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**VF Corp.** (VFC)

Q3 2024 Earnings Call

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**Bracken P. Darrell**

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

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Greetings and welcome to the VF Corporation Third Quarter 2024 Earnings Call. At this time all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

It's now my pleasure to introduce your host, Allegra Perry, Vice President of Investor Relations. Thank you, you may begin.

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### Allegra Perry

*Vice President of Investor Relations, VF Corp.*

Good Afternoon and welcome to VF Corporation's Third Quarter Fiscal 2024 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've defined in the press release that was issued this afternoon and which we use as lead numbers in our discussion because we believe they more accurately represent the true operational performance and underlying results of our business.

You may also hear us refer to reported amount, 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.

Joining me on the call will be VF's President and Chief Executive Officer, Bracken Darrell, and Executive Vice President and Chief Financial Officer, Matt Puckett. Following our prepared marks, we'll open the call for questions.

I'll now hand it over to Bracken.

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### Bracken P. Darrell

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

Hello, everyone. Thanks for joining us. It's nice to be here with you for my second earnings call with VF six months now.

Before I get started, I'd like to let you know about an important development within our leadership team. Matt Puckett who is sitting right next to me will be stepping down as our CFO later this year. He and I agreed that it's time to make a change as part of the overall transformation efforts we're introducing across the company. Matt will stay on until we appoint his successor to help ensure a smooth transition. I want to thank Matt his tenure at VF spans almost 23 years with roles across the organization and around the world.

Since my arrival last July, Matt has been a valuable member of the team and an important player in helping to advance our transformation agenda. I really appreciate his contributions and his continued

service to VF during the transition. He's always just a great person and we'll miss him. But not just yet, he'll be here for a while.

Moving back to the quarter or back to today's order of business, first I'll review the quarter, then I'll update you on our four-year term priorities we described in last year's call, which we call Reinvent. I'll then talk briefly about our newly announced strategic portfolio review and then I'll hand it over to Matt to cover the financials a little more deeply.

Q3 was a particularly disappointing quarter with total revenue down 17% compared to down just 4% last quarter, where the results did benefit from timing shift and deliveries. Results were challenged across our brands, including The North Face and the rest of the outdoor brands. The big delta came down to five things. Number one, unseasonably warm weather most of the quarter. The average temperature was 3-4 degrees higher than average in the northern hemisphere. And number two, a difficult compare given the operational challenges we faced last year. As a reminder, last year we were late with deliveries leading to revenues that would have been recorded in the second quarter coming in the third quarter. We corrected these operational issues this

Year, which led to a tougher compare.

Number three, continued Americas underperformance. This was the last quarter operating without an Americas regional platform and we expect these changes to result in improved Americas results over time. Number four, we also made our results this quarter a little worse by cleaning up Vans as we reset our channels. And finally, number five, there was some impact to the cyber incident as we closed the quarter.

These are disappointing numbers across the board, and we're acting with urgency to improve performance so that we do not report another quarter like this.

We expected a weaker quarter for The North Face, but results were worse than our expectations, impacted largely by the Americas region, while international performance remained strong. Of course, the weather was a factor as temperatures were substantially warmer than normal throughout the quarter. Of note, in January, the weather got cold and The North Face returned to growth across all three regions. We believe our performance is strongly held back by the operating model that we're now transitioning away from.

Let's talk a little bit about the Americas. We now have our new commercial organization in Americas platform in place, and are confident this will translate to improved result for the brand and across the rest of our brands. At Vans, the decline looked like it did last quarter by the numbers. Underneath there is a lot changing. I've been spending more than half my time with our team, reviewing strategies, new products, and marketing plans. Product and marketing are obviously every brand's foundation. Brand turnarounds have certain features, three of them are clear brand purpose, a product plan that will eventually result in growth and marketing that we use them together.

If you look at the history of every great brand, the founder creates a trademark and launches his products under it. As truly strong brands move through time, ownership evolves and almost becomes shared. The best brands learn to share and pay respect to their most important customers, those who are the most influential. While customers don't create products in marketing campaigns usually, they are the ones who drive the success through their ownership and advocacy.

During the periods from 2015 to 2020, the brand really took off. It got energized and accepted by new groups, thanks to cultural trend makers. More celebrities started to wear them. Moms bought them for their kids, and we

actually took our eye off to the core youth audience that had been the life blood of Vans. The brand had to evolve, but rather than continue to respect and serve the youth audience that had built the brand, we only fed the trend that grew it rapidly. We largely withdrew marketing to the core youth, and instead focused on everyone else. We extended our lineup to lower price points in value stores and we offered more and more color waves of the same old things to pour more fuel into a fire built on a trend. The trend fuel burned out 18 months ago. The trend moved on. When a brand loses its way, the answer starts at its foundation, its purpose and target audience.

So now I'll whet your appetite with my opinion about where we are. We have created a package of a deeply rooted brand purpose, clear segmentation, 18-month marketing plan and a solid product roadmap. This package is in place. We have a map back to growth for Vans. I'm not ready yet to commit to when the brand will return to growth, but it will.

In the meantime, let me talk about a few dynamics we're starting to see emerge. First, we continue to see a strong performance from newer things in the Vans product portfolio, which are becoming a larger share of our business. The Knu Skool, for example, is still small but it's growing well, especially among young girls in the US. I'm not pointing that style or suggest it's the turnaround shoe. There won't be a single one as you will see. We will have a cascade of new products over the next several years, but I am encouraged by how this style is resonating with the very cohort we've lost over recent years. We're resetting the marketplace in Q3 and Q4, changing our marketing and beginning to launch relevant new products in the coming seasons. I'm energized by the progress of Vans including with the search for a new brand president. There's more to come.

Timberland also sagged under the weight of the warm high season weather and underperformance in the Americas. Importantly, our global DTC business was only down mid-single digits in the quarter despite the weather. The important news this quarter was my announcement of Nina Flood as the new Global Brand President. She's a second strong internal VF leader I've promoted within my leadership team. The first being Martino who runs the Global Commercial Organization.

Nida brings extensive experience across general management, brand marketing and strategy with a 20-year career at VF spanning multiple leadership positions, I've been impressed by Nida since the first time I met her six months ago in Stabio.

In early Q4, you might have seen the brand's Louis Vuitton Timberland collaboration created enormous buzz at Paris Fashion Week, and I'm excited about the brand's potential. More to come on that in future calls.

To round out our highlights, VF continues to be recognized for our sustainability leadership by MSCI, where as of December 2023, we carried the top rating available for companies for the first time. In fact, we are the highest ranked in our industry.

I am immensely proud of our ongoing commitment to sustainability, and it shows what we're capable of in this business across all parts of it when focused and vested. I am keenly aware that sustainability performance without company performance is not satisfying. To me it's not just a good thing to do, but it's an example of what we're capable of in every part of our business. Now we have to work to get our company performance to match that.

Now let me update you briefly on Reinvent, which prioritizes aggressively four key areas we introduced last quarter which are, first, fix the US; second, deliver the Vans turnaround; three, lower our cost base; and four, strengthen our balance sheet.

As part of the recently established global commercial structure led by Martino, the Americas regional platform is taking shape. Every day this platform improves and changes have already resulted in giving management greater transparency on the business. But it will take time to bring it up to the standard we have around the world. EMEA and APAC have consistently outperformed our US business, and Martino has employed the same key processes to the US platform, including the areas of key account management, go-to-market market execution, merchandise planning and forecasting. The overall discipline of one approach has been sorely missed in the US. The Americas team is expected to be fully in place and operational as we begin the next fiscal year.

I discussed the Vans turnaround already. I'll just reiterate a few things. Along with the work we're doing on brand purpose, product innovation and marketing, we're resetting the marketplace to accelerate our progress now. This marketplace cleanup will integrate with products and marketing spun from the same story lines. And that is a new approach relative to the past few years. I am excited about what's ahead.

On cost, we're on track to deliver the \$300 million fixed cost savings target, which is entirely within our control. This quarter we began to simplify and right-size the company's structure, real estate and others, non-strategic areas. Matt will talk you through some of the numbers here. There is more to do, but we're making very good progress.

Reducing debt and strengthening the balance sheet remains a top priority, and during the quarter we benefited from the reduction of inventories and the recent reduction of the dividend. We're already reducing the net debt substantially this quarter versus last year. That's before we sell any assets. We've also identified non-core physical assets which will be monetized in the coming quarters. And we're activating a plan to pay down our next two rounds of debt without refinancing.

As of the next phase of our transformation plan, today we announced a strategic review of our brand portfolio in alignment with the board of directors. This is the next natural step in our turnaround plan as we continue to execute on Reinvent. VF has a long history of growth and value creation through evolution of our portfolio. We're objectively assessing what fits and what doesn't as we look to reshape our business toward the greatest opportunities for near and long-term profitable growth and value creation.

Looking ahead to the rest of the fiscal year, as we continue to implement actions and make instrumental changes across our business, we remain focused and committed to achieving our cash flow objective for fiscal 2024. We eliminated revenue and profit guidance for now, but we're committed to cash flow, and we're on track to deliver it.

Now let me briefly address the cyber incident we experienced in December. It obviously impacted us, but it could have been much worse. I'm super impressed by the quality of work done by our teams across the company. Rarely have I seen a company rally so quickly and so effectively to a cause. Great preparation beforehand, leadership and teamwork during and meticulous follow-through mitigated the impact. I don't think it could have been handled much better, and I'm really proud of the team. We've instituted a range of additional control to de-risk the potential for any future incidents.

Now I want to summarize what I see VF becoming over the next several years. We're leveraging our strengths, world-class brands, and great people, while taking action to make VF leaner, faster and stronger through proactive measures. As I outlined last quarter, this will take time, but we're making progress quickly and building what we laid out just a few months ago. The ultimate outcome will be a leaner, more cohesive set of brands, relentlessly focused on the consumer. And we'll deliver industry-leading innovation in products and marketing, enabled by much more efficient operations.

Design, or perhaps a better word for it in this industry for now, innovation, will be at the center of our transformation agenda. Our commercial operations will run efficiently and effectively across all three regions. Each brand will have powerful capabilities to build innovative products consumers are hungry for with powerful marketing to tell their story.

With that I'll now hand this over to Matt to talk you through the financials.

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## Matthew H. Puckett

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

Thank you, Bracken. Before I get into the financial update, let me take a minute to reflect on my time at VF. I've lived and loved VF for over two decades, and my time with this great company has provided me with many enriching and fulfilling experiences across our business and across the world. I'm thankful for those many opportunities and, more importantly, for the great friendships and relationships that have come from it. However, there always comes a time for change, and Bracken and I are aligned on this being the right time. Though I'll be stepping down in the coming months, in the interim I remain committed to helping pursue the transformation agenda, leading the finance organization and supporting the transition.

Now turning to the quarter, throughout Q3, we remained highly focused on strengthening both our business fundamentals and our balance sheet. At the same time, we are advancing our transformation program, Reinvent, with a sense of urgency and resolve to execute against and identify new and additional opportunities to reshape and improve VF.

Now I'll start with the review of the quarter, then provide an update on Reinvent and finish off with some thoughts on the year-to-go period. Total revenue was down 17% for the quarter, as both global Vans and the Americas results remain pressured as expected. On the global basis, wholesale led the decline with down 28% while DTC was down 9%. Excluding Vans, DTC was down 3%.

Before going into a review of the regions and brands, I'll spend a few minutes outlining some items which impacted the quarter. First, Q3 was impacted by the expected timing-related shifts in wholesale, where on-time deliveries this year benefited Q2 while impacting Q3 relative to the prior year period. This had an overall impact of about 2.5 points on total revenue in the quarter and 5.5% across the global wholesale revenue.

Second, as Bracken mentioned earlier, we took proactive measures to accelerate the Vans turnaround by introducing several reset actions at the brand in Q3, which impacted total VF revenue about 1.5% in the quarter and may have a further impact into Q4. These actions are largely focused on ensuring we have a clean marketplace with the right level of healthy inventory into which we can more effectively introduce upcoming newness while positioning our partners and Vans for overall better sell-through and profitability, as well as delivering a more compelling brand presentation to consumers.

Finally, results were impacted by the cybersecurity incident in December, which briefly disrupted our ability to fulfill orders over the preholiday period. We estimate the overall impact to Q3 revenue was less than 2%. From an EPS standpoint, the estimated impact was approximately \$0.04 to \$0.05 on the quarter. This does not include any potential recovery from cyber insurance. I'd like to take this opportunity to commend and thank our teams, particularly those in digital and technology who worked tirelessly through the holidays for the truly amazing effort that allowed us to quickly recover and return to servicing consumers and customers.

Moving to the operating review by region, Americas was down 25% in the quarter. As anticipated, we saw the most pressure in wholesale, which was down 35%. DTC down 16%, reflected softer sell-throughs throughout the

holidays, particularly outside of promotional windows, in addition to weaker sell-through on cold weather and seasonal products particularly in the outdoor segment. EMEA was down 12%. Excluding impact from the wholesale shipment timing, the decline would have been about 7%. We are seeing slowing consumer confidence and greater caution continuing in the wholesale channel.

DTC was down 1%, but up slightly excluding Vans with The North Face up mid-single digits. Like the Americas, we also experienced a more challenged sell-through on cold weather seasonal products across Europe. The APAC region continues its growth path and was up 3% in Q3. Aside from Vans and Dickies, all of our brands that operate in the region were growing, led again by strength in The North Face. Also to note, VF revenue was up to 7% in Greater China.

Turning to the performance by brand, The North Face revenue was down 11% in the quarter. Excluding the wholesale shipment timing shift, The North Face revenue would have been down mid-single digits. The Americas region results were challenged and our performance fell short of our expectations. After a slow start to the fall/winter season, momentum remained subdued and performance was choppy throughout the quarter. While our core, best-selling lines continued to deliver strong sell-through, we saw softness in cold weather items and some seasonal product offerings.

The brand remained relatively stronger in international markets. In APAC, momentum continued in the quarter with the brand growing 28% in the region and more than 30% in Greater China. In EMEA, Q3 was down 5%, however, DTC growth continued in the region and was up 6% this quarter. Overall, in EMEA, when looking across Q2 and Q3 combined to neutralize the impact of shipment timing across the quarters, the brand was up high single-digits within the region.

Vans Q3 revenue was down 29% and down across all three regions, broadly in line with half one when accounting to the intentional reset actions we took in the quarter to clean up the marketplace and reposition our wholesale channel. These negatively impacted global revenue by about 5 points in Q3 and may have a further impact in Q4 as we complete the work.

Timberland was down 22%, driven largely by the Americas region, where channel inventory and retailer caution remained a headwind. And specific to the brand's assortment, boots and other seasonal product have been challenged this season. Internationally, the business performed relatively better, highlighted by low single-digit growth in APAC.

Dickies results continued to be pressured with revenue down 17% in the quarter. Americas again experienced declines with softer sell-out trends in the core work business and specifically in the value-oriented distribution. International markets were impacted by the results in Europe, which were down as a result of wholesale timing shifts into Q2. However, the underlying business continues to be good and the APAC market continued its reset.

Supreme soft positive momentum from last quarter continued with broad-based growth across regions and benefited from entry into Korea with the ongoing strong performance in the new store in this market that opened in August. Overall strong sell-through across product categories led to improving profitability.

Now moving down the P&L. Q3 gross margin expanded by 40 basis points to 55.3% as tailwinds from channel and regional mix more than offset the impact of negative foreign currency transaction. Overall, promotions were about flat versus last year, reflecting the continued elevated levels of promotional activity across our markets, our ongoing efforts to reduce inventory, in particular, leveraging our own outlets, as well as the impact of the Vans marketplace reset actions.



SG&A was down 5% in constant dollars during the quarter from lower distribution, administrative and marketing costs, offset partly by higher digital and technology spending. However, the larger revenue decline this quarter drove significant SG&A deleverage of 590 basis points. This more than offset the gross margin expansion, leading to an operating margin contraction of 560 basis points, which underlines the urgency we have introducing fixed costs. Diluted earnings per share of \$0.57 reflects the lower volume and operating margin, along with higher interest expense, all of which was partially offset by a lower tax rate in the quarter.

Despite the difficult operating performance, we made progress on our number one financial priority to reduce debt and leverage. In Q3, we delivered an approximate \$640 million reduction in net debt relative to last year. This better-than-planned result was largely attributable to lower working capital and strong execution by our teams to maximize free cash flow. As a result, we achieved a larger-than-anticipated reduction in inventories, sequentially down over \$330 million relative to Q2 and down over \$440 million, or 17%, at the end of the quarter relative to the prior year. Our ability to meet near-term inventory objectives reflects the agility in the supply chain, a return to more effective sales and operations planning and improved collaboration across the business.

Liquidity at the end of the quarter stood at \$2.8 billion and net debt was \$5.2 billion, down from \$5.9 billion in the prior year. In the third quarter, the company initiated an in-depth strategic review of all brand assets within the portfolio to ensure we are focused on our greatest long-term value creating opportunities. We'll provide further updates when appropriate.

Now moving on to Reinvent, where I want to expand on Bracken's update. First, we made progress at executing our cost savings program as we work towards our gross target of \$300 million. The actions we've taken on Reinvent around streamlining the organization and optimizing our call structure have begun to bear fruit. In fiscal Q3, we booked approximately \$50 million in charges of which about \$20 million were non-cash. These charges are included in our reported results but excluded from adjusted operating earnings and earnings per share that I just reviewed. The turnaround work remains in progress at Vans. During the quarter we took actions to reset the wholesale channel to ensure the brand's market positioning product assortments are aligned with the brand direction. The impact on revenue in the quarter was approximately \$50 million.

As part of our priority to reduce debt and leverage, we continued to work hard to right-size our inventories. We expect a further reduction in inventories in Q4 across the broader portfolio. In addition to the cash generated from lower inventories and the previous reduction in the dividend, we have also continued an effort we began last year to monetize non-core physical assets across several areas. Notably, this work now includes the closure of the corporate aviation program. We've begun the marketing process and expect to dispose of these assets over the next few quarters. To the extent the strategic review process results in the divestment of any brands, this would also support this objective.

In summary, we're encouraged by the progress we're making on Reinvent. We have a lot more to accomplish, the impact of which will be increasingly visible in the coming quarters. Finally, let me bring you back to the near term with some thoughts on the year-to-go period. Our outlook on free cash flow for fiscal 2024 is unchanged, and we expect to deliver about \$600 million for the year. This is supported by the work we continue to do to reduce inventories, which we now expect to be down at least 10% at year-end, reflecting the additional progress we've made and compared to previous guidance of down mid- to high-single digits.

We anticipate liquidity to be approximately \$2.3 billion at year-end. And we continue to expect the second half gross margin for fiscal 2024 to be up relative to last year. While we're not providing any additional guidance today on fiscal 2024 or fiscal 2025, we expect impacts from the following areas for the next several quarters.

Vans turnaround actions as we take the steps necessary to reposition and reset the brand. Continued caution from wholesalers in our key markets, translating to softer future order books globally, but with the greatest impact in the Americas. The North Face wholesale channel, particularly in the US, will remain challenged. And finally, a choppy Americas and European macro environment.

With respect to Reinvent and the actions underway, we expect actual gross savings within fiscal 2024 to be at least \$60 million, the majority of which is within SG&A. And we continue to be on track to deliver the \$300 million in annualized gross savings with the vast majority of the savings in place on a forward run rate basis by the middle of next fiscal year. But keep in mind, in fiscal 2025, while we will benefit from the incremental impact from Reinvent actions year-over-year, we will face headwinds from an expected increase in incentive compensation and a more normalized amount of inflation.

Looking at all this from a cash perspective, we continue to anticipate the cash cost associated with Reinvent actions to be largely offset by net proceeds from the sale of non-core physical assets that I referenced earlier in my comments. This will play out over the next several quarters.

Finally, in closing, while our financial results in Q3 were challenged I am pleased that we were able to expand gross margin, reduce inventories and generate strong cash flow. And importantly, we are reiterating our fiscal 2024 cash flow guidance despite the continued challenged earning results. The actions we are implementing as part of Reinvent are substantial. We have moved from planning to execution across many initiatives, including our cost savings program, restructuring actions and operational improvements.

In addition, we've initiated a strategic review of the portfolio, designed to ensure the brands within VF are aligned to both our strategic and financial objectives. While the impacts are not visible in our financial results yet, I'm confident these actions will reset the business and enable us to stabilize and then grow revenue, improve profitability, and reduce debt and leverage, positioning VF to deliver shareholder value creation.

With that, we will now take your questions.

## QUESTION AND ANSWER SECTION

**Operator:** Thank you. We will now be conducting a question-and-answer session. [Operator Instructions] Our first question comes from the line of Michael Binetti with Evercore. Please proceed with your question.

**Bracken P. Darrell**

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

Hi, Michael.

[indiscernible] (00:27:59)

**Michael Binetti**

*Analyst, Evercore Group LLC*

Hey, guys. Thanks for taking our question. And Matt, wish you well on your next venture. It's been a pleasure talking with you over the years here. I guess, Bracken, I guess the big question on our mind here is what – maybe you can walk us through some of the filters you're looking at as you focus on which of the brands make sense in this portfolio in the strategic review.

And then I guess, I'm curious, Matt, maybe you could walk us just a little bit more through the puts and takes on gross margins. If there's any numbers you could offer, especially with the comment that promos are in line to last year just looking at the revenues and the commentary on Vans, in particular, you guys seem to be really pushing hard to get through a lot of inventory. It wasn't intuitive to us the grosses would be positive in the quarter. So maybe just a little help understanding the puts and takes there.

**Bracken P. Darrell**

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

Okay. I'll go really quickly, Michael. So, first of all, the number one thing is being in a good market, I think. So, first, I think I said this on the last call, I love businesses that sit in growing markets. I also love businesses that are leaders within their markets. And then a third filter would be really do we add value to the business within that market. So, I think those are the three primary filters we'll put on this and are putting on this, and we'll have a lot more to update over time.

**Matthew H. Puckett**

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

Hey, Michael. Thank you. Great to speak with you today. I'm not going to give exact numbers, but I'll tell you the primary drivers on the margin line. Positives were mix and it is a bit larger than what we would normally see considering the mix of the business, particularly associated with the big decline that we saw in wholesale and the relative strength in international markets, and primarily in the APAC region. So, mix is a bit bigger number. Freight continues to be a real favorable number for us and a really modest benefit from price.

Big offset is FX. FX is almost offsetting that mix benefit, so that's probably the single biggest drag is FX. This will be the worst quarter for us from an FX transaction standpoint that we'll see. A bit higher inventory reserves, modestly higher product cost, promotions about flat really – part of your question was there. I think there's a couple things to remember there. We've made a lot of progress across the last 12 months in reducing inventories. We continue to be aggressive about doing that. But we're in a better place than we have been.

So, while we continue to see a lot of promotional activity in the marketplace, particularly with our wholesale accounts, to some degree particularly in the Americas, we're a little cleaner in our DTC channels. We're moving a lot of inventory through our outlets. But if you kind of pull up and look at our margins this quarter, our DTC full price channels, really across the board including in Vans, were a bit better, full price stores and our online business. And so that's what we're seeing, the business start to get healthier more quickly is in our own channels.

**Michael Binetti**

*Analyst, Evercore Group LLC*

Q

Okay. Thanks for all the help.

**Bracken P. Darrell**

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

A

Thanks, Michael.

**Operator:** Our next question comes from the line of Brooke Roach with Goldman Sachs. Please proceed with your question.

**Bracken P. Darrell**

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

A

Hi, Brooke.

**Brooke Roach**

*Analyst, Goldman Sachs & Co. LLC*

Q

Hi. Good afternoon. Thank you so much for taking our question.

**Bracken P. Darrell**

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

A

Thank you.

**Brooke Roach**

*Analyst, Goldman Sachs & Co. LLC*

Q

And, Matt, good luck to you as well. I was hoping you could expand on The North Face and the results that you saw in the quarter as well as your outlook for TNF wholesale in the US to remain challenged. Can you talk to your view of maybe the impacts from underlying macro and weather that we've seen this quarter and what we might see in US wholesale for the next couple of quarters versus the underlying growth opportunity of that brand in calendar 2024 and longer term?

**Bracken P. Darrell**

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

A

Yeah. I think Matt and I will split this. I'll give you a view of the underlying growth opportunity. I continue to be super excited about The North Face. I think the brand is very strong. All indications are that the brand strength continues to be in place, and the activations that we're doing, the various marketplace activities we're doing are working. But underneath it, as you said, we've got a pretty tough marketplace, both in wholesale and the weather was, obviously, really tough. You want to answer that last part of the question on wholesale, Matt?

**Matthew H. Puckett**

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

A

Yeah. I think, Brooke, on wholesale, what we're seeing is we knew coming into the season it was going to be a little bit more difficult. Order books were down; we said that all along and part of that is our own issue from the last year where we didn't really service the business. So, we're kind of behind the 8-ball coming in and then weather didn't help. The marketplace remains pretty dynamic and pretty promotional, particularly in the outdoor segment. I think that's kind of what you see and what we see and understand across the market. And I think we're going to see that play out over the next couple of seasons as wholesale partners continue to plan very cautiously. We're seeing that and that's how we're thinking about planning our business.

All that said, the strength of the brand remains really good. All the metrics that we look at from a consumer standpoint continue to be good, our D2C business generally is good. When the weather has gotten better here in January, our D2C business is up in all three regions. In fact, the brand is up in all three regions, but particularly in D2C. So, I think the underlying drivers of opportunity and the underlying drivers of the business are really strong. The wholesale channel, particularly here in the US, is difficult in the near term, and we expect it to continue to be.

**Brooke Roach**

*Analyst, Goldman Sachs & Co. LLC*

Q

Great. Thanks so much.

**Bracken P. Darrell**

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

A

Thanks, Brooke.

**Operator:** Our next question comes from the line of Adrienne Yih with Barclays. Please proceed with your question.

**Bracken P. Darrell**

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

A

Hi, Adrienne.

**Adrienne Yih**

*Analyst, Barclays Capital, Inc.*

Q

Great. Thanks, for much. Hi, Bracken. Matt, thanks for all your help in the partnership over the years. It's been fantastic. So, thanks. Just wanted to put that out up-front.

**Matthew H. Puckett**

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

A

Thanks, Adrienne.

**Adrienne Yih**

*Analyst, Barclays Capital, Inc.*

Q

You're welcome. My question is going to be on the marketplace cleanup. How much of it was the shift into 2Q and how much of it is going to be an overhang as we go into fourth quarter? And I'm going to split it. So, Bracken, for you on that same question. We've seen marketplace actions, is it to get out of particular channels, to reduce

stores in accounts? We've seen sometimes where they go pretty deep and the brand visibility kind of goes away, et cetera. So, I'm just wondering where the push point is on that. And my last really quick one is, how are you going to be taking advantage of the skate moment at the Olympics? Thank you.

**Bracken P. Darrell**

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

A

On the Q2, Q3 – we'd say Q3-Q4, the reset is kind of equally distributed across both quarters and most of it is not exiting channels. That's not the reset we're talking about. It's really pulling inventory, unproductive inventory out of those channels so that the productive inventory can move the faster movers. There is a larger marketplace change that will happen in Europe and to some extent, the US. But that's going to happen more gradually. In terms of what we'll be doing at the Olympics, we're obviously not talking too much about it yet. We keep that close to our vest, but we do have some pretty interesting plans.

**Adrienne Yih**

*Analyst, Barclays Capital, Inc.*

Q

Fantastic. Best of luck.

**Bracken P. Darrell**

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

A

Thank you.

**Operator:** Thank you. Our next question comes from the line of Laurent Vasilescu with BNP Paribas. Please proceed with your question

**Bracken P. Darrell**

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

A

Hi, Laurent.

**Laurent Vasilescu**

*Analyst, Exane BNP Paribas*

Q

Hi Bracken. Good afternoon. Thanks very much for taking my question.

**Bracken P. Darrell**

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

A

Thank you.

**Laurent Vasilescu**

*Analyst, Exane BNP Paribas*

Q

And Matt, it's always been a pleasure over the years. I wanted to just ask about debt takedown. Bracken, I think you mentioned you're confident about not refinancing the \$1.75 billion that's coming due I think in December and the spring of 2025. Maybe can you just for the audience, can you just help us bridge through how do you get that from a free cash flow perspective? Any update on the PACS business?

And then – so Matt, you mentioned the non-core physical assets, there are some corporate aviation program that you might sell off. Are there any other assets, physical assets you might sell off? And if that's the case, could you potentially size that up so we can then model the cash flow over the next few quarters?

**Matthew H. Puckett**

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

A

Yeah, let me jump in and try to take that one. And great to speak with you. So, I'll start from the back, and the noncore physical assets which are largely related to the elimination of corporate aviation program, there's also a couple of buildings that are involved as well. It's a meaningful number. I wouldn't give you the exact number, but kind of north of \$50 million, and maybe pretty close to \$100 million in the end. So that's kind of what you're looking at, and that will likely play out over the last two to three quarters, I think we'll be able to get most of that done. So that's hopefully helpful there.

As it relates to the debt paydown, yes, our objective is to not refinance those two tranches of debt that are due this December and next April. To do that we obviously need to sell the PACS business and we're continuing to work toward that. We expanded or opened up the aperture from a marketing standpoint last quarter and that's been really good. We've got a number of parties who are highly interested and engaging through kind of a round of bids, and in the middle of pretty substantive due diligence as we speak. So, good progress there.

As it relates to the underlying business, we're going to generate reasonable amount of cash flow this year and we've kind of confirmed that \$600 million. I'd suggest that next year will be a bit stronger than that as we kind of normalize and continue to drive down inventories. We're going to make a lot of progress reducing inventories this year, but given where the business is from a topline perspective, we'd expect more opportunity next year. I've said before that cash flow next year could be kind of in line with where we started this year and I still think that's kind of a fair assessment.

**Laurent Vasilescu**

*Analyst, Exane BNP Paribas*

Q

Very helpful. Thank you, very much.

**Bracken P. Darrell**

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

A

Thanks, Laurent.

**Operator:** Our next question from the line of Matthew Boss with J.P. Morgan. Please proceed with your question.

**Bracken P. Darrell**

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

A

Hey, Matthew.

**Matthew R. Boss**

*Analyst, JPMorgan Securities LLC*

Q

So, Bracken, could you elaborate on your confidence in VF's future rising, the statement in the release?

**Bracken P. Darrell**

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

A

Sure.

**Matthew R. Boss**

*Analyst, JPMorgan Securities LLC*



Or maybe how best to gauge sequential signs of progress that you may be seeing under the surface, relative to the reported results? And then, Matt, I guess maybe what's the best way to think about the right structural gross margin multi-year for the business, and what portion of the \$300 million cost savings should we anticipate to fall to the bottom line?

**Bracken P. Darrell**

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



Yeah. I'll go quickly on your first question, Matthew. First, I have a lot better transparency on the business today than I did three months ago and certainly, six months ago. I have a better sense for where the business is going to land. I feel much more comfortable that I understand where the business is landing in the Americas in the near timeframe. Despite the terrible quarter we just had, I feel like I have better transparency, especially in the last couple of months than I've had since I've been here. I went through guidance earlier. Matt and I talked through it with the true guidance because of that lack of transparency, lack of clarity. So that's number one.

The second one is I feel just really, really good about the brands. The deeper I get into them, the better I feel. I was excited coming in, and the more I look into what's out there, what we're capable of and really what the fundamental consumer power of the brands is, I'm really excited about them, even the ones that some they probably won't be part of VF, I feel really good about.

The third one is the team. Since I've been here, I think we've promoted two very strong people within VF and there are lot more strong people within VF. In fact, we'll be promoting another one into a big job here shortly, which we haven't announced yet, so I can't. But we'll also be bringing in some other people from the outside. In fact, internally we are announcing one of those today that would be on my staff. So, we've just got a lot of really strong people on this team as much as I hate to see Matt leave, I think the team itself is very strong here, all – up and down. So, I'm very excited about it. And I guess the last part is the – Matthew, I think you were on our first earnings call where I said, I guess this feels a lot like my last company, what I went into at the beginning, it really does, and I feel about the same and about the same timeframe. Right?

You hate to see numbers like we have right now. I absolutely despise it, but I have – it's a bellwether and it intuitively feels – it gives me a stronger sense for where we're going. I feel, you don't know you're coming out of it until you bounce and we certainly aren't bouncing yet, but we will and I feel more confident about that than ever.

**Matthew H. Puckett**

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



Hey, Matt. In terms of gross margin, so I'm going to be careful here to not guide you to anything. But what I would say is, if you kind of step back and look at where we are and good to see our margins turn positive and that will continue, I think moving forward and as we think about Q4 and beyond. We're sitting today a couple of 100 basis points, maybe even a little bit more, below where we were just a couple of years ago, all attributable to promotional activity and higher inventories and inventory reserves, et cetera.

We're not assuming that that's going to snap back overnight, but we also expect that there's an opportunity there as we manage the business more effectively, as we have cleaner inventories and as we obviously benefit from a marketplace that presumably over time will get better. So, I think gross margin expansion opportunities are there.



Aside from the promotional scenario, which can play out over time, if I just look at the nearer term, right over the next several quarters, mix will continue to be a good guy. We think about channel mix, we think about geographic mix, inflation is, which has been pretty significant this year, is waning. In fact, we see that waning here even in Q4, won't be as big of an issue next year notwithstanding the current issue that we're dealing with relative to the cost of freight and what's going on in the Suez Canal that could dent that a little bit, and that could be not an immaterial number. But overall inflation in the near term is a lot more manageable. FX will be less of a headwind. And there's a little bit of benefit, not significant most of the Reinvent benefit sits in SG&A, but a little bit of benefit in gross margin.

So there's more, I think good guys than bad guys in front of us, but the big lever for us and for our businesses over the course of the next several quarters and really the next couple of years is, how do we just get healthier and how do we sell more at full price and drive down promotions, I think that will be really critical.

As it relates to the second question, I think on Reinvent and we've said we plan to reinvest 25% to 35% of the savings across time, particularly in product and marketing.

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**Bracken P. Darrell**

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

A

Everything covered, Matthew?

[indiscernible] (00:42:57)

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**Operator:** Thank you. Our next question comes from the line of Bob Drbul with Guggenheim. Please proceed with your question.

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**Bracken P. Darrell**

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

A

Hi, Bob.

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**Robert Drbul**

*Analyst, Guggenheim Securities LLC*

Q

Hi, Bracken. Just got a couple of quick questions. And first on Vans, is there anything more you can share with us on your 18-month plan just around, I don't know, marketing, are you planning to bring the Warped Tour back, pricing within the brand, anything along those lines would be helpful. And second question is just around inventories. With the inventories down, I think was its 17%, are there any pockets by brand geographically that you're concerned about, either both in your business or at the wholesale level? Thanks.

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**Bracken P. Darrell**

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

A

Thanks, Bob. I'm going to let Matt take the second question, but I'll take the first one. I'm not ready to be too specific on that yet, probably because I know that I've got a new brand president coming in, so we'll have latitude to make some changes. But what I would say is, we've got a great, I think a strong kind of very punctuated plan that combines, that integrates the marketing insights and then the marketing programs with the new products we're launching. And I've been through both sides of that equation, the two of them together two or three times now and I'm still not done. But I feel good about it, very good about it.

We do not have plans to bring back the Warped Tour, although that certainly crossed our mind and we're talking about it a little bit. The Warped Tour was a really powerful thing, but it took time to grow and would take quite a bit of time to rebuild. I think the objective though is making sure that we're really deeply in the hearts and minds of that youth audiences, is mission critical for us.

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**Matthew H. Puckett**

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

A

Hey, Bob. So, on inventory couple of things. I will give you one number here that maybe it's really useful. [indiscernible] (00:44:39) 17%, Vans is actually down almost 30%. So Vans is in a really good place, I think, relative to where we sit from a topline and the reset actions. And the Vans marketplace, with the actions we're taking, is by and large going to be about where we would like it to be as we get toward the end of the fiscal year. Maybe just modestly higher from a weeks of supply standpoint in the US, but pretty close. So, I think we feel pretty good there.

If you look at the overall average of 17%, Vans is on the higher side of that. Dickies is on the higher side in terms of reduction. The North Face is right on the number, and Timberland and all the Other Brands are lower. And Supreme is probably the only brand where the inventories are modestly higher, and obviously the business is performing well. So, I think overall, we feel pretty good about where we are.

If I say, if there's a pocket or two of inventory, it certainly coming out of the – in the Outdoor segment coming out of this fall, winter selling season, and I think probably particularly in the Timberland business here in the US, is something that we're taking a hard look at. But relatively speaking, Vans and The North Face in pretty good shape.

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**Robert Drbul**

*Analyst, Guggenheim Securities LLC*

Q

Thank you.

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**Bracken P. Darrell**

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

A

Thank you, Bob.

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**Operator:** Our next question comes from the line of Paul Lejuez with Citi. Please proceed with your question.

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**Bracken P. Darrell**

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

A

Hi, Paul.

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**Paul Lejuez**

*Analyst, Citigroup Global Markets, Inc.*

Q

Hey. Thanks, guys. You mentioned some of your wholesale partners are being cautious, I think, on their ordering. But curious where you're seeing sell-out performing better than sell-in. What brands, what regions? And how long do you see that dynamic lasting before sell-in and sell-out are more aligned? And then just a quick second question on the strategic review, is that all being done internally by you guys or you're using some outside consultants? Sorry if I missed it but just curious who's involved in that.

**Bracken P. Darrell**

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

A

Yeah. I'll take the last one, and I'll let Matthew take the first one. Yeah, the strategic review, it's an internal exercise. We get the advice of the people you would expect us to in that context. But we don't have a consultant or someone we're working with. We have a really strong team internally that's doing the analysis, and they're working with the board on that. We've got – with two different groups on the board who are really strong in this area. A lot of portfolio experience there. So that work has been going. So, I feel really good about it.

Do you want to answer the first question on...

[indiscernible] (00:47:03)

**Matthew H. Puckett**

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

A

Yeah. I think the most obvious place I would point you toward to where we sell-out or sell-through is better than the sell-in is in Europe. We're seeing that, I'd say generally across the board, maybe a little less so in Vans. But generally, across the board, the business is a little stronger I would suggest than maybe what the financial results imply. And I won't be surprised – [indiscernible] (00:47:26) surprised if that does continue for a little bit of time as wholesalers continue to be pretty cautious. But in Europe that's true.

Certainly, with Vans and the reset actions, there's a lot of noise in some of those numbers that distort the wholesale results for Vans as we do that. So, the sell-out is certainly a little bit better but not good, but it still continues to be in a place that we're not happy with.

[indiscernible] (00:47:48)

**Bracken P. Darrell**

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

A

Probably goes without saying, but Supreme sell-out continues to be very strong.

**Matthew H. Puckett**

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

A

Yeah. The other thing I'd say about Europe is inventories in the marketplace across the board are really well-positioned. US, there's a couple of pockets as I said earlier, I think particularly Timberland where we're probably a little bit higher than we would like to be. But Europe is in a good place from an inventory standpoint, as is Asia, by the way.

**Paul Lejuez**

*Analyst, Citigroup Global Markets, Inc.*

Q

Got it. Thanks, guys. Good luck.

**Bracken P. Darrell**

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

A

Thank you, Paul.

**Operator:** Our next question comes from the line of Jim Duffy with Stifel. Please proceed with your question.

**Bracken P. Darrell**

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

Hi, Jim.

A

**James Duffy**

*Analyst, Stifel, Nicolaus & Co., Inc.*

Thank you. Hello, everyone. Thank you for taking my question.

Q

**Bracken P. Darrell**

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

Thank you.

A

**James Duffy**

*Analyst, Stifel, Nicolaus & Co., Inc.*

Bracken, I want to dig in on the portfolio review.

Q

**Bracken P. Darrell**

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

Sure.

A

**James Duffy**

*Analyst, Stifel, Nicolaus & Co., Inc.*

Your message last quarter was no sacred cows, the board is aligned, et cetera. The announcement of a portfolio review doesn't seem like new news. Can you give us a sense of where you are in the process? Have banks been appointed to shop brands deemed unstrategic? And then when I think about the criteria you've outlined, growing market leaders in the markets, it seems kind of a short list of brands that fit. Am I correct to interpret that that suggests a large-scale realignment of the portfolio as possible?

Q

**Bracken P. Darrell**

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

I wouldn't go that far, but I would say you're right that we've been working on this for longer than we've been talking about it. That's kind of the – I will try do that regularly, so that we don't just come out with things that aren't really pretty well along. So, we are well along the way on this portfolio review, well, we haven't hired bankers beyond the discussion that you know of. We're certainly downstream on discussions on exactly what we do from a portfolio standpoint. And I don't have more to say about that now, but you'll hear more as it comes.

A

**James Duffy**

*Analyst, Stifel, Nicolaus & Co., Inc.*

Okay. And then maybe just a question on the mechanics of the Vans realignment. Can you help us maybe better understand what that means? What were the specific tactics to try to clean up inventory in the channel? If you could explain more that'd be helpful. And then I'm curious, like in that context, how did you miss on sales but over-deliver on the inventory?

Q

**Bracken P. Darrell**

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

A

Yeah, let me try to answer that one, then Matt can also help. It's essentially tapping in two steps. The first one was this quarter, the last quarter, the second one will be in the next quarter. And what we're really doing is pulling kind of the icons that are not selling. That inventory is too high in the channel, so we're pulling that back out or they're returning it, and then we're opening up or basically to open to buy for the product that is selling. So, it's really just cleaning out the channel.

You want to add anything to that, Matt?

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**Matthew H. Puckett**

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

A

And then, Jim, you're right, there's a little bit of an inventory impact when you bring back returns or accrue for returns in this case. It's I think in most cases the product is still kind of flowing and the work is happening, but you're accruing for returns which has an inventory implication in that entry. So that's in the number.

I think overall we've just been able to aggressively sell-through excess inventories, again in our own outlet stores in particular, as well as leveraging, in some cases, the off-price channel that's in the wholesale space and working aggressively to pull back on buys, which we've said all along, we're working to do and probably been a little bit conservative in some of our planning in terms of how that may ultimately play out so a little bit of favorability there as well.

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**James Duffy**

*Analyst, Stifel, Nicolaus & Co., Inc.*

Q

Understood. Thank you.

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**Bracken P. Darrell**

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

A

Yeah, I'll give you an example of the impact it's had. Over the holidays, I had several people tell me they couldn't buy Knu Skool product because it wasn't available in their sizes yet, that the inventory was overstocked inside the channel. This before we started doing this reset. So, this should clean that up.

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**Operator:** Our next question comes from the line of Jay Sole with UBS. Please proceed with your question.

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**Bracken P. Darrell**

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

A

Hi, Jay.

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**Jay Sole**

*Analyst, UBS Securities LLC*

Q

Hi, Bracken. Thanks so much for taking my question. Matt, thank you for all the help. Two questions. The first question is, Bracken, you talked about promoting two people and you're resetting the teams, how far are you along from having like the team is really – the go-forward team really fully set? In other words, like how many more months or quarters do you expect them to be working on this before you decide, okay, the team is in place, now it's about executing?

And then maybe for Matt, on the free cash flow patterns, it sounds like probably some little bit less net income than you expected before, but more from inventory and it sounds like there are some other asset sales that are

impacted. And if you could just sort of give us like the pieces in qualitative terms just to help us do a little math on how the free cash flow guide is the same, that'd be helpful. Thank you.

**Bracken P. Darrell**

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

A

That's a hard question to answer. I would say, we've made a lot of changes already. So, our team has evolved forward quite a bit. The structure of the company now has changed quite a bit, our operating model, all those things are rolling aggressively forward. And as we enter Q4, especially as we move into the beginning of next fiscal year, I think it will be very far along in terms of having an organization that I think is really poised to win in this turnaround. So, I'd say we're pretty far along, Jay, and I'm excited about it. I really feel like we have a team that is here to win. And I think you roll forward a couple of months, and we'll be there.

**Matthew H. Puckett**

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

A

Yeah, Jay, I think how you described it is probably fair, a little bit tougher this quarter than what we anticipated. We talked about that relative to the outdoor segment from a revenue standpoint. But better on the inventory line. I think there's a lot in free cash flow though, right? And when you look at the year-to-go period, the biggest levers are on the balance sheet, not on the P&L, right?

And as you think about not only inventory, but accounts receivable, all the liabilities, et cetera, CapEx, honestly the sales of assets, I wouldn't suggest that's free cash flow necessarily. We're not counting it that way, kind of below that line so that's not really in the number. But we're still in line for the \$600 million. A few puts and takes, but we're really encouraged by the inventory I think particularly. Great to see where we are at the end of the third quarter ahead of schedule

**Bracken P. Darrell**

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

A

If I could just go back to your first question, Jay, and maybe use the question to make a comment about how fast we're moving on the org side. Since I've been here, we have a new head of people, so CHRO, new head of commercial, which is an internal promotion. We'll have a new head of design by the beginning of the next fiscal year that's kind of agreed to. Matt will be leaving, so we'll have a new CFO at some point early in the next year. We have a new head of Timberland. We'll have a new head of Vans. So, we've actually changed a lot of – we will have changed a lot of the team here and promoted a lot of people in this company during that timeframe. So, I'm really excited about the team we have in place, and I think it's going to get stronger and stronger.

**Jay Sole**

*Analyst, UBS Securities LLC*

Q

Okay. Thank you so much.

**Bracken P. Darrell**

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

A

Thanks, Jay.

**Operator:** Our next question comes from the line of Dana Telsey with Telsey Advisory Group. Please proceed with your question.

**Bracken P. Darrell**

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

Hi, Dana.

A

**Dana Lauren Telsey**

*Analyst, Telsey Advisory Group LLC*

Hi. Good afternoon. Hi, Bracken. As you think about the DTC channel which you talk about as more improved than what you're seeing out of wholesale, how does it differ by digital and DTC? What are your plans for each brand on the physical store side? And is there any color by brand performance differentiation in the DTC channel? Thank you.

Q

**Bracken P. Darrell**

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

I'd say every brand has a sizable DTC e-com, and not every brand has a sizable footprint in bricks and mortar, and really varies around the world. I'll start with Vans. Vans has a very large, especially US-based, brick-and-mortar business as well as an online business. A lot of people may not realize it. We're one of the most developed DTC businesses there. Our North America business is one of the most developed DTC businesses in all of footwear and apparel. I mean we're something like 60% of our total business is DTC in the US, maybe even higher than that. So, it's very developed. I don't expect that to change dramatically one way or the other. I imagine the e-com will grow and the bricks and mortar will shrink relative to each other and hopefully wholesale will begin to grow relative to our own bricks and mortar. So, I would expect that will happen.

A

In The North Face, we have a great DTC business that could be even bigger. It's mostly e-com in the US. We have very little of our own stores, relatively speaking, in the US, and that's kind of true in Europe. But in that case, we're adding more stores in Europe probably than in the US I think, if I have my facts right. And I would think that will continue. And I'm going to keep – pull APAC out for a second.

Timberland has a very developed DTC bricks-and-mortar business in Europe and very, very little in the US, which is one of the things that we struggle here with in the US. Big business, all wholesale, less control. I don't think we have plans to change that, but I would say generally speaking, all of those businesses are going to have a larger and larger e-com business. It's a core part of our strategy.

**Dana Lauren Telsey**

*Analyst, Telsey Advisory Group LLC*

Got it. And then just on the CapEx side for this year, any changes to CapEx and how you're thinking about it going forward?

Q

**Bracken P. Darrell**

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

No, I don't think we have a significant plan. [indiscernible] (00:57:35) we're thinking about CapEx, we don't have a big investment plan in CapEx, at least not an abnormal.

A

**Matthew H. Puckett**

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

Now most of our CapEx moving forward will be related to DTC honestly, Dana. We'll be continuing to support the expansion where it makes sense, in the brands that have expansion opportunities, The North Face is one.

A

Supreme is one, for sure, and kind of the ongoing refreshment of those stores. Infrastructure wise, nothing significant planned and obviously, we're working aggressively to kind of reduce our footprint in many cases, it's kind of the opposite.

**Bracken P. Darrell**

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

Yeah.

A

**Dana Lauren Telsey**

*Analyst, Telsey Advisory Group LLC*

Thank you and best of luck, Matt.

Q

**Matthew H. Puckett**

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

Thanks, Dana.

A

**Bracken P. Darrell**

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

Thank you, Dana.

A

**Operator:** Thank you. Our final question comes from the line of Ike Boruchow with Wells Fargo. Please proceed with your question.

**Bracken P. Darrell**

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

Hi, Ike.

A

**Ike Boruchow**

*Analyst, Wells Fargo Securities LLC*

Hey, Bracken. So just two questions from me. I guess maybe, Matt, the first one is on The North Face. So just trying to fully understand. I know you're not giving guidance, but on The North Face specifically, fundamentally, the quarter even [indiscernible] (00:58:39) shifts down mid-single with the comment on January being positive, should we not read too much into that January just because of the cold snap? Just kind of curious, any thoughts on the brand trajectory from here?

Q

And then, Bracken, just – not to be too direct, but to Jim's question about the no sacred cows, I mean is it fair to say that the three big brands are not a part of the strategic portfolio review? Or is everything, are all options on the table right now?

**Bracken P. Darrell**

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

Yeah. We were very explicit about saying we're not going to address that comment, any question about that. We meant it when we said no sacred cows, so really taking an objective look at all the brands. And other than that, we'll come back and update you over time.

A



**Matthew H. Puckett**

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

A

And I think your question on The North Face, as we look forward, we expect D2C to grow. And we expect D2C to grow in the fourth quarter. And we expect the D2C to continue to grow. It's good to see the business bounce back in January, particularly the early part of January, really strong as the weather turned here and to some degree, in Europe as well. But we've said wholesale is going to be pretty choppy. We've got order book visibility, obviously, for spring and how that will play out and pretty good understanding of what fall is going to look like, so we'd expect that to be more difficult over the next few quarters.

**Bracken P. Darrell**

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

A

Yeah. Ike, I'm sorry to dodge that question, I just don't want to piecemeal out that answer. I think we need to give it in a more complete way later.

**Ike Boruchow**

*Analyst, Wells Fargo Securities LLC*

Q

Totally understand. Thanks, guys.

**Bracken P. Darrell**

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

Okay. That was the last question? All right. Well, thanks to all of you for turning in. Despite these clearly disappointing results, I am super excited about VF's future, as I said earlier. I think the steps we're taking to turn things around are happening. The implementation is real and the change is happening fast internally, even though you probably can't feel it, you certainly can't see it yet in our numbers. I've said it before, we have world-class brands and amazing talent. The foundations on which to rebuild this are here to have a great business.

So, I look forward to talking to you again during the quarter and as we close this next quarter and start the next fiscal year. Thanks again. And Matt, thank you.

**Matthew H. Puckett**

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

Thank you, Bracken. Thanks, everyone.

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

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