28-Apr-2017

VF Corp. (VFC)

Q1 2017 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day and welcome to the VF Corporation First Quarter 2017 Earnings Conference Call. Today's conference is being recorded.

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

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

Thank you. Good morning and welcome to VF Corporation's First Quarter 2017 Conference Call. I'd like to remind everyone that participants on today's call will make forward-looking statements. These statements are based on current expectations and are subject to uncertainties that could cause actual results to differ materially. These uncertainties are detailed in documents filed regularly with the SEC.

Unless otherwise noted, amounts that our participants refer to on today's call will be predominately in adjusted and currency neutral terms, which we define in the press release that was issued this morning. We use adjusted and currency neutral amounts as lead numbers in our discussion, because we feel they more accurately represent the true operational performance and underlying results of our business.

You may also hear us refer to reported amounts, which are in accordance with U.S. GAAP. Reconciliations of GAAP measures to adjusted and currency neutral amounts can be found in the supplemental financial tables included in the press release, which identify and quantify all excluded items and provide management's view of why this information is useful to investors.

During the second quarter of 2017, VF announced it had reached an agreement to sell its License Sports Group, or LSG, business to Fanatics Inc. In conjunction with the LSG divestiture, VF executed its plan to entirely exit the Licensing business, which comprises the LSG and JanSport brand collegiate businesses.

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

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

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

Steven E. Rendle

President, Chief Executive Officer & Director, VF Corp.

Thanks, Joe, and good morning, everyone. Thank you for joining us for our first quarter 2017 earnings call. VF's first quarter results were right in line with our expectations. Our growth engines continue to deliver solid results, despite a retail backdrop that continues to experience disruption and consolidation, particularly here in the United States.

Overall revenue was down 1% during the quarter, but this doesn't tell the whole story. The momentum we see building in our largest brands and in our international and direct-to-consumer platforms is strong. And our first quarter results give me confidence in our expectation for accelerated growth as we move through 2017.

For the quarter Vans, The North Face, and Timberland grew at a combined rate of 4% with strength in The North Face and Vans, which grew 8% and 7% respectively. Our international business grew 5%, and our China business delivered an impressive 10% growth rate. Direct-to-consumer grew 7%, including a mid-single digit comp. And our digital business was up more than 25%. We're really pleased with this solid performance.

Operational discipline and sharp focus on fundamentals led to a 190 basis point improvement in our gross margin during the quarter. Our gross margin drivers remain intact. And our strong margin expansion will fuel investment in our strategic priorities and provide flexibility as we execute against our 2021 plan. It's an important and sustainable part of our model.

EPS was down 3% to $0.52 in the first quarter. That being said, know that our earnings growth was negatively impacted by 8 percentage points due to a higher tax rate. That means that our EPS growth would've been 5% excluding the tax headwind. Scott will cover this in more detail later in the call.

One of the core pillars of our strategy is to reshape our portfolio. We've shared with you in detail the strategic and financial filters we use to evaluate our existing portfolio and also our acquisition pipeline.

In early April we announced that VF had signed an agreement to sell our LSG business to Fanatics. This announcement is another example of our work as active portfolio managers and our intention to move faster. On a personal note the LSG and JanSport collegiate employees have been part of the VF family for many years, and I thank them for their service and wish them all continued success.

Pace of change in our industry and the broader consumer landscape is accelerating. The choices and capabilities embedded in our 2021 strategic growth plan positions us to win and will serve as a catalyst for VF's accelerated growth. We will become a more agile and consumer centric organization. We will reshape our portfolio. And we are a diversified value creation company.

So with that let's dive into our first quarter results and look at our top five brands and Workwear.

Starting with The North Face. Global revenue was up 8% with strength in the Americas and Europe offset by a slight decline in Asia-Pacific, which we did expect. Excluding the impact of bankruptcies in the Americas business, which didn't really impact us until the second half of 2016, global revenue for The North Face was up at a low double digit rate. Our revenue growth during the quarter was balanced with low double digit growth in D2C and mid-single digit growth in wholesale.

By region, Americas grew 4%, driven by low teen growth in D2C with strong results from e-commerce, which grew nearly 20%. This was offset by a low single digit decrease in wholesale due to the impact of the bankruptcies. From a product standpoint, rainwear performed well in the quarter, driven by the launch of our new Apex Flex Gore-Tex jacket, which provides comfort and protection coupled with a new fit and aesthetic.

In Europe, The North Face was up 19% as its strong momentum continued. The wholesale business was particularly solid with growth of nearly 30%. The business remains well-balanced with strong results across all product categories and channels, which we expect to continue for the balance of the year.

In Asia, as expected, first quarter revenue was down 1%, as low double digit growth in D2C was offset by a high single digit decline in wholesale. As the outdoor environment remains highly promotional in China, we continue to consolidate our retail partners and aggressively manage inventory in the marketplace. We continue to expect high single digit growth in 2017, primarily weighted toward the second half.

While revenue growth at The North Face was slightly above our expectations for the first quarter, there's no change to our outlook for mid-single digit revenue growth for the brand in 2017.

Now switching to Vans. Global revenue was up 7% with broad based growth across all regions of the world and all product franchises. From a channel perspective, D2C increased at a high teen rate, while wholesale was flat, as growth in the Americas and Asia was offset by an expected decline in Europe.

Vans Americas business was up 6%, driven by low double digit D2C growth, including more than 20% growth in e-commerce. The wholesale business increased at a low single digit rate. As you'd expect our wide range of product continues to resonate with consumers, with Classics and particularly the Old Skool fueling success in D2C and wholesale.

And building on our commitment to deep consumer connectivity, the brand opened a permanent House of Vans in Chicago, a pop-up House of Vans in Toronto, and three pop-up House of Vans locations in Mexico.

In Europe, the Vans turnaround story continues to take hold with 1% growth during the quarter. Our D2C business remains strong, with 20% growth driven by a 30% increase in e-commerce and a high-teen comp growth. As expected, wholesale declined at a low single digit rate. With inventory levels in the channel now normalizing and double digit growth in our fall order book, we're on track to deliver high single digit growth in Europe in 2017.

In Asia, for the third consecutive quarter Vans delivered more than 20% growth. This was fueled by more than 50% growth in D2C with strength across all markets driven by exceptional growth in the digital space in China. Wholesale increased at a mid-single digit rate with strength in China and Korea. Looking to 2017, we are confident in our low double digit growth outlook for the Vans brand.

In line with our expectations Timberland global revenue decreased 4% with low single digit growth in D2C and high single digit decline in wholesale. Revenue in the Americas decreased 7%, as mid-single digit growth in our D2C business, including almost 30% growth in e-commerce, was offset by a low double digit decline in wholesale.

We continue to work on diversifying our business toward a more balanced assortment, which will reduce our reliance on Classic boots in the Americas region. This is the strategy we outlined at the Investor Day, and it's the same successful strategy that has led to more consistent balanced growth in our international business.

While not yet to scale in the Americas, we are seeing tremendous success in our men's casual platforms, such as SensorFlex and AeroCore. Our D2C business has the right assortment. And the growth we are seeing gives us confidence that we have the right strategy.

However, the product transition in the wholesale channel will take a little longer to play out. As we diversify the assortment, and our retail partners work through inventory in the boot category, we expect the Americas business to return to growth in the second half of 2017.

Timberland revenue in Europe was in line with 2016 levels, as low single digit growth in D2C was offset by flat revenue in wholesale. As expected, wholesale revenue in the quarter was impacted by timing of shipments in our distributor business. We expect Timberland Europe to return to growth in the second quarter and for growth to accelerate into the high single digit range in the second half of 2017, supported by the order book, which is now fully allocated.

Revenue in Timberland's Asia business was down 5%. D2C declined a mid-single digit rate, as strong e-commerce growth in China and low single digit comp growth was offset by our decision to reduce underperforming doors in some of our mature markets. Wholesale was down at a high single digit rate.

For 2017 we continue to expect Timberland to grow in the low single digit range. We expect the brand to return to growth in the second quarter and for growth to accelerate in the second half of the year, as our international business gains momentum, and we continue to evolve our product segmentation and assortment in the Americas.

Looking at Wrangler, global revenue for the first quarter was down 9% with low double digit growth in D2C more than offset by a low double digit decline in wholesale. The Americas region – in the Americas region a low teen revenue decline in the U.S. offset high teen growth in our non-U.S. Americas business. And revenue in Europe and Asia declined at a low single digit rate for the quarter.

As we've discussed, our U.S. business has been impacted by inventory destocking related to the strategic repositioning of a key customer and continued channel consolidation. These actions will affect our business primarily in the first half and growth should return by year end. We're working closely with our key retail partners. But our visibility regarding timing is low and the variability is hard to predict.

While quarter-to-quarter forecasting will be difficult, our past experience tells us several things that we can expect once the repositioning is complete. First, strong brands like Wrangler will command even stronger positions, as smaller brands are edited out. And second, superior supply chain and replenishment capabilities give us an advantaged position.

Regarding product, this week we announced that we are expanding our offerings for the spring season with a men's collection that is built for the outdoors. The Wrangler Outdoor line incorporates multifunctional features ideal for the outdoor enthusiast. Made of performance materials that keep the wearer cool, dry, and comfortable, these products also feature UPF 30 to protect the consumer from the sun. This is a perfect example of our efforts to transform Wrangler into more of a lifestyle brand, while keeping it connected to its heritage and its loyal consumer.

Switching to Lee, revenue declined 6% during the quarter with mid-teen growth in D2C offset by a high single digit decline in wholesale. Low single digit growth in Europe, Asia, and our non-U.S. Americas business was offset by a low double digit decline in the U.S.

BODY OPTIX continues to perform well in Asia, comprising about 25% of our women's business. We plan to bring this to Europe and to North America later this fall.

In the U.S. our men's business continues to deliver solid growth, as X-Treme Comfort Khakis and Extreme Motion denim continue to resonate with the Lee consumer. However, ongoing channel weakness and challenging conditions in our women's business are impacting results. For 2017 we continue to expect Jeanswear revenue to be in line with 2016 levels.

And finally, I'd like to highlight Workwear, the business we recently presented as a new growth platform for VF. Workwear, which includes our Image business as well as Timberland PRO and Wrangler RIGGS Workwear, increased 1% during the quarter. Our Image business was negatively impacted by the timing of a government contract between Q4 and Q1 and declined 5%. However, our largest brands within Workwear were strong, as the recovery in the industrial sector continues.

Timberland PRO grew 15%, Bulwark was up 17%, and Wrangler RIGGS Workwear increased 13%. Given our expectation for accelerated growth through the balance of 2017 and the inherent profitability of this business, we are even more optimistic about the Workwear opportunity.

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

Scott A. Roe

Chief Financial Officer & Vice President, VF Corp.

Thanks, Steve. Before I cover the first quarter in detail, let me provide a few comments regarding the LSG transaction and how it impacted our first quarter results relative to the outlook we provided in February.

As you know, in early April we announced that we had reached an agreement with Fanatics to sell our LSG business. The sale price is about $225 million pre-tax, subject to working capital and other adjustments. And we expect to close this transaction very shortly.

In conjunction with the sale of LSG we are also exiting the Licensing business of JanSport collegiate. Accordingly, the results of these businesses have been classified as discontinued ops, and the prior periods have been adjusted.

In 2016 these businesses contributed about $575 million of revenue and roughly $0.13 of EPS. We provided an income statement in the press release issued this morning excluding the Licensing business, so you can see the full impact.

Relative to the first quarter of 2017, before restructuring and other charges triggered by the transaction, these businesses contributed about $0.03 of EPS during the quarter. So relative to the outlook we provided in February, our LSG and JanSport collegiate businesses contributed about $130 million of revenue. And our continuing operations EPS of $0.52 would've been $0.55 on a like for like basis.

So with that out of the way, let's review the first quarter results. In line with our expectations, revenue was down 1% on a currency neutral basis to $2.6 billion. Our growth engines delivered solid results in the quarter. Our big three brands were up 4% on a combined basis with particular strength in The North Face and Vans, which grew 8% and 7%, respectively. And as the industrial recovery continues to evolve, Bulwark, Timberland PRO, and Wrangler RIGGS grew at a mid-teen rate.

Our international business grew 5%, and China remained particularly strong with 10% growth. And our Direct to Consumer business was up 7% in the quarter, including more than 25% growth in our Digital business. Now to unpack our Direct to Consumer results a little further, our Outdoor & Action Sports, Jeanswear, and international businesses all achieved low double digit growth during the quarter.

Wholesale revenue was down 4% due to a key customer's inventory action in our Jeanswear North American business, the impact of bankruptcies in Outdoor & Action Sports, and difficult conditions in the department store channel, which continue to pressure our Sportswear businesses. In contrast our international wholesale delivered low single digit growth. And our digital wholesale accounts grew at a combined rate in the mid-teens.

I want to take a few minutes to provide more context around our outlook for the Jeanswear business in 2017. There is no change to our outlook of about flat revenue for the year. Our international business remains solid, with particular strength in Europe and Asia, where we expect low to mid-single digit growth this year. We continue to expect our business in North America to decline at a low single digit rate, as a result of the previously mentioned inventory destocking. This impact will primarily be in the first half.

Now despite the short term noise, it's important to keep focused on the end game. We are confident that our Jeanswear brands are strong and our superior supply chain places us in an advantaged position, once the process is complete. However, our visibility regarding timing is low. Therefore, the quarter to quarter variability will be hard to predict.

Gross margin remained strong at 50.2%, up 150 basis points on a reported basis, which included a 40 basis point negative impact for FX. That's a 190 basis point increase on a currency-neutral basis. As we mentioned in February, we are sharply focused on fundamentals and willing to sacrifice a little growth in the near term for quality. Our efforts are clearly paying off in the gross margin line. And we believe our decisions will improve the long term health of both our brands and the marketplace.

SG&A as a percentage of revenue was up 200 basis points to 38.9%. While we remain diligent with respect to overall expense control in light of the growth environment, we continue to invest in strategic priorities, D2C, and in particular, digital, product innovation, demand creation, and technology. In fact, while our overall SG&A expense was up just 3%, investments and strategic priorities accounted for more than all of that increase, as our focus on agility and cost optimization allowed us to reduce cost elsewhere.

And as our growth accelerates in the second half and we begin to realize the full benefits of our agility and optimization efforts, we expect to drive significant leverage in our SG&A ratio in the second half and into 2018.

First quarter operating margin declined 50 basis points to 11.3%, primarily as a result of the negative impact of changes in foreign currency. On a currency neutral basis our operating margin during the quarter was down 10 basis points to 11.7%.

So carrying all this to the bottom line, our EPS declined 3% on a currency neutral basis to $0.52 in the quarter. However, our EPS rate was negatively impacted by 8 percentage points due to lower discrete tax benefits, primarily as a result of the adoption of the equity comp accounting standard last year. Excluding the discrete tax impact, EPS on a currency neutral basis was up at a mid-single digit rate.

Turning to our balance sheet. Our inventory increased 2%. And as promised, we continued to return capital to shareholders, as we repurchased about $440 million of stock. As we announced in March, our board has approved a new $5 billion share repurchase program to support the capital allocation priorities we laid out in our 2021 plan.

As we look to the balance of 2017, we are updating our outlook to incorporate the sale of the Licensing business. Reported revenue is still expected to be up at a low single digit rate, including about a 2 percentage point negative impact from foreign currency. However, this is off an adjusted 2016 base to reflect the sale of LSG. We expect gross margin to improve about 20 basis points to 49.6%, which includes a 70 basis point headwind from FX.

Operating margin is still expected to approximate 14% on a reported basis, including about a 60 basis point negative impact from FX.

Currency neutral EPS is still expected to be up at a mid-single digit rate in 2017 or down at a low single digit rate compared to 2016 adjusted EPS of $2.98.

While there is no change to our currency neutral revenue and EPS outlook for the full year, I'd like to make a few comments relative to the first outlook – first half outlook we provided in February.

First, our Licensing business contributed about $0.03 to $0.04 of EPS per quarter during 2016, so that should help you think about your models. Second, as we mentioned, our visibility in Jeanswear North America is low, and the quarter-to-quarter variability is hard to predict right now. While there is no change to our annual outlook for Jeanswear, it's hard to predict which side of the Q2/Q3 quarter break orders may fall. As a result, were providing an EPS outlook in a range of $0.27 to $0.30 for the second quarter.

So in closing, the first quarter of our 2021 strategic plan played out as expected. We are confident in our mid-single digit earnings growth outlook for 2017 and in our ability to accelerate growth in the second half. We are focused on fundamentals and becoming a more agile and retail centric organization. And we are committed to becoming a more active portfolio manager, while delivering top-quartile TSR through our diversified model. We are a value creation company.

And with that I'll turn it back over to the operator, and we'll open up the call for your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you, sir. [Operator Instructions] We'll go first to Laurent Vasilescu of Macquarie.

Laurent Vasilescu
Analyst, Macquarie Capital (USA), Inc.

Q

Morning, and thanks for taking my question. I wanted to follow up on the 4% decline in the wholesale business. I think in the prepared remarks I think it was noted that it was primarily due to a key U.S. customer. Any sense what the wholesale business would've looked like if we strip out that customer?

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

A

Well, you're right, Laurent. It was driven by the U.S. customer, particularly in our Jeans business. But we also called out our Sportswear business was a little tough in the quarter as well. So I think if you stripped those out, really if you look, our – we did see growth in our larger brands as well as our international business. And also importantly our digital accounts as well, we saw mid-teen growth.

Laurent Vasilescu
Analyst, Macquarie Capital (USA), Inc.

Q

Okay. Very helpful. And then on international revenues I wanted to follow up on last quarter's guide that Europe and Asia would both grow at a high single digit rate for the year. In light of the first quarter results for those regions can you possibly walk us through how we should think about those regions? How they'll grow in the first half versus the second half?

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

A

Well, I think I'll start with Europe. We are seeing – the largest acceleration in the second half will be in our Vans business. This has been a really great story over the last several quarters, where we've seen sequential improvement. In fact we returned to growth, although it was modest, in the first quarter.

But based on the order book we see going forward, we're seeing double digit positive order books in Europe. And that's going to be a big driver. That has been a big driver consistently in our Europe business. And we're really excited to see that come roaring back, because that's also a very profitable business. As CFO I like that.

Also on the second half our digital business, our e-comm, is where we see the majority of that. It's more second half weighted. And based on the trends, while the trends won't necessarily get larger as a percentage, the absolute amount of business is larger, as well as the openings that we've had from a D2C standpoint in the first half, as those start to pay off in the second half. So generally, that's the trend we see in both regions, which gives us confidence. Steve?

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

A

And, Laurent, I would just add a little bit there. I mean clearly it is the return of strong growth with our Vans business. I mentioned we have a very strong back half order book.

But it's also the continued growth and the high level performance from our North Face brand in Europe. Our Timberland brand comes back to very strong growth as we see our expanded apparel offer, a stronger women's offer coming into the second half.

But we also – it's the strength of our Vans brand in Asia that continues to drive that strong double digit growth and gives us confidence in that back half growth.

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

A

More than 20% growth in Asia, right?

Laurent Vasilescu
Analyst, Macquarie Capital (USA), Inc.

Q

Very helpful. Best of luck.

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

Michael Binetti
Analyst, UBS Securities LLC

Q

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

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

A

Morning, Michael.

Michael Binetti
Analyst, UBS Securities LLC

Q

I just wanted to ask a couple modeling things really quickly. On the FX we've seen that – it's been pretty volatile here recently. I was actually a little surprised to see that it was still just a 2% estimate in your – the way that you're modeling it for the year on the impact to revenue for the year. Is that – I mean is that – would you mind helping us with how you're pegging the euro or maybe the pound on that? Just so we understand what you're looking at in case things change more through this quarter, which obviously they could, tend to be volatile.

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

A

Sure, Michael. So we looked at the last 90 days basically average and that's essentially what we've – for all our basket of currencies. And yeah, some of them are positive like the euro and others not as much. But what we've done is we've looked about at the last 90 days and gone – projected that going forward.

So if the currencies, if the dollar continues to weaken, could that be a tailwind for us? Yeah, it could. But based on what we're seeing right now in our forward projections, we're not counting on that trend continuing. And it's slightly beneficial, but it's not material to the overall results.

The other thing I'd just remind everybody is about 80% of our transactional exposure is hedged. So from an in-country profitability standpoint, there is some variability, but not a lot.

Michael Binetti
Analyst, UBS Securities LLC

Q

Right. And then I think just you mentioned something I think around Timberland. But I was surprised to see it looks like only about four net new store openings in the quarter versus last quarter. It sounded like you had a couple closures, though.

Maybe we could get a little bit of context behind how you're thinking about the seasonality of the store openings this year. Because I think if we just look at some of the longer term run rates you gave us at the Analyst Day, it looks like that you'd be opening at a lot faster pace than what you reported in the first quarter.

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

A

Yes. Maybe I'll start there. So one of the things that we said, Michael, is that we're going to take a hard look at the productivity of our stores and profitability. And in Asia and in particular, we have a large business in some of the more mature markets like Japan there. Where frankly, we've struggled a bit. And we've taken a step back from a store footprint there based on productivity.

Michael Binetti
Analyst, UBS Securities LLC

Q

Okay. I guess just one last one. I think you had a – for North Face you had a competitor I guess this week talking about a little bit more of a cautious outlook for the U.S. on orders through the year, which is unusual from the standpoint of the first quarter, taking a more cautious outlook for the year. Can you just talk about your North Face outlook in the Americas? Obviously the Europe numbers are great. But for the Americas this year, what gives you confident in the order book you have today? And how much variability there is around those numbers if things change through the year?

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

A

Sure. I'll grab that one, Michael. As you heard, we reaffirmed our mid-single digit growth outlook for the year. Really happy with our first quarter results, as we came through the colder January, February. And then the launch of some new products here at the back half of Q1.

I think the key here is, as we came through last year and the decisions that we made to clean up the marketplace and focus on, first, quality sales, the orders that we have in hand are really driven against the sell-through we saw last year and very thoughtful growth rates across each of the wholesale partners that we have.

There's some new products coming in our higher end Summit Series, some new ski and snowboard styles that are giving us confidence with that wholesale distribution.

But I think the key here also is our D2C is performing really well. And we see our digital platform driving strong growth. And certainly that's the higher quality product offer, but it's also the impact of a cleaner marketplace and not having to compete with a large amount of off-priced goods, some ours, some others. But I think that all of that kind of aggregate gives us confidence against that mid-single digit outlook that we just reaffirmed

Michael Binetti
Analyst, UBS Securities LLC

Q

Thank you.

Operator: We'll go next to Ike Boruchow of Wells Fargo.

Ike Boruchow
Analyst, Wells Fargo Securities LLC

Q

Hey. Good morning, everyone.

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

A

Good morning.

Ike Boruchow
Analyst, Wells Fargo Securities LLC

Q

Just a question. I wanted to focus on Timberland in the U.S. So I'm just trying to look at the numbers. And D2C is up mid-singles, so it looks like with the current product you have, things look good. And the wholesale channel is down low double digits. So just kind of curious if you could contextualize it. How much of it is just a channel inventory issue, and you just need that to get kind of cleaned up, versus the current product pipeline performance?

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

A

Yeah. So I think you've characterized it really well. We talked at the Investor Day, and I think we really see that continuing right now is our – a little bit more dependent on boots here in the U.S. than we see in other parts of the world, specifically Europe. And a lot of work going on right now to work on product segmentation and really leveling the different franchises that sit within each of the different channel partners.

We are moving through some boot inventory, as we place our SensorFlex and AeroCore franchises at a better rate. But where we are able to get that front and center is in our own D2C. And that is where we're seeing really strong reactions. And in our e-commerce platform where we were up 30%.

So it's really moving through inventory. It's getting – really creating the space to place these new franchises and using the proof points that we see in our own D2C here in the U.S. But also the performance that we've seen in our European platform in taking those learnings back here to our domestic market.

Ike Boruchow
Analyst, Wells Fargo Securities LLC

Q

Got it. That's helpful. And if I could, Scott, one more for you on the Jeanswear side. I'm just trying to make sure I understand. So on one hand it sounds like you're saying you think the Jeanswear business could begin to improve in the back half of this year. But I thought you were – you discussed at the Analyst Day that you didn't really expect the pressure in that segment to abate until early 2019. And that's why you thought the business would start to inflect more on the top line at that point.

Can you help me just kind of understand? I mean I know you don't have a lot of visibility, given what's going on there right now.

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

A

Yeah. Yeah.

Ike Boruchow
Analyst, Wells Fargo Securities LLC

Q

But just how do I take those two comments and think about them?

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

A

Yeah. So first of all, as you think about the pace of the year, we're going to see sequential improvement as the year progresses. And if you think about it just kind of big picture, you got a destocking that's occurring through the first half, which is again one of the reasons we talked about the variability and lack of visibility, is we don't fully control the timing of how markdowns and floors are cleared and all that. That's our customers' decision, right? Not ours.

But we know where we're going to end up at the end. And at the end of the year – by the end of the year we should, according to their plans, be through the destocking phase and getting into the new floor set by the end of the year. We have visibility to what programs we have. We know what the expectations are. But the way this is laying out is a narrower assortment with higher velocity. And again these are a lot of assumptions.

So we should see that higher velocity start to pay off in the second half. And that's what I meant by the acceleration by the end of the year.

Now if you zoom out a click and go back to the Investor Day, we know that there are a number of factors in that channel of distribution which cause variability. One of those is the repositioning of a major customer. There's other customers that have been closing doors. And there's other disruptions that are occurring.

So my comments at the Investor Day were more of a broader picture, to say that while quarter to quarter we could see some disruption and choppiness, if you keep the end game in mind and think about the big picture here, we really like where we're going to end up once all this plays out. Right?

That is, we owned the strongest brand in that category with the Wrangler brand. We know that in a narrower assortment, big brands win. And there's more focus on replenishment and quick supply chain capabilities. That plays right into our strengths.

So one of those comments is more tactical. Just it's going to be really hard quarter to quarter to thread the needle exactly on what we expect. But we know where the end game is. And the other is, if you keep your eye on the prize here, we like strategically where we're going to end up in the jeans section, given what we believe are some core advantages, strength of brand and strength of supply chain.

Ike Boruchow
Analyst, Wells Fargo Securities LLC

Q

Got it. Thanks a lot.

Operator: We'll go next to Omar Saad of Evercore ISI.

Omar Saad
Analyst, Evercore ISI

Q

Thanks for taking my question.

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

A

Morning, Omar.

Omar Saad
Analyst, Evercore ISI

Q

Morning. Wanted to talk to you about kind of a dichotomy between the U.S. trends in the business here versus in Europe and Asia, where there seems to be a growing kind of separation.

Do you feel like that some of the challenges in the U.S. and the wholesale channel and promotionality going on over here, do you feel like these issues are going to be – stay confined to the American market, the North American market? And there's – Europe and Asia are structurally different industries? And those challenges can be avoided in those markets? Or do you think they eventually flow globally, kind of from an industry level?

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

A

I'll try to answer that question, Omar. Some of that is looking at a crystal ball. But what I would say, what we see in our international business, where really things are not necessarily that much easier, our brands are doing extremely well. The thoughtful approach to segmentation and really placing the right product collections in each of these distribution channel partners' doors. And how we're using our retail and digital platforms to build our brands' breadth and depth for the consumer is helping us outperform the marketplace.

Here in the U.S. it's clear that we've got ourselves in a really uneven and inconsistent performance. But there are retailers and there are brands that are doing well in this marketplace. We're going to settle through retail closures. We all read the same reports.

But I think the thing that we all need to really remember is that strong brands that have a very authentic connection with consumers, that are delivering unique products that provide consumers the opportunity to enjoy the experiences that they look for, position brands to succeed in this marketplace.

We'll navigate this because of the strength of our portfolio. And it's really the learnings that we take in our European and Asian markets that are helping us fine tune our approach to segmentation and the use of the various product collections in those channels that's giving us confidence that we'll navigate it.

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

A

Yeah. I'd just add on to that, Omar. There are some fundamental differences. The U.S., we all look at the same numbers, right? The U.S. is over stored as a general statement, much more than what you would see in Europe and Asia. So that's one issue.

Also remember the relative time in market and maturity of our brands are less internationally. So even just – we have a lot of room to run there, just from penetration and an expansion standpoint. So if you think about our business vis-à-vis those markets, that's how we look at it.

And lastly, in the U.S., while its macro trends are certainly true, and again we've tried to say we will see disruption and choppiness as certain contractions and consolidations happen. There are clear winners out there, too, right? And we are winning with those winning retailers. And that's another reason why from a strategic standpoint, we've really pivoted and focused on our D2C and particularly our digital business. Right?

And you might remember from the Investor Day, 85% of our growth is coming from digital and digital partners. And of that 15% that's essentially in international.

So in the next five years we're not expecting much on a net basis from wholesale in the U.S. We will be winning disproportionately with some vendors. And we're also expecting that there will be continued consolidation that's going to occur over the next five years

Omar Saad
Analyst, Evercore ISI

Q

That's really helpful, guys. Could I also ask a question about Timberland? That business continues to strengthen a little bit. Do you feel like you've got the right strategy and plan in place for that brand? Or is it really just more of a market level issue? Where that kind of active lifestyle has shifted away maybe from that rugged outdoor aesthetic to more of the athletic, athleisure aesthetic? And you just kind of have to wait for that cycle to play out? Thanks.

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

A

Omar, I mean there's clearly a cycle that we're all seeing right now with the retro athletic. But to the point on Timberland, we absolutely believe we have the right strategy. And the proof point is what we see going on with our European business, who was much quicker to diversify across multiple franchises, specifically SensorFlex and the launch of AeroCore. And have really brought down the percent to total of the boots, the total boot collection.

We were slow to do that here in the United States market. And that work is underway. Jim [Pisani] did a – I thought a good job really of being able to explain that at the Investor Day. That work is underway.

Concurrently, we've really elevated our apparel product creation, sitting now in our Stabio office, leveraging the strength of our apparel machine there. We're really seeing that investment pay out in our European marketplace. As that starts to come here to the U.S., we have confidence that that will be a growth driver.

But we're also unlocking women's growth. And you'll remember the three focuses for Timberland are their men's business and the diversification across new franchises, women's and apparel. And again the women's business and the strength that we're seeing with products designs in Europe that we're now bringing back into our Americas marketplace gives us confidence that we have the right product as we begin to be more diligent around segmentation and really diversifying those collections appropriately.

Omar Saad
Analyst, Evercore ISI

Q

Thanks, Steve. Thanks, Scott. That's really helpful. Good luck.

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

A

Yeah.

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

A

Thanks, Omar.

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

A

See you, Omar.

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

Erinn E. Murphy
Analyst, Piper Jaffray & Co.

Q

Great. Thanks. Good morning. I wanted to focus a little bit on innovation behind The North Face brand. It feels like for the last three years to four years, it's been concentrated around FuseForm, ThermoBall in particular. I guess first question, how much white space is left for these platforms to run? And then is there anything you can share with us on kind of what's next? How your thinking about better balancing the spring versus the fall line? Thanks.

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

A

No, Erinn, very good question. If you remember back in the Q4 call, I've talked about we need to own some of where The North Face finds itself today. We've leaned heavily on ThermoBall for the last three seasons. FuseForm, an interesting technology, and material innovation is important for our outerwear and ski wear.

But what we need to be doing is really being much more thoughtful around multiyear line plans and product lifecycle management, married to our innovation platform. There are a number of innovation projects underway, specifically around materials but also design concepts for outerwear, footwear, equipment, and some very specifically in Sportswear. As now as we bring new leadership into both the overall brand and product, we're lining up that multiyear model with our innovation platform.

And there's some exciting things coming this fall. I don't remember if I saw you at the Outdoor Retailer show. But there was an introduction of a new portion of our Summit Series collection engineered for ski mountaineering. But that also is having influence on some of the broader apparel product. And you're just seeing better designed product, more thoughtful use of materials, color, and fit. That we have a lot of confidence will open up the lens for our core consumers, but also broaden the lens for new consumers.

And were seeing this prove out in our European business. I've talked about that a lot, but it's no secret that our European business is very, very successful right now. And it is the focus on product, the segmentation of that product into specific channel partners and our own stores. But it's also the quality of the leadership and really driving those very specific choices and being able to, season after season, build that momentum through really thoughtful product line management.

Erinn E. Murphy
Analyst, Piper Jaffray & Co.

Q

Got it. That's helpful. And then I guess, Scott, for you. Just going back to how you were kind of articulating the guidance, you talked about significant SG&A leverage in the back half. Can you just expound upon that? I guess if sales in the second half – you're obviously planning for a big acceleration as well.

So if, whether it's environment or further bankruptcy, the sales weren't as high. Let's say they were in the low single digit range or mid-single. How do we think about kind of what the leverage you have on the SG&A would be in the back half? Thanks.

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

A

Yeah. So first of all as CFO, I think every cost is variable. So that's probably kind of underneath your question, but – and so what does our guidance imply? So we said about 14% operating margin. And with the margin expansion that would imply an increase in SG&A. And you see that's relatively higher in the first part. And we see – we leverage that in the second half, and it comes down.

First of all, I'd say we have a pretty good line of sight to the second half of the year. Right? And so we're not expecting a tremendous volatility. We see our order book. We see the trends. Now there's always some variability possible. But we have a lot of confidence in the second half. So that's the first comment I'd make.

So secondly, we're also – we outlined a strategic plan in our Boston meeting. And we are investing behind those priorities. So the point I was trying to make by significant leverage is, obviously as the top line accelerates, we're going to see leverage, right, in the second half.

We're also taking a lot of – a hard look at all the nonstrategic SG&A. We have a transformation project that we're going on – that we're undertaking here. And I'd call it more of a philosophy than a project actually. And we're challenging every spend item that we have in the P&L and saying, if it's not directly related to bringing our strategy forward, then we're empowering our leaders to take a hard look at that.

And the fruits of that labor are, we're going to – we're seeing and will continue to see leverage in those nonstrategic areas. Our thought is that is a fuel that we put right back and reinvest against those strategic priorities.

So again second, relative as the top line grows, we're going to see second half leverage. Remember in the first half we have a bit of a perfect storm. Right? We're opening our D2C – we're opening D2C stores. We see relative low wholesale growth for all the reasons that we detailed in our prepared remarks and some of the questions. We see that accelerating in the second half, and that's where you start to see that leverage.

Erinn E. Murphy
Analyst, Piper Jaffray & Co.

Q

Got it. Thank you, guys, and best of luck.

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

A

Thanks, Erinn.

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

A

Thanks, Erinn.

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

Robert Drbul
Analyst, Guggenheim Securities LLC

Q

Hi. Good morning, guys.

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

A

Hey, Bob.

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

A

Bob.

Robert Drbul
Analyst, Guggenheim Securities LLC

Q

I was wondering if you could spend a little time just on Vans? The trends that you're seeing especially in the U.S. and the competitive set? Their inventory levels?

And then the second question that I have is on the inventory levels in the business. So like with wholesale revenues being down 4% and inventories I think were up 2%, can you talk about how like wholesale inventories are for you guys heading into the remainder of the year? And how you're planning the wholesale part of the business versus your D2C part of the business, given that your expectations are for a significant pickup in the second half of the year?

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

A

So, Bob, I'll take Vans and then let Scott grab that second question. So from a Vans standpoint here in the U.S. – but it, really it applies to how the Vans businesses is managing itself across each of the regions – is just a really strong, broad, diversified set of products, starting first with footwear. And not depending on a single style but really leveraging the Classics and then there within Old Skool, bringing new innovations in their Pro Skate collection.

We're looking at new launches in apparel, launched a new Authentic Chino this spring, helped brought to market through our innovation platform. Just how we use the different franchises that we have across each of these apparel and footwear collections in their segmentation strategy. And how we bring those to life in our stores and digital I think really separates Vans from the rest of the marketplace.

And it's their intense focus on their consumer and the focusing on those emotional elements of music, art, and street culture. And how we are connecting digitally with our consumers. Our customs platform, which we launched last year, continues to accelerate, as we [ph] expand (50:08) the offer and the means by which consumers can upload content to have us then transfer that onto footwear.

They're just bringing a lot of new ideas each season across each of these different categories of product. And doing it consistently across the globe and tying that to the experiences that they have through marketing and events, really separates them from the rest of the marketplace and I think kind of puts them in a category in many ways in their own right.

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

Yeah. And so, Bob, versus you – or kind of your inventory related question. So a couple things. Number one, we do have pretty good line of sight to the balance of the year. So as it relates to the quality of our inventory, we feel good about that. Right? We don't see any issues and from a quality standpoint.

Also remember that the marketplace is substantially cleaner as we look at it. Now there's a few – there's always a few pockets here and there. But as an overall statement, we would say that retail inventories are in good shape. And we don't see any issues on a go forward basis.

Robert Drbul
Analyst, Guggenheim Securities LLC
Q

Great. Thank you very much.

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

Kate McShane
Analyst, Citigroup Global Markets, Inc.
Q

Hi. Good morning. Thanks for taking my question. Scott, with your guidance for Q2 of $0.27 to $0.30, I know you said the visibility to Jeanswear is tough, because you don't quite know where it's going to break. But what are you assuming for Jeanswear in order to get to that EPS growth?

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

Yeah. So we're looking at down mid-single digits on a currency neutral basis in the second quarter. That's what our current guidance implies. And again what we're saying is we've seen some variability frankly in the first quarter. It was the timing shifted a little bit from us, and it was a little more severe than we had anticipated. We had some offsets, which helped us get back on an overall basis. And so we would – that's really what's behind the comment. Just a little uncertainty on how the timing of all this is going to wind through the process.

Kate McShane
Analyst, Citigroup Global Markets, Inc.
Q

Okay. Okay. And would you say what you're assuming is a base case scenario? Or...

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

A

Well, if you back up, if you go to the high end of our range, that's essentially in line with what we said in February. Right? So we're saying we see a path to – and remember all this is excluding LSG. So the guidance we gave in February included LSG. We've kind of given you the roadmap on how to model, taking LSG out of it. So excluding that impact, the $0.30 would be right in line with our previous outlook. And we're saying there could be as much as a $0.03 variation on that, based on the timing of Jeanswear.

Kate McShane
Analyst, Citigroup Global Markets, Inc.

Q

Okay. Great. And then my second question is, I know there have been some management changes in the [ph] Outdoor coalition (53:26), and I think North Face as well. I just wondered if you could walk us through some of the newer hires that have been made? And if there are still any bigger positions that still need to be filled?

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

A

Sure, Kate, I'll do that. There have been some changes in our Outdoor business. Last year we made a change at Timberland in Jim Pisani, who presented at the Investor Conference, is our new leader there. Very excited about the leadership that he's bringing to that team.

I think The North Face is where we have two openings of significance, our President and our Head of Product. We are very close to naming a new President for The North Face brand. And with that shortly thereafter with that individual's participation we'll make that move on [Head of] Product.

The good news is we have some really steady strong sets of hands in that business. Scott Baxter, out head of that group is working day to day with our North Face brand. We've recently moved Arne Arens from Europe, our GM of our European business is now our GM of the Americas. Arne has presented at the Investor Conference. Very strong history with our brands, strong leadership, and deep, deep understanding of our brand.

So really feel confident about where we are in our North Face kind of time line. And the – really the search that we've utilized to identify that new leader.

Now we also placed a new President at Smartwool. And Travis [Campbell] comes to us from a relatively similar background, very strong general management skills, passion for this category and the outdoors. And he's bringing really good leadership to that brand. So those would be those openings that we've had and feeling good about where we are.

Kate McShane
Analyst, Citigroup Global Markets, Inc.

Q

Thank you.

Operator: We'll take our next question from Jonathan Komp, Robert W Baird.

Jonathan R. Komp
Analyst, Robert W. Baird & Co., Inc. (Broker)

Q

Yes. Hi. Thanks. Scott, if I could ask just a clarification on the guidance for the full year first of all. I understand 2016 coming lower when you exclude the LSG business. I'm just wondering the thought on holding the earnings decline rate for 2017. I would assume that you might have some proceeds from LSG that you could put to productive use through buying back stock or something like that. So any comment on either the proceeds or kind of the assumptions behind holding the growth rate?

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

A

Yeah. No. Good question. So we talked about returning $1.6 billion to shareholders this year, which includes a $1 billion repurchase. Obviously we had some line of sight to what's going on with LSG. And so that – we were assuming those proceeds in that $1 billion buyback. So we are not intending to increase the $1 billion at this time.

Jonathan R. Komp
Analyst, Robert W. Baird & Co., Inc. (Broker)

Q

Okay. Great. That's helpful. And then on the gross margin cadence through the year, I just wanted to ask about some of the puts and takes. I mean obviously the first quarter was strong. And I think might account for your entire full year projected gross margin increase. So I'm just wondering for the next three quarters what some of the puts and takes you see there?

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

A

Yeah. Yeah. I'd say it was really strong by the way. So, yeah, we saw mix was really strong in the first quarter, about 80 basis points. And that's close to what we see for the year, a little less than that for the year. And our rate was up 110 basis points.

Several factors there. So we did see some price benefit. It's about 1% for the full year. And that's a little bit more toward to the first half. Cost, the same. We see cost benefit in the first half. That actually turns the other way in the second half and for the year. And that's to kind of a small number. Those are some different – those are two shaping things.

And then finally, if you just think about that mix number as it evolves. So with as our Jeanswear business accelerates, as our Image business accelerates throughout the year, you're going to see some of that mix come back the other direction. So off to a really good start one quarter in.

The other thing I would just remind everybody at this point, we're one quarter in. And we got a lot of real estate ahead of us. So could we have been a little conservative? Maybe. But looking at the balance of puts and takes, we think that's a prudent place to be one quarter into the year.

Jonathan R. Komp
Analyst, Robert W. Baird & Co., Inc. (Broker)

Q

And just to follow up, your prepared remark about sacrificing a little growth for quality near term. Is that more backward looking in the last quarter or two? Or do you see that continuing?

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

A

Well, I think you'll see a continuation of that philosophy. Now the reality is, a lot of that is behind us now in terms of, we're not doing much off-price. There's not much included in this outlook for 2017, because we've already cleaned a lot of that up.

In general what we've said is, we would prefer to dispose of things through our own outlets. It's more brand appropriate. And that's really why they're there. And so if that means holding a little inventory and selling it through in a more brand enhancing way, then we're going to make that choice.

Jonathan R. Komp
Analyst, Robert W. Baird & Co., Inc. (Broker)

Q

Okay. Great. Thank you.

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

A

Yeah. Just to follow up on that too. I think you're starting to really see – I said this in my prepared remarks, but I – we believe we're really starting to see that philosophy pay off. And of the best proxies for that is gross margin. And we're really encouraged to see that strong gross margin rate in the first quarter. We talked about focus on fundamentals. That's one of the markers that shows that the strategy is paying off.

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

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

Thank you for taking my question. I've got two questions. One is more housekeeping. Can you give us some idea of the JanSport and Licensed sports revenue by quarter for last year, so we can really model this properly?

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

A

Yeah. So we gave you the quarter and the full year in the table. You can – and we said it's $0.03 to $0.04 per quarter from an earnings standpoint. So while I guess we didn't break out exactly the by quarter, you can assume based on that that it's fairly evenly spread through the balance of the year.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

Okay. And then I mean – and then secondly, I mean I guess my question is, is with the U.S., the sort of mature U.S. market for some of your larger brands. One, within your guidance for Jeanswear with – like and in general, how many more – how many store closures domestically do you have built in to like the current guidance and the five-year guidance?

And then secondly, what gives you the confidence that the European influence will move appropriately to the U.S.? I mean what direction – are you sure it's going that way? Or is it just that the international businesses are less developed, started? Like the Timberland business overseas doesn't have the reliance on the Classic boot. How do you get a gauge on which – what's pushing what which direction I guess?

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

A

Yes. I'll start with the kind of the numbers side of that question, Sam. So we're not going to get into the specifics of what we've put in or what's in, what's out. But just generally, just to reorient the comments I made earlier. We're really not expecting in the five-year plan any net wholesale growth in the U.S. Right?

And within that we will see growth for sure, but we know it's going to be choppy. We may have a year where we see a little growth. Then we may see continued bankruptcies. And we're sure that's going to happen. We have modeled it behind the scenes. But that's not – for reasons I think you can appreciate, that's not something that we're going to talk about, what we're assuming on some of our customers in a public forum.

Just know that again when you think about where is our growth going to come from? It's going to come from our D2C, our digital, and that includes our digital partners as well, and our international wholesale. That's what's driving the next five years from our standpoint.

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

A

Yes. Sam, we absolutely see further consolidation here in the U.S. market. And really we've built our plans with that in mind. And to Scott's point, that net neutral number wholesale here in the U.S. market.

The comment around Europe and the influence that we see from our international business, it's not necessarily style or designs that we have in those marketplaces. It's more the discipline around thoughtful segmentation, elevated product, really strong experiential marketing within our own environments and our wholesale partners, and the way our leadership teams, in specifically Europe, are driving the business in a very methodical, professional way. It's those disciplines and the need to elevate product, our focus around design and innovation, and what that means to product and brand experience, that's what I'd ask you to take away.

And those disciplines being utilized across our business. It's the disciplines that sit within our Vans North America business here. It's one of the reasons they're so successful in putting together quarter after quarter positive results. It's taking that discipline, making sure it's well placed in each of our large brands, and just having the disciplined conversations to give us confidence in the long term sustainability of our growth.

But this is – to be honest with you, Sam, this is one of the reasons we made management changes, is to really get that leadership in place. The movement of Arne to our U.S. business, just bringing that focus, that leadership presence to these key brands gives us confidence that everything we've been talking about from a longer term standpoint is absolutely within our line of sight.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

Thanks. And one last thing. I mean with The North Face brand, when you talk so much about all the technical attributes. There was an earlier question regarding some of the different technologies that you've had over the years and what you have.

I mean how much of this is technology related? And how much of it is style related? I mean if your stuff looks good and keeps you warm and protects you and breathes appropriately, isn't that sort of expected? And then the changing of styling and compelling other people to buy new stuff, is this technology – and I've read this in the notes about other companies. Is this technology the icing or the cake when it comes to the brand?

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

A

Wow, Sam, that's a question at a guy who really loves technology. So I'll have to be careful about how I manage this answer.

It's both. It's style first. We know that when a consumer walks into a store, they notice color, followed by style. That brings you over to look at the product. And then how you interact with it is where your – again some of the style components of the quality of the material. Can I understand what the technology is in the garment? Is it relevant to my needs?

It's why we have moved to this consumer focused business unit approach, is having more of a clear understanding across those four brand territories of what the consumer needs are. Style and function, equally balanced, and really having the discipline of building thoughtful collections for each of the channels of distribution. So we can put the very best designed product with all of the right features and functions out there. So that when you do use the product, that it performs to the highest level of expectation. But at the same time you feel good and look good in that product. So it's really a balance of both

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

Thank you very much and good luck.

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

A

Thanks, Sam.

Operator: And that is all the time we have for questions. At this time I would like to turn the call back over to Steve Rendle for any additional or closing comments

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

So thank you, everybody, for joining us. We're excited to share with you how we've begun the year. I hope what you take away is our growth drivers remain very much intact. And our three largest brands, delivering against expectation, and in some cases doing a little bit better. Our D2C and digital platforms performing well. And international continuing to deliver strong results.

And all of that balanced with our fundamentals, as we look to improve how we operate, the gross margin expansion that's giving us the confidence and the fuel to invest behind our strategic choices, as we pivot to become more consumer and retail centric. And really giving us a much more agile and efficient approach to our go-to-market. So thank you. And we look forward to talking to you next quarter.

Operator: That does conclude our conference for today. We thank you for your participation.