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VFC - Q1 2013 VF CORP Earnings Conference Call

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OVERVIEW:

VFC reported 1Q13 YoverY total revenue growth of 2% and GAAP net income including tax benefits of \$270m or \$2.41 per share. Expects full-year 2013 revenues to be approx. \$11.5b and adjusted EPS to be \$10.75.



CORPORATE PARTICIPANTS

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PRESENTATION

Operator

Good day and welcome to the VF Corporation first-quarter 2013 earnings conference call. Today's conference is being recorded. At this time, I'd like to turn the conference over to Lance Allega, Director of Investor Relations. You may begin sir.

Lance Allega - VF Corp - Director IR

Thank you operator. Hello everyone and thank you for joining us today to discuss VF's first-quarter 2013 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 definitions of 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's Chairman and Chief Executive Officer, Eric Wiseman; Bob Shearer, our Chief Financial Officer; and our group Presidents, Scott Baxter; Karl Heinz Salzburger; and Steve Rendle. Following our prepared remarks we'll take your questions and we'll ask that you limit your questions to two to allow us to get to as many of you as possible. In the event that you have additional questions that are not covered by others, please requeue and we will do our best to get back to you. Thanks for your cooperation on this. And now I'll turn the call over to VF Chairman and CEO, Eric Wiseman. Eric?



Eric Wiseman - *VF Corp - President and CEO*

Thanks Lance. Good morning, everyone and thank you for joining us today. 2013 is off to a great start for us with results beating our expectations. Consistent with what we told you in February, our first-quarter revenue growth rate was a few points below our full-year target of 6%. And as we've seen over the last year, our diverse model continues to deliver great bottom line results, especially from our lifestyle brands and our international and direct-to-consumer businesses. In fact, our record earnings per share in the first quarter was a little better than our expectations, and with record revenues and record gross margin, it's another fantastic quarter for VF.

During the quarter, our outdoor and action sports business grew revenues by 10%, amid concerns about fluctuating weather conditions impacting our cold-weather brands. Our international business was up 6%, despite continued economic weakness in Europe, and an inventory overhang in China. And our direct-to-consumer business rose 12%, with strength both here and abroad, even in a generally sluggish macro environment. While the economic environment is overall a headwind, we are very encouraged and proud of the consistent improvement in our profitability. Both gross and operating margin showed substantial expansion over the prior year's first quarter, with gross margin up 240 basis points and adjusted operating margin rising by 130 basis points. Together, this growth in profitability enabled VF to deliver a 25% improvement in adjusted earnings per share to \$2.43.

Looking to the balance of 2013 with a slightly stronger than expected start to the year, we're raising our full-year adjusted earnings guidance by \$0.05 per share to \$10.75. With three quarters still ahead of us and many dynamics at play, we feel it's prudent to maintain a fairly cautious approach to guidance, while we continue to seek and invest in new opportunities for long-term growth.

Speaking of long-term growth, it was a little over two years ago that we got onstage in New York and took you through our five year plan. By every measure, revenues, margins, and earnings per share we're well ahead of the 2015 plan we presented then. So it's time to get back on stage, which is exactly what we plan to do on June 11 in New York, where we'll take you through the next five years of VF strategies and the performance you can expect us to deliver.

But back to 2013, this is the year of opportunity. Opportunity to strengthen our brands, to innovate more meaningfully, and to connect with and reach even more consumers. Our diverse portfolio of brands backed by deep consumer insights and the relentless focus on operational excellence, is built to inspire consumers and generate consistent returns for our shareholders. We continue to invest thoughtfully and consistently behind key drivers of top and bottom line growth, and these investments are certainly paying off. So with a great start, the right strategies, and superior execution we're looking forward to delivering another outstanding year to our shareholders.

And with that, I'll turn the call over to Steve, Karl Heinz, and Scott, who will take us through the top five VF brands, and then Bob will close out with a deeper dive into our financial results. Steve?

Steve Rendle - *VF Corp - Group President, Outdoor & Action Sports Americas*

Thank you, Eric. First-quarter global revenues for the North Face were up 6%, fueled by very strong growth in the brand D2C business, which increased 25%. Globally, we also saw a slight increase in our wholesale business. In the Americas region, revenue was up 3%, helped by winter weather that arrived mid-January and continued until just recently. In fact, our D2C performance was strong in the quarter, up low-double digits, and the highest comps in over a year, driven by solid sell through of winter apparel, including insulated jackets, fleece, and shells, as well as spring weight rainwear and performance athletic apparel. Clearly evidence that the North Face brand is strong and its product coveted as the industry's best, all of which gives us confidence that we have a great year ahead of us.

Looking out towards fall, as expected, retailers have remained cautious with their orders, which our in line with our expectations. So definitely a good start to 2013 and great confidence in our ability to achieve high-single digit revenue growth for the full year.

As I outlined on our year-end call, we are focused on three key areas to grow the North Face brand in 2013 -- product innovation, marketing, and D2C. With the first quarter behind us, we're definitely firing on all cylinders in these initiatives.

First up, product. Product innovation is at the core of the North Face DNA; it motivates performance, stirs adventure, and inspires people to get outdoors. Building on the success of our activity-based model, we've got a great new collection due out this fall, known as Steep Series. This brand-new premier line of snow sports apparel is inspired by our expedition-level products, and will be complementary to our Outdoor Summit Series collection. Featured this fall in ski specialty shops our own stores, and online, Steep Series will help further position the North Face winter action sports products as a natural extension to the core brand.

And of course we're really looking forward to this fall's launch of Thermoball, a product innovation we see as a real game changer and a core component of our science of warmth technology platform. Thermoball offers versatility for a variety of conditions and will play a major role in our amplified transitional outerwear offering this fall.

Finally, our flash dry technology, an amazing innovation designed to improve moisture management and temperature regulation, continues to be included in our increasingly greater number of styles and is exceeding our expectations. And hot off the presses, we just learned that seven products from the North Face were named among the best recommendations from the Outside Magazine in their 2013 buyers guide. From our Casimir 36 Backpack and four different jackets to our new Hyper-Track Guide trail running shoes, and the Mica FL tent, which won the Gear of the Year award. Very exciting callouts and further confirmation that our activity-based model and focus on innovation is paying off.

On the marketing and D2C fronts, we're planning a significant acceleration in investments behind our digital and online branding efforts to help drive brand awareness and increase conversion in our owned stores. We've also made great progress on improving the North Face omni-channel experience. This initiative enables consumers to research and view products online, pay for them, and then pick them up at their local North Face store. It also allows quick, easy, and free web purchase exchanges in all of our retail stores, a very important and seamless feature to create a great shopping experience. Such a great experience in fact that Forbes Magazine recently recognized the North Face app as the highest in customer satisfaction.

We're also working to better leverage our loyalty and CRM programs. We've seen early success with the North Face VIP program, which combines web and store transactions to accumulate points towards future transactions. With more than 100,000 members already in our system, we have a two-way conversation with shoppers that purchase more frequently, have higher dollar baskets, and are clearly the most hardcore brand evangelists we have. And the great news is our marketing and consumer awareness efforts are paying off. In fact, our latest annual brand equity score improved markedly in 2012 from 2011, which validates the increasing momentum and relevance of the North Face brand with consumers.

So with amazing innovations, supported by great marketing, and an elevated retail experience, there's a lot to look forward to for the North Face brand in 2013. Now, here's Karl Heinz to run through the international business.

Karl Heinz Salzburger - VF Corp - Group President, International

Thank you, Steve. And good morning, everyone. Outside the Americas the North Face brand grew 11% with balanced strength on a D2C and wholesale basis. In Europe, the North Face saw a modest increase in revenues, driven by strong results from our D2C business, offset by a modest decline in the wholesale channel. In fact, the North Face D2C business in Europe was a real bright spot in the quarter with nearly 30% growth, including more than 30% growth in online sales. Although the overall consumer environment remains soft in Europe, our D2C comps were up low-double digit rate, which demonstrates the brand is strong and gaining share against our competitors. We are confident to say that we believe that the North Face is the best positioned brand in the outdoor industry in Europe.

On the product front, given the great product innovations mentioned by Steve, as well as our European [degra] collection and the strong equipment offering, we're quite pleased with consumer perception and growing brand awareness. Specifically, we see robust opportunities for European-specific fits, colors, and regional relevant product to create an even greater connection with our consumers' active lifestyles.

And speaking of connecting with consumers, we continue to find great ways to share our brand story and engage them on many levels. A highlight from this winter was our sponsorship of the Freeride World Tour, the world's premier big mountain free skiing and snowboarding competition, where our athletes won the men's snowboard and men's skis competition. This tour was viewed live by over 300,000 people, with hundreds of videos and articles available online and in print.



Turning to Asia. We continue to see excellent momentum for the North Face brand with revenues of nearly up 40%, driven primarily by outstanding growth in China [partner door] expansion and the larger spring-summer product offering. In China, we opened 20 new partner doors and successfully converted Hong Kong to an owned market during the quarter, which added an additional 60 partner doors. Our efforts here are also focused on building brand awareness and engaging consumers around the outdoors. In fact, we recently hosted the largest amateur ski and snowboard competition in China with more than 400 participants. We also currently executing on integrated marketing campaign to promote our spring-summer series and hiking footwear. The industry best products, improving retail experience, and leading the outdoor conversation with consumers gives us great confidence in 2013. Now, let's move on to Vans. Steve?

Steve Rendle - *VF Corp - Group President, Outdoor & Action Sports Americas*

Global revenue for Vans in the first quarter was up 25%, with the strong double-digit growth in all three regions, including both the wholesale and D2C businesses. This impressive performance puts the brand well on track to become VF's second-largest branded 2013 behind the North Face. Momentum continued in the Americas region with more than 20% growth on revenues balanced across our D2C and wholesale channels. Of particular note in our wholesale business, are very strong sell throughs of men's apparel, a business that is gaining significant momentum. In fact, on a year-over-year basis it's up more than 50%, a great sign that our styles and efforts to connect with consumers are working in concert to drive substantial growth.

On the footwear side, we continue to perform very well. In many cases, Vans is the top performer in many of our key accounts. Building on our core classics business with new materials, prints, and collaborations, from Metallica to Marvel Comics, and new styles such as the Authentic Hi, we are broadening the opportunities for growth in our core business.

As you know one of our key growth drivers is geographic expansion. This strategy with particular focus on the East Coast in 2013 is an ongoing success. By working closely with key partners and opening our own retail stores, using aggressive target city marketing, and providing product innovation in weatherized classic Vans footwear and apparel, we are driving awareness and affinity for Vans in big, important new markets.

We continue to excel on the consumer connectivity front as well, engaging consumers in creative activity-based ways. The best and most recent example is the Vans Custom Culture National High School Art Competition. The contest, which is in its fourth year, drew more than 1,400 entries from high school art classes in all 50 states. Charged with creating a work of art from a blank pair of Vans shoes, this year's winner will be crowned at the Whitney Museum in New York in June, receiving \$50,000 to support that school's commitment to art.

Continuing to focus on geographic expansion and consumer connectivity, we also successfully launched the first stage of our new global brand campaign called Anthem. The Anthem campaign seeks to significantly increase brand awareness through a unified global effort, which centralizes the historical authenticity of Vans Off The Wall culture. Finally, we're hard at work laying plans as the new sponsor of the US Open of Surfing in Huntington Beach in July. As the largest surf contest of its kind in the US, we can't wait to bring Vans Off The Wall culture to the epicenter of surf. Now, I'll pass it over to Karl Heinz, who will take us through some international highlights.

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

Outside the Americas, Vans revenues were up 30% with similar wholesale growth, and D2C growth north of 40%. In the first quarter, Vans continued its outstanding momentum in Europe with revenue up more than 30%. We continue to see strong share gains in this crucial market, which gives us great confidence to deliver another year of impressive growth. So impressive in fact that Vans is on track to become VF's second largest brand in Europe behind Timberland this year. Our efforts to drive Vans Off The Wall culture deeper into Europe are also proving successful. We held House of Vans Berlin in January, hosting three nights of music, photography, skate culture, and street fashion. This event drew almost 5,000 attendees with 370,000 visitors participating via live webcast.

This event serves to bring youth culture together. Unique opportunity for us to educate consumers about our products, and be the backdrop of music and art, ultimately creating a deeper and emotional connection with the Vans brand. During the quarter we opened stores in Paris, [Mastik], Glasgow, and Dusseldorf, and underwent a major retrofit of our Carnaby store in London to showcase our new Vans retail concept.



Vans Asian business also posted strong results in the first quarter, growing more than 20%. Here we have seen success with product collaboration that have regional and local aspects, such as our Year of the Snake product line in China. This product has proven to be very effective in ensuring that the brand remains relevant in the region and inspirational to the youth culture there. Here too we're using special events like the House of Vans experiences we hosted in Europe, to drive consumer interest and lead the conversation of youth culture. Also, I'm very happy to report that we successfully converted South Korea to an owned market during the quarter, an exciting country for future growth. Overall a great start to the year for Vans globally and much more to come. With that let's move on to Timberland.

Steve Rendle - *VF Corp - Group President, Outdoor & Action Sports Americas*

Thanks KH. In line with our expectations, global revenues for Timberland were up 2% in the first quarter. As we start our second full year of VF ownership, we're very pleased with the progress we're making against our strategic initiatives to position the brand for long-term growth. Our expectations for full-year revenue growth remain in the mid-single digit constant dollar range. In the Americas, revenue increased at the mid-single digit rate. With more seasonable weather conditions and efforts around rigorous product segmentation and rightsizing distribution, Timberland is gaining traction with growth in the brand's D2C and wholesale businesses.

On the product front, both core and new programs performed well, demonstrating what we believe to be a genuine interest in both heritage and new styles. The men's boots business saw great success due to a combination of proactive inventory and style management. A great example of this is Timberland's classic yellow boot, which achieved strong growth at full price in the quarter, reinforcing and underscoring its iconic status. That said, Timberland is not relying solely on its product archives to drive growth. New styles like a Stormbuck Lite Oxford and Newmarket Cupsole 2.0, saw great results in the first quarter following well-supported launches. These products embody a successful blend of classic and new, which is the backbone of Timberland's best-then better-now marketing campaign. The new campaign, which is set to launch this fall, marks the celebration of the Company's 40th anniversary.

On the Timberland PRO side, we're also building momentum with great innovations like our anti-fatigue technology, and new products like Hyperion and Boondock. PRO continues to set the standard for the comfort and protection needs of this very demanding industrial consumer. Timberland's D2C business achieved strong double-digit growth in the quarter, more favorable weather, and our targeted operational initiatives designed to drive conversion proved quite successful. In our own doors we're also continuing work on creating a more streamlined premium selling environment, one that allows us to better showcase the product and brand, and ultimately provide a much more enjoyable consumer experience. Online, we're working to strengthen our mobile capability, upgrading consumer messaging, and better leveraging affiliates and partners.

Together these initiatives are paying dividends. Consumers have responded very well with conversion up in all formats throughout the quarter. Overall a great quarter and very pleased with the progress we're making. Now here's Karl Heinz to take you through Timberland's international business.

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

Timberland's revenue outside of the Americas were flat year over year, including a midteen increase in Asia, offset by mid-single digit decline in Europe. In line with expectations, revenues for Timberland in Europe were down at the mid-single digit versus last year. In a still soft market, our D2C business was a bright spot, up at midteens rates; this was offset by a low-double digit decline in our wholesale business with continued particular weakness in Southern Europe, Timberland's largest market.

Echoing Steve's comments, here too we are very encouraged by the progress we continue to make against our strategic initiatives. In fact, though it's still early, we're happy to report that the initial signs for fall footwear bookings are positive, a clear indicator that gives us great confidence that we're positioned right where we expected to be. In footwear, we did see some bright spots in the quarter, including success in our traditional product offerings, Stormbuck assortment, and in our classic collections for both men and women.

We also saw positive results in our apparel business, with specific strength in outerwear and pants. We did see [a make] in Timberland's 40th anniversary. Our marketing efforts are focused around craftsmanship and heritage. We also recently deployed a new e-mail marketing system,



which will allow us to target consumers in a more customized and relevant basis, and gain key insights going forward. Asia's Timberland business continues to perform well and grew at midteens rate both in wholesale and D2C, with positive results across all product categories. We opened one new retail door during the quarter, as well as one e-commerce site both in China, and they're making great strides connecting with consumers in the region. Now, I'll turn it over to Scott to take a look at Wrangler.

Scott Baxter - VF Corp - Group President, Jeanswear Americas & Imagewear

Thank you Karl Heinz. And good morning, everyone. First-quarter global revenues for Wrangler were down 2%. In our Americas business, revenues were about flat with increases in our Western specialty and Latin American businesses, offset by a slight decline in sales to our US mass channel. Recall that in the first quarter of 2012 we pulled forward seasonals due to a very early spring here in the US, which created exceptional growth in that period. We expect second-quarter global revenues for Wrangler to increase at a mid-single digit rate. Overall the Wrangler business is in line with our expectations for the full year.

In our mass channel, our jeans and Wrangler Advanced Comfort products continue to gain significant momentum, and our premium performance Cowboy Cut in our Western specialty business is exceeding our expectations, really spot on with this very important and growing consumer base. We're also hard at work with our key retail partners, enhancing our brands' in-store presentation. From mass to specialty, we have a number of initiatives geared at more meaningful ways to tell the Wrangler story, a story of innovation, authenticity, and value. We're also seeing encouraging results and success with our expansion into sporting goods, outdoor, and regional midtier locations, all very important channels that allow us to really dial in the product, brand presentation, and how we tell the Wrangler story to a broader range of consumers.

Quarter after quarter I seem to mention it, and I will again here too, Wrangler in Latin America posted strong results, fueled by growing brand awareness and great reception to our retail expansion, particularly in Argentina and Chile.

And on the marketing front we're excited to announce that we drafted New Orleans Saints quarterback Drew Brees to join the Wrangler team, Drew's dependability, work ethic, family values, and personal generosity make him a natural fit for Wrangler, so stay tuned and look for a new campaign expected to launch sometime in August. And now, here's Karl Heinz with a few words on Europe.

Karl Heinz Salzburger - VF Corp - Group President, International

While our Wrangler business in Europe was down in the mid-single digit rate, it was also in line with our expectations, and we are seeing some bright spots. Our innovation focused on denim performance and fit is paying off. Our new products are selling through well. As a result, we are experiencing strength in emerging markets, particularly Russia, and a few of our key accounts across Europe. Also, due to continued focus on operating efficiencies, our profitability continues to improve. Now, back to Scott with Lee.

Scott Baxter - VF Corp - Group President, Jeanswear Americas & Imagewear

Thank you Karl Heinz. Revenues for the Lee brand on a global basis were down 6% in the quarter, which was about in line with expectations. And here too, the comparison was pretty tough, due to the seasonals pull forward in last year's same period. In 2013, we continue to expect modest growth on a global basis, driven by mid-single digit growth in the Americas, with particular strength in the second and third quarters, as new introductions and seasonal product lead the way. Revenues for the Lee brand are expected to increase at a mid-single digit rate. Given the ongoing challenges in the midtier channel, which ultimately we feel are short-term in nature, we remain vigilant about creating new growth opportunities.

Advanced fall bookings for new product, including Perfect Fit for women and Modern Series for men are very encouraging, and a clear indicator that our products are being well received. Another great example, one that you've heard me talk about on previous calls is our Lee Platinum Label collection. A few quarters ago we started with a small test of this product with one of our key department store partners, and we're pleased to report that it has continued to gain sizable momentum. In fact, following strong consumer response we're adding an additional 150 doors this year, which should bring the total to nearly 450 locations by year end. So a great case study on how innovative product and consumer connectivity can generate an excellent long-term growth opportunity. Now, back to Karl Heinz to discuss Lee's international business.

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

In Europe during the first quarter, Lee brand revenues were down at a mid-single digit rate. Here as well, we're beginning to experience some success with our new product innovations. During the quarter with we saw good sell through of our new Stretch Deluxe women's product across most of our key accounts, and this quarter we are launching a new collection for men called Blue Label.

In our D2C business, although still quite small, we are encouraged by double-digit comp performance in our new retail format. We will continue to roll out this new format with additional owned and partner stores opening in 2013. This is on the heels of success for launches in 2012. Lee also benefited from improved operating efficiencies and is delivering stronger profitability. The business is on track with our full-year expectations.

In Asia, Lee continues to be impacted by efforts to right size channel inventory levels. As we stated on our fourth-quarter call, Lee's performance in Asia will be particularly challenging in the first half, with the expectation that the business begins to normalize in fourth quarter of this year. Even though sales were down, profitability exceeded expectations, driven by favorable product mix and lower product costs. We have seen solid results with the recent introduction of Urban Riders, [Efink], and Stretch Deluxe. So our new products our doing well, just tempered by current channel dynamics.

Additionally we're increasing the number of partner door locations, executing very focused marketing campaigns, and expanding our digital and e-commerce capabilities. Now, I'll turn it over to Bob, who will take you through our financial highlights in greater detail.

Bob Shearer - *VF Corp - CFO*

Thanks Karl Heinz. Well I'll wrap up today's call with some additional commentary around our first-quarter results and our strength and full-year guidance. VF's total revenues were up 2%, which was in line with our expectations. Recall that back in February we indicated that we expected just modest growth in the first quarter, due to tough comparisons against the very strong performance in last year's first quarter, in part due to some timing shifts and shipments. So we're tracking right on plan. And as a reminder our revenue comparison was negatively impacted by about 1% from the sale of John Varvatos in April of 2012.

Gross margin, a key component of VF's long-term growth story, was right in line with our expectations, improving by 240 basis points to an all-time high of 48.1%. As discussed in the press release we saw improvements across nearly all our businesses, with the biggest improvement coming from our Jeanswear coalition, as well as the continued shift in our mix toward higher-margin businesses. For the full year we remain very comfortable with maintaining our previous guidance for our 100 basis point improvement in gross margin.

Our SG&A ratio as a percent of revenue rose 100 basis points to 34.4% in the first quarter, 50% of that increase came from our growing D2C business and the other 50% was due to higher levels of marketing spending. This is a significant year of investment for us in direct-to-consumer with an all-time high number of new store openings planned. And as you know, most of the benefit from those new store openings will come in the second half of the year, when our direct-to-consumer business is strongest. And as previously indicated we are increasing our marketing investments behind our brands, given the success we've had from those investments supported by the work we've done to measure their returns. That said, we remain very disciplined about controlling cost and focusing investments across all our businesses and brands to ensure the right balance between growth and profitability. Despite these increased investments, because of topline leverage on a full-year basis, we expect that our SG&A ratio will remain relatively flat for the year.

In terms of operating margin, our strong gross margin performance helped drive a 130 basis point improvement in adjusted operating margin to 13.8%. Here too, we remain comfortable with maintaining our full-year guidance of an increase in operating margin by nearly 100 basis points.

And that brings us to the bottom line, where adjusted earnings per share, which excludes Timberland acquisition related expenses of \$0.02 per share in the quarter, grew by 25% to \$2.43 from \$1.94 per share last year. Earnings in the quarter included a \$0.12 per share discrete tax benefit, primarily related to the impact of US tax law changes enacted in 2013, which were retroactive to 2012. Many refer to this as the fiscal cliff impact.

It's important to note that benefit was anticipated and built into our plans. On a GAAP basis, which of course also included the tax benefits, first-quarter net income was \$270 million with a 26% increase in earnings per share to \$2.41.

Now a few quick comments on our overall coalition results, first outdoor and action sports. We continue to be really pleased with our results here. Our brands are strong and growing, gaining share and expanding around the world, which should lead to another great year of record top and bottom line performance. Total outdoor and action sports revenue were up 10%, with solid growth across our top brands, including a high-teens increase in D2C and a nearly 10% increase in our international businesses. This coalition also continues to deliver outstanding profitability with a 40 basis point improvement in operating margin in the quarter, to 16.4%.

Jeanswear revenue growth took just a bit of a breather this quarter, but we did anticipate somewhat challenging comparisons. You'll recall that last year Jeanswear posted exceptionally strong revenue growth in the first quarter, due to early shipments in the US of spring seasonal products, the rollout of the Rock & Republic brand, and a strong Asian jeans business. This year the timing of shipment of those seasonal goods in the US is returned to its normal cadence, and our jeans business in Asia was negatively impacted by channel inventory issues as we previously discussed. But the real story in Jeanswear this quarter is around profitability, with operating margin reaching 20%, including improvements in both the Wrangler and Lee brands across every region of the world. Congrats to our global Jeanswear teams for delivering this extraordinary performance.

And turning now to Imagewear where revenues declined 9% versus last year. This too was pretty much right in line with our expectations, given very tough comps in our Image business where revenues increased over 20% in last year's first quarter, helped by some catch up in shipments of strong orders in oil and gas. Impacting this quarter's results was the timing of a program renewal, which is expected later this year. In terms of our license sports business, revenues were flat year over year. We're looking forward to stronger topline results in our Imagewear coalition in the second half of the year based on a strong pipeline of new product initiatives in both the Image and licensed sports sides of the business. In terms of profitability, you likely noted the decline in operating margin cited in the place release, which was due primarily to reduced sales volumes.

Sportswear revenues were up 4% in the quarter with growth tempered by a shift in the timing of Nautica wholesale shipments from the first to the second quarter. On the D2C side, Sportswear achieved growth of more than 20%, reflecting healthy double-digit gains in both Nautica and Kipling's D2C businesses. Our Sportswear business is headed toward a great year, and we expect second-quarter revenues to grow by a midteen percent. Since the Sportswear and contemporary businesses were not yet covered on this call, I'll provide a little bit more color around these two businesses. Nautica achieved modest revenue growth in the quarter and continues to benefit from its focus on performance benefits, easy care, wrinkle free, and moisture wicking, now built into nearly 50% of its product line. With its men's Sportswear business delivering consistently solid performance, Nautica is expanding its presence on the women's side, building on solid results both online and in its outlet stores, Nautica is testing a new women's Sportswear line in department stores. We're really excited about the potential of this future growth for the Nautica brand.

And a quick word on Kipling. The brand continues its run of double-digit growth in the US, led by its innovative crinkled metallic nylon bags, and in backpacks, accessories, and totes. The steady improvement in Sportswear profitability we saw throughout 2012 continues with operating margin up 14% in the quarter and an 80 basis point improvement in operating margin. So all in all, a good start to the year and a great year ahead for our Sportswear group.

And finally, contemporary brands. Keep in mind that the comparisons here are impacted by the sale of the John Varvatos business, which occurred in April of 2012. If you take Varvatos out of 2012, revenues were down 4% in the quarter, with an increase in D2C revenues offset by a decrease in wholesale sales. Contemporary business in premium department stores appears to have softened a bit in the first quarter, a trend we see continuing in the second quarter. But with strong and well-received product collections for the fall, we expect the business to get back on track in the second half of the year.

Of course no VF earnings call would be complete without a couple comments on two primary growth drivers, international and direct-to-consumer. Total international revenues were up 6% in the quarter, with growth in all three regions, Europe, Asia, and the Americas. The growth was well balanced between D2C and wholesale. Within international's developing D2C businesses, revenue growth was at a high-teen percentage. Our first-quarter international results were also right in line with our expectations.



And taking a look at our direct-to-consumer results on a global basis, first-quarter revenues were up 12%, or 14% excluding the impact from the Varvatos exit. With double-digit increases across nearly all of our outdoor and action sports brands Nautica, and Splendid, and Ella Moss, it's clear that the investments we continue to make in our D2C businesses are really paying off. Direct-to-consumer is a big part of our immediate and long-term growth plans. And this first quarter we're right on track with both our growth expectations and profitability improvements.

And ending with a couple of balance sheet and cash flow highlights, we continue to be incredibly proud of the rigorous discipline around managing our inventories, which were down 7% year over year. Also during the quarter, we repurchased a total of 1.7 million shares for approximately \$280 million, and contributed \$100 million to VF's pension plan, which is now nearly fully funded.

Turning to the remainder of the year, let's revisit our full-year outlook. We continue to expect 6% revenue growth to approximately \$11.5 billion, and with a great first quarter behind us, adjusted earnings per share are now expected to rise to \$10.75, with a \$0.05 increase over our prior guidance of \$10.70, and representing a 12% increase over 2012 levels. As noted in our press release it's important to remember the last year's second-quarter adjusted earnings per share results of \$1.11 included a \$0.10 per share discrete tax benefit, primarily related to the settlement of prior year's tax audits. And there were two additional items that were excluded from adjusted earnings per share due to their unusual nature, but obviously included in the \$1.40 per share reported on a GAAP basis; they were a \$0.32 per share benefit related to the sale of John Varvatos, and \$0.03 per share of acquisition expenses related to Timberland.

Now taking a look at the revenue cadence for the remainder of the year, we expect second- and third-quarter revenue growth to be more consistent with our full-year growth expectation, and in the fourth quarter to see the strongest comparison of the year, driven by the growing contribution and expansion of our direct-to-consumer business. Also, one last item, our assumed euro-to-dollar rate remains unchanged at \$1.30. At this rate, the impact of a \$0.05 move in the euro against the dollar would be about \$60 million in revenues and \$0.10 in EPS.

So to wrap it up, we're off to a great start for the year. Across nearly all key measures, we're right on track with where we plan to be. With the strongest brand portfolio in our industry, improving profitability with a clear path to continued margin expansion, and a balance sheet that is strong and flexible, we look forward to another year of strong growth. In fact, the VF story is better than ever and we're really looking forward to sharing our new five-year plan with you at our investor day in June. We hope all of you can join us. And with that we've concluded our prepared remarks, so I'll hand it back to Eric.

Eric Wiseman - *VF Corp - President and CEO*

Thanks, Bob. No real additional comments. We're thrilled with our start to the year, confident in our outlook and ready for your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Kate McShane, Citi.

Kate McShane - *Citigroup - Analyst*

Bob, I was wondering if you could help us understand, your inventories look like they're in very good shape on the balance sheet, but regionally can you walk us through what the inventories are like in Europe and China at this point in time?



Bob Shearer - *VF Corp - CFO*

Actually, Kate we're in good shape across the board. As you know, this is an area we put a lot of focus on and that focus has been placed on our global inventory levels. The calls that we've referenced in the past, we have -- we do those calls on a global basis and touch base with our leaders around the globe. So our inventories right now across our businesses, across our brands, and across our geographies are really in pretty good -- are in good shape.

Kate McShane - *Citigroup - Analyst*

Okay, great. And then my second question is, I was just wondering if you could talk through your backlog into the back half of the year, now that you have an increased visibility into that. Were the backlogs better or worse than you expected when you last spoke to us in February? And is there still the possibility for the North Face to get more orders at this point in time for the winter?

Steve Rendle - *VF Corp - Group President, Outdoor & Action Sports Americas*

Hi, Kate this is Steve. I'll take this question since you seem to have the North Face in the middle of it. We've come through the fall bookings season and we mentioned the caution in the retail community. This year's bookings sequence is a little bit longer, there's longer tail to this than we've seen historically. So it's a little early for us to cite actual numbers, but I can tell you that the orders that we're taking in are very much in line with our expectations and our high-single digit guidance that we gave in our year-end call.

Kate McShane - *Citigroup - Analyst*

Great, thank you.

Operator

Bob Drbul, Barclays.

Bob Drbul - *Barclays Capital - Analyst*

Two questions. The first one is on Timberland. Timberland Europe, are there any plans to rationalize the Southern Europe exposure, and what could be the inflection point in the European business there?

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

Yes, Bob, this is Karl Heinz here. As you know, Southern Europe is the largest market for Timberland in Europe, in particular Italy, and we all know Italy at the moment is a tough spot to sell any kind of goods.

We have two kinds of channels where we work with Timberland, one is the wholesale channel, which clearly suffered especially in Southern Europe as we said in the press release. The other one is D2C, which has two components one is owned stores, and the other one which has -- Timberland has a great presence is partnership stores. Now, even in challenged market like Italy where we have 150 stores, we have seen last year actually positive comps on our partnership stores and the same for Q1. So, we just won also an award in the UK for the hottest footwear Company, which we're pretty confident that clearly we're not immune from what is happening in the market, but the fact that in our owned stores, the comps are good shows that the brand is strong.



Bob Drbul - *Barclays Capital - Analyst*

Got it. Okay. And then my second question is, around the midtier channel for you guys, maybe Eric, or I don't know if Steve -- but the denim business in the midtier and the outlook there, and some of the other brands that you have in the midtier, can you help us understand how you have that estimated and forecasted for the rest of the year right now?

Eric Wiseman - *VF Corp - President and CEO*

Bob, it's Eric. I'll take a shot at that since it's across VF. Our three biggest businesses in the midtier are our Lee Jeans business, our Vans business, and our Licensed Sports business, and there's really no change in our outlook from where we started the year. The channel has been a little difficult for a host of reasons that have been well documented in the press, and the interesting thing is actually there may be -- it may get a little bit better for us than we're currently thinking, and the reason I'm saying that is around the Lee business.

JCPenney is indicating that they're going to try to attract their traditional shopper, and that traditional shopper was a good Lee customer. And to the extent they are successful at getting that traffic back in the door, we're very confident that the Lee brand has the right products and value equation to get more business. The Vans business in the channel has actually done pretty well, at JCPenney in particular, who decided to use Vans as an action point to connect with youth consumers. Our Vans business is actually up, so we're pretty confident about that. And the Licensed Sports business it's so much a factor of which teams are playing and who's winning, and there's no change in that.

Did that get to the heart of your question?

Bob Drbul - *Barclays Capital - Analyst*

Yes, definitely. Thanks, Eric.

Operator

Michael Binetti, UBS.

Michael Binetti - *UBS - Analyst*

Good morning, congrats on a nice quarter.

First off, Bob, if you could talk a little bit more about the gross margins for the year, look at the cadence over the next few quarters to help us with our models. And also can you talk about how much of the improvement in the quarter was from things like product costs versus longer-term drivers?

Bob Shearer - *VF Corp - CFO*

Sure, Michael.

So the cadence of gross margin as you might expect, the second quarter, actually each quarter will show nice improvement in our gross margins. In the second quarter, the improvement will be less than it was in the first quarter, and in the third and fourth quarters it will be a little less than it was in the second quarter.



The bigger improvements as you said, what drove the first-quarter improvement really consistently seeing that 60 to 70 basis points from mix. So in the first quarter of 240 basis points, about 70 was related to mix, and the remainder was related to primarily product costs. Yes, in the first quarter, a significant portion of that was related to Jeanswear, and that will continue not as strongly, but will continue into the second quarter as well.

So but I'd repeat one of the comments that I made in my commentary, is that we expect to see gross margin expansion across the board in nearly every one of our businesses on a full-year basis, and actually we saw that in the first quarter. So we're seeing improvement across the board, but Jeanswear clearly led the way in the first quarter.

Michael Binetti - UBS - Analyst

And then, if I could just follow up with maybe a little bit more color on Timberland, I think obviously that's been in the spotlight as you guys look to try and accelerate that. I think especially like the direct-to-consumer coming in at high teens was a pretty unexpected number and fairly good. Seems fairly good, particularly given unit growth might still be sluggish. Can you just talk about the brand a little bit and what's going right now?

You guys talk a lot about how apparel will be launched in the second half, but what -- maybe some of the other things you're think are going right now? And maybe look ahead to the apparel in the second half. And then maybe also just talk about the operational initiatives, you mentioned that you are working on the D2C doors there.

Thanks a lot.

Steve Rendle - VF Corp - Group President, Outdoor & Action Sports Americas

Michael, this is Steve. Karl Heinz and I will split this. I'll cover the Americas piece and toss the ball to Karl Heinz for the international piece.

So, as I mentioned, we're really encouraged with our Timberland business. Over 14, 15 months ago we began to wrap our arms around this, begin to work diligently on a lot of the integration initiatives, which focused mostly on operational improvements, and improving product and getting clarity around what the brand stands for. And what you see coming into 2013 is really that paying off across both our wholesale and D2C channels.

Our product pipeline, as I mentioned the heritage product as well as the new products are resonating very nicely across all channels. Our marketing message is very clear, and you can see that in how consumers are responding in our online environment, and we're very looking forward to the launch of our new campaign this fall.

The operational comments that I made around D2C, we have a new leader within our D2C channel, and that leadership team really bore down on the key performance indicators across the retail channel. And we've focused very hard on that retail environment, first and foremost, improving the clarity of the in-store, narrowing down the assortments, and focusing first and foremost on servicing consumers and conversion. And we've seen that really pay off nicely and are very confident with how that will lead us onto the balance of the year.

Karl Heinz Salzburger - VF Corp - Group President, International

Michael, moving to Asia first. In Asia we continue to do well with Timberland. As I mentioned in the script, we are up both in D2C and in wholesale. We have great presence in Japan, in Malaysia, in Taiwan, Hong Kong, where we have subsidiary. And also the brand is now embedded in our headquarter in Hong Kong, with our brand. So it will particularly benefit for our know-how we have in China. With Timberland as we mentioned a little bit -- we're just starting with China, so that is for sure a great opportunity.

Europe I touched before. I think what is pleasing -- I always say we're not immune from what is going on in Europe, we all know the situation is. But we do see great results especially in our D2C, which is an indicator that the brand is healthy. We were up midteens, which is very strong in Q1, which gives us confidence. And also as I mentioned the future, the fall orders are coming in actually a little bit better than we expected. So all in all, Timberland I guess we are pleased with this brand.



Michael Binetti - UBS - Analyst

Thanks a lot, guys.

Operator

Erinn Murphy, Piper Jaffray.

Erinn Murphy - Piper Jaffray - Analyst

Let me add my congratulations. My first question is actually surrounding the denim business in Asia, understanding that inventory overages just in the channel there. Has there been any change in terms of how you're thinking about the potential stabilization there in the second half? And how should we in this context think about China and the growth there as we progress throughout the balance of the year this year?

That's my first part.

Karl Heinz Salzburger - VF Corp - Group President, International

Hi, Erinn, Karl Heinz here.

Let me say again, Lee has been one of our strongest performers in the last years in China and we don't change that in the midterm. It has been strong growth, very profitable. As we said, there's a short-term issue, there's overhang in inventory in the channel, which by the way is only related to jeans. We don't see that in all our other brands, and they're all doing nicely, as so you heard the numbers on North Face. So long term, we're absolutely confident that we go back where we have been, and as we mentioned by the end of the year we plan -- we expect this to stabilize.

Erinn Murphy - Piper Jaffray - Analyst

Okay that's helpful, Karl Heinz. And I guess my second question for you following up on the European kind of macro situation, how are you seeing or have you seen any kind of change in consumer trends in terms of shopping patterns or either channel preference? Maybe it is a little bit of distortion towards the D2C, just given the sustained weakness there. And I guess secondly, if you could call out, clearly Southern Europe is already very weak and you called that out as many companies have. But any other markets that either over indexed or under indexed relative to your average trend in Europe, that could be helpful to frame up the context there. Thank you so much.

Karl Heinz Salzburger - VF Corp - Group President, International

So the good news is we have a diversified portfolio of brands, which help us. And the second good point is we're not over-exposed in one area. We're pretty diversified in many countries in Europe, especially in the big five countries, and also in the emerging markets.

So again we see some softness for sure in the southern hemisphere, in Spain and Italy, and Spain just announced numbers yesterday, so they're not really encouraging. But the good news is again, because we have this diversified portfolio of brands, and you see the result we still continue to deliver on brands are really stellar.

We don't expect Europe to change significantly in the future, we don't expect it to get worse and probably not get better, but again we're pretty confident. On the D2C side we said that it's a great opportunity for us going forward. We don't have the benefit, the size of the D2C business we have here in North America. We're building it up. We're investing in people, talents, we're actually accelerating now, the opening of stores.



So overall, our plans for Europe, while this year they are a little bit softer, but really confirm what we have said, which is mid-single digit up. But longer-term we plan to go back to the usual growth rates we had in the past.

Eric Wiseman - *VF Corp - President and CEO*

Erin, it's Eric. I'll add just a little bit of color to that because it lets me speak about VF model, which we think is so important to our consistent success. If you look at our big three brands in Europe, Timberland, Vans, and the North Face. The North Face and Vans are primarily built out in Northern Europe and they are doing exceptionally well. Timberland is primarily -- the biggest market is Italy.

But it's that portfolio that let's us get through a year like 2012, I think we were up 10% in Europe, the heads are nodding, that's the right number. And we're looking at high-single digits for this year. And it really is because we're able to say all right if we can't affect the economy in Italy, and we can't, what we can do is increase the investment in our Northern European brands, where the economies are stronger, and that's exactly what we're doing. And that's why Vans has had so much success in Northern Europe, is we've just chosen to invest more there, because that we can take action on. While we respond prudently, where there are more challenges in Southern Europe, and that's how we work our model. So thank you for letting me make that statement.

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

Just a final point, we never talk about the other brands. Clearly top three brands are the major drivers. But this year, we saw in Q1 particularly in the full year on other brands like SmartWool, Napapijri, Kipling, Eastpak, we all expect them to grow in Europe this year, which is positive news.

Erinn Murphy - *Piper Jaffray - Analyst*

Great, thank you guys. That's very helpful. Best of luck.

Operator

Omar Saad, ISI Group.

Omar Saad - *ISI Group - Analyst*

Great job on the margin guys, it's really impressive. I wanted to follow-up, I know the D2C mix has been one of the drivers on the gross margin side. Can you kind of remind us where you are in terms of D2C penetration, what percentage of the business it is overall, where it was a few years ago, and how high you think it can go over time? Cannibalization, with the wholesale channel, is that something you think about? And how does online fit into your kind of long-range thinking about the right direct channel?

Steve Rendle - *VF Corp - Group President, Outdoor & Action Sports Americas*

Omar, I'll start with that, to respond to the first point in terms of the penetration that we have. We're in -- a few years it wasn't all that long ago that our percentage was really quite low in direct-to-consumer, so it's expanded very, very nicely over the past number of years.

In 2012, D2C was represented 21% of our total Business. In 2013 we expect D2C to be 23% of our Business, and we're excited about laying out our plans for the future over the next five years. But it's safe to say that we do expect to continue to see direct-to-consumer expanding as a percent of our total Business.

Omar Saad - *ISI Group - Analyst*

And online cannibalization with wholesale, do you think there's any channel conflict there, has that been an issue at all? And then online, how it fits in?

Eric Wiseman - *VF Corp - President and CEO*

Sure, Omar, Eric here. We try very hard to use this as a supportive strategy for our brands, and to avoid cannibalization. And we actually work with our wholesale partners to -- they know where we're going to put stores. A great example of this is Vans, which in the last two or three years has put up a lot of stores around New York City, around Boston, now around Philadelphia, where we didn't have substantial distribution, and we just didn't have the doors there that let the brand speak to the customers. So we're putting the doors there. And that's true in markets in Europe and in Germany, it's true in the UK. That's how we look at it, and we have so much runway because we ended last year with roughly 1,100 doors across all of our brands, across the world. So we're so relatively undeveloped that we still see lots of runway before the cannibalization thing comes into play.

The e-commerce thing is a tricky thing. Because we don't know what that's -- we can't really say where those customers are coming from, whether they're new customers to the brand, whether they used to shop in our stores or somebody else's stores. What we do know is we have to create a compelling way for consumers to engage with our brands from their phones, from whatever devices they have. And we have to let them shop while they're there, and that's a rapidly growing piece of our Business, and a rapidly growing piece of the consumer experience, not just in the US, but also in Europe where I think last year we put new websites up in seven countries, is that correct? With seven countries last year.

So we're beginning to do that there. I don't know how to discuss the cannibalization of that, because we know it's the right thing to do, and if it elevates the brand experience, which we think it does, it should be good for everybody.

Steve Rendle - *VF Corp - Group President, Outdoor & Action Sports Americas*

Omar, I guess I'd just add to that, all of that of course supported by a very strong profitability in our direct-to-consumer businesses, and really, really high returns on the investment that we make. It's what gives us the permission and the reasons that we continue to invest heavily.

Eric Wiseman - *VF Corp - President and CEO*

The last bit of color I'll add to that, because it gets to some of Karl Heinz's observations about the strength of our D2C business in Europe where our Wholesale business is not so great in some markets. I do think that there, we're putting up our best -- when we open a store, we're all in, and we bring the brand to life the best way we know how with strong inventory across all the styles and some of our Wholesale customers aren't able or willing to do that now in this environment. And our willingness to do that I think is helping us, and it shows that when you put the whole brand out there in all of its glory in the retail environment, people are still shopping.

Omar Saad - *ISI Group - Analyst*

That's interesting, thanks for all the color.

Operator

Lindsay Drucker Mann.



Lindsay Drucker Mann - *Goldman Sachs - Analyst*

I was hoping you could, as we look at the end G&A line, can you tell us the increase, the split between your brand investment, D2C spending, and then mix or other corporate items. So in other words, how much of the increase was a function of your investment in direct versus your investment in brand building stuff?

Eric Wiseman - *VF Corp - President and CEO*

Bob would be happy to take that question.

Bob Shearer - *VF Corp - CFO*

Right. So in the first quarter there is 100 basis point increase in our SG&A and it was evenly split. At the beginning of the year, on initial guidance we indicated that from a marketing standpoint that we were going to up our spend this year. Right now, we're continuing to plan on an increase of more than \$60 million in the marketing side, and about double the rate of our revenue increase.

As I said in my comments the reason we're willing to do that is because we absolutely believe with a lot of confidence we're getting great payback on those investments, and we support that with some science behind that in terms of measuring results. And yes, the other side is related to the heavier investments in the direct-to-consumer side, as well the high number of new store openings. So in that first quarter, it was exactly half-and-half, the 100 basis point increase.

Lindsay Drucker Mann - *Goldman Sachs - Analyst*

On the direct-to-consumer piece, you talk about investments up front in the year and then generating greater returns on that in the back half. Can you just remind us by concept where your increases in square footage are and where you expect to see the most improvement?

Eric Wiseman - *VF Corp - President and CEO*

Yes, what I can say is this. Is that clearly where we're investing and opening new stores and the high number of new stores is absolutely aligned with where we have our strongest returns. A high percentage of the new store openings is in the Vans, within the Vans brand around the globe, not just in the US but in Europe, as well. And then of course the North Face and Timberland really round out the top three, that's where the investments are going.

Bob Shearer - *VF Corp - CFO*

And that's split slightly more than 50% in the US, and slightly less than 50% internationally, so it's a global strategy.

Lindsay Drucker Mann - *Goldman Sachs - Analyst*

Okay. Have you given us actual store count?

Eric Wiseman - *VF Corp - President and CEO*

We did. We said that we'd open about 160 new stores this year.



Lindsay Drucker Mann - *Goldman Sachs - Analyst*

Okay. And then if you can comment at a high level how you guys think about the deal environment out there, the M&A opportunity, what the pipeline might look like, and how you think of as far as where multiples are today relative to where you'd like them to be?

Eric Wiseman - *VF Corp - President and CEO*

We're still actively looking. I don't normally respond this way, but I just don't know that the environment is a lot different than what it's been. A lot of the deals that we've made have resulted from long-standing relationships that again have been built over a period of time. So it's the same approach that we use today and we're still looking.

In terms of multiples, the same kind of thing. The multiples, from what we see and what we're willing to pay really don't vary a lot unless a business is really in a trough. Then we might have to pay a little more in terms of the multiple. But it just doesn't, from our viewpoint it just doesn't change a lot over time. Good brands are still treasured possessions. And to get the right brands requires the right kind of investment.

Lindsay Drucker Mann - *Goldman Sachs - Analyst*

Okay, thanks everyone.

Operator

Mitch Kummetz, Robert Baird.

Mitch Kummetz - *Robert W. Baird & Company, Inc. - Analyst*

Two questions. Let me start with Bob. I'm trying to gauge how conservative your gross margin guidance is on the year? You're saying up 100 basis points. It sounds like you expect mix to be about 60 to 70 basis points of that. Just in the first quarter the benefit that you got from lower input cost I think puts you in the black 30, 40 basis points even on the year. So I mean, what are the other puts and takes here that gets you to your guidance on the year?

Bob Shearer - *VF Corp - CFO*

So what happens, Mitch of course is the year goes on. As the year goes on, we won't see the same benefit that we saw from Jeanswear in the first quarter. Obviously all this is about what we're comping against in the earlier part of last year. And in 2012, in the first quarter of 2012 we brought in very, very high denim costs, so we're comping against that, that's why the big improvement. In the second quarter, you remember the sequencing last year as we looked at the improvement started to come as cost came down in the Jeanswear business, so in the second quarter we're matched up against costs, which weren't quite as high as they were in the first quarter.

So as I said earlier on the improvement in gross margin the second quarter will clearly be less than it was in the first quarter. And then in the latter part of the year, the cost -- from a cost standpoint is more normalized at that point in time. We don't have the same kind of impact from the Jeanswear side, we're also -- I mean we're seeing some benefit even in Imagewear for example, our cost there were higher last year, and they've come down some.

But in the second half of the year, again a much more normalized situation relative to product costs, but what we have is we continue to have that mix impact that we've very consistently talked about, and you just mentioned, will help us in the second half of the year. So, that's really the way to think about it. A little bit bigger product cost impacts in the early part of the year, and then that continuation of our mix benefit coming in the latter part of the year. And sure, we're always going to be a little bit cautious relative to the guidance.

Mitch Kummetz - *Robert W. Baird & Company, Inc. - Analyst*

So there aren't any real puts and takes of significance other than the costs and the mix as we think about the year?

Bob Shearer - *VF Corp - CFO*

Yes, those are the two bigger factors. What we're also seeing some benefit, but it's just not at the same magnitude from efficiencies that we see controlling the inventories, we reduced our inventories by over \$100 million like we did in the first quarter, it just creates less exposure related to inventory.

So, there are some efficiency gains. As I said, we expect to see gross margin improvement in every single business on an annual basis, and that's not driven by product costs, it's just driven by controlling inventories and having great product and being able to get there on the margins. So, there are some other factors, but yes those are the big pieces.

Mitch Kummetz - *Robert W. Baird & Company, Inc. - Analyst*

Okay. The second question I had is I'm just curious with the slow start that we've had this spring, you guys talked about the impact that that had on Q1, some benefits, some negatives. But what's the impact that has on Q2? Do we lose kind of -- how significant is your at once business in Q2? Do you think you lose out on any business there versus a year ago, given the slow start to spring, and even if you back up of in-season inventory at retail right now?

Eric Wiseman - *VF Corp - President and CEO*

Let me take a shot at part of that. Last year, we shipped some of our spring merchandise in the first quarter because it was a warmer year. So, this year that's going to be a second-quarter shipment for pieces of our Business, compounded by the fact that it's been a cooler than normal quarter for us so far. So we're shipping the goods this quarter, but right now they're not selling.

How that's going to play out? My guess is summer will come, it will get warm and that stuff will sell. The question will be does the summer get here in time that they sell at full price? And that I don't know the answer to. All-in I think we're going to get through that period just fine. Does anybody else want to enhance that comment at all?

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

This is Scott. I think it equalizes itself out. I really feel good about the spring, I think it's a compelling offer that we have. We have a nice assortment out there. And summer will come, it's just a little bit about a six-week differential from last year. You saw the weather change about six weeks early last year, it's about six weeks later this year. As you go back to '11, you go back to '10, it's back to a normal pattern this year. Maybe a week or two cooler, but I feel confident going forward.

Steve Rendle - *VF Corp - Group President, Outdoor & Action Sports Americas*

Mitch, this is Steve. From an outdoor and action sports position here in the Americas, the season is actually lining up consistent with how our goods flow. Our biggest Spring business in the first quarter would be Reef, and Reef had a very good quarter. Follow that with Vans, and the results that we posted for Vans were extremely strong. And in the North Face, we saw very good sellthrough of our winter weight goods, we typically sell quite a bit of spring rainwear in the first quarter, which then leads us into the Sportswear sets in the second quarter, that's when equipment has shifted to opening up. And all of that really is lining up nicely to deliver against our plans.



Mitch Kummetz - *Robert W. Baird & Company, Inc. - Analyst*

Okay, that's very helpful. Appreciate that. Thanks, good luck.

Operator

Christian Buss, Credit Suisse.

Christian Buss - *Credit Suisse - Analyst*

Yes, I was wondering if you could provide some perspective on the new channels of distribution you've opened up over the last year or so for Vans, and what you've seen there, what successes you've had. And if you could talk a little bit about 66 product, that would be helpful, as well.

Steve Rendle - *VF Corp - Group President, Outdoor & Action Sports Americas*

Sure, Christian this Steve. So really the only new channel we've opened up over the last 12 months, was moving into Footlocker with the 66 collection. Otherwise Vans stays very, very committed to their disciplined product segmentation strategy across a very clear set of channels. Our 66 collection has done very well with Footlocker, they remain very confident, as do we in the growth potential of that particular line extension, as we access a consumer that's adjacent to our core action sports consumer in that athletic space. So, very positive and you'll continue to see growth and commitment from where we've extended.

Christian Buss - *Credit Suisse - Analyst*

That's great to hear, thank you very much and good luck.

Operator

And gentlemen at this time I would like to turn the conference back over to you for any additional or closing remarks.

Lance Allega - *VF Corp - Director IR*

Thank you all for your time and attention this morning. We do have an event coming up between now and our second-quarter earnings release on June 11 in New York City. We're going to be laying out our five-year growth plans, and we're looking forward to that meeting. Hope you are as well and we hope to see you there. Thanks so much.

Operator

Thank you, that will conclude today's conference. We thank you for your participation.



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