never been especially high, as the company's shares usually were valued at a low-double-digit price to earnings multiple throughout the last decade. Right now, shares trade for slightly more than 11 times this year's expected net profits, which is relatively in line with historical valuations. We see marginal upside potential for Dillard's valuation. The dividend yield is so low that it will not meaningfully enhance total returns going forward.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	21.6%	6.3%	4.2%	3.2%	3.1%	3.1%	3.8%	5.7%	7.0%	6.4%	6.9%	6.5%

Dillard's pays out only a marginal amount of its net profits in the form of dividends to the company's owners.

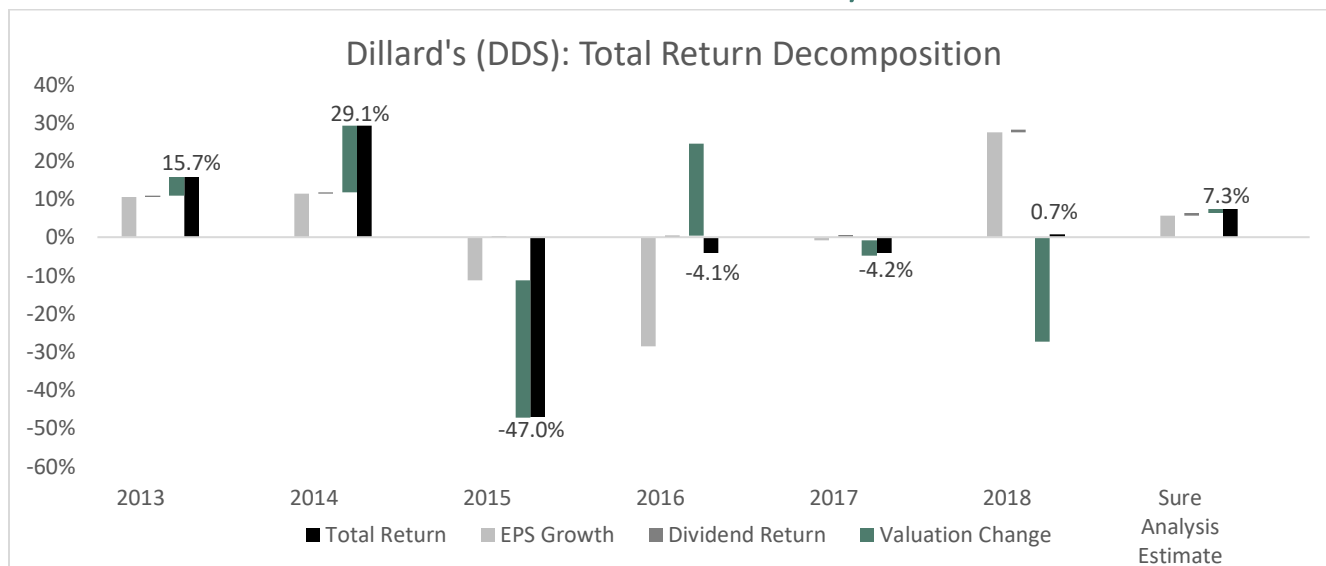
Management is much more focused on reducing the share count, which the company has done very successfully in the past. It is very likely that management will continue to prioritize buybacks over dividends going forward. Due to the fact that the dividend payout is so low, the risk of a dividend cut is quite low as well.

One advantage that Dillard's has 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. Management has pointed out that furniture was the best-performing category in recent quarters. Dillard's has not been resilient during recessions in the past.

Final Thoughts & Recommendation

Dillard's is a rather small department store company that has a somewhat unique product portfolio, due to also selling furniture on top of the usual categories such as apparel and cosmetics. Dillard's performance during 2018 was okay, and the company should be able to generate some earnings growth over the coming years, with buybacks being a key factor. Due to 7.3% expected total returns in the coming years, we rate Dillard's a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
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	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
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	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
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.	74	60	49	48	44	41	36	32	28	27
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.

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