

23-Oct-2017

VF Corp. (VFC)

Q3 2017 Earnings Call

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# MANAGEMENT DISCUSSION SECTION

**Operator**: Greetings, and welcome to VF Corporation's Third Quarter 2017 Earnings Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Joe Alkire, Vice President of Investor Relations. Thank you. You may begin.

#### Joe Alkire

VP-Investor Relations and Financial Planning & Analysis, VF Corp.

Good morning, and welcome to VF Corporation's third quarter 2017 earnings 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 that our participants refer to on today's call will be in adjusted and currency neutral terms, which we defined in the press release that was issued this morning. We use adjusted and currency neutral amounts as lead numbers in our discussions, 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 U.S. GAAP.

Reconciliations of GAAP measures to adjusted and currency neutral 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 of why this information is useful to investors.

During the second quarter of 2017, the company completed the sale of its Licensed Sports Group, or LSG, business. In conjunction with the LSG divestiture, VF executed its plan to entirely exit the licensing business, which comprises the LSG and JanSport brand collegiate businesses. Accordingly, the company has classified the assets and liabilities of these businesses as held for sale and included the results of these businesses in discontinued operations for all periods presented.

During the third quarter of 2016, the company completed the sale of its Contemporary Brands businesses. Accordingly, the company has classified the assets and liabilities of the Contemporary Brands businesses as held for sale and included the results 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 President and Chief Executive Officer, Steve Rendle, and Chief Financial Officer, Scott Roe. Following our prepared remarks, we'll open the call for questions. Steve?

# Steven E. Rendle

President, Chief Executive Officer & Director, VF Corp.

Thanks, Joe, and good morning, everyone, and welcome to our third quarter 2017 conference call. Our third quarter results were a bit stronger than expected, with broad-based strength across core growth engines, international, direct-to-consumer, our big three brands, and Workwear.

Our focus and investment in support of our 2021 strategy is driving accelerated growth and value creation across key pillars of our portfolio. We are in the early phases of the strategic journey we began earlier this year. And while the rapidly changing consumer landscape and dynamic retail environment around the world is sometimes difficult to predict, we are confident that the choices and capabilities embedded in our strategic growth plan will enable our strong portfolio of diverse global brands to connect more deeply with consumers and fuel accelerated growth.

Third quarter revenue increased 4%, as our momentum continued to accelerate. As a reminder, our growth rate during the quarter was reduced by about 3% due to the shift in timing of our fall order book, which we discussed during our last call. Our big three brands, Vans, The North Face, and Timberland, grew at a combined rate of 6% in the quarter.

Our international business grew 10%, including 14% growth in Europe and 9% growth in China. Direct-to-consumer increased 17%, with more than 35% growth in digital. Our Workwear business grew 11%, and our digital wholesale accounts, a key growth driver for VF during the next five years, increased more than 20%.

Gross margin improved 180 basis points in the quarter, excluding a negative 80 basis point impact from FX. The continued strength of our gross margin demonstrates the power of our diversified model, and the discipline and focus we place on quality growth. Adjusted EPS increased 10% to \$1.23 in the quarter. This is ahead of the outlook range we provided in July.



Based on our strong third quarter performance and confidence in the balance of the year, we're once again increasing our full-year outlook, raising our dividend for the 45th year in a row, while at the same time committing an additional \$25 million to fuel growth. Combined with the \$40 million we announced in July, we have now committed \$65 million of additional investment behind our strategy relative to our initial outlook in February.

We will continue to evolve VF and our brands to become more consumer and retail centric. You are beginning – and I stress beginning – to see that come to life in our results. We will reshape our portfolio and align ourselves with our financial aspiration. We've made progress thus far in 2017, but we're not finished. We see many unique catalysts to ignite accelerated growth and value creation during the next several years, and we look forward to updating you on our progress.

And finally, before getting into the specific brand results, as you know, we formally Williamson-Dickie to the VF family on October 2. Our integration teams have worked in a collaborative manner since we announced the transaction. To the teams and those that support them, I extend a sincere thank you. While it's early, I couldn't be more pleased with the chemistry within the teams and even more confident about the value creation synergies we see within our existing Workwear platform. It's great to have the Williamson-Dickie people part of VF. With that let's review our third quarter results and dive deeper into our top five brands, Workwear, and Sportswear.

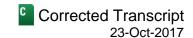
Beginning with The North Face brand, as expected, global revenue decreased 3%, driven primarily by the order book timing shift that we discussed during our prior call. As expected, on a more normalized basis, global revenue increased 33%. D2C results were strong and increased at a low double-digit rate, with mid-single-digit comps and more than 20% growth from digital. Wholesale was down 6%. However, excluding the order book shift, wholesale would have increased at a low single-digit rate.

By region, revenue in the Americas, as expected, declined 10%. High single-digit D2C growth, including more than 20% growth in digital, was more than offset by a mid-teen decrease in wholesale, which was influenced by the order book shift. Without the shift, revenue in the Americas was down about 1%.

Turning to product performance; lifestyle, accessories, and fall transition products, such as rainwear and lightweight fleece, generated solid growth in the quarter. In August, The North Face brand launched its Walls Are Meant For Climbing campaign and partnered with climbing gyms around the world to inspire athletes to climb new heights and explore the outdoors. The campaign intended to unite our global communities through the sport of climbing is the perfect embodiment of The North Face spirit of exploration.

In Europe, the brand's strong momentum continued, with revenue growth of 17%, including mid-teen growth in wholesale and high teen growth in D2C. Our digital business was particularly strong, growing more than 50% in the quarter. Consumer demand for The North Face brand remains exceptionally strong across the region, with double-digit growth across all major product categories. And building on our success in Asia, the Urban Exploration product territory is now in select markets across Europe and initial sell-through results have been exceptional. Given the broad-based momentum we have in the region, we expect growth to accelerate further as we move into the fourth quarter and into 2018.

As expected, Asia returned to growth and was up 4%. D2C increased at a mid-teen rate, with almost 30% growth from digital, and wholesale increased at a low single-digit rate. Our fall season is off to a solid start, with the strength from the Gore jacket and our Urban Exploration product territory. Now, the outdoor market in China remains highly promotional, our brand is strong and we expect accelerated growth as we move into the fourth quarter. There is no change to our full-year outlook for The North Face brand, as we continue to expect growth to be at the high-end of the mid-single-digit range.



Now to our largest and fastest growing brand, Vans, which achieved record-setting growth in the quarter. Revenue increased 26%, with strength across all regions, channels, and product franchises. Revenue in the Americas grew 22%. Europe increased 39% and Asia Pacific grew 23%. D2C increased more than 30%, including almost 30% comp growth and 60% growth in our digital business. Wholesale increased 19%, with midsingle-digit growth in the Americas and more than 35% growth internationally. We offer a big congratulations to our Vans team around the world. The consistency and depth of the brand's performance is truly remarkable.

The ongoing energy and heat behind the Vans brand continues to grow, with strong momentum across nearly all product categories. Vans icons, including the Old Skool, and black and white checkerboard designs, more than doubled in the quarter. The new UltraRange franchise launch exceeded expectations in our back-to-school selling period, with 50% sell-through in D2C and about 75% sell-through at wholesale, even with the higher average selling price.

We also launched our Customs 2.0 platform in Europe, helping to ignite accelerated growth on our digital platform in the region. During the quarter, Vans opened a new aspirational boutique store, The General, in Brooklyn, which showcases elevated product, as well as the Vans Customs platform, with fabric samples and everything else you need to build a custom pair of Vans. This space exemplifies what Vans is all about, inspiring creative self-expression with consumers in communities it serves.

Some of you may be wondering whether this level of growth for Vans is sustainable. Let me just say, the confidence we have in our largest brand is high. The brand is stronger than it has ever been, with broad-based growth across all regions, channels, and product categories. Retail inventory levels are in great shape and we remain disciplined with respect to inventory management, merchandising, and assortment planning.

While we see a strong growth trajectory for this brand as we move into 2018, the year-over-year comparisons are going to be difficult. Then again, over the past six years the Vans brand has grown at a mid-teen rate, so the comparisons have always been somewhat difficult. Based on the strength of our third quarter performance, as well as increased growth expectations for the fourth quarter, we now expect about 15% growth for the Vans brand in 2017, up from our prior outlook at the high-end of the low double-digit range.

Switching to Timberland, global revenue declined 2%, driven by the same shift in timing of the fall order book that impacted The North Face brand. As expected, the timing shift reduced global revenue by approximately 5% in the quarter. High single-digit growth in D2C, including more than 35% growth in digital, was more than offset by a mid-single-digit decline in wholesale.

Timberland brand revenue in the Americas declined 7%. However, on a normalized basis, revenue increased at a low-single-digit rate. High single-digit growth in D2C was offset by a high single-digit decline in wholesale due to the order book timing shift previously mentioned.

From a product perspective, our non-classics business increased at a low double-digit rate, as our diversification strategy begins to take hold. Our new platforms, such as SensorFlex and Aerocore, saw more than 75% growth, and our women's product also continues to appeal to consumers, with 20% growth in D2C. And our Timberland PRO business remained very strong, with more than 30% growth.

In Europe, Timberland brand revenue increased 3%, which was also influenced by a shift in timing of the fall order book. Results were driven by mid-teen growth in D2C and low single-digit growth in wholesale. Our digital business was very strong, increasing more than 50%, with strong results from our new, locally-designed women's

platform. Our momentum across the region is strong and our growth broad-based with high single- to low double-digit growth across both footwear and apparel.

Timberland's Asia business declined 5%, driven by the timing of shipments. Mid-single-digit growth in D2C was offset by a low teen decline in wholesale. Our outerwear was particularly strong, supported by the M65 jacket campaign. There is no change to our low single-digit growth outlook for the Timberland brand in 2017, which includes high single-digit growth in the fourth quarter.

Moving to the Wrangler brand, revenue increased 4% during the quarter, with high teen growth in D2C and midsingle-digit growth in wholesale. Revenue in the Americas increased 6%, while revenue in Europe declined 2% and Asia declined 10%, because of the ongoing weakness in India. Our third quarter results for the Wrangler brand were in line with our expectations. However, our visibility in the U.S. Jeanswear business remains low and we continue to expect quarter-to-quarter variability in the near term.

That said, sell-through at retail improved late in the third quarter, giving us confidence that the initiatives put in place by a key customer are showing early signs of success. From a digital perspective, we're seeing strength across our digital wholesale partners, as well as our own wrangler.com business, which increased more than 20%. Our ongoing efforts to elevate the brand and extend more deeply into new channels, such as department stores and specialty retail, also continued to gain traction.

Turning to product, our limited release capsules and collaborations have done exceptionally well, from our Born Ready collection, which features unique pieces that celebrate Wrangler's rich heritage, to our collaboration with designer Peter Max. And, hopefully, some of you saw the Wrangler brand prominently featured in a storefront in Herald Square. There is no change to our 2017 outlook for the Wrangler brand, which includes low single-digit growth in the fourth quarter.

Now to the Lee brand. Revenue declined 8%, as 15% growth in D2C was more than offset by a low double-digit decline in wholesale. The Lee Americas business was down 14%, as the brand continues to grapple with ongoing wholesale channel pressures and consolidation. While our women's business remains challenged, our men's denim business is performing well and was up at a high single-digit rate, including strong performance from our Extreme Comfort Khakis and Extreme Motion denim products.

Lee Europe was up 7%, with more than 20% growth in D2C, including 40% growth in digital. Wholesale increased at a mid-single-digit rate. In Asia revenue declined 4%, driven by continuing weakness in India. Our women's business in China increased at a double-digit rate, powered by our BODY OPTIX and Jade Fusion innovation platforms.

Based on Lee's third quarter performance, as well as slightly weaker than expected growth outlook for the fourth quarter, we are revising our 2017 revenue outlook for Jeanswear. We now expect full-year revenue to decline modestly versus our previous expectations of about flat revenue.

Turning now to Imagewear, revenue was up 8% in the quarter. The core Image business was up 4% excluding the impact of jersey revenue connected to the sale of LSG. Bulwark had another strong quarter, and importantly, Red Kap returned to growth, as the recovery in the industrial sector continues.

Looking at our Workwear platform, which includes our Image business as well as Timberland PRO and Wrangler RIGGS Workwear, revenue growth accelerated 11%, with double-digit growth from our three largest brands. Timberland PRO increased more than 30%, Bulwark was up 12%, and Wrangler RIGGS Workwear generated

17% growth. We continue to expect our Imagewear and Workwear businesses to increase at a mid and high single-digit rate, respectively, in 2017.

Looking at Sportswear, the business continues to stabilize, with improvements across both wholesale and D2C. Revenue for Nautica was about flat, while the Kipling Americas business achieved low single-digit growth. The new management team we put in place earlier this year has worked hard at restoring profitability, and their efforts are clearly showing results. Thank you to everybody on the Nautica team.

And with that, I'll turn it over to Scott.

## Scott A. Roe

Chief Financial Officer & Vice President, VF Corp.

Thanks, Steve. Before I get started, let's review a few housekeeping items that influenced our reported third quarter results.

First, we took \$105 million pre-tax noncash goodwill impairment charge to reduce the carrying value of the intangible assets related to the Nautica brand. Despite recent improvements in financial performance, our strategic assessment of the brand determined the asset to be impaired, which resulted in the related charge.

Second, we incurred about \$5 million of pre-tax acquisition-related expenses associated with the Williamson-Dickie transaction. On a combined basis, the two items just mentioned negatively impacted our reported earnings by \$0.26. Now, let's review our third quarter results. My comments will focus on our adjusted results excluding the impairment and acquisition-related expenses just mentioned.

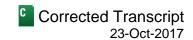
Our third quarter results were strong, with broad-based strength across international and direct-to-consumer platforms, Outdoor & Action Sports and Workwear. Revenue increased 4% to \$3.5 billion, and excluding the order book timing shift for The North Face and Timberland brands, our underlying growth rate was approximately 7%.

Revenue for our big three brands was up 6% on a combined basis, led by very strong results from Vans, which was up 26%. The underlying passion for Vans across the globe is truly unique. What gets us most excited is how this deep emotional connection, coupled with the tribal nature of the Vans family, will continue to drive exceptional performance. While we don't expect to maintain these stellar growth rates indefinitely, these results give us confidence in the vision we have for this brand and the growth targets we laid out in Boston.

As expected, The North Face and Timberland brands declined 3% and 2%, respectively. However, both brands grew at a low single-digit rate, normalizing for their order book timing shift. Our Workwear business increased 11%, and importantly, our Jeanswear coalition continued to sequentially improve, driven by Wrangler, which returned to growth in the quarter and was up 4%.

International increased 10%, as our growth continues to accelerate. Our Europe business was particularly strong, up 14%. And just to put some context around the strength we're seeing in Europe, our big three brands grew 17%. Wholesale was up at a low-teen rate, including almost 30% growth from our digital partners. Direct-to-consumer increased at a high-teen rate, including more than 40% growth in digital, and we achieved double-digit growth across almost every major market.

Our European business is clearly firing on all cylinders, and as one of our most profitable platforms when combined with an efficient tax structure, enables us to drive significant value creation. The broad-based strength we see across the region will carry into 2018, so a big thank you to the European team.



China remained strong and was up 9%, with particular strength in Vans, D2C, and digital. Our direct-to-consumer business was up 17%, led by more than 30% growth in digital. Our Outdoor & Action Sports, Jeanswear, and international businesses all achieved at least high-teen growth. With double-digit comps in our global brick-and-mortar business, our efforts to distort investment towards store experience and digital, while focusing on the productivity of our fleet, are showing results. Wholesale revenue was in line with last year. However, excluding the order book shift, wholesale was up at a low single-digit rate. International delivered high single-digit wholesale growth and our digital wholesale accounts grew more than 20%.

Gross margin remained strong at 50.1%, up 100 basis points, which includes an 80 basis point negative impact from changes in FX. That is 180 basis point increase currency neutral, which is pretty much in line with our first half results. Our stronger-than-expected gross margin was a result of more favorable mix and better full price sell-through.

Our gross margin is the byproduct of our disciplined and focused approach on quality growth. Gross margin expansion is a core element of our diversified value creation model, and provides us flexibility and fuel to accelerate investments and drive growth behind our largest opportunities.

SG&A as a percentage of revenue was up 240 basis points to 33.2% in the quarter. Our ratio was distorted a little bit by the order book timing shift, which resulted in about 40 basis points of deleverage.

Let me take a few minutes now and walk you through the remainder of our SG&A increase. More than half of that increase was driven by investments in D2C, demand and product creation, innovation, and technology. In fact, most of the increase was in D2C, and particularly in digital, which is where we have momentum and stronger profitability. And when coupled with our higher incentive compensation compared to a weaker performance a year ago, we've accounted for more than 90% of the change.

Based on our increased confidence, we've committed an additional \$25 million of investments in demand creation and strategic priorities this year. That is in addition to the \$40 million we announced last quarter. So, relative to the initial outlook we provided in February, we've committed \$65 million to transform VF into an agile, digitally-enabled, consumer-centric organization.

Now to answer a question likely on your mind. Excluding the impact of Williamson-Dickie, we do expect a more moderate pace of SG&A growth in Q4 and as we head into 2018. There is no change in our long-term SG&A or operating margin targets we communicated in Boston. And if anything, we're even more confident in our ability to achieve these targets as we sit here today.

Third quarter adjusted operating margin declined 140 basis points to 16.9%, including an 80 basis point negative impact from changes in FX. So, on an adjusted basis, EPS increased 10% to \$1.23. Relative to the range we provided in July, our third quarter earnings benefited by about \$0.07 from FX and a lower tax rate.

Turning to our balance sheet, our inventory increased 1%. Our inventory is in good shape and from days outstanding perspective is starting to come back in line. Given our strong third quarter results and increased growth trajectory we see for the balance of 2017, we are once again raising our full year outlook. Our updated outlook now includes the following.

Reported revenue is expected to be up 6%, about 5.5% on a currency neutral basis, to approximately \$12.1 billion. That compares to our previous expectation of \$11.85 billion. Our increased revenue outlook is driven by

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our core growth engines, Outdoor & Action Sports, most notably Vans, D2C, particularly digital, and broad-based strength across our international business. Our revenue outlook continues to contemplate about a \$200 million contribution from Williamson-Dickie.

Gross margin is expected to approximate 50%, which includes a 50 basis point headwind from FX. This represents a 50 basis point improvement relative to our previous outlook of 49.5%.

Adjusted operating margin is now expected to be about 13.4% versus the previous estimate of 13.7%. This includes a 50 basis point negative impact from changes in FX, as well as the impact of an additional \$25 million investment. Excluding the impact of Williamson-Dickie, we expect our adjusted operating margin to be about 13.6%.

Adjusted EPS is now expected to be \$3.01, up 1% on a reported basis or up 6% on a currency neutral basis relative to the 2016 adjusted EPS of \$2.98. Our outlook includes the \$0.05 of additional investments, as well as a \$0.02 contribution from Williamson-Dickie. As a reminder, our prior outlook was \$2.96. Finally, we now expect our cash flow from operations to reach about \$1.5 billion.

We remain committed to returning cash to shareholders, and our dividend and share repurchase program are key components of our diversified value creation model. Based on our performance and the confidence we have in our strategic growth plan, our board of directors approved a 10% increase in the quarterly dividend to \$0.46 per share. This marks the 45th consecutive year we've increased our annual dividend. With this increase, our calendar 2017 dividend will reach \$1.72, a 12% increase compared with the prior year. When combined with our share repurchase, our cash returns to shareholders in 2017 will approach \$1.9 billion. That's an 8% yield based on our current market cap.

So with three quarters behind us, we are confident in our increased growth outlook and have strong momentum as we move into the fourth quarter. Our core growth engines are delivering double-digit growth, our gross margin is strong, our fundamentals are intact, and we are investing in our future. And given our momentum and the confidence we have in our growth plan, we're putting more money to work behind our largest brands and growth platforms, while returning additional cash to shareholders.

With that, I'll turn it back to the operator, and we'll open the call for your questions.

# **QUESTION AND ANSWER SECTION**

**Operator:** Thank you. [Operator Instructions] Our first question is from Laurent Vasilescu with Macquarie Group. Please state your question.

#### Laurent Vasilescu

Analyst, Macquarie Capital (USA), Inc.

Congrats on solid result. I wanted to follow-up on the wholesale business for the fourth quarter. Aside from the \$100 million shift from 3Q into 4Q, are there any additional shifts between the fourth quarter and next year's stub quarter? And then secondly, for the fourth quarter, stripping out Williamson-Dickie's revenues, should we assume wholesale revenues on an organic basis will be up mid-single digits year-over-year?

#### Scott A. Roe

Chief Financial Officer & Vice President, VF Corp.

Yes, that's about right in terms – on the second part of your question, Laurent. It should be up about that rate, and no, there's no other big shifts other than the order book timing between Q3 and Q4.

#### Laurent Vasilescu

Analyst, Macquarie Capital (USA), Inc.

Okay, wonderful. And then I wanted to follow-up on the Williamson-Dickie acquisition. Since the acquisition was announced in August, curious to know if you've gained any additional learnings you might want to share on the call. And then finally, since Williamson-Dickie was an all cash transaction, can you remind us how much leverage you would be willing to take on if you chose to pursue an additional acquisition?

#### Scott A. Roe

Chief Financial Officer & Vice President, VF Corp.

Yeah. So I'll take the second part of that first before Steve comments on what we've learned. We've said that we're guarding our rating, which is generally 2 times EBITDA, debt-to-EBITDA 2 times. However, for the right acquisition, we're willing to stretch that even to the point of a one step downgrade if we had the right opportunity. So if you do the math, that'll imply a lot of capacity.

The other thing is, with our strong cash flow, our metrics snap back into line pretty quick here. So we're really – we have dry powder even today. As we look at the contribution from Williamson-Dickie and the rest of our portfolio, we're back in kind of historic levels in a very rapid manner.

#### Steven E. Rendle

President, Chief Executive Officer & Director, VF Corp.

And, Laurent, on what we've learned with Williamson-Dickie so far, I mean, we're really still early, but we couldn't be happier. We have down there is a passionate, committed team that looks and acts a lot like VF and are really integrating well with our Imagewear team and the broader Workwear team. Brands are great. We're very excited about what we're learning about Dickies and the reach that it has globally and what we think we can do with it here in the United States. And the synergies that we've called out from the beginning absolutely are there and committed teams working across 12 major work streams getting after just that exactly.





#### Laurent Vasilescu

Analyst, Macquarie Capital (USA), Inc.

Thanks a lot. Congrats.

Operator: Next question is from Dana Telsey with Telsey Advisory Group. Please state your question.

Dana Lauren Telsey

Analyst, Telsey Advisory Group LLC

Good morning and congratulations. As you think about the strength of the gross margin, how do you think about the puts and takes? Is there anything to note by brand or coalition that could be lasting going forward that we should watch for? And just lastly, the incremental investment, any color on where that's going, holiday season, and your outlook on it? Thank you.

Scott A. Roe

Chief Financial Officer & Vice President, VF Corp.

Yeah. Good morning, Dana. So a couple things on that related to gross margin. The story on gross margin really hasn't changed its mix, and the mix is in our fast-growing businesses our highest gross margin. And you saw in this quarter results particular strength in D2C and digital, which that coupled with international and particularly Europe, really have popped the gross margin in the quarter.

But as we look forward, we expect those same drivers to continue, right? So it was a little exaggerated in the third quarter also because our wholesale business for all the reasons we talked at for a long time was a little bit down from a timing standpoint. But overall we see that mix driving forward into next year and beyond.

Steven E. Rendle

President, Chief Executive Officer & Director, VF Corp.

And then, Dana, on the demand, on how we're looking at the investments. About half of the investments that you've seen us deploy this year are around demand creation, and that's very much focused on Q3 and Q4, specifically towards D2C, our digital platform, but also driving broader brand awareness that benefits not only our broader brand, but our wholesale partners.

We're also investing behind many of our strategic priorities and the roadmaps that we've put in place specifically around data analytics, what we're doing with our digital platform. There are investments around advanced manufacturing and some of the innovation work we have going on there, and clearly pushing dollars towards our design capability within our big brands. We're...

Scott A. Roe

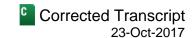
Chief Financial Officer & Vice President, VF Corp.

Dana also asked about what we're seeing in the holiday, what's our outlook from a holiday standpoint.

Steven E. Rendle

President, Chief Executive Officer & Director, VF Corp.

Fair enough. Okay. So I'd say, Dana, we saw October start a little bit slow, but as we see the weather turn in our favor, we've seen really acceleration. And that's very much a North America comment. We're bullish. Our order book really reflects how our wholesale partners are thinking about setting their floors more in line with consumer demand. That's here in the United States, but it's also true with how we're working in Europe and Asia. And really



think we've got good assortments sitting on the floors at the right time, inventories are in good check, and really now it's about driving sell-through, and that's where that demand creation investment has been put forward to help drive that.

Dana Lauren Telsey

Analyst, Telsey Advisory Group LLC

Thank you.

Operator: Our next question is from Omar Saad with Evercore ISI. Please state your question.

Omar Saad

Analyst, Evercore ISI

Thank you. Thanks for taking my question. Good morning. I was hoping you could talk a little bit more detail about Vans. I mean, the performance there really stands out, as you know. Maybe you can go a little bit deeper into some of the strategies that are working, how you're executing it to generate such consistent strong performance globally in a broad-based way. And then maybe tie in digital and social media, if that's an important element, to what's going on with that brand and if there are learnings that you're developing around Vans that you can apply to some of the other assets in your portfolio. Thanks.

Steven E. Rendle

President, Chief Executive Officer & Director, VF Corp.

Great, Omar. Vans' performance is fantastic, and the congratulations that you put out to our teams. I think one of the primary reasons this brand is doing so well, it is the team that works on this brand across the globe, and their intense focus and deep understanding of who their consumer is. And we talk a lot about our expressive creator and who they are, what's important to them, and how to reach them with our demand creation. And that really is about the social media and the digital platform.

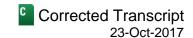
I think key things that are driving these results, Omar, it starts with product, the way our business team there really manages franchises and really thinks through the integrated marketplace lens, placing the appropriate product in the right locations. And then the appropriate amount of newness, be it new colorways, the collabs that we do season to season, or the UltraRange that we launched this fall that are completely new product, higher price point, is continuing to move the brand further down its path.

I would tell you – I think probably our single strength, after product, it's our D2C in how our brand stories are told within our own environments. You can see that here in the U.S. and across the globe. And as we start to really mature and improve in that area, starting to see us bring a segmented approach to boutiques, the comment I made around the new General in Brooklyn to how that complements our street front and mall-based stores, and how that all links together with our digital platform. It really is a well-oiled machine, very focused in deep understanding of the consumer. And it really is about the digital connectivity and the storytelling that we tell through the digital platform that we think is one of those key strategic advantages.

Scott A. Roe

Chief Financial Officer & Vice President, VF Corp.

Yeah. I would just add on, Omar, that when you think about our investments and where we're making our investments, a lot of the digital platform inspiration has come out of the Vans team. Not all, but a lot of it. And as we make our investments, we're investing in VF-wide platforms, so that that learning and that capability can be – that we can take advantage of that across the entire enterprise.



It would be hard for any one brand individually to fund this kind of investment, and that's where we think the power of the portfolio of One VF, this is how we approach these things. And this is one of our key strategic choices that we've made, as we outlined in Boston. A close relation to that is also the Customs platform. Again, piloted in Vans, but absolutely applicable for the wider enterprise, and we see this as continuing to grow throughout the organization.

Omar Saad Analyst, Evercore ISI	Q
Thanks, guys. Nice quarter.	
Steven E. Rendle President, Chief Executive Officer & Director, VF Corp.	A
Thanks, Omar.	
Scott A. Roe Chief Financial Officer & Vice President, VF Corp.	A
Thanks, Omar.	
Operator: Our next question is from Camilo Lyon with Canaccord Genuity. Please state your question	٦.
Camilo Lyon Analyst, Canaccord Genuity, Inc.	Q

Thanks. Good morning, guys. Great to see the momentum in the business. I was hoping you could talk a little bit about the FX impact. It seems like there was a pretty large swing from last quarter to this quarter as it relates to the overall guide for the year. It seems like it's about 150 basis point swing to the positive. Could you just help us frame how that benefit could continue into 2018, and how we should be thinking about that component, as that's been a pretty big drag [indiscernible] (38:51)?

Scott A. Roe
Chief Financial Officer & Vice President, VF Corp.

Yes. So, obviously, first of all, we don't try to get cute as it relates to currency. We've got a basket of currency we're looking at, and to the best of our knowledge, we called it essentially where it is for the balance of the year. And that's reflected in the outlook that we just talked about.

As you look into 2018, I guess, a couple of things. Number one, remember, that we hedge with a pretty long tail here, so we're going out 12 to 18 months. A lot of this has already been baked at slightly different rates as you look into next year. So you've just got to remember that. Also, from a translation standpoint, of course, wherever the currencies are right now that looks like that's a tailwind. Hopefully, that will be the case.

I would also just caution you to not focus too much on one factor, right? As we look into next year, cost is up a little bit in the fourth quarter, for example. We'll see that knock on into next year. Yes, currency looks like it's a tailwind, but you've got to look at the balanced picture. And we're not at the point of giving guidance for 2018 at this point.

## Camilo Lyon

Analyst, Canaccord Genuity, Inc.

Okay. That's helpful. And then just two other quick questions. Number one, just on the incremental investments that you book back into the business. Should we consider this a pull forward of planned investments or is this resetting a level – higher level of expense that likely gets re-upped in the next year?

And then more broadly speaking about the advanced manufacturing capabilities, can you just remind us where you're at in those initiatives and how we should start to see and when we should start to see some of the benefits that you'd expect to deliver from faster, more speed-like manufacturing initiatives?

Scott A. Roe

Chief Financial Officer & Vice President, VF Corp.

Yeah. Camilo, I'll take the first part of that. Here's what I would say relative to the investments. Remember, we've laid out a strategy, and behind that strategy are roadmaps of investments. And if you think about the shape that we talked about and the plan in Boston, in general, we're going to see investments a little more front-loaded, and you're going to see our top line continue to accelerate.

So it's not so much – yes, we are moving faster down a path. Our intent is to continue to invest around these priorities. So while it may not be the exact same thing, right? We're making innovations in our digital platform, for example. You don't have to do that twice, but there will be the next thing when you think about customs, mobility, a lot of the innovation initiatives. We're going to continue to make those investments.

Also, as it relates to demand creation, there's two sides to your question. Number one, if we should have a 3-sigma event and be in a very different place, could we stop these investments? Sure, we could. When you think about demand creation, we look at MROI and we always are judging that the payback is there and whether we're willing to make that investment. It is a discretionary investment that we can make a choice on.

But our intent is to continue to invest in demand creation. In fact, our plan said we intend to increase demand creation as a percentage of sales and grow it faster than sales. So our intent will be to continue. Obviously, there is variability if we should have a fundamental change in the market, but we don't anticipate that, nor is that our intention to modulate.

Steven E. Rendle

President, Chief Executive Officer & Director, VF Corp.

Camilo, on the advanced manufacturing portion of your question, this is an exciting area. We've talked a little bit, not to a great degree, because much of what we're doing here we consider to be fairly proprietary. But I think it's fair to say we have gone through and continue to go through really in-depth end-to-end analysis of our total timeline around product creation in breaking down where are those elements for us to bring innovation and improve speed, efficiency, and really effectiveness. So, on the upstream side, that's really looking closely at our design and development capabilities and where can we bring technology to improve speed.

But the advanced manufacturing piece, which is really little bit less than half of the total time of our timeline, is about looking at how do we break down material manufacturing and are there things that we can do around improving speed of material finishing adjacent to our production facilities and within the production facilities, really looking at a whole host of technologies to improve efficiency.

I would tell you, our supply chain is already very automated. If you were to go into our Jeanswear facilities here in the Americas, you'd see a highly automated and efficient model. We think there's improvements to be had there, especially as we can marry up materials finishing closer to where we produce. But lot of things going on inside black box that we're standing up here in North Carolina to really test out our theories, prove it, and then scale it as we can, not only within our own production, but with key partners.

Scott A. Roe

Chief Financial Officer & Vice President, VF Corp.

Yes, one final thought, Camilo. As you think about all these investments, whether it be advanced manufacturing or other priorities, our first commitment is to the shareholder, right? And we've made commitments and we ensure that we're delivering against those. And we're always trying to balance delivering our commitment to the shareholder with investing in future state growth, and that's a big part of our conversation on an ongoing basis.

Camilo Lyon

Analyst, Canaccord Genuity, Inc.

Is there a brand that would get the front-end benefit of those initiatives on the manufacturing front that you're focusing on, or is that a complete portfolio benefit as it starts to roll out?

Steven E. Rendle

President, Chief Executive Officer & Director, VF Corp.

We're looking pretty broadly at this point, Camilo, across our portfolio of apparel, footwear, and equipment. There are certain categories that probably lend themselves more than the other, but right now we're more focused on breaking down really the phases of how the product is produced, and then we'll marry that back into -- for sure, our big three will see the biggest focus, but there are some brands within our portfolio that are particularly well-suited as incubators for us to test learn before we look to scale to the big three.

Camilo Lyon

Analyst, Canaccord Genuity, Inc.

Great. Thanks for the color, guys. Good luck with the fourth quarter.

Scott A. Roe

Chief Financial Officer & Vice President, VF Corp.

Thank you.

Steven E. Rendle

President, Chief Executive Officer & Director, VF Corp.

Thanks, Camilo.

Operator: Our next question is from Sam Poser with Susquehanna. Please state your question.

Sam Poser

Analyst, Susquehanna Financial Group LLLP

Good morning. Thanks for taking my questions. Just a couple of things. When we look into next year, are you – I mean, this is just more housekeeping. Are you going to sort of restate everything to – are you creating a new Workwear segment, or how should we be thinking about that with the Dickies acquisition?

## Steven E. Rendle

President, Chief Executive Officer & Director, VF Corp.

Yeah. At this point, Sam, we're not – we haven't decided to change any of our reporting segments. Obviously, that's an ongoing evaluation that we're looking at it in light of portfolio changes. At this point we haven't made that decision.

#### Sam Poser

Analyst, Susquehanna Financial Group LLLP

Thank you. And then secondly, one of the things I was seeing – it was reported in the news – was that you were getting some placement sort of at Paris Fashion Week with some of The North Face product and so on. Can you talk about that new direction and how you're working to exploit that? Is that part of the whole city stuff you were doing out of China? Could you give us some color there?

#### Steven E. Rendle

President, Chief Executive Officer & Director, VF Corp.

Yes, Sam, what you've read there is exciting. That's part of our Urban Exploration territory. That's part of really breaking down the consumer usage occasion into the four individual elements. But Urban Exploration really is coming from Asia in partnership with our Japanese partners, but also the team in China. And what you saw in Paris Fashion Week was a collaboration with a group called Sacai and really innovative take on some of our core Heritage Mountain Jackets, long in length and all actually made to our technical standards.

But what you see there, Sam, is our ability to speak to a broad segment of consumers through that technical lens of The North Face, making sure we stay true to the heritage and the performance, but also bringing the right product that allows that consumer to express themselves as they look at the brand individually.

#### Sam Poser

Analyst, Susquehanna Financial Group LLLP

Just following up on that, when do you see that expanding? When does that roll to the States and become sort of a broader – you talked about it, sort of broader importance. You spoke about it at the Investor Day earlier in the year in a general sense.

## Steven E. Rendle

President, Chief Executive Officer & Director, VF Corp.

Absolutely. So we mentioned in our prepared remarks, we've got some stores that we're placing in Europe this year. We do have a test environment in San Francisco, where our team there can really work with that store on a day-to-day basis. But I think we've really come to a point where we are comfortable with how the brand is expressed within a retail environment. We think that's something we can now pick up and move, and you'll start to see that at least our own D2C expression coming into all markets in a little bit bigger way next fall. But there's an Urban Exploration component to each of our regions and the work that we do within our urban environments here in the U.S. are in many ways coming out of that collection. But specifically, the Asian piece you'll see here more so next year.

#### Sam Poser

Analyst, Susquehanna Financial Group LLLP

Thank you very much. Continue the success.

Steven E. Rendle

President, Chief Executive Officer & Director, VF Corp.

Thanks, Sam.

Operator: Our next question is from Bob Drbul with Guggenheim Securities. Please state your question.

Robert Drbul

Analyst, Guggenheim Securities LLC

Hi, guys. Good morning. Couple of questions on The North Face. Good morning. On The North Face, I guess, the first question is can you give us an update in terms of the trial that you're planning with Amazon, sort of where that stands today? And the second question on The North Face is, with the Americas performance where it is, where do you think the inventories are for The North Face brand at retail – in the retail levels right now throughout the channels?

Steven E. Rendle

President, Chief Executive Officer & Director, VF Corp.

Great. Well, Bob, so from – to take your Amazon question first. It's early, and I would tell you we're really being very thoughtful, how does Amazon fit into that integrated market strategy that the brand has, what's the right segmented offer that can be used within that environment to speak to the consumer and sell-through at the rates that both of us would like to see. Early, it looks good. We're having significant progress in helping clean up the unauthorized dealers that are on that site and in many ways have been some of the market pricing dynamics the brand has dealt with. So it's early. We're confident and they're a long-term partner, they're an important partner on a global basis for sure.

To your inventory at retail, it's relatively clean. And I think the outdoor industry specifically for The North Face has been on this [ph] adventure (51:02) for a little over 12 months. We exited last year better than the year before. Retailers have really focused, along with ourselves, on really bringing product to floor based on when the consumer is shopping for those particular product categories and [ph] weights (51:21) of product. So we feel very good about where the inventories are. We're feeling good about the flow of merchandise, and really are looking at this year in a very positive manner versus last year.

I think if you were to contrast North Face, which is very seasonal and we're paying a lot of attention about the flow, contrast that with Vans, which is really a year-round business, there's a lot of learnings from them, as well as Jeanswear, on how we should be flowing specific to consumer demand that our North Face team has been tapping into. And really now designing through these four territories specific collections based on each of the season and the given need and environmental conditions where the brand can really succeed.

Robert Drbul

Analyst, Guggenheim Securities LLC

Got it. And I guess just on the flow, when you think about the acceleration of the Vans business from Q2 to Q3, have you been able to adjust the inventory, the manufacturing plans, to meet that high demand going into the holiday season?

Scott A. Roe

Chief Financial Officer & Vice President, VF Corp.

А



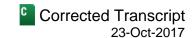
Yeah, the short answer is yeah. We have a relatively shorter lead time as it relates to footwear. We have a really well-developed and diversified supply chain around those categories. And so the other thing, remember, part of this acceleration was in Europe we saw in the first half we were still fighting through some of those inventory imbalances that had gone on for a couple years and we're seeing the acceleration in the second half. We saw that coming, right?

It's a little bit stronger than what we even saw, but for the most part we saw it coming. So we had our supply chain teed up. I would just give a callout, they've done a fantastic job at meeting demand, given this is a high-class problem to have, but it's a real challenge for those guys to keep up with it. And I'd put our people up against anybody in our industry, because they're delivering, right? We're meeting demand and you see it in the results.

Robert Drbul Analyst, Guggenheim Securities LLC	Q
Great. Thank you very much.	
Steven E. Rendle President, Chief Executive Officer & Director, VF Corp.	A
Thanks, Bob.	
Operator: Our next question is from Jim Duffy with Stifel. Please sta	te your question.
Jim Duffy Analyst, Stifel, Nicolaus & Co., Inc.	Q
Good morning.	
Steven E. Rendle President, Chief Executive Officer & Director, VF Corp.	A
Hey, Jim.	
Jim Duffy Analyst, Stifel, Nicolaus & Co., Inc.	Q
A couple of questions from me. First, great strength in the D2C busine numbers imply positive comp at retail. With the 1,500 some odd doors on what you're seeing with respect to traffic and conversion, and may between regions and the brands?	s across the globe, can you guys comment
Steven E. Rendle	^

Yeah, Jim, I think you captured it well. Our D2C business is strong, and that's a big part of our strategic focus. It's where we are absolutely driving investments, not only in creating that traffic, but investing behind operational skills. So specifically you had question on traffic, we are seeing with some of our businesses traffic up year-over-year. Certainly see good traffic gains in our European business. But I think where we're really getting the performance is on conversion. And a lot of [ph] efforts is (54:48) going on to in-store productivity from having the right product at the right time in each of the stores to the quality of the sales experience and our ability to really service consumers quickly and efficiently.

President, Chief Executive Officer & Director, VF Corp.



So it's really a combination of both, but I would tell you it's really that operational piece that's doing that. And also the investments we're making in our [ph] oneCommerce (55:12) platform that are allowing consumers to look at product online, purchase, pick up in store, return to store, we're just starting to really simplify and take the tension out of that purchase decision across all of the formats, and that's driving that traffic, that's driving that conversion, and those results.

Scott A. Roe

Chief Financial Officer & Vice President, VF Corp.

A

I'd just add on a little bit, Jim, too. Thinking about the numbers that you mentioned, the 1,500 stores, we a little more than a year ago came out with a slightly different take on our approach and we've slowed the number of net openings. We're up, we said, about 50. That's more or less half of what we had been running over the previous years. But within that, we're still opening about 100 stores and we're aggressively editing our fleet based on performance. And part of what you're seeing also is the actions around just improving the quality of the fleet underneath the like-for-like initiatives that Steve just outlined.

In fact, for the first time sequentially compared to the prior quarter, our number of stores is actually down by two in the third quarter, up versus a year ago, but down by two compared to the prior quarter.

Steven E. Rendle

President, Chief Executive Officer & Director, VF Corp.

A

And then to build on that, Jim, I mean, the types of stores that our businesses are now looking to open, it's no longer sufficient to have a standard box that we move across the regions. It's being very thoughtful around what type of store based on the consumer and the market. Vans opening a boutique in Brooklyn is a great example of tailoring a retail environment to build that connection, but also bring the right product to the consumer in the community that they live. Each of our brands are looking at those smaller formats, the more street front locations, the mall locations, and really modeling the appropriate type of store. And each of these stores really are starting to take on a smaller square footage, increasing that productivity, profitability.

Jim Duffy

Analyst, Stifel, Nicolaus & Co., Inc.



Great. My next question is related. With the strength that you're seeing in D2C and the challenges with some of the wholesale partner landscape, is there any specific effort to de-emphasize wholesale volumes or any categories or specific channels which you're deeming less strategic going forward?

Scott A. Roe



Chief Financial Officer & Vice President, VF Corp.

Yeah. I don't know if I'm directly answering your question, but I'll just remind you as we laid out our view, we said when you look at wholesale, there's not a lot of wholesale growth on a net basis overall. And really, we said we'd be flat in North America with the wholesale growth coming outside of that. Underneath that, our digital wholesale growth is substantial. So what that means is, we're expecting wholesale to be down low-single digits in North America over the next five years. But within that, Jim, we're winning with the winning formats, right?

We have great customers that are big partners with us and they're growing, we're growing. There's others that are in a little more difficult position, so yeah, we're moving our exposure to the more troubled areas. We're minimizing that, some of that through portfolio and some of that through just where we're placing our emphasis. But in general, remember that hourglass of the distribution channels, we're generally focused on the top and the bottom

portions of that hourglass, because that's where we see the relative higher growth as we look over the next five years.

Jim Duffy
Analyst, Stifel, Nicolaus & Co., Inc.

Great. Thank you

Steven E. Rendle
President, Chief Executive Officer & Director, VF Corp.

Thanks, Jim.

Operator: Our next question is from like Boruchow with Wells Fargo. Please state your question.

Ike Boruchow
Analyst, Wells Fargo

Hi. Good morning, everyone. Let me add my congrats. Scott, I think this is for you. So it looks like you either hit or beat your plan within the Jeanswear coalition for Q3. So I'm just trying to understand what you see in Q4 maybe

Scott A. Roe

Chief Financial Officer & Vice President, VF Corp.

Yes, so first of all, as we said, the visibility in a couple areas is tough for different reasons. But, yeah, Wrangler nice to see sequential improvement and we seem to be generally moving through the plan as expected despite our limited visibility. And we're – I'd say no real change to that situation.

that causes you to be a little bit more conservative on that segment. To that point, just can you help explain why Wrangler bounced back nicely in the U.S., while Lee worsened further from the run rate you saw last quarter?

To be honest, in the Lee business, we have had a tougher-than-expected performance, and particularly on the women's side. Our men's business is showing real strength. I think Steve mentioned that in the prepared remarks. We have several styles and innovation that are really resonating. But on the women's side, it's been a tougher picture for us. And based on what we see going forward, some of that is channel related, some of that is our own issues, frankly. But as we look forward, we took a more cautious view in the fourth quarter and partially reflecting some of the results we saw in Q3 as well going forward.

Ike Boruchow

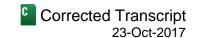
Analyst, Wells Fargo

Got it. And just a quick follow-up, Scott. I think you commented that AUC was higher in the quarter. I think that's the first time you said that in a while. I think it was a tailwind to the first half. Can you just give a little bit more color about the dynamics on the costing side, where the inflation is coming, and just maybe is that a headwind that we need to think about for next year?

Scott A. Roe

Chief Financial Officer & Vice President, VF Corp.

Yeah. So if you remember, just zooming back to the beginning of the year, we talked about we had some tailwinds from a cost standpoint through the first half. That turned to a headwind starting in Q3 and going into Q4. We said Q4 would be the relative largest of the year. But on balance, it was net zero. And cost, frankly, isn't a real big factor for this year. So, also remember that we make commitments in arrears. So when you're thinking about



things like leather or cotton, those commitments that we're seeing in the P&L today were commitments that were six months or so previously committed.

So based on where costs are today, hard to predict. I wouldn't expect costs to be a major issue from what I can see right now going forward. But again, I'd caution you not to over-torque too much on those factors. Just as a good reminder, as you think about currency and as you think about costs, we're looking at — we're making longer term commitments, we're hedging where it's appropriate, and we're balancing all this into our merchandising and our pricing discussions. So as we're balancing that mix, we don't see any fundamental change in the trajectory of our margins, and I would suggest that's the way you should look at it.

Ike Boruchow

Analyst, Wells Fargo

Got it. Thanks so much.

Operator: Our next question is from Mitch Kummetz with Pivotal Research. Please state your question.

Mitch Kummetz

Analyst, Pivotal Research Group LLC

Yeah, thanks. Two questions. First for Steve, just on the Vans business, the wholesale distribution, I think you guys mentioned that Americas was up mid-single-digit. It seems like recently kind of from what I would call the more traditional athletic retailers, they've called out Vans as a strong brand for them. I'm kind of curious how you're managing any expansion with those types of retailers. Any concerns with overexposing the brand maybe, or alienating any more traditional accounts if you are growing with those types of retailers?

Steven E. Rendle

President, Chief Executive Officer & Director, VF Corp.

Great, Mitch. You know our Vans business better than most. The thoughtfulness that they put into their distribution strategy and how they segment product across the different choices that they have, this is something that they spend a tremendous amount of time thinking about. We are in all of those great retailers that sell footwear, athletic footwear to the athletic lifestyle footwear, and we're not looking to aggressively open up doors. But I think we are very broad-based in thinking about the Vans consumer, from the boutique consumer to the broader application in being very thoughtful around who the partner is, what are the right doors, what's the right assortment, and then really managing with our partners sell-through, so we can keep the right level of newness flowing into those doors to continue to drive that forward growth.

Scott A. Roe

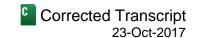
Chief Financial Officer & Vice President, VF Corp.

Just an add-on too, Mitch. When we look at the numbers behind this growth, it's really broad-based, as Steve mentioned. It's by geography, it's by channels, and it's by multiple product categories, including apparel. So it's really broad-based. You're not seeing one particular style or group that's driving the entire brand. It's really broad-based, and that gives us confidence as we look forward.

Mitch Kummetz

Analyst, Pivotal Research Group LLC

Got it. And then, Scott, on the DTC from a margin standpoint, I know you talked about it being a benefit to the gross margin. I'm hoping you could maybe elaborate on the impact from an EBIT margin standpoint. In the



quarter, essentially DTC was all your growth, and I want to say, if I do my math right, probably digital was a third or more of that. Is there any way you can kind of speak to the margin profile of DTC and digital from an EBIT standpoint? That way we can kind of have some sense as to how that impacts your overall operating margin on a go-forward basis, as I assume that you would expect that to continue to be a big driver of the top line.

Scott A. Roe

Chief Financial Officer & Vice President, VF Corp.

A

Yeah, particularly on the digital side, Mitch. And so we haven't disclosed our relative profitability. I'd say this. Number one, a lot of our profit growth in 2017 has come from our D2C, as you can imagine, and I'm talking about operating profit.

With that gross margin expansion comes SG&A, as is obvious as it relates to brick-and-mortar, but remember we moderated our brick-and-mortar a bit. We're focusing more on conversion and comp, and we will continue to open stores, just not quite at the rate as we have in the past. And we've got a specific focus on digital, which is our single most profitable format that we operate.

So as you think about it forward, it's a great question. I'm probably not going to fully satisfy you with my answer. Just know that from a return standpoint, it's accretive when we look at our return on capital, and again, our fastest growing component of that, which we'll continue to mix up, is digital, which is our most profitable format.

Mitch Kummetz

Analyst, Pivotal Research Group LLC

Got it. All right. That's helpful. Thanks, guys.

Steven E. Rendle

President, Chief Executive Officer & Director, VF Corp.

A

Thanks, Mitch.

**Operator**: Ladies and gentlemen, we have reached the end of our question-and-answer session. I would like to turn the call back to Steven Rendle for closing remarks.

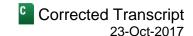
## Steven E. Rendle

President, Chief Executive Officer & Director, VF Corp.

Hi. Just real quickly, couple things. As you all likely remember, Eric Wiseman will retire from our board of directors effective October 28. I would like to take a moment and again thank Eric for the leadership he's provided all of us here at VF. We owe so much of our past success to his vision and incredible work ethic, along with his thoughtful approach to leading a 60,000-person global enterprise. I'm personally very thankful for his friendship and mentorship over our past 18 years together. Eric, if you're listening, and I'm sure you are, we all wish for your next chapter to be as exciting and fulfilling as the 22 years that you gave to VF.

So with that, I'd like to thank all of you for joining our call today. We are nine months into our journey to transform VF into a more agile and consumer-centric enterprise. We're confident in our increased outlook and the momentum that we're carrying into the fourth quarter. Our core growth engines are delivering double-digit growth. Our gross margin is strong and our operating fundamentals are intact. We're thoughtfully investing behind our strategic roadmaps and we remain intently focused on delivering value to our shareholders.

VF Corp. (VFC)
Q3 2017 Earnings Call



So again, thank you, and we look forward to talking to you all again in February.

**Operator**: Thank you. This concludes today's conference. You may disconnect your lines at this time and thank you for your participation.

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