

# Weyco Group Inc. (WEYS)

Updated June 24<sup>th</sup>, 2020 by Prakash Kolli

## Key Metrics

<b>Current Price:</b>	\$21	<b>5 Year CAGR Estimate:</b>	13.4%	<b>Market Cap:</b>	\$202M
<b>Fair Value Price:</b>	\$32	<b>5 Year Growth Estimate:</b>	1.0%	<b>Ex-Dividend Date:</b>	05/28/20
<b>% Fair Value:</b>	65%	<b>5 Year Valuation Multiple Estimate:</b>	9.0%	<b>Dividend Payment Date:</b>	06/30/20
<b>Dividend Yield:</b>	4.6%	<b>5 Year Price Target</b>	\$33	<b>Years Of Dividend Growth:</b>	38
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	A	<b>Last Dividend Increase:</b>	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 Q1 2020 results on May 5<sup>th</sup>, 2020. Companywide net sales were down (14%) to \$63.6M from \$74.1M and diluted earnings per share were down to \$0.12 from \$0.40 on year-over-year basis. The decline in sales and earnings was due to the impact of COVID-19. In the U.S. and other countries around the world, government mandated shutdowns and restrictions resulted in store closures. Net sales in the North American wholesale segment were \$52.7M, down (11%) compared to \$59.5M in the prior year. The Florsheim brand grew sales 4% due to higher volumes in January and February. But this was offset by (22%) lower sales for BOGS, (23%) lower sales of the Stacy Adams brand, and (8%) lower sales of the Nunn Bush. The North American retail segment (Florsheim retail stores and e-commerce) sales were down (15%) to \$4.8M from \$5.6M in the prior year. Florsheim Australia and Florsheim Europe net sales were down (32%) to \$6.1M from \$9.1M in comparable periods and had an operating loss of \$1.3M.

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. Tariffs caused gross margins to drop to 31.8% from 34.3% in comparable periods.

## Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
<b>EPS</b>	\$1.19	\$1.37	\$1.73	\$1.62	\$1.75	\$1.68	\$1.56	\$1.60	\$1.97	\$2.10	<b>\$1.80</b>	<b>\$2.23</b>
<b>DPS</b>	\$0.63	\$0.64	\$0.84	\$0.54	\$0.75	\$0.79	\$0.83	\$0.87	\$0.91	\$0.95	<b>\$0.96</b>	<b>\$1.17</b>
<b>Shares<sup>1</sup></b>	11.4	10.9	10.8	10.9	10.8	10.8	10.5	10.2	10.4	9.9	<b>9.8</b>	<b>9.6</b>

Weyco Group's earnings have been impacted by the rise of e-commerce and internet sales in the past decade. Many department stores and national shoe chains have suffered from declining sales and some have declared bankruptcy. The company is building distribution in new sales channels and now runs its own e-commerce platforms. Further, 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. Weyco is also being impacted by retail store closures and bankruptcies resulting from COVID-19. Sales and earnings will be lower in 2020 but should bounce back as economies reopen. After 2020, 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.

<sup>1</sup> 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	9.8	15.0
Avg. Yld.	2.6%	2.7%	4.2%	1.4%	2.8%	2.8%	3.1%	3.1%	2.7%	3.6%	4.6%	3.5%

Weyco stock price has been volatile due to COVID-19. The stock is trading at a depressed valuation of 9.8 times our estimated normalized earnings. The top and bottom lines will decline in 2020 but should recover as economies reopen. Our long-term fair value multiple is 15X. 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%

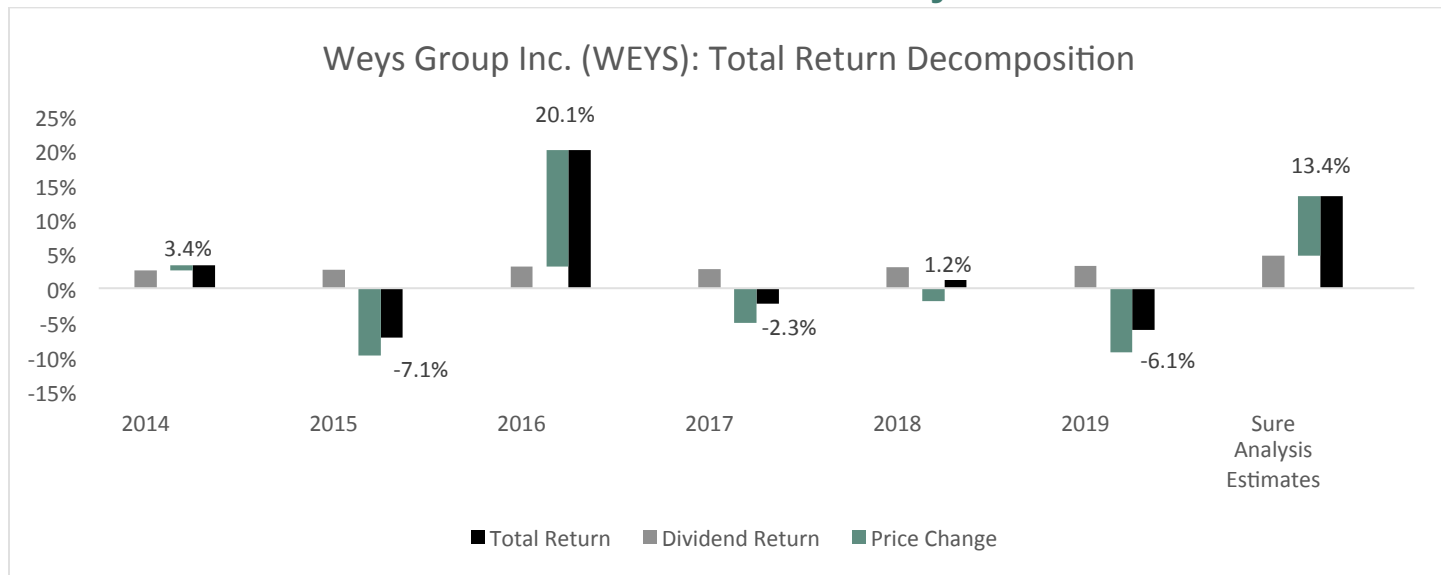
Weyco's main competitive advantage is the strength of its brands. With that said, footwear is a highly competitive business, and as a relatively small player, Weyco does not possess economies of scale over its larger competitors. Furthermore, the wholesale shoe industry is in general decline due to the 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 Q1 2020, the company has no short-term debt and \$27.4M of long-term pension liabilities. This is offset by \$16.3M in cash, cash equivalents and marketable securities. The leverage ratio is 0.1X indicating that the company's debt is clearly manageable.

## Final Thoughts & Recommendation

At present we are forecasting 13.4% annualized total returns over the next five years. Weyco is being impacted by COVID-19 due to closure of retail stores. The company can still sell online though. Gross margins are impacted by tariffs. The strong balance should let it get through the current challenges, but Q2 will likely be difficult due to government mandated shutdowns and restrictions. 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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