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# EDITED TRANSCRIPT

VFC - Q1 2014 VF CORP Earnings Conference Call

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## OVERVIEW:

VFC reported 1Q14 EPS of \$0.67. Expects 2014 revenues to be at the upper end of 7-8% range and EPS to rise to approx. \$3.06. 2Q14 revenues are expected to increase at a similar rate to that of 1Q14.



## CORPORATE PARTICIPANTS

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

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

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

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

**Bob Shearer** *VF Corporation - CFO*

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**Matthew Boss** *JPMorgan - Analyst*

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## PRESENTATION

### Operator

Good day, and welcome to the VF Corporation first-quarter 2014 earnings conference call. Today's conference is being recorded. At this time, I would like to turn the call over to Lance Allega. Please go ahead.

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### Lance Allega - VF Corporation - Director of IR

Thank you, operator, and good morning to everyone joining us today to discuss VF's first-quarter 2014 results. Before we begin, I would like to remind everyone that participants on this call will make forward-looking statements. These forward-looking statements are based on current expectations and are subject to certain risks and uncertainties that could cause actual results to differ materially. These risks and uncertainties are detailed in documents filed regularly with the SEC.

Participants may also reference non-GAAP financial measures. Where applicable, you can find presentations of comparable GAAP measures in our press release, which was issued at 7:00 AM Eastern time, and also at VFC.com.



Joining us on today's call will be Chairman, President, and CEO, Eric Wiseman; Bob Shearer, our CFO; and VF executives Scott Baxter, Steve Rendle, and Karl Heinz Salzburger. Following our prepared remarks, we will open the call for questions and ask that you please limit your questions to two per caller. Thanks. Now, I'll turn the call over to Eric Wiseman. Eric?

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

Thanks, Lance. Good morning everyone, and thanks for joining us.

Our strong first-quarter results demonstrate more than just our solid performance over the last three months. They show the value of how we build our business, and how we have executed against our growth strategy during the last three years. By consistency leveraging our powerful brand portfolio and our business platforms, we continue to create and transform the market, outperform the industry, and position VF for consistent long-term growth.

2014 is off to a great start, so let's dive right in with the top line. Total first-quarter revenues were up 6.5%, driven by continued strong momentum in our outdoor and action sports coalition. Of note, that coalition grew at a faster rate in the first quarter than in the fourth quarter of last year, with revenues up 14% versus 12%. The three largest brands, the North Face, Vans and Timberland, all posted outstanding results, with strong double-digit growth in each.

Our international business was up 11%, and included double-digit growth in both Europe and our Asia-Pacific regions. And, our direct-to-consumer business grew 16%, with double-digit growth in both our US and our international business. Combined, this performance translated to a 130 basis point gross margin expansion, lifting us to 49.4% in the quarter, including improvements in all five of our coalitions.

First-quarter operating margin reached 14.5%, an 80 basis point improvement over last year. And our earnings per share increased 12%, to \$0.67.

Overall, we are very pleased with the strong momentum in our business, and what is setting up to be another record year for VF. Given our first quarter results, we now expect revenues to increase to the upper end of our previously-guided 7% to 8% range, so nearly 8%. Supporting this our growth is an increase in our expectations for our outdoor and action sports coalition, which we now expect to be 12% to 13% higher than last year's already-strong results.

Additionally, we now expect earnings per share of \$3.06 which represents 13% growth over 2013's results. With a great start to 2014 and our outlook for the full year, we are squarely on track to achieve the goals outlined in our 2017 plan.

While the past few years have revealed many changes in the world from macro economic challenges, to consumer trends, to a changing retail environment, that dynamic operating environment has highlighted the considerable strength of VF's powerful brands and powerful platforms. Our ability to deliver consistent sustainable financial performance remains grounded in the cornerstones of our growth strategy: Leading in innovation, connecting with consumers, serving consumers directly, and expanding geographically.

When we deliver on each of these in concert, VF is at its best, and as I look out across the balance of the year, I can say that I have never been more confident about the potential in front of us. With that, I will turn the call over to Steve, Karl Heinz, and Scott, to take us through our five largest brands, and then Bob will go through our financial results. Steve, over to you.

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

Thanks, Eric. Starting with The North Face, industry-leading product innovations and amplified marketing efforts continued to build on the fantastic momentum we saw at the end of 2013. In fact, not only did it carryover, but it accelerated to drive 14% global revenue growth for the North Face in the first quarter.



The Americas business showed great strength, posting a high-teen increase in revenues, led by successes in both winter and spring products. Product highlights like Thermoball and our premium Steep Series line saw consistent strength over the winter season, and as we made the transition to spring, Thermoball, which is engineered as a transitional-weight product, remains quite strong, along with a spring 2014 launch of our ultra performance footwear collection, and the Mountain Athletics earning line, which are driving continued momentum, and further validating our expansion into a four-season brand.

Looking out towards fall 2014 we continue to have a great product stories, from significant expansions in Thermoball styles in the Mountain Athletics collection, to the launch of our new Quantum outdoor training collection, and the debut of FuseForm in our Steep Series line, 2014 will be one of the strongest product offerings in TNF's history. To support all this, our targeted brand-level campaigns like Mountains are Calling and The Explorer have created significant social media momentum, and driven the highest TNF brand equity scores we have ever posted. In our retail stores and online, we're focused on telling big stories through curated assortments, amplified by visual merchandising and superior customer service.

To wrap it up, the first quarter in the Americas was a success. Inventories in both the D2C and wholesale channels are in great shape, and with amazing product on deck and solid bookings in hand for this coming fall, we have great confidence in our ability to deliver 12% global growth for The North Face in 2014. Now here is Karl Heinz to run through Europe and Asia.

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

Thank you, Steve, and good morning everyone. In Europe, The North Face saw a low single-digit increase in revenues in the first quarter, which, given a much warmer than normal winter, we consider solid results. D2C revenues were up at the mid-teen rate, including more than 30% growth in online sales.

So we did see some strength in a somewhat challenging market. But perhaps most importantly, I have great confidence that we remain ideally positioned in the European outdoor industry.

On the product front, we continue to make significant progress on transitioning our apparel to the European fit, as well as greater expansion of our snow sports and activity-inspired categories, to better meet local demand. These are important initiatives that will help the North Face create an even greater connection with our consumers' active lifestyles.

Turning to Asia, we saw a mid-teen increase in revenues during the quarter, but significant D2C strength. In China, the brand was also up at the mid-teen rate. We continue to build brand awareness and engage consumers, and recently [as you inferred] a new campaign in China to build off the strong momentum that we gained from our advertising campaign last fall.

With a solid start to the year, 2014 should see another record year for The North Face in Asia. Now let's move on to Vans.

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

Global revenue per Vans in the first quarter was up 20%, with similar growth in both wholesale and D2C businesses. Another phenomenal performance by the Vans team, and the 18th consecutive quarter of double-digit revenue growth. Revenues in the Americas region were up at the low teen rate, driven by balanced strength in both our D2C and wholesale channels.

On the product front in the Americas, there are several exciting things happening in footwear, including a great response in our women's business, particularly in slip-ons, in both sell-in and sell through. Additionally in Classics, we've seen great success with our collaboration product, including our Beatles collection, which coincided with the 50th anniversary of their appearance on Ed Sullivan.

On the technical skate front, the Gilbert Crockett Pro model has been successful, elevating the brand into higher price points. We also continue to accelerate our apparel rollout, with the relaunch of our women's apparel this spring. 2014 also marks the first year for Vans moving into a four-season apparel model, with a true summer collection.



Finally we launched a new Vans digital platform in late March at Vans.com, that merges content and commerce in a new and transformative way for our consumers. We have created what is a truly comprehensive and exciting experience for consumers, and we are showing both loyal fans and newcomers that they can turn to Vans.com to not only connect with the brand, but also to stay connected to what is happen in the skate, surf, snow, music, art, and youth culture.

Early reads on the new format and both sales and sentiment have been nothing but positive. All in all, Vans America posted a great quarter.

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

First quarter revenues for Vans Europe were up more than 20%, and included D2C growth of more than 40%. As in the Americas, we continue to roll out new and innovative ways to connect with consumers, and are working to ensure that Vans is synonymous with youth culture.

A great example of this effort is the addition of House of Vans in London, which is set to open up in August. This location, which is similar to the one many of you have been to in New York, will bring youth culture together in the heart of the city, and provide a unique opportunity for us to engage consumers within the intersection of action sports, music, and art.

We're also in the process of redesigning the brand's website in Europe. Our European e-commerce business, although small today, presents a terrific opportunity for significant growth.

Vans Asian business grew by more than 40% in the first quarter, including its Chinese business, which more than doubled. Throughout the region, we're seeing great success with our collaborations, including the Beatles collection, which has seen significant sell through since its launch. Our core classic products also continue to do incredibly well in this region.

In addition to launching the Living Off the Wall brand campaign, we also officially opened the first indoor skate park in Korea, which given we have only been in the country for little more than a year, represents an incredible opportunity to connect with consumers. Globally, a great start to 2014, and we are on track to deliver a mid-teen increase revenues for the full year. With that, let's move on to Timberland.

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

Carrying the theme forward, Timberland also saw great momentum in the first quarter. Global revenues were up 12% and included balanced strength across channels and geographies.

What is working? Pretty much everything. In fact, based on our strong first-quarter results, we now expect Timberland to grow 12% in 2014, versus the 10% we discussed in February.

In the Americas, revenues were up at a high teen percentage rate, driven primarily by our wholesale business. Sales of core Timberland men's and kids boot styles, as well as our hiking boots, almost doubled versus last year, and our PRO line continues to be a game changer in the marketplace, led by the Direct Attach collection. Four of our top six Timberland product families are now built on the anti-fatigue platform.

And we also rolled out our spring collection of apparel during the first quarter, and it's off to a very good start. In the first quarter, we also launched the new Bradstreet collection, with the SensorFlex technology. Originally inspired by the technologies for trail running, this platform infuses the new level of comfort and shock absorption that we plan to expand across many of our casual products.

To support the launch, we activated TV ads and retail merchandising displays, to communicate a message of comfort and versatility. And it is a global effort, with more than 1,000 windows that encourage consumers to come in the store to learn more about the innovation.

Our efforts are definitely paying off, as customers are responding really well to this new product. Overall, we are feeling great about the Timberland business.

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

Timberland's revenues in Europe were up at the high single-digit rate, an indicator of what we have anticipate being a consistent growth story throughout the year. We also saw a strong launch for the new Bradstreet collection, featuring SensorFlex technology, and in particular, we saw stronger results from our classic footwear for women, where we introduced a line of new casual transitional products.

Similar to Vans, we see e-commerce as a huge opportunity. Leading off the existing success in the UK market, Timberland is now live in three new countries, France, Germany, and Italy.

In Asia, first-quarter revenues were up at low double-digit rates, including positive results across all lines of business, driven by strength in our classic boot in both men's and women's. Mens' apparel performed well during the quarter, driven by outerwear, as consumers responded well to the new materials and silhouettes that we rolled out. Women's apparel also saw an increase driven by outerwear, in particular, lifestyle waterproof jackets.

Consistent with the North Face and Vans, we are very happy with the momentum of the Timberland brand, and really proud of the team continues to execute against our long-term growth targets. Now, I will turn it over to Scott to take a look at jeanswear.

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

Thank you, Karl Heinz. Globally, revenues for the Wrangler brand down 2%, and revenues for Lee were down 1% in the quarter. The jeanswear Americas business was down at a high single-digit percentage rate, due to ongoing challenges in the US mid-tier department store channel, and to a lesser extent, consumer trends in women's denim.

These challenges resulted in a low lower single-digit decline for Wrangler in the Americas region, and a high single-digit decline for the Lee brand. Of the high single-digit decline in the jeanswear Americas business, roughly half of the decrease was due to a combination of a decline in the Rock & Republic brand as we work to realizing styles to meet consumer preferences and the exit of a lower profit private-label business.

That said, our results were consistent with what we expected. We're on track for our full-year expectation of low single-digit growth. That implies acceleration in the jeanswear Americas business in the second half of 2014.

So given the environment, why the optimism? Product innovation, expanded distribution, and focused integrated marketing campaigns. Let's walk through these drivers, and I think you will better understand our confidence that we will finish during the second half of the year.

First, as I just mentioned, we're launching innovative new products focused on comfort, which is what we know our consumers want. In Wrangler, you'll see the introduction of new products in our Advanced Comfort Line, and for the younger Western consumer, we will be launching Rock 47. To address current trends in Lee's mass business, we plan to launch Heavenly Touch, and in our mid-tier business, Easy Fit, both of which have stretch fabrication that combines the comfort of leggings with the structural benefits of denim. Mid-tier will also see the launch of Modern Series Curvy Fit, a new line that features figure-enhancing contoured waist.

Second, we are expanding our distribution to give more consumers greater access to our brands. Wrangler is moving more significantly into the mid-tier, including JCPenney, where we have already had a very successful test over the past few months. For Lee, we will see additional door expansion in the department store channel, including Macy's and Bon-Ton.

Finally, we are connecting even better with our consumers. As you know, marketing science is a key asset VF offers its brands, and our findings have been extremely valuable in sharpening our storytelling.



We're starting to see great traction from these efforts, including response to campaigns for Advanced Comfort which continues to resonate quite well with consumers in the mass channel, and heightened visibility for Lee's Modern Series, which successfully launched last fall. We've also upped our investments in Lee's point of sale, which is currently rolling out to 2,000 doors across the US.

Another great example of how we are connecting with consumers is our Wrangler network, which started live streaming PRCA rodeos and country music concerts, an effort that continues to feed a cultural ecosystem, with Wrangler at the center. Second quarter will remain challenging for the jeanswear coalition, but we are confident that that will return to growth in the second half of the year. Now back to Karl Heinz to discuss jeanswear's international business.

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

Our international jeanswear business performed really well in the first quarter. In Europe, revenues were up a high single-digit percentage rate, including strong growth in both the Wrangler and Lee business, and sales in Asia were up at low double digits.

Across both regions, key accounts and consumers alike have responded well to the continued evolution of our collections. We look forward to 2014 being one of the strongest years for our jeanswear business in quite a few years.

We remain focused on creating and marketing our innovative products in ways that form an even stronger connection with consumers. In Europe, Wrangler has had success with its denim performance product. The Lee brand continues to see great strength with its Stretch Deluxe line for women, and its Blue Label collection for men, which features superior fabrics, in comfort, at competitive price points.

In Asia, we returned to strong growth in the first quarter. We saw great performance from lines like our 101 plus collection, which is a contemporary premium interpretation of our heritage denim offering. This line is seeing great consumer response and sell-throughs in both China and Hong Kong. Now, Bob will take you through our financial highlights.

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**Bob Shearer** - VF Corporation - CFO

Thanks, Karl Heinz. Our first quarter is a great example of why VF's business model is successful in delivering consistent profitable growth, and meaningful returns to shareholders.

With diversity across products, brands, and consumers, across channels, geographies, and our supply chain, our unique competitive strengths have us well-positioned to deliver yet another record year for VF. In fact, based on first-quarter results, I am happy to report that we are raising our full-year revenue and earnings per share guidance, but more on that a little later. Let's take a look at how we did.

Total VF revenues were up 6.5%, led by our outdoor and action sports coalition, with 14% revenue growth, which as Eric pointed out, is even higher than the strong 12% growth they posted in the fourth quarter. Our international and direct-to-consumer businesses also showed strong gains with revenue growth of 11% and 16% respectively.

Gross margin was a great story as well, reaching 49.4% in the quarter, an all-time record for any quarter in VF's history. This marks a 130 basis point improvement over last year. Of this improvement, about 90 basis points was due to mix, in other words, strongest growth in our highest-margin businesses, and about 30 basis points was due to the previously-disclosed reclassification of retail concession fees.

Also, great to notice the fact that despite some headwinds in a few parts of our business, all five coalitions saw gross margin improvement in the first quarter. Now, I know, you're probably questioning how, after 130 basis point improvement in the first quarter, we're holding our outlook to 49% for the full-year.

The answer is that, as we look forward, we see some foreign currency headwinds, and that's especially in the second quarter. In addition, the mix benefit was particularly magnified in the first quarter, given the strength of outdoor and action sports, relative to other businesses.



SG&A as a percent of revenues rose by 50 basis points, however, the increase was driven primarily by that same reclassification of retail concession fees. Excluding that, SG&A was relatively flat year-over-year, even though we continue to invest heavily in our D2C business and marketing. Obviously this implies that we are successfully getting meaningful leverage elsewhere in our expense structure, and that is just how we think about our model.

We invest heavily against our highest growth and most profitable brands and businesses, supported by marketing science, which drives our top line, creating leverage elsewhere in our expense structure. And the result? Continuous improvement in our operating margin. In the first quarter operating margin improved 80 basis points to 14.5%, all of which brings us to earnings per share of \$0.67, which was up 12% over last year.

Now I'll make a few comments on our coalition results for the first quarter. Revenues for our outdoor and action sports coalition were up 14%, with high teen percentage growth in our direct-to-consumer business and low double-digit growth in wholesale sales.

Really hitting on all cylinders here. The North Face, Vans, and Timberland were up 14%, 20%, and 12% respectively. Needless to say, we couldn't be more pleased with the continued strength and momentum of these powerful brands and the entire coalition. And of course, a 21% increase in operating income in the quarter, with an improvement in operating margin of 100 basis points to 17.4%? Well, that is not too bad either.

Turning to jeanswear, first-quarter results were in line with what we expected, with revenues down 4% due to ongoing pressure in the US mid-tier channel, challenging consumer trends in women's denim, and the exit of a lower profit business. That said, revenues outside of the US, which was a third of the business in the quarter, were up at a mid-single-digit rate, with particular strength in Europe and Asia.

We do expect jeanswear to post similar results in the second quarter, however accelerate meaningfully in the second half of the year, driven by our great new product innovations and channel expansion. And for the full-year, we continue to expect low single-digit growth for this highly profitable coalition.

Our imagewear group had a solid first quarter, with 4% revenue growth, driven in large part by our licensed sports business, which saw great success from strong NFL postseason sales. First-quarter operating margin was up a healthy 180 basis points, reaching 14.3%, driven by gross margin improvement and SG&A leverage. During the quarter, we decided to exit the youth business for Major League Baseball, which hit our top line by 4 percentage points, however, sets us up for better profitability in the long run.

Our sportswear business grew 3% in the somewhat challenging retail environment. Nautica revenues were flat, impacted by the timing of special programs. Reflecting this shift, second-quarter revenues for Nautica should grow at a low double-digit rate.

Kipling's North American revenue was up at a high teen percentage rate, with greater than 20% D2C growth. Globally, the Kipling brand grew 23%, sportswear's profitability was up slightly with the last year's same quarter.

Revenue in our contemporary brands business declined 5% in the first quarter, with a high single-digit decline in North American revenues, offset by a high single-digit increase in Europe. Globally, the coalition's D2C business was up at a low teen rate, but this offset by a similar rate decline in the wholesale business, which continues to experience challenging demand for premium denim. The lower volume caused operating margins to decline to 8%.

And similar to imagewear, we decided to move a portion of this coalition's youth business towards a license model. This decision negatively impacted the revenue results by 3 percentage points in the quarter.

VF's balance sheet remains very healthy. At the end of the quarter, inventories were up 7% compared with March 2013 levels, including 2 percentage points related to higher costs and changes in foreign currency.

During the quarter, we bought 9.1 million shares of VF stock for approximately \$553 million, and in the second quarter, we purchased an additional 2.9 million shares for \$173 million, to conclude the share buyback program that we spoke about in February. No additional share repurchases in 2014 are anticipated at this time.





Now turning to our outlook for the full-year, we now expect annual revenues to increase at the upper end of the 7% to 8% range we gave you in February, so close to 8%, which is in line with the organic growth of our 2017 plan. Driving the increase is across the board strength within our outdoor and action sports brands, including the momentum in our Timberland business that Steve mentioned earlier. We now expect revenues in outdoor and action sports to be up 12% to 13%.

Full-year gross margin and operating margin expectations remain unchanged at 49% and 15% respectively, and with SG&A, as in the past, we will continue to look opportunistically for areas to make targeted investments in our brands, products, and marketing, to drive future growth. And we now expect earnings per share to rise to approximately to \$3.06 per share, representing 13% growth over 2013. In terms of the second quarter, we anticipate revenues to increase at a similar rate to that of the first quarter, and again be driven primarily by continued strength from our outdoor and action sports coalition.

To wrap things up, I am really excited about 2014. It is a year that presents terrific opportunities for us to increase competitive separation, further optimize our profitability, and create long-term value for our shareholders. So with a great first quarter in the books, we are very pleased by the underlying strength of our business, and look forward to successfully executing against our growth strategies in 2014 and beyond. And with that, I will turn it back to the operator, and we can open up the line for questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions)

Michael Binetti with UBS.

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### Michael Binetti - UBS - Analyst

Congrats on a great quarter, in a tough market there. Bob, if I could just do a little bit of housekeeping first of all.

Your comments on SG&A, that you will look opportunistically for investments in the brands. Obviously you give a little confidence in your revenue outlook for the year, but should we interpret that is revenues do track in at or above the range that you have given, that you would try to dial-back some SG&A into investments that might offset some of the upside in EPS for the year?

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### Bob Shearer - VF Corporation - CFO

Really the way to think about that, Michael, is what we have been doing, is we have been making those investments pretty consistently over the past couple of years. Last year, we increased our marketing spend by about \$100 million, and this year we're looking to increase by another \$50 million, and the reality is, it is working for us. It is driving the top line. We had a strong fourth quarter last year, and we're seeing a lot of momentum, particularly in our outdoor and action sports business here in the first quarter and we absolutely believe that those investments are part of that.

So the idea is that we would look to do the same. We are absolutely committed to our long-term targets, and the 13% we mentioned, and when we have the opportunity to make some of those investments, both to help us on the shorter-term basis but especially on a long-term basis, that's what we will do. The point is, it has been working for us, and yes, we will look to do the same thing in those highest-margin, fastest-growing businesses.



**Michael Binetti** - UBS - Analyst

Okay and then a quick follow-up on a little but more on two things in the jeanswear commentary. First off, the low margin business that you mentioned you exited, any more detail you could give us on that? And more importantly, could we hear a little bit about the -- you mentioned a new platform launch in the second half that supports your guidance for a meaningful acceleration in growth rate, there?

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

Yes, I think it's a couple things. Let me take the platform first, Michael since that is the most important. I think the confidence really is around expanded distribution, so you know we are taking the Wrangler brand up into the mid-tier, and we're taking the Lee brand up into the department store channel.

But in addition to that, we've got some really innovative products that are hitting the marketplace and that is Heavenly Touch and that's Easy Fit. Both products that play into this new trend that we have seen in the marketplace.

But what is important about that too is it's not just new products into that trend, it's new products into the jeanswear business also, with our Rock 47, which is a big initiative for us for the younger Western consumer. So things like that, that also play into our core categories in our business. But also, as you think about that, we've got some really strong integrated marketing campaigns and programs that are coming from POS in the stores to broader marketing programs that really support not only our core business, but also support the initiatives that we have going forward.

That gives us great confidence in the second half. The first part of your question was, it was a lower-profit business that we made the decision to exit because it didn't fit our core, and it wasn't what we did best, and we want to focus on the things we do best, and we want to focus on our brands.

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**Michael Binetti** - UBS - Analyst

Eric any comments on the acquisition environment out there? Thanks a lot.

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

No, Michael, no comments on the acquisition front. I will add to Bob's comments about investment, and go through how we think about it.

Michael, you remember last year, we only grew organically 5%, and that was disappointing to us. We invested \$40 million in the fourth quarter to try to accelerate our growth rate to the 8% target we have in our long-range plan, and as Bob said, that seems to be working. The way I think about that investment is, if we make the incremental investments, and we will make incremental investments, that deliver the results we promised in our 2017 plan. We will continue to make those investments, to make sure that we deliver the 8% organically in the top line and 13% on the bottom line.

And that is why we did it last year. Our growth rate was below what we had planned. We wanted to get back on track to close to 8%, and that is where we are.

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**Michael Binetti** - UBS - Analyst

Thanks again.

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**Operator**

Bob Drbul with Nomura.

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**Bob Drbul - Nomura Securities Intl - Analyst**

The first question is, with the quarter ending in March and Easter, can you give us -- Eric you have usually a very broad read across retail, with the portfolio. Can you just walk us through how it impacted the business, and how materialized when Easter happened? And how you feel about the business at this point in time, with Easter now behind us?

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

Sure. I guess the easiest way for me to talk about that, Bob, is in our direct-to-consumer business, where we like everybody else felt the impact of an Easter shift. And it was obviously a North American event, less significant in China.

And our direct-to-consumer business for the quarter was up 16%, and that included mid- single-digit comps to our growth, which we are thrilled with. We think mid to single-digit growth, given all the days that stores were closed, and the Easter shift, is really strong. So we are confident in our direct-to-consumer business.

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**Bob Drbul - Nomura Securities Intl - Analyst**

And Bob, thanks, Eric. On the share repurchase program, is that the way that we should think about how you will approach it going forward as well? Go heavy in the first quarter like you did, and maybe give us an update in terms of the approach that you have taken with that?

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**Bob Shearer - VF Corporation - CFO**

Yes, Bob, we have been pretty consistent in that. So when we're looking at buying back some shares, we have done that, and got it done pretty much in the first quarter.

We haven't changed our perspective in terms of our buyback. We still look at it as primarily a means of offsetting the dilutive impact of option exercises.

In a year like this, we got a little bit ahead of that. Our option exercises are -- the buyback will outweigh the option exercises this year. But yes, generally the timing is pretty consistent, we have demonstrated that over a number of years, and again, no change in our strategy related to our buyback program.

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**Bob Drbul - Nomura Securities Intl - Analyst**

Great, thank you very much.

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**Operator**

Matthew Boss with JPMorgan.

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**Matthew Boss** - *JPMorgan - Analyst*

Congrats on the good quarter. Eric, can you talk about, in general, what you are seeing from the consumer today? Drivers of the top line confidence here, and it's definitely one of the rarities out there, and any visibility you can speak to in fall orders, I think, would be really helpful.

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

Sure, the North American consumer is, in general, struggling, we think. They are really resilient, they keep fighting back, but it is not easy out there, and if you look at the first quarter we just went through, particularly in the mid-tier and mass channel, where people have less discretionary income, they were challenged with higher heating bills and healthcare costs. A whole lot of things came at them that affected their discretionary income, and it showed up there.

Where we had great growth was in our direct-to-consumer business worldwide. But we are at a different price level than the mid-tier and mass is in those stores, and we did really well.

We also know that while consumer spending was tough to find, if you had amazing products, supported by impactful marketing, you could win. And one of the reasons we invested so heavily in the fourth quarter behind our brands was we knew we had the right products that consumers would want. We wanted to make sure that they knew that, and we really dialed up the marketing in the fourth quarter, and that momentum carried forward into the first quarter this year, and we are pretty happy with 6.5% organic growth.

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**Matthew Boss** - *JPMorgan - Analyst*

Absolutely. As you look forward in terms of orders, are you seeing your retail partners by the brands to stock on the shelves that are driving the organic traffic? I am curious what you're seeing as you see the orders coming in.

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

Sure. The objective that -- we don't disclose our forward order book, but obviously, if we're sitting at 6.5% and guiding to close to 8% for the full-year, with the biggest part of the year coming at us, that sends the message that our marketing was effective, our products sold through, and as Steve commented, our product line-up coming into the fall, in Vans, Timberland and The North Face in particular, Scott talked about our jeans business, we think we have a great product line-up for fall and we've got orders to support us giving an increase in our revenue guidance for the year.

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**Matthew Boss** - *JPMorgan - Analyst*

Great and last question on Timberland, we have clearly seen the top line inflect here, last couple of quarters. Can you talk globally about where you see the biggest opportunity going forward, and from a margin perspective, where you stand versus that midteens goal?

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

I will pass it over to Steve and Karl Heinz to comment on.

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

Real quick on the Americas business, we're just seeing really strong growth across all of our regions, Canada, US, Mexico, all channels in all categories, and it is very much a broad brand momentum. Historically, you have seen Timberland surge in single items or categories. The brand heat that is building around Timberland, we give a lot of credit to the work we have done with our end consumer, really understanding who they are, how to connect with them, and how that is has influenced our product.

The product creation component of this brand has been dramatically elevated. You see that at retail today, how we are able to market to and speak with our consumer, and connect with them at retail has really been dramatically improved. And as we continue to drive better product, at full price, through our retail channels, we're seeing strong growth in our gross margins, and our ability to really have the dollars to invest back behind this brand.

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

Just in Europe, you heard me saying last quarter we started to grow. We had a solid growth this one, and it's an indicator that we're looking forward to a good year. We had a lot of work to do in the last years with Timberland. We moved it, it is all set now, we have a strong team in place. It is all working basically.

Asia is good also. Had been consistently growing since the acquisition, double-digit. It's strong in Japan, but we have great opportunity in China where we basically just started, and it is one of our smaller brands in China, so it's a long way to go there.

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**Bob Shearer** - VF Corporation - CFO

Related to the margin question, we are right on track with our acquisition plan in terms of moving toward that mid-teen percentage that we committed to initially when we acquired the brands. Seeing nice progress and right on track with where we expect to be.

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**Matthew Boss** - JPMorgan - Analyst

Great, best of luck.

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**Operator**

Kate McShane with Citigroup.

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**Kate McShane** - Citigroup - Analyst

Bob, I wanted to ask you with regards to gross margin, are you currently ahead of where you thought you would be on gross margins at this point in time, when you gave your targets in June? And how should we think about the [gaters] of gross margin for the rest of the year, given some of the FX headwinds and the strength of Q1.

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**Bob Shearer** - VF Corporation - CFO

Kate, we are on track with what we expected. We did expect the first quarter to be a little stronger than the overall year. Guiding to the 90 basis points expansion.

In terms of looking out at the last three quarters as I said in my commentary, a little pressure on the FX side in the second quarter, so we will likely be a little below the 90 basis point improvement, but nice solid improvement in our gross margin. Third quarter should be pretty close to the 90 basis point, and then fourth quarter, as you would imagine with the inclusion of the stronger D2C, we will be a little bit about that. So yes, we are tracking very closely to what we expected and are really confident in the 90 basis point expansion for the year.



**Kate McShane** - Citigroup - Analyst

That is helpful, thank you. And the my next question is for Karl Heinz. With the overall environment in Europe, if you could talk on a comp basis, because I know you have a lot of white space potential and incremental growth in Europe as well, but on a comp basis, where have you seen the most improvement in your business? And what region or country has surprised you most to the upside and what areas are still struggling?

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

Thanks for this question. We announced a good quarter in Europe, and it is widely reported the economic situation, and we can't do a lot there. It is not the best.

But I guess the good news is and this is the strength of our portfolio, most of the brand, also brands which we normally don't report, the smaller ones like Kipling or Napa or Reef, are doing really well. They are all growing, and actually what we see, especially southern Europe, is coming back strongly. Italy's a big market for us. It's the largest market for Timberland. It's really doing well, so we are happy with that. I would say we play out the strength of our portfolio, a lot of things are doing well, and we look forward to a good quarter, and a good year, actually.

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**Kate McShane** - Citigroup - Analyst

Thank you.

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**Operator**

Omar Saad with ISI Group.

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**Omar Saad** - ISI Group - Analyst

Eric, first question is for you. Your action sports outdoor segment obviously has been phenomenal, and you've done a lot of great acquisitions there. There's almost a megatrend going on with active healthy living, active lifestyle.

But there are many different segments to this whole phenomenon. Obviously, you've got a lot of them covered in your portfolio. Could you talk about action sports versus outdoor subsegments within it, where you see the most attractive opportunities from an industry standpoint? Where the trends are going?

Maybe some areas where you are not as actively involved, maybe the athletic part of the world there. Maybe you feel like some of your existing brand assets you could use to go after the athletic segment, or maybe you want to bring in more assets for that. Broader perspective around that whole segment, given how much success you have had, and it looks like the trend is going to continue structurally. Thanks.

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

Sure Omar. Action sports for us is defined by Vans and Reef, with Vans being by far the biggest piece of that business for us. And as we reported, not only our fastest-growing coalition in the quarter, where we were up 20%.

But Vans was our biggest brand in the quarter. So Vans was VF's number-one revenue brand in the quarter. That is a big business for us and it's going to zero in on the \$2 billion mark here pretty quickly.

So we are really important in that space and the opportunity for us there, as was mentioned during some of the comments, is our footwear business and that was the footwear brand that we're taking into apparel and we're doing a better and better job of taking it to both men's and women's

apparel, going to a four season calendar, and getting some growth there. The outdoor coalition is defined by the two big brands, really, the North Face and Timberland, which reported growth of 14% and 12% respectively in the quarter.

So those three big brands are really pulling more than their share. They are doing really well.

The athletic space is a space that we operate in the fringe on. Does The North Face have athletic styles? Yes. The Mountain Athletics program, the new Ultra Kilowatt line, all of that is geared towards training, not towards team sports, but towards training and fitness.

And that is an emerging trend, and between the North Face getting into that space and Lucy being into that space for her, and Lucy had a solid quarter, it had double-digit growth in the first quarter, we think we have the opportunity to do more in that space. Omar, does that address your question?

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**Omar Saad** - ISI Group - Analyst

Yes.

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

If not, I'll turn it over to Bob.

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**Omar Saad** - ISI Group - Analyst

Of course, Bob, if you have anything to add. But there are just so many opportunities, and it's such a secularly growing segment, and there's so many other brands out there having success, and it doesn't seem like it's going to end anytime soon. It has become such a big part of your business. It can become really intricate how you think about the different elements within it, and what assets you have to use to go after it, and assets maybe you want to bring in the future.

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

And to the point Karl Heinz touched on, is one of our strengths in outdoor and action sports in the quarter was, it wasn't just those big three brands I mentioned growing. We had momentum in pretty much every space we were in. From Smartwool to Lucy to Napapijri, we had a good quarter in that space.

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**Omar Saad** - ISI Group - Analyst

One quick follow-up. Maybe Bob, to an extent. On ASPs we do seem to be seeing industry-wide some premiumization trend, or at least a barbell effect in those brands that can generate a higher price point, higher-quality more innovative product. Are you seeing that in your businesses, or within some of the brands within your business?

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

Average selling price is the question. Looking at some of the other folks here in the room, as well. Number one, our pricing is up just a little bit, and I don't think that is exactly what you're getting at, but our pricing is up a little bit, and relative to average prices that we are seeing across the board, I might ask Steve to comment in terms of what you see in this business.

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

In our outdoor and action sports businesses, we have seen our average selling price in our own stores move up incrementally. And where we are able to do that is where we are adding greater value from a technology, fit function and form. But also, as we're able to really drive home that emotional marketing message that links back to the product, and how we move our consumers through the funnel.

And we saw great results of that starting in fourth quarter for The North Face, and really carried through the momentum that we saw coming into first quarter. And we use those learnings across all of our brands within this portfolio to drive that.

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

What I would say there, Omar as well, what we are seeing is consumers are paying for innovation, and that's what Steve's saying, as well. We're seeing that consistently. It's why we think our innovation platform is so important for us.

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

That is true for Vans and Timberland as well, I was probably remiss in not mentioning that. The products that we are seeing move through Vans today, as we bring in cushioning technology, durability materials into these skate shoes, we are getting a lot of credit for that and we are able to ask for a higher price, and capture that all the way through the channel, and clearly at Timberland, as we have elevated the product, we're seeing, starting with the Yellow Boot all the way through our footwear collection, driving full price retail sell through across not only our own channels, but our wholesale partner channels.

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**Omar Saad** - ISI Group - Analyst

Got you. Thanks, guys.

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**Operator**

Dave Weiner with Deutsche Bank.

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**Dave Weiner** - Deutsche Bank - Analyst

I wanted to drill down a little bit, or expand a little on gross margin. Clearly you still have mix shifts, the ability to grow gross margin through mix shifts, coalition, geography, and channel. But I guess could you talk longer-term, maybe the opportunity to grow -- what other drivers can be used to drive gross margin?

I am thinking specifically, I think you have an initiative in place to switch X percentage, or migrate X percentage of your production of product from sourcing to manufacturing. Maybe an update on how that is coming along and what -- are you getting more technical product in that bucket? And what implications that could have for gross margin? Thanks.

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

Just to confirm what you are saying is, relative to the mix shift, as we look out over the next five years and just as we spoke about, when we presented our 2017 plan, that mix improvement, the mix leverage will continue. Without a doubt. We are very consistently seeing that 60 to 70 basis points, pretty much every quarter and every year, and that is exactly what we expect to see over the period.



On top of that, we still -- we continue to manufacture a greater percentage of our own goods in our plants. Much more so than any of our competition. And a lot of that is in our jeanswear business, and we produce a pair of jeans at a lower cost than is available anywhere in the globe.

We're looking at new innovative ways to see even further benefits, I guess, from the capabilities we have from a manufacturing standpoint. So building stronger partnerships with people outside of our existing space, in terms of where we manufacture goods today, is part of our story. The idea is, leverage the skill set that we have, we can't be matched by anyone else in the industry from manufacturing standpoint, and leverage that skill set and lower costs than are available -- by others.

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**Dave Weiner** - *Deutsche Bank - Analyst*

Okay, thanks.

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**Operator**

Erinn Murphy with Piper Jaffray.

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**Erinn Murphy** - *Piper Jaffray - Analyst*

Karl Heinz, for you, a follow-up on the Italian comments you made. You talked about it doing a little bit better. My understanding just broadly in Italy is that the pressure over the last several years has really just been this continued culling away of the independent channels, and multi-branded retailers, they've continue to shutter their doors. Are you guys seeing some stabilization in the wholesale channel as well, or at this point is it really just an improvement in the direct-to-consumer piece of that business?

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

Thank you, Erinn. I think it is both. We have a pretty strong component of owned -- I mean partnership stores primarily with Timberland. We have more than 100 stores, so that is one component.

We also see the overall economy is doing a little bit better, which is good. And we also see the larger customers having stabilized, Coin, and all the guys you know.

So Italy is a very fragmented market, as you know. But for sure, we have seen a stabilization there. And the outlook, I think, is better than it used to be last year. But again, it's a market where we are very strong with partnership stores, especially in Timberland, and they clearly help us.

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**Erinn Murphy** - *Piper Jaffray - Analyst*

Thank you that is really helpful, actually, Karl Heinz. And on the North Face overall, Q1 versus Q4, really good incremental improvement there as well. Just from a product perspective, if you could reflect on what is driving some of that incremental strength in the first quarter? Thanks.

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

Is this question in Europe or in general?

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**Erinn Murphy** - *Piper Jaffray - Analyst*

In general for the entire line.



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

I think Steve mentioned it well. We have a lot of new stuff happening, a new products primarily. This is a product industry, as you know, and we came out with a lot of innovation, and it is paying off.

Thermoball is one example, we mentioned that clearly -- that is where our strategy is, also going forward. Consumers are looking and paying for innovation.

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

I can build on that a little bit. If you look at it from a four season basis or first half-second half, we had really significant launch with Thermoball last fall. The emotional marketing with the singular focus against that initiative, driving consumer through that funnel to conversion, was a very powerful campaign. We brought that into spring with the launch of our ultra performance footwear as well as our Mountain Athletic training apparel, while also continuing to support Thermoball, as it really is a three season jacket. A transitional weight.

But the early question around the fitness trend, the North Face has significant permission to move into this athletic space, but we're doing it in a very authentic way. Where we are using Mountain Athletics as an apparel collection, and coupling it with training seminars or workouts. San Francisco, Washington DC our great examples where we had these Train Smarter outdoor training events, where we are able to bring consumers to train with our athletes, and begin to tailor programs for the sports that The North Face builds products for. So definitely looking to expand technical collections based on our consumers' needs, and really link it with emotional marketing, and that pull through push to retail.

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**Erinn Murphy** - *Piper Jaffray - Analyst*

Thank you, and congratulations.

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**Operator**

Dana Telsey with Telsey Advisory Group.

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**Dana Telsey** - *Telsey Advisory Group - Analyst*

As you think about the product costs and obviously pricing, what are you seeing in terms of product cost? Is it different in terms of region, or different in terms of product category? On southern Europe coming back, is that from locals, from tourists, are you seeing it in wholesale, retail? Thank you and congratulations.

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**Bob Shearer** - *VF Corporation - CFO*

I will start on the cost side. Really not a lot of movement in costs overall for the year. We came into the year expecting a little but more, and that's been a little better situation than we first thought.

So what we're seeing from a cost side is the number would be about a 0.5 point of cost increase overall for our business, and that has been offset by lower pricing. So pricing net of cost is neutral for us in 2014.



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

The second comment, it is actually really consistent. We see in our future orders, which are nicely up. We see in our retail trends, we see in our partnership stores, and in overall, as I mentioned before, the overall economy is for sure improving in all these markets. I would add also the strength of our portfolio is for sure helping us. Customers are looking to reliable vendors with strong initiatives, and for sure we are one of those.

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**Dana Telsey** - *Telsey Advisory Group - Analyst*

Thank you.

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**Operator**

Lindsay Drucker Mann with Goldman Sachs.

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**Lindsay Drucker Mann** - *Goldman Sachs - Analyst*

I have a question on jeanswear. Scott, I was hoping you could give a little more detail on the channel expansion. So maybe more specifics on where you are rolling into, how much incremental square footage that adds to your distribution, or how incremental you think it could be for sales? And the sequence you've got, is it really a Q3 event, or is this something where we get an initial start in Q3, and there is more expansion to be had, as we move across the next several quarters? Thanks.

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

Let's start at the beginning. Let's start with mid-tier. We have the Wrangler brand, as you know, has been very strong in the mass channel for many years, and also in the western channel.

The brand has gained a lot of strength in the last few years, relative to the health of the brand, and how people work with the brand, and how people that live the lifestyle of the brand. And as these channels merge a little bit closer together, we saw a real opportunity to bring that brand to the mid-tier, and to bring it to that mid-tier American consumer. And that is going to start really strong, probably fourth quarter, first half of next year, but the testing has already been done in the first half of this year, and we really like what we see, and we really like the response we have gotten from the consumer. That is a big channel, there are really big consumers in that channel, really big customers in that channel, so we feel like that's a really good thing going forward for the Wrangler brand, and it's pretty new for the brand and a lot of opportunity going forward.

From a Lee perspective, the Lee brand has the permission to go to a channel a little bit higher, and that being the department store channel. What we haven't talked enough about, and probably spent enough time talking about is the fact that Lee has actually been at the department store channel for many years with a couple of customers, and has full distribution at one large department store channel. And with that, we've really expanded that to the other big department store players in the country, and it had great traction on Lee female.

So obviously, as we continue to have really good traction on Lee female, we will think more broadly about male too, and we think that is going to gain really good traction, in addition to what we already have in the second half of this year, so you will see more traction there in the second half, and then we will expanded to male in 2015 going forward. All in all, there's a lot of opportunity for both brands to expand and grow.

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**Lindsay Drucker Mann** - *Goldman Sachs - Analyst*

And could you guys help us quantify how incremental that might be to sales for you over the second half?

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

That is hard to do right now, over the second half. But as the year progresses, I think that will be an opportunity for us to discuss that going forward.

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

But it's clearly a factor, that as we indicated, we expect our acceleration in our jeanswear business, and numbers in the second half, and it's clearly a factor.

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

Baked into the plan going forward.

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**Lindsay Drucker Mann** - Goldman Sachs - Analyst

Thanks a lot.

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**Operator**

Barbara Wyckoff with CLSA Americas.

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**Barbara Wyckoff** - CLSA Americas - Analyst

Good quarter. Of the brands in your existing portfolio, outside of the top-five big ones, are there any that could be accelerated to add more scale, like Kipling, Lucy, Napapijri, how would you do that? And if so how would you do that?

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

Yes, yes, and yes to those three brands. We have active initiatives underway in all of those brands, to have them -- to be amongst the size that our current big brands are.

Particularly around Kipling, where we have been working for quite a while on a growth program there. Kipling was a very small business when we bought it. It is not a very small business anymore.

Last year, it was VF's fastest growing brand for year. And was our fastest-growing brand in three of the four quarters of last year. It has terrific momentum.

Nautica for the last 24 months has had terrific momentum. Napapijri has great momentum. Each of our brands is part of our growth strategy, and we are investing in all of them to achieve what they believe their potential is. Different by brand.

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**Barbara Wyckoff** - CLSA Americas - Analyst

Great, thanks, and could you share any kind of market share information you might have, US, Europe, Asia for outdoor and action sports and jeans?

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

We really don't have that information in outdoor active sports, because the categories are so broadly defined. It is hard to look at them and look at apparel versus equipment versus footwear. We don't have that information.

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**Barbara Wyckoff** - *CLSA Americas - Analyst*

And jeanswear?

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

Very similar. It is hard to define exactly from a category standpoint.

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**Barbara Wyckoff** - *CLSA Americas - Analyst*

Okay, thanks a lot.

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**Operator**

Robbie Ohmes with Bank of America Merrill Lynch.

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**Robbie Ohmes** - *BofA Merrill Lynch - Analyst*

I just had a follow-up on China. Could you talk about maybe what the overall environment looks? It's pretty incredible, the growth you are doing.

Is the Chinese consumer reaccelerating again? In other categories, they have had more problems over the last 12 months or more.

And maybe just a shorter follow-up. The 100% growth in Vans, can you help us think about what the annual growth rate for Vans should be? Can you do 100% for the year over there, or how long can you maintain that growth? Thanks.

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

Thank you let me start with the last piece. Doing 100% every quarter, I think, is hard.

Having said that, I always give the same answer. China is a great long-term opportunity for us. [Second maritime] and we do well every quarter. I want to remind you we have -- we actually in China, we're primarily four brands, where we are investing at the moment directly and have very long and big opportunities in terms of penetration. Our total door count is all four combined 2,500 doors, which is still very low.

So I guess the opportunities going forward is long-term, we only have operated four brands at the moment. We have opportunities in penetration. Specifically Vans, you mentioned, clearly 100% is hard to achieve. But Vans is a fast-growing brand, it resonates well with consumers, it is one of the top four, and it is for sure a big opportunity for us in China.

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

Robbie, to add some perspective, two weeks ago yesterday, Karl Heinz and I were in China opening an 850,000 square-foot distribution center that we just built for over \$60 million, about an hour outside of Shanghai. We are committed to China. We see enormous potential there.



Across our portfolio, we're focused on a for new brands now, and all of them are at the early stages of their development. So we put a big stake in the ground and plan to grow there in a big way.

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**Robbie Ohmes** - *BofA Merrill Lynch - Analyst*

That sounds great. Thanks so much.

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**Operator**

Laurent Vasilescu with Macquarie.

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**Laurent Vasilescu** - *Macquarie Research Equities - Analyst*

Overall impressive numbers out of Asia. Follow-up on Robbie's question on China. With the anticipated VC in Kunshan, can we anticipate additional one-time investments for this region, to fuel future growth.

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

We have been investing in that region, we have been focused on enough for about seven or eight years. We have been there for a long time. We opened our first subsidiary there in 1995, so that was Lee, and we're coming up on the 20th anniversary of VF direct investment in China.

But a lot of the momentum has happened in the last five to seven years, and our Asia-Pacific region should break \$1 billion this year, and China is still over half of that. We make investments behind our brands, we are making investments in infrastructure to support our brands, we have made a lot of investments in marketing in the last couple of years to build categories that didn't exist.

A great example of that is, the outdoor category didn't really exist there, five to ten years ago. And we have been investing a lot to help define what that category should look like in that region.

And North Face is the leader in outdoor in China, and I think we launched there in 2007. So still very early days. Lots of potential and we are excited by it.

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**Laurent Vasilescu** - *Macquarie Research Equities - Analyst*

Okay great and in terms of labor costs, are you seeing anything for the balance of the year?

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**Bob Shearer** - *VF Corporation - CFO*

No change. No change certainly from what we anticipated. No, we are not seeing any escalation or any reductions either, pretty stable environment.

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**Laurent Vasilescu** - *Macquarie Research Equities - Analyst*

Okay great, thanks.

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**Operator**

Edward Yruma with KeyBanc.

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**Edward Yruma - KeyBanc Capital Markets - Analyst**

You guys recently realigned your management structure, I think, to more closely mirror the structure you had in international. Any outcomes you're looking for as a result of that, and how do you think this will help accelerate your growth in the US? Thanks.

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

One of our platforms -- one of the things that we think we will deliver more potential to VF is what we call One VF, which is having our -- we are organized by brand, and we empower each brand to achieve their potential, but we gain most when we work across our Company, and our hope is that this structure will encourage more of that, because it takes a lot of individual leaders working together to make that happen. Everybody is heads down on their brand, but we find the more we share, the better we get. So that was a big point underlying the organizational structure change.

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**Edward Yruma - KeyBanc Capital Markets - Analyst**

Great, thanks so much.

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**Operator**

I'd like to turn it back to our speakers for any additional or closing remarks.

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

Sure. Listen, the year is off to a great start. We appreciate your interest in our Company, we look forward to catching back up in 90 days, and we will give you another outlook on how we are doing. Thanks so much. Goodbye.

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**Operator**

This concludes today's conference. Thank you for your participation.

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