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VFC - Q4 2013 VF CORP Earnings Conference Call

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OVERVIEW:

VFC reported full-year 2013 total revenues of \$11.4b and adjusted EPS of \$2.73. 4Q13 EPS was \$0.82. Expects 2014 revenue growth to be 7-8% and EPS to be \$3.00-3.05.



CORPORATE PARTICIPANTS

Lance Allega *VF Corporation - Director of IR*

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

Bob Shearer *VF Corporation - SVP & CFO*

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

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

Scott Baxter *VF Corporation - VP of VFC, Group President of Jeanswear, Imagewear & South America*

Karen Murray *VF Corporation - President of Sportswear*

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

CONFERENCE CALL PARTICIPANTS

Bob Drbul *Nomura Securities - Analyst*

Matthew Boss *JPMorgan - Analyst*

Michael Binetti *UBS - Analyst*

Kate McShane *Citigroup - Analyst*

Laurent Leslescue *Macquarie - Analyst*

Lindsay Drucker Mann *Goldman Sachs - Analyst*

Jim Duffy *Stifel Nicolaus - Analyst*

Erinn Murphy *Piper Jaffray - Analyst*

Robby Ohmes *BofA Merrill Lynch - Analyst*

Barbara Wyckoff *CLSA Financial Services - Analyst*

Mitch Kummetz *Robert W. Baird - Analyst*

PRESENTATION

Operator

Good day, everyone, and welcome to the VF Corporation fourth-quarter 2013 earnings conference call. Today's conference is being recorded. And at this time I would like to turn the call over to 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 the VF's fourth-quarter and full-year 2013 results. Before we begin I would like to remind participants that certain commentary included in today's remarks and 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 businesses, results of operations and the industries 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 those projected in the forward-looking statements are discussed in the documents filed with the SEC.



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

Joining us on today's call will be Vodafone 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. Also participating will be Karen Murray, President of VF Sportswear, and Susan Kellogg, President VF Contemporary Brands.

Following our prepared remarks we'll take your questions and we'll ask that you limit your initial questions to two. In the event you have additional questions that are not covered by others, please re-queue and we will do our best to come back to you. Thanks for your cooperation on this. I will now turn the call over to VF Chairman and CEO, Eric Wiseman. Eric.

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

Thanks, Lance. Good morning, everyone, and thanks for joining us today. As Lance mentioned, we have several members of the VF team with us today to review our fourth-quarter and 2013 performance and to provide insight into 2014, so our call will likely extend beyond one hour to ensure we have ample time to take your questions.

In setting the table for this morning's discussion I will focus on three topics -- first, a summary of our performance in 2013; second, a review of our success in creating value for our shareholders; and third, a look to the future including a focus on our four key growth platforms that are going to drive for near-term performance and fuel our success in achieving the five-year plan that we presented in June of last year.

2013 was a terrific year at VF. We ended the year on a strong note that really set us up well for a successful 2014. We achieved all-time highs in revenues, gross margin, earnings and cash flow and we did this despite continuing economic challenges around the world and a highly competitive environment.

We beat our guidance on both gross margin and EPS for the full year while also exceeding our cash flow from operations target. And while we were a bit shy of our revenue target, we are thrilled with the momentum we reestablished in the fourth quarter especially for The North Face, Vans and Timberland brands.

So taking a closer look, total VF revenues grew 5% reaching \$11.4 billion. Our biggest revenue drivers included the Outdoor & Action Sports coalition which grew 9% with meaningful gains from Vans, the North Face and Timberland. Outdoor & Action Sports delivered 56% of VF's revenue in 2013.

Our International business grew 8% representing 38% of our total revenue and our direct-to-consumer business grew 13% and was 22% of VF's revenue.

The solid growth in these higher-margin businesses and continuing gross margin expansion rates in our coalitions lifted our gross margin to 48.1%, up 160 basis points from 2012. Our operating margin reached 14.4%, a 90 basis point improvement even with the incremental marketing spend we elected to make in the second half of the year. And our adjusted earnings per share increased 13% to \$2.73, right in line with our 2013 plan target of 13% annual EPS growth.

The VF team's strong performance created great value for our shareholders in 2013. Our stock price increased 65% hitting all-time highs and that is compared with an S&P index that rose 30% in its best performance since 1997. We are pleased with the strong response to our performance, our plans and the outlook for our Company.

In 2013 we announced a 21% increase in our quarterly dividend rate and that marked the 41st consecutive year of higher dividend payments to shareholders. Our track record of returning cash to shareholders is solid. Last year we returned nearly \$700 million to shareholders in the form of cash and share buybacks.

Now let's move on to our plan to fuel near and long-term growth. Underlying our growth plan is a relentless focus on VF's four growth drivers.



First, we will lead in innovation. That means developing a constant stream of new and better products, store environments and digital experiences that deliver what customers want. Our emphasis on creating game changing products at VF is stronger than I've ever known it to be. And our innovation pipeline has never been fuller than it is right now.

Second, we will connect with consumers. We are confident in our ability to do that, not just because we understand consumers, but because we are always listening to them. We ask and they tell us what they want, what inspires them and how to best communicate with them.

Third, we will serve consumers directly wherever and however they want to engage our brands. We are working tirelessly to elevate their brand experiences. Whether brick-and-mortar or click and order, we are there learning, improving and customizing their experience to create brand loyalists.

And fourth, we will continue to expand geographically from the Americas to Europe to Asia in mature and emerging markets. We believe our brands are underdeveloped and have a robust ability to not only capture share but, more importantly, to grow to market.

Moving towards the year ahead, in 2014 we expect revenues to be up 7% to 8% which is an acceleration that puts us roughly in line with our 2017 organic growth rate target. And consistent with 2013 we anticipate our Outdoor & Action Sports coalition to be the largest driver of our top-line growth.

We expect worse margin to reach 49% while our operating margin should reach 15%. We expect earnings per share to grow 11% to 13% of reaching \$3.00 to \$3.05 per share. Cash flow from operations should reach \$1.65 billion and we're pleased to report that we expect to return more than \$1 billion to shareholders in 2014 through share repurchases and dividends.

So, with one year of our five-year plan on the books I can report we are on track. I want you to take away from this call how well positioned we are with powerful global brands and powerful business platforms that guide and support our long-term growth strategy. With product innovation leading the way we see continued momentum across our portfolio.

Of note, our balance sheet is very healthy, with resources available to make the right investments at the right time and support our growth and return consistent value to shareholders. And with that I will turn the call over to Bob.

Bob Shearer - VF Corporation - SVP & CFO

Thanks, Eric. In the fourth quarter we delivered very solid performance especially in the global business environment that faced, well, at least a few challenges. And it's exactly in this type of environment that the power of VF's diverse brands and platforms really shine.

From industry-leading product innovations to connecting consumers with fantastic brand stories, and providing them with a premium shopping experience we closed 2013 with strong momentum. This momentum, particularly in our Outdoor & Action Sports coalition, gives us increasing confidence that 2014 will be an even stronger year.

Fourth-quarter revenue grew 8%; the increase was driven by strong performances from our Outdoor & Action Sports and Sportswear coalitions and our International and direct-to-consumer businesses all which delivered double-digit revenue growth.

The faster pace of growth in these higher-margin businesses joined with supply-chain efficiencies resulted in improved gross margin performance across nearly all of our coalitions delivering an 80 basis point increase in VF gross margin reaching 48.2% in the fourth quarter.

Operating income grew 13% in the fourth quarter and our operating margin reached 15.5%. Now that's an all-time fourth-quarter high for us. We saw a slight increase in the SG&A rate in the quarter primarily due to nearly \$30 million in incremental marketing investments we discussed on our last call.

We have done this before and it has worked. And we're really pleased with the energy, passion and storytelling we injected into the marketplace during the quarter. We are confident these efforts will help amplify consumer connection with our fastest-growing brands in 2014 helping us drive towards our 2017 growth targets.

Now, as for the bottom-line, well, we had a fourth-quarter high with earnings per share of \$0.82, that was slightly ahead of our expectations. And now a few comments on fourth-quarter results for coalitions.

Revenue for our Outdoor & Action Sports business was up 12% with double-digit gains in both our wholesale and direct-to-consumer businesses. This growth was balanced between our US and International markets.

In terms of brands -- the North Face, Vans and Timberland all delivered double-digit growth. Pretty impressive in a quarter marked by negative mall traffic trends and fairly aggressive promotions. And we are particularly pleased by the 12% revenue growth in The North Face during the quarter which was broad-based across geographies including 10% growth in the Americas and a high teen percentage rate increase in both Europe and Asia-Pacific.

The North Face's D2C business was a real standout performer in the quarter with more than 30% growth and healthy comps. Coming off of two previous winters in the US which were challenging, it has been really nice to see our product innovations and marketing efforts connect so strongly with consumers.

And in case you didn't hear it yet, the North Face is now VF's first \$2 billion brand. What an achievement for the global TNF team.

Vans also delivered great results with revenues up 14% in the quarter. This growth carried the brand to just over \$1.7 billion and into the second spot among VF's largest brands.

By region Vans was up at a low-double-digit rate in the Americas, up 20% in Europe and up at nearly the same rate in Asia. Remarkable results for the quarter and yet another phenomenal year for the Vans brand. In fact, this marks 17 consecutive quarters that the brand has achieved double-digit revenue growth.

Now turning to Timberland. We're really starting to see our efforts and plans come together for this brand. During the quarter global revenues for Timberland were up 13%. In the Americas region sales in our wholesale business outpaced D2C as the business grew at a high teen rate.

A huge highlight was Europe where I'm very happy to report that revenues were up at a low-teen rate. Clearly this is very good news and great evidence that all the work we concentrated on since the time of this brand's acquisition is paying off. In Asia-Pacific reported fourth-quarter revenues were down modestly but up at a high-single-digit rate on a constant dollar basis.

Timberland has been and will continue to be a strong momentum story for us. We are looking forward to acceleration and Timberland's growth moving forward. The Outdoor & Action Sports coalition delivered 11% operating income growth in the quarter. Operating margin was down 10 basis points to 18.7% but was impacted by more than 100 basis points from the incremental marketing investments made in the North Face, Vans and Timberland brands.

Now just taking a step back, we're really pleased with the momentum of the three powerful brands, The North Face, Vans and Timberland and the performance of the Outdoor & Action Sports coalition as a whole. The investments we have made, especially in these largest brands, are paying off.

We can't underscore enough how proud we are of these global brand teams that continue to set the standard of excellence in product, in connecting with consumers and in execution, all combining to return great value to VF and to our shareholders. And getting a little ahead of myself, these same 3 brands will drive great momentum for us in 2014.



Jeanswear's top-line was flat in the fourth quarter; sales in the Americas business saw flat results in the US, offset by declines in Central and Latin America. In the US challenging conditions at mid-tier department stores and in the mass channel are tempering our growth.

Overall traffic declines and the tougher trends in women's basic denim are impacting the business. Yet despite these headwinds the coalition still delivered a 40 basis point improvement in profitability with operative margin reaching 18.3% with especially dramatic improvements in Europe.

So all in all, while we saw slower than expected revenue growth in Jeanswear, once again the business was a strong contributor to VF's overall profit picture.

Imagewear posted revenue growth of 9% in the fourth quarter due in large part to the resumption of a previously delayed contract renewal and an accelerated focus on product innovation. Operating income was up 31% and reached 15.6% reflecting gross margin improvement and SG&A leverage.

Our Sportswear business posted a 14% revenue gain driven by balanced growth and both the D2C and wholesale channels both Nautica and Kipling's US business showed strong growth despite a challenging department store environment.

Nautica grew 11% with increases in both its wholesale and direct to consumer businesses and Kipling's exceptional growth of 33% in the quarter in the US helped the brand achieve the highest global growth rate of any VF brand during the fourth quarter and full year. In fact, Kipling is now VF's seventh largest brand behind Nautica, so hats off to that team with certainly a lot more to come.

Sportswear's profitability improved 11% with an operating margin that was down slightly to 17.2% due to heightened investments in marketing to support future growth. Revenues in our Contemporary brands business grew slightly in the fourth quarter driven by strong International growth.

Our D2C business in this coalition around the world continues to grow -- however, contracting demand for premium denim in the US wholesale channel challenge our top-line results. Operating margin was flat compared with last year's rate.

And just a few comments about our full-year results. We couldn't be more pleased with the 160 basis points expansion in our gross margin, which reflects the growing business mix towards our higher profit businesses; product cost reductions as well as the overall strength of our brands.

Also of note is that while our SG&A ratio as a percentage of total revenue increased by 50 basis points, our marketing spend alone increased 60 basis points indicating leverage and cost controls and other areas of our business.

I think this is a very important point that illustrates the continued discipline we have around making the right investments to ensure the best returns to our shareholders. VF's balance sheet remains extremely healthy. We repaid all outstanding commercial paper borrowings, contributed \$100 million to our pension plan and raised our dividend by 21%.

In 2013 we returned nearly \$700 million to shareholders through dividends and share repurchases. At year end our inventory was up 3% below the rate of sales growth, demonstrating our continued discipline around inventory controls. Overall our strong earnings and working capital management fueled to cash flow from operations in excess of \$1.5 billion.

We ended the year with our debt to cap ratio at 19% which is actually lower than 2010, the year before we acquired Timberland. And finally, our return on invested capital improved 140 basis points to reach nearly 18%, slightly ahead of our plan and another high for VF.

And speaking of another strong year, let's talk about what you can expect from us in 2014. We expect revenues to increase 7% to 8% driven by stronger growth in every coalition and region and across our wholesale and B2C businesses. This represents a meaningful acceleration from the growth rate we achieved in 2013 and is essentially in line with the five-year organic CAGR we put forth in our 2017 plan.

Once again, our Outdoor & Action Sports coalition is expected to lead the way with low double-digit revenue growth driven by continued strength in the North Face, Vans and Timberland brands. We expect Vans to grow at a mid-teen rate followed by 12% growth at The North Face and 10% growth at Timberland. All of which are in line with the compounded annual growth targets we set in our 2017 plan.

In Jeanswear we are looking for low-single-digit revenue growth with continued momentum in our Western specialty business in the US and in our International businesses tempered by continued sluggishness in the US mass channel and challenges in the US mid-tier department store channel.

In Imagewear revenues should grow at a low-single-digit rate. We expect the momentum in our Sportswear coalition to continue looking for high-single-digit revenue growth for the full year. And finally, we are expecting mid-single-digit growth in the Contemporary brands coalition.

We continue to see International and direct-to-consumer as key growth drivers for VF in 2014. We are targeting 10% revenue growth in our International business this year.

By region we expect Asia to increase at a high-teen rate or low-teen in constant dollars, with China looking to grow within 20% or by a mid-teen percent in constant dollars. Europe at about 10% in our America's, that is the non-US piece at a high-single-digit rate. We expect our International business to represent 38% of total revenues in 2014.

Now turning to D2C. You may have read in the earnings release that we've made a change in how we report revenue from our concession retail locations. Now by definition, concessions are retail locations outside the US where we are responsible for all aspects of operations without ownership of the retail space.

Now to better represent the operations of these concession shops we will move all associated revenues and profit into our direct-to-consumer business from our wholesale business.

Adjusting for this shift, which approximated \$170 million in 2013 and \$200 million in 2014, direct-to-consumer revenues are expected to be up at a high-teen percentage rate in 2014 and represent 26% of total revenues in 2014.

In addition to the reclass of concession shop revenues in the D2C, we have elected to change our accounting for the fees that we pay to operate our concession locations. Previously these fees, which in 2014 will approximate \$60 million, have been netted against revenue. Beginning in 2014 these fees will be reflected in SG&A.

So, this change will increase our revenues as well as our gross margin and SG&A ratios, but the change obviously has no impact on operating profit dollars and is decidedly dilutive to our operating margin. Now to support our D2C grid we intend to open slightly more stores this year as well as additional e-commerce sites in International locations.

With consistent store expansion combined with expected healthy comp growth and an anticipated 30% increase in our e-commerce business we are confident about our ability to drive our business on all fronts.

Now turning to margins, in 2014 we expect to increase our gross margin rate by 90 basis points to reach 49% -- once again up 90 basis points to 49%. You will recall that our 2017 plan calls for gross margin to reach 49.5%. So in year two of our five-year plan we are anticipating that we will be only 50 basis points shy of our goal.

So what is driving that? Well, two things. First the continued expansion of our overall business mix with higher profit businesses such as Outdoor & Action Sports, International and D to see. We consistently see that MAKES drives 60 to 70 basis points per year in our gross margin percent. There is no reason that should stop.

Second, the previous image and change in accounting for concession locations will favorably impact our gross margin percentage by about 30 basis points. We do expect to see some slightly higher product costs in 2014, but the impact on our gross margin should be neutral due to pricing and other supply-chain efficiencies. So related to gross margin, we are firing on all cylinders and we expect that to continue.

With respect to SG&A, we will remain opportunistic in targeting investments in our brands, products and marketing to drive future growth. Marketing spend as a percent of revenues will remain about flat from the elevated level of 2013 with obviously a much higher rate of spend against our fastest-growing brands. And as previously mentioned, the change in accounting for concession locations will increase our SG&A ratio in 2014 by nearly 50 basis points.

All in we expect significant expansion in our full-year operating margin which we expect to rise by 60 basis points to reach 15%. And finally, the bottom-line -- we expect our earnings per share in 2014 to reach \$3 to \$3.05 which represents 11% to 13% growth over 2013.

A few other housekeeping items. We are assuming a 23.5% to 24% effective tax rate, a negligible impact from changes in foreign currency and capital expenditures of approximately \$270 million.

Now in terms of quarterly revenue comparisons in 2014, we expect the shape by quarter to closely follow the trajectory of 2013, although at a higher growth rate per quarter.

So, we are expecting revenues to grow at a mid-single-digit rate in the first half of 2014 driven by growth in Outdoor & Action Sports followed by a high-single-digit increase in the second half of the year.

First-quarter earnings will face a tougher comparison against last year's first quarter because of a \$0.03 per share tax benefit in the 2013 quarter primarily related to the impact of US tax law changes enacted in January of 2013.

In the second half of 2014 revenue growth and profitability should be the most favorable comparison reflecting the growing contribution of the Outdoor & Action Sports coalition and expansion of our direct-to-consumer business.

And finally a comment on our use of cash. There are three levers that we employ to provide the highest return to our shareholders -- acquisitions, share repurchases and dividends. No change in our first priority which remains acquisitions. Over the last 10 years we've demonstrated our ability to drive shareholder value through acquisitions.

Regarding share repurchases, in 2014 we expect to spend approximately \$700 million against our share repurchase program, that represents nearly three times our average buyback spend over the past five years. That when combined with our annual dividend, which would be more than 20% higher in 2014 versus 2013, we expect to return more than \$1 billion to shareholders this year.

So in summary, 2013 was a year of terrific accomplishment. We achieved higher than anticipated gross margin and bottom-line results and our cash flow exceeded our expectations all while investing heavily in our brands to drive future growth.

In June of last year we shared our five-year growth plan and put into place four growth strategies designed to deliver sustainable profitable growth. It has been amazing to see the incredibly innovative product that we are creating, consumers becoming even more passionate about our brands and the enormous opportunity to grow and transform our business on a global basis.

So with year one of our plan under our belts I am happy to report that we are more than confident -- more confident than ever that we will achieve our 2017 goals. And with that I will turn it over to our coalition leaders to give you more insight on what is in store for 2014. Let's kick it off with Steve Rendle.



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

Thanks, Bob. Starting with The North Face, full-year revenues were up 7%, which took the brand has the \$2 billion mark for the first time, an amazing job by our global team. Well done.

2013 was a tremendous year of focus and execution for The North Face and honestly the brand is the strongest we have ever seen it with measurable momentum going into this year. In fact, the fourth quarter The North Face was up 12% on a global basis.

Looking at 2014 we expect The North Face's global revenues to be up 12% representing a solid acceleration over last year and right in line with our expectations for our 2017 plan.

In the Americas region we expect revenues to be up at a similar rate with strength in both wholesale and our D2C businesses. Let's take a look at some highlights for the year ahead.

In 2014 we will use the great momentum from last year's incredible product launches and continue to drive newness, innovation and performance into our line. Three important highlights include Thermoball. Building off the success of our Fall 23 launch the highly coveted, never one place, always one jacket, has radically raised the bar for the entire transitional outerwear category.

As the first innovation in our science and warmth platform sales of Thermoball blew away our expectations in the fourth quarter. In the fall of 2014 we'll expand the line significantly including a much broader offering for women.

Next up is FuseForm. FuseForm is a game changing new technology that makes it possible to weave two materials into a single fabric. Why is this important? We are able to dramatically reduce weight, simplify manufacturing and ultimately deliver a singular aesthetic that maximizes breathability and durability engineered to where the athletes need it most.

And based on the initial response for the two new jackets, Fuse Uno and Fuse Brigandine, which won Gear Junkie and Outside magazine's gear of the show at Outdoor Retailer, we think we've got another amazing must-have product in our hands.

And last but not least, as we continue to focus on building our first-half business, our new Mountain Athletics collection is the next evolution of technical training apparel and footwear designed to help athletes push their limits in their outdoor sports. We are really excited to see this line hit the market later this month.

In 2014 you will see a measurable acceleration in how we go to market. We will own the emotional connection of exploration and inspire the next generation of explorers. And finally, through our retail stores, e-commerce platforms and wholesale partner locations, 2014 will mark another year of rapid evolution in the way we communicate, educate and telegraph the brand.

In the fourth quarter we rolled out enhancements to our website to make the site easier and quicker to shop. I'm happy to report that these enhancements increased conversion rates by 10%, contributing to our Americas e-commerce growth being up 35% for the year.

We also made some enhancements to our omni-channel offering enabling stores with new mobile selling tools which provided better access to online inventory and content. Now here is Karl Heinz Salzburger to talk about The North Face's International business.

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

Thanks, Steve, and good morning, everyone. Internationally The North Face enjoyed an 11% increase in revenues in 2013 with Asia, our strongest market, generating revenue growth of over 20% and in Europe we grew at a mid-single-digit rate which outpaced our competition quite nicely. In 2014 we are looking forward to similar growth rates across our International business.



The North Face International business, we are focused on four objectives for this year. First, improving retail profitability. Second, strengthening our local product efforts. Third, enhancing our relationships with wholesale accounts especially in Europe. And forth, continued rapid growth in China.

In Europe our direct-to-consumer business will continue to play a major role in driving growth. We plan to open a significant number of partner doors in such key markets as the UK, Germany, France, Italy and Russia.

China remains a unique and significant opportunity for The North Face as well and we expect another year of strong growth with revenues expected to be up at high-teen percentage rate. With significant incremental marketing investments made in the second half of last year, we are taking full advantage of leading the outdoor category conversation in this dynamic market.

Overall we are very encouraged by where The North Face stands as we wrap up your one of our five-year plan and we are on track with our financial targets. Next up is Vans.

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

Global revenue for Vans in 2013 were up 17% as the brand passed the \$1.7 billion mark to become a VF's second largest brand. In 2014 we expect Vans to deliver another year of outstanding growth with revenues expected to increase at a mid-teen rate, in line with our five-year plan.

In the Americas where the brand passed the \$1 billion mark in 2013 we're expecting revenues to increase at a mid-teen rate in 2014. The Vans product engine is stronger than ever. The birth of our footwear lines from OTW and 66 to our classics, Cali and Pro skate collections allows us to inspire consumers in multiple channels around the world.

We expect fantastic momentum we've built over the past two years to continue in 2014. And although in early stages, the response we've gotten from the launch of our cold and wet weather specific footwear we released last fall gives us great confidence in our ability to expand our seasonality as we grow in the East, Northeast and Midwest of the US and across all of Canada.

We also continue to transform the Vans apparel business and can confidently say that Vans is no longer just a footwear brand that makes apparel. We have now built a leadership position in key apparel product categories particularly in the men's business.

According to data from more than 160 US board shops, Vans is a top 10 brand in almost all of our men's apparel and accessory categories. This is a great inflection point for us and a position that we have worked very hard to attain.

As we move to 2014 strengthened by a compelling women's spring collection and adding summer as its own distinct season to our line, we are bullish on our opportunity to further solidify Vans' position and authentic apparel player.

At the intersection of action sports, music, art and street culture is where Vans connects with the consumers. And because of this we create brand loyalists not just product fans.

In 2014 we will continue to make these special connections via events like the Warped Tour which will be celebrating its 20th year, along with the Triple Crown of surfing, the Vans pool party, House of Vans and of course our newest addition, the Vans US Open of surfing. If it is the weekend, a Vans brand event is likely happening somewhere around the world.

As we work to serve consumers directly we are going to relaunch Vans.com this spring. The new website will meld both content and commerce creating a virtual homepage for Vans consumers. Going forward e-commerce should continue to outpace bricks and mortar in terms of percentage growth. KH?



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

The Vans International business had another amazing year of growth with revenues up 23% driven by a mid-20% increase in Europe and a high-teen increase in Asia. In 2014, off a much larger base, we expect total revenue growth to be at a similar overall grade.

In Europe we plan to open our first House of Vans in London. Building off of our success in the UK we have seen great early success in Germany, France and Italy and now are beginning to roll out activation models in Turkey and Russia, which have huge (inaudible) all youth culture opportunities.

In fact, Vans opened its first store in Russia in an iconic mall under the Red Square. Since that store opened to great success we have opened more doors in Moscow and St. Petersburg, have plans to open about 10 more in the country in 2014.

E-commerce also has been a great success story for Vans in Europe. 2013 marked our first full year of business in the region and the brand is doing really well, ending the year as VF's second largest e-commerce business in Europe and the expansion continues.

In October we launched our ninth country presence in Europe with the opening of our Italian site, (spoken in Italian). In Asia we expect to see continued strong results in China. And Korea, which we launched in 2013, will be an area of significant growth for us moving forward.

From Barcelona to Beijing, Sao Paulo to Sydney, Orange County to New York, there is really great momentum behind the Vans brand as we head into 2014. We have never been more excited about our growth potential. Steve.

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

For Timberland full-year global revenues were up 5% which was in line with our expectations, but there is much more beneath that mid-single-digit number. It is a story of reset, a story of acceleration and a story of momentum, specifically in the fourth quarter. The Americas business grew nearly 20% in the fourth quarter driving full-year revenues up 10%.

And speaking of 10%, in 2014 on a global basis that is exactly what we expect Timberland's revenues to increase by. This increase places it right in line with the brand's five-year CAGR expectation from our 2017 plan. So that is all three brands, Timberland, Vans and The North Face expecting to be in line with their 2017 plans. But back to Timberland.

We've got fantastic momentum going into the year and we are very excited about the disciplined success the brand continues to earn. In the fall we re-launched this iconic brand with our best then, better now global marketing campaign. The campaign strongly defines the brand's modern rugged refined aesthetic while positioning Timberland as an outdoor lifestyle marquee for footwear, apparel and accessories.

None of this is possible of course without amazing product. And without a doubt Timberland footwear has great energy, energy that we expect to accelerate even more greatly this year. From core styles including boots and hiking to Earthkeepers, boat shoes and pro, our own D2C and wholesale channel saw balanced growth.

This growth also included meaningful increases in ASPs, a significant improvement in overall brand health and improving profitability. And whether it is Sensura Flex, anti-fatigue, waterproofing or our new L7 traction technology, there is no shortage of innovation to expand across our products in 2014.

In fact, innovation is so important we are well underway with VF's center of excellence for innovation in footwear at Timberland's global headquarters in New Hampshire,,,, a strategy that will provide benefit for all of VF's footwear brands.

On the apparel side we are very pleased with the results from the relaunch of the brand in North American market last fall and have seen solid sell-through in both our own stores as well as our wholesale partners. One key highlight is the outerwear, which uses high vent technology developed by The North Face to offer a higher level of waterproof protection.



So we are right on track with our expectations to accelerate this brand apparel business in 2014. As with all of our brands it is all about storytelling. We will be everywhere the consumer is in-store and online with Digital Marketing, relevant content and a brand message that drives sales. Now over to KH.

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

Timberland's International business, which represents about 60% of the brand's global revenues, grew 2% in 2013. And while this was in line with our expectations, the full-year number is definitely not the whole story.

In Europe where the business was negative for the first nine months of 2013, Timberland's revenues were up at a low-teen rate in the fourth quarter, right on track with where we want them to be and certainly confirmation that all of the work we have done is paying off. This is truly encouraging news and really the last piece of the equation that we needed to set up properly for us to start delivering on our long-term goals.

In our Asia-Pacific region where the brand's largest market is Japan, 2013 revenues were up at a low-single-digit rate or at low-double-digit rate on a constant dollar basis. 2014 we expect the brand's International business to accelerate to a high-single-digit growth rate including similar growth in Europe and a low-teen revenue increase in Asia.

One of our key strategic focuses for our International business in 2014 is centered around enhancing the quality of our brand presentation in both our DTC and wholesale partner doors. In our DTC business we spent 2013 refining our global eCommerce strategy and in 2014 we will be focused on presenting a consistent brand online and investing in strategies that drive the consumers to the website.

We'll also expand our eCommerce offering two new markets including Germany, France and Italy. We are very excited about all of the great things going on at Timberland and believe that 2014 will be the best year yet for the brand. Now I turn it over to Scott to take a look at Jeanswear.

Scott Baxter - *VF Corporation - VP of VFC, Group President of Jeanswear, Imagewear & South America*

Thanks, Karl Heinz, and good morning, everyone. In 2013 global revenue for VF's Jeanswear coalition was up 1%; this reflects a low-single-digit increase in the Americas region and a low-single-digit decline in our International business.

In the fourth quarter the America's business saw flat results in the US offset by declines in Central and Latin America. In the US challenging conditions at the mid-tier department stores, which have continued to intensify, and slight contraction in the mass channel are tempering our growth.

Additionally, consumer trends in women's basic denim have impacted the business. Yet despite these headwinds our Western specialty business put up its 14th quarter of consecutive growth contributing favorable margin makes in the coalition still delivered a 17% increase in operating income.

In 2014 we expect the coalition to grow at a low single-digit rate and provide a similar contribution to VF's profits. Given the environment, which we anticipate to remain challenging we have great confidence in our ability to outperform the category going forward.

There are meaningful reasons to believe the evolution of our innovation pipeline, which after years of progress, is firmly established and generating meaningful product to consumers. Our category and geographic expansion strategies have taken root with a robust opportunity to continue long-term market share gains and the unique competitive advantage we have with our outstanding manufacturing and supply chain to remain agile along with the environment.

Now, let's run through a few brand highlights, starting with Wrangler. Wrangler's revenues were up about 3% in 2013 and are expected to be up about the same rate in 2014. We continue to focus on improving our innovation disciplines with the goal of providing consumers with products that creatively marry style and function. For our men's products it is all about denim performance.

Along these lines in 2014 we will launch our advance comfort collection more broadly outside the western channel. In terms of how we are connecting with our consumers, high-impact in-store presentations and retailer education will continue to be key drivers of our success.

We are also expanding our distribution network, giving consumers more opportunities to discover the brand. We are taking share in the mass channel digging and deeper and Western specialty and see excellent opportunities to drive increased for space productivity. So have confidence that we are still the best positioned in our industry. Now Karl Heinz.

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

In our International Wrangler business we saw better results in Europe including low-single-digit revenue growth and strong margin improvement in the fourth quarter. In Asia India was a highlight for 2013 with a low-double-digit increase in revenues. For 2014 we expect this positive trend to continue.

Over the last 18 months we have restructured many areas of our operations to drive efficiencies and greater profits and as a result we seen higher SAP's, based on higher full price sales, lower distressed inventory and more focus on winning with key accounts and the countries where we are doing business in. Now back to Scott with Lee.

Scott Baxter - *VF Corporation - VP of VFC, Group President of Jeanswear, Imagewear & South America*

In 2013 Lee's global revenues were flat including a slight increase in the Americas business offset by a low single-digit decline in the International business. In 2014 we expect revenues to be a low-single-digit rate with positive growth results in all regions of the world.

In 2013 we focused heavily on creating additional growth opportunities particularly and the mid-tier channel with seven new product innovations that watched launched in the fall we were able to fulfill that objective. In particular we are proud of the results that we've seen in our comfort fit for women and modern series for men.

Additionally, our platinum label collection generate fantastic consumer interest and was directly responsible for adding nearly 400 locations with our key department store partners. Karl Heinz.

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

In 2013 Lee's International business was down at the low-single-digit rate held down primarily by sluggish sales in China where the wholesale channel worked through a denim inventory challenge. As anticipated, growth fully in China returned in the fourth quarter and we are expecting about 10% growth 2014.

In Europe sales were up at the low-single-digit rate in 2013 which we expect similar results in 2014 most importantly the brand saw stronger margin improvement in both areas. And now back to Scott for a brief overview of the VF's Imagewear business.

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

Our Imagewear coalition was down 1% in 2013. In 2014 we are expecting to see low-single-digit growth driven by a mid-single-digit increase in the image side of the business and slight growth from our licensed sports group.

In image we were very excited to announce our Bulwark iQ series, which is a breakthrough innovation that features the first new fire resistant chemistry in 50 years. We are confident this is a game changer. We are also seeing success with Red Kap's automotive workwear and recently announced Red Kap shop pants, the first pant and shorts specifically built for automotive mechanics.

Wrangler workwear is also gaining momentum, a great brand extension that is using superior product technology and brand strength to establish a premium tier of workwear.

Our licensed sports group will look to drive growth through three main initiatives -- our innovative new Majestic player series aimed at serious players, expanding Majestic branding into NFL apparel and the launch of our new e-commerce site which will give us a new and direct vehicle to help fans connect with their favorite teams.

And one last thing, we are all very proud of is the expansion of LSG into a new International partnership with the Japan series champion baseball club, the Rakuten Golden Eagles, Majestic will be both the on-field uniform for the club as well as the leader in Eagles fan wear. And now Karen Murray will take you through the Sportswear coalition. Karen.

Karen Murray - VF Corporation - President of Sportswear

Thanks, Scott. The Sportswear coalition had a strong 2013 with global revenues up 8%, including 5% growth from Nautica and 29% growth from Kipling's US business. In 2014 we expect revenues for the coalition to increase at a very similar rate to that of 2013.

Let's take a look at where this growth will come from starting with Nautica. The first area of focus is further expanding our consumer base. We have begun to add a more youthful sensibility to our product offerings including slimmer fit and we will continue to introduce new products that offer the performance features our consumers want. In addition, we will grow our women's business, a focus for us in 2014 and beyond.

A second priority for Nautica is building an elevated consumer connection that amplifies our unique positioning. Currently we are in the process of completing global consumer segmentation work. This will give us great insight into the behaviors, attitudes and needs of our target consumers.

Our third priority for 2014 is growing our direct-to-consumer businesses. We will continue to grow Nautica.com and focus on developing robust e-commerce and mobile platforms.

We will also leverage our successful full price International model and begin to lay the groundwork for full price retail stores in the United States. These strategies will call for exclusive product in our direct channels and the need for a good, better, best product strategy.

Now turning to Kipling. As a reminder, I oversee the US business, which is about one-third of global sales, and Karl Heinz has responsibility for the rest of the world. So I speak on behalf of both of us when I say that Kipling had a stellar year in 2013.

The global business was up 20 percent including mid-teens growth in Europe, 20% growth in Asia and nearly 30% growth in the United States. Moreover, we are planning for another very strong year for the brand in 2014 with similar growth to 2013.

Kipling will be innovating and expanding their offering beyond crinkled nylon and addressing product usage occasion. While we are staying true to our brand heritage, we are focused on strengthening the style component of our products with the primary emphasis on handbags.

Globally our growth will be driven by the continued successful expansion of our direct-to-consumer strategy. Our retail stores are growing, they are profitable and are now being supported by an accelerating eCommerce business.

In summary, the Sportswear coalition had a great year and made a lot of progress and we have good momentum going into 2014. Now my colleague, Susan Kellogg, will take you through Contemporary brands.



Susan Kellogg - VF Corporation - President of VF Contemporary Brands

Thanks, Karen, in 2013 excluding the John Varvatos brand which was sold in April of 2012, revenues for the Contemporary brands coalition were down 2% including low-single-digit decline in the Americas Business and mid-single-digit increase in our International business. Excluding John Varvatos our global DTC business was up more than 10% offset by high-single-digit declines in sales to the wholesale channel.

Starting with 7 For All Mankind, for the full-year sales were down 2% amid a contracting market. A bit of good news is that we are taking market share in the challenging markets due to a nimble supply-chain and product innovation. On the product innovation front, we are expanding our two cornerstone brand franchises, Slim Illusion for women and Luxe Performance for men on a global basis.

In addition, the early reaction to men's triple blue products, which guarantees no fading up to 40 washes, has been very positive. These innovations along with others have had great success and we believe they will continue to grow throughout 2014.

We recognize that our consumer is digitally oriented, so we are focused on making sure that they can connect with the brand any time anywhere. 7 For All Mankind will become a true omni-channel retailer. We've optimized our website for mobile and are expanding targeted marketing campaigns by partnering with bloggers, celebrities and key influencers.

Additionally, we expect our direct-to-consumer channel to be up more than 20% in 2014 through our own stores, our partner stores and our e-com business. We see the biggest growth opportunity to be in the International space.

Overall, we are looking forward to a year of great innovation and increased consumer connection across all our Contemporary Brands and expect the coalition to be up in a mid-single-digit rate in 2014. Now I will hand it back to Eric.

Eric Wiseman - VF Corporation - Chairman, President & CEO

Thanks, Susan. That concludes our prepared remarks. I'll make a comment that last June we shared with you our plans for VF to become a \$17 billion Company earning 16% operating margin by 2017. I can tell you that today we are as confident as ever of our ability to achieve those targets.

Actually we are slightly ahead of plan on some of the key measured targets that we gave you. We are right on plan with the targeted EPS growth that we gave you at 13%. And we are slightly behind on one of the targets, the revenue target we had missed that in 2013. We expect to gather more momentum in 2014 against the target.

And then I'll remind you, in the fourth quarter we came in right at 8% organic growth. So we are confident, we hope you are, and we would love to have your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Bob Drbul, Nomura Securities.

Bob Drbul - Nomura Securities - Analyst

I have two questions. The first one is on the 2014 assumptions that you have laid out for us today, can you talk a little bit about the visibility that you have on -- I guess in the outdoor coalition The North Face and maybe Timberland -- around reorders or early orders from the full-year numbers?

And then the second piece of it is in the \$700 million in buybacks that you have planned, that is a definite step up. And I guess if you could just talk about that plan versus a further dividend increase or the acquisition landscape with the use of the cash?

Eric Wiseman - VF Corporation - Chairman, President & CEO

Sure, Bob. I will take the first question and Bob will handle the second one. So here we are in the middle of February. And we obviously, in brands like The North Face and Timberland and the ones you talked about, we have pretty good visibility to spring.

Our orders are booked in most businesses, there is some reorder businesses, some order business in those brands but it's mostly a pre-book business and we've got really good visibility to it. We are gaining visibility to fall right now, we are writing fall orders. And we are out doing that right now. And all of that supports the growth rates that we have given you for those brands in our comments this morning.

We Obviously haven't booked holiday yet, but we just finished having a fantastic holiday season in those brands. And really -- actually a spectacular holiday season in both Timberland and The North Face. And we intend to use that reality to help influence our holiday business next year. Bob?

Bob Shearer - VF Corporation - SVP & CFO

Sure, on your second question, Bob, the answer starts with our strong cash generation which, as you know, was above the \$1.5 billion mark in 2013 and we expect to reach \$1.650 billion in 2014. And in 2013 we put \$100 -- \$1 million into our pension, we paid down \$400 million in debt and still grew our cash pretty nicely. In 2014 our pension is nearly funded, nearly fully funded, and we don't have any other debt pay down.

So we thought we would take the opportunity to invest the higher amount in the buy back, take the opportunity return cash to our shareholders. Our dividend will increase strongly as well. We will continue to work towards that 40% payout that we have committed to investors.

So the bottom line is -- the reality is that we can do both. We can afford to return more cash through our buyback program as well as our dividend program and still absolutely address our M&A program. A lot of flexibility in our balance sheet. And again, it really does start with that strong cash generation. So it is not a change in strategy, shouldn't be viewed that way. Our M&A activity is as strong as ever.

Bob Drbul - Nomura Securities - Analyst

Thank you very much.

Operator

(Operator Instructions). Matthew Boss, JPMorgan.

Matthew Boss - JPMorgan - Analyst

So Timberland clearly seems to be inflecting from a top-line perspective. I was hoping you could lay out the potential margin opportunity over time, particularly you have the infrastructure now built. Where is EBIT margin today and where do you think we could go longer term here?

Bob Shearer - VF Corporation - SVP & CFO

I will start on that. Matt, we've made a lot of progress in terms of our operating margin. But we are still investing behind the brand and turning a nice -- especially a nice EPS return with the effective tax rate that's applied to Timberland.

So our margin is around the 11% area, it has improved from about 8% from the time that we acquired it and, as I said, that still includes a fair amount of investment that we are making behind the brand. We talked about the higher marketing spend at the end of 2013 and we will spend at a higher level in 2014 as well and also behind some of the new platforms and programs such as the apparel side.

So, yes, we are really, really pleased with the progress that we have made on that front. Early on we committed to moving our operating margin to that 15% level over a five-year period and still very committed to that. There is just no reason that the operating margin for Timberland shouldn't be at frankly the levels that we see overall for Outdoor & Action Sports businesses.

But still investing today. We think they are the great investments to make. And absolutely no change in terms of the operating margin that we see as the opportunity there.

Matthew Boss - *JPMorgan - Analyst*

That is great. And then on The North Face side, have you seen any changes competitively worth noting? A lot of people continue to talk about this, either domestic or abroad? And can you also talk about this Mountain sports opportunity and how that will play out over the next couple years?

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

Yes, sure, this is Steve. The competitive set in the outdoor industry remains the same. As North Face transcend that outdoor space it takes on a whole lot of new competitors. And I think that is where you see us really focusing on our product creation, the new innovations we are bringing to elevate the brand and really exceed our customers' expectations.

And most importantly how we are really tuning up our demand creation capabilities through just the strong ad campaign that if you saw it this last fall it is really the best brand has ever done with the emotional elements that we saw with our TV campaign supported by the singular big story focus, not only in media but in store. The brand is really well-positioned and by far the leader in its space.

Matthew Boss - *JPMorgan - Analyst*

Great, best of luck.

Operator

Michael Binetti, UBS.

Michael Binetti - *UBS - Analyst*

I wanted to ask you just about the guidance for the year, the revenue outlook and the directional guidance you gave us first half/back half. Can you tell us how the guidance for mid-single-digits in the first half looks by coalition, please?

Bob Shearer - *VF Corporation - SVP & CFO*

Yes, it does, as I said -- I believe it was in my comments -- that clearly the Outdoor & Action Sports will be the primary driver of the first half. Despite the fact that our Outdoor & Action Sports and particularly The North Face and Timberland brands are considerably stronger in the second half of the year and also D2C plays a role in this as well.

So as we think about the first half versus second-half, Outdoor & Action Sports will be a primary driver. We expect some of the other businesses to be somewhat stronger in the second half of the year. And once again, that is when our direct-to-consumer really kicks in as well.

So actually we are planning some earlier store openings that should really benefit the second half a little more strongly than maybe we have seen in the past.



Eric Wiseman - VF Corporation - Chairman, President & CEO

And Vans will be one of our fastest growing brands this year. And obviously Vans is not a winter weather brand primarily, it does much better as the climate heats up here some.

Michael Binetti - UBS - Analyst

And then could you talk a little bit about your comment that -- on slower than expected orders for the jeans business at mid-tier and does the first half guidance imply that channel continues to moderate orders at all?

Scott Baxter - VF Corporation - VP of VFC, Group President of Jeanswear, Imagewear & South America

Sure, how are you Michael, this is Scott. Just to comment around the channels had some challenges, we did mention that. But I think the most important thing for us is -- it's really twofold, is that our shares are expanding, which is really critical for us.

And from a product standpoint we actually have some really innovative product in the stores right now and our pipeline is really strong. So we have much more in the second half from our plan standpoint than we do in the first half but we feel real confident about it going forward.

Bob Shearer - VF Corporation - SVP & CFO

And, Michael, a lot of that business is replenishment business for us. And our assumption in our plans is there is not going to be a recovery in the channel, we thought that was the prudent assumption to make.

Michael Binetti - UBS - Analyst

Okay. And one last question on the SG&A. You mentioned about 30 basis points of deleverage, but I'm just trying to reconcile that with a comment that you made a pretty nice contribution to pension last year that should be a tailwind. Marketing doesn't seem like a significant year-over-year headwind. Can you help me think about what is driving that 30 basis point increase? Thank you.

Bob Shearer - VF Corporation - SVP & CFO

For the full-year 2014?

Michael Binetti - UBS - Analyst

Yes.

Bob Shearer - VF Corporation - SVP & CFO

Yes, it is primarily related to that change in accounting on the concession shops. That is really what is driving the difference. So what we were saying was that previously those fees that we pay on concession shops were netted against revenues and now they will be included in the SG&A. So when we look at the increase actually in the SG&A it is really all attributable to that.

Michael Binetti - UBS - Analyst

Okay, thanks a lot, guys.

Operator

Kate McShane, Citi.

Kate McShane - Citigroup - Analyst

My first question is on some of the cost pressures that you highlighted in your comments today. Could you tell us where you are seeing the biggest point of pressure? Is it in labor or is it in cotton? And is there any pricing being taken as a result?

Bob Shearer - VF Corporation - SVP & CFO

Yes, actually, Kate, from a cost stand -- just to clarify that for -- as we look at 2014, one of the comments I made that is as we initially talked about 2014, and I know we are always reluctant to say a lot about 2014, I guess this is the reason, because we initially thought and we talked about seeing a few percentage points of cost increases for the year.

And as all of that has sorted out, actually right now we are seeing less than half of a point of cost increases for the year. And that is essentially being offset by a little bit of pricing. So again, it is really pretty small so that our cost net of pricing is really pretty neutral and the gross margin expansion is being driven by exactly what we have been seeing, the mix impact, the mix benefit as well as a little bit of help from the accounting from concessions.

Kate McShane - Citigroup - Analyst

Okay, that is very helpful, thank you. And then my other question is just about The North Face business going forward. As you get the incremental orders for winter 2014, how do you think about that the build out of your inventory? Or are you going to be taking a more measured approach to inventory despite the very successful winter given the volatility over the last couple of years with the weather?

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

Kate, I will take this one. I think we're been very clear over the years of how The North Face has modeled its go-to-market strategy, it is very much a pre-booked business model. And we -- historically we will buy to that order book and that order book is about 90% to 95% of our total revenue.

So we model a very small at once reorder capacity. That's been our model for 14 years and it continues to be the proven success model that we will use this year.

Kate McShane - Citigroup - Analyst

Okay, thank you.

Operator

[Laurent Leslescue], Macquarie.

Laurent Leslescue - *Macquarie - Analyst*

I believe you're six months in since you announced the establishment of the three global innovation centers. Maybe you could provide a quick update on these innovation centers for 2014?

And in terms of my second question, in terms of potential acquisitions to achieve 2% top-line acquisition growth, are you looking for potentially one name that generates \$500 million plus in annual revenues? Or are you open or expecting to potentially acquire two to three smaller names?

Scott Baxter - *VF Corporation - VP of VFC, Group President of Jeanswear, Imagewear & South America*

So, Laurent, good morning, this is Scott. I will start with the denim innovation center from a global standpoint. We have made terrific progress; actually we are very happy with where we are. And we think we are going to have some announcements here at the end of the first quarter relative to who will be leading that facility for us.

And the location which we have already announced will be in Greensboro, North Carolina for the global center. And everything that we've done so far we are on track and progress is being made and we are really happy with where we are.

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

And in the case of our technical apparel and footwear centers, these are teams that have been in place. Our commitment is to increase our resource and creative capacity in both of these centers. And as Scott said, we have got some very positive announcements coming down the road.

But I will tell you, I talked about FuseForm in my comments. And that is a product that came out of our technical apparel center in Alameda and it is a product that we have got a very, very exciting long runway to build on.

It is just an example of what we are capable of today and as we increase resources both in our apparel and footwear teams we really look to accelerate breakthrough ideas that will continue to separate our brands from our competition.

Bob Shearer - *VF Corporation - SVP & CFO*

And I will deal with the acquisition question. And how we think about acquisition targets, and we think about it a lot, and yes, we have a list. But we think about brands that are complementary to our brand portfolio that help us reach customers/consumers. We are not engaged with at this point. Or to build us out in spaces that we are close to being in but we don't have enough share of that space.

We are agnostic as to geography, we would buy a business anywhere in the world if it was complementary to our brand portfolio. And the size aspect given our current size bigger deals, fewer bigger deals would be better for us to do.

It may not always play out that way, but that is what we'd prefer to do. And our balance sheet is so healthy right now given our strong cash flow the last few years, we are in a position to do a big deal if we can find the right one to do.

Laurent Leslescue - *Macquarie - Analyst*

Thank you very much.

Operator

Lindsay Drucker Mann, Goldman Sachs.

Lindsay Drucker Mann - Goldman Sachs - Analyst

On The North Face, I was just hoping you could clarify in the Americas some of the dynamics in the fourth quarter. We know we had a very cold winter and lapping a couple of warm winters. And we had heard from you guys that you had only ordered to fulfill so much demand so there would be limited amount of revenue upside even if demand came in stronger.

So can you talk about, number one, and on top of that that you would see follow-through strong demand in orders for 2014. So number one, is that actually what played out in the quarter? And as you talk about your 2014 order book and your expectations that is also reflective of an acceleration based on the strong winter?

And then number two, I know you don't give detail on North Face margin performance, but did we see net of the marketing investment step up, some strong improvement in merchandise margins based on more full price selling? Thanks.

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

Sure. Lindsay, I will click away here at your questions. So we saw a very good solid Q4 to the numbers that we spoke about. And certainly weather helped, but I will be honest with you, as you look across the United States we would characterize this as a normal winter though all up and down the I-95 corridor. You guys might argue with me. I live out west and it has not exactly been a stellar winter.

So this was a normalized winter for us. We came into that working with our accounts with that in mind. We booked about 90% to 95% of what we expected the total demand to be. And as we saw Q4 accelerate we were able to really drive against that reorder model that we have and ended the year very clean.

What we saw with our retail partners, especially those that were able to monitor sell-through, was very strong sell-through at much better margins than last year and that is a very good model for us especially when our brand is outperforming our competition that puts us in a very good place.

As we come into 2014 working on our pre-books today history would tell you that our dealers will then book much more significantly with our brand against our initiatives based on last year's success. And that is represented in the guidance that we have given you for the brand at 12% for 2014.

Eric Wiseman - VF Corporation - Chairman, President & CEO

Lindsay, the data points I will add were from Bob's script. He commented that we were up 12% in the quarter and that our direct-to-consumer business was up more than 30%. So that tells you that we had the right winter and the right products and the consumers bought them through our direct-to-consumer channels.

It also tells you that we didn't have the kind of a rate in our wholesale business whereas we described in our business model -- we have limited capacity to chase some of the outerwear pieces. So what that says is that our -- a lot of our wholesale partners, the retailers that buy from us had similarly strong sell-through in their stores.

And as we sit with them to write next fall we have even more compelling stories around some of the new product launches that we have had [loose] -- initiated this year and will develop out next year. So we are feeling good about next year.

Lindsay Drucker Mann - *Goldman Sachs - Analyst*

Great. And then just to follow up on the CapEx guidance and then your outlook for marketing investment. Can you just go through what the big buckets of CapEx spending are for next year and whether you are looking for significant incremental marketing investment in what areas for 2014?

Bob Shearer - *VF Corporation - SVP & CFO*

Yes, so the CapEx is relatively level with 2013, right around the \$270 million mark. The biggest component just as it has been will be new store openings that will be a little higher than it was in 2013, so that represents a big share of always of our CapEx spend and it will in 2014 even a little bit more so, frankly.

Distribution centers will still carry over because of the growth we are seeing particularly in the Outdoor & Action Sports area will also be a fairly sizable component of that spend as well. So it really is all about to support our growth.

Relative to the marketing spend, our ratio of our marketing spend in 2013 was 5.9% of revenues and we increased our spend by about \$100 million in 2013 over 2012. In 2014 we will keep that percent, that ratio at about the same level as in 2013. In other words the elevated level at the 5.9% and that will mean that we will spend about \$60 million more in marketing in 2014 than 2013.

And as to where it will be spent, it will absolutely be spent on those larger brands that have the strongest momentum and in areas around the world that also have the strongest momentum. We have done that very, very consistently and, as I said in my comments, that has really worked well for us.

Lindsay Drucker Mann - *Goldman Sachs - Analyst*

Okay, thanks.

Operator

Jim Duffy, Stifel.

Jim Duffy - *Stifel Nicolaus - Analyst*

My question on the Jeanswear operating margins. Scott's commentary about operating profit contribution remaining consistent as a percent of revenue seems to imply low-double-digit operating income growth on low-single-digit revenue growth. How do you solve to that?

Bob Shearer - *VF Corporation - SVP & CFO*

How do you solve -- I'm not sure I understand the question, Jim, how do you solve for --?

Jim Duffy - *Stifel Nicolaus - Analyst*

So low-single-digit revenue growth in Jeanswear coalition and Scott's comments about the operating profit contribution for the Jeanswear coalition remaining consistent as a percent of revenue seem to imply it is going to grow at a low-double-digit rate. What is the margin outlook for that Jeanswear coalition that gives you that type of leverage?

Bob Shearer - VF Corporation - SVP & CFO

Yes, the margins should improve some in Jeanswear and now Scott of course was talking more about the US business, the reality is what we are seeing, Jim, is continued expansion particularly in our European jeans business. The revenue growth hasn't been quite as strong. It is improving -- it is improving from where we were but the earnings growth is even stronger than the revenue growth in Europe.

And also on the Asian front, while we did a pretty good job actually of maintaining the profitability on our Asian jeans business, you know some of the challenges we had there with the glut of inventory particularly throughout 2013. Those margins are quite strong as well. So some of what you are seeing is the International side of the Jeanswear business kicking in and really helping the overall margin and profit comparison.

Scott Baxter - VF Corporation - VP of VFC, Group President of Jeanswear, Imagewear & South America

And also you have got to remember too, our Western business is very healthy and continues to be very healthy and we are planning on that for the time going forward.

Jim Duffy - Stifel Nicolaus - Analyst

Okay, thanks. And then in 2013 in the third quarter was a retail calendar shift that pushed some revenue from 3Q into 4Q, is there any kind of reversal of that we should expect this year or is that a permanent calendar shift?

Bob Shearer - VF Corporation - SVP & CFO

No, actually it will have some of the reverse effect in 2014, yes, that is not a permanent shift.

Jim Duffy - Stifel Nicolaus - Analyst

Got you. Thank you, everyone.

Operator

Erinn Murphy, Piper Jaffray.

Erinn Murphy - Piper Jaffray - Analyst

I just wanted to follow up on the Jeanswear business. Do you think there is something else broader from a fashion cycle perspective or a fabrication preference such that's continuing to pressure that category on the women side globally?

And then the second question is on Europe, it picks up very nicely in the quarter. Can you just share a little bit more perspective on what you are seeing within the major regions? Thanks.

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

Maybe I start with the second question, Erinn, on Europe. We had a great quarter in Europe in Q4, which was up nicely. There are several elements. First -- and that is why they reported the economy is doing a little bit better step-by-step which is certainly helping us.

The second one was the performance of Timberland. Timberland is a big brand for us and is actually our largest brand in Europe. And the change of performance it was negative for three quarters and positive in the fourth. Put us in a good situation for 2014.



From a regional or country's point of view, there isn't a lot of change compared to the past. Central Europe is doing pretty well, Scandinavia and the UK and Southern Europe -- Southern Europe being a little bit weaker.

Scott Baxter - VF Corporation - VP of VFC, Group President of Jeanswear, Imagewear & South America

And then, Erinn, from a women's perspective it is less than a third of our total business right now in the Jeanswear group. But we are really happy with how we have mitigated this basic denim trend that is going on. And I think the most important thing for us is we do have a really nice assortment that also plays into that category and will continue to play in that in the future too.

But looking forward, we are pretty confident as far as how we feel about the assortment and the products that we have in our innovation within that category.

Operator

Robby Ohmes, Bank of America-Merrill Lynch.

Robby Ohmes - BofA Merrill Lynch - Analyst

Hey, listen, I think you guys mentioned in your comments that you could see China growing maybe even more than 20% in 2014 and that would be a nice acceleration from the 14% you put up in 2013. There are other brands in China that aren't growing as well as they used to be.

Can you kind of talk about what you are doing different or what is driving that accelerating growth maybe give us a little more detail on what the overall tone of business is over there? I know there was excess inventory from -- that other brands were complaining about, particularly in sportswear. Thanks.

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

Let me try to answer you, Robby. China is still a great opportunity for us. You know we have a relatively low number of accounts in terms of penetration. So we operate mainly with five brands at the moment.

I guess the game changer, 2013 versus 2014, is the performance of Lee. You know Lee was -- Lee is a large brand for us in China, was down in the beginning because of -- the beginning of 2013 the first quarters and it is finally up now in the last quarter. And we expect it to grow in 2014. So I would say that is the change the primary change for 2014. The rest is no big differences, China is a great opportunity for us and our brands are doing really well there.

Robby Ohmes - BofA Merrill Lynch - Analyst

Great, thank you.

Operator

Barbara Wyckoff, CLSA Financial Services.



Barbara Wyckoff - CLSA Financial Services - Analyst

Are you seeing any action in acid washed denim or lighter colored jeans, higher rises or flares or any other kinds of change in silhouette in any of the women's denim businesses? And how do you think color will perform this coming spring? Thanks.

Susan Kellogg - VF Corporation - President of VF Contemporary Brands

Barbara, it is Susan. I think I will take that. Certainly in the premium denim market it is all about the lighter washes which I find very interesting given the snowstorm, I got snowed in yesterday and lighter washes are still one of the number one washes selling.

So you hit on also the biggest trend for spring which will be the higher rise, which I think is great because it hits both markets, it hits the millennial's because it is cool and new and it hits the little bit older customer who just needs more coverage. So whenever a trend like that is so commercial it means money.

Barbara Wyckoff - CLSA Financial Services - Analyst

And what about color?

Susan Kellogg - VF Corporation - President of VF Contemporary Brands

I think color is -- I think it is always going to be there when the sun is shining. But I think it pretty much has peaked.

Barbara Wyckoff - CLSA Financial Services - Analyst

Okay, thanks. And in the other Jeanswear businesses, is there any indication that there might be some action in lighter washes, higher rises in women's?

Scott Baxter - VF Corporation - VP of VFC, Group President of Jeanswear, Imagewear & South America

Yes. We also trend that way, so we are definitely seeing the higher rise situation going on, we have seen that for sure. From a color standpoint I would also say that that trended about a year ago and we are not seeing that nearly as much and we do have some lighter washes coming out in our women's assortment that we have in our mid-tier channel with Lee.

Barbara Wyckoff - CLSA Financial Services - Analyst

Great, thank you.

Operator

Mitch Kummetz, Robert Baird.

Mitch Kummetz - Robert W. Baird - Analyst

A couple of questions I think for Bob. One, on this change in accounting on the concessions, I just want to clarify. You guys give your sales guidance of 7% to 8% for 2014. Is that based off of the \$11.42 billion that you roughly reported in 2013 or is that off of some adjusted number to take into account the change in accounting treatment there?

Bob Shearer - VF Corporation - SVP & CFO

Yes. No, Mitch, that is also as reported in 2013.

Mitch Kummetz - Robert W. Baird - Analyst

Okay, so the 7% to 8% I think roughly kind of translates into \$800 million to \$900 million plus of new revenue. What is the concession accounting treatment change represent of that?

Bob Shearer - VF Corporation - SVP & CFO

Yes, it is only about \$60 million. Again, remember, it is only the fees. The revenues themselves is just as we report to you the direct consumer numbers versus wholesale, that is the \$200 million that I mentioned. But the change is really just isolated on the fees which is only \$60 million.

Mitch Kummetz - Robert W. Baird - Analyst

Got it. So it is not a big part of the growth (multiple speakers)?

Bob Shearer - VF Corporation - SVP & CFO

No, it is not -- no, it is not a big part of the growth, that is right.

Mitch Kummetz - Robert W. Baird - Analyst

Okay. And, Bob, you mentioned that your kind of quarterly growth trajectory should be similar in 2014 as 2013. Would that also be the case when you are looking at Q3 and Q4. I know for Q3 and 4 of this past year, obviously a lot more growth in the fourth quarter but I think some of that -- I mean some of that was obviously the direct DTC.

But some of that too was that retailers wanted orders -- or deliveries later and your backlog for fall maybe wasn't quite as strong because it was a reflection of the fall holiday season the year before. I would assume that maybe you wouldn't see as drastic a growth difference in the back By quarter this year, is that not really the case or --?

Bob Shearer - VF Corporation - SVP & CFO

No, that is exactly the case. We would expect the growth and the third and fourth quarters to be a little more even than what we saw in 2013.

Mitch Kummetz - Robert W. Baird - Analyst

Okay and anything we should be thinking about from a margin standpoint in terms of the quarterly cadence this year, either gross margin or -- I mean again, you've already mentioned the concessions impact on SG&A. But maybe from a gross margin standpoint is it 90 basis points pretty consistent across the quarter or is it any stronger or weaker in any particular quarter?

Bob Shearer - VF Corporation - SVP & CFO

Yes it is actually pretty consistent through the first three quarters and then as you would expect in the fourth quarter especially with our higher margin businesses and also direct-to-consumer really kicking in. That is when you will see the greatest expansion. But fairly consistent right around that 90 basis points or even maybe just a little less in the first three quarters and then above the 90 basis point improvement in the fourth quarter.

Mitch Kummetz - Robert W. Baird - Analyst

All right. Very good, thanks and good luck.

Operator

And at this time I will turn the call back over to the speakers for any additional or closing remarks.

Eric Wiseman - VF Corporation - Chairman, President & CEO

Thanks, everyone, for your time and attention this morning. We are over an hour and 20 minutes into the call so we are going to call it a day and get on with what we have to do here, which is executing our 2014 plan.

If we didn't get to your questions -- and I know it was a complicated call -- please call Lance, he would love to have questions from you guys all day long. And we do want to answer your questions so please do reach out to us. Thanks so much for your time. Bye.

Operator

And again, that does conclude this call. We would like to thank everyone for their participation today.

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