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VF Corp. (VFC)

Q4 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings. Welcome to the Fourth Quarter 2023 VF Corporation Earnings Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] Please note, this conference is being recorded.

I will now turn the conference over to your host, Allegra Perry, you may begin.

Allegra Perry

Vice President-Investor Relations, VF Corp.

Good afternoon, and welcome to VF Corporation's fourth quarter fiscal 2023 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've defined in the press release that was issued this afternoon, and which we use 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 press release, which identify and quantify all excluded items and provide management's view on why this information is useful to investors. Unless otherwise noted, results presented on today's call are based on continuing operations.

Joining me on the call will be VF's Interim President and Chief Executive Officer, Benno Dorer, and EVP and Chief Financial Officer, Matt Puckett. Following our prepared remarks, we'll open the call for questions.

I'll now hand over to Benno.

Benno O. Dorer

Interim President, Chief Executive Officer & Director, VF Corp.

Hello, everyone. It's been nearly six months into my interim role as CEO of VF. I'm proud to be part of this beautiful company of the products that we create for our consumers, the difference we make to so many people's lives, to witness so many highly-skilled and committed people create engaging styles and shopping experiences for our consumers, and how people know, wear and love our brands on streets, trails and mountains around the world.

Having an even deeper appreciation of VF's possibilities now, I'm incredibly optimistic about the company's future. I'm pleased to report that VF is stable, delivering against our commitments with strong discipline, and making solid progress against our executional priorities.

Today, I will build on themes introduced in February and highlight progress to sharpen our focus on the biggest consumer opportunities within our brand portfolio and on enhanced operational performance. I will cover three areas: first, an overview of VF's performance in Q4 fiscal year 2023 and an update on work underway in pursuit of our near-term priorities; second, an outline of the primary objectives for fiscal year 2024, which will be a year of transition and progress; and third, why I believe even more today in VF's unique value proposition and our plan to return to strong growth and long-term shareholder value creation.

First, we delivered revenue and profit in line with guidance for Q4 to close out fiscal year 2023, and we've made solid progress towards our priority areas of focus. Against the backdrop of continued challenging macroeconomic conditions, we grew full year revenue by 3% in constant dollars, with 10 out of our 12 global brands flat or growing revenue, five of them double-digits, and delivered earnings per share of \$2.10 at the midpoint of our guidance. Revenue in Q4 was flat in constant dollars.

Some highlights from our quarter performance to close out the fiscal year. Outdoor saw ongoing strength led by continued stellar performance at The North Face. Vans was down in Q4 as expected, but we saw encouraging green shoots from new product launches and our increased focus on maximizing existing product platforms.

We delivered sequential improvement in both Dickies and Supreme, which stabilized in Q4 behind very strong growth in our key markets, Japan. EMEA continue to execute well with its eighth consecutive quarter of strong growth, and Greater China's emerging momentum coming out of Q3 accelerated with Q4 revenue returning to positive growth.

The North Face continues to execute strongly with engaging marketing and a steady stream of innovative styles. Our core snow sports category was a standout in Q4, while the iconic Nuptse jacket continued its strong momentum.

We saw further growth in trail running footwear, particularly behind our proprietary active technology, underlying the brand's significant opportunity in footwear. The North Face continues to resonate with a growing consumer base with the XPLR Pass adding over one million new members to surpass 18.5 million global members at the end of Q4.

Shifting to the near-term priorities outlined in February. Importantly, our company's supply chain performance improved significantly and our work to turn around Vans is on track. We are on or ahead of plan on our work to restore excellence in the area of supply chain. In Q4, we reached our target to reduce inventory by about \$300 million, and while it remains elevated, trends are good.

We talked about our unsatisfactory customer service in Q3. I am pleased that our on-term performance has generally returned to target levels of full two quarters ahead of plan. And finally, while our costs remain elevated in Q4, our cost focus and planning discipline are starting to bear fruit, and we are on track to see lower costs in fiscal year 2024.

On Vans, there are some positive developments. Our two emerging product lines of focus, UltraRange and MTE were up 51% and 34%, respectively. We are just scratching the surface on these.

We also demonstrated that we can energize Vans' fan-base when we have meaningful product news. In Q4, we had a highly successful start of our retro-inspired new school platform. This new shoe shows the potential to grow into a meaningful growth driver for Vans over time.

Our global Vans Family membership grew to 28 million members by end of Q4, nearly twice the number from two years ago. Clearly, there is much work ahead of us, but there are encouraging signs for us to build on.

My second message is that fiscal year 2024 will be a year of transition and progress, positioning us to accelerate profitable growth in fiscal year 2025 and beyond. We have an appropriately balanced plan in place for this fiscal year, considering our organizational transition.

We will show progress in several areas with sensible revenue projections, increased marketing investment and a sharp focus on margin, leading to solid operating profit growth and cash flow generation.

Here are some highlights from our two biggest brands. On Vans, we continue to expect the brand to return to growth during the course of the second half of the fiscal year. Importantly, Vans will return to profit growth for the full fiscal year and even ahead of its return to revenue growth, aided by cost savings and SKU simplification.

The Vans team is operating with a great sense of urgency and projects are on track. We continue to strengthen our team. Our new brand campaign launched in April, we are sharpening our go-to-market process with a focus on digital. We will increase our product development investment in fiscal year 2024, [ph] Tees (00:08:12) our new Pinnacle premium line at the Paris Fashion Show next month and aggressively drive UltraRange, MTE and new school, while seeding the Style 93 women's sandal launch now for a full launch this fall. More innovation will follow.

Our consumer understanding work is in progress, sharpening our focus later this calendar year, and we are improving our shopping experience with a significantly reduced SKU count, throughout 2023.

Moving on to The North Face, we are increasing product and marketing investments to support consumer acquisition, innovation and marketplace sell-through and the expansion of the brand into new adjacent categories, based on a clear permission from consumers to do so.

Regionally, our focus is to improve execution in the Americas. The first quarter will be difficult here as we work to regain the confidence of an already cautious set of US wholesale customers in our ability to deliver full customer service after a difficult 2022 in that respect, but we should see significant improvements starting this fall.

The recent appointment of Jen McLaren to a newly-created role to lead our US key account management will bring stronger focus, as we work with customers to capitalize on the many available partnership opportunities that exist.

We expect EMEA to be resilient and generate profitable revenue growth in fiscal year 2024 behind its hallmark execution strength. And APAC is anticipated to grow double-digits this fiscal year, which we will fuel with increased brand investments. What is important to us is that VF grows the right way, meaning profitably and sustainably expanding margins and generating significant cash flow in fiscal year 2024.

To do so, while supporting strong investments in the business, we are leaning into the more profitable parts of the portfolio and implementing a strong cost savings plan with a more systematic and ongoing cross-functional approach to eliminate costs that have lower value to consumers.

VF's fiscal year 2024 will be about progress and focus on what we can control in a difficult macroeconomic environment. Steadily, methodically and with discipline, we will set the stage for an acceleration of value creation in fiscal year 2025 and beyond.

Finally, I'm more confident than I was even six months ago in VF's value proposition and our plan to return to strong growth and long-term shareholder value creation. VF's distinctive business model unites a portfolio of iconic and deeply loved brands in profitable, large and growing spaces with strong enterprise capabilities for speed, consistency and scale efficiencies.

We have significant growth opportunities in APAC and particularly in Greater China, where we have strong category tailwinds and tremendous brand penetration upside. VF's enterprise capabilities in supply chain, digital and technology and international go-to-market platforms give us a competitive advantage, which we will fuel with strong investments in our brands and consumer capabilities.

We are disciplined and dynamic capital allocators with a history of long-term value creation. Near-term, we will invest in organic growth to maximize the potential of our unique portfolio, while returning to disciplined M&A midterm to further strengthen our roster of brands. And we will continue to generate strong cash flow to reduce debt to target levels midterm and to return cash to shareholders through a competitive dividend.

We believe that, this is a solid long-term investment thesis, especially when combined with our clear plan to accelerate a return to profitable growth with strong operational discipline, an increase in product and marketing investments, and an expansion in margins through cost savings and more differential portfolio management.

Lastly, we remain strongly committed to our company's purpose, not just because it is the right thing to do, but also because it drives value for shareholders. In summary, I'm confident VF is well positioned to return to strong long-term shareholder value creation.

Thank you. I'll now hand it over to Matt to talk through the financials.

Matt Puckett

Chief Financial Officer & Executive Vice President, VF Corp.

Thank you, Benno, and good afternoon, everyone. We are pleased to have delivered Q4 results in line with our guidance, but acknowledge we still have much to do to fulfill the full potential of the portfolio. The end of the fiscal year was characterized by an ongoing challenged macro environment, particularly in the US. The business continued to excel in certain areas. And importantly, we are seeing progress against our near-term priorities, although aspects of the business are still underperforming.

During the fiscal year, revenue was up 3% in constant dollars, with growth in both wholesale and direct-to-consumer. Despite softer results in the Americas, we saw strong growth in The North Face and Outdoor emerging brands, which saw growth of 12%, both in the quarter and the year, and in the international business, highlighted by exceptional results in Europe and steady sequential recovery in the APAC region.

Adjusted gross margin was down 220 basis points and adjusted operating margin declined by 330 basis points which led to adjusted earnings per share of \$2.10 compared to \$3.18 in fiscal year 2022. As anticipated, liquidity was slightly above \$3 billion at the end of Q4, benefiting from our Eurobond offering, but impacted during the year by lower earnings and a significant inventory build.

I also want to mention the Supreme impairment of \$313 million recorded in the quarter. The business performance was clearly uneven in fiscal 2023. We are now planning more modest growth in fiscal 2024 before accelerating in fiscal 2025, benefiting from geographic expansion, the pace of which will begin to quicken starting this fall. We remain confident in the brand's long-term growth potential, which will benefit from increasing access to the brand through both geographic expansion and further penetration in current markets, along with product category expansion opportunities with current consumers.

Now, diving into the fourth quarter results. Revenue performed in line with our expectations, flat in constant dollars, led by the international business up 8% and outstanding performance in The North Face. [indiscernible] (00:15:00) I'd be remiss not to mention that the brand grew by double digits across all channels and all regions on a global basis in fiscal year 2023. Our Outdoor emerging brands continued to deliver strong performance and Dickies and Supreme had improving results relative to the third quarter. As anticipated, Vans was down 12% and Timberland declined by 6%.

Adjusted gross margin was down 260 basis points and adjusted operating margins declined by 230 basis points, with adjusted EPS of \$0.17 compared to Q4 fiscal 2022 of \$0.45. Taking a closer look at the regions in the fourth quarter, our results reflected a mixed performance across geographies.

As expected, the Americas region was soft with revenue down 7% during the quarter. Americas results were particularly impacted at wholesale, where regular price distribution was down 17%. North America remained challenging in Vans, which declined 18% in Q4 in the region, Timberland was also muted in the quarter at down 6%, while Dickie showed improvement to down 4%.

EMEA continued to deliver strong results, up 8% in Q4, reflecting growth from most brands in the quarter and from all brands on a full year basis. While we are starting to see some impact from macro pressures on consumer spending, most countries saw continued revenue growth in the fourth quarter and all grew for the fiscal year. EMEA's revenue was up 12% for the year, while delivering strong profitability.

Last but not least, we were encouraged to see our business in APAC further strengthen and show sequential progress in Q4 with revenue up 10%, driven by a return to positive growth in Greater China in the quarter, which was also up 10%. In particular, The North Face delivered a standout performance in Greater China, up nearly 40% as the brand continues to fuel demand with the local consumer and achieve high sales productivity amidst the recovering marketplace environment. Across the rest of the region, we saw broad-based growth in major markets during the quarter.

Further unpacking operating performance, Q4 gross margin was down 260 basis points. As expected, business mix remained a positive contributor to margin in the quarter of 60 basis points, driven primarily by the growth of our international business. This was more than offset by rate, down 310 basis points, due to the impact of a more promotional environment, transactional FX and higher product costs, partially offset by strategic pricing actions.

Moving on to adjusted operating margin, which was down 230 basis points in the fourth quarter, reflecting the impact of the lower gross margin, partially offset by 50 basis points of SG&A leverage. SG&A declined slightly in the quarter as higher distribution costs and investments in advertising were more than offset by lower general and administrative costs along with realized gains on sales of assets, also negatively impacting the comparison was 30 basis points of FX.

Now to share an update on the supply chain environment. We've seen some stabilization in the operating environment since Q3. And as Benno mentioned earlier in the call, some initial signs of improvement are visible since taking aggressive action to return to our hallmark standard of excellence in this area. As we outlined in February, we are returning to a more rigorous approach to planning and coordination between brand operations, sales and finance leaders, which is benefiting our inventory management and forecast accuracy as we progress through future seasons.

While we're still continuing with the impact on the business today from higher lead times affecting our planning and buying calendar last year, manufacturing and freight times are now consistently trending down and contributing to better on-time performance and improve customer service with the arrival of spring product.

Further on logistics, we've seen reliability rates continue to improve, although they still remain below historical levels. And collectively, these trends are expected to continue as we move toward the important back-to-school and fall holiday seasons. We are well on track to achieving our goal outlined last quarter of returning to our targeted on-time performance rates and service levels by the first half of the fiscal year.

[ph] The Houston (00:19:03) cost of air freight is now more normalized. At the same time, ocean rates are coming down, and we'll see additional benefits moving into fiscal year 2024. FOB inflation remains a factor, but it has moderated to a lower rate for both raw materials and labor costs. The strategic pricing actions planned in fiscal 2024 that will continue to be an offset to these increases.

Now a few words on inventory. We achieved the forecasted reduction signaled in February of \$299 million during Q4. At the end of the quarter, net inventory was up 62% versus last year, which reflects the continued higher amount of core carryover replenishment inventory, particularly at The North Face and Dickies. Excluding the increase relating to the change in eco terms to support the supply chain financing program implemented in Q1 of fiscal 2023, inventory was up \$620 million or 46%. A moderation from the year-over increase of 75% at the end of Q3.

Moving on to the outlook for this fiscal year, which we expect to be a year of progress as we both continue to advance towards achieving our long-term goals and navigate a set of near-term macro and micro challenges.

Revenue of flat to up slightly reflects the following: a growing direct-to-consumer business globally and in the US; a modest decline in the Americas for the year behind a weaker US wholesale business in an increasingly challenging environment; a cautious posture by most retail partners and the effects of our supply chain missteps from last fall.

We expect growth in Europe for the year, although we do anticipate some deceleration considering our evolved view of macro pressures and continued progressive improvement in China, which we've seen gained momentum in recent quarters and expect that to continue. We anticipate gross margin to be up at least 100 basis points, reflecting lower promotions, which we expect to trend toward more historical levels beginning in the fall season with benefits from mix, lower freight costs and strategic pricing actions, all partially offset by higher FOB costs and FX transaction headwinds.

Operating margin will expand, reflecting the higher gross margin supporting targeted investments in our largest value-creating opportunities, namely The North Face and the Vans turnaround. We have continued to invest in key capabilities and support momentum within the portfolio, particularly in the areas of innovation and demand creation, while exercising careful cost management in light of the ongoing challenged macro environment.

Earnings per share is expected to be in the \$2.05 to \$2.25 range, which includes more than \$0.30 of negative impact from higher interest, unfavorable foreign currency affecting operating results, normalized incentive compensation and a modestly higher tax rate. To further help, say, fiscal 2024, I want to provide some operational guardrails related to our Q1 expectations. Largely in line with the revenue curve we anticipated in February, we expect Q1 to be down high single-digits in constant dollars.

Notably, VF reported its strongest quarter of last year in Q1 at plus 7% as wholesale was plus 18%. This is exacerbated by wholesale shipment timing that benefited Q1 of fiscal 2023 due to supply chain unpredictability at that time. With Q1 being our smallest quarter, results are also subject to greater volatility. In addition, we have an unfavorable brand mix in the quarter with a bigger SKU at Vans which will have a disproportionate impact from US wholesale as we expect the brand's revenue to be particularly affected by a continuation of lower wholesale sales in the spring season as we work to rightsize inventories.

As anticipated, we expect wholesale across [ph] the after (00:22:40) remain pressured through the first half of the fiscal year, particularly in the US, which will impact all of our brands with a meaningful US wholesale penetration. While gross margin is expected to be similar year-over-year in the quarter, SG&A will deleverage from the revenue decline, which will pressure operating margins. This performance in Q1 has been anticipated and is contemplated within our expectations for fiscal year 2024.

Now moving back to the full year. Our free cash flow is expected to be about \$900 million, driven by growth in EBITDA and a reduction in working capital, primarily from activities to further rightsize inventory levels as we migrate through fiscal year 2024. We continue to expect inventory to be near to normalized levels by the end of the calendar year and fully recovered by fiscal year-end, down more than 10% year-over-year at the end of fiscal year 2024. These two benefits will be offset by higher tax payments and interest.

Noteworthy and as continuously contemplated, the \$900 million of free cash flow includes the impact of anticipated tax payments of approximately \$290 million relating to intercompany IP transfers completed in a prior period. VF strong anticipated cash generation supported by decisive actions we've already taken and will continue to take will ensure our path towards deleverage over the next 24 months.

And specific to the balance sheet and expected cash evolution for fiscal 2024, we ended this year with about \$3 billion in liquidity. And throughout the year, we anticipate using our free cash flow to pay off debt and continue to return cash to shareholders through the dividend, which we project will result in liquidity of at least \$2.5 billion at fiscal year-end.

Now a brief update on the Timberland tax appeal of the Tax Court decision regarding the tax treatment of the acquisition of Timberland in 2011. The US government filed a brief on May 4, and we'll be filing our response to this brief in early June. We and the government have requested an oral hearing of the case, which we expect will be granted for this fall.

In summary, our focus is clearer than ever on the road ahead. Fiscal year 2024 will be a year of progress, where we'll advance our key strategic priorities as we continue to focus on the consistent execution of our plans. We will deliver improved operating performance and financial results, fueled by an expansion in gross margins, EBITDA growth and strong cash generation, all of which supports our path to delever and strengthen our balance sheet.

Fiscal year 2023 was certainly a challenging year in our business and for our teams. But I'm consistently impressed by the resilience and strength of our more than 30,000 associates, which further increases my confidence in the actions we have implemented to enable VF to generate long-term, sustainable and profitable growth beginning in fiscal year 2024.

With that, we'll now open the line to your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. And at this time, we will be conducting a question-and-answer session. [Operator Instructions] And our first question comes from the line of Abbie Zvejnieks with Piper Sandler. Please proceed with your question.

Abbie Zvejnieks

Analyst, Piper Sandler & Co.

Q

Great. Thanks so much for taking my questions. So I guess, just can you talk a little bit about the wholesale behavior in the US? I mean, it sounds like next quarter will be challenging from both the footwear and apparel perspective. Can you just really talk about the differences, I guess, between what you're seeing in footwear with both Vans and Timberland and the difference between [ph] that and (00:26:27) The North Face?

And then I guess, complement to that, how willing are retailers then to take on like new product at Vans that will be driving kind of the second half growth? Thanks so much.

Matt Puckett

Chief Financial Officer & Executive Vice President, VF Corp.

A

Yes. Hi, Abbie, I'll start that one and certainly Benno can add if he wants to on the new product in particular. I would say, overall, the environment generally is challenging, right. I think that's well understood, in the near term, I would say. I'd highlight kind of two main issues for us. Certainly, the macro wholesale partners, generally taking a more cautious approach to order book. That's certainly prevalent in the US. But beyond in Europe, we're seeing some of that as well.

And as I think about the fall order book positions, they're being very cautious and very careful. And certainly coming off of a year last year where inventories got distorted way too high and created a really heavy promotional environment, certainly reacting to that, I think, is one thing. And then I think just a general kind of cautious tone around consumer.

But for us, at VF, we're also dealing with quite honestly, the effects certainly in our first half of our own missteps from fall last year. Our supply chain in fall of 2022 didn't perform to the level that we expect and kind of our own expectations and our own bar. And – but we'll largely be past that moving over the next couple of quarters and certainly as we move toward the holiday sales season, we'll be in a much better place.

As it relates to footwear versus apparel, I don't think we're seeing a discernible difference in terms of how retailers are responding. And I would say, generally speaking, to answer your question, certainly, a new compelling, interesting product. They're always eager to understand what we have to offer there and willing to take those things because that certainly helps from a traffic driving perspective.

Abbie Zvejnieks

Analyst, Piper Sandler & Co.

Q

Thank you.

Operator: Our next question comes from the line of Brooke Roach with Goldman Sachs. Please proceed with your question.

Brooke Roach

Analyst, Goldman Sachs & Co. LLC

Q

Good afternoon. Thank you for taking the question. Can you talk to the confidence that you have in the drivers of margin inflection forecasted in your outlook today against a choppy macro? What levers do you still have to pull if the consumer environment gets weaker? And Matt, can you quantify your expectation for each of the moving pieces in gross margin, particularly the lower promotional effect that you're anticipating in the back half? Thank you.

Matt Puckett

Chief Financial Officer & Executive Vice President, VF Corp.

A

Yes, certainly, Brooke. I would say gross margin up at least 100 basis points is certainly the biggest driver of margin expansion as we look at fiscal 2024. As I unpack that, a moderating promotional environment is assumed to some degree, beginning from fall, I would say, beginning from fall, not back to, I would say, normal levels, but certainly moderating and improving from there. And we have a lot of confidence in that, especially kind of in terms of our view and visibility, where we think inventories will be positioned, certainly our own inventories, but the market itself. So that's a good guide for us.

I think we're being fairly cautious in our projection of that, but that's a big part of the gross margin increase. That's certainly not getting recovering everything we lost this year. We talked about significant reductions in margin over the last couple of quarters being heavily driven by promotions. So while some improvement, not all of it, business mix will continue to be a benefit. Think about that kind of in the 0.5 point range. I think it's fair on a full year basis.

And then we've got the benefit of lower freight costs coming into the margins and strategic price increases, which will largely offset continued higher FOBs, although moderating, and some foreign currency headwinds inside of product cost. But gross margin clearly is the big driver for us.

SG&A will be fairly cautious in terms of how we think about spending as we move through the year given the environment. But we're continuing to drive. It's becoming kind of a routine discipline here as part of our revised, I would say, revamped planning process in some way to really get after cost savings on an ongoing basis. So we're never stopping there. And we're looking for ways to reduce cost to funnel investments back towards the consumer and quite honestly, back towards the things that are working.

Brooke Roach

Analyst, Goldman Sachs & Co. LLC

Q

Thank you. And if I could just follow-up, can you provide a little bit more color on your leverage targets and actions that you're taking to strengthen the balance sheet throughout the year?

Matt Puckett

Chief Financial Officer & Executive Vice President, VF Corp.

A

Yes. So accelerating our path towards our target leverage, which is 2.5 times gross over time that work is one of our top priorities and certainly a focus of our capital allocation. So the next couple of years, it's a heavy emphasis. We're going to generate strong free cash flow this year, and we'll use that to pay – we'll pay a dividend as we announced a continuation of the dividend, but more commensurate and in line with our policy of kind of a 50% payout target. And then beyond that, we'll pay down debt.

The drivers of free cash flow going to be consistent EBITDA growth. Certainly, good progress in 2024. I expect to see that further accelerating beyond their big working capital benefits this year, both from an inventory unwind standpoint, but also we've got a benefit in accounts payable as we get the full anniversary of the terms change that we put into place over the last few months and a continued sharpen focus on capital investments.

We expect to spend about \$200 million this year on CapEx, which is a little lower than our kind of long-term average spend and really all geared towards the consumer. So those are the things we're thinking about. I would expect at the end of this year, our gross leverage would be under four times and our net would be in the mid-3s and then kind of sequentially similar kind of progress as you move into fiscal 2025.

Brooke Roach

Analyst, Goldman Sachs & Co. LLC

Q

Thank you very much.

Matt Puckett

Chief Financial Officer & Executive Vice President, VF Corp.

A

Thank you, Brooke.

Operator: Our next question comes from the line of Paul Lejuez with Citigroup. Please proceed with your question.

Paul Lejuez

Analyst, Citigroup Global Markets, Inc.

Q

Hey, thanks guys. Curious if you can talk about what you're seeing in your DTC channel for each brand? And how that compares to the sell-through that you're seeing at the wholesale channel?

And then one other, just bigger picture. You guys have purchased businesses, you've spun off businesses, you've done both of those things. I'm curious where your heads are at in terms of whether or not you're in the mindset of still acquiring more at some point or maybe likely to sell or spin something off? Thanks.

Matt Puckett

Chief Financial Officer & Executive Vice President, VF Corp.

A

Yeah, I'll take the first part and let Benno talk about the second part of your question. DTC is a growth driver for us and will continue to be. It's approaching 50% of the business, certainly, and over time, we expect will be half of the business and beyond as we think about our long-term plan.

Q4 was another strong result overall and consistent with the last couple of quarters, up low-single-digits, and despite the challenges at Vans and to some degree, the choppiness that we've seen over the last few quarters in China. So we're really seeing good results across most of the portfolio. That will continue.

And we're benefiting from the investments that we've made in DTC. And I think about digital, data and analytics, brand loyalty programs, consumer insights, a sharper focus on ROI, the omni capabilities, so we feel good about the progress that we're making and the opportunity here that will be further fueled as Vans begins to turn around its business later this year.

As it relates to wholesale and sell-through, I mean, we're continually seeing consistently good results in the businesses that are consistently performing. Vans, has been challenged. And I think it continues to be that way in its classic products in many cases.

But [ph] buried and (00:34:22) strengthen, obviously, by newness and some of the things that we've put into place. And Benno talked about some of those things in his prepared comments. But I think the underlying sell-through in the businesses that are performing is pretty consistent across DTC and wholesale.

Benno O. Dorer

Interim President, Chief Executive Officer & Director, VF Corp.

A

And then Paul, regarding M&A. So near term, clearly, we're focused on organic growth to pay down debt. Also, that's based on belief that M&A should come on top of a strong operating performance, and we're in the process of making significant progress on that.

And then we'll turn M&A back on, once we close to target debt. We certainly want to get bigger, not smaller. We feel like we're in an attractive space with a lot of interesting targets. And our promise to our investors is that we're going to continue to do M&A with a lot of discipline. We're looking for a sustained growth, margin accretive growth and ongoing consumer tailwinds. So near term, it's all about organic growth investments and then M&A, we'll turn back on [ph] winter (00:35:24).

Paul Lejuez

Analyst, Citigroup Global Markets, Inc.

Q

Thanks, guys. Good luck.

Matt Puckett

Chief Financial Officer & Executive Vice President, VF Corp.

A

Thank you.

Operator: Our next question comes from the line of Laurent Vasilescu with BNP Paribas. Please proceed with your question.

Laurent Vasilescu

Analyst, BNP Paribas Exane

Q

Thank you very much. Good afternoon, Benno and good afternoon, Matt. Thanks very much for taking my question. In your press release, you talked about how 10 of the 12 brands were flat or actually grew for fiscal year 2023. A lot of us model for – at least for the big four brands. Can you maybe just give us some context of just how we should think about at least the four big brands so we can get confidence around the full year guide? And then maybe just, Matt, if you can give a little bit of shape of the curve of the year, how should it unfold by quarter? And then I have a follow-up question.

Matt Puckett

Chief Financial Officer & Executive Vice President, VF Corp.

A

Okay. Thanks, Laurent. Great to talk to you. First off, let me just click up in terms of your question about brands and the outlook. We've got a realistic plan. It's not an easy external environment and certainly in the near term, but we've got a lot of confidence in the things that we're doing. The initiatives and the actions we've been driving are working and many parts of our portfolio are performing. The North Face consistently is delivering outstanding results. Our EMEA business has grown strongly for the last several years, including 12% in fiscal 2023.

Our direct-to-consumer business, we continue to make investments is consistently growing. Our operational execution continues to improve with better planning now firmly in place and impacting the go forward. Our supply chain performance improved a lot in Q4 with better on-time performance and customer service. We met our guidance now for the last couple of quarters, including a large inventory reduction here recently. We took decisive actions to strengthen our financial position and have a clear plan to reduce our leverage levels as I talked about.

The right work against our strategy at Vans is progressing and will lead to that business starting to turn around later this year. We've got a powerful portfolio of brands positioned to benefit from strong and growing tailwind marketplaces, and our 30,000 associates around the world are consistently delivering the things that are necessary to win in the marketplace today and set us up for growth into the future.

So our plan is working, we're on track. We feel really good about where we are and the direction that we're heading and the opportunity ahead. And from an outlook standpoint, that kind of summarizes how we think about it. Your question is a little more specifically. It certainly was in – I laid out some of the assumptions, which are probably more channel-based and macro and the like. But The North Face momentum will continue. We'll continue to have really good results there. It's not immune to some of the wholesale challenges that we mentioned in the short term in the US and to a lesser degree, but to some degree, in Europe.

We said we expect Vans to return to growth during the course of the second half. We're going to see improving results in both Supreme and Dickies, in both of those brands, we expect to grow, and we'll continue to see good performance in the Outdoor emerging brands. And as we begin to even evolve our operating model there to accelerate value creation in those brands.

As it relates to the curve, Q1 will clearly be the toughest compare versus last year and also probably most severely and acutely impacted by kind of the rightsizing of inventories in the wholesale channel and the actions that wholesale partners are taking. So that will begin to ease and sequentially improve. And then it will be, I think, a more consistent performance as we move kind of in the latter part of the year. But clearly, Q1 will be a bit more challenged.

Laurent Vasilescu

Analyst, BNP Paribas Exane



Very helpful, Matt. And just a quick follow-up. Just curious to know how the permanent CEO search is progressing. Should we anticipate some news at some point this summer? Or should we anticipate it for later this fall?

Benno O. Dorer

Interim President, Chief Executive Officer & Director, VF Corp.



I'm not going to give better forecast, but we said six to 12 months, and now we're still short of six months. It's a rigorous process, we're casting on. We have cast to wide net, internal candidates, external candidates. The process consists of interviews and leadership assessments. What I can say is that, we make strong – we are making strong progress. What I also can say is that my confidence in the ability to hire great new CEO has never been higher. We'll update you when the news is ready.

And in the meantime, as you hopefully can see from today's report, this team is stable, very committed and engaged. And the business progress is very solid as is our progress on engaging the organization. So the goal here is to find the right CEO, not a fast CEO, and we're very much on track to deliver that in the time that – in the time range that we talked about at the beginning of this process.

Laurent Vasilescu

Analyst, BNP Paribas Exane



Very clear. Thank you very much.

Operator: Our next question comes from the line of Janine Stichter with BTIG. Please proceed with your question.

Janine Stichter

Analyst, BTIG LLC



Hi. Thanks very much for taking my questions. On Vans returning to growth in the back half of the year, I want to know, how we should think about the pacing in terms of DTC versus wholesale? And then, I know you tested some changes to the [ph] storage (00:40:53) business for Vans in terms of reduced SKUs and some of the in-store merchandising. I want to get an update on what you were seeing there in terms of early reads? Thank you.

Benno O. Dorer

Interim President, Chief Executive Officer & Director, VF Corp.



Yeah. Janine, thanks for that. So as you think about the fiscal year, what we've commented on is that we'll return to sales growth sometime during the course of the back half, but that will be growing profit in the full year, even ahead of sales growth. That's what we predicted in February. That's what we're predicting today. So the plan is really unchanged. And the work is on track and executed with great sense of urgency.

As you think about DTC versus wholesale, we certainly expect DTC to grow quite a bit ahead of wholesale, given the issues that Matt reported on, which affect Vans, but frankly affect our whole industry. But in DTC, you should see the movement earliest then you should see growth in the channel for the fiscal year.

Everything else, all the work, including SKU simplification, is on track. We are rolling out a new store layout with improved merchandising, and we will be done with that by the end of 2023. And we expect the SKU count by the

end of fiscal year 2024 to be about 30% lower than what it was at the end of fiscal year 2023, all very consistent with what we talked about, all very consistent, all focused on product and consumer engagement on productivity, on organization, on cost efficiencies, all on track and proceeding with a great sense of urgency.

Janine Stichter

Analyst, BTIG LLC

Q

Okay. Thanks very much and best of luck.

Benno O. Dorer

Interim President, Chief Executive Officer & Director, VF Corp.

A

Thank you.

Operator: Our next question comes from the line of Bob Drbul with Guggenheim. Please proceed with your question.

Robert Drbul

Analyst, Guggenheim Securities LLC

Q

Hi. Good afternoon. I was just hoping that you could elaborate a little bit more on China either by brand sort of Q4 into Q1, just what you're seeing there? I know you said I think, double digit for the year for 2024. But if you could maybe just address some of the recent performance and really how you're feeling within what you're seeing, that would be great? And then, just a second quick question is just on Supreme. I know you wrote some – you took a write-down \$300-some million. Just how you feel about that business and sort of what you're really seeing real time with the strength of the brand at this point? Thank you.

Benno O. Dorer

Interim President, Chief Executive Officer & Director, VF Corp.

A

Yes, feeling bullish about China, return to growth in Q4 at plus 10%. Recall, in Q3, it was minus 10%, so a positive inflection. The North Face might not surprise you, is also leading a growth year, was up nearly 40% in Q4. And we certainly expect continued momentum in fiscal year 2024. First, we have a lot of underpenetrated brands with a tremendous amount of upside. Second, there's a lot of category tailwinds with government support. And three, we're certainly also reaping the benefits of our own focus.

As you probably know, we moved our headquarters to Shanghai for the region with a local leader in that city. We have more localized innovation and marketing plans, and we're certainly investing to fuel into that long-term growth opportunities. So, very bullish about Greater China and feel very good about where we stand and what it will do for the business in fiscal year 2024.

Supreme, the best way I'd describe it is, it remains a great brand and acquisition. There's no doubt about it. We saw sequential improvement in Q4, which is good. And we're expecting growth from the business – margin accretive growth for the company in fiscal year 2024. And we're very confident in our [indiscernible] (00:45:07) strategy. We call that our goal is to increase global access to the brand from today 20% of global consumers to 40% in three years.

And there are three strategic pillars behind it. First, grow brand awareness; second, expand into new categories, including footwear; and last but not least, geographic expansion with keen eye and focus on Asia. The key to that is store openings, which of course, is the key – the big reason why our performance as Matt said earlier, was perhaps a little more uneven in the last couple of years. We've done very little of that, given COVID, but we'll

reaccelerate that work. Stores are performing really well. Our best market is Japan these days, which is growing strongly, and it's no surprise that that's also the market where we have the most stores, even more stores than in the United States.

We recently entered the Beijing market and that store is performing well. The latest store opening is in the US, in Los Angeles, where we've moved the previous location and in Chicago performing well. And we're now focused on opening more markets in Asia, so long-term growth tailwinds on a great brand with a lot of opportunities ahead.

Robert Drbul

Analyst, Guggenheim Securities LLC

Q

Thank you.

Benno O. Dorer

Interim President, Chief Executive Officer & Director, VF Corp.

A

Thanks, Bob.

Operator: Our next question comes from the line of Adrienne Yih with Barclays. Please proceed with your question.

Adrienne Yih

Analyst, Barclays Capital, Inc.

Q

Good afternoon. Thank you. Benno, my question is on sort of the wholesale business in general. Clearly, last year, the retailers were kind of building up safety stock, and I think that's what, Matt, you were referring to kind of the destocking. Is this – should we think about it as sort of the normalization of kind of the timing shift that happened last year? And it would seem that after we get through this next four quarters, that by this time next year, right, the retail channel has to grow sales, and they would be back on potentially buying flat to up. So if you can just kind of help contextualize that?

And then, Matt, with regards to the promo comment, two things. When did you strategically raise prices? I think it was maybe fall of last year. And are you already seeing sort of reduced pricing concessions or any of that type of thing for the back-to-school or fall order book that gives you comfort? Thank you so much.

Benno O. Dorer

Interim President, Chief Executive Officer & Director, VF Corp.

A

Yeah. Thank you. I'll take the one on US wholesale. I don't think we've commented on this. Customers clearly a little cautious. Everybody is sitting on higher inventories so that will depress the business short term for everybody in our categories. And I think a particular challenge that we have at VF is that we're dealing with the hangover from our 2022 customer service issues. We have to regain customer's confidence back in our ability to fully meet their needs and that's sort of a wait and see. We think that, that's going to certainly have a negative impact doing the first half of the fiscal year, where we'll see a very marked difference between DTC and a more cautious outlook on wholesale. And then as we get to the back half of the fiscal year, we expect the two to move more in line, and we expect a significant recovery in US wholesale and certainly continued strength in the DTC channel.

Adrienne Yih

Analyst, Barclays Capital, Inc.

Q

Great. Thank you.

Matt Puckett

Chief Financial Officer & Executive Vice President, VF Corp.

A

Yeah. If I understood your pricing question, I'll answer what I think I heard if I'm not capturing it, you can let me know. But we took quite a bit of pricing action this past year. I think we talked about mid-single-digit price increases kind of broadly speaking, broad based. I would tell you, at the end of the day, probably 95% of what we planned occurred. So those price increases went into the market and have stuck and products generally have performed, notwithstanding kind of the overall macro. But in terms of the evaluation of the individual products themselves, we feel really good with what we got done there.

We're a little bit more modest this year in terms of price increases, not as broad based I would suggest and probably more in the low single-digit, a couple of percent range is what we've got baked in. So kind of more normalized. That's about what we see on a normal year. So price increases this year are certainly a little bit lower. But yes, we feel good about what we've gotten done there. And you know, we have a rigorous process, as we've talked about a lot in terms of how we do this work and how we make those decisions. So we feel good about how that will play out.

Adrienne Yih

Analyst, Barclays Capital, Inc.

Q

Okay. And then the second part of that was just the confidence in promos. Is that coming from the DTC business and evidence there? Or are you actually giving fewer kind of pricing concessions on the fall/back-to-school kind of orders?

Matt Puckett

Chief Financial Officer & Executive Vice President, VF Corp.

A

Yeah, yeah. Well, I think it's both, right? We are giving fewer concessions at this stage. I mean, we're seeing the order books stick. And our expectation moving into the fall season is that we won't have the issues. Remember, our issues were exaggerated last year. We were late. We were – honestly, we were late on delivering product and particularly in the Outdoor segment. Our Outdoor brands, in particular, suffered there, and we had to offer a lot of additional pricing concessions to get product in and on the floor. We won't have to do that this year. We're well positioned. Our supply chain is in a good place, and we fully expect it will be on time or even maybe above our targets from a kind of service level perspective.

So we've got our normal expectation of discounts and maybe a little bit of excess to give us some room. But overall, we feel good. And certainly, to your point, DTC, which is nearly half the business, fully in our control, and we feel good about how we've got that positioned, both from an inventory and a merchandise plan standpoint.

Benno O. Dorer

Interim President, Chief Executive Officer & Director, VF Corp.

A

Yes, a few last word building on Matt's point. So clearly, as inventories ease up in the category, it is very consistent with past behavior that the promotions are lower, that's what we're assuming. That said, we assume that promotions are still elevated from 2022. We think that's prudent. We're also not assuming that we're recapturing the full margin benefit from the higher 2023 promotions.

So this is another example of being financially prudent and disciplined and having a balanced plan that gives us room to react should things get worse, but also room to do a lot better, if things perhaps saw a little trendier than

we currently assume. So we think our plan is straight down the middle with perhaps a slight on being conservative.

Adrienne Yih

Analyst, Barclays Capital, Inc.

Q

Fantastic. It's very helpful. Thank you.

Operator: Our next question comes from the line of Gabby Carbone with Deutsche Bank. Please proceed with your question.

Gabriella Carbone

Analyst, Deutsche Bank Securities, Inc.

Q

Hi, good afternoon. Thanks for taking my question. I just want to follow-up on Vans. You mentioned some big growth numbers for UltraRange and MTE. How do you view the opportunity to build those franchises? And what do you think is making them so successful?

Benno O. Dorer

Interim President, Chief Executive Officer & Director, VF Corp.

A

Could you repeat the very last question, please – the very last part of your question. I did not get that.

Gabriella Carbone

Analyst, Deutsche Bank Securities, Inc.

Q

Yes. How do you view the opportunity to build those franchises? What do you think is making them so successful?

Benno O. Dorer

Interim President, Chief Executive Officer & Director, VF Corp.

A

Yes. So as we analyze where we stand with the consumer, which is what we've done a lot of over the last six months, we realized that there's a big opportunity taking franchises that are out there, but have a very low awareness to the next level. And that's why there's a bullish on MTE and on UltraRange.

Awareness generally on both platforms, even though they've been around for several years, hovers at around 10% and even loyalist at Vans show awareness of below 30% on those two. So what we're focused on, in general, in Vans is to tell fewer bigger stories and dedicate ourselves more to platforms, an MTE and UltraRange are two. So we're building awareness, and we're backing it up with new product to news, and we're reintroducing these platforms to consumers, and that's what's working.

UltraRange plus 51%, MTE plus 34%. And they're both part of what we call progression, and progression is about 30% of Vans. So these absolutely have the potential to be very meaningful for the brand in the future. And that's perhaps the model, this platform approach and building awareness over a longer period of time that we're also applying with new schools, which we've seeded in Q4 very successful, sold out within two weeks.

We are leaning into inventory and think that could be meaningful. And just this last week, we began seeding a new women's sandal. We call it Style 93 that is going to see a full launch this fall. And we're also very bullish about this and the ability to turn into a meaningful platform. So this is a change in how we treat new products. Fewer stories, bigger stories backed with more money over a longer period of time in order to make them more

sticky. This is a good approach that's showing some really strong green shoots. As a proof point that we're effectively able to engage consumers when we have relevant product news, and we tell stories in an engaging way.

Gabriella Carbone

Analyst, Deutsche Bank Securities, Inc.

Q

Great. Thank you so much.

Benno O. Dorer

Interim President, Chief Executive Officer & Director, VF Corp.

A

Thank you.

Operator: And our last question will be from Jim Duffy with Stifel. Please proceed with your question.

James Duffy

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Yes. [indiscernible] (00:55:32). Thanks for taking my question. I'm hoping you can speak more on the inventory posture. What's the carryover seasonal inventory composition? Can you give some directional commentary on how inventories mix between brands and regions? And then maybe if you could give us a sense for purchase orders for new receipts? I presume that down meaningfully versus a year ago. Can you perhaps give us an order of magnitude on that?

Matt Puckett

Chief Financial Officer & Executive Vice President, VF Corp.

A

Hey, Jim. Inventory, we said we're going to reduce inventory in Q4, and we did that. So we feel good about kind of having our arms around what we're going to get done here. We continue to carry higher levels of core and carryover in excess, much of which is in The North Face and Dickies to a much lesser degree, honestly, in Timberland and Vans.

And I've said, we've said a few times, we're comfortable carrying this into 2024 because we've got plans to consume this inventory within kind of normal planned assortments across channels through the balance of spring and really into fall holiday. So that's – yes, that doesn't give us a lot of concern. I mean, certainly, I'd rather not have that inventory and rather have that cash and manage it differently, but we'll be able to work our way through that.

I mentioned, I think, in my prepared comments, up about \$600 million or \$620 million, ex in transit, at the end of the year, which equated to 46%. To give you a little bit of color there, about 15% of that increase of that \$620 million is what I call prior season discontinued product, all right? So that's a number, right, not nothing, but it's not unmanageable at all and will be sold primarily through our own outlets and at normal intervals in the excess channel as we normally would.

So we've got plans to move through this inventory. We're on track, as we laid out a few months ago, to reduce inventory levels to reduce days of supply while protecting brand equity. We'll continue to do that over the next few quarters. We expect to make strong product – strong progress by the middle of our fiscal year with inventories actually inflecting and declining at that point, near to normalized levels by the end of the calendar year and really kind of fully recovered by the end of the fiscal year. And I would suggest down more than 10% year-over-year at

that point in time. So that kind of gives you a bit of the glide path of how we're thinking about it. Hopefully, that's helpful.

James Duffy

Analyst, Stifel, Nicolaus & Co., Inc.

Q

It is. Can you comment on the purchase orders for new receipt?

Matt Puckett

Chief Financial Officer & Executive Vice President, VF Corp.

A

Yeah. Right. No, you're right. Purchase orders are down. I'm not going to quantify that, but they're down. If you think about a reduction of inventory of a little over 10%, what that means from a COGS consumption standpoint, you can kind of do the math there and tie that into what we've laid out in terms of – from a revenue standpoint, flat to up low single with some improving margins, all that adds up to a fairly meaningful reduction in purchases for sure.

James Duffy

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Excellent. Thank you so much.

Matt Puckett

Chief Financial Officer & Executive Vice President, VF Corp.

A

You got it. Thank you, Jim.

Operator: And we have reached the end of the question-and-answer session. I'll now turn the call back over to Benno Dorer for closing remarks.

Benno O. Dorer

Interim President, Chief Executive Officer & Director, VF Corp.

Thank you all for joining us today. We appreciate you. I look forward to speaking with you again in early August when we'll report fiscal year 2024 Q1 earnings. And until then, please be well and be safe. Take good care.

Operator: And this concludes today's conference, and you may disconnect your lines at this time. Thank you for your participation.

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