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VFC - Q1 2012 VF CORP Earnings Conference Call

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## OVERVIEW:

VFC reported 1Q12 YoverY revenue growth of 31% and adjusted EPS of \$1.94. Expects 2012 adjusted EPS to be \$9.45.



## CORPORATE PARTICIPANTS

**Jean Fontana** ICR - IR

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

**Steve Rendle** VF Corporation - Group President, Outdoor & Actions Sports Americas

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

**Scott Baxter** VF Corporation - Group President, Jeanswear Americas & Imagewear

**Bob Shearer** VF Corporation - SVP & CFO

## CONFERENCE CALL PARTICIPANTS

**Robert Drbul** Barclays Capital - Analyst

**Michael Binetti** UBS - Analyst

**Jim Duffy** Stifel Nicolaus - Analyst

**Kate McShane** Citigroup - Analyst

**Eric Tracy** Janney Capital Markets - Analyst

**John Kernan** Cowen and Company - Analyst

**Taposh Bari** Jefferies & Company - Analyst

**Omar Saad** ISI Group - Analyst

## PRESENTATION

### Operator

Good day, and welcome to the VF Corporation first-quarter fiscal 2012 earnings conference call. Please be aware that today's conference is being recorded. At this time I'd like to turn the conference over to Jean Fontana of ICR. Please go ahead.

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### Jean Fontana - ICR - IR

Thank you. Good morning, everyone; thank you for joining us today for VF Corporation's first-quarter 2012 conference call. By now you should have received today's earnings press release. If not, please call 203-682-8200 and we'll send you a copy immediately following the call. Hosting the call today is Eric Wiseman, Chairman and CEO of VF Corp.

Before we begin I would like to remind participants that 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 include management's current expectations, estimates and projections about business and results of operations and the industries in which VF operates.

Actual results may differ materially from those projected in the forward-looking statements. Important factors that could cause actual results to differ materially from those projected in the forward-looking statements are discussed in the documents filed with the Company and the SEC. I would like to turn the call over to Eric Wiseman.

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

Thanks, Jean; good morning, everyone. Thank you for joining us. With me today are Bob Shearer, our Chief Financial Officer, and our three group Presidents, Scott Baxter, Steve Rendle and Karl Heinz Salzburger.

In the midst of continued economic challenges and uncertainty both here and abroad, VF's record revenues and earnings demonstrate the strength of our highly diversified business model, the power of our brand portfolio and the ability of our people to succeed in any environment.

Total revenue growth of 31% in the quarter with organic growth of 12% continues to outpace our long-term annual revenue growth target of 10% and gives us complete confidence in our ability to achieve our goal of 15% growth in total revenues for the full year.

During the quarter each VF coalition achieved strong revenue gains with double-digit growth on a constant currency basis in every coalition. And with the exception of jeanswear, where we expect to continue facing higher product costs in the first half of 2012, our coalitions posted double-digit gains in operating income and solid operating margin expansion.

So with one quarter behind us and three to go, I thought I'd take a minute to recap our key strategic priorities for 2012 which are obviously aligned to VF's fixed growth drivers.

First and foremost, building lifestyle brands -- in 2012 this means maintaining the momentum in our fastest growing business, Outdoor & Action Sports, and continuing to empower our other brands to grow and reach their full potential globally. We'll leverage our consumer insight, marketing and product development capabilities to strengthen consumer loyalty for all our brands.

And this year making Timberland work for our shareholders by growing revenues and improving profitability is a particularly important focus. We're really excited about the progress we're making there, which you'll hear more about from Steve and Karl Heinz.

Second, growing internationally -- here the focus is on investing behind our strong momentum in Asia and navigating through increasingly difficult conditions in Europe. Our business in Europe grew strongly in the first quarter as our marketing investments continue to fuel growth in our biggest and most profitable brands.

We do expect double-digit revenue growth in Europe, although slightly below last year's 16% constant currency rate, given conditions there. But the power and authenticity of our brands, combined with generally low market penetration in many European markets, gives us great confidence in our ability to continue to grow both near- and longer-term. In fact, this year VF should see 37% of revenues coming from international markets.

With respect to Asia -- we recognize there are concerns around slowing growth, particularly in China. But for VF the story is really just beginning there as we've only invested in a small slice of VF's brand portfolio in China and in the region.

To date we've built just four platforms for growth there, jeanswear primarily with Lee, outdoor with The North Face, action sports with Vans and handbags and accessories with Kipling. We have many more opportunities in the region and capturing these opportunities will be a significant factor in achieving our goal of 40% of revenues from international by 2015.

Third, serving consumers directly through our growing base of retail and online stores. This year we will open more than 110 stores across our brands with the largest number planned for Vans, Timberland and The North Face. 15% growth in our direct-to-consumer revenues this year should help drive those revenues to greater than 20% of our total revenues in 2012, marking another year of progress towards our goal of 22%.

Our fourth growth driver is to win with winning retailers. 80% of our business comes from our wholesale partners. So the synergy of this strategy is aligning our brand, product and marketing strategies with those partners who can drive mutually beneficial and profitable growth.

Fifth, is to enable VF's future. We've nearly doubled in size over the past five years. To continue our momentum we recognize the importance consistent investments behind a best-in-class infrastructure including talent development, supply chain capabilities and technology. In 2012 our



capital expenditures will reach a record \$375 million as we invest in such growth supporting projects as new distribution centers, new coalition headquarters, technology and retail stores.

Our sixth and newest growth driver announced in March of 2011 is to lead in innovation. At VF we have a simple definition of innovation; it's something new that creates value. Products of course are at the heart of our innovation agenda. From The North Face's flash dry fabric that provides unmatched moisture wicking to Timberland's anti-fatigue technology that gives all-day comfort, to patent pending technology in jeanswear that provides superior fit for women, all of our brands are actively pursuing breakthroughs in product and process innovation.

We obviously have a lot to get done this year. I'm confident that we have the right strategies, the right focus and, most importantly, the right team to deliver another outstanding year to our shareholders.

Now I'd like to turn the call over to our three group Presidents. We're taking a slightly different tact this year in terms of their commentary; one we hope will be more informative and efficient for you. Their content will focus solely on our five largest brands, The North Face, Timberland, Vans, Wrangler and Lee, which together comprise nearly 70% of VF's total revenues, providing a strategic overview of the domestic and international growth opportunities for each.

Let's start with Steve Rendell and Karl Heinz Salzburger who will discuss our type outdoor and action sports brands. Steve?

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**Steve Rendle** - VF Corporation - Group President, Outdoor & Actions Sports Americas

Thank you, Eric. Starting with VF's largest brand, The North Face -- global revenues were up 14%, or 15% if you exclude the impact of foreign currency, including a 20% plus increase in the brand's D2C business. In our Americas geography The North Face brand's revenues were up mid-teens, which, along with solid international growth, puts us on track to meet our full-year goal of mid-teens revenue growth. So a great start to the year.

To proactively address a couple of anticipated questions, I'd like to take a moment and comment on The North Face's inventory and backlog. On inventory, even though the balance of the winter selling season remained challenging and spring arrived earlier with warmer and drier conditions than normal, we have seen solid sell-through of seasonal products across the majority of our regions and channels.

Looking out towards fall we are encouraged by our current global fall order book which is up low double-digits to last year. And while we're certainly not immune to overall market dynamics, we are confident that The North Face is the best positioned brand in the outdoor industry to manage through any environment.

Okay, now back to strategy. 2012 will be an exciting year for The North Face. With the sales approaching \$2 billion, we're hard at work executing a number of strategies designed not only to realize short-term growth, but also strengthen the brand's foundation and empower to generate consistent growth for years to come.

Taking a cue from Eric's list, The North Face key strategies in 2012 include -- delivering the most important innovative outdoor products in the industry; leveraging our brand authenticity to connect more deeply with active consumers; providing a premium retail experience both in our own stores and wholesale partners' locations; and growing our international business.

Let's start with product. Innovative product is critical for The North Face consumer, a consumer that is very knowledgeable and passionate about their sport and the products they require to perform at the highest level. They demand the world's best gear, so it's our job to continually push the boundaries of performance and deliver solutions for real-world challenges.

Eric mentioned The North Face's flash-dry technology, this is an excellent example of how our collaborative efforts with our world-class athletes yield product innovations that help redefine what is possible in fabric performance. As new technologies emerge we continually assess our entire product line for opportunities to leverage more focused offerings.



In addition, in an effort to meet our consumer demand and better focus our presentation at retail, we're implementing a global product line rationalization program with a goal of reducing SKUs by 15% by fall 2013. This means industry-leading product for the consumer, a more succinct set of merchandise product collections at retail and enhanced margins.

Next up is work to elevate The North Face brand's connection with consumers. Centered on bold athlete tested expedition proven storytelling campaigns, we continue to invest in expeditions and events that define our brand through the eyes of the hard-core user. This is year's story from the successful first ascent of Mt. Meru's Shark Fin located in India's Himalayan region will be the cornerstone of the brand's seasonal storytelling platform.

The essence of the story lies in the Meru kit, a collection of products built specifically for high altitude cold environments that was inspired and created by our amazing athletes and the Summit Series product team. And telling the story well is of course only part of the equation.

Our third strategy focuses on providing consumers the best possible retail experience wherever they shop, in our own stores or with our wholesale partners. Retail is where we tell our athlete generated stories and present our product in an environment that emotionally engages consumers.

We continue to invest in our digital capabilities so that we can deliver and receive unique product, brand and consumer generated content across a broad spectrum of innovative tools. In a few weeks we'll be launching a new iPhone and Android enabled app specifically geared at supporting our omni-channel efforts. The app will provide our consumers the capability to view system-wide inventory, upload and review product details through 2D and 3D scanning, as well as initiate a purchase transaction.

The fourth strategy for The North Face brand in 2012 was growing our international business. So with that I'll hand it over to Karl Heinz who will take you through some highlights there.

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

Thank you, Steve. Following very strong performance in 2011, The North Face international business, which represents about one-third of global revenues, has continued its momentum in the quarter with high-single-digit constant dollar growth in Europe and tremendous growth continuing in Asia.

On the DTC side we launched The North Face website in Italy and Spain which now, along with the UK, Sweden and France, links our European eCommerce presence to five countries. We expect to launch a site for Ireland during the second quarter and Germany, Austria and the Netherlands in the second half of 2012.

The North Face European eCommerce sites continue to outperform our expectations on all key performance indicators. We're truly excited to watch this business grow and to have country specific vehicles to better connect and communicate with our consumers.

On the wholesale side we're pleased with our growth amid an increasingly difficult environment. In Europe we [interacted] later than expected and we saw concentrated sales in a short period of time in the first quarter. Looking at fall, as we anticipated, retailers are being cautious and are committing later to fall orders. That being said, we continue to gain market share and we'll keep a keen eye on market dynamics so we can react as needed to future changes.

For The North Face in Asia our momentum is strong with a double-digit increase in the quarter. We have had very positive results from a new advertising campaign that launched there a few months ago. We're also testing a new retail concept that has great promise, and have begun implementing an integrated digital communication plan. All of this continues to build the foundation for tremendous future growth. Now we move on to Vans. Steve?



**Steve Rendle** - VF Corporation - Group President, Outdoor & Actions Sports Americas

Thank you, Karl Heinz. Coming off a terrific year in 2011, where we passed \$1 billion in sales, Vans had yet another strong quarter with global revenues up 25%, or 27% excluding the impact of foreign currency. In the Americas revenues increased at a low-double-digit rate in constant dollars. We are in very good shape to reach our full-year goal of mid-teens growth.

Our four main strategies for Vans in 2012 are similar to those at The North Face. Starting with innovation. Our Vans product team, working with four of their top skate athletes, took two existing outsole technologies and combined them into a single patented waffle cup outsole technology platform. Our new Stage 4 skate shoe is being debuted in stores and online this spring. This new innovation has reinforced that our Vans organization continues to be the leader in breakthrough technologies that exceed the expectations of their core skate consumer across the globe.

In 2012 we will continue to elevate our connection with consumers by investing heavily in grass roots events like South by Southwest, numerous skate events and this summer's iconic Warped Tour. For all of these events we're using social media in new and creative ways to link consumers back to the brand in interactively telling our story. In fact, our efforts have yielded a nearly 60% increase in Facebook fans and Twitter subscribers since the beginning of the year.

Our Americas D2C business continues to perform solidly. In the first quarter Van's D2C was up 13% including a nearly 40% increase in our eCommerce business. In both our wholesale and D2C businesses we continue to aggressively build the brand outside of the Western US in Canada, Mexico and up and down the East Coast of the United States. To this end we've open seven new stores since the beginning of the year all primarily on the East Coast of the United States.

We've scheduled an investor meeting in New York on June 14 where we'll go into much greater detail about Vans' overall business and long-term growth strategy. So now I'll pass it over to Karl Heinz who will take us through some brief international highlights before we move on to Timberland.

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

In the first quarter Vans showed tremendous growth of greater than 50% in Europe and high-teen revenue growth in Asia. We are clearly benefiting from higher brand investments, focusing on new products, strong emotional storytelling and focused skate culture events to connect deeply with our consumers.

During the quarter we opened three new owned retail locations including a store on Camden Street in London which showcases Vans' new retail concept. In three short weeks it's become our second-best performing store in Europe.

We've also excited about the (inaudible) launch next month of seven new eCommerce sites in the UK, Germany, Netherlands, France, Ireland, Austria and Sweden. We're clearly at the beginning stages with eCommerce in Europe, so you can understand why we are very bullish on our long-term growth opportunities in Europe with the Vans brand. And now we'd like to take a look at Timberland. Steve?

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**Steve Rendle** - VF Corporation - Group President, Outdoor & Actions Sports Americas

On a constant dollar basis global revenues for Timberland were up modestly in the first quarter. In North America revenues declined slightly due to unusually warm weather that dampened demand for Timberland's core winter boot business, as well as lower royalty income from the brand's formal apparel licensee, the license that was terminated last year.

As Eric indicated, we are intensely focused this year on realizing the tremendous opportunities presented by the Timberland brand, growing revenues and improving profitability. Building on the strategies we laid out on our last call, we're focused on accelerating Timberland's product engine for maximum innovation, activating the brand to create a deeper consumer connection, assessing Timberland's wholesale distribution and D2C and growing the business internationally.

Timberland has a long-standing history of building quality footwear and we're looking to leverage this competency to develop a corporate innovation center that will serve both the Timberland and other footwear brands in the VF portfolio.

Simultaneously we're putting in place the team and infrastructure to support next year's apparel launch. We recently placed a leader from our North Face apparel business in Europe at Timberland to head up this important effort. We're fast developing a very clear vision of how to translate Timberland's unique heritage into apparel with special fabrics and features which we look forward to sharing with you.

We're also in the process of evaluating Timberland's D2C strategy and operating model. We're making good progress in terms of rightsizing the cost structure as well as in specific initiatives designed to drive traffic, improve conversion and improve margins. These efforts will better align Timberland's D2C model with that of our Outdoor & Action Sports coalition. Now I'll turn it over to Karl Heinz to take you through what's going on internationally with Timberland.

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

Timberland's international business, which makes up more than 50% of total sales, showed low-single-digit growth in Europe and strong double-digit growth in Asia on a constant dollar basis. Italy is Timberland's largest European market and the challenging market conditions there are waiting on our (inaudible) results in Europe. But (inaudible) of the Timberland brand makes us confident that we will weather these conditions and continue to grow and gain share in this important geography.

To highlight a few strategic initiatives, on the product side we are seeing excellent growth with our Earthkeepers and women's footwear, both categories are starting to hit their stride and we are confident that with continued marketing investments they will establish themselves as even greater contributors to our overall performance this fall.

In Asia our strategic initiatives for Timberland are similar. Within this geography we see opportunity for Timberland in multiple markets and are particularly excited about the upside in China where we can leverage VF's existing infrastructure.

Keeping our focus on our international business for the moment, let's now switch gears to Wrangler. On a global basis first-quarter revenues for the Wrangler brand were up 8%, or 10% if you exclude the impact of foreign currency. The international highlight for the quarter was continued very strong growth in Asia where revenues grew at a mid-teen rate in constant dollars.

Perhaps not surprisingly our business in Europe softened in the first quarter leading to lower revenues there. Positive performance in Northern and Eastern Europe were not enough to offset challenging conditions in Southern Europe, especially in Spain, Greece and Italy.

We were pleased, however, to achieve a nice improvement in gross margin and operating income. So in summary, slightly lower top-line for Wrangler in Europe with improved profitability.

Strategically we have a number of initiatives underway to position the Wrangler brand for long-term growth. These include accelerating our efforts around product innovation, more powerful storytelling, and new tools to help our wholesale partners communicate the brand's authenticity and heritage. With that Scott will take you through Wrangler's performance in the Americas.

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**Scott Baxter** - *VF Corporation - Group President, Jeanswear Americas & Imagewear*

Thanks, Karl Heinz. In our Americas geography Wrangler grew at a low-double-digit rate in constant dollars driven by strong performance in our mass-market and Western businesses, pointing again to the success of new products and helped by the healthy sales of spring seasonal products. Product innovation tops the list of key strategic initiatives this year for Wrangler.



On the mass side we're seeing great results in our performance polo shirt and are looking forward to new fleece and easy care shirt launches later this year. We're also very excited about the expansion of our Wrangler five-star premium line and, although early on, the Wrangler brand's extension into footwear.

In our Western business, our product innovation efforts are targeted squarely at Western lifestyle consumers in both men's and women's. Examples include expanding our premium performance cowboy cut platform with shirts and the new retro jean that will retail between \$40 and \$50 a pair in Western specialty stores.

DTC is also an important growth engine for this business. In fact, our eCommerce business grew by 50% plus in the first quarter and we're looking to develop a Wrangler Western partner store model. With two locations already open, early reads are quite positive.

And finally, let's take a look at the Lee brand. On a global basis first-quarter revenues were up 6%, or 7% on a constant dollar basis. In the Americas the Lee brand achieved low-teen revenue growth helped by strong seasonal sales. This performance contributed to market share gains in both jeans and total bottoms in the mid-tier department stores.

Our ability to keep our products new and relevant, keeping the consumer at the center of everything we do by combining their feedback with our design expertise is clearly barking. On the men's side of the Lee business new fit innovations like modern straight set and motion comfort khaki are selling through strongly and we're excited about the potential of our worry free casual pants. Like Wrangler, we're also looking into opportunities to increase Lee's premium offering to expand our brand's reach.

On the women's side we are seeing great momentum from our [shape-tastic] perfect fit, an amazing slimming technology, and are very excited about the new product launches from Riders by Lee in mass stores later this year. All in all a great start to the year with a tremendous amount of excitement and energy around the momentum we've built, the innovation that's coming and the opportunity continue to grow this business. Karl Heinz?

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

Turning back to Wrangler, Lee saw lower revenue in the first quarter in Europe while also improving profitability. In Asia growth was at the high-single-digit rate which is lower than we have seen recently due to entirely to the timing of shipments. We're looking forwards to strong Q2 performance.

On the product innovation front, Lee's woman's Stretch Deluxe initiative continues to show promising results with high sell-through. We look forward to building on this initial success with a strengthening pipeline of innovative products to drive future growth.

In the near term we are very focused on execution of a variety of action plans to stimulate sell-through while managing inventories and expenses tightly to ensure we are in the best position possible relevant to the environment. Now I'll turn it over to Bob who will take you through our financial highlights.

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**Bob Shearer** - VF Corporation - SVP & CFO

All right, well thanks, all, for the terrific overview. Now I'd like to wrap up today's call for some commentary around our first-quarter financial performance and our strengthened full-year guidance.

Revenues were up a strong 31%, or 32% in constant dollars. Similarly our healthy organic revenue growth momentum continued in the quarter at 12% reported and 14% in constant dollars. Two of our very important growth drivers, international and direct-to-consumer, organic revenues grew by 15% and 16% respectively, so we're tracking really well against the 2012 target set in February for these businesses.





Our revenue growth in the quarter was somewhat stronger than anticipated due in part to the unusually warm weather which drove earlier shipments and stronger sales of seasonal products.

Now a quick comment on three businesses that we haven't touched on -- imagewear, sportswear and contemporary brands -- all had very good quarters with each double-digit top-line growth and healthy expansion in operating margins. A couple of details.

Imagewear posted yet another quarter of double-digit revenue and operating income growth. As we've seen in past quarters, the momentum continues in the image or the uniform side of the business driven by 20% plus growth in both our Bulwark protective apparel and Red Kap uniform brands. And we also achieved another quarter of growth in the licensed sports apparel business with particular strength in her Major League Baseball and NFL businesses.

Regarding sportswear, we really feel good about the strength we're seeing in both the Nautica and Kipling brands. Nautica's focus on differentiated products supported by a powerful brand message is clearly resonating with consumers with healthy increases in both its wholesale and retail businesses. Kipling in the US also delivered exceptional retail growth in the quarter, over 50% in fact, with very strong comps. Wholesale revenues increased by over 25% resulting in the 44% increase in total reported revenues.

And in terms of our contemporary brands business, we really feel we're turning the corner here. We saw a big improvement in operating margin which increased 300 basis points in the quarter. We're experiencing a nice pickup in our US 7 For All Mankind business with 18% revenue growth.

And we're continuing to open the new stores with 7 For All Mankind, Splendid and Ella Moss. In fact, the Splendid and Ella Moss brands grew by over 20% in the quarter. And while these aren't VF's largest brands, they do present us with a significant opportunity for growth going forward.

Now a few comments on gross margin. On our last call I noted that gross margin could be down about 100 basis points. The reported gross margin was down 150 points. Let me provide some context.

The gross margin for our core businesses, meaning excluding Timberland, was right on plan and, as planned, the decline was due to higher jeans product costs. However, gross margin for Timberland was lower than anticipated. We are taking aggressive actions to move cold-weather Timberland inventories, which, given the exceptionally warm weather, is proving more challenging than expected. The good news is these actions are working and Timberland's inventories will be in much better shape by mid-year.

As we discussed in February, we continue to anticipate significant gross margin improvement for our jeans businesses in the latter part of the year. And we expect to achieve the planned improvement in Timberland's gross margin in the second half.

Finally, I'd also remind you that the overall gross margin comparison was impacted by a change in inventory accounting that took place in last year's first quarter which benefited the gross margin in that period by 40 basis points.

Our SG&A ratio is trending pretty stable with last year's level, up just 20 basis points, and that's despite the fact that this year's ratio includes -- first, the impact of Timberland where SG&A as a percent of revenues is significantly higher than VF's. In fact, Timberland drove up VF's overall SG&A ratio by about 100 basis points. And second, a 30 basis points negative impact from the higher pension expense. So, that points to very disciplined overall expense control during the quarter.

Our operating margin was 12.5% on an adjusted basis compared with 14% in last year's first quarter. But here again we have some puts and takes. Timberland negatively impacted the operating margin by 100 basis points and of course the current year's quarter includes the 30 basis points negative impact from higher pension expense.

And finally, in last year's first quarter the 40 basis point benefit from the inventory accounting change impacts the comparison. So on an apples-to-apples basis, and excluding Timberland, the operating margin was actually pretty comparable to the very strong 14% achieved last year.



Now you'll note the tax rate increased in the quarter to 26.7% from 21.9%, but I remind you that last year's low rate reflected a favorable tax settlement that lowered the rate by about 300 basis points. And that brings us to the bottom-line with adjusted earnings per share rising by 7% to \$1.94, Timberland contributed \$0.12 to earnings per share excluding acquisition-related expenses that were \$0.03 per share in the quarter.

Now it's important to understand the factors behind this quarter's earnings comparison. Included in the \$1.94 was the combined negative impact from foreign currency translation and pension expense which pulled EPS down by \$0.09 per share.

On the other hand, EPS in last year's quarter benefited by \$0.11 in unusual items which were the LIFO inventory accounting change and the favorable tax settlement. So excluding these unusuals, the year-over-year positive swing in earnings was actually \$0.32 per share, underscoring our strong fundamental performance.

Turning now to the balance sheet -- inventories are in really good shape, up only 7% excluding Timberland with 6 percentage points of the increase coming from higher product costs. You know we did repurchase 2 million shares during the quarter for \$300 million to help offset the dilutive impact of stock option exercises. We continue to anticipate another strong year of cash generation which we now expect to exceed \$1.1 billion for the year.

Now I'd like to close with a recap of our revised earnings guidance including a few comments on the second quarter. We're really pleased to be raising our guidance for adjusted earnings per share to \$9.45, up from the \$9.30 we provided back in February. This increase is primarily driven by our great confidence in our brand's continued momentum. The increase also includes the \$0.06 improvement from a smaller than anticipated negative impact from foreign currency.

We remain comfortable with our assumption for an EPS contribution of \$1.10 from Timberland, excluding acquisition expenses, so no change there. No change either in the \$0.19 per share impact from higher pension expense. And the full-year impact from foreign currency now moves to \$0.35 from \$0.41 per share.

We noted in the release the \$1.30 conversion rate for the second quarter and the \$1.25 rate we're assuming for the second half. So the full-year currency impact only changes by \$0.06 from our prior guidance as the change in the assumed rate from \$1.25 to \$1.30 for the second quarter is only about a penny of benefit to that quarter given that Q2 is a seasonally low quarter of activity for our international businesses.

Of course, if the euro remains at its current rate there is upside to our guidance. To quantify that, in the second half of the year there's about \$0.10 of EPS benefit for every \$0.05 movement in the euro to dollar relationship.

A final comment on adjusted earnings per share. As we indicated in the release, adjusted EPS will now exclude not only the Timberland acquisition-related expenses currently estimated at \$0.23 per share, but looking forward we'll also exclude the gain anticipated from the John Varvatos sale, which is expected to approximate \$0.20 per share. Coincidentally, these two items nearly offset each other, so there will likely not to be a significant difference between adjusted and reported EPS on full-year reporting.

With respect to gross margin, we remain comfortable with our guidance for a 70 basis point improvement for the full year. Gross margin comparisons will continue to improve in the second quarter and should turn nicely positive in the second half with by far the strongest comparison in the fourth quarter.

In terms of revenues, our guidance remains intact with that provided back in February which called for a 15% increase in total revenues. And we're holding guidance despite the fact that we're now taking out \$70 million in John Varvatos revenues for the balance of the year.

We're still cautious about the macro environment both here and abroad given the mixed economic data that we're seeing, so we think it's prudent to wait and get another quarter or two under our belts before we consider taking a stronger stand on revenues.



As you know, we don't provide quarterly earnings guidance, but we did think more color was necessary around what we expect for the second quarter, particularly given the impact of Timberland on the numbers. On our February call I said that the second quarter would be our most challenged earnings comparison. Let's review the reasons why.

The first is the impact from Timberland which historically posts a significant loss in the second quarter. This year will be no exception and we expect a loss comparable to what they reported last year of about \$30 million on an adjusted basis. Timberland is now clearly our most seasonal business and with that VF now has a new earnings cadence.

Net loss will impact earnings by about \$0.20 per share in the second quarter. And it's important to keep in mind as well the impacts from foreign currency and higher pension expense which together are expected to be comparable to that in the first quarter or \$0.09.

So we're looking at a combined impact from Timberland, pension and currency on the second quarter that should approximate \$0.29 per share. Comparisons are further challenged by the fact that last year's second quarter included a \$0.07 benefit from a European plant closing. In short, despite continued growth in our core business, given these factors we're looking at a decrease in second-quarter earnings per share.

Of course given our full-year earnings guidance, this points to very strong earnings gains in the second half of the year. We expect the fourth quarter to post by far the most positive earnings comparison of the year given the rebound in our jeanswear and therefore total VF margins, strong retail revenue performance as we continue to add new stores and the seasonal nature of our biggest and most profitable outdoor and action sports brands.

Well, I hope this helps clarify the cadence of our upcoming earnings. In summary, we're off to a very strong start to 2012. We're seeing strong momentum continue, our brands are in great shape and, as you've heard, we have a long runway for continued growth globally.

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

Thanks, Bob. Operator, we're now going to open the line for questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions). Robert Drbul, Barclays.

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**Robert Drbul** - Barclays Capital - Analyst

First question that I have is on the -- in the outlook for the full year, can you elaborate a little bit more in terms of the way that you guys are positioned around the orders in open to buy throughout Europe? And just sort of are there any the stretches to what you're assuming in that or where is there any risk that you see around the plans for the European business, specifically Vans and The North Face?

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

Karl Heinz, do want to take a shot at that?

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

Yes, yes, I do. As we had said in the release before, we had expected a little bit softer bookings for bookings, which is what actually happened. Having said still that, we still expect The North Face to grow in the full-year. I mean this is a firm statement.

On Vans, Vans operates a little bit on a different business model than The North Face, we have multiple collections. So we had to work on four rather than two. And so we don't have the full visibility yet on the fall and back-to-school bookings, but what we have at the moment -- and we said we experienced a 50% growth in first quarter -- makes us very confident that we'll have, again, after last year, a very strong year on Vans. Does that answer you?

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**Robert Drbul** - Barclays Capital - Analyst

Yes, that's helpful, yes, thank you. And I think you said The North Face, the global fall bookings were up low-double. Is there a big discrepancy? Can you just give us any numbers around the US versus the international order book on that one?

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

Karl Heinz, do you want to -- do we want to split this one?

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

Yes, yes, I can start maybe with my part which is Europe and Asia. We saw very strong numbers in Asia which were -- they mirror historical numbers. So we mentioned double-digit up very strong numbers. Europe was a little bit softer and we had a few exceptional items, not only the economy which everybody knows about and the bad weather which really didn't help the business, but we also saw, particularly in the UK, we had some major customers and who had some bankruptcies which affected us.

Now this has been resolved. And if you neutralize these extraordinary events, we also pulled out from distribution, which we didn't believe was good short-term and long-term for the brand. So if you neutralize these extraordinary factors, we still see a few percent of growth also in Europe.

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**Steve Rendle** - VF Corporation - Group President, Outdoor & Actions Sports Americas

So, Bob, in the Americas we don't -- we're actually seeing fall bookings comparable to prior seasons. So we're really on a nice trend. And in fact, as you heard, there's no change to our full-year expectations of mid-teen growth for the brand on a global basis.

I think it really speaks to the brand's diversified strategy, both from a region standpoint as well as the activity-based model that was deployed three, three and half years ago as well as the different categories of business that we sell into retail.

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

And, Bob, the other piece is Asia where the brand is really strong in Asia and also very new in Asia. So we've got nothing but opportunity there, our team is capitalizing on the opportunity.

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**Robert Drbul** - Barclays Capital - Analyst

Thank you very much.

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**Operator**

Michael Binetti, UBS.

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**Michael Binetti** - UBS - Analyst

Congrats on a good quarter.

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

Thank you.

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**Michael Binetti** - UBS - Analyst

So, I'm just curious about your comments that there was a bit of a gross margin tail -- sorry, headwind due to Timberland inventories being a bit of a challenge, both that he didn't see a similar thing materialize for The North Face. Yet we have -- yet it sounds like your plan on doing some clearing of low productivity SKUs for The North Face at the same time.

So I just was hoping you could help us reconcile that as far as how we're thinking about -- it sounds like you have a lot of confidence in second-half earnings. That's usually very closely tied to The North Face. We're trying to think about a little bit of -- how conservative we are or how much risk there is to the back half potentially from inventories for North Face in the channel still that might show up from last year from the warm winter.

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**Steve Rendle** - VF Corporation - Group President, Outdoor & Actions Sports Americas

Sure, it's so -- this is Steve. On The North Face -- I'll deal with that first. We saw a really strong close to 2011 where we moved through the standard seasonal inventory at that point. And as we came into the first quarter we saw solid growth of the seasonal categories as well.

We -- I think from a brand standpoint we've seen really good sell-through. Inventories at retail or in good positions. There are some retailers that are sitting on slightly higher. But from our standpoint we've seen such good sell-through that we feel we're in the best position as we move into the second half and our fall bookings is what gives us that confidence.

I think it's important to say that retailers book sales for coming seasons based on prior season sales, not necessarily prior season bookings or receipts but on what they sold through. And our future bookings in fall really reinforce how well we've done in the first quarter and how we expect to enter into the second half.

In the case of Timberland, we're still learning what it means to own a business is primarily a winter boot brand. The impacts of the warm dry winter were somewhat greater than we expected; that has left us with a slightly higher inventory position now. But as Bob mentioned, we will work our way through that by the end of the second quarter.

But I think it also is important to say that this really reinforces our long-term strategy to accelerate innovation in both footwear and apparel to build a business that has a more diversified assortment, not only in the fall but year round.

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**Bob Shearer** - VF Corporation - SVP & CFO

Michael, I'd just add to that that obviously right now we're instilling a lot of discipline especially in the inventory management area at Timberland. And we're seeing a little bit of short-term impact from that, but we're going to see big benefits going forward as we get the inventory levels down, which are quite high right now, as we work those down by mid-year and then move forward in the second half of the year.

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

Michael, it's Eric, just to make sure there's clarity about the situation in North America with The North Face. We did have a few retailers that put some inventory back to hold onto it to sell till fall. All that's reflected in their bookings. They obviously wrote their bookings knowing exactly what they had and so our outlook for the fall -- we have pretty clear visibility to the outlook and we're really encouraged.

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**Michael Binetti** - UBS - Analyst

Okay. And then just since we're going to be -- I think the next time we'll chat with you guys will be at a Vans Analyst Day -- maybe a Vans question. I think we heard that you guys are -- you have the eCommerce platform set up in Europe now and I think it becomes quite leverageable that you have the back of house supply chain and order fulfillment set up.

And I think you're going to be turning on quite a few markets for Vans now that you have North Face on in the near term. Can you tell us a little bit about the plans for Vans as you roll that out across Europe on eCommerce and perhaps what you're seeing early on with North Face so we can think about as you do that for Vans?

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**Scott Baxter** - VF Corporation - Group President, Jeanswear Americas & Imagewear

Yes, I'll (multiple speakers). Go-ahead, Karl Heinz.

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

Oh, sorry. Yes, Michael, you said it all right. We do work and we have a leverage on our -- what we call the backhand on eCom. We started about 15 months ago with the first [style] market on The North Face. And what we do now, we're rolling out other markets and brands, we use the backhand, which includes not only the system but also the order fulfillment and the deliveries, the supply-chain, it's all backed and it's leveraged.

But we do keep in focus though is the brand part, so every site has its relevant part. So we speak to the relevant consumers. We don't know yet what is going to happen on Vans, because we mentioned we are rolling it out next month. But I did mention that in my script the experience we had on the North Face, once we improved the first initial difficulties it's great. And it's much over what we had planned and what our expectations were. It's a very fast, rapidly growing channel.

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

For us that's all upside in Europe around the eCommerce thing. This will not come as a surprise to you; we've been pretty conservative in our expectations this year as we start launching the Vans eCommerce sites in Europe but it's all upside and the right thing for us to be doing.

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**Michael Binetti** - UBS - Analyst

And just one last question and I will let you guys run. But since we're on the topic of field trips, we're going to China -- you guys are taking investors to China in September. Why now? Why is now the right time? You guys have been there for decades. It's a single-digit part of the revenues, but I'm just curious -- is there an inflection point ahead? Or why is now the time to showcase the work you guys have done in China? And thanks, I'll talk to you guys soon.

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

We've been thinking about when was the right time to go to Asia, and talk about our Asian business and our focus on China in particular. And Timberland was actually an inflection point because they're so successful in that region, we thought now was the right time to go over and talk about our Asia-Pacific business and share with you just how much progress we're making.

We are -- we're getting very close to that \$1 billion mark in the region and we thought that was something to talk about and show you how we're doing that centered -- of course, our biggest market is China -- but wanted to share all of that with you. So looking forward to that trip in September.

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**Michael Binetti** - UBS - Analyst

Thanks a lot, guys.

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**Operator**

Jim Duffy, Stifel Nicolaus.

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**Jim Duffy** - Stifel Nicolaus - Analyst

A couple questions. If you mentioned what you're seeing from Timberland orders for fall I missed it. Can you share some perspective on this and is the 10% annual growth objective for Timberland still a reasonable expectation for '12?

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**Steve Rendle** - VF Corporation - Group President, Outdoor & Actions Sports Americas

Yes, Jim, this is Steve. The Timberland -- similar to Vans and Karl Heinz's earlier answer -- operates on a different model than The North Face. We don't currently have a full season visibility into what that fall season looks like. But we are confident that our expectations of Timberland adding \$1 billion in revenue to 2012 is well on track to come together.

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

And, Jim, Eric. We -- when we talked last quarter about the 2012 outlook for Timberland, we mentioned it would be low-single-digit revenue growth as we cleaned up some distribution, closed some underproductive owned stores and we exited the apparel business in the United States. So we're positioning long-term; 10% annual growth is still our target. But our specific reference to this year's Timberland organic revenue growth number was in the low-single-digit range.

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**Bob Shearer** - VF Corporation - SVP & CFO

And, Jim, the other reconciling item there is currency. So from the 10% currency, as well as exiting some business, that's how we got down to the single-digit.

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**Jim Duffy** - Stifel Nicolaus - Analyst

Got you. That's helpful clarification. And then a question on the jeanswear business for Scott. So competitors have made some pricing adjustments recently. Has that had any detectable influence on Lee or Wrangler sell-through share in recent months?

**Scott Baxter** - VF Corporation - Group President, Jeanswear Americas & Imagewear

No, Jim, it hasn't. And our intention is to try to hold pricing and keep it where it's at. Now if you remember our last couple of calls, Jim, we talked a lot about the fact that we didn't go up as far as the pricing went up and as far as the cost went up; we stayed fairly neutral, only went up about half.

But as we look at the business and we look with our customers to work with them, we'll be fair and we'll work with our customers to make sure we maximize the business going forward. But right now our intention is to stay [pat].

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**Jim Duffy** - Stifel Nicolaus - Analyst

Got it. And a quick follow-up to Mike Binetti's question. When you talk about the 15% SKU rationalization, that isn't liquidation, but it's assortment planning for future seasons, correct?

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**Steve Rendle** - VF Corporation - Group President, Outdoor & Actions Sports Americas

Exactly, Jim. That's all about rightsizing our collections to really maximize our output and our creativity and also improve margins from that exercise.

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**Jim Duffy** - Stifel Nicolaus - Analyst

Thanks, guys. Good luck.

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**Operator**

Kate McShane, Citi.

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**Kate McShane** - Citigroup - Analyst

I just wondered if we could have a little bit more detail around the outlook for the year and where the \$0.15 is coming from. Obviously there was some contribution from better-than-expected currency. But I wondered if you could help us understand the additional \$0.10 upside since revenue guidance is staying the same?

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**Bob Shearer** - VF Corporation - SVP & CFO

Sure, I'll start on that one. So, Kate, it is important to factor in the John Varvatos piece. So what happens is we had John Varvatos business obviously built into our initial projections. We'll lose about \$70 million of revenues by the sale, but not a lot of profit, right. So there's not a big impact there.

So what that means is if we're taking \$70 million out of revenues, it means that we're feeling more comfortable with the rest of our businesses -- some increase in the rest of our businesses and seeing some pick up there in terms of the additional or the incremental EPS contribution.

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**Kate McShane** - Citigroup - Analyst

Okay, great. And then with regards to margin contribution then for the rest of the year, are there any areas for where there could be more upside with regards to gross margin than maybe -- than you were originally expecting either on the cost side or on -- from pricing?





**Bob Shearer** - VF Corporation - SVP & CFO

We're pretty well locked in right now. Based on prior conversations we're in a very different place today than we've been in the past and particularly on -- or at least last year and particularly on the denim side, right. So we're pretty well locked in right now on the cost side. And that is true both from a source of goods standpoint as well as our denim buys. So we're covering at this point in time at least through the end of the third quarter and about half of the fourth quarter.

So we have a very, very good picture in terms of what those costs will be. And on the revenue side, I think you mentioned pricing. Pricing as well, I think the question has been around the jeanswear side, particularly here in the US. And as Scott just said, our intent is to hold our pricing there. But it's really important to keep in mind that our pricing increases only covered half of the cost increases. So once again, we feel confident about our assumptions there.

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**Kate McShane** - Citigroup - Analyst

Okay, great. Thank you.

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**Operator**

Eric Tracy, Janney Capital Markets.

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**Eric Tracy** - Janney Capital Markets - Analyst

I guess if I could follow up on the jeanswear business. Clearly the combination of pricing and product costs rolling [over] are going to help domestically. Maybe Karl Heinz, a little bit more color on the European business. Remind us what jeanswear represents for that region and the visibility as you go forward through the balance of the year what top-line trends look like there.

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

Sure. Let me just do some math here in my head. You know, jeanswear, our largest business in Europe as well as the outdoor business. I think jeanswear represents about 20% of our total business in Europe. And we said it before, we had expected a little bit slower bookings for fall which actually happened.

Where we see some pressure is on the replenishment. Jeanswear operates a little bit different business model than outdoor where the replenishment side is higher than in outdoor. And we basically see the same trend, our customers, primarily the department stores, are suffering from lower traffic and we see that reflected in the replenishment.

So the bookings came in as we had expected. You know, they were slightly up in spring and they were a little bit lower -- I mean a few percent down versus last year on fall. But what we have worked on very highly was the improvement in gross margin and in the profitability of our jeanswear business. And that's what's happening at the moment.

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

And, Eric, it's the other Eric here. I'll add to Karl Heinz's comment and remind you that when you look at the international business, for jeanswear you have to look at China and India. Our biggest business in China is our jeans business and our biggest business in India is our jeans business and our jeans business in China is more profitable than any jeans business we have anywhere in the world. So our Asian growth in jeanswear is a really important part of our story and I'm sure we'll be talking about that in September. I hope you can join us.



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**Eric Tracy** - Janney Capital Markets - Analyst

Okay, no, that's great. And then maybe just a quick follow-up. I realize a smaller piece of the business is certainly the opportunity for growth and it sounds like turning [contemporary], be it 7 For All Mankind or the Ella and Splendid businesses. Maybe just touch on what are the key drivers there, is it wholesale versus direct for 7 For All Mankind? Sort of what's driving that and where do you see the opportunities over the 12 months?

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

Sure, I'll start with talking about the Splendid and Ella Moss business, which we don't often talk about and Bob commented I think in his comments it was up 20% in the quarter. That's not new news for us, actually it's been kind of growing that way for the last couple years. That is a very -- those are very strong brands, very relevant to their consumers, mostly US business for us now with international opportunity. Mostly US business and that kind of growth is not new.

They've been very disciplined there about delivering strong double-digit growth quarter after quarter after quarter. 7, as you know, was a business where we went backwards during -- particularly in the recession when the premium business in general slowed down. And that team has been working very hard to make sure they have the right product and the right mix in their wholesale and retail business.

And both grew -- both the wholesale and retail business were up. And as Bob said I think in his comments, the brand in the US was up 18% in the quarter and we're thrilled to see that kind of traction. It began in the middle of last year and it seems to be accelerating.

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**Eric Tracy** - Janney Capital Markets - Analyst

And is that primarily a wholesale function picking up share or was it kind of greater driving from direct-to-consumer?

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

I can't -- well, it's both. Both were up double-digits, right at around the 18% range in both. I can't comment on the share piece at wholesale because that space, the premium denim space has been a good space for the last six or nine months. But I don't know that we're gaining or losing share there, but we are having that kind of strong double-digit growth. I don't know what the total space is.

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**Eric Tracy** - Janney Capital Markets - Analyst

Okay, fair enough. Thanks, guys, appreciate it. Best of luck.

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**John Kernan** - Cowen and Company - Analyst

Cohen.

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**John Kernan** - Cowen and Company - Analyst

I wanted to go back to the Timberland again. You talked a lot about long-term margin recovery in this business. Is there any way to improve the seasonality potentially in Timberland maybe looking out into next year? Do you see any long-term levers to kind of improve that seasonality from a profitability standpoint?



**Steve Rendle** - VF Corporation - Group President, Outdoor & Actions Sports Americas

John, this is Steve. Our opportunities at Timberland are to certainly strengthen the core footwear collection that Timberland is known for, but it's also to diversify that collection and look at growing the spring assortment, growing the men's and women's assortment and it really is apparel, which we talked a lot about at the point of acquisition.

The \$300 million in incremental opportunity we see over the next five years, as we bring that online beginning fall 2013, we believe that we'll start to see that seasonality start to diversify similar to what we saw going on with The North Face back when we acquired it end of 2000.

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**John Kernan** - Cowen and Company - Analyst

Okay, that's helpful. And then revenue growth in 2013 and kind of an inflection back towards that 10% growth, aside from apparel what other drivers do you have to kind of produce that growth? Is there DTC growth, is there going to be new wholesale partner doors, or what really gives us and you guys confidence in that 10% growth rate?

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**Steve Rendle** - VF Corporation - Group President, Outdoor & Actions Sports Americas

Our confidence on that 10% growth rate over the five-year period is improving the assortments and the sell-through of the brand in our key wholesale partners, it's also the improvement of D2C as we look to improve the contribution of our current stores, as we achieve that adding new stores. And certainly the eCommerce component where we see such great significance in our North Face and Vans business is leveraging those learnings in that platform to help Timberland scale in that area as well.

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

John, Karl Heinz here. I would add also geography. I mentioned that in my section. We just started in China with Timberland and where we can leverage the success story we are having with VF. And also Europe, the penetration in Europe, while it's a big important market, there are still areas where we believe we can cover.

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**John Kernan** - Cowen and Company - Analyst

Okay, great. If you don't mind me asking one more kind of macro-related question. There's been some cautiousness recently out of some other footwear and apparel companies regarding Europe. Have you seen any change in [confidence] in your consumers and retail partners there since the fourth quarter towards -- to more of a cautious outlook I guess?

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

Well, you know, we read a lot about Europe. I guess what we have seen or what we see is more and more polarization between the southern part of Europe and the central and northern part, which we all know about and read about the difficulties of the southern part, you know the three big large markets without even touching Greece, but Spain, Italy.

What we have seen, though, lately is a little bit of stabilization. We haven't seen these trends deteriorating. So I guess that's the good news. We have to see how it will evolve, but so far the good news, even in the weaker market, we haven't seen a deterioration.

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

What I find particularly encouraging about our European situation, last year we grew 16% on a constant currency basis and there was economic turmoil then. We expect to be a little bit below that this year, but part of that is because our brands are -- we have brands that are relatively under penetrated in a lot of countries.

And Karl Heinz and his team have managed to identify a path that will still give us double-digit growth in Western Europe. Despite all the changes and swings and roundabouts across our brand portfolio, the breadth of our portfolio and the differences in how each brand is penetrated in each market is really an advantage for us, gives us a lot more opportunity.

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**John Kernan** - Cowen and Company - Analyst

Okay, thanks, guys.

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**Operator**

Taposh Bari, Jefferies.

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**Taposh Bari** - Jefferies & Company - Analyst

Nice quarter. I wanted to ask you I guess, Eric, on a follow-up to that last point. So it seems like you're doing a really good job of challenging or managing the macro challenges in Europe and your brands are fairly underpenetrated there. I was hoping -- and we got a glimpse of this at The North Face Analyst Day I guess last year, but I was hoping to get some more color on where you're seeing growth. If it's distribution, if it's door growth, or if it's just increased relevance amongst your brands?

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

Karl Heinz?

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

Want me to handle that?

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

Yes, I think so.

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

Yes, it's multiple things and some you touched on. You know certainly I mentioned about the eCom initiatives, right. We're rolling out as we speak a new market, so that's one big initiative. The second one still falling under direct-to-consumer. We are opening stores on The North Face, as we had mentioned before. And our number of stores today, a grand total of about 40 stores, is still significantly lower than even a sister company like Timberland. So that is an opportunity.

If we benchmark the number of stores we have to some local competitors we have a long way to go. So that's the second. The third one is simply geographies, right. The North Face has always had a pan-European strategy and we are very rarely the number one in the market. We have local



competitors, but we are growing. So we are growing on a pan-European basis, not just primarily in one or two markets. I guess these three factors are helping us to see this continued success we're having since many, many quarters.

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**Taposh Bari** - *Jefferies & Company - Analyst*

Great, can you just go -- would you be able to just talk to the geographies -- or the countries specifically like which countries do you feel like you're most under penetrated in in Europe today?

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

Well, we still have, compared to some other competitors, what we call the emerging market, which is the area from Russia which is a big important market for outdoor. We're actually going down to Turkey covering Poland and the Czech Republic. But primarily these three big large, relatively large and healthy market. That's important; they're growing, they're doing well.

We are growing also very nicely, higher than the average in the Scandinavian area. You know, while the other big markets like Germany, Italy, France, you know we still have people ahead of us. There's a German player which has nearly 150 doors and we have probably 10 in Germany. So we still have, even in the big markets, some room to grow.

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**Taposh Bari** - *Jefferies & Company - Analyst*

Great. And then just a final quick follow-up question for Bob. I don't know if I missed this, but can you tell us what Timberland's gross margins were in the first quarter?

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**Bob Shearer** - *VF Corporation - SVP & CFO*

Yes, we don't provide specific gross margins by brand, but what we can tell you is that for Timberland the gross margin was right on the average, it was right on overall VF's average. Now, again, we did expect it to be a little stronger than that and we talked about why that was the case. But it was right on VF's overall average.

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**Taposh Bari** - *Jefferies & Company - Analyst*

Okay, thanks very much.

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**Operator**

Omar Saad, ISI Group.

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**Omar Saad** - *ISI Group - Analyst*

Nice job in the quarter. Eric, as you think about the portfolio management strategy for VF Corp., obviously with the addition of Timberland, the strong growth in the Outdoor/Action Sports segment, the increasing shift to a little bit more retail mix than wholesale mix, the business has become much -- is becoming much more seasonal, back half weighted. Are you comfortable with that?

Do you feel like, especially as you look at in the future and look to manage the portfolio, add brands, do you look to fill in kind of seasonal -- seasonally strong brands that would be -- that would offset kind of some of the way it's weighted now? Or are you comfortable with that -- kind of building



a really strong outdoor business, if it's back half weighted it's back half weighted, it's what we're good out, it's what we really know? Just your thoughts on the portfolio management and the seasonality of the business would be great.

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

Yes, seasonality has not been a primary filter that we use as we look at the portfolio. We obviously are aware of it and I say that from an acquisition standpoint, which I think is the point of your question. We do a look at are there seasonal opportunities for us to strengthen businesses, as we did with The North Face.

And it's interesting to us that 12 years ago we were talking about really difficult second quarters because The North Face was not a good business to be in in the second quarter. But we've rounded out the product portfolio, we've rounded out the countries we sell the brand in, we've rounded out -- we have really good spring/summer products in The North Face and that -- we weren't having that discussion for the last two or three years.

And we have the exact same opportunity with Timberland. And as Steve said in his comments or the answer to one of his questions, apparel is really an important part of that solution for Timberland. And we won't have a spring apparel line until the spring of 2014. So it's in our sites and we will get at it, but it will take us a while.

But we haven't said, well, let's go acquire a business that will make us stronger in the second quarter. We're very comfortable with -- if we're weeding in these cold-weather brands, if we have the strongest cold-weather brands we will continue to have good third and fourth quarters as we have for the last five or six years in a row.

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**Bob Shearer** - VF Corporation - SVP & CFO

And, Omar, I guess I'd just add to that one of the challenges with businesses that have that highly seasonal nature is from an operational standpoint and managing inventories. And we've demonstrated that we can do that pretty well with brands like The North Face, it's exactly what we're working on right now in Timberland. And again, we'll make a lot of progress there.

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**Omar Saad** - ISI Group - Analyst

Great, great. And then one follow up. On the kind of cost inflation side, obviously the cotton bubble seems to be behind us so to speak. How are you guys thinking about inflation long-term? Yes, the material side may be getting easier, but we kind of all know about the structural wage story in China and emerging markets where a lot of the manufacturing is done.

How do you see VF in maybe a structurally inflationary environment kind of especially once we get past the back half of this year? And how do you see that impacting the kind of overall market place, if we really are going from 20 years of deflation to some extent a period of inflation?

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**Bob Shearer** - VF Corporation - SVP & CFO

Yes, and over -- and we've of course enjoyed that period of time from a cost perspective. But right now, in a more stable environment I guess you might say, it feels to us like there's a few percentage points of inflationary costs that will come our way probably over some period of time here. That's what we're seeing -- it's what we're seeing this year and as we look forward we'd expect something more like that.

And as you pointed out with the cotton bubble, it appears to be behind us in a lot more stable environment. But a few percentage points of inflation on an annual basis could be expected.

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

And that's one of the reasons, Omar, that we are investing so heavily behind our brands and why we're so focused on our innovation strategy. Because we believe that if we build these brands to be the leaders in their space and if we have incredibly innovative products, that we can get paid for the products with the leading brands. And seeing this wave of inflation coming at us for years to come, we think that's critical to our solution. Fortunately we think we're well positioned with both the brand and the product innovation fronts.

**Omar Saad** - ISI Group - Analyst

Thanks, guys. Great job. Thanks.

**Operator**

And with that being our last question, I'll turn the call back over to Eric Wiseman for any additional comments or closing remarks.

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

Sure. Thanks for being with us today. As you've heard, the momentum at VF continues despite external economic challenges. We're really confident in our ability to deliver our increased 2012 guidance and we look forward to giving you another update in July. Thanks so much.

**Operator**

And that does conclude today's conference, and we thank you for participating.

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