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VFC - Q3 2014 VF Corp Earnings Call

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OVERVIEW:

VFC reported 3Q14 total revenue growth of 7% and EPS of \$1.08. Expects 2014 revenue growth to be 8% and EPS to be \$3.08.



CORPORATE PARTICIPANTS

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CONFERENCE CALL PARTICIPANTS

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PRESENTATION

Operator

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

Lance Allega - VF Corporation - VP of IR

Thank you, operator, and good morning everyone. Thanks for joining us today on the call to discuss VF's third-quarter 2014 results.

Before we begin I would like to remind everyone that participants on the 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 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 our prepared remarks we will open the call for questions and ask that you please limit yourself to two questions for caller.

Thank you and now I will turn the call over to Eric.

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

Thanks, Lance. Good morning everyone and thank you for joining us. Our strong third-quarter results demonstrate the value creating strength of VF's growth strategy. Our unique ability to form deep connections with consumers is led by an impressive array of innovative products, powerful brands and authentic retail experiences. VF's achievements are the byproduct of our relentless focus on creating, connecting and ultimately generating great value for our consumers, customers and our shareholders.

Total VF revenues in the third quarter were up 7% which included a bit of a foreign currency headwind. Yet despite this, we are right on track to achieve our full-year growth expectation of an 8% increase. Performance during the quarter was once again led by the outdoor and action sports coalition which was up 11%. Our three big brands continued their strong momentum. The North Face was up 9%, Vans grew 12%, and Timberland was up 15%, an especially important result coming off of last month's timberland investor day where we detailed plans for the brand to reach \$3.1 billion in revenues by 2019.

To spend a minute on Timberland, I would underscore once again just how proud we are of the work we have accomplished during the past three years and the important momentum we have established. Such strong momentum that today we are happy to announce that we are taking up our 2014 revenue growth outlook for the Timberland brand to 13%, a rate directly in line with their new five-year growth target. A powerful brand, innovative product and global growth built on the strategy supported by consumer insights, Timberland is a perfect example to illustrate the power of our One VF approach to business.

Turning to another highlight of the third quarter, our direct-to-consumer business also continued to build its strong momentum with revenues up 16% including increases in all VF brands with retail operations. Our international business was up 9% or 10% in constant dollars with the EMEA and Asia-Pacific regions on track to reach their full-year goals. Gross margin for the quarter improved 70 basis points to 48.3% driven by the continuing shift of our revenue mix toward higher-margin businesses.

Operating margin for the third quarter was up 40 basis points to 18% reflecting our disciplined balance of investments and underlying operational leverage. All of this helped to deliver an 11% increase in earnings per share to \$1.08 for the third quarter. This strong result and the confidence that we have as we look to wrap up 2014 led us to increase our full-year EPS expectation to \$3.08 per share, a number that includes a negative impact from foreign currency and additional marketing investments, components that Bob will provide more detail on in his comments.

I would like to also provide some additional insight to our strong performance during the quarter. Our global supply chain organization continues to do an extraordinary job managing our sourcing relationships and getting our products to market. Ahead of our biggest revenue growth quarter of the year, our inventories are only up 4%, a significant accomplishment in light of the current business environment and we are confident that we will service our customers at a very high level.

As you would expect, VF continues to sharply focus on returning cash to shareholders. Today we announced a 22% increase in our quarterly dividend, lifting it to \$0.32 per share which along with our stock buyback will return more than \$1.2 billion to shareholders by the end of this year.

Before I wrap up my comments, a few words about our sustainability related activities. This is an essential part of VF's core values and we view it as an opportunity to help shape the sustainability agenda in the apparel and footwear industry. Next week VF will publish our sustainability and responsibility report that outlines our ongoing activities, aspirations, goals, measurable achievements and performance targets. I encourage you to review our story as we further develop and extend our global capabilities and accomplishments.

To sum it up, our strategy to drive near and long-term value to shareholders is working well. We continue to inspire consumers with innovative products and deepen our relationships with them and we continue to leverage our best-in-class platforms to fuel growth across our strong portfolio of brands. Given our ability to leverage our scale, financial resources and operational disciplines, we have a unique competitive advantage even in the face of a challenging global economic environment and a highly competitive retail landscape.

With that I will turn it over to Steve, Karl Heinz and Scott to review our brands. Bob will then walk you through the financials.

So Steve, over to you.

Steve Rendle - *VF Corporation - SVP, Americas*

Thanks, Eric. In line with our expectations, third-quarter global revenues for The North Face were up 9% setting a solid base for accelerated growth in the fourth quarter. The brand's D2C business was especially strong in the quarter with a 32% increase in revenues which along with a sequential acceleration in our wholesale business has us well-positioned to deliver another record year for The North Face.

In the Americas, revenues were up at a low double-digit percentage rate with almost 30% growth in D2C and high single-digit growth in wholesale. On the product front, our Mountain Athletics training collection led a 60% comp increase in our performance apparel sales with our own D2C. We see this momentum carrying through fall-winter season as well as into next year when we will extend this line to include women's products.

Ultra footwear is also a strong performer winning awards from both the running and outdoor industries and during the quarter, our daypack sales at wholesale were up significantly with a 35% increase. We are also really pleased with the great early-season response to Thermoball, TNF's industry-leading transitional outer wear product. Thermoball has been a top five selling outerwear style every week this year and further proof that our innovation engine is creating revolutionary breakthrough product. FuseForm has won six major product innovation awards around the world including Outside Magazine's Gear of the Year in their Winter Buyer's Guide.

This fall we will drive bold and impactful messaging amplifying our storytelling with consumers. Centered around the spirit of exploration and connecting people to our featured product initiatives like Thermoball and Mountain Athletics, we will continue to increase brand visibility and drive growth.

We are also set to launch a new North Face TV campaign in the US in early November using short- and long-form spots as well as digital display and social media components. This land campaign highlights the inspirational and emotional reasons to explore the outdoors. There are a lot of exciting things in store for The North Face this fall.

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 revenues increased at a low single-digit rate. The wholesale business was essentially flat due to a combination of a sluggish outdoor retail environment and a shift in the timing of product shipments into the fourth quarter. However, our D2C business was up nearly 30% in the quarter emphasizing the strength of the brand.

On the products side, our Thermoball collection continued to perform strongly supported by a marketing campaign across Europe. We also successfully tested our Mountain Athletic collection in a number of stores and have plans to roll out this product much more broadly moving forward. I am also incredibly excited about the investment we are making in our European footwear business including our new Hedgehog collection and our first ever European designed mountain trail running shoe which will launch in spring 2015. So far we have seen strong initial sell-in those products and our partners are just as excited as we are.

In Asia, revenues were up at the mid single-digit rate. We are seeing an improving inventory situation in China, a trend that sets us up for significant growth in the fourth quarter. The Thermoball launch was received very well by Chinese consumers. It was supported by an integrated activation campaign which included TV and online ads. With feature product at more than 450 partner door locations, we have meaningfully moved this product front and center to the Chinese consumers' minds.

Globally, TNF had a solid third quarter. We expect the fourth quarter's growth rate to be in line with our long-term target of 12% which puts us on track to achieve our 2014 target.

Now let's look at Vans.

Unidentified Company Representative

Global revenues for the Vans brand in the third quarter were up 12% marking the 20th consecutive quarter of double-digit growth. That is five years or half the time this brand has been in VF's portfolio. Truly amazing and certainly a testament to our global team that has proven they know how to connect with their consumer, create the product they demand and stay true to the brand's iconic off-the-wall DNA.

With an 18% increase in the global D2C business and a high single-digit increase in the wholesale channel in the quarter, Vans is solidly on track to become VF's second \$2 billion brand.

In the Americas, revenues increased at a high single-digit rate. Fourth-quarter revenues should be up a high teen percentage rate smoothing out the second half growth rate. This is exactly on track for the Vans Americas business being up at a midteen rate for the full year.

Let's talk about product. We kicked off the quarter with an exciting collaboration with Star Wars for both footwear and apparel. Based on this presence at retail and in digital media, it helped increase our core consumer awareness by 7% in North America. We launched a targeted women's campaign, Be the Original, which offered our female consumers more fashion forward styles in our original slip-on silhouettes.

We also enhanced our four season focus by introducing our weatherized product line across apparel and footwear. The globally relevant footwear products are designed to keep you warm and dry through a combination of water repellent uppers, insulated linings and a reverse waffle outsole to enhance traction in cold and wet environments. Early sell through across all regions has exceeded expectations.

In our efforts to connect even deeper with consumers, we just wrapped up the 20th year of the Vans Warped Tour with a meaningful attendance increase over last year's edition and continuing its tenure as the largest and longest-running music festival in America.

We also hosted our second US Open of Surfing which drew more than 750,000 people and 1.4 million visitors who tuned in online and through social media. This event has quickly become a centerpiece of surf, skate and street culture, an inclusive environment that we are truly honored to be part of.

We are also set to kick off the next phase of our Living Off the Wall campaign with all new interactive content and videos. If you haven't, I encourage you to check out the incredibly inspiring stories about what it means to live an expressive, creative lifestyle, a very representative deep dive into our global core consumer.

Connecting with consumers, innovative and authentic product and an amplified B2C presence universally, a growth engine that is firing on all cylinders. KH?



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

In Europe, revenue grew at the midteens rate with D2C growth of 25% at the low double-digit increase in the wholesale business. During the quarter, we also launched weatherized products, an initiative that is particularly important for Europe and so far we are very pleased with the early results.

We also launched our footwear plus concept stores in London and Rome which feature a footwear focused assortment with complementary accessories in a much smaller more efficient footprint. These stores are showing strong early results and we plan additional rollouts in key markets to drive geographic expansion and brand visibility. In addition to footwear, our apparel and accessories categories also showed strength.

I am proud to report that the August opening of our first European House of Vans in London exceeded our expectations. The nine weeks since the opening of this location, we are overwhelmed with the enthusiasm and energy that this unique venue and experience has created. It is truly an amazing experience that we highly recommend.

In Asia, Vans revenue grew nearly 40% with China increasing more than 40% so strength across the board. We are also seeing strong results in apparel and footwear. Highlights in footwear include our Hero product stories and Success for Liberty, Star Wars and Hello Kitty collaborations.

We are also bringing the house of Vans concept to Asia through mobile pop-up events in key markets like Shanghai and Seoul.

The third quarter proved yet again that Vans brand is at the center of action sports, art, music and street culture. We look forward to a strong finish to the year.

Now let's take a look at Timberland.

Unidentified Company Representative

As Eric mentioned, we are incredibly proud of what Timberland has achieved during the past three years and have tremendous confidence in our ability to reach \$3.1 billion in revenues by 2019. But first back to 2014 and what is turning out to be an exceptionally strong first year of the new five-year plan. So good in fact, that we now expect 13% revenue growth this year, right in line with our long-term target.

Third-quarter global revenues were up 15% driven by 18% wholesale growth and a 6% increase in D2C. By focusing on Timberland's consumer using findings from our extensive insights research, we are delivering relevant products connecting with consumers where they live and play and amplifying their experience at retail.

As you saw at the recent Timberland investor day, the resulting topline momentum and clear product and brand definition is now powerfully coming to market. In the Americas, revenues were up 22% driven by more than 30% growth in the wholesale business. This growth similar to the second quarter was very balanced across all products and channels. We saw broad base sell through of our classic boots and casual shoes and our pro line continued its strong momentum particularly with the Boondocks family of boots and our newly launched Powertrain collection.

On the apparel side, we continue to expand our distribution and see strong sellthrough as our Fall 2014 collection hits retail floors across our owned and wholesale partner doors. As you saw at our investor day, Timberland's highly successful "Best Then. Better Now" campaign continues to play a critical role in reinforcing the brand as a stylish relevant outdoor lifestyle brand. Focused on the outdoor lifestyle consumer segment, the current campaign centers on the city outdoors brand positioning using a combination of film, digital and print with the pinnacle print execution being a six-page spread in GQ.

Our style-driven content and storytelling is amplified through aggressive social and digital media programming and is getting a great response from our consumers.

Now turning to our international business, Karl Heinz?



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

Timberlands revenues in Europe were up 15% in the third quarter with balanced growth in both D2C and wholesale. This is the strongest third-quarter performance demand has seen in many years. It gives us confidence to reach our future goals.

To further drive connection with the European consumer, we launched a new influencer campaign in collaboration with one of Europe's leading youth media companies. This digital advertising campaign is built to drive relevancy and engagement with the European consumer. It highlights our apparel collection showing stylish and versatile full total head looks.

We also celebrate the reopening of our flagship store on Regent Street in London. So great things ahead for that iconic retail location.

In Asia, third-quarter revenues increased at the low single-digit rate. Expect a meaningful acceleration of the business in the fourth quarter with a strong finish to the year. On the products side, men's classic boots and boat shoes led the way in the quarter and apparel performed really well.

What an exciting time for Timberland. Our products have never been better or more clearly defined. We are connecting with consumers more directly than we ever have and we have high confidence that this brand will fulfill its goal of becoming the largest, most sustainable outdoor lifestyle brand going forward.

Now let's move to jeanswear. Scott?

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

Thanks. Good morning, everyone. Global revenues for the jeanswear coalition were up slightly in the quarter or up 2% in constant dollars. This is in line with what we spoke about in July and reflects continued sequential improvement.

During the third quarter, global revenue for Wrangler increased 3% or 4% in constant dollars and revenues for the Lee brand were down 1% or flat in constant dollars. In the Americas, the jeanswear business was down at a low single-digit rate due to continued challenges in the US mid-tier department store channel and continued trends in women's denim. Just like last quarter, this mostly impacted the Lee brand. Revenues for Lee in the Americas were down 11% or down 10% in constant dollars during the quarter in a channel and category that remains challenged. And while the overall market remains soft, Lee's newly released products are resonating with consumers. Our modern series denim collection for men and the curvy fit series for women are seeing strong sell through.

Similarly within our mass channel, we are very pleased with our early launch results for our Riders by Lee Heavenly Touch product which introduces the comfort of knit with the durability of denim.

Turning to Wranglers Americas business, revenues were up at a low single-digit rate or mid single-digit in constant dollars. This increase was driven by slight improvement in the mass business and a 10% increase in Westerns sales and the strategies that I have discussed on the last several calls to expand our distribution and create additional demand with new products is playing out as we expected. Wrangler recently introduced Rock 47, which shakes up traditional Western-style for both ladies and men and the response thus far has been above expectations. Tests of our new performance denim line, Wrangler Cool Vantage, have been producing strong results and we plan to roll that out more broadly over the next several quarters.

Overall, we continue to face a pretty difficult environment in the Americas but we are weathering the storm with our brand strength intact by focusing on providing consumers with the innovative products they want, inspiring brand loyalty and tightly managing our inventories to ensure that we remain the best positioned in our industry. Karl Heinz?

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

Revenues for international jeanswear business grew more than 10% during the third quarter. In Europe, jeanswear revenues were down slightly to a mid single-digit decline in Wranglers business partially offset by a modest increase in the Lee business. For the full year, we expect our European jeanswear business to be up at the mid single-digit rate, evidence that our strategy is working.

In Asia, revenues were up more than 30% led by balanced growth between the Wrangler and Lee brands. We are very pleased with the performance of Lee in Asia which posted its fourth consecutive quarter of growth and is well positioned for continued success in this very important region.

To sum it up, we continue to make progress in our global jeanswear business and we are where we thought we would be at this point in the year. As we look to finish the year, we expect fourth-quarter revenues to be up at the mid to single high single-digit rate.

Now Bob will take you through our financial highlights.

Bob Shearer - VF Corporation - SVP and CFO

Thanks, Karl Heinz. So with three quarters of the year behind us, not only has 2014 played out pretty much in line with how we expected it to, but we have delivered this performance in an increasingly dynamic economic environment. Our consistent results reflect the strength of our powerful brands and platforms and our laser sharp focus on operational excellence.

For the third quarter, total VF revenues increased 7% once again led by our outdoor and action sports business which grew 11%. The strong brands in this coalition continue to play a bigger role in the VF story.

Our D2C business, which was up a robust 16% in the quarter including growth in all of our brands which have direct-to-consumer operations and our international business which was up 9% or 10% in constant dollars with strong growth in both Europe and Asia. With one quarter to go, we have great confidence we will achieve our 8% revenue growth outlook for 2014 right in line with our long-term financial target.

Our gross margin at 48.3% was 70 basis points higher than last year's same period. Our fastest-growing platforms, outdoor and action sports, D2C and international also have our highest gross margins and they will continue to favorably impact our gross margin rate going forward. We continue to expect strong gross margin comparisons in the fourth quarter of the year when our gross margin rate should be up more than 100 basis versus last year's fourth quarter. As we have seen in prior years, the significant growth in our direct-to-consumer business is a primary factor in driving this increase. Accordingly, we expect our full-year gross margin to approximate 49%.

Turning to the SG&A line, our SG&A rate was up a modest 40 basis points as compared to last year and this is despite the significant investments we continue to make in our D2C business. We have 131 more stores now than we did one year ago.

The way our model works, we continue to make meaningful investments in marketing our brands. In fact, we now plan to spend an incremental \$10 million behind our North Face and Vans brands in the fourth quarter. As you know, we have done this in the past resulting in strong momentum heading into the following year. All in, our total marketing spend should increase by about \$50 million in 2014 over 2013. Then also on the plus side, our investments in D2C drive up our SG&A ratio to revenues as our D2C businesses have a higher than average expense ratio. But keep in mind that our D2C business is also rewarded with a much higher gross margin than average resulting in a positive contribution to our operating margin.

Then the final ingredient, we offset these investments with leverage from revenue growth throughout the remainder of our expense structure. That allows us to hold our overall SG&A ratio relatively flat, make the appropriate investments behind our businesses, and grow our operating margins. That is how we will improve our operating margin in 2014 and for years to come.

In fact, in the third quarter, operating margin improved 40 basis points to 18%. Earnings per share was up 11% to \$1.08.



So now let's take a closer look at the performance in each of our coalitions. Beginning with our outdoor and action sports coalition, third-quarter revenues grew 11% driven by a 20% increase in our D2C business and a high single-digit increase in wholesale sales. By geography, the growth was very balanced with a double-digit increase in all three regions. Aside from The North Face, Vans and Timberland, which as you have heard delivered strong performances in the quarter, Kipling, Eagle Creek, Lucy and Eastpak also contributed strongly to the coalitions growth. Timberland had a great quarter with 15% growth and continues to build on the brand's momentum that started in late 2013. In fact, based on the strength of Timberland's year-to-date performance, we now expect the brand to grow 13% in 2014 up from our previous outlook of 12%, putting it right in line with this brand's 2014 expectation that we detailed at our investor day last month.

Operating income for outdoor and action sports was up 13% in the quarter and operating margins expanded 40 basis points to 21.8%. This exceptional performance was driven by strong revenue growth and increased gross margin. We remain committed to putting the necessary resources behind these brands and expect to see continued positive comparisons. In addition based on the coalition's strong third-quarter performance including Timberland's elevated outlook, we now expect 13% revenue growth for this coalition in 2014.

Now turning to jeanswear, revenues were up slightly and right in line with what we communicated in July. As expected, overall revenue comparisons in this coalition are trending better. In the Americas region, revenues were down at a low single-digit rate as the US midtier channel remains challenging and the unfavorable women's denim trend also continued to especially impact the Lee brand's US business.

In Europe, jeanswear revenues were down slightly impacted by the timing of shipments with low single-digit growth and Lee revenues being offset by a mid single-digit revenue decline in Wrangler.

In the Asia-Pacific region, we saw significant acceleration and growth with sales up 30%. Operating margin for the coalition was down 30 basis points in a challenging retail environment. Looking forward for global jeanswear, we expect the improvement in comparisons to continue as we look toward the fourth quarter we expect a mid to high single-digit percentage increase in our jeanswear business driven by expanded distribution in the US and the launch of several new product innovations. That should push global jeanswear revenue comparisons to the plus side on a full-year basis.

Moving to imagewear where revenues grew 3% including 10% growth in our workwear business and a mid single-digit rate decline in LSG. Now as a reminder, we exited the unprofitable youth business for Major League Baseball. Excluding the youth business exit, imagewear revenues were up 4% in the quarter. Imagewear operating margin was up 40 basis points due primarily to higher volume and a favorable product mix. We continue to expect imagewear's revenues to be up at a low single-digit rate for the full-year.

Sportswear coalition revenues grew 5% during the third quarter. Nautica revenues were up 2% driven by a high single-digit increase in their D2C business. However, the brand's performance continues to be negatively impacted by the ongoing challenges for sportswear in the US department store channel.

Kipling's strong momentum continued into the third quarter with sales up more than 22% in the US and up 20% on a global basis. Operating margin in our sportswear coalition was 14.1%.

And then finally, our contemporary brands business saw a 5% decline in revenues with a low double-digit increase in our D2C business being offset by a decline in our wholesale business as premium denim trends at department stores remained unfavorable. As a reminder, the shift to licensing in our Splendid and Ella Moss children's business negatively impacted coalition's revenue comparisons by about 2 percentage points.

Turning to our balance sheet. As a result of our strong operational discipline, inventories were up just 4% in the third quarter. And shifting gears a bit and related to our commitment to returning cash to shareholders, we declared a quarterly dividend of \$0.32 per share reflecting a 22% increase over the prior quarterly rate. Our dividend payout in 2014 should approximate 36% representing great progress toward our longer-term goal of 40%. That means that our cash return to shareholders in 2014 including our dividend and our share buyback will be in excess of \$1.2 billion. Our outlook for cash remains strong and we continue to expect cash generation in excess of \$1.65 billion for the full year enabling us to completely pay down our commercial paper by year end.

Turning to the full-year outlook. We continue to expect 8% revenue growth in 2014 right in line with our 2017 organic growth target. Gross margin and operating margin are expected to reach about 49% and 15% respectively, which puts us ahead of the pace we anticipated in our 2017 goals.

Finally based on our strong fourth-quarter expectations, our earnings per share in 2014 is now expected to reach \$3.08 per share, an increase of \$0.02 over the prior outlook representing 14% growth over 2013, again, ahead of the annual pace in our 2017 or five-year outlook. It is important to note that this increased to \$3.08 includes and absorbs a \$0.02 negative impact due to currency fluctuations since our prior guidance. We now assume a euro to dollar rate of \$1.26 for the remainder of the year versus our previous assumption of \$1.33.

So to wrap it up, we feel great about what we have accomplished so far in 2014. We are headed for another strong year of revenues and earnings growth now pointing toward 8% topline and 14% earnings gains. Our strong platforms are working and we have never been more confident in our ability to sustain this exceptional performance. We look forward to wrapping up 2014 on a really positive note and laying out our plans for 2015 in our February call.

With that, I will turn it back to the operator and we can open up the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Bob Drbul, Nomura Securities.

Bob Drbul - Nomura Securities - Analyst

Good morning. Eric, I guess a couple of questions on the direct-to-consumer, I think it was up 16% which is higher than the group. Are you seeing any signs of cannibalization versus the wholesale accounts, specifically in The North Face and Vans?

Eric Wiseman - VF Corporation - Chairman, President and CEO

No, Bob, we are not. We are really proud of the performance of our D2C component. Up 16% is strong. What is more important is what is beneath that. Our comps in our brick-and-mortar stores were up single digits in the quarter and our e-commerce business was up 30% in the quarter and we don't see it affecting our wholesale business. Our wholesale business in brands like Timberland, The North Face and Vans remains strong.

Bob Drbul - Nomura Securities - Analyst

Okay. And then I just have a question on the jeanswear outlook. I was wondering, Scott, could you talk a little bit about the inventory levels, the women's inventory levels and then within Lee in America and then just comment on what is driving the expectation for mid to high single-digit increase in the jeanswear coalition?

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

Sure, Bob. I would be happy to. First, you heard in Bob's presentation that we did a terrific job as a Company with just a 4% increase in our inventories year-over-year with strong growth. Actually the job that the jeanswear team did on a full-year basis quarter-to-quarter were down 4% year-over-year in our inventories from the actions that we took in the beginning half of the year that we shared with you.

I think the big thing that is driving our performance here in Q4 is a series of new product innovations and new product introductions, Curvy Fit, Heavenly Touch, Easy Fit, Modern Series for men and women, Advanced Comfort, all of those things that have come to market here in the last

months and then continue to flow through the system here for the fourth quarter and going into next year. And then in addition to that, you have heard me talk a lot about channel distribution in our wear to plays and we have expanded that. For instance, Wrangler is now in the midtier, Lee is now also in the department store channel so combining those efforts of those two things and really tight inventory management I think gives us good confidence for the fourth quarter.

Bob Drbul - *Nomura Securities - Analyst*

Great. Thank you very much.

Operator

Matthew Boss, JPMorgan.

Matthew Boss - *JPMorgan - Analyst*

Good morning. So you guys highlighted revenue shifts out of the third quarter and into the fourth quarter at both North Face as well as Vans earlier on the call. Could you just elaborate a little on the magnitude and also speak to the goals behind the incremental \$10 million marketing for North Face?

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

I will jump in on this one. From an America's point of view in The North Face first, we saw really strong Q2 midteen growth and we continue to see the momentum building against our 12-year growth for the year. We could not be more excited about the strong product stories, the Mountain Athletics and ultra footwear that pushed into spring and the big initiatives of Thermoball and Fuseform for the second half supported by really bold and impactful messaging.

Our Vans business could not be stronger. We had a high teen growth rate in Q2. We see a high teen growth rate in Q4 that really flattens out and gets us to that midteen growth that we guided to for the full-year. Again, same messages as The North Face, really strong products. As we think about how to elevate classics through our collaborations, the apparel launch continues to gain momentum and then our weatherized footwear launch here in Q3 really puts the Vans business on the map as a four-season brand.

The North Face additional marketing that you referenced is really consistent with what we have been doing the last two years in investing behind those brands with significant momentum. We are really excited about the TV campaign that The North Face will be launching here in the next week. What that means to the online digital push as well as supporting within the stores. So could not be more proud and confident with these two businesses.

Matthew Boss - *JPMorgan - Analyst*

Great. Eric, just a higher level question, what are you seeing larger picture from the consumer perspective? Any view on the promotional landscape into holiday? And then more specifically, any changes in forward-looking wholesale orders into next year that you have seen so far?

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

I won't talk about forward orders into 2015 so I will take that one off the table. We are seeing consumers -- everybody is using the resilience word, Matthew. We are just seeing that consumers are still showing up if you have innovative products supported by a strong storytelling capability and



that is why we are getting organic growth rate we are going to have this year. I mean growing 8% globally in this environment isn't easy and it is done because we have great brands.

Steve just talked to about the new products in The North face. It is also true for Vans and it is true for Timberland. And our investment in marketing is really about the storytelling. We are going to make sure that we tell the story of The North Face -- the example he gave -- in a really compelling way and what we basically did with the \$10 million is we bought more ad space to get the story out there. That dynamic is working for us.

Everything has to be aligned. You have to have the right story to tell, you have to tell it well, it has to be backed by products that are really compelling and when you see The North Face ad this fall on TV, it will touch you I promise.

Matthew Boss - *JPMorgan - Analyst*

Great. Good luck, guys.

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

Thanks.

Operator

Michael Binetti, UBS.

Michael Binetti - *UBS - Analyst*

Good morning, guys. First of all, just a big congrats to Bob on your news this month, Bob. It is certainly great news for you.

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

We are not done with him yet.

Michael Binetti - *UBS - Analyst*

Let me zero in on The North Face for a minute there, I want to make sure I understand the growth trajectory. Help me think about -- in Europe particularly, it sounds like you had an unfavorable shift in the quarter and there may be some weather issues in that market but if we think longer-term about that brand in Europe, what should The North Face grow at in Europe over the longer term?

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

Europe, it is widely reported it is not having the strongest economy at the moment. That is widely reported in the news. So is the outdoor industry. Now we are not immune of this environment but that shouldn't be an alibi not to grow. We had a good quarter so far and we confirmed our goal for this year which is up in single digits so the brand is growing. The brand is strong. What we know from market data, we are gaining share. It is doing well with consumers. What Eric mentioned before, the innovative products are helping us a lot. It is not the easiest environment but we are here with a goal to grow and we are growing this year.



Michael Binetti - UBS - Analyst

And then I guess maybe this would be a question for Bob, but it looks like the gross margin expectation for the fourth quarter is for the expansion to accelerate from where it was in the third quarter. Can you just talk us through maybe some of the finer points of the components of that gross margin? Like maybe some of the dynamics that changed in fourth quarter versus third quarter, other than the usual mix towards higher direct to consumer?

Bob Shearer - VF Corporation - SVP and CFO

Actually, Michael, that is what it is. In the fourth quarter, as I said, we are expecting more than 100 basis points of expansion, and 100 basis points comes from mix. And clearly, no question that the strong D2C mix in the fourth quarter and our growing D2C businesses including the stores as well as e-comm is a primary factor in that. So it pretty much comes down to that.

There is a little bit -- what gets us above the 100 points is a little bit of help from that concession accounting change, remember, we talked about in the past couple quarters. And then other than that, from a cost and pricing standpoint, everything pretty much balances out. So the mix factor continues to be a big factor for us and it has over the past number of years, and it will for years to come.

Michael Binetti - UBS - Analyst

Thanks again.

Bob Shearer - VF Corporation - SVP and CFO

Sure.

Operator

Omar Saad, ISI Group.

Omar Saad - ISI Group - Analyst

Thanks. Good morning, guys. My first question I wanted to dig in a little bit deeper on the D2C business. You are now over 20%. It seems to be consistently growing much faster than the wholesale. Could you share with us maybe some detail around how you think about the algorithm there, at least how it is played out square footage growth versus comp store growth, and then layer in the e-commerce piece and how you think about that going forward? And especially given some of the volatility in some of your wholesale channels in the mid tier, do you think more about accelerating the D2C strategy?

Eric Wiseman - VF Corporation - Chairman, President and CEO

Sure, Omar. Just to step back from it from the big picture, in June of 2013 when we made out our plan, we thought we would get our direct-to-consumer business to about 25% of our total. Since that time, we have changed our accounting for concessions. That is going to add a couple points to that, and we are now pointing probably at a 30% of VF total mix by 2017 or 2018. That is where it is going to come in. So yes, it is going to be growing faster than our wholesale business.

A big driver of that is e-comm. It is also the biggest unknown. It is really difficult for us to project what the e-comm opportunity is five years out because we don't know how much consumers are going to have appetite for that and how they will be getting to our brands through their mobile or home devices.

We are on track to add 150 new stores this year. We ended the third quarter with 131 more stores than we had at the end of the third quarter last year and that rate of adding about 150 stores a year is what we have assumed will happen over the 2017 planning period. So the combination of -- we expect to grow mid single-digit comps in our brick-and-mortar stores. When you do that on top of adding stores, that is probably going to -- and the e-commerce growth being strong, it is going to become a bigger part of our mix. That is why we are talking about a 30% number. Now beyond that we don't have any guidance. Does that help you?

Omar Saad - *ISI Group - Analyst*

Yes, that is very helpful. One follow-up question. There has been all lot of volatility in the stock markets recently, health scares around Ebola and geopolitical events in the Middle East and elsewhere. These big swings in the market, do you see, are you seeing any impact at the consumer level? Are consumers aware? Is it affecting their behavior at all kind of week to week, month to month, day to day? I am just wondering if you are seeing that maybe in Europe more so than the US?

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

We have not seen any material impact. A lot of things move consumers, gas price is going down right now. That helps us all lot in the midtier and mass channels because a lot of those customers have very little discretionary income and the fact that some of it is not spoken for at the gas pump might mean it could be spoken for buying a pair of Wrangler jeans. We like that a lot.

So all in, it is hard for me to sort through what is affecting consumers but we are seeing enough consumer activity right now that we're confident in the kind of numbers we are laying out for the fourth quarter which are pretty strong.

Omar Saad - *ISI Group - Analyst*

Great. Thanks, guys. Nice job.

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

Thanks, Omar.

Operator

Robbie Ohmes, Bank of America.

Robbie Ohmes - *BofA Merrill Lynch - Analyst*

Good morning, guys. Just two questions, I think mostly for Karl Heinz. First, Karl, could you give us a little more detail on the improving inventory situation in China, maybe remind us where the industry has been? I think that was maybe regarding North Face but maybe remind us where the industry has been and where it is now and what you think could be happening for The North Face and any other brands in China you want to comment on?

And then the second question just Europe jeanswear, how is the environment different than the jeanswear environment in North America? How are you driving the business over there and also could you just remind us overall, Russia's percent of your business and what Russia's outlook looks like for you guys right now? Thanks.



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

Thank you. Let me start with the first one, the China situation on inventories. You may recall we had an issue with jeans a while ago which stopped our growth. Now that is sorted out. In fact we had been growing since four quarters now in a row so that is sorted out.

On The North Face, as we said in our last calls, we saw it coming and we anticipated that. We did not deliver all the orders to the market and we started to see the benefit. The situation has improved. It is not where we want to be but it is improving. That is good news.

On Europe, I think you had two questions. The first one the jeans business being (multiple speakers)

Robbie Ohmes - BofA Merrill Lynch - Analyst

Yes, yes jeanswear and (multiple speakers)

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

It is a different market. I would say price points are a little bit higher, consumers are willing to spend more for each jeans so our opening price points are starting from EUR50, EUR60 which is about \$80, \$90. So it is a market which is not really growing in the last couple of seasons. We are doing well. We had some issues in the past but as you have heard us saying in the last few quarters, we found a way which makes us growing in low single digits but we are growing which is good news both on Lee and Wrangler.

Russia is a situation where we have a variable business model. Russia is tough at the moment you can imagine. We have a few owned stores but mostly actually our stores with partners so we are not directly exposed. So our exposure in Russia is not big. It is a good market going forward but currently it is very, very small for us.

Robbie Ohmes - BofA Merrill Lynch - Analyst

Great. Thanks very much.

Operator

Jay Sole, Morgan Stanley.

Jay Sole - Morgan Stanley - Analyst

Good morning. I just have a question about the guidance. You mentioned that FX is having a negative \$0.02 impact on the full-year number. Can you talk about how that impacts the P&L from a topline or gross margin or SG&A and where we are seeing it change based on FX?

Bob Shearer - VF Corporation - SVP and CFO

Yes, so from a topline standpoint also has some impacts so that on a full-year basis, we are guiding to 8% and that would be 9% in constant dollars. So the \$0.02, again, it is versus what we previously assumed and primarily related to the euro rate. So in our prior guidance we assume the \$1.33 rate for the remainder of the year and now we have lowered that to \$1.26. So it impacts -- in translation only, it impacts every line of the P&L going down to the EPS line. So again, it has that same kind of impact in each line.

So \$0.02 on a full-year basis related to -- again related to the euro move primarily.



Jay Sole - *Morgan Stanley - Analyst*

Got it. Thanks so much.

Operator

Kate McShane, City Research.

Kate McShane - *Citigroup - Analyst*

Thank you, good morning. I have two questions. One is on Timberland with the stronger growth rate for wholesale versus D2C, it is a big difference from the trajectory we are seeing from the other brands. I just wondered if you expect that to change over time and why there is such a difference?

Steve Rendle - *VF Corporation - SVP, Americas*

Yes, Kate, this is Steve. I will take shot at this and KH can fill in for the international side. As you saw last month, our strategy at Timberland is really, really working. We have been focused on really rightsizing our D2C portfolio. As we went into this year, we did not envision any new stores here in the Americas market, rather focusing on productivity. So as you look at that and you think about the impact of no new stores, our D2C is not seeing the same growth rate as you would see and you are seeing in our wholesale business. In fact, our D2C business has been delivering high single-digit comps throughout the year and we see that continuing through the balance of the year here in the Americas.

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

And Kate, we have a very similar situation in Europe. We have not opened stores. The goal was the same as Steve outlined. It is a little bit different in Asia. We have opened a few stores but it is in line with we have done the years before. Asia had been consistently growing since the acquisition. No big change there.

Kate McShane - *Citigroup - Analyst*

Okay, great. Thank you. It was called out on the call with regard to Nautica and just continuing challenges in sportswear. Can you talk a little bit about how much is the category within the department store and how much is specific maybe to Nautica and maybe how you are going to try and address those challenges going on in the future?

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

Absolutely. So Nautica is really two stories. There is the wholesale channel which is very well reported as not robust. We are doing well but we are not seeing growth in that channel. Where we are seeing growth and in that one place where we do control our brand is in our own D2C and we have seen high single-digit growth in our D2C with mid single-digit comps. I think that is a real testament to the brand and how we are able to bring that to life in our retail environment, how we are able to really show the new products that come out within the season and continue to give us confidence about the long-term potential of the Nautica brand.

Operator

Dana Telsey, Telsey Advisory Group.

Dana Telsey - *Telsey Advisory Group - Analyst*

Good morning, everyone. As you think about SG&A, can you give any color around the fixed versus variable components as how you are thinking about given the increased D2C component? Just as you think about next year in puts and takes, cost of goods sold and FX, I know you had mentioned FX earlier. Any other clarity? Thank you.

Bob Shearer - *VF Corporation - SVP and CFO*

So I will start on the SG&A, how we think about that. It is always hard to differentiate the fixed versus variable. Frankly everyone here will tell you that I'd think of all of it as variable. There is always ways to control the SG&A. I spoke to it a bit in my commentary and it is the way our model works. Clearly you mentioned D2C, the D2C business I think everyone knows that the D2C business is carried at a much higher ratio of expenses to revenues than our wholesale business. So it does.

All by itself it pushes up our ratio or would push up our ratio but what we have been able to do and as we spend more against marketing as well, what we have been able to do however is we look for offsets that elsewhere in our expense structure. And the ability to grow gives us the ability to leverage the rest of our expense structure against that growth.

So (inaudible) the D2C business and the marketing side as well, would push the ratio up by themselves but because of the growth and it is something we look for elsewhere is to leverage the growth and offset those increases with reductions so that we are looking to keep our SG&A ratio relatively flat and that is exactly what we are seeing, we are seeing in 2014. Again, this concession accounting change will push up our SG&A ratio a little bit but outside of that from an operational standpoint, our ratio is about flat year-over-year. And that is our model. We think it is a great model.

So as we improve and grow our gross margins and keep our SG&As flat, our overall operating margin expands. On the FX side, I think your question was relative to next year in terms of what we are seeing?

Dana Telsey - *Telsey Advisory Group - Analyst*

Yes.

Bob Shearer - *VF Corporation - SVP and CFO*

Obviously it is a little bit too early to talk about FX relative to next year. But we can say this, that our average rate for the year despite what we are seeing here at the end of the year especially relative to the euro, our average rate for the year is still going to be about \$1.33. If the euro stays where it is today, that would put some pressure right on overall earnings. If it stays around the \$1.26 to \$1.28 range, it would put some pressure on earnings but again, it is just too early to call. We will have a lot more to say about that in our February call when we lay out 2015.

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

Dana, just to add to that and we will do that in 2015 as Bob said, if you had to make the call today, you'd probably see some headwind from currency. You might see some tailwind from denim prices if cotton stays down. You might see a headwind from labor rates in Asia and we are going to detail all of that out in February and get you to all the assumptions that we have built into our plan.



Bob Shearer - VF Corporation - SVP and CFO

Then just one other point just so it is really clear. We hedge the transactional side, not translation. So on a transactional basis, we are pretty well hedged for next year so we are not concerned about exposure from that standpoint. It would just be translating those foreign currencies into US dollars.

Dana Telsey - Telsey Advisory Group - Analyst

Thank you.

Operator

Jim Duffy, Stifel.

Jim Duffy - Stifel Nicolaus - Analyst

Thanks. Good morning everyone. A couple of questions. First, I think (inaudible) watched very closely the directional [trends] and gram growth rates from one quarter to the next. Those trends for Vans and North Face in the third quarter appear notable at first glance. I'm going to ask if you can explain in more detail the mechanics and magnitude of the shift in shipments for those brands into the fourth quarter?

Steve Rendle - VF Corporation - SVP, Americas

Just to make sure that we all heard your question, it was a little muffled. You are looking for an explanation of the quarterly timing shift for Vans and The North Face in terms of the revenue growth rate?

Jim Duffy - Stifel Nicolaus - Analyst

That is correct. Thank you.

Steve Rendle - VF Corporation - SVP, Americas

So, Jim, here in the Americas, it is absolutely a timing issue. We had high teen growth for Vans in the second quarter. We are seeing the same level of growth in the fourth quarter and it is a similar story for The North base. I wish we could get our wholesale partners to understand that we need to speak to you on a quarterly basis and have them smooth that out for us. But if you look on a first half, second half, you would see that we are coming right in line with our 12% guidance for North Face and midteen growth for Vans.

Jim Duffy

Okay, fair enough. Next question is on the midtier channel in the US. Can you provide some updated perspective on your views there, strategies to manage the risk around the midtier channel into 2015?

Unidentified Company Representative

I can talk to you a little bit about that. From a total channel, we feel fairly good about the channel, feel fairly good about customers right now. I think the most important thing for us going forward though is what we feel really good about is the partnership that we provide. We are helping to drive traffic, drive consumers into the stores. Demand creation that we have, the new products and the innovation that we bring to the channel,



we are an extremely important partner in this channel so by upping our game and making sure that we are on top of it and bringing excitement to the channel, excitement to the categories that we participate in, it really helps the overall channel going forward.

Unidentified Company Representative

Jim, Billy thing I would add to that is in terms of managing risk, I will tell you that our inventories in the midtier channel are really clean. As clean as I have ever seen them. That is the one thing we can do to manage risk is to really keep our finger on the pulse of inventory rates in these stores because the last thing any of us needs is to get out of control there and we are not. Our inventories are great.

Jim Duffy - Stifel Nicolaus - Analyst

Thank you.

Operator

Lindsay Drucker Mann, Goldman Sachs.

Lindsay Drucker Mann - Goldman Sachs - Analyst

Good morning, everyone. I have one for Karl Heinz, I was hoping that you could give us a little bit more perspective by region and by specific country within Europe and Asia on what you are seeing from the consumer.

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

I think the answer is similar to what Eric said before. Starting with Europe, Europe it is widely reported is not having a best moment from an economic point of view. This is going on since a few quarters. I guess the answer there is what we are trying and what we are doing, innovative products in a good retail concept especially products and good storytelling, that is helping us to navigate probably better than others through this environment.

China is a little bit different. China has been growing a lot in the past years. The economic data is slower, a little bit more modest but still growing nicely four or five times faster than the rest of the world. We always said we still have opportunities there in terms of penetration. Our total numbers of door is about 2000 as we said on four or five brands which is relatively low compared to big players.

We had an inventory issue in the past which we widely reported in jeans which is sorted out and outdoor is improving. So I guess the answer is the same for or similar I would say for Europe and China and Asia. Innovative products, good storytelling and continuous and a lot of marketing activities, that is helping consumers coming into our brands.

Lindsay Drucker Mann - Goldman Sachs - Analyst

Maybe just a little bit deeper in what you are seeing in Japan, what you are seeing in Southern Europe, what you are seeing in Northern Europe whether there is any kind of divergence?

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

Okay. Southern Europe actually is what the economy says is the worst but we saw good numbers on our bookings that came in stronger than the past so it seems it is going in the right direction. Japan, we suffered the devaluation of the yen. We have reacted, we have increased prices. Japan

has always been -- it is a big market, it is a stable market. It is not a market which is growing a lot. So we are doing pretty well there with Timberland, we do well with Vans but all in all, it is a market where we don't expect significant growth rates.

Lindsay Drucker Mann - *Goldman Sachs - Analyst*

Okay. And then just one clarification on Timberland. It sounds like based on your full-year guidance you are looking for 4Q to be a little bit slower than 3Q was. I know it is against a tougher comparison but at the same time it sounds like you are looking for a meaningful acceleration in Timberland in Asia in the fourth quarter. So can you guys just help me break down the components of the 4Q guidance for that brand?

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

Timberland in Asia had always been growing since after we bought the brand. We always did pretty well. We had consistent double digit growth in that market. So did we have it in Q1 and Q2. Q3 is a little bit slower and we expect Q4 to go back to the double digit. There is no meaningful change on the performance of that brand in that market.

Lindsay Drucker Mann - *Goldman Sachs - Analyst*

Is Timberland slowing in the US and Europe in 4Q?

Steve Rendle - *VF Corporation - SVP, Americas*

Not at all here in the Americas. Very, very consistent growth across the quarters.

Lindsay Drucker Mann - *Goldman Sachs - Analyst*

Okay, thanks.

Operator

Erinn Murphy, Piper Jaffray.

Erinn Murphy - *Piper Jaffray - Analyst*

Thank you. Good morning. Just a couple of questions for me this morning. Bob, first for you. Could you speak a little bit more on the cost side as we think about potential benefit for lower cotton costs as it relates in particular to the jeanswear business?

And then, Eric, secondly for you, maybe just touching on the acquisition front just given the strength of the US dollar right now, does that change how you are prioritizing maybe some of the acquisition potential on a global scale? Thanks.

Bob Shearer - *VF Corporation - SVP and CFO*

I will start on the cotton. Sure, we like what we see right now with the costs being lower. As you know, we buy denim not cotton, and we buy that well in advance. So we are all locked in for 2014 so even the lower cost won't impact 2014.

Assuming it stays where it is, assuming cotton stays where it is, it would help us in 2015 but not until later into the second quarter.

I would urge you to keep in mind, so that is on the plus side -- I would urge you to keep in mind that there are a lot of other costs that enter into our product costs such as hides, which have been up a bit but also synthetics and that kind of thing. So there is a lot to sort through for 2015 and once again we will have a lot more to say about that as we lay out our plans for 2015 in February.

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

Erinn, on the global acquisition front, I'm not sure exactly how to word this. No, it does not change how we think about our acquisition opportunities. We are always looking globally for strategic acquisition opportunities. So what is not lost in us the fact that a strengthening dollar would help us with that but in terms of the kind of companies we are looking to buy and who would be right as part of our portfolio doesn't change that thinking at all.

Erinn Murphy - *Piper Jaffray - Analyst*

That is helpful. Then if I could just sneak one more question in just on the premium denim space, it has clearly been a challenge for a number of brands really across the space for several quarters. If that space within wholesale is shrinking, who or which type of brands or categories are really capturing that space within the wholesale channel at this point?

Steve Rendle - *VF Corporation - SVP, Americas*

Sure. This is Steve. So premium denim, there is a sector-wide issue going on as women have not moved away from denim but likely are using denim for fewer occasions than they have historically and they have moved towards more of that performance athletic wear.

I will say this, with our 7 For All Mankind business, we continue to see really strong share. Though we are not getting great growth in our wholesale, we are seeing really good results within our D2C channel where we are continuing to open stores and seeing comp growth as we really focus on that consumer experience when they are in our store and looking for UPTs and higher conversion rates through just enhanced service.

I will tell you that the consumer responds very nicely when you bring new products, not different than any other part of our business and our 7 For All Mankind business has a very dynamic and fast supply chain and have been able to react to trends both with materials, washes and silhouettes this year helping enhance our growth at D2C.

Erinn Murphy - *Piper Jaffray - Analyst*

Great. Thank you guys and best of luck.

Operator

Barbara Wyckoff, CLSA.

Barbara Wyckoff - *CLSA - Analyst*

Can you talk about how much flexibility you have to fast-track replenishment in outdoor and action sports in the fourth quarter? Secondly, could you talk about the performance of Lucy and Dick's and other channels in 3Q?



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

Sure. So I will take the first one on our ability to react on an at once basis. Both of these businesses are very much pre-booked businesses. The orders we have in hand and the reorder calculations that we have in our model will be how we deliver the year. We do not have an ability to really react when it comes to these businesses.

On Lucy, we are really excited about our Lucy brand and I'm glad you asked about it. We saw a midteen growth rate in the quarter. Our wholesale presence is a large part of that as we have moved to over 360 doors with Dick's Sporting Goods and an all door assortment with REI where we are seeing really good sellthroughs and really good brand presentations. These are great partners for our outdoor and action sports businesses and they have really been helpful in helping our Lucy brand grow beyond just being a D2C brand and being able to represent itself within the wholesale channel.

We have seen really good improvement in our product, we have new leadership at our Lucy brand. They have been in place for a little bit over a year and the product that is coming into the market on both the performance side as well as more of some of the versatile do everything collection have seen really good sellthroughs and giving us great confidence with the brand building momentum.

Barbara Wyckoff - *CLSA - Analyst*

Thank you.

Operator

John Kernan, Cowen and Company.

John Kernan - *Cowen and Company - Analyst*

Thanks for squeezing me in. Just a follow-up on The North Face. It slowed in Asia-Pacific, you did lay out some of the reasons for that but is there anything going on with wholesale partners or the competitive environment there and what gives you confidence of the revenue acceleration you spoke of for the fourth quarter for North Face?

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

Let me start with that, John. A couple of things gives us confidence. The market is very fragmented in China and The North Face has absolutely leading brand position, first.

Second one, we still have a pretty limited penetration in that market as you know. The market is divided by from tiers, from Tier 1 to Tier 6 cities. We predominantly work in the upper part so there is still some [path] to go.

As you know, a lot of our business is done through partners and there are some challenges going on. We are helping the partners to become better retailer. The market had been growing fast in the past, it is a little bit changing and we are also working with them to make sure that the stuff sells through. It is about the storytelling, it is about the merchandising planning, really help those guys and so we make sure that the merchandise ultimately sells out well.

Steve Rendle - *VF Corporation - SVP, Americas*

Here in the Americas as I mentioned earlier, we have great confidence for a couple of reasons. This is some of our strongest products that we have seen in this brand for many, many years, really clear seasonal initiatives. Spring with the Mountain Athletics and the ultra footwear and as we come

into fall, big stories around innovative platforms like Thermoball and Fuseform supported by some of our best demand creation that you will start seeing coming online here in the next weeks.

Eric reference the TV campaign that we will launch year in the next week or two will absolutely move you. This is really strong, really playing on the heart and soul of this brand's focus of exploration and really challenging human potential.

I think with this strong demand creation, the strong in-store merchandising that you see across our wholesale channels as well as our own D2C give us great confidence that Q4 will continue to accelerate and deliver against that 12% guidance that we gave for the year.

John Kernan - *Cowen and Company - Analyst*

Okay, that is helpful. And if I could just sneak one final one in. Just on the acquisition environment, helpful commentary there but as a portfolio company, would you ever be a seller in the market out there of a piece of the portfolio?

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

Yes, we not only would, we have been pretty regularly over the last decade. I think we have sold eight or nine businesses. So it is something that we look at the quality and health of our portfolio of businesses and its ability to accomplish our long-term objectives and we know we need to make some acquisitions along the way and we will likely make -- divest in some businesses along the way. That is our model.

John Kernan - *Cowen and Company - Analyst*

Okay, thanks. Good luck.

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

Thank you, everybody, for being on the call today. I will remind everybody that there is just over eight weeks and a few days left until Christmas so please everyone go out and shop. Buy lots of VF products and please pay full price. We will talk to you in February. Bye.

Operator

That will conclude today's call. We thank you for your participation.

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