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West Michigan Stock Returns

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A Great Year for West Michigan Stocks in 2017, but Less Impressive Compared with the Dow and NASDAQ Indexes

West Michigan-headquartered publicly traded companies enjoyed a great year in 2017, increasing a weighted average of 21.5%. That performance marks the eighth annual increase in the nine years since financial markets bottomed out in early 2009, the best year since 2013's nearly 41% return and a better 2017 return than the S&P 500 Index's 19.4%. Yet, both the Dow Jones Industrial Average and the NASDAQ Composite Index outperformed the local index as shown below in Table 1.

Stock prices of nine out of the fourteen companies comprising the Index either declined or rose by less than 9% as shown in Table 2, and yet the Index rose by 21.5%. That curious outcome occurred because each company's importance to the Index is weighted by its total market capitalization, that is, the market value of all outstanding shares. The more shares of a particular company, the more influence its price change has on the Index.

For example, Wolverine Worldwide and Stryker together account for 70% of the Index's total market capitalization. Since both of these companies had high returns – 44.8% and 28.5%, respectively – they account for a large proportion the Index's return, large enough to pull the weighted average up to 21.5%.

The 2017 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.

SpartanNash Corporation

To say that SpartanNash's stock price has been volatile recently is an understatement. It was the Index's top performer a year ago, rising nearly 83% in 2016. Yet, its price fell 32.7% in 2017, making it the worst performer. The company announced in early November that Hurricane Harvey's destruction hurt its supply chain, and worse, it was in the process of closing about 10% of its stores in 2017, incurring a one-time non-cash charge of $189 million. In response, it's stock fell nearly 25% over the next ten days. By year's end, however, its stock price had recovered. Evidently, investors brushed off the early November dismal news, and instead, focused on the fact that overall sales were up 5.9%, and the company's food distribution business was experiencing strong performance. Still, by year's end, the company's stock price was about a third less than it had been a year earlier.

The company owns 145 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. and also operates as a grocery distributor.

The Banks – ChoiceOne, Community Shores, Independent Bank, Macatawa Bank, and Mercantile Bank

As 2017 began, stock prices of the five banks headquartered in West Michigan were still enjoying the Trump effect – the expected economic boost from pro-business policies including less federal regulation, tax cuts, and huge increases in infrastructure spending. All of these actions likely would increase loan demand and raise interest rates, driving up bank profits. In other words, bank stock prices reflected considerable optimism.

Optimism waned as the year progressed, wiping out much of the Trump effect premium. Instead, as is always the case in the long-run, stock prices rise or fall reflecting earnings

Table 1: Stock Market Returns[1]

	2017	2016	2015	3-Year Cumulative
West Michigan Index	21.5%	18.6%	-6.5%	34.6%
NASDAQ Composite Index	28.2%	7.5%	5.7%	45.7%
S&P 500 Index	19.4%	9.5%	-0.7%	21.6%
Dow Jones Industrial Average	25.1%	13.4%	-2.2%	38.7%

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. The index 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.

changes. And then just before Christmas, President Trump signed into law the largest tax cut since 1981 – The Tax Cuts and Jobs Act of 2017. Banks stock prices immediately rose, but the impact on bank stock prices from lower taxes and higher loan demand will occur in 2018 and later as the economy strengthens.

ChoiceOne Financial Services, Inc.
For most of the year, Sparta-based ChoiceOne's stock price fluctuated tightly in the $22-$23 per share range. It briefly jumped to $24.50 during the week prior to Christmas, the week Congress passed the tax cut act and closed out the year with a 5% price gain.

Community Shores Bank Corporation
Community Shores Bank was the last publicly-traded West Michigan bank to recover from the Great Recession, but it has done so increasing its revenue and earning a profit over the past several quarters. Its stock price rose steadily throughout 2017 but jumped 9% during the last week of December, likely in response to passage of the Tax Cuts and Jobs Act.

Community Shores is a very small bank holding company. Headquartered in Muskegon, it consists of four branches -- two in Muskegon and one each in Norton Shores and Grand Haven. It also has a characteristic unique to other companies comprising the West Michigan Index – insiders own the majority of its stock. Insiders are bank officers and board members. They own almost two-thirds of the company's shares. Certainly those insiders are in it for the long-run. They could have sold when their bank was contending with bankruptcy during the years after the recession, but they didn't. In fact, only about one out of every 1,000 shares of bank stock are sold on an average day – a very, very low proportion.

Independent Bank Corporation
Independent Bank's stock price fluctuated in the $20-$23 range all year long, eking out a 1.8% gain for 2017. The company increased its cash dividend by 20% in late October.

Macatawa Bank Corporation
After its stock price rose 72% in 2016 due to optimism about the U.S. economy, it should come as no surprise that 2017 would not be as rosy, and in fact, it wasn't. The bank's stock price finished the year 4.8% lower. Although first quarter earnings were up 20%, earnings were flat compared with 2016 for both the second and third quarters of 2017.

Holland-based Macatawa Bank has 26 branches located in northern-Allegan, Kent, and Ottawa counties.

Mercantile Bank Corporation
Grand Rapids-based Mercantile Bank's 2017 performance was similar to Macatawa Bank's performance. Good news and investor optimism drove up stock prices in 2016, but 2017's optimism was more muted, and Mercantile's stock ended the

Table 2: West Michigan Company Returns

	2017 Prices Closing	2017 Prices Opening	Price Change
Meritage Hospitality Group Inc.	$20.00	$11.30	77.0%
Wolverine Worldwide, Inc.	$31.88	$22.02	44.8%
Community Shores Bank Corporation	$3.00	$2.30	30.4%
Stryker Corporation	$154.84	$120.52	28.5%
Herman Miller, Inc.	$40.05	$34.60	15.8%
Universal Forest Products, Inc.	$37.62	$34.61[2]	8.7%
Perrigo Corporation PLC	$87.16	$82.31	5.9%
Gentex Corporation	$20.95	$19.96	5.0%
ChoiceOne Financial Services, Inc.	$23.80	$22.62[3]	5.0%
Independent Bank Corporation	$22.35	$21.95	1.8%
Macatawa Bank Corporation	$10.00	$10.50	-4.8%
Mercantile Bank Corporation	$35.37	$37.78	-6.4%
Steelcase Inc.	$15.20	$17.90	-15.1%
SpartanNash Company	$26.68	$39.63	-32.7%

[2] Adjusted for a 3:1 stock split 11/15/2017
[3] Adjusted for a 5% stock dividend 5/8/2017

year 6.4% lower. Its price fluctuated around $33 for most of the year, but then began to rise, finishing the year above $35.

Mercantile Bank's focus and strength is commercial lending, and through the first nine months of the year, commercial loan growth was up almost 10%. In its third quarter report, the Bank reported that its pipeline of construction and other commercial loans was extensive. In that case, 2018 should be a much better year for its investors.

Gentex Corporation
Changes in Gentex Corporation's stock price closely mirror worldwide sales in the auto industry. Growth in worldwide sales leveled off in 2017, as did Gentex's earnings. That resulted in a modest 5.0% increase in the company's stock price, but it was a rocky road getting there. Its price fell from $22 to about $17 at the end of July as it became apparent that North American passenger car sales would be about 20% lower in the third quarter. Fortunately for Gentex, increased sales in other light vehicle markets offset much of the decrease. The company's stock price recovered to almost $21 by the end of the year.

Gentex executives estimate that 2018 sales of its products will increase in the range 6-10%. The company is optimistic about growing implementation of its rearview full display mirror which doubles the field of vision and eliminates field of view obstructions such as headrests and vehicle posts.

Zeeland, MI-based Gentex Corporation designs, develops, manufactures, and markets automatic-dimming rearview mirrors and electronics for the automotive industry; dimmable aircraft windows for the aviation industry; and commercial smoke alarms and signaling devices for the fire protection industry. The company is closer to being a high-tech company than any other company in the Index, and its cost for labor per dollar of sales is low. That's why the company's West Michigan business is unlikely to be outsourced to a country with low-cost labor.

Herman Miller, Inc. and Steelcase Inc.
Both Herman Miller and Steelcase compete in the same industry, mainly office furniture and related systems. Herman Miller is headquartered in Zeeland, while Steelcase is headquartered in Grand Rapids. The performance of the two companies in 2017 contrasts sharply.

Herman Miller's stock price increased 15.8% last year. In the most recent quarter ending in December, it reported that orders were up 10% while earnings per share increased 6%. The company attributes its strong performance in 2017 to a strong U.S. economy: About 75% of the company's sales are to U.S. companies. As it became apparent that the Tax Cuts and Jobs Act would be approved, Herman Miller's stock began rising, and by the end of December had increased from about $36 to $40. Executives had mentioned that a tax cut likely would stimulate the U.S. economy, and therefore, increase company sales.

In contrast to the experience of Herman Miller owners, Steelcase investors saw their stock fall 15.1% in 2017. Sales fell 2% in the third quarter, and earnings per share fell 35% from $0.33 to $0.22. On top of that, Steelcase reduced its earnings per share guidance for the fourth quarter to $0.14 -- $0.18, a significant reduction from its previous guidance.

Meritage Hospitality Group Inc.
Meritage operates about 250 quick-service and casual dining restaurants, most of which are Wendy's restaurants. The company outperformed all other companies in the Index last year, gaining 77%. It has been on an acquisition tear in recent years, and that was the case again in 2017. In a December 6 announcement, the company reported that it has just purchased 57 more Wendy's restaurants. Third quarter results were impressive. Sales rose 40%, net income was up 35%, and guidance for the fourth quarter was adjusted upward. A considerable part of Meritage's growth is due to acquisitions rather than cost cutting or higher sales per restaurant. Still, the growth is impressive, and its investors are happy.

Perrigo Company PLC
Perrigo survived a terrible year in 2016. Earnings were revised from a large profit to a large loss, its long-time CEO abruptly resigned and accepted a position with a competitor, and the company was sued by its largest stockholder. There is good news, however: Perrigo survived, and there is optimism about its future.

Along the way, investors endured a nightmare. The company's price peaked in April 2015 at $202 per share and then began to fall, bottoming out at $66.37 on August 9, 2017. That day would have been a good day to buy. During the nearly five months since then, the price rebounded to $87.16. Perrigo's stock gain for the year was a modest 5.9% but was up over 31% from its August 9 low.

At $1.29 per share, third quarter earnings per share were greater than the consensus estimate of $1.10. Perrigo shares shot up 13% on the news. Further, the company raised its guidance for 2017 annual earnings per share to the higher end of its previously reported $4.80 - $4.95 range. Perrigo's resurgence is great news for its workers, its owners, and West Michigan.

Stryker Corporation
Stryker's stock rose continuously throughout the year, finishing with a 28.5% gain which nearly matched its 2016 gain of 28.9%. Increases in sales, net income, and earnings per share grew at least 10% during the first nine months of the year. Because Stryker's P/E ratio is 33, a one penny increase in earnings per share translates into a 33 cent increase in price.

There is further reason for optimism. As this article went to press, a provision in the Tax Cuts and Jobs Act deleted for the next two years the 2.3% medical device tax that had been part of ObamaCare, and a significant part of Stryker's business consists of sales of medical devices such as knee and hip joint replacements. If all of the tax savings are passed on to customers as lower prices, there will be no direct benefit to Stryker, but if only part of the tax savings is retained, Stryker expenses will fall, and its profits will rise.

Universal Forest Products, Inc.
UFPI's stock price increased 8.7% in 2017, and that's on top of a 49.5% increase in 2016 and a 28.5% gain in 2015. It continues to be a well-run company in the right place at the right time. The Grand Rapids-based company designs, manufactures, and markets wood and wood-alternative products for home centers, other retailers, and commercial customers. That industry continues to grow rapidly as home and commercial construction is trying to catch up with the dearth of building during and after the Great Recession. The outlook for UFPI continues to look great going into 2018.

The company split its stock 3:1 on November 15, tripling the number of shares but decreasing share price to one-third of its prior value. The historical explanation for stock splits is to reduce the price to a more affordable level for individual investors. But individual investors hardly matter anymore. Shares of large corporations like UFPI are mostly owned by institutional investors (for example, mutual funds, life insurance companies, and pension funds) that trade huge blocks of shares, often millions of shares at a time. To them, the price per share is irrelevant. That's why we see more and more companies with share prices in the range of several hundred dollars, or even more than $1,000. Financial institutions own more than 85% of UFPI shares. Although many individuals like splits because they end up with more shares, the price is proportionately lower, so there is no advantage. To a finance person, UFPI's split is curious.

Wolverine Worldwide, Inc.
WWW's price rose 44.8% last year as investors continued to be optimistic about the company's progress toward its multi-year goal to become more efficient and rid itself of low margin business segments. Its 2017 gain is in addition to a 31.4% increase in 2016.

The company closed 215 of its 295 retail stores in 2017, sold its U.S. Department of Defense contract business, sold its Sebago brand, and sold its Stride Right brand license. As a result, its sales have dropped, but importantly, its inventory decreased by 26%, and the company expects operating profit margins to increase 12% in 2018. Higher margins and lower expenses from these changes should lead to higher earnings per share in 2018.

Rockford-based Wolverine World Wide, Inc. designs, manufactures, sources, markets, licenses, and distributes footwear, apparel, and accessories. ■