



Weyco Group Inc. (WEYS)

Updated March 9th, 2023 by Prakash Kolli

Key Metrics

Current Price:	\$25	5 Year CAGR Estimate:	10.5%	Market Cap:	\$233.97M
Fair Value Price:	\$32	5 Year Growth Estimate:	2.0%	Ex-Dividend Date:	03/16/23
% Fair Value:	76%	5 Year Valuation Multiple Estimate:	5.6%	Dividend Payment Date:	03/31/23
Dividend Yield:	3.9%	5 Year Price Target	\$36	Years Of Dividend Growth:	0
Dividend Risk Score:	D	Retirement Suitability Score:	D	Rating:	Buy

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 Rafters and Umi brands were discontinued. 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 U.S. and sells directly from its website. The company owns Florsheim Australia that operates in Australia, South Africa, and Asia Pacific. Florsheim Europe was shuttered. Weyco also licenses its brands in the U.S. 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 ~\$351.7M in 2022.

Weyco Group reported solid Q4 2022 and full year results on March 7th, 2023. For the quarter, companywide net sales decreased (-2%) to \$99.0M from \$101.4M and diluted earnings per share fell to \$1.06 from \$1.07 on year-over-year basis. Although sales and earnings were flat, they are still relatively high because of a return to normal routines and to the office. Businesses have reopened and social functions resumed. Hence, demand for men's dress and dress-casual footwear has recovered strongly. Also, margins returned to pre-pandemic levels on higher prices.

Net sales in the North American wholesale segment were down (-6%) to \$75.5M from \$79.9M in the prior year. Sales were mixed for the four main brands: Florsheim (-14%), BOGS (-14%), Nunn Bush (+18%), and Stacy Adams (+5%). Margins were higher by 760 bps because of higher selling prices to address rising costs.

The North American retail segment (4 Florsheim retail stores and e-commerce) sales rose 6% to \$14.3M from \$13.5M in the prior year because of strength in e-commerce and brick and mortar. Florsheim Australia net sales climbed 16% to \$9.2M from \$8.0M in comparable periods and was profitable. The Florsheim European business was closed.

For the year, sales rose 31% to \$351.7M from \$267.6M and EPS grew 44% to \$3.07 from \$2.12 in the prior year.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$1.62	\$1.75	\$1.68	\$1.56	\$1.60	\$1.97	\$2.10	-\$0.87	\$2.12	\$3.07	\$2.30	\$2.54
DPS	\$0.54	\$0.75	\$0.79	\$0.83	\$0.87	\$0.91	\$0.95	\$0.96	\$0.96	\$0.96	\$0.96	\$0.96
Shares¹	10.9	10.8	10.8	10.5	10.2	10.1	9.9	9.8	9.8	9.7	9.7	9.5

Weyco Group's earnings were impacted by the rise of e-commerce and internet sales in the past decade. Many department stores and national shoe chains suffered from declining sales, and some declared bankruptcy. However, the company expanded distribution via 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 and the company had a loss for the year. But sales and operating earnings increased dramatically in 2021 and set a record in 2022 on federal stimulus and a return to the office. The company did not raise the dividend in 2021 for the first time in 39 years. Hence, Weyco is no longer a Dividend Champion. We now expect the dividend rate to remain constant. 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	15.9	15.5	16.7	17.3	17.5	17.1	12.6	---	10.2	8.0	10.7	14.0
Avg. Yld.	1.4%	2.8%	2.8%	3.1%	3.1%	2.7%	3.9%	6.1%	4.4%	3.9%	3.9%	2.7%

Weyco's stock price is flat since our last report on recession fears. Weyco had record sales and earnings in 2022, and margins returned to pre-pandemic levels. We set our 2022 earnings estimate at \$2.30 per share since we do not expect a repeat record year. We lowered our long-term fair value multiple to 14X, slightly less than the average this past decade, accounting for competitive pressures. Our fair value estimate is now \$32. Our 5-year price target is now \$36.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	33%	43%	47%	53%	54%	46%	45%	---	45%	31%	42%	38%

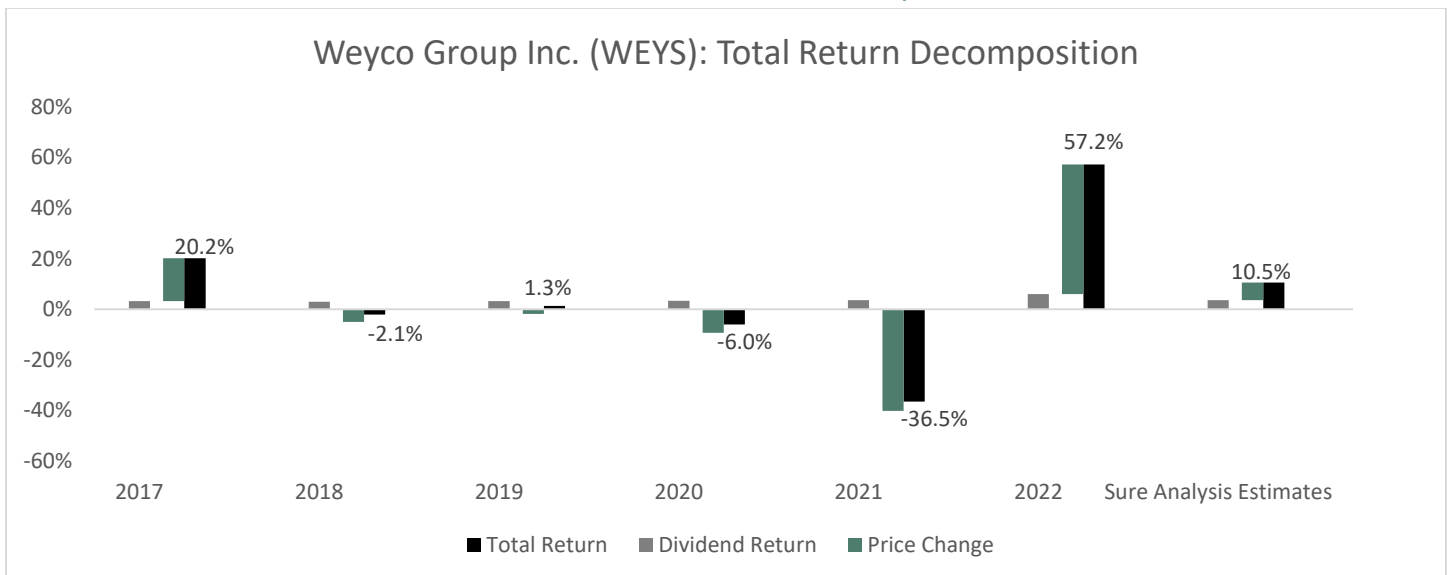
Weyco's main competitive advantage is the strength of its brands. With that said, footwear is a highly competitive business, and as a relatively small player, Weyco does not possess economies of scale over its larger competitors. Furthermore, the wholesale shoe industry is in general decline due to the 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 2022, the company had \$31.1M in short-term debt, and ~\$15.5M of long-term pension liabilities. This is offset by \$25.5M 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 from a dividend yield of 3.9%, 2% EPS growth, and 5.6% P/E multiple expansion. Weyco has had five quarters of strong momentum and record sales and earnings in 2022. This momentum may be hard to sustain but the company is performing well. Investors should like the dividend yield supported by the solid balance sheet. We raised our rating on this stock to a buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	300	320	321	297	284	298	304	195	268	352
Gross Profit	117	123	122	112	111	120	124	79	107	144
Gross Margin	39.1%	38.4%	37.9%	37.7%	39.0%	40.2%	40.8%	40.2%	39.9%	40.9%
SG&A Exp.	90	92	90	89	87	95	97	86	82	104
D&A Exp.	4	4	4	4	4	4	3	3	3	3
Operating Profit	28	31	32	23	23	25	27	-8	26	40
Operating Margin	9.2%	9.6%	9.9%	7.7%	8.3%	8.5%	8.9%	-3.9%	9.7%	11.4%
Net Profit	18	19	18	16	16	20	21	-8	21	30
Net Margin	5.9%	5.9%	5.7%	5.5%	5.8%	6.9%	6.9%	-4.3%	7.8%	8.5%
Free Cash Flow	27	15	-8	41	32	12	2	37	5	-32
Income Tax	10	11	11	5	7	6	6	1	7	10

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	268	277	299	268	263	270	297	257	278	327
Cash & Equivalents	16	12	18	14	23	23	10	32	20	17
Accounts Receivable	49	55	54	51	49	52	52	35	53	53
Inventories	63	69	97	70	60	73	87	59	71	128
Goodwill & Int. Ass.	49	49	48	46	46	46	45	45	48	46
Total Liabilities	71	79	94	60	57	64	87	69	76	103
Accounts Payable	14	16	13	12	9	13	12	8	19	15
Long-Term Debt	12	5	27	4	0	6	7	0	0	31
Shareholder's Equity	190	191	198	202	199	206	210	188	201	224
D/E Ratio	0.06	0.03	0.13	0.02	0.00	0.03	0.03	0.00	0.00	0.14

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	6.4%	7.0%	6.3%	5.8%	6.2%	7.7%	7.4%	-3.1%	7.7%	9.8%
Return on Equity	9.7%	10.0%	9.4%	8.2%	8.2%	10.1%	10.0%	-4.3%	10.6%	13.9%
ROIC	8.1%	9.2%	8.4%	7.4%	7.9%	9.8%	9.7%	-4.2%	10.6%	12.9%
Shares Out.	10.9	10.8	10.8	10.5	10.2	10.4	10.0	9.9	9.7	9.6
Revenue/Share	27.64	29.44	29.53	28.09	27.51	28.71	30.54	20.02	27.6	36.55
FCF/Share	2.50	1.37	-0.73	3.87	3.10	1.12	0.20	3.75	0.56	-3.35

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

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