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**VF Corp.** (VFC)

Q1 2021 Earnings Call

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### Scott A. Roe

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

### Steven E. Rendle

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

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## OTHER PARTICIPANTS

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### Alexandra Walvis

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### Matthew R. Boss

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Greetings and welcome to VF Corporation's First Quarter Fiscal 2021 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.

I would now like to turn the conference over to your host, Joe Alkire, Vice President of Investor Relations.

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### Joe Alkire

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

Good morning and welcome to VF Corporation's first quarter fiscal 2021 conference call. Participants on today's call will make forward-looking statements. These statements are based on current expectations and are subject to uncertainties that could cause actual results to differ materially. These uncertainties are detailed in documents filed regularly with the SEC.

Unless otherwise noted, amounts referred to on today's call will be on an adjusted constant dollar basis, which we defined in the press release that was issued this morning. We use adjusted constant dollar amounts as lead numbers in our discussion, because we believe they more accurately represent the true operational performance and underlying results of our business.

You may also hear us refer to reported amounts, which are in accordance with US GAAP. Reconciliations of GAAP measures to adjusted amounts can be found in the supplemental financial tables included in the press

release, which identify and quantify all excluded items and provide management's view of why this information is useful to investors.

During the fourth quarter of 2020, the company determined that the Occupational Workwear business met the held-for-sale and discontinued operations accounting criteria. Accordingly, the company has reported the related assets and liabilities of the Occupational Workwear business in discontinued operations 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?

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## Steven E. Rendle

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

Thank you, Joe, and welcome, everyone. I hope my comments this morning find you and your loved ones healthy and safe. And please bear with us again as, today, we will be conducting this call from separate locations.

I'd like to begin by taking a moment and sharing some thoughts on recent events and outrage over the issues of racial injustice and systemic discrimination that have gripped our nation. Racism and discrimination are not welcome at VF Corporation. We are a purpose-led, diverse and inclusive company, much like the consumers of our brands.

VF and our brands have been championing equity, equality and belonging for a long time, whether that's through a specific support for initiatives and organizations from our individual brands, or supporting dozens of minority-led and focused organizations through The VF Foundation, along with other forms of corporate support. This isn't new territory for us, and our actions are woven into a culture that has been built over 100 years.

We, at VF, will continue to do what's right and lead by example through not just words, but actions. As always, we remain absolutely committed to ensuring that our company is one where everyone feels welcome, supported and inspired to be exactly who they are.

Before providing an update on the current environment and how VF is navigating the unique challenges and business disruption presented by COVID-19 and recent protests across the globe, I want to again express my deep gratitude for the way our management team and associates around the world have come together and responded to these crises. Our teams have moved with speed, agility, determination and focus, and I'm humbled to have the opportunity to lead VF during this time.

We have prepared ourselves well for times such as these. VF is built for this. Our strong brands, coupled with our purpose-led people-first approach, and our financial and supply chain disciplines, and our fortress balance sheet, allow us to weather any storm. I'm confident that VF will emerge in a position of strength, fueled by the clarity of our strategy and our portfolio and business model transformation, which will position us to thrive and deliver accelerated growth and value creation in the years ahead.

And now turning to our business. Our first quarter results were better than expected, led by our international and digital platforms. Scott will go through the details in a moment. Through the end of June, with the majority of our

stores reopened, we saw encouraging signals as consumer spending in core outdoor, active and athletic categories was resilient.

Our business fundamentals continued to improve throughout the quarter, with particular strength in our digital business growing 81%, and our China business returning to growth one quarter earlier than our expectations. This improving trend has continued in July despite some store reclosures in some parts of the US. We're in the midst of an unprecedented change across the retail landscape, and consumer trends and behaviors are evolving faster than ever before.

Participation in outdoor activities and consumer interest in outdoor exploration is increasing. Health and wellness and the pursuit of a more active lifestyle is accelerating. Casualization is a trend likely to be a mainstay in post-COVID world. There's an elevated focus on environmental sustainability that will lead to a greater commitment to combating global climate change. And there are growing expectations for purpose-driven actions from brands to care for their local communities and address issues relevant to their consumers.

But these changes didn't start because of COVID. These trends were core underpinnings of the strategy we laid out in 2017 and updated last fall in Beaver Creek. And these trends have influenced our portfolio decisions over the past several years and continue to guide our acquisition agenda. However, there is no doubt that recent events will serve to accelerate these consumer behaviors, leading to a dramatic reorganization of the marketplace.

Here's the good news. We believe the set of actions we laid out a few years ago have helped to reset The VF Foundation to capitalize on these new realities. We believe the portfolio we have today sits at the epicenter of the trends just outlined and is poised to capitalize on these shifts, and our brands are uniquely positioned to not only benefit from these changes in consumer value systems, but have the opportunity to drive and influence them.

While the COVID-19 pandemic has presented unprecedented challenges and disruption to our business, it has also presented us with the opportunity to accelerate key elements of our strategy and business and operating model transformation. And at this point, I'd like to highlight just a few.

Beginning with our Distort Asia strategy. The Asia Pacific region and, more specifically, China, has been the lead market in the COVID-19 pandemic, and we've applied many of our learnings from China across the globe. Our business in Mainland China is strong and recovering sharply since February, with growth of 9% in the first quarter. We expect our business in Mainland China to accelerate in the mid-teens in the second quarter and achieved more than 20% growth for the full year, essentially performing in line with the growth target we presented in Beaver Creek.

Highlights from China for the quarter include: the opening of more than 160 partner doors, led by Vans and Dickies, in the face of a challenging and uncertain retail environment, reflecting the confidence our partners have in the enduring strength of our brands; more than 35% digital growth versus low-single-digit growth for all apparel and footwear categories; the acquisition of 8 million new consumers who are now interacting with VF brands on Tmall; and the introduction of a new growth platform in pilot with Alibaba and Tencent, providing VF brands access to millions of new consumers in addition to ongoing data and analytics support.

Moving to digital and our hyper-digital business model transformation. Our global digital business increased more than 80% in the first quarter, led by 115% growth in the Americas region and nearly 90% growth across our big four brands. As a result of this strong performance, we expect growth in digital of more than 40% for the year and,

coupled with our pure-play digital wholesale business, we expect our digital penetration to be more than 25% of fiscal 2021 revenue.

Within digital, our consumer-centric strategy recognizes that transactional activity is only one measure of success. We are increasingly focused on engagement metrics, consumer capture and consumer lifetime value. Highlights from our digital for the quarter include: buy online, pickup in store and ship-from-store capabilities have fully launched in the vast majority of our stores in the US.

The North Face will launch BOPIS and ship-from-store in EMEA in August, and BOPIS and ship-from-store for Timberland in the US and the EMEA is underway. Curbside functionality is being piloted in both the Americas and EMEA. We activated a deferred payment option in our US retail locations. We achieved more than 30% growth with Zalando and ASOS, two of our largest digital wholesale partners globally.

We experienced double-digit growth in Vans app downloads versus last quarter. The Vans Family loyalty program surpassed 12 million members. We've seen loyalty translate into higher purchase frequency and higher average order value, resulting in 35% greater spend from Vans Family loyalty members relative to non-members.

Digital engagement accelerated for The North Face as well. Social channel growth exploded during the quarter, roughly doubling the total number of social followers. All key engagement measures were up 20% to 30%, driven by our athlete storytelling series, summer base camp program, AllTrails partnership, and the strong support for the brand's COVID-19 and Black Lives Matter response.

New customer acquisition increased 275%, strongly supported by the healthcare First Responder Initiative. The North Face loyalty program increased more than 20%, and we saw significant increases in brand awareness from the key 18- to 35-year-old demographic and our customer penetration migrated toward a younger female consumer.

We are clearly encouraged by the trends in our digital business and the early results we are seeing from recent investments. But I want to stress that we are early in our digital journey. VF has a massive opportunity to invest and extend our digital advantage.

On our last call, we highlighted that 90% of the strategic investments in this year's plan were focused on our digital transformation. Digitalization applies across all aspects of consumers' lives, not just how they shop, but how they engage with brands. We've accelerated our thinking and actions around our digital initiatives in response to the current environment. We know that with our powerful brand portfolio, strengthening our digital enterprise capabilities will fuel accelerated, sustainable growth and returns, as we emerge from this crisis.

I'd like to spend a few minutes and provide a little color on some of our most critical initiatives. We're working on the digitization of our entire value chain from design and manufacturing through distribution, while developing a 360-degree view of our consumer to support seamless customized integration across all touch points. This is all developing through the perspective of the consumer journey, which our Chief Digital Officer covered during our Investor Day last fall.

We are increasingly leveraging product and consumer data as a differentiator, using our analytics engine to create more individualized experiences, engaging consumers, while providing product development insights. Demand chain analytics investment across our platform will allow our brands to understand what is trending in what channels, with the goal of making our digital marketing more timely, relevant and contextual.

We're working toward more focused product lines, using our consumer understanding to work with greater agility to simplify and streamline a more frequent flow of consumer-relevant products. We continue to elevate the future role of the store, focused on creating authentic brand experiences, injecting energy and providing a platform for new product stories, while offering the omni-channel capabilities which are increasingly becoming table stakes at retail. These are important initiatives that have the potential to drive a step-function change in our digital transformation. I look forward to sharing additional details in the months ahead.

Lastly, as you may have seen, Barron's and Calvert Research and Management re-ranked their annual list of the 100 most sustainable companies, placing a greater weighting on social responsibility actions, including those in response to COVID-19. This re-ranking led VF from a commendable number 21 on the original 2020 list to being named number 1 overall. This recognition is an honor that gives us great pride, and it further cements our position as a company that sets high standards and leads by example, not to win awards, but because it's the right thing to do.

To close, while much has changed since our 2017 Investor Day, our long-term strategic vision remains intact, as the key pillars of our long-range growth plan have only been made more urgent by current events. Our brands are well-positioned in a large and growing outdoor, active and athletic markets, and the consumer trend serving as the basis of our strategy have only accelerated in the current environment.

Looking ahead, I believe that truly purpose-led brands and companies like ours will fare better than others when this situation is over. That's because we make principal decisions based on what's right for people and our planet, whether it's elevating our actions to combat global climate change or helping to tear down the structures of systemic racism that target the black community and other people of color.

VF will always lead with purpose and act with integrity. And by continuing to foster a sense of community with our consumers during these trying times, we're positioning VF and our brands for a brighter future, purpose-led and performance-driven. It's in our DNA.

And now, I'll turn it over to Scott.

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## Scott A. Roe

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

Thanks, Steve, and good morning, everyone. I hope you and your families are all healthy and safe. The pace of change across the retail landscape and within VF is unlike anything I've seen during my career. Who could have ever imagined a quarter in which VF revenue declined 47%. These are truly unbelievable times. But with great change comes great opportunity, and VF is well-positioned to take full advantage of the seismic shifts rippling across apparel, footwear and retail.

Before jumping into the details of our first quarter performance, I want to remind you of our approach to these unusual times. We've taken bold actions to protect the enterprise, including securing adequate liquidity in the face of uncertainty, aggressively rightsizing inventory buys and expenses to conserve cash, and refocusing our investments and efforts against those brands, channels and regions where we have relative advantage, including digital and China.

Collectively, these actions gave us the ability and confidence to put people first and avoid furloughs, to meet all of our obligations, to preserve the dividend and to continue to invest in those capabilities that we believe will put us in an advantaged position upon emergence from this crisis.

So let's go a bit deeper to update our progress in a few of these areas, starting with the strength of the balance sheet. Fiscal discipline and balance sheet flexibility are a bedrock of VF's 121-year legacy. VF entered this crisis with a fortress balance sheet and strong liquidity. And, as a result of the liquidity and capital structure actions we executed earlier this year, coupled with prudent management of and focus on our expenses, working capital and CapEx investments, we entered the quarter with approximately \$2.8 billion of cash and short-term investments, in addition to \$2.2 billion remaining under VF's revolving credit facility.

While our recent actions may ultimately prove conservative, they're a clear testament of VF's balance sheet flexibility and financial strength. The firepower we have provides us with significant flexibility and optionality, as we navigate the ongoing disruption caused by the pandemic and to take advantage of the opportunities it presents. It allows us to remain on the offensive and continue to invest in our strategic priorities while pursuing our acquisition agenda.

Moving on to supply chain flexibility, inventory management and operational rigor. The sophistication and scale of our global supply chain, coupled with our operational discipline, our hallmarks of VF and a source of competitive advantage, particularly during times of uncertainty and marketplace disruption. As the pandemic began to scale globally, our operational leaders mobilized quickly to thoroughly assess inventory positions and make meaningful reductions in a rigorous and thoughtful demand-supply matching process.

Importantly, our inventory was up 2% at the end of the first quarter, which was better than expected due to a combination of higher revenue, timing of receipts and, in some cases, supply delays. While these supply delays did cost us some revenue in the quarter, most notably in the Vans brand, they don't give us concern on a full-year basis and will begin to normalize over the next several months. And remember, we expect our inventory to decline on a year-over-year basis throughout the remainder of the year.

While we expect lower inventory levels, we preserved investment in product innovation and newness across our brands. And it's important to remember that our brands have a relatively high percentage of core product. We maintained an active and transparent dialogue with our key partners and strategic suppliers as we work together on forward purchase commitments and product assortments.

We continue to collaborate with key retail partners regarding appropriate levels of future inventory, considering the evolving environment. Throughout these conversations, our focus is undeniably on the long-term health and sustainability of VF, our brands and our partners.

Remember, we've said from the beginning that we're focused on emerging from this year in a healthy position, even at the cost of short-term sales and gross margin. Q1 results are very encouraging and give us confidence that we're well on our way to achieving that objective.

Lastly, I'd like to spend a few minutes on our digital performance and the accelerated mix shift we see happening in our business as a result of COVID. VF's D2C digital business grew 81% in the quarter and accounted for 35% of total revenue. The growth in our digital business was broad-based, both geographic region and by brand. By region, digital in the Americas increased 115%, Europe increased 56% and Asia increased almost 40%. By brand, digital increased 89% in Vans, 124% in The North Face, 63% in Timberland and 45% in Dickies.

As Steve highlighted in his opening remarks, we're seeing strong momentum across our digital platform, resulting in deeper engagement. The investments we've been prioritizing in digital over the past several years continue to show strong returns, which give us confidence to continue in our path towards digital transformation.

Now, turning to a summary of our first quarter results. Revenue declined 47% versus the prior year, better than our expectations, driven by our international and digital platforms. Reopening plans were delayed in the Americas relative to our initial expectations. However, once stores opened, our performance was largely better than expected. We saw steady improvement throughout the quarter in both Europe and Asia, and China returned to positive growth sooner than expected. Although Q1 is our smallest quarter, we're pleased with our execution. Based on the trends we're seeing, we're optimistic as we move through the remaining summer months and into early fall, but more on that in a moment.

So you may be wondering, in light of a 47% decline in revenue and a step back in reopening plans in certain parts of the globe, why we have confidence in the forward trajectory and underlying fundamentals of our business. So, allow me to spend a few minutes on the key performance indicators we are monitoring, which we believe represent the true underlying health of our brands and our business, and reflect the large growth opportunity in front of us.

Consumer spending globally in outdoor, active and athletic categories remains resilient. These markets are large, growing, structurally attractive, and spending in these categories will continue to be positively influenced by consumer trends such as outdoor participation, health and wellness, and casualization. VF owns some of the most powerful brands that participate in these categories, and our portfolio is well-positioned to benefit.

Our business in July continued to sequentially improve, with revenue down less than 25%, led by significant improvement at Vans and Dickies. We expect our Dickies brand to return to mid-single-digit growth in the second quarter and we expect our Vans brand to be down less than 15%. We expect sequential improvement across nearly all brands in our portfolio.

Greater China increased 3% in the quarter, including 9% in the Mainland, inflecting to growth one quarter sooner than we expected. China has been the lead market in the COVID pandemic, and we view it as a strong leading indicator in terms of overall performance and shape of recovery. We expect mid-teen growth in our Mainland China business in Q2, with more than 20% growth planned for the full year.

Our D2C digital business increased 81% in the first quarter and we expect more than 40% digital growth for the full year. The performance of our digital platform, along with the investments we're making to continue to drive a more accelerated shift in our digital transformation, are starting to pay off. We are drawing new consumers to our brand franchises and building even stronger connections and affinity with our loyal customers.

And lastly, I'd like to provide a little color on recent performance in sell-through trends in our largest accounts. Generally, when the wholesale doors were opened, we saw strong demand. For example, in the US wholesale, where doors were open, Vans' sell-through was up high-single digits. Our brand's retail inventories were well-positioned. Specifically, The North Face and Timberland inventory levels are in sync with forward revenue projections, while Vans' retail inventories are below historical levels. So we're clearly optimistic about the early signs we're seeing in our business.

Now, let me give you some color on the state of our business from a geographic standpoint. In the Americas, at the end of June, we were operating with roughly 75% of our own stores open and our wholesale partners had reopened the majority of their stores. However, the recent rise in COVID cases across certain parts of the US has led to isolated store reclosures. As we sit today, roughly 80% of our own stores are open in the region.



Throughout the quarter, we continued to see strong conversion and sequential improvements in traffic trends, although regional inconsistencies and capacity issues brought about by new store safety measures presented some challenges.

In Europe, we've seen a gradual reopening across countries and sequential improvement in the region as the quarter progressed. At the end of June, more than 90% of our stores were open. However, isolated virus outbreaks continued to cause disruption. As we sit today, nearly all of our stores are open.

Across Europe, most markets performed above expectations. Our business saw strong digital performance throughout the quarter, including continued momentum from our key digital wholesale partners. We continue to invest behind our digital capabilities and are working closely with key partners, such as Zalando and ASOS, to help fuel continued acceleration in Europe.

In Asia, consumer confidence and the economic recovery outlook is currently stronger than in the other regions. As of June, all of VF D2C stores had resumed operations across all markets. We've seen a continual gradual recovery in China, Korea grew 30%, while the rest of APAC showed more modest improvement.

So, with that as a backdrop in mind, I'd like to cover just a few other components of our first quarter results. Gross margin contracted 220 basis points to 54.1%, which was better than expected, as the positive impact of mix shift was offset by the impacts of a highly promotional marketplace.

We're pleased with the progress we've made in rightsizing our inventory a little more quickly than we had planned, without resorting to excessive discounting. Further, the continued acceleration of our digital transformation will continue to provide favorable structural gross margin mix benefits as we move forward.

Total SG&A declined over 20% as we managed our investment and discretionary spending in light of the current environment. That said, we continue to preserve and prioritize investments in our strategic priorities, specifically D2C and digital, including digitally focused demand creation, data and analytics and technology, while re-examining every aspect of our structural overhead in light of the rapidly changing marketplace and our portfolio and business model transformations.

Turning to capital allocation. While share repurchases remain a key element of our long-term plan and TSR algorithm, our share repurchase program remains frozen for the time being as we prioritize liquidity, the dividend and M&A optionality over the near term. And speaking of our dividend, it remains an integral part of our ongoing TSR model, and we remain committed to our dividend, of course, subject to board approval.

Switching now to the divestiture of our Occupational Work portfolio, a quick update. Our process remains active and on schedule. We remain in conversations with a large number of interested buyers and remain confident that we'll be in a position to share more specifics over the coming months as the process unfolds.

Regarding our outlook for the balance of fiscal 2021, while our results for the quarter were better than expected and we're optimistic about recent trends across the business, we believe it's still too early to provide a formal outlook for the year, given the continued uncertainty of the duration and severity of the pandemic.

As we sit today, we remain confident in our free cash flow outlook of at least \$600 million through a combination of operating earnings, working capital management and lower CapEx. We continue to expect to exit fiscal 2021 with our revolver undrawn and a cash balance of at least \$3 billion, resulting in net leverage of less than 3 times.

Remember, the expected proceeds from the sale of the Occupational Work business would provide us with an additional source of cash and liquidity. And finally, based on our July performance and current visibility, we expect Q2 revenue to be down less than 25%, which includes the impact of stores that have recently reclosed, primarily in the US market.

So, to wrap things up, we set out this year with two goals: one, to protect the enterprise and manage the now; and two, taking actions and making investments to prepare for the next. And while it's still early, we're seeing positive proof points that give us confidence that we're on the right track. With one quarter in the books, we're modestly ahead of our expectation with respect to revenue, earnings, cash and liquidity, and we continue to make investments against our key strategic priorities.

The underlying momentum of our brand portfolio and our balance sheet strength give me confidence in our ability to capitalize on growth opportunities, both organically and inorganically, and drive accelerated growth in the near term. We will continue to focus on key strategic choices around the transformation to our retail-centric, digitally led enterprise. The combination of all these levers, coupled with a diversified TSR model, will place VF in an advantaged position.

And with that, we can now open the line and take your questions.

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## QUESTION AND ANSWER SECTION

**Operator:** Thank you. At this time, we will be conducting a question-and-answer session. [Operator Instruction] Our first question today is from Laurent Vasilescu of Exane BNP Paribas. Oh, I apologize actually...

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**Steven E. Rendle**

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

Hey, Laurent. Good morning.

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**Laurent Vasilescu**

*Analyst, Exane BNP Paribas*

Hi. I think you mentioned July was down less than 25%, I think, in line with your 2Q revenue guide. Are you assuming that August and September improve? Or are there any onetime factors that we should consider? Is it like back-to-school? Or it is it just some of the reclosures that you've seen in the Americas? Any context on that would be very helpful.

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**Scott A. Roe**

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

Yeah. Maybe I'll start there.

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**Steven E. Rendle**

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

Thank you, Scott.

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**Scott A. Roe**

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

A

Yeah. So the underlying trend, Laurent, continues to improve sequentially. Remember, we talked about some supply, some inbound delays relative to Vans from a wholesale standpoint in Q1. I mean, we're talking about a matter of weeks here. So, as that pushed into Q2, that's part of the reason, as we've seen those timing delays have actually now shipped in the month of July, and that boosted a little bit. But as we go through the quarter, we expect to see continued sequential improvement. By the way, that's true for the balance of the year and not just for the second quarter.

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**Laurent Vasilescu**

*Analyst, Exane BNP Paribas*

Q

Okay. Very helpful. And then, Scott, I think on the gross margin, it's always very helpful to have the slides, that 220 bps adjusted. The rate decline of 430 basis points, I think you mentioned it was driven by promotions. How do we think about mix and rate, how they evolve over the coming quarters, especially considering your inventory situation is in pretty good shape?

And then one small housekeeping question. I saw on the cash flow, you have about \$700 million of purchases of short-term investments. Just curious to know the decision factor on that, would be very helpful.

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**Scott A. Roe**

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

A

Yeah. I got it. So, a little bit on the gross margin, what we saw in the quarter and then the evolution. So, in Q1, we did – one of the swing factors is FX. So, remember, we talked about FX is going to be a negative as we look at the full year, somewhere around 50 bps or so, 50, 60 bps for the full year.

But in the first quarter, given the substantial changes in the business conditions in light of COVID, we had some ineffective hedges, which rolled off which actually, because they were in the money, created a positive in Q1. That will reverse through the balance of the year. And in Q2, we'll see that swing the other way from a negative impact from FX.

And then as we think about promotions, those are going to gradually improve as we move through the year. And in fact, as we think about the full-year margins, in the fourth quarter, we would expect to be nearing flat to growth compared to the prior year. So, hopefully, that gives you a little bit of shape of how we expect that to evolve.

As it relates to the short-term investment, these are truly short-term investments. I mean, liquidity protection is our number one goal here, and we've made sure that these are very short-tenured investments, just chasing a little bit more yield. We're not used to having as much cash on the balance sheet. And so, trying to get a little bit of return, while not at all giving any concern about short-term cash availability or liquidity. That's all that's about.

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**Laurent Vasilescu**

*Analyst, Exane BNP Paribas*

Q

Very helpful. Thank you very much and best of luck.

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**Scott A. Roe**

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

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Okay. Thanks, Laurent.

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**Operator:** The next question is from Matthew Boss of JPMorgan. Please proceed with your question.

**Matthew R. Boss**

*Analyst, JPMorgan Securities LLC*

Q

Great. Thanks. Steve, maybe on top line progression, I guess, what level of visibility do you have today on the timeline that you've laid out for top line stabilization in Europe by the third quarter and North America by the fourth quarter?

**Steven E. Rendle**

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

A

Well, what we can see is certainly our forward wholesale order books. I think we talked last call about the reduction that we saw there, but to Scott's comments, the continued collaborative work that we do with our key wholesale partners. And when doors are open, we've seen really strong sell-through. So the order book visibility we have to the future is what's giving us confidence to call out that progression.

From a D2C standpoint, we're seeing much greater penetration certainly of our digital penetration. That's harder to call. You don't have forward orders based there. But the confidence that we have there with our digital penetration, our brand's quick shift to engaging consumers and the resulting uptick in sentiment and loyalty that we've seen there driving the results, gives us confidence that our digital business will continue to perform at the level that Scott mentioned in his call. We're calling that it'd be about a 40% growth rate for the full year, which is quite a bit higher than our long-term projection, which you would expect is that's where consumers are able to transact and engage with businesses today.

But we also see that when our stores are open, traffic is not at historic levels, but we are seeing really strong engagement, good conversion, and that's built into those projections as well.

**Scott A. Roe**

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

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Yeah. Matt, just to build on that, too, I would just point to the inventory being in good shape as well, right, which gives us – we gave some shape on that in the prepared remarks, but the fact that we've got – we've made good progress against retail inventories, getting a good supply-demand match, et cetera, that gives us some confidence as we look forward as well.

**Matthew R. Boss**

*Analyst, JPMorgan Securities LLC*

Q

That's great color. And Scott, maybe to follow-up, as you map it out today, when would be best or when do you see the consolidated revenue base returning to pre-pandemic levels? I think you were at \$10.5 billion or more. Just kind of thinking what would be the rank order of recapture if you mapped it out today between the big four brands and getting back to the revenue basis that we had pre-pandemic? Any color there would be really helpful.

**Scott A. Roe**

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

A

Yeah. I mean, it's a difficult question, Matt, because none of us know the depth and severity or duration of the COVID impacts, what reclosures may or may not look like, etcetera. So I would put that in the unknowable category.

But here's the way I think about it and we think about the general trajectory. So we clearly had a re-baselining of our expectations based on all the factors that we know about the closures and the contraction in the business. But as we think about forward growth rates, both from a top and bottom line, there's no reason that we can see that

we wouldn't be able to achieve those long-range growth targets. So, from the re-baseline's starting point, as you think about those growth rates, it really comes down to the duration and severity of reclosures and other disruptions.

I would just add to that, Matt, just a few things to consider. Vans, China, digital, all those factors are tracking ahead of our long-range plan. If you think about Timberland being a little bit behind, selling Occupational Work, which is positive from a – makes us a little more growthy from an overall mix standpoint. So there's puts and takes. But as we look at it long-term, that growth algorithm, we see no reason why we can't achieve that.

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**Matthew R. Boss**

*Analyst, JPMorgan Securities LLC*

That's very helpful. Thanks for all the transparency.

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**Steven E. Rendle**

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

You bet.

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**Scott A. Roe**

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

Yeah. Thank you.

A

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**Steven E. Rendle**

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

Thank you.

A

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**Operator:** The next question is from Sam Poser of Susquehanna. Please proceed with your question.

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**Will Gaertner**

*Analyst, Susquehanna Financial Group LLLP*

Hi. Thank you. This is Will on for Sam. Guys, I just wanted to talk about SG&A. How are we supposed to think about SG&A for 2Q and for the balance of the year? Are we going to see the declines that we saw in 1Q? If you could put a little shape on that, that would be helpful.

Q

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**Scott A. Roe**

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

Yeah, I guess I'll take that. So, if you look in Q1, if you look at the flow-through, using rough numbers, about 30%, and so that will give you some sense of how fixed and variable. And also, remember, we're continuing to prioritize and invest in our transformation, our digital transformation and those strategic priorities. We haven't pulled back on that.

A

As you said, going forward, I guess I'd just take you to Q2, remember my comments on gross margin. So, gross margin is going to be a little less – or it's going to be slightly down from what we saw in Q1. And as it relates to SG&A, we're sequentially increasing our investments in marketing throughout the year. Kind of makes sense, right, as more consumers, more doors are open, more markets are open, more consumers are there, we're continuing to increasingly lean in from a marketing standpoint and also just the timing of some of the strategic investments that I mentioned that we're prioritizing.

So you can think about a flow-through in 2Q of something around 40% overall. So, that 30% to 40% in the relevant range in the current conditions is probably a good way to think about flow-through for the balance of the year. I would just caveat that there to say, if we found ourselves in a fundamentally different position, if we had massive reclosures or a considerable macro pullback, then clearly there's more variable levers that we can pull. At this point, we've had more of a forward-looking bullish position in terms of investments and maintaining those investments, so that we can emerge from this period in an advantaged position, in a position of strength.

**Will Gaertner**

*Analyst, Susquehanna Financial Group LLLP*

Q

That's great. That's super helpful. And then just one other thing. I noticed in the Americas, there was a large deceleration of the digital business in June. Is that just because TNF was reopening and dollars are shifting to the physical locations from online? And are you seeing this continue into July? Like, what's the dynamic online there?

**Steven E. Rendle**

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

A

You want to grab that, Scott?

**Scott A. Roe**

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

A

Yeah. Sure. Well, again, I always caution us not to get too far ahead in predicting this very dynamic environment. But I think it's a factor of just there's a lot of demand for our brands right now and the engagement. Steve mentioned in our last call the pivot and some of the upping our game in terms of digital engagement and how that is impacting all of our touch points from a retail standpoint. I don't think there's one reason that we see that acceleration. I think it's many factors that are culminating together.

**Will Gaertner**

*Analyst, Susquehanna Financial Group LLLP*

Q

Well, hey, Scott, I was referring – it looked like there was a big deceleration between from May down into June?

**Scott A. Roe**

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

A

Oh, I'm sorry. You're talking about digital specifically.

**Will Gaertner**

*Analyst, Susquehanna Financial Group LLLP*

Q

Yeah, yeah, yeah. Digital, exactly.

**Scott A. Roe**

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

A

Okay. Sorry, I misunderstood.

**Will Gaertner**

*Analyst, Susquehanna Financial Group LLLP*

Q

Yeah. Sorry.

**Scott A. Roe**

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

A

Yeah, sure. As doors open, I'm sure that's going to have some impact. And we would expect some moderation. But there's no doubt we've seen a step change in consumer behavior and we don't know exactly how that's going to – that put and take is going to moderate. But, clearly, the trends that we've seen in terms of consumer behavior and online shopping has taken a step change forward. But it will moderate somewhat as doors open and we have seen that. We have seen that.

**Will Gaertner**

*Analyst, Susquehanna Financial Group LLLP*

Q

Great. Thank you. I'll pass it on. Thank you.

**Operator:** The next question is from Michael Binetti of Credit Suisse. Please proceed with your question.

**Michael Binetti**

*Analyst, Credit Suisse Securities (USA) LLC*

Q

Hey. Good morning, guys. I just want to ask a little bit more about Vans in the near-term, and then I have another question. But can you give us a little more color on the July trends that you mentioned for Vans? I think you said – between the channels in the US, since it's been so volatile here and you pointed to that a few times. I think you said that the wholesale doors are open, now you're seeing high-single-digit trends. Any thoughts on how that reflects on market share in the quarter-to-date as we're kind of getting back open? And then any comment on D2C as we reopen?

And then I guess, I'd also like to know your thoughts on back-to-school. I guess anybody on the line who's got kids is kind of wondering, are they going to go back to school. And therefore, I guess, for people that focus on the apparel and footwear industry, do they need the two to three new outfits that they usually get this time of year if they aren't going back to school? I'm just curious how you're planning and how your wholesale counterparts are planning for a fairly unknowable back-to-school period this year?

**Steven E. Rendle**

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

A

Hey, Michael, I can start and then maybe, Scott, you want to fill in maybe some of the numbers here. Because I think, from a Vans perspective, Michael, the underlying momentum of the Vans brand continues to be really strong. And I think there's been some questions out there around Vans' overall strength. And I would tell you, we remain extremely confident around the long-range plan that we've laid out back in 2017 and updated in Beaver Creek.

In the engagement metrics that we watch and have really been paying close attention to, guiding a lot of the Vans' behaviors over the last few months, is that the consumer remains extremely engaged, specifically on the content that the Vans brand has been sharing to really engage its community. As we look into July, we see a continued improvement as doors reopen and consumers engage in the bricks-and-mortar environment. But we continue to see strong results across our digital engagement and digital sales.

So I guess the thing I'd love to leave with everybody on the call today is just continued confidence that we have in our Vans business and the underlying momentum that the Vans brand carried into this COVID environment and

how they've really used our digital platforms, our digital engagement capabilities to continue to build that one-to-one relationship with that strong and growing Vans family part of the CLM model.

I don't know, Scott, if you want to fill in some of the numbers as well?

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**Scott A. Roe**

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

A

Yeah. Yeah, I don't know if this helps, Michael, but as you think about the Vans business, the shape of the business, more than 50% D2C, and it's our largest retail footprint. And they've been a little disproportionately impacted as you think about COVID. 75% of brick-and-mortar revenue, D2C revenue, comes from the US and the UK, which obviously have been hotspots. And when you think about the US business in particular, about one-third of the US business and the 25% of the brand overall is in the state of California. You have Florida, Texas, Arizona, New York, these are the biggest states, the biggest footprint for Vans, and those are also some of the biggest hotspots from a COVID standpoint.

So I only bring that up to say there's a lot of noise in the Vans D2C right now, given just where they operate.

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**Michael Binetti**

*Analyst, Credit Suisse Securities (USA) LLC*

Q

That's helpful. Thanks.

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**Steven E. Rendle**

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

A

Yeah. And to your question on back-to-school, Michael...

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**Michael Binetti**

*Analyst, Credit Suisse Securities (USA) LLC*

Q

Yeah.

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**Steven E. Rendle**

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

A

...I mean, that's I think we're all wondering, though, my children are no longer in school. So many of our employees are dealing with this and this is really top of mind for us as an employer and as we've really executed a people-first approach from the beginning of this.

We do see it moving to the right. But where we do have back-to-school connections, our packs business, and then Vans and North Face to a lesser degree, we do see interest in those core product categories, but we think it will move to the right. And as schools do reopen, and I think that demand and that interest in the products, be it the three outfits you referenced, I do think families and children will continue to look for that, and we're well-positioned to be able to supply that demand.

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**Michael Binetti**

*Analyst, Credit Suisse Securities (USA) LLC*

Q

Let me ask you a follow-up a little bit more of a longer-term question here, but you obviously mentioned some of the big themes, the casualization, seeking outdoors. But, obviously, the biggest one we're all pretty sure will happen will be the shift of sales to e-commerce. Can you just help us think through the impact to margins in the



business as you become a bigger e-commerce business? And, obviously, it should be a higher gross margin. We can all kind of do the math on rents versus no rents, those kinds of things.

But there's been a lot of discussion about who's going to have major tailwinds to their EBIT margins as the world becomes a bigger digital purchaser in these categories. I'd love to hear your – any help you could offer on what you think about the margin tailwinds that come online if e-commerce is going to drive more of the Beaver Creek plan than we thought?

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**Steven E. Rendle**

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

Do you want to grab that?

A

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**Scott A. Roe**

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

So I'll – yeah, I'll take that. So, in isolation, there's no doubt that it's a good thing for us long-term that if we continue to see digital growth outpace, which I think everybody, including us, would expect that to be true. It's our most profitable channel and, in isolation, that's a positive thing. There's also a horizon issue here. In the short-term, COVID-related impacts are causing us some disruption, but think about social distancing and DCs, fulfillment, those kind of things as we think about working through customer service challenges, et cetera.

The good news is, our supply chain team is really good at this kind of stuff and already we're starting to see efficiencies, and I'm confident that over time we're going to figure out how to adapt to the new world. So, over time, that should not be an issue. It's a bit of a challenge in the short-term.

But the other thing, Michael, to remember is, many of the pieces are moving here. So, as we think about all of those factors together, I just always caution people, don't just isolate on one factor. But specifically answering your question, is the growth of digital a good thing from a margin standpoint? Yeah, it is a good thing for us.

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**Michael Binetti**

*Analyst, Credit Suisse Securities (USA) LLC*

Thanks a lot, guys.

Q

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**Steven E. Rendle**

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

Thanks, Michael.

A

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**Operator:** The next question is from Alexandra Walvis of Goldman Sachs. Please proceed with your question.

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**Alexandra Walvis**

*Analyst, Goldman Sachs & Co. LLC*

Good morning. Thanks so much for taking the question here. You mentioned elevated promotional activity in the market and I wonder if I could dig into that a little bit more. Could you talk about the level of promotionality you're seeing in the market at the moment, perhaps commenting by brand or by distribution channel? And then any thoughts on the outlook for the promotional level as we go into back-to-school and holiday would be really interesting.

Q

**Steven E. Rendle**

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

You want me to grab that, Scott?

A

**Scott A. Roe**

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

Yeah. Yeah. If you start, and then I'll come in on the back, if that works.

A

**Steven E. Rendle**

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

Okay. Yeah. So, Alex, we absolutely saw an uptick in promotional activity, especially in that April-May timeframe as inventories where the issue that so many businesses we're looking at and, honestly, consumers began to expect that. We've seen it moderate, especially for our business, as our inventory levels have come into much greater control, and we think we would see a continued moderation.

A

I do think an interesting fact to keep in mind, we've seen this in China, which for us has been really the early indicators of consumer behavior is. Our outlet business has been strong. There is consumer demand in that channel. But consumers are also looking for newness. And where there's newness, our ability to sell at full price is greatly enhanced. So there's a real dichotomy in the marketplace. Where there's newness, full price drives, when we're selling goods from prior season and less – and more of those traditional items, there has been a consumer interest in seeing a promotional element.

So I think, for us, as our inventories have rightsized and we're getting that seasonal balance and seasonal flow of newness with that core product, we certainly see that promotional element lessening and putting us back in a position of more normalized type of selling prices.

**Scott A. Roe**

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

Yeah. And really nothing to add, Alex. I was going to go there, too, relative to the focus on inventory and the fact that by getting – taking that aggressive approach, we'll work through this in a relatively rapid manner and exit this year, hopefully, in a clean – with clean inventories and a much more full-price business as we enter next year.

A

**Alexandra Walvis**

*Analyst, Goldman Sachs & Co. LLC*

Got it. Thanks so much for the color. I mean, one more question from me, if I may. You mentioned that the strength that we're seeing broadly across the outdoor category at the moment, and we've seen that elsewhere with outdoor participation really increasing. You called out strength in certain categories, in particular, like tents. Can you talk a little bit about the impact, maybe any color on your sell-through trends at some of your outdoor brands during the summer period, how you're thinking about the outerwear season in that context?

Q

And then just perhaps clarify, I think The North Face number is expected to be a little weaker than the consolidated revenue growth in the upcoming quarter. Perhaps you could square that with some of the strengths that we're seeing in outdoor? So there might be some timing shift from there.

**Scott A. Roe**

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

A

This is Scott. Why don't I start with more of that high level and you can come back to that final piece. Look, clearly, Alex, the trend to the outdoor marketplace married with the significant uptick in consumers' attention around health and wellbeing really positions us well with just not our North Face business, but with all of our outdoor-focused brands. And we've seen really strong engagement as we've changed the tone of our message, talking about the value of outdoors and playing up our strong commitment to sustainability.

In the context of North Face, we did see a really strong selling of our tents, sleeping bags. And as that kind of moved through not only our own channels, but we saw that in our specialty channels as well, consumers are now starting to look at those other items that you would use in the outdoors, outdoor footwear, outdoor apparel. And we think that lines up extremely well for where we will be in the fall as we start to bring in our insulated outerwear, our mid-layers and, clearly, our rainwear and performance ski wear.

And I think that's where the innovation commitment that we have for each of our brands, most notably The North Face. FUTURELIGHT continues to expand into more styles. Spring 2020, we had Dryzzle as a new style. What was historically a \$199 price point moved to \$229, and we saw exceptional sell-through, specifically with women on that style, giving us confidence it is that FUTURELIGHT expands into our fall offer. And it marries with some new innovations in our down and insulated categories that consumer demand is there. And that comment I made earlier about newness, positioning us in a really good place.

And I think that would be true for our Smartwool, our Icebreaker brand, our Napapijri business primarily in Europe. That right level of newness, that right level of innovation, giving consumers a reason to look to our brands first when they're making that choice.

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**Steven E. Rendle**

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

A

Yeah. And, Alex, I guess, to follow-up on the last part of your question, I guess, it was around TNF, why is it not stronger in Q2. Really, we're seeing timing-related issues. Primarily supply delays are costing us a bit of growth as we see a little shift from Q2 into Q3. And by the way, we see this in both Timberland and The North Face. And we saw shifts from Q1 to Q2 in Vans, particularly. As we look at that supply-demand match, we see in the colder weather brands more of a Q2 to Q3 shift, which is reflected in both the Timberland and TNF forward look that we've provided. So, as you look at the subsequent quarter, then you'll see relative stronger performance as some of that demand just shifts a little bit to the right.

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**Alexandra Walvis**

*Analyst, Goldman Sachs & Co. LLC*

Q

Fantastic. Thank you so much, and all the best.

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**Steven E. Rendle**

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

A

Thank you.

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**Operator:** The next question is from Erinn Murphy of Piper Sandler. Please proceed with your question.

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**Erinn E. Murphy**

*Analyst, Piper Sandler Companies*

Q

Great. Thanks. Good morning, and good to hear from you all. I guess, my first question is on Dickies. It definitely seemed to be the relative bright spot in the portfolio in the quarter. Can you just speak to why that was? Is it

specific to the channels that it sells in or the customer? Would just love to hear a little bit more about that business.

**Steven E. Rendle**

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

Sure. Yeah. I'll start, Erinn, and then, Scott, if I miss anything, fill in.

A

**Scott A. Roe**

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

Yes.

A

**Steven E. Rendle**

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

So our Dickies business, certainly, it carried some momentum in from our Q4. And I think we've been talking about our confidence around just how the Dickies brand and more of that lifestyle expression of workwear is really relevant in this evolving consumer marketplace. And as we entered the COVID environment, Dickies did enjoy the element of essential retail being one of their key US distribution channels. And hence, we were able to continue to supply and there was good demand throughout the quarter, and we were able to really capitalize on that here.

But I think the digital engagement that Dickies has increased through the COVID environment, not just here in the US, but in Asia and Europe, really understanding, engaging with their consumers in new innovative ways. Our Dickies business in Asia was the first to provide a virtual shopping experience with curated online assortments and in-store merchants there to service that one-to-one consumer need.

So, really looking at innovative ways to engage our consumers and certainly supporting the frontline worker here in the US, just put the brand front and center with consumers, and we were able to capitalize through those distribution channels that were open. And I would say...

A

**Erinn E. Murphy**

*Analyst, Piper Sandler Companies*

Got it. And then...

Q

**Steven E. Rendle**

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

And I guess to add there, we see that continuing. We don't see that as a one quarter, one done. This brand has momentum. And the offer and the engagement with the female consumer, things that we're seeing going on with our overalls and bottoms, we're really in a really strong place where this brand is taking on more than just a work approach, but kind of that really playing on that maker shaper lifestyle aspect.

A

**Erinn E. Murphy**

*Analyst, Piper Sandler Companies*

Got it. And I guess, just to clarify that, when you think about the second quarter, up mid-single digits, is that what you're seeing in terms of POS just because you are in some of those mass channels that are trending today? And so, just clarification on that.

Q

And then the second clarification, just on the order book last quarter, you talked about it being down 25% to 30% this fall. Any update to how that looks now that we're pretty close to the season? Thank you.

**Steven E. Rendle**

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

A

Sure. So I think on your comment around Q2, that mid-single-digit call that we have there, I mean that is really what we see from an order book standpoint and sell-through is improving. Could there be upside? We're prepared to service that as that comes. And more – not just the essential retailers, but more of the retailers coming online across the globe. We think we continue to see good opportunity for Dickies to meet or potentially exceed that long-term growth algorithm we've spoken about. The order book...

**Scott A. Roe**

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

A

Yeah. Steve, particularly in China, right? The China business continues to really do well. Sorry to interrupt there but.

**Steven E. Rendle**

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

A

No, no, no problem. And in the order books, I think Scott called that out in his comments, just the collaborative approach that we have with our wholesale partners, especially our key wholesale partners across the globe. Nothing to change in what that view looks like and what we've called for the year really is reflective of the outcome of those conversations. And where there's opportunity to service demand, I think that's where our supply chain really does stand out. But we have been very thoughtful about pulling in our inventory and managing to where we see demand. And honestly, Erinn, if we leave a little bit demand on the table, that does not bother us. This is really a long-term game that we're playing.

And then we've got a lot of history. If you remember, the strong North Face growth years through the 2000s, we often left demand on the table and that fueled demand going into next year, which fueled stronger order books and our ability to drive what the brand was pushing from an innovation standpoint.

**Erinn E. Murphy**

*Analyst, Piper Sandler Companies*

Q

Great. Thank you, both.

**Steven E. Rendle**

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

A

Yeah, Erinn.

**Operator:** The next question is from Bob Drbul of Guggenheim Securities. Please proceed with your question.

**Robert Drbul**

*Analyst, Guggenheim Securities LLC*

Q

Hi. Good morning. [ph] Just to steal (1:03:42) a couple of questions for me. I think, first, I mean, on following Erinn's question, The North Face, generally, when you think about sort of fall/winter COVID weather, can you just give us a higher level perspective on how you're planning, like, your own inventory purchases around that uncertainty with more of a potentially weather-impacted business, which is my first question on The North Face?

And I think the second question is just you talk about optimizing the portfolio. When you think about acquisitions, you think about your liquidity, you think about the Workwear, the potential divestiture, is that something when you think about an acquisition at this point in time, are you going to want to get rid of the – divest the Workwear business first? Or do you think everything has to clear before you guys make another move? I don't know – just if you can just give us current thoughts on how you're approaching the optimizing the portfolio strategy right now. Thanks.

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**Steven E. Rendle**

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

A

Sure. So, Scott, why don't I grab the weather impact and then if you want to take the optimizing portfolio...

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**Scott A. Roe**

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

A

Yes.

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**Steven E. Rendle**

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

A

...we can kind of split it up here. So, Bob, I think as we look at The North Face opportunity, and I guess I would reflect more as I think about consumer behavior and the engagement that we see with consumers going outdoors, we don't think that's going to change as the winter months come.

And I think as people have to continue to have some level of work-from-home, shelter-at-home, the desire to go outdoors, have the products that enable you to do that, and this is where the innovation and the newness is so critical, it's giving consumers reason to improve their comfort in the outdoors.

We think we are well positioned, not just with our North Face brand, but with our outdoor portfolio and the appropriate products that we have for that outdoor experience, but also that casualization play that happens more in that stay-at-home, and that would be everything from our mid-layers to our outer layers.

We don't think the consumer behavior will be such that going outdoor stops. We think perhaps that trend maybe will be even stronger as we all desire to get out of our homes and have some outdoor experience.

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**Scott A. Roe**

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

A

Yeah. And Bob, as it relates to your question, if I understood it right, you're asking our portfolio actions dependent on the timing of the Occupational Work closure, if that was your question. Not necessarily. All the liquidity that we've shown you is without any proceeds from the Occupational Work business.

So, we've looked at our capital structure, our liquidity, our cash positions, our obligations, et cetera, and looked forward and said, okay, we can – if anything we get from Occupational is really additive to all those projections, and we feel that we have sufficient dry powder to handle all of our obligations. And we've said, we continue to look at potential acquisitions.

Having said that, we're pretty far down the road in this process and there's a lot of interest. So I said in my prepared remarks that our expectations are that, in the next couple of months, we'll have something to say as it relates to Occupational Work. So, hopefully, that addressed your question, Bob.

**Robert Drbul**

*Analyst, Guggenheim Securities LLC*

Definitely. Thanks, Scott.

Q

**Scott A. Roe**

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

Yes.

A

**Operator:** Our final question today comes from Adrienne Yih of Wolfe Research (sic) [Barclays]. Please proceed with your question.

**Adrienne Yih**

*Analyst, Barclays Capital, Inc.*

Yes. Thank you very much. Steve, I was wondering if you can expand on your thoughts on acquisition strategy. With all the changes from COVID, have the characteristics of what makes an attractive potential target change, maybe shifting from a traditional product-based business model to either digitally native or something, a technology that can drive digital?

Q

And then, for Scott, maybe this is for Scott or for both of you. Data analytics, what level of deployment are you currently at? Is it currently focused on sort of product catalog and search engine optimization? And when can we start to see the data analytics further back in the supply chain to inform you on demand forecasting? Thank you very much.

**Steven E. Rendle**

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

Two great questions to end with. I would tell you our – Scott, I'll start on the acquisition piece. I think our – where we focus and where we see opportunity really does not change. The total addressable market that Scott mentioned from the outdoor, the active and the adjacencies that are around that, those core categories, that's where we see the energy in the marketplace continuing.

A

And clearly, that is where we've been evolving our portfolio as we continue to transform VF. We have talked in the past about just not looking at the physical brand assets, but also looking at capabilities that could enhance or elevate our capabilities, especially in the digital area. So, that is on the table, and that may not be always an acquisition, but it could be a partnership more from a capability that we look at.

So, no change, in fact, and it remains the number one choice that we have for capital allocation. But clearly, we are very focused on maintaining the health of our enterprise for the long-term. So, being much more, I think, focused and critical as we look at potential opportunities.

If you look at the data and analytics part of our agenda, that is a very important part of our transformation and an area that we see great opportunity to enhance really our end-to-end understanding of the value chain. So, consumer insights to guide not only the product decisions that we make, but also the experiences that we provide across the virtual and the physical environments, the demand sensing and being able to – and build that back into our supply chain for a better product flow, all of that is on the table.

And I would just, I guess, say, we are in the early stages. We have been on this transformation journey for the last three to four years, and the data and analytics and, more importantly, the insights part of our data strategy or our transformation is a really important part of that long-term vision that we have. And today, the insights that we have for our North Face and Vans business specifically, for a consumer, is really helping guide a lot of our engagement and is, in many ways, we believe, helping drive those strong results that we've seen through Q1 from a digital conversion. And we'll continue to use that to drive that consumer interaction, both through the digital, but also the physical environment as things continue to open.

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**Adrienne Yih**

*Analyst, Barclays Capital, Inc.*

Q

Great answer. Thank you very much. Best of luck.

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**Steven E. Rendle**

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

A

Thank you.

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**Operator:** That's all the time we have for questions today. I would like to turn the call back to Steve Rendle for closing remarks.

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**Steven E. Rendle**

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

Great. Well, thank you, everybody, for joining us. We know this has been a very busy week for you and we appreciate you giving us time on a Friday morning. I'll just leave with a couple of really simple thoughts. And we said this in our script. But VF is built for this. Our operational and finance disciplines have put us in a very strong position to navigate the early stages of the COVID pandemic. And you can see that in our results, clearly, in our quick move to get our inventories in a strong place.

We are – our powerful brands are engaging with consumers in very unique and powerful ways and that pivot we made early in the quarter has really put us in a strong position. We could not be more pleased with the investments we're making along our transformation agenda and where we are in that multiyear move that we've talked to you about over the last couple of years.

And we're doing slightly better than we expected. And we will continue to build on that strength and focus on the areas where we've seen strong performance, specifically digital and China, to continue to drive improving results through the balance of our year.

So, thank you for joining us. We really appreciate you taking the time.

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**Operator:** This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.



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