



V.F. Corporation (VFC)

Updated July 24th, 2019 by Eli Inkrot

Key Metrics

Current Price:	\$87	5 Year CAGR Estimate:	3.1%	Volatility Percentile:	56.7%
Fair Value Price:	\$60	5 Year Growth Estimate:	8.0%	Momentum Percentile:	34.3%
% Fair Value:	146%	5 Year Valuation Multiple Estimate:	-7.2%	Growth Percentile:	76.2%
Dividend Yield:	2.3%	5 Year Price Target	\$88	Valuation Percentile:	9.8%
Dividend Risk Score:	B	Retirement Suitability Score:	B	Total Return Percentile:	15.4%

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, which has been in existence since 1899, has a market cap of \$34 billion and generated nearly \$14 billion in sales last year. On May 22nd, 2019 V.F. Corp separated its VF's Jeanswear organization, including the Wrangler, Lee and Rock & Republic brands. The separation was completed via a 100% distribution of shares to V.F. Corp shareholders, with the new entity named Kontoor Brands trading as an independent, publicly traded company under the "KTB" ticker.

On July 24th, 2019 V.F. Corp released Q1 fiscal year 2020 results for the period ending June 29th, 2019. (V.F. Corp's fiscal year ends on the Saturday closest to March 31st.) For the quarter revenue came in at \$2.27 billion, representing a 6% year-over-year increase. Excluding divestitures, revenue would have been up 9%, led by V.F. Corp's largest brands – including a 20% increase in *Vans* – along with international and direct-to-consumer businesses and strength from the Active and Outdoor segments. Earnings-per-share came in at \$0.24 on a reported basis and \$0.30 on an adjusted basis.

V.F. Corp also updated its fiscal 2020 outlook. Revenue is expected to be approximately \$11.8 billion (from \$11.7 to \$11.8 billion). Adjusted earnings-per-share are anticipated to be in the \$3.32 to \$3.37 range (from \$3.30 to \$3.35).

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	\$3.78	\$3.32	\$4.88
DPS	\$0.59	\$0.61	\$0.65	\$0.76	\$0.92	\$1.11	\$1.33	\$1.53	\$1.72	\$1.94	\$2.04	\$2.44
Shares	441	432	442	441	440	433	427	414	396	397	396	390

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. In addition, the above historical numbers include the Jeanswear business.

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.

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	22.1	26.2	18.0
Avg. Yld.	3.7%	3.1%	2.4%	2.1%	1.9%	1.7%	1.9%	2.5%	2.9%	2.3%	2.3%	2.8%

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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 meaningful 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%	51%	61%	50%

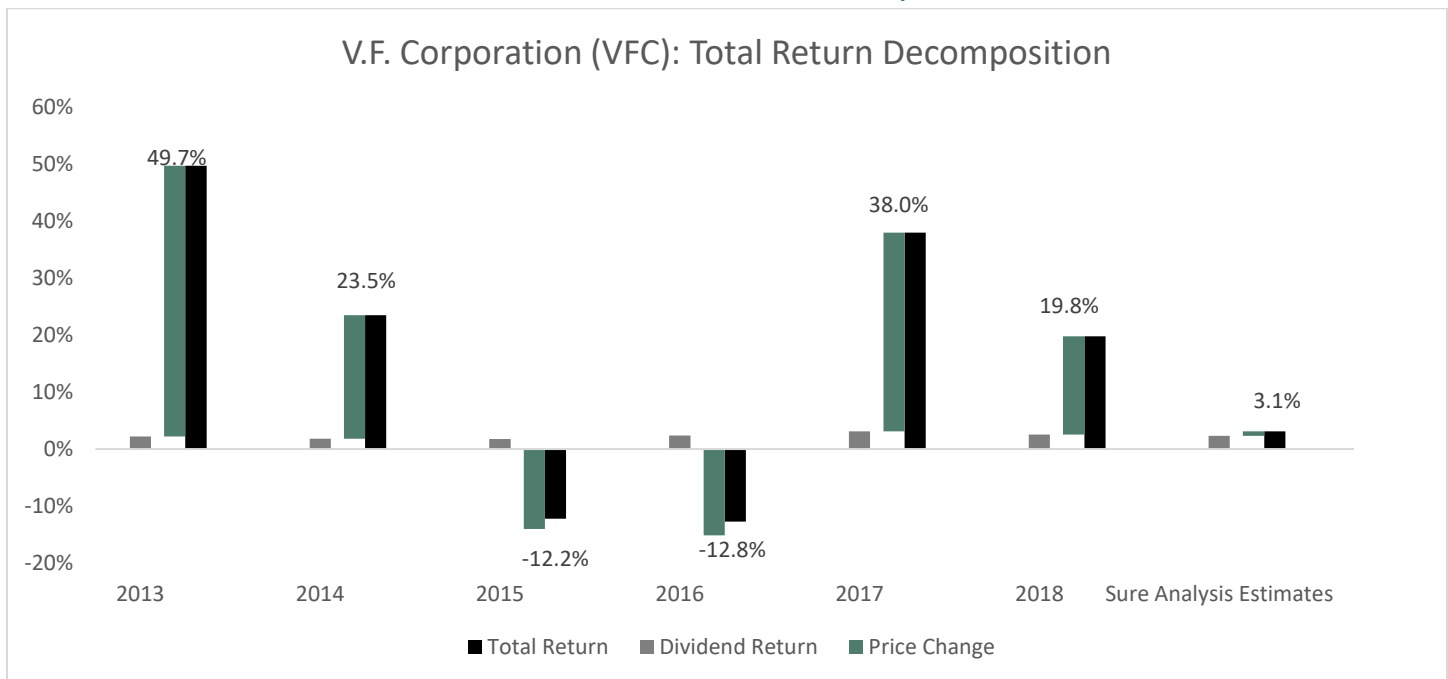
V.F. Corp has a competitive advantage in the way of a stable of well-known, premium brands that demand pricing power. During the last recession the company posted earnings-per-share of \$1.39, \$1.29 and \$1.61 in the 2008 through 2010 stretch, indicating the resiliency of the business. Also of note 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 \$606 million in cash, \$4.0 billion in current assets (41% of which was inventory) and \$10.4 billion in total assets (34% of which was goodwill and intangible assets) against \$2.0 billion in current liabilities and \$6.3 billion in total liabilities. Long-term debt stood at \$2.1 billion against underlying annual earnings power of roughly \$1.3 billion.

Final Thoughts & Recommendation

Shares are up slightly since our last report. We are forecasting 3.1% total return potential, stemming from 8% annual growth and a 2.3% dividend yield weighed against a 7.2% 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



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Income Statement Metrics

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

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	6474	6458	9313	9633	10315	9845	9640	9739	9959	10357
Cash & Equivalents	732	792	341	597	776	972	944	1228	563	543
Accounts Receivable	776	773	1120	1222	1360	1276	1290	1149	1430	1709
Inventories	959	1071	1454	1354	1399	1483	1555	1425	1707	1943
Goodwill & Int. Ass.	2944	2701	5032	4998	5103	4429	3915	3283	4015	4004
Total Liabilities	2661	2596	4788	4507	4238	4214	4255	4798	6239	6058
Accounts Payable	373	511	637	563	639	691	681	620	761	695
Long-Term Debt	1187	975	2116	1845	1451	1440	1855	2319	2923	2786
Shareholder's Equity	3815	3861	4526	5126	6077	5631	5385	4941	3720	4299
D/E Ratio	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
Return on Assets	7.1%	8.8%	11.3%	11.5%	12.1%	10.4%	12.6%	11.1%	6.2%	12.2%
Return on Equity	12.5%	14.9%	21.2%	22.5%	21.6%	17.9%	22.4%	20.8%	14.2%	31.5%
ROIC	9.5%	11.6%	15.5%	16.0%	16.7%	14.4%	17.2%	14.8%	8.8%	17.4%
Shares Out.	441	432	442	441	440	433	427	414	396	400
Revenue/Share	16.17	17.45	21.25	24.31	25.56	26.99	25.45	26.12	29.27	34.58
FCF/Share	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.

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