



Dillard's Inc. (DDS)

Updated August 26th, 2021 by Jonathan Weber

Key Metrics

Current Price:	\$200	5 Year CAGR Estimate:	10.0%	Market Cap:	\$4.4B
Fair Value Price:	\$288	5 Year Growth Estimate:	2.0%	Ex-Dividend Date:	09/29/21
% Fair Value:	69%	5 Year Valuation Multiple Estimate:	7.6%	Dividend Payment Date:	11/02/21
Dividend Yield:	0.4%	5 Year Price Target	\$318	Years Of Dividend Growth:	11
Dividend Risk Score:	B	Retirement Suitability Score:	F	Last Dividend Increase:	33.3%

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 12. The company reported that its revenues totaled \$1.57 billion during the quarter, which was 71% more than the revenues that the company generated during the previous year's quarter. Revenues were above what the analyst community had forecast. This huge revenue increase can be explained by the impact that the coronavirus crisis had on the company's Q2 in 2020, which made for a rather easy comparison during this year's second quarter, thanks to economic reopening. It should be noted that revenues were higher than during the second quarter from 2 years ago, growth was thus not entirely rebound-driven.

The company reported a net profit of \$8.81 on a per-share basis for the second quarter. Thanks to strong cost controls, Dillard's was quite profitable, as a gross margin increase of a massive 1060 basis points, combined with higher revenues and operating leverage, let earnings explode upwards compared to a small net loss in the previous year's quarter. In 2020 Dillard's generated a net loss, but Dillard's profits will be dramatically higher this year. In fact, on the back of strong H1 results, economic reopening tailwinds, Dillard's ambitious cost saving measures, and buybacks, analysts are expecting Dillard's to earn \$26.20 this year – which would be a new record profit for the company.

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	\$26.20	\$28.93
DPS	\$0.18	\$0.20	\$0.22	\$0.24	\$0.26	\$0.28	\$0.34	\$0.40	\$0.50	\$0.60	\$0.80	\$0.80
Shares¹	49	48	44	41	36	32	28	27	25	25	22	18

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 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 see a substantial increase in profitability, and over the next couple of years, ongoing share repurchases could result in a solid pace of earnings growth, although the future of brick-and-mortar retail is not certain.

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	7.6	11.0
Avg. Yld.	0.4%	0.3%	0.3%	0.2%	0.3%	0.4%	0.6%	0.7%	0.7%	1.0%	0.4%	0.3%

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 8 times this year's estimated earnings-per-share, which is not a high valuation. We believe that shares are trading below fair value today, on the back of the massive earnings growth that is expected for the current year.

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	3.1%	2.8%

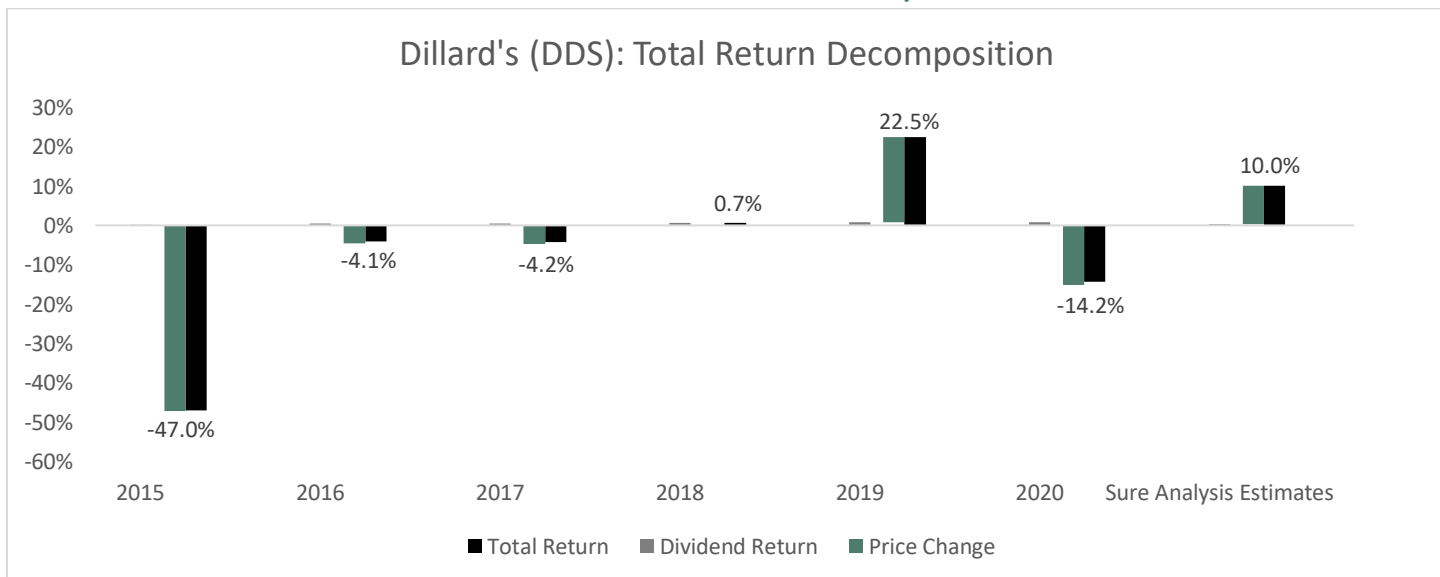
Dillard's pays out only a marginal amount of its net profits in the form of dividends to the company's owners. Management is much more focused on reducing the share count, which the company has done very successfully in the past. It is very likely that management will continue to prioritize buybacks 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 usual soft-line categories. The coronavirus crisis has been hurting Dillard's to a large extent in 2020, but the company is on track to see massively better results this year. The forecasted total returns are attractive, which is why we rate the stock a buy at current share prices.

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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