



V.F. Corporation (VFC)

Updated January 18th, 2018 by Nathan Parsh

Key Metrics

Current Price:	\$82	5 Year CAGR Estimate:	6.9%	Volatility Percentile:	45.3%
Fair Value Price:	\$67	5 Year Growth Estimate:	8.3%	Momentum Percentile:	73.4%
% Fair Value:	122%	5 Year Valuation Multiple Estimate:	-3.9%	Growth Percentile:	81.6%
Dividend Yield:	2.5%	5 Year Price Target	\$100	Valuation Percentile:	16.0%
Dividend Risk Score:	A	Retirement Suitability Score:	B	Total Return Percentile:	24.0%

Overview & Current Events

V.F. Corporation is the largest apparel manufacturer in the world. The company's brands include The North Face, Vans, Timberland, 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 and has a market cap of almost \$33 billion.

V.F. Corporation released financial results for the third quarter of fiscal 2018 on January 18th. The company earned \$1.30 per share, \$0.20 above estimates and an improvement of nearly 30% from the previous year. Revenue increased 7.9% to \$3.94 billion, \$70 million above estimates. V.F. Corporation once again saw sales growth in almost every brand the company owns. Revenues for the company's active segment were higher by 16%. Vans saw a 25% increase in sales, with a 30% gain in the U.S and 60% growth in direct-to-consumer. This is the second consecutive quarter of 25%+ growth for Vans brands. The North Face brand revenue improved 14%, with U.S. sales growing 16% and the company's Asia region sales increasing 23%. Sales for V.F. Corporation's work segment, which includes Dickies, was higher by 5%, largely due to international strength and gains in direct-to-consumer. Wrangler (-2%) and Lee (-9%) were the only brands to show sales declines in the quarter. While digital sales are increasing for both, neither brand was able to demonstrate gains in wholesale revenues. Sales from outside the U.S. were up 5%, which included a 4% currency translation headwind. China was the major contributor to growth in international markets, posting a revenue increase of 18%. Direct-to-consumer sales improved 10% on the strength of a 24% increase in digital revenue. Gross margins gained 60 basis points to 52.2%. V.F. Corporation raised its full year guidance to \$3.73 from \$3.65 previously. This would represent growth of more than 21% if achieved.

The company is still planning to spin off its Wrangler and Lee brands as well as its outlet businesses into a separate company, called Kontoor Brands, Inc. V.F. Corporation expects this spinoff to be completed in the first half 2019.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$1.29	\$1.61	\$2.01	\$2.41	\$2.73	\$3.08	\$3.08	\$3.11	\$2.97	\$3.08	\$3.73	\$5.56
DPS	\$0.59	\$0.61	\$0.65	\$0.76	\$0.92	\$1.11	\$1.33	\$1.53	\$1.72	\$1.89	\$2.04	\$3.60
Shares	441.1	431.8	442.2	440.8	440.31	432.9	426.6	414	395.8	392	392	385

V.F. Corporation has increased earnings at an average rate of 8.3% per year over the past decade. We expect the company to continue growing at a similar rate moving forward. 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 than a decade ago due to its larger brand portfolio.

V.F. Corporation has increased its dividend for 45 consecutive years; future dividend growth about in line with earnings-per-share growth (or slightly faster) is likely.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Avg. P/E	12.3	12.3	13.7	15.3	17.4	20.8	23.1	19.3	19.5	22	22	18
Avg. Yld.	3.7%	3.1%	2.4%	2.1%	1.9%	1.7%	1.9%	2.5%	2.9%	2.5%	2.5%	3.6%

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



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V.F. Corporation shares have increased \$4, or 5.1%, since our October 19th update. Based off of updated EPS guidance, shares trade with a price-to-earnings ratio (P/E) of 22. Given that the company is spinning off its declining jeans business and will focus on its growing active, outdoor and work segments, we have raised our projected P/E ratio for 2023 to 18 from 17. If shares reverted to this P/E ratio, investors would see annual returns reduced by 3.9%.

V.F. Corporation's current yield of 2.5% is slightly below the stock's 10-year average yield. 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

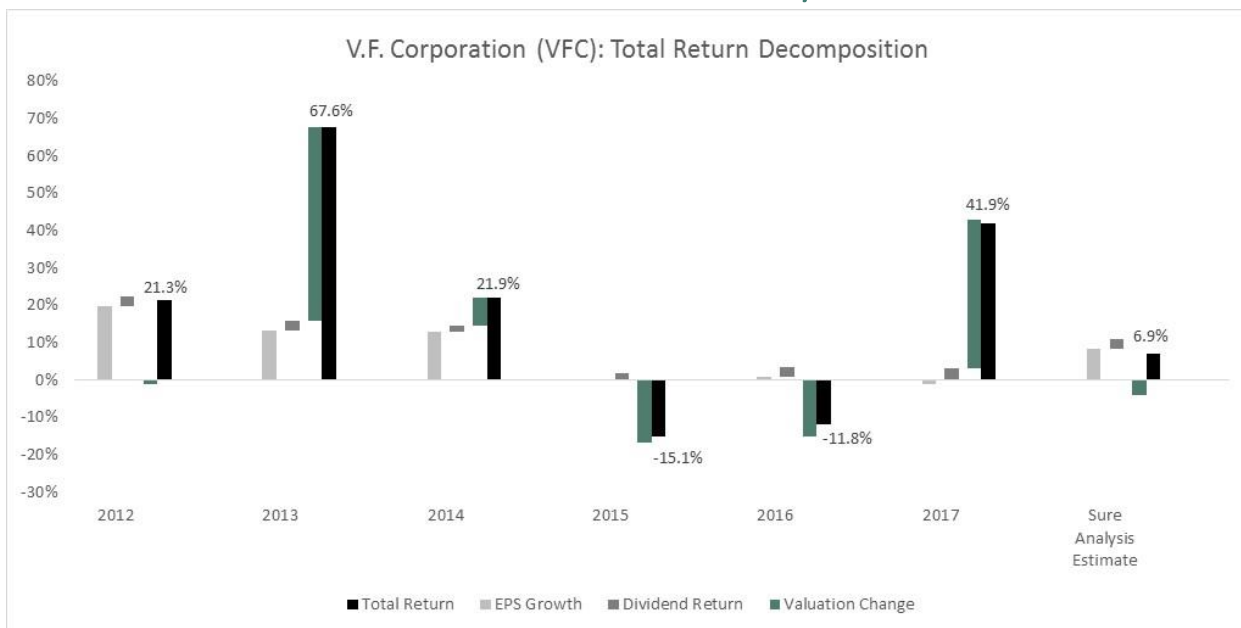
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	45.7%	37.8%	32.3%	31.5%	33.7%	36%	43.2%	49.2%	55.8%	61.4%	54.7%	64.7%

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 low. Along with an impressive dividend growth streak, V.F. Corporation's payout ratio is very attractive. The company has maintained a reasonable payout ratio, even when earnings have declined.

Final Thoughts & Recommendation

After third quarter results, we forecast that V.F. Corporation can offer a total annual return of 6.9% through 2023, up from our previous estimate of 6.2%. We base this forecast on growth (8.3%), dividend yield, (2.5%) and valuation multiple reversion (-3.9%). V.F. Corporation's core brands continue to show impressive growth. Direct-to-consumer revenues remain strong and digital sales are expected to increase more than 30% for fiscal 2018. We have raised our 2023 price target \$8 to \$100 due to the increase in earnings-per-share estimates and a higher 2023 valuation target. Despite this, we recommend that investors wait for a pullback before purchasing shares of V.F. Corporation given the increase in share price; V.F. Corporation is a hold at current prices.

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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