



Winmark Corporation (WINA)

Published April 26th, 2025 by Josh Arnold

Key Metrics

Current Price:	\$363	5 Year CAGR Estimate:	2.4%	Market Cap:	\$1.2 B
Fair Value Price:	\$289	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	05/14/2025
% Fair Value:	126%	5 Year Valuation Multiple Estimate:	-4.5%	Dividend Payment Date:	06/02/2025
Dividend Yield:	1.1%	5 Year Price Target	\$386	Years Of Dividend Growth:	6
Dividend Risk Score:	C	Sector:	Consumer Discretionary	Rating:	Hold

Overview & Current Events

Winmark Corporation, which bills itself as “the Resale Company”, is a franchisor of small businesses in the US and Canada. The company franchises retail stores that buy, sell, and trade merchandise. It operates a variety of brands, including Plato’s Closet, Once Upon A Child, Play It Again Sports, Style Encore, and Music Go Round. Through these brands the company buys and resells clothing, sports equipment, toys, and musical instruments, among other categories. Winmark franchises more than 1,300 stores as of the end of 2024, and claims to have bought and resold nearly 2 billion individual items since being founded. The company employs less than 100 people as it does not operate any stores itself, and generates about \$86 million in annual revenue. Winmark was founded in 1988 and currently has a 6-year dividend increase streak.

Winmark posted first quarter earnings on April 16th, 2025, and results were up strongly from the year-ago period. Net income came to \$9.96 million, or \$2.71 per share. These were much higher than the \$8.82 million, or \$2.41 per share, from the year-ago period. The first quarter included \$2.2 million in leasing income due to the settlement of outstanding customer litigation.

Royalties rose from \$17.3 million to \$17.8 million year-over-year, while merchandise sales fell from \$1.11 million to \$941K. Franchise fees fell about 10% to \$332K. SG&A costs also rose about 10%, coming in at \$7.4 million. We now see \$11.55 in adjusted earnings-per-share for this year after Q1 results that largely showed deterioration from last year’s Q1, and helped by nonrecurring leasing income.

Winmark also boosted its dividend by 6.7% to a new payout of \$3.84 per share annually. That marks the 6th consecutive year of dividend increases.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	\$4.69	\$5.11	\$5.66	\$7.26	\$7.84	\$7.72	\$10.48	\$10.97	\$11.04	\$10.89	\$11.55	\$15.46
DPS	\$0.27	\$0.37	\$0.43	\$0.56	\$0.90	\$0.80	\$1.60	\$2.55	\$3.10	\$3.50	\$3.84	\$4.90
Shares¹	4.1	4.2	3.8	3.9	3.9	3.8	3.6	3.5	3.5	3.5	3.5	3.3

Earnings growth has been outstanding for Winmark over time, if a bit lumpy. Earnings are estimated to be nearly triple 2015’s level this year on current estimates for \$11.55. Part of the gains have been from higher revenue, which helps drive expense leverage and boosts profits. But Winmark has been steadily buying back its own stock, reducing the float and boosting earnings-per-share in the process. We see both of these continuing to boost earnings-per-share in the years ahead, albeit at a lower rate than before. We are currently estimating 6% annual earnings-per-share growth, which could accrue from a slightly lower share count, but mostly from top line expansion.

The dividend has grown even more than earnings over time, rising from 27 cents annually in 2015 to \$3.84 for this year. We see mid-single digit growth in the dividend now that the payout ratio is around 33%. We also note that Winmark has been paying enormous special dividends once per year that tend to be much larger than the quarterly dividend. The

¹ Share count is in millions.

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2020 special dividend was \$3 per share, 2021 was \$7.50, 2022 was \$3, 2023 was \$9.40, and last year was \$7.50. While these payouts are erratic, they are significant and make the total yield much larger than the quarterly dividend would suggest.

Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	19.8	24.5	23.3	22.0	25.3	24.1	22.3	22.6	33.8	35.7	31.4	25.0
Avg. Yld.	0.3%	0.3%	0.3%	0.4%	0.5%	0.4%	0.7%	1.0%	0.8%	0.9%	1.1%	1.3%

Winmark has generally traded with high earnings multiples given its asset-light, capital-efficient business model. Earnings growth has also been quite strong, and we see decent growth ahead. Shares trade for 31.4 times forward earnings today, which is well ahead of where we assess fair value. This is much higher than the average multiple in the past decade, and we have set it given the potential backdrop of consumer spending in the US in 2025, but also the fact that we don't think Winmark can replicate its prior rates of earnings growth. The yield is 1.1%, just below that of the S&P 500, and we believe that's about where it will stay. We see earnings and the dividend growing at about the same rates for now.

Safety, Quality, Competitive Advantage, & Recession Resiliency

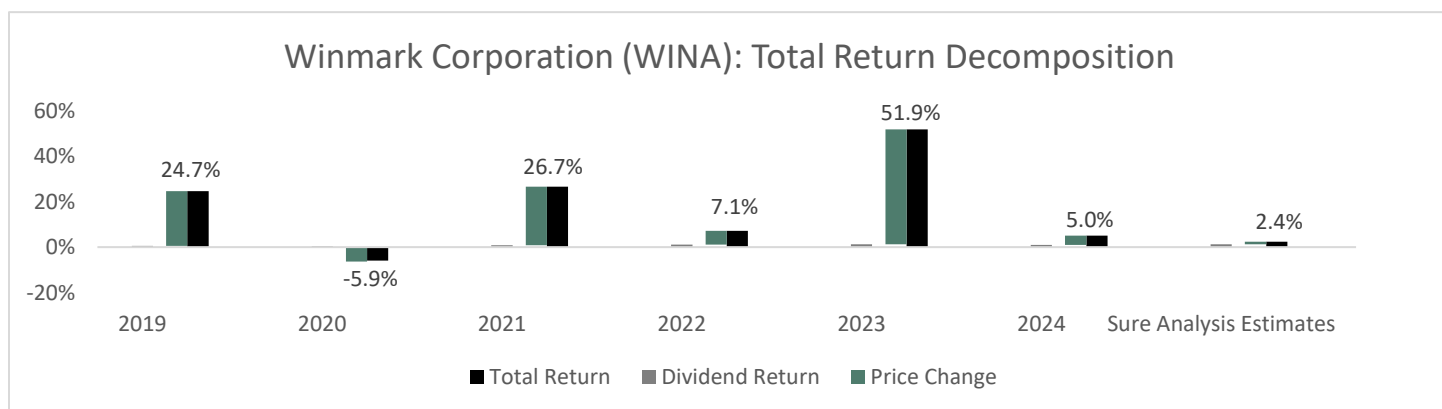
Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	6%	7%	8%	8%	11%	10%	15%	23%	28%	32%	33%	32%

The payout ratio is 33% for this year, which is well up on prior years. We think this is about where it will be long-term, and also think the dividend is quite safe, and is likely to be raised for many years to come. The implementation of large special dividends means Winmark could use some of that capital each year to protect and raise the quarterly dividend. The company's business model requires very little financing and produces strong free cash flow. The issue arises during recessions when consumers may be more strapped for cash. During the Great Recession, profits declined by about two-thirds in 2008. However, Winmark remained profitable throughout. Still, a long recession is likely to be unkind to Winmark and could potentially threaten dividend safety.

Final Thoughts & Recommendation

We reiterate our hold rating on the stock after Q1 results. The company's earnings growth rate should be the bulk of total returns, as we see the stock as significantly overvalued today. The quarterly dividend is small, but we note that if Winmark continues to pay large special dividends, total returns could be larger. We'd like Winmark more on a pullback, or with higher earnings estimates.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	69.4	66.5	69.8	72.5	73.3	66.1	78.2	81.4	83.2	81.3
Gross Profit	61	62	64	68	69	61	73	77	78	78
Gross Margin	87.9%	93.3%	91.8%	93.6%	93.9%	92.8%	93.9%	94.2%	94.2%	95.8%
SG&A Exp.	24.1	23.9	25.2	26.0	25.7	21.2	22.3	23.2	25.1	24.9
D&A Exp.	0.4	0.4	0.4	0.3	0.7	0.9	0.7	0.9	1.1	1.1
Operating Profit	37.1	38.2	38.8	41.8	43.1	40.2	51.3	53.6	53.3	52.9
Operating Margin	53.4%	57.4%	55.6%	57.6%	58.8%	60.9%	65.6%	65.9%	64.0%	65.1%
Net Profit	21.8	22.1	24.6	30.1	32.1	29.8	39.9	39.4	40.2	40.0
Net Margin	31.4%	33.3%	35.2%	41.5%	43.9%	45.1%	51.0%	48.4%	48.3%	49.2%
Free Cash Flow	0.0	0.0	-0.3	11.1	41.5	39.1	48.1	40.1	43.6	42.0
Income Tax	13.4	13.7	11.9	9.2	9.3	8.7	9.9	11.4	11.2	11.3

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	47.4	48.6	48.8	46.7	61.8	31.3	26.9	30.5	29.0	26.8
Cash & Equivalents	1.0	1.3	1.1	2.5	25.1	6.7	11.4	13.6	13.4	12.2
Accounts Receivable	1.4	1.5	1.8	1.6	0.0	0.0	0.0	0.1	0.2	0.1
Goodwill & Int. Ass.	0.6	0.6	0.6	0.6	0.6	0.6	0.6	4.0	3.6	3.2
Total Liabilities	78.1	56.4	84.6	51.5	49.4	42.7	66.0	92.1	88.1	77.9
Accounts Payable	1.6	1.7	2.1	1.4	1.0	1.8	2.1	2.1	1.7	1.6
Long-Term Debt	66.3	45.3	67.5	28.8	25.6	21.9	47.6	73.3	69.1	59.9
Shareholder's Equity	-30.7	-7.9	-35.7	-4.8	12.4	-11.4	-39.1	-61.6	-59.2	-51.0
LTD/E Ratio	-2.2	-5.8	-1.9	-6.0	2.1	-1.9	-1.2	-1.2	-1.2	-1.2

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	42.7%	46.1%	50.5%	63.1%	59.3%	64.0%	137.1%	137.5%	135.2%	143.2%
ROIC	57.6%	60.6%	71.0%	108.0%	103.6%	122.9%	419.9%	390.8%	372.7%	424.9%
Shares Out.	4.7	4.3	4.3	4.1	4.1	3.9	3.8	3.6	3.6	3.7
Revenue/Share	14.9	15.4	16.1	17.5	17.9	17.1	20.5	22.7	22.9	22.2
FCF/Share	0.0	0.0	-0.1	2.7	10.1	10.1	12.6	11.2	12.0	11.4

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

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