



2013 INVESTOR DAY – JUNE 11, 2013

Stephen Dull - VF Corporation - VP - Strategy & Innovation

It's a pleasure to be here. In the next 25 minutes or so, I'm going to talk about our front-end platform and how we're adding value to the front end of things. We've always been really strong on the back end. Our supply chain has added hundreds of millions of dollars over the last, well, actually, probably even just recently. We intend to be as good, if not better on the front end, and to add equivalent value.

What I'd like to do is take you through our four front-end disciplines, strategy, consumer insight, brand management and innovation. You've seen that in all the presentations, and you've seen a number of examples. I'll go, obviously, one by one.

So strategy, strategy, for us, is about making choices. We have a very disciplined and rigorous process to make choices. And it's not just choices about what to do, it's choices about what not to do. We don't want to do things with a marginal return. And that's maybe even more critical than choosing what you actually have to do.

So we have a process, I'll take you briefly through it. And it starts with very aggressive aspirations. All of us, who work with Mr. Wiseman, know we have really aggressive aspirations. So it starts with the question about how big can we be or how successful can be. But there are other aspirations, too.

So for example, Timberland wants to be the largest most sustainable outdoor brand in the world. That's an example of another aspiration. Now, again, strategy is a set of choices, and we think of it as a cascade of choices. If you're going to meet your financial targets, and you're not going to get into trouble with Mr. Wiseman, you better figure out where you're going to play. Where are the best places to get that? So for Timberland, they want to be the largest and most sustainable outdoor brand in the world. They'd better choose a consumer target that cares about that.

And so, we make choices about geographies and channels. Then it's really important that you know how to win in those where to place. You have to know how you're going to win that consumer target. You're going to have to know how you win in those channels. When I say winning, I do mean against competitors, I do mean gaining share but also winning financially. We want superior returns.

And some examples of how to win, brand position, innovation, there's others, and I'll talk particularly about those two. Now, if you're going to win, you better have the capabilities to win. VF, I think we have and would like to have the best consumer understanding of anyone in the industry and beyond our industry. We think it's necessary. We know that it adds a lot of value. You've heard a number of examples.

And lastly, what gets measured gets done. We're going to make sure that we're going to measure what we're doing. And by the way, if you don't have the capabilities, you better look at a different way to win. And if you can't win, you better look at a different place to play. And that might mean that you can't meet those aspirations. It works both ways. But we do start making choices of what to do and what not to do in a very disciplined and rigorous process for doing that.

Now, how do you create value with that? Well, first of all, it ensures that those goals that we set can be made. It also focuses that business on winning against competitors, growing equity financially, exceeding their competitors. It also prioritizes actions. We know, again, what to do and what not to do. And what that does, it drives really effective and efficient use of the resources that our shareholders have given us.

So how do we use this at VF? Well, some of the things that you've been hearing about, well, which geographies at which pace get what level of investment? Which brands get disproportionate levels of investment? And also identifying new spaces for VF to enter. We use these set of choices to make those choices at corporate and in our brands.

So some of those examples, which consumer target provides the best opportunity to grow? What consumer benefits are we going to offer that will be different, better and relevant to our target consumer?

Okay, next, consumer insight. Consumer insight and you've heard from a number of our businesses, it is about injecting the consumer into everything that we do. So two fundamental foundational aspects of consumer insight. The first is segmentation, and I'll also take you through shopper behavior.

You've heard a lot about segmentation. It is the science of picking your most valuable target. We've done this with all of our top brands and all of our major geographies. We are really serious about identifying who our target consumer is.



2013 INVESTOR DAY – JUNE 11, 2013

So over the last four years, we've done 1,000 video ethnographies. That's where a consumer takes pictures of their own lives and our brands in their lives and they send that in and we analyze it. We've talked to 3,000 people in person. We've gone into their closets. We've gone shopping with them. We talked to them one on one. We get to know them over a period of several hours, and sometimes, I think, Scott, referred to this over several weeks with the Cowboys. And we have surveyed more than 80,000 people across 12 countries.

Again, we take this really seriously. And by the way, Nautica is engaging global segmentation right now. As Karen mentioned, we'll be well over 100,000 consumers that we've talked to in the last four years. Again, we take this really seriously because we know that this is the way we're going to create value.

So here's an example from Vans. Now, you're seeing a summary of a summary of a summary. But just to let you know how we do it, we deeply explore a lot of different facets. So we look at motivations and values and needs. Then we look at what activities they're engaged in culturally, sports engagement. And most importantly, we look at how much they spend.

And then we use some pretty sophisticated analytics to group those sets of needs and motivations and values into a life minded other consumers that are like them. And then we compare those groups and we say, "Okay, which is the most attractive for us?"

So we look for where has the most value? Where has the most potential for growth, and which targets fit with the Vans equity in this case? And what do we find? We found a multibillion dollar opportunity globally that we're really excited about. We don't have the largest share of that because we like to define our markets really big. We've got a lot of runway to grow with this target consumer.

So how do we make this valuable? And you've heard some of my colleagues talk about this, if you know who your target is, you can put products in front of them and they will tell you whether they like them or not. That's really helpful because you can avoid making some mistakes.

So we don't leave this all up to chance. There's still art in this. This is not science that overrules all art. However, we can go in front of our target, and we learn a lot from them when we put product in front of them. We know where they shop. We know what experiences they want.

So that helps us, too, when we know our target segment. We can focus marketing, messaging and media to what that consumer wants to hear, when they want to hear it, where they want to hear it. And we can choose innovation investments that matter to that consumer.

Now, shopper behavior, that's the second major fundamental platform. Now, why would we bother studying shopper behavior? Because there are far more shoppers than there are buyers. In fact, even great conversion leaves you a four X or five X opportunity. And on the Web, it's a lot more than that.

By studying shoppers and if we can convert more of those shoppers to buyers, there's a huge opportunity. Now, we talked about target consumer. And that same consumer will shop different categories very differently.

So it looks a little bit complex, but in one category, they may enter and look for color style and brand. That same consumer may go into another category, not may, they actually do, and they may have a price in the budget and some sort of promotion in mind.

So by studying that kind of behavior, we learn about how to convert more of those shoppers into buyers. And by the way, one of the reasons you should feel really confident about The North Face is we've completed some shopper behavior work. And there is an enormous opportunity for The North Face just by converting more shoppers into buyers. And we know how to get after that.

Okay, talked about focusing on the right conversion levers. We also guide product merchandising and visual merchandising. We can set the level of in store staff if we know what the economics of conversion are. And we can inform promotion strategy and guide Web design, a lot of things between segmentation and shopper insights that make VF competitively advantaged in shopper insight.

Okay, brand management. We have been adopting and adapting a lot of best practices from other industries, especially consumer packaged goods. Apparel and footwear is not at all like packaged goods, except you still have a consumer, and you can take some of those tools and apply them to apparel to add value.

So three things I'm going to talk about here. First of all, how is it that we define brands? How is it that we look at marketing effectiveness and efficiency? And then how do we talk about equity? By the way, equity is really important. You've heard, again, you've heard my colleagues talk about that. Equity is the number one thing that helps you charge a price premium, which leads to higher gross margins. So it's really critical that we're managing brand equity.



2013 INVESTOR DAY – JUNE 11, 2013

Okay, brand. You can read any marketing textbook and you'll see some version of a brand pyramid, that's what we call it. We'd like to believe that ours is special. However, it's not that it's special in and of itself. It's really hard to get this right. And the process is also really difficult. And we think we've developed the core competence of doing that.

So it all starts with a promise. What do we promise our consumer? Now, we have this thing called the archetype. Now, an archetype is a personality type. For those of you who took psychology, Carl Jung identified some fundamental personalities by which you would recognize that person instantly. Wizard of Oz has the Wicked Witch of the West is a classic archetype.

Now, why do we even bother with that? When you see a movie and you just can't get into the characters, it's because the archetypes are squishy you don't recognize them. The same thing is true with brands. If it is clear what archetype that brand represents, it has a lot more appeal. And we spend time studying that.

Now, what's really important here are the benefits around parity and points of difference. Talk about parity first, there are certain things that are just table stakes in any game. So maybe durability might be it. You can't be less durable on a table stake.

So the first thing we try to do is make sure we are at parity with our competitors on the things that consumers expect. But then we have to go above and beyond, how are we going to be different, and better and relevant to our target consumer?

So there's functional points of difference in which we also want reasons to believe or why should I believe that you're different and better and then emotional points of difference. This is a highly emotional category, and we need to know that our brands have both. All of our brands have gone through a really rigorous process and keep coming back to this using consumer insight to define our brands. And I'll give you, again, some really high level of examples because this applies to the most technical brand and to the most fashionable.

So roughly, The North Face promises you protection in extreme environment. Now, of course, we talk a lot about functional benefit. But you can trust your life to our products. That's a key emotional benefit. And why? Because it's athlete developed, athlete tested on expeditions in extreme environment. They trusted their life, they survived, and you will, too, very strong emotional benefit. There's a lot more in The North Face pyramid.

Now, it extends to and by the way, the brand DNA is relevant to our target consumer. Now, it also applies to fashionable brands. So our target is called the Peacock. And think about the promise. We promise they will wish they were you.

Now, you saw Susan's video, a very different promise in The North Face. But it doesn't mean it's all emotional, there is some really strong functional benefit. We will give you a more perfect sexy body.

How do we do that? Proprietary fabrics. Susan was up here, showing you a proprietary fabric. It's part of that science of the DNA that we have that proprietary product in addition to being highly innovative. We use design engineering. We use other enhancements. So both brands, one has emotional, one has functional, they all have a very carefully determined brand DNA.

Now, I'm going to move to why this is really important. We want to make sure we give our target consumers something better and different that's relevant to them. And that is how we're going to make money.

So the other thing that benefits all of us actually is that our supporting functions have a consistent view of our brands. They know what the brands are trying to deliver. It's not like the list of 20 nouns and 20 verbs that you might see from a typical company. People know what our points of difference are.

And you can't script thousands of people's decisions. But what you can do is give them guidelines. And the brand DNA functions as a guideline. And again, it tells us where we need to improve, and it is again about making choices for efficient and effective use of resources.

Okay, marketing effectiveness and efficiency. We started about eight years ago doing multivariate regression, correlating just about everything with sales, everything having to do with marketing but also exogenous variables like the economy. And John Wanamaker said "Half of my advertising is wasted. I just don't know which half." We do know which half, and we're eliminating that half. And we are working across all major brands in the United States. We've moved into Asia, and we've moved into Europe. And what that does is it tells us what the return on investment is for \$1 that we spend on marketing.



2013 INVESTOR DAY – JUNE 11, 2013

And I'm pretty proud of VF for getting here because when we started, some of our brands had strong returns, some were a little bit marginal. But when you look at this, all of our measured brands today are above \$1.

Now, what does that mean? We spend \$1 on advertising. We get more than \$1 back short term and more than double that long term. That's the way the numbers work. Now, some of our brands have a lot more. Now, you would say, really, why don't you just double your advertising spending and you'd make your 2017 goal? But, I mean, the reason is, and actually if you think about it, we added \$100 million in marketing in 2011. We added \$45 million to marketing in 2012 and another \$45 million in 2013.

This is one of the reasons why we feel really confident we're going to do that and get a return, is because we are measuring the return of that. And so, the other thing about this why you just aren't going to double your marketing, there is a marginal return. There's a curve. We could be going up the curve and getting more but you never know when you're going to fall below. And so, we need to do this prudently and in a measured fashion. So we can't just double, but you see us increasing over time because we're using these sciences.

Copy testing. We know who our target is and we know what our efficiency and effectiveness is. We put our advertising in front of our target consumer to see whether it's well branded and it breaks through the clutter. We're doing this in the United States. And with both qualitatively and quantitatively, we're doing it in Asia, and we're doing it in Europe.

Now, here's where we're going with this. If you look at branded breakthrough and persuasion, it's pretty easy to read this chart. If I'm above average on persuasion but I'm below norm on branded breakthrough, that means I've persuaded you to go do something, but I don't know what your brand is. We might have accidentally persuaded you to buy our competitor's product, or below average persuasion and above average breakthrough. I'll add broke through, but I didn't do anything about it.

So all the gray boxes, essentially we're wasting money. We don't want to waste money, right? We want to be in the northeast quadrant. So we're going to test all our copy. Now, not every single piece of copy [has test today]. We're moving to that but a lot of it is. We're going to prioritize spending where we have breakthrough advertising. The minimum standard would be average and average. And our brands will lose permission to spend if they don't improve the ads to get tested. That means we're not going to waste money on marketing. We're going to get a return on marketing so that we can build brand equity.

Now, brand equity. We measure brand equity for our major brands in our major geographies because we know equity leads to you being able to charge a price premium, which leads to gross margin. There's a lot in this sort of a summary chart. We measure all the imagery and the things that are captured in the pyramid. But actually, The North Face numbers here in this one particular case, we have a lot of room to go in The North Face. And in one core target, we surpassed a major competitor. So we're making progress because we use these things and we measure all of our activities. So that's brand management.

So I'm going to shift to innovation. Probably the biggest set of numbers I can put in front of you is this number here, \$1.6 billion. When I was last here, we talked about the beginning of our innovation program. VF has always been innovative. However, when we decided we were going to accelerate innovation between that point and now, we have added \$1.6 billion in ideas.

Now, that's a year three revenue and its probability unadjusted. One of the reasons we feel confident is for every idea that comes off in the early stages, we're adding another idea or two ideas. So we're growing that pipeline. And in the launch phase, there's already \$400 million of products and experiences that have been launched and are on track. So we feel pretty comfortable we're going to get this far more.

And you've heard a lot of examples about the things that are already being launched. So of course, you're familiar with Flash Dry. But we also use some innovative techniques for expanding that opportunity. There's a product coming out from Bulwark. None of you probably wear fire resistant apparel. If you did, you would know that it was really uncomfortable. And people put their lives on the line but they're really uncomfortable. We solved that trade off with a proprietary fabric, fire resistant and comfortable with a proprietary fabric with a special [male pelican], great partner for us and that's being introduced. And it comes from this innovation agenda.

And I'll go all the way over to cost. And because you've heard a lot about fit and comfort, I'll go over to cost. And a lot of people are using the iPad. So a couple of years ago, Vans said, "Hey, we want to be at the foreground." They're saving millions of dollars a year on sales collateral by using iPads instead. And that obviously, that's a great multiplier. But there's lot more to come, too.

For example, we're looking at alternative ways to make denim blue instead of dyeing it, more sustainable and quite a bit lower cost. It surprised us because we are very, very efficient at making jeans and at making denim. And we have some different ideas for how we're going to make denim blue. So \$1.6 billion, and we're on target to get it.



2013 INVESTOR DAY – JUNE 11, 2013

Now, I'll give you some examples. And you've heard some of these. So I'll try not to go through them too much. But really, when we started, one of our senior execs said, "Gosh, I don't know how you're going to innovate a basic vie pocket jean." I mean, it just didn't seem obvious at that point. Worked with a technology company. We have 30 new platforms, and you've heard some of them and there's more to come.

There's no fade denim, actually it's a big unmet need for consumers. It's being introduced across our brands. But also we've extended in order to increase our advantage to comfort neuroscience and advanced materials. There is no one better at measuring comfort than the Japanese. We have a relationship with a Japanese university around the real science of measuring comfort.

Neuroscience, we're working with the one of the top neuroscientists in the US around beauty science because there's a lot there that you would not expect to see. And we think, again, we can gain an advantage by understanding the science of beauty, both for men and for women, by the way. And we're doing a lot of work on new materials, working on new benefits in jeans and new levels of benefits that [therefore] no one has seen.

So what's in the future? More new materials, more benefits, unexpected and higher levels of current benefits, A lot more around the science of design. There's a lot there. Well, we're building an innovation center that'll be globally accessed by all of our jeans brands. And we're going to be introducing the consumer into more and more product development because we're convinced that adds a lot of value.

Retail. Innovation just isn't about product. So it used to be at least with our major accounts, winning customers control the floor. Even when you go back a little further, we didn't have much of our own retail. Well, guess what? It's still their floor but we're working more closely in partnership. And we're using our target consumer to reinvent the shopping space.

We used our target consumer at Wal-Mart to reinvent the women's jeans shopping space. And Wal-Mart has benefited. They've been a great partner. And we've benefited, too. But it's the magic of consumer co-creation of that space, using our target consumer to reinvent the experience. We've also done that at Dick's and The North Face as well, another great partner for us.

In our own stores, again we have used our target consumers and rapidly iterated a design of a store and we're yielding comps of over 40%. And we feel really good about that pilot because they've been sustained now for quite a bit of time and that's the Kipling brand. And because they've earned it, they're getting the right to expand.

Now, I'll talk a little bit more about Kipling to wrap things up. What are we going to do in the future? We're trying all kinds of stuff to understand and create the future of retail. So virtual [try on], we're experimenting with that. Experience at retail is going to get highly elevated we're working on that. There's a lot of things happening around the globe around trends. We're trying to put that into our stores as well.

We're experimenting with big data, experimenting with voice driven search on the Web and looking at unconventional locations. You are going to see more and more unconventional locations. We took an idea out of a Korean subway where consumers could aim their phone at a wide array of groceries and then pick it up when they got home.

So they paid for it, chose things. And we said, "Gosh, we can do this with apparel." So we tried this on the Nautica brand and learned a lot, and we think we can apply more unconventional locations in the future.

Communication. I talked a little bit about how we're measuring marketing. But again, advertising with an art. We found that we can greatly inform the art by talking with our consumers and actually using them to help co-create our advertising.

So the artist hasn't lost control, the brand hasn't lost control, the consumer is now contributing. We're really going deep on a benefits focus. The way we think we should talk about benefits is often not what the consumer wants to hear or it's not even what they understand. So we're using consumer co-creation of benefit expression.

If you've seen the U versus V commercial, we used that technique for that, and by the way, a breakthrough ad and really led to a lot more business for us. And we're using that on a number of brands, and we're seeing higher sell-through as a result of that breakthrough advertising.

So in the future, a lot more science. There's a lot of science around how we choose things. And we're going to be using that kind of science. And much more consumer co-creation. Earlier in the innovation process, actually, I have a team out now, been to the United States and India and China. Probably, they'll go to Brazil and then Europe to understand an entirely new benefit in denim. It's been very surprising. It's not what we thought it would be, a big idea, when the consumers put it in their own language.



2013 INVESTOR DAY – JUNE 11, 2013

Okay, how does this all come together? Well, here's a little case study really quick. Eric asked a question in his inimitable fashion when Kipling was about \$200 million. He said, "How do we get this brand to \$1 billion?" Not an atypical Eric's question. That sent us on a pretty significant journey to really go through this process of choice making to say, "Okay, what countries should we go to? What countries should we not do? What channels? What go-to-market changes?" And a lot has changed in that.

Now, it also started with consumer insight, global consumer insight to identify the core Kipling consumer who we call the imaginista. Not that, that would mean anything to you, but it means a lot to the people who run the brand. She's not a slave to fashion. She's a very different kind of person. She's on the go, generally has a family. But because she's on the go, she wants a light bag that's well organized, and there's a lot more behind that.

But we use that to craft our promise to her, which is to lighten the load of your day. That's physically, emotionally, mentally. And it's in keeping with the initiative spirit of the monkey. Again, there's a lot more in there, carefully crafted brand DNA for Kipling that we know is a large, multibillion-dollar segment.

And last, one of the things that helps us to do, and again, this is all about choices to be effective and efficient with resources. We talked about the consumer co-creation, a retail format. But even within innovation, highly focused innovation investments. We own crinkled nylon. We're innovating within crinkled nylon and different kinds of fashion. But we're searching right now the technology firm for a superlight, durable fabric. Now, they could have invested in all kinds of stuff. The point is, we're investing in the two critical things that we know will matter.

So did we get to the \$1 billion? We eventually will. However, in the next few years, we found \$400 million that we know we can get over the next five years. And most importantly, we have very high confidence and specific plans to get there, and the entire team will get there.

So we'll eventually get it to \$1 billion because Eric is relentless. But we know we're going to get that \$400 million. We know that brand could be \$650 million sometime soon.

So I just want to leave you with the thought that we have the people, we have the brand, VF has the resources and we have the tools, which are all the reasons you should believe that we're going to make those 2017 numbers. Thank you.

(VIDEO PLAYING)