

VFC Q3; Review

29 January 2025 – Piri Muthu

Issuer: VFC (VFC; Ba1/BB+; Stable)

3Q Results (29 Jan)

We see (some) value across the VF curve (€26/28/29/32s). It's clear from the earnings call that management prefers to under-guide. Hence, if we ignore the weaker 4Q guidance, the only remaining area of concern for us is the still falling Vans sales. Mgmt is painting that as still in "reset" phase. Balancing that with BS governance remarks (that are positive) we see some more firm signs of this turning into a stable to recovering credit story.

- New CEO, Bracken, seems to implicitly admit they under-guided in the earnings call; "*gross margins were up 150 basis points, and operating margins were up 360 basis points to over 11%...none of these were a surprise to us*"
 - 3-months ago he issued guidance for a 6.8% adj. EBIT margin - i.e. it's a 460bp surprise.
- Re. the lacklustre 4Q EBIT guidance, co seems to be recycling the same line from last time; in October it was pull-forward cost savings that it said would not be here today. This time it is pull forward sales from wholesale accounts, which it says came out of Q4 orders, and a boost to DTC sales from the colder weather.
 - "*Turnarounds are not linear*" was repeated a few times - as if to tame expectations for the next beat.
 - Worth noting the shift in revenue make-up from Vans towards North Face will make group revenues more seasonal into the winter months of Q2/Q3.
- Management clearly paints Vans as still in clean-up phase with Sun Choe's work yet to appear (started at VF in May). Again under-guiding theme; "*I'm going to keep the expectations low for Vans as long as possible because I want to give her plenty of room to operate*". It says some of the -31% fall in Vans APAC is on purposefully pullback in China footprint.
- Bracken mentioned 1H26 (Mar-Sept '25) may be similar to 2H25. He clarifies later that his intention was to indicate no assumption of revenue growth. He is more confident that profitability will continue to improve. Again finishes with "*we're just trying to really dampen expectations*".
- 4Q adj. EBIT guidance for -\$30m to flat still bakes in continued gross margin expansion. Just sees a headwind from SG&A increase (marketing spend going up). Reminder its baking in an estimated -4-6% yoy sales fall net of FX which will naturally hurt (delever) EBIT (margins).
- Minimal exposure to China, Mexico and Canada in supply chains (i.e. minimal exposure to potential tariffs).
- Reiterates FCF will go to deleveraging as the priority till net 2.5x target reached.

Part 2 of Investor Day comes 6th March, 4Q results generally come mid-May.

3Q numbers;

It's a beat - but we did speculate it was under-guiding after last quarters beat. It seems to be keen to rinse and repeat the same strategy - guidance is lacklustre for the 4Q/3m to March. The surprise revenue growth this quarter was driven by North Face (+5%) and Timberland (+12%). Vans continues to bleed (-8%). For ref. YTD revenue split is North Face 40%, Vans 25%, Timberland 15%.

Actual vs. guidance for Q3;

- Revenue \$2.8b vs. guided \$2.7-2.75b
- Revenue growth +2% vs guided. -1 to -3%
- FX headwind flat vs. guided -1%
- adj. EBIT \$324m (11.4% margin, +360bps) vs. guided \$170-200m
- Strong beat driven by gross margin +150bps on lower promotions and cost savings further down
- GAAP reported EBIT was \$226m (8% margin) up from -\$90m loss last yr
- BS is carrying \$4.7b in net debt

- As expected it has fallen on Supreme sale proceeds (\$1.5b).
- Raters already accounted for this when downgrading/nothing to see.
- It is continuing a \$35m/qtr dividend despite sitting outside stated net <2.5x leverage target
- We see leverage approaching low 4-handle (net, excluding leases in EBITDA)
 - Headroom to current ratings but not enough for any upgrades from the raters (our view).

4Q guidance

- 4Q revenue to be -2 to -4% in constant fx with a -2% FX headwind
 - lacklustre given its rolling easy comps (double-digit falls) from last year
- 4Q adj. EBIT to be -\$30m to flat
 - again lacklustre
- Full year (FCF + non-core asset sales) guidance has been bumped from \$425m to \$440m
 - note last qtr it said \$110m of this was to be from the asset sales. remaining \$300m-odd from operations is lacklustre

S&P Downgrade (13 Nov)

S&P isn't really taking a view on the chance of a turnaround - only pointing out current metrics and choice to stop brand sales at only Supreme (\$1.5b) leaves company outside IG thresholds/intentions. This shouldn't be news.

The double-notch seems to be on the revised timing of any turnaround including for cost investments to show (short-term pain, long term gain in theory). Like us, it too seems disappointed by MT targets (though does not directly say this). Bar growth returning, standalone leverage STILL looks skewed to downgrade risk; downgrade >net 5x vs. upgrade <4x, we see high 5x on consensus FY EBITDA (12m to March '25). It has 1yr to get below 5x.

As we said after earnings, we are cautious of calling this a turnaround story still given;

1. still falling sales - particularly concerning given rolling over easy comp's - unlike Burberry. Problem areas in particular remain US (~50% of group) and Vans (28%)
2. Q3 EBIT guidance frustratingly lacklustre at implied 6.8% margin (-100bps yoy ex. Supreme)
3. FY FCF guidance cut from \$600m to \$425m and ex. asset sales guidance of only \$315m. \$141m will go to dividends leaving little firepower to manage leverage this year.
4. MT target lacklustre for EBIT margin of 10% by 2028 - it has run higher (ex. Supreme) in recent years.

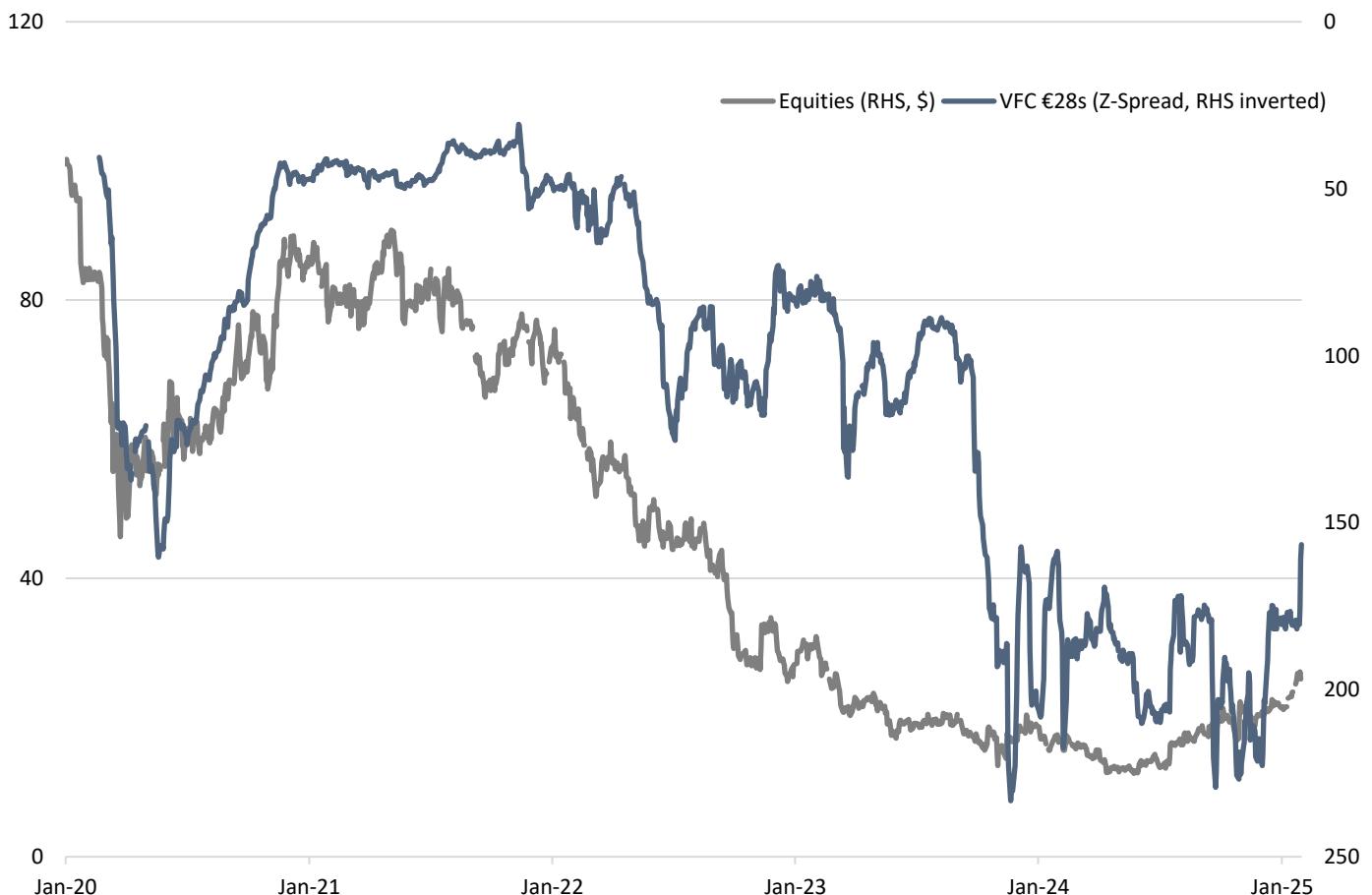
Investor Day Part-1 (30 Oct)

Call has not started (2pm London) but has done a presser ahead of it with MT (defined as in FY28 - ending March '28) targets;

- adj. EBIT margin of "at least 10%" driven by;
 - adj. gross margin of "at least 55"
 - adj. SG&A costs of "45% of lower"
- net leverage <2.5x

None of the above is particularly ambitious (it was running 10%/13% adj. margin in FY 23/22 even excluding higher margin Supreme). Reminder this is the same co that refused to give FY guidance on Monday adding "for us to try to guide a year when there's nothing magical about a year. A year is just four quarters out". Above won't be enough to hold off a S&P junking (our view).

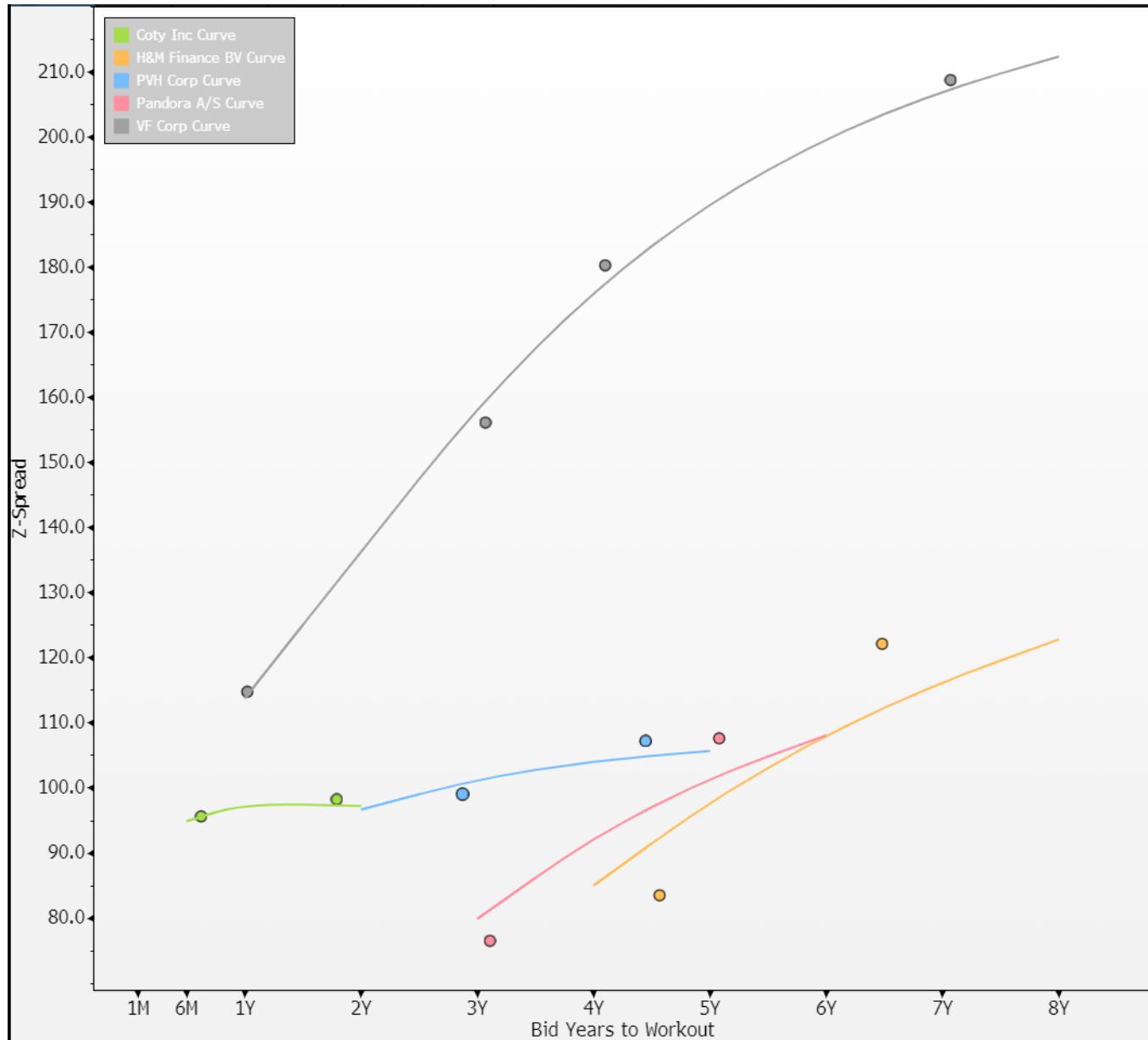
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Source: MNI, Bloomberg



Source: VFC; Brand Portfolio



Source: MNI

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