



Weyco Group Inc. (WEYS)

Updated November 9th, 2021 by Prakash Kolli

Key Metrics

Current Price:	\$23	5 Year CAGR Estimate:	4.9%	Market Cap:	\$226.12M
Fair Value Price:	\$23	5 Year Growth Estimate:	1.0%	Ex-Dividend Date:	11/26/21
% Fair Value:	102%	5 Year Valuation Multiple Estimate:	-0.5%	Dividend Payment Date:	12/31/21
Dividend Yield:	4.3%	5 Year Price Target	\$24	Years Of Dividend Growth:	39
Dividend Risk Score:	B	Retirement Suitability Score:	A	Last Dividend Increase:	1.1%

Overview & Current Events

Weyco Group Inc. designs and distributes footwear. Weyco's brand portfolio consists of Florsheim, Nunn Bush, Stacy Adams, BOGS, and Forsake. 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 US 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 US 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 ~\$195.4M in 2020.

Weyco Group reported excellent Q3 2021 results on November 2, 2021. Companywide net sales increased to \$61.8M from \$53.2M and diluted earnings per share rose to \$0.52 from a loss of (-\$0.60) on year-over-year basis. The increase in sales and earnings was due to reopening of global economies and rising vaccination rates. Businesses are reopening and social functions are resuming and demand for dress and dress-casual footwear is recovering. The retail segment saw a record quarter driven by e-commerce. Supply chain delays are a concern, but the company indicated product flow is improving allowing Weyco to fulfill demand for the important fourth quarter.

Net sales in the North American wholesale segment were \$50.2M, up from \$44.0M in the prior year. Sales were up for the Florsheim, Nunn Bush, and Stacy Adams brands offset by an 8% decline for BOGS. The North American retail segment (Florsheim retail stores and e-commerce) sales rose to \$6.3M from \$4.4M in the prior year. E-commerce sales were up 33% and brick-and-mortar store sales were also higher by 49%. There are now only four active stores. Florsheim Australia and Florsheim Europe net sales were up to \$5.3M from \$4.8M in comparable periods. Sales are still much lower than in comparable quarters in 2019 at \$9.5M. However, the company is winding down the Florsheim Europe business. Losses were lower for this segment.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$1.37	\$1.73	\$1.62	\$1.75	\$1.68	\$1.56	\$1.60	\$1.97	\$2.10	-\$0.87	\$1.50	\$1.58
DPS	\$0.64	\$0.84	\$0.54	\$0.75	\$0.79	\$0.83	\$0.87	\$0.91	\$0.95	\$0.96	\$1.00	\$1.22
Shares¹	10.9	10.8	10.9	10.8	10.8	10.5	10.2	10.4	9.9	9.8	9.7	9.5

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 was materially impacted by COVID-19. Sales were much lower in 2020 and the company had a loss for the year. It is probable that recovery will be slow, but the company returned to profitability in Q4 2020. Furthermore, teleworking may change long-term spending patterns for men's dress and dress casual shoes possibly impacting Weyco's business in 2021 and beyond. The payout ratio is now elevated. The company has not yet suspended or cut the dividend and seems to have survived the worst impact of COVID-19 on its business due to its strong balance sheet.

¹ 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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2025
Avg. P/E	17.2	13.7	15.9	15.5	16.7	17.3	17.5	17.1	12.6	NMF	15.3	15.0
Avg. Yld.	2.7%	4.2%	1.4%	2.8%	2.8%	3.1%	3.1%	2.7%	3.9%	6.1%	4.3%	5.1%

Weyco's stock price is down since our last report due to rising infections in some parts of the world. We are estimating that earnings per share will be about 71% of 2019 but there is a lot of uncertainty in our forecast. The stock is now trading at an elevated valuation of 15.3. Our long-term fair value multiple is 15X lower than the trailing average this past decade accounting for competitive pressures. Our fair value estimate is now \$23. Our 5-year price target is now \$24.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	47%	49%	33%	43%	47%	53%	54%	46%	45%	NMF	67%	77%

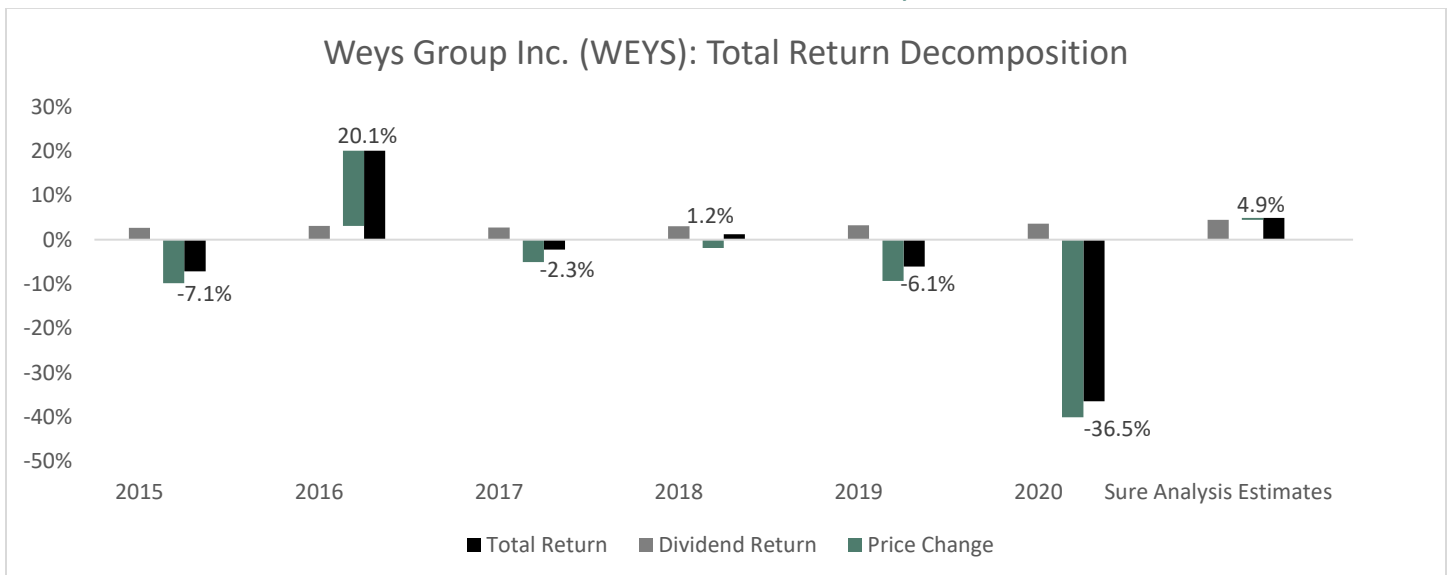
Weyco's main competitive advantage is the strength of its brands. With that said, footwear is a highly competitive business, and as a relatively small player, Weyco does not possess economies of scale over its larger competitors. Furthermore, the wholesale shoe industry is in general decline due to the broader challenges facing brick-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 Great Recession and took several years to recover.

The company has a very strong balance sheet. At end of Q3 2021, the company had no debt, \$7.1M in operating leases, and \$32.5M of long-term pension liabilities. This is offset by \$34.8M in cash, cash equivalents and marketable securities.

Final Thoughts & Recommendation

At present we are forecasting 4.9% annualized total returns over the next five years. Weyco was materially impacted by COVID-19 due to local government restrictions, closure of department and shoe stores, and lower demand for men's dress and dress casual shoes. But sales and earnings have bounced back and are at 75% of 2019 levels. The main interest here is income supported by the strong balance sheet. At the current price, we rate this stock a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	271	293	300	320	321	297	284	298	304	195
Gross Profit	107	115	117	123	122	112	111	120	124	79
Gross Margin	39.4%	39.1%	39.1%	38.4%	37.9%	37.7%	39.0%	40.2%	40.8%	40.2%
SG&A Exp.	84	85	90	92	90	89	87	95	97	86
D&A Exp.	3	4	4	4	4	4	4	4	3	3
Operating Profit	23	30	28	31	32	23	23	25	27	-8
Operating Margin	8.6%	10.2%	9.2%	9.6%	9.9%	7.7%	8.3%	8.5%	8.9%	-3.9%
Net Profit	15	19	18	19	18	16	16	20	21	-8
Net Margin	5.6%	6.5%	5.9%	5.9%	5.7%	5.5%	5.8%	6.9%	6.9%	-4.3%
Free Cash Flow	9	8	27	15	-8	41	32	12	2	37
Income Tax	9	11	10	11	11	5	7	6	6	1

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	274	285	268	277	299	268	263	270	297	257
Cash & Equivalents	10	17	16	12	18	14	23	23	10	32
Accounts Receivable	44	49	49	55	54	51	49	52	52	35
Inventories	63	65	63	69	97	70	60	73	87	59
Goodwill & Int. Ass.	49	49	49	49	48	46	46	46	45	45
Total Liabilities	102	104	71	79	94	60	57	64	87	69
Accounts Payable	13	11	14	16	13	12	9	13	12	8
Long-Term Debt	37	45	12	5	27	4	0	6	7	0
Shareholder's Equity	166	174	190	191	198	202	199	206	210	188
D/E Ratio	0.22	0.26	0.06	0.03	0.13	0.02	0.00	0.03	0.03	0.00

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	6.1%	6.8%	6.4%	7.0%	6.3%	5.8%	6.2%	7.7%	7.4%	-3.1%
Return on Equity	9.0%	11.1%	9.7%	10.0%	9.4%	8.2%	8.2%	10.1%	10.0%	-4.3%
ROIC	7.8%	8.7%	8.1%	9.2%	8.4%	7.4%	7.9%	9.8%	9.7%	-4.2%
Shares Out.	10.9	10.8	10.9	10.8	10.8	10.5	10.2	10.4	10.0	9.9
Revenue/Share	24.29	26.80	27.64	29.44	29.53	28.09	27.51	28.71	30.54	20.02
FCF/Share	0.80	0.77	2.50	1.37	-0.73	3.87	3.10	1.12	0.20	3.75

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

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