



V.F. Corporation (VFC)

Updated December 7th, 2022, by Aristofanis Papadatos

Key Metrics

Current Price:	\$29	5 Year CAGR Estimate:	19.8%	Market Cap:	\$11.5 B
Fair Value Price:	\$38	5 Year Growth Estimate:	10.0%	Ex-Dividend Date:	12/9/22
% Fair Value:	76%	5 Year Valuation Multiple Estimate:	5.6%	Dividend Payment Date:	12/20/22
Dividend Yield:	7.0%	5 Year Price Target	\$61	Years Of Dividend Growth:	50
Dividend Risk Score:	C	Retirement Suitability Score:	A	Rating:	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 \$12 billion and has generated nearly \$12 billion in sales in the last 12 months. 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 26th, 2022, V.F. Corp announced a \$0.51 quarterly dividend, a 2.0% year-over-year increase, which marks the company's 50th consecutive year of increasing its payout.

In late October, V.F. Corp reported (10/26/22) financial results for the second quarter of fiscal 2023. (V.F. Corp's fiscal year ends the Saturday closest to March 31st.) Revenue dipped -4% and earnings-per-share plunged -24%, from \$1.11 to \$0.73, due to high cost inflation, great discounts offered to customers amid high inventories and lockdowns in China.

On December 5th, 2022, V.F. Corp announced the exit of its CEO due to retirement and stated that it will search for his successor. It also revised its outlook due to a greater-than-expected impact of inflation on consumer spending and the resultant excessive inventories, which will force the company to offer even deeper discounts to consumers. Due to these headwinds, V.F. Corp lowered its guidance for revenue growth in fiscal 2023 from 5%-6% to 3%-4% and its guidance for adjusted earnings-per-share once again, from \$2.40-\$2.50 to \$2.00-\$2.20. Due to the repeated downward revisions of the company this year, we have lowered our forecast from \$2.40 to \$2.00, the low end of the new guidance. The stock has plunged -60% this year due to the impact of 40-year high inflation on the costs of V.F. Corp, on consumer spending and on the valuation of the stock. There are also fears that the interest rate hikes of the Fed may cause a recession.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$2.41	\$2.73	\$3.08	\$3.08	\$3.11	\$2.97	\$3.78	\$2.68	\$1.31	\$3.18	\$2.00	\$3.22
DPS	\$0.76	\$0.92	\$1.11	\$1.33	\$1.53	\$1.72	\$1.94	\$1.90	\$1.93	\$1.97	\$2.04	\$2.10
Shares¹	441	440	433	427	414	396	397	389	392	389	385	380

The above historical numbers include the Jeanswear business, whereas results from fiscal 2020 forward do not – explaining the fall in earnings and the dividend in that year.

Through fiscal 2020, 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 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, though the company recovered strongly from the pandemic in fiscal 2022. It is now facing another strong headwind, namely the impact of inflation on its business, but we view this headwind as temporary. We expect V.F. Corp to grow its bottom line by 10.0% per year on average over the next five years off this year's low base.

¹ In millions.

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V.F. Corp has raised its dividend for 50 consecutive years. We expect the company to maintain its exceptional growth streak for years, albeit probably with a more subdued dividend growth rate due to an elevated payout ratio. Note that the lower dividend in fiscal 2020 takes the Kontoor spin-off into account.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Avg. P/E	15.3	17.4	20.8	23.1	19.3	20.1	22.1	31.9	---	23.2	14.5	19.0
Avg. Yld.	2.1%	1.9%	1.7%	1.9%	2.5%	2.9%	2.3%	2.2%	2.7%	2.7%	7.0%	3.4%

Over the past decade, V.F. Corp has 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. The stock is now trading at a price-to-earnings ratio of 14.5. If it trades at a price-to-earnings ratio of 19.0 in five years, it will enjoy a 5.6% annualized gain in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

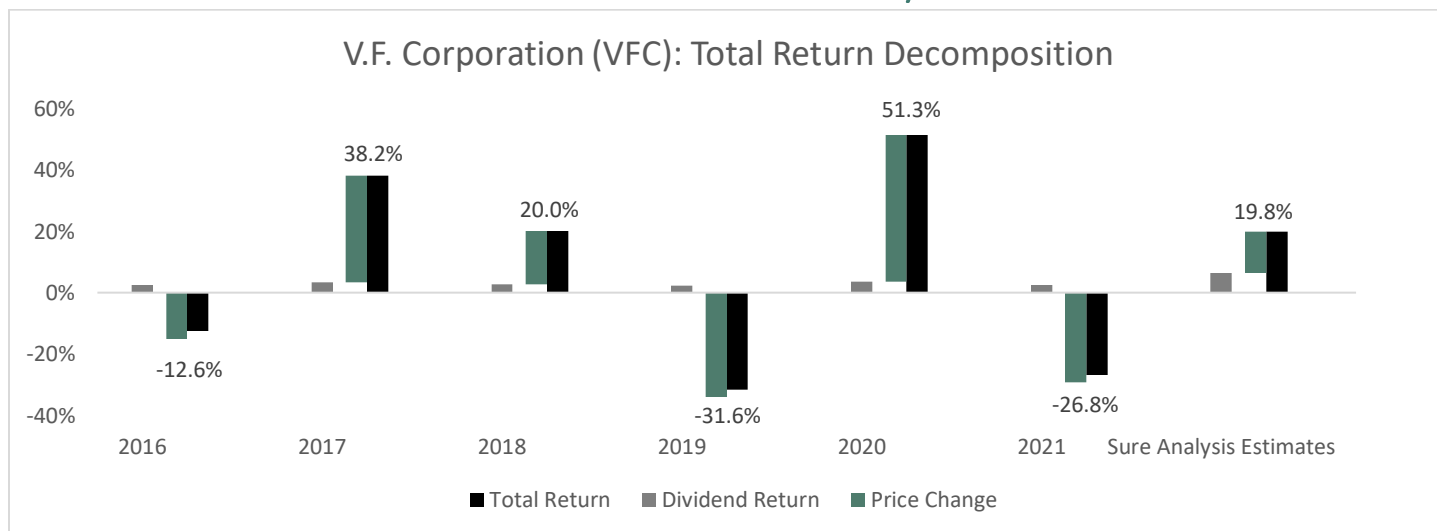
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	32%	34%	36%	43%	49%	58%	51%	71%	---	62%	102%	65%

V.F. Corp has a competitive advantage in the way of a stable of well-known, premium brands that offer pricing power. During the Great Recession, the company posted earnings-per-share of \$1.39, \$1.29, and \$1.61 in the 2008 through 2010 stretch, indicating the resilience of the business. V.F. Corp also has an exceptional dividend growth streak. The dividend payout ratio is elevated but we consider the dividend safe in the absence of a prolonged downturn. Moreover, V.F. Corp is offering a 10-year high dividend yield of 7.0%. It thus offers an attractive entry point for income-oriented investors.

Final Thoughts & Recommendation

V.F. Corp has plunged -60% this year due to the impact of 40-year high inflation on the company. We view the slump as extreme from a long-term perspective and expect the stock to offer a 19.8% average annual return over the next five years thanks to 10% earnings growth, a 7.0% dividend and a 5.6% 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 strong 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	10880	11420	11882	10996	11026	11811	13849	10490	9239	11,842
Gross Profit	5062	5488	5769	5393	5436	5966	7021	5798	4868	6,455
Gross Margin	46.5%	48.1%	48.6%	49.0%	49.3%	50.5%	50.7%	55.3%	52.7%	54.5%
SG&A Exp.	3597	3841	3971	3748	3901	4453	5345	4547	4240	4,823
D&A Exp.	238	253	275	272	282	291	301	268	269	267
Operating Profit	1465	1647	1798	1645	1535	1513	1676	1251	628	1,632
Operating Margin	13.5%	14.4%	15.1%	15.0%	13.9%	12.8%	12.1%	11.9%	6.8%	13.8%
Net Profit	1086	1210	1048	1232	1074	615	1260	679	408	1,387
Net Margin	10.0%	10.6%	8.8%	11.2%	9.7%	5.2%	9.1%	6.5%	4.4%	11.7%
Free Cash Flow	992	1181	1460	886	1261	1240	1357	541	1039	536
Income Tax	336	352	386	347	206	695	268	98	102	307

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	9633	10315	9845	9640	9739	9959	10357	11130	13750	13,342
Cash & Equivalents	597	776	972	944	1228	563	543	1369	816	1,276
Accounts Receivable	1222	1360	1276	1290	1149	1430	1709	1308	1298	1,468
Inventories	1354	1399	1483	1555	1425	1707	1943	1294	1062	1,419
Goodwill & Int. Ass.	4998	5103	4429	3915	3283	4015	4004	3214	5720	5,711
Total Liabilities	4507	4238	4214	4255	4798	6239	6058	7776	10700	9,812
Accounts Payable	563	639	691	681	620	761	695	407	436	563
Long-Term Debt	1845	1451	1440	1855	2319	2923	2786	3838	5721	5,421
Shareholder's Equity	5126	6077	5631	5385	4941	3720	4299	3357	3056	3,530
LTD/E Ratio	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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	11.5%	12.1%	10.4%	12.6%	11.1%	6.2%	12.2%	6.3%	3.3%	10.2%
Return on Equity	22.5%	21.6%	17.9%	22.4%	20.8%	14.2%	31.5%	17.8%	12.7%	42.1%
ROIC	16.0%	16.7%	14.4%	17.2%	14.8%	8.8%	17.4%	9.5%	5.1%	15.6%
Shares Out.	441	440	433	427	414	396	397	400	392	389
Revenue/Share	24.31	25.56	26.99	25.45	26.12	29.27	34.58	26.23	23.56	30.18
FCF/Share	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. Calendar years 2018-2021 correspond to fiscal years 2019 through 2022 for VFC.

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