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VF Corp. (VFC)

Q1 2019 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings, and welcome to the VF Corporation first quarter 2019 Earnings Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host Mr. Joe Alkire, Vice President of Investor Relations for VF Corporation. Please go ahead, sir.

Joe Alkire

Vice President, IR and Financial Planning & Analysis, VF Corp.

Good morning and welcome to VF Corporation's first quarter fiscal 2019 earnings call. Participants on today's call will make forward looking statements. These statements are based on current expectations and are subject to uncertainties that could cause actual results to differ materially.

These uncertainties are detailed in documents filed regularly with the SEC. Unless otherwise noted, amounts referred to on today's call will be on an adjusted basis, which we define in the Press Release that was issued this morning.

We use adjusted amounts as lead numbers in our discussion because we believe they more accurately represent the true operational performance and underlying results of our business.

You may also hear us refer to reported amounts which are in accordance with U.S. 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.

During the first quarter of fiscal 2019, the company completed the sale of its Nautica brand business. Accordingly, the company has classified the assets and liabilities of the Nautica brand business as held-for-sale through the date of sale and included the operating results of this business in discontinued operations for all periods presented.

During the first quarter of 2018, the company completed the sale of its Licensed Sports Group or LSG business, in conjunction with the LSG divestiture, VF executed its plan to exit the licensing business, which comprises the LSG and JanSport brand collegiate businesses.

Accordingly, the company has removed the assets and liabilities of the licensing business and included the operating results of this business in discontinued operations for all periods presented. Unless otherwise noted, results present on today's call are based on continuing operations.

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

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

Thank you, Joe. Good morning, everyone and welcome to our first quarter 2019 earnings call. VF's results for the first quarter were stronger than expected, fueled by the continued broad-based acceleration in our core brands and platforms.

Our growth was balanced across geographic regions and channels as consumers globally remain resilient despite increased geopolitical uncertainty. A year-and-a-half into our 2021 plan I'm pleased with the progress that we've made. We continue to deliver on our commitments and remain sharply focused on the foundation we're setting to position VF for sustainable long-term growth and value creation.

Taking a look at the results for the quarter, revenue increased 12% on an organic basis as our strategic growth drivers continue to fuel results. Our big three brands grew at a combined rate of 21% with our Vans brand delivering another exceptional quarter up 35% with double digit growth across all regions, channels and product families.

The Vans brand is clearly outperforming the long-term growth targets we laid out at our Investor Day in Boston a little more than a year ago. We look forward to updating you on Vans' vision for its next chapter of growth at the brand's upcoming Investor Day in September.

Momentum in The North Face brand continues to build with 8% growth and importantly continued improvement in quality of our business. The brand delivered strong growth in performance, women's and lifestyle product. The brand's She Moves Mountains campaign, which focused on the next-generation of female explorers contributed to the strong performance of our women's business. And with the launch of the renewed program, we are piloting a

circular business model that will extend the reach of our brand to new consumers through emerging new purchase model.

On an organic basis, international increased 14% led by more than 30% growth in China and 18% growth in Europe. Direct to consumer increased 16% with more than 30% growth in digital. Our Work segment increased 8%, driven by balanced growth across nearly all brands. And finally, Jeans increased 3% as Wrangler delivered another solid quarter of growth.

As a result of our strong performance in the quarter and our increased confidence in the full year, we are raising our revenue and earnings growth outlook. Scott will cover the details in a moment.

A few of the highlights in the quarter. In May, we've launched our corporate purpose and guiding principles to our 70,000 associates across the globe and the response has been overwhelming. VF's purpose is to power movements of sustainable and active lifestyles for the betterment of people and our planet. Fueled by the deep commitment of our employees, our purpose will help unlock new opportunities for our company while also empowering us to be a collective force for good.

Together driven by a shared purpose, we will positively impact our communities and the evolution of our business. We believe our purpose will help to track and retain the industry's best talent as well as provide clarity to our decisions and actions. Reshaping our portfolio remains our top priority. We are committed to actively managing the shape of our business to align with our purpose and financial aspirations.

In early June, we formally welcomed Altra into the VF family and are working to leverage the brand's capabilities to strengthen our technical footwear platform. The integration processes for both Icebreaker and Williamson-Dickie remain on track and we're excited about the long-term opportunity for these two high quality growth assets.

So one quarter into our fiscal 2019 plan, we remain highly confident in our purpose led performance driven strategy and our ability to execute and deliver on top quartile growth and value creation for our shareholders.

And with that, I'll pass it to Scott.

Scott A. Roe

Chief Financial Officer & Vice President, VF Corp.

Thanks, Steve. Before reviewing the highlights of our first quarter, I'd like to quickly cover the change to our segment reporting. In light of recent portfolio actions and organizational realignments, we've changed our reporting segments. We believe these new segments provide greater transparency into the growth and profitability of our portfolio.

Our new segments are: Outdoor, Active, Work and Jeans. We've outlined the brands included in each of our segments in the press release and accompanying earnings presentation posted at our website. We've also included restated historical information in our press release. And my apologies once again to all of our modelers out there who are just recovering from our fiscal year-end change and portfolio actions.

So, moving now to first quarter results. Revenue was stronger than expected driven by continued broad-based acceleration in our core brands and platforms. On an organic basis, revenue increased 12% with balanced growth across brands, geographic regions and channels.

On a combined basis, our big three brands increased 21% led by 35% growth in Vans and 8% growth in The North Face. The global momentum in our Vans business remained strong and growth is well diversified with double-digit growth in all regions, channels and product families.

Likewise, momentum in The North Face is building. As the brand executes on its strategy and the quality of the brand's growth is improving as evidenced by more than 20% growth in first quality wholesale in the Americas. While still early, we are confident that our efforts to elevate and reposition The North Face are beginning to pay off.

So rounding out the big three, Timberland delivered modest growth, led by strength in Timberland PRO and Europe. In the Americas, the quality of our business is improving and we're beginning to see better results in our core classics.

On a regional basis, excluding the impact of acquisitions, growth was balanced, up double digits, both in the U.S. and internationally. Europe remains robust, delivering 18% growth, while Asia Pacific increased 14%, including more than [indiscernible] (08:45) growth in China.

Our organic D2C business increased 16% with 15% comps and more than 30% growth from digital. And lastly, wholesale increased 10% organically, led by more than 20% growth from our digital wholesale partners. Gross margin was 50.5%, up 90 basis points over last year. Organic gross margin increased 170 basis points, driven by higher margins in our core growth engines and our continued focus on fundamentals and quality growth.

As a percentage of revenue, SG&A was 41.5%, down 110 basis points versus prior year. On an organic basis, SG&A as a percentage of revenue declined 40 basis points. Investments in our strategic priorities increased at a double-digit rate. However, this was more than offset by strong leverage given the strength of the top line. And for the full year, this algorithm continues.

Strong investment in our strategic priorities, offset by leverage elsewhere, resulting in an overall decline in our SG&A percentage. So pulling it all together, earnings per share was \$0.43 including a \$0.04 contribution from acquisition, that's up 62% versus last year.

Given the strength of our first quarter and increased confidence in the trajectory of our business, we are raising our full year outlook. Our fiscal 2019 outlook now includes the following. Revenue is expected to be in the range of about \$13.6 billion to \$13.7 billion, reflecting growth of 10% to 11%.

This includes organic growth of more than 5%. Our updated revenue outlook also includes more than \$150 million negative impact from unfavorable FX relative to the prior outlook. For the full year, we don't expect FX to have a material impact on our growth rate.

By segment, Outdoor is expected to increase 6% to 8% or at a low-single-digit rate on an organic basis with mid-single-digit growth expected in the second half. Revenue for Active is expected to increase 13% to 14%. Work revenue is expected to increase more than 35% or at a mid-single-digit rate on an organic basis. And revenue for Jeans is expected to be about flat compared to last year.

Global Vans revenue is now expected to increase at least 15% with more than 25% growth in the first half. There's no change to our outlook for The North Face or Timberland. International revenue is now expected to increase between 12% and 13% due to the negative FX impact just mentioned. Excluding FX, there is no change to our outlook for the International business.

European revenue is expected to increase 12% to 13%, Asia Pacific revenue is expected to increase 14% to 15% and revenue in the non-U.S./Americas region is expected to increase 9% to 10%. Direct-to-consumer revenue is now expected to increase 11% to 13% with more than 30% growth in digital.

Gross margin is still expected to approximate 51% and operating margin is now expected to increase 70 basis points to about 13.4% due to improved SG&A leverage. Adjusted earnings per share is now expected to be in the range of \$3.52 to \$3.57, reflecting growth of 12% to 14%.

Our updated outlook includes a \$0.06 negative impact from unfavorable FX rates relative to the prior outlook. For the full year, we don't expect FX to have a material impact on our earnings growth rate. And finally, cash flow from operations is now expected to exceed \$1.7 billion with CapEx of \$275 million.

So to conclude, we are pleased with the strong start to the year. Our confidence is high. We're executing well against our strategic growth plan, and momentum continues to build across our core growth engines and platforms. We are focused on transforming VF into a purpose-led, performance-driven organization. We remain deeply committed to reshaping the portfolio and delivering superior returns to shareholders.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. At this time, we'll be conducting a question-and-answer session. [Operator Instructions] Our first question comes from the line of Matthew Boss with JPMorgan. Please proceed with your question.

Matthew Robert Boss
Analyst, JPMorgan Securities LLC

Q

Great. Congrats on a nice quarter, guys.

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

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Thanks, Matt.

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

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Thank you.

Matthew Robert Boss
Analyst, JPMorgan Securities LLC

Q

So on the expense front, can you speak to drivers of SG&A leverage in the quarter, maybe your confidence in the back half? And then, Scott, any color on the frontend loaded investments that you've made and how best to think about the expense line maybe now multiyear? I think that'd be really helpful.

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

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Sure, Matthew. I guess the bottom line here is it's really no change from what we've been saying. Steve mentioned in his comments, we did a little better on the top-line than expected in the quarter. And given that this is our smallest quarter of the year a little bit of movement on the top as a probably disproportionate percentage impact on the ratios in the quarter. But really our algorithm and how you should model it I think going forward is the same. We talked about double digit investment in our strategic priorities, but with that leverage for the full year and actually that leverage ticked up a couple of bps, I guess 20 bps in our implied guidance for the year.

So it's really, really no change. You shouldn't look at this quarter and say something's fundamentally different. We're really maybe just slightly better than what we thought but the big picture remains the same.

Matthew Robert Boss
Analyst, JPMorgan Securities LLC

Q

Great. And then just to follow-up on the gross margin, any change in the outlook for 40 to 50 basis points annual mix benefit? And I guess with the model approaching the five-year plan the 51.5%, just any structure of feeling on gross margin as we think multiyear?

Scott A. Roe

Chief Financial Officer & Vice President, VF Corp.

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Yeah. So obviously, two years in, it's better to be ahead than behind I just made that comment. And yes we have confidence in the gross margin that we laid out. But we haven't changed that algorithm. This year, the way you should think about that it's about 50 basis points of mix. And when you take in the impact of acquisitions that's about a 20 bps negative so that gets you to the 30 bps that takes you to the 51% that we referenced in the guidance. So that's kind of right in line with what we've said.

And listen, I think if we do a little better on gross margin that is a key focus for our business. We talk about it. It's almost a joke internally because it comes up in every discussion that we have and that's our checkbook for investment. And as we see that those margins if they do get a little bit better, does that give us a chance to move in a little bit faster against our strategic priorities? It might. But it doesn't change our commitment to our earnings growth pattern that 16% long-term operating margin is dead in our sights and could it evolve a little differently? It might. But I think the takeaway here is we're feeling good about our gross margins.

Matthew Robert Boss
Analyst, JPMorgan Securities LLC

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Congrats again, best of luck.

Scott A. Roe

Chief Financial Officer & Vice President, VF Corp.

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Thank you.

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

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Thank you.

Operator: Thank you. Our next question comes from the line of Erinn Murphy with Piper Jaffray. Please proceed with your question.

Erinn E. Murphy

Analyst, Piper Jaffray & Co.

Q

Great. Thanks. Good morning. I guess, Steve for you just bigger picture, in your prepared remarks, you talked about the consumer being resilient. Can you just expound upon this comment and how you're feeling about the health of the consumer as we get into the back half and into 2019, maybe just starting here with North America.

Scott A. Roe

Chief Financial Officer & Vice President, VF Corp.

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Sure. I think we all see that the U.S. consumer continues to be open to and motivated to interact with powerful brands, brands that they connect with, brands that provide products and experiences that are relevant to who they are. I don't think we're sitting here saying that this is easy and that everywhere we look that there's resilient consumers. But what we are seeing is where we have the clarity of focus on what our brands stands for that we're bringing the best product.

And more importantly, the big learnings over the last couple of years is really elevating the brand experience and connecting more emotionally with our consumers. We're able to stay at the forefront of the decisions that they have and where they choose to spend their time and money. We see the same to be true in Europe and we see the same being very true in Asia. And I think it's just as we really focus our attention against those key drivers in platforms within our portfolio, we'll continue to see our opportunity to connect and maintain those long-term loyal relationships.

Erinn E. Murphy

Analyst, Piper Jaffray & Co.

Q

Okay. And then just on The North Face, would love to just better understand the North American growth for the quarter. I know it's flat, but it sounds like you're pretty pleased with the quality. So maybe just expound upon kind of the confidence as you get into the back half and still a little bit more second half weighted. And then in that if you could speak about the new circular business model you referenced in your prepared remarks. What does that entail for the brand?

Scott A. Roe

Chief Financial Officer & Vice President, VF Corp.

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That's great. And I'm glad you picked up on that, Erinn. Yes, so The North Face for this quarter as we mentioned, the business was flat where we thought it would be. But what's giving us so much confidence is the quality of our sales. And first quality wholesale being up such a good 20% is this validation that the work we've been doing over the last 18 months to 24 months is paying off. Inventories are clean, retailers have opened to buy that they're able to commit to us, commit to the new programs. As the brand continues to evolve and improve the product offer across Mountain Sports, Urban Exploration, the performance piece, specifically with women's. We're just getting the opportunity to put our best products on floor and we're seeing really good sell-through that's giving us confidence as we move into the second half.

And in the second half, Erinn, just how you think about The North Face through its Mountain Sports focus on consumer and the Urban Exploration focus to the consumer. In each case, we're – the work that we're doing on the top end of those product offers, in Mountain Sports, the Summit Series and Steep Collections continue to involve, continue to get stronger. And we're getting really good placement in all of the right dealers, including how we represent within our own stores and online. It's giving us really good confidence.

The evolution of Urban Exploration bringing in some of those European products that we've seen work so well under Arne's leadership here, we're seeing those resonate here in the U.S., continued strong placement and sell-through in Europe as well as Asia.

To your question on the renewed program, we're all seeing, consumers are changing the way that they're buying footwear and apparel. And we think that they're valuing quality over quantity and they're looking for access potentially over ownership. So with our desire to connect with our consumers and really stay at the forefront and focus on agile experimentation, we are piloting a number of different circular business model tests.

In the case of renewed, that is about refurbishing clothing that is either been worn, damaged or returned to us. We inspect it, we wash it and we tune it up, get it back to the quality that was initially there when we sold it the first time around. So you have the same quality, but the big difference is much less impact on the earth.

We're piloting these programs. They do not have significant impact on our results, but what they are doing for us is giving us an understanding of, is our consumer interested in our brands working in this way? Is this a new growth factor that we should be exploring for future? And I think the teams that are working across the brands with our corporate leadership to really explore these new business models, we think there's something very interesting here and very much in line in our journey to transform.

Scott A. Roe

Chief Financial Officer & Vice President, VF Corp.

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I'd just like to add – yeah, Erinn, sorry, to add on, just put some numbers around here, the first part of your question on The North Face confidence. First of all, the demand is really showing through. If you look at D2C at plus 12% and digital, I think, plus 30% in the quarter, you can see that the interest and the strength for the brand is there.

Also well, when our price is down and the quality is up, like Steve said, plus 20%, first quality. When we look at the full year, wholesale is growing for this brand. We have visibility to the order book and so all of those things together give us confidence in the full year outlook, just to put some numbers behind that.

Erinn E. Murphy

Analyst, Piper Jaffray & Co.

Q

Great. We love the numbers. Thank you, guys and congrats.

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

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Thanks, Erinn.

Scott A. Roe

Chief Financial Officer & Vice President, VF Corp.

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Thanks, Erinn.

Operator: Thank you. Our next question comes from the line of Omar Saad with Evercore ISI. Please proceed with your question.

Omar Saad

Analyst, Evercore Group LLC

Q

Thanks, guys. Good morning. I'll add my congrats to a great quarter.

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

A

Thank you.

Omar Saad

Analyst, Evercore Group LLC

Q

It's interesting that you guys kind of raising the full year guidance after the first quarter. And I'd love to kind of hear you talk about parsing out what your – the strength you're seeing in your businesses, macro versus fundamental. Obviously those have been broad-based reacceleration for you guys, Vans as a key example of that.

But you're also using digital technologies and consumer engagement really effectively. And maybe you could help us think about or understand how you think about what's driving your business in terms of broad macro consumer confidence as opposed to what you're doing in your brands using digital and creating stronger connections with consumers and greater excitement around the product, et cetera. And is there a way for you to kind of discern between the two?

Scott A. Roe

Chief Financial Officer & Vice President, VF Corp.

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Yeah, so I'll take a first shot at this, Omar, and Scott here. I would say this is really much more about our brands and less about macro. I mean the macro from what we have seen macro conditions have not really changed that much over the last 18 months as it relates to our consumer. Now obviously there's many things going on at the macro level but that we're keeping an eye on, but as it relates to our consumers, we really haven't not seen much of a change.

We're keeping an eye on some of the things happening geopolitically, but so far it hasn't baked into our business and so far we haven't really seen either an outside or a downside. What I think you are seeing is a multiyear payoff some of the focus on fundamentals and going back to basics in a sense of our big franchises.

And what's happening at Vans has been a longstanding pattern, the TNF, we've been talking about for a couple of years and we're seeing the payoff. I think it's just that focus on fundamentals that's paying off more than anything that's happened on a broader basis.

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

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And, Omar, let me – I'd add to that. I think last year when we spoke to everybody in Boston, we talked about the work we've done on what we like to call the forces of change. And really diving into the changing consumer mindset and how should we be thinking as a portfolio of brands. And it's really putting the consumer even further forward in our thinking and in every aspect of our company.

And the integrated strategy that we rolled out in March that we continue to talk about, guiding our decisions, we've narrowed our focus on those things that we see being most important to putting our brands at the forefront of the consumers' mind.

And as we've continued to reshape our portfolio, we're focusing our portfolio on those brands that we can drive and are most connected to consumer for us in this long-term journey. So, I think it's intense focus on a very focused set of choices, building stronger capabilities within our brands and even more deeply connecting our corporate functions to service and help enable the growth of our brands, you're starting to see the momentum build based on that, that focus.

Scott A. Roe

Chief Financial Officer & Vice President, VF Corp.

A

Yeah, Omar. And just one other factor I think that's relevant here is the portfolio actions that we've taken, right. In terms of bringing in and focusing on new growth vectors such as Work, such as our Icebreaker, Altra platforms, moving away from some of the more disruptive parts of the market where we saw a little bit tougher sledding. And you're starting to see that mix, an improved mix also shining through, I think, as you look at our performance.

Omar Saad

Analyst, Evercore Group LLC

Q

Got it. So to that end, guys, maybe you could also, as a follow up, talk a little bit about what you're developing, technologies and capabilities you're developing that are scalable across the portfolio, historically, I think the company was very focused on keeping the brand separate and having kind of unique functionalities, especially in the consumer-facing side of the business. As the business evolves, are you seeing more scalable opportunities in consumer-facing areas that you can leverage across multiple brands in the portfolio? Is that the right way to think about it?

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

A

Yeah, and Omar, I think that is the right way to think about it. And I think VF has always been focused on looking for those leverageable capabilities that we could bring to our brands. But through this integrated strategy focus, a couple examples certainly would be our digital platform and the advancements that we're making there on how to use that technology more productively, how to begin to use the consumer data files that we have to more thoughtfully connect with consumers to drive that one-to-one relationship, so important and you see that really coming to life in the Vans results.

Part of our strategy we don't talk a lot about is the vertical work that we're doing in really tearing down our go-to-market processes and product creation. And with the expectation of improving speed, improving quality through lesser SKUs and a more focused merchandising, that work's going on within The North Face and Timberland, and you're starting to see the results come to life there.

I think the capabilities that we're bringing into our portfolio, the Icebreaker acquisition was very intentional. That was a purpose-led acquisition to bring in natural fiber expertise that we can scale beyond just Icebreaker and Smartwool across multiple brands in our portfolio with even stronger connection with our consumers.

And then the last one is our increased attention on insights and analytics, taking what has been a strong consumer insights capability and now marrying that to an analytics capability for better decision making, not just on the consumer-facing side, but on merchandising and supply chain decision making to just improve the quality and efficiency of the work we do.

Omar Saad

Analyst, Evercore Group LLC

Thank you.

Q

Scott A. Roe

Chief Financial Officer & Vice President, VF Corp.

And I think, Omar, the economics around that are these are the big, we call them, enterprise-wide initiatives that were outlined in our strategy. And those are leverageable across the entire portfolio. So, we're just starting investment in those directions. And then on the rest of the business, that's where we see leverage and where we drive leverage into the model. So, that's the way that algorithm works.

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Omar Saad

Analyst, Evercore Group LLC

Great job. Thank you.

Q

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

Thanks, Omar.

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Operator: Thank you. Our next question comes from the line of Laurent Vasilescu with Macquarie Group. Please proceed with your question.

Laurent Vasilescu

Analyst, Macquarie Capital (USA), Inc.

Hi. Good morning and thanks for taking my question. Congrats on really solid results. I wanted to follow up on the Vans guide of 25% for 1H 2019 and then the full year guide of at least 15% growth for the year. That would suggest high-single to the low-double-digit growth for 2H 2019, is that the right way to think about it? And then for last year's Investor Day, I think you guys guided for Vans longer term to grow 8% to 10% with wholesale guided to be a low-single digit, but then DTC to a high single. How do we think about those numbers, and especially on the context of the channel mix going forward?

Q

Scott A. Roe

Chief Financial Officer & Vice President, VF Corp.

Yeah. On the first part of your question, Laurent, you had it, right. I mean, kind of high-single digits is where the second half is. And again, I think as I've consistently said, hardest thing to predict, in terms of the pace of this business, honestly, we really haven't seen it slow down. We know we're comping really big numbers. A lot of this is digital and D2C, essentially half of the business go-to-market is in the D2C area. So, we know it will moderate at some point and that's where we're at, at this point, although, frankly, we haven't seen that occur yet.

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Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

And Omar – I mean, Laurent, I'm sorry. What I'd say, what you see going on right now is, in our opinion is Vans is seeking its natural level as a top provider of active lifestyle footwear. So this growth, though exceptional, this brand has been growing in the teens since we have acquired it in 2004 and they're focused on franchise management, bringing new products offers. We're seeing really good results with items like the UltraRange, some

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of the new apparel offer as the brand expands and offers more choices to the consumers that have been with the brand for a very long time and the new consumers that are coming.

And we're looking forward to our September meeting in Costa Mesa where you all can meet Doug and his team more personally and hear from them on what is driving this growth and what we believe to be that reset of a long-term strategy that is very well founded in a strong understanding of their consumer and a very disciplined approach to managing that brand.

Laurent Vasilescu

Analyst, Macquarie Capital (USA), Inc.

Q

Okay, very helpful. And as a follow up, Greater China, there was a key message at the Investor Day last year. It was up 45% and then I think 31% on an organic basis. I think you guys originally guided for Greater China grow high-teens for the fiscal year. Is that still the case, anything changing within Greater China market that we should consider with regards to this momentum?

Scott A. Roe

Chief Financial Officer & Vice President, VF Corp.

A

Well, I guess, what's changed is we're running a little ahead of our long range guidance. But at this point, we're not updating that. We're really encouraged by the strength that we're seeing in China. We know that that's – it's one of our declared strategic priorities and so we're – it's nice to see that performance. I wouldn't isolate on one quarter though, right. So yes, it's encouraging, but at this point we haven't updated that long range outlook.

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

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Yeah. And Laurent, just one additional point, as we focus on becoming more retail centric in how we think not just for our own store and web platforms, but for how we work with our wholesalers. That mentality with our new leadership and Kevin Bailey is leader of our Asia platform, you're just seeing greater attention to thinking and acting like a retailer, focusing on sell-through and getting our very best products on the floor at the beginning of the season, working dynamically to make sure those products are selling through and just keep the offer fresh, balanced with better and better marketing. I think you're just seeing the proof of what is just early steps in a longer term journey.

Laurent Vasilescu

Analyst, Macquarie Capital (USA), Inc.

Q

Thank you very much and best of luck.

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

A

Thanks, Laurent.

Operator: Thank you. Our next question comes from the line of Michael Binetti with Credit Suisse. Please proceed with your question.

Michael Binetti

Analyst, Credit Suisse Securities (USA) LLC

Q

Hey, guys. Let me add my congrats here this morning and Scott thanks for the opportunity to work on a model again. It's very helpful.

Scott A. Roe

Chief Financial Officer & Vice President, VF Corp.

A

We got pretty deep into the call before somebody got me.

Michael Binetti

Analyst, Credit Suisse Securities (USA) LLC

Q

[indiscernible] (35:21) a little bit. So just a couple of questions really quickly on the models of the housekeeping, few moving parts. It seems like D2C and digital are driving more of the revenue growth than you expected for the year, you had really strong gross margins in the first quarter, maybe above the run rate you're expecting when you gave us the initial guidance for the first half. Is there any new take from the gross margin in year that keeps the annual at 51%?

Scott A. Roe

Chief Financial Officer & Vice President, VF Corp.

A

No. Other than it's early and this is, yes, everything you said is right all though it's relatively low retail quarter and we got 90% of our earnings ahead of us. So early days, is it encouraging? Yeah. But again it's pretty small in the scheme of – there's a lot of real estate ahead of us.

Michael Binetti

Analyst, Credit Suisse Securities (USA) LLC

Q

Okay. Would you mind reorienting us with the first half guidance you gave last time given most of these metrics are above what we were thinking for first quarter? I think you said gross is up 20% in the first half and SG&A leveraging about, sorry, let me go 70%, right, for the first half?

Scott A. Roe

Chief Financial Officer & Vice President, VF Corp.

A

Yeah. Well, I guess the bottom line is we really didn't reorient the – or we didn't give new first half, second half guidance at this point. So what you have is the first quarter actuals and what we said about the year in general. The shape of the year is unchanged, right, with acceleration in the back half. Overall you're going to see more leverage and margin expansion. But beyond that we really haven't given any more detail on that, Michael.

Michael Binetti

Analyst, Credit Suisse Securities (USA) LLC

Q

Okay, fair enough. And then I guess a more fun question is, as we think about the line of sight on Vans and I'm sure you've guys spent a lot of your time answering these questions. But obviously, as we look across coverage, it seems like we're in a bit of a fashion cycle that would very naturally include brands like Vans. But as we do look across our coverage, I'd say there's some brands that have been through a little less durable than Vans over long – over past cycles and maybe we'd be worried about how they're going to comp the comp as they get in their tougher compares.

Can you help us think about how you look at managing one of your big brands that goes through a period of very strong growth like this? We heard things from the channel that you guys are managing allocations into the channel pretty well. Is there a toolkit that you can tell us about that spoke to your confidence you mentioned a little

bit earlier about achieving its natural level here, things that you say these are the ways we know we're playing good defense and this isn't just overcooking in a retro, logo, cycle or things like that that give you confidence that look these are right growth rates, these aren't retro cycle driven growth rates that pose risk to those numbers as we get into the tough compares?

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

A

Yeah. So Michael, let me take a stab at that. As I've mentioned earlier, Vans has been growing at a mid-teen rate since we have acquired it in 2004. So this brand has been on a very strong, solid growth trajectory. And each year through this – through its growth as it gets more disciplined and how it manages its business both financially and operationally through the – but they've taken from our Vans or from our VF ownership, the strength and understanding of the consumer that the team has gained through our consumer insights and brand building focus. They just have gotten stronger and stronger, more focused on who they are and more importantly who they are not.

We are in an exceptional moment where we're seeing distorted growth. Some of that could very much be some trend, level of trend. But honestly the way we look at it, we are resetting the rightful level of penetration that this brand has with the consumer and within the wholesale channel.

And as we do our channel checks, you can see the brand is just taking a larger footprint both on the footwear wall, the tables in the footwear section, but we're also now starting to place really relevant assortments of apparel, so that the better this brand understands its consumer the more thoughtful we can be on placing the right products at the right time. The disciplined franchise management, channel management segmentation just gets stronger and stronger. And it really is disciplined of how that team operates. You'll see that when we host you in September. This isn't an exceptional moment of time that likely has a downward cycle in the back end. This is just a reset of its rightful position as one of the top footwear brands in that active lifestyle component of the consumers' choice.

Michael Binetti

Analyst, Credit Suisse Securities (USA) LLC

Q

All right. Really appreciate the help, thinking it through, and congrats again on the quarter, guys.

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

A

Thanks.

Operator: Thank you. Our next question comes from the line of Camilo Lyon with Canaccord Genuity. Please proceed with your question.

Camilo Lyon

Analyst, Canaccord Genuity, Inc.

Q

Thanks guys. And I'll let my congrats too on the fantastic start to the fiscal year. If we think about the big three brands kind of stacked together in the progression that we're seeing in all of them, so Vans acceleration began last year. It seems that North Face is starting to be on an accelerating path this year. Is it fair to think about Timberland beginning to show its acceleration next year? And if so what are the clues and hints that you're seeing now that would suggest that that is in fact the case? And how do we think about that piece of the puzzle unfolding over the next 18 to 24 months?

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

A

Yeah, Camilo, I think it's a really good way to characterize where we are in this journey. This is our diversified portfolio really showing itself and the strength behind what we have. Today, our Vans business is doing exceptional. Our North Face brand, we've been working on it for the last 24 months intensely on all the things that we talked about from channel cleanup better focus around core product categories, stronger leadership in all the key areas to just bring that discipline back to one of our most powerful brands. It's accelerating.

Timberland is in the same journey. And as we line this up over time, we just see a continued improvement brand-by-brand across each of these regions. I guess I would leave you just imagine, what this portfolio will look like when all of these brands are functioning at their optimum level at the same time.

Camilo Lyon

Analyst, Canaccord Genuity, Inc.

Q

Great. Is there a way to maybe quantify how to think about the Timberland acceleration into next year that you'd be willing to speak to right now?

Scott A. Roe

Chief Financial Officer & Vice President, VF Corp.

A

Well I think we gave you the long-term growth algorithm which is 4% to 6% mid-single-digit. And we talked about acceleration. So beyond that, Camilo, we really haven't. You can expect sequential improvement as we go into next year. Beyond that, we haven't really shaped it.

Camilo Lyon

Analyst, Canaccord Genuity, Inc.

Q

Okay. That's fair. And then just I'd be remiss if I didn't ask about the tariff discussion your manufacturing exposure to China, your ability to defer product to other countries. And where does this lie in with the rank order of concerns in your business? And if it's not one of them what is the chief concern that you are kind of contemplating?

Scott A. Roe

Chief Financial Officer & Vice President, VF Corp.

A

Yeah, Scott here. I'll start. We would be asleep if we weren't concerned about it, right. We're watching this very carefully. The good news for us so far is in all of the guidance and insight that we've seen. So far these are de minimis to us. I mean there're some relatively extraneous categories, belts, some other accessories-type things that have had a very small impact. We have a very diverse supply chain.

And once we know what the rules are, sometimes the hardest part is figuring out what the rules are. But once it's communicated, we can adapt pretty quickly. And that's the beauty of the diversification of the supply chain and frankly, the competency of our supply chain. We're really good at this stuff.

These guys are – these men and women are awesome at optimizing around total landed cost, once they know the rules. As it goes to the floor, I think it's anybody's guess, right. Of course, we're watching it. It's an area of concern. It could become an issue for us in the future. It just depends on where the rhetoric is versus – compared to what actually gets implemented.

Camilo Lyon

Analyst, Canaccord Genuity, Inc.

Got it. Thanks a lot guys and best of luck going forward.

Q

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

Thanks, Camilo.

A

Operator: Thank you. Our next question comes from the line of Dana Telsey with Telsey Advisory Group. Please proceed with your question.

Dana Lauren Telsey

Analyst, Telsey Advisory Group LLC

Good morning, everyone, and congratulations on the terrific performance. Can you talk a little bit about what you're seeing on Amazon given some of the tests that you've put on there and how the brands you've had on there? How they are performing and what you're seeing? And can you give us an update on wholesale? What you're seeing both overseas and in the Americas and just any feeling on the Jeans business how Wrangler and Lee are performing? What you're seeing in this new fashion cycle? Thank you.

Q

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

Dana, this is Steve. So on the Amazon question, we're working closely with Amazon as a strategic partner for us, both here and in Europe. We've talked in the past about dedicating a key account teams like we're now placing people in Seattle, just getting to deeper knowledge and understanding of how Amazon platform works and how and where does it fit into our integrated marketplace decisions? What are the right assortments? How do we work with them on managing the marketplace, so we can have the very best representation of our brands within their environment?

A

The test that we've been working on are working well. We're pleased with the results. Our Jeans businesses Wrangler and Lee are some of the best performing apparel brands within the Amazon platform. And really are helping us understand broad spectrum of how brands work within that platform. Your question on wholesale is that more broadly just how do we see wholesale not only here but in all the regions?

Dana Lauren Telsey

Analyst, Telsey Advisory Group LLC

Yeah. Exactly, order trends and by division. Thank you.

Q

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

Sure. So I think what we see here in the U.S. in the domestic wholesale market is a channel that's much cleaner and more focused on putting stronger merchandise assortments in front of consumers working, I think, more effectively with us on how to drive demand and sell-through.

A

I think the one channel that we've talked most about is the outdoor specialty channel. It's much cleaner than it has been. Our inventories are much, much more in check to the point where really it's our outlets that we're using to move our excesses. And that just gives us so much more opportunity to place new, fresh seasonal product in a

more thoughtful flow to keep consumers interested. So, I think it's really in all aspects, we see each one of the sectors, each one of the business units working better within the wholesale standpoint. And then on Jeans, I think you see an improving quarter-by-quarter results. I think this was Wrangler's fourth quarter?

Scott A. Roe

Chief Financial Officer & Vice President, VF Corp.

Fourth consecutive quarter...

A

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

Fourth consecutive quarter of showing improvement. Is there a Jeans cycle going on out there? Maybe. I think what we see is, fundamentally, our bottoms business is working very well in our Wrangler brand. And as we expand into some new categories, our Outdoor category doing extremely well. And as this brand really begins to think about itself as more of a global lifestyle brand, evolving all of the appropriate new products to round out that head-to-toe offer, we're starting to see really good results. And just slowly, but surely the brands continue to show improving strength here domestically, but more importantly in Europe where we've seen really good growth for our Lee business in Asia, for sure.

A

Scott A. Roe

Chief Financial Officer & Vice President, VF Corp.

Yeah. And just perspective on that, we're coming off – if you go back a year or so, you think about destocking and some of the things that were going on more in the channel, good news for us is we now see stabilization of the business and even we're seeing some modest growth. So, that just gives us confidence that we're coming through the end of that period and really on solid foundation as we look forward.

A

Dana Lauren Telsey

Analyst, Telsey Advisory Group LLC

Thank you.

Q

Operator: Thank you. Our next question comes from the line of Jay Sole with UBS. Please proceed with your question.

Jay Sole

Analyst, UBS Securities LLC

Great. Thanks so much. Could you talk about just the Williamson-Dickie integration? Where you are in that process? Have you realized the SG&A synergies? And just if you could identify maybe some of the core sales driver, whether it's work or some of the expansion into international, lifestyle, that'd be helpful. Thank you.

Q

Scott A. Roe

Chief Financial Officer & Vice President, VF Corp.

Yeah. Well, I'll start at the end, because you just nailed it. International, lifestyle are some of the key areas of growth that we see and, frankly, probably even underestimated at the time of the acquisition. We are excited about some of the opportunities that we're seeing in Asia and internationally on the lifestyle pieces as the former management team had done a nice job of setting up that business. And when you put it into our model and our in-country know-how, we see this as a really interesting potential opportunity going forward.

A

First part of your question, Jay, was around the integration. The short answer, it's going really well from all – financially, we're a little slightly ahead of what we see at the top and bottom line. Culturally, it's been a great fit. We can't say enough about the quality of the WD organization. It's just been a really positive experience and we've been really impressed by their associates. And we're feeling really good about where we're at on the Dickie's integration at this point. No, it's not done, but it's going well.

You mentioned SG&A synergies, and there are some SG&A synergies, but the majority – just to remind you, the majority of the synergies that we saw in this deal are on the margin side. As we get the scale and purchasing power and integration into some of the manufacturing and supply chain side of our business, that's where we saw, I think we said, two-thirds to three-quarters of the benefit really comes on the margin side – gross margin.

Jay Sole

Analyst, UBS Securities LLC

Q

Got it. And so would you say, Scott, on those gross margin benefits, are those sort of implied in the guidance for the rest of the year that you've already been able to make those changes and improvements? Or is that something we're still working on maybe for a next year type of situation?

Scott A. Roe

Chief Financial Officer & Vice President, VF Corp.

A

Yeah. There is – some are in it, so let me put it in another way. The guidance we have reflects what we see. But we also said, because a lot of these are in manufacturing supply chain, they sometimes take a while to get out. So we said you would see these over a couple year period, some of which you're seeing implied in the guidance right now. And then you'll see some continuing as we move forward. In rough number, as we said, we could double the margins of this business over a period of time with the majority of that coming in the first few years.

Jay Sole

Analyst, UBS Securities LLC

Q

Got it. Great. Thank you so much.

Scott A. Roe

Chief Financial Officer & Vice President, VF Corp.

A

Yep.

Operator: Thank you. Our next question comes from the line of Ike Boruchow with Wells Fargo. Please proceed with your question.

Ike Boruchow

Analyst, Wells Fargo Securities LLC

Q

Hi. Good morning, everyone. Let me add my congrats to a great quarter. I guess first question probably for Scott. Going back to the Jeanswear business, can you maybe just, bigger picture, talk about the U.S. wholesale business and the mass business, specifically? Just how you're feeling there with visibility maybe relative to the prior 6 to 12 months?

Scott A. Roe

Chief Financial Officer & Vice President, VF Corp.

A

Yeah. So, I think I mentioned in a previous comment relative to one of the largest players there that has just gotten through destocking, at least in our categories, there may be others that are affected, but this, as it relates to us, we appear to be through the back end of that. And we are really in favor of that. We think that was a good move and good for the consumer, good for the productivity of the inventory. We work with them and applaud them on that move. And we think that sets that business and that experience positively as you look forward on a positive base.

Now, obviously, there's various winners and losers that are in that space. I think we are winning with the winning consumers, and if you look at our – sorry customers. And when you look at our forward guidance, we've been fairly, I think, realistic and somewhat conservative as we look forward knowing that there will continue to be consolidations and store closures in some areas and we're maximizing our relationship and our growth with those that are doing relatively better. We're also cautiously working with some that are not doing as well.

Ike Boruchow

Analyst, Wells Fargo Securities LLC

Q

Got it. And then just to switch gears to The North Face. Just kind of curious, it all makes total sense for the brand and the quality, sale initiatives and improving the quality of sell-through. I guess my question is the U.S. wholesale in totality has been negative for a little while. Should that inflect at some point this year? Should we see the U.S. wholesale channel for North Face stabilize at some point? And what's kind of embedded maybe in the 6% to 8% for the year from a U.S. wholesale perspective? Just trying to understand when we from a modeling perspective should expect that channel to get back to positive territory?

Scott A. Roe

Chief Financial Officer & Vice President, VF Corp.

A

Yeah, you will see growth this year in wholesale. And again it's really even – what you'll see reported is going to be even better when you consider the quality of that growth or another way to say that, as you reduce off price and obviously that puts pressure on your overall growth rate, but the underlying quality of that growth rate is better.

So when we grow low-single-digits, we have visibility in that from a wholesale standpoint, given the order book we have. And so that would be an inflection point of what you see there over the last several quarters. Remember our overall algorithm too, if you think about North America and this would be true with The North Face as well is, we're actually expecting overall big picture wholesale into the U.S. to be down from a brick and mortar standpoint.

We are growing with the digital wholesale partners, those like the Amazon and others as well as the click-through, the digital component of our retail customers. So again, I think we have a realistic view of the marketplace, as you look forward, we're not ignoring the trends that we see out there.

But it's important to distinguish and remember, they're not all created equal. And we see some very driving, solid customers and they are the great partners to us and we're working really well with them and we will grow our business with them over this period of time.

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

A

And, Ike, I would add, the focus on – at wholesale specifically for The North Face, it's deeper focus on the key accounts that – where we're able to really have strong in-store presentations. We're focusing on those specialty retailers that have particularly strong positions in specific communities.

There continues to be ups and downs. And I think we've found the right partners. We know the right partners and this is where we feel so confident about being able to place better assortments on a more frequent basis based on the lower excess inventory across those channels.

The digital wholesale piece is very, very important, on a global basis partners like Zalando in Europe, ASOS. We talk a lot about Amazon as an up and coming integrated marketplace option for our brands, but you've got key players like Dick's Sporting Goods and Nordstrom, you've got the Moosejaw's that we focus on.

But you also have a new strategic key account for us in Europe, coming to the United States in JD Sports. We're excited to partner with them and find the right level of assortment to add value for our brand here in the U.S. marketplace.

So really understanding who those key accounts are, understanding what the right assortments are, is really the basis of that comment around just the improved product merchandising decision making and how that flows into an integrated marketplace set of decisions.

Ike Boruchow

Analyst, Wells Fargo Securities LLC

Q

Really helpful. Thanks so much.

Operator: Thank you. Our final question for today comes from the line of Jonathan Komp with Robert W. Baird. Please proceed with your question.

Jonathan R. Komp

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

Q

Yeah. Hi. Thank you. I want to – first just kind of big picture on the guidance, if I could. The organic revenue growth for the year looks to be in the mid-single-digits. And I know if I look at the past few quarters you were trending closer to the high-single-digits and then in the first quarter accelerated to 10% organic growth. So outside of Vans, is there any more color on what you're embedding in the guidance for the year from an organic growth perspective?

Scott A. Roe

Chief Financial Officer & Vice President, VF Corp.

A

Well, I think we've laid out all of our growth rates at the top brands, so you could see what our assumptions are. Obviously in the first half, our guidance implies relatively slower growth with acceleration in the second half.

First quarter, Steve said at the very beginning, we did a little bit better albeit on a small quarter. So should we do a little better? We might. But at this point one quarter in and a small quarter at that this is where we're at. So I think what we said specifically is organic guidance, our organic top line is greater than 5%, so we said mid-single-digits here in the ZIP Code, right prior to top and the mid-single-digits.

Jonathan R. Komp

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

Q

Okay, great. And then maybe a broader question around the segment reclassification or regrouping, I want to ask kind of big picture, how much is based on backward looking actions that you've already taken and how much might be based on kind of the forward vision for any additional portfolio reshaping especially since when I look at

the Active segment, there are seven brands included. But Vans dominates that category that segment today. And maybe there's a lack of traditional more kind of active or athletic brands within that grouping. So, any color on kind of the motivations forward looking versus backward looking what you've done?

Scott A. Roe

Chief Financial Officer & Vice President, VF Corp.

A

Yeah. I'd caution you not to get to prognosticate too much based on our segments. The rules are pretty clear in the guidance. And you can even argue whether they are always logical or not, but they are what they are. So we – the justification for the new segments, I think is pretty straightforward.

Our outdoor and action sports business has become so large that we felt it was good for you the readers to have more one click down one more level of visibility rather than having that one giant segment especially given some of the different financial characteristics of the two as you can see, right. And really that's the driver and the guidance is companies with like characteristics are grouped together and it's really not more or less than that.

Jonathan R. Komp

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

Q

Understood. Thank you.

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

A

Thank you.

Operator: Thank you. Ladies and gentlemen, at this time we've come to the end of our time allowed for questions. I'll turn the floor back to Mr. Rendle for any closing comments.

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

Great. Thank you everybody for joining us. We're very proud of the quarter we just put up. Our growth is broad-based. We're seeing acceleration across core brands and platforms. But I would just remind us all that this is just yet another quarter in a five-year journey and we're very, very happy and proud of where we are in that journey. We're confident with where we're going against our long-term vision to be a purpose led performance driven enterprise that delivers top quartile value to our shareholders. We look forward to talking to you in the not too distant future. Thanks.

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

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