



# V.F. Corporation (VFC)

Updated June 1<sup>st</sup>, 2022, by Aristofanis Papadatos

## Key Metrics

|                             |      |  |       |                                  |          |
|-----------------------------|------|--|-------|----------------------------------|----------|
| <b>Current Price:</b>       | \$50 | <b>5 Year CAGR Estimate:</b>               | 15.2% | <b>Market Cap:</b>               | \$19.5 B |
| <b>Fair Value Price:</b>    | \$64 | <b>5 Year Growth Estimate:</b>             | 7.0%  | <b>Ex-Dividend Date:</b>         | 6/9/22   |
| <b>% Fair Value:</b>        | 78%  | <b>5 Year Valuation Multiple Estimate:</b> | 5.1%  | <b>Dividend Payment Date:</b>    | 6/21/22  |
| <b>Dividend Yield:</b>      | 4.0% | <b>5 Year Price Target</b>                 | \$90  | <b>Years Of Dividend Growth:</b> | 49       |
| <b>Dividend Risk Score:</b> | A    | <b>Retirement Suitability Score:</b>       | A     | <b>Rating:</b>                   | Buy      |

## Overview & Current Events

V.F. Corporation is one of the world's largest apparel, footwear and accessories companies. Its brands include The North Face, Vans, Timberland and Dickies. The company, which has been in existence since 1899, has a market capitalization of \$19.5 billion and has generated over \$11 billion in sales in the last 12 months. On May 22<sup>nd</sup>, 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 22<sup>nd</sup>, 2021, V.F. Corp announced a \$0.50 quarterly dividend, a 2.0% year-over-year increase, which marks the company's 49<sup>th</sup> consecutive year of increasing its payout.

In mid-May, V.F. Corp reported (5/19/22) financial results for the fourth quarter of fiscal 2022. (V.F. Corp's fiscal year ends the Saturday closest to March 31<sup>st</sup>.) Revenue and organic revenue grew 9% and 12%, respectively, over the prior year's quarter, driven by the EMEA and North American regions, which experienced a negative impact from the pandemic in the prior year's period. Adjusted earnings-per-share grew 67%, from \$0.27 to \$0.45, but missed analysts' consensus by \$0.02. For the new fiscal year, V.F. Corp expects revenue growth of at least 7% and adjusted earnings-per-share of \$3.30-\$3.40. The stock has plunged -32% this year, mostly due to business deceleration and fears that the aggressive interest rate hikes of the Fed in response to 40-year high inflation may cause a recession.

## Growth on a Per-Share Basis

| Year                      | 2012   | 2013   | 2014   | 2015   | 2016   | 2017   | 2018   | 2019   | 2020   | 2021   | 2022          | 2027          |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| <b>EPS</b>                | \$2.41 | \$2.73 | \$3.08 | \$3.08 | \$3.11 | \$2.97 | \$3.78 | \$2.68 | \$1.31 | \$3.18 | <b>\$3.38</b> | <b>\$4.74</b> |
| <b>DPS</b>                | \$0.76 | \$0.92 | \$1.11 | \$1.33 | \$1.53 | \$1.72 | \$1.94 | \$1.90 | \$1.93 | \$1.97 | <b>\$2.00</b> | <b>\$2.42</b> |
| <b>Shares<sup>1</sup></b> | 441    | 440    | 433    | 427    | 414    | 396    | 397    | 389    | 392    | 389    | <b>385</b>    | <b>380</b>    |

Note that while V.F. Corp has already completed fiscal year 2022 (ended in April 2022), 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 caused a -51% plunge in earnings-per-share in 2020. However, the company is now recovering strongly from the pandemic. We expect it to grow its bottom line by 7.0% per year on average over the next five years.

V.F. Corp has raised its dividend for 49 consecutive years. We expect the company to maintain its exceptional growth streak for many more years, albeit perhaps with a more subdued dividend growth rate due to an elevated payout ratio. Note that the lower dividend in 2019 takes the Kontoor spin-off into account.

<sup>1</sup> 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      | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | Now  | 2027 |
|-----------|------|------|------|------|------|------|------|------|------|------|------|------|
| Avg. P/E  | 15.3 | 17.4 | 20.8 | 23.1 | 19.3 | 20.1 | 22.1 | 31.9 | ---  | 23.2 | 14.8 | 19.0 |
| Avg. Yld. | 2.1% | 1.9% | 1.7% | 1.9% | 2.5% | 2.9% | 2.3% | 2.2% | 2.7% | 2.7% | 4.0% | 2.7% |

Over the past decade, shares of V.F. Corp have traded hands with an average price-to-earnings ratio of 21.5. 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. The stock is now trading at a price-to-earnings ratio of 14.8. If it trades at a price-to-earnings ratio of 19.0 in five years, it will enjoy a 7.0% annualized gain in its returns.

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

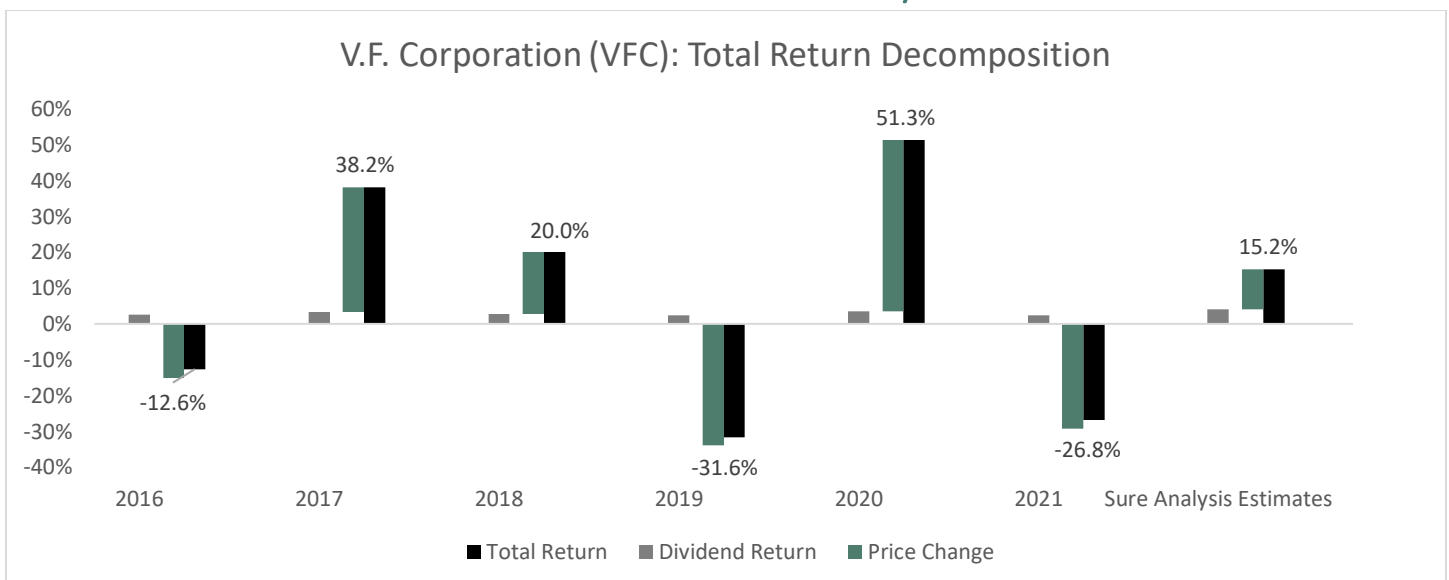
| Year   | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2027 |
|--------|------|------|------|------|------|------|------|------|------|------|------|------|
| Payout | 32%  | 34%  | 36%  | 43%  | 49%  | 58%  | 51%  | 71%  | ---  | 62%  | 59%  | 51%  |

V.F. Corp has a competitive advantage in the way of a stable of well-known, premium brands that offer 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 expect the dividend growth streak to remain in place for many more years. We also note that the stock is currently offering a nearly 10-year high dividend yield of 4.0%. It thus offers an attractive entry point for income-oriented investors.

## Final Thoughts & Recommendation

The stock of V.F. Corp has fallen -32% this year due to business deceleration and fears of an upcoming recession. We view the fall as extreme from a long-term perspective and expect the stock to offer a 15.2% average annual return over the next five years, stemming from 7% growth, a 4.0% dividend yield and a potential 5.1% annual valuation tailwind. There are many things to like about the business, including strong brand names, an excellent dividend history and a solid balance sheet. The stock receives a buy rating but only for patient investors, who can ignore pressure on the stock price for a considerable period.

## Total Return Breakdown by Year



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## Income Statement Metrics

| Year                    | 2012  | 2013  | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  | 2021   |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|--------|
| <b>Revenue</b>          | 10880 | 11420 | 11882 | 10996 | 11026 | 11811 | 13849 | 10490 | 9239  | 11,842 |
| <b>Gross Profit</b>     | 5062  | 5488  | 5769  | 5393  | 5436  | 5966  | 7021  | 5798  | 4868  | 6,455  |
| <b>Gross Margin</b>     | 46.5% | 48.1% | 48.6% | 49.0% | 49.3% | 50.5% | 50.7% | 55.3% | 52.7% | 54.5%  |
| <b>SG&amp;A Exp.</b>    | 3597  | 3841  | 3971  | 3748  | 3901  | 4453  | 5345  | 4547  | 4240  | 4,823  |
| <b>D&amp;A Exp.</b>     | 238   | 253   | 275   | 272   | 282   | 291   | 301   | 268   | 269   | 267    |
| <b>Operating Profit</b> | 1465  | 1647  | 1798  | 1645  | 1535  | 1513  | 1676  | 1251  | 628   | 1,632  |
| <b>Operating Margin</b> | 13.5% | 14.4% | 15.1% | 15.0% | 13.9% | 12.8% | 12.1% | 11.9% | 6.8%  | 13.8%  |
| <b>Net Profit</b>       | 1086  | 1210  | 1048  | 1232  | 1074  | 615   | 1260  | 679   | 408   | 1,387  |
| <b>Net Margin</b>       | 10.0% | 10.6% | 8.8%  | 11.2% | 9.7%  | 5.2%  | 9.1%  | 6.5%  | 4.4%  | 11.7%  |
| <b>Free Cash Flow</b>   | 992   | 1181  | 1460  | 886   | 1261  | 1240  | 1357  | 541   | 1039  | 536    |
| <b>Income Tax</b>       | 336   | 352   | 386   | 347   | 206   | 695   | 268   | 98    | 102   | 307    |

## Balance Sheet Metrics

| Year                            | 2012 | 2013  | 2014 | 2015 | 2016 | 2017 | 2018  | 2019  | 2020  | 2021   |
|---------------------------------|------|-------|------|------|------|------|-------|-------|-------|--------|
| <b>Total Assets</b>             | 9633 | 10315 | 9845 | 9640 | 9739 | 9959 | 10357 | 11130 | 13750 | 13,342 |
| <b>Cash &amp; Equivalents</b>   | 597  | 776   | 972  | 944  | 1228 | 563  | 543   | 1369  | 816   | 1,276  |
| <b>Accounts Receivable</b>      | 1222 | 1360  | 1276 | 1290 | 1149 | 1430 | 1709  | 1308  | 1298  | 1,468  |
| <b>Inventories</b>              | 1354 | 1399  | 1483 | 1555 | 1425 | 1707 | 1943  | 1294  | 1062  | 1,419  |
| <b>Goodwill &amp; Int. Ass.</b> | 4998 | 5103  | 4429 | 3915 | 3283 | 4015 | 4004  | 3214  | 5720  | 5,711  |
| <b>Total Liabilities</b>        | 4507 | 4238  | 4214 | 4255 | 4798 | 6239 | 6058  | 7776  | 10700 | 9,812  |
| <b>Accounts Payable</b>         | 563  | 639   | 691  | 681  | 620  | 761  | 695   | 407   | 436   | 563    |
| <b>Long-Term Debt</b>           | 1845 | 1451  | 1440 | 1855 | 2319 | 2923 | 2786  | 3838  | 5721  | 5,421  |
| <b>Shareholder's Equity</b>     | 5126 | 6077  | 5631 | 5385 | 4941 | 3720 | 4299  | 3357  | 3056  | 3,530  |
| <b>LTD/E Ratio</b>              | 0.36 | 0.24  | 0.26 | 0.34 | 0.47 | 0.79 | 0.65  | 1.14  | 1.87  | 1.54   |

## Profitability & Per Share Metrics

| Year                    | 2012  | 2013  | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  | 2021  |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| <b>Return on Assets</b> | 11.5% | 12.1% | 10.4% | 12.6% | 11.1% | 6.2%  | 12.2% | 6.3%  | 3.3%  | 10.2% |
| <b>Return on Equity</b> | 22.5% | 21.6% | 17.9% | 22.4% | 20.8% | 14.2% | 31.5% | 17.8% | 12.7% | 42.1% |
| <b>ROIC</b>             | 16.0% | 16.7% | 14.4% | 17.2% | 14.8% | 8.8%  | 17.4% | 9.5%  | 5.1%  | 15.6% |
| <b>Shares Out.</b>      | 441   | 440   | 433   | 427   | 414   | 396   | 397   | 400   | 392   | 389   |
| <b>Revenue/Share</b>    | 24.31 | 25.56 | 26.99 | 25.45 | 26.12 | 29.27 | 34.58 | 26.23 | 23.56 | 30.18 |
| <b>FCF/Share</b>        | 2.22  | 2.64  | 3.32  | 2.05  | 2.99  | 3.07  | 3.39  | 1.35  | 2.65  | 1.37  |

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

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