



Douglas Dynamics, Inc. (PLOW)

Updated July 31st, 2024 by Quinn Mohammed

Key Metrics

Current Price:	\$30	5 Year CAGR Estimate:	10.2%	Market Cap:	\$709 M
Fair Value Price:	\$29	5 Year Growth Estimate:	8.0%	Ex-Dividend Date¹:	09/18/24
% Fair Value:	104%	5 Year Valuation Multiple Estimate:	-0.8%	Dividend Payment Date¹:	09/30/24
Dividend Yield:	4.0%	5 Year Price Target	\$42	Years Of Dividend Growth:	13
Dividend Risk Score:	F	Retirement Suitability Score:	D	Rating:	Buy

Overview & Current Events

Douglas Dynamics is a North American manufacturer and upfitter of commercial truck attachments and equipment. The company's product portfolio and services are organized into two segments: Work Truck Attachments (WTA) and Work Truck Solutions (WTS). Its WTA segment (accounting for 51% of the company's 2023 sales) includes its commercial snow and ice control equipment, while its WTS segment (49% of sales) comprises its upfit of market leading attachments and storage solutions. Its leading brands are FISHER, SNOWEX, WESTERN, HENDERSON, and DEJANA. Douglas' market capitalization stands at \$709 million.

On March 15th, 2023, Douglas Dynamics increased its dividend by 1.7% to \$0.295 quarterly.

In July 2024, the chairman of the board, James L. Janik, became interim CEO upon the retirement of its former CEO, Robert McCormick. The candidate for permanent CEO has not yet been determined.

On July 29th, 2024, Douglas reported second quarter 2024 results for the period ending June 30th, 2024. For the quarter, Douglas generated \$200 million in net sales, a 3.6% year-over-year decrease, largely due to lower Attachments volume, driven by low snowfall in the company's core markets, offset by the record performance of its Solutions segment.

Douglas' adjusted EPS was \$1.11, flat compared to the prior year quarter. The company's leverage ratio at the end of the second quarter stood at 3.3X.

Leadership reaffirmed its 2024 outlook, expecting net sales of \$600 million to \$640 million, and adjusted EPS of \$1.20 to \$1.70.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$1.77	\$1.94	\$1.70	\$2.40	\$1.89	\$2.11	(\$3.81)	\$1.29	\$1.63	\$0.98	\$1.43	\$2.10
DPS	\$0.87	\$0.89	\$0.94	\$0.96	\$1.06	\$1.09	\$1.12	\$1.14	\$1.16	\$1.18	\$1.18	\$1.37
Shares²	22.2	22.3	22.5	22.6	22.7	22.8	22.8	23.0	22.9	23.0	23.0	23.5

Douglas Dynamics has produced volatile results over the last decade, as it operates in a highly cyclical industry, and is heavily influenced by weather, which is beyond the company's control. Given lackluster earnings in 2023, the company has produced a negative -6.4% and -8.4% CAGR of its EPS over the last nine and five years.

Recent results have been impacted by significantly lower than average snowfall (in the past two years), which has the additional impact of lengthening the replacement cycle for its products. Since its attachment products are not used as frequently when there is less snowfall, it wears down at a slower rate, and can last longer for the client, ultimately leading to a reduction in Douglas' sales. Douglas has partly offset this weakness through its cost savings program.

From this point on, Douglas plans to achieve long-term growth through acquisitions, geographic expansion, and revenue synergies. In the near term, Douglas expects margin improvements, such as through custom upfitting and improving its

¹ Estimated date.

² In millions.

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cost structures, will yield bottom line improvements. The company's long-term financial targets include low to mid-single digits sales growth in its WTA segment, and mid to high-single digits sales growth in its WTS segment.

We are forecasting \$1.43 in earnings-per-share for 2024, along with an 8% annual growth rate through 2029.

The company does have a share repurchase authorization in place, but its share count has remained remarkably stable over the last decade.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	21.1	12.5	14.2	26.2	16.9	20.3	27.3	23.3	23.3	23.1	20.8	20.0
Avg. Yld.	4.7%	4.1%	3.6%	2.8%	2.3%	2.6%	2.9%	2.7%	3.5%	3.8%	4.0%	3.3%

Shares of Douglas Dynamics have traded at an average P/E ratio of 20.8 and 23.5 times earnings over the last decade and half-decade, respectively. The company currently has a P/E ratio of 20.8, while we see fair value closer to its norm, at 20 times earnings. If the company were to trade at this valuation in five years, it would incur a -0.8% annualized valuation headwind.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	49%	46%	55%	40%	56%	52%	-29%	88%	71%	120%	83%	65%

Douglas has exhibited a volatile payout ratio due to its cyclical earnings. Based on our estimate for 2024 EPS, Douglas will have a high payout ratio of 83%. However, this is expected to moderate by 2029, as we expect growth of EPS.

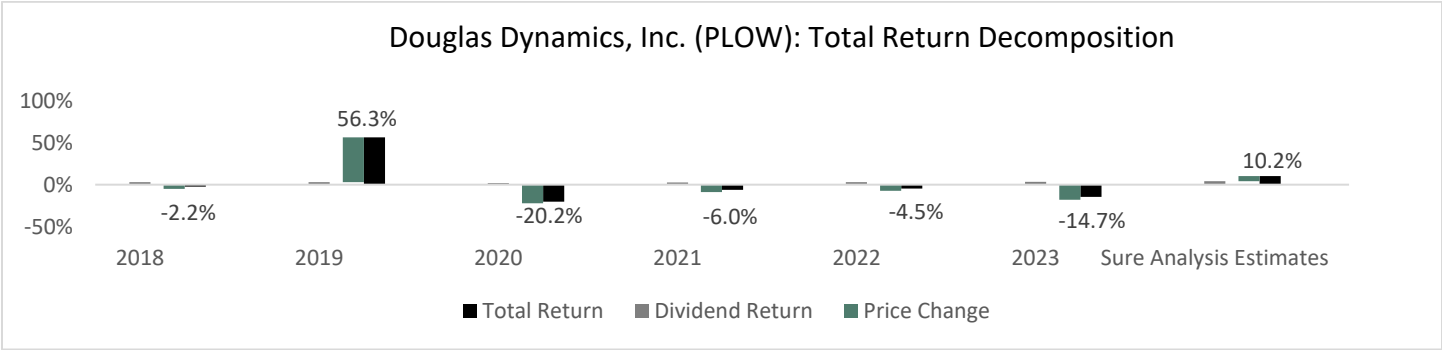
The company was heavily impacted in 2020, posting a significant loss in the year. Despite this, the company continued to pay its dividend. In fact, Douglas has increased its dividend for 13 years. However, Douglas has still not fully recovered since the pandemic, as it has generated lower EPS post-pandemic than it has every year between 2014 to 2019.

Douglas' competitive advantage lies in its highly customized and engineered product portfolio. It continues to create complex products which have higher barriers to entry. It also claims its distributor network is an advantage, with more than 2,000 points of sale. The company additionally utilizes the data it retrieves from its distributor network as the basis for its product development.

Final Thoughts & Recommendation

Shares of Douglas Dynamics have increased by 20% since we initiated our coverage in May with a buy rating. The company produces volatile results as it operates in a highly cyclical industry. Furthermore, it is highly dependent on weather, which is unpredictable and out of the company's control. Total return potential comes in at 10.2% per annum, stemming from an 8.0% EPS growth rate, and the 4.0% starting dividend yield, partly offset by -0.8% P/E multiple contraction. Douglas Dynamics maintains its buy rating, but only for investors who can stomach extreme volatility.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue (\$B)	304	400	416	475	524	572	480	541	616	568
Gross Profit	116	133	134	143	155	169	128	142	151	134
Gross Margin	38.3%	33.2%	32.2%	30.1%	29.6%	29.5%	26.7%	26.2%	24.6%	23.6%
SG&A Exp.	38	48	54	61	70	71	65	79	82	79
D&A Exp.	9	12	17	19	19	19	20	20	21	22
Operating Profit	72	77	70	71	73	87	53	52	59	45
Operating Margin	23.8%	19.3%	16.8%	14.9%	14.0%	15.1%	11.0%	9.7%	9.5%	7.9%
Net Profit	40	44	39	55	44	49	(87)	31	39	24
Net Margin	13.2%	11.0%	9.4%	11.6%	8.4%	8.6%	-18.0%	5.7%	6.3%	4.2%
Free Cash Flow	48	46	60	59	48	66	39	49	28	2
Income Tax	22	22	25	(2)	12	13	(12)	4	9	6

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	480	503	666	685	676	706	579	572	597	593
Cash & Equivalents	24	37	19	37	28	36	41	37	21	24
Accts Receivable	61	68	79	79	81	88	83	71	87	84
Inventories	48	52	75	79	86	84	88	107	138	143
Goodwill	296	289	433	427	416	405	266	255	245	234
Total Liabilities	307	303	446	428	393	393	379	358	360	362
Accounts Payable	10	15	17	16	19	16	16	27	49	31
Long-Term Debt	188	184	313	315	280	251	246	220	208	237
Sh. Equity	173	200	220	257	283	313	200	215	237	232
LTD/E Ratio	1.09	0.92	1.42	1.23	0.99	0.80	1.23	1.02	0.88	1.03

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	9.5%	9.0%	6.7%	8.2%	6.5%	7.1%	-13.5%	5.3%	6.6%	4.0%
Return on Equity	24.3%	23.6%	18.5%	23.2%	16.3%	16.5%	-33.7%	14.8%	17.1%	10.1%
ROIC	12.5%	11.8%	8.5%	10.0%	7.7%	8.7%	-17.1%	7.0%	8.8%	5.2%
Shares Out.	22.2	22.3	22.5	22.6	22.7	22.8	22.8	23.0	22.9	23.0
Revenue/Share	13.68	17.92	18.52	21.03	23.08	25.06	21.02	23.58	26.88	24.74
FCF/Share	2.19	2.08	2.67	2.60	2.14	2.88	1.70	2.15	1.22	0.08

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

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