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**VF Corp.** (VFC)

Q3 2015 Earnings Call

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good day, and welcome to the VF Corporation Third Quarter 2015 Earnings Conference Call.

Today's conference 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.

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### Lance Allega

*Vice President-Investor Relations*

Thank you, and good morning, everyone. Thanks for joining us today to discuss VF's third quarter 2015 results.

I'd like to remind everyone 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 and documents filed regularly with the SEC.

I'd also like to remind everyone that unless otherwise noted, amounts that our participants refer to on today's call will be in currency neutral terms. By our definition, which is detailed in our press release issued at 6:55 Eastern Time this morning, currency neutral amount excludes both, the impact of translating foreign currencies into U.S. dollars and the impact of currency rate exchanges on foreign currency denominated transactions.

You may also here us refer to reported amounts, which are in accordance with U.S. GAAP and include translation and transactional impacts from foreign currency exchange rates. We've chosen to use currency neutral amounts as lead numbers in our discussions, because we feel it more accurately represents true operational performance and underlying results of our businesses and brands. Reconciliations of GAAP measures to currency neutral amounts can be found in the supplemental financial information included with the press release, which identify and quantify all excluded items.

Joining us on today's call will be Eric Wiseman, VF Chairman and CEO; Steve Rendle, President and COO; Scott Roe, our CFO; and VF Executives Karl Heinz Salzburger and Scott Baxter.

Following our prepared remarks, we'll open the call for questions and ask that you please limit yourselves to two questions per caller.

Thank you. Now, I'll turn the call over to Eric.

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### Eric C. Wiseman

*Chairman & Chief Executive Officer*

Thanks, Lance, and good morning, everyone. We have much to discuss so I'll dive right in. You'll hear today that we're pleased with our third quarter and year-to-date results in the year that operationally is one of our strongest ever; you'll hear about how the power of our diverse brands, channels and geographies are used to connect with consumers around the world; and you'll hear some caution about certain parts of the external environment. What you will not hear is a lack of confidence in our ability to be successful in the short-term and the power we have to deliver consistent long-term value to shareholders.

In the third quarter, currency neutral revenue was up 8%, which was a bit softer than we had anticipated 90 days ago and reflective of the current retail environment. However, our five largest brands collectively grew 11%, and we saw growth in all channels in every region of the world.

Coalition highlights include: Outdoor & Action Sports, which was up 13% with nearly the same growth rate in both D2C and wholesale and Jeanswear, which posted its fourth consecutive quarter of at least mid-single digit growth including higher results for both Wrangler and Lee in all channels in nearly every region around the world.

Our fastest-growing brand of the quarter award goes to SmartWool with 33% growth. SmartWool is one of the unsung jewels in our portfolio and the team out in Steamboat Springs is doing great work.

VF's international business was up 9% with a 5% increase in Europe and 19% increase in the non-U.S. Americas region and 12% growth in Asia-Pacific, including 16% growth in China.

Our direct-to-consumer business was up 8% with strength in the Outdoor & Action Sports and Jeanswear coalitions being tempered by D2C weakness in Sportswear and Contemporary.

On a currency neutral basis, our gross margin improved 60 basis points to 48.9% due to benefits from product cost and the continued mix shift to higher-margin businesses. However, reported gross margin was down 40 basis points to 47.9% as we realized 100 basis points of foreign currency headwinds, which was about 30 basis points higher than the outlook we provided in July. Taking that through to the bottom-line, our currency neutral earnings per share were up 14%, which has us right on track to deliver 15% earnings growth for the full year.

While we do see some choppiness in certain parts of the current environment, our third quarter results and outlook for the full year give me great confidence in our sector and in VF's long-term ability to outperform the market by focusing on what we do best – deepening our consumer connections and driving innovation to strengthen our brands and proactively managing our business to ensure we continue to create value for our shareholders.

And with that, I'll turn the call over to Steve, Karl Heinz, and Scott Baxter to take us through our coalition and brand results, and then on to Scott Roe to review our financial results. Steve, it's over to you.

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## Steven E. Rendle

*President & Chief Operating Officer*

Thanks, Eric. Outdoor & Action Sports revenue was up 13% in the third quarter, driven by nearly the same growth rate in wholesale and D2C. This performance puts us right on track to achieve our full-year expectation of a low-double digit currency neutral increase.

So let's walk through some of the highlights from our three largest brands, starting with The North Face. The third quarter revenue was up 11% globally with a similar growth rate in both wholesale and D2C. In the Americas region, despite later in the quarter deliveries and a warmer start to autumn, revenue was up at a low-double digit rate, including low-teens growth in wholesale and a high-single digit increase in D2C. Our product success runs deep at The North Face and the third quarter was no exception with particular strength in our ThermoBall, Summit Series, Mountain Athletics, and Ultra collections.

ThermoBall has now expanded into men's, women's, kid's and footwear with an amazingly unique color and print pallet to meet consumer demand for trend forward, three-season, lightweight performance product.

Just last week, we re-launched Summit Series, our pinnacle line of elite Alpine equipment, which features a six-piece layering system for both men and women, giving us confidence that we are once again resetting the bar of what it takes to empower mountaineering athletes to perform even more effectively in the world's harshest environments. And when they're not on the dirt, rock, snow, or ice, our Mountain Athletics training collection has also expanded its offering and it's becoming the go-to brand for multi-environment athletes who train for more than a game.

Rounding it out is our Ultra footwear collection for the outdoor athletes who run, hike and train, giving them the exact spec, support and reliability they need to push the boundaries of what's possible. Overall, we're really proud of our footwear business.

We also debuted our Never Stop global advertising campaign in late-September. This campaign encourages people everywhere to find something they love about the outdoors and to relentlessly pursue it. Not only is this our biggest and most exciting brand campaign to-date, but it's truly the first time we've run a single unified global spot, so an amazing opportunity for us to drive brand awareness and strengthen loyalty with our core consumers.

Now, to Karl Heinz.

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## Karl Heinz Salzburger

*Vice President, VF Corporation and Group President, International*

Thank you, Steve, and good morning, everyone. The North Face European business was up at the low-single digit rate, driven by more than a 20% increase in our D2C business and stable results in wholesale.

We also saw strength in our ThermoBall and Mountain Athletics collections. And footwear has performed well, with standout performances from our Hedgehog product. During the quarter, we launched TNF mobile sites in the U.K., Germany and France. And we rolled out a number of key partner brand stores throughout Europe.

In Asia, revenue increased at the high-teen rate driven by more than 20% wholesale growth. During the quarter, we launched a ThermoBall head-to-toe collection, supported by a strong social media campaign. We also opened our second Asian urban exploration test store in Hong Kong with very strong results.

We are pleased with the strong momentum in The North Face global business and are on track to deliver low-double digit growth for the full year.

Now, let's turn to Vans.

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## Steven E. Rendle

*President & Chief Operating Officer*

Global revenue for Vans was up 10% in the third quarter with a high-teen increase in D2C sales and a mid-single digit increase in wholesale, and what's turning out to be another banner year. In fact, year-to-date, Vans is already well above the \$1.5 billion revenue mark as the big brand gets even greater traction as the global icon of creative expression in the world's youth culture.

In the Americas, momentum continues with revenues up at a low-double digit rate, including a mid-teen increase in D2C and a high-single digit increase in wholesale. In a strong quarter with balanced growth, increasing product momentum, and consumer engagements, I'll start with product.

Our footwear success continues to be broad-based with momentum across all of our footwear categories with particular callouts to Sk8-Hi and Old Skool as some of our iconic side stripe franchises which are seeing great consumer response. In fact, we've seen sellouts in a number of colors and styles of each. And with the colder, wetter weather on its way, our weatherized Mountain Edition footwear has seen incredibly strong growth in both the wholesale and retail channels.

For the collector culture, we launched our new Kishimoto collection globally, featuring the unique symbolic printed designs that are trademarks of the London-based design team. Demand is off the charts, but we're never done.

On Halloween in the States, in what will be its most technical collaboration yet, Vault by Vans and The North Face teamed up to create the Sk8-Hi Mountain Edition LX pack which has six pairs of limited edition shoes and one jacket, all designed to keep you warm during winter's harsh weather. The footwear uses Vans' reverse waffle lug outsole, The North Face's winter grip, Cosmo Comfort heat retention and water repellent uppers. To sum it up, these are take them anywhere, anytime, in any weather condition boots. And I think sneakerfreaker.com said it best when they called it the H1 Hummer of the Sk8-Hi fleet.

On the consumer engagement front, the third annual Vans US Open of Surfing in Huntington Beach was a huge success. Not only did we garner a great turnout with nearly 7,000 people in one intense week and generate significant Vans business for local accounts and Vans stores. We did so in a sustainable way, fueling the majority of the event with bio-diesel and diverting 96% of waste. For an event of this size, this is a great brand building accomplishment and one that we're extremely proud of.

Now to international.

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## Karl Heinz Salzburger

*Vice President, VF Corporation and Group President, International*

In Europe, Vans' revenue was up at mid-single digit rate driven by mid-teens growth in D2C and a slight increase in our wholesale business. We saw a lot of the same trends that Steve discussed with Sk8-Hi, Old Skool and the Kishimoto collections, all performing very well.

Our new collaboration Vault WTAPS created a lot of energy around the brand for our aspirational consumer and was sold out within hours. We also recently launched weatherized Mountain Edition in footwear and apparel in the region and early results have been very strong.

In Asia, Vans put up another really strong quarter with revenue up at high-teen rate, driven by more than 40% growth in D2C and a solid performance in wholesale. It's been a busy quarter in terms of brand engagement driven by our House of Vans Asia Tour which stops in Beijing and Seoul. With continued success in China, Vans is definitely in a friendly race with The North Face and Lee to become the largest VF brand in that country by the end of 2015.

So with that, clearly very strong momentum in the Vans business globally, and we are on track to reach our mid-teen growth target for the full year.

Now, let's turn to Timberland.

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## Steven E. Rendle

*President & Chief Operating Officer*

Hey, before Timberland, a quick correction. I believe I said 7,000 people attended the U.S. Open of Surfing. I meant 700,000 people.

Timberland had a strong quarter, with global revenues up 21%, with more than 25% growth in our wholesale business and a moderate increase in the D2C channel. In the Americas, the brand was up more than 40%, driven by over 50% growth in the wholesale business. Now while these numbers are clearly quite high, keep in mind that last year there was a significant order shift pulled from the third quarter into the second quarter as the brand came onto VF's business operating platform. Accordingly, this year's third quarter had a much easier comp. Normalizing for the timing shift, growth was right on track for the quarter and full year.

Looking at our Tree business, we saw strong performance this quarter in both wholesale and D2C, driven predominantly by boots and hikers across both genders. In boots, it was exciting to see continued success with both classics and more casual styles. On the women's side, six-inch boots as well as the Teddy Fleece and Amston families were strong sellers. In men's, core boots in the Newmarket and Groveton families led the way.

Tree apparel products were also outstanding performers during the quarter, driven by knits, wovens and outerwear. In September, we launched our new Made for the Modern Trail campaign, which redefines the outdoors and celebrates everyday adventure and exploration in the city, country and everywhere in-between. We kicked off the campaign with a number of events in New York, including a Timberland-UBER Promotion, which offered consumers free rides and surprise boots in a Timberland-branded jeep. This is one of UBER's most engaged promos ever, with more than 7,000 rides requested in just four hours.

On the Pro side, our industrial business, we also saw continued momentum with strength in the Pro Boondock family of work boots. Beyond the appeal of the boot itself, success was driven by our expanded, When Your Feet Hurt Your Work Suffers campaign. So incredible growth for Timberland, and we're excited as we close out the rest of the year.

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## Karl Heinz Salzburger

*Vice President, VF Corporation and Group President, International*

Timberland's European revenue was up at the high-single digit rate with comparable growth in both wholesale and D2C. The men's business, the SensorFlex, Stormbuck and Britton Hill product showed strong performance in footwear. On the women's side, the Glancy and Amston family of products both performed well.

In terms of consumer engagement, we successfully kicked off the season with in-store events like the Vogue Fashion Night Out and continued with a 360-degree marketing campaign called Black Forest. This campaign gives Timberland's new lines and positioning great visibility in traditional and online media.

Turning to Asia, revenue increased at the low-single digit rate, led by growth in D2C. On the apparel side, we saw strength across both our men's and women's offering with strong initial sell-through of our recently launched fall collection. And on the footwear side, growth was driven by our core boot styles, in particular new color offerings of our traditional six-inch boot, proving this iconic style excites consumers around the world.

Overall, a consistently strong year-to-date performance from Timberland, and we remain on track to grow global revenue at the low-teen rate for the full year.

Now, let's turn to Scott and Jeanswear.

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## Scott H. Baxter

*Vice President, VF Corporation and Group President, Jeanswear Americas & Imagewear and South America*

Thanks, KH, and good morning, everyone. Our global Jeanswear business was up 4% on a currency neutral basis, with positive results for both Wrangler and Lee and growth in both wholesale and D2C channels. In the Americas region, Jeanswear revenue was up at a mid-single digit rate, which marks the fourth consecutive quarter of mid-single digit growth, so very pleased with the progress we're making.

Revenue for Wrangler in the Americas was up at a low-single digit rate. A few product highlights include our Advanced Comfort collection, which is performing well in the mid-tier market, and our Cool Vantage jeans, which once again exceeded expectations in our Western business, allowing us to expand offering into new doors at a number of our key partners. We also rolled out Wrangler Riggs to additional doors in the third quarter and remained very encouraged with the results from this collection.

Over to Lee. We are pleased to see this business turn positive in the third quarter, with high-single digit revenue growth in the Americas. We've seen increasing momentum from our Modern Series platform for both men and women over the past few quarters and have expanded our women's denim offerings to additional department store doors. So definitely gaining momentum there.

On the e-commerce side, we've worked with several online partners to bring updated looks to our brand pages for improved site experience and efforts that has contributed to strong sales growth. We feel great about our progress in the Jeanswear business, and we're excited about what we have in store for the fourth quarter.

Now, back to KH.

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## Karl Heinz Salzburger

*Vice President, VF Corporation and Group President, International*

European revenues for Wrangler were up at the low-single digit rate, driven by growth in our e-commerce and D2C businesses. On the product side, we are seeing strong results from the clean modern look of the Metropolitan package and Larston slim tapered fit for men. We also launched a new Born Ready advertising campaign in September, which is expected to generate more than 250 million touch points through November.

Lee continued its strong performance in Europe with a high-single digit increase representing the 10th consecutive quarter of revenue growth for the brand in this region. New products like the boot-cut Juliette for women and Skinny Malone for men led to the strong results. At once, business continues to be strong as well, and Lee's full-price stores show the high-single digit comp in the quarter.

In Asia, our Lee business was up at the high-single digit rate. Building on our successful Jade Fusion launch, we introduced our Magma Fusion product in September. Early results are quite positive.

In closing, we are very pleased with the direction Jeanswear has taken over the past several quarters and are confident that we can achieve a mid-single digit increase in this coalition for the full year.

And now to Imagewear.

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## Scott H. Baxter

*Vice President, VF Corporation and Group President, Jeanswear Americas & Imagewear and South America*



Imagewear revenue was up slightly for the quarter with strong demand in our licensed sports group being offset by declines in our workwear business. In LSG, our Major League Baseball Cool Base Jersey has been a standout performer and we've seen strength in contending markets throughout the playoffs, particularly from long-suffering Mets, Blue Jays and Cubs fans, while our new on-field Take October graphic hoodies are garnering strong visibility in screen time.

On the workwear side, while our Red Kap shop gear products saw strength, our Bulwark line remained challenged by slower oil exploration. Given the softer performance on the workwear side of the business, we're now expecting 2015 results to be flat with 2014.

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## Steven E. Rendle

*President & Chief Operating Officer*

Our Sportswear business was down slightly for the quarter reflecting a low-single digit decrease in the Nautica business, and a low-single digit increase in Kipling's U.S. business. Kipling's global business was up at a low-teen rate. As we work through ongoing challenges in D2C and at the department store channel, our efforts to elevate Nautica's business model has begun to pay dividends. However, based on the challenges in the current environment, we are adjusting our full-year expectations to low-single digit growth in the Sportswear coalition.

Our Contemporary Brands coalition saw revenues decline 13% during the quarter, with equal wholesale and D2C weakness. We're disappointed in these results. While the softness of the overall Contemporary category and challenging retail environment has certainly contributed, we're working hard to assess our overall strategy for these businesses, focusing on product, consumer insights and channel strategies to determine ways to reinvigorate and strengthen these brands for the long-term.

Given the year-to-date results, we are now expecting revenue for this coalition to be down at a high-single digit currency neutral rate in 2015.

And with that, I'll turn it over to Scott for a deeper dive into our financial results.

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## Scott A. Roe

*Chief Financial Officer & Vice President*

Thanks, Steve. This has been a strong year for VF and despite what looks to be a somewhat softer retail environment, the performance for Outdoor & Action Sports and Jeanswear coalitions is solid. They posted solid results in the quarter and are tracking quite well compared with their full-year and long-term growth targets. Representing more than 80% of VF's total revenue, these two coalitions combined are on pace to grow close to 10% in 2015. And our other coalitions demand has been particularly pressured by slower oil exploration and continued challenges in both direct-to-consumer and department stores, leaving those coalitions to report flat-to-down results.

And as you'd expect, collectively, we continue to leverage our business model of diverse brands, geographies and channels along with our commitment to innovation and operational excellence, while delivering solid returns for our shareholders. And now, let's review our third quarter results.

Currency neutral revenue increased 8%, which is in line with our full-year outlook. By channel, growth rates were balanced in both our wholesale and D2C businesses, up 8%. In fact, nearly every one of our brands' wholesale businesses were up in the quarter, including double-digit growth from The North Face, Timberland, Kipling, Lucy, SmartWool, and Eastpak. Each region also had positive results including a low-single digit increase in Europe and

a low-double digit increase in Asia, including more than 20% growth in China. And our non-U.S. Americas business was up at a high-teen rate.

In D2C, similar to our wholesale results, nearly every brand was up during the quarter. A few callouts were Vans, Kipling and Napapijri, who had especially strong results. And regionally, we saw mid-teen increase in Europe and Asia and 40% currency neutral growth in our non-U.S. Americas business.

Gross margin on a currency neutral basis was 48.9% in the third quarter, representing a 60-basis point improvement over the same period last year. Reported gross margin was down 40 basis points to 47.9%, as benefits from more favorable product costs and a shift in mix to higher-margin businesses were offset by foreign currency headwinds. Overall, changes in currency during the quarter accounted for 100 basis points of negative pressure, that's 30 basis points more than we expected just 90 days ago.

And even though we did see improvements in the euro, which is about 40% of our total currency basket, this was more than offset by weakness in the Chinese RMB, British pound sterling, Canadian dollar and Mexican peso. Considering that our third quarter has the highest percentage of international business, FX had a disproportionate impact in the period.

Turning now to SG&A, our SG&A ratio was down 30 basis points to 30.1% compared to last year. This demonstrates the agility of our business model, offsetting continued investments in D2C, demand creation and innovation with operating leverage. Currency neutral operating income was up 14%, and operating margin was up 100 basis points over the same period last year to 19%. On a reported basis, operating income was up 2%, and operating margin declined 20 basis points to 17.8%. As previously mentioned, negative impacts from FX fell through to the bottom-line.

Clicking down into profitability by coalition, we see reported Outdoor & Action Sports' operating income grew 3% and operating margin was 21.2%, a decrease of 60 basis points compared with last year's third quarter. This decline was entirely due to the impacts of changes in foreign currency, as about 40% of the coalition's revenue come from regions outside of the U.S. On a currency neutral basis, operating income was up 16%.

Operating income in the Jeanswear business was up 1% in the third quarter, with operating margin up 30 basis points to 21.2%. Excluding the impact of currency, operating income was up 8%, nicely ahead of our revenue growth. The strength in Jeanswear continues globally, and we're very pleased with this, our fourth consecutive quarter of mid-single digit growth.

Imagewear profitability was down 2% this quarter, as the workwear side of the business was impacted primarily by reduced demand in oil exploration. Operating margin decreased 30 basis points to 14.3%. This was due in part to unfavorable changes in foreign currency. Without the impact of that currency, operating income rose 2%.

In Sportswear, even with a slight decrease in revenue, our operating margin improved 20 basis points to 14.3%. And while our Sportswear business remains pressured by softness in department stores and D2C, the strategic shift towards higher-quality sales is showing positive financial returns. And finally, our Contemporary Brands' business saw a significant decrease in revenue and profitability in the third quarter.

Moving to the bottom-line, EPS grew at a healthy 14% on a currency neutral basis, placing our year-to-date results right at 15%, which is consistent with our outlook target for the full year. On a reported basis, EPS was down 1% due to foreign currency headwinds.

Turning now to some balance sheet details, our inventories were up 12% at the end of the quarter, which is in line with our expectations. And since I can already hear your question, how could 12% be in line with an expected low-single digit growth rate in the fourth quarter? Well, let me put some context around that.

First, this year's order book, especially for all our colder weather products, shifted much more heavily into the first few weeks of October compared with a year ago. This causes us to build inventory receipts more aggressively at the end of Q3 to meet consumers' early October request dates. And second, with 147 more doors in our D2C business this year, there is a bit of distortion in the year-over-year D2C inventory comparisons. We've opened these stores earlier this year in order to maximize retail sales in the key fourth quarter period.

So the takeaway is clear, we are not concerned about Q3 inventory levels. In fact, our attention to inventory management is as focused and well-informed as it's ever been, and we expect year-end levels to be back in line with revenue growth. And of course, we're pleased to report that our board of directors approved a new quarterly dividend of \$0.37 per share, which is \$0.05 or 16% over the prior rate. This represents the 43rd consecutive year in which we've increased our dividend, a meaningful example of the commitment to our shareholders that demonstrates confidence in the future. Given the increase in the quarterly rate, this takes our 2015 dividend to \$1.33, a 20% increase over the prior year.

Now, let's look ahead to our full-year expectations, beginning with the top-line. For context, remember that this year's fourth quarter is up against last year's 53rd week, which added about 300 basis points to the top-line in that quarter. Accordingly, we see revenue growth at a low-single digit reported rate in the fourth quarter. For the full year, with a bit more cautious outlook given the current environment, we expect currency neutral revenue to be up 7.5%. On a reported basis, we expect to approach 3% growth.

By coalition on a currency neutral basis, we expect Outdoor & Action Sports and Jeanswear coalitions, which represent the vast majority of our total revenue and profit, to remain strong. There is no change to our outlook for low-double digit and mid-single digit growth respectively for these coalitions.

And for the reasons previously outlined in this call, we now expect Imagewear revenue to be flat compared with the last year versus our previous outlook of mid-single digit growth. In our Sportswear coalition, we're now expecting low-single digit growth versus our previous expectation for mid-single digit growth, and revenue for our Contemporary Brands' business is now expected to be down in the high-single digit range.

We continue to expect our currency neutral gross margin for 2015 to be about 49.5%, reflecting a 70-basis point increase over 2014 and at our 17x17 target level two years early. This year's expansion is due to the continued mix shift towards higher-margin businesses and favorable product costs in 2015, two trends that we expect to continue. Remember, VF's fourth quarter is expected to generate the strongest margin and profit comparisons, given our higher proportion of D2C in Outdoor & Action Sports, coupled with favorable product costs. On a reported basis, given the additional FX pressure, we expect the reported gross margin to be about flat with 2014.

Moving now to the bottom-line, there is no change to our expectation that currency neutral earnings per share will increase 15% to last year's adjusted EPS of \$3.08. On a reported basis, we're letting the previously described negative impact from foreign currency, about \$0.04, flow through to the bottom-line. This revises our full-year EPS to \$3.18, representing approximately 3% growth over last year's adjusted EPS. Keep in mind the 53rd week added about 400 basis points of EPS growth net of currency in the fourth quarter last year.

So in closing, despite a choppy environment, our model is proving once again to be successful.

Now, I'll turn it over to the operator and take your questions.

## QUESTION AND ANSWER SECTION

**Operator:** Thank you. [Operator Instructions] And we'll go first to Bob Drbul with Nomura Securities.

Bob S. Drbul

*Nomura Securities International, Inc.*

Q

Good morning.

Eric C. Wiseman

*Chairman & Chief Executive Officer*

A

Good morning, Bob.

Scott A. Roe

*Chief Financial Officer & Vice President*

A

Good morning, Bob.

Bob S. Drbul

*Nomura Securities International, Inc.*

Q

I guess the first question I have is, is I think there was just some commentary around what appears to be more of a tepid retail environment. So I guess the questions that I have are around: if you could elaborate a little bit more sort of what you're seeing, even up through this morning in terms of the retail environment and different channels? And I guess within your own D2C business, can you just talk a little bit about like about whether the revised outlook on some of this is on outlet stores versus full-price stores and the various nameplates, and what you've seen over the last several months?

Eric C. Wiseman

*Chairman & Chief Executive Officer*

A

Yeah, Bob. It's Eric. I guess you know who this is. I'll take that question. When we came out in July and talked about the balance of the year, we said that we thought that the third quarter would resemble the second quarter in terms of revenue growth rate, which implied about 10% growth in the quarter. And obviously we came in at 8%. Now, while 8% is a good number, right in line with our long-range plans, it is a little bit softer than we thought, and we saw a slowdown in consumer traffic pretty much across the board, in our stores and in our customers, in our retail customers' stores.

Given what we saw in the quarter, we've elected to take a more cautious view on the year, and we've reduced our full-year revenue guidance to 7.5%. Even having said that, though, we do expect our top five brands to have a 10% increase, and we still are holding our 15% EPS growth. The shape of it, the third quarter started off really slow. It did gather some steam as it rolled into September. And September was clearly the most engaged month in terms of consumer engagement for us. Regarding our brands, it did affect all of our brands.

Having said that, I'll note that most of our D2C businesses in our Outdoor & Action Sports coalition those brands have the most stores and the biggest volume. And while they were affected, nobody is immune to this, they are holding their full-year revenue forecast and earnings forecasts for those businesses. So those businesses remain strong. It did affect our Sportswear and Contemporary businesses more. I'm trying to think of what I left out.

Outlet versus full-price? I don't know. I can't answer that. I'm not aware of any big difference in that. The people in the room are giving me hand signals that say it wasn't more in one than the other.

Bob S. Drbul

*Nomura Securities International, Inc.*

Q

All right. And, Eric, I just have two other questions. I think first is, can you comment on, you guys have a lot of exposure to Walmart, with especially the Jeanswear business. Could you just comment a little bit about any update in the relationship there in sort of a lot of the business initiatives that they're undertaking and how you are planning that to impact your business, whether for this quarter or, over the next year or so?

Scott H. Baxter

*Vice President, VF Corporation and Group President, Jeanswear Americas & Imagewear and South America*

A

Good morning, Bob, this is Scott, how are you?

Bob S. Drbul

*Nomura Securities International, Inc.*

Q

Good, Scott.

Scott H. Baxter

*Vice President, VF Corporation and Group President, Jeanswear Americas & Imagewear and South America*

A

I'll make a few quick comments. First of all, we don't comment on specific accounts. But what I am going to tell you is that we've had a multi-decade really strong partnership with Walmart, and that's going to continue in the future. I will tell you that our mass business, which Walmart is part of our mass business, was up in the quarter, and we're real confident about the Jeanswear plans going forward and feel good about our business in that category in the future.

Bob S. Drbul

*Nomura Securities International, Inc.*

Q

Great. Thank you very much.

Eric C. Wiseman

*Chairman & Chief Executive Officer*

A

Thanks, Bob.

**Operator:** And we'll take our next question from Michael Binetti with UBS.

Michael Binetti

*UBS Securities LLC*

Q

Hey, guys. Good morning.

Eric C. Wiseman

*Chairman & Chief Executive Officer*

A

Hey, Michael.

Michael Binetti

*UBS Securities LLC*

Q

Let me start on the gross margins because that's been a focus for the sector here. The inventories are a little high, I think Scott talked about that a little bit. And then if we just look at some of the detail through payables and inventory metrics, they looked a little higher than they've been. But much more importantly, there was a lot of inventory out there from the retailers who are reporting. And as we start off running season, there is some weakness in gross margin across the space. So can you just help us get a little bit more confidence in the drivers that you see in the gross margins in the fourth quarter, maybe a bit of the buildup there?

Scott A. Roe

*Chief Financial Officer & Vice President*

A

Yeah. Sure, Michael. So I guess you've probably done the math, you've looked, you see what we're implying in the fourth quarter. And our fourth quarter margins we expect to be really strong for a couple of reasons. One is it's our big Outdoor & Action Sports and retail quarter. We talked about the fact it relates back to that inventory discussion. We have more stores open versus a year ago. Those non-comp doors are going to be really paying off in the fourth quarter. And also our e-com business, which continues to gain strength, is particularly strong in the fourth quarter.

So we're going to see that mix come roaring back in the fourth quarter, and it's going to be a big driver of gross margin. Also, we'll see a little moderation on the FX side because remember, this is our biggest international quarter in the third quarter. So as we get into the fourth quarter and also a comp and a little bit easier FX versus last year, that's going to moderate a little bit as we move into the next quarter.

Eric C. Wiseman

*Chairman & Chief Executive Officer*

A

Hey, Steve, would you comment for Michael on – because Michael, we obviously anticipate some of these questions, so we've done some looking into the status of our inventory with our retail customers. Steve, do you want to comment on how that looks.

Steven E. Rendle

*President & Chief Operating Officer*

A

Yeah, I mean, at this point, our inventory levels, within our key customers across all of the businesses and channels, we don't see anything that would give us concern, that we're sitting on higher than needed inventories, to service the business.

Scott A. Roe

*Chief Financial Officer & Vice President*

A

We know that there is excess inventory out there in the retail channel, but it's not in our brands.

Michael Binetti

*UBS Securities LLC*

Q

Okay. I remember a year ago you shut down some factories when that was the case and you've been on top of that in the past. Maybe I can just dig in a little bit more on, I know of Bob asked about D2C, but it seems like growth about 8%, it looks like the stores, store count growth was a bit higher. It seems to imply that comp sales were lower in the third quarter. And that could've been a number of things. But can you talk about the fourth quarter buildup there and whether, it's based on an expectation that the comp sales accelerate?



Steven E. Rendle

*President & Chief Operating Officer*

A

Yeah. So the quarter, as we look into fourth quarter, I guess the question is do we see a change in our comp forecast? And I think it's fair to say that we will see a slight moderation, probably more like a mid-single digit comp for the quarter across our retail platform. But I would tell you, I think we have really good confidence as we come through. Our D2C business was strong for the quarter in all the different formats that we have, and to Scott's point, our powerful e-commerce model and our connection with our consumers digitally really gives us confidence that we've got the right tools and the right connections to consumers to drive that traffic and ultimately the conversion.

Eric C. Wiseman

*Chairman & Chief Executive Officer*

A

And I'll add to that Michael, that while our – we are seeing some pressure on our comps, we still are – we had positive comps in the quarter. We expect positive comps for the year.

Michael Binetti

*UBS Securities LLC*

Q

Okay.

Eric C. Wiseman

*Chairman & Chief Executive Officer*

A

The interesting thing, and Scott has kind of alluded to in his comments, is our wholesale business is really hot right now. We had double-digit wholesale growth domestically, and in Asia, and in the non-Americas region, all reported double-digit wholesale growth. And you know, that's helping us get through this a whole lot, so.

Michael Binetti

*UBS Securities LLC*

Q

All right. Thanks, guys.

Eric C. Wiseman

*Chairman & Chief Executive Officer*

A

Thanks.

**Operator:** And we'll go next to Dave Weiner with Deutsche Bank.

David Weiner

*Deutsche Bank Securities, Inc.*

Q

Yeah. Good morning, guys. So I had two questions. First, on FX, you had – on foreign currency, you had given some color that the euro comprises, I think 40% of the mix. Could you maybe give, I don't know if you've done this in the past, but could you maybe give some color on the remaining large currencies and some sense of what percent of the mix those represent?

And then my second question was regarding D2C, kind of a follow-up to prior. Can you just remind us what you – the remainder of the shifts that you guys expect from wholesale to D2C? That's obviously been a big theme. Just a reminder of how much more that still has to go? And what the potential gross, a more positive gross margin impact of that would be? Thanks.



Scott A. Roe

*Chief Financial Officer & Vice President*

A

Yeah, Dave. This is Scott. I will take the first part of that question. So you hit it exactly right. We've said that while the euro is our largest single exposure, it's less than half, actually about 40% of the total basket that we're against. And when you take the Chinese RMB, the Canadian dollar, the Mexican peso, as well as the pound sterling, those collectively are about 50% of our exposure, just to put some perspective on it, right?

David Weiner

*Deutsche Bank Securities, Inc.*

Q

Okay.

Scott A. Roe

*Chief Financial Officer & Vice President*

A

Now, it's really – and that movement in those non-euro currencies has really been the big driver over the last 90 days, as we look at the impact both in the third quarter and for the full year.

Eric C. Wiseman

*Chairman & Chief Executive Officer*

A

Yeah. And, Dave, I'll take the mix question. For the third quarter, D2C was 22% of our business. It is normally higher than on an annual basis, but as you know, that all is going to happen in this quarter. It'll be a much bigger part of our mix. The D2C as a percentage of our total revenue has grown every year the last couple of years. We expect that to continue 100 basis points to 200 basis points a year. A lot of that's – some of that's driven by new stores. We are still under-penetrated around the world. A bunch of it's driven by D2C – I'm sorry, by e-commerce.

David Weiner

*Deutsche Bank Securities, Inc.*

Q

Okay.

Eric C. Wiseman

*Chairman & Chief Executive Officer*

A

And all of those – all that favors our margins.

David Weiner

*Deutsche Bank Securities, Inc.*

Q

Yeah. Okay. Thanks a lot.

**Operator:** And we'll take our next question from Lindsay Drucker Mann from Goldman Sachs.

Lindsay Beth Drucker Mann

*Goldman Sachs & Co.*

Q

Thanks. Good morning, guys.

Eric C. Wiseman

*Chairman & Chief Executive Officer*

A

Good morning.

Lindsay Beth Drucker Mann

*Goldman Sachs & Co.*

Q

I wanted to follow up a little bit on margin drivers from currency and cost – and input costs. You've had a number of puts and takes, and given some of your lead times and hedges, can you help us understand over the next four quarters, assuming that spot rates stay where they are, how we should think about the balance of impact to your gross margins from the flow-through of currency moves versus things like lower input costs from cotton and the other inputs?

Eric C. Wiseman

*Chairman & Chief Executive Officer*

A

Sure, Lindsay. Yeah, so first of all in the currency, for the year now, we see about 70 basis points in negative currency. And really, it's the things that I just spoke about on the previous question, relative to the non-euro currencies. And that's flowing through against the year. And the other thing, you asked about input costs. And we've been really consistent all year along about what to expect in terms of input costs. Remember, it was a little bit against us in the first half of the year. It turned – it starts to be favorable in the third quarter, and we really see that coming home in the fourth quarter. So for the full year, it's 20 basis points to 30 basis points of cost that we see coming through on the positive side. And obviously, that's a trend which should continue into the next year.

Lindsay Beth Drucker Mann

*Goldman Sachs & Co.*

Q

Okay. And then just maybe bigger picture. As we think about some of the choppy industry dynamics that you're talking about, some of the issues with respect to traffic and your customers that might be more structural versus cyclical, how are you guys thinking about managing the part of your business where you do have some pretty direct exposure there, whether it's outside of Outdoor & Action and specific to wholesale? And whether that's something we should think about as a headwind to longer-term growth?

Eric C. Wiseman

*Chairman & Chief Executive Officer*

A

The – are you asking if we intend to continue investing in our direct-to-consumer strategy?

Lindsay Beth Drucker Mann

*Goldman Sachs & Co.*

Q

No, I'm asking how you're going to play defense where your – in the parts of your portfolio where you have pretty direct exposure to some of the most challenging industry trends, whether that's...

Eric C. Wiseman

*Chairman & Chief Executive Officer*

A

Sure.

Lindsay Beth Drucker Mann

*Goldman Sachs & Co.*

Q

...department stores and fashion?

Eric C. Wiseman

*Chairman & Chief Executive Officer*

A

Sure. Well, Lindsay, the first comment I'll make is – and you know us, so you know we've been investing for years in our innovation strategy, have doubled down on that investment in the last 12 months of creating product innovation centers. And the reality is if you look at our wholesale business, I mentioned on another question that we had double-digit growth in our wholesale business and our inventories at retail are in good shape. That tells you that for us to be growing 8% in quarters like this shows you that we have the right brands and the right products behind those brands. And it is more difficult out there and clearly the industry isn't growing at 8%, but we are and that tells you that we've got – our investments in innovation and in communication with our consumers, we're much better at communicating in our stores. I don't know if you've seen the Never Stop TV campaign from The North Face, but it's a much more emotional way of communicating that brand than we've ever had.

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Lindsay Beth Drucker Mann

*Goldman Sachs & Co.*

Q

Got it. Thanks so much.

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Eric C. Wiseman

*Chairman & Chief Executive Officer*

A

Thank you.

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**Operator:** We'll take our next question from Laurent Vasilescu from Macquarie.

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Laurent Vasilescu

*Macquarie Capital (USA), Inc.*

Q

Good morning, and thank you for taking my questions. Congrats on China. A few quarters ago, it was called out that you had about 2,500 doors in China versus some of your peers at 5,000. Can you remind us how big China is today? And I would presume there is an upside to the \$1 billion goal you called out for 2017. Any color on how each brand is in China would be great?

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Karl Heinz Salzburger

*Vice President, VF Corporation and Group President, International*

A

Laurent, this is Karl Heinz. Try to answer your question. China is about \$600 million. It's growing \$600 million and bigger. It's growing as we had planned. We just quoted in this quarter, we are up mid-teens. It is true, the number of doors you mentioned. We have – we operate with four brands primarily, you know the four big brands. And in total, we sum up to 2,500 doors. We have competitors with less brands have much, much, much higher number of doors, so we see China as a great opportunity going forward. I always say China is a marathon and while we might have bumps in the short-term, which we are not seeing at the moment, we think that market is a great opportunity for us.

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Laurent Vasilescu

*Macquarie Capital (USA), Inc.*

Q

Great. And then automation is a big theme going forward. NIKE partnered with Flextronics last week and adidas with Manz, and then Under Armour talked about Project Glory yesterday. You guys are at the forefront of manufacturing. How are you thinking about the supply chain revolution? What are the near-term and long-term implications, as well as the gross margin and speed-to-market opportunities?

Eric C. Wiseman

*Chairman & Chief Executive Officer*

A

Our innovation strategy captures advanced manufacturing as one of those key areas that we're looking at both in our denim innovation center and our technical apparel, as well as footwear. Supply chain is obviously one of our greatest strengths and our supply chain team is directly involved and have people sitting within our innovation centers helping our teams think not just about how we design products, the materials that go into the products, but thinking long-term how we make them. How do we make them more efficiently, how might we make them to give ourselves a real differentiating look to the consumer in the marketplace, but also to your point, where do we make things and how do we positively impact our speed-to-market and build on some of the powerful platforms we have, such as Vans and Timberland in this area of customization.

Laurent Vasilescu

*Macquarie Capital (USA), Inc.*

Q

Thank you, and congrats.

Eric C. Wiseman

*Chairman & Chief Executive Officer*

A

Thanks.

**Operator:** And we'll go next to Kate McShane with Citi Research.

Kate McShane

*Citigroup Global Markets, Inc. (Broker)*

Q

Thank you. Good morning.

Eric C. Wiseman

*Chairman & Chief Executive Officer*

A

Good morning, Kate.

Kate McShane

*Citigroup Global Markets, Inc. (Broker)*

Q

My question is just on SG&A spend during the quarter. You've always talked about how you have a lot of flexibility when it comes to your spend. But I think this rate of growth was one of the lowest in a couple of years. Is there any spending that's being shifted into Q4? And can you walk us through maybe some of the drivers of the growth during the quarter?

Scott A. Roe

*Chief Financial Officer & Vice President*

A

Good morning, Kate. Scott here. I'll take that question. First of all, let me tell you what we're not doing. We're not reducing any spending in strategic priorities and that means demand creation, that means product creation, that means innovation. These strategic priorities always get the first bite of the Apple, and this is no exception to that. But as we've seen softer environment, we're good cost managers, and we look for leverage in those other, call it, the leverageable side of our platform, and we see that in the third quarter, and we'll see that going forward into the fourth quarter.

Kate McShane

*Citigroup Global Markets, Inc. (Broker)*

Q

Okay. Thank you. And then just my second question is a longer-term outlook question, but I think we continue to hear very positive things from you about Kipling and JanSport and Napapijri. And Lucy appears to be doing well in the sporting goods channel. When can these become more meaningful, already meaningful, but more meaningful brands, and will you be flexing that more significantly in the next year or so?

Eric C. Wiseman

*Chairman & Chief Executive Officer*

A

Yeah, that's a great question. As soon as possible would be my preferred answer to that. But you watched us build brands like The North Face and Vans, which were the size that Kipling is now. And we have a very deliberate, thoughtful approach to building brands. We're not in a race to build them too quickly, because that's possible to do. We like to keep our brands in desire and special, and we are building the brands that you just talked about very methodically right now.

A great example is Lucy, where when we bought the business it was nothing but a D2C business. And that was exclusively a D2C business. And we've expanded that into a wholesale business, and that is working. And it's things like Kipling, which we're taking around the world right now with great success. Next year is the year of the monkey in China, and you will be hearing from Kipling in that region of the world in particular.

Kate McShane

*Citigroup Global Markets, Inc. (Broker)*

Q

Thank you.

Eric C. Wiseman

*Chairman & Chief Executive Officer*

A

Thanks.

**Operator:** We'll take our next question from Matthew Boss with JPMorgan.

Matthew Robert Boss

*JPMorgan Securities LLC*

Q

Hey. Good morning, guys. So can you talk a little bit more to Vans? I know there's some noise lapping some shipment timings and things like that. But any real change in demand that you're seeing in any region? Or any changes on the competitive landscape with Vans?

Steven E. Rendle

*President & Chief Operating Officer*

A

Yeah, I'll start, and then Karl Heinz can build in. I would tell you that there are absolutely no concerns with our Vans business. In fact, their performance you saw this quarter was exactly in line with our plans. The Vans business is operating at an impressive level. Their understanding of their consumer, not just here in the U.S. but across the globe, really informs, you know, how they think about their product creation platform and how they connect with their consumer, especially digitally.

I would let Karl Heinz talk about the international aspect, but on the U.S. side a very, very strong, you know, rich, rich product platforms entering the marketplace, with really good connections to the consumer.

Karl Heinz Salzburger

*Vice President, VF Corporation and Group President, International*

A

Yeah, maybe starting with Europe. You know, I completely agree what Steve said. There's a lot of good stories happening on their product side. Probably I refer to the quarter in Europe, which was a little bit softer than we had in the past. This is absolutely phasing which impacted us from a timing perspective, but it will normalize in Q4. And for the full year, we are right in line with our expectations.

Scott A. Roe

*Chief Financial Officer & Vice President*

A

Yeah, let me – this is Scott, let me just add one other data point on that. Year-to-date, we're running about 16% which is right in line with our full-year guidance. So if you look at the shifting between quarters, when you normalize for that, we're really right on track.

Matthew Robert Boss

*JPMorgan Securities LLC*

Q

Great. And then just as a follow-up. So larger picture, as we think about next year, and I know you're not providing guidance, but what's the best rule of thumb to think about foreign exchange exposure, if rates were to remain where they're at today? And then, Eric, just are there any drivers of your 15% constant currency earnings this year that don't continue into next year?

Scott A. Roe

*Chief Financial Officer & Vice President*

A

Yeah, this is Scott again. I'll take the first part of that. If you look at where our currency rates are today, and obviously we would say that's going to be a headwind, but in terms of specific guidance or rule of thumb, we're not going to give that, as you know, for 2016 at this point. But I would just encourage you to not isolate on one factor. Because as I mentioned earlier, we've got headwinds from currency based on what we see today. On the other hand, commodities are going in our favor. And we've shown over time that we're able to have pricing power, and that formula really has allowed us to maintain our margins over time and I see no reason why that won't continue in the future.

Eric C. Wiseman

*Chairman & Chief Executive Officer*

A

And looking forward in terms of the trend, the only comment I'll make is how methodical and deliberate we are. We have a reputation for being pretty good at execution. And just looking at the last quarter, our total business was up 8%. And domestically, we were up 8%. And internationally, we were up 9%. And our direct-to-consumer business was up 8%. And that's our long-term model, to deliver that 8% growth a year. And we are executing against that and expect to execute against it in the future.

Matthew Robert Boss

*JPMorgan Securities LLC*

Q

Great. Best of luck.

**Operator:** And we'll go next to Chris Svezia from Susquehanna Financial Group.

Chris Svezia

*Susquehanna Financial Group LLLP*

Q

Good morning, everyone, and thanks for taking my question. I just have a – actually just one, maybe, Karl, for you. Just maybe dive a little bit into the European business on the wholesale side. I think you touched on in response to the last question about just Vans seem to be an issue with regard to timing, but maybe you can add just some color about what's going on in the marketplace? And then more specifically about North Face just being kind of flat in the quarter. Is that also a timing issue? Or is there just any thoughts in and around the European piece of business on Outdoor & Action Sports? Thanks.

Karl Heinz Salzburger

*Vice President, VF Corporation and Group President, International*

A

Yeah, we don't see big changes going on in Europe. You know, most of our brands, actually are growing. North Face you mentioned, North Face was up low-single digits. So the brand is doing well. From a geography point of view, we see pretty strong performances of our brands in the Southern Hemisphere, Europe, Italy, Spain are doing really well. But also U.K., which is a very important market for us, we are up in a very meaningful way, double-digit. And the big German countries, Germany, Austria, Switzerland, very solid performance. So I would say the brands are doing well, especially the big brands, but also Napa was touched before, Napa, Kipling. We have a great portfolio story there going on.

Chris Svezia

*Susquehanna Financial Group LLLP*

Q

So just to go back on that for one second, I just want you to talk about flat wholesale for North Face in the quarter. That was in line with your plan? Do you expect that to accelerate in the fourth quarter? Is that timing? Or I'm just curious about the wholesale piece on Europe with regard to North Face?

Karl Heinz Salzburger

*Vice President, VF Corporation and Group President, International*

A

Yeah, no. Specifically, it was a little bit timing, right? We have – we're pleased with the performance of The North Face. We had in the past it was a little bit softer, but it started to grow again nicely this year. The brand is really doing well, what we hear from our consumers.

Chris Svezia

*Susquehanna Financial Group LLLP*

Q

Okay. Thank you very much. All the best.

Karl Heinz Salzburger

*Vice President, VF Corporation and Group President, International*

A

Thank you.

**Operator:** We'll take our next question from Erinn Murphy with Piper Jaffray.

Erinn E. Murphy

*Piper Jaffray & Co (Broker)*

Q

Great. Thanks. Good morning. Eric, I guess for you, if you could maybe just touch a little bit on the M&A environment? I know you guys have talked in the past about seeing opportunities but just maybe not seeing



willing sellers. So is that still the theme that you're seeing? Are there any new opportunities emerging? That would be my first question. Thank you.

Eric C. Wiseman

*Chairman & Chief Executive Officer*

A

No, Erinn, I guess fortunately and unfortunately nothing has changed. We are very focused on certain sectors to acquire in those sectors, and we're focused on certain companies within those sectors. And we are working those opportunities. So that's the good news, is there is no change in our strategy. The bad news side of it is we didn't make any progress last quarter or we didn't get anything done, but we are making progress on some things. Eventually something will happen. We just don't know when that will be.

Erinn E. Murphy

*Piper Jaffray & Co (Broker)*

Q

Okay. And any change in terms of the multiples that you're seeing out there? Just as things that particularly domestically have taken a little bit of a softer patch in the last quarter or so?

Eric C. Wiseman

*Chairman & Chief Executive Officer*

A

No, not really.

Erinn E. Murphy

*Piper Jaffray & Co (Broker)*

Q

Okay. And then, I guess, secondly on China, just following up on kind of more near-term trends, a lot of chatter has come out of China, just with Golden Week being a little bit softer the month of October. And could you maybe just parse out a little bit more on kind of what you're seeing a little bit more real-time? And then maybe what you're seeing in jeans versus the outdoor channel in China in particular? Thanks.

Karl Heinz Salzburger

*Vice President, VF Corporation and Group President, International*

A

There were some noise in the line, but I think you're asking about China, right? What we see in China, especially on jeans and outdoor. I think we said it in the script, Lee is doing really well in China, had been a big consistent success story for long time. And we are pleased that we are the leader in China, which is a really, really good news.

Outdoor, I think we have two by brands, as you know, The North Face and Vans. I think Vans, the numbers we gave you, they comment for itself. It's really strong. Vans is doing extremely well in China, and we are together with The North Face is in a race, as I said in my script, it's becoming with The North Face simply the largest brand.

Outdoor was up – North Face was up also very nicely in China this quarter. And we had in the past a few issues with inventory, but that seems to be cleared at the moment. So again, I always, even if I'm repetitive, China is a great opportunity for us long-term.

Erinn E. Murphy

*Piper Jaffray & Co (Broker)*

Q

Okay. And I may have broken up just on the line, but I guess my initial question was just really on the month of October there has been a tremendous amount of concern on kind of Golden Week and traffic trends. Did you see

any step function change around that period? Or has it just been kind of consistent strength that you referenced in the script?

Eric C. Wiseman  
*Chairman & Chief Executive Officer*

A

No. We haven't seen any change.

Erinn E. Murphy  
*Piper Jaffray & Co (Broker)*

Q

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

Eric C. Wiseman  
*Chairman & Chief Executive Officer*

A

Thanks, Erinn.

**Operator:** We'll go next to Omar Saad from Evercore ISI.

Omar Saad  
*Evercore ISI*

Q

Thanks. Good morning.

Eric C. Wiseman  
*Chairman & Chief Executive Officer*

A

Hey, Omar.

Scott A. Roe  
*Chief Financial Officer & Vice President*

A

Good morning, Omar.

Omar Saad  
*Evercore ISI*

Q

Thanks. On the China currency hit, do you see – I know it's a headwind on the top-line, do you see an opportunity on the flip side in your supply chain in China and other Southeast Asian sourcing markets to use the lower currency to maybe pass through lower cost to the consumer. Is that one of the potential offsets there?

Eric C. Wiseman  
*Chairman & Chief Executive Officer*

A

Yeah, great question, and absolutely, yes. Obviously, it takes a while for that to work through the system but yeah, we should see that benefit. We're expecting to see that longer-term.

Omar Saad  
*Evercore ISI*

Q

And additionally, have you started to think about TPP and what that could mean and how your supply chain is set up, how that could play out if it goes through?

Eric C. Wiseman

*Chairman & Chief Executive Officer*

A

Sure. Yeah. Of course, we're watching it daily probably. You know the situation, right? There is an agreement in principle that's yet to be ratified by all the countries that are participating and probably most importantly, the devil is in the details here in terms of the administrative rulings which we have yet to see. Having said that, we know it's going to be a good thing for VF. It's a positive development. We're just not sure exactly what and when that's going, what that's going to be and when we're going to see that.

Omar Saad

*Evercore ISI*

Q

Okay. Thanks. That's helpful. And the last question, on the pricing power, have you started in some of the markets where the strong dollar has caused the costs side of the equation to go higher relative to the currency of the market? Have you started to test price increases at all in those places? Or is that something and should we think about that going into next year as perhaps that FX headwind lingers?

Karl Heinz Salzburger

*Vice President, VF Corporation and Group President, International*

A

Omar, KH here. Maybe I handle this question because we are affected. The answer is yes. We have done this. We started with spring. We plan to do it in fall. Now, we do it in two ways, right? The good news is a large part of our line is new products, so we had to position them differently, so that we can cover the difference. The second one is, you know, price increases, which we do on some iconic products which we have done and we are doing. It's not new, though, for us, the situation, right? I mean, this is part our job and we do it. We have done it and we will do it in the future?

Omar Saad

*Evercore ISI*

Q

Okay. Thanks. That's helpful.

**Operator:** And we'll take our next question from Jim Duffy with Stifel.

Jim V. Duffy

*Stifel, Nicolaus & Co., Inc.*

Q

Thanks. Good morning, everyone.

Eric C. Wiseman

*Chairman & Chief Executive Officer*

A

Hey, Jim.

Jim V. Duffy

*Stifel, Nicolaus & Co., Inc.*

Q

A couple of questions for you guys. You've talked about D2C at the corporate level. Can we get more brand specific there? I know that Vans and Timberland have the largest retail fleets. Are you seeing softness in the D2C businesses from those brands?

Steven E. Rendle

*President & Chief Operating Officer*

A

Yeah. I'll take that, Jim. We really are, we're seeing, you know, some softness across all of our brands. Our biggest brands are not immune, but they're not impacted to the degree that we saw in our Sportswear and CBC businesses. And I would tell you that North Face and Vans, were right in line with our expectations in the quarter. Timberland, though good was just a little bit off, and we really attribute that to the warmer autumn weather when we look at the styles that we're selling and really they're weather-related activity component.

Jim V. Duffy

*Stifel, Nicolaus & Co., Inc.*

Q

Thanks for that, Steve. And then, Eric, I have a question I think that's probably most appropriate for you. So each year, Sportswear and Contemporary seem to fall short of plan, and objectives for margin improvement get pushed out. Implicitly, they're shrinking as a percent of the mix, but how do you think about these businesses and how they fit in the portfolio?

Eric C. Wiseman

*Chairman & Chief Executive Officer*

A

There are two businesses that are in different situations right now. The Sportswear business is working on improving their business model, moving it more towards the higher-priced better product that will be more full-price oriented. So what we're seeing in them this year is actually where they have some softness in the top-line growth rates. Part of that is by design as they change their mix of customers and products, and that was supposed to result in improved operating margin, and it has. So that is, while it's a little off of its growth rate, its profitability is right where we wanted it to be. And that's part of the changes we're making in that business.

The Contemporary business, as Steve said, I think Steve said that it was we're disappointed in those results as is the whole Contemporary team. And we're working with that team right now to improve the financial results of that coalition. It's not where it needs to be and we need to fix it. So that's on us. Fortunately, I guess, it's a small piece of our company, a very small piece of our company. But it is a drag on us right now. We owe it to our shareholders to fix it.

Jim V. Duffy

*Stifel, Nicolaus & Co., Inc.*

Q

And then within the Sportswear business when you talk about repositioning, is that the Nautica brand you're referring to? Because...

Eric C. Wiseman

*Chairman & Chief Executive Officer*

A

Yes. Yes it is.

Steven E. Rendle

*President & Chief Operating Officer*

A

Yeah. And Jim, let me add a little bit to that. You might remember something we said about Timberland where we talked about slowing down to speed up. And you see that going on with Nautica. And we've talked in the last couple of calls about the consumer work and strategy work we're doing with the team there, and the great work that they're doing to inform the future. Starting first with product, and Eric mentioned, the good, better, best. Assortment, really thinking about segmentation. What we've seen to-date is a really nice improvement in sell-

through. We know that in almost all cases, we're outperforming our competitors on those floors, and we're seeing a nice uptick in AURs year-over-year.

And to Eric's point, that's showing up in our P&L, but it's also showing up in our dealers' P&Ls. We're being very, very thoughtful around what and when we're putting – what, when and where we are putting our inventory on the floor. And that's really resulting in a much more positive business result, though growing slower, really much more profitable.

Jim V. Duffy

*Stifel, Nicolaus & Co., Inc.*

Q

Very helpful. Thank you.

**Operator:** And we'll take our next question from Sam Poser with Sterne Agree.

Ben Shamsian

*Sterne Agee*

Q

Hi. Good morning, it's Ben Shamsian for Sam. Thanks for taking my call. You talked about growing despite the soft consumer environment. For your largest brands, can you talk about the market share game you're seeing, who are the players you're taking from, or the categories that you're taking? So if you can just parse that out a little bit more, that would be helpful.

Eric C. Wiseman

*Chairman & Chief Executive Officer*

A

I think it would be really hard for us to comment on share. It's not a number that I have sitting here in front of me. I would tell you that we know, we are growing right in line with our plans. Our retail partners continue to be very positive about our relationship and continue to grow, they're open to buy. That might imply growing our share. But I think where we also focus is, and I think you kind of see it in The North Face ad campaign this year, we're really looking to grow the market that our brands play in. And as we do that, not necessarily a measure of share, it's just how big is the pie that we have to play in, and we outwork our competitors to take our fair share.

Scott A. Roe

*Chief Financial Officer & Vice President*

A

The only thing I'll add to that, because we don't have the share numbers here, it's hard to define exactly who Timberland competes against, is it in apparel, was it footwear or by country? But if you look at those three big brands, The North Face, Vans, and Timberland, The North Face outlook for the year is a low-double digit growth, Timberland is low-teen and Vans is mid-teen. And I will tell you, their sectors are not growing at that rate. So that implies we're taking share.

Ben Shamsian

*Sterne Agee*

Q

Okay. Great. Thank you.

**Operator:** And we'll go next to Camilo Lyon with Canaccord Genuity.

Camilo R. Lyon

*Canaccord Genuity, Inc.*

Q

Thanks, guys. I appreciate you letting me squeeze in here. And you've talked a lot about the softness in the retail environment right now, and yet your numbers were very good in your big brands in the third quarter. Can you just remind us of your ability to divert if you have any, divert any inventory across your regions should some of those sell-through patterns not materialize as expected?

Eric C. Wiseman

*Chairman & Chief Executive Officer*

A

Across geographic regions is not something we do. So our inventory tends to end up in a country, in the United States, and doesn't go outside the country. In Europe, we look at more of as one market, so we can do that there. And our Asian inventory is seen as Asia-Pacific inventory. We can move it around, but we have some, there's some another process in there, because we'll have Korean hang tags on one product and those would need to be changed, but some of that we can do.

Steven E. Rendle

*President & Chief Operating Officer*

A

Just to maybe add one other factor. Our supply chain is world-class, and, you know, a real advantage here. Because while we don't divert products while they're already in country, as we see demand changing on a global basis and we have global lines, we can redirect where that product goes to match better with demand. So really, that's, rather than shipping it twice, really that's the way that we adjust our inventories and keep things in balance.

Camilo R. Lyon

*Canaccord Genuity, Inc.*

Q

And would you rather take inventory from your wholesale partners back rather than have any sort of markdowns or clearance activity at wholesale, should some of these warmer trends persist in to the key selling months?

Eric C. Wiseman

*Chairman & Chief Executive Officer*

A

Yeah. There is not one answer to that, right? I mean, that's going to be a case-by-case basis. In general, we don't have much of either, returns or markdowns. So we want to keep it that way.

Camilo R. Lyon

*Canaccord Genuity, Inc.*

Q

Okay. Best of luck, guys.

**Operator:** That concludes today's question-and-answer session. I'd like to turn the conference back to Eric Wiseman for any additional or closing remarks.

Eric C. Wiseman

*Chairman & Chief Executive Officer*

Sure. Thanks, Tracy. Not a long closing remark. Thank you for your interest in our company and for your questions, and time and attention this morning. And as we said, we did see a slight slowdown from our Q2 trend in the third quarter. I think that our results and our outlook demonstrates that we have the brands, the products and the platforms to win in this environment, and that's what we expect to do and we'll tell you how the holiday season was in February. Thank you all very much.

**Operator:** This does conclude today's conference. We thank you for your participation. You may now disconnect.

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