



Dillard's Inc. (DDS)

Updated March 25th, 2023 by Jonathan Weber

Key Metrics

Current Price:	\$302	5 Year CAGR Estimate:	5.1%	Market Cap:	\$5B
Fair Value Price:	\$365	5 Year Growth Estimate:	1.0%	Ex-Dividend Date:	03/30/23
% Fair Value:	83%	5 Year Valuation Multiple Estimate:	3.9%	Dividend Payment Date:	05/01/23
Dividend Yield:	0.3%	5 Year Price Target	\$384	Years Of Dividend Growth:	0
Dividend Risk Score:	C	Retirement Suitability Score:	F	Rating:	Hold

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 21. The company reported that its revenues totaled \$2.13 billion during the quarter, which was 1% more than the revenues that the company generated during the previous year's quarter. The revenue increase was smaller compared to the revenue growth Dillard's has generated during the previous quarters, which can be explained by the fact that comparisons have become more difficult as the year-over-year comparison is not impacted by the pandemic to a large degree any longer. A weakening economic picture also hurts Dillard's revenue growth performance to some degree.

The company reported a net profit of \$16.89 on a per-share basis for the fourth quarter. Unlike in the previous quarters, Dillard's was not able to grow its gross margin during the quarter. In fact, its gross margin contracted to 38.7% of sales, down slightly year-over-year. A declining share count nevertheless allowed the company to grow its earnings-per-share, even though revenue growth was rather slow while margins compressed. Dillard had a very strong 2021 primarily thanks to an exceptional second half, and 2022 was even better, being the strongest year in the company's history. With consumer sentiment weakening and inflationary pressures on the rise, it is expected that the coming years will be weaker, however, which is why our estimates see lower profits in 2023 and beyond.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$6.99	\$7.79	\$6.91	\$4.93	\$4.89	\$6.23	\$4.38	-\$2.80	\$40.67	\$50.81	\$36.50	\$38.36
DPS	\$0.22	\$0.24	\$0.26	\$0.28	\$0.34	\$0.40	\$0.50	\$0.60	\$0.80	\$0.80	\$0.80	\$0.80
Shares¹	44	41	36	32	28	27	25	22	19	17	15	12

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 2021 and 2022 were highly successful. The forward outlook is more uncertain, but ongoing share repurchases should be beneficial for the company's earnings-per-share growth, which should help ease the headwinds that brick-and-mortar retailers will likely experience.

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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	12.1	13.8	14.7	13.4	11.6	9.6	16.7	NMF	6.0	6.4	8.3	10.0
Avg. Yld.	0.3%	0.2%	0.3%	0.4%	0.6%	0.7%	0.7%	1.0%	0.3%	0.2%	0.3%	0.2%

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 8 times this year's estimated earnings-per-share. We believe that shares are trading below fair value today, which should have a positive impact on the company's total returns going forward.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	3.1%	3.1%	3.8%	5.7%	7.0%	6.4%	11.4%	NMF	2.0%	1.6%	2.2%	2.1%

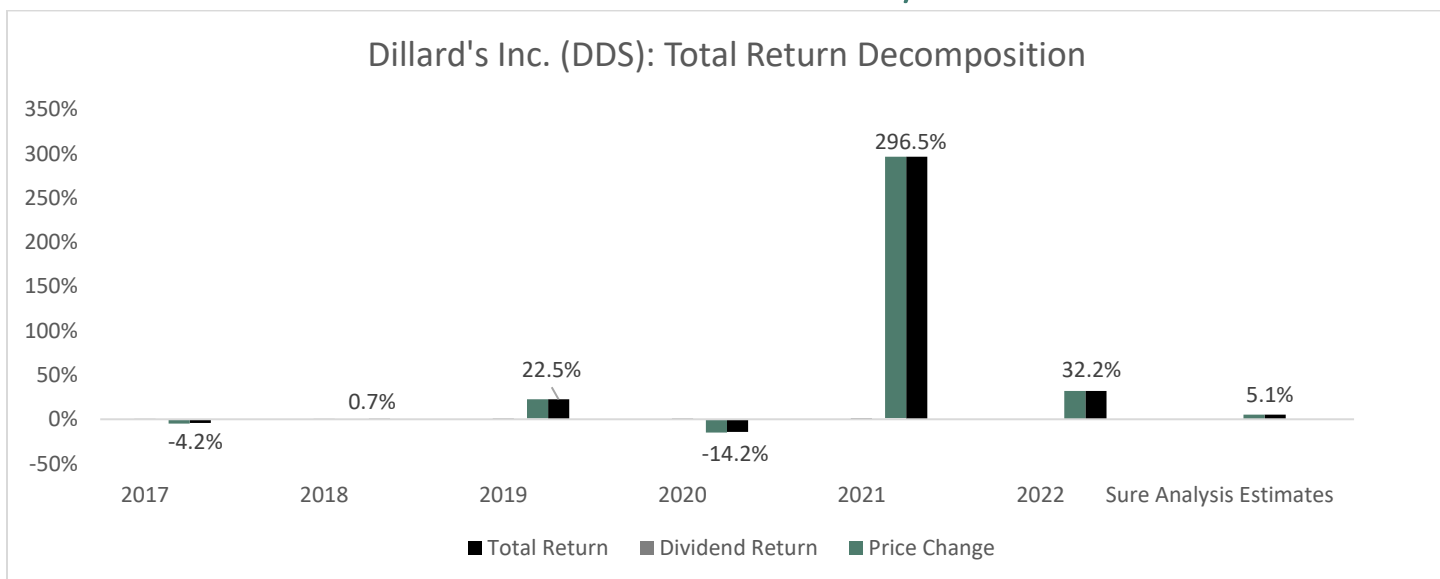
Dillard's pays out only a marginal amount of its net profits in the form of dividends to the company's owners. Management is much more focused on reducing the share count, which the company has done very successfully in the past. It is very likely that management will continue to prioritize buybacks 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 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 2022, and profits should remain well above pre-crisis levels this year. Forecast returns are solid, which is why we rate the stock a hold today.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	6,692	6,780	6,755	6,418	6,423	6,503	6,343	4,433	6,624	6,996
Gross Profit	2,468	2,508	2,404	2,252	2,223	2,212	2,107	1,364	2,877	3,013
Gross Margin	36.9%	37.0%	35.6%	35.1%	34.6%	34.0%	33.2%	30.8%	43.4%	43.1%
SG&A Exp.	1,659	1,691	1,697	1,673	1,713	1,720	1,717	1,234	1,559	1,697
D&A Exp.	257	252	252	246	234	226	224	216	201	190
Operating Profit	554	566	457	335	278	268	167	(83)	1,118	1,127
Operating Margin	8.3%	8.3%	6.8%	5.2%	4.3%	4.1%	2.6%	-1.9%	16.9%	16.1%
Net Profit	324	332	269	169	221	170	111	(72)	863	892
Net Margin	4.8%	4.9%	4.0%	2.6%	3.4%	2.6%	1.8%	-1.6%	13.0%	12.7%
Free Cash Flow	407	460	284	407	144	230	262	192	1,176	828
Income Tax	173	179	141	89	(8)	38	23	(82)	226	218

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	4,051	4,170	3,864	3,888	3,683	3,431	3,430	3,093	3,246	3,329
Cash & Equivalents	237	404	203	347	187	124	277	360	717	650
Accounts Receivable	31	57	47	48	38	50	46	37	40	57
Inventories	1,345	1,374	1,375	1,406	1,464	1,528	1,465	1,088	1,080	1,120
Total Liabilities	2,059	2,151	2,069	2,171	1,975	1,753	1,807	1,652	1,794	1,731
Accounts Payable	465	531	494	636	658	743	713	565	886	590
Long-Term Debt	815	815	813	813	726	566	566	566	566	521
Shareholder's Equity	1,992	2,019	1,795	1,717	1,708	1,678	1,623	1,441	1,451	1,599
LTD/E Ratio	0.41	0.40	0.45	0.47	0.43	0.34	0.35	0.39	0.39	0.33

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	8.0%	8.1%	6.7%	4.4%	5.8%	4.8%	3.2%	-2.2%	27.2%	27.1%
Return on Equity	16.3%	16.5%	14.1%	9.6%	12.9%	10.1%	6.7%	-4.7%	59.6%	58.5%
ROIC	11.6%	11.8%	9.9%	6.6%	8.9%	7.3%	5.0%	-3.4%	42.9%	43.1%
Shares Out.	44	41	36	32	28	27	25	22	19	17
Revenue/Share	146.79	159.15	173.17	187.07	217.81	238.11	250.09	195.32	321.57	398.67
FCF/Share	8.92	10.79	7.29	11.87	4.88	8.43	10.32	8.48	57.07	47.20

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

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