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VF Corp. (VFC)

Q4 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the VF Corporation fourth and fiscal 2020 earnings conference call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

It's now my pleasure to introduce your host, Joe Alkire. Please go ahead, sir.

Joe Alkire

Vice President-Corporate Development, Investor Relations & Treasury, VF Corp.

Good morning and welcome to VF Corporation's fourth quarter fiscal 2020 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 defined in the press release that was issued this morning. We use adjusted constant dollar amounts as lead numbers in our discussion, because we believe they more accurately represent the true operational performance and underlying results of our business.

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

During the fourth quarter of 2020, the company determined that the Occupational Workwear business met the held-for-sale and discontinued operations accounting criteria. Accordingly, the company has reported that related assets and liabilities of the Occupational Workwear business in discontinued operations as of the date noted above and include the operating results of this business in discontinued operations for all periods presented.

During the first quarter of fiscal 2020, the company completed the spin-off of its Jeans business into an independent, publicly traded company under the name Kontoor Brands. Accordingly, the company has removed the assets and liabilities of the Jeans business as of the date noted above and included the operating results of this business in discontinued operations for all periods presented. Unless otherwise noted, results presented on today's call are based on continuing operations.

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

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

Thank you, Joe, and welcome, everyone. I hope my comments this morning find you and your family safe and healthy. Please bear with us today as we are all working from separate locations. It is remarkable how quickly the world has changed since our last call just a few months ago. Through the first 10 months of the year, VF had a powerful momentum, tracking ahead of our long-range plan. And while COVID has profoundly impacted the world as well as our business for the last two months of our fiscal year, I've never been more confident in our people, our brands, and our future.

It's times like these that serve as a purifying fire, separating the best companies from the rest. We've prepared ourselves well for times such as this. Our strong brands, our financial and supply chain disciplines coupled with our fortress balance sheet allows us to weather almost any storm. I'm confident that VF will emerge from this crisis in a position of strength, prepared to accelerate in a time when many are under tremendous financial strain and unable to adequately invest in their business.

And while COVID has probably been a dominant theme recently, let's not forget that 2020 has been a year of significant accomplishments for VF. To name just a few: the move to Denver; the release of science-based targets in line with our commitment to sustainability; the successful spin-off of Kontoor Brands; and the announcement of our intent to sell the Occupational Workwear business.

Even with this exceptional activity, we were managing our way to a strong year. Through the first three quarters of fiscal 2020, we've delivered 9% organic revenue growth, more than 100 basis points of gross margin expansion, and 19% organic earnings growth. Vans and The North Face, our two largest properties, were growing 17% and 9%, respectively, and our global D2C platform was growing at a double-digit rate, led by 20% digital growth.

So, what's giving me confidence about our future? First and foremost, our incredible community of associates, from our experienced leadership team actively managing this crisis to our distribution center associates working tirelessly to enable our brands to continue serving our consumers. Words cannot fully express how thankful I'm for the entire VF family and their infallible commitment to each other and our business.

Next, the nimbleness of our enterprise, which has demonstrated once again the ability to adapt and act with agility to protect our people, protect our enterprise, and preserve liquidity and to quickly pivot to those priorities which position us to emerge in an advantaged position. And I'm thankful that we have been aggressively transforming VF into a consumer-led, retail-centric, digitally-focused enterprise. This transformation, coupled with the renewed focus on the three lens approach to managing the portfolio, has honed our organizational focus and simplified our business model.

Our ability to pivot in light of changing consumer and distribution environments through portfolio actions has been and will continue to be both a catalyst for growth as well as a hedge against risk. Our movement away from challenged distribution channels while focusing more deeply on the most attractive, addressable markets gives us a real advantage in an uncertain and fast-evolving world.

Finally, for the commitment across our organization to act as a purpose-led, performance-driven enterprise during the time of crisis. In addition to providing pay continuity to retail associates during the global lockdown and increasing hourly wages for our distribution center associates, VF has committed nearly \$7 million in financial support and product donations across more than 20 different branded initiatives, and we're in the process of producing up to 3.5 million pieces of urgently needed PPE for COVID-19 relief efforts.

Our most recent, COVID-related actions are in addition to the ongoing efforts around our Made for Change initiatives, leading with science-based targets, focused on improving people's lives and planet. Using the considerable scale and resources of VF for the betterment of both people and the planet are not just the right thing to do, it is good business, as we forge even deeper connections with our consumers during this time of crisis.

Collectively, these characteristics position VF to not only weather this storm, but to emerge as an even stronger, leaner, digitally-oriented enterprise on the other side of the current pandemic. In light of the current environment and the new world we find ourselves operating within, I'd like to spend a few minutes highlighting the key elements of how VF is managing the now, as well as how we are approaching emergence from this crisis and how we intend to capitalize on the next.

Regarding the now, from the early days of the outbreak in China, we've taken a people-first approach in our COVID-19 response, prioritizing the health and safety of our people, while also protecting their financial well-being. As my good friend and North Face athlete, Jimmy Chin told me, all storms pass. It's how you weather them that matters. We have a bias for action and decisiveness to effectively manage this crisis and I'm proud of the actions we've taken guided by our values.

As we've implemented measures to care for and protect our people, we've also taken several key actions to advance our Enterprise Protection Strategy. These prudent actions have helped us preserve and enhance liquidity and given us more flexibility to manage our operations through a prolonged crisis. These actions have included: reducing discretionary spending and compensation across the VF senior leadership team and our board; proactively executing a \$3 billion bond offering to establish a significant cash buffer and ensure over \$5 billion of near-term liquidity; implementing a thorough and rigorous review of current inventory and forward inventory commitments; suspending our share repurchase program; collaborating closely with our most important strategic partners across the value chain; and finally, proceeding with our previously announced divestiture of VF's Occupational Workwear business as a potential source of additional cash.

One of VF's greatest assets has always been our operational discipline and the rigor with which we manage our balance sheet. Today, that discipline and know-how are coming together to create a range of options for how we maintain and further bolster our position of strength, which Scott will cover shortly.

Turning to our brands, all of which remain focused on driving consumer connectivity and brand engagement during these unprecedented times. Our brand teams are more than ever using this unique opportunity to share best practices, key insights, and learnings among our marketing and digital leaders to accelerate impact and efficiency. We've made a purposeful shift in our consumer engagement actions to employ greater empathy and compassion, connecting with consumers in the unique stay-at-home environment we all find ourselves in. This strategic shift has resulted in stronger engagement and affinity, leading to higher consideration and conversion.

I encourage you to explore our brand websites and social platforms to see this come to life. Demonstrated in The North Face's healthcare worker and first responder initiative, coupled with the United to Move the World program, along with Vans' Bouncing off the Walls campaign, Shoebox Challenge activation, and Foot The Bill program or Altra's Embrace the Space virtual workouts and Timberland's Stay Strong campaign. I'm proud of our brand's ability to maintain strong emotional connectivity with our consumers despite this disruption in the world around us.

None of us knows exactly how the COVID-19 outbreak will change our world, but we're already beginning to see signs of what's to come. Unfortunately, our brands and businesses are uniquely positioned to address certain evolutions in consumer behaviors and value systems. For example, we believe people will place greater value on exploring the outdoors after spending so much time in their homes. We believe there will be an increased commitment to personal well-being and active lifestyles with health becoming a major new priority.

We believe people will have a greater appreciation for the frontline workers who keep others safe and the tradespeople who keep our world running. We believe there will be an elevated focus on environmental sustainability that will lead to a sharper focus on combating global climate change. And with online shopping serving as a lifeline for so many consumers around the world during the pandemic, we believe the proliferation in e-commerce will be significant.

Regardless of whether these changes are subtle or seismic, our brand teams are already working to connect even more intimately and meaningfully with consumers in a post-COVID world. Today, we're preparing for this new future and positioning our brands to set the standard for what's next. The long-term strategy we've introduced in 2017 has repeatedly proven that we're activating a powerful plan, capable of delivering sustainable, high-quality growth and top-quartile returns, and I strongly believe that our strategy will be even more relevant in the years ahead.

We've evolved and focused our strategy since it was introduced, but the key choices at the heart of it remain the same: driving and optimizing the portfolio; distorting investments toward Asia, with a heightened focus on China; elevating D2C and digital; and finally, underpinning our strategy is the steady transformation of our business model to make VF more consumer-minded, retail-centric, and hyper-digital in everything we do.

As we prepare for the next, our work is focused, amongst other things, on evolving our systems landscape and building better capabilities and tools to power our brands forward. It is focused on leveraging enterprise data and analytics with an emphasis on critical end-to-end data and digital capabilities to drive consumer engagement and loyalty. This will take on a new level of importance as digital activity and engagement continues to rise in a post-COVID world. We're also working to become increasingly agile in how our teams work together, enabling us to move faster to seize opportunities whenever and wherever they exist. It will result in a more agile and efficient

operating model and organization design through the lens of our consumer-minded, retail-centric, hyper-digital transformation.

Before passing the call over to Scott, I want to reiterate the deep gratitude I have for the incredible effort each of our 50,000 associates put in during this past year. Fiscal 2020 was an unprecedented year for many of our teams, even before the pandemic hit. Spinning off the Jeans business, relocating associates and their families to different cities and countries, and now managing through the disruption of COVID-19 has been an extraordinary ask.

Our associates have been tested to the extreme and they've responded just as you would expect, with determination and a sharp focus on getting the job done, but they did more than that. I'm so proud of the way our associates have rallied to help others in this time of great need, living out our purpose in a very real and meaningful way. It's been truly humbling to see how our teams have answered the call in our communities, and it gives me great hope in our collective ability to overcome this moment together, driven by the power of human spirit.

It also gives me even greater confidence that VF Corporation will be better on the other side of the COVID-19 crisis. I believe that truly purpose-led brands and companies will fare better than others when this situation is over because their decisions will be principled and based on values that consumers share. By continuing to foster a sensitive community with our consumers during these trying times, we are positioning VF and our brands for a bright future.

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

Scott A. Roe

Chief Financial Officer & Executive Vice President, VF Corp.

Thanks, Steve, and good morning, everyone.

I'd like to start by echoing Steve's comments, as I too share a deep sense of gratitude for the leadership team and community of associates around the globe. Both Steve and I have been part of the VF family for more than 20 years. And while I have a deep understanding of the depth and unique capabilities resonant within VF, I'm nonetheless humbled by the commitment and excellence that I've witnessed as this great company continues to rise to the occasion.

This exceptional group of people is taking actions to position VF to accelerate upon emergence from the crisis. The individual and collective efforts throughout every region, brand, and function are nothing short of amazing, a sincere thank you to each one of you. It's not just what you're doing, but how you're doing it that inspires me personally. The commitment of our associates to each other and to the broader communities in which they work while continuing to drive our business forward embodies the core DNA of VF as a purpose-led, performance-driven enterprise.

Last fall at our Investor Day in Beaver Creek, we introduced the topic of portfolio resiliency and specifically highlighted balance sheet and supply chain flexibility, fiscal discipline, diversification, and investment optionality as core tenets. It received less focus at the time, given the growth trajectory of our business and the economic backdrop at large. However, portfolio resiliency could not be more relevant for where we are today as we manage through what Steve referred to as the now. So I'd like to spend a few minutes providing insight and context for how we're navigating the current environment.

Let's start with balance sheet flexibility and fiscal discipline, a bedrock of VF's 121-year-old legacy. VF entered this crisis with a fortress balance sheet and strong liquidity. Prior to the outbreak, our leverage was below 2 times. We were on track to returning close to \$2 billion to shareholders in fiscal 2020 through share repurchases and dividends, and we had significant dry powder to execute our M&A agenda. In year one of our long-range plan, we were tracking well against the goal to generate more than \$8 billion of free cash flow over the next five years. Just a handful of months later, the whole world changed. Revenue across our sector froze overnight, resulting in high rates of cash burn and disruption across the retail landscape. The capital markets remained open, but there were growing concerns about the ability for even high-quality companies such as VF to access committed lines of credit.

These are uncertain times, but in this moment of turmoil, we demonstrated both our willingness and our ability to tangibly build excess liquidity to weather the disruption caused by COVID for a prolonged period. With this in mind, we elected to raise \$3 billion of longer-dated debt last month and fully repay our revolver, providing VF with more than \$5 billion of immediate liquidity. While our recent actions may ultimately prove conservative, given the current uncertainty surrounding the retail sector, our actions are a clear testament of VF's balance sheet flexibility and financial strength.

Moving to the second dimension of our portfolio resiliency, supply chain flexibility and operational rigor, the sophistication and scale of our global supply chain coupled with our operational discipline are hallmarks of VF and a source of competitive advantage, particularly during times of uncertainty and marketplace disruption. As the pandemic began to scale globally, our operational leaders mobilized quickly to thoroughly assess inventory on hand and in process, assess inventory positions of key retail partners, and meaningfully reduce forward inventory purchase commitments through a rigorous and thoughtful demand/supply matching process. We maintain an active and transparent dialogue with our key partners and strategic suppliers as we work together on forward purchase commitments and product assortments.

We also remain in active conversations with our key retail partners as we collaborate on a thoughtful plan to clear excess inventory moving forward and the appropriate level of future inventory purchases considering the current environment. Throughout these conversations, our focus is undeniably on the long-term health and sustainability of VF, our brands, and our partners. And while many of these conversations are difficult, we have not strayed from our core values, approaching each discussion with honesty, transparency, and integrity. Yet another example of how our enterprise scale, supply chain flexibility, fiscal discipline, and financial capacity, coupled with our deep-rooted history of treating each stakeholder ethically, can position VF to emerge from this crisis in an advantaged position.

Turning to the third dimension of portfolio resiliency, investment optionality, optionality applies to both capital allocation as well as investment spending, both capital and expense. Our short-term capital allocation priorities have changed. While share repurchases remain a key element of our long-term plan, we are taking actions to preserve liquidity and have decided to suspend our share repo program for the time being. We do, however, remain committed to our dividend, of course, subject to board approval. Our dividend has and will remain an integral part of our TSR algorithm over the long term, and the recent actions we've taken to shore up liquidity give testament to our ability to continue to support the dividend.

Regarding investment spending, we have selectively reduced discretionary spending and CapEx in light of the current environment. We have focused our remaining investments on the aspects of our strategy that we believe will be even more important growth drivers in a post-COVID world, specifically D2C and digital, including digitally focused demand creation and technology. And while it's still very early days, our April results support the general belief that digital commerce will only increase in importance. And finally, we are reexamining all structural

overhead in light of a rapidly changing world. Historical analog support structures are being reimaged in a hyper-digital future. These actions will simplify the business model and increase agility, necessary traits in this fast-evolving marketplace.

So wrapping up the concept of optionality, I will front-run a topic I know is on many of your minds, M&A. First, with regard to our Occupational Work business, we're proceeding with our sale process. As I'm sure you've noticed in our release, this business has qualified for held-for-sale, discontinued operations accounting treatment. We remain in active conversations with prospective buyers and are confident we have the transaction completed during this fiscal year. We will keep you apprised as the process unfolds in the coming months. With that said, while the strategic rationale for the divestiture is unchanged, there is no urgency to sell these assets from a financial standpoint. As is always the case, a material deterioration in market conditions could impact the ultimate timing of the transaction.

As it relates to potential acquisitions, we continue to actively assess strategic opportunities and believe the disruption caused by COVID could lead to an increase in M&A activity and the availability of attractive assets. While our first priority remain stabilizing our organic business, we are well positioned from a liquidity standpoint to pivot to an offensive posture when prudent. M&A remains our top capital allocation and strategic priority on a medium- to long-term basis. The disruption underway across our sector will undoubtedly provide ample opportunities for strong companies with demonstrated M&A capabilities to create significant shareholder value through inorganic growth.

The final element of portfolio resiliency I'd like to highlight is that of diversification. As companies across the globe report earnings, we are reminded of the advantage of running a global enterprise during this crisis. The ability to extract learnings from reopening protocols, traffic trends, and consumer behaviors in our APAC region allows us to be more informed in planning for the ensuing recovery across other regions. It also gives us a several month head start compared to mono-geography companies.

Our diversified channel footprint has also been critical, most notably our digital business. While our own D2C digital platform is about 12% of revenue today, our total digital footprint including digital wholesale is closer to 20% of the business. The ability to keep these channels open during this lockdown period has been critical in our ability to continually engage with our consumers. And recent trends suggest significant growth in the digital channels are likely to mitigate some of the brick-and-mortar shortfalls, although, it's too early to understand fully how this will evolve.

I want to conclude my comments on diversification by directly addressing our wholesale footprint in light of the heightened disruption we see underway in certain segments of the distribution landscape. Considering our digital wholesale and international partnership stores, roughly half of our business today is D2C and consumer facing. Of the remaining wholesale business, roughly half is through international wholesale, which was healthy and growing heading into the crisis and remains well positioned.

In US wholesale, which represents about 25% of total revenue, we have dramatically reduced exposure to the more structurally challenged, mid-tier and department store channels, which now represent less than 5% of VF revenue in fiscal 2020. The largest portion of our US brick-and-mortar wholesale business sits in what we call specialty, which is primarily comprised of differentiated, healthy outdoor, active, and athletic retailers. Most of these retailers have healthy and growing digital businesses of their own. Our key accounts entered this crisis strong and we are actively working with our partners to emerge from this crisis stronger together.

So, to summarize, I'm confident that our balance sheet and liquidity positioning, investment optionality, supply chain flexibility and portfolio diversification position VF with the capacity to navigate the current environment and provide us with the ammunition to drive accelerated growth and returns as we begin to emerge from COVID. Our diversified TSR model with a strong commitment to the dividend, coupled with both organic and inorganic optionality, delivers a unique and balanced value creation model.

So, now moving on to our fundamentals and recent business performance. Our business was showing strong momentum heading into the final months of our fiscal year as evidenced by 9% organic revenue growth and 19% organic earnings growth during the first three quarters of fiscal 2020. The fourth quarter, however, marked a profound change in conditions. Our Asia business was essentially shut down for two weeks, our European business was closed anywhere from two to three weeks, and our North American business was closed the final two weeks of the quarter. Unsurprisingly, our results for fourth quarter reflect the operational impacts of the disruption just outlined.

Despite this disruption, we're encouraged by the trends we experienced in our digital business during the quarter which remained operational in all three regions. On a global basis, Vans, The North Face, Dickies and our emerging brands group, all grew double-digits. EMEA generated low-teen digital growth, led by more than 40% growth at The North Face. EMEA's digital business declined over 20% in the month of March, but reaccelerated to high-teens growth in April, led by triple-digit growth in The North Face. The APAC region generated 19% digital growth, led by more than 20% growth in China, driven by strength at Vans and Dickies.

Our digital trends in APAC were essentially a month ahead of EMEA with a significant decline in February, followed by a sharp rebound in March with growth of more than 30% led by Vans and Dickies. In April, digital normalized somewhat with growth in the high-teens. The digital business in Americas grew at a low-single-digit rate during Q4 as strength in Vans was offset by softer trends at The North Face. Following modest declines in February and March, we've experienced a sharp recovery in April which has continued into May with triple-digit growth driven by broad-based strength across the big four brands. And while it's too early to draw strong conclusions from our quarter-to-date performance, we are encouraged by the relative consistent phasing of the recovery curves across regions to date.

As you saw in the release this morning, due to the current marketplace uncertainties, we're not providing a formal fiscal 2021 outlook at this time. However, I can share with you how we expect our business to evolve over the course of the coming year across our three geographic regions and the approach we're taking to planning our business. Through the remainder of the first quarter, we expect North America and EMEA to begin to reopen and we expect continued steady improvement in the APAC region. We anticipate disruption across the distribution landscape resulting in a highly promotional marketplace. We expect high-teen inventory growth in the first quarter followed by lower inventory levels on a year-over-year basis as we move through the balance of the year.

Moving into our second quarter, we expect to see sequential improvement in North America and EMEA, but expect both regions to decline significantly on a year-over-year basis. We expect our APAC region to continue to accelerate. We believe promotional activity will likely remain elevated and expect disruption across the distribution landscape to continue. By the third quarter, we believe our APAC business will begin to return to a more normalized growth alongside a stabilizing North America and European marketplace. As we enter the fall holiday season, we believe continued promotional activity is likely.

We expect our North America and EMEA businesses to return to modest growth by the end of our fiscal year with APAC returning to more normalized growth. We believe the promotional environment will begin to moderate as the impacts of excess inventory and retail consolidation begin to stabilize. Underlying the expected evolution of

our business just outlined is an acceleration of our hyper-digital transformation. As we look ahead, digital will become even more central to VF's growth and success. Our fiscal 2021 investments in digital transformation which represent about 80% of all planned strategic investment for the fiscal year offer a springboard of how we will leap into a more advantaged future. I look forward to sharing more details as the year unfolds.

Given the recovery expectations just outlined and the visibility we have into the current quarter, we expect revenue in the first quarter of fiscal 2021 to be down slightly more than 50%. For the full year, we expect to deliver at least \$600 million of free cash flow through a combination of operating earnings, working capital management and lower CapEx. I believe this supports a year-end liquidity position of at least \$5 billion with over \$3 billion of cash on hand and a net leverage ratio below 3 times. These numbers exclude the potential proceeds from our Occupational Work divestiture which could provide an additional source of liquidity.

So, in closing, VF has navigated many crises over our 121-year history and have demonstrated willingness and ability to evolve our portfolio and strategy to stay relevant as consumer behaviors and the marketplace evolve. There is no question that the COVID-19 disruption will have lasting impacts on our sector. There will be retail casualties. This will accelerate industry consolidation. This will likely accelerate category trends which we believe will benefit from activity-based lifestyle brands. We are witnessing the acceleration of digital commerce and the critical importance of direct consumer engagement.

We also believe this environment will shine an even brighter light on corporate values and highlight the importance of purpose-led enterprises. Ultimately, we believe what we're witnessing right now is an acceleration of underlying trends which were forming before the crisis hit, further supporting our consumer-minded, retail-centric, hyper-digital strategy, further supporting our portfolio reshaping efforts for the past three years, and further supporting our portfolio focus towards activity-based lifestyle brands in large, growing, and structurally attractive addressable markets.

The building blocks of our long-term strategic plan are unchanged, but the pace of market and consumer evolution will undoubtedly accelerate. Fortunately, we've been moving down a path to transformation to this new reality for several years, using portfolio moves as a catalyst. We will continue to focus our key strategic choices around the transformation to a retail-centric, digitally-led enterprise. The combination of all these levers coupled with a diversified TSR model will place VF in an advantaged position.

So, with that, we'll turn the call back to the operator and take your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. We'll now be conducting a question-and-answer session. [Operator Instructions] Our first question today is coming from Robert Drbul from Guggenheim Securities. Your line is now live.

Robert Drbul

Analyst, Guggenheim Securities LLC

Hi. Good morning, everybody. Hope you guys are all well.

Q

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

Hey, Bob.

A

Robert Drbul

Analyst, Guggenheim Securities LLC

Thanks for the detail. I guess just I was wondering if you can spend a little more time on inventory levels, I guess, by brand. And I was just wondering if you could maybe explain a little better in terms of your plans of – through the promotional environment, whether you would pack stuff away, may be use off-price, just the different approaches you might take in terms of the level of promotion to sort of get the supply/demand in balance in the coming quarters.

Q

Scott A. Roe

Chief Financial Officer & Executive Vice President, VF Corp.

Sure, Bob. Scott speaking, I'll take that one. So, we've gone through as you can imagine a really rigorous process of demand and supply match. And as we've looked at forward demand signals, order books, and this varies a bit depending on the brand and the geography, but in general, we're seeing forward order books fall/winter that was down in the 20% to 30% range, and excluding APAC which, of course, is ahead from a recovery standpoint. And so, what we've done is we've, even from a buyer standpoint, gone even a little more aggressive than that, below that. Because our goal here, Bob, is to both make sure we have the right assortments and enough newness on the floor as we go through fiscal 2021. But more importantly, we want to exit this year in a point of equilibrium from an inventory standpoint that means both our own inventory and inventory at retail.

A

So, as a result, what we're doing is we're looking at the inventory that we own, we're aggressively taking, I would say, market-appropriate discounting to try to clear excess inventory and we expect that to continue through the balance of the year. But we're also looking at building assortments that ensure we have enough newness, and at the same time, being a little more aggressive on the carryover side of the business in order to make sure that as we exit this year, our inventories are back in line. That varies by brands, if you think about our largest brand, Vans, we have relatively less seasonal, whereas as you think about The North Face, there's relatively more. So, in some cases, we're looking at holding inventory and building those assortments and reducing forward buys. This is also where our outlets really come into play. We reduce our forward buys for outlets and use the goods that we have on hand from a merchandising standpoint. So, hopefully, that gives you some shape of how we're thinking about inventory in the situation.

Robert Drbul

Analyst, Guggenheim Securities LLC

Great, thank you very much.

Q

Scott A. Roe

Chief Financial Officer & Executive Vice President, VF Corp.

Thanks, Bob.

A

Operator: Thank you. [Operator Instructions] Our next question today is coming from Omar Saad from Evercore ISI. Your line is now live.

Omar Saad

Analyst, Evercore Group LLC

Thanks, good morning. I appreciate all the information. I'd love more detail on the digital platform you're building. I know you talked a lot about e-commerce and digital and the information you provided around penetration rates is also really helpful. But specifically, where are you on apps, loyalty programs, data analytical capabilities, and also on omni-channel BOPUS? If we remain – even if stores open, if we remain in a subdued traffic environment, being able to offer the consumer inventory across channels and touchpoints that maybe they don't want to go and spend the time in store shopping, where are you on your capabilities for kind of omni-channel inventory management? And broadly speaking on digital, I know it's a focus, but dive in a little bit deeper there for us. Thank you.

Q

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

Good morning, Omar. This is Steve. I'll start. I would tell you, one of the things we're most happy about is this transformation that we've been putting in place the last two years in really increasing our focus on our digital platform, our digital capabilities, and our consumer-facing information around our data platform. So where we are is a strong position, and we're continuing to invest in our digital platform, specifically just ease of shopping, different purchase and checkout capabilities, doubling down on our mobile. And to your point on apps, it's an area of great opportunity for us, and you can see both Vans and North Face do use those to some degree, but that's an area where we're going to double down and invest.

A

Our loyalty program, our Vans business is now up over 12 million, and our North Face business is somewhere in I think the 7 million to 8 million consumers in their loyalty program. And it's that level of information that's giving us insights into where our consumers are, what they're expecting, and how should we be engaging with them. We'll continue to build our consumer data platform and analytics capability to be able to really get closer, build greater engagement and affinity.

We've pivoted quite a bit on our kind of buy online pick up in store, how we're thinking about buy online return to store, and then this new notion of buy online pick up at curb. That was not something we had in our toolkit a month ago, and in the next two weeks we'll be standing that up not only here in North America, but in Europe.

So the one thing that gives me so much confidence is the agility that our organization is showing. Our digital and technology team, where we've made significant investment in people and capabilities, is strengthening us in this time where consumers pivoted so strongly towards engaging with brands online, not just on the content, but as we've seen significant growth in our online sales April and month to date. We're in a really good position, and I

couldn't be happier with our decision three years ago to make this pivot to be more consumer-minded, retail-centric, and hyper-digital in everything we do.

Omar Saad

Analyst, Evercore Group LLC

Q

And then one quick follow-up, Steve.

Scott A. Roe

Chief Financial Officer & Executive Vice President, VF Corp.

A

Yeah, Omar, just real quick.

Omar Saad

Analyst, Evercore Group LLC

Q

Sure, Scott.

Scott A. Roe

Chief Financial Officer & Executive Vice President, VF Corp.

A

Yeah. So, I just wanted to say just to reiterate what Steve said, we talked about focused investments. This is an area where we're not pulling back. We're continuing to prioritize on our investments here. So could we see more short-term profitability by cutting expenses such as this? Yes, we could, but this is an area where we're maintaining our investment and doubling down.

Omar Saad

Analyst, Evercore Group LLC

Q

Thanks, Scott, one quick follow-up. Have you said where you see that kind of 20% overall penetration could go? And then your digital capability, is that important when you're in discussion with potential acquisition candidates, the digital prowess you can bring to their brand franchises? Thanks.

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

A

Remind me, Joe, I don't think we've stated where we think it will go. That 20% is both our own as well as our wholesale digital partners. But that is where all of the energy is certainly pivoting from a consumer standpoint, and we see that becoming a much more significant part of our go-to-market strategy.

When we think about acquisitions, certainly brands that would have this capability within the addressable markets that we've talked about would be certainly an advantage that we would be looking for. But we're also looking at partnerships that would bring enhanced skills, capabilities in the area of data and different parts of the analytics toolkit that we would like to get quicker time to value.

Operator: Thank you. Our next question today is coming from Michael Binetti from Credit Suisse. Your line is now live.

Michael Binetti

Analyst, Credit Suisse Securities (USA) LLC

Q

Hey, guys. Thanks for all the detail and with helping the questions here. I want to ask a little bit of a detail on some of the slides around Vans and the D2C trends you laid for the business in total here. I guess for the

Americas D2C number in February, I know the month was warm. I know you have a lot of cold weather businesses. Could you speak to how much of the D2C comps you saw there were due to mix of North Face and Timberland? And then maybe just a little bit of color on how Vans D2C is trending in the Americas as we start to emerge here in this quarter.

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

Scott, do you want to grab that?

A

Scott A. Roe

Chief Financial Officer & Executive Vice President, VF Corp.

Sure. So I guess the last part of your question first, Michael, the trends have been very strong and we laid that out in some of the pre-materials that we released. Particularly in April, we are seeing a big surge in our online business. In fact, we're seeing even triple digits across several of our brands in different regions. So whether this trend continues, don't know, but it's very encouraging to see the significant uptick. And I guess, Michael, help me with your question around Vans specifically.

A

Michael Binetti

Analyst, Credit Suisse Securities (USA) LLC

I know Vans was growing at extremely high growth rates for a few years.

Q

Scott A. Roe

Chief Financial Officer & Executive Vice President, VF Corp.

That's right.

A

Michael Binetti

Analyst, Credit Suisse Securities (USA) LLC

You've quoted it in the December quarter. And then we don't have specific Vans pieces to look at here through January and February, but the Vans...

Q

Scott A. Roe

Chief Financial Officer & Executive Vice President, VF Corp.

Yeah.

A

Michael Binetti

Analyst, Credit Suisse Securities (USA) LLC

I'm sorry. The total comps you provided in North America in February, I'm wondering how much that was impacted by some of the weather brands.

Q

Scott A. Roe

Chief Financial Officer & Executive Vice President, VF Corp.

Yeah.

A

Michael Binetti

Analyst, Credit Suisse Securities (USA) LLC

Yeah. I know it was a warm month. I'm trying to figure out how to think about what Vans was doing before COVID.

Q

Scott A. Roe

Chief Financial Officer & Executive Vice President, VF Corp.

A

I understand your question. So, one thing is, remember, one thing we look in our end business is the multiyear stack, and you're up against massive numbers in Vans a year ago. And we also talked about the soft landing of Vans. So while it's still impressive, it has moderated, I would say, more to a level that's in line with our long-term expectations, but you're right in what you're probing at.

As we looked at the colder weather brands, you're seeing a bit of a drag there, and for the issues that we talked about. Remember, coming into – or leaving Q3 and coming into the fall holiday reset, as a general statement, we were a little late and not as deep from a promotional standpoint. And our intention was to increase – we were losing some business in our own dot-com, based on more attractive pricing for similar products in competing channels. So we did address that and we did see that trend in a pre-COVID basis start to really accelerate as we both became more competitive and also were moving a lot of inventory, frankly, through the channel from a pre-COVID standpoint. And then once COVID hit, of course, all the numbers get a little difficult. But the encouraging thing to us is all brands, cold weather, Vans, all of them, we've seen a material acceleration in the month of April and so far continuing into May. Again, I'm always cautious to say early days, let's see where this goes, but the green shoots we're seeing there are encouraging.

Michael Binetti

Analyst, Credit Suisse Securities (USA) LLC

Q

Can I ask a follow-up...

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

A

Let me add just a couple things real quick. Vans had a good quarter, but what's really kind of giving us greater confidence is where we stand April and May. I know you guys watch quite a bit of what goes on with our brands online, but we've spent a lot of time shifting our message to our consumers, getting much more empathetic and really trying to meet our consumers with where they are in this stay-at-home environment that we're all living in and really changing our messaging, much more purpose-led. And in the case of Vans, they've really upped the content around creativity. I don't know if you've seen anything about the Shoebox Challenge, but the submits coming in from our consumers, the user-generated content that we're able to grab from this, but really that greater connectivity and affinity, our April and May digital results are up really strong, giving us confidence that this will be a continued growth vector for Vans as we wait for our stores to come back online in the coming months.

Michael Binetti

Analyst, Credit Suisse Securities (USA) LLC

Q

I guess if I could just get one more in there, I know we've talked about before COVID, Vans margins were obviously very, very good, lower mid-20s is I think the way you guys have talked about it at the Analyst Day for Vans a few years ago. How did e-commerce margins compare to the overall brand margin, since that's going to be a bigger focus going forward, and maybe how do the lower volumes impact the Vans D2C EBIT margins? Thanks.

Scott A. Roe

Chief Financial Officer & Executive Vice President, VF Corp.

A

So as we've I think said fairly consistently, Michael, the margins, the gross margins are going to be similar to what we see in our D2C channel. But without the four-wall costs and just the lock imposed to that, at least in our

business, that dilution not really being a significant factor, it's our most profitable channel. So, as we see the move to digital, that's a good thing from a mix standpoint, from a profitability standpoint.

Operator: Thank you. Our next question is coming from Jonathan Komp from Baird. Your line is now live.

Jonathan Robert Komp

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

Q

Yeah. Hi. Thank you. A bit of a follow-up question, but I want to just understand all the detail of how you see the geographies are covering was very helpful. I'm curious at least maybe directionally how you think about that across your brands, and just thinking differences of a Vans which has been strong and lots of momentum versus a Timberland which has been the opposite side of the spectrum, any thoughts you're willing to share kind of looking forward on a relative basis?

Scott A. Roe

Chief Financial Officer & Executive Vice President, VF Corp.

A

Sure. Jonathan, just...

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

A

I'll start – yeah. Go ahead, Scott.

Scott A. Roe

Chief Financial Officer & Executive Vice President, VF Corp.

A

I was just going to clarify your question. So, you're talking about anything different by brand, by geography, anything unique, is that – just wanted to understand your question.

Jonathan Robert Komp

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

Q

Not quite that broad, but more – I'm trying to understand how you're thinking about the ability for the various brands to recover in a similar scenario that you laid out from a geographic standpoint, just thinking about the big brands, how are you looking as you go ahead?

Scott A. Roe

Chief Financial Officer & Executive Vice President, VF Corp.

A

Got you.

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

A

Got you. Sure. So, I'll start, Scott. Yeah. I think you see our Asia business is back up and running, all of our stores are open, our partnership stores are open, and our digital business is performing extremely well. We are seeing consumer traffic improve week over week, but it is down over last year. But the results we see really are across each of our brands, finding unique ways to connect with consumers, be it online. We're doing virtual shopping events. Our Dickies brand has been real innovative in how they're thinking about connecting the virtual to the store. Those learnings are helping us understand how to activate in Europe and America as these markets come back on and we're back up with about 40% of our stores in Europe today.

We have had our digital wholesale partners working with us since the onset of the COVID crisis and continue to see really solid growth with them across our full brand portfolio. So, really not one brand overachieving, I would tell you, our North Face business is probably the strongest in their online connectivity. And here in the Americas, we are preparing to open our stores and expect to have stores open in five states next week and our D2C brands, specifically Vans, North Face, Timberland, to a lesser degree, will benefit from that.

But what's interesting, to my earlier point on the pivot on how we've shifted our marketing and the messaging and our connectivity, our Timberland business has seen exceptional growth through April and month-to-date here online and we find that actually extremely positive as we now, we do know the consumers are engaged with us, they're extremely interested in the messaging, as well as the products that we're offering. And I think we see really a universal growth across our portfolio as we have much more sharing and collaboration on the different approaches, different tactics that have worked first in China and we'll bring that across each of the other regions.

Scott A. Roe

Chief Financial Officer & Executive Vice President, VF Corp.

A

I'd just add, Jonathan. As you think about China, we said it in our prepared remarks, we have the advantage of a couple months head start to see how consumers are reacting and what emergence looks like. And as we look at our China business returning to growth pretty – very broad-based and widespread across the month of April. So, really encouraging sign and that's really the basis for how we're trying to understand what this progression looks like as we think about the Europe and North American regions as well.

Jonathan Robert Komp

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

Q

Okay. Thanks for that. And maybe just one follow-up on more the expense side and protecting margin. I understand the thoughtful and unique approach that you're taking protecting the state of the organization. I guess I just want to understand, if we think about the next several quarters still having pretty significant top line pressure, any thoughts on how kind of the downside flow through on the EBIT line might look relative to what you had in the March quarter here?

Scott A. Roe

Chief Financial Officer & Executive Vice President, VF Corp.

A

Again, I'm not giving specific guidance, but a couple things I can say. So, as you think about gross margin in particular, I think I mentioned earlier, we will see some promotional activity as we work on moving through the inventory in the channel. So if you think about the puts and takes, the structural mix benefit we think will be there for the long term and for next year. Remember, from an FX standpoint the benefit we saw from the hedging standpoint rolls off next year, so you've got to put it in the cake there, and then promotional activity. As we say, that evolution will be elevated we think pretty much through the balance of the year. So that's going to put a little bit of pressure from a gross margin standpoint as you think about next year, not structural, not ongoing, this is more episodic as we deal through this issue, but in the next quarters, we would expect some pressure from that standpoint.

As you think about earnings, again, we gave you a little bit of shape of how the evolution looks, especially from the top line standpoint. I'd just remind you of a couple things. We talked about more than \$600 million of free cash flow. And as you looked at that cash evolution walk in the materials, we also mentioned reduced CapEx, just a reference point. We've talked about maintenance CapEx being in that 2% range, 2% of sales. We've talked about aggressive inventory management, which you can assume means that from a working capital standpoint, we

should see some benefit in the remainder of the year in the course of earnings. So that doesn't give you everything, but that will at least get you in the zip code as you think about how we are viewing the flow-through.

Operator: Thank you. Our next question is coming from Jim Duffy from Stifel. Your line is now live.

Jim Duffy

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Thank you. Good morning. I hope you and your families are doing well.

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

A

Yeah. Thanks, Jim.

Jim Duffy

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Difficult times, no doubt, but clearly the strategy from eight months ago seems even more relevant today. I have a few questions on the digital business. First, can you speak about the changing economics you're seeing with digital demand creation? What are the changes you're seeing in ad rates and conversion rates with store closed? And then, the triple-digit North American digital growth seems to be outpacing the digital growth in other regions. Are there things that are more evolved in the North American digital business that can be accelerated in EMEA and APAC?

Scott A. Roe

Chief Financial Officer & Executive Vice President, VF Corp.

A

I'll go ahead – okay.

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

A

I don't think we have the – our ad rates, but let me just start really high level, Jim. We've pivoted our marketing and used a zero-based budgeting approach to how we deploy our ad dollars and pivoted all of the dollars towards more digital tactics. And clearly, that's having significant benefits to our e-commerce trend at this point. We've seen traffic up, but what we've seen even more so is conversion. As we are engaging consumers, great examples are just the level of dwell that we see our Vans business with the Shoebox Challenge, the people coming online to create a pair of custom shoes to contribute back to Foot The Bill program that they have to support their specialty, so really looking at very different ways, improving content, improving just different programs, things to entice consumers in to participate with us.

Our North Face business, where we probably have seen the most exceptional growth over the last three, four weeks, their program to support the frontline workers, specifically medical workers, has brought a tremendous increase in traffic, I think we have something like 89% of our traffic are new consumers and a very high concentration of females, giving the brand just additional people to speak to, connect to, and really we're not driving transaction as much as we're driving connection, engagement and affinity, and bringing you through that funnel when and if you're available, but really focused on building that much, much stronger engagement for a longer-term benefit. Our growth here in the US is stronger, that's true, but our growth in Europe and Asia is right in line with where we would expect to be. And we are deploying these same tactics that we're using here and seeing

that strong engagement and really looking to build that long-term affinity and continue to draw consumers into our different digital platforms.

Jim Duffy

Analyst, Stifel, Nicolaus & Co., Inc.

Helpful. Thank you.

Q

Operator: Thank you. Our next question is coming from Erinn Murphy from Piper Sandler. Your line is now live.

Erinn E. Murphy

Analyst, Piper Sandler & Co.

Great, thanks. Good morning. I hope you all are well. Just two for me. As you guys reopen stores, I'm curious if there are added costs that you need within your own stores just to ensure the shopping experience is safe, And then, what do you expect – or how do you expect your staffing requirements to change within the stores?

And then, the second question around product launches for fiscal 2021. I'm just curious if you've had to make any shifts this year or into next, just given the current environment. Thank you.

Q

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

Yeah. Erinn, I'll start, and Scott can certainly fill in the blanks here. We are very ready to begin to open our stores. As I mentioned, our stores are open in China. We've begun to open stores in Europe and we're preparing here in the United States. Our playbook that we've been able to develop in China over the last four or five weeks is giving us a really good understanding of just what we need to be doing to assure consumers are comfortable, but equally important is that our staff feels comfortable in this new environment.

So, there are some increased costs associated with bringing that security around proper sanitation, the proper PPE for people to be using. We have remerchandised our stores to get that proper social distancing and we're not – our traffic is not what it normally is, and so our staffing levels are adjusting accordingly to make sure we've got the right people, right level of service and really providing that personal one-to-one engagement. And what's really, really gratifying is the feedback we're getting from our consumers as we open is just a high degree of confidence and they're really thankful that we're there and enjoying the opportunity to get out and engage in a very safe environment.

And then, the second half of your question, Erinn, if you could repeat that for me?

Scott A. Roe

Chief Financial Officer & Executive Vice President, VF Corp.

It was around product launches...

A

Erinn E. Murphy

Analyst, Piper Sandler & Co.

Just on innovation, just product launches. Yeah.

Q

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

A

Product launches?

Erinn E. Murphy

Analyst, Piper Sandler & Co.

Q

Just has there been any change? Have you had to change your forecast in terms of when you're launching products this year just given COVID-19 and some of the impact it's had on your inventory buys?

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

A

Thank you. No. Really, if anything, it's heightened the need to be much more retail-centric in how we think and operate our stores, and this is a big part of our transformation. The level of newness and the frequency of new reasons to engage, be it in store, online, I mentioned some of the virtual shopping tests that our Dickies team has been doing in China, looking really for weekly reasons to engage with us. So our product offer, our new product release and collab schedules will stay very much intact. And to Scott's earlier comment around the thoughtful management of forward buys and looking at our on-hand inventory, that has been done with the same eye to assuring that we have open to buy available for the right level of newness flowing into each of our brands, be it through our own D2C or with our wholesale partners as that begins to open as well.

Erinn E. Murphy

Analyst, Piper Sandler & Co.

Q

Thank you.

Scott A. Roe

Chief Financial Officer & Executive Vice President, VF Corp.

A

I'd just add one thing, Erinn, that Steve asked every day, what – do we have enough newness, there's an intense focus on newness. There's another good byproduct of this process that we're going through as we're transforming to retail-centric, retail-first mindset is also the reduction in SKUs. The offers are tighter, very much from a perspective of our own retail stores, our own digital environment, and how that then applies to our wholesale partners. So a lot of the rigor and discipline and focus has been on both newness and ensuring that we have a very tight assortment that makes sense from a retail environment. So there's actually a good byproduct of the added discipline that comes with this constrained environment.

Operator: Thank you. Our next question today is coming from Adrienne Yih from Barclays. Your line is now live.

Adrienne Yih

Analyst, Barclays Capital, Inc.

Q

Great, I hope everybody is doing well. Good to hear from you. Steve, I guess my first question is really sort of like more big-picture thematic. Outside the obvious shift to digital, what are the other secular consumer behaviors that you're seeing or foresee emerging post-COVID? And then how does each of the four pillar brands stand to gain in that environment? And then, Scott, my follow-up will be on gross margin, actually.

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

A

So get ready, Scott.

Scott A. Roe

Chief Financial Officer & Executive Vice President, VF Corp.

I appreciate the heads-up.

A

Adrienne Yih

Analyst, Barclays Capital, Inc.

Okay.

Q

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

So great question. Clearly, the comments and the conversations we've been having about the immediate uptick in digital demand and digital connectivity. In addition to that, things that we're seeing through our analytics and conversations with consumers are some really interesting trends and trends that our portfolio is extremely well aligned against. I think one would be this appreciation for the outdoors.

A

As people are staying at home, as people are less apt to be thinking about travel outside of their – be it their home city or home state, this connection with the outdoors and getting back into outdoor activity nearby the house is probably one of the most significant trends, coupled with health and well-being. And we're seeing this coming out loud and clear in China, with people just very focused on their individual health, the health of the climate, and clearly our purpose-led vision, and the focus of our portfolio is very strong there.

We see actually a lot of interest in supporting the front-line workers across the globe. And the work that our Dickies brand has been doing, the commitment of 3.5 million pieces of PPE for the medical workers here in the States, as well as supporting those workers that are keeping the infrastructure up and running, we've seen tremendous interest in supporting, and our Dickies business is reacting extremely well. So those trends across the outdoor, health and well-being, focus on the climate could not be more in line with our portfolio, the reshaping we've been doing the last three years, but also our deep commitment to being purpose-led, performance-driven as our way of creating value for our shareholders.

Adrienne Yih

Analyst, Barclays Capital, Inc.

Great, that's very helpful. So, Scott, just kind of digging in a little bit deeper on the patterning of the gross margin, in which quarter – obviously, there's pressure from promotions, certainly once stores open and then as the channel partners start to liquidate inventory in the fall season, I suppose. When do you see sort of the deepest hit to gross margin, in which of those quarters? Is it the September quarter? It sounds like inventory gets a little bit better. And then, in what format does that take? I understand like, at your own D2C, you'll be competing on price at retail. But are you giving more vendor allowances, are you giving lower cost on the outset as you forward book six months out? Thank you.

Q

Scott A. Roe

Chief Financial Officer & Executive Vice President, VF Corp.

So in terms of the shaping, and you can get some of this in the prepared materials, we talked a little bit about the promotional environment. But for sure, in the first half you'll see more pressure, and you'll see that start to moderate as you move through the year, although elevated for the full year, more pressure in the first half.

A

In terms of tactics, we've got a wide range of options. And I won't go into too much specifics, but generally it's partnering with key accounts and looking at – from discounting, gross-to-net, markdowns, et cetera. On a limited

basis, generally that's how we tend to focus as opposed to wholesale returns or things like that. Those are more of the tactics we use.

But one of the best weapons that we have is our outlet network. And we learned some hard lessons in the past about dumping a bunch of goods into the off-price market, third-party off-price, and you won't see us doing that. That's not to say we don't use these channels. They're good partners and they're effective ways, within reason, to clear goods. But the majority of this is going to be working with key accounts. It's going to be our own digital dot-com. And our biggest weapon, as I said, is our outlets. And that's where, in a brand-appropriate way, we can dispose of a lot of inventory without causing channel conflicts or having things that boomerang back on us in the broader marketplace.

Operator: Thank you. Ladies and gentlemen, in the interest of time, our final question today comes from Camilo Lyon from BTIG. Your line is now live.

Camilo Lyon

Analyst, BTIG LLC

Q

Thanks. Good morning, everyone. I hope you guys are doing great.

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

A

Hey, Camilo. Welcome back.

Scott A. Roe

Chief Financial Officer & Executive Vice President, VF Corp.

A

Welcome back.

Camilo Lyon

Analyst, BTIG LLC

Q

Thank you. Thank you. Thanks for all the detail. So just two questions for me. The first one, I think you mentioned in the press release this morning that you had some supply chain impacts. I was wondering if you could just delve deeper into which brands are being hurt by some of the supply chain impacts and where that stands and if they have been resolved. And if they haven't been, when would you expect that supply chain to really resume kind of the flows that you're used to?

And then the second question is you spend a lot of time and rightly so on the influence of the digital and the spend and the overspend on this particular channel and the importance of it. I'm curious to know what's your view and has your view changed on what the right size – what's the right store base size going forward, and if you're anticipating closing some doors, whether as a result of maybe some mall leases rolling off or just end of lease life terms or anything of the sort with respect to active closures.

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

A

Scott, I'll start. Camilo, there really are no material impacts to our supply chain. If anything, the connectivity with our key supply partners, both on the garment and footwear production, but also the materials side is where we've been spending a tremendous amount of time as we right-sized our forward purchases and really aligned our purchase and open-to-buy against the demand that we see today. And if those partnerships that we've built over

the years that are allowing us to make these quick pivots and position ourselves to really meet or bring down our current on-hand over the course of the year with the proper amount of newness, so really no impacts to any degree within our supply chain.

And then on the store base size, it's an interesting question. If there's one thing we're seeing as we reopen our stores in China and most recently in Europe is that local community-based retail footprint, some people would call that hyperlocal, is proving to be extremely valuable, consumers shopping closer to home in those communities or neighborhoods that they live in. And as we think about our footprint here in the United States across our Vans, North Face, and Timberland businesses, that will be something to pay attention to. Our exposure to the malls is not significant. 80% of our footprint are in the A-malls and then it really tapers off to B and then the tail sits in the C and D, so we're very well positioned where we're located.

But the changing consumer behavior will be a really interesting element of the go-forward strategy that we have, as consumers – are they going to be as comfortable coming into the store, do they want to have a clienteling relationship where they can buy online and pick up at curbside. We're ready for this. Our teams have been doing quite a bit of preparation. Our D&T team is providing the technology to be able to do that. But if there's one thing we've learned in China is the store is important, the closer it is to where you live, seems to be a growing trend. And honestly, the footprint and the size, and the way that our stores connect with consumers today is very well positioned with that trend if that continues.

Scott A. Roe

Chief Financial Officer & Executive Vice President, VF Corp.

A

I'd just build on that, too, Camilo. We talk about this quite a bit, but we pretty aggressively manage our lease terms, and at any point in time, essentially a quarter of the fleet, 25% is up for renewal every year. So, while we're always constantly refining and updating what our footprint looks like, that also gives us a lot of opportunity as we understand better what retail evolves into and nobody fully understands that today. We just know that it's changing and we're continuing to adapt. Our ability to turn that fleet is pretty quick.

Operator: Thank you. We've reached the end of our question-and-answer session. I'd like to turn the floor back over to Steve for any further or closing comments.

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

Great. Thank you, everybody, for joining us and putting up with our conversation-from-home model here. I hope it worked for everybody. I'd just like to leave you with a couple of thoughts. VF and the strong, strong history that we have is absolutely built for and prepared to navigate the times that we are in today. The strengths that we have, both in operational and the financial disciplines that have guided us over our 120-year history, put us in a very strong position to manage really the foundational elements of our business.

Our iconic brands and the reshaping of our portfolio that we've taken over the last three years, puts us in a very strong position to connect with consumers in these evolving consumer and market trends. And our investments over the past two years to transform VF to be a more consumer-minded, retail-centric, hyper-digital enterprise and our deep, deep commitment to elevating our D2C, digital and consumer engagement through our data platforms, all are proof points that the strategy we've been working on, the actions we've been taking, position us extremely well to navigate and accelerate on the other side of this crisis.

And this would really encourage you to stay connected with our brands, watch what we're doing online, the engagement strategy that we're putting in place, just to kind of reinforce and give you confidence in the work that we're doing to drive our business and be prepared for acceleration on the other side. So, again, thank you for joining us and we look forward to talking to you in July.

Operator: Thank you. That does conclude today's teleconference. You may disconnect your line at this time and have a wonderful day. We thank you for your participation today.

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