



V.F. Corporation (VFC)

Updated October 23rd, 2021, by Eli Inkrot

Key Metrics

Current Price:	\$71	5 Year CAGR Estimate:	6.4%	Market Cap:	\$28 B
Fair Value Price:	\$61	5 Year Growth Estimate:	7.0%	Ex-Dividend Date:	12/09/21
% Fair Value:	116%	5 Year Valuation Multiple Estimate:	-3.0%	Dividend Payment Date:	12/20/21
Dividend Yield:	2.8%	5 Year Price Target	\$85	Years Of Dividend Growth:	49
Dividend Risk Score:	A	Retirement Suitability Score:	B	Last Dividend Increase:	2.0%

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 \$28 billion and generated over \$9 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 22nd, 2021, V.F. Corp announced a \$0.50 quarterly dividend, a 2.0% year-over-year increase and marking the company's 49th consecutive year of increasing its payout.

On October 22nd, 2021, V.F. Corp released Q2 fiscal year 2022 results for the period ending October 2nd, 2021. (V.F. Corp's fiscal year ends the Saturday closest to March 31st.) For the quarter revenue came in at \$3.2 billion, a 23% increase compared to Q2 2021, driven by the EMEA and North American regions, which experienced a negative impact from the COVID-19 pandemic last year. Adjusted earnings-per-share equaled \$1.11 compared to \$0.67 in Q2 2021.

V.F. Corp also reaffirmed its fiscal 2022 outlook. For this year the company expects revenue of at least \$12.0 billion and adjusted earnings-per-share to be around \$3.20.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$2.01	\$2.41	\$2.73	\$3.08	\$3.08	\$3.11	\$2.97	\$3.78	\$2.68	\$1.31	\$3.20	\$4.49
DPS	\$0.65	\$0.76	\$0.92	\$1.11	\$1.33	\$1.53	\$1.72	\$1.94	\$1.90	\$1.93	\$2.00	\$2.42
Shares¹	442	441	440	433	427	414	396	397	389	392	394	390

Note that while V.F. Corp has already completed fiscal year 2021 (ended in April 2021), 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 significantly impacted last year's results. However, management is expecting earnings to bounce back materially this year.

V.F. Corporation has not only paid but increased its dividend for 49 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 Kontoor spin-off.

¹ In millions.

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.



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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	13.7	15.3	17.4	20.8	23.1	19.3	20.1	22.1	31.9	---	22.1	19.0
Avg. Yld.	2.4%	2.1%	1.9%	1.7%	1.9%	2.5%	2.9%	2.3%	2.2%	2.7%	2.8%	2.8%

Over the past decade shares of V.F. Corp have traded hands with an average P/E ratio of about 20-times earnings. We consider 19 times earnings 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 22 times our earnings estimate, this implies a valuation headwind.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	32%	32%	34%	36%	43%	49%	58%	51%	71%	---	63%	54%

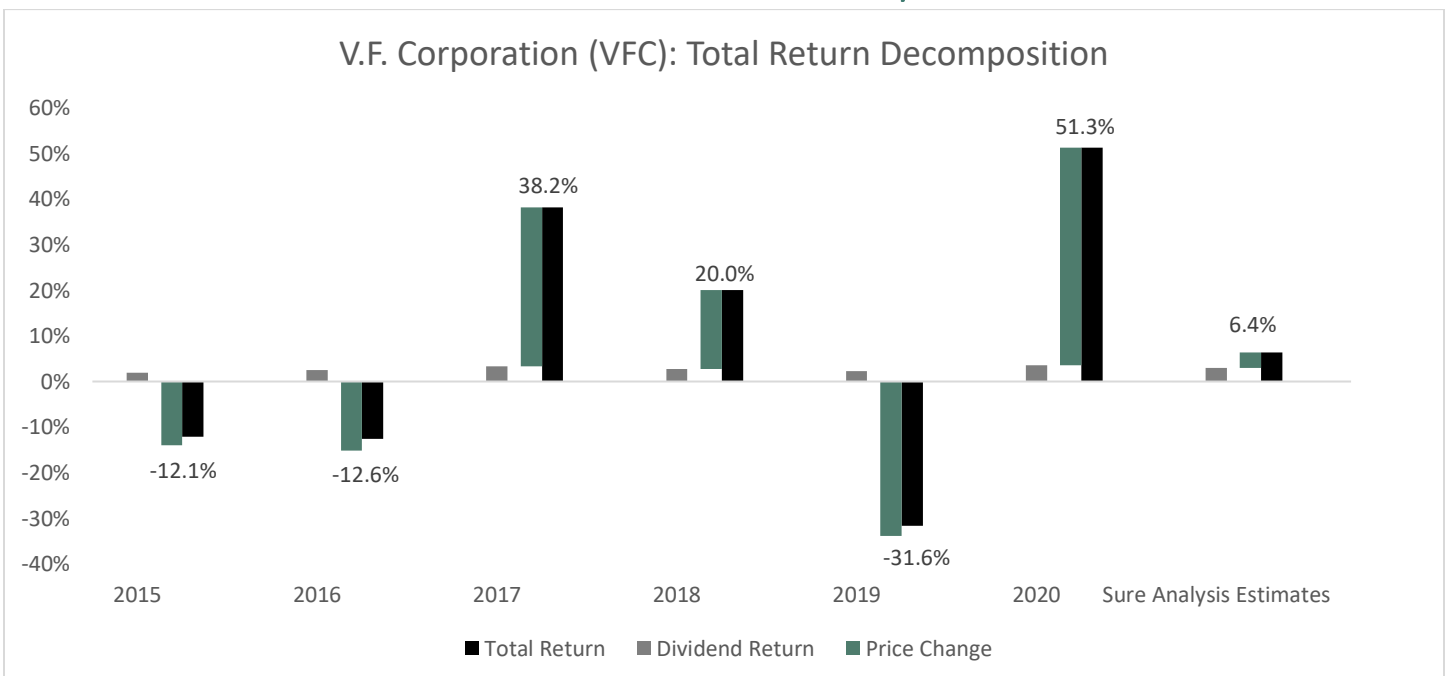
V.F. Corp has a competitive advantage in the way of a stable of well-known, premium brands that demand pricing power. During the last recession the company posted earnings-per-share of \$1.39, \$1.29 and \$1.61 in the 2008 through 2010 stretch, indicating the resiliency of the business. Also, of note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

As of the most recent report V.F. Corp held \$1.4 billion in cash, \$5.0 billion in current assets and \$13.9 billion in total assets against \$3.4 billion in current liabilities and \$10.3 billion in total liabilities. Long-term debt stood at \$4.7 billion.

Final Thoughts & Recommendation

Shares are down -7% in the last year. We are forecasting 6.4% total return potential, stemming from 7% growth and a 2.8% dividend yield weighed against the possibility of a 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 hold rating due to the elevated valuation.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	9459	10880	11420	11882	10996	11026	11811	13849	10490	9239
Gross Profit	4331	5062	5488	5769	5393	5436	5966	7021	5798	4868
Gross Margin	45.8%	46.5%	48.1%	48.6%	49.0%	49.3%	50.5%	50.7%	55.3%	52.7%
SG&A Exp.	3086	3597	3841	3971	3748	3901	4453	5345	4547	4240
D&A Exp.	199	238	253	275	272	282	291	301	268	269
Operating Profit	1245	1465	1647	1798	1645	1535	1513	1676	1251	628
Operating Margin	13.2%	13.5%	14.4%	15.1%	15.0%	13.9%	12.8%	12.1%	11.9%	6.8%
Net Profit	888	1086	1210	1048	1232	1074	615	1260	679	408
Net Margin	9.4%	10.0%	10.6%	8.8%	11.2%	9.7%	5.2%	9.1%	6.5%	4.4%
Free Cash Flow	832	992	1181	1460	886	1261	1240	1357	541	1039
Income Tax	274	336	352	386	347	206	695	268	98	102

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	9313	9633	10315	9845	9640	9739	9959	10357	11130	13750
Cash & Equivalents	341	597	776	972	944	1228	563	543	1369	816
Accounts Receivable	1120	1222	1360	1276	1290	1149	1430	1709	1308	1298
Inventories	1454	1354	1399	1483	1555	1425	1707	1943	1294	1062
Goodwill & Int. Ass.	5032	4998	5103	4429	3915	3283	4015	4004	3214	5720
Total Liabilities	4788	4507	4238	4214	4255	4798	6239	6058	7776	10700
Accounts Payable	637	563	639	691	681	620	761	695	407	436
Long-Term Debt	2116	1845	1451	1440	1855	2319	2923	2786	3838	5721
Shareholder's Equity	4526	5126	6077	5631	5385	4941	3720	4299	3357	3056
D/E Ratio	0.47	0.36	0.24	0.26	0.34	0.47	0.79	0.65	1.1	1.9

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	11.3%	11.5%	12.1%	10.4%	12.6%	11.1%	6.2%	12.2%	6.3%	3.3%
Return on Equity	21.2%	22.5%	21.6%	17.9%	22.4%	20.8%	14.2%	31.5%	17.8%	12.7%
ROIC	15.5%	16.0%	16.7%	14.4%	17.2%	14.8%	8.8%	17.4%	9.5%	5.1%
Shares Out.	442	441	440	433	427	414	396	397	400	392
Revenue/Share	21.25	24.31	25.56	26.99	25.45	26.12	29.27	34.58	26.23	23.56
FCF/Share	1.87	2.22	2.64	3.32	2.05	2.99	3.07	3.39	1.35	2.65

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

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