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Dillard's Credit Score – D1

Dillard's and the entire department store sector have been hit hard by the economic downturn. Declining revenue has been one of the Company's main issues, reflected by nine consecutive quarterly same store sales decreases. Dillard's comp sales problems pre-date the recession and have led to the Company tweaking its merchandise mix several times. The Company is currently looking to appeal to aspirational, upscale and contemporary shoppers while at the same time trying to establish its private label brands. It is difficult to gauge how successful its merchandising initiatives have been in light of the recession but comps have declined 6% year-to-date.

The Company has been under continuing pressure from activist investors, Barrington Capital and The Clinton Group, to repurchase its Class B shares and adopt a more customary one-share, one-vote structure. The family currently controls two-thirds of the voting shares and it seems unlikely that they will agree to change the corporate structure. In its latest move, the investors have requested corporate records containing information on family and business relationships and perks given to directors or executives of the Company. However, at the very least it seems that the investors have pushed the Company to make a number of changes, including closing 21 underperforming stores, cutting capital expenditures significantly, reducing its store opening program and initiating $170.0 million in expense cuts in 2008 and 2009.

In light of the credit crunch it is important to note that the Company has only $26.0 million in principle debt due in 2009 and 2010 (approximately $25.0 million in 2009 and $1.0 million in 2010). In addition, the Company maintains significant availability on its $1.20 billion revolver throughout the year, as borrowings peaked at approximately $550.0 million in 2008. The facility expires in December 2012 and there are no financial covenants unless availability falls below $100.0 million. The Company also still owns 77% of its stores outright and another 10% are partially owned. Dillard's store closings, cuts in capital expenditures and expenses, significant revolver availability and minimal amount of expiring debt should afford it time to work on its top line issues and navigate through the recession.