Dillard's Inc. (DDS)

Updated May 27th, 2022 by Jonathan Weber

Key Metrics

Current Price:	$302	**5 Year CAGR Estimate:**	3.3%	**Market Cap:**	$5.2 B
Fair Value Price:	$318	**5 Year Growth Estimate:**	2.0%	**Ex-Dividend Date:**	06/29/22
% Fair Value:	95%	**5 Year Valuation Multiple Estimate:**	1.0%	**Dividend Payment Date:**	08/01/22
Dividend Yield:	0.3%	**5 Year Price Target**	$351	**Years Of Dividend Growth:**	11
Dividend Risk Score:	B	**Retirement Suitability Score:**	F	**Rating:**	Sell

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 first quarter earnings results on May 12. The company reported that its revenues totaled $1.64 billion during the quarter, which was 21% more than the revenues that the company generated during the previous year's quarter. The huge revenue increase can be explained by the impact that the coronavirus crisis had on the company's first quarter in fiscal 2021, which made for a rather easy comparison during the most recent quarter, thanks to economic reopening. The revenue increase was primarily driven by a 23% increase in Dillard's same-store sales, which is advantageous, as it allows for margin expansion due to operating leverage.

The company reported a net profit of $13.68 on a per-share basis for the first quarter. Thanks to strong cost controls, Dillard's was quite profitable, as a gross margin increase of 470 basis points, combined with higher revenues and operating leverage, let earnings explode upwards compared to the previous year's quarter. Dillard had a very strong 2021, and even though the current year will likely not be that excellent, 2022 should still be the second-strongest year in the company's history. With consumer sentiment weakening and inflationary pressures on the rise, it is expected that the remainder of the current year will be somewhat weaker compared to 2021 and the very strong start in Q1. Dillard's rapid pace of share repurchases will likely offset these headwinds to some degree.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$6.32	$6.99	$7.79	$6.91	$4.93	$4.89	$6.23	$4.38	-$2.80	$40.67	***$26.50***	***$29.26***
DPS	$0.20	$0.22	$0.24	$0.26	$0.28	$0.34	$0.40	$0.50	$0.60	$0.80	***$0.80***	***$1.00***
Shares[1]	48	44	41	36	32	28	27	25	25	22	***18***	***15***

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.

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 very 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 should also be beneficial for the company's earnings-per-share growth, although the future of brick-and-mortar retail isn't certain.

[1] In Millions

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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	11.3	12.1	13.8	14.7	13.4	11.6	9.6	16.7	NMF	6.0	***11.4***	***12.0***
Avg. Yld.	0.3%	0.3%	0.2%	0.3%	0.4%	0.6%	0.7%	0.7%	1.0%	0.3%	***0.3%***	***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 around 11 times this year's estimated earnings-per-share. We believe that shares are trading slightly below fair value today, which could have a positive impact on the company's total returns going forward.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	3.2%	3.1%	3.1%	3.8%	5.7%	7.0%	6.4%	11.4%	NMF	2.0%	***3.0%***	***3.4%***

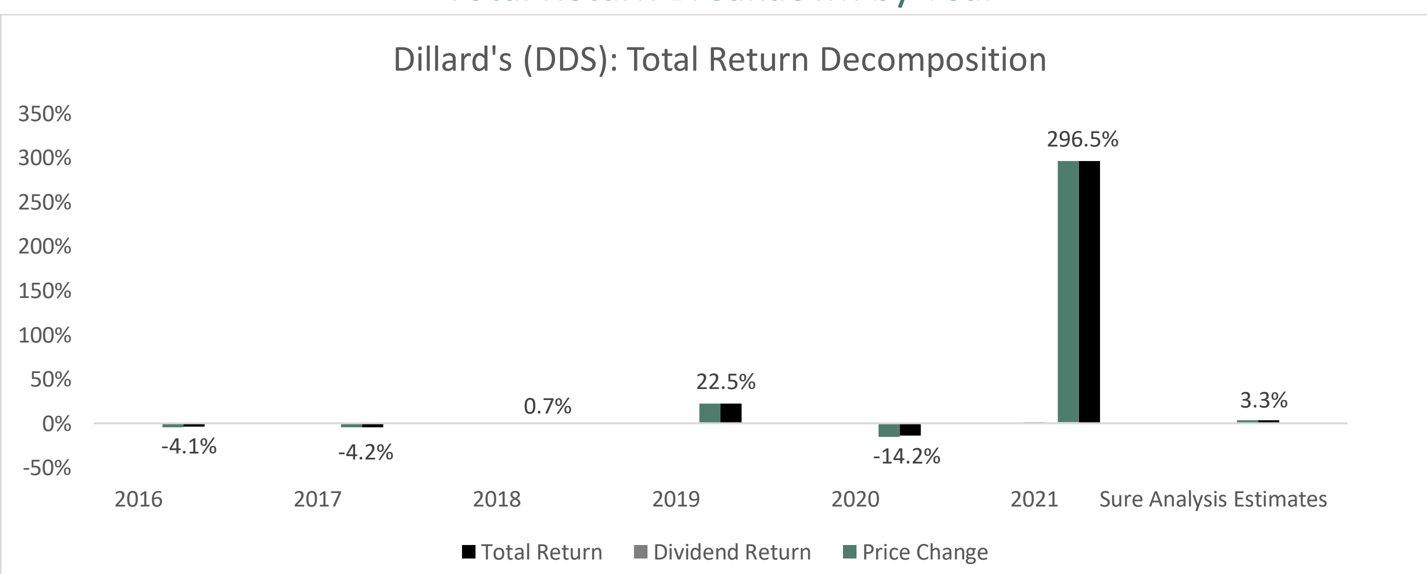
Dillard's pays out only a marginal amount of its net profits in the form of dividends to the company's owners. Management is much more focused on reducing the share count, which the company has done very successfully in the past. It is very likely that management will continue to prioritize buybacks 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 selling furniture and related items on top of the usual soft-line categories sold by most department store chains. The company rebounded massively in 2021, and even though profits during this year will pull back, the current year should be a strong one. Forecast returns are not too strong, though, which is why we rate the stock a sell today.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	6,752	6,692	6,780	6,755	6,418	6,423	6,503	6,343	4,433	6,624
Gross Profit	2,504	2,468	2,508	2,404	2,252	2,223	2,212	2,107	1,364	2,877
Gross Margin	37.1%	36.9%	37.0%	35.6%	35.1%	34.6%	34.0%	33.2%	30.8%	43.4%
SG&A Exp.	1,706	1,659	1,691	1,697	1,673	1,713	1,720	1,717	1,234	1,559
D&A Exp.	262	257	252	252	246	234	226	224	216	201
Operating Profit	539	554	566	457	335	278	268	167	(83)	1,118
Operating Margin	8.0%	8.3%	8.3%	6.8%	5.2%	4.3%	4.1%	2.6%	-1.9%	16.9%
Net Profit	336	324	332	269	169	221	170	111	(72)	863
Net Margin	5.0%	4.8%	4.9%	4.0%	2.6%	3.4%	2.6%	1.8%	-1.6%	13.0%
Free Cash Flow	386	407	460	284	407	144	230	262	192	1,176
Income Tax	145	173	179	141	89	(8)	38	23	(82)	226

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	4,049	4,051	4,170	3,864	3,888	3,683	3,431	3,430	3,093	3,246
Cash & Equivalents	124	237	404	203	347	187	124	277	360	717
Accounts Receivable	32	31	57	47	48	38	50	46	37	40
Inventories	1,295	1,345	1,374	1,375	1,406	1,464	1,528	1,465	1,088	1,080
Total Liabilities	2,079	2,059	2,151	2,069	2,171	1,975	1,753	1,807	1,652	1,794
Accounts Payable	469	465	531	494	636	658	743	713	565	886
Long-Term Debt	815	815	815	813	813	726	566	566	566	566
Shareholder's Equity	1,970	1,992	2,019	1,795	1,717	1,708	1,678	1,623	1,441	1,451
LTD/E Ratio	0.41	0.41	0.40	0.45	0.47	0.43	0.34	0.35	0.39	0.39

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	8.0%	8.0%	8.1%	6.7%	4.4%	5.8%	4.8%	3.2%	-2.2%	27.2%
Return on Equity	16.7%	16.3%	16.5%	14.1%	9.6%	12.9%	10.1%	6.7%	-4.7%	59.6%
ROIC	11.7%	11.6%	11.8%	9.9%	6.6%	8.9%	7.3%	5.0%	-3.4%	42.9%
Shares Out.	48	44	41	36	32	28	27	25	25	22
Revenue/Share	138.04	146.79	159.15	173.17	187.07	217.81	238.11	250.09	195.32	321.57
FCF/Share	7.89	8.92	10.79	7.29	11.87	4.88	8.43	10.32	8.48	57.07

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

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