# Dillard's Inc. (DDS)

*Updated November 18th, 2019 by Jonathan Weber*

## Key Metrics

| | | | | | |
|---|---|---|---|---|---|
| **Current Price:** | $78 | **5 Year CAGR Estimate:** | -3.8% | **Volatility Percentile:** | 95.8% |
| **Fair Value Price:** | $52 | **5 Year Growth Estimate:** | 3.0% | **Momentum Percentile:** | 44.5% |
| **% Fair Value:** | 149% | **5 Year Valuation Multiple Estimate:** | -7.6% | **Growth Percentile:** | 17.6% |
| **Dividend Yield:** | 0.8% | **5 Year Price Target** | $61 | **Valuation Percentile:** | 17.3% |
| **Dividend Risk Score:** | A | **Retirement Suitability Score:** | C | **Total Return Percentile:** | 4.4% |

## 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 $1.9 billion.

Dillard's reported its third quarter earnings results on November 15. The company reported that its revenues totaled $1.42 billion during the quarter, which was 2.7% less than the revenues that the company generated during the previous year's quarter. Revenues were in line with what the analyst community had forecast. Unlike in the previous quarter, when Dillard's comparable store sales declined by 2%, Dillard's managed to keep its comparable sales stable during the third quarter, while also being able to expand its gross margin slightly. Dillard's also announced moves to increase its profitability, on top of that the company announced that it would lower its capital expenditures by $10 million.

The company reported net earnings of $5.5 million for the third quarter, the third quarter is traditionally one of Dillard's weaker quarters. Dillard's generated earnings-per-share of $0.12 during the third quarter, which was a big upside surprise, as the analyst community had forecasted that Dillard's would have to report net losses for the quarter. The market therefore reacted very positively to the earnings announcement, sending Dillard's shares up by double-digits. Dillard's has continued to reward shareholders by repurchasing its own stock, as the company spent $35 million on share repurchases and dividends during the third quarter, which equates to an annual buyback pace of more than 7%.

## 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 | ***$5.24*** | ***$6.07*** |
| **DPS** | $0.16 | $0.16 | $0.18 | $0.20 | $0.22 | $0.24 | $0.26 | $0.28 | $0.34 | $0.40 | ***$0.60*** | ***$0.80*** |
| **Shares[1]** | 74 | 60 | 49 | 48 | 44 | 41 | 36 | 32 | 28 | 27 | ***25*** | ***22*** |

Dillard's recovered quickly from the financial crisis. By 2010, earnings-per-share were above pre-crisis levels. 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, a trend that continued in early 2019, but that Dillard's could partially reverse during the third quarter, where it managed to grow its margins slightly. 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 will likely continue to lower its share count at a compelling pace in the future. As long as revenues stabilize, this should be enough to provide a positive earnings-per-share growth rate.

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[1] In Millions

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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 | ***14.9*** | ***10.0*** |
| Avg. Yld. | 1.4% | 0.6% | 0.4% | 0.3% | 0.3% | 0.2% | 0.3% | 0.4% | 0.6% | 0.7% | ***0.8%*** | ***1.3%*** |

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 roughly 15 times this year's expected net profits, which represents a huge premium to what we deem a fair valuation. We see steep downside potential for Dillard's valuation, towards an earnings multiple of 10, as brick and store retailers continue to be under pressure.

## 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% | ***11.5%*** | ***13.2%*** |

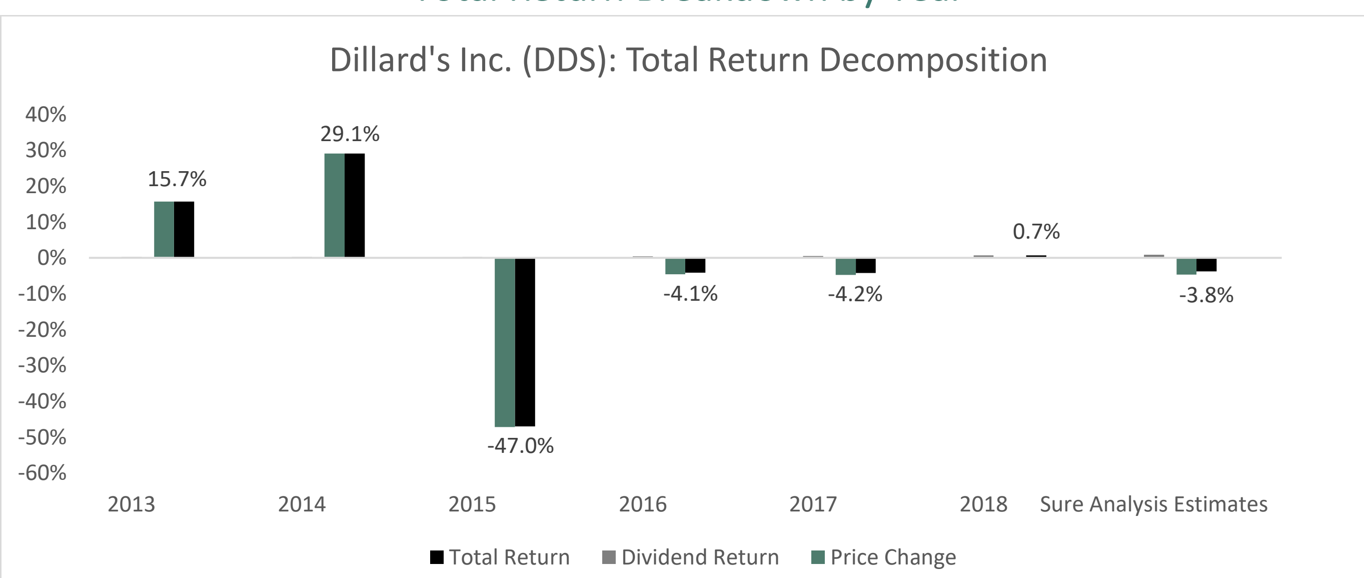
Dillard's pays out only a marginal amount of its net profits in the form of dividends to the company's owners. Management is much more focused on reducing the share count, which the company has done very successfully in the past. It is very likely that management will continue to prioritize buybacks 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 it 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 performed better than the average 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 margins have been under pressure during the last couple of years, but during the most recent quarter Dillard's was more profitable than expected. Dillard's total return outlook is negative, though, which is why we rate the stock a sell 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 | 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.*