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VF Corp. (VFC)

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MANAGEMENT DISCUSSION SECTION

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

It is now my pleasure to introduce your host, Joe Alkire. Please go ahead.

Joe Alkire

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

Good morning and welcome to VF Corporation's Third Quarter Fiscal 2020 Conference Call. Participants on today's call will make forward-looking statements. These statements are based on current expectations and are subject to uncertainties that could cause actual results to differ materially. These uncertainties are detailed in documents filed regularly with the SEC.

Unless otherwise noted, amounts referred to on today's call will be on an adjusted constant dollar basis, which we defined in the press release that was issued this morning. We use adjusted constant dollar amounts as lead numbers in our discussion because we believe they more accurately represent the true operational performance and underlying results of our business. You may also hear us refer to reported amounts, which are in accordance with US GAAP. Reconciliations of GAAP measures to adjusted amounts can be found in the supplemental financial tables included in the press release, which identify and quantify all excluded items and provide management's view of why this information is useful to investors.

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

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

Steve?

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

Thank you, Joe, and good morning, everyone. Our third quarter performance was strong and our year-to-date results are at the high end of our long-term growth objectives and we're on track to deliver solid performance this year. And we're well-positioned for continued growth and value creation in fiscal 2021.

Before we review our third quarter results and adjusted outlook for the year, I'd like to take a moment and comment on the news we disclosed Tuesday morning regarding our intent to explore strategic alternatives for the Occupational Work portion of our Work segment, hereafter referred to as Occupational Work brands. Scott [ph] will cover (00:02:59) the specifics, but I'd like to highlight a few messages from the announcement materials.

Driving and optimizing our portfolio continues to be a top strategic priority for VF and exploring strategic alternatives for our Occupational Work brands is the next natural step in that process. Our decision reflects management's continued focus on transforming VF into a more consumer-minded retail-centric enterprise with a portfolio of more growth oriented, outdoor active and work brands. First, it is important to note that Dickies and Timberland PRO brands [indiscernible] (00:03:34) part of our review. We remain fully committed to these brands as well as our [ph] worthy work (00:03:38) purpose territory. There are fundamental differences between the Occupational Work brands and the Dickies and Timberland PRO brands, including the ability to connect directly with consumers, distribution footprint, supply chain infrastructure and financial profile.

The leadership teams within our Occupational Work brands have done an excellent job building these businesses over many years, putting VF in an ideal position to find the best future owner for these brands to better enable their next phase of growth and success. In terms of timing, the review process is underway and we will keep you appraised as things evolve over the next few months.

Now, let's review our third quarter results and the current state of our business. As we head into the final quarter, we remain confident in our ability to deliver another strong year at the high end of our long range plan. Year-to-date, organic constant dollar revenue and EPS increased 8% and 16% respectively, driven by our two largest brands and our international and D2C growth platforms. Our strategic growth drivers performed well over the holiday season and we're all – and we are well-positioned as we look toward fiscal 2021.

For the quarter, revenue increased 6% or 7% excluding the Occupational Work brands just discussed. While our revenue performance for the quarter was generally in line with our long-term algorithm, it was slightly below our expectations due primarily to the performance at Timberland where challenging conditions and our occupational work brands as well as a mixed holiday season in the US. Despite the revenue shortfall, the quality of our growth remains strong as evidenced by 100% basis points of gross margin expansion, 12% operating income growth and 14% EPS growth. Our performance during the quarter highlights the diversity and resiliency of our operating model and the momentum we have across our strategic growth drivers.

And now let me turn to the performance of our largest brands. Vans continues to deliver strong balanced performance across all regions and above its stated long-term growth objective. Revenue for Vans increased 13% in the quarter and importantly growth remains well diversified across product categories, channels and geographies. Heritage footwear increased 8%. Progression increased more than 30% and apparel increased 14%. Following another quarter of broad-based momentum, we are again raising our fiscal 2020 outlook for Vans. We now expect revenue for Vans to increase about 15% for the full year, well ahead of its long-term target.

Moving on to The North Face. Revenue increased 8% in the quarter, led by our international business. Growth was balanced across both our D2C and wholesale channels globally and we saw solid performance in our urban exploration and mountain lifestyle product territories as the brand continues to attract new consumers and capitalize on growth opportunities beyond the core mountain sports. Footwear also increased at a high single-digit rate during the quarter. In mountain sports, strong performance internationally was somewhat offset by more mixed results in the US market. While limited in scope, the performance of FUTURELIGHT well exceeded our expectations during the key holiday season and continues to cast a strong halo for the brand. The disruptive innovation has been available to consumers for about four months now and we're seeing 4 times the sales volume in our [ph] Pinnacle Summit (00:07:00), Steep and Flight series products, which featured the FUTURELIGHT technology.

Given our holiday performance and additional visibility through the end of the year, we now expect revenue for the North Face to increase about 9% at the high end of its long-term growth objective. Despite early signs of success this year, our results at Timberland were disappointing this holiday season as revenue decreased 4% in the quarter. Solid momentum in apparel, outdoor footwear and China was not enough to offset challenging conditions in men's footwear in the Americas and Europe, particularly in our classic business.

Men's non-classics and women's performed relatively better as our diversification strategy continues to evolve. As a result of the third quarter performance and improved visibility through the rest of the year, we are lowering our revenue outlook for the Timberland brand in fiscal 2020 and now expect full year revenue to decline between 1% and 2%.

And last but not least, as expected, the Dickies brand had a great quarter as revenue increased 13%. Growth was strong across all key strategic growth drivers, highlighted by 68% growth in China and 16% growth in digital with category momentum across icons and new seasonal product. After a flat first half, we had high expectations for the Dickies brand heading into the back half of this fiscal year and the global teams delivered. The brand launched its Yours to Make marketing campaign this quarter, the largest in brand history driving significant brand heat and consumer engagement. We expect another quarter of double-digit growth providing us with strong momentum as we head into fiscal 2021. We continue to be bullish about the growth opportunities at Dickies and are even more confident in our fiscal 2020 revenue growth outlook of 5% to 6%.

Over the last few quarters, we've discussed a more uncertain geopolitical and macroeconomic environment and the impact it has had on our business results and forward outlook. As we exit the holiday season, I'd like to briefly provide our perspective on business conditions across our largest markets. The US economic backdrop remains generally solid, led by a healthy consumer and low unemployment. That said, we believe performance across retail and our sector was mixed during the holiday season. While inventory levels at retail were in good shape heading into the fall/winter period, sell-through performance in certain categories was slower-than-expected, which has led to elevated inventories in select areas in a more promotional environment.

In Europe, international trade and the Brexit uncertainty have impacted business confidence and investment. However, consumer confidence and spending remains relatively strong. Our EMEA business accelerated in the third quarter and our outlook is generally bullish across the region.

In Asia, our brands continue to perform very well in China, despite continued unrest in Hong Kong. The recent phase one trade deal between China and the US should yield a more constructive consumer and retail environment.

As I talked about in Beaver Creek, our strategy is to become more consumer-minded, retail-centric and hyper digital in all that we do. Transforming how we operate is essential to our ability to create value for shareholders and stakeholders. We are in the early stages of our journey. And as our work progresses, we increasingly gain clarity on what's required to achieve our vision.

As we exit fiscal 2020 and transition into fiscal 2021, we will focus our investments on four key programs. The first is to gain a deeper understanding of new and existing consumers. We will further focus our investments on driving proprietary real-time consumer and marketplace knowledge to establish emotional connections, guide personalization, inspire must-have products, and create consumer-centric experiences that enable lifelong loyal relationships.

The second is developing a more digitally-enabled responsive go-to-market approach. We'll increasingly leverage more end-to-end digital platforms, go-to-market processes, and best practices, and manufacturing innovations that help our brands create and deliver high-value products and experiences to consumers whenever and wherever they want.

The third is a more seamless integration across physical and digital touch points. We will work to provide a seamless and consistent brand experience across and between all consumer touch points be it digital, physical, owned and partner and strategic wholesale accounts.

The fourth is the construction of more robust engagement models that help build and create enduring relationships. We'll invest and leverage best-of-breed marketing and technology platforms that enable our brands to drive new consumer acquisition and build stronger loyalty through personalized engagement.

Our transformation journey is a multi-year endeavor. Investments over the past 2.5 years have laid the foundation that we'll now begin to build on. We have an aggressive agenda and look forward to providing more details and updating you on our progress against these programs as the years unfold.

Before turning the call over to Scott, I'd like to highlight that on December 5, we launched our latest sustainability and responsibility report, Made for Change. This report outlines our aspirations for advancing environmental and social improvements across our enterprise and communities worldwide. Included in the report, we publicly announced new ambitious science-based targets and commitments around our use of sustainable materials aimed at reducing greenhouse gas emissions. Details behind these commitments, highlights from the last reporting year and the value this work adds to our business and stakeholders can be found in the report.

Consistent with our commitment to be a purpose-led enterprise, VF has established a clear position as a leader in the work to combat global climate change. Looking ahead and with our Made for Change strategy providing the road map, we will strengthen our role as a company that is leading meaningful initiatives that not only lessen our impact on the planet, but also drive purpose-led profitable growth for our business and brands.

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

Scott A. Roe

Chief Financial Officer & Executive Vice President, VF Corp.

Thanks, Steve, and good morning, everyone. We were pleased with our strong third quarter performance and we remain on track to deliver revenue and earnings growth above our long-term commitments. Before we review our third quarter results and adjusted outlook in more detail, I'd like to make a few comments related to the announcement made Tuesday morning of our intent to explore strategic alternatives for the Occupational Work brands.

In summary, we intend to sell the brands comprising our Work segment excluding the Dickies and Timberland PRO brands. The Occupational Work brands include VF's legacy imagewear business as well as several brands acquired with the Williamson-Dickie transaction. As a reminder, this is primarily a B2B wholesale business and represents the majority of VF's existing owned manufacturing footprint. These brands tend to be more cyclical in nature and have minimal exposure to VF's international and D2C growth platforms.

From a financial standpoint, the Occupational Work brands contributed about \$865 million of revenue and \$130 million of adjusted operating income in fiscal 2019. As Steve mentioned, the review process is underway and we will provide further details as the process unfolds over the next few months.

So now let's review our third quarter results. Overall, our performance was strong. The brands and platforms that are core drivers of our long-term growth objectives performed well during the holiday season and the fundamentals of our business remain intact. While parts of the portfolio did not fully meet our expectations in aggregate, we were pleased with our results despite a mixed holiday season in the U.S.

Our performance in the third quarter highlights the diversity and resiliency of both our portfolio and operating model, two themes we spoke about in detail during our Investor Day in Beaver Creek. For the third quarter, total VF revenue increased 6% organically. And if you exclude the Occupational Work brands, the growth rate becomes 7%, a full point higher driven by our largest brands. Growth was relatively balanced by channel in the third quarter as D2C increased 7% including 17% growth in digital and a 6% total comp and wholesale increased 4%.

Moving on to our performance by geographic region, revenue increased 9% internationally and 3% in the US including the Occupational Work brands. Strength internationally was driven by 15% growth in Asia, including more than 30% growth in China which benefited by about five points from the timing of shipments ahead of the Chinese New Year holiday. Our EMEA business also delivered another solid quarter, with 7% organic growth led by 13% D2C growth, including an 11% comp and 30% growth in digital.

Our fundamentals remained strong as gross margin expanded 100 basis points organically driven by continued favorable mix shift towards higher margin businesses, and the timing of foreign currency transaction gains. Operating margin also expanded 100 basis points, representing 12% growth in operating profit despite a 9% increase in strategic investment spending, and excluding the Occupational Work brands, operating profit increased by 15%. And to round out the P&L, EPS increased 14% to \$1.23, which includes the occupational portion of our Work segment.

Moving to the balance sheet, inventory excluding the Occupational Work brands increased 8% or 12%, for total VF. Our inventory is a little elevated. However, we're comfortable with the quality and expect inventory growth to be in line with top line growth by the end of the year. Leverage at the end of the quarter remains below our long-term target of 2 times as we balance cash returns with capacity to pursue our M&A, agenda. We returned approximately \$700 million to shareholders this quarter, through dividends and a \$500 million share repurchase. While M&A is our top capital allocation priority, cash returns to shareholders remain a key component of our TSR algorithm.

Now turning to our updated fiscal 2020 outlook. As you saw in the release this morning, we are adjusting our fiscal 2020 outlook following our performance this holiday season and increased visibility for the full year. We now expect revenue to be about \$11.75 billion, representing 7% growth on an organic constant dollar basis. Excluding Occupational Work brands, our updated outlook represents growth of over 8%.

By brand, we're raising our outlook for Vans to about 15% growth, which compares to our prior expectation of 13% to 14% growth. We're tightening the outlook for the North Face to about 9% growth. We now expect Timberland to decline between 1% and 2%, which compares to our prior expectation of 1% to 2% growth. And lastly, we're holding our outlook for Dickies at 5% to 6% growth as the business continues to gain momentum.

We expect our strategic growth platforms, D2C and international, to continue to perform well through the remainder of fiscal 2020. We now expect growth in D2C to be between 10% and 11%, versus our prior expectation of 12% to 13% growth. And from a geographic perspective, we now expect our international business

to increase about 9% which compares to our prior outlook of 8% to 9% growth. We continue to see gross margin expanding 80 basis points to 54.1%, and operating margin expanding 90 basis points to 13.8%.

We now expect EPS to approximate \$3.30, representing about 18% growth. This compares to our prior outlook of \$3.32 to \$3.37, which represented 19% to 21% growth. Relative to our prior outlook, the reduction in EPS was driven by the performance of Timberland brand and the Occupational Work brands, partially offset by strength in the Vans brand.

As we head into the last quarter of the fiscal year, we are on track to deliver revenue and earnings growth at/or above the long-term commitments we laid out in Beaver Creek in late September. Three of our four largest brands are performing at/or above their long-term growth objectives. And as a reminder, our top two brands, Vans and The North Face, account for over 80% of our growth in the long-range plan.

Our strategic growth platforms, international and D2C, are strong and well positioned to sustain our growth momentum heading into fiscal 2021. And given our intended actions with our Work segment, we're taking another step to optimize our portfolio, simplify our business and elevate our focus on our largest properties and growth opportunities. The fundamentals of our business are strong. We are executing well and we remain confident in our long-range organic plan and our ability to deliver on our mid-teen TSR commitment. And our balance sheet is primed and positioned to capitalize on M&A opportunities that have the potential to drive incremental growth and value creation to our organic plan.

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

QUESTION AND ANSWER SECTION

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

Robert Drbul

Analyst, Guggenheim Securities LLC

Q

Hey, guys, good morning. Just two questions for me. I guess the first one is on the Timberland performance, can you just talk to sort of the turn in Timberland or sort of what needs to happen within that business and sort of the time line on it? And then the second question I have is just, can you expand a little bit more on your inventory levels and sort of maybe inventories in the channel in terms of what you see heading into calendar 2020? Thanks.

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

A

Good morning, Bob. This is Steve. So Timberland, let me just be really frank with everybody. We are not pleased with our performance. We're disappointed, and our assumption is you are disappointed as well. Where we find ourselves is this is an iconic brand with deep, rich heritage. And we remain very committed to the strategy that we laid out to you all in Beaver Creek. A lot of foundational work has been done around the brand to really understand the consumer. And put together the brand architecture that helps drive the most important aspects of our strategy, which is elevating our product. We've talked to you a lot about diversity, diversifying our product offer. We absolutely need to do that to move beyond classics in our men's business to the non-classics, but we have to continue to see good growth in our women's apparel and pro businesses. And concurrent with that is we

have to find a way to more intimately connect and engage with consumers as we drive the new brand foundation forward.

We are not where we'd like to be. But I think we are very, very convicted that this brand is one that our skills can absolutely unlock and the diversification strategy that we have in place absolutely gives us confidence that it can be done. I think it's interesting if you look at the results this quarter, our apparel business was strong, our Pro business was strong, our women's business contributed. And in aggregate, those businesses are about half of the total Timberland revenue. Where we need to continue to grow is in the men's classic and non-classics. We laid out that vision in Beaver Creek of the work that needs to be done with the new design teams, the new merchandising skills to drive that turnaround. And we remain very convicted, but don't let me leave you thinking that we're at all pleased. We're disappointed and continue to work very hard with the leadership's team there at Timberland to put this business in the right place.

Scott A. Roe

Chief Financial Officer & Executive Vice President, VF Corp.

A

Yeah, and Bob as it relates to the inventory levels I think you're talking about retail inventories. And Steve's comments and mine as well talked about a mixed holiday performance a little softer than expectation in a few areas. And the knock-on effect of that is inventory levels are a little elevated. We also know that the promotional environment started a little earlier and went deeper than we were in some cases. And so what we've laid out as a plan for the balance of the year to address that. We think that's baked into our guidance. And as I said in the prepared remarks, our expectation is both from our inventory and from a retail inventory that we'll exit this year in good shape. So back in three months and we'll give you an update on how that progressed.

Robert Drbul

Analyst, Guggenheim Securities LLC

Q

Great. Thanks very much guys.

Scott A. Roe

Chief Financial Officer & Executive Vice President, VF Corp.

A

Thanks Bob.

Operator: Thank you. Our next question today is coming from Dana Telsey from Telsey Advisory Group. Your line is now live.

Dana Lauren Telsey

Analyst, Telsey Advisory Group LLC

Q

Hi, good morning, everyone. As you think about the performance by region, certainly seems like EMEA and China did well. Any breakout by brand on what happened in the Americas by channel whether it's wholesale or direct in terms of what you're seeing? And then just on Vans, what we should be looking for there going forward. You took up the guidance to 15% for the full year. What should we look for as we go to fiscal 2021? Thank you.

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

A

Hey, Dana, this is Steve. So I think you [ph] absolutely captured (00:26:00). Our international business was quite good. Europe continues to do well in an environment that isn't necessarily that strong. And our Asia business led by China continues to perform very well. Here in the US to our prepared remarks, we saw an uptick in the

promotional activity starting pretty early and specifically with our cold weather brands. And the results there really hit The North Face and Timberland. And we saw a drop in traffic in our retail in the notes and you can see it in our slides. We did see a reduction in growth within our brick-and-mortar.

In the case of Vans, we had good e-commerce pickup, but we saw weakness in The North Face and Timberland on that e-commerce side. And we do really relate that to the early promotional activity. We did not respond – I think if you remember back three, four years, we did quite a bit of work around rightsizing the channel to distribution, shoring up the promotional activity that we participated in. And we really took the long view and wanted to preserve the integrity and quality of our brand position. And within our owned environments, we did not chase that promotional environment. Some might argue that we should have, but we really do believe that from a long view, shoring up that quality and integrity of the brand position is very, very important.

And also, would tell you, in the case of our North Face business, we are rebuilding a team. They just went through a very significant relocation. And in that, our D2C and digital teams are new. We believe we've got a very strong, if not stronger team. And our ability to now really engage and drive that particular platform will be back in our control as this team settles into their new position and understands the total brand strategy that they're driving.

Scott A. Roe

Chief Financial Officer & Executive Vice President, VF Corp.

A

Yeah and Dana, relative to your question on Vans, I guess the big picture answer is we really don't see anything fundamentally different, right. We just did a 15%, which we know is ahead of our long-range plan. But we also talked about the soft landing or controlled descent, whatever you want to call it, that we planned on. And we really don't see anything fundamentally different on a forward basis.

Dana Lauren Telsey

Analyst, Telsey Advisory Group LLC

Q

Thank you.

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

A

Thank you, Dana.

Operator: Thank you. Our next question is coming from Michael Benetti from Crédit Suisse. Your line is now live.

Michael Binetti

Analyst, Credit Suisse Securities (USA) LLC

Q

Hey, guys, thanks for taking our questions here. I wanted to ask about Vans and the active segment margins for a second. They're down a little bit in the quarter, but you guys went through a huge period of growth with Vans and the margins being down in this quarter after being up a lot in the first half of the year. As we look ahead to next year in your fiscal 2021, how should we think about the margin compression that we saw in the third quarter? I know you have some tough comparisons lapping the first half of this year. And then I know the longer-term structural drivers like D2C and international, drive this higher over the long-term, so it's easy to see that being the case as you get into the second half of your fiscal year next year. But I'm thinking more in the near-term, does the margin need to normalize a little bit in the first half of next year while you lap those big comp growth rates and margin expansion from the first half of fiscal 2020?

Scott A. Roe

Chief Financial Officer & Executive Vice President, VF Corp.

Yeah, Michael, great question. So the third quarter, you really have to broaden out and look at the full year picture, because there is some timing quarter-to-quarter. What you should expect for the full year is that the margin growth rate will more or less approximate the top line growth rate. And that was the way we plan this business because we're investing back into the growth of Vans. And that was something I think we've been talking about for a while here.

A

Michael Binetti

Analyst, Credit Suisse Securities (USA) LLC

Okay.

Q

Scott A. Roe

Chief Financial Officer & Executive Vice President, VF Corp.

And the great news with this business is, given its gross margin profile, that is really the fuel that allows us to continue to invest back into the business. So as we look forward, we don't see anything structurally different. I'm not going to give guidance for next year at this point.

A

Michael Binetti

Analyst, Credit Suisse Securities (USA) LLC

Right.

Q

Scott A. Roe

Chief Financial Officer & Executive Vice President, VF Corp.

But those gross margins and that growth rate will continue to fuel the investment capacity to allow us to invest back into the brand.

A

Michael Binetti

Analyst, Credit Suisse Securities (USA) LLC

Okay. Let me back up and ask about some of the Beaver Creek stuff for a second. I'm trying to roll forward the algorithm you laid out just a few months ago at that Analyst Day, given what we know about the occupational group at this point. So if our starting point was a seven to eight-year – sorry, 7% to 8% revenue CAGR for five years. Does the sale of occupation will move us up to the 8% to 9% range for the next five years? And I know the occupational business has higher margins about 15% than the overall company, but I guess we don't know what the gross margin or SG&A improvement was baked into the plan relative to the corporate algorithm. So could you just help us think about how the sale influences the plans for about 40 basis points of EBIT margin expansion per year and EPS of 12% to 14% per year?

Q

Scott A. Roe

Chief Financial Officer & Executive Vice President, VF Corp.

Yeah, so again, we're not going to revise the long-term algorithm. I'd say, Michael, it's not materially different. And if you think about the go-forward, we know today that certain things are developing somewhat differently. Timberland is a little slower in its acceleration curve that's moving to the right. On the other hand, you're right, the sale of occupational will have a tailwind from a growth standpoint. But I guess, at this point, we're not changing our full view and we don't really see a material difference.

A

Michael Binetti

Analyst, Credit Suisse Securities (USA) LLC

Okay. Thanks a lot for the help.

Q

Scott A. Roe

Chief Financial Officer & Executive Vice President, VF Corp.

Yes.

A

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

Erinn E. Murphy

Analyst, Piper Sandler Companies

Great. Thanks. Good morning. A couple of questions for me. I guess first just on The North Face. I think you guys indicated that the men's business performed much better than the women's. Can you just kind of expound on what drove that? Was it competition in the women's side that maybe it was a little bit softer? And relatedly with the FUTURELIGHT, you've had it for four months in your direct channel. Can you just talk about the rollout strategies over the next 12 months? Are wholesale accounts starting to book for spring? Where should we see it kind of show up?

Q

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

Great. Erinn, I'll take your question. So, good call out. Our men's business in The North Face was good. We saw solid growth across really all three of the brand territories: Mountain Sports, Mountain Light and Urban Ex. But really I think it was the Mountain Light and Urban Ex where we saw strong growth. Our women's business in the Americas underperformed. And to my earlier comments around the early move to promotional environment, we believe, had an impact on our business. Potentially, there was some increased competition, and that may have taken some of that. But I think it really comes down to our market segmentation strategy and how we've set our businesses up to succeed.

A

And going forward, The North Face really take learnings out of this quarter and apply it to next fall as they think about the wholesale and retail mix of those core women's style. Women's continues to be one of the primary growth drivers that [ph] Arne (00:33:48) in the Beaver Creek conversation. And it's a very, very important aspect of the long-term growth. We really see this as a point in time, not a long-term trend, and one that we feel confident will not be [indiscernible] (00:34:05).

On the FUTURELIGHT question, really, we're really happy with where we are. We're seeing that in the prepared remarks, 4 times the sales of the Summit, Steep and Flight series where FUTURELIGHT products are represented. We really have been able to really reposition the brand with these collections with that core consumer. What we found is that the educational element of FUTURELIGHT is a significant task in the future. And we've invested heavily around driving the brand and driving the education. But this is such a disruptive innovation and how the garment feels, how the garment performs is markedly different than anything that we've seen and been able to use over the last 30 years.

And the work to drive that education, that understanding will continue into fiscal 2021, fiscal 2022 as the product line continues to expand. You will see in an expanded offer in spring 2020 going on market in rainwear and moving into some more approachable price points. The Dryzzle Rain Jacket at \$229 will be the opening price

point with FUTURELIGHT. That is a very strong historical seller. And we think this will be yet another moment to truly raise the awareness, inform the consumer, and as we do that, continue to set ourselves up for future expansion in the coming fall and years after.

Erinn E. Murphy

Analyst, Piper Sandler Companies

Q

Thank you. I appreciate that. And then just one quick follow-up for Scott. Scott, just on the digital growth, I think you guys referenced why it was weaker at 17% with just Timberland and North Face. But how do you see digital growing in the fourth quarter? And as we get into 2021, should it return back to the longer-term CAGR of 24% to 25%? Thank you.

Scott A. Roe

Chief Financial Officer & Executive Vice President, VF Corp.

A

Yeah, we – I think Steve unpacked what we understand at this point are the drivers for why we saw the moderated performance. We're obviously taking some actions. I mentioned some of those in terms of promotion, also just in the way that we're communicating and the feedback loop. One of the things that we have is good insight into consumer feedback and we're making adoptions where we can. So we'll see some improvement, but not all the way back to the long-term algorithm. Going forward, we see no reason why we can't achieve that. Again, the reasons for the underperformance, I think Steve unpacked earlier.

Erinn E. Murphy

Analyst, Piper Sandler Companies

Q

Yeah, okay. Thank you, all.

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

A

Yeah, thanks, Erinn.

Operator: Thank you. Our next question is coming from Sam Poser from Susquehanna. Your line is now live.

Sam Poser

Analyst, Susquehanna Financial Group LLLP

Q

Good morning. Thank you for taking my question. I just want to follow up, I have two questions. One, to follow-up on Timberland, and what's really – what's being done there to sort of invigorate the, I would call it, the core Heritage business away from what the classic yellow boot type businesses? And when will we potentially begin to see that in earnest given the current deceleration and [indiscernible] (00:37:41)?

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

A

Good morning, Sam. So fair question and one that I absolutely expected from you. In my earlier comments around Timberland and the classics business with – as Martino laid out in Beaver Creek, we've done a lot of work over the last couple years of really understanding the consumer and really helping us reframe and rethink the brand architecture and how that drives the creative aspect of the business. As we laid out, we've added new design talent, Christopher Raeburn coming on, the teams that surround him, the merchandising organization. Sam, what we have to do is not only diversify the product, but we have to elevate the product. And we need to really think about the aesthetic. We need to think about the finish. We're opening up some new sourcing avenues,

accessing better manufacturing which will put an elevated offer from both the materials and aesthetic into the consumer frame. The samples that we're seeing right now give us confidence. That's why earlier on I said we remain very convicted that this is a brand that we can drive. And I think to your point on timing, you're not going to see it in a dramatic way in fiscal 2021. To Scott's comment, we don't see fiscal 2021 as a year where we're going to see breakout performance across the full assortment. We do think our apparel business will continue to drive good double-digit growth as we're seeing right now. Our Pro business will continue to be a good performer. Our women's business here in the Americas is good. And we'll continue to drive that.

But the energy around the men's classic and the non-classic diversification will be a major focus. And it will really be that following year, where we think you'll start to see the evidence and the proof points of that work. And really driving off that rich heritage, tapping into that outdoor heritage and those styles that you know so well, will be really top of mind for us.

Scott A. Roe

Chief Financial Officer & Executive Vice President, VF Corp.

A

Yeah, Sam, I'd just like to add on too as we think about where we're at in this brand, and what the near to midterm looks like, just to build on Steve's comment. Remember, part of our strategy is to build the diversified offer, the more lifestyle offer, and we have some evidence of that as Steve mentioned with apparel. But that really enables our D2C growth. But the reality is, this brand today has about 25% of the overall distribution sitting in D2C. So that large wholesale footprint particularly in the US, coupled with the performance we just had at the holiday and the [ph] attendant (00:40:48) inventory overhang that comes with that, means we're going to struggle to grow next year as many of the wholesalers base their next year buys and the order books are set based on the performance they just saw. So I think we have to have a [ph] separate (00:41:04) assessment of where we're at. And next year, we're not giving guidance per se, but we will struggle to grow as we look at next year in the Timberland brand.

Sam Poser

Analyst, Susquehanna Financial Group LLLP

Q

Thank you. And then secondly, can you give us some idea of the percent of sales within the Occupational Work business by quarter. Just to help us sort of forecast forward with and without that business? And can you give us some idea of how you're foreseeing the Occupational business to be on a year-over-year basis in full year 2020, now that we're almost through it vis-à-vis the release from last year's revenue?

Scott A. Roe

Chief Financial Officer & Executive Vice President, VF Corp.

A

Yeah, so on the first part, there is some seasonality. But it's fairly balanced on a full year basis. Sam. And I'm sorry, could you repeat the second part of your question?

Sam Poser

Analyst, Susquehanna Financial Group LLLP

Q

Can you give us some idea, it was \$835 million or \$865 million last year. Can you give us some idea of where you're thinking that's going to end up this year? Or where [indiscernible] (00:42:13)...

Scott A. Roe

Chief Financial Officer & Executive Vice President, VF Corp.

A

Yeah, flat to slightly down is where we see it for the balance of the year.

Sam Poser

Analyst, Susquehanna Financial Group LLLP

Q

And what would be the peak quarter of sales for that business?

Scott A. Roe

Chief Financial Officer & Executive Vice President, VF Corp.

A

Yeah, I'm not going to get into that level of detail. I'll just refer you back to my earlier comments, Sam, [ph] from the pace of the business (00:42:34).

Sam Poser

Analyst, Susquehanna Financial Group LLLP

Q

All right. Thanks so much. Have a great – good luck.

Scott A. Roe

Chief Financial Officer & Executive Vice President, VF Corp.

A

Thanks, Sam.

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

Omar Saad

Analyst, Evercore Group LLC

Q

Thanks for taking my question. Good morning. I wanted to ask about the spinoff, actually, the spinoffs at this point. Now with Kontoor in the rear-view mirror and the announcement around the workwear decision to sell that business. Obviously, you're reshaping the portfolio to align with kind of the core competency of the company and the long-term goals, but it also seems like you may be clearing the decks a little bit here. Does it make it easier to do a larger acquisition in the future, once this is – just like how the last piece is done in terms of the portfolio reshaping? Is that an appropriate way to think about it? Maybe you could frame it for us? And then I had a second question on Urban Exploration within The North Face, what you learned in the quarter? How we should think about that component within The North Face over the next – over the long-term, what the opportunity is there? Thanks.

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

A

Great. So Omar, I'll start here. I'm not – I don't think we're in a position to talk to you about the size or magnitude of the acquisition that our last two dispositions maybe putting us in a position for. But what I would tell you that M&A remains that number one priority for capital allocation. [ph] We have been (00:43:56) very clear with our total addressable market where we see the opportunity. And as we simplify and focus our portfolio around brands that really can connect more intimately with consumers and have a direct contact to owned distribution and key partners, I think gives you a good sense of where we're looking and where we think we can add value to our portfolio. But absolute size would be difficult to really call out for you right now.

Scott A. Roe

Chief Financial Officer & Executive Vice President, VF Corp.

A

Yeah, and I'd just build on the focus and simplification of the model really helped as you think about future activity, right. So, one, just data point X or at the end of this transaction, our portfolio at 12 brands will be roughly half of what it was just a couple years ago.

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

A

But really aligned with that long-term growth algorithm that we laid out in Beaver Creek, a portfolio of brands, we can really drive that algorithm but also benefit and drive our focus around transformation. So on your question on Urban Ex, Omar, I think the learnings there is that the brand continues to be able to appeal to and attract new consumers. Leveraging the rich heritage of some of those key icons like the [indiscernible] (00:45:23) being pulled out of the archives. What they're finding is this is a real rich area to leverage that historical set of brand icons done in a way that really promotes the rich heritage and authenticity and supports the more technical side of Mountain Sports. So we see good growth. And not only here in the US but from a global standpoint, it's a real strong part of that go-forward strategy.

Omar Saad

Analyst, Evercore Group LLC

Q

Got it. Thanks.

Operator: Thank you. Our next question is coming from Alex Walvis from Goldman Sachs. Your line is now live.

Alexandra Walvis

Analyst, Goldman Sachs & Co. LLC

Q

Good morning. Thanks so much for taking the question. My first question is on the Occupational Workwear split, Scott, you shared some comments on this in the opening remarks, but I wonder if you could help us out with where we should and shouldn't expect there to be dis-synergies from that split?

Scott A. Roe

Chief Financial Officer & Executive Vice President, VF Corp.

A

Yeah, so there will be some of it. I would characterize this business as moderately integrated. So we will have some dis-synergies just to put a number on it and we're in the neighborhood of \$30 million is our expectation now. Against that, likely, there will be TSA, and of course, we'll get after those costs over time, depends on the buyer and the circumstances but just to give you some sense of the magnitude. The other thing I would point out is, with this action then, it greatly simplifies or focuses our supply chain as well. From a manufacturing standpoint, we talked about [indiscernible] (00:47:12) gets us out of the apparel manufacturing. So as you can imagine, that gives opportunity for simplification and cost reduction as well.

Alexandra Walvis

Analyst, Goldman Sachs & Co. LLC

Q

Great. That's helpful. And then if I may, another question on the North America backdrop. So you shared a lot of comments on the more promotional environment in the holiday period. To the extent that it's possible, is there a way of passing through how much of the weakness in North America was a softening in underlying consumer confidence or spending versus the impact of warmer weather trends versus what have been a pretty good winter last year? Do you guys have any thoughts on that split?

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

A

Yeah, Alex, I don't think it's – it would be really difficult I think to really pinpoint what were those key drivers. You called out some of them. I think the US consumer remains strong. What we saw in our product category, specifically cold weather product, was a slow start to the season. The quick [indiscernible] (00:48:29) promotional environment certainly did have an impact. But I could also say, when brands are deeply focused in understanding the consumer needs and putting the right products in front of the consumers at the right time, you can absolutely see the sales lift that we planned for. So we're not going to focus on any one of those key drivers. We're going to remain very focused on our consumer understanding how that will help us drive a more retail-centric approach to our go-to-market strategies and continue to elevate our digital skills to be able to really engage and drive deeper connections with our consumers.

Alexandra Walvis

Analyst, Goldman Sachs & Co. LLC

Q

Great. Thanks so much.

Operator: Thank you. Our next question is coming from Matthew Boss from JP Morgan. Your line is now live.

Matthew R. Boss

Analyst, JPMorgan Securities LLC

Q

Great. Thanks. So on gross margin, what was the benefit this quarter from the FX transaction gains and just the expectation for the fourth quarter and how best to think about the impact on the fourth quarter gross margin as a whole from the more promotional backdrop and elevated inventories that you cited?

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

A

Yeah, Matt, we didn't break that out per se, but certainly, FX did benefit the third quarter and it does turn negative really for the first time this year in the fourth quarter, and of course [indiscernible] (00:50:02) on an ongoing basis. So what I will say is this, if you look at our implied guidance for the fourth quarter, would say that our implied margin in the fourth quarter is down a bit. Underneath that the structural gross margin mix remains strong. It's there and that will continue on an ongoing basis. The two factors, one you mentioned is the FX, and this – we're talking about transactional FX, which relates to hedges put in place over the last 12, 18 months or so. And that's something we've been talking about for a long time. That now turns negative in the quarter.

Also while tariff's not a big impact overall or even for the year, we do see for the first time a negative tariff impact in the fourth quarter. Now interestingly on a go-forward basis based on where we're at right now, tariffs seem to be about a push year-on-year, and again really relatively small in the overall scheme of things. So that's what's going on in gross margin, right, the change in the FX, cadence. Underneath it, you got a continued mix benefit which is structural and will continue. And then a little bit of noise on the tariff.

One final thing I alluded to this in my earlier comments as well, relative to the inventory being a little elevated in certain pockets, we also factor in to be a little more market-appropriate from a promotional cadence standpoint. And that's also baked into our guidance as you look at the fourth quarter.

Matthew R. Boss

Analyst, JPMorgan Securities LLC

Q

Great and then, just a follow-up on the portfolio pruning. So I guess maybe larger picture, how should we be thinking about the strategy moving from pruning to M&A? And how would you prioritize maybe best particular categories of increased interest on the radar, I think within that core addressable market that you outlined at the Analyst Day?

Scott A. Roe

Chief Financial Officer & Executive Vice President, VF Corp.

A

Yeah, so you went right where I was going to start which is [indiscernible] (00:52:06) those TAMs, the total addressable market is where we're focused. And remember the three lenses that we look at both the portfolio that we have and the portfolio targets that we evaluate. It's really pretty consistent and straightforward. We're looking at, is it in strategically, is it an attractive segment of the market financially, does it need the characteristics that we're looking for, and from an ownership standpoint, do we bring something to the party? Is it consistent with our purpose and does it meet the profile of the target investor that we're going after? So I think in that is a pretty good explanation of the actions that we've taken. And also gives you a pretty good indication of the kind of areas that we're looking from an acquisition standpoint.

Matthew R. Boss

Analyst, JPMorgan Securities LLC

Q

Great. Thanks.

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

Jim Duffy

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Thanks. Good morning. Guys, two lines of questioning for me. First, we've heard a lot about the US market dynamics in the quarter. Can you speak to Asia, is there a way to size the impact of the Hong Kong disruption? And can you speak to what you're seeing relative to expectations in other countries?

Scott A. Roe

Chief Financial Officer & Executive Vice President, VF Corp.

A

Maybe I'll put some numbers on it first. So our Hong Kong business is important. It's been a good business. But it's not that large in the scheme of things. I think we said it in the \$100 million range overall. And that has been significantly impacted through the year and we really haven't seen much of a change in trend relative to Hong Kong. Interestingly, we'll start to lap that. We were just having that conversation internally here. As we get into the New Year, we'll start to lap when we started to see those issues. The good news for us is that China and the region has really been strong and you saw 30%. That's somewhat artificial. And we said there's about 5 points due to the timing of Chinese New Year. So there's a little quarter-to-quarter noise in that. But still if you look, we've been in that 25-plus kind of growth rate consistently in China. And that's really driven the strength of Asia. And really why we're at the top end of our long-range estimates overall.

Jim Duffy

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Great. I wanted to dig in some on the inventory. Can you guys speak in more detail on the geographic and brand level inventory picture? It seems inventory is most out of balance for the vocational work business in Timberland. Can you talk about plans to get the inventories back in line and the financial impact? And then Scott, is that cleaned up in the fiscal fourth quarter? Or is there some lingering impact as we go into fiscal 2021?

Scott A. Roe

Chief Financial Officer & Executive Vice President, VF Corp.

A

Yeah, so you're talking about our inventory obviously. And so we're – if you look at the ongoing core inventory, we're up like 8%. And as we think about going forward, we said we'd be balanced between revenue and sales. So long way of saying we think we're okay from an inventory standpoint by the end of the year. Any actions that may be taken, we believe, are baked into the outlook, and so we'd say pretty good. So, obviously, what that means if we're plus [ph] 12 (00:55:32) for VF, the Occupational business is really elevated, right. Now it's a unique model, because in that business, you have specific customers. It's all about service. You maintain the inventory. And most of these agreements actually have a clause that says, should there be excess at the end of the program, that they will buy that. They'll take that inventory. So it's good inventory. We just have too much of it is the short answer. And as you can imagine given the actions that we recently announced, taking radical or very costly short-term actions to try to reduce the inventory wouldn't make a whole lot of sense because it's good quality inventory. And eventually, it's going to be used. So hopefully, that gives the picture.

Jim Duffy

Analyst, Stifel, Nicolaus & Co., Inc.

Q

It does. Thank you.

Scott A. Roe

Chief Financial Officer & Executive Vice President, VF Corp.

A

Thanks, Jim.

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

Jonathan Robert Komp

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

Q

Yeah, hi, thank you. Steve, maybe just a follow-up more related to Timberland and portfolio management actions. I guess it's very clear your history when parts of the business aren't meeting your strategic and financial goals. You've been very quick to take action. But in the case of like Timberland, where very clearly fits strategically, but is not necessarily hitting your financial goals. Could you maybe just talk more philosophically about kind of your patience and willing to see things out, and any thoughts there?

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

A

Sure. Well, I would start our willingness to look at divestitures really has come online in the last three years. So as we have made driving and shaping our portfolio our number one strategic choice and really focusing now on the parts of the market that we laid out with the total addressable market in Beaver Creek, how we characterize our brands as global, activity-based lifestyle brands that can connect directly with consumers with their predominance through their owned and digital channels. That frame has helped us really look at what brands we feel we're best at, or said differently, where are we the best owner? And where are we not the best owner. And what we've trimmed are really good brands, but brands that don't really align with that long-term view.

To the point on Timberland, it absolutely aligns with the consumer, the position in the marketplace, and the ability to connect with consumers. My earlier points that we're disappointed in our ability to execute and our conviction around the strategy that we have been working on, really, over the last 18 to 24 months that Martino articulated in

Beaver Creek, we don't have endless patience. We certainly have a very focused approach and clear sets of KPIs that we will look for our brand teams – all brand teams to deliver on a year-over-year basis.

But I really want you all to leave this call knowing that we are still deeply committed to the Timberland brand. We understand where the issues are. My comments around not only the diversification of the product but the quality and the aesthetic of the product across all of the different growth drivers. We will keep you very close on how we're doing there. We'll give you the proof points as this strategy starts to take hold, but we do not have endless patience. And it is really around the proof points and the KPIs that we work with on a year-over-year basis with our brands that will ultimately drive the decisions long-term.

Jonathan Robert Komp

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

Q

Okay. That's very helpful. And then just separately as you look out to 2021. I think this time last year you gave some high level thoughts on a few of the brands for the year ahead. You think of that this year. So I'm just wondering maybe outside of Timberland just at a high level, is there anything that's saying across the brands that you would think is kind of beyond or different than maybe closer to the long-term plan that you've laid out when you look across the brands?

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

A

Jonathan, not really. I mean we fundamentally believe we're not in a different environment. We see the long-range plan that we just talked about in September as intact. Now obviously a few pieces are moving as I mentioned. I think on Binetti's question structurally, you're going to see with the sale of occupational that's a tailwind of growth, what we just talked about in Timberland is bit of a headwind. But overall, we don't see ourselves in a fundamentally different place. And I'd just like to remind you as you think about this year and the guidance change or the outlook change that we just talked through, the uptick in Vans, the adjustment in Timberland essentially are a wash. And what's left is the occupational reduction. So using different words. If it weren't for occupational, we'd still be in the range that we talked about three months ago. And I would say that's really the big picture. So if you look at the ongoing algorithm for VF, which will obviously exclude the Occupational Work group, we say, yeah, [indiscernible] (01:01:23) a little differently, but more -- we don't see anything fundamentally different on a go-forward basis. But in three months, we'll be back. We'll give you guidance for next year and clean up the details.

Jonathan Robert Komp

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

Q

That's very helpful. Thank you.

Operator: Thank you. Our final question today is coming from Ike Boruchow from Wells Fargo. Your line is now live.

Ike Boruchow

Analyst, Wells Fargo Securities LLC

Q

Hey, thanks for taking my question. Scott, two questions for you. Just to follow-up one more time on the inventory the slower-than-expected growth. In that category is that all cold weather? Is that outerwear? Or is that outerwear and footwear. I'm just kind of curious if there's any more color you can kind of give there? And then any more color on the types of channels where that inventory or the slow-moving inventory was? Was that broad-based? Was it your DTC?

Scott A. Roe

Chief Financial Officer & Executive Vice President, VF Corp.

Yeah.

A

Ike Boruchow

Analyst, Wells Fargo Securities LLC

Was it department stores? Just any more color there would be really helpful.

Q

Scott A. Roe

Chief Financial Officer & Executive Vice President, VF Corp.

Yeah, really I'd say the Ike was mixed is the answer. I mean certain categories we saw relatively better sell-through and others we saw not quite as strong. Some of the more insulated colder weather jackets Steve mentioned women's versus men's. And really again of course, Timberland having such a large classic business some of that classic boot inventory. Those are the main areas. But I would say most – even retailers retail it. Some are in great shape. Some have relatively more and we look at it. Overall, we would say slightly elevated, right. Not a disaster, not a huge issue, but a little more than we would like to see and that's why we're taking some of the actions that I mentioned earlier. And again to the best of our knowledge, we've got it built into our outlook and we have a good path to exit in good shape. Obviously not all those levers are within our control. And in three months, we'll give you an update on how that played out. And give you an indication of where we stand going into next year.

A

Ike Boruchow

Analyst, Wells Fargo Securities LLC

Got it. Thanks, Scott. And then just one quick follow-up, just when we think about what you're trying to monetize the workwear asset for, should we look at the Dickies transaction to give us some kind of guidance? I know you can't tell us what you're trying to sell it for. But just kind of curious the framework that maybe you're using when you think about that?

Q

Scott A. Roe

Chief Financial Officer & Executive Vice President, VF Corp.

Yeah, of course, I'm not going to negotiate against myself here. So, but yeah, you can look at comparable transactions. I would say this interestingly the interest for this asset has been exceedingly high. And frankly, higher than we expected, so both on the sponsor side and the strategic side, so we're optimistic that we'll -- let's see where that plays out. We'll have visibility to that in the next couple of months.

A

Scott A. Roe

Chief Financial Officer & Executive Vice President, VF Corp.

Thanks, Scott.

A

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

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

Great, thank you everybody for joining us this morning. Just going to reiterate, our third quarter performance is strong. And our year-to-date results are at the high end of our long-term growth objectives and we're on track to deliver solid performance for this year. As we look at the market signals that we continue to monitor our focus on transforming to become more consumer minded retail-centric, the more hyper digital in how we operate our business could not be more timely.

The moves we're making with our portfolio will allow us to have greater focus not only by management, but also how we invest against our brand properties. But also our transformation agenda to put us in a much stronger position in the future as we drive against the LRP that we laid out prowell in Beaver Creek. We look forward to catching up with you all in May and giving you insight into how we look at fiscal 2021 and our continued drive against that long-range plan. Thanks.

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

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