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VFC - Q4 2014 VF Corp Earnings Call

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OVERVIEW:

VFC reported 4Q14 adjusted EPS of \$0.98. Expects 2015 currency neutral revenues to grow 8% and currency neutral EPS to grow 12%.



CORPORATE PARTICIPANTS

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PRESENTATION

Operator

Good day and welcome to the VF Corporation fourth-quarter 2014 earnings conference call. Today's call is being recorded. At this time I would like to turn the conference over to Lance Allega, Vice President of Investor Relations. Please go ahead, sir.

Lance Allega - *VF Corporation - VP of IR*

Thank you, operator, and good morning to everyone and thanks for joining us today on our fourth-quarter and full-year 2014 results earnings call.

Before we begin, I would like to remind everybody that participants on the call will make forward-looking statements. These statements are based on current expectations and are subject to certain risks and uncertainties that could cause actual results to differ materially. These risks and uncertainties are detailed in documents filed regularly with the SEC.

Participants may also reference non-GAAP financial measures where applicable. You can find presentations of comparable GAAP measures in our press release which was issued at 7 AM Eastern time today and our website at VFC.com.

Joining us on today's call will be Chairman, President and CEO, Eric Wiseman; Bob Shearer, our CFO; and VF executives Scott Baxter, Steve Rendle and Karl Heinz Salzburger. Following our prepared remarks, we will open the call for questions and ask that you please limit yourself to two questions per caller.



Now I will turn the call over to Eric.

Eric Wiseman - VF Corporation - Chairman, President and CEO

Thanks, Lance. Good morning everyone and thank you for joining us.

Our fourth-quarter and full-year results demonstrate the strength of VF's business model, our powerful brands and the powerful platforms that support those brands to consistently deliver strong returns to our shareholders. Consistency is in VF's DNA. It is part of how we manage our business, it is what we expect from our people and it is consistency that our shareholders have come to expect from us. We take pride in it.

One year ago we laid out expectations for 7% to 8% revenue growth and 11% to 13% EPS growth for 2014 and while this past year has presented plenty of challenges, we achieved our topline target and actually exceeded our bottom-line goal delivering record returns to our shareholders.

Last year we spoke about momentum and 12 months later it is the same story, outstanding performances from our four largest brands as well as some notable up and comers, and the powerful platforms that became demonstrably stronger during the year.

Before we dive into a few highlights of the quarter and the year, let's first touch on a non-cash accounting matter. During the past few years, our Contemporary Brands business which represents about 3% of VF's total revenues has operated in a challenging environment. In this morning's release you saw that we concluded that the carrying value of our 7 For All Mankind, Splendid and Ella Moss brands has declined.

As a result, in the fourth quarter we took an after-tax impairment charge of \$307 million which is about \$0.70 of EPS to reduce the carrying value of those brands' assets on our books. Bob will take you through more detail on this in a few minutes.

With that said, on an adjusted or underlying operating performance basis, our fourth-quarter results were quite strong and contributed to another fantastic year for VF. For the full year, total revenue grew 8% and reached \$12.3 billion led by 13% growth in our Outdoor & Action Sports coalition or up 14% if you exclude the impact of foreign currency. Our international business grew 9% or 11% if you adjust for currency. Our direct-to-consumer business grew 19% and included high single-digit comps.

Our full-year gross margin improved by 70 basis points to reach 48.8%, all of which led to an adjusted earnings per share of \$3.08 which is up 14% over last year's \$2.71 and it is ahead of our annual long-term earnings growth target. Finally, share buybacks during the year when combined with the 22% increase in our quarterly dividend rate returned more than \$1.2 billion to our shareholders.

Looking forward to 2015, foreign currency, currency adjusted, currency neutral; these are terms you are going to hear us and many US companies with sizable international businesses talk about likely for many quarters to come. And while the rapid strengthening of the U.S. dollar may continue to cause reported results to shift depending on how the euro, the pound, the peso and yen move throughout the year, the important news is our fundamental business is incredibly strong and the momentum we have established will continue.

In 2015, we are teed up to deliver another year of record financial results for shareholders. For the full year again on a currency neutral basis, we expect revenues to be up 8% which is in line with our 2017 organic growth rate target. That growth rate is of course an even stronger rate if you factor in the 53rd week we had in 2014. And similar to last year, we expect Outdoor & Action Sports, international and our DTC business to remain the most significant drivers of growth.

We expect gross margin to improve by at least 40 basis points to reach 49.2% including some negative FX headwinds. This puts us just 30 basis points shy of our five-year 2017 goal at the end of only the third year of our five-year plan.

Operating margin should reach 15% versus the adjusted operating margin of 2014, once again despite negative currency influences. We expect our currency neutral earnings per share to grow 12% versus the adjusted EPS of \$3.08 in 2014.

We are also pleased to report that we expect once again to return more than \$1.2 billion to shareholders through share repurchases and dividends this year. That sounds like a lot to deliver and it is but we are confident we will achieve these goals.

Let me summarize what has driven and will continue to drive our strong performance. First, we will lead in innovation by increasing our pipeline of compelling new products and technologies. Second, we will deepen connections with consumers by creating consistent and compelling engagements. Third, we will serve consumers directly reaching them across multiple channels wherever and whenever they shop. And finally, we will expand geographically taking advantage of our scale in every region and channel that we operate in.

So in closing, with year two of our five-year plan in the books and year three looking quite strong ahead of us, I am happy to say that the performance of our underlying operations is on track with our long-term targets. We have never been more bullish about VF's business.

Our company theme is consistent, powerful brands, powerful platforms, one VF.

One last thing before I pass the call over to Bob. I would like to offer a few words about my experience with him on this, his last earnings call before his retirement. It has truly been an honor to work with this man. He is my friend, my thought partner and my counsel. He possesses extraordinary talent, intelligence, discipline and unique leadership capabilities. During his nearly 30-year tenure at VF, he has been undeniably instrumental in the success and complete transformation of our Company. He has been an invaluable author of our business playbook and our operational principles, an enforcer of financial discipline and honestly he is just a good person. He is a person with a head for success and the heart to succeed and he will truly be missed.

I can attest that Scott Roe has some big shoes to fill. Now I have worked with Scott for almost two decades at VF. Scott knows VF, he is battle tested and an extraordinary leader. I have every confidence in him and his ability to make significant contribution as VF's next Chief Financial Officer.

With that I will turn the call over for the last time to our great friend and the Chief Financial Officer that Wall Street Journal ranked as number eight in the universe, ladies and gentlemen, Mr. Bob Shearer.

Bob Shearer - VF Corporation - SVP and CFO

Wow. Thanks, Eric, for the kind words and also the unique opportunity to serve alongside you throughout much of my time at VF. I just have way, way too many good things to say about VF and my experience here during an earnings call but I will say that I couldn't be more proud of being part of the incredible transformations this Company has successfully put in place. What an honor it has been for me.

And I have also enjoyed working with all of you on this call over the years and I will miss that for sure.

But first I am still the CFO so back to the business at hand.

Our fourth-quarter results and overall performance in 2014 once again illustrate the strength of the VF business model and how our operational excellence enables us to deliver on our growth objectives year after year. Fourth-quarter revenue increased 9% led by exceptional results from our Outdoor & Action Sports coalition as well as our international and direct-to-consumer businesses.

For the quarter foreign currency fluctuations hurt the revenue comparison by about 3 percentage points while the incremental week that Eric referenced, helped by about that same amount.

Our gross margin reached a record 49% in the fourth quarter with an 80 basis point improvement driven mostly by the continued shift of revenues toward our higher margin businesses and a small lift from an accounting change made earlier in the year related to retail concession fees.

SG&A as a percent of revenues in the fourth quarter increased 20 basis points. This increase was primarily due to that same accounting change as retail concession fees are now included in the SG&A line rather than netted against revenues.

Now a bit more on the fourth quarter impairment charge we recorded for the 7 For All Mankind, Splendid, and Ella Moss brands in our contemporary coalition. As you know, the contemporary space has certainly been a challenge one of late. Because of and related to that, we determined that the fair values of these brands were below their respective carrying values. As a result, we recorded a \$396 million pretax non-cash impairment charge to reduce the carrying value of the goodwill and intangible assets related to these brands which equates to \$307 million after-tax or \$0.70 of diluted earnings per share.

So while we continue to view 7, Splendid, and Ella Moss as vehicles for growth from today's levels, our projections did not support balance sheet carrying values hence the charge.

Now getting back to the P&L and as discussed in the press release, I will refer to amounts that exclude the impairment charge I just discussed as adjusted amount. So adjusted operating income grew 14% and adjusted operating margin was 16.2% compared with 15.5% in the fourth quarter of 2013 which brings us to the bottom line and adjusted earnings per share of \$0.98, which is up 20% over last year's quarter. Including the impairment charge, fourth-quarter earnings per share was \$0.28.

Recapping now on a full-year basis, revenue growth for the year was 8% which included about 1 percentage point of negative impact from FX and about 1 percentage point of benefit from the 53rd week in 2014. This growth was primarily driven by exceptional strength in our Outdoor & Action Sports coalition which was up 13% for the full year or 14% currency neutral. Our international business which was up 9%, 11% currency neutral, and our DC business which was up 19% included high single-digit comps and more than 30% growth in e-commerce revenues.

Gross margin improved by 70 basis points. Our gross margin expansion story continues reflecting the continued revenue mix shift toward higher-margin businesses and our intense focus on this critical measure of our brand strength. Gross margin expansion has and will continue to be an important part of our financial story. Our highest margin businesses are our fastest growing. In 2014, Outdoor & Action Sports represented nearly 60% of total revenue, international 38%, and D2C 26%.

SG&A as a percentage of total revenue was up 30 basis points and increased to almost completely to the change in concession accounting. In fact, if you look at our underlying operations, we were able to continue to increase the investment in our expanding D2C business and marketing investments while leveraging and maintaining strong cost controls across other areas of the organization. As we have said in the past, expanding gross margins, investing in growth in D2C and marketing, and cost leverage and other areas of SG&A, well, that is our model today and looking forward that will continue to serve us and our shareholders well.

We also ended the year with our capital structure providing great flexibility. In 2014, we generated nearly \$1.7 billion in cash from operations and returned more than \$1.2 billion to shareholders through dividends and share repurchases and that is almost twice the cash return we delivered in 2013.

Inventory levels are in great shape, up just 6% at year end and well below the rate of revenue growth and finally our return on invested capital improved to 18.6%, up 100 basis points which we are pleased to report is tracking ahead of our 2017 target.

So with 2014 behind us, let's talk about the year ahead and I will start with the fact that we are positioned for another year of outstanding performance across the globe. As you have heard given the size and importance of our expanding international businesses, there is some noise in our 2015 outlook related to foreign currency fluctuations mostly related to translating foreign currencies into dollars for reporting.

So I will do my best to sort through the operational side of our business versus expected reported results including the currency implications.

First in terms of definitions, I will refer to currency neutral amounts which assumes that there will be no foreign currency rate changes from 2014 to 2015. That way you can understand the true operational growth in our businesses and brands. Now as in the past, by far the majority of the currency impacts actually more than 80%, result simply from translating foreign currencies into US dollars for reporting purposes.

However in 2015 given the recent and rapid strengthening of the US dollar against nearly all currencies outside of the US, there is some although limited transactional impact as well. For example, most of the impact on the transactional side results from the recent decision of the Swiss

government to move away from pegging their currency to the euro. Because our European businesses are headquartered in Switzerland, that means in US dollars our reported headquarter expenses increased. The reason these transactional impacts are not more significant is that we have a strong and efficient hedging program that offsets nearly all of these influences. But when currencies move so quickly and/or unexpectedly, well, we still cover nearly all but not all of the risk.

Of course in a more normal currency environment like we've had over the past number of years, those transactional impacts are just not significant.

Our European business is by far the most significant of our international operations so our exposure to the euro represents our biggest currency challenge. In our outlook for 2015, we have used an assumption of a \$1.13 euro to dollar relationship. As you know, the euro relationship to the dollar has been quite volatile as have most foreign currencies of late.

To put perspective around what additional movements of the euro to dollar relationship would mean to our P&L, a \$0.05 move in the euro on a full-year basis -- and that is important -- would mean an impact of revenues of about \$125 million and \$0.05 per share on our EPS and that works both ways, in other words, for strengthening and weakening of the dollar. Of course as we go through the year, that impact declines as the total exposure lessens. And keep in mind that other currencies have also devalued against the US dollar similarly to the euro; however, the euro remains our biggest exposure.

Okay, now with that out of the way, move on to 2015. I will start at the top with revenues which we expect to grow 8% on a currency neutral basis, up 3% reported. On a currency neutral basis, our plans include growth in every region as well as our wholesale and D2C channels. Now keep in mind that the additional week in 2014 holds back the comparison by about 1 percentage point. All of that implies another strong year of revenue growth for our brands and importantly, we are looking for another year that stays right on track on a currency adjusted basis with our long-term targets as outlined in our 2017 objectives.

So leading the way will be our Outdoor & Action Sports coalition which is expected to deliver another great year led by continued strength in VF's business brands, The North Face, Vans and Timberland. Actually we expect strong growth from most brands within this coalition. We anticipate low double-digit currency neutral growth for the coalition up at a mid single-digit rate reported. On a currency neutral basis, we expect low double-digit growth from The North Face, a midteen increase at Vans, and a low teen increase that Timberland all of which are in line with the annual growth targets we set in our 2017 plan. So another great year in store for Outdoor & Action Sports.

In Jeanswear, we expect a low single-digit revenue increase on a currency neutral basis, an improvement over 2014. Reported growth for Jeanswear should show a low single-digit percentage increase. We are looking for a mid single-digit growth in both our Imagewear and Sportswear coalitions for the full year. And finally, we are expecting revenues for the Contemporary Brands coalition to be nearly flat, not anticipating any significant trend changes in the Contemporary category.

We expect a strong momentum in our international and direct-to-consumer businesses to continue in 2015 as well with international revenues expected to be up at a low double-digit percentage rate currency neutral or low single-digit growth on a reported basis.

By region in Europe, our largest international market, we expect high single-digit percentage growth on a currency neutral basis. Reported results in Europe are expected to show a decline by a mid single-digit percentage rate for the full-year. In our Asia-Pacific region on both a currency neutral and reported basis, we expect revenues to increase at a mid to high teen rate. And lastly, we expect our Americas, now that is the non-US business, to be up at a midteen percentage rate currency neutral or up at a mid single-digit reported rate.

Our D2C business which finished 2014 with \$3.2 billion in revenues is expected to be up at a midteen percentage rate currency neutral or up at a low double-digit reported rate. Growth in D2C is expected to be driven by approximately 150 store openings or 125 net of closures and high single-digit comps sales growth including a 30% increase in e-commerce revenues.

Now turning to margins; in 2015, we expect our gross margin rate to improve by 40 basis points to reach 49.2%. That would bring us to just 30 basis points shy of our 2017 gross margin target with two years to go. And in fact, our 49.2% expectation for 2015 includes about 30 basis points of headwinds due to foreign currency rate changes. So from an operational standpoint, it says we expect to be on our 2017 numbers a couple of



years ahead of target. And dependent of foreign currency, the expansion in gross margin of 60 to 70 basis points from the favorable mix shift that we have seen for many years remains intact. As always, there is no reason that should change going forward.

Now staying on the gross margin topic for just a minute, I am pretty sure you have at least a few questions on input costs for 2015. Let me start by saying that overall the impact of pricing versus product costs on gross margin is about neutral and the impact of each is relatively small. That is, the impact of pricing increases and product cost increases are both minimal. Given our ability to improve our gross margins through a favorable mix, we view that as good news.

There are many components to our gross margin story related to product costs. First, you have all been reading about the cost of cotton coming down. As a reminder, we buy finished fabrics like denim. We don't buy cotton. However, the cost of cotton will ultimately impact our cost of cotton-based fabrics. Because of the lag time of cotton flowing through our production cycle, it will be the second half of the year when we see a benefit of the cotton cost reduction primarily in our jeans business.

Next up, leather. We generally find it advantageous to lock in our leather buys over a longer term. Right now we are locked down to the third quarter of 2015. Because of this timing, we locked in costs for leather in 2015 as higher than our cost in 2014 even though today's costs have declined somewhat from those higher levels.

Regarding oil, we don't buy oil directly but the cost of oil does impact some of our synthetics and other production costs. We lock in our synthetic costs over an even longer period, about a year in advance. Accordingly, our costs for synthetics were locked in prior to the recent cost reduction in oil so the costs in 2015 are about flat with 2014.

So from a materials cost standpoint, all of that nets to about flat costs in 2015 versus 2014.

Finally, it won't surprise you that labor costs are on the rise. We estimate in our own plants by as much as 3% to 5% and on sourced products plant average of 10% to 15%. Generally we are able to mitigate much of the higher labor costs in our plants but not so with external costs. The increase in labor cost is generally the reason for the limited overall product cost increase that I mentioned earlier.

So there are a lot of puts and takes on product costs for us this year. Our input costs are diverse like our business. Our supply chain folks do a great job of finding the lowest cost with high-quality around the globe. That is a competitive advantage for us for sure as we continue to look for gross margin expansion and 2015 will be no exception.

All right, so taking a look at SG&A. Overall our model should remain intact. We will continue to invest in our brands and product innovation as well as our growing D2C businesses and leverage our growth against other costs. Foreign currency rate changes will put some pressure on our reported SG&A ratio to revenues like the change in the Swiss franc that I mentioned earlier. However, despite that, our SG&A ratio will remain relatively flat for 2014.

Bringing us to operating margin, which we anticipate to reach 15% in 2015 on a reported basis held back by about 30 basis points related to currency changes in both the gross margin and SG&A areas.

Taking this to the bottom line, we expect our earnings per share on a currency neutral basis to increase 12%, up 4% on a reported basis and keep in mind that the inclusion of the additional week in 2014 holds back this comparison by a couple of percentage points.

A few other housekeeping items, we are assuming a 24% to 24.5% effective tax rate and capital expenditures of approximately \$225 million.

In terms of revenue comparisons, throughout the year in 2015 on a currency neutral basis, we are expecting relatively consistent growth comparisons. Revenue comparisons on a reported basis in the second half of 2015 will be slightly stronger than the first due to one, the bigger negative currency impacts expected in the first half of 2015 versus the second meaning foreign currencies were stronger against the US dollar in the first half of 2014 than the second. And two, the seasonality of our overall business weighting to the second half including our expanding D2C businesses.

With respect to earnings cadence in 2015, and this is on a reported basis, that same negative impact from the timing of currency movements of 2015 versus 2014 will mean tougher earnings comparisons in the first half versus the second and especially in the first quarter when foreign currencies in 2014 were at their strongest levels against the US dollar and our international business mix is particularly high.

Our outlook for cash from operations deserves some discussion. Our outlook of \$1.3 billion of cash from operations in 2015 includes two significant factors. First, in early January of 2015, we contributed \$250 million to our pension plan versus only \$50 million in 2014. Our pension plan is now fully funded and this is a very efficient use of our cash based on the assumption of earnings on those funds impacting our pension expense. And the additional week or the 53rd week in 2014 was a big week for cash receipts, considering that many retailers make their payments on account right after their month end, which meant we received their cash in our year 2014. That represented over \$200 million of incremental cash that would not be expected in 2015.

Related to how we will put that cash to use for our shareholders, our priorities are unchanged. Our first priority of course remains on the acquisition front. Regarding share repurchases in 2015, we expect to mirror our 2014 spend and buy back about \$700 million worth of our stock early in the year. That combined with our annual dividend which was increased by 22% in the fourth quarter of 2014 will return more than \$1.2 billion of cash to our shareholders in 2015.

So now with year two behind us and year three underway, I will underscore just how very confident we are in our ability to achieve our 2017 goals.

With that I will turn it over to our coalition leaders to provide more detail on 2014 and what to expect in 2015. Let's kick it off with Steve Rendle.

Steve Rendle - VF Corporation - SVP, Americas

Starting with Outdoor & Action Sports coalition, fourth-quarter revenue was up 13% or 16% on a currency neutral basis. This strength was broad-based with strong growth in wholesale and D2C as well as double-digit growth in nearly every brand including The North Face, Vans, Timberland, Kipling, Napapijri, Reed, Lucy and Eagle Creek. What a portfolio and what an engine it is firing on all cylinders and housing VF's next \$1 billion brands.

Now let's take a look at the VF's three largest businesses. Starting with The North Face, fourth-quarter global revenues were up 12% or 14% on a currency neutral basis. Global D2C revenues were up 30% and included double-digit comps so continued fantastic strength in that business.

In the Americas which represents about 70% of TNF's full-year sales, fourth-quarter revenues were up at a mid-teen rate with D2C growth of more than 25% and a high single-digit wholesale growth. 2014 had one of the strongest product offerings in TNF's history. Innovations that define new subsets of the outdoor performance category, products that expanded our reach into all four seasons of the year attracting new consumers and a precursor to what we believe is one of the most revolutionary fabrication technologies in more than a decade. Let me give you some highlights.

Our Thermoball line has continued on its incredible growth trajectory. At the end of only its second year, Thermoball has clearly established itself as the consumer choice for transitional weight outerwear. The line was a top seller throughout the year and into 2014 with global revenue exceeding \$100 million. 2015 will see an even more robust expansion of this high-performance innovation and we really feel like we are just getting started.

Launched last spring, our Mountain Athletics training collection continued to drive growth throughout the year giving consumers an increasingly broader offering to stay in The North Face brand when they are training to be on the trail, rock, ice and snow. The collection increased momentum throughout the year in both our own retail stores and with wholesale partners and we expect this momentum to increase even more in 2015 when we extend the product line to include a women's collection.

One of the biggest innovation stories for 2014 although available only in a limited release, was Fuse Form. Fuse Form is a revolutionary technology that allows us to weave two fiber types into a single fabric. By being able to simplify manufacturing, reduce weight and deliver a consistent aesthetic that maximizes breathability and durability, we can engineer garments to perform where and how an athlete needs them.

The Fuse Form Brigidine jacket as part of our steep series range showed great results in the fourth quarter and won Outside Magazine's 2015 Gear of the Year. This along with the launch of the dot-matrix jacket this spring gives us great confidence that we have just raised the bar once again.

The evolution of our ability to connect with consumers also took a significant leap forward in 2014 through a number of print, digital and TV initiatives creating meaningful and emotional engagements with the brand. In November, we launched the amazing Your Land campaign which highlights the inspirational and emotional reasons to explore the outdoors. Since then we have received more than 7.4 million YouTube views and driven more than 2.1 billion impressions. More than just a marketing campaign, this effort has raised over a \$0.25 million that goes directly to help conserve our national parks right to the very heart of the brand's DNA.

In 2014, The North Face passed \$2.2 billion in revenues, up 11% on a reported basis or 12% currency neutral. We are truly seeing great momentum in this brand around the world and are well-positioned to realize another strong year. Looking at 2015, we expect The North Face's global revenues to see low double-digit currency neutral growth, right in line with our 2017 plan. On a reported basis, revenue should be at a mid single-digit growth.

Now let me turn it over to Karl Heinz Salzburger to walk you through TNF's results in Europe and Asia.

Karl Heinz Salzburger - *VF Corporation - VP and Group President, International*

Thank you and good morning, everyone. The North Face international business was up at the high single-digit rate on a currency neutral basis in the fourth quarter. In Europe, which is about 20% of the brand's full-year sales, fourth-quarter revenues were up at low single-digit rate currency neutral. For the full year, revenues were also up at low single-digit currency neutral rate reflecting a tough macro environment and the general weakness in the outdoor market.

In 2015, we are expecting a slight improvement in currency neutral revenues due to our strongest ever product offering and successful go-to-market strategies.

In Asia, revenues were up more than 25% in the quarter where we continued to make good progress building brand awareness. This is evidenced by the incredibly strong launch of our Thermoball product during the year and great initial response that retailers are showing for Fuse Form. Our online business also remains a key driver of growth with sales up more than 80% for the quarter. We saw very strong results in Hong Kong for the year, great momentum with our Taiwan distributor, and great momentum in China where sales were up nearly 20%.

We are pleased that we are creating deeper, lasting connections with the Asian consumer and look forward to building on this momentum.

Taken together, The North Face is in a leading position as we ramp up year two of our eight five-year plan and remain on track with our financial targets.

Now let's turn to Vans.

Steve Rendle - *VF Corporation - SVP, Americas*

Vans showed strong performance in the fourth quarter with revenues up 17% or 20% on a currency neutral basis. This marks the brand's 25th consecutive quarter of double-digit growth, a big result that helped Vans become the second \$2 billion brand in VF's portfolio.

In the Americas, which is about 60% of the brand's full-year sales, fourth-quarter revenues increased 20%, slightly ahead of our expectations. Connecting with consumers through the creative expression in action sports, music, art and street culture is something the Vans team does extremely well and the fourth quarter was no exception.

A great example was the 32nd Annual Vans Triple Crown of Surfing which took place in the North Shore of Oahu. Surfers from around the world ended their year on Hawaii's iconic waves and this year 10 million people who couldn't make the trip viewed the action live online.

We also garnered more than 100 million social media impressions and press coverage in more than 50 countries worldwide. This is a clear indication that a lot of people choose the Vans brand as the epicenter of youth culture.

In 2015, there is no slowdown as we will continue to build on this momentum with events such as Custom Culture, the Vans Warped Tour and House of Vans to drive home Vans' unique off the wall culture.

And of course, a few product highlights. We recently introduced weatherized footwear designed to keep you warm and dry in the outdoor elements. So just like The North Face moving forward toward a four season offering, so is Vans and that is important because consumers shouldn't have to step out of their Vans because of weather. It is their flag, it expresses their creativity and now they have more choices for different climates. And really exciting, the response thus far has been incredible and we have plans to significantly expand this collection in the back half of 2015.

We are also introducing a new footwear concept, Classic Plus, that will feature restructured trend focused product. We are really excited about this concept and can't wait to talk more about it in the coming months.

Global revenues for the Vans brand in 2014 were up 17% on both a reported and currency neutral basis. This increase is ahead of our 2017 plan and clear evidence that as the world's largest youth culture brand we are firing on all cylinders globally and our momentum is strong. In 2015, we expect Vans' global currency neutral revenues to be up at a midteen rate consistent with our 2017 plan. On a reported basis, revenue should be at a high single-digit growth rate. Strong brand, strong plan and a fun year ahead. [Cage]?

Karl Heinz Salzburger - VF Corporation - VP and Group President, International

Vans international revenues were up at high teen percentage rate on a currency neutral basis in the fourth quarter. In Europe, which is about 30% of the brand's full-year sales, currency neutral revenues were up at high single-digit rate in the quarter. Vans continued to deliver amazing consumer experiences with many events and interaction to London's House of Vans. This venue has quickly become a fantastic destination for youth culture to experience the brand. We look forward to using this showcase in an even greater way in 2015.

Just like in the Americas, we are also focused on growing our relevant, innovative products such as weatherized footwear and apparel as well as updating classics to reflect current trends and getting very strong response from our efforts.

For our e-commerce business, also has been a great success story for Vans as we reach even more consumers. In Asia, we are seeing strength across the board. The quarter's revenues were up more than 50% with particular strength in China and Korea. Like Europe, we are seeing strength in our weatherized lines and continue to get traction against our localized product, specifically apparel.

In terms of brand activation, we completed an incredibly successful House of Vans tour across three countries. Our Vans China retail road show across several cities and an Asia-Pacific skate tour. We also opened up an experimental retail store in Seoul, Korea that brought the House of Vans elements of life, music, local artist galleries, special edition product to the retail environment.

We have definitely been busy making some great connections with our consumers in 2014 and look forward to building on this momentum in 2015. Now onto Timberland.

Steve Rendle - VF Corporation - SVP, Americas

Fourth quarter global revenues for Timberland were up 11%, up 15% on a currency neutral basis. In the Americas, which represents about 40% of the brand's annual sales, revenues were up nearly 25% in the fourth quarter driven by incredibly strong growth in our wholesale business. This represents the fifth consecutive quarter of double-digit growth in the Americas, a momentum we look forward to building on in 2015. This is a testament to great brand strength driven by strong consumer reception for our products, high customer demand for future collections and our intense focus on amplifying our connection with the outdoor lifestyle consumer.



On the product front, growth continues to be really well balanced across all footwear and apparel categories with particular strength in casual and outdoor footwear for men and women. Our pro-Boondock family of footwear also continued its solid momentum. On the apparel side, sales were driven primarily by outerwear from shirt jackets to insulated product to beautiful leather bombers, really strong and balanced growth.

In marketing, we continue to build brand heat and relevance with our core target, the outdoor lifestyle or consumer. In Q4 alone, Timberland created a shared more than 350 pieces of engaging style-rich content anchored by the highly successful MarkMakers influencer program. We gained extensive coverage of our new fall collections and influential print and digital outlets garnering some 800 million media impressions.

In 2014, full-year global revenues were up 13%, up 15% on a currency neutral basis which is actually ahead of the 2019 plan we set in September. With \$1.8 billion on the top line in 2014, this marks the brand's highest ever revenues, something the team is very proud of and they should be.

Looking at 2015, we expect Timberland's global revenues to see low teen currency neutral growth rate, right in line with our 2017 plan. On a reported basis, revenue should be up at a mid single-digit growth rate. Now back to Cage.

Karl Heinz Salzburger - *VF Corporation - VP and Group President, International*

Timberland's international revenues were up at the high single-digit percentage rate on a currency neutral basis in the fourth quarter. In Europe, just about 40% of the brand's full-year sales, fourth-quarter revenues were up at the mid single-digit rate currency neutral. The quarter was driven by strong sales of [Sensor Flex], our newest technology platform, as well as [Capsule] for men, while casual boots were strong on the women side.

During the quarter, we continued to grow our foot brand in the region opening two new stores and 20 franchise locations. We also rolled out our new e-commerce site design which drove a big jump in conversion and an increase in sales. We expect growth in the region to continue in 2015.

In Asia, fourth-quarter revenues increased at (technical difficulty) digit rate currency neutral. In this region the classic yellow boot performed well in all markets and we saw great early success with the launch of the Britton Hill line. Additionally, apparel had a particularly strong quarter with great results for our men's outerwear including rainwear and jackets. We are more confident than ever about the Timberland brand. The global team and efforts to significantly move this brand forward are working well and we are just getting started.

Before we move forward, I would like to talk about two brands that are based in Europe and continue to perform exceptionally well, Kipling and Napapijri. Kipling's global business posted an 18% increase in 2014 global revenues which is on top of the 29% growth they posted in 2013. This marks the second year in a row that Kipling has been VF's fastest-growing brand.

Napapijri finished strong in 2014 with fourth-quarter revenues up nearly 30% or more than 40% currency neutral, handily winning VF's fastest growing brand of the quarter award. For the full-year, Napapijri was up at low double digits rates. Both of these brands have fantastic long-term potential and might one day join the \$1 billion brand category.

Now back to Steve.

Steve Rendle - *VF Corporation - SVP, Americas*

Turning to our sportswear and contemporary businesses. Sportswear's fourth-quarter revenues were up 4% driven by growth in the D2C channel. Nautica's revenues were flat with low teen growth in D2C including significant e-commerce strength, partially offset by a mid single-digit decline in its wholesale business. Kipling's North America business continued its run of double-digit gains posting 25% growth including a 35% increase in D2C sales and a mid single-digit growth in wholesale during the fourth quarter. We continue to expect Kipling to achieve strong double-digit growth throughout the year.



Revenue in our Contemporary Brands coalition was down slightly in the quarter or up slightly on a currency neutral basis due to as we have already discussed, category and channel challenges. Where we control the brand ourselves, in other words our own D2C businesses, we did see a double-digit currency neutral revenue increase.

Our data shows that we are not only maintaining but also gaining market share from our competitors in a pressured category. Now I will pass it to Scott to discuss our inventory business.

Scott Baxter - VF Corporation - VP and Group President, Jeanswear, Imagewear and South America

Thanks, Steve. Our inventory coalition posted revenue growth of 4% in the fourth quarter, up 5% currency neutral; consistently solid top-and bottom-line growth from our inventory group all year long. Both our workwear and license sports group businesses contributed to the growth.

Our workwear business was driven by new product introductions at Red Kap and Bulwark, for example, the IQ product at Bulwark, as well as strength in the core business. LSG saw double-digit gains in the quarter from its MLB business due to strong postseason sales.

Now, on to the Jeanswear business. Fourth-quarter global revenues for the Jeanswear coalition were up 3%, or up 5% on a currency neutral basis. For the full-year 2014, global Jeanswear revenues were flat at \$2.8 billion on a currency neutral basis. Revenues were up 1%.

In the Americas region, revenues were up at a similar rate as the global results and were driven by particular strength from the Wrangler brand and its Western specialty business. Revenues for the Wrangler in the fourth quarter were up at a low-single-digit rate or up at a mid-single-digit rate currency neutral.

Customers have responded very well to our recent new product introductions, including the advanced comfort in Heavenly Touch lines, as well as our no-iron khaki pants. Our Western specialty business had a very strong quarter with revenues up 13%, driven by strong holiday sales in Western retail and mid-tier accounts, as well as the successful launch of men's Rock 47 jeans targeting fashion-conscious Western consumers.

We have also elevated the brand with our expansion into the mid-tier department store channel and are planning to add more doors in 2015. Our marketing campaigns during the quarter were a big success, including great response to our TV and print strategies. We launched a premium performance advanced comfort campaign featuring rodeo champion Trevor Brazile at the Wrangler national finals rodeo competition in December, where Trevor won his 12th all around world championship.

On the digital front, the Wrangler network app had its best quarter yet with fans connecting with the Western lifestyle wherever they are. During the fourth quarter, revenues for the Lee brand were up slightly, a result we are pleased with given ongoing channel and category challenges. We continue to see success with our modern series products and expect this momentum to build in 2015.

We are also working to reinvest some of our more traditional products such as our core and premium select men's jeans and are excited to bring new finishes to the marketplace in 2015. Department store expansion also continued during the quarter and will continue well into 2015.

In 2015, we expect low single-digit growth for our Jeanswear coalition on both a reported and currency neutral basis and while it is clear that we will continue to face difficult conditions in our Americas business particularly in the US midtier and department store channel, we believe that we are weathering the storm well. Authentic and trend right product along with an intense focus on making sure our demand creation is industry-leading, puts us in a great position to win in 2015.

Karl Heinz Salzburger - VF Corporation - VP and Group President, International

Our international Jeanswear business which is about a quarter of the coalition's global revenues was up 9% on a currency neutral basis in the fourth quarter. By region, European revenues for Jeanswear were up 10% currency neutral. In Asia revenues were up at high single-digit rate on the currency neutral basis.

Our international Wrangler business was up at mid single-digit rate on a currency neutral basis in the fourth quarter. Innovative product continues to lead the way including great response in Europe from our denim performance programs and outerwear category supported by the latest campaign featuring Formula One champion, Kimi Raikkonen.

In Asia, the largest growth driver was also denim performance which was up 26% over last year including a standout performance from our Silver Shield antibacterial denim product. These international revenues were up at low double digit rate in the quarter with strong growth in both Europe and Asia particularly in the UK, Scandinavia and China. In Europe, this 125th anniversary collection featuring guest designers generating a tremendous buzz around the brand with all of our key accounts showing double-digit gains.

In Asia, we also saw a really strong performance from our 125th anniversary product along with strong sellthrough of 101+ collection, a great testament to the work we have been doing in the brand and the strong products that we are producing that resonate well with consumers.

In summary, we are making great progress in our global Jeanswear business.

Eric Wiseman - VF Corporation - Chairman, President and CEO

With that, we have concluded our prepared remarks and we are about to turn it over to the operator to open the line for questions. But before I do that, I just want to share with you all that as Bob Shearer and I have discussed his departure from our Company over the last six months the one thing he said he is going to miss the most is taking your questions. So I would ask you to load up and direct a lot of questions for Bob because it will just make his day.

Operator, we will take questions now.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Michael Binetti, UBS.

Michael Binetti - UBS - Analyst

Good morning. Congrats on a great quarter. Bob, first of all it has obviously been a great pleasure working with you all these years.

Bob Shearer - VF Corporation - SVP and CFO

Thank you so much, Michael.

Michael Binetti - UBS - Analyst

Regarding the comments on gross margin, you guys obviously went into it a bit in the prepared remarks. But you are going to be 30 basis points shy of your 2017 target. I know you don't want to update your guidance with us here during Q&A but maybe just a few thoughts on how you think about that after you pull forward that expansion in your five-year window. I don't think you want us to assume that the gross margin is flat now in our models here quickly after that.

Bob Shearer - VF Corporation - SVP and CFO

Michael, you didn't have to take Eric seriously on that. Michael, the way to think about this going forward is pretty much what we have seen. As I said in the comments, that we just don't see any change in terms of that mix benefit being any different going forward. So that 60 or 70 basis points of benefit that we have seen from mix consistently year after year over the past number of years, we would expect to see that kind of expansion going forward as well. So barring any other unforeseen changes in product costs or pricing or something like that which we wouldn't expect at this point, we expect to see that continued expansion pretty much related to the mix just like we have been seeing.

Michael Binetti - UBS - Analyst

Okay. Then maybe a follow-up, if you could tell us a little bit about the backlog for the big brands as we think about the organic revenue growth here. And it looks like you expect it to accelerate a little bit in a tough global macro here. And maybe also your long-term guidance -- I know it includes a little bit of SG&A deleverage every year that is probably related toward a shift toward more retail but I think you said most of the SG&A in 2014 was due to an accounting change. So as you lap that, does that give you a little more room to step up marketing to drive the topline in 2015 or maybe just a few thoughts on marketing spend year-over-year. Thanks.

Bob Shearer - VF Corporation - SVP and CFO

So Michael, your question is mostly around what we see in terms of SG&A going forward?

Michael Binetti - UBS - Analyst

I'm trying to figure out what you are seeing maybe in the backlog to help the organic revenue growth rate accelerate into 2015 (technical difficulty) a tough world. And then as a corollary, maybe there is some incremental marketing spend that helps drive that as you get comfortable with it.

Bob Shearer - VF Corporation - SVP and CFO

I can speak to the marketing spend and what is planned. We are looking obviously for another increase and as we said what we have been really, really successful in doing in the SG&A area is we have been able to spend against D2C and as you know, that would naturally lift our SG&A ratio. We have also been spending more particularly in the dollar side and you also know that we have incrementally been increasing our marketing spend as a percent of revenue as well. So as we look at 2015 yes, we expect to spend another \$50 million or so against marketing and we will keep the ratio relatively flat, just around the 6% mark, maybe a little below the 6% mark. So it will give us some additional dollars and we have been spending those additional dollars and all of the analysis that we have done and the analytics say that we have been getting a great pay back from that and it is giving us that momentum that you mentioned. Anything more?

Unidentified Company Representative

So, Michael, I will add a little bit on our big brands. We stopped giving really information or guidance on our backlogs a few quarters ago. What I can tell you is the backlog information that we have to date is baked into our guidance for 2015. But as we think about how to drive additional organic growth, I would tell you two things and you referenced marketing. I think we continue to get better and better as marketers of these brands as we become more and more knowledgeable of our consumers. And I think the TV campaigns that The North Face put out this fall -- This Land is Your Land -- what you see Vans do with events to the in-store experience that we are bringing across all of these big brands, really helps drive awareness and builds that loyalty.

But I think probably one of the largest factors that we feel really strong about is our improving digital capability and what we are able to do online through communicating but also transacting through our expanding VF e-commerce platform and all of these big brands have access and our growing in that capability.



Michael Binetti - UBS - Analyst

Thanks a lot.

Operator

Bob Drbul, Nomura.

Bob Drbul - Nomura Securities - Analyst

Good morning. Bob Shearer, congratulations. Best of luck. Great job.

I guess just following Eric's lead on the questions, Bob, can you talk a little bit about the expenses in Europe and the European headquarters sort of how that is running through the P&L and how we should think about your positioning maybe in Switzerland specifically?

Bob Shearer - VF Corporation - SVP and CFO

Bob, so back to some of the comments on currency, just to reiterate, nearly all of the currency impact that we are talking about is related to translation which we don't hedge. We do hedge the transactional side and it is very seldom that you ever hear us talking about the translational side and that is because we have a really effective and efficient hedging program that covers those risks.

To your point relative to the Swiss franc, that was one that we couldn't see coming which had always been pegged to the euro. And so the change, the move by Swiss government caught us with some increase in our reported expenses. So what happens is the Swiss franc strengthened actually. We had to record higher dollars as expenses. So it is just an expense item, not revenues, just expenses went up just because of that move and that is pretty much what we were talking about on the transactional side, it is almost all related to that.

Now, going forward and related to our headquarters in Switzerland, we don't see that changing at all. We will see what happens with the Swiss franc but in terms of any operational changes or anything like that, we wouldn't contemplate any changes.

Bob Drbul - Nomura Securities - Analyst

Great, thanks. Just a question on Timberland. How much of the success has been the yellow boot and how broad has the business really increased throughout the world?

Steve Rendle - VF Corporation - SVP, Americas

Bob, I will take that. This is Steve. Certainly the yellow boot has played a part in Timberland's growth but it is a high single-digit contributor from a revenue standpoint. It is not the primary driver. Our growth has been balanced across all categories, both footwear and apparel, across wholesale and D2C, across men's and women's and really balanced across all of our regions. The boot though important, really just informs the best then, better now mentality that Timberland is putting against this brand as they expand the reach and accessibility of this brand.

Bob Drbul - Nomura Securities - Analyst

Thank you very much. Good luck.



Operator

Omar Saad, Evercore ISI.

Omar Saad - Evercore ISI - Analyst

Thanks. Good morning, great job on the quarter, guys. Bob, congratulations on a great career and thanks for all your help over the years.

Wanted to ask another question on FX, and Bob, you did a great job helping us understand the transactional impact and how you guys hedge it. But how long are those hedges and how should we think about what happens to those dollar-denominated costs whether it is on the SG&A side or on the cost of goods side when those hedges roll off in I don't know six, nine, 12 months? Just kind of help me understand how the gross margin might look in 2016?

Bob Shearer - VF Corporation - SVP and CFO

So what we do is our hedging actually covers us for a 12- to 18-month period. So we go fairly long on that. Now over time however over a longer period of time, we have to look at leverage points for us like pricing. So if currency rates stay where they are today, we will look at pricing our goods to offset those cost increases.

So we do have that kind of flexibility but that is a longer-term view. We take a fairly long approach in terms of our hedging practices so it covers us exactly to your point, over the next 12 to 18 months and then on a longer-term basis we look at pricing for example to hold our margins and improve.

So over the longer-term, if you look back, if you look back over time that has worked really, really well for us. What it gives us is certainty for the upcoming year and then it gives us the ability to make pricing adjustments over a longer period of time to hold and continue to grow our margins.

Omar Saad - Evercore ISI - Analyst

Thanks. That is super helpful. Eric, a question for you. We know that VF is always kind of looking for other brands to acquire and with the news around the write off today on Splendid and 7 and Ella Moss, maybe take the opportunity to talk about some of the learnings from those acquisitions and how it pertains to how you think about future brands that you may acquire?

Eric Wiseman - VF Corporation - Chairman, President and CEO

Sure. You are right, we are an acquisition minded company and we are probably as frustrated -- as those of you who want us to make acquisitions -- we are probably as frustrated as you are about our lack of getting anything done recently. However, we remain very disciplined and when we find the right opportunity that makes strategic and value creation sense for us, we are in a great position to pull the trigger and go. We have a lot of capacity to acquire.

One of the things that we do a postmortem on a decade's worth of acquisitions every year with our Board of Directors. We review everything we have acquired in the last 10 years and look at their performance and there is always ups and downs. The truth is about what happened with these contemporary businesses is the impairment charge we took was mostly a reflection of the difference between our current assumptions and the assumptions that we made when we acquired and purchased these businesses.

We bought 7 For All Mankind in the summer of 2007 and our outlook for it did not anticipate a lot of the environment that we have seen since then. That means we are standing today not where we thought we would be and that has resulted in the accounting charge. It doesn't mean we are not committed to that space. We talk about our overall strategy is meeting the needs of apparel shoppers whenever and wherever they shop.

There is an important segment that shops in the contemporary space worldwide and we have great brands to meet their needs. We do expect, as Bob said in his comments I think, from this standpoint growth and profitability improvement in those businesses.

Omar Saad - *Evercore ISI - Analyst*

Does the strong dollar at all make the potential for maybe a European acquisition look a little bit more attractive with the dollar up so much against the euro?

Eric Wiseman - *VF Corporation - Chairman, President and CEO*

Of course, yes, it does.

Omar Saad - *Evercore ISI - Analyst*

Thanks, guys.

Operator

Kate McShane, Citi Research.

Kate McShane - *Citigroup - Analyst*

Thanks, good morning. Just following up on the question on the acquisition side, Eric, you had mentioned to that a little frustrating getting something done. Could you elaborate on that at all? Is it more to do with willing sellers, is it valuation? Is it the competition for assets in the market?

Eric Wiseman - *VF Corporation - Chairman, President and CEO*

There is a series of things going on there. We have certainly been involved in discussions with companies as we always have been. If I look back over the last 15 years that I have been involved in that process, we always have a bunch of businesses that we are actively engaged in but we can never anticipate when those discussions will result in an acquisition.

Using Timberland is a great example. We were in discussion with them for decades and finally found the right moment for that one to activate. We have very clear internally, we know where we are hunting. We have talked externally that it is primarily in the Outdoor & Action Sports space, I said primarily, not exclusively.

To the last question, international is looking more and more attractive to us because of the strength of the US dollar and we are continuing to have discussions with people, we just don't have anything that we can talk about today.

Kate McShane - *Citigroup - Analyst*

Okay, that is helpful. Thank you. I wondered if I could ask a question about denim. On denim with the lower gas prices, are you seeing any positive impacts from that and how should we about the cadence of denim growth? Is that some of your innovation initiative this year?



Scott Baxter - VF Corporation - VP and Group President, Jeanswear, Imagewear and South America

You asked about the gas prices and absolutely when you see gas prices contract like they have in the economy, that is absolutely helpful for us especially when you think about the channels that we trade in, midtier and mass. That frees up a lot of income for the folks that are in those channels and we have really big franchises with our Lee and Wrangler brand in those channels. So we saw some really nice momentum in both our Wrangler and our Lee brands in the fourth quarter. That has carried over here after the first of the year.

And it is not just the gas. I think there is a little bit of confidence that is going on in addition to the gas and also there is a little bit of a job recovery that is going on. So all of those factors combined have really helped our business and we have seen some momentum and we are pretty happy with it.

I think if you just couple that with the fact that our new products are really working. So we have had a series of new product introductions and some really innovative ones whether it is advanced comfort, a no iron khaki, an easy fit or a comfort fit in the midtier channel, those things have really worked and that has really helped us. The consumer that is coming in that has a little bit more income right now, they are seeing some new products, they really like the new products like a heavenly touch and they are purchasing these new products. So it has been a nice combination for us here the last five, six months.

Kate McShane - Citigroup - Analyst

Okay, thank you. If I can just squeak out my congratulations to Bob as well. Thank you for all of the help. Thank you.

Bob Shearer - VF Corporation - SVP and CFO

Thank you, Kate.

Operator

Laurent Vasilescu, Macquarie.

Laurent Vasilescu - Macquarie Research - Analyst

Congrats on a strong finish to the year. I believe during the 2013 Investor Day it was noted that the international gross margin was 700 basis points higher than the overall company gross margin. I was curious to know where it stands today, what is the potential FX impact to the 700 basis points delta for 2015? And are you raising prices in Europe to offset US COGS?

Bob Shearer - VF Corporation - SVP and CFO

The international gross margins are similarly as strong as they were if not a little bit longer. One of the things that we are seeing in 2015, what happens is, from a gross margin standpoint, is as we translate international, our international currencies into dollars and results in fewer dollars, it is a little bit more of a mix impact than anything else.

So what we are not seeing, we are not seeing any decline on a euro basis for example in our gross margin rates. What we are seeing overall for VF Corporation is we have fewer converted dollars, translated dollars which impacts the overall mix so our margins, our profitability on our international businesses is quite strong. We made the point in the past that the ratio of our overall revenues to international in our earnings contribution from international is very, very strong. It is the highest within the company.

So again, it's a little bit more of a mix issue than anything else, not a rate issue. So I'm glad you asked the question because we want to make sure that is really clear. That is where our hedging program has really helped protect us against gross margin rates on a euro basis for example.

Laurent Vasilescu - *Macquarie Research - Analyst*

Okay, great. And then on Timberland, Timberland Americas continues to be reporting very strong numbers, up 25%, last quarter it was 22%. I was curious to know how we should think about the guide of 14% growth in the Americas? And then I think during the Investor Day it was noted that the operating margin at that point was projected to be 13% for 2014. I was hoping to know how that panned out and how should we think about the long-term guide on the operating margin?

Unidentified Company Representative

I will take this question for you, Laurent. So how should you think about the long-term growth rate? We guided on a global basis up low teens. That certainly would hold true with our Americas businesses. We see it to be very balanced. Wholesale has been a significant driver as the brand has really focused on placing the right products in the right channels, segmenting the product and allocating the product and supporting that with really, really strong marketing.

Our D2C business will continue to grow. We are now at a place where we are comfortable opening new stores as we've right sized our model and we will look to start building up full price to really balance out with our current outlook mix and then Timberland be coming on in the VF e-commerce platform here in the United States in the second quarter. We are really looking for accelerated growth in the back half based on that enhanced content and commerce capability.

Operating margin, Bob will go ahead and take you there.

Bob Shearer - *VF Corporation - SVP and CFO*

On the operating margin, you have obviously seen and we talked about it in our comments as well that our operating margins in Outdoor & Action Sports continues to expand. And while most of our businesses are growing particularly gross margins as well as operating margins, the Timberland component of that is a big factor. We said earlier in the acquisition that we saw that as a significant opportunity. At the time of the acquisition, operating margins were in the 8% or 9% range and that has improved dramatically over time and we are just continuing to improve.

So we are getting back close to that 20% operating margin that we enjoyed prior to the Timberland acquisition. We are moving back closer and closer to that and we will continue to see expansion in the operating margin in Timberland.

Laurent Vasilescu - *Macquarie Research - Analyst*

Okay, great. Best of luck.

Operator

Robbie Ohmes, Bank of America Merrill Lynch.

Robbie Ohmes - *BofA Merrill Lynch - Analyst*

Bob, you will be missed and best of luck to what you are doing next.



Just a few follow-up questions. The first one, I was wondering if you could give us any color on how -- sort of a follow-up -- how the outlet store business is relative to the full line? Some others that have commented have seen more difficult outlet business.

And then second question would just be I think sportswear I think you guys in the release kind of highlighted the challenging US department store channel. Was that primarily Nautica or was that across brands and how do you think about that channel for 2015?

And then the third one and I'm sorry if I missed it but did you guys comment on Lucy? And if not, sort of an update on how that brand is doing? Thanks.

Steve Rendle - *VF Corporation - SVP, Americas*

I will take the sportswear and Lucy question, Robbie, and then we will catch you on the outlets on the backside. So the comment you saw in sportswear related to the department store was primarily Nautica. They are our most heavily penetrated in that channel and certainly we compete for our consumers in that space and some of that sits on us with the better and better product that we put into that product and how we are able to represent that. But I think it has been pretty well documented that that channel through this year has seen some opportunities for improvement and we certainly work very diligently with our partners to help drive our brands to those channels of distribution.

Our Lucy business, we could not be more proud of and excited. We have seen really consistent growth. We expect that business to grow in the mid-single digits coming into this year with more than 20% growth in our wholesale business and that is coming with our relationship that started with Dick's Sporting Goods at the end of 2013. We are now in 365 Dick's Sporting Goods stores in their women's performance or studio area and have seen really good growth as our team learns how to operate with a large dynamic retailer such as Dick's Sporting Goods.

We are seeing improvements in our own stores as we look to really improve our traffic and conversion through really growing our awareness within those markets where we have stores. So Lucy continues to get better and better and we think this push into the wholesale channel is certainly helping it gain more and more traction.

Robbie Ohmes - *BofA Merrill Lynch - Analyst*

Sorry, just the outlets versus full line and any color you can give us across your brands.

Scott Baxter - *VF Corporation - VP and Group President, Jeanswear, Imagewear and South America*

Robbie, I will make a couple of quick comments. This is Scott, on the VFO outlet stores. As you know we have roughly 80 of those stores and we have seen some nice momentum in the fourth quarter moving into the first quarter from an outlet standpoint. That channel is very vibrant, shoppers are actually moving to that channel and have really seen that there is value in that channel for our brands and value for the consumer there. So we have seen some momentum that has carried forward this year and we are really happy and pleased with where our business is positioned there right now.

Eric Wiseman - *VF Corporation - Chairman, President and CEO*

Robbie, it is Eric. I'm going to try to peel this back a little bit about the outdoor and full price. It is a complicated question because we have outlet and full price stores around the world. In the United States, most of our business other than the VFO business that Scott referred to is full priced retail. We certainly do have outlet stores but most of our brands use them as a place to manage their distressed inventory.

The exceptions to that actually are Nautica and Kipling, both of which have primarily outlet store businesses and they are working really hard to make those stores work. Nautica has no full price stores. I am going to guess that 80% of the Timberland stores are outlets versus full price so their whole business model is making the outlet model work for them, they don't have a full price comparison.



Where we have full price stores, which is primarily around our Vans and The North Face brands, we have really strong full price business. We bring our very best stuff to those stores and that is where -- we see those as our way to develop the digital, our digital -- it is an omnichannel strategy, right? We want to go into cities and have people be able to come into a Vans or The North Face store and really see everything that is true about the brand.

Europe in general is a full price retail store market for us. We do have some outlet stores there but they are almost exclusively for excess inventory selloff. So it is a different strategy than some people use for their outlet stores. Does that help you?

Robbie Ohmes - *BofA Merrill Lynch - Analyst*

Yes, that does. That is really helpful. Thanks, Eric.

Operator

Matthew Boss, JPMorgan.

Operator

Good morning, guys. Eric, can you talk about the global consumer backdrop? I guess specifically, have you seen any fundamental trend change at all in Europe? And just promotional levels post holiday, how you are thinking about things?

Eric Wiseman - *VF Corporation - Chairman, President and CEO*

Yes, I'm actually going to ask Karl Heinz to speak about the Europe consumer and what we are seeing with our brands. He spends more time there than I do. It's home.

Karl Heinz Salzburger - *VF Corporation - VP and Group President, International*

I do spend more time but at the moment, I'm here in the US. I think, Matthew, there is a lot going on in Europe as you read. It is widely reported in the press from an economical point of view and political which I am not touching.

Having said that, it is not really helping consumer sentiment and making consumers spend but having said that as you have heard from the release, we do pretty well and we see some come back from consumers surprisingly especially from the Southern European part where we see our orders coming in pretty nicely and strong. So all in all we are pretty positive about the performance of Europe and the outcome for the year which we expect as we said to be up. So all in all it is a better picture than last year.

Matthew Boss - *JPMorgan - Analyst*

Just any disruption that you have seen so far from the West Coast Port strikes? Eric, more importantly, how this process works in terms of late orders, who is on the hook between the vendor and wholesale partners, just any color you can provide.

Eric Wiseman - *VF Corporation - Chairman, President and CEO*

Sure. As a backdrop, the West Coast Port situation really began last summer. Our team has been navigating through that incredibly effectively so much so that we haven't had any material missed deliveries or incremental costs. Have we had some missed deliveries? Yes. Have we had some incremental costs? Yes, but nothing that we need to call to anybody's attention.



We have diverted stuff to other ports, we have moved part of our truck fleet out there to get our stuff through the docks and off the platforms. There is a lot of things we have done that just haven't been material enough to talk about but it is a complicated situation.

If it does go to a full on strike and shut down, it will be material to everybody. The question is how material? The answer to that is you tell me how long the strike will be and I will tell you how material. If it is one weekend, we will get through it. If it is three months, I don't think that is even possible for it to be three months, it would be really important. Most of the costs associated with that sit with us. If our orders are late getting to customers, our customers don't have to take them. So we bear the risk but I would tell you we have had that risk now for eight months and we have managed it really, really well. Is that helpful?

Matthew Boss - *JPMorgan - Analyst*

Yes, that is very helpful. Congrats on a great quarter. And Bob, sorry to see you go.

Bob Shearer - *VF Corporation - SVP and CFO*

Thanks a lot, Matt.

Operator

Jim Duffy, Stifel.

Jim Duffy - *Stifel Nicolaus - Analyst*

Good morning, everyone. Bob, a sincere thanks for all your time and help over the years. Much appreciated. My retirement gift, I'm going to direct my questions to your colleagues. A couple of questions.

One on Vans and then a question for Karl Heinz on the outdoor category in Europe. The Vans growth has been phenomenal domestic in particular. As you look to build on this, can I ask that you elaborate some on some of the specific drivers and geographies to watch for looking to 2015 with the Vans brands? Help there would be appreciated.

Steve Rendle - *VF Corporation - SVP, Americas*

Sure. I will go ahead and start that, Jim, and Cage can feed in for what is going on internationally.

So I think what we see currently driving Vans' growth and what we see continuing to drive Vans' growth is really broad based against all the tools that they have from a product standpoint just continuing to be the expert in the footwear category specific to their consumer. Bringing weatherized footwear this last year really showed us the opportunity to expand our offering to four seasons across the year and being able to complement that with apparel and accessories.

So continued just dialed focus on the appropriate products on a year-round basis in footwear and apparel. Really the partnerships that we have in wholesale here in the North America business are second to none in how our teams work with our partners to bring our brands to life and assort this expanded set of products. How we are able to bring that to life in our own stores to really set that experiential tone for our consumers is a great strength and we have been very systematic in how our retail footprint has expanded geographically throughout the United States, into Canada and most recently into Mexico.



And then you just think about our ability to connect digitally with our consumer. Vans is our most powerful social and digital brand and has been a big part of helping bring our VF e-commerce platform to life and how they use that to not only communicate and connect but also transact will be another powerful tool that they have to drive growth.

Karl Heinz Salzburger - *VF Corporation - VP and Group President, International*

Maybe starting with Asia, the outdoor market, you heard us saying we did pretty well, up double digit both on The North Face and Timberland. So I would say that market is good, we had a few issues in China a few -- two years ago with the inventories but that is sorted out. So that is a pretty healthy market.

Europe is a little bit more complicated. It is a very fragmented market as you know. Many brands don't do well, some do okay. We have been consistent growth in the past. We have growth rates now where we are not really happy about but we are confident we can improve our growth rates specifically on The North Face in the future. There is a lot going on, you heard us saying with product innovation. We have great go-to-market strategies.

We saw -- we just did a show actually the largest show in the sporting goods in Munich last weekend. There was a lot of noise and excitement about The North Face with our new approach we are doing better storytelling, a lot of product innovation. So going forward I think even in a complicated market we are pretty confident.

Jim Duffy - *Stifel Nicolaus - Analyst*

The challenges in Europe for the category, is that a weather dynamic or are there larger issues than that?

Karl Heinz Salzburger - *VF Corporation - VP and Group President, International*

I would say both. The weather was so-so. You heard it was widely in the press, we had no winter after December. We got some snow in January so it is normalizing now but the last two years were not so good from a weather point of view. Plus the economy I think it is widely in the press there is a lot of noise going on in Europe at the moment so that is not helping. But that can't be an excuse and we have to react and we are reacting. Product innovation is a strong answer to stimulate consumption and probably better and more digitalized approaches and storytelling to make consumers spend on our brands.

Jim Duffy - *Stifel Nicolaus - Analyst*

Very good, thank you.

Operator

Erin Murphy, Piper Jaffray.

Erin Murphy - *Piper Jaffray - Analyst*

Great. Thanks. Good morning and thank you for sneaking me in. Bob, I wish you all the best on your future endeavors.

Maybe you guys could talk a little bit more about the three innovation centers that you are developing. When is the first time that we should start to see some of the benefit across the various product lines?



Secondly, a quick follow-up for Karl Heinz in Europe, can you just speak to any volatility that you are seeing from a tourist flow perspective into the region? Thank you.

Steve Rendle - *VF Corporation - SVP, Americas*

I will start and then Scott can jump in. We are standing up three innovation centers this year. You certainly heard and seen us write about this. From a technical apparel and footwear standpoint, those teams are in place and we are adding capabilities as we speak and the pipeline that they are working on with the brands has in many ways already been in motion over the last 12 to 18 months and you see some small things coming into the product mix like a Fuse Form is an area where we are bringing that capability to life near-term. But it really is a longer-term play as we add the scale and capability to complement our business teams. It will be about a 12 to 18 month push until you see some of the real new ideas that have been percolating that this team is able to work on.

Unidentified Company Representative

Just a few quick comments on the Jeanswear innovation center. We hired a leader last year and we have taken some time and really worked with the outdoor and the footwear group and we have got a cohesive strategy now between the three centers that will be working real closely together going forward because we want to share ideas, we want to share innovations and we want to go ahead and work together on platforms.

And our leader has gotten us to the point where we have hired some folks and we have a few more to go but we have really focused on capabilities that are important for us going forward to ensure our success. So getting the right people in place has been the key thing for us in the Jeanswear innovation center and I would say we are about 50% of the way there and we should be finalized here by early spring as far as having our key senior team all in place.

We move into a physical location here this spring and then we are going to work on some short-term stuff to get the momentum going as we get in there and that is just taking some ideation stuff that is actually happening right now within our Jeanswear group and having that team that is really capable working with those two groups to help them bring that to the goal line a little faster. And then that team will come into a cadence and they will start working on things that are a little bit more long term.

Karl Heinz Salzburger - *VF Corporation - VP and Group President, International*

On the last question, I will try to answer it. I'm not sure I can but so much happened just in the last 30 days with all the currency, the euro, the Swiss franc, the dollar, the ruble and pound so it is really early to say what is going to happen. For sure the country has become cheaper for you so you are welcome to come to Europe and spend your money if (inaudible). I guess I would say it is early to say what is going to happen.

Unidentified Company Representative

I would be remiss if our Timberland teams are listening. When we acquired Timberland, they came with an innovation capability and in fact it is that capability that we are adding to and products like our anti-fatigue foot bed that you see across our pro- and tree business, the CenterFlex that we have spoken about this last year, those technologies have come out of that team's skill and capability and that is exactly what we are building behind and building so all of our footwear businesses are able to tap into that skill.

Erin Murphy - *Piper Jaffray - Analyst*

Great. Thank you, guys, and best of luck.

Operator

Mitch Kummetz, Robert Baird.

Mitch Kummetz - *Robert W. Baird - Analyst*

Thanks and Bob, congrats, good luck. I've got a question for you. If you don't want to answer it, you can always give it to Scott. How should we think about the quarterly cadence of gross margin expansion this year? From your remarks, it sounds like maybe the cost outlook is a little better in the back half particularly on denim. But if I recall correctly I think Jeanswear has got a pretty easy Q2 compare. So how should we think about that kind of what was it 40 basis points over the course of the year?

Bob Shearer - *VF Corporation - SVP and CFO*

Mitch, it has a lot to do with currency moves. So our bigger quarters for our international businesses are first and third quarters so those will be the tougher comparisons when it comes to gross margin expansion. So in other words, the second and fourth quarters, that is where we will see the biggest gross margin expansion for the year. And again as I said earlier, that is mostly because of mix, our international businesses -- the profitability including the gross margin rates are really strong and when there is fewer dollars of those strong gross margins, it impacts the overall gross margin rate. So it is not a rate within the international side of the business, it is a really a mix overall for VF.

Mitch Kummetz - *Robert W. Baird - Analyst*

And then just a quick follow-up. On the Vans in Asia Pac, it looks like about 40% plus this year, still growing off of a relatively small base. Talk about the outlook for that business in 2015, can we expect to see continued momentum of that magnitude going forward?

Karl Heinz Salzburger - *VF Corporation - VP and Group President, International*

I will try to answer here. As you said correctly, we had really great numbers in the last quarters in Asia, 40%, 50%. We just reported 50%. For sure we have great momentum. Going forward, we see the brand is really strong, it connects well with consumers, there is a lot of storytelling. So we are pretty confident the momentum will continue. Will it be over 40%, 50%? That is probably hard but we are confident and we will look forward to very nice growth rates in the next quarters and hopefully years to come in Asia.

Mitch Kummetz - *Robert W. Baird - Analyst*

All right, thanks, guys.

Operator

Lindsay Drucker Mann, Goldman Sachs.

Lindsay Drucker Mann - *Goldman Sachs - Analyst*

Great, thanks for taking the questions. Starting with the first one, Bob, it was really helpful all of the detail on currency and cost. I was hoping that if we were to fast-forward to when your hedges and forward purchases roll off and we are just sort of marking to market, whether you could dimensionalize how much the foreign currency transactional pressure on your cost of goods would be relative to the cost savings that you are likely to see from lower cotton and maybe some lower energy prices in your factory? Whether one is much bigger than the other, are they net neutral or how we should think about that? On that topic also whether you will be able to divert some of your sourcing to non-US dollar-denominated factories to help offset the pressure?

Bob Shearer - VF Corporation - SVP and CFO

Yes, on the gross margin side as we talked about earlier, the puts and takes from a material cost standpoint and labor all-inclusive kind of nets out with pricing. So that is true whether it is in the US, also on the international side as well. Again, it is just really important that our gross margin rates on the international front are holding and actually growing somewhat in our international business. It is just the conversion of those into US dollars that are impacting us overall and even the gross margin rate.

The commentary holds true that we talked about earlier relative to the input costs related to the international side as well as the US side and that is because of hedging. So we locked in those costs in essence over that 12- to 18-month period. We know what those costs are going to be. We lock it in through our currency hedges and we don't get surprised.

In terms of changing relative to the dollar, not so likely frankly given where we are again we will just continue to hedge. Our hedging practices will offset that. I think the question is more about if the rates stay where they are, what kind of actions do we take relative to our international businesses? And again we discussed that earlier as well that we will have to look at pricing and some other levers but that is a discussion relative more to 2016 than 2015.

Lindsay Drucker Mann - Goldman Sachs - Analyst

Great. Just a quick follow-on. I was hoping you guys could talk a little bit about your strategy in accessories. It has been a really high quality category and you have had some great momentum with Napapijiri and Kipling. Can you maybe just expand a little bit on what your plan is for accessories as a broad product category across your portfolio?

Eric Wiseman - VF Corporation - Chairman, President and CEO

Lindsay, thanks for the question. What we are doing right now is we are focused on the accessories businesses we have. We think Kipling is an enormous growth opportunity for our company and to put some context around that, it was less than a \$70 million business when we bought it and it is bigger than a \$300 million business today and it was VF fastest growing business in 2013 and 2014. And it is planned to be our fastest-growing business this year because we have very capable people working on that business and we are investing in them disproportionately.

Beyond that, we don't have any other big strategy to announce. We are focused on making that strategy continue to work for us and Bob Shearer would add, it is a very profitable business for us as well.

Lindsay Drucker Mann - Goldman Sachs - Analyst

Great, thanks so much.

Eric Wiseman - VF Corporation - Chairman, President and CEO

Thanks everybody. Sorry that we have to cut this call off. I know there were a few of you still waiting with questions. Several of us have media interviews that began in 60 seconds so we need to run from this room and go handle those. Appreciate your interest in our company and your support. Thanks. Bye-bye.

Operator

This concludes today's conference. Thank you for your participation.

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