



EQUITY TRADING REPORT

RITC Ryerson Paper Trading Club

 Dillard's Inc. (DDS) – Sell

By Larena Gomes, Neil Jonatan, Rottem Maor

October 25, 2020

Trading Report #6



Executive Letter



▶ Dear reader,

The purpose of our reports is to demonstrate our executives' deep knowledge and understanding of investments, the financial industry, financial indicators, risk management, etc.

All reports are approved, fact-checked and edited by Founding President Neil Jonatan and Director of Trading Reports Rottem Maor.

Disclaimer. The analyses and conclusions of Ryerson Paper Trading Club ("RPTC") contained in this presentation are based on publicly available information. RPTC recognizes that there may be confidential information in the possession of the companies discussed in the presentation that could lead these companies to disagree with RPTC's conclusions. This presentation and the information contained herein is not a recommendation or solicitation to buy or sell any securities.

The analyses provided may include certain statements, estimates and projections prepared with respect to, among other things, the historical and anticipated operating performance of the companies, access to capital markets and the values of assets and liabilities. Such statements, estimates, and projections reflect various assumptions by RPTC concerning anticipated results that are inherently subject to significant economic, competitive, and other uncertainties and contingencies and have been included solely for illustrative purposes. No representations, express or implied, are made as to the accuracy or completeness of such statements, estimates or projections or with respect to any other materials herein. Actual results may vary materially from the estimates and projected results contained herein.

The sole responsibility for the content of this publication lies with the authors. Its contents do not reflect the opinion of RPTC. RPTC assumes no responsibility or liability for any error, inaccuracy, omission or comment contained in this publication or for any use that may be made of such information by the reader.

Sincerely,

Neil Jonatan
Founding President

Rottem Maor
Director of Trading Reports

Investment Overview



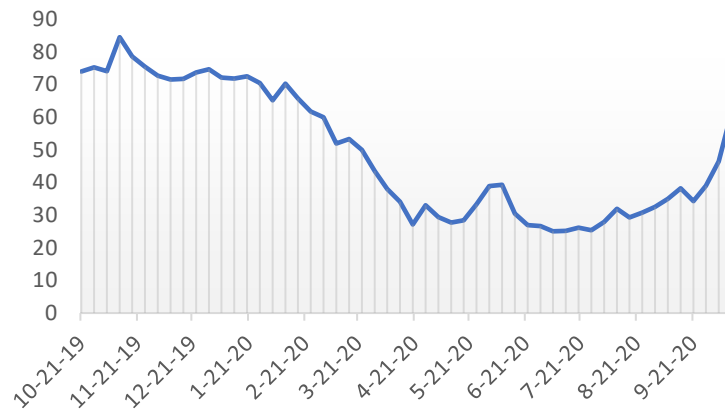
Key Financials

Ticker	NYSE: DDS
Share Price	\$46.53 (USD)
52 Week Range	\$21.50- \$84.47 (USD)
Market Capitalization	\$1.171 B (USD)
Forward P / E	-113.80
Total Debt / Equity	61.29
Forward Dividend Yield	0.60 (1.18%)

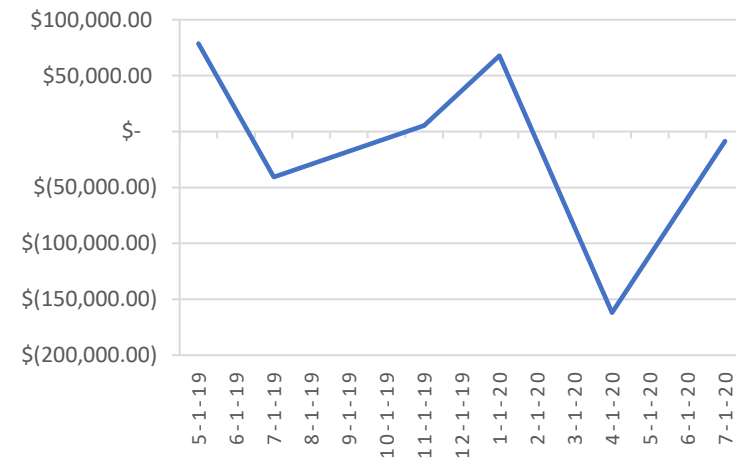
Business Summary

Founded in 1938, Dillard's Inc. is one of the largest fashion retailers in North America. With over 230 stores across 29 states, their goal is to provide exceptional customer service in apparel, cosmetics, and home designs.

52 Week Performance



Revenue by Quarter



Fundamental Analysis



S.W.O.T Analysis

This SWOT analysis is essential to develop an understanding of Dillard's Inc. business and valuation.

Strengths

The company has a strong brand in America with over 200 stores in 29 states. Dillard's has been in the market for decades, indicating a strong sense of brand awareness, and generating customer loyalty. They have various products lines, demonstrating a good relationship with their suppliers. Additionally, they have a healthy free cash flow, allowing them to expand their business, create new supplier relations and invest in new projects.

Weakness

Dillard's operates solely in the U.S., and thus they are smaller than international retailers, such as Walmart and Costco Wholesale. Their competitors have expanded globally and been successful, according to investment valuations. Walmart has over 5,000 retail stores internationally and Costco has over 700 warehouses, which strategically lags Dillard's behind their competitors.

Opportunities

There is potential to expand its business globally and increase online sales. Expanding globally provides numerous benefits such as profit, diversification, increasing brand value, and potentially offering new products to consumers. Dillard's products are specifically designed for luxury, and exclusivity. Expanding their brand gains attention and could add exclusive brands. Furthermore, increasing online sales globally can increase the overall profit for the company. The opportunity to partner with popular online companies will diversify their customers geographically.

Threats

Due to Covid-19, many consumers have relied heavily on online shopping. The rise of Amazon makes it convenient and accessible to shop for apparel online. Dillard's only uses brick-and-mortar stores to sell products, which caused their revenue to decrease substantially in 2020. Furthermore, there is a steadily increase in local businesses due to the rise of TikTok and use of social media such as Instagram and Facebook. It is very user-friendly and accessible, as consumers can buy without leaving TikTok.

Dillard's Inc have faced employment discrimination recently which resulted in a settlement of \$900,000 (Arkansas Business), damaging their reputation and raises concerns about Dillard's public image and marketing during a time of widespread civil unrest and economic uncertainty.

Technical Analysis



NYSE: DDS

The two technical indicators depicted in this chart are Bollinger Bands and the RSI. Both of these indicators simply show that DDS is overbought. The RSI is trending downwards crossing into neutral territory, foreshadowing a return to trend. The Bollinger Band's upper band has been hit, predicting a drop to the 18-day average, which is currently about \$37.



RPTC



Investment Valuation



Comparative Valuation

On the valuation table, DDS profit margin and EV/Sales are below average, meaning that the company is **undervalued**. Even compared to companies who dominate department stores (Costco, Walmart, Macy's), Dillard's Inc. is still **undervalued** in these categories. The P/E Ratio is not applicable because of the negative earnings that Dillard faces.

Company Name	Market Data			Financial Data			Valuation		
	Price (Per/Share)	Market Cap (\$M)	Enterprise Value (\$M)	Sales (\$M)	Earnings (\$M)	Profit Margin (%)	EV/Sales x	EV/EBITDA x	P/E x
Dillard's Inc.	\$46.53	\$1,040	\$1,850	\$5,153.19	\$(97.39)	-1.89%	0.36	22.52	N/A
Amazon	\$3,217.01	\$1,610,000	\$1,630,000	\$321,782	\$13,180	4.10%	5.07	41.10	123.56
eBay	\$54.20	\$37,930	\$41,810	\$11,203	\$5,024	44.85%	3.73	12.54	8.4
Costco Wholesale	\$378.31	\$166,920	\$163,910	\$166,761	\$4,002	2.40%	0.98	21.38	41.94
Walmart	\$143.91	\$407,780	\$464,310	\$542,026	\$17,895	3.30%	0.86	12.68	22.96
Macy's Inc	\$6.32	\$1,970	\$9,160	\$22,803	\$(3,153)	-13.83%	0.40	51.73	N/A
Average				178,228.03	6141.77	6.49%	1.90	26.99	49.22
Average for in-store only				184,185.80	\$4,661.65	-2.50%	0.65	27.08	32.45
Median				94,782	\$1,952.31	0.25%	0.63	21.95	32.45
Median for in-stores only				94,782	\$4513	2.85%	0.92	21.95	32.45

*As of October 20, 2020

Recommendation



Thesis

As a student run investment club, RPTC's purpose is to recommend investments in companies that are positioned to grow in value and sell those that have a negative outlook.

Our thorough analysis has led us to the conclusion that Dillard's Inc. is going to decrease in price in the short term.

Summary

Conditional **SELL** at \$46.53

Implied Return on Investment: 23.53% - 31.10%

Risk Management Strategy

Optimal Execution Price:
\$46.53

Stop loss:
\$48.12

Targets:

- 1st – \$35.58 (24% gain)
- 2nd – \$32.06 (31% gain)

Risk/Reward Ratio:
3.35% : 23.53% - 31.10%

Portfolio Allocation:
2%-4% of total portfolio

Target Visualization



RPTC



Citations



- (1) Yahoo Finance. 2020, *Dillard's Inc.* Retrieved from <https://ca.finance.yahoo.com/quote/DDS?p=DDS>
Yahoo Finance. 2020, *Walmart.* Retrieved from <https://ca.finance.yahoo.com/quote/WMT/key-statistics?p=WMT>
Yahoo Finance. 2020, *Amazon.* Retrieved from <https://ca.finance.yahoo.com/quote/AMZN/key-statistics?p=AMZN&.tsrc=fin-srch>
Yahoo Finance. 2020, *eBay.* Retrieved from <https://ca.finance.yahoo.com/quote/EBAY/key-statistics?p=EBAY&.tsrc=fin-srch>
Yahoo Finance. 2020, *Costco Wholesale Corporation.* Retrieved from <https://ca.finance.yahoo.com/quote/COST/key-statistics?p=COST&.tsrc=fin-srch>
Yahoo Finance. 2020, *Macy's Inc.* Retrieved from <https://ca.finance.yahoo.com/quote/M/key-statistics?p=M&.tsrc=fin-srch>
- (2) Dillard's Inc. 2020, Retrieved from <https://careers.dillards.com/Careers/information/history>
- (3) Campbell-Miller S. October 9. 2020, Arkansas Business. *Judge Approves Consent Decree, \$900K Payments on Dillard's Case.* Retrieved from <https://www.arkansasbusiness.com/article/133247/consent-decree-900-settlement-approved-in-dillards-discrimination-case>
- (4) Walmart. 2020, Retrieved from <https://corporate.walmart.com/our-story/our-business>
- (5) Farfan B. December 12. 2019, The Balance Small Business. *Costco's Retail Innovation Craze.* Retrieved from <https://www.thebalancesmb.com/costco-international-expansion-and-retail-innovation-2891768>
- (6) Trading View. 2020, *Dillard's Inc.* Retrieved from <https://www.tradingview.com/chart/Fwb5h17x/>