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VFC - Q2 2013 VF CORP Earnings Conference Call

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OVERVIEW:

VFC reported 2Q13 revenues of \$2.2b and adjusted EPS of \$1.27. Expects full-year 2013 revenues to be \$11.5b and adjusted EPS to be \$10.85.



CORPORATE PARTICIPANTS

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

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PRESENTATION

Operator

Good day, and welcome to the VF Corporation second-quarter 2013 earnings conference call. Today's call is being recorded. At this time, I would like to now turn the conference to Mr. Lance Allega, director of IR. You may begin.

Lance Allega - VF Corporation - Director of IR

Thank you, operator. Hello, everyone, and thank you for joining us today to discuss VF's second-quarter 2013 results. Before we begin today, I would like to remind participants that certain commentary included in today's prepared remarks and in the Q&A session may constitute forward-looking statements under the definition 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 these projected in the forward 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 at 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; and our Group Presidents, Scott Baxter, Steve Rendle, and Karl Heinz Salzburger. Following our prepared remarks, we'll take your questions, and ask that you limit your questions to two, to allow us to get to as many of you as possible. In the



event you have additional questions that are not covered by others, please requeue and we'll do our best to get back to you. Thanks for your cooperation on this. Now I'll turn the call over to VF Chairman and CEO, Eric Wiseman. Eric?

Eric Wiseman - *VF Corporation - Chairman & CEO*

Thanks, Lance. Good morning, everyone. Thank you for joining us. At our investor day last month, where we outlined our new five-year growth plan, I made the comment that we believe we're really just beginning to achieve the potential that we have to grow and deliver shareholder value. Based on today's strong results, I can say with great confidence that our ability to drive growth and long-term sustainable profit is right on track, and at the halfway mark of 2013, we're also right on track with our expectations for the first year of that five-year plan. We are on track for 6% revenue growth, to \$11.5 billion, on track to deliver significant improvement in the full-year gross and operating margin, on track to deliver 13% earnings per share growth, consistent with our long-term target, and on track to deliver very solid cash flow generation, with more than \$1.4 billion expected this year.

In the second quarter, we grew revenues by 4% to \$2.2 billion, and we remain very comfortable holding to our full-year guidance. With positive results across both our wholesale and direct-to-consumer channels, and low single-digit increases in our US and European businesses, coupled with greater than 10% growth in both our Asia-Pacific and our non-US Americas region, we're pleased with our balanced performance. Gross margin for the quarter hit 48.5%, an all-time VF record for any quarter. Driven by lower product cost and mix, that's an improvement of 240 basis points over last year's second quarter, a result we're truly proud of, and certainly a higher bar is now set for the future. With improvements in nearly every coalition, our adjusted operating margin also showed significant improvement, up 140 basis points, despite a heavier investment in advertising in our direct-to-consumer business on a year-over-year basis. And finally, all of this translates to second-quarter adjusted earnings per share being up 14% to \$1.27.

Looking at the balance of the year, while the economic environment remains a bit uncertain and a bit of a headwind, we're confident that our powerful brands and powerful platforms are among the best-positioned in the industry to deliver fantastic products to consumers and strong profits to our shareholders. In fact, based on strong first-half results, with margins and EPS exceeding our original plan, we're raising our full-year adjusted earnings per share guidance by \$0.10 per share to \$10.85. This is a 13% increase over 2012, which is directly in line with the five-year plan we just announced last month, and we now expect our gross margin to improve slightly more than 100 basis points for the full year. The consistent improvement in our gross margin over the past few years has allowed us to make meaningful investments in our brands, products, and our innovation strategy, that have proven very effective in building our business around the world.

This year, we've taken our full-year guidance from \$10.70 to \$10.85, demonstrating once again strong improvement in gross margin. If we were to see further gross margin expansion in the second half of the year, we would likely invest those dollars against new marketing and product initiatives to support our five-year growth commitment to our shareholders. This is a strategic balance that you've come to know and expect from us, and one that's proven effective many times in the past.

So, a great first half. We're on track across nearly all key measures. We're improving profitability, and by all accounts, well on our way to another record year. And with that, I'll turn the call over to Steve, Karl Heinz, and Scott who will take us through VF's top five brands, and Bob will close out with a deeper look at our financials. Steve?

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

Thank you, Eric. Second-quarter global revenues for The North Face were up 5%, fueled by moderate growth in wholesale sales, a 15% increase in the brands D2C business, and a more than 20% increase in international sales. In the Americas region, revenues were down slightly with a mid single-digit decline in wholesale business, which was expected, given the seasonal lower demand, and coupled with retailer caution. Our D2C performance in the quarter was ahead of expectations, growing at a mid-teen rate, a result that creates great momentum that we expect to carry into the balance of the year. Recent investments in our frequent shopper and loyalty program are really paying off. And overall, we were encouraged by the strong sell-through of fleece, rain wear, and other spring items, including color updates on key styles.

Now, let's review our progress against the key growth drivers for The North Face brand in 2013. Product innovation, marketing, and D2C. First, product. This fall, The North Face is bringing consumers break-through innovations, including Thermoball, a proprietary athlete-tested synthetic insulation technology that is lightweight and compressible like down, but continues to insulate even when wet. Equivalent to 600-fill down, Thermoball was reviewed last week by Climbing Magazine, who dubbed it man made down, noting that testers immediately thought it was down. Thermoball will be featured in over 5,000 stores in North America this fall.

Also new for fall 2013 for our snow sports category is our new Steep Series, a line of big mountain outerwear designed with and for the next generation of riders who are raising the bar on what is possible in the biggest and harshest terrain. And finally, the evolution of Flash Dry continues as the ultra-fast drying standard for moisture-moving technology expands even deeper into our product line. In less than one year, three-quarters of our accounts now carry Flash Dry.

All right. Let's move to marketing. Launching in fourth quarter, our new Never Stop Exploring campaign will amplify connections with existing consumers, and forge fresh relationships with new ones. And as I mentioned earlier, we're seeing great returns in our D2C business from our investments in our loyalty program. The North Face VIP program, which combines web and store transactions to accumulate points toward future transactions is now active in all full-price stores, and continues to see very healthy customer sign-up rates. So we're definitely pleased with our progress during the first half of the year in the Americas, and now here's Karl Heinz.

Karl Heinz Salzburger - VF Corporation - President, VF Europe, Middle East, Africa, Asia

Thanks, Steve, and good morning, everyone. Outside the Americas, The North Face brand grew more than 20%, which [thanked] in both the D2C and wholesale businesses. In Europe, The North Face grew 10%, driven by balanced strength in both our D2C business and the wholesale channel. We also continue to see very strong results in our eCommerce business, with more than 60% growth in online sales, as the brand continues to gain significant traction with and connection to consumers. Europe is a very large and well-developed outdoor sports market, and The North Face is the best-positioned brand in the market to realize consistent, sustainable growth. Our new products are being received very positively. For example, we saw incredible response to our new Summit series Verto Micro Hoodie, which sold out in both the D2C and wholesale channels. We also are continuing to see great response from, and opportunities to expand European-specific products, positioned to best meet the regionally specific needs and preferences.

The North Face in Asia-Pacific also had a strong second quarter, with revenues up more than 40%, driven primarily by outstanding growth in China. As I have mentioned before, we are focused on building brand awareness and engaging consumers in the outdoor market. And to support this effort, this fall we will be launching a North Face TV campaign in China. We are very excited to connect this way with consumers.

Additionally, membership for [Akejabot.com] our website providing an interactive social hub, connecting consumers with outdoor clubs, activities, and the ability to purchase North Face products, has grown to 300,000 people. In June, we launched Akejabot mobile app, allowing members to connect to the online community, browse products and photos, and locate a store, all from their mobile phone. We have seen great response to the app so far, with 690,000 downloads in the first six weeks. So, our retail experience is improving. Consumers are joining us to explore the outdoors, and most importantly, we continued to deliver the products and experiences the consumer want. We remain confident in the remainder of 2013. And speaking of the rest of the year, Steve, you wanted to make a few comments about revenue patterns?

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

Looking towards the balance of the year, we continue to expect The North Face to achieve high single-digit revenue growth globally in 2013. However, the shape of that revenue in the Americas business will look a little bit different than years past. This is due to two reasons. First, as we've discussed throughout the year, retailers have remained cautious about fall orders, which has caused those orders to be pushed later into the year. Specifically, there will be a meaningful shift in North Face revenue that would have normally fallen in the third quarter, that will now occur in the fourth quarter.



Second, and separately, our wholesale partners' monthly calendars have shifted out one week, which pushes orders that have historically shipped in our fiscal September into our fiscal October. This is an issue specific to 2013 for The North Face Americas. So based on these two reasons, later orders, and a September with one less week this year, due to fiscal alignments, we are expecting third quarter global revenues for The North Face to be up at a low single-digit rate over last year, and a low double-digit increase in the fourth quarter. We're on track for high single-digit global revenue growth for the full year.

Now, on to Vans. Global revenue for Vans in the second quarter was up a healthy 15%, with balanced mid-teen wholesale and D2C growth. During the quarter, momentum continued in the Americas region, where we saw balanced growth across our D2C and wholesale channels. We saw strength during the quarter from both the footwear and apparel categories.

On the footwear side, we continued to perform very well. Our 66 product has really shown customers what Vans can do in terms of innovation, and we've taken some of the key innovations from the 66 line, particularly the RapidWeld stitch-less construction, and the Ultracush footbed lining technology, and incorporated them in key styles across our classics and pro skate footwear collections. Additionally, our new DURACAP underlays add a tremendous amount of durability. Combined, these innovations create the next off-the-wall evolution of skate footwear, engineered for comfort and wear and tear, while maintaining excellent board feel.

In terms of apparel, we are leveraging our VF supply chain to improve speed to market, while continuing to evolve our products to be more relevant for the environments and seasons they are used in. By taking classic action sports products that consumers are already connected to, and adding performance benefits to them, such as weatherization, we're equipping the Vans consumer with a whole new level of quality and technology, in both warm and cold weather. This allows us to have more relevant year-round offerings, as we extend our reach into cold weather months and cold weather markets.

And speaking of new markets, I want to mention that our focus on geographic expansion continues to be a success. Our unique process of partnering with key players in each region ensures authentic brand building, and establishes credibility in each new market we enter. This year, in our Americas business, we are focused on expanding the Vans business in the Boston and Atlanta markets of the East Coast, as well as Canada and Mexico, where we have seen strong acceptance by those consumers. We are very happy with the progress we're making there. We also continue to engage consumers in unique ways to further their connection with the brand. The Vans US Open of Surfing, which starts tomorrow in Huntington Beach, is an iconic event and the largest surf contest of its kind in the United States. With this, our inaugural event, we've put together a great cultural experience in action sports, music, art and fashion that we're excited to share, not only with those in attendance, but with millions of fans across the globe through live webcasts, photos, and videos at VansUSOpenofSurfing.com. We're incredibly excited to bring the Vans off-the-wall culture to the epicenter of surf.

Great results in the first half, and we're very excited to get into the second part of the year. Now I'll pass it over to Karl Heinz, who will take us through some international highlights.

Karl Heinz Salzburger - VF Corporation - President, VF Europe, Middle East, Africa, Asia

Outside the Americas, Vans second-quarter revenues were up more than 20%. D2C growth was north of 40%, and we also saw very strong growth in wholesale. Vans continued its outstanding momentum in Europe, with revenues up 20%. The strong growth gives us great confidence that we'll deliver another year of impressive results. We recently launched an aspirational collaboration with Kenzo, a premier retail fashion brand. This collaboration allows us to bring regionally relevant product to European consumers, while also driving regional awareness of the brand. On the D2C front, we opened new stores in Cologne, Edinburgh, and Bluewater in London, and completed a major retrofit of our Westfield store in London to showcase our new Vans retail concept.

Vans Asia-Pacific business also posted strong results in the second quarter, growing more than 20%. We launched Asia Artiste, a program that supports local artists, where we bring their designs to life on T-shirts. We have also continued to see our regional and local product collaborations drive both brand awareness and sell-throughs. Both of these programs are part of our ongoing efforts to ensure that the brand remains relevant in the region and inspirational to the youth culture there.



We are also using special events to drive consumer interest, and lead the conversation of youth culture. During the quarter, the House of Vans Experience at the Beijing Midi Music drew over 50,000 attendees. So a great first half for Vans around the world, and much more to come in the second half of this year. With that, let's move on to Timberland.

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

Global revenues for Timberland were down 3% in the second quarter, which was in line with our expectations. We remain sharply focused on the strategic initiatives we have put in place to create a platform for long-term growth in both the D2C and wholesale channels. Our expectations for full-year revenue growth remains unchanged, in the mid single-digit constant dollar range. In the Americas, revenues were up in the low single digits, driven by a high single-digit increase in D2C, partially offset by a modest decline in wholesale results. These results, too, were essentially in line with expectations, and really driven by ongoing strategic enhancements to optimize our distribution in both the D2C and wholesale channels.

Turning to product, both core and new programs continued to perform well, and while we will continue to capitalize on the iconic status of the Yellow Boot, we are also focused on delivering new, innovative product. Our efforts to increase year-round relevance is paying off. In fact, the Hookset Handcrafted collection of casual, low profile footwear, which is a central part of our year-round strategy, performed exceptionally well at both retail and wholesale. The Hookset collection was also the focus of our advertising campaigns during the quarter, and we are very pleased with the returns on the investments we've made there. A partnership with GQ Magazine, along with several new digital media partnerships with key influencers, are generating even more consumer touch points for the brand. Additionally, we saw very strong performance in men's boots, which were up 50%. With Timberland Pro, we continue to gain traction with great innovations like our anti-fatigue technology. Strong sales in the category helped fuel the launch of an aftermarket insole product, which saw very strong shipments in its first season. Pro continues to set the standard for comfort and protection needs for the very demanding industrial consumer.

As I mentioned, Timberland's D2C business achieved strong growth in the Americas in the quarter, as our targeted strong operational initiatives designed to drive conversion took hold. Our product as hero campaign, featuring Hookset in store windows, on our eCommerce platform and throughout our direct digital marketing, was incredibly successful in driving conversion. Conversion was up in all formats throughout the quarter. Overall, we're very pleased with Timberland's progress and the advances we've made on our strategic initiatives to position the brand for long-term growth. Now, here's Karl Heinz to take you through Timberland's international business.

Karl Heinz Salzburger - *VF Corporation - President, VF Europe, Middle East, Africa, Asia*

Timberland's revenues outside of the Americas were down at the high single-digit rate, with revenues in Europe down at the low double-digit rate, to sales in Asia up about 10% on a constant dollar basis. In Europe, conditions remain especially tough for Timberland in Europe, with the wholesale business down at the mid-teen rate, due to challenging economic conditions. We've been particularly encouraged by our D2C results with Timberland in Europe, with positive comps in the first half. Regardless of top line, we achieved much stronger profitability, which points to underlying operational health, so good confidence there. For the balance of the year, we expect to see improving trends.

Similar to the Americas, we continue to make progress on our plans to extend the brand's year-round relevance. Here, too, the men's Hookset collection performed incredibly well in the quarter, particularly in the wholesale channel, giving us great confidence in the future. On the women's side we saw very strong sell-through during the quarter, and sales were also robust in women's sneaker, in both our wholesale and retail channels. In Asia, growth came from both women's and men's footwear. In particular, we saw strength in core leather boots and heavy boat shoes on the men's side. Growth in women's came from core leather boots, classic unlined boat shoes and the Casco Bay collection.

We also expanded our direct-to-consumer business with four new retail doors during the quarter, as well as three shop-in-shops and two outlet stores. Very strong growth for the quarter in China, with revenues up nearly 40%. We continue to feel confident about our future expansion opportunities. And with that, I'll turn it over to Scott to take a look at Wrangler.

Scott Baxter - VF Corporation - President, VP Imagewear

Thank you, Karl Heinz, and good morning, everyone. Second-quarter global revenues for Wrangler were down 1%, with about flat results in our overall Americas business. These results were in line with our expectations, and the Wrangler business is on track to meet our full-year goals.

By channel, our western business saw solid results, with revenues up mid single digits, driven by continued momentum in our premium performance Cowboy Cut jeans. We continue to prove to this very important and growing consumer base that we know what they want. Comfort, durability, and unique style. To push this momentum, we are gearing up for a comprehensive launch of the premium performance Cowboy Cut with advanced comfort in the fourth quarter, including in-store print, radio, and TV marketing. The product will also be featured in our new Patch campaign, which will launch in the third quarter.

Our mass channel business was down slightly, primarily due to a shift in shipments from the second into the third quarter. Accordingly, this business is expected to be up around 10% in the third quarter. We're also making meaningful headway working with our key retail partners to enhance our brand's in-store presentation. In fact, we have a number of initiatives and programs geared at enhancing the way that consumers experience the Wrangler brand, and ensuring that they fully understand the Wrangler story of innovation, authenticity and value. Our Americas non-US business, which is one of the fastest growing regions for the Wrangler brand, also showed solid high single-digit growth, and is well on its way to posting the highest growth rate of any of our regions for the full year. And now, here's Karl Heinz with a few words on Europe.

Karl Heinz Salzburger - VF Corporation - President, VF Europe, Middle East, Africa, Asia

Our Wrangler business in Europe was up slightly, compared with last year, and our gross margin and profitability continues to improve. On the product front, we are starting to see some bright spots. Our innovation focus on denim performance and fit is paying off. And our new products are selling through well. We also experiencing pockets of strength in a few of our key markets across Europe, particularly in Germany, Poland and Russia. Now, back to Scott with Lee.

Scott Baxter - VF Corporation - President, VP Imagewear

Our Lee brand delivered exceptional revenue growth of 10% on a global basis during the quarter. Revenues in the Americas were up mid-teens, driven by great response to our seasonal business, as well as very strong growth in our core business, particularly in men's. Our hard work to create new growth opportunities, particularly in the mid-tier channel, was also starting to pay off, with the launch of seven new product innovations and really strong orders for fall shipments. We are spot-on in terms of giving our customers and wholesale partners what they want, and we're particularly proud of the results that we're seeing in our Comfort Fit for women and Modern Series for men, two lines I speak frequently about, and for good reason. They are driving success.

We're also really pleased with our Platinum label collection's ability to generate continued momentum, a product line that continues to open new doors. In fact, by the end of this year, the line will be in more than 450 locations with our key department store partners. We also want to make sure that consumers can more easily discover the brand and understand the story, so we're working with some of our major partners to roll out enhanced brand signage and merchandising, which you'll begin to see in August. We anticipate that these enhancements will raise visibility and ultimately drive higher volume in these accounts. Now, back to Karl Heinz to discuss Lee's international business.

Karl Heinz Salzburger - VF Corporation - President, VF Europe, Middle East, Africa, Asia

In Europe, Lee brand revenues were up slightly during the second quarter and similar to the Americas, we are very encouraged with the early success we have seen with our new product innovations. During the quarter, we were very pleased with the solid sell-through of our new Stretch Deluxe women's product, leading to growth in the women's category overall. Additionally, our new men's collection, Blue Label, is outperforming expectations, with great response to the product's outstanding fit and comfort.

In Asia, as expected, business was challenging in the first half, as the wholesale channel continues to work through its denim inventory overhang. While business was still down in the second quarter, it was a sequential improvement and in line with our expectation of the business beginning to normalize in the fourth quarter of this year. And even with the declining revenues, our profitability was up, as it benefited from lower product costs and favorable product mix. So a nice offset there.

Our spring 2013 collection was well-received by consumers, especially our Urban Riders and Vintage Laundry products. Overall, based on the strong response to our product offering so far, we are confident that we'll begin to see healthy growth once we get the channel inventory levels properly aligned. And now, here's Bob, who will take you through our financial highlights.

Bob Shearer - VF Corporation - SVP & CFO

Thanks. During our investor day last month, we had the opportunity to showcase our powerful brands and our powerful platforms. As I mentioned at that meeting, having the right strategies, the right brands, and the ability to deliver consistently on our promise to shareholders, well, that's worked pretty well for us. Our second-quarter and first-half results demonstrate those strengths.

Let's take a look at how we did. Let me start with revenues. Total revenues grew 4%. We remain on track with our full-year guidance of \$11.5 billion. On a regional basis, revenues in the US were up 3%, with growth in both our direct-to-consumer and wholesale businesses. Total international revenues were up 6% in the quarter, driven by 10% growth in both the Americas, that's non-US, and Asia-Pacific regions, including 17% growth in China.

Revenues in Europe were up 2% and to remind you, Timberland's European business, which is VF's largest European brand, continues to be impacted by challenging economic conditions. So Timberland did have a fairly significant negative impact to VF's total European revenues in the quarter. In fact, excluding Timberland, total European revenues grew by 8%. And global direct-to-consumer revenues were up 8% in the quarter, or 9%, excluding the impact from the sale of the John Varvatos brand. With positive direct-to-consumer results for nearly every brand in the entire VF portfolio, we are really pleased with the revenues and earnings that our D2C businesses continue to drive.

Let's turn to gross margin. So even after the press release, and also Eric's comments, yes, I'm going to mention it a third time. Our gross margin rate for the quarter came in at 48.5%, an all-time VF record. The 240 basis point improvement reflects an even better performance than we originally anticipated, and is a result of lower product costs and a favorable mix shift toward higher margin businesses. And consistent with our first quarter, we saw gross margin improvement in almost every business.

Our SG&A ratio as a percent of revenues rose 100 basis points to 39.4% in the second quarter, with approximately half of the increase stemming from our growing D2C business, and about half due to increased marketing investments in our brands. As we've said in the past, this is an investment year in direct-to-consumer, with a record high number of store openings planned. And as you know, our D2C business is strongest in the second half, and particularly in the fourth quarter. So that's when we expect the lion's share of benefit to come through from these investments. Rest assured, we remain vigilant about controlling costs and managing our investments, to ensure the right balance of growth and profitability across each of our brands and businesses.

Adjusted operating margin improved 140 basis points to 9.3%, driven by our strong gross margin performance. Taking this down to the bottom line, adjusted earnings per share grew 14% to \$1.27 from \$1.11 during last year's same period. Additionally, if you consider that last year's second quarter included a non-recurring \$0.10 per share discrete tax benefit, our adjusted EPS was 26%. Growth was 26%. So overall, a very, very strong quarter.

So let's dig in a bit deeper on overall coalition results, starting with our largest contributor to growth, outdoor and action sports. Total second-quarter revenue growth of 6% was in line with expectations, and included solid results from The North Face, Vans, Kipling and Reef. On the whole, the growth was pretty well balanced across geographies, and in between D2C and wholesale channels. In addition to strong top line growth, outdoor and action sports delivered outstanding profit growth of 22%, with a 120-basis point improvement in operating margin in the quarter, to 9.1%. As Steve noted, and this bears repeating, the revenue cadence for The North Face and particularly for the balance of the year, will look a bit different than what you've seen in the past. Retailer caution is pushing out what typically would have been third-quarter orders into the fourth quarter. Also,



a retailer calendar shift will reduce this year's September shipments, moving a week's worth of shipments into October. So as a result, revenues for The North Face should be up at a low single-digit rate in the third quarter. Excluding the calendar shift and the impact of retailers pushing back their shipments to as close to need as possible, The North Face's growth rate in the third quarter would be closer to our full-year revenue growth expectation of a high single-digit rate. On the whole, we continue to expect our outdoor and action sports coalition revenues to increase about 10% for the full year.

Jeanswear revenue grew 3%, benefiting in part from the normalized shipping cadence of seasonal product in the Americas, where revenues grew 4% in the quarter. Jeanswear revenues for the European business were up 1%. And in our Asia-Pacific region, second-quarter revenues declined at a mid single-digit rate, which marks a sequential improvement over the first quarter as the Lee brand continues to work through the channel inventory issues that Karl Heinz mentioned previously. Of course, with a 17% increase in operating income resulting in a 17.8% operating margin and improvement across all regions, well, I would say a job well done to the Jeanswear team. Happy to report that we now expect our global Jeanswear revenue to increase at a low single-digit percentage rate for the full year, with our US jeans business expected to grow at a mid single-digit rate.

Next, let's review Imagewear. Revenues declined 4% versus last year. This is the result of a delay of a programming rule that we discussed on last quarter's call, a program that we now have orders against for the second half of the year. If we adjust for revenue related to this program, Imagewear revenues were up modestly in the quarter. Operating margin increased 240 basis points to 14.5%, driven by improved gross margin due to lower product costs. We're looking forward to progressively stronger top line results in our Imagewear coalition for the balance of the year. Based on orders in hand and a strong pipeline of new product initiatives in both the image and licensed sports sides of the business, we expect Imagewear revenues to grow at a low single-digit rate for the full year. Sportswear delivered a strong performance in the second quarter, with revenues up 14%, right about where we expected. This 14% growth benefited from a 3 percentage point shift in timing of shipments for the Nautica brand from the previous quarter. Kipling delivered outstanding growth of nearly 30%, with particular strength in its D2C business. Improved profitability at both wholesale and retail drove a 42% increase in operating income to \$16 million, or a 240 basis point improvement in operating margin to 12.2%. For the full year, we now expect sportswear revenues to increase about 10%. That's up from our original expectation of high single-digit growth.

And finally, revenues for our contemporary brands coalition, which represents less than 4% of VF's total annual revenues, were down 9% in the quarter to \$99 million, with 4 percentage points of the decline due to the exit of John Varvatos. The softness in our contemporary brands business is primarily attributable to weakness in premium denim in the high end department store channel. Operating income fell 34% to \$8 million in the second quarter, and operating margin fell 310 basis points to 8%. We continue to expect improved performance in the second half for this coalition, given the strong reception to our fall product collections. However, we now expect low single-digit revenue growth versus our previous expectation of high single-digit growth for the year.

Now, finishing off with some balance sheet and cash flow highlights, we remain extremely disciplined around inventory management, and as a result, inventories were down 3% year-over-year. Also, happy to report that VF's pension plan is nearly fully funded, and with respect to cash from operations, we expect another year of exceptional cash generation, with the full year expected to top \$1.4 billion. In the third quarter, we'll further strengthen our balance sheet by paying off \$400 million in debt associated with the Timberland acquisition, and finally, we'll be out of commercial paper by the end of the year, resulting in a balance sheet that's ready to support future investment.

With that, let's turn to our full-year outlook. While we see some shifting in our outlook for revenues at the coalition level, there is no change to our February expectation of growing total VF revenues by 6% to \$11.5 billion in 2013. And given our strong gross margin results thus far, full-year gross margin is now expected to slightly exceed the previously anticipated 100 basis point improvement over 2012. Factoring all this in, our adjusted earnings per share is now expected to rise to \$10.85, \$0.10 higher than our previous guidance of \$10.75, representing a 13% increase over 2012. As Eric mentioned, if we see additional strength in our gross margin, we will likely make investments in our business now that will yield future returns. By investing to strengthen our core capabilities, including product innovation, technology, supply chain, direct-to-consumer, and sustainability efforts, we're ensuring our ability to deliver consistent long-term growth and returns to our shareholders.

Looking at the revenue cadence for the remainder of the year, we expect third-quarter revenue growth to be consistent with our full-year growth expectation. If you consider the previously-mentioned retailer caution, which will affect shipments for The North Face, and the impact of the September into October calendar shift, which affects both The North Face and our sportswear businesses, third-quarter revenue comparisons



would be more balanced with fourth quarter. So accordingly, we expect to see the strongest revenue comparisons of the year in the fourth quarter given these timing shifts as well as the expansion of our direct-to-consumer business, which really comes together in the fourth quarter.

So in closing, our first-half performance exceeded our expectations. We are firing on all cylinders, with a terrific portfolio of brands, expanding our business internationally, growing our D2C business, and focusing on innovation, and most importantly, our consumers. All of which gives us great confidence that we'll deliver yet another year of record growth for VF and our shareholders. And with that, I'll turn it back over to Eric.

Eric Wiseman - *VF Corporation - Chairman & CEO*

Thanks, Bob. That concludes our prepared comments. Operator, we would love to open the lines for some questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

And we'll take our first question from Michael Binetti with UBS.

Michael Binetti - *UBS - Analyst*

Congrats on the quarter. Bob, could I just clarify quickly the comment you made on the revenue guidance? Maybe you were saying third quarter would be in line with the annual 6% guidance excluding the shifts, but then be lower if you include the shifts, was that -- did I read that correctly?

Bob Shearer - *VF Corporation - SVP & CFO*

Right, Michael. What we're seeing is third-quarter revenues will be in line with the 6% annual guidance. That includes the impact, obviously, of the shift that we mentioned. What we're saying is third quarter otherwise would have been stronger. We said the third quarter would have been more balanced with the fourth quarter, had it not been for the revenue shifts. The 6% includes those shifts.

Michael Binetti - *UBS - Analyst*

Okay, and then can you help us gross up the comments on The North Face cadence that you talked about to the overall outdoor coalition outlook for third and fourth quarter?

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

Michael, I'm not sure I completely understand what you meant by gross-up.

Michael Binetti - *UBS - Analyst*

So it sounds like there's going to be some North Face order growth shifted into fourth quarter. How does that fit within the guidance for the outdoor revenue growth in the back half between third quarter and fourth quarter?

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

Sure, sure. Okay. So the shifts that we've mentioned in the calendar, coupled with the retailer caution, we see a shift from Q3, what we've seen historically in Q3 to Q4. Without those shifts, we would see a much more balanced order, order flow, shipment flow, but as we're looking at it today, we've got a low single-digit Q3 and a high, or low double-digit for Q4.

Bob Shearer - VF Corporation - SVP & CFO

Yes, Michael, so for the third quarter, for outdoor and action sports, I think this -- I want to make sure we answer your question. So the third quarter would look pretty much in line with, once again, with our annual guidance of the 6%, be more in line and then obviously the fourth quarter would be considerably stronger.

Michael Binetti - UBS - Analyst

Okay, and could you comment on where the backlogs are today for The North Face?

Bob Shearer - VF Corporation - SVP & CFO

Sure. The backlogs for The North Face, the shape of our order window this year is a bit different, as I mentioned. The calendar shift and the caution. The order book we have in hand is in line with our expectations. It was absolutely understood and calculated in the high single-digit full-year guidance that we provided in February.

Michael Binetti - UBS - Analyst

Okay. Thanks.

Operator

And we'll take our next question from Robbie Ohmes with Bank of America.

Robbie Ohmes - BofA Merrill Lynch - Analyst

Actually a couple of questions. The first question is you've mentioned retailer cautiousness in the Americas for North Face several times. Are you seeing retailer cautiousness across other brands? And why or why not?

And then the second question is just on the gross margin outlook. I think you said something to the effect of you could see more. I think, Bob, you might have said, could see more gross margin upside, but you may invest in that further upside. Could you walk us through what could drive further gross margin upside versus your guidance? And then also, what spending you would envision implementing beyond what's in the plan right now, if you get that gross margin upside? Thanks.

Eric Wiseman - VF Corporation - Chairman & CEO

Okay, Robbie. Bob and I will go back and forth on some of these. First question about retailer cautiousness, is it just for The North Face? It's not a North Face issue. It's an outdoor industry issue. The outdoor industry in North America has suffered two much warmer than normal winters. And because of that, and there's been inventory overhang at the end of each season, as you've seen.

This year, we got a little lucky in that spring was cool, and we sold a lot of that through. It's not for The North Face. It's for all the brands that play in that space. Retailers are buying much closer to demand. They are going to wait and see how the weather unfolds. However, the orders that we have don't assume a frigid winter. It assumes a modest improvement in the weather patterns for this year.

Notice we didn't talk about that for Europe. And the reason for that is, Europe had a cold winter last year. They had a nice, healthy, cold, wet winter. So the buying there from the retailers who buy our brands is just at a much more normal cadence because they didn't have that issue to deal with. Bob, did you want to talk about the gross margin?

Bob Shearer - VF Corporation - SVP & CFO

Sure. Yes, Robbie, one of the things that we've been seeing relative to our gross margin is the mix has been very favorable. In the second quarter, for example, you know that mix has been averaging around 60 or 70 basis points on a full-year basis of benefit. And in the second quarter, it was more like 80. That's been one of the factors that's been very positive to us. And our gross margins have just been running very, very strongly all year long. And we talk a lot about reductions in product costs. The mix piece, of course, will be there, and is there. The product cost reductions, as well, especially benefited the first half.

But the other thing that's been very strong for us is our inventory management. We talked in the second quarter that our inventories were down by 3%. Lower inventories means less risk. It means we sell off less at lower prices and it improves our gross margin. So those are the kind of things that could help us as we look to the third and fourth quarters. In addition to that, we're always going to be a little cautious in our gross margin expectations. There's still a lot of the year to go.

Now, relative to those investments, they would be the same kind of investments that we've been making in the past. This is the same kind of thing that we've done when we've seen some room in the gross margin. We've taken that opportunity to make investments, particularly, I would say in two areas, primarily in the marketing side, as well as product. And it's also very, very likely that a lot of those investments would be made behind our five largest brands, which is what we've been doing, especially behind our three, the three top brands that are in the outdoor and action sports area. But beyond that, to address opportunities, for example, in Asia and China specifically, as we see the opportunities there, we would make investments against those opportunities as well. So very consistent with what we've done. Again, it's been very good for us over the past and we do the same kinds of things looking forward.

Eric Wiseman - VF Corporation - Chairman & CEO

Robbie, we talk a lot about one of the strengths at VF is the number of levers that we have to pull to keep moving forward. We clearly have places in geographies in the world that are not conducive to additional investment. And we have many that are. Bob mentioned a really important one, which is China. We, as you know, have had fantastic growth.

Karl Heinz mentioned that in Asia Pacific, the North Face business was up 40% in the quarter. And that business is really moving. So one of the places we might invest would be behind The North Face in China. And we look at each brand and each geography and look at brands like Kipling, or The North Face, or any of the top five where we have a lot of momentum. We need to keep that momentum going, because there's some markets that just are struggling right now. Does that help you?

Robbie Ohmes - BofA Merrill Lynch - Analyst

Yes, that's very helpful. That's terrific. Thanks so much.

Operator

And we'll take our next question come from Omar Saad with ISI Group.



Omar Saad - *ISI Group - Analyst*

Just a quick follow-up on the really strong gross margin. Are you seeing -- are lower input costs really still a driver there? Are there new technologies, platforms, efficiencies in your supply chain that are also benefiting?

Bob Shearer - *VF Corporation - SVP & CFO*

Well, Omar, especially in the second quarter and in the first half of the year, the product cost, the product cost benefit was a big driver. So it was a combination of mix and then product cost was a significant driver, as well as the efficiencies that we saw. So, yes, in addition to that, however, our supply chain is a competitive weapon, and we've talked about that very consistently. And as others are feeling the pinch of higher cost, we're in many, many cases able to offset those cost through efficiencies in our own plants. We make more products in our own plants than many of our competitors. So it is a combination. It is a combination of things. And yes, we do think that competitive advantage is clearly a benefit for us and has been helping us in the gross margins, not just this year, but in the past as well.

Omar Saad - *ISI Group - Analyst*

Okay. Thanks, Bob. And Eric, real quick, I know you highlighted the long-term growth plans, including both organic and acquisitive growth. Is the M&A focus, still broadly speaking, still generally focused on the outdoor action sports area? Are you seeing any interesting opportunities outside of that segment?

Eric Wiseman - *VF Corporation - Chairman & CEO*

Yes, Omar. We've consistently said that the focus of our M&A activity would be in the outdoor and action sports area, but that does not exclude other opportunities. There are clearly other opportunities out there that we are always poking around, and seeing what might make sense. We look at it from the standpoint of what would be complementary to our portfolio, that would enable us to deliver consistently strong earnings per share growth to our shareholders, and where we can add some value. I know that's vague, but I guess what I'm trying to say, it's not just in outdoor and action sports. But that is a place where we have big global platforms and a lot of success and momentum. And it would be a place where we're always looking there. Does that help you?

Omar Saad - *ISI Group - Analyst*

Yes, that's really helpful. Great job. Thanks.

Operator

And we'll take our next question from Bob Drbul with Barclays.

Bob Drbul - *Barclays Capital - Analyst*

I guess the first question, to go back on the gross margin reinvestment, would those decisions on the reinvestment be made intra-quarter or sort of in following quarters? So if gross margin is tracking ahead of, let's say the third quarter, would you reinvest those dollars in that quarter, or would you wait and change the plan for the fourth quarter?



Bob Shearer - VF Corporation - SVP & CFO

I think we would make those decisions when the opportunity -- when the opportunity for good investment comes along and it's matched with the additional gross margin we need to fund it. We're looking at the back half of the year. Obviously at some point, we run out of runway to make investments. So we have to make some of those decisions. We can't make them all in December obviously.

Eric Wiseman - VF Corporation - Chairman & CEO

But what we do, Bob, we have, we have, constantly have a list of those areas that we would like to invest, right, that have either proven really good investments for us in the past, or with our current judgment, we think they will be great investments. So we keep that on hand consistently, and look for these opportunities. And when they arise, we release the funding.

Bob Drbul - Barclays Capital - Analyst

Okay. Then just have a question on The North Face as well. Historically, The North Face has really been consistently stronger than the outdoor industry, and has anything really changed within the brand performance? Because you just appear to be talking a little bit more of an industry concern impacting that brand, than we've been accustomed to over the last 10 years. I'm just trying to understand if there's anything else at play from the brand perspective, as you look at the back half of this year.

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

Yes, Bob, this is Steve. There's, there is nothing additional at play with The North Face as we look at the back half or even if we look into next year. As Eric had mentioned, the outdoor industry really has been impacted over these last two winters. The impact of the warmer, drier winters, and consumer demand in product sell-through has really been significant. We've talked about it quite often. We couldn't be more confident about the product pipeline that we have in play for fall 2013 that's feeding into 2014. Our ability to build brand awareness, and then help drive conversion, not only within our own stores, but within our partner stores, we're very, very confident with where The North Face is. And it's really just navigating through these last two years of warm, dry winters.

Karl Heinz Salzburger - VF Corporation - President, VF Europe, Middle East, Africa, Asia

And Bob, if I may add, this is Karl Heinz. I guess a 40% growth in China and 10% growth in Europe, which is not the easiest market at the moment, as we all know, proves that The North Face is still performing extremely well.

Bob Shearer - VF Corporation - SVP & CFO

Okay. On a global basis, Bob, being up high single digits for the year, we think is taking share.

Bob Drbul - Barclays Capital - Analyst

Okay, and then if I could just sneak in a question for Scott, in the Lee business in the US, mid-teens growth I guess in the Americas, could you just elaborate a little bit more than you did in the prepared remarks around that strong performance and sort of where that growth exactly is coming from?



Scott Baxter - VF Corporation - President, VP Imagewear

Bob, yes. No problem at all. A couple of things, we had really strong seasonal sales, which we talked a little bit about the shift in the first quarter, so that all came in. We're real pleased. But I think the single most important thing for the Lee business in all the Americas is product. Our product is really terrific.

As we come into the back-to-school fall holiday season, you're going to see several new innovations and introductions from us, most notably the Modern Series product for men and the Comfort Fit for women. But our order book for those and the orders for those upcoming are just outstanding and it's really resonating with the consumer. What we've done is knowing that we've got such good product in the pipeline, we've really enhanced our in-store imagery and in-store POS. On top of that, our marketing campaigns and advertising for the fall and the winter, I think you'll be real pleased with. I look at it holistically and think about the whole business, and I couldn't be more pleased with what the people are doing. Because at the end of the day, it's about the product and it's really resonating with our consumers and we're really happy with where we are right now in the Lee business.

Eric Wiseman - VF Corporation - Chairman & CEO

I agree with Scott, Bob. There's a channel thing going on here, too. The mid-tier channel is stronger than it was earlier this year. And, as you are probably aware, we've been launching, or introducing, I guess, is a better way to put it, the Lee brand into the department store channel with several national department stores here, and those, what were tests last year are getting additional rollout this year. We've got the brand in the new channel in department stores, and the mid-tier channel is healthier. And that's supported by all these great products, and the in-store market, as I was talking about, is delivering pretty terrific results for that business right now.

Bob Drbul - Barclays Capital - Analyst

Thank you very much.

Operator

And we'll take our next question from Mitch Kummetz with Robert Baird.

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

I guess first question, just in terms of your guidance, kind of implied guidance for the back half, Steve already made the comment that fall orders on The North Face are tracking in line with expectations for the year. I would assume that comment probably applies to the overall business as a whole in terms of backlog. So how are you guys thinking about it, in terms of reorders and maybe your comp on your D2C business? Do you expect reorders to be better in the back half than a year ago? Are you expecting a positive comp on D2C? And kind of what's underlying sort of weather assumption behind all of that? Are you assuming a normal winter? Are you assuming a winter that's similar to last year?

Eric Wiseman - VF Corporation - Chairman & CEO

Yes, the assumption about winter is we're assuming a modest improvement in the North American winter, from what we've seen in the last two years. As I mentioned on an response to an earlier question, the winter in Europe last year was fine. It was kind of an average European winter and we're expecting an average European winter this year with modest improvement in the US.

Bob Shearer - VF Corporation - SVP & CFO

Mitch, was the rest of your question specifically about North Face?



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

No, just kind of the company as a whole. I guess if you're assuming a modest improvement in the winter in North America, then that would suggest that you expect sort of reorders to be better than what they were a year ago, across all of your business.

Bob Shearer - *VF Corporation - SVP & CFO*

Well, Mitch, let me kind of start with The North Face, because I think The North Face is probably the brand that I know you've asked quite a bit over the years about our reorder. We do not see a dramatic shift in our fall reorder demand. We are prepared for a little bit more on the historical high level of maybe high single digits, when normally we've been in the mid single digits. We've got a great insight into our order book. It's a stickier order book than last year. As Eric mentioned, we are expecting a more normalized winter. With the innovations that we put into the marketplace, that we showed in last spring's trade shows in each of our activities, outdoor, snow sports, as well as our performance, we really feel we've got a great balance of new innovations that meet the needs of consumers in the warmer climates, colder climates, and that we're set up very well to deliver that high single-growth rate for the rest of the year.

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

Mitch, I think the other factor is direct-to-consumer. I made the comment earlier that this will be a record year for us in terms of new store openings, direct-to-consumer becoming a bigger part of VF Corporation, not just from stores, but also on the e-com side of things. As I said earlier, lot of that comes together in the fourth quarter. I mean, that's also part of the revenue cadence that we're looking at second half, for example, versus first half, because it's a big piece of our business.

Bob Shearer - *VF Corporation - SVP & CFO*

We'll have a lot of new stores that didn't exist last year. To help you -- part of your question is how aggressive is this assumption, right? To help frame that for you, first half of the year globally, our direct-to-consumer comps were mid single digit. Second half of the year, we're assuming high single digit. Is that driven by improvement? Not so much. It's driven by mix, where we have a lot of stores in cold weather brands, and we're expecting the winter mix to be a bigger part of our business. And we are expecting kind of a normal winter around Europe and slight improvement in the US.

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

Got it. That's very helpful. And then my second question is on your growth on, your margin. Maybe it's two parts to this. One, Bob, could you be more specific on the gross margin now for the year? Are you looking at 120 basis points improvement versus prior guidance of 100? And how should we think about that split out in the back half? Would you expect more gross margin expansion in Q4 than Q3, because of the big impact on D2C?

Bob Shearer - *VF Corporation - SVP & CFO*

Mitch, I won't be quite that specific in terms of the gross margin, but relative, right, relative to the third and fourth quarters, you're absolutely right. The third-quarter gross margin expansion will not be quite as strong as the fourth quarter, and that's driven by a couple factors. Mix, number one. The mix and the shifting of the revenues, particularly in North Face, which is a brand of ours that has very, very high gross margins, when we move some of those revenues into the fourth quarter, obviously it pulls the margin away from third and puts it into fourth. And then the other big factor, of course, is direct-to-consumer. All of that comes together in the fourth quarter, with substantially higher gross margins in D2C. That will drive the fourth-quarter gross margin expansion stronger than the third quarter.



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

And then the Jeanswear operating margin, I think is tracking around 19% through the first half. Is that kind of the number we should be thinking about on an annual basis? If that's the case, that's a couple points better than what the prior high water mark was for that business. Is that a sustainable level?

Bob Shearer - *VF Corporation - SVP & CFO*

Yes, the jeans operating margins is what we're referring to, jeans operating margins will get back in the fourth quarter to the levels that we've been used to over the years. So high water mark for the year, we think about it as being a little bit more normalized with where we've been. Now, when I say where we've been, in better years, right? So in our stronger years than the denim side of things and our Jeanswear business, yes, we're back on track with that, and we do think that's a very sustainable level for us going forward.

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

Got it. Thanks. Good luck.

Operator

And we'll take our next question from Kate McShane with Citi.

Kate McShane - *Citigroup - Analyst*

I'm going to ask another question about The North Face. Now that you have a good read into the order books for the back half of the year, I was just wondering if the mix of orders are any different than you expected, and if there's any impact to your margins, and your delivery of the product as a result.

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

Hi, Kate. This is Steve. As we look at our order book, there is no dramatic shift in the mix. It's really the timing that we've seen move from Q3 and Q4 for the reasons we've explained. So no dramatic shift there at all, very similar to years past.

Kate McShane - *Citigroup - Analyst*

Okay, great. Thank you. And then my second question is on Timberland. I think, Steve, you mentioned in your comments that there's still -- I interpreted it as cleanup of the brand. I just wondered how many more quarters we can expect of this. And also, with regards to the Timberland apparel, do you have early reaction by customers?

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

So from an Americas point, I can talk about it and Karl Heinz can come back with the international side. So on the -- where we see going on in our wholesale business, we put a tremendous amount of effort into product segmentation, and very, very diligent about putting the right product in the right channels, as well as bringing the disciplines of our go-to-market model into Timberland. And now as we come through our second year, I would tell you, you're going to hear us talk very consistently about the impact and the positive benefits of that.



On the apparel, it has yet to ship. We will be shipping here in the United States, against our relaunch plan, which is very -- it's not a large amount of revenue this year. It's really a relaunch. And as I've mentioned before, just a very careful and thoughtful choice of retail partners across better department stores, specialty and outdoor specialty. That will be coming into the marketplace towards the end of August. I know Lance will be talking here shortly about a preview that we'll be having in the New York City next month, and really excited to introduce you to the products that we'll be relaunching here in the US.

Karl Heinz Salzburger - *VF Corporation - President, VF Europe, Middle East, Africa, Asia*

From an international point of view, let's start, Kate, with Asia, which has been consistently strong. And even this quarter, we reported in constant dollars a 10% increase. So Asia is not a problem. Asia is performing well on most categories, footwear and apparel. The problem we have is in Europe. Timberland is our largest brand in Europe. As we said in the past, it's really heavily exposed to Southern Europe.

And we all know Southern Europe is not the strongest at the moment. It's hard to sell anything there at the moment. So that doesn't mean that we don't see, that we don't see opportunities. A lot happened with Timberland in the last 12 months. We moved headquarters. We changed systems. They're now on our system. A lot of initiatives which we put a lot of stress on other companies, but we managed it well. I mentioned in my script, we see the situation improving. 2013 would still be negative from a growth point of view, but we have very good signals, which make us very confident also in Europe.

Operator

And we'll take our next question from Lindsay Drucker Mann.

Lindsay Drucker Mann - *Goldman Sachs - Analyst*

I wanted to ask on the inventories, you had a nice spread between inventory growth and sales. How much of that is a function of the delayed shipment of North Face product, or other things we should be aware of as it relates to those two?

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

Yes, really not related to that. One of the bigger pieces in terms of the reduction in inventory was Timberland. We continue to find ways to reduce those inventories, and buying and producing product closer to need. So it was a significant piece of it.

And beyond that, it's just an area where we've put a lot of focus, and that focus is paying off. We're more efficient. We're just better at managing inventories and producing and buying product closer to need. So really not related to some of the shifts that we've talked about from a revenue standpoint.

Lindsay Drucker Mann - *Goldman Sachs - Analyst*

Okay, thanks. And then on Timberland, you've talked about the FX-neutral mid single-digit guidance. Based on where spot rates are, how you're thinking about currency on an all-in, including currency basis, what would be your expectation for revenue growth for the year?

Eric Wiseman - *VF Corporation - Chairman & CEO*

I don't know that I have that in front of me for Timberland. Although I can tell you this. Based on the Euro, it wouldn't be a significant, it wouldn't be a significant difference. So -- actually, the difference, the bigger difference was in Japan.



Bob Shearer - VF Corporation - SVP & CFO

Yes.

Eric Wiseman - VF Corporation - Chairman & CEO

It was Japan. So I think there, we were, we were in mid to high single-digit growth.

Bob Shearer - VF Corporation - SVP & CFO

For the full year.

Karl Heinz Salzburger - VF Corporation - President, VF Europe, Middle East, Africa, Asia

And as you know, Lindsay, Japan is our largest market in Asia for Timberland.

Eric Wiseman - VF Corporation - Chairman & CEO

Yes, overall for the full year. Not a big factor.

Bob Shearer - VF Corporation - SVP & CFO

You stumped us a little bit there. Thank you.

Operator

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

Jim Duffy - Stifel Nicolaus - Analyst

Couple questions. So some odd weather patterns this spring, following what were odd weather patterns in the winter. Where we sit right now, what are retailer inventories looking like? And for those businesses that are based on forward bookings, are you getting any visibility that gives you confidence you can get back to that high single-digit organic growth objective looking into spring 2014?

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

Jim, this is Steve. The first half of 2013, certainly we had really good winter weather patterns, and we saw strong sell-through of the goods that carried in. But even more importantly, we saw really good sell-through of our spring products, specifically fleece, lightweight insulation, and rain shells. And we're really happy with where we see retail inventories today, giving us the opportunity to really get our new product well-positioned and up front, in front of the consumer, as it starts to ship into our dealers this month and next month. We absolutely have confidence that we will return to the historic pre-book rates that we've seen in the past. And some of that's weather, Jim.

But it's also how we're focusing on our product pipeline, looking at all three of the activities of outdoor, snow sports and performance, new introductions of footwear. We spoke last month about our ultra protection series, new training launch around mountain athletics, as we're able to really start to increase penetration of spring product, as well as new insulations like we have in Thermoball and other such innovations coming

into fall. So very, very confident about, as we move into more normalized weather patterns, but also being able to weight our product offering across the categories to be able to mitigate anything in the future.

Operator

And we'll take our next question from David Glick with Buckingham Research.

David Glick - *Buckingham Research Group - Analyst*

Eric, just a follow-up on kind of the US consumer. Appreciate your commentary on the outdoor segments and the retailer approach there. You mentioned the mid-tier as well, which I assume is some improvement to JCPenney. But just overall, I think investors probably are expecting a little better retail environment in Q2 versus Q1, based on how cool it was this year in Q1. Doesn't appear that's necessarily played out. I just wondered, does the environment continue to be very uneven and choppy? And what, if anything, does it say to you about the US consumer heading into back-to-school?

Eric Wiseman - *VF Corporation - Chairman & CEO*

Yes, David. The US consumer, lot of people use the word resilient to talk about the US consumer. I think they use it because it's a fair, it's a fair word to describe what we're seeing. I would add inconsistent. You said choppy. We are absolutely seeing that in our business.

From week to week, it's hard to see a consistent trend line. It's up and down and up and down. But as it's coming out, as a global comment, in the first half of the year, our direct-to-consumer business was up mid single-digit, and it was up in the United States. So we are seeing growth in the United States market, but it's been a little, a little choppy, using your words. But we're confident that we have the right numbers dialed into our forecast for the rest of this year. We absolutely are seeing, both from our wholesale partners that we ship to and in our stores, the trend supports the forecast that we have for the balance of this year.

David Glick - *Buckingham Research Group - Analyst*

And you see an opportunity in the mid-tier in the second half? You're getting some traction there, it sounds like.

Eric Wiseman - *VF Corporation - Chairman & CEO*

Yes, we are. And that channel struggled, as everyone knows, the last 12 to 15 months, and it's coming back pretty nicely right now.

David Glick - *Buckingham Research Group - Analyst*

Great. Thank you. Good luck in the second half.

Operator

And we'll take our next question from Dave Weiner with Deutsche Bank.



Dave Weiner - *Deutsche Bank - Analyst*

Just a quick follow-up, actually, on Timberland. Karl, you had made some comments about Europe. I guess, could you just dig a little deeper as to why you're expecting improvement into the back half of the year? I think you've probably talked about this in the past, but maybe just kind of recap us on what, what's going to drive the improvement, and importantly, if that's both at sales and at margin or one more than another. Thanks a lot.

Karl Heinz Salzburger - *VF Corporation - President, VF Europe, Middle East, Africa, Asia*

Sure. Let me try to give you facts, but also what we hear in the market from our customers. Facts, I guess I mentioned our D2C comps were positive in the first half. That shows that the brand is doing pretty well. The big problem we have is really the exposure to certain markets in the southern hemisphere. There's a lot of things going on in those markets. A lot of small stores are simply dying and we have to, we have to react to that.

What we hear from the brand, we went the first time to a pretty large show in Berlin called Bread & Butter where the brand went there the very first time, and the response we got from the customers, it was really, really strong. Karstadt is a large customer in Germany. They started to list us again. We lost them a few years ago. So we see a lot of good signals, which makes us believe that 2014 will be better than we see today. And it's our highest priority, because as we know, as we said, Timberland is our largest brand in Europe.

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

I think in Europe, I think in Europe, our footwear collection is stronger and more relevant, and that's why we got the bookings we got. And we're not relying on Southern European economies to rebound and get healthy. That's not in our assumptions. What we're doing is focused on economies where there's more active consumer engagement. Karl Heinz just mentioned Germany and selling, getting back into the large customer there. That's what we're doing to stabilize the business and make up for some of the Southern European economies, where it's been so difficult.

Dave Weiner - *Deutsche Bank - Analyst*

So your internal plan is more, or is kind of one part perhaps weak, but stable trends in Southern Europe, but then really what's driving the kind of sequential improvement with the shift into other, better economies, is that--?

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

That is supported by much better product than we had last year.

Karl Heinz Salzburger - *VF Corporation - President, VF Europe, Middle East, Africa, Asia*

That is correct, yes. We have great presence with the brand in Central Europe, which is pretty stable. Germany, Austria, Switzerland. It's doing okay in UK, also in Scandinavia. Also there's a large presence, growing presence in the emerging markets, which spans from Russia down to Turkey.

Dave Weiner - *Deutsche Bank - Analyst*

Perfect. Thanks for the insight.

Operator

And we'll take our next question from Christian Buss with Credit Suisse.



Christian Buss - *Credit Suisse - Analyst*

Yes. I was wondering if you could provide some perspective on how you feel about inventories in the channel, particularly in the Americas. If there are any callouts, that would be helpful.

Bob Shearer - *VF Corporation - SVP & CFO*

In general, with the exception of the Jeanswear business in China, the channels are clean. We have an inventory overhang in denim in China that we've had all year, started late last year. But in North America, for sure, inventories are clean throughout the channels. In Europe, actually there may be some places in Southern Europe where there's still a little bit of an inventory glut, in those economies where consumers are not as engaged. But on a macro level for VF as a material issue, it is not overall for VF.

Christian Buss - *Credit Suisse - Analyst*

How comfortable are you with your ability to supply the order book that you have, and potentially capture any business, if weather is favorable?

Eric Wiseman - *VF Corporation - Chairman & CEO*

We're completely comfortable with our ability to meet the order book that we have, completely. Our inventory is not only lean, but it's aligned. So we have pretty good visibility of our fall orders, and we're prepared to meet those orders. We have shipped really well all year. We have not had -- our service this year may end up at a record high, despite the leaner inventories. We're in good shape.

Bob Shearer - *VF Corporation - SVP & CFO*

And I would also say we're better positioned than most to chase, if needed. Given our own, given our own manufacturing, as well as our scale and size to chase orders.

Operator

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

Eric Wiseman - *VF Corporation - Chairman & CEO*

Sure. Thanks, Mary. Thank you for being on the call. I said during the call we are on track this year, and we are on track for this year. The orders are coming in as we thought. The revenue is where we thought it would be, and the cadence of that is as we thought it would be. The only thing we missed in our original plan for the year was our gross margin. We undershot the reality there, but we're not apologizing for that. So we'll talk to you in 90 days, and tell you how the third quarter went. Thanks so much.

Operator

And that does conclude our conference. Thank you for your participation.

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