

V.F. Corporation (VFC)

Updated October 16th, 2020 by Eli Inkrot

Key Metrics

Current Price:	\$76	5 Year CAGR Estimate:	1.1%	Market Cap:	\$30 B
Fair Value Price:	\$43	5 Year Growth Estimate:	10.0%	Ex-Dividend Date:	12/09/20
% Fair Value:	176%	5 Year Valuation Multiple Estimate:	-10.6%	Dividend Payment Date:	12/21/20
Dividend Yield:	2.5%	5 Year Price Target	\$70	Years Of Dividend Growth:	48
Dividend Risk Score:	D	Retirement Suitability Score:	D	Last Dividend Increase:	2.1%

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 Dickies. The company, which has been in existence since 1899, has a market cap of \$30 billion and generated over \$10 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 October 16th, 2020 V.F. Corp released Q2 fiscal year 2021 results for the period ending September 26th, 2020. (V.F. Corp's fiscal year ends the Saturday closest to March 31st). For the quarter revenue came in at \$2.6 billion, an -18% decline, driven by store closures and lower consumer demand as a result of the COVID-19 pandemic. Operating income equaled \$320 million compared to \$549 million previously, while earnings-per-share equaled \$0.66 versus \$1.61 prior. Previously, V.F. Corp was not providing fiscal 2021 guidance due to the uncertainty of the COVID-19 pandemic. However, the company is now anticipating at least \$9.0 billion in revenue for the year, reflecting a decline of -14%, and adjusted earnings-per-share of at least \$1.20, reflecting a decrease of roughly -55%.

Also, on October 16th, 2020 V.F. Corp announced a \$0.49 quarterly dividend, representing a 2.1% year-over-year increase and marking the company's 48th consecutive year of increasing its payout.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$1.61	\$2.01	\$2.41	\$2.73	\$3.08	\$3.08	\$3.11	\$2.97	\$3.78	\$2.68	\$1.20	\$3.87
DPS	\$0.61	\$0.65	\$0.76	\$0.92	\$1.11	\$1.33	\$1.53	\$1.72	\$1.94	\$1.90	\$1.96	\$2.24
Shares¹	432	442	441	440	433	427	414	396	397	389	391	390

Note that while V.F. Corp has already completed fiscal year 2020 (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, whereas results from 2019 forward do not – explaining the fall in earnings and the dividend, in that year.

Through fiscal 2019, V.F. Corp had grown earnings-per-share by an average compound rate of 10.5% per annum. This result was driven by strong sales growth (basically doubling) along with a solid uptick in the company's operating and net profit margins. Continued success can come from these areas, but there could be enhanced volatility due to the company becoming more of a "pure play" provider. In addition, the COVID-19 pandemic will significantly impact the company's results in the short-term. To this point, we are forecasting materially lower earnings this year. For valuation purposes we are using \$2.40 in underlying earnings power and a 10% growth rate off this reduced base.

V.F. Corporation has not only paid but increased its dividend for 48 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. Note that the lower dividend in 2019 takes into account the recent spin-off.

¹ In millions.

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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	12.3	13.7	15.3	17.4	20.8	23.1	19.3	20.1	22.1	31.9	31.6	18.0
Avg. Yld.	3.1%	2.4%	2.1%	1.9%	1.7%	1.9%	2.5%	2.9%	2.3%	2.2%	2.5%	2.8%

Over the past decade shares of V.F. Corp have traded hands with an average P/E ratio of 18 to 19-times earnings. We consider this type of valuation as a reasonable starting point. This takes into consideration the quality of the company's earnings along with its potential growth rate, coupled against short-term demand uncertainties and the recent spin-off. With shares trading at 32 times our earnings power estimate, this implies a meaningful valuation headwind.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	38%	32%	32%	34%	36%	43%	49%	58%	51%	72%	80%	58%

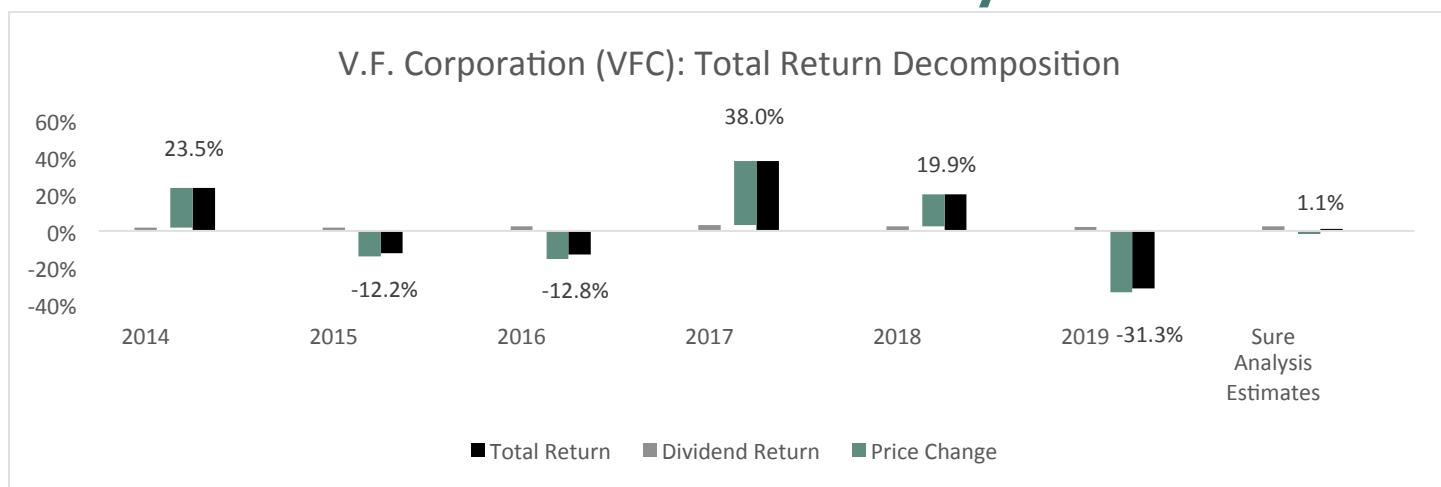
V.F. Corp has a competitive advantage in the way of a stable of well-known, premium brands that demand pricing power. During the last recession the company posted earnings-per-share of \$1.39, \$1.29 and \$1.61 in the 2008 through 2010 stretch, indicating the resiliency of the business. Also, of note 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 \$1.9 billion in cash, \$6.7 billion in current assets (21% of which was inventory) and \$12.9 billion in total assets (23% of which was goodwill and intangible assets) against \$2.1 billion in current liabilities and \$10.0 billion in total liabilities. Long-term debt stood at \$5.7 billion.

Final Thoughts & Recommendation

In our last three updates, shares have been down -39%, up 15% and up 27%. We are forecasting 1.1% total return potential, stemming from 10% growth off a lower base and a 2.5% dividend yield weighed against the possibility of a substantial valuation headwind. There are things to like about the business, including strong brand names, an excellent dividend history and a solid balance sheet. However, shares earn a sell rating due to the elevated valuation.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	7703	9459	10880	11420	11882	10996	11026	11811	13849	
Gross Profit	3597	4331	5062	5488	5769	5393	5436	5966	7021	
Gross Margin	46.7%	45.8%	46.5%	48.1%	48.6%	49.0%	49.3%	50.5%	50.7%	
SG&A Exp.	2575	3086	3597	3841	3971	3748	3901	4453	5345	
D&A Exp.	173	199	238	253	275	272	282	291	301	
Operating Profit	1023	1245	1465	1647	1798	1645	1535	1513	1676	
Operating Margin	13.3%	13.2%	13.5%	14.4%	15.1%	15.0%	13.9%	12.8%	12.1%	
Net Profit	571	888	1086	1210	1048	1232	1074	615	1260	
Net Margin	7.4%	9.4%	10.0%	10.6%	8.8%	11.2%	9.7%	5.2%	9.1%	
Free Cash Flow	876	832	992	1181	1460	886	1261	1240	1357	
Income Tax	177	274	336	352	386	347	206	695	268	

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	6458	9313	9633	10315	9845	9640	9739	9959	10357	
Cash & Equivalents	792	341	597	776	972	944	1228	563	543	
Accounts Receivable	773	1120	1222	1360	1276	1290	1149	1430	1709	
Inventories	1071	1454	1354	1399	1483	1555	1425	1707	1943	
Goodwill & Int. Ass.	2701	5032	4998	5103	4429	3915	3283	4015	4004	
Total Liabilities	2596	4788	4507	4238	4214	4255	4798	6239	6058	
Accounts Payable	511	637	563	639	691	681	620	761	695	
Long-Term Debt	975	2116	1845	1451	1440	1855	2319	2923	2786	
Shareholder's Equity	3861	4526	5126	6077	5631	5385	4941	3720	4299	
D/E Ratio	0.25	0.47	0.36	0.24	0.26	0.34	0.47	0.79	0.65	

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	8.8%	11.3%	11.5%	12.1%	10.4%	12.6%	11.1%	6.2%	12.2%	
Return on Equity	14.9%	21.2%	22.5%	21.6%	17.9%	22.4%	20.8%	14.2%	31.5%	
ROIC	11.6%	15.5%	16.0%	16.7%	14.4%	17.2%	14.8%	8.8%	17.4%	
Shares Out.	432	442	441	440	433	427	414	396	397	
Revenue/Share	17.45	21.25	24.31	25.56	26.99	25.45	26.12	29.27	34.58	
FCF/Share	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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