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## West Michigan Stock Returns

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# West Michigan Stock Returns

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## West Michigan Stock Prices Soar in 2019

Investors certainly remember 2018's miserable stock market performance: The major stock indices dropped nearly 15% in the fourth quarter, bottoming out on Christmas Eve day. That's the bad news, however. The good news is that the bar was set low for 2019 to outperform 2018's performance. Had stocks done nothing more than just recover from those losses, 2019 would have been

a good year for investors. As we all know, and to the surprise of many, many investors who were prepared for a 2019 recession, stock markets shot up.

The West Michigan Stock Index rose 32.7% in 2019. That is a little less than the 35.2% rise in the NASDAQ Composite Index (it had decreased 21% in 2018's fourth quarter), but a little more than the S&P 500 Index's 28.9% increase. The Dow Jones Industrial Average Index rose 22.3%. The West Michigan Index consists of companies listed on both the NASDAQ and S&P 500 stock exchanges.

Table 1 below highlights 2019 annual returns.

**Table 1: 2019 Stock Market Returns<sup>1</sup>**

Stock Indexes	Returns
West Michigan Index	32.7%
NASDAQ Composite Index	35.2%
S&P 500 Index	28.9%
Dow Jones Industrial Average	22.3%

One company dropped out of the West Michigan Index in 2019: Community Shores Bank Corporation. It made the decision to delist as of January 2019. As a result, publicly available information about the bank is no longer available. The bank formed when several executives of FMB-First Michigan Bank's Muskegon headquarters left FMB following Huntington Bank's acquisition of FMB in 1997. After struggling to remain profitable for several years following the Great Recession, it finally returned to profitability in 2016. Its major stockholders agreed to delist to increase profits by eliminating the relatively high expenses associated with preparing and communicating shareholder reports.

Table 2 on next page ranks the fifteen companies comprising the Index by their 2019 returns.

<sup>1</sup> The West Michigan Index consists of 15 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. The index matches the weighting methodology used by the NASDAQ Composite Index. The Dow Jones Industrial Average is price weighted, while the S&P 500 Index uses a somewhat complex method dividing the sum of the market values of each component stock by a proprietary index divisor.

The 2019 performance of each of the companies in the Index is described below. Most of the discussion is based on year-to-date performances as reflected in quarterly earnings reports through the third quarter. Companies are listed alphabetically.

## ChoiceOne Financial Services, Inc.

The Sparta-based bank holding company's stock rose 27.8% in 2019. It completed a merger with Lapeer, Michigan-based County Bank Corporation on October 1, nearly doubling the number of branches from 15 to 28. As with any merger, legal fees and other associated expenses significantly affected earnings in 2019. Nonetheless, investors are optimistic for 2020 as reflected in stock price gains. The bank expects the merger will add an additional 14% to 2020 earnings because of merger efficiencies.

The company declared a special cash dividend of \$0.60 per share on September 30. This was in addition to its usual quarterly dividend of \$0.20 per share. Because the special dividend was a one-and-done event, share price didn't leap upward upon the announcement. It didn't have to: from April through the end of 2019, ChoiceOne's stock price rose steadily.

## Gentex Corporation

Zeeland, Michigan-based Gentex is a supplier of digital vision, connected car, dimmable glass, and fire protection technologies. Certainly, 2018 was a good year for Gentex. In its most recent quarter, its earnings per share increased 5% compared with the prior year. Third quarter sales rose 4% even though the UAW's strike against General Motors reduced Gentex's sales by 2% as global production of light vehicles fell 3%. The company estimates that its sales will rise 3 - 8% in 2020 compared with 2019. That is good news for investors. The company's stock price reached an all-time high in early November, and remained at, or above, a record high through the end of the year.

## Herman Miller, Inc.

Herman Miller had another great year in 2019. Its price hit an all-time high during mid-2019, and continued to climb. Its second quarter (September, October, and November), earnings per share growth was 17%, a number just about any investor would find pleasing. Yet organic orders, that is, orders excluding contributions from mergers and acquisitions, decreased 4.2%. These two mixed results usually would temper investor euphoria, but it did not, at least initially. The day these results were announced -- December 18 -- Herman Miller's stock price shot up 4.8% to nearly \$50. On the very next day, it fell by 6.8% to \$42.97, and eventually finished December at \$41.65. The sharp falloff was accompanied by no additional news about the company. Evidently it took a few days for fickle investors, and stock analysts, to reconsider what the price should be. Still, the company's nearly 38% return in 2019 made for a great year. Zeeland-based Herman Miller, founded in 1905, is a leading company in the office furniture systems industry.

**Table 2: West Michigan Company Returns**

	2019 Prices Closing	2019 Prices Opening	Price Change
Universal Forest Products, Inc.	\$47.70	\$25.96	83.7%
Gentex Corporation	\$28.98	\$20.21	43.4%
Whirlpool Corporation	\$147.53	\$106.87	38.0%
Steelcase Inc.	\$20.46	\$14.83	38.0%
Herman Miller, Inc.	\$41.65	\$30.25	37.7%
Stryker Corporation	\$209.94	\$156.75	33.9%
Perrigo Corporation PLC	\$51.66	\$38.75	33.3%
Mercantile Bank Corporation	\$36.47	\$28.26	29.1%
ChoiceOne Financial Services, Inc.	\$31.96	\$25.00	27.8%
Kellogg Company	\$69.16	\$57.01	21.3%
Macatawa Bank Corporation	\$11.13	\$9.62	15.7%
Meritage Hospitality Group Inc.	\$20.00	\$17.50	14.3%
Independent Bank Corporation	\$22.65	\$21.02	7.8%
Wolverine Worldwide, Inc.	\$33.74	\$31.89	5.8%
SpartanNash Company	\$14.24	\$17.18	-17.1%

**Independent Bank Corporation**

The stock price of the Grand Rapids-based bank with 67 branches peaked in early June at around \$27 per share, but three months later it was down to \$19.19, and then slowly rose during the rest of the year. What caused the price drop? A write-off in the value of mortgages. Whenever mortgage interest rates fall, as they did for most of 2019, borrowers refinance their mortgages. That reduces the average number of years banks receive interest payments, and reduces the bank's income. Independent Bank's earnings fell \$4.7 million during the first nine months of 2019 from these events, and that was a decrease of \$9.4 million compared with the year earlier. Still, by other performance measures, the Bank had a good year, which explains why its stock price rose later in the year.

**Kellogg Company**

Kellogg's stock price fluctuated in the mid- to high-fifties per share during the first half of 2019. Holding the price back were two significant events. The company ended its pension plan, and doing so generated \$132 million of liabilities. Also, it completed the divestiture of the Keebler cookie division and other product lines in late July, reducing reported operating profits by 37%. After management reaffirmed guidance for the rest of the year, Kellogg's stock price began rising, and rose through December. By year's end, its price was \$69.16.

**Macatawa Bank Corporation**

The bank's stock price fluctuated between \$9.30 and \$11 until December when its price closed above \$11 for the first time in 2019, likely the result of the stock market's general

euphoria in December and a very strong third quarter earnings report. Net income rose nearly 19%, revenue was up 7% while expenses fell 2%, and core deposits grew 13%. For the first nine months of 2019, earnings per share were \$0.70 compared with \$0.57 the comparable period in 2018. These are great results, and if they continue into 2020, the stock price will keep rising.

**Meritage Hospitality Group Inc.**

Grand Rapids-based Meritage is the nation's largest owner of Wendy's restaurants, as well as the owner of several other types of restaurants. In total, it owns 333 restaurants in 16 states, including ten new Wendy's restaurants acquired in 2019, plans to add 40 more restaurants by the end of 2024, and employs approximately 11,000 workers. For the most recent three quarters ending September 29, sales increased 5.7% while net income fell 2% because food and labor costs increased faster than revenue.

**Mercantile Bank Corporation**

Mercantile Bank, based in Grand Rapids, had 46 banking offices and \$3.7 billion of assets at the end of its third quarter. It also reported great financial results. Its net income increased by nearly 25% during the first nine months of 2019 compared with the same period in 2018. The bank's stock price was \$28.26 at the beginning of January, and varied up and down until December when it climbed to nearly \$37, its highest price in fourteen years. Like other West Michigan banks, barring an economic slowdown, investors can look forward to continued strong performance in 2020.

### **Perrigo Corporation PLC**

The company's stock price rose during most of 2019. Beginning at \$40.50, it rose to \$51.66 by year's end. Perrigo continued making progress in its goal to transform into a consumer-care products company from its historical focus on generic and OTC drugs. Three major developments defined Perrigo's performance in 2019. For starters, it announced in May it was acquiring Grand Rapids-based Ranir Global Holdings, LLC for \$750 million. Ranir is a major producer of private label oral care products. Second, the acquisition was a significant step in Perrigo's long-term transformation from its historical focus on generic drugs to a main focus on consumer-care products. And finally, its third quarter profit was the fourth consecutive quarter Perrigo met, or exceeded, adjusted earnings per share expectations. These three developments are a reason for Perrigo investors to celebrate. The developments are a major reversal from the earnings, tax, and executive management continuity issues that caused Perrigo's stock price to dive from \$90 per share to \$37 in 2018.

### **SpartanNash Company**

Grand Rapids-based SpartanNash distributes and sells grocery products. The company owns supermarkets across 45 states, Europe, and several countries. Supermarket banners include Family Fare Supermarkets, VG's Food and Pharmacy, Family Fresh Market, D&W Fresh Markets, and SunMart. The company also is the leading distributor of grocery products to military commissaries in the U.S.

With a 17.1% drop in its stock price in 2019, it was the worst performer of the 15 companies comprising the West Michigan Stock Index. Its stock price peaked in mid-February at just over \$22.5 per share, bottomed out at \$9.41 in mid-August, and closed the year at \$14.24. A huge drop in February followed the company's fourth quarter earnings announcement on February 20. Earnings had decreased 18% on a 2.3% revenue drop. Spartan had incurred a huge non-cash loss attributed to a food distribution customer. Earnings recovered in the second quarter, but the bottom fell out again at the end of the third quarter (October 5) when the company announced a 23% decrease in earnings because of expenses associated with the end of its pension plan. 2020 should be a much better year now that these two unique losses are history.

### **Steelcase, Inc.**

Steelcase officials announced a year ago that the 2019 fiscal year ending February 28, 2019, was going to be the its best year in a decade. It was. Earnings were up sharply, as were order backlogs. Sure enough, this outstanding performance continued throughout 2019. Earnings of 45 cents per share were announced in mid-December, blowing away analysts' estimates of 35 cents. Share price skyrocketed 16.4% to \$22.21 per share on December 17, easily the highest price since a few months after its initial public offering in 1998.

### **Stryker Corporation**

Kalamazoo-based Stryker is a major medical technology company. Not only did its stock price tack on a nearly 34% gain in 2019, but its price has risen sharply, and without letup, for nearly eight years. It reached \$220 per share in August, but fell about \$20 per share upon the release of third quarter earnings. Some investors were disappointed that the company's dividend increase wasn't larger. Yet, adjusted earnings per share rose 13%, the high end of the company's guidance. The company's CEO had this to say during the third quarter conference call, "We just have terrific momentum across our business and across our geographies." The stock recovered to \$210 by year's end. It's interesting to note that Stryker's price/earnings ratio is less than one-half of its value a year ago. In other words, price hasn't kept up with the rapid increase in earnings, and that's a good sign for 2020.

### **Universal Forest Products, Inc.**

Rising nearly 84% in 2019, UFPI's stock was the top performing component of the Index. Third quarter sales were up 7%, but earnings rose 26%, a record high. Contributing to this great performance was an increase in the percentage of high-margin products relative to commodity sales from 62.1% to 67.6%. The company also announced it was about to change its name to UFP Industries, Inc. Universal Forest Products designs, manufactures, and markets wood and wood-alternative products. It is headquartered in Grand Rapids.

### **Whirlpool Corporation**

Whirlpool's stock price rose 38% in 2019 after falling about the same percentage in 2018. The company's performance in 2018 was characterized by missed projections and large losses. Just the reverse happened in 2019. The company expects to achieve the high end of its earnings projection, paid off a \$1 billion term loan, and increased its profit margins significantly. Executives are optimistic about 2020.

### **Wolverine Worldwide, Inc.**

WWW had a so-so 2019 prior to the third quarter. The company improved its revenue growth, both gross and operating margins, and adjusted earnings per share. In fact, third quarter adjusted earnings per share growth and gross margin were the highest of any quarter in the company's long history. The company is experiencing strong sales growth in its Merrell, Sperry, and Saucony shoe brands. Wolverine's stock price rose a modest 5.8% in 2019, but was only one of three stocks in the Index that didn't decrease in 2018. Rockford-based Wolverine Worldwide, Inc. designs, manufactures, sources, markets, licenses, and distributes footwear, apparel, and accessories.

The sharp increases in U.S. stock prices during 2019 added several trillion dollars to investors' wealth. That's great news for retirees, employees with stocks in their retirement plans, charities, businesses wishing to raise money for long-term needs, and other stock investors. Most analysts predict continued stock market gain into 2020, but in my decades of experience, humans cannot accurately predict the future. Years from now, however, it's likely investors will look back at 2019 and say, "Those were the good old days." ■