



Weyco Group Inc. (WEYS)

Updated September 9th, 2019 by Prakash Kolli

Key Metrics

Current Price:	\$25	5 Year CAGR Estimate:	9.4%	Volatility Percentile:	76.0%
Fair Value Price:	\$32	5 Year Growth Estimate:	1.0%	Momentum Percentile:	11.0%
% Fair Value:	78%	5 Year Valuation Multiple Estimate:	5.2%	Growth Percentile:	5.0%
Dividend Yield:	3.8%	5 Year Price Target	\$33	Valuation Percentile:	90.9%
Dividend Risk Score:	B	Retirement Suitability Score:	A	Total Return Percentile:	60.8%

Overview & Current Events

Weyco Group Inc. designs and distributes footwear. Weyco's brand portfolio consists of Florsheim, Nunn Bush, Stacy Adams, BOGS, and Rafters. The company sells its products wholesale mainly through department stores and national show chains in the U.S. and Canada. It also operates 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 ~\$241.77M.

Weyco Group reported Q2 2019 results on August 6th, 2019. Weyco's sales growth has slowed. Net sales were down (1%) to \$60.5M from \$60.9M and diluted EPS was flat in the quarter at \$0.15 on year-over-year basis. Net sales in the North American wholesale segment were \$46.1M, up 1% compared to \$45.6M in the prior year. The BOGS and Florsheim brands continue to perform well with quarterly sales up 48% and 14%, respectively, driven by higher volumes. But on the other hand, Nunn Bush sales declined (20%) due to lower sales to department stores and national shoe chains. Stacy Adams sales were down (6%) in the quarter due to lower department store sales. Licensing revenue increased to \$636k from \$472k in comparable periods. The North American retail segment (retail stores and e-commerce) continue to perform well. Sales were up 17% to \$5.4M from \$4.6M in the prior year. Other net sales including Florsheim Australia and Florsheim Europe continue to struggle. Net sales were down 15% to \$9.0M from \$10.6M in comparable periods due mainly to foreign exchange headwinds.

Weyco Group faces uncertain tariff situations. On August 1, 2019 the U.S. announced an additional 10% tariff on exports from China including footwear. Weyco sources a significant portion of its footwear from China and this will likely increase costs and reduce margins unless mitigated through price increases and cost reductions.

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	\$1.16
Shares¹	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 national shoe chains 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 and Florsheim brands. But saying that, the company is still dependent on the wholesale channel and department stores for the great 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.

¹ Share count in millions.

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	22.0	20.1	17.2	13.7	15.9	15.5	16.7	17.3	17.5	17.1	12.4	16.0
Avg. Yld.	2.4%	2.6%	2.7%	4.2%	1.4%	2.8%	2.8%	3.1%	3.1%	2.7	3.8%	3.4%

Weyco stock currently trades for a price-to-earnings ratio of 12.4, 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 maintained at \$32. Our 5-year price target is maintained at \$33.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	53%	53%	47%	49%	33%	43%	47%	53%	54%	46%	48%	55%

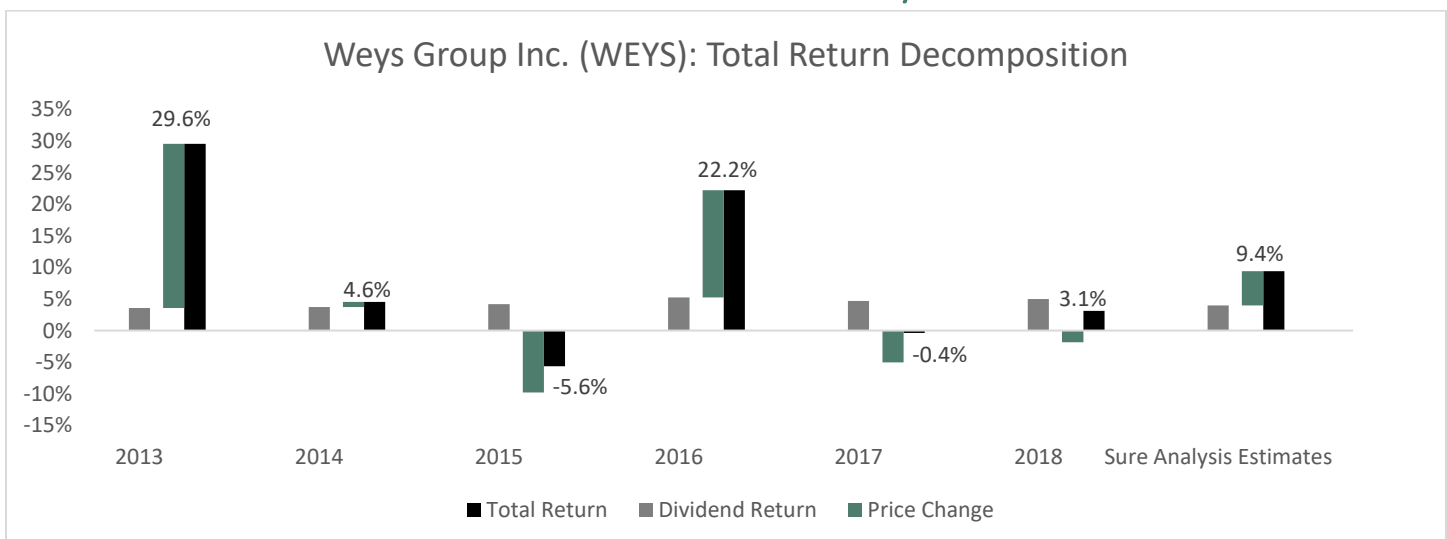
Weyco's main competitive advantage is the strength of its brands. With that said, footwear is a highly competitive business, and as a relatively small player, Weyco does not possess economies of scale over its larger competitors. Furthermore, the wholesale shoe industry is in general decline due to the broader challenges facing bricks-and-mortar department stores and national shoe chains. 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 Q2 2019, the company had \$12.0M of short-term debt and \$23.13M of long-term debt. This is offset by \$20.5M 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 9.4% annualized returns over the next five years. This is up 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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