Case Study

Dillard's, Inc. (DDS)

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Business

- In the Spring of 2008, Dillard's was a consumer retail chain adversely affected, along with many other strong businesses, by the "Great Recession."
- Most investors saw Dillard's as just another retail business troubled by fat & happy management and intense competition.
- The business was trading for a significant discount to book value, net of goodwill though.
- The business also looked attractive based upon the "Ben Graham Net-Net Test." Quite simply, the business was trading for a large discount to what it could be liquidated for, net of all debt and liabilities.
- Additionally, the business held a meaningful portfolio of real estate in favorable locations that was not being properly reflected in the stock price.

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People

- The Dillard family themselves owned a controlling position in the business.
- Having watched the value of their investment deteriorate significantly quarter after quarter, the Dillards had become receptive to changes that would help increase and realize the intrinsic value of the stock price for all investors.
- Management, along with a more shareholder friendly board were making significant changes:
  - Closing underperforming stores
  - Lowering seasonal inventory meaningfully
  - Selling non-critical assets
  - Restructuring debt and credit lines at attractive rates
  - Buying back large amounts of shares at depressed prices (over 30% in 3 years)

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Price

- Initiated the position in the Spring of 2008 at approximately $15
- Dollar-cost-averaged to a basis of approximately $8 by early 2009
- We began selling at approximately $28 in Spring of 2010 as the position had become overweight in our portfolio
- We fully exited the position at an average price of $32 by the end of 2010
- The stock price more than doubled since our exit point as the company's performance has exceeded (near Book Value) our wildest expectations.

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