

Wolverine World Wide, Inc.

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Company Overview :

Wolverine World Wide, Inc. Wolverine World Wide makes Hush Puppies casual shoes as well as boots, sandals, and related apparel and accessories. In addition to **Hush Puppies**, top footwear brands include **Merrell, Bates, HyTest, Keds, Sperry, Saucony, Stride Rite, and Wolverine**; footwear is made under private labels. Wolverine also boasts several licenses from **Caterpillar ("Cat")** and **Harley-Davidson** to make branded footwear. The company licenses its Stride Rite brand under a global license arrangement. Its footwear is sold worldwide through department and specialty stores, independent distributors, Internet retailers, and about 80 company-owned retail stores in the US and Canada. Wolverine also maintains about 40 consumer-direct e-commerce sites. About two-thirds of company total sales comes from US.

Industry

Companies in this industry make footwear, including athletic, casual, and dress shoes as well as boots, sandals, and slippers. Major companies include NIKE, Skechers USA, and Wolverine World Wide (all based in the US), along with Adidas (Germany), Asics (Japan), Belle International (China), and PUMA (Germany), Yue Yuen (China). Worldwide, about \$143 billion worth of footwear is exported annually, according to the International Trade Centre. Top exporting nations are China, Vietnam, Italy, Germany, and Belgium. The US footwear manufacturing industry consists of about 230 establishments (single-location companies and units of multi-location companies) with sales of about \$1.8 billion.

Business Strategy

Wolverine's strategy is centered on growth through e-commerce and global expansion.

Editing its retail offerings, Wolverine has closed more than 200 underperforming stores and kept 80 profitable stores. In addition, the company divested its Sebago brand as part of a portfolio restructuring related to focusing on its highest potential growth brands.

The company is seeking more opportunities in international markets, where it achieved mid-single digit growth in 2018. It recently announced a partnership with leading Chinese sportswear retailer Xtep International Holdings Limited to develop, market, and distribute Merrell and Saucony products in mainland China, Hong Kong, and Macau. Some of the company's top brands, including Merrell, Sperry, Cat, and Wolverine, saw growth in both their stores and e-commerce categories in 2018. Its specialty running brand, Saucony, saw revenue decline in 2018 but saw positive signs in the EMEA region as well as its e-commerce channel.

Financial Highlights

	29-Dec-18	31-Dec-17	31-Dec-16	02-Jan-16	03-Jan-15	USD/Mil
Total Revenue	2,239.20	2,350.00	2,494.60	2,691.60	2,761.10	
Gross Profit	921.3	914.4	959.9	1,051.70	1,086.30	

Key Indicators USD (mil)

[USD Millions]

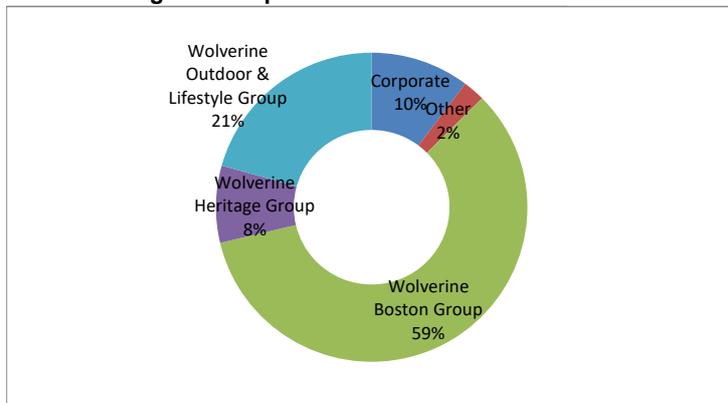
	Quarter Ending 28-Sep-2019	Quarter Ending Yr Ago	Annual Year End 29-Dec-2018	1 Year Growth	3 Year Growth	5 Year Growth
Total Revenue	574.3	2.81%	2,239.2	-4.71%	-5.94%	-3.61%
Operating Income	68.3	-0.15%	251.9	45.52%	2.24%	1.44%
Net Income	48.7	-17.18%	200.1	66,600.00%	17.66%	14.79%
Basic EPS	0.57	-8.06%	2.07	64,587.50%	19.25%	15.43%
Capital Expenditures	-10.4	48.57%	-21.7	-33.02%	-22.36%	-12.25%
Cash from Operating Activities	12.1	-112.21%	97.5	-51.90%	-23.21%	-13.58%
Free Cash Flow	1.7	-101.60%	75.8	-55.49%	-23.45%	-13.94%
Total Assets	2,468.5	8.79%	2,183.1	-9.00%	-3.56%	-3.60%
Total Liabilities	1,674.6	38.76%	1,191.5	-17.47%	-6.64%	-7.72%
Total Long-Term Debt	430.7	-28.34%	438.0	-41.18%	-17.93%	-16.77%
Total Common Shares Outstanding	81.1	-14.53%	91.7	-4.54%	-2.34%	-1.86%
Market Cap	2,290.9	-38.30%	2,924.4	-4.13%	19.35%	-3.09%

Key Ratios

	29-Dec-2018	31-Dec-2017	31-Dec-2016	02-Jan-2016	03-Jan-2015
Profitability					
Gross Margin	41.14%	38.91%	38.48%	39.07%	39.34%
Operating Margin	11.25%	7.37%	8.25%	8.76%	9.82%
Pretax Margin	10.16%	-0.45%	4.43%	6.12%	6.57%
Net Profit Margin	8.60%	0.01%	3.43%	4.46%	4.72%
Financial Strength					
Current Ratio	1.83	2.97	3.09	2.87	3.06
Long-Term Debt/Equity	0.44	0.78	0.81	0.82	0.91
Total Debt/Equity	0.58	0.82	0.85	0.84	0.97
Management Effectiveness					
Return on Assets	8.41%	0.01%	3.52%	4.86%	5.08%
Return on Equity	19.90%	0.03%	8.87%	12.65%	14.70%
Efficiency					
Receivables Turnover	7.08	8.79	8.87	8.80	7.77
Inventory Turnover	4.44	4.59	3.76	3.72	3.98
Asset Turnover	0.98	0.97	1.03	1.09	1.08

Market Valuation USD (mil)				
Price/Book	3.32	.	Book Value/Share	9.68
P/E Ratio	17.45	.	Revenue/Share	25.11
Market Cap as of 27-Dec-2019	2,728.7	.	Enterprise Value as of 27	3,722.0

Business Segment Proportion



LOW RISK	Positive	Negative
Internal Organizational Attributes	Strengths	Weaknesses
	<p style="text-align: center;">Distribution and Marketing</p> <p>Wolverine has a strong distribution network. A strong distribution network helps the company to gain operational synergies and also efficiently serves its customers. A direct relation with clients helps it to regular feed-backs on their products, which in turn allows it to develop new products catered to the changing consumer preferences. Wolverine offers footwear and apparel products to its users. It provides these products through various channels that include own retail stores, outdoor specialty retailers, sporting goods chains, department stores, internet and catalog retailers, e-commerce websites, run specialty stores, sporting goods retailers, uniform specialty retailers, independent retailers, mall specialty retailers and national family footwear stores. As of December 2018, the company operated 80 retail stores with 220,000 sq. ft. area in the US and Canada, and consumer-direct websites. These cater to the needs of sailors, boaters, anglers and multi-water sports enthusiasts, police officers, security and emergency medical services workers, and light industrial occupational workers, hunters, fisherman and outdoor enthusiasts and military and civilian uniform wearers. Moreover, it markets these products through various print and radio advertisements, social media sites, event sponsorships, in-store point-of-sale (POS) displays and promotional materials which are distributed to its end users.</p>	<p style="text-align: center;">Decline in Revenue</p> <p>Wolverine exhibited a decline in financial performance in FY2018. Weak revenue performance could affect the company's ability to pursue growth and expansion plans. The company reported revenue of US\$2,239.2 million as compared to US\$2,350 million in FY2017, with an annual decline of 4.7% in revenue as compared to FY2017. This was due to the closure of retail stores and change in business model for Stride Rite at worth US\$66 million and US\$47.5 million respectively. It was also due to the loss of US\$26 million from divestiture of the Sebago brand and the sale of the Department of Defense contract business for Bates worth US\$26.1 million.</p>
	<p style="text-align: center;">Geographical Presence</p> <p>Wide geographical presence could help Wolverine to cater to a diversified customer base and generate higher revenues. It also enables the company to mitigate various economical and financial risk associated with dependence on a particular country or region. Wolverine markets and sells these products in approximately 200 countries and territories that include the US, Canada, the UK, Europe, Asia Pacific and Middle East and Africa through a network of third-party distributors, licensees and joint ventures. Geographically, Wolverine classifies its operations into four regions, namely, the US, Europe, the Middle East and Africa (EMEA), Canada and Other. In FY2018, the US accounted for 67.2% of the company's revenues, followed by EMEA (14.5%), Canada (5.2%), and Other (13%).</p>	<p style="text-align: center;">Lawsuits</p> <p>Some lawsuits filed against Wolverine could result in penalties and fines, and impact its profitability and damage its reputation. In March 2018, the residents of Kent County community, Michigan filed an allegation against Wolverine in Kent County Circuit Court. The allegation includes the company dumps its disposals of toxic waste containing PFOA and PFOS chemicals into Plaintiffs' water supplies over a period of decades and as result, those toxic waste are contaminated residential wells and drinking water in the Kent County community. The allegation also includes for diminution in property value, loss of use and enjoyment of property, remediation, alternative safe water supplies, and biomedical surveillance for early diagnosis and treatment of diseases linked to exposure to these toxic chemicals.</p>
	<p style="text-align: center;">Inventory Turnover Ratio</p> <p>The company's inventory turnover ratio improved in FY2018, leading to lower inventory turnover days, which signify that the company incurs low inventory carrying costs, enabling it to improve its operating performance. In FY2018, Wolverine reported an inventory turnover ratio of 4.4. Its inventory turnover ratio was also higher than that of its major competitors, Caleres Inc (Caleres) and Dick's Sporting Goods Inc (Dick's Sporting), which reported inventory turnover ratios of 2.8 and 3.6, respectively. Higher inventory turnover than competitors indicates that the company takes fewer days to clear its inventory. With the given turnover ratio, the company takes 83 days to sell its inventory as compared to 130 days taken by Caleres and 101 days taken by Dick's Sporting.</p>	
	<p style="text-align: center;">Operating Performance</p> <p>The company reported strong operational performance in the review year. Improved operational performance enhances investor's confidence in the company and enables it to pursue expansion plans. In FY2018, the company generated operating income of US\$251.3 million as against US\$31.6 million. The company also reported an increase in net income from US\$0.3 million in FY2017 to US\$200.1 million in FY2018. Its operating margin increased from 1.3% in FY2017 to 11.2% in FY2018. Growth in operating margin was due to efficient cost management by the company. The company's net margin increased from 0.01% in FY2017, to 8.9% in FY2018. Its operating cost as percentage of sales declined from 98.6% in FY2017 to 88.8% in FY2018.</p>	

	Opportunities	Threats
<p style="text-align: center;">External Environmental Attributes</p>	<p style="text-align: center;">Growth in Global Online Retail Market</p> <p>Wolverine stands to benefit from growing online retailing, which provides consumers the convenience of shopping from home. With the increase in interactive methods and limitless content, the retail e-commerce is growing at a faster rate. Rising internet penetration, user-friendly interface of web portals, enhanced discounts and offers, changing consumer patterns and purchasing power are driving the growth of global e-retail market. According to an in-house report, the global online retail market valued of US\$929.8 billion in 2017 and is expected to increase at a CAGR of 13.4% during 2017-22 to reach US\$1,740.8 billion by 2022. Growing number of consumers' engagement in internet coupled with rising penetration of mobile internet are majorly driven the online retail market across the globe. Category wise, electrical and electronics accounted for 32% of the total online sales globally, followed by apparel retail with 23.7%, food and grocery retails with 15.2%. Geographic wise, Asia-Pacific accounted for 37.6% of the total global online sales, followed by the US with 32% and Europe with 25.3%. The company merchandises products through various virtual space sales platforms that include www.merrell.com, www.catfootwear.com, www.hushpuppies.com, www.sebago.com, www.wolverine.com, www.chacousa.com and www.batesfootwear.com. It could further enhance its competitive position in the e-commerce market, which would help the company to enhance its sales through brand awareness and user friendly features through its websites. Besides, it will save on the operating costs, which are much lower in the online retail format as compared to physical store format. Besides the US, the company holds strong presence over 200 countries across the globe, therefore growing the global online retail market could increase the demand of company's offerings.</p>	<p style="text-align: center;">Intense Competition</p> <p>Wolverine operates in highly competitive market. Competition is generally based upon price, product performance and quality, brand, promotion, distribution and other factors. The company competes with a large number of manufacturers, marketers, wholesalers, or retailers of footwear or apparel, and consumer-direct companies. Its major competitors include Hanesbrands Inc., Aeropostale, Inc., Ascena Retail Group, Inc., Caleres, Inc., Dick's Sporting Goods, Inc., and Genesco Inc. Many of its competitors have larger market presence, financial resources, popular brand value and consumer bases, which enable them to pursue more vigorous marketing and expansion activities. Its competitors have taken several initiatives in the recent past that may create market growth risk for the company. In March 2018, Hanesbrands Inc in partnership with The LYCRA Company launched the Magic Slimming collection. The shapewear is powered by LYCRA FitSense technology that provides innovative ultra-lightweight fabric, and targeted ultra-firm control. The shapewear is suitable for women of all sizes and help them to look good due to the LYCRA FitSense technology. In January 2019, Caleres, Inc opened two new flagship stores in Chicago's and New York City. It will help Caleres to increase its customer base and geographical presence.</p>
	<p style="text-align: center;">Positive Outlook for Global Footwear Market</p> <p>Wolverine could benefit from the growing of global footwear market. Wolverine retails and distributes athletic footwear products over 200 countries worldwide. Growing global footwear market in the region could increase the demand of the company's products. The changing consumer trends in the recent past, improving global macroeconomic condition, preferences from younger generations and technological advancements in sole making are expected to be the major growth drivers driving the market. Rising disposable income levels and increased popularity for online shopping are also fueling the market. According to in-house research report, the global footwear industry market valued of US\$314.6 billion in 2017, and is expected to increase at a CAGR of 5.2% during 2017-22 to reach US\$404.6 billion by 2022. At end of FY2017, Women footwear accounted for 54% of the total market value of global footwear, followed by men's footwear with 28.3% and children's footwear with 17.8%. Geographically, Asia-Pacific accounted for 34.5% of the total market value of global footwear, followed by Europe with 29.1%, the US with 24.3%, Middle East with 1.6%, and Rest of World with 10.6% at end of 2017.</p>	<p style="text-align: center;">Labor Cost in US</p> <p>The company majorly operates in the US. Labor costs in the US have been increasing in the recent past. Rise in minimum wages could increase its operating costs, which in turn affect its profit margins. The tight labor markets, government mandated increase in minimum wages and a higher proportion of full-time employees result in an increase in labor costs. The federal minimum Labor costs are rising significantly in the US. The federal minimum wage provisions are contained in the Fair Labor Standards Act (FLSA). As of January 2019, the minimum wage rate in the US was US\$7.25 per hour. The minimum wage rate in 29 states and the District of Columbia is more than the federal rate. These wages range from US\$ 13.2 in District of Columbia, US\$12.0 in Massachusetts and Washington, US\$11.1 in Colorado, US\$11.0 in Arizona, US\$10.8 in Vermont, US\$9.9 in Arkansas, US\$8.5 in Florida, US\$8.25 per hour in Illinois. The minimum wage in the District of Columbia reached US\$13.3 per hour. Rising labor costs can increase the company's operating cost and affect its margins.</p>
	<p style="text-align: center;">Partnership Agreement with Xtep International Holdings Limited</p> <p>The company focuses on strategic agreement, which may enable it to increase its geographical presence and provide opportunity to enter in new market. In March 2019, the company entered into a partnership agreement with Xtep International Holdings Limited, a sportswear retailer in China. Under the agreement, the company will develop and markets its Merrell and Saucony products in mainland China, Hong Kong and Macau. The joint venture is planning to open new stores under the Merrell and Saucony banners, in shopping malls of China's larger cities, Hong Kong and Macau. The agreement will enable the company to expand its business and also increase presence of these brands in international market.</p>	<p style="text-align: center;">Foreign Exchange Risks</p> <p>Wolverine operates in various countries and is exposed to fluctuations in foreign exchange rates against its reporting currency. It reports financials in US dollar for accounting purposes and as such its revenue is exposed to the volatility of the reporting currency against other functional currencies such as the Euro, British pound, and Canadian dollar among others. To minimize risks from currency fluctuations, the company involves in foreign exchange hedging by entering into foreign exchange forward contracts. However, there would be no assurance that such hedging or other measures may limit the impact of movements in exchange rates on the company's results of operations. In FY2018, the company reported a loss of US\$20.5 million as compared to a gain of US\$21.1 million in FY2017 due to foreign currency translation.</p>