

30-Oct-2023

**VF Corp.** (VFC)

Q2 2024 Earnings Call

## CORPORATE PARTICIPANTS

**Allegra Perry**

*Vice President of Investor Relations, VF Corp.*

**Bracken P. Darrell**

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

**Matthew H. Puckett**

*Chief Financial Officer & Executive Vice President, VF Corp.*

---

## OTHER PARTICIPANTS

**Laurent Vasilescu**

*Analyst, Exane BNP Paribas*

**Ike Boruchow**

*Analyst, Wells Fargo Securities LLC*

**Lorraine Hutchinson**

*Analyst, BofA Securities, Inc.*

**Brooke Roach**

*Analyst, Goldman Sachs & Co. LLC*

**Simeon Siegel**

*Analyst, BMO Capital Markets Corp.*

**James Duffy**

*Analyst, Stifel, Nicolaus & Co., Inc.*

**Janine Stichter**

*Analyst, BTIG LLC*

**John Kernan**

*Analyst, TD Cowen*

**Dana Lauren Telsey**

*Analyst, Telsey Advisory Group LLC*

**Paul Lejuez**

*Analyst, Citigroup Global Markets, Inc.*

**Gabriella Carbone**

*Analyst, Deutsche Bank Securities, Inc.*

**Jonathan R. Komp**

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

**Robert Drbul**

*Analyst, Guggenheim Securities LLC*

**Abbie Zvejnieks**

*Analyst, Piper Sandler & Co.*

## MANAGEMENT DISCUSSION SECTION

**Operator:** Greetings, and welcome to the Second Quarter Fiscal 2024 VF Corporation Earnings 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, Vice President of Investor Relations. Thank you, Allegra. You may begin.

---

### Allegra Perry

*Vice President of Investor Relations, VF Corp.*

Good afternoon, and welcome to VF Corporation's second quarter fiscal 2024 conference call. Participants on today's call will make forward-looking statements. These statements are based on current expectations and are subject to uncertainties that could cause actual results to differ materially. These uncertainties are detailed in documents filed regularly with the SEC.

Unless otherwise noted, amounts referred to on today's call will be on an adjusted constant-dollar basis, which we've defined in the press release that was issued this afternoon and which we use as lead numbers in our discussion because we believe they more accurately represent the true operational performance and underlying results of our business.

You may also hear us refer to reported amounts which are in accordance with US GAAP. Reconciliations of GAAP measures to adjusted amounts can be found in the supplemental financial tables included in the press release which identify and quantify all excluded items and provide management's view of why this information is useful to investors.

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

I'll now hand it over to Bracken.

---

### Bracken P. Darrell

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

Good afternoon, everyone. I'm excited to be here for my first quarterly call. I'll start us off, and then Matt will cover Q2 and other financial aspects of the comments I'm about to make.

Having now been here for over 100 days, I've had a chance to go far and wide within the company and outside of it. I've talked to employees, customers, wholesalers, investors, analysts, and more. There's a universal desire for VF to be successful again. It's been exciting to hear the power of our brands and appreciate the consistent performances of our international business as well as The North Face.

It was also important for me to hear firsthand where the biggest issues are, including in the US and Vans. I've come to many conclusions about the organization, business, and opportunities we have. Most importantly, I've gained conviction about what we need to do next, and I've begun to see how we can evolve the company longer-term into a new kind of brand-builder and innovator. I'll save that last part for another day.

Before I go into our plans, I want to mention that I'm struck by the parallels between VF and my former company when I first started there 11 years ago. It too required a turnaround. Turnarounds have many consistent features and similar themes. There are always key focus areas in the beginning that evolve over time. The seriousness of the situation gives you a sense of urgency and a desire to move quickly on key steps.

Our biggest business is declining. The US isn't working well. The innovation engine has historically been strong but has drifted down over the past few years. Employees still love the brands and business, but the morale has been hurt by the poor performance, and costs are too high. All of those were features of my last turnaround.

My first turnaround long ago was the Old Spice brand at P&G. Similarly, sales were falling, profit was down, costs were too high for the business, and the innovation engine and marketing just weren't working. By the time I left, Old Spice had more than tripled market share, and today, it's a market share leader in the category.

My last turnaround, Logitech is now worth more than 10 times what it was when I started 11 years ago. While no two turnarounds are the same, I've been here before, and I feel quite at home. I've not encountered any big surprises.

I will start with a replay of the past and a diagnosis of how we got here. I recognize many of you already have opinions on that, but it's clear we got here through our own doing. It's also clear that getting out of it is in our control, and we're focused on doing just that.

We have amazing brands that are recognized around the world. I'm energized and excited by their potential, all of which is in our power to unlock. Our talent is world-class. I continue to be amazed by the depth and breadth of experienced people in this company and their passion and commitment to VF. Some people surely left along the way, but so many stayed. We brought in great people along the way too.

I always spend most of my time looking forward towards the future and what we need to do to return to consistent growth and value creation. Long-term, we'll turn VF into a company that relentlessly focuses on delighting consumers throughout the world through superior product design and engaging consumer experiences, backed by a well-oiled execution machine, and simple, effective structure supporting highly energized employees.

These are the four key areas we're prioritizing aggressively. I will go into some of the specific actions we're taking to address them next.

The four key areas are fix the US, deliver the Vans turnaround, lower our cost base, and strengthen our balance sheet.

Now, let me highlight some of the immediate actions that will begin to deliver those. First, we're establishing a global commercial organization inclusive of America's region. Throughout my career, I've been in a lot of different corporate structures. From an execution standpoint, having an engine with fast transference of best practices and ensuring as things work they get transferred throughout the company and throughout the different parts of the world, in my view, is absolutely critical. We don't have that in North America, and our results show it. However, we do have it in EMEA, and we recently successfully transferred that model to APAC, which is also operating well.

To ensure we're executing consistently across the globe in terms of supply chain management, relationships with wholesale customers, customer service, and more, we are changing our operating model and creating a global commercial organization led by a Chief Commercial Officer who will lead the day-to-day execution of business

around the world and bring execution excellence back to North America. The leader of this combined platform across North America, EMEA, and APAC will be Martino Scabbia Guerrini, who many of you know well, and who we have promoted to this newly-created role reporting directly to me.

Some of you already know that Martino has been highly effective in building a platform for EMEA that has delivered sustained growth in revenue and operating income for many years, a platform that has delivered superior growth in all our brands, and a winning spirit that's palpable when you meet our people in EMEA.

Second. A second step we're taking is to sharpen brand presence focused on sustainable, long-term growth and brand health. A direct consequence and intent of the operating model change, which is particularly critical at this stage for all the brands but especially Vans, is the new structure enabled brand presence to focus on what matters most. Getting closer to the customer and creating a consistent pipeline of amazing products and creating excitement around our brands.

If you think about it, we really do two things for the world. We create products that people choose to wear, and we build brands which operate like clubs that consumers want to be part of. Those two things are so critical to the success of any brand in our business, and that's where our brand presence will focus.

Three. We'll be making a change in Brand President at Vans. Trends today for Vans aren't getting any better, and in fact, could even be viewed as getting worse. We will not see a turnaround this year. The good news is that the brand continues to be loved by so many consumers. There are many good steps that we've made, but we now have to make some changes and move faster.

To that end, today, we're announcing that Kevin Bailey will be stepping down from the position of Global Brand President of Vans. Kevin will remain on the executive leadership team reporting to me in a leadership role in Reinvent. His long history at VF as Brand President and a Regional President helping build the APAC platform will be valuable as we build a more effective and efficient organization in the months ahead. I'd like to thank Kevin for stepping back into this role about 18 months ago. He's been a loyal and wise leader for this company for many years.

An external search is underway for a new President for Vans, and in the interim, I will personally take a very active role in delivering the turnaround strategies of the brand.

Fourth. We will optimize cost structure to improve operating efficiency and profitability, and I predict also effectiveness. I'm noticing a turnaround situation that didn't have a need for addressing cost structure. We're committing to \$300 million of cost reductions across the business. This program is comprehensive and will touch almost everything, but importantly, we will invest back a portion of our savings into brand-building and product innovation as we organize to return to growth and at the same time improve profitability.

Of course, addressing our cost base is an important factor in making progress on our critical financial priority too, deleveraging the balance sheet, which is our next topic.

So the last section I'll be talking about today will be to bring down our debt and reduce leverage. This is our top financial priority to strengthen the balance sheet. Bringing down debt levels and deleveraging are important for shareholders, and today, as a consequence, the dividend reduction we have announced is one step towards achieving this objective. But there will be more. We also will not be doing any acquisitions until we bring the debt level down.

I want to underscore our full commitment to creating and maximizing value for all our shareholders. In order to bring down our debt levels and improve our operations, the board and I are fully aligned that everything is on the table and there are no sacred cows.

Now, moving on to our outlook for fiscal year 2024. The headline here is that we're not guiding revenue and profit for the remainder of the year. We are providing an update on free cash flow and projected liquidity levels at year end, which remain more than ample under a wide range of scenarios.

So why are we removing guidance? As a new CEO, I want to hear our numbers. At the end of the day, the first numbers I'm going to give you we will hit. There are a lot of moving pieces in our business and in the market, and we're moving even more as a function of our Reinvent program. I withdrew guidance in my early days, 11 years ago at Logitech and quickly reinstated it at the appropriate time. There's no reason why we can't do the same here.

To conclude, this is a turnaround. I've been here before, so I know what it takes. We have a strong foundation, world-class brands, and great people, and we're taking aggressive action, as we started to announce today. This will lead the way to a new future for VF in which the company will be leaner, faster, and stronger. While it will take time for the initiatives we're implementing to take full effect, we do expect to make progress [ph] building (00:11:29) quickly, and we will build on that in the quarters to come.

With that, I will now hand it over to Matt to talk you through the financials. Matt?

---

## Matthew H. Puckett

*Chief Financial Officer & Executive Vice President, VF Corp.*

Thank you, Bracken. It's great that you're here with us as together we face this challenging and critical time in our company's history. Despite these difficult circumstances, I'm energized and positive about the future and the plans that we're laying out today to strengthen our financial position, to improve our operating performance, and to position VF to achieve its full potential.

Now, let me turn to the results of the quarter. Q2 remained weak overall as bright spots in The North Face and international markets continued to be outweighed by declines in Vans and in our Americas business. That said, we delivered on our commitment to reduce inventory versus last year and paid down [ph] €850 million (00:12:18) term debt in September ending the quarter with liquidity of \$1.7 billion and net leverage of 4.5 times, slightly ahead of our plans mid-year.

Revenue for the quarter was down 4% overall, in-line with our near-term expectations but disappointingly, reflecting continued weakness in the US business and in Vans globally, two areas where we're not making the anticipated progress. As indicated last quarter, Q2 revenue benefited from a change in shipment timing, particularly for The North Face, and importantly, we have delivered more consistently on-time this year and are lapping late deliveries from last year that fell into Q3.

Normalizing for this change in shipment timing, which benefited the quarter by a couple of points, overall Q2 momentum had a relatively similar trajectory to Q1.

By region, the Americas was down 11% in the quarter as results continued to be pressured by wholesale as expected. DTC saw an outsized impact from Vans underperformance. Excluding Vans, Americas DTC was up 5% in the quarter with all brands except Vans and Timberland recording positive performances.

EMEA returned to growth, up 6%, achieving its first \$1 billion quarter in the company's history. Wholesale was up 7%, also reflecting some of the delivery timing benefits highlighted earlier, while DTC was up 3% led by The North Face up low-teens.

Lastly, revenue in the APAC region was also up 6% led by Greater China up 14%. Brick-and-mortar stores rose double-digits driven by increasing traffic and average unit retail. While the consumer continues to be impacted by the economic environment in China, The North Face had another outstanding quarter up nearly 50% in Greater China, growing across channels.

Now, let me turn to the performance by brand, and staying with The North Face. The brand had another strong quarter with revenue up 17%, or up high-single-digits on a normalized basis excluding the change in shipment timing, which benefited wholesale at up 19%. Importantly and continuing the good results the last several quarters, DTC was also strong, up 12% in this quarter. This compares to a run rate of a little over 20% for the first five months of the fiscal year. However, a later than typical start to the fall season, particularly in insulated outerwear, weighed on September results which were plus 2%.

Globally and across channels, we saw strong performances in bags and packs, supporting a robust back-to-school season.

Vans had another disappointing quarter with revenue down 23%. Slow sell-through rates continued to put pressure on wholesale across all regions, while traffic remained challenged and weighed on DTC. As Bracken mentioned earlier, the brand remains loved by consumers, but we must and will do more to generate demand.

Newness and innovation continued to outperform in silhouettes like the Knu Skool, Lowland, UltraRange and MTE, which all saw strong growth during the quarter, though the volumes in these styles continue to have limited impact in offsetting declines in classic products.

At Timberland, Q2 revenue declined 10% as growth in both EMEA and APAC was more than offset by softness in Americas wholesale. Results were affected by demand softness for 6-inch boots, which negatively impacted both the wholesale order book conversion and DTC.

Outdoor and women's continued to perform well as the Motion 6 trail and hiking collection became the brand's number two collection globally and success in women's sandals from spring paved the way for new fall boots.

Dickies continued to feel pressure from the value in consumer in the core work business, and although sequentially improving versus Q1, revenue declined 9% in Q2. Increased caution from key partners has continued to weigh on results.

Last, but not least, Supreme had its strongest start to a season in a couple years, with double-digit revenue growth in the quarter. The August opening of Supreme's new store in Seoul is off to a terrific start and has delivered impressive results across a number of metrics, a strong proof point on the roadmap of our grow wide strategy which is aimed at expanding access to the brand to more consumers globally.

Now, moving down the P&L, gross margin of 51.3% was down 20 basis points year-over-year, although excluding the impact of additional inventory reserves in Dickies, would have been up 30 basis points. Tailwinds from mix, price, and lower promotions were more than offset by product costs and FX headwinds. Positive mix of up 20 basis points in the quarter was driven primarily by international growth but was a lower than anticipated benefit as DTC slowed due to the challenges at Vans.



Rate was down 50 basis points more than offsetting these benefits as margin expansion from price and lower promotions, which has improved versus last year, but remains higher than fiscal 2022, was more than offset by increased product cost and negative transactional currency impacts.

During quarter, we booked an unplanned \$15 million distressed inventory reserve associated with Dickies, which flows through the cost line and negatively impacted gross margin by about 0.5 point.

We generated a healthier operating margin of 12% in the quarter, down 30 basis points year-over-year mainly reflecting the small gross margin decline and slight SG&A deleverage of 10 basis points. SG&A spend in the quarter was down 1% year-over-year as we continued to maintain tight cost discipline and began to generate modest benefits associated with Reinvent, but saw some deleverage in digital and technology and distribution expenses.

Q2 adjusted earnings per share was \$0.63, down \$0.10 versus fiscal 2023 largely due to elevated interest and tax, with higher tax driven by jurisdictional mix and the reversal of tax interest income that had been accrued associated with the Timberland tax payment.

A quick comment on the reported tax expense in Q2. On September 8, the Appeals Court ruled in favor of the IRS in the Timberland tax case with regards to the timing of income inclusion from the Timberland acquisition in 2011. We're disappointed with the outcome and still believe in the technical merits of our case. This decision has no impact to our cash or debt outlook for fiscal 2024 as the payment was made last year, but we recognized a non-cash \$690 million net increase to our reported tax expense in Q2 which includes anticipated refunds of some tax payments for prior years.

The process of filing amended returns for each tax year across both federal and multiple state jurisdictions will take time, and we're not assuming any benefits to cash over the next 18 months from these refunds.

Turning to the balance sheet and cash flow, I'm pleased to report that our inventory is down 10% at the end of Q2 versus last year, in-line with our expectation to inflect at this point in the year. This result despite ongoing revenue challenges speaks to the improved performance of our supply chain and the important results our teams are accomplishing to improve operational metrics and benefit cash flow.

Our inventory composition remains healthy overall and is concentrated in core and carryover product.

Our use-of-cash during the first half was slightly better than planned driven by lower working capital, with \$19 million used by operations and negative free cash flow of \$158 million. As a result, liquidity sits at \$1.7 billion, which is, again, better than our plans at this point in the year.

As it relates to debt, we paid down [ph] €850 million (00:19:47) term debt in September and ended the quarter with a commercial paper balance of \$1 billion. Midway through the fiscal year and at our seasonal peak levels of working capital, total debt is up modestly versus the beginning of the year.

Now, let me talk about Reinvent, our newly-announced transformation program. Through Reinvent, we are addressing fundamental structural challenges that have impacted our performance, as well as tackling our cost structure head on, as we expect to generate \$300 million in fixed-cost reductions.



We'll streamline operations in-line with the changes to the operating model that Bracken discussed to generate efficiencies and create a faster and leaner organization company-wide. We'll additionally further drive down costs in non-strategic areas and ensure the overall cost structure across the company is balanced to the business and pointed towards our biggest opportunities.

This will include reinvesting a portion of the savings directly toward brand-building and product innovation, first and foremost, against our largest brand assets. We expect to achieve the vast majority of the \$300 million target on a forward run rate basis by the middle of the next fiscal year. We'd anticipate about half on a run rate perspective will be in place by the beginning of fiscal 2025, as a portion will, in fact, be achieved in fiscal 2024. We'll provide more specifics on our plans and details around timing over the next couple of quarters.

Speaking of fiscal 2024, as Bracken explained earlier, we're resetting our expectations for this year to more appropriately reflect the uncertainty and continued underperformance that has impacted our results to-date and are retracting revenue and profit guidance for the fiscal year while updating our cash flow guidance.

Together, myself and Bracken, are committed to coming back and reestablishing guidance when we're fully confident in our ability to consistently meet commitments. Our decision to retract revenue and profit guidance today centers mainly on four key changes to our assumptions.

First, the timing of the Vans turnaround is taking longer than we thought and specifically we are now no longer expecting any discernible improvement in half two results relative to half one. Through today's announced actions, we are addressing with urgency the work needed to stabilize the business. Bracken and I plan to share our expectations with the market on the timing of the turnaround when we see a tangible impact from the initiatives underway.

Second, the North America business, primarily US wholesale, is now anticipated to be modestly weaker versus our prior expectations as we look to the back half of the year. And although much less impactful, we now see a choppy macro environment in Europe.

Last, there will be crosscurrents from Reinvent as we remove costs, change the organization structure, and reengineer the Americas for growth. This will create noise in the P&L in the short-term.

In addition to the changes just highlighted, most notably Vans, which will directly impact Q3, it's worth reminding the importance of looking at the two quarters Q2 and Q3 combined to get a more comparable reading [ph] of the season (00:22:43). This is particularly true for The North Face, which is comping bigger distortion from last year's late shipment timing and subsequent benefit in Q3 last year and will therefore be negatively impacted in Q3 this year. And to remind you, the third quarter's result – the third quarter's wholesale result in the brand will also be impacted by the lower overall order book for the season as planned, reflecting greater retailer caution, their focused efforts to reduce inventories, and our poor service to customers last year, which we have been working hard to correct.

While we expect the DTC business to continue to deliver healthy growth in Q3, taking it all together, we anticipate global North Face revenue to decline in the third quarter.

Stepping back from the near-term impacts and optics I've just explained, we continue to feel very good about the underlying consumer demand for the brand, the broad-based performance across product categories and geographies, and the significant growth opportunity that lies ahead for the brand.

Now, turning to our balance sheet and cash flow expectations, we continue to focus on reducing inventory and now expect to end the year down mid-to-high single-digits compared to previous guidance of at least down 10% reflecting the more challenged Vans and US wholesale outlook.

Fiscal 2024 free cash flow is now expected to be approximately \$600 million, a decrease from previous guidance of approximately \$900 million flowing through the more muted operating results.

We now anticipate liquidity of about \$2.2 billion by the end of the fiscal year. Deleveraging the balance sheet remains our top financial priority. We plan to end the year with leverage slightly higher than last year, given the anticipated impacts to half two revenue and profit. We continue to be laser-focused on addressing both the numerator and the denominator moving forward and are taking the necessary steps to impact both, including the \$300 million in annualized cost reductions through Reinvent and the reduction to the dividend, which on an annualized basis is approximately \$325 million in cash savings.

Lastly, as an update on our PACS business, all three brands continue to perform strongly and this positions us well as we progress the [ph] sale process (00:24:52). We're confident we will achieve our objective.

In summary, we're taking the necessary actions to reset the business and strengthen the balance sheet. Our transformation plan, Reinvent, directly addresses our biggest performance issues, Vans and the US, and importantly commits to lowering our cost structure by \$300 million. We will make progress toward our number one financial priority of lowering our debt and leverage from these actions, along with the reduction in the dividend as we set the stage for return to growth and increased ROIC. We look forward to updating you in coming quarters on our ongoing progress.

Finally, under Bracken's leadership, through our great brands, the continued commitment of our outstanding teams, and the Reinvent program announced today, I'm confident we have the foundation to once again deliver strong shareholder returns.

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

## QUESTION AND ANSWER SECTION

**Operator:** Thank you. We will now be conducting a question-and-answer session. [Operator Instructions] Thank you. Our first question is from Laurent Vasilescu with BNP Paribas. Please proceed with your question.

**Laurent Vasilescu**

*Analyst, Exane BNP Paribas*

Good afternoon.

Q

**Bracken P. Darrell**

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

Hi, Laurent.

A

**Laurent Vasilescu**

*Analyst, Exane BNP Paribas*

Hi, Bracken. Good afternoon. Thank you very much for taking the question, and also thank you for your initial thoughts 100 days in. Bracken, on that, as you've had a chance to get closer to The North Face brand, is there anything you saw in the softer September that changes your view the direction the brand is headed and its long-term potential?

Q

**Bracken P. Darrell**

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

No, not at all. Actually, I'm really excited about The North Face brand. I think the brand business team kind of across-the-board – I have – let's face it. We all lived through the warmest September on record I think and the first half of October looked like that now. But on my way into work today, I was absolutely freezing but only because my hands were exposed because I was wearing a North Face jacket. So I have a feeling sales are going to pick up. And I just see the bigger view of all our products with Nicole who runs – Nicole Otto who runs that business and her team and I couldn't be any more excited about it.

A

**Laurent Vasilescu**

*Analyst, Exane BNP Paribas*

That's good to hear. And then maybe a question for Matt in the sense that you're pulling the guide but you're talking about hitting numbers that you are guiding to. That \$600 million of free cash flow, can you maybe just, I know you don't guide, Matt, by quarter, but how do we think about the shape of the free cash flow between the third and fourth quarter?

Q

And then maybe Bracken, if you can just talk about the \$300 million of cost savings. Where is that going to go in terms of – is that coming from marketing? I think marketing was 7.4% of sales. Is that the right number for this year and beyond? Any shape on the cost savings and where it's coming from would be very helpful?

**Matthew H. Puckett**

*Chief Financial Officer & Executive Vice President, VF Corp.*

Yeah, so hi, Laurent. On the \$300 million or the reduction in the cash flow, but really your question is, what's cash going to look like over the next couple quarters? Q3 will be a pretty strong cash-generating quarter because it's

A

heavy direct-to-consumer business with a really short cash conversion cycle, right? So that's one thing. Inventories will continue to come down. Good progress in Q2. That'll continue as we move through the back half of the year. Kind of equally probably between Q3 and Q4 from an inventory and working capital perspective. But I would say our cash generation overall will be a little more distorted toward Q3 versus Q4 as it typically is.

---

**Bracken P. Darrell**

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

A

And on the cost reduction, first of all, where is it coming from? This is going to be a very comprehensive cost reduction program, so it's really going to touch virtually every area of fixed cost. But I just want to make sure, I said this in the opening remarks and I want to reiterate that we will be reinvesting back part of that back into brand-building, so marketing, and into innovation.

Your question, specific question, was what's the – what ratio, what percentage should we expect? I'm not ready to declare that yet, but I know one thing is for sure. This is a business built on amazing products and amazing brands, and so we're going to make sure we're investing right level on that. We'll come back later in the year as we head into next year with real clear principles on how much we're investing in those different areas.

---

**Laurent Vasilescu**

*Analyst, Exane BNP Paribas*

Q

Very helpful. Thank you very much.

---

**Bracken P. Darrell**

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

A

Thanks, Laurent.

---

**Operator:** Thank you. Our next question is from Ike Boruchow with Wells Fargo. Please proceed with your question.

---

**Bracken P. Darrell**

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

A

Hi, Ike.

---

**Ike Boruchow**

*Analyst, Wells Fargo Securities LLC*

Q

Hey, guys. How are you?

---

**Bracken P. Darrell**

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

A

We're good.

---

**Ike Boruchow**

*Analyst, Wells Fargo Securities LLC*

Q

I guess, I wanted to somewhat kind of want to focus on North Face, just maybe, Matt, this is for you. Just understand a little bit more about the comment about 3Q being down. So direct-to-consumer slowed in September. I think you said it was up 2%, but it sounds like things are getting cooler not warmer. Should direct-to-consumer continue to slow, like should we expect direct-to-consumer to also be negative, or is this more of a

dynamic that has to do with the wholesale channel? I don't mean to get so granular. I'm just kind of curious because I was surprised to hear that the brand could be negative.

**Matthew H. Puckett**

*Chief Financial Officer & Executive Vice President, VF Corp.*

Yeah, I'll keep this simple, Ike. It's really a wholesale issue in the quarter and it's timing but it's also the order book itself which is nothing new. We've talked about that for a couple quarters. DTC we expect to grow in the quarter.

**Ike Boruchow**

*Analyst, Wells Fargo Securities LLC*

Got it. And then a quick follow-up. You had talked about choppy US wholesale, makes sense. You also talked a little bit about seeing some of that pressure overseas in Europe. Could you just elaborate a little bit more, Matt. Maybe is that broad-based? Is it more specific to one of the brands? I was kind of curious to learn a little bit more.

**Matthew H. Puckett**

*Chief Financial Officer & Executive Vice President, VF Corp.*

Yeah, I mean, I would say first of all our Europe business continues to perform well and we expect it'll continue to perform well. And it's far and away kind of the smallest I would say impact of how we're seeing the second half of the business evolve is what's going on in Europe. But I think it's fair to say the macro is a little bit tougher. I mean, there's a lot going on there from a geopolitical standpoint. Consumer sentiment remains pretty difficult. A lot of caution being deployed there. Maybe a little more so in the UK is what we're seeing.

So, I would say it's kind of across the business but it's not significantly impactful. And what I would also have a lot of confidence in saying is that our business there and our platform and the go-to-market strategy, we're going to win whatever the environment is. We just think the environment is going to be a little bit tougher in the short-term.

**Ike Boruchow**

*Analyst, Wells Fargo Securities LLC*

Got it. Thank you.

**Bracken P. Darrell**

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

Thank you.

**Operator:** Thank you. Our next question is from Lorraine Hutchinson with Bank of America. Please proceed with your question.

**Bracken P. Darrell**

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

Hi, Lorraine.

**Matthew H. Puckett**

*Chief Financial Officer & Executive Vice President, VF Corp.*

Hi, Lorraine.

**Lorraine Hutchinson**

*Analyst, BofA Securities, Inc.*

Q

Good afternoon. Hi. Bracken, I'm interested in hearing the initial steps that you're taking to first stabilize and then grow the Vans business.

**Bracken P. Darrell**

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

A

Well, first of all, there's a turnaround plan in place which I think you've been exposed to before. And those steps continue. So my game plan is really to step in until we bring in a new Brand President and really accelerate and then make some select changes. I don't plan to undo a whole bunch of things. I think the steps we put in place are the right ones. I'd just like to see it happen faster.

There are a few things we are changing. This change in North America is a change in our approach to the Vans business. And the biggest problem we've had because the biggest part of the business for Vans is in the US is to address that very directly and quickly. And beyond that, I'll come back to you and tell you when I think I've got something to say. But right now, I'd say just stay tuned.

**Lorraine Hutchinson**

*Analyst, BofA Securities, Inc.*

Q

Thank you very much.

**Bracken P. Darrell**

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

A

Thank you.

**Operator:** Thank you. Our next question is from Brooke Roach with Goldman Sachs. Please proceed with your question.

**Bracken P. Darrell**

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

A

Hi, Brooke.

**Brooke Roach**

*Analyst, Goldman Sachs & Co. LLC*

Q

Hi, Bracken. Thanks so much for taking the question.

**Bracken P. Darrell**

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

A

Thank you.

**Brooke Roach**

*Analyst, Goldman Sachs & Co. LLC*

Q

I was wondering if we could follow-up on Lorraine's question and get your thoughts and perspectives on what attributes you're looking for in a new Brand President at Vans? And what might be the right leadership attributes to drive that stabilization and turnaround there?

**Bracken P. Darrell**

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

A

Well, I'm always – the most important quality of a leader at this level is always leadership, so just general leadership. But the next step down from that, if you're looking at real capabilities, I think I tried to be very clear in my opening. I believe the most important attributes of a leader for a brand or a Brand President is being able to lead an innovation process and to consistently deliver an amazing set of innovations over time. And the second is to build brand heat, real brand power in the marketplace. And so those are two probably the top two skills we'd be looking for.

**Brooke Roach**

*Analyst, Goldman Sachs & Co. LLC*

Q

Great. And if I could just ask one follow-up question. VF has historically had a few lenses by which they elaborate that they look at ownership of brands in the portfolio. Can you elaborate on how you're thinking about the broader portfolio composition of VF today, and whether or not those strategic lenses of ownership are still appropriate under your leadership?

**Bracken P. Darrell**

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

A

Yeah, I've been through those lenses and I liked them a lot. I think it's a great way to look at it. I've never heard them called lenses. I've heard them called about everything else. But I think that's the right way to think about it, strategy first, and then your return on investment of the various pieces.

But I guess the most important thing to me is it maybe precedes a little bit of that and fits into the strategy lens is I love to be in growing markets. I mean, I think that's the whole key. And so as I think about the portfolio we're in, and this company has updated and changed and altered its portfolio over 124 years, a remarkable number of times, 121 years I guess. That's the way I'm thinking about it. I like to be in growing markets. I like to have leading brands.

**Matthew H. Puckett**

*Chief Financial Officer & Executive Vice President, VF Corp.*

A

We turn 125 next year.

**Bracken P. Darrell**

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

A

125. Okay. Good. Sorry. That'll be a big party.

**Matthew H. Puckett**

*Chief Financial Officer & Executive Vice President, VF Corp.*

A

Yeah, exactly.

**Brooke Roach**

*Analyst, Goldman Sachs & Co. LLC*

Q

Thank you so much.



**Bracken P. Darrell**

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

Thank you. See you, Brooke.

A

**Operator:** Thank you. Our next question is from Simeon Siegel with BMO Capital Markets. Please proceed with your question.

**Bracken P. Darrell**

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

Hi Simeon.

A

**Simeon Siegel**

*Analyst, BMO Capital Markets Corp.*

Thanks, hey, everyone. Hey. Good afternoon. So, I guess I was wondering, just first off, any way to think through how much of the America's wholesale decline was company-specific versus the broader environment? I mean, obviously, you guys are speaking to your challenges, but there's stuff out there also. So, just curious if you have a view there and then any thoughts on that environment going forward?

Q

And then just any – I'm sorry if I missed it. Do you guys give any notable one-time cash award and capital items built into the free cash flow reduction, or was that mostly just the lower income? Thanks, guys.

**Bracken P. Darrell**

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

Thank you.

A

**Matthew H. Puckett**

*Chief Financial Officer & Executive Vice President, VF Corp.*

Yeah, so let me try to take those. In terms of our wholesale performance, I'd suggest certainly the macro is impactful, but some of these are our issues, right? The Vans issues I think are very specific to us. We've seen a little bit of a weakness in sell-through in parts of the Timberland business, particularly the 6-Inch Boot, the premium boot has been slower. Now, you could argue lots of reasons as to why that might be externally driven, but we own it.

A

The Dickies has continued to be a bit softer than we would have expected. I think that's in many ways the marketplace itself, but we have to be better at creating demand. So, we own all these things. The North Face is really strong, by the way, as are the rest of the outdoor merging brands. So, I think it's a combination of both as it relates to what's happening in the US wholesale business particularly.

And by the way, one of the biggest reasons the changes we're announcing today from an operating model perspective are so critical to us and one of the biggest – the first point that Bracken made is fix the US business. And that by and large starts with the wholesale business in a big way. So that's one.

As it relates to the change in free cash flow, that's really primarily the operating results and updates in working capital. Right now, we haven't yet talked about the specific cash impacts of Reinvent. There will be some charges that we'll take over the next couple of quarters, which will include both cash and non-cash charges. We're not ready to talk about the specifics and details of those today, but that will come.

I will tell you as it relates to the year-end liquidity number that we've guided to, we think we've captured all that very effectively.

**Simeon Siegel**

*Analyst, BMO Capital Markets Corp.*

Q

Great. All right. Thanks a lot. Best of luck for the rest of the year, and looking forward to seeing you soon.

**Bracken P. Darrell**

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

A

Thanks, Simeon.

**Operator:** Thank you. Our next call is from Jim Duffy with Stifel. Please proceed with your question.

**Bracken P. Darrell**

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

A

Hi, Jim.

**James Duffy**

*Analyst, Stifel, Nicolaus & Co., Inc.*

Q

Good afternoon. Bracken, I was hoping you could speak for a moment about your vision for the organizational structure, the establishment of the commercial organization. It seems like an incremental layer to the structure at least in North America. Are there layers within the organizational structure to be streamlined to speed efficiency that will coincide with this?

**Bracken P. Darrell**

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

A

Yeah, if you think about it, we're running like effectively five different North America organizations today for the various brands. And that includes quite a bit of duplication. And while you'll have one person over that now, we should get consolidation of some of that underneath it. So, I expect it to be a much more efficient approach. It'll also make sure that we're really good at executing in stores and one brand, we'll move that quickly into the other. So where we're doing it in Europe, it will come into the US. So, I just see this as a win-win.

**James Duffy**

*Analyst, Stifel, Nicolaus & Co., Inc.*

Q

Great. Thank you.

**Bracken P. Darrell**

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

A

Thank you. Thanks, Jim.

**Operator:** Thank you. Our next call is from Janine Stichter with BTIG. Please proceed with your question.

**Bracken P. Darrell**

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

A

Hi, Janine.

**Janine Stichter**

*Analyst, BTIG LLC*

Q

Hi, everyone. Good afternoon. Hi, Bracken. I wanted to ask more about the timeline for the change at Vans. It sounds like the playbook that's been in place is still very much there but now it's just more of a sense of urgency. I wanted to understand how much of the pace of change can be done by things that are organizational or internal and then if there's anything that can be done in terms of the lead times in the product pipeline. My understanding is that it's always been somewhat of a longer lead time brand, I think around 18 months. So anything that can be done just to get the product to market quicker? Thank you.

**Bracken P. Darrell**

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

A

Yeah, thanks for asking that, Janine. There is just a reality of this market, of this business, that there's certain timelines to bring products to market, especially shoes, footwear, that is what it is, although parts of that footwear business come to market faster than most. So, I'm not going to commit to you that we're going to suddenly accelerate all the lead times to market, at least not yet, although I think that's a very worthy goal.

But I do think there are other things we could do to execute better, and probably do that a little faster. And one of them is an outcome of what we announced today, having one commercial organization that just moves with the cadence in a process that rolls across our entire business and takes the best practices to places where we're really performing well in Vans, and brings it into the US market I think can help.

So, as I said, stay tuned. There's a lot of work to do on Vans, but I'm really, really excited about it and I'm excited about getting in the middle of it and I love the team over there. So, I think it's going to be – we'll surely be talking about this every quarter.

**Janine Stichter**

*Analyst, BTIG LLC*

Q

Great. That's helpful. And then if I could just ask a follow-up.

**Bracken P. Darrell**

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

A

Sure.

**Janine Stichter**

*Analyst, BTIG LLC*

Q

We noticed some of the changes on some of the classics.

**Bracken P. Darrell**

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

A

Yeah.

**Janine Stichter**

*Analyst, BTIG LLC*

Q

I was wondering if that's changed [ph] sales there (00:41:0) at all, if you've seen anything there, and just help us size up the magnitude of how broad that price change was.

**Bracken P. Darrell**

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

A

Yeah, it has, it's been pretty broad across certain classic styles. It was about \$5 and four different styles. And I think it was really to try to just reset. Vans was -those Vans classic styles were always a good value. And I think we're in an economy where value matters. So, we did see a lift. I don't think it was broad enough to really notice from a total and our P&L standpoint. But I think it sets the stage for having us be the right kind of price-point. And we're not just one price-point, so you also have the ability to trade-up and down from there, but mainly up. You want to add anything to that, Matt?

**Matthew H. Puckett**

*Chief Financial Officer & Executive Vice President, VF Corp.*

A

No, I think you got it, Bracken. We've seen a little bit of uplift in terms of the sell-through of velocity on the back of that, but it's a few weeks in. It's relatively at this stage hasn't changed the overall outcome all that materially. But ultimately is the right thing to do in our view in terms of the opportunity to increase velocity. And it'll also help us clear through some inventory a little more quickly, which is an important aspect of what we need to do in the wholesale channel as well.

**Janine Stichter**

*Analyst, BTIG LLC*

Q

Perfect. Thanks so much.

**Bracken P. Darrell**

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

A

Thanks, Janine.

**Operator:** Thank you. Our next question is from John Kernan with TD. Please proceed with your question.

**Bracken P. Darrell**

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

A

Hi, John.

**John Kernan**

*Analyst, TD Cowen*

Q

Excellent. Thanks for taking my question. Hi, Bracken.

**Bracken P. Darrell**

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

A

Hi there.

**John Kernan**

*Analyst, TD Cowen*

Q

To go back into the Vans turnaround, obviously there's going to be some new leadership that you bring in. But how do we think about the top line and the margin opportunity? Are there points of distribution that need to be shut down? I know there's – I think there's around 730 stores, there's quite a few wholesale partners globally, particularly in the US. How should we think about managing the top line and also the margin?

---

**Bracken P. Darrell**

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

A

I think there's always cleaning up to do, especially when a business is – had a decline period, you always have to go through and clean up the excess distribution let's say. We are shutting down stores. We've shut down, I don't know the exact number, Matt may have it top of his head. But we have absolutely shut down stores and that's a weed and feed process all the time. We're actually opening some stores, but we're also shutting down more.

And I think from a wholesale distribution standpoint, I don't think there's anything specific I would point to. But we're going to continue to evaluate the distribution. It's obviously such a critical part of this business. But I don't think those are really the answer. I think the real answer is we need great innovation and great execution.

---

**John Kernan**

*Analyst, TD Cowen*

Q

Got it. And I had a follow-up...

---

**Matthew H. Puckett**

*Chief Financial Officer & Executive Vice President, VF Corp.*

A

I would just – John, I would just add real quickly there...

---

**John Kernan**

*Analyst, TD Cowen*

Q

Go ahead, Matt.

---

**Matthew H. Puckett**

*Chief Financial Officer & Executive Vice President, VF Corp.*

A

Yeah, there is opportunity and we will drive higher profitability in this business as we stabilize the business and begin to grow it again. Doing a lot of work on the call structure, you can imagine within that \$300 million Vans' impacted there given it's a really big business. And there are places in that business where the call structure is a little bit out of whack given what we've seen in the declines, store closures, capacity in certain parts of the business, et cetera.

So we're going to improve the profitability of that business. As we stabilize it, gross margins will stabilize. There's still a really high gross margin structure business and as we begin to grow off of a right-sized cost structure, we're going to have the ability to drive a lot of profitability relatively quickly back into that business because we certainly lost a lot.

---

**John Kernan**

*Analyst, TD Cowen*

Q

Understood, Matt. Maybe one quick follow-up for you just on the capital structure. How should we think about the refinancings in the next couple years and debt pay down? And obviously we saw the dividend announcement today. That does free up some cash, so how should we think about your approach to the capital structure?

**Matthew H. Puckett**

*Chief Financial Officer & Executive Vice President, VF Corp.*

Yeah, so, actually I'm glad you asked that question.

A

**Bracken P. Darrell**

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

I am too.

A

**Matthew H. Puckett**

*Chief Financial Officer & Executive Vice President, VF Corp.*

Deleveraging, I can't say it enough. Paying down debt and deleveraging is our number one financial priority. And our target hasn't changed, 2.5-time gross leverage is our target. And we're going to make substantial progress against that over the next couple years. The actions we've announced today, specifically the cost reduction which will generate cash, also improve EBITDA as well as the benefit of the dividend reduction which is \$325 million, both of those things put us in a better position to address those things.

I would say as we sit here today, our plan, and I've got a lot of confidence in our ability to do this, also when you factor in the work that we're doing to sell the PACS business is to pay off the next couple of tranches of debt and not refinance those. That's about \$1.750 billion that's due over the next 18 months, and that's our expectation.

A

**John Kernan**

*Analyst, TD Cowen*

Excellent. Thank you.

Q

**Bracken P. Darrell**

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

Thanks, John.

A

**Operator:** Thank you. Our next question is from Dana Telsey with the Telsey Advisory Group. Please proceed with your question.

**Bracken P. Darrell**

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

Hi, Dana.

A

**Dana Lauren Telsey**

*Analyst, Telsey Advisory Group LLC*

Hi. Good afternoon. Hello, Bracken. Hi. As you think about wholesale which has been one of the challenged parts of the business, in your big picture view, how do you think about what percentage of the business do you want it versus DTC and does it differ by brand?

And then when you're thinking about fixing the US, what are the markers that we should be thinking about watching as we go through the next year or so to say that it's on track, so to speak? Thank you.

Q

**Bracken P. Darrell**

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

A

I probably won't throw out a specific number. I'll just say I think wholesale is super important in this business, and as much as I love DTC, and we all do, I think the pendulum for a lot of companies in this industry swung too far over and there's a reason why wholesale is in the marketplace and plays such an outsized role, it's because consumers like to buy that way a lot of the time.

So as I've met with several of those CEOs of our wholesale partners in the US and in Europe, I've been really impressed by their plans and by their capability, and I fully intend for us to cater to them effectively. This doesn't mean we won't be investing in DTC, we will. So if you read between the lines, I mean, it also can be really an important part of this business.

But your second question was? Oh, markers. Yeah, I think the...

**Dana Lauren Telsey**

*Analyst, Telsey Advisory Group LLC*

Q

On the US, the markers. Yeah.

**Bracken P. Darrell**

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

A

Yeah, what are the key markers? I mean I think they're the ones that you expect to see. I think, you just – we'll be looking, like you will, we're going to be looking very carefully at sales but on a very short-term basis, so we're going to keep an eye on that. As we start to execute, I would expect our revenues to get better when we're really fully operational. It'll take us a little while to get that in place, but I expect improvement.

**Dana Lauren Telsey**

*Analyst, Telsey Advisory Group LLC*

Q

Thank you.

**Bracken P. Darrell**

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

A

Thank you.

**Operator:** Thank you. Our next question is from Paul Lejuez with Citigroup. Please proceed with your question.

**Bracken P. Darrell**

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

A

Hi, Paul.

**Paul Lejuez**

*Analyst, Citigroup Global Markets, Inc.*

Q

Hey. Thanks, guys. Hey, Bracken. So you talked a bit about how the current VF turnaround is similar and shares certain characteristics that are similar to your prior turnarounds, but I'm also curious to hear how you view this as different, what's unique, and what does that mean in terms of how you tackle it? Thanks.



**Bracken P. Darrell**

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

A

Yeah, I think one of the differences is it takes a long time, too long, to develop products in this business, in this industry actually, a lot longer than I would have expected before I started researching it. I obviously knew that before I came here, but I was surprised back during the early stages of kind of trying to work to understand what VF was all about while I was in the interview process, how long it takes in this industry to develop footwear and even apparel.

So I think that is quite a difference. There's also this volleying that happens in this industry, that's new to me, which we call seasons, where you sell a season and somebody's got to decide they want to buy that season, and then you see how it does, and those are two key differences in this industry, but they're not major. I mean they're significant in terms of the way our process operates, but they don't really fundamentally change the way I think about the business.

It's still the same business, which is create great innovation, some of it, most of it moderate level of innovation that keeps things fresh and new. Some of it really dramatic and innovative, and then make sure that consumers love what you're all about, very values-driven, and so there are a lot more parallels than differences, 5:1 or 6:1 or something.

**Paul Lejuez**

*Analyst, Citigroup Global Markets, Inc.*

Q

Got it. Thank you. Good luck.

**Bracken P. Darrell**

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

A

Thanks, Paul.

**Operator:** Thank you. Our next question is from Gabby Carbone with Deutsche Bank. Please proceed with your question.

**Gabriella Carbone**

*Analyst, Deutsche Bank Securities, Inc.*

Q

Good afternoon. Thank you for taking my question.

**Bracken P. Darrell**

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

A

Hi, Gabby.

**Gabriella Carbone**

*Analyst, Deutsche Bank Securities, Inc.*

Q

Hi. How are you? So I understand you're withdrawing guidance, but just was wondering if you can dig into gross margins in the back half, maybe one of the main buckets where you have some opportunity for expansion and then the areas you expect pressure.

And then if you can just talk about what you're seeing on the promotional front that would be helpful. Thank you.

**Matthew H. Puckett**

*Chief Financial Officer & Executive Vice President, VF Corp.*

A

Yeah, hey, Gabby. Happy to do that. I'll just tell you we still feel pretty good about our ability to see improved gross margins in the back half of the year. Obviously not calling a specific number today, but the promotional environment has begun to moderate a bit. In fall, we saw a bit of a benefit in Q2. We think that will continue. Not going to fully recapture what we lost last year, which was obviously significant, but we're in a position with inventories cleaner, lower sell-in this year, we've talked about that, and improved performance to see some improvement on the promotional side.

So it's moderating. It's still elevated versus historical. I think that's kind of the case across most of the marketplace but certainly will be a bit of a benefit in the back half in our point of view.

Business mix will continue to be a little bit of a tailwind in the back half from a channel and geography standpoint. Product costs will be kind of neutral to some degree. We've got some puts and takes in there, and then you think about FX. FX is going to be a negative number in the back half of the year. That's probably the single biggest headwind that we see.

But just kind of wrapping it all up, I think we'd fully expect to see some improvement in gross margins if you look at just kind of the half two in isolation.

**Gabriella Carbone**

*Analyst, Deutsche Bank Securities, Inc.*

Q

Got it. Thank you for that.

**Bracken P. Darrell**

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

A

Thanks, Gabby.

**Operator:** Thank you. Our next question is from Jonathan Komp with Baird. Please proceed with your question.

**Bracken P. Darrell**

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

A

Hi, Jonathan.

**Jonathan R. Komp**

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

Q

Yeah, hi, Bracken. Thank you.

**Bracken P. Darrell**

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

A

Thank you.

**Jonathan R. Komp**

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

Q

Thanks for hosting and all the detail. Maybe first question, if I could, Bracken. Just I know Matt outlined roughly four quarters it sounded like to achieve the full run rate of annual cost savings that you mentioned today. I just want to get your thoughts. The timeline to get the commercial organization structure in place and then maybe to start to see some tangible benefits from cross-sharing best ideas, do you have any initial thoughts on how long it might take to start to realize some of those benefits?

**Bracken P. Darrell**

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

A

Well, the organization will be as we're calling it here, stood up or will be standing up as an organization in Q4, and then I would expect we'll start to see benefits from it in early next year. It could be Q1 or Q2, but it'll take a few quarters to really get it to the point where it's really humming, and a little longer than that to really be full blown absolutely top flight effective.

**Jonathan R. Komp**

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

Q

Great. That's very helpful. And just two other quick ones, if I could. On the thought of there being no sacred cows, I thought I would ask, does it still make sense to operate the full portfolio after the PACS business process is completed? And then just separately, the enterprise level performance targets, is the board considering any changes to the structure of how those targets and payouts are determined? Thank you.

**Bracken P. Darrell**

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

A

I'll take the last one first, Jonathan. Yeah, we're always reevaluating our performance targets and how they work, and certainly, Brent Hyder, who I'm really excited, our new Chief People Officer, is just a fantastic partner for us. He and I talked about that, so I'm sure we'll make changes working with the board and the comp committee, Juliana Chugg, who's been a real partner for us here already. I think we'll absolutely be making some changes over time, but I don't have anything specific to call out.

In terms of the portfolio, we're not ready to just talk about it today. This company has always done I think a pretty good job of going through and reevaluating the portfolio over time and making additions and subtractions, and I think that will continue.

**Jonathan R. Komp**

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

Q

Great. Thanks again.

**Bracken P. Darrell**

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

A

Thank you.

**Operator:** Thank you. Our next question is from Bob Drbul with Guggenheim. Please proceed with your question.

**Bracken P. Darrell**

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

A

Hi, Bob.

**Robert Drbul**

*Analyst, Guggenheim Securities LLC*

Q

Hey, Bracken. I just had two questions. The first one is so with the Martino appointment and I think Kevin – the change with Kevin's role, do you anticipate any other sort of senior management changes? Do you feel like you've evaluated everything at this point, at least in the near-term?

And the second question that I have is just, I think inventories are cleaner than they were. Are there any pockets of concern either by brand or by region that we should still be concerned with? Thanks.

**Bracken P. Darrell**

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

A

I'll let Matt take the last one first and I'll take the first one last.

**Matthew H. Puckett**

*Chief Financial Officer & Executive Vice President, VF Corp.*

A

Okay, I got you.

**Bracken P. Darrell**

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

A

All right.

**Matthew H. Puckett**

*Chief Financial Officer & Executive Vice President, VF Corp.*

A

Yeah. So I think overall, inventories are in a pretty good place, and we're making progress in our owned inventories as we look at where our partner inventories sit. We're pretty good. There's some pockets and some brand-specific challenges as we look across the world. Vans is a bit elevated here in the US and to some degree in China, although that's gotten a lot better I think in China.

The softer sell-through we've seen of late in Timberland here in the US market, we're a little bit elevated at this point in the season, although it's pretty early but at this point in the season we're a little bit elevated with Timberland inventory. And while Dickies' sell-through remains weaker, the inventory positions have improved quite a bit.

So at retail, inventories in a pretty good place there, so if we see sell-through improve we'll see pretty quick benefit on our replenishment side. So by and large pretty good, Bob, but still a couple pockets as you'd expect given kind of the challenges that we're having in parts of the business.

**Bracken P. Darrell**

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

A

Yeah. And the answer to your second question – your first question. I think you're always – look, I really like this team and we're always relooking at like we do with Martino and with Kevin are people in the right places to have the right effectiveness so we'll keep doing that for as long as I work here, so that'll certainly keep going but we've got so much talent here not only on my direct team but levels below that.

We talked a lot about Martino but boy Martino's team is really strong. I mentioned Nicole and her team, our finance team is super strong. I think we've just got a really – we've got a lot of talent here to work with, and even

though we talked about a public search for the next Vans leader, and we will do one, that should not suggest anything about the talent that's internally here. It's really strong.

**Robert Drbul**

*Analyst, Guggenheim Securities LLC*

Great. Thank you.

Q

**Bracken P. Darrell**

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

Thank you.

A

**Operator:** Thank you. Our final question is from Abbie Zvejnieks with Piper Sandler. Please proceed with your question.

**Bracken P. Darrell**

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

Hi, Abbie.

A

**Abbie Zvejnieks**

*Analyst, Piper Sandler & Co.*

Hi. Thank you for taking the question.

Q

**Bracken P. Darrell**

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

Thank you.

A

**Abbie Zvejnieks**

*Analyst, Piper Sandler & Co.*

Do you anticipate any impacts to The North Face business with regulations on PFAS, and then as a follow-up, are you seeing any changes in wholesale partner behavior as the effective dates on some of these regulations are approaching?

Q

**Bracken P. Darrell**

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

I'll start that and then I'm going to let Matt finish it. First of all, yes, we do see some product changes in The North Face but based on PFAS, and PFAS for example, is "some of the zippers" and things that – and so we're going to make and are already making changes there and I think we'll be in good shape by the time we get to the finish line on The North Face.

A

You want to add anything to that?

**Matthew H. Puckett**

*Chief Financial Officer & Executive Vice President, VF Corp.*

I'd say we're – this is front-and-center for us and we're out in front of it in terms of managing toward the end of clearing through PFAS inventory. We've got inventory on hand, we've got inventory in stores and each of our

A

brands is working aggressively to ensure that we're selling through that over the next 15 months or so, and then there's opportunity in different parts of the world and even some of our distribution channels here in the US to go beyond that, but we've got it all out of the line by spring 2024, and in fact many cases it's already out of the line here as of now, so I think we're in a pretty good place given the runway that we have and the work that the teams have done very proactively to be able to manage our way through this over time.

---

**Bracken P. Darrell**

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

A

But to take your point. I don't really see this as a date at which we hit, we're moving towards some date that's going to happen. I see it sort of as an event that's coming toward us, because you do have various wholesalers in the US who are going to try to move quickly here, and so we're very respectful of that. We applaud their moves, and we're going to have to make sure that we're dynamic in the way we deal with this too.

---

**Matthew H. Puckett**

*Chief Financial Officer & Executive Vice President, VF Corp.*

A

Yeah. Specific to your point about wholesalers, it's an ongoing dialogue and we're very close to our wholesale partners in a very strategic way on this topic, and others obviously. So we're in lockstep with the actions that need to be taken kind of across-the-board by brand and by partner.

---

**Bracken P. Darrell**

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

Okay. Well, thank you so much. I really appreciate it. This was my first call. I was a little nervous. I think it went okay. I'm looking for feedback but let me be clear.

We are intensely, intensely committed to really continue to be a great company for our customers, making our financial performance a lot better and attracting and retaining more great people over time, and I promise you we'll come back with a more comprehensive strategy over time. I won't commit an exact date yet but it's coming. You'll hear about it all and I really appreciate all your help and support. Thanks a lot and see you next quarter.

---

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

#### Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2023 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.