

THOMSON REUTERS STREETEVENETS

EDITED TRANSCRIPT

VFC - Q4 2012 VF CORP Earnings Conference Call

EVENT DATE/TIME: FEBRUARY 15, 2013 / 1:30PM GMT

OVERVIEW:

VFC reported full-year 2012 total revenues of \$10.9b and adjusted EPS of \$9.63. 4Q12 adjusted EPS was \$3.07. Expects 2013 revenues to be \$11.5b, GAAP EPS to be about \$10.60 and adjusted EPS to be approx. \$10.70.



CORPORATE PARTICIPANTS

Lance Allega *VF Corporation - Director of IR*

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

Bob Shearer *VF Corporation - SVP & CFO*

Steve Rendle *VF Corporation - VP, also Group President, Outdoor & Action Sports Americas*

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

Karen Murray *VF Corporation - President, Sportswear*

Susan Kellogg *VF Corporation - President, VF Contemporary Brands*

Cindy Knoebel *VF Corporation - Outgoing VP of Corporate Relations*

CONFERENCE CALL PARTICIPANTS

Bob Drbul *Barclays Capital - Analyst*

Kate McShane *Citigroup - Analyst*

Jim Duffy *Stifel Nicolaus - Analyst*

Michael Binetti *UBS - Analyst*

Edward Yruma *KeyBanc Capital Markets - Analyst*

Evren Kopelman *Wells Fargo Securities - Analyst*

Erinn Murphy *Piper Jaffray - Analyst*

Mitch Kummetz *Robert W. Baird - Analyst*

Matthew Boss *JPMorgan - Analyst*

Eric Tracy *Janney Capital Markets - Analyst*

Omar Saad *ISI Group - Analyst*

PRESENTATION

Operator

Good day and welcome to the VF Corporation fourth-quarter fiscal 2012 earnings conference call. Today's conference is being recorded. At this time I would like to turn the conference over to Lance Allega, Director Investor Relations. You may begin, sir.

Lance Allega - VF Corporation - Director of IR

Thank you, Operator. Hello, everyone, and thank you for joining us today to discuss VF's fiscal 2012 fourth-quarter and full-year results. Before we begin I'd like to remind participants that certain commentary included in today's prepared remarks and the Q&A session may constitute forward-looking statements under the definition of the federal securities law.

Forward-looking statements include management's current expectations, estimates and other projections about our business, 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 SEC.



Additionally, participants on today's call may discuss non-GAAP financial measures. You will find the appropriate reconciliations in our press release which was issued about an hour ago and on our website at VFC.com.

Joining us on today's call will be VF Chairman and Chief Executive Officer, Eric Wiseman; Bob Shearer, our Chief Financial Officer; two of our Group Presidents, Scott Baxter and Steve Rendle; and Karen Murray, President of VF Sportswear; and Susan Kellogg, President of VF Contemporary Brands. Karl Heinz Salzburger made the flight and is here in North Carolina today. However, he is sick and unable to join us on today's call, so Steve, Scott and Karen will be filling in appropriately for his parts.

Following our prepared remarks we will take your questions. We will allow as many -- we would like to allow as many questions as possible in our allotted time. So we would appreciate you limiting your initial questions to two. In the event you have additional questions that are not covered by others please feel free to re-queue and we will do our best to come back to you. Thanks for your cooperation on this. I will now turn the call over to VF's Chairman and CEO, Eric Wiseman. Eric.

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

Thanks, Lance. Good morning, everyone, and thank you for joining us. To set a little context for today's call, we thought it was important to spend a bit more time on our expectations for 2013 and specifically the strategic initiatives we are concentrating on to drive continued growth across our portfolio. So as a heads up, today's call will run a bit longer than normal and, as Lance said, we will allow ample time for questions at the end. Let's get started.

2012 was another year of records for VF -- record revenues, record margins, record earnings and record cash flow from operations. It was a year that revealed many strengths of our Company and many advantages to our strategy and our business model.

In fact, VF has unique strengths in our industry including -- a diverse portfolio of more than 30 brands with innovative and relevant products capable of reaching the broadest array of consumers in every market; deep strategic insights validated by comprehensive research that yields increasingly greater returns on our marketing investment and ability to connect with consumers; an obsessive focus on continuously improving our operational capabilities to drive growth and strong consistent returns to our shareholders; and finally, a highly efficient supply chain that includes owned and sourced manufacturing which gives us unparalleled structural advantages including product innovation, speed to market, low-cost and outstanding quality.

Individually any one of these strengths would be an enviable asset for any company to have, yet together in concert they are at the center of VF's DNA and what allows us to be so successful. Now let's take a look at how some of these strengths played out for the year just ended.

Total revenues grew 15% to \$10.9 billion or 17% on a constant dollar basis, including organic growth in every collation, every geographic region and in both our wholesale and direct-to-consumer businesses. In constant dollars our Outdoor & Action Sports coalition grew revenues by 31%, or 13% on an organic basis. Internationally constant dollar revenues for the year were up 29%, or 11% if you exclude Timberland. And our direct-to-consumer business grew 25%, an increase that now takes our DTC business to 21% of total VF revenues.

Full-year gross margin rose by 75 basis points to a record 46.5% with improvements in nearly every business. And very important to this story is the fact that it is about much more than product cost. Our improvements continue to be impacted most greatly by the shift in our portfolio mix towards higher growth, higher margin businesses and geographies.

Our profitability also got stronger this year; in fact, all five coalitions ended the year with double-digit operating margins for a combined 13.5%. Excluding Timberland our operating margin would have reached 14.4%, once again reinforcing our [constants] in our ability to reach our 15% goal by 2015.

And finally, our adjusted earnings per share increased 17% to \$9.63, well above our long-term expectation for 12% annual EPS growth. And included in that result is \$1.12 in earnings per share from Timberland.

Turning to 2013, I'd like to underscore the confidence I have in VF's ability to deliver sustainable profitable growth. All global companies operate in a constantly fluctuating environment and we have validated time and again our ability to effectively manage over business under a variety of conditions. 2013 is no different.

We will continue to leverage our portfolio and competitive advantages to drive revenue growth, margin expansion and earnings while mitigating risks and, most importantly, creating long-term value for our shareholders.

Taking a brief look at a few of our 2013 highlights -- first, we expect revenues to increase approximately 6% which will take us to the \$11.5 billion mark. But let me make one thing clear, VF is not a 6% growth company, it's a 10% growth company. In 2013 there were two external factors weighing on our growth, both of which are well known to you. First, a second unseasonably warm winter which is affecting our largest brand, The North Face; and second, weak economic conditions in Europe which accounts for 22% of VF's revenues.

In addition, we have no acquisitions baked into our plan this year. Beyond 2013 our confidence in the power of VF's portfolio to deliver 10% revenue growth remains high. Below the revenue line we are expecting substantial margin expansion over the results we just posted in 2012. Gross margin should expand by 100 basis points to 47.5% and adjusted operating margin is expected to grow by nearly 100 basis points which puts us very close to our 2015 goal two years ahead of schedule.

And we expect adjusted earnings per share to grow 11% to \$10.70. All of this is expected to yield another record year of cash flow from operations, which should approach \$1.4 billion. Clearly a great year ahead of us with balanced growth, strong profitability, and the leadership you have come to expect from VF.

And with that, I will now turn the call over to Bob to discuss our fourth-quarter financial performance and guidance in greater detail. Bob?

Bob Shearer - VF Corporation - SVP & CFO

Thanks, Eric. I'm going to start with a reminder, this is the first quarter where we completely anniversary the Timberland acquisition, so all fourth-quarter commentary reflects organic performance. Total revenue growth was 4% in the quarter or 5% in constant dollars. And as in the last two quarters, revenue comparisons were negatively impacted by about 1% from the sale of John Varvatos.

Excluding the impact of John Varvatos on our contemporary brands' coalition, every VF coalition worldwide achieved higher revenues in the quarter. Also, we significantly expanded both gross and operating margins in the quarter. Our gross margin increased 220 basis points, reaching 47.4%, an all-time high for any quarter in VF's history.

Every coalition achieved a higher gross margin. As you might expect, the biggest increase came in our Jeanswear business where we continue to move closer to our historically stronger gross margin levels following the volatility created by rising cotton costs over the past couple years. And, of course, our gross margin increase continues to reflect the shift in our mix toward higher margin businesses. And that is particularly true in the fourth quarter, given our growing retail store footprint and expanding eCommerce business within our higher-margin lifestyle brands.

The positive dynamic of expanding gross margin driven by the faster pace of growth in our higher margin businesses has been and will continue to be a key component of VF's earnings growth story in both 2013 and in years to come. The increase in adjusted operating margin in the fourth quarter, that is excluding the acquisition-related expenses for Timberland, was even stronger, up 280 basis points and reaching 15.1%.

I'll comment on our tax rate, which was right in line with both our expectations and the fourth quarter of the prior year. Our fourth-quarter rate is a little lower than our annual rate due to a higher mix of international with its lower effective rate. And that brings us to the bottom line and another quarter of record earnings per share.

Adjusted fourth-quarter earnings per share, again excluding Timberland acquisition-related expenses, increased 32% to \$3.07. And as we've seen in prior quarters, the fourth quarter included a combined negative impact from foreign currency and higher pension expense of \$0.09 per share. All in all a great quarter for VF's shareholders.

Now a few comments on the fourth-quarter financial performance of our coalitions. Our Outdoor & Action Sports business posted a 6% increase in revenues in the quarter; Vans and The North Face continue to exhibit very healthy growth; Timberland declined 4% which impacted the overall revenue comparison for the coalition in the quarter.

We are particularly pleased by the 11% constant dollar growth in The North Face given the challenges of another warm winter, difficult conditions in Europe and retailers' carryover of inventory from 2011. Recall too that The North Face faced pretty tough comparisons against last year's fourth quarter when constant dollar revenues increase 22%. In fact, in the fourth quarter of 2012 North Face posted healthy growth in all key regions and balanced growth in both its wholesale and direct-to-consumer businesses.

And Vans posted outstanding results. The 22% constant dollar revenue growth in the quarter bears repeating. The brand continues to be on fire in Europe posting a nearly 60% increase in constant dollar revenues in the fourth quarter. Here too we see very balanced growth across geographies and channels. In fact, in the fourth quarter Vans' wholesale business grew over 23% while its D2C business increased 18%.

Now for Timberland the biggest impact in results in the quarter were unseasonably warm weather and difficult conditions in Europe, particularly in Southern Europe which is Timberland's largest market there. Two bright spots in the quarter were Timberland's direct-to-consumer and Asia businesses, both of which achieved solid growth.

We've made a tremendous amount of progress in building the foundation for strong future growth for Timberland in terms of leadership, operations and product development and we are as convinced as ever that the brand is poised for accelerating growth in the years to come.

The profitability of our Outdoor & Action Sports coalition continues to shine with an 18% increase in operating income to an operating margin of 18.8%. As you know, Timberland's operating margin is below that of our core Outdoor & Action Sports businesses which continued to deliver outstanding profitability at the 20% level in the quarter.

Given our work with Timberland over the past year we remain confident that the brand's profitability will approach that of our core Outdoor & Action Sports businesses.

Jeanswear top-line results strengthened a bit this quarter growing by 4% in constant dollars. Our America's business continues to deliver solid performance with growth in our mass, Western and Latin America businesses. On the flip side, Lee's top-line continues to experience pressure both in the US and abroad with challenging dynamics in mid-tier department stores, weak economic conditions in Europe and a buildup in retailers' inventories in China.

The real story in Jeanswear this quarter is the significant improvement in profitability that I referenced earlier with operating margin reaching 17.9% moving closer to our historically stronger levels.

Imagewear posted modest top-line growth in the quarter, up 2%, but that's against a pretty tough comp for this coalition last year when fourth-quarter revenues grew by a very healthy 10%. Here too the bigger story is the bottom line. In the third quarter we indicated that the Imagewear operating margin comparison should improve in the fourth quarter and that is exactly what we saw -- operating margin improvement to 13.1%.

In percentage terms of the strongest revenue gain in the quarter was posted by our Sportswear business where revenues grew by 15%. Both Nautica and Kipling contributed to the quarter's very strong growth. The profitability improvements we started to see last year continued into 2012 with Nautica product performing really well at retail and its D2C business also showing a lot of improvement. Our Sportswear coalition's momentum on both the top and bottom lines is clearly accelerating and is expected to continue in 2013 as well.

The story in our Contemporary Brands business is also one of both top- and bottom-line growth. The decline in reported revenues was due entirely to the John Varvatos sale, otherwise the businesses consisting of the 7 For All Mankind, Splendid and Ella Moss brands saw a 4% gain in revenues in constant dollars. The profit picture in Contemporary Brands also continues to get better with a substantial improvement posted in 2012 and continued gains expected this year.

Now just a few words on our balance sheet before moving on to our guidance for 2013. VF's balance sheet continues to be in incredible shape. We ended the year with nearly \$600 million in cash and we bought 2 million shares of our stock early in the year; we paid down all outstanding commercial paper borrowings, contributed \$100 million to our pension plan and raised our dividend by a very healthy rate.

Our strong working capital management was evidenced by a \$100 million reduction in inventory year over year. And we didn't miss a beat in servicing our businesses' needs, on-time shipping performance was at our highest levels ever. Our strong earnings and working capital management fueled cash flow from operations of nearly \$1.3 billion in 2012, another record for VF.

So, on to 2013 -- we entered 2013 with great confidence in our plans for growth. In terms of the top-line, we're looking forward to another year of strong balanced growth across our coalitions. In 2013 we expect revenues to increase by about 6%. Our Outdoor & Action Sports coalition should lead the way with about 10% growth driven by continued strength in both Vans and The North Face brands. Vans is expected to grow to nearly 20% and The North Face at a high-single-digit rate.

We're targeting modest growth in Jeanswear with a continuation of solid performance in our America's business. Contemporary Brands, excluding John Varvatos, and Sportswear are looking forward to a year of high-single-digit growth while Imagewear is planning for mid-single-digit growth. You'll hear a lot more from our coalition leaders on their brand specific growth initiatives in just a moment.

International and direct-to-consumer should continue to be key growth drivers for VF in 2013. We're targeting 10% revenue growth in our international business this year. Asia will continue to be our strongest region growing at a low-teen rate in 2013. Now that is below the 17% five-year target that we presented in September.

But, as we acknowledged then and as most of you know, there has been a buildup in inventories in certain categories in China as a result of some moderation in economic growth there last year. That is placing some near-term pressure on our growth, particularly in our jeans business. We think it will take a couple more quarters for those inventories to clear at which time we expect to resume growth in Asia closer to our target levels. Our five-year targets for 17% revenue growth in Asia and 21% in China remain intact.

In Europe our brands continue to expand and gain share, which should help drive a high-single-digit increase in our European revenues this year. And on a combined basis our non-US Americas region is looking forward to a really strong year with revenues expected to grow at a mid-teen rate.

In 2012 international revenues accounted for 37% of VF's total revenues and in 2013 we should move to 38% of total revenues as we continue to make progress against our five-year target of 45%. D2C will again be a significant growth driver for us in 2013.

We are planning to open about 160 stores this year, up from 141 stores open in 2012. These stores allow our brands to bring their stories to life and create growth in the face of regional economic and channel pressures while also providing very profitable returns.

And speaking of profitable growth, our eCommerce business continues to expand rapidly and should again grow in excess of 30% in 2013. The combination of new stores, comp store growth and eCommerce increases should drive a mid-teen percentage increase in D2C revenues this year resulting in D2C revenues growing to 23% of total revenues from 21% in 2012.

Now a couple of comments on the expected cadence for revenue growth this year -- the quarters that will deviate most from our overall rate for the year are the first and fourth quarters. 2013's first quarter is competing against the first quarter of 2012 that included early shipments of Jeanswear spring/summer product, which isn't likely to repeat this year. And the inventory issue in China that I mentioned earlier will also mute first-quarter revenues.

On the other hand, fourth-quarter revenue and profit comparisons should be the strongest of the year reflecting the seasonal benefits from our growing D2C business.

And now on to margins. In today's release we indicated that we expect a 100 basis point improvement in gross margin and a nearly 100 basis point improvement in operating margin this year. And that is on top of the strong margin improvement we reported today for 2012.



The components of this year's increase include the continued mix benefit that I spoke to earlier, lower product costs and a variety of supply-chain initiatives designed to drive even greater efficiencies. At the same time we are planning another big year of brand and technology investments. In fact, our marketing spend should expand even further from 5.3% of revenues in 2012 to 5.6% in 2013 with obviously a much higher rate of spend against our more consumer facing brands.

And our planned capital expenditures this year are \$325 million, up from \$252 million in 2012 including the higher number of new store openings, new distribution centers, as well as technology upgrades driving another year of significant investment to support our current and future growth.

Okay, so wrapping up with our earnings per share guidance, our target for adjusted earnings per share in 2013 is approximately \$10.70, that represents 11% growth over the adjusted EPS of \$9.63 in 2012 and is in line with our long-term EPS target we set in 2011. Now just to be clear, the adjusted numbers exclude Timberland-related expenses which are currently anticipated to be about \$15 million or \$0.10 per share this year.

On a GAAP basis, in other words including the Timberland acquisition-related expenses and the gain on sales of John Varvatos in early 2012, earnings per share are expected to increase 9% to about \$10.60 from \$9.70 in 2012. And for those of you who may be wondering, pension expense should be neutral to our comparisons this year.

Also the assumed euro to dollar rate is \$1.30. And to anticipate a question you might have, the impact of a \$0.05 move in the euro against the dollar would be about \$90 million in revenues and \$0.15 in EPS.

And one other outstanding item -- really no news to report on Billabong, just a continuation of our discussions. And as you probably anticipated, we won't have any other commentary at this point related to Billabong.

So, in summary, we are really pleased to wrap up another great year for VF and our shareholders, and we have tremendous confidence in the 2013 guidance we provided to you today. The VF wide focus on innovation as a key growth driver is clearly working as we outperform our competitors and gain share in nearly every category and market.

Our focus on TSR, or total shareholder return, has really paid off with VF generating a TSR CAGR of 30% over the last three years and we are far from done. We are winning and we intend to keep winning. I'm really eager for you to hear about what is next for our brands directly from our business leaders, so let's get to it. First up, Steve Rendle.

Steve Rendle - VF Corporation - VP, also Group President, Outdoor & Action Sports Americas

Thanks, Bob. Outdoor & Action Sports is VF's largest and most diverse coalition. Our coalition's portfolio of brands is purpose built to engage the passions of a wide variety of activity driven consumers around the world.

In 2012 global revenues for The North Face were up 9%, or 11% on a constant dollar basis, including a 13% increase in the brand's D2C business and double-digit growth both in the US and internationally. In 2013 we expect The North Face's global revenues to grow at high-single-digit rate.

Despite customer caution following two consecutive warmer than normal winters in the US and challenging conditions in Europe, we are confident in our plans to deliver solid growth and reach another year of record revenues for the brand. The North Face brand is stronger than ever, we continue to win against our competition and we intend to keep winning.

Coping with current market dynamics has revealed the true strength of The North Face brand and its strategies, specifically our activity-based model and our advanced product platform.

A little more than three years ago we introduced the activity-based model, reorganizing our business around four categories, Action Sports, Performance, Outdoor and Youth. We've successfully broadened our product offering and extended our consumer and customer base. Today The North Face is a brand for all seasons with a growing footprint in brand relevant category extensions. And honestly we are just getting started.



Two years ago we also upped the investment behind our advanced product platform and accelerated our efforts to create next-generation products to drive consumer demand in all categories. You can see the results of this investment in the success of FlashDry, our moisture management material technology launched last fall that lets the consumer stay drier and warmer in a broader range of environmental conditions. It sold in and sold through very well in 2012 and continues to show solid performance.

In 2013 you will see the introduction of [Thermable], an exclusive new insulation material that will serve as the foundation for our insulated outerwear product story, an innovation that is very lightweight, as warm as 600 fill down, yet maintains a high level of thermal insulation when wet.

Our activity-based model and advanced product platform are examples of winning strategy, hoping for snow is not. That is why we are constantly ahead of the curve when it comes to anticipating and meeting the demands of our customers and consumers. In 2013 we will focus on three key pillars to continue to grow the franchise of the world's most powerful outdoor brand, product, direct-to-consumer and marketing.

First product -- we are seeing and leading a change in consumer behavior toward more contemporary athletic styles for the outdoor category. Style and contemporary fit, color, lighter weight and multi-use are what consumers want in apparel while not sacrificing performance. This is exactly what you will see in our product lineup in 2013 and it is where leading edge innovations like Thermable will make a big difference.

Next is direct-to-consumer -- our eCommerce business continues to be fueled by our omni-channel model, which makes it easy for consumers to access our products whenever and however they choose. In-store and online, it's a digital ecosystem that puts them at the center. We're also continuing to open stores where consumers can experience firsthand the breadth and depth of our brand.

At year-end The North Face had 101 stores globally, which points to the opportunity to bring more consumers into our unique environments. And of course becoming a better retailer helps us become a better wholesaler, as evidenced by the growing number of shop in shops we are building with key retail partners.

Third is marketing -- with the world's best outdoor athletes pushing the limits of human performance we have great stories to engage our consumers. In 2013 our investments will be concentrated in store and online through national and local media and supported by a growing number of grassroots events which have proven critical to driving traffic and conversion in all channels of distribution.

In terms of international growth, in 2013 we are looking forward to an even stronger mid-teen growth for The North Face driven primarily by Asia where we are expecting revenues to grow by over 30%. China presents a unique growth opportunity for The North Face, the opportunity to define and lead the outdoor category in this dynamic and growing market.

New door openings are at the heart of our growth strategy in China with plans to add 200 locations in 2013. This increase uses a new store format adapted from The North Face's global activity-based model and will bring our total door count for The North Face to more than 800 by year end.

We're also looking for a year of solid revenue growth in Europe. Despite very weak conditions the health of The North Face brand has never been stronger. Our ongoing investments there are driving significant gains in total brand awareness and share increases in key markets that will result in high-single-digit constant dollar growth for us in 2013.

That growth should come from aggressive expansion in our direct-to-consumer presence. We will open a significant number of stores this year, both owned and with partners, in such key markets as the UK, Germany, France, Italy and Poland. And we are looking for explosive growth in our eCommerce business given last year's launch in six new markets.

Next up Vans -- global revenues for Vans in 2012 were up 23%, or 26% excluding the impact of foreign currency. In 2013 off a much larger base we expect Vans to deliver another year of outstanding growth with revenues expected to increase by nearly 20%.

Last June in New York we announced our five-year plan for Vans detailing the initiatives that will add \$1 billion in new revenues by 2016. In 2013 our focus remains on the four key growth strategies we presented at that meeting -- geographic expansion; deep consumer connectivity; product innovation; and direct to consumer expansion.

In the Americas we'll execute our global geographic expansion strategy to access new markets here in the US as well as in Canada, Mexico and Latin America. Although Vans has been an integral part of the Southern California landscape for nearly 50 years, our presence on the East Coast and other key regions is quite young representing an incredible long-term growth opportunity.

Here in the Americas we will focus our efforts this year in Boston, New York, Philadelphia and Chicago as well as in key urban markets in Canada and Mexico. The Vans expansion outside the Americas continues to be impressive with revenue growth at more than 30% in constant dollars.

Vans international performance in 2012 is one of VF's biggest success stories. Europe was actually our fastest growing market with revenues rising more than 60% in constant dollars and in Asia revenues grew over 20% on a constant dollar basis. We are very focused on maintaining our momentum in both these markets with total international growth of about 30% planned for Vans in 2013.

In Europe Vans' phenomenal growth should continue with revenues expected to rise by over 30% this year. In fact, we expect Vans to become VF's second largest brand behind Timberland in Europe. It's a region where we are using our strength to press our advantage, we're expanding owned full price stores, we're expanding partnership stores, we are prioritizing investments against top markets such as Germany and we are investing in a new global marketing campaign.

Next deep consumer connectivity -- Vans is a timeless brand that continues to resonate generation after generation because it stays grounded in action sports, art, music and youth culture, creating, inspiring and leading that conversation.

In 2013 we plan to amplify our message with a new mobile brand campaign called Off The Wall is a State of Mind. This new campaign will unify our global message and be heavily incorporated into our digital and interactive platforms which were essential to reaching today's young consumers.

Our next growth strategy is product innovation, last year's 66 launch, a product that blends the features of action sports shoes with traditional athletic shoes, was an important milestone for us, opening up a new channel of distribution we'll continue to build on in this year. In 2013 a prime example is the [Ultra Cush Lite] footwear cushioning system, it's a custom blend of ultrasoft EVA foam that is lightweight, reduces foot fatigue and increases comfort.

D2C is a big part of Vans' growth story of this year. I spoke earlier about expanding our retail footprint into new geographies. Last year we launched a new global store format, it's been specifically designed to use the brand's heritage to tell locally relevant stories and has shown good results to date.

And like The North Face, Vans continues to be hyper focused on its omni-channel vision, expanding and evolving our brick and mortar and click and order retail platforms to let consumers access Vans however they choose.

D2C is also a critical growth driver for Vans internationally, especially in emerging markets such as China. In fact, the first store to be retrofit with our new global store format was the Vans flagship store in Beijing, a change that drove 20% growth in same-store sales.

In 2013 we plan to roll out this new format to more stores in China and use this as the foundation to leverage our newly owned business in South Korea. Our D2C growth should support high teen revenue growth in Asia this year for Vans.

Now switching gears to Timberland. Full-year Timberland revenues on a pro forma basis were up slightly in constant dollars. Timberland was also impacted by challenging economic conditions, especially in Europe, unseasonably warm weather and the cautious retail environment, which we expect to continue into this year.

In 2013 we're expecting mid-single-digit revenue growth for Timberland on a global basis. And while things we can't control, like the economy and weather, are expected to temper the top-line, we feel confident and in command of the things we can control.

Our new product pipeline continues to gain momentum; we've got fantastic stories to tell and our distribution channels are now well defined and much cleaner than in the past and our inventories are well-managed and appropriate to the environment.



You may have a question about how we are tracking against the 10% CAGR we gave at the time of The Timberland acquisition. In 2013 our Americas and Asia businesses are right in line with this long-term target. But clearly conditions in Europe, Timberland's largest market, are proving more difficult than we had originally anticipated. 2013 we are targeting mid-single-digit growth. Our focus is on four key areas -- product innovation, marketing effectiveness, direct-to-consumer and geographic expansion.

Starting with product -- I'm happy to report that the work that we've done over the last year with our channel segmentation strategy and our go-to-market discipline has successfully returned The Timberland's yellow boot to iconic status, a status recognized by consumers and favored by our dealers.

Our hookset handcrafted and leather boat shoe collections continue to help build significant momentum in the important spring season and are exceeding our expectations. In 2013 we'll launch the Earthkeepers heritage collection, which is an eco-friendly line of footwear featuring legacy crafted details straight from The Timberland's vault combined with modern styling and comfort.

We also have new additions to The Timberland Boot Company collection, our most premium line of footwear, featuring details like premium leather and hand painted finishes that are inspired by a time when footwear was a tool built for a purpose.

This fall we are set to relaunch men's apparel in the US with targeted specialty department stores as well as with our own Timberland stores and online. This is a great opportunity for us to extend the brand's identity and authenticity.

Although the launch will be intentionally small and modestly incremental to revenues, we have great confidence that this will stage -- will set the stage for our ultimate goal of adding \$300 million in revenues to our existing \$270 million global apparel business. We know you are eager to see it so we are planning a preview sometime this summer.

Turning to marketing, a new global campaign called Best Then, Better Now will build on the brand's historic strength while delivering a new contemporary look and feel. It is very elegant, aspirational and brand building. Also were planning to increase our investments in digital and print ads in a very focused manner to strengthen consumer's brand perception and drive wholesale and D2C traffic.

In terms of D2C expansion, with new leadership in place and a focus on store level KPIs we are expecting high-single-digit growth in the Americas with improved profitability and full price, outlet and eCommerce channels. And strengthened by digital marketing efforts and overall site experience we are expecting a near 50% increase in revenues for Timberland's eCommerce here in the Americas.

On the international front, Timberland's international business is expecting slight revenue growth in 2013 with a mid-single-digit decline in Europe where conditions in Italy, the brand's largest market, remain challenging. In Asia we expected a mid-teen increase, a region where the brand continues to post consistently strong results.

A major focus for us in 2013 will be the integration of Timberland into our European operations, a big move but critical to establishing our platform for future growth in Europe and improving profitability. We're also working to expand our successful partnership store program in Europe with the addition of 40 doors, bringing total doors to approximately 300 in the region, greatly increasing brand presence and visibility.

In terms of our own doors, we are continuing to assess our current footprint with a keen eye towards improved profitability through increased conversion and traffic.

In Asia you will recall that we announced a 13% compounded growth rate target over the next five years and despite some softness in Japan, Timberland's largest Asian market, the brand grew double-digits there in 2012 and we're expecting similar growth in 2013.

And in China, where we are just getting started, revenues are expected to grow 30%. We are also excited to launch six new owned stores in Shanghai, an extremely influential city where in conjunction with The North Face we are leading the conversation on outdoor. Now I will turn it over to Scott to take a look at Jeanswear.



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

Thank you, Steve. Good morning, everyone. In 2012 global revenue for VF's Jeanswear business was up 2%, or 4% in constant dollars, a performance that reflects a mid-single-digit increase in the Americas. In addition to the top-line story, there is also a story of improving profitability for both Wrangler and Lee in every region of the world.

Long-term growth prospects for our Jeanswear business remain strong. Near-term we will be navigating challenging macro conditions globally. We are expecting modest growth in our global Jeanswear business this year with our focus front and center on consumer centric product innovation. Our pipeline of new products for 2013 and beyond is designed to bring style, function and performance benefits to consumers in all channels and regions.

Starting with Wrangler, our highest margin western specialty business should continue its momentum in 2013. Product innovation lies at the heart of our success in this business with a portfolio of products to meet consumer needs from premium performance cowboy cut for authentic cowboys to the Wrangler 20X competition jean for the more aspirational western lifestyle consumer.

Not only are our key retail partners adding doors, but were also growing our business outside the western channel into sporting goods, outdoor and regional mid-tier locations. 2013 should also mark another year of growth for our mass business, driven by new products like Wrangler Advanced Comfort, which features denim that is both stronger and more flexible. We're also seeing great success with our Wrangler TOPS program.

We also expect double-digit constant dollar growth in Wrangler Latin America to continue, fueled by retail expansion in Argentina and Chile. Wrangler's business in Europe remained challenging in 2012, although our profitability continued to improve. In 2013 we expect further improvement of profitability and are looking forward to the launch of a new product innovation, denim performance for men.

Denim performance is focused on the functionality of jeans, a core part of the Wrangler's heritage, incorporating extra pockets, better breathability, better durability and water and stain resistance in both jeans and outerwear. Denim performance gives Wrangler a clear defined competitive advantage in the market.

Taking a look at Lee -- in 2012 global revenues were flat on a constant dollar basis. In 2013 we're expecting slight growth on a global basis driven by mid-single-digit growth in the Americas. Our lead platinum label collection performed well in 2012 including a test with a major department store customer that was very successful. And we are looking forward to the continued expansion of our collection in 2013.

The mid-tier remains challenged, but let me say this -- we are not sitting back and waiting for recovery here. We are aggressively pursuing consumers with a portfolio of innovative products that offer great fit, fashion and functional benefits. There is Perfect Fit for women and Modern Series for men as two examples of consumer centric innovation. These new products will also have the support of a new marketing campaign from a new agency.

Internationally in 2012 we saw an improvement in profitability in Europe and in 2013 we expect continued improvement. Our Stretch Deluxe line has been a real bright spot there, delivering 15% growth in women's jeans in 2012.

In 2013 we'll continue that momentum by focusing on our best seller, a fit called Scarlett, which will be available in 25 new combinations of color and fabric. Building on the success of Stretch Deluxe we will launch a collection for men called [Blue Label] or Premium by Lee. We've also continued to test Lee's new full-price model with a cluster of owned stores in Benelux and we'll be launching a new partner store in Germany, Scandinavia and the UK.

In Asia we talked about our long-term plans for the region in great detail back in September in Shanghai. In the near term, however, the Jeanswear industry has been affected by efforts to right size inventories and Lee is not immune. Lee's performance in Asia will be particularly challenging in the first half and begin to normalize in the second half. In the meantime our focus is on the innovative product, growing the number of doors, new marketing campaigns and expanding digital and eCommerce platforms.



And now I'd like to take a few minutes to talk about VF's Imagewear business. Imagewear is VF's third-largest coalition and a consistent performer, having now delivered 11 consecutive quarters of revenue growth. In 2012 the business grew by 5% with strength on both sides of the business, image and licensed sports group. In 2013 we are expecting mid-single-digit growth as well.

Quickly I'd like to touch on a few highlights of what is made Imagewear a consistent growth engine. Our success with Red Kap's new products in automotive workwear has opened up new channels of distribution including retail.

We're also partnering with the Wrangler brand to reach a new untapped channel, B2B workwear. Wrangler workwear is a new line of premium shirts, pants and outerwear loaded with innovative features to improve comfort and durability. After successful tests in 2012 we are planning for a much broader rollout.

Finally, the licensed Sports Group will continue to build its momentum with a new line of products within our Majestic authentic MLB collection. And further expansion of our successful lines of NFL apparel for men and women. And now Karen Murray will take you through the Sportswear coalition. Karen.

Karen Murray - *VF Corporation - President, Sportswear*

Thank you, Scott. We're expecting revenues for the Sportswear coalition to increase at a high-single-digit rate in 2013. Let's look a little deeper at where that growth will come from starting with VF's sixth largest brand, Nautica.

In 2013 revenues for the Nautica brand are expected to grow at a high-single-digit rate. Nautica's key growth initiatives for 2013 are direct-to-consumer expansion and product innovation. Nautica's direct-to-consumer channel should see double-digit growth in 2013 driven by double-digit comp store growth, new store openings and exceptional eCommerce growth of over 50%. In fact, we plan to launch an entirely new Nautica website this year, a timely event given our 30th anniversary of the brand.

Our next growth initiative is product innovation. We are continuing to develop a performance platform to differentiate the brand and provide new value to consumers. Products that feature water oriented performance features such as moisture wicking, water repellents and breathability currently make up 35% of our assortment. This will grow with a full 2013 introduction of elevated fashion performance products. In addition, we plan to expand our jeans offering in all doors to gain share in denim and with younger consumers.

One final note on Nautica before I move on. We also expect healthy double-digit growth in our licensed international business as we expand into three new emerging markets -- Turkey, Russia and Brazil.

Although we don't normally talk about Kipling, which is part of the Outdoor & Action Sports coalition internationally and Sportswear in the United States, the brand has become an increasingly larger and more important top- and bottom-line contributor for VF.

Kipling is a fun global handbag and accessories brand with incredible strength. And as excited as we are about its near-term success, we're even more excited about its long-term growth prospects. In 2013 we expect Kipling to grow global revenues at a low-double-digit rate fueled by strong growth in every region of the world including more than a 30% increase expected in the United States.

Kipling's US direct-to-consumer business, which represents more than half of the brand's US revenues, is expected to see exceptional growth in 2013 fueled on both the retail and eCommerce front. We are testing a new full price retail store concept and eCommerce will contribute significantly aided by the launch of a new website and a global digital marketing campaign.

Kipling's successful exclusive handbag partnership with Macy's is expected to continue to grow in 2013 as we add new products, expand into new doors and work to expand our presence with this import partner.



Kipling is famous for its crinkled nylon and we see plenty of white space for product innovation within and beyond this material. In 2013 we are looking at metallic, patent leather and lacquer materials and we plan to introduce new product categories such as backpacks, scarves, hats, umbrellas and jewelry.

In summary, our coalition is in a very different place today than it was just a few short years ago. We are seeing significant acceleration in our top-line growth and profitability. Our momentum is set and we are on a roll. Now my colleague, Susan Kellogg, will take you through Contemporary Brands.

Susan Kellogg - *VF Corporation - President, VF Contemporary Brands*

All right, everyone, rest assured we are almost done. In 2012, excluding the John Varvatos brand which we sold in April, Contemporary Brands' North America revenue were up 9% with solid results from 7 For All Mankind, Splendid and the Ella Moss brands. In 2013 we are expecting our high-single-digit growth to continue.

Starting up with 7 For All Mankind -- the brand's key growth initiatives are similar to what you've heard throughout the call today, product innovation, direct-to-consumer expansion and deeper engagement with the consumer. On the product innovation front, in 2013 we plan to introduce two new fabric innovations -- Slim Illusion Second Skin for women and Lux Performance and Cashmere Denim for men.

Slim Illusion Second Skin is a proprietary denim with 100% elasticity, which means it will keep its shape, fit and feel throughout the life of the product. Lux Performance is stretch distressed denim for men that combines the rugged look men want with unsurpassed comfort while also retaining its shape for the life of the product.

Next is direct-to-consumer expansion, fueled by high-single-digit comp growth and expected 20% increase in eCommerce revenue. We are also excited about launching our China website later this year and are looking forward to engaging consumers in this important market.

Finally, we are creating deeper engagement with consumers by telling evocative stories in a new way enabled by digital technology and social media. Building on our success from last year, we are bringing back Oscar-nominated actor and filmmaker, James Franco, to create our 2012 marketing campaign.

But there is a new twist -- instead of making films that you simply watch we've created a new interactive experience that allows consumers to view the story one part at a time and vote on how they want it to unfold. We will use this content to surround our millennial consumer and build our brand affinity and fuel our top- and bottom-line growth.

Next our Splendid and Ella Moss brands that on a combined basis continue to post strong double-digit revenue growth year after year. Splendid's growth will be driven by aggressive DTC expansion. In fact we expect DTC revenue to nearly double for the second consecutive year. We plan to open more than 15 new owned stores in 2013. Every store helps drive healthy brand awareness which we know helps us win in all of our channels.

Splendid and Ella Moss are just getting started and the pace of their growth is very encouraging. And when you combine the potential of fast-growing brands with VF's scale, distribution and operational efficiency we believe we have a tremendous opportunity for future growth.

In summary, we are looking forward to a great year of combined and continued brand momentum coupled with game changing innovation across all of our Contemporary Brands. And now I will hand it back over to Eric.

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

Thanks, Susan. That concludes our prepared remarks. But before we open the line for questions I'd like to take a moment to thank a member of our team who recently announced her decision to retire at the end of March, Cindy Knoebel.



Cindy began her career at VF in 1993 to establish our vendor relations function and over the last 20 years she has continued to add new responsibilities to her role including corporate communications, public relations and sustainability.

Throughout her career here at VF Cindy's communication skills and strategic insights have been instrumental in building strong support for VF's strategic transformation by fostering strong relationships with the Company's employees and investors and the media.

Almost everyone on this call knows Cindy, and many of you know her well, so you know she will be greatly missed. Please join me in thanking Cindy for everything she has done for us and for you and in wishing her the very best as she begins a new chapter in her life.

And of course you already know, Lance Allega, who is our Director of Investor Relations who joined us last time -- last year at this time. He will now be leading VF's Investor Relations function, so also join me in congratulating Lance. And with that, operator, let's open the line for questions. Cindy will be happy to take all of your questions today.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Bob Drbul, Barclays.

Bob Drbul - Barclays Capital - Analyst

Cindy, congratulations.

Cindy Knoebel - VF Corporation - Outgoing VP of Corporate Relations

Thanks, Bob.

Bob Drbul - Barclays Capital - Analyst

Just, Eric, the two questions that I have I guess relate around the Outdoor business a little bit. When you look at the top-line that you have driven, especially at The North Face versus the industry, it has been pretty impressive.

I was just wondering if you guys can comment around inventory levels at retail mainly around The North Face. But I would also be interested just to understand inventories of Timberland product and especially as it looks to the mid-single-digit growth rate for 2013 that you expect in Timberland.

Eric Wiseman - VF Corporation - Chairman, President & CEO

Yes, Bob, Steve will take that question for you.

Steve Rendle - VF Corporation - VP, also Group President, Outdoor & Action Sports Americas

So, Bob, inventory in the channel, we really have two stories here. TNF inventory is higher than we have seen historically. I think the good news is the last four or five weeks since December, week five, cold weather has returned to much of the US and we have seen really nice increases in retail sale through. Timberland really came through fourth quarter in a much, much cleaner situation and enters this year with very clean inventories in all of their channels.

Eric Wiseman - VF Corporation - Chairman, President & CEO

And what we would also say there, Bob, is that in Europe inventories are probably a little cleaner than that, a little better shape.

Steve Rendle - VF Corporation - VP, also Group President, Outdoor & Action Sports Americas

Yes, good point.

Bob Drbul - Barclays Capital - Analyst

Great, thanks very much.

Operator

Kate McShane, Citi.

Kate McShane - Citigroup - Analyst

With regards to The North Face and maybe any potential changes that could be anticipated over the next couple of years, how should we think of your product mix flowing throughout the winter season? Does it impact margins at all and are you converting or changing your sourcing with regards to The North Face in the near term?

Steve Rendle - VF Corporation - VP, also Group President, Outdoor & Action Sports Americas

So, Kate, I will take that one as well. The product mix stays very similar to what you have seen. In the European market cold-weather apparel continues to be very important, especially in the northern region and some of the emerging markets.

Here in the US, and as well as in Europe, we do see an increase in more contemporary athletic silhouettes which will, we believe, with our focus on the activity-based model and the learnings we have from our running/training business we are well on the forefront of evolving our collections to meet that new consumer demand.

We do see an increase in the lighter weight, what we call transitional weight, insulated goods, that is made of synthetic insulation, down insulations as well as fleeces. And again, we are well on the path of being on the front end of that trend.

Margins in these categories remain the same, so there really is no change there. And our sourcing model here in Asia as well as here in the Americas remains the same and is well placed to be able to service what we consider will be increasing demand.

Eric Wiseman - VF Corporation - Chairman, President & CEO

Kate, I will add one thing to that. If you think about the short-term, the next 12 months for The North Face brand, our fastest growth rate will be in Asia followed by Europe and followed by the US. Another way to slice that is to say our direct-to-consumer business is going to grow faster than our wholesale business.

All of those facts point to higher margins for The North Face. The mix in geographies and the mix in channels should expand our gross margins on next year -- gross and operating margins next year.

Kate McShane - Citigroup - Analyst

Okay, that's great. Thanks. And I forgot to say congratulations to Cindy and to Lance. Thanks so much for everything.

Eric Wiseman - VF Corporation - Chairman, President & CEO

Thanks, Kate.

Operator

Jim Duffy, Stifel Nicolaus.

Jim Duffy - Stifel Nicolaus - Analyst

Cindy, we will miss you. A couple questions, first on The North Face and timing of shipments, are retailers reticent to take inventories as early as they have in the past? Should we expect any shift in revenue from 3Q to 4Q in the US business like we saw in Europe in 2012?

Steve Rendle - VF Corporation - VP, also Group President, Outdoor & Action Sports Americas

Yes, so, Jim, this is Steve. Timing of shipments -- I don't really see a dramatic shift here or in Europe. I think what you will see is just a more cautious pre-book and consumers -- or our retailers looking to take deliveries closer to demand. But timing should remain the same and no dramatic shift quarter to quarter.

Jim Duffy - Stifel Nicolaus - Analyst

Okay. Shifting gears a bit to Sportswear. Great improvement there in the operating margin for the year. Karen, congratulations to you and the team. It sounds like good momentum in the direct-to-consumer. Should we expect the momentum and the operating margin improvement to continue for that coalition in 2013?

Karen Murray - VF Corporation - President, Sportswear

Yes, you should.

Jim Duffy - Stifel Nicolaus - Analyst

Bob, care to elaborate on that?

Eric Wiseman - VF Corporation - Chairman, President & CEO

Yes, you should.

Bob Shearer - VF Corporation - SVP & CFO

(Laughter) the answer. Yes, Jim, actually I will expand just a little bit. Right, so actually in both the Sportswear as well as Contemporary we have seen really nice improvement. And for 2013 and we expect those businesses to improve to the low- and even closer to the mid-teen operating

margin levels with a 15% operating margin clearly on our site. So, yes, we are seeing a lot of opportunity there for continued and significant improvement.

Steve Rendle - *VF Corporation - VP, also Group President, Outdoor & Action Sports Americas*

In both.

Bob Shearer - *VF Corporation - SVP & CFO*

In both.

Jim Duffy - *Stifel Nicolaus - Analyst*

That is great to hear. I know there has been a lot of work going into that. Thanks very much.

Operator

Michael Binetti, UBS.

Michael Binetti - *UBS - Analyst*

Congrats on a nice and quarter in a tough environment there.

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

Thanks, Michael.

Michael Binetti - *UBS - Analyst*

Can you give us an idea of what The Timberland operating margins looked like in the quarter and what The Timberland operating margins are that are implied in the plus 100 basis point guidance for the Company for 2013, please?

Bob Shearer - *VF Corporation - SVP & CFO*

Yes, I will handle that. I will talk about for the year, Michael, for 2012. We started the year saying that we thought our operating margin for Timberland would be in the 10% to 11% area and that is where we ended up. We were just above 10% actually in 2012.

For 2013 what we are looking at is, as you would expect, we expect to grow our gross margins in 2013. But Steve mentioned something in his comments that there are a couple of years that we're going to be spending against. And those are in product in the product development area as well as we are going to up the marketing spend there as well.

So improved gross margin in 2013, exactly what we need to see. But the operating margin will remain relatively flat, maybe up just a little bit from what we saw in 2012 because of the spend.



Michael Binetti - UBS - Analyst

Oh, okay. Thanks. And just two quick follow-ups here. Could you just help us out, the order book you're seeing for the big brands, Vans and North Face, for the spring?

Steve Rendle - VF Corporation - VP, also Group President, Outdoor & Action Sports Americas

Sure. So order book for our Vans business is quite strong which is leading us to the guidance we gave for the brand both here and in Europe. And order book in The North Face is moderate, as you might expect with the caution that we see in our dealer base both in the US and Asia -- I mean Europe, but our Asia business is quite strong. So just up slightly, right in line with how we've guided the brand.

Michael Binetti - UBS - Analyst

Okay. And one -- just one last one. Eric, is there any opportunity to do -- start talking about a shop in shop with J.C. Penney this year? We've had the Vans product and the Lee product in there historically in some of the competitors to those brands have looked like they have signed up for distribution there under the new store format. I wanted to see if there is any update there for us?

Eric Wiseman - VF Corporation - Chairman, President & CEO

Yes, that is a great question. And we are in active discussions right now with Penney's about what a Lee shop or a Vans shop might look like and when they might appear. But I don't have an update on exactly when that will be.

Michael Binetti - UBS - Analyst

Okay, all right, thanks again and congrats to Cindy and Lance as well.

Eric Wiseman - VF Corporation - Chairman, President & CEO

Thanks, Michael.

Operator

Edward Yruma, KeyBanc Capital Markets.

Edward Yruma - KeyBanc Capital Markets - Analyst

Best of luck, Cindy. Can you talk a little bit about the benefits you saw from the step-up in advertising? And then also, you have indicated that advertising as a percent of sales will also increase in 2013. Should we expect that to be back-end weighted?

Eric Wiseman - VF Corporation - Chairman, President & CEO

Yes, we measure -- actually for all of our big brands we measure the impact of our investments behind those brands. And your question was about advertising, we obviously measure that. We have a pretty good feel -- we measure year after year by media type and each brand knows what their consumer responds to.

And because of that that is why our ad spend has increased consistently over the last four or five years and why our investments going up another 30 basis points this year. We think now is a great year to do that because we are expecting consumers to take a little coaxing to get them to engage with brands and we are in a position to do that.

The seasonal mix really varies by brand. For our jeans business in the US it's really important that we hit back-to-school hard. For our colder weather brands it is important that we hit the third and fourth -- third quarter and the holiday quarter is important for everyone. I hope that helped.

Edward Yruma - *KeyBanc Capital Markets - Analyst*

Great, thanks so much.

Operator

Evren Kopelman, Wells Fargo.

Evren Kopelman - *Wells Fargo Securities - Analyst*

I wanted to ask about for The North Face you talked a little bit about the merchandising, some of the lighter weight transitional goods, maybe the activity-based model helping if -- I'm thinking kind of this weather is here to stay, the global warming type conversations.

How about for The Timberland brand? I think the new apparel that's coming in the US is more outerwear focused. Maybe you could talk if for that brand there are conversations on the merchandising side to be kind of more versatile seasonless maybe as well? Thanks.

Steve Rendle - *VF Corporation - VP, also Group President, Outdoor & Action Sports Americas*

Sure. So I think it's important to note that our apparel business in Europe is the strongest in any of the regions and in our international business we are about a \$220 million business. Here in the US, as we look to relaunch the brand and very thoughtfully through select specialty and department store partners, we will be placing outerwear but also a very robust collection of Sportswear.

So, I think you can think about a really balanced approach of sportswear and outerwear, natural fibers, cottons and leathers and more of that rugged outdoor feel that you would expect from Timberland.

Evren Kopelman - *Wells Fargo Securities - Analyst*

And the second question is on the M&A front. Are you still focused -- I think you've said in the past the Outdoor & Action Sports area? Or is there any interest in the Contemporary areas you have looked into before, even more footwear now that you have The Timberland and the footwear expertise with that?

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

I think the answers to your questions are yes, yes and yes. All of those are areas that we explore. We clearly have been focused in the Outdoor & Action Sports area and we have talked about that as being our priority. But in each of our coalitions we understand where there are opportunities for us to add to the portfolio in a really accretive way to the portfolio.

In other words giving as either a skill set or a product category that reaches a consumer in a different way. And that's how each coalition thinks about it. And our focus has been on Outdoor & Action Sports, but that doesn't mean we are only looking at that area.

Evren Kopelman - Wells Fargo Securities - Analyst

Great, thanks and congrats to Cindy and Lance as well.

Eric Wiseman - VF Corporation - Chairman, President & CEO

Thank you very much.

Operator

Erinn Murphy, Piper Jaffray.

Erinn Murphy - Piper Jaffray - Analyst

I wanted to follow up on the Asia growth rate comment since we've seen that compress over the last quarter and then kind of a little bit more of a tempered guide for next year in the low-teens range. You highlighted the inventory in the channel with respect to the jeans market in China. Can you elaborate a little bit more on what you are seeing in that market in particular there?

And then, how to think about the competitive space broadly in China in the Outdoor segment at this point? Have you seen any inventory creepage in that channel there, or are you still pretty pleased with that performance? Thank you.

Eric Wiseman - VF Corporation - Chairman, President & CEO

Sure, great question. We -- in September when we were in Shanghai we guided that we thought we could grow Asia 17% compounded over the next five years. And now we are talking about a low-teen rate for 2013 and it really is solely -- the sole issue we have is our inventory and our Jeanswear in the industry and with our brand as well.

If you look at our other businesses in China, The North Face, Timberland, Vans and Kipling, they are all on track to the kind of growth rates we talked about in September. Jeanswear, with the Lee brand in particular, was the first brand we launched there.

For example it's got a 12-year head start on The North Face, one was launched in 1995 the other in 2007. So it has much broader distribution, Lee does, much broader distribution, many more touch points with consumers and a lot more inventory in the space and that is where we have this short-term issue.

We expect to work through that issue in the first half of the year, began to gain growth momentum in the second half of the year and be back on track in 2014 with the kind of growth rates we talked about. You asked a second question and I forgot it. Sorry. Can you repeat it?

Erinn Murphy - Piper Jaffray - Analyst

Yes, sorry (multiple speakers).

Eric Wiseman - VF Corporation - Chairman, President & CEO

Oh, the outdoor.



Erinn Murphy - Piper Jaffray - Analyst

I was just (inaudible) competitive landscape in the Outdoor space and if you have seen any kind of inventory creepage there as well?

Eric Wiseman - VF Corporation - Chairman, President & CEO

Yes, we have not seen in our brand -- that is really -- our focus there has been primarily on the North Face until recently. Obviously we acquired Timberland, so we now think we have a great -- we're in a great position to shape the conversation about Outdoor in China. And we have not seen an inventory issue with either of our brands and I'm not aware of an inventory build with other brands.

Erinn Murphy - Piper Jaffray - Analyst

Thank you very much and best of luck.

Eric Wiseman - VF Corporation - Chairman, President & CEO

Thank you.

Operator

Mitch Kummetz, Robert Baird.

Mitch Kummetz - Robert W. Baird - Analyst

Bob, let me start with you. Just you gave a little color on the sales growth by quarter and you mentioned that Q1 is the toughest comparison. So in light of the 6% growth that you are looking for the year where do you think Q1 falls? Are you talking sort of low-single-digits?

And then also I was hoping for a little color maybe on kind of the operating margin cadence? You know, you've got your easiest op margin comparison in the first quarter with Jeanswear still having been impacted by the input costs. And I was kind of wondering how we should think about that. And I have a follow-up.

Bob Shearer - VF Corporation - SVP & CFO

Yes, Mitch, to the first question relative to the first quarter, yes, we could be a few percentage points off the 6%, that is what we expect, a few percentage points below the 6% rate that we talked about for the year.

In terms of the cadence of margins, you are absolutely right. Maybe I will talk about both gross margin as well as operating margin. We expect to see the strongest comparison in the first quarter from a gross margin standpoint which is what you would expect, right.

We are up against -- we are comping against the highest cost of the year especially in the denim side of things in 2012 in the first quarter. So that should be the strongest comp from a gross margins standpoint.

But at the operating margin line, because of the significant growth, particularly on the direct-to-consumer side in the fourth quarter, that is where we expect to see the strongest expansion in operating margin.



Mitch Kummetz - *Robert W. Baird - Analyst*

Okay, that's very helpful. And then a follow-up for Steve on Timberland. A couple of things there -- one, can you talk a little bit about -- where would Q4 sales have come in if there is some way you can adjust for the distribution changes that you've seen? And those distribution changes, do those continue to be a bit of a top-line headwind as we go through 2013?

And then also could you talk about the impact of apparel on the business in Q -- or I'm sorry, in 2013 I mean just in terms of relaunching in North America. I mean is there any way you can assign a dollar value to that in terms of incremental revenues?

Steve Rendle - *VF Corporation - VP, also Group President, Outdoor & Action Sports Americas*

Mitch, I will do my best to answer this question without really being able to give you dollar values, which I know you are looking for. The distribution changes that we enacted we started at the beginning of the year, it is hard for me to put a number on it. I can tell you that it absolutely did have an impact in our sales, but so did our store closures as well as less closeout inventory, which the brand would have shown historically. So it did have an impact, but it wasn't the major driver.

Impact from our apparel, as I mentioned in my comments, will be very minimal. We are being very thoughtful and very selective in how we launch the new product here in the United States. We want to position it with the best specialty and department store players so as to really position the brand and give the product the right theater to be presented and to be supported by the footwear. So sales will be very minimal, the growth next year will come from our footwear as well as the growth that I mentioned in D2C and wholesale.

Mitch Kummetz - *Robert W. Baird - Analyst*

Okay, got it. Good luck and thanks for everything, Cindy.

Operator

Matthew Boss, JPMorgan.

Matthew Boss - *JPMorgan - Analyst*

As we dig deeper overseas can you speak to your level of enthusiasm in Europe next year? And also infill brand or category opportunities as we look forward over there?

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

Sure, I will take that. This is Eric. Our expectation for next year in Europe is for a high-single-digit increase. So I step back from that and say, we are really taking share in Europe. We are doing that because of our portfolio of plans and the different -- the number of countries we do business in.

We clearly have some countries that are really challenged and we've talked about Italy, it is a tough place to sell apparel and footwear right now. And we have brands though that are on the other end of the spectrum really delivering in Europe like Vans did for us in 2012 and will again.

So while there are challenges, what we have done is look at which brands are in which markets and where are the opportunities to invest. And we are investing with real focus behind Vans in markets like the UK, Germany and France and in other brands where there is an opportunity to grow and that will help us navigate through the European challenges right now and deliver high-single-digit increases in a really tough space.

Matthew Boss - JPMorgan - Analyst

That's great. And then second question, your inventory levels -- very tightly managed. We haven't seen levels like this for a couple years. How should we think about how you are managing this across brands? And then what is the game plan looking forward from an inventory perspective?

Bob Shearer - VF Corporation - SVP & CFO

Well, we manage our inventories pretty similarly across brands and obviously the retail component of any individual business has some bearing in terms of our overall inventory levels. But this was a year -- I'm actually glad you referenced it -- this was a year where I guess we put some extra focus on our inventories and we saw -- we really saw great progress.

We have very, very frequent face-to-face conversations about inventory, as I see some smiles around the room here from our group folks and presidents. And it's just an area that we just put a lot of focus on and have been able to put or make an awful lot of improvement.

So for 2013 we will continue to do the same. Actually in our cash guidance our assumption is that inventories will generally grow, after the reduction in 2012 will pretty much grow with revenues. However, I can tell you that we will push hard to do a little bit better than that relative to our overall inventory. There is still some room for improvement.

Eric Wiseman - VF Corporation - Chairman, President & CEO

Yes, I'm going to weigh in on this because I want to give a shout out to our supply chain and front-end guys. They are working together on a new process that looks at our inventory in a different way and they are doing that across every business unit and every geography.

And part of it is a new process and that has led us grow our business like we did last year and still take \$100 million out of inventory and service at a high level. And kudos to them for coming up with the new process and making it stick.

Matthew Boss - JPMorgan - Analyst

Great, thanks a lot.

Operator

Eric Tracy, Janney Capital Markets.

Eric Tracy - Janney Capital Markets - Analyst

I will add my congrats to Cindy, really appreciate the help throughout the years, and congrats to Lance as well. Eric, I guess if I could for you just broader on the domestic front, sort of beyond the seasonality issues. So on your macro (inaudible) and you have the various potential sort of tailwinds versus some of the headwinds on the tax front or energy costs sort of what your expectation here domestically?

Eric Wiseman - VF Corporation - Chairman, President & CEO

We read the same stuff you do, Eric, about how economists see the US economy. And the questions how are people going to react to changes in tax rates and changes in healthcare cost and all that. And clearly there are going to be pressures on disposable income in America, that seems pretty much laid out.

In that environment we have a mid-single-digit growth rate kind of baked into our assumption for this year. We think that is taking share as well similar to the way I answered the Europe question. We really look across our portfolio of brands and ask where can we win and where we think we can we try to distort our investment to ensure we do.

And that is how we think we can deliver a mid-single-digit growth rate in an economy that is clearly not going to grow that quickly. We still have some challenges to get through here; fortunately VF is going to get through them pretty well.

Eric Tracy - *Janney Capital Markets - Analyst*

Okay. And then maybe, Steve, for you on Timberland. Maybe just a little bit more color in terms of I guess sort of soft launch on the apparel side for fall this year. I know it is going to be tight, but sort of the expectations for what that contributes? And I think you said sort of the incremental \$300 million, maybe just speak to again the timing cadence of that?

Steve Rendle - *VF Corporation - VP, also Group President, Outdoor & Action Sports Americas*

Sure. So just I think to restate the launch here in the United States, is on top of a very robust apparel business internationally. We have a very select number of specialty and department store partners, we'll place it very thoughtfully with the whole focus of getting strong profitable sell through with our retail partners so we build a platform for the future.

That \$300 million that we mentioned at point of acquisition is over a five-year horizon. That would take you then that through 2016 where we look to add that incremental growth across the global apparel business.

Eric Tracy - *Janney Capital Markets - Analyst*

Okay. And then maybe a last for Bob. Is it possible to quantify -- did the 100 basis point of gross margin, sort of the various buckets, again the mix shifts I get are driving it. But maybe just between that, lower input costs, just walk us through and quantify for 2013?

Bob Shearer - *VF Corporation - SVP & CFO*

Sure, Eric. It's actually going to be a pretty consistent story here. Over the past several years, and we talk about this a lot, that our mix shift has been providing us 60 to 70 basis points of improvement in our gross margin very consistently every year and it is exactly what we expect for 2013 as well.

The remainder are in fact product costs, some lower product costs. Jeanswear is a component of that to be sure, so is Imagewear which had some higher product costs in 2012. So it's 60 to 70 for mix and the remainder coming from product costs.

Eric Tracy - *Janney Capital Markets - Analyst*

Okay, great. Thanks, guys. Best of luck.

Operator

Omar Saad, ISI Group.

Omar Saad - *ISI Group - Analyst*

Lance, congratulations and, Cindy, definitely a shout out for such an amazing tenure. I think you do go down as a legend in IR in the sector, not just for the tenure and the duration but obviously the excellence as well. So congrats to you both.

I wanted to ask you about obviously VF over the years really has been the company that has kind of almost pioneered this idea of the lifestyle brand in the apparel sector certainly coming out of North America. Done a tremendous job building lifestyle brands over time.

Can you talk about the area where you've had probably the most success in the Outdoor & Action Sports? Are you -- how are you thinking about the lifestyle of Outdoor & Action Sports? Are you seeing any changes in how consumers are thinking about that lifestyle or is it becoming more subtle, is it becoming more segmented across different types of outdoor sports and action sports? What are you guys seeing in that marketplace from a lifestyle perspective?

Steve Rendle - *VF Corporation - VP, also Group President, Outdoor & Action Sports Americas*

So, Omar, I will take a shot at this and Eric can fill in if I miss something. I think the outdoor lifestyle, which we have certainly been at the forefront of helping create and certainly benefit from, continues to be on the forefront of consumer minds. We look a lot at macro trends across all of the regions and healthy lifestyle, fitness and kind of that whole notion of getting back to simplicity really plays into the historical strengths of the outdoor industry.

We do see a really strong influence of action sports as well as athletic coming in and speaking to a broad number of our consumers. I mentioned how we are looking at that athletic trend and what that means to outdoor apparel becoming more lighter weight, more contemporary in its fit while maintaining that core function.

But I think the key here also is that action sports, that lifestyle component that that plays into. Then again, our Vans business has been very strong at helping shape and is again at the forefront of being able to maximize that.

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

Omar, one thing that the Vans guys have done that quite frankly just impresses me beyond speech almost is they have kept that brand relevant to youth for over 40 years. And they have done that by not trying to speak to a customer but by speaking to youth. And they understand youth need to be individually expressive and creative and they have changed their message in how they do that, customized it to each new generation and that is why they are still relevant and leading with youth around the world.

Omar Saad - *ISI Group - Analyst*

Got you, thanks. And then maybe on a related topic, it was interesting to hear you are going to accelerate marketing spend and store openings. How are you thinking about that? What gives you the confidence to do that? It's great to hear obviously from a brand standpoint, but any updated thoughts there would be helpful.

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

We went back to our thinking in 2010 and you were following us then. And you know that we increased our brand investment number by \$100 million that year because we thought the economy was going to be a little wobbly and that we had the brands and the products to make a difference and accelerate our performance. And we think this is going to be that kind of year as well.

We know our retail formats work, they are tested and proven. And as I mentioned earlier to someone else's question, we measure the effectiveness of our marketing so we know which messages work and which don't. And we are going to distort our investments behind brands in geographies

with proven retail formats and proven marketing communication and we think that formula is going to help us get through this pretty difficult time in the global economy.

Omar Saad - *ISI Group - Analyst*

Thanks so much. Good luck.

Operator

And that will conclude our question-and-answer session for today. I would like to turn the call back over to the speakers for any additional or closing remarks.

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

No, just thank you all for joining us. We are really excited about 2013; we think we have got all the pieces in motion to deliver another great year and we are blessed by having a legend in Investor Relations in the room today and we wish her well as all of you do. Thanks so much for being with us.

Operator

And that will conclude today's call. We thank you for your participation.

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.

©2013, Thomson Reuters. All Rights Reserved.