2013 INVESTOR DAY – JUNE 11, 2013

Bob Shearer - ***VF Corporation - CFO, SVP***

Hey, that was pretty slick. Well done, well done guys. Almost feel like I'm in a NASCAR event or something they way you did that. Yes, I just wanted, first of all, to start with just to say really, really nice to see you all today, and really, really appreciate all of you joining us today. So this is -- we're nearing the end, right? We're getting pretty close to the end here. My job is to pull all of this together. Our strategies, our pathway to the future, reasons to believe. Eric said that I have a PowerPoint. Yes, I do have a PowerPoint for sure, but I don't have a finance video. Unfortunately no video for finance today. Just numbers, right? Pretty good numbers though.

Okay. So by now you know the theme for the day. It's to showcase our powerful brands and also our powerful platforms that you've heard so much about today. But there was something else that we wanted to do. We wanted to bring some context to all of you today in terms of how we run our business, how we think about our business, right? And I think we've done a pretty good job of that. I hope you agree with us.

We've talked a lot about how we've grown over the past. And how we're going to continue to grow over the next five years. In fact, five-year plans have been a really important measuring stick for VF for a number of years. You've heard Eric talk earlier about the fact that the last five-year plan we put out to all of you was in March of 2011. And because we've had such strong success against the plan, it kind of necessitated this meeting. I'm going to go back just a little bit further than that. It was in the early part of 2008 when we talked about our plans for the period 2007 to 2012. I'm going to show you a little recap here of how we've done.

So this is a snapshot of that period. And it's kind of interesting. I know that some of you, I know there some of you have said that, "That plan is pretty bold." And some of you may characterize of the plan that you're seeing today is bold as well. So let's take a look at how we did it versus hitting our marks. So revenues we established an $11 billion plan at that point in time, this is for 2012, we hit $10.9 billion. Pretty close. A miss. It was Martino, right? They're interesting. Now you know how we operate around VF Corporation.

International, we said that international would be 33% of total VF. We really overachieved that at 37%, great result. Direct-to-consumer, we said we'd be 22%, 21%, a miss, right? Pretty darn close. Operating margin, okay, did fall a little bit short in operating margin. Now I could make the excuse of taking on the biggest acquisition in all of VF Corporation's history, which brought our average down.

It would have been 14.5%, much closer to the 15%, but I won't use that because, actually, hopefully you'll forgive us for that. And earnings per share really overachieved that as well. We said we'd grow by a big hit. Home run 10% to 11%, and we achieved 13% so what's the take away here? The takeaway is that VF is a company that delivers on its promises, right? And we intend to do exactly the same with this latest five-year version.

All right, so here's what I'm going to do. What I'd like to do now is take a little bit closer look at our financial commitments. You heard a number of them from Eric. I'm going to give you a few more in terms of the details behind this plan and we'll start with revenues. And as we look at the last five years, it's really important to keep in mind that most of our businesses as you know, took a couple of years off in that '08 and '09 period. Obviously that has a pretty big impact on the overall results and especially in revenues, the comparisons and the growth rates.

So I'd like to tell you over the last three years, now this is 2010, '11 and '12. Over those last three years of this period, our organic growth rate, our organic growth rate alone was 10%. So our CAGR from 2007 to 2012 was 9%, you can see from the chart. That landed us that $10.9 billion. It was fueled by both organic growth and also smart acquisitions. So the question is what's next for the next five years? At $17.3 billion, we'll grow by 10% per year. And note the breakout of growth, Eric mentioned this earlier, our expectation is to grow 8% organically and 2% coming from acquisitions.

The point here is that we are really, really confident that we have the right strategies, the right brands, the ability to execute to deliver on this target. It is all about our brands and platforms. And it's built on those strong connections with consumers that you've been even hearing so much about today. Our international platform, direct-to-consumer. The point is there's not necessarily a lot new in terms of our model, that's the good news. To me that's exactly the good news. The same things that have been working so well for us are going to work for us going forward.

Now if you were to add our 2011 Investor Meeting, I think this slide is going to look pretty familiar to you. These are the platforms that will drive a substantial part of our growth. And by the way, there's another common theme here in these platforms, and I know many of you know this, and it is that they are also our most profitable business, our most profitable businesses. So that works, right? Having our fastest growth businesses also providing us with the highest returns. And by the way, it's not meant to diminish by any stretch the other business you've heard about today. All of our businesses play a very important role in this plan.

All right so let's take a look at brands. These are our top five brands. They're all above the $1 billion mark today. Most, well above. We've seen and expect the greatest growth from the top three. Don't forget Jeanswear. You heard it from Scott. This is really a new era for Jeanswear. For the mid-single digit range of growth, our jeans business with their strong profitability also really, really strong cash generation will be a significant contributor to this plan.

Now, we see these five brands, plus you also read about Nautica and 7 For All Mankind today, and our 25 other brands that we have in the VF portfolio we believe that they represent the industry's most diverse portfolio, and it's capable of the broadest reach to consumers today. And that's really a big part of our story. And I think Eric mentioned this earlier. Our diversity, it's really helped us. It helps us counterbalance the challenges in any one consumer group, geography, distribution channel. It gives us a lot of confidence that we're going to be able to consistently produce those strong returns for our shareholders and just more on that a little later.

All right, so most of you know that we run our businesses under a coalition structure. And just quickly, a coalition is a -- it's a grouping of generally like business, sharing some common characteristics and that includes management. The idea is to get at the economies of scale but maintain very, very distinct brand personalities. All of our coalitions today earn very respectable operating margins. All our contributors, in different ways, as I said, to the overall revenue and earnings projections.

Now the biggest contributor to our growth, clearly, will continue to be Outdoor & Action Sports. It's where we've invested most heavily. And for good reason of all of our coalitions, it's had and will continue to have the fastest growth rates combined with the highest gross and operating margins. It also includes our three largest and fastest-growing brands. Take a look at the breakout there, 11% organic growth is the expectation. 14% with acquisitions. The organic growth rate, yes, it's a little slower than where it's been. These are also much, much larger businesses than they were five years ago. Of course, they'll continue to grow as a percent of total VF.

In fact, a couple of years ago, we told you that we were expecting Outdoor & Action Sports to represent half of all VF, and we said by 2015. At the end of 2012, the coalition was a 54% of total VF. By 2017, we expect that percentage to be 64% so nearly 2/3. So clearly it really is clear that VF is a company that's anchored by our Outdoor & Action Sports businesses.

Now the great thing about this chart is all of our businesses are growing. It's just that Outdoor & Action Sports outpaces all the others. Once again, with their higher gross and operating margins, that's really how you'd want it. And regarding the acquisition component of our plans, I guess it's no surprise that we expect revenues coming from M&A to fall in to the Outdoor & Action Sports area. We've been pretty consistent with that. It's where we've been hunting, it's also where we've had great success.

All right, so let's shift gears a little bit. Let's talk about growth within the international side of our business. Over the last five years, our growth outside of the US has averaged 15% per year, and that includes absorbing the impact of that recessionary period as well. And as we look forward, we're expecting those business to contribute 13% per year on the roughly $4 billion of business in 2012. And that includes a couple of points from acquisitions as well.

Now you know by now that there are several very, very distinct platforms for growth within our internationals -- on the international side, first and foremost, is geographic expansion expected in Europe, in Asia, and also in the Americas. Direct-to-consumer will also play a very significant role both by adding new stores and expanding e-com, which outside of the US, you heard about earlier, is in it's been very early stages.

In 2012, international was responsible for 37% of total revenues. In 2017, expected to move to 43%. Once again, growing highly profitable businesses attached to a significantly lower tax rate, really, really important. It yields high shareholder returns. It's a very powerful combination.

Just a couple of charts to summarize where that growth is going to come from. Starting with the 2007 to 2012 period, yes, international growth was influenced by Asia and maybe more specifically China, but certainly not limited to it. Pretty strong growth in both the Americas, and that's non-US, of course, and Europe as well. And as we look forward, pretty consistent pattern with the last five years.

In fact, the Americas' and Europe's and growth is expected to be really similar, a little slower in Asia, once again on a much larger base. And there are some newer platforms as well that we didn't talk a lot about today that support this growth like Korea and Mexico. So double-digit rates of growth expected in every region on the international front.

All right, let's look at our another really, really important growth driver for us and that's direct-to-consumer, serving consumers directly through stores, through e-com. From 2007 to 2012, our five-year CAGR was 17%, we more than doubled our revenues during that period. And we expect similar growth looking forward, 14%, 14% over the next five years in direct-to-consumer, should move from being 21% of our total revenues today to 25%.

Now as Mike Gannaway said, it assumes adding over 600 new stores, those are net numbers of stores. And as we all know now, a lot of growth in e-com as well, we're really confident in that because we're seeing it happen today. Year in and year out, we've demonstrated we can earn really, really strong returns on the investments that we make in direct-to-consumer, especially outside of the US our margins are expanding, which gives us a lot more confidence there. Really an important growth driver for VF, with great returns, very, very confident that we're going to get this done.

Ah, my favorite topic as I know some of you here would agree to, gross margins. Really, this is a story of strength and consistently. We've added 300 basis points to our gross margin over the last five years, and the bottom line is we expect the same going forward. Now keep in mind that we've guided to a 100-basis-point improvement for 2013, right, for '13.

So we'll do a little math here, that means another 200 basis points of improvement over the next four years, right, that's 50 basis points per year. Yes, that's why I'm CFO, all right, 50 basis points per year. We've been really, really consistent, as you know, about earning 60 to 70 basis points of gross margin expansion from mix alone, from mix alone, over the last five years. And that's as a result of our fastest-growing businesses and platforms, Outdoor & Action Sports, international, direct-to-consumer, earning our highest gross margins.

So our confidence is really high and you heard some great opportunities coming out of our supply chain in Tom's presentation to expand gross margins as well. Those are opportunities that no one else in the industry has. They just, they can't match it. What it does is it keeps us ahead of the competition and also ahead in the race for consumers' dollars. So our gross margins are strong, especially considering the relatively low percent of direct-to-consumer for VF. Gross margins equate to brand equity. Our brands are strong. So as we all know, we get the gross margin right, the rest is going to fall in place.

And just to further that point on the mix impact, just a quick look here at how mix impacts our business. Gross margins within our Outdoor & Action Sports businesses are about four percentage points higher than VF averages. This has been a really consistent story for some time for us. You heard from Steve and others talk about the strong connections with customers in these brands. That translates into stronger margins.

You also heard the details by leading with innovation and that's innovation that we get paid for in our ability to connect with consumers. We're really confident in our ability to keep gross margin rates in Outdoor & Action Sports well above the VF average.

International, also delivers above-average gross margins fueled by -- and actually this is pretty straightforward, by higher price points. And our direct-to-consumer business, also a big part of the gross margin story.

Our full price stores, which are an expanding portion of our total direct-to-consumer business, provide us gross margins that are on-average 20 percentage points higher above the VF average. So once again, our fastest-growing businesses with our highest gross margins, that's been working for us and that's to continue to work for us. So all in all, I hope we've given you a lot of reasons why we're really confident in our ability to hit that 49.5% gross margin target.

All right, let's move to operating margin. Well, then that's not exactly -- that's not exactly the picture that your CFO likes to see, but it does require a couple of things to keep in mind. First is that the global recession didn't help us a lot over this period of time but maybe most importantly the 2012 margin includes the impact of the Timberland acquisition as you know by now. Without Timberland, our operating margin in 2012 was in the mid-14s. I think that puts a little different perspective as we look forward. That could also speak to the opportunity as we look ahead.

So as we look forward, keep in mind that we're guiding to nearly, once again, about 100-basis-point improvement in our operating margin for 2013. Once again, here comes a little bit of math. That means another 150 basis points of improvement over the next four years. Given the gross margin improvement expected and the Timberland improvement anticipated, we're really confident in our ability to hit the 16% mark. And even with -- I might add, even with some expansion and the investments behind our brands, so for example, our marketing spend in this plan will increase from about 5.5% of revenues today, that's where we are today, to about 7%, 7% by 2017.

Yes, it's driven by investments in our biggest brands. And then it's largely offset, but not fully, largely offset by leverage elsewhere in the expense ratios. So once again, 300 basis points improvement in gross margins, 250 anticipated in the operating margin side.

And that brings us to earnings per share, a five-year CAGR of 13% in EPS over the 2007 to 2012 period. It's not bad so let's just do that again. And at that rate for the next five years, our 2017 EPS will be $18, nearly double what it is today. Eric mentioned this earlier, we talked a lot about 18 by 17, just didn't quite have the same ring to it in terms of the messaging today, but you should be assured that we are absolutely committed to the $18 a share by 2017. So it's a great number anyway you look at it.

Return on invested capital. We know that ROIC is really important to you and you should know that it's equally important to us. We raised our returns by 160 basis point over the last five years and that's even despite the largest acquisition that was near the end of the 2012 period. And we expect that the ROIC to raise to about 20% by 2017. Reasons to believe here, one is the anticipated improvement in the Timberland business.

Our expected improvement in the returns on the Timberland acquisition will obviously have a significant impact on our returns and the stronger margins as well that we just talked about. So we're proud, frankly, we're very proud of how we manage our businesses and the capital allocation during these kinds of levels of returns, and they are some of the highest in the industry.

All right, another key metric, and that's cash flow from operations. It's what funds our growth. We've always been a strong cash generator at VF, growing our cash generation to the $1.3 billion mark in 2012. That's been driven by strong earnings growth in our expanding direct-to-consumer business. The reason for that, cash is immediately collected. But there is more to come. We expect our cash generation to near the $2.5 billion mark five years out. Our projection is a cumulative total of $9.5 billion of cash generated over the five-year period. I guess your question is what do we do with that cash?

Actually, we've been pretty consistent relative to our priorities for cash. So really no big change here. Acquisitions clearly remain our number priority. They provided incredible shareholder return over the years. They've transformed the company, quite frankly. And as I said earlier, the likely area that we'd add brands, Outdoor & Action Sports.

For our dividend, a 40% payout ratio remains our goal and for share repurchases, our approach remains the same. We view our buyback program more as a maintenance level type of spend, meaning to offset the dilutive impact of stock option exercises. But I want to make one thing clear that our intent is not to stockpile cash. So hopefully, over the years, we've demonstrated that fairly prudent when it comes to how we invest, we'll make good investments for our shareholders going forward.

And just a few more points related to our acquisition strategy, the formula that we've used for success continues. We're looking to leverage our capabilities, existing platforms, our global infrastructure and of course, we're looking for new platforms to allow us to leverage our strengths that we've outlined today, including building those strong consumer connections and innovation. And you should know that we evaluate every single acquisition opportunity through the lens of total shareholder return or TSR. The bottom line here is that, once again, our acquisitions have been a really important part of our VF story for some time, and we expect that they will be going forward as well. Moving on to our dividend policy.

Back in 2006, we nearly doubled our dividend in an effort to return more value to shareholders. We did it knowing that we could fulfill our acquisition strategy given our strong cash generation, and at that time, we committed to, over time, a 40% payout. 2012 having just brought Timberland and its earnings into the VF fold, our payout rate declined to 31%. Now, once again, I want to be make this really clear, we remain committed to the 40% payout. We're not going to get there all the way back in one year. We did take a big step in 2012 with a with 21% increase but, once again, not enough to get us back on track.

So yes, we are absolutely committed to the 40% over time. Our five-year goal is to work our way back towards that 40%, and we are absolutely committed to that. And pretty impressive with this goal is that our strong cash flow generation, with our strong cash flow, can we can make acquisitions and still get the dividend to 40% level.

And finally, we've kind of referred to this as our guiding light around VF, and that's total shareholder return. I mentioned it earlier, probably a couple of times, I call it our true bottom line, like the chart says, if it's important to our shoulders, it's important to us. Our brands understand and our people are trained in TSR. We use TSR metrics to evaluate every single business' plan, each acquisition, each potential divestiture. And with a five-year track record in TSR of 20% growth rate, clearly, the focus has worked pretty well for us.

But you know we're not done yet. Looking forward, our confidence is really high that we'll continue to provide our shareholders with those superior returns that they've become accustomed to with VF Corporation. These are the components. This is how we lay out our TSR model. I think we've covered pretty much every piece of this in today's presentation. Maybe with one exception and that's in terms of the PE change. And actually, maybe that's where you should fill in. Maybe should fill that gap in.

But here's a couple of things that I remind you of as you do that. Two-thirds of total VF will be in our fastest growing, high-margin Outdoor & Action Sports businesses. As I said earlier, we are a company that continues to take the shape of an Outdoor & Action Sports business. That coalition includes our three largest and fastest-growing brands -- The North Face, Vans and Timberland. Growth in these brands and across VF will be supported by geographic expansion, a growing direct-to-consumer business, including highly profitable e-com initiatives. VF will continue to take on a different look over this period.

So in summary, in many ways, the story that we presented to you should be pretty familiar. And we keep doing what we told you we would do. We've been growing internationally, we've been growing direct-to-consumer, growing our brands. VF is a growth company with a growth culture. I hope that's becoming very, very clear and is very clear to you. We'll hit $17 billion by 2017, and then we'll 1keep moving ahead, continuing a really strong trajectory of growth.

So thank you very, very much for spending the day with us. What we're going to do now is to take a brief moment to set up for the Q&A. So just bear with us for a minute or two, if you would. Thank you very much.