



Weyco Group Inc. (WEYS)

Updated December 2nd, 2019 by Prakash Kolli

Key Metrics

Current Price:	\$24	5 Year CAGR Estimate:	9.8%	Volatility Percentile:	76.4%
Fair Value Price:	\$32	5 Year Growth Estimate:	1.0%	Momentum Percentile:	8.3%
% Fair Value:	76%	5 Year Valuation Multiple Estimate:	5.5%	Growth Percentile:	5.0%
Dividend Yield:	3.9%	5 Year Price Target	\$33	Valuation Percentile:	97.7%
Dividend Risk Score:	B	Retirement Suitability Score:	A	Total Return Percentile:	80.1%

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 shoe 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 Chairman, CEO, and COO are descendants of the founder and the Florsheim family owns about 48% of the stock. Revenue was ~\$298.4M in 2018. Weyco's current market capitalization is ~\$241.06M.

Weyco Group reported Q3 2019 results on November 5th, 2019. Companywide net sales were up 5% to \$82.5M from \$78.4M and diluted EPS were up to \$0.66 from \$0.60 on year-over-year basis driven by growth from the Florsheim and BOGS brands. Net sales in the North American wholesale segment were \$67.8M, up 7% compared to \$63.2M in the prior year. The BOGS and Florsheim brands continue to perform well with quarterly sales up 22% and 12%, respectively, driven by higher volumes. This was offset by (5%) lower sales of the Stacy Adams brand and (2%) lower sales of the Nunn Bush brand due to weaker volumes to department stores. The North American retail segment (Florsheim retail stores and e-commerce) continue to perform well. Sales were up 4% to \$5.2M from \$4.9M in the prior year. Other net sales including Florsheim Australia and Florsheim Europe continue to struggle. Net sales were down (7%) to \$9.5M from \$10.3M in comparable periods due to foreign exchange headwinds, lower sales, lower margins, and higher expenses.

Weyco Group faces uncertain tariff situations. In August 2019 the U.S. announced an additional 15% tariff on footwear exports from China. The tariff on leather footwear took effect on September 1, 2019 and will impact the Florsheim, Stacy Adams, and Nunn brands. The tariff on rubber will take effect on December 15, 2019 and will impact the BOGS brand. Florsheim has negotiated wholesale price increases and supplier price reductions to mitigate the effect of tariffs.

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 by 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 repurchase 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	12.2	16.0
Avg. Yld.	2.4%	2.6%	2.7%	4.2%	1.4%	2.8%	2.8%	3.1%	3.1%	2.7	3.9%	3.5%

Weyco stock price was almost unchanged since our last report. The stock now trades at a price-to-earnings ratio of 12.2, 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%	53%	47%	49%	33%	43%	47%	53%	54%	46%	48%	55%

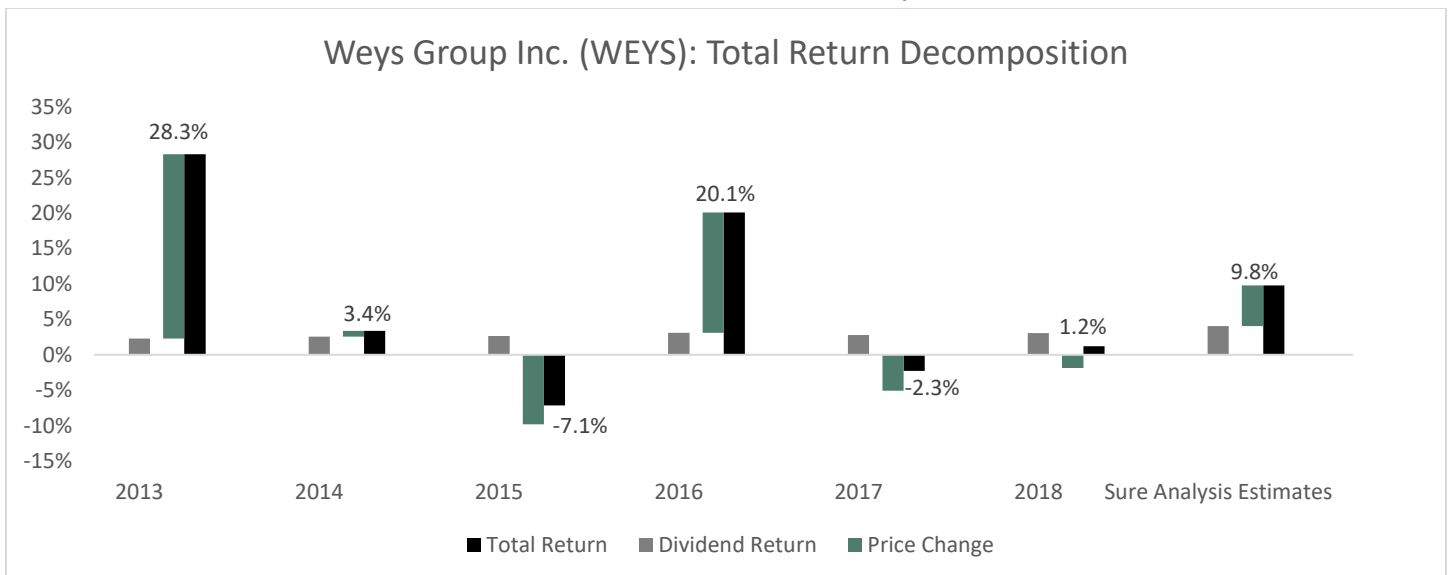
Weyco's main competitive advantage is the strength of its brands. With that said, footwear is a highly competitive business, and as a relatively small player, Weyco does not possess economies of scale over its larger competitors. Furthermore, the wholesale shoe industry is in general decline due to the 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. At end of Q3 2019, the company had \$16.86M of short-term debt and \$23.08M of long-term pension liabilities. This is offset by \$15.6M in cash, cash equivalents and marketable securities. In addition, with very high interest coverage of over 80X, the company's debt is clearly manageable.

Final Thoughts & Recommendation

At present we are forecasting 9.8% annualized returns over the next five years, up from our prior report. 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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