Dillard's Inc. (DDS)

Updated March 2nd, 2020 by Jonathan Weber

Key Metrics

Current Price:	$55	**5 Year CAGR Estimate:**	-2.8%	**Market Cap:**	$1.3B
Fair Value Price:	$38	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date:**	03/30/20
% Fair Value:	145%	**5 Year Valuation Multiple Estimate:**	-7.1%	**Dividend Payment Date:**	05/04/20
Dividend Yield:	1.1%	**5 Year Price Target**	$44	**Years Of Dividend Growth:**	9
Dividend Risk Score:	A	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	50.0%

Overview & Current Events

Dillard's is a department store company that sells fashion apparel, cosmetics and home furnishings through 290 stores and clearance centers. The company competes with larger peers such as Macy's and Kohl's. Dillard's was founded in 1938 and is headquartered in Little Rock, AR.

Dillard's reported its fourth quarter earnings results on February 25. The company reported that its revenues totaled $1.92 billion during the quarter, which was 4.5% less than the revenues that the company generated during the previous year's quarter. Revenues were below what the analyst community had forecast. Unlike in the previous quarter, when Dillard's comparable store sales had been stable, Dillard's comparable store sales declined by 3% during the most recent quarter. Dillard's managed to keep its gross margins stable, but due to the negative impact that operating leverage had while its revenues were declining, its operating margins were down by 70 basis points.

The company reported net earnings of $68 million for the fourth quarter, which is traditionally the strongest quarter for retailers. Dillard's generated earnings-per-share of $2.40 during the fourth quarter, which was below the analyst consensus estimate, as analysts were looking for earnings-per-share around $2.90. The market reacted negatively to the earnings announcement, and Dillard's shares were sent to 52-week lows. Dillard's has continued to reward shareholders by repurchasing its own stock, as the company spent $37 million on share repurchases during the fourth quarter, which equates to an annual buyback pace of more than 10% at the current valuation.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	$2.52	$4.29	$6.32	$6.99	$7.79	$6.91	$4.93	$4.89	$6.23	$4.38	***$3.80***	***$4.41***
DPS	$0.16	$0.18	$0.20	$0.22	$0.24	$0.26	$0.28	$0.34	$0.40	$0.50	***$0.60***	***$0.80***
Shares[1]	60	49	48	44	41	36	32	28	27	25	***22***	***18***

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. During 2019, the company had to battle declining margins, which were the result of mark-downs, and headwinds from declining comparable store sales, which hurt the company due to negative operating leverage. 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 more than 60% over those ten years. Dillard's will likely continue to lower its share count at an aggressive pace in the future as well. 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

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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	11.4	10.1	11.3	12.1	13.8	14.7	13.4	11.6	9.6	16.7	***14.5***	***10.0***
Avg. Yld.	0.6%	0.4%	0.3%	0.3%	0.2%	0.3%	0.4%	0.6%	0.7%	0.7%	***1.1%***	***1.8%***

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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	6.3%	4.2%	3.2%	3.1%	3.1%	3.8%	5.7%	7.0%	6.4%	11.4%	***15.8%***	***18.2%***

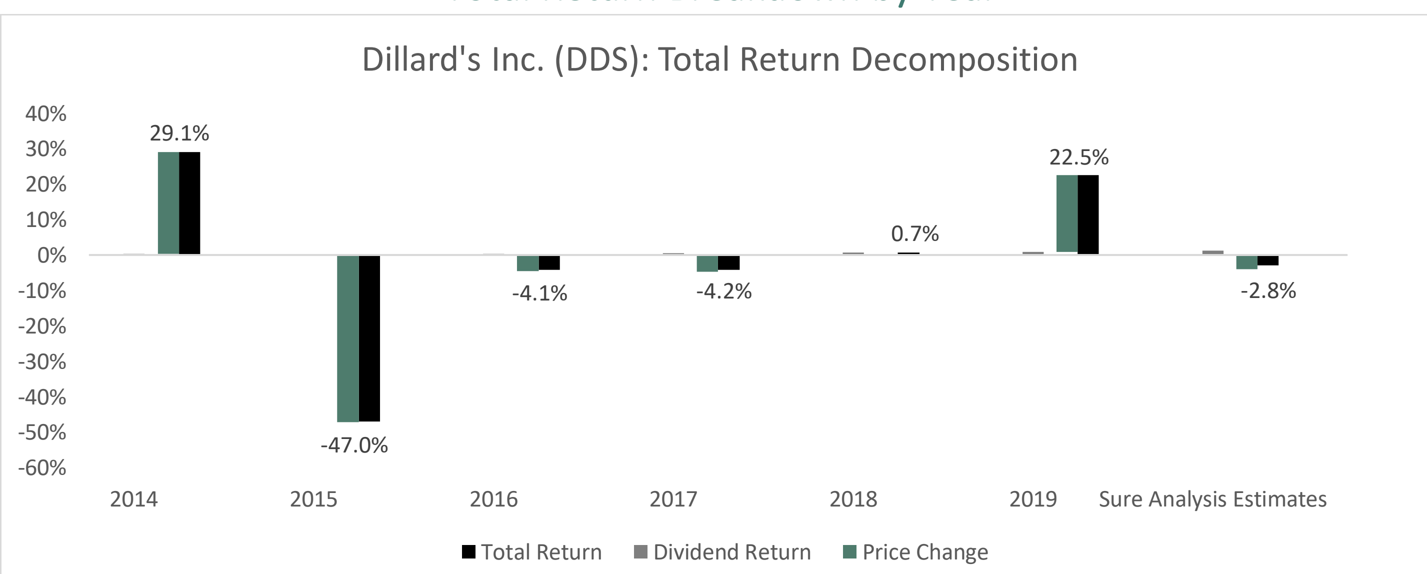
Dillard's pays out only a marginal amount of its net profits in the form of dividends to the company's owners. Management is much more focused on reducing the share count, which the company has done very successfully in the past. It is very likely that management will continue to prioritize buybacks 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, which has hurt the company's profitability to a large degree. Dillard's total return outlook is negative due to shares trading well above fair value, which is why we rate the stock a sell at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	6,258	6,405	6,752	6,692	6,780	6,755	6,418	6,423	6,503	6,348
Gross Profit	2,277	2,358	2,504	2,468	2,508	2,404	2,252	2,223	2,212	2,107
Gross Margin	36.4%	36.8%	37.1%	36.9%	37.0%	35.6%	35.1%	34.6%	34.0%	33.2%
SG&A Exp.	1,677	1,679	1,706	1,659	1,691	1,697	1,673	1,713	1,720	1,717
D&A Exp.	263	259	262	257	252	252	246	234	226	224
Operating Profit	339	422	539	554	566	457	335	278	268	168
Operating Margin	5.4%	6.6%	8.0%	8.3%	8.3%	6.8%	5.2%	4.3%	4.1%	2.6%
Net Profit	180	464	336	324	332	269	169	221	170	111
Net Margin	2.9%	7.2%	5.0%	4.8%	4.9%	4.0%	2.6%	3.4%	2.6%	1.8%
Free Cash Flow	415	385	386	407	460	284	407	144	230	262
Income Tax	84	(63)	145	173	179	141	89	(8)	38	23

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	4,374	4,306	4,049	4,051	4,170	3,864	3,888	3,683	3,431	3,430
Cash & Equivalents	343	224	124	237	404	203	347	187	124	277
Accounts Receivable	26	29	32	31	57	47	48	38	50	46
Inventories	1,290	1,304	1,295	1,345	1,374	1,375	1,406	1,464	1,528	1,465
Total Liabilities	2,287	2,254	2,079	2,059	2,151	2,069	2,171	1,975	1,753	1,807
Accounts Payable	492	452	469	465	531	494	636	658	743	893
Long-Term Debt	946	892	815	815	815	813	813	726	566	568
Shareholder's Equity	2,087	2,052	1,970	1,992	2,019	1,795	1,717	1,708	1,678	1,623
D/E Ratio	0.45	0.43	0.41	0.41	0.40	0.45	0.47	0.43	0.34	0.35

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	4.0%	10.7%	8.0%	8.0%	8.1%	6.7%	4.4%	5.8%	4.8%	3.2%
Return on Equity	8.2%	22.4%	16.7%	16.3%	16.5%	14.1%	9.6%	12.9%	10.1%	6.7%
ROIC	5.7%	15.5%	11.7%	11.6%	11.8%	9.9%	6.6%	8.9%	7.3%	5.0%
Shares Out.	60	49	48	44	41	36	32	28	27	25
Revenue/Share	93.17	117.64	138.04	146.79	159.15	173.17	187.07	217.81	238.11	249.92
FCF/Share	6.17	7.08	7.89	8.92	10.79	7.29	11.87	4.88	8.43	10.30

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