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VFC - Q2 2011 VF Corp Earnings Conference Call

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VF Corp - SVP, CFO

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PRESENTATION

Operator

Good day, everyone, and welcome to the VF Corporation's second quarter fiscal 2011 earnings conference call. Please be aware that today's conference is being recorded.

At this time I would like to turn the conference to Jean Fontana from ICR. Please go ahead ma'am.



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Jean Fontana - VF Corp - IR - ICR

Thank you. Good morning, everyone. Thank you for participating in VF Corporation's second-quarter 2011 conference call. By now you should have received today's earnings press release. If not please call (203) 682-8200 and we will send you a copy immediately following the call. Hosting the call today is Eric Wiseman, Chairman and CEO of VF Corp.

Before we begin I would like to remind participants that certain statements included in today's remarks and the Q&A session may constitute forward-looking statements within the meaning of the Federal Securities laws. Forward-looking statements are not guarantees and actual results may differ materially from those expressed or implied in the forward-looking statements.

Important factors that could cause actual results, collaborations, or financial conditions of the Company to differ are discussed in the documents filed with the Company and the FCC.

I would now like to turn the call over to Eric Wiseman.

Eric Wiseman - VF Corp - President, CEO

Good morning, everyone, and thank you for joining us. With me today are Bob Shearer, our Chief Financial Officer, and our three group presidents; Karl Heinz Salzburger, Steve Rendle and Scott Baxter.

We've reached the halfway point of our 2011 earnings cycle and our momentum is building. VF's performance delivered by outstanding people who manage outstanding brands continues to be appropriately outstanding. And it confirms that our business model and our execution of that model is consistently strong, especially in challenging and uncertain times. In fact our second quarter results beat both our expectations and yours.

To recap some of the highlights, revenues were up 15%, with double-digit revenue growth achieved by every coalition. This marks VF's third consecutive quarter of double-digit top line growth in an economic environment marked by rampant product cost inflation, weak consumer spending, and fiscal uncertainty around the world.

But instead of throttling back we've continued to fuel our brands expansion with increased levels of investment spending. And those investments are clearly paying off as demonstrated by today's results.

In fact, VF is firing on all cylinders. Domestic revenues, up. International revenues, up. Wholesale revenues, up. Direct-to-consumer revenues, up. All up and all at double-digit rates.

Our strong revenue growth has translated into even stronger earnings growth with second-quarter earnings per share rising by 17% and first-half earnings increasing by 21%. For each of the last 4 conference calls we've addressed the challenges and uncertainties presented by the unprecedented increases in product costs. We've talked about how these costs would impact our profitability and what we're doing to minimize that impact.

Halfway through the year, we're feeling increasingly confident that we've got it right. Operating margins are holding up very well, down only 30 basis points in the second quarter and up 50 basis points in the first half.

Our price increases taken to date, carefully considered in sequence, have shown little impact on our unit volumes. Now those two words, to date, are important. Like everyone else, we're waiting to see how the second half unfolds as consumers come face-to-face with even higher prices in apparel and footwear.



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We don't know. No one knows how they will respond. But the evidence we do have is that strong brands, those that consistently deliver innovative products and experiences to consumers, brands like the North Face and Vans and Lee and Wrangler, they are winning.

So we're approaching the second half cautiously and controlling those things we can, including spending, pricing and inventories; however, we're confident that we've taken the right actions and we're anticipating strong second-half performance.

A quick comment on inventories. You'll recall that inventories rose 24% in the first quarter. We explained then that the increase was due to the combined effects of higher product costs, foreign currency exchange, buying some goods earlier to secure lower costs and strong increases in unit volume.

And we noted that in terms of forward inventory days, we were up only slightly. At the end of the second quarter, our inventories were up by a lesser amount, 17%. And we see comparisons improving as we progress throughout the year. In terms of our full-year outlook, based on our very strong first-half performance, we are raising our 2011 guidance for both revenues and earnings per share.

Now some perspective here. When we began the year surrounded by great economic uncertainty, our revenue guidance was for an increase of 8% to 9%. Five months later, still surrounded by great economic uncertainty, we now expect revenues to increase 12% to 13%.

First-half revenues rose 14%, and based on today's guidance second-half revenues are expected to rise by about 12%. We're approaching the second half with some caution as we face tougher comparisons. And as we wait for consumers response to higher prices across the board.

In our national revenues, which have been helping to fuel our growth, should increase by more than 20% in 2011, and that's up from the 15% we originally anticipated. Growth in our direct-to-consumer business, another revenue driver, should rise by about 15%, better than the 10% to 15% growth we envisioned at the start of the year.

We now expect earnings rising to \$7.50 per share, 6% to 7% higher than the guidance we gave back in February, and 16% above 2010 earnings per share, excluding impairment charges. Just to be clear here, our revenue and earnings guidance do not include the accretion we expect from the pending Timberland acquisition.

As all of you are well aware, on June 13, VF and Timberland announced the signing of a definitive merger agreement. This combination will create a \$10 billion apparel and footwear powerhouse anchored in Outdoor and Action Sports brands. And it will bring Outdoor and Action Sports as a percent of VF's total revenues to 50% by next year, well ahead of the 5-year plan we discussed during our March 11 investor meeting.

In June, we indicated that Timberland could add \$700 million revenues and \$0.25 to earnings per share this year, and we will consider the impact from the Timberland acquisition on our full-year guidance when we complete the acquisition, which is expected to close in the third quarter.

Over the past 5 weeks, we've spent a lot of time getting to know the Timberland and SmartWool teams better. Our meetings have confirmed what we saw from the beginning. These are highly talented, very passionate teams whose values and business priorities are very much aligned with ours. We are tremendously excited about bringing Timberland and SmartWool into VF's family of brands.

With that as a backdrop, let's hear more details from Bob Shearer.



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Bob Shearer - VF Corp - SVP, CFO

As you can tell, we're really proud of the top line momentum that we're experiencing this year, all of our coalitions are achieving solid growth. And all of that growth is organic. When you consider the 5-year annual revenue target of 10% organic growth that we established back in March, it's clear that our brands have the bandwidth to deliver on that, and possibly more.

Related to our key growth drivers, our international business grew by 30% in the quarter, was 20% in constant dollars.

Now, a few specifics here. Europe revenues were up 30%, Latin America was up 40% and Mexico was up 26%. As we've seen in prior quarters, our growth in Asia continues to be outstanding, up 30% in the quarter.

In terms of our coalition results, our two largest international coalitions, Outdoor and Action Sports and Jeanswear, achieved revenue growth of 42% and 20%, respectively. In constant dollars, those numbers were 29% and 11%.

As you know, international growth is a key component of our 5-year plan. And it looks like these businesses are clearly on the right track to hit our goal of 40% of revenues from international. In fact, it looks like our international revenues could grow from 30% to nearly 33% of total revenues in just this year.

Our direct-to-consumer revenue growth accelerated in the quarter growing by 17%, including new store and exceptional comp store growth, as well as an expanding e-commerce platform. Direct-to-consumer growth in each of our Outdoor and Action Sports, Jeanswear and Contemporary coalitions exceeded 20% in the quarter. Direct-to-consumer growth in our Sportswear coalition was 10%.

So far this year, we've opened 44 owned retail stores and we're on track for total of around 100 new store openings in 2011. And maybe most importantly, operating margin for our direct-to-consumer businesses for the quarter improved by almost 300 basis points, once again, with across-the-board improvements.

Now turning to our favorite topic, that would be gross margin of course, you'll recall that we indicated the tougher comparisons would be in the second and third quarters. And in fact, as expected, second-quarter gross margin declined by 120 basis points to 45.9%. And that comparison was helped by the gain recognized in the quarter related to the closing of a facility in Europe. That gain benefited gross margin by 65 basis points.

Now, I wanted to make sure that it was clear that this gain was anticipated and incorporated into both our gross margin and earnings guidance for 2011. We were able to anticipate the timing of this gain because its recognition was based on the date we exited the plant.

The bottom line? Without the benefit from the plant closure, gross margin would have declined by 180 basis points. Again, this is in line with what we expected for the quarter, and consistent with any prior guidance.

Looking forward, the declining gross margin in the third quarter will be similar to the reduction as adjusted to that reported in the second quarter. In our second and third quarters, product cost increases are running ahead of pricing adjustments, thus the more significant declines in gross margin.

In the fourth quarter, price increases are stronger, helping to offset, but not fully offset, the impact of product cost increases. A continuously improving mix from our expanding retail business in the fourth quarter will also help.

Accordingly, we continue to expect gross margin comparisons in the fourth quarter to improve. Again, to be clear, that means the reduction in gross margin from the prior year will be less in the fourth quarter than reported in the second and third quarters. Once again, all of this is as planned.



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With product costs for the year now fully locked in we're still expecting about 100 basis points of gross margin decline for the year. As we've noted in past calls, this decline largely results from gross margin reductions within our US jeans business, due to the unprecedented rise in cotton costs and the overall lower costs in selling prices of these products sold in US markets.

And speaking specifically to our US jeans business, unit volumes have increased a bit in both the first and second quarters, despite pricing increases that were affected earlier in the year. And yes, that does mean that we are seeing a little less impact from pricing than initially anticipated. Of course, good news.

This really is a testament to our brands' strong equity and focus on product innovation and differentiation. Additional price increases will take place in the second half, as planned.

We're very encouraged with what we've seen to date and we continue to think that we have planned prudently and responsibly for the second half with regard to consumer response to pricing.

And one final point here. You are obviously all aware of the dramatic reduction in cotton prices. The December cost related to the new crop is now just over \$1.00 per pound. What a difference from the \$3.00 plus levels that we saw earlier this year. Of course, this is great news to us, but it's too early to predict the impact on 2012.

I will tell you this. It gives us great confidence that our decisions around pricing, particularly for our US jeans businesses, have been good ones, meaning we never contemplated fully offsetting cost with pricing. These were good long-term decisions that will benefit our brands for years to come. Of course, more to come on this topic in future reports.

So let's move onto SG&A, which in the quarter was a better than anticipated 35.7% of revenues, down 80 basis points from the 36.5% reported in last year's second quarter. Obviously, leverage from a stronger top line was a big help here.

We started the year saying that we expected to see leverage on the operating expense ratio to sales from strong revenue growth. In fact, in the first half of 2011, our ratio of SG&A to revenues is down by 80 basis points from 2010.

As we look forward, considering the seasonality of our business and that our second half revenues should be more than 25% higher than first-half revenues, we will see even higher leverage within our SG&A ratios to revenues.

In addition, you'll remember that in 2010, given the timing of the release of additional marketing dollars, a considerable part of the higher spend fell into second half 2010. That will also help the SG&A ratio and the upcoming second half.

Once again, the bottom line, we remain on track to achieve a full point reduction in the SG&A ratio this year with our marketing spend staying close to the very healthy 5.5% level of 2010. And of course, all of that means that we continue to expect our operating margin to be relatively stable with 2010.

Now, in terms of earnings per share, we were really pleased with the 17% increase in second quarter EPS given the cautious commentary that we provided to you back in April. As Eric said, the pick-up primarily resulted from stronger than expected revenue growth.

Related to the impact from foreign currency exchange in the release, we indicated the benefit to earnings was \$0.03 in the second quarter and \$0.04 year-to-date. That's also in line with our expectations. Considering the somewhat volatile environment, we're holding our Euro rate assumption at \$1.35 for the remainder of the year.

Eric touched on the major points related to our revised guidance. I will also point out that we continue to expect another very strong year of cash from operations, which should again approximate \$1 billion. Our intent is to put that cash to work for our shareholders with the upcoming Timberland acquisition while maintaining a very strong balance sheet. That's been a hallmark of VF for many years, and it won't change.



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Speaking of which, you've likely noticed that we've not repurchased any shares in 2011, even though our practice has been to offset option exercises with our buyback program. Given the Timberland transaction, we're not planning any repurchases for the year. That means that our average share count for the year will increase by at least 1% from stock option exercises. Just a reminder, you might want to check the assumptions for shares in your models.

And I need to touch on inventory. Inventory management has been and will continue to be a big deal at VF and we have a lot of disciplines in place with respect to inventory control. The 17% increase in second quarter inventories was well below that reported in the first quarter.

It's important to point out that product costs in inventory at the end of the second quarter were up 9% over last year. So that implies 8% growth in inventory value from unit volume, which aligns with our projected revenue growth, that of pricing, for the second half of the year.

The quality of inventory is high and as the year progresses we expect to show continued improvement in year-over-year comparisons, just as we showed significant progress in this second quarter.

Obviously our outlook as discussed includes none of the positive impact that we expect from the completion of the Timberland acquisition. Our timetable continues to be for a third-quarter closing. We're really looking forward to providing an update at that time, at the time we complete the acquisitions later this quarter.

And I must echo Eric's comments about Timberland. We're really impressed with the caliber of all the people that we've met there. It takes great people to build great brands, and with every day we spend with the Timberland and SmartWool groups around the globe we gain an even better understanding of the success these brands have achieved and the incredible opportunity ahead.

So another bottom line statement, this was a great quarter for us and we are headed for another super year for our shareholders. Now you hear comments from our three group presidents, first up, Steve Rendle.

Bob Rendle - VF Corporation - Group President, Outdoor & Action Sports

Thank you, Bob. We're very proud of our brands' performance this quarter. We've continued to maintain very healthy levels of marketing spend behind our strongest brands, and our most profitable growth initiatives. Those investments are clearly paying big dividends.

As noted in the press release, revenues in our Outdoor and Action Sports Americas business increased 14% in the second quarter with nearly all brands delivering double-digit revenue growth. As we saw in the first quarter, we saw some decline in our operating margin resulting from a higher level of brand investment. But even more importantly, investments to support not only second-half growth, but long-term growth as well.

Those investments are being made in such areas as product merchandising, upstream innovation, direct-to-consumer and operations. In the end, the impact from these investments have a more significant impact on this, our seasonally smallest quarter. We noted in the release that we continue to expect a full-year operating margin of around 20%.

Our direct-to-consumer revenues were especially strong in the quarter with The North Face, Vans and Lucy all growing their direct-to-consumer businesses at double-digit rates. We're continuing to activate The North Face brand activity-based model with very positive results across our Outdoor, Performance, Action Sports and Youth segments.



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We're seeing particular strength in Outerwear, Running, Training and Yoga apparel, as well as Specialty Mountain Biking apparel. And our e-commerce business continues on a roll with revenues up a remarkable 54%. With fall bookings up 16%, we're looking for another spectacular year of growth for The North Face brand in North America.

The 2011 growth rate is forecast to be greater than what we achieved in 2010 and we are on track ahead of our 5-year plan we shared with you in March, as is our global Vans business. Vans growth was fueled by increases across its retail, e-commerce and wholesale channel. Like The North Face, our e-commerce growth was outstanding, up over 30% in the quarter.

Last year, we acquired the Vans business in Mexico from our distributor and we're pleased with the significant growth we're seeing there. We're on schedule for Vans retail expansion in the New York City Metro area with all 9 stores in our plan now open. And we're looking forward to our first stand-alone Vans partner store in New York City slated to open this quarter.

With the momentum we've seen in the first half, we are on track to deliver another year of double-digit revenue growth in North America.

A few words on a couple of our other brands in Americas. Lee's is delivering solid growth this year, with second-quarter revenues up over 15%, driven by strength in its core sandals business, complemented by the successful launch of a new hanging footwear program.

Lucy started the year off strongly and continued to show positive momentum in the second quarter with revenues up 10%, supported by e-commerce revenues increasing over 30%. Lucy is making good strides in building brand recognition supported by their title sponsorship of the Solstice Yoga event in the Times Square last month which attracted about 6,000 participants.

We are encouraged by our results to date. Our momentum continues to build, our brands have extensive runway for future growth, and we have the strategies, people and platforms to continue to deliver strong growth.

We look forward to completing the Timberland acquisition which will provide our Outdoor and Action Sports businesses with another \$1 billion plus brand. And to working with the great people we're getting to know at both the Timberland and SmartWool brands, to accelerate the growth in our businesses.

With that I now turn the call over to Karl Heinz Salzburger to review our international businesses.

Karl Heinz Salzburger - VF Corp - President, VF Europe, Middle East, Africa, Asia

The second quarter marks another period of very strong performance internationally, with double-digit growth in both Europe and Asia. In fact, revenues in Europe grew by 16% in constant dollars with Asia revenues raising by 25%. Operating income grew at an even faster rate, over 30%, with an expansion in operating margin.

In Europe, each of our businesses, Outdoor and Action Sports, Sportswear and Contemporary and Jeanswear, saw higher revenues in the quarter. By far the strongest growth was in Outdoor and Action Sports with revenues rising by 34% in constant dollars and very strong growth in our 2 biggest brands, The North Face and Vans, and we expect continued strong performance from both brands in Europe. For The North Face, fall bookings are up over 25%, and for Vans, over 50%.

To support these brands momentum we have stepped up our store opening plans. The North Face opened 5 new stores in the first half, with 7 stores confirmed to open in the second half. Vans opened 5 stores in the first half and we have 12 stores planned for the second half.



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Revenues in our Sportswear and Contemporary brands business in Europe which includes Napapijri, Kipling, 7 For All Mankind and Eastpak brands, grew 13% in constant dollars in the quarter, and based on our fall bookings, we look forward to a strong second half as well.

Our European jeans business posted a slight increase in revenues in the quarter. [Even though] activity has slowed a bit since Easter, particularly in the UK, a large market for us where economic conditions are particularly difficult right now. However, fall bookings in both Lee and Wrangler are up over prior-year levels, where the product offerings, upgrades in our own stores and (inaudible) marketing programs are clearly working.

Turning now to Asia, the story remains as positive as ever. I noted earlier the 25% increase in total revenues in constant dollars. On a reported basis, revenues were up 30%. Contributing to that increase was a 34% increase in our business in China, with revenues in India up 52%. Here again, we saw very strong performance in The North Face and Vans brands, both of which delivered revenue gains in excess of 25% in constant dollars.

Our Jeanswear business also saw exceptional growth, with revenues up 20% in constant dollars in the quarter.

We have maintained an aggressive store opening plan and are on track to expand our Asia store base by 25% this year with 530 new stores planned in China and 125 in India. We are also continuing to ramp up marketing support in both China and India and developing a comprehensive (inaudible) strategy to further strengthen our brands' connection with our consumers.

All in all, we are confident in our plans to deliver revenue growth of over 30% in 2011. And we continue to spend on our team and infrastructure to support our long-term goal growing our Asia business to \$1.3 billion by 2015.

In closing, I'd like to note that we here on the international side are also very excited about the Timberland acquisition, we have a strong and growing international base with tremendous future potential.

I'll now turn the call over to Scott Baxter to review our Jeanswear Americas and Imagewear results.

Scott Baxter - VF Corp - President, VP Imagewear

I will review our Jeanswear Americas business first, which includes our Lee, Wrangler and Riders by Lee businesses, and then discuss our Imagewear results. We are very pleased by the strong growth achieved in our Jeanswear Americas business. Our brands are bucking market trends, winning in their respective marketplaces and gaining share.

Domestic revenue rose 7% with growth across our mass-market Lee and Western specialty businesses and share gains in both our Lee and Wrangler brands. We also saw growth across all three major international geographies, Latin America, Mexico and Canada, with revenue growth in excess of 25% in Latin America and Mexico.

Growth in our Lee brand was particularly strong in the quarter, up 17%. Lee Women's has been the brand leader in mid-tier stores for the past 12 months and continues to gain momentum based on an outstanding product innovation combined with clear value proposition to consumers.

On the mass-market side, revenues were up 5% with both Wrangler and Riders by Lee outperforming the competition, gaining floor space and taking share. Of course we do have our challenges in the form of higher product costs that are impacting margins significantly this year.

The third quarter will mark our highest fabric cost of the year, beginning to temper in the fourth quarter. Our initial price increases in both the mid-tier and mass channels have been successfully executed and as Eric noted earlier, we are encouraged by the results to date.



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With first and second-half unit volumes above last year's levels, we believe this is a testament for the tremendous brand equity we have built in our brands and our efforts to connect consumers with the outstanding quality, value and product innovation they offer.

In terms of the second half, we are confident in our brands' ability to navigate through these turbulent times and are looking forward to continued top line growth across all our Jeanswear Americas businesses.

Now I'll turn my attention to Imagewear. Turning now to Imagewear coalition, 2011 is turning out to be a banner year for our Imagewear coalitions, marked by strong double-digit increases in both revenues and operating income. In fact, I'm proud that the increase in Imagewear operating income drove over half of the total increase in VF's total coalition profits in the quarter. As you saw in the release, revenues were up 16% in the quarter.

A modest decline in our License Sports group business resulted from the fact that we have NHL locker room rights only every other year. More than offsetting this was a 32% increase in Image revenues, which saw growth in all market segments and exceptional strength in our Protective Apparel business.

We continue to benefit from very strong relationships with our big customers who increasingly are turning to us to meet their uniform demand, given our service, manufacturing and distribution capabilities.

We expect to see a return to more normal growth for our License Sports business in the third quarter, although like everyone else, we are concerned about the unresolved labor issues in the NFL and NBA. And we expect momentum in our Image business to continue through the remainder of the year.

In closing, we are pleased with our second-quarter Jeanswear and Imagewear results and look forward to a very good year in both businesses.

With that I will turn the call over to Eric.

Eric Wiseman - VF Corp - President, CEO

As you've heard from the team, we're thrilled with what VF has accomplished in the first half of 2011, confident in our outlook for the balance of the year, and very proud of the people at VF who drive our performance. Now let's open the call for questions.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions) Our first question comes from Jim Duffy of Stifel Nicolaus.

Jim Duffy - Stifel Nicolaus - Analyst

Thank you. Good morning, everyone. And congratulations to the VF team on outstanding results.

Eric Wiseman - VF Corp - President, CEO

Thanks, Jim.



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Bob Shearer - VF Corp - SVP, CFO

Thanks, Jim.

Jim Duffy - Stifel Nicolaus - Analyst

I have a couple of questions. It seems you are getting very good yield on the advertising spend. Do you think you're seeing immediate return on those efforts? And if so, are there particular campaigns, Eric, maybe, that you could point to that are driving good results for you?

Eric Wiseman - VF Corp - President, CEO

Jim, that's a great question because it gets to our philosophy about investing in our brands. As you know, last year we pulled the trigger on \$100 million of incremental brand investment and we think we saw some short-term reaction to that, and that had it built momentum for the brands. Part of our brand building is around creating awareness and equity around our brands. Peoples passion for what we have in our brands. So there's a big part of it that is a long-term investment. And that's why this year we didn't back off on that \$100 million increase. In fact we've invested a little bit more.

The types of things, obviously, we're measuring the effectiveness of each. And there are lots of examples in all of our brands about what's working. It gets down to everything from the Lee brands work, talking about their Men's business in the mid-tier, which was our opportunity there. We have a very well-developed Women's business. And last year we launched a campaign around the Men's business to improve awareness and equity in that. We've done some tactical things in cities in Germany where we've plastered the city with advertising around some of our brands, like Vans and the North Face, that have helped drive traffic into stores.

Our North Face campaign last year included tagging certain retailers and markets around certain products that consumers know what to buy in our new products and where to go buy them. So it's hard for me to get, I could go on and on about the second part of your question. But we're thrilled with where we are and that we have -- we're in a situation where we continue to can continue to invest in our brands, and we will do that.

Jim Duffy - Stifel Nicolaus - Analyst

That was great. Those are good examples. Bob or Scott, I understand that your peak materials costs will flow through the income statement in the third quarter perhaps with some moderation on the Jeanswear business in the fourth quarter. Can you speak a little bit more about your current inventory position in jeans? And as we look into 2012, how lower costs might flow through the income statement?

Eric Wiseman - VF Corp - President, CEO

Yes. I'll make a couple comments there first, Jim. You always have to be careful relative to the commentary around our costs. So what we said was that actually we're seeing in our fourth quarter buys, which we're just completing of denim. Now, this is what we're buying for the fourth quarter, which will flow through cost of sales in the first quarter of 2012. So what we're seeing is that already, we're seeing some reduction in our fourth quarter denim buys, versus our costs in the third quarter. So that means in the first quarter of 2012, our cost, our denim costs, will actually begin to come down, what actually flows through our P&L.

Relative to 2012 and denim costs going beyond that, obviously, we like what we see right now. It's a very different environment than what we saw of course throughout the first part here of 2011 given what's taken place with cotton. So we will have a lot



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more to say about that. But as you said, costs increasing, what runs through our P&L, costs increasing through the latter part of this year, but then particularly in denim, we will start to see that ease in the first part of 2012.

Jim Duffy - *Stifel Nicolaus - Analyst*

That helpful. Thanks. I'll let someone else jump on. Keep up the great work.

Eric Wiseman - *VF Corp - President, CEO*

Thanks, Jim.

Operator

Our next question comes from Michael Binetti of UBS.

Michael Binetti - *UBS - Analyst*

Can you hear me? Hi, guys, good morning.

Eric Wiseman - *VF Corp - President, CEO*

Hi, Michael.

Michael Binetti - *UBS - Analyst*

I'm just curious, really quickly on the Outdoor coalition, I was looking at the profitability there. On the Outdoor margins, those are down over 100 basis points in the first half, so I would like to ask about the 20% guidance for the year if I could. Obviously, that includes the improvement in the back half. So how much of that improvement do you think comes from -- your assumption that some price increases you're taking will stick in the back half?

Bob Shearer - *VF Corp - SVP, CFO*

Michael, again, I'll start on that. It's really not based on price increases at all. It's more based on the seasonal flows of our business. For example, in the second quarter, more than half of that reduction was due to the higher marketing investments. And again, I know that you understand that in the latter part of last year, that's when most of the higher spend fell. This year gets spread more evenly, so that mainly in the second quarter it absorbed more of the increased marketing for this year, than normal. So that was part of it. So it accounted for over half of the basis point reduction in our Outdoor and Action Sports operating margins.

In addition to that, we are, we have a -- our fall business, our second half business is always considerably stronger than our earlier part of the year. So obviously we have a big second half planned for those businesses. And we have some expenses that were building today to support those higher revenues of the second half. That's also a factor in terms of what you see earlier in the year and particularly in the second quarter, because it's by far our lowest quarter of the year.

So the marketing spend is a piece of that and then the seasonality of that business in particular, particularly within Outdoor and Action Sports is the other side of it. So it's really not based on pricing. That's really not a factor. It's much more driven by the seasonality.



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Michael Binetti - UBS - Analyst

Thanks for that, Eric - - Bob, sorry. If I could follow that, in the second - - if I look at the Jeans commentary that you guys gave that you were happy you never took price up to fully offset the costs that you're seeing. I think you're probably starting to talk to the retailers now about planning for periods when they'll be looking at a cotton chart that's lower year-over-year, and your prices are up. Are your early conversations - - do you anticipate being able to hold the price increases that you put through this year, or will you have to step up promotions, or are you working with retailers to say maybe we bring prices back down at this point? Maybe you could help us think ahead a little bit on that.

Scott Baxter - VF Corp - President, VP Imagewear

Michael, this is Scott. Again, bear in mind that we did not take our increases up all the way to cover our production costs. So we think that was the prudent approach for all of the year, and then going into next year we think that puts us in a good spot with our retailer community. I'll add to that. We've talked about gross margin erosion in our Jeanswear business of over 350 basis points, so we're not whole with where we were coming into this. So if cotton prices come down and the big assumption then is as they come down, do we get whole? We're honest and open with that with you guys and with our retailers. That we didn't offset all of these prices. So as they come down we hope to get back to the kind of margins we had the past in our Jeanswear business.

Michael Binetti - UBS - Analyst

Okay. And then if I could just add one closing question. It's been a while since we saw a big acquisition, if you could remind us. Will you continue to give us updates on EPS, excluding the acquisition, as we get through the rest of the year to kind of track non-Timberland business? Thank you.

Eric Wiseman - VF Corp - President, CEO

Yes. Right. We would do that, Michael, for sure.

Michael Binetti - UBS - Analyst

Appreciate it. Congrats on a great quarter, guys.

Eric Wiseman - VF Corp - President, CEO

That's a lot, Michael.

Operator

Our next question comes from Ken Stumphauzer of Sterne Agee.

Ken Stumphauzer - Sterne, Agee & Leach, Inc. - Analyst

Good morning, guys. Thanks for taking my questions. Just a couple of things, quickly, I was wondering if you guys could touch on growth in Europe? It was obviously exceptionally strong and we see the all the headlines day-to-day that would suggest



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that maybe there's a little bit of a - - challenging consumption trends. But you guys seem to be doing an exceptional job. I'm just curious to know what you think in particular is driving that? And also if you could speak to any kind of geographic strength?

Eric Wiseman - VF Corp - President, CEO

Karl Heinz, do you want to take that question?

Karl Heinz Salzburger - VF Corp - President, VF Europe, Middle East, Africa, Asia

Yes, of course. Thank you, Ken, for the question. I would say it's a combination of elements, and - - we clearly have a great organization, we have great brands. You heard about our marketing initiatives, the product differentiations. And also what I would add to that is our geographic expansion, we don't have one country where we are very strong, we are very well spread in the big European countries. And the good news, where there's a lot of noise going on in southern Europe for instance, Greece. Greece is a very marginal market for us. So that's why I think we continue to do pretty well and have great results so far.

Ken Stumphauzer - Sterne, Agee & Leach, Inc. - Analyst

Okay.

Eric Wiseman - VF Corp - President, CEO

Ken, this is Eric. Let me add to that, we've talked as good as our business is in Europe, we have relatively low market share, with many of our brands there. So some of what we're doing is we're clearly improving the level of our performance. We are investing more in our brands. And importantly, our European team has assembled a world-class retail group that didn't exist there a few years ago and you're seeing a disproportionate number of our own retail openings happening there. So all of those things are coming together and in markets where we in many cases had low market share and we're capturing share that puts us to a much better, much stronger place and more normal on a global level.

Ken Stumphauzer - Sterne, Agee & Leach, Inc. - Analyst

And then, Bob, my favorite question. Can you give us some clarity on the decomposition of gross margins, how much was related to product versus mix?

Bob Shearer - VF Corp - SVP, CFO

Yes. Actually the mix component, Ken, held pretty steady from the first quarter. At that point in time, I think it was 70 basis points of what we said. It was about 80 basis point this time. So, yes, the cost net of pricing was about 260 basis points. The mix then helped us. As I said by about 80, and then the gain. The gain that we talked about on the sale of the plant helped us about 70 basis points as well. Those are the components of the 120 basis point decline.

Ken Stumphauzer - Sterne, Agee & Leach, Inc. - Analyst

Okay. And then just one last question if I could. Obviously, at the beginning of the quarter the distribution center in Alabama was destroyed. I'm just curious to know whether you felt that had any impact on your ability to meet demand in the quarter? Perhaps it hit top line? It might even have been even stronger otherwise?



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Bob Shearer - VF Corp - SVP, CFO

Thanks for asking that question. We talk a lot about the competitive advantage that we have with our supply chain groups. And I think the disaster we had in Alabama is just a great example of our ability to respond to something like that and respond very quickly.

Actually, Ken, the net loss in terms of revenues was actually a little bit less than \$10 million. And it obviously could've been a lot tougher than that without the kind of people that we have on board and their ability to respond. So we got another DC opened up and had it racked up and ready to go in pretty short order. And we're getting product in because we're able to make our own products. We could shift some of our plants to the products that we needed and were destroyed in the tornado. So it was a terrific -- just a terrific job done by our supply chain group, so it had not a lot of impact on the quarter.

Eric Wiseman - VF Corp - President, CEO

Ken, I'll pile on. We were shipping 30 days after the tornado that down our Hackleburg distribution center. We had an operation up and we were up back servicing our customers, not at full capacity, but we were operational again very, very quickly and very proud of that team.

Ken Stumphauzer - Sterne, Agee & Leach, Inc. - Analyst

Thank you, guys. Best of luck.

Eric Wiseman - VF Corp - President, CEO

Thanks, Ken.

Operator

Our next question comes from Kate McShane of Citi.

Kate McShane - Citigroup - Analyst

Thanks, good morning.

Eric Wiseman - VF Corp - President, CEO

Good morning, Kate.

Kate McShane - Citigroup - Analyst

With your increased guidance growth for the top line, I was wondering if there was a coalition where you saw more upside than where you had originally anticipated? And then my second follow-up question to that is based on the commentary on your inventory levels going to the back half, can you talk about your ability to chase demand for the Outdoor coalition, in particular. Is demand in the fourth quarter is higher than anticipated?



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Bob Shearer - VF Corp - SVP, CFO

I'll start on that. In terms of the first part of your question, was there one coalition that really stood out in terms of the increase in the guidance and that kind of thing? Not really. Actually, as Eric went through what we're expecting for the rest of the year on a bi-coalition basis, you would've noted that pretty much across the board, we're seeing strengths across our businesses, and it really does - it runs from top to bottom in terms of our coalitions.

So, again, we're just really happy to see that. That's why you hear us talking a lot about the momentum that we have across our businesses and just really proud of that. So no, it doesn't really stand out in any one coalition. It was across the board strength.

Eric Wiseman - VF Corp - President, CEO

Yes. But you have got to call out the Outdoor and Action Sports group for growing 23% globally and Imagewear for growing 16% globally, really, really strong performance. And our guess is that those coalitions will drive disproportionate growth in the second half as well. But that's all in our forecast. Steve, any comments on our - -?

Bob Rendle - VF Corporation - Group President, Outdoor & Action Sports

Kate, our Outdoor and Action Sports businesses work primarily on a preseason booking model. There's a tremendous amount of work that goes into building merchandise assortment in flow plans with our key dealers. We lay in our inventory prior to the season and work through those well thought through plans as we move to the end of that shipping season. So there's not a tremendous ability to de-chase, but it's really mitigated with the exceptional amount of planning that goes in well in advance based on historical performance.

Kate McShane - Citigroup - Analyst

Okay. Great. Thank you. And then my last question is just about the pricing environment. As we get into the fall, I think we're going to start seeing the floors be set here in the next week or two. Have you been hearing or have there been any surprises in the pricing environment where maybe you're not seeing some of your competition take as much price as maybe was anticipated is actually taking more?

Bob Rendle - VF Corporation - Group President, Outdoor & Action Sports

No, Kate. No surprises yet, really early in the fall season as you rightly called out. Things are just getting set now and we're not aware of any changes to anything that we have assumed going into this quarter. So far the price increases that we expected to see, we're seeing. And as I said in my comments, the big unknown is how consumers react to the inflation they're going to see. And it's not just Apparel and Footwear inflation, it's gas, it's food, everything is going up for them. It's going to be very interesting to watch how that plays out. We're confident we've made great assumptions around that.

Kate McShane - Citigroup - Analyst

Okay. Thank you.

Bob Rendle - VF Corporation - Group President, Outdoor & Action Sports

Thank you.



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Operator

We'll go next to Bob Drbul of Barclay's Capital.

Robert Drbul - *Barclays Capital - Analyst*

Hi. Good morning.

Eric Wiseman - *VF Corp - President, CEO*

Hi, Bob.

Robert Drbul - *Barclays Capital - Analyst*

Hi, Bob. I was just wondering if you could maybe clarify a little bit more on the gross margin commentary around the European Jeanswear facility, the impact in the second quarter versus - - exactly how you think the third quarter plays versus the second quarter?

Bob Shearer - *VF Corp - SVP, CFO*

Sure, Bob. Number one, I'll take this opportunity to state that yes, the pick-up on the gain on the exit, relates to actually a charge that was taken in the first quarter of last year, of 2010. It was about the same amount by the way, about the same effect, so it was about \$0.07 a share then in terms of the charge. And actually what relates to is the deferred FX impact related to that chart and it is kind of a complicated accounting thing, but just to clarify that.

So, and again, I'm glad you asked the question for clarification because in my commentary, the point that I said, the point that I made relative to the third quarter gross margins I said would be more like the second quarter. What I meant by that was, I said adjusted. What I meant by adjusted was taking the benefit of the plant gain out of the numbers. So in other words, I said that the gross margins without that would've been down by about 180 basis points, so we expect the third quarter to be more similar to that, in terms of reduction. And then the fourth quarter, in the fourth quarter the reduction should improve from there.

Robert Drbul - *Barclays Capital - Analyst*

Okay. And I think you also said that finishing some of your buys for denim in the fourth quarter now. With the recent pull back in cotton, I know you don't buy cotton, you buy denim. But with the recent pull back in cotton, does that provide an opportunity for you to exceed the prior domestic Jeanswear gross margin guidance of minus 350 basis points?

Bob Shearer - *VF Corp - SVP, CFO*

For this year?

Robert Drbul - *Barclays Capital - Analyst*

Yes.



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Bob Shearer - VF Corp - SVP, CFO

So you're saying for this year? No. Because, and again, that's the point relative to -- what we're buying right now for the fourth quarter, but those goods -- and we said yes, the costs are down a little bit in terms of our buy for the fourth quarter. Those goods will flow through 2012. So we will begin to see the benefit of that of the lower cost in 2012, but really not until then. Our third quarter buys, our third quarter buys will flow through the fourth quarter of 2011.

Robert Drbul - Barclays Capital - Analyst

Okay. Then one last question, on the pricing increases, can you talk about the magnitude of the price increases you passed through already and sort of the magnitude of the future price increases and sort of the Delta? You seem to be very pleased with some of the unit volumes actually increasing. How do you -- when you think about the magnitude or the higher costs coming into third quarter, do you feel like the unit volumes can be positive still with the higher prices going in, or do you think units will actually end up falling, as expected?

Bob Shearer - VF Corp - SVP, CFO

I'll make couple points around pricing. First just to put a little bit of perspective around overall pricing for the year, it's worth about 3% to 3.5% of our total revenue gain. If you do some math around that, if you do some math around that it implies about \$300 million worth of pricing. It's a very interesting note that two-thirds of that, two-thirds of that is in our US Jeans business. So, if you wonder why we talk so much about our US Jeans business in terms of cost and pricing, it's because it captures such a big piece of that overall pricing impact on our year.

So relative, relative to can we still be -- so that also says that for the rest of our businesses and our other businesses, the impact of pricing is just not nearly as significant, it's just not so large. So in other words across the other 80% of our business, it's the remaining one-third of the total pricing impacts. It's fairly small. So it really is more of a Jeans, the US Jeans challenge for us, or issue. Could we be positive in terms of units? We're not anticipating that. As we said very early in the year, that particularly in the second half, even though first half units as we've said, it's been very positive for us.

First half units in our US Jeans business are up a couple percentage points over the first half of the 2010. So again, really like to see that, and that's great news. What we still have a the second half plan down in terms of units and we said overall for the year, we were looking at a mid-single digit percentage decline in our US Jeans business on those ongoing programs. And we're still planning something more like that. If the consumer responds a little differently, could it be a little better than that? Sure. But that's not how we have the numbers forecasted.

Robert Drbul - Barclays Capital - Analyst

Great. Thank you very much, Bob.

Bob Rendle - VF Corporation - Group President, Outdoor & Action Sports

You bet, Bob.

Operator

Our next question comes from Omar Saad with ISI Group.



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Omar Saad - ISI Group - Analyst

Thanks, good morning.

Eric Wiseman - VF Corp - President, CEO

Good morning, Omar.

Omar Saad - ISI Group - Analyst

Among the many things to be impressed with today, one thing that we haven't discussed maybe is in detail in the Q&A portion is the inventories. It's been kind of a growing concern across the sector, inventory growth outpacing sales growth. Your guys inventory seems to be going nicely in the right direction. Maybe any more detail around that, especially in the domestic market? And then what your sense is out there at retail and in the channels and kind of the competitive level, are you worried about an over inventory situation taking some of the steam out of all the positive momentum we have going?

Bob Shearer - VF Corp - SVP, CFO

I'll start on that in terms of the did a inventories, Omar. I don't know if you heard commentary or not, so the 17% increase, the way we look at that, and again, it was a big improvement over what we saw in the first quarter. And I guess I would step back and say you know that inventory and inventory controls and disciplines is just there's a very, very important part of how we manage our business here at VF. So it is an area that we put an incredible amount of focus on. So relative to the 17%, the first piece you really need to look at is what's the cost impact of that?

To get down to a volume impact, you really need to look at what's the cost impact? And our cost in inventories as of the end of the second quarter are up about 9%. So in other words, of the 17% increase, 9% alone is driven by cost increases. So that leaves 8% related to unit volume increases and that matches up really well with what we're looking at through the rest of the year in terms of unit volume increases in our revenue numbers. So the point is, we're really well aligned right now and very consistent with what we've seen in the past in terms of our overall inventory levels.

Eric Wiseman - VF Corp - President, CEO

And Omar, to the second part of your question, about I guess it was really referenced to what if the overall apparel industry is over inventoried. Will that clog up our opportunities? I don't think so. Clearly, that creates a risk but we've been through that risk before. Just through it in the recession, you'll recall during the recession our revenues held up pretty strong and that was a time when clearly demand was not adequate for the amount of supply that was out there. And what we did then is as you know last year we invested a lot behind our brands.

We have strong brands, we increased our investment behind then and we have innovative products and consumers found their way to those products and not to stuff that was out there real cheap on sales, but there was too much of it. We're confident today we have stronger brands, a bigger marketing investment and more innovation of products, so we're pretty confident. There are some system risks, sure, but were pretty confident.

Omar Saad - ISI Group - Analyst

Eric, do you feel like the industry is over inventoried, or do you think it's not as bad as people think?



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Eric Wiseman - VF Corp - President, CEO

No. I talk to the retail community, I'm not hearing that as a concern.

Omar Saad - ISI Group - Analyst

Okay. That's helpful. Then one quick question if I may, on Timberland, I know you guys did a conference call on it already. But I've been thinking about the apparel opportunity in the kind of categories given a lot of VF's core competencies, overlaying on the strong Footwear business. Can you talk a little bit in context of what you guys did with Vans, which is primarily a Footwear brand, we you've learned from that really could help apply to what you're going to do with Timberland?

Eric Wiseman - VF Corp - President, CEO

Sure. We have talked a lot about our experience at Vans which had a small apparel business when we acquired it, and has grown substantially. Now, my comments about Timberlands apparel business will be about the US opportunity, They have a very successful European apparel business that's doing quite nicely. So we hope to support that group as they continue to do it nicely. There is an opportunity here in the US.

We were just in the process since we do not own Timberland at this point, of talking with the current management team about how we leverage VF's considerable apparel skills and knowledge of the US consumers and in the channels of distribution within Timberland. So we have experience with those consumers, and we're marrying that with their brand knowledge and then there may be some execution capabilities that we have around fit and those kind of things. We can really help them get that right. Too early to talk about what the outcome is but we are approaching it with at least as much rigor as we approached the Vans opportunity and we think it's an important opportunity for the future.

Operator

Our next question will come from Evren Kopelman of Wells Fargo.

Evren Kopelman - Wells Fargo Securities - Analyst

Good morning. I had a question on the US Jeans business you just said, two-thirds of that pricing, the \$300 million, is from that business. And I think you said if you could clarify that, that assumes mid-single digit decline in units for the year. Can you talk about what kind of scenarios for that is modeled into your guidance? Because you like you said no one knows what's going to happen the second half, but how far can that number change before you could miss guidance, for example? If you could talk about that, that would be great.

Eric Wiseman - VF Corp - President, CEO

I'll certainly try to. I'm not quite sure I understand the question. That is what's built into our guidance. So in other words, the unit decline and the impact of pricing are all the factors that are reflected into our remainder of the year 2011 guidance.

Scott Baxter - VF Corp - President, VP Imagewear

And to frame that up in Jeanswear, we are having a unit increase in the first six months of the year. A little bit better than we hoped given the price increases that we took. And for the year, we're calling for a mid-single digit decrease in units. So we have a lot of erosion that happens in the back half of the year to get to the mid-single digit unit decrease from where we started and from where we're starting with positive trend coming in.



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We have a lot of experience in price changing and all of our channels of distribution, and have a pretty good feel for what it might be like. We've been conservative in our planning of that to date, as evidenced by the unit growth we had in the first half, hoping that's true in the second half. Our cautionary comments around that are just because as I said in my comments, we don't know. No one really knows how this is going to play out, but we think we've got the right assumptions. Does that help you?

Operator

Our next question comes from Robert Ohmes of Bank of America-Merrill Lynch.

Robert Ohmes - *BofA Merrill Lynch - Analyst*

Thanks. Good morning, guys.

Eric Wiseman - *VF Corp - President, CEO*

Hi, Robert.

Robert Ohmes - *BofA Merrill Lynch - Analyst*

A couple of quick follow-ups. First, I was hoping that Karl Heinz Salzburger could give a little more color on Europe to help - I don't get to Europe as much as I would like to. So I'm trying to get the picture in my head of the types of customers that you're building these big backlogs in North Face and Vans with. Are these a lot of partnered stores concentrated in any certain regions? Or just maybe a little more flavor on that amazing fall backlog that you guys reported for both those brands. That would be my first question.

Second one maybe for Scott, just some more commentary on the flavor of the Jeanswear business in the US. Specifically, who are you guys taking share from because it sounds like you are doing a great job with Lee and Wrangler from taking shares. So is it private label, is it Levi's, just some picture on what's going on there? And then the final one for you, Bob, I just want to clarify. Are you guys actually seeing costs down year-over-year for the first quarter of 2012 in Jeanswear? Has the cotton come down enough where you're seeing a year-over-year decline? Is that what we should see from the buying you're doing right now? Thanks.

Karl Heinz Salzburger - *VF Corp - President, VF Europe, Middle East, Africa, Asia*

Karl Heinz here. I start with the first one. We said it before, we're doing very well in Europe at the moment. A couple of reasons. The big picture is we have a (inaudible) European reputation. It means there is none of the big countries like Germany, UK, with our brands we're the number one. So that means we still have a great opportunity in terms of penetration with our accounts. That's one of the reasons why we're doing so well on our bookings.

Our model at the moment has two types of models. One is own stores, which we run, and primarily on the North Face, Vans and the Outdoor coalition and Napapijri and Kipling, 7 for all mankind on the Sportswear coalition. And we have a second leg, which is department stores which are basically from a consumer perspective the same look, the same feel, but the stores are managed by typically a customer of ours. And those we have primarily on the North Face and Napapijri. Now, the total number is still very slow, very modest, we talk about 50 stores at the moment, and we have a lot of room to grow. That's the good news. So to sum up again, with our brands, the North Face, we still have a relatively modest penetration with our customers and still have room to grow.



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Operator

Our next question comes from Eric Tracy of FBR Capital Markets.

Eric Tracy - FBR Capital Markets - Analyst

Thanks, guys, for taking my question.

Eric Wiseman - VF Corp - President, CEO

Erica - - if we could, I'm not quite sure what took place there but there were two other questions that Robbie - - but we'll clearly get to your question. So next, Scott Baxter would respond to the second question that Robbie had.

Scott Baxter - VF Corp - President, VP Imagewear

Robbie, we've seen that we're taking share in the mid-tier market. Our lead product is really going with an innovation platform that's been very successful, both in female and male, but extremely successful in female over the last 18 months to 24 months. So we're really pleased with that and will continue to go ahead and push on that going forward. In addition to that, we've done a really nice job with our share in the mass channel in men's, and we've had some very nice success over the past 18 months with our Western Specialty product with Wrangler, with new products and new innovations coming out there.

Bob Shearer - VF Corp - SVP, CFO

And then the final question that Robbie had was related to would costs actually be down year-over-year? I think it was specifically around Jeanswear. And no, they wouldn't be. So the first quarter of 2012 will still be matched up against of course the first quarter of 2011 when we brought some fairly low cost into the year, right?

So we were buying denim at a much, much lower cost at the end of 2010 - - which was then sold, made into products and sold in the first quarter of 2011. So, no, year-over-year costs will not be lower. What will be lower is the first quarter costs were lower in than they were in the fourth quarter, so we'll start to see some easing there but in terms of quarter-to-quarter, no. Costs will not be down. So, Eric, sorry about that. Maybe - -

Eric Tracy - FBR Capital Markets - Analyst

No worries. That was helpful for me as well. Real quick, just a couple ones here. Eric, as we think about going in the back half price, the price increases coming through, your sense of the retailer pricing strategy. I know it's going to be dependent on channel and certainly the brands, but - - how are they pricing? Is it relatively consistent? Do you feel like there's going to be some dislocation about how they - - some EDA margins, some fully passing through, just a little bit color on your sense of how they're planning?

Eric Wiseman - VF Corp - President, CEO

Yes. That's a really broad reaching question, given all of the retailers we deal with and all of the product categories they sell. I think that everybody is sensitive though to the pressure on the consumers in their channel. And there's different pressures by channel, there is much more channel on the mass channel, consumer, then there is on the luxury consumer right now in this environment and then for all the obvious economic reasons. And so I think the retailers have been really thoughtful about



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having offering the right value for their consumers shopping in their channel under their circumstances right now and we're aligned with that, we believe.

Will something change as we get into the second half? It could. We're not anticipating - - but there's a lot of dialogue around this and everybody's obviously going to be watching this very carefully as we get into fall. And as we've said a couple times on the call, so far this year, we have been a little too conservative in the unit volume erosion that we've anticipated. And I would calibrate our conservative estimate in the back half equal to the first half, but it's a bigger deal in the back half. I'm not sure I adequately answered your question, Eric. But that's the best I've got.

Eric Tracy - FBR Capital Markets - Analyst

That's really helpful. Just a housekeeping here, Bob, tax rate back half, how should we be thinking about that?

Bob Shearer - VF Corp - SVP, CFO

Yes. The tax rate will be right around - - I believe it's right around 20%, 26% in the back half. So on a full year basis, it will be really close to 25%, maybe just a little under 25%.

Eric Tracy - FBR Capital Markets - Analyst

Great, guys, best of luck.

Eric Wiseman - VF Corp - President, CEO

Thank you very much. Maybe time for just one more question.

Operator

That will come from Taposh Bari of Jefferies.

Taposh Bari - Jefferies & Company - Analyst

Good morning. Nice job on the quarter.

Eric Wiseman - VF Corp - President, CEO

Thank you.

Taposh Bari - Jefferies & Company - Analyst

Wanted to ask a follow-up on Europe, particularly in the Jeanswear business from Karl Heinz. Seems like that business has been really the only business in your portfolio that's not performing maybe as well as some of the - - or hoping, so just trying to get an idea of what it's going to take that business to improve? And if you can talk about any kind of geographic disparity, on the continent?



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Karl Heinz Salzburger - VF Corp - President, VF Europe, Middle East, Africa, Asia

Of course. Yes. First of all we are a little bit victim of amazing growth numbers on Outdoor and Sportswear, where we have 25%, 30%, which is not easy to repeat. So it looks like if you grow a little bit less, but still in single digits, that's a poor job. So I would say we have a couple of a difficult seasons with Jeans.

We have reacted, we have improved our product offering, we improved the sweet spot of where the brand is meeting the customer demand, we are acting on the pricing side, and we see the results. We see the outcome. We have seen our fall bookings were up. They were up in mid-single digits on Lee, closer to double digits on Wrangler, which is a great result. And we're pretty confident that we have seen, we start to see momentum now in our Jeans business. But again, we do not expect very high growth rates we had on Outdoor and Action Sports.

Taposh Bari - Jefferies & Company - Analyst

Great.

Eric Wiseman - VF Corp - President, CEO

Does that answer your question?

Taposh Bari - Jefferies & Company - Analyst

That's hopeful. And then just a quick follow-up on SG&A guidance for the year. Can you kind of clarify, are you reiterating the I guess 100 basis points of leverage for the year? And if so, just try to understand why not raise that line item given the fact that -- the second quarter leverage came in well above where you're looking. And then it sounds like your sales guidance for the back half is a little bit stronger, so I would expect some stronger leverage opportunities there, if you could just touch on that point?

Bob Shearer - VF Corp - SVP, CFO

Well, yes. We are confirming. Is the answer to your question, the hundred basis points, on the SG&A line. Relative to why it isn't a little better, I think is what you're saying, yes any revenue increase should help us a little bit. We also look at our spending levels and in terms of investments that we might make in the marketing side as well. So we're still really comfortable with the 100 basis point reduction that we've set out to achieve.

Taposh Bari - Jefferies & Company - Analyst

Great. Things lot and best of luck.

Eric Wiseman - VF Corp - President, CEO

Thank you. Thanks, everyone, for participating in our call today. You'll be hearing from us again soon we hope about the Timberland acquisition and then of course in 90 days, with the third quarter results. Thanks a lot. Have a great day.

Operator

That does conclude today's conference. Thank you all for your participation.]



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