

VF Corp VFC (NYSE) | ★★★★★

| Last Price | Fair Value | Consider Buy | Consider Sell | Uncertainty | Economic Moat™ | Moat Trend™ | Stewardship | Industry Group |
|------------|------------|--------------|---------------|-------------|----------------|-------------|-------------|-------------------------------------|
| 73.97 USD | 85.00 USD | 59.50 USD | 114.75 USD | Medium | Wide | Positive | Exemplary | Manufacturing - Apparel & Furniture |

VF's fundamentals remain strong despite foreign currency translation headwinds.

Updated Forecasts and Estimates from 17 Feb 2015

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The primary analyst covering this company does not own its stock.

Research as of 17 Feb 2015
Estimates as of 17 Feb 2015
Pricing data through 20 Apr 2015
Rating updated as of 20 Apr 2015

Currency amounts expressed with "\$" are in U.S. dollars (USD) unless otherwise denoted.

Contents

| | |
|-------------------------------------|----|
| Investment Thesis | 1 |
| Morningstar Analysis | |
| Analyst Note | - |
| Valuation, Growth and Profitability | 2 |
| Scenario Analysis | 2 |
| Economic Moat | 3 |
| Moat Trend | 4 |
| Bulls Say/Bears Say | 6 |
| Financial Health | 7 |
| Enterprise Risk | 7 |
| Management & Ownership | 9 |
| Analyst Note Archive | 10 |
| Additional Information | - |
| Morningstar Analyst Forecasts | 12 |
| Comparable Company Analysis | 16 |
| Methodology for Valuing Companies | 18 |

Investment Thesis 17 Feb 2015

VF Corp. has established a broad and growing array of leading lifestyle brands, carefully selected to enhance its presence in high-growth categories and for synergies within existing operating units. We believe management will continue to make acquisitions with an eye toward strengthening its brand leadership and will continue to invest heavily in existing brands through branding campaigns, marketing, product development, and in-store experiences--the basis for our wide moat and positive trend rating.

We think the company is poised to take advantage of three market trends. First, we believe the outdoor and action sports market is a large and quickly growing opportunity, with activewear apparel now often worn in place of casual and weekend attire. Based on NPD data, we think that this enlarged athletic/casual category is a \$46 billion opportunity with a focus on higher-margin performance and comfort products. The North Face is already a leader in the \$25 billion global outdoor market and also provides high-performance sports apparel, an increasingly demanded category thanks to the fitness craze. We expect this category to be a key growth driver for VF and that further acquisitions will be made to increase exposure. We model it growing organically to 61% of revenue from the current 54% penetration over five years. Second, we see VF leveraging its vast global supply chain to support additional international sales and think international markets can grow from 37% of revenue to just under 45% of sales in five years. Finally, we see direct-to-consumer sales growing to 25% of sales from the current 21% penetration, with e-commerce being the fastest-growing, most profitable channel.

Although we think much of the organic growth is priced into the stock, we see acquisitions being a significant value driver. We expect VF to focus M&A activity on the outdoor and action sports space. With a strong dollar, we think international acquisitions are particularly attractive. With a well-oiled integration machine, the ability to drive cost synergies, and a vetting process with an eye for strong brands with slightly broken operations, we think this is a value-enhancing strategy.

Vital Statistics

| | |
|-----------------------------|-------------|
| Market Cap (USD Mil) | 31,655 |
| 52-Week High (USD) | 77.83 |
| 52-Week Low (USD) | 59.57 |
| 52-Week Total Return % | 25.5 |
| YTD Total Return % | -0.8 |
| Last Fiscal Year End | 31 Dec 2014 |
| 5-Yr Forward Revenue CAGR % | 8.9 |
| 5-Yr Forward EPS CAGR % | 13.0 |
| Price/Fair Value | 0.87 |

Valuation Summary and Forecasts

| | Fiscal Year: | 2013 | 2014 | 2015(E) | 2016(E) |
|------------------------|--------------|------|------|---------|---------|
| Price/Earnings | | 22.8 | 24.3 | 23.1 | 19.3 |
| EV/EBITDA | | 14.7 | 15.6 | 14.8 | 12.7 |
| EV/EBIT | | 17.0 | 17.9 | 17.0 | 14.4 |
| Free Cash Flow Yield % | | 4.5 | 4.5 | 3.2 | 6.0 |
| Dividend Yield % | | 1.5 | 1.5 | 1.8 | 2.2 |

Financial Summary and Forecasts (USD Mil)

| | Fiscal Year: | 2013 | 2014 | 2015(E) | 2016(E) |
|----------------------|--------------|--------|--------|---------|---------|
| Revenue | | 11,420 | 12,282 | 12,654 | 14,799 |
| Revenue YoY % | | 5.0 | 7.6 | 3.0 | 17.0 |
| EBIT | | 1,658 | 1,834 | 1,893 | 2,226 |
| EBIT YoY % | | 10.8 | 10.6 | 3.2 | 17.6 |
| Net Income, Adjusted | | 1,219 | 1,354 | 1,384 | 1,624 |
| Net Income YoY % | | 13.1 | 11.1 | 2.2 | 17.3 |
| Diluted EPS | | 2.73 | 3.08 | 3.20 | 3.83 |
| Diluted EPS YoY % | | 13.3 | 12.8 | 3.9 | 19.7 |
| Free Cash Flow | | 1,134 | 1,488 | 1,144 | 542 |
| Free Cash Flow YoY % | | 14.0 | 31.2 | -23.1 | -52.6 |

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

VF owns a large portfolio of leading lifestyle brands including The North Face, Timberland, Vans, Lee, and Wrangler. Consumers are served through multiple distribution channels and geographies, with almost 40% of revenue international and more than 20% direct to consumer. Brands are organized by five coalitions: Outdoor & Action Sports, Jeanswear, Imagewear, Sportswear, and Contemporary Brands. VF has a broad supply chain with 30% of products produced in 32 internal manufacturing facilities, and 70% sourced across an array of countries.

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Morningstar Analysis

Valuation, Growth and Profitability 17 Feb 2015

We are increasing our fair value estimate to \$85 from \$78, but are lowering our 2015 estimates solely on the basis of foreign exchange headwinds. We note that we see no fundamental weakness and continue to expect high single-digit top-line growth and double-digit earnings growth on a constant currency basis. Our updated fair value estimate reflects a slightly higher gross margin expansion trajectory annually given our belief that mix shift benefits (to Direct-to-Consumer, Outdoor and Action Sports, and International) will continue in the foreseeable future. However, we think increased SG&A spending on Direct-to-Consumer will offset some of this. It also reflects a decrease in the cost of capital to 9% from 10% to reflect a lowered 2.25% long-term inflation outlook.

We model 2015 revenue to grow 3% organically, down from 7% in our previous model, fueled by 11% constant currency growth in the Outdoor & Action Sports category, 2% constant currency Jeanswear growth, and 4% Imagewear and Sportswear constant currency growth, slightly offset by a 1% constant currency decline in Contemporary brands. We now expect foreign currency headwinds to remove five points of the 8% constant currency growth rate. As in the past, we think International and Direct-to-Consumer will fuel constant currency growth in the double-digit range. Our updated model also assumes that operating margin will increase 10 basis points to 15.0% in 2015 versus our prior 14.8% estimate on mix shift benefits.

Over the next five years, we think that VF can increase revenue and operating income at a compound annual growth rate of 9% and 12%, respectively (versus our prior estimates of 10% and 13% growth, respectively). Our 2016 acquisition assumption adds \$1.2 billion in revenue and \$96 million in operating profit. We see growth in Outdoor & Action Sports weighted heavily to the APAC region, which we see growing at a 24% compound annual rate, while we expect EMEA and the Americas to grow in the low teens on average,

yielding 11% total compound annual growth. We see the Jeanswear coalition as more mature but still capable of delivering 3% compound annual growth due to innovation and international expansion. We think operating margins can expand from 14.9% (adjusted) in 2014 to 16.8% in 2019. Expansion should be driven by the aforementioned mix shifts as well as a recovery in Outdoor & Action Sports as returns on Timberland are recognized and in Jeanswear as innovations aid gross margin.

Scenario Analysis

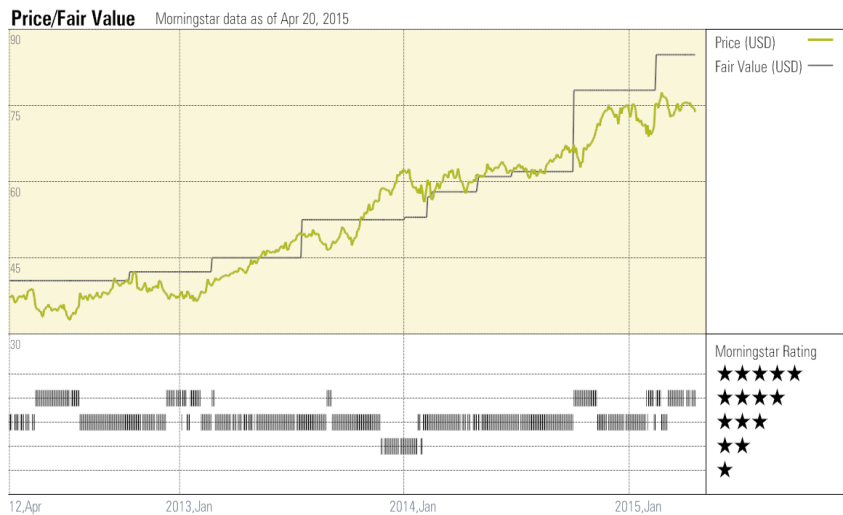
We give VF Corp a medium uncertainty rating and have completed a scenario analysis to account for a margin of error in estimating top-line demand and the margin expansion opportunity.

If Outdoor & Action Sports penetrates international markets and increases direct-to-consumer sales more quickly than expected, both revenue and margin assumptions may underestimate the brands' true potential. Potential acquisitions in higher-margin performance wear could also provide an unexpected benefit. In our bull-case scenario, we model Outdoor & Action Sports revenue growing at a 14% compound annual rate over the next five years, versus 11% in the base case. We also could see slight upside in Jeanswear growth given the positive response to more innovative higher-priced products, and we model 6% compound growth in our bull-case scenario (versus 3% in the base case). Together these two coalitions account for 80% of revenue. The bull-case scenario is dependent on the sale of higher-margin products. As such, we model the operating margin reaching 17.7% by 2019 versus our base-case scenario of 16.8% and the current adjusted margin of 14.9%. Using a 9% weighted average cost of capital, we arrive at our \$113 bull-case fair value estimate.

It is also possible that weaker consumer confidence and extended low employment could pressure both volume and pricing. Especially in the Outdoor & Action Sports category,

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there are plenty of options to which consumers might trade down, albeit also trading on quality, performance, and durability. In our bear-case scenario, we model Outdoor & Action Sports revenue growing only 5% on average over five years, versus 11% in the base case. We also assume Jeanswear will be flat versus 3% in the base case as consumers would trade down to lower-priced products or extend the period of replenishment in this scenario. Margins would suffer, and we model an operating margin of 15.5% in 2019, up from the current 14.9% but below our base-case scenario of 16.8%. Using a 9% weighted average cost of capital, we arrive at our \$60 bear-case fair value estimate.

Economic Moat

We are maintaining VF Corp's wide moat rating given the pricing power it has attained through its intangible brand assets. We believe that management's ability to cull declining brands, nurture growing brands, and acquire strong brands will continue to support a portfolio of names worthy of a wide moat. We believe that the company bases its acquisition strategy and brand positioning on intense consumer research and reviews its brand portfolio annually to cull any brands that do not make strategic sense for the

overall portfolio. We think that these two practices will ensure that the overall VF brand intangible asset will remain strong over a significant period of time as the brands and products it owns will be adjusted to maintain value. Furthermore, we see sustainable cost advantages through scale, a partially owned manufacturing platform, and a shared supply chain. We expect VF to achieve an average return on invested capital of 24% over the next five years, well above its 9% weighted average cost of capital.

VF has a portfolio of over 30 brands in five categories that drive above market returns. Three of the largest brands are in the Outdoor & Action Sports category. The North Face is the #1 outdoor brand in a \$25 billion market. Vans is a leader in the \$28 billion global action sports and classic/sport inspired category. Finally, Timberland is the largest outdoor lifestyle brand and has a 2% market share of the \$75 billion men's global non-sports footwear category (market share estimates based on NPD global sports market estimates and Euromonitor International data). The Jeanswear category has two long-standing brands in Lee and Wrangler. Lee Jeans has a history that stretches back to 1889 and generates over \$1 billion in sales. Wrangler is an iconic American brand associated with the West. It has a 70% share in Men's bottoms and a 40% share in women's bottoms in the Western Specialty category. According to the company, it has #1 market share in the mass channel with significant opportunity to grow as denim usage expands across occasions.

VF customers have demonstrated a willingness to pay a premium for high performance products, innovations in fit and fabrication, and the consistency of a brand, all attributes of a strong brand intangible asset. At Macy's The North Face hooded puffer parka sells for \$320, versus Laundry by Shelli Segal's parka at \$275, and Guess's coat at \$260. Vans sneakers sell in the \$55 to \$75 range versus Rocket Dog's at \$45. At Wal-Mart, Lee jeans sell for approximately \$20 while Faded Glory sells for approximately \$13 and White

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Stag for \$9.

VF actively manages its brand portfolio. In 2007, the company divested its entire intimate apparel business, including the Vanity Fair brand (its original brand), citing its intent to move to become a higher-growth and higher-margin lifestyle company. The company also shed its John Varvatos ownership in 2012, which we think was wise given its luxury, high-fashion positioning. We think the company's practice of frequently reviewing its portfolio means that investors will be shielded from declining brands or those that are no longer synergistic to the other companies. We also think that management does intense consumer research before buying a company (it spoke to 18,000 consumers in eight countries about their Timberland brand perception), which should lead to a stronger brand portfolio and data-driven product development, marketing, and price positioning.

VF's manufacturing and distribution scale and centralized procurement and logistics are competitive advantages. VF sources or produces about 450 million units annually across 36 brands. It operates 29 manufacturing facilities and utilizes about 1,900 contractor manufacturing facilities in 60 countries. 28% of units are manufactured in VF-operated facilities at a lower cost and shorter lead time than contracted production.

This scale and global network affords synergies across its brands. Operating margin at Timberland has increased from 7.9% in 2011 (the year it was acquired) to an estimated 12.9% by the end of 2014, a 500-basis-point increase. Management believes that it can grow the margin another 500 basis points over the next five years to 18% on increased full-price selling, pricing increases, and growth in the direct-to-consumer channel. We think this target is achievable and more in line with North Face and Vans. We note that the Outdoor & Action Sports Coalition had a 19.9%

operating margin in 2010 (the year before the Timberland acquisition). High-teens margins are notable in the apparel manufacturing segment, with PVH (the nearest competitor) having margins only in the low teens. Even more notable is the consistency of its margins. The Outdoor & Action Sports coalition has had an 18.1% average operating margin over the last five years (ranging from 17.3% to 19.9%) despite acquisitions, changes in input costs, and variances in overall economic conditions. We think this supports our belief that VF Corp has significant cost advantages.

Moat Trend

We are maintaining VF's positive moat trend rating. We think one of the largest strengths of VF is its ability to manage its brands as a portfolio. Management has proved adept at acquiring strong brands that fit synergistically into its portfolio and divesting brands it feels that it is unable to develop. The company's last acquisition was of Timberland in 2011 at an 11 times EV/EBITDA multiple and 18% premium to Timberland's 60-day average. Although a premium, the acquisition was immediately accretive to earnings and increased VF's exposure to lifestyle brands. We expect the company to continue to be acquisitive especially in the categories where consumers have demonstrated a willingness to pay a high premium for a brand, such as Outdoor & Action Sports.

We also see organic investments that we think will strengthen the existing brand portfolio. In its 17x17 strategic plan, VF stated that it hopes to increase direct-to-consumer sales to 25% of revenue from 21% at the end of 2012. We think this added control of the in-store experience or online platform will further clarify the brands and portray them more fully in a lifestyle manner. Finally, the company has demonstrated a willingness to leave the traditional confines of retail and to connect with customers across lifestyles, aspirations, and passions. An example of this can be seen through the geographic expansion of The North Face into

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Morningstar Analysis

the Asia Pacific region. VF drove demand for The North Face products by actively developing an outdoor community. The brand participated in building outdoor education programs around China and organizing events for people at all levels.

The increased pricing power of the brands is apparent in gross margin expansion. Gross margin reached 48% in 2013, up from 45.8% in 2011. We expect this trend to continue and see margins reaching north of 50% in five years, which speaks to the positive moat trend of VF, in our view.

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Bulls Say/Bears Say

Bulls Say

- ▶ The Outdoor & Action Sports coalition represents more than half of VF revenue and is a high-margin, quickly growing category with much room for innovation. At 18.2% in 2014, EBIT margins were about 330 basis points higher than the consolidated VF EBIT margin.
- ▶ International expansion and direct-to-consumer growth opportunities indicate that most existing brands are not yet mature and can yield above-market growth.
- ▶ Mix shifts resulting from the execution of strategic goals should lead to annual margin expansion of about 50 to 60 basis points.

Bears Say

- ▶ Many of the businesses including Sportswear and Contemporary Brands carry a high degree of fashion risk and are discretionary.
- ▶ A steady rise in labor cost in major manufacturing countries including in Asia could result in cost inflation for VF in the coming years, although the firm is probably better positioned to weather the increase compared with its rivals.
- ▶ Further acquisitions may be difficult to find or to integrate. Acquisition valuations may be at a premium given recent market levels.

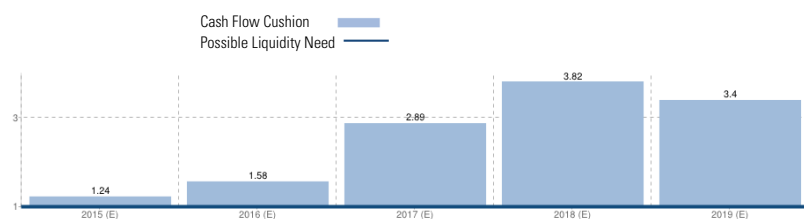
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Five Year Adjusted Cash Flow Forecast (USD Mil)

| | 2015(E) | 2016(E) | 2017(E) | 2018(E) | 2019(E) |
|--|---------|---------|---------|---------|---------|
| Cash and Equivalents (beginning of period) | 972 | 690 | 328 | 874 | 1,524 |
| Adjusted Available Cash Flow | 75 | 139 | 1,301 | 1,460 | 1,508 |
| Total Cash Available before Debt Service | 1,047 | 828 | 1,628 | 2,335 | 3,032 |
| Principal Payments | -400 | 0 | 0 | -10 | -250 |
| Interest Payments | -76 | -95 | -95 | -95 | -95 |
| Other Cash Obligations and Commitments | -368 | -430 | -469 | -506 | -546 |
| Total Cash Obligations and Commitments | -844 | -525 | -564 | -611 | -891 |

Cumulative Annual Cash Flow Cushion



Adjusted Cash Flow Summary

| | USD Millions | % of Commitments |
|---|--------------|------------------|
| Beginning Cash Balance | 972 | 28.3 |
| Sum of 5-Year Adjusted Free Cash Flow | 4,483 | 130.5 |
| Sum of Cash and 5-Year Cash Generation | 5,455 | 158.8 |
| Revolver Availability | — | — |
| Asset Adjusted Borrowings (Repayment) | — | — |
| Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments | 5,455 | 158.8 |
| Sum of 5-Year Cash Commitments | -3,435 | — |

Financial Health

We believe that a strong balance sheet, combined with steady free cash flow generation and disciplined investing, has given VF a solid financial base. After increasing debt to over 1.4 times EBITDA in 2011 to finance the Timberland acquisition, debt levels have fallen to pre-Timberland levels of 0.8 times. Long-term debt maturities are staggered over a 23-year period, and we estimate that EBITDA can cover interest expenses by over 20 times. We do not foresee VF having any problem meeting interest payments or paying back debt.

Free cash flow has grown at a healthy rate, and we expect it to continue to do so from the \$1.2 billion base in fiscal 2013. As such, we think the company is well-positioned to make further acquisitions (Timberland was a \$2 billion acquisition) and achieving its targeted 40% dividend payout ratio (from 34% in 2013) within five years. We believe that cash will not be stockpiled but will be divided between these two activities based on the attractiveness of the potential acquisition pipeline. We have an A issuer credit rating on VF, implying low default risk.

Enterprise Risk

As a manufacturer and seller of fashion and core fashion merchandise, VF is exposed to the cyclical nature of its category, and we give the stock a medium uncertainty rating. Weak employment, increasing consumer uncertainty, international macroeconomic pressures, or lower-than-expected wage inflation could all affect company performance. Additionally, VF is exposed to changes in raw material prices, labor, and distribution expenses including shipping costs. Any change in these categories could have a noticeable impact on margins. We view VF's brand portfolio as its most valuable asset. Any declines in brand value could negatively affect volume and pricing, and could potentially result in a writedown of goodwill and other intangible assets. With both worldwide sales and sourcing, VF will be

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affected by weather as well as political and economic situations in a broad array of countries, not just in the U.S. Finally, 21% of sales in 2013 were derived from VF's 10 largest customers. We note that any adverse changes with these customers could have a significant impact on revenue and earnings.

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Management & Ownership

Management Activity

| Name | Position | Shares Held | Report Date* | InsiderActivity |
|------------------------|--|-------------|--------------|-----------------|
| ERIC C. WISEMAN | Director/President/CEO/Chairman of the Board, Director | 610,179 | 23 Feb 2015 | 250,000 |
| KARL HEINZ SALZBURGER | President, Divisional/Vice President | 460,737 | 05 Mar 2015 | 80,000 |
| ROBERT K. SHEARER | | 229,568 | 02 Mar 2015 | 111,958 |
| SCOTT H. BAXTER | President, Divisional/Vice President | 206,478 | 16 Feb 2015 | — |
| MR. STEVEN E. RENDLE | Senior VP, Geographical | 142,384 | 24 Feb 2015 | 32,400 |
| MR. SCOTT A. ROE | Vice President/CFO | 58,221 | 26 Feb 2015 | 17,460 |
| RAYMOND G VIAULT | Director | 56,694 | 18 Feb 2015 | — |
| MR. RICHARD T. CARUCCI | Director | 34,751 | 18 Feb 2015 | — |

*Represents the date on which the owner's name, position, and common shares held were reported by the holder or issuer.

Fund Ownership

| Top Owners | % of Shares Held | % of Fund Assets | Change (k) | Portfolio Date |
|-------------------------------------|------------------|------------------|------------|----------------|
| VA CollegeAmerica Washington Mutual | 2.41 | 1.04 | -320 | 31 Mar 2015 |
| Vanguard Total Stock Mkt Idx | 1.42 | 0.11 | 63 | 31 Mar 2015 |
| VA CollegeAmerica American Balanced | 1.10 | 0.45 | -189 | 31 Mar 2015 |
| Vanguard Five Hundred Index Fund | 0.90 | 0.14 | 0 | 31 Mar 2015 |
| Vanguard Institutional Index Fund | 0.84 | 0.14 | 6 | 31 Mar 2015 |

Concentrated Holders

| | | | | |
|--|------|------|-----|-------------|
| STAAR Alternative Categories Fund | — | — | — | 31 Dec 2014 |
| SG Actions Luxe | 0.06 | 6.29 | -20 | 28 Feb 2015 |
| IBK Luxury Lifestyle Master Equity | — | 6.22 | — | 31 Dec 2014 |
| Natixis CGM Advisor Targeted Equity Fund | 0.08 | 4.83 | 330 | 28 Feb 2015 |
| AB SICAV Concentrated US Eq Portfolio | 0.03 | 4.83 | -14 | 28 Feb 2015 |

Institutional Transactions

| Top 5 Buyers | % of Shares Held | % of Fund Assets | Shares Bought/Sold (k) | Portfolio Date |
|--|------------------|------------------|------------------------|----------------|
| UBS Securities LLC | 1.38 | 0.31 | 5,885 | 31 Dec 2014 |
| Swedbank Robur Fonder AB | 0.75 | 1.87 | 3,232 | 31 Dec 2014 |
| Alecta Pensionsforsakring, Omsesidigt | 0.49 | 2.28 | 2,094 | 31 Dec 2014 |
| Legg Mason Investment Counsel Inc. | 0.33 | 1.91 | 1,285 | 31 Dec 2014 |
| Fidelity Management and Research Company | 1.81 | 0.08 | 954 | 31 Dec 2014 |

Top 5 Sellers

| | | | | |
|--|------|------|--------|-------------|
| J.P. Morgan Investment Management Inc. | 0.98 | 0.14 | -2,197 | 31 Dec 2014 |
| J P Morgan Asset Management (UK) Ltd | 0.03 | 0.03 | -915 | 31 Dec 2014 |
| Columbia Mangmt Investment Advisers, LLC | 1.05 | 0.22 | -827 | 31 Dec 2014 |
| Capital World Investors | 4.67 | 0.41 | -750 | 31 Dec 2014 |
| BlackRock Advisors LLC | 1.02 | 0.33 | -678 | 31 Dec 2014 |

Management 21 Jul 2014

Given VF's ability to actively manage its brand portfolio to drive shareholder returns and its willingness to return excess cash to shareholders through a growing dividend, we rate management stewardship as Exemplary. Eric Wiseman has been chairman of the board and CEO of VF since 2008. He joined VF in 1995 as executive vice president of JanSport and went on to fill roles including chairman of VF's Sportswear and Outdoor coalitions, executive vice president of Global Brands, and President and Chief Operating Officer of VF. Although he is well-paid, we feel that it is deserved. In 2013, VF revenue and operating income grew 5% and 11%, respectively, and just recently the company announced a 20% increase in its quarterly dividend rate, putting it on the path to achieve the goal of a 40% payout ratio. We see these behaviors as shareholder friendly and sharply focused on driving total shareholder returns. In 2013, Wiseman received a total compensation of \$11.8 million, which included a base salary of \$1.25 million, stock awards of \$4 million, option awards of \$3.8 million, nonequity incentive plan compensation of \$2.3 million, and other compensation of \$0.5 million. The Board of Directors has 11 other members in addition to Wiseman, all of whom are independent. We believe that the Board composition reflects a desirable array of skill sets and independence to drive returns for shareholders.

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Analyst Notes

VF's Fundamental Growth and Margin Expansion Intact; Raising Fair Value Estimate 13 Feb 2015

VF's fourth-quarter performance showed that the company continues to meet or exceed our expectation for long-term average annual high-single-digit revenue growth and low-to mid-double-digit earnings per share growth. Although fiscal 2015 guidance was below our expectations, we believe this was solely due to the foreign exchange rate impact and not to fundamental weakness. On an adjusted constant currency basis, 2015 guidance implies 8% revenue growth and a 12% increase in earnings per share, consistent with our long-term outlook. We continue to believe that VF has brand and cost advantages relative to competitors as evidenced by pricing power, market share gains, and synergies on acquisitions--the basis for our wide moat rating. We also think these advantages are strengthening as the company expands its direct-to-consumer business, giving it more significant control of its brand image and messaging.

Following these 2014 results, we expect to raise our \$78 fair value estimate by 8%-10% as a result of a higher gross margin expansion rate, which we now see growing 60-70 basis points annually through mix shifts, and also from a decrease in our discounted cash flow cost of equity assumption to 9% from 10% as a result of a lowered 2.25% long-term inflation outlook underpinning our capital cost assumptions. We've adjusted our operating forecast to better align with this expectation for backdrop of inflation.

Free cash flow in 2015 is expected to have a few headwinds, but like our growth expectations, we see these as one-time nonfundamental events. In early January, VF contributed \$250 million to its pension plan (versus \$50 million in 2014) and the plan is now fully funded. Additionally, the 53rd week in 2014 was a big week for cash receipts and, as a result, over \$200 million of incremental cash is not expected in 2015. However, free cash flow is still strong enough that

the company plans to return more than \$1.2 billion in cash to shareholders during the year through the annual dividend (raised 22% in the fourth quarter of 2014) and share repurchases. We also continue to believe that an acquisition is likely in the near term and that this would be a positive catalyst for the stock, given VF's record of delivering significant synergies and elevating brands and pricing power on prior acquisitions. With a significantly strong dollar, we think this is a particularly opportunistic moment to acquire an international business. Overall, we think the company is best in class at capital allocation and expect returns on invested capital to move north of 20%.

Fourth-quarter revenue increased 9% year over year, led by 13% growth in outdoor and action sports (up 16% constant currency), 4% growth in sportswear and imagewear, and 3% growth in jeanswear (up 5% constant currency). This was offset by a slight decline in contemporary revenue. We are particularly encouraged by the continued strong double-digit growth across almost every brand in outdoor and action sports, signs of traction of new products and channels in jeanswear, and the strength of direct-to-consumer growth. We also note that demand appears to remain very strong in international markets despite the volatile macroeconomic environment. All weakness in growth rates appears to be due only to the translation impact of currency.

The margin expansion story remained firmly intact during the quarter, with gross margin reaching 49% with 80 basis points of improvement, driven mostly by the continued shift of revenues to higher-margin businesses (outdoor and action sports, direct to consumer, and international) and a small benefit from the retail concession fee accounting. We expect this mix shift trend to continue at roughly the same pace. The company noted that it took a \$396 million pretax noncash impairment charge to its contemporary coalition, which we think reflects the timing of the 7 for All Mankind acquisition at the height of the market in 2007, a shrinking

VF Corp VFC (NYSE) | ★★★★★

| Last Price | Fair Value | Consider Buy | Consider Sell | Uncertainty | Economic Moat™ | Moat Trend™ | Stewardship | Industry Group |
|------------|------------|--------------|---------------|-------------|----------------|-------------|-------------|-------------------------------------|
| 73.97 USD | 85.00 USD | 59.50 USD | 114.75 USD | Medium | Wide | Positive | Exemplary | Manufacturing - Apparel & Furniture |

Analyst Notes

premium denim market, and general wholesale weakness.

VF Corp VFC (NYSE) | ★★★★★

| Last Price | Fair Value | Consider Buy | Consider Sell | Uncertainty | Economic Moat™ | Moat Trend™ | Stewardship | Industry Group |
|------------|------------|--------------|---------------|-------------|----------------|-------------|-------------|-------------------------------------|
| 73.97 USD | 85.00 USD | 59.50 USD | 114.75 USD | Medium | Wide | Positive | Exemplary | Manufacturing - Apparel & Furniture |

Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

| | 3-Year Hist. CAGR | Forecast | | | | | 5-Year Proj. CAGR |
|-------------------------------------|----------------------|----------|------|------|-------|-------|----------------------|
| | | 2012 | 2013 | 2014 | 2015 | 2016 | |
| Growth (% YoY) | | | | | | | |
| Revenue | 9.1 | 15.0 | 5.0 | 7.6 | 3.0 | 17.0 | 8.9 |
| EBIT | 12.8 | 17.1 | 10.8 | 10.6 | 3.2 | 17.6 | 11.6 |
| EBITDA | 12.6 | 17.4 | 10.2 | 10.4 | 3.1 | 16.7 | 10.9 |
| Net Income | 14.1 | 18.1 | 13.1 | 11.1 | 2.2 | 17.3 | 11.5 |
| Diluted EPS | 14.5 | 17.5 | 13.3 | 12.8 | 3.9 | 19.7 | 13.0 |
| Earnings Before Interest, after Tax | 15.2 | 0.0 | 23.6 | 23.6 | -4.8 | 16.5 | 9.0 |
| Free Cash Flow | — | -171.2 | 14.0 | 31.2 | -23.1 | -52.6 | 9.1 |

| | 3-Year Hist. Avg | Forecast | | | | | 5-Year Proj. Avg |
|-------------------------|---------------------|----------|------|------|------|------|---------------------|
| | | 2012 | 2013 | 2014 | 2015 | 2016 | |
| Profitability | | | | | | | |
| Operating Margin % | 14.4 | 13.8 | 14.5 | 14.9 | 15.0 | 15.0 | 15.8 |
| EBITDA Margin % | 16.6 | 15.9 | 16.7 | 17.2 | 17.2 | 17.1 | 17.9 |
| Net Margin % | 10.5 | 9.9 | 10.7 | 11.0 | 10.9 | 11.0 | 11.6 |
| Free Cash Flow Margin % | 10.4 | 9.1 | 9.9 | 12.1 | 9.0 | 3.7 | 9.6 |
| ROIC % | — | — | — | — | — | — | — |
| Adjusted ROIC % | 20.6 | 20.2 | 20.0 | 21.6 | 21.9 | 22.7 | 23.6 |
| Return on Assets % | 11.3 | 11.5 | 12.1 | 10.3 | 14.0 | 15.7 | 16.3 |
| Return on Equity % | 20.7 | 22.5 | 21.6 | 17.9 | 24.4 | 27.5 | 27.7 |

| | 3-Year Hist. Avg | Forecast | | | | | 5-Year Proj. Avg |
|-------------------------|---------------------|----------|-------|-------|-------|-------|---------------------|
| | | 2012 | 2013 | 2014 | 2015 | 2016 | |
| Leverage | | | | | | | |
| Debt/Capital | 0.22 | 0.26 | 0.19 | 0.20 | 0.20 | 0.24 | 0.21 |
| Total Debt/EBITDA | 0.84 | 1.06 | 0.76 | 0.69 | 0.67 | 0.76 | 0.65 |
| EBITDA/Interest Expense | 22.50 | 18.52 | 22.54 | 26.42 | 28.60 | 26.70 | 31.33 |

Valuation Summary and Forecasts

| | 2013 | 2014 | 2015(E) | 2016(E) |
|------------------------|------|------|---------|---------|
| Price/Fair Value | 1.19 | 0.96 | — | — |
| Price/Earnings | 22.8 | 24.3 | 23.1 | 19.3 |
| EV/EBITDA | 14.7 | 15.6 | 14.8 | 12.7 |
| EV/EBIT | 17.0 | 17.9 | 17.0 | 14.4 |
| Free Cash Flow Yield % | 4.5 | 4.5 | 3.2 | 6.0 |
| Dividend Yield % | 1.5 | 1.5 | 1.8 | 2.2 |

Key Valuation Drivers

| | |
|------------------------------------|------|
| Cost of Equity % | 9.0 |
| Pre-Tax Cost of Debt % | 5.8 |
| Weighted Average Cost of Capital % | 8.8 |
| Long-Run Tax Rate % | 23.8 |
| Stage II EBI Growth Rate % | 3.9 |
| Stage II Investment Rate % | 15.6 |
| Perpetuity Year | 20 |

Additional estimates and scenarios available for download at <http://select.morningstar.com>.

Discounted Cash Flow Valuation

| | USD Mil | Firm Value (%) | Per Share Value |
|-------------------------|---------------|----------------|-----------------|
| Present Value Stage I | 13,798 | 36.8 | 32.29 |
| Present Value Stage II | 11,192 | 29.8 | 26.19 |
| Present Value Stage III | 12,544 | 33.4 | 29.36 |
| Total Firm Value | 37,535 | 100.0 | 87.84 |
| Cash and Equivalents | 972 | — | 2.27 |
| Debt | -1,449 | — | -3.39 |
| Preferred Stock | — | — | — |
| Other Adjustments | -955 | — | -2.23 |
| Equity Value | 36,102 | — | 84.49 |

Projected Diluted Shares

427

Fair Value per Share (USD)

—

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

VF Corp VFC (NYSE) | ★★★★★

| Last Price | Fair Value | Consider Buy | Consider Sell | Uncertainty | Economic Moat™ | Moat Trend™ | Stewardship | Industry Group |
|------------|------------|--------------|---------------|-------------|----------------|-------------|-------------|-------------------------------------|
| 73.97 USD | 85.00 USD | 59.50 USD | 114.75 USD | Medium | Wide | Positive | Exemplary | Manufacturing - Apparel & Furniture |

Morningstar Analyst Forecasts
Income Statement (USD Mil)

Fiscal Year Ends in December

| | 2012 | 2013 | 2014 | Forecast | |
|--|---------------|---------------|---------------|---------------|---------------|
| | | | | 2015 | 2016 |
| Revenue | 10,880 | 11,420 | 12,282 | 12,654 | 14,799 |
| Cost of Goods Sold | 5,818 | 5,931 | 6,288 | 6,433 | 7,459 |
| Gross Profit | 5,062 | 5,488 | 5,994 | 6,221 | 7,341 |
| Selling, General & Administrative Expenses | 3,597 | 3,841 | 4,160 | 4,327 | 5,115 |
| Other Operating Expense (Income) | -31 | -11 | — | — | — |
| Other Operating Expense (Income) | — | — | — | — | — |
| Depreciation & Amortization (if reported separately) | — | — | — | — | — |
| Operating Income (ex charges) | 1,496 | 1,658 | 1,834 | 1,893 | 2,226 |
| Restructuring & Other Cash Charges | 31 | 11 | — | — | — |
| Impairment Charges (if reported separately) | — | — | 396 | — | — |
| Other Non-Cash (Income)/Charges | — | — | — | — | — |
| Operating Income (incl charges) | 1,465 | 1,647 | 1,438 | 1,893 | 2,226 |
| Interest Expense | 94 | 85 | 80 | 76 | 95 |
| Interest Income | 50 | 0 | -6 | -5 | -5 |
| Pre-Tax Income | 1,422 | 1,562 | 1,352 | 1,812 | 2,125 |
| Income Tax Expense | 336 | 352 | 305 | 428 | 502 |
| Other After-Tax Cash Gains (Losses) | — | — | — | — | — |
| Other After-Tax Non-Cash Gains (Losses) | — | — | — | — | — |
| (Minority Interest) | 0 | — | — | — | — |
| (Preferred Dividends) | — | — | — | — | — |
| Net Income | 1,086 | 1,210 | 1,048 | 1,384 | 1,624 |
| Weighted Average Diluted Shares Outstanding | 448 | 447 | 440 | 433 | 424 |
| Diluted Earnings Per Share | 2.43 | 2.71 | 2.38 | 3.20 | 3.83 |
| Adjusted Net Income | 1,078 | 1,219 | 1,354 | 1,384 | 1,624 |
| Diluted Earnings Per Share (Adjusted) | 2.41 | 2.73 | 3.08 | 3.20 | 3.83 |
| Dividends Per Common Share | 3.03 | 0.92 | 1.11 | 1.34 | 1.61 |
| EBITDA | 1,703 | 1,900 | 1,713 | 2,173 | 2,536 |
| Adjusted EBITDA | 1,734 | 1,911 | 2,109 | 2,173 | 2,536 |

VF Corp VFC (NYSE) | ★★★★★

| Last Price | Fair Value | Consider Buy | Consider Sell | Uncertainty | Economic Moat™ | Moat Trend™ | Stewardship | Industry Group |
|------------|------------|--------------|---------------|-------------|----------------|-------------|-------------|-------------------------------------|
| 73.97 USD | 85.00 USD | 59.50 USD | 114.75 USD | Medium | Wide | Positive | Exemplary | Manufacturing - Apparel & Furniture |

Morningstar Analyst Forecasts
Balance Sheet (USD Mil)

| Fiscal Year Ends in December | Forecast | | | | |
|---------------------------------------|--------------|---------------|--------------|--------------|---------------|
| | 2012 | 2013 | 2014 | 2015 | 2016 |
| Cash and Equivalents | 597 | 776 | 972 | 690 | 328 |
| Investments | — | — | — | — | — |
| Accounts Receivable | 1,222 | 1,360 | 1,276 | 1,491 | 1,743 |
| Inventory | 1,354 | 1,399 | 1,483 | 1,498 | 1,737 |
| Deferred Tax Assets (Current) | 141 | — | — | — | — |
| Other Short Term Assets | 135 | 347 | 455 | 455 | 455 |
| Current Assets | 3,450 | 3,883 | 4,186 | 4,134 | 4,263 |
| Net Property Plant, and Equipment | 828 | 933 | 942 | 987 | 1,189 |
| Goodwill | 2,010 | 2,022 | 1,825 | 1,825 | 2,125 |
| Other Intangibles | 2,917 | 2,960 | 2,434 | 2,334 | 2,684 |
| Deferred Tax Assets (Long-Term) | — | — | — | — | — |
| Other Long-Term Operating Assets | 428 | 518 | 594 | 594 | 594 |
| Long-Term Non-Operating Assets | — | — | — | — | — |
| Total Assets | 9,633 | 10,315 | 9,980 | 9,873 | 10,854 |
| Accounts Payable | 563 | 639 | 691 | 758 | 879 |
| Short-Term Debt | 415 | 24 | 26 | 26 | 26 |
| Deferred Tax Liabilities (Current) | — | — | — | — | — |
| Other Short-Term Liabilities | 754 | 905 | 904 | 654 | 654 |
| Current Liabilities | 1,732 | 1,568 | 1,620 | 1,437 | 1,558 |
| Long-Term Debt | 1,429 | 1,427 | 1,424 | 1,424 | 1,900 |
| Deferred Tax Liabilities (Long-Term) | — | — | — | — | — |
| Other Long-Term Operating Liabilities | 1,346 | 1,244 | 1,305 | 1,305 | 1,305 |
| Long-Term Non-Operating Liabilities | — | — | — | — | — |
| Total Liabilities | 4,507 | 4,238 | 4,349 | 4,166 | 4,764 |
| Preferred Stock | — | — | — | — | — |
| Common Stock | 110 | 110 | 110 | 110 | 110 |
| Additional Paid-in Capital | 2,528 | 2,747 | 2,747 | 2,747 | 2,747 |
| Retained Earnings (Deficit) | 2,941 | 3,432 | 4,001 | 4,803 | 5,742 |
| (Treasury Stock) | — | — | — | -727 | -1,282 |
| Other Equity | -454 | -212 | -1,226 | -1,226 | -1,226 |
| Shareholder's Equity | 5,126 | 6,077 | 5,631 | 5,706 | 6,091 |
| Minority Interest | — | — | — | — | — |
| Total Equity | 5,126 | 6,077 | 5,631 | 5,706 | 6,091 |

VF Corp VFC (NYSE) | ★★★★★

| Last Price | Fair Value | Consider Buy | Consider Sell | Uncertainty | Economic Moat™ | Moat Trend™ | Stewardship | Industry Group |
|------------|------------|--------------|---------------|-------------|----------------|-------------|-------------|-------------------------------------|
| 73.97 USD | 85.00 USD | 59.50 USD | 114.75 USD | Medium | Wide | Positive | Exemplary | Manufacturing - Apparel & Furniture |

Morningstar Analyst Forecasts
Cash Flow (USD Mil)

Fiscal Year Ends in December

| | 2012 | 2013 | 2014 | Forecast | |
|--|--------------|--------------|---------------|---------------|---------------|
| | | | | 2015 | 2016 |
| Net Income | 1,086 | 1,210 | 1,048 | 1,384 | 1,624 |
| Depreciation | 149 | 158 | 175 | 180 | 211 |
| Amortization | 89 | 95 | 100 | 100 | 100 |
| Stock-Based Compensation | 93 | 87 | — | — | — |
| Impairment of Goodwill | — | — | 396 | — | — |
| Impairment of Other Intangibles | — | — | — | — | — |
| Deferred Taxes | -21 | -12 | — | — | — |
| Other Non-Cash Adjustments | -86 | 2 | 18 | — | — |
| (Increase) Decrease in Accounts Receivable | -112 | -155 | 84 | -214 | -253 |
| (Increase) Decrease in Inventory | 88 | -47 | -84 | -15 | -239 |
| Change in Other Short-Term Assets | 32 | -9 | -108 | — | 600 |
| Increase (Decrease) in Accounts Payable | -74 | 75 | 52 | 67 | 121 |
| Change in Other Short-Term Liabilities | 31 | 102 | 16 | -250 | — |
| Cash From Operations | 1,275 | 1,506 | 1,698 | 1,252 | 2,164 |
| (Capital Expenditures) | -252 | -271 | -234 | -225 | -263 |
| Net (Acquisitions), Asset Sales, and Disposals | 71 | — | -68 | — | -1,500 |
| Net Sales (Purchases) of Investments | — | — | — | — | — |
| Other Investing Cash Flows | -39 | -79 | -27 | — | — |
| Cash From Investing | -220 | -350 | -329 | -225 | -1,763 |
| Common Stock Issuance (or Repurchase) | -245 | -234 | -628 | -727 | -555 |
| Common Stock (Dividends) | -333 | -402 | -479 | -582 | -684 |
| Short-Term Debt Issuance (or Retirement) | -269 | 9 | 5 | — | — |
| Long-Term Debt Issuance (or Retirement) | -3 | -405 | -5 | — | 476 |
| Other Financing Cash Flows | 47 | 48 | — | — | — |
| Cash From Financing | -803 | -984 | -1,107 | -1,309 | -763 |
| Exchange Rates, Discontinued Ops, etc. (net) | 4 | 7 | -65 | — | — |
| Net Change in Cash | 256 | 179 | 195 | -282 | -362 |

VF Corp VFC (NYSE) | ★★★★★

| Last Price | Fair Value | Consider Buy | Consider Sell | Uncertainty | Economic Moat™ | Moat Trend™ | Stewardship | Industry Group |
|------------|------------|--------------|---------------|-------------|----------------|-------------|-------------|-------------------------------------|
| 73.97 USD | 85.00 USD | 59.50 USD | 114.75 USD | Medium | Wide | Positive | Exemplary | Manufacturing - Apparel & Furniture |

Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Valuation Analysis

| Company/Ticker | Price/Fair Value | Price/Earnings | | | EV/EBITDA | | | Price/Free Cash Flow | | | Price/Book | | | Price/Sales | | |
|--------------------------|------------------|----------------|-------------|-------------|-------------|-------------|-------------|----------------------|-------------|-------------|------------|------------|------------|-------------|------------|------------|
| | | 2014 | 2015(E) | 2016(E) | 2014 | 2015(E) | 2016(E) | 2014 | 2015(E) | 2016(E) | 2014 | 2015(E) | 2016(E) | 2014 | 2015(E) | 2016(E) |
| Nike Inc NKE USA | 1.22 | — | 27.8 | 24.5 | 14.6 | 16.4 | 15.1 | 31.5 | 39.4 | 31.8 | 6.2 | 7.1 | 6.7 | 2.4 | 2.8 | 2.6 |
| Ralph Lauren Corp RL USA | 0.84 | 19.1 | 17.2 | 18.2 | 9.4 | 8.3 | 8.5 | 27.6 | 18.3 | 27.5 | 3.5 | 2.7 | 2.6 | 1.9 | 1.6 | 1.5 |
| PVH Corp PVH USA | 0.81 | 17.2 | 15.1 | 15.0 | 10.3 | 10.5 | 10.6 | 56.5 | 4.6 | NM | 2.3 | 2.1 | 1.7 | 1.2 | 1.1 | 1.1 |
| Guess? Inc GES USA | 0.96 | 14.6 | 16.9 | 20.3 | 5.8 | 5.3 | 6.0 | 9.4 | 19.5 | 12.5 | 2.1 | 1.5 | 1.4 | 0.9 | 0.7 | 0.7 |
| Average | | 17.0 | 19.3 | 19.5 | 10.0 | 10.1 | 10.1 | 31.3 | 20.5 | 23.9 | 3.5 | 3.4 | 3.1 | 1.6 | 1.6 | 1.5 |
| VF Corp VFC US | 0.87 | 24.3 | 23.1 | 19.3 | 15.6 | 14.8 | 12.7 | 22.1 | 30.8 | 16.7 | 5.7 | 5.5 | 5.2 | 2.6 | 2.5 | 2.1 |

Returns Analysis

| Company/Ticker | Last Historical Year Total Assets (Mil) | ROIC % | | | Adjusted ROIC % | | | Return on Equity % | | | Return on Assets % | | | Dividend Yield % | | |
|--------------------------|---|--------|---------|---------|-----------------|-------------|-------------|--------------------|-------------|-------------|--------------------|-------------|-------------|------------------|------------|------------|
| | | 2014 | 2015(E) | 2016(E) | 2014 | 2015(E) | 2016(E) | 2014 | 2015(E) | 2016(E) | 2014 | 2015(E) | 2016(E) | 2014 | 2015(E) | 2016(E) |
| Nike Inc NKE USA | — USD | — | — | — | 28.7 | 26.9 | 30.1 | 24.5 | 28.1 | 28.7 | 14.9 | 17.0 | 18.0 | 1.2 | 1.1 | 1.2 |
| Ralph Lauren Corp RL USA | — USD | — | — | — | 18.2 | 15.3 | 13.9 | 19.9 | 16.8 | 14.4 | 13.5 | 11.3 | 9.7 | 1.0 | 1.3 | 1.5 |
| PVH Corp PVH USA | — USD | — | — | — | 11.9 | 10.1 | 11.6 | 3.8 | 10.1 | 12.4 | 1.5 | 3.9 | 5.0 | 0.1 | 0.1 | 0.2 |
| Guess? Inc GES USA | — USD | — | — | — | 9.0 | 6.7 | 6.0 | 13.7 | 8.5 | 7.1 | 8.8 | 5.6 | 4.8 | 2.9 | 4.8 | 4.9 |
| Average | | — | — | — | 17.0 | 14.8 | 15.4 | 15.5 | 15.9 | 15.7 | 9.7 | 9.5 | 9.4 | 1.3 | 1.8 | 2.0 |
| VF Corp VFC US | 9,980 USD | — | — | — | 21.6 | 21.9 | 22.7 | 17.9 | 24.4 | 27.5 | 10.3 | 14.0 | 15.7 | 1.5 | 1.8 | 2.2 |

Growth Analysis

| Company/Ticker | Last Historical Year Revenue (Mil) | Revenue Growth % | | | EBIT Growth % | | | EPS Growth % | | | Free Cash Flow Growth % | | | Dividend/Share Growth % | | |
|--------------------------|------------------------------------|------------------|------------|-------------|---------------|------------|-------------|--------------|------------|-------------|-------------------------|--------------|--------------|-------------------------|-------------|-------------|
| | | 2014 | 2015(E) | 2016(E) | 2014 | 2015(E) | 2016(E) | 2014 | 2015(E) | 2016(E) | 2014 | 2015(E) | 2016(E) | 2014 | 2015(E) | 2016(E) |
| Nike Inc NKE USA | 27,799 USD | 9.8 | 9.3 | 10.0 | 13.1 | 16.9 | 10.3 | — | — | 13.5 | -30.6 | -1.5 | 24.4 | 7.5 | -16.3 | 10.0 |
| Ralph Lauren Corp RL USA | 7,450 USD | 7.3 | 2.2 | 4.0 | 4.0 | -11.9 | -6.5 | 5.3 | -5.6 | -5.5 | -41.3 | 42.7 | -35.4 | 18.7 | 11.1 | 16.0 |
| PVH Corp PVH USA | 8,186 USD | 35.5 | 0.7 | -4.2 | 28.7 | -4.8 | -6.2 | 6.8 | 3.8 | -5.0 | -577.7 | -114.7 | 606.8 | — | — | — |
| Guess? Inc GES USA | 2,570 USD | -3.3 | -5.9 | -8.5 | -14.4 | -46.4 | -23.1 | -10.7 | -42.0 | -19.7 | 68.4 | -64.2 | 37.4 | -75.0 | 12.5 | 0.8 |
| Average | | 12.3 | 1.6 | 0.3 | 7.9 | -11.6 | -6.4 | 0.5 | -14.6 | -4.2 | -145.3 | -34.4 | 158.3 | -16.3 | 2.4 | 8.9 |
| VF Corp VFC US | 12,282 USD | 7.6 | 3.0 | 17.0 | 10.6 | 3.2 | 17.6 | 12.8 | 3.9 | 19.7 | 31.2 | -23.1 | -52.6 | 21.0 | 21.4 | 20.0 |

VF Corp VFC (NYSE) | ★★★★★

| Last Price | Fair Value | Consider Buy | Consider Sell | Uncertainty | Economic Moat™ | Moat Trend™ | Stewardship | Industry Group |
|------------|------------|--------------|---------------|-------------|----------------|-------------|-------------|-------------------------------------|
| 73.97 USD | 85.00 USD | 59.50 USD | 114.75 USD | Medium | Wide | Positive | Exemplary | Manufacturing - Apparel & Furniture |

Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Profitability Analysis

| Company/Ticker | Last Historical Year Net Income (Mil) | Gross Margin % | | | EBITDA Margin % | | | Operating Margin % | | | Net Margin % | | | Free Cash Flow Margin % | | |
|--------------------------|---------------------------------------|----------------|-------------|-------------|-----------------|-------------|-------------|--------------------|-------------|-------------|--------------|-------------|-------------|-------------------------|------------|-------------|
| | | 2014 | 2015(E) | 2016(E) | 2014 | 2015(E) | 2016(E) | 2014 | 2015(E) | 2016(E) | 2014 | 2015(E) | 2016(E) | 2014 | 2015(E) | 2016(E) |
| Nike Inc NKE USA | 2,693 USD | 44.8 | 45.9 | 45.0 | 15.5 | 16.4 | 16.2 | 13.2 | 14.2 | 14.2 | 9.7 | 10.6 | 10.7 | 7.6 | 7.2 | 8.1 |
| Ralph Lauren Corp RL USA | 814 USD | 57.9 | 57.4 | 57.2 | 19.4 | 17.8 | 16.8 | 15.9 | 13.7 | 12.3 | 10.9 | 9.4 | 8.2 | 6.9 | 8.6 | 5.5 |
| PVH Corp PVH USA | 581 USD | 51.5 | 52.5 | 52.6 | 15.6 | 14.1 | 13.9 | 11.8 | 11.2 | 10.9 | 7.1 | 7.4 | 7.3 | 2.1 | 24.0 | -0.7 |
| Guess? Inc GES USA | 162 USD | 38.0 | 35.9 | 35.5 | 12.6 | 8.7 | 8.2 | 9.2 | 5.2 | 4.4 | 6.3 | 3.9 | 3.4 | 9.8 | 3.4 | 5.6 |
| Average | | 48.1 | 47.9 | 47.6 | 15.8 | 14.3 | 13.8 | 12.5 | 11.1 | 10.5 | 8.5 | 7.8 | 7.4 | 6.6 | 10.8 | 4.6 |
| VF Corp VFC US | 1,354 USD | 48.8 | 49.2 | 49.6 | 17.2 | 17.2 | 17.1 | 14.9 | 15.0 | 15.0 | 11.0 | 10.9 | 11.0 | 11.9 | 8.1 | 12.8 |

Leverage Analysis

| Company/Ticker | Last Historical Year Total Debt (Mil) | Debt/Equity % | | | Debt/Total Cap % | | | EBITDA/Interest Exp. | | | Total Debt/EBITDA | | | Assets/Equity | | |
|--------------------------|---------------------------------------|---------------|-------------|-------------|------------------|-------------|-------------|----------------------|-------------|-------------|-------------------|------------|------------|---------------|------------|------------|
| | | 2014 | 2015(E) | 2016(E) | 2014 | 2015(E) | 2016(E) | 2014 | 2015(E) | 2016(E) | 2014 | 2015(E) | 2016(E) | 2014 | 2015(E) | 2016(E) |
| Nike Inc NKE USA | 1,373 USD | 12.7 | 9.1 | 8.6 | 11.3 | 8.3 | 7.9 | 130.7 | 155.7 | 216.8 | 0.3 | 0.2 | 0.2 | 1.7 | 1.6 | 1.6 |
| Ralph Lauren Corp RL USA | 300 USD | 7.4 | 6.8 | 6.5 | 6.9 | 6.4 | 6.1 | 72.1 | 60.9 | 57.2 | 0.2 | 0.2 | 0.2 | 1.5 | 1.5 | 1.5 |
| PVH Corp PVH USA | 3,970 USD | 91.6 | 81.3 | 62.9 | 47.8 | 44.8 | 38.6 | 6.9 | 8.4 | 9.1 | 3.1 | 3.1 | 2.8 | 2.7 | 2.5 | 2.5 |
| Guess? Inc GES USA | 4 USD | 0.4 | 0.1 | 0.1 | 0.4 | 0.1 | 0.1 | — | — | — | 0.0 | 0.0 | 0.0 | 1.5 | 1.5 | 1.5 |
| Average | | 28.0 | 24.3 | 19.5 | 16.6 | 14.9 | 13.2 | 69.9 | 75.0 | 94.4 | 0.9 | 0.9 | 0.8 | 1.9 | 1.8 | 1.8 |
| VF Corp VFC US | 1,449 USD | 25.7 | 25.4 | 31.6 | 20.5 | 20.3 | 24.0 | 26.4 | 28.6 | 26.7 | 0.7 | 0.7 | 0.8 | 1.8 | 1.7 | 1.8 |

Liquidity Analysis

| Company/Ticker | Market Cap (Mil) | Cash per Share | | | Current Ratio | | | Quick Ratio | | | Cash/Short-Term Debt | | | Payout Ratio % | | |
|--------------------------|-------------------|----------------|-------------|-------------|---------------|-------------|-------------|-------------|-------------|-------------|----------------------|--------------|--------------|----------------|-------------|-------------|
| | | 2014 | 2015(E) | 2016(E) | 2014 | 2015(E) | 2016(E) | 2014 | 2015(E) | 2016(E) | 2014 | 2015(E) | 2016(E) | 2014 | 2015(E) | 2016(E) |
| Nike Inc NKE USA | 85,966 USD | 2.45 | 1.63 | 0.71 | 2.72 | 2.79 | 2.71 | 1.94 | 1.99 | 1.89 | 12.76 | 31.58 | 4.27 | 27.2 | 30.0 | 29.1 |
| Ralph Lauren Corp RL USA | 11,958 USD | 8.66 | 12.02 | 11.17 | 3.43 | 3.63 | 3.49 | 2.38 | 2.55 | 2.41 | — | — | — | 19.2 | 22.6 | 27.8 |
| PVH Corp PVH USA | 8,562 USD | 7.18 | 5.76 | 19.86 | 1.93 | 0.93 | 1.69 | 1.11 | 0.53 | 1.17 | 6.46 | 4.45 | 16.73 | 8.6 | 2.9 | 2.2 |
| Guess? Inc GES USA | 1,559 USD | 5.95 | 5.70 | 6.28 | 3.29 | 3.68 | 3.90 | 2.34 | 2.62 | 2.87 | 120.90 | 312.33 | 344.57 | 44.1 | 80.8 | 101.3 |
| Average | | 6.06 | 6.28 | 9.51 | 2.84 | 2.76 | 2.95 | 1.94 | 1.92 | 2.09 | 46.71 | 116.12 | 121.86 | 24.8 | 34.1 | 40.1 |
| VF Corp VFC US | 31,655 USD | 2.21 | 1.59 | 0.77 | 2.58 | 2.88 | 2.74 | 1.67 | 1.83 | 1.62 | 37.67 | 26.74 | 12.70 | 46.5 | 42.0 | 42.2 |

Research Methodology for Valuing Companies

Components of Our Methodology

- ▶ Economic Moat™ Rating
- ▶ Moat Trend™ Rating
- ▶ Moat Valuation
- ▶ Three-Stage Discounted Cash Flow
- ▶ Weighted Average Cost of Capital
- ▶ Fair Value Estimate
- ▶ Scenario Analysis
- ▶ Uncertainty Ratings
- ▶ Margin of Safety
- ▶ Consider Buying/Selling
- ▶ Stewardship Rating

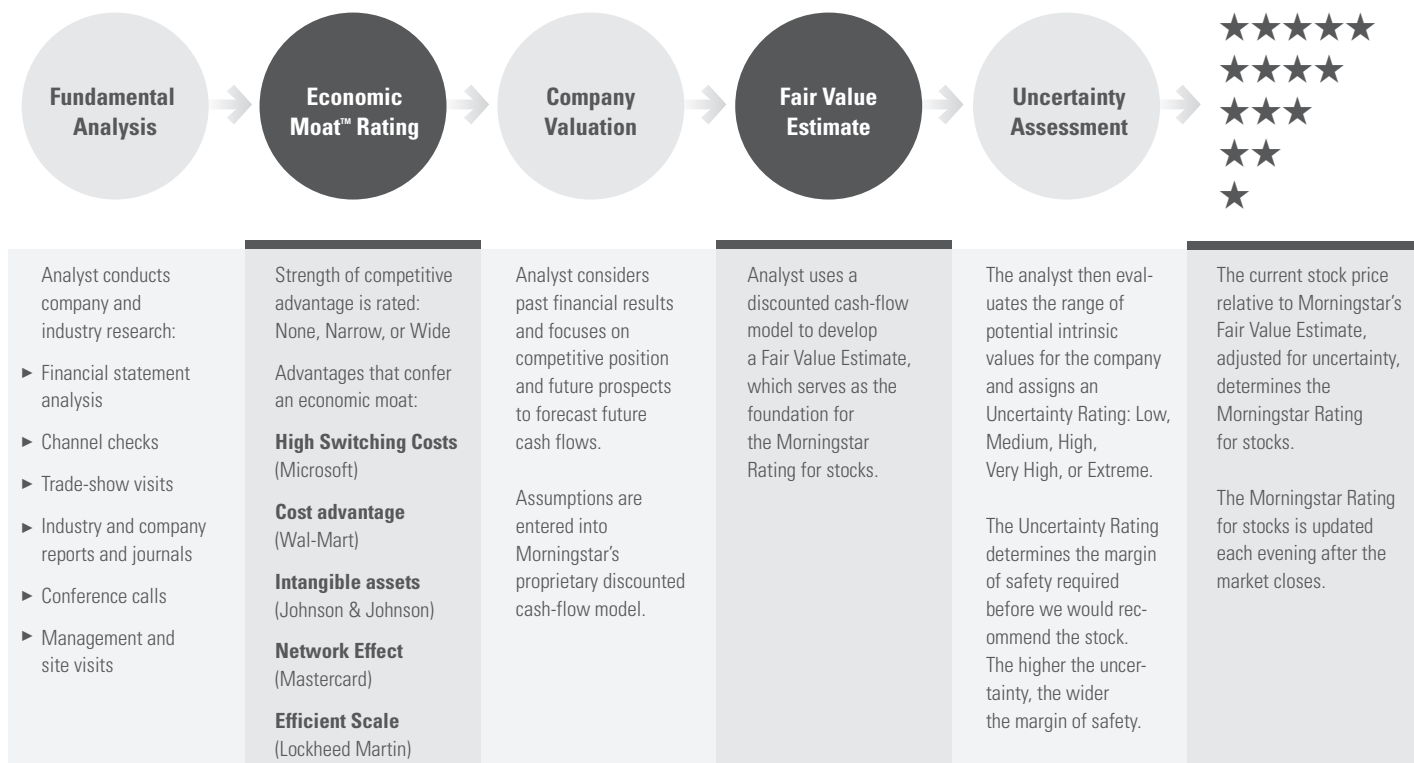
The Morningstar Rating for stocks identifies companies trading at a discount or premium to our analysts’ assessment of their fair value. A number of components drive this rating: (1) our assessment of the firm’s economic moat, (2) our estimate of the stock’s intrinsic value based on a discounted cash-flow model, (3) the margin of safety bands we apply to our Fair Value Estimate, and (4) the current stock price relative to our fair value estimate.

The concept of the Morningstar Economic Moat™ Rating plays a vital role not only in our qualitative assessment of a firm’s investment potential, but also in our valuation process. We assign three moat ratings—none, narrow, or wide—as well as the Morningstar Moat Trend™ Rating—positive, stable, or negative—to each company we cover. There are two major requirements for firms to earn either a narrow or wide moat rating: (1) the prospect of earning above-average returns on capital; and (2) some competitive edge that prevents these returns from quickly eroding. The assumptions we make about a firm’s moat determine the length of “economic outperformance” that we assume in the latter stages

of our valuation model. We also quantify the value of each firm’s moat, which represents the difference between a firm’s enterprise value and the value of the firm if no future net investment were to occur. Said differently, moat value identifies the value generated by the firm as a result of any future net new investment. Our Moat Trend Rating reflects our assessment of whether each firm’s competitive advantage is either getting stronger or weaker, since we think of moats as dynamic, rather than static.

At the heart of our valuation system is a detailed projection of a company’s future cash flows. The first stage of our three-stage discounted cash flow model can last from 5 to 10 years and contains numerous detailed assumptions about various financial and operating items. The second stage of our model—where a firm’s return on new invested capital (RONIC) and earnings growth rate implicitly fade until the perpetuity year—can last anywhere from 0 years (for no-moat firms) to 20 years (for wide-moat companies). In our third stage, we assume the firm’s RONIC equals its weighted average cost of capital, and we calculate a continuing value using a standard

Morningstar Research Methodology for Valuing Companies



Research Methodology for Valuing Companies

Detailed Methodology Documents and Materials*

- ▶ Comprehensive Equity Research Methodology
- ▶ Uncertainty Methodology
- ▶ Cost of Equity Methodology
- ▶ Morningstar DCF Valuation Model
- ▶ Stewardship Rating Methodology

* Please contact a sales representative for more information.

perpetuity formula. In deciding on the rate at which to discount future cash flows, we ignore stock-price volatility. Instead, we rely on a system that measures the estimated volatility of a firm’s underlying future free cash flows, taking into account fundamental factors such as the diversity of revenue sources and the firm’s fixed cost structure.

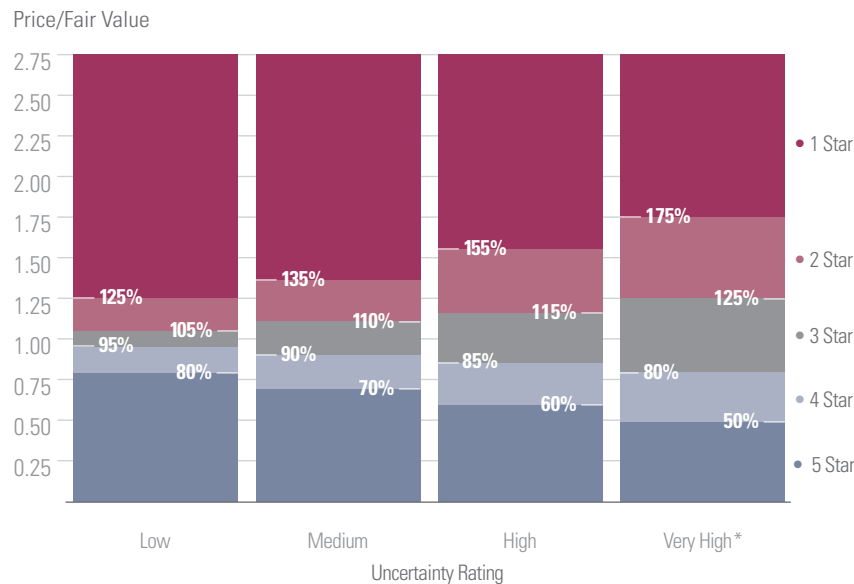
We also employ a number of other tools to augment our valuation process, including scenario analysis, where we assess the likelihood and performance of a business under different economic and firm-specific conditions. Our analysts typically model three to five scenarios for each company we cover, stress-testing the model and examining the distribution of resulting fair values.

The Morningstar Uncertainty Rating captures the range of these potential fair values, based on an assessment of a company’s future sales range, the firm’s operating and financial leverage, and any other contingent events that may impact the business. Our analysts use this range to assign an appropriate margin of safety—or the discount/premium

to a fair value we apply in setting our consider buying/consider selling prices. Firms trading below our consider-buying prices receive our highest rating of five stars, whereas firms trading above our consider-selling prices receive our lowest rating of one star.

Our corporate Stewardship Rating represents our assessment of management’s stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies’ investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they’ve had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder’s perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

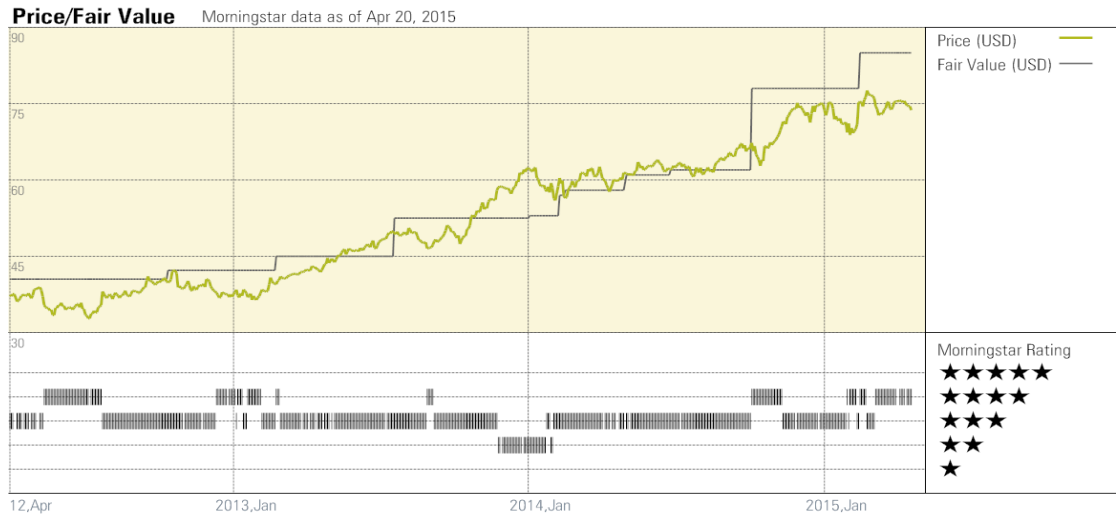
Morningstar Margin of Safety and Star Rating Bands



* Occasionally a stock’s uncertainty will be too high for us to estimate, in which case we label it Extreme.

VF Corp VFC (NYSE) | ★★★★★

| Last Price | Fair Value | Consider Buy | Consider Sell | Uncertainty | Economic Moat™ | Moat Trend™ | Stewardship | Industry Group |
|------------|------------|--------------|---------------|-------------|----------------|-------------|-------------|-------------------------------------|
| 73.97 USD | 85.00 USD | 59.50 USD | 114.75 USD | Medium | Wide | Positive | Exemplary | Manufacturing - Apparel & Furniture |



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VF Corp VFC (NYSE) | ★★★★★

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