

Wolverine World Wide (WWW)

\$31.22 (As of 02/21/20)

Price Target (6-12 Months): **\$34.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/21/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:D

Value: C

Growth: D

Momentum: D

Summary

Shares of Wolverine have risen and outpaced the industry in the past six months. The stock got boost following third-quarter 2019 results, wherein revenues and earnings grew year over year. While the top line met the Zacks Consensus Estimate, the bottom line beat the same for the seventh quarter in row. Also, management revised full-year earnings projection but retained revenue view. Notably, Wolverine is gaining from advancements in its e-commerce business, backed by strong brands like Sperry, Saucony and Wolverine. Moreover, it is on track with the global growth agenda, wherein it plans to make investments of nearly \$38 million in 2019. However, stiff competition, unfavorable currency fluctuations and tariff related woes cannot be ignored. In fact, management envisions new tariffs to hurt full year earnings by 3 cents.

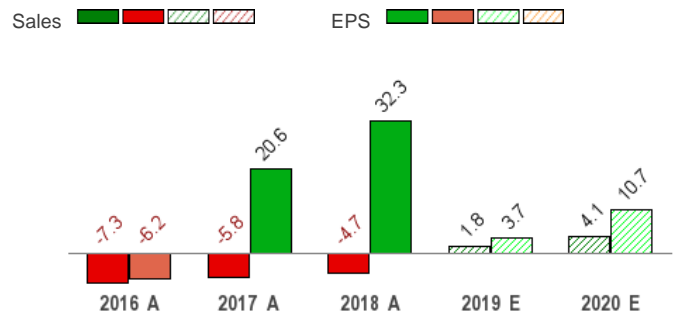
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$37.58 - \$23.05
20 Day Average Volume (sh)	323,411
Market Cap	\$2.5 B
YTD Price Change	-7.5%
Beta	1.06
Dividend / Div Yld	\$0.40 / 1.3%
Industry	Shoes and Retail Apparel
Zacks Industry Rank	Bottom 30% (178 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	7.9%
Last Sales Surprise	0.0%
EPS F1 Est- 4 week change	-0.6%
Expected Report Date	02/25/2020
Earnings ESP	0.0%
P/E TTM	14.1
P/E F1	12.5
PEG F1	1.3
P/S TTM	1.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	546 E	594 E	597 E	636 E	2,373 E
2019	523 A	569 A	574 A	614 E	2,280 E
2018	534 A	567 A	559 A	580 A	2,239 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.50 E	\$0.57 E	\$0.77 E	\$0.66 E	\$2.49 E
2019	\$0.49 A	\$0.52 A	\$0.68 A	\$0.59 E	\$2.25 E
2018	\$0.50 A	\$0.54 A	\$0.62 A	\$0.52 A	\$2.17 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 02/21/2020. The reports text is as of 02/24/2020.

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.

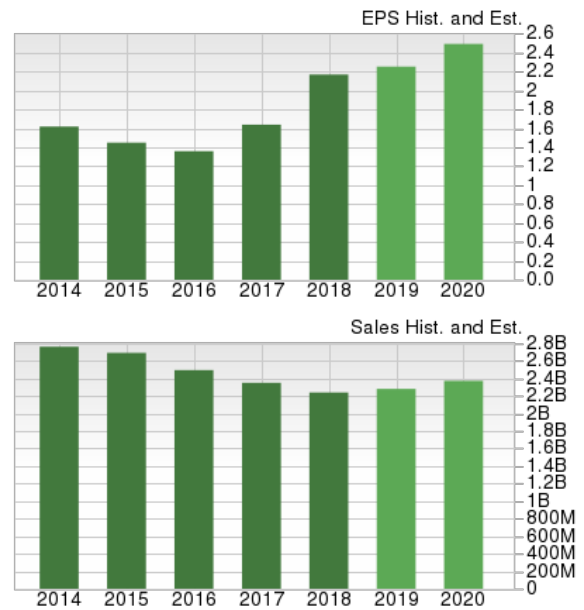
In first-quarter 2019, the company integrated the Outdoor & Lifestyle Group and the Heritage Group into a newly formed unit — Wolverine Michigan Group. It now operates under **Wolverine Michigan Group** and **Wolverine Boston Group**.

Notably, Wolverine Outdoor & Lifestyle Group consists of Merrell footwear and apparel, Cat footwear, Hush Puppies footwear and apparel and Chaco footwear.

Wolverine Heritage Group comprises Wolverine footwear and apparel, Bates uniform footwear, Harley-Davidson footwear and HyTest safety footwear.

Finally, Wolverine Boston Group includes Sperry footwear and apparel, Saucony footwear and apparel, Keds footwear and apparel, and the Kids footwear business. The Kids footwear business incorporates the Stride Rite licensed business, as well as kids' footwear offerings from Saucony, Sperry, Keds, Merrell and Hush Puppies.

Wolverine World Wide's owned operations are carried out in the United States, Canada, and the United Kingdom and across certain nations in continental Europe and Asia Pacific. 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.



Reasons To Buy:

- ▲ **Robust Earnings Surprise History:** Wolverine's earnings have surpassed the Zacks Consensus Estimate in 15 out of the last 16 quarters. In fact, in the trailing four quarters, the company delivered an average positive earnings surprise of almost 5.6%. During the third quarter of 2019, it delivered adjusted earnings of 68 cents per share that beat the Zacks Consensus Estimate of 63 cents. We note that, shares of Wolverine have increased around 25.4% in the past six months, outperforming the industry's rise of 21%.

For 2019, the company reaffirmed its revenue view. Management still expects revenues of \$2.28 billion, which include 7% constant-currency growth in the fourth quarter. The company delivered revenues of \$2.24 billion a year ago. Growth across the Merrell, Sperry and Saucony brands are likely to support revenues in 2019.

Wolverine remains on track with its GLOBAL GROWTH AGENDA that focuses on brand empowerment, e-commerce enhancement and international expansion.

- ▲ **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. During the third quarter, the company invested nearly \$10 million in the Global Growth Agenda. Management expects to invest \$38 million in 2019. Additionally, the company expects capital investments worth \$40 million for expanding its store base to pace up growth in its global markets. This includes the buyout of distributor business in Europe and investment in joint venture in China.

- ▲ **Robust Q3 Margin:** Wolverine's gross profit in the third quarter amounted to \$243.3 million, up 4.8% year over year. Gross margin expanded 80 basis points (bps) year over year to 42.4% driven by favorable product mix within global wholesale business. Adjusted operating profit came in at \$80.8 million, up 14.6% from the year-ago period. Adjusted operating margin expanded 150 bps to 14.1%. For the fourth quarter, the company projects gross margin to be 39.5% with adjusted operating margin to be 11.5%. The company reported gross margin and adjusted operating margin of 39.2% and 10.7%, respectively in the same period last year. For 2019, the company expects gross margin to be 41% and adjusted operating margin at 12%.

- ▲ **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 and leadership in first-quarter 2019 to accelerate growth through the implementation of its model across brand portfolio. 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. Products launched under the Saucony and Merrell banners are likely to drive growth in 2019. The company is dedicating resources to accelerate brand growth and bring forward a robust pipeline of new products.

Also, as part of long-term business growth strategies, the company is striving to develop efficient sourcing structure and diversify global business. Accordingly, management plans to reduce imported items from China in the forthcoming years. Such moves have been undertaken to alleviate pressures stemming from import tariffs on footwear. In fact, management stated that tariff impositions are expected to have minimal adverse impacts on the business in the short and the long term.

- ▲ **E-commerce on the Prowl:** Amongst Wolverine's several 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.

Notably, the company's e-commerce business remained sturdy in the third quarter and supported growth across brand banners such as Sperry, Saucony and Wolverine. For fiscal 2019, management expects its online business to keep flourishing, which will lead to growth of almost 20%.

- ▲ **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.

Going ahead, the company is on track with augmenting revenues internationally. It 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.

Reasons To Sell:

▼ **Tariff to Weigh on Adjusted Earnings:** Trade war between the United States and China is likely to impact Wolverine's business. Notably, the company expects new tariff cost this year including around \$3 million, an additional cost in fourth quarter. Further, management envisions adjusted earnings to be \$2.25 per share for 2019, which includes 3 cents related to new tariffs on products anticipated to be sold in the final quarter. Earlier, management projected adjusted earnings of \$2.28. The company generated adjusted earnings of \$2.17 a year ago. Nevertheless, the company anticipates overall imports into the United States from China to decline by an additional 50% for 2019, and continue to decrease at this rate in 2021.

Wolverine expects tariff cost to hurt its performance in the fourth quarter. For 2019, management envisions adjusted earnings to be \$2.25 per share, which includes 3 cents related to new tariffs.

▼ **High Interest Expenses May Hurt Bottom Line:** Interest expenses have been increasing for quite some time now. Certainly, any deleverage in the same has a direct bearing on the bottom line. During third-quarter 2019, interest expenses came in at \$8.2 million, reflecting an increase of 41.4% from the year-ago period. Prior to this, the company's interest expenses grew 17.5% in the second quarter.

▼ **Dip in Consumer Sentiment May Impact Sales:** Any dip in consumer confidence – a key determinant of the economy's health – may have serious bearing on spending. The company's customers remain sensitive to macroeconomic factors including interest rate hikes, increase in fuel and energy costs, credit availability, unemployment levels, and high household debt levels, which may negatively impact their sentiment. This may adversely impact its growth and profitability.

▼ **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.

▼ **Exposure to Currency Risks:** Due to exposure to international markets, Wolverine remains prone to currency fluctuations. The weakening of foreign currencies against the U.S. dollar may require the company to either raise prices or contract profit margins in locations outside of the United States.

Last Earnings Report

Wolverine Q3 Earnings Beat Estimates, Revenues In Line

Wolverine reported robust third-quarter 2019 results, wherein revenues and earnings increased year over year. While the company's top line met the Zacks Consensus Estimate, the bottom line surpassed the same. Notably, the third quarter marked the seventh straight quarter of positive earnings surprise. Also, management revised its full-year earnings view, keeping revenue projection intact.

Q3 Highlights

Wolverine's third-quarter adjusted earnings of 68 cents per share beat the Zacks Consensus Estimate of 63 cents. Moreover, the bottom line improved 9.7% year over year.

Revenues of \$574.3 million came in line with the Zacks Consensus Estimate, and rose 2.8% year over year. On a constant-currency (cc) basis, the metric improved 3.6%. The upside was prompted by the company's three largest brands, namely Merrill, Sperry and Saucony, which on a combined basis delivered constant-currency growth of 11.5%.

Gross profit amounted to \$243.3 million, up nearly 4.8% year over year. Gross margin expanded 80 basis points (bps) year over year to 42.4% driven by favorable product mix within global wholesale business. Adjusted operating profit came in at \$80.8 million, up 14.6% from the year-ago period. Adjusted operating margin expanded 150 bps to 14.1%.

Segmental Performance

Revenues in the Wolverine Michigan Group declined 2.7% (or down 1.9% at cc) year over year to \$318.8 million. Cat brand was down at high-teens digit. However, Merrell brand grew at high-single digits in the third quarter. Also, the company delivered growth in Harley-Davidson and HyTest brands. Wolverine expects Cat brand to show robust growth in the fourth quarter and double-digit increase for 2019.

Wolverine Boston Group's revenues grew 12.4% (or up 13.3% at cc) to \$241.3 million from the year-ago quarter's figure driven by solid growth in all the brands of the group. The Sperry brand grew in low teens while Saucony brand improved in mid teens. The kids group increased in high teens and Keds brand grew at a low single-digit pace.

Other Financials

The company ended the quarter with cash and cash equivalents of \$125.2 million, long-term debt of \$430.7 million and stockholders' equity of \$793.9 million. Net inventories in the reported quarter increased 28.8% to \$417.7 million.

Further, net cash provided by operating activities reached \$16 million for the period ended Sep 28, 2019.

During the third quarter, the company repurchased shares worth \$107 million. Management is left with \$513 million under its approved share repurchase plan.

Other Developments

Wolverine provided details regarding certain key growth plans. The company made investments worth \$10 million during the third quarter pertaining to the global growth agenda. For 2019, the company expects to invest nearly \$38 million in initiatives related to the agenda. Additionally, it plans to spend \$40 million for opening new stores and undertaking growth efforts in the global markets. This includes the buyout of a distributor business in Europe and a joint venture in China. The company is on track to boost e-commerce operations and brand capabilities internationally. It plans to reduce imported items from China in the forthcoming years. This is part of the company's long-term strategy to improve sourcing.

2019 Guidance

Wolverine updated its view for 2019. Management still expects revenues of \$2.28 billion, which include 7% constant-currency growth in the fourth quarter. The company delivered revenues of \$2.24 billion a year ago. Growth across the Merrell, Sperry and Saucony brands are likely to support revenues in 2019.

Gross margin for the year is still expected to be 41%. Further, Wolverine continues to expect adjusted operating margin at 12%.

Cash flow from operations is estimated to be \$190 million.

Further, management now envisions adjusted earnings to be \$2.25 per share for 2019, which includes 3 cents related to new tariffs on products anticipated to be sold in the final quarter. Earlier, management projected adjusted earnings of \$2.28. The company generated adjusted earnings of \$2.17 a year ago.

Quarter Ending **09/2019**

Report Date	Nov 07, 2019
Sales Surprise	0.01%
EPS Surprise	7.94%
Quarterly EPS	0.68
Annual EPS (TTM)	2.21

Recent News

Wolverine Announces Dividend – Nov 1, 2019

Wolverine announced a quarterly cash dividend of 10 cents per share, paid on Feb 3, 2020 to shareholders of record as on Jan 2.

Valuation

Wolverine World Wide shares are down 7.5% in the year-to-date period and nearly 12% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 1.8% but those in the Zacks Consumer Discretionary sector are up 0.2% in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are up 17.2% and 11.5%, respectively.

The S&P 500 index is up 3.8% in the year-to-date period and 21.1% in the past year.

The stock is currently trading at 12.32X forward 12-month earnings, which compares to 25.41X for the Zacks sub-industry, 20.23X for the Zacks sector and 19.09X for the S&P 500 index.

Over the past five years, the stock has traded as high as 21X and as low as 9.51X, with a 5-year median of 15.04X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$34 price target reflects 13.42X 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	12.32	25.41	20.23	19.09
	5-Year High	21	26.48	23.34	19.34
	5-Year Low	9.51	18.63	16.15	15.18
	5-Year Median	15.04	23.23	20.06	17.47
P/S F12M	Current	1.06	3	2.28	3.51
	5-Year High	1.61	3	3.19	3.51
	5-Year Low	0.57	1.99	1.81	2.54
	5-Year Median	1.07	2.58	2.54	3
EV/EBITDA TTM	Current	10.3	23.98	12.22	12
	5-Year High	16.29	24.5	17.61	12.87
	5-Year Low	8.01	13.14	10.77	8.48
	5-Year Median	11.57	15.97	12.37	10.77

As of 02/21/2020

Industry Analysis Zacks Industry Rank: Bottom 30% (178 out of 255)



Top Peers

Deckers Outdoor Corporation (DECK)	Outperform
Rocky Brands, Inc. (RCKY)	Outperform
Anta Sports Products Ltd. (ANPDF)	Neutral
Caleres, Inc. (CAL)	Neutral
Carters, Inc. (CRI)	Neutral
Crocs, Inc. (CROX)	Neutral
NIKE, Inc. (NKE)	Neutral
Steven Madden, Ltd. (SHOO)	Neutral

Industry Comparison Industry: Shoes And Retail Apparel				Industry Peers		
	WWW Neutral	X Industry	S&P 500	ANPDF Neutral	DECK Outperform	SHOO Neutral
VGM Score	D	-	-	D	A	B
Market Cap	2.52 B	1.82 B	24.03 B	24.32 B	5.45 B	3.05 B
# of Analysts	5	5	13	2	5	5
Dividend Yield	1.28%	0.98%	1.76%	0.00%	0.00%	1.65%
Value Score	C	-	-	D	C	D
Cash/Price	0.05	0.06	0.04	NA	0.11	0.06
EV/EBITDA	10.52	11.79	14.08	NA	13.34	14.30
PEG Ratio	1.21	1.64	2.08	NA	1.64	1.19
Price/Book (P/B)	3.18	2.42	3.29	NA	4.85	3.62
Price/Cash Flow (P/CF)	12.19	9.90	13.42	48.90	18.32	17.62
P/E (F1)	12.07	16.01	19.00	23.68	20.39	17.88
Price/Sales (P/S)	1.12	0.93	2.64	NA	2.53	1.73
Earnings Yield	7.98%	6.25%	5.26%	4.22%	4.90%	5.59%
Debt/Equity	0.73	0.55	0.70	NA	0.20	0.00
Cash Flow (\$/share)	2.56	2.68	7.03	0.18	10.62	2.06
Growth Score	D	-	-	C	A	A
Hist. EPS Growth (3-5 yrs)	9.89%	8.64%	10.84%	NA	21.81%	13.26%
Proj. EPS Growth (F1/F0)	10.65%	10.65%	7.09%	35.71%	7.94%	4.21%
Curr. Cash Flow Growth	24.22%	7.54%	6.72%	NA	33.19%	19.61%
Hist. Cash Flow Growth (3-5 yrs)	3.89%	6.27%	8.25%	16.22%	15.19%	4.53%
Current Ratio	1.14	1.68	1.22	NA	2.89	2.80
Debt/Capital	42.29%	39.81%	42.37%	NA	16.56%	0.00%
Net Margin	7.51%	6.85%	11.56%	NA	13.20%	7.71%
Return on Equity	22.50%	15.20%	16.80%	NA	27.93%	20.01%
Sales/Assets	0.95	1.25	0.55	NA	1.27	1.46
Proj. Sales Growth (F1/F0)	4.05%	5.69%	3.90%	25.90%	6.93%	5.94%
Momentum Score	D	-	-	C	C	C
Daily Price Chg	-2.98%	-1.10%	-0.83%	-1.10%	-2.27%	-2.81%
1 Week Price Chg	0.13%	-0.22%	1.65%	3.49%	4.80%	-0.43%
4 Week Price Chg	-6.16%	-5.30%	-0.37%	-5.26%	11.17%	-13.63%
12 Week Price Chg	-4.26%	-7.71%	3.74%	-8.63%	15.21%	-15.58%
52 Week Price Chg	-13.33%	-9.73%	14.14%	63.64%	35.81%	11.49%
20 Day Average Volume	323,411	60,019	1,992,841	3,982	584,371	657,046
(F1) EPS Est 1 week change	-0.56%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.56%	-0.14%	-0.02%	0.00%	4.72%	-1.84%
(F1) EPS Est 12 week change	-0.44%	-0.11%	-0.17%	0.00%	5.18%	-1.93%
(Q1) EPS Est Mthly Chg	-0.79%	-2.06%	-0.48%	NA	-33.53%	-5.33%

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	D
Momentum Score	D
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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