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VF Corporation

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Abstract

Throughout this research paper, VF Corporation's (VFC) financials will be analyzed and compared among its competitors through its strategic group and industry benchmark. A deep understanding of VFC's history will be seen through its failures and success independently and in comparison, to its competitors. VFC has grown significantly from its initial creation and has pushed through hardships including the recent Covid-19 pandemic. They continue to grow and advance in the modern world of business adapting to the fast-paced environment. VFC adapted quickly with the start of Covid-19 and created a great online presence for themselves. They are one of the many companies in apparel accessories and outdoor equipment. They are not a well-known brand, but I believe they have the ability to become established in the industry. The company has a chance to be able to stay afloat with its more known direct competitor Nike if they continue their strengths and fix their weakness that are outlined throughout this piece.

Overview

VF Corporation (VFC), a worldwide footwear and apparel company founded in 1899 and headquartered in Denver, Colorado owns 19 brands including Altra, Bulwark, Dickies, Eagle Creek, Eastpak, Horace Small, Jansport, Kipling, Kodiak, Napapijri, Red Kap, Smartwool, Terra, The North Face, Timberland, VF Solutions, Vans, Walls, and Icebreaker. These brands range in segments including outdoor, active, work, and jeans. Primary merchandise in these segments, geared toward the outdoorsy and sporty customer, includes high-performance outdoor apparel, sports footwear, backpacks, work-inspired apparel, and denim casual apparel. Stores owned by

these brands are typically located in malls and outlets. VFC operates quarterly and profits can vary due to the seasonality of their individual brands. VFC's results are typically higher and stronger in the second half of their fiscal calendar year. Due to the seasonality of the company's products, and the increase of their direct-to-consumer business, VFC changed its fiscal year. The fiscal year-end has been moved from the Saturday closest to December 31st to the Saturday closest to March 31st. This change improves investor communication by allowing the company a better look into projecting revenue growth and planning expenses.

With the onset of the Covid-19 pandemic, VFC's closed all stores across North America and Europe from March 16th until April 5th and closed all corporate and branch offices, and allowed employees to work remotely. Throughout this time, it continued to pay all its retail employees full pay and benefits and kept facilities open around the world to help support online sales. Through the first 10 months of the 2020 fiscal year, VFC had results that were above their long-term growth objectives, but during the fourth quarter, the revenue fell 10% due to Covid-19.

Due to VFC's fiscal year change, it's most recent full year was 2020, with quarter four ending in March 2020. The total sales for the year were 10,489 million USD with earnings of 679 million USD. VFC has 1,600 stores operating in more than 150 countries. 42% of their 75,000 employees are located in the United States (VF Corporation).

In recent news VFC had launched a pilot program to create a safe work environment with the help of robots in the distribution centers; these "LocusBots" helped with the picking process and had many benefits for the associates. VFC planted 11 robots in the Martinsville, VA, distribution center to help support associates with social distancing for Covid-19 and also improve efficiency after the closing of their retail stores. With concern for improved health and

safety for employees and productivity is up 63% VFC will expand the use of the robots to distribution centers around the world. VFC does not plan to replace its associates, their plan is only to speed up processes and keep associates safe during the pandemic (VF Corporation).

In 1899, John Barbey and his group of investors founded the Reading Glove and Mitten Manufacturing Company in Pennsylvania, this company was the foundation for VFC. Over the years, the company had many names, eventually changing to the current VFC to best reflect its diverse product line. VFC went public and had their first acquisition of H.D. Lee company in 1951. Soon after that they hit another milestone and gave out its first dividend in 1970. In 1980 VFC purchased Blue Bell Holding company for 762 million USD, adding five more brands to their portfolio. This acquisition doubled the size of VFC making it the largest publicly held clothing company. During that year they also became one of the largest jean makers in the world taking control of 25% of the 6-billion-dollar market. After that, they acquired 22 brands, 18 of which they still have today (the other 4 were divested.) In 2018 they completed the separation of the Jeanswear organization into its own independent publicly-traded company. The new company was named Kontoor Brands Inc. and includes Wrangler, Lee, and Rock & Republic brands and the VF Outlet business (VF Corporation).

Competitive Analysis

Comparing VFC and Nike for the trailing twelve months, Nike appears to be the larger company, but they are actually similar in size. Although Nike is the better-known company, the two companies have nearly the same number of employees with VFC having 75,000 and Nike only 400 ahead with 75,400 employees. A similar trend is present for the number of stores, VFC has 1600 stores and Nike has 1100. While both companies have a similar number of stores and

employees, Nike has a market capitalization that is more than 7 times that of VFC. Both companies have market capitalizations in the billions, VFC's is $27.09 billion and Nike's is $197.15 billion. Although both companies are in the billions for market capitalization the number demonstrates that Nike is worth more on the open market and that investors are more willing to pay for their stocks. Nike also has sales of $37,403 million which is almost 4 times that of VFC's sales of $9,514 million and Nike's earnings are $2,539 million which is 7 times that of VFC standing at $345 million. This shows that Nike has made 7 times the profits made by VFC, profits which they can reinvest into the business and pay dividends. So, although the two companies seem similar in size when comparing employees and stores, a comparison of its market capitalization, sales, and earnings demonstrates that Nike is a larger more profitable company.

Table 1 – Competitive Analysis

All financials are for the trailing twelve months (TTM) as of March 2020

	VF Corporation	**Nike Inc B (NKE)**	**Amazon (AMZN)**
Total Sales (USD Millions)	9,514	37,403	321,782
Earnings (USD Millions)	345	2,539	13,180
Market Capitalization (USD Billions/Trillion)	27.09B	197.15B	1.58T
Number of Employees	75,000	75,400	798,000
Number of Stores	1600	1100	526
Price to Earnings Ratio	102.04	73.53	121.95
Dividend Yield (%)	2.65%	0.77%	NA
Payout Ratio (%)	267.1%	58%	NA

Source: Morningstar

Amazon, which is the largest company among the three companies, has sales that are significantly higher than those of VFC. As depicted in table one the sales produced by Amazon are 33 times that of VFC sales. Although VFC has been a business for a longer period of time, its

market capitalization is not even close to that of Amazon's. Amazon's market capitalization is at $1.58 trillion while VFC is still in the low billions. Although VFC has 1,074 more stores it still lags on earnings because Amazon is more invested in online sales. When examining table 1 the earnings of VFC is nowhere near that of Amazon's $13,180 million as it lags behind at only $345 million. This makes Amazon's earnings 38 times that of VFC. Due to their high volume of sales Amazon is able to employ 723,000 more employees to produce and deliver their products.

Comparing the dividend yield of each of the three companies, Amazon does not pay dividends yet VFC and Nike do. Both Nike and VFC are in the mature phase and have dividend yields around 2% of the S&P 500 companies. VFC is a little higher at 2.65% but is still in the typical range, while Nike's dividend yield is lower than the average at 0.77% which is close to the 1-4% a mature company typically gives out. The average range that is sustainable for a mature company is between 10% and 40%, as seen in table one both Nike and VFC are outside of that range. Nike's payout ratio is a little above the average range but still appears to be sustainable at 58%. On the other hand, VFC has a payout ratio that is significantly higher than the average at 267.1%. This is not sustainable for a company and VFC will need to cut that number in the coming year.

Analyzing the growth rate of VFC, Nike, and Amazon the overall trend of growth varies greatly. Over the years from 2017-2019 both Nike and Amazon had pretty steady sales growth with Nike staying in a 2% range and Amazon staying in a 10% range; however; it is not the same story with regard to both companies' earnings growth. Amazon's earnings growth skyrocketed in 2018 from 27.92% to 232.11%, in contrast, Nike's fell from 12.77% to -54.41%. Although Nike's earnings declined in 2018, the company had an upswing the following year to a high 108.43%. Comparison of VFC's growth during the years 2017-2019 was limited due to changes

made in their fiscal year-end. It is not possible to directly compare from year to year but instead an overall comparison was made. As seen in table 2 VFC seems to be going in the opposite direction of both Nike and Amazon, with VFC demonstrating a negative trend in both sales and earnings. These comparisons indicate that VFC does not have an acceptable growth compared to both Amazon and Nike.

Table 2 – Comparative Trends in Sales and Earnings

Year-to-year amounts are for the 2017-2019 period

	2017	**2018**	**2019**
VF Corporation (VFC)			
Sales Growth %	(1.73)	NA *	(24.26) **
Earnings Growth %	(42.75)	NA *	(46.07) **
Nike Inc B (NKE)			
Sales Growth %	6.10	5.96	7.47
Earnings Growth %	12.77	(54.41)	108.43
Amazon (AMZN)			
Sales Growth %	30.80	30.93	20.45
Earnings Growth %	27.92	232.11	15.04

Source: Morningstar

*Due to change in VFC fiscal year-end numbers are for 2019

**Due to change in VFC fiscal year-end number are for 2020

Comparing the return on equity, there seems to be a similar trend of constant positive numbers as seen in table 3. VFC and Nike both had their highest ROE during the 2019 year where Nike's was 42.74 and VFC's was 31.55. Although Amazon's ROE was 21.95 in 2019 it still was not its highest ROE during the three years. When comparing the ROE of the three company's VFC is right in the middle in 2019 and 2017.

Considering a good debt to equity ratio is between 1-1.5 and a lower number means that the company has less long-term debt. It looks like the D/E ratio for Nike, VFC, and Amazon reflect solid efficiency, as Nike has stayed within the low range for three years and VFC has barely gone above 1.0, and Amazon stayed within the range. This indicates that all three

companies have a comparatively low debt to equity ratio. Amazon has a current ratio that stays around 1.0-1.10 which means they can handle their debt but don't have as much of a cushion of funds as Nike and VFC. VFC has a current ratio that's a little higher than Amazon's with a range from 1.60-1.76 this means they can pay off their upcoming bills and have good financial health. Nike has a high current ratio that ranges from 2.10-2.93 this can be related to their low debt to equity ratio meaning they have little debt.

Table 3 – Efficiency Ratios

	2017	**2018**	**2019**
VF Corporation (VFC)			
Return on Equity	14.20	31.55 *	17.75 **
Inventory Turnover	3.57	3.59 *	2.90 **
A/R Turnover	9.02	8.88 *	6.95 **
Debt/Equity Ratio	0.59	0.49 *	1.08 **
Current Ratio	1.60	1.76 *	1.66 **
Nike Inc B (NKE)			
Return on Equity	34.38	17.40	42.74
Inventory Turnover	3.85	3.96	3.98
A/R Turnover	9.93	10.15	10.07
Debt/Equity Ratio	0.28	0.35	0.38
Current Ratio	2.93	2.51	2.10
Amazon (AMZN)			
Return on Equity	12.91	28.27	21.95
Inventory Turnover	9.97	10.43	10.92
A/R Turnover	16.54	15.61	14.96
Debt/Equity Ratio	1.37	0.91	1.02
Current Ratio	1.04	1.10	1.09

Source: Morningstar
*Due to change in VFC fiscal year-end numbers are for 2019
**Due to change in VFC fiscal year-end number are for 2020

In comparison to Amazon and Nike, VFC seems to have slightly lower yet acceptable inventory and accounts receivable turnover numbers. Nike and VFC both are in the 2-4 range that a retail company should be in for inventory turnover which indicates their merchandise is selling fast. For accounts receivable turnover the two are both similar and show that they receive cash from their credit sales relatively fast. When compared to Amazon they don't seem as quick to turnover inventory as Amazon's turnover numbers are within a range that is much higher, up in the double digits. The same goes for Amazon's accounts receivable turnover as it gets into the teens. This shows that while Nike and VFC are relatively quick and efficient to turn over their merchandise and turn credit sales into cash, Amazon does it at an even faster pace. This seems to be accurate as Amazon is a much larger company with a greater inventory and sales to turnover. When looking at the efficiency and debt management of all three companies, it appears to impact their return on equity in a positive way. All three companies demonstrate solid turnover ratios and debt to equity ratios which appear to impact their abilities to have a positive trend on their return on equity during the past three years.

The average price to earnings ratio of the S&P 500 is known to range from 14 to 20 and is currently around 26-28. When a company has a higher price-to-earnings ratio it shows that the investors have greater confidence in the company. An excessively high number can mean that the company is overvalued. All three of the companies seem to have an extremely high P/E with Nike's being 73.53, VFC's is at 102.04, and Amazon's is at 121.95. This current trend of extremely high P/E ratios is due to Covid-19 and the impact it has had on each company. Amazon is the only company whose P/E is not overvalued as their sales have skyrocketed during Covid-19. Nike's and VFC's P/E are extremely high because their prices have stayed the same,

but their earnings have declined. Results of the comparison of the three companies' P/E indicate that Amazon would be the most favored company by investors.

Strengths and Weaknesses

This competitive analysis of the three companies shows where VFC stands in regard to the company's strengths and weaknesses through benchmarking. VFC's weaknesses show up in their payout ratio, growth rate, and price-to-earnings ratio. VFC's payout ratio is extremely high at 267.1% and reflects limited ability for sustainability. Over the last year, they paid out 126% of their free cash flow as dividends (Simply Wall St). This percent is very high and can be worrisome with limited knowledge as to how the company justified the payout level, making it a major weakness to investors. Another weakness the company demonstrated is their price to earnings ratio (102.04). This is due to their decrease in sales from Covid-19 during which their prices have stayed the same, but sales have decreased. VFC has also shown a weakness in its growth rate over the past couple of years. They have had a steady negative growth rate trend that is high up at -46.07 for earnings growth and -24.26 for sales growth in 2020. If continued VFC will be forced to liquidate parts of the company each year until they ultimately disappear. On the other hand, VFC's strengths are indicated in their ROE, debt to equity ratio, and inventory and receivables turnover ratio. VFC's debt to equity ratio is in great space with its highest being at 1.08, the company demonstrates good financial health which would indicate the ability to pay off any upcoming bills. They also have great turnover ratios that show they are selling their merchandise and receiving cash quickly from their credit sales. Leaving them with a high range of 6.95-9.02 for A/R turnover and an in-between range of 2-4 like a retail company should be in

for inventory turnover. VFC's efficiency and good debt management positively impact their return on equity giving them their highest ROE of 31.55 in 2019.

External Competitive Analysis

VF Corporation (VFC) received a rating as a narrow-moat firm, this rating is based on the brand's intangible assets. The moat rating is derived from the three brands of the company which include Vans, The North Face, and Timberland. The three brands have exhibited good growth and profitability characteristics. VFC has a strong history of success when it comes to their acquisitions that lead to their narrow moat rating. The strength of the Vans brand is another reason VFC received a narrow moat. Due to its acquisition of Vans in 2004, VFC has grown the company from its local roots of California into a major lifestyle sportswear brand. The North Face and Timberland also joined Vans in producing VFC's intangible asset that supports the narrow moat rating.

Nike received a wide moat rating based on the Company's intangible brand asset. Nike's wide moat rating is supported by its worldwide reach, as it ships products to more than 190 countries. The company produced 61% of its 2020 fiscal revenue outside of North America. Another supporting reason for Nikes wide moat rating is due to its large e-commerce business worldwide. It is estimated that Nike generated $5.5 billion in e-commerce in its 2020 fiscal year. Nike has many sponsors that include the world's most popular athletes and teams. These sponsors have led to the creation of key brands for the company. These key brands have a major role in supporting their wide moat based on the brand's intangible asset.

When comparing Nike and VFC it is understandable that while both companies' moat ratings are based on their intangible brand asset, they do not have the same rating. While they are

in the same industry Nike is a much larger and known company, which gives it a sustainable competitive advantage that makes it hard for rivals to gain its market share. On the other hand, VFC isn't as big or well-known so they only have a slim advantage over their competitors. Both companies can generate ROICs above the weighted average cost of capital over the next decade. With that being said you can see why Nike was given a wide moat rating because their expected adjusted ROICs are almost 3 times that of VFC expected, with Nike's at 44% and VFC at only 19%. Nike gains its higher rating from its global market, e-commerce, and its key brand from its sponsors (Morningstar).

Business Strategy

The business strategy that VFC is using is the broad differentiation strategy for managing their competition. VFC has 30 brands that are spread across different segments including outdoor & action sports, jeanswear, image wear, and sportswear (VF Corporation). VFC differentiates its products by acquiring different segments and recognizing each one. Before Vans was acquired by VFC they only served one typical customer that was described as a male skateboarder. Today VFC used its business strategy to spread the Vans product across its segment turning it from an action sports brand to an everyday brand. The Vans shoe is one of the most popular shoes for both sexes and hits the age range of 13-24-year-old customers. VFC has had operating margins in the 12%-13% range in the past three years while Nike's was a little higher at 16.67%.

VFC does particularly well in the production area of the value chain. VFC manages its complex global supply chain to meet the demands of the fast-paced and changing business environment. Their teams work on planning, forecasting, and procurement of its internally manufactured products and the ones that are outsourced from suppliers. VFC has moved toward

a regional production model so they can focus on the speed to market as it has become a major differentiator in their industry. They have 30 plants globally and are the only lifestyle branded apparel company with their own manufacturing. VFC has developed its own concept called the "third way" in which they bring their own resources and capabilities to other supplier partners and combine the advantage of their own manufacturing and the flexibility of third-party facilities (Closs). VFC excels with its omnichannel experience as a customer can effortlessly navigate between the company's digital platform or the physical store location. VFC delivers the correct products right on time to consumers worldwide. Most VFC stores are located in shopping malls where a customer can walk in look at items and ask salespeople for help. If the customer is not looking to go to the physical location, all VFC brands have their own websites that are user-friendly and easy to access.

International Strategy

VFC uses a global standardization strategy, the same marketing strategy is used from one country to the next, across all cultures. VFC grows internationally by opening stores worldwide that are all operated the same way. The production, R&D, and marketing activities of VFC products are concentrated in a few locations and continuing to grow every year. All facilities worldwide follow principles set by VFC and do not have to meet the conditions of the country of operations. VFC brands have standard products and do not customize them to local conditions (VF Corporation).

Corporate Strategy

VFC's brands spread across unrelated businesses so to increase the performance of all its business units they must use an unrelated diversification strategy as their corporate-level strategy. The way they use unrelated diversification is by adding unrelated product lines to penetrate new markets. Since VFC does not develop their own brands they add these new product lines through acquisitions. VFC acquires companies through the belief that they have a significant potential to grow. An example of this is that VFC started as a silk manufacturing and slowly grew by adding new product lines including jeans, sneakers, work uniforms, and outdoor equipment. The unrelated diversification strategy also helps increase VFC's value through internal capital market. Vans' has a high performance as it generates 67% of all VFC's active segment. Through internal capital market, VFC allocates the money across the rest of the business units. (VF Corporation)

Assess and Project

VFC has strengths from its market development through acquisitions. The company grows and gains more market share with its new brands and stores. As previously stated VFC is committed to expanding throughout the greater Asia Pacific region. They are currently investing in opening stores in new areas worldwide. They also are currently adding new brands including their latest addition, Supreme as it gives its consumers deeper access to segments that apply to VFC's existing brands. The strength of their market development helps with their EPS as Supreme is expected to increase their EPS by $0.20. VFC's knowledge of divestitures and splits helps to reduce its struggling profits. On the other hand, VFC's weakness shows up in their sales growth as they demonstrate a negative trend. This negative trend shows up in both the sales

growth and earnings growth of VFC. Their earnings growth (-46.07) and their sales growth (-24.26) for 2020 (Morningstar). This negative trend has been going on for the past three years and if it continues including the next 1 to 2 years, VFC will have to liquidate parts each year until they completely disappear. With the new additions and the split from its denim brands, VFC is in the position to grow. With the shedding of its jeans business, VFC can now fully allocate its resources to the areas of its portfolio that will help grow and give the best ROI opportunities (VF Corporation). Over the past five years, VFC stock has been rising the majority of the time. The stock had a slight dip in December of 2019 but had its highest stock price in January of 2020. The stock then had a major drop at the onset of the Covid-19 pandemic but has slowly been rising since, getting close to its January 2020 stock price. (Morningstar)

Suggested Changes

To improve the financial returns of the company VFC needs to generate more sales or raise their prices. They need to do this in a way where they are keeping their costs the same or increase their costs enough that they still can receive a net gain in profits. The best way to do this would be to keep acquiring companies and to keep their broad differentiation strategy. This way the diversification strategy increases profitability with greater sales volume obtained from the new segment markets and products. They should also continue to improve their e-commerce as they have excelled with omnichannel in the past but took a hit with shutting down stores during the pandemic. With a stronger e-commerce presence and marketing, they can make up for their lost in-store sales to help improve their ROI.

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