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VFC - Q2 2014 VF Corp Earnings Call

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OVERVIEW:

Co. reported 1H14 YoverY revenue growth of 7%. 2Q14 YoverY revenue growth was 8% and EPS was \$0.36. Expects full-year 2014 YoverY revenues to grow at 8% and EPS to be \$3.06.



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PRESENTATION

Operator

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

Lance Allega - VF Corporation - VP of IR

Thank you, operator, and good morning, everyone, and thanks for joining us today to discuss VF's second-quarter 2014 results.

Before we begin I'd like to remind everybody that participants on this call will make forward-looking statements. These 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 AM Eastern Time this morning, and at our website 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 their prepared remarks we will open the call for questions and ask that you please limit yourself to two questions per caller. Thanks. Now I will turn the call over to Eric Wiseman. Eric.

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

Thanks, Lance, good morning, everyone, and thank you for joining us today. We are very pleased with our second quarter and with our year-to-date results, not just because they're consistent with our outlook, but also because we are winning where and how we said we would.

Although VF's second quarter is the smallest revenue and earnings quarter of our fiscal year, our strong top- and bottom-line results are a great example of our ability to create and build sustainable momentum. And momentum is a key theme you will hear throughout today's call. Momentum isn't luck and it is not random, it is earned through focused strategies that come together to consistently generate multiple growth opportunities across our diverse portfolio.

We never stop creating great products, we never stop elevating our relevance to and connection with our consumers, and we never stop strengthening our balance sheet to enhance long-term shareholder value.

Total VF revenues in the second quarter were up 8%, which is right in line with the organic growth component of our 2017 plan. This is acceleration off of the 6.5% growth we achieved in the first quarter. Our Outdoor & Action Sports coalition delivered the biggest gain in the quarter with revenues up 16%.

This is also acceleration off of the first quarter with notable performances from the big three brands. The North Face was up 11%; Vans was up 21%; and Timberland was up 19%. Our direct-to-consumer business delivered 18% revenue growth with double-digit gains in every region around the world and nearly every single brand in the portfolio.

Looking towards the second half of 2014, which is the biggest period for our DTC business, we're well positioned to leverage both our brick-and-mortar and e-commerce channels to strengthen our brands and drive revenue growth.

Our international business also showed accelerated momentum with revenues up 14% reflecting double-digit increases in both our European and Asia-Pacific regions and strength across both the DTC and wholesale channels.

Our gross margin, at 48.4%, was about in line with our expectations. And at 48.9% for the first half of 2014 we are squarely on track to meet our full-year outlook of 49%. Second-quarter operating margin reached 9.2%, a 10 basis point improvement over last year reflecting slight SG&A leverage and our earnings per share increased 16% to \$0.36 per share.

Since we announced our 2017 targets more than a year ago, VF has shown considerable resilience and exceptional results in the face of a challenging global economic environment, a highly competitive retail landscape and inconsistent consumer trends.

When I look at the solid execution of our strategic growth drivers, combined with our unrelenting focus on operational excellence, I am extremely confident about our ability to deliver consistent long-term value to our consumers and our shareholders.

With that I am going to turn this call over to Steve, Karl Heinz and Scott to take you through our five largest brands. And then Bob will go through our financial results. Steve, it is over to you.

Steve Rendle - *VF Corporation - SVP, Americas*

Thanks, Eric. The key growth strategy of The North Face brand's success has been our ability to create products with industry-leading innovation that equip and inspire consumers to get outdoors, push the boundaries of their own personal journey.



This journey, of course, is year round exploration. And because of that, over the past couple of years, you've heard us detail our strategies to evolve The North Face into a four season brand for our consumers. Well, I am happy to report that these efforts are really paying off with strong results in our second quarter with global revenues up 11% including 37% growth in our D2C business and a healthy increase in our wholesale sales.

This was The North Face's strongest second quarter ever. In the Americas revenues were up at a mid-teen percentage rate with double-digit increases in both wholesale and D2C. Our transitional products, led by Thermoball, continue to perform at extremely high levels, validating our ability to bring outerwear solutions to consumers across multiple seasons.

We are also particularly proud of the launch of our Mountain Athletics apparel and Ultra protection footwear collections. Both of these collections, which saw great sell-through across all channels, significantly amplify our ability to serve the core outdoor consumer on a year-round basis.

Of course, great products are only part of the equation. We continue to strengthen our strategies to connect our brand and products to consumers looking for even more meaningful ways to engage and inspire them. This fall you will see the launch of a new US TV campaign designed to inspire the Explorer in everyone and to drive an emotional connection to his own personal adventure.

This effort, of course, will be connected to the in-store experience and new store openings to increase customer engagement across our D2C business and wholesale partners. Definitely a very exciting fall ahead of us.

To sum it up, we had a great second quarter in the Americas. Now let me turn it over to Karl Heinz to walk you through TNF's results in Europe and Asia.

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

Thanks, Steve, and good morning, everyone. In Europe The North Face saw a high-single-digit increase in revenues in the second quarter with our DTC business up nearly 40%, including very strong online sales. We are especially pleased with these results and believe we are all well-positioned for a third quarter, generally the brand's biggest quarter of the year in Europe.

On the product side we saw strong results in our running and training categories with several running pieces receiving accolades in respected industry publications. Also the ultra series footwear collection successfully launched in Europe.

We're also making great progress in advancing The North Face towards a four season brand. To support the strategy we executed our biggest ever marketing campaign in 10 countries, focusing on key spring/summer categories like running, training and hiking. These efforts are driving significant sell-through and brand awareness across Europe.

Turning to Asia. Sales were down at a mid-single-digit rate in the quarter as we held back shipments to proactively manage channel inventory. We expect a strong finish to the year, returning to double-digit growth in the second half.

We did see some positive momentum as we continue to build brand awareness through events like the TNF 100 endurance race in China, which attracted over 3,000 participants and extensive media coverage across three events. We also resumed our TV campaign in China to build on the momentum we gained from our efforts last fall.

Globally The North Face remains on track to achieve 12% revenue growth in 2014. Now turning to Vans.

Steve Rendle - *VF Corporation - SVP, Americas*

Global revenues for the Vans brand in the second quarter were up 21% including strong double-digit revenue growth across all regions and channels. This marks the 19th consecutive quarter of double-digit revenue growth for Vans, which is an incredibly impressive accomplishment.



In the Americas revenue grew at a high teen rate, including a similar growth rate in both our D2C and wholesale channels. It was truly a great quarter for the brand, both strategically and tactically, with strong product launches and targeted efforts to further connect Vans directly to our consumers through our own content, platforms and events.

On the product front we had a very successful launch of our unique Star Wars collaboration with boutique and lifestyle retailers. And to kickoff back to school, and rethinking what a future classic might be for Vans, we've just launched our classic light footwear, which combines familiar silhouettes like authentic, old school and skate high with our super comfortable and lightweight UltraCush insole.

Our apparel efforts also continue to be a focus with the launch of our summer collection, the very first time Vans has had a four season offering. Utilizing our four brand pillars -- action sports, art, music and street culture, the Vans team is hard at work creating platforms that encourage creative expression.

First up June marked the launch of the 20th addition of the Vans Warped Tour. We're already halfway through the more than 40 dates and 30 states scheduled in the USA and Canada and once again it is an epic summer celebrating music, youth culture and the Vans brand.

And two weeks from now more than 750,000 people will immerse themselves in the unique Vans culture as they attend the 2014 Vans US Open of Surfing, the industry's largest surf event.

And finally, our fifth annual custom culture art competition garnered 2,000 entries from high schools in every state across the US.

Great product connected through authentic relevant events while keeping youth culture at the center of everything we do combined for yet another stellar quarter for Vans. Karl Heinz?

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

Vans had another great quarter in Europe with revenues growing at high teen rates including more than 40% DTC growth and a low-double-digit increase in wholesale sales.

As in Americas, the Star Wars collection performed extremely well. In fact, before we launched our main product we released a limited number of special edition products that sold out in 24 hours. The broader Star Wars release also has seen tremendous success.

We are also proud to announce that our first European House of Vans opens on August 9. Located in one of London's most iconic spaces beneath Waterloo Station, House of Vans London represents our commitment to creativity from art and music to skateboarding and fashion. This represents an amazing vehicle to engage and inspire youth culture in this extremely important market.

In Asia Vans' revenue grew more than 40%, including more than a [60] increase in China. Especially exciting here is the meaningful acceleration of our apparel and accessories category, which saw strong results during the quarter. In its third year our [Art Is] program saw rate sell-through, further evidence that our ability to go local and address regionally specific consumer preference is key to long-term success.

Additionally, our Van Doren and Star Wars footwear collection were very successful. We also brought our House of Vans concept for the third time to the Beijing Music Festival, which generated a lot of great buzz online and engaged more than 750,000 consumers in the Vans brand.

With a great finish to the first half of 2014, the Vans brand remains on track to deliver a mid-teen increase in global revenues for the full year and become VF's second \$2 billion brand. Now let's turn to Timberland.



Steve Rendle - *VF Corporation - SVP, Americas*

Globally Timberland posted outstanding results for the second quarter with revenues up 19% driven by more than 25% growth in wholesale revenues and a 10% growth in its D2C business. And although it is the smallest revenue and earnings quarter of the year, we couldn't be more pleased with the continued progress this powerful brand is making.

In the Americas, revenues were up nearly 25% driven by more than 35% growth in our wholesale business, a definitively clear indicator that our product, consumer connectivity and channel distribution strategies are working quite well.

With great results across every footwear category, from boat and casual shoes to hiking and boots to Timberland Pro's new Boondock family, the success is broad-based and balanced. Throw in continued success in momentum of apparel in the Americas with strong spring sell-through and fall sell-in, we're positioned very strongly going into the second half of the year.

We are also working hard to drive brand visibility and consumer demand for the brand. Our Best then, Better Now brand campaign has been successful in helping us to reposition Timberland with consumers as a lifestyle brand. And we are starting to see very positive data that indicates consumers in the Americas are starting to recognize the brand as much more than a boot company.

Now I will turn it over to Karl Heinz to discuss Timberland's business internationally.

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

Timberland's revenues in Europe were up at the mid-teen rate in the second quarter. Similar to the Americas, we also saw balanced and broad-based positive trends across our products. From a channel perspective we had double-digit growth in both DTC and wholesale, so very balanced.

To continue to take advantage of the huge e-commerce opportunity in the region, we have now added the Netherlands and Spain to the roster. This is in addition to the first-quarter launches of France, Germany and Italy, a huge leap forward in a platform that enables us to better reach consumers, tell stories and connect them even more deeply with the brand.

In Asia second-quarter revenues increased at a mid-teen rate with strength across all channels in the business. Growth in the region was highlighted by strong sales of our classic boots and boot shows in men's. In addition apparel, which is about half the business in Asia, is [striking] in line with our plan.

Overall, we are very pleased with the momentum we have earned at Timberland. And we have great confidence moving into the second half of the year as we work towards our goal of 12% global growth. And now let's move to Jeanswear. Scott?

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

Thank you, Karl Heinz. Global revenues for the Jeanswear coalition were down 1% reflecting improvement over the first quarter, a result that was slightly better than our expectations. In the quarter global revenues for the Wrangler brand were up 4%, while revenues for the Lee brand were down 7%.

In the Americas the Jeanswear business was down at a low-single-digit rate due to continued challenges in the US mid-tier channel, and the ongoing unfavorable women's denim trend. These factors had the biggest impact on Lee brand with its 60/40 ratio of women to men's sales and to high degree of exposure to the mid-tier channel. This resulted in a mid-teen decline in Lee's Americas business.

Wrangler, on the other hand, with only 20% of revenues from the women's category, and a very different channel weighting, saw a mid-single-digit increase in the Americas. In fact, both the mass and Western specialty businesses grew in the quarter. All of this is pretty much what we expected coming into the quarter and we continue to expect slight growth in the global business for the full year due to an accelerated second half.

So why the confidence in the second half? The same reasons I outlined on the last call: new product introductions; expanded distribution; and enhanced demand creation strategies.

For example, in Wrangler, we are set to launch our Advanced Comfort line, the brand's most comfortable jeans yet. And to celebrate this launch we are hosting a major kickoff event with Drew Brees in Comfort, Texas, a small town that embodies everything the brand stands for -- hard work, integrity and an appreciation for the small things in life.

On the Lee side Heavenly Touch and Easy Fit, which have stretch fabrication that combines the comfort of leggings with the structural benefits of denim, are on track to launch into the mid-tier and mass channels. And as I mentioned on the last call, the mid-tier will also see the launch of modern series curvy fit. And to support these launches you will see a new fall campaign supporting active comfort for men and curvy fit for women.

So all in all a tough environment in the Americas, but our brands and products are well-positioned and our inventories are in very good shape as we move into the second half. Karl Heinz?

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

Our international Jeanswear business had an exceptional quarter. In Europe revenues increased at the mid-teen percentage rate led by 25% growth in the Lee business and high-single-digit growth in Wrangler. And in Asia Lee continued its growth in the second quarter with a low-single-digit increase with considerably stronger expectations in the second half.

Similar to the first quarter, key accounts and consumers in both regions continue to respond strongly to the evolution of our collections. Our products are resonating well, our connection with consumers is getting deeper and our geographic expansion strategy is working. So, 2014 is shaping up to be one of the strongest years in quite some time with significant top-line growth and margin expansion.

In closing, in the second half we expect global Jeanswear revenues to grow at a low- to mid-single-digit rate with some growth in the third quarter and substantially stronger results in the fourth quarter. Now Bob will take you through our financial highlights.

Bob Shearer - *VF Corporation - SVP & CFO*

Thanks, Karl Heinz. As Eric mentioned, the second quarter represents the smallest revenue and by far the smallest earnings quarter in the context of VF's fiscal year. Now that said, we couldn't be more proud of our results. Strong contributions from our largest coalition and our biggest brands help us to deliver industry-leading results. And with the first half behind us we have got great confidence in our ability to achieve our full-year outlook.

Now taking a look at our second quarter, total VF revenues were up 8% driven by accelerated results in our key growth drivers including: Outdoor & Action Sports which was up 16%; international revenues which grew by 14%; and our D2C business which was up 18% in the quarter.

These have been our core growth drivers over the past few years. They will be for the remainder of 2014 and will be for years to come. In so many ways we are just scratching the surface related to these powerful growth engines.

Our gross margin at 48.4% was about in line with our expectations. To look at a few of the parts -- on the positive side we saw another quarter of predictable mix benefit from the shift of our revenues towards higher-margin businesses. There were, however, two main offsets that tempered this benefit.

First was foreign currency impact, which we spoke about on our last call. The good news here is that this was isolated to the second quarter. The currency impact should be relatively neutral in the second half of this year.

The second offset came from our efforts to aggressively manage inventories, mainly related to our Jeanswear business which continues to be challenge especially in the mid-tier channel that Scott talked about earlier. To avoid taking markdowns we took down time in our own jeans factories, something VF is uniquely positioned to do to reduce markdown risk going forward.

What was the result of our disciplined approach to inventory management? Inventories were up only 6% in front of the second half of the year when we expect revenues to grow close to 9%. All in, our first half gross margin sits at 48.9% which puts us right on track to reach our outlook of 49% for the full year. Without a doubt, we are very pleased with the continued evolution of our gross margin story.

Now turning to SG&A. Our SG&A ratio to revenues was down slightly despite our continued investments focused in D2C and marketing. We're operating 140 more stores now than we did at the same time last year. Given that significantly larger base, as you all know, D2C carries a higher SG&A ratio to revenues and that our marketing expense as a percent of revenues also grew slightly in the quarter, well, that means we realized significant leverage in other parts of our cost structure.

And that is our model -- we make investments to drive top-line, we find leverage elsewhere in our expense structure and improve our profitability. Taking all of this to the bottom line, our operating margin was up by 10 basis points to 9.2% and earnings per share were up 16% to \$0.36 for the quarter, that is right in line with our expectations and definitely a quarter we are really pleased with.

Now let me touch on our coalition results for the second quarter. As I mentioned revenues for our outdoor and Action Sports coalition were up 16%. But perhaps equally impressive was the channel balance that drove that. We had more than a 20% increase in D2C sales and a low-teen increase in wholesale revenues.

We also had great balance on a regional basis. Our Americas and international businesses both experienced about the same percentage increases.

Given the results Steve and Karl Heinz went over earlier for The North Face, Vans and Timberline, along with other brands that are smaller today like Napapijri, Kipling, Eastpak and Smartwool, all of which grew by more than 20% in the quarter. Well, needless to say we are extremely pleased with the performance of this coalition.

And operating income for Outdoor & Action Sports was up 31% in the quarter and operating margin expanded 120 basis points to 10.3%. We are hitting on all cylinders here. We improved gross margin, we increased the marketing ratio to revenues and improved our profitability. The focused continuing investments that we're making behind these brands is truly paying off. For the full year in Outdoor & Action Sports we are now confident we will grow at the upper end of our range of 12% to 13%.

Now turning to Jeanswear. We did see the sequential improvement we expected with revenues down 1% compared to a 4% decline in the first quarter. And actually, Jeanswear revenues were up slightly on a constant dollar basis.

In the Americas region revenues were down in the low-single-digit percentage range reflecting the ongoing challenges in the US mid-tier channel and shifting consumer trends in women's denim. And as you heard earlier, this environment had the biggest impact on the Lee brand in the US.

In Europe our Jeanswear business saw continued strength with revenues up at a mid-teen percentage rate while revenues in the Asia-Pacific region rose in the low-single-digit range. Second half revenues in Asia are expected to grow at a high teen percentage rate. Operating margin for the coalition in the quarter was down 130 basis points due to the proactive efforts to ensure inventory stay in line, that I mentioned earlier.

As we look toward the back half of the year we expect Jeanswear revenues to turn positive with the strongest growth coming in the fourth quarter when the benefit of expanded distribution kicks in and several new product innovations are launched.

Imagewear revenues grew 3% driven by mid-single-digit growth in the image or work wear business, and our LSG business was up at a low-single-digit rate. As you recall, we talked about our decision to license the youth business for major league baseball. This negatively impacted Imagewear's second-quarter top-line by 2 percentage points but will lead to better profitability in the long-term.



Operating margin was down 20 basis points compared to last year due to a shift in product mix isolated to the second quarter. We continue to expect this coalition's full year operating margin to expand.

Sportswear coalition revenues were up 5% during the second quarter. Nautica revenues were up 2% which is lower than what we had anticipated. In Nautica a low-double-digit increase in D2C was tempered by a mid-single-digit decline in the wholesale business due to the same department store challenges that you are all aware of.

Kipling's US business delivered another outstanding performance with 18% growth in the quarter, a brand that on a global basis was up 27%. Operating margin in our sportswear coalition was 7.3%, we expect the coalition's full-year operating margin to be about flat with last year.

In our Contemporary brands business revenues declined 2% with similar decreases in both the Americas and European businesses. Our D2C business was up 10%, but this was offset by a high-single-digit decline in the wholesale business reflecting the challenging consumer trends in women's premium denim.

And as we said last quarter, and similar to Imagewear, we decided to move part of our kids business to a licensed model. That negatively impacted revenues for this coalition in the quarter by 3 percentage points.

And finally, related to our balance sheet, we did purchase an additional 2.9 million shares for \$173 million in the second quarter which concluded our planned share buyback anticipated for 2014. We continue to expect another really strong year from a cash generation standpoint, which should exceed \$1.65 billion, allowing us to completely repay our commercial paper balance by year end and providing us great flexibility to invest in future growth.

Now with respect to our outlook for the full year, as you have heard throughout the day, we believe we are right on track to achieve our targets. We expect annual revenues to be up 8%, which is directly in line with the organic growth expectation of our 2017 plan. Full-year gross margin and operating margin should reach 49% and 15% respectively which would be ahead of the pace anticipated for reaching our 2017 goals.

Earnings per share in 2014 is expected to reach \$3.06 per share which is up 13% over 2013, right in line with our 2017 plan.

And finally, we will keep an opportunistic view in looking for areas to invest in our brands, products and marketing to provide further momentum going into 2015 and beyond.

And now I will give a little bit of color on how we see growth trending and the second half. Third-quarter revenue should increase at a rate similar to that of the second quarter driven primarily by strength within our Outdoor & Action Sports coalition, our international operations and continued strength in our direct-to-consumer businesses.

Investments in the third quarter, driven by a record number of store openings, will pay off significantly in the fourth quarter. That means, of course, that the strongest growth and profitability comparisons of the year will be in the fourth quarter when our direct-to-consumer business has its most significant contribution of the year.

So, in closing, we have had a great first half of 2014, growing revenues by 7% and earnings per share by 13%. We are set up well for an even stronger second half of the year. Our portfolio is strong. We have many opportunities to create even greater separation from the competition. 2014 will be a year when we will make significant gains in improving our profitability and enhancing long-term shareholder value.

In summary, we are very confident in our ability to deliver on our full-year outlook. With that I turn it back to the operator and we can open up the line for questions.



QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Matthew Boss, JPMorgan.

Matthew Boss - JPMorgan - Analyst

So, Eric, on the consumer -- curious how you described the overall environment out there today. Any changes in ordering trends that you have seen and expectation for the promotional environment in the second half versus what we are seeing out there today?

Eric Wiseman - VF Corporation - Chairman, President & CEO

Sure, on the US front it is pretty obvious by the promotional activity that you are seeing at retail today that consumers are tough to get at. We are seeing that in our wholesale business, not so much in our direct-to-consumer business where our business was up mid-single-digit in our own stores in the quarter.

But in our -- the partners that we sell to have adopted a more promotional environment and we see that affect us primarily in our sportswear and in our Jeanswear business particularly in the mid-tier. Not so much an issue anywhere else in the Corporation though and not an issue for us internationally at all.

So where that affects us is in a very small sliver of our business. And we are finding consumers are coming to our brands in other channels of distribution including our own. Does that help you?

Matthew Boss - JPMorgan - Analyst

Yes, absolutely. And then as you think about the promotional environment in the second half, I mean are you kind of planning for it to be as it is today or do you think that things will actually calm down a little bit here?

Eric Wiseman - VF Corporation - Chairman, President & CEO

I wish I knew the answer to that. But we are prepared for it to be as it is today.

Matthew Boss - JPMorgan - Analyst

Okay. And then on the balance sheet, your [leverage in] about levels when you acquired Timberland, buyback is now complete. It doesn't sound like there is an acquisition eminent. Can you just talk about capital allocation priorities going forward here?

Bob Shearer - VF Corporation - SVP & CFO

Yes, our capital allocation, the way we look at it is pretty much exactly where we have been. Our first priority is in the M&A front, it has been very, very successful for us. Our buyback program will remain pretty much the same.

You said the program is complete, for this year. Just to clarify that, what we said was for 2014 we weren't anticipating buying back any further shares. But going forward we will. And we will use that to offset the impact of stock option exercises.



So our priorities are very clear and that is on the M&A front, the buyback program is more of a maintenance level spend. And actually from a dividend standpoint in 2014 we will expect to increase our dividend substantially once again, just as we have over the past couple of years, most likely by more than 20%, just like we did last year, moving toward that ultimate goal of 40% payout level.

Matthew Boss - *JPMorgan - Analyst*

Great. Nice quarter. Good luck, guys.

Operator

Robby Ohmes, Bank of America.

Robby Ohmes - *BofA Merrill Lynch - Analyst*

Hey, just two questions. The first was just on that Jeanswear business, maybe, Karl Heinz, you could tell us how did Lee do the 25% growth in the second quarter? And is that sort of a trend that we should expect to continue? And then maybe in aggregate, could you give us a little more help on what the Jeanswear margin outlook is?

I understand how you protected the margin downside in the second quarter. But how should we think about Jeanswear gross margins? And maybe some color on just the third-quarter versus fourth-quarter gross margins to get to your full year guidance?

And my second question is just on the Timberland business, maybe some comment on how that operating margin of that business is tracking verse your plan. The revenues look great, but is the margin also doing what you guys are hoping it is going to do? Thanks.

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

So, Robby, let me start -- Karl Heinz here, let me start with your first question, the 25% only. As we mentioned in the script, it is an exceptional member. It is not a number which normally the jeans sector is delivering going forward.

What I would say though is we have done a great work, we had a good Q1, we expect a good year. And we do expect, finally, our jeans business in Europe going back to growth again.

Bob Shearer - *VF Corporation - SVP & CFO*

And, Robby, relative to the jeans gross margin percentage in the second half of the year, and this is a global view. Yes, the gross margins will return back pretty close to where we have been. So actually on a full-year basis our gross margins would be relatively flat year over year.

Just to clarify, in the second quarter I mentioned in my comments that we took some proactive actions to control inventory and we took some downtime in our plants and, again, we are in a unique position to do that. And we could really see it in our inventories and our inventories are really under good control.

We just went to go into the second half of the year with any kind of inventory positions that were in excess. So that is what -- that was the biggest impact on the gross margins in jeans. So that will improve in the second half of the year. So that overall on an annual basis be pretty close to year over year.



Robby Ohmes - *BofA Merrill Lynch - Analyst*

And just on the cadence of the third-quarter overall gross margin versus the fourth-quarter, we should assume gross margin improvement in the third and fourth quarter?

Bob Shearer - *VF Corporation - SVP & CFO*

Absolutely. But obviously stronger in the fourth quarter given the mix of D2C.

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

And, Robby, [we'll answer] your question about Timberland's performance versus our -- I will go back to the acquisition assumptions. Obviously when we talked about Timberland when we acquired it, we talked about a 10% annual growth rate. We are running ahead of that this year, certainly ahead of it in the second quarter. But the guidance we have given for Timberland is for 12% global growth this year.

From an operating margin standpoint we are on track to hit the targets we set when we acquired the business. And we are going to give an awful lot of color about that to you guys in a few months.

Robby Ohmes - *BofA Merrill Lynch - Analyst*

Sounds great. Thanks so much, Eric.

Operator

Laurent Vasilescu, Macquarie.

Laurent Vasilescu - *Macquarie Research - Analyst*

I have a few questions with regards to the anticipated September Investor Day which will focus on the Timberland brand. With the brand growing at a high teen rate now, could we expect revised 2017 targets for the brand? Could we see gross margin operating margin goals as well?

And lastly, does the success around the Timberland acquisition give you more confidence to make another potential acquisition revolving around the footwear line?

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

The answer is -- I'm not going to touch unfortunately your first two questions. We are going to go into details about where we are with Timberland and where we see it going when we are together in September. And that story needs to be put into context of the total picture around the world is the only way to really tell that story and in about eight weeks we will be going through that.

We are very confident in our acquisition model. If you go back -- a decade ago we bought Vans, and 15 years ago we bought The North Face. And you go through the brands that we bought, in Bob's script he mentioned that Napapijri, Kipling, Eastpak and Smartwool all grew greater than 20% this past quarter. We think we are pretty capable acquirers and integrators and enablers of businesses in any category.

Our interest in footwear is obviously growing. That really started for us with Vans and followed by Reef and now Timberland. And we have other brands that are in the footwear business, but those three were really footwear acquisitions. We are a pretty big player in the space now and we have a lot of momentum in our footwear businesses.

So, yes, that would lead us to believe that we could do another footwear acquisition. I am not going to say that is our top priority, but we could do one, yes.

Laurent Vasilescu - *Macquarie Research - Analyst*

Okay, great. And can you talk a little bit about the Lucy brand, how it has performed over the last couple quarters? And maybe bigger picture, if you could share your general thoughts on the yoga market as we see some existing players struggle with new brands entering the space. Any general insights would be greatly appreciated.

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

I am going to ask Steve to touch on that question. Steve?

Steve Rendle - *VF Corporation - SVP, Americas*

You bet. So our Lucy business, a business we are very proud of, had a strong first half. We were up mid- to high- -- or mid-single-digits. Second quarter was off plan a little bit, primarily due to retail traffic trends in our owned stores, which remain a significant part, about 75% of our total business.

What we are really proud of with our Lucy business is the partnership that they're forming with Dick's Sporting Goods. As of the end of May we had set a little over 300 doors in the new Dick's Sporting Goods Women's Studio Pad and are seeing really strong results. That partnership is building on an additional partnership we've had for just about two years with REI where we are an all door provider and seeing really strong results there as well.

So we are able to take our Outdoor & Action Sports model of a balanced wholesale and D2C strategy, bring that to Lucy, extend the reach of our brand, touching consumers where they are shopping.

As we look at this space, the women's athletic and yoga space, absolutely something we are interested in. We think it is a sector that is here to stay and one that we can do very, very well with with our unique ability to understand the consumer and bring products and emotional marketing to drive our success.

Laurent Vasilescu - *Macquarie Research - Analyst*

Thank you very much.

Operator

Michael Binetti, UBS.

Michael Binetti - *UBS - Analyst*

Good morning, good quarter in a challenging (inaudible) obviously. Could you help us put some numbers or some magnitude around the two impacts you've mentioned on gross margin as far as factory downtime versus FX, Bob?



Bob Shearer - VF Corporation - SVP & CFO

Yes, maybe I can just -- maybe what I will do is just run through the gross margin, the components of the gross margin in the quarter. So, as we've very, very consistently said and as we have been seeing and realizing, the mix benefit was absolutely intact, it will be for the year and it will be going forward. That was about 70 basis points on the plus side.

You might also remember the concession accounting change helped us by about 30 points and that increases SG&A as well by about the same. Offsetting that -- offsetting that, that is about 100 basis points, so offsetting those two in about equal amounts.

Number one was the FX impact, we talked about that in our last quarter and we could see that coming. And by the way, for the second half of the year that won't be an issue, it is really isolated to the second quarter. That was about half of the offset.

And then the other half was related to the inventory actions that we took. And a big piece of that was the downtime in the jeans plants that we talked about.

Michael Binetti - UBS - Analyst

Okay, so as far as second half goes, the jeans guidance, does that reflect -- does the guidance -- maybe you can help us think about how much of it is reflecting your expectation for improved sell-throughs or just -- they are just new programs?

Bob Shearer - VF Corporation - SVP & CFO

Yes, it is -- particularly in the fourth quarter -- I think Scott mentioned this in his comments. In the fourth quarter -- will be the strongest comparison as we gain some distribution and also the new product launches, so that will be the strongest quarter.

From a gross margin standpoint, yes, no, we don't expect to see the same impact that we saw in the second quarter. We feel that we have that clean up behind us and we enter the year with really clean inventories going into the second half of the year.

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

Yes, Michael, we feel real good about our core business going into the second half of the year, especially with where we are in an inventory position. But I think the big thing for us is the innovation that we have had in our pipeline, it's now starting to come to life. You are going to see it in the mass channel as it rolls out right now with our Advanced Comfort.

The best test that we've ever had in the history of Wrangler for a new product we just nailed with that and it has gotten full distribution within the mass channel. And that is hitting right now. So we couldn't be more excited about that product and for when folks finally get a chance to buy it and wear it the word of mouth.

And then in the mid-tier we are also doing the same with new products, curvy fit and easy fit. So that is really going to take hold as we move through the third quarter and it is really going to help us in the fourth quarter and going forward.

Michael Binetti - UBS - Analyst

Okay. Thanks, Scott. And then maybe a jump off for Karl Heinz or maybe Karl Heinz can -- last winter obviously there was a lot of media around how cold the winter was and certainly we were all looking at the temperatures in the US.

But you guys were pretty consistently commenting that it wasn't universal and that there were some areas, I think Lance called out California, but certainly Europe was an area where the winter wasn't as favorable as those of us watching the news in the US were saying.



Can you just comment on how order trends are looking for North Face or what the retailers are thinking about as they are sitting on inventory in Europe that you think might be holding them back from ordering stronger for the back half? Thanks a lot.

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

Yes, as you say, right, we had a very strange winter in Europe. We had tons of snow in the southern part of the Alps and we had no snow on the northern side. So pretty strange thing.

I would say now the situation has normalized as we anticipated. We look forward on The North Face for a mid-single growth for the year. As you know, we don't announce fall orders anymore because of the strong DTC component we have. But we are looking forward to a good year.

Now we have assumed a normal winter to come, so no -- spectacular at the same time. Hopefully not a bad one like this year. But we don't see the promotional activity as strong as what is happening here in the US at the moment. So I would say all in all (inaudible) we went over well and we look forward to a normal year.

Michael Binetti - *UBS - Analyst*

Thanks a lot.

Operator

Bob Drbul, Nomura Securities.

Maddie Steiner - *Nomura Securities - Analyst*

Hi, good morning, this is actually Maddie Steiner on for Bob. I just have two quick ones. Firstly, can you talk about any visibility you have into the fall holiday pre-booking for the outdoor brand?

Steve Rendle - *VF Corporation - SVP, Americas*

So, I will take that one for Bob. We are not giving our forward-looking booking with The North Face for a couple reasons. Probably most importantly is our D2C business is now about a third of our total revenue and trying to contrast our wholesale order book really isn't an accurate depiction of what our business looks like.

What I can tell you is our orders in hand support the outlook of a 12% global growth rate that Karl Heinz mentioned in his script. And here in the US we are feeling very good about the momentum that we've carried out of 2013 into 2014. First half has been very strong. Our order trends for fall are in line with our guidance here in that low-teens growth rate for the US business.

Maddie Steiner - *Nomura Securities - Analyst*

Great, thank you. And then lastly, with regard to the Jeanswear inventory issues, was any of that related to the Lee overhang in China that you had mentioned previously or has that been resolved?

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

Karl Heinz here, Maddie. That has been resolved. In fact we did announce a positive quarter for Lee in this quarter. What I didn't mention in my script was the situation on outdoor. We have -- we see a similar situation happen in the outdoor channel. But this time we have proactively acted.

And the fact what we have done, we have not delivered the entire order book we had, the spring order book, to the market in order to avoid a similar situation.

Eric Wiseman - VF Corporation - Chairman, President & CEO

And the inventory situation that we discussed was really around the Lee brand domestically. If you step back 10 feet and look at the Lee business it is almost entirely in the mid-tier channel. And it is tilted heavily towards women's, which is the weaker part of the jeans business.

The channel choice we have made and the way -- who the brand resonates with, women, you put those together and that is the softest part of our Jeanswear business in the world right now.

Maddie Steiner - Nomura Securities - Analyst

Great.

Eric Wiseman - VF Corporation - Chairman, President & CEO

We don't think we have a fundamental brand problem, it is more structural around it.

Maddie Steiner - Nomura Securities - Analyst

Got it.

Operator

Dana Telsey, Telsey Advisory.

Dana Telsey - Telsey Advisory - Analyst

Can you talk a little bit about the marketing investment plans going forward and what you see the cost as this year versus last year, how you are planning? And then anything on product cost and West Coast port strike, how you are planning? And just lastly, Europe strength, was it particular regions that you saw the strength? Thank you.

Bob Shearer - VF Corporation - SVP & CFO

I will start with the -- on the marketing side. What we indicated early in the year, and we are right on track for this spend, is that last year we spent just below 6% of our total revenues on marketing and spent close to \$680 million or so.

In the current year we expect to keep our ratio about flat with what it was last year, again right under the 6% level. So it puts us well above the \$700 million mark, closer to \$720 million or \$730 million. So up about \$50 million over 2013. That is our plans right now.



As I indicated in my commentary, if we see some opportunity to make some additional investments in marketing or other areas, just as we have in the past, which have been very, very effective for us, we may do that. But our plan right now is to hold the ratio to revenues pretty flat and, again, close to the 6% mark.

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

On the product cost side, Dana, I think the best way for you to think about that is we have complete visibility of our product costs for the balance of this year and we expect to deliver a 49% gross margin for the Company this year. So we have contemplated all the pluses and minuses and product cost into that 49% gross margin number.

On the West Coast port strike, the good -- or whatever the situation is out there right now, we obviously saw that coming well in advance. Our supply chain reacted in a really strong way and we got inventory into our warehouses much earlier than we would otherwise have. And remember, our inventories were only up 6% at the end of the quarter. So they would have been even better than that had we not accelerated receipt of goods.

So we are prepared to fill orders here in the third quarter. I can't predict what might happen out on the West Coast. But we have the inventory in our warehouses right now and hopefully that situation will get resolved. And I think you had a fourth question, but I only got three of them down.

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

The fourth question I guess was on the stress situation in Europe. So as Eric mentioned it before, we did not see, thanks God, what is happening here in North America. We have some markets, some countries -- you know, Europe is a big conglomeration of markets. But overall I would say it is business as usual.

Dana Telsey - *Telsey Advisory - Analyst*

Thank you very much.

Operator

Omar Saad, ISI Group.

Omar Saad - *ISI Group - Analyst*

Thanks, great quarter, guys. My first question following up on the jeans commentary. How do you think about this kind of divergence, especially with the Lee brand, how it is doing domestically versus international in this era of globalization and information availability and digital? Just how do you think about the sustainability of those kind of diverging brand positions for international versus domestic? And then I have a follow-up. Thanks.

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

So, Omar, I will take the first part of it. I think there is a big opportunity here for Lee. If you think about the brand, it is got permission to play in this space as far as comfort goes and that is really where folks are going right now. And we are getting at it with a lot of new products in our innovation pipeline.



You heard me talk about a few of them earlier. But they are starting to roll out now. And our team thinks of it as additional wearer occasions. We are the leading brand with our brands that we have in Lee and Wrangler. So the permission to play in that space and the footprint from a distribution standpoint that we have put us in a really strong position.

And then the work that we can do globally together will really help us drive that around the globe. And it also -- it is part of the thing that makes VF great in that we work and communicate together as brands globally, we talk and communicate and we understand the trends that are happening globally and we share those together and we can work together to make sure that those brands are healthy and growing in the future.

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

Yes, Omar, as we discussed and, as you know, we are perfectly aligned on Lee and on Wrangler between Europe and Asia. So we are there. And globally we are working closer and closer, stretch fabric is a good [comp] on that team, Lee, which we are using in the US and in Asia, and in Europe, of course. So we are getting there, you know, to have a common brand positioning.

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

Yes, Omar, the challenge for us obviously is how do we -- recognizing that the brand was a pioneer internationally, it just celebrated its 50th anniversary of doing business in Europe. And back when it was launched in Europe it didn't have to look consistent globally because there wasn't global communication.

But today there is. And we are undergoing a lot of efforts to gradually but deliberately find common ground for this brand around the world. That will take time. But we are on it and it is just going to be -- it's going to take time. It will be a lot of little steps, we will move it closer.

And the strange thing about that to me is, sitting here in the United States the Lee brand in Europe looks like it has a premium positioning. But sitting in Europe it does not have a premium position, it is just relative to American price points. In Europe it is really more of a mid-tier positioning, which is right where it is in the United States from a price point standpoint.

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

And, Omar, I think one of the things that is really going to help us do that is we are opening up and we are in the process right now of opening up our denim innovation center. And it is a global denim innovation center. And Karl Heinz and I are very aligned on what we need to do and what we need to accomplish there.

And they're going to work on joint projects around denim and around our products going forward. So, there is a lot of excitement around that. And you will hear more of that in the future too.

Omar Saad - *ISI Group - Analyst*

That is really helpful, thanks. I also wanted to ask about Timberland, kind of a follow-up. This was the biggest acquisition you have done. The margin opportunity you guys have obviously executed really well. But now this thing is growing in the teens, high teens even. And it was already such a big brand when you bought it.

Like how much confidence does the top-line success you are having with this brand, a few years removed from the deal, to do other larger, even larger acquisitions in the future? Is that something you think about or --?

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

We obviously are in a different place than we were 10 years ago when we talked about having a sweet spot for acquisitions of \$300 million or \$400 million. We are -- we are a much bigger company now, we were a \$4 billion or \$5 billion company then, we are a \$12 billion company now. We need to be looking at larger opportunities for acquisitions to move the needle.

It doesn't mean we wouldn't do a smaller deal if it was a really smart business that we thought if we bought it we could do with it what we have done with a lot of the other smaller businesses we bought. And that means grow them and expand their profitability and deliver great shareholder value.

But, yes, there are -- given our current size we are capable of doing bigger deals. Given our current annual cash flow, we are capable of doing bigger deals. And something like Timberland gives us confidence that we could do it well too, that is fair.

Michael Binetti - *UBS - Analyst*

Thanks, Eric. Great job, guys.

Operator

Barbara Wyckoff, CLSA.

Barbara Wyckoff - *CLSA - Analyst*

Hi, everyone, great job in 2Q. Can you talk about the China opportunity? Where are you versus your projected trajectory? And then second, could you comment on the acceptance of the re-launched Timberland apparel that we saw I think about a year ago? What have you learned, what have you changed, etc.? Thanks.

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

Yes, the big picture on our China trajectory is that we are essentially on track where there have been some puts and takes, as there always are going to be a business that has a diverse portfolio. But in terms of our aiming at the China targets we have talked about, we are still aiming at them and we are making progress. Steve, do you want to take the second half of that?

Steve Rendle - *VF Corporation - SVP, Americas*

Sure. So the limited re-launch of the Timberland apparel was here in the United States. Our most significant apparel businesses sit in Europe and Asia. We brought the apparel back here to the US last year. It was a strategic limited launch with a small number of specialty retailers as well as Nordstrom.

We saw very good results, very good sell-through. That momentum carried into spring, as I mentioned in my comments, and our order book for fall 2014 reflects that success as we have seen an expansion of our specialty doors, an expansion of the number of doors that we'll be participating with Nordstrom on.

And we are very happy, we are on track with what we believe this brand can do from a head-to-toe standpoint and we'll continue to drive apparel as part of that balanced portfolio of products that we are bringing to the outdoor lifestyle consumer.



Barbara Wyckoff - CLSA - Analyst

Great, thank you.

Operator

Erinn Murphy, Piper Jaffray.

Erinn Murphy - Piper Jaffray - Analyst

I just wanted you guys to maybe think a little bit more about your direct-to-consumer business, very strong in the quarter, up 18%. Could you just help us parse out the growth between e-commerce and then your brick and mortar stores?

And then as you take a step back and think about the e-commerce goal you've provided for the longer-term plan of \$750 million, where are you in achieving that? And then how are you seeing the role of mobile kind of impact the pathway to get there?

Eric Wiseman - VF Corporation - Chairman, President & CEO

Sure, Erinn, Eric here. We had a really nice quarter in our direct-to-consumer business. Let's keep in mind that the second quarter is not the biggest quarter for an Outdoor & Action Sports type business to have in our D2C world. But we have a consistent string here of really strong quarters, we are up 18%.

We had double-digit growth in every region and growth in nearly every brand. What makes that up is a mid-single-digit comp store growth, which we are proud of. Over 30% growth in our e-commerce. And we are on track to open 150 new stores this year. So there is a new store component, we have said all along.

And we are very early in our journey of opening up our own stores, we do not have -- because we have so many brands and so many geographies that we are in we have a lot of runway to open new stores. And we said we were going to open 150 this year and less than half of them are opened as we sit here today, but they will be open by the end of the year. And that is part of what gives us confidence about the strength we are going to have in the second half of the year.

On mobile we are beginning to activate our brands so that consumers can relate to our brands through their mobile devices. We are not where we want to be. I think in general the industry didn't see mobile coming on as big as we could. I am going to ask Steve to make a comment on that about where we are.

Steve Rendle - VF Corporation - SVP, Americas

Yes, so, Erinn, this last March our Vans business launched a new VF platform for our Web businesses going forward. It has a very powerful adaptive responsive mobile component to that. We certainly see our consumers interacting with us on mobile, searching out our products and our content.

But we also see mobile as a very critical tool of how we interact with our consumers in store and we are making investments in that part of our digital platform as well as bringing service and efficiency to that in-store component. So, very, very important in an area that our big brands are driving very aggressively and will benefit and all of the VF platform in the future.

Bob Shearer - VF Corporation - SVP & CFO

And, Erinn, just one other point relative to D2C. Our profitability as well has been very, very strong and our returns were high in our D2C businesses in total and they are even improving. And some of that is coming from improvement on the international side where our business was less mature and is now maturing, it is improving.

And also the fact that on the e-com side of the business, which is highly profitable, becomes a little bit bigger piece of the overall mix. So good news there as well.

Erinn Murphy - Piper Jaffray - Analyst

That is great to hear. And I guess it just the last question just for Karl Heinz, just a follow-up for you. You responded to an earlier question just speaking about the inventory starting to build in the channel for outdoor brands in Asia and that kind of led to kind of you proactively pulling back on The North Face orders there.

Can you just speak to when did you start kind of seeing this inventory build in the space there? And then how should we think about kind of the next few quarters in terms of rightsizing where you want to be? And the inventory there, seeing the channel -- I guess the last question is, are you seeing that more from global brands that are expanding in Asia or from some of the local brands? Thanks.

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

Well, a few questions in one.

Erinn Murphy - Piper Jaffray - Analyst

Exactly. Knock them out.

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

Well, we mentioned we had a similar situation with Lee a while ago, as you might well recall. And we were kind of caught by that and we suffered then. We had a few quarters where we had a negative growth.

This time we changed our strategy. We saw it coming. And as I mentioned before, we did not deliver our full order book, the order book we had from spring into the market, to avoid exactly a similar situation. In fact, I also mentioned we do expect the second half to grow on The North Face in China, probably stronger in Q4 than Q3, but we do expect the second. So the situation normalizing.

You know, China -- I always mention China is a marathon. They will be up-and-down but we have great opportunities in that market. We are acting only with four brands at the moment directly. And we have relatively low penetration in terms of distribution. We are engaged in the higher tiers. So there is still a long runway to cover.

I am not sure I've covered all of your requests. Do you have other questions or did I give you an answer?

Erinn Murphy - Piper Jaffray - Analyst

Yes, just in terms of kind of where you are seeing that inventory build. Is it really across more of the global brands that are expanding in China in the outdoor market? Or is it some of the local brands that you are seeing that pressure?

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

Well, it is kind of both. Everybody has an appetite to succeed in China. As you know, the market is very fragmented, there are a couple of hundred outdoor -- hundreds of outdoor brands, global brands, local brands, regional brands. So it might change over time, but I would say it's coming from every side at the moment.

Erinn Murphy - *Piper Jaffray - Analyst*

Okay. Great, guys, and thanks so much.

Operator

Mitch Kummetz, Robert Baird.

Mitch Kummetz - *Robert W. Baird - Analyst*

A few questions. One, I just was hoping you could reconcile a few things on the sales side. I know in the quarter, going into it you were expecting sales to be up around 6.5% like the first quarter. They definitely came in better than that.

So I was just kind of curious where you saw the upside, I would guess it was on the Outdoor & Action Sports side. But I think Scott also said that jeans were a little bit better. So that is the first thing.

And then two, with sales coming in better in Q2, I'm a little surprised you didn't take up the sales guidance for the year. So I was hoping you could address that. Are you just being conservative on the back half?

And then three, on sales. It looks like your Outdoor & Action Sports guidance is now the high end of 12% to 13%. I think previously you were just saying 12% to 13%. So I am just wondering what changed there? It didn't sound like you adjusted any of your expectations for your three main brands there.

Bob Shearer - *VF Corporation - SVP & CFO*

Yes, Mitch, so I will start on that, that was quite a few questions as well. So, yes, where we have seen the strength is primarily in Outdoor & Action Sports, I don't think that is any surprise to any of you. And those three big brands, you are absolutely right, in The North Face, Vans and Timberland all performed really, really strongly and in the first half actually a little bit better than we expected.

So it has been a little bit stronger, the second quarter was particularly strong. And we also have a very, very strong growth plan for the second half for those businesses in total for Outdoor & Action Sports. And our plans there are -- at this point in time are right in line with our initial plans and our initial guidance around the strength of our Outdoor & Action Sports business.

And, yes, to your point, with the current trends that we are seeing -- in other words the growth rates and the first half -- it would indicate that it could be a little bit better in Outdoor & Action Sports. But we have two very big quarters ahead of us, particularly on the outdoor brands, The North Face and Timberland, as you know, very much heavily weighted to the second half of the year.

So, yes, it could be a little bit better. But I think the bottom line here is that we are looking forward to a very, very strong second half just as we saw in the first half.



And the 12% to 13%, what we are seeing is that is where the strength has been. The strength of our business clearly has been in the Outdoor & Action Sports space. And as we saw the results of the first half of the year, we have strengthened our expectations around that to the 13% level. So it does continue to strengthen somewhat.

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

Yes, Mitch, I'm just going to weigh in on this one too because it is an interesting question, one that we have talked a lot about in the last several weeks because clearly we have momentum. I used the word momentum early in my prepared comments because we have it and we have it in abundance in Outdoor & Action Sports across a whole bunch of our brands.

So sitting with that momentum and that trend and the confidence we have about fall, the questions are two. How are consumers going to shop this holiday season and what kind of weather are we going to get? And that is why we are sticking with the guidance we have.

No one knows the answers to the second two questions. But we are confident we can hit the guidance we have given for the year on a revenue basis. And as Bob said, it might be a little bit better if those two unknowns bless us with positive positioning. But we don't know that. So we are going to stick right to where we are for now.

Mitch Kummetz - *Robert W. Baird - Analyst*

Okay, appreciate that color. And then just a quick follow up. Eric, you mentioned 150 stores this year, Bob talked about record store openings in the fourth quarter. I'm just wondering from a square footage standpoint, I don't know if you can talk about this, but how much square footage do you think you pick up in the fourth quarter on your stores? I mean is it somewhere in the 10% range? I'm just wondering how much of a driver of DTC growth square footage is expected to be.

Bob Shearer - *VF Corporation - SVP & CFO*

Well, we don't look at square footage. But the only way you might think about that is we ended last year with around 1,250 stores. We expect to end this year with around 150 more. So you could do some rough math assuming they were the same size as average, but that is the only way I can guide you on how you might think about that.

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

Mitch, our overall store openings for the year will probably be maybe 30 higher on a net basis versus last year. But we have such differences in the size of the stores with our individual brands it is just really hard to talk about the square footage.

Bob Shearer - *VF Corporation - SVP & CFO*

What is different this year is about half of our openings are international. We have really got momentum in our direct-to-consumer capabilities around the world, stronger now than it has ever been. Karl Heinz and his team have been working for a long time to really improve our capabilities there. Those stores tend to be a little bit smaller than domestic stores, particularly in Asia. So they are probably going to be smaller than average, that half of it.

Mitch Kummetz - *Robert W. Baird - Analyst*

Okay. Thanks, guys. Good luck.

Bob Shearer - VF Corporation - SVP & CFO

I hope that helps.

Operator

Kate McShane, Citi.

Kate McShane - Citigroup - Analyst

I had a question on The North Face and the supply chain. I know over a year ago that you add changed over two lines I think in some of your owned manufacturing toward The North face. I wondered if there had been any other changes made to the supply chain with regards to this brand this year. And can we anticipate any change in terms of deliveries or how you are approaching retail in winter 2014?

Steve Rendle - VF Corporation - SVP, Americas

Yes, Kate, I will take that one. We saw really good results last year when we moved some of our fleece production into our jeans facilities in Central America. We saw an improvement in speed for sure. We also were able to really see some positive product cost improvements.

That success and the assurance of continued quality will continue to move those types of items into our jeans production when those lines come available. Really looking to leverage the expertise and strength of our supply chain and do that very strategically where we have needs and opportunities to really drive speed for The North Face business here domestically.

Kate McShane - Citigroup - Analyst

Okay, great, thank you. And then my second question was on the Lee introduction into Macy's in the fall. Can you tell us a little bit about the presentation of the brand at that retailer and how it might look different?

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

It certainly does. So, Kate, we took the lead brand into Macy's and it has actually been in the department store channel for a little while with Belk and it is called Lee Platinum. And it is a little bit more upscale, there's a little but more decoration, some different washes, some different fabrics, a little bit high end on the fabrics.

And we are expanding our store base in the department store channel right now and it continues to go very well. We are pleased with how we are doing, we think there is really a big upside here going forward with the Lee Platinum label. And all plans are tracking on progress right now.

Kate McShane - Citigroup - Analyst

Is there a lot of distinct fixturing associated with Lee Platinum? Can you find it in its own section or is it just amongst denim within Macy's?

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

It is amongst denim in Macy's and there is some distinct fixturing and some call out. But obviously we have to work with our partners on the in-store fixturing, as you know.



Kate McShane - Citigroup - Analyst

Thank you.

Operator

Jim Duffy, Stifel.

Jim Duffy - Stifel Nicolaus - Analyst

A couple questions from me. Bob, first for you. I just want to make sure I am clear on the gross margins. Was the pressure on constant currency gross margins confined to the Jeanswear and Sportswear business or is there promotional activity you are seeing across the other coalitions as well?

Bob Shearer - VF Corporation - SVP & CFO

Were you talking about the FX impact or --?

Jim Duffy - Stifel Nicolaus - Analyst

No, I am talking about constant currency gross margins. You called out some promotional activity, you also spoke to downtime in the factories. If we were looking at the P&L for the coalitions was the gross margin pressure that you saw relative to your expectations confined to Jeanswear and Sportswear?

Bob Shearer - VF Corporation - SVP & CFO

Yes, right, from a standpoint of the proactive inventory adjustments and that kind of thing, it was mostly Jeanswear and some Sportswear. Just mentioned in the constant currency, what I said was that half of the offset to the mix benefit was related to FX.

And of course that's -- it is the transaction side and hedging activity, that kind of thing, which was isolated to the quarter. And that extended obviously to the international business, pretty much throughout the international business. But, yes, the remainder of that, the other half was -- is mostly Jeanswear and some Sportswear.

Jim Duffy - Stifel Nicolaus - Analyst

Got it. Second question I guess for Eric, maybe Steve relating to Vans. Momentum tremendous. What is the strategy to keep the Vans brand from overheating and perhaps being a transient fashion phenomenon?

Steve Rendle - VF Corporation - SVP, Americas

That is a good question, Jim. I will tell you what, I think the Vans team is the primary driver of that sustainable growth path. They are very, very mindful about their product segmentations, the partners that they work with and how they sell in seasonal initiatives.

Here in the US, which I can speak to directly, through their go-to-market process, looking at these really creative collaborations coupled with their just normal seasonal product releases, they stay very on top of who they partner with, what they are selling in and really managing that growth on a long-term view.

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

Excuse me, if I may add here, I mentioned that in my quote, it is a very important point you touch. I think what gives us comfort, I mentioned that in China not only did footwear growth but also apparel and also accessories.

And the same, we are very careful in Europe, we had a peak and a heated situation in the UK, but we immediately managed the brand and invested in a brand in different European markets. And we see the brand now very strong in most of the European markets actually. So we are very careful and prudent.

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

Jim, at the risk of piling on, Steve's comment about how thoughtful the Vans team is about making sure the quality of our growth is strong is absolutely spot on.

It might interest you to know that most of the conversations we have about the Vans brand are about how underdeveloped we are geographically, underdeveloped on the East Coast, underdeveloped in the Midwest, underdeveloped in the Southeast of this country, underdeveloped in Europe. Just getting started in Asia, launched in Korea two years ago.

So when we look at the future of the Vans brand it's -- most of our discussions are about at what pace do we continue our march around the world with this brand? We see lots of runway.

Jim Duffy - *Stifel Nicolaus - Analyst*

That is great to hear. It sounds like you guys are being thoughtful about it. Thank you.

Operator

And that concludes today's question-and-answer session. I will turn things back over to our speakers for any closing or additional remarks.

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

Yes, again, thanks for your time today. As many of you said, we had a really strong second quarter and I hope you understand that we are really confident about the end of this year. The back half is shaping up quite nicely and we are all confident that we can deliver what is in our guidance and hope to see you in September up at Timberland. Take care.

Operator

That concludes today's conference call. We appreciate your participation.



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