Dillard's Inc. (DDS)

Updated March 1st, 2024 by Jonathan Weber

Key Metrics

Current Price:	$414	**5 Year CAGR Estimate:**	-4.0%	**Market Cap:**	$6.7B
Fair Value Price:	$315	**5 Year Growth Estimate:**	1.0%	**Ex-Dividend Date:**	03/14/24[1]
% Fair Value:	131%	**5 Year Valuation Multiple Estimate:**	-5.3%	**Dividend Payment Date:**	04/08/24[2]
Dividend Yield:	0.2%	**5 Year Price Target**	$331	**Years Of Dividend Growth:**	1
Dividend Risk Score:	C	**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 fourth quarter earnings results on February 26. The company reported that its revenues totaled $2.2 billion during the quarter, which was flat compared to the revenues that the company generated during the previous year's quarter. The revenue performance was better compared to the revenue decline Dillard's has experienced during the previous quarter, when sales were down on a year-over-year basis. Dillard's revenue performance was slightly better than expected by the analyst community, as analysts were forecasting a revenue decline for the quarter on the back of some macro headwinds.

The company reported a net profit of $15.44 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 period. The company's gross margin contracted to 37.7% of sales, down slightly compared to the previous year's quarter. A declining share count had a positive impact on Dillard's earnings-per-share performance, but earnings-per-share still were down compared to the previous year's quarter. Dillard had an excellent 2022, and even though 2023 was a somewhat weaker year for the company, earnings-per-share remained way above pre-pandemic levels. For the current year, Dillard's is forecasted to be less profitable.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$7.79	$6.91	$4.93	$4.89	$6.23	$4.38	-$2.80	$40.67	$50.81	$44.73	***$31.50***	***$33.11***
DPS	$0.24	$0.26	$0.28	$0.34	$0.40	$0.50	$0.60	$0.80	$0.80	$1.00	***$1.00***	***$1.28***
Shares[3]	41	36	32	28	27	25	22	19	17	16	***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 to 2023 were very successful years. 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.

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[1] Estimated date

[2] Estimated date

[3] 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	13.8	14.7	13.4	11.6	9.6	16.7	NMF	6.0	6.4	9.0	***13.1***	***10.0***
Avg. Yld.	0.2%	0.3%	0.4%	0.6%	0.7%	0.7%	1.0%	0.3%	0.2%	0.2%	***0.2%***	***0.4%***

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 13 times this year's estimated earnings-per-share, as profits are expected to pull back this year. We believe that shares are trading above fair value today, which should have a negative impact on the company's total returns going forward.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	3.1%	3.8%	5.7%	7.0%	6.4%	11.4%	NMF	2.0%	1.6%	2.2%	***3.2%***	***3.9%***

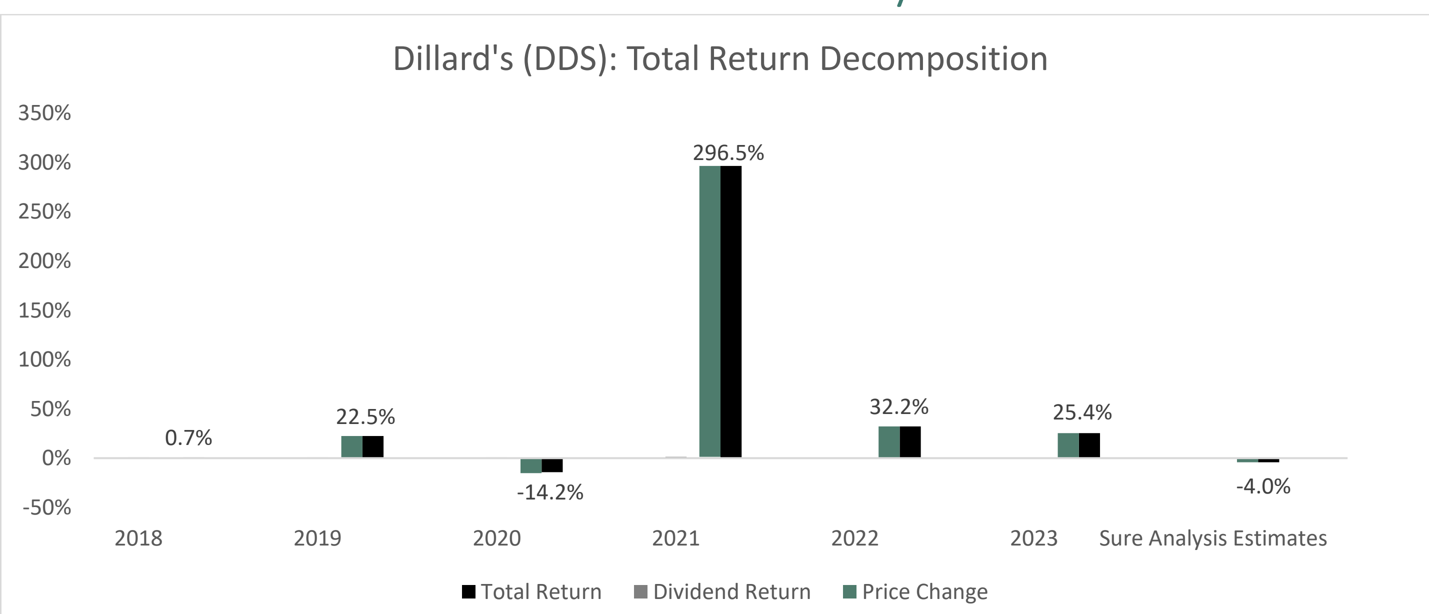
Dillard's pays out only a marginal amount of its net profits in the form of dividends to the company's owners. Management is much more focused on reducing the share count, which the company has done very successfully in the past. It is very likely that management will continue to prioritize buybacks over dividends going forward.

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 to 2023, but profits will likely decline this year. Forecasted returns are not attractive at all according to our forecast, which is why we rate Dillard's a sell right here.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	6,780	6,755	6,418	6,423	6,503	6,343	4,433	6,624	6,996	6,874
Gross Profit	2,508	2,404	2,252	2,223	2,212	2,107	1,364	2,877	3,013	2,843
Gross Margin	37.0%	35.6%	35.1%	34.6%	34.0%	33.2%	30.8%	43.4%	43.1%	41.4%
SG&A Exp.	1,691	1,697	1,673	1,713	1,720	1,717	1,234	1,559	1,697	1,739
D&A Exp.	252	252	246	234	226	224	216	201	190	181
Operating Profit	566	457	335	278	268	167	(83)	1,118	1,127	925
Operating Margin	8.3%	6.8%	5.2%	4.3%	4.1%	2.6%	-1.9%	16.9%	16.1%	13.5%
Net Profit	332	269	169	221	170	111	(72)	862	892	739
Net Margin	4.9%	4.0%	2.6%	3.4%	2.6%	1.8%	-1.6%	13.0%	12.7%	10.7%
Free Cash Flow	460	284	407	144	230	262	192	1,176	828	751
Income Tax	179	141	89	(8)	38	23	(82)	226	218	178

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	4,170	3,864	3,888	3,683	3,431	3,430	3,093	3,246	3,329	3,449
Cash & Equivalents	404	203	347	187	124	277	360	717	650	808
Accounts Receivable	57	47	48	38	50	46	37	40	57	61
Inventories	1,374	1,375	1,406	1,464	1,528	1,465	1,088	1,080	1,120	1,094
Total Liabilities	2,151	2,069	2,171	1,975	1,753	1,807	1,652	1,794	1,731	1,752
Accounts Payable	531	494	636	658	743	713	565	629	590	783
Long-Term Debt	815	813	813	726	566	566	566	566	521	521
Shareholder's Equity	2,019	1,795	1,717	1,708	1,678	1,623	1,441	1,451	1,599	1,697
LTD/E Ratio	0.40	0.45	0.47	0.43	0.34	0.35	0.39	0.39	0.33	0.31

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	8.1%	6.7%	4.4%	5.8%	4.8%	3.2%	-2.2%	27.2%	27.1%	21.8%
Return on Equity	16.5%	14.1%	9.6%	12.9%	10.1%	6.7%	-4.7%	59.6%	58.5%	44.8%
ROIC	11.8%	9.9%	6.6%	8.9%	7.3%	5.0%	-3.4%	42.9%	43.1%	34.1%
Shares Out.	41	36	32	28	27	25	22	19	17	16
Revenue/Share	159.15	173.17	187.07	217.81	238.11	250.09	195.32	321.69	398.67	416.63
FCF/Share	10.79	7.29	11.87	4.88	8.43	10.32	8.48	57.09	47.20	45.50

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