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VF Corp. (VFC)

Q1 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Angela, and I will be your conference operator today. At this time, I would like to welcome everyone to the VF Corporation First Quarter Fiscal Year 2025 Earnings Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions]

I will now turn the call over to Allegra Perry, Vice President, Investor Relations, to open the conference call. You may begin.

Allegra Perry

Vice President-Investor Relations, VF Corp.

Good afternoon, and welcome to VF Corporation's first quarter fiscal 2025 conference call. 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. Unless otherwise noted, amounts referred to on today's call will be on an adjusted constant dollar basis, which we've defined in the press release that was issued this afternoon and which we use as lead numbers in our discussion because we believe they more accurately represent the true operational performance and underlying results of our business.

You may also hear us refer to reported amounts, which are in accordance with US GAAP. Reconciliations of GAAP measures to adjusted amounts can be found in the supplemental financial tables included in the press release, which identify and quantify all excluded items and provide a management's view of why this information is useful to investors.

Joining me on the call will be VF's President and Chief Executive Officer, Bracken Darrell; and EVP and Chief Financial Officer, Paul Vogel. Following our prepared remarks, we'll open the call for questions.

I'll now hand over to Bracken.

Bracken P. Darrell

President, Chief Executive Officer & Director, VF Corp.

Thank you all for joining us. I passed my one-year anniversary of VF on July 17. Coincidentally, the same day we announced the Supreme divestiture. It's been a full year of transformation, and I believe the pace of change won't slow going forward. This is the new norm at VF, and it's exciting.

Today, I'll update you on our progress on the execution of the Reinvent transformation program and, of course, on the quarter. But before I do that, let me start with our leadership team.

On the year-end, we changed 8 of 11 direct reports, two of those are promotions. As planned, we made three of these changes since our last earnings call, including the leaders of our two biggest brands. And I'm sitting next to Paul Vogel, our new CFO, who has been with us roughly four weeks. I've always thought of a great leadership team as more of a partnership than a traditional pyramid, and Paul already feels like another great partner. I'm holding him back today to give him some breathing room for he's on this stage, but he is already adding value.

But now let me hand it over to Paul just to introduce himself and say a few words. Paul?

Paul Aaron Vogel

Chief Financial Officer, VF Corp.

Thank you, Bracken, and good afternoon, everyone. After one month at VF, I couldn't be more excited about the opportunity in front of us and to be a part of this strong team. It is a privilege to join a company with such iconic brands, and I truly believe we can re-establish VF as one of the best run footwear, apparel and accessories businesses in the world. I've already begun to visit our offices around the world with recent stops at Vans and Costa Mesa and Denver and an upcoming trip to Europe soon and the passion our employees have for these brands is clear.

In my prior roles, I've seen the power of maximizing brand strength by creating the highest-quality product and combining it with a distinct point of view. I also understand that the best way to create an environment of innovation is to operate an exceptionally well-run company, eliminating inefficiencies that slow us down while investing thoughtfully and strategically to grow the business. I'm confident we can drive materially improved profitability, leverage on costs and improve free cash flow and developing a road map for that as one of my top near-term priorities.

While I've been an operator for the past eight years, I spent the beginning of my career on the investing side, and I understand what it will take to rebuild trust with the Wall Street community. Change doesn't happen overnight. But with the leadership team, Bracken has assembled, I know we can systematically reach our long-term goals, execute and deliver on a consistent basis and demonstrate proof points that build over time. I share Bracken's urgency to strengthen VF's balance sheet, reduce leverage and build a financial model that is operationally best-in-class and sustainable over the long term. I see a tremendous opportunity to unlock significant value from all the brands within the VF portfolio.

I look forward to meeting many of you over the coming weeks and months. I couldn't be more excited to be joining the company at such a crucial and exciting time.

I will now turn it back over to Bracken.

Bracken P. Darrell

President, Chief Executive Officer & Director, VF Corp.

Thank you, Paul. In addition to Paul's recent start, I'm also excited that as of last Monday, Sun Choe is now officially the President of Vans, relieving me of that job, and Caroline Brown is two months into leading The North Face. I'm excited about the progress we're seeing from our Chief Strategy and Transformation Officer and our Chief Design Officer, both of whom joined in March and are working away on things you'll see later.

Nina Flood was promoted into the Timberland rolls just six months ago. And Martino Scabbia Guerrini has run the newly created global commercial organization since we created it 9 months ago. In other words, we have a full team now and you can feel the energy.

Now for Reinvent. While we're not yet back to growth, the steps we're taking now will get us there. Remember, this phase is about reducing costs, lowering our debt, resetting the US business and getting Vans back on track.

First, there's a significant potential to improve our profitability, as we all know. During the quarter, we generated a further \$50 million in cost savings, part of our \$300 million target. We will have executed all actions to deliver

\$300 million cost savings by the end of the first half of the year, as we guided, and the impact will be fully reflected in the P&L by the end of the fiscal year. And we have no intention of stopping there.

As we said from the beginning, we're reinvesting some of that back into the business in the key areas of product and brand building. And those savings are further offset by rebuilding of our annual incentive program and inflation on salaries and other areas. But as I said before, we are absolutely committed to more cost reduction, as you'll soon hear more about.

We continue to reduce debt and strengthen our balance sheet. We delivered another significant reduction in inventories relative to last year. Even as we build ahead of our peak selling season. Inventories at the end of the quarter were down 24% versus last year or \$676 million. Additionally, net debt is down \$587 million year-over-year, supporting our plan to delever.

Last quarter, I told you our strategic portfolio review is complete. I also said we would provide you an update when we had some news. We announced the sales of Supreme for \$1.5 billion three weeks ago. To be clear, I love the Supreme brand, and I love the Supreme team. It's back to strong profitable growth. But the lack of synergies with the rest of our organization made us a clear choice for divestiture. This allows us to sharpen focus on the core business and also improve our leverage.

Turning to the Americas. Our platform is now fully operational. As expected, the Americas continues to perform well below our potential but the decline softened from negative 23% last quarter to negative 12% in Q1. Almost as important to me near term, we continue to be able to forecast the business. We now have eight consecutive months of accurate forecast.

Moving to Vans. As we said the first quarter of this year would be similar to the fourth quarter last year, excluding the impact from inventory reset actions. And we actually did a little better than that with some modest improvement. Down 21% in Q1 versus 27% in Q4, reflecting an improved trend in its two biggest regions.

Importantly, while the headline numbers remain weak, several indicators are showing we're heading in the right direction. EMEA is once again the region which is showing clear early encouraging signs with wholesale up in the quarter for the first time in six quarters with particularly positive momentum in key accounts.

As a result of the inventory reset actions, our markets are clean, and we have space to introduce our new products, which are performing well across regions. The Knu Skool continued to gain momentum and is performing well across regions and is now the number two franchise globally.

Other more recently introduced products are also gaining traction, including our [ph] Vans (00:08:56) Skate shoe, AVE 2.0 and UltraRange Neo and we've launched several new styles in July.

As part of our brand elevation strategy, we advanced our Off The Wall collections, unveiling a new collaboration with Proenza Schouler, showing the depth and breadth of our brand's potential. And with all the excitement and buzz around events in Paris this summer, we had our own event just beforehand, during Paris Fashion Week, where we started with a Paris takeover in June with a set of grassroots skate activations combined with events in music, art and design. Finishing off with a disruptive moment when we took over the iconic Sacré-Cœur to showcase OTW and Vans' authentic skate culture.

We have over 20 sponsored athletes across skateboarding and BMX at the Paris games. In fact, just today, we won gold and silver in today's women's skate event. We leverage this exciting time to launch our Always Pushing

campaign globally, featuring our top athletes in Paris, Tokyo and New York. These new products and marketing efforts are resonating with consumers and contributing to further progress in Google search trends, which continue to move in the right direction across our markets.

Now, let me give you a quick overview of the first quarter. Revenue was down 8%, which was a little better than expected, demonstrating slight sequential improvement versus Q4. With the trend line improvement across almost all brands.

Note, this is our smallest quarter of the fiscal year and largely skewed towards the Americas and wholesale. It's worth noting that growth in our DTC business was in line with last quarter if you exclude Vans. Note, in Vans, we're closing unprofitable stores and nonstrategic ones, dampening our growth even further.

The North Face was down 2% with growth in DTC up 8% globally with positive performance across each of the three regions, displaying continued strong brand health, whereas wholesale was down on a global basis. Across both channels and regionally, the standout continues to be APAC, which grew strongly, up 35%, even as we comped the post-COVID opening quarter last year.

Moving down to P&L. Gross margin was down 80 basis points for the prior year, in line with the guardrails we gave you in May. To quickly remind you, this is primarily driven by the continued impact of our clear-out activities from the Vans product we took back in our reset.

Our operating margin was down 360 basis points, largely driven by SG&A deleverage. I'd like to note, our SG&A dollars were down year-over-year. And I'd also like to say absolutely detest delevering a P&L. So you can be assured we are not at all finished reducing SG&A even as we invest in our own growth turn. As a result, Q1 loss per share was negative \$0.33 as expected.

Looking ahead to Q2, let me provide some guardrails for that quarter. These are all excluding Supreme, both from this year and last year. The overall Q2 revenue trend is expected to show modest improvement versus Q1, in line with our comments in May.

Don't get me wrong, we're not back to growth yet, but the decline rate should continue to moderate. And to give you some additional color on our two biggest brands, at Vans, we will see modest sequential improvement as we did this quarter. For The North Face, we expect Q2 revenue to be slightly down relative to Q1 but remember, TNF had 17% growth in Q2 of last year.

Turning to gross margin. We expect this to be up slightly in Q2 versus last year. Inventory quality has improved, so there's less impact from the flushing of inventory post Vans reset.

On SG&A, let me spend a little time breaking this down further. First, Reinvent savings are on track. Second, we will have normalized incentive compensation as well as inflation as we indicated before. We also consistently said we'll reinvest 25% to 30% of our gross savings. As we head into our holiday season, I decided to pull some of that forward and appears – it begins to appear in Q2. To be clear, this is not the end of our cost story.

Expenses in Q2 are expected to be up slightly year-over-year. This, combined with further revenue declines will lead to a higher rate of deleverage in Q2, but we will have more to say about that in October, which I'll explain in just a moment.

Moving into fiscal year 2025. We're on track to deliver guidance for free cash flow plus the proceeds from non-core physical asset sales of about \$600 million. This excludes the impact of the divestiture of Supreme. We expect the Supreme divestiture to be completed at some point by the end of the calendar year.

Finally, to conclude, we continue to make progress. The quarter improved sequentially relative to Q4 across almost all our brands. We're advancing on Reinvent. Cost savings are on track, and we're committed to more cost reduction. We're addressing the balance sheet leverage ratio with the first step the sale of spring. The new platform in the Americas is moving strongly in the right direction and at Vans, we're seeing the progress we expected.

My level of confidence has never been higher. We have an incredible leadership team and dedicated talent at VF. So together, we will make the continued progress on our path to deliver strong, sustainable growth and value creation at VF.

To close, I've dropped a few hints about our longer-term plan, so let me clarify. I'm excited to announce we'll be hosting a two-part investor event. Part one will be, mark your calendars, October 30 in New York, live and of course, as well as it'll also be webcast. Focused on broader VF strategy and laying out the building box for a return to value creation. And we'll build on that in part two or the second part toward the end of the fiscal year, which will focus on our brand and commercial strategies.

With that, I'll now open the line for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from the line of Brooke Roach with Goldman Sachs. Please go ahead.

Brooke Roach

Analyst, Goldman Sachs & Co. LLC

Q

Good afternoon, and thank you for taking our question.

Bracken P. Darrell

President, Chief Executive Officer & Director, VF Corp.

A

Thank you.

Brooke Roach

Analyst, Goldman Sachs & Co. LLC

Q

Bracken, I was hoping you could provide additional color on your plans for the Vans brand going forward now that you have a permanent brand president in place? You talked a little bit about some early green shoots that you're seeing in the brands. Can you elaborate a little bit more on what you expect the path to look like for the brand for the next couple of quarters, both in terms of new innovation, scaling, changes in brand marketing? And maybe any types of marketing that you're pulling forward regarding SG&A for the next couple of quarters? Thank you.

Bracken P. Darrell

President, Chief Executive Officer & Director, VF Corp.

A

Yeah, I'll save a little bit of that for the next quarter or two. And of course, by the time we get to the end of the year when Sun has a chance to speak to it. But I'll give you what you're asking, I think.

I expect you'll see more of the same. We just turned on a new marketing campaign for Vans, which is tied directly to a cascade of product launches. As I mentioned in the opening – in my opening remarks, the new franchises are doing well. And we've now got two of our new franchises, I think, are in the top 5. So UltraRange and Knu Skool, one's number two, one's number 5. I think it just shows you how responsive we are to new products when they're right. And so you're going to see more new products as we come through the year. We launched several new styles just this month. Of course, they're not incorporated in what we've done so far this year.

On top of that, we've completely revamped our approach to marketing. We just introduced our Always Pushing campaign, which started in Paris when we had that event that we mentioned in June. And it's now moving right down through everything we do. And you'll see more and more of that as time goes on. Our grassroots campaign is well underway, as is our influencer campaign. You may have seen a few celebrities caught wearing Vans just recently. If you Google it, you'll see it.

So you're just going to see more and more of that as you go through the year. This is the kind of energy we need from Vans, and I'm super excited about it.

Brooke Roach

Analyst, Goldman Sachs & Co. LLC

Great. Thanks so much. I'll pass it on.

Q

Bracken P. Darrell

President, Chief Executive Officer & Director, VF Corp.

Thank you.

A

Operator: Your next question comes from the line of Michael Binetti with Evercore. Please go ahead.

Michael Binetti

Analyst, Evercore ISI

Hi, guys. Thanks for taking our question here. Congrats on the nice quarter. Bracken, first off, thanks for the spoiler on today's women's skate medals. I appreciate that.

Q

Bracken P. Darrell

President, Chief Executive Officer & Director, VF Corp.

Sorry, about that.

A

Michael Binetti

Analyst, Evercore ISI

And then – could you speak to the diverging trends here in North Face [ph] with the (00:17:56) global brand, direct-to-consumer up 8% ex currency? And then it sounds like US wholesale was the issue. Can you maybe just help us roll forward what's holding wholesale back right now with good real-time trends at DTC? How you expect that to trend as we get into the important season for North Face on the wholesale side?

Q

Bracken P. Darrell

President, Chief Executive Officer & Director, VF Corp.

A

Yeah. First of all, I apologize to you. It didn't cross our mind that would be spoilers. It was such good news on our side. But if we did spoil it, it's still good news.

Yes. So on TNF, the underlying reality is we continue to have good solid DTC growth around the world and China continues to just be super strong, which is exciting. Wholesale is relatively weak, both mainly driven by traffic and conservatism, I think, on the retail side, both in the US and to some extent in Europe, too. And you can see on the numbers if you dig into it.

I think it's probably a function of a couple of things. One is the overall macro environment and also a little bit of skittishness just because of the weather last year when it was so warm during the holiday season. So we're not guiding TNF going forward, but I feel really good about the brand. I feel really good about the product initiatives that are coming. And I'd say stay tuned. I think TNF's going to be just fine. Thank you, Michael.

Operator: Your next question comes from the line of Paul Lejuez with Citigroup. Please go ahead.

Bracken P. Darrell

President, Chief Executive Officer & Director, VF Corp.

A

Hello.

Paul Lejuez

Analyst, Citigroup Global Markets, Inc.

Q

Hi. Thanks, guys. Hey. Curious within that free cash flow guidance that you reiterated, can you talk about what might have changed within that guidance on a brand channel or geographic level, anything that you are now assuming it's getting better or worse versus what you were thinking previously? Or any changes in your working capital assumptions that might factor into what you're looking for on free cash flow now? Thanks.

Bracken P. Darrell

President, Chief Executive Officer & Director, VF Corp.

A

Yeah. I'm happy to say there aren't any changes. So I'd say, overall, this is a good reflection, but I think, are getting a better handle on our forecasting. And it's very much the same in terms of the underlying dynamics as it was last quarter. The only real change will be, at some point, we will pull Supreme out, of course, which is as you may or may not realize it's pretty back-end loaded. So most of the cash would come into the back end of the year. But other than that, there won't be a big change.

Paul Lejuez

Analyst, Citigroup Global Markets, Inc.

Q

Can you quantify that? [indiscernible] (00:20:21)

Bracken P. Darrell

President, Chief Executive Officer & Director, VF Corp.

A

Yeah. We released the – I think we released the P&L in the filing. So last year, it was \$528 million and about 20% OI. You can kind of assume that's about what the cash looks like. It's going to be higher than that this year. So think around \$600 million and [ph] \$120 million (00:20:40). And we're not sure when this will close yet, but

whenever it closes, then the rest of the year, of course, the cash will pull out, and we'll reset our guidance for that. But it's probably, let's say, close to halfway through the year, it will be more than half of the overall cash.

Paul Lejuez

Analyst, Citigroup Global Markets, Inc.

Thank you. Good luck.

Q

Bracken P. Darrell

President, Chief Executive Officer & Director, VF Corp.

Thank you.

A

Operator: Your next question comes from the line of Jim Duffy with Stifel. Please go ahead.

Bracken P. Darrell

President, Chief Executive Officer & Director, VF Corp.

Hello.

A

Jim Duffy

Analyst, Stifel, Nicolaus & Co., Inc.

Thanks. Hey, Bracken. Hi, Paul. Welcome.

Q

Bracken P. Darrell

President, Chief Executive Officer & Director, VF Corp.

Yes.

A

Jim Duffy

Analyst, Stifel, Nicolaus & Co., Inc.

Just to start a clarification question. With the Supreme sale, are you done with the portfolio cleanup? Or are there additional asset sales contemplated as potentially appropriate?

Q

Bracken P. Darrell

President, Chief Executive Officer & Director, VF Corp.

We don't have anything specific contemplated, but I don't think we're ever really done in terms of reviewing our portfolio. So we've certainly finished our portfolio review, at least for now. We'll probably recycle on that on a regular basis, but we will recycle on a regular basis. There's no specific plans now.

A

This puts us in a good position to pay off the next two tranches of debt as we promised. And from there on, it will be about a good strong cash generation unless we decide to divest something else in the future. And I'd say stay tuned on that. The October Investor Day will give you a good sense for how we expect that debt to come down.

Jim Duffy

Analyst, Stifel, Nicolaus & Co., Inc.

Great. Thank you.

Q

Bracken P. Darrell

President, Chief Executive Officer & Director, VF Corp.

Thank you.

A

Jim Duffy

Analyst, Stifel, Nicolaus & Co., Inc.

Then you teased additional cost savings. Is that a philosophical point of emphasis? Or are you speaking to specific cost savings you've identified and scoped? I'm curious.

Q

Bracken P. Darrell

President, Chief Executive Officer & Director, VF Corp.

It is not a philosophical...

A

Jim Duffy

Analyst, Stifel, Nicolaus & Co., Inc.

[indiscernible] (00:22:11) that in October as well.

Q

Bracken P. Darrell

President, Chief Executive Officer & Director, VF Corp.

Yeah. Thank you for asking that question because nobody else did. I was going to bring it up. It is not a philosophical point. We spent the last four months really scoping additional cost savings. We're not ready to surface with anything yet. But we will talk about that in October. We're actually working with an external consultant on that, and we feel really good about our program.

A

Operator: Again, for today's session, we request to please limit your question to one question. And your next question comes from the line of Matthew Boss with JPMorgan. Please go ahead.

Matthew R. Boss

Analyst, JPMorgan Securities LLC

Great. Thanks. So Bracken, as we think about your first year at the helm, larger picture, maybe where do you stand on the priorities that you laid out initially? Maybe first, on the management team, any key roles that you're looking to fill from here? Second, I know you cited today sequential improvement, but any visibility to a return to top line growth as you see it today? And then maybe just last, how do you feel about organic free cash flow and debt paydown priorities?

Q

Bracken P. Darrell

President, Chief Executive Officer & Director, VF Corp.


Yeah. So I won't repeat the famous four, or they're probably not famous to you, but they feel like – I feel like I've told you so many times those four priorities that I think I said in my first full call. So I won't go through those, but you referenced kind of a summary of those.

A

From a management team, I feel great. I mean I think we've really got an all-star team, and it's all I could have asked for. And everybody is on the floor, everybody is on the team now. We're about half of them are new in the last months, half of them are not. And it's really a terrific team. Now it's my job to make sure that we together work well as a team. So we're really going to be working on that.

In terms of the turn – the Vans turn and the turn in general on the business, when do I forecast it happening? I'm not going to give you a number today, but I will tell you in October, we'll be ready to talk about that. So I feel very good about the progress we're making. It feels very similar to where I was when I was in my last company, and I feel like I can see it, and I feel good about it.

And in terms of the debt paydown, we'll certainly talk about that in October when you can expect that leverage to come down.

Matthew R. Boss 
*Analyst, JPMorgan
Securities LLC*

Great. Best of luck.

Bracken P. Darrell
President, Chief Executive Officer & Director, VF Corp.

Thank you.

Operator: Your next question comes from the line of Laurent Vasilescu with BNP. Please go ahead.

Laurent Vasilescu
Analyst, Exane BNP Paribas

Oh, good afternoon. Thank you very much for taking my questions. And Paul...

Bracken P. Darrell
President, Chief Executive Officer & Director, VF Corp.

Hey, Laurent.

Laurent Vasilescu
Analyst, Exane BNP Paribas

...welcome to the call. Hey, Bracken. Hey, I wanted to ask about – great to hear about Sun Choe's decision to leave lulu to join you. But can you talk about Caroline Brown's onboarding for TNF? What she brings to the table? And then maybe, Bracken, [indiscernible] (00:25:06) Paul can't say much, but are you seeing any disruptions from the Red Sea or from Bangladesh, where 2Q revenues might flow into 3Q?

Bracken P. Darrell
President, Chief Executive Officer & Director, VF Corp.

Let me take the last one first. So Red Sea, I think, are pretty stable there now as much activity and as much challenge is for the humanitarian and otherwise challenge there. Our workarounds are well in place. So I think we're okay there.

On Bangladesh, we do have some disruption, where about 15% of our production comes out of there. Whether could be – we do have a little bit of risk in our Q2 on that – on the kind of the back end of our Q2. But I'm not – it's not big enough that I'd make a big deal out of it. And I'm pretty convinced it will moderate based on the events that have happened in the last 48 hours, but we'll see. I think it will be okay.

We're also quite good at moving production we need to be. So there certainly wouldn't be any kind of long-term impairment if anything happened worse than it is today. And if it were to stay the way it is today, it's not the end of the world.

On the – on Caroline, I'm just super excited about Caroline's background. She started in luxury. She spent her whole career in apparel. She really knows this business, she has a great eye for fashion and just an incredible passion for The North Face. And she's a phenomenal leader. I mean she showed up immediately, as she walked in the door. We've now got Timberland tents all over the lobby and people are having meetings in there, at least I am. So she is really exciting to have her.

I would point out, Laurent, that something that some of you may not have realized, we are moving superfast here. And a lot of what we're doing, for example, right now, I can't tell you what we're doing, but we're doing a lot right now that we're not disclosing. So for example, at this point last quarter, you didn't know about Sun, you didn't know about Caroline, you didn't know about Supreme. And I'm not suggesting we've got people changes or portfolio changes coming. My point is we just got big activities that are happening all the time now and the pace is not going to let up.

Laurent Vasilescu

Analyst, Exane BNP Paribas

Q

Wonderful. Thank you very much.

Bracken P. Darrell

President, Chief Executive Officer & Director, VF Corp.

A

Thanks, Laurent.

Operator: Your next question comes from the line of Bob Drbul with Guggenheim. Please go ahead.

Robert Drbul

Analyst, Guggenheim Securities LLC

Q

Hi, Bracken.

Bracken P. Darrell

President, Chief Executive Officer & Director, VF Corp.

A

Yeah.

Robert Drbul

Analyst, Guggenheim Securities LLC

Q

And welcome, Paul.

Paul Aaron Vogel

Chief Financial Officer, VF Corp.

A

Thank you.

Bracken P. Darrell

President, Chief Executive Officer & Director, VF Corp.

A

Okay.

Robert Drbul

Analyst, Guggenheim Securities LLC

Q

I guess the question I'd like to focus on is maybe China a little bit, Bracken. Can you just talk more about what you're seeing by brand in China and just how you believe the outlook is there for what's happening?

Bracken P. Darrell

President, Chief Executive Officer & Director, VF Corp.

A

Sure. Look, at the end of the day, I think China, in general, has been a great story for VF. And it is – the overall market slowed down a little bit, as we all know. But it's still just a fantastic market. I mean Caroline and I were talking this today, it's such a big opportunity for us, not just for The North Face, but for all of our major brands.

I think the story in China is very much a story of each brand story around the world. So Vans in a turnaround. Vans were really – if you think we're changing a lot in Vans globally, you should see what we're doing in China. I mean we're really closing a lot of stores, opening stores. It's an incredible amount of churn, only at China speed can you do what we're doing there. And they're not company-owned stores, they're partner stores, but boy, it's happening fast.

The North Face continues to do extremely well there, as you know. You can see in the numbers today. By the way, we're indexing against some very strong numbers in a year ago. So that number today is really, really powerful. And Timberland is a work in process. I think Timberland is an interesting brand in every – so it's a little different in every part of the world, which is one of the challenges to Timberland. But I think there's – that in that lies the opportunity. I'm excited about Timberland, but we're not focused on it for now, at least not for these discussions.

Robert Drbul

Analyst, Guggenheim Securities LLC

Q

Thank you.

Bracken P. Darrell

President, Chief Executive Officer & Director, VF Corp.

A

Thank you.

Operator: Your next question comes from the line of Jay Sole with UBS. Please go ahead.

Bracken P. Darrell

President, Chief Executive Officer & Director, VF Corp.

A

Hi, Jay.

Jay Sole

Analyst, UBS Securities LLC

Q

Great. Thank you. Hi, Bracken. I wanted to just ask you about Dickies hasn't come up yet. If you could elaborate a little bit on what you're seeing with that brand? What's the plan there? How do you expect to get it back to healthy growth and healthy margin? Thank you.

Bracken P. Darrell

President, Chief Executive Officer & Director, VF Corp.

A

Sure. Dickies is kind of the story of two actions. We moved too fast to try to turn it into a pure fashion brand here in the US. And then we really pushed to make it a pure fashion outside of the US., it continues to do that outside the US, it's doing fine. In the US, it's really struggled because we lost our footing in our core work business, and we're really refocused completely there now. So I'd say more to come there. I think Dickies is a fantastic brand and a great business, a really good, strong, solid brand, and we'll get it back on its footing. It will just take a little time.

Jay Sole

Analyst, UBS Securities LLC

Q

Terrific. Thank you so much.

Bracken P. Darrell

President, Chief Executive Officer & Director, VF Corp.

A

Thank you.

Operator: Your next question comes from the line of Mitch Kummetz with Seaport Research Partners. Please go ahead.

Bracken P. Darrell

President, Chief Executive Officer & Director, VF Corp.

A

Hi, Mitch.

Mitch Kummetz

Analyst, Seaport Global Securities LLC

Q

Yes. Thanks for taking my question. Bracken, I was hoping you could provide maybe some more real-time color on Vans, how it's performing for back-to-school? And you mentioned modest improvement in the second quarter. Is that really a function of challenging selling? Can you talk a little bit more about the sell-out?

Bracken P. Darrell

President, Chief Executive Officer & Director, VF Corp.

A

Yeah. I think the sell-out has continued to be down versus a year ago, which nobody likes, but the trend is in the right direction overall. And so I guess that's the main thing. And so it's a little too early for us to give you any kind of expectation for back-to-school. You just – if we had this call just a few weeks later, a month later, we certainly could. But we'll see. I feel good about the progress we're making on Vans. I feel great about the marketing and product initiatives.

So I'd just say stay tuned. We said we'd expect sequential improvement, slight sequential improvement. We do. And that's the kind of progress I want to see on Vans all the way through the year.

Mitch Kummetz

Analyst, Seaport Global Securities LLC

Q

Thank you.

Bracken P. Darrell

President, Chief Executive Officer & Director, VF Corp.

Thank you.

A

Operator: Your next question comes from the line of John Kernan with TD Cowen. Please go ahead.

Bracken P. Darrell

President, Chief Executive Officer & Director, VF Corp.

Hi, John.

A

John Kernan

Analyst, TD Cowen

Hey, good afternoon, Bracken. Good afternoon, Paul. Congrats on all the positive changes you've been making.

Q

Bracken P. Darrell

President, Chief Executive Officer & Director, VF Corp.

Thank you.

A

John Kernan

Analyst, TD Cowen

Just to go back to Vans one more time.

Q

Bracken P. Darrell

President, Chief Executive Officer & Director, VF Corp.

Sure.

A

John Kernan

Analyst, TD Cowen

Obviously, Sun's going to have a lot to say on Vans in the coming months. What do you think the biggest opportunities for Vans are from a category level? And is there anything to do in terms of rightsizing distribution, whether it be in wholesale or DTC at this point?

Q

Bracken P. Darrell

President, Chief Executive Officer & Director, VF Corp.

Well, first of all, I'll answer your second question first. We are really rightsizing our distribution. So we're doing quite a bit on both wholesale and DTC. And wholesale, we are pulling back on the value channel in Europe and the US. And that's happening real time. We're not talking a lot about it. So we're not going to make a big deal about it, but we are. And in the stores, you heard me talk about closing stores and in the US. We're also, as I said, closing stores in China and a little bit of churn in Europe, too. So overall, I'd say there's a lot of activity there.

A

What's the biggest opportunity in Vans? I mean, Vans is just a fantastic brand. And it just lost the energy, really lost energy. And you can see how it happened. We got so over-rotated on a couple of styles. I know you've heard me say this before, but I feel compelled to say it again. We over-rotated on a couple of styles that will always be popular, by the way. But you could overdo them probably almost any point. And we over rotated them at the same

time that the kind of the culture picked them up and run with them. And that just really drove too far – too much of a buy now kind of mentality into the marketplace. And I think everybody who needed them, got them.

And there was – there's never been a – boy, I don't like Vans anymore. I'm done with Vans. It's just I've got them. In fact, you still see people wearing them. So what are we doing? So we're innovating and we're also putting in franchise management. So innovating by bringing out new styles. So you've seen – you're starting to see them come one at a time now, AVE 2.0, the Knu Skool, three new styles this quarter. And we'll have more coming and then some really key collaborations to give energy.

And then franchise management, where you're going to see us take the gas out of some of the older styles for a while and then re-goose them when we first at the very top of the culture chain with key influencers and then flow them down. This is franchise management 101 plus innovation, which I think is really the model for growing a footwear brand.

On top of that, I do think there is fabulous. I mean we're only 19% of our businesses is in apparel. And that's a big opportunity, but it's not the most important near-term opportunity. And I know Sun feels the same way I do about that. So I think there's lots of opportunity on Vans.

John Kernan

Analyst, TD Cowen

Q

Awesome. Thank you. Looking forward...

Bracken P. Darrell

President, Chief Executive Officer & Director, VF Corp.

A

Thank you.

John Kernan

Analyst, TD Cowen

Q

...to Sun Choe.

Bracken P. Darrell

President, Chief Executive Officer & Director, VF Corp.

A

Thank you.

Operator: Your next question comes from the line of Adrienne Yih with Barclays. Please go ahead.

Bracken P. Darrell

President, Chief Executive Officer & Director, VF Corp.

A

Hi, Adrienne.

Adrienne Yih

Analyst, Barclays Capital, Inc.

Q

Thank you very much. Hi, Bracken. Looking forward to meeting you, Paul. So Bracken, my first question is going to be more of a, I guess, a philosophical one. So you had talked about on the last quarterly call, I think Martino had said five consecutive months of making plan across the portfolio. I'm assuming based on today's results, that's now at least eight months – consecutive months. It sounds like you're confident at an all-time high and then

we're going to get a two-parter on the Analyst Day, where typically we get numbers or some long-range plan numbers. Can you speak to that, you're confident turning into guidance?

And then my second question is on gross margin. Can you give us some help on the shaping of the gross margins? Inventories are so clean for the second consecutive quarter. I would imagine that you're not delivering or not having to resort to a lot of vendor concessions. So should we see the wholesale gross margin start to improve meaningfully in the back half? Thank you.

Bracken P. Darrell

President, Chief Executive Officer & Director, VF Corp.

A

Yeah. I'll answer the gross margin comment first. I do – we do expect gross margin to improve through the year. We had a pretty big promotion headwind from gross margins over the last couple of years. And it should start to come off as you said, as we go into the back half of the year, especially. And if all things hold, that's our expectation. So I'm optimistic.

To me, gross margin will always be the most important number in the P&L and I'm an absolute – I'm looking at Paul right now across the table and he's smiling too. We both are real zealots for this. So we're going to really be fixated on gross margin. I can't promise you every quarter exactly what's going to happen, but I expect it to improve over time.

And consistent with that, when we talk about our guidance or lack of guidance when we get to October, we'll come up with a formula for how we're going to do this. I don't want to spoil the fun now. We kind of have a game plan. But we will give you more than we've given you in the past, and we'll certainly give you something more in the intermediate term, something that you can look to and see where we're really trying to head to. So without saying any more, because Allegra will elbow me right in the neck because she's that close. I'll stop there.

Adrienne Yih

Analyst, Barclays Capital, Inc.

Q

Perfect. Thank you very much. Very helpful.

Bracken P. Darrell

President, Chief Executive Officer & Director, VF Corp.

A

Thank you.

Operator: Your next question comes from the line of Tom Nikic with Wedbush Securities. Please go ahead.

Bracken P. Darrell

President, Chief Executive Officer & Director, VF Corp.

A

Hey, Tom.

Tom Nikic

Analyst, Wedbush Securities, Inc.

Q

[indiscernible] (00:36:41) Thanks for taking my question and [indiscernible] (00:36:45).

Bracken P. Darrell

President, Chief Executive Officer & Director, VF Corp.

A

You're a little quiet.

Tom Nikic

Analyst, Wedbush Securities, Inc.

Q

[indiscernible] (00:36:49) follow-up on – sorry, can you hear me better now?

Bracken P. Darrell

President, Chief Executive Officer & Director, VF Corp.

A

Yes, we can. Yes.

Tom Nikic

Analyst, Wedbush Securities, Inc.

Q

Okay. I just want to ask another question on Vans. You've mentioned that the market is a lot cleaner than it was before. I'm just wondering what are the conversations with wholesale partners like? Are they seeing the positivity in new products, like the Knu Skool that you seem to be seeing in DTC as well? And just generally speaking, like what do we need to see to get the wholesale partners to get on board, start to reengage with the Vans brand?

Bracken P. Darrell

President, Chief Executive Officer & Director, VF Corp.

A

It's really – yeah, first of all, yes, they are positive. And the I think all the key partners I've talked to are really want us to be successful in Vans because they need us to be successful Vans for them, which is what it's all about. That's what partnership is. And generally, I've heard quite positive things, and you can see it in our order books out in the future on Vans. Now those have to be delivered. But I'd say so far, so good.

Tom Nikic

Analyst, Wedbush Securities, Inc.

Q

Thanks very much. Best of luck.

Operator: Your next question comes from the line of Ike Boruchow with Wells Fargo. Please go ahead.

Ike Boruchow

Analyst, Wells Fargo Securities LLC

Q

Hey, Bracken, how are you?

Bracken P. Darrell

President, Chief Executive Officer & Director, VF Corp.

A

Great.

Ike Boruchow

Analyst, Wells Fargo Securities LLC

Q

I guess my question would be, I'm sure you're not going to go into specifics, although feel free if you'd like. But looking at the four brands, from a rate of change perspective on where their growth rates were in the first quarter? Where is your greatest confidence today across that portfolio? And maybe rank order them in terms of where that confidence kind of lies across all four of the brands?

Bracken P. Darrell

President, Chief Executive Officer & Director, VF Corp.

A

Gosh, that's like asking me to pick which channel is my favorite. I'm going to entirely dodge your question and say, I think I see opportunities across all of them. The nice thing is this quarter, the trend line is pretty consistent across them all. It's slightly sequentially improved. And that's the kind of trend I'd like to see. I can't guarantee you'll see, but I'd like to see going forward every quarter. I think you'll see it in our biggest brands, and I hope you'll see it in all of them.

But yeah, I don't know how I would rank those except – so I feel good about the – I feel very, very good about the work going on in Vans and The North Face and Timberland. And I think Dickies while we have a long way to go, I think there's also a lot of activity going into that. I think we'll get there.

Ike Boruchow

Analyst, Wells Fargo Securities LLC

Q

Got it. Thanks.

Bracken P. Darrell

President, Chief Executive Officer & Director, VF Corp.

A

Thank you.

Operator: Your next question comes from the line of Simeon Siegel with BMO Capital Markets. Please go ahead.

Bracken P. Darrell

President, Chief Executive Officer & Director, VF Corp.

A

Hey, Simeon.

Simeon Siegel

Analyst, BMO Capital Markets Corp.

Q

Hey, guys. Thanks. Hope you've had a nice summer.

Bracken P. Darrell

President, Chief Executive Officer & Director, VF Corp.

A

Good summer.

Simeon Siegel

Analyst, BMO Capital Markets Corp.

Q

So nice job on the gross margin beat, I'm glad to hear it. Nice job on the gross margin beat. Could you – you mentioned the 20 bps of pressure from unfavorable mix. Could you just elaborate on that a little bit and thoughts on where that goes from here? Maybe any color you'd be willing to share on ASP – to your point about gross margin in ASP versus units for Vans and North Face in the past quarter? And then maybe the same question about inventory, just how that composition looks by brand?

Bracken P. Darrell

President, Chief Executive Officer & Director, VF Corp.

A

Probably – it's probably just me, but I had trouble hearing part of that. So maybe if you could repeat it all again, that would be helpful.

Simeon Siegel

Analyst, BMO Capital Markets Corp.

Q

Sure. So there was 20 bps of pressure from mix shift. So I was just wondering you could elaborate on that and where you'd expect mix to go from here? And then if just by Vans and North Face thinking about ASP and units how they look at the past quarter? And then inventory composition, so within the down 24%, how does that look by brand?

Bracken P. Darrell

President, Chief Executive Officer & Director, VF Corp.

A

Yeah. I wouldn't be able to give you all the answers to that. But what I will say is I think from a mix standpoint, that's a relatively small mix change. I think we expect the mix to be kind of probably be a tailwind for the year, but not in a big way, much like you're seeing here. So I think you'll see some mix help, but we'll see. It could go the other way. We've got – the other issue we have is wholesale in general, it depends on our wholesale versus DTC growth. So obviously, if DTC grows faster, it's a mixed health, if it grows slower, it's a mixed hurt. And I think it will be a good wholesale year. So I'm a little mixed on mix. I think it could be a little bit up, but we'll see.

On the ASP versus units, I don't think there's a big story here. Hopefully, we'll – as we go through the year and as our promotion starts to fade, we'll have a little bit better story.

Simeon Siegel

Analyst, BMO Capital Markets Corp.

Q

Okay. Great. And then any color on the inventory by brand?

Bracken P. Darrell

President, Chief Executive Officer & Director, VF Corp.

A

No, I think we're in pretty good shape across the brands. I'm happy to say I feel very good about inventory across everything right now. Where – you mean in the channel or in our own inventory? I'd say I was speaking mainly in the channel.

Simeon Siegel

Analyst, BMO Capital Markets Corp.

Q

Yeah. Either one. I was more looking at the 24%, just looks very clean to Adrienne's point, so just thinking about is there any divergence there to keep in mind by brand?

Bracken P. Darrell

President, Chief Executive Officer & Director, VF Corp.

A

No, there's not much story there. I mean it's all good solid improvement across the board. I mean, every single brand [ph] were down (00:42:05).

Simeon Siegel

Analyst, BMO Capital Markets Corp.

Q

That's great. All right. Thanks a lot, guys.

Bracken P. Darrell

President, Chief Executive Officer & Director, VF Corp.

Thank you.

A

Simeon Siegel

Analyst, BMO Capital Markets Corp.

Best of luck for the rest of the year.

Q

Bracken P. Darrell

President, Chief Executive Officer & Director, VF Corp.

Thank you.

A

Operator: Your next question comes from the line of Janine Stichter with BTIG. Please go ahead.

Bracken P. Darrell

President, Chief Executive Officer & Director, VF Corp.

Hello.

A

Janine Stichter

Analyst, BTIG LLC

Hi. Thanks for taking my questions. Hi.

Q

Bracken P. Darrell

President, Chief Executive Officer & Director, VF Corp.

[indiscernible] (00:42:27)

A

Janine Stichter

Analyst, BTIG LLC

Two quick ones on Vans. First, on when we think back to kind of where the brand went wrong over the last two years, it felt like one of the things that could have been improved upon was having more segmentation and tiering different products for different retailers. Is there any update on how you're thinking about segmentation or how you're executing against that?

Q

And then second one is just on lead times. I know you've talked about how frustrating the long lead times are in footwear in general, and then in particularly for Vans, anything changing there just in terms of your ability to fast track product? Thank you.

Bracken P. Darrell

President, Chief Executive Officer & Director, VF Corp.

I'll answer the second one first. The answer is no. It's really not been an area we've really tried to focus on here in the beginning. I do think the overall lead time, we certainly can't put pressure on move things a little faster, but I do think lead times in general and time to market is a big opportunity. But as I think I said in an earlier call, I'm parking that one for a little while until we get the fundamental business in place, and then we'll worry about that aspect of the business model. But I do think there's upside there.

A

On segmentation of retailers, yeah, I think the thing we've talked about is, I think the key is we just got over distributed into value channels. And so we've pulled back in Europe, we're pulling back in the US, and I think that's going to pay dividends.

Janine Stichter

Analyst, BTIG LLC

Thanks so much.

Q

Bracken P. Darrell

President, Chief Executive Officer & Director, VF Corp.

Thank you.

A

Operator: Your next question comes from the line of Dana Telsey with Telsey Advisory Group. Please go ahead.

Dana Lauren Telsey

Analyst, Telsey Advisory Group LLC

Hi. Good afternoon.

Q

Bracken P. Darrell

President, Chief Executive Officer & Director, VF Corp.

Hello.

A

Dana Lauren Telsey

Analyst, Telsey Advisory Group LLC

As you look at the DTC channel – Hi. As you look at the DTC channel, which you had talked about was in line with the fourth quarter, excluding Vans, you mentioned closing some stores on Vans. How should we think about DTC for Vans and the other brands? How you're thinking about retail versus digital? And any expansion or just any more color on the wholesale business, how it's differing by brand domestically and overseas? Thank you.

Q

Paul Aaron Vogel

Chief Financial Officer, VF Corp.

Retail versus digital.

A

Bracken P. Darrell

President, Chief Executive Officer & Director, VF Corp.

Yeah, I think the footfall in retail continues to be weak. I'd say just generally in the – all over the western world, you had worse traffic than I think people expected, whether it's in malls or out of malls, it's not just exclusive to us, a little bit better on e-tail.

A

On the wholesale business by brand, I'm not sure I'd get into [ph] too (00:44:44) and break that down too much. I think the – I guess – yeah, I probably wouldn't go – so there's too much difference across the board. I mean there's some variation but probably not notable enough to make a big deal out of.

Dana Lauren Telsey
Analyst, Telsey Advisory Group LLC

Q

Thank you.

Bracken P. Darrell
President, Chief Executive Officer & Director, VF Corp.

A

Thank you. Sorry, it wasn't more helpful, Dana.

Operator: Your last question comes from the line of Jonathan Komp with Baird. Please go ahead.

Bracken P. Darrell
President, Chief Executive Officer & Director, VF Corp.

A

Hey, Jonathan.

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

Q

Yeah. Hi. Thank you. Hey, Bracken. I want to follow up one more question on Vans. Could you maybe just break down a little more the drivers of the improvement you're seeing in Europe in the EMEA region, given that it sounds like sell-throughs are still a bit challenging at DTC? So just any more color on what drove the sequential improvement? And do you think that's a region that could flip positive first for Vans? Or are there different dynamics going on? Thank you.

Bracken P. Darrell
President, Chief Executive Officer & Director, VF Corp.

A

Yeah. I mean I don't have too much to say about it except that wholesale is – was stronger than DTC, as we said earlier. And I think that's because we really have a lot of opportunity in wholesale. Wholesale is bigger relatively speaking, in Europe than it is in the Americas, of course. So I'm kind of optimistic in general, but I'm also optimistic about EMEA, as you said, turning first. We'll see at what point that happens. But I have been – I think I might have at least implied in an earlier call it. If you ask me what region might turn first. I'm more optimistic that – I'm somewhat optimistic that it will be EMEA first and probably because of that wholesale component.

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

Q

Okay. Great. Thank you.

Bracken P. Darrell
President, Chief Executive Officer & Director, VF Corp.

Thank you so much. I guess I'll just – I think that's the last question, wasn't? Great. Well, thank you all. It's been a really exciting quarter for us with a lot of changes. As I said, I don't expect that to let up. Can't wait to see here or both, all of you in October and Paul will get to say more than just his name and birthday. So he's excited, too. And I'll have a few more people along with us. So I think this is going to be a really exciting meeting and can't wait to see you all. And now, we'll get back to finish the second quarter. So thanks a lot.

Operator: That concludes today's session. Thank you, all, for joining. You may now disconnect.

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