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VF Corp. (VFC)

Investor Day

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, please welcome the Vice President of Investor Relations and Financial Planning and Analysis of VF Corporation, Joe Alkire.

[Break] (0:11-00:18)

Joe Alkire

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

Good morning, everyone. Welcome to the castle, and thank you for joining us today. On behalf of our management team, we're excited to be here and to have the opportunity to share with you, our strategic and financial aspirations over the next five years. Our agenda today is designed to provide insight and clarity around our updated strategy, our key initiatives and the power and consistency of our diversified value creation model. We do have a full day planned and we're eager to get started, but a couple of housekeeping items before we begin.

We will host a Q&A session at the end of the presentation today, so please hold all of your questions until that time. The presenters today will be making forward-looking statements which are subject to risks and uncertainties. Actual results could differ materially from the statements made today. Additional information regarding factors that could influence our results can be found in our 10-K filing with the SEC.

So with that, enjoy the presentation and I look forward to seeing all of you throughout the day. Thank you.

[Break] (1:29-02:54)

Operator: Please welcome the President and CEO of VF Corporation, Steve Rendle.

[Break] (3:00-03:06)

Steven E. Rendle

President, Chief Executive Officer & Director, VF Corp.

Good morning, everybody. Thank you for joining us. We could not be more excited to spend today, explaining to you how we see the retail landscape that we're all facing today in the apparel and footwear sector, but also to unpack the strategy that we have in place to help us compete to win.

I think it's important to call out right from the beginning that we see tremendous change taking place in the consumer apparel and footwear space. It's impacting all of the brands and all of the retailers, but most specifically, it's impacting businesses here in the United States. And I guess you could say that's the elephant in the room and it's really the strategy element that we want to focus on today, and instilling you the confidence that this team has the answers and the ability to compete.

I would tell you, what gives me confidence is this. This company is built to win. We have been one of the top companies in the S&P over the last 10 years, that's really who we are, that's what defines us and it's the expectation that myself and my management team have of ourselves in our organization.

We are built to win because of the iconic brands we have in our portfolio that help us win across the globe, and we'll spend a fair amount of time talking about those brands today and allowing you the opportunity to hear from those leaders.

We're also built to win because the operating disciplines that we bring to bear that allow us to provide great service and quality to our consumers. But it's also about the financial disciplines that we use to drive our business, to drive our decisions and deliver continued shareholder value to our shareholders.

I'd tell you this. It's really I want you to consider the experience in the tenure of the leadership team, that you will hear from all of us today. There's been questions that we we've heard coming through about the changes taking place within our management team. These changes are actually very measured, they're planned and they're strategic, and I'll talk more about that as we go through today. But the team that you get to meet is an extremely talented, tenured and experienced team driving these brands.

So, today marks my first time to speak to each of you in my new role as CEO of VF Corporation, and I look in to the room and I see some faces I know, but I'll be honest with you, there's many of you, majority of you, that I've not met before, and that means you've not met me. And what I would hope that from today as I talk about our strategy and you hear the things that are important me, you'll start to get a sense of what drives me and what motivates me. And over time, we'll have opportunities to get to know each other.

But before, I guess, we get going today, I'd like to do a couple things. I'd be remiss if I didn't think our board and Eric, our Executive Chair, for placing their confidence in me in this role. And I guess I really owe Eric a tremendous amount of thanks. He's not here today, whom I will tell you, is our Executive Chair. He is absolutely here in spirit, spoke to him last night. But I owe him a lot. Our friendship over the last 17 years of me being part of VF, but more importantly in the last two years, as we prepared for this transition, has been really important in not just getting myself but our organization to ready to manage through this transition and to carry on the successful formula that VF is put in place over the years.

So, a little bit about me. There's couple of things I think I'd like you to know. I am very passionate about success. And those of you who do know me and been able to interact with me over the years, success really sits at the center of what defines me. And it started in early age as I swam competitively in my young days and as I came through high school and college, the sports that I was able to do really put in my mind the importance of really pushing yourself to succeed in what will come out today because it's a common thread. It's a thread that you used to seeing, certainly you saw it in Eric and Bob, you saw it in Mackey. It's central to who we are as an organization and it's really important. But if you don't have that, it's kind of difficult to succeed as a leader here at VF and you will certainly see that as it comes through today.

I have a deep passion and belief in the power of design and innovation. And I'm not a designer, but I can tell you some of the most, really most exciting experiences that I've had through my 30-plus years in this industry, is working with designers, designers who are responsible for designing the products that define our brands, but also the designers that work on everything to do with our experiences, be it the in-store environments or the events. It's really design that drives our brands, and it's something you're going to hear us talk a lot about today in how we will elevate that to help us to compete.

But I'm also very driven by innovation, and it's something you've heard us talk about often over the past four or five years. The investments that we're making in dedicated resources and how those resources are starting to connect with our brands, it's really this intersection or this marriage of design and innovation that we see propelling us in the next four to five years, really helping our brand stand out and speak in a very different voice to our consumers.

And I guess, this might, say, sound a little corny to all of you, but I absolutely love our brands, and this hasn't been an arranged marriage. It's really, it's something that as you work with inside VF, you can't help but really get connected to the brands, first, because of our people. But what our brand stand for, the pure authenticity of this portfolio and how they – how we're able to connect to brands. I wear our brands, and much like our consumers, our brands really enable me to do the things that I love both in my personal and professional life.

And I guess the last thing I would tell you is I have just have a deep respect in passion for the people here at VF. There is a very consistent thread that runs through our organization, the commitment, the passion, but most importantly, the sheer capability that everybody brings to work every day and you will see that from the leadership team that will stand in front of you today. That excites me. It's what's attracted and kept me here at VF, and I think it's just something that, as you interact with us, you can really pickup on how important that is to us.

So, we recently conducted a survey, a survey to help us gain a better understanding of your sentiment. In the interest of time, it was not practical for us to speak to each and every one of you. So, we work for the third-party who took a representative sample of many of you in this room and I want to thank those of you who did engage us for taking the time because it's been really important for us to hear and think about what's you're telling us and I'll just real quickly what we've learned.

As you give us very high marks for our diversified portfolio, our disciplined approach to capital management, our historical performance, the strength of our balance sheet, and the expectation that our big three brands represent opportunities for growth. But you'll also expect some reservations, and these reservations are real and those are the things that we really want to pay a lot of attention to, your reservations around the growth prospects for the apparel industry. You had questions about our other brands beside our larger brands and their ability to scale. You had questions around the changes in the VFC suite. You also had questions around the lack of acquisitions in the last few years.

Your candor is appreciated, and I want you to know that we've heard you and I hope much of what you hear today, we'll begin to answer those questions. And I guess if there is one thing I really hope over the days and months ahead, is that you will move those questions about the changes in leadership from the question side of your equation to the strength side, because that really is the unique thread that runs inside VF and it's that strength that gives me so much confidence of about what we're talking to you about today and our ability to exceed – succeed in the future.

So before I go any further, I'd like to take a few minutes to reflect on the past four years. We, as a team, have spent a lot of time looking over the past four years and really reflecting on the strategies that we put in place in 2013. Where we landed was that our focus on innovation played a very important role in our ability to connect with our consumers, and really ultimately bring those consumers closer to our brands. And our investments in directing consumer and consumer insights has placed us in a very strong position to serve our consumers through our own retail and through our digital environment, and that our focus on geographic expansion has been a really fundamental part of our success and it's really helped us thoughtfully expand across all regions of the world, but most specifically in Asia and more importantly in China, and that's something we'll talk about as the day progresses.

So, did we achieve the plans that we put forward in front of you in 17x17. No. No, we did not. And I think I'd like to spend a little bit of time just kind of walking you through just how we did do. In total, through the first four years, we did grow our top line 6%. It was driven by high single-digit growth in our international business and low-teen growth in our DTC business, and that was driven primarily by digital.

Our earnings per share grew at a 12% rate, and while both our top line and bottom line results were short of our expectations, we're actually very pleased with these results. Despite the changing industry dynamics which really came to bear in the last 18, 24 months, these results are solid, because if you recall for through the first three years of this plan, we were dead on the targets that we had committed to.

Most importantly, we delivered an – on an annual – an annualized return to our shareholders of 11%, despite the headwinds that we saw in the last 18 to 24 months. And while we didn't make any acquisitions, we did return approximately $5 billion to shareholders through share repurchases and dividends.

Our performance over the past four years, if you really stop and think about it, should give you confidence in the diversity of our model, because it's really this diversity that allows us to continue to succeed, irrespective of the environment that we face.

So, the theme that you'll hear from us today is about diversified growth. It's really diversity within our value creation model and it's diversity in how we organize around the strategy to compete in this rapidly evolving consumer marketplace.

So, what does it really mean when we talk about the value creation? We have a very long history of consistently delivering strong balanced returns to our shareholders. And I believe that's why many of you are in our stock and it's absolutely how we intend to help you remain confident. And by design, our portfolio, each of the brands in our portfolio play a very distinct and different role, and we'll talk more about that as we go through the day.

But also, our portfolio provides a very unique balance of earnings growth and free cash flow, and I think that's part of the strength of why we are able to continue to drive the shareholder value that we do. But what does diversity in our strategic approach mean? It's about the diversity of our portfolio. It's balancing the strength of our outdoor and action sports brands with the value creation elements of our jeans business. And as we'll talk to you about today, it's locking onto a new emerging opportunity that we see in the work sector. It speaks to the diversity of our geographic platform. It's marrying the strength of our Asia business with the accelerating results coming from our European businesses, and really allowing us to drive our international portion of our business to a much greater percent to total. And it's about the diversity of our go-to-market model.

How we think about our go-to-market model is, is investing carefully, thoughtfully and strategically with a key set of wholesale partners, and then, balancing that with the accelerating growth that we see in our own retail and online platforms. And it's about the diversity in how we thoughtfully manage the marketplace. And really giving a lot of attention to the channels of distribution and the products that we place, when we place them and how we flow those products to satisfy our consumers. Our experience across operating across this diverse set of aspects of our operating model should give you great confidence that we're nimble, we're agile, and because of that diversity, able to compete in a very, very strong way.

I made a lot of references to the rapidly changing marketplace. Truth be told, when we thought about our 2013 plan, we actually did see changes coming in the marketplace. What surprised us however, was the speed and intensity of those changes and how they've come across the entire global region that we operate in, but most importantly, it's really the intensity that, by which, it's coming to the United States.

Midst all of these changing dynamics, we see four primary impacts and they have absolutely been embedded into the strategy that I want to talk to you today. The first one is consumer preferences are changing. Consumers are putting a much greater importance on the quality of the products that they seek from brands. But product alone is not enough any longer to satisfy consumers. They are now putting a much more intense focus around the experiences their brands provide and it's the experiences that allow them to really emerge themselves into the authenticity and the purpose elements of those brands as they look for brands that they can connect to and ultimately connect in a much more intimate way.

Second, and I'm beginning a bit redundant, but the retail landscape has changed. It no longer is at what we have become accustomed to, the technical advancements at retail, the advent of mobile, no longer. Consumers can find products whenever and whenever they want, and that fact is deeply embedded into the strategy. We think we're extremely well-positioned to operate in this new environment, but it is different. And we don't see it changing. If anything, we see it becoming much, much more prevalent.

Third is product innovation, and product innovation is central to how we will compete and to continue to drive consumers' loyalty to our brands. And we have an opportunity, as we look at our current product profile to evolve, the current franchises that we have and add new elements that make those products more accessible to a broader set of consumers, while at the same time, leveraging our innovation platform to bring new franchises to market that allow us to wow our consumers, especially those core consumers, the early adopters that set that overarching tone, that really cascades over everything that our brands stand for.

And fourth is we have an active strategy as we look to continue to innovate in how we make things, the processes that we use to produce products. Just last week, I was here in Boston, working with our partners at MIT, looking at new technologies that will enable VF and our brands to think about manufacturing products differently, and more importantly, how and where we make them. All of this is with an eye around improving the quality and the speed of the products that we're able to offer with a long-term vision of bringing product production much, much closer to where consumers are driving consumption.

So, with this confidence and looking at these changing marketplace dynamics, it gives me pause and to be able to tell you that it's our iconic brands that will drive this strategy forward, and more importantly, it's the organization. It's the organization's passion, but more importantly, our curiosity and our willingness to learn and evolve in this changing marketplace, that is really, gives me great confidence about what we're talking about to you today. So, simple, our aspiration is to grow by creating amazing products and brand experiences that transform and improve the lives of consumers worldwide while delivering superior shareholder returns.

The strategy that we're going to share you today is anchored in our deep understanding of our consumer. And you've heard us talk a lot about this over the last five, six years. We've invested heavily in helping our brands dive deep into their consumers and really understand who they are. From that, we know our consumers extremely well. We know who they are, we know what they wear, we know how they wear, we know where they wear it, and we know why they wear our products.

But more importantly, as we know these consumers as people, these are individuals and they have very specific wants and needs. And it's those wants and needs that we bring into our product creation process that help us really understand how to direct our energy. But we have a new learning. It's really just come out over the last year or so and because there's an overlap within our consumer profile, within each of our individual brands. And this slide gives you an example of some of this learning. Last year, we saw that 45% of our Vans consumers purchased a North Face product. And we saw 35%, that 35% of our Timberland brand consumers were actually buying Wrangler.

This is an interesting new data point and we're spending a lot of time right now looking at how to utilize this data in a way that allows our brands to think more broadly and to look at this new diverse set of consumers in a way that allow us to be more competitive, but to expand the consumers that we're talking to with an eye to continuing to grow. And I think this is a great example of how we push ourselves to be agile but it's also a great example of the strength of the collective VF.

So, we are TSR-driven company, it's our number one focus. It's how we create value for you, our shareholders. And we will continue to target top quartile returns, not just top quartile industries returns for this industry but we are very focused on driving top quartile returns in the S&P. We believe the plan we've laid out today, and that you'll hear from each of our brand leaders, has the potential to generate mid-teen returns for our shareholders over the next five years. And we have great confidence that this plan can be achieved.

I should mention that this plan is organic – is about organic growth plan. There are not acquisitions envisioned in this plan. Don't take that to mean that we are not focused on acquisitions. It still remains one of our top priorities. But what it means is that when there is an acquisition, it will be accretive to these numbers and will continue to drive greater value. Our TSR model will remain balanced between earnings growth and free cash flow. And I think is that diversified value equation had served us well and I think it's something you can continue to have great confidence in.

So, are you ready today? It was a lot of prelude but now we're going to get into the fun part. I want to set this stage with the VF strategy that our leaders will unpack and you'll see how it comes to life in the growth engines of our VF portfolio.

So, what I want to talk about are four strategic imperatives followed by six capabilities, that is, we invest behind these, will unlock the value of these four strategic pillars. So first, I want to talk to you about how we are looking at reshaping our portfolio to enable us to deliver maximum value to our shareholders. And we are a company that has grown and evolved over the years due to our ability and willingness to reshape ourselves. It's how we position ourselves to compete in a changing apparel and footwear marketplace.

And just to give you some context, in 1986, VF brought in Wrangler, JanSport and Red Kap into our portfolio when they purchased Blue Bell brands. That was a credibly transformational acquisition for VF. That doubled the size of VF at that time, and it actually made VF the world's largest publicly-traded apparel company, and it gave us a 25% share of the world's denim marketplace.

In the early 2000s, the acquisition of The North Face, I guess, I should say thank you for that, and the acquisition of Vans in 2004, this was a move, this was a very thoughtful strategic move by VF to begin to pivot into portfolio of brands that have an ability to scale on a global basis and do it through a lens of activity-based lifestyle brands. And it also put us and clearly into a set of product categories, technical outerwear, equipment and footwear, that has allowed us to really tap into the strength of our supply chain and drive value.

In 2007, we divested of our namesake, the Vanity Fair Intimates division, that was not a decision made easily but it was made in a manner that allowed us to reshape our portfolio and absolutely put a stake in the ground that we were about driving global brands that connect with consumers through a very unique set of lifestyles, and we're able to leverage and scale with the expertises of our brands.

And in 2010, we executed the largest acquisition in VF's history when we acquired Timberland, and this caught the eye of the entire apparel and footwear sectors. We took a much bigger stake in the outdoor lifestyle sector and we doubled the amount of footwear volume that we do on an annual basis.

Last year, we continued to transform our portfolio with the divestiture of our contemporary brands and the announcement that we're seeking strategic alternatives for our licensed sports business. Again, very strategic, this is about reshaping our portfolio and putting ourselves in a position to continue to drive top quartile returns.

So, I hope what I'm getting across to you, it's a little bit of a laborious walk, but that shaping our portfolio is more than a dynamic process. It's actually a very fundamental strategic mindset that we use to shape our portfolio to compete in the market conditions that we see ahead of us.

And over the past 15 years, as we've gone through this evolution, we've honed our skills for how we're able to manage our brands on a global basis, for how we can instill our operating disciplines in our businesses to really assure high-quality service and delivery of product. And it's also how we've been able to utilize our financial disciplines, one of the greatest strengths that VF brings to an acquired brand to help us assure that we drive the highest value and the highest returns.

So today, I'd like to have you really understand that this is a portfolio that's anchored in outdoor, action sports and jeans. But more importantly, it's a portfolio of powerful brands. We have 5 billion-plus brands in Vans, in The North Face, Timberland, Wrangler and Lee. And it's these brands that really give us the confidence in our ability to continue to grow and satisfy what our consumers are looking for.

Today, we actually want to – we also want to talk to you about something new. We see an opportunity to take the strength and capability of our Red Kap and Bulwark teams and combine that with the power of our Timberland PRO and Wrangler Riggs business and create a new group of businesses that are focused on servicing the work sector. Together, this group of brands has a very unique opportunity to provide a head-to-toe segmented offer of products that will put VF in the position to be one of the most advantaged and positive owners in a very attractive work segment. And this segment is worth about $30 billion on a global basis and later in today, Curt Holtz will be able to walk you through more of the details around what gives us great confidence that this is an area of our portfolio that we've been in for many years. But as we look at the market conditions and we look at the strength of what we built with our Red Kap, Bulwark and more importantly with Timberland PRO and Riggs, we have an opportunity to really grow.

So, I'd like to challenge you to not think of VF as an Outdoor & Action Sports company. But I'd rather ask you to think of us as a value creation company that is anchored in our powerful brands with a particular center of gravity in the Outdoor & Action Sports space. That's a shift and it's really this notion around driving value that I want to leave with you today.

So, maybe, we should try to remove a little bit of the mystery for how we manage our portfolio and how Scott, myself, and our leadership team, think about managing this portfolio to drive value. From a strategic standpoint, we look at iconic brands that lineup of where we see strategic growth pools. And we also look for brands where our brand management disciplines can be utilized in a very positive and productive way. From a financial standpoint, we want to make sure that any business that we acquire is accretive to our growth and margin objectives, has the ability to generate a strong stream of free cash flow and that it can meet our minimum hurdle of greater than 15% on return on capital over a period of time.

This is an important point. The brands in our portfolio play very distinct and different roles. And it's core and fundamental to our diversified management model. And it's what you can see us continue to use as we move forward against the strategy. You can see TSR sits squarely in the middle. And it's where we put a tremendous amount of emphasis. As we look at our brand portfolio and measure why are the brands in our portfolio, are they providing the value, and do we have that confidence over time that they'll continue to drive the value that we've committed to you.

So, you can absolutely expect us to be active portfolio managers. We will reshape our portfolio. We will continue to invest behind our powerful brands with a very clear intention of creating value. And up to this point, I've talked a lot about leveraging the unique skills in our toolkit to drive our ability to win. What I'd like to talk to you today more about now is how we're transforming. As consumer preferences evolve, we need to transform and we need to be able to position ourselves closer to where our consumers are. We need to pivot and become much more retail- and consumer-centric in how we think, how we act. It will help us to become more agile and quick to adapt to the changing market conditions that we see on a year-to-year basis.

Our business has been built on a very strong, proven set of wholesale skills. Our opportunity is to take those skills and marry them with a new set of capabilities that position us to be much more retail- and consumer centric. These would be really thinking through lens of how we operate our business, it's thinking about how we design and merchandise our products. It's how we think about bringing experiences into our retail environments that attract the consumers into be part of our brands. It's how we think about operating our supply chain and distribution platforms. It's how we train and develop our people. We will pivot, and we will absolutely change and become more retail- and consumer centric.

We see an opportunity to be much more holistic in how we manage and leverage our shopper insights and data analytics to better inform how we design merchandise and flow products into our own environments but also into our wholesale partner environments. And as we go through this transformation, there's a significant opportunity to dramatically improve on our SKU [ph] inefficiency (34:23). And as we do that, we can reduce complexity and when you reduce complexity, you can increase focus and when you increase people's ability to focus, that has a direct impact on the quality of the products that we will create and the brand experiences that we'll bring to bear in our environment to speak to our consumers.

Our third priority will be to further elevate or DTC and consumer business here. It's really about how we're going to focus on digital marketing, e-commerce and consumer analytics. Over the past five years, our own brick-and-mortar and e-commerce platform has grown to represent 28% of our total revenue. By 2021, we see this increasing to just over a third of our total revenue and contributing more than half of our total growth. We will use both our stores and our digital environments to represent the pinnacle expression of our brands, each of these enabling us to bring a much stronger emotional connection to our consumers. Our retail environments are where we have absolute control over the product and the experiences that we offer. But more importantly, these are the environments where we're able to gather a rich stream of shopper data.

And in 2016, we saw our online and physical comp store traffic increase about 10% to just over 0.5 billion consumers. Interesting is over half of that traffic came through our digital platform. That's an important point, as you think forward into 2021, e-commerce will go from 5% of our total revenue to 12% of our total revenue contributing just over $1 billion of the growth that we project in the next five years. This growth will be broad based. It will be across all of our regions, but you'll see a particular growth in Asia and most specifically in China.

And later today you'll hear from Greg Pulsifer our VP of Digital. He'll walk you through the opportunities that we have in our own platform and then the work that we're doing to seek and bring in new capabilities that allow us to continue to scale what is already a significant strength in our portfolio.

Finally we will continue to distort our investments towards Asia, with a heightened focus on China. Asia has been our fastest growing market for the last decade. We've seen our business grow tenfold in the last 10 years and develop into our most profitable region. What's great is as we've grown, we have created an incredibly capable team and a very comprehensive business operating platform, that as we look to the future gives us confidence that this growth is absolutely attainable.

And as we look over the next five years, there's a number of market data points that give us confidence that our brands will continue to see this growth. I think it's widely known that Asia, this market will contribute a third of global GDP growth in the coming years, specifically coming from China alone, will be approximately $300 million new consumers entering China's middle-class. Those consumers are perfectly positioned for our brands to speak to and our brands to attract and have them become part of our communities. And as China readies to host the Winter Olympic Games in 2022, President Xi Jinping has decreed that the Olympics will inspire 300 million new winter sports fanatics. I can think of no better portfolio or no better brands than The North Face and Vans to help those consumers come into these sports that we know so well and enable them to enjoy and be protected in the outdoor environments. So I hope what you get is, we're just getting started.

Asia is our smallest market when you look at total revenue but it's the largest opportunity when you look at the growth in consumer, the growth in the consumer profile and our ability to really speak to them in a unique and powerful way with our brands. So to support our where to play, how to win choices, I want to talk to you about six specific capabilities. First, and I've talked about this, and then I'll continue to pound on this point. We will absolutely look to elevate our commitment to design across all aspects of our brands, product and our brands experience. This is what defines great brands, is your ability to create products that consumers [ph] cut it (39:17) and create experiences that they want to be part of.

And it's imperative that we will look to increase our design, merchandising and product capabilities to really create products that our consumers covet. And I think the magic here is how we'll be able to marry the power of our design with the power of our innovation platform. We have stood up three innovation platforms over the last three years, focused on technical apparel, footwear and jeans.

And as these centers have stood up, we've created a valuable cross VF set of technology platforms that are now being integrated into our brands' commercial product pipelines. And a great example of that is our Lee BODY OPTIX platform, and it's really one of the first examples of a technology platform coming from our jeans team. We launched this last year in China, and it quickly became one of the top collections, as we're speaking to the Chinese female consumer. We saw 300% growth in the last 12 months. And it now represents 25% of our total sales in our Asia Lee business.

And during one of the breaks, the products are represented in the brand gallery and we would love to walk you through the technology. It's very visual. It would require us to spend some time and explain the science, married with product design and the attributes that it's bringing and why the female consumer in China is so excited about being part of that. And at the brand level, to support and enable this focus on innovation, we're spending much, much more time on managing our multi-year commercial line plans.

And really looking at the need to think about the product lifecycle management and how we marry that with the flow of new innovations to continually bring new ideas and new products to the marketplace, and ultimately to our consumers.

Over the past 15 months, we've worked with our brands to analyze and look at the effectiveness and the efficiency of our marketing spend. And what we've uncovered is there is significant opportunity for us to better activate the spend that we have but more importantly opportunities to increase the spend and amplify the messages that our top brands have to project to the consumers.

As we drive towards creating better products and becoming more consumer- and retail centric, we'll create new moments, from new meaningful conversations that will allow us to speak to consumers through a much broader spectrum of demand creation tools.

And as we move down this path, we have the opportunity to have a much deeper investment in our consumer analytics practice. We have a tremendous amount of insight, we collect a lot of data through our stores and our online platform. And it's that information that is allowing us or gives us the opportunity to be much more target in our communication and placing our communication where our consumers are and in a manner that they're looking for us to communicate to them in.

So we have an extremely interesting opportunity to go beyond the traditional aspects of creating awareness and driving conversion, and really shift to driving greater brand engagement and brand loyalty. So if consumer insights have enabled our growth over the last five years, going forward, it's the combination of those insights with our data analytics practice that will help propel us into the strategic plan. And there's two areas that we're going to focus on first. One will be around consumer behavior, and the second will be around predictive demand chain analytics. And when you think about the consumer aspect of this, it's moving beyond CRM, that's where our data comes from, but really pivoting and thinking about it now more, as we like to call it CLM, or customer loyalty management, and it's really loyalty defined by brand affection and conviction. And this shift will move us from group conversations to one-to-one conversations and ultimately creating a much more intimate connection for our brands with their core consumers.

And as we look to improve the quality and flow of our products, it's bringing predictive demand chain analytics to our supply chain and our brand partners. And it's looking at that brand demand chain and being able to allow our supply chain to partner together and over time, really modify and streamline the products that we offer and ultimately help us be much more thoughtful about how we deliver these products, where we deliver these products.

But most importantly to really blocking on the right amount of quantity that we're delivering at the times throughout the year, that we're dropping products into our retail stores. So I think it's pretty clear to you that retail is an important part of our go-forward strategy. And I spoke earlier that we're moving from retail being 28% of our total growth or total revenue to 35% of our total company's sales stream. And it's where we'll see the greatest growth and Scott will walk you through that later today in our financials.

But as we do that, we have a heightened focus on becoming and really driving retail excellence. And retail excellence is really about focusing on improving the productivity of our in-store and online shopping experience and it's really about delivering more compelling and dynamic experiences through the staff that we employ, the tools we have to use inside our stores. And just imagine, if we could just create an additional point of conversion against that 0.5 billion consumers [ph] through the excellence (45:33) focus and driving productivity, imagine the revenue and the profit that will drive into our P&L. This is a very important aspect for how we're thinking about this. Our model has evolved over the last five years, and it's an area that we will continue to focus on evolving.

We will open fewer stores. Stores remain a very important part of our go-to-market strategy. We'll actually begin to test and look at new formats in a much more rapid and agile way. We'll look at where we locate our stores, using our shopper insights and consumer data to make sure that we're placing our stores and structuring our stores in ways that truly attract consumers and really drive them and give them reasons to come in and be part of our brand experience.

I was talking to one of you earlier today. Things are changing in our retail landscape for sure, but what I can tell you, consumers are still very, very excited and very interested in purchasing products. We all still work close. We all still want to do activities. And we all still look for brands that help define ourselves to our friends and to our communities. This portfolio could not be better positioned to compete in this marketplace, and it's our retail platform and it's our online platform that gives us such a unique advantage, as we look to the future.

Our supply chain has been one of our most strategic platforms and it will continue to be one of those elements that make us such a strong company. And as we pivot to become more consumer- and retail centric, there is three important opportunities that we're investing behind specifically to elevate the contribution of our supply chain.

And I spoke about this earlier, it's about taking our brands demand chain and bringing it closer to our supply chain to really harness the wealth of our consumer data, to better inform the products that we're creating and better inform the seasonal flow of those products. And as our direct consumer platform scales, we have an opportunity to advance our omni-channel fulfillment capabilities, and that's about making sure we have products placed exactly where our consumers want to consume them at. And it's all of the backend operations that go on within our supply chain and distribution platforms to put us in a much more advantaged position to drive our online and in-store platforms.

And our supply chain organization is playing a significant role in our innovation agenda. And it's really taking that long-standing manufacturing capability and bringing that to bear with our innovation teams. As we look to how we can create new methods of make, not just methods of make for the products, but going up the supply chain and looking at the materials, and how we can create a much more dynamic and collaborative process with the long-term vision of bringing production, adjacent to consumption. And I can think of no better company with the heritage and the deep knowledge that sits inside our supply chain to help our innovation team really look at and reengineer and put ourselves in a much stronger position to be quick and agile in satisfying our consumers.

So, as we move forward, talent is by far one of the most important parts about executing the strategy. We are doubling down on our commitment to provide robust programs that prepare and train our leaders to motivate and guide our teams to this rapidly evolving marketplace.

Our commitment to succession planning begins with our Board of Directors, and it's really central to why we are continuously called out as one of the top employers for leaders and organizational readiness. We have a deep commitment to driving a performance-based culture, and this is a culture that celebrates passion, diversity and collaboration. And we're just at the beginning of a journey to define ultimately what is our VF purpose?

We have a very strong set of values but our millennial employees and our consumers are teaching us every day that it's absolutely critical that VF defines our purpose. It's really helping unlock the reason of why we do what we do to marry with the strength of the strategy of what's in the house. And I cannot stress this enough the new millennial employee, we all get to interact with them often. This is so important to them and you can see it in consumers in how they're choosing to interact with brands. And this is an area that we will continue to really look at and evolve in the very short order here.

So, to deliver top quartile share returns. To summarize, we have four strategic, where to play, how to win pillars. Those are about reshaping our portfolio and enabling our powerful brands to continue to grow. It's about transforming to be more consumer- and retail centric. It's about elevating our DTC platform while having an intense focus on digital.

And it's about distorting Asia, with a very particular focus on China. These four choices will be enabled by investments in six core capabilities. Those are design and innovation, it's elevating our focus on demand creation and driving as much stronger brand experience. It's about taking that consumer analytics strength and combining it with the data analytics practice, and it's about focusing on improving the excellence of our retail and improving productivity. It's about driving in a more agile supply chain and it's about scaling our talent. All of this is driven by an aspiration to create amazing products and brand experiences that transform and improve the lives of consumers worldwide while delivering top superior returns to our shareholders.

So you can probably ask yourself what's really different, and I hope this chart kind of helps you do that or answer that question for you. What we're going to do is really build on our existing strengths our diversified model, our powerful platform, and combining that with a set of capabilities that will help us accelerate.

And that's about again reshaping our portfolio, I cannot emphasize that enough. That's how VF has evolved over the years to be the company that it is and it will be a absolutely what we use to drive our growth in the future. We will transform to be more consumer- and retail centric. We'll do this as we focus on elevating design and everything around product and brand experience, and we're going to invest behind the critical capabilities of design, innovation, demand creation, and digital capabilities.

And I would tell you, as we do this, we will strive to become much more efficient and much more agile, and we will be allocating our resources specifically to support our strategy. So as we look to the next five years, we are targeting a mid single-digit revenue growth through 2021. Our growth will be powered by our most significant growth engines being the Vans, North Face, Timberland, our international platform and our DTC platform, because there are the businesses that have historically and have recently continued to deliver high single digit growth.

And as a reminder, these numbers exclude our Licensed Sports Group, given our decision to pursue strategic alternatives for this business group. And this is the average growth rate over the next five years. We expect our growth to return to high single-digit rate in the back half of the cycle. And really that will be driven by the foundational investments that we are making in the near term to drive meaningful growth as we proceed.

And again, this is an organic growth plan. This does not envision any M&A but I don't want you to take away that that is not important. It is important. You will see us reshape our portfolio. And when we do, it will be accretive to these numbers.

And for those of you who are visual learners, like myself, we thought a graphic would really be helpful for you to understand how we're looking at this growth over the coming five years. In our 2017 outlook, we talk to you about focusing on or delivering a low single digit growth for the year. Remind you that, that was negatively impacted by a couple points of FX, but this growth contemplates an acceleration of mid-single digits in the back half of this year.

And we see that growth trajectory continuing through 2018, before the growth really begins to come to life in 2019. And that is where we we'll see The North Face, Timberland and our work team accelerate. It's also where we we'll see the short-term headwinds facing our jeans business abate. And it's where we'll see the full benefits of this strategy begin to unfold, and this is where you'll also see us in the actions of reshaping our portfolio come to bear. And I guess what gives us confidence, that this actually is something we can obtain. I would tell you, it starts with reshaping our portfolio. It's been an important part of our evolution over the years and it will continue to be, and it's a deep commitment that we have to you, as our shareholders.

It's our strategic framework. That the strength and clarity of the choices that we're making and how these are being utilized and activated across all of our businesses, and it's our ability to distort our investments against these choices to really enable our powerful platforms to scale, the powerful platforms of international and DTC and our three largest brands.

We're targeting a low double-digit EPS growth for the next five years. That sounds consistent with what we've done the last four. It's because it is. That's not by accident. It's really about consistency and sustainability and being able to drive that consistent type of performance. And I'd remind you again, that this an organic growth target. As we reshape our portfolio and execute M&A, we see an interesting opportunity to exceed these numbers. And again, this is an organic target. And as we look to continue to be a top provider of shareholder return, just want to reiterate that our target is the midteen growth and this is midteen growth not to position us as top in our sector, but to continue to keep VF at the top in the S&P. And I should mention and Scott will unpack this a little bit more later today. Over the next five years, our plan and TSR targets, include us returning $8 billion of cash to our shareholders and that's about 40% of the total return embedded in this plan.

And so, now it's time to get into the fun stuff. You've heard the foundational elements of our strategy. It's time to shift gears and have you – you have the opportunity to hear from our brand leaders. There is a slight change to the last two investor conferences that we put forward, where you've heard from our coalition leaders. Today, you're going to hear from our top five brand leaders. They're here to share with you their story, they are here to really instill and give you a sense of confidence about why we have confidence in our ability to grow. You'll hear from our five brands, and as I mentioned, you're going to hear from Curt about this new opportunity that we see in work.

Together, these brands represent about 80% of our total revenue, and represent 85% of the growth over the next five years. I said this at the beginning, and I want to reemphasize this. These leaders are incredibly strong, very, very capable and have a tremendous amount of tenure, not here within VF, but within the industry.

You've had concerns about our management changes and I wanted to keep that in front of you. We have a longstanding practice around succession planning. I mentioned it starts first with our board. The changes that we make are calculated. They are actually planned well in advance. And the leadership team that you'll see today, some are new in role, some are actually changing roles. But it's our ability to move our leaders in the positions where we need them most, to drive our business, to lead our teams, to deliver that value, that I hope will come back in spades to you, as you listen to today. And I'll check back with you at the end of the day, and see if in fact your confidence is as high as mine.

So with that, what I'd like to do is pass the torch to our President of our Vans business, Doug Palladini.

Unverified Participant

Please welcome the Global Brand President of Vans, Doug Palladini.

Doug Palladini

Global Brand President, Vans, VF Corp.

Thanks, Steve. Good morning, everybody. Pleasure to be with you here today. My name is Doug Palladini, I'm the Global President of Vans. And I'm very thankful to have the opportunity to speak to you about a brand that I've had the pleasure of working with for the better part of the last 13 years.

Going to start by telling a little personal story. I was talking to a reporter from Forbes Magazine few weeks ago. And she asked me a question that I get all the time. She said, how can Vans still be a youth brand when old guys like you are wearing the shoes? I wasn't offended, I get this question all the time. I was born in 1966 just like Vans was. And it gave me a good opportunity to talk to her about the soul and the heart of Vans. And what's behind it is a Vans state of mind, an off-the-wall state of mind. And when the story came out, she described Vans as a brand that had achieved eternal youth. I can think of no greater compliment.

What allows Vans to have eternal youth, to still be a youth culture brand after 51 years in business, is the fact that that state of mind exists in all of us. We all remember our first rock concert, our first kiss, and when you put on Vans, it brings you back to that feeling. It's also remains incredibly relevant to young people all over the world as well. So, all through the five decades that we've been a brand, we've been able to successfully remain modern and remain true to our heritage and remain true to a very youthful state of mind. So I hope when you put on your Vans, you'll feel the same way.

What that does is that has yielded an incredible track of growth for the Vans brand. VF acquired Vans in 2004, and our growth has run unabated northwards since then. Our five-year track, as you see here, represents a 14% CAGR, and we're very fortunate to have finished 2016 as the largest company in the VF portfolio. We're very proud of that.

What has fueled this growth primarily, I would say is geographic expansion, okay? If you think about going from a California brand when we started to a truly global brand today, what that means is that, U.S. as a share of our total business will decline from 55% of our business today to 48% by 2021.

Another source of that fuel has been our DTC business that Steve talked about earlier. Increasing from 38% to 48% of our total revenue with growth across all channels, and what that yielded was $2.3 billion in sales last year. That was a very small 1% miss on our 17x17 target. We're very proud of this kind of CAGR.

Primary rationale for the miss was – came from our EMEA region. So here's the story. So we [ph] met and (1:02:39) managed through, and we've talked about this on our quarterly calls before, some elevated inventory around our number one style, the Authentic, which had a negative impact on sales. But, look, what happened? By the end of the year, we were already back in positive territory and we return to growth. The return to growth continues in 2017, with much better product management controls around what are now our hottest styles that have the Sidestripe on our footwear, okay? Our high single-digit growth is what we're showing in EMEA for 2017. So we think we've really corrected that very small miss to our 17x17 plan, and back in very, very positive territory with that region.

Let's talk about the Vans brand and really what lies at the heart of it. This is an image taken in 1974 in Dogtown and what it represents is it represents the modern birth of skateboarding. The kids in these photos chose Vans to wear on their feet, and ever since that day we've had a very organic connection to the cultures in which we have a presence. Very, very important here, this was not created by an advertising agency, this is not a manufacturing concept, this is a highly organic concept, and I think that speaks very powerfully to the authenticity of the heritage of our brand. No amount of money can buy this type of authenticity. This is just something that happened and it's something that we need to continue to feedback into to fuel our growth going forward.

Another amazing part of our heritage is the Van Doren family, the family that founded Vans back in 1966. Key family members remain ambassadors of our brand today. If you've ever had Steve Van Doren cook you a burger at an event, you know what I'm talking about. Our ability to live to these familial ideals of Van Doren spirit are at the heart of the culture that drives every strategy inside of the Vans brand.

So skateboarding, what is its role today? Do we want to remain the global leader in skateboarding? Absolutely. Is that the only thing that Vans is? Absolutely not. Our ongoing commitment to being the world's number one's great skateboarding brand is actually seminal in our broader strategy. Skateboarding serves as the muse for our performance-based innovation, because skateboarding shoes are viewed as the tools necessary to progress, just like your deck and your trucks and your wheels are, okay?

Our relevance in the skate culture is the catalyst for a meaning in other important cultures, music, art, street culture. And our skate authenticity brings us into much wider circles and opens the aperture on what our brand can stand for. If any of you saw the Louis Vuitton Fashion Show featuring the incredible Supreme skateboarding brands, Supreme one of our great partners, perfect example of skateboarding's influence on high fashion. And Vans collaborates with brands in that world as well.

So Vans actually connects across many forms of creative expression. Skateboarding is our entrée

into these other worlds. Actually, creative self-expression is at the center of everything that we do. It's our higher calling. It informs the products that we make and the stories that we tell. But what Vans is a multifaceted, eclectic brand, and these pillars all tied together by creative self-expression are at the center of who we are. Our fan base are the same way, they are multifaceted and eclectic as well, they are not just one thing. And that gives Vans a substantial competitive advantage.

We call our consumer, no surprise, the expressive creator. Now, this is a quantitative and qualitatively designed consumer that is globally relevant. This consumer is identified as 50% male, 50% female, which we love as well. And it represents 12% of the Vans potential consumer base, with an influence that goes well beyond that. At the end of the day, these expressive creators care about the same things that Vans does, those four pillars of art, music, action, sports and street culture. And Vans fans wear our products to express who they are. That was the highest calling of a brand, when you will put these things on your feet, on your body to say something about who you are, and that's what Vans fans do.

While we are very proud of the growth that we have experienced since VF bought Vans in 2004, and even more predominantly over the last five years, there is incredible market share in front of us. So a question that we get a lot is, Vans has grown amazingly well beyond what a lot of people expected, how are you going to continue that? I think you can see from this chart very clearly that the market opportunity remains in front of us, not behind us. We have a very humble market share in an $80 billion opportunity. Now, expressive creators control $30 billion of that opportunity and they influenced even more.

Let's take a look through a video here at how we bring our brand to life all over the world.

[Video Presentation] (1:08:25-01:12:49)

Thank you. Jan and Joyce do a great job of speaking to our global consistency, our local relevancy, and the fact that the expressive creator has found everywhere Vans is on this planet.

So, let's shift now and talk a little bit about our growth drivers. And we are very focused, very diligent around four specific areas that we believe will drive our growth. Five major icons that represent the base of our business, along with innovation in all product categories. Leveraging 51 years of Vans retail. 1966 opened as a retailer, still a very, very important part of our business today. As you just saw, Joyce talk about the Asian EC. Currently, in the Asia Pacific region, 27% CAGR, $300 million in sales, just getting started.

And finally, as Steve talked about earlier, deep consumer connectivity, just an integral part of who Vans is as a part of popular culture, not a sponsor of it, operating from inside of popular culture with youth. So let's break those down and unpack those a little bit.

When we talk about our icons, we talk about five iconic styles. You have the Authentic, the Era, the Sk8-Hi, the Old Skool and the Slip-on. These represent 50% of our footwear business, consistently the most productive and accretive part of our footwear business. Our base, our power base, going to continue to feed into those. That said, we use very strong icon management platform so we ensure that no individual icon will represent more than 40% of our classic footwear business or 20% of our total sales, okay? So we want these five all being diversified across our selling.

We also believe that leveraging Vans' icons is about continual innovation and modernization of the product. Things like alternative closures, materialization, seasonal colors and, like you see here, collaboration. Now, collaboration is such a big part of this culture, those of you who follow this sector clearly know. For Vans, collaborations run the gamut at the very, very high, most aspirational end of the continuum, we're collaborating with powerful retailers like Opening Ceremony and Collect. We're operating with powerful brands such as Supreme. All the way down to the commercial, like you see here, big licensed volume-driving projects that come from things like Peanuts. You guys are all familiar with what we've done in the past with brands like Star Wars and Disney.

And it's so powerful the way, as you see here, look at the way that they've allowed us to play with the brand. One of our favorite things, when you see – when you see that our Sidestripe

turn into Charlie Brown's shirt. I think that's a great example of us working together, even with these big licensing things.

I just want to make sure that you all understand that we manage the size of this part of our business as well. We don't want any collaboration to yield more than 5% of our total footwear sales. So, we are very proud of these collaborations. We also manage them very carefully to keep them in line with the rest of our business. So for Vans, the icons and the [ph] newness (1:16:12) are the heritage plus progression model that we're talking about today for our brand.

We also believe that bringing new franchises to the forefront is such an important part of our growth as a brand all over the world. And as Steve talked about earlier, what he was focusing his team on from a global perspective and as the biggest brand, we are right there with VF. We are leveraging the innovation centers, we're leveraging the supply chain, the emphasis on elevated design to create these new franchises, okay? And what you see here, what you will see out in our gallery, represent some of the new thinking. Some things that haven't quite launched yet, like the UltraRange that you see up there, and our MTE, which is becoming a very, very powerful part of our business already, as a franchise that takes us into being a four seasons brand, for example.

Footwear and [ph] newness (1:17:07) ultimately will drive 30% of our business in 2021. So, this is material to how we grow. We, in addition, are a true – becoming a true head-to-toe brand. Now you've heard us talk before, following us on a quarterly basis, about apparel and accessories being a focus of ours; continues to be a focus, 27% of our sales in 2021, up from 21% today. So we're going to continue to push forward to make sure that we are a true head-to-toe brand. And we know that we have permission from our consumers to play in all of these areas. They expect these kind of products from us.

D2C. Vans opened its first store in 1966 when Paul Van Doren opened his factory in Anaheim, California. He bolted a little retail store on the front of it, and we've been a retailer ever since. Very, very proud part of who we are as a brand. Today, that one store now has yielded 1,600 doors globally. That breaks out into 948 doors in Asia Pacific, 272 in EMEA, and 462 in North America. But growing through door expansion is only one part of our DTC strategy.

We are operating with powerful KPIs in each of those doors. We have great stories to tell. We have incredible sales associates that act as brand ambassadors, and the result of that work on the floor yields conversion. Those experiences that you have when you come into a Vans store yield very strong KPIs for our physical doors.

As we expand our mix of DTC as a part of our total business, we also yield favorable gross and operating margin structure for VF, very important part. And we expect DTC to comprise 57% of our business in 2021, now that's up from 48% today. Here you see that our base of stores are our strength, but we are focused on e-com as the channel that will drive our growth going forward, okay. In 2021, 16% of our business will be yielded by e-commerce, and we are already well on our way to achieving this goal.

Vans is at its best when it blends the experiential with the transactional. And there is no better example of that that we have today than our customs platform. Now, all of you have been given a card, so you can try to build your own pair of custom shoes, or you can get someone in your family to do one, so you can see what the experience is like for yourself. But what we found is, this blend of transactional/experiential is really setting Vans apart, okay? It both thanks our loyalists and informs the newcomers to our brand as well, and it lives on vans.com.

89% increase in page views over the last year on our custom platform. Consumers uploading 3,500 custom images daily. So just getting started, but already some very powerful metrics to show that we are well on our way. This will also – this customs platform is also going global, Canada, EMEA and Asia Pacific will all be coming online this year with our customs platform.

And as you know, hearing from Steve, driving speed and agility in our supply chain is one of our most important goals at VF. We think customs has a very, very important play in that speed and agility platform. Look forward to hearing and seeing the shoes you guys create.

So, our focus on growing our business in Asia is not unique, right? You guys hear this a lot. But what is unique is our ability to influence the expressive creators in Asia, and as you see through our results, it's already working for Vans, something for us to build on, okay? 544 partner stores, concessions stores, and owned retail stores in

China alone, and then 948 across the region. But store growth alone will not drive our business. We're driving productive and profitable growth, which is key to our long-term success. China is the best example, okay.

So, our nearest competitors in China have more stores, but they do not operate them as productively and profitably as Vans does, and we're very, very proud of that. So, that store base we have today will continue to grow at the pace that we feel is right, while returning productivity to our P&L.

Our closest competitor, for example, has three times as many stores and, as you heard Joyce talk about, our productivity is 50% higher in the doors that we have open versus theirs. Good indicator that we're moving down the right road in China, I love these images. So what you see here is, you see some customized imagery that we created with Tmall for Singles' Day, okay?

So, while Tmall was processing 175,000 orders a second on Singles' Day, their consumers were seeing this rotate through homepage clicks, very, very powerful that Tmall would believe in our brand enough to work with us to create this kind of energy. And what it meant for Vans was 43% growth over [ph] LY (1:22:50) in our 11/11 [Singles' Day] business, 2016 versus 2015. At the end of the day, connecting with the Asian expressive creator consumers means a 17% to 19% CAGR over the next five years, yielding $650 million in sales in 2021.

Our digital platform is an area of strength for our brand, and the number is impressive. If you look across all of our social platforms, we have over 31 million fans connected through either Snapchat, Instagram, Twitter, Facebook, WeChat, through all of the platforms that you guys know, but what's most important to Vans is the level of engagement, and this Instagram example gives you a great snapshot into where we truly lead, okay?

So, again, same concept that we talked about with the stores. The base is great, the size is great, but our level of engagement, our ability to converse with our fans and be a meaningful part of their lives is really, at the end of the day, what's most important. And that's what you see here, our level of engagement on platforms like Instagram is best-in-class in our sector. Love this image. This speaks to the brand love and demand that we bring to everything that we do at Vans.

So, part of Vans' strength is being very, very clear about who we are and who we are not. It's important for all of us to know that ubiquity is not Vans' objective, okay? We're a brand that is open to anyone, but we understand that we are not for everyone. And what I would tell you is that our consumers, both existing and potential, expect that from us. They're looking for brands with a strong point of view. They're looking for brands that have a clear story to tell and a clear understanding of who they are, and that is how we tried to define our brand, again operating as a part of youth culture from inside popular culture, not as an external sponsor of it.

Let's take a look at a video that shows how we bring that to life.

[Video Presentation] (1:25:00-01:25:57)

Trying to live the brand that we are every day in real authentic and sincere way is what we're all about. Hopefully, you see that here. We really believe that's what behind yielding the growth that we have had and we'll continue to have.

So, as you see here, 8% to 10% CAGR over the next five years. Again, we really are going to focus on our meaningful points of view, our meaningful points of differentiation, and being very, very, clear to our consumer about who we are and who we are not, that focus is going to yield this kind of ongoing growth for our brand.

When you look at region, that geographic expansion around the underpenetrated markets still will yield a tremendous amount of wide space for us to plan to over the next five years. Asia will, no surprise, remain our fastest growing region. It will expand to 19% of our revenue by 2021.

DTC will fuel our growth across EMEA in all channels. And I'm proud to tell you that in the Americas, D2C, next year, in 2018, will pass $1 billion. That's a big milestone in DTC for VF.

When you take a look at our growth by channel, our wholesale growth is going to come from athletic specialty and sporting goods, and those are two areas where we're already gaining significant traction as a small player with a massive amount of opportunity in front of us. DTC expansion grosses a percentage of revenue to 57% by 2021, as I've discussed. And e-com will yield a 28% to 30% CAGR over the next five years. That is our number one sales channel for growth, over the next five years, is e-commerce.

And then finally, as you look at it by category, just to reiterate, those iconic silhouettes will provide an ongoing base of our business, but progression will drive 40% of our total footwear revenue by 2021. So, our non-icon based footwear is going to become a very meaningful and material part of our total footwear business globally, already well off to that, well off on to the races on that.

And then apparel and accessories, that had to toll up that I discussed. Yields of 13% to 15% CAGR over the next five years, and expands to 27% of our global revenue by 2021. So very, very proud of the growth that Vans has achieved. Still feel that there is tremendous runway for us to continue to focus and drive our business forward.

Thank you so much for your time and attention, and very much look forward to meeting you all.

Unverified Participant

Now, ladies and gentlemen, we will take a brief pause. Please enjoy the brand gallery. The program will resume in 15 minutes.

[Break] (1:49:49-01:49:54)

Arne Arens

General Manager Americas, The North Face, VF Corp.

Good morning, everybody, and welcome back to the program. My name is Arne Arens. I'm the GM – the new GM for the Americas region for The North Face, and I was the GM of the EMEA region until recently since the year 2012.

Now, I'm excited to be here this morning and talk to you about our growth strategy for the next five years, on behalf of our entire global team. But before I do that, I'd like to take a few moments to talk to you about our brand and where we come from, the core elements of our brand DNA nurtured and created over the past 50 years that have made us into what we are today. It all started back in 1966, with a purpose of inspiring people to live a life of outdoor exploration and enabling them for their outdoor adventures.

It started with one retail store in San Francisco, California. And over the past 50 years, we've grown to be the dominant brand in the outdoor sector globally. And we've never stopped to push the boundaries of innovation so our consumers can never stop to push the boundaries of exploration. 50 years, at first to sense, 50 years of supporting our athletes in the harshest environments and 50 years of bringing innovative and premium product to market.

Now today, I'd like to provide some context on how our brand will activate the next phase of growth. As we look to open up the aperture of our brands to become more relevant across the different dimensions of our consumers' lives. All the while, never forgetting who we are and we will stay true to our past as we define our future.

Let's talk about the marketplace. We know the marketplace is evolving, so we need to evolve as well. Our consumer is changing. Our consumer, which we refer to as the progressive explorer, today is not just looking for outdoor brands to equipment for their physical adventures. They live multi-dimensional lives and they are looking for brands that support them with that.

Now, as we expand around our concept of exploration, we will become more meaningful across the different aspects of their lives, not just the physical one but the other ones, as well. There's the emotional aspect, which all comes from the thrill and joy from discovering the unknown. There's the cultural aspect, which is about getting to know new cultures, whether that is at home or abroad. And there is the creative aspect, which is all about supporting our consumers on their journey of self-discovery and expression. This is the new outdoor market and it's not just about activity. It transcends activity. It is a lifestyle, and we believe that as North Face, we are perfectly positioned to shape this market going forward.

And before we talk about our strategy, I'd like to take one moment just to reflect on where we are from a growth standpoint. So, since the VF acquisition in year 2000, it was essentially the norm to be growing at a double-digit clip for The North Face globally every year. Now in the last two years, our rate of growth has slowed somewhat, and there are several reasons for that, some external and some internal. The external reasons, I think we're all familiar with and Steve alluded to them in his presentation, the marketplace, retailer bankruptcies, warm weather, a heavily promotional marketplace. But I think we have to be honest with ourselves as well, there have been some internal challenges also.

First of all, we saw the rate of newness and innovation slow down especially in our core outerwear business. So today, I will talk to you about reigniting that core outerwear business through heightened focus on design and innovation. Secondly, we haven't fully lived up to the expectations when it comes to growth in our sportswear apparel and footwear businesses, businesses that we know are critical to give us a more year-round relevance for our brand and grow in spring and summer. And thirdly, we need to grow – we need to accelerate growth internationally, and we feel that with the right focus and investment, we see a path for growth in EMEA and Asia-Pacific that is above average. So, today's presentation is about returning to our – returning to strong global growth [ph] to reign (1:54:09) and how we organize ourselves around the strong consumer focus strategy that'll help us solidify our leadership position in this market.

So, let's take a look at that for a moment. There's two keys to success for us going forward in terms of returning to strong global growth. One is a return to operational excellence, new and innovative products fueled by strong demand creation and [ph] brought the (1:54:35) market through a smart distribution and segmentation strategy. And the second key element is a new and expansive consumer focus vision. Now, our tag line, Never Stop Exploring, manifest itself across many different dimensions in our consumers' lives, not just the physical one, as they're exploring the mountains, but also as they're doing their everyday training or when they are living their lives day-in day-out. Now, regardless of the occasion, our brand has a right to play. So, our new strategy, which we refer to as the consumer territory model will help us to connect to and expand through these different dimensions in our consumers' lives, both financially as well as in the hearts and minds of our consumers.

Let's look at those territories for a second. There's four. The first one is Mountain Sports. This is all about – this is the core of our brand, the heart and soul. This is all about equipping our consumers for their outdoor adventures. Secondly, there's Mountain Athletics, which is all about supporting them in their everyday training and fitness. And then, we have two more lifestyle-oriented categories, Mountain Lifestyle and Urban Exploration, and these are all about everyday exploration, whether that's connecting with your friends around the campfire or just exploring your city. These are the four territories that we will be focusing on going forward. So, take a – let's take a look in a bit more detail at each of these territories.

Let's look at Mountain Sports first. As I said, this is the core and the heart and soul of our brand. This is the ultimate representation of what we call Athlete Tested, Expedition Proven. This is about supporting our athletes at the highest level, at the elite levels of their sports, whether it's mountaineering, climbing, hiking, snowboarding or skiing. This is where they trust us with their lives and this is where they require world-class technical products that provide unmatched protection as they push themselves in the elements. Let's take a quick look at a video to see how Mountain Sports comes to life.

So through Mountain Sports, we addressed a global market opportunity that is $22 billion. Now, this is currently our largest business, but I'd like to underline this, we still see many opportunities for growth. First of all, we need to reinforce our leadership position in the outdoor specialty channel. I make this the channel that is the preferred brand and make ourselves the preferred brand of choice for our Mountain Sports consumer.

Secondly, we've got a fantastic opportunity in outdoor footwear. When I tell you that out of this $22 billion, one-third is made up by footwear, but footwear currently only makes up about 10% of our revenue. This lays out the path for growth and through a heightened focus on design and innovation, we believe that we can grab share in this category.

And thirdly, we have a path to growth internationally. With a right focus and investment in our EMEA and Asia-Pacific regions, we have an accelerated path to growth here. And with all these initiatives, we see Mountain Sports growing at a mid single-digit rate over the next five years.

Let's look at our second territory. This is Mountain Athletics. So, picture an athlete that is just summit at the peak, right? This is a glorious moment, but think about the thousands of hours that preceded that to get ready for that moment, the hours in the gym, running mile-after-mile, all the activities that our athletes do to get ready to get – go further and faster and get ready for their next big outdoor adventure. Let's take a quick look at a video to see how that comes to life.

Now through Mountain Athletics, we addressed the $63 billion worldwide opportunity that is made up by running, training at fitness-oriented apparel and footwear. Now, we currently hold a less than 1% share in this category, so we are relentlessly focused on driving our training and running proposition going forward. And like I mentioned in the beginning, we are striving to be a more year-round brand and this is one of the categories that'll help us do that, and through in a premium apparel offering, we're going to gain relevance specifically in spring and summer. Overall, with these priorities, we see Mountain Athletics grow at a low-teens rate to double in size over the next five years.

Let's look at our third territory. Now we get into the two more lifestyle-oriented territories. We know that our brand does not just live on top of the mountain. We also have very strong lifestyle appeal and Mountain Lifestyle is one of the territories that we express this through. Mountain Lifestyle is all about the pre and post activity adventures. It's about sitting around the campfire with your friends or connecting with them on the weekend and sharing those experience as well with the people who'd choose to connect to. Let's take a quick look at a video to see how this could come to life.

Now with Mountain Lifestyle, we play in the $25 billion global segment that is made up in the outdoor and youth lifestyle categories. Now, we currently hold a single digit – low-single digit share in this category, but we've got many opportunities for growth and we believe that through an offer of equipment and sportswear apparel that is specifically relevant for the youthful consumer, we can cement our path to growth here.

Now again, like with Mountain Athletics, this is one of the categories that have helped us to gain greater spring/summer relevance as we diversify ourselves away from winter. And with these initiatives, we see Mountain Lifestyle grow. We see Mountain Lifestyle grow at a high-single digit rate over the next five years.

Now, let's look at our fourth brand territory, and certainly not the least one, Urban Exploration. This is an exciting one. We know that the world is increasingly urban and cities are the concrete mountains that are already home to over half the world's population. Now, we know that as a brand, we've got a right to play in the major urban centers of this world. Based on the values that have made our brand into what it is today, unmatched protection, performance-driven style, a push on exploration. These are values that are not just live in mountains but they're also very relevant in the city. Let's take a quick look.

Now, Urban Exploration represents a big opportunity for us, as we are addressing a $72 billion premium lifestyle market globally through this territory. This will be one of our fastest growing territories over the next couple of years.

Think about it. We are the original urban outerwear brand and consumers have embraced us in this space for years through our authenticity and our heritage. So, we believe by focusing on premium apparel and footwear and capitalizing on the strengths that made our brand into what it is today, we are going to capture major market share across the globe in this category. This is also an opportunity for us globally, and especially in Asia-Pacific where we're probably farthest along in developing this territory. And we will invest heavily into direct-to-consumer, specifically in a specific Urban Exploration store concept to help drive this growth.

Now, to give you one example of this, in Asia-Pacific, we've already opened up a number of these stores in Hong Kong and Mainland China, so specific Urban Exploration stores that we target to specific urban consumer with. Now, these stores are great and they're among the most productive ones in our fleet of stores. So, we see an opportunity in Asia to open up an additional 100 doors through 2021 to drive this growth, not only in China but also in Malaysia, Singapore and Taiwan.

So in summary, this is our consumer territory model. And we're excited about it because it'll help us to fuel our growth over the next couple of years. It'll help us to solidify our position in our Mountain Sports business globally. It'll help us to diversify and talk to new consumer across new use occasions. And it'll help to drive a greater four-season relevance with our existing consumers through Mountain Athletics and Mountain Lifestyle.

So before we move on to the hallow of this strategy and the enablers, let's take a quick look at a video of how our leaders in EMEA and Asia-Pacific look at the exciting growth opportunities that lie ahead of us.

[Video Presentation] (2:07:25-02:11:39)

Great to hear from our leaders across the world. So, how are we going to bring this strategy to life? Let's talk a little bit about the house for a couple of minutes, the key enablers: design and innovation, direct-to-consumer, wholesale expansion and authentic storytelling. It was one of the big points that Steve made this morning, we've got a relentless focus on innovation and design. Now, with the move to this territory model, there is a heightened focus to bring each of these territories to life in a clearly differentiated way. So last year, we already reorganized our product team to be more aligned with the territory model. And we've significantly invested in design and creative talent to make sure that we bring each of these territories to life in a unique way across all the different touch points.

Now, our second key to success is obviously innovation. We've got three-year product pipelines by territory that provide a relentless flow of consumer-facing innovation that will continue to generate interest for our brand. And this is enabled by our global innovation centers that provide a constant flow of breakthrough ideas across footwear, apparel and equipment.

One great example of this is our recent launch of the Apex Flex jacket which sits in the Mountain Sports territory. And this is a great example of how we fuel innovation and bring big consumer-facing stories to life. The Apex Flex jacket is a unique jacket in the marketplace. It is a combination of unmatched protection through an exclusive partnership with Gore with the warmth and comfort of your favorite hoodie. This is a fantastic jacket. Now, it's very strong out of the blocks, strong sell-through in the first couple of weeks, and this is a – this is one of the examples of the technology platforms that will drive over the next couple of years through its very powerful value proposition.

Our second key enabler is direct-to-consumer. Now, this is where we completely control our business and this is where our brand needs to come to life in the ultimate way. Now, from a digital perspective, we're focused on improving the consumer experiences and forging those one-to-one relationships with our consumers. So, we're improving the look and feel of our site to be more aligned with the different consumer territories, and we're building up through CLM one-to-one connections with our consumers. And we know through pilots that we've done that this can dramatically increase retention and conversion as we build up these relationships. We're also investing in data analytics to understand our consumers better.

Now secondly, when it comes to our bricks-and-mortar stores revolutionizing our retail mode by transforming our store fleet to be more aligned with the unique needs of our consumers across the territories but also increasing productivity at the same time. So as we evolve this look for different retails, retail concepts from us, there will be major hub stores in major urban markets that showed a full breadth of our brand across the territories, but we'll also have more specific one territory spoke stores in specific locations that connect due to consumer in that location on a very local curated and personal way.

Now, to see how this could come to life in one of our major macro markets, let's look at San Francisco for just a minute, where we have our flagships toward Union Square where we show all the territories catering to both local residents as well as international visitors. And we recently opened up an Urban Exploration spoke store in Jackson Square which is one of the up and coming retail districts in San Francisco catering more to that urban consumer. And now, you could imagine us opening up a Mountain Athletic store in those locations where our consumer trains and lives. Expect to see much more this type of thinking as we go forward from us.

The third enabler is distribution, wholesale distribution. Now, there's two keys to expanding that distribution. One, is enhancing year-round productivity and the second one is thoughtful account expansion. Now, let's spend a minute just to talk about those two. The first thing we need to do in terms of increasing year-round productivity is focusing on the outdoor specialty channel, making our products special there, making that the destination of choice for our Mountain Sports consumer. Within this channel, we also have an opportunity to become more relevant year-round through Mountain Athletics and Mountain Lifestyle.

Now, segmentation is also going to be one of the keys to success when we expand with our key wholesale strategic partners that'll allow us to show our complete brand full-year all year round, and we'll be investing in our control footprint with key partner doors to show all the territories all year round, specifically in spring and summer where our productivity normally diminishes slightly and this is key.

So, segmentation in key partner investment have actually be one of the key factors of success for the EMEA region that has led the charge on this in the last couple of years. Through their focus on their top 20 accounts and their top 50 retail doors in key locations, reinventing the wholesale in-store experience at the same time. This region has been able to grow at a strong double-digit rate last year and we'll do so again this year and these have been the key factors of success.

Now, this is a strong proof point of this marketplace strategy. It works, and we were leveraging these learnings across the other regions as we build out our segmentation efforts. Now these efforts will also allow us to assess thoughtful account expansion, so let's talk about that for a second. First of all, our efforts in Mountain Sports and Mountain Athletics will generate interest from new athletic specialty in sporting good stores, while Mountain Lifestyle and Urban Exploration will open up the door to selected lifestyle distribution. Also, we will assess expansion opportunities with online retailers where we know our consumers' base shop on convenience.

Now through these segmentation efforts, we will build a differentiated consumer experience across channels and across tiers, maximizing revenues but also assuring a premium positioning across the entire spectrum of distribution.

Our fourth enabler, and this is an exciting one, so authentic storytelling and experiences. Now, The North Face has many fantastic stories to tell, fantastic stories from our athletes and their expeditions and it's the combination of the athletic feats with the personal stories of these athletes that make them so powerful. So, you will continue to see us engage based on these brand stories with our consumers, but you'll also see us engage more and more based on the experience.

We know that consumers today require more experience, not just product, and when they do buy a product, they want to see a meaningful connection between that product and the experience that they're seeking. And our consumer territory model provides us ample opportunities to build these experiential platforms as we go forward. And one really good example I want to give you is the Never Stop communities that we started in Europe last year in four key cities. Now, the Never Stop communities essentially is a group of people that live their outdoor desires all year along, whether that is through inspirational talks by our athletes or weekly running, training and indoor climbing sessions or weekend getaways with their group outside the city, these guys live and breathe exploration 365 days a year. At the same time, they're sharing this through all their social channels and generate massive awareness for our brand. Now, we will expand this program to 10 key cities in Europe and we'll – again, we'll leverage these learnings across the globe as each region is building out those experiential platforms.

So with that, the combination of our consumer territory model and our key enablers, we envision North Face to grow at high-single digit rate over the next five years to be a $3 billion brand in the year 2021.

Now, let's see how that breaks out across territory, channel and region. From a territory perspective, we will grow beyond Mountain Sports, and Mountain Athletics, Mountain Lifestyle and Urban Exploration will go from 38% to 44% of our business in 2021.

From a regional perspective, we will generate growth in every region but we will accelerate growth outside of the U.S. to go to 40% of our business in 2021. And from a channel perspective with our investments in D2C, we see this part of our business grow to 46% of our business in 2021 while at the same time, we continue to focus on growth in our wholesale channel to increasing productivity and account expansion.

So we believe, and we're very confident and excited about our growth path for the next five years, through the territory model and a more expansive view of Never Stop Exploring, we will connect better to more consumers. And the combination of our heritage, our powerful enablers, our strong management team worldwide, and the power of VF behind us, we will deliver on this vision.

Thank you very much.

Unverified Participant

Ladies and gentlemen, please welcome the Global Brand President of Timberland, Jim Pisani.

Jim Pisani

Global Brand President, Timberland, VF Corp.

Good morning. Good morning. Thank you. I am excited to share the vision of Timberland and the future growth and the opportunities that we have. And as many of you know, I came on board about seven months ago, after leading the VF Licensed Sports Group for the last eight years. And in my short period of time here, there is a few things that stand out significantly. One is the broad appeal of this brand. It truly is amazing as I travel through the regions to see the connection the consumers have with this brand. I don't care where I was, what channel distribution, what country, people have a Timberland story.

The second is the great product. I certainly knew that we had great boots, classic boots, as I worn growing up, but it's amazing what we do now around our platforms, around men's, women's, and kids and it's really the modern footwear that we'll talk about today.

And third is the talented team. I was blown away by the passionate group of folks that work for Timberland across the globe. They're passionate as I said, they just have a work ethic that's beyond belief and they're driven by their Timberland values of really making it better day-in and day-out for their consumers and their coworkers.

So I am excited to share our vision, but before I do that I'd like to talk a little bit about the history, which is pretty interesting. And it started just up the road in 1973, up the road in New Hampshire and it was with this yellow boot called the Timberland and it was so successful that they actually changed the name to Timberland and it was basically off of a consumer need of really trying to navigate those cold harsh winters of the New England area, which I can appreciate after moving here from Tampa, Florida. If you fast forward 40 years, you see that same commitment to innovation and the focus on the consumer but I'll tell you what we've evolved quite a bit and we're so much more than that now.

Our vision is to be the largest, most sustainable outdoor lifestyle brand on earth, so if you might ask what's new here. We're no longer just a boot company. We've evolved head to toe, and it's about the lifestyle. It's apparel, it's obviously accessories and it's not just boots, it's footwear. Our brand still stands for the outdoors, but it's a more modern outdoors, and you'll hear me talk about that more. And sustainable, not just the business model, but the way we do things, the way we protect the environment, the way we make our product and obviously the way we give back to our communities. I think you're going to like this video, it really brings to life who this outdoor lifestyler is, you'll hear me say the word OLS quite a bit today.

[Video Presentation] (2:24:01-02:25:31)

So that's the outdoor lifestyler, and we've invested significant resources to better understand, in fact over 18,000 interviews with this consumer in eight countries and we know that this OLS aligns really well with our brand positioning. We know that the outdoors is more casual. We also know that it's more urban. It's where they live. It's where the consumer lives. And we also know that style is critical to this OLS. They want style. They want performance but they want that versatility and adaptability for their everyday adventure that we call the Modern Trail. And the great news is this OLS is a significant opportunity for VF and Timberland as it relates to the size and scope. It's one large common global target, and the fact that it's 28% of the overall footwear and apparel spend gives us great belief that we're going to win here. And we have a strong differentiated brand with a clear consumer target. And now let's look at the marketplace we're actually playing in.

This is a huge opportunity for us, over $450 billion across the board in apparel, footwear and it continues to grow at a high single or mid single-digit I should say over the next five years and we see significant upside. We just need to clear the path for growth and capture that share.

So how do we perform over the last five years. We saw a solid growth over the course of 17x17 plan [$17 billion by 2017], an 8% CAGR. It was slightly behind our plan, but solid given the marketplace. But what this doesn't show is the first three years, we had great success, we were growing at double-digit growth and then in the last two years certainly slowed down to low single digits. We had some issues in North America that you're all well aware of, which we – as we talk about, what are those external concerns and what are the internal. There were a few certainly internal that we're going to talk about today that we need to control. But we're going to get back through 2021, back to those mid single-digits. So before I get into our growth drives, let's hear a little bit from our colleagues around the globe and will give you an idea of what going on.

[Video Presentation] (2:27:46-02:31:59)

Thanks, [indiscernible] (2:31:59). It was great to see the brand come to life across the globe. There is three things that we're going to talk about today that are going to really change Timberland's path, and one is diversification. You're going to see us accelerate growth beyond the boot. Number two, you're going to see us elevate our DTC and it's really that focus on digital that Steve talked about earlier. And we're going to distort our growth toward Asia, especially in China.

So let's start with diversification. This will be the biggest thing that will set us up for long-term growth and we see three key areas of opportunity. One is a healthier mix of classics from casual wear to the classics, we just have an opportunity to expand there. Number two is to capitalize on the huge potential of women's footwear. We've made great strides. We're going to continue to build on that. And in fact in North America, we doubled our business in the past few years with that focus. And number three, we're going to accelerate men's apparel. This whole idea of a head to toe lifestyle and being a true outdoor lifestyle brand.

So let's first talk about how we'll grow men's footwear. So as you can see by this chart, North America is too heavily reliant on our classic boots and the derivatives of the boot. And so this is an opportunity for us to really develop a more sustainable model. You can see below the international business is much more balanced, less reliance on classics. It's actually working there. We're going to continue to build off of that. We also know it's important to protect our iconic brand in our boot business and the classics are a key way for us to do that.

We're going to continue our limited release programs. We're going to focus on elevating our seeding programs, as it relates to influencers. And we just know that the consumer generated programs and idea is the way people love the brand as I talked earlier, we're going to use a campaign that we use this last fall that was really successful and it really showcases the love of Timberland and really how it can come to life, so let's take a look at this video.

[Video Presentation] (2:34:08-02:35:10)

That's what I call experiencing the brand. So classics will continue to play a role but the single biggest way we're going to diversify our business is through new powerful platforms and you heard [ph] Tim (2:35:20) will talk about that. And the three that were focused on is the SensorFlex comfort system, the AeroCore energy system and classics reimagined. The first big platform, SensorFlex, gives us a real reason to believe, we launched that in 2014. It started out with 200,000 pairs. At the end of this year 2017, it's going to be over 3.6 million pairs. It started in EU. They paved the way and obviously the other regions are following and we're seeing some great success.

AeroCore, which we're just rolling out this spring is off of a much larger base, 500,000 pairs to start and our initial sell-in and sell-through is really strong. We're also integrating these platforms to reimagine our classics and you can see by the photo, there is a boat show with a SensorFlex bottom on it. And again, we're getting some significant traction.

So, important new platforms, but without a meaningful message and connecting emotionally with our consumers through creative marketing in the way we interact with our consumer is critical. So, let me give you a quick SensorFlex video which will give you a good idea of that.

So now let's shift to women's footwear. We have a lot of headroom here, lots of opportunity. We have a small percentage of this growing category and we're going to obviously take care of it. So, what we've been doing is really leveraging insights. We started them in 2016 and really digging into what's important to the female customer and we're expanding that this year in the APAC as well as Europe, and we feel really good about the learnings we're having. We know that they want more feminine styles. They don't want a take-down from our men's boot category. And it's important for us to understand the designs and the styles and the materials and the colors and we're investing more so than ever in understanding that from both how we talk to her, and specifically how we create the product. In fact we put in dedicated spaces in our women's, in our [ph] full price (2:37:56) stores to showcase that. We call them shop-in-shops. And our business was up 13% in the U.S. alone. So there's obviously some momentum.

The other area that I'm really excited about is a cool project that we're doing in Europe, where we're working with an Italian design company. And we're basically learning a lot from them and we're rolling out a women's line in Europe. And the initial feedback has been really positive and we'll see more about that later in 2017. So we're going to continue to leverage that to up to jumpstart the other regions as well.

So our final way to diversify our business is through men's apparel. And men's apparel is a robust and growing market for us. We're going to leverage our apparel engine in Stabio, which we were in London prior. We're moving our design team from London to Stabio to be this idea of One VF and we have some really talented Napapijri, North Face and Vans apparel folks. We're going to leverage that apparel expertise like never before and combine that with our Timberland team and we think that's a winning formula moving forward. We have some success there as well. We did a collection last year in conjunction with Napapijri and their designers and that business drove a 20% uptick in the fall business of last year. We're also going to focus on outerwear. It's a natural extension for Timberland. And we're seeing success across all the regions. So important for us to leverage that as well. So it's clear, we're on a mission to diversify, but what's going to fuel these initiatives? It primarily comes down to design and innovation.

As Steve mentioned in the opening, we're laser focused on design and innovation to drive our growth. And we benefit at Timberland. Just up the road in Dover, New Hampshire, we have the Global Footwear Innovation Center. Some of the best engineers and designers in the world are right up the road, and we're going to be continuing to leverage that to bring the latest and greatest designs, as you saw with AeroCore, SensorFlex and classics reimagined. So, excited about that part of it.

On the other side, you see the Elevate the G in style and performance. We have a formula of style, performance and [ph] green or good (2:40:18). And what I look at is the [ph] green or good (2:40:20) is an opportunity for us to really leverage that with our consumers, as we move forward, and be a key differentiator for us, as we move forward.

We have an example of that in the gallery. We did a partnership with Thread, where we're actually turning plastic bottles from Haiti into beautiful product, beautiful fabric, that we're turning into footwear and apparel and accessories. And the feedback that we're getting and the results from social media and all, it's amazing what's happening there, and I hope you can see it in the gallery. We're also creating many jobs along the way. So that wraps up diversification. It's our number one growth driver, and we know that it's important for our growth.

The second growth driver is elevating our direct to consumer. And this is the best expression of our brand, and it's a real opportunity for us to drive growth. This is really where the consumer gets the full breadth of our product and our stories. It's our new platforms and it's exclusive products and it's our head to toe collection. It's also about creating these great experiences that surprise and delight the OLS. Things like boot personalization, special events, getting your shoes refinished while you shop, having a cup of coffee while you're along that what we call the Modern Trail. And again, you'll see that focus on women and a dedicated space. It will be the largest assortment that you'll see and obviously we're going to make her feel at home when she shops and you can see that on the screen. Our commitment to the consumer extends beyond the stores and we know that the OLS shops everywhere. So we're going to serve them everywhere.

Digital will drive the largest percent of our growth over the next five years. Now, we got great traction here. We're going to keep the foot on the gas and continue to build off of it. We're seeing strong double digit growth across all regions and we're going to continue that through 2021. And mobile would be the center of all of our digital marketing and e-commerce. And we know that's where the OLS lives. It drives 52% of all the digital traffic and we're going to have a seamless integration between online and stores and have a consistent message for the OLS.

We're also going to amp up our digital influencer strategy in this area and that's going to be from a global perspective. We're going to network over 200 of these digital influencers and bloggers, which hopefully you've seen, when you've been online or in any of the social media platforms for Timberland.

So let's next move to the final growth driver, which is distort growth towards Asia and with a real focus on China. Timberland has a tremendous opportunity in Asia. It's a huge relevant market and it's expected to be $200 billion by 2021, and we're just really getting started in this area. It's only about 3% of our global revenue. And we know that Vans and North Face is closer to 7% to 8% of their overall revenue. We believe it's a tremendous opportunity. They've built a great model, specially Vans for us to follow and we're going to adopt that model and continue to grow.

We're going to focus on three key areas as it relates to China. One is distribution. We're going to continue to focus with our partners, our franchise partnership stores to grow that business. And we're going to expand rapidly our DTC presence in our own Footwear Plus model, which continues to work.

From a product standpoint, we're going to complement our in-line collections with special locally driven capsules like the Chinese New Year that's worked tremendously for us. And then the local driven marketing campaigns, which you heard [ph] all the (2:44:10) talk about TeeBooLang, which was the biggest social media success that we've ever had in China. The awareness was tremendous. The excitement around it but most importantly it spiked boot sales. So that maps out the strategies for driving growth for Timberland over the next five years.

So now let's dig into the financial projections. Our 2021 target is mid-single-digit CAGR. We believe we have a momentum to hit that and are very confident in that. We see all regions growing, non-U.S., Americas and APAC leading the charge. APAC will grow at 6% to 8%, with China growing, leading that at 20%, within the more mature markets like Japan will grow at a much slower pace based on the maturity of that market.

As mentioned earlier, our direct-to-consumer digital is a key growth driver and that will continue to be key for us at a 23% to 25% CAGR and it will become 11% of the overall total business by 2021.

And from a category standpoint, we'll have diversified growth, women's footwear and men's apparel will grow at a 6% to 8% clip, and men's footwear growing at 3% to 5% CAGR projection. And then within men's footwear, we'll see the growth of non-classics and platforms outpacing the growth of classics between mid- to low single digits.

So that wraps it up for Timberland today. I'm really excited about this brand. The consumers around the world love it. We have strong strategies in place, diversification, direct-to-consumer, and our focus on China, the backing from VF in the power of One that which you see us generating, the emphasis on our regional partners and our regional groups coming together as one global organization to optimize our sales and our teams. We have talented teams around the globe and together we'll continue to build and drive this brand. Thank you for your time today.

Now, I'll turn it over to international panel.

Unverified Participant

Ladies and gentlemen, please welcome the Vice President and Group President of VF International, Aidan O'Meara.

Aidan O'Meara

Vice President & Group President, VF International, VF Corp.

Good morning everybody. And my name is Aidan O'Meara. I'm the recently appointed Group President International for VF, succeeding Karl Heinz Salzburger who many of you know and who I'm very grateful too for such a great transition that we've had over the last couple of months. I have the honor of hosting the international section. I'll be calling in some of my colleagues from international to join me in a moment. But before I do so, I'll tell you a little bit about myself and give you a bit of an overview of our international business.

I know some of you, some from some previous investor meetings, including some of you who attended the one that we hosted in China a few years ago. I had been with the corporation for about 25 years. I recently celebrated my 25th anniversary, first 15 of which were in Europe, where I ended up ultimately heading up our international jeans business. And for the last 10 years, I've had the real pleasure and honor to lead our APAC business, the establishment of our platform in APAC.

And particularly in China, which has been a great source of growth for us. And during that period as you heard earlier on from Steve, we've grown our business tenfold and made China our number two market in the world. So, it's been a great pleasure for me to have led that and now to be moving to Switzerland and which will be my fourth country, which I have lived in during my tenure with VF.

Moving on to how we've done against the 17x17 plan that we laid out in mid-2013. Our business, as you can see has grown to $4.4 billion over that period and with a CAGR of 9%. So pretty strong performance, so a little bit less than what we thought at the time. We had projected growth of about 11%.

There are some good reasons I think for that, and that China has slowed down somewhat for everybody as I think you all know. We've had some turbulence in the EMEA region, most notably and most recently with Brexit.

And ForEx has been a huge factor in the gap that we had against our expectations at that time. So, we're over $1 billion of ForEx headwinds during that period compared to what we thought when we put together that plan in mid-2013.

Nonetheless, we have grown to $4.4 billion as I mentioned and it's 39%, kind of 39% of VF's revenue. And as you also heard it around from Steve, and you'll hear throughout the day, such a – the international is a really profitable part of our business and a very tax efficient platform. So really important that we continue to grow this business strongly in the coming years as we very much plan to do.

Looking at our revenue mix in 2016, starting with Europe, it's our largest region, almost 60% of our revenues and $2.5 billion in total revenue. APAC, almost 30% and about $1.2 billion. And finally and importantly, the non-U.S. Americas which is 15% of the mix and about $700 million. When we're looking from a brand point of view, we have two brands now that are over $1 billion, Timberland and Vans, each about 24% of the total, and followed closely by The North Face, which is at around $850 million. In total, our big five brands account for 85% of our revenues currently within international.

As we look at our 2021 plan, we're looking at high single-digit growth and that we will bring our business to about $6.5 billion in revenues. It's about 70% of VF's total growth that we're laying out in our plans today, and will account for about 45% of our revenues. The reason that we believe that we will have higher growth internationally is that we're still relatively underpenetrated in many of the markets that are important to us, including big markets like China, but particularly across Asia and in certain parts of Europe, there are significant opportunities for expansion for us. We also have a good track record of consistent sustainable growth, which gives us great confidence in the plan that we're putting forward for you today.

We expect EMEA to grow in the mid single-digit range, APAC low double-digits, and China low to mid-teens. So, we'll continue to have very high expectations from our China business. Our top three brands, which will be the drivers of our growth, they will account for 70% of the revenue in the region and 85% of the growth, which amounts to a low double-digit growth rate throughout the coming five years. And that will be very much the focus for our investment over the period.

As we look at it from a channel point of view, we expect a nice balanced growth with mid single-digit from our wholesale business, and a low double-digit from our D2C. And the real emphasis on DTC will be in the digital area. Digital will be about 40% of our DTC business by 2021, and we'll grow at an annual rate of about 30%.

To help me explore this a little bit more and to deal with some more of the details around some of our regional expectations, I'm going to bring on some of my colleagues. I'll start with Kevin Bailey, who is now the President of APAC for VF. Welcome, Kevin. Followed by Scott Baxter, who many of you know is the Group President of Outdoor & Action Sports for the Americas. Good to see you, Scott.

Scott H. Baxter

Group President-Outdoor & Action Sports Americas and Vice President, VF Corp.

Good to see you.

Aidan O'Meara

Vice President & Group President, VF International, VF Corp.

And finally, Martino Scabbia Guerrini, did I pronounce that well, Martino? The President of EMEA. Welcome.

Martino Scabbia Guerrini

President, EMEA, VF Corp.

[indiscernible] (2:52:08).

Aidan O'Meara

Vice President & Group President, VF International, VF Corp.

So, let's take a deeper dive into the regions, and maybe we can start with our biggest region, Martino, of course, EMEA, which you're now responsible for. Maybe you can tell us a little bit about yourself.

Martino Scabbia Guerrini

President, EMEA, VF Corp.

Yeah. First of all, good day, everyone. It may take half hour to go before lunch. So, my name is Martino Scabbia Guerrini. I've been with VF 11 years now. I was in charge of the Jeanswear in the European anchor brands businesses in Europe before, now leading the team. 28 years in the industry, lifestyle, fashion. And starting with Virgin Group back in 1989, so. A long history, I'm now ready to lead this fantastic challenge [indiscernible] (2:52:57).

Aidan O'Meara

Vice President & Group President, VF International, VF Corp.

Let's start with The North Face, which is a very critical brand for us throughout international, and specifically on EMEA, and it's been quite remarkable over the last year or so to see the very strong growth that we've seen in Europe and what maybe that we can learn from that and as we think about our growth opportunities around the rest of the world and how we can sustain that progress in the EMEA in the coming years?

Martino Scabbia Guerrini

President, EMEA, VF Corp.

Yeah. Sure. Let me say first that a lot has been shown and said also by Arne in this case around North Face, so what I'm going to try to do maybe just a little bit summarize the key messages and the key takeaways and how we can scale those learning. So, definitely, North Face in Europe has leveraged, first of all, a little bit of a very agile and reactive culture that we have.

So they took on this turnaround a couple of years ago. They really, I think, shaped the strategies very effectively around the four territories that you have seen and they started to really focus on product innovation on one side and the marketplace, the distribution landscape on the other side. So, what had really happened is that, focusing on the four territories, they were able to expand the brand and understand how the brand could actually talk to a bigger audience, and then focusing on product innovation.

I think they've done a good job in bringing to the market much more appealing and exciting products, and that has been the key, I think, to turn sell-through consumer engagement around. Today, we bring more or less 60% of the products as new products every season, and we try to engage constantly in new platforms through the activities that Aidan has been showing you.

And then, yes – and then thoughtful, aggressive segmentation. So, by looking at the four territories and expanding the distribution through the – through them in the landscape, of course, North Face was able to really start talking to new consumers in new point of sales. The focus on key accounts was very important, and the activation of the brand at those key accounts, like [indiscernible] (2:55:01) in UK, a typical key account that is dropping to younger generation, to the urban landscape, and that's definitely a key and a future opportunity for the brand as well.

In the meantime, reshaping DTC portfolio while investing in digital, we spoke around different store formats for the future of this brand. And focusing on productivity. Productivity is the key. We manage it out of space across our own stores, partners and our key strategic department stores, our key accounts, and the more the productivity is effective across all year, the better performance is going to come.

So, now, it's double-digit growth across all categories, products, channels, and that's really a super confident message, a thing that we can scale across the globe.

Aidan O'Meara

Vice President & Group President, VF International, VF Corp.

Let's move on to what has been another nice success story in the EMEA, and that's the Timberland story where, I think, a lot of the success could be attributed to the expansion of our product portfolio. Jim referred to that earlier on during the Timberland section, and Europe is further along probably than the rest of our regions in executing that strategy. Can you tell us a little bit more about that and why that has worked so well for Timberland in the EMEA?

Martino Scabbia Guerrini

President, EMEA, VF Corp.

Yeah. In summary, we defined maybe North Face as expanding distribution through segmentation. I think Timberland, what has done in Europe pretty well, was expanding distribution through innovation.

So what they've done, they capitalized very early on new successful platforms. And, basically, in the last five years, they were trying to seed, scale and then maximize every year a new platform. So beginning with Cupsole and then SensorFlex and now going into [ph] AirCore (2:56:30) in 2017, they were able really to create a little more balanced business model. And this is important because it generated three things, basically; one, stronger sell out across the year; number two, again, engaging with new consumers; and number three, a business model that was less dependent of classic boot category and less dependent on for winter season, I think, is best to generate productivity.

And Timberland in the Europe and Middle East region has more than 700 model brand stores, owned, partners, distributors and, of course, creating a flow and [indiscernible] (2:57:06) flow more productive across the year is [indiscernible] (2:57:08) also those initiatives and that growth. Jim was very, as [indiscernible] (2:57:14) touched base on the product innovation again, we'd be leveraging some of the European platforms in this case. So the apparel story and how we're moving now that apparel design center from London to our headquarter in Europe is a great story of One VF and I think that is going to give us again a lot of confidence on how know-how and design can bring to the market stuff really to engage consumers every day.

So I think, at the end, again was the segmentation execution. The team was reorganized to be agile and focus on channels versus the older way of looking at geographies and countries. And I think that made a difference then in leading [indiscernible] (2:57:55) at the end, so, right.

Aidan O'Meara
Vice President & Group President, VF International, VF Corp.

So moving on to Vans. We heard a bit earlier on about some of the challenges we faced in the early part of 2016. And some rebound in Q4, which was great to see, and such an important revenue and earnings contributor for us, and has returned to growth and has sustained growth. It's going to be critical to our go-forward plans. Can you tell us a little bit more about what happened? Elaborate on what Doug told us and what you see as different as we look at through this year and into the coming five years.

Martino Scabbia Guerrini
President, EMEA, VF Corp.

I think [ph] we will remind that it's live (2:58:29), right, about – and I think this story has two amazing success stories in it. One is the explosive growth. Vans between 2010 and 2015 had an amazing momentum and a fantastic progression in Europe and Middle East. Then, in Q4 2015, we started to see some slow down. And, of course, 2016 became a reset year, a transition year, and we had to work through an inventory imbalance in the market, and then I think it was a success because it was down pretty quickly.

There was really a lot of focus on making sure the assortments were right in every channel and every point of sales. And there was a lot of focus in making sure that our strategic initiatives could deliver sell-out and consumer engagement. And that actually started to happen in Q4, and we saw that. And in spite of that mid single-digit growth, there were already underlying trends that were even stronger than that, in our e-commerce, in our food price comps, in our reorders. They were all in strong double-digit growth. So that's important. And, again it's about a little bit what we said, how to capitalize on a strong brand with a lot of consumer connection, but through the right assortments and through the right strategy to activate their assortment at the right places.

So I think Vans now has again set the foundations for the next curve of growth and was super confident around it.

And let me tell you around these three stores. I mean, Europe is also looking at a very well balanced growth where wholesale and DTC and digital all equally contribute, and this is important. We have several key countries, several key channels. If we keep that balance of equal contribution and a little bit of using them all to contribute, it's going to be safe and sound.

Aidan O'Meara
Vice President & Group President, VF International, VF Corp.

Great. Thank you, Martino.

Martino Scabbia Guerrini
President, EMEA, VF Corp.

You're welcome.

Aidan O'Meara
Vice President & Group President, VF International, VF Corp.

Moving on to a region that's near and dear to my heart is our fastest growing region in Asia Pacific and key choice, as you heard earlier on as we talked about distort Asia for our go-forward plans. Kevin, would you like to introduce yourself and bring us through the APAC section?

Kevin Bailey
President, Asia-Pacific, VF Corp.

Sure. I'm Kevin Bailey. I'm the recently appointed President of the Asia Pacific region. Prior to that, I was the President of our Action Sports Coalition, as well as our Outdoor/Action Sports non-U.S. Americas business. Most of my 13 years at VF I served at the Vans brand were from 2009 to 2016. I was President of the brand and probably met several of you back in 2012 when we did the Vans Day in New York.

Aidan O'Meara
Vice President & Group President, VF International, VF Corp.

Great. So we should start with China, given how important it is to our go-forward growth plans. And we've seen explosive growth there over the last 5 to 10 years. Yeah, it is fair to say, I think our largest brands are still extremely underpenetrated, and the growth opportunity ahead of us is even more exciting, I think, than what we've seen in recent years. Can you explain, in your view, the keys to unlocking the accelerated growth in China over the next five years?

Kevin Bailey
President, Asia-Pacific, VF Corp.

Sure. I mean, the reality is, as you look at the demographics of China, it's – and you know this well, it's just simply stunning.

Aidan O'Meara
Vice President & Group President, VF International, VF Corp.

Right.

Kevin Bailey
President, Asia-Pacific, VF Corp.

It's the rapidly expanding middle class, 70% of the global growth in the middle class is projected to come out of China. A third of the world's millennials sit in China. And then it's the largest e-commerce market by 2x the U.S. It's really a significant market. Then you look at our brands, right? As we've heard most of them speak already, incredible brands with a great opportunity and a right to winning the space, market leaders for sure, but with relatively modest penetration in the marketplace today. I think we're already seeing some of the work that you laid in terms of improving awareness, which leads to equity, and ultimately we're starting to see some traction from that.

But the reality of it is there's still more to go. We think the run-up to Beijing and Tokyo in the Olympics should bring us some real energy around snow, which we know so well, as well as the new sports of skate and surf as they come in in Tokyo. So I think we see that as a real opportunity.

I think the secret to winning in China is really going to be through an overall integrated marketplace model. Thinking about the large digital players that are in the region and what they can mean to us, and you think about the strength of people like Alibaba, expanding our direct to consumer business through both owned and partner stores, recognizing the need for a locally relevant product and marketing stories to connect with the consumers very directly. And then really thinking about the proximity to manufacturing and how supply chain can help us with speed. I think those – all those four key areas are going to be the big unlocks to help us accelerate China and realize the potential of the marketplace.

Aidan O'Meara
Vice President & Group President, VF International, VF Corp.

Right. You touched on that digital quite a lot, and I think we can say in many respects that Asia Pacific and specifically China is very advanced in that respect. In many ways, I think it leads the world. As we think about digital penetration and the fact that it's about 50% of our total DTC revenues by 2021, can you talk about the digital model in Asia in a little bit more detail and why this channel has and will continue to be such an important growth driver for us?

Kevin Bailey
President, Asia-Pacific, VF Corp.

Sure. As I said already, it's China right now, so it's a 2x the U.S. in terms of overall online sales. It's actually bigger than the next six countries combined when you look at how big the opportunity is there. Then you consider the opportunities with the number of mobile users in the marketplace. Then considering the region India, which is the fastest-growing e-commerce market. I think the 10-year CAGR right now is projected to be north of 30%. So significant growth in the region in those areas, but it's also a more sophisticated and complex market than we look at here in the U.S. where we sit today.

You consider the likes of the Alibaba network and how big and powerful that group is. You consider social shopping through things like WeChat. And then you consider the number of millennials and how digitally savvy they are. That really leads to a much more complex marketplace.

I think we're already seeing the rapid growth. We're already seeing how much, and you saw some of the regional leaders share that out in terms of what this market can mean for us in e-commerce, and we're seeing that start to gain traction. But the reality of winning this market is going to be focusing on that partnership with those large digital players and what that can mean to us, building our own brand dot-com sites and continuing to expand that, as we also heard talked about earlier from the brands. And then, lastly, the dedicated digital team, really building the resources there to enable us to achieve the potential across these rapidly growing marketplaces.

And I think one of the things we learned as well, and Doug referred to it earlier on the Van's presentation, is about how this can be done in a very brand enhancing way. There's a lot of talk about Singles' Day and so on in China, about it being discount-led, which in many respects it is, but we've shown that there's ways to do this in a way that enhances our brand.

Unverified Participant

Agreed, agreed. The Tmall example is a great one where the Vans Team worked closely with Tmall on making sure that it was brand enhancing and co-collaborating on the creative for the day. I think that really made a big difference.

Unverified Participant

Yeah. Great. So, Kevin, you've talked a lot about China today. And, certainly, there are other significant marketplaces and countries there. Can you share with us a little bit about Hong Kong, India, Japan, maybe some of the other geographies and marketplaces and some of the things that are happening there with VF Corporation?

Kevin Bailey

President, Asia-Pacific, VF Corp.

Yeah. No, I think the reality is China is always going to be our number one priority, right? It's got a – it's such a big marketplace for us. But we have to recognize that style is influence coming out of Japan and South Korea especially, then you consider that Tokyo and Seoul are the top two markets in terms of consumer spending in the region, followed by Beijing and Shanghai, and Delhi sits at fifth.

So you consider that we have to win in Japan, we have to win in South Korea and we have to win in India. Then think about places like Indonesia, the fourth most populous country in the world. Those are other opportunities for us, and today we're only owned and operated in eight markets in the region.

Unverified Participant

Wow.

Kevin Bailey

President, Asia-Pacific, VF Corp.

So we need to continue to look at that and do it in a thoughtful way in terms of our opportunities to expand, but the opportunities are definitely there.

Unverified Participant

So we're thinking about a DTC penetration? Thinking about building brands there?

Kevin Bailey

President, Asia-Pacific, VF Corp.

Yeah. We're remarkably underpenetrated relative to our competition in D2C.

Unverified Participant

Yeah.

Kevin Bailey

President, Asia-Pacific, VF Corp.

So the opportunities have continued to expand in DTC there, both owned and partner, as well as the online presence is really, really big for us.

Unverified Participant

Terrific. Sounds like a great opportunity there. It's a big one. Thanks.

Aidan O'Meara

Vice President & Group President, VF International, VF Corp.

Before we move on to Scott's area, I think we should talk about the North Face a little bit. We came up a little bit short in terms of what we – the target that we laid out in mid 2013. Can you talk a little bit about the dynamics facing the North Face brand in Asia, what has played out maybe a bit differently than we thought at the time we put together our last plan and how the brand has adopted the strategy with successes such as urban exploration which was, of course, part of Arne's presentation as one of the territories which actually originated – the idea originated in Asia?

Kevin Bailey

President, Asia-Pacific, VF Corp.

Yeah, I know, I think it's a good callout. As I just mentioned to Scott, I think Japan and Korea are our key influences in these markets and they are especially our winter sport destinations. So we know that, that's important to understand about the landscape first. We also see China changing post 2008 Olympics in Beijing. So there's a lot of changes going on in the marketplace. We're starting to see some increase in outdoor participation rates and living an active lifestyle in China in particular.

So, those play key roles in terms of what we think about the future. The reality of it is we have seen some consolidation of late in the outdoor space and some increased promotional behavior. So, that said, what we think is really going to happen now is China invests in the region in both education as well as infrastructure. They've publicly stated they want to be a key winter sport and recreation destination globally. So we see that landscape starting to set up for us.

So when we think about how we're going to win there, it's really been about two things. One, focusing in on our core outdoor business, and then secondly, addressing the needs of the local consumer. So, in core outdoor, the focus had to be really consolidating our partners, first and foremost, aggressively managing the inventory, and then lastly, really looking to elevate distribution with some of the product that we talked about earlier.

The team locally also recognize important of those mega cities, those dense urban populations and how that consumer wanted something a little different from us. So I think the local team did a really nice job by focusing on leveraging the North Face's technical innovation materials, combined with a more street-savvy style to create this urban exploration territory that's gotten great sell-through, as [indiscernible] (3:08:58) talked about – as Arne talked about, the sell-through that we've seen in those stores have been our most productive stores, and we're seeing that as an opportunity to expand globally for that line.

Unverified Participant

Great. Thank you.

Unverified Participant

Kevin, they're really leading the design initiative from a global standpoint and bringing that to North America and the rest of the world, aren't they?

Kevin Bailey

President, Asia-Pacific, VF Corp.

Yeah. The influence of urban exploration came out of that region. But it's really, as Arne said, is really influencing the opportunities in places like San Francisco, as you pointed to, and then as well in Europe.

Unverified Participant

That's significant.

Unverified Participant

Sure.

Unverified Participant

Yeah.

Aidan O'Meara

Vice President & Group President, VF International, VF Corp.

So, last, but by no means least, the non-U.S. Americas, Scott Baxter, who many of you already know, but I'll give Scott the opportunity to introduce himself to you.

Scott H. Baxter

Group President-Outdoor & Action Sports Americas and Vice President, VF Corp.

I'm Scott Baxter, I'm currently the Group President of Outdoor Action/Sports Americas. Previously, most of you knew me in my old role as the Group President of Jeanswear, Image Wear in South America. And I've been with VF Corporation since 2007.

Aidan O'Meara

Vice President & Group President, VF International, VF Corp.

So, let's start with Vans, which has been a pretty impressive growth story in the region. It's about a $250 million business. And can you talk about the success the brand has had in Canada and Mexico, and maybe beginning with the buyout of our JV partner in Mexico [indiscernible] (3:10:00)?

Scott H. Baxter

Group President-Outdoor & Action Sports Americas and Vice President, VF Corp.

I sure can. It's been a really terrific story in Canada and Mexico. In 2010 in Mexico, we purchased our JV partner. The same year, we also purchased our distributor in Canada, and we were doing about $20 million in business at that point in time. If you fast forward to today, we're doing more than 10 times that volume in those two marketplaces through significant brand enhancement in marketing. We've also leveraged our DTC platform from the United States and brought it down enough into those marketplaces. And then, of course, taking advantage of our world class supply chain operation and our operational excellence.

Aidan O'Meara

Vice President & Group President, VF International, VF Corp.

Great. And the North Face and Timberland, each of them – each launched in Mexico in the last two to three years with a lot of success also. Can you tell us a little bit about how we entered the market, the growth opportunity, and why you think things are off to such a great start?

Scott H. Baxter

Group President-Outdoor & Action Sports Americas and Vice President, VF Corp.

Yeah. Sure, I can. What's happened is with the success of Vans, it's given us a real leverageable platform, so we're able to bolt on those businesses and take advantage of some real economies of scale and some expertise in the marketplace. So, like I mentioned earlier, when you have that expertise in DTC down there and you have that supply chain and operational expertise all sitting in the same office, we're able to go ahead now and build a real scalable platform.

So, in 2014, we brought Timberland to the marketplace and currently doing $20 million of business just a few years later. And then in 2015, we followed-up with The North Face, currently doing $10 million of business just a couple of years later.

Aidan O'Meara

Vice President & Group President, VF International, VF Corp.

Nice story to finish up with that. Well, that brings us to the end of our session. I hope we've kept you engaged up through your well-deserved lunch at this point. And on behalf of the international team, thank you again for the opportunity to tell you more about our international business and our confidence in the significant growth opportunity that we have in front of us. Look forward to seeing you all later in the day. Thank you very much.

Unverified Participant

Ladies and gentlemen, we will now take a pause. Lunch will be served, and the brand gallery is open. The program will resume at 1:15.

[Break] (3:12:01-04:15:51)

Unverified Participant

Ladies and gentlemen, please welcome the President of Wrangler, Tom Waldron.

Tom Waldron

President-Wrangler, VF Corp

Good afternoon, folks. I hope you enjoyed your lunch. Today, I'm going to talk to you about Wrangler and Lee, but first I want to tell you a little bit about what I've been doing for the past 22 years.

So, I started with Wrangler 22 years ago in the operations area. I've been in sales, I've been in general management, I've been in merchandising. And you may ask why 22 years with one company in today's day and age, and really it's because I love this brand. It's an amazing brand to work on, and I'm not the only one. Our associates are absolutely passionate about this brand, and we have amazing talent working on this brand. But today, we'll be talking about two brands, both Lee and Wrangler, and between the two of these brands, they have over 200 years of rich American iconic heritage.

And heritage matters, it's something that's important, it's not something that you can buy, it's not something you can market your way into. It's about a relationship with the consumer for a very long period of time. So about two years ago, a young merchant came into my office and she was so excited, she showed me her phone, and on it was a pair of Wrangler jeans for $365. And so we looked into it, and this was way north of where we're selling for at the time. And what we found out was, this jean was something that, from a model standpoint, there were specialty retailers buying up authentic brands, embellishing them, and making a really nice markup.

So what we learned is that, in this model, it was only iconic authentic brands that worked. And VF owns two of those jeans brands, both Wrangler and Lee, so we found Lee jeans, we found Wrangler jeans. And what it told us, and what gave us confidence in, is that our brands have the permission and ability to move up-channel because of our heritage. But today, I'm going to be spending most of my time talking about Wrangler.

But first, let's take a look at what's going on with Lee. So I'll share you with you the Lee story, talk about the historical performance and some exciting products that are in the market today. So, Lee was launched back in 1889 by a gentleman, H.D. Lee, moved to Kansas City, and he created the H.D. Lee Mercantile Company. And he believed in purposeful craftsmanship and innovation, and that is absolutely alive and well today in Lee.

So, as we moved on, he became – and the company became – a lifestyle apparel company. They got into the female business, and today it's over 50% of Lee's business, so it's a nice dual gender brand. Today, they take a very global approach to innovation. Steve mentioned the BODY OPTIX. It's helped – innovation has helped drive Lee to become the number one jean in China. And they are really looking at from a global perspective and scaling these types of innovations around the globe.

So when we take a look at the growth associated with Lee, it was very modest growth ex-FX. And this was something that was slight declines in the U.S. with the well-documented channel issues associated with the mid-tier, with mid single-digit increases in Asia. But let's dig a little deeper into that. So when we take a look at North America, the North American business right now, as you know, the mid-tier business is not the healthiest business in the world, but the men's business is growing at a nice mid single-digit growth rate with comfort platforms such as the X-Treme Comfort jean in both denim and casuals. The female business is underperforming, and we are in the process of revisiting our strategy, but we're seeing some really nice signs, such as the Dream Jeans that you can find in our gallery out there.

So, in Europe, really nice turnaround story. Three years to four years ago, they were decreasing at mid single-digit rates and now they're growing at mid single-digit rates. And it's really being fueled by the Lee 101 and Scarlett Jeans, [ph] where are (4:22:40) premium price point jeans that are selling very well.

And Asia, we could not be more excited about what's going on with Asia with Lee. As I mentioned before, we're the number one brand in China, and that BODY OPTIX has something that is absolutely fueling it. There is over 51 patents associated with the BODY OPTIX and, as Steve mentioned, it's over a quarter of our business. So this global approach to innovation that Lee is taking, we are confident that Lee will turn to a growth situation in the years to come.

But now, I'd like to talk about Wrangler. So when you think about Wrangler, back in 1947, Rodeo Ben, as he was named – as he was called – invented a cowboy jean for cowboys. And this is something that fueled the franchise in the Western business and it grew into – in the 1970s, it grew into an apparel lifestyle brand, and you can tell by this really cool photo of the Newsweek cover from 1970 with a woman wearing a really neat pair of Wrangler jeans. But you will also know this by taking a look at some of the most iconic figures at the time period, such as Mick Jagger, Paul Newman, and Freddie Mercury wearing the Wrangler brand. I absolutely love these photos.

But then as we moved in to the 1980s, we made sure that we're associated with our roots and our heritage, such as rodeo, but also with some country music icons, such as George Strait and Jason Aldean. And to fuel the mass business, we made sure we're connecting with what our mass consumers care about, which is sports. So, Hall of Famer Brett Favre, I'm sure you've seen the commercials over the years, whether it's Dale Earnhardt, Jr. or Drew Brees. These connected with our consumers in a very meaningful way, and it helped drive the brand in the mass business.

But today, we are absolutely widely distributed and the brand has heat. And you know this by who's showing up wearing the brand today, whether it be David Beckham, Robert Redford with this really cool photo on the cover of Wall Street Journal with one of our classic iconic shirts, or Lady Gaga proudly wearing the Wrangler brand walking down New York City.

So, as we think about our growth, we have hit our numbers that we set out. We had committed to a 3% CAGR and we hit it. We're very proud of it. And that was despite some significant headwinds in the market. We all know the mass headwinds that were out there in mid-tier, as well as the oil market really had an impact on our western business, as concentrated in Texas as the western business is.

And we did this because we have a strong brand, we stay focused on our consumers. So when you take a look at the market and what kind of growth it had, the markets that we competed in were down 1%, and you can see Wrangler grew 2%. And this had a lot to do with category expansion and again, focusing on the consumer.

But what we do know is, it's been a tough market and we do expect, over the next 12 to 18 months, this market is going to continue to be difficult, whether it's retailers taking inventory out of the pipeline, retailers cutting back on brands, and just in general brick-and-mortar. But we know – what we know, as you can tell by the market share growth with the market being down, we know how to operate in this environment. And we also know that big brands, when retailers are worried about and have fear, they like to bet on big brands, because that's what consumers go to, and it's usually the small brands that get edited out. So we see it as both a threat and an opportunity.

But what I'm confident about is, we had a bold new strategy that we feel like will help navigate what will be a up and down market in the 12 to 18 months. So – but first, what I'd like to do is spend a little time talking about Europe and our partners in Europe, lots of exciting stuff going on in Europe and in APAC, and I'd like to go ahead and show that video.

[Video Presentation] (4:24:33-04:28:43)

Really cool stuff going on in both APAC and EMEA. If you take a look at the gallery out there, some of that Peter Max stuff is out there. It's so cool. It's retro type product and what I love about it is, we'll be selling it all over the globe. And right here in the U.S., we'll be launching that as well. So we're really excited about that.

But what I want to talk about today is the U.S. strategy. And there's essentially four components of the strategy. One is about a new One Wrangler, and that's about brand elevation. Second is about elevating design and innovation. Third is expanding into new channels. And fourth is about growing into new categories.

But before we get into what One Wrangler is all about, I want to talk about where we've been, to give some context around why we're doing what we're doing. So for the past 16 to 18 years, we've really been two separate companies. In fact, we had two Presidents running a company that's focused, a Wrangler company focused on mass and then one on western specialty. And this served us really well, because we grew and became by far the dominant market share in both those channels, but it was creating a lot of duplication and also was making it so we weren't able to focus on where we needed to go, which is up-channel.

So, what One Wrangler is about, there's really three components. And the first component is an organizational redesign, so there's one Wrangler that's focusing on the consumer as opposed to the channel. We think it's a massive unlock, and we're excited about what this will bring, and this is being launched in the next two to three months.

The second is brand elevation. So when you take a look at our advertising, our brand messaging has been very functional, and that also has served us well where we currently compete, particularly in the mass channel. But as we move up, we need something – a message that's more emotional, that connects with our consumers in a very social manner. We need a new space in their mind and their heart. And third is focusing on consumer lifestyle, and what this will do is broaden our appeal to them for multiple-wear occasions.

[Video Presentation] (4:30:48-04:31:45)

So pretty different than Brett Favre throwing a football in the field with a bunch of guys, right? Lots of social occasions, a lot of variety, a lot of male-female balance. We're really excited about the campaign as we move forward.

So second thing I'd like to talk about is elevating design and innovation. So when we think about where we've been as an organization, we've had design that's been embedded in the merchandising group. And what that creates is really good products for the mass channel. But as we move up, we know we need a separate organization that's focused on design and a separate organization focused on merchandising, and that's exactly what we're going to do.

So, design is critical, but as we look forward, it's not just about beautiful product, as anybody can design a beautiful product, it's about beautiful product with solutions for consumers. And that's where innovation comes in. And we've been doing innovation now for a long time, but it's been more of incremental innovation. It's been great business for us. This last year alone, we had $178 million in what I would call incremental innovation. These innovations from anywhere from Advanced Comfort, which is where we led the market in stretch on basic jeans, or Cool Vantage, which would be jeans for the cowboy, it keeps him cool in the summertime and warm in the wintertime.

Wrangler Outdoor, we're getting into the outdoor space for the Wrangler brand. It makes sense because we are rooted in the outdoor, from a brand standpoint. But tomorrow we're talking about breakthrough innovation, and Steve mentioned our global innovation center earlier and this, we feel like, is a big unlock for us. This will produce for us, using our own science and our own scientist, company-owned pattern-projected breakthrough innovation.

And it's not just about product we're going to be innovating on. It's about sustainability also, because if we can figure out how to make a jean that's more sustainable, that means something to us personally, but it also means something to our consumer.

So let's move on to expand to new channels, our third plank. So, as you know, we are rooted in western specialty and mass. And this is something, up to 2009, is pretty much exclusively where we were. In 2010 to 2015, we started moving into the mid-tier business, our products sold well where it was placed and continues to.

As we move into today, we can be found we're widely distributed across department and in specialty boutiques. However, if you look to the right from mid-tier to department store, we are vastly under-indexed, and that's where we think the big opportunity is. So, why expand into new channels, and you might ask, why go to mid-tier, it's not the healthiest channel. It's because there's a lot of volume up there. And what we know is where we're placed, our product is selling. And our product is turning and the buyers love our productivity.

So it's about having the right product designed beautifully for going up-channel. It's about having the right message that resonates with our consumer as we go up. And that innovation that gives that consumer, solutions.

There's also some key enablers that we need to do as we move up channel. And one of them is about retro collections like that Peter Max collection you saw earlier. This is something that really raises our awareness for the consumer. It gets a lot of buzz out in the market, and we'll be placing that in very influential retailers and make sure we're talking about it online. The second is celebrity seeding. The shirt that Lady Gaga's wearing as she didn't go out and buy it, we sent it to her and it's part of a very strategic seeding program that we do.

And third is about our brand experience from a DTC standpoint, showing up in a very aspirational way with our brand, but I want to dig a little bit deeper into our DTC strategy. So as with other VF companies, it is a key part of our growth strategy. And you really – you break it out into two sections. One is e-com, that's something we're putting our gas on from a growth standpoint. We're growing in the 20% to 30% range every year, and we're really excited about what's going on there.

But what also is important is our retail strategy. Now this is a brand elevation strategy, we don't have aspirations to open up 500 doors in the U.S. But in certain strategic markets, it's about showing up and having a premium expression of the brand that we control that really sets the tone for the brand. And that's what our retail strategy is all about. It also provides us with a test-and-learn opportunity to help us drive wholesale.

So let's move on to the fourth and final. It's expand into new categories. So you may not know this, but Wrangler is one in four guys in the U.S. right now, in the total U.S. wears Wrangler jeans. In fact, we are the number one denim share position. We're the number one in casual bottoms, as well as the number one in woven tops.

And what I love about this is we've been able to do this with only participating in a fraction of the market. So on men's jeans, we're only in 23% of the market, casual bottoms, only in 16%, and in woven, we're only in 18%. So you can imagine the type of growth that we can have when we focus and evolve our brand message as we move up channel.

So what we know is that, we know how to win where we focus. We also know that we're vastly under-indexed in female. We have very little bit of female business right now. And we know that when we place the female business with some of these collaborations, women love our product. So you can see the size of price is significant, and it's really about beautiful design and innovation that will unlock this for us.

So, if we pull this all together, our brand absolutely has permission to win, and we have permission to go up channel, both with the trade and also with the consumer. And we have permission to go into new categories as evidenced by the type of market share we've been able to achieve with focus. And the key enablers are design and innovation, it's about a global mindset and collaboration and a new brand relevant message. So what I'd like to do is just walk you through future financials.

We are targeting for global jeanswear to be in that 1% to 3% between now and 2021. And when you take a look at the balance, [ph] it's balanced (4:38:30) between Lee and Wrangler over the next five years to grow in that low single-digit range. And what I'm excited about is that as we grow, we know that we are a very capital-efficient portion of the VF portfolio. And we also know the strong key free cash flow delivers very good TSR.

So Wrangler will be driven primarily by channel expansion, and Lee will be driven primarily by international expansion. And our DTC will stay in that 10% to 11% range, and again DTC is about brand elevation. From an e-com standpoint, will be some nice growth, and from a brick-and-mortar standpoint, it's about brand elevation.

So, it's a very exciting time for both the Wrangler and Lee brands. I'm honored to be part of this. I'm looking forward to sharing with you the growth that I'm confident we'll be able to achieve with our new strategy and these great brands, and most importantly, the great people that are passionate about our brand working on. Thank you.

Operator: Ladies and gentlemen, please welcome the President of Workwear, Jeanswear, and Sportswear brands, Curt Holtz.

Curt Holtz

President of Imagewear, Jeans and Sportswear Brands, VF Corp.

Thank you, Tom. And good afternoon, everybody. You're ready to work? Please, you've got to be ready to work. Well, my name is Curt Holtz. And I'm excited today to talk to you about workwear. It's a new growth platform for us. But as you know, workwear is not new to VF. It's been in our portfolio for a number of years. It's always been a strong and consistent cash contributor, but the difference now is we believe we have the opportunity to better leverage the unique capabilities in our workwear portfolio, as well as exercise the power of One VF to accelerate growth in this space, so we're excited about it.

I'm going to discuss this a little bit further in a minute. But first, let me just give you a little bit of background about our workwear business. In 2016, when you pulled together all of our workwear brands, we generated approximately $800 million in revenue. But importantly, it was also one of the most profitable pieces of our business, and it was the most cash efficient, so a really good place to start.

Our work portfolio consists primarily of the following four brands. We do have a few smaller brands that we're not going to talk to today, but I'll start with Wrangler Riggs. We leverage the authentic work heritage of that powerful regular brand, as Tom just mentioned, it is the number one brand in men's denim, and we offer a broad variety of bottoms, tops, and outerwear to outfit our workers. Our Timberland PRO brand is well-known for its iconic footwear heritage, and enjoys the number two work footwear brand. We also recently launched the line of work apparel, and we think there's a lot more opportunity there.

Our Red Kap brand, which you might not have heard as much about, has been around since 1923. We service a wide variety of industries, mostly in the business-to-business space, and have a particular strength in the auto sector. And like our Bulwark brand, Red Kap enjoys a very fast, agile and responsive supply chain that has – is one of the reasons that we've been successful over many, many years.

And Bulwark is our safety brand. It is the number one flame-resistant brand in the world, and it also is well-known and well-recognized as being a knowledge and education leader in a technical, dynamic and fairly regulated space. Now what's different today, what we're announcing today is that we are investing in and standing up a workwear organization to manage these brands centrally, which is something that we haven't done in the past.

We're doing that because we believe that there are untapped opportunities that we can capitalize on by providing a holistic head-to-toe solution to both our customers and our consumers across the B2B and B2C landscape.

Now we recognize that some of you who are probably sitting out there is saying, why the increased focus on workwear and why now. Well, I'll tell you why, we think there's some really compelling reasons.

Today, I'm going to outline the unique capabilities set that we believe that we possess that gives us a unique position to win in this space. I'm going to talk more about those capabilities on the very next slide. We also like the space, it's large, Steve referenced earlier a $30 billion, I'm going to reference again in a bit. It's also growing, but importantly, it's very fragmented. We believe with this combination of our size, our scale, and our capabilities, that we not only have an opportunity to penetrate the space further, but we have an obligation to penetrate this space further. As I mentioned, it's a very financially attractive space for us, I'll reiterate. It is one of our most profitable pieces of business, and it is our most cash efficient.

And lastly, we track a lot of economic indicators just like you do. And those would suggest us that we're at the beginning of a recovery period. Now those of you who have followed us in the past know that we've delivered higher growth rates during those previous recoveries, so we're encouraged.

Now, let me talk a little bit more about the capabilities set. It all starts as always at VF with our powerful brand portfolio. We think we do have a powerful brand portfolio each with compelling and unique consumer propositions.

Secondly, we think we have industry-leading knowledge and capability of both the business-to-business and business-to-consumer landscape. Now, for those of you who aren't as familiar with the B2B space because we don't talk about it as much, let me provide some context that relates to our business. Our Image business has been operating in the B2B space successfully for many, many years.

Now, we have a large number of distributors across the country, both large and small, and we enjoy a terrific relationship with all of them. We also have some direct relationships with large governmental agencies like Department of Homeland Security and TSA.

Further, we have a direct relationship with a few individual companies. One example would be FedEx. We do their apparel program around the globe. Now all of that would be considered to be in the B2B space, where we're selling our workwear to the customer, and the customer is supplying their employees, either directly or indirectly. And what we've learned over the years is one of the requirements we believe to be successful in this space is to have a very fast, agile and responsive supply chain, and there are couple of reasons for that.

First, you need to be able to deliver a wide range of styles, but also sizes. You might ask why, if you can just imagine, we sell our workwear to our customer, and as they're outfitting their employees, those employees could be small, medium, large. They just as easily could be four, five or six XL, and you need to be able to service that breadth of sizes, goes well beyond the traditional retail size set. So it's not for everybody.

We also offer a robust customization capability. Many times, the customers that we sell our workwear to want to personalized the garment and put their own company logo on and create an image program. So we offer a web-based portal, where our customers can go on to that site, and they can design their customization to their liking. We found this capability over the number of years, and we're quite proud of fit.

Lastly, I would tell you that our customers expect and require a quick turn shipping capability from us, because many of these customers that we do business with carry very little to no inventory. And when they have an employee that's coming on the job, many times that employee cannot go on the job until they're outfitted in workwear. So they rely on us for a very quick turn.

Now I'll give you a data point. For orders that come into us by 3 o'clock today, or for any day for that matter, if there's not a large amount of value-added operations, we ship 95% of those orders by the end of today, and we do that day-after-day. So we have a very quick turn capability, and I'll remind you our customers rely on us for that.

Now, let me talk about our B2C capabilities that we also have. Clearly, you hear VF talking about our B2C capabilities as you heard a lot about that today. So I'm not going to expand upon that, but what I do want to kind of bring home here, which is important, is that we do not believe that there is many, if any, that can say that they possess the size and the scale and the knowledge and capability in both of these distribution channels, and that's the opportunity that we want to exploit.

Now let me drop back to the broader list of capabilities and kind of continue. Further, we have expertise in both apparel and footwear. The opportunity to scale both, and we intend to do that. We believe we have proven capability to mind consumer insights and drive exciting innovation across a broader range of consumers, a broad array of consumers. And again, you've seen many examples of that today.

We think we're just getting started on the workwear side. We have a scalable digital platform. Greg is going to come up in a bit and talk a little bit more about our digital platform. As we pull these workwear brands together, we think there's much, much more we could do to leverage that capability.

And finally, we've talked to you many times about our geographic platforms. It gives us the opportunity to take our brands into new markets much more effectively and efficiently than we could do otherwise.

Now let me bring this into sharper focus for you and talk about – give you a few examples of how we're going to leverage these capabilities. So we put this simplified chart up here, our brands down the middle. On the left hand side, the very broad spaces that we play in, where those spaces are shaded, we have a reasonable penetration, still growth opportunity mind you, but we're penetrated there today.

The white spaces are exactly that. Now, we believe that by putting together our own capabilities, something we haven't done in the past, we can access those white spaces more efficiently and more quickly. I'd give you a couple of examples of that. I mentioned that the Timberland PRO and Wrangler Riggs business today, where I may not have mentioned, but the Timberland PRO and Wrangler Riggs business have relatively little penetration in the business-to-business distribution channel. Clearly, we believe by leveraging the capabilities we have with our Image base business, that we can take those brands into the business-to-business channel much more meaningfully. We're very confident we can do that.

Secondly, I talked about, and you well know, Timberland PRO's footwear heritage. We intend to use that design capability in that team to help us to design and develop in a brand-appropriate way a line of work footwear for Wrangler, and ultimately for Red Kap, because we think both those brands have a natural permission to play in footwear. That will give us the ability to deliver different consumer propositions and different value propositions into the market, really round out our footwear assortment and our portfolio, and maximize share in that space.

Thirdly, I mentioned – it's really not listed up here on the slide, but we did talk about the digital capabilities. We think by pulling together our brands, we have a unique opportunity to create a digital workwear destination, where both our customers, as well as our consumers can go online, access our broad range of brands and our broad range of products in a much more seamless and easy way that they do today, also in a way that they like to shop. So, these are just a couple of examples that we wanted to bring to light and there are more, of how we intend to leverage these capabilities.

So a little bit more on innovation. You heard already probably even prior to today, that we have three large innovation centers across the country. Once again, as we're just pulling our workwear brands together, we're only beginning to engage in filling up our innovation pipeline to drive exciting new innovation of the space. So, we really think that we're very much in the early days. I'll touch on this in just a minute as well.

Now, let me step back and talk a little bit about the market. Again, you heard it's a big market, globally $30 billion. Our best information tells us the market is growing at low single digit rate, so it's healthy. And clearly with our business today at $800 million in wholesale that would translate into approximately 5% market share, a clear penetration opportunity for us. We think that's further evidenced by the fact when you look at the market landscape, you can see our brands down the left-hand side, you see a couple of the big players there in the middle. You know all of those names, but none of those either have more than 10% market share. And then there is a number of other smaller business, a number of other smaller brands that play in the space. I'll go back to what I said. We believe there is nobody with the size, the scale, and the collective capabilities to take advantage. We think this is a real penetration opportunity for us.

Now, the market consists of a broad set of industries. These are not all the industries we play in, but these are the larger ones, so construction, automotive, healthcare, money and utilities, transportation, manufacturing what we see as a very encouraging sign is most of those industries today are experiencing growth. And even the traditional laggards like manufacturing or mining most recently are seeing signs of resurgence, so we are very encouraged by that.

Those diverse set of industries also have a very broad and diverse set of consumers. Again we think this lines up very well with our capabilities. I'll go back to say mining consumer insights, driving innovation across the broad range of consumers is something that we do, it's kind of at the backbone of what VF does.

But one thing that's interesting about the workspace is that many of the needs that we develop into, the consumer needs that we develop into are common across multiple industries. But some of them need to be tailored and customized to a specific industry. We think we can do both and I'm going to give you examples of that.

Now, Timberland PRO has developed an Anti-Fatigue technology, which is delivering a comfort platform into the market across many industries. We all know that when you're standing on your feet all day, you will pay a premium to have a comfortable shoe or boot. Just imagine, if you're doing active work all day, the combination of durability and comfort Timberland has been able to deliver this solution to workers across multiple industries, and has done a terrific job and has a well deserved reputation for comfort.

Now on the other hand Red Kap. I mentioned the Red Kap has a strong position in auto. Our team has done a great job, going out in the field, and researching autoworkers, primarily in body shops. And they've developed the range called the ZeroSkratch collection. Now this collection incorporates utility, so that workers can access the tools in the various positions they find themselves during the day. It also is comfortable and has range of motion, which is very important. But it also incorporates a very clever design technique, which is also stylish, that covers any part of the garment that is hard or sharp that could damage the vehicles that they're working on. This is an insight that could be seen out in the field, and has really resonated in that space, and it's created some separation for Red Kap.

So those are just a couple of examples again of innovation that we've already put in the market, and how we intend to exploit this diverse range of industries, and this diverse range of consumers, and I will remind you, we are only getting started with the innovation centers. So we see this thing the early days for us to be able to deliver this innovation into the market.

Just a finer point on this distribution channels, because we think it's important. And we think, it's uniquely something we own. The market is large, $30 billion, split evenly between these two channels. You can see that visual up there, that we really wanted to kind of imprint is that we believe we have the size, the scale and the collective knowledge of both these channels which sets us apart.

I talked about the indicators that we look at. Certainly, oil and gas rig count is one that we look at very, very closely. It's up over 60% from a year ago. It's still down almost 60% from the peak, so we think there is a lot more room to run here. And the [ph] PMI (4:55:27) is obviously working in our favor. Now I mention that our strategy is not dependent on us being at the beginning of a recovery period but the data suggest to us that we are. It certainly would be a welcome tailwind.

Now let me step back and just talk about our growth projections. Over the next five years, we see a compounded growth rate in the mid-single digits. Now I do want to point out that we have not yet felt the effect of the recovery in our business. We do anticipate that happening throughout 2017 and into early 2018 and also it's going to take us some time to leverage these points that I'm talking about today and put those into action. So as we look over this horizon, we do see that growth rate accelerating over the five-year period, averaging out on that mid-single digits. If you look at it by brand, it's fairly balanced. We have a little bit more on the Timberland PRO side. If you look at that chart will probably be going to lean a little bit more towards the high side of that range. The reason for that is because, as I said, we've recently – we think we can take the Timberland PRO business more meaningfully into B2B channel. We also recently introduced a line of work apparel and we think there is a lot of opportunity there. As well Wrangler, we're going to see higher growth. Similarly we think we can take Wrangler further into the B2B channel, and we also think we can leverage them into a footwear offering, which we think is going to be important.

Now one other point out there, you can see there's other category. I mentioned earlier that we have a few brands that we're not going to speak to today. I also mentioned that we have some direct relationships with either large government agencies or a few individual companies. That's what makes up that piece of the revenue pie. If you look at it by channel, you can see that we do have a fairly large B2B business. And we expect growth across all of our channels, but we do expect distorted growth in retail and, particularly digital, leveraging what I was talking about earlier.

We're only beginning to kind of pull together a workwear strategy and really activate the power of our digital capabilities. Now, let me leave you just with a couple of things. One is that workwear is a new growth platform for VF. We're excited about it, and we're very confident we can execute the strategy. Secondly, we are investing in and standing up a workwear organization to manage these brands centrally which is something that we have not done in the past.

We're doing that, because we think there are some untapped opportunities that we can capture by providing a holistic head-to-toe solution across both business-to-business and business-to-consumer, I want to leave that point very clearly in your mind. And lastly, I just like to remind you, why we're excited about the space right now. I talked about the ability for us, and I've outlined here today the unique capabilities we believe that we can leverage to put us in a position to win in this space.

The market is fragmented, I'll say it again, we not only have an opportunity, but we have an obligation to further penetrate the space. It's profitable for us, it's cash efficient. And one thing I will mention is, when we generate revenue in the space, we tend to generate even higher profit growth, because it is such an efficient model. And finally as I said, we believe we're on the beginnings of a recovery period here. We're not dependent on that, but it certainly would be a nice tailwind.

So with that, we look forward to any questions that you might ask in the upcoming Q&A. And I really thank you for your time today.

Unverified Participant

Ladies and gentlemen, please welcome the Vice President of Digital, Greg Pulsifer.

Greg Pulsifer

Vice President, Digital, VF Corp.

Hi, everyone. My name is Greg Pulsifer. I'm the Vice President of Digital for VF. I'm also the head of our digital lab. I am excited to take you through our approach on digital. We live in dynamic times. The world is changing. It's very much driven by digital innovation. What was once just a channel, e-commerce is really now a way of life. And while e-commerce remains very important to us, we understand that the impact that digital has on the consumer is far greater.

In many ways, digital is the gateway to all aspects of the consumer's lives. With advancements in mobile technology, this presents a tremendous opportunity for our lifestyle brands, to be able to engage with consumers wherever they are.

To illustrate our approach forward and how we plan to capture this, I broke this presentation out into three parts. The first are around keys to understanding what our strategy is. Here I'll provide some additional context on what our digital lab is and who we are as well as provide some additional context on what our digital platform is. Both of those are referenced several times throughout this presentation. So, it's important for you to have that additional context. Next, we'll look at some of the investment areas that we've made as well as a review of our financial performance from 2012 to 2016. And then lastly, we'll end with our three-step strategy to digital, as well as examples for each of how it comes to life for the consumer, which I think is pretty fun.

So, our digital lab. We have a unique viewpoint that looks across all of our brands globally. The labs started in 2012 and at that time the mission was quite simple. How do we accelerate digital for all of our brands at VF? Our global headquarters is in Alameda, California, which gives us close proximity to key partners as well as access to a deep pool of digital talent. We also have an office in Shanghai, China and we have one in Stabio, Switzerland.

We have a very diverse team with expertise in mobile and e-commerce, data and analytics, digital marketing and social media in both frontend and backend development. So what does that mean? That means that we can take an idea from concept all the way through to completion and get it into market. And then some of our key accomplishments to date are the global rollout of our digital platform across 12 brands in United States and Europe. You've seen several examples visually of that today, very proud to see that up there in everyone's presentation.

We have advanced analytics capabilities significantly, so you're going to see examples of that today as well. And I'm proud of the mobile enhancements that we've made that have led to not only exponential growth in sales, but also exponential growth in mobile engagement. So that's our lab and now let's look at our platform. This is a big piece of our strategy and we have taken an innovative approach to architecting it.

In essence, there are two parts, there's a content management system and a commerce engine. On the backend, it's a commerce engine that's robust, it's feature rich, it's full of capabilities. And then what we do is we layer on top of that a much lighter, much more agile content management system that allow our brands to make changes more frequently. So what does it mean? It means that we can both leverage economies of scale and gain operational efficiency while still allowing our brands to each maintain their unique identity as well as the agility to make changes to the consumer, as they see fit. This also provides a competitive advantage as we look to introduce innovation. If there is an innovation that we're not quite sure about, it's a little bit of a leap of faith, the data is incomplete, we can test that out on one of our smaller brands, see how it performs and that if it performs well, scale it out to the rest of the brands on the platform.

And then conversely, if there is a capability or a big innovation that the data says is a homerun, the consumer saying you have to have it, we could launch that at one of our bigger brands like North Face, Vans or Timberland, see how it performs and then scale it to the rest of the brands across our platform, giving our smaller brands in advantage because this may have been something that they wouldn't have been able to afford otherwise.

Along with our platform, we make key investments that have allowed us to be more data-driven, both in foundational and advanced analytics. We're much more agile and can bring capabilities to market faster through in-source development as well as relationships with new cloud-based services. We fine tune our approach to innovation. It's innovation to help solve the consumer problem, as well as amplify existing capabilities. And then as I mentioned on the previous slide, we're able to gain operational efficiency by scaling and leveraging capabilities across our platform. We do all of this. So we can better serve and understand our consumer and it's working.

Looking back at how far we've come in 2012, our e-commerce businesses were very much in their infancy, so we invested a significant amount of time and resources in building core digital capabilities, as well as investing in data and analytics. We then took the insights that we learned from data and the analytics to help identify and prioritize the capabilities that we built and this led to a 29% CAGR over five years, significantly outpacing the industry, which grew at 17.5% during that same time according to eMarketer.

As part of our original 17x17 plan if you recall, we target around 25% growth, so we significantly outperformed our expectations. And then my favorite part of the slide is that in that time we, in essence, tripled our business. And this is our most profitable platform, so the earning contributions have been significant.

While the Americas still make up the lion's share of our business, we are excited and energized about the growth that we see in both Europe and in Asia. Asia going from 1% of the business in 2012 to our second largest region at 20%, is really remarkable and speaks to the opportunity that we have going forward, as well as you've seen it referenced several times here today. Well, Asia is our second largest region, as it relates to penetration of digital to total D2C. It's already number one at 25% followed by Europe at 17%, and the Americas at 16%. Despite the significant growth that we've achieved, digital remains underpenetrated across all of our geographies. So the growth opportunity here remains massive.

So, to ensure that we are positioned for success, how it all comes together, we built a three-step strategy, it's inform, innovate and govern. Inform is where our analytics consumer insights and leading industry capabilities live.

The second is innovate. This is where we accelerate VF in the new digital economy. And the last is govern. This is where we prioritize capabilities for our digital platform as well as key decisions that positively impact the consumer.

Let's take a deeper look at inform. Data and analytics are the foundation of digital at VF. It's analytics that inform and identify opportunities and also help with prioritization. The best part about data is that it [ph] removes the motion (5:06:54), so you can prioritize better. Inform is working closely with industry experts to provide insights and best practice for world-class digital experience. And finally, digital not only touches the consumer in all aspects of their lives but also touches organizations across several different functions. So inform is improved digital aptitude and aligned incentives, horizontally across the organization that allow for capabilities to get to market faster.

So let's look at some examples of this now. These new few examples are fun, very exciting. So this first one is called machine learning, and this is a cutting-edge analytics capability. And machine learning in this instance allows us to scan 210,000 metrics every day. Those metrics include data from our e-commerce point of sale. Our mobile experience, we look at third-party data like social media, weather, we look at page load time, we look at customer views, we look at media spend, there's a lot that makes this up.

So, we run it through the machine and then the machine will alert us of any anomaly. And the anomaly is just something that's different than the norm. So in the incidence of an alert, say, a spike in the sale of the white Vans, you could then run that through and the machine will provide an analysis of the root cause of what that was, which was social media activity, which is the Damn, Daniel phenomenon, which you're all familiar with.

The key point here is that, we now have quicker insight into opportunities, and conversely be alerted more quickly of any problems, so we can take care of them. So let's take another look at machine learning, and a little bit more relevant to the recent events in Boston, as the headline says major snow storm slams Boston, Massachusetts. You'll often hear that weather impacts retail. This is remarkable. So these are actual screenshots of our machine learning tool and you remember the way we use machine learning currently is to be alerted of any anomaly. So for the purpose of understanding this slide, anything outside of the blue area would be considered an anomaly. You can see here we were alerted of anomalies for The North Face, Timberland and Smartwool, all on or around the same date, when we ran it through the machine to see what the root cause was, it came back two reasons.

The first was low temperature and the second was snow, directly related. This is an incredible tool for us. And I've always loved the story that data tells. With this new capability, we can better identify the metrics that matter, the metrics that move the needle. And as we start to collect more data, our plan is to be able to better predict and react to the outcome of those future events, Steve mentioned that in his opening.

The next two examples are proprietary to VF and are instances where our portfolio gives us a competitive advantage. The first is our systematic approach to capability, identification and improvement. This work started in 2012. We mapped 90 capabilities across six different categories. Those capabilities are site processing, customer experience, marketing and social omni-channel performance and usability and fulfillment and customer service. Mobile plays a part in all of these as well.

Once we mapped these, we were able to identify growth opportunities as well as track our digital maturity. And I love this chart for three reasons. The first that shows how far we've come from a capability standpoint as we enhance more capabilities. Secondly, it shows how capabilities work together in a large ecosystem. And then thirdly, it shows that while we've had tremendous growth 29% over six years on a CAGR basis, we still have room to grow going forward.

And there is a fourth reason. I heard a great quote and it was, digital transformation isn't one big investment, it's a lot of incremental investments, each proving their own worth. And that's exactly what we're doing here.

So let's look at some of the capabilities that make up the chart from the previous page. The first is in site processing. An example here would be the introduction of new digital payments. And in this case, it's Apple Pay, we're a launch partner with Apply Pay. The benefit we see here is, we see an increase in conversion, especially as it relates to mobile.

The next is an omni-channel. This is the pilot for buy online, pick up in store for The North Face. Benefits we see here are increase in conversion and increase in footfall and traffic to our retail stores, as well as an increase in store inventory productivity.

The next will be in the fulfillment and customer service segment, we enable the capability to give consumers additional insight into their order once it ships. The benefits we see here are reduction in calls through our call center, as well as – well, this one's pretty cool. When we implemented this capability, we saw our direct line to our overall customer satisfaction scores increasing.

And then the last example is around user-generated content and we've enabled the capability for fans of our brands, who hashtag their social media posts to be displayed on our site. If you were ever to look at some industry data around our consumer trust index and you look at who consumers trust the most, they trust other consumers the most. So this is us, taking an industry insight and turning it into a capability to increase our overall conversion.

While we track capabilities, we also closely measure their success by comparing the key capabilities or the area that they affect to a VF benchmark. This benchmark is an aggregate of all of our brand's performance for that area. So brands on and off the platform. Here we can easily compare how brands are performing versus the benchmark if one brand is performing better or worse. We can identify what's going on and then socialize that to the rest of the brands through our e-business council. Then we'll roll up our sleeves and sit alongside the brand to help amplify the good or make the improvements where they're needed. This example shown here is an illustration of how we can easily compare the metrics that is benchmarked. In this specific example, we're comparing shopping – these are illustrative numbers, but we're comparing shopping cart abandonment rate across our brands. And any time we look at our benchmark and we look at the data it always – it's just interesting to me that with brands that are using the same technologies, how does one brand perform better than another and why does that happen. Is it the shipping offer? Is it design? Is it the consumer behavior? Is it strength of brand? Now with a tool like this, we can find out why and share easily what's working across the rest of our brands.

The next area of the strategy is innovate. And this includes strategic partnerships with thought leaders and key partners. Recently, we just completed a summit with Facebook and Instagram, Tumblr, Snapchat and Pinterest. All local to the Bay Area. We regularly get introduced to new capabilities through our [ph] VC (5:14:08) partners and we are also members of the Google Merchant Advisory Council.

In innovate, this is where we also build and develop differentiating capabilities that provide a competitive advantage and then we test those innovations before scaling them into our portfolio, maximizing our investment in our global digital platform.

So let's look at innovate in action. These are also pretty fun and really new, hot off the press from a standpoint of just being completed. Here we're using two different innovations to try to improve the sale of tents in our store, so camping season is almost upon us.

As you can imagine, tents take up a lot of floor space, and oftentimes consumers don't have the luxury to be able to build the tent in a store, so this first innovation is using augmented reality as a selling tool for associates to show customers what a tent looks like and how big it is. So I took this picture in our office of the first prototype in action, the team especially, [ph] Vikram (5:15:06), very excited to be included in this presentation. This is also something the prototype days are fun days, right, because a lot of work goes into something like this and then the first chance we have at our prototype everyone is – there's a lot of excitement in the office to be able to test it.

So this is the prototype and then this is the final version, I took this three days ago. So this is also taken in our office, and here you can see the size, dimensions even the inside of the tent. We then leverage existing assets and capabilities that we have and we tied in product details from our website as well as customer reviews, so the consumer has additional assets to help make a decision if they want to make a purchase. And then if the consumer chooses to buy, we can easily add that item to the cart you see here and then we can ship it to them for a free if we don't have it in the store. We'll be testing that in our Post Street store in San Francisco next week.

This is in its early stage, but it's an example of a pilot we're doing with holograms. Here the goal is to show our full assortment of tents that the consumer can control and learn the technical benefits as well as the real scale. Holograms are pretty interesting, they not only show product. You can actually display text and we feel the combination of the two are pretty powerful, especially giving the control to the consumer in our store. We're excited about holograms because we see this as something that has the potential to also be a new storytelling platform for our brands, not just for products, but for also brand history and key marketing stories.

While both augmented reality and holograms are ways that we are looking to help solve the consumer problem, like any innovation, sustained success means amplifying existing capabilities like improvements in merchandising, omni-channel, store service and experience.

Kevin talked about Asia. He did a much better job than I can do talking about the opportunity here, but we'd be remiss if we didn't include at least one slide on our approach to digital in Asia. I spoke earlier about the exponential growth that we're seeing here. Our approach here quite simply is to ensure that we are localized.

Well, paramount to our digital strategy in the United States and in Europe is to build platforms and scale capabilities across those platforms. Currently, our strategy in Asia is to leverage existing and emerging platforms and engaging consumers where they currently are.

The two examples on this page. The first is The North Face, using a tremendously powerful platform called WeChat. Here, what The North Face is doing, they're driving loyalty sign-ups and traffic back to their own site. And then, the next example is, it's a great cycle Toshow and this is Vans leveraging this emerging platform for their expressive creator to be able to design and customize their own Vans.

The last step in our strategy is govern. Govern is empowering where the value is being created, quite simply. This includes prioritizing capabilities across our platform. It includes prioritizing and ensuring efficiencies and analytics, as well as in marketing. And then, lastly, it's prioritizing and emphasizing emerging markets and new areas of accelerated growth like Asia.

So here are two examples of govern in action, one small and one big. The first example is how we would test improvements in the ever-important mobile checkout. So, this is a new mobile checkout design that we're currently working on. Here what we're going to do since mobile is so important, we're going to test it out on JanSport, see how it performs, make any enhancements, get the accelerated feedback from the consumer and then test it again and then scale it out to the rest of the brands across our platform.

The second example is to show you how we think about managing all the capabilities I've talked about to this point, right. As you can imagine, we have 12 brands on one platform. It's a shared code base. How do we prioritize who gets what, when. A lot of thought goes into it. So there are core capabilities that we know that made sense for all brands in all regions. These are things like mobile optimization, social integration, customer reviews, product video, et cetera. Those get managed up here in the core. Everyone gets those. But we also understand that it's important for brands to maintain their own unique identity and best service their consumer in region, so we built flexibility into our governance system that allows for that both in the configurable and the brand.

To wrap it up, as I mentioned earlier based on our capability map while we've had great growth, we know we have opportunities going forward. We continue to target growth in our digital business in the mid-20% range. From a dollar standpoint that equates to more than $1 billion of growth from digital, so more than double what it is today, big growth.

Digital will account for three-fourths of our total DTC growth over the next five years. And as I mentioned earlier, it's our most profitable platform, so digital will be an important component of our earnings growth story. And as you can see by 2021 we expect almost half of our growth in our digital business to come from international.

We expect digital to comprise about 35% of our DTC business by 2021 with an even greater percentage in our big three brands. And in the Americas and in Europe more than 30% of our total DTC revenue will be in digital and in Asia we expect 50% of our DTC revenue to be in digital, that's up from 25% in 2016, big numbers.

We're proud of the work that we've done to-date. Investments that started in 2012 have allowed us to more broadly leverage key consumer capabilities across our brands and regions. And then finally, continued investments in data and analytics have helped inform the three-step strategy that is consumer-centric while also positioning our brands and our employees to thrive in a new digital economy. Thank you very much.

Unverified Participant

Ladies and gentlemen, now we will take the final pause in the program. The presentation will resume in 15 minutes.

[Break] (5:21:22-05:43:21)

Operator: Ladies and gentlemen, please welcome the Chief Financial Officer of VF Corporation, Scott Roe.

[Break] (5:43:29-05-43-35)

Scott A. Roe

Chief Financial Officer & Vice President, VF Corp.

All right. Good afternoon, Boston, and we are almost there, guys. Thanks for hanging in. I see most of the seats are still occupied, so you hung with us and I appreciate that. Well, as I look out, I see a lot of faces that I recognize. A lot of you have been with the VF story for a long time, and we really do, and I really appreciate your continued interest in the company. And there's also some faces that I don't recognize, some of you who are new to our story, and I really appreciate your interest in this great company. And I look forward to working with you in the coming months and years ahead as we can hopefully build a relationship together.

So, Steve started out this presentation by talking about our industry, and our industry has changed dramatically. And that pace of change, we don't see miraculously going backwards or reverting back to where it was. We think, if anything, it's going to accelerate. And that means we need to adapt, we need to move faster and we need more agility. But with change comes opportunity and you've heard a lot about opportunity through our brands across many of our businesses and geographies today.

So, what I'm going to do for the rest of this presentation is, I'm going to unpack the financial aspects of the strategies that you just heard. But one thing, despite all the change that's happened in our industry, one thing that won't change, and that's our commitment to our consumers, our commitment to our people, our associates and our commitment to you, our shareholders. That's been a hallmark of this company for over 100 years and that's not going to change going forward.

So before I get into the meat of the presentation, I do have a little bit of housekeeping that you probably saw in our announcement this morning. We are going to change our fiscal year-end. For those of you building models, I apologize right now of what this may do to you. But the reason is, I think, pretty straightforward. Any of you that have followed our story know that our business is distorted to the back half of the calendar, and there's a couple of reasons for that. Our fall/winter season is our largest season of the year and that's obviously back half loaded, and our DTC business is becoming an increasingly large portion of our business, particularly digital.

So, what happens at the end of our December year-end? Well, we're not through the largest season of our year. We're still not sure exactly where our inventory positions and liquidations are going to end up. So by moving one quarter to the right, to the end of March, we're going to have better visibility to where we ended our largest season and selling period. We're also going to have some visibility into the following fall/winter season bookings at that point in time, and that added visibility should give us less volatility as we think about our outlook. And as you can see, it also is pretty consistent with where most of our peer group is from a year-end standpoint.

So a few mechanics around this, 2017 is going to be just as always, we're going to end our year in December, and we're going to report those results in February. Then in 2018, we're going to have a one quarter stub period, which will go through March and we'll report in April. And then we'll start our new fiscal calendar beginning April 1, going through the following March in 2019. And from then on, we'll be on that consistent cadence, and we will maintain the 4-4-5 fiscal cadence that we have today.

Okay, so now, let's get into the financials. Now, Steve talked about our 17x17 performance a little bit at the very beginning. I'm going to unpack that just a little bit differently, and in order to look at our targets to reconcile to our targets, there's a few things that you got to keep in mind. One is acquisitions, another is FX, and another is unusual items. You may recall we had a pension lump out and some other adjusted items at the end of 2016, and we've presented these numbers on an apples-to-apples basis. But let's think a little bit more of that. In our 2017 targets, we had $1.3 billion of acquisition revenue. In our sports – sorry, in our CBC and our LSG business, Licensed Sports Group, that's another $1 billion, and $1.2 billion from currency. So that's $3.5 billion against that $17 billion.

So when you take that out, let's be honest, we still missed our targets, right, but the amount of the delta, the amount of the miss, is much less when you consider those factors. So, here's the tale of the tape, we grew 6%, our international grew – our international business was at high-single digits. We did do a little better from a DTC standpoint at 13%, and particularly in our digital business. Our gross margin's at over 50%. Now I should say, all the numbers we're presenting here are excluding Licensed Sports. So some of you may not recognize that number. Everything I'm presenting today in my financials is going to be excluding LSG. So at 50.1% gross margin, we think that's a real testament to the strength of our portfolio and our brands. Return on capital is near industry-leading at 19%, EPS at 12%, and 11% TSR.

Now, we don't like to miss targets, right? That's not okay in our culture, but we do think that 11% TSR over the last four years, considering the turbulence and the headwinds, is a respectable performance, and really talks to the diversity of our value creation model. Now, we didn't make an acquisition. As I mentioned, that was part of that reconciliation, but we did, during this period, return over $5 billion to our shareholders through repurchases and dividends.

So, VF is a TSR-driven company. It's part of our culture. It's part of our language. It's one of the most important numbers that we look at as a management team, and it's one of the most important metrics that our board looks at when they hold us accountable. It's also a key component of our compensation. So, we think like long-term shareholders because we are long-term shareholders. And for those of you who are in the room and are portfolio managers, we are aligned from an incentive standpoint. We hold ourselves accountable to a benchmark, and our job is to create excess returns.

Now, we're targeting top quartile TSR. Steve mentioned this earlier, and that's top quartile, not just from our industry, but from the S&P in total. That's a mid-teens TSR, and again, this assumes our organic plan. There are no acquisitions assumed here. Even if, as I'm going to talk about capital allocation priorities, we remain committed to making M&A. Now also, our TSR model is balanced. It's balanced between earnings and free cash flow. Once again, if I do my job, I'll help you break that down as we go through the presentation.

So from a growth standpoint, we're looking at mid single-digit growth. That's 4% to 6%, and that's right in line with what we've delivered over the last four years. Again, this is excluding our Licensed Sports Group. Within that, our growth engines, the big three brands international and D2C, remained consistent at high-single digit growth throughout this period.

Now, this is an evolution of our growth that you've also seen earlier in the day, and it talks about how we see that 4% to 6% developing throughout the five-year period. So remember, our [ph] 27 (5:52:02) outlook is low-single digit growth, right? And within that, we said our first half was going to be about flat, which implies the second half will be in a mid single-digit growth rate. We expect that pace in the second half to continue into 2018 before we see additional step-up in 2018 – or 2019 and beyond.

So, why is that going to happen? We see the short-term headwinds in our jeanswear business should abate. We'll see acceleration in our TNF and Timberland business, as was outlined today. And lastly, the investments that we're making in our strategic priorities in the short term will start to pay dividends as we move into the second half of the plan.

So now let's unpack our revenue a little bit in more detail. First by region; not surprisingly, we're expecting growth outside of the U.S. to be at a higher rate. We expect high-single digit growth for international, and in fact, we expect the international business to become 45% of VF's total revenue by 2021. And that's really good news. As CFO, I always like to remind people our international businesses is growing fast. It's our most profitable and it's very tax-efficient. But more on that in a minute, I'm going to talk more about that in a little bit.

Our Europe business is growing at a consistent rate with what we've see most recently. Asia reaches $2 billion in revenue by 2021. Our non-U.S. Americas at half that amount, at $1 billion, and Asia-Pacific remains our fastest-growing region, with China in particular, at a low to mid-teen growth rate.

So now let's talk about revenue by channel. DTC remains our – a powerful growth driver for us. We expect to grow between 8% and 10% for our DTC business, and within that, about 25% from digital. You've heard about digital throughout each of the brands, and some of the capabilities that Greg just unpacked a little while ago.

Now, stores do remain an important driver, but you're going to see us modulate a little bit. We're pulling back a little bit in the pace of our store openings, especially in the U.S., and we're going to focus more on profitability and return on bricks-and-mortar. And you'll see more of an elevation of our DTC and e-com as a percentage of the total. Now, we're also investing in our DTC capabilities. We're investing in our retail capabilities and some of the data and analytics that were mentioned earlier.

From a wholesale standpoint, our growth rate is projected to be at 2% to 4% – between 2% to 4%, with stronger growth in our international business and in our digital environment. Now, wholesales – and I'm going to unpack in a minute a little more detail, but wholesale is a question that I know a lot of you have on your mind. So let's spend a little more time on that, and break it down.

First of all, more than 70% of our wholesale business, more than half of total revenue, will come from international, specialty, and digital. And when I say digital, that means pure-play digital retailers, not the dot com portion of some of our key retailers. Another 15% is from mass, and that's primarily two retailers who just happen to be some of the better retailers in the world in that channel. And going forward, international specialty and digital will be an even bigger portion of our wholesale business, close to 80% going forward. So, to put that in perspective, what I'm saying is, when you look at our wholesale growth in total, just about all of that growth is going to come from those three areas: international, specialty and digital.

So, here's another way to break down our mid-single digit revenue growth. More than 85% of our expected growth will come from the digital environment and our own DTC stores. Let me say that again, more than 85% of our growth is going to come from either our own stores or the digital environment. Now, the growth of DTC is really in our control, right? We can determine the pace at which we grow our DTC business and combined with the growth that we're seeing in our digital, this gives us a lot of confidence in our growth plans, right? We're relying on the channels that where we either have direct control or that we see a lot of momentum in headwinds – I mean, tailwinds going forward. Not headwinds, tailwinds.

Now, let's talk about coalition mix. First of all, we've shown you our business in a little bit different angles from different perspectives and through different lenses. But I want to be clear, we're not changing our reportable segments at this time. So, from an outdoor and action, action sports, we still see that as our largest coalition. It's going to make up more than 70% of our revenue by 2021 and we're expecting between 6% and 8% growth, really driven by our big three brands.

We expect low-single digit growth in our Jeanswear coalition, which we'll bring it down to about 20% of our total revenue. Now, I want to talk a little bit more about jeanswear. Tom unpacked this earlier today. In our jeanswear business, we're seeing relatively low growth at low-double digits. And if you really look at the pace of that through the five years, you'll see that this year in 2017, we've guided to about flat with our U.S. business actually down a bit.

Now, there's a couple of dynamics that are going on in the jeanswear business right now in that channel. Our largest customer is going through a repositioning, and that repositioning is resulting in a narrowing of assortments, a narrowing of brands, and as a result, a destocking which is putting pressure in the short term on our shipments. Also, there is contraction going on in the channel. Now, we see both of these issues as episodic, right? There's a beginning and an end. You can only destock once. You can only consolidate once.

And if you think about coming out the back end of this, and we've seen these type of cycles before. What's going to win coming out of this? So, if you have more narrow assortments, you're going to depend on higher velocity, right? So, that means the [ph] batch (5:58:59) you're making have to be better as a retailer and you're going to go to the best brands with great brand recognition. Well, check the box. We've got two of the best brands out there from a denim standpoint.

The other thing that's going to be important to get that velocity is to have superior supply chain capabilities. We've got to chase the business, right? Well, again, from our standpoint, we're really well-positioned. So, while this is going to put some pressure on our U.S. business in the short-term, we really like where we're going to come out at the end of this and how this touch up our jeanswear business for growth going forward. I should also add our international business from a jeans standpoint is very consistent. We're growing in Europe. We're growing in Asia-Pacific, as Tom unpacked earlier.

Now, let's turn to image, right, our image business is going to grow at a low-single digit pace and as Curt mentioned earlier, we don't know when it's going to happen but we see this as a coiled spring that's ready to advance. We are organizing around taking advantage of the market opportunities that we see coming, always hard to predict exactly when that's going to be but we see a real opportunity for growth during this five-year period.

Lastly, our sportswear business, we expect difficult conditions in Sportswear to persist in the short to near – or in the near to mid-term, and notably, by 2021, our sportswear business is projected to be less than 3% of total VF revenue.

So, let's talk about our growth engines. And the good news here is our growth engines have been and will continue to be the drivers of growth. They're strong and they'll continue to grow at a similar rate. For example, our big three brands and our international business generated about 9% growth over the last four years, and we expect a similar rate going forward.

Now, our DTC business grew about 13% over the last four years. And while we expect growth to moderate somewhat, because remember I said earlier, we're going to open a few less stores than we have in the past. We still see this as a strong area of growth. And I should also note within that, you're going to see our digital and e-commerce as a percentage of the total increase as we unpacked earlier.

From a margin standpoint and a profitability standpoint, this is really good news. As CFO, I really like this story, right? So, what is it? Our fastest growing businesses with our highest gross margins are growing faster. So, that's going to create the investment pool, that's the money of investment that we can put back against our strategic initiatives and drive our growth in the future. That's really simple, when fast – when higher margin businesses go faster, your margin expands. That's part of our algorithm.

So, our top five brands in workwear account for almost 85% of our total revenue today. And these businesses will account for an even greater portion by 2021 and will drive about 90% of the growth, right? All of our other brands, which is about around $2 billion, are expected to grow at a low-single digit rate. As a result, that group of businesses will be less than 15% by the end of 2021.

We went backwards. So, let me ask the question that's probably burning on everybody's minds. With five businesses driving 90% of the growth, aren't these other businesses just a distraction? It's an obvious question, right? Well, first of all, I would say all the brands in our portfolio play a role, right? And our TSR algorithm is balanced, remember, between cash flow and earnings growth. So, that balance has been a core element of our diversified value creation model for a long time and it's been a very resilient model that's proven effective over time.

And while not all encompassing, you'll see these are the criteria that we apply to our existing portfolio, right? This is what determines what should stay in our portfolio, what are the criteria we're going to judge against. And remember, in the middle is TSR, right? So what is the total shareholder return that we see for these businesses?

Now, we said we are active portfolio managers and you heard Steve say at the beginning of the day that we're committed to it, that we're going to move faster from a portfolio standpoint.

So let's take one more click down, okay? So, this is a representation of that $2 billion in the "all other", right? Now, before you go too far, these bubbles are illustrative, right, so don't try to figure out which business is which because they're not exactly right. But I would say, directionally, what's presented here is accurate. We have some businesses in the portfolio that are growing really strong in the top line, they're doing really well in the bottom line, these are true jewels in our portfolio and many of these will likely become our next billion-dollar brands, right, and we're nurturing and investing in those brands.

Honestly and candidly, we have other brands in that list that aren't doing as well. It could be profitability, it could be growth, it could be both. So, in these businesses, we're acting quick to try to turn them around. In some cases, we're making key investments to try to accelerate growth. In some cases, candidly, we're making management changes where we think that needs to happen. But in all cases, what you're going to see from us is an increase in our metabolic rate, right? We're going to get to decisions quicker. How do we evaluate them against those criteria? We look at our forward plans, we look at the risks and investments associated with those plans, we calculate what the TSR is and then we determine, does it fit our criteria, and if not, our commitment is we're going to move quicker on these businesses.

All right. So, what's our operating model? It's pretty obvious here, 51.5%. Again, I'm going to remind you these numbers exclude LSG, right, so there's about a 50-basis-point delta from our current guidance when you try to reconcile the impact of LSG. So, 51.5% from a gross margin standpoint, operating margin at 16%, and a return on capital of 20%. So that's the model, right? From a gross margin standpoint, I've already given you the answer. This is really driven by mix, right? We see our fastest-growing businesses with higher margins. As that continues over time, that mix is going to give us 40 basis points to 50 basis points of margin accretion on an average basis over time.

And as we've done for many years, our assumption is that pricing is going to offset FX and cost changes, those are going to balance over time. Maybe not quarter-to-quarter, but over time, that's proven to be true and we would expect that to be the case going forward. So, if we're at 51.5% gross margin, 16% operating, that implies that our SG&A is about 35.5%, right? So that's a little higher than we are today, but I'm going to unpack that. Just give me a minute to get back to that more. And we're targeting a return on capital of about 20%.

So, let's talk about that 16% operating income. We look at this as a virtuous cycle, right? As that gross margin expansion occurs, I said it earlier, that's our checkbook for investment in SG&A. Here is the areas of strategic investment and in these areas, we would expect our growth to be in the high-single-digit range, right? We're going to be investing in these areas: product and demand creation, digital investment, supply chain capabilities, DTC capabilities and store rationalization. Then on everything else, we're looking to leverage. That's been our model for a long time, right, the one we have. We have our large platforms, we get leverage with scale and that's how we've made the profitability work.

Steve also mentioned agility, right? So, we have undertaken what we call project agility and that's really focused at getting cost and that's taking the inefficiency and eliminating friction within our organization to create additional investment dollars to put back against those strategic initiatives. So, that's also part of the algorithm.

Now, we're focused on value creation. So this is an interesting chart. We debated actually whether to put it in. It's a little geeky, it's a little financial, but as CFO, I thought, you know what, I'm going to do it. We got the right audience here, right? So, what this says is pretty obvious, we've got one of the lowest cost of capital in our industry, around 8%. We also have one of the better returns at that 19% type criteria. So that says we're creating a lot of value, right? That value creation is really a testament to the way that we've managed our capital allocation and our investments.

It's also, I think, a good indication from an acquisition standpoint on the returns that we've delivered over a period of time. Now, we generate excess returns by growing our operating profit and delivering that growth in a less-intensive – asset-intensive way. So I talked to you about moderating our store openings, that's one of our big investments from a capital standpoint. Many of you know the third way from our supply-chain standpoint, that's the way that we gain a lot of the opportunities and advantages of having captive production and getting proprietary supply-chain capabilities and using somebody else's capital.

So, the culmination of all those has created a lot of value in a very asset-light way, which is creating this value gap. So, our EPS target is a low-double-digit EPS over the five-year period. Now, how do we get there? We expect mid-single-digit revenue growth and combine that with margin expansion, that gets us to a high-single-digit operating profit increase. What's the bridge, what's the reconciling item? It's share repurchase, about 3% from share repurchases. More on that in a bit.

Our EPS mix, about 70% of our earnings come out of the U.S. today, outside of the U.S. today, and we see that mix approaching about 80%. We expect our international business to continue to generate high-single-digit revenue growth. And as I mentioned, our international businesses are most profitable and it's very tax efficient. So, it follows because of the profitability and the tax efficiency. As that's growing faster than our average rate, we're going to see it become a larger piece of the pie from an earning standpoint going forward.

I should also mention that while our domestic earnings are a little smaller as a percentage, primarily because of the mix of our image in the Jeanswear business, don't forget our TSR algorithm is a balanced model, right, and those two businesses are very asset and capital efficient, they are big generators of free cash flow, and that's a big part of our TSR algorithm as you'll see in a minute.

So, strong free cash flow, $8 billion over five years. Let's just pause and think about that for a minute. Our market cap is somewhere around $20 billion, so $8 billion of cash flow return is about a 40% return from cash over a five-year period, 40% return on cash. Now, I would tell you that we had a bit of an enigma or a bit of a problem to solve when we thought about how do we model this plan.

So VF generates a lot of free cash flow, right? And so, how do you model that when your first priority is M&A? And that remains our first capital allocation priority. Well, we could either let the cash accumulate, I just showed that on the balance sheet, or we could assume that it's returned to shareholders and that's what we've done. I would tell you, I would expect that this plan won't happen. I would expect that we will make acquisitions. The problem is they're really hard to time, they're really hard to size. And so from a modeling standpoint, we've assumed an organic plan, we've assumed that we return that cash via dividends and repurchases during this period of time.

So, how does that $8 billion get allocated? Well, it's about 50/50, about half between dividends and about half in share repurchases. You probably know our dividend yield is around 3% right now, I think 3.1%, 3.2% and we're assuming that that continues throughout this period and our repurchases, at $4 billion that's about 20% of our market cap right there.

You probably also saw that today we announced that our share repurchase authorization has been just increased by $5 billion or to $5 billion, we have an authorization from our board of directors. And I think that just speaks to the confidence that our board and our management team place in this management team and also the – and the forward plans that we have.

So I mentioned capital allocation priorities, short answer, they're unchanged. Our priorities are the same. History has shown and we continue to believe that M&A is our highest and best use of capital. And it remains our first priority. And just to be explicit about how we evaluate acquisition opportunities, we only make an acquisition if it meets our TSR aspirations. So, when you think about this is an organic plan, how should I think about acquisitions well, if we do our job and apply those filters, it would be additive to the plans that we've presented here.

Now, we've targeted an overall return on capital of 20%, as I said earlier. So that means we have some businesses that are above, some that are below. As it relates to acquisition, what's our criteria? We've said we would expect to see a path to at least 15% return on capital within a three-year period, okay, 15% within three-year period. And in terms of size of what would that M&A look like, how big of an acquisition, very frequent question from many of you here. The way we'll look at that, first of all, I'd say remember that TNF and Vans were both in that $200 million to $300 million range at the time of acquisition, and they're now our two largest brands.

So, rather than focus so much on the size of the business that's acquired, our filter is really, what do we see the path of the business that we might acquire. It may be large at the time of acquisition and in general, we would say we prefer larger deals versus smaller deals. It take about the same amount of time and they're more complicated. But the most important filter is, number one, brand, right? Is it authentic, iconic, and in a space that we believe is strategically relevant?

And also, do we see a TSR profile that we believe would be complementary to our overall TSR aspirations? And lastly, from a scale standpoint, do we see this as a brand that could reach $1 billion? Now, this is in the spirit of the transparency that we've had today. It's one thing to just throw a number out and say, we want to be top-quartile TSR. But we try to break it down into pieces, so you can see the disaggregation of how that TSR story comes together.

As a reminder, our aspiration at mid-teens would be a top-quartile performance and that's not just in the industry, that's in the S&P overall. Now, 10% to 12% of that EPS is going to come from – 10% to 12% will come from EPS growth and about 3% from our dividend. And as you can see in our EPS, we also have the assumption of 3% of share repurchases. So that's 6% from free cash flow and the remainder from earnings. And just to hammer a point home that I made earlier, 40% of our TSR is free cash flow, 40%. So, if you think about it, it's really almost like a convertible bond with upside, right, if you get that 6% return from cash flow and then earnings and P/E multiple on top of that.

Before I go off this slide, too, there's two other placeholders here. I left an arrow on P/E multiple. We've looked at our forward TSR slides. We've also run through empirical models, backtesting, and it suggest to us that our stock is undervalued and that our P/E should be higher. We believe we can justify – we should justify a higher P/E. Obviously, that's going to be up for you all to decide. The other placeholder that's on there is M&A because I do want to remind everybody once more, M&A is our number one priority from a capital allocation standpoint. And because our filter is that it should be TSR-accretive, we see that as potential additional upside to this TSR story.

So in summary, just to bring it all together, right, I'd like to leave you with four thoughts. Number one, we will reshape our portfolio. VF has done this a lot of times in our history, at several points during our history, and the ensuing TSR runs have been compelling. The strategy and the plan that we've laid out and put forward today puts us on a path for a consistent, accelerated and sustainable growth, our strong cash flow generation and our returns on capital remain a focus. And remember, we're committed to executing against our M&A agenda.

So with that, that concludes my formal remarks. I appreciate your time and attention. I'm now going to turn it back over to Steve Rendle and we're going to take your Q&A. So, thank you very much.

QUESTION AND ANSWER SECTION

Operator: Ladies and gentlemen, please, remain seated and stand by for the Q&A session. Please, welcome back to the stage Steve Rendle, Curt Holtz, Aidan O'Meara, Scott Baxter and Scott Roe.

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

A

Okay. Thank you for hanging with us. That was a long day. I know we've shared a tremendous amount of content and we are very happy to take any and all questions. Omar had his hand up first. I got to give it – got to go there.

Omar Saad
Analyst, Evercore ISI

Q

Thanks, Steve. Omar Saad from Evercore ISI. As you laid out a number of times during the presentation, the revenue growth and the earnings growth is going to be amplified in the later years of the plan. And it seems like a lot is predicated on the reshaping of the portfolio portion of the plan. I was hoping maybe you could go in a little bit more detail, talk about what you mean with reshaping the portfolio. Has some of that already restarted? What kind of things could we expect going forward? It sounds like workwear might be one of the pieces we should think about. Anything else you can add to that since so much of what's coming later in the plan is predicated on that investments in next couple of years? Thanks.

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

A

Right. Right. Okay. I'll start.

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

A

Yeah.

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

A

And Scott, why don't you fill in if I leave something out here? Yeah, so let's talk first about the plan that we've talked about and then I'll come back to the reshaping. The plan that we've put forward, growing mid single digits and how we phase it using the visual chart that both Scott and I talked about, if you remember, we guided this year at low single digits with an acceleration coming into the back half in the mid-single-digit range.

With that in mind and really considering the market landscape that we've come through, the investments that we're beginning to make behind the new strategy that we've laid out, we see that acceleration coming out of the back half of the year, carrying into 2018, and really unlocking in 2019 where North Face, Timberland and our jeans business and primarily workwear come back into that high single digit, mid single for workwear.

But it's also where Jeanswear starts to move away from the headwinds that they're facing, that Scott just was really clear about [ph] what setting (6:21:27). Those all start to clear the pipe at the end of the 2018 and we come into 2019 with the strategy now in full effect, having invested in some of these key capabilities. That's where we see the acceleration taking place. And the three large brands return to the high-single-digit mark, DTC continues to grow as does our international platform.

So, I know we've laid out a stair-step approach, but what we wanted to do is be really transparent. Last time we put out a 10% compounded growth rate over five years, [ph] granted (6:22:01) times were different back then, that included M&A. But what we wanted to do is give you something that we knew we could achieve, something that could be supported by the strategy that we've put forward. And is there more opportunity? There could be. We'll see as we progress.

The other part of your question, Omar, was the portfolio shaping. So, we've used that term a lot today. And both Scott and I emphasize that, and why that's important is that is how VF has evolved over the years. It's how we've placed ourselves in a very strong position to compete in whatever marketplace we find ourselves in, in a particular period of time. What Scott just got done talking about is that we are being potentially more diligent, more thoughtful in applying our TSR lens against our portfolio and where we are not achieving the results that we've committed to, we're going quickly in and applying help and focus and that's what Scott, Aidan, Curt, Kevin, Martino, that's their key role is to bring to bear their expertise, pulling the expertise of VF and help brands where we aren't achieving the results that we know they're capable of.

And for the most part, when we do that, we're successful. When we're not, we will consider changes, one of those options might be replace leadership. Another option might be we aren't the most advantaged owner and that's where you would sense he has to do something like we did with contemporary or licensed sports. So, it's really kind of thinking across all of those choices with TSR and that model between strategic and financial being the decision tree that we used to make those decisions.

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

A

Yeah. I'd just say, Omar, this – one partial answer in addition to what Steve said is really the mix of the business, right? I said if you really parse down what's going on, our big three brands, international and DTC, collectively are growing at high-single digit, right, which is kind of the long-term backend aspiration. Then, you've got the $2 billion, right, which is growing at a very modest rate, which within that, we're either going to make it better or we're going to find other options.

And we know that there're some short-term issues with both from an image standpoint, our work business, which is $800 million and also jeans which are episodic. So, we expect acceleration in image and jeans, as there we see a beginning and an end to that, right, for different reasons. And that will reduce the drag on the overall portfolio and within in it, that core, those core growth drivers are really already growing at that long-term aspiration. And so, you'll see, number one, just natural mix will accelerate the growth rate over time. Then, to the extent that we either improve or make other portfolio decisions in that $2 billion tail, that's going to further accelerate that growth rate.

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

A

So you go over here, Bob, okay.

Robert Drbul
Analyst, Guggenheim Securities LLC

Q

Yeah. Bob Drbul from Guggenheim Partners. I was wondering if we could maybe unpack, Scott, in your words, the U.S. wholesale assumptions in your revenue. Within the U.S. wholesale, there's some assumption around these athletic specialty and sporting goods, which there's been a lot of disruption. And then the second part of the question would be within your store base, less store growth, what is your comp assumption as you plan over this year, [ph] a bit (6:25:49) in the coming years? Thank you.

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

A

Yeah. Okay. So, if you look overall in U.S. wholesale, we're not expecting a lot of growth, frankly. We've said a lot of that growth is going to come from our digital pure play and from international. Now, well, that shouldn't be interpreted as nobody's growing in U.S. wholesale. We're growing nicely with many key customers. The problem is there's a lot of headwinds in the U.S. wholesale, which is mitigating some of that growth, right? So, we're not expecting a whole lot, frankly, from U.S. wholesale because of some of the consolidation and other headwinds that we're expecting.

The other thing that makes that a little difficult as we talk about a five-year period is, some of the things, some of the events that are happening are notoriously hard to predict, right, and they're somewhat out of our control, things like bankruptcies and what not. So we feel like we have it adequately factored in over the five-year period. But the reality is it's going to be a little lumpy from quarter-to-quarter as we're going to outperform in some periods and we'll probably take some body blows at a certain point, but we have a lot of confidence. Overall, when you look at it holistically, this is a really rational and realistic plan from a wholesale standpoint. I don't know if you want to add anything.

A

You got it.

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

A

And from a – you also asked about comps. Our all-in comps, we've assumed mid single digit and that includes – remember, we're growing our e-com about 25%. Does that answer your question?

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

Q

Good afternoon. Laurent Vasilescu from Macquarie. I want to follow up on the gross margin guide to get to the 16% EBIT margin guide. Back at the 2013 Investor Day, it was outlined that DTC gross margins were 20% higher than the company average, and I think also international was like 7 percentage points higher.

Moving to today, like where do those margins sit, and where should we expect those margins to go for the 2021 guide?

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

A

Yeah. I think I caught what you're asking, what is the margin impact of our DTC business, is that essentially it and compared to where it is? We still see an advantage. We didn't quantify what it is, Laurent, in terms of the absolute amount, but our DTC business is accretive from a gross margin standpoint.

Now, one of the things that's happened since the last time we talked is our overall gross margin is higher, right? So that delta is going to be a little smaller, but it's still accretive from an overall standpoint, and we didn't quantify how much that is.

The other thing I'd say really because it's what you're kind of getting at to, I think, is profitability and what does DTC mean from a profitability standpoint. Couple things I'd point out. Number one, we said we're going to open fewer stores and focus on the productivity. So that's really says we're looking at unproductive and unprofitable formats, and we're moving quickly to eliminate them or minimize those. That's going to be a margin expansion to us, right? Also slowing the pace of brick and mortar openings, that will be accretive from a margin standpoint because new stores tend to be a drag.

The last thing I would say is digital. I know some of you don't believe me, but because I say this a lot, our digital, our e-commerce is our most profitable format, right? So, as it grows and becomes a larger percentage of the total, that's also from an overall operating margin standpoint, that's a positive thing from our standpoint.

Erinn E. Murphy
Analyst, Piper Jaffray & Co.

Q

Great. Thanks. Good afternoon. It's Erinn Murphy of Piper Jaffray. I guess, a couple questions. First on wholesale, what's embedded from a, I guess, platform perspective in the digital? You talk about digital, I think it's growing like a 25% CAGR within that wholesale. Is it just Amazon? Are there new brands kind of being platformed on Amazon? What other retailers are there? Thanks.

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

A

Yeah. So first of all, we've talked about digital holistically growing at a 25% rate, right? So, that's really our – yeah, that's our DTC business, right? That's within DTC growing at 25% rate. Now, I don't know if you want to speak to Amazon.

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

A

We did break out that wholesale e-commerce piece.

Erinn E. Murphy
Analyst, Piper Jaffray & Co.

Q

Right. So within wholesale, it implies a very similar CAGR about 25%. So, who is in that? Is it Amazon? How much of that is Amazon? What else is in that? Specifically within wholesale, not within your direct to consumer.

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

A

Right, right. So, that's a global number that we've compiled there for you. So, if you think across the global wholesale landscape, with China being our largest growth opportunity, that envisions some of the large e-commerce platforms in Asia and watching those continue to grow at the rate they are. We have strong partners in Europe that are pure-play digital players that are growing in a very strong rate as we open up more and more brands on their environment.

And it does envision partners here in the United States. One you mentioned is [ph] I believe (6:31:18) a partner already. We have a strong business there, not all of our brands are represented in that platform, but we do see over time you'll continue to grow that business at a good clip with the brands that are there and there's a potential as our distribution strategies really come to life and the segmentation strategies are in place and the right product offers are available for us to expand in the new channels, those would be options, too, that our brands would be looking at.

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

A

But it's fair to say, Erinn, that the disproportionate growth is in Asia and China specifically, where we're seeing substantial growth primarily in the largest online retailer, but it's broader than that. We're moving into adjacencies as well there. Yeah.

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

A

Joe, you want to grab Sam?

Sam Poser
Analyst, Susquehanna Financial Group LLLP

Q

Thank you. I'm not going to ask the question you think I'm going to ask. Two things, number one, with The North Face brand, with the growth that you're looking for there, within those more lifestyle-oriented categories, who – I mean that seems like you're going to have to take share from somebody to get in there. Who do you see you're taking share from?

Then, secondly, within the work area, you're doing a lot of stuff for speed. Within the work area, how are you using sort of that kind of technology or whatever it is to – how are you going to be able to use that in other parts of the business throughout the company? Because that sounds like something very interesting and if you could transfer it over the basic product in the rest of the company, that could be something that could be very, very large for you.

Scott H. Baxter
Group President-Outdoor & Action Sports Americas and Vice President, VF Corp.

A

Yeah. Sure. So, let me start with The North Face piece. So, one of the reasons and you had an opportunity tonight to listen to Arne Arens and he's come over from Europe because they've accelerated this process in Europe and done an outstanding job with that. So, his promotion was to help us go ahead and accelerate that here in the North American platform also. So, I'm going to ask Arne to go ahead and answer that over the first question.

Arne Arens
General Manager Americas, The North Face, VF Corp.

A

Sure. So, first of all, as I laid out in my presentation, the new brand strategies will allow us to expand to new consumers, right? So, potentially also to...

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

A

We can't hear you, Arne.

Arne Arens
General Manager Americas, The North Face, VF Corp.
A

Oh. Sorry about that.

A

There you go. Yeah.

Arne Arens
General Manager Americas, The North Face, VF Corp.
A

Okay. Can you hear me now?

A

Yeah.

Arne Arens
General Manager Americas, The North Face, VF Corp.
A

Fantastic. So, our new territory strategy will allow us to expand into new channels and also new consumers. One of the ways we've done that in Europe is by partnering up with an account called JD, which is a very strong sports lifestyle account based out of the UK, strong in the UK, but then also strong in the rest of Europe.

And JD, the traditional brands that compete there are the sports lifestyle brands like Nike Sportswear and adidas, and adi Originals. So, as we make inroads there, those are the brands that we're competing with in that channel at least in Europe. And we've been able to do that very effectively because we do have a role to play for this urban consumer that shops in that channel, if that makes sense.

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

So, I'd just build on that, Sam. I mean, it is really looking at that sports lifestyle competitive set, the outdoor lifestyle competitive set, and in the aggregate opportunity really is much larger than just a single category. But it's also speaking to the same consumers that buy the brand today and offering them a new use education or a new product offering that they could fit into their choice set, while we're also looking to expand to new consumers, just not here in the U.S. but it really varies region-by-region, where those opportunity pools reside.

Scott H. Baxter
Group President-Outdoor & Action Sports Americas and Vice President, VF Corp.
A

And Steve, one last comment on that. As we bring in the design in the innovation center, from the standpoint of looking at that brand and really opening up those capabilities to that brand and you're going to see more of that in the future, that really opens it up for us from an opportunity standpoint also.

A

[ph] Do you want to fill in? (6:35:06)

A

Okay. I'll fill in.

Curt Holtz
President of Imagewear, Jeans and Sportswear Brands, VF Corp.

A

Okay. Yeah. And you asked – I'll just follow up. You asked a question about could we apply some of the speed that we're using in our workwear segment, if I understood you correctly, across the broader portfolio. I would just remind you what I was referring to was predominantly that our speed advantage is largely in the B2B area right now, and that's one of the requirements of operating in that space.

Now, it is true that those same assets that we used to employ against our B2B opportunity are learning tools that we can use as we think about extending our speed advantages across the rest of the portfolio. And as Steve mentioned, thinking about becoming more retail-centric, really getting a much more focused assortment going through segmentation, then, yes, using the learnings that we have in our workwear, but also applying new manufacturing techniques and technologies, so we can get some of that production closer to consumption.

So, I would just say there're maybe learnings there, but that capacity we have dedicated right now is largely focused on the B2B, but there are learnings that we could extend elsewhere. So, Steve, I don't know if you want to build on that.

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

A

So Sam, what sits behind what Curt just explained is our owned factory capacity that sits in Mexico and Central America. I mean, we make about 20%, 25% of our total units, we make ourselves in our factories. Those factories are very, very skilled at servicing our jeans business, as well as our work business, and they've been engineered to be able to really move at a very rapid rate, the proximity of those factories allows us to have a quicker lead time, but we're able to respond to sell through and be able to have goods back moving our way depending on material availability in really a 10 to 12-week cycle.

So, there are learnings to be taken out of there. There's automation in those factories. So, that is my comment around leveraging that historical capability within our supply chain and applying it to new methods of make, looking at new partner relationships, new manufacturing techniques, machinery. And it's just not – when you think about the lead time, for us, the manufacturing component of the lead time is actually some of the shorter part of the overall cycle. The real win sits upstream when you look at the full design development and process before we ever get into producing the goods.

So, it's really, look, taking a holistic view across the entire product supply chain, and becoming more nimble, that was my comment about taking out the complexity, thinking like a retailer, we're designing specifically to fixtures by channel. It allows you to just shrink what you're focused on, focus more clearly, increase the quality. But from a supply chain standpoint, that's like nirvana to our team, because now they are fully integrated closer cycle, and we can start to tap into that capability that we're already seeing benefits here within Jeanswear and work.

Michael Binetti
Analyst, UBS Securities LLC

Q

Hi. Michael Binetti with UBS. Thanks for all the detail today, guys. On the revenue algorithm, I want to try to marry together two comments, you walked us through a lot of parts of the strategy on the bigger brands like North Face, and Timberland in particular. The five-year guidance, I guess, is 4% to 6%. You've given us some color on 2017, some color on 2018, it sounds like 2019 through 2021 accelerates to about 5% to 7% if I'm doing that roughly right, so a slight acceleration. And then you said some of that would come from things kicking in at Timberland and North Face.

Can you tell us specifically what the strategy is that change, what is the pivot in the strategy that catches in 2019 that accelerates those brands, what parts of what we looked at today happen in 2019?

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

So, I was having a hard time hearing the complete question.

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

I think what he said is what specifically in the strategy is going to be the inflection point of the increase...

Michael Binetti
Analyst, UBS Securities LLC
Q

Yeah.

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

Was that a brand-specific question, or it ...

Michael Binetti
Analyst, UBS Securities LLC
Q

Mostly focused – you made some comments that some of the headwinds for Jeanswear and workwear go away, so that will be separate. But it sounds like Timberland and North Face have a few parts of the strategy where there's an inflection in 2019.

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

Right.

Michael Binetti
Analyst, UBS Securities LLC
Q

What are those parts? Are they some of the things we saw today?

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

Sure, okay. I can take it and if I have missed some, you guys can fill in. So, where our North Face and Timberland brands are, are kind of in similar places. We've had a kind of a pullback in growth. Some of that is both Jim and Arne spoke about were external forces, but they're also internal forces. So focusing on those things that we control which are internal, we've spent a lot of time looking at the strategy, understanding focus on products, the demand creation, distribution strategies, and really looking at what would need to be different for us to get back to growth.

And in those cases – in both cases, we looked at our leadership team. We applied the focus that I mentioned earlier. We made the decision to make changes to get leaders in that had proven experience to be able to manage these kinds of accelerations. Arne is here for a very specific reason. Three, four years ago, our European business was at a much slower growth rate, dealing with a lot of the same market dynamics. And it was really the skills that he and his team brought to bear around focused distribution strategy, that then drove their product strategy as they then worked with partners on particular products that came in to those channels.

We began to get the flywheel moving again and it's that work that's taking place today in both Timberland and North Face, and it's really elevating our commitment to design. We've talked in February and it was mentioned today. We don't think we brought our best product to market in the last year, year and a half. Those are things that we know how to change. We have great expertise and it's really empowering those teams to unlock that potential and get back to driving that quality product; leadership enables that to happen.

It's being more thoughtful around distribution strategy and really driving those partnerships and segmenting the offer to give your partners the right products to succeed. And it's continuing to drive against the success of our retail platforms in both of those brands. It's really all of the things that we've spoken about today starting today and beginning to get momentum through this year, that's where we talk about that, that acceleration coming out of 2018 into 2019 and we see the flywheel coming back in a motion. And why we have confidence in that model is we've seen it happened in Europe in both of these brands with a lot of the same conditions. I've great confidence that that can be done here as well.

Scott H. Baxter
Group President-Outdoor & Action Sports Americas and Vice President, VF Corp.

A

Steve, I would add one very specific point. About three years ago, we went ahead and opened these three innovation centers. And so, they've had a chance now to get to know our teams, to work with our teams, and to incubate all of these projects that they're working on. So, we're at a point of inflection now after three years of a lot of good strategic work that we're going to start seeing the benefit of these innovation centers aligned with our design initiative and aligned with our teams and, for instance, aligned with the consumer territories for The North Face specially.

We're about to see the progress of that work start to take hold here over the period of time that you asked about, Michael, and that's really what has me jazzed about the future because I've been part of that from the beginning and we built it up and we spent a lot of time and a lot of money and a lot of effort there and we're going to start seeing the fruits of those labors here in a very short period of time.

Maria A. Lernerman
Analyst, Harding Loevner LP

Q

Maria Lernerman, Harding Loevner. Thanks for taking my question. So, I think you've done a great job explaining the reasons for the profit outpacing revenue growth, but retail is really changing in fundamental ways and the situation is still very dynamic. And we've seen retailers' brand beginning to invest, thinking they only need to invest so much, just to invest more longer term, right? So, I'm trying to figure out, why not give yourself flexibility in terms of EPS growth as oppose to guiding to a higher number? It just seems like it could be dangerous longer term to go for that convertible bond safety as oppose to just invest whatever you need to invest for the brand.

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

A

I didn't quite get that. Joe, can you [indiscernible] (6:45:25)?

A

I'm not [indiscernible] (6:45:26). Just a little closer. Yeah.

Maria A. Lernerman
Analyst, Harding Loevner LP

Q

Okay. Let me try again. So EPS growth guidance...

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

A

Yeah.

Maria A. Lernerman
Analyst, Harding Loevner LP

Q

...much higher than revenue growth guidance, you went for the pieces. But still, it's constraining in an environment where you have to invest. Why not put it more in line with revenue growth? Why not give yourself more flexibility, if you have to invest more than you originally anticipated?

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

A

Okay. So, if I followed, I think the question is why commit to so much profit growth, why not give more allowance for investment given the difficult environment, is that essentially it? So, a couple things. Number one, we do believe this is an investment plan. So, in those key areas we said we would invest high-single digit, you can expect SG&A to grow in those particular areas at a high-single-digit rate through this period. And again, we've proven over time that given this kind of growth, we can get leverage because of our platforms, right? So, we believe we can do both.

And the third piece of that puzzle is – and I tried to mention it earlier is the projects we're having around cost efficiency, right, what we call project agility, right? And that's just being smarter about what we do. I mean, one of the advantages of Steve driving strategy through his strategy is choices and that aligns the organization, and the other side of that is what you don't do, right?

And so, we're going through a systematic process of eliminating things that aren't aligned with our strategy to create additional investment dollars on top of the natural leverage that we have historically gotten. So, that means that's a pool of money on top of what we have historically been able to generate on this kind of growth that'll be available for investment.

I guess, the other thing I would say is by returning cash via share repurchases and dividend, too, that's using our balance sheet and our cash flow ability to create TSR and generate return for the shareholder without negating our ability to invest in our business. That's another partial answer to that question.

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

A

Yeah. And I would just fill back in, with our – really drove home, our commitment to driving shareholder value and delivering the mid-teen TSR that both Scott and I spoke about, the model we put forward enables us to do that. And that really is one of the number one focuses in this plan, is to be able to drive that TSR result.

Scott made a point around the value of the strategy. I mean, strategies are only as good as how you use them to drive your business. And one of the greatest benefits of a strong choiceful strategy is you know exactly what you can choose to work on and you can drive all of your efforts and all of your investments behind those choices and there's a limited number of choices here.

For those things that don't line up with the strategy, that's where you have the opportunity to aggressively move and challenge whether those are really things that need to be worked on because it's not aligned with the strategy and it's clearly not benefiting our move forward to drive the growth that we've committed to and that's what project agility is about. We're organizing very differently by using that VF rigor and discipline that you've become used to us, talking about over the years. Here, it's really using it across our organization to talk about the strategy, talk about those choices and then where it doesn't line up, aggressively stop that work. And from that action, we see great opportunities to have that fuel that comes back and to drive the, ultimately, what we've committed to here.

Bridget Weishaar
Analyst, Morningstar, Inc. (Research)

Q

Yes, hi. Bridget Weishaar with Morningstar. You talked about the fact that mix shifts to international sales were beneficial to the operating margin. And I think in the past you quantified that it was something like a seven-point benefit in gross margin for international sales.

Are there structural differences that make you think that this difference is sustainable and better positioned than what we see in the United States?

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

A

Yeah, so – I guess I'll take that first. First of all, same comment to Laurent. So, as our overall margin has increased, then obviously, that delta decreases a little bit. But however, we've seen that, yeah, I think there are structural reasons why in our international business we've historically captured stronger margins. I think there's a number of reasons for that and we've seen that consistently over a long period of time.

Our brands are strong in those markets and we have pricing power, that's really the key. That combined with careful channel management and, specifically, monitoring the amount of markdown activity and limiting that amount to maintain those margins has really been a winning formula for us over the past several years. When I was in international, we certainly saw that and we've seen that continue. I don't know if, Aidan, you have anything you would add to that.

Aidan O'Meara
Vice President & Group President, VF International, VF Corp.

A

Yeah. Just a couple of comments. I think there's also some mix, geographic mix and brand mix factors at play here, which help sustain that model because a lot of our pieces within international that are growing fastest are our most profitable pieces, too. So, that's also very helpful, I think, to sustaining that high level of return that we've seen in the past.

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

A

And we'll take our final question.

Matthew Robert Boss
Analyst, JPMorgan Securities LLC

Q

Thanks. Matt Boss with JPMorgan. If revenues looked more similar to the past 12 months, or up low-single digits, as opposed to the mid-single-digit, top-line guidance that you laid out, how much expense flexibility do you have in the P&L? I guess said differently, if revenues are low-single-digits, what's the bottom-line profile over the next five years?

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

A

Yeah. So, I guess what – first of all, we have no intention of doing that. But we have historically been able to add two to three points from a bottom line on top of our top line, right? So, I would say, generally that ratio would hold true, but I guess that's probably as good an answer as I could give you at this point. Okay?

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

All right. Well, with that, let's draw this day to a close. And I guess, I'd first like to start by saying thank you to all of you for taking the time. I know we're all busy and you made a choice to spend the day with us and we very much appreciate that. I also want to say thank you to two people on our side, who made this day possible. There's actually a lot of people behind the scenes who made this possible, but specifically Joe Alkire and Melinda Pipes, the two individuals in charge of IR for us. Thank you.

We would not be here today if it weren't for the effort that they've put in over the last 10 weeks. So, we shared with you today our strategy. And really, the objective today was to update you on how we've done with our 2017 by 2017, but more importantly to give you a view of where we see our corporation growing over the next five years.

But it was also about giving you the opportunity to meet the leadership team. The gentlemen I'm up sitting up here with today but also the people who drive our businesses. It was really important that we give you that opportunity to hear from and measure and put your confidence behind what clearly we've said as part of driving this business.

So, I think where I'd like to have you leave with are few things. We talked very clearly that we really want you to think about VF, not as a corporation centered in Outdoor & Action Sports, but we are a value creation company with a particular strength in powerful brands and you heard from the leaders of those powerful brands today. But we also have a center of gravity in Outdoor & Action Sports, and you saw that that grows year-over-year.

But as a company focused on value creation, I want you to leave here knowing that the comments around reshaping our portfolio are very top of mind for us and in that, mergers and acquisitions remain very high, it's where we want to deploy our capital first and we see opportunities through our strategy to either move within the brands that you know, or they're very well might be new capabilities or new partners that we would align with to help unlock elements of the strategy. Our acquisition capacity is strong and we will look to use that to really advantage ourselves to execute against the strategy.

So, some key things to take away on the strategy would be, we are committed to pivoting to become more consumer and retail-centric. Retail becomes a larger percent of our total. But the more we become retail-centric, the better partner we will be for our wholesale partners across the regions.

We are going to completely double-down in the area of design and innovation. You've heard us talk about innovation, our centers are staffed and working really well with our brands today. But it's the elevation of design and elevating the quality of the product linked to the brand experiences that we think going to be a very powerful unlock, specifically for our big growth drivers, but all across the entire corporation.

We're committed to digital. It's a very big part of our growth. You saw the numbers that Scott laid out. But it's not just digital from a commerce standpoint, it's digital in how our brands will come to life and interact with our consumers that Greg talked to you about, the innovation center, our platform and how we're able to really use data to drive decisions to help our businesses drive the growth.

So, I hope you leave here with a really strong confidence in the choices that we've made and the capabilities that we're organizing behind to be able to enable the growth. And I would also hope that as you look at the numbers that we've laid out, that you think there might be a greater upside. Because I'll be honest with you, as I look at this, and Scott and I've debated these numbers a lot before we got here today, I feel like there's more in the tank. There's more to be had here. But what we wanted to do was put forward a plan that's credible, a plan that we've got great confidence in being able to deliver and start off on the right foot and build confidence, really going back to the survey that we did, because we want to have confidence in your mind that this leadership team can achieve what we've committed to. And if there's upside in your mind, I would tell you that, that matches a little bit what's in my head, but the proof will be as we start to activate this strategy just as it actually come to bear.

Last comment, I want to thank you each and every one of the leaders that participated today. I could not be more proud of the work that's been done and the support that sits behind them in the organization that brought these strategies to bear. This is an incredibly talented, strong, capable, and a team that has a tremendous amount of tenure not only in VF and the industry. It gives me confidence that's why I can stand here and tell you that I believe that there's more in the tank. I thank each and every one of them for the work that they've done, and the work that we're going to do.

And with that, thank you very, very much. And we look forward to interacting with you in the weeks, months and quarters to come.