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VF Corp. (VFC)

Acquisition of Williamson-Dickie Mfg. Co. by VF Corporation Call

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MANAGEMENT DISCUSSION SECTION

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

And at this time, I'd like to turn it over to Joe Alkire, VP of Investor Relations, please go-ahead.

Joe Alkire

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

Good morning, everyone, thank you for joining us, and welcome to VF Corporation's conference call to discuss the announcement of our agreement to acquire the Williamson-Dickie Manufacturing Company.

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.

I would also like to highlight that in addition to this morning's release; we have posted a presentation to the Investor Relations section of our website and will be referring to this presentation during the call.

Joining me on today's call will be VF's President and Chief Executive Officer, Steve Rendle; VF's Chief Financial Officer, Scott Roe; and the Chief Executive Officer of Williamson-Dickie, Philip Williamson.

Following our prepared remarks, Steve and Scott will be available for a question-and-answer session. Steve?

Steven E. Rendle

President, Chief Executive Officer & Director, VF Corp.

Thank you, Joe, and good morning, everyone. And thank you for joining us for today's call, which is taking place from Fort Worth, Texas. We were thrilled to be with you today to announce the acquisition of Williamson-Dickie Manufacturing Company, an acquisition that marks another milestone in VF's story and history, and an acquisition that we believe is the next catalyst for another layer of transformative growth and value creation for VF and our shareholders.

Earlier this year, when we introduced our 2021 strategy in Boston, reshaping our portfolio to accelerate growth was our number one priority. We also declared workwear as a new strategic growth platform. Our announcement this morning that we have reached a definitive merger agreement to acquire Williamson-Dickie delivers on both of those commitments in a significant way and represents another step on our journey to accelerated growth and value creation.

I want to emphasize journey, because we're not finished. We remain committed to ongoing and active portfolio management, and we will continue to make transformational moves and evolve VF as we have done many times throughout our history. We will position our company for sustainable, long-term growth, and success.

We're a value creation company. As we developed our 2021 strategy and looked for ways to accelerate growth in our workwear platform, the highly-fragmented nature of the $30 billion global workwear market offers several unique acquisition opportunities.

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Williamson-Dickie is one of the largest companies in the work sector. It has a diverse global portfolio of iconic brands, steeped in a deep heritage and authenticity. Williamson-Dickie has been in the business serving in loyal consumer for nearly 100 years, and it's built on a bedrock of family and business values that connect deeply to the way VF operates as an enterprise. For these reasons and many others, Williamson-Dickie quickly rose to the top of our list as the most-preferred addition to our strong and growing workwear portfolio. Today, we're taking a meaningful step forward in fulfilling that vision.

I'm very excited about our acquisition of Williamson-Dickie, and the opportunity to accelerate growth and value creation through its portfolio of diverse global brands. The strategic rationale for this combination is clear and compelling as this transaction brings together a stable of strong, complementary assets and capabilities.

Building on our solid foundation in workwear, the acquisition of Williamson-Dickie creates a $1.7 billion workwear powerhouse that will now serve an even broader set of consumers and industries around the world. The underlying end markets we'll serve are large, diversified and growing. And the macro forces we see forming should provide a consistent tailwind for accelerated growth during the next few years. And I see tremendous opportunity to accelerate market-changing ideas and leverage the strengths and capabilities of both companies including product innovation, manufacturing and supply chain excellence, D2C and digital and international.

The economics of the transaction are very attractive and it is immediately accretive to EPS and free cash flow. Importantly, our acquisition plan includes a path to significant near and long-term value creation. As we highlighted in the presentation, over time, we see an opportunity to drive even more value creation beyond what is currently assumed in the targets provided today.

The synergies across our strong companies are truly significant. As many of you are aware, Williamson-Dickie is VF's first acquisition since we acquired Timberland in 2011. Acquisitions remain our top capital allocation priority and over time provided our shareholders, a tremendous amount of value creation. That said, we have a goal of top quartile total shareholder return and we have a strong organic growth plan, so the bar is high.

We shared with you the strategic and financial filters we used to evaluate not only our existing portfolio, but also our acquisition opportunities. While acquisitions are incredibly hard to predict, our patience and thoughtful and disciplined approach to capital allocation is typically rewarded with unique and compelling acquisition opportunities. We believe the acquisition of Williamson-Dickie is one such opportunity.

Before Scott covers the financial implications of the transaction, I'd like to turn the call over to the CEO of Williamson-Dickie, Philip Williamson, to say a few words. Upon closing the transaction, Philip will continue to lead the company headquartered in Fort Worth. Philip?

Philip C. Williamson

Chairman, President & Chief Executive Officer, Williamson-Dickie Mfg. Co.

Thanks, Steve. First, I'd like to say how excited I am about today's announcement and give you some perspective on why this day means so much to me. My family founded Williamson-Dickie in 1922. Back then, we were selling denim bib overalls to Texas ranch hands. In five to 10 years, we rapidly expanded to include men's, women's and kid's apparel, and our sales territory covered the entire Southwest. Within 20 years, our business was nearly nationwide, and then in the 1950s, we expanded our brands internationally, specifically selling workwear to oilfield workers in the Middle East and in the North Sea. In the 1980s and 1990s, our Dickies brand was adopted by pop culture and today we're proudly standing strong with a solid presence in more than 100 countries. It has been an awesome journey for us, one that we're extremely proud of.

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Our strong group of workwear brands includes Dickies, Walls, Workrite, Terra, and Kodiak, and the emphasis was placed on growing our share of the global workwear market. There is a reason why we're on this call today.

Over the years, many companies have come knocking on our door expressing interest in acquiring Williamson-Dickie and our portfolio of brands. None of those companies were the right fit for us for many reasons.

VF has proven themselves to be a different story. There are many similarities between our two companies, like VF, our heritage is in manufacturing, our two companies fit together naturally, because they embrace and represent the same values, standards, and commitment to quality. We believe that by combining our brands into VF's portfolio and leveraging each other's strengths will unlock many exciting opportunities in months and years ahead.

First 95 years of business have been very good to Williamson-Dickie, and I know that my family and I are proud to partner with VF to make the next 95 years even better.

Now, I'll turn it over to Scott.

Scott A. Roe

Chief Financial Officer & Vice President, VF Corp.

Thank you, Philip. We could not be more excited about the Williamson-Dickie transaction and the opportunity to drive accelerated growth and value creation through our expanded workwear platform. We have strong conviction that the union of our two great companies is in the best long-term interest of all stakeholders.

VF is a consumer-focused enterprise with a deep commitment to total shareholder return. We focus on value creation; it remains at the center of everything we do. Our goal is to deliver consistent sustainable, top quartile TSR. I'm confident that the Williamson-Dickie acquisition will be accretive to the already strong organic growth plan; we communicated at our Investor Day. And we're not finished, we are committed to active and ongoing portfolio management, so stay tuned.

As you saw in the news release this morning, under the terms of the merger agreement, we have agreed to acquire Williamson-Dickie for approximately $820 million, subject to customary closing conditions and regulatory approvals. This will be an all-cash transaction using VF's excess cash and commercial paper to fund the acquisition. We currently expect an early fourth quarter closing date.

Our balance sheet will remain strong and we do not anticipate an impact to our investment grade credit rating, as a result of this transaction. M&A remains our top capital allocation priority and we have the capacity to continue to pursue additional acquisitions. For reference, we've posted a short presentation on our website that outlines the specifics of this transaction in more detail.

However, let me provide some additional context regarding the financial implications of the deal. Williamson-Dickie generated approximately $875 million of revenue on a trailing 12-month basis. Like what we've experienced in our own workwear business, the Dickies brand has seen accelerated growth over the past several months, as momentum in the industrial sector continues to build.

This business is nicely diversified across geographies, channels of distribution and product categories, and it's very complementary to our existing workwear portfolio. More specifically, this transaction gives us access to large

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and growing value pools in the healthcare and services sectors, and we see measurable synergies, as we integrate the Williamson-Dickie brands into our international and D2C platforms.

Assuming an early fourth quarter closing, we believe the acquisition will contribute approximately $200 million of revenue in 2017. As we look out to 2021, we see the potential for Williamson-Dickie to contribute more than $1 billion of revenue, which when combined with our organic growth, puts VF revenue north of $15 billion by 2021.

Said differently, relative to the mid-single digit growth, compounded annual growth rate, we provided during our Investor Day, we now expect VF revenue to increase at a 5% to 7% rate through 2021.

From a profitability standpoint, Williamson-Dickie has both gross and operating margins that are below those of VF's workwear business today. The company's operating margin is currently around 7%.

Now I'll remind everyone that VF's most successful acquisitions to date, The North Face, Vans, and Timberland all had operating margins below 10% at the time of acquisition, compare that to today where these three brands have a combined operating margin in the high teens. So, there is a blue print and our proven operating model will add tremendous value. We have a long track record of successfully integrating acquisitions.

So it follows that we intend to significantly improve both gross and operating margins over time. In light of the synergies we see, our acquisition plan assumes that we double the company's operating margin to 14% by 2021. As we look across our businesses and the workwear sector at large, there is simply no inherent reason that would prevent Williamson-Dickie profitability from increasing to the level of our current workwear portfolio, as we integrate these brands into our global platforms.

As Steve mentioned, the economics of this transaction are very attractive, and it is immediately accretive to EPS. Excluding transaction and other deal-related expenses, we expect the acquisition to contribute roughly $0.02 of EPS in 2017. We see more than $0.25 of accretion, as we look out to 2021, which when combined with VF's organic growth plan, provides VF with over $5 of earnings by 2021. That translates into a low – a strong low-to-mid teen EPS compounded annual growth rate through 2021. And when coupled with our dividend yield, would provide our shareholders with a mid-to-high teen total shareholder return.

Finally, just a few comments regarding our 2017 outlook. Given this transaction, our updated outlook is as follows. We now expect revenue to be $11.85 billion versus the $11.65 billion, we provided during our second quarter earnings call. We now expect gross margin to reach 49.5% and an operating margin of about 13.7%. This compares to the prior outlook of 49.8% and approximately 14% respectively. Our outlook for earnings per share is now $2.96 versus our prior outlook of $2.94, which again excludes all transaction and deal-related expenses.

And now, back to Steve to close.

Steven E. Rendle

President, Chief Executive Officer & Director, VF Corp.

Thanks, Scott. Thank you for your time and interest in our great company this morning. I'd like to close by extending a special thank you to the VF and Williamson-Dickie teams and our advisors for their hard work, commitment, and dedication to this transaction over the past several months. Talent is a foundational element of VF's 2021 strategy, our continued success and our culture. Our people are our most valuable asset, and I'm extremely grateful for the continued commitment and contribution of all of our employees around the globe.

Scott and I are now happy to take any and all of your questions.

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QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] We'll take our first from Michael Binetti, UBS.

Michael Binetti
Analyst, UBS Securities LLC

Q

Hey, guys. Good morning, and congrats on the transaction.

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

A

Thank you, Michael.

Michael Binetti
Analyst, UBS Securities LLC

Q

Thanks for taking my question. I just – as I think about the business, could you help us think about, [ph] obviously $1 million plus (14:27) workwear business is no small business. Can you help us think about what some of the long-term revenue opportunities are?

And then, maybe Scott, you could help us just think about it, it looks like the – I know we're using rough numbers here, but the revenue CAGR for the Williamson business is a little bit below your current business CAGR, if we just look at the $1 billion by 2020, does that mean there's a step-back in the revenues upfront something similar to like what you've seen in past acquisitions? It doesn't seem to reconcile using simple math on the CAGR of that business versus what it adds to the VF CAGR taking it from 4% to 6%, to 5% to 7%?

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

A

Yeah. So maybe I'll start with second question. So, you're right, Michael. It is a little bit below our workwear CAGR, and you're also right in the reason why. So we – listen, there is a lot of synergies in this business. So if you saw that the document that's out on the website, you can see that there is many, many areas, where the Williamson-Dickie brands play that VF doesn't, and that's a lot of where that growth is going to be coming from. It's a really nice counterbalance to us.

On the other hand, there are a few areas where we are together. And we're assuming that there will be some consolidation or step back, as we solidify the base for growth. So, there is no reason why this business won't grow at the rate of our existing businesses over time. And frankly, we don't know all the details yet. We're just starting to get and engaged, but we've made an assumption as we've given you forward guidance that there will be some sort of a step back before we embark on the growth plan. But the main point is, there is no reason this business won't grow at the rate of our existing businesses over time.

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

A

And then Michael, I'll I just add real quick, where do we see the growth – I mean, clearly in the traditional sectors that we've participated in over the years, but also Williamson-Dickie brings an expertise and access to the healthcare and services sector, an area where we have not played in a great degree.

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We think together, we can see the story of growth. It also will be a really balanced approach against our B2B capability, and our B2C strength that both businesses have, and how we will leverage VF's skill and expertise in D2C, and in the international aspect that Williamson-Dickie has a slightly stronger penetration in, but there is a lifestyle element to this portfolio that's different than ours.

And to Philip's comment, Dickie has accessed a lifestyle element in the 1990s, and we continue to see it today that we think bringing our brand building capabilities, and access to our other large brands, we can bring a strong capability that sits in a Williamson-Dickie business in Asia. We would grow that both in Europe and here in North America.

Michael Binetti
Analyst, UBS Securities LLC

Q

Can I ask just one follow-up, if – so it sounds like, kind of understand the rough shape of how the revenues of the business should look over the next few years. If we think back to Timberland, you guys were able to impact profitability more quickly since you mentioned that earlier from the starting point of a 7% margin. With Timberland you were able to do things like what put them on your international tax structure early re-platform, I think some of the manufacturing and you were able to hold the profitably levers more quickly than the revenues, just to give yourself and your shareholders some earnings cover, while you went through pulling back on some of those revenue areas. Is this a similar situation, do you see like you can move the profitability of that 7% level faster by moving this business over to some of the VFC platforms?

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

A

Yeah. Absolutely Michael, and you really hit the big drivers right from a tax platform, and just scale too, if you look margins in this business are in the low – gross margins I'm talking about in the low-30s compared to ours, which should be even in the high-30s. And you think about efficiency scale, our Asia platform, our Panama platform, the fact that we're both manufacturers and the scale that comes with putting that together and the throughput, we see a lot of opportunities that will be fairly near-end, as we look forward. Now it's not immediate, but it will be in the early part of that – as you're thinking of the 2021 timeframe, it will certainly be in the first couple of years.

Michael Binetti
Analyst, UBS Securities LLC

Q

Okay. Thanks a lot guys and congrats again.

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

A

Thank you.

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

A

Thanks, Michael.

Operator: Our next question comes from Lindsay Drucker Mann with Goldman Sachs.

Lindsay Drucker Mann
Analyst, Goldman Sachs & Co. LLC

Q

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Thanks, good morning. I was hoping you could maybe frame, as a starting point for Williamson-Dickie, how much of the business is true workwear versus the stuff that might go more traditional casual and fashion apparel category?

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

Yeah. So, this is not exactly your question, but first of all, of the Williamson-Dickie total revenue, little more than three quarters of that is the Dickies brand itself. And then, in terms of the breakdown, about 90% or so would be in what we would say workwear, with the remainder being the lifestyle.

Now interestingly, over time we see, as Steve mentioned, lifestyle we think could be one of the faster growing categories, especially when you think about some of the synergies in our other, not just our workwear portfolio, but in our branded portfolio, there is some adjacencies that we see as a real opportunity.

Lindsay Drucker Mann
Analyst, Goldman Sachs & Co. LLC
Q

Great. And as a follow-up to Michael's question, just on the gross margin side, are there any obvious – you talked about this a little bit, I was hoping you go a little bit deeper. What are the reasons or what are – are there any structural differences or key operational differences that drive the delta in gross margin? So, what are some of the easy wins you might have in narrowing that gap?

And then Scott, just a follow-up on a comment you made in your prepared remarks, stay tuned this isn't our last transaction, does that suggest that you feel like the pipeline and the opportunity is a little more robust today that it had been?

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

Yeah. So as it relates to gross margin, I think, I don't know if I'll satisfy your question Lindsay, but I mean, we're looking across our manufacturing platform. We've had the chance now to compare and see what's – what the cost structure of the Williamson-Dickie company looks like.

We've added the benefit of more volume and throughput through our collective plans, and again, the leverage point of – we've a well developed sourcing structure and our Asia – Hong Kong platform, as well as in Panama, so that coupled with the tax benefit, those are going to be significant and relatively closed-end benefits.

The other things that we'll be looking at, the mix is a little different of the business, and so, one of the primary things that we're looking at as we can now engage directly with the teams is, what are those joint opportunities where together we can be more powerful bring a better offering to their consumer and unlock opportunities that maybe one or the other companies couldn't access because of their capabilities and/or reach of brands. So, we see opportunities to grow margin through mix by accessing some of those opportunities as well. Maybe, I will throw it to Steve back to on the M&A front.

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

Yeah, Lindsay, so VF's commitment to M&A has been strong and continues to be strong. And I think what you're hearing from, Scott and I, coming out of Boston with reshaping our portfolio, really being that number one choice in our new integrated strategy.

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It's just a – bringing some new points of view, but also really tapping into our consumer database and understanding what our consumers are doing, where do we see them pivoting in their daily activities, and how can that help inform us, as we continue to look to shape our portfolio.

And really looking for those unique elements that we would have capabilities to be able to really come in and service them in a high degree, so really – the commitment stays strong. I think what the difference here is, it's just as we really tap into our growing consumer database and using the analytic tools that we have, helping us see where those new growth vectors will sit.

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

And, Lindsay, just to add on that, maybe part of your question was relative to the environment itself. I think, in the last earnings call, we talked about the fact that one of the advantages of the fact that our sector has fallen a bit out of favor in general is that, it does create some valuation opportunities, as investors are – in some cases, we think too pessimistic about the prospect. So, the fact that in general, apparel, footwear valuations have come down on a relative basis, coupled with the fact that we have a very strong balance sheet, and have a lot of dry powder.

As I think, I shared last – in the second quarter, we see things coming our way a bit. And we like our position from an M&A standpoint right now.

Lindsay Drucker Mann
Analyst, Goldman Sachs & Co. LLC
Q

Great. Thank you.

Operator: We'll go next to Laurent Vasilescu, Macquarie.

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

Good morning. And thank you very much for taking my question. Can you talk about how the top line performed over the last few years as a standalone company?

And I want to ask about the future growth, in terms of the mid single-digit CAGR, is there a particular region, which will support the growth going forward, and where do you think DTC will go as a percentage of revenues by 2021?

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

Yeah. So, I guess, a general comment first of all, is – Williamson-Dickie business is privately-held, so a lot of the information has not been disclosed, actually none of the information has been disclosed. But I think, it's fair to say that, they've seen a similar trajectory of what our work business has over the last couple of years. And likewise, they're seeing the kind of recovery in that business, the oil and gas has stabilized, the industrial sector is continuing to build, I think, that was even in the prepared remarks that, that we're seeing a similar trajectory from their business than ours.

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Now, that's a general statement. It's also important to remember that they are not the same in terms of distribution channels and where they operate, much more D2C oriented, much more international, in fact. D2C and international combined are more than half of the revenues of Williamson-Dickie, so that's significantly different than VF, which is less than 10% for those two factors. So, that's one of the things that excites us about this opportunity is that those synergies, and the fact that they're strong, where we are not as strong and vice versa, we see a lot of synergy there. I forgot the second part of your question, Laurent, it was...

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

Q

Sure, I was asking about the DTC mix going forward by 2021?

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

A

Yeah, so, Laurent, it's about 14%, 15% today of Williamson-Dickie total business and we see that continuing to grow really consistent with how we're looking at our larger VF trajectory, a strong digital capability sitting with their businesses and we see the opportunity [ph] to do (26:52) combine our two portfolios and bring to market a truly segmented, head to toe offer, you know that provides the products and the experiences to this workwear consumer.

But don't forget the lifestyle piece, you know that's – we see a really interesting opportunity to what Williamson-Dickie has been able to do in their international business, and how we can bring our two companies together, tap our expertise in brand building and grow that here in the North American marketplace.

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

Q

Okay, very helpful. And as a second – I had follow-up question, I think when you acquired Timberland, you also acquired some manufacturing capabilities in the Dominican Republic, are there any hard assets, we should be aware of, are there any supply chain competitive advantage you should be aware of, that can actually be complementary to the existing portfolio of brands?

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

A

Yeah, absolutely, as I think, I shared it earlier, Laurent, they have – this company has very strong and they are very capable as manufacturing, there are plants in Mexico, Honduras, which would be very complementary to our existing – the plants that we have as well. Culturally and just the way they run their facilities is also very similar, so we see a lot of, we see a lot of leverage in putting those two together.

One of the things, in your own plants that is a differentiator from a profitability standpoint is, is full utilization. So obviously, as you get a bigger population of demand and you put a bigger network together, the opportunity to keep those plants, humming at full capacity, that's an unlock here. That's one of the value drivers here.

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

Q

Thank you and best of luck.

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

Thanks, Laurent.

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

Thanks, Laurent.

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

Robert Drbul
Analyst, Guggenheim Securities LLC
Q

Hi, guys. Good morning. Congratulations.

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

Thanks, Bob.

Robert Drbul
Analyst, Guggenheim Securities LLC
Q

Two questions. I think, the first one is, when you look at the, the workwear coalition, does this acquisition, does it force you to do more integration than you had previously done, as you were running your workwear coalition?

And then, the second question that I have is, in the wholesale business, what are the largest wholesale retail partners that Dickies distributes to?

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

Great. So, on the workwear coalition, I'm not sure exactly, what do you mean by force, us to do more integration. I think what we see Bob...

Robert Drbul
Analyst, Guggenheim Securities LLC
Q

Yes.

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

...is an opportunity to really now look at a portfolio of brands. Timberland PRO, Wrangler RIGGS, Dickies, Red Kap, Workrite, Bulwark, we now have a stable brands that have a very particular point of view and bring very particular capabilities and product to their consumers, to now put together a fully integrated portfolio, look at the market through a lens of segmentation, and together really driving innovative products into these different sectors and servicing our consumers, and how we begin to integrate these two businesses is really unlocking the strength of that portfolio.

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From a workwear business standpoint, concentration of customers from a wholesale standpoint, it's very similar to ours, strong B2B component, and on the B2C piece, they have a strong partnership with Walmart just as we do.

Robert Drbul
Analyst, Guggenheim Securities LLC
Q

Okay.

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

And we see opportunities to really utilize both of our relationships to continue to strengthen that. But I think I would really emphasize the strength of the D2C business here at Williamson-Dickie, the digital aspect of that and the strong international business where we see great growth.

Robert Drbul
Analyst, Guggenheim Securities LLC
Q

Okay. And then – the other question is there was when you acquired Timberland, one of the biggest and easiest cost saving initiatives was the fleet of planes, is there a similar fleet of planes that are operated at the Williamson-Dickie business?

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

Well, fleet might be an exaggeration, but I think there is a very small [indiscernible] (31:28) that we're working with the company to determine what the best outcome is.

Robert Drbul
Analyst, Guggenheim Securities LLC
Q

Great. Good luck with that.

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

Yeah. It's not...

Robert Drbul
Analyst, Guggenheim Securities LLC
Q

Thank you, guys.

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

Yeah.

Operator: Next question comes from Erinn Murphy, Piper Jaffray.

Erinn E. Murphy
Analyst, Piper Jaffray & Co.
Q

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Great. Thanks. Good morning. I guess a couple of questions. Could you maybe first talk about the bidding process, how competitive was it?

And then, secondly, just wanted to go back to the cyclicality of the business, you said it's followed the shape of your workwear business in the last few years, now that we're in sub-$50 crude, can you just speak a little bit more about kind of the opportunity if we stay in this type of range from an oil price perspective? How confident are you that you can kind of get back to that $1 billion? Thanks.

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

Yeah. So first of all, Erinn, I'll take the first part, I think you can appreciate as a private company that Williamson-Dickie is, and we're really not going to comment on the process, that's not appropriate, especially for a private company.

I would say though that, as Steve and I have both said over time, we build our business based on relationships, and really the reason that this deal and any deal that we do has comes to fruition is, a longstanding relationship and mutual respect that has developed over time.

And just like many other deals, Timberland being an example, we've known this family and the principles for a number of years through various people, and we continued that dialogue. And we've come to a point where everything came together both from their desires, from the economics, and it's just the right time for both of us to do this transaction. So, that's really all we can say regarding that.

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

And then Erinn, could you repeat the second half of your question? I'm sorry, I didn't catch it all.

Erinn E. Murphy
Analyst, Piper Jaffray & Co.
Q

Yeah. I'm just trying to understand a little bit more about the cyclicality. I mean I think you answered to a previous question that it's followed a similar shape of your own workwear business, just given where oil prices have gone. But if we stay in a sub-$50 crude world, I mean is it – how comfortable are you with the reaccelerating revenue? Just trying to understand some of the puts and takes, the cyclicality of the business?

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

Sure. Sure. So the cyclicality is similar to what our workwear business has seen over the years. But I would just remind you, our workwear business had delivered very consistent balanced performance over a long period of time, both revenue and top line. What we see here is really the spread, and you can see it in our presentation of the different sectors that we are in today, but also the Williamson-Dickie covers. I mentioned the services sector as well as healthcare, two new sectors for us to be looking at and how might we together strengthen our penetration there. So I think the diverse set of sectors that this business taps into, but also the lifestyle piece and our ability to look at that international aspect and tap into D2C to really come to the consumer in a different way we think is the mitigating component in this new portfolio approach.

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

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Yeah. I would just add, Erinn, listen FR is a great business for both of our companies, fire-retardant, flame-retardant workwear. And obviously that has an oil and gas application, but remember, it's broader than that first of all, it's also other industries, the electrical and utilities and others are participating there. And when we look at the evolution of these plans on a collective basis, the FR as a percentage of the total is relatively small in the overall scheme. So, really important business, we're really good at it, we make a lot of money at it, it will continue to grow. But as a percentage of the total we see even larger growth pools in the areas that Steve mentioned services, medical, and international and lifestyle.

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

Yeah. And also...

Erinn E. Murphy
Analyst, Piper Jaffray & Co.
Q

Got it.

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

...I'd add to it, Erinn, the FR products have the same value to wind and solar energy applications as well. So, there is new growth pools available to those businesses today.

Erinn E. Murphy
Analyst, Piper Jaffray & Co.
Q

Thank you, guys. All the best.

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

Thanks, Erinn.

Operator: We'll go next to Dana Telsey, Telsey Advisory Group.

Dana Lauren Telsey
Analyst, Telsey Advisory Group LLC
Q

Good morning, everyone, and congratulations. As you think about this acquisition and think about the Timberland acquisition, which was the last one, what's the difference is between this one and that one? And what do you think the timeframe of meeting some of the certain hurdle rates, what could be different about this then from that? And just lastly, demographics and how you think of the demographics of this business? Is it expanding the workwear category for you? Is it getting new customers that you didn't have before? Thank you.

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

Yeah, maybe on the numbers side, first, I'll hit that. From – if you think about Timberland, the – I think, our time to value will be a bit sooner in this acquisition relative to that acquisition, as we look at somewhat – particularly around gross margin levers, the tax benefit should be similar to what we saw in Timberland. Also, we're well – we did say there's an expectation of some set of consolidation or setback some cannibalization in the early days, probably not to the extent that we saw in Timberland, that's our assumption based on what we know today. So,

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from a revenue standpoint, we had pretty large reset from the Timberland. And while there will likely be some of that, we don't think it will be the same magnitude.

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

Let me add to that question on the similarities and differences. I think when you think back on the Timberland acquisition, we were purchasing a brand that had a very strong international business but it was really distributed through the traditional retail channels that we are – the rest of our portfolio is distributed through. And if you think here in United States, it really is in the heart of those core traditional distribution channels. The differences here is Williamson-Dickie sits in and adjacent set of distribution channels that are really not in – under some of the stress that we see in the day-to-day businesses that we all talk about.

And in Boston, we talked about how we looked at our distribution metrics, where we more from an hour glass visual on the premium aspect and then on the value aspect, we think this portfolio of brands will be able to really operate really nicely in that view of the distribution metrics. And it really attacks or approach a consumer that sits adjacent to the traditional and really dealing with them in their day-to-day usage occasions specifically around work, but also the power of the Dickies brand [ph] really be able to distort (39:07) that from a lifestyle standpoint.

The demographics here, this is a core work consumer that we know really well. We've talked about how we have a lot of crossover between our different brands. We see that today already with our Wrangler Riggs, Timberland PRO consumer, but there was also an overlap here with our Vans consumer in that lifestyle aspect that will be really able tap into our demographics information and utilize that to help not just growth at Williamson-Dickie's business, but also our core portfolio.

An interesting thing I leave you with is the Dickies brand awareness is greater than 90% here in its core North America marketplace. That is exceptional and really only rivals one of our other brands in our portfolio, so it brings a really, really powerful brand that we think we can get behind and continue to leverage and grow beyond just its traditional work environment.

Dana Lauren Telsey
Analyst, Telsey Advisory Group LLC
Q

Thank you.

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

Thank you.

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

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

Hey, Sam.

Sam Poser
Analyst, Susquehanna Financial Group LLLP
Q

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Good morning. Good morning. I guess, one of the things is they have – I think you said there is like 4,000 employees. And when you think about this – I think this is the tough thing to talk about before the deal is done or signed, but once it's done, how do you foresee sort of the synergies like from what that they can offer you maybe to help your work business and on the backend what you can offer them sort of more on a – as you see it because clearly they might have a pretty good group of people working there, you generally won't touch it unless they do. So I guess how do you see all that sort of melding together back of the house and sort of stuff they might be able to do to help you with your work business, your existing work business?

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

A

Hey, Sam. This is Steve. It's really early for us to comment on that specifically. As we've got to know the Williamson-Dickie business over the last few months, certainly [ph] we've been able to (41:30) look at all aspects of the company. But we're just now beginning to put together that integration team that will prepare us between now and closing on what those synergies will be. Are there going to be opportunities, absolutely. To get the gross margin accretion that we talked about, we see that across all aspects of the business. But it's really early to say on either side of the equation where those impacts and opportunities will ultimately land.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

Thank you. And then also you talk – that sort of slower growth rate. I mean what – you must see something, because you're expecting, I guess, the growth rate to accelerate a bit towards the next couple of years. So, I mean, do you see anything immediately might give you to some of the existing businesses, I'll ask it in a different way, to your existing businesses? From a distribution perspective or something like that as you probably met with some – I would assume you probably met with some retailers or some of their customers as well to find out in doing your due diligence.

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

A

Right. So if you go back to Boston, Sam, when Kurt kind of laid out how we looked at our current business through the lens of B2B, and then on the B2C standpoint, and we talked about growing on a mid-single digit rate over the next five years. I mean, we think looking at both aspects of where these consumers are is what gives us confidence in the mid single-digit growth that we talked about there. What's interesting as we bring in Williamson-Dickie to the portfolio is the ability to distort that D2C component, specifically digital. Is there a brick-and-mortar opportunity? Not sure, it's certainly something we'll look at with the strength that we have with our three largest brands. But also it – from an international standpoint, we're accessing new growth pools that we have not been able to do to a great degree ourselves in the past. So it's really looking at this truly segmented offer with a portfolio of brands that we'll be able to talk about and bringing a fully segmented head-to-toe approach into that B2B, B2C distribution metrics together as a one VF approach, that's a very different model than we operate with today. And we think that is one of the reasons we see this as a very interesting opportunity and think that VF is a really high degree of value to this work consumer.

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

Thank you very much and much success with it.

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

A

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Thank you, Sam.

Operator: We'll take our next question from Omar Saad, Evercore ISI.

Omar Saad
Analyst, Evercore ISI
Q

Thanks for taking my question. Congratulations to everyone in the room. It's really great to see VF get back on the M&A horse again, Steve and Scott.

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

Thanks, Omar.

Omar Saad
Analyst, Evercore ISI
Q

I want to ask a little bit about the B2B versus B2C dynamic. We're, as investors and analysts, we're very accustomed to the B2C side of the business, but B2B is a little bit more of a – more animal products. Can you help us understand – I think the footprint too B2B versus B2C mix for the Dickies versus you guys is quite different in your workwear business. Is B2B an opportunity for the Dickies franchise? And then help us understand what the dynamics are, the unique dynamics that exist in a B2B scenario that maybe we're not as well versed in? Thanks.

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

Yeah. So, Omar, B2B piece for Williamson-Dickie is about a quarter of their business when you balance it against international and the D2C piece. So the B2B piece, that's really where you're selling direct businesses, you're – it's the distributor network where you are able to access the laundries, which is a very unique aspect to this workwear business. B2C is selling through traditional retail applications. We have a particular strength at VF on B2B. It's one of the things that we think we're one of the best at. Our supply chain is able to react and really the B2B is more of an at-once type of model, and that's where our supply chain has put us in a really strong advantage position in the past. As we look moving forward, bringing this website capability in the D2C piece, I think again, it will be an area where our supply chain married with Williamson-Dickie supply chain will put us in a very advantage position to be able to react and move with consumer demand in a very unique and powerful way, through the knowledge that we'll be able to see with how this consumer is trending.

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

I would just add to that to Omar, we – based on some of the work we've done, we're a low-cost producer too. So we have a cost advantage on top of the service model that Steve just mentioned.

Omar Saad
Analyst, Evercore ISI
Q

Got it. Thanks, guys. Congratulations and good luck.

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

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Thanks, Omar.

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

Thanks, Omar.

Operator: We'll take our final question from Camilo Lyon, Canaccord Genuity.

Camilo Lyon
Analyst, Canaccord Genuity, Inc.
Q

Thanks, guys. Thanks for taking my question. Now with the robust portfolio of workwear brads that you have, do you envision combining the workwear brands in your D2C retail presentation over time or do you think you'll operate the brand separately. And this goes to your comment that you've come back to a few times Steve about having D2C be a strong opportunity going forward to grow the entire coalition.

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

Camilo, it's a very interesting opportunity and one that we are [ph] potentially (47:31) spending some time looking at. And we do think there is unique opportunity. How that would look, we're not entirely sure. I think we'll focus on the core distribution that exist today. And as we begin to really understand one and another well and look at the opportunities to the integration process, we'll be able to really uncover whether there is a true opportunity to have a multi-brand retail environment both brick-and-motor and digital similar to what you see going on in some of our other brands. But it's an interesting opportunity and one that we'll certainly look at.

Camilo Lyon
Analyst, Canaccord Genuity, Inc.
Q

And then secondarily to that, is there an opportunity to leverage your existing brands. You've mentioned Vans as being a lifestyle choice for that workwear consumer or Dickies consumer, is that an opportunity to begin selling Dickies in the Van stores. So kind of reversing seeing that the prior question that I had?

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

Yeah. That's a good question. Our Vans team will come this morning and read the same news that you did. So I'm sure they're thinking about this themselves, and they will certainly be part of the conversation as we go forward thinking about how we can leverage two really powerful brands to collectively speak to that action sports and [indiscernible] (48:53) consumer.

Camilo Lyon
Analyst, Canaccord Genuity, Inc.
Q

Okay. Great. And then just a last question I have. One of your slides you talk about your – the workwear brands portfolio, several large competitors of which Dickie was one and now it is in your portfolio obviously. When you speak about further hunting for the next acquisition, are you going to remain in this category or do you still have an expansive view of your opportunity set?

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

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Yeah. I think that we – no matter of how you think about this, and we talked about this in the past, it's really – we want to really marry the knowledge that we have of our current core consumer and look at how we apply our unique skills and capabilities across our portfolio, and where are those new value pools that we can move our portfolio towards to compete in this new environment. Workwear is very interesting to us. This has been a – this is a major move against that commitment that you heard us talk to in Boston. But we are absolutely open to a broad view of where our consumer is shopping and acting in the products that we're uniquely capable of to work on. But it's really about tapping into that experiential aspect of where our consumer is going and making sure that we're at front, center, and present in their life, really bringing solutions to the different product needs that they have.

Camilo Lyon
Analyst, Canaccord Genuity, Inc.

Q

Got it. Congratulations on the transaction guys.

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

A

Thank you.

Operator: At this time, I'd like to turn it back to Mr. Rendle for closing remarks.

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

Yeah. Thank you, everybody, for being with us today. This is obviously a very exciting moment for both VF and Williamson-Dickie as we begun to now look at building that integration plan to bring these two great businesses together.

I just leave you with – we really see ourselves in this combined entity as one of the strongest advantage owners in the this space. This will help reduce our exposure to the more difficult distribution channels. I'm referencing back to the hour glass distribution view that we have. And over time doubling gross margin to unlock value is absolutely in our wheelhouse, and how we look at really integrating these two businesses to just drive greater value to our consumer.

So we look forward to talking to you more about this in the coming weeks and months. And again, just thank you for all of you joining us today. And thank you to Philip to engaging us in this conversation and then bringing us to this exciting point in time.

Operator: That concludes today's conference. We thank you for your participation. You may now disconnect.

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