



Weyco Group Inc. (WEYS)

Updated March 16th, 2022 by Prakash Kolli

Key Metrics

Current Price:	\$24	5 Year CAGR Estimate:	10.5%	Market Cap:	\$226.43M
Fair Value Price:	\$32	5 Year Growth Estimate:	1.0%	Ex-Dividend Date:	03/17/22
% Fair Value:	74%	5 Year Valuation Multiple Estimate:	6.1%	Dividend Payment Date:	03/31/22
Dividend Yield:	4.2%	5 Year Price Target	\$34	Years Of Dividend Growth:	0
Dividend Risk Score:	D	Retirement Suitability Score:	C	Last Dividend Increase:	0%

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 US 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 ~\$267.6M in 2021.

Weyco Group reported excellent Q4 2021 results on March 8, 2022. Companywide net sales increased to a record \$101.4M from \$62.0M and diluted earnings per share rose to \$1.07 from \$0.52 on year-over-year basis. The increase in sales and earnings was due to reopening of global economies and rising vaccination rates. Businesses have reopened and social functions resumed. Hence, demand for dress and dress-casual footwear has recovered. The retail segment saw another record quarter driven by double-digit gains in e-commerce and sales at pre-pandemic levels in the four remaining retail stores. All four major brands had significantly higher sales as shoppers returned to stores.

Net sales in the North American wholesale segment were \$79.9M, up from \$46.2M in the prior year. Florsheim and BOGS achieved record sales, while Stacy Adams and Nunn Bush rebounded nearly to pre-pandemic levels. Margins were lower by 590 bps due to supply chain delays and rising input costs.

The North American retail segment (Florsheim retail stores and e-commerce) sales rose to \$13.5M from \$8.7M in the prior year. E-commerce sales were up 52% and higher brick-and-mortar store sales. Florsheim Australia and Florsheim Europe net sales were up to \$8.0M from \$7.1M in comparable periods. Sales are at 88% of 2019 levels. However, the company is winding down the Florsheim Europe business.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$1.73	\$1.62	\$1.75	\$1.68	\$1.56	\$1.60	\$1.97	\$2.10	-\$0.87	\$2.12	\$2.14	\$2.25
DPS	\$0.84	\$0.54	\$0.75	\$0.79	\$0.83	\$0.87	\$0.91	\$0.95	\$0.96	\$0.96	\$1.00	\$1.22
Shares¹	10.8	10.9	10.8	10.8	10.5	10.2	10.1	9.9	9.8	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. The company returned to profitability in Q4 2020, and momentum continued into 2021. Sales in Q4 2021 exceeded sales in Q4 2019, before the pandemic. The company did not raise the dividend in 2021 for the first time in 39 years. Hence, Weyco is no longer a Dividend Champion. Weyco is repurchasing shares gradually lowering the share count.

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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	13.7	15.9	15.5	16.7	17.3	17.5	17.1	12.6	NMF	11.3	11.2	15.0
Avg. Yld.	4.2%	1.4%	2.8%	2.8%	3.1%	3.1%	2.7%	3.9%	6.1%	4.0%	4.2%	3.6%

Weyco's stock price is up slightly since our last report. Weyco had a record fourth quarter and annual sales and operating earnings have nearly recovered to pre-pandemic levels. We have set our 2022 earnings estimate at \$2.14. 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 \$32. Our 5-year price target is now \$34.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	49%	33%	43%	47%	53%	54%	46%	45%	-110%	NMF	47%	54%

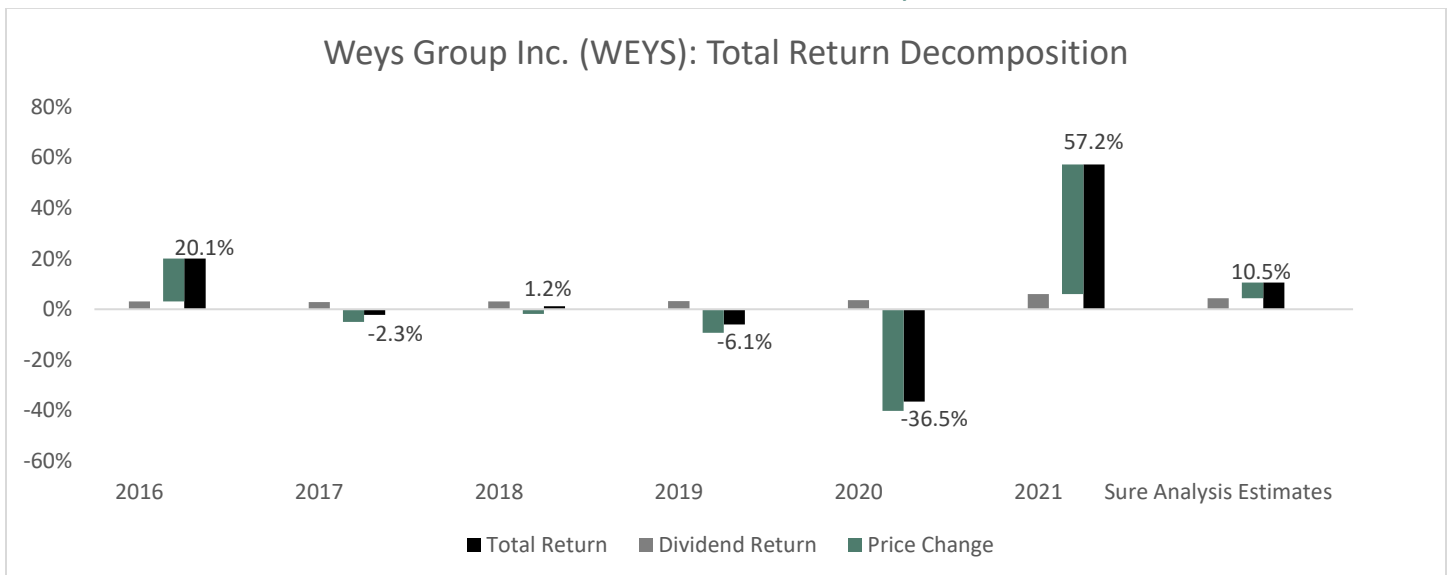
Weyco's main competitive advantage is the strength of its brands. With that said, footwear is a highly competitive business, and as a relatively small player, Weyco does not possess economies of scale over its larger competitors. Furthermore, the wholesale shoe industry is in general decline due to the 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 Q4 2021, the company had no debt, \$3.6M in operating leases, and \$27.8M of long-term pension liabilities. This is offset by \$38.0M in cash, cash equivalents and marketable securities.

Final Thoughts & Recommendation

At present we are forecasting 10.5% 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 annual sales and earnings have bounced back and are nearly at 2019 levels. The main interest here is income supported by the strong balance sheet. At the current price, we rate this stock a buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	293	300	320	321	297	284	298	304	195	268
Gross Profit	115	117	123	122	112	111	120	124	79	107
Gross Margin	39.1%	39.1%	38.4%	37.9%	37.7%	39.0%	40.2%	40.8%	40.2%	39.9%
SG&A Exp.	85	90	92	90	89	87	95	97	86	82
D&A Exp.	4	4	4	4	4	4	4	3	3	3
Operating Profit	30	28	31	32	23	23	25	27	-8	26
Operating Margin	10.2%	9.2%	9.6%	9.9%	7.7%	8.3%	8.5%	8.9%	-3.9%	9.7%
Net Profit	19	18	19	18	16	16	20	21	-8	21
Net Margin	6.5%	5.9%	5.9%	5.7%	5.5%	5.8%	6.9%	6.9%	-4.3%	7.8%
Free Cash Flow	8	27	15	-8	41	32	12	2	37	5
Income Tax	11	10	11	11	5	7	6	6	1	7

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	285	268	277	299	268	263	270	297	257	278
Cash & Equivalents	17	16	12	18	14	23	23	10	32	20
Accounts Receivable	49	49	55	54	51	49	52	52	35	53
Inventories	65	63	69	97	70	60	73	87	59	71
Goodwill & Int. Ass.	49	49	49	48	46	46	46	45	45	48
Total Liabilities	104	71	79	94	60	57	64	87	69	76
Accounts Payable	11	14	16	13	12	9	13	12	8	19
Long-Term Debt	45	12	5	27	4	0	6	7	0	0
Shareholder's Equity	174	190	191	198	202	199	206	210	188	201
D/E Ratio	0.26	0.06	0.03	0.13	0.02	0.00	0.03	0.03	0.00	0.00

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	6.8%	6.4%	7.0%	6.3%	5.8%	6.2%	7.7%	7.4%	-3.1%	7.7%
Return on Equity	11.1%	9.7%	10.0%	9.4%	8.2%	8.2%	10.1%	10.0%	-4.3%	10.6%
ROIC	8.7%	8.1%	9.2%	8.4%	7.4%	7.9%	9.8%	9.7%	-4.2%	10.6%
Shares Out.	10.8	10.9	10.8	10.8	10.5	10.2	10.4	10.0	9.9	9.7
Revenue/Share	26.80	27.64	29.44	29.53	28.09	27.51	28.71	30.54	20.02	27.6
FCF/Share	0.77	2.50	1.37	-0.73	3.87	3.10	1.12	0.20	3.75	0.56

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

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