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VF Corp. (VFC)

Q3 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings around welcome to the VF Corporation Third Quarter Fiscal 2021 Earnings Conference Call. At this time, all participants are in a listen-only mode. [Operator instructions] As a reminder, this conference is being recorded.

It is now my pleasure to turn the call over to your host, Joe Alkire, Vice President, Investor Relations, Corporate Development and Treasury. Please go ahead, sir.

Joe Alkire

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

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

Unless otherwise noted, amounts referred to on today's call will be on an adjusted constant dollar basis, which we've defined in the press release that was issued this 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 CEO, Steve Rendle; and CFO, 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. Welcome to our third quarter call. As always, I hope our comments today find you and loved ones healthy and safe. As we put 2020 behind us, we've unfortunately experienced a tumultuous start to 2021, highlighted by the political and ideological divide in our nation, as well as ongoing challenges presented by the pandemic across the US, UK, and other countries around the world.

Even so, I remain optimistic about the year ahead and to improvements in our geopolitical, macroeconomic, and pandemic-related situations. And I'm confident in VF's plan to accelerate growth, continue advancing our business model transformation, and deliver on our commitments to our shareholders and stakeholders around the world.

VF's performance during the third quarter was largely ahead of expectations, despite additional COVID-related disruption to our business. Consumer engagement with our brands remains strong and we have conviction that the secular trends related to casualization, health and wellness, and the desire to get Outdoors will be enduring. Our business is on track to return to growth in the fourth quarter and I am confident that the strategy we have in place positions us well to accelerate growth as we head into fiscal 2022.

I'd like to begin my prepared remarks today with a brief recap of where we left things on our October call. At that time, our business had essentially fully reopened across the globe and underlying business trends had continued to stabilize. We saw strong momentum in China and across our Digital platform, which we continue to view as leading indicators for our business. Confidence from this momentum, as well as early signs of stability and recovery across our portfolio more broadly, supported our preliminary outlook for fiscal 2021 and the decision to raise our dividend.

Further, in early November, we announced the acquisition of Supreme. Our willingness to execute the transaction during the pandemic was a function of the resiliency of Supreme's business model, our early and decisive actions to ensure liquidity, as well as our increased confidence in the trajectory of our organic portfolio. Fast forward to today, our business has continued to perform ahead of expectations and our confidence and visibility heading into fiscal 2022 continues to improve. While the environment has proven to be somewhat more difficult than expected, the performance of our business demonstrates the resilience of our portfolio.

While the full extent of these headwinds was not contemplated in our initial fiscal 2021 outlook, we were able to more than absorb these impacts as a result of the continued strength of our Digital and China businesses, as well as better than expected performance from our North Face and Timberland brands globally. As a result of the

momentum we see building across our portfolio, fueled by our business model transformation, coupled with the closing of the Supreme transaction, we are raising our fiscal 2021 outlook. Scott will unpack the details in a moment.

Before getting into the highlights for the quarter, I'd like to provide an update on our progress against our business model transformation. Understanding and focusing on our consumer connectivity is at the heart of our transformation journey. Our teams continue to activate capabilities to better understand and build more intimate relationships with our consumers, digitize the go-to-market process, and enhance and integrate the online and offline consumer experience.

The continued impact of the pandemic has forced an ongoing reaffirmation of our priorities, and we remain committed to both the near-term brand-specific initiatives and long-term enterprise-wide platform investments. Continued investment behind our transformation is critical to our success and long-term growth aspirations. I'm pleased with the significant progress we've made throughout 2020, as evidenced by the resiliency of our performance during this past holiday season and the momentum that is building across our portfolio as we head into fiscal 2022.

A recent proof point of these accelerated initiatives has been enabling our brands to build omni-channel consumer journeys and optimize supply chain efficiency. On our last call we shared that ship-from-store functionality was activated across the majority of our Vans and North Face full-price stores ahead of the holiday season. Specifically, within our EMEA platform, our teams engineered homegrown solutions to deliver buy-online-pick-up-in-store, ship-from-store, and reserve-online-buy-in-store right before lockdown measures applied across the region.

These businesses were able to utilize retail inventories and leverage ship-from-store capabilities when the stores were forced to shut down, supporting an 81% increase in Digital revenue. Phase two of this project is currently underway with the planned go-live in the coming months, including save-the-sale functionality which will allow our brands to leverage retail inventory when an item is out-of-stock online.

Turning to our brand highlights from the quarter. Vans' revenue continued to sequentially improve, declining 8% as 48% growth in Digital was more than offset by brick-and-mortar store reclosures in the Americas and EMEA markets. The brand accelerated to 9% growth in APAC, led by 58% Digital growth and 21% growth in China. From a product standpoint, All Weather MTE styles increased at a double-digit rate; and the UltraRange increased high-single digits as Vans consumers turned to more Outdoor and Active oriented franchises.

Vans ranked number one among the largest brands during the Singles Day on Tmall, gaining 700,000 new consumers. Also in November, Vans Customs launched on Tmall, becoming the first global brand offering a full customization engine on this platform. The collaboration with BAPE drove the launch, generating 870,000 unique visitors on the Customs site that day.

The Vans Family member base continued to grow globally, with membership approaching 14 million consumers. Although the headline number for Vans reflects the challenging brick-and-mortar operating environment in the US and Europe, we remain confident in the underlying trajectory of the business and expect at least low double-digit growth in the fourth quarter on a reported basis. Continued momentum in China and across the Digital platform, normalized inventory levels across all regions, and strong consumer growth and engagement support the brand's return to growth beginning in the fourth quarter.

Moving on to The North Face. Revenue declined 2% with continued sequential improvement in the Americas, and double-digit growth in Europe and Asia. Europe remains a bright spot for the brand with 17% growth, including 112% Digital growth, offsetting the impact of significant store closures in the region. Global TNF Digital increased 61% with accelerated growth across all regions, driving a return to positive growth in D2C. In North America, the VIPeak Loyalty Program drew 840,000 sign-ups, a more than 90% increase versus last year.

TNF continued to drive a significant increase in consumer engagement through authentic and purpose-led marketing activations. Core Off Mountain icons such as the Nuptse franchise performed well, and the TNF/Gucci co-lab generated tremendous brand energy with over 15 billion media impressions since its December launch. Yes, you heard that right, over 15 billion media impressions since its December launch. On Mountain product also performed well, highlighted by FUTURELIGHT's expansion deeper into the product assortment, leading to triple-digit growth versus the prior year. The new footwear platform, VECTIV, has been well-received, exceeding our initial sell-in targets for this spring's launch.

We are pleased with the perform of The North Face and encouraged by the brand's strong momentum heading into next year. On a reported basis, we now expect fiscal 2021 revenue for The North Face to decline less than 10%, including greater than 20% growth during the fourth quarter.

Timberland revenue declined 17%. Relative strength from apparel and positive growth in both Outdoor footwear and the PRO business were more than offset by softness in classic footwear, which was significantly impacted by limited inventory availability. Timberland continues to drive brand energy with key influencers and retailers through high-profile collaborations and the launch of new franchises.

The new Work Summit boot was launched this quarter, contributing to record traffic to Timberland PRO's Digital site which saw more than 100% growth. We're encouraged by the opportunity for TrueCloud, a new innovative, eco-friendly franchise made from renewable and recycled materials; and Greenstride, a new franchise anchored in Outdoor.

While still early, I'm pleased with Timberland's progress and the evolution and diversification of Timberland's new and innovative product portfolio. Continued momentum from Timberland PRO, apparel, and non-classic footwear, coupled with improving demand and inventory levels for core classics, position the Timberland brand for continued progress heading into fiscal 2022.

Dickies revenue increased 7%, with strong demand across all regions and growth across all channels. The work-inspired lifestyle product portfolio continues to develop at a rapid pace, increasing at a double-digit rate across all three regions. Work-inspired lifestyle product now represents about a third of global brand revenue. Brand interest accelerated in the quarter, over-indexed toward the key 18 to 24 year old consumer demographic, supported by the United by Dickies global campaign and focus on the brand's icon stories.

Finally, we are thrilled to have closed on the acquisition of Supreme. This move is further validation of the actions we've taken over the past four years to position our portfolio into those parts of the market where there is strong consumer engagement and demand. We are confident that the Supreme transaction will serve as a spark for another layer of transformative growth and value creation for VF and our stakeholders.

In early January, we announced a transformation plan for APAC operations. This represents the first significant action under Project Enable. Highlights include the following. We will transition our brand's center of operations to Shanghai. We will transition the Asia product supply hub to Singapore, while also redeploying some of the product supply talent and resources throughout primary sourcing countries to work more closely with key

suppliers and drive greater efficiency. We will establish an additional shared services center in Kuala Lumpur, Malaysia to serve as the home for essential activities within our enterprise functions.

As you would expect, we will take great care as we move through the transition process during the next 12 to 18 months. And, as always, we are committed to supporting the personal needs of all impacted and relocating associates and their families.

So, to close, I want to thank our people for their incredible efforts throughout 2020 as we've balanced navigating the dynamic near-term environment while remaining focused on our long-term priorities and business transformation. I'm encouraged by the recent performance and resilience of our business and I'm optimistic about the growth outlook for our brands as we move into fiscal 2022 and beyond.

As we've said from the onset of the pandemic, with great change comes great opportunity. I am confident VF will emerge from this pandemic in an even stronger position ready to build upon our storied history and established track record of delivering strong returns to all stakeholders.

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

Scott A. Roe

Executive Vice President & Chief Financial Officer, VF Corp.

Thanks, Steve, and good morning, everyone. What a year. Beginning with the unprecedented enterprise preservation actions at the onset of the pandemic to the acquisition of Supreme, this has been an unbelievable period for VF and I'm grateful for the work that's been done by our teams around the globe to position us for growth and success moving forward.

To recap, our quick and decisive actions to ensure liquidity have allowed us continued investing throughout this disruptive period, highlighted by our ability to acquire Supreme, a perfect complement to our portfolio and accelerant to our long-term strategy and transformation agenda. Our aggressive control of inventory while prioritizing newness has allowed us to maintain brand momentum while positioning us for a return to profitable growth from the beginning of the fourth quarter and into the next fiscal year. And our sharp control on discretionary spending and the launch of Project Enable presents a tailwind toward operating leverage moving forward and the ability to direct more dollars to our highest priority growth investments.

So, while the near-term environment remains noisy, including lockdowns, store closures, and inventory constraints, I could not be more pleased with the overall health of our enterprise and the composition of our portfolio heading into next year.

I'll open with a quick update on Supreme, which I know is of interest to many of you. As announced on December 28, we closed the acquisition for an aggregate purchase price of approximately \$2.1 billion, subject to the customary adjustments. We expect Supreme to contribute about \$125 million of revenue and \$0.05 of adjusted earnings to the fourth quarter of fiscal 2021. As disclosed at announcement, we expect Supreme to contribute at least \$500 million of revenue and at least \$0.20 of adjusted earnings in fiscal 2022.

We're now moving into the integration phase and carefully on-boarding Supreme into the VF family, focused on applying the appropriate amount of governance and oversight where needed while maintaining a light touch approach in other areas to avoid over-burdening the brand. We're committed to keeping it business as usual for the brand and its teams, while at the same time understanding how we could begin to enable the brand's growth

and strategic vision while activating synergy opportunities where appropriate. While it's early days, there's a lot of excitement about the future among both the VF and Supreme teams, and we're off to a great start.

Moving on to an overview of the operating environment across the regions. Starting with the Americas, continued virus-related lockdowns and disruption present near-term challenges. With that said, the Outdoor and Active categories continue to outpace overall apparel performance; and demand trends have remained resilient. Retailer inventories appear to be well-positioned exiting the holiday season, but do remain abnormally low in certain categories and channels. Despite continued traffic headwinds, our Americas business sequentially improved with nearly 50% Digital growth offset by store closure headwinds.

Moving on to the EMEA region, where we've seen a second wave of the virus introduce more severe lockdown measures than previously anticipated. As a result, the broader EU economy has been among the hardest hit by the pandemic this quarter. As the vaccine rollout is starting across Europe, the region is bracing for another wave of COVID-19; and the UK recently extended more restrictive lockdowns until February.

There are reasons for optimism, however, with Digital acceleration continuing throughout the region. As we have seen across our own brands and with our Digital partners, such as Zalando and ASOS, VF's EMEA Digital business grew more than 80% in the quarter. Despite half of our brick-and-mortar stores being closed for a large portion of the quarter, the EMEA region saw a meaningful sequential improvement and return to positive growth on a reported basis.

Finally, the APAC region continues to offer greater stability than any other, even as the effects of the pandemic linger. China has seen a pick-up in consumer spending with positive growth in apparel and footwear categories. We continue to view APAC as the leading indicator of the larger macroeconomic environment. Our Mainland China business grew 15%, led by strength at Vans which grew 21%. The D2C business in Mainland China accelerated to 20% growth, led by 24% growth in Digital. China retail partner inventory continues to improve and our partner comp sales returned to growth this quarter. We're excited by the continued momentum in China and have high confidence in our outlook of 20% growth this year.

Now, turning to highlights from the quarter. Total VF revenue declined 8%, in line with our expectations. International declined 4% as a 4% decline in EMEA was offset by 1% growth in APAC including 11% growth in greater China. Our D2C business also declined 4%, driven by store closures and continued soft traffic in the Americas and EMEA.

Our Digital business grew 49% with strong performance across virtually every brand in the portfolio. Including our pure-play Digital Wholesale partners, our total Digital business represented about one-third of total revenue in the quarter. We now expect D2C Digital revenue growth to exceed 50% for fiscal 2021 on a reported basis; and including our Digital Wholesale business, we expect total Digital penetration to approach 30% for the year.

Gross margin contracted 150 basis points to 55.7%, the third consecutive quarter of sequential improvement aided by moderating promotional activity. The decline versus last year was primarily driven by higher levels of promotion and 90 basis points from FX transaction, partially offset by 90 basis points of favorable mix benefit. While the promotional environment remains a headwind, it has evolved slightly better than our expectations. As we move into the fourth quarter and into fiscal 2022, we expect the impact of promotions and discounting to continue to moderate.

Our SG&A spending declined about 4% relative to last year as we returned to normalized levels of strategic investment spending, including demand creation approaching historical levels of investment. As expected, we did

experience cost pressure from higher freight and distribution expenses, although these were more than offset by reductions in discretionary spending and leveraged elsewhere throughout the cost base. We expect to continue to invest in our strategic priorities in the fourth quarter as we return to growth.

Inventories were down 14% at the end of the third quarter. Consistent with our prior expectations, we expect to exit our fiscal year in March with inventories at equilibrium in support of our forward growth outlook. We also see relatively clean inventory levels at retail globally, positioning our brands for a return to more profitable growth heading into next year. As expected, service and in-stock levels improved as COVID-related disruptions had less of an impact in the quarter.

Our liquidity position remains strong. We ended Q3 with approximately \$3.9 billion of cash and short-term investments, in addition to roughly \$2 billion remaining undrawn on our revolver. After funding the Supreme acquisition, we expect to exit fiscal 2021 with more than \$1.5 billion in cash and nearly \$2 billion remaining undrawn on our revolver. Our capital allocation priorities remain consistent, supported by our robust liquidity position. We remain fully committed to growing our dividend, which continues to be an integral part of our TSR model. Our share repurchase program remains on hold as we focus on deleveraging the balance sheet, following the acquisition of Supreme.

So, now, turning to our updated outlook. We are raising our fiscal 2021 outlook and now expect full year revenue to be between \$9.1 billion and \$9.2 billion; and full year EPS of approximately \$1.30. The increase in our outlook includes the accretion from Supreme and the fourth quarter results implying a modestly higher outlook for the organic business. We're also raising our free cash flow outlook to approximately \$650 million.

I know many of you are eager to understand our initial expectations for fiscal 2022. While it's too early to provide a preliminary outlook at this time, I will provide a few high-level comments to help you understand how we're thinking about the evolution of our business as we head into next year.

Overall, we see an improving consumer backdrop, particularly in our core categories, along with brand momentum across our largest properties globally. The accelerated shift towards Digital and China are beneficial to our fundamentals and recent portfolio actions are immediately accretive to our revenue growth and margin profile. We continue to see encouraging signs of stabilization in the retail marketplace and a normalization of inventory flows from a healthier supply chain. We intend to continue to distort investment towards our strategic priorities and business model transformation in support of our powerful brand portfolio.

Taken together, I remain optimistic about the strength of our growth algorithm going forward and I'm confident in our ability to emerge from this crisis in an advantaged position. The portfolio actions we've taken over the last five years have left us well-positioned to continue delivering superior returns to our shareholders.

So, now, I'll turn the call back to the operator and we'll 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 Michael Binetti from Credit Suisse. Your line is now live.

Michael Binetti

Analyst, Credit Suisse Securities (USA) LLC

Q

Hey, guys. Thanks for all the details today. I guess I'd just start on a couple comments that you made, Scott. I guess, two changes I heard were that Project Enable should add some efficiency on the cost base. And I know before, when we initially got your look at Supreme, you assumed no synergies in the guidance you gave us out of the gate. I think, today, you said you'd be looking for some areas of synergy where appropriate. Obviously, you continue to mention to us, you want to leave that business alone as it's doing a nice job. But I'm trying to think of how best to think about what the size of the Project Enable efficiencies could be – do you envision flowing that through at all as you start to roll that project out or is the plan to reinvest that in full? I'll just leave it there. I'd love to hear your thoughts on those.

Scott A. Roe

Executive Vice President & Chief Financial Officer, VF Corp.

A

Sure. Sure, Michael. Good morning and thanks for the two questions. Yeah, relative to Enable, we talked about \$125 million of benefit over roughly a three-year period. Today, you saw in the comments, the first major action under Project Enable related to our Asia-Pacific business, the two components of that are building on our already-present Shanghai frontend business focused on China and moving most of the remaining jobs from Hong Kong to Shanghai. And then, on the supply chain, really two things: strategically moving into [ph] country more (00:26:27) closer to the sourcing locations which has a labor arbitrage benefit, in addition to being just better able to manage the business; and then moving to Singapore which, obviously – and Kuala Lumpur, which also has some financial benefits.

But I guess, Michael, the way that – I think in my prepared remarks, I said, Enable is not about cost; it's fundamentally about transformation and realigning our business but it does have a cost benefit, obviously, the \$125 million. And so, the way I would think about this modeling going forward is, while we've got a lot of incremental investments around the transformation, specifically around Digital and some capabilities around consumer data, et cetera, rather than those being incremental and being a drain, we're looking at redeploying cost and offsetting many of those so that we can see leverage in the SG&A base over time.

Another question related to this that you might have – this is some big actions that we just announced today – what does that mean from a cash flow standpoint going forward? Well, the – both the restructuring and some of the outgoing costs will happen over time, as will the benefits. So, we don't see a material impact in any particular quarter from a cash-on-cash basis. So, hopefully, that gives you some color there. We really see this as a way to maintain leverage in the SG&A base and redeploy costs so that we can offset the transformational investments that we see coming and have been investing in, frankly, over time.

As it relates to Supreme, yeah, we – the point that I think you're referring to, at the time of acquisition, the modeling that we put out really assumed very, very limited and essentially no synergies. We said that doesn't mean that we don't see the opportunity, but it also is recognizing this is a beautiful, simple machine and we don't want to mess it up, frankly. And we – this business – this acquisition was based on strategy and opportunity in a

new growth vector. They have beautiful fundamentals already and we don't need synergies to make the deal work economically. That was the – that was really the intent of the earlier comments.

Having said that, as we engage with the team – and they're going to lead this – where they have opportunities for growth – think new geographies, for example, where they're not present – we absolutely see opportunities to reduce friction and create some leverage with our strong platforms in these new geographies. The point we were making is that wasn't factored into the deal economics. So, as we get further down this integration path and we're just starting, my expectation is we'll find those areas of synergies and when we do, we'll talk about that and update the – any guidance that we have relative to the accretion there.

Michael Binetti

Analyst, Credit Suisse Securities (USA) LLC

Q

Okay. Thanks for the details, Scott. Have a good one.

Scott A. Roe

Executive Vice President & Chief Financial Officer, VF Corp.

A

Sure. Thanks, Michael.

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

Matthew R. Boss

Analyst, JPMorgan Securities LLC

Q

Great. Thanks. Maybe first on Vans, any way to parse out the impact from store closures or COVID restrictions this quarter? Or said differently, could you speak to maybe the underlying trends that you're seeing by region and just your confidence in demand trends at Vans exiting the pandemic relative to pre-crisis?

Scott A. Roe

Executive Vice President & Chief Financial Officer, VF Corp.

A

Yeah, Steve, do you want me to do the numbers first maybe?

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

A

Yeah, sure. Go ahead, Scott. And then I'll pick it up [ph] at the tail (00:30:20).

Scott A. Roe

Executive Vice President & Chief Financial Officer, VF Corp.

A

Yeah, okay. Yeah, Matt. So, a couple of things to think about. The footprint of Vans from a brick-and-mortar standpoint, you got a third of brick-and-mortar in California and a third in Europe when you look at the global brand. And you might remember [ph] D2C (00:30:41) is about – more than 50% of the Vans brand overall.

You put with that – these are our most productive doors, right, and so they punch above their weight from a – they're disproportionate in terms of the relative impact on the overall brand. So, 90 days ago, we didn't – we were essentially open for business in all geographies and we didn't anticipate that we would have these reclosures and you're seeing the impact of that. So, as it relates just to the guide this year, that's really the primary driver.

Remember also, I mean, you have wholesale doors in those same regions as well. But the biggest issue for us was, frankly, around the brick-and-mortar stores.

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

A

Yeah, and I think I would just follow. We continue to be very encouraged about the Vans business and, most importantly, with how the Vans business continues to engage with its existing customers. We talked about the Vans Family members, which has been a big investment over the past few years, drove over 50% of the US D2C business.

All of our businesses are experiencing episodic impacts due to the COVID pandemic. Vans is certainly impacted based on the heavy concentration of stores with the brick-and-mortar closures, but we've also – they've had to endure how to recover from our early moves on mitigating inventory and pulling back on marketing, and just getting their rhythm and choreography of new products married with appropriate stories to drive that engagement that ultimately drive the conversion, just getting back into that rhythm. And we're seeing that today, and as we move into spring 2021 you'll really see that optimized level come back to what we have historically been accustomed to.

Matthew R. Boss

Analyst, JPMorgan Securities LLC

Q

Great. And then, just to follow-up on the margin side. So, your guidance implies operating margin I think around 6% to 7% in the fourth quarter. Scott, could you just break down the expectation for gross margin in the fourth quarter, maybe relative to the 150 basis points contraction in the third quarter.

Scott A. Roe

Executive Vice President & Chief Financial Officer, VF Corp.

A

Sure. Sure, Matt. Yeah, the – first of all, just to bring you back and remind you of the glide path that we expected on gross margin and, generally, notwithstanding the Vans brick-and-mortar comment that I just mentioned, generally, we're seeing that develop. In fact, in the third quarter, we said promotional activity was slightly better than we had anticipated. And as we look to the fourth quarter, we really don't see any material change in the pace of markdowns or the promotional activity.

What we do see is, and expect, is a modest decline in gross margin from previous expectations. Think about maybe 100 basis points or so. And that's really driven by mix – the difference in mix, right. So, as you see less direct-to-consumer, you're going to see a little bit lower gross margin in the fourth quarter.

Maybe to give you some confidence, though, as we look forward – we're not giving guidance in 2022, but I can give you a few data points that maybe will help you think about the go-forward picture. From a margin standpoint, we would expect 2022 margins to be back to historical peak levels. Think about the organic business, 55.5%, plus some accretion from Supreme. So, a little better – we would expect margins, gross margins to be a little better than even where we were pre-pandemic in the 2020 timeframe which I think is really kind of underneath what your question is.

The other thing I would say is, remember, the actions that we took, while we're sure that it had some impact in terms of sales and some of the relative performance this year, constraining inventory, et cetera, the goal there was to emerge in a clean position and in a position of strength going into next year. So, just remember there's two sides to those impacts, a short-term disruption but we believe we're setting ourselves up well for next year.

Matthew R. Boss

Analyst, JPMorgan Securities LLC

That's great color. Best of luck.

Q

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

Yeah. Thanks, Matt.

A

Scott A. Roe

Executive Vice President & Chief Financial Officer, VF Corp.

Thanks, Matt.

A

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

Alexandra Walvis

Analyst, Goldman Sachs & Co. LLC

Good morning. Thanks so much for taking the question and for all the color so far. My first question was a high-level question on the momentum of your direct-to-consumer Digital business. It accelerated in the quarter, despite the overall acceleration in top line trends for the business, and I was wondering how that was changing or adapting your thinking into next year on the potential for Digital growth against the tougher compares for this year. Put another way, where can Digital penetration get to in fiscal 2022 and how much more runway is there for that channel?

Q

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

Sure. Alex, this is Steve. I'll go ahead and start. Scott, fill in if I miss anything here. I think we're very excited about the impact of our decisions the last few years to really invest behind our transformation and build this consumer-first mentality. We committed to get our Digital to about 20% of our business when we met with everybody back in Beaver Creek, seems like eons ago. And as we've gotten through this year, we've exceeded that number, about 23%; and combined with our US wholesale, our Digital penetration is about 30%.

A

So, I think what's important for us isn't really the penetration percent but more about building these seamless connections between the virtual and the physical, and building those optimized consumer journeys that allow us to really meet our consumer where they are. So, thinking about through a mobile-first mindset, the UX/CX aspect of our platforms, thinking about the services required within our stores to be able to not only optimize service but optimize use of inventory. And I would just tell you, [ph] I think (00:37:30) the store element of our direct-to-consumer strategy long-term is a very critical role on how we connect with consumers but also how we bring technology.

The store we've opened recently in Milan, Orefici, is really a test case of blending technology with physical and building a higher level of engagement and experience. So, long answer, Alex, but it's really less about penetration and it's more about these optimized consumer journeys through this seamless integration of both environments.

Scott A. Roe

Executive Vice President & Chief Financial Officer, VF Corp.

A

Yeah. Only thing I'd add real quick, Steve, is just some numbers. We've hit our 2024 e-comm growth where we've already hit and exceeded that in the low-20s. And when you consider what we call Digital Wholesale – think about Zalando and ASOS, the Digital partners, we're approaching 30%. Where that ends up, it's hard to know. We're kind of agnostic between growth in our own stores and in our – in the Digital. Frankly, we see those merging and being more seamless, as Steve mentioned. So, where exactly that shakes out, we haven't declared yet, but we expect that both will continue to be more and more important to us and that's why we're making the investments that we're making.

Alexandra Walvis

Analyst, Goldman Sachs & Co. LLC

Q

Awesome. Thank you. And then, one more on the supply chain. You made some comments that you've only seen [ph] isolated delays (00:39:02) from suppliers and that flow of product through your supply chain has been improving. Are you seeing any disruption at – further downstream at the ports? We've heard reports that there are some bottlenecks and delays there, so I was wondering if you were seeing that or if you expected to see it and any potential impact on the business?

Scott A. Roe

Executive Vice President & Chief Financial Officer, VF Corp.

A

Yeah, Alex. We've said that, just as a general comment, the supply chain performance, on-time deliveries, et cetera, continue to improve but they're not normal, right. We are still seeing impacts of COVID really throughout the value chain and, yes, we've seen isolated port issues. We've had instances where we've re-routed sailings, et cetera, in order to account for that. So far, that's not been a major issue for us, but definitely it is not normal, but it continues to improve, is the way I would characterize it.

We wouldn't say that that's been a material impact in the business per se, but it goes back – Steve made the choreography comment. And when you have marketing hitting at a certain time at – in your stores, in a retail store and maybe you're a few weeks late, that can be a big impact, right, in terms of the choreography of having product hit at the right time, at the time you have your marketing lined up and getting all those pieces together. So, I would say, it continues to improve. We know it's having some impact, but it's hard to exactly identify what those are. The great news is, we've got the best supply chain in the industry and they continue to make significant improvements.

Alexandra Walvis

Analyst, Goldman Sachs & Co. LLC

Q

Fantastic. Thanks so much.

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

A

Thanks, Alex.

Operator: Thank you. Our next question today is coming from Bob Drbul from Guggenheim. Your line is now live.

Robert Drbul

Analyst, Guggenheim Securities LLC

Q

Good morning. Just a couple of questions.

Scott A. Roe

Executive Vice President & Chief Financial Officer, VF Corp.

A

Bob.

Robert Drbul

Analyst, Guggenheim Securities LLC

Q

On the wholesale business, as you think about the next few quarters with a lot of the sort of fits and starts at retail – your own stores but also your wholesale partners – can you just talk about the plans on inventory buys and just sort of how you guys are investing for the next few quarters around replenishment, et cetera?

And then, just similarly on the wholesale side, can you just talk generally if any areas where you're gaining shelf space or losing shelf space and if there's any like competitive makeup of the store is changing dramatically or anything like that you might be able to share with us? Thanks.

Scott A. Roe

Executive Vice President & Chief Financial Officer, VF Corp.

A

Yeah. Bob, on the first part of your comment, we see, I would say, generally, first, that the environment at least is, in the parts we play in the wholesale business, remains conservative but constructive. Order books, as we've said now multiple times, have been conservative versus historical levels. We see, I would say, improving sentiment going forward and continued constructive support from the wholesale channels, but still a conservative environment. So, that's just general, right.

And I would say our position hasn't materially changed either. We talked about, in the early days of COVID, we were pretty darn aggressive on inventories. We now are getting to the point where we're normalizing and we expect by the end of the year, I think we used the word equilibrium in terms of inventory positions versus forward sales; and that's both a retail comment and in our own inventory.

So, our posture, Bob, is kind of as we've said and developing as we expected. We're still not in a normal environment, again, from an overall posture. But it continues to be more constructive and, again, we're super pleased with the way that our key retailers and partners have worked with us. Again, they're not canceling orders. Orders are sticky. They may be conservative, but they're doing what they say.

The second part of your question, Steve, maybe you want to address that in terms of – yeah.

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

A

Yeah, Bob. So, as we...

Scott A. Roe

Executive Vice President & Chief Financial Officer, VF Corp.

A

Go ahead.

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

A

Wholesale has and will continue to be a very important part of our go-to-market set of choices. And I would tell you, the key accounts that our business is focused on, we continue to just build stronger and stronger and more productive relationships.

If you think about our EMEA business, the relationships we have with the pure-play Digital partners like Zalando, ASOS, and even what we see with JD in UK in-store and online, our success there in how we balance between our own environments and their environments is clearly very critical.

In Asia, we think of Ali as a wholesale partner. And the comments we made about Vans being the number one large brand during 11/11 and the first to launch a Customs platform on the Ali Customs environment, those types of opportunities come based on the strength of the relationships.

And then if you think about our Dickies business here in the US, and their ability to service essential retail that has been open throughout the pandemic, bring needed products to their consumers through those strong relationships, I would say this is one of our core go-to-market elements of our strategy, and it's always been a big part of VF's toolkit on how we really partner with and service those wholesale partners in the very best way.

Robert Drbul

Analyst, Guggenheim Securities LLC

Q

Great. Thank you.

Operator: Thank you. Our next question is coming from Camilo Lyon from BTIG. Your line is now live.

Camilo Lyon

Analyst, BTIG LLC

Q

Thank you. Good morning, everyone. Scott, I was hoping you could give a little bit more color on just your commentary around – I know you just touched on inventory. But I'm curious to see if you can help articulate how much – what were the limitations on North Face and Timberland that stemmed from your inventory [ph] constraints (00:45:47) during the quarter and how that might be influencing the fourth quarter?

I know you talked to kind of – from a high-level perspective around those inventory levels starting to normalize, but I'm just curious to see as to when re we thinking that the commentary around normalization by the end of Q4 suggests that you'll be in a very good position to enter fiscal 2022 with the appropriate amount of inventory given your expectations?

Scott A. Roe

Executive Vice President & Chief Financial Officer, VF Corp.

A

Yeah, Camilo. We haven't quantified it. I can tell you, in certain areas, it's significant, tens of millions of dollars. We haven't given that number publicly but the areas where we're seeing really an impact on sales particularly are in the Outdoor area. The Timberland brand, in particular, around some of its core styles; The North Face, in certain Outdoor categories. Certain – you can see it [ph] in new channel section online (00:46:47), it's hard to see.

And we know, as Steve mentioned earlier too, from the Vans business, we've seen that the constraints we've put on and from an inventory standpoint have also cost us sales. So, I think you answered the question in the question. Our expectation is, as we leave this year, that we're in equilibrium and we're balanced and should see that – those inventory pressures abate and we should be in a more normalized posture going into next year.

Camilo Lyon

Analyst, BTIG LLC

Q

So, taking that one step further. You typically build to order, maybe plus a little bit. But given that there's likely an expectation of conservatism around wholesale orders, do you see the performance of the demand for the new products and the innovation that are coming to market – would you consider building some back stock into next year so they can meet more of that incremental demand even through your own D2C channels? If that that would be a kind of [indiscernible] (00:47:57) to that growth rate and not having to rely on what will likely be very tepid and cautious wholesale positioning.

Scott A. Roe

Executive Vice President & Chief Financial Officer, VF Corp.

A

Yeah. I guess, at this point, Camilo, what I would say to that – and Steve, you may want to jump in here. But I don't think – you shouldn't expect us to go ditch to ditch in terms of risk posturing. But it is a more constructive environment and it's going to be less conservative, and that would be from our standpoint and I think also from the general market, as you think about the wholesale business.

Remember, too, our highest and best presentation of the brand is in our own Digital and our own D2C. So, we're going to build to what we believe is our best estimates of what demand is, and we would expect a more constructive environment generally next year and less conservatism.

The other – the last thing is the – one of the reasons we took the aggressive postures that we did this year is knowing that it was going to be uncertain and that's why we keep saying we – our intent is to emerge in an advantaged position. So, if there had been some demand buildup, we needed to see some of that in a brand like The North – Timberland, sorry, in terms of the sell-through and create some unmet demand. That's not a bad thing for these brands as we look forward.

So, I think you can expect a more constructive environment. Is it going to be ditch to ditch or dramatically different? I would say no. But you should see an improved position next year. That would be our expectation.

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

A

Camilo, I would also add, you will also see – and we've been talking about this for a while – but just a higher degree of frequency of new stories across all of our brands. But more frequent drops with more compelling stories, not depending so much on that early drop with a reorder sequence behind it.

Clearly, that's important on your core styles, but you'll see us continue to advance this idea of more frequent deliveries of new innovations, new color stories, collabs, married with the appropriate amount of marketing to drive that demand. So, it'll be an increasing kind of leveling of that old traditional model to the new models we continue to pivot through our transformation.

Camilo Lyon

Analyst, BTIG LLC

Q

Sounds like the Supreme acquisition is already starting [ph] to factor (00:50:40) into the thought process in that regard. I guess, just one final, if I could squeeze it in on Supreme. Any updated thoughts on how we should think about the flow-through from the stronger EBIT margin contribution relative – versus the reinvestment of that margin profile? Are you looking to release some of that accretion down to the bottom line, the gross margin

opportunity there, or reinvest a portion of it? How should we think about the natural higher-margin structure of that business and to your intent on flow-through versus investment?

Scott A. Roe

Executive Vice President & Chief Financial Officer, VF Corp.

A

Yeah, Camilo, I guess, I'd just reiterate what we said earlier. At this point, the \$500 million and \$0.20, clearly this – we have optionality in this model. And the reason we're holding back a little bit in terms of declaring more than that, this – is we're in the integration process, right. We're just getting started and we want to understand the balance between the needed investments and how we enable their growth and the flow-through.

I guess the really good news here that I would just leave you with is the fundamentals are really strong. The optionality is really good. We just need to understand better how we balance growth and profit and what that looks like going forward. So, you can take what we've said to the bank. Could it be better? It could. But we need to understand what the relative investment profile versus the flow-through looks like and we'll be back next quarter and give you more insight into what that – we see that looking like.

Camilo Lyon

Analyst, BTIG LLC

Q

And thanks so much for the color, guys. Good luck.

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

A

Thanks, Camilo.

Operator: Thank you. Our next question today is coming from John Kernan from Cowen & Company. Your line is now live.

John Kernan

Analyst, Cowen & Co. LLC

Q

Yeah, good morning. Excellent. Thanks for taking my questions. Wanted to go to North Face, [ph] then (00:52:43). Europe up 22%, Asia-Pac up 16%. We've seen some of the momentum building in North Face, feels like it's gaining share here in the Americas. Just wanted to gauge your pulse in terms of what's embedded for the guidance for North Face particularly in the Americas and as we go into next year?

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

A

I guess with – I'll start here. Scott, if you want to fill in the numbers. To your point, The North Face business is continuing to show a sequential improvement and we are very encouraged with the progress. It's early but we're very, very encouraged.

The international business has been the point of strength. Europe and Asia. And we're very pleased with the progress we're seeing here in the Americas. And we're very confident about what that future looks like.

The – where The North Face sits in the total addressable market, the Outdoor trend, we're extremely well-positioned to continue to drive that lead brand point of view that we have in this TAM and continue to think very positive about the LRP that we laid out in Beaver Creek.

John Kernan

Analyst, Cowen & Co. LLC



Got it. Maybe, Scott, you gave us some really helpful commentary on how to think about gross margin and returning to prior peaks next year. Just curious on the SG&A profile, any color you can give there. It looks like just based on the guidance you gave, SG&A dollars down around mid-single digits for the year this year. Is there anything that you can talk to in terms of the SG&A rate long-term now that Digital is obviously going to be distorted a bit more in terms of the mix? Have you identified anything from a cost structure basis this year that might come out of the business?

Scott A. Roe

Executive Vice President & Chief Financial Officer, VF Corp.



Yeah, let me – I'll make a couple comments there. First of all, as you look at the implied guidance, take the full year and back into the fourth quarter, I'd just remind you guys, there's a lot of noise here. We had a COVID quarter last year, we got a COVID quarter this year. Just one little sound bite for you to think about. We were trending very positive a year ago and then unwound our incentive comp as COVID dramatically changed the picture in the fourth quarter a year ago, and that's about a \$50 million delta year-on-year that you're up against. And I just point that out just to remind you all, there's a lot of noise and you've got to be careful about making big assumptions on flow-through going forward without our guide here and I know you're looking for that guide, John.

So, maybe this will help. Let me give you a little more shaping on 2022. First of all, just starting at the top of the P&L, we expect to get back to pre-COVID quarterly peak revenues at some point during next year, 2022. It could even happen as quickly as midyear but there's uncertainty on what this glide path looks like exactly, but we do see getting back to those earnings. That's been a question that many of you have been asking us for quite a while and just wanted to give you that picture.

I already talked about gross margin, what our expectations are for next year. The – as it relates to operating margin, one thing that we've seen this year that we – I'll just own this myself personally, we're not giving guidance, we don't have all the answers yet. But I would expect operating margin to be a little stickier in terms of the recovery and the reason I say that is primarily in brick-and-mortar. We don't see a light switch here where all of a sudden you're open and everything goes back to the kind of levels and the productivity that we saw previously.

Vans is a good example of that, what we're seeing in this year's guide, right. The closures and re-openings, they're encouraging. Our business – our brick-and-mortar is really profitable, but it was even more profitable at its peak. And the productivity that we saw based on traffic patterns pre-COVID versus when we reopened, people are nervous, right, and they're slower to come back. Every indication is they're going to come back and that we're going to see a longer-term path that we're as confident as ever in brick-and-mortar and it's an important part of our overall consumer delivery. But I would expect productivity in brick-and-mortar to lag a little bit in its recovery and that probably puts a little drag – really, that shows up in SG&A, but that will put a little drag into next year.

So, [ph] now (00:57:35), from an LRP and long-term earnings, the fact that we're seeing revenue – line of sight on revenue, the fact that our gross margins are healthy and we see a line of sight to get back to peak levels, we know that structural mix benefit is there. You see that this quarter. You'll see that in the fourth quarter – 90 basis points or so this quarter in mix. Our fastest growing businesses are our highest gross margins, and that structural margin is there. Those are the factors, when the top line and margin is there, that gives me the confidence that, coupled with the optionality in the model, that we have a lot of confidence in our long-range plan.

What could make that happen quicker or slower? It really is the consumer and how we emerge from this and are people comfortable, what happens with the vaccine, there's just a lot of uncertainties and that's why we can't give you more granularity at this point on 2022. But as time goes on, a quarter from now when we report and give our guidance, our expectation is we'll have even better visibility and be able to give you a little more shaping on what 2022 should look like. So, hopefully, that will help you. It's not exactly the full picture. But as you think about modeling, hopefully, that gives you some color there.

John Kernan

Analyst, Cowen & Co. LLC

Q

Super helpful. Thank you.

Scott A. Roe

Executive Vice President & Chief Financial Officer, VF Corp.

A

Yes.

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

Erinn E. Murphy

Analyst, Piper Sandler & Co.

Q

Great. Thanks. Good morning. I guess my question is on Europe. If you could share a little bit more about what you're seeing in the Spring/Summer 2021 order books? And have the recent lockdowns – are you seeing any of your kind of wholesale partners need to take receipt of product later just given some of the noise? Just curious if we'll see any kind of shift between Q4 and Q1. And then, Scott, clarifying what you said on 2022 from a kind of going back to pre-COVID peak revenue, I'm assuming that's excluding Supreme? Just wanted to clarify that.

Scott A. Roe

Executive Vice President & Chief Financial Officer, VF Corp.

A

That's right. Yeah, yeah, that's right. Just to get the second part. Yeah. So – and I was talking about organic like-for-like so that would be continuing ops and so without the Occupational Work and excluding Supreme.

So, yeah – so, in Europe, first of all, the European business has been remarkably resilient and we haven't – I'm not prepared to talk about exactly what we're seeing in order books, but I would say that we have a really constructive key partner base there. We had some unique partners there with Zalando and ASOS, for example, the Digital titans which have really been resilient through this COVID period and been just wonderful partners with the brand. And that didn't happen by accident, obviously, that's been cultivated over many years by Martino and our leadership in the Europe region. But it's been really resilient.

And while order books are impacted by the shutdowns and whatnot as people are bringing their inventories in line, our performance has really been exceptional and our inventories are in good shape and our expectation is that, notwithstanding COVID-related things that can't be predicted, that we're setting up well as you think about next year.

Erinn E. Murphy

Analyst, Piper Sandler & Co.

Q

Okay. And then, just one follow-up on The North Face. If you could speak a little more about the footwear launch, it sound likes it's been off to a good start. Just remind us where the distribution is right now and what's your expectation to scale it in fiscal 2022. Thanks.

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

A

Sure, Erinn, I'll grab that. So, yeah, you as usual keep good track of what's going on with social media. The new VECTIV launch went live yesterday. It's live here in the US, in specialty running, as well as to the VIPeak North Face consumer, and it's also live in other parts of the world in a very kind of focused, early launch perspective, and it will hit full volume by mid-February and, yeah, early reactions have been very positive.

The sell-in exceeded expectation and the early read on just the social media story telling behind it has been very, very positive. So, very optimistic. As we talked about in Beaver Creek, this is a big point in time for The North Face team, a new point of view around footwear tied with where they're directing the brand on that [ph] more (01:02:17) 365 day per year availability of relevant products for On Mountain, Off Mountain usage. So, exciting and more to come.

Erinn E. Murphy

Analyst, Piper Sandler & Co.

Q

Great. Thank you ,all.

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

A

Thanks, Erinn.

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, thank you. Just – first, just a quick follow-up, Scott, on your comments for next year which were really helpful. Could you just maybe directionally talk about are you more or less confident in any of the brands particularly since you mentioned kind of the upside scenario on the revenue recovery? Just curious of any standout that you're more or less confident in.

Scott A. Roe

Executive Vice President & Chief Financial Officer, VF Corp.

A

Yeah. Maybe – I don't know if you want to take that, Steve. I just – I would say just a couple comments, before maybe you come over the top here, Steve. One brand we haven't talked about is Dickies, which is too bad because Dickies is over \$100 million over our acquisition plan, really making good progress. There the – in particular, the Dickies Life part of the business, and particularly in Asia, but now launching in Europe. It's been a really good story and, unfortunately, we haven't talked much about it. So, that's one I would point out and we have optimism.

I mentioned the Outdoor brands. The perspective, my own personal perspective here is we've been on a journey on both Timberland and The North Face; and we, I think, have been very transparent in terms of what we see as

the opportunities. It's really encouraging to see social media heat and the performance. I think we're leaving a little on the table, it's not a bad thing as we set up for next year, and that's encouraging.

As it relates to Vans, it's the – it's been high-single – or a high-teen performer since our acquisition and we have – we've – at periods, we have the noise and we – quarter-to-quarter – and I get it, you guys are looking at that and it's a big part of the algorithm. But this is a powerful machine with many vectors. So, as I look at the long-term, I try to separate the short-term noise from what I believe is the long-term opportunity and so that's my [ph] windage (01:04:45) on it. Steve, maybe you want to add to that.

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

A

Yeah. Yeah, no, Jonathan, I would support 100% of what Scott just said. I mean, we believe in every one of our children. I think the Dickies comment is extremely well put. It's – this brand has performed all year long. As they begin to get that balance of that core Work with work lifestyle, and really driving that authentic brand message to a new younger consumer, really good global opportunity across each region.

North Face and Timberland sit squarely in the Outdoor TAM. What we've learned from this year, the demand signals that we see going into next year give us great confidence. Vans and their connection to their consumers being one of their greatest strengths. We know the issues that have impacted our Vans businesses next – this year. We're extremely well-positioned to gain momentum. Our optimism continues to be strong.

In our emerging brands, our Ultra business, though small, has really had a good year and will continue to build momentum, as will Smartwool, Icebreaker. Our Napa business, as we think about opportunities beyond its core markets in Europe, so I think every one of our business is extremely well-positioned. The business model transformation that we have in place to really take that consumer understanding and apply that to our go-to-market set of choices and really proactively engage across those – all those different touch points.

But we would be remiss to say if we wouldn't – that we're not super excited about our newest add to the portfolio, in Supreme. As we learn more about each other, the opportunity ahead for the Supreme business, their ability to tap into the VF regional portfolio capabilities, our supply chain capabilities to optimize what they already do very well, we see great opportunities to continue to grow there.

Jonathan Robert Komp

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

Q

And then, just bigger picture, when you think about margin by brand, do you think there's enough recovery or expansion potential at the Outdoor brands that could offset presumably [ph] if Vans (01:07:13) takes longer for margin to recover [indiscernible] (01:07:17) leverage of stores, obviously, just how do you think about – by brand, how the margin might play out?

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

A

Yeah, Jonathan. I mean, just directionally, obviously, we'll give you more granularity on what we see next quarter, at least for the next year. But the up – the relative upside is in the three other organic brands that we have in terms of margin expansion. There's a lot of room to run. And as we start to see the traction that we just talked about, the leverage and opportunity for that margin expansion is absolutely there.

We already have amazing margins at Vans. So, yeah, that's one of the advantages of a portfolio, of a diverse offering, right, is we have multiple levers to pull. And again, to the earlier comment on Supreme, beautiful fundamentals, right, and a lot of optionality there. So this will be an important and big profit and top line driver for VF over time. What we don't know yet is exactly what are those investments and how do we balance and what flows through.

We owe you that. We'll come back and give you more granularity. But the beauty is, it's a pristine brand with wonderful fundamentals, and it will be a very important growth driver for this company over the next foreseeable future.

Jonathan Robert Komp

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

Q

Yeah, great. Appreciate the color.

Scott A. Roe

Executive Vice President & Chief Financial Officer, VF Corp.

A

Thank you.

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

A

Yeah, no problem.

Scott A. Roe

Executive Vice President & Chief Financial Officer, VF Corp.

A

Great. Thank you.

Operator: We have 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.

[ph] Great. Well, hey, (01:09:02) thank you everybody for joining us. This has been quite a year for each and every one of us. I couldn't be more proud of our people. The work that everyone has put in to be able to navigate what has been a very challenging environment, just makes me extremely proud.

We have great conviction about the transformation that we've been undergoing for the last two years and how it's positioning us to really optimize the connections we have with our consumers and build those seamless, frictionless consumer journeys to service them where they are at.

The portfolio that we've – we're continuing to evolve has positioned us to really, I think, capture an important part of the marketplace as we look at the TAM that we've positioned ourselves into. We remain cautious but we are extremely optimistic. There are still some waves to navigate as we emerge from the pandemic, but we're so extremely well-positioned. To Scott's point, we do see ourselves returning to our peak levels as we move through fiscal 2022, and are extremely positive about the opportunities ahead.

So, thank you and we look forward to talking to you in a few months and closing out fiscal 2021 and positioning ourselves to move into a much more positive and dynamic fiscal 2022.

Operator: Thank you, that does conclude today's teleconference. You may disconnect your line at this time and have a wonderful day. We thank you for your participation today.

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