



# V.F. Corporation (VFC)

Updated May 25<sup>th</sup>, 2019 by Eli Inkrot

## Key Metrics

<b>Current Price:</b>	\$85	<b>5 Year CAGR Estimate:</b>	3.5%	<b>Volatility Percentile:</b>	55.4%
<b>Fair Value Price:</b>	\$59	<b>5 Year Growth Estimate:</b>	8.0%	<b>Momentum Percentile:</b>	51.4%
<b>% Fair Value:</b>	143%	<b>5 Year Valuation Multiple Estimate:</b>	-6.9%	<b>Growth Percentile:</b>	76.0%
<b>Dividend Yield:</b>	2.4%	<b>5 Year Price Target</b>	\$87	<b>Valuation Percentile:</b>	8.9%
<b>Dividend Risk Score:</b>	B	<b>Retirement Suitability Score:</b>	B	<b>Total Return Percentile:</b>	15.3%

## Overview & Current Events

V.F. Corporation is one of the world's largest apparel, footwear and accessories companies. The company's brands include The North Face, Vans, Timberland and previously Lee and Wrangler jeans. V.F. Corp. has been in existence since 1899 and generated nearly \$14 billion in sales last year. The company employs more than 65,000 people and has a market cap of almost \$34 billion.

On April 30<sup>th</sup>, 2019 V.F. Corp announced that its board had approved the separation of VF's Jeanswear organization, including the Wrangler, Lee and Rock & Republic brands, to be named Kontoor Brands. The separation, expected to commence after the market close on May 22<sup>nd</sup>, 2019, will be completed via a 100% distribution of shares to V.F. Corp shareholders, with the new entity trading as an independent, publicly traded company under the "KTB" ticker.

On May 22<sup>nd</sup>, 2019 V.F. Corp released Q4 and full year fiscal year 2019 results for the period ending March 30<sup>th</sup>, 2019. For the quarter revenue came in at \$3.2 billion, a 6% increase compared to the prior year, driven by V.F. Corp's largest brands, international and direct-to-consumer businesses and strength from the Active, Outdoor and Work segments. Adjusted earnings-per-share came in at \$0.60 for the quarter, a 4% decline compared to Q4 2018. For the year revenue equaled \$13.8 billion, representing a 12% year-over-year increase. Adjusted earnings-per-share totaled \$3.78, up 22% compared to fiscal year 2018.

V.F. Corp also provided a fiscal 2020 outlook. Revenue is expected to be in the \$11.7 billion to \$11.8 billion range, which excludes the recent separation of Kontoor and would represent a 7% to 8% improvement on a comparable basis. Adjusted earnings-per-share are anticipated to be in the \$3.30 to \$3.35 range, which would imply 17% to 19% growth on a comparable basis.

## Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
<b>EPS</b>	\$1.29	\$1.61	\$2.01	\$2.41	\$2.73	\$3.08	\$3.08	\$3.11	\$2.97	\$3.78	<b>\$3.30</b>	<b>\$4.85</b>
<b>DPS</b>	\$0.59	\$0.61	\$0.65	\$0.76	\$0.92	\$1.11	\$1.33	\$1.53	\$1.72	\$1.89	<b>\$2.04</b>	<b>\$2.43</b>
<b>Shares</b>	441	432	442	441	440	433	427	414	396	400	<b>400</b>	<b>390</b>

Note that while V.F. Corp has already completed fiscal year 2019 (ended in March), we are electing to display the above information closer to the actual calendar year.

During the last decade V.F. Corp has grown earnings-per-share by an average compound rate of 10.5% per annum. This result was driven by strong sales growth (basically doubling over this timeframe) along with a solid uptick in the company's operating and net profit margins. While continued success can come from these areas, and the company has become more of a "pure play" provider, we acknowledge the difficulty of growing off of a larger base. As such, we have estimated 8% annual growth over the intermediate-term. Note that this year's expectation of lower earnings-per-share reflects the spin-off and not distress in the business.

V.F. Corporation has not only paid but increased its dividend for 46 consecutive years. Moving forward we believe this record will remain intact, albeit perhaps with a more subdued dividend growth rate as the company begins to digest an abnormally high payout ratio.

*Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.*



# V.F. Corporation (VFC)

Updated May 25<sup>th</sup>, 2019 by Eli Inkrot

## Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	12.3	12.3	13.7	15.3	17.4	20.8	23.1	19.3	20.1	22.0	25.8	18.0
Avg. Yld.	3.7%	3.1%	2.4%	2.1%	1.9%	1.7%	1.9%	2.5%	2.9%	2.3%	2.4%	2.8%

Over the past decade shares of V.F. Corp have traded hands with an average P/E ratio of about 18 times earnings. We consider this type of valuation as a reasonable starting point, taking into consideration the quality of the company's earnings along with its prospective growth rate. Adjusted earnings-per-share will be depressed this year due to the Kontoor spin-off – leading to an elevated P/E ratio – however, the company will be able to “grow into” its valuation over time. Still, given the present forecast, the valuation could be a headwind over the intermediate-term.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	46%	38%	32%	32%	34%	36%	43%	49%	58%	50%	62%	50%

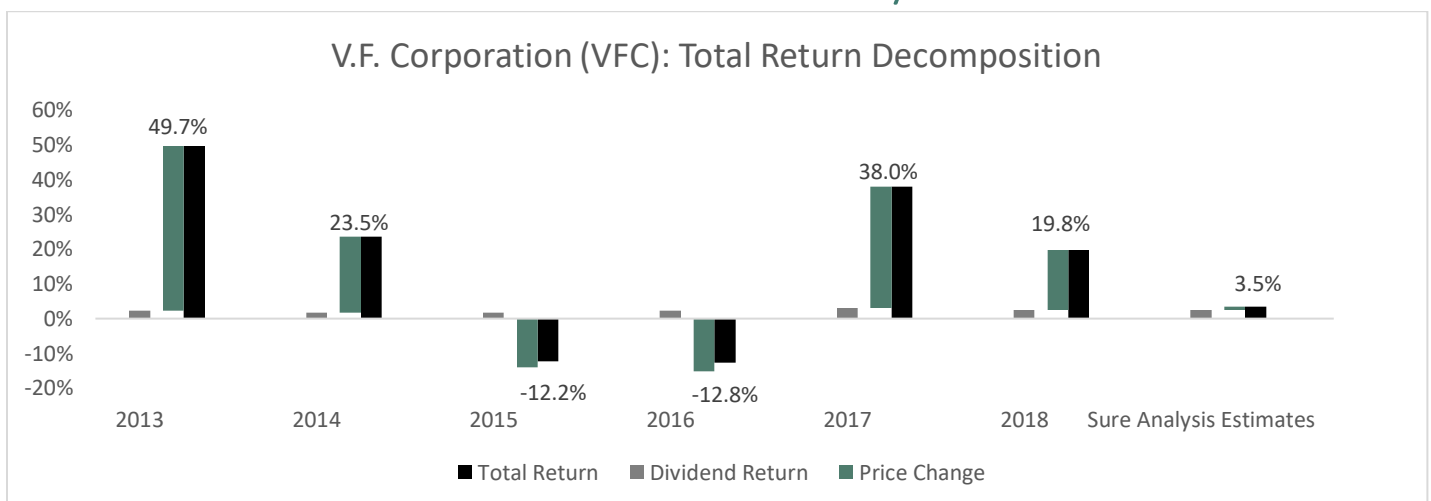
V.F. Corp has a competitive advantage in the way of a stable of well-known, premium brands that demand pricing power. During the last recession the company posted earnings-per-share of \$1.39, \$1.29 and \$1.61 in the 2008 through 2010 stretch, indicating the resiliency of the business. Also of note is the company's storied dividend record. While the dividend payout ratio is temporarily elevated, we believe this payout has the ability to continue to rise over time.

As of the most recent report V.F. Corp held \$543 million in cash, \$4.7 billion in current assets (42% of which was inventory) and \$10.4 billion in total assets (36% of which was goodwill and intangible assets) against \$2.7 billion in current liabilities and \$6.1 billion in total liabilities. Long-term debt stood at \$2.1 billion against underlying annual earnings power of roughly \$1.5 billion.

## Final Thoughts & Recommendation

Shares are up slightly since our last update, despite the spin-off of Kontoor. We are forecasting 3.5% total return potential, stemming from 8% annual growth, a 2.4% starting dividend yield weighed against a 6.9% valuation headwind. Still, there are a lot of things to like about the business, including strong brand names, an excellent dividend history and a solid balance sheet. Indeed, our estimates could be too conservative if the now leaner company grows faster than anticipated. We rate shares as a hold.

## Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



# V.F. Corporation (VFC)

Updated May 25<sup>th</sup>, 2019 by Eli Inkrot

## Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Revenue</b>	7220	7703	9459	10880	11420	11882	10996	11026	11811	13849
<b>Gross Profit</b>	3195	3597	4331	5062	5488	5769	5393	5436	5966	7021
<b>Gross Margin</b>	44.3%	46.7%	45.8%	46.5%	48.1%	48.6%	49.0%	49.3%	50.5%	50.7%
<b>SG&amp;A Exp.</b>	2336	2575	3086	3597	3841	3971	3748	3901	4453	5345
<b>D&amp;A Exp.</b>	170	173	199	238	253	275	272	282	291	301
<b>Operating Profit</b>	859	1023	1245	1465	1647	1798	1645	1535	1513	1676
<b>Operating Margin</b>	11.9%	13.3%	13.2%	13.5%	14.4%	15.1%	15.0%	13.9%	12.8%	12.1%
<b>Net Profit</b>	461	571	888	1086	1210	1048	1232	1074	615	1260
<b>Net Margin</b>	6.4%	7.4%	9.4%	10.0%	10.6%	8.8%	11.2%	9.7%	5.2%	9.1%
<b>Free Cash Flow</b>	878	876	832	992	1181	1460	886	1261	1240	1357
<b>Income Tax</b>	196	177	274	336	352	386	347	206	695	268

## Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Total Assets</b>	6474	6458	9313	9633	10315	9845	9640	9739	9959	10357
<b>Cash &amp; Equivalents</b>	732	792	341	597	776	972	944	1228	563	543
<b>Accounts Receivable</b>	776	773	1120	1222	1360	1276	1290	1149	1430	1709
<b>Inventories</b>	959	1071	1454	1354	1399	1483	1555	1425	1707	1943
<b>Goodwill &amp; Int. Ass.</b>	2944	2701	5032	4998	5103	4429	3915	3283	4015	4004
<b>Total Liabilities</b>	2661	2596	4788	4507	4238	4214	4255	4798	6239	6058
<b>Accounts Payable</b>	373	511	637	563	639	691	681	620	761	695
<b>Long-Term Debt</b>	1187	975	2116	1845	1451	1440	1855	2319	2923	2786
<b>Shareholder's Equity</b>	3815	3861	4526	5126	6077	5631	5385	4941	3720	4299
<b>D/E Ratio</b>	0.31	0.25	0.47	0.36	0.24	0.26	0.34	0.47	0.79	0.65

## Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Return on Assets</b>	7.1%	8.8%	11.3%	11.5%	12.1%	10.4%	12.6%	11.1%	6.2%	12.2%
<b>Return on Equity</b>	12.5%	14.9%	21.2%	22.5%	21.6%	17.9%	22.4%	20.8%	14.2%	31.5%
<b>ROIC</b>	9.5%	11.6%	15.5%	16.0%	16.7%	14.4%	17.2%	14.8%	8.8%	17.4%
<b>Shares Out.</b>	441	432	442	441	440	433	427	414	396	400
<b>Revenue/Share</b>	16.17	17.45	21.25	24.31	25.56	26.99	25.45	26.12	29.27	34.58
<b>FCF/Share</b>	1.97	1.99	1.87	2.22	2.64	3.32	2.05	2.99	3.07	3.39

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

### Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.