

Dillards Inc. (DDS)

\$27.94 (As of 04/01/20)

Price Target (6-12 Months): **\$24.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 03/30/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:A

Value: A

Growth: A

Momentum: C

Summary

Shares of Dillard's have declined in the past three months. Notably, the company posted lower-than-expected fourth-quarter fiscal 2019 results. Also, both the top and bottom lines declined year over year. Elevated SG&A expenses and soft revenues in the fiscal fourth quarter primarily hurt the bottom line on a year-over-year basis. However, the company has been benefiting from growth opportunities in physical stores and e-commerce. Further, initiatives to enhance brand relations, focus on in-trend categories, store remodels and increased rewards to store personnel bode well. Moreover, its focus on boosting productivity as well as enhancing domestic and omni-channel capabilities should strengthen the customer base. Also, the company is gaining from improved inventory levels in recent quarters, which is aiding gross margins.

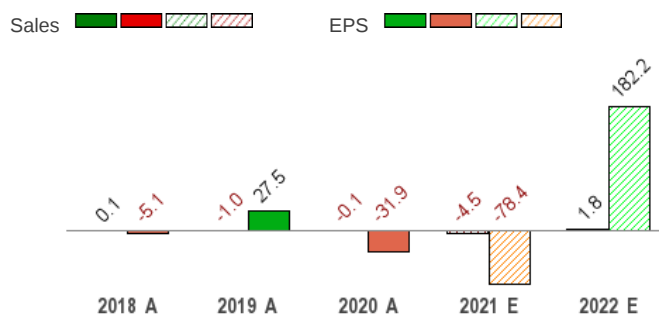
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$86.71 - \$26.30
20 Day Average Volume (sh)	549,657
Market Cap	\$690.1 M
YTD Price Change	-62.0%
Beta	1.33
Dividend / Div Yld	\$0.60 / 2.1%
Industry	Retail - Regional Department Stores
Zacks Industry Rank	Bottom 4% (245 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-8.6%
Last Sales Surprise	-1.6%
EPS F1 Est- 4 week change	-74.6%
Expected Report Date	05/20/2020
Earnings ESP	-402.8%
P/E TTM	7.0
P/E F1	31.0
PEG F1	3.2
P/S TTM	0.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022					6,167 E
2021	1,332 E	1,390 E	1,385 E	1,953 E	6,060 E
2020	1,465 A	1,459 A	1,388 A	1,968 A	6,348 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$2.87 E	-\$2.31 E	\$0.19 E	\$3.56 E	\$2.54 E
2021	\$0.72 E	-\$1.83 E	-\$0.14 E	\$2.65 E	\$0.90 E
2020	\$2.77 A	-\$1.74 A	\$0.23 A	\$2.75 A	\$4.17 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 04/01/2020. The reports text is as of 04/02/2020.

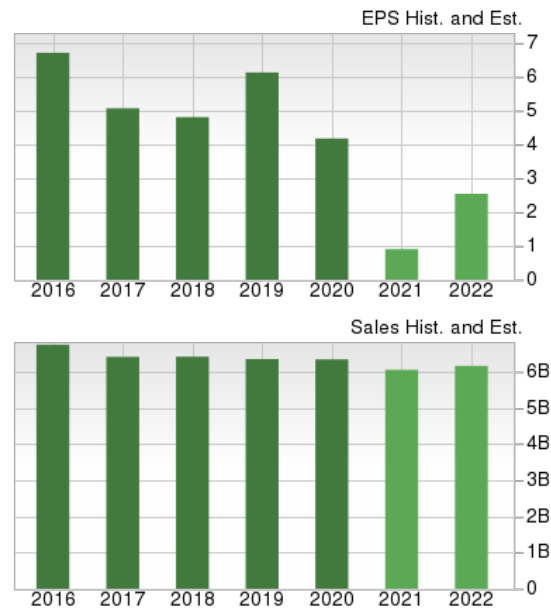
Overview

Dillard's Inc. is a large departmental store chain featuring fashion apparel and home furnishings. As of Feb 1, 2020, Dillard's had about 257 namesake outlets and 28 clearance centers operating in 29 states. The company also sells its merchandise through the Internet at www.dillards.com. Stores are mainly located in the Southwest, Southeast, and Midwest regions of the United States.

The company's primary product categories comprise women's and children's apparel, shoes, accessories and lingerie, men's clothing and accessories, cosmetics, home, and children's clothing. Its merchandise mix consists of both branded and private-label items. The company's strategy is to offer more fashion-forward and trendy products in order to attract customers.

Dillard's also owns a real estate investment trust (REIT), which helps it to enhance its liquidity position. Revenues of a REIT company mostly come from either rent or mortgage payments. The company has an obligation to distribute at least 90% of its taxable income to investors in the form of dividends. A REIT company does not have to pay taxes at the corporate level.

Moreover, Dillard's has a wholly owned captive insurance company, which enables it to manage its risks more efficiently and provide access to more reinsurance markets. A captive insurance company is an 'in-house' insurance company with limited purpose, which insures the risks of its parent company. The captive insurance company may reinsure some or all risks, or may retain such risks of its parent company. The primary goal of forming a captive insurance company is to retain the profit that would have been made by an outside third-party insurance company or in a situation where the coverage is not available for business risks.



Reasons To Sell:

- ▼ **Stock Appears Overvalued:** Considering price-to-earnings (P/E) ratio, Dillard's looks overvalued compared with the industry. The stock has a trailing 12-month P/E ratio of 6.97x, compared with 1.72x for the industry. Its trailing 12-month P/E ratio is below the median level of 13.4x and the high level of 17.29x scaled in the past year. We note that shares of Dillard's declined 59.5% in the past three months as compared to the industry's slump of 67.5%.
- ▼ **Soft Q4 Results, Top & Bottom Lines Miss:** Dillard's reported dismal fourth-quarter fiscal 2019 results, wherein earnings and sales missed estimates. Moreover, top and bottom lines declined year over year. Results were impacted by soft top line, decline in comparable sales (comps) and higher operating expenses. Net sales declined 4.3% year over year, with a 4.1% decline in merchandise sales and 3% fall in comparable sales (comps). This marked the company's fifth straight negative sales surprise, with a bottom-line miss after a beat reported last quarter.
- ▼ **Higher SG&A Expenses:** Though Dillard's gross margin remained flat in the fiscal fourth quarter, elevated SG&A expense rate (or operating expense rate) hurt the bottom line on a year over year basis. Notably, SG&A expenses (as a percentage of sales) rose 100 bps from the prior-year quarter to 23.8%. Further, retail operating expenses (as a percentage of sales) for the quarter under review increased 110 bps to 24.3%. In dollar terms, retail operating expenses increased 0.4% to \$456.7 million. Consequently, the company's bottom line declined 14.6% on a year-over-year basis.
- ▼ **Competitive Threat:** Dillard's operates in the highly competitive retail merchandise industry. Although it is a large regional department store, the company has many rivals at the national level competing with its individual stores, including specialty, off-price, discount, Internet and mail-order retailers. On losing its competitive position, the company might face downward pressure on prices, lower demand for its products as well as reduced margins. Further, the company will not be able to capitalize on new business opportunities and lose much of its market share.
- ▼ **Industry Challenges:** The retail merchandise business is prone to changes in consumer preferences and spending patterns, demographic trends, consumer credit availability and location of competing stores. Like most of its department store peers, the company is facing troubles due to the growth of the e-commerce era. Despite the company's efforts, investors are likely to be skeptical on the department store industry and Dillard's until it fully adapts to the online business.

Soft revenues and elevated SG&A expenses hurt Dillard's bottom line on a year-over-year basis in fourth-quarter fiscal 2020. SG&A expenses (as a percentage of sales) rose 100 bps.

Risks

- **Low Inventory Levels:** Despite soft top and bottom lines performances, Dillard's has been delivering improved inventory levels in recent quarters driven by its ongoing inventory management initiatives. In fourth-quarter fiscal 2019, the company's merchandise inventory declined 4%, which also aided gross margin. Looking back at the trend, we note that merchandise inventory declined nearly 4% in third quarter and 2.9% in the first quarter, while it remained flat in the second quarter.
 - **Growth Initiatives to Boost Customer Base:** Though the department store industry is facing headwinds related to increased competition from specialty retailers and inability to catch up with growing e-commerce. However, Dillard's is shielded by its efforts to capture growth opportunities in brick-and-mortar stores and e-commerce business, which will likely help in retaining existing customers and attract new ones. On the store front, the company is gaining from initiatives to enhance brand relations, focus on in-trend categories, store remodels and increased rewards to store personnel. Moreover, its e-commerce business is catching pace with strategies like enhancement of merchandise assortments and effective inventory management. We expect the company to gain from its focus on increasing productivity at existing stores, developing a leading omni-channel platform and enhancing domestic operations in the years ahead.
 - **Fashionable and Trendy Merchandise Offerings:** Dillard's is a leading player among fashion apparel, cosmetics and home furnishing retailers. The company offers a broad array of merchandise in its stores, featuring products from both national and exclusive brands. The company has created a niche for itself through stringent focus on offering fashionable products to its customers and adding value through exceptional customer care service. We believe that the company's strategy of offering fashion-forward and trendy products acts as a catalyst for attracting more customers.
 - **Activewear Brand Offers Big Opportunity:** The apparel industry is undergoing a sea change as health-conscious consumers continue to catch up with the activewear lifestyle. This has led more brands and retailers to add activewear merchandise to store shelves and online collections. Dillard's is one of the apparel retailers that recently jumped on the athleisure bandwagon with the launch of Antonio Melani Active, an activewear brand, inspired by fitness focused lifestyle and changing fashion trends. The brand's merchandise, which belongs to the upscale athleisure category, is designed with purpose and intent. The products are crafted with high-quality fabrics, using advanced technology and minute detailing. The collection includes active tops, tanks, tees and jackets as well as leggings, sportsbras and shorts.
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Last Earnings Report

Dillard's Q4 Earnings and Revenues Lag Estimates

Dillard's reported lower-than-expected earnings and sales in fourth-quarter fiscal 2019. Moreover, its comparable store sales (comps) declined, while retail gross margin remained flat. However, lower inventory levels aided results.

Q4 Numbers

Dillard's reported adjusted earnings of \$2.75 per share, which missed the Zacks Consensus Estimate of \$3.01. Moreover, the bottom line declined 14.6% from the year-ago quarter's earnings of \$3.22 per share. The earnings decline in the quarter was mainly due to the soft top line.

Net sales of \$1,967.5 million declined 4.3% from the year-ago quarter. Excluding services and other income, sales fell 4.4% to \$1,922.9 million. Merchandise sales (excluding CDI Contractors, LLC) dipped 4.1% to \$1,879 million. The Zacks Consensus Estimate for sales was \$2,000 million.

Comparable store sales (comps) for the 13 weeks (ended Feb 1, 2020) were down 3%. Notably, the eastern and western regions performed exceedingly well, while the central region remained weak. By category, the company's comps benefited from strength in ladies' apparel and cosmetics, more than offset by soft performances in ladies' accessories and lingerie as well as home and furniture.

Both consolidated gross margin and gross margin from retail operations remained flat in the fiscal fourth quarter.

Dillard's SG&A expenses (as a percentage of sales) rose 100 bps from the prior-year quarter to 23.8%. In dollar terms, SG&A expenses (operating expenses) rose 0.1% to \$458.6 million. Meanwhile, retail operating expenses (as a percentage of sales) for the quarter under review increased 110 bps to 24.3%. In dollar terms, retail operating expenses increased 0.4% to \$456.7 million.

Financial Details

The company ended fiscal 2019 with cash and cash equivalents of \$277.1 million, long-term debt and finance leases of \$366.4 million, and total shareholders' equity of \$1,623.3 million. As of Feb 1, 2020, merchandise inventories declined 4.2% to \$1,465 million.

In fiscal 2019, the company generated operating cash flow of \$365.1 million. Moreover, it remained committed to rewarding shareholders with dividends and buybacks.

During the fiscal fourth quarter, the company bought back 0.5 million shares for \$36.7 million under its \$500-million repurchase program announced in March 2018. In fiscal 2019, it repurchased 2.2 million shares for 138.3 million. Further, the company repurchased 0.8 million shares for \$52.8 million in the period between Feb 1 and Feb 24. As of Feb 24, 2020, it had share buyback authorization worth \$215.9 million remaining under its program.

Store Update

As of Feb 1, 2020, Dillard's had about 257 namesake outlets and 28 clearance centers, operating in 29 states, alongside an online store at www.dillards.com. The company's total square footage as of Feb 1 was 48.4 million.

Further, it announced plans to open a store in the third quarter of fiscal 2020 at Mesa Mall in Grand Junction, CO. It also plans to open a store in the spring of 2021 at University Place in Orem, UT. These stores will replace closed peer stores in these locations.

Fiscal 2020 View

For fiscal 2020, Dillard's expects rentals of \$24 million, whereas it reported \$26 million in fiscal 2019. It anticipates net interest and debt expenses of \$43 million, suggesting a decline from \$46 million reported in fiscal 2019. Furthermore, the company projects capital expenditure of \$130 million for fiscal 2020, whereas it reported \$103 million in fiscal 2019.

For fiscal 2020, it projects depreciation and amortization expenses of \$220 million, suggesting a decline from \$222 million incurred in fiscal 2019.

Quarter Ending 01/2020

Report Date	Feb 25, 2020
Sales Surprise	-1.63%
EPS Surprise	-8.64%
Quarterly EPS	2.75
Annual EPS (TTM)	4.01

Recent News

Dillard's Declares Quarterly Dividend – Feb 27, 2020

Dillard's declared a quarterly cash dividend of 15 cents per share on Class A and Class B shares, payable on May 4, 2020, to shareholders of record as of Mar 31.

Dillard's Launches Activewear Brand – Jan 23, 2020

Dillard's launches Antonio Melani Active, an activewear brand, inspired by fitness-focused lifestyle and changing fashion trends. Per management, the active movement signifies timelessness, innovation, empowerment and elegance. The company's goal is to dress customer for all kinds of lifestyle. Antonio Melani Active belongs to the upscale category with an athleisure approach. The designs of each of the brand's merchandise are purpose-driven.

The products are crafted with high-quality fabrics, using advanced technology and minute detailing. The collection includes active tops, tanks, tees and jackets as well as leggings, sportsbras and shorts. Currently, these products are featured across 150 Dillard's stores and online at its website.

Valuation

Dillard's shares are down 62% in the year-to-date period and 61.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Retail-Wholesale sector are down 68.6% and 12.1%, respectively, in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are down 77.6% and 4.8%, respectively.

The S&P 500 index is down 19.7% in the year-to-date period and 10.2% in the past year.

The stock is currently trading at 7.92X forward 12-month earnings, which compares to 9.9X for the Zacks sub-industry, 23.02X for the Zacks sector and 15.99X for the S&P 500 index.

Over the past five years, the stock has traded as high as 23.67X and as low as 7.92X, with a 5-year median of 12.58X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$24 price target reflects 6.8X forward 12-month earnings.

The table below shows summary valuation data for DDS

Valuation Multiples - DDS					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	7.92	9.9	23.02	15.99
	5-Year High	23.67	17.37	26.19	19.34
	5-Year Low	7.92	9.28	19.06	15.18
	5-Year Median	12.58	11.22	23.09	17.44
P/S F12M	Current	0.11	0.1	0.9	2.81
	5-Year High	0.83	0.7	1.11	3.43
	5-Year Low	0.11	0.1	0.8	2.54
	5-Year Median	0.31	0.41	0.92	3
EV/EBITDA TTM	Current	2.68	4.46	13.65	9.57
	5-Year High	7.8	9.34	16.25	12.88
	5-Year Low	2.68	4.4	10.89	8.27
	5-Year Median	4.93	6.23	12.52	10.78

As of 04/01/2020

Industry Analysis Zacks Industry Rank: Bottom 4% (245 out of 254)



Top Peers

Burlington Stores, Inc. (BURL)	Neutral
J. C. Penney Company, Inc. (JCP)	Neutral
Nordstrom, Inc. (JWN)	Neutral
Macys, Inc. (M)	Neutral
Ross Stores, Inc. (ROST)	Neutral
The TJX Companies, Inc. (TJX)	Neutral
Walmart Inc. (WMT)	Neutral
Kohls Corporation (KSS)	Underperform

Industry Comparison Industry: Retail - Regional Department Stores				Industry Peers		
	DDS Underperform	X Industry	S&P 500	JCP Neutral	KSS Underperform	M Neutral
VGM Score	A	-	-	A	B	A
Market Cap	690.12 M	1.37 B	16.87 B	104.96 M	2.01 B	1.37 B
# of Analysts	5	6	13	6	9	7
Dividend Yield	2.15%	1.07%	2.53%	0.00%	21.76%	0.00%
Value Score	A	-	-	A	A	A
Cash/Price	0.28	0.34	0.06	3.13	0.27	0.40
EV/EBITDA	2.50	3.66	10.63	7.69	3.52	3.81
PEG Ratio	3.30	0.47	1.69	NA	0.61	0.33
Price/Book (P/B)	0.43	0.37	2.30	0.13	0.37	0.21
Price/Cash Flow (P/CF)	2.09	1.20	9.07	0.36	1.20	0.72
P/E (F1)	32.48	4.91	14.38	NA	4.91	3.93
Price/Sales (P/S)	0.11	0.08	1.80	0.01	0.10	0.06
Earnings Yield	3.22%	11.81%	6.90%	-384.85%	20.40%	25.51%
Debt/Equity	0.37	1.05	0.70	5.65	1.07	1.03
Cash Flow (\$/share)	13.37	6.12	7.01	0.90	10.77	6.12
Growth Score	A	-	-	B	B	B
Hist. EPS Growth (3-5 yrs)	-8.57%	-1.84%	10.92%	NA	7.34%	-1.84%
Proj. EPS Growth (F1/F0)	-78.32%	-51.67%	1.52%	-58.13%	-45.75%	-61.27%
Curr. Cash Flow Growth	-16.01%	-10.84%	5.98%	10.38%	-10.84%	-15.88%
Hist. Cash Flow Growth (3-5 yrs)	-10.66%	-3.55%	8.55%	28.85%	-0.78%	-6.32%
Current Ratio	1.99	1.55	1.24	1.41	1.68	1.18
Debt/Capital	26.96%	51.18%	42.33%	84.96%	51.74%	50.63%
Net Margin	1.77%	2.04%	11.67%	-2.40%	3.46%	2.30%
Return on Equity	6.15%	10.16%	16.70%	-27.83%	14.17%	14.47%
Sales/Assets	1.73	1.34	0.54	1.34	1.35	1.15
Proj. Sales Growth (F1/F0)	-3.50%	-4.59%	1.75%	-5.67%	0.14%	-7.31%
Momentum Score	C	-	-	F	D	D
Daily Price Chg	-24.38%	-9.47%	-5.14%	-9.17%	-11.31%	-9.78%
1 Week Price Chg	-4.53%	-4.23%	12.29%	-14.51%	10.73%	-8.14%
4 Week Price Chg	-50.78%	-50.23%	-25.58%	-49.69%	-64.57%	-65.01%
12 Week Price Chg	-60.31%	-66.53%	-29.13%	-72.75%	-73.80%	-75.53%
52 Week Price Chg	-61.19%	-71.60%	-23.44%	-76.81%	-81.78%	-82.00%
20 Day Average Volume	549,657	4,590,504	4,261,481	8,827,234	8,631,351	29,921,222
(F1) EPS Est 1 week change	-4.84%	-11.85%	-0.18%	-13.45%	-10.25%	-18.83%
(F1) EPS Est 4 week change	-74.58%	-64.66%	-3.95%	-81.58%	-42.27%	-54.73%
(F1) EPS Est 12 week change	-75.80%	-48.77%	-5.28%	-46.75%	-46.65%	-50.78%
(Q1) EPS Est Mthly Chg	-74.14%	-176.96%	-5.80%	-114.86%	-239.07%	-427.34%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	A
Growth Score	A
Momentum Score	C
VGM Score	A

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

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