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VF Corp. (VFC)

Q2 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Hello and welcome to the VF Corporation's Second Quarter Fiscal 2021 Earnings Conference Call. At this time, all participants are in a listen-only mode. [Operator Instructions] A question-and-answer session will follow the formal presentation. As a reminder, this conference is being recorded.

It's now my pleasure to introduce your host, Joe Alkire, Vice President, Investor Relations, Corporate Development and Treasury. Please go ahead, sir.

Joe Alkire

Vice President-Corporate Development, Treasury & Investor Relations, VF Corp.

Good morning and welcome to VF Corporation's second quarter fiscal 2021 conference call. Participants on today's call will make forward-looking statements. These statements are based on current expectations and are subject to uncertainties that could cause actual results to differ materially. These uncertainties are detailed in documents filed regularly with the SEC.

Unless otherwise noted, amounts referred to on today's call will be on an adjusted constant dollar basis which we define in the press release that was issued this morning. We use adjusted constant dollar amounts as lead numbers in our discussion because we believe they more accurately represent the true operational performance and underlying results of our business.

You may also hear us refer to reported amounts which are in accordance with US GAAP. Reconciliations of GAAP measures to adjusted amounts can be found in the supplemental financial tables included in the release which identify and quantify all excluded items and provide management's view of why this information is useful to investors.

During the fourth quarter of 2020, the company determined that the Occupational Workwear business met the held-for-sale and discontinued operations accounting criteria. Accordingly, the company has reported the related assets and liabilities of the Occupational Workwear business in discontinued operations as of the date noted above and included the operating results of this business in discontinued operations for all periods presented. Unless otherwise noted, results presented on today's call are based on continuing operations.

Joining me on today's call will be VF's Chairman, President, and CEO, Steve Rendle; and CFO, Scott Roe. Following our prepared remarks, we'll open the call for questions. Steve?

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

Thanks, Joe, and good morning everyone. Welcome to our second quarter call. As always, I hope my comments this morning find you and your loved ones healthy and safe. For those of you that have stayed close to the VF story, you are familiar with our now and next approach in navigating the most challenging days of the pandemic while also preparing ourselves to emerge stronger within what we believe will be a new normal environment.

While the global pandemic continues and certain geopolitical uncertainties persist, I believe we're officially entering the next. That isn't to say the challenges brought about by the global pandemic are behind us. In fact, we expect the impact of this crisis to be prolonged, requiring us to remain agile and adaptable to whatever may come our way. We should accept that uncertainty, change, and the need to operate in an increasingly volatile world is what the next is all about, and it presents great opportunity for our company and our strong portfolio of brands. Fortunately, because of the continued dedication, commitment and perseverance of our associates across the enterprise, we are entering the next from a position of strength.

Throughout today's call, I hope you can sense that we are pleased with the stabilization and early recovery we're beginning to see across the entirety of our business. And with this confidence, we have decided to increase our dividend for the 48th consecutive year. We are increasingly confident with our positioning as we head into the next year and the opportunity to drive our portfolio against our long-term vision and commitment to top quartile value creation. Our success is anchored in our strong financial underpinnings, evident in how we've managed the heightened uncertainty of the past 10 months.

VF has always been known for its industry-leading operational rigor and financial discipline. Our proactive measures to protect our people, strengthen liquidity, manage inventories and prudently control discretionary spending have allowed us to continue investing in what matters most in this environment, the capabilities required to ensure that our consumers not only transact directly with us but that we can maintain ongoing direct relationships with them, further strengthening the affinity they have for our brands. We're using our position of strength to continue playing offense to ensure we are able to regain the strong momentum we had heading into the crisis. We are focusing our investments behind our transformation to become more consumer-minded, retail-centric and hyper-digital in everything we do.

Our investment priorities for this year balance near-term brand-specific initiatives with longer-term enterprise-wide platform investments that create leveraged capabilities to deliver greater value. These priorities were pressure-

tested during the early days of the pandemic, and we quickly aligned on the right mix of priorities to maintain strong near-term momentum while we execute our plan for long-term value creation.

The long-term strategic vision guiding our actions is not new. It was set in motion nearly four years ago with the launch of our strategy, and I'm pleased with how far we've come on our transformation journey. Through thoughtful and disciplined investments in talent, digital infrastructure and ongoing strategic repositioning over the past four years, we have evolved VF from a wholesale-dominated business with only 5% digital revenue to a streamlined portfolio with over 40% D2C and more than 25% total digital penetration.

The evolution of our business has been accelerated through active portfolio management which will continue to be our first strategic priority. Following the divestiture of our Occupational Workwear portfolio, our operating model simplifies further to 12 brands with the greatest capacity to thrive in our hyper-digital retail-centric enterprise, yet another milestone in VF's strategic and disciplined portfolio transformation.

Scott will cover our Q2 results and full year outlook in more detail, but I'd like to share a few highlights around two of our most critical strategic pillars, digital and China. Looking back at the building blocks of our 2024 plan, over half of VF's planned revenue and earnings growth over the five-year period came from these two growth drivers. We knew entering this crisis that digital and China would help us weather the storm and drive accelerated growth on the other side. As the year has progressed, we continue to gain confidence from the momentum of these key growth engines. Our digital businesses grew 42% in the quarter with strength across regions and brands. We also continue to see strength in key digital wholesale accounts, particularly internationally. Together with digital pure-play wholesale, our total digital penetration was nearly 25% in the quarter.

I'd like to spend a few minutes unpacking our digital momentum across our largest brands. Vans digital business grew 49% as the brand continues to engage with consumers by providing new content and activities to deepen consumer connectivity through purpose and creativity. The brand's deep connection is reflected in continued improvements in loyalty and member engagement. The portion of Vans Family members transacting on Vans.com has doubled relative to Q2 last year with loyalty members accounting for nearly half of US D2C sales. Continued advancement in the customs platform also remains a differentiator for the brand, enabling more unique creative journeys of co-creation with our consumers, driving significant increases in dwell time and engagement. Coming next month, Vans will be the first major global brand to offer customization on Tmall, a testament to the scale and sophistication of the customs platform and the strength of Vans' relationship with one of our most valued digital partners.

The North Face also saw strong digital growth across regions, up 40% globally. The brand continued to connect with consumers through engaging, purpose-led marketing activations including The North Face Summer Base Camp, Walls Are Meant For Climbing and The North Face Girl Scouts partnership. Recent high-profile collabs including the announcement of our first-ever collaboration with Gucci also contributed to brand heat and engagement. Digital loyalty members increased over 20% as the brand continues to attract new female and younger consumer cohorts.

Timberland's digital business increased 62% in the quarter. In the Americas, recent high-profile influencer adoption and the Jimmy Choo collaboration contributed to strong brand interest over the quarter, driving 90% consumer acquisition growth with our data platform. We are encouraged by the brand's recent momentum including the brand heat outside of just core classics. The brand delivered a successful non-classics digital launch in China called My First Eco Kicks Madbury campaign which drove a nearly 270% increase in traffic on Tmall during the event.

And finally, Dickies generated 34% digital growth with momentum from both core work and work-inspired categories. Brand interest accelerated in the quarter to multi-year highs supported by engaging online maker workshops and the launch of the brand's first-ever global campaign, United by Dickies. Collectively, our big four brands achieved digital growth of nearly 50% this quarter. The brands' continued momentum in addition to ongoing improvements in digital consumer engagement give us confidence in our fiscal 2021 target of greater than 40% digital growth and 25% digital penetration for the year.

Moving on to China which we continue to view as the leading indicator for the recovery path of our other regions. Our business returned to positive growth in Mainland China last quarter and has accelerated to 19% in Q2, driving our Asia Pacific region to overall positive growth. Consumer resilience and confidence remains strong particularly with brands able to engage in new and effective ways through digital channels and through an elevated brick-and-mortar shopping experience. Our performance in China was led by 25% growth at Vans and nearly 60% growth at Dickies. We're also excited about the appointment of Winnie Ma as our first President of Greater China. Winnie's deep experience in the region and understanding of the Chinese consumer will help us accelerate our growth strategy in this fast-paced, digitally-driven marketplace. China presents a tremendous opportunity for VF and our brands, and Winnie is an ideal leader to drive this growth.

Moving on to the global consumer. It is evident that secular trends in fitness, health and wellness; casualization and the desire to get outdoors and live an active lifestyle are accelerating. Our portfolio of brands sits at the epicenter of these fundamental tailwinds which will be a meaningful contributor to growth in the years to come. Our consumer insights are also increasingly pointing to another fundamental change which may be less apparent to those outside of our sector. Consumers are increasingly expecting brands to use their business as a force for good. Consumers are prioritizing purchases that align with their values. Our research shows that over two-thirds of millennials and Gen Z have changed their purchasing habits due to climate change. And by 2027, we believe this generation will account for two-thirds of apparel and footwear revenue in the US. The combination of our exposure to large, growing addressable markets as well as our brands' purpose-led positioning give the VF portfolio a unique opportunity to thrive in this evolving consumer environment.

The F&R brands continued to take a leadership position within our industry on matters related to inclusion, diversity and racial equity. We recently published our second annual inclusion and diversity annual profile which I encourage you to review on our website. Additionally, our brands are stepping up and activating their own programs to address racism and engage their consumers in the process. The Vans brand recently announced their specific commitments; and the Timberland brand just began communicating their own initiative, Operation: Purpose, which focuses on four pillars to fight systemic racism inside the workplace and the community at large – people, community, design education and entrepreneurship. I'm incredibly proud of the way VF and our brand teams have responded to the racial and social issues that plague our world. I look forward to providing continued updates on the progress and positive impact we make.

Before concluding my prepared remarks, I want to provide some additional context to the organizational structure announcement made earlier this week. Given our continued focus on our transformation, we're taking steps to further refine our operating model to become an integrated brand-building company. As we do this, we know that our brands' success requires differentiated approaches based on the unique profiles and opportunities.

To support this work, we're evolving our organizational framework and have begun to map our leadership to the structure of core brands and emerging brands. Core brands, traditionally referred to as our global brands, are large brands that are significant financial drivers for VF. Vans, The North Face and Timberland are VF's core brands today. Emerging brands are brands that present strong potential to become a core brand by accelerating

consumer acquisition and loyalty through differentiated growth strategies and capabilities, geographies and new categories.

It has become evident over time that emerging brands require a more agile operating model than our largest brands. They require a different playbook driven by an emphasis on continuous learning and testing. We see our emerging brands as being the ideal proving ground for VF in terms of consumer, product and talent strategies.

These organizational actions are an important beginning to what we're calling Project Enable, a multi-year initiative designed to enable our ability to accelerate and advance our business model transformation and position ourselves to drive long-term growth for all of our brands. We'll do this by evolving the organizational designs for our enterprise-led functions and core and emerging brands to ensure we have the right structures, capabilities, resources and talent in the right place to propel us forward.

One of the key objectives of Enable is to deliver global cost savings of about \$125 million over a three-year period. These savings will be used to fuel our transformation agenda and the highest-priority growth drivers. We're highly confident that these changes and our strong group of leaders will help us move forward toward this vision.

And now, I'll turn it over to Scott.

Scott A. Roe

Executive Vice President & Chief Financial Officer, VF Corp.

Thanks, Steve, and good morning, everyone. With the first half of our fiscal year behind us, I'm proud of our execution and optimistic about the stabilization and early signs of recovery we see across our business. Our year-to-date results have surpassed our internal expectations across all brands, driven by our key growth pillars: digital and China. We have a great handle on inventories, both owned and across the wholesale marketplace. And last, but not least, we continue to see strong engagement between our brands and a relatively resilient global consumer.

We were quick to act in the early days of the pandemic to put our people first, strengthen liquidity, manage costs and tightly control inventories, thus positioning our brands to exit this period of disruption in an advantaged position. Our financial and operational discipline has provided VF with the ability to continue to invest in consumer engagement and product newness throughout this crisis while rolling out critical omni-channel capabilities ahead of the fall holiday season.

Before covering the details of our second quarter, I'd like to spend a few minutes on the current state of our business and operating environment by region. I'll start with APAC. China continues to lead our recovery, growing 14% in the quarter, including 19% in the Mainland, as our stores were essentially open throughout the period. Our relationships with partners in the regions remain strong, and we continue to expand partner doors in Mainland China led by Dickies and Vans.

We continue to enhance the synergies between our brands and our digital wholesale partners, continuously developing our digital ecosystem in the region to elevate the shopper experience and seamless online to offline integration.

We are pleased with the steady recovery in EMEA, where most markets outperformed expectations in Q2. Our retail business returned to growth, with D2C up 6%, led by 54% growth in digital, as our stores have fully reopened. Traffic remains depressed across countries, but we continue to see much stronger in-store conversion.

During the quarter, we continued our rollout of omni-channel capabilities, activating ship-from-store and buy online, pick up in-store at Vans, Timberland and The North Face. We continue to see sell-through momentum building in the region, particularly at Vans and TNF, giving us further confidence about our positioning heading into holiday.

And finally, in the Americas, we're pleased to see stores essentially fully opened for the first time since mid-March. By the end of Q2, only 19 doors remained closed in LA County. Traffic remains challenged. However, productivity was strong and we're encouraged by continued momentum in our digital business in the region.

Americas digital growth grew 45% in Q2, but accelerated in September to over 60% as we began to enter the critical Q3 holiday period. Ship-from-store functionality was activated across 200 Vans stores and all TNF full-price stores in late August. Buy online, pick up in-store and curbside pickup capabilities have also been implemented in certain stores with promising early results.

We're pleased with our progress in rolling out these capabilities as consumers increasingly expect this functionality heading into the holiday season. We're also encouraged by the performance of the Americas wholesale business during the quarter with sell-through trends accelerating across the big four brands.

Our key accounts remain healthy and the channel inventory levels have progressed ahead of our initial planning, which should be a positive setup heading into Q3 as well as for next year's fall order book.

So moving on to other Q2 financial highlights. As expected, the back-to-school environment was uneven and our brands experienced limited disruption due to the timing of inventory receipts. However, we were pleased with the underlying sequential improvement as the quarter progressed.

Total revenue declined 19%, which exceeded our expectations of down less than 25% for the quarter. Total D2C declined 17%, driven by store closures and weaker back-to-school traffic. Our own digital business grew 42%, with broad-based strength across the portfolio. For example, our big four brands collectively grew 47% and our key emerging brands saw over 50% digital growth this quarter.

Our brick-and-mortar wholesale business is also progressing ahead of expectations as a result of stronger than expected sell-through and an earlier anticipated start to holiday selling window. Our brands continue to successfully navigate some modest supply delays which impact the cadence of our business.

As expected, gross margin contracted 350 basis points to 50.9%, driven by promotional activity and a 110-basis point headwind from the timing of net FX transaction activity. Mix represented a 50-basis point headwind due to wholesale timing noise, which is unique to this quarter. We still expect the mix benefit for the full year to be two times our normal structural long-term target, primarily due to our accelerated digital penetration this year. We still expect a somewhat elevated promotional environment in the second half of the year with margins stabilizing by year-end.

SG&A declined about 14% in Q2, supporting a roughly 40% earnings flow-through on the revenue declines, in line with our guidance from the last call. Consistent with our earlier comments, we're taking advantage of our position of financial stability to invest ahead of revenue to support a greater acceleration in the business. Given the stability we see across the portfolio today, we expect this investment philosophy to remain in place as we enter the second half of the year.

Our inventories declined 10% during the quarter, slightly better than expectations. We're pleased with the progress made across both owned and channel inventories through the first half of the fiscal year and are confident with our inventory positioning heading into the fall holiday period.

As we covered in our last call, we've been thoughtful with our forward inventory commitments this year, infusing appropriate innovation and newness into our fall holiday product offerings while ensuring we exit this year in a clean and healthy position. While this may ultimately cost the sales in the current year, we believe this is the right approach, given the uncertain environment and an appropriate investment in brand equity and gross margins going forward.

As I alluded to earlier, we continue to experience supply disruptions which, at times, present shipping timing delays. However, we have seen sequential improvement over the course of the year and expect delivery timing to be largely normalized by year-end.

We have plans in place to manage peak holiday deliveries and are generally pleased with our inventory levels in the marketplace today. And we're confident in our ability to exit fiscal 2021 with the appropriate inventory levels to service our forward growth plans.

Our liquidity positioning remains strong with approximately \$2.7 billion of cash and short-term investments in addition to over \$2.2 billion remaining undrawn on our revolver. We still expect to generate at least \$600 million of adjusted free cash flow this year and for the sale of Occupational Workwear to add additional liquidity over the coming months. Our capital allocation priorities remain unchanged, supported by our robust liquidity position. We remain fully committed to our dividend which continues to be an integral part of our TSR model and a differentiator in our space. As you likely saw in our release, we're raising our dividend to \$0.49 per share, payable in December. This marks VF's 48th consecutive year of dividend increases and underscores our confidence in the future.

And while the dividend remains a critical part of our ongoing TSR algorithm, M&A remains our top capital allocation priority. And given our excess liquidity position and the stability we observe across the business today, our confidence to execute an acquisition is clearly greater today than it was just a few months ago. We will remain prudent and disciplined guided by our three-lens approach and focus on delivering top-quartile TSR. And as a reminder, our share repurchase program remains suspended to preserve optionality.

Moving on to our fiscal 2021 financial outlook. While the operating environment remains uncertain, our performance through the first half, coupled with increased visibility, gives us more confidence in the stability and trajectory of the business. We, therefore, are providing a more detailed outlook for this year, assuming no material deterioration in current business conditions due to COVID. We expect our business to continue to sequentially improve in Q3 and return to growth in Q4. And for the full year, we expect revenue of at least \$9 billion and adjusted EPS of at least \$1.20, and we continue to expect adjusted free cash flow of at least \$600 million.

Across the brands, we expect Vans to decline at a low double-digit rate, implying at least high-single-digit growth in the second half. We also expect TNF to decline at a low double-digit rate for the year, implying low single-digit growth in the second half. We forecast Timberland to decline at a high-teen rate for the year with continued sequential improvement through the back half. Finally, we expect Dickies to increase at a high single-digit rate in fiscal 2021, implying at least low double-digit growth in the second half.

As we head into the balance of the fiscal year, several fundamentals give me confidence in the underlying health of our model and our ultimate ability to exit this crisis in an advantaged position. First, accelerating tailwinds in our

core categories, active, outdoor and work. Second, continued broad-based momentum in China and across the digital channel, driving an acceleration across our big four brands coupled with continued strength in consumer engagement. Third, clean inventory levels across our channels of distribution. And finally, our excess liquidity position providing optionality both for continued organic investment and M&A.

The strategy we laid out one year ago in Beaver Creek remains the playbook for success in a post-COVID world, an aggressive digital transformation focused on direct consumer engagement, concentrated exposure to growing structurally-attractive addressable markets, and a commitment to continuous reshaping of the brand portfolio to accelerate our strategy. While we don't know how much longer this current period of disruption will last, we are confident in our ability to ultimately return to our long-term algorithm on the other side of this crisis.

So now, I'll turn the call over to the operator for Q&A.

QUESTION AND ANSWER SECTION

Operator: Thank you. We'll now be conducting a question-and-answer session. [Operator Instructions] Our first question today is coming from Jonathan Komp from Baird. Your line is now live.

Jonathan Robert Komp

Analyst, Robert W. Baird & Co., Inc.

Q

Yeah. Hi. Thanks and good morning. Want to first ask just given the comments about September that you made, any chance you could shape the third quarter, what you're thinking in terms of a sequential improvement a little bit better for us? And then maybe more broadly, looking into fiscal 2022, given the trajectory you're implying for the fourth quarter, can you help share any thoughts on how you're going to balance kind of the pace of the top line recovery with the need to invest but also to show a nice recovery on the bottom line and maybe tie that in with the new Project Enable dynamics that you mentioned?

Scott A. Roe

Executive Vice President & Chief Financial Officer, VF Corp.

A

Good morning, Jonathan. Looks like I'm right out of the box here, so happy to take that. So first of all, the question was around Q3 shaping for the year. We didn't give specific guidance on Q3, but I'll just go through what we did say, and I think this will get you pretty close. So the top line we talked about, at least \$9 billion, implies low single-digit second half growth. And we said we would return to growth in the fourth quarter, so from that you can imply kind of a trend line in how you balance that between Q3 and Q4.

As it relates to gross margins, we said they'd be about flat by the fourth quarter and progressively improving. We talked about the mix will be there for the year about two times what we've seen from our normal 40 to 50-basis point structural advantage that we see from mix. And promotional headwinds have begun to abate, and we'll see that continuing through the balance of the year. So that should give you some color on gross margin.

We talked about SG&A being flat in the second half, and that includes additional investments that we've made to continue the momentum and really build on the momentum as we exit from the COVID period in the back half of the year; as Steve says, the next period. And finally, \$1.20 from an earnings standpoint implies about a 40% flow-through for the full year. So I think within that, Jonathan, you've got a lot of the data that you need to get the shape. And if not, then John and Mallory can take you through that in more details.

I think the second part of your question was around the desire to invest versus earnings. And again, we've given you a shape in terms of what you can expect, at least \$1.20 from an earnings standpoint. And hopefully, what our prepared remarks have given you some context on is we – while we are cutting costs in what we would call discretionary costs in the short-term, we're also leaning in on our transformation agenda. And with that \$30 million additional investment based on the additional confidence we have, we're leaning in a little, even a little harder right now on those investments primarily around our digital transformation, digital demand creation, etcetera, that we believe are going to give us continued momentum as we exit this year and enter next year. We haven't really given you any guidance on 2022 so stay tuned for that.

And the last question was around Enable. Steve talked about what Enable is about. It's really – I don't need to repeat that in terms of not just layering on our digital investments but really repurposing and rethinking our organization fundamentally. We talked about a target of \$125 million over a three-year period; what we haven't done is broken that down for you by year. What you should know, though, is that as we think about the transformation, the ongoing leverage as we combine working smarter and rethinking the way in which we organize coupled with the growth that we see longer-term will allow leverage and margin expansion over time. So that's probably as much as I can give you on that right now, Jonathan.

Jonathan Robert Komp

Analyst, Robert W. Baird & Co., Inc.

Q

Yeah, great. All right. Thanks, Scott. Appreciate all the color.

Scott A. Roe

Executive Vice President & Chief Financial Officer, VF Corp.

A

Yes. Happy to do it.

Operator: Thank you. Our next question today is coming from Omar Saad from Evercore ISI. Your line is now live.

Omar Saad

Analyst, Evercore ISI Group

Q

Good morning. Thanks for taking my question and thanks for all the updates. Steve and Scott, I wanted to ask you guys this moment we're having in outdoor. Is this a once in a lifetime opportunity? Should you guys really be accelerating your marketing given your outdoor exposure across your brand portfolio to really take advantage of this moment in time where people are spending so much time outside? That's my first question.

And then I also wanted to kind of ask for an update on North Face, the management changes there. Any sort of additional color around Arne who's been important to the recovery of that business and the turnaround there? And then are retailers also – are you seeing any reorders acceleration given that a lot of them had cut their orders for North Face for the fall? Are you seeing any sort of retailers coming back and asking for more again? Thanks.

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

A

Well good morning, Omar. Scott, I'll start. If I leave anything out, jump back in and fill in the blanks. So three questions there. The outdoor moment. We absolutely see, and I think you've spoken about it quite well, that there is a trend towards outdoors and people's desire to get outside linked to health and wellness and I think there is a moment in time. And as we came into the pandemic, the outdoor sector was in a position of growth as well. And I think this really bodes well for our brands and for the sector in general as people continue to focus about that

outdoor activity, health and wellness and how can they kind of take advantage of this particular moment in time. So we're very well-positioned for that.

You asked about The North Face management. I'd kind of pull you up one notch. In my prepared remarks, and Scott just spoke about Project Enable, as we think about our future and we think about our transformation, we find ourselves today a smaller portfolio of brands focused on three very specific parts of the total addressable market that are growing. And as we seek to simplify our structure and really focus our energy against those key aspects of our transformation, we saw an opportunity to really start on the top and best align our talent with our biggest opportunities. And Arne has been a strong part of The North Face performance and we wish him well. This is really about simplifying our organization structure, putting our very best people against our biggest opportunities and really looking to leverage those key enterprise platforms that we've been investing behind, driving our core and emerging brands forward.

The last part of your question, Omar, was about retail reorders. I would tell you, it's a little early as we come into this fall holiday period to talk about reorders. What we have seen is a great interest in our wholesale partners to take those initial drops of their fall order books and get those placed a little bit earlier than we may have expected, so I think we're positioned as we enter the fall holiday period. We've seen good energy start here in September carried into October, and if that continues I think there's an opportunity. But I would just remind you we've been very thoughtful and controlled at our inventory purchases. There is not a tremendous amount or any excess inventory to service a big reorder pop. What we would expect to see is really good sell-throughs, clean inventories and positioning ourselves well for those next two seasons, spring and fall order books that our teams are working on.

Omar Saad

Analyst, Evercore ISI Group

Q

Thanks for the color.

Scott A. Roe

Executive Vice President & Chief Financial Officer, VF Corp.

A

Yeah. And Omar, the only add I would say is on one part of your question, it was around should we be leaning in on investments, and we are. I mentioned the \$30 million of digital, and certainly a good chunk of that is focused on The North Face as well. Just to address that point.

Omar Saad

Analyst, Evercore ISI Group

Q

Great. Good luck.

Scott A. Roe

Executive Vice President & Chief Financial Officer, VF Corp.

A

Yeah.

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

A

Thanks, Omar.

Operator: Thank you. Our next question today is coming from Camilo Lyon from BTIG. Your line is now live.

Camilo Lyon
Analyst, BTIG, LLC

Q

Thanks. Good morning, everyone. Nice job on the quarter. I have a couple questions. First on gross margin and inventory. Scott, you talked about inventory in the channel, feeling very comfortable with it. Maybe just square that up with the progression of gross margin and why in Q4 we should expect to see flat gross margins as opposed to a little bit earlier in Q3. Maybe just help articulate the distinctions between those dynamics while still anticipating the promotional environment. It seems like you've got your inventory in a much better place. You're comfortable with it, yet it seems like there should be a faster gross margin uptake.

And then my second question is on M&A. And more specifically, we're approaching the election here within a couple weeks. If there is a Biden victory, the anticipation is that capital gains taxes will increase. Does that incentivize you to complete a deal faster and get it done before year-end? I'd love your thoughts on that.

Scott A. Roe

Executive Vice President & Chief Financial Officer, VF Corp.

A

Yeah. So sounds like this one's me, Steve.

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

A

Yeah.

Scott A. Roe

Executive Vice President & Chief Financial Officer, VF Corp.

A

Camilo, as you think about gross margin trajectory, I guess, really just consistently from what we've said all year, we see it largely playing out the way we anticipated. So remember, those promotional activities to clear excess inventory and the dead inventory that was in the stores, et cetera, we said that would be accelerated in the first half and moderating throughout the year and really kind of back to "normal" by the fourth quarter. And we really saw that.

If you look, even in the second quarter, when you take out the transaction impact, the rest of the decline is largely due to promotional activity and there's 200 basis points or so of that promotional impact in the second quarter. That number was about 500 basis points in the first quarter, right? So still high, still elevated, but sequentially improved from the prior quarter. And we see that trend continuing and moderating by the end of the year and I guess back to "normal."

And that's why we've been aggressive in getting after it, right, so that we didn't have all that excess inventory either in our own warehouses, or inbound, or at retail. And it's not perfect. I'm not saying there aren't pockets here and there, but by and large we're really clean by historical levels. And that bodes well for less promotion on a go-forward basis. And we know that's good for brand health and that's also good for creating demand and scarcity, which tends to bode well for the future. So that's one point.

Another point on gross margin, again, is that mix benefit, which will continue through the balance of the year. So we expect to see continually improving gross margins, again, in a "normalized" level or back to "normal" levels by the fourth quarter. So that's how the shaping is coming together.

I guess, Steve, maybe the first thing I'd say is timing – we don't try to outguess politics in terms of timing because you can't outguess it, right? It's impossible to do. So I'll let potential sellers speculate on whether that's going to impact their timing or not.

I don't know, Steve, if you'd add anything to that, but...

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

A

Yeah. No, not really, Camilo, other than M&A continues to be that number one choice for capital allocation. And as opportunities come, we're certainly prepared to act. But it will be disciplined. It won't really be driven by a political situation. It'd be more around is it the right asset at the right time fitting into our strategy.

Camilo Lyon

Analyst, BTIG, LLC

Q

Understood. And, Steve, if I could follow-up on that? Do you feel that you have enough visibility and confidence in the available opportunity set such that – and in your own business, it sounds like you do – such that you don't need to wait for a full recovery to be active on that front, that you have enough information in the discussions that you're having to engage in a transaction?

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

A

I guess, I'd answer your question this way, Camilo. In our now and next approach, I mean, we've moved quickly against our objectives to really strengthen the foundation of our enterprise through our actions early in this pandemic. We're sitting in a good place with ample liquidity, a business that is improving and an outlook where we see stores opened, supply beginning to meet our demand and really good connections with our consumers through our digital assets. Digital performance is exceeding our expectations.

So we're in a good position. We are feeling confident around the future outlook. I will tell you that we do think that this situation we find ourselves in today will be prolonged, but with this focus on being agile and adaptable, we're in a good spot. So if the right asset were to come, we're well-positioned to be able to act. And I think you would absolutely see us pull the trigger.

Camilo Lyon

Analyst, BTIG, LLC

Q

Thanks so much.

Scott A. Roe

Executive Vice President & Chief Financial Officer, VF Corp.

A

Yeah. And, Camilo, I just wanted to add on that, is that it also depends on what type of asset, right? And while we said we have more confidence today than we did 90 days ago, that's a fact, but it's still an uncertain environment. And so, the resilience and the type of asset would matter in terms of the timing from an acquisition standpoint.

Camilo Lyon

Analyst, BTIG, LLC

Q

Understood. Thanks very much and good luck, guys, with the holiday season.

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

You bet. Thanks.

A

Scott A. Roe

Executive Vice President & Chief Financial Officer, VF Corp.

Yeah. Thanks, Camilo.

A

Operator: Thank you. Our next question is coming from Michael Binetti from Credit Suisse. Your line is now live.

Michael Binetti

Analyst, Credit Suisse Securities (USA) LLC

Hey, guys. Good morning. Thanks for all the detail here. So, Scott, just one near-term one and then I have a longer-term question. But on Vans, when you look at the big swings in the wholesale business quarter-to-quarter, the Americas wholesale business was down about 80% in the first quarter, then up 10% in the second quarter. You said your customers in that channel had inventories are very low. And Steve last quarter told me you thought back-to-school was delayed, not canceled. It was nice to see that that looks like it came true. But it looks like September had some pent-up demand that got unleashed.

Q

I guess anything you're seeing in October that may benefit – in a period where we may benefit less from pent-up back-to-school? I mean, I'm really trying to figure out what gives you confidence that there's not another deceleration ahead for Vans on the wholesale side in third quarter, fourth quarter, whenever, if the POS trends don't hold up just since we know September was a pretty meaningful pop that could have had some one-time demand in there.

Scott A. Roe

Executive Vice President & Chief Financial Officer, VF Corp.

Yeah. So I think you kind of hit the key points in your question there, Michael. But we did see, if you remember, Q1, we had a relatively more difficult quarter in Q1 for Vans, and we talked about some inbound delays and that was timing between Q1 and Q2. And indeed, we did see that come to pass. So that's one proof point.

A

Encouragingly, we saw our China business accelerate for Vans up 25%, our digital was plus 50% in Q2, great proof points of the health of the business and give us confidence for the future. And lastly, we did see wholesale orders move to the left, right? And I think that's a combination of interest and demand, clean inventories, and it was encouraging to see that some of that demand on the wholesale side shifted into the quarter based on demand.

So, listen, it's still an uncertain environment generally, but we continue to make progress and it was really encouraging to us to see the strength in the brand and particularly in some of those, what we would say, forward-looking indicators, like China, like digital.

Michael Binetti

Analyst, Credit Suisse Securities (USA) LLC

Okay. And then, I know you reflected again today that you're not going to give us much outlook for 2022 yet, but I think you dropped some hints that some of the components and the building blocks of the 2019 Analyst Day. I think you feel like the algorithm is intact, but there might be some changes to the path to which you get there. I

Q

think you've said that a few times over the last few months. Maybe some initial thoughts on what you see as the same and some of the big differences in the 2024 plan and if one of those is the fairly obvious fact that it's a bigger digital world ahead. Maybe talk to us about how a bigger digital business would impact the operating margins of the business. And if you plan to hold the algorithm intact, I guess that would imply if digital is a positive impact to your margins, you'll find ways to reinvest some of that to get back to the same operating margin or EPS cadence. Maybe just a few thoughts on how you look at the high level plan as you go out to 2022.

Scott A. Roe

Executive Vice President & Chief Financial Officer, VF Corp.

A

Yeah. So we're not going to talk about it but you're going to ask me about it anyway.

Michael Binetti

Analyst, Credit Suisse Securities (USA) LLC

Q

Right, right.

Scott A. Roe

Executive Vice President & Chief Financial Officer, VF Corp.

A

That was pretty good. That was good. Here's the thing. We're not – the problem when you isolate on one aspect of the plan without the benefit of the full context is that you don't get the full context, right? And so I'm always cautious and I would always caution you guys not to get ahead of us here, right? All the factors that we see are – give us confidence that we have the levers to pull to maintain our investment and also to maintain the margin expansion that we've committed to longer-term.

Let's set aside that we don't know exactly when this rebaselining occurs and when we're out of the COVID impact. These are things that are unknowable. Although, the progress we've made so far has been largely in line and maybe a little better than what we expected. But a few things that we know, right? The digital acceleration that we had been planning for has lurched forward and that's not going to change, right? We don't know exactly how it's all going to balance out, but we believe that the investments we're making and the fact that our digital channel is our most profitable, those are all good things and allows us, both the gross margin and the operating margin to continue to invest back in the business. That was part of your question and I would agree with you, right? We want to be a leader in this area and this is what our whole transformation is about.

So what I would take away from it, Michael, is we have the levers – based on the change in algorithm, we think we have the levers in place that would allow us to both continue to invest and to get the margin expansion consistent with that algorithm, and that's why I and Steve and others continue to make the comment. We'll come back. We'll give you guys – once we get some stability here in the situation, we'll come back with another Investor Day. We'll clean all this up for you. But in the meantime, as you're trying to figure out what these puts and takes mean, what I would take away is we have the ability to invest and we have the ability to expand our margins and you should feel good about that long-term algorithm. I'm afraid that's about as far as we can go right now. Yeah.

Michael Binetti

Analyst, Credit Suisse Securities (USA) LLC

Q

That's helpful. Thank you.

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

A

And Michael, I would just add a little more simplistically here. We entered the crisis in a good position. We had good momentum. We've reshaped our portfolio with very unique and differentiated brands that are squarely planted in the parts of the market that are growing. And in fact, we're seeing even greater headwinds. We have confidence in that long-term algorithm we laid out last year in Beaver Creek. What's unknown, and it – we'll just have to have time really to play this out for us, is what's the shape of the recovery? We're positioned to move along that path. The investments we've made around our transformation, the digital growth that we're seeing are really strong proof points of the strategy that we have in place. But it will be a timing issue related to the shape of the recovery. We're positioned to move well as that all starts to become more clear.

Michael Binetti

Analyst, Credit Suisse Securities (USA) LLC

Q

Awesome. Thanks a lot, Steve.

Operator: Thank you. Our next question today is coming from Matthew Boss from JPMorgan. Your line is now live.

Matthew R. Boss

Analyst, JPMorgan Securities LLC

Q

Great. Thanks and congrats on a nice quarter.

Scott A. Roe

Executive Vice President & Chief Financial Officer, VF Corp.

A

Thanks, Matt.

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.



Thank you.

Matthew R. Boss

Analyst, JPMorgan Securities LLC

Q

Steve, so maybe to switch gears to Timberland. Well-ahead of forecast this quarter. What drove the better than expected top line and any signs that you're seeing that you believe gives you renewed confidence in the turnaround for that brand?

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

A

Yeah. Great to have that question come out. We're really pleased with the results that we see with our Timberland brand. The sequential improvement in this quarter is a proof point of what we've been talking to you guys about for the last number of quarters. The people we have in place, from Martino providing that brand leadership, to the creative talent driving the product creation, our new marketing leader, I think you've seen a change in the tone and the quality of the creative. And I think what you see at this particular point in time is people looking for those authentic icons that they've depended on in the past. But the outdoor trend has been benefiting Timberland through the last six months. Our outdoor category is doing well. The new release that we had here in China of the Madbury is a new contemporary execution of outdoor, the Garrison peak that you see coming here in the US that's up on our line today.

Just – there's a good introduction of some new styles. This is part of the work that our teams have been doing. We're seeing energy building around some of those core icons, the Yellow Boot, but even more importantly, variations of that boot. We've had some great influencers show up wearing our products, and I think that's just a proof of the quality and authenticity of this brand. But it's early. We're encouraged and excited for our team and the work that they're doing. We will continue to do the work to diversify the product offer away from – to build on the non-classics, to build on our women's. Our PRO business is doing well; it grew low single digits in the quarter.

So there's a number of proof points across the Timberland brand that continue to give us confidence that this brand has the ability to achieve its long-term growth algorithm and really driving against the new creative you see coming from a brand engagement standpoint and how that's coming to life in the products.

Matthew R. Boss

Analyst, JPMorgan Securities LLC

Q

Great. And then...

Scott A. Roe

Executive Vice President & Chief Financial Officer, VF Corp.

A

Hey, Matt. Can I just add one perspective here, too? Remember, from an order book standpoint and the inventory at retail, coming into the season it was not quite as strong from a Timberland standpoint. And so we've – our buys and given the lead times reflected that. So our ability to chase is going to be somewhat limited but this is really positive, a really positive development for the brand. As you think about cleaning the inventories, creating some of that scarcity, people are making more money from a margin standpoint, all of that sets up well as you think about the future for the brand and it's a change in sentiment which is really positive for Timberland right now. Sorry to interrupt but I think that's...

Matthew R. Boss

Analyst, JPMorgan Securities LLC

Q

No, absolutely. That's great color and great to hear. Maybe to circle back to Vans. So you've cited a number of the accelerating tailwinds out of the pandemic, and casual is clearly one of them. How do you think about the total addressable market for Vans multi-year? Could it actually potentially be larger? And then just maybe circle back. What's your market share today? What do you think the opportunity is? Just larger picture, how would you rank the growth opportunities for the brand multi-year from here as we think about Vans?

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

A

Scott, I'll start...

Scott A. Roe

Executive Vice President & Chief Financial Officer, VF Corp.

A

Yeah, sure.

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

A

...and if I – fill in the blanks here. So I think the total addressable market, Matt, we see for the Vans business continues to be same. The active athleisure part of that marketplace is large, it's growing. And Vans kind of

moves over into that streetwear category as well, and I think that's where the power of the messaging of creative self-expression and just the efforts that the team have taken as of late to really increase the quality of the content, how we engage with that content across social media channels and in our own environment to drive that long-term loyalty, and you hear our team talk a lot about brand love.

We're really in a good position to continue to grow in that active athleisure marketplace. And the efforts that they've made around Classics, the progression footwear, the apparel, all of that work continues to be paying dividends as we see really balanced growth across regions and across categories. And I think you see the brand continue to be very thoughtful around the product launches. The Simpsons collab that we launched just a few weeks ago was extremely successful. You see some new styles, Sk8-Hi and our Ultra category up with the new MTE aspect as we come into the winter months. So just continuing to be very thoughtful around how they are creating products and matching that up with the brand position. Market share, we don't – I don't think we've come out and really talked about our absolute share. Scott, Joe, help me here.

Scott A. Roe

Executive Vice President & Chief Financial Officer, VF Corp.

A

No. No. Yeah, we haven't. We haven't, Steve.

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

A

But we continue to think that we're growing and opportunity to continue to acquire more consumers. The Vans Family membership program has been a really huge success. We're approaching 13 million people as part of that. And 50% of our US D2C sales this last quarter came through that Vans Family membership program. So absolutely proving that we can engage consumers, grow the number of consumers that the brand speaks to and really building that brand's family around a whole passion around creative self-expression which is a very unique position for them in the market versus their competitive set.

Scott A. Roe

Executive Vice President & Chief Financial Officer, VF Corp.

A

The only thing I would add is this total addressable market, and I would say markets because this brand plays across multiple areas as Steve just mentioned, and it's one of the strengths, the broad consumer base, everybody is trying to say, well, what does a post-COVID world look like in light of where you were before COVID? And we would say the trends that we see accelerating, casualization, the deep brand love and engagement only are stronger through this period. So while that TAM was always attractive, and we have a unique positioning which is both distinct but broad, if anything, that's even more attractive now in light of what we see changing consumer behaviors look like.

Matthew R. Boss

Analyst, JPMorgan Securities LLC

Q

Congrats again and best of luck.

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

A

Thank you.

Operator: Thank you. Our next question today is coming from Sam Poser from Susquehanna. Your line is now live.

Sam Poser

Analyst, Susquehanna Financial Group LLLP

Q

Good morning. Thank you so much for taking my questions. I've got a handful. I'll just make a list and then go through it. The SG&A that you said that you're expecting to be flat in – was that in dollars or as a percent of sales, Scott, in your commentary? And then...

Scott A. Roe

Executive Vice President & Chief Financial Officer, VF Corp.

A

Yes.

Sam Poser

Analyst, Susquehanna Financial Group LLLP

Q

Yes, it was in dollars or yes as a percent of sales?

Scott A. Roe

Executive Vice President & Chief Financial Officer, VF Corp.

A

Dollars, dollars.

Sam Poser

Analyst, Susquehanna Financial Group LLLP

Q

Dollars? Okay. And for the fourth quarter, in the fourth quarter, right?

Scott A. Roe

Executive Vice President & Chief Financial Officer, VF Corp.

A

In the second half.

Sam Poser

Analyst, Susquehanna Financial Group LLLP

Q

Okay. And then...

Scott A. Roe

Executive Vice President & Chief Financial Officer, VF Corp.

A

I don't know if you heard me. Yeah, I said the second half.

Sam Poser

Analyst, Susquehanna Financial Group LLLP

Q

Okay. Okay. Perfect. Thank you. And then with Vans is – a lot of people are concerned, is what's happening with Vans and maybe some of the way the sales are? Is this more – you believe, more of a supply situation or a demand situation? And then also, can you give us the status of the factories in the Dominican for Timberland? And then lastly, is the FX transactional headwinds, the 110 basis points, is that expected to continue for the balance of the year? I may have follow-ups but I have those questions.

Scott A. Roe

Executive Vice President & Chief Financial Officer, VF Corp.

A

Wow, a lot of questions there, Sam. Can I – so the last one I'll say, yes, FX continuing for the balance of the year but moderating as the year goes on. That was one. Timberland – and Steve, I'll just riff off this and I'm sure I may miss them. So Timberland, we made some recent announcements. As you know, we're reducing our own manufacturing footprint, and some of the actions we've done in the DR are really related to that. I think you can assume that we've – this is a well-thought out strategic move and we've got – our supply chain team is on it. And we've got an orderly transition planned for those actions which has been announced. So that's really not different from the long-term path that we've been talking about for quite a while here. It's just one step in the way.

I'm sorry. You had a question relative to Vans, and I didn't – can you repeat that?

Sam Poser

Analyst, Susquehanna Financial Group LLLP

Q

Sure. I wondered there's a lot of concern about the momentum of Vans and the changing. Is the Vans – I don't know if it's weakness or perceived slowdown based on questions. Is Vans more of a supply issue right now where you're making sure it's very, very clean so business really can't sort of get ahead of itself, so it's not a demand-driven issue; it's much more of a supply-driven issue? Or is there something else there relative to the momentum of the brand?

Scott A. Roe

Executive Vice President & Chief Financial Officer, VF Corp.

A

Yeah. Well, you guys have talked about weakness. We never have.

Sam Poser

Analyst, Susquehanna Financial Group LLLP

Q

No, I understand that. But people keep...

Scott A. Roe

Executive Vice President & Chief Financial Officer, VF Corp.

A

Yeah, I understand; I just couldn't help it. But anyway, I mean, the demand is there. Come on, the engagement of our consumers around Vans has been consistent. And some of the things that get commented on, remember our plan here which we've talked about now consistently, right? We said we were a bit tone-deaf early on and we changed our marketing talent, what we call Project Pivot. And we moved away from some of the more transactional-related communications and bottom of the funnel activations when people were going through a lot personally in their life and focused more on deep engagement with our consumers as opposed to transaction.

As time has gone on, we're changing that cadence both in terms of the raw amount of investment and also the tone and execution of that investment. So if you look at things like search and interest, of course that's going to be impacted by those actions in the short-term. But, over time, we're seeing those investments increase and you're going to see that continue to build.

Underneath all that, we've seen consistent demand for the brand. I'll just point you back, Sam, to digital up 50%, 70% up in the first half, China leading the way. I mean, from our standpoint, this has played out largely as we expected and actually even a little bit better based on some of the demand moving to the left. That doesn't happen just because of supply; that happens because of interest, right, and engagement with the brand.

So I guess what I would say is this is playing out largely as we have anticipated and, if anything, maybe slightly better. I don't know, Steve, if there's any color you would add there, but...

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

A

Maybe on a couple of these, Sam, just to kind of build on Vans. We have spoken about the impact that Vans has seen due to their outsized exposure to California and the store openings. That's the mix and the concentration of stores for Vans here in the US is unique for them, and certainly we had to navigate that. And there were some supply delays. Some due to how we quickly moved our inventory, but also the impact that the pandemic had on our suppliers who we've worked very closely with to assure their people were as safe and cared for as our own.

But as we move through the pandemic here, we are seeing really good improvements. And we have great momentum with this brand. I mean, first half digital growth up 70%, the Vans Family membership program continuing to grow and the ability for this team to create compelling content and continuing to drive those really compelling drops continue to feel very confident about Vans and our opportunity.

On the DR Timberland question, Sam, just a quick add here. As part of our portfolio transformation is we – KTB is standing up as their own public entity, the divestiture of our Occupational Workwear business. We have looked to transform that internal manufacturing footprint that we have historically maintained.

I think the good news here as we do that is that internal talent that has driven those capabilities over the years will maintain their presence with us. And we've talked a lot about our Third Way manufacturing footprint and how we partner with our manufacturing partners across the globe. That knowledge base and skill stays.

But as Timberland grows, we'll continue to differentiate the product offer. And the type of manufacturing, the type of skills required to produce these new styles is evolving, and that's what's giving us confidence as we transform our portfolio. The need and ability to transform our supply footprint and the partners that we work with will continue to evolve. So just really a key part of our transformation.

Sam Poser

Analyst, Susquehanna Financial Group LLLP

Q

Thanks. I just have one last thing. On the gross margin, if everything is clean and you were down 100 basis points in your gross margin in the fourth quarter of last year, why wouldn't the fourth quarter look more like, let's say, 2019 – sorry, yeah, fiscal 2019 levels rather than last year's level?

Scott A. Roe

Executive Vice President & Chief Financial Officer, VF Corp.

A

Well, we've given you shaping, Sam. And while we have more visibility, we don't have perfect visibility. So could it be better? Maybe. There's still a lot of moving parts. We've got a lot of D2C that needs to happen in the second half. And so, I think you can assume that what we see today, based on the trends and everything we know, is what we're confident in. And could it be better? Yeah. I mean, could there be some negative things that happen that we can't see? That's possible, too. So that's why we ended where we did.

Sam Poser

Analyst, Susquehanna Financial Group LLLP

Q

Okay. Thanks very much and continued success.

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

Thanks, Sam.

A

Scott A. Roe

Executive Vice President & Chief Financial Officer, VF Corp.

Thanks, Sam.

A

Operator: Thank you. Our final question today is coming from Laurent Vasilescu from Exane BNP Paribas. Your line is now live.

Laurent Vasilescu

Analyst, Exane BNP Paribas

Hello. Good morning. Thank you very much for taking my questions. Steve, Scott, I was hoping to understand the cadence of North America versus EMEA. They both declined at the same rate year-over-year. How do we think about the cadence for the third quarter? I know you're not giving us top line overall guidance for the third quarter, but should they be moving in tandem again? And any thoughts on how Europe is playing out especially since there is some lockdown measures put in place with some countries out there?

Q

Scott A. Roe

Executive Vice President & Chief Financial Officer, VF Corp.

Yeah. Maybe, I guess, the only thing I would say here is that we have generally seen Europe, from a recovery standpoint, slightly ahead of North America. That's notwithstanding what may happen to the last point that you just said, Laurent. So we haven't seen a significant impact, but we watch the same news that you do and I would say this fits in that category of the uncertainty and unknowable.

A

But, in general, our Europe business has been a little bit ahead from a recovery standpoint than what we've seen in North America, and that would be what we assume. You can see that in the business evolution slide, page 29 on the deck that we provided with the announcement and how we see it. And that's really about as much color as we can give you right now, Laurent.

Laurent Vasilescu

Analyst, Exane BNP Paribas

No, that's very helpful. And then maybe on capacity constraints, I think there was a number of brand operators out there that talked about capacity constraints for this peak holiday shopping season. Any thoughts? Is there a limitation for your digital business to grow as certainly just because of a higher base? Are you using 3PL? Any thoughts on that would be helpful as we think about DTC versus wholesale for the third quarter.

Q

Scott A. Roe

Executive Vice President & Chief Financial Officer, VF Corp.

You want me to start, Steve, or...

A

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

Go ahead, Scott. Yeah.

A

Scott A. Roe

Executive Vice President & Chief Financial Officer, VF Corp.

A

Yeah. So to the best of our ability, we've prepared – in light of whatever COVID restrictions we have and we have looked at whether it'd be off-site storage and just different things that our supply chain has looked at looking at peak volumes. And to the best of our ability and knowledge to see it, we think we're prepared.

That being said, it's an environment where things can change. And if you should have an outbreak or whatever that – we're people first, so we're not going to take any chances and we would react to that in the event that it would happen. So without any unforeseen circumstances occurring, we think we're well-prepared, Laurent, for the peak and we think we'll be able to meet those objectives.

Now, I will say this, too. Service levels aren't great in every aspect because of really things that have already happened. Our supply chain is largely back in business and operating today, but that doesn't mean that things that happened four, six, eight weeks ago aren't impacting us now. They are, right, in terms of new product deliveries being a little late, certain things that are not at the levels of stock that we would want to see. It's getting better every day. Again, largely, we're paying the sins of the past. In other words, we're back up and running today. So we're not creating new problems; we're getting out of the issues that are in the past. But it would be wrong to give you the picture that this is normal because it's not normal. It's just getting better and we have better and better visibility to when those get well dates are and how that whole supply/demand match is setting up.

So with everything we can see, just to reiterate it, we've got the capacity lined up, we've got DC, last mile, all those things, and we believe we're prepared for this peak.

Laurent Vasilescu

Analyst, Exane BNP Paribas

Q

Very helpful. Thank you very much for all the color and best of luck.

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

A

Great. Thanks, Laurent.

Scott A. Roe

Executive Vice President & Chief Financial Officer, VF Corp.

A

Yeah. Thanks, Laurent.

Operator: Thank you. We reached the end of our question-and-answer session. I'd like to turn the floor back over to Steve for any further or closing comments.

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

Great. Thank you and thank you, everybody, for joining us this morning. I hope you're walking away with a sense of just how happy and how comfortable we are with the stabilization and early recovery that we're beginning to see across VF. As we enter the next, I think you see us leaning in, investing behind marketing, continuing to invest behind our transformation. The confidence that we had, our board had to increase our dividend coming out of this quarter. There's many proof points that are giving us confidence as we begin to enter the next. We're early. And though we are seeing signs of improvement, we will remain cautious. We remain agile and adaptable and

really drive against those opportunities that we see coming here in the future. We're positioned extremely well in those parts of the markets that are growing with a very unique and differentiated portfolio supported by strong enterprise functions and regions with very specific skills that enable the success of our brands.

And we look forward to continuing to talk to you here in the coming quarters and wish you all a great day and stay safe.

Operator: Thank you. That does conclude today's teleconference. You may disconnect your line at this time and have a wonderful day. We thank you for your participation today.

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