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VF Corp. (VFC)

Q2 2023 Earnings Call

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Greetings and welcome to the VF Corporation Second Quarter Fiscal Year 2023 Earnings Conference Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host Allegra Perry, VP of Investor Relations. Thank you. You may begin.

## Allegra Perry

Vice President-Investor Relations, VF Corp.

Good afternoon and welcome to VF Corporation's Second Quarter Fiscal 2023 Conference Call. Participants on today's call will make forward-looking statements. These statements are based on current expectations and are subject to uncertainties that could cause actual results to differ materially. These uncertainties are detailed in documents filed regularly with the SEC.

Unless otherwise noted, amounts referred to on today's call will be on an adjusted constant dollar basis, which we've defined in the press release that was issued this afternoon and which we use as lead numbers in our discussion because we believe they more accurately represent the true operational performance and underlying results in our business. You may also hear us refer to reported amounts which are in accordance with US GAAP. Reconciliation 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. Unless otherwise noted, results presented on today's call are based on continuing operations.



Joining me on the call with be VF's Chairman, President and Chief Executive Officer, Steven Rendle; EVP and Chief Financial Officer, Matt Puckett. Following our prepared remarks, we'll open the call for questions.

I'll now hand over to Steve.

#### Steven E. Rendle

Chairman, President and Chief Executive Officer, VF Corp.

Good afternoon everyone and thank you for joining our Second Quarter Fiscal 2023 Earnings Call. I'll provide an operational update for the quarter and for the year to date and Matt will provide a review of our financial performance.

I'd like to first start with a few words on the macroeconomic environment, which, even since we met for our investor day exactly a month ago, continues to dynamically evolve. While consumer health remains relatively intact across most of our markets, we continue to see global trends result in more choiceful and cautious spending behavior. In North America, we saw a mixed back-to-school result across product categories and today are seeing variable traffic patterns across channels and an elevating promotional environment in most markets.

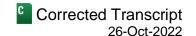
The situation in China continues to improve although rolling lockdowns have slowed this progress. Despite continued softness in China, we're seeing pockets of growth in this market led by The North Face as the brand's global leadership role in the important outdoor TAM continues to influence this relatively under-penetrated market. Outside of China, we're seeing further improvement across rest of Asia led by Japan and Korea, which remain highly influential on greater China. And we had another quarter of strong growth across our portfolio of brands in Europe, despite a backdrop of deteriorating consumer confidence.

Despite this mixed macroeconomic picture, our portfolio of brands continues to deliver a broad-based performance as consumers continue to prioritize their active lifestyles and lean on our brands to fulfill those needs. And the investments we're driving into our key strategic growth capabilities and platforms continue to support the growth of our brands.

For the quarter, our revenue grew by 2% and our adjusted operating income was approximately \$380 million. We returned \$194 million in cash to shareholders, bringing the year-to-date total to nearly \$390 million.

As you heard at our recent Investor Day, we are committed to building on those things that have always made us uniquely VF and to growing our highly intentional portfolio of brands. So to start with Vans. Our actions to accelerate momentum at the brand are still early. And as anticipated, sales in the second quarter were lower, primarily as a result of a disappointing back-to-school season in the Americas. Q2 sales were down 8%, bringing year-to-date revenue to minus 6% and minus 1% excluding China. As mentioned at Investor Day, we have a deep and broad bench of strong talent at VF and are now strategically deploying this into the Vans business. We recently made two important appointments, adding a new position of chief product and merchandising officer and bringing a key leader from North Face to head up Digital.

In terms of Vans product, innovation in the Progression Footwear line, which today represents 25% of brand sales, continues to drive an uptick in demand with the new UltraRange EXO MTE Hi showing strong initial sell-through. As you heard from Kevin Bailey at the Investor Day, it'll take some time for the product-facing initiatives to be introduced. And when they come, we are confident that they'll have a positive impact on the brand's results.



Traffic to our stores and digital platforms continue to be below historic levels. While the industry leading conversion in-store remains in line with our historic levels, and our test and learn in-store merchandising sprints are showing early indications of improvement in both stores and online.

Our focus in the second half is to prioritize initiatives that drive traffic into our direct channels where we have the opportunity to benefit from our strong conversion rates. I remain confident that we have the right people and the right strategy and will execute to deliver results at Vans.

Now to The North Face, which continues to deliver strong and broad-based performance and prove its undisputed leadership in the outdoor category with revenue up 14% versus last year, reflecting double-digit growth across all regions and channels and leading to our biggest second quarter ever for the brand, bringing the year-to-date growth to 21%.

As you heard from Nicole Otto at the Investor Day, product innovation remains at the forefront of the brand's continued momentum. With a good start to the season in outerwear, we showed strength in soft shells, fleece and lightweight insulated jackets as consumers prepared for the coming fall/winter conditions. In addition to the good performance of outerwear, the continued focus on 365-day apparel in the Americas led to a double-digit growth in D2C for this region.

Bags and luggage saw global success with recovering summer travel in a strong back-to-school season driving energy for the brand. And finally, The North Face and Gucci Chapter 3 collab launched and drove meaningful brand heat. The brand continues to push boundaries with its technical innovation and was recently recognized by Outside's 2023 Winter Gear Guide, which featured eight – that's right, I said eight – products from The North Face, as season must-haves.

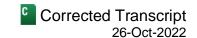
In addition, I'm extremely proud that The North Face VECTIV Fastpack insulated FUTURELIGHT boot received the editor's choice award and a feature-length review alongside its inclusion in the best winter hiking boots of 2023. I encourage you to check this out.

The North Face continues to deploy innovative tactics in order to deepen its understanding and connection with consumers and to enhance engagement. XPLR Pass membership added more than 800,000 new members in Q2, surpassing 15 million members in total. Overall, the brand has strong and balanced momentum and is well-positioned to continue to generate long-term sustainable growth.

Onto Timberland. Q2 sales growth was up 3% versus last year, impacted slightly by shipment timing. Sales for the first half are up 7% versus last year, running slightly ahead of its long-term plans as the brand continues to perform well.

You heard recently from Global Brand President, Susie Mulder, about Timberland's sharpened focus, and it's paying off. Our new integrated brand and product campaign Built for the Bold taps into our cultural relevance and work and outdoor heritage, with progressive products like the GreenStride Turbo Hiker, the number-one new fall 2022 style across all regions and channels, and the new Trailquest Hiker driving growth during launch week. As part of our marketplace strategy, the campaign launched in New York City and London, driving sales, traffic and strong growth across digital platforms. Overall, the campaign has topped an impressive 1 billion impressions.

We continue to see momentum in EMEA with growth over 50% in our community membership month over month and with the business being up nearly 20% in the quarter. We also continue to drive brand heat and attract new



consumers with collaborations like Veneda Carter with more than 70% of purchasers in EMEA being new to the brand.

And finally, our PRO business returned to growth this quarter, fueled by strong performance in brick-and-mortar and a new campaign focused on bringing new consumers into the skilled trades. In all, a solid quarter for Timberland with momentum as we head into Q3.

Finally, to round out the big four, Dickies, global revenue was down 15% in Q2 and 14% in the half. In the quarter, we saw strong growth in EMEA driven by work lifestyle as the brand continues to gain traction in this region. These results were outweighed by further impacts in the Americas relating to our largest wholesale customer, which continues to tightly manage inventory levels. This performance impacted global results by about 10% in the quarter.

Outside the value consumer, the brand is healthy, as you recently heard from new Global Brand President, Lance Meller, at our Investor Day. The Icons business was up mid-single digits in the Americas with women's being a significant contributor. While overall Asia-Pac continues to feel the impacts from COVID-related disruption, we continue to make progress in key markets beyond greater China, experiencing significant growth with partners in Japan and successful expansion in South Korea.

On the marketing front, the Made in Dickies campaign, celebrating the brand's 100-year anniversary, continues to support brand awareness with a meaningful growth in impressions driving organic pickup on prominent social media platforms. Dickies continues to expand its appeal with new consumers in all regions, while maintaining strong brand momentum, giving us confidence in our long-range plans for the brand.

Turning to the rest of the portfolio in Q2. I'll start with Supreme, where the brand grew revenue by 7%. The fall-winter season has had a good opening. We've dropped the new Yohji Yamamoto collection as well as the Nike ACG release and launched the André 3000 poster campaign. Stores continue to see strong foot traffic in all regions, with Japan showing particularly good trends leading into the reopening of tourism. We also renovated our Harajuku store with the opening event featuring performances by Bladee and Yung Lean.

Our outdoor emerging brands in aggregate grew by 14%, driven by continued outstanding growth at Altra which achieved a strong double-digit growth rate in both road running and trail running and was up mid-teens in the Americas and triple digits in EMEA. The brand's performance has been fueled by continued success of the Lone Peak as well as launches of key styles like Torin 6, Olympus 5, Outroad and the Mont Blanc BOA. Smartwool revenue grew in Q2 grew by low-double digits driven by apparel up in the mid-20% range. We saw continued momentum in base layer and the launch of Intraknit Mid Layer collection.

Icebreaker was up mid-single digits led by strong brick-and-mortar performance and the launch of Shell+, a 100% natural outer layer which has already won multiple innovation awards. Icebreaker launched their fourth transparency report, celebrating 95% plastic-free materials and pioneering the journey towards regenerative wool practices.

Momentum in our Packs business continued in Q2 with high-teens growth for the quarter, driven by strong back-to-school performance and continued recovery in global travel trends. Across the majority of our business, we're delivering strong revenue growth, as the investments behind our strategic growth platforms are yielding positive results.



As we have highlighted before, our intentionally built portfolio of brands is generating broad-based growth. Excluding Vans, which is early in its work to reset, refocus and reaccelerate, the remainder of our portfolio grew revenue by 11% in the first half with outdoor emerging brands continuing to gain scale and our Packs business recovering nicely and seeing an acceleration of growth to plus 25% across the same period. Regionally, our EMEA business continues to deliver consistently strong results, outperforming the broader European marketplace.

Our first half revenue was up 16%, highlighting the strength of our portfolio, the relevance of our brands across all markets and the important strength of our international platforms. The North Face business continues to power forward, including and importantly The North Face grew first half revenue by nearly 30% in greater China where most brands inside VF and across the broader market have been impacted by ongoing disruption. And the Dickies brand is continuing to gain momentum across the work lifestyle segment where sales excluding China were up about 20% in the first half.

We are continuing to actively manage the near-term challenges presented by our largest brand, Vans, the ongoing COVID-related disruption in China and the broader macroeconomic and geopolitical challenges, which have created an unprecedented level of uncertainty which all businesses and consumers are navigating. I remain confident in our ability to deliver on our overall revenue targets as we prepare to maximize our potential when the macroeconomic environment improves, leveraging VF's powerful brands, unique business model and critical strategic growth platforms.

In summary, our performance in Q2 reflects a balanced delivery of results and speaks to our resiliency as we adapt to an increasingly variable and softer consumer backdrop. Our purpose-built portfolio of iconic deeply loved brands continues to benefit from strong tailwinds in the outdoor, workwear, streetwear and active spaces. We continue to invest behind digital and innovation, with our brands generating a regular cadence of new product initiatives, driving an increasingly closer connection to our consumers. The quality of our performance is a testament to our deep bench of strong talent and the incredible teams whose enthusiasm, hard work and commitment continue to enable us to deliver results. I remain incredibly impressed and grateful for their ongoing contributions.

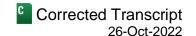
I will now hand over to Matt to take you through our financial performance. Matt?

### Matt Puckett

Chief Financial Officer & Executive Vice President, VF Corp.

Thanks, Steve, and good afternoon, everyone. As Steve mentioned, we delivered a balanced set of results in Q2 as we adapt to a more variable and softening consumer environment. Revenue was up 2% in constant-dollar terms and up 4% excluding China. For half one, revenue was plus 4% and plus 7% excluding China. After accounting for a negative FX translational impact of approximately \$195 million, nearly double the level seen in Q1, sales were down by 4% on a reported basis in the quarter. Globally, both our wholesale and direct-to-consumer businesses generated low-single-digit growth in Q2, and D2C returned to growth at the VF level despite a lower performance than anticipated from Vans North America.

Our adjusted EPS was \$0.73, down 34% or down 27% on a constant-dollar basis. About one-third of this reduction versus last year relates to non-operating impacts. Before I unpack the P&L in more detail, I'll give you an update on the operating environment across our primary geographies. While rolling lockdowns continued to disrupt operations in China during Q2, we are otherwise open for business from a COVID standpoint across the value chain.



Revenue in the Americas was down 3% but up 3% excluding Vans, against a difficult macro backdrop characterized by softer traffic in components of D2C network, higher inventory levels across the marketplace and an increasingly promotional environment. Our outdoor businesses continue to perform strongly, led by The North Face, growing low double digits in the quarter and continue to generate strong sellout across channels. Vans performance in the region was down 11% impacted by lower back-to-school sales and increasingly cautious approach by our wholesale partners leading to higher cancellations and lower traffic affecting our direct channels.

Finally, Dickies down 17% was impacted by further inventory adjustments made by our largest third-party retailer. Across the rest of the business, the brand was down low single digits overall despite similar inventory pressures and other more value-end consumers work accounts. This was helped by double-digit growth in work-inspired products.

Our business in EMEA remains strong despite a further deterioration in consumer confidence and the corresponding impact to traffic levels. Revenue in the region was up 12% in the quarter and by 16% in the year to date, driven by broad-based growth across all brands, with all brands growing and 10 brands growing double digits in the quarter.

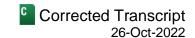
Both D2C and wholesale are up double digits, again signaling the broad-based strength our brands are enjoying in the region. Within wholesale, the third-party digital business was softer, reflecting a more conservative approach to inventory as well as some cancellations amidst lower traffic. By market, four of the five largest markets generated strong double-digit growth: France, Italy, Spain and Germany.

As anticipated, APAC progressively improved and returned to growth with revenue plus 2% in Q2, in line with our plans, a testament to the strength of our bands and to the efforts of our teams to respond with agility to ongoing market headwinds, particularly in China. The performance in Greater China improved to down 10% in the quarter in contrast to down 30% in Q1 but continues to be impacted by widespread rolling COVID lockdowns and restrictions as well as lower consumer spending. This result was largely in line with our expectations for the half. The rest of Asia improved further, growing 30% during the quarter.

The outdoor segment continues to experience favorable tailwinds and The North Face delivered yet another quarter of strong double-digit growth across the region, highlighted by revenue growth of nearly 30% in the first half in Greater China.

Now moving on to gross margin, where we were again adversely impacted by a number of factors in the quarter. Our adjusted gross margin was down by 240 basis points. As anticipated, and after two negative quarters, the mix impact was flat in the quarter. Rate was down 220 basis points, primarily reflecting higher discounts, increased promotional activity and elevated inventory levels. Higher product costs have been offset by planned price increases.

Turning to an update of the supply chain environment. Our supply chain is one of our key strategic platforms and a competitive advantage for VF. As you heard from Cameron Bailey at our recent Investor Day, we continue to act with agility and speed, leveraging our scale and diversification to mitigate ongoing headwinds and disruption. Our sourcing and production base remains open and is operating with greater diversification, stemming from a concerted effort to move production closer to consumption of where it makes sense. We are still feeling the effects from the eight weeks of large-scale lockdowns in China during Q1, as the impacts work through the system. And while much more stable, we continue to deal with ongoing micro-lockdowns and the impacts to operations in China during Q2. That said, our diversification, scale and agility are enabling us to adjust as needed to minimize disruptions.



From a logistics standpoint, we are seeing a further improvement in transit times across the water and dwell times in port, which are contributing to improving overall predictability and reliability. Although it's worth noting that variability continues to remain somewhat elevated as compared to the pre-pandemic environment. Overall, we've begun to reduce lead times from both a production and logistics perspective although the total cycle time is still higher than historical levels. We anticipate closer-to-normal lead times as we move into fall 2023.

On the cost side, both ocean and air spot rates reduced further during the quarter but remain substantially higher than historic levels. Finally, our port and route diversification strategy in North America remains in place as we continue to follow the ongoing West Coast labor negotiations. This allows us to more consistently and better serve the consumer but adds cost in the short term. In summary, while the situation continues to improve gradually, the supply chain overall remains disrupted relative to the pre-pandemic norm.

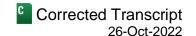
So let me spend a couple minutes on inventory, which of course is the hot topic of the moment. As we mentioned on our last earnings call, during Q1, we implemented a supply chain financing program with the majority of our finished-goods suppliers. This results in us taking ownership of inventory at the point of shipment rather than at the destination point, meaning we own the inventory for an additional month or so. There's no impact on cash flow since the point at which payment is due to the supplier hasn't changed. The increase in inventory is offset by an increase in accounts payable as evidenced by our Q2 result where payables were up 91% in the quarter. As part of the program and as of September 1, VF has increased payment terms with the majority of its finished goods suppliers. This change will begin to benefit VF's overall cash flow later in half two, and this impact has been contemplated in our operating cash flow outlook.

Inventory levels are up 88% versus last year including an increase of about \$510 million in in-transit inventories relating to the supply chain financing program. Excluding this factor, inventories are up 58% versus last year. On an organic basis, excluding in-transit versus Q2 of fiscal 2020 which is a pre-pandemic comparison, gross inventories are up about 35%. Roughly 75% of the increase versus last year was to right-size the inventory levels from their unusually low levels and to support this year's growth plans. The balance of the increase largely represents higher-than-planned levels of inventory at Vans and Dickies primarily in core products.

Actions are underway to mitigate this and ensure we are well positioned at our fiscal year-end and importantly as we manage the overall health and levels of inventory toward spring and summer 2023. These include adjustments to forward purchases where possible, controlled sell-down of excess and distressed inventory, and in some cases where the stock is largely replenishment, plans to carry a higher level of inventory in the near term, such as in the case of core Dickies workwear product.

Now to wrap up the P&L. Our adjusted operating margin was down by 440 basis points reflecting lower gross margins as well as ongoing targeted investments which we continue to make to advance our key strategic priorities and support our brands' growth opportunities. SG&A was up 7% on a constant-dollar basis in the quarter, still above but more in line with our full year revenue growth outlook of 5% to 6%.

Operating expense deleveraged in the quarter, the result of three key factors. First, we continue to invest behind our key strategic priorities. Those investments were up by 9% in the quarter, primarily reflecting initiatives in the digital and technology space and continued investment in demand and product creation in the brands. Second, our revenue growth of plus 2% in the quarter is projected to be our lowest quarterly growth in the fiscal year. And finally, lower profit margins in our highly profitable Vans direct-to-consumer business reflecting the brand's recent performance. We are continuing to maintain strict cost management against all controllable spend.



Moving on to our outlook for the rest of the fiscal 2023. We are confirming our full year revenue outlook of plus 5% to 6% in constant-dollar growth and now expect about 6.5 points of impact from foreign currency translation on reported revenues. And considering the velocity with which the macro environment and the marketplace has evolved, even since we last updated you just a month ago, we're taking a more cautious approach in planning profitability for the balance of our fiscal year.

That said, we are proactively taking near-term actions to drive higher revenue and profit in our half two amidst a difficult and highly promotional environment. Specifically, we are leveraging our portfolio strengths and sharing learnings across the organization in order to, first, increase consumer traffic, engagement and conversion in our direct channels, leveraging better performing tactics across our company and deploying these to other areas. Second, we will drive the profitable sale of excess inventory utilizing our own channels first, followed by other important strategic partners. Third, we will work with our brands particularly those that are performing well to position the business to set spring 2023 early in our fiscal Q4 where opportunities exist to drive incremental revenue. And finally, we will reduce all nonstrategic controllable spend in the year-to-go period. We remain committed to maximizing profitability in the back half of the year in the face of a challenging set of macro factors.

Within the details of our fiscal year 2023 revenue outlook of plus 5%to 6% constant-dollar growth, we are anticipating The North Face will grow by at least 12% suggesting an implied half two growth rate of at least 7%. Our Vans guidance for the year to be down mid-single digits implies a low- to mid-single-digit decline in half two, a slightly better result than in half one, where the brand declined 6% driven by easier prior-year compares in China.

Moving on to our fiscal year 2023 adjusted gross margin outlook. Considering a more impactful promotional environment reflecting the heightened and increasing levels of inventory across the marketplace and ongoing US dollar strengthening, we now anticipate gross margins to be down by 100 basis points to 150 basis points versus last year. As a result of the lower gross margin and greater foreign currency impacts, we are lowering our adjusted operating margin guidance to be approximately 11%.

Our EPS range is now anticipated to be \$2.40 to \$2.50 relative to \$3.18 last year. As we've mentioned previously, there are several non-operating factors that are impacting the compare to last year, and these have only increased with the larger foreign currency headwinds. The total negative impact versus last year of these factors led by a FX translation impact of \$0.31 is about \$0.50.

Finally, a quick update on our projected cash evolution this year. Our full year guidance implies continued healthy cash generation over the course of the year with adjusted operating cash flow excluding the one-time Timberland tax deposit expected to be at least \$900 million. To give you an update on the Timberland tax deposit, the appeal was filed on October 7, and we made the forecasted payment of \$876 million in the early part of Q3, while at the same time drawing down \$800 million against the recently established term loan facility with capacity up to \$1 billion.

We have approved a further increase in the dividend to \$0.51 a share as part of our ongoing commitment to return cash to shareholders. Finally, our balance sheet remains sound with liquidity expected to exceed \$2.3 billion at year-end.

I'd like to conclude my prepared remarks by reiterating the confidence we have in our strategy and our commitment to delivering superior shareholder returns. We will continue to invest in our portfolio of brands and our strategic platforms in order to further strengthen our business model and position us to drive consistent, sustainable and profitable growth over the long term.



As I said at Investor Day, we are committed to being a growth company consisting of growth brands and are well-positioned to perform despite a softening consumer environment and continued elevated uncertainty. Finally, I continue to be impressed with the invaluable contributions and achievements of our teams, which make all the difference ensuring VF is well-positioned to continue to deliver against our strategy. Thank you.

We are happy to now open the line and take your questions.

# QUESTION AND ANSWER SECTION

**Operator**: Thank you. We will now conduct a question-and-answer session. [Operator Instructions] Our first question comes from Michael Binetti with Credit Suisse. Please proceed.

#### Michael Binetti

Analyst, Credit Suisse Securities (USA) LLC

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Hey, guys. Thanks for taking our question here. Matt, I want to dig in on some of the actions to drive revenue and profit that you spoke to. I know you gave us a little list there, but maybe just a little bit more on what we'll actually see, what you're doing since you introduced the highlights there.

And then, as we look at Vans, and I know you said there's a little bit of an easier compare on China when we look at on one-year basis. When we look on a multiyear basis pre-COVID, it looks like the revenues for Vans will need to accelerate a little bit in the back half to get to the down mid-single from where it was in second quarter. Is there any numericals you can give us to help us get the building blocks to what rolls off or what comes online that should help for a better trend on a multiyear basis?

### **Matt Puckett**

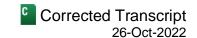
Chief Financial Officer & Executive Vice President, VF Corp.



Yeah. Sure, Michael. And thanks for the question. Nice to hear your voice. First, I would say, relative to the actions, we're not happy at all about what we are seeing in terms of the profit projection, and I think the approach that we took to adjusting the full year profit outlook while revenue remains intact. We just see some headwinds on the horizon associated with kind of rising inventory levels and a promotional environment in the marketplace that's going to be all around us. And we certainly expect that's going to have some impact on our business. And I think we felt like it was important to plan prudently in that regard.

But despite that, we're going to work really hard to kind of bring that profitability level back. And that really is what those actions are all about. As it relates to driving traffic and conversion in our own formats, in our own stores and our own websites, one of the biggest opportunities we see is to really look across – and this is kind of the power our the platform, in a sense – look across our businesses and where we see things working well tactically, within digital marketing and tactics to drive digital commerce. Where are things working well and how do we deploy those in other brands or other places where we're not seeing the same kind of benefit or the same kind of returns on the tactics that are being deployed today?

And just to be honest, probably no surprise, The North Face, we're seeing those things work a little better, and Vans is an area where we see opportunity. And so, we've got some of our best people across the company kind of working on that. In fact, we've moved a couple people permanently into the Vans business with, obviously, great track records in other parts of our company. And Steve may talk a little bit more about that.



But we're also using some third parties to help us really do this. So, we see opportunity to be more efficient in how we're deploying some of the tactics and some of the spend in certain parts of our business, and we're aggressively and fast after that.

We're going to work really hard to kind of leverage the channels at our disposal, first and foremost, our own channels to sell off some of the excess inventories that we see building. We're in a pretty good place overall from an inventory standpoint relative to where we planned to be. We're higher in certain areas, and I think I mentioned that in the comments, in a couple of brands in particular. But as we look across all of our brands, we're going to take opportunity to kind of peel back inventory a little bit, leveraging our own channels and doing this ultimately to drive some additional profitability.

We're looking in a few places where we see the business performing guite well to maybe set floors a little bit early in spring 2023 and drive a little bit more revenue in our fiscal year that we would view as incremental, an additional [ph] turn (00:34:04) as an example. And then lastly, as we always do, right, it's kind of a broken record in some ways, but I think even more aggressively in the short term, we're looking at all nonstrategic controllable spend and are going to reduce as we move through the balance of the year with an eye toward driving higher profitability.

So, those are the actions. I mean, there's a heightened sense of urgency given kind of the environment that we face and our commitment to driving consistent and sustainable profitable growth. We take that really seriously, and we're after it.

Steven E. Rendle

Chairman, President and Chief Executive Officer, VF Corp.

Michael, let me build a little bit here on the traffic and conversion piece. I think an important part here, and this really is leveraging the portfolio and the cross-functional teams and expertise that we have not only in brands, but functions. But we have assembled cross-functional teams organized in pods, working in very agile ways against four very specific areas of focus.

One is around consumer acquisition. How do we acquire that consumer? How do we move that consumer in and drive traffic to our environments? When we have that consumer, how do we retain them? Third would be how do we really enhance that consumer experience so we have a higher likelihood of moving them through to the fourth point, which is conversion. So very, very specific sets of actions being worked on by these cross-functional pods.

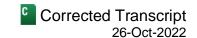
And probably at the last point here is this is something that we're taking so seriously is that Matt and I are meeting with these teams on a weekly basis to keep track of, understand and help take any kind of roadblocks out of their way so that we can move very quickly and agilely through this process.

Matt Puckett

Chief Financial Officer & Executive Vice President, VF Corp.

Yeah. And, Michael, on your question about the Vans, kind of the drivers in the back half of the year, I guess a couple of things. I don't know exactly what kind of the period you're looking at and the stack itself. Our view of that would say if you go back four years, kind of pre-COVID and look at the CAGR, it's pretty consistent in the first half to the second half at the total Vans level globally. That's one thing, I think, that I would say.

As we look at our assumptions in the back half of the year relative to what we saw occur in the first half of the year, it's really all driven by an accelerated impact and benefit from China. I will tell you in fact we are planning Vans North America to be a little tougher in the back half than actually what we saw occur in the first half. So



we're planning pretty cautiously there overall. And if you think about where we are, we're down mid-single digits which we delivered a down 6%, I think, here in half one, implies low-single to low-mid down in the back half of the year, it's really all driven by that acceleration in greater China which is obviously coming against easier compares.

Michael Binetti  Analyst, Credit Suisse Securities (USA) LLC	Q
Thanks, guys.	
Steven E. Rendle Chairman, President and Chief Executive Officer, VF Corp.	A
Thanks, Michael.	
Operator: Our next question comes from Omar Saad with Evercore I	Partners. Please proceed.
Omar Saad Analyst, Evercore Group LLC	Q
Hi. Yes. Thanks for taking my question. I had a couple of quick brand pandemic-winning business, or at least that portion of Dickies, the pan back some of those gains? And then North Face, any early reads on whave started to drop? And kind of any early reads on that appetite for the places? Thanks.	demic-winning business is kind of giving vinter demand in places where the temps
Matt Puckett	А
Chief Financial Officer & Executive Vice President, VF Corp.  Steve, maybe, I can take the Dickies part, and then if you want to take	
Steven E. Rendle Chairman, President and Chief Executive Officer, VF Corp.	A
Sure. Sure.	
Matt Puckett	Λ

Yeah. Omar, for sure Dickies is feeling the impact here in the first half of the year of what's going on in the US market and obviously particularly with our largest retail partner and the exposure to that value end consumer, to your point. We've done really well from a growth standpoint over the last couple years with Dickies. I wouldn't call it giving it back. We think this is kind of short-term in nature as some inventories were being rightsized. And certainly, that consumer being impacted pretty significantly by the inflationary challenges on food and fuel and those types – energy costs, those types of things impacting that lower-value end consumer more significantly and more quickly, quite honestly, has impacted the work component of that business in the short term.

But what we also know is inside that – inside the business and inside even that retailer, our brand continues to perform on the floor better than the competitive set, so – and that business goes away pretty quickly at times when they pull back on inventory. They can shut the brakes pretty quick. At the same time, they could hit the gas pretty quickly as well. And as we come out of this over time, it's hard to prove how that will play out. But as it does and when it does, we expect the business to kind of pick right back up and accelerate.

Chief Financial Officer & Executive Vice President, VF Corp.



Meanwhile, the lifestyle part of the business continues to perform incredibly well. And that's really how we think about the long-term growth drivers of this business is getting our fair share of the work component, as we – as you'd expect us to, but, really, driving outsized growth internationally and here in the US in a lifestyle product. So, yeah, a little bit difficult in the short term but doesn't change our confidence in where this brand is heading and really kind of the momentum that the business has.

Steven E. Rendle

Chairman, President and Chief Executive Officer, VF Corp.

Yeah. So, Omar, on The North Face, we continue to be very excited and proud of what that team has done, up 21% through the first half and affirming that outlook of 12% for the year, which is slightly ahead of that high single, low double that we committed to just a month ago on the Investor Day. Think what should be good from a confidence-building standpoint is that it's broad-based. We're seeing it across all regions. We're seeing it across all channels and we're seeing it across all product categories.

Certainly, the brand is benefiting from that outdoor TAM and the energy that's really come into that particular part of the market, but it's also benefiting from its number one influencing position and really driving that with strong authentic product. We talked a lot here over the last few calls about the commitment to 365 apparel and moving beyond just outerwear but be able to focus on those everyday ready-to-wear apparel items, which is giving us permission to move now more into that active component of the consumer's life that they're asking us to participate in.

Our footwear, last year, we launched – or couple of years ago, we launched VECTIV, and to be able to now talk about getting a major award for the VECTIV Fastpack FUTURELIGHT style is an affirmation of the quality of the team, the quality of their consumer understanding and the differentiated product that they're putting into the marketplace, specifically here with the VECTIV.

Then you see outerwear continuing to work extremely well. Those kind of shoulder sleeves and fleece, lightweight shells, lightweight insulated jackets doing really well. But now, as we come into cold weather – yesterday, you may have seen it. The KAWS drop highlighted some of the heritage Nuptse, Himalayan Parka. I think the mountain jacket was in there and the Denali.

And really I think what you see there is leveraging historical strong styles done in a very brand-right way with a partner like KAWS driving that halo impact that then cascades then across everything they're doing in that snow ski category, the commitment to climb, hike, active as you look at the online presentation and the remerchandising of that home page. Yeah. This is a brand that now has really anchored its product creation capabilities, strengthening it storytelling capabilities with the addition of our new CMO, new chief product and merchandising officer that it's only going to help us to strengthen and focus that product offer. And then with Nicole's expertise in direct-to-consumer and the online engagement, we think we've got a real winning formula here to continue to drive that long-term, sustainable, consistent growth.

**Omar Saad** 

Analyst, Evercore Group LLC

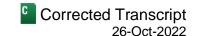
Thanks for the color.

Matt Puckett

Chief Financial Officer & Executive Vice President, VF Corp.

Thank, Omar.





Operator: Our next question comes from Jonathan Komp with Robert W. Baird. Please proceed.

Jonathan R. Komp

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

Yeah. Hi. Good afternoon. Thank you. I just want to ask maybe another question on Vans. I'm curious, just your latest view. When you look at the geographic divergences and Europe looks like it's holding up so much better, I'm curious what you currently think of and make of that trend. And as you think about Vans, just when would you expect to see signs of progress? And what are you looking for in the Americas to know that you're on the right track here?

Matt Puckett

Chief Financial Officer & Executive Vice President, VF Corp.

I think the way you're looking at it is absolutely correct. Our European business in general continues to show exceptional performance. And within that is certainly the Vans business. We've talked pretty openly, and I think Kevin did a good job unpacking this for everybody in the investor day. But the primary opportunity here is our North America business, and within the North America business, it's our direct-to-consumer channel and this emphasis we're putting today around traffic and engagement, retention all the way through to conversion.

Vans is squarely in the middle of that. We have a number of test-and-learn actions that have been taking place the last couple weeks, taking those learnings now, and we'll apply it to the balance of our portfolio. But really looking at what will be required to utilize the strong component of our go-to-market set of options where we've got such strong conversion, how do we start pulling consumers across that least line in to engage with us on our footwear and apparel story? So number one is the Americas and within that our North America D2C.

China is a significant opportunity as well. We've been certainly impacted with the COVID environment there. But again, at the investor day, Kevin spoke a lot about really pushing decision-making into the regions and providing more and more latitude for local decision-makings around product, around storytelling, certainly staying within the confines of the framework of the brand strategy but really giving more freedom and more empowerment to the regions. And you see that taking place in Europe and taking those learnings and applying that now more effectively with our Asia team, specifically in greater China.

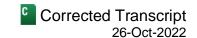
Jonathan R. Komp

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

Okay. That's helpful. Maybe just one follow up. A broader question on the margin outlook guiding to 11% operating margin for the year now. Will be the lowest you've reported in some time outside of COVID maybe the last decade or so. So just, Matt, I don't know if there's any way to think bigger picture about what's temporary in the margin that's impacting that this year versus more lasting? And then are you willing to quantify any of the actions you're taking to tighten up on the cost side? Thank you.

Matt Puckett
Chief Financial Officer & Executive Vice President, VF Corp.

Yeah. Great question. I would tell you that we believe there's quite a bit that's impacting us this year that is, I'll say, relatively short-term in nature impacting the margins. And that's primarily certainly in the gross margin line. Clearly, there's a little bit of pressure on elements of our fixed cost base, obviously something like the Vans store base itself and kind of what we're seeing there in the revenue and kind of the performance in the stores.



But from a margin standpoint, we still got – we're dealing with higher levels of, I would say, inefficiencies from a supply chain standpoint, freight and how we're moving freight, the extra storage costs given the higher inventory levels is in there that we would say is transitory. But then really the big one is just kind of the assumptions that we're making right now relative to what may be required in the marketplace from a promotional standpoint, both our own channels but also in support of our wholesalers.

We talked about here even in Q2 the rate impact largely being the result of higher discounts, some additional promotions already showing up a little bit in our own channels, particularly the outlets, and then higher costs as well and certainly some additional inventory reserves given our elevated inventory. So there's a lot there that I would say really everything we've just done from a margin standpoint is all tied, in my view, to kind of things that are commensurate with the current marketplace and environment, and they're not what we'd expect to see persist moving forward.

So I think we still are really confident in our ability to drive expanding gross margins over time, our ability to drive higher prices over time to mitigate kind of inflationary product cost increases which, by the way, we continually and consistently have been able to do. So there's a lot there that's transitory that we would expect that over time will come back to us.

As it relates to SG&A, the actions that we recently announced of over 600 roles or positions that were eliminated across the company, both role eliminations for open roles and also kind of reorganization. The overall impact of that on an annualized basis – and we'll get a little bit of that this year. Certainly not anywhere near all of it but it's a bit over \$100 million. And this is on top of \$100 million that we've taken out really over the last couple of years as part of Project Enable which was a set of actions we announced back during the pandemic.

So over a couple hundred million of costs that will have come out versus the pre-pandemic level that I'll call fixed kind of G&A primarily, although it expands into other parts of SG&A, but largely G&A. So those are some of the actions and there's obviously some benefits that will accrue to us next year as kind of we get to the full impact of those things hitting our financials. So the 11%, I agree it's not at all where we expect to be or where we want to be and you'll see us recover pretty quickly as we get past this kind of moment in time.

Jonathan R. Komp  Analyst, Robert W. Baird & Co., Inc.	
That's really helpful. Thank you.	
Steven E. Rendle Chairman, President and Chief Executive Officer, VF Corp.	A
Thank you, John.	
Operator: Our next question comes from Laurent Vasilescu from BNP Paribas. Please proceed.	
Laurent Vasilescu Analyst, Exane BNP Paribas	Q

Good afternoon. Thanks for taking my question. Steve, Matt, I would love to ask about Supreme. I didn't see how the brand performed on a revenue perspective for this quarter in the slides. Any context on how it performed? What drove that performance?



And then maybe a little bit more context, Matt, on the impairment charge. What drove that? And what's your confidence to get to that algo that you called out a month ago of high single-digit, low double-digit growth for the brand? Thank you.

#### Steven E. Rendle

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Chairman, President and Chief Executive Officer, VF Corp.

So, Laurent, thanks for the question. I'll go ahead. I'll take Supreme. From a Q2 standpoint, Supreme was up 7% and this is despite opening up about a week later than planned based on a decision to make sure we hit market with an optimized assortment. Remember us talking quite a bit last year where we came to market with well under normal percentage allocations against key styles. And this year, the team took a very proactive approach to hit the market second half here running with the right assortment at the right time. So, we were up 7%.

Even despite some supply chain disruptions, the brand has done well. We expect an acceleration as we move into the second half, because we continue to get better and better position from an assortment and product flow standpoint. A couple of wins here. You were able to see these stores when we worked together in Europe. But the Berlin and Milan stores are performing really well. And now, as we come out of that COVID environment, we have the luxury of consumers being able to move, tourism becoming more prevalent. Those stores that opened under the cloud of COVID now are performing extremely well.

And from there, we've got some new stores coming. We talked in my prepared remarks around the Dover Street Market opening up in Beijing. That's the first time Supreme will be represented in a physical authentic way within the Dover Street Market environment. That's more of a shop in shop, but it'll be a great affirmation of the ability to expand or what we talked about really grow wide.

We also did a refit to our Harajuku store in Tokyo. That's probably the most prominent, well-known store in the Japan market, and we've seen just really strong results and energy resulting from that. We have a new store coming in Chicago later this fall which will be the first new store in the US market in a while, and very excited to what that means. As again, we bring the brand through the physical environment first into new parts of the market where we know consumers are, as we look to continue to provide better and better access. So, that geographic expansion continues to be a very important part of the longer term growth. And being able to get back to seeing that value come into the brand this year is a good proof point to the acquisition thesis coming in here. And it just gives us more and more confidence in the team's ability to execute.

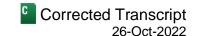
### **Matt Puckett**

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Chief Financial Officer & Executive Vice President, VF Corp.

Yeah. I'll just add one comment. I'll get your question on impairment, too, Laurent. But as Susie talked even at the Investor Day, really the long-term growth plan is best categorized as a grow wide strategy, giving more consumers access to this brand and then that really speaks to the geographic expansion. It is kind of core and central to the acquisition thesis itself, leveraging VF's capabilities and VF's platforms to more easily, more frictionless, not necessarily faster per se, but certainly the opportunity to go at the right pace over time, but to open more doors internationally to give this brand access to more – to give the consumers around the world access to this brand. That's the vast majority of what's driving the growth. We're not counting – this is not about saturating the markets where we are in today. Right?

We're very careful and cautious on kind of the scarcity model. But it's really giving more access to this brand around the world. And that's why we're excited to really start to see the expansion take shape here in the next couple of years, in Asia in particular and obviously beyond. So, I just wanted to remind of that.



As it relates to the impairment, I guess, first and foremost, I would say it's all driven by what I'll call non-operating factors. You may even remember that earlier this year we actually made an additional payment, earnout payment, associated with the acquisition which obviously said we performed a little bit better than the original set of assumptions and there was an earnout. It was a bit lower than we might have originally expected given the early performance of the business because of some of the supply chain challenges that we saw last year impact the brand from a COVID standpoint. But we did actually pay a bit of an earnout which kind of implies we're on track, and we are on track versus our internal expectations.

So, what we're dealing with here – and by the way, we wouldn't have even been testing the business from an impairment standpoint if not for what we're seeing in the marketplace relative to interest rates and what that does to the discount rate and how you kind of present-value those cash flows. And obviously, the currency environment and the US dollar translation from the Japanese yen and also from the currencies in Europe. So for those two factors, we determined what needed to test. We tested, probably not surprisingly given the fact that it's a fairly recent acquisition and how materially a couple of those things have moved in terms of interest rates and what that means to discount rates as you evaluate those cash flows. We're dealing with what's a non-cash impairment.

But none of that's related to our operating performance or our operating results. And we feel really good about where we are and everything that Steve mentioned earlier and that I kind of layered on there as well in terms of kind of where we are and the outlook. We feel good.

### Laurent Vasilescu

Analyst, Exane BNP Paribas

That's very helpful on that. Second question is on gross margins. You lowered it by 50 to 100 bps. Could you possibly give us the bridge? How much of it is incremental FX, supply chain costs, bottlenecks? We heard from one footwear company talk about it last night. Or is it driven by markdowns? Any context on that would be helpful. And how do we think about the GM for 3Q versus 4Q? Any high level color would be very helpful. Thank you.

**Matt Puckett** 

Chief Financial Officer & Executive Vice President, VF Corp.

Yeah. Sure. So I would say, in our case, Laurent, there are some smaller impacts, and I'll start with the smaller impacts. And I'm not going to necessarily give it to you exactly in terms of the percentages. But let's say in the neighborhood of probably 25% of the total is a combination of some supply chain inefficiency, mix and currency.

The balance, and so the majority, is the assumptions that we're making on what's going to be required given inventory positions and the operating environment that we expect that we're going to face as we move through fall and holiday, and whether that's discounts to wholesale partners or more aggressive actions that we'll take in our own channels, in particular our outlets. But in some cases, we'll be ready depending on where the market is and what the competitive set is that to be targeted in appropriate ways even in our full-price channels as we move through the fall holiday season. And that'll certainly vary by brand and within brands will vary by-product category. We'll be very targeted in that. But we expect and we're positioned, as we've kind of guided here, to be able to take those actions when and where necessary.

As it relates to kind of your question third, fourth quarter, I think I'd say that a good way to think about the third quarter is kind of down 50 basis points to 100 basis points and then more flattish in the fourth quarter. And mix actually begins to be a kind of a nice tailwind for us as we get into Q4, by the way.

#### Laurent Vasilescu

Analyst, Exane BNP Paribas

Very helpful. Thank you very much.

Steven E. Rendle

Chairman, President and Chief Executive Officer, VF Corp.

Thanks, Laurent.

**Operator**: Our last question comes from Matthew Boss with JPMorgan. Please proceed.

#### Matthew R. Boss

Analyst, JPMorgan Securities LLC

Great. Thanks. So, Steve, what gives you confidence in keeping the 5% to 6% constant currency top line as we think about the dynamic macro backdrop? And then, Matt, could you elaborate on the heightened inventory and increased promotional activity in the marketplace, maybe relative just to 30 days ago? And specifically, how do you feel about your own inventory levels by brand today?

#### Steven E. Rendle

Chairman, President and Chief Executive Officer, VF Corp.

So thank you, Matt. What gives me confidence? So there's quite a bit. I'll rattle off just a few points here. I think coming into where we are, beginning of the second half, is the consistent performance that we saw across the portfolio, ex Vans, up 11% in the first half and the ability for us to kind of project that to be pretty similar into the second half.

Our European business continues to perform well and that cross-sharing ability within our portfolio, the assistance that they're providing our Asia team as we stand up, in some cases, new operating disciplines in our Shanghai office which is still fairly new, now bringing those same disciplines, that same set of integrated marketplace set of capabilities to continue to broaden really their influence. Our China recovery continues, and we expect the second half will continue to be what we've seen coming out of Q2 and certainly coming into Q3.

Our back half isn't reliant on a hockey stick from Vans. We have a much more balanced view to be able to drive that 5% to 6%. We certainly sit in parts of the market where there's a lot of tailwinds. The active lifestyle, needs-based components of our portfolio playing into the outdoor and active TAMs certainly positions us really well. And then having the number-one brands in many of those spaces to engage and ultimately drive those high-value experiences gives me a lot of confidence that we've got really the right portfolio driving the right strategy.

But most importantly, we have the right people, strong deep bench of leaders. You saw them speak to you at the investor day. Sitting alongside them in each one of our businesses sits strong capable leaders. We're moving leaders, based on the strength of our bench, into our Vans business. We're being able to hire extremely high-caliber talent into our North Face business as well as into our Dickies business and Timberland business. So if there's a last thing here, it's the people driving the strategies and being able to really maximize the tailwinds and that momentum that we've carried out of the first half.

#### Matt Puckett

Chief Financial Officer & Executive Vice President, VF Corp.

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I'll add a couple of quick points just from the numbers side that gives me confidence. One, and probably most importantly, is when you look at what have been consistently our best-performing brands over the last several quarters, it's kind of the outdoor segment. Right? I mean, generally, the outdoor brands have been strong, TNF obviously the headliner there, but across that group of brands. They're a larger penetration to the total in the back half by a pretty meaningful amount. It's kind of 6 to 8 point increase in penetration to the total. So the fact that our kind of best-performing businesses are a larger part of the business in the second half of the year gives me confidence.

And then the other thing is just clearly what we're going to see, the movement we're going to see, from a contribution to total from greater China in the back half of the year versus the really tough first half and then particularly the tough Q1. So a couple of data points there that I think are probably helpful as you think about that. Yeah.

As it relates to your question on what are we seeing in the environment, how is it different even in the last four to six weeks, in our view, it's become more promotional. We're seeing it particularly in the Americas and particularly in China. Inventories are building. We're kind of seeing that. We're understanding that. As we kind of see what the market is showing. We're clearly paying really close attention to the competitive set and the competitive environment from an inventory and promotion standpoint and kind of the signals that we see there would tell us that we may be heading into a time where it's going to be more disruptive than we even anticipated, again, just a few weeks ago.

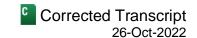
And then kind of one of the things that's happening is we just expect probably a compressed full-price selling window. Retailers are being very careful about taking in inventory and taking advantage of any opportunity to kind of delay receipts, looking for 100% fill when they might normally take a 90% fill, as an example, to delay the receipt of something, and then I think our anticipation that they may break earlier and the market itself may just break earlier from a promotional standpoint as we head toward the holidays. So that window of full-price selling, we expect, could be further compressed.

And so those are, I think, those are kind of a couple of key things, Matt, that we're viewing as we kind of evaluate what the market conditions are and what we think it may bear over the next few months.

So, on our own inventory, as I said, a lot of what we're seeing in the increase certainly set aside the in-transit, kind of the accounting change there, that we hopefully explained clearly at this point. But set that aside, we're still up a lot, for sure. We're up nearly 60% to last year. A lot of that was planned because we were way too low last year, a lot of that is in those brands where we haven't been able to service the business as consistently as we had would have liked, and in some cases we're still not all the way to the finish line here. But we plan much higher inventories to get back to more normalized service levels, and certainly we plan for a pretty healthy growth assumption in a number of those brands.

We sit higher than our plan today, for sure, primarily in a couple of brands. Fortunately, a lot of that's in core product. But we have pockets of area where we're a little bit higher than we'd like to be across the world. We're still a little bit higher in China than what we'd like to be and that's kind of a comment that might – is applicable across a number of the brands. And so we're going to be very targeted and choice-full, but we're going to be aggressive to make sure we are taking advantage of traffic and giving our kind of fair share of the business in an appropriate way.

So I think we feel like we have a good plan to manage our inventories back down pretty close to plan at year-end. We'll probably still be a little high because there are certain core products, you know Dickies products, some of



the Dickies in particular just doesn't make sense to do anything other than just kind of right-size that over time with forward purchases, but. So we'll be a little bit heavier in a few places, but we're going to be very focused on leaving this year clean, setting us up for next year to have strong and healthy margins. But also take advantage of the opportunity to generate both top and bottom line over the course of the next several months.

Matthew R. Boss Analyst, JPMorgan Securities LLC	Q
Great. That's helpful color. Best of luck.	
Matt Puckett Chief Financial Officer & Executive Vice President, VF Corp.	A
Thank you, Matt.	
Steven E. Rendle Chairman, President and Chief Executive Officer, VF Corp.	A
Thanks, Matt.	

## Steven E. Rendle

Chairman, President and Chief Executive Officer, VF Corp.

Great. Hey, thank you, everybody, and thank you for your questions and most importantly for your interest.

To close things out I'd like to reinforce just a few points that I think are important for you to remember before we get the chance to engage with you again in January.

The first thing is that we are going to continue to navigate the many macro challenges that we see today. VF and our brands are sharply focused on taking the necessary actions to drive performance and deliver against our strategy, and most importantly, our financial commitments.

I think secondly is our businesses remain to be very resilient with our overall full year revenue outlook holding. And importantly, we're performing well across our portfolio. Certainly, without the exception of Vans, but the balance of our portfolio growing low double digits in the first half with the line of sight to do the same as we move into the second half. I think this is demonstrated, certainly, by the fact that we grew constant currency revenue mostly in our outdoor brands, but the strength that we see in our emerging brands, and I think the importance that that shows you of our model and our portfolio strategy.

I think last, and I would just hammer home that we are going to remain extremely focused on those things we control. We know what's required to ensure we deliver consistent sustainable and profitable growth. And we have the right brands, the right strategies and certainly the right people and the place to get the job done. And most importantly, no one is more determined than this leadership team and this organization to deliver on our expectations.

So, again, thank you for joining us, thank you for your interest and we look forward to updating you as we turn the corner into next year.



**Operator**: This concludes today's teleconference and webcast. You may disconnect your lines at this time. And thank you for your participation and have a great day.

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