



Weyco Group Inc. (WEYS)

Updated March 19th, 2024 by Prakash Kolli

Key Metrics

Current Price:	\$29	5 Year CAGR Estimate:	13.6%	Market Cap:	\$273.80M
Fair Value Price:	\$45	5 Year Growth Estimate:	2.0%	Ex-Dividend Date:	03/14/24
% Fair Value:	64%	5 Year Valuation Multiple Estimate:	9.3%	Dividend Payment Date:	03/29/24
Dividend Yield:	3.4%	5 Year Price Target	\$50	Years Of Dividend Growth:	1
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 \$318.0M in 2023.

Weyco Group reported Q4 2023 and full-year results on March 5th, 2024. For the quarter, companywide net sales decreased 19% to \$80.6M from \$99.0M and diluted earnings per share fell to \$0.90 from \$1.06 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 strong. Also, margins are rising because of higher selling prices and expense controls.

Net sales in the North American wholesale segment were down 21% to \$59.6M from \$75.5M in the prior year. Sales declined for Stacey Adams (-19%), Nunn Bush (-18%), Florsheim (-13%), and BOGS (-32%). BOGS' sales are being affected by competition and mild weather. Margins were higher 160 bps because of lower inventory and freight costs.

The North American retail segment (4 Florsheim retail stores and e-commerce) sales fell 3% to \$13.9M from \$14.3M in the prior year because of lower demand, especially BOGS. Florsheim Australia net sales decreased 23% to \$7.2M from \$9.2M in comparable periods due to loss of a wholesale customer. But the business was profitable.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$1.75	\$1.68	\$1.56	\$1.60	\$1.97	\$2.10	-\$0.87	\$2.12	\$3.07	\$3.17	\$3.23	\$3.57
DPS	\$0.75	\$0.79	\$0.83	\$0.87	\$0.91	\$0.95	\$0.96	\$0.96	\$0.96	\$0.99	\$1.00	\$1.00
Shares¹	10.8	10.8	10.5	10.2	10.1	9.9	9.8	9.8	9.5	9.5	9.4	9.2

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 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	15.5	16.7	17.3	17.5	17.1	12.6	---	10.2	8.0	9.8	9.0	14.0
Avg. Yld.	2.8%	2.8%	3.1%	3.1%	2.7%	3.9%	6.1%	4.4%	3.9%	3.2%	3.4%	2.0%

Weyco's stock price is up slightly since our last report on decent results. Weyco's sales are down but the margins are higher compared to 2022. We set our 2024 earnings estimate at \$3.23 per share since because of higher margins. 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 \$45. Our 5-year price target is now \$50.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	43%	47%	53%	54%	46%	45%	---	45%	31%	31%	31%	28%

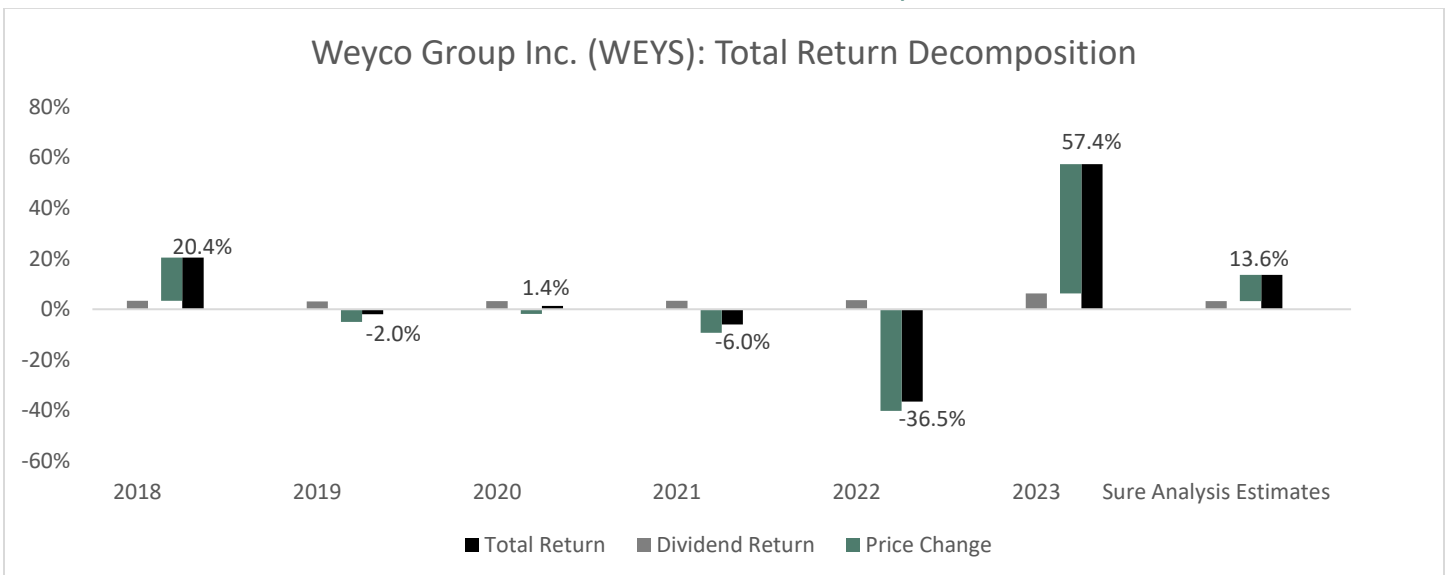
Weyco's main competitive advantage is the strength of its brands. With that said, footwear is a highly competitive business, and as a relatively small player, Weyco does not possess economies of scale over its larger competitors. Furthermore, the wholesale shoe industry is in general decline due to the 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 Q4 2023, the company had no short-term debt, and ~\$13.4M of long-term pension liabilities. This is offset by \$69.5M in cash, cash equivalents and marketable securities.

Final Thoughts & Recommendation

At present we are forecasting 13.6% annualized total returns over the next five years from a dividend yield of 3.4%, 2% EPS growth, and 9.3% P/E multiple expansion. Weyco had five quarters of strong momentum and record sales and earnings in 2022. Volumes are down now but margins are higher resulting in record earning in 2023. Investors should like the dividend yield supported by the fortress balance sheet. At the current share price, we rate this stock a buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	320	321	297	284	298	304	195	268	352	318
Gross Profit	123	122	112	111	120	124	79	107	144	143
Gross Margin	38.4%	37.9%	37.7%	39.0%	40.2%	40.8%	40.2%	39.9%	40.9%	45.0%
SG&A Exp.	92	90	89	87	95	97	86	82	104	102
D&A Exp.	4	4	4	4	4	3	3	3	3	3
Operating Profit	31	32	23	23	25	27	-8	26	40	41
Operating Margin	9.6%	9.9%	7.7%	8.3%	8.5%	8.9%	-3.9%	9.7%	11.4%	12.9%
Net Profit	19	18	16	16	20	21	-8	21	30	30
Net Margin	5.9%	5.7%	5.5%	5.8%	6.9%	6.9%	-4.3%	7.8%	8.5%	9.4%
Free Cash Flow	15	-8	41	32	12	2	37	5	-32	95
Income Tax	11	11	5	7	6	6	1	7	10	11

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	277	299	268	263	270	297	257	278	327	309
Cash & Equivalents	12	18	14	23	23	10	32	20	17	69
Accounts Receivable	55	54	51	49	52	52	35	53	53	39
Inventories	69	97	70	60	73	87	59	71	128	75
Goodwill & Int. Ass.	49	48	46	46	46	45	45	48	46	46
Total Liabilities	79	94	60	57	64	87	69	76	103	65
Accounts Payable	16	13	12	9	13	12	8	19	15	9
Long-Term Debt	5	27	4	0	6	7	0	0	31	0
Shareholder's Equity	191	198	202	199	206	210	188	201	224	244
D/E Ratio	0.03	0.13	0.02	0.00	0.03	0.03	0.00	0.00	0.14	0.00

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	7.0%	6.3%	5.8%	6.2%	7.7%	7.4%	-3.1%	7.7%	9.8%	9.5%
Return on Equity	10.0%	9.4%	8.2%	8.2%	10.1%	10.0%	-4.3%	10.6%	13.9%	12.9%
ROIC	9.2%	8.4%	7.4%	7.9%	9.8%	9.7%	-4.2%	10.6%	12.9%	12.1%
Shares Out.	10.8	10.8	10.5	10.2	10.4	10.0	9.9	9.7	9.6	9.5
Revenue/Share	29.44	29.53	28.09	27.51	28.71	30.54	20.02	27.6	36.55	33.36
FCF/Share	1.37	-0.73	3.87	3.10	1.12	0.20	3.75	0.56	-3.35	10.00

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

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