Dillard's Inc. (DDS)

Updated August 26th, 2020 by Jonathan Weber

Key Metrics

Current Price:	$28	**5 Year CAGR Estimate:**	4.1%	**Market Cap:**	$630M
Fair Value Price:	$27	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date:**	09/29/20
% Fair Value:	104%	**5 Year Valuation Multiple Estimate:**	-0.7%	**Dividend Payment Date:**	11/02/20
Dividend Yield:	2.1%	**5 Year Price Target**	$31	**Years Of Dividend Growth:**	10
Dividend Risk Score:	F	**Retirement Suitability Score:**	F	**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 second quarter earnings results on August 13. The company reported that its revenues totaled $920 million during the quarter, which was 36% less than the revenues that the company generated during the previous year's quarter. Revenues were below what the analyst community had forecast. This huge revenue decline can be explained by the impact that the coronavirus crisis had on the company's quarter. Stores were partially closed, while traffic was down at stores that remained opened, as some consumers reduced the amount of shopping trips to avoid unnecessary contacts that would increase the likelihood of transmission of the virus.

The company reported a net loss of $0.37 on a per-share basis during the second quarter, which cannot be compared to the previous year's quarter due to the massive impact that the pandemic had on Dillard's results. Analysts were forecasting an even bigger net loss, however. The second quarter earnings results were better than Q1, and further improvements can be expected for the back half of the year, as more states have reopened, and as the holiday season is traditionally the most profitable quarter for Dillard's and its peers. To adjust for the large one-time pandemic impact during the current year, we calculate fair value using an earnings power estimate of $3.00, which reflects that some market share will likely be permanently lost to online retailers.

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	***-$1.50***	***$3.48***
DPS	$0.16	$0.18	$0.20	$0.22	$0.24	$0.26	$0.28	$0.34	$0.40	$0.50	***$0.60***	***$0.60***
Shares[1]	60	49	48	44	41	36	32	28	27	25	***24***	***21***

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.

Following a very solid 2018, during 2019 the company had to battle with 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, which has increased each share's portion of the company's earnings by a lot. 2020 will be a very weak year for Dillard's, but we believe that following the pandemic, the company will recover the majority of its earnings power, and over the next couple of years, ongoing share repurchases could result in a small pace of earnings growth, although from a reduced base level.

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[1] In Millions

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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	***9.3***	***9.0***
Avg. Yld.	0.6%	0.4%	0.3%	0.3%	0.2%	0.3%	0.4%	0.6%	0.7%	0.7%	***2.1%***	***1.9%***

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 ~9 times this year's estimated earnings power. We see marginal downside potential for Dillard's valuation, as brick and mortar retailers will remain under a lot of pressure over the coming years, which puts a lid on their valuations.

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%	***20.0%***	***17.3%***

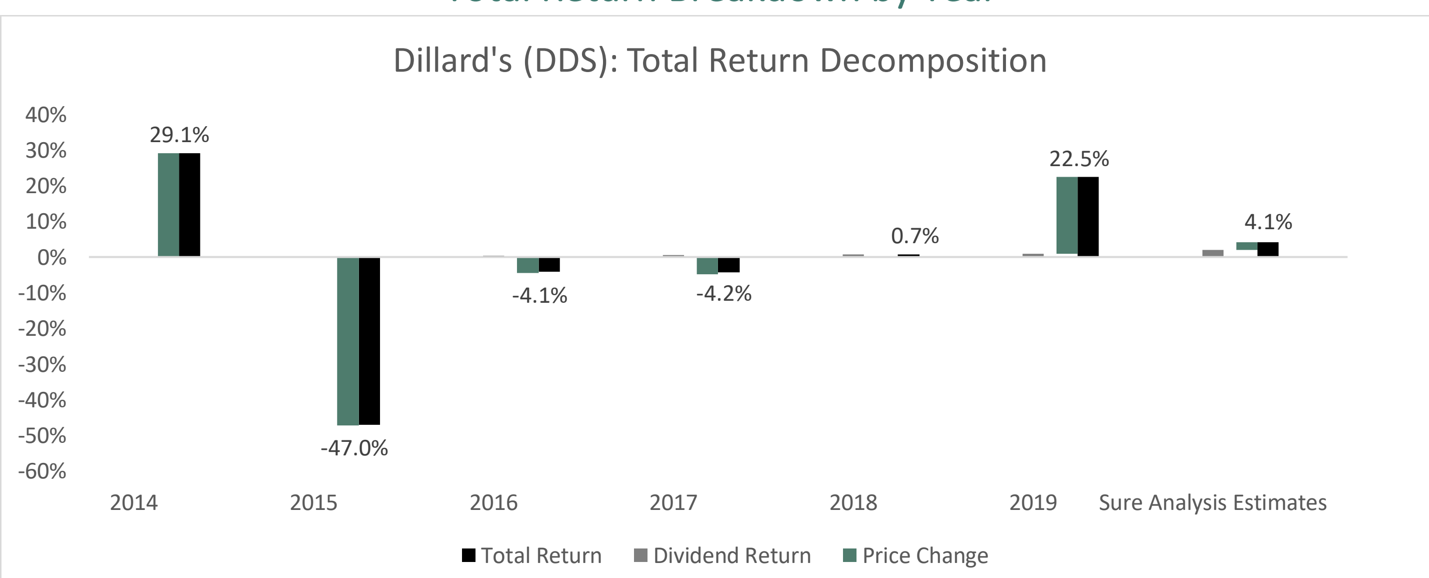
Dillard's pays out only a marginal amount of its net profits in the form of dividends to the company's owners. Management is much more focused on reducing the share count, which the company has done very successfully in the past. It is very likely that management will continue to prioritize buybacks over dividends going forward. Despite the pressures during the current pandemic, Dillard's has decided to continue to pay its dividend.

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 other categories in recent years. Dillard's is not a recession-resilient stock.

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 more usual categories. The current coronavirus crisis is hurting Dillard's to a large extent, and it has to be expected that the company will report net losses for 2020. We see an eventual recovery, but the forecasted total returns are nevertheless not compelling, which is why we rate the stock a sell.

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	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.