

Wolverine World Wide (WWW)

\$24.26 (As of 06/16/20)

Price Target (6-12 Months): **\$26.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 06/01/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: C

Growth: F

Momentum: B

Summary

Shares of Wolverine have surged in the past three months. The stock gained momentum following early trends that the company witnessed in the first nine weeks of second-quarter 2020, as the economy gradually reopens. Diversified global business model, enhanced digital capabilities and promising at-once order demand contributed to better-than-expected sales results during this period, in spite of the pandemic greatly limiting global wholesale business. While second quarter is expected to be the toughest one, management remains optimistic about positive customer response toward performance and work brands as well as proactive measures undertaken to strengthen liquidity and lower operating expenses. Notably, total revenues during nine-week period surpassed management's expectations, despite the impact of store closures during April and May.

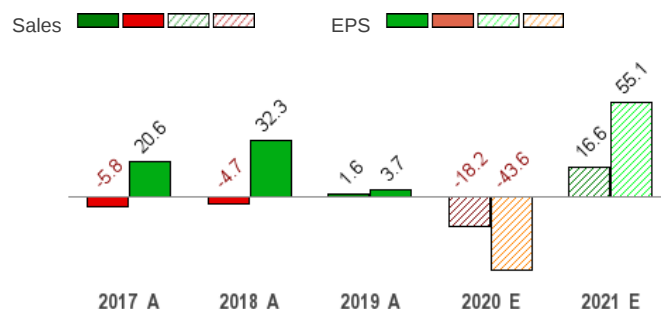
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$34.70 - \$12.19
20 Day Average Volume (sh)	723,918
Market Cap	\$2.0 B
YTD Price Change	-28.1%
Beta	1.72
Dividend / Div Yld	\$0.40 / 1.6%
Industry	Shoes and Retail Apparel
Zacks Industry Rank	Bottom 2% (249 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	55.6%
Last Sales Surprise	-6.4%
EPS F1 Est- 4 week change	-1.1%
Expected Report Date	08/05/2020
Earnings ESP	20.4%
P/E TTM	11.7
P/E F1	19.1
PEG F1	1.9
P/S TTM	0.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	482 E	435 E	541 E	630 E	2,168 E
2020	439 A	334 E	492 E	596 E	1,860 E
2019	523 A	569 A	574 A	607 A	2,274 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.41 E	\$0.08 E	\$0.58 E	\$0.62 E	\$1.97 E
2020	\$0.28 A	-\$0.12 E	\$0.51 E	\$0.61 E	\$1.27 E
2019	\$0.49 A	\$0.52 A	\$0.68 A	\$0.59 A	\$2.25 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 06/16/2020. The reports text is as of 06/17/2020.

Overview

Headquartered in Michigan, Wolverine World Wide, Inc. is engaged in the designing, manufacturing and distribution of a wide variety of casual as well as active apparel and footwear. The company also manufactures children's footwear and specially designed boots and accessories for industrial purposes.

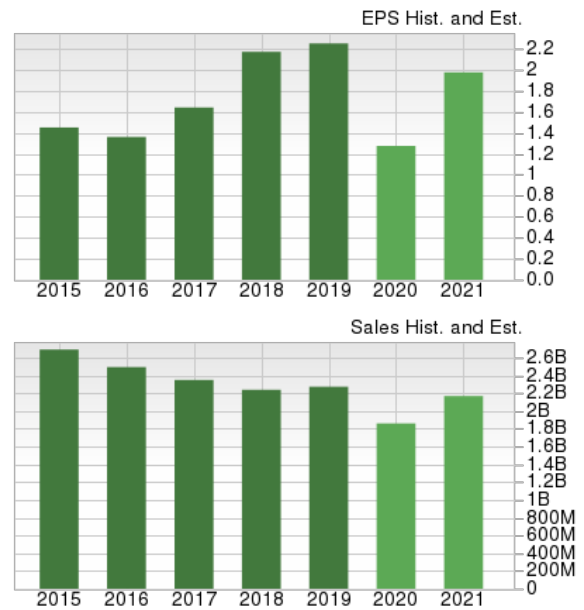
Wolverine is predominantly renowned for a range of footwear styles and designs of shoes, boots, and sandals under recognized brand names such as Bates, Chaco, Cat, Hush Puppies, Harley-Davidson, HyTest, Keds, Merrell, Saucony, Sebago, Soft Style, Sperry, Stride Rite, and Wolverine brand. Non-footwear products of the company mainly include eyewear, watches, gloves, socks, handbags, and plush toys.

We note that the company operates under the Wolverine Michigan Group and Wolverine Boston Group. Wolverine Michigan Group, consists of Merrell footwear and apparel, Wolverine footwear and apparel, Harley-Davidson footwear, Chaco footwear, Cat footwear, Hush Puppies footwear and apparel, Bates uniform footwear and Hytest safety footwear.

Wolverine Boston Group comprises Sperry footwear and apparel, Saucony footwear and apparel, and Keds footwear and apparel. The segment also includes the Kids footwear business, with the Stride Rite licensed business and kids' footwear offerings from brands like Saucony, Keds, Sperry, Merrell, Cat and Hush Puppies.

Wolverine World Wide's owned operations are carried out in the United States, Canada, the United Kingdom and across certain nations in continental Europe and Asia-Pacific. As of Mar 28, 2020, the company's brands are sold in roughly 170 countries and territories.

Further, the company relies on a network of third-party distributors, licensees and joint ventures in Latin America, as well as parts of Europe and Asia Pacific, the Middle East and Africa. The company operates more than 90 retail stores in the United States and Canada as well as 37 consumer-direct e-commerce sites.



Reasons To Buy:

▲ **Stock Gaining Momentum:** Shares of Wolverine have increased 78% in the past three months compared with the industry's rally of 47%. Notably, the stock has soared 23% in a month. The stock gained momentum following early trends that the company witnessed in the first nine weeks of second-quarter 2020, as the economy gradually reopens. Diversified global business model, enhanced digital capabilities and promising at-once order demand contributed to better-than-expected sales results during this period. Notably, total revenues during the period surpassed management's expectations. We note that total revenues declined less than 50% year over year, in spite of global store closures during April and May. Sturdy owned e-commerce business helped offset the loss of revenues on account of store closures. Management now envisions a similar year-over-year trend in the remaining four weeks of the quarter.

Wolverine is on track with its 'global growth agenda' initiative that focuses on brand empowerment, e-commerce enhancement and international expansion.

The company plans to open roughly 70 of its more than 90 stores by mid-June. Again, management notified that sell-through trends in retail stores operated by Wolverine's wholesale customers were down year-over-year, but gradually improved during the aforementioned period, courtesy of at-once order trends surpassing management's expectations. Also, re-order demand from retailers who remained opened during the pandemic contributed to the company's work and outdoor performance businesses.

▲ **Global Growth Agenda on Track:** Wolverine has been progressing well with the Global Growth Agenda, which is aimed at three major elements — continuous introduction of products worldwide with creative designs, expansion of digital engagement to enhance the owned e-commerce business, and stronger investments in regional resources and systems to drive international growth. Additionally, the company has been expanding its store base to pace up growth in its global markets. This includes the joint venture in China. Furthermore, the company expects to leverage the commercial platforms and optimize demand-creation investments in all channels of distribution, particularly DTC channels. Wolverine intends to accelerate the execution of Global Growth Agenda as the economy sooner revives from the ongoing pandemic.

For now management is preserving capital, controlling expenses and focus on improving cash flows via reducing inventory receipts, delaying capital projects and undertaking other necessary measures. The disciplined expense reductions and other liquidity actions are expected to result in more than \$500 million in cash preservation and \$150-\$200 million in operating cash flow in 2020. Wolverine expects to end second quarter with approximately \$400 million cash on hand and about \$600 million of borrowing capacity available on its revolver. The company anticipates generating more than \$20 million of operating cash flow in the quarter, significantly exceeding its expectations entering the quarter.

▲ **Efforts to Boost Brands & Sourcing:** The company focuses on developing brands that suit consumer needs aptly, on the back of advanced technologies and accurate market insights. Evidently, management aligned the company's brand group structure to accelerate growth. It integrated the Outdoor & Lifestyle Group and the Heritage Group into a newly formed unit — Wolverine Michigan Group. The company focuses on new launches across different brand banners and brings forward a robust pipeline of new products. Products launched under the Saucony and Merrell banners are likely to drive growth. As part of long-term business growth strategies, the company is also striving to develop efficient sourcing structure and diversify global business.

▲ **E-commerce Strength:** Amongst Wolverine's sales channels, e-commerce has been the fastest growing and the key growth driver. The company has been utilizing its digital capabilities to enhance speed of information and product flow. Additionally, it focuses on boosting social presence, digital content and flow of information as well as better management of consumer database. In order to support growth in the digital arena, the company is investing toward strengthening of distribution centers. Management notified that in spite of the coronavirus outbreak the company's supply chain, logistics and distribution centers are operational, facilitating it to cater customers, primarily through its owned and third-party on-line channels, which represent nearly 40% of total U.S. sales. The company highlighted that it has registered mid-teens ecommerce growth in the first quarter of 2020. Also, it stated that it has been seeing strong results so far in the second quarter. Management anticipates the combined e-commerce and third-party online businesses to represent between 50% and 60% of its U.S. revenues in the current year.

Management notified that owned e-commerce soared more than 90% year over year during the first nine weeks of second-quarter 2020, contributing toward more than 40% of the company's revenue. Performance brands Merrell and Saucony as well as work brands Wolverine and Cat Footwear led this performance with strong triple-digit e-commerce growth. Online sell-through of the company's U.S. wholesale customers grew double-digits overall during the nine-week period.

▲ **Strong International Presence:** Wolverine's international business comprises of widespread network of global partners, who possess strong insights regarding consumers' interests in their respective market regions. The company's global network is spread across close to 200 nations and territories, with approximately 15,000 controlled points of distribution. Impressively, the international business is likely to contribute roughly \$150 million in incremental revenues over the next two years. Going ahead, the company plans to add greater strategic resources to strengthen its regional teams, especially in the emerging regions of Asia-Pacific. Additionally, Wolverine has been expanding direct control of its European business by acquiring Saucony's Italian distributor to reinforce its market presence and opportunities for the brand. Notably, the company intends to utilize the Italian business as a global design hub for Saucony's lifestyle product. Management stated that the international business will perform better than its traditional U.S. wholesale distribution in 2020.

Reasons To Sell:

- ▼ **Soft Q1 Results:** Wolverine witnessed soft first-quarter 2020 results. Despite beating earnings estimates, Wolverine's first-quarter bottom line plunged 42.9% from the year-ago quarter. The top line also bore the brunt of the pandemic, as the metric fell 16.1% year over year and lagged the consensus estimate for the second straight time. Although revenues and profits advanced as planned for the first two months of the quarter, the pandemic-induced store closures mainly hurt revenues in March, which is generally the strongest month in the quarter. Also, revenues declined at both the company's segments. Moreover, margins were soft in the quarter. Owing to prevailing uncertainties, management did not provide any updates with respect to 2020 guidance.
- ▼ **COVID-19 Impact:** Like several other players, Wolverine is exposed to the ill impacts of the coronavirus pandemic. Apparently, the company's first-quarter 2020 results were mainly hurt by the pandemic. Wolverine had also shut its retail outlets, which is a fleet of roughly 90 stores representing below \$100 million of annual revenues. In addition, the company had postponed majority of its capital projects, lowered inventory receipts by nearly \$300 million and put share repurchases on hold for rest of the year. The company now projects inventory to be down at least \$40 million by 2020 end. Although management has been taking several actions to sail through such tough times, uncertainties tied to the pandemic are increasing.
- ▼ **Soft Margins:** The company continued to report weak gross and operating margins in the first quarter. Apparently, gross profit fell 17.4% year over year in the first quarter. Also, gross margin contracted 70 basis points (bps) to 41.4%, mainly owing to the impact of new tariffs. Despite adjusted selling, general and administrative expenses declining 7.1%, adjusted operating profit tumbled 47% in the quarter. Moreover, adjusted operating margin shriveled 400 bps to 6.9% on lower gross margin. In the fourth quarter of 2019, gross margin contracted 140 bps to 37.8% and adjusted operating margin fell 60 bps to 10.1%.
- ▼ **Debt Analysis:** As of Mar 28, 2020, Wolverine had total debt, including long-term debt of \$423.6 million and borrowings under revolving credit agreements of \$790 million, of \$1,226.1 million. This indicates a growth of 53.6% sequentially. Its debt-to-capitalization ratio stands at 0.63, higher than 0.44 at the end of the preceding quarter. Interest expenses have also been increasing year over year for quite some time now. Certainly, any deleverage in the same has a direct bearing on the bottom line. During first-quarter 2020, net interest expenses came in at \$7.8 million, reflecting an increase of 13% from the year-ago period. Moreover, the company's cash and cash equivalents were \$472.6 million as of Mar 28, which is significantly lower than the debt level.
- ▼ **Stiff Competition & Changing Consumer Preferences:** Wolverine faces intense competition in the footwear and apparel industry from other big guns on several attributes such as style, price, quality, comfort and brand name. Some of these peers have significant financial, technological, manufacturing and marketing advantages that may dent its sales. Moreover, the footwear and apparel industry is highly prone to consumers changing preferences of style and designs. Failure of the company to adapt with such changes may lead to loss of market share for its brands.
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The coronavirus had a profound adverse impact on Wolverine's sales in first-quarter 2020. Also, the company continued to report weak gross and operating margins in the first quarter.

Last Earnings Report

Wolverine's Q1 Earnings Beat Despite Coronavirus Woes

Wolverine's first-quarter 2020 earnings outshined the Zacks Consensus Estimate defying coronavirus concerns. However, the top line bore the brunt of the pandemic, as the metric lagged the consensus mark and also fell year over year. March revenues were mainly affected, which hurt the overall top line in the quarter. This also marked the company's second straight sales miss. The bottom line also declined year over year.

Although management did not provide any updates with respect to 2020 guidance, its proactive measures will help the company address the coronavirus-induced challenges. It anticipates the combined e-commerce and third-party online businesses to represent between 50% and 60% of its U.S. revenues in the current year. Management also projects that the international business will perform better than its traditional U.S. wholesale distribution. Also, brands like Merrell and Saucony will perform well on the nature of their product offerings.

Quarter Ending **03/2020**

Report Date	Apr 22, 2020
Sales Surprise	-6.41%
EPS Surprise	55.56%
Quarterly EPS	0.28
Annual EPS (TTM)	2.07

Q1 Highlights

Wolverine's first-quarter adjusted earnings of 28 cents per share outpaced the Zacks Consensus Estimate of 18 cents. However, the metric plunged 42.9% from the year-ago quarter. On a constant-currency (cc) basis, adjusted earnings were 29 cents per share.

Moreover, revenues of \$439.3 million missed the consensus estimate of \$469 million and fell 16.1% year over year. On a cc basis, revenues declined 15.6% mainly due to the ill impacts of the pandemic. Although revenues and profits advanced as planned for the first two months of the quarter, the pandemic-induced store closures mainly hurt revenues in March, which is generally the strongest month in the quarter.

Gross profit amounted to \$181.8 million, down nearly 17.4% year over year. Also, gross margin contracted 70 basis points (bps) year over year to 41.4%, mainly owing to the impact of new tariffs.

Further, adjusted selling, general and administrative expenses contracted 7.1% to \$151.6 million. However, adjusted operating profit fell nearly 47% to \$30.3 million, with adjusted operating margin contracting 400 bps to 6.9%.

Segmental Performance

Revenues at **Wolverine Michigan Group** declined 18.1% (or 17.6% at cc) year over year to \$247.8 million owing to softness across all brands. While Merrell was down low double-digits, Wolverine decreased high teens and Cat was down double digits. Also, Chaco declined double-digits and the smaller brands in the Group were also hit by the virus outbreak.

Wolverine Boston Group's revenues fell 11.1% (or 10.6% at cc) to \$182.1 million from the year-ago quarter on softness in the Sperry brand. The brand declined double-digits in the quarter. However, the Saucony brand reported high double-digit growth year over year.

Other Financials

The company ended the quarter with cash and cash equivalents of \$472.6 million, long-term debt of \$423.6 million and stockholders' equity of \$735.9 million. Net inventories in the reported quarter increased 8.4% to \$405.3 million. Further, net cash used in operating activities were \$76.6 million during the first quarter.

We note that Wolverine has prioritized liquidity and asset management with response to the prevailing backdrop. More than \$500 million cash preservation activities have been implemented, enabling the company to deliver about \$150-\$200 million operating cash flow in the current year. These activities include lowering of planned inventory receipts by nearly \$300 million, drawing down the balance on its revolving credit line with a total of \$367 million, deferring \$25 million in capital spend for 2020, and curbing operating costs by an anticipated \$100 million for rest of 2020.

Recent News

Wolverine Updates on Second Quarter Trends – June 3, 2020

Through the first nine weeks of the second quarter of fiscal 2020 owned e-commerce grew more than 90%. Performance brands Merrell and Saucony as well as work brands Wolverine and Cat Footwear led this performance with strong triple-digit e-commerce growth. Quarter-to-date, revenue surpassed management expectations entering the second quarter. Total global revenue was down less than 50% year over year in spite of global store closures during April and May. Sturdy e-commerce business helped offset the loss of revenues from store closures. Management now envisions a similar year-over-year trend in the last four weeks of the quarter.

Wolverine Devises Plans to Strengthen Liquidity – May 11, 2020

Wolverine World Wide has taken additional measures to boost its financial position and liquidity. The company notified that it has amended Senior Credit Facility, including \$171 million in aggregate principal amount of incremental 364-day term loans and the sale of \$300 million of 6.375% Senior Notes due 2025. Proceeds from these actions are being mainly utilized to repay borrowings under the revolving credit facility. Including the latest actions, Wolverine's liquidity with cash and available borrowing on its revolver grew to roughly \$940 million, higher than \$483 million at the end of first-quarter 2020. Moreover, management is encouraged by its business model, fixed cost structure, e-commerce business and estimated positive operating cash flow for 2020.

Valuation

Wolverine World Wide shares are down 28.1% in the year-to-date period and 12.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary sector are down 5.9% and 12%, respectively, in the year-to-date period. Over the past year, the Zacks sub-industry is up 12.9% but the sector is down 6.9%.

The S&P 500 index is down 4.8% in the year-to-date period but up 5.1% in the past year.

The stock is currently trading at 15.2X forward 12-month earnings, which compares to 31.83X for the Zacks sub-industry, 33X for the Zacks sector and 22.09X for the S&P 500 index.

Over the past five years, the stock has traded as high as 19.84X and as low as 5.37X, with a 5-year median of 14.78X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$26 price target reflects 16.11X forward 12-month earnings.

The table below shows summary valuation data for WWW

Valuation Multiples - WWW					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	15.2	31.83	33	22.09
	5-Year High	19.84	31.83	33	22.11
	5-Year Low	5.37	18.63	16.21	15.23
	5-Year Median	14.78	23.39	19.92	17.49
P/S F12M	Current	0.98	2.77	2.2	3.44
	5-Year High	1.61	3.02	3.19	3.44
	5-Year Low	0.45	1.99	1.67	2.53
	5-Year Median	1.05	2.59	2.51	3.02
EV/EBITDA TTM	Current	8.71	19.78	10.09	11.35
	5-Year High	16.39	24.5	17.62	12.85
	5-Year Low	4.85	12.39	8.29	8.25
	5-Year Median	11.34	16.01	12.24	10.82

As of 06/16/2020

Industry Analysis Zacks Industry Rank: Bottom 2% (249 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Anta Sports Products Ltd. (ANPDF)	Neutral	3
Caleres, Inc. (CAL)	Neutral	4
Crocs, Inc. (CROX)	Neutral	3
NIKE, Inc. (NKE)	Neutral	4
Carters, Inc. (CRI)	Underperform	5
Deckers Outdoor Corporation (DECK)	Underperform	3
Rocky Brands, Inc. (RCKY)	Underperform	5
Steven Madden, Ltd. (SHOO)	Underperform	5

Industry Comparison Industry: Shoes And Retail Apparel				Industry Peers		
	WWW	X Industry	S&P 500	ANPDF	DECK	SHOO
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Underperform	Underperform
Zacks Rank (Short Term)	3	-	-	3	3	5
VGM Score	C	-	-	D	D	F
Market Cap	1.97 B	1.61 B	22.00 B	23.78 B	5.51 B	2.06 B
# of Analysts	7	5	14	2	7	6
Dividend Yield	1.65%	0.99%	1.92%	0.00%	0.00%	2.42%
Value Score	C	-	-	D	C	D
Cash/Price	0.25	0.25	0.06	NA	0.12	0.13
EV/EBITDA	9.90	8.97	12.79	NA	13.28	8.72
PEG Ratio	1.83	2.84	3.00	NA	1.61	2.53
Price/Book (P/B)	2.68	1.76	3.04	9.95	4.83	2.67
Price/Cash Flow (P/CF)	8.51	9.88	11.81	47.82	17.49	10.98
P/E (F1)	18.28	27.93	21.70	28.85	24.76	37.88
Price/Sales (P/S)	0.90	0.80	2.34	NA	2.58	1.20
Earnings Yield	5.23%	3.52%	4.33%	3.52%	4.04%	2.62%
Debt/Equity	0.77	0.64	0.77	NA	0.22	0.00
Cash Flow (\$/share)	2.85	2.97	7.01	0.18	11.26	2.26
Growth Score	F	-	-	C	D	D
Hist. EPS Growth (3-5 yrs)	12.63%	7.23%	10.87%	NA	24.51%	12.77%
Proj. EPS Growth (F1/F0)	-43.36%	-47.37%	-10.58%	8.93%	-17.33%	-66.41%
Curr. Cash Flow Growth	-5.09%	0.43%	5.46%	NA	1.85%	5.46%
Hist. Cash Flow Growth (3-5 yrs)	1.05%	5.48%	8.55%	16.22%	8.34%	8.40%
Current Ratio	1.12	1.90	1.29	NA	3.97	2.75
Debt/Capital	43.59%	39.81%	45.06%	NA	17.75%	0.00%
Net Margin	4.61%	4.91%	10.53%	NA	12.95%	5.20%
Return on Equity	22.11%	14.63%	16.06%	NA	26.45%	17.09%
Sales/Assets	0.86	1.12	0.55	NA	1.20	1.38
Proj. Sales Growth (F1/F0)	-18.18%	-1.28%	-2.59%	18.08%	-2.57%	-24.45%
Momentum Score	B	-	-	D	D	C
Daily Price Chg	4.98%	1.96%	1.81%	1.15%	1.96%	6.48%
1 Week Price Chg	-14.93%	-6.11%	-7.25%	-7.88%	-4.37%	-16.98%
4 Week Price Chg	29.87%	21.32%	8.30%	2.21%	27.42%	21.32%
12 Week Price Chg	66.16%	31.85%	28.43%	25.89%	47.55%	3.50%
52 Week Price Chg	-12.13%	-12.13%	-3.34%	35.38%	12.62%	-23.71%
20 Day Average Volume	723,918	277,011	2,618,631	1,217	583,174	927,161
(F1) EPS Est 1 week change	0.34%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-1.09%	-1.09%	0.00%	0.00%	0.04%	-52.59%
(F1) EPS Est 12 week change	-45.11%	-49.52%	-14.98%	-12.86%	-22.65%	-63.31%
(Q1) EPS Est Mthly Chg	-25.62%	0.00%	0.00%	NA	33.38%	-199.58%

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	C
Growth Score	F
Momentum Score	B
VGM Score	C

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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