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VF Corp. (VFC)

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MANAGEMENT DISCUSSION SECTION

Operator: Hello and welcome to the VF Corporation Third Quarter Fiscal 2022 Conference Call. [Operator Instructions] As a reminder, this conference is being recorded. It's now my pleasure to turn the call over to Allegra Perry, Vice President, Investor Relations. Allegra, please go ahead.

Allegra Perry
Vice President-Investor Relations, VF Corp.

Good morning, and welcome to VF Corporation's Third Quarter Fiscal 2022 Conference Call. Participants on today's call will make forward-looking statements. These statements are based on current expectations and are subject to uncertainties that could cause actual results to differ materially. These uncertainties are detailed in documents filed regularly with the SEC. Unless otherwise noted, amounts referred to on today's call will be on an adjusted constant dollar basis, which we have 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 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. Due to the significant impact of the coronavirus pandemic on prior year figures, today's call will also contain certain comparisons to the same period in fiscal 2020 for additional context. These comparisons are all on a reported dollar basis.

On June 28, 2021, the company completed the sale of its Occupational Workwear business. Accordingly, the company has reported the related held-for-sale assets and liabilities of this business as assets and liabilities of discontinued operations and included the operating results and cash flows of this business in discontinued operations for all periods through the date of the sale. Unless otherwise noted, results presented on today's call are based on continuing operations.

Joining me on the call will be VF's Chairman, President and Chief Executive Officer, Steve Rendle; and EVP and CFO, Matt Puckett. Following our prepared remarks, we'll open the call for questions. Steve?

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

Thank you, Allegra, and good morning, everyone. Welcome to our third quarter call. We delivered strong results in Q3 with organic revenue growth of 16% and organic earnings growth of 32% amidst continuing macro headwinds. Our business is strong and healthy. We achieved our Q3 plan driven by a robust holiday performance and an exceptional quarter from The North Face which gained further momentum and surpassed $1.2 billion in revenue, a record in its history.

I continue to be inspired by the incredible efforts our teams are making across the globe to advance our transformation strategy, while navigating unprecedented challenges. We've come a long way during a difficult 24 months, continuing to invest in the business to generate exciting broad-based momentum across the portfolio while maintaining financial discipline. I'm confident we are well positioned for accelerated growth moving forward.

I'll start off my prepared remarks with a brief update on the consumer environment. Globally, we continue to see robust demand for outdoor and active categories. Outdoor participation continues to grow, supported by secular trend towards more active healthy lifestyles. Across the Americas and EMEA regions, consumers started the holiday season early and were returning to in-store shopping prior to surges in the Omicron variant, which negatively impacted retail store traffic later in the quarter.

Given the more pronounced macro disruption we have seen unfolding in the APAC region for consecutive quarters, I want to spend some time unpacking the situation in China and what our teams are actively doing to navigate these headwinds.

Following the strong rebound in the first half of 2021, the Chinese economy has seen slowing growth, reflecting the government's aggressive policy response to virus surges, pressuring consumption in the back half of the calendar year. To mitigate these headwinds, our teams are maximizing new social commerce opportunities to offset lower traffic on certain digital titan platforms with plans to amplify key festival activations with new targeted marketing stories and product drops.

We're focused on increasing conversion in owned and partner brick-and-mortar stores through operational enhancements, while improving partner inventory levels. I'm confident in the capabilities we are building to advance our transformation and growth strategy in China.

Following the move of our brand leadership to Shanghai, our teams are focused on increasing product relevance and evolving channel and product segmentation, embracing new emerging channels, elevating store formats and omnichannel integration.

Longer term, we continue to see significant distribution and brand awareness opportunity in China with a rapidly growing consumer base and outsized interest in our core categories. I remain confident in our strategy to generate profitable growth in this important region.

Moving into our brand highlights for the quarter. I'll start with The North Face, our largest brand this quarter, representing over a third of VF's Q3 revenues. TNF delivered the largest quarter in its history, surpassing $1 billion for the first time with revenues of over $1.2 billion in the period. This was truly fantastic performance during the brand's highest volume quarter of the year.

Global TNF revenues grew 27% above pre-pandemic levels with continued broad-based strength across regions, channels and product categories. The North Face also delivered significant improvements in profitability with strong brand positioning driving higher quality sales. All regions were ahead of plan and surpassed prior peak levels. We continue to see broad-based growth across categories with snow sports, sportswear and logowear all growing over 20%.

On-mountain products grew strongly, particularly in products offering key technologies. VECTIV and FUTURELIGHT continued to resonate with consumers in footwear and outerwear, and the athletic-inspired Wander collection continues to see significant growth.

Off-mountain lifestyle products also showed ongoing strong momentum. The newly launched techwear line, mountain-inspired clothes designed for the city, had sell-through in excess of 60%. Duffels grew over 60% and lifestyle footwear grew 30%. The brand is truly driving broad-based strength across categories.

Limited edition releases continued to drive brand heat. The second chapter of the TNF x Gucci collaboration has generated over 2 billion impressions since launching in December. In the campaign, It's More Than A Jacket, launched this fall, which has been one of the most successful campaigns in terms of audience reach and engagement, earning nearly 200 media placements and driving 1 billion impressions, spurred by celebrity and influencer endorsements.

The campaign included strong product stories, including Conrad Anker's three-piece collection drop, which is nearly 100% sell-through. The XPLR Pass Loyalty Program grew exponentially this quarter, adding 1.1 million new members and 33% more sign-ups during holiday weeks relative to last year, driven by the digital channel. Total membership is now approaching 9 million growing about 30% fiscal year-to-date.

Highly engaged loyalty members continue to drive higher AOV versus non-members with higher order frequency and now represent the majority of revenue in each D2C channel. We remain encouraged by the brand's broad-based momentum fueled by innovation, increasing year-round relevancy and ongoing tailwinds for the outdoor marketplace.

Looking ahead, following the strong holiday outperformance at TNF, we're raising our full year 2022 outlook to growth of 29% to 30%, representing 18% to 19% growth relative to fiscal 2020. This compares to our previous expectation of 16% to 18% growth versus fiscal 2020.

Before moving on to Vans, I want to take a moment to address the TNF leadership change underway. As we announced earlier this month, Steve Murray is retiring and will be replaced by Nicole Otto later this summer. Nicole's experience and deep understanding of consumer engagement strategies make her ideally suited to take the helm and further accelerate growth. We're excited to welcome her to the VF family. And of course, thank you, Steve Murray, for all that you've accomplished during your long successful career at VF. You're leaving TNF with exceptionally strong brand momentum.

Moving on to Vans, which grew 8% in Q3, representing modest growth relative to pre-pandemic levels. Global digital growth continues to be strong, up 54% relative to fiscal 2020, driving 9% D2C growth relative to pre-pandemic levels. In the first nine months of the year, Vans generated an additional $232 million revenue across its digital platforms relative to fiscal 2020.

While we have made great progress in certain regions and products, on a global basis, Vans did not meet expectations in Q3 with mixed holiday performance, reflecting heightened disruption across China and a slower-than-expected recovery in Classics footwear.

The Americas business was a highlight, delivering a sequential improvement with the US market posting its first positive growth versus fiscal 2020 since the start of the pandemic, fueled by digital growth of approximately 50%. Global Classics footwear showed encouraging sequential improvement but remains below pre-pandemic levels.

While we're making strides to reignite this category, we are simultaneously driving growth in other areas of the brand, which are gaining share within the mix. We continue to see broad-based strength across the Progression footwear line highlighted by MTE, up 56%, and UltraRange, up 30% relative to fiscal 2020 levels. Progression now represents nearly a quarter of the Vans footwear mix.

Apparel grew 29% in Q3, representing 12% growth versus fiscal 2020 with broad-based, diversified growth across customer segments, including increased traction in youth. Vans continues to develop exciting product stories which will launch in coming months. Main skate story will be the Lizzie, the first signature shoe from Olympic athlete, Lizzie Armanto, reinforcing the brand's leadership position in skate and to women's sport.

The Lizzie will incorporate EcoCush cushioning and the new 3D DURACAP toe for increased durability, micro waffle tread and SickStick rubber for maximum grip. The Progression pipeline is also strong with several key launches ready for fiscal 2023, including Circle V launching next month. This is a new silhouette for Vans and is the brand's first shoe designed to round the concept of circularity. Vans consumers remain highly engaged with the brand. Vans Family membership is approaching 21 million globally, increasing nearly 50% over the past 12 months with growing activations across all regions.

While we are encouraged by the sequential improvement of the business fundamentals, we acknowledge that the Vans brand continues to perform below the expectations set in May 2021. Our teams are focused on three drivers of the weaker-than-expected performance: China, Classic footwear and brand heat.

Starting with China. We are delivering China relevant product and content through a greater level of localization, evolving our digital strategy, including leveraging social commerce opportunities; elevating our in-store environment and operations to drive traffic and conversion; and deepening community engagement with our growing customer base, including Vans Family initiatives, where we now have close to 2 million members added since launch in July.

Moving to Classics. We are returning to an always-on Classics demand creation model with a higher degree of innovation and design supported by enhanced and targeted marketing support with a dedicated campaign launching globally throughout this year, starting with the US market next month, applying learnings from the Sk8-Hi campaign, which launched during back-to-school, and has led to over 20% growth over the past two quarters from that silhouette.

And finally, brand heat. While Vans brand health is strong, its brand heat remains below pre-pandemic levels and has significant potential and scope to be reignited. To address this, we are focused on increasing the flow of innovation and product stories, increasing wearing occasions for existing consumers, and investing in attracting and retaining new consumers.

We remain encouraged by the early results of our 52-week drop strategy, which we are leveraging to reward our loyalty members with early access to new product stories and to drive energy and engagement with new and existing consumers. We believe the pivot in our Classics marketing underway will play a key role here as well. Vans has a long history of success, with a rich heritage and strong brand equity, I'm confident there is a long runway ahead for future growth.

Timberland delivered 11% growth in Q3, led by a very strong sell-out season with key accounts in the US and with our own channel. Key wholesale partners continue to rebuild inventory levels as retailers and consumers remain hungry for the brand's iconic products. This demand-pull dynamic continues to support strong margin performance across the business.

We continue to see the strength from the GreenStride innovation platform, which drove strong sell-through across all regions globally. We've also seen encouraging performance in women's across core hiking and heritage boots. Apparel growth has accelerated globally led by newness, highlighted by approximately 90% growth in the Americas.

In addition to these bright spots, successful collaborations continue to deliver brand heat highlighted by Timberland Supreme, who sold out globally in 48 hours across all SKUs. The recent collaboration with Tommy Hilfiger also drove strong engagement through unique storytelling around sustainability and progressive authentic style. We are pleased with the building momentum at Timberland. And looking ahead, we remain confident in the brand's long-term potential for profitable growth.

Moving to Dickies, which grew 14% versus fiscal 2020 levels, driven by continued strength in the Americas. Elevated sell-through and strong demand signals indicated the brand's evolving integrated marketplace segmentation is delivering as planned, and the brand continues to see growth from both the workwear and work-inspired segments. We're also pleased to see the brand profitability continuing to improve ahead of plan.

And finally, the Supreme brand continues to see strong demand and sell-through, both online and in its stores. The brand delivered nearly $200 million in revenue in Q3, despite closing doors globally at various stages due to pandemic surges. We had a strong close to the fall season as the Supreme teams, partnering with VF supply chain, were able to align inventory flow with their revised drop schedule.

The Supreme team remains highly focused on their store-led geographic expansion strategy as a key element in showcasing the brand and its unique collection. The brand opened two stores in Europe this year, in Milan and Berlin, executing against its international expansion strategy. The team continues to stay the course and create brand awareness in an intentional and authentic way. We're excited about Supreme's longer-term potential as a key brand within the VF portfolio.

I'm proud of how our organization continues to manage through this uncertain environment and pleased with the continued resiliency of our people and our operating model. Our fiscal 2022 outlook today is stronger, both top and bottom line, relative to our initial commitment at the beginning of the year despite facing new challenges in the macro environment.

Following significant reshaping over the past five years, our business is sharper than ever. We delivered a strong quarter and maintained our earnings outlook for the year as a result of broad-based momentum achieved across our diversified family of brands. We are well positioned to continue driving profitable growth and elevated returns to our shareholders.

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

Matt Puckett

Chief Financial Officer & Executive Vice President, VF Corp.

Thanks, Steve. Good morning, everyone. I want to start by welcoming Allegra to the team. It's great to have you on board and I'm excited about this opportunity for you to help us refine our communication approach and drive our overall investor engagement strategy. Welcome to you.

I'm pleased with our overall performance during the key holiday quarter. We delivered strong organic top line and EPS growth relative to pre-pandemic levels and ahead of our outlook, leveraging our unique capabilities to overcome ongoing macro pressures.

And as a reminder, this was against a record holiday season for VF back in fiscal 2020. I continue to be hugely impressed by the resiliency of our people and our organization, which have continued to adapt with agility and speed to ongoing challenges.

A major focus during my first year as CFO has been on managing the P&L, which we've achieved during this volatile period. Our profitability recovery in fiscal 2022 is a major highlight for VF, a testament to the resiliency and optionality of our model. We expect gross margins to approach pre-pandemic levels this year, an amazing feat considering the significant additional costs incurred from expedited freight, higher underlying freight rate and currency headwinds.

We've also been able to flex SG&A, while distorting investment into areas where we have the opportunity to accelerate growth and accelerate our digital transformation. Our actions, coupled with the strength of our model, are leading to profitability, in line with our strong pre-pandemic levels despite higher demand creation spend and significant macro headwinds.

Moving into the operating environment update across regions. First, I'll start with the supply chain. Our teams continue to be resourceful in optimizing our extensive supply chain platform capabilities to act with agility, creativity and speed in order to best manage a challenging environment. Our teams continue to diversify our supply footprint and are making earlier commitments on raw materials and inventory purchases to optimize supply moving forward.

The logistics network remains under pressure, as our teams continue to face unprecedented port congestion, labor shortages and equipment constraints. We expect these logistics challenges will remain with us throughout most, if not all, of 2022. However, we're taking active measures to mitigate the impact, leveraging our relationships to secure additional capacity and equipment, utilizing more ports and more carriers, and even chartering full-size jetliners when economical.

Our DC associates continue to work tirelessly to deliver on strong consumer demand. Steve and I had the pleasure of visiting some of our DCs this quarter. It is exciting to see our investments in robotics and automation in action within these critical facilities. Our distribution network is a key component of our digital value chain, and we executed best-in-class delivery times, with click-to-deliver times averaging three business days during the recent holiday peak.

Our teams throughout the supply chain remain adaptive, resourceful and deeply committed to execution. The supply chain has and will continue to be a key competitive advantage for VF, supporting and enabling growth as we move forward.

Moving on to the Americas region. Overcoming lower foot traffic, the US broadly delivered a record holiday season, driven by a healthy and resilient US consumer. The Americas region grew 18% organically, representing mid single-digit growth relative to fiscal 2020. Our businesses saw a strong early start to the season. However, the fast spread of the Omicron variant during the quarter impacted retail store traffic and consumer confidence, particularly in December. Overall, a strong holiday performance and clean inventory levels across channels will support continued momentum in the region during fiscal 2023 and beyond.

The EMEA region continued to show great momentum this quarter with our business delivering 25% organic growth versus last year and 23% growth relative to fiscal 2020, with strength across all key markets. The latest virus surge has spurred new restrictions across Europe, namely in Austria, the Netherlands, Germany and the UK. This has contributed to declining consumer confidence, deteriorating traffic and stretched retail staff in our stores.

Our D2C brick-and-mortar business was able to deliver positive growth above prior peak levels despite a deterioration in traffic to 40% below fiscal 2020 levels during the final weeks of the quarter. This is a clear testament to strong consumer demand and our ability to continue executing in-store with high levels of conversion.

Moving on to the APAC region. As Steve covered, our teams are actively working to navigate a more challenging than anticipated environment in China as COVID-related lockdowns continue to drive volatility in retail traffic. Outside of China, other markets in Asia performed better, recording positive growth this quarter as restrictions were gradually lifted in Malaysia, Taiwan and Northern Asia. We've seen a nice acceleration in Korea and double-digit growth in Japan.

When we set our APAC outlook in October, we expected to see an improving environment as we entered the fourth quarter. This timing is now less certain and we expect the Chinese New Year holiday to be impacted by constrained travel and consumption. As a result, we now expect low single-digit growth for China in fiscal 2022, with China representing about 8% of VF revenue this fiscal year. We remain very confident in VF's long-term growth prospects in China and the broader APAC region. We're confident the business is well positioned to accelerate beyond this disruptive period.

Now moving into the highlights from our third quarter. I'm pleased with our execution and our ability to deliver against our outlook provided in October amidst a more challenging than anticipated environment. VF revenue increased 22% in Q3, representing 16% organic growth or 9% organic growth relative to fiscal 2020. D2C and wholesale each surpassed pre-pandemic levels. Digital grew 61% organically relative to fiscal 2020, driven by strength across our largest brands and outsized digital growth from our emerging brands group.

When combined with digital wholesale, VF's total digital penetration was roughly 30% as compared to about 20% in fiscal 2020, reflecting investments made in digital infrastructure and talent, enhanced merchandising capabilities and omni-channel services.

Gross margins expanded 60 basis points to 56.3%, including a 20 basis point benefit from Supreme. Relative to pre-pandemic levels, underlying organic gross margins expanded 150 basis points, offset by 260 basis points of expedited freight and FX. This strong underlying performance highlights a full price realization, a testament to the health of our brands in the marketplace.

Including Supreme, operating margin was 17.7% in Q3, representing modest expansion relative to pre-pandemic levels while increasing organic strategic investment by 12% versus fiscal 2020, a strong achievement overcoming meaningful headwinds from the disruptive supply chain and the drag from weaker near-term store productivity.

We delivered EPS of $1.35 in Q3, representing 45% earnings growth relative to last year, or high single-digit organic EPS growth relative to strong pre-pandemic levels, a significant recovery in a challenging environment and a testament to our robust operating model.

Before moving into our revised fiscal 2022 outlook, I want to provide a few quick updates on our balance sheet. We successfully renewed our $2.25 billion revolver in the quarter, extending the term to 2026 and redeemed $500 million in term debt, which was due later this calendar year.

During the quarter, we executed about $300 million in share repurchases, a signal to our confidence in our plans and commitment to continue return of cash to shareholders. Combined with our dividend, we returned nearly $500 million to shareholders this quarter.

We maintain a strong cash and liquidity position with $1.3 billion in cash and $3.6 billion in liquidity available at the end of the quarter. We do expect to end the year with net leverage of between 2.5 and 3 times, providing us with meaningful capital allocation optionality.

There are no changes to our capital allocation priorities. We're focused on investing in our organic business while continuously looking for ways to optimize our brand portfolio. We remain committed to our strong dividend and we'll opportunistically deploy share repurchases to return excess cash to shareholders.

Now, moving into our revised fiscal 2022 outlook. As you saw in this morning's release, we are adjusting the shape of our fiscal 2022 outlook in light of the changes in the operating environment since our call in October. Bottom line, our earnings outlook is unchanged as certain areas of the business have performed better than expected and others are still recovering, a unique balance which gives evidence of the strength of our diversified portfolio platform.

At a high level, the reduction in our sales and gross margin guidance is entirely driven by macro factors, namely China, the additional air freight and FX. Our new outlook is for VF revenue to approximate $11.85 billion, representing 28% growth relative to fiscal 2021, and 13% growth relative to fiscal 2020. This implies a Q4 outlook of about 10% growth relative to last year.

By brand, we are raising our outlook for The North Face to 29% to 30% growth and adjusting our outlook for Vans to 21% to 22% growth. By region, we are adjusting our EMEA growth to 28% to 30%, reflecting FX and pandemic-related disruptions, including some shipments that have shifted out of Q4 into Q1 of next year. We're reducing our APAC outlook to high single-digit growth driven entirely by the environment changes in China we've discussed today.

By channel, we are adjusting our D2C outlook to 32% to 34% growth, primarily reflecting the challenges in the China market. VF digital growth is now expected to exceed 15%.

We now expect gross margin to exceed 55%, approaching prior peak levels. The reduction in gross margin outlook from our prior guidance reflects incremental FX and expedited freight headwinds relative to our expectations in October.

We are raising our operating margin outlook to at least 13%, a strong testament to our commitment to SG&A control and the optionality within our model. This is being achieved amidst continued pandemic-related disruptions and less than ideal business mix with Vans in China performing below potential.

We expect the D2C ecosystem to deliver stronger margins than we had in fiscal 2020, supported by the mix shift to digital. We anticipate this mix shift will continue to be a structurally accretive profitability driver over the long term.

Finally, we are holding EPS guidance unchanged at $3.20, supported by the resiliency in our operating margin performance and a slightly more favorable expected tax rate of about 14%. This represents organic EPS growth of 128% versus last year and double-digit growth versus pre-pandemic earnings.

Our fiscal 2022 has evolved differently than we expected back in May of 2021. The recovery has not been linear in parts of the Vans business. The China market has been challenging, and we've seen more pressure on the supply chain network than we anticipated. But our teams are navigating this and the value of our diversified portfolio is fully on display in a disruptive year like this, with certain parts of our business over-delivering, offsetting pressures in other areas.

TNF is our biggest contributor during the quarter, having seen a significant acceleration across regions and delivering a record quarter. And both Timberland and Dickies have delivered meaningful improvements in profitability well ahead of schedule. Collectively, despite all of the unforeseeable challenges, our fiscal 2022 guidance today is stronger, both top and bottom line, relative to where it was at the onset of the year.

I'm proud of how our teams have effectively managed and driven our business through uncertainty. I'm pleased with our control over the P&L and I'm confident that our broad-based momentum across the portfolio will enable us to continue to deliver against our strategy into fiscal 2023.

Let's open the line for your questions.

QUESTION AND ANSWER SECTION

Operator: [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 taking our questions here. Let me ask you just a couple quick ones on Vans in the US and then I have a bigger picture question. It looks like US D2C stores for Vans started to recover. And that's been a really tough part of the thesis for several quarters. And [ph] I see the two here (00:30:14) accelerated in the quarter nicely there. What are you seeing there in stores? I know that's been difficult.

And then on Vans US on the wholesale side, I'm curious how much of it you think was supply chain disruption and what visibility you have on that. I thought it was interesting that wholesale for Vans was still down, but North Face wholesale picked up. I'm sure you had to make some decisions because the North Face stuff really needs to be at market in the winter and maybe Vans – and brands like Vans can move around a little bit. But I'm wondering if we get past that period, does wholesale from Vans start to pick up to look closer to North Face as we go forward from here?

And then just bigger picture, Steve, for you. I'm trying to think as we look out to next year, I know you gave us some shape for 2023, but if the unaffected EPS this year, if we try to take out some of the supply chain costs and the virus and everything, it would have been higher than $3.20. Maybe we could do some math to figure it out. But is it safe to say you can guide closer to the algorithm for next year off of an unaffected number this year? Or how would you tell us at this point, knowing what you know, to think about the shape for next year?

Matt Puckett
Chief Financial Officer & Executive Vice President, VF Corp.

A

Hey, Michael. Good morning. That was a lot, but I appreciate the question. So let me start with Vans and the Americas part, and then we'll move from there. So, yeah, brick-and-mortar, I guess, first of all, really happy to see the progress there. And our overall direct-to-consumer business in the Americas for Vans was – inflected positively versus pre-pandemic levels, I think up sort of mid-single digits in the quarter. And brick-and-mortar has been a driver of that in terms of the recovery that we're seeing there in the business.

And I think it's – as we've anticipated, really, all through the last several quarters, we expect a sequential improvement for a number of reasons, as consumers continue to come back in stores, as we get a little bit better positioned from an inventory standpoint, and obviously, as the work that we've been doing around demand creation begins to impact.

So we've seen a nice consistent recovery in that part of the business, which is – which we're really happy about. And we're seeing the same obviously flow-through from a profitability standpoint as those stores recover. We're still not all the way back, but really encouraged with where we are. And honestly, we're probably a little bit ahead of plan, if you look at our sort of year-to-date performance in our brick-and-mortar business in Vans, both globally but really in the Americas, in particular.

In terms of wholesale, I think, again, I would say we're generally sort of on our plans and what we thought would occur. I wouldn't get so hung up on quarter-to-quarter. The progression that we expected to see has been there.

There has been some choppiness, for sure, related to some of the supply chain challenges and choices that we've had to make – had to have made through this.

Certainly, as we – I think – full transparency, and as Steve alluded to in his prepared remarks, there's some challenges relative to the Classics, the core Classics part of the business, that we'd like to see that moving a little faster and some of the brand heat behind that. And I think we feel confident we've identified those issues and we're working really aggressively and pretty tactically around fixing that and beginning to move that. But certainly, there's some impact there in that wholesale business as a result of that.

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

And good morning, Michael. On your question towards next year in the algo that you can expect, I think you can see already, we're back to our LRP top line this year. And the earnings growth that we were able to maintain, I think, should give you confidence that we have line of sight based on a broad-based success of the portfolio, the strength that we see in our North Face business, Dickies, Timberland picking up momentum, and Vans will continue to see sequential improvement. We're very comfortable with our ability to maintain that long-term algorithm and how that will manifest itself in next year's plan, which we'll be talking to you here in May.

Matt Puckett
Chief Financial Officer & Executive Vice President, VF Corp.
A

Yeah, Michael, maybe just – yeah. Maybe just one thing there to add as I've said a couple of times and I'll say it again here given the question is we certainly expect expanding gross margins next year, given the structural benefits that we've enjoyed and continue to enjoy from a mix standpoint will be there. There's clearly some puts and takes in terms of headwinds and tailwinds that we're all facing. But overall, we expect margins to expand.

And we've proven this year that we can drive SG&A leverage in our model and at the same time, continue to make the really important and critical investments in our brands and in our strategy. So, yeah, we're confident – I'm not going to get into the pieces and the parts, but we're confident at the VF level and our ability to drive both revenue and earnings in line with our LRP.

Michael Binetti
Analyst, Credit Suisse Securities (USA) LLC
Q

Thanks a lot, guys. I know I asked a lot. I appreciate the help.

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

That's great. Thank you, Michael.

Operator: Thank you. Your 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. So maybe to follow up on Vans. As we think about the reduction to 3% to 4% growth from 7% to 9%, I guess, if we dumb it down, what percentage of this cut do you believe is tied to increased disruption in the APAC region maybe relative to the Classics category? And then, Steve, what's the timeline you see for an overall fix here as you did cite the brand heat? Or is there any change to double-digit growth at Vans, which you cited on the last call, for next year?

Matt Puckett
Chief Financial Officer & Executive Vice President, VF Corp.

A

Let me unpack the outlook change there real quick and hopefully, answer that part of it, Matt, and good morning. And then I'll turn it to Steve. So you're right. The majority of the change in the Vans outlook is coming from the APAC region and principally China, as, obviously, it's a pretty challenging environment there. And we expect that's going to sort of continue for us through Q4 and to some degree, into next year in some ways.

EMEA has had some impact on the reduction both at the VF level and certainly for Vans. Couple things there. Currency, our assumptions on the euro for the back half of the year have proven to be a little aggressive with sort of the strengthening of the dollar that occurred back the last couple of months.

There's a little bit of timing shifts. That's the one region where we're seeing a little bit of timing shifting out of Q4 into Q1 next year. And then as I said, the Omicron impacts have been – there's a little bit of choppiness there, particularly in the European markets, and I talked about some of that in the prepared remarks.

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

A

And then, so on a longer – to your broader question on Vans, I guess I'd start out, Matthew. I mean there are strong trends outside of China. If you look at the rest of the world, is on plan. Our EMEA business is up low double digits versus fiscal 2020. And that region continues to be a strong performer and an important performer.

Our Americas business returned to pre-COVID levels for the first time. And I think a good marker here is the global D2C is sequentially improving. We're up high single digits versus fiscal 2020, again, supported by EMEA and North America. But that global digital number up 54% to fiscal 2020 and the dollars that have been added year-to-date, I think just is validation that the brand is – it remains strong.

What we've called out in my prepared remarks is the recent brand heat, particularly guide to Classics and, most importantly, the core Classics portion of the line is the issue that the team is very, very focused on today, and there's a sense of urgency here. We're dialing up additional marketing. In the last two quarters, you've heard us talk about the success of Sk8-Hi, up a little over 20% each quarter. And that's where they have been applying their marketing dollars as well as some innovation.

There were four new Sk8-Hi styles launched over those two quarters, all at higher MSRP than the core item. And we've seen strong consumer acceptance and demand. And with the always-on marketing that we will begin to elevate now, but you'll really start to see it pick up in March and throughout the rest of the year, just a heightened focus on Classics.

The innovation engine happening within Progression, the success we see with MTE and UltraRange and Pro Skate, which has a direct impact on Classics over time. That's have a lot of really positive energy there and strong growth. And in fact, if you go back to Beaver Creek, we talked about the need to diversify the product offer and elevate those styles within Progression, elevate apparel and you get a more balanced offer. And we really see that coming to life today. Progression is now, this quarter, about 25% of total revenue. So there's confidence here in the brand.

We see the issues with Classics in China. And China's related, to a large degree, to the larger macroeconomic issues tied to COVID. And I think the work that we're doing there to become more local for local, you see that in The North Face results. We understand the playbook there. I think the key here is Classics. And with Classics comes brand heat, but we also will continue to innovate new styles within Progression. And there's four new offers coming this year, one of which is directly linked back to a classic style.

So as I said, there's a sense of urgency here. This is an important brand to VF. It's not the only brand. And as we look at the broad-based performance of the other top four, top five, there's a lot of confidence here in our ability to maintain that LRP.

Matthew R. Boss
Analyst, JPMorgan Securities LLC

Q

Great. And then, Matt, just to put these margin pieces that you cited together, is there any change to your gross margin forecast for at least 50 basis points expansion next year? And then is the long-term target for low teens earnings growth, is that still reasonable for next year?

Matt Puckett
Chief Financial Officer & Executive Vice President, VF Corp.

A

Yeah. I would say, Matt, I'd say yes to both of those questions.

Matthew R. Boss
Analyst, JPMorgan Securities LLC

Q

Okay, great. Best of luck.

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

Erinn E. Murphy
Analyst, Piper Sandler & Co.

Q

Great. Thank you. Good morning, and welcome, Allegra. Just one follow-up on Vans. On the profitability of just the overall Active segment, EBIT margins are down about 500 basis points versus pre-pandemic, where, as you referenced, sales are up. So just curious if you can talk a little bit more about what's going on under the hood from a promotional activity perspective, any other kind of key investments or input costs we need to be thinking about for that segment? And when do you expect profitability to be back on par with the pre-pandemic level for this segment?

Matt Puckett
Chief Financial Officer & Executive Vice President, VF Corp.

A

Yeah. Erinn good morning. Sure. First of all, maybe discounts and promotional activity is in line with prior years. So I think that's an important point to get out there. We're not being more promotional, which I'll remind you is not a lot, right? We don't promote a lot in this brand. So I think that's the first thing. Certainly, there has been some pressure on the profitability. I would say there's a couple of things there to consider.

First of all, the China business, which has been more challenged, is a very profitable business, right? So from a mix standpoint, there's a little bit of an impact there. Our brick-and-mortar profitability, while improving and quite strong actually in terms of the absolute numbers, it's still a little bit below where it was pre-pandemic but recovering really nicely. And we expect that will be back in line as we move into next year.

And then the other thing is the impact of the supply chain challenges, the airfreight, in particular. Had the store – on a year-to-date basis, our EBIT margins in the segment, and particularly in Vans, which is probably obviously where you're interested, certainly a little bit lower than historical levels. But I would remind you that what we're really proud of is that the overall VF operating margins are right in line or will be in line this year with where we were pre-pandemic. So despite some challenges there in the Active segment, we've seen really nice progression of profitability in both the Outdoor and the Work segment. And obviously, we're showing the ability to leverage SG&A across the enterprise.

Erinn E. Murphy
Analyst, Piper Sandler & Co.

Q

Great. That's very helpful. And then just my follow-up is on the Omicron variant and the pressure you saw in the latter part of December. Has that pressure continued into January? And then what's the baseline that you're using for your implied fourth quarter outlook for traffic and just store closures, and any other kind of environmental things we need to be mindful of? Thank you.

Matt Puckett
Chief Financial Officer & Executive Vice President, VF Corp.

A

Yeah. Yeah. I think it certainly has continued a little bit. I think we probably gradually see that maybe having a little bit of a less impact. Also, you got to remember that store volumes are much lower as you get into January and February than where they are in November and December, so just relatively speaking, maybe a little bit of a lesser impact in that regard from a mix standpoint.

Certainly, China, though, I think it's probably – maybe that's a different answer for China. We continue to see a lot of variability there in terms of government reactions and these lockdowns or micro shutdowns or shutdowns of cities and certainly restrictions on travel. We expect the Chinese New Year environment's going to be pretty muted in terms of travel and consumption versus what it would be in a normal year.

As it relates to Q4, we've assumed – maybe the easiest way to say that is we've assumed sort of comparable performance as to what we saw in Q3.

Erinn E. Murphy
Analyst, Piper Sandler & Co.

Q

Great. Thank you so much.

Operator: Thanks. The next question today is coming from Laurent Vasilescu from BNP Paribas Exane. Your line is now live.

Laurent Vasilescu
Analyst, BNP Paribas Exane

Q

Good morning. Thank you very much for taking my question. Congratulations regarding Nicole's onboarding as TNF's first female Global Brand President. Steve, can you talk about her vision for the brand, especially since she's coming from NIKE? Should we see her further push into greater spring and summer categories, maybe efforts on DTC? And on the innovation front, you've launched FUTURELIGHT, VECTIV, but should we expect more innovation platforms under Nicole's watch for FY 2023?

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

Yeah. Hey. Good morning, Laurent. Thank you for this question. Let me first say, we're really excited with the appointment of Nicole for the reasons that you called out. So she brings an industry experience and an understanding of consumer engagement that's very unique and very applicable to where North Face is today.

I think it's early to be able to talk about her vision. She'll be here in June. And at that point, we'll be able to start to articulate that, and you'll see her at our Investor Day. But I think the success that you see happening with The North Face today will be things that she'll build on, but this is the work that Steve Murray's been doing and that's to get the brand to be more of a 365 [day] relevant brand.

And that comment around spring/summer, we see very strong results with our core sportswear, our logowear, bags. All of that has applicability into that spring/summer season as well as footwear. The VECTIV launch this last year has really given The North Face a platform to build from, and there's a lot of energy behind that.

I think what you'll see her focus on is the elevation of D2C, the focus on the digital aspect of D2C, but really that omni connectivity, and how to continue the work that the TNF team has been doing to get a higher frequency of flow, with stronger storytelling, and to drive that engagement, leveraging the consumer insights and building that loyalty program.

So I think the foundation that Steve has been able to really solidify and hand to Nicole, her skills and background are really well suited, and the right leader coming in at the right time to continue the momentum you see really taking place in a broad-based manner across regions, channels and product categories, for sure.

Laurent Vasilescu
Analyst, BNP Paribas Exane
Q

That's great to hear. And then, Matt, some modeling questions here. But I think, in 2Q, you had about $200 million shifted into 3Q due to supply chain constraints. I think you said in your prepared remarks there was some – we should anticipate some shift from 4Q into 1Q. Could you possibly quantify if there was a shift from 3Q to 4Q and 4Q to 1Q? And then on freight, how do we think about the implied 4Q GM in terms of the bridge to get to the full year gross margin?

Matt Puckett
Chief Financial Officer & Executive Vice President, VF Corp.
A

Yeah. So first, in terms of timing shift, yeah, there was some shift from Q3 into Q4, a much, much smaller number, probably even maybe a little less than 25% of what we saw in Q2 to Q3, so something but a much more modest number. I would tell you as it relates to the outlook – what's implied in the outlook relative to Q4 into Q1, around 20% of that reduction, which is $150 million total, around 20% or so of that, I think – I'd say is timing related, much of which by the way is in the European region. So that's the thing there.

In terms of gross margins in Q4, I would say most of the change is really related to -

certainly the vast majority is related to additional airfreight that we now have line of sight to support will continue to be really strong demand signals in the business, in particular, in the Outdoor segment. So more airfreight implied. And then there's obviously a little bit of headwind from mix as it relates to China being the driver of – and internationally, generally, being the driver of the reduction.

Laurent Vasilescu
Analyst, BNP Paribas Exane

Q

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

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

A

Thank you, Laurent.

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

Jim Duffy
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Thanks. Good morning. Hi, guys. I wanted to ask about the moderation of the D2C and digital outlook. I'm curious, is that a reflection of trends that you're seeing in China and trends in the Vans brands? What are the components that are weighing on that relative to your previous expectations?

Matt Puckett
Chief Financial Officer & Executive Vice President, VF Corp.

A

Yeah, Jim, it's really all China, I think it's probably the simplest way to say that. Yeah – I talked a little bit about some choppiness in terms of traffic related to Omicron, and that's true. But offsetting that, we've seen really good performance a little bit ahead of where we thought we would be, as I said, even in like the Vans Americas brick-and-mortar business, The North Face business in the US generally across both channels has been a little bit better, which has helped to offset, again, some choppiness that we've seen related to Omicron in Europe. And obviously, the China story, though, is really the driver of the change.

Jim Duffy
Analyst, Stifel, Nicolaus & Co., Inc.

Q

And China is the pressure on the digital outlook, Matt?

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

A

Yes, it is. Yes.

Matt Puckett
Chief Financial Officer & Executive Vice President, VF Corp.

A

Yeah.

Jim Duffy
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Okay. Thank you.

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

A

Thank you, Jim.

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

Camilo Lyon
Analyst, BTIG LLC

Q

Thank you. Good morning, everyone. I have a couple of questions. I guess the first one, just sticking on the China theme here. Given what's going on in the athletic sector and the move towards more domestic brands in favor of global brands. Is there some of that that's also playing out with Vans? And if that's the case, is there any visibility or any traction that you're seeing or expect to see on how that can improve?

And then my second question is more on the US side with TNF and Timberland, given how strong the two brands performed this quarter. Any sort of commentary that you can provide with respect to how order patterns are unfolding for next year and how you think about supplying very lean channel inventories, but still maintaining brand heat would be helpful? Thank you.

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

A

Yeah, Camilo, I'll take the first question and Matt can grab the second one. So, on your question around the Chinese consumer, what we see going on there are a few things. Certainly, there's been quite a bit of impact to consumer behavior, consumer sentiment and retail traffic tied to the macroeconomic impacts of COVID, to Matt's earlier comment. There's a higher percent of closures today than there were three months ago. And that's a point in time that won't last forever, but that's having an impact for sure.

I think as you think about what the consumers' thinking about this rise of nationalism that's talked about, there's something there. But from a brand standpoint within our portfolio, you've heard us talk about this. We monitor, week-by-week, consumer sentiment linked to brand origin. And we've not seen any impact there or any uptick in sentiment change based on where our brands really are anchored.

I mean I think why that's important is, and this is an important part of our go-forward strategy, is really speaking to the Chinese consumer as a Chinese consumer and elevating our local-for-local product creation, demand creation and really, tailoring events that are relevant to them and their needs.

There's also – you can see this with our North Face business, quite a bit of momentum and tailwinds in the outdoor space and the investments the Chinese government is making for young people to get outdoors and certainly, the Olympics is a catalyst there. But there's a lot of energy in the outdoor space and maybe lesser energy in some of the athletic space. But there's a rise in Chinese consumers' focus on health and well-being. And anything to do with activity will be central to how our teams there in China are thinking about driving their businesses forward.

And this is where our – moving our teams to Shanghai, the appointment of Winnie Ma as our leader and just the deep understanding and skill capability locally within China is paying dividends. Our North Face team has been domiciled there for many years. And I think they've been the ones that have been able to really react and pivot to more direct local-for-local presentation of our product offer and our demand creation.

Matt Puckett
Chief Financial Officer & Executive Vice President, VF Corp.

A

And as it relates to your question on Timberland and The North Face in the US market, I think, in particular, probably, if you're looking at [ph] channel sec, (00:55:06) I'm sure you're hearing that the inventories are really clean and lean and probably, in some cases, clamoring for more inventory in both of those brands. So, that's really good.

I mean, we met our commitments for what we got delivered in fall and holiday, and put us in a better overall assortment position during the last quarter than where we've been in the first half of the year. But those commitments were constrained a little bit in terms of probably not being able to deliver everything that some of the accounts may have liked, and certainly, could have supported more reorder demand if we had the inventory.

So we – really strong, probably historically high sell-through levels in both of those brands, so that's really, really encouraging. And yes, it does set us up well for next year, right, in terms of the – I'm not going to get into the details there of the order books, but you can be assured that they both look pretty strong. Even starting in spring and as we head to the all-important fall holiday season next year, we're in a really good position with those brands.

And from a supply chain perspective, I think we've done a lot of work to – from a sourcing perspective as well as on the logistics side to ensure we're better equipped and better positioned to support the business next year. And so I think we'll be – we're ready and excited about what's to come next year for those two brands.

Camilo Lyon
Analyst, BTIG LLC
Q

Thanks so much for that. And Steve, if I could follow up just on the – or maybe Matt, too, just on the Vans. I think last quarter, there was discussion that there was an opportunity to take advantage of empty shelves where competitors were just not in an inventory position to meet that demand. Is that still the case? And I think that that was predominantly a US comment, but if that's happening elsewhere around the world, I'd be curious to hear your thoughts there.

Matt Puckett
Chief Financial Officer & Executive Vice President, VF Corp.
A

Yeah. There has been some of that, and we've been able to support, I think, parts of that for sure. I mean the supply chain challenges have maybe hampered that a bit, but that's been predominantly in, what I'll call, the sports-inspired channels within the US market is where we've seen that, which is obviously really good news. It speaks, I would say, too, to some of Steve's earlier comment through the increasing strength of the Progression part of the footwear line. A lot of those products are performing really well in those channels and driving really strong growth in that part of the line, which is a good thing.

We've talked about Classics and we're really focused there on reigniting that and beginning to drive growth as we always have, and we're confident we'll do that. But importantly, during this disruptive time, we've seen the Progression part of the footwear line as well as the apparel part of the business really be strong. And so, as the whole thing comes back together here, it puts us in a really good position from a diversification standpoint as you think about moving forward.

Camilo Lyon
Analyst, BTIG LLC
Q

Great. Thanks so much. Good luck.

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

Thanks, Camilo.

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

Ike Boruchow
Analyst, Wells Fargo Securities LLC
Q

Hey, two from me, maybe both for Matt. Just we talked a lot about the Vans and the Vans margin. I guess I wanted to ask more about North Face, given the momentum you're seeing there. I believe that business was low double-digit margin roughly, pre-COVID. Can you comment on kind of where that brand is today or your aspirations for where that margin trajectory can go? Are your aspirations moving up based on what you're seeing? Just kind of curious how you kind of frame that up on a positive note.

And then, Matt, you've given us some building blocks for next year, which is super helpful. Is there a shape of the year, first half, back half, should one of those outpace the other in any kind of meaningful way as we kind of start to think about the model? Thanks.

Matt Puckett
Chief Financial Officer & Executive Vice President, VF Corp.
A

Yeah. Let me start with the second part of your question in terms of the shape of next year. I would suggest that just thinking – it's a little bit tricky probably because you got COVID impacting this year and you got supply disruptions, and you got timing of shipments and all that. But I would say, generally speaking, I would expect a little bit stronger growth in half one and then moderating probably in half two as the business has normalized a lot more in this year's half two. So I think it'll be relatively consistent, but maybe a little bit stronger in the first half of the year, overall, is probably the way I would term that.

In terms of TNF profitability, yeah, we're really happy there. I don't know if it's changed our long-term expectations or what we think the potential is here, which I would say is – we've said is sort of high teens in that range. I will tell you, this year, we're going to be north of 15%.

Ike Boruchow
Analyst, Wells Fargo Securities LLC
Q

Great. Thanks, Matt.

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

Jonathan Robert Komp
Analyst, Robert W. Baird & Co., Inc.
Q

Yeah. Hi. Thank you. Can I just ask a follow-up question on some of the margin levers for this year? It looks like you raised the operating margin target for this year, slightly, despite the lower gross margin. So can you just maybe a little more specifically talk about the SG&A levers? And then from the actions this year, anything that's sort of temporary versus structural and sustainable within some of those actions?

Matt Puckett
Chief Financial Officer & Executive Vice President, VF Corp.
A

Yeah. So great question. I think what we've seen – and first of all, I've said, and we've proven, that our model will drive SG&A leverage. And we've talked about all year the ability to do that, and our expectation we'd exit the year in that kind of position. And certainly, that's what we're doing. Nothing that, we're doing, I would say, are one-offs that are going to swing back and hit us in the face certainly next year. So I think that's probably important.

What are we doing? I think it's a sharp prioritization towards the most important strategic choices. We continue to invest in our digital transformation. We certainly make the investments that are necessary to continue to drive our direct-to-consumer business, which I think we're really pleased with that and from a penetration standpoint. Demand creation is actually up a little bit from a percent of revenue standpoint than where we were pre-COVID, and certainly in product and innovation. Steve's talked a lot about some of the innovations that are out there and coming.

We haven't talked a whole lot about it necessarily, but we launched our Enable program last year, which was $125 million kind of target over three years. And we're well on track. Sort of year and half into that, we're well on track in terms of generating those savings, which are really tied to efficiencies we work and beginning to ensure that we're transitioning all of our business functions to support this move toward a more direct-to-consumer business.

And then probably the last thing is just throughout COVID, we had to get really efficient. We had to get really smart. And I think we've learned some things there that are – will be with us moving forward. Sometimes iron sharpens iron, in a way, right? And we had to really be pretty aggressive and some of those things have created some learnings for us.

Maybe from a tactical standpoint, we're getting benefits from digital product creation. We've talked a lot about that from an investment. You think about reduced sample costs. You think about more meetings that you can do virtually versus always having to be together, prototypes, all those things, some savings there. Certainly through the pandemic, we've been more aggressive about closing underperforming brick-and-mortar doors that were a bit of a drag on profitability and certainly higher SG&A ratios. And we've offset that with much larger digital businesses.

Lease negotiations throughout the fleet, lease negotiations and in evaluating our overall footprint at a VF level, all those kinds of things, I would say, Jon, come into that. And we're really happy with what we've been able to get done. And most importantly, we're happy that we've been able to ensure that we're making the right investment against our brands and supporting the growth that we have today and what we expect moving forward.

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

Q

Yes. That's really helpful, Matt. Thank you. And then just one other follow-up on Vans, if I could. I think the Classics or heritage footwear business at peak was something above 70% of sales for the brand. Just wondering, as you work to get back the heat and build the Classics back, some of that peak, was that driven by a customer that you think you've lost, or do you think you can win them back? And then as you look at inventory across the channel, is there any headwinds or sort of pockets of excess that you're still working through? Thank you.

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

A

Yeah. Great. So I'll go ahead and grab that question. And I appreciate it. When a brand is hot and as hot as the brand was pre-COVID, you have new consumers coming in for sure. And those are consumers that you hope to be able to take from early purchasers to loyal consumers. But in reality, that's not always the case. And I think the proof here for us as we look to reignite Classics and the icon management approach that has really been the discipline that Vans has utilized over the years is to stay very focused on the flow of the core Classics, how we complement that with seasonal Classics but, more importantly, how we continue to innovate in the Progression area.

And I mentioned there's four new styles coming in this next year to land in that back-to-school area. And some of those sit right squarely in those Ultra categories, MTE, but one will also be more pointed towards Classics. Our job is to innovate and give consumers new reasons to purchase.

The Vans Family growth, up over 50% this year, I think, is a proof of over 20 million individuals now part of the Vans Family. They have a higher frequency, higher AOV and are just a much loyal consumer. And the work that's going on with the 52-week drop program is to really speak to them, provide them access and visibility to what's coming, and give them kind of first shot at being able to consume these new styles. And we've seen really strong success with early reads of the 52-week drop.

So to your question, yes, there are some of those consumers that we don't see today, but we continue to see a lot of new consumers come in and become part of that Vans Family loyalty program.

Matt Puckett
Chief Financial Officer & Executive Vice President, VF Corp.

A

In terms of inventory, and I think probably specific to Vans was your question there, no, no real big issues there. I mean, in fact, there's still places where we're pretty lean, especially in Europe and the US. I mean you can imagine we're probably a little bit higher than where we'd like to be in China, given what we've seen there, pretty precipitous change in the trajectory of that business over the last couple of quarters, but nothing that's not manageable.

And I will say our supply chain teams have done a terrific job of actually repositioning some inventory and rerouting things, so to speak, from a future production standpoint to get more inventory to the Western world and – as we rebalance things. So overall, we're comfortable with where we are from an inventory standpoint, both within Vans and then globally with probably the idea that we could probably use a little more in TNF and Timberland, in particular, in the US.

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

Q

Great. Thank you very much.

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

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

Great. Well, thank you, everybody, for joining us today. I'm very pleased with the robust and broad-based results we delivered here in Q3. These results really position us for an even stronger fiscal 2022 outlook than we started the year with. Today, our business is more agile, more diversified than ever, and our teams have demonstrated the passion and commitment and adaptability that's gotten us here.

I'm confident in our near long-term future. We'll continue to invest in driving long-term profitable growth to generate those elevated returns for our shareholders. So again, thank you for joining us, and we look forward to speaking to you again at the end of the year.

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