



Dillard's Inc. (DDS)

Updated March 2nd, 2021 by Jonathan Weber

Key Metrics

Current Price:	\$89	5 Year CAGR Estimate:	-12.7%	Market Cap:	\$2B
Fair Value Price:	\$33	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	03/30/21
% Fair Value:	270%	5 Year Valuation Multiple Estimate:	-18.0%	Dividend Payment Date:	05/03/21
Dividend Yield:	0.7%	5 Year Price Target	\$42	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 fourth quarter earnings results on February 22. The company reported that its revenues totaled \$1.57 billion during the quarter, which was 18% 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. Some of the company's stores were closed, while traffic was down at stores that remained opened, as 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 profit of \$3.05 on a per-share basis during the fourth quarter, which came as a big surprise, as the analyst community had forecasted that the company would generate substantially lower earnings. Thanks to strong cost controls, Dillard's was quite profitable, however, despite the pandemic impact. The fourth quarter earnings results were better than Q2 and Q3, although it should be noted that the fourth quarter is also traditionally the strongest quarter for companies such as Dillard's, due to holiday shopping. In 2020 Dillard's has generated a net loss of \$2.80 on a per-share basis, mainly due to steep losses in Q1. 2021 is forecasted to be a better year, however, as analysts are expecting net profits of \$2.75 for the current year.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$4.29	\$6.32	\$6.99	\$7.79	\$6.91	\$4.93	\$4.89	\$6.23	\$4.38	-\$2.80	\$2.75	\$3.51
DPS	\$0.18	\$0.20	\$0.22	\$0.24	\$0.26	\$0.28	\$0.34	\$0.40	\$0.50	\$0.60	\$0.60	\$0.60
Shares¹	49	48	44	41	36	32	28	27	25	25	24	20

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 was a weak year for Dillard's, but we believe that following the pandemic, the company will recover the majority of its profitability, and over the next couple of years, ongoing share repurchases could result in a solid pace of earnings growth, although from a reduced base level.

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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	10.1	11.3	12.1	13.8	14.7	13.4	11.6	9.6	16.7	NMF	32.4	12.0
Avg. Yld.	0.4%	0.3%	0.3%	0.2%	0.3%	0.4%	0.6%	0.7%	0.7%	1.0%	0.7%	1.4%

Dillard's valuation has not been especially high throughout much of the last decade, as the company's shares usually were valued at a low-double-digit price-to-earnings multiple. Right now, shares trade for ~32 times this year's estimated earnings-per-share, which is the highest valuation in recent memory. We see a lot of downside potential for Dillard's, as we do not believe that brick-and-mortar retailers with so-so growth should be valued at high earnings multiples.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	4.2%	3.2%	3.1%	3.1%	3.8%	5.7%	7.0%	6.4%	11.4%	NMF	21.8%	17.1%

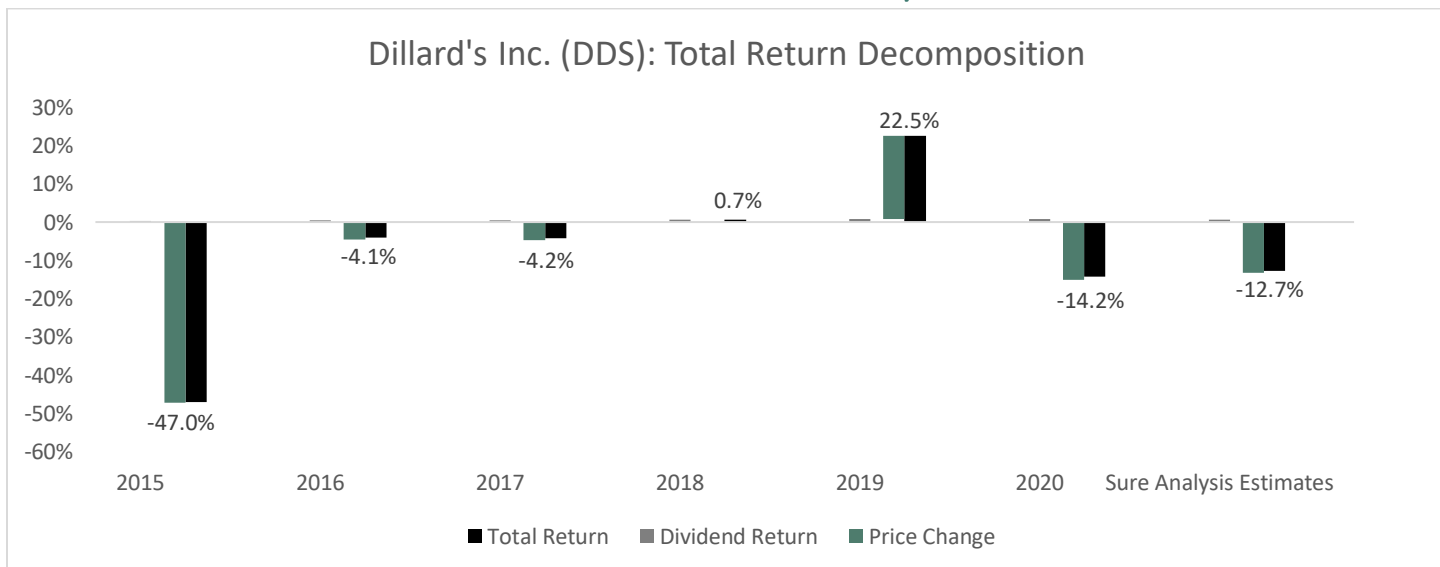
Dillard's pays out only a marginal amount of its net profits in the form of dividends to the company's owners. Management is much more focused on reducing the share count, which the company has done very successfully in the past. It is very likely that management will continue to prioritize buybacks 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, the company generated large net losses in 2020. We see an eventual recovery, but the forecasted total returns are nevertheless not at all compelling, which is why we rate the stock a sell right here.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	6,405	6,752	6,692	6,780	6,755	6,418	6,423	6,503	6,343	4,433
Gross Profit	2,358	2,504	2,468	2,508	2,404	2,252	2,223	2,212	2,107	1,364
Gross Margin	36.8%	37.1%	36.9%	37.0%	35.6%	35.1%	34.6%	34.0%	33.2%	30.8%
SG&A Exp.	1,679	1,706	1,659	1,691	1,697	1,673	1,713	1,720	1,717	1,234
D&A Exp.	259	262	257	252	252	246	234	226	224	216
Operating Profit	422	539	554	566	457	335	278	268	167	(83)
Operating Margin	6.6%	8.0%	8.3%	8.3%	6.8%	5.2%	4.3%	4.1%	2.6%	-1.9%
Net Profit	464	336	324	332	269	169	221	170	111	(72)
Net Margin	7.2%	5.0%	4.8%	4.9%	4.0%	2.6%	3.4%	2.6%	1.8%	-1.6%
Free Cash Flow	385	386	407	460	284	407	144	230	262	193
Income Tax	(63)	145	173	179	141	89	(8)	38	23	(82)

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	4,306	4,049	4,051	4,170	3,864	3,888	3,683	3,431	3,430	3,093
Cash & Equivalents	224	124	237	404	203	347	187	124	277	360
Accounts Receivable	29	32	31	57	47	48	38	50	46	37
Inventories	1,304	1,295	1,345	1,374	1,375	1,406	1,464	1,528	1,465	1,088
Total Liabilities	2,254	2,079	2,059	2,151	2,069	2,171	1,975	1,753	1,807	1,652
Accounts Payable	452	469	465	531	494	636	658	743	713	758
Long-Term Debt	892	815	815	815	813	813	726	566	566	567
Shareholder's Equity	2,052	1,970	1,992	2,019	1,795	1,717	1,708	1,678	1,623	1,441
D/E Ratio	0.43	0.41	0.41	0.40	0.45	0.47	0.43	0.34	0.35	0.39

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	10.7%	8.0%	8.0%	8.1%	6.7%	4.4%	5.8%	4.8%	3.2%	-2.2%
Return on Equity	22.4%	16.7%	16.3%	16.5%	14.1%	9.6%	12.9%	10.1%	6.7%	-4.7%
ROIC	15.5%	11.7%	11.6%	11.8%	9.9%	6.6%	8.9%	7.3%	5.0%	-3.4%
Shares Out.	49	48	44	41	36	32	28	27	25	25
Revenue/Share	117.64	138.04	146.79	159.15	173.17	187.07	217.81	238.11	250.09	195.30
FCF/Share	7.08	7.89	8.92	10.79	7.29	11.87	4.88	8.43	10.32	8.48

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

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