



V.F. Corporation (VFC)

Updated October 19th, 2018 by Nate Parsh

Key Metrics

Current Price:	\$78	5 Year CAGR Estimate:	6.2%	Volatility Percentile:	46.8%
Fair Value Price:	\$62	5 Year Growth Estimate:	8.3%	Momentum Percentile:	83.3%
% Fair Value:	126%	5 Year Valuation Multiple Estimate:	-4.5%	Growth Percentile:	79.7%
Dividend Yield:	2.4%	5 Year Price Target	\$92	Valuation Percentile:	16.2%
Dividend Risk Score:	C	Retirement Suitability Score:	C	Total Return Percentile:	30.2%

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.

V.F. Corporation reported 2nd quarter earnings on October 19th. The company earned \$1.43 per share, \$0.10 above estimates and a 19% increase year over year. Revenue grew 15% to \$3.91 billion, beating estimates by \$40 million.

V.F. Corporation saw growth in almost every segment of the company. International sales grew 4% due in large part to 12% growth in China. Direct to consumer sales increased 14% while digital sales grew more than 30%. The Active segment led the way with 19% growth. Vans and The North Face brands had 27% and 7% sales growth, respectively, in constant currency. Direct to consumer sales accounted for more than a quarter of all sales for Vans. The North Face performed especially well in Europe, thanks to both increases in wholesale revenue and strong demand for women's product categories. Timberland had revenue declines of 2%, largely due to a customer bankruptcy and timing of shipments to certain regions. Timberland did see 25% growth in digital sales. Lee jeans fell 9% while Wrangler sales declined 5%. V.F. Corporation said in August that it will be spinning its jeans business off into its own company. After earnings, V.F. Corporation raised the midpoint for its EPS guidance to \$3.65 from \$3.55. Reaching this midpoint would represent 18.5% growth from the previous year. Revenue is expected to grow at least 11% this year.

Shares dropped almost 11% after posting results. This could be due to the declines in the company's jeans businesses. Gross margin also declined 10 basis points to 50.1%.

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	\$3.65	\$5.44
DPS	\$0.58	\$0.59	\$0.61	\$0.65	\$0.76	\$0.92	\$1.11	\$1.33	\$1.53	\$1.72	\$1.89	\$3.33
Shares	439.4	441.1	431.8	442.2	440.8	440.31	432.9	426.6	414	395.8	392	385

V.F. Corporation has increased earnings at an average rate of 8.3% per year over the past decade. Earnings declined in 2009 but grew post-recession. The next recession might have a similar impact on the company's earnings, though we feel V.F. Corporation is slightly less cyclical today due to the variety of products the company sells.

V.F. Corporation 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. V.F. Corporation increased its dividend by 10.9% on October 19th.

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	21.4	17
Avg. Yld.	3.3%	3.7%	3.1%	2.4%	2.1%	1.9%	1.7%	1.9%	2.5%	2.9%	2.4%	3.6%

V.F. Corporation shares have seen a price decrease of \$15, or 16%, since our July 20th update. Based off of updated EPS guidance, shares trade with a price-to-earnings multiple of 21.4, down from 26.2 previously. We project a P/E of 17 going forward, meaning that the stock could experience a multiple contraction of 4.5% per year over the next five years.

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



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V.F. Corporation'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.

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%

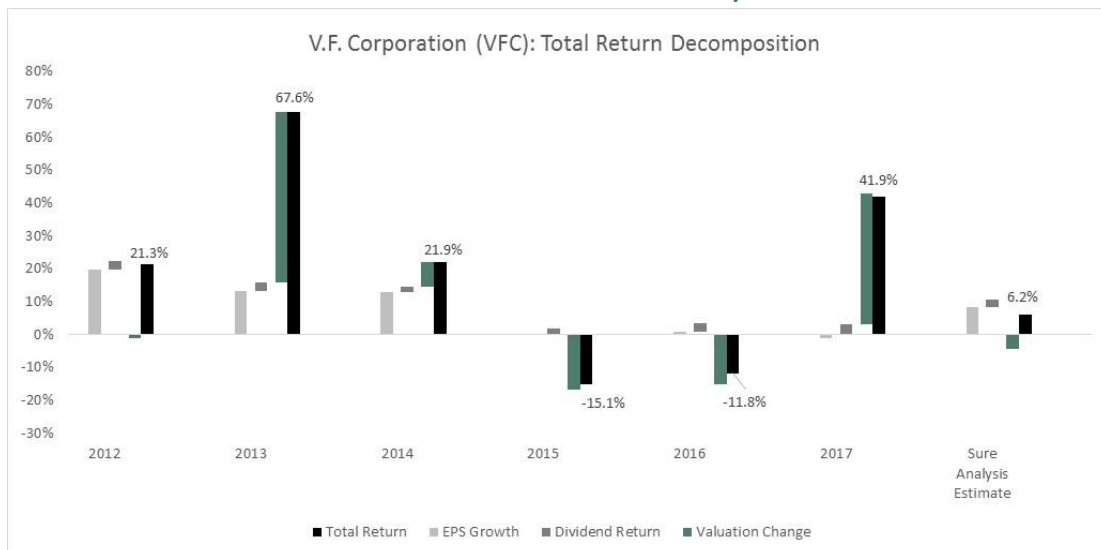
V.F. Corporation's earnings declined in 2009 but rebounded in the ensuing years. While this is impressive, the company's share price was relatively stagnant as the multiple remained very low. Along with an impressive dividend growth streak, V.F. Corporation's payout ratio is very attractive. The company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

V.F. Corporation 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

The double digit decline in V.F. Corporation's share price has increased our expected annual return to 6.2%, up from 2% previously. We base this forecast on growth (8.3%), dividends (2.4%) and multiple reversion (4.5%). V.F. Corporation had impressive strength in its Vans and North Face portfolio, which was offset by the decline in jeans. Still, the company has shown high rates of growth for its direct to consumer and digital sales. In our last update, we suggested investor wait for a better opportunity to purchase V.F. Corporation's stock. Given this sharp selloff, we think investors can start to consider initiating a position in the company. If the decline continues, we would highly recommend the stock of V.F. Corporation. Due to the increase in the company's earnings guidance, we have raised our price target \$2 to \$92.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	7643	7220	7703	9459	10880	11420	11882	10996	11026	11811
Gross Profit	3359	3195.2	3597.4	4330.6	5062.0	5488.2	5768.9	5392.6	5436.2	5966.2
Gross Margin	43.9%	44.3%	46.7%	45.8%	46.5%	48.1%	48.6%	49.0%	49.3%	50.5%
SG&A Exp.	2420	2336.4	2574.8	3085.8	3596.7	3841.0	3970.5	3747.8	3988.3	4463.1
D&A Exp.	166.2	170.5	173.4	198.7	238.0	253.3	274.9	272.1	281.6	290.5
Operating Profit	939.0	858.8	1022.6	1244.8	1465.3	1647.1	1798.3	1644.8	1447.9	1503.1
Operating Margin	12.3%	11.9%	13.3%	13.2%	13.5%	14.4%	15.1%	15.0%	13.1%	12.7%
Net Profit	602.7	461.3	571.4	888.1	1086.0	1210.1	1047.5	1231.6	1074.1	614.9
Net Margin	7.9%	6.4%	7.4%	9.4%	10.0%	10.6%	8.8%	11.2%	9.7%	5.2%
Free Cash Flow	543.6	877.9	876.0	832.2	992.2	1180.9	1460.0	885.8	1260.5	1239.9
Income Tax	245.2	196.2	176.7	274.4	335.7	352.4	385.8	347.2	205.9	695.3

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	6434	6473.9	6457.6	9313.1	9633.0	10315	9845.3	9639.5	9739.3	9958.5
Cash & Equivalents	381.8	731.5	792.2	341.2	597.5	776.4	971.9	944.4	1227.9	566.1
Accounts Receivable	851.3	776.1	773.1	1120.2	1222.3	1360.4	1276.2	1290.0	1148.8	1422.1
Inventories	1152	958.6	1070.7	1453.6	1354.2	1399.1	1482.8	1555.4	1424.6	1705.2
Goodwill & Int. Ass.	2727	2944.0	2701.1	5032.1	4997.7	5102.6	4428.8	3914.7	3283.3	4014.7
Total Liabilities	2877	2660.6	2596.2	4788.0	4507.4	4238.4	4214.4	4254.7	4798.4	6238.6
Accounts Payable	435.4	373.2	511.0	637.1	562.6	638.7	690.8	680.6	620.2	755.6
Long-Term Debt	1198	1187.1	975.2	2116.2	1844.6	1450.8	1439.6	1854.8	2318.9	2923.3
Shareholder's Equity	3556	3815.2	3861.2	4526.0	5125.6	6077.0	5630.9	5384.8	4940.9	3719.9
D/E Ratio	0.34	0.31	0.25	0.47	0.36	0.24	0.26	0.34	0.47	0.79

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	9.4%	7.1%	8.8%	11.3%	11.5%	12.1%	10.4%	12.6%	11.1%	6.2%
Return on Equity	16.9%	12.5%	14.9%	21.2%	22.5%	21.6%	17.9%	22.4%	20.8%	14.2%
ROIC	12.5%	9.5%	11.6%	15.5%	16.0%	16.7%	14.4%	17.2%	14.8%	8.8%
Shares Out.	439.4	441.1	431.8	442.2	440.8	440.31	432.9	426.6	414	395.8
Revenue/Share	17.17	16.17	17.45	21.25	24.31	25.56	26.99	25.45	26.12	29.27
FCF/Share	1.22	1.97	1.99	1.87	2.22	2.64	3.32	2.05	2.99	3.07

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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