

DILLARD'S, INC.
Form 10-Q
June 08, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended May 5, 2018

or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____.

Commission File Number: 1-6140

DILLARD'S, INC.
(Exact name of registrant as specified in its charter)

DELAWARE 71-0388071
(State or other jurisdiction (I.R.S. Employer
of incorporation or organization) Identification No.)

1600 CANTRELL ROAD, LITTLE ROCK, ARKANSAS 72201
(Address of principal executive offices)
(Zip Code)

(501) 376-5200
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

☒ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

☒ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐ (Do not check if a smaller reporting company)

Smaller reporting company ☐

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

☐ Yes ☒ No

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date.

CLASS A COMMON STOCK as of June 2, 2018 23,591,225

CLASS B COMMON STOCK as of June 2, 2018 4,010,401

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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DILLARD'S, INC.
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (Unaudited)
 (In Thousands)

| | May 5, 2018 | February 3, 2018 As Adjusted ⁽¹⁾ | April 29, 2017 As Adjusted ⁽¹⁾ |
|---|----------------|--|--|
| Assets | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$164,081 | \$187,028 | \$301,481 |
| Restricted cash | 1,910 | — | — |
| Accounts receivable | 43,069 | 38,437 | 38,560 |
| Merchandise inventories | 1,780,783 | 1,463,561 | 1,713,881 |
| Other current assets | 55,540 | 50,359 | 50,449 |
| Total current assets | 2,045,383 | 1,739,385 | 2,104,371 |
| Property and equipment (net of accumulated depreciation and amortization of \$2,583,199, \$2,531,435 and \$2,520,550, respectively) | 1,662,852 | 1,696,276 | 1,764,519 |
| Other assets | 73,228 | 247,042 | 257,644 |
| Total assets | \$3,781,463 | \$3,682,703 | \$4,126,534 |
| Liabilities and stockholders' equity | | | |
| Current liabilities: | | | |
| Trade accounts payable and accrued expenses | \$1,052,310 | \$845,281 | \$1,069,958 |
| Current portion of long-term debt | 160,941 | 160,927 | 87,201 |
| Current portion of capital lease obligations | 1,133 | 1,107 | 3,305 |
| Federal and state income taxes | 63,905 | 41,920 | 86,861 |
| Total current liabilities | 1,278,289 | 1,049,235 | 1,247,325 |
| Long-term debt | 365,464 | 365,429 | 526,167 |
| Capital lease obligations | 2,587 | 2,880 | 3,721 |
| Other liabilities | 240,478 | 240,173 | 238,276 |
| Deferred income taxes | 12,559 | 116,831 | 220,633 |
| Subordinated debentures | 200,000 | 200,000 | 200,000 |
| Commitments and contingencies | | | |
| Stockholders' equity: | | | |
| Common stock | 1,239 | 1,239 | 1,238 |
| Additional paid-in capital | 946,147 | 946,147 | 943,467 |
| Accumulated other comprehensive loss | (17,886) | (15,444) | (11,137) |
| Retained earnings | 4,376,408 | 4,365,219 | 4,217,972 |
| Less treasury stock, at cost | (3,623,822) | (3,589,006) | (3,461,128) |
| Total stockholders' equity | 1,682,086 | 1,708,155 | 1,690,412 |
| Total liabilities and stockholders' equity | \$3,781,463 | \$3,682,703 | \$4,126,534 |

⁽¹⁾ See Note 1, Basis of Presentation and Note 2, Accounting Standards.
See notes to condensed consolidated financial statements.

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DILLARD'S, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

(Unaudited)

(In Thousands, Except Per Share Data)

| | Three Months Ended | |
|---|--------------------|-------------------------------|
| | May 5, 2018 | April 29, 2017 |
| | | As Adjusted ⁽¹⁾ |
| Net sales | \$1,456,327 | \$1,418,148 |
| Service charges and other income | 34,398 | 34,613 |
| | 1,490,725 | 1,452,761 |
| Cost of sales | 903,046 | 869,972 |
| Selling, general and administrative expenses | 405,870 | 396,645 |
| Depreciation and amortization | 56,003 | 60,011 |
| Rentals | 6,549 | 6,202 |
| Interest and debt expense, net | 14,022 | 15,682 |
| Other expense | 1,915 | 1,807 |
| Loss (gain) on disposal of assets | 82 | (19) |
| Income before income taxes and income on and equity in earnings of joint ventures | 103,238 | 102,461 |
| Income taxes | 22,690 | 36,170 |
| Income on and equity in earnings of joint ventures | — | 11 |
| Net income | 80,548 | 66,302 |
| Retained earnings at beginning of period | 4,365,219 | 4,153,844 |
| Cumulative effect adjustment due to adoption of ASU No. 2016-16 and ASU No. 2018-02 | (66,574) | — |
| Cash dividends declared | (2,785) | (2,174) |
| Retained earnings at end of period | \$4,376,408 | \$4,217,972 |
| Earnings per share: | | |
| Basic and diluted | \$2.89 | \$2.12 |
| Cash dividends declared per common share | \$0.10 | \$0.07 |

⁽¹⁾ See Note 1, Basis of Presentation and Note 2, Accounting Standards.

See notes to condensed consolidated financial statements.

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DILLARD'S, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(In Thousands)

| | Three Months Ended | |
|--|-----------------------|-------------------|
| | May 5, 2018 | April 29, 2017 |
| Net income | \$80,548 | \$66,302 |
| Other comprehensive income: | | |
| Amortization of retirement plan and other retiree benefit adjustments (net of tax of \$32 and \$0, respectively) | 100 | — |
| Comprehensive income | \$80,648 | \$66,302 |

See notes to condensed consolidated financial statements.

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DILLARD'S, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In Thousands)

| | Three Months Ended | |
|---|--------------------|-------------------------------|
| | May 5, 2018 | April 29, 2017 |
| | | As Adjusted ⁽¹⁾ |
| Operating activities: | | |
| Net income | \$80,548 | \$ 66,302 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization of property and other deferred cost | 56,471 | 60,585 |
| Loss (gain) on disposal of assets | 82 | (19) |
| Changes in operating assets and liabilities: | | |
| (Increase) decrease in accounts receivable | (4,632) | 8,748 |
| Increase in merchandise inventories | (317,222) | (307,478) |
| Increase in other current assets | (5,181) | (2,910) |
| (Increase) decrease in other assets | (1,352) | 1,428 |
| Increase in trade accounts payable and accrued expenses and other liabilities | 224,352 | 221,707 |
| Increase in income taxes | 22,325 | 35,080 |
| Net cash provided by operating activities | 55,391 | 83,443 |
| Investing activities: | | |
| Purchases of property and equipment | (39,191) | (34,538) |
| Proceeds from disposal of assets | 1,918 | 69 |
| Proceeds from insurance | — | 1,875 |
| Distribution from joint venture | 765 | 340 |
| Net cash used in investing activities | (36,508) | (32,254) |
| Financing activities: | | |
| Principal payments on long-term debt and capital lease obligations | (267) | (243) |
| Cash dividends paid | (2,837) | (2,312) |
| Purchase of treasury stock | (36,816) | (94,138) |
| Net cash used in financing activities | (39,920) | (96,693) |
| Decrease in cash, cash equivalents and restricted cash | (21,037) | (45,504) |
| Cash, cash equivalents and restricted cash, beginning of period | 187,028 | 346,985 |
| Cash, cash equivalents and restricted cash, end of period | \$ 165,991 | \$ 301,481 |
| Non-cash transactions: | | |
| Accrued capital expenditures | \$8,117 | \$ 3,205 |
| Accrued purchases of treasury stock | — | 2,997 |

⁽¹⁾ See Note 1, Basis of Presentation and Note 2, Accounting Standards.
See notes to condensed consolidated financial statements.

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DILLARD'S, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements of Dillard's, Inc. (the "Company") have been prepared in accordance with the rules of the Securities and Exchange Commission ("SEC"). Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America ("GAAP") for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended May 5, 2018 are not necessarily indicative of the results that may be expected for the fiscal year ending February 2, 2019 due to, among other factors, the seasonal nature of the business.

These unaudited interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended February 3, 2018 filed with the SEC on March 30, 2018.

Effective February 4, 2018, we adopted the requirements of Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606), and all related amendments using the full retrospective method and adopted the requirements of ASU No. 2017-07, Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost retrospectively as discussed in Note 2. All amounts and disclosures set forth in this Form 10-Q have been updated to comply with the new standards.

Restricted Cash - Restricted cash consists of cash proceeds from the sale of property held in escrow for the acquisition of replacement property under like-kind exchange agreements. The escrow accounts are administered by an intermediary. Pursuant to the like-kind exchange agreements, the cash remains restricted for a maximum of 180 days from the date of the property sale pending the acquisition of replacement property.

Effective February 4, 2018, we adopted the amendments of ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, which require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and restricted cash.

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the condensed consolidated balance sheets that sum to the total of the same such amounts shown in the condensed consolidated statements of cash flows.

| (in thousands) | May 5, 2018 | April 29, 2017 |
|--|----------------|-------------------|
| Cash and cash equivalents | \$ 164,081 | \$ 301,481 |
| Restricted cash | 1,910 | — |
| Total cash, cash equivalents and restricted cash | \$ 165,991 | \$ 301,481 |

Reclassifications—Certain items have been reclassified from their prior year classifications to conform to the current year presentation. These reclassifications had no effect on net income or stockholders' equity as previously reported.

Note 2. Accounting Standards

Recently Adopted Accounting Pronouncements

Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which stipulates that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve this core principle, an entity should apply the following steps: (1) identify the contract(s) with a

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customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract and (5) recognize revenue when (or as) the entity satisfies a performance obligation. This ASU was supplemented by amendments which clarify the guidance of the initial ASU. We refer to this ASU and related amendments as the "new standard."

We adopted the requirements of the new standard as of February 4, 2018, utilizing the full retrospective method of transition. Adoption of the new standard resulted in changes to our accounting policies for revenue recognition, as further described in Note 3. We applied the new standard using the following practical expedients: 1) for a completed contract for which all (or substantially all) of the revenue was recognized in accordance with revenue guidance that is in effect before the date of initial application, an entity need not restate contracts that begin and end within the same annual reporting period; 2) for completed contracts that have variable consideration, an entity may use the transaction price at the date the contract was completed, rather than estimating variable consideration amounts in the comparative reporting periods; 3) for all reporting periods presented before the date of initial application, February 4, 2018, an entity is not required to disclose the amount of the transaction price allocated to the remaining performance obligations or when the entity expects to recognize that amount as revenue; and 4) for contracts modified prior to the beginning of fiscal year 2016, an entity can reflect the aggregate effect of all contract modifications that occurred before the beginning of the earliest period presented under the new standard when identifying the satisfied and unsatisfied performance obligations, determining the transaction price and allocating the transaction price to the satisfied and unsatisfied performance obligations for the modified contract at transition. The application of these practical expedients primarily impacted our evaluation of the revenue recognition of our construction segment.

Through our analysis of the new standard, we considered the presentation of sales returns, the deferral of revenue related to our loyalty program, the deferral of revenue related to internet sales, credit card income, gift card breakage, principal versus agent considerations and revenue from our construction segment contracts. The impact of adopting the new standard on our fiscal 2017 and 2016 revenues was not material.

We adjusted our condensed consolidated financial statements from amounts previously reported due to the adoption of the new standard. The Company's net sales are recorded net of anticipated returns of merchandise. Under the new standard, both a return asset and an allowance for sales returns are recorded, which differs from the historical presentation of a net allowance for sales returns. The return asset and the allowance for sales returns are recorded in the condensed consolidated balance sheets in other current assets and trade accounts payable and accrued expenses, respectively. Additionally, we reclassified contract assets related to our construction segment from accounts receivable to other current assets in our condensed consolidated balance sheets.

Select condensed consolidated balance sheet line items, which reflect the adoption of the new standard, are as follows (in thousands):

| | April 29, 2017 | | | |
|---|------------------------------|-------------|----------------|--|
| | As previously reported | Adjustments | As adjusted | |
| Assets | | | | |
| Accounts receivable | \$39,424 | \$ (864) | \$ 38,560 | |
| Other current assets | 37,956 | 12,493 | 50,449 | |
| Liabilities and stockholders' equity | | | | |
| Trade accounts payable and accrued expenses | 1,058,329 | 1,629 | 1,069,958 | |

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| | February 3, 2018 | | |
|---|------------------------------|-------------|----------------|
| | As previously reported | Adjustments | As adjusted |
| Assets | | | |
| Accounts receivable | \$39,650 | \$ (1,213) | \$ 38,437 |
| Other current assets | 39,612 | 10,747 | 50,359 |
| Liabilities and stockholders' equity | | | |
| Trade accounts payable and accrued expenses | 835,747 | 9,534 | 845,281 |

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Select condensed consolidated statement of income line items, including net sales, service charges and other income and cost of sales, reflect the adoption of the new standard. The impact of the adoption on the condensed consolidated statements of income and retained earnings for the three months ended April 29, 2017 was not material.

Select condensed consolidated statement of cash flow line items within operating activities reflect the adoption of the new standard. The impact on the condensed consolidated statements of cash flows for the three months ended April 29, 2017 was not material.

The Company operates in two reportable segments: the operation of retail department stores (“retail operations”) and a general contracting construction company (“construction”). The Company determined that the presentation of the percentage of net sales by segment and major product line was consistent with the disaggregation of revenue required by the new standard. See Note 4, Business Segments. For the retail operations segment, total assets increased by \$11.6 million as of April 29, 2017.

Construction contracts give rise to accounts receivable, contract assets and contract liabilities. We record accounts receivable based on amounts billed to customers. We also record costs and estimated earnings in excess of billings on uncompleted contracts (contract assets) and billings in excess of costs and estimated earnings on uncompleted contracts (contract liabilities) in other current assets and trade accounts payable and accrued expenses in the condensed consolidated balance sheets, respectively. The amounts included in the condensed consolidated balance sheets are as follows:

| (in thousands of dollars) | Construction | | | |
|---|------------------|-------------|------------------|----------------|
| | February 3, 2018 | May 5, 2018 | January 28, 2017 | April 29, 2017 |
| Accounts receivable | \$20,136 | \$26,782 | \$30,190 | \$26,528 |
| Costs and estimated earnings in excess of billings on uncompleted contracts | 1,213 | 861 | 922 | 864 |
| Billings in excess of costs and estimated earnings on uncompleted contracts | 5,503 | 4,665 | 8,826 | 8,007 |

During the three months ended May 5, 2018 and April 29, 2017, the Company recorded \$4.0 million and \$7.8 million, respectively, in revenue that was previously included in billings in excess of costs and estimated earnings on uncompleted contracts of \$5.5 million and \$8.8 million at February 3, 2018 and January 28, 2017, respectively.

Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost

In March 2017, the FASB issued ASU No. 2017-07, Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, to improve the presentation of net periodic pension cost in the income statement. We adopted the requirements of ASU No. 2017-07 as of February 4, 2018 and applied the amendments retrospectively, as required. As a result of the adoption of ASU No. 2017-07, the service cost component of net periodic benefit costs is included in selling, general and administrative expenses, and the interest costs and net actuarial loss components are included in other expense in the condensed consolidated statements of income and retained earnings. For the three months ended April 29, 2017, \$1.8 million has been reclassified from selling, general and administrative expenses to other expense. See Note 7, Benefit Plans.

Intra-Entity Transfers of Assets Other Than Inventory

In October 2016, the FASB issued ASU No. 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory, as part of its initiative to reduce complexity in accounting standards. Under these amendments, an entity is required to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The amendments within ASU No. 2016-16 were effective for the Company beginning in the first quarter of fiscal 2018.

At February 3, 2018, other assets included a deferred charge related to the income tax effects of the intra-entity transfer pursuant to the previously disclosed REIT Transaction. During the fourth quarter of 2017, the Company terminated REIT status of its subsidiary, which did not have a material impact to the Company’s fiscal 2017

consolidated financial statements. Prior to the adoption of ASU No. 2016-16, income tax consequences of the intra-entity transfer remained recorded as a deferred charge, which was not subject to remeasurement for the lower tax rates enacted through tax reform.

The Company adopted the standard at the beginning of the first quarter of fiscal 2018, at which time the deferred charge was removed through a cumulative-effect adjustment directly to retained earnings, resulting in a decrease to other assets of approximately \$173.7 million. A deferred tax asset of approximately \$104.6 million was recorded through a cumulative-effect

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adjustment directly to retained earnings to reflect future income tax benefits of the intra-entity transfer at newly-enacted tax rates, resulting in a reduction to net deferred tax liabilities. These adjustments resulted in a net decrease to retained earnings of approximately \$69.1 million.

Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income

In February 2018, the FASB issued ASU No. 2018-02, Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, to improve the usefulness of information reported to financial statement users by allowing a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. The Company adopted ASU No. 2018-02 during the first quarter of fiscal 2018 and applied the amendments in the period of adoption. The adoption of ASU No. 2018-02 resulted in an increase of approximately \$2.5 million to both accumulated other comprehensive loss and retained earnings in the Company's condensed consolidated financial statements.

Recently Issued Accounting Pronouncements

Leases: Amendments to the FASB Accounting Standards Codification

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842): Amendments to the FASB Accounting Standards Codification, to increase transparency and comparability among organizations by recognizing lease assets and liabilities on the balance sheet and disclosing key information about leasing arrangements. Under these amendments, lessees are required to recognize lease assets and lease liabilities for leases classified as operating leases under ASC 840. ASU No. 2016-02 is effective for financial statements issued for fiscal years beginning after December 15, 2018, and early adoption is permitted. The Company's operating leases include building and equipment leases. The Company is evaluating our current operating leases and expects that the majority of these current operating leases will be impacted by this ASU resulting in increases in assets and liabilities in the Company's consolidated financial statements. The Company intends to adopt the standard during the first quarter of fiscal 2019.

Note 3. Significant Accounting Policies Updates

Revenue Recognition—The Company's retail operations segment recognizes merchandise revenue at the "point of sale." Allowance for sales returns and a return asset are recorded as components of net sales in the period in which the related sales are recorded. Sales taxes collected from customers are excluded from revenue and are recorded in trade accounts payable and accrued expenses until remitted to the taxing authorities.

Wells Fargo Bank, N.A. ("Wells Fargo") owns and manages Dillard's private label credit cards under a long-term marketing and servicing alliance under a 10-year agreement ("Wells Fargo Alliance"). The Company's share of income earned under the Wells Fargo Alliance is included as a component of service charges and other income. The Company recorded income of approximately \$22 million from the alliance during both the three months ended May 5, 2018 and April 29, 2017. The Company participates in the marketing of the private label credit cards, which includes the cost of customer reward programs. Through the reward programs, customers earn points that are redeemable for discounts on future purchases. The Company defers a portion of its net sales upon the sale of merchandise to its customer reward program members that is recognized in net sales when the reward is redeemed at a future date. The Company accepts payments on the private label cards in its stores as a convenience to customers who prefer to pay in person rather than by mailing their payments to Wells Fargo.

Revenue from construction segment contracts is generally recognized by applying percentages of completion for each period to the total estimated profits for the respective contracts. The length of each contract varies but is typically nine to eighteen months. The percentages of completion are determined by relating the actual costs of work performed to date to the current estimated total costs of the respective contracts. When the estimate on a contract indicates a loss, the entire loss is recorded in the current period.

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Note 4. Business Segments

The Company operates in two reportable segments: the operation of retail department stores (“retail operations”) and a general contracting construction company (“construction”).

For the Company’s retail operations, the Company determined its operating segments on a store by store basis. Each store’s operating performance has been aggregated into one reportable segment. The Company’s operating segments are aggregated for financial reporting purposes because they are similar in each of the following areas: economic characteristics, class of consumer, nature of products and distribution methods. Revenues from external customers are derived from merchandise sales, and the Company does not rely on any major customers as a source of revenue.

Across all stores, the Company operates one store format under the Dillard’s name where each store offers the same general mix of merchandise with similar categories and similar customers. The Company believes that disaggregating its operating segments would not provide meaningful additional information.

The following table summarizes the percentage of net sales by segment and major product line:

| | Three Months | | Ended | |
|----------------------------------|--------------|---|-------|---|
| | May | | April | |
| | 5, | | 29, | |
| | 2018 | | 2017 | |
| Retail operations segment | | | | |
| Cosmetics | 14 | % | 14 | % |
| Ladies’ apparel | 24 | | 25 | |
| Ladies’ accessories and lingerie | 14 | | 14 | |
| Juniors’ and children’s apparel | 10 | | 10 | |
| Men’s apparel and accessories | 16 | | 16 | |
| Shoes | 16 | | 16 | |
| Home and furniture | 3 | | 3 | |
| | 97 | | 98 | |
| Construction segment | 3 | | 2 | |
| Total | 100 | % | 100 | % |

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The following tables summarize certain segment information, including the reconciliation of those items to the Company's consolidated operations:

| (in thousands of dollars) | Retail Operations | Construction | Consolidated |
|--|----------------------|--------------|--------------|
| Three Months Ended May 5, 2018: | | | |
| Net sales from external customers | \$ 1,409,409 | \$ 46,918 | \$ 1,456,327 |
| Gross profit | 551,625 | 1,656 | 553,281 |
| Depreciation and amortization | 55,844 | 159 | 56,003 |
| Interest and debt expense (income), net | 14,030 | (8 |) 14,022 |
| Income (loss) before income taxes and income on and equity in earnings of joint ventures | 103,404 | (166 |) 103,238 |
| Total assets | 3,742,719 | 38,744 | 3,781,463 |
| Three Months Ended April 29, 2017: | | | |
| Net sales from external customers | \$ 1,385,557 | \$ 32,591 | \$ 1,418,148 |
| Gross profit | 546,650 | 1,526 | 548,176 |
| Depreciation and amortization | 59,843 | 168 | 60,011 |
| Interest and debt expense (income), net | 15,703 | (21 |) 15,682 |
| Income before income taxes and income on and equity in earnings of joint ventures | 102,361 | 100 | 102,461 |
| Income on and equity in earnings of joint ventures | 11 | — | 11 |
| Total assets | 4,073,502 | 53,032 | 4,126,534 |

Intersegment construction revenues of \$5.4 million and \$9.0 million for the three months ended May 5, 2018 and April 29, 2017, respectively, were eliminated during consolidation and have been excluded from net sales for the respective periods.

Note 5. Earnings Per Share Data

The following table sets forth the computation of basic and diluted earnings per share for the periods indicated (in thousands, except per share data).

| | Three Months Ended | |
|---|--------------------|-------------------|
| | May 5, 2018 | April 29, 2017 |
| Net income | \$ 80,548 | \$ 66,302 |
| Weighted average shares of common stock outstanding | 27,849 | 31,257 |
| Basic and diluted earnings per share | \$ 2.89 | \$ 2.12 |

The Company maintains a capital structure in which common stock is the only equity security issued and outstanding, and there were no shares of preferred stock, stock options, other dilutive securities or potentially dilutive securities issued or outstanding during the three months ended May 5, 2018 and April 29, 2017.

Note 6. Commitments and Contingencies

Various legal proceedings, in the form of lawsuits and claims, which occur in the normal course of business, are pending against the Company and its subsidiaries. In the opinion of management, disposition of these matters, individually or in the aggregate, is not expected to have a material adverse effect on the Company's financial position,

cash flows or results of operations.

At May 5, 2018, letters of credit totaling \$24.8 million were issued under the Company's revolving credit facility.

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Note 7. Benefit Plans

The Company has an unfunded, nonqualified defined benefit plan (“Pension Plan”) for its officers. The Pension Plan is noncontributory and provides benefits based on years of service and compensation during employment. The Company determines pension expense using an actuarial cost method to estimate the total benefits ultimately payable to officers and allocates this cost to service periods. The actuarial assumptions used to calculate pension costs are reviewed annually. The Company contributed \$1.3 million to the Pension Plan during the three months ended May 5, 2018 and expects to make additional contributions to the Pension Plan of approximately \$3.8 million during the remainder of fiscal 2018.

The components of net periodic benefit costs are as follows (in thousands):

| | Three Months Ended May 5, April 29, 2018 2017 | |
|---|--|----------|
| Components of net periodic benefit costs: | | |
| Service cost | \$922 | \$ 873 |
| Interest cost | 1,783 | 1,807 |
| Net actuarial loss | 132 | — |
| Net periodic benefit costs | \$2,837 | \$ 2,680 |

The service cost component of net periodic benefit costs is included in selling, general and administrative expenses, and the interest cost and net actuarial loss components are included in other expense.

Note 8. Revolving Credit Agreement

At May 5, 2018, the Company maintained an unsecured revolving credit facility that provides a borrowing capacity of \$800 million with a \$200 million expansion option and matures on August 9, 2022 (“credit agreement”). The credit agreement is available to the Company for general corporate purposes including, among other uses, working capital financing, the issuance of letters of credit, capital expenditures and, subject to certain restrictions, the repayment of existing indebtedness and share repurchases. The Company pays a variable rate of interest on borrowings under the credit agreement and a commitment fee to the participating banks based on the Company's debt rating. The rate of interest on borrowings is LIBOR plus 1.375%, and the commitment fee for unused borrowings is 0.20% per annum.

At May 5, 2018, no borrowings were outstanding, and letters of credit totaling \$24.8 million were issued under the credit agreement leaving unutilized availability under the facility of \$775.2 million.

To be in compliance with the financial covenants of the credit agreement, the Company's total leverage ratio cannot exceed 3.5 to 1.0, and the coverage ratio cannot be less than 2.5 to 1.0, as defined in the credit agreement. At May 5, 2018, the Company was in compliance with all financial covenants related to the credit agreement.

Note 9. Stock Repurchase Program

The Company's Board of Directors has authorized the Company to repurchase the Company's Class A Common Stock pursuant to open-ended stock repurchase plans. These authorizations permit the Company to repurchase its Class A Common Stock in the open market, pursuant to preset trading plans meeting the requirements of Rule 10b5-1 under the Securities Exchange Act of 1934 or through privately negotiated transactions. The authorizations have no expiration date.

The following is a summary of share repurchase activity for the periods indicated (in millions, except per share data):

| | Three Months Ended | |
|------------------------------|-----------------------|----------------------|
| | May 5, 2018 | April 29, 2017 |
| Cost of shares repurchased | \$34.8 | \$91.1 |
| Number of shares repurchased | 0.5 | 1.7 |
| Average price per share | \$72.77 | \$53.79 |

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All repurchases of the Company's Class A Common Stock above were made at the market price at the trade date. Accordingly, all amounts paid to reacquire these shares were allocated to treasury stock. During the three months ended May 5, 2018, the Company completed the authorized purchases under the February 2016 \$500 million stock repurchase plan. In March 2018, the Company's Board of Directors authorized a new \$500 million stock repurchase plan (the "March 2018 Plan"). As of May 5, 2018, \$500 million of authorization remained under the March 2018 Plan.

Note 10. Income Taxes

The Tax Cuts and Jobs Act (the "Act") was signed into law on December 22, 2017. The Act's primary impact to the Company's consolidated financial statements was its reduction of the federal corporate income tax rate from 35% to 21%, effective January 1, 2018. The Company determined a reasonable estimate of the income tax effects of the Act and recorded provisional amounts within its consolidated financial statements during fiscal 2017. During the three months ended May 5, 2018, no adjustments were made to the provisional amounts recorded. The Company continues to analyze additional information and guidance related to certain aspects of the Act, including, but not limited to, increased expensing of business assets, limitations on the deductibility of executive compensation, conformity or changes by state taxing authorities in response to the Act, and any impact on the final determination of the net deferred tax liabilities. The final income tax effects of the Act may differ from the provisional amounts recorded due to, among other factors, anticipated guidance to be released in the coming year, including IRS notices, and any resulting changes in the Company's interpretation and application of the Act. The Company will finalize its accounting for the income tax effects of the Act within the one-year measurement period provided under SEC Staff Accounting Bulletin No. 118.

During the three months ended May 5, 2018 and April 29, 2017, income tax expense differed from what would be computed using the applicable statutory federal tax rate primarily due to the effect of state and local income taxes partially offset by tax benefits recognized for federal tax credits.

See Note 2, Accounting Standards, for the Company's adoption of ASU No. 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory, and the impact of the adoption on deferred taxes.

Note 11. Reclassifications from Accumulated Other Comprehensive Loss ("AOCL")

Reclassifications from AOCL are summarized as follows (in thousands):

| Details about AOCL Components | Amount Reclassified from AOCL Three Months Ended | | Affected Line Item in the Statement Where Net Income Is Presented |
|------------------------------------|--|----------------------|--|
| | May 5, 2018 | April 29, 2017 | |
| Defined benefit pension plan items | | | |
| Amortization of actuarial losses | \$ 132 | \$ — | —Total before tax (1) |
| | 32 | — | Income tax expense |
| | \$ 100 | \$ — | —Total net of tax |

For fiscal year 2017, there was no amortization of the net loss in AOCL as the net loss did not exceed 10% of the projected benefit obligation.

(1) This item is included in the computation of net periodic pension cost. See Note 7, Benefit Plans, for additional information.

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Note 12. Changes in Accumulated Other Comprehensive Loss

Changes in AOCL by component (net of tax) are summarized as follows (in thousands):

| | Defined Benefit Pension Plan Items Three Months Ended | |
|---|--|-------------------|
| | May 5, 2018 | April 29, 2017 |
| Beginning balance | \$ 15,444 | \$ 11,137 |
| Amounts reclassified from AOCL | (100) | — |
| Reclassification due to the adoption of ASU No. 2018-02 | 2,542 | — |
| Ending balance | \$ 17,886 | \$ 11,137 |

Note 13. Fair Value Disclosures

The estimated fair values of financial instruments presented herein have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required in interpreting market data to develop estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of amounts the Company could realize in a current market exchange.

The fair value of the Company's long-term debt and subordinated debentures is based on market prices and are categorized as Level 1 in the fair value hierarchy.

The fair value of the Company's cash and cash equivalents and accounts receivable approximates their carrying values at May 5, 2018 due to the short-term maturities of these instruments. The fair value of the Company's long-term debt (including current portion) at May 5, 2018 was approximately \$563 million. The carrying value of the Company's long-term debt (including current portion) at May 5, 2018 was \$526.4 million. The fair value of the Company's subordinated debentures at May 5, 2018 was approximately \$205 million. The carrying value of the Company's subordinated debentures at May 5, 2018 was \$200.0 million.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the condensed consolidated financial statements and the footnotes thereto included elsewhere in this report, as well as the financial and other information included in our Annual Report on Form 10-K for the year ended February 3, 2018.

EXECUTIVE OVERVIEW

The Company's first quarter performance of fiscal 2018 continued to reflect our positive sales momentum. During the three months ended May 5, 2018, comparable store sales increased 2% over last year's first quarter. Gross margin from retail operations decreased 31 basis points of net sales. Selling, general and administrative expenses from retail operations increased 13 basis points of net sales. Consolidated net income increased \$14.2 million to \$80.5 million (\$2.89 per share) from \$66.3 million (\$2.12 per share) for the prior year first quarter.

During the three months ended May 5, 2018, the Company purchased \$34.8 million of Class A Common Stock, completing the authorized purchases under the February 2016 \$500 million stock repurchase plan. In March 2018, the Company's Board of Directors authorized a new \$500 million stock repurchase plan, of which all of the authorization remained as of May 5, 2018.

As of May 5, 2018, the Company had working capital of \$767.1 million, cash and cash equivalents of \$164.1 million and \$726.4 million of total debt outstanding, excluding capital lease obligations. Cash flows from operating activities were \$55.4 million for the three months ended May 5, 2018.

The Company currently operates 267 Dillard's locations, 25 clearance centers and one internet store.

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Key Performance Indicators

We use a number of key indicators of financial condition and operating performance to evaluate our business, including the following:

| | Three Months Ended | |
|---|--------------------|-------------------|
| | May 5, 2018 | April 29, 2017 |
| Net sales (in millions) | \$1,456.3 | \$1,418.1 |
| Retail stores sales trend | 2 | % (4)% |
| Comparable retail stores sales trend | 2 | % (4)% |
| Gross profit (in millions) | \$553.3 | \$548.2 |
| Gross profit as a percentage of net sales | 38.0 | % 38.7 % |
| Retail gross profit as a percentage of net sales | 39.1 | % 39.5 % |
| Selling, general and administrative expenses as a percentage of net sales | 27.9 | % 28.0 % |
| Cash flow from operations (in millions) | \$55.4 | \$83.4 |
| Total retail store count at end of period | 292 | 293 |
| Retail sales per square foot | \$29 | \$29 |
| Retail store inventory trend | 4 | % 4 % |
| Annualized retail merchandise inventory turnover | 2.1 | 2.1 |

General

Net sales. Net sales includes merchandise sales of comparable and non-comparable stores and revenue recognized on contracts of CDI Contractors, LLC (“CDI”), the Company’s general contracting construction company. Comparable store sales includes sales for those stores which were in operation for a full period in both the current quarter and the corresponding quarter for the prior year. Comparable store sales excludes changes in the allowance for sales returns. Non-comparable store sales includes: sales in the current fiscal year from stores opened during the previous fiscal year before they are considered comparable stores; sales from new stores opened during the current fiscal year; sales in the previous fiscal year for stores closed during the current or previous fiscal year that are no longer considered comparable stores; sales in clearance centers; and changes in the allowance for sales returns.

Service charges and other income. Service charges and other income includes income generated through the long-term private label card alliance with Wells Fargo Bank, N.A. (“Wells Fargo Alliance”). Other income includes rental income, shipping and handling fees, gift card breakage and lease income on leased departments.

Cost of sales. Cost of sales includes the cost of merchandise sold (net of purchase discounts, non-specific margin maintenance allowances and merchandise margin maintenance allowances), bankcard fees, freight to the distribution centers, employee and promotional discounts, shipping to customers and direct payroll for salon personnel. Cost of sales also includes CDI contract costs, which comprise all direct material and labor costs, subcontract costs and those indirect costs related to contract performance, such as indirect labor, employee benefits and insurance program costs.

Selling, general and administrative expenses. Selling, general and administrative expenses include buying, occupancy, selling, distribution, warehousing, store and corporate expenses (including payroll and employee benefits), insurance, employment taxes, advertising, management information systems, legal and other corporate level expenses. Buying expenses consist of payroll, employee benefits and travel for design, buying and merchandising personnel.

Depreciation and amortization. Depreciation and amortization expenses include depreciation and amortization on property and equipment.

Rentals. Rentals includes expenses for store leases, including contingent rent, and data processing and other equipment rentals.

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Interest and debt expense, net. Interest and debt expense includes interest, net of interest income and capitalized interest, relating to the Company's unsecured notes, subordinated debentures and borrowings under the Company's credit facility. Interest and debt expense also includes gains and losses on note repurchases, if any, amortization of financing costs and interest on capital lease obligations.

Other expense. Other expense includes the interest cost and net actuarial loss components of net periodic benefit costs related to the the Company's unfunded, nonqualified defined benefit plan and charges related to the write-off of deferred financing fees in connection with the amendment of the Company's senior unsecured revolving credit facility, if any.

Gain on disposal of assets. Gain on disposal of assets includes the net gain or loss on the sale or disposal of property and equipment, as well as gains from insurance proceeds in excess of the cost basis of insured assets, if any.

Income on and equity in earnings of joint ventures. Income on and equity in earnings of joint ventures includes the Company's portion of the income or loss as well as any distributions of excess cash (excluding returns of investments) of the Company's unconsolidated joint ventures.

Seasonality

Our business, like many other retailers, is subject to seasonal influences, with a significant portion of sales and income typically realized during the last quarter of our fiscal year due to the holiday season. Because of the seasonality of our business, results from any quarter are not necessarily indicative of the results that may be achieved for a full fiscal year.

RESULTS OF OPERATIONS

The following table sets forth the results of operations as a percentage of net sales for the periods indicated (percentages may not foot due to rounding):

| | Three Months Ended | | | |
|---|--------------------|---|-------------------|---|
| | May 5, 2018 | | April 29, 2017 | |
| Net sales | 100.0 | % | 100.0 | % |
| Service charges and other income | 2.4 | | 2.4 | |
| | 102.4 | | 102.4 | |
| Cost of sales | 62.0 | | 61.3 | |
| Selling, general and administrative expenses | 27.9 | | 28.0 | |
| Depreciation and amortization | 3.8 | | 4.2 | |
| Rentals | 0.4 | | 0.4 | |
| Interest and debt expense, net | 1.0 | | 1.1 | |
| Other expense | 0.1 | | 0.1 | |
| Loss (gain) on disposal of assets | — | | — | |
| Income before income taxes and income on and equity in earnings of joint ventures | 7.1 | | 7.2 | |
| Income taxes | 1.6 | | 2.6 | |
| Income on and equity in earnings of joint ventures | — | | — | |
| Net income | 5.5 | % | 4.7 | % |

Critical Accounting Policies and Estimates Updates

Revenue recognition. The Company's retail operations segment recognizes revenue upon the sale of merchandise to its customers, net of anticipated returns of merchandise. The asset and liability for sales returns are based on historical evidence of our return rate. We recorded a return asset of \$11.7 million, \$9.5 million and \$11.6 million and an allowance for sales returns, of \$20.0 million, \$14.3 million and \$20.0 million as of May 5, 2018, February 3, 2018 and April 29, 2017, respectively. The return asset and the allowance for sales returns are recorded in the condensed consolidated balance sheets in other current assets

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and trade accounts payable and accrued expenses, respectively. Adjustments to earnings resulting from revisions to estimates on our sales return provision were not material for the three months ended May 5, 2018 and April 29, 2017. The Company's share of income earned under the Wells Fargo Alliance involving the Dillard's branded private label credit cards is included as a component of service charges and other income. The Company participates in the marketing of the private label credit cards, which includes the cost of customer reward programs. Through the reward programs, customers earn points that are redeemable for discounts on future purchases. The Company defers a portion of its net sales upon the sale of merchandise to its customer reward program members that is recognized in net sales when the reward is redeemed at a future date. The Company accepts payments on the private label credit cards in its stores as a convenience to customers who prefer to pay in person rather than by paying online or mailing their payments to Wells Fargo.

Revenues from CDI construction contracts are generally recognized by applying percentages of completion for each period to the total estimated revenue for the respective contracts. Some of our contracts with customers contain multiple performance obligations. For these contracts, we account for individual performance obligations separately if they are distinct. The transaction price is allocated to the separate performance obligations based on standalone selling prices. Construction contracts are often modified to account for changes in contract specifications and requirements. We consider contract modifications to exist when the modification either creates new or changes the existing enforceable rights and obligations. Most of our contract modifications are for goods and services that are not distinct from the existing contracts; therefore, the modifications are accounted for as if they were part of the existing contract. The effect of a contract modification on the transaction price and our measure of progress for the performance obligation for which it relates, is recognized as an adjustment to revenue on a cumulative catch-up basis. The length of each contract varies but is typically nine to eighteen months. The percentages of completion are determined by relating the actual costs of work performed to date to the current estimated total costs of the respective contracts. Any anticipated losses on completed contracts are recognized as soon as they are determined.

Construction contracts give rise to accounts receivable, contract assets and contract liabilities. We record accounts receivable based on amounts billed to customers. We also record costs and estimated earnings in excess of billings on uncompleted contracts (contract assets) and billings in excess of costs and estimated earnings on uncompleted contracts (contract liabilities) in other current assets and trade accounts payable and accrued expenses, respectively, on the condensed consolidated balance sheets.

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Net Sales

| | Three Months Ended | | |
|---------------------------|--------------------|-------------------|-----------|
| (in thousands of dollars) | May 5, 2018 | April 29, 2017 | \$ Change |
| Net sales: | | | |
| Retail operations segment | \$1,409,409 | \$1,385,557 | \$ 23,852 |
| Construction segment | 46,918 | 32,591 | 14,327 |
| Total net sales | \$1,456,327 | \$1,418,148 | \$ 38,179 |

The percent change in the Company's sales by segment and product category for the three months ended May 5, 2018 compared to the three months ended April 29, 2017 as well as the sales percentage by segment and product category to total net sales for the three months ended May 5, 2018 are as follows:

| | % Change | | % of | |
|----------------------------------|----------|---|-----------|---|
| | 2018 - | | Net Sales | |
| | 2017 | | | |
| Retail operations segment | | | | |
| Cosmetics | 0.6 | % | 14 | % |
| Ladies' apparel | 1.2 | | 24 | |
| Ladies' accessories and lingerie | 5.5 | | 14 | |
| Juniors' and children's apparel | 5.3 | | 10 | |
| Men's apparel and accessories | 2.7 | | 16 | |
| Shoes | (2.8) | | 16 | |
| Home and furniture | 6.1 | | 3 | |
| | | | 97 | |
| Construction segment | 44.0 | | 3 | |
| Total | | | 100 | % |

Net sales from the retail operations segment increased \$23.9 million during the three months ended May 5, 2018 compared to the three months ended April 29, 2017, increasing 2% in both total and comparable stores. Sales of ladies' accessories and lingerie, juniors' and children's apparel and home and furniture increased significantly over the first quarter last year. Sales of men's apparel and accessories increased moderately. Sales of ladies' apparel and cosmetics increased slightly, while sales of shoes decreased moderately.

The number of sales transactions decreased 2% for the three months ended May 5, 2018 compared to the three months ended April 29, 2017 while the average dollars per sales transaction increased 3%. We recorded a return asset of \$11.7 million and \$11.6 million and an allowance for sales returns of \$20.0 million as of May 5, 2018 and April 29, 2017, respectively.

During the three months ended May 5, 2018, net sales from the construction segment increased \$14.3 million or 44% compared to the three months ended April 29, 2017 due to an increase in construction projects. The backlog of awarded construction contracts at May 5, 2018 totaled \$306.9 million, decreasing approximately 4% from February 3, 2018 and increasing approximately 49% from April 29, 2017. We expect the backlog to be earned over the next nine to twenty-four months.

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Service Charges and Other Income

| (in thousands of dollars) | Three Months Ended | | |
|--|--------------------|-------------------|-----------|
| | May 5, 2018 | April 29, 2017 | \$ Change |
| Service charges and other income: | | | |
| Retail operations segment | | | |
| Income from Wells Fargo Alliance | \$ 21,844 | \$ 21,802 | \$ 42 |
| Shipping and handling income | 6,965 | 7,512 | (547) |
| Leased department income | 1,219 | 1,432 | (213) |
| Other | 4,113 | 3,776 | 337 |
| | 34,141 | 34,522 | (381) |
| Construction segment | 257 | 91 | 166 |
| Total service charges and other income | \$ 34,398 | \$ 34,613 | \$ (215) |

Gross Profit

| (in thousands of dollars) | Three Months Ended | | | |
|--|--------------------|-------------------|--------------------|-------------------|
| | May 5, 2018 | April 29, 2017 | \$ Change | % Change |
| Gross profit: | | | | |
| Retail operations segment | \$ 551,625 | \$ 546,650 | \$ 4,975 | 0.9 % |
| Construction segment | 1,656 | 1,526 | 130 | 8.5 |
| Total gross profit | \$ 553,281 | \$ 548,176 | \$ 5,105 | 0.9 % |
| | | | Three Months Ended | |
| | | | May 5, 2018 | April 29, 2017 |
| Gross profit as a percentage of segment net sales: | | | | |
| Retail operations segment | | | 39.1 % | 39.5 % |
| Construction segment | | | 3.5 | 4.7 |
| Total gross profit as a percentage of net sales | | | 38.0 | 38.7 |

Gross profit increased by \$5.1 million but decreased, on a percentage basis, by 66 basis points of net sales during the three months ended May 5, 2018 compared to the three months ended April 29, 2017.

Gross profit from retail operations decreased 31 basis points of net sales during the three months ended May 5, 2018 compared to the three months ended April 29, 2017 primarily due to increased markdowns. Gross margin decreased moderately in ladies' apparel, juniors' and children's apparel and home and furniture. Gross margin decreased slightly in cosmetics. Gross margin increased moderately in ladies' accessories and lingerie and men's apparel and accessories, while remaining essentially flat in shoes.

Gross profit from the construction segment decreased 115 basis points of construction sales for the three months ended May 5, 2018.

Inventory increased 4% in total as of May 5, 2018 compared to April 29, 2017. A 1% change in the dollar amount of markdowns would have impacted net income by approximately \$2 million for the three months ended May 5, 2018.

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Selling, General and Administrative Expenses ("SG&A")

| (in thousands of dollars) | Three Months Ended | | \$ Change | % Change | |
|--|--------------------|-------------------|--------------------|-------------------|--------|
| | May 5, 2018 | April 29, 2017 | | | |
| SG&A: | | | | | |
| Retail operations segment | \$403,970 | \$395,292 | \$ 8,678 | 2.2 | % |
| Construction segment | 1,900 | 1,353 | 547 | 40.4 | |
| Total SG&A | \$405,870 | \$396,645 | \$ 9,225 | 2.3 | % |
| | | | Three Months Ended | | |
| | | | May 5, 2018 | April 29, 2017 | |
| SG&A as a percentage of segment net sales: | | | | | |
| Retail operations segment | | | 28.7 | % | 28.5 % |
| Construction segment | | | 4.0 | | 4.2 |
| Total SG&A as a percentage of net sales | | | 27.9 | | 28.0 |

SG&A decreased 10 basis points of net sales during the three months ended May 5, 2018 compared to the three months ended April 29, 2017. SG&A from retail operations increased 13 basis points of net sales during the three months ended May 5, 2018 compared to the three months ended April 29, 2017 mainly due to increases in payroll (\$5.1 million), primarily selling payroll, and services purchased (\$1.3 million).

Depreciation and Amortization

| (in thousands of dollars) | Three Months Ended | | | |
|-------------------------------------|--------------------|-------------------|------------|----------|
| | May 5, 2018 | April 29, 2017 | \$ Change | % Change |
| Depreciation and amortization: | | | | |
| Retail operations segment | \$ 55,844 | \$ 59,843 | \$(3,999) | (6.7)% |
| Construction segment | 159 | 168 | (9) | (5.4) |
| Total depreciation and amortization | \$ 56,003 | \$ 60,011 | \$(4,008) | (6.7)% |

Depreciation and amortization expense decreased \$4.0 million during the three months ended May 5, 2018 compared to the three months ended April 29, 2017, primarily due to the timing and composition of capital expenditures.

Interest and Debt Expense, Net

| (in thousands of dollars) | Three Months Ended | | | |
|--|--------------------|-------------------|------------|----------|
| | May 5, 2018 | April 29, 2017 | \$ Change | % Change |
| Interest and debt expense (income), net: | | | | |
| Retail operations segment | \$ 14,030 | \$ 15,703 | \$(1,673) | (10.7)% |
| Construction segment | (8) | (21) | 13 | 61.9 |
| Total interest and debt expense, net | \$ 14,022 | \$ 15,682 | \$(1,660) | (10.6)% |

Net interest and debt expense decreased \$1.7 million during the three months ended May 5, 2018 compared to the three months ended April 29, 2017, primarily due to lower average debt levels. Total weighted average debt decreased by \$87.1 million during the three months ended May 5, 2018 compared to the three months ended April 29, 2017, primarily due to a note maturity in January 2018.

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Other Expense

| (in thousands of dollars) | Three Months Ended | | \$ Change | % Change | |
|---------------------------|--------------------|----------------|-----------|----------|---|
| | May 5, 2018 | April 29, 2017 | | | |
| Other expense: | | | | | |
| Retail operations segment | \$ 1,915 | \$ 1,807 | \$ 108 | 6.0 | % |
| Construction segment | — | — | — | — | |
| Total other expense | \$ 1,915 | \$ 1,807 | \$ 108 | 6.0 | % |

During the three months ended May 5, 2018, the Company adopted ASU No. 2017-07 and applied the amendments retrospectively, as required (See Note 2, Recently Issued Accounting Standards). As a result of the adoption of ASU No. 2017-07, the interest cost and net actuarial loss components of net periodic benefit costs, \$1.9 million and \$1.8 million for the three months ended May 5, 2018 and April 29, 2017, respectively, were included in other expense rather than selling, general and administrative expenses in the condensed consolidated statements of income and retained earnings.

Income Taxes

The Tax Cuts and Jobs Act (the “Act”) was signed into law on December 22, 2017. The Act’s primary impact to the Company’s consolidated financial statements was its reduction of the federal corporate income tax rate from 35% to 21%, effective January 1, 2018. The Company determined a reasonable estimate of the income tax effects of the Act and recorded provisional amounts within its consolidated financial statements during fiscal 2017. During the three months ended May 5, 2018, no adjustments were made to the provisional amounts recorded. The Company continues to analyze additional information and guidance related to certain aspects of the Act, including, but not limited to, increased expensing of business assets, limitations on the deductibility of executive compensation, conformity or changes by state taxing authorities in response to the Act, and any impact on the final determination of the net deferred tax liabilities. The final income tax effects of the Act may differ from the provisional amounts recorded due to, among other factors, anticipated guidance to be released in the coming year, including IRS notices, and any resulting changes in the Company’s interpretation and application of the Act. The Company will finalize its accounting for the income tax effects of the Act within the one-year measurement period provided under SEC Staff Accounting Bulletin No. 118.

The Company’s estimated federal and state effective income tax rate, inclusive of income on and equity in earnings of joint ventures, was approximately 22.0% and 35.3% for the three months ended May 5, 2018 and April 29, 2017, respectively. The decline in the effective income tax rate primarily reflects the impact of the reduction of the federal corporate income tax rate from 35% to 21% pursuant to the Act. During the three months ended May 5, 2018 and April 29, 2017, income tax expense differed from what would be computed using the applicable statutory federal tax rate primarily due to the effect of state and local income taxes partially offset by tax benefits recognized for federal tax credits.

The Company expects the fiscal 2018 federal and state effective income tax rate to approximate 22% to 23%. This rate may change if results of operations for fiscal 2018 differ from management’s current expectations. Changes in the Company’s assumptions and judgments can materially affect amounts recognized in the condensed consolidated balance sheets and statements of income.

FINANCIAL CONDITION

A summary of net cash flows for the three months ended May 5, 2018 and April 29, 2017 follows:

Three Months Ended

| (in thousands of dollars) | May 5, 2018 | April 29, 2017 | \$ Change |
|---------------------------|----------------|-------------------|------------|
| Operating Activities | \$55,391 | \$83,443 | \$(28,052) |
| Investing Activities | (36,508) | (32,254) | (4,254) |
| Financing Activities | (39,920) | (96,693) | 56,773 |
| Total Cash Used | \$(21,037) | \$(45,504) | \$24,467 |

Net cash flows from operations decreased \$28.1 million during the three months ended May 5, 2018 compared to the three months ended April 29, 2017. This decrease was primarily attributable to a decrease of \$38.3 million related to changes in working capital items, primarily due to increases in accounts receivable and inventory and decreases in income taxes, which were partially offset by increases in accounts payable and accrued expenses.

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Wells Fargo Bank, N.A. ("Wells Fargo") owns and manages Dillard's private label credit cards under the Wells Fargo Alliance. Under the Wells Fargo Alliance, Wells Fargo establishes and owns private label card accounts for our customers, retains the benefits and risks associated with the ownership of the accounts, provides key customer service functions, including new account openings, transaction authorization, billing adjustments and customer inquiries, receives the finance charge income and incurs the bad debts associated with those accounts.

Pursuant to the Wells Fargo Alliance, we receive on-going cash compensation from Wells Fargo based upon the portfolio's earnings. The compensation earned on the portfolio is determined monthly and has no recourse provisions. The amount the Company receives is dependent on the level of sales on Wells Fargo accounts, the level of balances carried on Wells Fargo accounts by Wells Fargo customers, payment rates on Wells Fargo accounts, finance charge rates and other fees on Wells Fargo accounts, the level of credit losses for the Wells Fargo accounts as well as Wells Fargo's ability to extend credit to our customers. We participate in the marketing of the private label cards, which includes the cost of customer reward programs. We accept payments on the private label cards in our stores as a convenience to customers who prefer to pay in person rather than by paying online or mailing their payments to Wells Fargo. The Wells Fargo Alliance expires in fiscal 2024.

The Company recorded income of approximately \$22 million from the Wells Fargo Alliance during both the three months ended May 5, 2018 and April 29, 2017.

Capital expenditures were \$39.2 million and \$34.5 million for the three months ended May 5, 2018 and April 29, 2017, respectively. The increase in capital expenditures was primarily related to the remodeling of existing stores during the current year. Capital expenditures for fiscal 2018 are expected to be approximately \$140 million compared to actual expenditures of \$130 million during fiscal 2017.

During the three months ended May 5, 2018, the Company received cash proceeds of \$1.9 million from the sale of a location classified as an asset held for sale. These proceeds were being held in escrow for the acquisition of replacement property under like-kind exchange agreements. The escrow accounts are administered by an intermediary. Pursuant to the like-kind exchange agreements, the cash is restricted for a maximum of 180 days from the date of the property sale pending the acquisition of replacement property. As of May 5, 2018, the acquisition of replacement property had not yet occurred; therefore, the proceeds were classified as restricted cash on the condensed consolidated balance sheet.

We remain committed to closing under-performing stores where appropriate and may incur future closing costs related to such stores when they close.

The Company had cash on hand of \$164.1 million as of May 5, 2018. As part of our overall liquidity management strategy and for peak working capital requirements, the Company maintains an unsecured revolving credit facility that provides a borrowing capacity of \$800 million with a \$200 million expansion option ("credit agreement"). The credit agreement is available to the Company for general corporate purposes including, among other uses, working capital financing, the issuance of letters of credit, capital expenditures and, subject to certain restrictions, the repayment of existing indebtedness and share repurchases. The rate of interest on borrowings is LIBOR plus 1.375%, and the commitment fee for unused borrowings is 0.20% per annum. To be in compliance with the financial covenants of the credit agreement, the Company's total leverage ratio cannot exceed 3.5 to 1.0, and the Company's coverage ratio cannot be less than 2.5 to 1.0, as defined in the credit agreement. At May 5, 2018, the Company was in compliance with all financial covenants related to the credit agreement.

At May 5, 2018, no borrowings were outstanding, and letters of credit totaling \$24.8 million were issued under the credit agreement leaving unutilized availability under the facility of \$775.2 million.

During the three months ended May 5, 2018, the Company repurchased 0.5 million shares of Class A Common Stock at an average price of \$72.77 per share for \$34.8 million, completing the authorization under the February 2016 stock repurchase plan. Additionally, the Company paid \$2.0 million for share repurchases that had not yet settled but were accrued at February 3, 2018. During the three months ended April 29, 2017 the Company repurchased 1.7 million shares of its Class A Common Stock at an average price of \$53.79 for \$91.1 million. Additionally, the Company paid \$6.0 million for share repurchases that had not yet settled but were accrued at January 28, 2017. In March 2018, the Company's Board of Directors authorized a new \$500 million stock repurchase plan (the "March 2018 Plan"). At May 5, 2018, \$500 million of authorization remained under the March 2018 Plan. The ultimate disposition of the repurchased stock has not been determined.

During fiscal 2018, the Company expects to finance its capital expenditures, working capital requirements and stock repurchases from cash on hand, cash flows generated from operations and utilization of the credit facility. Depending on

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conditions in the capital markets and other factors, the Company may from time to time consider other possible financing transactions, the proceeds of which could be used to refinance current indebtedness or for other corporate purposes.

There have been no material changes in the information set forth under caption “Contractual Obligations and Commercial Commitments” in Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations, in the Company’s Annual Report on Form 10-K for the fiscal year ended February 3, 2018.

OFF-BALANCE-SHEET ARRANGEMENTS

The Company has not created, and is not party to, any special-purpose entities or off-balance-sheet arrangements for the purpose of raising capital, incurring debt or operating the Company’s business. The Company does not have any off-balance-sheet arrangements or relationships that are reasonably likely to materially affect the Company’s financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or the availability of capital resources.

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NEW ACCOUNTING STANDARDS

For information with respect to new accounting pronouncements and the impact of these pronouncements on our consolidated financial statements, see Note 2, Accounting Standards, in the "Notes to Condensed Consolidated Financial Statements," in Part I, Item I hereof.

FORWARD-LOOKING INFORMATION

This report contains certain forward-looking statements. The following are or may constitute forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995: (a) statements including words such as "may," "will," "could," "should," "believe," "expect," "future," "potential," "anticipate," "intend," "plan," "estimate," or the negative or other variations thereof; (b) statements regarding matters that are not historical facts; and (c) statements about the Company's future occurrences, plans and objectives, including statements regarding management's expectations and forecasts for the remainder of fiscal 2018 and beyond, statements concerning the opening of new stores or the closing of existing stores, statements concerning capital expenditures and sources of liquidity, statements concerning share repurchases, statements concerning pension contributions and statements concerning estimated taxes. The Company cautions that forward-looking statements contained in this report are based on estimates, projections, beliefs and assumptions of management and information available to management at the time of such statements and are not guarantees of future performance. The Company disclaims any obligation to update or revise any forward-looking statements based on the occurrence of future events, the receipt of new information, or otherwise. Forward-looking statements of the Company involve risks and uncertainties and are subject to change based on various important factors. Actual future performance, outcomes and results may differ materially from those expressed in forward-looking statements made by the Company and its management as a result of a number of risks, uncertainties and assumptions. Representative examples of those factors include (without limitation) general retail industry conditions and macro-economic conditions; economic and weather conditions for regions in which the Company's stores are located and the effect of these factors on the buying patterns of the Company's customers, including the effect of changes in prices and availability of oil and natural gas; the availability of consumer credit; the impact of competitive pressures in the department store industry and other retail channels including specialty, off-price, discount and Internet retailers; changes in consumer confidence, spending patterns, debt levels and their ability to meet credit obligations; high levels of unemployment; changes in tax legislation; changes in legislation, affecting such matters as the cost of employee benefits or credit card income; adequate and stable availability of materials, production facilities and labor from which the Company sources its merchandise at acceptable pricing; changes in operating expenses, including employee wages, commission structures and related benefits; system failures or data security breaches; possible future acquisitions of store properties from other department store operators; the continued availability of financing in amounts and at the terms necessary to support the Company's future business; fluctuations in LIBOR and other base borrowing rates; potential disruption from terrorist activity and the effect on ongoing consumer confidence; epidemic, pandemic or other public health issues; potential disruption of international trade and supply chain efficiencies; world conflict and the possible impact on consumer spending patterns and other economic and demographic changes of similar or dissimilar nature. The Company's filings with the Securities and Exchange Commission, including its Annual Report on Form 10-K for the fiscal year ended February 3, 2018, contain other information on factors that may affect financial results or cause actual results to differ materially from forward-looking statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in the information set forth under caption "Item 7A-Quantitative and Qualitative Disclosures About Market Risk" in the Company's Annual Report on Form 10-K for the fiscal year ended February 3, 2018.

Item 4. Controls and Procedures

The Company has established and maintains disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). The Company's management, with the participation of our Principal Executive Officer and Co-Principal Financial Officers, has evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the fiscal quarter covered by this quarterly report, and based on that evaluation, the Company's Principal Executive Officer and Co-Principal Financial Officers have concluded that these disclosure controls and procedures were effective.

There were no changes in our internal control over financial reporting that occurred during the fiscal quarter ended May 5, 2018 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, the Company is involved in litigation relating to claims arising out of the Company's operations in the normal course of business. This may include litigation with customers, employment related lawsuits, class action lawsuits, purported class action lawsuits and actions brought by governmental authorities. As of June 8, 2018, the Company is not a party to any legal proceedings that, individually or in the aggregate, are reasonably expected to have a material adverse effect on the Company's business, results of operations, financial condition or cash flows.

Item 1A. Risk Factors

There have been no material changes in the information set forth under caption "Item 1A-Risk Factors" in the Company's Annual Report on Form 10-K for the fiscal year ended February 3, 2018.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(c) Purchases of Equity Securities

Issuer Purchases of Equity Securities

| Period | (a) Total Number of Shares Purchased | (b) Average Price Paid per Share | (c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | (d) Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs |
|---|---|--|--|--|
| February 4, 2018 through March 3, 2018 | 186,780 | \$ 65.91 | 186,780 | \$522,505,719 |
| March 4, 2018 through April 7, 2018 | 136,585 | 79.13 | 136,585 | 511,697,189 |
| April 8, 2018 through May 5, 2018 | 155,038 | 75.45 | 155,038 | 500,000,000 |
| Total | 478,403 | \$ 72.77 | 478,403 | \$500,000,000 |

In February 2016, the Company's Board of Directors authorized the repurchase of up to \$500 million of the Company's Class A Common Stock under an open-ended stock repurchase plan ("February 2016 Plan"). In March 2018, the Company's Board of Directors authorized a new \$500 million stock repurchase plan ("March 2018 Plan"). These repurchase plans permit the Company to repurchase its Class A Common Stock in the open market, pursuant to preset trading plans meeting the requirements of Rule 10b5-1 under the Securities Exchange Act of 1934 or through privately negotiated transactions. The repurchase plans have no expiration date.

During the three months ended May 5, 2018, the Company repurchased 0.5 million shares totaling \$34.8 million, completing the authorized purchases under the February 2016 Plan. As of May 5, 2018, \$500.0 million of authorization remained under the March 2018 Plan. Reference is made to the discussion in Note 9, Stock Repurchase Program, in the "Notes to Condensed Consolidated Financial Statements" in Part I of this Quarterly Report on Form 10-Q, which information is incorporated by reference herein.

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Item 6. Exhibits

Number Description

| | |
|-------------|--|
| <u>31.1</u> | <u>Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u> |
| <u>31.2</u> | <u>Certification of Co-Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u> |
| <u>31.3</u> | <u>Certification of Co-Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u> |
| <u>32.1</u> | <u>Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).</u> |
| <u>32.2</u> | <u>Certification of Co-Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).</u> |
| <u>32.3</u> | <u>Certification of Co-Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).</u> |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DILLARD'S, INC.
(Registrant)

Date: June 8, 2018 /s/ Phillip R. Watts
Phillip R. Watts
Senior Vice President, Co-Principal Financial Officer and Principal Accounting Officer

/s/ Chris B. Johnson
Chris B. Johnson
Senior Vice President and Co-Principal Financial Officer