13-Aug-2018

VF Corp. (VFC)

VF Corp Spin-off Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the VF Conference Call to discuss the Intention to Create Two Independent, Publicly Traded Companies. At this time, all participants will be in a listen-only mode. A brief question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

I'd now like to turn the conference call over to your host, Joe Alkire, Vice President of IR and FP&A. Please go ahead, sir.

Joe Alkire
Vice President, IR and Financial Planning & Analysis, VF Corp.

Good morning, everyone. Thank you for joining us and welcome to VF Corporation's conference call to discuss the announcement of our intention to separate our Jeans business and create two independent publicly traded companies.

Participants on today's call will make forward-looking statements. These statements are based on current expectations and are subject to uncertainties that could cause actual results to differ materially. These uncertainties are detailed in documents filed regularly with the SEC. I would also like to highlight that in addition to this morning's release, we have posted a presentation to the Investor Relations section of our website, and we'll be referring to this presentation during the call.

Joining me on the call this morning will be VF's Chairman, President and Chief Executive Officer, Steve Rendle; and VF's Chief Financial Officer, Scott Roe. Following our prepared remarks, we will open the call for a question-and-answer session. Steve?

Steven E. Rendle

Chairman, President & Chief Executive Officer, VF Corp.

Thank you, Joe. And thank you, everybody, for joining us on this early Monday morning. We're pleased to share with you today another significant milestone in VF's story history. Our announcement that VF intends to separate into two independent companies represents another step on our value creation journey, a move that we believe is the next catalyst for another layer of transformative growth and strong value creation for VF and our shareholders.

During the past 118 years, bold and well-timed portfolio actions have shaped VF. For example, in 1969, VF, then Vanity Fair, made a bold move and acquired the Lee brand, marking VF's first major foray outside the U.S. In 1986, VF acquired Blue Bell, which included the Wrangler brand. The acquisition doubled the company in size and created the world's largest publicly traded apparel company. In the early 2000s, VF made two pivotal acquisitions, The North Face and Vans. The acquisition of these two powerful global brands was a strategic move by VF, as it began to build a portfolio anchored in activity-based lifestyle brands.

In 2007, VF divested its namesake, Vanity Fair Intimates, which represented nearly 20% of the company's earnings at the time. This transaction marked the beginning of VF's focus on becoming a more active portfolio manager. In 2011, VF completed its largest acquisition in history in the Timberland brand, immediately doubling the company's global footwear business. And in 2017, VF acquired Williamson-Dickie, establishing VF as the global leader in Work.

VF is a company anchored in active and strategic portfolio management. We will continue to make transformational moves and evolve our portfolio, as we have done so many times throughout history. We take these actions to position our portfolio to deliver superior total shareholder return. It's who we are. We are a company focused on delivering strong and sustainable TSR.

When we introduced our 2021 strategy last year, reshaping the portfolio to accelerate growth was our first priority. During the past 18 months, we've taken several steps to advance our transformational journey and better position VF for long-term value creation. Our announcement this morning is a logical next step in the further evolution of our company and is another example of our commitment to position VF as a purpose-led, performance-driven, consumer-centric enterprise.

We believe the strategic rationale behind today's announcement is compelling and will create two stronger companies with greater prospects for sustainable long-term growth, success, and value creation. The decision to separate these businesses was part of a deliberate and extensive process with our board, as we continually analyze the strategic and financial evolution of VF that has been underway for quite some time.

It's important to note that VF is taking these actions from a position of strength, with both the Jeans and the remaining VF portfolio showing improving performance, in line with our long-term growth plans, as outlined 18 months ago in Boston. Our Jeans business and the remainder of VF have evolved differently over time, resulting in two separate and distinct businesses, with unique investment identities and operating models.

The skills, capabilities, and investments required to compete and win in today's rapidly changing marketplace have also evolved and are very different across these businesses. We believe this separation will achieve the following for both companies: enhanced management focus, reduced complexity, focused investment to accelerate growth, more efficient allocation of capital, and better alignment with each company's natural investor type.

The separation of these two companies will enable VF, or RemainCo, to sharpen its focus as a global apparel and footwear powerhouse, anchored in activity-based outdoor, active, and work lifestyles. NewCo, which will be named and branded in the coming months, will be a global leader in denim, highlighted by iconic global brands steeped in rich heritage and authenticity. Both VF and NewCo will have strong positions as leaders in our industry and by creating two strong, diversified global companies, each can more effectively and efficiently build on its individual strengths and deploy the talent, resources, and flexibility needed to thrive in today's dynamic consumer marketplace.

Additionally, VF will relocate its global headquarters to Metropolitan Denver, Colorado, which will also serve as the home for The North Face, JanSport, Smartwool, Altra, and Eagle Creek brands, as well as both VF's Global Innovation Center for technical apparel and fabrics and our Digital Lab. Co-locating these brands at a shared headquarters at the base of the Rocky Mountains will simplify our operating structure and better enable us to collaborate across brands and functions, unlock innovation and business opportunities, attract and retain talent, and better connect with our consumers.

I'm pleased to announce that Scott Baxter, currently VF's Group President, Americas West, has been designated the CEO of NewCo. He is an extremely talented leader who has a long track record of success, which includes leading the Jeans business from 2011 through 2015, a period during which the business grew at a mid-single-digit rate. Those of you that also followed us over the years know that Scott is an experienced, well-respected senior leader within VF, as well as our industry. I'm confident that he will do an exceptional job for NewCo.

NewCo's global headquarters will be in Greensboro, North Carolina, currently home to our Wrangler brand. In the U.S., the Lee brand will move its headquarters from Kansas City to Greensboro, joining Wrangler. Greensboro is a natural home for the Jeans business, and in fact, Greensboro is often referred to as Jeansboro due to its deep denim and textile heritage.

As I look ahead, I'm truly excited about the opportunity this separation presents to each company to unlock stronger and long-term growth and total shareholder return. During the transition in the months ahead, we remain committed to operating our business as normal and building on the foundation and momentum we've generated with our 2021 strategy.

The success that VF and the Jeans business have achieved over the years has been remarkable. To continue, it requires the ability to consider the future and make bold decisions today that will deliver superior results in the years ahead. The pace of change in our global marketplace is accelerating at an unprecedented rate and consumers are evolving. Now is the right time to establish two great companies with powerful brand portfolios and strong management teams with the proven ability to build on our past and shape an even more successful future.

And with that, I'll turn it over to Scott to go over the specifics of the transaction in more detail.

Scott A. Roe

Chief Financial Officer & Vice President, VF Corp.

Thanks, Steve. It's a privilege as CFO to oversee such a transformational transaction. VF is a purpose-led, consumer-focused enterprise with a deep, longstanding commitment to delivering strong and sustainable total shareholder return. VF has a rich history of delivering superior long-term TSR and transformational portfolio actions, such as the one announced this morning, represent critical milestones along VF's value creation journey.

In 2000, when the The North Face brand was acquired, VF generated less than $6 billion in revenue, with about 20% coming outside the U.S. and less than 10% coming from direct-to-consumer. The Jeans business at the time accounted for more than 50% of total profit and cash flow, and served as the stable growth-funding portion of our portfolio for more than 15 years.

So fast forward to today, VF generates more than $13 billion in revenue, with more than 80% coming from outdoor, active, and work lifestyle brands. The company generates more than 40% of its revenue outside the U.S. and about a third of revenue coming from direct-to-consumer. VF's Outdoor, Active, and Work businesses also account for more than $1 billion of the company's free cash flow, and today have the global scale and financial flexibility to pursue a more growth and investment-focused strategy.

Importantly, Jeans didn't shrink. The rest of VF grew profit and cash flow at a much faster rate. So while Jeans is still a solid, profitable, and cash efficient business, it's no longer required to fund VF's cash requirements. The strategic priorities and financial characteristics of VF and NewCo have evolved over time, and the synergies across these businesses have become less clear. Both companies are well-diversified at global scale and the financial profile to pursue and capitalize on diverging paths to long-term value creation independent of one another.

Therefore, management and the board of directors have concluded that each entity can achieve even greater potential as a separate company with a separate management team focused acutely on its own unique opportunities.

So let's start with VF, or RemainCo. This separation creates an $11 billion global apparel and footwear powerhouse anchored in activity-based outdoor, active, and work lifestyles. The separation enhances the VF's focus on simplified, high quality portfolio with growth assets capable of delivering mid-teen TSR on a sustainable basis, driven by high single-digit revenue and double-digit earnings growth, coupled with a strong dividend yield in line with the S&P 500.

The separation will provide greater strategic focus, operating model alignment, and greater management capacity to invest in new growth vectors and capabilities to accelerate growth. The company will remain highly diversified across geography, product category, consumer demographic, and distribution channels, but D2C, digital, and international penetration will index slightly higher.

From a capital allocation standpoint, there is no change as a result of this separation. VF will remain a disciplined steward of capital. We are committed to our strong credit rating and our strong dividend yield. M&A will continue to be a top priority and we will maintain our active management of the portfolio. On separation, VF will have the financial flexibility to pursue both tuck-in and potentially larger acquisitions and investments in new capabilities to fuel additional growth and TSR.

Moving on now to NewCo, the separation creates a more than $2.5 billion global leader in denim with strong iconic brands, steeped in deep heritage, and authenticity; steady growth, consistently strong profitability, and robust cash flow generation will deliver high single to low double-digit TSR on a sustainable basis.

The separation creates an opportunity to unlock long-term value creation through streamlined operations, scale and cost efficiency, and the flexibility to pursue and invest in strategic priorities and growth initiatives not easily accessible inside the VF portfolio today.

From a capital allocation standpoint, NewCo will initially focus on supporting a strong and growing dividend, as well as reducing financial leverage. And I think it's worth mentioning that the Jeans business has remained exceptionally stable through industry disruptions and economic cycles during an extended period of time. This stability, when coupled with a proven and experienced management team and board, provides a solid foundation for investors.

Now a comment on our dividend, which is a core element of our balanced value creation model. As outlined in the presentation, we expect the combined dividend following this transaction to exceed VF's current dividend, subject to both VF and NewCo board approvals. Our 2021 plan contemplated low double-digit growth in the dividend, and we believe this separation presents an opportunity for the combined dividend to increase at more of a low-teen rate. We continue to see tremendous value and a balanced TSR algorithm and have confidence in each company's ability to sustain the proposed payouts and yields, respectively. We'll provide more specifics around the dividend plan for each company as we move closer to the separation day.

So turning to the specifics of the transaction and next steps, we expect to accomplish the separation through a tax free distribution to shareholders. On the effective date of the spin, VF's then current shareholders will own 100% of both publicly traded companies. The final distribution ratio will be determined later in the process. We expect to file the Form 10 at the end of this year and currently expect the separation to be completed in the first half of calendar 2019, subject to regulatory approval and final approval of the distribution by our board of directors. Credit ratings for the two companies will be determined by the rating agencies based on financial projections and capital structures that will be finalized in the coming months. There is no change to VF's capital structure or capital allocation priorities as a result of this separation.

We expect to incur one-time separation costs related to the transaction. These costs will be quantified at a future date and will be treated as adjusted items in our quarterly report. As a result, there is no impact from the separation for the full year fiscal 2019 outlook we provided in July.

Finally, we currently expect minimal dis-synergies on an ongoing basis because of the separation, as we expect to complete this process in an efficient manner, given the experience in integration and separation that we built as an active portfolio manager over the years.

So to conclude our prepared remarks, we are pursuing this separation from a position of strength. This is a major milestone in our transformation journey and is yet another example of VF's commitment to active portfolio management and delivering superior returns to shareholders. We believe this transaction is a logical step in the evolution of VF and positions each company with enhanced prospects for stronger, more sustainable, long-term value creation.

I close by extending a special thank you to the VF teams and our advisers for their hard work, commitment, and dedication to this transaction over the past several months. We are extremely grateful for the continued commitment and contribution of all our employees around the globe. I am humbled by their exceptional performance and dedication.

Now I'd like to turn the call back to the operator and we'll take your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. At this time we'll be conducting a question-and-answer session. [Operator Instructions] Our first question comes from the line of Robert Drbul with Guggenheim. Please proceed with your question.

Robert Drbul
Analyst, Guggenheim Securities LLC

Q

Hi. Congratulations and good morning.

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

A

Hey, good morning, Bob.

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

A

Good morning, Bob.

Robert Drbul
Analyst, Guggenheim Securities LLC

Q

I guess, the first question that I have is around the separation, you say minimum dis-synergies with the separation. I always thought part of the VF story was sort of the common expense platform. So, I guess, when you look at it – I know it's a little early, but when you think about sort of the efficiencies on the SG&A line, how does that shake out on one business versus the other? And I have a follow-up question as well.

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

A

Yeah. I'll take that, Bob. So while it's true that we do leverage a lot of common expenses. The truth is, over the years the evolution of this business compared to the remainder of VF has been somewhat unique and divergent. So another way of saying that the Jeans business is more independent than the rest of the portfolio and frankly, that's one of the justifications for the actions that we're taking today.

Now, you might also recall that we've talked over the last couple of quarters about some of the cost initiatives going on in the Jeans business and that we'll realize over the next couple of years, you should think about any NewCo company costs, which will be established, as being offset by those actions. Again, we'll give you more granularity as that comes, as we get further down the pipe, but just in a large – that's the large picture.

Now as it relates to dis-synergies on the VF side, while there are some, we have line of sight to what those are, it's not that significant. We'll detail that more in the coming day. We also have actions in place, which we believe will offset those over the next couple of years.

Robert Drbul
Analyst, Guggenheim Securities LLC

Q

Okay, great. And then just on the NewCo board, I see that you have established a very experienced and well-known Chairman of the board. I was just wondering if you had to really pay up to lure him out of retirement.

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

A

We're still negotiating, Bob, so don't help [indiscernible] (00:19:23)...

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

A

Be careful, Bob, he might be listening in, but I would say it is. We're excited to be able to have Bob Shearer's extensive background knowledge there to support NewCo's management, which is very strong and capable on their own. But with the combination of Bob Shearer, Rick Carucci coming in from our board for a limited term, and Juliana, here is a board that really understands the model, the disciplines required, and we think it's just a great set of leaders to help our NewCo stand up and operate at the level that we all know they're capable of.

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

A

I guess, just building on that too, well, we'll give you more granularity. We outlined the broad thesis here from an investment profile. But the other thing you should be confident on is you're not going to get a surprise from this management team or this board. The continuity is there and this won't be a surprise.

Robert Drbul
Analyst, Guggenheim Securities LLC

Q

Great. Best of luck. Congratulations.

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

A

Thanks, Bob.

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

A

Thanks, Bob.

Operator: Our next question comes from the line of Omar Saad with Evercore. Please proceed with your questions.

Omar Saad
Analyst, Evercore ISI

Q

Thanks. Good morning. I'll add my congratulations as well. Pretty exciting deal you guys announced.

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

A

Thanks so much.

Omar Saad
Analyst, Evercore ISI

Q

Absolutely. Two quick questions. First, did you consider sale versus spin, selling the Jeanswear business versus spinning it off, especially since maybe it would allow a situation where you could raise capital to pursue something larger on the acquisition front? And then I have a follow-up as well. Thanks.

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

A

Yeah. So, I'll start with that, Omar. Of course, we did consider all options, as we do by the way with our entire portfolio. This is a discipline that we go through on a regular basis with our board. And as it relates to this, when the decision to separate was made, we did look at those options. Remember, we've owned these assets for quite a while, and therefore the basis in them is pretty low.

So, first of all, the hurdle to get over from a sales standpoint is pretty strong. Also when we looked forward, the tax free spin with this management team, their forward plans that we've put forward, the TSR generated, is greater than having them in the portfolio. So that justified this as the most beneficial action from a shareholder standpoint.

Now that being said, it's the fiduciary duty of the board to entertain any offers that might come in. So it's possible that that could happen. And if so, then the board will take that with the due care that is required there. I would just say, though, in the lead up to this and in our research, we looked at large deals over the last five years, spins that have occurred for large cap companies, and more than 90% that announce a spin end up in a spin, and the reason for that is largely due to that tax efficiency, right, and the tax leakage that typically comes with low assets with low basis. So, of course, everyone will do their fiduciary duty. It's our expectation and our intent to move forward with the spin, because again we see that as the greatest shareholder return option on the table.

Omar Saad
Analyst, Evercore ISI

Q

Thanks. That's really helpful, Scott. And then a follow-up if that's okay. What is this transaction separating out of the Jeans businesses or Jeans brands which are slower growth and kind of a different customer segmentation versus more of the Outdoor brands, which are growth here and perhaps more global? Does this say something about which types of brands can fit in the VF RemainCo portfolio? Is there a certain profile around "growth" or lifestyle? Just trying to read into the tea leaves there a little bit, spinning out of the Jeans brands what that says about your philosophy about the brands that work in the RemainCo portfolio. Thanks, guys.

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

A

Yeah, I'll take that, Omar. I do think this is – by announcing our intent to separate our two companies, two really good companies, into separating operating units, we are saying consistent with what we said in Boston that we would align our portfolio consistent with our financial aspirations. And with the RemainCo aspect of our portfolio, we have a much greater line of sight to achieve those financial aspirations and grow in that mid to high single-digit revenue and deliver the low-teen operating margin improvement on a year-over-year basis. So, a very fair question.

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

A

Yeah. I'll just add, Omar. We've increasingly talked about as part of our strategy, the three lenses, that we evaluate both potential targets and our existing portfolio. And if you think from that perspective financially, clearly from a growth profile and gross margin, we see a divergence in performance, so you could say financially under that category, you see a justification for separation.

But the most important in my opinion is ownership, and under our ownership versus independent ownership, our belief is that the independent ownership and focus of these brands would unlock more value over the long-term. And the reason for that is, obviously, the new management team, this is The North Face and Vans of that new management team. Lee and Wrangler will get the first bite of the apple. They'll get to prioritize investment from their perspective and over time, we believe that will create more value for these brands than it did under our ownership.

Just a counter to that is in my prepared remarks, I said early on in the J-curve of Vans and North Face ownership of VF, the Jeans profitability and cash flow was over 50% of the total. So our balanced TSR algorithm required them to be part of the portfolio. Now, as you fast forward, you now have the remainder – RemainCo as self-sufficient with scale and diversity that, while, obviously, the cash flow from Jeanswear has been helpful to the overall piece, it's no longer required. So the combination of the self-sufficiency of RemainCo, plus the ability of Jeans and NewCo to focus, first and foremost, on their two great brands, we think, will ultimately create more value over a longer period of time.

Omar Saad
Analyst, Evercore ISI

Q

Thanks for taking my questions. Congrats.

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

A

Thanks, Omar.

Operator: The next question is from the line of Laurent Vasilescu with Macquarie. Please proceed with your question.

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

Q

Good morning and thanks for taking my question. Jeanswear at times can be seen as a Workwear category. Can you talk about the drivers in decision making to split the Work and Jeanswear categories? Are there any factors, such as like customer breakdown in the Workwear category that made it compelling to keep in the VF portfolio?

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

A

Yeah, Laurent, I'll start. As we looked at the opportunity, in Boston we declared Workwear as a strategic growth vector, and there is still large value creation opportunity within our Work portfolio for us to recognize. The financial profile, you could say, is somewhat similar, but there are little to no synergies between our Jeans business and NewCo. And honestly, NewCo has the scale and the global footprint to stand alone and operate as an independent company with a very attractive value creation path for its natural investor base.

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

A

Yeah. I just want to add to that Laurent, if you think about Work specifically as a category and why it was attractive and why we declared it as a strategic priority, in addition to our deep understanding of that business having been in the Work space for a long time. There are what we formerly called the Imagewear business. It's also a highly fragmented marketplace. So with our balance sheet, our proven capability on acquiring and integrating business as we see a further growth vector as you think about that fragmented marketplace and what we can bring under our leadership to the Work space.

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

Q

Very helpful. Scott, maybe you can talk about the composition of the balance sheet for the NewCo. How much debt and cash will be on the balance sheet considering the excess free cash flow? And if all the debt will go to NewCo, how much leverage would you be willing to take on for RemainCo?

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

A

Yeah, I'm not surprised to get that question from you, Laurent. So, as you can imagine, we have to be a little careful on our comments, because our board – there is a process that we're going through in order to – actually both boards in line and they have the final say. But I can shape it for you that I think will get you close enough.

So our current thinking is that there'll be about $1 billion in new debt on NewCo. From a overall financial profile, we think that's less than 3 times debt-to-EBITDA, with actually a path – this business generates a lot of cash, as we know. So there's a path to delever pretty rapidly, in a couple of years we see that approaching 2 times. So it's going to be a very solid credit company, right? And that's important as you think about that dividend yield of around 5% appealing to that investor. That's the reason that we're thinking that way.

So there'll be a one-time distribution of the proceeds from NewCo to RemainCo. You would expect the majority of that, less a little bit of friction related to the deal, to move across the line. And so another way to think about that from a capacity standpoint of RemainCo, the lost EBITDA from carving off the Jeans business is more or less replaced by the cash from that distribution on day one. So that, coupled with, obviously, the currency of our equity, given where we're at in the market today, gives NewCo a lot of firepower as we pursue our acquisition priority.

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

Q

Very helpful and best of luck.

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

A

Yeah. Thanks, Laurent.

Operator: The next question is coming from the line of Matthew Boss with JPMorgan. Please proceed with your question.

Matthew Robert Boss
Analyst, JPMorgan Securities LLC

Q

Thanks. So on the operational front at RemainCo, I guess, could you just walk through the specific opportunities you see accelerating the underlying organic growth profile under the new structure versus the legacy company, and maybe as it relates to your ability to accelerate higher margin DTC and international. And then secondly, does this alter at all your M&A mindset just in terms of priority?

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

A

Yeah. So operationally as you think about the opportunities for RemainCo, as this separation starts to take shape, consistent with what we have been doing all along is really driving those marginal dollars against our set of strategic choices and capabilities. And now operating as two separate companies, each entity will be able to drive those investments against the capabilities, strategic elements relevant to their long-term growth algorithm.

For us, that would be a deep – in the RemainCo, that would be a continued focus on driving our D2C and specifically our digital and data strategy, unlocking additional innovation ideas, looking at new growth vectors, and being able to really drive those investments specifically back against our brands. Clearly, demand creation will be a heightened focus for us with our big growth properties.

And if you look on to the NewCo side, they have many of those same strategic concepts envisioned in their plan. They will be able to invest directly related to the Wrangler and the Lee brands versus how it has been operating historically here within VF, where we will direct those marginal dollars towards our big three. Now they'll be more focused in a less complex model to operate within.

Matthew Robert Boss
Analyst, JPMorgan Securities LLC

Q

Great. And then just a follow-up. At NewCo, I guess, could you break down your confidence in drivers of the low single-digit top line profile multi-year versus flat guidance for Jeans this year?

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

A

Yeah. If you look at the composition of the growth, first of all, one of the big drivers has been and we think will continue to be on the digital wholesale. Those two brands are two of the top five growing apparel brands, Lee and Wrangler, on Amazon, that has grown at a high-teen kind of rate approaching 20% and we expect that to continue. Also on the Work section, in the RIGGS business, that has been a consistent grower and we would expect that that would continue to grow as well. Also, international, don't forget the Lee brand is very well-positioned in Asia, specifically in China, also in India, but China is the big business, very profitable, it was our first large business in China, and we expect outsized growth there from a percentage standpoint.

Now, on the wholesale, we'll get into the details as we move down this road, but we are also expecting continued consolidation and, whatever that may – what form that may take, the contraction in many of the players in the U.S. wholesale side. So this is focusing on those growth factors that we're seeing will be outsized and also taking into account that some of the disruption that's occurred in the marketplace over the last several years will continue, and that's baked into those assumptions going forward.

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

A

To build on, Matt, certainly we expect there will be continued consolidation here within the U.S. marketplace. But our Jeans business have very longstanding strong mutually beneficial relationships with those businesses that will have a high likelihood of continued success and really being able to leverage those in the future consistent to how they work today in addition to the international expansion and new growth opportunities through looking at new segments, new higher – higher price offers and truly looking at the marketplace through an integrated marketplace lens and opening up the availability to a multitude of different consumers, while staying intently focused on that core consumer that makes Jeanswear so, so successful today.

Matthew Robert Boss
Analyst, JPMorgan Securities LLC

Q

Best of luck.

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

A

Matt, thanks.

Operator: Our next question is from the line of Camilo Lyon with Canaccord Genuity. Please proceed with your questions.

Camilo Lyon
Analyst, Canaccord Genuity, Inc.

Q

Thanks. Good morning, gentlemen. Just following-up on that line of questioning from the prior caller. Can you tell us how you view the wholesale relationship for RemainCo going forward? Clearly, DTC and digital has been a key focus of your growth strategy and that's served you well. But does the spin change your view on your relative importance with the wholesale channel relationship, and if there were any sort of benefits that you had across the brands with Jeanswear as well as the big three as it relates to that customer of yours?

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

A

Maybe just to put some numbers on it, I think, before Steve answers the second part. It was in the prepared remarks, but just by the mathematics of the separation, you'll see an increase in over-index in our D2C approaching into the high 40s, becoming almost half of our business – sorry, international in the high 40s almost half of our business. D2C in the high 30s, about 37% is implied on D2C.

So as you think about where we're making our investments, where our share of management time, those things that are highly leveragable, that really is more suited to the RemainCo assets than Jeanswear, and that's an example of where we would say the divergent business models have made VF a less beneficial owner of those assets.

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

A

Camilo, wholesale still for RemainCo will be over 50% of our total revenue stream. So those strategic partnerships that we have with brick-and-mortar, pure-play digital, wholesale partners remain extremely important in the rigor and focus that our businesses put around their integrated marketplace set of choices will drive those decisions, and really guide the depth and quality of the relationships that we'll engage in across each of those wholesale channels. So it remains very, very important.

But D2C, and especially digital, for these set of brands in RemainCo is extremely important. It's where we're able to tell those highly aspirational, experiential stories offer the full breadth of our product offer, but done in a way that supports and is complementary to those wholesale partners that we do business with.

Camilo Lyon
Analyst, Canaccord Genuity, Inc.

Q

Got you. And then just on the supply chain, clearly that's, obviously, been a very strong point of differentiation for you and a competitive advantage. Can you talk about how the split with the supply chain will unfold? I would assume that there is some synergies across brands and leverage capabilities that you've been realizing throughout the growth of the business over the past years. So I'm wondering if splitting up your supply chain entails an inordinate amount of complexity to it, or is your supply chain such that it is pretty well-defined by the categories that we're speaking of, so that the RemainCo brands are truly made in kind of RemainCo supply chain factories and Jeanswear operates and is made in different factories. I'm just trying to understand the complexity of splitting that part of your business.

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

A

Yeah. I do not want to undersell the complexity of pulling these two businesses apart. Scott made a comment earlier that the dis-synergies – or the synergies between these two businesses has moved apart over time, and supply chain is one of the most significant examples. The supply chain for our Jeans business or NewCo is very specific with a high degree of owned manufacturer supported with contract manufacturer, but very different production resource partners.

The complexity really sits in how we begin to pull part the broader supply chain team, focus them on the new RemainCo and NewCo businesses, coupled with how we begin to look at our distribution network, which is very separate today, but by no means do I want to undersell the complexity really related to this action. But the supply chains are very unique and separate today. It's just the really the effort to begin to pull it apart and more about directing the people that work on it day-to-day and deliver the high quality of service that our businesses are accustomed to.

Camilo Lyon
Analyst, Canaccord Genuity, Inc.

Q

Thank you very much and good luck.

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

A

Thanks, Camilo.

Operator: Our next question is from the line of Ike Boruchow with Wells Fargo. Please proceed with your question.

Ike Boruchow
Analyst, Wells Fargo Securities LLC

Q

Hey. Good morning, everyone.

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

A

Good morning.

Ike Boruchow
Analyst, Wells Fargo Securities LLC

Q

Two questions. First quickly, I guess, on the move to Denver, I guess, could you just let us know what the timing of that is? And then if there's any – I don't know if you guys are purchasing something over there or is there any kind of capital costs that we should also be expecting from that?

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

A

Yeah, I'll start with the description of the win and more or less with what it'll look like and Scott can talk you about the capital piece. But we are announcing well in advance of when we intend to begin to make these moves. The moves are scheduled to begin this time next year, so 12 months line of sight for our people to begin to plan and prepare. Also allowing our real estate teams to further the conversations in the Denver metro market on a prospective location that we'll be able to take possession of and to begin the build out to receive the different employees from the 80 or so that will be moving here from Greensboro to the large number coming in from all the different businesses. So it begins next year and we expect it will take over 12 to 18 months to – hopefully, more around 12 months just to be able to phase the moves and do it in a way that new space can effectively, efficiently on board and set the new teams up.

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

A

As it relates to CapEx, at this point our intent is to lease a facility in metro Denver. Those discussions are still underway, but that's our current thinking. As you think about costs over about a three-year period from a P&L standpoint, probably $60 million to $70 million over that three-year period roughly equal by period. The cash costs associated with that, think about 20-or-so million less than that.

Ike Boruchow
Analyst, Wells Fargo Securities LLC

Q

Got it. Thanks so much for that. And then, Scott, just one more follow-up and apologies, I'm trying to juggle a lot of numbers over here. Just for the RemainCo...

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

A

I'm sorry. I'm sorry.

Ike Boruchow
Analyst, Wells Fargo Securities LLC

Q

So for RemainCo, so you know how much EBITDA you're spinning off. You seem to have an idea about the new cap structure and the targeted spin value. Could you talk about any initial dilution from the spin once this takes place? I'm just trying to understand that, how to think about that, the accretion/dilution dynamic.

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

A

Yeah. On that I'm just going to defer and say, we'll come back to you, give you more granularity on that, really not going to go that deep at this point.

Ike Boruchow
Analyst, Wells Fargo Securities LLC

Q

Got it. Thanks.

Operator: The next question comes from the line of Alexandra Walvis with Goldman Sachs. Please proceed with your question.

Alexandra Walvis
Analyst, Goldman Sachs & Co. LLC

Q

Good morning. Thanks for the question. My question was about the M&A opportunities for NewCo. You talk about adjacent categories as being an opportunity. I wonder what the thought process will be for pursuing M&A opportunities in that new business.

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

A

I'm sorry, that question is around NewCo?

Alexandra Walvis
Analyst, Goldman Sachs & Co. LLC

Q

Right, around NewCo. How will you be thinking about potential M&A opportunities within that business?

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

A

Right. So near term, NewCo's focus will be on the dividend and the debt pay down. So I think it's really important that we cement that in your mind. Over time, an opportunity would absolutely be some level of M&A, probably very similar to how RemainCo thinks about M&A from a point of view of looking at catalysts or capabilities that would enhance the organic growth opportunities for Wrangler and Lee. But there could also be complementary brands that over time management and the board would consider, but that over time is a fair horizon to get to.

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

A

Yeah. Just to add to that, if you think about the leverage that we spoke to earlier, under 3 times, so clearly this is not an overburdened entity. There's a lot of headroom, which I would think of it as optionality. And when you look at the forward numbers, the TSR projections, that optionality is not included. So it could be over time M&A, it could be leaning in from a repurchase standpoint, it could be investments in the organic business. The key there is, this business is not overburdened. It has a tremendous capacity to either absorb downside, should the market turn or should there be some macro event. And on the other hand, there's dry powder to be opportunistic and look at additional growth vectors that may come their way. But again, just to underscore what Steve said, coming out of the gate and in the early years, horizon one as we like to call it, this business is about maintaining that dividend and delevering.

Alexandra Walvis
Analyst, Goldman Sachs & Co. LLC

Q

Thank you. And then one more for me, if I may. On the Wrangler RIGGS business, it looks like that's going to be included in the new Jeanswear – in the NewCo. I was just wondering what the decision making process was behind that, especially given that it was recently re-segmented into the Workwear business.

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

A

Yeah, good question. How we look at that is the Wrangler RIGGS business is a natural extension of the Wrangler brand, and the natural placement for that business is with NewCo. And, yes, we did just move it over to our Work set of businesses. It's part of the integrated brand approach to the marketplace. We see an opportunity to utilize the brands that are in RemainCo from Timberland PRO, Dickies, specifically to cover those same channels of distribution and that same customer need, and with the Wrangler RIGGS brand naturally belonging with the master brand Wrangler.

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

A

I think it's just a testament to our intent to set both of these companies up for success. And this being a natural part of the Wrangler brand and also a growth opportunity for that business, that's where it should be and that's just one of the things that gives us confidence in their ability to find path for growth.

Alexandra Walvis
Analyst, Goldman Sachs & Co. LLC

Q

Thank you.

Operator: The next question is from the line of Jonathan Komp with Robert W. Baird. Please proceed with your questions.

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

Q

Yeah, hi. Thanks guys. A bigger picture question just on the total shareholder return targets that you have. If I take 80% of 14% to 16% targeted return for RemainCo and another 20% for the 8% to 10% return for the NewCo, I still get back to 13% to 15%, which is in line with your prior 2021 target. So is there anything – or any element to conservatism, given some of the benefits you outlined from this move today, or just how to think about that overall?

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

A

Yeah. Well, I guess, I wouldn't say that necessarily you should say there is conservatism. On the other hand, I would say we don't put numbers out there we don't have confidence in. So I think we've been very, very consistent and [indiscernible] (00:49:26). I guess maybe this is one better taken offline and go through the details from our standpoint. Looks to me like maybe there's a piece missing in your math, so let's take that offline.

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

Q

Okay, understood. Maybe as a follow-up, on the RemainCo, I know previously you talked about some upfront investments around digital and international and other initiatives, followed by some acceleration in the profit growth, driven a lot by the G&A over time and further out in the five-year targets. Is there any change to those plans or is that still largely intact?

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

A

No, it's like I would say intact and one thing to remember is, this is all forward-looking, right, so we're through fiscal 2019, these assets are under VF's ownership, the guidance we've given, all the things that we've said through this year are intact, right? So what we're talking about is, going forward, separation would be in fiscal 2020. And as we approach that day, obviously, through increasing granularity that will give you – you'll get a chance to meet management team and then ultimately, a roadshow, as we approach that day we'll give you more and more understanding in depth as we get closer to that date.

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

Q

Okay, understood. Look forward to that. Thanks.

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

A

Yeah.

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

A

Yeah. Thanks.

Operator: The next question is from the line of Dana Telsey with Telsey Advisory Group. Please proceed with your question.

Dana Lauren Telsey
Analyst, Telsey Advisory Group LLC

Q

Good morning and nice to see the transaction. As you think about the Outlet portion of the business, how big is that? What contribution is that and number of stores? And then, with the NewCo on the Jeans businesses, Wrangler and Lee, how big is the international presence on each of those brands and how do you expect that to grow? And then I have a follow-up.

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

A

Yeah. So it's couple hundred million in the Outlet is the size of that business. The number of stores in there is about 70. I may be a little off on that data, but it's about 70. I think it may be 68. But, anyway, you're in the ballpark with that shaping of the size of the business.

Dana Lauren Telsey
Analyst, Telsey Advisory Group LLC

Q

Got it. And then on the geographic split of the Jeans business with Wrangler and Lee, how does that look?

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

A

Yeah. So in the prepared materials, we showed you the general breakdown. Yeah, internationally, the Lee business is more indexed internationally, primarily because of that China business, which again I mentioned is very profitable, been growing and our longest – it was our first entry into the China market from a sales standpoint. Still, given the size of the U.S. business, it's two-thirds or so of the NewCo is domestic.

Dana Lauren Telsey
Analyst, Telsey Advisory Group LLC

Q

Got it. And as you transform this new company, who takes Scott's place at the remaining co as he becomes CEO of NewCo?

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

A

Yeah. So in the interim, the businesses that report to Scott will be directed toward Steve Murray, and we announced Steve Murray's addition to our management team at the beginning of the year; very strong capable leader, was part of VF when Vans came into the portfolio years ago, and has been back in place for five or six months now, and it's almost like he hasn't missed a beat. So very confident in Steve's ability to begin to work directly with each of those businesses that have reported to Scott over the last couple of years.

Dana Lauren Telsey
Analyst, Telsey Advisory Group LLC

Q

Just lastly, any estimate of the magnitude of the one-time charges related to the transaction?

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

A

Yeah. So in the current quarter we estimate about $0.05 is the one-time charge.

Dana Lauren Telsey
Analyst, Telsey Advisory Group LLC

Q

Thank you.

Operator: Thank you. Next question is coming from the line of Paul Trussell with Deutsche Bank. Please proceed with your question.

Paul Trussell
Analyst, Deutsche Bank Securities, Inc.

Q

Good morning.

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

A

Good morning.

Paul Trussell
Analyst, Deutsche Bank Securities, Inc.

Q

Just two quick questions. First, maybe just going back to NewCo and the TSR guidance that you outlined, I believe margin expansion is 2 to 3 points of the 8% to 10% outlook. If you can maybe just touch on some of the puts and takes in the business. Certainly we know DTC, digital, and international opportunities, but maybe if you could just expand upon that. And then conversely, what are some of the headwinds you'll have to overcome?

And then second, you mentioned that, obviously, you've been very active from a reshaping the portfolio standpoint, and I love how you have a TBD on the moving forward line. If you can just kind of maybe sum up a bit all that's taken place over the last year and a half, how you feel about the portfolio mix of RemainCo, and how we should think about some of the strategic priorities going forward. Thank you.

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

A

Okay. I'll jump in on the first part of that. Margin expansion, pretty simple really, mix is a big part of it as we're growing the more profitable parts of the business, think international. The Amazon business is profitable for us as well and the digital wholesale. We mentioned costs. We've got cost initiatives and that's part of the line of sight that will contribute to that. And lastly, deleverage, right? As this business delevers the debt based on that strong cash flow yield, obviously, the interest expense related to that is going to fall off at a fairly rapid rate. So we'll shape that more for you as time goes on, but in general those are the big buckets.

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

A

And as it regards to the forward look on M&A, I mean, reshaping our portfolio remains our top choice in our 2021 strategy, and there is no change to our capital allocation priority. Separating our Jeanswear marks another milestone in our journey to reshape our portfolio to align with our financial aspirations consistent with what you've seen us do with the divesture of LSG, followed by Nautica, and directing our energy towards first Williamson-Dickie, as that really anchors and supports our commitment to grow in the Work category. And then with Icebreaker and Altra coming into our Outdoor segment with their focus on the outdoor consumer natural fiber platform and the footwear platform that Altra brings as a catalyst and capability.

I will tell you, as going forward, as we think about the shaping of our portfolio, our focus will be more on acquisitions than dispositions. And as we will look at brands, those brands would align with our strategic and financial objectives that we have outlined in our 2120 (sic) [2021] strategy and if it's not brands, we will continue to look at catalysts and capabilities that will help accelerate the organic growth of our current brands.

Paul Trussell
Analyst, Deutsche Bank Securities, Inc.

Q

Thank you. Best of luck.

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

A

Thank you.

Operator: Thank you. Ladies and gentlemen, we've reached the end of the question-and-answer session and I'd like to turn the call back to Steve Rendle for closing remarks.

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

Great. Well, hey, first I'd like to thank again all of our VF teams and partners who helped us bring us to today's announcement. We could not have made it without your hard work, your commitment and, most importantly, your dedication to this transaction. I know it's been a lot of work and there's more work ahead, but I think it's just a testament to the quality and the passion of the people and partners that we work with.

Today's announcement to create two strong diversified global companies, each capable of effectively and efficiently building on their individual strengths to create value for all of their stakeholders, is another proof point of VF's commitment to reshape our portfolio to align with our long-term financial aspirations.

During the coming months, it is important for you all to know that we are intently focused on operating our business as normal and continuing to build on the foundation momentum we've generated with our 2021 strategy as we move forward towards the expected separation sometime early next year. So thank you for joining us on this exciting day and we look forward to keeping you up-to-date as we move forward.

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