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# VF Corp. (VFC)

Q4 2016 Earnings Call

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*Chairman, VF Corp.*

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*Vice President & Group President, International, VF Corp.*

**Scott A. Roe**

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good day and welcome to the VF Corporation Fourth Quarter 2016 Earnings Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Joe Alkire, VP of Investor Relations. Please go ahead.

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### Joe Alkire

*VP-Investor Relations, Planning & Analysis, VF Corp.*

Thank you. Good morning and welcome to VF Corporation's fourth quarter 2016 conference call. I'd like to remind everyone that participants on the 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 that our participants refer to on today's call will be predominantly in adjusted and currency neutral terms, which we defined in the press release that was issued this morning. We use adjusted and currency neutral amounts as lead numbers in our discussion, because we feel they more accurately represent the true operational performance and underlying results of our business.

You may also hear us refer to reported amounts, which are in accordance with U.S. GAAP. Reconciliations of GAAP measures to adjusted and currency neutral 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 third quarter of 2016, we announced that we had completed the sale of our Contemporary Brands coalition. Accordingly, the operating results, assets and liabilities of the Contemporary Brands businesses were moved into discontinued operations, and results presented on today's call are based on continuing operations.

Joining me on today's call will be VF's Executive Chairman, Eric Wiseman; President and CEO, Steve Rendle, President of our international business, Karl Heinz Salzburger, and our CFO, Scott Roe. Following our prepared remarks, we'll open the call for questions. Eric?

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### Eric C. Wiseman

*Chairman, VF Corp.*

Thanks, Joe. Good morning, everyone. On January 1, after 21 years at VF and nine years as CEO, I moved into the role of Executive Chairman of the board. At the same time, Steve became our President and CEO. In light of our new roles and this transition, and consistent with how we worked together for years, Steve and I are going to tag team today's call. I'll provide an overview of our 2016 results, and Steve, Karl Heinz and Scott will provide you with greater detail about the year and the company's point of view as we move into 2017.

So, here are the highlights of 2016. Revenue at \$12 billion was up 1%, and importantly, the quality of our sales improved versus a year ago. Our international business remains strong, despite significant currency pressures, with international revenue up 6%, including double-digit growth in the non-U.S. Americas and in China. Our direct-to-consumer business continued its strong momentum, with growth of 9%, including more than 20% growth in e-commerce and double-digit increases in our Outdoor & Action Sports and international.

Vans became VF's largest brand, as revenue growth around the world continued. For the full-year, Vans was up a solid 7%, with growth accelerating throughout the year, reaching 15% in the fourth quarter. Gross margin, a key measure for us, improved 120 basis points to 49.4%, including record fourth quarter performance. And in line with our expectations, earnings per share was up 7%.

And while the environment in the U.S. was characterized by ongoing channel disruption in several high profile bankruptcies, VF's global business model and diverse brand portfolio enabled the company to deliver solid results during the year, including cash flow reaching \$1.5 billion, returning \$1.6 billion to shareholders, and demonstrating our operational excellence by keeping inventories in check.

At VF, our fundamentals are strong and our ability to win with consumers is unchanged. And while segments of our wholesale business in North America struggled in 2016, our global direct-to-consumer business and our business outside the U.S. remained strong. We're taking steps to address our challenges in North America, while sustaining the global business model that will continue to create and deliver near and long-term value.

Now before turning the call over to the team, I want to thank them for making my time in the CEO's chair everything I'd hoped it would be. While there are many things that I'm proud of, there's nothing I'm more proud of, we're confident in, in this leadership team. The company is in very capable hands.

Steve, my friend, with that I literally turn it over to you.

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## Steven E. Rendle

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

Thanks, Eric. It's clear that the pace of change in both our industry and the broader consumer landscape is happening at an accelerated rate. As we look ahead to 2017 and beyond, we will be an agile and consumer-centric organization. We will embed more of our value creating capabilities directly adjacent to our brands, while supporting cross-enterprise efforts with the right balance of brand-based and centralized teams and resources.

Looking to 2017, we will focus on Vans, The North Face, and Timberland. We expect their collective growth rate will be in the high single-digit rate. We will demonstrate a special focus on reigniting growth in our North Face and Timberland brands in the Americas. And we expect that in 2017 international growth rates in Europe and Asia will nearly double, as we distort our capital investments toward our largest and most profitable growth opportunities, with a particular focus on China.

In the months ahead, we will capitalize on and leverage our collective confidence in workwear across VF. This is a catalyst for growth as we see strengthening of the industrial sector and increased spending on infrastructure. Given our strong performance in e-commerce and to fuel accelerated growth, we will meaningfully invest in digital as part of our global focus on direct-to-consumer, and we will amplify our investments in the design of products to enrich the consumer brand experience.

And to a question that is likely on your mind, yes, we remain committed to being an active brand portfolio manager, and we will continue to focus on M&A to create value. That being said, we will be disciplined and we will not take action simply for the sake of taking action. And, of course, the quality of our talent matters. We will leverage VF's deep bench of global talent by placing proven leaders in the right jobs, at the right time, in the right place.

So with that, let's move to a more detailed discussion of our brands performance in 2016, first the Outdoor & Action Sports coalition. Revenue was up 2% during the quarter, which was slightly below the outlook we provided

last October. The shortfall was due in part to our strategic decision to ship less North Face product into the off-price channel in the Americas. While this decision came at the cost of reported revenue and earnings growth in 2016, we believe it was the right decision for the long-term health of our brand. As a result of these actions, coupled with retailer caution, channel inventories are well-positioned heading into 2017.

During the quarter, our D2C and international platforms remained strong, with revenue growth in the mid-teens. Wholesale revenue decreased at a high single-digit rate, as low single-digit growth in our international business was more than offset by a mid-teen decline in the Americas, due primarily to the inventory actions just mentioned.

Moving to our brands, I'll begin with The North Face. Global revenue was down 7% during the quarter, with a mid-teen increase in D2C, offset by more than a 20% decline in wholesale. And excluding the specific inventory actions we mentioned earlier and the impact of bankruptcies, global revenue would have increased at a low single-digit rate, with a significant improvement in the quality of sales.

In the Americas, revenue was down at a low double-digit rate during the quarter, with a low double-digit D2C growth, offset by a 30% decline in wholesale, mostly due to the inventory actions and the impact of bankruptcies previously mentioned. As many of you are aware, the fall/winter season got off to a slow start in October and November. Performance improved in December, and that trend has continued into January.

I want to take a minute to explain the \$80 million impairment charge to the Lucy brand. This was a direct result of our decision to merge the Lucy women's product engine with that of The North Face brand. During the course of 2017, we will wind down the operations of our Lucy business, and beginning in 2018 Lucy product will be positioned in The North Face brand as part of the Mountain Athletics collection.

Lucy has developed tremendous customer loyalty by delivering exceptional product in a very attractive consumer segment. However, brand awareness is low, the trademark is limited to North America, and the performance has been uneven over the last few years. We believe the combination of Lucy's strong product portfolio with The North Face's brand awareness and distribution network is just the right catalyst to accelerate our TNF Mountain Athletics growth rate over the next several years. It's a great example of our One VF approach to active portfolio management.

Now I'll pass it on to Karl Heinz, who will provide The North Face details in Europe and Asia.

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## Karl Heinz Salzburger

*Vice President & Group President, International, VF Corp.*

Our North Face business in Europe had another strong quarter, with revenue up at a high teen rate, driven by an almost 30% increase in DTC and a low double-digit increase in our wholesale business. Growth was balanced across geographies, channels, and product categories.

The work the European team did two years ago to reset the model has put the brand on a strong path. We will apply those learnings to accelerate growth in the Americas. In Asia, fourth quarter revenue was down at a mid-single-digit rate. Our retail business had low double-digit growth, which was offset by more than 20% decline in wholesale.

The quarter was weaker than expected, as the outdoor environment remained highly promotional in China. We are consolidating our retail partners, more aggressively managing inventory in the marketplace, and elevating our distribution in the region. While this shift will cause early 2017 performance to be relatively flat, we expect strong momentum to return in the second half of 2017.

To wrap up The North Face, revenues for the year were down 1% globally in 2016 to \$2.3 billion. Excluding the inventory actions and the impact of bankruptcies, The North Face was up at a low single-digit rate. For 2017, we expect revenue growth in the mid-single-digit range, up mid-teens in Europe, and a mid-single-digit increase in the Americas and Asia.

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## Steven E. Rendle

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

Switching to Vans, VF's largest brand and our fastest growing brand in 2016 and during the fourth quarter, up 7% and 15%, respectively. It proved to be a terrific outcome, as we celebrated Vans' 50th anniversary year. The brand's continued success in a very inconsistent retail environment is impressive and clearly demonstrates the deep understanding the Vans team has of its consumer. Congratulations to the Vans team across the globe on a job really well done.

For the quarter, Vans America's growth was balanced across the region and channels. Our strong momentum continued with 17% growth, including more than 20% growth in D2C and low single-digit growth in wholesale. D2C comps were up at a high teen rate, including 40% growth in our e-commerce business.

Looking at product, our All Weather MTE collection, which is designed for the elements and leverages Vans as a four-season brand, doubled its revenue compared with last year. And Vans upgraded custom footwear platform, which allows consumers to create their own unique Vans shoes through patterns, colors and the ability to upload their own art, is off to a strong start.

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## Karl Heinz Salzburger

*Vice President & Group President, International, VF Corp.*

As expected, Vans European business returned to growth during the quarter and was up at a low single-digit rate. Our DTC business remains strong, with more than 20% revenue growth. Wholesale declined at a mid-single-digit rate, as inventory levels in the channel continued to moderate. We saw a significant increase in sell-through in our iconic silhouettes, and our Toy Story collaboration was a big success. Now that inventory levels have normalized, we expect high-single-digit growth in 2017 from Vans in Europe.

In Asia, Vans revenue continued to impress, with more than 25% growth. This was fueled by almost 50% growth in DTC and a low teen increase in our wholesale business. E-commerce was particularly strong in China. Key product stories, such as the Toy Story collaboration, sold out almost immediately.

In 2016, Vans global revenue was up 7% to \$2.3 billion, exactly in line with our expectations. Looking at 2017, we expect Vans revenues to increase at a low double-digit rate, driven by a high single-digit increase in both the Americas and Europe, and up high teens in Asia.

Now on to Timberland.

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## Steven E. Rendle

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

For the quarter, Timberland global revenue increased at a mid-double-digit rate, which was squarely in line with our expectations. This result was driven by a low double-digit increase in D2C and a low single-digit growth in wholesale. Revenue in the Americas increased at a low single-digit rate, including a low double-digit increase in our D2C business, which was partially offset by a low single-digit decline in wholesale.

Similar to The North Face, our core brand business was impacted by a slow start to the season, excess inventory in the marketplace, bankruptcies and overall retailer caution. We were pleased to see momentum in our D2C business in Q4, our biggest quarter of the year, highlighted by continued traction with our new SensorFlex platform and limited release programs. Timberland PRO increased at a high single-digit rate, as we saw improvement in the industrial sector.

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## Karl Heinz Salzburger

*Vice President & Group President, International, VF Corp.*

Timberland revenue in Europe was strong, with revenue up at a low double-digit rate, with high teen growth in DTC and mid-single-digit growth in wholesale. DTC saw strength from SensorFlex, which doubled in size in the quarter. In our apparel category, we saw a 20% increase sparked by winter outerwear and sportswear collections. And finally, our Classic and six-inch boots sold in record numbers, driven by The Original Yellow Boot campaign, which celebrated Timberland's heritage.

Revenue in Timberland's Asia business was up at a mid-single-digit rate, lifted by a high teen increase in our wholesale business. DTC declined at a mid-single-digit rate, as strong e-commerce growth was offset by softness in the Hong Kong and Japan markets.

In 2016, Timberland revenue was up 1% globally to \$1.8 billion, in line with expectations. As we look to 2017, we expect Timberland to grow in the low single-digit range, with mid-single-digit growth in Europe and Asia and modest growth in the Americas. And given the improvement in the U.S. industrial sector, we expect our Timberland PRO business to increase at a mid-single-digit rate.

Now on to Jeanswear.

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## Steven E. Rendle

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

Our global Jeanswear business declined 4% during the quarter, as low single-digit growth for Wrangler was offset by a low double-digit decline for the Lee brand. On a global basis, low double-digit growth in D2C was more than offset by a mid-single-digit decline in wholesale.

In the Americas, Wrangler increased at a low single-digit rate, offset by a high-teen decline in Lee. Slower than expected traffic in the mass and mid-tier channels, combined with aggressive retail inventory management from key retail partners, drove softness during the quarter. Given market dynamics, we expect continued disruption and repositioning in these channels in the near-term, and we expect more moderate growth during the course of 2017. Our brands remain strong and we are focused on leveraging the growth opportunities in front of us.

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## Karl Heinz Salzburger

*Vice President & Group President, International, VF Corp.*

In Europe, Jeanswear was up low single digits, with low double-digit growth in Lee, which was partially offset by a mid-single-digit decline in Wrangler, primarily related to the timing of shipments. In Lee, the Scarlett for women and denim for men continue to be strong drivers. In Wrangler, the brand is showing positive momentum with new product initiatives, including our 70th anniversary Retro Glory capsule, a first-ever global collection.

In Asia, Lee was about flat during the quarter and Wrangler declined at the high teen rate. Both Lee and Wrangler's results in the region were impacted by the uncertainty related to currency issues in India. We saw

strength in China, in particular in e-commerce. Revenue for the women's business increased more than 25%, [indiscernible] (17:46) BODY OPTIX

For the year Jeanswear revenue was in line with 2015, with low single-digit growth in Wrangler offset by a low single-digit decline in Lee. For 2017, given channel headwinds in the Americas, we expect Jeanswear revenue to be in line with 2016, as low single-digit growth in Europe and Asia is offset by a modest decline in the Americas.

Now to Imagewear.

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## Steven E. Rendle

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

Imagewear revenue grew 15% during the fourth quarter of 2016, driven by a more than 20% increase in our licensed sports goods business and a mid-single-digit increase in workwear. LSG had a record year, thanks to the Cubs snapping their 108-year World Series drought and, as expected, workwear returned to growth this quarter, posting a mid-single-digit increase on the heels of improving industrial sector fundamentals.

We are increasingly optimistic about the growth opportunity of VF's most capital-efficient business as we head into 2017. For the year, Imagewear increased 2% to \$1.1 billion, in line with our outlook. For 2017, we expect revenue for the Imagewear coalition to increase at a low single-digit rate, driven by the workwear business.

Our Sportswear business was down 17% in the quarter due to weakness in both wholesale and D2C. Revenue at Nautica was down 20%. However, adjusting for the strategic decision to license the women's sleepwear and men's underwear business, the brand was down 14%. The brand continues to grapple with significant pressure in the department store channel.

Kipling's North America business was down 2% due to similar category and channel pressures. Kipling's international business was up 7% and globally the Kipling brand achieved mid-single-digit growth. For 2017, we're expecting revenue to decline at a high single-digit rate for this coalition, principally associated with the channel pressures faced by the Nautica brand.

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

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## Scott A. Roe

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

Thanks, Steve. Before I dive into the results, let me provide some context around the unusual items that impacted our fourth quarter. First, as outlined in the news release, we took an \$80 million pre-tax non-cash impairment charge to reduce the carrying value of the intangible assets related to the Lucy brand. This was a direct result of our decision to merge the Lucy women's product engine with that of The North Face brand, as Steve mentioned earlier.

During the fourth quarter, we also incurred \$58 million of pre-tax restructuring charges. In light of the divestiture of Contemporary Brands, the ongoing strategic review of our LSG business, and the Lucy initiative just mentioned, we are realigning our cost structure. In totality, these actions will allow us to operate with increased efficiency, speed and agility, and set the foundation for even greater leverage of our platforms going forward.

Lastly, we elected to take a \$51 million pre-tax non-cash pension settlement charge during the quarter in order to reduce the size and volatility of our U.S. pension plan, which has been closed to new participants since 2005. The



company offered former employees an option to receive a lump sum distribution of their vested benefits paid out of planned assets. This action reduced our total pension liability by \$225 million. The pension was fully funded as of December 31, 2016.

So now with that behind us, let's take a look at our fourth quarter results. I will focus on adjusted results excluding the unusual items just mentioned.

Revenue was up 1% on a currency-neutral basis to \$3.3 billion. While this was a little below expectations, the quality of the business has improved dramatically as compared to a year ago. We are acutely focused on the fundamentals. Gross margin is up. Cash flow is strong. Inventory is under control, up less than 1% versus last year. These facts give us confidence that the actions we're taking to improve and protect the long-term health of our brands, our channel, and our business model are beginning to show progress.

Direct-to-consumer revenue was up 12%, including a mid-teen increase in the Outdoor & Action Sports and a low double-digit increase in Jeanswear. Our international D2C business was particularly strong, with a mid-teen increase during the quarter. Wholesale revenue was down at a mid-single-digit rate in the quarter due primarily to inventory actions and the impact of bankruptcies and difficult conditions in the Jeanswear business in North America. And on a geographic basis, the Americas was down 2%, EMEA up 7%, Asia was up 8%, including low double-digit growth in China.

Gross margin on an adjusted basis was especially strong, 49.8%, up 160 basis points, which included a 90 basis point negative impact from changes in foreign currency. This was a record outcome for the quarter. Our gross margin drivers remain intact and, while inventory actions that we outlined cost us a little bit of revenue and earnings growth during the quarter, we are clearly benefiting at the gross margin line from the higher full price sell-through, as evidenced by almost 250 basis point increase in gross margin on a currency-neutral basis.

SG&A as a percentage of revenue was up 250 basis points on an adjusted basis to 34.5%. While we remain diligent with respect to overall expense control in light of the growth environment, we continue to distort investment toward our strategic priorities, digital and stores, product innovation, demand creation, and technology.

Fourth quarter adjusted operating margin declined 90 basis points to 15.3%, the majority of which was due to a 60 basis point negative impact from FX. So now carrying all this to the bottom line, our adjusted EPS grew 8% on a currency-neutral basis to \$0.97 in the quarter. That's in line with the outlook we provided in October after you consider the impact from FX, as the dollar continued to strengthen throughout the quarter.

To recap the full year, 2016 grew 1% on a currency-neutral basis, driven by 6% growth in our international business and 9% growth in D2C. This was despite the impact of bankruptcies and reduced sales to the off-price channel compared with 2015. These two actions alone accounted for almost 2% of top-line growth.

Adjusted gross margin was up 40 basis points to 48.6%, including an 80 basis point headwind from changes in foreign currency. Our gross margin improvement was driven primarily by a 50 basis point benefit due to mix shift toward our highest margin businesses, as the expected benefit from lower product cost and price was essentially offset by the negative impact of foreign currency.

SG&A for the year was up 130 basis points, as we continue to balance appropriate short-term expense control with investments in our long-term growth priorities. Full year adjusted operating margin was 14%, compared to 14.9% in 2015, and includes a 50 basis point headwind from changes in FX.

So that brings us to a full year adjusted EPS, which was \$3.11, a 7% increase over 2015 on a currency-neutral basis. And we ended the year with a strong balance sheet and a capital structure that continues to provide us with great flexibility. Our strong operational discipline was on display, as we ended the year with less than 1% inventory growth. In 2016, we generated almost \$1.5 billion in cash from ops and returned more than \$1.6 billion to shareholders through dividends and share repurchases.

So now turning to 2017 outlook. We expect full year reported revenue to be up at a low single-digit rate, including about a 2 percentage point negative impact from foreign currency. By coalition, on a currency-neutral basis, Outdoor & Action Sports is expected to increase at a mid-single-digit rate, with Vans up low double digits, The North Face up mid-single digits, and Timberland up low single digits.

Jeanswear revenue is expected to be about flat, with low single-digit growth in Wrangler and Lee international. Imagewear revenue is expected to increase at a low single-digit rate and Sportswear is expected to decline at a high single-digit rate. Building on a strong 2016 performance, we expect accelerated growth in the international business, up at a high single-digit rate on a currency-neutral basis.

By region, in Europe, we expect a high single-digit increase in revenue. In our Asia region, revenue should be up at a high single-digit percentage rate, including low double-digit growth in China. And in our Americas non-U.S. business, we're expecting revenue to grow at a low teen percentage rate.

Our D2C business is expected to be up at a high single-digit rate on a currency neutral basis. For the year, we expect to add approximately 50 stores. Comp sales growth is expected to be in the mid-single-digit range, including more than 25% growth in e-commerce. We expect our reported gross margin to approximate 2016 levels at about 48.6%. Changes in foreign currency are expected to negatively impact our gross margin rate by about 70 basis points. Excluding the impact of FX, our gross margin improvement is primarily mix related, as we anticipate a relatively stable product cost environment for the balance of 2017.

Our operating margin is expected to remain relatively flat on a currency-neutral basis at approximately 14%, as our gross margin improvement is partially offset by continued investments in our strategic growth priorities, those being digital and stores, demand and product creation, and innovation. We expect our tax rate to be in the low 20% range. And moving to the bottom-line, we expect currency-neutral EPS to be up at a mid-single-digit range in 2017, or down at a low single-digit rate compared to 2016 adjusted EPS of \$3.11.

With respect to the first half outlook, we expect first half 2017 earnings per share to decline at a mid-single-digit rate on a reported basis, up low single digits currency-neutral. As a reminder, the first quarter of 2016 benefited from about \$0.05 of earnings per share due to discrete tax items, the majority of which related to the early adoption of the accounting standard for equity compensation. We do not expect discrete tax benefits in the first quarter of 2017.

So in closing, the structural shifts taking place in the retail environment are creating difficult conditions in some geographies and categories. While we expect these conditions to persist in the near-term, we believe our strong portfolio of brands, our operational discipline, and strength and diversity of our model, will allow us to continue to deliver strong returns for our shareholders. We look forward to laying out our long-term strategic and financial aspirations in more detail during the Investor Day on March 30.

And now with that, I'll turn it back to the operator and take your questions.

## QUESTION AND ANSWER SECTION

**Operator:** Thank you. [Operator Instructions] And we'll go first to Michael Binetti with UBS.

**Michael Binetti**

*Analyst, UBS Securities LLC*

Q

Hey. Good morning, guys. Thanks for taking my question.

**Steven E. Rendle**

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

A

Hey, Mike.

**Michael Binetti**

*Analyst, UBS Securities LLC*

Q

First, I just wanted to ask a couple of questions on the model. The key one I'm wondering about is if second half of the year – thanks for the help with the shape of the year, but the second half of the year guidance is for revenues to accelerate about mid-single digits excluding currency. I mean, is that – how much – as you guys build that up, how much of that is based on the easier compares for the winter that we just came off of versus a more realistic view of your thoughts on the long-term run rate of revenues that the portfolio can deliver today?

**Scott A. Roe**

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

A

Yeah, Michael, Scott here. So, I guess, first of all, it's true. Your modeling is – you're in the right ZIP code from the actual numerical growth in the second half. What we're seeing is acceleration, particularly in the big three, in the second half and that's based on our line of sight. Our top three brands are growing, as we look forward, high single digits collectively, and that's supported by the order books that we see. From the Jeanswear business we also will see some modest acceleration in the second half. As we're working through some of the repositioning in the first half, we'll see a return to growth in the second half. So those are the proof points that give us confidence in the second half that we'll see relatively better growth.

**Michael Binetti**

*Analyst, UBS Securities LLC*

Q

And can it continue at that pace after we kind of roll off of the strange comparisons here in the second half of this year?

**Scott A. Roe**

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

A

Yeah, are you talking beyond 2017? Or – yeah, I mean, we're confident in the growth, particularly in the big three going forward.

**Steven E. Rendle**

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

A

Yeah, Michael, I would add just real quick. I mean, if you think about what we saw in 2016 and the compares that we have coming into 2017, we do see a much cleaner marketplace in that Outdoor segment. There was a

tremendous amount of off-price goods, some fueled by ourselves and other industry brands, other portions coming out of the bankruptcies that the marketplace had to absorb. It's our opinion that those goods have been, for the most part, sold through and we have a much cleaner marketplace for ourselves to sell into. We also have a higher level of confidence on the product quality that we are selling into the marketplace with our big three brands, giving us great confidence that that collective high single-digit growth rate Scott mentioned will be there. And we see no reason why these big, powerful brands cannot continue at those rates with the additional focus that we're bringing to our product, the design, and the experiences that these brands bring to consumers.

**Michael Binetti**

*Analyst, UBS Securities LLC*

Q

Okay. And if I could just ask one last follow-up. I just want to make sure I understand the guidance for the year for overall is mid-single-digit revenue growth ex-currency, and then that translates to mid-single-digit EPS growth ex-currency.

**Scott A. Roe**

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

A

Right.

**Michael Binetti**

*Analyst, UBS Securities LLC*

Q

I'm a little surprised that mid-single-digit revenue growth doesn't translate to more leverage in your model, just based on some of the earmarks you gave us before and your comment that you're going to build about 50 stores next year, which is a little bit lower of a growth rate as we think through like the SG&A. Are there other components in the algorithm that have changed that a mid-single-digit revenue growth rate wouldn't translate to some leverage in the organic earnings growth rate?

**Scott A. Roe**

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

A

Well, I guess, no, fundamentally. Michael, one thing, I guess, you heard too from a tax rate standpoint that we're seeing an increased tax rate. That's really couple reasons, but mix is driving a lot of that as we see the recovery of U.S. profitability. Obviously, that's at a higher tax rate and that creates a little bit of a headwind, but structurally, no change. The low single-digit revenue growth is also backed up by increased gross margin, as we see that mix benefit coming through.

We are investing in the growth priorities from an SG&A standpoint, with digital and stores being one of those. Now we said 50 stores is the number of net adds. Keep in mind, we're investing against our biggest brands, where we have a proven profitable brick-and-mortar business. We are also pairing some of the underperforming stores, and particularly the actions related to Lucy, as well as other parts of our fleet.

I'd just point out, you look at our average lease term is a little over four years. That means, in any given year, about a quarter of our entire fleet can be adjusted. And as we've seen some tough performance in a few areas, we're taking advantage of that and we're paring down some of the underperforming stores as we look into 2017.

**Michael Binetti**

*Analyst, UBS Securities LLC*

Q

Okay. Look forward to see you guys in the end of March. Thanks.

Steven E. Rendle

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

Thanks, Michael.

A

**Operator:** And we'll go next to Omar Saad with Evercore ISI.

Omar Saad

*Analyst, Evercore ISI*

Hi. Thanks. Good morning.

Q

Steven E. Rendle

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

Hey, Omar.

A

Omar Saad

*Analyst, Evercore ISI*

Could you give us an update in terms of kind of your strategies to deal with some of the U.S. wholesale challenges that the whole market is experiencing? And how much you think – how you're kind of planning that channel long-term too? Is it kind of a slow, steady decline? Are you going to try to right size your footprint in those channels? And then how are you also thinking about digital marketplaces as alternative kind of wholesale channels, if you will? Thanks.

Q

Steven E. Rendle

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

Yeah, hey, Omar. So when you think about the overall environment, certainly it's uneven and inconsistent. If I were to start, our international business is experiencing really solid growth. We came out of fourth quarter up 7%, and that is really outpacing the economic growth rates in both Europe and Asia. And we see that continuing into this year up high single digits. And our D2C, our own retail brick-and-mortar and our e-commerce had a really solid fourth quarter, up 12%; in particular, our e-commerce we saw plus 20%. And we see that continuing into the 2017 period as well.

A

And the environment that we are really focused on here is the U.S. marketplace. It continues to experience channel disruption and, in some cases, channel compression. And we don't really see that changing. Our exposure to some of these – like the department store channel is less than 3%. And when you look at the mid-tier mass and department store together, it's less than 20%. These are important customers for us, and we are working with them to certainly improve our performance and, hopefully, in so doing, help improve their performance.

But we'll continue to focus with our brand portfolio, especially these big three on our specialty channels and where our brands really come to life to where our consumers shop. And the digital piece is very, very important. Clearly, our own sites, but we have a whole host of online partners that we work with to represent our brand in the same manner that we do within our own sites, and we see that continuing to increase in importance, but also not at all discounting the importance of the brick-and-mortar experience that these brands of ours need to provide to the consumer.

Omar Saad

*Analyst, Evercore ISI*

Q

Thanks. And then maybe could you talk a little bit in more detail? I mean, the D2C performances you mentioned was very good and it sounds like e-commerce was certainly a big piece of it. But what were some of the keys there or specific areas of strength that you think drove that channel, which is obviously especially important, given the wholesale channel's challenges?

Steven E. Rendle

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

A

In case of D2C, our teams have applied a lot of emphasis around store productivity, and through product segmentation, certainly how we're using our stores as the premier expression, how that – then the product flows through our wholesale partners. But as we think about how we use our stores, being really thoughtful about regional assortments, using the data that we have through prior year's selling, putting the right product in those right locations, and really using our supply chain to optimize product flow and fulfillment.

The in-store service component, the experience level, if you were to visit a Vans store anywhere in the U.S. or, for that matter, in the globe, I think you'd see a very consistent approach to how our brand comes to life, how the products were assorted, but most importantly, that service element that comes to life with our in-store staff, and that's been a big part of our performance this year.

And then the digital piece, we've spoken a lot in the past about our One VF platform, where we've created a very robust content and commerce engine that many of our brands are on, and we use that to really drive that online experience, but also provide as seamless of an experience as possible and leveraging our supply chain to deliver those products in a quick and efficient way.

Omar Saad

*Analyst, Evercore ISI*

Q

Thanks, Steve. Good luck, guys.

Steven E. Rendle

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

A

Thanks, Omar.

**Operator:** We'll go next to Bob Drbul with Guggenheim.

Robert Drbul

*Analyst, Guggenheim Securities LLC*

Q

Hi. Good morning.

Steven E. Rendle

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

A

Hey, Bob.

Robert Drbul

*Analyst, Guggenheim Securities LLC*

Q

Eric, congratulations. Good luck.

**Eric C. Wiseman**  
*Chairman, VF Corp.*

A

Thanks, Bob.

**Robert Drbul**  
*Analyst, Guggenheim Securities LLC*

Q

I've got a couple of questions. I think the first one is just a bigger picture question I think for Steve. When you look at the profitability and the operating margin of the outdoor coalition, I think anchored by The North Face, can you just give us your take on how sustainable that level of profitability is for the business?

And then the second question I have is on the Timberland business, can you talk a little bit about how the apparel business is performing at Timberland?

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

A

Absolutely, Bob. So the first question, the profitability of our Outdoor & Action Sports business, I will tell you that I think that profitability is absolutely sustainable, and that starts, first and foremost, with the quality of the products and the gross margin that we're able to obtain through just a year-over-year improvement of the products we offer and the pricing that we look to, to provide – to drive that gross margin.

Levering our SG&A, making sure we're investing in those key areas, product, design, the marketing and the digital aspect takes great, great attention, and then being able to leverage really those back-end functions across the VF platform, really managing that model that we've talked about for years, really is bringing benefit. And when you think about the power of a Vans business with its D2C footprint, North Face with its D2C and digital platform, and Timberland really emerging and seeing better and better D2C improvement, that also gives us great confidence that that operating margin, profitability model is sustainable.

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

A

Yeah, Bob, Scott here. Just to add on, in the last several years too, we've had an incredible amount of FX headwinds, which have pressured us particularly in our European business. And while we do have pricing pressure and we've been able to overcome that over time, we see – typically when you see big FX impacts, like we have over the last two years, we grow into that over a couple seasons, right? So we're taking significant price increases, we have in the last two years and we will continue to. I would expect and we will see our profitability through gross margin continue to rise as we absorb those FX distortions. Think about Brexit alone last year was a significant impact in our largest UK market. We'll get over that, but it takes us a little while to price into that.

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

A

And then I'll grab your Timberland apparel question, Bob. Our Timberland apparel business on a global basis is good. We've seen really strong growth in our European business. It was up 20% this last fall. We've been reshaping and repositioning our apparel engine to our Stabio, Switzerland, office and leveraging the strength of that sportswear platform anchored with Napapijri, and that's a large part what our Timberland team has been able to see those results in Europe.

That collection is now coming globally and we need it, because here in the U.S. our performance has not been up to the expectations that we've had. We've seen good sell-through in our own retail environments, and we'd like to see better sell-through with our wholesale partners. And that is exactly why we've taken a step back, looked at how to really come to life with apparel as we see the success in our European business. That will become the global anchor for the apparel platform and we think that will really give us a point of difference, not only here in the U.S., but also in Asia, and be able to stand out against the other choices in the market.

**Robert Drbul**

*Analyst, Guggenheim Securities LLC*

Q

Great. And if I could just have one more follow-up. On The North Face business, when you look at how the business and the brand performed in 2016, do you think that there's competitive challenges that the brand is facing today in the U.S. specifically?

**Steven E. Rendle**

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

A

If you're going to unpack the TNF performance, we saw really strong international growth this last year. Our European business was up high teens in Q4 and for the full year. And I think another great validation point for us is our D2C is strong, and our e-commerce platform really represents the business well.

I would tell you here in North America, Bob, probably the biggest issue that we saw in 2015 was that tremendous amount of excess inventory that was in the marketplace, and I said part of that was our doing. But it was the industry's doing coming out of 2015, had a really big impact on the marketplace and the ability to represent new goods with so much last year's product in the marketplace. That is exactly why we made the decision to pull back on the move of excess inventory at the expense of revenue and earnings, because we think it's very important that as a leader we do our part to have a clean marketplace for ourselves.

I would tell you, Bob, some of this that we see with The North Face is our own doing. We, as we've looked ourselves in the mirror, do not think we've put the strongest product offer into the United States marketplace. And we've done a lot of work over the last six to eight months to rectify that and put ourselves in a better position. The four brand territories that these new specific business units that we have in place is adding greater clarity of focus and helping our design teams really bring the right product to life in each of those brand territories.

And I guess the validation point, as we looked at our European business over the last two years, it's come from a similar slowdown. Tremendous amount of work done, first, on our leadership team, the market segmentation, and the quality of the product, the amount of new product that this team brought to market, combined with really strong go-to-market disciplines. That's brought us into that high teen growth rate, and that model, that template is being picked up and brought to our U.S. business, and I think this is where our strength's really come to bear. We'll be able to move quickly to get these changes in place and get that elevated level of product that certainly we've been used to and the marketplace expects back here in the U.S. market.

**Robert Drbul**

*Analyst, Guggenheim Securities LLC*

Q

Great. Thanks very much. Good luck.

**Steven E. Rendle**

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

A

Thanks, Bob.



**Operator:** And we'll go next to Jim Duffy with Stifel.

**Jim Duffy**

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

Good morning, everyone.

Q

**Steven E. Rendle**

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

Hey, Jim.

A

**Jim Duffy**

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

Eric, I wanted to thank you for your help with everything over the years. Congratulations to you.

Q

**Eric C. Wiseman**

*Chairman, VF Corp.*

Thanks a lot, Jim. It's been a pleasure.

A

**Jim Duffy**

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

Steve, my first question is a big picture question building on Omar's line of questioning on distribution channel strategy. So in North America, the landscape is dynamic as ever, good indications it's over-stored. Are there brands where you think it's the right decision to pull back on some distribution?

Q

**Steven E. Rendle**

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

I guess, if you think about the distribution strategy, that's a every season, every year opportunity for our businesses to look at the channel partners that they work with and how we are segmenting our products and really thinking about what partners to place our products in. I wouldn't say, Jim, there's anybody that we would back out of. I would say, each of our groups are focusing on their key partners, and that's true for Vans, that's at North Face, that's at Timberland, SmartWool. And I think probably more attention is being put into the right assortment, the right levels at the right times of the year, so really leveraging that retail discipline and becoming more retail centric looking at the quality of flow and the frequency of new delivery. I think that's more of our focus than pulling back on or limiting any of our partners.

A

**Jim Duffy**

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

Okay, helpful. Thanks. In the Outdoor category, you're showing good discipline with respect to populating the off-price channel. We heard of order cancellations this year from many brands. What's your confidence that competitors are showing the same discipline to help with pricing integrity looking out to second half of 2017?

Q

**Steven E. Rendle**

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

A

Jim, I can't speak for them, but all I can do is speak to ours. We have a history of really understanding how to supply the market in a – at a proper level. Those disciplines are back in a very strong and important way. And I think as we manage our own house effectively, we think that will really help us access that open-to-buy that we're deserving of and working with our partners, driving our sell-through and gross margin contribution to their business.

Scott A. Roe

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

A

Jim, just to build on that, it doesn't directly answer your question, but one thing that we've seen throughout this year and expect it would continue is more conservative buying from the channel in general as well. So as you look back maybe into the end of 2015, where everybody got maybe a little over their skis and we had a glut of inventory in the market, we don't see that type of appetite as people are keeping it a little more cautious. So, again, we don't have full visibility to what everybody is doing, but in general there's more caution in the environment, which means – should mean less inventory in the system.

Jim Duffy

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

Q

Thanks, guys. I'll leave it at that.

Steven E. Rendle

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

A

Thanks, Jim.

Scott A. Roe

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

A

See you, Jim.

**Operator:** And we'll go next to Laurent Vasilescu with Macquarie.

Laurent Vasilescu

*Analyst, Macquarie Capital (USA), Inc.*

Q

Good morning, everyone. Thanks for taking my questions. I wanted to follow-up on your outsized growth in the DTC business. Can you talk about a bit about the economics between the DTC and the wholesale businesses? Can you dissect the DTC contribution to the EBIT margin line? And how much variance is there to that line item, especially with the outsized growth in e-commerce?

Scott A. Roe

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

A

Well, that's a lot of questions. So you can probably appreciate, we're not going to get into that kind of – that level of detail, but what I can tell you is that, first of all, our most profitable segment of our business is our digital e-commerce. And it's also our fastest growing, and that's where we're doubling down a lot of investment. We would expect that to continue to grow and even accelerate, as was part of our outlook. So that mix benefit will continue to help our profitability improve. Honestly, within our fleet, we have a bit of a bell curve, right? We have our biggest brands, which is where the majority of our retail sits, continues to perform very well. It's accretive, it has been and will continue to be a key strategic driver of our growth.

We have some other formats that, frankly, aren't performing as well, and that's one of the reasons that 50-store net guidance is a little different than what you've seen in the past. It's about half of what we've done over the last – even a little less than half of what we've done over the last several years. And that's because we're focusing on those formats that work and leaning into those, and we're taking a little more cautious and aggressively reducing our exposure to those formats that don't work. And by formats, I'm talking about brands with relatively underperforming retail.

Laurent Vasilescu

*Analyst, Macquarie Capital (USA), Inc.*

Q

Okay, very helpful. And then on the international business, it looks like you're going to continue seeing outsized growth in that business for 2017. I think it was 38% for 2016 in terms of revenues. How do we think about that business going forward as a percentage of total contribution? And then on Europe, I think Europe is still, like, twice the size of Asia, and then with the comments on China this morning, how do you think about the Asia business going forward?

Scott A. Roe

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

A

So I'll give you some of the numbers. You must have an amazing model by the way, I got to tell you, [ph] that's impressive (52:52). We would expect our international growth to continue to outpace U.S., just because of some of the macro conditions, and frankly because we're so underpenetrated relative to the opportunities that we see, China being the biggest single example. So we'll talk more about that in 30 days or so at our Investor Day on how we see international, but suffice it to say, we continue to see it outpacing the overall growth and mix higher in the long-term.

Laurent Vasilescu

*Analyst, Macquarie Capital (USA), Inc.*

Q

Great, and looking forward to the Investor Day.

Steven E. Rendle

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

A

Thanks, Laurent.

**Operator:** And we'll go next to Lindsay Drucker Mann with Goldman Sachs.

Lindsay Drucker Mann

*Analyst, Goldman Sachs & Co.*

Q

Thanks. Good morning, everyone.

Steven E. Rendle

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

A

Hey, Lindsay.

Scott A. Roe

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

A

Hey, Lindsay.

Lindsay Drucker Mann

*Analyst, Goldman Sachs & Co.*

Q

Steve, I wanted to start with, you mentioned in your prepared remarks that the industry is going through an extraordinary pace of change and you're looking to adapt in areas that you're focusing on, included investing in your brands, direct-to-consumer and international, which – that was what I wrote down – which seems to have been the areas where you've been focused on for the last five or 10 years also. So I guess my question is, as you think about adapting to the new environment, what's really changing about your approach? Is there anything that we should expect that's really very different or where we should see more significant shifts or investment?

Steven E. Rendle

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

A

Well, we certainly look forward to spending a lot of time unpacking that question at our Investor Day. A lot of the conversation will be just around that. We spent a great amount of work over 2016 updating and refreshing our VF strategy, strategy that we'll talk to you about here in 30 days. But in that, Lindsay, it really was about how do we evolve what has been a very successful model. There's really no revolution to be had here. It's really about evolving those skill sets that we have here corporately, but more importantly make sure that fit in our brands in the most productive way. And as we think about going forward, our D2C capabilities really are an important aspect of our strategy and how we want to distort our energy in digital. That's not new news to you.

We think we are very well advantaged with our platform that we use to interact with our consumers, but also as we stand up, stronger and stronger analytics practice to use the consumer data that we have and the shopper data that we're pulling out of our stores to help inform how we interact with our consumer, how we think about the products that we create, and when they want those products presented to them. Our innovation platform has been something we've been investing in quite a bit over the last few years, and that will continue to be an important part of where the new ideas for new franchises, but also we have a digital lab that sits in Northern California as well that really is keeping our teams and the businesses and our systems teams here in Greensboro really up-to-date and moving at the right pace to make sure that we've got the right technology in – really come in the front of us to be able to evolve and stay fresh.

But I think the thing that we're really focused on here as we look at the disruption in the channels and, more importantly, how the consumers today are looking for brands to come to life to them is really elevating our emphasis on design. We've spent a lot of time and energy with some outside partners working with our top brands on elevating our design capability specifically for product, but how we link that product to our experiences, be it in store, online, or anywhere where our brands come to life. Vans is probably one of the best expression with their House of Vans or the different events that they have going across the globe. It's just how do we have the most robust design and the clearest expression of our brands that pull the consumers to us in this very cluttered and high-energy marketplace.

Lindsay Drucker Mann

*Analyst, Goldman Sachs & Co.*

Q

Great. Shifting to costs, you have a restructuring charge, cost realignment charge that you took and I was curious if you could help maybe dimensionalize how you're thinking about cost savings in fiscal 2017 or beyond from that initiative? And also whether we should be looking for similar to 2016 savings from a favorable costing environment or maybe how you approach to pricing?

Scott A. Roe

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

A

Yeah, Lindsay. So, first of all, the savings from the actions I think we said in our prepared remarks that, frankly, we're a little bit smaller, right? So we sold our Contemporary business. We're looking at options for LSG. And as part of that, we also took a look at our cost structure to right size that in light of it. So you can think about more or less the leave behind costs as you exit the unabsorbed overhead has been right sized in 2017, so that there's no impact from being a little bit smaller as a company. There will be continuing benefits into beyond 2017. We don't see the full impact of all those, but the majority of it really is just offsetting those leave behind costs.

And I just make a general comment too. Continued cost hygiene is part of our culture and we'll continue to look at our cost structure going forward, because we see that as a no-regret action as a way to redeploy investment back into those strategic priorities that we've outlined before. I'm sorry. There was a part two – oh, you asked about cost, right? I assume product cost is...

Lindsay Drucker Mann

*Analyst, Goldman Sachs & Co.*

Q

Product cost and pricing.

Scott A. Roe

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

A

Yeah. So we've got about 1% price assumption in our next year and we see some modest price increase, mostly around labor, labor costs and some of that's relative to the mix from a sourcing standpoint. But it's relatively modest, a little bit of commodity timing as well, but cost is really not a big issue as we look at 2017, and more or less the two balance out, price and cost.

Lindsay Drucker Mann

*Analyst, Goldman Sachs & Co.*

Q

Okay. Thanks very much.

Steven E. Rendle

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

A

Thanks, Lindsay.

**Operator:** We'll go next to Dana Telsey with Telsey Advisory Group.

Dana Lauren Telsey

*Analyst, Telsey Advisory Group LLC*

Q

Good morning, everyone, and congratulations, Eric, and best of luck.

Eric C. Wiseman

*Chairman, VF Corp.*

A

Thanks a lot, Dana.

Dana Lauren Telsey

*Analyst, Telsey Advisory Group LLC*

Q

As you think about the runway for gross margin gains go-forward, given the gross margin opportunity, how do you dimensionalize it either by coalition? And from what buckets does this gross margin improvement come from

would you say? And lastly, any thoughts on the border taxes and how – adjustments there, how do you think about it? Thank you.

**Scott A. Roe**

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

A

Yeah, hey, Dana. So, first of all, where does the gross margin mix come from? We've talked about this 40 to 50 basis points over for a very long time now, and it's pretty simple. It's our – high-margin businesses are our fastest growing. So it's D2C, it's international, it's Outdoor & Action Sports. We see no reason why that would – those would not continue to be our fastest growing businesses and they do indeed have our highest gross margin. So that's really the answer. Also as we've made some of the portfolio moves, that's also – that mix has also been beneficial from a gross margin standpoint.

**Eric C. Wiseman**

*Chairman, VF Corp.*

A

And then, Dana, I'll take your tax and trade point there. I would tell you, we're very supportive of a reduction in U.S. corporate income tax rate, but we see some problems with trying to cover that gap with a border adjustment tax. We've sought counsel with third parties that we work with to really try to understand all the different elements of what's being proposed, and we've built a number of scenario models to help us understand those impacts. And we've taken that information and the approach that we're using here is to connect with key legislators and policymakers to help educate and influence their understanding of the impacts on our business, and through that create that relationship for the coming months.

Because we're kind of at this point where we're going to monitor and observe, because honestly until there's a piece of legislation, there's really nothing to us to react to and it's more speculation. So it's really about understanding and paying very close attention, working with our advisors and doing this educate and influence approach with the key legislators and policymakers that we think is important for them to hear from businesses like ours on what are the issues and how would we frame it to have it be more optimal for business.

**Steven E. Rendle**

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

A

And, Dana, I would just say, we can find scenarios at the extremes that are either really good or really bad. It depends on which tweet you happen to look at. But from our standpoint right now, we believe there's likely to be pros and cons, and it's virtually impossible to weigh what that would mean, given the fact that there's really no concrete legislation out there right now for us to model against.

**Dana Lauren Telsey**

*Analyst, Telsey Advisory Group LLC*

Q

Thank you.

**Eric C. Wiseman**

*Chairman, VF Corp.*

A

Thanks, Dana.

**Operator:** And we'll go next to Erinn Murphy with Piper Jaffray.

Erinn E. Murphy

*Analyst, Piper Jaffray & Co.*

Q

Great. Thanks. Good morning. A couple of questions from me. I guess, first on the Lee business in North America with the disruption that you're seeing, is that concentrated to one or two accounts? And then, when did you start to really see that unwind in the quarter and when should we start to kind of expect some stabilization in that business?

Steven E. Rendle

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

A

Hey, Erinn. Where we've seen the concentration of issues for our Lee brand is in the mid-tier channel, and it is most recently more gender-specific. Our men's business is performing really well and we've put a lot of time and energy over the last 12 months looking at the quality of the product, the fit, the function, the innovative materials that we're using. And as we placed those at retail, we've seen really strong results.

Where we've really seen our issue and we're taking the same approach we have with our men's business for the last 12 months, is in our women's business. And we – a little bit – like I said in The North Face, need to look in the mirror and have we've done our very best to put the right product in the retail formats that we have available to us with our mid-tier partners to help them maximize their sell-through. So it's really localized to mid-tier and in the women's business.

And I think the good news, if you can find the good news in a business that's seen this kind of impact, is we know exactly what to do and have deployed some new resources to our team in Kansas City to help really elevate and accelerate that product creation.

Erinn E. Murphy

*Analyst, Piper Jaffray & Co.*

Q

So in terms of the turn, I mean, are you anticipating second half just based on how you shape the guidance for the year or do you think it's going to be more prolonged to get some of the product or company, or, I guess, execution issues improved?

Steven E. Rendle

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

A

Yeah, no, I think that's a fair assumption, Erinn, is that we'll see sequential improvement as we go through the year, as we're able to quickly respond and then place this better product. Like I say, I would tell you, we've got a lot of great resources as we look across the globe. Our Lee business in Asia has been very, very successful the last three years. I think you've heard us say that we're the number one brand in China, and that's come from innovative materials and design, specifically in the female marketplace, and we're bringing a lot of those learnings to our teams here in the U.S. and applying that to the product creation cycle very quickly and partnering. Well, I think the key thing is partnering with our mid-tier retail partners specifically to get this product in place and on floor to begin to get that sell-through.

Erinn E. Murphy

*Analyst, Piper Jaffray & Co.*

Q

And then one follow-up on The North Face. Are you guys looking at any new accounts from a distribution perspective to help offset some of the bankruptcy disruption in North America? And then where are you guys at with, I think, Todd's replacement for that brand? Thanks.

**Steven E. Rendle**

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

A

Right. So I think, Erinn, for The North Face and if that's a U.S. specific question, it's probably less about new retail partners. I think we're well positioned today with where our brand is positioned, and yes, we've absorbed some pretty significant bankruptcies this last year. But every year our team is looking at their distribution strategy and really using that to inform the strategies that go back into these four new brand territories. And it's about really getting stronger presence of our Mountain Sports, our Mountain Athletics, more of our lifestyle collection, and then the Urban Exploration business that we have in Asia, bringing that across the globe. It's really looking at how to expand our footprint and use our distribution strategy more effectively to get these four consumer usage expressions into the marketplace, and at the same time looking to expand categories and maximize the penetration of each of those categories in these four-brand territories.

**Erinn E. Murphy**

*Analyst, Piper Jaffray & Co.*

Q

Okay. And then just last on gross margin. I know there's been a couple questions on this, but just – what I'm trying to understand on a 70 basis points organic gross margin gain, you talked about that benefit being almost entirely mix. I think in the recent past you've talked about mix being closer to a 50 basis point benefit. So is this just the dynamic of the accelerating mechanics of wholesale being down, DTC being up? And then I guess with all of the challenges in the space, why not put some type of assumption for markdown dollar support in the guidance on the gross margin side? Thank you.

**Scott A. Roe**

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

A

Yeah, so – I mean, it's really – I mean, mix is mix, right? So it's the acceleration of our strongest businesses with our highest gross margin. I mean, we talked about our international business being up significantly. We're almost doubling our growth rate in Europe and Asia, for example, right? Our e-comm is growing at 25% and we're seeing step improvements in The North Face and Timberland growth rates as well. So those are really the factors that are driving our mix as well as the quality of the sales, right?

Our first quality sales continue to improve. We said it, but just to reiterate that, we walked some top and bottom line. We could've reported significantly higher sales and earnings in 2016, and even 2017, if we sell more in the off-price. We've made the strategic determination that's not good for our brand, that's not good for the channel. And that hurts us a little bit in the short term, those optics, but the quality of those sales, we believe, is sustainable and really the right place for us to be long-term.

Now as it relates – I think part of your question was, should we put markdown dollars? Well, of course, we always have markdown dollars, but when you look at year-on-year, it's not significant in the gross margin walk. We also have price, cost. I mean there's a lot of factors in there, so I'm simplifying the walk for you a little bit. But if you boil it all down, essentially it's mix that's driving the gross margin improvement year-on-year.

Yeah, can I build one more thing on that too? We also talked about the other side of that, which is the currency. I just want to reiterate how significant currency is in 2017. Just from a gross margin standpoint, it's 70 basis points. When we look overall from an earnings standpoint, there's almost \$0.25 of EPS negative impact from currency in 2017. So the underlying currency-neutral growth rate is, obviously, accelerating significantly. But we have that significant headwind that we and every other global multinational has to deal with.

**Operator:** And we'll take our last question from Ike Boruchow with Wells Fargo.



Ike Boruchow

*Analyst, Wells Fargo Securities LLC*



Hi. Good morning. Thanks for taking my question. So I know this has been asked a few times. So the outlook seems prudent in the first half, and then there's an assumed ramp towards the back half, which makes sense. But I guess my question is, can you be a little bit more specific about where the biggest deltas are by brand in the outdoor and active coalition? And I guess meaning, is it broad-based inflection you're baking in across all the brands or is it more weighted to specific areas?

And then just the second question is, do you think you have more visibility this year versus 12 months ago, maybe due to DTC growth or international opportunities? And I only ask because it's almost exactly how you planned out 2016 to ramp as well, and clearly there were some issues that took place in 2016. So I'm just trying to understand, has your visibility improved maybe relative to where we were a year ago? Thanks.

Scott A. Roe

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



Well, I guess I'll start on that. So maybe starting at the end first, we – I would just reiterate the quality and the sound fundamental line of discussion that we've had. So we're exiting this year in a different place than we did a year ago, right? The marketplace is healthier; our business is healthier. And we're up against comps, frankly, that are kind of weak in the second half, right, as we saw some of the disruptions that we saw this year. So that's just a general comment.

As we think about our businesses, we've mentioned throughout what's stronger in the second half. The European business for Vans accelerates in the second half. Just I hope it wasn't lost. We returned to growth in the fourth quarter in Vans Europe after several quarters of working through an inventory imbalance, and that business is roaring back, right? As we look going into next year, inventories are in line and we're going to see sequential acceleration throughout the year, and particular strength in the second half. And that's just been a – that's a great global story.

The other probably notable one is The North Face will be relatively stronger in the second half, as again, we have a relatively better offer and we're also copying some of the actions that we took this year and you saw the decline. So I guess a little bit easier comp coupled with better execution and better product.

Finally, our work business, again, we highlighted that throughout the call. We're really at an inflection point. This business is poised for a return to growth. We've seen this cycle, those of us who've been around here for a while. Our work business tends to be a nice leading indicator and we're starting to see evidence that the work cycle is up trending. Just as a point of view, our bulwark, our oil and gas related business has been under pressure for – gosh, I don't know – a year at least. But oil rig counts are up significantly, Steve, I think...

Steven E. Rendle

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



60%.

Scott A. Roe

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



60% year-on-year, and that's great evidence of what will be coming in the future in the work business.

Ike Boruchow

*Analyst, Wells Fargo Securities LLC*

Q

That's great. That's really helpful. Can you just also comment on North Face specifically first half versus back half? What's embedded in your outlook based on the bookings that you're seeing?

Scott A. Roe

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

A

Yeah, we didn't give that level of detail. Just know that it's relatively stronger in the second half.

Ike Boruchow

*Analyst, Wells Fargo Securities LLC*

Q

Got it. Thank you.

Steven E. Rendle

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

All right. So in closing, before I close, I want to thank Eric for the leadership he's provided all of us at VF, for the focus and hard work that he's brought to the position of CEO and, for sure, the results in his wisdom and insights that have generated. Eric, I'm personally thankful for the time and energy that you've put into mentoring me over the years, and most specifically during this transition.

I guess I'd like to reinforce just a couple points. Our big three brands will collectively grow high single digits in 2017, and you heard us talk a lot about continuing to invest in our largest opportunities, opportunities like international, workwear, and our digital and brick-and-mortar platforms. We are sharpening our focus on innovation and elevating our design capabilities to drive even stronger product and brand experiences, and we think that will be a significant differentiator in the years to come. We will continue to be very disciplined about our distribution and being very thoughtful around product creation for each of our distribution partners. And as always, we will remain committed to delivering shareholder value.

So with that, I thank you all for joining us today and we look forward to seeing you or many of you at our Investor Day in Boston on March 30.

**Operator:** This does conclude today's conference. We thank you for your participation. You may now disconnect.

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