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EXCLUSIVE REPORT

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TWO BROTHERS, ONE MULTIBILLION-DOLLAR SHOE

- New Leadership Looks to Restore an Iconic Brand
- Replacing a CEO Who Sucked the Company's Soul Dry

Two Brothers, One Multibillion-Dollar Shoe

New Leadership Looks to Restore an Iconic Brand

Replacing a CEO Who Sucked the Company's Soul Dry

Two derelicts unwittingly created a multibillion-dollar business.

In 1966, the Van Doren Rubber Company opened in Anaheim, California. The company had one product – sneakers with super-sticky soles.

The vision was to manufacture an inexpensive athletic shoe, and sell directly to customers. There would be no middlemen to siphon profits and hike prices. The company had a small manufacturing facility with a retail store attached.

Founded by brothers Paul and James Van Doren, the company sold 12 pairs of shoes on its very first day. Business slowly picked up, but the new shoe brand had little direction, and the brothers were unsure who the core customer was and how to reach them.

Born and raised south of Boston, the brothers moved to southern California when their prior employer, Randolph Rubber Manufacturing Company, sent them there to turn around one of its factories. In eight months, the brothers fixed all the problems and decided to start a business of their own.

Inspired by the rubber business, the Van Dorens created shoes that had super-grippy soles with a waffle-like design.

Turned out, the waffle soles were perfect for gripping a skateboard. By the early 1970s, the two soon realized who their potential customer was – the surfers and skateboarders of southern California.

Little did the brothers know, they were on the verge of creating a brand that would become synonymous with the early skate counter-culture in and around Venice, California.

Realizing they had no idea how to tap this market, the brothers did something very street smart.

They asked for customer input. The Van Dorens began to reach out to these young skateboarders, who at the time were viewed as fringe folks at best. Their focus was having fun, smoking marijuana, and perfecting skateboarding tricks in empty swimming pools.

The Van Dorens identified two skaters who were very popular in the community: Tony Alva and Stacy Peralta.

The two were trying to make a living as skateboarders and had many devoted fans. In exchange for design ideas, the Van Doren Rubber Company supplied the duo with free shoes and eventually sponsored them at skateboarding events. The skaters wanted flashy patterns with grippy soles that were suitable for skateboarding.

The relationship was a win-win for the boarders and the fledgling shoe business. Soon every skateboarder in the area was also wearing the shoes made by the Van Doren brothers.

The functional waffle soles and flashy patterns became the preferred footwear of many living this lifestyle in California. The brothers expanded the business through the 1970s and by the end of the decade, sales were approaching $20 million a year.

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And then the Van Doren brothers and their popular shoes received a stroke of good luck – the offbeat shoes worn by low-key skateboarders were featured in a high-profile film. The resulting national exposure doubled sales.

As a result, the company enjoyed tremendous success as the skateboard culture and those who aspired to it scooped up the comfortable iconic sneakers. A larger company bought the shoe brand and eventually took it public. For more than a decade it experienced tremendous success.

But sudden growth, too much debt, and some corporate missteps sent the business into hard times.

And thus, this issue's opportunity...

The Activist Angle

In this issue, we recommend **V.F. Corporation (Nasdaq: VFC)**, a $6.4 billion market capitalization owner of consumer brands focused on footwear and the outdoors.

While V.F Corporation ("VFC") may not be familiar to many people, its brands certainly are. VFC owns iconic gear and apparel makers including Vans shoes, Timberland boots, The North Face winter apparel, Dickies workwear, Supreme streetwear, and Eastpak backpacks and accessories.

Similar to many of *Porter & Co. Activist Investor's* other recommendations, this is a story of a successful company with great products whose performance was being hurt by a major shift in corporate strategy.

VFC was widely successful for much of the last two decades until a new CEO tried to fix what wasn't broken. His strategy crushed company culture, stifled profitability, and drove the share price down dramatically. VFC shares have plunged more than 80% from $87 per share in April 2021 to $17 now.

Consider this... you can now buy shares of the owner of these iconic brands for about the same price that the stock traded for during the Great Financial Crisis in 2009, although today the company is generating 54% more revenue.

One of the best activist investors has taken note of VFC's challenges: Engaged Capital.

Engaged Capital does deep research and invests in only two or three companies a year. It only gets involved if it is highly confident in a profitable outcome.

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Engaged began to buy VFC shares in the fall of 2023 and has established a 5.2-million-share position (about 1.5% of the company), making it a top-20 shareholder.

Founded in 2012, Engaged focuses on undervalued, medium-size companies with strong business franchises, like Vans. Often, these businesses have fallen on hard times driven by mismanagement or poor board oversight.

Eight of Engaged's 12-member team came from Relational Investors, an aggressive activist fund founded in 1996 that had $6 billion in assets under management at its peak. It successfully took on big businesses such as Hewlett-Packard and The Home Depot. Relational closed its doors in 2015 after its visionary founder decided to step down amid illness. Fortunately, it spun off smaller activists like Engaged, transferring key experience and investing insights.

Not surprisingly, Engaged Capital has had some great success as well. It has expertise in consumer- and healthcare-focused activist campaigns. Below are two examples.

Last year, Engaged invested in **Shake Shack (Nasdaq: SHAK)**, the upscale fast-food restaurant with locations around the country. Operational mistakes led to a 60% drop in the stock price from 2021 to late 2022. Engaged started buying in early 2023 and quickly reached a cooperation agreement with management. Engaged bought the stock around $55 a share. Currently, it trades around $78. Engaged is the number-five shareholder and expects continued returns.

Another campaign focused on **Evolent Health (NYSE: EVH)**, a provider of innovative healthcare-management tools for health plans, hospitals, and other medical providers. Engaged started buying stock at about $11 a share in the summer of 2020, eventually reaching 8.5 million shares, making it a top-three shareholder with significant influence. By December 2020, Engaged executed a cooperation agreement. Shares rose, and Engaged began selling its initial position at $30 a share – almost tripling its investment in six months. Engaged remains a top-10 shareholder at Evolent.

While the VFC activist story is just beginning, we believe Engaged will have similar success. Specifically, the investor seeks:

- A refreshed board of directors
- A reinvestment in the core brands that drive revenue
- The potential sale of non-core brands
- A full operational review targeting $300 million in savings

Let's get into the story.

Fast Times at Van Doren Rubber

Vans are the shoes created by Van Doren Rubber Company that slowly gained fame and financial success through the 1970s, and *Fast Times at Ridgemont High* is the film that sent sales soaring in 1982.

The **V.F. Corporation (NYSE: VFC)** purchased the iconic Vans brand in 2004 – 22 years after the young actor Sean Penn played the role of Jeff Spicoli, a dope-smoking surfer/skateboarder who, in one famous scene in *Fast Times*, announced: "All I need are some tasty waves, a cool buzz, and I'm fine." His shoe of choice? A black-and-white checkerboard slip-on made by Vans.

The movie enjoyed national success and propelled Vans from a niche, southern-California shoe brand to national acclaim. Sales soared from $20 million a year in 1982 to $45 million the following year.

Like many growth stories, success came with big challenges. To meet demand, Vans expanded massively. The brothers hired more people, expanded manufacturing, and took on debt to pay for it all. Their regional business went national quickly.

But the brothers were unable to manage the rapid growth, and soon growth stagnated, and costs got out of control. Just two years after *Fast Times at Ridgemont High* featured the iconic shoes, Vans filed for bankruptcy protection. The company restructured, eventually paid off all its debts, and was bought by a private-equity investor in 1988.

Despite these setbacks in the 1980s, the brand continued to enjoy longer-term success. As tastes changed through the decades, Vans changed too. A key reason for the enduring appeal? Vans adapted styles to be in line with every new generation of buyers.

For example, rapper and musician Frank Ocean wore his slip-ons in 2016 when he met President Barack Obama and First Lady Michelle Obama at the White House.

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The Gen-Xer writing this report owned the same pair of Vans as Jeff Spicoli, buys new Vans annually, and now has kids that sport the slip-ons and high tops – all with rebellious and wild patterns.

Unfortunately, the iconic brand has fallen on tough times again. A strategy change moved research and development (R&D) away from the customer in favor of far-removed corporate executives. This led to a lack of innovation, rising costs, and further mismanagement. The company that now owns Vans, along with a handful of other well-known brands, has lost its way.

An Activist Gets Involved

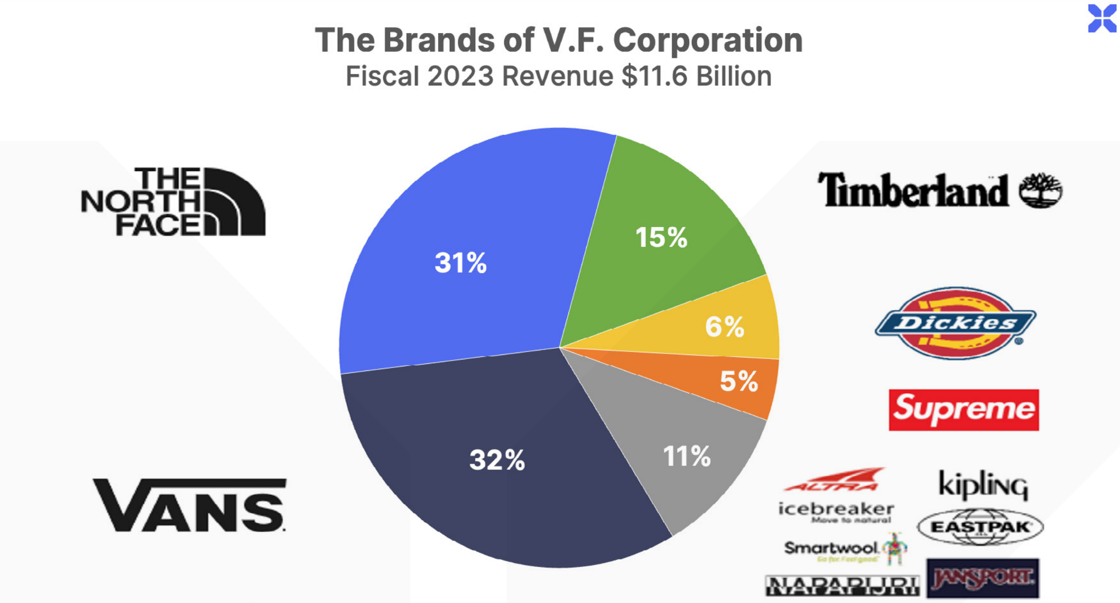
Fortunately, a smart activist investor with vast special-situation experience believes in the story.

It knows, as we do, that Vans and the company's other brands are trophy assets. They have value far beyond the demand of the products. They are recognized globally and will continue to be a styling choice of young people for generations to come.

V.F. Corporation is a multibillion-dollar consumer-brand company focused on footwear, outdoor activewear, backpacks, and work uniforms. Its core brands – Vans, The North Face, and Timberland – are known worldwide and have extremely loyal followers.

The shoemaker Vans is known for its checkerboard slip-on sneaker that has been worn by kids and adults alike for decades. Timberland boots are favorites of both hip-hop stars and construction workers. And The North Face attracts high-end outdoor enthusiasts.

In its fiscal year that ended March 2023, the company, with some 35,000 employees nationwide, generated $11.6 billion in revenue across 11 brands. Vans is the largest contributor with 32% of total revenue, about $3.7 billion.The North Face is a close second at 31%. In the chart below, we highlight the company's other brands along with their revenue contribution.

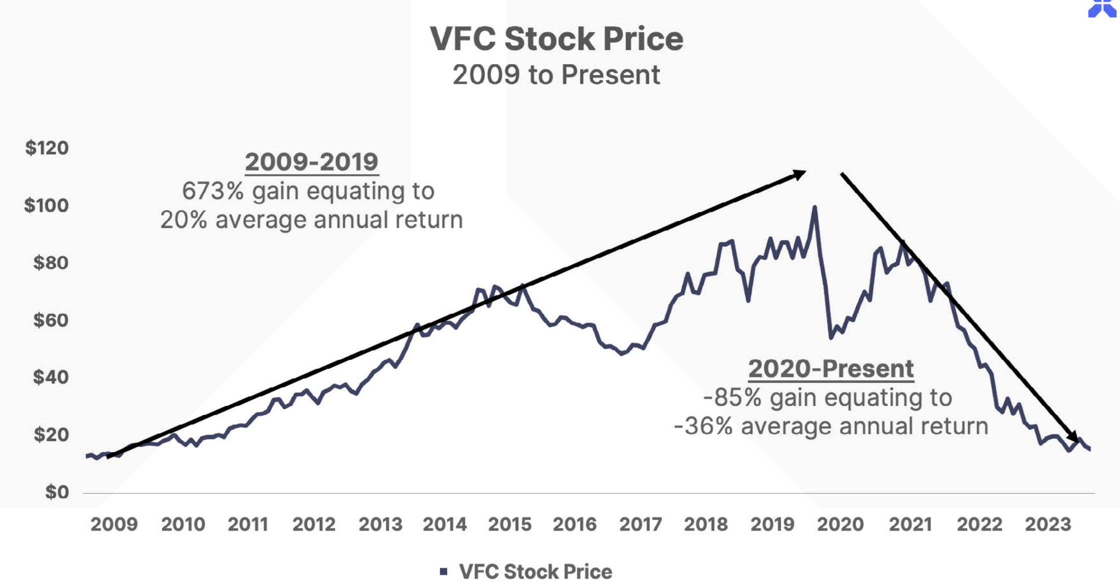


Source: V.F. Corp 2023 10K, company websites

So, how did a company owning these beloved brands get into trouble?

The Rise Before the Fall…

From 2009 through 2019, the share price of VFC saw a spectacular gain of 673%, averaging 20% per year. Then in 2020, performance went completely in the opposite direction, losing 36% per year on average.

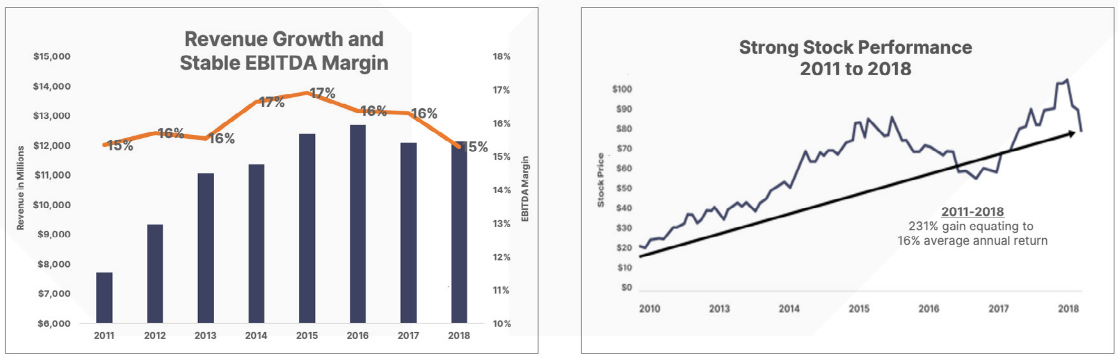


Source:Factset

The chart below left provides a more detailed look. VFC's revenue grew from $8 billion in 2011 to more than $12 billion in 2018... a 57% increase.

Earnings before interest, taxes, depreciation, and amortization ("EBITDA") as a percentage of revenue was stable between 15% and 17%. This was great for shareholders. The stock, as revealed in the chart below right, returned a solid 16% annually over this eight-year period.

V.F. Corporation



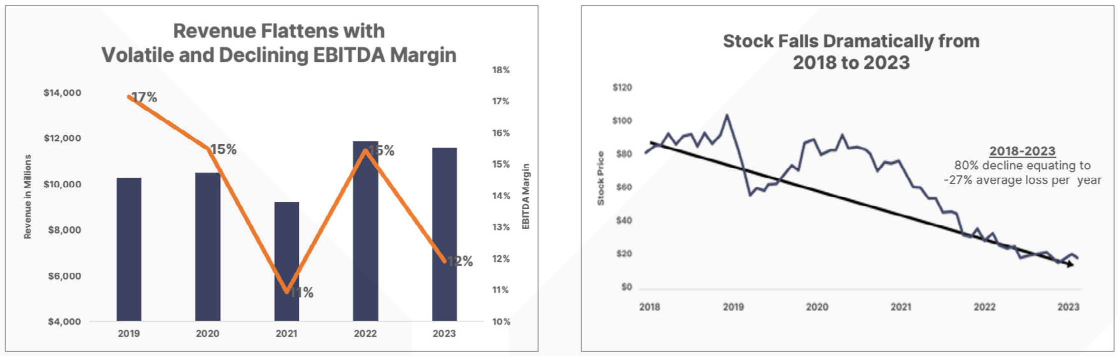
Source: Factset, company reports, Porter & Co. research

By 2018, the tide had begun to turn. In fact, signs of slowing growth appeared in 2017 as illustrated above.

Weak revenue trends continued from 2019 to 2023, stagnating at about $10 billion a year. Profitability also suffered. Previously consistent EBITDA margins in the mid-to-high teens declined by roughly three percentage points on average over these years.

The stock reacted accordingly, with a massive 80% decline over the same time period.

V.F. Corporation



Source: Factset, company reports, Porter & Co. research

Consistent financials suddenly became erratic, and prior gains vaporized. Let's see what happened.

Four Reasons For Deteriorating Financials and a Falling Stock Price

1. *A new CEO launched a strategy shift. He enlarged the corporate division within the company, hurting innovation, brand culture, and, eventually, sales and profits.*

In 2017, the company's then-CEO Eric Wiseman retired after nine successful years. In total, he worked with the company for 20 years. In his place, he named Steven Rendle, who had been with the company for nearly two decades.

Rendle started with The North Face in 1999, became the brand's president in 2004, and president and COO of the entire V.F. Company in 2011. The appointment of this long-time insider as CEO seemed like a perfect succession strategy.

But Rendle had aggressive plans.

He centralized the business and expanded the role and reach of a new corporate division. This strategy shift moved key decision-making from the brand level to the corporate level.

In some businesses this makes sense. A larger corporate division can combine necessary operations like human resources, accounting, and R&D, and do it cheaper than each of the individual subsidiaries. The corporate division becomes a service provider to the subsidiaries that innovate and add value.

However, with a company composed of separate operating units, each with its own style and culture, centralization can prove disastrous, as it did with the VFC brands.

Remember the Van Doren brothers' critical decision early on – to seek design preferences from the skateboard community? Under Rendle's new strategy, this core part of the company's DNA would never have happened.

Rendle's strategy effectively moved the soul of the business away from the local community and into the corporate office. The secret sauce evaporated. No longer could on-the-ground brand managers harvest design and new product decisions based on what customers were saying. Now, remote corporate types would tell the passionate people at Vans and The North Face and other brands how to run their businesses.

This is exactly what happened. Local employees who were committed to their brands became disenchanted. Their views no longer seemed to matter. All that counted were the strategies of paper-pushers far removed from the products and customers who love them.

This showed up in sales. Consider the revenue of VFC's flagship brand Vans. After growing for years, revenue reached $4.1 billion in 2020. That declined to $3.6 billion for the fiscal year that ended March 2023.

And then management made things worse. In 2018, amid the revenue downturn, Rendle and the board moved corporate headquarters from North Carolina to Colorado. The CEO cited the state's outdoor culture and thriving business environment as a reason for the move.

In the activist presentation that it posts on its website and sends to interested parties, Engaged Capital referred to this new facility as the "Corporate Death Star," in a nod to Darth Vader's fearsome (and ill-fated) space station in the *Star Wars* film series.

In a telling sign of a crumbling culture, many employees did not make the move. At The North Face, for example, a staggering 75% of the work force quit. VFC needed to hire hundreds of new workers who had little knowledge of the brand or its history.

This shift in strategy played out all across the company. Revenue fell, corporate expenses rose, and brand leadership teams felt disenfranchised.

But instead of pulling back on this strategy, CEO Rendle doubled down.

2. *The company acquired Supreme brands – which was not in the shareholders' best interest.*

In late 2020, VFC acquired Supreme brands, maker of streetwear products, for $2.1 billion. The acquisition seemed strange, to say the least, and was not in the interest of shareholders, for two reasons.

First, a global pandemic was well underway with no clear signs of how it would play out for the supply chain and for customers. Just like most businesses around the world, VFC was thrust into a very uncertain environment.

Second, amid this global uncertainty, VFC paid $2.1 billion for a company generating about $500 million in sales. That is a 4.2x price-to-sales (P/S) multiple, which is a high price to pay for such a business. What's more, VFC shares were trading at about 1.6x sales. When making acquisitions, the buyer should seek to pay a price that implies a valuation multiple at or below its own valuation. Instead, VFC paid way above that, shelling out 2.5x the share price. In our view, management clearly overpaid for Supreme.

This was confirmed within three years.

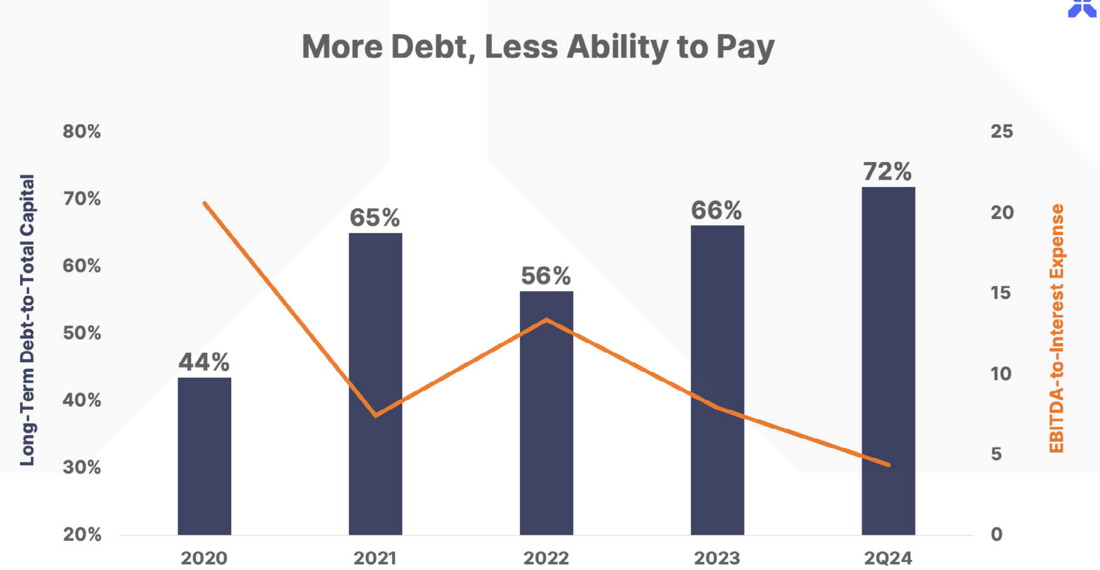
By early 2023, VFC and its auditors "impaired" Supreme assets by $735 million. An asset impairment occurs when the original accounting value of an asset does not live up to its actual value in subsequent years. This confirmed that VFC overpaid for Supreme.

All of this cost money, adding to company debt.

3. *The company took on massive debt to pay for the new strategy.*

For the year ended March 2020, VFC had $2.6 billion of long-term debt. A year later the company had $5.7 billion in debt – more than double. The increase was related to the Supreme acquisition and to fund ongoing restructuring.

In the chart below, we highlight two measures: the debt-to-total capital ratio and the ratio of EBITDA-to-interest expense. The debt ratio illustrates the portion of company capital that is debt. EBITDA-to-interest expense demonstrates how well (or not) a company can pay the interest of all the debt – the lower the level of EBITDA compared to interest expense, the worse the company is doing.



Source: Factset, company reports, Porter & Co. research

Debt levels have risen steadily over the past four years while VFC's ability to pay its interest has declined. As of the second fiscal quarter of 2024, almost three quarters of the company is funded by long-term debt.

As comparison, let's look at the same ratios for companies in the S&P 500. The five-year average for each S&P 500 is 43% and 11.3x, respectively. VFC's debt-to-total capital ratio is 72%, almost twice as high as the S&P average. And its ability to make interest payments, which is currently around 6x, is half that of the average S&P 500.

This level of debt presents a clear and present risk for the company. Interest expense to service the debt has almost tripled since 2000. We estimate 2024 interest costs of $236 million, which is 3x the $79 million that it was in 2020.

On the other hand, it also presents an opportunity as the company moves forward. As debt is paid down, this will reduce interest costs, freeing up capital for other expenditures and adding to the bottom line with improved EBITDA margins.

But until it could pay down the debt, Rendle and the board needed to cut costs.

4. *To free up funds, the board cut the dividend.*

While reporting the third quarter of 2023 (ended December 2022), the company also announced that it had cut its dividend by 41%, from $0.51 to $0.30 a share.

While this was a prudent move to free up funds to help pay down the debt, it continued the decline in the share price. In the two trading days after the company announced the dividend cut, VFC shares fell 9%, and they continued to slide in all of 2023.

Many institutional shareholders that owned this stock because of the dividend income were now forced to sell because of the lower yield.

Why would we want to even consider buying this stock? After all, the problems summarized above appear to be well-entrenched with no visible improvements.

And that assumption is not completely wrong. However, we've continued to dig on this story. While this activist campaign is young, we believe strongly in the recommendations that Engaged Capital has put forth.

Four Reasons We Like VFC Right Now

1. *The board finally hired the right CEO for the job*

The board decided it was time for a change, and after six years as CEO, Steven Rendle left the company on December 2, 2022. While he had a great resume, the stock fell 64% under his tenure.

The company hired a new CEO, Bracken Darrell, who took over in July 2023. Darrell came over from his role as CEO of Swiss tech company Logitech International.

Under Darrell's nearly 10 years at Logitech, revenue more than doubled, and the stock price soared 737%. Like many CEOs, Darrell has decades of leadership experience across many blue-chip companies. He has spent time at Procter & Gamble, Whirlpool, and General Electric.

We like Darrell a lot for three reasons:

First: Consumer electronics was not his forte, but he crushed it nonetheless.

For the last decade, Darrell was the successful CEO of Logitech, which makes devices that connect to computers like keyboards, wireless mouses, video-game joysticks, speakers, and cameras. The products work across the spectrum of personal and professional computers. They often have value-added characteristics such as ergonomic design and wireless capability.

While not a tech executive, Darrell does understand brand loyalty, styling, and the need for constant innovation. Darrell successfully led the company through a turnaround involving a management shakeup, board changes, and new product development with an eye on design that led to market share growth.

His experience at Logitech will pay dividends at VFC. Many of his accomplishments there translate directly to actions required at VFC.

Upon his start at Logitech, he undertook aggressive cost-control measures and re-invested in innovation and design. He focused all efforts so that they led directly to revenue and earnings growth, two metrics VFC needs to improve.

When he took over at Logitech in 2012, the company was generating $2.1 billion in revenue and $82 million in EBITDA. By 2023, revenue had doubled to $4.2 billion and EBITDA hit $600 million. EBITDA margin expanded from 4% to more than 14%, reflecting successful cost controls.

Logitech investors enjoyed a great return because of Darrell's efforts.

Second: Before becoming CEO at Logitech, Darrell led another important turnaround that qualifies him even more to lead VFC.

"No one wants to smell like grandpa anymore" was a marketing line for Old Spice cologne. Yes, the cheap cologne that came in the white ceramic bottle sealed with a plastic stopper. If you grew up in the U.S. in the 1960s, 1970s, and 1980s, this scent was popular among our grandfathers and fathers alike. And, in some cases, even us.

In the late 1990s and early 2000's, Darrell headed the Health and Beauty division at Old Spice owner Procter & Gamble. He was credited with leading the very successful rebranding of Old Spice.

Consider the advertisements below.

Before Darrell's arrival, Old Spice ads targeted men aged 40 to 60 years old, a segment that had grown less lucrative over time. Darrell was instrumental in not only updating and expanding the product line, but also targeting 18-to-35-year-olds, and the women in their lives. The marketing firm he hired determined that women made 60% of body washes and cologne purchases. This was a proud shift in thinking and selling this product.

From this...

...to this

His efforts with Old Spice were very successful. The brand has many products today, from the original cologne and shave cream to deodorants, body washes, and lotions. And the target customer is much younger and more active than the prior curmudgeonly cohort.

Again, we think Darrell's success with Old Spice has many parallels to the brands owned by VFC, and most notably, Vans and Timberland. These are also iconic brands that have lost their way and need innovation and fresh marketing angles.

Third: Darrell brings new blood to the organization.

Successful founding CEOs often have the vision to get their business off the ground, but then step aside and let better equipped operational-focused leaders take over. These leaders bring new perspectives, exposure to a completely different set of experiences, and the potential for new corporate contacts.

VFC hasn't had new blood for decades. Steven Rendle had been with VFC for 17 years before becoming CEO. His predecessor had been CEO for nine years and was an employee for 20.

This promote-from-within strategy did not work as a succession plan.

We really like Darrell's background. He brings a new perspective to the company and its culture. Better yet, on February 9, he bought 65,000 shares of VFC stock with his own money at $15 per share, which is very close to the 52-week low.

As we discuss next, he has already identified early steps in the turnaround... which leads us to the second reason we like VFC.

2. *Corporate cost-cutting can yield hundreds of millions in savings.*

Engaged Capital has established a number of goals for VFC. The focus is restoring value that was destroyed by the prior ill-fated growth strategy. A key part of their plan begins with immediate cost savings sourced from the now-bloated corporate division (among other places).

To evaluate the projected cost-cutting opportunity, we look at expenses that were allocated to the corporate division from 2013 to 2023. Specifically, we wanted to compare the time before the strategy change occurred and what happened in subsequent years.

The table below summarizes our findings.

Corporate Costs as a Percentage of Revenue

	Pre-Rendle Strategy Shift 2013-2016*	Rendle Strategy Years 2017-2022*	Change
Corporate Costs (CC) ($millions)	$311	$461	48%
Revenue ($millions)	$11,875	$11,021	-7%
CC as % of Revenue	2.6%	4.2%	+1.6 pps

** Average measure during time period.*

Source: Factset, company reports, Porter & Co. estimates

Corporate costs rose 48% on average during the two time periods – pre-Rendle and during the Rendle years. This increase occurred even as average annual revenue declined 7%. As a percentage of revenue, average corporate costs rose from 2.6% of revenue to 4.2% of revenue.

Corporate costs remained elevated in 2023, hitting 5.3% of revenue (doubling the previous figure) before Rendle centralized the organizational structure.

In our view, $200 million to $300 million could be added back to profits by reverting to the previous decentralized structure. The chart below illustrates the potential for 2025. Currently, costs are estimated to come in at $566 million, but the new team is focused on reducing that number. Getting to a pre-Rendle cost number of $279 million seems aggressive, and probably unrealistic. So a conservative estimate falls somewhere between the two.

Three Scenarios for Potential VFC Savings - 2025 ($millions)

	Estimated	At Pre-Rendle	Conservative
Corporate Costs (CC)	$566	$279	$372
Revenue	$10,639	$10,639	$10,639
CC as % of Revenue	5.3%	2.6%	3.5%
Potential Savings	$0	$287	$193

** Average measure during time period.*

Source: Factset, company reports, Porter & Co. estimates

In getting to this range, we compare estimated 2025 corporate costs (assuming no changes), with the actual cost structure under two different scenarios.

The first scenario assumes corporate costs as a percentage of revenue revert to the average 2.6% seen during 2013-2016. This is an aggressive assumption because some costs may not be as manageable today as they were a decade ago.

The second scenario assumes new management can operate corporate costs at the midpoint of the two observed cost structures (2.6% and 4.2%). This is more conservative as it assumes new management cannot get back to levels achieved a decade ago.

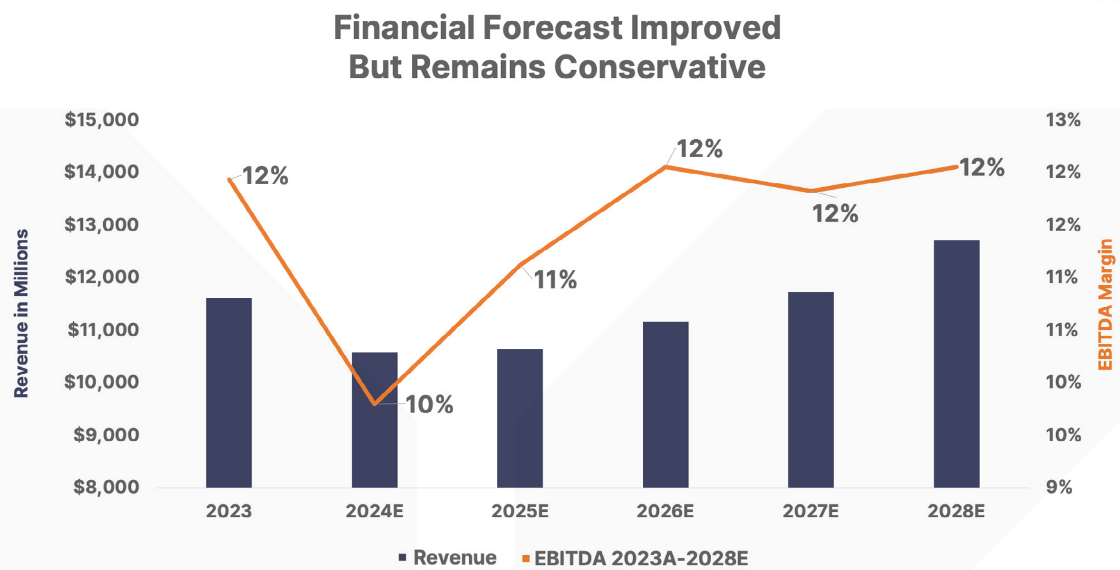
While this is a relatively simple exercise, it clearly illustrates the potential for hundreds of millions of dollars in savings.

Activist investor Engaged would likely assume the savings are even greater.

In the activist's analysis, corporate costs grew even more under Rendle than what we illustrate by looking only at the reported costs. Engaged adds other expenses (such as pension funding and other items) it believes should be cut as well. They conclude cost savings could exceed $300 million.

Consider the chart below based on our assumptions and those of analysts...

Over the next five years, revenue is estimated to grow and EBITDA margins will rise steadily. And these estimates are not aggressive. At 13%, they do not assume much innovation under Darrell's leadership.



Source: Factset, company reports and Porter & Co. estimates.

Given our analysis and that of Engaged, we believe EBITDA margins could reach 15% to 17%. If so, investors can expect an upcoming period of increasing management forecasts that will move the share price higher.

If successful, the added financial flexibility will accelerate debt repayment and refund the shareholder dividend. Both actions will likely lead to a rising stock price.

It's also important to remember that things don't happen in a vacuum.

This cost-cutting strategy reduces bloat at the corporate level… and pushes decision-making back to the local brands, the way things used to be when the company was thriving. The added autonomy enjoyed by local leaders should spur innovation and enhance revenue growth. Some of that is seen in the chart above.

And that leads to the third reason VFC is a good investment now.

3. *VFC shares are undervalued and hold big return potential*

Let's ask ourselves three questions in thinking about VFC's valuation.

- Where do VFC shares currently trade relative to peer companies?
- What is a "normalized" EV/EBITDA multiple for VFC?
- If all goes well, what target price is realistic?

VFC is trading at a discount to the average of 10 peer consumer brand companies.

V.F. Corporation Valuation Multiples Versus 10 Comparable Consumer Brand Owners

Company	Ticker	Stock Price	Market Cap ($m)	2025E			Core Brands
				P/S	EV/EBITDA	P/E	
V.F. Corporation	VFC	$17.20	$6,688	0.6	9.5	9.5	Vans, The North Face, Timberland
Acushnet Holdings	GOLF	$67.21	$4,394	1.7	12.6	19.4	Footjoy, Scotty Cameron, Titleist
Columbia Sportswear	COLM	$81.49	$4,931	1.3	10.0	18.4	Columbia products
Crocs	CROX	$108.37	$6,564	1.5	7.5	8.1	Crocs products
Deckers Outdoors	DECK	$848.10	$21,769	4.1	18.0	24.6	Uggs, Hoka, Sanuk, Teva
Canada Goose	GOOS	$13.03	$1,321	1.1	8.0	14.2	Canada Goose products
Hanesbrands	HBI	$4.72	$1,652	0.3	8.6	6.3	Hanes products
Levi Stauss	LEVI	$17.69	$7,037	1.0	9.7	12.6	Levi's, Dockers, Denizen
Skechers USA	SKX	$59.63	$9,182	0.9	8.4	12.9	Skechers USA
Topgolf Calaway	MODG	$15.10	$2,786	0.5	9.3	35.2	Topgolf, Callaway, Odyssey, OGIO
Yeti	YETI	$48.20	$4,186	2.0	9.9	15.6	Yeti products
Average				1.4	10.2	16.9	

Source: Factset, company reports, Porter & Co. estimates

The table above illustrates three common valuation multiples: Price-to-sales (P/S), enterprise value-to-EBITDA (EV/EBITDA), and price-to-earnings (P/E). These multiples pull from the top, middle, and bottom of the income statement reflecting different accounting and management influences. Analyzing all three multiples makes it clear that VFC shares are trading at a discount.

That said, we focus on EV/EBITDA. EBITDA is closer to a cash flow measure than total sales or net income (and we like cash flow). This metric contains less potential variability than the others.

Versus the peer group, VFC trades at a discount on an EV/EBITDA basis as well. This is not surprising, as the company is enduring troubled times. However, it is not trading at a very large discount. Let's look a bit more.

Consider VFC's average EV/EBITDA in recent years and during more normalized times. Below, we look at the five-year ranges of the multiple under Rendle as well as before his time.

V.F. Corporation EV/EBITDA Multiple
Under Two Separate Regimes

Year	2019-Current
2019	14.5
2020	21.4
2021	27.1
2022	8.9
2023	9.4
Current	9.7
Average	16.2
Excluded 2021	12.8

Year	Normal Operations
2012	9.6
2013	15.3
2014	14.8
2015	10.6
2016	12.2
2017/18*	20.6
Average	13.9
Excluded 2017/18	12.5

** Fiscal year end change*

Source: Factset, Porter & Co. estimates

Interestingly, our adjusted averages (excluding the highest measure as an outlier) are similar under both scenarios but with greater variation in recent years. As such, we believe a 12x to 13x multiple is reasonable to use in projecting a target price (compared to 9.5x using 2025 estimates).

To estimate where the stock should trade under a new CEO and with guidance from Engaged, we put together three scenarios: a bear case, bull case, and a middle-of-the-road case. Each scenario considers an alternative result for expected EBITDA and the EV/EBITDA multiple the market applies.

And since this stock is covered by 25 analysts, we use their prevailing EBITDA estimate forecasts.

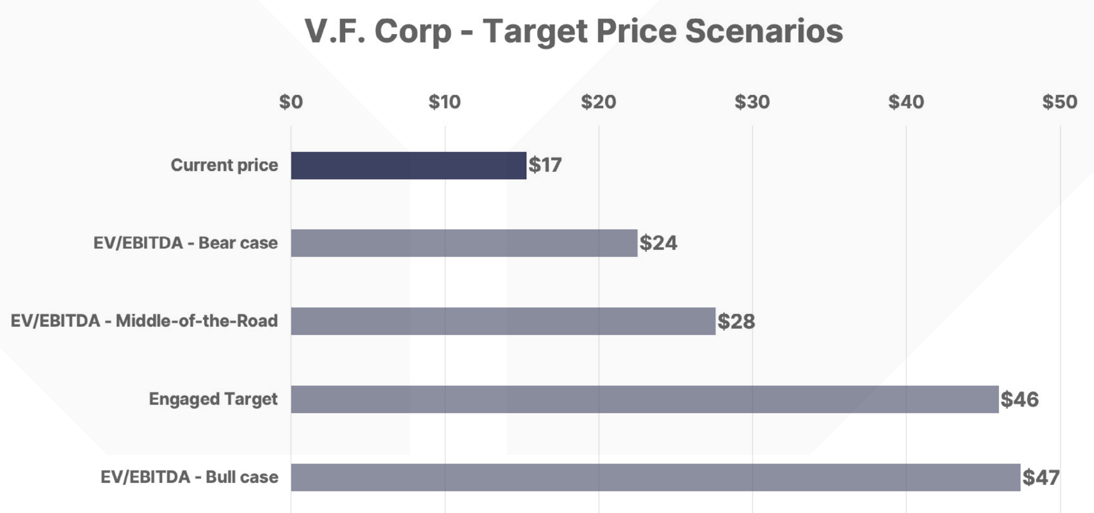
Bear case. In our downbeat scenario, we assume the lowest forecast EBITDA for 2026, which is about 20% below the average forecast. This means the company falls short of current analyst expectations. As a result, we assume the stock stays at the current EV/EBITDA multiple of 8.9x. This equates to a target price of $22 per share – up slightly from its $17 per-share price.

Bull case. In our optimistic scenario, we assume EBITDA is roughly 10% higher than the current average analyst expectation, meaning operating improvements are more successful. In such a case, the market would pay a higher multiple of EBITDA for the stock. We assume the multiple returns to the average 12.5x seen during more robust operating times. This provides a target price of $47, which is up more than 1.6x from its current price.

Middle-of-the-road case. This scenario takes the midpoint of the bear and bull cases. It yields a target price of $33 a share, which is double the current share price.

Pulling it all together, with a new strategy that seeks to return the company to its former success, we believe VFC shares could conservatively trade to $30 to $35 a share, suggesting about a 100% return from the current price. Even our bear case assumes some appreciation in share price.

As comparison, Engaged believes the shares are worth $46 based on its analysis – in line with our bull case scenario. Either outlook suggests solid investment returns.



Source: Factset, company reports, Porter & Co. estimates

And the final reason we like VFC as investment builds on the first three.

4. *Some "icing on the cake" items*

As mentioned, there is a lot going on with VFC. The following two items support our view that changes for the better are already happening lending more confidence to a VFC investment.

- **Non-core brands up for sale.** Under new CEO Bracken Darrell's leadership, VFC has put the Eastpak, JanSport, and Kipling brands up for sale. These brands are considered non-core as they drive less revenue and are not widely recognized. Planned before Engaged got involved, selling these brands suggests an internal effort had already been underway inside the company prior to activist influence.
- **No official activist cooperation agreement has been reached**. Given that management's efforts seem in line with its own view, Engaged may not feel pressure to force the company into a formal cooperation agreement. If it happens, it will become public and could start an upward trend in the stock. Remember, a cooperation agreement is an announcement that company management, board, and the activist have come to agreement about changes with the company.

Even Jeff Spicoli Would Like This Story…

While Engaged and VFC management seem to be aligned, no formal cooperation agreement is in place. If incentives become misaligned, shares could suffer as the two parties try to agree on action.

However, this just got a little easier. On February 12, descendents of the family that founded VFC announced their support for Engaged Capital. They too agree that governance has become “entrenched and bureaucratic.” They seek replacement of at least two board members. While not a formal cooperation agreement, this represents building support for real changes.

The company also has a lot of debt. Accelerated repayment will only occur if operating improvements are successful.

Despite these risks, VFC looks like a good investment in our view.

Shares have dropped significantly since the pandemic rebound. From a mid-2021 price point of $83, the stock is down 80%.

New leadership is in place with well-articulated goals that should improve operations. This should favorably influence revenue, EBITDA, and cash flow from operations. That in turn will provide liquidity to pay down debt, reinvest in core brands, and even increase the dividend to prior levels.

We will be watching closely and providing updates when appropriate. In the meantime, go buy some Vans and pretend you're 16 years old again.

Action to Take: Buy V.F. Corporation (NYSE: VFC) up to $30 a share.

ActivistInvestor PORTFOLIO

	Ticker	Description	Purchase Date	Cost Basis	Closing Price	Yield	Income Received	Total Return	Status
SPORTSMAN'S WAREHOUSE	SPWH	Sporting Goods Stores	09-22-2023	$3.53	$3.91	0.00%	$0.00	10.76%	**Buy Under $15**
MERCURY SYSTEMS	MRCY	Defense Technologies	11-15-2023	$34.78	$30.55	0.00%	$0.00	-12.16%	**Buy Under $60**
ORTHOFIX MEDICAL	OFIX	Medical Devices	01-17-2024	$13.30	$14.00	0.00%	$0.00	5.26%	**Buy Under $22**
V.F. CORPORATION	VFC	Apparel & Footwear Brands	02-14-2024	$17.20	$17.20	0.00%	$0.00	**0.00%**	**Buy Under $30**
Closed Positions					Sell Price				
CATALENT	CTLT	Health Care Services	09-22-2023	$45.34	$59.86	0.00%	$0.00	32.02%	**Sold February 5, 2024**

Disclaimer: this hypothetical portfolio should not be considered investment advice or a recommendation to buy/sell any financial instrument. For informational purposes only. Investors should perform their own due diligence before buying or selling any financial instrument. No express or implied guarantee of accuracy or applicability to real-world trading.

Tom Carroll

Thomas Carroll

Porter & Co.

Stevenson, MD