



# Kontoor Brands Inc. (KTB)

Updated May 15<sup>th</sup>, 2024 by Jonathan Weber

## Key Metrics

|                             |      |                                            |       |                                  |          |
|-----------------------------|------|--------------------------------------------|-------|----------------------------------|----------|
| <b>Current Price:</b>       | \$68 | <b>5 Year CAGR Estimate:</b>               | 1.1%  | <b>Market Cap:</b>               | \$3.8B   |
| <b>Fair Value Price:</b>    | \$52 | <b>5 Year Growth Estimate:</b>             | 3.0%  | <b>Ex-Dividend Date:</b>         | 06/10/24 |
| <b>% Fair Value:</b>        | 130% | <b>5 Year Valuation Multiple Estimate:</b> | -5.1% | <b>Dividend Payment Date:</b>    | 06/20/24 |
| <b>Dividend Yield:</b>      | 2.9% | <b>5 Year Price Target</b>                 | \$61  | <b>Years Of Dividend Growth:</b> | 4        |
| <b>Dividend Risk Score:</b> | D    | <b>Retirement Suitability Score:</b>       | D     | <b>Rating:</b>                   | Sell     |

## 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 first quarter financial results on May 3. The company reported that its revenue declined by 5% compared to the previous year’s quarter, to \$630 million. Kontoor Brands’ revenue performance was better compared to the previous quarter, during which Kontoor Brands had experienced an even bigger revenue decline on a year-over-year basis. Kontoor Brands was able to grow its gross margin by 270 basis points over the last year.

Kontoor Brands’ earnings-per-share totaled \$1.16 during the first quarter. Despite the fact that Kontoor Brands’ revenue was down year over year, the company experienced flat earnings-per-share compared to the previous year’s quarter. 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 to 45.7%. Kontoor Brands delivered solid profits, considering the harsh macro environment for consumer goods companies.

For the current year, management is forecasting earnings-per-share of \$4.70 to \$4.80, or \$4.75 at the midpoint of the guidance range, 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          |
|---------------------------|------|------|------|------|------|--------|--------|--------|--------|--------|---------------|---------------|
| <b>EPS</b>                | N/A  | N/A  | N/A  | N/A  | N/A  | \$3.84 | \$2.61 | \$4.28 | \$4.49 | \$4.45 | <b>\$4.75</b> | <b>\$5.51</b> |
| <b>DPS</b>                | N/A  | N/A  | N/A  | N/A  | N/A  | \$2.24 | \$0.96 | \$1.66 | \$1.86 | \$2.00 | <b>\$2.00</b> | <b>\$2.43</b> |
| <b>Shares<sup>1</sup></b> | N/A  | N/A  | N/A  | N/A  | N/A  | 57.9   | 58.4   | 58.8   | 56.7   | 56.7   | <b>56.0</b>   | <b>54.0</b>   |

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.

<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      | 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 | <b>14.3</b> | <b>11.0</b> |
| Avg. Yld. | N/A  | N/A  | N/A  | N/A  | N/A  | 5.3% | 3.9% | 3.3% | 4.7% | 3.2% | <b>2.9%</b> | <b>4.0%</b> |

Finding a fair value for Kontoor Brands is difficult because the company does not have a long history as a standalone business. 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 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% | <b>42.1%</b> | <b>44.2%</b> |

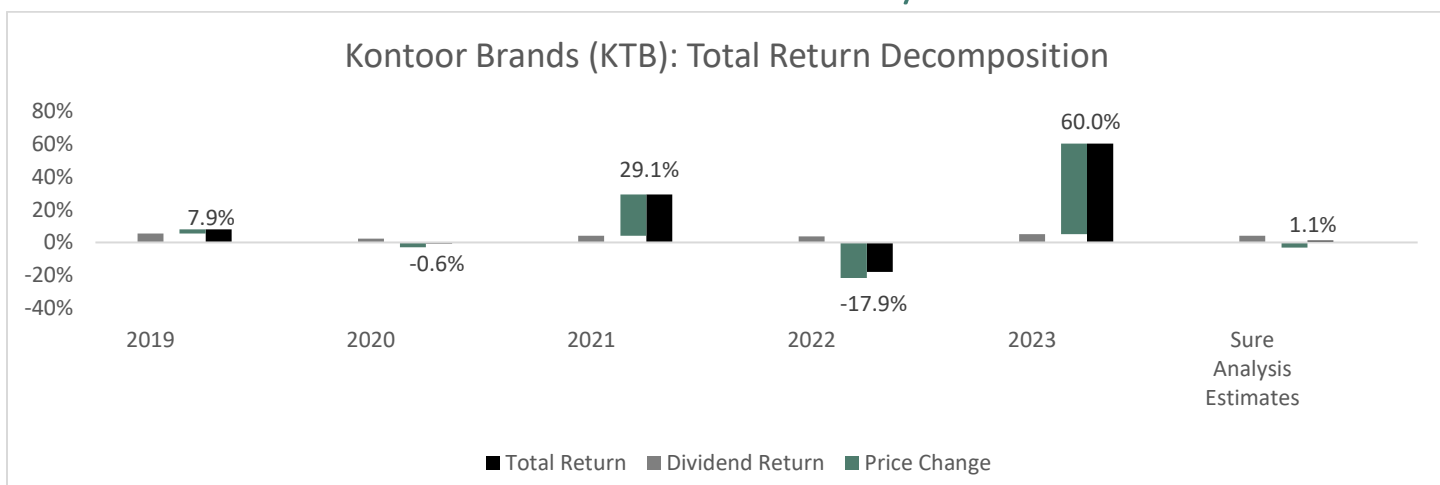
Kontoor Brands' investment case was primarily centered on a high dividend yield that looked like it was covered in a solid way before the pandemic, which devastated the industry. The dividend has been reinstated following a suspension during the peak of the pandemic, but the new payout is lower compared 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 attractive at current prices, which is why we rate the company a sell right here.

## Total Return Breakdown by Year



### Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.



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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.*

### Disclaimer

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