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VF Corp. (VFC)

Q4 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings, and welcome the VF Corporation Fourth Quarter Fiscal 2022 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] Please note that this conference is being recorded.

I will now turn the conference over to our host, Allegra Perry, Vice President, Investor Relations. Thank you. You may begin.

Allegra Perry

Vice President-Investor Relations, VF Corp.

Good afternoon, and welcome to VF Corporation's Fourth Quarter Fiscal 2022 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 of why this information is useful to investors.

Due to the significant impact of the COVID-19 pandemic on prior-year figures, today's call will also contain certain comparisons to the same period in fiscal 2020 for additional context. These comparisons are all on a reported dollar basis.

On June 28, 2021, the company completed the sale of its Occupational Workwear business. Accordingly, the company has reported the related held-for-sale assets and liabilities of this business as assets and liabilities of discontinued operations and included the operating results and cash flows of this business in discontinued operations for all periods through the date of the sale. Unless otherwise noted, results presented on today's call are based on continuing operations.

Joining me on the call will be VF's Chairman, President and Chief Executive Officer, Steve Rendle; EVP and Chief Financial Officer, Matt Puckett; Global Brand President, Vans, Kevin Bailey; and Global Brand President, The North Face, Steve Murray.

This quarter's earnings presentation has been designed as a visual aid to our prepared remarks. You have the option to follow along via the slide window in the webcast portal. The presentation is also available to download on our website.

Following our prepared remarks, we'll open the call for questions.

I'll now hand over to Steve.

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

Good afternoon, everyone, and thank you for joining our fourth quarter earnings call. We're happy to be here and to go through our fiscal 2022 performance and our growth plans for fiscal 2023.

After I take you through the enterprise portfolio strategy update, I will hand off to two of our global brand presidents. First, Steve Murray from The North Face, followed by Kevin Bailey from Vans. We've extended the duration of the call today to give Steve and Kevin the opportunity to share some additional insights on the brand as well as lay out in more detail plans for the year ahead. This will be followed by the financial update from Matt before we move on to Q&A.

We delivered solid results in a challenging and highly dynamic environment by leveraging our extensive scale, relationships, talented people and world-class brands. Our results underscore our competitive advantage as an enterprise portfolio company and our strong execution. I'm incredibly proud of our teams and what they have been able to achieve.

VF's revenue of \$11.8 billion increased 27% which represents high-single digit organic growth relative to pre-pandemic levels. We achieved this growth despite continued headwinds from COVID impacting Asia Pacific and the emergence of new challenges, including geopolitical tensions and acceleration in inflation, and lower consumer sentiment globally. We generated record sales for five of our brands, representing over 70% of our revenue, and highlighted by incredible growth at The North Face. The group's diversified and broad-based performance reflects the strength of our brands, and the outstanding efforts of our teams across all core areas of the organization.

The North Face revenue grew 32% for the year surpassing the key \$3 billion milestone for the first time with broad-based double-digit growth across all regions in the year and fourth quarter. Business in EMEA passed the \$1 billion mark for the first time. Globally, we continue to see strong growth across channels and categories, with momentum in both on-mountain and off-mountain product. Consumer engagement remains a key focus with The North Face loyalty program going to over 13 million members globally and representing nearly half of our D2C revenue.

We have a great pipeline of exciting new products, and a strong order book with healthy inventory levels in our channels, which positions us well for continued strong growth ahead. You'll hear more details about The North Face performance and its plans from Steve.

Timberland grew revenue by 20% in fiscal 2022, representing growth above pre-pandemic levels. Growth during the year was driven by strong sell-out trends particularly in the US and EMEA, which contributed to a strong significant increase in profitability. The brand is achieving more balanced growth with apparel being the strongest category in Q4 and up to 20% of quarterly sales. In footwear, men's and women's icons performed well and outdoor and hike product further accelerated. We saw continued strong sell-through on our GreenStride platform, reinforcing our commitment to eco-innovation as well as PRO driven by the reaction in Radius athletic footwear families.

We launched a number of innovation initiatives for the brand including Timberloop, an end-to-end circular design re-commerce platform. We're pleased with the momentum at Timberland and are excited about the brand's plans and outlook for the coming year as it heads into its 50th anniversary in 2023.

We grew Dickies revenue by 19% to \$838 million for the year while also driving strong profit growth and margin expansion. Our work business has been seeing strong double-digit growth in men's and women's driven by our iconic 874 work pant and work shirt. And [ph] work conspired (00:06:49) seeing growth across bottoms, outerwear and tops.

During the year, we launched the Made in Dickies campaign to celebrate the brand's 100th year anniversary, which generated a strong uptick in web sales. The rise of our three outdoor emerging brands, which play in segments that have enjoyed strong consumer tailwinds, has been a key driver of profitable growth. This further underscores the success of our portfolio strategy, including our international platforms and supply chain to add value through balance and diversification.

Altra accelerated strongly in fiscal 2022 across channels and geographies, growing by 57% versus fiscal 2021, up 84% versus fiscal 2020, primarily driven by elevated products, marketing, and marketplace management coming together in fiscal 2022 for the first time under the new leadership team. We are confident the brand will continue to increase share in the specialty running segment and is well-positioned for continued strong growth in fiscal 2023.

[indiscernible] (00:07:52) also continued to gain momentum in fiscal 2022 with revenue up 40% representing strong double-digit growth across both the Americas and EMEA. This was driven by an expanding apparel business, which has been up nearly 60% and now represents approximately 50% of global sales. The brand is well-positioned to continue to accelerate in its key markets, leading with apparel.

icebreaker generated near-record revenue in fiscal 2022 and transitioned its headquarters to our Stabio office, setting the brand up to leverage our significant enterprise capabilities housed there. The brand's move to natural message and consistent product offering is resonating with a growing consumer base. The brand is set to accelerate momentum in fiscal 2023.

Now onto Vans, which despite growing by 19% over the full year did not deliver on our initial expectations. During the year, the brand achieved double-digit growth in EMEA, 30% growth in Progression footwear styles, and further growth of Vans family, which passed 22 million global members. These wins, however, have not been enough to offset the three key headwinds: COVID lockdowns in China, lower brand heat, and lower performance in classics which has sequentially improved but remains negative as a category.

While we are confident in the health of the Vans brand, we are not satisfied with current performance. As you know, Kevin Bailey has recently returned as Brand President, and later in the call he will take you through the actions they are putting in place to improve performance and their plans to refresh and refocus the Vans strategy.

Finally, on Supreme, the brand's performance was softer than planned, reflecting the significant impact from supply chain disruption. That said, the brand's full price brick-and-mortar business rose by 35%, partly reflecting the contribution of two new stores in Europe. Looking ahead, we are excited by the brand's outlook in fiscal 2023, fueled by the initial contribution of the new creative director, Tremaine Emory's, vision, relocations and updates to key stores in the US and in Japan, and new distribution planned in strategic Asian cities.

Before turning to an update on key progress on enterprise strategy, I'd like to take the opportunity to commend our organization on the consistent execution we delivered throughout the year. Our family of brands has strengthened, and as a result, we are well positioned to continue to generate strong, broad-based and sustainable growth.

Our enterprise strategy enabled us to generate another year of strong earnings and margin growth, executing against our long-range plan's target. In addition to growing revenue by 27%, we again drove strong execution throughout the P&L. We expanded gross margins by 150 basis points to 54.8% and operating margins by over 500 basis points to 13.1% comparable to pre-pandemic levels and grew EPS by 143%. We returned a total of \$244 million to shareholders during the quarter including dividends of \$194 million for a total of over \$1.1 billion returned to shareholders during the fiscal year.

I'm incredibly proud of our teams and what we've achieved during what was a year of disruption. Thanks to our consistent execution, we have strengthened our brands, and we are well positioned to continue to deliver strong, broad-based and profitable growth.

A key area of investment in portfolio infrastructure is our digital ecosystem which influences everything we do from how we create and develop the product to making sure we get the right product in the right place at the right time to providing a seamless and elevated experience for our consumers across all regions and channels.

Consumer data and analytics. We've made significant progress leveraging data and analytics to better understand our consumers and what they want. Through standardized engagement, social sentiment, brand health and consumer-based and value metrics, we were able to capture changes in consumer's behavior quickly, enabling us to rapidly adjust as needed to meet their needs.

The North Face's fast growing loyalty program, XPLR Pass, is a good example of how we're using enhanced data capabilities to drive stronger engagement. Members have a 60% greater purchase frequency relative to non-loyalty members and spend more across every region.

Digital go-to-market. We are transforming how we go-to-market, increasing the level of digitization across product creation, merchandising and supply, further elevating the output while becoming quicker and more agile with shorter lead times and greater efficiencies. Our enhanced use of 3D design across product creation has led to a significant increase in new apparel and footwear styles developed with these technologies. And in fact, nearly 40% of Vans global footwear line is now designed and developed on an automated 3D configurator. These are clear examples of actions that will result in both speed and cost benefits.

Consumer experience. We continue to invest in enhancing the consumer omni-channel experience by adding intelligence to the way we collect, connect, manage and govern cross-channel consumer profiles that provide dynamic segmentation capabilities that serve all direct-to-consumer channels and marketing solutions at the brands. This has enabled us to provide a true seamless omni-channel experience, allowing brands to build stronger connections and personalize the way we communicate with our consumers which in turn increases satisfaction, engagement, and conversion.

Our click-to-deliver rate in the US has improved further to just over two business days. Investing in our transformation will continue to be a key strategic priority as we look to the future.

Our world-class supply chain enables our portfolio to thrive. This critical competitive advantage has never been more apparent than over the last two-plus years. Matt will take you through the details, but in the meantime, I'd just like to pay tribute to our teams who have successfully leveraged our leading platform to overcome significant obstacles and challenges to continue to drive the business forward while ensuring we are well-positioned for future success.

We are leveraging our insights and capabilities to further develop and grow our international business, which accounts for nearly 50% of our revenue.

We continue to sharpen, expand, and implement our local for local strategy, which enables our teams to apply relevant knowledge and relationships to drive decisions, from product design, to marketing, to merchandising, to distribution.

EMEA has continued to be a bright spot for VF, with revenue up 30% in fiscal 2022 and a significant increase in profitability. Through strong execution, we further elevated our brand's positioning with higher quality sales, strengthened partnerships and leading go-to-market capabilities, supporting a foundation for sustainable and profitable future growth.

We continue to make progress in digital, where the digital D2C and digital wholesale partner business combined account for nearly a third of regional revenue. We're well-positioned to continue to build on yet another very successful year in this region.

In Asia Pacific, it's been a challenging year, but we're taking action to manage through the current climate while ensuring we are poised to accelerate when the market conditions improve.

As part of our local-for-local approach, we've invested in talent, growing our teams in Shanghai during the year with a focus on strengthening product design and development, as well as marketing capabilities.

Our teams are focused on increasing local product creation and evolving channel and product segmentation, embracing new emerging channels, elevating store formats and driving further omni-channel integration.

Longer-term, we continue to see significant distribution and brand awareness opportunity in Greater China across all of our brands, as well as other markets in the region with a rapidly growing consumer base and outsized interest in our core strategies.

In conclusion, against the challenging backdrop, we made continued progress against our strategic priorities and delivered on our commitments, including achieving robust earnings growth. Our total addressable markets are big and healthy, and our portfolio of brands is strong, balanced and gaining in momentum. We're continuing to invest to drive the business forward and are well-positioned for another year of profitable growth in fiscal 2023.

Before I hand it over to Steve, I'd like to thank him for the past two years of intense work at The North Face to clarify brand positioning, strengthen the team, enhance integrated marketplace discipline and elevate product merchandising and product creation capabilities.

The brand's incoming president, Nicole Otto, who'll be joining us next month, has the right skills to build upon the foundation that Steve has established.

Today, I've asked Steve to talk us through the transformation he has led at The North Face and explain how he leaves the brand in a great position for sustainable growth as he hands over the reins to Nicole.

He'll be followed by Kevin Bailey, who was brought back in to lead Vans about two months ago to restore the brand's performance and unlock its future growth potential.

Steve, over to you.

Stephen M. Murray

Global Brand President-The North Face, VF Corp.

Thank you, Steve. I'm pleased that The North Face had a great Q4 and that the strong and broad-based momentum we saw last quarter and all through the previous nine months continued.

As a reminder, Q3 of this fiscal year was the biggest quarter in the brand's history, where our quarterly revenues surpassed \$1 billion for the first time. And on the back of this, The North Face has now delivered the biggest Q4 in the brand's history, with global revenues at nearly \$770 million, which is 26% above last year and 59% above the same quarter two years ago.

What was particularly gratifying is that all geographic regions made meaningful contributions, with the Americas particularly strong at 35% above last year, APAC at 22% and EMEA at 18%.

Likewise, from a product perspective, the growth was broad-based, with our on-mountain and off-mountain categories both performing very strongly.

Taking our activity-based performance categories first, outerwear and snow sports made up 48% of sales in the quarter and grew by 38% year on year, driven by both emerging and heritage franchises such as the Nuptse, ThermoBall Eco, our Freedom snow collection, and the Antora rain jacket.

The North Face KAWS collaboration, which we launched in China in mid-January and in our other regions two weeks later, was also a huge success, driving significant brand heat, with a near 100% sell-through in both our e-commerce and wholesale channels within a matter of days. Our footwear business also grew significantly at nearly 19% driven by a combination of Vectiv insulated boots and more traditional hiking shoes while our equipment business grew mid-single-digit, despite some fairly serious COVID-related supply chain disruption in tents and sleeping bags.

In our off-mountain outdoor-inspired categories, logowear's momentum continued at low double-digit growth, with short sleeves and lightweight buy-now-wear-now styles, in particular, driving solid sell-throughs. Sales in all distribution channels grew in the quarter, with brick-and-mortar stores growing the strongest at 51% versus prior year as consumers returned, at least to some extent, to more normalized post-pandemic shopping behaviors.

Before I leave Q4, I should just mention that our current brand campaign Discover Your Trail has proven to be one of the most impactful campaigns that we've run in recent years. And that during the quarter, we signed up an additional 1 million members of our award-winning loyalty program, XPLR PASS, whose membership now stands at more than 13 million global explorers. If we now look at the full year, The North Face grew 32% over our fiscal 2021, surpassed \$3 billion in annual revenues for the first time in the brand's history and is now 21% ahead of full year pre-pandemic annual revenues.

It is worth mentioning the gross margin at The North Face has increased above pre-pandemic levels while segment profit has also increased significantly. In terms of business shape, our strategic objectives of disproportionately increasing our international and digital businesses have been achieved with our combined APAC and EMEA regions now accounting for 48% of total worldwide revenues, up from 39% two years ago, and our direct-to-consumer e-commerce business now representing 18% of total sales, up from 12% two years ago.

The third lens we look at our business shape through is product. And here we've made great progress in both reinforcing our performance credentials through activity-based on-mountain innovations in snow sports, alpinism, hike, camp, and trail, while simultaneously expanding our outdoor-inspired off-mountain categories, such as

logowear, sportswear and accessories to appeal to a broader base, less performance-oriented consumer. We do feel that this is an and, not an or, and we're very satisfied right now with the balance between our main product categories and between our on-mountain and off-mountain consumer.

Looking at the drivers of The North Face's success over the past few years, we'd point to three main strategic pillars. First, an elevated product focus, with an emphasis on launching several proprietary technologies, such as Futurelight, Advanced Mountain Kit, and Vectiv, which underpin our leadership position in the outdoors. Second, our integrated marketplace strategy, which has enabled us to develop specific products and marketing programs for specific consumer groups and distribution channels. And third, an enhanced consumer engagement initiative based on knowing our consumer better and targeting specific points of brand engagement to ensure we're showing up in the way our most loyal brand followers expect and want us to.

We've invested significantly in technology over the past two years and we're excited that this, together with several VF level platforms, aimed at accelerating our ability to utilize consumer data and enhance our omni-channel capabilities will begin to pay significant dividends as we progress through the year.

At the brand level, our objectives for the next 12 months is pretty simple. We'll continue to lead in snow and trail by relaunching our iconic Summit Series, as well as reinforcing our snow credentials by launching a new Freeride collection aimed at the younger more eclectic snowboarding enthusiasts, a Ski Touring collection to capitalize on the on-piste to off-piste trend currently driving the market in Europe and by expanding our Circularity product, specifically in the fleece category.

We'll also celebrate 30 years of Nuptse while continuing to build on our Base Camp duffel franchise, which has been the go-to choice for elite-level athletes on outdoor expeditions for over three decades now.

We'll continue to invest in our 365-day product strategy, essentially an initiative to extend our product assortment beyond snow sports and cold-weather product to provide apparel, footwear and equipment our consumer uses all year long, including through the hot summer months. This will be done by capitalizing on the current fusion of outdoor, athletic and athleisure trends with an emphasis on designing incredibly versatile product for several different wearing occasions and by driving energy in water and sun product through our growing hike and camp franchises.

Lastly, we'll do this by opening up our brand aperture. We have several initiatives underway aimed at helping to introduce new participants to the outdoors regardless of where they live and where they play and by making the outdoors more accessible to all.

As a market leader in this sector, we feel we have a duty at The North Face to help bring all the positives of enjoying an outdoors lifestyle to everyone, whether you live in close proximity to a mountain or not. Long-term commitments such as The North Face Explore Fund, our Athlete Development Program, which is aimed at democratizing the funding of outdoor careers and expeditions, and our annual Walls Are Meant for Climbing day community activations, are all examples of making the outdoors more inclusive, and helping more people enjoy the lifestyle that we represent and love.

In summary, we have had an incredible journey of transformation over the last couple years at The North Face, which has led the brand to be stronger than ever, and we are well-positioned to continue to deliver high-quality, strong momentum going forward.

With that, I'll hand it over to my good friend and colleague, Kevin Bailey, to talk about Vans.

Kevin D. Bailey

Global Brand President-Vans, VF Corp.

Thanks, Steve. It's good to be back in my old chair at Vans, a brand I first joined in 2002 as the Head of Retail, and from 2009 to 2016 served as Brand President, architecting the growth from \$800 million to \$2.3 billion. I know this brand, understand the consumer and competition, and have a clear point of view on our challenges and of the opportunities that lie ahead for us.

To start, our Vans leadership is not happy with our recent performance. The team does not like to underperform, and I have total confidence in the brand's long-term growth potential, as evidenced by fiscal 2022 being a record-setting year in terms of top-line revenue. Specifically, our largest market, North America, delivered sequential quarterly growth, while gross margin, excluding expedited freight, exceeded pre-pandemic rate in the region. Europe delivered double-digit growth. Progression footwear grew by over 30% year-on-year and nearly 40% growth in apparel.

I've been back for nearly two months now and have been impressed by the team, their commitment, their passion, and especially their competitive spirit. We've dug in quickly together and are in the process of refreshing and refocusing Vans' strategy. While incorporating our learnings from the last year into our plans, I have validated three primary areas impacting the business: core classic performance, brand heat, and the situation in China. I'd like to unpack these and then share what we are doing.

First, core Classics, we distorted our focus to our progression footwear and apparel, which led to strong double-digit growth in those areas in fiscal 2022, but we underestimated the level of balance needed to maintain appropriate growth in our Classics business, which represents approximately two-thirds of our global Footwear business. We have an opportunity with our five classic icons to optimize the consumer trends and plan to use style adaptations to extend the trends.

Next, Vans has enjoyed outsized brand heat in its history, though we have not emerged from the pandemic with as much velocity as expected and have lost some momentum. Several factors have contributed to this. Our top-tier limited distribution footwear, which you may know as Vans Vault, has previously met the needs of influential footwear trend accounts in the past. As Vans has grown, our approach to this aspirational product and channel needed to evolve more quickly. We are also competing in what has become a more crowded collaboration space. We have an opportunity to better segment our top-tier products from other products in our line to drive more energy with influencer consumers and provide geographic relevance across our three regions, a critical component to build brand heat locally.

Finally, China and the ongoing challenges of COVID has slowed a major opportunity for the brand. By the end of Q4, we were experiencing the impact of local regulations, travel restrictions, and consumer anxiety, resulting in declining online and offline traffic affecting most brands we monitor, as well as outsized declines in the product categories we compete in. But we are taking immediate and ongoing actions to mitigate our challenges and to refresh our growth opportunities. In late April, we launched our brand-building marketing investment based on Classics, and we are building our storytelling in phases through the important back-to-school selling period.

Classics since Forever is a multi-phased approach to both broaden our reach and attract new consumers through expanded media choices, as well as renew the purchase frequency of our known consumer base. Additionally, in partnership with our VF consumer data and analytics team, we recently established a data-driven dashboard to rapidly read and react to optimize our efforts. It's still early, but we've seen a return to growth in our own D2C for styles like the Vans Old Skool in North America.

To reignite our brand heat, we've stood up a new strategic business unit named Pinnacle to refresh our work at the top tier of the distribution pyramid, and hired a well-known industry veteran with experience with some large competitors and prior close ties to the Vans brand to quickly reenergize our work here. Over time, this will have a positive trickle-down effect on consumer affinity. Additionally, we recently completed a significant refresh of our consumer research to deeply understand and reshape our brand strategies for today's evolving shopper.

We continue to accelerate capabilities in both digital and data-driven decisions. Only weeks ago, we launched the new Vans.com platform and are rapidly evolving the consumer experience. We are leveraging VF's consumer and user experience team and consumer data and analytics ops to ensure we are making data-based decisions across the business.

And finally in China, we have continued to be resilient in the face of the ongoing pandemic. We've been building capabilities as we work through the challenges of moving our brand hub to Shanghai during the pandemic, and the local lockdowns affecting how we work and the consumers' ability to shop. We acted quickly and pivoted our local strategies, shifting to reprioritize Q1 activities, evolving marketing to interact with consumers locked down in their homes, and working with local government officials to be the first apparel brand to reopen our Shanghai distribution center.

We are leveraging our recently expanded Shanghai Digital Hub to optimize work with the large digital platforms. And Vans Asia launched social commerce, implemented data-driven consumer engagement, and has begun localization of product and marketing. Vans China also launched our Vans Family loyalty program and quickly added over 2 million members this year. We will be ready to accelerate quickly as the market reopens.

Let me wrap up by speaking about the strategic priorities I have the Vans leadership focused on as we move into this new fiscal year. Reigniting our brand heat is critical to driving traffic to our brand through both new and existing consumers. We will leverage the work I already referenced across Pinnacle product and focused brand stories, while continuing to read and react through consumer data and analytics. We will drive greater product and marketing relevance, building off of our refreshed understanding of the consumer. Classics will continue to drive growth, but with a greater emphasis on style adaptations of our five classic icons. Progression will continue to play a role in addressing 365-day relevance and expanded usage occasions. And our apparel will elevate to serve a true toe-to-head story, with a heavy focus on our own D2C distribution.

And on direct-to-consumer, we are deep diving in my sweet spot and where I started my career: our D2C business. Direct-to-consumer represents 55% of our global business, as well as the best brand experience and most profitable channel for our growth. Serving the full consumer journey will be our priority, and we will leverage significant growth in our Vans Family loyalty program, which is now functional in all three regions and over 22 million members strong, a nearly 50% increase over the last 12 months. We are following our new Vans.com platform launch with a major site refresh and the addition of mobile commerce on our Vans consumer app in the second quarter. And you'll see a focus on what we believe is the best-in-class customization platform to provide our consumers personalization at the highest levels.

Lastly, digital capabilities are rapidly advancing how we plan and operate our business at Vans. Leveraging our VF capability teams, we are using data from consumers to influence both our go-to-market and our daily business decisions. We will continue to build our muscles here as we further integrate dashboards into all we do. And I can't forget the metaverse. Vans partnered with VeeFriends on an NFT gift project, where Vans Roblox World hit 64 million visits and remains the highest rated Roblox brand experience to date and the only brand experience above a 90% experience rating.

In closing, I once again am happy to be back at Vans, a brand and consumer I am passionate about, and I have every confidence we will continue to provide strong and relevant offerings for our growing base of consumers and deliver growth. With two months under my belt, I'm looking forward to steady progress and sharing more with you at our September investor meeting.

I'll now pass you to Matt.

Matt Puckett

Chief Financial Officer & Executive Vice President, VF Corp.

Thanks, Kevin. Good afternoon, everyone. We're happy to report on the year in which we delivered on our outlook from the beginning of the year and our strategy, despite facing unusual and unprecedented circumstances and challenges. To echo Steve's comments at the top of the call, I'm incredibly proud of what our teams have achieved and how they continue to adapt. Our brands are continuing to strengthen while pursuing their growth plans, enabling VF to become an even more balanced and resilient business.

Let's start with a few key highlights of fiscal 2022 and of Q4. During fiscal 2022, we grew revenue by 27% and earnings by 143%, achieving a better outcome on both the top and bottom line than what we had expected at the beginning of the year, despite facing new challenges and headwinds we had not anticipated at the outset. This represents high-single-digit organic top-line growth relative to pre-pandemic levels, in line with VF's long-range plan target, despite this disrupted environment.

We delivered a strong increase in gross margin, which came in at nearly 55% despite absorbing about \$160 million in additional air freight costs. Excluding that impact, gross margin would have been above pre-pandemic levels. We maintain tight cost discipline over SG&A, while ensuring continued investment toward our brands' highest growth opportunities, and to drive behind our strategies and continue our digital transformation. Together, these allowed us to increase our operating margin by 510 basis points to 13.1%.

We grew revenue by 12% in constant dollars in the fourth quarter to \$2.8 billion, reflecting continued double-digit growth in the Americas and in EMEA, while Asia-Pacific was down, reflecting the impact of COVID-related lockdowns introduced in China during the period. Adjusted gross margin was down 50 basis points to 52.2%, while operating margin increased 120 basis points, leading to adjusted EPS growth of 67% to \$0.45.

Now let me say a few words about the supply chain. I'm proud of what our global supply chain teams have been able to achieve during the year, as we continue to use our scale and sophistication to adjust to today's ongoing challenges. Since we last updated you in January, increasing inflationary pressures and ongoing disruption, primarily from COVID lockdowns in China, have led to continued cost and delivery challenges across the supply chain. While we continue to see higher than normal levels of congestion and disruption from labor shortages and equipment constraints across the logistics network, the overall picture has improved in the last few months.

We continue to proactively address these challenges. As outlined back in January, we've taken pricing action across our brands to offset the inflationary pressures. We're procuring our supplies earlier, anticipating order book collection, and overall continuing to invest in technology to create efficiencies and reduce lead times. We're expanding our local for local sourcing strategy, servicing an increasing portion of regional demand with locally manufactured product. We've made strides in logistics, where we secured additional capacity by doubling the number of ports of entry and ocean carriers relative to pre-pandemic levels, while using alternate origin routings and other methods to diversify our network. We ended the year with inventory in a healthy state and are well-positioned to service our order books and support our growth plans.

I'm confident that our supply chain is truly best-in-class, and this capability, which is central to our enterprise strategy, will continue to support consistent and sustainable growth across our family of brands. As Steve mentioned at the top of the call, we generated broad-based growth, with five of our brands achieving record sales results for the year, including Vans, The North Face, and Dickies.

The North Face, our second largest brand, had an outstanding year, with full-year sales up 32% to \$3.3 billion and reflecting broad-based strength, and double-digit growth in all regions every quarter of the year, including fourth quarter momentum, which saw a strong acceleration to up 35% in the Americas and sustained elevated momentum internationally. Europe was up 18% and Asia-Pacific 22% in the quarter. These strong top-line results led to meaningful improvement in profitability for the brand.

At Timberland, Q4 sales were up 12%. The brand achieved 20% sales growth for the full year, which was characterized by strong double-digit growth in both the Americas and in Europe, but was partially offset by a decline of 13% in Asia-Pacific. In the Americas in Q4, the brand grew 20% due to continued strength in wholesale, up 33%, driven by a strong sell-in and sell-through performance across key accounts and elevated Timberland PRO demand.

Globally for the year, the brand significantly expanded profitability, reflecting higher gross margins, achieved primarily through better sell-through and higher-quality sales, with operating expense leverage offsetting the impact of air freight and headwinds in Asia. It's worth noting that Timberland's strong performance has been delivered despite the brand suffering some of the more elevated impacts from supply chain disruption within our portfolio.

Dickies also achieved record sales, up 19% to \$838 million for the year, and up 8% in Q4. In the Americas, our largest region, which accounts for over 70% of global business, revenue was up nearly 40% for the year, driven by double-digit growth across both work and lifestyle products, and strong wholesale demand, all of which drove record regional profit. Our Q4 performance was up 16% in our home market.

EMEA had its strongest quarter of the year in Q4, with sales up 16%, and continues to see robust work-inspired lifestyle growth. Overall for the year, EMEA was down 13%, reflecting the repositioning of our work business in the region. In Asia-Pacific, Q4 sales were down 20%, including a 33% decline in Greater China.

Finally, as mentioned at the beginning of the call, Vans' performance in fiscal 2022 did not meet our expectations. Revenue grew 19% in the year and was up 2% in the quarter, impacted by the more difficult operating environment in China. Excluding China, Vans grew by 6% in Q4 versus fiscal year 2021.

Now turning back to VF as a whole, gross margins expanded 150 basis points during the year to 54.8%, including a 20 basis point benefit from Supreme, despite absorbing about \$160 million of expedited air freight above last year's levels. Relative to pre-pandemic levels, fiscal year 2022 gross margins were impacted by about 200 basis points of expedited freight and FX transaction headwinds. Excluding these transitory headwinds, underlying organic gross margins expanded 130 basis points versus fiscal 2020, a signal of the health of our brand in the marketplace.

For the fourth quarter, adjusted gross margin was down 50 basis points to 52.2%. On an underlying basis, excluding 170 basis point impact from expedited freight costs, margin was up 120 basis points. Our operating margins expanded by 510 basis points to reach 13.1% for the year. I'm proud to see the operating margin in line with pre-pandemic levels, despite the significant headwinds from expedited freight.

We continued to invest in our brands and business strategies, with an increase of 22% versus fiscal 2021 in organic strategic investments, including some key initiatives such as digital investments, like the new Vans eCommerce platform, as well as ongoing demand creation spend across our portfolio. We did this while maintaining cost discipline across other areas and improving D2C profitability, which both contributed to SG&A leverage, which helped offset significant supply chain disruption and cost headwinds across the P&L.

We delivered EPS of \$3.18 for the year, representing 143% earnings growth relative to last year, or low double-digit organic EPS growth relative to pre-pandemic levels, from an improved operating performance, and as planned, a lower tax rate thanks to some timing benefits. We're pleased to have delivered a higher than planned level of earnings growth than our commitments from the outset of the year, with our robust and flexible business model successfully overcoming a challenging environment and significant headwinds.

Finally, I'll say a few words on our balance sheet and cash evolution. We ended the year with approximately \$1.3 billion in cash. This reflects adjusted free cash flow generation of \$606 million, and proceeds from the divestiture of occupational work of approximately \$620 million. We returned over \$1.1 billion to shareholders through dividends and share repurchases, including a further \$50 million of share repurchases during the fourth quarter after \$300 million during Q3. We delivered an average dividend yield of 2.7% for the year with our ongoing commitment to return cash to shareholders. This marks our 50th consecutive year of dividend increases and underscores our confidence in future growth.

Our year-end inventory ended at \$1.4 billion, up 34% versus the prior year's depressed levels. However, when compared to fiscal 2020, we're up about 10%. Our overall inventory is healthy and well-positioned to support our growth plans. Our balance sheet is sound, with liquidity exceeding \$3.2 billion at year-end and our net leverage ratio improving to 2.6 times from approximately 4 times a year ago. Our return on invested capital reached 15.1%, up from 7.5% last year.

I wanted to give you a brief update on the ongoing tax case related to the timing of income inclusion from VF's acquisition of Timberland in 2011. On January 31, 2022, the court issued its opinion in favor of the IRS, which argues that all such income should have been immediately included in 2011, rather than recognized periodically as VF has done. While we intend to appeal, we anticipate that we will pay the 2011 taxes being disputed, which are estimated at approximately \$845 million for gross tax and interest. We're confident in our timing and treatment of income inclusion and will continue to defend our position.

Now moving on to the outlook for fiscal 2023 and beyond, first, I'll update you on the new guidance provided today for fiscal 2023, which is on a constant dollar basis and which reflects the following. First, we've assumed no additional significant COVID-related lockdowns in any of our key commercial or production regions, with current restrictions in China expected to ease from the beginning of June. Second, we've assumed no significant worsening in global inflation rates and consumer sentiment.

We expect to grow revenue at least 7% on a constant dollar basis. This reflects continued broad-based growth across our portfolio in terms of brands, channels, and regions, but also incorporates a cautious view on the macroeconomic environment, given recent developments affecting some of our markets and consumer sentiment more broadly.

By brand, we expect The North Face to grow low-double digits, continuing to build on the strong base achieved in fiscal 2022. The brand's strong momentum in both on-mountain and off-mountain categories has led to healthy inventory levels and robust order books, supporting growth across regions in fiscal 2023. We expect Vans to generate mid-single-digit growth, with momentum building throughout the year, as initiatives to reignite Classics

and a recovery in China, in particular, start to have an impact. We're confident in the brand's health and longer-term opportunities, and believe our plans to drive growth will start to have an impact from later this year.

At the group level, we anticipate further gross margin expansion of approximately 50 basis points, with pricing actions offsetting product cost increase, while benefiting from less reliance on air freights throughout the year. We remain focused on optimizing our SG&A spend to ensure ongoing investment in our brands and our strategy, and overall deliver operating margin expansion to about 13.6%. The SG&A ratio is expected to be about flat, as we continue to leverage most spend areas to fuel ongoing investment in demand creation, digital and technology, and distribution expenses. This will drive operating income growth of at least 10%.

We are anticipating reaching an EPS range of \$3.30 to \$3.40, which includes an estimated \$0.23 of unfavorable non-operating impacts, including: first, an increase to a more normalized tax rate of about 16%, after having seen a more favorable rate achieved in fiscal 2022; second, FX from translation; third, higher interest expense; and fourth, non-cash pension expense. Without these impacts, EPS growth would be in the range of 11% to 14%. Finally, we anticipate adjusted cash flow from operations to reach approximately \$1.2 billion, and to continue to support our strategic priorities across the business, with CapEx expected to be about \$250 million.

There are no changes to our capital allocation priorities. We're focused on investing in our organic business, while continuously evaluating opportunities to optimize our brand portfolio. We remain committed to our strong dividend and will opportunistically deploy share repurchases to return excess cash to shareholders.

I want to wrap up our fiscal 2023 outlook with a few words on the first quarter, given there are some unique impacts from the current environment. For Q1, we anticipate mid-single-digit revenue growth reflecting the most challenging prior-year compare in China. These headwinds, along with the non-operating impacts I mentioned earlier, will also affect our operating profit and earnings for the quarter, and we expect EPS to be in the range of \$0.10 to \$0.15.

By region, in Q1 we expect to see growth in both the Americas and EMEA, while Asia-Pacific will be down. Specific to Asia-Pacific, our performance outside of Greater China remains resilient. However, the environment in China continues to be challenging. 12% of our stores were closed at the end of Q4, and about 20% are currently closed, and we're not anticipating that they will reopen before early June and will affect the majority of the quarter. Digital traffic also continues to be impacted.

As a result, we expect our business in China to be down approximately 35% in the first quarter, with continued growth at The North Face not enough to offset declines anticipated across most of our portfolio. Beyond Q1, we expect a gradual recovery in China, reflecting an improving consumer environment, as well as easier compares in half two, with the market expected to generate growth for the year as a whole. We remain confident in the region's longer-term growth opportunity.

Looking beyond the first quarter, we are confident an acceleration throughout the remainder of the year is well supported, driven by strong fall holiday order books across brands, improving momentum at Vans, and diminished headwind from China. Having set the stage for the fiscal 2023 outlook, I'll now spend a few moments on our long-range plan targets.

As we told you in January, we're committed to delivering the long-term algorithm for VF. Our performance in fiscal 2022 and guidance for fiscal 2023 clearly shows we're largely delivering on our commitment to high-single-digit revenue growth and low-double-digit operating earnings growth, despite underperformance in our Vans business, headwinds through the supply chain, and finally, new and pronounced market challenges in one of our key growth

markets, China, as well as macro events leading to a significant increase in inflation globally. Our ability to overcome these significant headwinds is truly a testament to the power of the family of brands we have at VF, and our action-oriented and execution-focused teams.

In summary, we're extremely proud of the work that has been done during fiscal 2022 to deliver against our strategy and generate results exceeding our original guidance. Despite a macro environment that remains volatile and challenged in the near term, over the longer term, our brands are well-positioned to continue to benefit from favorable consumer tailwinds and our TAMs. We're confident in VF's future and are well-positioned to continue to drive sustainable, profitable growth.

We'll now open the line and take your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. And ladies and gentlemen, at this time, we will conduct our question-and-answer session. [Operator Instructions] Our first question comes from Laurent Vasilescu with BNP Paribas. Please state your question.

Laurent Vasilescu

Analyst, BNP Paribas Exane

Q

Good afternoon. Thank you very much for taking my question. Matt, I wanted to follow up on the revenue guidance of at least 7% on a constant currency basis. And I appreciate all the color that you provided on this extended call. With regards to 7%, I think you mentioned [ph] that you're (00:51:18) going to take some pricing. Just curious to know what that is versus the volume gains this year. And then on the flip side, are you anticipating any promotional activity? You're starting to see some retailers report elevated inventory numbers, and I'd just like to get some color on what you're seeing out there with your retail partners from an inventory perspective. Thank you.

Matt Puckett

Chief Financial Officer & Executive Vice President, VF Corp.

A

Yeah. You got it, Laurent. Nice to talk to you. As it relates to the growth and the kind of the 7% and how price impacts that, I think, certainly we've taken price increases across the business and really across brands and across geographies. I'll remind you that about half of our business is carryover across the globe, and the other half is sort of made for new in each season. And you think about that carryover business kind of like-for-like, we've got kind of mid-single-digit price increases.

That looks a little bit different sort of through the year. We began to take some price increase in spring 2022. I'll call it more like low single digits, and that moves sequentially through the year into fall mid-single digits, and in some cases a little bit higher than that as we move towards the back half of the year. So, overall, when you net through all of that and look at the overall growth that we're expecting, it's probably a half to maybe just a little bit more than half is coming from price, and the rest is coming from volume.

As it relates to what we're seeing in terms of promotional environment, we haven't seen a significant change or shift at this stage. Our businesses are really healthy. In fact, our inventory levels across most of our key partners, if anything, continue to run a little bit lighter than we would like in the US and in Europe, in particular in the Outdoor segment, where we've seen sequentially strong performance.

Obviously, we highlighted The North Face today a lot, and that's been a real highlight for us. The Timberland is the same case. Our Altra brand, our Smartwool brand, we've got areas where we'd like to have a little bit more inventory. But overall, when we look across our key accounts, we're generally well-positioned. And we'll watch that really closely as you can imagine, as we move out of the spring season and really get geared up for back to school, but right now, we feel good about where we are, and the visibility that we have gives us quite a bit of confidence.

Laurent Vasilescu

Analyst, BNP Paribas Exane

Q

Matt, that's very, very helpful. And then the question for Steve and for Kevin – Kevin, great to have you on the call. With regards to Vans, I appreciate all the color that you provided. If you – we can think about that mid-single-digit growth, if you can maybe potentially give us some guardrails. I think you gave us some guardrails for 1Q in terms of total company performance. But how do we think about the shape of Vans' performance between the first half/second half? And how do we think about DTC versus wholesale dynamics for Vans for the year?

Matt Puckett

Chief Financial Officer & Executive Vice President, VF Corp.

A

Yeah.

Kevin D. Bailey

Global Brand President-Vans, VF Corp.

A

Sure.

Matt Puckett

Chief Financial Officer & Executive Vice President, VF Corp.

A

Maybe let me shape the numbers here a little bit, and then I'll turn it over to Kevin to really talk about what he's doing to drive that. We're going to see in Q1 the cause of the significant kind of headwind that we're facing in China in particular. We're going to see Vans kind of be about flat in Q1 and then sequentially improving from there, as you think about a couple of things, Laurent.

One, just kind of the headwinds easing a little bit as we think things will reopen in China. And we think we're well-positioned there. But also, there's – the compares in the back half of the year in the Asia region get exceedingly different and will benefit us. And we're continuing to see sequential improvement in kind of our brick-and-mortar business as you think about traffic there. We're happy with how that is progressing. That will continue to improve as we move through the year. And then obviously, the work that Kevin and the team have begun, we expect to see some benefit of those things really across the business as we move into the back half of the year.

Kevin D. Bailey

Global Brand President-Vans, VF Corp.

A

Yes. Laurent, thank you for asking the question. I'd just add that, as Matt said, China definitely has been an impact on us. That's a business that was roughly high-teens of our overall global business, and is down more towards the mid-teens now in this last year due to the challenges in the market.

As I said in my prepared remarks, D2C is going to be a heavy focus of mine. It's 55% of the business. We've stood up our new digital platform. And to your point on promotional activity, we have really good, high-quality sales in our North American stores in particular, where we're selling 90% of a product at full price. So really not

super concerned; what we do need to chase overall is traffic, and that's primarily a brand heat issue. As I mentioned in my remarks, that I think our marketing campaigns and some of the things we're doing around Pinnacle will help us regain some traction there. But it's going to take a little bit of time on some of those bigger issues like product.

Laurent Vasilescu

Analyst, BNP Paribas Exane

Q

Great. Thank you very much, Kevin and Matt – yes?

Matt Puckett

Chief Financial Officer & Executive Vice President, VF Corp.

A

Yeah, Laurent, I was just going to add, I realized I missed one of your questions. You asked about kind of channel. We will see – inside that mid-single-digit number, we will see direct-to-consumer growing a little bit faster and wholesale a little bit slower in terms of kind of how to think about that.

Laurent Vasilescu

Analyst, BNP Paribas Exane

Q

Right. Great. Thank you very much.

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

A

Thank you, Laurent.

Operator: Our next question comes from Michael Binetti with Credit Suisse. Please state your question.

Michael Binetti

Analyst, Credit Suisse Securities (USA) LLC

Q

Hey, guys. Thanks for all the extended detail here. It was great to hear from everybody. I guess, let's talk about your confidence behind the sustainability of North Face on the back of the strong growth last year and some of the key drivers ahead. It's pretty remarkable that the guidance for low-double-digits, above the long-term algo of 8% to 9%, and that's with a very messy situation in China here. Although I do think I heard you right that you said China would actually grow for North Face, despite the negative 35% growth rate for the overall business in China in the first quarter. So, I guess, maybe just help us in some of the drivers there, and is this a new algorithm for North Face?

Stephen M. Murray

Global Brand President-The North Face, VF Corp.

A

Sure. Maybe I'll take that one, Michael. It's Steve. So, I think probably best to acknowledge there's an external and an internal component. The external is really that the outdoor space, the market itself, has been fairly buoyant the last couple of years. That's been pretty well-documented. But we think, in particular, it's really benefited The North Face because of our business model. So we tend to talk internally about our on-mountain and our off-mountain, and both of those categories, extremely important to us. But the on-mountain is the performance end. The off-mountain is more the outdoor-inspired.

And we've put a lot of time into constructing a business model that would really allow us to do justice to the categories within both of those particular banners. And there really aren't that many outdoor companies that can

straddle between outdoor-inspired and true top-of-the-mountain performance. So we think that one of the reasons that we're doing so well at the moment is just exactly that. We've always had the legitimacy in terms of athletes and expeditions. But we've also crossed over into streetwear probably more than any other outdoor brand. So that's the external bit, if you like.

The internal bit is a little bit what we talked about in the presentation and my prepared remarks. It's really the broad-based success that we're seeing right now. If you get into the detail, our three geographies, our three channels, and all of our product categories are actually contributing to the success that we're seeing right now. I mean, there's a couple of big categories that are really leading the charge in our Outerwear, and our snow sports category this year was up by nearly 35%, Logowear just shy of 50%. But we don't have a single category that grew less than mid-teens. So we're really seeing it across the board.

And I would point back to something that Steve said, actually. If I go back 18 months, maybe two years, when we really began to look at our three-year plan in earnest and we constructed this on-mountain/off-mountain model, we really focused on four things: really the brand, so the positioning of the brand and making sure that everybody was really clear about what the brand stands for and particularly its outdoor heritage.

Secondly, the product pipeline that we've built. For those of you that know my background, I actually came up through product, so probably not that much of a surprise that we doubled down on that and made sure that the pipeline was turbocharged.

And then the third place was really the marketplace management. So we haven't gone into a lot of detail about that, but I did mention it that we've developed some segmentation plans that have really allowed us to design the right product for the right consumer and the right channel. And we got pretty disciplined actually about what product goes into what channel. And we've got a very clean marketplace at the moment with all of our consumers reacting well to the product that we've specifically targeted to them.

And the fourth thing is really people. And that's not something that the consumer is going to see, but we have done a lot of work in terms of our internal culture and our talent pipeline. So, I'm clearly privileged that I've got a very strong executive team with a lot of veterans who really understand the brand. So I guess all of those things just combine to give us a lot of confidence, and we're seeing it in our order book.

Matt Puckett

Chief Financial Officer & Executive Vice President, VF Corp.

A

Yeah, Michael, on your question on the algorithm, I'll just – we've delivered on our commitments at the VF level, reflected in kind of this broad-based growth across our family of brands, which, by the way, we think is a competitive advantage. And we're confident that we'll deliver on our targets and [ph] leverage in (01:01:30) this family of brands. And we're poised to deliver strong, sustainable, and profitable growth in there.

I think the performance we've shown in 2022, our guidance in 2023, I said in my prepared comments, I think shows our commitment to delivery. It certainly looks a little different than where we were, but we're delivering, and we're committed to doing that. And it's really one of the benefits of our enterprise strategy is it enables us to really be agile across the portfolio of brands and allows us to drive consistent and sustainable growth. And we look forward in September to provide you some more details in terms of individual brands' contribution to the long-term outlook.

Michael Binetti

Analyst, Credit Suisse Securities (USA) LLC

Q

Thanks, Matt. Can I sneak...

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

Michael – Michael, one more...

A

Michael Binetti

Analyst, Credit Suisse Securities (USA) LLC

[ph] Sure (01:02:09), go ahead.

Q

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

One more thing on the sustainability of this growth, Steve is – as I said, could not thank him more for the work that he's done. But the foundation that he's really stabilized and strengthened is perfect now for Nicole, who will join us early next month. And the industry experience that she brings in not just understanding brand and product, but all the different go-to-market opportunities and the consumer engagement strategies, it's really, from a sustainability standpoint, this is like a mile relay. Steve has run the first couple legs, and now he's handing off the baton to a very strong leader that can continue to build on what he's set in motion and expand the brand and its reach through her market understanding.

A

Michael Binetti

Analyst, Credit Suisse Securities (USA) LLC

Okay. Thanks a lot for all the detail. I'll follow up after the call.

Q

Operator: Our next question comes from Camilo Lyon with BTIG. Please state your question.

Camilo Lyon

Analyst, BTIG LLC

Hi and good afternoon, everyone. I have a couple questions. I guess, first, you talked about a strong order book, particularly in North Face, and pretty good confidence in the discussions that you've had with your wholesale partners. I'm curious to know if the discussions with your wholesale partners, whether it's in North America or Europe, has changed from a 90-day ago period. And if it has, how do we have confidence that it won't change further as this kind of evolving landscape with consumer pressures, inflationary pressures is likely to persist?

Q

Stephen M. Murray

Global Brand President-The North Face, VF Corp.

Hey, Camilo, maybe I'll take that one first, Steve Murray, I can answer that one very simply. It really hasn't changed. I mean, I've read the same reports as you with regard to other industries and other sectors of the market. But I can honestly say that the top-to-top meetings that we've been having with all of our key accounts in the last 8 to 12 weeks have been very positive. And as I think we said earlier, we've got a pretty clean inventory position as well. So we don't see any promotional activity that's out of the ordinary. In fact, I would say it's a cleaner marketplace than we've seen in a long, long time, particularly for The North Face brand. So, we really don't have that anxiety right now.

A

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

A

And Camilo...

Kevin D. Bailey

Global Brand President-Vans, VF Corp.

And...

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

Yeah, Kevin...

Kevin D. Bailey

Global Brand President-Vans, VF Corp.

Sorry, go ahead.

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

...do you want to go ahead and talk about Vans, and I can talk a little bit more broadly across some of the other brands?

Kevin D. Bailey

Global Brand President-Vans, VF Corp.

Yeah. I was just going to jump in as well, Camilo. So a good question, and I think what we see is the fact that we've got different types of distribution channels, right, from [ph] SSI accounts (01:05:04) to lifestyle accounts to action sports accounts. And I think, overall, we don't see a major change there. We continue to work with them to reshape their business as needed, and we work forward on bringing new product to market. So I haven't seen a big change from 90 days ago, I believe was the date you threw out there at this point. But I've certainly read the same reports, as Steve Murray referenced as well. So, we feel good overall about our wholesale partners' status today.

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

Yeah. Then Camilo, from a Timberland, Dickies, and our European business, much is the same. We come into this period with very clean inventories, and in the case of Timberland, have undersupplied market demand, and very strong opportunity to continue the momentum out of this year into next year.

That doesn't mean we're – our head is in the sand, but the partners that we have for each of these brands, the thought that's gone into the forward order book, the flow of that product, and I would even – I would kind of emphasize the partnerships we have in Europe, especially with the digital titans, these are really strong key account relationships that are able to model the assortment and the flow based on what we've seen the last couple years. And we've not seen a change. But we are obviously sensitive. These are very uncertain times. But the strength of our brands, the broad-based success that we've seen, and the clean inventories that we see across our key wholesale partners and our own channels is what gives us confidence to put the guide out that we are at this point.

Camilo Lyon

Analyst, BTIG LLC

That's great to hear. And thank you for all the color. It's greatly appreciated, especially in these times. Matt, if I could ask you just on the gross margin outlook, clearly, China and Vans are two of your higher grossing contributors. So, if you could provide some context and shape around how the gross margin should evolve through the year, clearly it's going to accelerate, but if you could just maybe articulate the rate of contraction I would imagine we would expect in Q1 and how that should progress through the year, it'd be very helpful.

Matt Puckett

Chief Financial Officer & Executive Vice President, VF Corp.

A

Yeah. Yeah, thanks for that question, Camilo. You're right. Yeah, Q1 is going to be a little bit tougher from a gross margin standpoint. I mean, the mix is going to be impacted just by the nature of kind of where the business is going to come from. You think about China, you think about Vans being a little bit lower than the overall. So certainly there's going to be a mix headwind.

The other thing that we're going to face in the first quarter is really a compare from a freight standpoint, where last year in Q1, we were starting to see some inflationary impacts in kind of underlying freight rates nowhere near the degree that we saw as we moved through the year. And by the way, we spent very little in kind of air freight last Q1, because we hadn't yet encountered some of the challenges that we all faced, as Vietnam and other parts of the sourcing footprint in Asia shut down through the summer. So, the air freight spend, which was dramatic last year, really was a non-event in Q1. And we're going to see some of that in Q1 this year.

So we'd expect gross margins to be down as much as a couple hundred basis points in Q1. As we look through the year though, we're confident in our kind of 50 basis point increase. I think when you think about tailwind, we expect the promotional environment is going to generally remain clean for us. And I say this over and over, but our business is clean. We don't drive our business on promotions historically, and so, when it got a lot better for some than it had been historically, we didn't see necessarily a big change because we've always run clean, and we expect that to continue.

We're going to see inflationary pressures on product costs. Through the year, that accelerates a little bit as we go through the year from an FOB standpoint. And obviously, freight is there as well, kind of mid-single digits when you look across the year. Pricing will at least offset that, maybe even slightly favorable; it's our sort of current look at that. We're going to continue to spend higher levels of expedited freight. I talked about the kind of \$160 million or so kind of increase there. We're going to spend higher than we have historically, but we expect some moderation in that number. And it won't be as dramatic, and so there's some benefit from that.

The other thing I would say is, based on the overall mix for the year, we're not assuming any kind of mix benefit for the year. We expect it will be about neutral. So those give you hopefully enough there to sort of think about how to sort of model things from a margin standpoint and understand the assumptions we're making. But overall, we feel good about how that looks across the year. But Q1 is going to be certainly tougher optically.

Camilo Lyon

Analyst, BTIG LLC

Q

Great color. Thank you for that and good luck.

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

A

Thanks, Camilo.

Operator: Our next question comes from Matthew Boss with JPMorgan. Please go ahead.

Matthew R. Boss

Analyst, JPMorgan Securities LLC

Q

Great. Thanks. So, Steve, maybe at a regional level, are you seeing any signs of softening in the US consumer backdrop today? Maybe what are you seeing today in Europe, if we think relative to the domestic backdrop? And then just in China, from an underlying perspective, some companies have talked about underlying indications of demand despite the restrictions or kind of looking through the restrictions. Just curious what you're seeing in the US, Europe, and China today.

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

A

Yeah, no, fair question, Matt. So let me start with Europe. Certainly, the war and crisis in Ukraine weighs on consumers' minds in Europe, but we've not seen that impact current demand and sell-through. Inflationary environment, that's really coming from or being exacerbated by the conflict as well, has not yet impacted demand or sell-through. But it's something that we're watching very closely and are concerned both personally for those impacted but what the impact could be on the business.

So European business has been one of our strongest performing regions, growing double-digits year after year for the last five, six years, and we expect that same kind of performance to that strong platform that enabled our brands to connect with those consumers.

Here in the US, you heard Steve say that he's not seen any change to conversations with wholesale partners, and that's true. If there will be an impact near term, it would be on those more – lower income consumers, but as we've reshaped our portfolio, very little bit of our business goes to that particular consumer through those channels. The one business that does have a good position there would be Dickies, and the demand of our Dickies products continues to be quite strong.

And, again, we'll watch it closely, be sensitive to and work with our partners, but we've not seen a dramatic change there.

Asia is where we have, for all the things that each one of us have read and hear others talk about. COVID impacts, the rolling shutdowns, what's the impact that's had on consumer confidence and sentiment is really the large driver of that kind of reshaping of consumer demand. I think we've shaped well on how we see the year progressing. We expect the openings that are beginning to continue to go on through June.

And if there's any kind of similarity to the return that we saw in the first shutdown at the beginning of the pandemic, China, specifically the consumers, are very quick back into demand, back into travel. And if that is to be the case, and we've modeled that to be moderately true and accelerating through the year, we expect our business to perform well. And a lot of understanding coming through the success of The North Face and being able to apply that playbook to our other brands specifically as we enter the second half.

Matthew R. Boss

Analyst, JPMorgan Securities LLC

Q

Great. And then, Matt, as a follow-up on operating margins multiyear, what do you see as the right level of profitability for the portfolio? Or maybe while the timeline might be extended, do you think anything has actually changed versus your mid-teens plus Beaver Creek plan?

Matt Puckett

Chief Financial Officer & Executive Vice President, VF Corp.

Hi, Matt. Yeah. No, I don't. Short answer, no, I don't think anything has changed. I think you're right in terms of what's the runway there. Certainly, we're in a different place coming through COVID and all those kinds of things. But what we're proud of is the continued operating margin expansion that we've seen despite a lot of noise and kind of a different kind of mix profile even here in the near term. We're delivering on expanding operating margin.

And I have to take a minute to really, I think, point you to some of the materials in the release. You look at the segment profitability across our segments and you just think about the improvement in profitability we're seeing in the Outdoor and Work segment, that's powerful and really important to us. And that really sets us up well. We've seen a little bit of erosion in our really highly profitable Active segment given some of the challenges that we've faced in Vans, but that's going to come back and modestly move up over time. And we're much better positioned to drive overall collective VF operating margin expansion with a healthier overall portfolio.

So that mid-teens-plus kind of number, absolutely that's still what we expect. And we look forward to talking a little bit more about kind of the horizon for that and how we see that playing out in a few months' time in September.

Matthew R. Boss

Analyst, JPMorgan Securities LLC

Great color. Best of luck.

Operator: Our next question comes from Jim Duffy with Stifel. Please go ahead.

Jim Duffy

Analyst, Stifel, Nicolaus & Co., Inc.

Thank you. Good afternoon, guys.

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

Hey, Jim.

Jim Duffy

Analyst, Stifel, Nicolaus & Co., Inc.

Hey. I wanted to focus on Timberland for a moment. With some momentum, this is a brand that could make a nice contribution to both growth and margin. Looks like you're seeing balanced strength to the top line. Where did Timberland margin stand right now? And what's the opportunity with the Timberland margin? And then related to that, I suppose, is how you're pricing for inflation specific to the Timberland brand.

Matt Puckett

Chief Financial Officer & Executive Vice President, VF Corp.

So let me start with a couple of data points there, hopefully get to your questions there, Jim, and then I'll pass you to Steve to talk about the great work that's happening there. Profitability-wise today, kind of low double digits is where we stand and with an expectation that that will continue to move up over time.

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

A

And then, Jim, appreciate the question on Timberland. This is an exciting brand in the portfolio. And the last couple years, the team has taken the opportunity to really double down on some of the core elements of the brand management model we use, first with the consumer and really understanding the historical strength of the brand and the consumer that it speaks to. And they've really taken that to weave a positioning that's anchored in both work and outdoor and really bringing that together and understanding what that consumer need is to drive the product-creation strategy, focusing on icons for sure, both the traditional boot but the outdoor segment, but really using that to inform their innovation platforms around GreenStride, some of the exciting things coming through that particular part of the platform specifically, focusing on women's and the raised city. We had a boot in the fall that now has boat shoe in the spring and really being able to play that eco-innovation story with enhanced styling and comfort, seeing really nice connection and sell-through there.

We've also seen the Timberloop. And you heard me talk about the eco-innovation platform there, and that's really taking that historical commitment of Timberland to sustainability and looking at a circularity model all the way from design to how the product is made and ultimately managed at the end of life, and really understanding the value that that's had to the consumer.

But I think what's really driving the success and the inflection that you see here with Timberland brand is the integrated marketplace management and choices that the team has made across the globe but probably most importantly here in the North America marketplace and really segmenting the product and placing very thoughtful assortments in each of their key account partners and then managing the flow tied to the sell-through.

This is the brand that really has been most impacted by supply, and the demand has absolutely outstripped our ability to put enough product in front of consumers. And that energy is what's carrying into fiscal 2023 and the inflection that we're very excited about and have been building for. And it's really a testament to the energized new team we have there from our ultimate leader, but also the product and marketing organization is really bringing forward all of those core elements that's made Timberland so powerful over the years. You see that coming together and fiscal 2023 will be a year of we think significant inflection.

Matt Puckett

Chief Financial Officer & Executive Vice President, VF Corp.

A

And, Jim, I realize you asked about, I realize you asked about pricing and inflation. So just to make sure I don't miss that as well. Yeah, it's comparable I think what we've said across the portfolio. If anything, this brand is seeing a slightly higher than average, the VF average kind of product cost increase just based on kind of the nature of the product and the sourcing footprint as we put all those pieces together.

But we're going to see price increases somewhat meaningful across the line as we move toward fall but the brand couldn't be better positioned in terms of its ability to drive that given how healthy it is today, and everything that Steve just described about kind of the work that's happened across the product and marketing aspect of that business.

Jim Duffy

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Thank you, guys.

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

Thank you, Jim.

A

Operator: Our next question comes from Brooke Roach with Goldman Sachs. Please go ahead.

Brooke Roach

Analyst, Goldman Sachs & Co. LLC

Good afternoon. And thank you so much for taking our question. I'd like to ask about Supreme. You mentioned in your prepared comments that you were seeing some supply chain disruption that was impacting your ability to outperform your plan in the quarter. Can you talk to that in a little more detail and your outlook for the brand for this year?

Q

Kevin D. Bailey

Global Brand President-Vans, VF Corp.

Yeah. Hey, Brooke, nice to talk to you. Let me start there and Steve certainly jump in if I missed anything. Yeah, the supply chain, everything overall, probably most impactful for this brand. And I think one thing to not just the quarter really, really through the year, I think we've talked about this over the last couple of quarters. It's really important that product, the availability sequencing, and sort of duration of how long product is out there through the year is really important to this brand. It's a unique business model. It's dependent on ongoing newness, which we, by the way, think is a competitive advantage.

A

It's really vital that the intended product and the assortment are at the right locations at the right time. And that was really difficult to accomplish last year. This brand is fairly heavily penetrated in Vietnam. And as we started to see some of those challenges, the ability to catch up was pretty difficult. You have to realize this is a brand that our model is really about working really close to the consumer making decisions as late as we possibly can as it relates to how we think about flow and assortment and the product itself. Really, really important to kind of the competitive advantage of this brand.

And so when things start to fall behind, you don't have as much room to catch up. And so we just didn't have enough inventory really all throughout the fall and even into the spring season in terms of how the amount of inventory, the ability to flow it in an optimized way. And so we're really happy with the overall kind of where the brand sits and the integration that's occurred to-date, and what we see moving forward. But clearly, this business was disrupted in a pretty meaningful way, throughout fiscal 2022.

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

And, Brooke, maybe I would add. This has been a year of really significant learning for both Supreme and our VF supply chain and understanding the Supreme model. Every week, this brand puts a new assortment in front of its consumer. And if that flow is interrupted, and they have to rebalance and reset, they start to get onto the heel of their foot versus the toe. And we started the year with 30% less inventory nor the fall season than we do historically.

A

So we started from a position of a little bit less strength than they're used to, and they reacted the best they could. I think as you look forward, what's exciting for us is, as we've gained a deeper understanding, we know where we can help to support but I think the Supreme team also is understanding the needs that they have, the hiring of a

new creative director, to partner with that team, and further elevate both the product and the experience of the brand with Tremaine is very exciting. He's a talented individual that has a deep understanding of this consumer and this particular channel.

We're able to now impact stores. We're going to be able to remodel and relocate some stores this year. We've got some new Asia store opportunities coming available as we begin to look at that international expansion which was part of the acquisition thesis. And tourism is coming back. And this brand has a lot of consumers that don't live in those markets where the stores reside and the tourism impact and opening up of markets where consumers now can come back into the stores, engage with the brand, line up for the product, again gives us another point of, I think, confidence of what this brand is capable of. And we're seeing that here as we open – as we move through the spring season, so. I know we don't talk a lot about this brand. It's certainly one that we're very proud of. There's elements of the model that they're pretty proprietary that makes them unique. But I think the things that we've talked to you about today are important proof points and parts of the strategy that will help this brand move into fiscal 2023 in a stronger position.

Brooke Roach

Analyst, Goldman Sachs & Co. LLC

Q

Great. And then, Matt, if I could just ask one quick follow up. What is marketing spend as a percent of sales that's embedded in the outlook for the year? And how does that compare to your prior year? How are you thinking about prioritizing those marketing dollars across brands for the year given how many initiatives you have across the portfolio? Thank you.

Matt Puckett

Chief Financial Officer & Executive Vice President, VF Corp.

A

Yeah. Thanks, Brooke. So we're spending a little over 7% of sales. And that's – it's planned to actually, I think, maybe be a tick or so up versus where we've been. But call it in a comparable range, so kind of growing with revenue is the expectation. I'm not going to get into the details in terms of where it's going to go by brand, but you can rest assured we look really closely at things like marketing return on investment. We understand product stories and kind of readiness from a brand standpoint in terms of product marketing distribution and [ph] ability (01:25:35) to lean into those things. And that's kind of an ongoing evergreen process across our organization to ensure that the marketing dollars are providing the returns that we're looking for.

Brooke Roach

Analyst, Goldman Sachs & Co. LLC

Q

Thanks so much. I'll pass it on.

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

A

Thank you, Brooke.

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

Robert Drbul

Analyst, Guggenheim Securities LLC

Q

Hey. Just good afternoon. Love to hear a little bit more, you have, I think, \$2.5 billion on your share repurchase. Given where the stock is, just love to hear your thoughts on that in FY 2023. And then I guess a similar thing is

just the M&A opportunities out there that you're seeing. If you think about capital allocation, I don't know if you can just maybe give us an update on how you're really thinking about it at this point. Thanks.

Matt Puckett

Chief Financial Officer & Executive Vice President, VF Corp.

A

Yeah. Thanks, Bob. I guess one thing I would mention is, as part of the prepared comments, we've got a tax deposit we're dealing with, so we're going to navigate that. So that's a little bit of something that we've got to manage from, I'll call, an overall leverage and liquidity perspective. So we're going to be thoughtful there. Clearly, we've shown that, when it makes sense and we've got excess cash, we'll be opportunistic and buy back shares. We did that during the back half of this year. We'll continue to evaluate those opportunities.

As it relates to M&A, we've obviously shown, I think, and demonstrated our intent to continually optimize our portfolio. It's an evergreen process for us, both in terms of looking at the marketplace and areas where we think we have – where we're maybe under-penetrated or parts of the TAMs that we're really focused on, outdoor, active, athletic, work and then opportunities to bring assets into the portfolio that we think make sense and add to and really accelerate our ability to drive long-term growth, both top and bottom line. And at the same time, we're always evaluating the portfolio that we have to ensure that it makes sense. And we've demonstrated the fact that we'll do both acquisitions and divestitures, and that's something that we'll continue to do.

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

A

And, Bob, the dividend remains very important as well. It's an important part of the thesis. And all three, we look to really move those levers appropriately, but important not to forget the dividend as well.

Robert Drbul

Analyst, Guggenheim Securities LLC

Q

Thank you.

Matt Puckett

Chief Financial Officer & Executive Vice President, VF Corp.

A

Thanks, Bob.

Operator: Our next question comes from Paul Lejeuz with Citi. Please state your question.

Tracy Kogan

Analyst, Citigroup Global Markets, Inc.

Q

Thanks. It's Tracy Kogan filling in for Paul. I had two questions. The first is a follow-up on your gross margin guidance for this year. I was wondering, by brand, if there were any meaningful differences for that plus 60 basis points overall. And then secondly, what's your view on the right fleet size for each of your brands? And how many store openings approximately are you expecting this year? Thanks.

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

A

Yeah. So yeah. No significant variances there. In terms of the gross margin kind of expansion for the year, we're not going to see exactly perfect at the average in terms of product cost increases or even price increases. So there will be some variation, and clearly kind of the benefit of lower expedited freight, that won't be exactly the

same across each brand. There's parts of our business where the demand continues to be really strong where we'll probably see a little more air freight in some cases. But by and large, you shouldn't expect significant differences by brand.

As it relates to the fleet, I don't know about exactly whether we've ever really talked about that. What we really talk about is the integrated marketplace management and the role of our own stores, the role of our digital business in terms of the overall ecosystem of our direct-to-consumer, the importance of key strategic accounts that we have across the world in all three regions. And as part of that obviously is the digital titan partnerships that we have.

So we believe that brick-and-mortar is an important aspect of that. We will continue to have brick-and-mortar be an important part of our overall approach. We are adding stores. Probably the net adds are less today than they were a few years ago, and we continue to ensure that all of our stores make sense both from a strategic perspective, right locations, right size, right profit profile and contribution and supporting that overall ecosystem.

So we're probably closing a few more stores on the fringe than we have historically, and we're really focused on making sure we've got the right stores in the right place. And in some cases, it's sort of fewer, bigger, better is maybe a way to think about it.

Tracy Kogan

Analyst, Citigroup Global Markets, Inc.

Great. Thanks very much.



Operator: Thank you. Our next question comes from John Kernan with Cowen. Please state your question.

Krista Zuber

Analyst, Cowen & Co. LLC

Good afternoon. This is Krista Zuber on for John. Most of our questions have been answered. Just wanted to touch on your guidance for adjusted cash flow from operations in fiscal 2023. I think you're guiding to about \$1.2 billion. I mean, that implies a fair acceleration over fiscal 2022. I wonder if you could provide a little bit of color on the drivers of that and particularly as it relates to what you see opportunity wise for your inventory turns. Thank you.



Matt Puckett

Chief Financial Officer & Executive Vice President, VF Corp.

Yeah. Good question. You're very astute. You're all over it. It does imply a bit of an acceleration, but it doesn't imply I think anything that's all that abnormal from our historical. This year actually has been a little bit lower because of really how we managed last year. We actually reduced our working capital balance at the end of last year pretty dramatically if you think about where we positioned inventory coming out of last year as we were managing very cautiously through the pandemic. So we've assumed kind of that benefit in terms of not having to kind of build that inventory that we did this year. And the same kind of thing applies to accounts receivable.



So this year's numbers I would say is more normalized in fiscal 2023, how we've guided fiscal 2022 was a little bit lower from a working capital standpoint. So hopefully that gives you the color you're looking for.

Operator: Thank you. And ladies and gentlemen, at this time I'll turn the floor back to Steve Rendle for closing remarks.

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

I'd like to thank everybody for taking the time to join us this afternoon. We delivered solid results in what was a very challenging and highly dynamic environment, and we leveraged our extensive scale, relationships, our talented people, and our world-class brands to deliver those results. We generated broad-based, profitable growth with five brands achieving record sales, and our family of brands is strong, is balanced and is gaining momentum and is poised to deliver strong, sustainable and profitable growth in fiscal 2023 and beyond.

I am very confident that we have the right leaders in place across our business with a deep and broad bench of talent. And we remain committed to investing for growth in order to advance our strategy, and importantly, to deliver superior returns to our shareholders.

So, thank you for your time today.

Operator: Thank you. This concludes today's conference. All parties may disconnect. Have a good day.

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