

01-Aug-2023

VF Corp. (VFC)

Q1 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.

Kevin D. Bailey

Global President of Vans, VF Corp.

Martino Scabbia Guerrini

Executive Vice President, and President of EMEA, APAC and Emerging Brands, VF Corp.

Nicole Beth Otto

Global Brand President of The North Face, The North Face, Inc.

OTHER PARTICIPANTS

Dana Lauren Telsey

Analyst, Telsey Advisory Group LLC

Simeon Siegel

Analyst, BMO Capital Markets Corp.

Laurent Vasilescu

Analyst, Exane BNP Paribas

Jay Sole

Analyst, UBS Securities LLC

Jonathan R. Komp

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

Brooke Roach

Analyst, Goldman Sachs & Co. LLC

Ike Boruchow

Analyst, Wells Fargo Securities LLC

John Kernan

Analyst, TD Cowen

Adrienne Yih

Analyst, Barclays Capital, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Greetings, and welcome to VF Corporation's First Quarter 2024 Earnings Call. At this time, all participants are in a listen-only mode. The question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

At this time, I would like to hand the call over to Allegra Perry, Vice President of Investor Relations. Thank you. You may begin.

Allegra Perry

Vice President of Investor Relations, VF Corp.

Good afternoon, and welcome to VF Corporation's first 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 discussions 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 will be VF's President and Chief Executive Officer, Bracken Darrell; and EVP and Chief Financial Officer, Matt Puckett. Matt will then host the question-and-answer session and will be joined by several VF executives.

I'll now hand over to Bracken.

Bracken P. Darrell

President, Chief Executive Officer & Director, VF Corp.

Hello, everyone. I'm happy to join my first conference call with VF as the CEO. While my role today will be a little more limited than what I'm used to, given I'm on my twelfth day here, I am super excited to be here.

VF's portfolio of globally powerful and iconic brands, deeply embedded purpose, and impressive talent all give me a lot of confidence. These are the key ingredients needed to unlock the company's significant value potential and return to strong, sustainable, and profitable growth. I joined VF after ten years as CEO of Logitech where I'm proud to have overseen the transformation of the company that grew its value tenfold. We did it by putting the customer at the center of everything we do. I'm passionate about building brands through a design and innovation focus. With unique products and immersive storytelling, consumer experience is elevated, and so is growth.

While I'm just roughly ten days in, I already feel at home here. I've spent time in our offices in Denver meeting with our brands based here and with many, many VF associates. I visited our European teams in Stabio, and I'll be in Costa Mesa at the Vans offices tomorrow morning. I've been in our stores in Denver, San Francisco, New York, London, and more cities. I've been in three of our Supreme stores around the world and many Vans and North Face stores. I talk to customers everywhere I go, and I started to dig into the brand equity data.

My conclusion is that our brands are as strong as I expected. Our team is loaded with talent. Our business is simply not performing at the level equal to those, but it's because of things in our control. I feel a strong sense of urgency with respect to the challenge we face and will collectively work with the team to get VF back on track through disciplined and thoughtful actions.

I'm looking forward to speaking with all of you again at our Q2 earnings results to share my perspectives on my first few months in the role. This company has what it takes, and I'm excited about the future of VF and its ability to return to delivering strong shareholder returns.

I'll now turn it over to Matt to talk you through the quarter.

Matthew H. Puckett

Chief Financial Officer & Executive Vice President, VF Corp.

Thank you, Bracken, and welcome to VF. Your impressive track record and strong background in innovation and design brings a new dimension to leading VF and reinforces my confidence as we turn the page to our next dynamic chapter.

I also wanted to extend our gratitude to Benno who has been instrumental in laying a solid foundation for VF's return to strong, sustainable, and profitable growth by refocusing our efforts towards the consumer, and by taking aggressive action to strengthen the business operationally and financially, and personally a great partner to me. We are fortunate to have him continuing as a valued member of the VF board.

I'm more confident than ever that with Bracken as our new leader, VF has everything it takes to succeed in the future.

Before I get into the business and financial results, let me give you an update on our two most important near-term priorities that we've been highlighting in recent quarters: the supply chain and Vans.

First, in the supply chain, where we saw further progress during the quarter as industry conditions continued to improve and our own actions to address execution yielded results. Lead times into the quarter are at normalized levels while our on-time performance and in-stock percentages were both back in line with our targets. We are appreciative of the quick and aggressive actions taken by the supply chain and brand teams to position us to now consistently meet our customers' expectations and maximize on the opportunities that present themselves in season.

Next, Vans, which was down 22% in the quarter and was disproportionately impacted by the brand wholesale business in the Americas which was down 40%, as anticipated. This includes intentional actions we've taken to rightsize inventories in advance of the important back-to-school season. We were encouraged by the results in China and in the digital business, which have both meaningfully improved relative to the prior quarter's trend versus last year. While the brand's overall performance was largely anticipated, it's not where we should be, and we remain intently focused on the actions to turn around the brand.

Now, an update on the key focus areas of product, consumer, and go to market.

First and foremost, product. We're increasing our level of investments to create new relevant products that excites consumers while developing existing franchises that are working well. UltraRange and MTE silhouettes continue to outperform, growing 13% and 39% in the quarter, respectively, with newer lines including Knu Skool and [ph] Lowland (00:06:25) all generating strong sell-throughs. The soft launch of the Pinnacle range OTW during Paris Fashion Week in June created excitement and energy, laying the groundwork for the full launch in early 2024.

Another key focus area we've shared previously is an opportunity to better understand and integrate the consumer into our decision-making. Our significant global segmentation refresh is on track, and in the meantime our Vans Family membership keeps growing, now approaching 29 million members, adding 1 million members in Q1 and more than doubling in two years.

We continue to improve the Vans go-to-market activities. Our initiatives to sharpen our focus around fewer key products and stories are well underway and are benefiting the quality and productivity of our store assortment. With our in-store SKU reduction actions expected to be fully completed in August, we also be launching our redesigned Vans.com platform in time for the holiday season. Vans is a great brand, and we're confident in its enduring strength and importantly the energy and intensity that this leadership team is bringing to the effort every day.

Now, turning to a review of the quarter. Q1, our smallest quarter and facing the toughest prior-year compare, came in line with our expectation both on the top and bottom lines. That said, overall our performance was not up to the standard we expect to achieve. Revenue was down 8%, in line with guidance, as wholesale particularly pressured the top line in the US. On a two-year basis, revenue was about flat.

Let me first unpack the performance by region.

Revenue in the Americas region was down 15% in the quarter, primarily due to the wholesale channel pressures we outlined in May. These had an impact across most of the portfolio and in particular at Vans and Dickies. The quarter's results were impacted by the rightsizing of inventories across the channel and the implications of our poor customer service from last fall.

Our business in EMEA which, as you know, has grown consistently and strongly also saw softer trends in the quarter with revenue in the region down 3% in Q1 driven by high-single digit decline in wholesale as retailers grew more cautious.

Our direct-to-consumer business was up mid-single digits in the quarter, a sign of resilient consumer demand for our brands and evidence of our continued strong execution of integrated go-to-market strategies.

Last, we continue to see growing momentum in the APAC region with revenue up 18%. All channels grew by double digits in the region with DTC fueled by brick-and-mortar traffic growth. Greater China saw further acceleration of 31% and benefited from the comparison to the prior-year lockdown impacts. The North Face continues to be the key driver of our performance and was up more than 50% in Greater China, benefiting from outdoor market tailwinds and recovering domestic travel.

Now, let me complete the picture of the brand's performance, starting with The North Face where revenue was up 12% in the quarter against a tough prior-year compare of plus 37% and driven by broad-based growth across products, channels, and regions. Globally, high demand for our icons, as an example, the Base Camp duffel, as

well as the Voyager packs line, generated a very strong performance aided by the summer travel season. Our lifestyle product, the Urban Exploration line, and our rain wear also saw good momentum. Growth was led by DTC driven by digital as the brand's product innovation and sharp execution resonated with consumers.

Timberland was down 6% in the quarter, in line with our expectations. The brand was up against a tougher prior-year compare, and results were impacted by wholesale in the Americas as partners continue to reduce inventory levels. Results were positive in the other two regions.

Globally, product innovation is resonating as the new hiking silhouette, Motion 6, delivered outsized sell-through performance, and we made good progress on women's with strong growth in sandals and apparel for her.

Dickies results were disappointing and significantly challenged during the quarter, down 19%, as the Work segment continues to be impacted by a weaker value and consumer, primarily in the US. Soft results in the Americas and APAC were partially offset by continued growth in Europe. Importantly, we have made progress on rightsizing inventory levels in the channel.

Moving down to P&L, Q1 gross margin was down 130 basis points. As expected, business mix remained a positive contributor to margin in the quarter, up 80 basis points driven primarily by DTC and international growth. Freight was down 200 basis points, more than offsetting mix benefits, reflecting the ongoing impact of higher promotions. It's worth noting the negative impact is about one-third of what it was over the previous two quarters. Also higher product costs which are moderating and which were partially offset by strategic pricing actions, and finally, negative currency impacts.

Adjusted operating margin was down 380 basis points, reflecting the impact of the lower gross margin and SG&A deleverage. SG&A declined versus last year by 3% in constant dollars which exhibits our focus on reducing costs and managing the P&L in times when the revenue line is under pressure. SG&A deleveraged 250 basis points in the quarter, reflecting DTC and other fixed cost deleverage in addition to the impact of continued strategic investments in technology, marketing, and distribution.

Q1 loss per share was \$0.15, also impacted by elevated interest expense and a modestly negative impact from tax.

Turning to the balance sheet and cash flow, I'll start with inventory where we saw further sequential progress in improving the overall health of our inventory position, ending the quarter slightly ahead of our plan with inventories up 19% versus last year compared to organic growth of up 46% at the end of the fiscal year and up 75% the quarter before that. The increase in inventory now represents a true organic comparison as we fully lap the impact of the supply chain financing program implemented in Q1 of fiscal 2023. Inventory composition remains primarily core, carryover, and replenishment which has a higher likelihood of being sold at full price or with a minimal markdown.

Cash from operations, which as a reminder is also benefiting from the extension of payment terms as part of the supply chain financing program, was \$164 million in the quarter. We ended the quarter with roughly \$3 billion in liquidity, in line with our plan and about flat to the end of the fiscal year, with free cash flow of \$79 million in essence offset by the dividend payment of \$117 million.

As it relates to the outlook, before I unpack the numbers, let me give you a little context for how we see the balance of the year evolving. We see several areas of strength worth calling out which give us confidence as we look forward.

The North Face is maintaining strong momentum, and we expect this to continue with investments being made to further fuel this growth. Our China business is gaining momentum, and we believe our brands have significant growth opportunities in this market where we are under-penetrated. Certainly, the outdoor and travel part of the market continues to be strong, and The North Face as a number one international outdoor brand in China is driving and benefiting from that trend. Our DTC trends in EMEA remained strong, and in fact comp growth has accelerated in June and July.

Finally, we are seeing an improved performance in the supply chain, which will allow us to deliver the planned cash flow benefit from reducing inventories and capitalize on revenue opportunities as they present themselves through the balance of the year. However, we continue to face a few meaningful headwinds.

Vans performance remains difficult as work to turn around the brand continues with a great deal of urgency. Our wholesale business particularly in the US remains challenging as our key partners maintain a more cautious stand on forward orders. And the Work segment of the Dickies business has remained softer for longer than we anticipated.

It's still early in the year, and our teams across the business are working diligently to maximize the opportunities our brands have to deliver compelling experiences and products to consumers across channels. And we have great confidence that we'll see progressively improving results.

Now, moving on to the specifics of our updated outlook. We are revising our full year revenue expectations to be modestly down to flat as we take a more conservative posture on the balance of the year. The reason for the change in revenue outlook is based primarily on wholesale. Despite the progress made in lowering inventory levels, our wholesale business remains pressured. While our sellout trends are evolving favorably in the Outdoor segment in particular, selling is challenged across the segments.

Through the balance of the year, our order books have evolved a little more muted than previously anticipated in both the US and Europe and reflect the continued cautious posture by many of our partners. This has affected brands across the portfolio and is skewed disproportionately to Vans.

As a result, we now expect wholesale across VF to be down mid to high-single digits for the year with most of that pressure coming in our Americas business and to a lesser extent in Europe. Alongside this, however, we are encouraged by the trends in our [ph] GSE (00:15:41) business, and we continue to expect growth in this channel during the year including in the US.

Overall for VF, we continue to expect a better second half revenue performance relative to the first half, reflecting an improving wholesale performance, moderating declines at Vans, and easing prior-year compares as we move through the back part of the year considering the challenges we faced last year and our own poor execution which muted our performance.

We are maintaining our EPS guidance range of \$2.05 to \$2.25 for the year. As a reminder, this includes a higher level of interest and a higher tax rate. It's worth highlighting that the underlying operating earnings are anticipated to grow faster than EPS.

We achieved our earnings target in Q1 and highlight that we have a number of levers across margins and spending to protect profitability. We continue to appropriately manage our costs and inventory position in order to protect the P&L and the balance sheet. We are increasingly confident in our ability to deliver higher gross

margins. The [ph] year-to-go (00:16:44) period will benefit from moderating promotions as we lapped last year's impacts, clearer visibility to easy product costs, including freight, and increasingly favorable mix, reflecting the outperformance and strength of our DTC and international businesses.

This guidance takes into account our continued commitment to first, investing in key capabilities where we continue to see opportunities to fuel organic growth and focus on areas that create value for our customers and consumers. Let me give you some examples: product innovation and demand creation at The North Face with a higher spend as a percent of revenue, the opening of the Ontario, California, distribution center, our most highly automated facility that will allow us to more efficiently service orders and which will generate cost savings over time at full scale. The enhancement of our consumer-facing digital ecosystem with the launch of an updated digital platform in the US to which most of our brands have now migrated.

Second, we continue to reduce costs aggressively who was not adding value for the consumer. And some examples here include stopping technology spending that is not consumer-facing or impacting, aggressively optimizing our distribution capacity considering reduced unit sales volumes, and pausing discretionary spending, as an example, open roles that are not critical to revenue-driving activities and brand-building strategies.

Now, let me give you a couple of updates on the drivers of cash flow. We continue to expect free cash flow in line with our plan, driven both by growth in cash earnings and a reduction in working capital, primarily from activities to reduce inventory levels and recognizing the full benefit of revised payment terms with our product suppliers as we migrate through fiscal year 2024.

Importantly, we expect inventory to be near to normalized levels by the end of this calendar year and down at least 10% year-over-year at the end of the fiscal year, which would equate to a reduction of about \$250 million. We maintained tight control and discipline on all capital spending, and in light of business conditions, we paused lower priority projects.

Moving on to debt, we remain laser-focused on reducing our leverage. While we have ample liquidity and financial flexibility to pursue our key priorities, our number one financial objective is to return VF to our historical balance sheet strength. Accordingly, we will use any excess free cash flow to reduce debt, and you can be sure that any strategic decision we are making is through this lens. We expect to end this fiscal year with gross leverage of about 4 times and we'll continue to make progress on the path to moving toward our target of 2.5 times.

Now, you may have noticed, I haven't talked a lot about the macro environment in my comments. We remain intently focused on our own issues and on what we can control, and so much of what we have to do relies on fixing those issues. At the same time, we're not oblivious to the external conditions, and they do inform our near-term tactics and strategies. The environment itself remains difficult and volatile. We recognize that many consumers are feeling impacts to their disposable income and are continuing to deal with inflation, facing higher interest rates, and in the US, the upcoming end to the student loan pause.

In summary, for fiscal year 2024, we are slightly more cautious on the evolution of revenue but remain confident we will deliver increasing operating earnings to improve gross margins and strong cash flow, together enabling us to achieve our debt reduction targets, all leading to a strengthened financial position.

Finally, I'll give you an update on the Timberland tax case, the latest development being that oral arguments occurred last week which was sooner than we anticipated. This advanced timeline indicates the First Circuit Appeals Court could issue an opinion as early as the next few months. We previously expected a decision could occur within this fiscal year, and in light of the pace at which the oral arguments proceeded, is now increasingly

evident that this will be the case. We continue to believe the timing and treatment of the incoming conclusion of the issue is appropriate.

Looking ahead to the future, we are confident that we have all the right ingredients to succeed and to return to our standard of delivering superior shareholder returns driven by strong, sustainable, and profitable growth. We have a portfolio of world-renowned and beloved brands which are well positioned in big and growing spaces that continue to benefit from macro consumer tailwinds. We've taken significant actions to strengthen our business operationally and financially. I'm confident these initiatives will yield tangible benefits.

We continue to work to drive improved product margins including better go-to-market efficiencies, product cost optimization, and strategic pricing actions. These near and medium-term actions combined with the ongoing focus to drive down costs, which are not consumer-facing, will support an expanding margin profile over time. We remain committed to the purpose which is at the heart of everything we do and will continue to remain central to our culture and to our strategy. Our team of passionate, highly skilled, and deeply committed associates continues to be a key asset to unlocking our full potential.

In closing, we can and we will better harness the power and strength of VF while continuing to focus on sharpening execution, optimizing earnings and cash flow, and strengthening the balance sheet, all of which will enable VF to begin to fulfill its full potential this year and beyond.

With that, we'll now be joined by several members of the team to answer your questions: Martino Scabbia Guerrini, who runs our business in EMEA and APAC and in the emerging brands, and our brand leaders from Vans, The North Face, Timberland, and Supreme; Kevin Bailey, Nicole Otto, and Susie Mulder.

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] Our first questions come from the line of Dana Telsey with Telsey Advisory Group. Please proceed with your questions.

Dana Lauren Telsey
Analyst, Telsey Advisory Group LLC

Q

Hi. Good afternoon, everyone. And, Bracken, welcome.

Bracken P. Darrell
President, Chief Executive Officer & Director, VF Corp.

A

Thank you.

Dana Lauren Telsey
Analyst, Telsey Advisory Group LLC

Q

Given your experience at your former company, Logitech, what is most similar, what is most different in the work to transform VF? And then, Matt, on the results today, it looks like wholesale was the weakness nearly everywhere. How much of it was the impact overall in the Americas and Europe? And how does it differ by brand? Thank you.

Bracken P. Darrell
President, Chief Executive Officer & Director, VF Corp.

A

Thanks, Dana. I'm not quite ready to start to make comparisons between VF and Logitech, but I would just say the biggest surprise so far is how at home I feel. No surprises yet. So I'll update you more at the end of next quarter.

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

A

Yeah, Dana. Nice to speak with you. You're right. Most of the issues that we saw in our reported results certainly reside in the wholesale line, and that's kind of what we expected. I think we kind of talked about that in May. It is certainly an issue that's predominantly in the US, and in the Americas, to some degree in Europe. Obviously, APAC not so much, and APAC – the wholesale business is relatively smaller there.

If you look at it across brands, disproportionate impacts to Vans and Dickies which continue to be the two businesses that are struggling the most from a sell-through and sell-out perspective. With The North Face, generally pretty good, and Timberland, some timing issues with both of those brands.

If you look at the Outdoor segment generally, I think you're going to see – we see better results across the board, and that's certainly the case in the wholesale business. And again, we see the more difficult results in those couple of brands that we continue to have challenges from a sell-out perspective, and we talked a lot about that.

All of our brands are having some impact from what's happening in the wholesale channel, particularly in the US as wholesalers are resetting inventories, and that's been underway and in many cases making good progress, in other cases taking a bit longer. And this kind of the cautious approach that they're taking to forward buys, we're

seeing that affect all of our businesses, but clearly when you have a business that's not selling through, you give them even more reason to potentially be very cautious and pull back. And we're seeing that certainly in the Vans business.

Dana Lauren Telsey

Analyst, Telsey Advisory Group LLC

Q

Got it. And just one follow-up. As we move through the year and maintaining the guidance, any puts and takes as you see it either top line or margin in the cadence of the remaining quarters? Thank you.

Matthew H. Puckett

Chief Financial Officer & Executive Vice President, VF Corp.

A

Yeah. Sure thing. So from a top line perspective, it will sequentially get better. Q2 will be less negative than where we were in Q1. We said from the beginning, the first half of the year will be relatively challenged given what we see in wholesale, and that stays the same. So we'll see sequential improvement as we move through the year.

From a profitability standpoint, we hit our targets in the first quarter, our internal targets from a profitability standpoint. In fact, we obviously hit kind of where we thought we'd be from a revenue standpoint. When I step back and look at things, that we are increasingly confident in our ability to drive higher gross margins this year.

And as we look at where we sit from an inventory standpoint, we're making really good progress. A little bit ahead of schedule in reducing our inventories. And I look at the overall health of our inventory, feel good about where we're positioned relative to where we've been certainly. And so we'll see a moderating promotional environment, is our view, moving forward. We know we're going to see that in our own channels. And in the wholesale business, inventories are going to be down a lot. And the fact that we're actually moderating our assumptions in wholesale means we're going to sell in less, and that probably even helps that picture to some degree. So feel good about where we're heading there, and we'll begin to see benefits in terms of favorability on the promotional line I think as we move even over the next couple of quarters.

Yeah. The benefits of business mix are continued to be quite strong given kind of where the revenue is coming from by geography and by channel, and I'd say clear visibility to easing product cost both in terms of FOBs but in particular on the freight line. So we'll have a little bit of benefit there as you think about the net impact of price versus cost. So with more clarity and understanding where we sit, feel good about margins.

And in SG&A, we're going to be very careful. We'll continue to maintain pretty strict controls around how we're spending our money, and as we've shown here in Q1, when revenue is a little more difficult, we'll be very prudent and careful from a spending standpoint.

Dana Lauren Telsey

Analyst, Telsey Advisory Group LLC

Q

Thank you.

Operator: Thank you. Our next questions come from the line of Simeon Siegel with BMO Capital Markets. Please proceed with your questions.

Simeon Siegel

Analyst, BMO Capital Markets Corp.

Q

Thanks. Hey, everyone. Good afternoon, and welcome. So just maybe to elaborate a little bit more on how you're viewing the promotional landscape, I know you're talking about what you can control or not, but any color there that you can dig into? And then sorry if I missed it. Did you say what Vans DTC, how that performed? That would be helpful. Thank you.

Matthew H. Puckett

Chief Financial Officer & Executive Vice President, VF Corp.

A

Yeah. We didn't say what Vans DTC was, but let me come back to that. In terms of promotions, I think first and foremost, the inventory positions are going to be a lot cleaner than where we were last year. We know where our own inventory position is as we head into the fall holiday season and with the actions that our partners have taken and obviously what's contemplated in our outlook for the year with much lower wholesale volume. We're going to be much better positioned there.

And remember too, for us, our promotions last year and our level of discounts were impacted by some of our own self-inflicted wounds, right, where we were late in shipping and we had to offer additional discounting to secure some of those volumes. And so we're up against that. We're not going to repeat any of that given where we sit today from an inventory standpoint and really where the supply chain sits and their ability to service the business and deliver on time.

So the inventories are going to be cleaner. Certainly the wholesale marketplace is taking a more prudent and cautious approach. Our internal view of inventories will position us to be a lot cleaner.

I will say the one place where we'll continue to be pretty aggressive in promotions, and we've contemplated this in our outlook obviously, is in our own outlet stores. That's where we're moving through the excesses, and we've carried forward some excess inventory as we've talked about from last year. That's contemplated in how we're filling those stores as we move through the balance of the year. And so we'll continue to be pretty aggressive there, but it will be more comparable to last year versus, I would say, worse. And we'll see nice benefits in our full price channels and in our wholesale business.

And from a Vans standpoint, in the first quarter, we were down right at double digits from a DTC perspective.

Simeon Siegel

Analyst, BMO Capital Markets Corp.

Q

Got it. Thank you. And then just lastly, if I can, within the gross margin mix benefit, any way to help think about what's coming from channel versus geography and how to think about that going forward? Thank you.

Matthew H. Puckett

Chief Financial Officer & Executive Vice President, VF Corp.

A

Yeah. It's kind of split relatively evenly. Certainly in our international business continues to be a growth driver for us, and there's a nice margin benefit from that. And then with DTC, slightly negative in the quarter but fairly wide margin away from wholesale. You get a nice benefit. So it's about equal between those two pieces of the business.

And moving forward, we delivered about 80 basis points of favorability in the first quarter as we move through the balance of the year. Something in that range, maybe a little bit below that, is probably the way to think about it.

Simeon Siegel

Analyst, BMO Capital Markets Corp.

Q

Perfect. Thanks so much, guys. Best of luck for the rest of the year.

Operator: Thank you. Our next questions come from the line of Laurent Vasilescu with BNP Paribas. Please proceed with your questions.

Laurent Vasilescu

Analyst, Exane BNP Paribas

Q

Good afternoon. Thank you very much for taking my questions. And, Bracken, great to have you on the call. And we look forward to your updated thoughts in 90 days from now.

Bracken P. Darrell

President, Chief Executive Officer & Director, VF Corp.

A

Thank you.

Laurent Vasilescu

Analyst, Exane BNP Paribas

Q

Matt, thanks for all the color. I wanted to follow up on Dana's question. I think you alluded to 2Q maybe slightly negative. I see consensus is modeling for revenues to be flat. Just for the audience, maybe can you give a little bit more color just like guidelines on how we think about 2Q revenues? And then I have a follow-up question on gross margins and SG&A.

Matthew H. Puckett

Chief Financial Officer & Executive Vice President, VF Corp.

A

Yeah. So we don't have guidance for Q2, Laurent, so I'm not going to give you guidance. But I'll tell you it will be sequentially less negative. I would also suggest that where we sit today, we'd expect a little bit more – a slight benefit from currency on a reported basis in Q2. Certainly you can figure that out as you look at where rates are versus last year, but – so sequentially less negative.

Also I would remind you that last year had some noise in it in Q2, right. We were late shipping in particular in the Outdoor segment, The North Face and Timberland most prominently. We were late delivering fall. We expect to be able to flow product this fall normally, and we're positioned to certainly be able to set those floors at the right time.

And so there's been noise there as you think about the flow of wholesale shipments, particularly in the Outdoor segment between Q2 and Q3. So something just to remind you as you think about the modeling, but that's as far as I'm going to go.

Laurent Vasilescu

Analyst, Exane BNP Paribas

Q

Okay. No. Thank you, Matt, for that. And then on the gross margin, it sounds like – tell us if I'm wrong, but you're taking down the gross margin, right. It was supposed to be exceeding 100 basis points for the year. Is it still the case? And maybe if you can give us some guardrails around how do you think gross margin should shake out for the year? And then it's nice to see on the SG&A front that you can protect the earnings for this year, but the 3%

decline in SG&A, can you maybe just walk us through what drove that and how do we think about that for the balance of the year?

Matthew H. Puckett

Chief Financial Officer & Executive Vice President, VF Corp.

A

Yeah. Sure. So margins, we still expect – we didn't change anything there in my view, up at least 100 basis points. And actually my point there would be increasingly confident in our ability to drive those higher gross margins. And that's kind of the points I made earlier about how we see the favorability in business mix that we saw in Q1 kind of continuing. The promotional environment is going to swing back in terms of the comp is going to get kind of the tailwind of that begins even in the next quarter. Really Q2 to Q4 last year we had well north of 200 basis points every quarter, in fact 300 basis points or so in the last part of the year. So that comes back in our favor.

Even if we see a bit elevated level of promotions, we're going to see improvement year-over-year. That's our expectation. And then the product cost eases and actually potentially becomes a bit of a tailwind in half-two in terms of what we see. And the good news is we have pretty clear visibility now from a cost standpoint all the way through the fiscal year.

So those are a couple of the points I'd make on margin, but confidence in where we sit today, Laurent, I think is the message I want you to take away.

And SG&A, certainly when we see revenue under pressure, we've got levers we can pull as we manage our controllable spending. There's a lot of fixed costs in the business like ours, certainly, but there's a lot that's in our control, too. There's discretionary spending that we can pull levers against. We can stop things that in the short term aren't having a significant impact on what we're trying to accomplish in executing with the consumer and with our customers. We've done that. We're working aggressively to optimize things like distribution capacity. I mentioned that.

But similar types of things where you think about where revenue is under pressure. How do you kind of rationalize where it makes sense across your footprint and your capacity in different areas? And certainly things like just pausing on projects that are longer-term-oriented to focus on the near term.

And the benefit there is costs, but also the benefit is focus. And that's really important to us as well that we focus on the things that we've got to get fixed, and we've got to get right. And actually it's kind of nice as we begin to work with Bracken here too to kind of take a hard look at all those things, and that's something we're doing and certainly began to do in Q1 as we pulled back on some spending.

Laurent Vasilescu

Analyst, Exane BNP Paribas

Q

Very helpful. Thank you, Matt, for all the color.

Matthew H. Puckett

Chief Financial Officer & Executive Vice President, VF Corp.

A

Yeah. You got it, Laurent. Thank you.

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

Jay Sole

Analyst, UBS Securities LLC

Q

Great. Thank you so much. I guess if we can talk a little bit more about Vans. I think, Kevin Bailey, you're on the call. If you go back to January, maybe some of the opportunities that you're seeing, maybe some of the green shoots. Are those still happening? You talked about some of the newish footwear styles working better, but give us an overall view of where things stand today with Vans with the brand and progress you're making turning around the brand. It would be very helpful. Thank you.

Kevin D. Bailey

Global President of Vans, VF Corp.

A

Yeah. Thanks, Jay. Happy to answer. Go ahead, Matt.

Matthew H. Puckett

Chief Financial Officer & Executive Vice President, VF Corp.

A

Yeah. Kevin, I was just going to say one thing, and then I'll turn it over to you. And I know you'll agree with this. We're not looking for a quick fix in this business. We're setting up the brand for long term profitable growth, and we're not going to sacrifice that objective. I think that's really important. And it's taking longer than we would have liked, and certainly the results that we saw this quarter, even if it's what we expected, it's not good. It was poor, and it's disappointing to see. But the team is working aggressively against the right things to turn the brand around.

And I know you want some details on that, so, Kevin, maybe unpack some of the things you're going after.

Kevin D. Bailey

Global President of Vans, VF Corp.

A

Yeah. No. Thanks, Matt. And, Jay, you're spot on I think, as Matt said. Certainly we're not happy delivering that kind of decline in the quarter. However, it was in line with our expectations, as we anticipated that based on order book and what we are seeing a year ago or a little less than a year ago with the order book. But that said, as Matt said, we believe we can execute better and deliver better on our potential.

Overall, the indicators on the brand remain strong. I think I said at Investor Day consumers were really the piece that we needed to put at the front of our decision-making, and we're still seeing stable consideration, strong sentiment scores. Matt referenced our loyalty program. It's two times the size of two years ago. So that part of it is solid.

As you asked about specifically, the green shoots and product, that really is where I put my first attention because product in this footwear and apparel space is such a long lead time issue. And the new intros are working well. So things that we address around style, newness, versatility, comfort, which is what we had been hearing from our consumers but not responding adequately enough to, are starting to come to fruition with the product that we're bringing out like the Knu Skool, like the [ph] Lowland, like the Mary Jane (00:38:21). Those are nice green shoots. They're still small at this point and not enough to offset the decline we've seen in Classics. However, the work we're doing in the background to bring bigger stories for the market faster that will deliver more results we still feel really confident in.

And then as Matt referenced, really leaning into expanding our franchises. I think in the past our focus on Classics was so big that it distorted our opportunities, and what we're doing with things like the UltraRange and the MTE growing it double digits, UltraRange I think 13% for the quarter, MTE at 39% for the quarter, that's really where we

believe there's a lot more opportunity to broaden our product [ph] meeting (00:39:03). So those are particularly important. Matt referenced launching Pinnacle, and you'll start to see that in spring when the line first really comes to market.

And then we have been continuing to work on consumer and getting really deep into understanding our segmentation study, integrating consumer data and analytics into everything we do, et cetera. So those are really our big priorities. However, we still believe execution is the opportunity, and what we're doing with SKU reduction of 20% to 30% that will be completed in August in our US stores. That changes store layouts, simplifies the shopping experience for consumers, but still delivers on the business we want to see.

Overall, I think the things we said we were going to focus on are really working.

Jay Sole

Analyst, UBS Securities LLC

Q

Got it. Thank you so much. That's very helpful.

Kevin D. Bailey

Global President of Vans, VF Corp.

A

Absolutely.

Operator: Thank you. Our next questions come from the line of Jonathan Komp with Baird. Please proceed with your questions.

Jonathan R. Komp

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

Q

Yeah. Hi. Thank you. Welcome, Bracken. Just maybe one follow-up, if I could. Your initial intuition just on the timeline to turn around any of the brands that are in focus or implement some changes, just curious to get your thoughts there. And just more of a broader question. You're obviously inheriting the financial plan for this year, but any thought to essentially a broader reset that would enable you to really accelerate some of the investments in the different areas of the business?

Bracken P. Darrell

President, Chief Executive Officer & Director, VF Corp.

A

Yeah. As I said, it's a little too early for me to respond to either one of those. But what I would say is I said earlier that I felt right at home. The one or two things that I feel most excited about coming in here are, one, the brands are even stronger than I expected, and it's nice to see. I knew we had strong brands, but as I've gone through it, I feel really good about the brand equities and the potential of each brand. And the people here are really strong.

So I'm super optimistic. I'm 12 days in, so I'm not ready to start talking about what we're going to do next, but I'm really excited about being here. And I promise you I won't evade your questions next quarter.

Jonathan R. Komp

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

Q

Understood, and appreciate that. Thank you. Matt, if I could follow up then on the DTC assumption for the year, I think constant currency was down slightly for the quarter. Can you just give us more insight what you're planning

for the year and especially for the Vans business what's needed in the second half in order to hit the guidance here?

Matthew H. Puckett

Chief Financial Officer & Executive Vice President, VF Corp.

A

Yeah. Certainly. The DTC was slightly negative in the quarter. Of course, it's a smaller DTC quarter for us. Vans is a bigger part of the quarter, bigger part of the total in the quarter even if the business had been declining especially relative to the outdoor businesses that are certainly much more weighted toward the latter part of the year. So there's that going on.

If you look at kind of the underlying kind of carve out Vans, which obviously we've talked a lot about, the DTC results in Q1 I think were up 7% for total VF. And I don't think, I know. They were up 7% in Q1, which is kind of in line with where we've been. And if you think about it across the year, that's kind of the range that we're looking at from a DTC perspective and growth across all regions. And certainly expecting to see growth in the Vans DTC business as we move through the year. And we talked about at some point in the year, seeing in the back half of the year seeing the Vans business begin to grow. That's certainly going to be driven by the direct-to-consumer business.

Now, all of that is also impacted by the comps and the compares, right. The compares get certainly quite a bit easier for Vans in particular but for some of our other brands as well as we move through the year. So DTC will be a growth driver for us for the year. It will grow across regions, and generally expect it to grow across brands.

Jonathan R. Komp

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

Q

That's helpful color. Much appreciated. Thank you.

Matthew H. Puckett

Chief Financial Officer & Executive Vice President, VF Corp.

A

Yeah. Thank you.

Operator: Thank you. Our next questions come from the line of Brooke Roach with Goldman Sachs. Please proceed with your questions.

Brooke Roach

Analyst, Goldman Sachs & Co. LLC

Q

Good afternoon, and thank you so much for taking our question. Bracken, welcome.

Bracken P. Darrell

President, Chief Executive Officer & Director, VF Corp.

A

Thank you.

Brooke Roach

Analyst, Goldman Sachs & Co. LLC

Q

My question is for Matt. And I just wanted to have one quick follow-up on the Vans business. I'm curious what you're seeing in Vans China and the brand equity that you're seeing in that region as the market continues to

reopen. APAC this quarter was down a couple of percent in constant currency. How is that brand trending there? What are the initiatives there? And what's embedded in the China outlook for the Vans brand into the back half?

And then maybe for Kevin, as you think about Vans America and the challenge that you're seeing in Classics relative to the green shoots that you're seeing in some of the new product lines, is there any stabilization in trend in Classics sell-through relative to where it had been trending as a result of some of these new initiatives that you've been implementing? Thank you.

Matthew H. Puckett

Chief Financial Officer & Executive Vice President, VF Corp.

A

Hi, Brooke. Nice to speak with you. I'll take a little bit there and Kevin, but I'm actually also going to ask Martino to chime in here because I know he was actually on the ground in China in the last few weeks and spent time with the team there and certainly looking across all the brands. And he's got his pulse on that, so I think it'd be interesting – certainly, you'd be interested to hear his perspective on Vans in China.

We certainly are seeing the business – we saw growth in Vans in China in the quarter, so clearly we're in a better place there in terms of the inventory reset that's been underway. So we're cautiously optimistic that we're in a place where we'll continue to see good results coming out of that region as we move forward across the year.

Overall in APAC, Korea has been weaker for us, and Vans is one of our bigger businesses in Korea. Korea has been more challenged. But we're in a better place I think today with Vans in the region, particularly in China than we were six months ago.

Martino, anything about what you want to say about what's happening on the ground with the team?

Martino Scabbia Guerrini

Executive Vice President, and President of EMEA, APAC and Emerging Brands, VF Corp.

A

Yeah. Thanks, Matt. Hello, Brooke. I think, first of all, we see China in a positive, right. So Q1 was up in the high-single digits for Vans in China, which is good news. And I think when I was there a couple of weeks ago, what I started to see is really as China reopens a very strong engagement from consumers in stores beyond online. And don't forget that we're still underpenetrated in China. We targeted a growth consumer demographic there, so with the growing emerging middle class, and that's a big opportunity.

And at the same time, as we go back in store and launch new products, we also drive local for local products and storytelling. So the asset will also benefit from a stronger – for Vans in particular from a stronger local execution and the recent [indiscernible] (00:46:05) design center that we invested in and created in [indiscernible] (00:46:09) actually to design and influence across China, and Asia is going to drop new products also for Vans particularly in the second half of the year. So overall the sentiment in China is turning positive as the country reopens, and Vans is part of that.

And, Kevin, maybe you want to add something from the specific brand side?

Kevin D. Bailey

Global President of Vans, VF Corp.

A

Yeah. I can just add on China, Brooke, and then I can talk specifically to Classics that you asked about. I think Martino hit a lot of it. Localization is really key. China being our newest market, we have to really build Classics for

the consumer understanding of the brand. However, they have a very specific ask, and as Martino said, we're leaning into localization to bring what they want from our product to the market.

I'd also say they recovered really quick from COVID on inventories with our partner stores, and that really has given us the opportunity to start moving faster and, as Martino said, achieve the kind of growth we're seeing in China through DTC.

And the last thing I'd really say there is really about skate. Skateboarding has taken on a real life in China as that's starting to grow. And the team ran a really strong Go Skateboarding Day and we're really leading there. We set up a skate school with one of the big digital players. So the team there is doing a lot. Canvas is still not on trend from the search trends, but we're feeling good about where China is and how it's growing. We see a lot more opportunity.

To get to your question on Americas and stabilization on Classics, I think I said it at Investor Day. We became over-reliant on Classics and in particular on really just a couple of styles. And that really was a big piece of our underperformance and that we didn't have a strong product pipeline behind it. So what you see in these green shoots, albeit small right now, are the opportunity to start building franchises beyond Classics.

So our focus really is, to your point on stabilization, is just that. Stabilize our Classics business, bring style iterations to the market around Classics which is where we're seeing success with our wholesale partners and our consumers who want newness, but build more and more the product propositions around Classics that are adjacent but relevant and give us a greater opportunity to diversify our product pipeline to the consumers.

So stabilization of Classics is absolutely critical. As far as seeing it yet, not really yet because of the amount of product that was in the marketplace.

Brooke Roach

Analyst, Goldman Sachs & Co. LLC

Q

Thank you.

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

Ike Boruchow

Analyst, Wells Fargo Securities LLC

Q

Hey. Thanks for taking the question. Matt, maybe can you just help me with two questions? First on Dickies, the decline you saw in the quarter, just how surprising was that versus your plan? Can you talk a little bit more about what's going in from a selling perspective to the mass channel over the last couple months? And then is there any update on the PACS business? Is this still something that you guys are expecting to divest at some point this year? Just kind of looking for an update there. Thanks.

Matthew H. Puckett

Chief Financial Officer & Executive Vice President, VF Corp.

A

Yeah. Thanks, Ike. I do think I get to take both of those. As with Dickies was disappointing in the quarter, didn't meet our expectations, just to be frank. The business continues to be impacted by soft results in the Americas and in that work channel. Sell-through has fallen short of expectations. I think we continue to see kind of outsized

impacts from some of the challenges in the marketplace that are impacting that value in consumer a little more so than what we're seeing in other parts of our business.

If there's a bright spot to some degree, our inventory positions are now in a pretty good place, in particular our largest account. They're in a better place. And if sell-through improves across the pad and certainly for us, for Dickies, we're in a position that we can capitalize on that and we'll see a nice replenishment, a pop at some stage. But to date the underlying sell-through has continued to be short of our expectations.

Europe continues to grow. I think that's another thing and driven by the lifestyle part of the business. That's been important to us. But ultimately, we've got work to do here to improve that basic work business in the US and ensure we're driving that business effectively. And so that's a big focus of the team today.

As it relates to PACS, first off the business continues to perform well. If anything, it's a little bit better in Q1 than we anticipated. And it's set up for a really good back-to-school. I remember we grew the top line nicely last year across the year top and bottom line, and that continued into Q1. These brands continue to kind of have momentum and benefit from consumer trends, but I'd be remiss if I didn't say how happy and proud I am of the team and the work that they're doing. Not easy environment when what's going on around them with all the conversation that you ask about is happening, and they continue to do amazing work in that regard. So really impressed by what's happening there.

The process is continuing. It takes time. There's a lot of interest. We're progressing discussions with a number of parties, and we'll be disciplined in the dealmaking especially in light of where the business is. The results are good. We're generating good growth. We're generating strengthening EBITDA and acknowledging where the capital markets are today. We're just not going to accept the valuation we're not comfortable with. And until we find the right buyer for these brands at a valuation that we're happy with, we'll continue to be very discerning. So that's kind of the update I'd give you there.

Ike Boruchow

Analyst, Wells Fargo Securities LLC

Q

Thanks, Matt. And just one more quick one. On Vans in the back half, I know you've been asked this three different ways, but I believe in May you had said you expected to return to growth in the back half. And I believe your comments today were moderate the declines. Do you expect Vans to be growing in any quarter this year, or should we now start to think about next year when the business potentially inflects the top line?

Matthew H. Puckett

Chief Financial Officer & Executive Vice President, VF Corp.

A

Yeah, Ike. In May, we did not – at least certainly not our intention. We did not indicate that we were projecting growth in the back half of the year. What we said consistently and I think we're still saying today is that we expect to see the business return to growth at some point later this year, inflect to growth. And we haven't been specific on exactly when that is or kind of what the order of magnitude of that is, but that's what we said.

Ike Boruchow

Analyst, Wells Fargo Securities LLC

Q

Got it. Thank you.

Operator: Thank you. Our next questions come from the line of John Kernan with TD Cowen. Please proceed with your questions.

John Kernan

Analyst, TD Cowen

Q

Excellent. Thanks for taking my question. Matt, just on the capital structure, how are you approaching capital allocation, the dividend commitment, the debt refinancing? And you obviously have the potential sale of the backpack business if valuations get better there. How should we think about debt pay-downs, dividends, and overall capital allocations going forward?

Matthew H. Puckett

Chief Financial Officer & Executive Vice President, VF Corp.

A

Yeah. I would say nothing has really changed from our stance on this over the last couple of quarters and certainly on the back of the cut in the dividend that we made a couple quarters ago. We're focused on ensuring we've got the investments in the capital allocated to our organic portfolio that's necessary to kind of drive the growth that we're planning in that business over time. So big focus there for sure that we're not choking the business, and we're not.

As it relates to free cash flow, certainly dividend is something that we remain committed to at our target, right, and our target is about a 50% payout. And that's kind of what we're targeting, and we're in line with that, we think, this year, and kind of even if you look at it in terms of the percent of whether it's net income or free cash flow, kind of both.

And then after that, I would tell you that all excess free cash flow we are using to pay down debt, and reducing debt is our number one financial priority. I think I made that clear in the prepared comments, and that remains consistent. So as we think about the choices that we're making from a capital allocation, everything is really through the lens of keeping our balance sheet which really goes to reducing debt and reducing leverage. And that's our primary focus.

John Kernan

Analyst, TD Cowen

Q

Understood. That's helpful. Maybe just one quick follow-up for Kevin. Specifically on Vans, I mean we see the pressure in the US wholesale channel across a lot of brands at this point. Just curious. When do you think open to buy dollars and maybe more risk appetite within that US wholesale channel might start? Is it spring/summer next year? On the calendar when you start to look at the business, how do we think about the recovery in that US wholesale channel?

Kevin D. Bailey

Global President of Vans, VF Corp.

A

Yeah, John. That's a good question. I think that's the way we're thinking about it, is the opportunity as we get into the back half of this year. What we're hearing from retailers, as you see all their reports as well, inventory traffic, promotions all affecting business in general. We've been focused on marketplace cleanup, marketplace execution, getting the newer product in their hands, because that's what consumers are asking for.

So I think we still believe that's going to happen as we get into the back half of this fiscal year for us. And I've got to believe that things should start to stabilize in the marketplace as we turn the corner into spring/summer next year. But as Matt said, the order of magnitude is always – is a little hard right now given where wholesale is.

John Kernan

Analyst, TD Cowen

Q

All right. Thanks, everybody. And, Bracken, welcome.

Bracken P. Darrell

President, Chief Executive Officer & Director, VF Corp.

A

Thank you.

Operator: Thank you. Our final questions will come from the line of Adrienne Yih with Barclays. Please proceed with your questions.

Adrienne Yih

Analyst, Barclays Capital, Inc.

Q

Great. Thank you very much. And nice to meet you, Bracken, as well.

Bracken P. Darrell

President, Chief Executive Officer & Director, VF Corp.

A

Mee too.

Adrienne Yih

Analyst, Barclays Capital, Inc.

Q

Yeah. Thanks. So, Matt, for you, I guess I'm still a little confused, and I may just be not interpreting the comments correctly. On the gross margin for the quarter, so there was a benefit from the mix of 80 basis points, but how did the freight and the promotions come through the P&L in Q1? And then how should we think about the shaping of that for the rest of the quarters knowing that freight is going to turn into a tailwind? That's number one.

And then number two, can you talk about TNF and the timing? So you made a comment that last year Q2 you couldn't ship, and then I think didn't have a lot of inventory, and then you did ship in the third quarter. Q1 is your smallest quarter. So I'm just trying to figure out how we should think about kind of the ebbs and flows of year-on-year changes in the TNF wholesale business? Thank you.

Matthew H. Puckett

Chief Financial Officer & Executive Vice President, VF Corp.

A

Yeah. Thanks, Adrienne. So gross margin, I think you've got it in terms of Q1. Nice mix benefit, 80 basis points, offset by a couple hundred basis points of negative rate, which is about evenly split between promotions and FX. Product costs were a bit of a negative, but that was largely offset by pricing. And to your point, I think the point that I made, product costs are easing as we move through the year on the back of freight in particular and, eventually, we think become a modest tailwind certainly in the back half of the year. That's how I'd characterize that.

As it relates to The North Face, and I may ask Nicole to chime in here on a couple things really around just kind of where we are and the trajectory of things. But yeah. There's some timing issues a little bit between Q2 and Q3 that we'll navigate. Last year we were late shipping, and so we shipped a little bit more in Q3 versus Q2 than we might normally ship. And the good news is we're positioned this year to ship in a more optimal way, which we'll work our way through what that means in terms of the results as we get there. But most importantly, it positions us to be on the floor and have those floor sets for fall to maximize full price selling.

So anything to add there, Nicole?

Nicole Beth Otto

Global Brand President of The North Face, The North Face, Inc.

A

I just think we had a little bit of a timing issue between Q2 and Q1 in our results. But, as you said, we really are going to monitor our operational and sell-through performance as we look at Q2 and Q3 together and normalize over the two quarters, really trying to hit those key dates for back-to-school and holiday floor sets with our partners and of course with our DTC business.

Adrienne Yih

Analyst, Barclays Capital, Inc.

Q

Okay. Super helpful. Thank you very much. Best of luck.

Nicole Beth Otto

Global Brand President of The North Face, The North Face, Inc.

A

Thank you.

Operator: Thank you. We have reached the end of our question-and-answer session. And with that, that does conclude today's teleconference. We appreciate your participation. You may disconnect your lines at this time. Enjoy the rest of your day.

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.