Kontoor Brands Inc. (KTB)

Updated March 5th, 2024 by Jonathan Weber

Key Metrics

Current Price:	$61	**5 Year CAGR Estimate:**	3.1%	**Market Cap:**	$3.4B
Fair Value Price:	$52	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date:**	03/08/24
% Fair Value:	118%	**5 Year Valuation Multiple Estimate:**	-3.3%	**Dividend Payment Date:**	03/18/24
Dividend Yield:	3.3%	**5 Year Price Target**	$60	**Years Of Dividend Growth:**	4
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Rating:**	Hold

Overview & Current Events

Kontoor Brands is an apparel company that focuses on what it calls "lifestyle apparel". The company, which was spun off from V.F. Corporation (VFC) in 2019, owns some of the world's most iconic denim brands, including *Wrangler, Lee,* and *Rock & Republic.* Kontoor Brands is a US-focused company, just around 30% of its revenues are generated outside of the United States. Kontoor is headquartered in Greensboro, North Carolina.

Kontoor Brands reported its fourth quarter financial results on February 28. The company reported that its revenue declined by 8% compared to the previous year's quarter, to $670 million. Kontoor Brands' revenue performance was weaker compared to the previous quarter, during which Kontoor Brands had experienced a small revenue increase on a year-over-year basis, versus the revenue decline during the most recent quarter.

Kontoor Brands' earnings-per-share totaled $1.28 during the fourth quarter. Despite the fact that Kontoor Brands' revenue was down year over year, the company experienced a nice increase in its earnings-per-share. Kontoor Brands' costs, as a percentage of sales, declined, which had a positive impact on the company's margins. The company saw its gross margin improve by 230 basis points on an adjusted basis, to 43.1%. Kontoor Brands delivered very attractive earnings growth considering the harsh macro environment for consumer discretionary companies, as earnings-per-share were up by 54% compared to the previous year's quarter. For the current year, management is forecasting earnings-per-share of around $4.70, which implies that the company's profits will rise at a nice pace during the current year, relative to 2023. Revenues are forecasted to remain relatively flat this year.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	N/A	N/A	N/A	N/A	N/A	$3.84	$2.61	$4.28	$4.49	$4.45	***$4.70***	***$5.45***
DPS	N/A	N/A	N/A	N/A	N/A	$2.24	$0.96	$1.66	$1.86	$2.00	***$2.00***	***$2.43***
Shares[1]	N/A	N/A	N/A	N/A	N/A	57.9	58.4	58.8	56.7	56.7	***56.0***	***54.0***

Kontoor Brands was spun off not too long ago, thus there is no long-term data available. Due to the nature of the industry Kontoor Brands is active in, it has to be expected that this is a vulnerable business during recessions.

The spread of the virus in the US and around the world hurt Kontoor Brands' fiscal 2020 results badly, although the back half of the year was not too bad, thanks to the fact that stores started to reopen, which allowed Kontoor Brands to sell more merchandise. This allowed the company to still be profitable in 2020, despite major headwinds. With the impact of the pandemic passing, Kontoor has recovered to substantially higher profitability levels once again, as 2021 and 2022 were two new record years for the company, and we expect 2024 to be yet another record.

Management has stated that sales could grow at a low single digit rate in the long run, which seems like a reasonable target. The apparel industry isn't growing quickly, but thanks to price increases, some revenue growth should be achievable over time. However, there will likely be some ups and downs over the years. Consumers cut back their spending during recessions, for example. Buybacks could add to Kontoor Brands' earnings-per-share growth.

[1] In Millions

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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	N/A	N/A	N/A	N/A	N/A	10.9	15.7	11.9	8.9	13.9	***13.0***	***11.0***
Avg. Yld.	N/A	N/A	N/A	N/A	N/A	5.3%	3.9%	3.3%	4.7%	3.2%	***3.3%***	***4.1%***

Finding a fair value for Kontoor Brands is difficult because it does not have a long history as a standalone company. We can, however, look at the historical valuation of its prior parent company. V.F. Corporation has mostly traded at a high-teens multiple in the past. Since Kontoor Brands was created to separate V.F. Corporation's slow-growing legacy brands from its faster-growing core businesses, Kontoor Brands should trade at a discount to that. Based on our current earnings estimate, shares are trading somewhat above fair value at the current price.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	N/A	N/A	N/A	N/A	N/A	58.3%	36.8%	38.8%	41.4%	44.9%	***42.6%***	***44.7%***

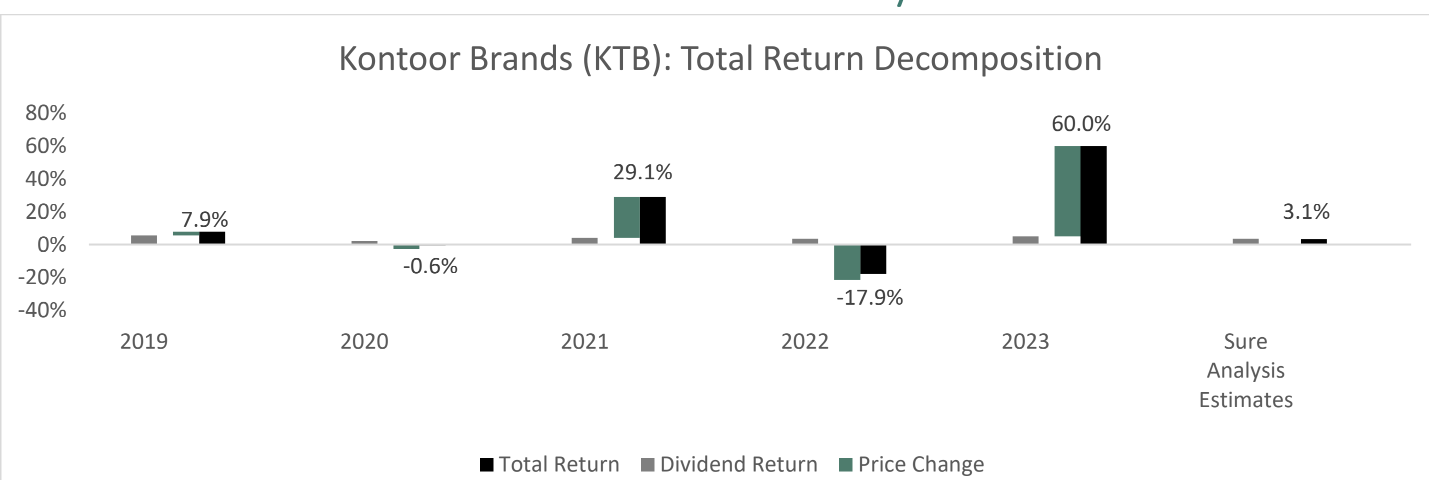
Kontoor Brands' investment case was primarily centered on a high dividend yield that looked like it was covered in a solid way before the pandemic, which devastated the industry. The dividend has been reinstated following a suspension during the peak of the pandemic, but the new payout is lower compared to pre-crisis dividend levels.

Kontoor Brands' competitive advantage lies in its ownership of some of the world's most popular denim brands, *Lee's* and *Wrangler* in particular control a large amount of market share in the denim category. The company is vulnerable to economic downturns, which is being showcased during the current pandemic.

Final Thoughts & Recommendation

Kontoor Brands is a consumer goods company that was created through a spin-off of some low-growth businesses from V.F. Corporation. We believe that the company's earnings and revenues could continue to grow slightly in the coming years. Shares are trading above our fair value estimate right now. Forecasted total returns do not look especially attractive at current prices, which is why we rate the company a hold right here.

Total Return Breakdown by Year



Disclaimer

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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue			2,926	2,830	2,764	2,549	2,098	2,476	2,631	2,607
Gross Profit			1,215	1,172	1,115	1,004	864	1,108	1,134	1,088
Gross Margin			41.5%	41.4%	40.3%	39.4%	41.2%	44.7%	43.1%	41.7%
SG&A Exp.			806	815	782	803	740	825	778	769
D&A Exp.			34	34	31	31	34	37	37	38
Operating Profit			409	357	333	201	124	283	357	319
Operating Margin			14.0%	12.6%	12.0%	7.9%	5.9%	11.4%	13.6%	12.2%
Net Profit			315	116	263	97	68	195	245	231
Net Margin			10.8%	4.1%	9.5%	3.8%	3.2%	7.9%	9.3%	8.9%
Free Cash Flow			296	142	(119)	740	180	247	55	319
Income Tax			95	243	77	39	5	49	74	41

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets				2,126	2,458	1,517	1,546	1,533	1,582	1,645
Cash & Equivalents				81	97	107	248	185	59	215
Acc. Receivable				240	253	231	242	291	222	201
Inventories				440	474	458	341	363	597	500
Goodwill & Int.				291	276	265	302	313	309	301
Total Liabilities				769	735	1,448	1,461	1,385	1,332	1,274
Accounts Payable				174	134	147	167	214	206	180
Long-Term Debt				274	272	914	914	792	800	784
Total Equity				1,358	1,723	69	85	148	251	372
LTD/E Ratio				0.20	0.16	13.20	10.80	5.34	3.19	2.11

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets					11.5%	4.9%	4.4%	12.7%	15.8%	14.3%
Return on Equity					17.1%	10.8%	88.3%	168%	123%	74.2%
ROIC					14.5%	6.5%	6.9%	20.2%	24.7%	20.9%
Shares Out.						57.9	58.4	58.8	56.7	56.7
Revenue/Share			51.67	49.97	48.80	44.55	36.26	41.90	46.20	45.80
FCF/Share			5.22	2.51	(2.10)	12.94	3.10	4.18	0.97	5.61

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