

Levi Strauss & Co.

Cost savings program supports margins in 2H

Reiterate Rating: NEUTRAL | PO: 16.00 USD | Price: 15.75 USD

Project FUEL to drive cost savings

We reiterate our Neutral rating as we think valuation fairly reflects the brand's momentum in DTC and ongoing challenges in wholesale. LEVI reported 4Q adj EPS of \$0.44, beating our estimate by 2c as a higher GM and a lower tax rate more than offset weaker sales in Asia. Holiday sales (Nov/Dec) increased LSD and included 9% DTC growth and positive trends in US wholesale. The company announced plans to reduce its corporate workforce by 10-15%; this is expected to generate \$100m in net savings in F24 (mostly recognized in 2H). We are lowering our F24E EPS by 7c to \$1.20 to reflect lower wholesale sales and higher SG&A; partially offset by a higher GM forecast.

How to think about F24 EPS guidance

Mgmt expects F24 EPS of \$1.15-1.25 (10% below the Street). The guidance is back half weighed driven by three main drivers: 1) \$100mn cost savings program (we estimate over 80% recognized in 2H), 2) SG&A leverage on higher sales, 3) pricing cut headwind from 2H23 rolls off in 2H24 (this was 100bp headwind in 4Q23). Mgmt guided F24 sales of +1-3% (below Street +5%), inclusive of 2pt negative impact from the Denizen brand exit, lower sales to off-price, and FX, partly offset by a 53rd week. We forecast 2.4% total sales growth in F24 and remain cautious on expecting an inflection in wholesale.

Remaining cautious on Europe

Guidance includes a cautious view on the macro environment, particularly in the US and Europe (we expect very modest growth in each region in F24). Mgmt remains cautious on European wholesale through 1H24 (4Q sales were down 10% ccy) but mentioned the pre order book is up in 2H. In terms of the impact from the Red Sea disruptions, mgmt cited they are seeing a 10-14 day increase in transit times. The company has already shifted some product to go through the West Coast ports (instead of the East) and cited potential risk to COGS if the crisis continues into 2H24.

Expanding beyond denim

LEVI continues to explore ways to diversify its product offering outside of denim, including new initiatives to add product in warmer weather markets. This includes a performance cool line, a new launch of lightweight denim, and a new "tech pant" for men. We think LEVI has cemented itself in the market as a go-to brand and we remain encouraged by the efforts to diversify the assortment.

Estimates (Nov) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	1.50	1.10	1.20	1.40	1.58
GAAP EPS	1.41	0.62	0.97	1.40	1.58
EPS Change (YoY)	2.0%	-26.7%	9.1%	16.7%	12.9%
Consensus EPS (Bloomberg)			1.33	1.54	1.90
DPS	0.43	0.48	0.47	0.47	0.47
Valuation (Nov)					
P/E	10.5x	14.3x	13.1x	11.3x	10.0x
GAAP P/E	11.2x	25.4x	16.2x	11.3x	10.0x
Dividend Yield	2.7%	3.0%	3.0%	3.0%	3.0%
EV / EBITDA*	4.0x	4.8x	4.2x	3.8x	3.4x
Free Cash Flow Yield*	-2.4%	7.4%	10.5%	24.7%	29.4%

* For full definitions of *IQmethod*SM measures, see page 6.

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Timestamp: 26 January 2024 01:07AM EST

26 January 2024

Equity

Key Changes

(US\$)	Previous	Current
2024E Rev (m)	6,408.2	6,325.5
2025E Rev (m)	6,764.4	6,613.2
2026E Rev (m)	NA	6,966.9
2024E EPS	1.27	1.20
2025E EPS	1.48	1.40
2026E EPS	NA	1.58

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Stock Data

Price	15.75 USD
Price Objective	16.00 USD
Date Established	5-Jan-2024
Investment Opinion	B-2-7
52-Week Range	12.42 USD - 19.36 USD
Mkrt Val (mn) / Shares Out (mn)	1,615 USD / 102.5
Free Float	92.6%
Average Daily Value (mn)	27.40 USD
BofA Ticker / Exchange	LEVI / NYS
Bloomberg / Reuters	LEVI US / LEVI.N
ROE (2024E)	22.1%
Net Dbt to Eqty (Nov-2023A)	87.1%
ESGMeter TM	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

DTC: direct to consumer

LSD: low single digits

iQprofileSM Levi Strauss & Co.

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	14.7%	11.3%	11.4%	11.9%	12.1%
Return on Equity	33.8%	22.3%	22.1%	22.1%	20.9%
Operating Margin	11.6%	9.0%	10.1%	10.9%	11.5%
Free Cash Flow	(39)	120	169	399	474

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.4x	1.0x	1.0x	1.2x	1.2x
Asset Replacement Ratio	1.7x	1.9x	1.6x	1.5x	1.4x
Tax Rate	11.7%	9.3%	17.0%	17.0%	17.0%
Net Debt-to-Equity Ratio	86.7%	87.1%	77.7%	57.7%	40.0%
Interest Cover	27.8x	12.1x	14.2x	15.9x	17.8x

Income Statement Data (Nov)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	6,169	6,179	6,325	6,613	6,967
% Change	7.0%	0.2%	2.4%	4.5%	5.3%
Gross Profit	3,552	3,516	3,685	3,869	4,093
% Change	6.5%	-1.0%	4.8%	5.0%	5.8%
EBITDA	872	720	825	922	1,021
% Change	1.9%	-17.4%	14.5%	11.8%	10.7%
Net Interest & Other Income	(29)	(69)	(61)	(41)	(41)
Net Income (Adjusted)	604	441	481	563	633
% Change	0.5%	-27.1%	9.3%	16.9%	12.4%

Free Cash Flow Data (Nov)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	569	249	389	563	633
Depreciation & Amortization	159	165	183	203	218
Change in Working Capital	(550)	(109)	(188)	(141)	(149)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	50	129	74	74	73
Capital Expenditure	(267)	(316)	(290)	(300)	(300)
Free Cash Flow	-39	120	169	399	474
% Change	NM	NM	40.8%	136.0%	19.0%
Share / Issue Repurchase	(176)	(8)	0	0	0
Cost of Dividends Paid	(174)	(191)	(190)	(190)	(190)
Change in Debt	0	0	0	0	0

Balance Sheet Data (Nov)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	430	399	377	586	870
Trade Receivables	697	753	883	995	1,122
Other Current Assets	1,701	1,486	1,552	1,625	1,704
Property, Plant & Equipment	623	681	787	884	967
Other Non-Current Assets	2,587	2,735	2,735	2,744	2,755
Total Assets	6,038	6,054	6,335	6,834	7,417
Short-Term Debt	0	13	13	13	13
Other Current Liabilities	1,746	1,530	1,538	1,591	1,658
Long-Term Debt	2,079	2,168	2,168	2,168	2,168
Other Non-Current Liabilities	309	297	297	297	297
Total Liabilities	4,134	4,007	4,015	4,068	4,136
Total Equity	1,904	2,046	2,319	2,765	3,281
Total Equity & Liabilities	6,038	6,054	6,335	6,834	7,417

* For full definitions of iQmethodSM measures, see page 6.

Company Sector

Retailing-Softline

Company Description

Levi's designs, markets and distributes products that include jeans, casual and dress pants, tops, shorts, skirts, jackets, footwear and related accessories for men, women and children globally. The company owns and operates the Levi's, Dockers, Signature by Levi Strauss & Co, Denizen, and Beyond Yoga brands.

Investment Rationale

Our Neutral rating reflects our belief that LEVI is well positioned to benefit from structural margin improvements over the longer term but near term challenges such as a slowdown in denim demand keep the risk/reward balanced.

Stock Data

Average Daily Volume

1,739,626

Quarterly Earnings Estimates

	2023	2024
Q1	0.34A	0.21E
Q2	0.04A	0.14E
Q3	0.28A	0.34E
Q4	0.44A	0.50E

**Exhibit 1: LEVI Income Statement**

We forecast F24 EPS of \$1.20

LEVI Income Statement	2023	1Q24E Feb-24	2Q24E May-24	3Q24E Aug-24	4Q24E Nov-24	2024E	1Q25E Feb-25	2Q25E May-25	3Q25E Aug-25	4Q25E Nov-25	2025E	1Q26E Feb-26	2Q26E May-26	3Q26E Aug-26	4Q26E Nov-26	2026E
Americas	\$3,086.9	\$687.2	\$711.3	\$788.8	\$930.8	\$3,118.1	\$719.9	\$741.8	\$822.6	\$951.5	\$3,235.8	\$754.8	\$774.2	\$858.5	\$992.5	\$3,380.0
Europe	1,579.5	443.9	360.4	383.9	396.6	1,584.9	454.2	371.6	395.2	400.9	1,621.9	467.9	383.1	406.9	413.3	1,671.2
Asia	1,059.7	295.8	272.7	261.7	293.5	1,123.7	321.1	300.9	287.9	318.0	1,227.9	354.0	332.2	316.9	351.0	1,354.0
Total Levi's Brands net revenues	5,726.1	1,426.9	1,344.4	1,434.4	1,620.9	5,826.6	1,495.2	1,414.3	1,505.7	1,670.4	6,085.7	1,576.7	1,489.5	1,582.2	1,756.8	6,405.2
Other Brands (Dockers post 1Q19, Beyond Yoga post 4Q21)	452.9	132.7	115.2	124.9	126.0	498.8	140.9	122.5	132.8	131.2	527.5	149.9	130.6	141.6	139.6	561.7
Net revenues	\$6,179.0	\$1,559.6	\$1,459.6	\$1,559.3	\$1,746.9	\$6,325.5	\$1,636.1	\$1,536.8	\$1,638.5	\$1,801.7	\$6,613.2	\$1,726.6	\$1,620.1	\$1,723.8	\$1,896.4	\$6,966.9
Cost of goods sold	2,663.3	666.1	610.7	661.8	701.8	2,640.3	694.6	639.1	691.3	719.3	2,744.4	728.7	669.7	723.0	752.4	2,873.8
Gross profit	3,515.7	893.6	849.0	897.5	1,045.1	3,685.2	941.5	897.7	947.2	1,082.4	3,868.8	997.8	950.4	1,000.8	1,144.1	4,093.1
Selling, general and administrative expenses	2,961.1	775.5	764.6	716.3	787.6	3,044.0	799.3	791.8	748.4	809.9	3,149.4	835.0	827.3	781.3	846.1	3,289.7
Goodwill & intangible asset impairment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Operating income	554.6	118.0	84.4	181.3	257.6	641.2	142.2	105.9	198.8	272.5	719.4	162.9	123.0	219.5	298.0	803.5
Interest expense	(45.9)	(11.3)	(11.3)	(11.3)	(11.3)	(45.2)	(11.3)	(11.3)	(11.3)	(11.3)	(45.2)	(11.3)	(11.3)	(11.3)	(11.3)	(45.2)
Loss on early extinguishment of debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other income (expense), net	(23.2)	(4.0)	(4.0)	(4.0)	(4.0)	(16.0)	1.0	1.0	1.0	1.0	4.0	1.0	1.0	1.0	1.0	4.0
Income before income taxes	485.5	102.7	69.0	166.0	242.3	580.0	131.9	95.5	188.5	262.2	678.2	152.6	112.7	209.3	287.7	762.2
Income tax expense	45.0	17.5	11.7	28.2	41.2	98.6	22.4	16.2	32.1	44.6	115.3	25.9	19.2	35.6	48.9	129.6
Tax rate	9.3%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%
Net income	440.5	85.2	57.3	137.8	201.1	481.4	109.5	79.3	156.5	217.6	562.9	126.6	93.6	173.7	238.8	632.6
Net loss attributable to noncontrolling interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net income	440.5	85.2	57.3	137.8	201.1	481.4	109.5	79.3	156.5	217.6	562.9	126.6	93.6	173.7	238.8	632.6
Adjusted EPS	\$1.10	\$0.21	\$0.14	\$0.34	\$0.50	\$1.20	\$0.27	\$0.20	\$0.39	\$0.54	\$1.40	\$0.32	\$0.23	\$0.43	\$0.59	\$1.58
Diluted weighted avg. shares outstanding	400.1	401.6	401.6	401.6	401.6	401.6	401.6	401.6	401.6	401.6	401.6	401.6	401.6	401.6	401.6	401.6
Share repurchase price		\$17.00	\$17.00	\$17.00	\$17.00		\$17.00	\$17.00	\$17.00	\$17.00		\$17.00	\$17.00	\$17.00	\$17.00	
% change y/y																
Sales	0.2%	-7.7%	9.2%	3.2%	6.4%	2.4%	4.9%	5.3%	5.1%	3.1%	4.5%	5.5%	5.4%	5.2%	5.3%	5.3%
SG&A	4.3%	2.4%	1.6%	2.1%	5.1%	2.8%	3.1%	3.6%	4.5%	2.8%	3.5%	4.5%	4.5%	4.4%	4.5%	4.5%
Operating income	-22.2%	-36.3%	167.8%	31.5%	28.7%	15.6%	20.5%	25.5%	9.7%	5.8%	12.2%	14.5%	16.2%	10.4%	9.4%	11.7%
Net income	-27.1%	-36.7%	277.0%	23.0%	12.6%	9.3%	28.4%	38.4%	13.6%	8.2%	16.9%	15.6%	18.0%	11.0%	9.7%	12.4%
EPS	-26.4%	-36.9%	273.2%	22.8%	12.6%	8.9%	28.4%	38.4%	13.6%	8.2%	16.9%	15.6%	18.0%	11.0%	9.7%	12.4%
Margins																
Gross margin	56.9%	57.3%	58.2%	57.6%	59.8%	58.3%	57.5%	58.4%	57.8%	60.1%	58.5%	57.8%	58.7%	58.1%	60.3%	58.8%
bp change y/y	(69)	150	(50)	200	200	136	25	25	25	25	24	25	25	25	25	25
vs '19	308															
SG&A ratio	47.9%	49.7%	52.4%	45.9%	45.1%	48.1%	48.9%	51.5%	45.7%	45.0%	47.6%	48.4%	51.1%	45.3%	44.6%	47.2%
bp change y/y	190	490	(392)	(50)	(56)	20	(88)	(86)	(26)	(13)	(50)	(49)	(46)	(35)	(34)	(40)
SG&A	4.3%	2.4%	1.6%	2.1%	5.1%	2.8%	3.1%	3.6%	4.5%	2.8%	3.5%	4.5%	4.5%	4.4%	4.5%	4.5%
Operating margin	9.0%	7.6%	5.8%	11.6%	14.7%	10.1%	8.7%	6.9%	12.1%	15.1%	10.9%	9.4%	7.6%	12.7%	15.7%	11.5%
bp change y/y	(259)	(340)	342	250	256	116	113	111	51	38	74	74	71	60	59	65

Source: BofA Global Research estimates, company reports

BofA GLOBAL RESEARCH

Price objective basis & risk

Levi Strauss & Co. (LEVI)

Our \$16 PO is based on a 8.5x EV/EBITDA multiple on our F2024 estimates. This is in line with peers given similar headwind and long term margin potential as peers.

Upside risks: better-than-expected margin expansion, higher consumer demand drives significantly higher sales and earnings growth, and a faster than expected recovery in denim.

Downside risks: fashion trends shift away from denim and the Levi's brand, the consumer environment materially weakens, promotions weighs on margins, and the company needs to ramp spending to drive brand momentum.

Analyst Certification

I, Christopher Nardone, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Softline Retailing and Dept Stores Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Bath & Body Works Inc	BBWI	BBWI US	Lorraine Hutchinson, CFA
	Burlington Stores	BURL	BURL US	Lorraine Hutchinson, CFA
	Crocs, Inc.	CROX	CROX US	Christopher Nardone
	Deckers Outdoor Corp	DECK	DECK US	Christopher Nardone
	European Wax Center	EW CZ	EW CZ US	Lorraine Hutchinson, CFA
	lululemon athletica Inc	LULU	LULU US	Lorraine Hutchinson, CFA
	Oddity Tech	ODD	ODD US	Lorraine Hutchinson, CFA
	PVH Corp	PVH	PVH US	Christopher Nardone
	Ralph Lauren	RL	RL US	Christopher Nardone
	Ross Stores Inc	ROST	ROST US	Lorraine Hutchinson, CFA
	Tapestry Inc.	TPR	TPR US	Lorraine Hutchinson, CFA
	TJX Companies	TJX	TJX US	Lorraine Hutchinson, CFA
	Urban Outfitters	URBN	URBN US	Lorraine Hutchinson, CFA
	Victoria's Secret & Co	VSCO	VSCO US	Alice Xiao
NEUTRAL				
	American Eagle	AEO	AEO US	Christopher Nardone
	Birkenstock	BIRK	BIRK US	Lorraine Hutchinson, CFA
	FIGS, Inc.	FIGS	FIGS US	Alice Xiao
	Foot Locker	FL	FL US	Lorraine Hutchinson, CFA
	Levi Strauss & Co.	LEVI	LEVI US	Christopher Nardone
	Nike	NKE	NKE US	Lorraine Hutchinson, CFA
	Signet Jewelers	SIG	SIG US	Lorraine Hutchinson, CFA
	Ulta Beauty	ULTA	ULTA US	Lorraine Hutchinson, CFA
	Under Armour Inc	UAA	UAA US	Lorraine Hutchinson, CFA
UNDERPERFORM				
	Aritzia	YATZ	ATZ CN	Alice Xiao
	Aritzia	ATZAF	ATZAF US	Alice Xiao
	Carter's Inc	CRI	CRI US	Christopher Nardone
	Gap Inc.	GPS	GPS US	Lorraine Hutchinson, CFA
	Kohl's	KSS	KSS US	Lorraine Hutchinson, CFA
	Nordstrom	JWN	JWN US	Lorraine Hutchinson, CFA
	Revolve	RVLV	RVLV US	Alice Xiao
	V F Corp	VFC	VFC US	Lorraine Hutchinson, CFA
RSTR				
	Macy's	M	M US	Lorraine Hutchinson, CFA



iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

$\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} +$

Other LT Liabilities

Enterprise Value

Denominator

$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill}$

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

$\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$

Sales

Basic EBIT + Depreciation + Amortization

iQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

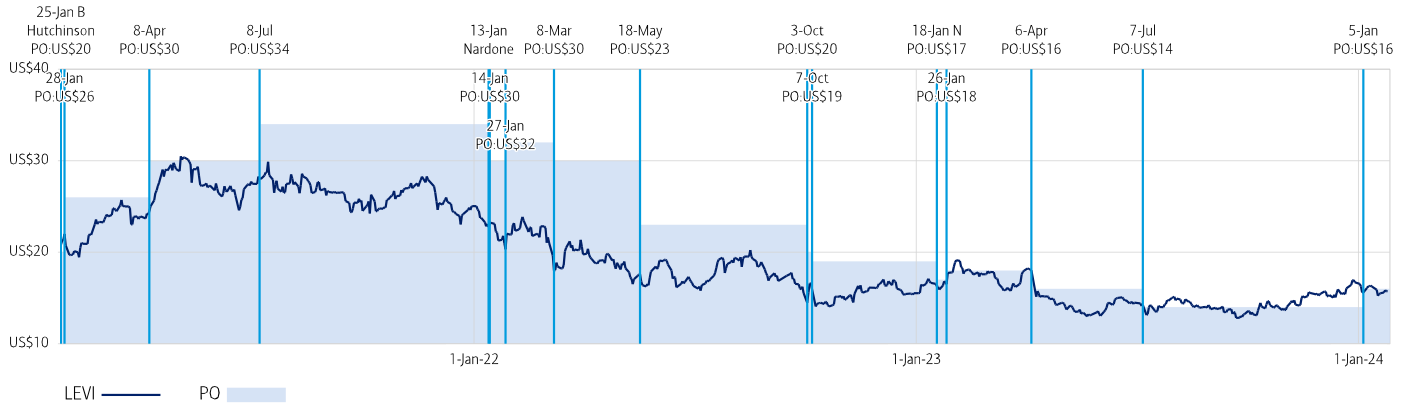
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Disclosures

Important Disclosures

Levi Strauss (LEVI) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Retailing Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	96	57.83%	Buy	39	40.63%
Hold	32	19.28%	Hold	12	37.50%
Sell	38	22.89%	Sell	18	47.37%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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