



Weyco Group, Inc. (WEYS)

Updated June 6th, 2019 by Prakash Kolli

Key Metrics

Current Price:	\$26	5 Year CAGR Estimate:	8.8%	Volatility Percentile:	72.5%
Fair Value Price:	\$32	5 Year Growth Estimate:	1.0%	Momentum Percentile:	11.3%
% Fair Value:	82%	5 Year Valuation Multiple Estimate:	4.2%	Growth Percentile:	3.1%
Dividend Yield:	3.6%	5 Year Price Target	\$33	Valuation Percentile:	84.4%
Dividend Risk Score:	A	Retirement Suitability Score:	A	Total Return Percentile:	52.3%

Overview & Current Events

Weyco Group Inc. designs and distributes footwear. 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 15 Florsheim retail stores in the U.S. and sells directly through online sales. The company owns Florsheim Australia that operates in Australia, South Africa and Asia Pacific, and it also owns Florsheim Europe. Weyco also licenses its brands in the U.S. and Mexico. Notably, the CEO and COO are descendants of the founder. Revenue was ~\$298.4M in 2018. Weyco's current market capitalization is ~\$255M.

Weyco Group reported Q1 2019 results on May 7th, 2019. Weyco Group has had difficulty producing growth but 2018 was a good year and it looks to extend into 2019. Net sales were up ~7% to \$74.1M compared to \$69.5M on a year-over-years basis. Earnings from operations were up \$5.1M an increase of 44% compared to \$3.6M in Q1 2018. Diluted earnings per share increased to \$0.40 from \$0.29 in comparable quarters. Net sales in the North American Wholesale segment increased ~11% to \$59.5M from \$53.8M in comparable quarters. Growth was driven by a 25% increase in Florsheim, 8% increase in Stacy Adams, and 23% increase in BOGS net sales. This was offset by a decline of (6%) in Nunn Bush sales. In the North American Retail segment (retail stores and e-commerce), net sales were up 13% to \$5.6M from \$4.9M in comparable quarters. Net sales were down (16%) to \$9.1M from \$10.8M in Florsheim Australia and Florsheim Europe due primarily to unfavorable exchange rates and challenging retail environments. The company has installed a new president for Florsheim Australia. 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	10.1	10.0	9.8

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 distribution in new sales channels and now runs its own e-commerce platforms. Furthermore, the company is benefitting from the strength of the BOGS, Florsheim, and Stacy Adams brands. But saying that, the company is still dependent on the wholesale channel and department stores for the majority of its revenue. We are forecasting a 1% growth in annual earnings on average and a 4% growth in dividends out to 2024. The dividend is well covered at a payout ratio of ~48%. The company has also started to buy back shares in the past few years.

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	17.1	13.0	16.0
Avg. Yld.	2.4%	2.6%	2.7%	4.2%	1.4%	2.8%	2.8%	3.1%	3.1%	2.7	3.6%	3.4%

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Weyco stock currently trades for a price-to-earnings ratio of 13.0, based on our expected 2019 earnings. This is well below the 10-year average P/E ratio of 17.3 and it is also below the broader market average. 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 fair value estimate is \$32. 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%	46.2%	55.0%

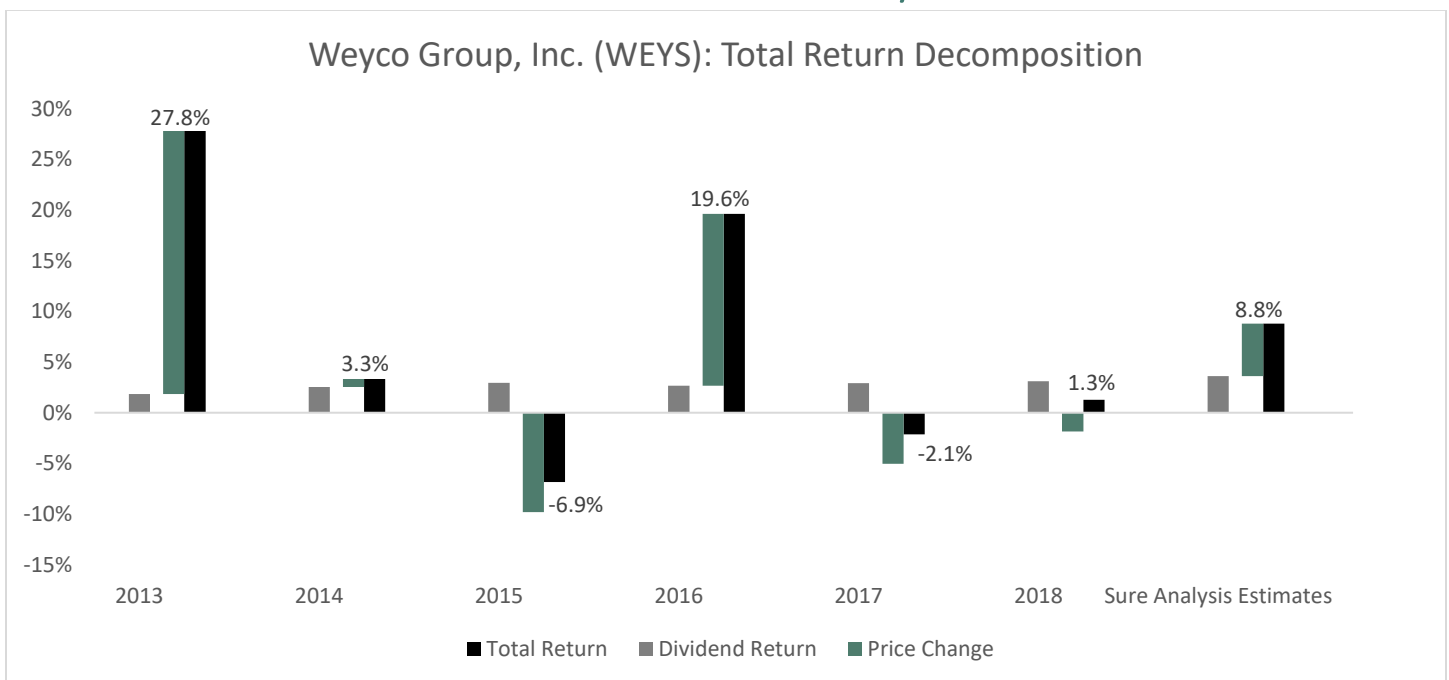
Weyco's main competitive advantage is the strength of its brands. With that said, footwear is a highly competitive business, and as a relatively small player, Weyco does not possess economies of scale over its larger competitors. Furthermore, the wholesale shoe industry is in general decline due to the broader challenges facing bricks-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. The company is not recession resistant and EPS declined during the last recession and took several years to recover.

The company has a strong balance sheet with very low levels of interest-bearing debt. At the end of 2018, the company had \$3.72M of short-term debt and \$0.223M of long-term debt. This is offset by \$19.2M in cash, cash equivalents and marketable securities. Weyco Group's free cash flow more than covers the total debt amount. In addition, with very high interest coverage of over 500X at end of 2018, the company's debt is clearly manageable.

Final Thoughts & Recommendation

At present we are forecasting 8.8% annualized returns over the next five years comprising of 1.0% EPS growth, 4.2% from P/E multiple expansion, and the 3.6% dividend yield. This is up significantly from our prior report due to the decline in stock price. Weyco is a profitable company and has little debt and the dividend is well covered. Hence, this issue may be of interest for conservative investors seeking income. At the current price we rate Weyco a buy.

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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