



Weyco Group Inc. (WEYS)

Updated March 18th, 2019 by Prakash Kolli

Key Metrics

Current Price:	\$25	5 Year CAGR Estimate:	9.6%	Market Cap:	\$242M
Fair Value Price:	\$32	5 Year Growth Estimate:	1.0%	Ex-Dividend Date:	03/19/20
% Fair Value:	77%	5 Year Valuation Multiple Estimate:	-5.3%	Dividend Payment Date:	03/31/20
Dividend Yield:	3.9%	5 Year Price Target	\$33	Years Of Dividend Growth:	38
Dividend Risk Score:	A	Retirement Suitability Score:	A	Last Dividend Increase:	4.4%

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 ~\$304M in 2019.

Weyco Group reported Q4 2019 and full year results on March 10th, 2020. Companywide net sales were down (3%) to \$86.9M from \$89.6M and diluted earnings per share were down to \$0.90 from \$0.93 on year-over-year basis driven by growth from the Florsheim brand but offset by declines in other brands. Net sales in the North American wholesale segment were \$68.8M, down (3%) compared to \$70.8M in the prior year. The Florsheim brand grew sales 9% due to higher volumes. But this was offset by (5%) lower sales for BOGS, (11%) lower sales of the Stacy Adams brand, and (7%) lower sales of the Nunn Bush brand due to weaker volumes to department stores and national chains. The North American retail segment (Florsheim retail stores and e-commerce) continue to perform well. Sales were up 11% to \$9.1M from \$8.2M in the prior year. On the other hand, Florsheim Australia and Florsheim Europe continues to struggle due to a weak retail environment there. Net sales were down (15%) to \$9.0M from \$10.6M in comparable periods due to foreign exchange headwinds, lower sales, lower margins, and higher expenses leading to operating losses.

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 took 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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$1.19	\$1.37	\$1.73	\$1.62	\$1.75	\$1.68	\$1.56	\$1.60	\$1.97	\$2.10	\$2.12	\$2.23
DPS	\$0.63	\$0.64	\$0.84	\$0.54	\$0.75	\$0.79	\$0.83	\$0.87	\$0.91	\$0.95	\$0.96	\$1.17
Shares¹	11.4	10.9	10.8	10.9	10.8	10.8	10.5	10.2	10.4	10.0	9.9	9.7

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 2025. The dividend is well covered at a payout ratio of ~45%. The company has also started to repurchase shares in the past few years and is lowering share count.

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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	20.1	17.2	13.7	15.9	15.5	16.7	17.3	17.5	17.1	12.6	11.6	15.0
Avg. Yld.	2.6%	2.7%	4.2%	1.4%	2.8%	2.8%	3.1%	3.1%	2.7%	3.6%	3.9%	3.5%

Weyco stock price is experiencing volatility due to covid-19, oil price wars, and transportation restrictions but is flat as of this writing. The stock trades at a depressed valuation of 11.6 times earnings. We have adjusted our long-term fair value multiple down to 15.0. Our fair value estimate is still \$32. Our 5-year price target is still \$33.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	53%	47%	49%	33%	43%	47%	53%	54%	46%	48%	45%	52%

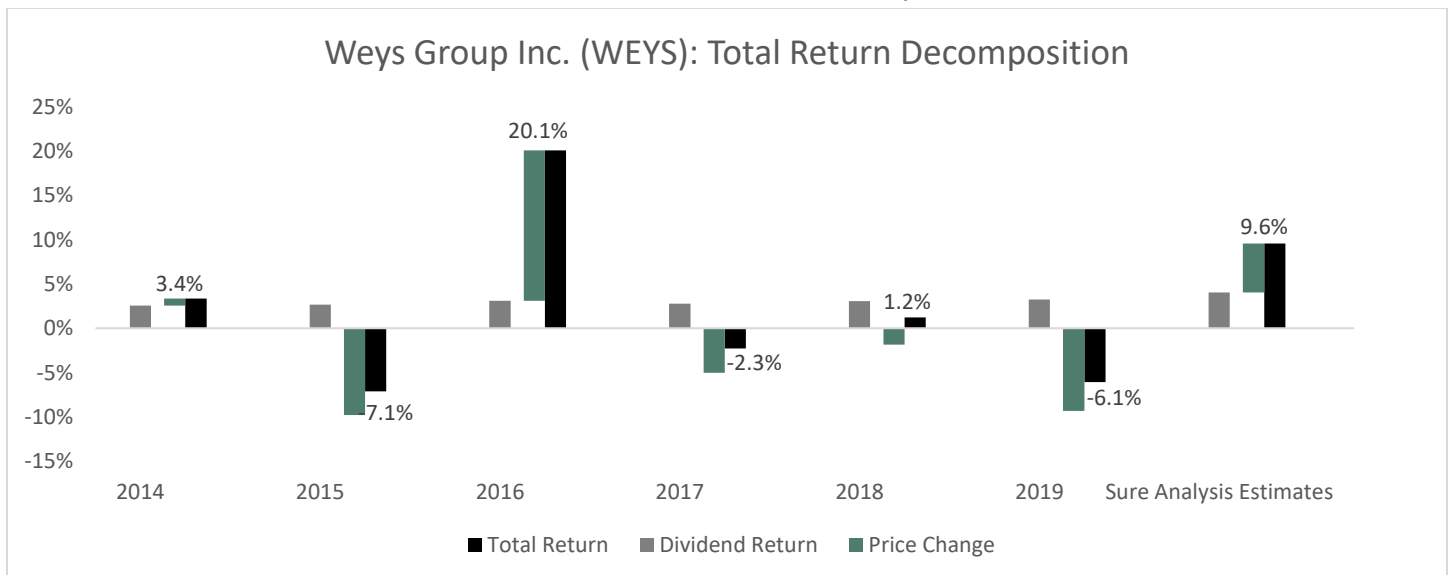
Weyco's main competitive advantage is the strength of its brands. With that said, footwear is a highly competitive business, and as a relatively small player, Weyco does not possess economies of scale over its larger competitors. Furthermore, the wholesale shoe industry is in general decline due to the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

The company has a strong balance sheet. At end of fiscal 2019, the company had \$7.05M of short-term debt and \$27.5M of long-term pension liabilities. This is offset by \$15.7M in cash, cash equivalents and marketable securities. In addition, with very high interest coverage of over 100X and leverage ratio of 0.3X, the company's debt is clearly manageable.

Final Thoughts & Recommendation

At present we are forecasting 9.6% annual total returns over the next five years. 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. But with that said, there may be some headwinds due to tariffs and effects of covid-19. At the current stock price, we rate Weyco a buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	229	271	293	300	320	321	297	284	298	304
Gross Profit	90	107	115	117	123	122	112	111	120	124
Gross Margin	39.4%	39.4%	39.1%	39.1%	38.4%	37.9%	37.7%	39.0%	40.2%	40.8%
SG&A Exp.	72	84	85	90	92	90	89	87	95	97
D&A Exp.	3	3	4	4	4	4	4	4	4	3
Operating Profit	19	23	30	28	31	32	23	23	25	27
Operating Margin	8.2%	8.6%	10.2%	9.2%	9.6%	9.9%	7.7%	8.3%	8.5%	8.9%
Net Profit	14	15	19	18	19	18	16	16	20	21
Net Margin	6.0%	5.6%	6.5%	5.9%	5.9%	5.7%	5.5%	5.8%	6.9%	6.9%
Free Cash Flow	-1	9	8	27	15	-8	41	32	12	2
Income Tax	7	9	11	10	11	11	5	7	6	6

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	223	274	285	268	277	299	268	263	270	297
Cash & Equivalents	7	10	17	16	12	18	14	23	23	10
Accounts Receivable	39	44	49	49	55	54	51	49	52	52
Inventories	56	63	65	63	69	97	70	60	73	87
Goodwill & Int. Ass.	13	49	49	49	49	48	46	46	46	45
Total Liabilities	46	102	104	71	79	94	60	57	64	87
Accounts Payable	10	13	11	14	16	13	12	9	13	12
Long-Term Debt	5	37	45	12	5	27	4	0	6	7
Shareholder's Equity	172	166	174	190	191	198	202	199	206	210
D/E Ratio	0.03	0.22	0.26	0.06	0.03	0.13	0.02	0.00	0.03	0.03

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	6.3%	6.1%	6.8%	6.4%	7.0%	6.3%	5.8%	6.2%	7.7%	7.4%
Return on Equity	8.1%	9.0%	11.1%	9.7%	10.0%	9.4%	8.2%	8.2%	10.1%	10.0%
ROIC	7.8%	7.8%	8.7%	8.1%	9.2%	8.4%	7.4%	7.9%	9.8%	9.7%
Shares Out.	11.4	10.9	10.8	10.9	10.8	10.8	10.5	10.2	10.4	10.0
Revenue/Share	19.95	24.29	26.80	27.64	29.44	29.53	28.09	27.51	28.71	30.54
FCF/Share	-0.12	0.80	0.77	2.50	1.37	-0.73	3.87	3.10	1.12	0.20

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

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