



V.F. Corporation (VFC)

Updated July 20th, 2018 by Nate Parsh

Key Metrics

Current Price: \$93	5 Year CAGR Estimate: 2.0%	Volatility Percentile: N/A
Fair Value Price: \$60	5 Year Growth Estimate: 8.3%	Momentum Percentile: N/A
% Fair Value: 155%	5 Year Valuation Multiple Estimate: -8.3%	Valuation Percentile: N/A
Dividend Yield: 2.0%	5 Year Price Target: \$90	Total Return Percentile: N/A

Overview & Current Events

V.F. Corporation is the largest apparel manufacturer 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 generated more than \$12 billion in sales in 2017. The company employs more than 65,000 people. VFC has a current market cap of almost \$37 billion.

VFC released 2nd quarter earnings on July 20th. The company earned \$0.43 per share, \$0.10 above estimates and a 48% increase from Q2 2017. Revenue grew nearly 23% to \$2.8 billion, topping expectations by \$110 million.

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	\$3.55	\$5.29
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. We feel that the next recession might have a similar impact on the company's earnings, though we feel VFC is slightly less cyclical today than it was during the last recession due to the wider variety of products the company sells. VFC has raised its full year earnings guidance to \$3.55 from \$3.45 previously. Reaching this midpoint would result in a 13% increase in EPS from 2017. Revenue is expected to grow 10% in 2018.

VFC saw growth almost across the board during the quarter. The active segment had revenue growth of 22% in constant currency, led by a 32% increase in Vans revenue. Outdoor had sales growth of 3%, including a 5% increase in North Face revenue. International revenue grew 22%, with 13% of this growth coming from acquisitions. After growing 25% last quarter, digital sales grew 50% this quarter. Gross margins improved 70 basis points year over year to 50.5%, topping analysts' estimate of 50.1%.

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.

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	26.2	17
Avg. Yld.	3.3%	3.7%	3.1%	2.4%	2.1%	1.9%	1.7%	1.9%	2.5%	2.9%	2.0%	3.6%

VFC shares have seen a price increase of \$15 from our April 10th update. Based off of updated earnings guidance, shares trade with a price-to-earnings multiple of 26.2, up from 22 previously. The stock has an average multiple of 16.6 over the last decade. Given the sharp increases in digital sales, which now make up a third of total revenues, we are raising our 2023 target P/E to 17 from 16.6. Despite this, the multiple could contract 8.3% per year over the next five years.

VFC's current yield is near the low end of its 10-year range. The yield is now barely above that of the S&P 500 and well below that of the 10-year Treasury Bond. The company's dividend growth track record is impressive, allowing investors to have confidence that VFC will continue to pay out income to shareholders even in a recession.

Disclosure: This analyst has a long position in the security discussed in this research report.

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%	51.8%	61.2%
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%

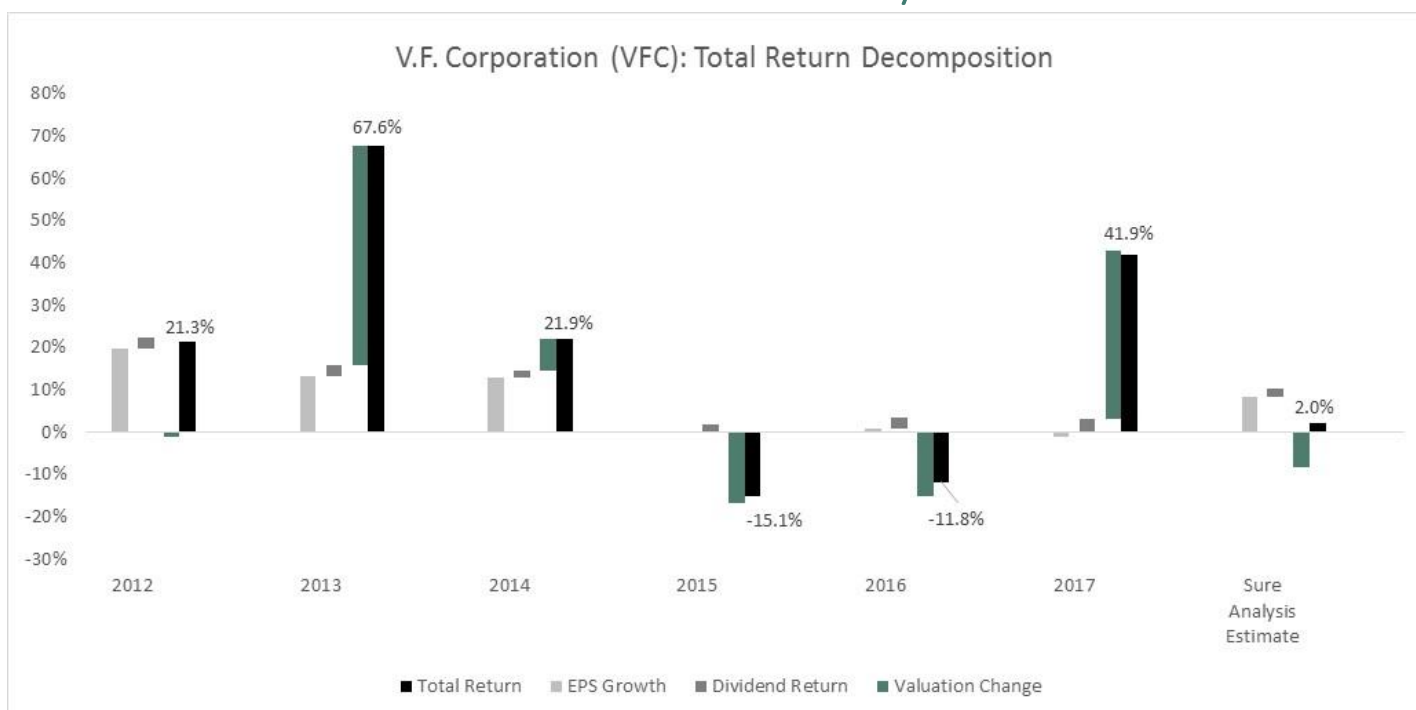
VFC's earnings declined in 2009 but rebounded in the ensuing years. While this is impressive, the company's share price was relatively stagnant as the multiple remained very low. Along with an impressive dividend growth streak, VFC's payout ratio is very attractive. The company has maintained a low payout 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

After an impressive 19% gain in share price since our last update, we have reduced our total return expectation to just 2% per year through 2023 from 5.2% previously. We arrive at this total based on earnings growth (8.3%), dividend (2%) and multiple contraction (8.3%). VFC showed impressive growth numbers in the 2nd quarter, much as it did during the 1st quarter. Digital sales numbers continue to grow, causing us to raise our valuation target. Even with an increase in earnings guidance, we feel that shares don't offer significant upside from current prices. We have raised our price target \$5 to \$90 to reflect the increase in EPS and valuation estimates. We recommend that those investors holding VFC should continue to do so given the company's track record for dividend growth. Investors who don't own the stock are encouraged to wait for a better entry point.

Total Return Breakdown by Year



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