

Weyco Group Inc. (WEYS)

Updated September 9th, 2020 by Prakash Kolli

Key Metrics

Current Price:	\$18	5 Year CAGR Estimate:	4.5%	Market Cap:	\$172.7M
Fair Value Price:	\$16	5 Year Growth Estimate:	1.0%	Ex-Dividend Date:	08/27/20
% Fair Value:	111%	5 Year Valuation Multiple Estimate:	-2.1%	Dividend Payment Date:	09/30/20
Dividend Yield:	5.4%	5 Year Price Target	\$17	Years Of Dividend Growth:	38
Dividend Risk Score:	C	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 very poor Q2 2020 results on August 4th, 2020. Companywide net sales were down materially to \$16.7M from \$60.5M and diluted earnings per share were plunged to a loss of (\$0.91) from a profit of \$0.15 on year-over-year basis. The decline in sales and earnings was due to the impact of COVID-19 and also partly to JCPenney's bankruptcy. 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 \$9.3M, down (80%) compared to \$46.1M in the prior year. The Florsheim brand's sales fell (90%), (30%) lower sales for BOGS, (89%) lower sales of the Stacy Adams brand, and (68%) lower sales of the Nunn Bush. The North American retail segment (Florsheim retail stores and e-commerce) sales were down (33%) to \$3.6M from \$5.4M in the prior year. Florsheim Australia and Florsheim Europe net sales were down (59%) to \$3.7M from \$9.0M in comparable periods. The company had an operating loss of (\$13.0M) versus a gain of \$1.9M in the prior year.

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.

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	\$1.06	\$1.11
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	9.9	9.8	9.6

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. That said, the company is still dependent on the wholesale channel and department stores for the great majority of its revenue. Weyco is being materially impacted by local government restrictions caused by COVID-19. Sales and earnings will be much lower in 2020 and likely 2021. It is probable that recovery will be slow. Further, teleworking may change long-term spending patterns for men's dress and dress casual shoes possibly impacting Weyco's business beyond 2021. The payout ratio is now elevated. The company has not yet suspended or cut the dividend, but there is now some risk here as Weyco focuses on preserving liquidity.

¹ Share count in millions.

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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	16.7	15.0
Avg. Yld.	2.6%	2.7%	4.2%	1.4%	2.8%	2.8%	3.1%	3.1%	2.7%	3.6%	5.4%	7.0%

Weyco's stock price has been volatile due to COVID-19. We have lowered our 2020 and long-term earnings estimates since we feel that the business will be impacted into the future. The stock is now trading at an elevated valuation of 16.7X. Our long-term fair value multiple is 15X. Our fair value estimate is now \$16. Our 5-year price target is now \$18.

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%	91%	105%

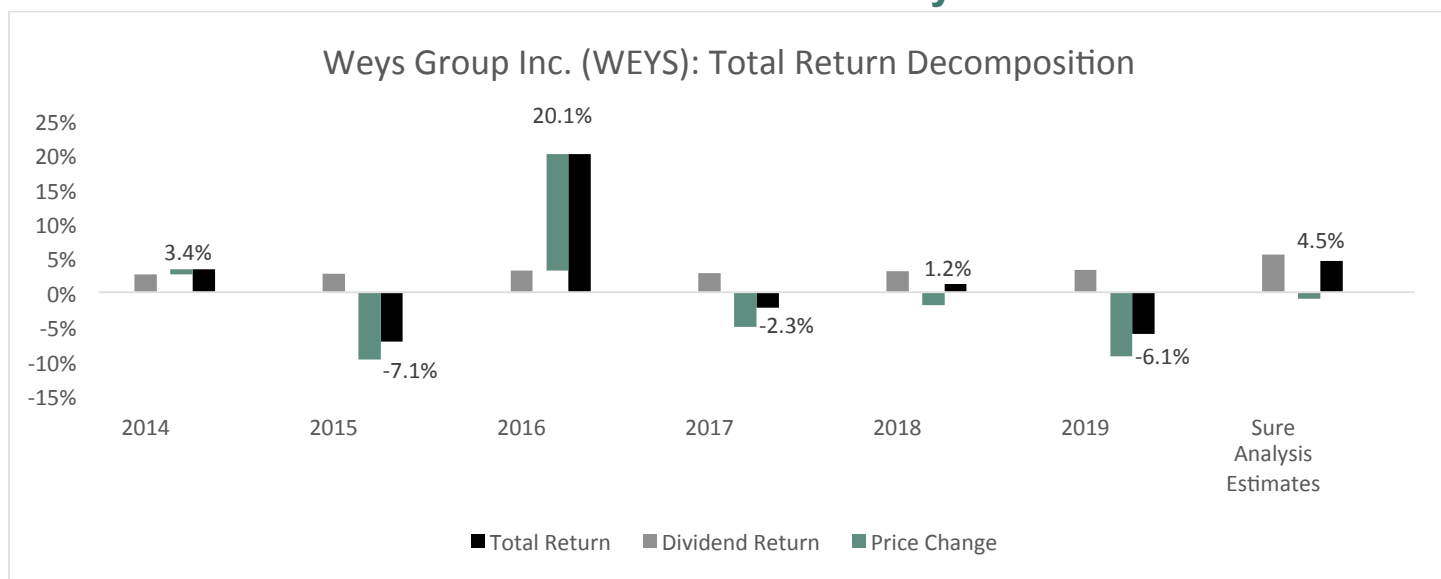
Weyco's main competitive advantage is the strength of its brands. With that said, footwear is a highly competitive business, and as a relatively small player, Weyco does not possess economies of scale over its larger competitors. Furthermore, the wholesale shoe industry is in general decline due to the 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 Q2 2020, the company has no short-term debt and \$27.2M of long-term pension liabilities. This is offset by \$11.4M in cash, cash equivalents and marketable securities. The leverage ratio is 0.2X indicating that the company's debt is manageable despite the hit to earnings.

Final Thoughts & Recommendation

At present we are forecasting 4.5% annualized total returns over the next five years. Weyco is being materially impacted by COVID-19 due to local government restrictions and closures of retail stores. Further, teleworking is reducing demand of men's dress and dress casual shoes. Tariffs and trade tensions are a further challenge. The dividend yield is high but COVID-19 has negatively impacted the safety. At this point, we are wary of Weyco and do not recommend this stock.

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	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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