

THOMSON REUTERS STREETEVENETS

EDITED TRANSCRIPT

VFC - Q3 2013 VF CORP Earnings Conference Call

EVENT DATE/TIME: OCTOBER 21, 2013 / 12:30PM GMT



CORPORATE PARTICIPANTS

Lance Allega *VF Corporation - Director of IR*

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

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

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

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

Bob Shearer *VF Corporation - SVP & CFO*

CONFERENCE CALL PARTICIPANTS

Michael Binetti *UBS Equities - Analyst*

Matthew Boss *JPMorgan - Analyst*

Jim Duffy *Stifel Nicolaus - Analyst*

Robby Ohmes *BofA Merrill Lynch - Analyst*

Lindsay Drucker Mann *Goldman Sachs - Analyst*

Christian Buss *Credit Suisse - Analyst*

Kate McShane *Citigroup - Analyst*

Eric Tracy *Janney Capital Markets - Analyst*

Mitch Kummetz *Robert W. Baird - Analyst*

Kimberly Greenberger *Morgan Stanley - Analyst*

John Kernan *Cowen and Company - Analyst*

Erinn Murphy *Piper Jaffray - Analyst*

PRESENTATION

Operator

Good day and welcome to the VF Corporation third-quarter 2013 earnings conference call. Today's conference is being recorded. At this time I would like to turn the conference over to Mr. Lance Allega, Director of Investor Relations. Please go ahead, sir.

Lance Allega - VF Corporation - Director of IR

Thank you, operator, hello, everyone, and thanks for joining us today to discuss VF's third-quarter of 2013 results. Before we begin I would like to remind participants that certain commentary included in today's prepared remarks and the Q&A session may constitute forward-looking statements under 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 industry's in which VF operates. Actual results may differ materially from those projected in these forward-looking statements. Important factors that could cause actual results to differ materially from these projected statements and 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 and you'll find an appropriate reconciliation 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 CFO; and our Group Presidents, Scott Baxter, Steve Rendle and Karl Heinz Salzburger. Following our prepared remarks we'll take your questions and we'll ask that you limit your initial questions to two. In the events you have additional questions that are not covered by others please re-queue and we'll do our best to come back to you. Thanks for your cooperation on this. I will now turn the call over to VF Chairman and CEO, Eric Wiseman. Eric?

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

Thanks, Lance. Good morning, everyone, and thank you for joining us today. Let me begin by saying that we are very proud of the solid results we achieved in our third quarter, especially earnings that far exceeded our expectations. While we faced some headwinds associated with the challenging economic environment, and consumer buying behavior that was a little inconsistent market to market, I have great confidence that we will finish 2013 strong and post another record year for VF.

I'm more excited now that I've ever been by the long-term growth prospects for VF. In June we laid out a detailed five-year growth plan supported by a sharp focus on four powerful strategic actions -- leading through innovation; connecting with consumers; serving those consumers directly; and expanding geographically.

We are already making meaningful progress that is consistent with and sometimes ahead of our expectations. Our powerful ecosystem of brands and platforms combined with proven strategies and great execution enable us to consistently deliver on our growth objectives. Every day at VF every brand at VF works tirelessly to deliver innovative products to find better and more creative ways to connect with and inspire our consumers and we are always working to engineer new ways to be even more efficient and effective across our operations.

In the third quarter we grew revenues by 5% to \$3.3 billion reflecting strength in all global regions and across both our wholesale and direct-to-consumer businesses. The retailer calendar shift negatively impacted these growth rates by 2 percentage points. At the brand level 14 of our 15 largest brands grew revenues on a global basis and the one that missed was due to that retail calendar shift. So I would say that is a pretty good success rate.

Gross margin once again exceeded our expectations reaching 47.6%, a 90 basis point improvement that was seen across nearly every business. This improvement was primarily driven by our favorable mix shift toward higher-margin businesses with some contribution from lower product costs.

In fact, taking a look at mix in our higher-margin businesses, the Outdoor & Action Sports coalition reached 60% of total VF revenues in the quarter. International reached 40% and direct-to-consumer reached 19%, all trending up and tracking well against our five-year goals.

Operating margin expanded 50 basis points to 17.6% driven by gross margin expansion and underlying cost control. And speaking of costs, on the last call you heard me say that if we were to see further gross margin expansion in the second half of the year we would remain opportunistic and consider investing those dollars to support our five-year commitment to our shareholders and that is exactly what we are doing.

In fact, we think a challenging environment is the ideal time to upshift and hit the gas pedal a bit harder on marketing and product initiatives. Supporting and helping to drive traffic to our wholesale partners and, of course, our own direct to consumer business by strengthening our connection with consumers and creating even more meaningful engagements with our brands is key to our long-term success.

Of course, this is not a new strategy for us; we did it at the same time last year and three years ago, exactly on this same day, we announced nearly \$50 million of additional investments in The North Face, Vans and our business in China. And based on our strong results particularly in those three areas during the past three years, we know this is a strategy that works and works quite well at VF.

Since the last time we spoke we've committed to an additional \$40 million of marketing investments in the second half of the year. In the third quarter we spent \$10 million and in the fourth quarter we'll spend another \$30 million to help drive our business into 2014 and beyond. On an EPS basis this is about \$0.25 per share in the second half.

Looking at the balance of the year, I'm particularly proud of the fact that even with these additional investments our \$10.85 adjusted earnings per share guidance is unchanged. In the 13% growth over 2012 this result is directly in line with our long-term earnings growth target.

We're also returning more to our shareholders with the announcement of a 21% increase in our dividend. This marks the 41st consecutive year of dividend increases, a four decade record of returning value to our shareholders. And we announced a 4 for 1 stock split this morning, an action that reflects the confidence we have in our ability to generate consistent sustainable growth and the opportunity to make VF shares attractive to a potentially broader range of investors.

In summary, we've got solid momentum across our largest brands and the financial resources to make additional investments to support this momentum and drive revenue gains while still delivering another outstanding year of results for VF shareholders. And with that I'll turn the call over to Steve, Karl Heinz and Scott who will take it through VF's top five brands and Bob will close us out with a deep look at our results. Steve, over to you.

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

Thanks, Eric. Third-quarter global revenues for The North Face were up 3%, which is right on track with what we expected. Our D2C business was really strong, increasing more than 25% during the quarter with balanced growth in all three regions. As expected our wholesale business was flat.

You will recall from last quarter's call that in addition to orders shifting from Q3 to Q4 because of retailer caution, our wholesale partners' calendars also shifted one week from September into October. Combined these shifts pressured our third-quarter results and moved revenue into this year's fourth quarter.

Absent the calendar shift, which totaled about \$40 million in revenues for The North Face, third-quarter revenues would have been up nicely at a high single-digit rate. As you would expect, you will see this benefit in our fourth-quarter results when revenues should approximate a low double-digit growth rate.

Revenues in the Americas region were up at the same rate as global North Face, 3%, with flat wholesale results that were held back by the calendar shift. D2C performance in the quarter, however, was very strong with 30% growth. In both channels we are really encourage with the trends we are seeing in apparel, footwear and equipment demand as we head into the cooler months ahead.

In fact, when I think about The North Face business and the position we're in, we are -- especially in the context following two challenging winters here in the US, we're the best positioned to succeed in the outdoor industry. Given a terrific innovative product lineup supported by a strong integrated marketing campaign, exciting programs with key wholesale partners and strong D2C momentum that we see continuing well into 2014, we are incredibly confident about the future.

A great example of this work is Thermoball. As one of our biggest product innovations for this upcoming season, early reads on Thermoball have exceeded our expectations. In addition to the very strong sell-through we've had in our own D2C, we are rolling out an exclusive in-store concept at 300 Dick's Sporting Goods locations featuring Thermoball as part of an overall brand shop in their seasonal outerwear pad.

On the marketing front our new Never Stop Exploring ad campaign will be strengthened by the incremental investments that Eric mentioned. This emotional brand campaign does an incredible job of personalizing the meaning of outdoor exploration. Using all mediums -- TV, print, digital and in-store -- we're extremely confident this will intensify our connection with a wide range of North Face consumers.

So all factors considered we are right where we expected to be. And there is significant momentum in the Americas business moving into the fourth quarter, lining us up for a strong finish to the year. Now let me turn it over to Karl Heinz to discuss the North Face's International business.

Karl Heinz Salzburger - VF Corporation - VP, Group President of International

Thanks, Steve, and good morning, everyone. In Europe The North Face business was down at a low single-digit rate which was impacted by the opening of a new distribution center for the region. Fourth-quarter revenue is expected to grow at the mid-teen rate. In the third quarter momentum in our D2C business continued with revenues up nearly 20%, including more than 60% growth in our e-com business.

We're also seeing good early seasonal response to new product introductions with Thermoball being cited by wholesale partners as the best selling insulated product among multiple points of distribution. On top of that, our European specific designs continue to be a big hit as well. Almost half of our product line-up now personalized for the unique local needs of this discerning consumer.

No one is better positioned than we are to execute this strategy, which is a competitive advantage we are quite proud of as it builds long-term authenticity and creates confidence and loyalties with our consumers.

On the marketing front we recently launched our first pan-European Intersport marketing campaign in 10 countries and 600 stores to TV, billboards, cinema print and in-store. The feature product that takes center stage to the campaign is the exploration dry climate jacket, a premium outerwear piece with a Gore-Tex shell that is exclusive to Intersport. This represents meaningful collection points and a lot of good momentum in Europe going into the fourth quarter.

Turning to Asia-Pacific, we had a solid third quarter with revenues up 11% in the region driven by mid-teen percentage growth in China. And for the first time ever we are about to launch a major national TV campaign known as the Explorer for The North Face. In fact, in the fourth quarter we are doubling our marketing investment for this powerful brand in China which will build consumer brand awareness and engage them in the outdoor market. Indeed, this is a very good example of the incremental marketing spend you have heard us talk about today. Now back to Steve to talk about Vans.

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

Vans continues to be a very strong performer. Global revenues for Vans in the third quarter were up 16% with high teen D2C growth and a mid-teen percentage increase in our wholesale business. In the brand's largest region, the Americas, revenues were up at a low teens rate during the quarter with both the D2C and wholesale channel showing strong double-digit momentum on the heels of a solid back-to-school season.

Vans' wholesale distribution discipline has been a key growth strategy for the brand for a decade and continues to prove its worth in 2013. Within footwear growth across all aspiration channels has been significant with positive trends across all tiers including double-digit growth in core board shop, boutique, lifestyle and family footwear channels.

Vans also launched two new pro skater shoes using innovative performance characteristics including WAFFLECUP, duracup and Ultracush in signature athlete models that have received strong adoption in core board shops.

And just recently we celebrated the anniversary of the 66 launch at Foot Locker with the revised in-store branding execution and expanded product categories to include the OTW and Classics collections. And I'm also happy to report that the actions we've taken across Vans apparel are gaining traction and expanding share.

Vans apparel has cracked the top 10 men's brands in eight of 11 categories in Q3 of 2013 as measured by Action Watch which measures independent board shop trends, a key indicator of brand aspiration that creates downstream wholesaler and consumer adoption. As recently as 2011 we were absent in these apparel rankings. And in apparel we've moved into colder and wetter climates such as Canada and the Northeastern US where product differentiation is important to retailers and expected from our consumers.

Turning to D2C, we're in the process of finalizing enhancements to our D2C channel that will roll out early next year to improve the consumer experience and facilitate deeper connectivity. For our retail stores we will be up implementing a new POS platform in the first half of 2014. And on

the e-com side we're working on a new platform and enhanced content which is set to launch sometime in the first quarter. These relationship building initiatives will further enrich and expand Vans' deep consumer connectivity.

Vans' strength in engaging its growing consumer base through specific consumer activation platforms once again proved itself of value during the third quarter. Our first Vans US open up surfing was a huge success with 750,000 attendees, 1.3 million Web visits and 1.2 million media impressions over the course of nine days.

Our House of Vans platform extended our music activation strategy through various events in Q3 including pop-up House of Vans events in Canada and Mexico, two of the regions that we targeted for geographic expansion in 2013.

Finally, we wrapped up the 19th year of the Vans Warped Tour in North America and sent them on their way to six states in Europe and six states in Australia to end out the year. Now over to Karl Heinz for some International highlights.

Karl Heinz Salzburger - VF Corporation - VP, Group President of International

In Europe Vans revenue was up 25%, underscoring the strength of the brand. We are confident that we will deliver another year of remarkable results in Europe.

On the product side, we are focused on optimizing our cold-weather footwear strategy by expanding our product offering and growing Vans' share against competitors. On the D2C front, we opened our first store in Dublin during the quarter, which coincided with our e-com launch in Ireland. With this launch we now have Vans e-com platforms in seven key countries across Europe, which is nice growth since December 2012.

Vans' Asia-Pacific grew at a high single-digit rate during the third quarter. In Asia we continue to support local initiatives to ensure that the brand remains inspirational to youth culture and relevant to the region, a strategy that is working very well for us. In China our best-selling apparel categories are those that have been locally developed. We work closely with key local influences to sell the Vans story and are constantly gathering and assessing local consumer insights to ensure our brand story also resonates with consumers in the region.

So overall really solid results representing strong momentum to the first three quarters for Vans. Momentum we expect to see continuing to the fourth quarter and beyond. And with that let's move on to Timberland.

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

Global revenues for Timberland were up 2% in the third quarter, right in line with our plans. This result included positive growth in our D2C and wholesome businesses, a balance we are very encouraged by.

The work we have done during the past two years at Timberland is really paying off. In the Americas we saw revenues up in the mid single-digit range during the third quarter, which was in line with our expectations. Results in this region were driven by sales of boots in D2C and wholesale as somewhat more seasonal weather began slightly earlier than last year.

We continue to see strong results from core and new programs. For example, core styles in the premium boots and hiking categories performed really well with our wholesale partners and our own D2C locations. Plus, as you know, we officially re-launched our apparel offering in the North American market.

Timberland's new rugged and refined apparel is available at select Nordstrom locations through key specialty independent retailers and at Timberland stores. The early rates on the product, particularly in the outerwear category, have been very encouraging. As we mentioned before, we will take what we've learned from this year's re-launch to shape next year's go-to-market strategy. The collection's early acceptance has us very confident that our current plan has us set in the right direction to achieve our long-term goals.

We also launched our Best Then, Better Now advertising campaign to coincide with Timberland's 40th anniversary of the yellow boot. To kick off the campaign we invited more than 350 editors, stylists, bloggers and influencers to an interactive style workshop where they got to experience firsthand the new positioning of this iconic brand.

We also launched a newly designed homepage for the Timberland brand which offers an enhanced consumer experience, one that has already nearly doubled the average time consumers spend on the site. And we also launched the When Your Feet Hurt Your Work Suffers campaign for Timberland Pro, featuring the Hyperion work boot. And speaking of Pro, the collection continues to post consistent gains in this important sector with a mid-teen comp during the quarter.

We're also pleased to report that our target operational initiatives designed to drive conversion are continuing to take hold, resulting in another quarter of strong growth in the Americas for Timberland's D2C business. In short, we continue to make significant progress with Timberland and remain confident that we have set the right path for stronger long-term growth.

We couldn't be more confident in our ability to grow this brand. The product is stellar, our distribution is well-positioned and we're telling our amazing stories. Now let's take a look at Timberland's International business.

Karl Heinz Salzburger - VF Corporation - VP, Group President of International

In line with expectations revenues in Europe were flat, reflecting a slight increase in our wholesale business, offset by weaker D2C sales where we continue to work on resetting key locations across the continent. While overall market conditions have remained relatively soft, our competitors have continued to improve. In fact, the fourth quarter we expect to see mid single-digit growth for the brand.

Similar to the Americas, both core and new categories in Timberland are performing well and our apparel is seeing favorable responses, particularly in bottoms and outerwear. We also (inaudible) the brand's 40th anniversary as a way to connect consumers to the Timberland story.

We participated in a bread-and-butter tradeshow for the first time and showcased our collections and celebrated our anniversary. The event was a great success with almost 3,000 visitors. Through media we reached an additional 15 million consumers. We are now working to translate this experience to events and stores throughout Europe.

In Asia revenues were up 9% in constant dollars and we saw strong growth across the region in both women's and men's footwear. On the demand side growth came from the boot category driven by the 40th anniversary marketing campaign. And women's classic styles led the way with the boot category doubling over last year. In addition, women's apparel saw strong results driven by sweaters and wovens.

Overall, we are really pleased with our progress in Timberland's International business and have put ourselves in a great position for a strong 2014. With that I turn it over to Scott to take a look at Jeanswear.

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

Thank you, Karl Heinz, and good morning, everyone. Global Jeanswear posted solid results this quarter with revenues up 4%. This increase was driven by mid single-digit growth in the Americas, which included a high single-digit increase in the mass channel along with strong results in Europe.

Q3 was also a highly profitable quarter for Jeanswear posting a 21.2% operating margin. This strong profitability was due primarily to gross margin improvements and some favorable mix shifts. Third-quarter global revenues for Wrangler were up 8% driven by strong results in Europe and a high single-digit increase in our Americas region.

We remain sharply focused on conveying the Wrangler message of innovation, authenticity and value to our consumers to enhance the way we engage with the brand. During the quarter we launched two new ad campaigns that aimed to do just that -- Drew Brees, Brett Favre and Dale Earnhardt Junior are now featured in ads shown during NFL and NCAA broadcasts. So great connection points into the heart of that consumer.

We have also just finalized a campaign aimed at Hispanic consumers that will launch during the fourth quarter. We saw solid results in our Western business driven by momentum in our premium performance cowboy cut jeans; the initial sell-throughs of our new premium performance cowboy cut with advanced comfort has exceeded our expectations.

We are also working with our innovation team on a pipeline to develop and implement solutions for the Western consumers' needs. We know this is a very important and growing consumer segment for us, so we are creating more innovative products to give them what they want when they want it.

Of note, we recently launched a comprehensive new Wrangler patch campaign featuring our advanced comfort product featuring Trevor Brazile, the number one ranked cowboy in the PRCA. Our America's non-US business continued to be one of the fastest growing regions for the Wrangler brand, posting solid growth during the quarter with revenues up at a high single-digit constant dollar rate with particular strength in Latin America. Karl Heinz?

Karl Heinz Salzburger - VF Corporation - VP, Group President of International

It has been a while since I've been able to say this, so I'll treasure it a bit. Our Wrangler business in Europe was up about 10% in constant dollars compared with last year. (technical difficulty) improvement in profitability and contributed strongly to the overall global Jeanswear results. We are seeing improved sell-through in our product driven by our focus on denim performance, specifically consumers are responding well to our water resistant fabrics and multi-pocket functionality. And we continue to experience strength in Germany, Holland and Russia, some of our key markets in Europe. Now back to Scott with Lee.

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

Thank you, Karl Heinz. The Lee brand grew 3% on a global basis in the third quarter. Revenues in the Americas region grew at a mid single-digit range with balanced growth across all channels. Our strong revenue growth was driven by a combination of new product launches and our new fall marketing campaign. We've also made several strategic enhancements to Lee's in-store visual presentations, which makes it easier for consumers to find our attractive new products.

We are pleased with the early results of our men's casual business, which is being driven by the introduction of our Total Freedom pant. Based on early selling, this pant is being expanded to 340 additional doors this fall. And taking advantage of what appears to be an emerging casual pant trend, we've begun testing the Weekend Chino across most accounts in the fourth quarter.

Turning to our department store business, our Lee Platinum Label products continue to grow and are now available at nearly 400 key department store locations and a major test coming with another retailer partner this fall. The Slender Secret jean and the Monaco trouser have been real standout performers for us. Early sales results are quite strong and these programs will be expanded in 2014. We are definitely excited to see increasing momentum in this brand as we welcome more consumers to the Lee story. Now back to Karl Heinz to discuss Lee's International business.

Karl Heinz Salzburger - VF Corporation - VP, Group President of International

In Europe Lee brand revenues were up at a low single-digit rate in constant dollars with strength in Northern Europe. We are pleased with the continued momentum in our new Stretch Deluxe women's product, as well as in the performance of our overall women's category.

In addition, we have enhanced our marketing efforts to drive more traffic in targeted regions and around specific channels. Sales of our new men's collection, Blue Label, continue to exceed our expectations as customers respond favorably to the product's outstanding fit and comfort.

In Asia sequentially our results continue to improve and our gross margin benefited from lower product cost which led to improved profits. And in line with expectations, we are continuing to make progress against a wholesale denim inventory overhang that has affected the denim category in China and we expect to return to growth in the fourth quarter.

Our fall/winter collection has received a positive response, particularly the premium Stretch Deluxe women's product as well as the Urban Riders line. In China and India we recently launched our first sustainability program (inaudible) with an environmentally friendly and fashionable product collection. We are confident that we are on the right track with this business and that we'll see a healthy growth ones inventory levels return to normal. Now here is Bob to take you through our financial highlights.

Bob Shearer - VF Corporation - SVP & CFO

Thanks, KH. Well, all and all I would say we delivered a really solid third quarter, particularly in light of an environment that is not exactly robust. How did we do it? A powerful brand portfolio; a highly effective strategy focused on innovation and consumer connectivity; strong platforms and of course outstanding execution on the part of our passionate team around the world. Let's take a look at how we did.

Total VF revenue grew 5% in the third quarter, or 4% if you exclude the impact of foreign currency. As Eric mentioned, the retailer calendar shift negatively impacted these growth rates by 2 percentage points.

On a regional basis revenues in the US were up 3% with growth in both the direct-to-consumer and wholesale channels. Total International revenues were up 7% driven by 13% growth in the Americas, now that is the non-US region; a 7% increase in European revenues where the economic environment remains challenging; and 2% growth in the Asia-Pacific region where China was up 10%.

Our direct-to-consumer business had another great quarter with revenues up 14% and strong performances from The North Face, Vans, Nautica, Kipling and Napapijri brands. We continue to be really pleased with the contribution our D2C business makes both in terms of sales and earnings.

We are adding more stores, our profitability is improving and the earnings per share contribution continues to grow substantially from this business. And we expect that momentum to continue with even greater growth and positive results from nearly every brand in our portfolio during the fourth quarter.

Now let's take a look at our gross margin performance. Our gross margin rate for the quarter was 47.6%, that is a 90 basis point improvement over last year. The drivers of this improvement are the same -- a continued favorable mix shift toward higher-margin businesses with some additional contribution from lower product costs. And in line with the year-to-date trend we saw gross margin improvement in almost every business which I would say is quite impressive, especially given the environment in many parts of the world. Indeed, a big accomplishment.

Our as G&A ratio as a percent of revenues rose 40 basis points to 30% in the third quarter. And as you saw in the release, our marketing spend rose by 80 basis points in the quarter. That implies we're seeing leverage elsewhere in our expense structure.

And this is really an important point -- our management teams have done a great job of controlling expenses which is allowing us to make substantial investments behind our brands around the globe. And as we've proven numerous times in the past, that has provided us with a lot of momentum going into the following year.

In fact, with the incremental marketing investment that we just announced, the ratio of our marketing spend to revenues will increase to 6% in 2013, clearly an all-time high for us. And in this environment precisely the right thing to do.

In terms of dollars our marketing spend will now increase by about \$100 million in 2013 over 2012. Incremental spend started in the third quarter with significantly more coming in the fourth. During the third quarter we invested about \$10 million more in marketing than we previously planned with a heavy focus supporting our D2C businesses. In the fourth quarter we have approved plans to spend an additional \$30 million in these incremental marketing investments.



So all in during the second half of 2013 we intend to spend about \$40 million, worth about \$0.25 a share, more than was originally planned to support our highest growth businesses. With a focus on The North Face, Vans and Timberland, 80% of the spend is in Outdoor & Action Sports and about 70% positioned outside the US and heavily D2C weighted, we are confident this will be money well spent.

Let's move on to operating margin which improved 50 basis points to 17.6% driven by our strong gross margin performance and underlying expense control. Keep in mind that the incremental marketing investment that I just discussed impacted the quarter by about 30 basis points. Taking this down to the bottom line, adjusted earnings per share grew 11% to \$3.91 from \$3.52 in last year's same period.

Now let's take a look at our coalition result starting with our largest contributor to growth, Outdoor & Action Sports, which reached 60% of VF's total sales in the quarter. Total revenues grew 6%, which was in line with expectations, and driven primarily by Vans along with positive performances from nearly all brands in the coalition. The North Face, also in line with expectations, was up 3%. D2C was up more than 25%, while the wholesale business was essentially flat.

Now as you might recall from our second-quarter comments, we said that the revenue cadence for The North Face in the second half would look a bit different than what you've seen in the past. Retailer caution was expected to push out what would have been third-quarter orders into the fourth quarter. That coupled with the retail calendar shift which moved what normally would have been September shipments into October resulted in our expectations of low single-digit growth in the third quarter. And that is exactly what we delivered.

If you take the retailer calendar shift out of the equation The North Face would've been up at a high single-digit rate. And taking that one step further, overall Outdoor & Action Sports revenues would've been up 8% versus the 6% reported.

Operating income for the Outdoor & Action Sports coalition was up 2% and operating margin declined 90 basis points to 21.4%. Now putting that into perspective, the \$40 million shift in revenues and the high gross margins that would've been attached to that, along with the incremental marketing investments, had quite an impact of the reported results of the coalition in the quarter. Of course this coalition's fourth quarter will clearly benefit from the calendar shift.

Jeanswear posted a great quarter with revenues up 4% driven by strength in the Americas and European regions more revenues in the Asia-Pacific region were down as we continue to work through higher inventories for the Lee brand.

Now putting up some great revenue numbers where our Jeanswear folks really hit it out of the park was in profitability. Strong International performance along with some lower product costs drove a 20% increase in operating income resulting in a 21.2% operating margin. And that improvement was in both Wrangler and Lee and across all of our regions -- all in all a really nice quarter for our Jeanswear folks.

Next up is Imagewear where revenues were flat versus last year. Now while the comparisons an Imagewear remain challenged due to softness in certain parts of the business, we are looking forward to a much stronger fourth quarter when we expect low double-digit revenue growth. The good news is operating margin in the third quarter increased 110 basis points to 14.3% driven by improved gross margin due to lower product costs.

Now on to Sportswear, revenues were up 1%, which was in line with our expectations. D2C was up more than 25% and offset by a mid-teen percentage decline in wholesale sales as a result of the same retail calendar shift we talked about for The North Face. Excluding this shift revenues would have been up at a high single-digit rate.

Kipling delivered another quarter of outstanding performance with global revenue growth of 22% with the US business being up nearly 40%. Taking a look at profitability, we are very pleased to have achieved operating income growth of 30% and operating margin expansion of 350 basis points to 15.5%. Our Sportswear team is headed for one terrific year.

And finally, revenues for Contemporary Brands coalition were up 1% in the quarter to \$105 million. The softness in our Contemporary Brands business is primarily attributable to continued weakness in premium denim in the high-end department store channel. Operating income fell 30% to \$9 million in the third quarter and operating margin fell 390 basis points to 9%.



Moving on to some balance sheet and cash flow highlights. Over the years we have consistently demonstrated highly disciplined inventory management and the third quarter is no exception. In fact, our inventories were flat to last year despite our revenue gains, reflecting our ongoing commitment to operational excellence.

In other good news our pension plan is now nearly fully funded. And with respect to cash from operations, we remain on track to exceed \$1.4 billion in 2013. We also paid off \$400 million in debt associated with the Timberland acquisition and, to that point; our debt ratio is now in line with pre-Timberland numbers. As I said last quarter, we expect to be fully out of commercial paper by the end of the year. All of this points to a very healthy balance sheet and one that is ready to support future investment.

And as detailed in the press releases that went out today, our Board of Directors approved a 4 for 1 split of common stock payable in the form of a stock dividend. Why the decision to split our stock? Two things, really. Our consistent strong financial performance and our confidence in that continuing and the desire to make the shares attractive to a broader range of investors.

And of course I have to comment on our dividend. Our Board of Directors approved a quarterly dividend of \$1.05 per share which is an \$0.18 or 21% increase over last quarter. This represents the 41st consecutive year in which we increased our dividend, something we are very proud of and that shows our commitment to our shareholders. 41 years is pretty rare for sure.

So let's cap things off with some comments on our full-year outlook. Revenues should still approximate \$11.5 billion, a bit of rounding that may very well come down to the wire. We're looking forward to a very strong fourth quarter with revenue gains that should approximate 10%. The quarter will benefit from the retail calendar shift that I previously discussed as well as this year's new store openings and expectations for very strong e-com performance.

And I also have to comment on our gross margin. With the very strong results achieved in the first nine months of 2013 we are now looking for our full-year gross margin to approach 48%, up approximately 150 basis points over 2012. That means in year one of our five year plan we've made huge progress against our target of 49.5% by 2017. Which takes us to the bottom line.

Given the significance of the \$40 million incremental marketing spend, which is worth \$0.25 per share, we are pleased to report that we can invest for the future and still achieve our long-term earnings growth target of 13%.

So in closing, we have to set it for another terrific year in 2013, our operating performance is strong. We're investing in our brands to ensure future growth. We're able to provide our shareholders significant returns through yet another meaningful increase in our dividend and, as well, the 4 for 1 stock split reflects the confidence we have in our future. And with that I will turn it back to Eric.

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

I have got no additional comments. I know you have questions. So let's get to that session, please.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Michael Binetti, UBS.



Michael Binetti - UBS Equities - Analyst

Guys, congrats on a great quarter. So, Bob, you mentioned the Outdoor coalition EBIT margins in the quarter, they were a little bit lower. Can you just clarify for me; excluding the shift that we saw on the wholesale side would margins have been higher? And will we be back to positive territory on the margins there when you pick up that shift in the fourth quarter?

Bob Shearer - VF Corporation - SVP & CFO

Yes, Michael, there were two things. Number one, almost all of the \$10 million of the incremental investment was in Outdoor & Action Sports, almost every single dollar of it. So that is one thing, right, so that would've gone by to the bottom line.

And in addition to that the shift. The shift in revenues, as you can imagine, we lost all of that gross margin in the quarter and our expense structure, the SG&A structure -- would have changed very, very little. So all of that gross margin -- pretty much all of the gross margin would've flowed through in a quarter. So it would have made a very, very different picture for the quarter. So, sure, when we get those gross margins into the fourth quarter it will look differently than it did in the third.

Michael Binetti - UBS Equities - Analyst

Okay. And, Bob, you also said that -- I think you said on the third-quarter -- or on the last conference call that third-quarter gross margin increase would be less of an increase than fourth quarter. But I think the guidance implies it to be a little bit high -- I'm sorry, a little bit lower in the fourth quarter. Now is there anything that is changing the formula? Maybe you could give us a little bit of how you are thinking about that change in the formula in third quarter -- fourth quarter versus what you were thinking last quarter.

Bob Shearer - VF Corporation - SVP & CFO

Yes, Michael, really not a lot different. The gains in both quarters at this point in time look to actually be pretty similar. So the third quarter was a little bit stronger than we anticipated. And right now if you do the math it says that the fourth quarter is going to be slightly above the 48% level. So we're going to see the gain there as well and it is driven mostly by the mix shift that we have been seeing pretty consistently.

Michael Binetti - UBS Equities - Analyst

All right, thanks.

Operator

Matthew Boss, JPMorgan.

Matthew Boss - JPMorgan - Analyst

Can you talk about some of the changes underway and progress at North Face and making the brand a bit more transitional, less winter focused? And how are some of your retail partners adjusting? What's the best way to think about the order flow going forward as we get into next year?

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

Well, I think the shift that we say taking place at The North Face we have talked about in some of the calls here in the past. And it starts first with the activity-based model which really came online a little over four years ago where we moved the brand into an expanded set of activities. And with that an expanded focus on some new incremental categories.

This shift was very focused on moving the brand to more of a fourth-quarter brand and, as we said, it really lines up well with how we have seen these last two warm winters. As we have gone into spring selling with two new collections we have seen this strategy really take hold. We will be launching a new training apparel collection within our performance activity under the name of Mountain Athletic, that has been received extremely well by our retail partners.

And also supported by our ultra protection footwear collection where there is both training as well as light hiking and hiking footwear, again, coming out of that focus of the activity-based model. So feeling very strong about how we are evolving the brand through this new perspective and the trends that we've seen coming out of 2013 we think give us great momentum into 2014.

Matthew Boss - *JPMorgan - Analyst*

Great. And then Timberland's revenue performance seems to be inflecting mid single-digits in the Americas. Can you talk about progress there and how you are thinking about that brand into next year? And also opportunity on the margin side with Timberland.

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

So why don't I start with that -- answering this question and then I will pass it over to Karl Heinz. So in the Americas, as we mentioned here in the notes, we've seen really good performance with our footwear business, specifically boots in light hiking and many of the new casual styles in Q3 giving us really great confidence that the work done over the past two years is right on track.

The re-launch of apparel here in the US market, early reads specifically with our outerwear is giving us really good confidence that we've got the right vision for this strategy. And most importantly what this is showing us is that we are on track to shift the perspective of that American consumer to think of Timberland more of a lifestyle brand versus what has been historically a boot brand. So really, really confident and excited about the momentum we have coming out of 2013 into 2014.

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

So, this is KH. Starting with Europe, I think the good news is we see it coming also. We had a couple of tough quarters at the beginning of the year, we are flat this quarter and we expect growth into in Q4. So demand has for sure momentum, we have some work to do but we see it coming. Also the spring indications we have are very positive. Asia continues simply to grow. We always had consistent growth in Asia; it is a very strong retail model there, (inaudible) apparel, so it is a good picture there.

Matthew Boss - *JPMorgan - Analyst*

Great, best of luck.

Operator

Jim Duffy, Stifel.

Jim Duffy - *Stifel Nicolaus - Analyst*

A couple questions. Can you speak to the spring backlog for the forward order businesses? And then secondly, the Jeanswear operating profit has carried a pretty heavy load through the first three quarters. Bob, could you speak the prospects for Jeanswear margins going forward and your thoughts on the coalition mix to contribution to profit?



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

So, Jim, on the spring backlog for next year, we stopped quantifying our order books for The North Face about a year ago. So really aren't prepared to comment on that. What I can tell you though at this point, the momentum we have talked about coming out of Q3 into Q4, the positive reception of these new collections, Mountain Athletics, the ultra protection footwear and some of the new equipment products that we are selling into the market are really confident and are in line with our long-term plans and expectations.

Bob Shearer - VF Corporation - SVP & CFO

And, Jim, I will speak to the Jeanswear piece. Yes, the third-quarter -- you are right, the third-quarter Jeanswear numbers and particularly the profitability was a little stronger than we had anticipated and it is driven by a couple of things. One, the gross margin was a little bit better than we thought, but in particular the European business.

Now Karl Heinz mentioned that -- hadn't had a chance to mention that for a little while, but the European Jeans business really had a nice -- had a very, very strong quarter for us and that helped us.

In terms of -- I think your question, Jim, as we look at the fourth quarter and in terms of the overall profitability and mix for Jeanswear specifically, for Jeanswear that the improvement will start to flatten out a little bit, although we do expect some expansion in the fourth quarter. And we expect also margin expansion in some of the other businesses where we have been seeing that today and we saw it in the third quarter, for example, in Imagewear, Sportswear as well and Contemporary. So that is how the year will shake out.

Jim Duffy - Stifel Nicolaus - Analyst

Thank you, guys.

Operator

Robby Ohmes, Bank of America-Merrill Lynch.

Robby Ohmes - BofA Merrill Lynch - Analyst

Two questions, first I was hoping you could give us a little more color broadly speaking on what is going on in China. It looks like Vans maybe slowed down versus previous trends just looking at the APAC up only high single-digits. And then Lee you're now expecting a return to growth in the fourth quarter. But is there a sustainable improvement that you see in the Jeanswear business happening in China?

And then maybe just a little more on the Timberland outlook. And maybe just some broad color on what exactly you guys see going on in the consumer market over there?

And then the second question is if we could get a little more detail on the marketing investments. You mentioned the TV in China. I understand the focus on Europe and the key brands, but is it TV and print in Europe or what -- maybe a little more color on what you guys are going to be doing in the fourth quarter. Thanks.



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

So, Robby, I will get us started a little bit on this. The first question I think was what is going on in China. And it is pretty widely publicized that the Chinese market, while it has slowed down overall in apparel and footwear, it is still the fastest growing consumer market in the world for apparel and footwear.

And our third quarter -- we had a couple unusual things going on with timing of shipments. And The North Face and the Lee question that you asked really gets to an inventory build that we've talked about before and the denim category internal in China that the industry is working through an inventory glut. We said that we would expect to return to growth in the fourth quarter, but that is just the beginning.

The good news is that consumer takeaway in the specialty stores where we sell Lee jeans has still been strong. It is just we came into the year with a big inventory build. Timberland in Asia, as Karl Heinz just said, continues to be strong. That business has been on a growth track. It is based primarily in Japan and we've had some currency translation issues in our reported results, but we continue to grow and have expansion opportunities throughout the Asian region.

And onto the marketing investments, it's \$40 million. The really good news is when you commit late in the year to increase your marketing; it is all going to go against the consumer. We are not creating new ads, there's no production cost. The spend is really just increasing our voice.

So, for example, with The North Face in China, as Karl Heinz mentioned, we have more than doubled our investment there in The North Face. We originally planned to do some TV in just a few markets. With this additional investment, we have doubled the number of markets that we're going to be doing local TV advertising and we have added a significant national TV advertising campaign that will reach everywhere in China.

So it is all spent directly against the consumer and there is a mix between what is being spent online and digitally versus TV and print, but I don't have those details for you. Karl Heinz has one other point.

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

Yes, I have just one. Eric covered it all, but I think you have a specific question on Vans in China. You picked up relatively slow growth in Q3, this is true, but there was some timing involved. You might recall last year we reported explosive growth in Australia; we got a big order from a distributor there and it is just a timing issue. So Vans will be going back to growth -- strong double-digit growth in Q4 as it had been in Q1 and Q2.

Robby Ohmes - *BofA Merrill Lynch - Analyst*

And, Karl Heinz, the 25% Vans growth in Europe, how sustainable does that look?

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

Well, you heard us saying in the past, we had reported that growth on Vans which was substantially higher, right, 40% or 50% in the [past calls], that was high. We have in our business model where we believe that 20% is sustainable for the following reason.

We started Vans with high initiatives, with high marketing initiatives in one specific market, which is the UK where we reached great success. From there then we moved on in other countries with a little bit less risk. So Germany, France, Italy would be great examples, and Scandinavia. So we still have a long way to go in terms of penetration and market size. Our competitor there is also bigger than us. So we still see opportunities going forward with Vans.

Robby Ohmes - *BofA Merrill Lynch - Analyst*

Great, thanks very much.

Operator

Lindsay Drucker Mann, Goldman Sachs.

Lindsay Drucker Mann - Goldman Sachs - Analyst

On your dividend, with the balance sheet in such good shape and your debt ratio back down below Timberland levels, and your explicit target to get to a 40% payout ratio, just sort of rolling up your algorithm earnings growth we are still decently below that. Can you talk about how you think about the timing to get to 40% payout and why not up the dividend a little bit more?

Bob Shearer - VF Corporation - SVP & CFO

Sure, I will start on that. In our 2017 plan what we indicated there was that we would work back up to the 40% by that point in time. It is something that we will constantly evaluate. We will be at about 34% in 2013 and with our plans we will move that up a couple -- 2 or 3 percentage points each year is what we would plan to do.

And we are still -- we remain very acquisition minded. It is always the trade off and looking at all the pieces and balancing all the pieces to the right level. So once again if we are not seeing acquisitions flow-through we will look at number of different things. In the past we have upped our buyback program if it made sense to do so.

What we have been pretty consistent in saying is what we are not looking to do is stockpile a lot of cash on the balance sheet. So we will put it to work in the most effective means that we determine as we go forward. So, sure, we will look at changing that dividend payout or even increasing it based on all other factors.

Lindsay Drucker Mann - Goldman Sachs - Analyst

And given the volatility we have seen in the consumer backdrop are you feeling any better or worse about the pipeline of acquisition opportunities out there?

Eric Wiseman - VF Corporation - Chairman, President & CEO

I don't think we are feeling better or worse. The honest truth is after we acquired Timberland just over two years ago we took a good year, year and a half off and focused on creating the value that we promised through Timberland. And as you see in our results from and earnings per share contribution basis, Timberland is running ahead of schedule.

So drilled with that, feel like we have Timberland moving in exactly the direction we want it to move in and we are very proud of the work that team is doing. And now we are looking again, but it is bumpy. They tend to come in waves and we are always looking for the next opportunity. And I can't think of a week that has gone by when we haven't had a discussion at one level or another about businesses that we would like to have join our Company. But I can't say anything more specific than that.

Lindsay Drucker Mann - Goldman Sachs - Analyst

Okay, thanks.



Operator

Christian Buss, Credit Suisse.

Christian Buss - *Credit Suisse - Analyst*

I was wondering if you could talk a little bit about your comfort level with inventories at retail and your expectations for order patterns over the course of the quarter from your customers.

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

I will take a shot at that, it is Eric here, Christian. We have talked about, particularly -- using the outdoor industry as an example. The industry has approached this season very cautiously and that means that they have bought conservatively because the last two winters have been so difficult.

So we think it is hard to generalize for a global company with 30 brands, but if there was a generalization it would be that the inventories at retail are in pretty good shape. With the one exception of the denim -- being the denim category, the jeans category in China. Other than that we don't see any issues.

And we are positioned to respond to an increase in demand. Our inventories are really clean. We ended the quarter with inventories flat on last year and the math would suggest we're going to grow around 10% in the fourth quarter and we are starting with flat inventory. So our inventories are clean and we think the retailers are pretty clean as well in general.

Christian Buss - *Credit Suisse - Analyst*

That is helpful, thank you very much and good luck.

Operator

Kate McShane, Citi.

Kate McShane - *Citigroup - Analyst*

With regards to marketing spend, can you walk us through how soon you saw results from the higher marketing spend when you increased this a year ago and then also three years ago? I would assume that one of the objectives of increasing marketing spend in Europe is similar to what you did in the US three years ago?

Bob Shearer - *VF Corporation - SVP & CFO*

Yes, Kate, it is similar. And the way we look at it is that it certainly -- we do believe that it will help sell-throughs in the current year. But we believe that most of the benefit would be a next year type of thing. So we look at these as a little bit longer-term. As we thought about making these investments we thought a lot about the plans that we laid out for 2017 and the growth rates over that period of time and what it took to achieve those.

So that was really the driving force -- or a driving force in terms of making these investments. So a little bit longer-term view. But -- so, again, specifically to your question, I think I would say that we will see more benefit in 2014 than we might in 2013.



Kate McShane - Citigroup - Analyst

Okay, great. And part of the benefit I know to gross margins was lower product costs. Will you see a similar level of that impacting Q4 gross margins as you did in Q3?

Bob Shearer - VF Corporation - SVP & CFO

In the third quarter of the 90 basis points, 50 was mix. So once again, as we have been saying, very, very consistently we see that mix somewhere in the 50 to 70 basis point range. And so, that implies in the third quarter there was about 40 basis points of improvement coming from cost reductions.

As we look to the fourth quarter, so once again we are looking about 60 to 70 basis points of improvement, that is what the math implies in our gross margin. And most of that will be driven by mix. Not quite the same level coming from costs, but maybe 10 or 20 basis points versus the 40 that we saw in the third quarter. So a little bit less and the mix though -- the mix benefit will hold.

Kate McShane - Citigroup - Analyst

Great, thank you.

Operator

Eric Tracy, Janney Capital Markets.

Eric Tracy - Janney Capital Markets - Analyst

I guess if I could focus -- you talked a lot about China broadly and some on Vans. I guess back to North Face. Eric, I think you started to say a little bit of a timing shift there in 3Q, but just wanted to get a little more color there because it does seem to have moderated a bit. And given the stepped up sort of marketing spend, is there anything sort of structural going on in the region there that we should be thinking about or just more of a timing issue?

Eric Wiseman - VF Corporation - Chairman, President & CEO

No, Eric, it was purely a timing issue. We will get back to growth in the 20% range in the fourth quarter. And The North Face in China was the single biggest investment that we are making. Within the \$40 million The North Face brand in China is our single biggest investment. We have unbelievably low awareness in China and an unbelievably big opportunity. And we hope to move the needle on awareness and sell-through this winter to set us up for a great 2014 in China.

Eric Tracy - Janney Capital Markets - Analyst

Okay. And I guess, Bob, following on the gross margin -- obviously a lot of sort of structural levers here at work given the mix shift towards higher-margin, D2C International. Anything that really -- potential headwinds going into 2014 that potentially somewhat mute that? Anything be it currency, be it structural that we should be thinking about?

Bob Shearer - VF Corporation - SVP & CFO

No, not really. We have been pretty consistent in saying that it does feel that we are at a point where we have seen some cost increases and we would expect some level of cost increase as we look at 2014 and we will have a lot more to say about that. But, no, relative to our story, as I said and my comments, we made huge improvement this year towards that 49.5% goal in 2017, kind of halfway there actually in this one year.

And we continue to expect that we will move forward towards that 49.5% and mix will clearly be a significant piece. And relative to any cost increases with the strength of our brands, we are in a great position to offset those challenges with pricing. So we will have a lot more to say about that in February.

Eric Tracy - Janney Capital Markets - Analyst

Okay, guys, appreciate it. Best of luck.

Operator

Mitch Kummetz, Robert Baird.

Mitch Kummetz - Robert W. Baird - Analyst

A couple things. I don't mean to beat gross margin up too much here. I am just -- on Q4, Bob, Q3 mix was a 50 basis point benefit. Q4, I mean in theory shouldn't mix be a greater benefit? You have got shifts in the Outdoor & Action Sports coalition that are more favorable in Q4 than Q3.

And then I think to your point, you are looking for 10% revenue growth in Q4 and a lot of that coming from D2C which is obviously a higher-margin business. So when you guys are saying 50 basis points of mix benefit in Q4, is that just you guys been conservative? It seems like in theory mix should do more for you there?

Bob Shearer - VF Corporation - SVP & CFO

Well, we said so; we said 50 basis points in third quarter. And yes, there's 50 to 60 basis points coming from mix in the fourth quarter and then filling in the gaps there we are looking for 60 to 70 basis points. Once again, that is what the math would imply. So 10 to 20 basis points coming from cost. So, yes, Mitch, you are right, it should be a little stronger on the mix side, and it will be.

Mitch Kummetz - Robert W. Baird - Analyst

Okay. And then just on kind of Q4 assumptions. You guys mentioned some things on the last call and I just want to be clear that you guys are still looking kind of for the same items. I think last quarter I think, Eric, you had mentioned you are looking for sort of modestly or planning for modestly better weather in North America versus last year.

And specifically I think Steve mentioned reorders on The North Face up high single-digits. And I can't remember who said this, but I think you were saying sort of global comp up high single-digits in the back half. And I'm wondering if you can say what that was in Q3 and kind of what your Q4 outlook for comp is. I just want to drill down on some of the assumptions to kind of get to Q4 guidance.

Eric Wiseman - VF Corporation - Chairman, President & CEO

Yes, we don't really give guidance, comp store guidance, Mitch, but let me try to help you some. If you look at our fourth quarter and you do the math it says that we need to grow about 10% in the fourth quarter to hit the number. Now remember, we had a 2% shift out of the third quarter

into the fourth, so you back that up and it is an 8%. You start with -- so how does that compare to the third quarter? In the third quarter we were up 5% and you add 2% to that end you are at 7%.

So we only looking for 1 percentage point improvement and that should come -- we are going into the quarter with 100 more doors, owned and operated doors than we had this time last year. Our e-commerce business is our fastest-growing business. And we're spending a lot of money to buy product through our wholesale customers.

So all of that plus a modestly better winter, we are not -- our guidance, as we said all year long, we assumed a more normal winter. We did not assume a blizzard winter and it is really a US discussion because Europe had a good winter last year. Does that give you enough helpful color?

Mitch Kummetz - *Robert W. Baird - Analyst*

Yes, that's helpful, I appreciate that. I think that is all I had. So, thanks, guys, good luck.

Operator

Kimberly Greenberger, Morgan Stanley.

Kimberly Greenberger - *Morgan Stanley - Analyst*

I just wanted to follow up on the gross margin outlook. I am wondering if you can just help us understand the puts and takes into 2014. Would you expect some of the mix benefits that you are seeing this year to continue into 2014? And then secondarily, on the cost side, it sounds like you are starting to see some slight increases in cost on 2014 orders. Is that coming in labor, materials, both? If you could just help us understand that, that would be great.

Bob Shearer - *VF Corporation - SVP & CFO*

Kimberly, we will be really happy to lay all that out for you in February in terms of the puts and takes for 2014. But it is too early for us to do that at this point in time. And you are right, so I did mention I think in terms of VF Corporation and our competitors would say that it looks like there is some cost pressure coming at us in 2014. We are still working through that, frankly.

A lot of that is going to have to do with the supply and demand rule is always at play in terms of what we'll ultimately pay for product. So, yes, the cost increases are coming a little bit across the board. There is some in fabrics; there is some just in our overall source cost impacted by labor. So there are a number of factors I would say that will probably impact that. But we'll have a lot more to say about that when we talk about 2014 in February.

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

But Kimberly, you are right in your assumption about when we laid out our 2017 plan; we said that our growth getting to \$17 billion would come disproportionately from growth in our International business, growth in our direct-to-consumer business and growth in Outdoor & Action Sports all of which have higher margins. And we talked about that contributing somewhere in the neighborhood of 50 basis points I think, Bob, to annually over time and how we were going to get there.

Bob Shearer - *VF Corporation - SVP & CFO*

Yes, that is right.



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

And we are not changing that outlook for the future.

Kimberly Greenberger - *Morgan Stanley - Analyst*

Terrific, that is very helpful. And I was wondering if you could just comment a little bit on Asia with the 2% growth here this quarter. Obviously China at high single-digits is quite good. But is Jeanswear the business that is holding down the Asia growth or is there something else going on there?

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

Kimberly, this is KH here. You are right, we had this year our weakest quarter. We had Q1 and Q2 which were up double-digits and we expect Q4 be again up double-digit actually it will become our strongest quarter. You said it right, we had issues with jeans, which I did say in my script we expect the overhang to be finished and be positive again in Q4.

We had also some issues with currency. Timberland's biggest market is Japan and we had some pressure with the yen and a similar thing happened in India with the rupee. So I would say there was more extraordinary noise and we still see big and great opportunities in China.

Kimberly Greenberger - *Morgan Stanley - Analyst*

Terrific, thank you.

Operator

John Kernan, Cowen and Company.

John Kernan - *Cowen and Company - Analyst*

A lot of my questions have been answered, but I was just wondering from a strategic perspective, and given all the cash that could potentially be on the balance sheet next year and your leverage ratios coming down, would you potentially look outside the US for an acquisition? I mean historically I think most of your acquisitions have been US based brands. But would you look to Europe and Asia for potentially acquiring a brand as well? Thanks.

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

Sure, John. Yes, and we have in the past. So the answer to that question would be yes -- certainly, yes. And particularly I would say probably a little more Europe than Asia at this point in time, possibly Asia down the road. But at this point Europe. So, sure, we look for brands that ideally we could take across the globe, but also we've looked for brands that have been primarily centered in a region like Europe and if we can grow them across Europe and get the kind of returns that we and our shareholders are looking for we would certainly entertain that as a possibility.

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

And, John, Napapijri and Kipling are two great examples. We rarely talk about this brand, but I think we did mention Kipling lately. It was the fastest-growing brand insight we have for two quarters. So we are very happy with that performance.



John Kernan - *Cowen and Company - Analyst*

Okay, great. Thanks, guys.

Operator

Erinn Murphy, Piper Jaffray.

Erinn Murphy - *Piper Jaffray - Analyst*

A lot of them have been answered. But, Karl Heinz, I was hoping if you could just maybe comment on how you are feeling about the health of consumer in Europe right now and maybe just parse it out between Northern and Southern Europe?

And then secondly, as it relates -- you mentioned briefly the bread-and-butter show and your Timberland brand being showcased there. If you could you speak a little bit more kind of the appetite or the increasing appetite for that brand. Were you seeing kind of new accounts that were being drawn towards the brand or current accounts going deeper within the product offering? Thank you.

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

Thank you for the question. So let's start with the first part, right, the sentiment in Europe. There is no big changes I would say in Europe. There are a couple of big indicators showing we are slowly going in the right direction, which is good. But I wouldn't say there is no radical change to our last call.

Having said that, we act with a portfolio of brands and we act geographically in different areas. So we are clearly using that and we are pushing where we see bigger opportunities, emerging market in Europe, which is basically Russia down to Turkey, is a big opportunity. But so are the larger ones like the German, Austria, Switzerland block.

So I would say all in all no big change, but we're doing pretty well with our brands. Specifically bread-and-butter in Timberland, this was our first time we went to that show with Timberland. We did go with other brands there in the past, Timberland was the first time. I think the response was shockingly strong for us, we did not expect such a response in terms of participation, we had 3,000 people at the booth which normally doesn't happen. But we also did some additional activities around the 40 years history of Timberland.

And to make it short, we see Timberland coming in Europe. I said it in the script, we expect Q4 to be positive first time this year. The sellout data's we see are good, especially in footwear -- men's footwear, but also on apparel. So all in all we see the brand coming and we expect a great 2014.

Erinn Murphy - *Piper Jaffray - Analyst*

Great, thank you guys and best of luck.

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

If that concludes our questions I will close with a quick comment. We are focused right now on execution around our holiday season; it is a big season for us. And we are very focused on it while investing more in our big brands. To create momentum as we approach 2014; we will give you the wrap-up of all of that on Valentine's Day. Looking forward to talking to you then when we talk about our fourth-quarter performance and our 2014 plans. Take care.



Operator

Thank you. This does conclude today's conference. We appreciate your participation.

DISCLAIMER

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

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

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

©2013, Thomson Reuters. All Rights Reserved.