



# Weyco Group Inc. (WEYS)

Updated November 15<sup>th</sup>, 2023 by Prakash Kolli

## Key Metrics

|                             |      |  |      |                                  |           |
|-----------------------------|------|--|------|----------------------------------|-----------|
| <b>Current Price:</b>       | \$26 | <b>5 Year CAGR Estimate:</b>               | 9.2% | <b>Market Cap:</b>               | \$246.46M |
| <b>Fair Value Price:</b>    | \$32 | <b>5 Year Growth Estimate:</b>             | 2.0% | <b>Ex-Dividend Date:</b>         | 11/24/23  |
| <b>% Fair Value:</b>        | 81%  | <b>5 Year Valuation Multiple Estimate:</b> | 4.3% | <b>Dividend Payment Date:</b>    | 01/02/24  |
| <b>Dividend Yield:</b>      | 3.8% | <b>5 Year Price Target</b>                 | \$36 | <b>Years Of Dividend Growth:</b> | 1         |
| <b>Dividend Risk Score:</b> | D    | <b>Retirement Suitability Score:</b>       | D    | <b>Rating:</b>                   | Hold      |

## 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 Q3 2023 results on November 7<sup>th</sup>, 2023. Companywide net sales decreased 13% to \$84.2M from \$97.0M and diluted earnings per share fell to \$0.98 from \$1.12 on year-over-year basis. Weyco's sales momentum is slowing after an excellent first quarter. Retailers have mostly restocked their inventories and order volumes are lower. That said, businesses have reopened, and social functions resumed, so, demand for men's dress and dress-casual footwear remains elevated. Also, margins remain strong because of higher selling prices and expense controls.

Net sales in the North American wholesale segment were down 15% to \$69.5M from \$81.6M in the prior year. Sales declined for Stacey Adams (-1%), Florsheim (-7%), BOGS (-42%), but grew for Nunn Bush (+11%). Margins were higher 230 bps because of higher selling prices to address rising costs and lower inventory expenses.

The North American retail segment (4 Florsheim retail stores and e-commerce) sales rose 6% to \$7.6M from \$7.1M in the prior year because of strength in e-commerce and brick and mortar. Florsheim Australia net sales decreased to \$7.1M from \$8.2M in comparable periods and was profitable.

## Growth on a Per-Share Basis

| Year                      | 2013   | 2014   | 2015   | 2016   | 2017   | 2018   | 2019   | 2020    | 2021   | 2022   | 2023          | 2028          |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|---------|--------|--------|---------------|---------------|
| <b>EPS</b>                | \$1.62 | \$1.75 | \$1.68 | \$1.56 | \$1.60 | \$1.97 | \$2.10 | -\$0.87 | \$2.12 | \$3.07 | <b>\$2.30</b> | <b>\$2.54</b> |
| <b>DPS</b>                | \$0.54 | \$0.75 | \$0.79 | \$0.83 | \$0.87 | \$0.91 | \$0.95 | \$0.96  | \$0.96 | \$0.96 | <b>\$1.00</b> | <b>\$1.00</b> |
| <b>Shares<sup>1</sup></b> | 10.9   | 10.8   | 10.8   | 10.5   | 10.2   | 10.1   | 9.9    | 9.8     | 9.8    | 9.7    | <b>9.4</b>    | <b>9.2</b>    |

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 causing Weyco to lose its Dividend Champion status. But the company started increasing the dividend again in 2023. Weyco is repurchasing shares, gradually lowering the share count.

<sup>1</sup> 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  | <b>11.4</b> | <b>14.0</b> |
| Avg. Yld. | 1.4% | 2.8% | 2.8% | 3.1% | 3.1% | 2.7% | 3.9% | 6.1% | 4.4% | 3.9% | <b>3.9%</b> | <b>2.8%</b> |

Weyco's stock price is up slightly since our last report. 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 maintained our long-term fair value multiple at 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%  | <b>43%</b> | <b>39%</b> |

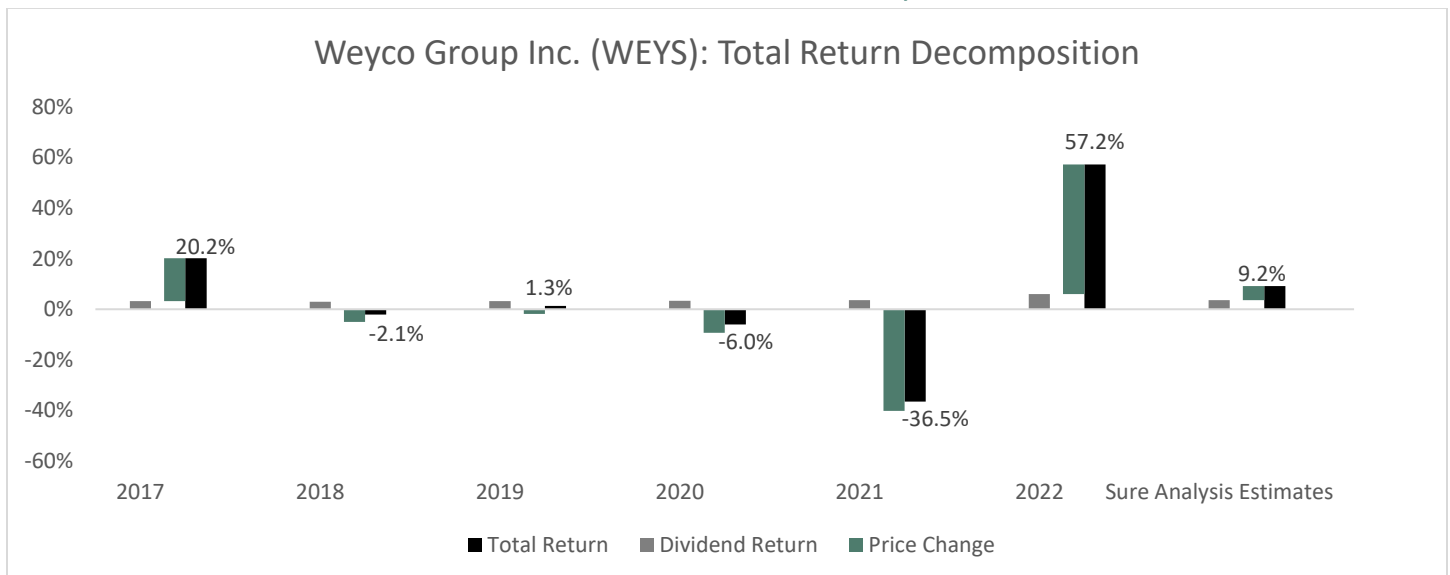
Weyco's main competitive advantage is the strength of its brands. With that said, footwear is a highly competitive business, and as a relatively small player, Weyco does not possess economies of scale over its larger competitors. Furthermore, the wholesale shoe industry is in general decline due to the 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 again during the COVID-19 pandemic.

The company has a very strong balance sheet. At end of Q3 2023, the company had no short-term debt, and ~\$15.8M of long-term pension liabilities. This is offset by \$33.5M in cash, cash equivalents and marketable securities.

## Final Thoughts & Recommendation

At present we are forecasting 9.2% annualized total returns over the next five years from a dividend yield of 3.8%, 2% EPS growth, and 4.3% P/E multiple expansion. Weyco 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 have maintained our hold rating.

## 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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