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VF Corp. (VFC)

Q1 2015 Earnings Call

## CORPORATE PARTICIPANTS

Lance Allega

Vice President-Investor Relations

Eric C. Wiseman

Chairman, President & Chief Executive Officer

Steven E. Rendle

Senior Vice President-American Region

Karl Heinz Salzburger

Vice President, VF Corporation and Group President, International

Scott H. Baxter

Vice President, VF Corporation and Group President, Jeanswear Americas & Imagewear and South America

Scott A. Roe

Chief Financial Officer & Vice President

## OTHER PARTICIPANTS

Bob S. Drbul

Nomura Securities International, Inc.

Michael Binetti

**UBS Securities LLC** 

Katharine McShane

Citigroup Global Markets, Inc. (Broker)

Matthew Robert Boss

JPMorgan Securities LLC

Laurent Vasilescu

Macquarie Capital (USA), Inc.

Omar Saad

Evercore ISI

Barbara Wyckoff Siris

CLSA Americas LLC

Lindsay Drucker Mann

Goldman Sachs & Co.

Chris Svezia

Susquehanna Financial Group LLLP

Matthew J. McClintock

Barclays Capital, Inc.

## MANAGEMENT DISCUSSION SECTION

**Operator**: Please stand by. Good day and welcome to the VF Corporation First Quarter 2015 Earnings Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Lance Allega, VP of Investor Relations. Please go ahead, sir.

#### Lance Allega

Vice President-Investor Relations

Thank you, operator and good morning, everyone, and thanks for joining us on our call today to discuss VF's first quarter 2015 results. Before we begin, I'd like to remind everybody that participants on this call will make forward-looking statements. These statements are based on current expectations and are subject to certain risks and uncertainties that could cause actual results to differ materially. These risks and uncertainties are detailed in the documents filed regularly with the SEC.

I'd also like to let everyone know that unless otherwise noted, amounts that our participants refer to on today's call will be in currency neutral terms. By our definition, which is detailed in our press release issued at 7 a.m. Eastern this morning, currency neutral amounts exclude both the impact of translating foreign currencies into U.S. dollars and the impact of currency rate changes on foreign currency denominated transactions. You may also hear us refer to reported amounts, which are in accordance with U.S. GAAP and include translation transactional impacts from foreign currency exchange rates.

We've chosen these currency neutral amounts as a lead number in our discussions because we feel it more accurately represents the true operational performance and underlying results of our business and brands. Reconciliations of GAAP measures to currency neutral amounts can be found in the supplemental financial information included within the press release, which identify and quantify all excluded items.

Joining us on today's call will be Chairman, President and CEO, Eric Wiseman, Scott Roe, our CFO and VF Executives Scott Baxter, Steve Rendle and Karl Heinz Salzburger. Following our prepared remarks, we'll open the call for questions and ask that you please limit yourself to two questions per caller.

Thank you, and now we'll turn over the call to Eric.

#### Eric C. Wiseman

Chairman, President & Chief Executive Officer

Thanks, Lance. Good morning, everyone, and thank you for joining us today. You often hear us speak about consistency in VF's financial performance and the strength of our business model about our powerful brands and our powerful platforms which work together to deliver strong returns to our shareholders.

Along with consistency, we also underscore the confidence we have in our ability to execute against our long-term goals while delivering near term results. I'm happy to report that our fundamental business is incredibly strong and the momentum we've established continues to build. In fact, our performance in the first quarter of 2015 clearly demonstrates how we're expanding on that momentum. Currency neutral revenue, gross margin and earnings showed strong gains during the quarter, making it a terrific start to the year.



Taking a look at our operational highlights, which are currency neutral, revenue was up 8%, with growth in nine of our ten largest brands, four of our five coalitions, direct to consumer and wholesale and in every region around the world. Our Outdoor & Action Sports coalition was up 10%. And we also saw solid growth from our Jeanswear coalition with a 6% increase and our Imagewear coalition, which grew by 8%. And, congratulations to the Eastpak team, which was VF's fastest growing brand in the quarter.

Our direct to consumer business grew 11% and included mid single digit comps. Our international business grew 9%, with Europe up 4%, Asia up 17%, and a 16% increase from our Americas non-U.S. region. Gross margin, which I'll discuss on a reported basis was 49%, in line with our expectations and not surprisingly, held back by the continued strengthening of the U.S. dollar, actually by about 50 basis points in the quarter, all of which led to 13% earnings per share growth for the first quarter. Indeed, a very strong start to our year.

Since the last time we spoke, the U.S. dollar has continued to strengthen against global currencies. In fact, the euro to dollar relationship, which is VF's most significant foreign currency exposure, was as high as \$1.21 and as low as \$1.05 during first four months of the year. That volatility, along with our new assumptions, has produced a negative \$0.06 impact to our earnings for the full year; yet even with these additional headwinds, I'm proud to report that on a GAAP basis, there is no change to our expectations for a 3% revenue growth, a 49.2% gross margin rate, and 4% EPS growth to \$3.20 per share in 2015.

Now, take out the impact of currency and our expectations for 8% revenue growth and the 49.5% gross margin rate also remain unchanged; however, due to underlying brand and operational strength and greater visibility to how the full year should play out, we're now raising our full year currency neutral earnings growth expectation to 14%, up from the 12% outlook we gave in February. This growth rate would, of course, be ahead of our 2017 plan for the second year in a row, and clearly a bullish statement about our outlook for VF.

In summary, while macroeconomic, geopolitical and currency challenges continue to make headlines, the things we can't control, we have great confidence that we're in command of the things we can control, our brands, our platforms, and our operational disciplines, all of which empower us to continue to deliver consistent, sustainable, and profitable growth to our shareholders.

2015 is off to a great start. We've got our heads down and are executing well against our plans. We are confident. So with that, I will turn the call over to Steve, Karl Heinz and Scott to take us through our five largest brands and then Scott Roe, certainly not new to VF, but new to this role, will go through our financial results. So, Steve, it's over to you.

#### Steven E. Rendle

Senior Vice President-American Region

Thanks, Eric. Revenues for The North Face in the first quarter were up 7%, which was in line with our expectations and included growth in all regions and channels. Globally, we saw particular strength in our DTC business with revenues up 20%. Exiting the fall/winter season, inventories in our own stores as well as our wholesale partners are very clean with excellent sell-through as the colder weather wrapped around the world. Looking toward the coming fall/winter season, the brand's order book is in line with expectations and we feel very confident in our ability to deliver low double digit global growth for the full year.

Now back to the quarter. In the Americas, revenues were up at a mid single digit rate with DTC up more than 10%, including strong growth in our eCommerce business driven by solid increases in both traffic and conversion. And speaking of eCom, we're getting ready to relaunch new websites for both The North Face and Jan Sport this



month, bringing them on to the same newly upgraded platform as Vans and Timberland, a great example of our One VF approach as we leverage core competencies within centers of excellence across our portfolio.

During the quarter, ThermoBall continued to build even greater momentum with triple digit growth at both wholesale and DTC. We also launched The North Face's FuseForm technology a bit more broadly with the Dot Matrix Jacket and ultra light rain shell that utilizes our revolutionary weaving process to form multiple fiber types into a single fabrication to maximize functionality and performance.

The launch was supported by a meaningful increase in demand creation to inform and amplify connections with consumers. And the performance of the product and the feedback from the consumers thus far has been solid. We're encouraged as we look to continue to build momentum this fall with an even broader exposure in the relaunch of our Summit Series collection.

We're also increasing demand creation investments for The North Face's Mountain Athletics Training collection, including our first ever spring TV commercial. Launched only a year ago, the line continues to gain momentum and is helping further shift the consideration set of existing and new consumers towards The North Face as a four season brand. This year's collection also includes women's products for the first time.

Now to Karl Heinz.

### Karl Heinz Salzburger

Vice President, VF Corporation and Group President, International

Thanks, Steve, and good morning, everyone. The North Face international business was up at the low double digit rate, driven by more than 30% growth in DTC revenues. In Europe, revenues were up at the high single digit rate, driven by significant strength in our DTC business and comps greater than 25%. During the quarter, we celebrated 30 years with our anniversary of Mountain Jacket to great success and so continued momentum from our ThermoBall, FuseForm and running footwear products.

In Asia, revenues were up at low double digit rate with both wholesale and DTC showing solid growth. A few highlights included launching our first ever Chinese New Year collection and collaboration with Tmall to promote our TNF 100 event, an ultra-marathon trade earning race. Based on feedback from both of these efforts, we have great confidence about how we are positioning the brand in this very important growth market. Overall, we continue to feel really good about The North Face international business, and our global outlook for the full year.

Now, let's turn to Vans.

#### Steven E. Rendle

Senior Vice President-American Region

The Vans strong momentum continued with global revenues up 16% and balanced strength in DTC and wholesale. This marks the brand's 22nd consecutive quarter of double digit growth, that's five-and-a-half years; another amazing result from this team.

In the Americas, revenues were up at a high-teen rate, with mid-teen growth in DTC and more than 20% growth in our wholesale business. We saw very strong growth in both footwear and apparel and are very excited to see significant momentum in one of our newest categories and lines, The Mountain Edition collection. Designed for the elements, Mountain Edition products still look just like iconic Vans products, but feature weatherproofing, heat retention and traction technology as well. This is a critical growth strategy for Vans as we seek to become



more meaningful in all four seasons especially when cold and wet weather sets in and people tend to think less of canvas. And after selling out of the entire line in its first season, demand for this coming fall/winter is very strong.

We also continue to find interactive, innovative ways to bring the Vans brand to life, harnessing the creative expression found in art, music, action sports and street culture. A great example of this is the continued expansion of our House of Vans concept, using pop-ups at exciting events like the South by Southwest music festival in Austin and the SIA Tradeshow in Denver.

And, finally, to sneak this in a bit ahead of time, next year is a big year for the Vans brand, given their 50th anniversary. So we're already gearing up to celebrate in a way that only Vans can do. Definitely stay tuned for this one.

## Karl Heinz Salzburger

Vice President, VF Corporation and Group President, International

Vans international business was up at mid-teen rate, driven by balanced wholesale and DTC results. In Europe, revenue grew at a mid-single digit rate, driven by more than 20% growth in DTC and solid results in our wholesale business.

Key footwear product highlights includes a great performance from our enhanced comfort ISO collection, as well as strong response to our printed styles. We also saw strong growth in our apparel and accessory lines, driven by DTC and wholesale. Both men and women's products are showing strong momentum with double digit gains.

We also continued to engage consumers through unique events, such as Vans Snow Day, [ph] verti-tech and high standard (11:33). All fantastic ways we are bringing the band to even more European consumers.

In Asia, Vans continued to outperform, with revenue increasing more than 45%, and equally strong DTC and wholesale growth. Momentum continues in this region, due to smart localized product, especially in apparel, relevant, brand right, demand creation investments, events that speak to the authenticity of our brand and really sharp presentation at retail. The business is firing on all cylinders in an ecosystem that has the consumer at the center of everything it does.

So overall, really great momentum at Vans, and globally, we continue to see a mid-teen increase in revenues for the full year.

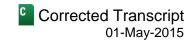
And now on to Timberland.

#### Steven E. Rendle

Senior Vice President-American Region

Timberland revenues were up 10%, driven by a mid-teen increase in global wholesale sales. The Americas recorded its sixth consecutive quarter of double digit growth, with revenues up at a high teen rate, driven by nearly 30% wholesale growth. And this result is balanced with gains across the portfolio, including both men's and women's in footwear and apparel.

In footwear, it's been particularly exciting to see continued momentum in our women's collection, as new products hit the mark in terms of style, relevance and trend. In our industrial PRO line, the PRO Boondock and Powertrain collections had especially strong results as work consumers continue to respond favorably to these new innovative platforms.



On the demand creation side, Timberland continues to drive brand heat and relevance through its MarkMakers program. For four seasons now, the brand has been outfitting influential trendsetters from head to toe and creating compelling content to engage consumers across multiple media platforms. And, finally, as I mentioned earlier, we just launched Timberland's new website on April 14, marrying great content with new functionality to create a holistic brand and product experience for Timberland outdoor lifestyle or consumer.

And so far, we're very encouraged by the early results, especially related to traffic and conversion. So, continued success, balanced growth, and amazing product. All reasons we continue to be very bullish on Timberland.

## Karl Heinz Salzburger

Vice President, VF Corporation and Group President, International

Timberland's international revenues were up at the low single digit rate. In Europe, revenues were also up at low single digit rates. The men's business, SensorFlex and Cupsole product continued to build on the strong momentum from last year and casuals began to gain traction on the women's side. And our new website has seen very positive early results. A great indicator that our One VF approach has meaningful global benefit.

Turning to Asia, revenues increased at high single digit rate with strong wholesale growth. A couple highlights included our new camouflage outdoor boots and the camping boot in particular that had great marketing support. Additionally, apparel had a strong quarter driven by outerwear and tops. For the full year, global Timberland is right on track to grow revenues at the low teen percentage rate. Now, let's turn to Scott and Jeanswear.

#### Scott H. Baxter

Vice President, VF Corporation and Group President, Jeanswear Americas & Imagewear and South America

Thanks, K.H. Our global Jeanswear business was up 6%, with positive results in all three regions, wholesale and DTC in both the Wrangler and Lee brands. In the Americas region, Jeanswear revenues were up at a mid single digit rate, despite ongoing challenges and softness in the overall denim market.

Revenues for Wrangler in the Americas were up at a low double digit rate. In the mass channel we saw continued momentum driven by new products, improved brand presentation, and category expansion, which created higher demand and conversion in our core pants business. Additionally the expansion of our lifestyle products, including broader offerings in both men's and women's tops, gives us confidence that we're on track for meaningful growth in this important channel in 2015.

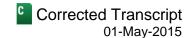
In our western business, customers are responding well to our new product introductions, including the advanced comfort line, which will see greater mid-tier expansion in the second quarter. We've also seen positive reaction to our expanded western performance platform with the launch of our cool vantage line, a jean for hot weather that maximizes breathability for work or play, and on the workwear side our new Wrangler Riggs campaign that features Brett Favre has been a big win with both retailers and in consumer tests, giving us confidence as we roll this out nationally.

Turning to Lee, the Americas business was down slightly, yet we are encouraged by strong seasonal sales and continued momentum of our modern series products for both male and female consumers, with continued traction in our department store business, and enhanced demand creation support, especially for the crucial fall season. We expect this brand to show slight growth over last year. K.H.?

### Karl Heinz Salzburger

Vice President, VF Corporation and Group President, International





Our international Jeanswear business was up at the mid single digit rate, driven by a mid single digit increase in Europe and a high single digit increase in Asia. In Europe, the Keeps You Cool product continues to drive denim performance for the Wrangler business and we have also seen initial strong response to the Born Ready platform.

In Lee, we saw brand momentum continue, which led to our eighth consecutive quarter of revenue increases in the region. We are also excited to report that our women's business has returned to double digit growth, driven by a number of new product initiatives.

In Asia, our Wrangler business continued to focus on the denim performance range, launching new finishes, including water repellent and tough gear with Sun Shield. At Lee, we continued to see strong reception for our key product collection stories and introduced new assortments in a number of lines during the quarter.

In summary, we are off to a great start to 2015 in our global Jeanswear business and expect momentum to continue throughout the year to reach our target of low single digit revenue growth. And now back to Scott on Imagewear.

#### Scott H. Baxter

Vice President, VF Corporation and Group President, Jeanswear Americas & Imagewear and South America

Thanks, K.H. Our Imagewear coalition posted strong revenue growth of 8% in the first quarter, driven by midteen growth in our workwear business, particularly the Red Kap brand. With a very strong start to the year, we're on track for mid single digit revenue growth in 2015. And now, over to Scott Roe for our financials.

#### Scott A. Roe

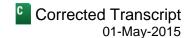
Chief Financial Officer & Vice President

Thanks, Scott, well, there sure is a lot for a CFO to like in this quarter. Our diverse portfolio of brands continues to thrive based on innovative products, connecting with consumers, where, when and how they shop, and the amazing opportunity that we have to expand our business around the world, it's never looked more robust.

In our first quarter, revenues on a currency neutral basis were up 8%, and as Eric mentioned, we saw growth in nine of our ten largest brands, four of our five coalitions and in every region around the world. By channel, our direct-to-consumer business grew by 11% and we saw a high single digit increase in sales to our wholesale customers. The Outdoor & Action Sports coalition continued to lead the way, and the Jeanswear and Imagewear businesses maintained the momentum we saw at the end of 2014. Growth in all regions, all channels and across multiple coalitions underscores the power of VF's portfolio.

As expected, our gross margin rate was down 40 basis points to 49% in the quarter, due to the negative impact of foreign currency. However, to give a bit more context around this, on the plus side, and in line with our expectations, our typical mix benefit of about 60 basis points from our highest margin businesses was closer to 40 basis points as strong growth in Jeanswear and Imagewear, which carry relatively lower margins, tempered our normal mix benefit.

More than offsetting this mix benefit was about 30 basis points of higher cost due in part to timing factors we discussed during our last call and about 50 basis points of foreign currency headwinds driven by the continued strengthening of the U.S. dollar. In fact, with an average euro rate of \$1.12 versus \$1.37 in the first quarter of 2015 and 2014 respectively, it was one of the largest movements we've seen since the financial crisis of 2008.



Despite the strengthening of the Swiss franc, which added nearly 20 basis points of expense in the quarter, our SG&A as a percentage of revenues was about flat. This demonstrates the power of our business model as we continue to invest in DTC and demand creation while leveraging other expenses.

First quarter operating margin was 14%, which includes a negative 70 basis point impact from currency headwinds. Carrying that down, currency neutral earnings per share increased 13%. On a reported basis, EPS was in line with last year's first quarter.

Now, taking a look at our performance by coalition. Revenues for Outdoor & Action Sports were up 10% on a currency neutral basis, an even stronger result when you consider this quarter was negatively impacted by the 53rd week, which traded a very strong retail week in early January for a relatively weaker week in early April. Yet, with solid growth in both our wholesale and DTC businesses, including positive results from nearly every brand and double digit growth in Vans and Timberland and a high single digit increase for The North Face, 2015 is right on track.

Reported operating income for the coalition declined 5% and operating margin came in 120 basis points lower than last year at 16.2%, predominantly due to changes in foreign currency rates as nearly half of the Outdoor & Action Sports business in quarter was outside of the U.S. The decline was also related to the impact from the 53rd week and our increased DTC investments including 116 additional retail stores, compared with the same period last year.

As we have seen during the past few years, the addition of stores earlier in the year pressures earnings in the first half, while paying off in the second half as we enter the peak retail season. For the full year, there is no change to our expectation that currency neutral revenues for the Outdoor & Action Sports coalition will grow at a low double digit rate.

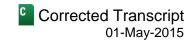
Turning to Jeanswear, revenues were up 6% currency neutral and included positive global results for both Wrangler and Lee. Reported operating income grew 2% and operating margin increased 20 basis points to 18.9%. We are really pleased with Jeanswear's performance and remain confident in our ability to achieve low single digit growth for the full year.

Results in our Imagewear business were strong, with 8% currency neutral revenue growth, driven in part by our Red Kap business. Reported operating income for the coalition was up 9%, which resulted in a 30 basis point expansion in operating margin. As the year plays out, we expect revenue growth rates for Imagewear to be more consistent with our full year expectation of mid single digit growth.

Our sportswear business grew 3%, reflecting similar increases in both wholesale and DTC channels and a high single digit increase in revenues from Kipling. Operating income was up slightly and operating margin was in line with last year's results. For the balance of the year, we expect a similar growth rate to close out the first half and the full year to remain on track with our expectation for a mid single digit increase in revenue.

Our Contemporary Brands business continued to experience challenging consumer demand for premium denim and women's contemporary apparel, which resulted in a 7% currency neutral decline in revenues and a decline in profitability. We continue to expect about flat results on a year-over-year basis for this coalition.

Turning now to our balance sheet, our inventories were up 7%, right in line with expectations. During the first quarter, we bought back 10 million shares, for a total of approximately \$730 million. There are currently no plans to purchase additional shares in 2015. We also made a discretionary contribution of \$250 million to our U.S. pension plan, which is now fully funded, something we are proud to report.



So let's turn to our full year outlook now and we'll start with the currency, since it plays such a central role to this year's story. In February, we laid out our assumption of a \$1.13 euro to U.S. dollar relationship with the direction that a \$0.05 move in the euro on a full year basis would mean an impact on revenues of about \$125 million and \$0.05 per share on our EPS.

Now, with one quarter behind us, and a revised euro to U.S. dollar for assumption of \$1.10 for the balance of the year. A \$0.05 move in the euro would mean an impact on revenues of about \$80 million or \$0.04 per share in EPS. Keep in mind that other currencies have also continued to devalue against the U.S. dollar; however, the euro remains our most significant exposure.

And as a reminder, our first and third quarters are the largest for our international businesses, and therefore, a stronger dollar would have the most significant impact on our results during those periods. Using the \$1.10 euro to dollar assumption, there is obviously some impact on our expected full year reported results, so let's take a look now how that flows through the P&L.

At the top line, there is no change to the outlook we gave in February. We continue to expect currency neutral revenues to be up 8% in 2015, which is in line with the growth rate we laid out in our 2017 plan. And we expect reported revenues to be up 3%, putting us at about \$12.7 billion for the year.

Our full year currency neutral gross margin assumption remains about unchanged at 49.5%, which would be equal to our 2017 target, two years ahead of plan. Independent of foreign currency, the annual expansion in gross margin of about 60 basis points, primarily from the favorable mix shift that we've seen for so many years remains intact. And despite even greater strengthening of the U.S. dollar, we continue to expect that same 49.2% gross margin rate for the full year on a reported basis, all of which takes us to the bottom line.

On a reported basis, despite an additional \$0.06 negative impact from changes in foreign currency, about half of which relate to the euro and the balance relates to other currencies, we expect 4% EPS growth to \$3.20 compared with last year's adjusted EPS of \$3.08. This means we are taking up our full year currency neutral EPS outlook to 14%. That's two more points of growth than our previous outlook, once again putting us ahead of our 2017 pace.

So what gives us confidence in our ability to absorb \$0.06 of currency impact? First, the continued momentum that our brands are realizing around the world and the underlying strength of these brands provides sound footing for the year. Second, with four months behind us, fall order books in hand and more visibility into our second half, we are even more confident in how our story should play out over the year. Greater visibility, coupled with a solid first quarter has built confidence, confidence in a business model that continues to deliver consistent results even in a dynamic environment.

And with that, I'll turn it back over to the operator for your questions.

## **QUESTION AND ANSWER SECTION**

**Operator**: Thank you. [Operator instructions] We will take our first question from Bob Drbul from Nomura.

Bob S. Drbul

Nomura Securities International, Inc.

Hi, good morning.

Eric C. Wiseman

Chairman, President & Chief Executive Officer

Good morning, Bob.

Bob S. Drbul

Nomura Securities International, Inc.

I guess I had two questions. The first one is on the inventories, when you look at sort of the revenue base in real dollars and then the inventory levels, can you just talk us through how you're balancing those numbers and, like, with inventories up 7% and the revenues up 2%, just sort of reconcile that for us a little bit.

Scott A. Roe

Chief Financial Officer & Vice President

Sure, Bob, this is Scott. I'll take that. Matching supply and demand in any case is difficult and it was particularly difficult in the first quarter, given the disruptions relative to the port strike. We, in general, managed through that very well. We saw that coming. We did things like extend lead times and in some cases brought in inventory early and you really didn't hear us talk about the impact to our quarter for the port strike. That's because it was relatively insignificant.

Sure, we had some disruption, but it was minimal and not big enough to talk about. So, as it relates to the inventory we see, we are very confident in the quality of the inventory. It's matched with future orders and, as a matter of fact, our days are down slightly compared to a year ago.

Bob S. Drbul

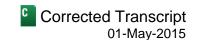
Nomura Securities International, Inc.

Great. And then I just have a question on the Jeanswear business. Scott, can you elaborate a little bit on the Americas business, I guess specifically the Wrangler and the mass business? What's going on there? And those numbers are quite impressive. So if you could just elaborate a little bit there that would be helpful for us

Scott H. Baxter

Vice President, VF Corporation and Group President, Jeanswear Americas & Imagewear and South America

Sure can, Bob, good morning. Over the last couple of years you've heard me talk a lot about our product, our product engine, our innovations, our demand creation. And what you're seeing is a culmination of a lot of hard work from the Wrangler team on new product innovations that have come to light. So you've got Advanced Comfort, Heavenly Touch, a couple of just examples that have now gained broad distribution within the mass channel; and then with our demand creation platform, the consumer has really taken to those products both male and female.



And then in addition to that, if we're speaking just specifically in that channel and the mass channel, we've got a really strong selection this year from a seasonal standpoint. So our consumer has loved our assortment and the takeout has been fantastic. So, more to come in the future. We feel really good about where the business, feel really good about our innovation pipeline and the products that are in that and we'll continue with more assortment, more product innovations and better distribution within the products that I just spoke of.

Bob S. Drbul Nomura Securities International, Inc.	Q	
Great. Thank you very much. Good luck.		
Scott H. Baxter Vice President, VF Corporation and Group President, Jeanswear Americas & Imagewear and South America	A	
Thanks, Bob.		
<b>Operator</b> : And we will take our next question from Michael Binetti with UBS.		
Michael Binetti  UBS Securities LLC	Q	
Good morning, guys.		
Eric C. Wiseman Chairman, President & Chief Executive Officer	A	
Hi, Michael, good morning.		
Michael Binetti  UBS Securities LLC	Q	
Scott, just a little bit more color on direct to consumer perhaps. You guys planned that business to grow, I th double digits this year versus only 5% in the quarter. You mentioned that store growth rates will accelerate a bit, but there are some pretty big comparisons coming in the back half. Can you walk us through some of the line items like footage, cadence and comp sales to get back to the run rate that you pointed to for the year?	little	
Scott A. Roe Chief Financial Officer & Vice President	A	
First, just in terms some of stats, we're going to open about 125 stores this year on an annual basis and from comp standpoint, we're seeing more or less the same as we saw last year. A little bit of an acceleration and obviously that's in the back half of the year during the peak season.	a	
Steven E. Rendle Senior Vice President-American Region	A	

And Michael, one way you can think about, how that is, we have – we're going to have 125 net new stores open this year, so that will help us. We also have a lot of sophomore stores rolling into the first half of this year.

The way we have talked about comps is, overall comps are in the mid to single, so low to mid single digits, but it varies by geography, obviously much stronger in the Asia Pacific region than in the United States, and all of that is really about our brick and mortar stores. You have to remember that your eCom business is going to grow by over

30%. It has for the last few years and we expect it to happen this year too. So that's a really strong horse pulling that wagon for us.

#### Michael Binetti

**UBS Securities LLC** 

Okay. And then just one quick follow-up, Scott, I hate to do this to you, but I will ask you to answer to one of Bob's comments from last quarter. So you mentioned...

Scott H. Baxter

Vice President, VF Corporation and Group President, Jeanswear Americas & Imagewear and South America

Bob who?

Michael Binetti

UBS Securities LLC

Bob who? Right. Already been deleted, huh?

Scott H. Baxter

Vice President, VF Corporation and Group President, Jeanswear Americas & Imagewear and South America

Hey listen, if you're a betting man, I'd bet he's on this call right now. So, we can have a little fun with him.

Michael Binetti

**UBS Securities LLC** 

All right. All right, Bob, well this one's for you then. So last quarter, Bob mentioned and you guys have now mentioned a few times that you'll be at your 2017 guidance for the gross margins by the end of this year, and made a lot of progress on that early. So as we look into next year, Bob mentioned that obviously he doesn't want us flatlining in our longer term model starting in 2016, just flatlining the gross margins. So he said to us, I believe, to still expect the 50 basis points to 70 basis points of gross margin expansion per year that you guys guided to in your Analyst Day.

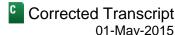
We're all staring at the gross margin pressure and we've heard from other companies that the transactional pressure actually starts to — will have an impact in the first half of 2016, so are you guys going to see the same dynamics on gross margin from FX as your hedges roll off into the first half of 2016? And then how do we get to the expanded gross margin reported rate next year, if that is the case? Thanks.

Scott A. Roe

Chief Financial Officer & Vice President

Yeah. Well, you partially answered the question, in the way you asked it, because we will see that 60 basis points plus or minus, mixed benefit going forward. We've seen that for the last several years, there's no reason we wouldn't expect that going forward. Now, we're not going to give guidance on 2016. It's not time for that, but in general, of course, if the euro would stay where it is today and if you can predict that, you're better than anybody else.

Sure, that would have some pressure. On the other hand, we've talked about input costs generally are lessening and, of course, we always have pricing levers that we can pull, which we have in the past. So, again, I can't give you exact guidance on 2016, but we would say the mix. There's no reason that mix benefit won't continue to be there and there are many other levers besides currency which will be impacting our 2016 guidance.



Q1 2015 Earnings Call	01-May-2015
Michael Binetti UBS Securities LLC	Q
Thanks a lot, guys.	
Eric C. Wiseman Chairman, President & Chief Executive Officer	A
Thanks, Michael.	
Operator: And we'll go now to Kate McShane with Citi.	
Katharine McShane Citigroup Global Markets, Inc. (Broker)	Q
Hi, thank you, good morning.	
Eric C. Wiseman Chairman, President & Chief Executive Officer	A
Good morning, Kate.	
Katharine McShane Citigroup Global Markets, Inc. (Broker)	Q
Lappreciate the commentary on the outlook for 2015 and the raisi	ng of guidance on the bottom line. But I think

one of the reasons why you are raising is because you have more confidence in what you're seeing for the later part of the year. But I don't think revenue guidance is going up. So can you reconcile that for us?

Scott A. Roe

Chief Financial Officer & Vice President

Yeah, so you're right, Kate. We have maintained the 8% currency neutral, and 3% as reported. But, that confidence within that, obviously, we're feeling better about the year and that means that we see some slight improvement on the top line, if you're trying to model that out. It's not enough to change the overall guidance, but yeah, we're feeling more bullish and that really should translate into a little bit better top line.

Katharine McShane

Citigroup Global Markets, Inc. (Broker)

Okay, great, that's helpful, thank you. And then, my second question was on contemporary. It's down this quarter, but guiding flat for the year. Could you walk us through the cadence of growth for the rest of the year and what's giving you confidence on accomplishing that in the contemporary category?

Steven E. Rendle

Senior Vice President-American Region

Yes, Kate, this is Steve. So, contemporary, as we mentioned, continues to see pressure in the sector that they do business in, specifically women's premium -- men's and women's premium denim and women's contemporary. As last year, we saw our DTC as a bright spot in our go-to-market and our ability to tell our stories to our consumers in a really clear and productive way. We're seeing strength in some of our wholesale partners that's giving us confidence this year to couple with our DTC carrying forward into the balance of the year. And really good

balanced growth between both 7 For All Mankind and Splendid, Ella Moss that's giving us confidence that we'll be in that flat range from a full year standpoint. Katharine McShane Citigroup Global Markets, Inc. (Broker) Thank you. Steven E. Rendle Senior Vice President-American Region Thanks, Kate. **Operator:** And we'll take our next question from Matthew Boss from JPMorgan. Matthew Robert Boss JPMorgan Securities LLC Hey, good morning. Nice quarter, guys. Steven E. Rendle Senior Vice President-American Region Thank you. Matthew Robert Boss JPMorgan Securities LLC So, you have three brands that are all more or less around the \$2 billion level today. Can you guys talk about market share penetration today and broader growth in each category as we think about the longer term complexion of your portfolio? Steven E. Rendle Senior Vice President-American Region Yeah, Matthew, this is Steve. I'll take this one. I'm going to have to try to pull some things out of my memory bank. North Face, at about \$2.3 billion, and we've come out and stated really operates in a market that's about \$26 billion in total, in that outdoor performance category. That would put them at an 8% share. Vans at just over \$2 billion, cresting that mark last year. Action Sports a \$29 billion market has them then around that 7% range. And Timberland, approaching \$2 billion at \$1.8 billion in that outdoor lifestyle category, we have somewhere around \$36 billion. So quick math would say that's mid single digit market share. What we don't capture in that is the athletic training, lifestyle and some of the youth culture numbers. And if we were to layer that in against each one of those three segments, each one of them would be about \$70 billion in total, which really translates into a lot of headroom for each one of these brands in their respective sectors.

### Matthew Robert Boss

JPMorgan Securities LLC

Wow. So, as you think over the next couple years - over the long term, I mean, is there - it seems like there's the ability that every single one of these brands could potentially double. Is that - I mean, is that out of the realm of possibility?

#### Steven E. Rendle

Senior Vice President-American Region

It's absolutely not out of the realm of possibility. I think as we speak to you at our Investors Day, we really lay out those strategies that are deeply embedded in our knowledge of our consumer and how that informs product and demand creation in our go-to-market with our DTC. We are extremely confident in these three brands continuing to grow, but also, taking that knowledge that we've developed with these three brands and applying it to other brands within our portfolio. And I think you see some of that going on right now with our Wrangler brand and you'll see that really coming to life in other brands line Kipling and such.

Matthew Robert Boss

JPMorgan Securities LLC

Okay. And then, quick follow-up. On the balance sheet, so \$1 billion dollar increase in short term borrowings, is that more seasonality related? And then, as you just kind of think forward, any line that you've drawn in the sand to think about potentially increasing the capital allocation, just given the building cash balance if you were to remain patient on the acquisition front?

Scott A. Roe

Chief Financial Officer & Vice President

Yeah, Matthew, this is Scott. I'll take that one. First, you are correct, that the CP balance is a seasonal, that's really what that is. It's a seasonal timing issue. We will be out of CP by the end of the year and that's just the way, the way that the ebbs and flows come through the year.

And that would be typical. We're a little ahead of where we were last year, but we'll be out of that by the end of the year. As it relates to capital allocation, really no change in the way we've talked about that. Acquisitions remain our first priority, followed by dividends. And we've said consistently and we've demonstrated we won't accumulate cash. So, in the event that one of the first two levers are not available, then we would look at returning that to shareholders through repos which we have done over the last two years.

Matthew Robert Boss

JPMorgan Securities LLC

Great. Best of luck.

Scott A. Roe

Chief Financial Officer & Vice President

Thanks.

Steven E. Rendle

Senior Vice President-American Region

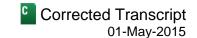
Thanks.

**Operator**: And we will take our next question from Laurent Vasilescu from Macquarie.

Laurent Vasilescu

Macquarie Capital (USA), Inc.

Good morning and thank you for having me on the call. I have two sourcing related questions. First is on input costs. I think Scott mentioned that input costs were up a bit during the quarter. What are you seeing in terms of



input costs going forward? Do you anticipate a benefit in 2H 2O15 regarding cotton and oil-based synthetics? And if that's the case, could you potentially quantify it?

Scott H. Baxter

Vice President, VF Corporation and Group President, Jeanswear Americas & Imagewear and South America

A

Yeah, so Scott here, and I'll take that, Laurent. What we're seeing is that we did indeed see higher input costs in the first quarter and we see that through the first half. That starts to mitigate in the second half, slightly, particularly more in leather than cotton, although there's a little benefit there. On the other hand, we do see that labor and overhead is an increase in cost.

So really, not significant in the second half. Going into next year, we should see some tempering of petrochemicals, leather again, which we've seen hide costs come down. But, again, we're not -- that's directional and these things change along with currency. So right now, I can't quantify that, nor would we give any kind of guidance into 2016 at this point.

Laurent Vasilescu

Macquarie Capital (USA), Inc.

Okay, great. And then, my second question is on the Trans-Pacific Partnership. The U.S. is at the cusp of a free trade agreement with much of Asia, which could potentially eliminate footwear and apparel tariffs. Curious to know if you're factoring in the TPP in terms of your long-term view on sourcing across geographies? And if could you see any potential savings on tariffs, what you would do with the savings? Would you reinvest it in marketing, R&D, reduce prices or flow it to the bottom line?

Scott A. Roe

Chief Financial Officer & Vice President

А

Yeah, so I guess I'll take that one. We've been watching this for a number of months, even years this has been going on and it does appear that maybe making some progress. It will have some benefit to us. We're still evaluating that. I mean, the details aren't fully worked out and we'd have to look at it. You know our priorities in terms of, should there be some opportunities, our priorities remain the same. We would be investing in those growth drivers which have been successful for us. So far, our lifestyle brands, international and DTC would be our priorities, from an investment standpoint.

Steven E. Rendle

Senior Vice President-American Region

A

And we do that because that's in the best interest of our shareholders long term. So...

Laurent Vasilescu

Macquarie Capital (USA), Inc.

Okay, great. Best of luck.

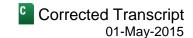
Steven E. Rendle

Α

Senior Vice President-American Region

Thank you.

Operator: And we'll take our next question from Omar Saad from Evercore ISI.



Omar Saad Evercore ISI	Q
Thanks, good morning, everyone.	
Eric C. Wiseman Chairman, President & Chief Executive Officer	A
Hey, Omar.	
Scott A. Roe Chief Financial Officer & Vice President	A
Hey, Omar.	
Omar Saad	Q

Outdoor Action Sports, it's been such a big segment of the business for so long. It seemed like it's slowed this quarter even. I know the reported number is not indicative of the underlying growth, but still seem to decelerate a little bit, it's priced lower than it's been in a while. Are there timing issues going on there? And you also sound really confident about the outlook for that business for the rest of the year, and North Face, for example, the retail reported numbers looked really good in the quarter. Help me understand some of the dynamics going on in this quarter, if there's anything to call out?

### Steven E. Rendle

Senior Vice President-American Region

Yeah, Omar, this is Steve. I'll take that, and perhaps K.H. might want to fill in from an international standpoint. So, we absolutely remain very confident in our Outdoor & Action Sports businesses. And I think the effect that you see in Q1 that we didn't detail necessarily in our remarks was that impact of the 53rd week, to specifically The North Face and Timberland, two big drivers was equal to 3 percentage points of growth. So if we would've put that to each one of those brands, North Face would've been at 10% and Timberland would've moved into the low teens.

Kind of factoring that and understanding that we had that in our plans, we saw that coming continues to give us confidence in the guidance that we gave last quarter.

#### Karl Heinz Salzburger

Vice President, VF Corporation and Group President, International

Yeah, Omar, there's not too much to add on the international side. It's a similar picture. Starting with Asia, you heard us, we're doing really well in Asia. We expect nice growth in most of the Asian markets on the large brands and similar picture in Europe. We still – the guidance we gave for Europe is to grow high single digits. So there were some issues by quarter but the full year outlook is really good.

#### Eric C. Wiseman

Chairman, President & Chief Executive Officer

And Omar, it's Eric. I'll finish that comment. Steve mentioned the 53rd week switch that we had cost Timberland and The North Face 3 percentage points of growth, which is true. For the Global Outdoor and the Action Sports coalition, it cost us 2%. So what we reported – what we talked about as 10% as our constant currency number would have been a 12%.

#### **Omar Saad**

Evercore ISI

Gotcha, gotcha. And then, I think you called out Kipling and Napapijri a quarter or two ago as the potential next billion dollars brand. Any updates there?

#### Karl Heinz Salzburger

Vice President, VF Corporation and Group President, International

Maybe I take this. Karl Heinz here. Starting with Kipling, you heard us saying Kipling was the fastest growing band last year and two years ago and based on the outlook we have this year, it would be at the fastest growing brand again for the third year in a row. So it's good. You know we had a good quarter. We don't release those numbers, but we had a good quarter in all three areas. I guess that's the good news in the US, in Europe and in Asia and in several channels in wholesale and DTC. Napa is a similar picture, Napa is predominantly Europe, we see a good year for Napa and up high single digit. So, yes, the smaller brands are growing, especially Kipling is becoming a meaningful business for us.

#### **Omar Saad**

Evercore ISI

All right. Then maybe one last question for Eric and Scott. The acquisition environment kind of remained a little bit stuck and the willingness to sell isn't there. Can you talk about your willingness to pursue other strategies in terms of maybe not just capital and using debt and cash, but is there a potential to issue equity to make a bigger acquisition, maybe help loosen the wheels a little bit?

#### Steven E. Rendle

Senior Vice President-American Region

Yeah. We get that kind of discussion from lots of people when we talk with them. We are very — we continue to remain very disciplined about exploring our acquisition opportunities and creative about how we might bring one in. Of course, the good news as a shareholder is we are real disciplined about what we'll pay too. Part of it is how you pay for the other is what you pay, and we just haven't found the right combination to unlock that opportunity. And just know that we are diligent and it's something that we work on every single week and eventually we will bring something in. But nothing to report today.

Omar Saad Evercore ISI

Evercore isi

Creativity is on the table?

Steven E. Rendle
Senior Vice President-American Region

Okay. Yes it is.

**Omar Saad** 

Evercore ISI

Thanks, guys.

Steven E. Rendle

Senior Vice President-American Region

See you, Omar.

Scott H. Baxter

	•
Eric C. Wiseman Chairman, President & Chief Executive Officer	A
Thanks, Omar.	
<b>Operator</b> : We'll take our next question from Robby Olms from Bank of America Merrill Lynch.	
	Q
Hi, good morning, it's actually [indiscernible] (47:03) for Robby. Thanks for taking our questions	5.
Eric C. Wiseman Chairman, President & Chief Executive Officer	A
Okay.	
	Q
Scott, can you give an update on kind of trends in the mid tier channel for Jeanswear in the U.S.? you seen any change or improvement in the kind of low to middle income consumer in the Jeans	•

Sure, [ph] Robby (47:23), I can. We've seen very positive trends in the mid tier channel, so we've seen an uptick in our business, we're really pleased with it. The consumer is coming back to that channel for sure. I think the consumer is really dialed in to innovation in that channel, so we spend a lot of time on some innovative products, our Easy Fit, our Comfort Fit, our Modern series. Those products are really taking with the consumer very well. So really feeling bullish about that. And I think the single most important thing for us right now in the mid tier channel, is that we've introduced Wrangler to the mid tier channel very successfully. So we're rolling Wrangler out. Still has a lot of opportunity, a lot more distribution in the mid tier channel and so we've got a really powerful two brands that we're bringing to the mid tier channel in that bottoms category right now that's pretty important

Vice President, VF Corporation and Group President, Jeanswear Americas & Imagewear and South America

Yes, that's very helpful. Thank you. And then, just in terms of the really strong growth of Vans in Asia, how should we think about that growth longer term? And then can you maybe talk about how many doors you have in China now and where that could go over time?

## Karl Heinz Salzburger Vice President, VF Corporation and Group President, International

Sure, I will take this question. You heard us saying Vans had an amazing run in the last quarters in Asia. And it has become a meaningful brand for us. Now, we have declared growth, which was in the area of 50%. Will that stay? Probably hard going forward, but we are very, very confident on our long-term goals.

The good news is the brand is doing well by geography, not only in China but in Asia, all over in Asia, in the more developed countries, Korea, Japan, but also in developing markets like Malaysia or Indonesia. It's doing well by

for us. Does that answer your question?

channel. We see good comps. It's doing well in wholesale and it's doing well by category and footwear and apparel. Yes, we are very positive for the long term outlook for Vans in Asia. Now, the question on the doors, was that related to China?

Q

Yes.

#### Karl Heinz Salzburger

Vice President, VF Corporation and Group President, International

Д

Yeah, I always say, we have now – I think we have around 2,500 doors altogether on primarily five brands, which if you benchmark that with the big, big brands which are playing in Asia, they're all working around 5,000. So I think the answer is implied. We still have room to grow by adding doors over time.

Eric C. Wiseman

Chairman, President & Chief Executive Officer



Yeah, and Karl Heinz touched on this, but new markets, we launched our VF subsidiary in Korea two years ago and we launched the Vans brand there, it was our starting point. And Karl Heinz and I were actually there last month celebrating the success of that team. It is off to a fantastic start. And we think the brand has a lot of legs, particularly in the Asia Pacific region.

Great, thank you. That's very helpful.

**Operator**: And we'll take our next question from Barbara Wyckoff from CLSA.

Barbara Wyckoff Siris

CLSA Americas LLC



Hi, everyone. What percentage of Vans sales came from footwear versus apparel? And can you talk about the penetration of men's versus women's in Vans and the opportunities there? Where is the growth going to come from besides just more doors?

Steven E. Rendle



Senior Vice President-American Region

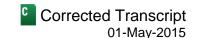
Hey, Barbara, this is Steve. From an America standpoint, the predominant percent of our growth for Q1 was footwear, though we are continuing to see expanded growth in our apparel, high teen growth this last quarter. So right in line with what we see going on with our footwear. Men's and women's, in footwear it's kind of hard to tell because many of our styles are unisex. But if we were to try to overlay, we're probably about a 60/40 men's to women's, if we were to try to capture the meaning of that unisex sizing.

And where will the growth come in the future? We have a tremendous amount of opportunity here in the North American market. You've heard us talk about our expansion strategy as we move geographically with our stores that help to supercharge our wholesale distribution. The brand is moving into athletic. We opened up with Dick's Sporting Goods this quarter in a significant number of doors and in a new initiative that they have, and we are continuing to work with our partners at Foot Locker to expand the growth there. So a lot of opportunity here in

the United States, Canada. Our Mexico business is extremely strong and at the front end of its growth and we are just beginning to convert distributors in South America. It will give us a tremendous amount of upside in those developed markets there as well.

## Karl Heinz Salzburger Vice President, VF Corporation and Group President, International And Barbara, a similar picture for us on the international side. You heard Eric saying before, we have it by geography. We just opened a subsidiary in Korea where Vans is doing extremely well and it started two years ago - a long, long way to go. We still have the South Asian markets, which we just started. We also have distributors there which one day we probably can convert. So geography for sure. The other one is category, a similar picture for us. Apparel is small but it is growing faster than footwear, so that's a big expansion. And then the other one is our DTC leg eCom is doing well and stores. So it's [ph] pretty articulated (52:42) way going forward. Barbara Wyckoff Siris CLSA Americas LLC Thank you. Eric C. Wiseman Chairman, President & Chief Executive Officer Thanks, Barbara. **Operator**: And we'll take our next question from Lindsay Drucker Mann from Goldman Sachs. Lindsay Drucker Mann Goldman Sachs & Co. Thanks, good morning, everyone. Eric C. Wiseman Chairman, President & Chief Executive Officer Good morning. Scott A. Roe Chief Financial Officer & Vice President Good morning. Lindsay Drucker Mann Goldman Sachs & Co. I wanted to ask about Outdoor & Action margins in the quarter. Margins came under pressure. It would make sense that if you were trading the week -- 53rd week and you had less productive weeks so maybe you would have delevered on some of the fixed costs, but you guys also mentioned some demand creation expense in the quarter. So I just wanted to get your view on how we should think of Outdoor & Action margins across the full year and maybe some perspective on what drove the compression in 1Q? Eric C. Wiseman

Chairman, President & Chief Executive Officer



Yes, so as I mentioned in my comments, Lindsay, this was a particularly big international quarter and also the delta on currency, we had a \$1.37 average a year ago versus \$1.12 in the first quarter. The combination of those two things put a lot of currency pressure on Outdoors margin in the first quarter. It was about 80 basis points. And again, you said it in your question also those sales that Steve mentioned on the 53rd week, those are profitable sales.

So really those are the two largest factors that impacted the quarter, but now when we zoom out and look at the full year, we see kind of the normalizing the margins and we see expansion – Outdoor & Action Sports margins will grow faster than revenue for the full year.

Lindsay Drucker Mann
Goldman Sachs & Co.

The demand creation expense was that sort of – was the call out because it was timing that was particularly 1Q weighted? Or is there an incremental step up versus what you were expecting?

Scott A. Roe
Chief Financial Officer & Vice President

Yeah, we continue to invest in demand creation, it's roughly growing with sales. So, wasn't a big factor in the quarter and that would be true for the year.

Lindsay Drucker Mann
Goldman Sachs & Co.

Got it.

Eric C. Wiseman
Chairman, President & Chief Executive Officer

Just real quick, Lindsay. Just where we put those dollars here in the Americas was first in Q1 around the FuseForm launch and really driving that story to support the placement. And as well, as I mentioned in my remarks, we're putting significant effort behind Mountain Athletics as we look to expand The North Face into more of a 12-month out of the year brand and really help drive that shift in outdoor towards the outdoor athletic space that we have been talking about over the last couple years.

Lindsay Drucker Mann
Goldman Sachs & Co.

Great. That makes sense. And then, Karl Heinz, I wanted to ask about Europe. On a organic basis, we were a little surprised to see the sequential deceleration in the first quarter versus the run rate you've had for the last few quarters, especially because it feels like the economy is getting better there. I was just hoping you could shed some light on if there was anything in particular that happened in the quarter, if you're looking for a reacceleration across the back half of the year? Thanks.

Karl Heinz Salzburger
Vice President, VF Corporation and Group President, International

Yeah, I guess you heard us saying we are — the full year outlook is intact. So the good news is we have seen no changes in our potential for the full year. We have some issues sometimes in the quarter, but no, the answer is we are pretty confident. We have seen no signals which would change our mind for the full year, goals which we have given. And this is true for the large brands, but also for the smaller brands which I commented before.

## Eric C. Wiseman Chairman, President & Chief Executive Officer And just to add to that, Steve mentioned the 53rd week impact, which would also be a factor in Europe as well... Karl Heinz Salzburger Vice President, VF Corporation and Group President, International True. Eric C. Wiseman Chairman, President & Chief Executive Officer ...which would hold down your growth rates a little bit in the first quarter. We still see high single digit for the year and there's no change in the overall. Scott A. Roe Chief Financial Officer & Vice President The first quarter came in as we expected. Lindsay Drucker Mann Goldman Sachs & Co. Got it. Thanks, guys. Eric C. Wiseman Chairman, President & Chief Executive Officer Thanks. **Operator**: And we'll go now to Chris Svezia with Susquehanna Group. Chris Svezia Susquehanna Financial Group LLLP Thank you, everyone. Thanks for taking my questions. Congrats, I guess, Steve, for you, just on Timberland for a sec. The growth in Americas, 30% wholesale growth, I just wonder if maybe you can talk about - I know you

Thank you, everyone. Thanks for taking my questions. Congrats. I guess, Steve, for you, just on Timberland for a sec. The growth in Americas, 30% wholesale growth, I just wonder if maybe you can talk about – I know you mentioned women's, you mentioned the PRO line. But, just a little color maybe on – anything on distribution or pricing, and maybe how we think about that momentum for the balance of the year. Just a little more color about that business, please.

#### Steven E. Rendle

Senior Vice President-American Region

Sure. Well, I know we've been very bullish for the last umpteen quarters about the growth of Timberland, and I think you can probably hear that in our comments today. It is broad based. We are seeing success across all of our collections. Certainly driven from the heritage of the boot, but absolutely moving into casual silhouettes, both spring and fall. We're seeing it across all channels, our own DTC, as well as wholesale, and across wholesale, the various points that we come to sell in. And we're seeing it in men's and women's, as well as youth.

I think it's really safe to say that this brand and our leaders there have really embraced the information that they've taken out of our consumer research, applied it to their product strategy. That's a global comment and we really have understood how to bring our brand to life to our consumer, delivering content to where they are. We see just continued growth, we're very bullish, and just see great upside not just in our footwear, but also in our PRO workwear business and as well as apparel.

Chris Svezia

Susquehanna Financial Group LLLP

Okay. Any color, Steve, at all on how apparel's been doing for you? What some of the learnings, just some of the data points that you're seeing here?

Steven E. Rendle

Senior Vice President-American Region

Sure. Yes, apparel we are learning. That's a really good word to use. I think we've been clear, we've started slow and we are incrementally increasing doors with the partners that we've launched with. And each year or each season, we continue to see good growth. We're seeing rates – weekly sell through rates here in the U.S. market in the high single digit rate, that's good from a retail sell point. And that's helping us gain confidence to expand our collection, expand our doors and really move towards that long term projection. Apparel is much larger on an international standpoint, with our largest penetration in Europe, but also significant growth and opportunity in Asia.

Chris Svezia

Susquehanna Financial Group LLLP

Okay, thank you. And then, Scott, real quick for you, just on the inventory growth, just maybe how we think about that throughout the balance of the year. Does that start to trend more in line with sales or reported sales in the back half of the year? Just a little color there, please.

Scott A. Roe

Chief Financial Officer & Vice President

Sure, yeah. I mean, we don't give quarterly outlooks, but I would say for the year, when you look at our cash flow and our balance sheet projections, we see no issue with inventory. We're really confident that the quality is there and we're not concerned about the inventory.

Chris Svezia

Susquehanna Financial Group LLLP

Okay. Thank you. All the best to you guys. Thanks.

Scott A. Roe

Chief Financial Officer & Vice President

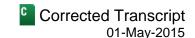
Thank you.

**Operator:** And we'll take a question now from Matt McClintock from Barclays.

Matthew J. McClintock

Barclays Capital, Inc.

Hi. Yes, good morning, everybody. I just wanted to ask a question on eCommerce. Could you just give us some color on how the eCommerce businesses for your various brands are performing? I know you had a bunch of digital platform launches and relaunches over the last year or so. How has that impacted those businesses and



how should we think about the performance, the eCommerce performance of those businesses as you start to compare against those platform relaunches? Thank you.

Eric C. Wiseman

Chairman, President & Chief Executive Officer

A

Let me make an opening comment on that and then I'll hand it over to Steve and Karl Heinz. Some context, Matt. In 2007, no, I know I just went way back in history, but I happen to know the numbers so I'll do that. Our global eCommerce business across all brands was \$7 million. So we have been working hard since that time to try to put in place eCom platforms around the world that make sense and we are – when I look at that as part of our future growth, I look at it as being one of the largest sources of our future growth, because of how underdeveloped we are, versus all of the other levers we have to pull.

And as you would expect, while we're building these sites, brand by brand in country by country, we're focused most on our biggest brands. And we have a lot of brands to add and a lot of countries to add and a lot more to do. And with that, I'll turn it over to Steve and let you weigh in on this.

Steven E. Rendle

Senior Vice President-American Region

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I mean, eCommerce to Eric's point is really new as one of the tools and it was North Face that has led VF into really understanding how to really bring our brands to life digitally. Year-to-date, our eCommerce business is about 18% of our DTC. We have — we talked a lot about our new platform that Vans came live on last year, and we saw a great acceleration through the second half of the year, and that absolutely continues to be the case here this year.

Timberland has just launched in April, North Face and Jan Sport are going live today. And following them will be our Wrangler and Lee businesses, our Lucy, Reef and SmartWool towards the back half of the year.

So we are really happy with our website. It's an adaptive responsive website, and I don't want to get too geeky here but our brands have rich, rich content and we've developed a platform that marries content with product, helps us tell very, very strong stories connected with our products, which drive conversion and ultimately help drive sales. It's also a site that's very easy to adapt content to mobile, as we see our consumers shift to accessing our sites from their mobile devices.

Matthew J. McClintock

Barclays Capital, Inc.

Thank you very much.

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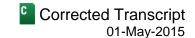
Vice President-Investor Relations

Thank you and operator that will conclude our remarks today. I think Eric might have a couple of words and we'll close the call.

Operator: Yes, sir.

Eric C. Wiseman

Chairman, President & Chief Executive Officer



I will just thank all of you for spending your morning with us, talking about the current status and future of our company. As I said in my comments, we are confident about where we are this year. I think I also mentioned that we are heads down ensuring that we deliver the results that we promised for this year and the last comment I'll make is a special shout out to Bob Shearer. We know you're listening.

#### Scott A. Roe

Chief Financial Officer & Vice President

Bob, give me a call and let me know what it's like on the other side of this line.

#### Eric C. Wiseman

Chairman, President & Chief Executive Officer

Thanks, everybody. See you in 90 days. Bye-bye.

**Operator**: Ladies and gentlemen, this does conclude today's conference and we thank you for your participation.

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