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Jan 17, 2020

V.F. Corporation (VFC)

$95.13 (As of 01/16/20)

Price Target (6-12 Months): **$100.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 07/22/19) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**4-Sell**
	Zacks Style Scores:	VGM:D
	Value: D | Growth: D | Momentum: A	

Summary

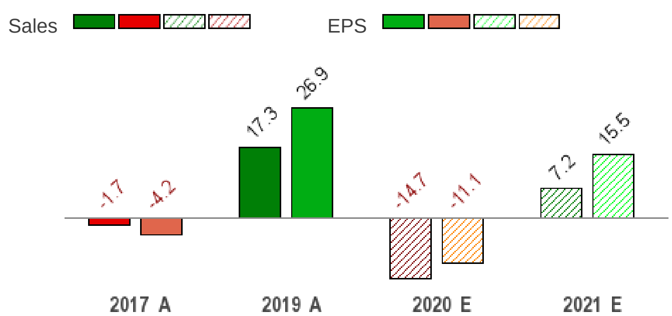
V.F. Corp has rallied and outpaced the industry in the past six months. In second-quarter fiscal 2020, the company's top and bottom lines improved year over year despite missing the Zacks Consensus Estimate. Earnings gained from solid revenue growth as well as improvement in adjusted gross and operating margins. Strength in its two largest brands — Vans and The North Face — and international and direct-to-customer businesses along with robust Active and Outdoor segments aided the top line. Further, the company reiterated its upbeat view for fiscal 2020. However, its Timberland and Dickies brands remained relatively soft in the reported quarter. Currency woes, the ongoing disruption in Hong Kong and incremental tariffs are likely to hurt results in the near term. Moreover, uncertainty related to Brexit is hurting the EMEA segment.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$100.25 - $75.29**
20 Day Average Volume (sh)	**1,894,073**
Market Cap	**$38.0 B**
YTD Price Change	**-4.6%**
Beta	**1.19**
Dividend / Div Yld	**$1.92 / 2.0%**
Industry	**Textile - Apparel**
Zacks Industry Rank	**Bottom 11% (226 out of 254)**
Last EPS Surprise	**-3.1%**
Last Sales Surprise	**-0.6%**
EPS F1 Est- 4 week change	**0.0%**
Expected Report Date	**01/23/2020**
Earnings ESP	**0.0%**
P/E TTM	**27.4**
P/E F1	**28.3**
PEG F1	**2.5**
P/S TTM	**3.0**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	2,410 E	3,594 E	3,641 E	2,937 E	12,669 E
2020	2,271 A	3,393 A	3,425 E	2,745 E	11,820 E
2019	2,788 A	3,907 A	3,940 A	3,213 A	13,849 A

EPS Estimates

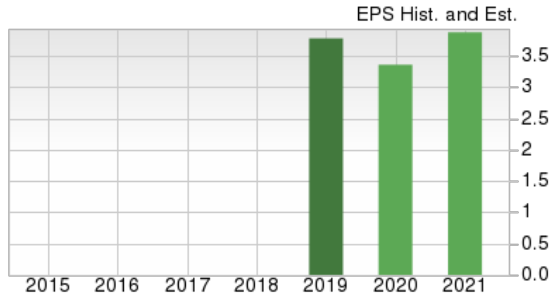
	Q1	Q2	Q3	Q4	Annual*
2021	$0.38 E	$1.43 E	$1.36 E	$0.70 E	$3.88 E
2020	$0.30 A	$1.26 A	$1.21 E	$0.60 E	$3.36 E
2019	$0.43 A	$1.43 A	$1.31 A	$0.60 A	$3.78 A

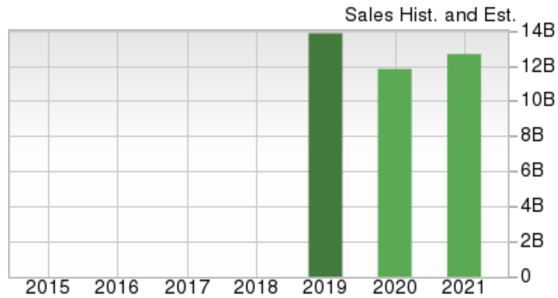
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/16/2020. The reports text is as of 01/17/2020.

Overview

Based in Greensboro, NC, V.F. Corporation designs, manufactures and markets branded apparel and related products in the United States and internationally. Its product line consists of denim and casual tops, bottoms, backpacks, book bags, luggage, outdoor gear, skateboard-inspired footwear and apparel, surf-inspired footwear and apparel, women's lingerie, occupational apparel, licensed sports apparel, athletic apparel and fashion sportswear. The company markets its products through specialty stores, department stores, national chains and mass merchants along with licensees and distributors.





On May 22, 2019, the company completed the spin-off of its Jeans business into an independent, publicly-traded company named as Kontoor Brands. The spin-off included Wrangler, Lee, and Rock & Republic brands, as well as the VF Outlet business. These businesses are now presented as discontinued operations.

The company reports operating results under three segments — Active, Outdoor and Work.

- **Outdoor** segment mainly comprises of outdoor apparel, footwear and equipment. The key brands sold under this segment are The North Face, Timberland (excluding Timberland PRO), Smartwool, Icebreaker and Altra.

- **Active** segment offers active apparel, footwear and accessories under brands like Vans, Kipling, Napapijri, JanSport, Reef, Eastpak and Eagle Creek.

- **Work** segment sells work and work-inspired lifestyle apparel and footwear and occupational apparel. The primary brands in this segment include Dickies, Bulwark, Red Kap, Timberland PRO, Wrangler RIGGS, Walls, Terra, Kodiak and Horace Small.

Reasons To Buy:

Solid performance at the core (Vans and The North Face) brands drove second-quarter fiscal 2020 results. These brands display strength, with solid sales growth in all regions and product categories.

- **Q2 Results:** Shares of V.F. Corp have gained 9.2% in the past six months, while the industry increased 5.1%. In second-quarter fiscal 2020, the company's top and bottom lines improved year over year despite missing the Zacks Consensus Estimate. Earnings improved 6%, while net revenues were up 5%. In constant dollars, revenues and earnings rose 7% and 8%, respectively. Earnings reflected strong revenue gains as well as an improvement in adjusted gross and operating margins. Further, strength in the company's two largest brands, and international and direct-to-customer businesses along with robust Active and Outdoor segments aided the top line. Collectively, its big four brands reported revenue growth of 9%. The company reiterated the upbeat view for fiscal 2020.

- **Fiscal 2020 View:** V.F. Corp continues to expect revenues of $11.8 billion for fiscal 2020, indicating growth of 6% (and 8% in constant dollars, excluding the impact of acquisitions and divestitures). On a segmental basis, it expects revenue growth of 5% for Outdoor (6-7% in constant dollars), 8-9% for Active (11-12% in constant dollars) and 2-3% for Work (4-5% in constant dollars) segments. Adjusted gross and operating margins are anticipated to increase 80 and 90 bps, respectively, to 54.1% and 13.8% in fiscal 2020. Adjusted earnings per share are envisioned to be $3.32-$3.37, indicating 16-18% growth (19-21% at constant currency) from the year-ago period's reported figure.

- **2024 Growth Plan & Outlook:** After witnessing significant transformation as part of its 2021 strategy, including the spin-off of its jeans business, V.F. Corp. is set to follow a new growth plan for the 2020-2024 period. The 2024 growth strategy primarily focuses on transitioning to a consumer-minded and retail-centric business in a hyper-digital way. The company's efforts will also focus on creating a dynamic and optimum portfolio, directing investments to Asia and uplifting direct channels by prioritizing digital. The strategy targets generating revenue growth of 7-8% at a five-year CAGR, through 2024. This growth will be primarily driven by its largest brands — The Vans, The North Face, Timberland and Dickies. Further, the company expects revenue growth through the period to be driven by strong contributions from the International and Direct-to-Consumer business platforms. It expects earnings per share growth of 12-14% at a five-year CAGR, from fiscal 2019 levels. In fiscal 2024, the company anticipates gross margin to exceed 55.5%, with an operating margin of more than 15%. Further, the company expects to generate cumulative free cash flows of nearly $8 billion during the five years. Of this, the company plans to return about $10 billion to shareholders in the form of dividend payouts and share repurchases. It anticipates delivering top quartile total shareholder return (TSR) performance with annual TSR of 14-16%.

  Apart from announcing growth targets through 2024, the company unveiled its evolved corporate logo and branding during the investor meet held at Boston, MA. This marked its first such move in 21 years. The company also introduced a tagline — "Purpose led, Performance driven" — that clearly establishes its core business vision.

- **Momentum in Two Largest Brands:** V.F. Corp's fiscal second-quarter results gained significantly from momentum in its two largest brands, Vans and The North Face, revenues for which improved 16% and 10%, respectively. Double-digit growth at these brands was driven by strong back-to-school season as well as balanced growth across regions and channels. At Vans, the core heritage business generated strong double-digit growth along with nearly 30% growth in progression footwear due to the new ComfyCush franchise. Momentum in apparel and accessories further aided growth at the Vans brand. At The North Face, the Mountain Lifestyle and Urban Exploration product territories gained the most, driven by its strategy of capitalizing on opportunities beyond core Mountain Sports. Further, the recently launched FutureLight, which provides increased visibility for the brand's growth in the second half of fiscal 2020 and in fiscal 2021. Backed by the ongoing momentum, the company raised the fiscal 2020 view for these brands above their respective long-term targets. For fiscal 2020, it now expects revenue growth of 13-14% at Vans and 9-10% at The North Face. Furthermore, the company expects these two brands to contribute 80% to overall growth over the next five years.

- **Focus on Digital Growth:** V.F. Corp is focused on selling directly to consumers and investing in digital platforms for its brands. Revenues for the direct-to-consumer business improved 11% and 13% in constant dollars in the fiscal second quarter. Further, digital revenues were up 15% and 17% in constant dollars. Quarterly results reflected strong performance at both direct-to-consumer and digital wholesale businesses. In the reported quarter, revenues from the wholesale business improved 6%, courtesy of 21% growth in the company's digital wholesale partners along with double-digit growth in The North Face and Vans. For fiscal 2020, V.F. Corp raised the revenue growth guidance for the direct-to-consumer business to 11-12% (12-13% at a constant-dollar basis). The company estimates digital revenue growth of 25% for the fiscal year.

- **International Expansion Strategy:** V.F. Corp is aggressively looking for opportunities to expand international operations, particularly in Asia, which is one of the fastest growing regions. Driven by its commitment to invest in international platforms, revenues for the business grew 4% (8% in constant dollars) in second-quarter fiscal 2020. This was led by balanced growth across regions — including 16% in Asia, 9% in non-U.S. Americas and 5% in Europe. Moreover, the China business remained strong, with 20% revenue growth (24% in constant currency), driven by balanced double-digit growth across channels and at each of the Big 4 brands. Backed by the robust momentum, the company now expects International revenue growth of 4-5% (8-9% at constant currency), excluding the impact of acquisitions and divestitures.

Reasons To Sell:

V.F. Corp expects adverse currency rate to hurt fiscal 2020 revenues and earnings per share by nearly $60 million and 3 cents, respectively, compared with the figures provided in July 2019.

- **Stock Looks Overvalued:** Considering price-to-earnings (P/E) ratio, V.F. Corp looks pretty overvalued when compared with the industry and the S&P 500. The stock has a trailing 12-month P/E ratio of 26.2x, which is above the median level of 23.4x but below the high level of 26.9x scaled in the past year. On the contrary, the trailing 12-month P/E ratio is 18x for the industry and 19.6x for the S&P 500. Given these factors, we believe that the stock is quite stretched from the P/E aspect.

- **Soft Timberland and Dickies Brands:** Though V.F. Corp's big four brands reported strong sales on a combined basis, revenues for the Timberland and Dickies brands remained soft in second-quarter fiscal 2020. Timberland's low-single-digit revenue growth in the fiscal second quarter, driven by strength in North America and Asia, was partially offset by softness in Europe. Notably, changes in the planned business model in South America negatively impacted the brand's global revenue growth by 1%. Meanwhile, results for the Dickies brand were impacted by the timing of shipments in the U.S. mass channel compared with the year-ago quarter. For fiscal 2020, the company expects relatively soft performance at the Timberland and Dickies brands. It now expects 1-2% revenue growth in Timberland compared with 1-3% rise mentioned earlier. Revenues for the Dickies brand is now expected to increase 5-6% versus 5-7% growth stated earlier.

- **Currency Headwinds:** V.F. Corp's international business, which constitutes major part of the company's revenues, remains exposed to currency fluctuations. A strengthening greenback may hurt the company's overall profitability. This is evident from the company's second-quarter fiscal 2020 results, which continued to bear the negative impact of foreign exchange currency translations. In fiscal 2020, it expects adverse currency rate to hurt revenues and earnings per share by $60 million and 3 cents, respectively, compared with the figures mentioned in July 2019.

- **Global Uncertainty:** V.F. Corp is not immune to the geopolitical and macro factors that are prevalent across the world. Apart from unfavorable currency, the company's operational gains are likely to be offset by tariffs and the ongoing disruption in Hong Kong. Notably, protests in Hong Kong modestly hurt the company's performance in Asia in the last reported quarter. Additionally, uncertainty related to Brexit is hurting consumer confidence, which is slightly impacting the results of the U.K. market. This weighed on the performance of the company's EMEA region to some extent. For fiscal 2020, it expects currency headwinds, the ongoing disruption in Hong Kong and incremental tariffs to negatively impact results by 7 cents per share compared with the figure provided in July.

- **Competitive Pressure:** V.F. Corp faces intense competition from other well-established players in the apparel industry, on the basis of brand recognition, fashion, price, service, store location and quality. Failure to offer high-quality products at a competitive price may hamper V.F. Corp.'s market share and consequently, dent both top-line and bottom-line growth.

- **Macroeconomic Challenges:** V.F. Corp operates in a highly cyclical consumer discretionary space. Being a consumer-driven space, any downplay in economic activity or soft consumer spending is likely to impact the company's sales performance. Additionally, macroeconomic challenges like high household debt and unemployment levels may restrain consumers from spending on discretionary products.

Last Earnings Report

V.F. Corp's Q2 Earnings & Sales Miss

Quarter Ending	09/2019
Report Date	Oct 25, 2019
Sales Surprise	-0.63%
EPS Surprise	-3.08%
Quarterly EPS	1.26
Annual EPS (TTM)	3.47

V.F. Corp posted dismal second-quarter fiscal 2020 results, wherein the top and bottom lines missed the Zacks Consensus Estimate. Notably, this marked the first earnings miss in the last seven quarters. Also, sales lagged estimates after five straight quarters of beat. Nonetheless, management reaffirmed its outlook for the fiscal year.

V.F. Corp delivered adjusted earnings of $1.26 per share. Although the bottom line improved 6% year over year, it missed the Zacks Consensus Estimate of $1.30. On a constant-dollar basis, adjusted earnings rose 8%.

V.F. Corp generated net revenues of $3,393.3 million, which increased about 5% year over year but lagged the Zacks Consensus Estimate of $3,415 million. Constant-dollar revenues improved 7%. Excluding acquisitions and divestitures, the metric rose 6% (up 8% in constant currency). Revenue growth can be attributed to strength in the company's largest brands, and international and direct-to-customer businesses along with robust Active and Outdoor segments.

Excluding acquisitions and divestitures, adjusted international revenues moved up 4% (up 8% in constant dollars). Further, revenues in China improved 20% (up 24% in constant dollars).

Moreover, V.F. Corp's direct-to-consumer revenues grew 11% (up 13% in constant dollars). Digital revenues were up 15% (up 17% in constant dollars)

Adjusted gross margin expanded 90 basis points (bps) year over year to 53.1%. Furthermore, adjusted operating income increased 7% to $606 million. Adjusted operating margin grew 40 bps to 17.9%.

Segmental Details

Revenues at the **Active** segment grew 9% to $1,413.6 million (up 11% on a constant-dollar basis). This included revenue growth of 14% (up 16% in constant dollars) at the Vans brand.

The **Outdoor** segment reported revenues of $1,525.9 million, which improved 4% year over year (up 6% in constant dollars). This included revenue growth of 4% (up 6% in constant dollars) at The North Face brand.

Revenues at the **Work** segment decreased 4% year over year and declined 3% at constant currency to $435.6 million.

Other revenues were $18.1 million compared with $1.3 million reported in the year-ago quarter.

Financial Details

V.F. Corp ended second-quarter fiscal 2020 with cash and cash equivalents of $507.6 million, long-term debt of $2,090.9 million, and shareholders' equity of $4,647.6 million. At the end of the fiscal second quarter, the company used cash from operating activities of $365.5 million.

During the reported quarter, the company paid out about $171 million of dividends. It did not buy back any share in the quarter and therefore had an outstanding balance of $3.8 billion under its existing share repurchase authorization. Further, management hiked the quarterly dividend by 12% to 48 cents per share, which is payable Dec 20, 2019, to its shareholders of record as of Dec 10.

Outlook

V.F. Corp reiterated its view for fiscal 2020. The company continues to expect revenues of $11.8 billion, which indicates growth of 6% (and 8% in constant dollars excluding the impact of acquisitions and divestitures).

On a segmental basis, the company still expects revenue growth of 5% for Outdoor (6-7% in constant dollars). Revenues are expected to increase 8-9% (11-12% in constant dollars) for Active and 2-3% for Work (4-5% in constant dollars).

This apart, V.F. Corp now expects International revenue growth of 4-5% (8-9% at constant currency). Revenues for the direct-to-consumer business are anticipated to increase 11-12% (12-13% at a constant-dollar basis). The company anticipates digital revenue growth of 25%.

Adjusted gross and operating margins are still anticipated to increase 80 and 90 bps, respectively, to 54.1% and 13.8% for fiscal 2020. Management continues to envision adjusted earnings per share of $3.32-$3.37, indicating 16-18% growth from the year-ago period's reported figure (19-21% at constant currency). The Zacks Consensus Estimate for earnings is currently pegged at $3.37.

Further, V.F. Corp still expects adjusted cash flow from operations of $1.3 billion for fiscal 2020. The effective tax rate is expected to be 15-15.5%. Moreover, capital expenditure is estimated to be $400 million for the fiscal year.

Valuation

V.F. Corp shares are up 15.5% for the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary sector are up 14.4% and 20.7%, respectively, over the past year.

The S&P 500 index is up 23.3% in the past year.

The stock is currently trading at 25.22X forward 12-month earnings, which compares to 20.13X for the Zacks sub-industry, 20.86X for the Zacks sector and 18.96X for the S&P 500 index.

Over the past five years, the stock has traded as high as 26.73X and as low as 13.21X, with a 5-year median of 20.37X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $100 price target reflects 26.51X forward 12-month earnings.

The table below shows summary valuation data for VFC

Valuation Multiples - VFC

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	25.22	20.13	20.86	18.96
	5-Year High	26.73	23.06	23.35	19.34
	5-Year Low	13.21	14.31	16.16	15.17
	5-Year Median	20.37	18.34	20.11	17.44
P/S F12M	Current	3.04	2.4	2.4	3.53
	5-Year High	3.21	2.58	3.19	3.53
	5-Year Low	1.48	1.55	1.81	2.54
	5-Year Median	2.23	2.07	2.54	3
EV/EBITDA TTM	Current	19.81	20.74	12.71	12.12
	5-Year High	46.03	26.2	17.76	12.86
	5-Year Low	12.82	13.46	11.07	8.48
	5-Year Median	16.7	17.77	12.42	10.67

As of 01/16/2020

Industry Analysis **Zacks Industry Rank:** Bottom 11% (226 out of 254)

Top Peers

Fossil Group, Inc. **(FOSL)**	Neutral
Guess?, Inc. **(GES)**	Neutral
G-III Apparel Group, LTD. **(GIII)**	Neutral
Hanesbrands Inc. **(HBI)**	Neutral
lululemon athletica inc. **(LULU)**	Neutral
PVH Corp. **(PVH)**	Neutral
Ralph Lauren Corporation **(RL)**	Neutral
Delta Apparel, Inc. **(DLA)**	Underperform

Industry Comparison Industry: Textile - Apparel

Industry Peers

	VFC Neutral	X Industry	S&P 500	GES Neutral	PVH Neutral	RL Neutral
VGM Score	D	-	-	B	A	C
Market Cap	37.99 B	1.35 B	24.61 B	1.53 B	7.25 B	8.98 B
# of Analysts	9	4	13	2	7	5
Dividend Yield	2.02%	0.00%	1.74%	1.93%	0.15%	2.29%
Value Score	D	-	-	C	B	B
Cash/Price	0.01	0.05	0.04	0.07	0.08	0.18
EV/EBITDA	20.97	10.67	14.24	20.57	8.90	10.67
PEG Ratio	2.48	1.74	2.07	0.98	1.05	1.87
Price/Book (P/B)	8.17	1.62	3.38	2.61	1.23	3.22
Price/Cash Flow (P/CF)	20.80	10.66	13.75	12.67	6.99	10.81
P/E (F1)	28.17	15.65	19.09	17.10	10.50	15.65
Price/Sales (P/S)	2.96	0.74	2.68	0.57	0.74	1.41
Earnings Yield	3.53%	6.39%	5.24%	5.85%	9.53%	6.39%
Debt/Equity	0.67	0.65	0.72	1.74	0.71	0.70
Cash Flow ($/share)	4.57	1.63	6.94	1.84	14.22	11.12
Growth Score	D	-	-	C	B	C
Hist. EPS Growth (3-5 yrs)	4.08%	3.67%	10.56%	-1.48%	7.92%	-0.75%
Proj. EPS Growth (F1/F0)	-11.14%	9.39%	7.57%	38.78%	-1.40%	6.95%
Curr. Cash Flow Growth	51.18%	9.47%	14.73%	21.93%	13.47%	9.60%
Hist. Cash Flow Growth (3-5 yrs)	4.29%	7.17%	9.00%	-9.92%	3.78%	-3.42%
Current Ratio	1.99	1.73	1.24	1.52	1.40	1.95
Debt/Capital	40.16%	40.16%	42.99%	63.63%	41.55%	41.27%
Net Margin	10.07%	2.33%	11.14%	1.48%	6.57%	7.08%
Return on Equity	32.04%	10.58%	17.16%	12.56%	12.17%	19.52%
Sales/Assets	1.21	1.18	0.55	1.21	0.74	0.96
Proj. Sales Growth (F1/F0)	-14.65%	1.09%	4.16%	2.98%	1.51%	0.84%
Momentum Score	A	-	-	A	A	D
Daily Price Chg	-0.61%	0.00%	0.89%	3.61%	0.66%	1.66%
1 Week Price Chg	-4.56%	-1.67%	0.39%	3.22%	-2.72%	-0.17%
4 Week Price Chg	-1.83%	-0.63%	2.65%	6.31%	-5.04%	2.37%
12 Week Price Chg	4.75%	1.58%	7.55%	36.99%	9.41%	23.88%
52 Week Price Chg	29.85%	-0.21%	22.12%	8.24%	-7.60%	11.52%
20 Day Average Volume	1,894,073	54,066	1,536,375	864,401	617,701	566,966
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.06%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.99%	0.10%	0.00%
(F1) EPS Est 12 week change	-0.39%	-0.77%	-0.40%	1.36%	0.72%	0.44%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.45%	0.46%	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	D
Momentum Score	A
VGM Score	D

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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