

WESTPEAK RESEARCH ASSOCIATION

Weyco Group, Inc. (NASDAQ: WEYS)

Consumer Goods – Clothing and Accessories

Weyco Putting Their Best Foot Forward

April 2, 2020

Weyco Group Inc. is a US-based company that designs, markets, and distributes footwear. Their flagship brands include Florsheim, Nunn Bush, Stacy Adams, BOGS, and Rafters. These brands offer primarily mid-priced men's dress shoes. They also offer footwear for women and children, work boots, and winter boots. Their operations are segmented into North American wholesale, and North American retail, as well as some overseas operations.

Thesis

Short term, Weyco faces struggles from cost uncertainty as a direct result of the trade war between the US and China, where 70% of its suppliers are located. And although its overseas endeavors continue to struggle, Weyco is placing itself in a position to bear the immediate issues and succeed in the long run. Consistent growth over the last 3 quarters in its e-commerce segment highlights the company's adaptability. Due to its pre-tariff performance and experience in the industry, we believe Weyco is currently undervalued.

Drivers of Change

Weyco operates primarily in an industry that we forecast will see consistent growth over the next 4 years. As disposable income increases in both the US and Canada, consumer discretionary spending will follow to the footwear market. Consumers are also showing a rapid change to make purchases on the internet. As Weyco and its wholesale customers acclimatize, they will see sales continue to shift from their brick and mortar stores to their websites.

Valuation

After a DCF and Comps valuation, with 50% weights, we foresee Weyco's price approaching \$31.06, or a 64% increase from their current \$18.85 price. We initiate a buy rating on Weyco.

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Equity Research US

| | |
|------------------------------|-------------|
| Price Target | CAD\$ 31.00 |
| Rating | Buy |
| Share Price (April 2, Close) | CAD\$ 18.85 |
| Total Return | 64.8% |

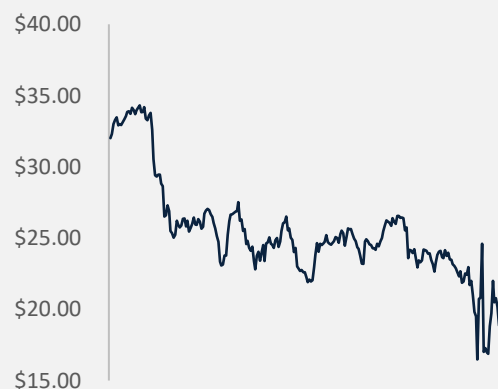
Key Statistics

| | |
|------------------------------|-----------------|
| 52 Week H/L | \$34.44/\$15.40 |
| Market Capitalization | \$185.58M |
| Average Daily Trading Volume | \$173K |
| Net Debt | -\$2.8M |
| Enterprise Value | \$218.1M |
| Net Debt/EBITDA | -0.58x |
| Diluted Shares Outstanding | 9.9M |
| Free Float | 46.97% |
| Dividend Yield | 5.09% |

WestPeak's Forecast

| | 2019E | 2020E | 2021E |
|------------|--------|--------|--------|
| Revenue | \$304M | \$318M | \$340M |
| EBITDA | \$30M | \$27M | \$24M |
| Net Income | \$20M | \$18M | \$23M |
| EPS | \$2.11 | \$1.82 | \$2.33 |
| P/E | 12.7x | 10.4x | 8.1x |
| EV/EBITDA | 13.3x | 13.5x | 13.5x |

1-Year Price Performance



Business Overview

Company Overview

Weyco Group is a publicly traded American-based footwear company that designs and sells primarily men's dress shoes. They also offer casual, outdoor, women's, and kids' footwear. Originally incorporated under the name Weyenberg Shoe Manufacturing Company in 1906, the company changed its name to Weyco Group Inc. on April 25, 1990. The main brands the company owns are Florsheim Shoe Company, Stacy Adams, BOGS, and RAFTERS. The company operates worldwide, but most sales come from North American wholesale and retail, specifically the US and Canada. Weyco purchases their shoes from manufacturers in China (70%) and India, among other countries. These purchases are brought to the company's distribution centers in Glendale Wisconsin, where they are headquartered, Montreal Canada, Florence Italy, Fairfield Victoria, Honeydew Park, South Africa, and Hong Kong China. The company also has offices across North America, and worldwide. As well, Weyco Operates overseas in Australia, South Africa, the Asia Pacific, and Europe.



● Countries with Distribution Centers

Business Segments

By Distribution Method

Revenue Breakdown (In Millions)



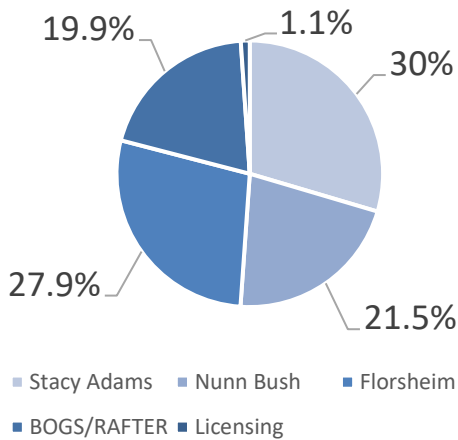
Source: Company filings

Weyco segments its revenue into 3 main categories: North American Wholesale, North American Retail, and Other/Overseas. In the wholesale segment, shoes are marketed and sold to retailers like Zappos, Designer Show Warehouse, and Sport Check. These stores are located across the continent, primarily in Canada and the US. To date, their shoes are offered in about 10,000 clothing and department stores. As well, Weyco is not reliant on one store for a significant portion of their sales. No customer signifies more than 10% of the company's net sales. Because of this, Weyco is not exposed to dramatic fluctuations in revenue if a single customer decides to renegotiate their business with them. Traveling salesmen and representatives work to continue selling their products to these stores. Over the last 5

years, the North American wholesale segment has accounted for about 76% of Weyco's revenue, with 2018 being the highest level, making up 78% of total revenue. From 2014 to today, wholesale segment revenues are down from 4% overall.

However, since last year, they have been on a 7% upswing, due to both higher sales and higher margins. This segment also includes all licensing revenues. Licensing agreements allow third parties to sell the company’s brands and branded accessories. Weyco’s retail segment consists of 9 brick and mortar stores, down from 16 in 2015, and internet businesses. This is indicative of the company’s belief that the customer’s habits are shifting away from using e-commerce platforms, rather than going to shop in person. The retail segment of the company represented 8% of net sales in 2018. In this segment, sales are made directly to consumers. Though the company closed 1 of their brick and mortar stores during 2018, due to increased website sales, the retail segment grew 9% for the year. The company is aware that going forward, their retail segment sales will be driven by their continued investment in their e-commerce platforms. Moreover, Weyco plans to shift its business model to put more focus on their growing website traffic and gear it towards consumers who more and more often make purchases online, in order to realize more potential sales. Overseas sales represent both wholesale and retail operations in Australia, South Africa, the Asia Pacific, and Europe. This segment has been struggling for a few years and continues to struggle, with a 7% decrease in sales from 2017. The decrease is mostly attributable to the Florsheim Australia, where Weyco faces both a lack of brand recognition, and a weaker Australian dollar. In 2018, a minority interest in Florsheim Australia exercised its option to sell it’s 45% ownership back to Weyco Group. This left the company with a 100% stake in this segment, which has been a drag on the company's overseas sales.

Revenue By Brand



Weyco also reports their revenue segmented by their brands, 5 main brands: Florsheim, Nunn Bush, Stacy Adams, BOGS and Rafters. Florsheim, Nunn Bush, and Stacy Adams offer primarily men's dress shoes, which do not have a seasonal cycle. BOGS and Rafters, which offer mainly winter and outdoor boots, are affected by seasonality. Brand-specific performance changes regularly overall, with Stacy Adams, Florsheim, and Bogs seeing sales increase by 5%, 20%, and 10% respectively in 2018. Nunn Bush sales fell by 3%, due to lower demand from department store chains and shoe stores, and losses were partially offset higher sales to online retailers. Not visible in this chart is their Umi

Source: Company filings

Florsheim



Source: Company websites

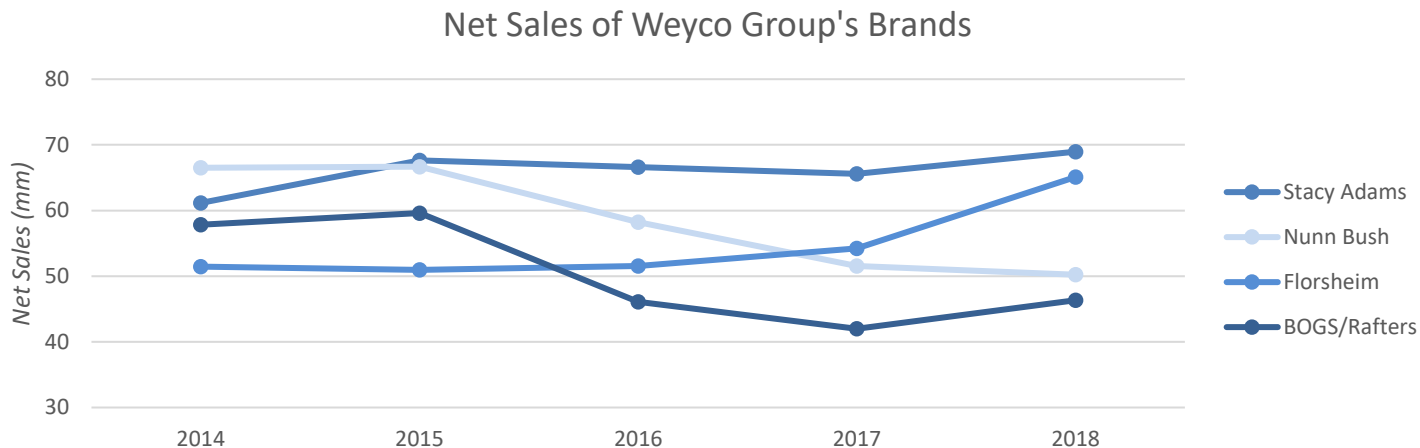
Stacy Adams



BOGS



sales, which have been low due to the wind-down of the brand after the company decided the brand was no longer viable and incurred an impairment charge in 2016.



Source: Company filings

Supply Chain

Suppliers

Weyco Group outsources their manufacturing overseas. The purchase finished shoes from suppliers and most purchases are made in USD. Increasing labor costs, material costs, and freight costs are big drivers of pressure for suppliers to increase costs, but prices have remained stable to Weyco throughout 2018. Suppliers include Guangzhou Bukun Shoes Co., Taima Shoes, and Golden Taurus Group Ltd. Right now, they have about 70% of their manufacturing needs covered in China, about 25% in India, and 5% in Vietnam. High dependence on China exposes Weyco Group to the volatility that comes with the US and China trade war currently taking place.

Distribution

The company distributes most of its products from its largest distribution center, located in Glendale, Wisconsin. They also own a smaller distribution center in Montreal, Canada, and lease 4 other distributions centers worldwide. Wholesale distribution costs have increased in 2018, from 12 million to 12.8 million. The company holds leases on its retail shoe stores. Last year, total rent costs were 10 million. As e-commerce continues to grow, the company has been decreasing its dependence on its brick and mortar stores, ending leases with 7 out of 16 in the last 5 years.

Dividend Policy

Weyco Group offers a \$0.24 quarterly dividend, which equates to a 3.76% yield, and a payout ratio of 78%. This payout has been consistent over the last 20 years and is expected to increase over time as it has in the past. The company used its cash flows and earnings to fund the most recent 9.3 million dividend payout. Also, the company created a share repurchase

program in 1998, where the company can opt to repurchase a set number of shares when they believe market conditions are favorable. In the first 9 months of 2019, the company repurchased 154,000 shares, which had 4 worth of million worth in shares. In 2018, the repurchased 350,000 shares, which totaled 11.4 million dollars.

Macro Analysis

Operating in 2 distinct markets, retail and wholesale, Weyco is exposed to a few key economic drivers that influence the revenue of the company. We see these drivers being per capita disposable income, the growth of e-commerce, and the current US-China trade war.

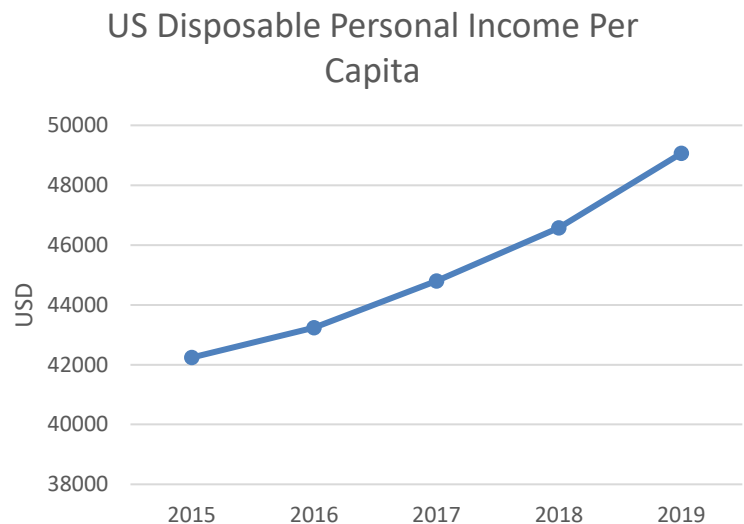
Wholesale Shoe Market

Rising disposable income, paired with rising consumer expenditure levels, has helped invigorate the industry in the last 5 years. Factors influencing this are falling unemployment rates, as well as consumer confidence having spiked upwards, at an average of 7.5% since 2014. Moreover, the demand for shoes is increasing across the United States, where Weyco made 79% of its annual sales in 2018. According to IBISWorld, 25% of the footwear wholesale industry is comprised of Men's and boy's non-athletic footwear, which is the segment Weyco Operates in primarily. IBISWorld further predicts that the industry will grow at an annualized rate of 1.1% over the next five years. Barriers to entry are

standard in the industry. Products are often similar, with major differences coming from the name recognition of the brands themselves. Though some of the competition is offset by major department stores have been looking more towards, wholesalers with track records of timely deliveries and quality merchandise. Furthermore, high start-up costs exist in the footwear wholesale industry, when competing with companies like Weyco taking advantage of economies of scale. In Canada, where Weyco makes 7% of their 2018 net sales, growth rates in the wholesale shoe market have been slow but will continue to see steady, increasing growth, around 1.3% over the next 5 years. Both countries' markets are influenced by similar factors, which accounts for similar growth predictions. If the Canadian dollar appreciates, growth in the industry will be aided even further.

Shoe Store Decline

Weyco's secondary segment, their retail stores, and in an industry that is on a decline due to a change in the way consumers are shopping. Though demand for shoes is up, discretionary spending is up, and consumer confidence is up, we believe the



Source: vcharts.com

in-store shoe industry is on the decline, as consumers opt to do their spending online, rather than in person. This presents challenges to the industry, that must adapt to capture lost sales, in website and e-commerce sales. Shopping online gives consumers the advantage of immediate price comparisons, with quicker access to a larger number of products. IBISWorld predicts a 20.1% annualized increase in e-commerce sales over the next 5 years. The effects of the trend already in place can be seen in the closing of stores and malls across the US. Weyco has closed 7 stores in the last 5 years and seen its website sales increase. In Canada, we predict to see many of the same outcomes.

US - China Trade war

Tensions between the US and China have had a large influence on the footwear industry in the US. As instability between the countries increases, investor confidence goes down. So far, imports on footwear from China have been hit with a 15% tariff that took effect on September 1st, 2019. This drives the prices of outsourcing manufacturing higher, increasing the cost of goods and services. Stabilization, on the other hand, reduces volatility. As talk of "Phase One" deals between the two powers continues, tensions are gradually reducing as. A second round of tariffs was expected to take place on December 15th, which would affect rubber and non-leather footwear. However, negotiations between China and the US halted the negotiations days before the tariff would be enacted.

Management Team

Thomas W. Florsheim, Jr. – Chairman, CEO



Source: bizjournals.com

Thomas W. Florsheim Jr. has worked for a total of 38 years at Weyco Group. He has been CEO and chairman since 2002. He was the VP of Weyco Group from 1988 to 1996, COO and President from 1996 to 1999, and CEO and president from 1999 to 2009. Before holding executive positions at the company, he had experience as manager of the retail division and purchasing department. He is 61 years old and is also on the board of STRATTEC Security Corp. as an independent director. In 2018, his base salary was \$659,000. He received 56,560 in option awards, and 59,552 in stock awards. In non-equity incentive compensation, he received \$444,825, and other compensation of \$45,603. The non-equity incentive compensation represents management's ability to achieve company-wide financial goals established the previous year. In this case, the bonus was based on an increase in net earnings over the previous year and is made based on a set percentage of the executive's salary. In total, he made \$1,255,050 in 2018.

John W. Florsheim – President, COO, Assistant Secretary

John W. Florsheim has worked in the footwear industry for 25 years and has been the President, COO, and Assistant Secretary of Weyco Group since 2002. As well, he works as a director of North Shore Bank. Before joining the company, he was the Marketing Manager at Mars. Inc. In 1994, he joined Weyco and held the position of VP, until 1996, when he became

the Executive VP. From 1999 to 2002, he was the Executive VP, COO, and Assistant Secretary of Weyco Group. In 2018, he received a base salary of \$630,000, option awards of \$56,560, and stock awards of \$59,552. In addition, he was given \$425,250 as part of the non-equity incentive compensation, with other compensation of \$23,077, for a total salary of \$1,194,439 in 2018.

John F. Wittkowske – Senior VP, CFO, Secretary

John F. Wittkowske became an executive officer at Weyco in 1993 as Secretary and Treasurer. In 1995, he served as VP, CFO, and Secretary of the company up until 2002, when he advanced to Senior VP, CFO, and Secretary. His salary in 2018 consisted of \$421,000 base pay, \$56,560 in option awards, and \$59,552 in stock awards. He also earned \$252,600 in non-equity incentive compensation, with \$30,155 in other pay. He made a total of \$819,867 in 2018.

Catalysts

Past Catalysts



August 30th, 2018- Repurchase of Minority Interest in Florsheim Australia

The stock price of Weyco Group has been subject to 2 major catalysts, the first of which was the repurchase of the minority interest in Florsheim Australia, which represents wholesale and retail businesses in Australia, South Africa, and the Asia Pacific. In 2018, the director of Seraneuse Pts Ltd exercised his ability to tender his shares in this portion of the company, which represented a 45% stake. The Shareholders Agreement made in 2009 gave him the ability to do so any time after January 2014. Weyco purchased the shares from him on August 30th, 2018 for \$3.7 million, giving the company a 100% stake in Florsheim Australia. The acquisition of these shares was not favorable for Weyco's future as this branch of the company, up to the purchase, had been underperforming and losing money. The market's reaction to this event was seen immediately, reaching a local low two weeks after the company acquired the shares, when the price fell from \$35.47 to \$30.35.

May 10th, 2019– US-China Trade War Escalation

At the start of May of 2019, the President of the US, Donald Trump, threatened to raise tariffs on China, from 10% to 25%. On the 10th of May, these tariffs were put in place. Weyco was only partially affected by these tariffs, but the outcome was unrest from the market. Ambiguity as to where the situation was headed decreased investor confidence, which resulted in a price drop of Weyco Group. During that May, the stock price of Weyco fell from \$34.18 to \$25.02. As the Trade War continued, the price has been held down.

Future Catalysts

US-China Ongoing Agreements

Recently, talk between the US and China has been more friendly, since last year when the countries began discussions that would focus on negotiating terms of a deal that would end the trade war. During this time, additional tariffs have been postponed, specifically a 15% tariff that was to take place on December 15. Also, the US agreed to reduce the September 1 tariff of 15% to 7.5%. Phase One agreements were reached on the 15^h of January this year. Within the deal were reaffirmations of the previous reductions, but not all current tariffs were reduced. Though these agreements do not dramatically influence Weyco, this marks the concrete beginning of an ongoing de-escalation between the countries. As discussions between the two countries continue, Phase 2 agreements and onward will be reached. We believe this will act as a catalyst that will improve business, strengthen confidence in the future performance of Weyco Group. In result, the share price of Weyco is expected to increase.

New Brand Opportunities

Weyco Group's line up of products is heavy in men's dress shoes. Acquisition of an athletic footwear brand, or adding athletic shoes to their current brands would provide not only diversification but stronger sales to Weyco. Over the last decade, public awareness of the obesity epidemic has increased and is expected to continue. This trend has created a demand for health-related apparel. This is coupled with the new "athleisure" trend which describes clothing that can be worn both for exercise and comfort. IBISWorld predicts 1.5% growth in the sporting goods wholesaling industry and 1.4%

growth in the athletic footwear industry over the next 5 years. In addition, some of Weyco's current suppliers already deal with athletic footwear, which gives the company a good entrance option to this line of products. An expansion into new territory will lead to growth in Weyco's market capitalization.

Reduction of Florsheim Australia

Another potential catalyst we believe may take place in the future will be Weyco phasing out of its Florsheim Australia businesses. This portion of Weyco Group has long been a drain on revenue streams. We think that it will be favorable for Weyco's future when they find a method to downsize its overseas operations, specifically in Australia, and redirect funds towards building up its e-commerce platform, and wholesale businesses. There is potential for growth in the US wholesale business as well as online sales. Dropping this segment will increase the Weyco's bottom line, in return increasing their market price. Capitalizing on this could prove to be an economic means of dropping this detrimental business segment.

Shareholder Base, Liquidity, Market Depth

| Name of Beneficial Owner (Name) | Insider? (YES/NO) | Number of Shares (mm shares) | Percent of Class (%) |
|------------------------------------|----------------------|---------------------------------|-------------------------|
| Thomas W. Florsheim | YES | 0.46 | 4.59 |
| Thomas W. Florsheim, Jr. | YES | 2.07 | 20.48 |
| John W Florsheim | YES | 1.04 | 10.24 |
| John F. Wittkowske | YES | 0.22 | 2.19 |
| Robert Feitler | YES | 0.26 | 2.58 |
| Frederick P. Stratton, Jr | YES | 0.17 | 1.66 |
| Cory L. Nettles | YES | 0.02 | 0.17 |
| Tina Chang | YES | 0.01 | 0.09 |
| Royce & Associates, LP | NO | 0.59 | 5.80 |
| Dimensional Fund Advisors LP | NO | 0.53 | 5.20 |

Source: Company 2019 Proxy Statement

Weyco Group currently has 9.9 million shares outstanding. The Florsheim family owns about 48% of the company. Thomas W. Florsheim, the previous CEO of Weyco Group, and current Member of the Executive committee has a 4.59% stake in the company. Thomas W. Florsheim, Jr, holds a 20.48% stake, John W. Florsheim holds a 10.24% stake, and John Wittkowske holds a 2.19% stake. In total, all directors and executive officers hold a 42.03% stake in the company. In addition, two institutional investors have significant ownership in the company each. Royce & Associates, LP, owns 5.8%, and Dimensional Fund Advisors owns a 5.2%. High institutional ownership in Weyco shows the companies' belief to continue growth. Moreover, inside ownership has increased by 0.3% and 1.0% in 2017 and 2018. This means that given the company's market cap, and its current trading volume, of about 10 thousand shares, there is low liquidity. To the individual investor, who

trades smaller amounts of shares, this does not pose a problem. To the institutional investors and larger stakeholders however, this presents a liquidation risk, as the average trading volume is below the number of shares many of the investors own. Since 2016, the company has repurchased 410,983, 548,539 and 351,626 shares each year, based on the company's belief that the market conditions are favorable.

Valuation

Discounted Cash Flow Analysis

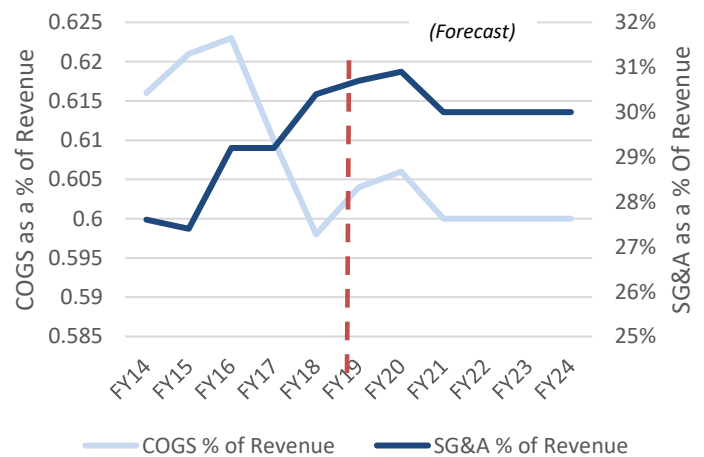
Revenue Forecasts

We expect revenues at Weyco group to experience gradual, consistent growth over the next 4 years. In the wholesale segment, we estimate a 7% increase in 2020, followed by a 9% increase in the next 3 years. The justification for the jump from 7 to 9% is based on the sentiment that as the US and China begin to make deals, the wholesale footwear industry will pick up the pace, and Weyco, which has had consistent growth, pre-trade war, will return to its more predictable revenues. In the retail segment, we offer a conservative estimate for growth, at 5% flat, in comparison to the 8.7% growth seen in 2018. The decrease in brick and mortar store sales will be offset by increased website sales, as the e-commerce industry continues to boom. Overseas revenues, we predict will continue their path of negative growth. The company has set up new management in Florsheim Australia and stated that it plans to exit leases when profitable, with a goal for an improved bottom line in 2020. However, the Australian dollar, compared to the US dollar has dropped 6% in the last year. We believe that the weak Australian dollar and lack of brand recognition Australia will lead to a continued decline in sales.

Costs Forecasts

The cost of Weyco's goods will largely be impacted by tariffs going forward. Initially, Weyco has some hedge against the increased tax on imports, as they have recently expanded their inventory pre-tax from 57 million to 83 million. Increasing the inventory at this time means they will be able to keep their margins steady for a bit of time after the new tariff takes place. As well, negotiations with long-time suppliers and diversification from China will serve as later hedges against the impacts of the tariff. Weyco's ability to deliver on these negotiations will be the deciding factor on whether or not the company experiences a spike in the cost of its imports. We believe that Weyco has the capability to protect themselves against some of the impacts of the tariff. Though their costs

Historic and Forecasted COGS and SG&A



Source: Company filings

will increase initially, a combination of Weyco's plans and the easing of tensions between the US and China will bring the cost of goods back down to normal levels over time.

Capital Expenditure Forecasts

Inflated capital expenditures in 2019 are due to the expansion of the Glendale headquarters. The company projects that expansion will finish in the first quarter of 2020, hence our 15% estimate for Q1 2020. Post-construction, we have no reason to believe that their capital expenses will remain exaggerated, and thus will return to their 2018 levels, at 5%.

Tax Rate

On January 1st, 2018, the US federal tax rate significantly dropped from 35% to 21%. We assume the effective tax rate at Weyco will remain consistent, around 22% over the next 4 years.

Comparable Companies Analysis

The five companies in the comparable company analysis were selected based on four characteristics. First, all five companies operate in the United States, east of the Mississippi River. Consequently, all companies are exposed to similar macroeconomic risks. Next, the companies work mainly in the same subsector footwear. Third, all companies are forecasted to have similar growth profiles in the future. Last, the five companies have similar end markets, consumers in the United States. They range from market caps of 196.6 Million and 3.7 billion, compared to Weyco Group's market cap of 253.6 million.

Caleres Inc.

Caleres is a small-cap US-Based global footwear company. The segments of the company include women's footwear, men's footwear, children's footwear, and clothing and accessories. Business activities of the company include retail, at shoe stores and on their e-commerce sites, sourcing, and manufacturing of their footwear.

Oxford Industries Inc.

Oxford Industries is a US-based global apparel company. They operate in direct sales in retail stores and e-commerce sites, and wholesale distribution channels. Their business operations are segmented by 4 brands: Tommy Bahama, Lilly Pulitzer, Lanier Apparel, and Southern Tide. The company currently sits at a market cap of \$1.23 billion USD.

Wolverine World Wide

Wolverine World Wide is headquartered in Rockford, Michigan, that manufactures footwear, including Hush Puppies and Merrel, as well as its own brand, Wolverine boots and shoes. The company's products include shoes, slippers, occupational footwear, and performance footwear. The largest segment of Wolverine World Wide is its Outdoor and Lifestyle Group, accounting for 45% of its total sales, compared to its Boston and Heritage Group. The company has a \$2.6 billion USD market cap.

Rocky Brands Inc.

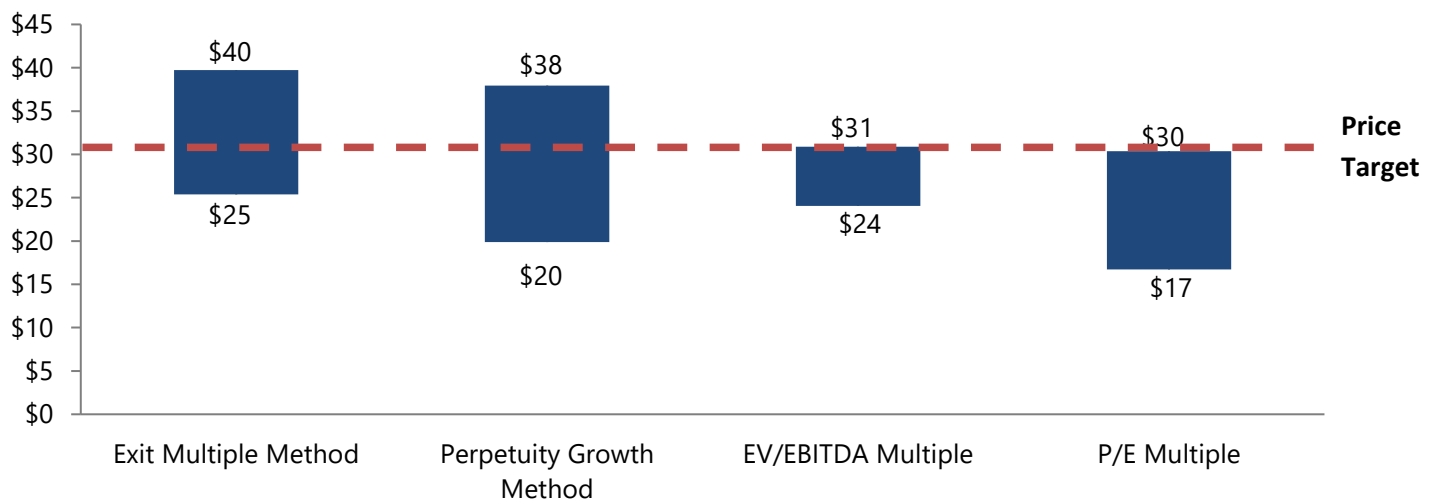
Rocky Brands is based in Nelsonville, Ohio, that designs, develops, and manufactures men’s and women’s shoes. The company sells Rock, Georgia Boot, Creative Recreation, and Durango brands, among others. It has three segments: wholesale, which accounts for 80% of sales, retail and military. Rocky targets outdoor, duty, work, military, lifestyle, and western markets. Today the market cap of Rocky Brands is \$204.3 million USD.

Steve Madden Ltd.

Steve Madden is a company based in Long Island City, New York with a market cap of 3.4 billion. They design and sell shoes and accessories for men, women, and children. Products of the company are sold through retail, department, apparel, and specialty stores. As well the company has an e-commerce platform. The five segments of the business are wholesale footwear, wholesale accessories, retail, first cost, and licensing.

Investment Thesis

We believe that Weyco Group Inc. is undervalued by the market. The company operates mainly in an industry that has had consistent growth, that we expect will continue to grow. Wholesale shoe selling, Weyco’s largest segment will have steady demand in the future. Though the retail landscape is changing, from in-person sales at stores, to online purchasing, demand will not be affected. Moreover, we expect Weyco to adapt will to the trend. This potential for growth is partially offset by the political climate that has resulted in uncertainty and tariffs on imports from China, as well as lackluster performance in its overseas market. We do think, however, that given Weyco’s consistent performance and that it has strong plans to mitigate temporary hardships, it is a buy. We have arrived at a target price of \$31.00, while currently, it’s stock price sits at \$18.85. The following graph shows our high and low estimated forecasts, as well as our confidence in Weyco’s value, even with the most conservative assumptions.



Risks

Retail Landscape Changes

The exposure to the current retail landscape poses two challenges to Weyco Group. First, increased consumer use of e-commerce platforms can directly affect brick and mortar retail locations, as well as wholesale demand for products. The ability of Weyco, as well as Weyco's wholesale customers, to adapt to the preference to do shopping online will be crucial in mitigating this risk. Furthermore, the trend of larger brands consolidating may impact Weyco's current diversified customer base. Currently, no customer represents more than 10% of Weyco's net sales. Mergers between chains present the risk of single accounts accounting for larger portions of Weyco's sales. This, in turn, exposes the company to potentially lower bargaining power.

Reliance on Foreign Production

Weyco Group outsources all of its manufacturing overseas, specifically to China and India. Contracts are not long-term with these companies, and any changes in costs from these manufacturers could directly affect the company's bottom line. They are also subject to any issues these manufacturers may have, including a decrease in manufacturing ability, or delay in shipments, which may negatively impact Weyco's reputation with its customers. Outsourcing also demands planning for the future, where Weyco must order about 5 months in advance of its needs. Inaccurate predictions of customer's demands can also present potential disruptions to the company.

Foreign Currency Fluctuations

Some of Weyco's expenses occur in foreign currency, specifically the Australian and Canadian dollar. Volatile exchange rates are often unpredictable and can influence the company's performance.

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Joseph Cashore
Analyst

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Appendix 1: Model Summary

| (Figures in mm CAD) | FY2014 | FY2015 | FY2016 | FY2017 | FY2018 | FY2019 | FY2020 | FY2021 | FY2022 | FY2023 | FY2024 |
|--------------------------------------|--------------|---------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Income Statement | | | | | | | | | | | |
| Revenue | 320.5 | 320.6 | 296.9 | 283.7 | 298.4 | 304.0 | 318.7 | 340.4 | 364.2 | 390.6 | 419.9 |
| EBITDA | 34.7 | 33.8 | 25.3 | 27.7 | 29.5 | 30.5 | 27.1 | 34.0 | 36.4 | 39.1 | 42.0 |
| Net Income | 19.8 | 18.2 | 17.0 | 16.7 | 20.0 | 20.9 | 18.0 | 23.0 | 25.2 | 27.4 | 29.9 |
| Earnings Per Share | \$ 1.75 | \$ 1.68 | \$ 1.56 | \$ 1.60 | \$ 1.92 | \$ 2.10 | \$ 1.81 | \$ 2.32 | \$ 2.53 | \$ 2.75 | \$ 3.00 |
| Cash Flow Statement | | | | | | | | | | | |
| Capital Expenditures | (2.9) | (2.5) | (6.0) | (1.6) | (1.4) | (7.4) | (2.4) | (1.5) | (1.4) | (1.3) | (1.2) |
| Acquisitions | - | - | - | - | - | - | - | - | - | - | - |
| Divestitures | - | - | - | - | - | - | - | - | - | - | - |
| Balance Sheet | | | | | | | | | | | |
| Current Assets | 150.0 | 179.5 | 145.9 | 145.6 | 154.1 | 160.0 | 168.4 | 205.6 | 222.6 | 241.7 | 262.9 |
| Non-Current Assets | 127.4 | 119.5 | 122.3 | 117.2 | 115.9 | 136.9 | 135.1 | 132.8 | 130.7 | 128.7 | 126.9 |
| Assets | 277.4 | 299.0 | 268.2 | 262.8 | 270.0 | 296.9 | 303.5 | 338.4 | 353.3 | 370.4 | 389.9 |
| Current Liabilities | 37.8 | 61.2 | 29.0 | 25.2 | 36.1 | 41.9 | 40.4 | 62.1 | 62.1 | 62.1 | 62.1 |
| Non-Current Liabilities | 41.7 | 33.1 | 31.0 | 32.0 | 28.3 | 45.0 | 45.0 | 45.0 | 45.0 | 45.0 | 45.0 |
| Liabilities | 79.5 | 94.3 | 60.0 | 57.2 | 64.5 | 86.9 | 85.4 | 107.1 | 107.1 | 107.1 | 107.1 |
| Shareholders' Equity | 190.9 | 198.4 | 201.6 | 198.5 | 205.6 | 210.0 | 218.1 | 231.2 | 246.1 | 263.2 | 282.7 |
| Cash | 12.5 | 17.9 | 13.7 | 23.5 | 23.0 | 9.8 | 28.2 | 43.8 | 49.9 | 60.7 | 68.9 |
| Debt | 5.4 | 26.6 | 4.3 | - | 5.8 | 7.0 | 7.0 | 7.0 | 7.0 | 7.0 | 7.0 |
| Net Debt | (7.1) | 8.7 | (9.4) | (23.5) | (17.1) | (2.8) | (21.1) | (36.7) | (42.9) | (53.7) | (61.9) |
| Minority Interests | 7.0 | 6.3 | 6.7 | 7.1 | - | - | - | - | - | - | - |
| Debt/EBITDA | n/a | 0.3 x | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| Operating Metrics | | | | | | | | | | | |
| Return on Equity (ROE) | 10.0% | 8.9% | 8.2% | 8.1% | 9.7% | 9.9% | 8.2% | 10.0% | 10.2% | 10.4% | 10.6% |
| Return on Assets (ROA) | 7.1% | 6.1% | 6.3% | 6.4% | 7.4% | 7.0% | 5.9% | 6.8% | 7.1% | 7.4% | 7.7% |
| Return on Invested Capital (ROIC) | | | | | | | | | | | |
| Valuation Metrics | | | | | | | | | | | |
| Stock Price (High) | \$ 26.19 | \$ 26.19 | \$ 31.30 | \$ 30.85 | \$ 39.34 | \$ 34.31 | \$ 18.85 | \$ 18.85 | \$ 18.85 | \$ 18.85 | \$ 18.85 |
| Stock Price (Low) | \$ 30.95 | \$ 30.95 | \$ 24.15 | \$ 24.40 | \$ 29.60 | \$ 18.85 | \$ 18.85 | \$ 18.85 | \$ 18.85 | \$ 18.85 | \$ 18.85 |
| Stock Price (Average) | \$ 28.57 | \$ 28.57 | \$ 27.73 | \$ 27.63 | \$ 34.47 | \$ 26.58 | \$ 18.85 | \$ 18.85 | \$ 18.85 | \$ 18.85 | \$ 18.85 |
| Diluted Shares Outstanding (Average) | 10.9 | 10.8 | 10.6 | 10.3 | 10.4 | 9.9 | 9.9 | 9.9 | 9.9 | 9.9 | 9.9 |
| Market Capitalization (Average) | 310.5 | 309.7 | 292.7 | 284.7 | 358.4 | 264.3 | 187.4 | 187.4 | 187.4 | 187.4 | 187.4 |
| Enterprise Value (Average) | 310.4 | 324.8 | 290.0 | 268.4 | 341.3 | 261.6 | 166.3 | 150.7 | 144.6 | 133.7 | 125.6 |
| P/E | 16.3 x | 17.0 x | 17.8 x | 17.3 x | 18.0 x | 12.7 x | 10.4 x | 8.1 x | 7.4 x | 6.8 x | 6.3 x |
| EV/EBITDA | 9.0 x | 9.6 x | 11.5 x | 9.7 x | 11.6 x | 8.6 x | 6.1 x | 4.4 x | 4.0 x | 3.4 x | 3.0 x |
| FCF Yield to Market Capitalization | 3.4% | -3.4% | 13.5% | 10.8% | 3.0% | -0.7% | 14.0% | 12.6% | 7.6% | 10.0% | 8.5% |
| FCF Yield to Enterprise Value | 3.4% | -3.3% | 13.6% | 11.4% | 3.2% | -0.7% | 15.8% | 15.7% | 9.9% | 14.1% | 12.7% |
| Free Cash Flow | | | | | | | | | | | |
| EBIT | 30.7 | 29.8 | 21.2 | 23.4 | 25.5 | 27.0 | 22.8 | 30.2 | 32.9 | 35.8 | 39.0 |
| Tax Expense | (11.2) | (11.0) | (5.1) | (7.2) | (5.8) | (8.1) | (6.8) | (9.1) | (9.9) | (10.7) | (11.7) |
| D&A | 4.0 | 4.0 | 4.1 | 4.3 | 4.0 | 3.5 | 4.3 | 3.8 | 3.5 | 3.2 | 3.0 |
| Capital Expenditures | (2.9) | (2.5) | (6.0) | (1.6) | (1.4) | (7.4) | (2.4) | (1.5) | (1.4) | (1.3) | (1.2) |
| Changes in NWC | (10.1) | (31.1) | 25.3 | 11.8 | (11.4) | (16.7) | 8.4 | 0.2 | (10.9) | (8.2) | (13.1) |
| Unlevered Free Cash Flow | 10.5 | (10.7) | 39.5 | 30.7 | 10.9 | (1.7) | 26.3 | 23.6 | 14.2 | 18.8 | 16.0 |

Appendix 2: Discounted Cash Flow Analysis

| (Figures in mm CAD) | FY2014 | FY2015 | FY2016 | FY2017 | FY2018 | Q1-2019 | Q2-2019 | Q3-2019 | Q4-2019 | FY2019 | FY2020 | FY2021 | FY2022 | FY2023 | FY2024 | |
|--|-----------------|---------------|-------------|-------------|-------------|------------|--------------|--------------|------------|--------------|-------------|-------------|-------------|-------------|-------------|-------------|
| WACC Calculations | | | | | | | | | | | | | | | | |
| Cost of Equity | | | | | | | | | | | | | | | | |
| Risk-free rate | 2.0% | | | | | | | | | | | | | | | |
| Expected market return | 8.0% | | | | | | | | | | | | | | | |
| Market Risk Premium | 6.0% | | | | | | | | | | | | | | | |
| Beta | 1.00 | | | | | | | | | | | | | | | |
| Cost of Equity | 8.0% | | | | | | | | | | | | | | | |
| Cost of Debt | | | | | | | | | | | | | | | | |
| Pre-tax cost of debt | 7.0% | | | | | | | | | | | | | | | |
| Effective tax rate | 30.0% | | | | | | | | | | | | | | | |
| Cost of Debt | 4.9% | | | | | | | | | | | | | | | |
| WACC | | | | | | | | | | | | | | | | |
| Market value of equity | 187.2 | | | | | | | | | | | | | | | |
| Market value of debt | 16.9 | | | | | | | | | | | | | | | |
| Total Capitalization | 204.0 | | | | | | | | | | | | | | | |
| Cost of equity | 8.0% | | | | | | | | | | | | | | | |
| Cost of debt | 4.9% | | | | | | | | | | | | | | | |
| WACC | 7.7% | | | | | | | | | | | | | | | |
| Free Cash Flow | | | | | | | | | | | | | | | | |
| EBIT | 30.7 | 29.8 | 21.2 | 23.4 | 25.5 | 5.1 | 1.9 | 8.5 | 11.5 | 27.0 | 22.8 | 30.2 | 32.9 | 35.8 | 39.0 | |
| Less: Tax expense | (11.2) | (11.0) | (5.1) | (7.2) | (5.8) | (1.2) | (0.4) | (2.0) | (3.5) | (8.1) | (6.8) | (9.1) | (9.9) | (10.7) | (11.7) | |
| Add: Depreciation and amortization | 4.0 | 4.0 | 4.1 | 4.3 | 4.0 | 0.9 | 0.9 | 0.8 | 0.9 | 3.5 | 4.3 | 3.8 | 3.5 | 3.2 | 3.0 | |
| Less: Capital expenditures | (2.9) | (2.5) | (6.0) | (1.6) | (1.4) | (1.0) | (1.4) | (2.2) | (2.8) | (7.4) | (2.4) | (1.5) | (1.4) | (1.3) | (1.2) | |
| Less: Change in net working capital | (10.1) | (31.1) | 25.3 | 11.8 | (11.4) | (0.9) | (7.3) | (12.1) | 3.5 | (16.7) | 8.4 | 0.2 | (10.9) | (8.2) | (13.1) | |
| Unlevered Free Cash Flow | 10.5 | (10.7) | 39.5 | 30.7 | 10.9 | 2.9 | (6.4) | (6.9) | 9.6 | (1.7) | 26.3 | 23.6 | 14.2 | 18.8 | 16.0 | |
| Discount factor | | | | | | | | | | | | | | | | |
| Present Value of Unlevered Free Cash Flow | | | | | | | | | | | 9.5 | 25.9 | 20.0 | 11.2 | 13.7 | 10.8 |
| Discounted Cash Flow Valuations | | | | | | | | | | | | | | | | |
| Perpetuity Growth Method | | | | | | | | | | | | | | | | |
| Perpetuity Growth Rate | 2.0% | | | | | | | | | | | | | | | |
| PV sum of unlevered FCF | 91.0 | | | | | | | | | | | | | | | |
| Terminal value | 200.0 | | | | | | | | | | | | | | | |
| Enterprise Value | 291.0 | | | | | | | | | | | | | | | |
| Add: Cash | 9.1 | | | | | | | | | | | | | | | |
| Less: Debt | 16.9 | | | | | | | | | | | | | | | |
| Less: Other EV adjustments | 23.1 | | | | | | | | | | | | | | | |
| Equity Value | 260.1 | | | | | | | | | | | | | | | |
| Shares outstanding | 9.9 | | | | | | | | | | | | | | | |
| Implied Share Price | \$ 26.20 | | | | | | | | | | | | | | | |
| Exit Multiple Method | | | | | | | | | | | | | | | | |
| Terminal EV/EBITDA Multiple | 9.2 x | | | | | | | | | | | | | | | |
| PV sum of unlevered FCF | 91.0 | | | | | | | | | | | | | | | |
| Terminal value | 261.1 | | | | | | | | | | | | | | | |
| Enterprise Value | 352.2 | | | | | | | | | | | | | | | |
| Add: Cash | 9.1 | | | | | | | | | | | | | | | |
| Less: Debt | 16.9 | | | | | | | | | | | | | | | |
| Less: Other EV adjustments | 23.1 | | | | | | | | | | | | | | | |
| Equity Value | 321.3 | | | | | | | | | | | | | | | |
| Shares outstanding | 9.9 | | | | | | | | | | | | | | | |
| Implied Share Price | \$ 32.36 | | | | | | | | | | | | | | | |
| WACC | | | | | | | | | | | | | | | | |
| Perpetuity Growth Rate | | | | | | | | | | | | | | | | |
| WACC | | | | | | | | | | | | | | | | |
| 8.82% 8.32% 7.82% 7.32% 6.82% | | | | | | | | | | | | | | | | |
| Perpetuity Growth Rate | 1.00% | \$ 19.89 | \$ 21.31 | \$ 22.93 | \$ 24.81 | \$ 27.02 | | | | | | | | | | |
| | 1.50% | \$ 20.85 | \$ 22.44 | \$ 24.27 | \$ 26.43 | \$ 28.98 | | | | | | | | | | |
| | 2.00% | \$ 21.96 | \$ 23.75 | \$ 25.85 | \$ 28.34 | \$ 31.35 | | | | | | | | | | |
| | 2.50% | \$ 23.24 | \$ 25.28 | \$ 27.71 | \$ 30.65 | \$ 34.26 | | | | | | | | | | |
| | 3.00% | \$ 24.73 | \$ 27.11 | \$ 29.97 | \$ 33.49 | \$ 37.94 | | | | | | | | | | |
| WACC | | | | | | | | | | | | | | | | |
| Terminal EV/EBITDA Multiple | | | | | | | | | | | | | | | | |
| WACC | | | | | | | | | | | | | | | | |
| 8.82% 8.32% 7.82% 7.32% 6.82% | | | | | | | | | | | | | | | | |
| Terminal EV/EBITDA Multiple | 7.2 x | \$ 25.39 | \$ 25.96 | \$ 26.55 | \$ 27.15 | \$ 27.77 | | | | | | | | | | |
| | 8.2 x | \$ 28.10 | \$ 28.74 | \$ 29.40 | \$ 30.07 | \$ 30.76 | | | | | | | | | | |
| | 9.2 x | \$ 30.82 | \$ 31.52 | \$ 32.24 | \$ 32.99 | \$ 33.75 | | | | | | | | | | |
| | 10.2 x | \$ 33.53 | \$ 34.30 | \$ 35.09 | \$ 35.91 | \$ 36.74 | | | | | | | | | | |
| | 11.2 x | \$ 36.25 | \$ 37.08 | \$ 37.94 | \$ 38.82 | \$ 39.73 | | | | | | | | | | |

Appendix 3: Comparable Company Analysis

(Figures in mm CAD)

| Company | Ticker | Equity Value | Enterprise Value | EV/EBITDA Multiple | | | P/E Multiple | | |
|--------------------------|-------------------|--------------|------------------|--------------------|-------------------------|-----------------|-------------------|-----------------|---------------|
| | | | | 2017A EV/EBITDA | 2018E EV/EBITDA | 2019E EV/EBITDA | 2017A P/E | 2018E P/E | 2019E P/E |
| Caleres Inc | NYSE: CAL | 955.4 | 2,172.9 | 11.0 x | 10.6 x | 10.0 x | 10.3 x | 10.0 x | 9.2 x |
| Oxford Industries Inc | NYSE: OXM | 1,292.7 | 1,614.8 | 11.3 x | 11.6 x | 11.1 x | 17.6 x | 17.4 x | 16.8 x |
| Wolverine World Wide | NYSE: WWW | 3,064.6 | 4,068.9 | 13.5 x | 13.2 x | 12.5 x | 15.5 x | 14.8 x | 13.3 x |
| Rocky Brands Inc | NASDAQ: RCKY | 196.6 | 192.0 | 8.0 x | 7.3 x | 7.2 x | 14.6 x | 13.0 x | 12.7 x |
| Steve Madden Ltd | NASDAQ: SHOE | 3,703.1 | 3,697.5 | 17.3 x | 16.4 x | 15.6 x | 24.0 x | 22.2 x | 20.8 x |
| Weyco Group, Inc. | (XCH: TCK) | 187.2 | 218.1 | 7.4 x | 7.1 x | 8.1 x | 9.8 x | 9.0 x | 10.4 x |
| Median | | | | | 11.6 x | 11.1 x | | 14.8 x | 13.3 x |
| Mean | | | | | 11.8 x | 11.3 x | | 15.5 x | 14.6 x |
| High | | | | | 13.2 x | 12.5 x | | 17.4 x | 16.8 x |
| Low | | | | | 10.6 x | 10.0 x | | 10.0 x | 9.2 x |
| | | | | | | | | | |
| | | | | | EV/EBITDA Implied Price | | P/E Implied Price | | |
| Median | | | | | \$ 32.53 | \$ 27.09 | \$ 31.05 | \$ 23.98 | |
| Mean | | | | | \$ 33.23 | \$ 27.62 | \$ 32.48 | \$ 26.32 | |
| High | | | | | \$ 37.56 | \$ 30.90 | \$ 36.63 | \$ 30.36 | |
| Low | | | | | \$ 29.40 | \$ 24.05 | \$ 20.97 | \$ 16.72 | |