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West Michigan Stock Returns

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West Michigan Stocks Tack on 17.4% in 2014

2014 was another great year for investors in West Michigan's publicly traded companies. Returns jumped 17.4%, and that is on top of 42.2% in 2013. Once again, local stock returns outpaced returns from the three major indexes comprising the Security Market Indicator Series (SMIS): the Dow Jones Industrial Average, the S&P 500 Index, and the NASDAQ Composite Index. Table 1, Stock Market Returns, shows how the West Michigan Index has performed compared with the SMIS over the past three years.

Table 1: Stock Market Returns[1]

	2014	2013	2012	3-Year Cumulative
West Michigan Index	17.4%	42.2%	9.0%	82.0%
NASDAQ Composite Index	13.4	37.4	15.9	80.6
S&P 500 Index	11.4	29.1	13.4	63.1
Dow Jones Industrial Average	7.5	25.8	7.3	45.1

[1]The West Michigan Index consists of 14 publicly traded companies headquartered in West Michigan. Each company's return is weighted by its market value—the number of shares of common stock outstanding multiplied by the company's stock price. This is a change from the methodology used in previous years. In those years, returns were weighted by only the number of shares outstanding. The index now matches the weighting methodology used by both the S&P 500 Index and the NASDAQ Composite Index. The Dow Jones Industrial Average is price weighted.

Three-year cumulative returns shown in the table's last column are compound returns. They include returns earned on prior years' returns. Over the past three years, cumulative returns from the West Michigan Index exceeded cumulative returns from all three SMIS indexes, and nearly doubled returns from the Dow Jones Industrial Averages.

The 2014 performance of each of the companies in the Index is described below.

Community Shores Bank Corp.

The bank is slowly reducing the dollar value of its non-performing loans and has returned to profitability. Yet problems loom. To be in compliance with the bank's consent order with the FDIC, the bank needs an infusion of $6.4 million of capital. It has not been in compliance since the order was issued in late 2010, and coming up with the additional capital is proving difficult. Failure to comply with the consent order may eventually cause the FDIC to take additional regulatory actions harmful to both the bank and its shareholders. Worse, the bank has $1.28 million of senior debt and over $500,000 of accrued interest on subordinated debt maturing on March 31, 2015. Yet it had only $373,000 of cash—its only source of liquidity—available on September 30. The bank must raise capital and/or renegotiate repayment terms on its debt by the end of March. As that date approaches, investors are getting worried, causing the bank's stock price to suffer.

Independent Bank Corporation

Ionia-based Independent Bank Corporation reported its eleventh consecutive profitable quarter in October. Like all local banks, Independent Bank's financial health continued to strengthen during 2014. The dollar value of non-performing loans continued to fall, as did the ratio of non-performing loans to total loans. At 1.25%, the ratio has a value that would have been considered great in the years prior to the recession. Further, the bank's capital ratios are considerably above minimum levels required by bank regulators. The year-over-year increase in earnings in 2014 was 92%. The bank resumed paying a $0.06 per share common stock dividend in April, the first dividend in several years. That caused a price spike to over $14 per share from around $12, but the stock spent most of the year fluctuating between $12 and $13.50.

Table 2: West Michigan Company Returns

	2014 Price Closing	2014 Price Opening	2014 Price Change
ChoiceOne Financial Services	$23.00	$17.09	34.6
Stryker	94.33	75.14	25.5
Meritage Hospitality Group	5.23	4.45	17.5
Steelcase	17.95	15.86	13.2
Gentex Corporation	36.13	32.98	9.6
Perrigo	167.16	153.46	8.9
Macatawa Bank	5.44	5.00	8.8
Independent Bank	13.05	12.00	8.8
SpartanNash	26.14	24.28	7.7
Universal Forest Products	53.20	52.14	2.0
Herman Miller, Inc.	29.43	29.52	- 0.3
Mercantile Bank	21.02	21.58	- 2.6
Wolverine Worldwide	29.47	33.96	- 13.3
Community Shores Bank	$ 1.50	$ 3.25	- 53.9

Macatawa Bank Corp.
Holland-based Macatawa Bank had a good year. It reinstated dividends on common stock beginning March 7, its first dividend in nearly six years. Over that time period, the bank's number of shares increased from 17 million to over 27 million (primarily because of the conversion of preferred shares into common shares at the end of 2013 and a public offering in 2011), and the bank's assets shrunk. As a result, spreading a smaller earnings base over a larger share base makes for smaller earnings and dividends per share. Quarterly dividends six years ago were $0.13, but now are $0.02. In other developments, Macatawa's loan delinquency is at the lowest level in 11 years with the ratio of non-performing loans to total loans equal to 1.18%, and the company has been profitable for three years. That trend should continue in 2015.

Gentex Corporation
Gentex also had a great year. It completed acquisition of Johnson Control's HomeLink business on September 27. Homelink allows vehicle owners to operate garage door openers, door locks, and other home systems controlled by radio frequencies. Further, Gentex stock was on fire the last three months of the year. From a low of $26.49 on October 1, it rose to over $36 by the end of 2014, an increase of nearly 40%. Why the price jump? Sales increased 22% while earnings rose 30% in the third quarter ending September 30. This is great performance considering flat light vehicle production. The company attributes its great results to the performance of its SmartBeam and driver assist camera systems, contributions from its HomeLink acquisition, and continued market penetration of its electrochromic mirrors.

As 2014 drew to a close, Gentex Corporation announced it would pay a 100% stock dividend on December 31. The dividend has the same effect on stock price as a 2:1 stock split, cutting both the stock price and dividend in half while doubling the number of shares.

Meritage Hospitality Group
Meritage Hospitality Group operates 141 restaurants in six states. As has been the case in past years, the company continued to acquire and build new restaurants. It acquired 19 Wendy's restaurants in the Atlanta, GA area, and began construction of two Wendy's restaurants in Jacksonville, FL. Through the first 9 months of 2014, sales increased 13.4%. However, net income increased $1.9 million compared with $2.4 million in the 2013 comparable period, as higher beef costs and minimum wages hurt profitability. The company's stock price hardly moved during 2014, ranging from $4 to $6.

Wolverine Worldwide
Mixed financial performance marked much of 2014. The company lowered its forecast for the year in July citing soft footwear markets. It also announced it was ending its license to produce Patagonia Footwear and close 140 stores, most of them Stride Rite locations. When investors hear about lowered earnings forecasts and store closings, the stock loses some of its luster. Yet third quarter revenue fell less than one percent, while earnings per share grew 8.6%. The company reaffirmed 2014 would end with record revenue and earnings, and its stock price began to rise in November after spending several months below $27 per share.

SpartanNash
The company surprised Wall Street analysts with its 3rd quarter earnings per share when it reported earning 45 cents versus analysts' estimates of 42 cents, and the company raised its earnings outlook for the entire year. Still, it is earning only 0.8 cents on every dollar of sales, a slight decrease from last year, and many investors are waiting for evidence demonstrating the 3rd quarter's good news can be sustained.

SpartanNash was created when Byron Township based Spartan Stores merged with Edina, MN based Nash Finch in late 2013. The combined company has nearly $8 billion of sales and approximately $2 billion of assets. The company owns several grocery store chains across 44 states including Family Fare Supermarkets, Family Fresh Markets, D&W Fresh Markets in West Michigan, has a military segment supplying grocery products to military commissaries and 400 exchanges, and also operates as a grocery distributor.

Perrigo
Perrigo, the leading manufacturer and seller of over the counter healthcare products, moved its tax headquarters from Allegan, MI to Ireland after acquiring biotech firm Elan in December, 2013, a tax inversion projected to save the company $150 million per year in income taxes and operating expenses. The company has enjoyed double-digit growth rates for several years, with its stock price increasing 30-fold since 2000. Perrigo has the leading market share in nearly 50% of the products it sells, and is in the top three of market share for 95% of its products. The company remains bullish on the future with 160 new products awaiting regulatory approval.

Stryker Corp.
Stryker has been on an acquisition tear. It acquired MAKO Surgical for its advanced robotic arm surgical technology 13 months ago, it added two acquisitions in March, and one other company in April. The rumor mill has continued to predict other possible candidates for Stryker acquisitions, especially British medical device maker Smith & Nephew Plc. A strong balance sheet and stock price, and its acquisition tear help fuel that speculation. The rumor mill is at least partially responsible for Stryker's unusually high price/earnings ratio. With its P/E ratio equal to 57, it more resembles a bio-tech firm than a medical technology company. That ratio can be maintained only if the company continues to acquire well-fitting companies and ramps up its earnings.

Universal Forest Products
Universal designs, manufactures, and markets wood and wood-alternative products to retail, construction, and industrial customers. The company's stock varied between $41 in mid-October to $53 by year's end reflecting variations in quarterly sales and earnings growth. Third quarter earnings

were up 36.5%, providing an end-of-year boost to the company's stock price. Universal also raised its dividend from $0.21 to $0.40 during the year, and continued to buy back its stock. All of these events made for a good year, and provide optimism for 2015.

Herman Miller and Steelcase

The outlook for the office furniture industry is at the strongest level of optimism in a decade. Revenue growth for both firms is accelerating, and is projected to continue accelerating at double-digit growth well into 2015. That bodes well for earnings, and as earnings increase, stock prices usually increase.

The price of Steelcase shares grew price unsteadily throughout most of 2014. In contrast, Herman Miller's stock price maintained a level between $29 and $32 per share for most of 2014.

Mercantile Bank Corp.

The bank's stock price was unchanged during the year. The big news, however, was the fairly seamless integration of its merger with First Bank, doubling Mercantile's pre-merger size. The bank's executives are optimistic that 2015 will be a great year. The merger and most of the associated expenses will be history, and the pipeline for new commercial loans has never been stronger in the bank's history.

ChoiceOne Financial Services, Inc.

Choice One—a Sparta-based bank holding company with 12 full-service offices—enjoyed record earnings in 2014. While its stock price does not change much in response to changes in the overall stock market, its price does move in response to increases in its earnings. That certainly was the case in 2014. Its stock price rose from $16.69 to $23.00 during the year, a 34.6% increase, reflecting a 10% increase in earnings.

Dividends added another 1.2% to the Index's 17.4% return in 2014, giving a total return of 18.6%. Almost all companies in the index pay cash dividends, but one company does not: Community Shores Bank. Bank regulators prohibit it from doing so until its capital ratios meet minimum requirements, and it hasn't been able to do so since the capital requirement was imposed in 2010.

Mercantile Bank Corporation and Choice One Financial Services, Inc. have the highest dividend yields, the ratio of dividends per share to current market price. At 2.3%, Mercantile is highest, while Choice One is close behind at 2.1%. Perrigo and Wolverine World Wide have small dividend yields, 0.3% and 0.8%, respectively. Wolverine hasn't increased its dividend since March 2011, nearly four years. Why don't these two companies pay higher dividends? It's because they are growing rapidly. High-growth companies usually plow earnings back into growth instead of paying dividends. That leads to higher stock prices and makes for very happy stockholders.

Finally, many stocks, including West Michigan stocks, are at or near all-time high prices. Should you sell? No one knows the answer to that question, because the answer depends on you and your circumstances and risk tolerance. And no one knows what stocks will do in the future. Just make sure you are diversified, and that means no more than 10% of your stock investments in any stock. ■