

V.F. Corporation.

(NYSE: VFC)

Nicholas Brickner, Tumenkhuslen Batdelger & Luke Dorn

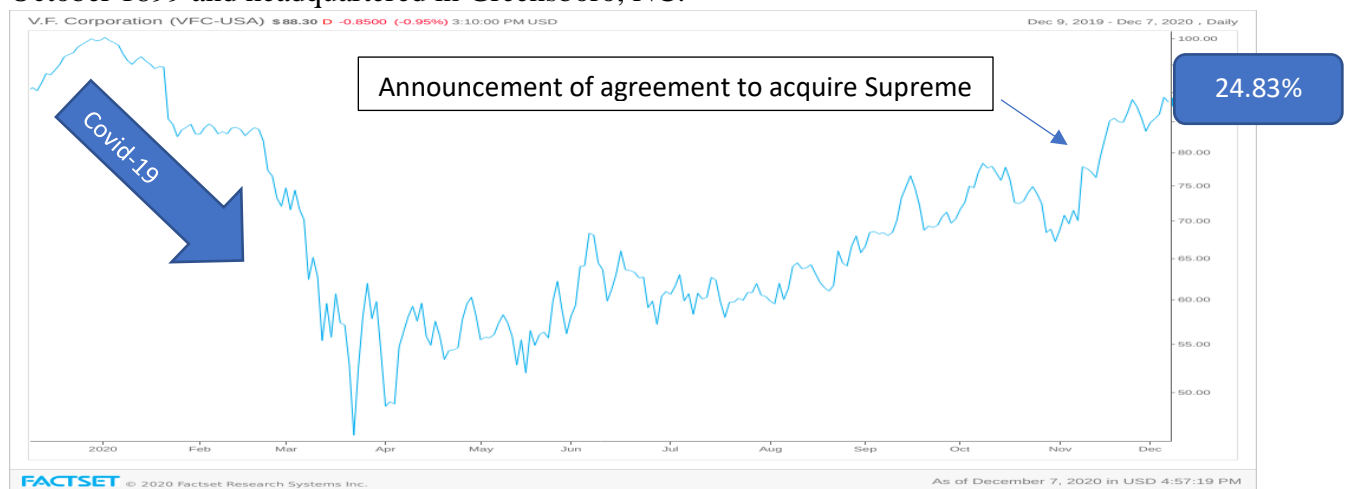
Senior analyst: Nate Zeller



Market Cap	Dividend Yield	52-week range	Current Price
33.076 M	2.3%	\$45.07 - 100.25	\$85.77

Introduction

VF Corporation is one of the world's largest apparel, footwear and accessories companies connecting people to the lifestyles, activities and experiences they cherish most through a family of iconic outdoor, active and workwear brands. It operates through the following segments: Outdoor, Active, Work. The Outdoor segment refers to outdoor and activity-based lifestyle brands. The top brands within this segment are The North Face and Timberland. The Active segment is a group of activity-based lifestyle brands which offers active apparel, footwear and accessories. The top brand from the Active segment is Vans. The Work segment consists of work and work-inspired lifestyle apparel and footwear and occupational apparel sold through direct-to-consumer, wholesale and business-to-business channels. The company was founded by John Barbey in October 1899 and headquartered in Greensboro, NC.



Recommendation

We recommend a **BUY** for VF Corporation. We came to a target price of \$102.35 using a DCF model and a target execution price between \$85-\$87 by setting a support line near \$85 from previous price movements. This brings us to a ~22% upside on this investment. Aside from VFC's DCF model and current market movement, we believe in VFC would be a good fit within our portfolio due to the covid-19 impact, strong brands, and the customer focus the company has. This investment would be something we would be proud to own, and we hope to see VFC represented within our portfolio in the future.

Revenue Breakdown

Business Segment	Total Revenue	% of Total Revenue	Assets
Active	4,919	47	1,013
Outdoor	4,644	44	1,182
Work	886	8	376
Other	39	1	31

Top Brands YTD



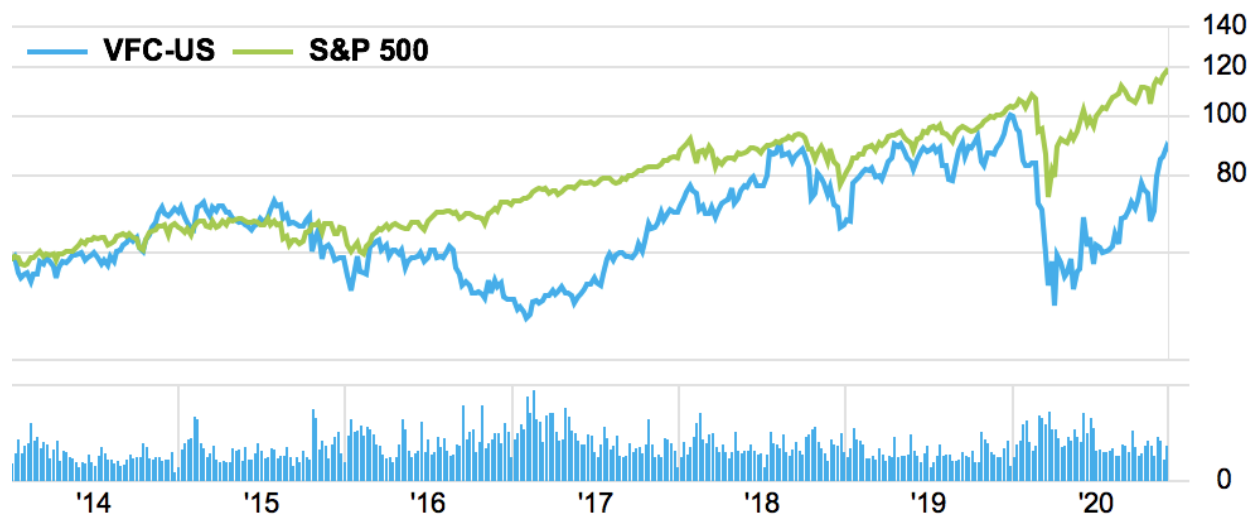
A Fully Formed, Multi-Pronged Investment Thesis

We believe VF Corp is a Buy. VF has been hit hard by covid-19 but has since rebounded. The closure of stores affected the company's balance sheet in the short term but the rise in outdoor activity and the consumers' mindset, out way the short-term effect seen. With most of their revenue coming from their activity/outdoor business segments this is perfect for them. With the recent announcement of an effective vaccine, we have seen growth in the stock. Well Fargo upgraded their stock after the vaccine announcement. The vaccine will put more people back to work and give consumers more income to spend. VC has many strong brands that have been around for many years and continue to acquire new companies to diversify their product line. With the recent addition of Supreme, VF Corp has made a play to gain a larger market share in streetwear. The rise in e-commerce shopping will also help VF reduce their costs and increase their revenue.

Recognizing that consumer expectation and behavior in the apparel industry are rapidly changing, VF is modifying its current approach to become more connected to its consumers. Also, VF currently has 30 plants globally, with additional locations being considered, making it the only global lifestyle branded apparel firm with owned manufacturing.

Valuation

To find the intrinsic value of VF Corp we used the discounted cash flow model. This model best represents the value of the company's future cash flows. In this model we made 4 main assumptions. Our first assumption was the average growth in revenue for next 5 years. We found in VF's top brands had an average growth of %15 over the last several years and with vans making up about 40% of the revenue we put a **12% growth of revenue over the next 5 years**. The next assumption was the gross profit margin over the next 5 years. Vans has a gross profit margin of over 60% along with their recent acquisition Supreme. They are also divesting away from their "work brands" which will help boost the gross margin. With this in mind, we set our gross margin at 65%. Our third assumption was the perpetuity growth rate, we assumed an **average growth of 2% after year 5**. The last assumption was the discount rate. We put a value of **6% on the discount rate** being the WACC found within FactSet was 6%. This gave us a target price of \$102.35 and a ~22% upside on this investment.



Risk Analysis

Loss of Brand Strength - VF's success has been due in large part to the growth of its brands' images and VF's customers' preference of its brands, such as the North Face, Timberland and other popular brands the company owns. Therefore, there is risk of VF failing to recognize and respond appropriately to its consumers' changing demands which could hurt VF's brand image, therefore the overall performance of the company.

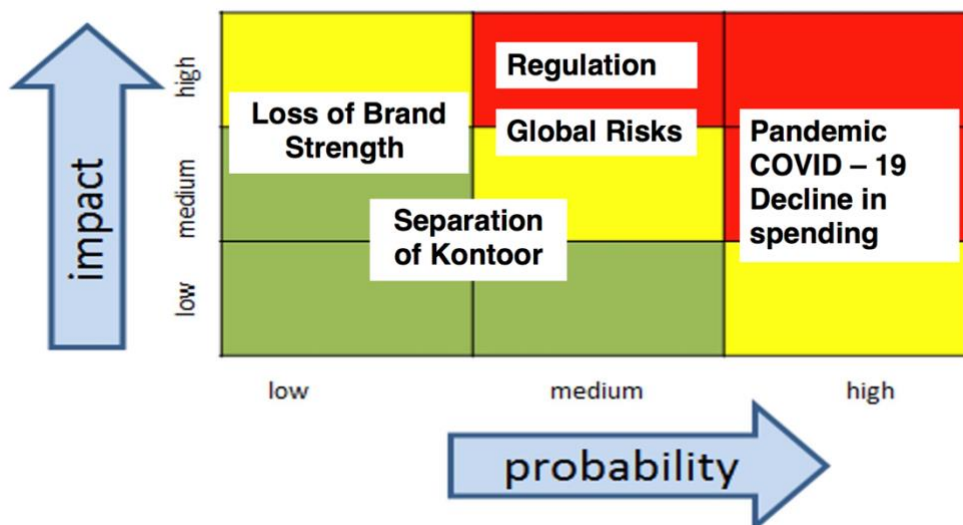
Global Pandemic (COVID -19) – VF's business has been, and will continue to be, impacted by the effects of the COVID-19 global pandemic in countries where its operation, suppliers, third-party service providers, consumers or customers are located. If the uncertainty of the pandemic continues this can bring a huge decline in VF's business.

Decline in consumer spending - As VF is in consumer discretionary sector that is directly connected to consumer spending. In case of decline in consumer spending caused by factors such as actual and perceived economic conditions, disposable consumer income, interest rates, consumer credit availability, could result in reduced demand for VF and lower revenues, higher discounts, increased inventories and lower gross margins. If global economic and financial market conditions do not improve, adverse economic trends or other factors could negatively impact the level of consumer spending, which could have a material adverse impact on VF.

Global Market – Changes to U.S. or international trade policy, tariff and import/export regulations or VF's failure to comply with such regulations may have a material adverse effect on its reputation, business, financial condition and results of operations.

Regulation - Changes in regulatory, geopolitical policies and other factors may adversely affect VF's business or may require modifying its current business practices. While enactment of any such change is not certain, if such changes were adopted, costs could increase, which would reduce the earnings.

Separation of Kontoor - Certain of VF's directors who serve on VF's Board of Directors currently serve on the Board of Directors of Kontoor Brands. This may create or appear to create conflicts of interest when the management and directors face decisions that could have different implications, including the resolution of any dispute regarding the terms of the agreements governing the spin-off and the relationship between VF and Kontoor Brands after the spin-off or any other commercial agreements between them.



Management Team and Board of Directors

VF Corporation's executive leadership team consists of 12 officers, including Chairman, President, and CEO Steve Rendle, VP and CFO Scott A. Roe, and VP and CTO Velia Carboni. They are all very highly educated and have been working in the industry for over a decade. In October 2020, VF announced a change in its management structure, stating that all core and emerging brands leadership will report directly to CEO.

CEO Steve Rendle has been with VF since 1999 and was appointed CEO in January 2017. Steve is a founding board member of the Outdoor Industry Association's Outdoor Foundation and, in 2018, he was named CEO of the Year by Corporate Responsibility Magazine for his progressive environmental, social and governance agenda.

Peer Analysis

VF Corporation has various brands in a variety of industries. The Organization focuses on Outdoor apparel, activewear, and work clothing. With the recent acquisition of Supreme and the continuous growth of Vans they have gained Market Share in streetwear and casual attire. VF Corporation's diversity of product lines makes them unique. VF's competitors are only involved in one or two of the industries that VF Corporation is in. In our presentation we compared VF to a few industry competitors including Columbia, PVH, and Levi Strauss. We investigated all of the organization's revenues, profit margins, and current ratios. VF Corp has the largest revenue of the four companies and shows VF's dominance compared to its competitors. VF Corp also sticks out with their profit margin of 10.5% which is the highest among their competitions. Lastly, VF has an impressive quick ratio of 3.2; Columbia has a ratio of 3.3 and these two organizations are at the top of the industry. We liked VF Corporation's quick ratio because it allows them to be agile. The high quick ratio allows them to do large acquisitions such as Supreme and not skip a beat. These ratios highlight the strength of VF Corporation in the industry and the overall health of the company.

Key Ratios	Revenue (Billions)	Profit Margin	Current Ratio
VF Corp	13.8	10.5%	3.2
Columbia	2.8	8.9%	3.3
PVH	9.7	3.3%	1.5
Levi Strauss	5.7	2.5%	1.9

SWOT

Strength	Weaknesses	Opportunity	Threat
<ul style="list-style-type: none"> Acquisitions High level of customer satisfaction Strong Financial 	<ul style="list-style-type: none"> Physical stores Government regulations 	<ul style="list-style-type: none"> Online presence Direct consumer sales 	<ul style="list-style-type: none"> Counterfeit and low-quality products Decline in customer spending

Strengths

- Acquisitions
 - Over the years, VF has had the ability to acquire some of the top brands in clothing. These brands include Vans, North Face, Timberland, Smartwool, and its most recent acquisition Supreme. This is promising as an investor, as this shows they continue to want to expand their products and grow the company.
- High level of consumer satisfaction
 - VF is committed to creating long-term value for its customers. Its top brands have seen sales growth of over 15% over the last several years. This shows the brands under VF are able to retain their customers and continue to grow.
- Strong financial position
 - VF currently has approximately 2.4 billion of cash on hand and has temporarily pauses its share repurchase program due to covid-19. As a Covid-19 vaccine emerges, it is likely to see them un-pause the repurchase program driving the stock price. The board of directors also made a statement saying they are going to continue to pay dividends.



Weaknesses

- Physical Stores
 - VF has 1,437 retail stores globally which represent about 75% of their total sales. Due to covid-19, many of these stores had to close their doors as the global pandemic got worse. To address this weakness, we are seeing them boost up their online presence.
- Government regulation - Refer to Risk Analysis

Opportunity

1. Online Presence
 - E-commerce sales represent about 28% of their direct-to-costumer business in 2020. As VF continues to expand their online presence, we believe this will drive sales and help with the steep competition within the apparel and footwear industry. VFs recent acquisition of Supreme will help drive their Online presence being about 60% of their sales take place online.
2. Direct Consumer Sales
 - As VF increases its online presence it will increase its direct to customer sales. With this we will likely see a decrease of the amount of money spent on capital expenditures and an increase in profitability within the company.

Threats

1. Counterfeit and Low – Quality Products
 - As VF continues to grow, the increase of counterfeit and low-quality product continues to grow with them. This could potentially tarnish the brands they hold and could potentially move sales elsewhere.
2. Decline in customer spending – Refer to Risk Analysis

Supreme Acquisition

We think the acquisition of Supreme is a gamechanger for VF corporation. VF Corp paid 2.1 Billion dollars for Supreme. The funds for the acquisition were made using money raised from bonds. Supreme is a high-end streetwear brand with a cult-like following. The brand is popular among the generation because celebrities such as Justin Bieber, Drake, and Michael Jordan can be seen wearing their clothing. Supreme put an emphasis of exclusivity on their products; this exclusivity drives prices and popularity. In a recent interview VF's CEO Steve Rendle said the acquisition was to grow their streetwear brand and he believes streetwear is primed for growth. In 2020 Supreme is projected to have 500 million in sales and Rendle thinks they can do a billion in 2021. We expect VF Corp to add Supreme to current brands Vans, The North Face, and Timberland. This will create popularity among the brands because of Supreme will be branded on them.

Ownership

A majority of the ownership is being held by “Professional Investors” showing a strong belief in the company. Dec 31, 2019, Todd Barbey purchased 7.14% of the company’s outstanding shares. This purchase was made at a price of \$99.66 per share and is attractive for long term investors. Todd being related to the John Bardey will likely stick with this investment for an extended period of time.

Rank	Institutions	% OS	% Port
1	PNC Bank, NA (Investment Management)	10.19	4.63
2	The Vanguard Group, Inc.	6.67	0.04
3	SSgA Funds Management, Inc.	4.60	0.08
4	Wellington Management Co. LLP	4.54	0.19
5	BlackRock Fund Advisors	4.33	0.05

Insiders / Stakeholders	% OS
Todd Barbey	7.14

