



V.F. Corporation (VFC)

Updated August 25th, 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:	9/8/23
% Fair Value:	50%	5 Year Valuation Multiple Estimate:	14.7%	Dividend Payment Date:	9/20/23
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 \$11 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 early August, V.F. Corp reported (8/1/23) financial results for the first quarter of fiscal 2024. (V.F. Corp's fiscal year ends the Saturday closest to March 31st.) Revenue dipped -8% over last year's quarter and the company switched from earnings-per-share of \$0.09 to a loss per share of -\$0.15 due to high cost inflation and a -22% plunge in sales of Vans, whose turnaround is taking longer than initially expected.

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. North Face enjoys strong sales momentum but Vans has a long way to go to turnaround. As a result, the company now expects a modest decrease in annual sales (instead of flat sales), though it reiterated its guidance for 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	388	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 healthy 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

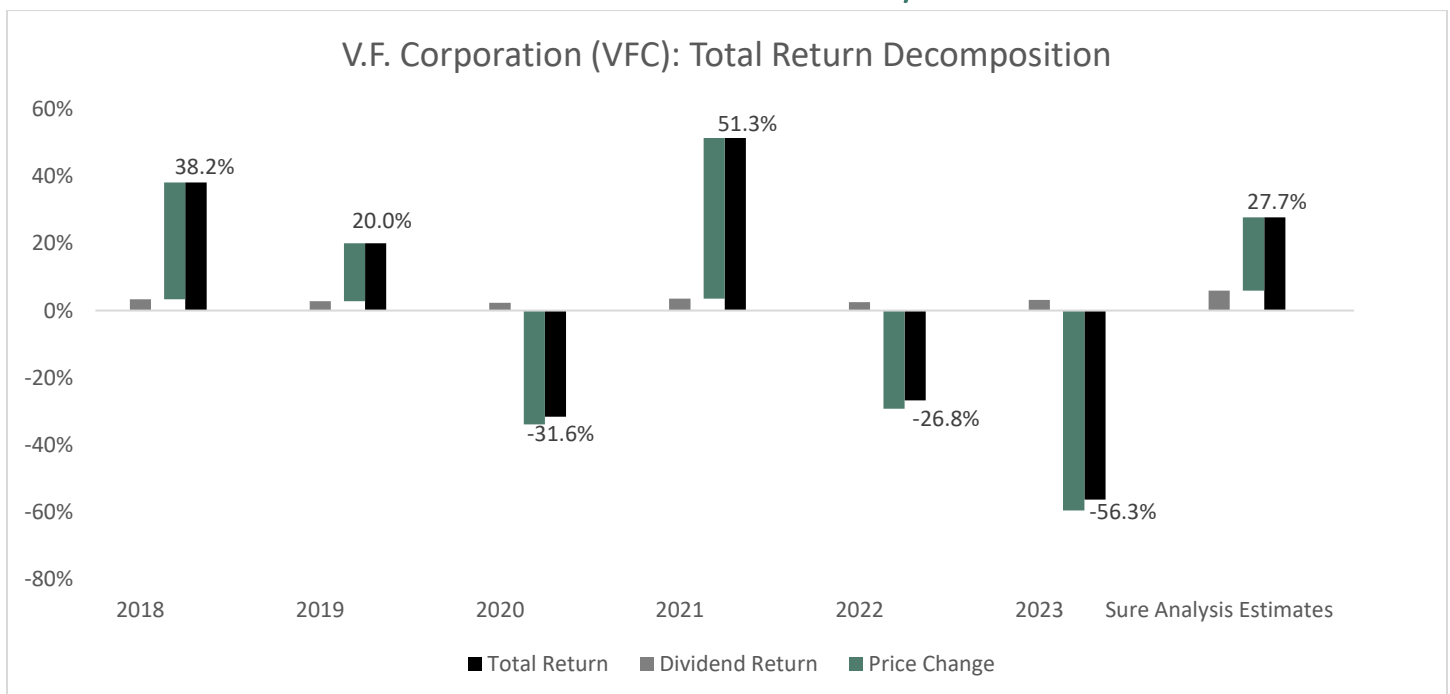
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	34%	36%	43%	49%	58%	51%	71%	---	62%	86%	57%	41%

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 -56% over the last 12 months and recently ended its 50-year dividend growth streak due to the impact of excessive 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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