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MANAGEMENT DISCUSSION SECTION

Operator: Good day everyone. Welcome to the VF Corporation Second Quarter 2017 Earnings Conference Call. Today's conference is being recorded.

At this time, I would turn the conference over to the Vice President of Investor Relations, Joe Alkire. Please go ahead, sir.

Joe Alkire

VP-Investor Relations and Financial Planning & Analysis, VF Corp.

Good morning and welcome to VF Corporation's Second Quarter 2017 Earnings 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 that our participants refer to on today's call will be in adjusted and currency neutral terms, which we define in the press release that was issued this morning. We use adjusted and currency neutral amounts as lead numbers in our discussion, because we believe they more accurately represent the true operational performance and underlying results of our business.

You may also hear us refer to reported amounts, which are in accordance with 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 second quarter of 2017, the company completed the sale of its License Sports Group, or LSG, business. In conjunction with the LSG divestiture, VF executed its plan to entirely exit the Licensing business, which comprises the LSG and JanSport brand collegiate businesses.

Accordingly, the company has classified the assets and liabilities of these businesses as held for sale and included the results of these businesses in discontinued operations for all periods presented.

During the third quarter of 2016, the company completed the sale of its Contemporary Brands businesses. Accordingly, the company has classified the assets and liabilities of Contemporary Brands businesses as held for sale and included the results of these businesses in discontinued operations for all periods presented. Unless otherwise noted, results presented on today's call are based on continuing operations.

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

Steven E. Rendle

President, Chief Executive Officer & Director, VF Corp.

Thank you Joe, and good morning everyone. The pace of change in both our industry and the broader consumer landscape continues to happen at an accelerated rate. 2017 is the year of making transformational moves as we begin to evolve VF and our brands to become more consumer and retail centric in everything we do.

Six months into the first year of our 2021 strategy, our results are right in line with our expectations, and in fact, we're doing somewhat better than we anticipated. Our improved performance in the face of an unpredictable retail environment around the world demonstrates the strength of our brand portfolio and diversified value creation model. We are in the early phases of our journey to become a more agile and consumer centric organization, and we are encouraged by our strong start to 2017.

During the second quarter revenue increased 3%, which was slightly ahead of our expectations as core growth engines continued to accelerate. Our big three brands, Vans, The North Face, and Timberland grew at a combined rate of 7%. Our international business grew 6%, including 18% growth in China.

Direct-to-consumer grew 14%, and our digital business was up more than 35%, and growth accelerated to 8% in workwear. Our digital wholesale accounts, a key growth driver for VF over the next five years, also increased at a high single digit rate through the first half of 2017. Gross margin improved 160 basis points, an exceptional performance, which again exceeded our expectations. VF brands are strong. We remain disciplined and our renewed focus on elevating our creative capabilities, specifically in product design, to enrich consumers' brand experience coupled with stronger marketplace management is driving more profitable growth and further strengthening our brand equity.

EPS was \$0.29 in the quarter, at the high-end of the range we guided to in April. We also repurchased an incremental 200 million of stock, which when combined with our strong dividend, brings our anticipated total cash returns to shareholders in 2017 to more than \$1.8 billion. Strengthening total shareholder return remains a top priority. As we look to the second half of 2017, we're gaining momentum across key dimensions of our business, and we see several catalysts on the horizon to ignite accelerated growth and value creation in our core growth engines.

As a result, we're raising our full year 2017 revenue outlook to \$11.65 billion based on stronger than expected growth in our Outdoor & Action Sports business, most notably Vans and The North Face brands, D2C and workwear. Additionally, for the second consecutive quarter we are raising our gross margin guidance now to 49.8%. Our strong gross margin performance is a central element of our diversified value creation model. It provides us the flexibility and fuel to accelerate investment and drive growth behind our largest opportunities.

In light of our increased revenue growth and gross margin expectations, we are investing an additional \$40 million, or \$0.08 per share in 2017, to amplify our momentum and fuel accelerated growth as we move into 2018. Our 2017 EPS outlook is now \$2.94, which reflects the high-end of our previous outlook and includes the incremental investment just mentioned. Earlier this year, I said that VF is a value creation company, and some wondered what that meant. This quarter's results began to provide evidence of our commitment to value creation. We are in the business of creating catalyst through our strong portfolio of diverse global brands. We will continue to reshape our portfolio and accelerate growth. And while we expect the retailing landscape to remain uncertain, we will investigate against our largest growth opportunities to create momentum rather than wait for it.

With that, let's review our second quarter results and dive deeper into our top five brands workwear and Sportswear. Starting with The North Face brand, global revenue increased 6% driven by a 26% increase in Europe and a 1% growth in both the Americas and Asia. Revenue growth during the quarter was driven by strong results from our D2C business, which increased at a mid-teen rate. Wholesale was relatively flat for the quarter. However, excluding the impact of bankruptcies in the Americas, which didn't really start to impact us into the second half of 2016, global revenue for The North Face increased at a high single digit rate.

For the first half of 2017, global revenue for The North Face increased 7% or 9%, excluding the impact of bankruptcies just mentioned. By region, revenue growth in the Americas was driven by mid-teen growth in D2C with strong results from digital, which grew more than 40% in the quarter. This was partially offset by a high single digit decrease in wholesale due in large part to the impact of bankruptcies.

Turning to product performance, the success of the Apex Flex jacket continued with Outside Magazine naming it one of the best summer jackets of 2017. And we can't forget to mention The North Face athlete, Alex Honnold, who made climbing history, when he completed the first free solo ascent of El Capitan in Yosemite. I'm not sure if everyone can appreciate just how remarkable this feat was, a 3000 foot granite wall in less than four hours, climbing alone and without safety gear, with only his shoes, shorts, and chalk bag.

The mental and physical strength required are beyond comprehension. Alex, your passion and courage are an inspiration to us all. Thank you for being the perfect embodiment of The North Face spirit of exploration.

In Europe, consumer demand for The North Face brand remains very strong across the region. Our wholesale business was particularly solid with growth of nearly 40% and D2C grew at a high single digit rate. The brand has tremendous momentum as we move into the second half of the year. Based on the forward-looking visibility we have into our order books as well as broad-based strength across key product categories and markets, we expect more than 15% growth for the balance of 2017.

In Asia, second quarter revenue sequentially improved as high teen growth in D2C was partially offset by an expected high teen decline in wholesale. From a product standpoint, outdoor training launched on April 1 with more than 40% sell-through, supported by the I Train For marketing campaign across the region and the opening of the first global outdoor training station in Shanghai.

Our urban exploration territory also continues to perform very well in Asia, providing consumers an opportunity to experience the brand through new use occasions. While the outdoor environment remains highly promotional in China, and we continue to consolidate our retail partners and aggressively manage inventory in the marketplace, we expect accelerated growth in the second half of 2017, including mid-single digit growth in the third quarter.

There is no change to our mid-single digit growth expectation for The North Face brand in 2017. That being said, based on our strong first half performance, current order book visibility and increased confidence for the balance of the year, we now expect growth to be at the higher end of that mid-single digit range.

Regarding the shape of our second half performance, fewer off-price sales and a significant shift in the timing of our order books from September to October, which Scott will touch on later, will likely result in a mid-single digit decline in revenue for the third quarter. Normalizing for the timing shift, however, revenue growth for the third quarter would be in the low to mid-single digit range.

Now to our largest and fastest growing brand Vans. Global revenue was up 9% with 7% growth in the Americas, 5% growth in Europe, and 29% growth in Asia. From a channel perspective, D2C increased more than 25%, with 45% growth in our digital business. As expected, wholesale declined at a low single digit rate. In the Americas, our D2C business remains strong with more than 20% growth in the quarter, including over 25% growth in digital and high teen comp growth.

Wholesale declined at a mid-single digit rate, pressured primarily by conditions in the family channel, where we are in the midst of a product transition and up against strong distribution gains a year ago. Based on current

visibility, as well as a significant momentum we have in the business, we now expect low double-digit growth in the Americas in 2017.

Vans brand growth extends across multiple product categories and families. While the Old Skool has recently become the number one classic style, the iconic slip-on and checkerboard styles and designs are seeing tremendous growth, up more than 65% in the quarter. Targeting the core skate community, the new athlete inspired UltraRange Pro was recently launched, and at a \$90 price point saw real strength in the market, with more than 70% sell-through in skate and board sport accounts.

Vans product collaborations have always been incredibly popular with consumers, and the Peanuts collab was no exception. And last but not least, our powerful customs platform which blends the experiential with the transactional increased at a triple digit rate, and is only beginning to tap its full potential in the market as we add functionality each month.

In Europe, the Vans business is performing better than expected as demand continues to accelerate. Our D2C performance was exceptional with more than 20% growth driven by more than 40% increase in digital, and 20% comp growth. In line with expectations, wholesale declined at a low single digit rate due to the timing of shipments.

Based on stronger-than-expected second-half orders, we now expect our Vans Europe business to increase at a low double-digit rate for 2017, including strong high teen growth in the second half of this year.

In Asia, our Vans business is firing on all cylinders delivering almost 30% growth, marking the fourth consecutive quarter of more than 20% growth in the region. Results during the quarter were powered by 45% growth in D2C with strength across all markets, including almost 80% growth in digital in China. Looking to our outlook for 2017, we now expect global revenue growth for Vans to be at the high end of our low double-digit growth range.

As expected, Timberland returned to growth in the second quarter, as global revenue increased 3% in line with our low single digit growth outlook for the year. Growth was nicely balanced with a mid-single digit increase in D2C and a low single-digit increase in wholesale. Timberland brand revenue in the Americas increased 4% with high single-digit growth in D2C including 25% growth in digital and low single-digit growth in wholesale. Our non-classics business increased at a low double-digit rate during the quarter with more than 100% growth in our new platforms, including SensorFlex and Aerocore. Our Timberland PRO business also remained very strong, with more than 20% growth.

Our growth strategy is gaining traction as we work to diversify the North America business toward a more balanced assortment. The strong sell-through we are seeing with our non-classics products gives us confidence we can drive accelerated growth in the second half of 2017 and into next year.

In Europe, Timberland brand revenue was up 4% in the second quarter, driven by low double-digit growth in D2C, partially offset by a modest decline in wholesale. Growth across the region is strong and broad based with more than 35% growth in our new platforms, such as SensorFlex and Aerocore, and high single-digit growth in apparel. Our European business has good momentum, and is expected to deliver high single-digit growth in the second half of 2017.

Timberland's Asia business improved sequentially but was down 1% as D2C declined at a low single-digit rate and wholesale was in line with last year. High single-digit comp growth including more than 50% growth in digital revenue was offset by our strategic decision to close underperforming doors in some of our more mature markets.

At the same time, our new Footwear Plus D2C concept is performing well across the region and we continue to achieve scale and significant momentum in China as revenue increased an impressive 60%.

Regarding the shape of our second half performance, similar to The North Face brand, the significant shift in the timing of the order books will likely result in a low single-digit decline in revenue for the third quarter. However, when normalizing for the timing shift, revenue growth for the third quarter will likely be in the low single-digit range. There is no change to our low single-digit growth outlook for Timberland brand in 2017.

Moving to the Wrangler brand. As expected, global revenue for the second quarter was down 2%. D2C increased at a low double-digit rate but was offset by a low single-digit decline in wholesale. Revenue in the Americas declined 2% while revenue in Europe increased 5%, and Asia, which represents less than 3% of global brand revenue, declined at a low double digit-rate for the quarter, primarily because of the continuing demand weakness in India, primarily related to fiscal policy changes.

As we outlined in April, our U.S. business continues to be impacted by inventory destocking related to the strategic repositioning of a key customer and channel consolidation. And while our forward visibility remains low and the quarter-to-quarter variability is difficult to predict, we do believe we're on track to return to moderate growth in the second half of this year, most notably in the fourth quarter. And we're seeing strong growth with our digital wholesale partners and in our own wrangler.com business.

Our efforts to elevate the brand and extend more deeply into new channels, such as department stores and specialty retail are showing early signs of success. From a product perspective, the 70 anniversary Retro Glory connection continues to attract new and existing consumers with strong sell-through globally. And to wrap up the Wrangler brand, our outdoor line is performing very well.

Now to the Lee brand. Revenue declined 6% with 25% growth in D2C offset by a low double-digit decline in wholesale. The Lee Americas business was down 9% as ongoing channel weakness and consolidations as well as difficult market conditions in our women's product more than offset solid performance in our men's business. X-Treme Comfort Khakis and Extreme Motion denim are clearly resonating with the male Lee consumer.

Lee Europe was down 4% as low single-digit growth in D2C was offset by a mid-single-digit decline in wholesale. In Asia, revenue declined slightly as mid-single-digit growth in China was offset by ongoing weakness in India. Our women's business in China increased at a double-digit rate powered by our BODY OPTIX and Jade Fusion innovations, which should drive improved performance in the second half of 2017.

Turning now to Imagewear. Revenue was up 12% in the quarter due in part to LSG jersey sales. As part of the transition agreement with Fanatics, which acquired our licensing business earlier this year, we will supply jerseys for one year following the transaction. Excluding the impact of LSG jersey revenue, our Image business was up 2% and, consistent with our growing optimism about our workwear platform, which includes our Image business as well as our Timberland PRO and Wrangler RIGGS Workwear, revenue growth accelerated to 8% in the quarter with at least 20% growth in three of our largest brands, Timberland PRO, Bulwark and Wrangler RIGGS Workwear.

We are very bullish on the workwear space and are clearly the advantaged owner in our highest return on capital business. In addition to the macro tailwinds we see forming, we have a unique opportunity to drive accelerated growth and value creation in a highly fragmented market. We will accelerate growth by leveraging our expertise, capabilities and platforms with some of the strongest brands in the sector. With this solid performance and

favorable outlook, we now expect Image revenue to increase at a mid-single digit rate in 2017, excluding the LSG jersey business, and up from our previous estimate of a low single digit rate increase.

Looking at Sportswear, revenue is showing signs of stabilization and profit has improved. Congratulations to our new management team, which is beginning to make progress in a difficult environment.

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

Scott A. Roe

Chief Financial Officer & Vice President, VF Corp.

Thanks, Steve. Our second quarter results were right in line with our expectations and came in at the high-end of the range we communicated back in April. Revenue growth accelerated to 3% during the quarter driven by strong results from our core growth engines. Our big three brands were up 7% on a combined basis led by strength in Vans and The North Face brands which grew 9% and 6%, respectively. As expected, Timberland delivered 3% growth in the quarter and our workwear businesses increased 8% collectively with Timberland PRO, Bulwark and Wrangler RIGGS all achieving at least 20% growth.

Our international business grew 6% with consistent growth across all three regions. China remains our fastest-growing market generating 18% growth. And we were particularly encouraged to see that our direct-to-consumer business was up 14% including more than 35% growth in our digital business that's even more impressive when you consider that our store count is down from the prior quarter and our growth rate accelerated. Our Outdoor & Action Sports, Jeanswear and international businesses all achieved high teen D2C growth during the quarter.

Our D2C business has significant momentum, as we head into the second half of the year, but more on that in a minute. Consistent with our expectations, wholesale revenue declined 2% primarily due to the channel pressures in our Jeanswear North American business, which we've previously discussed. International delivered low single digit growth and our digital wholesale accounts grew at a high single digit rate through the first half. Gross margin remains strong at 49.7% up 80 basis points which includes an 80 basis point negative impact from changes in FX that is 160 basis point increase currency neutral and better than our prior expectations.

As we discussed, we remain sharply focused on fundamentals even at the expense of a little bit of revenue growth in the near term. First half gross margins of 49.9% were up 180 basis points currency neutral. Our strong gross margin performance is a core element of the diversified value creation model. It provides us with flexibility and fuel to accelerate investment and drive growth behind our largest opportunities.

SG&A as a percentage of revenue was up 210 basis points to 42.6% in the quarter. To address a question likely on your mind, let me take a few minutes and provide more context around the shape of our expense and investment profile this year. And keep in mind that the second quarter is the lowest volume quarter of the year, so our SG&A ratios are always a little distorted. While we remain diligent with respect to overall expense control, we are making deliberate growth-focused investments in our strategic priorities, D2C and in particular digital, product innovation, demand creation and technology. In fact, through the first half, our investment in these areas account for more than all of the SG&A increase versus last year, as our focus on agility and cost optimization allowed us to reduce cost elsewhere.

As we told you in Boston at our Investor Day, we've made the strategic decision in 2017 to begin investing now rather than wait for our anticipated growth acceleration in the second half. In fact, we've committed an additional \$40 million of investments in demand creation and strategic priorities this year. Our investments will accelerate growth as we move into 2018, and it's to our advantage to move quickly and take the offensive.

Our brands are strong. And in a marketplace that continues to experience significant disruptions, we believe we have a unique investment and growth opportunity when many of our competitors are on their heels. So putting this all together this means that we expect SG&A to deleverage through the first three quarters of this year.

As our growth accelerates in the fourth quarter and we begin to realize the benefit of our agility and cost optimization efforts, we expect to drive significant leverage in SG&A in the second half and into 2018.

Second quarter operating margin declined 130 basis points to 7.1% including a 70 basis point negative impact from changes in FX as well as the growth investments just mentioned. So carrying all this to the bottom line, our EPS of \$0.29 was in line with prior year on a currency-neutral basis.

Turning to the balance sheet, our inventory increased 3%, slightly less than our second half growth expectation. During the quarter, we repurchased about \$760 million of stock, bringing our total share repurchase to \$1.2 billion so far this year. That's \$200 million higher than our previous expectation, and when combined with our strong dividend, brings our anticipated total cash return to shareholders in 2017 to more than \$1.8 billion. That's an 8% cash flow yield based on our current market cap.

The first half was in line with or slightly better than we expected. Based on the momentum we have in our business and the additional investments we're making to fuel accelerated growth, we are raising our outlook for the full year. Our updated 2017 outlook now includes the following: Reported revenue is expected to be up 2% or 3% on a currency-neutral basis to \$11.65 billion. This compares to our previous expectation of low-single-digit increase. Our increased revenue outlook is driven by strength in Outdoor & Action Sports, particularly Vans and The North Face, increased expectation for D2C, most notably digital and higher growth from our workwear businesses.

Gross margin is now expected to improve about 40 basis points to 49.8%, which still includes a 70 basis point headwind from FX. This represents a 20 basis point improvement relative to our previous outlook of 49.6%. Operating margin is still expected to approximate 14% on a reported basis, including about a 60 basis point negative impact from changes in FX.

EPS is now expected to be \$2.94, down 1% on a reported basis but up at a mid single-digit rate on a currency-neutral basis. Our outlook now includes \$0.08 per share or \$40 million pre-tax impact from additional investments to fuel accelerated growth into 2018. As a reminder, our prior EPS outlook was a range of \$2.89 to \$2.94.

Now, let me provide a few comments regarding the shape of our second half. As it relates to the third quarter, which has historically represented the peak for fall shipments, we've seen a significant shift in order book timing from the end of September to early October. Simply put, as consumers buy closer to need, our key retail partners are setting their floors later, which pushes our shipments from what has traditionally been Q3 into Q4. And while we have visibility to the orders, the shift has pushed almost \$100 million of wholesale revenue into Q4 compared to a year ago.

As a result, we expect revenue growth in the third quarter to be in the low-single-digit range and EPS to be in the range of \$1.09 to \$1.12. Normalizing for the wholesale timing shift, our revenue and EPS growth rate for Q3 would be in the mid-single-digit range.

So with the first half behind us, we are confident in our increased growth outlook and have good momentum as we move into the second half of the year. Our core growth engines are delivering high-single-digit growth, our

gross margin is strong, our fundamentals are intact and we are investing in our future growth drivers. And as Steve mentioned, given our momentum and the confidence we have in our growth plan, we're putting more investment behind our largest brands and growth platforms and returning more cash to shareholders. We will create momentum not wait for it.

If you take away one thing from our comments, I hope that one thing is confidence; confidence in our outlook, confidence in our brands and our people; and confidence in our strategy.

I'm going to close by addressing the topic I know is top of mind for many investors, the M&A environment. As you recall, reshaping our portfolio is the number one choice in our 2021 strategy. We are committed to active portfolio management. As we've said, we believe we are a value-creation company. We have a robust pipeline of opportunities, and the activity has increased over the past few months, and we continue to evaluate the shape of our existing portfolio. We look forward to keeping you updated on our progress.

With that, I'll turn it back to the operator, and we'll open the call for your questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] We'll have our first question from Bob Drbul with Guggenheim Securities.

Robert Drbul

Analyst, Guggenheim Securities LLC

Hi, guys. Good morning.

Q

Steven E. Rendle

President, Chief Executive Officer & Director, VF Corp.

Morning, Bob.

A

Scott A. Roe

Chief Financial Officer & Vice President, VF Corp.

Morning, Bob.

A

Robert Drbul

Analyst, Guggenheim Securities LLC

I guess the two questions, the first one is more on when you look at the third quarter expectation and some of the detail, on like the order book or the changes in the order book, have there been any material changes to the total number? Or is it just the shift into the third or the timing of it? And the second question that I have is around the Jeanswear business, can you just give us an update on the transition that's underway? And is there really a sight line to stabilization in the Jeanswear business where the profit pressures are pretty significant?

Q

Scott A. Roe

Chief Financial Officer & Vice President, VF Corp.

So, Bob, I'll take the first part of that. First of all, our visibility versus what you guys can see is really what we tried to bridge here, right. There is really no change in what we see for the full year relative to the order books. And we're just talking about a little bit of a shift in timing. And just to put that in perspective, we're literally talking about

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a couple of weeks, but that's the difference between Q3 and Q4. So absolutely no change in the big picture. Just a little bit of timing between Q3 and Q4. That's why we tried to zoom out and say if you look at the second half, it's kind of in that mid-single digit range and normalizing, but you're going to see a little bit of noise when you compare to last year when you specifically look at just the third quarter.

Steven E. Rendle

President, Chief Executive Officer & Director, VF Corp.

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And, Bob, your Jeanswear question, really there's little new news and little change to what we talked about in the past. The big picture remains the same. But our visibility is not great and we expect variability as we continue through the year. Though we do see a line of sight to an uptick coming back in the fourth quarter. I think it's important to remember in our Jeanswear business, our international business continues to be strong, especially in China where we see our Lee women's business continue to grow at double-digit growth rates behind the two innovations of BODY OPTIX and Jade Fusion. I think once we get through the destocking phase, velocity will increase, and that's where I think we, VF, really comes into play in our ability to respond quickly with the strength of our supply chain and the quality of our team that works on that business to be able to really read and react quickly to be right back in the game.

Robert Drbul

Analyst, Guggenheim Securities LLC

Q

Great. Thank you very much.

Operator: We'll go next to Lindsay Drucker Mann with Goldman Sachs.

Lindsay Drucker Mann

Analyst, Goldman Sachs & Co. LLC

Q

Thanks. Good morning, everyone. With respect to your cold weather businesses, specifically North Face but also Timberland, is your view that your retail partners have ordered to reasonable end demand for a normal cold water season? Or are we in a stage here where they're ordering very, very tight and looking to chase? And have you based your orders on what you were pulling in, in terms of inventory in terms of their orders? Or have you put yourself in a position where you have excess inventory in order to chase into that demand?

Steven E. Rendle

President, Chief Executive Officer & Director, VF Corp.

A

Hi, Lindsay. This is Steve. I would characterize the outdoor specialty and even more broadly the outdoor community as buying very tight. With two years in a row, multi-years, where we've seen variable winters, retailers are playing it very close to the vest. They're investing behind those brands that have momentum and in bringing those truly innovative products. Our inventory, as you know, we buy to our order book with a real thoughtful amount of reorder around key styles within each of these brands.

I would tell you where the strength sits for us is in the performance of our D2C, and you saw it in this quarter where our comps are strong, our digital is exceptional. And I really would put that behind – the marketplace is clean and we're sitting in an environment where we're able to really come to market with a loud voice and put our best products in front of our consumers and through our elevated experience draw them into our environments to interact more holistically with us.

Scott A. Roe

Chief Financial Officer & Vice President, VF Corp.

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Can I just pile on there a little bit, Lindsay. This is Scott. So, really, if you put that as it relates to the rest of the year, we're not – our ability to chase is limited from a wholesale, and probably where if – as we see momentum in digital and D2C, that's really our opportunity if strong trends continue.

Lindsay Drucker Mann

Analyst, Goldman Sachs & Co. LLC

Q

Got it. And, Scott, could you just walk through the drivers of the gross margin improvement in the quarter? I know you talked about FX but anything specific to channel shift, direct versus wholesale, costs, pricing et cetera, to break down the change that we saw in the quarter would be helpful?

Scott A. Roe

Chief Financial Officer & Vice President, VF Corp.

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Sure. So there's about 80 basis points of negative impact from FX, I think that was in the prepared remarks, so that means about 160 currency neutral. That mix has been really consistent at that 50 to 60 basis points, and we saw the mix coming through, that's our D2C, digital, international businesses being strong. Remember also, we talked in February about the shape of cost, right, so cost through the first half is a tailwind to us. It turns to a little bit of a headwind in the second half, for the full year it's really not much of a factor.

So we're seeing a little bit of benefit now that'll turn negative in the second half but really not a huge factor, like I said. And then the other thing is honestly just better fundamentals. We've reduced our off-price sales. We're focused on not bringing excess inventory into the channel, and we're seeing more full price sell-through along with better D2C and digital. Those things are all pretty virtuous from a gross margin standpoint.

Lindsay Drucker Mann

Analyst, Goldman Sachs & Co. LLC

Q

Great. Thanks so much.

Scott A. Roe

Chief Financial Officer & Vice President, VF Corp.

A

Thank you.

Operator: We'll go next to Michael Binetti, UBS.

Michael Binetti

Analyst, UBS Securities LLC

Q

Congrats on a nice quarter. I want to ask about the \$40 million in incremental investment, obviously we just went through the big five-year outlook with an investment plan there, and so now we've got \$40 million on top of it. I just want to ask at a high level, as you think about that what are some of the areas that you're seeing. Is it more recent stuff that you see as an opportunity you decided to dial up \$40 million? Or is it just extending things from the analyst day, and then obviously, how do you think about the payback on dialing that up after you already gave an initial plan? How does that \$40 million flow through to your earnings outlook, maybe in the out year?

Steven E. Rendle

President, Chief Executive Officer & Director, VF Corp.

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Michael, this is Steve. So really it's based on our confidence. As we look at where we are, year-to-date and what we, line of sight to what we have for the balance of the year, we just have confidence. And what we'd like to do and what we've chosen to do is thoughtfully invest behind a select number of our strategic choices that we outlined in Boston to get us moving into 2018 where we talked about maintaining and building continued momentum.

So about a quarter of that \$40 million is going against demand creation within our big three brands in D2C and digital. We expect that to have an impact this year, and into next year, but half is around specific strategic priorities; design and innovation, data and analytics, our digital platform, absolutely continuing to move on advanced manufacturing and innovation projects we have in play there, and then talent. Talent really is the great driver for us long term, and we're continuing to look at acquiring as well as developing key talent to help us grow long term.

Michael Binetti

Analyst, UBS Securities LLC

Q

Got in. And then on North Face specifically, I think one thing that we heard coming out of the analyst day was I think we have some new leadership there, so maybe [ph] there would be (37:04) some more material updates to the strategy after the analyst day. I'd love to check in on that. How you guys are feeling about innovation for the year, and then also just a little bit more on some of the strength you're seeing in Europe, where is that coming from? There's been several quarters now of very, very big growth above what you see across, I guess, a lot of the channels in Europe from other companies, so, I'd love to hear a little bit more about what's driving that business.

Steven E. Rendle

President, Chief Executive Officer & Director, VF Corp.

A

Yeah, I'd love to talk about that. I think you remember, in Boston, we introduced you to Arne Arens, who, at that point had been a leader of our European business, and we were moving him to be the GM of the Americas business. He has since been appointed the President of the Global North Face business, and just bringing that strong leadership presence and vision that he had in Europe to our total global business. And you just really see that in very short order, the confidence that now sits within that broader North Face team, the clarity of focus against their strategy, and you're starting to see the momentum in our D2C business, specifically.

I'll answer your point on what, as we think about the year in innovation. The Apex Flex jacket, which came out in the spring, was a really good beginning to seeing new products move into the marketplace. This fall, you are going to see a dramatically updated Summit Series collection, and there's a jacket in there called the Ventrax that we're very excited about, that not only plays into the Tier 1 aspect of the marketplace, but also into some of the broader market partners.

We also see some new ski lines coming in conjunction with the focus on mountain sports and then urban exploration, more of that North Face lifestyle presentation that just gets us into a broader set of usage occasions.

I think what you see going on in Europe really is a much tighter focus. If you remember a couple of years ago, we went through a reset there as well, and Arne led the return to growth through much, much more focused integrated marketplace management, and significant segmentation, tailoring and merchandising lines, specifically to wholesale partners as well as our own D2C. And as that momentum builds, you are seeing those results, not only in our first half, but in our expectation of getting that mid-teen growth through the balance of 2017. So it

speaks to the benefit of quality leadership, clarity of vision, and focusing on creating products and brand experiences that consumers can be drawn into.

Michael Binetti

Analyst, UBS Securities LLC

Q

I guess just to follow that really quickly, we can see as we go through your stores in the U.S. now, some of the bigger ones starting to get segmented harder between the four different North Face segments. Is the thinking that we can really follow that similar roadmap that's driven such nice growth rates in Europe, in the U.S., I guess, as you pull back on some of the wholesale doors in the U.S.? You still think there's pretty good growth rates ahead for The North Face as you start pushing out similar segmentation strategy here in the D2C side?

Steven E. Rendle

President, Chief Executive Officer & Director, VF Corp.

A

Oh, we absolutely do, Michael. I think you remember in Boston we talked about a brand that would grow 6% to 8% on a five-year CAGR. We just raised our guidance this year to the high end of our mid-single, which is at the low end of that 6% to 8% growth CAGR that we posted for the five years. So, no. We have great confidence. This move into these four specific brand territories just allows our product team and our marketing team to focus on these key usage occasions for our core consumer, speaking to the core consumer but also attracting new consumers. And you see that in Europe, you see that in Asia, and we have great confidence that that will absolutely work here in the domestic market.

Michael Binetti

Analyst, UBS Securities LLC

Q

Okay. Thanks a lot [indiscernible] (41:08)

Operator: We'll go next to Camilo Lyon, Canaccord Genuity.

Camilo Lyon

Analyst, Canaccord Genuity, Inc.

Q

Thanks. Good morning, gentlemen. How are you?

Steven E. Rendle

President, Chief Executive Officer & Director, VF Corp.

A

Hey, Camilo.

Camilo Lyon

Analyst, Canaccord Genuity, Inc.

Q

I was hoping you could speak a little bit about your endeavors around accelerating your speed-to-market capabilities and where do you see – which brands you see the most opportunity, and that impacting the P&L first to last? I think that's clearly a function that you guys are working hard [indiscernible] (41:42) already have expertise in. But I'm curious to know where your thoughts are? And how you can really leverage that to your benefit, so you can extract more from your D2C goals across the brands?

Steven E. Rendle

President, Chief Executive Officer & Director, VF Corp.

A

Right. Well, we talked a little bit about this, Camilo, in Boston, and it's a foundational element of our new five-year strategy. It's one of those key choices around transforming to be more consumer and retail centric. And what we're looking at there is really the end-to-end process of product creation and everything to do with going to market. We've got a number of projects underway with our largest brands, where we're really tearing down the timelines of product creation as well as manufacturing, and looking at where can we take time out? How can we use digital technology to advance our ability to be more agile? But it's also through the integrated marketplace strategy, segmentation, and merchandising, very specific collections to the distribution choice in building really well-articulated, well merchandised collections, and flowing them in a more relevant and consistent way.

So moving away from this old wholesale model that you've seen so many people do over the years, to being present more often, through more thoughtfully merchandised lines. And it's challenging every aspect of our product creation cycle. Our supply chain is deeply involved in this project in really helping shepherd how our product creation teams are looking at this and how they can be more integrated and thoughtful in improving our speed to market.

Camilo Lyon

Analyst, Canaccord Genuity, Inc.

Q

Is it right to think that North Face may be the brand that feels the benefits of this first as you layer on the innovation that you're talking about, the segmentation of your four categories and how you're improving the global process?

Steven E. Rendle

President, Chief Executive Officer & Director, VF Corp.

A

The North Face is certainly one of those brands that's deep into the work, and I think each one of our big brands will benefit. But to your point specifically, yes, The North Face will benefit thinking through the lens of four specific territories across each of the regions into each of the specific channels. When you can focus on doing fewer things better, the results typically are always very positive.

Camilo Lyon

Analyst, Canaccord Genuity, Inc.

Q

And then, Scott, since you brought it up, I was just curious to get your latest thoughts on if your hunting ground for acquisitions has changed or has evolved, I'll assume that the discussions – well, tell me if the discussions have changed to become a little bit more fluid with respect to valuations, and if there's been a closer dialog with respect to the meeting grounds of where buyers and sellers sit?

Scott A. Roe

Chief Financial Officer & Vice President, VF Corp.

A

Well, I guess, I'd answer it this way, Camilo. One of the nice byproducts of the disruption and the carnage in our sector is the fact that valuations are coming a little bit our way. And given our strong balance sheet, the cash that we generate, that puts us as an advantaged acquirer in this space. So valuation, as I try to say, is only one component of the equation, right, and it has to be, first of all, the right brand, the right space, and something that we're an advantaged owner to make it make sense. But given that, valuations are always going to be a key component and valuations, in general, are moving our direction. So I would say it's a slightly more favorable environment compared to, say, the last 12 to 24 months.

Camilo Lyon

Analyst, Canaccord Genuity, Inc.

Q

And then for your hunting ground, it used to be, if I recall correctly, you were focused on the outdoor action sports space. Footwear was a key category that you've been looking at. Has that evolved?

Steven E. Rendle

President, Chief Executive Officer & Director, VF Corp.

A

Yes, Camilo. This is Steve. I'll take that. If you remember back in Boston, I stated pretty clearly that I'd really like the external world to not think of us as an outdoor and action sports company but as a value creation company that is deeply informed by our understanding of our core consumer, anchored in our powerful brands, and certainly a center of gravity sitting in outdoor and action sports but it's less about really the sector and it's more about the consumer usage occasions. And where can we find a way to bring our skills and capabilities and the benefits of our platforms to bear to unlock these new pools of value. The number one choice in our integrated strategy is reshaping our portfolio and we are extremely committed to doing just that and aligning our portfolio to be consistent with our financial aspirations.

Camilo Lyon

Analyst, Canaccord Genuity, Inc.

Q

Got it. Thanks a lot, guys. Good luck.

Operator: We'll go next to Laurent Vasilescu with Macquarie.

Laurent Vasilescu

Analyst, Macquarie Capital (USA), Inc.

Q

Good morning, and congrats on the gained momentum in the business. I wanted to follow up on the incremental investments. In terms of the \$0.08 impact, how should we think about it between 3Q and 4Q? And can we potentially further parse out in basis points the SG&A deleverage anticipated for the third quarter versus deleverage expected for the fourth quarter?

Scott A. Roe

Chief Financial Officer & Vice President, VF Corp.

A

Good morning, Laurent. I would expect a question like that as you're building that massive model. We haven't really shaped it beyond Steve made a comment. Some of that is in the second quarter. You saw some of that incremental investment we even got going in the second quarter. And it's relatively balanced through the third and fourth, is the way, I would answer that. And from a gross margin standpoint, we have talked to you about the full year. You know what the first half is. You can assume that's fairly linear through the back half. So I think that gives you the pieces to shape the second half of the year and model it out reasonably well.

Laurent Vasilescu

Analyst, Macquarie Capital (USA), Inc.

Q

Okay. Super helpful. And then a non-modeling question. A number of key vendors like NIKE and Ralph Lauren have recently outlined efforts to edit the SKU count going forward. At your March Investor Day, I think the term editing the portfolio was used several times. So aside from any potential divestitures or acquisitions, are there any internal processes you may be putting in place around SKU assortment to further drive the gross margin over time?

Steven E. Rendle

President, Chief Executive Officer & Director, VF Corp.

A

Yes, Laurent, that's real key to the transformation project that I answered just a little bit ago. As you think about an integrated marketplace and what's the correct number of SKUs in each of the specific deliveries to be agile and relevant to our consumer, editing SKUs to amplify stronger product is a key, key part of that. I don't have any specific metrics that I would share with you today, but it is central to how we are thinking about editing to amplify, and becoming much more agile with how we come to market across each of our big brands.

Laurent Vasilescu

Analyst, Macquarie Capital (USA), Inc.

Q

Okay. And if I can squeeze one more in. Shipping out to \$100 million shift from 3Q and 4Q, can we expect the wholesale business to be roughly flat to slightly up in the fourth quarter, especially as you lapped last year's U.S. bankruptcies?

Scott A. Roe

Chief Financial Officer & Vice President, VF Corp.

A

Yes. That's a reasonable assumption. You will see relative – you'll see the strongest wholesale growth of the year in the fourth quarter for the reasons that you mentioned, also, we're lapping – we have the bankruptcy impacts of a year ago, and you are also starting to lap the destocking activities in the fourth quarter.

Laurent Vasilescu

Analyst, Macquarie Capital (USA), Inc.

Q

Super helpful. Best of luck.

Scott A. Roe

Chief Financial Officer & Vice President, VF Corp.

A

Yeah. One other thing just to add on that too. Don't forget Vans Europe really is returning back to growth. We talked about that order book being in the double-digit range in the second half. So that's a third factor.

Operator: We'll have our next question from Dana Telsey, Telsey Advisory Group.

Dana Lauren Telsey

Analyst, Telsey Advisory Group LLC

Q

Good morning, everyone and congratulations on the improved results. As you think of the digital wholesale business and the growth that you're seeing there, how do you think about your strategy with the Amazons of the world? And then as you're thinking about D2C, which seems to have accelerated, what are your plans for store openings and closings in the different regions? Thank you.

Steven E. Rendle

President, Chief Executive Officer & Director, VF Corp.

A

So, Dana, I'll start here. So I think it's more about how do we think about really the digital wholesale partners that we have across the globe. And you know there's major pure plays, there's also key customers that we've been with for years. And they're part of that integrated marketplace set of choices that we have. And they're a very important part. We talked about that in Boston that our digital wholesale partners is a significant part of our growth in the next five years.

Amazon is an important customer, and just we have some of our brands that have 1P relationships, we have some brands that have 3P relationships, and we have some brands that have chosen to continue to look at, and

measure just how they could successfully work with Amazon, and more importantly here in the U.S. marketplace long-term.

I think it's fair to say, you will see The North Face open up a 3P partnership and have a trial going into fall 2017, or you might even want to call that a pilot, as we look at how to integrate Amazon into the long-term integrated marketplace strategy for The North Face here in the United States. We are working with Amazon in Europe, and we'll look at how we can do that here. But I would remind you, there's a number of great players around the globe Alibaba, Zalando, all of those are key wholesale partners for us long-term.

Dana Lauren Telsey

Analyst, Telsey Advisory Group LLC

Q

Thank you. And on the direct-to-consumer piece, on the retail stores part?

Scott A. Roe

Chief Financial Officer & Vice President, VF Corp.

A

Yes. Maybe I'll start with a little bit of that, Dana. First of all, good morning. So we talked about the fact that our store count actually was down very modestly versus the last quarter and the reason to highlight that is just to pay off the fact that we said we are serious about looking at our portfolio from a profitability standpoint, and we are really focused on improving the performance of editing our underperforming stores, and focusing on those formats and brands which are very successful. So you'll see that even if it costs us a little top-line we are willing to take those actions and that really is a payoff against that.

Having said that, we are really committed to brick-and-mortar stores going forward because we think that's part of that integrated marketplace that Steve mentioned. That's the highest and penultimate experience of our brands and we see that as a critical component to the overall picture. So we talked about 50 net store openings this year and you can expect something similar to that going forward according to our long-range plan.

Dana Lauren Telsey

Analyst, Telsey Advisory Group LLC

Q

Thank you.

Steven E. Rendle

President, Chief Executive Officer & Director, VF Corp.

A

You bet. Thank you, Dana.

Operator: We will go next to Matthew Boss, JPMorgan.

Matthew Robert Boss

Analyst, JPMorgan Securities LLC

Q

Thanks. So on gross margin, is it still fair to think about 40 to 50 basis points of underlying expansion from mix just on an annual basis? And if so, can you just walk through the drivers? And then separately on SG&A, I guess given your comments earlier, should we expect expenses to grow below the pace of sales as we move into next year and beyond?

Scott A. Roe

Chief Financial Officer & Vice President, VF Corp.

A

Yes, so first of all gross margin, yeah, you're right in that zone. Our mix is a little ahead of our long-term rate but we've said that 40 to 50 basis points should be sustainable and it's pretty simple. Our highest margin businesses are our fastest-growing. That's been true and we expect that to continue to be true, that being our international business, our digital and our D2C, in general, plus Outdoor & Action Sports, our big three brands, have higher gross margins than the total. So that mix we expect to continue.

I'll just remind you of kind of the formula, right. Our gross margins expand. We're investing from an SG&A standpoint in those strategic drivers, and then looking for leverage as we talk about platforms across VF looking for leverage in all other expenses. And that's how this formula works together. So as it relates to SG&A, we'll continue to invest in SG&A over time. That's going to be below our margin expansion. We talked about it in our 2021 plan, our operating margin will expand over the next five years. But let's be clear. We are going to continue to invest around those growth drivers, particularly D2C and specifically digital underneath that.

Matthew Robert Boss
Analyst, JPMorgan Securities LLC

Q

Got it. Thank you.

Operator: We'll go next to Sam Poser, Susquehanna.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

Good morning. Thanks for taking my question. I've got a couple. Can you clarify the change in your currency neutral revenue guidance between what you had prior and what you're giving now?

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

A

Yes. I'll start. Hey, Sam. This is Scott. So, yes, we said last time low single-digit currency neutral and reported with two points of currency. So that, obviously if you do the math, says about 1%. And now we're raising that to about 2% at \$11.65 million (sic) [\$11.65 billion] (56:22) So that's how we get from and to. And we've given you a very specific revenue target at \$11.65 million (sic) [\$11.65 billion] (56:32)

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

So your currency impact is the same, just you're raising the numbers?

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

A

Well, no. There is some currency benefit. If we think about what's happened in the currency markets, our largest exposure is the euro and it's a little favorable. Our second largest is the pound, which is very unfavorable. But when you net that together, there is some benefit from a currency standpoint, although not significant.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

Okay. And then two other just housekeeping. Most of the questions have been answered. The tax rate you're looking for the full year and the share count, what's built into the share count in this guidance?

Scott A. Roe

Chief Financial Officer & Vice President, VF Corp.

A

Yes, so, we don't give you the share count per se but we talked about \$1.2 billion of buybacks, so, I guess the math can be done. As it relates to the tax rate, we said about 20%. And that's consistent with what we said in our last guidance.

Sam Poser

Analyst, Susquehanna Financial Group LLLP

Q

Thank you very much and good luck.

Steven E. Rendle

President, Chief Executive Officer & Director, VF Corp.

A

Thanks, Sam.

Scott A. Roe

Chief Financial Officer & Vice President, VF Corp.

A

Thanks, Sam.

Operator: We'll go next to Erinn Murphy, Piper Jaffray.

Erinn E. Murphy

Analyst, Piper Jaffray & Co.

Q

Great. Thanks. Good morning. I was curious on your Sportswear business. It was much better in the second quarter versus the down [ph] 17% (57:47) in Q1. Is there anything noteworthy to call out as it relates to department floor space that was driving that? And then what is your visibility just in that channel as you go into the second half? Thanks.

Steven E. Rendle

President, Chief Executive Officer & Director, VF Corp.

A

Hi, Erinn. This is Steve. So I think what we see going on there, we put a new leadership team in place there in January. Brendan brought a really strong understanding of retail. One of the areas we wanted to quickly shore up was our outlet business, and that's really around productivity and how we're really converting the traffic that comes in our doors. Concurrently with that, we last year continued to look at our product offering and evolving that to be – to allow us in the same idea of an integrated marketplace have specific products for each of our different channels of distribution. And I think what you see happening this year is what we have going on in the department store is relevant to that consumer, it's different than what you have in our outlet stores and online.

And I think just with a more-focused assortment and a slightly-cleaner marketplace, we're seeing that drop to our profitability as we continue to look to reignite sales. Really don't have a line of sight to what the balance of the year, otherwise we're going to continue to do more of the same and bring relevant, third and fourth quarter styles through the lens of the Nautica heritage that we've seen working really well, and again just these assortments specific to each of the channels, which is new to some of the things that we've done in the past.

Erinn E. Murphy

Analyst, Piper Jaffray & Co.

Q

Got it. Thank you.

Operator: We'll go next to Kate McShane, Citi Research.

Kate McShane

Analyst, Citigroup Global Markets, Inc.

Q

Thanks for taking my question. With regards to the operating margin for Jeanswear specifically, can you help us understand the mechanics of the operating margin during the quarter and for the rest of the year, how much of it has to do with the destocking and how much is FX related?

Scott A. Roe

Chief Financial Officer & Vice President, VF Corp.

A

Sure. I'll take it. Kate. Good morning. So first of all, there's a few dynamics that are going on in the profitability. First regarding margin, we've made a strategic decision to put more innovation and more make into the channel as an offensive move. But it's at a time when pricing is difficult. So that has put pressure on our margins in the short term. We think that's the right move. Remember the big picture here, right? We're going through a disruptive phase but we're really targeting and focused on when we come out of this, right. We're trying to position ourselves to be the strongest brand standing at the end of this process. And as a result, we decided from a short-term profitability standpoint, we'd make that strategic decision.

The other side of that is, again we're playing really to win in the long-term, so we've maintained our demand creation investments through this difficult period. We could've easily made a different decision which would have helped us from a short-term profitability, but we think again for those same reasons the smart move here is to play for the long game and for the endpoint. And so we're going to see tough margins through this year and really those same drivers that I just mentioned that we're seeing in the first half, you will see those themes continuing into the second half.

Steven E. Rendle

President, Chief Executive Officer & Director, VF Corp.

A

Kate, I would add to that why we've made the decision to maintain our demand creation is we see in our specialty business, specifically the Western category, Wrangler RIGGS, but also mentioned the 70 Retro Style as we look to open up the lens of our Wrangler brand, and open it up to a broader set of channels, we're seeing really nice traction taking hold in some of these new points of sale moving up the distribution channel, and we think it's important to continue to invest behind the brand to assure that that continues to go.

Kate McShane

Analyst, Citigroup Global Markets, Inc.

Q

Thank you.

Steven E. Rendle

President, Chief Executive Officer & Director, VF Corp.

A

Thank you, Kate.

Scott A. Roe

Chief Financial Officer & Vice President, VF Corp.

A

Thank you, Kate.

Operator: Our last question will come from Jim Duffy, Stifel.

Jim Duffy

Analyst, Stifel, Nicdaus & Co., Inc.

Q

Thank you. Good morning, guys. I hope you're doing well.

Scott A. Roe

Chief Financial Officer & Vice President, VF Corp.

A

Hey, good morning, Jim.

Jim Duffy

Analyst, Stifel, Nicdaus & Co., Inc.

Q

A couple of questions from me. You mentioned that the visibility on the Jeanswear business is difficult, is the destocking headwind behind you at this point in the Jeanswear category?

Scott A. Roe

Chief Financial Officer & Vice President, VF Corp.

A

No, Jim, it's not behind us. It's progressing. And just to put a little shape on that, the reason we say, we kind of know the endpoint here, right. We know where the floors are going to end up. When we say lack of visibility, we don't control the pace of markdowns as the floor is cleared and that can have a really big impact on our sell-through depending on what's on sale, how deep those discounts are, et cetera. So the quarter to quarter cadence is going to be a little hard for us to project, but when you step back and say, there's only so much inventory on the floor to be cleared and we know where the endpoint is, you kind of know the goalpost, you're just not sure exactly what happens in between.

Jim Duffy

Analyst, Stifel, Nicdaus & Co., Inc.

Q

Fair enough. And then building on that, you've done a nice job managing the inventories. Can you talk about some of the things you're doing to keep inventory tight? And how it is that you're better managing the amount of off-price across all the brands, not just specific to Jeanswear?

Scott A. Roe

Chief Financial Officer & Vice President, VF Corp.

A

Yes. I guess I would say it started with the fact that I think from – we decided to play it a little on the conservative side. Right? We didn't build excess inventory. We gave guidance it's in the low end of the range. And we said we're willing to walk a little bit of revenue in order to improve the dynamics in the marketplace. So we're not building the field of dreams, right? We're not building inventory in the hope that it'll get it. We're not – we're trying to hold back a little bit and match order books closer to the conservative position. And we've seen over time that that type of action will pay off in the long run. It hurts us a little bit in the short term from a top line and short-term earnings, but for the long-term brand health and long-term growth, history has proven that's the right place we want to be.

Jim Duffy

Analyst, Stifel, Nicdaus & Co., Inc.

Q

Okay. Good. And then my last question, the sales model for some of the other businesses beyond Jeanswear have historically offered better visibility. In the U.S. wholesale channel, are your partners giving you a better baseline of visibility to plan the business? Or you still feel there is a fair amount of uncertainty as they try to get their arms around their own fundamentals?

Steven E. Rendle

President, Chief Executive Officer & Director, VF Corp.

A

Jim, I think here in the U.S., I think the wholesale community is playing things very, very tight to the vest, and rightfully so. The marketplace is transforming, and the historical ways of ordering are needing to change. And that's really central to how we're thinking about our transformation agenda, how we are being much more diligent around the integrated marketplace, understanding our channel partners, what's the space that we have to place product in, what's the frequency required to really be present and incent consumers to come in and interact with us, either in our own stores or wholesale. So I think things are tightening up, and they should, for all of us to be, I think, more in tune with what our consumers are asking us for. This notion of transforming is a really important aspect.

Jim Duffy

Analyst, Stifel, Nicdaus & Co., Inc.

Q

Okay. Thank you very much, guys.

Steven E. Rendle

President, Chief Executive Officer & Director, VF Corp.

A

You bet.

Scott A. Roe

Chief Financial Officer & Vice President, VF Corp.

A

Thank you, Jim.

Steven E. Rendle

President, Chief Executive Officer & Director, VF Corp.

A

Thank you, Jim.

Operator: That does conclude our question-and-answer session. I will turn the conference back over to Mr. Steven Rendle for additional or closing remarks.

Steven E. Rendle

President, Chief Executive Officer & Director, VF Corp.

Great. Thank you, everybody. I just want to reiterate, we are in the early stages of our journey to become a more agile and consumer-centric organization, and we are encouraged with where we are at the start of 2017. But I would just remind us all that we are at the beginning of this journey. Our core growth engines are delivering high-single-digit growth. Our gross margins are improving. And then our fundamental business disciplines are very, very intact.

We are choosing to thoughtfully invest in our future growth, and the confidence that we have year-to-date has us moving more quickly against our design and innovation agenda, driving demand creation, but also looking at some of the core platforms of advanced analytics, advanced manufacturing and specifically talent. We are

focused on creating momentum against our five years objectives, and we look forward to interacting with you in the future as this strategy unfolds. So thank you.

Operator: That does conclude today's conference. Thank you for your participation. You may now disconnect.

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