

FINAL TRANSCRIPT

Thomson StreetEventsSM

VFC - Q3 2010 VF Corporation Earnings Conference Call

Event Date/Time: Oct. 21. 2010 / 12:30PM GMT



Oct. 21. 2010 / 12:30PM, VFC - Q3 2010 VF Corporation Earnings Conference Call

CORPORATE PARTICIPANTS

Jean Fontana

VF Corporation - IR

Eric Wiseman

VF Corporation - Chairman & CEO

Bob Shearer

VF Corporation - SVP & CFO

Karl Heinz Salzburger

VF Corporation - President, International Business

CONFERENCE CALL PARTICIPANTS

Operator

Kate McShane

Citi - Analyst

Robby Ohmes

BofA Merrill Lynch - Analyst

Bob Drbul

Barclays Capital - Analyst

Jeff Klinefelter

Piper Jaffray - Analyst

Michael Binetti

UBS - Analyst

Omar Saad

Credit Suisse - Analyst

Eric Tracy

FBR Capital Markets - Analyst

Todd Slater

Lazard Capital Markets - Analyst

David Glick

Buckingham Research Group - Analyst

Ken Stumphauzer

Sterne Agee - Analyst

Mitch Kummetz

Robert Baird - Analyst

PRESENTATION

Operator

Good day everyone and welcome to the VF Corporation third quarter 2010 earnings conference call. Please be aware that today's conference call is being recorded. At this time I would like to turn things over to Jean Fontana of ICR. Please go ahead.

Oct. 21, 2010 / 12:30PM, VFC - Q3 2010 VF Corporation Earnings Conference Call

Jean Fontana - VF Corporation - IR

Thank you. Good morning, everyone. Thank you for participating in VF Corporation's third quarter 2010 conference call. By now you should have received today's earnings press release. If you have not, please call 203-682-8200 and we will send you a copy immediately following the call. Hosting the call today is Eric Wiseman, Chairman and CEO of VF.

Before we begin, I would like to remind participants certain statements included in today's remarks and the Q & A session may constitute forward-looking statements within the meaning of the federal securities laws. Forward-looking statements are not guarantees and actual results may differ materially from those expressed or implied in the forward-looking statements. Important factors that could cause actual results, collaborations or financial conditions of the Company to differ are discussed in the documents filed with the Company and the FCC. I would like to now turn the call over to Eric Wiseman.

Eric Wiseman - VF Corporation - Chairman & CEO

Thanks a lot Jean and good morning everyone. Thank you for joining today. Following my opening comments this morning, Bob Shearer will review the quarter's results in more detail. We also have with us by phone, Karl Heinz Salzburger, President of our International Business, who will provide a recap of our impressive results in Europe and Asia. This was another great quarter for VF. As we entered 2010 we were cautious about the outlook for many economies around the globe and while the economic outlook remains uncertain, the outlook for VF couldn't be brighter. That is because even in uncertain times strong companies with strong brands and a broad portfolio of opportunities will continue to succeed.

Once again, we've raised our guidance for top and bottom-line growth. Our new guidance for revenues is for an increase of over 5% this year versus our previous guidance for a 4% to 5% increase. Our revenue forecast for 2000 (sic) has strengthened in each and every quarter of this year. Earnings per share and are now expected to increase over 20% to a range of \$6.25 to \$6.30 versus our prior guidance of \$6.10. This would mark another all-time high for VF in earnings per share. And, we expressed our confidence today in our ability to deliver another very strong year in 2011. Before turning it over to Bob, there are three areas I'd like to make just a few comments on -- the marketing investments we've made this year, product cost inflation and the state of the denim market.

We have some expanded disclosure today in the release about our marketing investments which are clearly benefiting us this year. And which we think will continue to drive organic growth next year. The total incremental investment this year will be close to \$100 million. Which is a bit higher than the \$85 million we've previously discussed with you. Many of our brands have very good momentum and we are committed to keeping this momentum going. We are fortunate that we have the financial resources to do so and, still deliver such strong improvements in profitability and earnings per share. As the year strengthened, we increased our commitment to brand investment with our strongest investments to come in the fourth quarter. In the release we touched on a few areas where that spending is focused and I would like to help you understand how we are thinking about these incremental investments.

For example, this year, our Outdoor and Action Sports coalition, will represent 41% of VF or over \$3 billion in revenue. That is a large apparel company in its own right. And, that company will have 13% organic growth this year with operating margins approaching 20%. It has strong momentum and a clear path for continued growth in both wholesale and direct to consumer channels in the US. The same is true for Europe. And, the outlook for Asia is even stronger. So, we are investing over half of our incremental marketing spend in Outdoor and Action Sports initiatives alike, expanding the North Face's reach in snow sports by sponsoring new athletes and investing in consumer directed advertising at the Winter X games, driving both store expansion and increased consumer awareness for the North Face and Vans in China.

We are heavying up our investments in key European markets to grow our market shares. We are also introducing new in-store experiences in both Vans and the North Face stores and we have a significant increase in spending behind social media. The balance of this spending increase is strategically allocated to important growth initiatives in our US and our Asian jeanswear business and in our Nautica, 7 For All Mankind, and other brands. Now, it's too early for me to comment on what level of brand



Oct. 21, 2010 / 12:30PM, VFC - Q3 2010 VF Corporation Earnings Conference Call

investment we will be making next year, but if we continue to see the payback for our shareholders in the form of strong profitable growth like what we're seeing this year, it's very likely we will continue to invest at very healthy levels in 2011.

Next, let me give you an update on the product cost inflation topic. Last quarter we outlined the major factors of costs inflation for VF and why we believe we are competitively advantaged to weather these increases better than most. Three months later, our position has not changed. It is true that cotton prices are likely to be at higher levels than we envisioned. However as a result of favorable negotiations, our Asian sourcing costs across VF are coming in lower than what we previously thought. With regard to pricing, the current consensus from both retailers and wholesalers is that some price increases are inevitable next year and certainly many of the brands across our diverse portfolio are planning for selective price increases. So, the real question on everyone's mind is what is the outlook for gross margins next year. Based on what we know today, product cost inflation should be largely offset by price increases, the continued positive impact from the shift in our portfolio to more lifestyle brands to more international, and to more direct to consumer business. The net result for VF is we expect gross margins in 2011 to be near the record levels we will achieve this year. More specifics in our guidance for 2011 will be forthcoming early next year.

There has also been a great deal of discussion out there about the current state of the Jeanswear business. I have some very good news for all of you. Consumers are still buying a lot of jeans. In fact, our domestic jeans revenues grew in both the second and third quarters and will be up again in the fourth quarter. We've always loved the Jeanswear because it's a big, remarkably stable and resilient, highly branded-in for VF, highly profitable business. There are segments of the Jeans business that are more volatile than others, for example, the premium and teen segments. But, generally speaking, the jeans business in total does not tend to experience dramatic swings in volume.

Relative to our 7 For All Mankind, the premium denim business is softening from the strength we experienced in the first half when we were up 8% globally. In tough economic times consumers are more value conscious than ever. More focused on savings and spending and looking for something new as a trigger to spend. Fortunately, while 7 For All Mankind continues to be the brand leader in the category it is more than a denim brand. In fact, a quarter of the brand's volume in our own stores is non-denim currently and that is going to be increasing to a third of the business next spring. Also our retail partners are adding more sportswear into their premium denim departments which will add variety to their current offerings and help spark consumer interest. The 7 For All Mankind brand continues to resonate strongly with consumers and we're capitalizing on this by adding new retail stores, we're investing heavily in marketing, expanding into Europe and Asia and building our sportswear and accessories business. This brand still has a lot of room to grow but faces some short-term challenges.

Relative to our other jeans brands, in our release, we highlighted the 5% increase in domestic jeans revenues and noted that our jeans business in Asia grew by 44%. Our European business continues to stabilize and profitability there continues to improve. Relative to the jeans question, we are confident that our powerful brands will continue to do very well globally regardless of short-term trends in specific segments. Now to wrap up, acquisitions are another topic that seems to generate a lot of questions. We remain as interested as ever in adding new brands to our portfolio. But they have to be the right brands and at the right price for our shareholders. We are of course, very focused on investing behind our big, powerful and profitable brands to drive organic growth around the world.

Based on the success we've had investing for organic growth in 2010 we'll continue that focus in 2011. I am confident however that over time the VF portfolio will continue to grow and evolve but make no mistake, our future growth is not dependent on making acquisitions. We can and will afford to be patient. Now, let's hear from Bob Shearer. Bob?

Bob Shearer - VF Corporation - SVP & CFO

Thanks, Eric. And, I'll start at the top with revenue. The third quarter marked another period of strong organic growth with revenues up 7% On a constant currency basis the increase would've been even stronger, up over 8%. Nearly all coalitions achieved growth in the quarter with the exception of sportswear. And, we expected mid-teen level growth there in the fourth quarter.



Oct. 21. 2010 / 12:30PM, VFC - Q3 2010 VF Corporation Earnings Conference Call

We continue to be really pleased with the expansion in gross margins we've seen this year. Our gross margins were 46.5% in the quarter with a 220 basis points improvement over last year's third quarter. About half of the improvement was driven by lower product costs and the remainder, related to the continued expansion and improved gross margins of our retail stores and very clean inventories across our businesses. All coalitions saw gross margin expansion in the quarter, with the exception of sportswear, which was in line with the prior year period. We now expect that our gross margin for the full year should approximate 46.5%. Which is slightly ahead of prior expectations. That will mark an all-time high in gross margin percent for VF, actually by a fairly wide margin.

SG&A as a percent of revenues rose by 150 basis points. Nearly all of the increase was due to the higher marketing investments we have been discussing all year. In the third quarter our marketing spend was \$31 million or 35% higher than the prior year period. As planned these investments have been more concentrated in the second half of the year than in the first. You'll recall that the first and second quarter increases in marketing spending were 12% and 19% respectively. Due to the timing and nature of our marketing programs, the increase in the fourth quarter is expected to be even higher, up by \$45 million or about 50%. You saw at least some of the details related to these programs in the release and Eric covered this topic in his comments as well. We are really pleased by the impact these investments are having on our brands global growth. We clearly expect these investments to continue to drive strong comparisons into the coming years as well.

Now for the full year we continue to expect our ratio of SG&A to revenues will approximate 33.5% versus 32.4% in 2009. The increase in our marketing spend in 2010 accounts for nearly all the increase in our SG&A ratio to revenues. Now there are some other factors like the higher SG&A ratios of our retail businesses that drive that percentage up which is offset by our lower pension expense in 2010. Marketing spending as a percent of total revenue should approximate 5.6% in 2010, well above last year's 4.5%. Under that, all of you have questions about marketing spending and SG&A ratios for 2011. While we're not providing specific guidance today on 2011 there is clearly more to come on that topic. But, I can confirm that we remain committed to investing behind our strongest most profitable opportunities to drive organic growth. This is clearly paying off for us.

Despite the significant increase in marketing spending operating margins continue to increase. During the quarter operating margins rose by 70 basis points to nearly 16% from 15.2% in 2009. We expect that full-year operating margins will reach 13%, which will represent good progress toward our ultimate goal of 14% to 15%. In terms of the bottom line, the third quarter marked another period of double-digit earnings per share growth, with EPS rising by 14%. As we've seen in the past two quarters lower pension expense this year helped earnings per share by \$0.05. On the other hand, foreign currency translation negatively impacted EPS by \$0.06. Speaking of foreign currency translation, for the year it now appears that foreign currency translation will be relatively neutral to the top and bottom lines. Our euro rate assumption for the fourth quarter is now [130]. But, keep in mind that this is a quarter where there is little impact from currency rate fluctuations in translating foreign currencies, due to the overall lower levels of international business, as a percentage of total VF in the quarter.

Now a few comments about our coalition results. We continue to see really strong momentum in our Outdoor and Action Sports businesses which speaks to the strengths of these brands. In fact, this is the first quarter where this coalition's revenues exceeded \$1 billion. As noted in our release revenues of the North Face and Vans were up 17% and 19% respectively or 19% and 21% currency adjusted. The North Face brand experienced equally strong growth domestically, in Europe and Asia, with the brand's direct to consumer revenues rising by 25% in the quarter. Vans revenue growth was similarly strong in all geographic areas. So, the growth of these two very important brands continues to be well-balanced not only across geographies but across these brands wholesale and retail businesses as well. In fact, spring bookings for the North Face brand in the Americas are up 17%. While we don't often comment on other brands within this business grouping, I'd also point out that our Lucy and JanSport brands both achieved revenue growth in the high teens in the quarter. On a constant currency basis, our Kipling and Napapijri brands also experience healthy growth.

Now, you are well-aware by now that a large portion of our higher marketing investment in fact over half, has been directed towards growth in our Outdoor and Action Sports businesses. However despite the significance of the spend, these investments have not been hampered profitability. Operating margins have continued to rise, reaching 23.7% in the quarter. The strong profitability of these businesses reflect their very healthy and expanding gross margins with balanced growth across all



Oct. 21. 2010 / 12:30PM, VFC - Q3 2010 VF Corporation Earnings Conference Call

geographies. Jeanswear revenues increased again this quarter. Excluding the impact from foreign currency translation and the exit of our European mass channel business, the revenue increase was 4%. The increase was driven by growth in each of our domestic businesses -- mass-market, Lee, and Western Speciality.

Growth in our mass market business, which consists primarily of our Wrangler and Riders brands was particularly impressive, up 7% in the quarter. The Wrangler brand in this channel has gained share in men's long bottoms and shorts as consumers respond to the brand's strong quality and value proposition, backed by a powerful in-store presentation. Our Riders brand is also gaining share as we've gained new programs and space. The Lee brand in the US is also performing well. The brand's Slender Secret and Instantly Slims You platforms continue to drive our women's business and are fueling share gains. We're also seeing strong initial sell-throughs in our new Lee Premium Select program where we have been running ads with a new celebrity endorser, Mike Rowe. Finally, our specialty or western jeans business grew by 5% in the quarter, driven by the launch of new cowboy cut products which continue to outperform the category at retail. I know that Eric commented on the strength of our jeans business. All I'll say is that looking forward to the fourth quarter we again expect mid single digit revenue growth in our very significant US jeans business. Our brands are strong, our product offering is compelling and we don't see a change in the status of denim with the consumer's shopping the channels where these products are sold.

Turning now to Imagewear, these businesses had a great quarter with revenues and particularly strong profit increases in both our Image and Licensed Sports businesses. Our competitive advantage from our quick response and replenishment capabilities is benefiting both businesses as demand improves. As we've said in the past, our cost structure in this business allows significant leverage of revenue gains to the bottom line. You can clearly see that benefit in this past quarter.

Now, in terms of our Sportswear business. As explained in the release, the decrease in revenues in the quarter resulted from a shift in timing for special programs from the third quarter to the fourth. We are very pleased by the response we are seeing to Nautica's men's sportswear products as evidenced by their 20% growth and sell throughs at our wholesale partners, season-to-date versus last year. We are investing in additional advertising programs in the fourth quarter to keep the brand front and center with consumers. As noted in the release, fourth quarter revenues for Nautica should reflect a mid-teen percentage increase. We are also very pleased by the continued success that our Kipling brand is having at Macy's.

Now wrapping up with our contemporary brands coalition as Eric noted there is no question that the premium denim category is soft, which resulted in a slight decline in 7 For All Mankind revenues in the third quarter. There are however a number of bright spots. European revenues for the brand increased 8% on a constant currency basis and we are on track to open 19 stores this year. As mentioned in the release we are investing in the 7 For All Mankind brand and will continue to do so in the upcoming quarter. Now, while a still small part of this coalition's revenues we are very pleased by the growth we're seeing in our Splendid and Ella Moss brands which had high teen percentage growth in the quarter. We've opened four Splendid stores this year and they are performing very well. And, our John Varvatos business is also showing substantial improvement, both on the top and bottom lines. However given the challenges of the premium denim space, we do expect the tough earnings comparisons to continue in the fourth quarter for the coalition. That does it for our coalition results.

The release also touched on our international and direct to consumer results so just a few comments here. Our international revenues strengthened in the third quarter with a 10% increase in constant dollars. Strong growth in our Outdoor and Action Sports businesses in Europe and continued rapid expansion in Asia fueled the increase here. Currency translation did hurt us by five percentage points, so the reported increase was 5%. Asia is \$1 billion opportunity for VF and we are extremely pleased with how well our brands are performing there, particularly in China. As you saw in the release revenues in Asia grew 37% in the quarter with exceptionally strong growth in Jeanswear and the North Face brands and Kipling brands as well. Our opportunity in China is second to none in the apparel space, considering our brands and the categories represented by our brands and the opportunity we have to build new categories that attract the Chinese consumer.

We are on track with our retail store openings this year having opened 62 stores to date out of a total of 85 stores planned for the year. Our direct to consumer revenues were up 10% in the quarter. And, our balance sheet continues to be exceptional shape. Cash and equivalents were \$403 million at the end of the quarter. Inventories were up slightly, but the increase is running



Oct. 21, 2010 / 12:30PM, VFC - Q3 2010 VF Corporation Earnings Conference Call

well below the expected growth in revenues. Our cash flow generation continue to point towards cash flow from operations that will approximate \$850 million for the year. Year-to-date, we purchased 4 million shares all in the first half of the year and we will continue to evaluate future stock buybacks as we balance our cash needs against acquisition opportunities. The great news here is that we have the ability to both provide some lift to our shareholders through our buyback activity while having capability to fund acquisitions.

Eric has pretty well covered our outlook for the year. I will just add a couple of other points. Our tax rate all-in should approximate 25% for the full year. Capital spending for the year should be about \$120 million. And our fourth quarter could be summarized like this. A continuation of our strong organic revenue growth with our international businesses expected to grow at a mid-teen rate, currency adjusted. A gross margin percentage that is about equal to the exceptional level of Q4 2009. Significantly higher marketing investments that will continue to fuel growth, not only in the fourth quarter but especially in the following periods and because of the high level of investment spend. Earnings per share that are about even with our strong fourth quarter last year.

We're looking forward to wrapping up a great year for VF in 2010. We are especially excited about moving forward into 2011 considering the platforms that we've put in place and invested behind this year. Now I will pass the call over to Karl Heinz

Karl Heinz Salzburger - *VF Corporation - President, International Business*

Thank you, Bob. My comments will touch on our international business in Europe, the Middle East, Africa and Asia, the markets for which I have responsibility. We were very pleased at our performance in the third quarter. Taking out the impacts of the mass Jeanswear [exit] in Europe both our revenues were up 10% in constant dollars. The profitability of our international business also continued to improve, with operating margins of over 20% in the quarter.

In terms of our EMEA business, the strongest growth was in our Outdoor and Action Sports business where revenues increased by 18% in constant dollars driven by double-digit growth in the North Face and Vans brands. Comp store sales for both brands were up over 20% in the quarter and fall reorders for both brands are running up substantially over last year's levels. The strong performance is driving double-digit increases in our spring pre-season orders for both brands. North Face is up about 15% and Vans is up about 25%. So we are confident that our momentum will continue into next year. Our sportswear and contemporary brands business in the EMEA region also in the quarter. In constant dollars our Kipling, Napapijri, and 7 For All Mankind businesses all achieved higher revenues and spring bookings are up very strong -- most up at double-digit rates.

[Trends] in our EMEA Jeanswear business continues to improve. Our Lee brand is experiencing a noticeable turnaround in the Scandinavia, UK, Benelux and Russia regions. Replenishment trends for Wranglers started off slow but we are running up more than 10% in September which is very encouraging. While they are still not where we want them to be, our Jeanswear margins continue to improve in the third quarter and this trend is continuing in the fourth quarter as well. Our spring bookings indicate continued improvement with moderate growth compared with last year's booking.

Our store in Asia continues to be very exciting. As noted in the release, total revenues in Asia grew by 37% in the quarter. With strong double-digit growth in nearly all businesses. Our biggest business, Jeanswear, grew by over 40%. The North Face was up 30%, Vans increased by 44% and our Kipling business doubled. We are also gaining traction in India where revenues increased by 40% in the quarter. We have mentioned in the past that our Asia business is quite profitable. Third quarter margins were above 25%. China is our primary market in Asia and revenues there rose by over 50% up in part by early shipments of fall orders. Our comp stores sales in China rose 30% in the quarter. During the year we have substantially increased the marketing investments behind our brands in China particularly in Tier 1 and Tier 2 cities.

We are also placing a greater emphasis on digital marketing. We have also aggressively expanded our distribution in China and are on track for a 40% increase door count by year end with 1400 doors. Our spring 2011 bookings are up in a meaningful way in Asia, mostly in double-digits with significant increases in China. For example the North Face is up more than 40% and Vans



Oct. 21. 2010 / 12:30PM, VFC - Q3 2010 VF Corporation Earnings Conference Call

doubled. We expect to end 2010 on a very strong note and are looking forward to delivering another strong year across our key brands and marketing again in

Eric Wiseman - VF Corporation - Chairman & CEO

Thank you, Karl Heinz. That concludes our comments. At this time we would love to open the line to any questions that you have.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions) We will take our first question from Kate McShane with from Citi.

Kate McShane - Citi - Analyst

Hi. Good morning.

Eric Wiseman - VF Corporation - Chairman & CEO

Hi Kate, how are you?

Kate McShane - Citi - Analyst

Good, thank you. Two quick questions. Thank you for the gross margin commentary for 2011 in relation to cost inflation. I just wondered if you could further comment, is this commentary based on the current prices of the cotton? When do you lock in for the back half of 2011? Is there any chance or any circumstance that has been presented to you that the cotton prices could ease before you get locked in for fall?

Bob Shearer - VF Corporation - SVP & CFO

I will start on that. In terms of cotton it does contemplate the current costs that we are seeing in cotton. Actually, the increase that we've just seen wasn't so unexpected by us. We actually thought we could see that kind of level we are seeing today. That \$1.20 or even a little bit above, not a huge surprise to us. As Eric said in commentary actually since the last time we talked -- since the last quarter -- sure the cotton costs have gone up and that's impacted our overall cost equation as we look at 2011. However there are other costs that we've negotiated that have come down. They pretty much offset each other in terms of the overall cost to look for in 2011.

Relative to cotton, we are locked in for the rest of this year. On the cotton side. For 2011, it's interesting the makers or the suppliers of denim, for example really haven't locked in their buys for the most part at -- around 2011 yet. Because of the volatility is what's taking place. Really not locked into 2011, we have expectations obviously built-in to the numbers that we are talking relative to relative to gross margins and again we will have more to say about that in the future.

Oct. 21. 2010 / 12:30PM, VFC - Q3 2010 VF Corporation Earnings Conference Call

Kate McShane - Citi - Analyst

Okay, great thank you. My second question is on 7 For All Mankind. Can you talk about what gives you the confidence that there is still a lot of room to grow for the brand and can you break down what some of the industry specific issues that's facing the premium denim market and are brand specific issues to 7 that you are addressing?

Eric Wiseman - VF Corporation - Chairman & CEO

I can talk about the first part of your question. About the total industry specific. I am not sure I have all the information you need. Let me give you some color on 7 For All Mankind for us globally. The domestic business, year-to-date, is up to low single digits due mostly to the success we are having with our own retail stores. The international business is up high single digits in constant dollars. And, around the world we are seeing that driven by the stores that we are opening are working for us. And some softness in the wholesale business in general.

The reason I am confident in our future is we expect to continue the rollout of our own retail stores. We have -- we are just getting started in Asia and Europe -- we have a lot of runway ahead of us there. We continue to build the brand into new product categories into the sportswear and accessories business. It's very early days for those initiatives. We do expect pressure on the core denim business. At least in the short term. I don't know what that will look like in five years. Nor does anyone else. When we look at the total model we think that we can weather through this because of the strength of the brand and the success we're having on the initiatives I mentioned.

The total premium denim business is soft. That's really a US comment Kate. I can't speak to the Japanese market or many others. But, in the US, the total denim piece of the market is soft. That is why you are seeing many of the brands expand their businesses into sportswear. Does that help you?

Kate McShane - Citi - Analyst

Yes, that is great, thank you so much.

Eric Wiseman - VF Corporation - Chairman & CEO

Thank you.

Operator

Next we will hear from Robby Ohmes with Bank of America Merrill Lynch.

Robby Ohmes - BofA Merrill Lynch - Analyst

Hi, nice quarter. Eric I was hoping you could talk about the domestic Jeanswear business. Great numbers you are putting up and obviously the mass channel refill helping you. Can you help us think about, you said you expected up mid-single digits in the fourth quarter. How should we think about next year in terms of the growth of the US Jeanswear and channel fill versus where sell-through rates maybe are tracking where they may be tracked in this quarter say during back to the school and how you're feeling about that into next year. Then, maybe a similar comment on when you think -- when do we fully cycle through the declines in the mass business in Europe and when could we see return to positive growth in the core Jeanswear business in Europe? Thanks.

Oct. 21. 2010 / 12:30PM, VFC - Q3 2010 VF Corporation Earnings Conference Call

Eric Wiseman - VF Corporation - Chairman & CEO

On the domestic jeans business, what we are really pleased about is the fact that for the last couple quarters our mass business has grown, our Lee business has grown, and our Specialty Western business has grown. We have all three pieces of business growing in the US market. The mass business was helped particularly in the last quarter by giving some programs back that we had lost at a big customer. We had some watch volume in there but even without that we had growth in the quarter.

So, it accelerated the growth, but the statement about growth in each piece of the domestic business over the last two quarters remains true and weak. As Bob said in his comments, we expect that to continue in the fourth quarter. As we look to next year, our expectation is that our US jeans business would perform in line with what we expect from it over time which is low single digit growth. I think we will see that across all the pieces of the business. The mass channel business of course will benefit by having hopefully these new programs in the first half of the year that it didn't have last year in the first half of the year. And to the European business I'm looking to look to Bob for some guidance on when we anniversary the exit of the -- .

Bob Shearer - VF Corporation - SVP & CFO

Fourth quarter will be the last quarter that that will impact our numbers. More of an impact in the third quarter it was about \$14 million and what we are referring to here is the exit of the mass channel business in Europe. That was about \$14 million business in the last year's third quarter and it will impact us about \$7 million in the fourth quarter and that will be it. It will be anniversary at that point in that time and we won't talk about going into next year.

Eric Wiseman - VF Corporation - Chairman & CEO

About the rest of the brands in Europe, Robby, we are seeing real softness across Europe in the denim market. That is really at all levels. We have been victim to some of that and we've had some of our own unique challenges. The good news is that we are recovering from our own unique challenges and the business has stabilized. Where we were seeing a continuous decline in the bookings we were getting, that have stabilized and we think we have a platform now that our focus is on improving the profitability of the business there. As Karl Heinz has commented, he's seen some traction around that. Karl Heinz, do you have anything to add on the European Jeanswear business?

Karl Heinz Salzburger - VF Corporation - President, International Business

I think you were right on Eric. I would just mention as I said in my read, the bookings for 2011, the spring booking for the first time in a long time we see a stabilization and moderate growth which is a positive sign. Also, the replenishment and reorder datas are very good at the moment. So the momentum seems to start to be positive.

Robby Ohmes - BofA Merrill Lynch - Analyst

Great, thanks very much.

Eric Wiseman - VF Corporation - Chairman & CEO

Thank you Robby.

Operator

Next we will hear from Bob Drbul with Barclays.

Oct. 21. 2010 / 12:30PM, VFC - Q3 2010 VF Corporation Earnings Conference Call

Bob Drbul - *Barclays Capital - Analyst*

Good morning.

Eric Wiseman - *VF Corporation - Chairman & CEO*

Hi Bob.

Bob Drbul - *Barclays Capital - Analyst*

I wanted to go back on the cotton discussion for a second. I think you said you thought cotton would go to \$1.20 or above. In your flat gross margin assumptions for next year, what is the assumption that you are using for cotton at this point in time?

Bob Shearer - *VF Corporation - SVP & CFO*

Bob, here's the thing, as you can imagine, we are right in the middle of a lot of negotiations. Both on the cost side actually as well as the pricing side for our products for next year. Actually we are a little reluctant to speak specifically to that. What I meant, was right now. On the short term and the rates around the short-term, yes, we did, we thought that we could go to the \$1.20 mark. That's not necessarily what we're building in to our overall costs for 2011. I can tell you that much. We will have more to say about that early next year when we talk about our 2011 numbers but again, just a little reluctant to be too specific right now.

Bob Drbul - *Barclays Capital - Analyst*

Got it. On the -- I think Eric on your opening comments you talked about the ability for select price increases. Are there any examples that you could give us in terms of ones that are resolved right now or the timing of when we should see that either hitting the stores and being able to pass that through to consumers.

Eric Wiseman - *VF Corporation - Chairman & CEO*

Bob, I am not trying to duck your question but it is complicated. We look at every brand in every market and tried to get prices to the right place for what the products within the brands in each market could bear. And still deliver value to the consumers. It is really across our businesses and obviously where we are introducing new products that have not been on the market before. We are pricing them appropriately based on the cost structure. I will tell you, in the US, all of our brands every single brand will take some price increased in their line. And when it comes to cotton based product, particularly cotton based products made in Asia, we are seeing in every channel of distribution and in product category, price increases that will be executed next year. Not just in VF but in other brands as well.

Bob Drbul - *Barclays Capital - Analyst*

Great. Is there a number in terms of when you look at throughout the entire business on the cost of goods line, the cotton percentage for you as a total of the cost of goods?



Oct. 21. 2010 / 12:30PM, VFC - Q3 2010 VF Corporation Earnings Conference Call

Bob Shearer - VF Corporation - SVP & CFO

Here is what I can tell you, Bob, there is some math that will be involved around this. Our fabric, our fabric in our denim business is about half of the total cost. And our total Jeans business is about a third of VF. You can get a number as a result of all

Bob Drbul - Barclays Capital - Analyst

Okay. One last question, Eric for you, when you look at the business today and the volatility in retail, can you maybe talk about the week to week volatility versus where you were six months ago and how you are planning the business or seeing the business today?

Eric Wiseman - VF Corporation - Chairman & CEO

I would tell you that the week to week volatility in the last four weeks has been just about the same as it has been all year. It is really volatile. It is unusually volatile for those of us who have been watching the apparel business for 30 years as we have here -- as I have. We are looking at trends. The only thing we can do with that is look at trends. We think we have those trends factored into the guidance we've given for this year and to our optimism for next year. Because we think that, while the space is clearly facing some challenges and the future is uncertain, our brands continue to outperform the market. We are confident as we look at our lines for next spring. The programs we have and the investments we are making behind brands we can continue to outperform.

Bob Drbul - Barclays Capital - Analyst

Great. Thank you very much.

Eric Wiseman - VF Corporation - Chairman & CEO

Thanks, Bob

Operator

Next we will hear from Jeff Klinefelter with Piper Jaffray.

Jeff Klinefelter - Piper Jaffray - Analyst

Thank you and congratulations everyone on a great quarter. Following up on the sourcing comments, Eric and Bob, I think impressive in terms of the negotiations and being able to at this point anticipate flat margins for next year given the pressures. I was curious if you could give us a little bit more specifics on does this involve more shifting around to other countries and diversifying further? Is it hard and fast negotiations on logistics and transportation on that side of it? Can you shed a little bit more light on how you are able to hold in the face of that inflation -- to hold it at that level?

Bob Shearer - VF Corporation - SVP & CFO

Jeff, I can speak to that. A couple things. Number one, as you would imagine, so some of the costs -- like our denim costs -- and with all the focus on cotton, the cost increase there obviously anticipated to be stronger than some areas like footwear and outerwear where we are not seeing the same kinds of -- the same kinds of increases. Secondly, no, it is not so much of a shift around, it's just the negotiations, the normal negotiations we enter into with those that supply us products. So, some of the



Oct. 21. 2010 / 12:30PM, VFC - Q3 2010 VF Corporation Earnings Conference Call

initial assumptions, have eased a little bit. Really not so much change actually, in freight, what we assumed and we talked about the last time we talked about the few percentage points of increase in cost really hasn't changed so much there. It is really just through negotiations and pushing hard on the negotiations that resulted in the changes we refer to.

Jeff Klinefelter - Piper Jaffray - Analyst

Okay, maybe one more clarification on that point. You are factoring in some inflation but you are also accounting for some price increase activity blended together, you think you can hold your gross margins flat. Would that be an accurate summary?

Eric Wiseman - VF Corporation - Chairman & CEO

Yes, that, Jeff combined with the fact that we are going to be investing our money behind our highest gross margin opportunities as we have this year. So that as -- it's a combination of everything that Bob said plus as our business model continues to move towards international growth and more toward direct to consumer growth and more towards our lifestyle brands, the total VF P&L should have relatively stable gross margins.

Jeff Klinefelter - Piper Jaffray - Analyst

Okay that is very helpful. Thank you. One last question on China. I agree the opportunity significant your brands have great traction already in that market. Just curious if you could give a little bit more color on as you have been opening these stores at a pretty rapid clip, what are you seeing in terms of balance. How many of them are going out into -- are you into the Tier 2 and Tier 3 markets, any metrics or qualitative description you can give us in terms of the performance as you move into different volume markets?

Eric Wiseman - VF Corporation - Chairman & CEO

Karl Heinz, do you want to --?

Karl Heinz Salzburger - VF Corporation - President, International Business

Yes, I can handle that. I did mention Jeff, before we are targeting 1400 stores this year. Just to give an idea and a benchmark about others competitors without naming them. They're working with 5000, 6000, or 7000 doors. We still have a long way to go. We are in predominately Tier 1 cities which are the big cities. We are starting on Tier 2 we still have a long way to go. A big ways of opportunities.

Eric Wiseman - VF Corporation - Chairman & CEO

Another way you have to think about that is also we have so many brands -- the number of stores we have on a by brand basis is relatively small. We are seeing lots of runway. We are obviously measuring this success as we go into different types of cities. And so far we have all green lights.

Jeff Klinefelter - Piper Jaffray - Analyst

Great, thank you very much. Good luck.

Oct. 21. 2010 / 12:30PM, VFC - Q3 2010 VF Corporation Earnings Conference Call

Eric Wiseman - VF Corporation - Chairman & CEO

Thank you.

Operator

Next we will hear from Michael Binetti with UBS.

Michael Binetti - UBS - Analyst

Hi, congrats on a great quarter.

Eric Wiseman - VF Corporation - Chairman & CEO

Thank you Michael.

Michael Binetti - UBS - Analyst

I want to ask about a couple of brands that we don't talk about as much on the call for a second if I could. I'm wondering for the Lee brand in the US. You said you saw 2% growth in the quarter. Last quarter slow down to slow down to about one point this quarter. Last quarter you talked about some new programs like Slender Secret and then some -- the third quarter launch of Premium Select and how that should result in stronger comparisons in the second half. So I'm wondering if those programs have been disappointing to you or if there is something else holding back an acceleration for the Lee brand versus your thoughts in July. And if I could ask a follow up afterwards please.

Eric Wiseman - VF Corporation - Chairman & CEO

No. What we are also doing at the same time is managing inventory at retail. When we talk about our revenue results, it reflects our shipments of course, not necessarily the sell-through of our program. Lee has been winning around product innovation and effective communication. And, their success with that has been largely in the female side of the business and Bob mentioned Slender Secrets and some of the other programs we have that really are relevant to women's shopping in those channels. And we've just begun the male part of that with the Premium Select business and new TV advertising that we have and that is beginning to get traction as well. So, while the numbers are low single digits that was what we were expecting our shipments to be. We're hoping to have a strong sell-through season during the holiday and that Lee is positioned for good growth in the fourth quarter.

Bob Shearer - VF Corporation - SVP & CFO

We expect we will be talking about stronger comparisons in the fourth quarter.

Eric Wiseman - VF Corporation - Chairman & CEO

Our strongest quarter of the year.



Oct. 21. 2010 / 12:30PM, VFC - Q3 2010 VF Corporation Earnings Conference Call

Michael Binetti - UBS - Analyst

If I could turn the -- we don't really talk about Imagewear very much but it's maybe 10% or 12% of the business. You saw 10% revenue growth there and a nice positive inflection point in the two-year rate. With just some rough math that looks like that coalition added about 30% of your total profit growth in the quarter. Is it maybe -- is it time to talk about this business a little more? Is this an actual growth driver? Is this still bouncing back from a ton of deleverage over the past two years? Are you winning new business in that coalition or how should we think about that?

Eric Wiseman - VF Corporation - Chairman & CEO

I would love to talk about our Imagewear business. There's two pieces of the business. One is what we all the image business which is more workwear related and the other is our licensed sports group which is the business we have around Major League Baseball, the National Football League and other licenses that we have -- Harley-Davidson and others. The workwear business is a large -- and that business is split into about half and half in terms of revenue. The workwear business is a big profitable business. And, it's been growing. It clearly got disproportionately affected as the country fell into recession and as unemployment rose. It clearly got affected by that.

It is growing right now not because obviously the unemployment numbers aren't getting much better -- because they are not. There is replenishing going on across the industry where people were reluctant to replenish uniforms. They are now replenishing them. We have, we think the best quick response capabilities in the industry, so we are a go to supplier when they need things quickly. We think we are winning business from others. We are gaining market share based on the quality of the products we make and the quality of the service we give and even though unemployment is at high levels and not improving, we are gaining business there.

We have also had a successful run in our licensed sports group lately. We have had -- we have a great relationship with Major League Baseball and the NFL. They are the two biggest pieces of the business. We just renewed our NFL license last week it was announced. That is new news. In case someone was going to ask, we got essentially the same rates that we had before and we got everything that we were bidding on with that. So, we have continuity with the NFL through 2017 now, and while attendance is down at games in most sports, consumers are still buying, particularly at the lower price points which is where we have a big chunk of business. That business is all doing pretty well.

Michael Binetti - UBS - Analyst

If I ask this a different way. In the workwear side -- is the governor in that business going to be -- are we going to be held up by a replacement cycle or are you seeing net new customers in that business?

Eric Wiseman - VF Corporation - Chairman & CEO

We are getting some new customers in the business. The big catalyst will be as employment comes back. That will be the big catalyst and we have not seen that yet.

Michael Binetti - UBS - Analyst

Okay, thanks.

Eric Wiseman - VF Corporation - Chairman & CEO

Thank you.

Oct. 21. 2010 / 12:30PM, VFC - Q3 2010 VF Corporation Earnings Conference Call

Operator

Omar Saad with Credit Suisse.

Omar Saad - Credit Suisse - Analyst

Thank you for taking my call. Nice work. On the quarter. I wanted to ask Eric, I was impressed not only by the execution in the quarter but also by the confidence you have in the outlook for the fourth quarter, raising above -- raising the full year guidance almost more than what you beat relative to your prior expectations. We are hearing a lot of things -- weather is hurting the business at this point. I am talking generally, retail overall. There is a lot of promotionality going on out there that people are worried about -- order cancellations or too much inventory at retail for the holiday season. Can you give us your perspective on some of those concerns that are floating out in the marketplace?

Eric Wiseman - VF Corporation - Chairman & CEO

Sure. We are early in the big holiday season. Weather has not been a help in the first few weeks of October. We have a long way to go. I can't -- I don't know what the weather is going to be. I do know that we've assumed an average weather season. That is how we forecast. If we have an average weather season, we'll be fine.

We are getting a lot of questions about order cancellations. We are not seeing order cancellations at our business. So, that's not been an issue for us. And, the promotional cadence that we're seeing is about as expected. We obviously -- we have 775 or so of our own stores out there so we get daily reads on what consumers are spending across a wide variety of brands. It's that knowledge that informs our forecasts and we are confident -- obviously we are confident that we can deliver the fourth quarter that we called out here.

Omar Saad - Credit Suisse - Analyst

That is very helpful and I know you feel great about your inventories and they obviously look extremely clean from an outside observer's perspective. But, it seems to me you probably feel pretty good generally about inventory levels at retail in the industry.

Eric Wiseman - VF Corporation - Chairman & CEO

In our brands, yes we do.

Omar Saad - Credit Suisse - Analyst

What about the industry overall do you worry about some competitors that are over-inventoried that might have to get too aggressive on promotions?

Eric Wiseman - VF Corporation - Chairman & CEO

I don't have current enough information on competitors. We get to see that on a quarterly basis. I haven't seen anything recently that could inform that kind of a comment, Omar. I just know how -- I think the retailers, everyone is trying to buy a little bit cautiously -- they have been in that cycle for the last couple of years. We've said all along, we think that's a smart way to play it. We all learned the value of being able to execute our business with leaner inventories. It is a huge driver of profitability and success and we are focused on that as are most of our customers.

Oct. 21. 2010 / 12:30PM, VFC - Q3 2010 VF Corporation Earnings Conference Call

Omar Saad - *Credit Suisse - Analyst*

Okay that is helpful to know that the retailers from your perspective are still taking that appropriate mindset to the business.

Eric Wiseman - *VF Corporation - Chairman & CEO*

Yes, at least with us they are.

Omar Saad - *Credit Suisse - Analyst*

Well, I think that's a pretty good sign for the whole industry. One last quick question -- you got a million questions on the costs and the cotton and all of that stuff. The price increases -- just so I'm clear. It seems like you are going into all of your business and doing some strategic price increases.

Eric Wiseman - *VF Corporation - Chairman & CEO*

It is not broad across all products, it's maybe 10% or 20% or 30% of products where you are seeing price increases not some small price increase on everything. Yes, I think it is fair to say, that we are using all of VF's brands and countries and products to address the significant pricing challenges that we see in a few product areas. Is not every single product category in every country that has significant cost inflation next year. But, we are looking at how we cover it and to do that we are using the breadth of VF to help us.

Omar Saad - *Credit Suisse - Analyst*

Perfect, thanks, good work and good luck.

Eric Wiseman - *VF Corporation - Chairman & CEO*

Thank you very much.

Operator

Eric Tracy, FBR Capital Markets.

Eric Tracy - *FBR Capital Markets - Analyst*

Hi, good morning. I am going to beat this cost inflation, cotton thing absolutely into the ground. Just so I am clear in terms --.

Eric Wiseman - *VF Corporation - Chairman & CEO*

Then you will be speaking to Bob, Eric.

Oct. 21. 2010 / 12:30PM, VFC - Q3 2010 VF Corporation Earnings Conference Call

Eric Tracy - FBR Capital Markets - Analyst

I hear you. Just to be clear in terms of again how we should think about the denim buys next year and how they are going about that, it sounds like they are not locked in but is there the assumption that cotton may reverse so that you get the opportunity to lock in at a lower level is it just-- or can you maybe just speak to the timing in which we might get locked into the back half of next year?

Bob Shearer - VF Corporation - SVP & CFO

Eric, so, you got it all right. The point here is that again because we are in these negotiations we are not being too specific but what I did say was that, yes, we -- right now, we are assuming that the cost -- the ultimate cost that we are lock into and will be built into our denim, right, that we re We will don't into our denim that we are buying, will not be at the \$1.20 rate. It won't stay at that level over the year. Yes, that's exactly right. Again just a little reluctant to say right now what we are assuming. Higher than where it was clearly, or what we were thinking about at the last end of the last quarter but not necessarily at the \$1.20 level. That is the point there. Yes, go ahead.

Eric Tracy - FBR Capital Markets - Analyst

What gives you the confidence-- are you are seeing something from the supply/demand side that -- on a global market perspective that gives you confidence that that does start to reverse.

Bob Shearer - VF Corporation - SVP & CFO

Well, short rates versus long-term rates, yes it's just a lot of knowledge in terms of yes, demands, demand overall, the levels that will be coming on board. Cotton will be coming in, all of those factors are contemplated in that assumption.

Eric Tracy - FBR Capital Markets - Analyst

Okay. If I could switch gears a little bit in terms of you spoke to conditions in the marketplace. Maybe just in the outdoor in particular. Clearly, at least the perception of a difficult compare given severe weather last year. Maybe speak to it seems to me that compare isn't as difficult. You all are pretty conservative from an inventory perspective as were retailers last year. Maybe even though the weather was difficult, you didn't capture as many of the sales as you possibly could have. Can you speak to that and then relative to the trends that you are seeing in that space?

Eric Wiseman - VF Corporation - Chairman & CEO

Sure. You captured it exactly right. Last year we had a good weather environment for our outerwear business. We sold through, so we missed opportunities last year. We've already commented some on our bookings. We have strong bookings for fall and we have strong booking for spring. That tells you -- tells us -- that the retailers are voting for our brands, particularly in the North Face, they are voting for that brand. Our expectation would be that working with our retailers, we have our finger on the pulse on what's realistic that have happened to that business next year. We are looking at double-digit increases to continue in the North Face not only for this fall but for next spring. And that is true in the US, that's true in Europe. And Asia of course is a much stronger number because the brand is relatively new there.

Operator

Todd Slater with Lazard.

Oct. 21. 2010 / 12:30PM, VFC - Q3 2010 VF Corporation Earnings Conference Call

Todd Slater - Lazard Capital Markets - Analyst

Thank you. Impressive quarter everybody. I am curious if you could give a sense of your average selling price or your wholesale price that we should expect for next year on like-for-like products or maybe in the overall portfolio as an offense to some of the sourcing -- costing inflation you talked about. And, secondly I am just wondering how the retailers are reacting to selective price increases and whether or not they are embracing them or worried about their ability to pass through inflation. I'm sure they would love to be able to do that. Given 16 years of deflation. Lastly, for Karl Heinz the prices on pretty much everything in Europe and Asia is much higher. I am wondering if you think this disparity in pricing versus the US is sustainable and especially as the world gets flatter, what his thinking is on that. Thanks.

Eric Wiseman - VF Corporation - Chairman & CEO

I will quarterback there for you Todd. I can't give you an average sales price number for next year. I don't know it, so I can't give it to you. We've only really done pricing for the -- where we have done it has all just for the first part of the year. I am afraid I can't help you with that one.

On the conversations we are having with retail. It has been really an interesting discussion. It has evolved since early summer. Into one now, where there is so much pressure from labor rates in Asia and the cotton prices have gone up so much, that there is a robust discussion with the retailers. But, as I said, I think in my comments, we are having that discussion at every channel of distribution, particularly around cotton. Products that are heavily cotton oriented -- it's true in every product category and in every channel of distribution and we are not the first people to have these conversations. Everybody is out there facing the same pressures. Our retailers have many of their own exclusive and private brands so they are facing the exact same challenge.

So there is just an honest discussion about how we can move forward and address some of the cost pressure that we see. And, it went from a discussion where everybody was pushing back you are now seeing a lot of our big retail customers publicly stating that they are seeing the inflation coming at them and they expect to pass some prices across. I think that has come to a healthier place right now. Karl Heinz, do you want talk about the last part of Todd's question?

Karl Heinz Salzburger - VF Corporation - President, International Business

Absolutely. Yes, Todd. We tried to do two measurements which are a little bit opposite when we define our pricing. One is to have consistency on brand positioning worldwide. We try to position brands and products more or less at the same levels. On the other side, and that's the opposite one, we try to maximize local pricing opportunities. That depends very much what consumers are willing to pay, the channel of distribution, the willingness again of consumers.

So, there are some disparity as you mentioned. What is creating us some headache in short-term is the strong dollar/euro fluctuations or to other currency. But that is -- especially if it happens short-term like it is happening now. Over time though, we have seen -- consumers do know now what prices are paid in the different areas. So far we have not big reactions. Again, because we have tried to be consistent in our positioning of the products and brands. At the same time that reality like in Europe where consumers normally are not so price sensitive and tend to be willing to pay more. Did that help you?

Todd Slater - Lazard Capital Markets - Analyst

Can I ask you a follow-up on the wholesale pricing?

Karl Heinz Salzburger - VF Corporation - President, International Business

Yes.

Oct. 21, 2010 / 12:30PM, VFC - Q3 2010 VF Corporation Earnings Conference Call

Todd Slater - *Lazard Capital Markets - Analyst*

Just -- I know you obviously can't give us specifics and exact numbers, but would you say that the overall average -- let's say wholesale -- will be up a little bit next year is it fair for us to assume that -- up maybe low single digits or is that still too early to call?

Eric Wiseman - *VF Corporation - Chairman & CEO*

Todd, I will deal with that across yes, but I think yes, we are going to see on a product per product basis, some increases next year. I don't know how that is going to average out though. Your assumption -- will our average price be up next year? Yes our average wholesale price yes it will be.

Operator

Next we will hear with David Glick with Buckingham Research Group.

David Glick - *Buckingham Research Group - Analyst*

Good morning and my congratulations on the quarter. How are you? Direct-to-consumer costs, I may have missed it and I was wondering -- we've got the total constant currency increase for direct-to-consumer. I'm just wondering, what the comps were and how they flowed through the quarter and secondly, what's going on with the Nautica business. It is in a very competitive environment. The business was on its back a year ago and you have really made a nice rebound. I am curious is it sharper price points obviously better product execution. But some color on exactly how you achieved the turnaround and what that means for the business going forward.

Eric Wiseman - *VF Corporation - Chairman & CEO*

Sure. I will deal with both halves of those, David. The retail comps in our own stores for the quarter were up about 3%. That is the comp store growth that we had in the third quarter. We are expecting low single-digit comps in the fourth quarter in case you're interested.

Thanks for noticing the progress that the Nautica team has made. I am just terrifically proud of the progress they have made. The business was really in a tough spot and that's when great management teams rise to the occasion and that team has done that up there. To have season to date sell-throughs with -- of over 20% versus prior year -- across their businesses is pretty impressive. It does come down to simple things you talked about. It comes down to a much more focused and a product line that is very directed at who their core consumer is. They have done that at the right value price and they have done that in partnership with their retail customers.

We are getting more advertising support from customers because we have momentum. Momentum is a wonderful thing and Nautica has it right now in their wholesale business. Not true in their outlet store business. That is a challenge for us but we will get that challenge solved. That was a secondary challenge for us. We knew we had to get to the wholesale piece working. We have it working now and by all indications we are going to have a good year next year in Nautica and wholesale as well. I know the team will appreciate you asking that question.

Operator

Our last question today will come from Ken Stumphauzer with Sterne Agee.

Oct. 21. 2010 / 12:30PM, VFC - Q3 2010 VF Corporation Earnings Conference Call

Ken Stumphauzer - *Sterne Agee - Analyst*

Good morning everyone. Just a couple of quick questions for you. Just from your experience and I know this goes back 15 or 20 years at this point. But, when we've seen why the wholesale price increases in the retail channel, what is the elasticity of demand? Do you see units come down accordingly? Does it increase overall consumption? What is your experience with that?

Eric Wiseman - *VF Corporation - Chairman & CEO*

That's a really difficult question to answer because it is a very broad question. Where we have -- I will give you some generalities and I'm afraid that's all I can do for the US business. At the high end of our price points, where we have innovative new products and brands like the North Face and brands like Vans. Where we have innovation, consumers will step up pay for the innovation. That's true, not just in the apparel industry, it's true in most industries. We have a huge focus in VF on driving innovation through everything that we do including our product development and being paid appropriately for that innovation.

In the more -- where the big unit volumes are, we absolutely understand what a \$1 price change up or down means because we see it all the time through promotional cadence. We know how much volume we can do at each price point. We have that metrics all factored in. At some price point when you go up, your business does slow down and we know that. At some point when you go down, it really accelerates and we know that as well. We have taken all that into consideration as we are dialing in our pricing for next year. Does that help you?

Ken Stumphauzer - *Sterne Agee - Analyst*

I know that is it difficult conceptual question but I was interested on your perspective. As far as versatility on fabrication across your portfolio, can you speak to that? I understand you probably have limitations on Jeanswear but perhaps in Sportswear and Contemporary?

Eric Wiseman - *VF Corporation - Chairman & CEO*

I am not sure I understand the question.

Ken Stumphauzer - *Sterne Agee - Analyst*

In essence, could you effectively lower cotton contents across other coalitions at VF besides Jeanswear?

Eric Wiseman - *VF Corporation - Chairman & CEO*

Yes, we could. Obviously, cotton is a part of many of our product lines. Jeanswear is where the biggest part of the product line. But, we have that all kinds of flexibility in terms of the styles we make and how we make them.

Operator

We will take a question from Mitch Kummetz with Robert Baird.

Oct. 21, 2010 / 12:30PM, VFC - Q3 2010 VF Corporation Earnings Conference Call

Mitch Kummetz - Robert Baird - Analyst

Thank you. I have a few questions. One, Eric, you're talking about the outlook for the first half of next year sounds pretty good based on where some of those spring orders are coming in. Is it possible to maybe rank the drivers of that increase in terms of order of magnitude? How much of it is retailers just being more aggressive with open to buy versus maybe you taking some share? Or whether or not there new products in distribution that are hitting your business next year in the first half?

Eric Wiseman - VF Corporation - Chairman & CEO

A big part of our growth is coming from our Outdoor and Action Sports businesses. As I said earlier, that's 41% of our Company. It is also -- 21% of our Company that has operating margin approaching 20%. As we've been questioned about why are we increasing our investment in marketing behind our brands the answer is, we are trying to drive that business very effectively and we are trying to drive our Asian business very effectively. And, that is where we are seeing a lot of growth. We are investing behind those brands and I think the fact that the North Face was up 17% and Vans was up 19%. I don't think that's true in the Outdoor and the Action Sports businesses in general. That tells us that we're taking share and if you look at our track record over the last five years with those brands, I think we have taken share and that is also true in our outlook for next year -- is in that big section, we will take share.

Ken Stumphauzer - Sterne Agee - Analyst

Bob on the gross margins, first of all on the third quarter, can you maybe quantify -- it was up 220 basis points -- could you quantify the key buckets that drove that increase how much of it was some cost benefit in the quarter versus pricing or mix or fewer closeouts? How does that translate into the fourth quarter where you are essentially expecting gross margin to be flattish?

Bob Shearer - VF Corporation - SVP & CFO

Sure, Mitch, in the third quarter, the 220 basis point improvement was pretty evenly split between lower product costs that we had been seeing throughout the year. Not quite as much as we saw the first half which was obviously anticipated. Between that and other factors that we have been seeing that have been driving our gross margin for the last couple of years. In other words, the higher mix of retail. The stronger mix of our lifestyle businesses. Also, just running the business so cleanly with our inventory positions and lower risk in our inventories. About half, lower product costs and the rest driven by good fundamentals and the changing mix in our business.

For the fourth quarter, what we said is that gross margins ought to be relatively flat in the fourth quarter. And there, what we are seeing, as we've said all long, Mitch the impact of product cost increases is a 2011 matter. Not a 2010 matter. We are seeing -- of course, we are seeing those same kinds of positive influences in the fourth quarter. So, again a bigger mix of our retail, stronger international business is a part of the mix. All those pieces helped drive our gross margin up and will in the fourth quarter.

We do have a little bit of product cost pressure I will call it but it is not from specifically product cost increases, it is actually from chasing some business. In terms of chasing business that cost us a little bit. There is a premium to doing that. It is not specifically the product cost -- it is we are paying a little bit more for product because we're chasing some business because of the strength of our business. I think it says something to your point relative to the first part of 2011. So, as we look at our needs for that, and as we build our inventories for that we are paying a little bit of a premium. Overall that balances out to about flat gross margins in the fourth quarter.

Oct. 21. 2010 / 12:30PM, VFC - Q3 2010 VF Corporation Earnings Conference Call

Operator

That is all the time that we do have for questions today. At this time I'd like to turn things back over to our presenters for any additional or closing remarks.

Eric Wiseman - VF Corporation - Chairman & CEO

I just thank you all for your interest in what we are doing here. We are proud of the quarter we just had. And we are looking forward to getting back in 90 days and talking about the great fourth quarter we are going to have and providing some more details on 2011. Thanks a lot.

Operator

That does conclude today's teleconference. Thank you all for joining.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2010, Thomson Reuters. All Rights Reserved.