

V F Corp

Still working through the reset; Remain Underperform

Reiterate Rating: UNDERPERFORM | PO: 13.00 USD | Price: 16.95 USD

3Q EPS misses due to weaker sales

We remain Underperform-rated as we are cautious on the near-term fundamental outlook given N.A. wholesale challenges and limited progress at Vans. 3Q adj EPS of \$0.57 missed our \$0.82/consensus \$0.81 ests due to lower sales across the board. 3Q sales declined 17% ccy: Vans -29%, TNF -11%, Timberland -22%, Dickies -17%, Other Brands -7%. Management reaffirmed F24 FCF guidance of \$600mn despite the softer net income given improvements in working capital, specifically inventory (down 17%). We are lowering our F24E/F25 EPS estimates by \$0.35/0.55 to \$1.08/\$1.49 to reflect the 3Q miss and reduced sales from ongoing wholesale challenges. We are lowering our PO to \$13 (from \$15) to reflect our lower estimates (still based on 8x EV/EBITDA).

Wholesale challenges keeps outlook murky

The softer than expected 3Q sales were driven by a combination of unseasonably warm weather, lapping wholesale timing shifts from last year, weakness in the Americas (-25%), Vans wholesale channel reset, and a small impact from the cyber incident. Vans inventory cleanup in wholesale continues as management looks to free up open to buy in coming quarters. On the positive front, TNF sales turned positive to start F4Q, particularly in DTC, but we expect the North America wholesale environment will remain choppy for the next several quarters.

Remain committed to cost improvement

VFC remains on track to deliver on its previous announcement of \$300mn in gross cost savings by mid F25. Management expects to reinvest 25-35% of the savings back into the business, particularly in product and marketing. On gross margin, we remain cautious on underwriting a material near term recovery as the overhang from the heightened promotional environment will likely continue to linger given the Vans channel reset and some pockets of excess inventory at Timberland.

Strategic portfolio review is on the table

VFC has initiated an in-depth strategic review of all brand assets and announced that current CFO Matt Puckett will be leaving the company later this year (search underway for replacement). We think all brands will be on the table (excluding Vans and TNF) as the company looks to accelerate debt paydown (current gross leverage 5.7x).

Estimates (Mar) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	3.19	2.10	1.08	1.49	2.05
GAAP EPS	3.53	0.30	(1.39)	1.49	2.05
EPS Change (YoY)	145.4%	-34.2%	-48.6%	38.0%	37.6%
Consensus EPS (Bloomberg)			1.46	1.86	2.23
DPS	1.98	1.81	0.78	0.36	0.36
Valuation (Mar)					
P/E	5.3x	8.1x	15.7x	11.4x	8.3x
GAAP P/E	4.8x	56.5x	NM	11.4x	8.3x
Dividend Yield	11.7%	10.7%	4.6%	2.1%	2.1%
EV / EBITDA*	7.7x	10.0x	13.8x	11.9x	10.1x
Free Cash Flow Yield*	9.4%	-12.5%	10.0%	12.9%	13.2%

* For full definitions of *IQmethod*SM measures, see page 5.

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07 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	15.00	13.00
2024E Rev (m)	10,976.2	10,486.6
2025E Rev (m)	11,303.7	10,510.9
2026E Rev (m)	11,807.4	10,978.6
2024E EPS	1.43	1.08
2025E EPS	2.04	1.49
2026E EPS	2.66	2.05

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Stock Data

Price	16.95 USD
Price Objective	13.00 USD
Date Established	7-Feb-2024
Investment Opinion	B-3-8
52-Week Range	12.85 USD - 30.14 USD
Mkt Val (mn) / Shares Out (mn)	6,592 USD / 388.9
Free Float	89.1%
Average Daily Value (mn)	112.44 USD
BofA Ticker / Exchange	VFC / NYS
Bloomberg / Reuters	VFC US / VFC.N
ROE (2024E)	16.8%
Net Dbt to Eqty (Mar-2023A)	200.4%
ESGMeter TM	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

TNF: North Face

FCF: free cash flow

iQprofileSM V F Corp

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	12.0%	8.8%	5.9%	7.6%	9.6%
Return on Equity	38.0%	25.3%	16.8%	24.6%	26.8%
Operating Margin	13.1%	9.8%	6.6%	8.4%	10.2%
Free Cash Flow	619	(822)	659	851	870

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.7x	-0.8x	1.9x	1.7x	1.3x
Asset Replacement Ratio	0.9x	0.6x	0.5x	0.5x	0.6x
Tax Rate	13.0%	13.5%	10.2%	16.0%	16.0%
Net Debt-to-Equity Ratio	117.4%	200.4%	266.5%	188.7%	127.0%
Interest Cover	11.8x	6.9x	3.1x	4.4x	6.4x

Income Statement Data (Mar)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	11,842	11,612	10,487	10,511	10,979
% Change	28.2%	-1.9%	-9.7%	0.2%	4.4%
Gross Profit	6,485	6,107	5,504	5,547	5,821
% Change	31.6%	-5.8%	-9.9%	0.8%	4.9%
EBITDA	1,816	1,397	1,011	1,173	1,378
% Change	79.7%	-23.1%	-27.7%	16.1%	17.4%
Net Interest & Other Income	(109)	(193)	(229)	(196)	(172)
Net Income (Adjusted)	1,252	815	420	580	798
% Change	145.6%	-34.9%	-48.5%	38.2%	37.6%

Free Cash Flow Data (Mar)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	1,253	815	420	580	797
Depreciation & Amortization	267	262	314	287	258
Change in Working Capital	(919)	(2,233)	(177)	68	(87)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	263	500	251	63	55
Capital Expenditure	(245)	(166)	(149)	(146)	(153)
Free Cash Flow	619	-822	659	851	870
% Change	-44.5%	NM	NM	29.0%	2.2%
Share / Issue Repurchase	(350)	0	0	0	0
Cost of Dividends Paid	(773)	(703)	(303)	(140)	(140)
Change in Debt	(182)	1,227	(665)	(599)	(647)

Balance Sheet Data (Mar)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	1,276	815	416	484	524
Trade Receivables	1,468	1,610	1,677	1,537	1,605
Other Current Assets	1,844	2,728	2,493	2,609	2,737
Property, Plant & Equipment	1,042	942	870	770	704
Other Non-Current Assets	7,712	7,895	6,672	6,672	6,672
Total Assets	13,342	13,990	12,129	12,072	12,242
Short-Term Debt	837	936	1,253	652	752
Other Current Liabilities	2,479	2,610	2,268	2,299	2,388
Long-Term Debt	4,584	5,711	4,755	4,756	4,010
Other Non-Current Liabilities	1,912	1,823	1,755	1,755	1,755
Total Liabilities	9,812	11,080	10,031	9,462	8,905
Total Equity	3,530	2,911	2,098	2,610	3,338
Total Equity & Liabilities	13,342	13,990	12,129	12,072	12,242

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Apparel

Company Description

VF Corp is a leading apparel wholesaler of lifestyle brands, including The North Face, Vans, Timberland, Dickies, and Supreme, among others. VFC distributes products globally via department stores, independent retailers, specialty chains and its own retail (full price, outlet and e-commerce). Coalition segments include Outdoor, Active, and Workwear.

Investment Rationale

We rate VFC shares Underperform. We think its key brands are slowly recovering but see better upside elsewhere in our coverage universe as we view the current EBITDA multiple as fair.

Stock Data

Average Daily Volume

6,633,692

Quarterly Earnings Estimates

	2023	2024
Q1	0.09A	-0.15A
Q2	0.73A	0.63A
Q3	1.12A	0.57A
Q4	0.17A	0.02E

**Exhibit 1: VFC Income Statement**

We are lowering our F24 EPS estimate to \$1.08 to reflect lower sales

VF Corp (VFC)	FY 2022	1Q 23	2Q 23	3Q 23	4Q 23	FY 2023	1Q 24	2Q 24	3Q 24	4Q 24E	FY 2024E	1Q 25E	2Q 25E	3Q 25E	4Q 25E	FY 2025E	1Q 26E	2Q 26E	3Q 26E	4Q 26E	FY 2026E
Income Statement		Jun '22	Sept '22	Dec '22	Mar '23		Jun '23	Sept '23	Dec '23	Mar '24		Jun '24	Sept '24	Dec '24	Mar '25		Jun '25	Sept '25	Dec '25	Mar '26	
Net Sales	\$11,841.8	2,261.6	3,080.6	3,530.7	2,739.6	\$11,612.5	2,086.3	3,034.2	2,960.3	2,405.8	\$10,486.6	1,975.8	2,928.4	3,132.2	2,474.5	\$10,510.9	2,057.9	3,060.2	3,276.9	2,583.7	\$10,978.6
Cost of sales	\$5,357.1	1,037.9	1,494.9	1,591.5	1,381.6	\$5,505.9	985.3	1,479.0	1,323.6	1,195.2	\$4,983.1	928.1	1,420.1	1,392.7	1,223.1	\$4,964.1	961.5	1,476.4	1,448.8	1,270.7	\$5,157.4
Gross profit	6,484.8	1,223.7	1,585.7	1,939.2	1,358.0	6,106.6	1,101.1	1,555.2	1,636.7	1,210.6	5,503.5	1,047.7	1,508.3	1,739.5	1,251.4	5,546.8	1,096.3	1,583.8	1,828.1	1,313.0	5,821.3
SG&A	\$4,935.4	1,146.2	1,207.0	1,412.6	1,205.8	\$4,971.6	1,108.9	1,192.0	1,359.9	1,145.5	\$4,806.3	1,086.8	1,168.1	1,305.5	1,099.7	\$4,660.1	1,054.2	1,133.1	1,365.8	1,148.2	\$4,701.3
Operating profit	1,549.3	77.5	378.7	526.6	152.204	1,135.1	(7.9)	363.3	276.7	65.0	697.2	(39.1)	340.1	434.0	151.6	886.7	42.2	450.7	462.3	164.8	1,120.0
Interest expense/(income)	\$131.5	31.3	33.9	50.2	49.2	\$164.6	49.7	55.6	63.3	55.1	\$223.8	53.7	53.4	49.7	43.4	\$200.1	44.8	44.9	45.0	40.6	\$175.4
Other income (expense)	\$22.5	(2.9)	(9.3)	(9.9)	(5.9)	(\$28.0)	(3.6)	(3.5)	0.9	0.9	(\$5.2)	0.9	0.9	0.9	0.9	\$3.7	0.9	0.9	0.9	0.9	\$3.7
Pretax income	1,440.4	43.3	335.6	466.5	97.1	942.5	(61.2)	304.1	214.3	10.9	468.1	(91.8)	287.7	385.3	109.2	690.4	(1.7)	406.8	418.1	125.1	948.3
Income tax expense	\$187.8	9.4	53.2	33.5	30.9	\$127.1	(4.6)	58.2	(7.6)	1.7	\$47.8	(14.7)	46.0	61.6	17.5	\$110.5	(0.3)	65.1	66.9	20.0	\$151.7
Tax rate	13.0%	21.8%	15.9%	7.2%	31.8%	13.5%	7.4%	19.1%	-3.5%	16.0%	10.2%	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%
Net Income from continuing operations	1,252.6	33.8	282.3	433.0	66.2	815.4	(56.6)	245.9	221.9	9.1	420.4	(77.1)	241.7	323.6	91.7	579.9	(1.4)	341.7	351.2	105.1	796.6
Income from discontinued operations	\$170.3	0.0	0.0	0.0	0.0	\$0.0	0.0	0.0	0.0	0.0	\$0.0	0.0	0.0	0.0	0.0	\$0.0	0.0	0.0	0.0	0.0	\$0.0
Total net income	1,422.9	33.8	282.3	433.0	66.2	815.4	(56.6)	245.9	221.9	9.1	420.4	(77.1)	241.7	323.6	91.7	579.9	(1.4)	341.7	351.2	105.1	796.6
Core EPS from continuing operations	\$3.19	\$0.09	\$0.73	\$1.12	\$0.17	\$2.10	(\$0.15)	\$0.63	\$0.57	\$0.02	\$1.08	(\$0.20)	\$0.62	\$0.83	\$0.24	\$1.49	(\$0.00)	\$0.88	\$0.90	\$0.27	\$2.05
Basic shares outstanding	390.3	387.6	387.7	387.7	388.1	387.8	388.2	388.3	388.4	388.4	388.3	388.4	388.4	388.4	388.4	388.4	388.4	388.4	388.4	388.4	388.4
Diluted shares outstanding	392.4	388.4	387.7	388.2	388.1	388.1	388.2	388.3	389.4	389.4	388.8	389.4	389.4	389.4	389.4	389.4	389.4	389.4	389.4	389.4	389.4
Dividends per share	\$1.98	\$0.50	\$0.50	\$0.51	\$0.30	\$1.81	\$0.30	\$0.30	\$0.09	\$0.09	\$0.78	\$0.09	\$0.09	\$0.09	\$0.09	\$0.36	\$0.09	\$0.09	\$0.09	\$0.09	\$0.36
GAAP EPS (including discontinued operations)	\$3.53	(\$0.14)	(\$0.31)	\$1.31	(\$0.55)	\$0.30	(\$0.15)	(\$1.16)	(\$0.11)	\$0.02	(\$1.39)	(\$0.20)	\$0.62	\$0.83	\$0.24	\$1.49	(\$0.00)	\$0.88	\$0.90	\$0.27	\$2.05
Margins																					
Gross profit margin	54.8%	54.1%	51.5%	54.9%	49.6%	52.6%	52.8%	51.3%	55.3%	50.3%	52.5%	53.0%	51.5%	55.5%	50.6%	52.8%	53.3%	51.8%	55.8%	50.8%	53.0%
bp change y/y	143	(263)	(245)	(141)	(259)	(217)	(133)	(22)	36	75	(11)	25	25	25	25	29	25	25	25	25	
vs FY20																					
SG&A expense	41.7%	50.7%	39.2%	40.0%	44.0%	42.8%	53.2%	39.3%	45.9%	47.6%	45.8%	55.0%	39.9%	41.7%	44.4%	44.3%	51.2%	37.0%	41.7%	44.4%	42.8%
bp change y/y	(362)	70	196	141	(22)	113	247	10	593	360	302	185	61	(426)	(317)	(150)	(378)	(286)	0	(0)	(151)
% change y/y	17.9%	4.5%	1.4%	1.0%	-3.5%	0.7%	-3.3%	-1.2%	-3.7%	-5.0%	-3.3%	-2.0%	-2.0%	-4.0%	-4.0%	-3.0%	-3.0%	-3.0%	4.6%	4.4%	0.9%
					(43.7)		(37.3)	(15.0)	(52.6)	(60.3)											
Operating margin	13.1%	3.4%	12.3%	14.9%	5.6%	9.8%	-0.4%	12.0%	9.3%	2.7%	6.6%	-2.0%	11.6%	13.9%	6.1%	8.4%	2.0%	14.7%	14.1%	6.4%	10.2%
bp change y/y	505	(334)	(441)	(282)	(237)	(331)	(380)	(32)	(557)	(285)	(313)	(160)	(36)	451	342	179	403	311	25	25	176
% change y/y																					
Sales	28%	3%	-4%	-3%	-3%	-1.9%	-8%	-2%	-16%	-12%	-10%	-5%	-3%	6%	3%	0%	4%	5%	5%	4%	4%
SG&A	18%	5%	1%	1%	-3%	1%	-3%	-1%	-4%	-5%	-3%	-2%	-2%	-4%	-4%	-3%	-3%	-3%	5%	4%	1%
EBIT	109%	-48%	-29%	-18%	-32%	-27%	-110%	-4%	-47%	-57%	-39%	396%	-6%	57%	133%	27%	-208%	33%	7%	9%	26%
EPS	145%	-68%	-35%	-18%	-62%	-34%	-267%	-13%	-49%	-86%	-49%	36%	-2%	46%	906%	38%	-98%	41%	9%	15%	37%

Source: BofA Global Research estimates, company reports

BofA GLOBAL RESEARCH

Price objective basis & risk

V F Corp (VFC)

Our \$13 price objective is based on 8x EV/EBITDA (F25E). Our multiple is a discount to athletic retailers peers given the slower pace of VFC's recovery (especially for Vans), but at a premium to our apparel vendor comp group due to the higher margin profile.

Downside risks: a slower than expected rebound in Vans, global retailing slowdown, higher-than-expected SG&A from investments in an expanded owned retail network, and a fashion shift away from outdoor lifestyle clothing. Upside Risks: a faster than expected recovery in Vans, a better than expected long term growth outlook, or a transformational acquisition.

Analyst Certification

I, Lorraine Hutchinson, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Softline Retailing and Dept Stores Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Bath & Body Works Inc	BBWI	BBWI US	Lorraine Hutchinson, CFA
	Burlington Stores	BURL	BURL US	Lorraine Hutchinson, CFA
	Crocs, Inc.	CROX	CROX US	Christopher Nardone
	Deckers Outdoor Corp	DECK	DECK US	Christopher Nardone
	European Wax Center	EW CZ	EW CZ US	Lorraine Hutchinson, CFA
	lululemon athletica Inc	LULU	LULU US	Lorraine Hutchinson, CFA
	Oddity Tech	ODD	ODD US	Lorraine Hutchinson, CFA
	PVH Corp	PVH	PVH US	Christopher Nardone
	Ralph Lauren	RL	RL US	Christopher Nardone
	Ross Stores Inc	ROST	ROST US	Lorraine Hutchinson, CFA
	Tapestry Inc.	TPR	TPR US	Lorraine Hutchinson, CFA
	TJX Companies	TJX	TJX US	Lorraine Hutchinson, CFA
	Urban Outfitters	URBN	URBN US	Lorraine Hutchinson, CFA
	Victoria's Secret & Co	VSCO	VSCO US	Alice Xiao
NEUTRAL				
	American Eagle	AEO	AEO US	Christopher Nardone
	Birkenstock	BIRK	BIRK US	Lorraine Hutchinson, CFA
	FIGS, Inc.	FIGS	FIGS US	Alice Xiao
	Foot Locker	FL	FL US	Lorraine Hutchinson, CFA
	Levi Strauss & Co.	LEVI	LEVI US	Christopher Nardone
	Nike	NKE	NKE US	Lorraine Hutchinson, CFA
	Signet Jewelers	SIG	SIG US	Lorraine Hutchinson, CFA
	Ulta Beauty	ULTA	ULTA US	Lorraine Hutchinson, CFA
	Under Armour Inc	UAA	UAA US	Lorraine Hutchinson, CFA
UNDERPERFORM				
	Aritzia	YATZ	ATZ CN	Alice Xiao
	Aritzia	ATZAF	ATZAF US	Alice Xiao
	Carter's Inc	CRI	CRI US	Christopher Nardone
	Gap Inc.	GPS	GPS US	Lorraine Hutchinson, CFA
	Kohl's	KSS	KSS US	Lorraine Hutchinson, CFA
	Nordstrom	JWN	JWN US	Lorraine Hutchinson, CFA
	Revolve	RVLV	RVLV US	Alice Xiao
	V F Corp	VFC	VFC US	Lorraine Hutchinson, CFA
RSTR				
	Macy's	M	M US	Lorraine Hutchinson, CFA

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

iQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

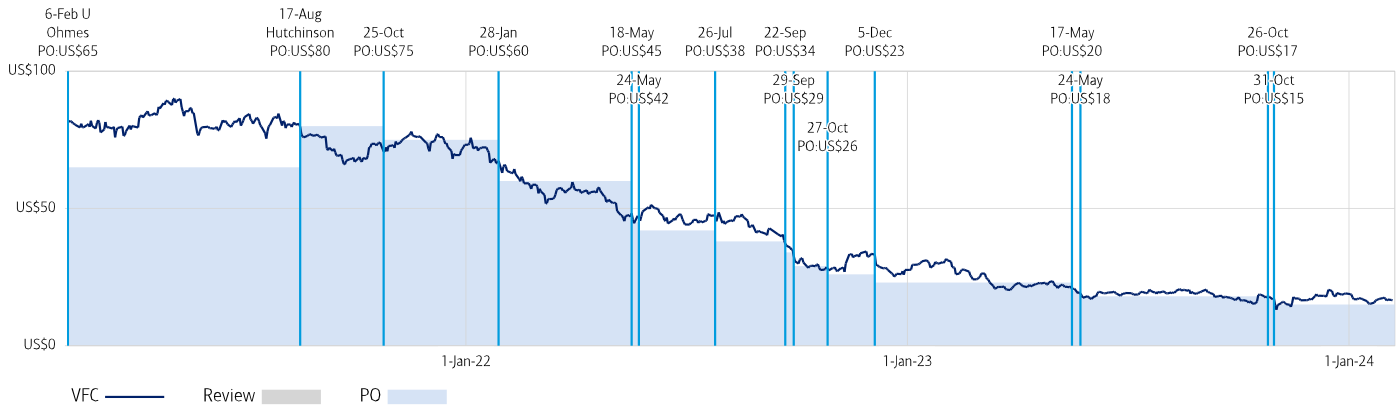
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Disclosures

Important Disclosures

V F Corp (VFC) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Textiles/Apparel Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	13	52.00%	Buy	8	61.54%
Hold	6	24.00%	Hold	3	50.00%
Sell	6	24.00%	Sell	2	33.33%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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