



V.F. Corporation (VFC)

Updated May 24th, 2023, by Aristofanis Papadatos

Key Metrics

| | | | | | |
|-----------------------------|------|--|-------|----------------------------------|---------|
| Current Price: | \$19 | 5 Year CAGR Estimate: | 27.7% | Market Cap: | \$7.6 B |
| Fair Value Price: | \$38 | 5 Year Growth Estimate: | 9.0% | Ex-Dividend Date: | 6/9/23 |
| % Fair Value: | 50% | 5 Year Valuation Multiple Estimate: | 14.7% | Dividend Payment Date: | 6/20/23 |
| Dividend Yield: | 6.3% | 5 Year Price Target | \$58 | Years Of Dividend Growth: | 0 |
| 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 \$7.6 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 February 2nd, 2023, V.F. Corp announced a \$0.30 quarterly dividend, a 41% decrease over the previous quarter, thus putting an end to its dividend growth streak for 50 consecutive years.

In late May, V.F. Corp reported (5/23/23) financial results for the fourth quarter of fiscal 2023. (V.F. Corp's fiscal year ends the Saturday closest to March 31st.) Revenue dipped -3% and earnings-per-share plunged -62%, from \$0.45 to \$0.17, due to high cost inflation and great discounts offered to customers amid high inventories.

V.F. Corp is hurt by the impact of inflation on consumer spending and the resultant excessive inventories, which force the company to offer deep discounts to consumers. On the bright side, North Face enjoys strong sales momentum while Vans has begun to show signs of turning around. V.F. Corp closed its fiscal year with 10 of its 12 brands showing sales growth or flat sales. The company provided guidance for flat revenue and earnings-per-share of \$2.05-\$2.25 in fiscal 2024.

Growth on a Per-Share Basis

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2029 |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| EPS | \$2.73 | \$3.08 | \$3.08 | \$3.11 | \$2.97 | \$3.78 | \$2.68 | \$1.31 | \$3.18 | \$2.10 | \$2.10 | \$3.23 |
| DPS | \$0.92 | \$1.11 | \$1.33 | \$1.53 | \$1.72 | \$1.94 | \$1.90 | \$1.93 | \$1.97 | \$1.81 | \$1.20 | \$1.32 |
| Shares¹ | 440 | 433 | 427 | 414 | 396 | 397 | 389 | 392 | 389 | 388 | 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 9.0% per year on average over the next five years off this year's low base. V.F. Corp recently cut its dividend due to the impact of inflation on its business and thus ended its 50-year dividend growth streak. The company could have defended its dividend thanks to its strong balance sheet but it chose to use funds more productively. We believe this strategy will benefit shareholders in the upcoming years.

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 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2029 |
|------------------|------|------|------|------|------|------|------|------|------|------|-------------|-------------|
| Avg. P/E | 17.4 | 20.8 | 23.1 | 19.3 | 20.1 | 22.1 | 31.9 | --- | 23.2 | 17.8 | 9.0 | 18.0 |
| Avg. Yld. | 1.9% | 1.7% | 1.9% | 2.5% | 2.9% | 2.3% | 2.2% | 2.7% | 2.7% | 4.9% | 6.3% | 2.3% |

Over the past decade, V.F. Corp has traded hands with an average price-to-earnings ratio of 21.7. We consider 18 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 9.0. If it trades at a price-to-earnings ratio of 18.0 in five years, it will enjoy a 14.7% annualized gain in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

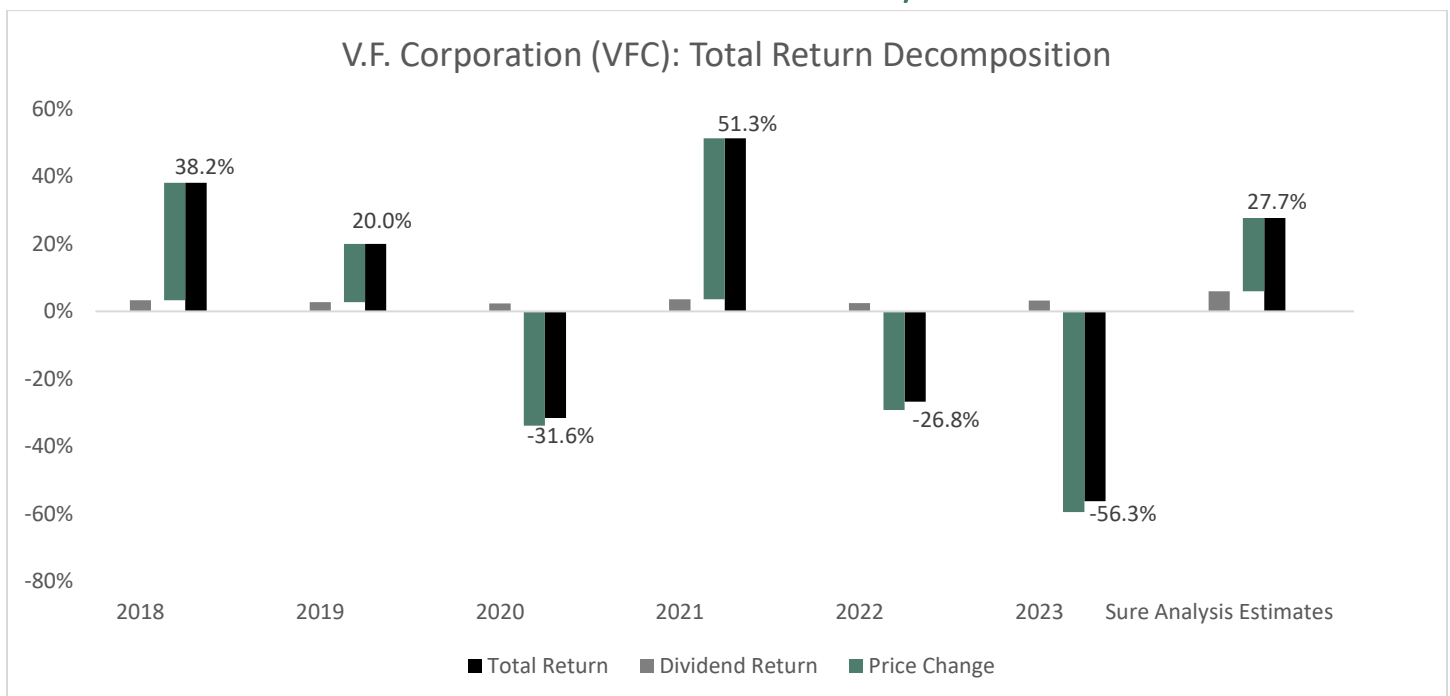
| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2029 |
|---------------|------|------|------|------|------|------|------|------|------|------|------------|------------|
| Payout | 34% | 36% | 43% | 49% | 58% | 51% | 71% | --- | 62% | 86% | 57% | 41% |

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 recently cut its dividend by 41% to endure the ongoing downturn more easily. We believe that this decision will benefit patient shareholders.

Final Thoughts & Recommendation

V.F. Corp has plunged -59% over the last 12 months and recently ended its 50-year dividend growth streak 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 27.7% average annual return over the next five years thanks to 9% earnings growth, a 6.3% dividend and a 14.7% 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 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|--------|--------|
| Revenue | 11420 | 11882 | 10996 | 11026 | 11811 | 13849 | 10490 | 9239 | 11,842 | 11,612 |
| Gross Profit | 5488 | 5769 | 5393 | 5436 | 5966 | 7021 | 5798 | 4868 | 6,455 | 6,097 |
| Gross Margin | 48.1% | 48.6% | 49.0% | 49.3% | 50.5% | 50.7% | 55.3% | 52.7% | 54.5% | 52.5% |
| SG&A Exp. | 3841 | 3971 | 3748 | 3901 | 4453 | 5345 | 4547 | 4240 | 4,823 | 5,034 |
| D&A Exp. | 253 | 275 | 272 | 282 | 291 | 301 | 268 | 269 | 267 | 262 |
| Operating Profit | 1647 | 1798 | 1645 | 1535 | 1513 | 1676 | 1251 | 628 | 1,632 | 1,063 |
| Operating Margin | 14.4% | 15.1% | 15.0% | 13.9% | 12.8% | 12.1% | 11.9% | 6.8% | 13.8% | 9.2% |
| Net Profit | 1210 | 1048 | 1232 | 1074 | 615 | 1260 | 679 | 408 | 1,387 | 119 |
| Net Margin | 10.6% | 8.8% | 11.2% | 9.7% | 5.2% | 9.1% | 6.5% | 4.4% | 11.7% | 1.0% |
| Free Cash Flow | 1181 | 1460 | 886 | 1261 | 1240 | 1357 | 541 | 1039 | 536 | (917) |
| Income Tax | 352 | 386 | 347 | 206 | 695 | 268 | 98 | 102 | 307 | (75) |

Balance Sheet Metrics

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---------------------------------|-------|------|------|------|------|-------|-------|-------|--------|--------|
| Total Assets | 10315 | 9845 | 9640 | 9739 | 9959 | 10357 | 11130 | 13750 | 13,342 | 13,990 |
| Cash & Equivalents | 776 | 972 | 944 | 1228 | 563 | 543 | 1369 | 816 | 1,276 | 815 |
| Accounts Receivable | 1360 | 1276 | 1290 | 1149 | 1430 | 1709 | 1308 | 1298 | 1,468 | 1,610 |
| Inventories | 1399 | 1483 | 1555 | 1425 | 1707 | 1943 | 1294 | 1062 | 1,419 | 2,293 |
| Goodwill & Int. Ass. | 5103 | 4429 | 3915 | 3283 | 4015 | 4004 | 3214 | 5720 | 5,711 | 4,621 |
| Total Liabilities | 4238 | 4214 | 4255 | 4798 | 6239 | 6058 | 7776 | 10700 | 9,812 | 11,080 |
| Accounts Payable | 639 | 691 | 681 | 620 | 761 | 695 | 407 | 436 | 563 | 936 |
| Long-Term Debt | 1451 | 1440 | 1855 | 2319 | 2923 | 2786 | 3838 | 5721 | 5,421 | 6,647 |
| Shareholder's Equity | 6077 | 5631 | 5385 | 4941 | 3720 | 4299 | 3357 | 3056 | 3,530 | 2,911 |
| LTD/E Ratio | 0.24 | 0.26 | 0.34 | 0.47 | 0.79 | 0.65 | 1.14 | 1.87 | 1.54 | 2.28 |

Profitability & Per Share Metrics

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|--------|
| Return on Assets | 12.1% | 10.4% | 12.6% | 11.1% | 6.2% | 12.2% | 6.3% | 3.3% | 10.2% | 0.9% |
| Return on Equity | 21.6% | 17.9% | 22.4% | 20.8% | 14.2% | 31.5% | 17.8% | 12.7% | 42.1% | 3.7% |
| ROIC | 16.7% | 14.4% | 17.2% | 14.8% | 8.8% | 17.4% | 9.5% | 5.1% | 15.6% | 1.3% |
| Shares Out. | 440 | 433 | 427 | 414 | 396 | 397 | 400 | 392 | 389 | 388 |
| Revenue/Share | 25.56 | 26.99 | 25.45 | 26.12 | 29.27 | 34.58 | 26.23 | 23.56 | 30.18 | 29.90 |
| FCF/Share | 2.64 | 3.32 | 2.05 | 2.99 | 3.07 | 3.39 | 1.35 | 2.65 | 1.37 | (2.36) |

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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