VF's Acquisitions a Good Fit

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After a having a great year in 2004, **VF Corp.**(NYSE: VFC) continued to impress with a good showing for the first quarter of this year, powered by a 127% increase in sales in its outdoor segment. VF generated $1.56 billion in sales for the quarter, a 9% increase year over year, and $1.07 per share in earnings, a 15% increase.

According to the earnings report, the outdoor, sportswear, and imagewear businesses showed healthy growth in both sales and profits. The 127% sales increase was powered by the recently acquired Vans, Napariji, and Kipling Outdoor brands. These three lines alone contributed $141 million of the segment's $282 million in total sales (other segment brands include The North Face, Eastpak, and JanSport). Profits for the segment jumped 133%, too. It's great to see such strong sales and margin growth, especially when competition includes strong brands like **Columbia Sportswear** (Nasdaq: COLM).

Sales for the sportswear and imagewear segments grew 7% and 8%, respectively. Holoubek, a licensee for **Harley-Davidson**(NYSE: HDI) apparel and another recent acquisition, added $15 million in sales for the Imagewear business. That's not bad for being bought in January 2005. While the sales growth for the sportswear business was nice, the margin growth was fantastic. Profits for the segment more than doubled because of reduced markdowns, lower returns, and reduced manufacturing costs.

Jeanswear, which includes the well-known Lee and Wrangler brands, experienced a slight decline, while the intimate apparel segment took a 9% sales hit. Unfortunately, lower sales resulted in some proportionately higher product costs for the intimate-apparel group, as profits fell 33%. Fortunately, jeanswear is VF's cash cow, supplying just over half the profits, which have been used to buy new brands and repurchase stock, to offset dilution from the exercise of options. VF repurchased 1 million shares during the first quarter and expects to repurchase another million by the end of the year.

Acquisitions can be a tricky game to play. But the strong showing from the new brands continues to demonstrate that management has the ability to find the right brands to stir into the mix. That's not always an easy thing to do, because many times the expectations are too high, and the new businesses underperform.

Although management reiterated its guidance for an 8% increase in EPS for the year, it did say that it expects a 10% decline for the second quarter compared with last year. It also said the decline should be negated by a 10% increase in EPS for the back half of the year. Investors didn't seem to take too kindly to that, driving down shares slightly today.

VF, whose shares trade just under $60, expects to earn $4.55 per share in diluted earnings in 2005. At just under 13 times earnings on a forward basis and with a dividend yield of nearly 2%, VF still looks like a reasonable value today, at least to me.

Fool contributor David Meier does not own shares in any of the companies mentioned. The Motley Fool has a disclosure policy.

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