

Dillards Inc. (DDS)

\$25.44 (As of 08/21/20)

Price Target (6-12 Months): **\$27.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/28/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: C

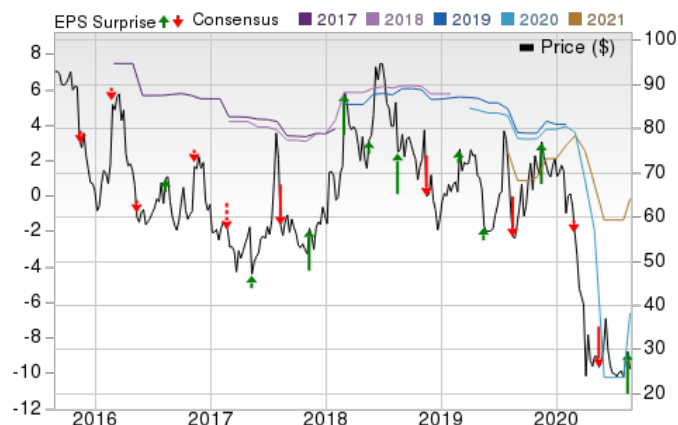
Growth: D

Momentum: A

Summary

Dillard's second-quarter fiscal 2020 results reflected a bounce back, with a narrower-than-expected loss per share. Results were driven by the reopening of all its stores as of Jun 2, except for one. Moreover, it has been witnessing improved sales trends at the reopened stores, generating about 72% of the prior-year quarter's sales between Jun 2 and Aug 1. Its bottom line gained from aggressive measures to lower excess inventory, which helped lower markdowns as well as gross margin. Gains from lower payroll expense and cost savings led to reduced operating expenses. However, shares of Dillard's have lagged the industry in the past three months. Soft sales trends and retail traffic have been hurting the company's top lines in the past few months due to the pandemic. It expects to be in an operating loss position for fiscal 2020.

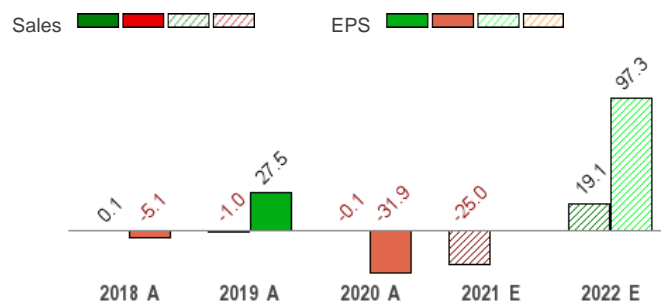
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$84.47 - \$21.50
20 Day Average Volume (sh)	598,164
Market Cap	\$591.0 M
YTD Price Change	-65.4%
Beta	0.87
Dividend / Div Yld	\$0.60 / 2.4%
Industry	Retail - Regional Department Stores
Zacks Industry Rank	Bottom 17% (209 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	91.9%
Last Sales Surprise	-4.8%
EPS F1 Est- 4 week change	35.4%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	NA
P/E F1	NA
PEG F1	NA
P/S TTM	0.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	1,146 E	1,251 E	1,296 E	1,866 E	5,674 E
2021	787 A	919 A	1,214 E	1,843 E	4,763 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	-\$1.09 E	-\$0.89 E	-\$0.18 E	\$2.32 E	-\$0.18 E
2021	-\$6.94 A	-\$0.37 A	-\$0.86 E	\$1.74 E	-\$6.63 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 08/21/2020. The reports text is as of 08/24/2020.

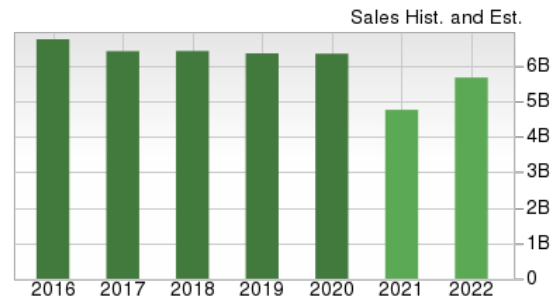
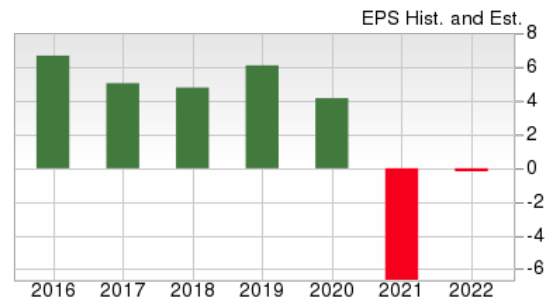
Overview

Dillard's Inc. is a large departmental store chain featuring fashion apparel and home furnishings. As of Aug 1, 2020, Dillard's had about 251 namesake outlets and 31 clearance centers spanning 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 Buy:

▲ **Store Re-openings Aid Q2 Performance:** Dillard's bounced back in second-quarter fiscal 2020, after a dismal performance in the first quarter. It reported narrower-than-expected loss per share in second-quarter fiscal 2020. Moreover, loss per share of 37 cents compared favorably with an adjusted loss per share of \$1.74 in the year-ago quarter. Notably, all of the company's stores reopened and were operational as of Jun 2, except for one. All the reopened stores operated at reduced hours. Moreover, the company has been witnessing improved sales trends at the reopened stores, generating about 72% of the prior-year quarter's sales between Jun 2 and Aug 1. This primarily aided its results in the fiscal second quarter.

Dillard's witnesses robust sales at the reopened stores, generating about 72% of the prior-year quarter's sales between Jun 2 and Aug 1. All stores, except one, were operational as of Jun 2.

▲ **Inventory Management Aids Margins:** Citing the extended store closures and business disruptions, Dillard's has taken several steps to reduce costs starting the fiscal first-quarter which continued in the second quarter. Some of these are extension of vendor payment terms; cancellation, suspension and delaying of shipments; merchandise purchases reduction; reduction of discretionary and capital expenditures and payroll reduction. Additionally, the company adopted aggressive measures to lower excess inventory driven by the reduced demand in the fiscal second quarter, due to the coronavirus pandemic and store closures enforced by the government. Consequently, it continued to significantly reduce total merchandise purchases, resulting in a decline of 62% in the fiscal second quarter. This also helped the company to end the fiscal second quarter with inventory down 20% year over year. The reasonable ending inventory bodes well for the fiscal third quarter.

Moreover, inventory reductions resulted in lower markdowns during the fiscal second quarter, which boosted gross margin. Notably, retail gross margin improved 239 basis points (bps) compared with the year-ago quarter primarily due to lower markdowns. On a consolidated basis, gross margin expanded 271 bps year over year to 67.7%.

▲ **Cost Decline on Lower Payroll Expenses:** Dillard's retail SG&A expenses declined 34.8% year over year to \$265.8 million in the fiscal second quarter. As a percentage of sales, however, retail SG&A expenses rose 20 bps. Moreover, consolidated operating expenses of \$267.1 million declined 34.7% year over year, owing to a 41% decline in payroll expenses during the quarter as well as significant cost savings realized in all expense categories. Meanwhile, as a percentage of sales, it deleveraged 40 bps to 29.1%. Additionally, payroll expense declined 38% in the first half of fiscal 2020 mainly due to employee furloughs on the pandemic-related store closures.

▲ **Financial Flexibility:** Dillard's currently has a strong balance sheet and liquidity, which positions it well to weather the uncertainties arising out of the pandemic. Some highlights of its financial status include smaller rent obligations compared with the industry. This is because the company own 90% of its retail stores and 100% of its corporate headquarters, distribution and fulfillment facilities. Moreover, it has low long-term debt obligations with its next payment of \$45 million due in January 2023. As of Aug 1, the company's long term debt and finance lease liabilities (including subordinate debentures) of \$566.1 million was almost flat sequentially. Moreover, its debt-to-capitalization ratio of 0.29 remains unchanged on a sequential basis and compares favorably with the industry's ratio of 0.70.

Moreover, the amended \$800-million credit facility provides for no financial covenants as long as availability exceeds \$100 million and no event of default occurs and is continuing. Further, the company notes that its e-commerce site continues to provide cash flow, even though stores remain closed through the ship-from-store capability.

▲ **Sustained Shareholder Returns:** Dillard's remains committed to rewarding shareholders with share buybacks and dividend payouts. During the fiscal second quarter, the company bought back 0.6 million shares for \$14.3 million under its \$500-million repurchase program announced in March 2018. As of Aug 1, it had \$192.6 million authorization remaining to be bought back under the aforementioned program. Further, it paid dividends of \$3.5 million in the fiscal second quarter. On Aug 21, the company declared quarterly dividend of 15 cents per share, payable Nov 2. Notably, Dillard's has an annualized dividend yield of 2.4% and free cash flow yield of 20%.

Reasons To Sell:

▼ **Soft Top Line:** Shares of Dillard's declined 6.4% in the past three months, against the industry's growth of 9.7%. Though the company's second-quarter fiscal 2020 results were favorable from the bottom line perspective, its top line reflected significant decline. Net sales plunged nearly 35.6% year over year, while retail sales were down 35.2%. The top line was impacted by closure of a considerable number of its stores at the beginning of the quarter and generally slow retail traffic owing to the pandemic. Moreover, the company did not report comparable store sales (comps) data for the reported quarter as most of its brick-and-mortar stores remained closed and in-store and online sales are interdependent due to the coronavirus pandemic. The company's positive commentary about the re-opening of stores, improving trends and strong liquidity position is likely to have aided stock performance. Looking at fiscal 2020, the company expects to witness a net operating loss.

Dillard's sales for Q2 were impacted by closure of a considerable number of its stores at the beginning of the quarter and generally slow retail traffic owing to the pandemic.

▼ **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.

▼ **Volatility in Raw Material Prices:** Dillard's has faced fluctuations in raw material prices in the past and remains prone to this threat in the future too. Any increase in raw material prices or price of labor and fuel can prove to be detrimental to the company's profitability. On the other hand, efforts to pass on these price hikes to consumers may lead to reduced sales volumes. Consequently, raw material price volatility and its reduced availability remain concerns for the company.

Last Earnings Report

Dillard's Reports Narrower-Than-Expected Q2 Loss

Dillard's reported narrower-than-expected loss per share in second-quarter fiscal 2020. Notably, all of the company's stores reopened and were operational as of Jun 2, except for one. All the reopened stores operated at reduced hours. Moreover, the company has been witnessing improved sales trends at the reopened stores, generating about 72% of the prior-year quarter's sales between Jun 2 and Aug 1. This primarily aided its results in the fiscal second quarter.

Quarter Ending **07/2020**

Report Date	Aug 13, 2020
Sales Surprise	-4.78%
EPS Surprise	91.85%
Quarterly EPS	-0.37
Annual EPS (TTM)	-4.33

Q2 Numbers

Dillard's reported a loss per share of 37 cents per share, narrower than the Zacks Consensus Estimate of a loss of \$4.54. Moreover, the bottom line compared favorably with an adjusted loss per share of \$1.74 in the year-ago quarter.

Net sales of \$919 million declined 35.6% from the prior-year quarter. Excluding services and other income, sales fell 35.2% to \$945.1 million. Total retail sales (excluding CDI Contractors, LLC) fell 35.2% to \$893.2 million. The Zacks Consensus Estimate for sales was \$965.1 million.

However, the company did not report comparable store sales (comps) data for the reported quarter as most of its brick-and-mortar stores remained closed and in-store and online sales are interdependent due to the coronavirus pandemic.

Driven by the reduced demand due to the coronavirus pandemic and store closures enforced by the government, the company adopted aggressive measures to lower excess inventory, which continued in the fiscal second quarter. Consequently, it continued to significantly reduce total merchandise purchases, resulting in a decline of 62% in the second quarter. This resulted in lower markdowns during the quarter, which boosted gross margin.

Notably, retail gross margin improved 239 basis points (bps) compared with the year-ago quarter primarily due to lower markdowns. On a consolidated basis, gross margin expanded 271 bps year over year to 67.7%.

Dillard's retail SG&A expenses (as a percentage of sales) rose 20 bps from the prior-year quarter to 29.8%. In dollar terms, however, SG&A expenses (operating expenses) declined 34.8% to \$265.8 million.

Consolidated operating expenses of \$267.1 million declined 34.7% year over year, owing to a 41% decline in payroll expenses during the quarter as well as significant cost savings realized in all expense categories. Meanwhile, as a percentage of sales, it deleveraged 40 bps to 29.1%.

Looking at fiscal 2020, the company expects to witness a net operating loss.

Store Update

In the fiscal second quarter, it permanently closed stores in Waterloo, IA; Clovis, NM; and Lawton, OK. Consequently, the company operated 251 Dillard's locations and 31 clearance centers, spanning 29 states, as of Aug 1, 2020.

Further, the company temporarily closed its store in El Centro, CA, due to government mandate.

Financial Details & Liquidity

It ended second-quarter fiscal 2020 with cash and cash equivalents of \$82.9 million, long-term debt and finance leases of \$366.1 million, and total shareholders' equity of \$1,371.3 million.

In the first six months of fiscal 2020, the company's cash used for operating activities was \$299.7 million. However, it remained committed to rewarding shareholders with share buybacks.

During the fiscal second quarter, the company bought back 0.6 million shares for \$14.3 million under its \$500-million repurchase program announced in March 2018. As of Aug 1, it had \$192.6 million authorization remaining to be bought back under the aforementioned program.

The company believes that it has a strong balance sheet and liquidity, which positions it well to weather the uncertainties arising out of the pandemic. Some highlights of its financial status include smaller rent obligations compared with the industry. This is because the company owns 90% of its retail store square footage, and 100% of its corporate headquarters, distribution and fulfillment facilities.

Moreover, it has low long-term debt obligations, with its next payment of \$45 million due in January 2023. The amended \$800-million credit facility provides for no financial covenants as long as availability exceeds \$100 million and no event of default occurs and is continuing. Further, the company notes that its e-commerce site continues to provide cash flow, even though stores remain closed through the ship-from-store capability.

Recent News

Dillard's Declares Quarterly Dividend – Aug 21, 2020

Dillard's declared a quarterly cash dividend of 15 cents per share on Class A and Class B shares, payable on Nov 2, 2020, to shareholders of record as of Sep 30.

Valuation

Dillard's shares are down 65.4% in the year-to-date period and 53.7% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 63.5% but the Zacks Retail-Wholesale sector is up 31.2% in the year-to-date period. Over the past year, the Zacks sub-industry is down 57.9% but the sector is up 42.1%.

The S&P 500 index is up 5.4 in the year-to-date period and 18.3% in the past year.

The stock is currently trading at 0.11X forward 12-month sales, which compares to 0.16X for the Zacks sub-industry, 1.27X for the Zacks sector and 3.71X for the S&P 500 index.

Over the past five years, the stock has traded as high as 0.54X and as low as 0.1X, with a 5-year median of 0.29X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$27 price target reflects 0.12X forward 12-month sales.

The table below shows summary valuation data for DDS

Valuation Multiples - DDS					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	0.11	0.16	1.27	3.71
	5-Year High	0.54	0.67	1.27	3.71
	5-Year Low	0.1	0.11	0.82	2.53
	5-Year Median	0.29	0.44	0.97	3.05
P/B TTM	Current	0.42	0.84	5.78	4.59
	5-Year High	1.92	3.01	6.03	4.59
	5-Year Low	0.34	0.34	3.69	2.83
	5-Year Median	1.13	1.99	5.03	3.75
EV/EBITDA TTM	Current	10.59	8.65	19.98	12.89
	5-Year High	21.31	9.21	20.01	12.89
	5-Year Low	2.21	3.37	10.68	8.25
	5-Year Median	4.86	5.39	12.97	10.91

As of 08/21/2020

Industry Analysis Zacks Industry Rank: Bottom 17% (209 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Burlington Stores, Inc. (BURL)	Neutral	4
Chicos FAS, Inc. (CHS)	Neutral	4
Kohls Corporation (KSS)	Neutral	3
Macys, Inc. (M)	Neutral	4
Ross Stores, Inc. (ROST)	Neutral	3
Walmart Inc. (WMT)	Neutral	3
Nordstrom, Inc. (JWN)	Underperform	4
The TJX Companies, Inc. (TJX)	Underperform	4

Industry Comparison Industry: Retail - Regional Department Stores				Industry Peers		
	DDS	X Industry	S&P 500	JWN	KSS	M
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	4	3	4
VGM Score	C	-	-	F	A	D
Market Cap	590.95 M	1.94 B	23.62 B	2.26 B	2.98 B	1.94 B
# of Analysts	5	7	14	7	9	7
Dividend Yield	2.36%	0.00%	1.65%	0.00%	0.00%	0.00%
Value Score	C	-	-	D	A	D
Cash/Price	0.10	0.62	0.07	0.51	0.55	0.68
EV/EBITDA	2.69	3.41	13.29	3.67	4.14	4.31
PEG Ratio	NA	NA	3.03	NA	NA	NA
Price/Book (P/B)	0.45	0.54	3.11	5.70	0.62	0.72
Price/Cash Flow (P/CF)	1.90	1.76	12.69	1.63	1.76	1.02
P/E (F1)	NA	NA	21.51	NA	NA	NA
Price/Sales (P/S)	0.12	0.11	2.43	0.16	0.17	0.09
Earnings Yield	-26.06%	-49.37%	4.46%	-24.65%	-17.62%	-72.68%
Debt/Equity	0.41	2.22	0.76	12.85	1.54	2.91
Cash Flow (\$/share)	13.37	6.12	6.93	8.88	10.77	6.12
Growth Score	D	-	-	F	C	D
Hist. EPS Growth (3-5 yrs)	-6.35%	-6.35%	10.44%	-6.08%	-1.12%	-11.95%
Proj. EPS Growth (F1/F0)	-259.04%	-215.02%	-5.53%	-205.81%	-168.56%	-256.51%
Curr. Cash Flow Growth	-16.01%	-10.84%	5.20%	15.20%	-10.84%	-15.88%
Hist. Cash Flow Growth (3-5 yrs)	-10.66%	-3.55%	8.52%	3.66%	-0.78%	-6.32%
Current Ratio	1.66	1.45	1.33	0.97	2.22	1.24
Debt/Capital	28.85%	67.51%	44.50%	92.78%	60.61%	74.41%
Net Margin	-1.92%	-4.33%	10.13%	-0.43%	-0.61%	-14.28%
Return on Equity	-6.30%	-4.23%	14.67%	18.75%	-2.15%	2.61%
Sales/Assets	1.44	1.15	0.51	1.42	1.13	1.06
Proj. Sales Growth (F1/F0)	-24.15%	-18.70%	-1.54%	-22.65%	-18.70%	-30.96%
Momentum Score	A	-	-	F	A	B
Daily Price Chg	-2.04%	-1.96%	-0.15%	-1.96%	-0.53%	-0.32%
1 Week Price Chg	5.60%	5.93%	1.09%	7.00%	6.27%	8.61%
4 Week Price Chg	1.40%	-2.38%	1.64%	-6.34%	-14.32%	-6.15%
12 Week Price Chg	-16.18%	-5.99%	6.72%	-20.09%	-6.06%	-8.35%
52 Week Price Chg	-54.73%	-53.50%	1.00%	-52.91%	-60.07%	-59.77%
20 Day Average Volume	598,164	3,865,823	1,873,576	8,604,222	10,234,462	24,651,180
(F1) EPS Est 1 week change	38.48%	6.84%	0.00%	-7.22%	13.68%	0.00%
(F1) EPS Est 4 week change	35.36%	6.02%	1.79%	-8.88%	10.93%	1.12%
(F1) EPS Est 12 week change	35.36%	-9.31%	3.35%	-310.71%	14.06%	-42.39%
(Q1) EPS Est Mthly Chg	-84.81%	-4.24%	0.42%	-14.84%	-4.24%	-1.94%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	C
Growth Score	D
Momentum Score	A
VGM Score	C

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.

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