



Weyco Group, Inc. (WEYS)

Updated March 21st, 2018 by Prakash Kolli

Key Metrics

Current Price:	\$32	5 Year CAGR Estimate:	3.7%	Volatility Percentile:	61.6%
Fair Value Price:	\$32	5 Year Growth Estimate:	1.0%	Momentum Percentile:	42.4%
% Fair Value:	100%	5 Year Valuation Multiple Estimate:	-0.2%	Growth Percentile:	2.5%
Dividend Yield:	2.9%	5 Year Price Target	\$33	Valuation Percentile:	48.2%
Dividend Risk Score:	A	Retirement Suitability Score:	A	Total Return Percentile:	14.9%

Overview & Current Events

Weyco Group Inc. designs and distributes footwear. It was founded in 1906. Weyco's brand portfolio consists of Florsheim, Nunn Bush, Stacy Adams, BOGS, Rafters, and Umi. The company sells its products wholesale mainly through department stores and specialty retailers in the U.S. and Canada. It also operates Florsheim retail stores in the U.S. and sells directly through the Internet. The company owns Floersheim Australia that operates in Australia, South Africa and Asia Pacific, and Floersheim Europe. Weyco also licenses its brands in the U.S. and Mexico. Weyco has a market capitalization of \$321 million. Notably, the CEO and COO are descendants of the founder.

Weyco Group reported solid Q4 2018 and full year results on March 5, 2019. Net sales increased 12% to \$89.6M for Q4 2018 on a year-over-years basis. Diluted earnings per share increased to \$0.93 in Q4 2018 from \$0.79 in Q4 2017. The BOGS and Florsheim saw with increases of 34% and 23%, respectively. The Stacy Adams brand experienced a 6% sales increase and the Nunn Bush brand's sales were down 2%. In the Florsheim retail stores, sales increased 19% to \$8.2M in Q4 2018 due to robust Internet sales. International sales at Florsheim Australia and Europe were down 11% mainly due to weakness in Australia and foreign exchange headwinds.

For full year 2018, Weyco Group had net sales of \$298M, an increase of 5% from \$284M in 2017. Diluted earnings per share were \$1.97 in 2018, up from \$1.60 in 2017. For the full year, the BOGS and Florsheim brands were up 10% and 20%, respectively. Stacy Adams brand's sales increased 5%, while Nunn Bush experienced a 3% sales decline. Net sales were down 7% for Florsheim Australia and Florsheim Europe due to continuing weakness in Australia. The company benefitted from a lower tax rate due the U.S. Tax Cut and Jobs Act. Of note, in 2018, the company purchased the remaining 45% of Florsheim Australia that it did not own for \$3.5M.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$1.11	\$1.19	\$1.37	\$1.73	\$1.62	\$1.75	\$1.68	\$1.56	\$1.60	\$1.97	\$1.99	\$2.09
DPS	\$0.59	\$0.63	\$0.64	\$0.84	\$0.54	\$0.75	\$0.79	\$0.83	\$0.87	\$0.91	\$0.95	\$1.15
Shares	11.5	11.4	10.9	10.8	10.9	10.8	10.8	10.5	10.2	10.4	10.4	10.1

Weyco Group's earnings have been volatile over the past decade. Sales have been impacted due to the rise of e-commerce and Internet sales. Historically, Weyco Group has focused on wholesale distribution. But many department stores and specialty retail stores have suffered from declining sales and some have declared bankruptcy. Fortunately, the company is building its availability in new sales channels and now runs its own Internet platform. Furthermore, the company is benefitting from the strength of the BOGS and Florsheim brands. We are forecasting a 1% growth in annual earnings on average and a 4% growth in dividends. The dividend is well covered at a payout ratio of 45% - 50%.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	22.0	20.1	17.2	13.7	15.9	15.5	16.7	17.3	17.5	18.8	16.2	16.0
Avg. Yld.	2.4%	2.6%	2.7%	4.2%	1.4%	2.8%	2.8%	3.1%	3.1%	3.1%	2.9%	2.8%

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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Weyco stock trades for a price-to-earnings ratio of 16.2, based on our expected 2019 earnings. This is below the 10-year average P/E ratio of 17.6. However, the P/E ratio has been declining and we are forecasting a long-term P/E ratio of 16.0 due to competition from internet sales. Our 5-year price target is \$33.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	53.2%	52.9%	46.7%	48.6%	33.3%	42.9%	47.0%	53.2%	54.4%	46.2%	47.6%	55.1%

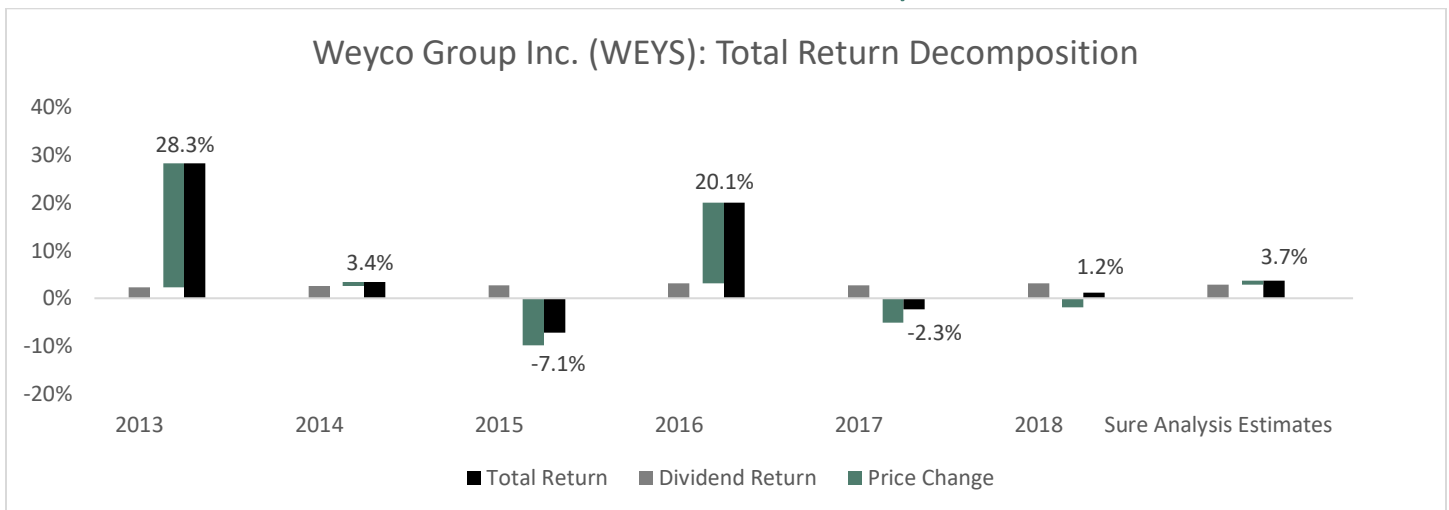
Weyco Group has had difficulty producing growth but 2018 was a good year. The company has a strong balance sheet with very low levels of interest-bearing debt. At the end of 2018, the company had \$5.84M of short-term debt and \$1.5M of long-term debt. Weyco Group's free cash flow more than covers the total debt amount. In addition, with very high interest coverage of over 500X, the company's debt is clearly manageable.

With 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 wholesale shoe industry is in general decline due to the broader challenges facing brick-and-mortar department stores and specialty retail stores. Unless Weyco can enter the e-commerce channel more aggressively, it will likely continue to struggle in generating significant sales and earnings growth.

Final Thoughts & Recommendation

At present we are forecasting 3.7% annualized returns over the next five years comprising of 1.0% EPS growth, -0.2% from P/E multiple contraction, and the 2.9% dividend yield. Although Weyco Group is a profitable company with little debt and a secure dividend, there is little appeal here. The dividend grows slowly, and the stock is fairly valued. We expect little future revenue and earnings growth since the company still relies heavily on bricks-and-mortar wholesale distribution. We recommend investors sell Weyco Group and reinvest into firms with better total return prospects.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	225	229	271	293	300	320	321	297	284	298
Gross Profit	84	90	107	115	117	123	122	112	111	120
Gross Margin	37.5%	39.4%	39.4%	39.1%	39.1%	38.4%	37.9%	37.7%	39.0%	40.2%
SG&A Exp.	68	72	84	85	90	92	90	89	87	95
D&A Exp.	3	3	3	4	4	4	4	4	4	4
Operating Profit	17	19	23	30	28	31	32	23	23	25
Operating Margin	7.4%	8.2%	8.6%	10.2%	9.2%	9.6%	9.9%	7.7%	8.3%	8.5%
Net Profit	13	14	15	19	18	19	18	16	16	20
Net Margin	5.7%	6.0%	5.6%	6.5%	5.9%	5.9%	5.7%	5.5%	5.8%	6.9%
Free Cash Flow	36	-1	9	8	27	15	-8	41	32	12
Income Tax	7	7	9	11	10	11	11	5	7	6

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	207	223	274	285	268	277	299	268	263	270
Cash & Equivalents	30	7	10	17	16	12	18	14	23	23
Accounts Receivable	33	39	44	49	49	55	54	51	49	52
Inventories	40	56	63	65	63	69	97	70	60	73
Goodwill & Int. Ass.	11	13	49	49	49	49	48	46	46	46
Total Liabilities	39	46	102	104	71	79	94	60	57	64
Accounts Payable	9	10	13	11	14	16	13	12	9	13
Long-Term Debt	0	5	37	45	12	5	27	4	0	6
Shareholder's Equity	164	172	166	174	190	191	198	202	199	206
D/E Ratio	0.00	0.03	0.22	0.26	0.06	0.03	0.13	0.02	0.00	0.03

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	6.4%	6.3%	6.1%	6.8%	6.4%	7.0%	6.3%	5.8%	6.2%	7.7%
Return on Equity	7.9%	8.1%	9.0%	11.1%	9.7%	10.0%	9.4%	8.2%	8.2%	10.1%
ROIC	7.8%	7.8%	7.8%	8.7%	8.1%	9.2%	8.4%	7.4%	7.9%	9.8%
Shares Out.	11.5	11.4	10.9	10.8	10.9	10.8	10.8	10.5	10.2	10.4
Revenue/Share	19.57	19.95	24.29	26.80	27.64	29.44	29.53	28.09	27.51	28.71
FCF/Share	3.17	-0.12	0.80	0.77	2.50	1.37	-0.73	3.87	3.10	1.12

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

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