

V.F. Corporation (VFC)

Updated April 10th, 2018 by Nate Parsh

Key Metrics

Current Price: \$78	5 Year CAGR Estimate: 5.2%	Quality Percentile: N/A
Fair Value Price: \$59	5 Year Growth Estimate: 8.3%	Momentum Percentile: N/A
% Fair Value: 132%	5 Year Valuation Multiple Estimate: -5.5%	Total Return Percentile: N/A
Dividend Yield: 2.4%	5 Year Price Target \$85	Valuation Percentile: N/A

Overview & Current Events

V.F. Corporation is the largest apparel manufacture in the world. The company's brands include The North Face, Vans, Timberland and Lee and Wrangler jeans. VFC has been in existence since 1899 and had more than \$12 billion in sales in 2017. The company employs more than 65,000 people.

VFC reported earnings results for the 4th quarter of 2017 on 2/16/2018. Adjusting for tax reform charge, the company earnings \$1.01 per share during the quarter. The company had revenue of \$3.65 billion. VFC missed EPS by \$0.01 and on revenue by \$10 million. While much of the retail world has struggled in recent years, VFC has worked to improve digital and direct to consumer sales. Digital sales grew 25% in 2017 and direct to consumer now accounts for 30% of total revenue. VFC announced the day of earnings that they would be selling the Nautica brand.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	\$1.39	\$1.29	\$1.61	\$2.01	\$2.41	\$2.73	\$3.08	\$3.08	\$3.11	\$3.08	\$3.45	\$5.14
DPS	\$0.58	\$0.59	\$0.61	\$0.65	\$0.76	\$0.92	\$1.11	\$1.33	\$1.53	\$1.72	\$1.84	\$3.24

VFC has increased earnings at an average rate of 8.3% per year over the past decade. Earnings declined in 2009, but grew post-recession as economic conditions improved. Applying the average growth rate over the previous 10 years to the company's EPS estimate for 2018 (\$3.45) could have earnings per share reaching \$5.14 per share by 2023.

VFC has increased its dividend for 45 consecutive years. Over the past 10 years, the company has increased its dividend at an average of ~12% per year. While dividend growth tends to slow in a recession, the average increase is impressive. Using this growth rate going forward, the current \$1.84 dividend for 2018 could grow to \$3.24 per share in 2023.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	12.6	12.3	12.3	13.7	15.3	17.4	20.8	23.1	19.3	19.5	22	16.6
Avg. Yld.	3.3%	3.7%	3.1%	2.4%	2.1%	1.9%	1.7%	1.9%	2.5%	2.9%	2.4%	3.8%

Using the company's forward EPS guidance of \$3.45 per share, VFC is trading at a price to earnings multiple of 22. This is near the top of the stock's range over the past decade. As most of VFC's products are considered to be discretionary, earnings can suffer during a recession. During the last recession, VFC's P/E compressed. As the economy improved, so did the company's earnings. Investors buying shares of VFC should be prepared for lower earnings and a lower multiple if/when economic conditions soften.

VFC's dividend yield varies widely based on conditions of the market. In the recession portion of the cycle, the stock's yield could become very generous. When the economy is growing and VFC's EPS grows, the yield could align more with the S&P 500's. If shares revert to their average P/E multiple (16.6), the expected dividend yield could reach almost 4%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	52.2%	49.4%	55.7%	46.5%	52.5%	53.2%	58.6%	55.9%	55.8%	59.9%	61.6%	56.7%
Debt/A	44.7%	41.1%	40.2%	51.4%	46.8%	41.1%	42.8%	44.1%	49.3%	62.6%	67%	48%
Int. Cov.	10.7	8.9	11	17.1	16.8	20.4	22.7	20.3	16.1	17.7	19.4	16.2
Payout	41.7%	45.7%	37.8%	32.3%	31.5%	33.7%	36%	43.2%	49.2%	55.8%	53.3%	63%
Std. Dev.	49.3%	38.1%	23.8%	33.6%	23.8%	17.7%	17.7%	25.1%	25.8%	19.4%	21%	27.4%

VFC declined in 2009, but rebounded in the ensuing years. While this is impressive, the company's share price was relatively stagnant as the multiple remained very low. VFC's products are those often bought when consumers are confident with their economic security, making VFC reliant on the conditions of the market. For this reason, VFC should not be considered a recession proof company.

What should be considered recession proof is the company's ability to pay and raise dividends. Dividend growth slowed slightly during the last recession, but is very impressive over the long term. The company has maintained a low payout ratio, even when earnings have declined. Investors should note that the dividend has increased at a higher rate than earnings growth. If VFC were to keep the payout ratio low, the company would either have to boost earnings or slow dividend growth.

VFC has seen its debt ratio rise in recent years as the company purchases additional brands to help grow earnings. Debt levels are not yet at a level where shareholders would have to be concerned with a dividend cut, but it is something to watch going forward. The average Debt/Asset ratio has been below 50% over the past 10-years.

Final Thoughts & Recommendation

Over the next 5 years, we are expecting ~5% total returns for VFC. This expected total return rate is arrived at by a combination of earnings growth (~8%), dividends (~2.5%) and multiple revision (~-5.5%). Investors unwilling to hold shares during a recession should consider avoiding buying shares. Those investors willing to hold in a tough economic climate would be compensated with a higher than average dividend yield. Given that VFC has more than 4 decades of dividend growth, shareholders can rest assured that the company will continue to pay and raise its dividend each year.

Total Return Breakdown by Year

