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VF Corp. (VFC)

Q4 2015 Earnings Call

CORPORATE PARTICIPANTS

Lance Allega
Vice President-Investor Relations

Eric C. Wiseman
Chairman & Chief Executive Officer

Steven E. Rendle
President, Chief Operating Officer & Director

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

Scott H. Baxter
Vice President, VF Corporation & Group President, Jeanswear, Imagewear and South America

Scott A. Roe
Chief Financial Officer & Vice President

OTHER PARTICIPANTS

Omar Saad
Evercore ISI

Bob S. Drbul
Nomura Securities International, Inc.

Laurent Vasilescu
Macquarie Capital (USA), Inc.

Matthew Robert Boss
JPMorgan Securities LLC

Kate McShane
Citigroup Global Markets, Inc. (Broker)

Dana L. Telsey
Telsey Advisory Group LLC

Edward J. Yruma
KeyBanc Capital Markets, Inc.

David Weiner
Deutsche Bank Securities, Inc.

Lindsay Drucker Mann
Goldman Sachs & Co.

Erinn E. Murphy
Piper Jaffray & Co (Broker)

Robert F. Ohmes
Bank of America Merrill Lynch

MANAGEMENT DISCUSSION SECTION

Operator: Good day and welcome to the VF Corporation Fourth 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 IR. Please go ahead.

Lance Allega

Vice President-Investor Relations

Thank you, operator, and good morning, everyone. Thanks for joining us today to discuss VF's Fourth Quarter 2015 Results.

I'd like to remind everyone that participants on the call will make forward-looking statements. These statements are based on current expectations and are subject to certain risks and uncertainties that could cause actual results to differ materially. These risks and uncertainties are detailed in documents filed regularly with the SEC.

I'd also like to remind everyone that unless otherwise noted, amounts that our participants refer to on today's call will predominantly be in currency-neutral terms. By our definition, which is detailed in our press release issued at 6:55 AM 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 to U.S. GAAP and include translation and 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 businesses and brands. Reconciliations of GAAP measures to currency-neutral amounts can be found in the supplemental financial information included with the press release, which identify and quantify all excluded items.

Joining us on today's call will be VF's Chairman and CEO, Eric Wiseman; President and COO, Steve Rendle; our CFO, Scott Roe; and VF Executives, Karl Heinz Salzburger and Scott Baxter.

Following our prepared remarks, we'll open the call for questions and ask that you please limit yourself to two questions per caller. Thanks.

Eric?

Eric C. Wiseman

Chairman & Chief Executive Officer

Thank you, Lance. Good morning, everyone, and thank you for joining us to recap the year recently completed and our outlook for 2016.

2015 was a strong year for VF's businesses around the world. You will recall that our original outlook for the year called for currency-neutral revenue growth of 8% and earnings growth of 12%, and through the first nine months we tracked ahead of that goal with top line growth of 9% and earnings up 15%.

Then, during our call in October we spoke about a more cautious approach to the balance of the year, including a softer consumer environment, and appropriately we adjusted our outlook for the year.

Our fundamental assumptions proved to be accurate. However, the consumer softness accelerated and was compounded by the warmest fourth quarter on record. As the quarter developed, we took immediate action to leverage the many strengths of our business model and pulled many operational levers to minimize the impact, manage the inventories and maintain brand integrity during a difficult retail period.

Our fourth quarter results did not materialize as we originally planned. However, our responsiveness and operational agility allowed us to finish out the year in a way that's consistent with our 2017 goals.

Currency-neutral revenue was up 6% and EPS was up 12%. And when you normalize for the 53rd week over the past two years, both 2015 and 2014 averaged 7% revenue growth and 13% EPS growth. So while we were a point shy on the top line, we were right on for the bottom line against our 2017 plans for these two years.

As we close out 2015, I have a renewed sense of resolve and respect for how nimble and capable our company really is and I have complete confidence in our ability to drive future growth and shareholder returns.

As consumers' priorities continue to change, we're right there with them, strategically analyzing their shopping behavior, their preferences and the way they interact with our brands. Whether that's in our stores or online or through our wholesale partners, they're demanding more from the products they buy; more engagement and more authenticity from the brands they choose to develop relationships with and the ability to show up whenever and however they choose to shop. I'm confident that VF is uniquely positioned to win in this environment.

So, what's in store for 2016? We expect the retail and currency environments to remain challenging mostly in the first half as last year's overhang works through the system before conditions normalize in our most meaningful quarters of the year. Throughout 2016, we will seize the opportunity to stay on the offense and we will remain focused on the things that keep us healthy in 2016 and beyond, such as: we're making outsized investments in product innovation to drive newness and excitement into the marketplace, we're building even stronger relationships with our consumers, we're strengthening our operational capabilities and delivering appropriate financial performance while positioning VF for sustainable profitable growth over the long term.

Our team will go deeper into the details in a moment, but translating all of that into our 2016 financial outlook, we expect mid-single digit revenue growth and 11% EPS growth. Given our incomplete visibility into the year, especially around our cold weather-related products, we believe this is a sensible reflection on the current and going-forward environment.

As I think more about our future, I think about VF's strengths and how they've enabled us to develop a respected track record of success with brands that we've added to our portfolio. Strategically, we've described ourselves as active portfolio managers. While I can't be specific, I can tell you that in 2016 we're taking an especially focused and proactive look towards the composition of our portfolio to ensure that we are optimally positioned to maximize growth and returns to our shareholders.

We are actively exploring the segments of the business we want to expand our portfolio in and we're exploring where we might want less exposure. We will certainly talk more about this in the future and keep you posted as those plans unfold.

As you know, we have a long history of returning cash to our shareholders. In 2016, we'll continue this commitment because a softer environment shouldn't mean shareholders have to sit on the sidelines. We've got a healthy increase in our share buyback to about $1 billion, and with our dividend payout we expect to return $1.5 billion in total this year.

Now, allow me to pre-answer one of your almost certain questions. With respect to potential portfolio composition, share buyback is an and conversation, not an or conversation, meaning there's no impact to our ability to pursue acquisitions that are right for VF.

In closing, our business model remains solid and intact. Nothing is fundamentally different with our story. We're committed to our strategy and it's working. VF is well-equipped to navigate through these near-term challenges, and our strength and discipline lead us to maintain our commitment to returning shareholder value. I am extremely proud of the work our team is doing and I'm excited about what lies ahead.

And with that, I'll turn the call over to Steve, Karl Heinz and Scott Baxter to take us through our coalition of brand results, and then over to Scott Roe to review our financial performance. Steve?

Steven E. Rendle

President, Chief Operating Officer & Director

Thanks, Eric. Outdoor & Action Sports' currency-neutral revenue was up 1% in the fourth quarter, with a mid-single digit increase in D2C offset by a decline in wholesale. As you know, we were up against a 53rd week at the end of 2014, so normalizing for that over both periods the coalition was up 5% in the quarter. Clearly contributing to these results was the warmest fourth quarter on record, yet I'm proud to say that we came through relatively strong given the challenges.

Taking a look at VF's three largest brands, fourth quarter revenue for The North Face was down 2%, with low-single digit growth in D2C offset by a mid-single digit decline in wholesale. Excluding FX and the 53rd week, revenue in the quarter was up 1% over last year.

Revenue in the Americas region was down at a low-single digit rate, a result directly related to warm weather. And while heavier outerwear styles did not perform to expectations, we did see success with shells and midweight styles, validating our strategy to provide more adaptable, multi-season product.

ThermoBall is a great example of this and a franchise that continued its strong growth. ThermoBall is the best-selling outerwear franchise in the U.S. market across all brands over the past two years. This was bolstered by a new product-specific ad campaign launched in November.

We also relaunched our pinnacle Summit Series Collection globally, offering best mountaineering product and pushing the limits of product innovation and technology.

Beyond outerwear, we saw great performance in our running and training apparel driven by Mountain Athletics growing more than 40%. Our continued efforts to connect even more deeply with consumers through inspired exploration, including physical, emotional and creative pursuits, has never been more strategic.

Our Never Stop Exploring brand campaign, which we launched in Q4, was our first expansive view of exploration and our first truly global brand effort. And with over 1 billion impressions, we're really pleased with the results and confident it connected with and inspired adventurers everywhere.

As we look ahead, The North Face will continue to encourage consumers to explore, train and live, and we have a great pipeline of innovative product that will help them do just that.

Now to Karl Heinz.

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

Thank you, Steve, and good morning, everyone. The North Face European business was down at a mid-single digit rate, with low-teen D2C growth being offset by a decline in the wholesale business. We saw strength in our ThermoBall and Mountain Athletics collection during the quarter as well as our Ultra footwear line.

We also launched a new store concept on Regent Street in London, which allows athletes to train together in weekly sessions. We have seen great response so far.

For the full year, The North Face in Europe grew faster than the overall outdoor apparel market. It was challenged by unseasonably warm weather in November and December, and even so our own DTC business grew 25%.

Across the year, we put a lot of focus on elevating our brand position in the market by carefully managing inventories. We also made meaningful steps in terms of segmenting the European marketplace from a merchandising perspective. We feel well-positioned for accelerated growth in 2016.

In Asia, fourth quarter revenue increased at a low-single digit rate driven by slight growth in D2C and a relatively flat wholesale business. During the quarter, we launched the FuseForm product for the first time, with great response. We also hosted the TNF Outdoor Festival in Shanghai Century Park, which had more than 4,000 visitors during the course of the weekend.

Steven E. Rendle
President, Chief Operating Officer & Director

To wrap up The North Face, revenues for the year were up 5% globally in 2015 to $2.3 billion, or up 6% excluding FX and the 53rd week. And while we're off our long-term growth target this year, our fourth quarter performance does give me confidence that this brand is built to perform in many environments, is strong and opportunistically has many competitive advantages in play.

Given the current environment, as we look at 2016 we see the year ahead as an opportunity to evolve and amplify The North Face brand both on a strategic and tactical level. We've realigned our global category management model to better focus on individual consumer usage occasions. This enabled us to deliver even stronger product and brand experiences to connect and inspire new and existing consumers in ways never done before.

For the full year, we expect The North Face to grow revenue at a mid-single digit rate, so similar to 2015. This early outlook based on fourth quarter results and our fall selling process is an accurate reflection of what we see ahead.

Turning to Vans. Global revenue was up 8% in the fourth quarter with a low-double digit increase in D2C and a low-single digit increase in the wholesale business. Excluding FX and the 53rd week, the fourth quarter was up

13%. In the Americas, the fourth quarter was up in a mid-single digit rate, again, impacted by the 53rd week, with double-digit D2C growth and a slight decline in wholesale.

On the product front, we continue to see success with our strategic move toward providing a complete four season offering. As evidence, our all-weather Mountain Edition Footwear styles were all top sellers and we've already seen significant sell-in for 2016 for these styles as well.

We're also seeing success with our Mountain Edition weatherized apparel, further extending our brand beyond footwear. And our collaborations, including one with Vans and The North Face, are reinforcing our commitment to blending street style and performance in innovative products and really showing the consumer the strength of the VF portfolio.

True to our Off the Wall culture, we continue to redefine new ways to connect with our consumers. During the fourth quarter, our PROPELLER skateboarding film saw great success and was one of iTunes top 10 documentaries of the year, not to mention TransWorld SKATEboarding's film of the year.

Vans was also recently named the number one sneaker brand on Instagram, our young consumers' number one social platform. These are great wins for the brand and great testament to keeping our core consumer at the center of everything we do.

Karl Heinz Salzburger

Vice President, VF Corporation & Group President, International

In Europe, Vans revenue was up at a high-single digit rate, with growth in both D2C and wholesale. During the quarter, we had several strong collaborations worth highlighting. Our second collaboration with Disney was really well received by consumers across footwear, apparel and accessories. The Vans-TNF product sold out in a number of places across Europe, and the Vans Van Doren Collection helped elevate our weatherized offering with great success.

In our Core Classics Collection, we have seen higher-than-normal inventory levels. And even though we are performing better than our competition in this category, we do anticipate a more challenging sales environment in 2016 as this product works through the channel.

The good news is that our brand health metrics have never been as strong and our other product categories are selling through extremely well.

In Asia, Vans grew more than 20%, driven by almost 40% D2C growth and a high-teen increase in our wholesale business. Our House of Vans brand experience proved to be incredible for both the brand and our consumers. We took this experience on tour to 14 cities throughout the year and connected with thousands of fans.

We also launched our MONKEY RULES campaign for the Chinese New Year and the response shows that this is a winner.

Steven E. Rendle

President, Chief Operating Officer & Director

In 2015, Vans revenue was up 14% globally to reach $2.2 billion, or up 16% excluding FX and the 53rd week. Looking at 2016, we'll be focused on continuing to expand the brand's relevance, updating classic silhouettes, and introducing new styles and collections for the ever-changing global consumer.

Also, Vans will celebrate its 50th anniversary in 2016. We definitely have unique products and experiences planned to keep consumers engaged and connected as we celebrate our authentic heritage.

Regionally in 2016, we're expecting continued strength with double-digit growth in both the Americas and Asia businesses, which represent about 75% of the total. However, due to the factors KH spoke about, revenues could be down slightly in Europe.

Our 26 (sic) [2016] (15:31) growth expectation for Vans globally looks to be up in the high-single digit range.

Now on to Timberland, where global revenues were up 1% on a currency-neutral basis, with slight growth in D2C partially offset by relatively flat wholesale sales. Excluding FX and the 53rd week, fourth quarter revenue was up 5%. Similar to The North Face, Timberland was impacted by warm weather in the fourth quarter too.

In the Americas, revenue was down in a low-single digit rate, and of course we're comping against the 53rd week so normalized rates are higher. Strategically, we continue to see great response to our efforts to evolve the perception of our outdoor lifestyle positioning.

Looking at product, boots were a strong performer during the quarter, led by both Classics and women silhouettes. In fact, boots were strong across men's, women's and kids. And beyond just boots, we're continuing to gain traction in some of our more casual styles such as our men's Britton Hill Collection, which had tremendous sell-through in our D2C channel. And in fact, the advertised style completely sold out, so clearly great momentum there.

We've also made significant progress in the women's business, especially in North America, and created a new generation of brand loyalists who love the style, fit and craftsmanship of the Amston and the Glancy. Early days but super promising and much more coming.

On the marketing front, we continue to connect with the outdoor lifestyler consumer. During the quarter, our Made For The Modern Trail campaign came to life across print, digital and social media, driving awareness for our Black Forest Collection. All in, our consumer impressions were up 50% at $1.25 billion over last year.

The PRO Boondock and Powertrain collections saw nice growth in the quarter, and it's clear that we're meeting consumers' needs for footwear that helps them get the job done. The PRO platform continues to be a great living laboratory for learning, testing and introducing new comfort and durability innovations that are very easily translated back into our casual, lifestyle product.

Karl Heinz Salzburger

Vice President, VF Corporation & Group President, International

Timberland European fourth quarter revenue was up at mid-single digit rate, driven by strength in our D2C business, another solid performance during the year that we grew faster than the market.

In terms of product, SensorFlex and sneakers continue to perform very well in men's casual footwear, and we saw growth in men's outerwear as well. In women's, our classic boots also saw strong results.

On the marketing side, our Black Forest campaign was our most successful promotion in this region ever. This 360 degree effort enabled us to integrate classic and digital marketing efforts. It also allowed us to team up with our wholesale partners, giving us very visible and unique consumer touch points.

Turning to Asia, revenues were down slightly, impacted by softer traffic in Hong Kong and Singapore specifically. And despite unusually warm weather for the region, we were encouraged by the strength of our lightweight outerwear which grew double-digits.

On the footwear side, we saw positive results with boots leading the way, growing at high-teen rate. And similar to Europe, our Black Forest campaign was very successful, driving high levels of interest in the brand.

Steven E. Rendle

President, Chief Operating Officer & Director

In 2015, Timberland revenues were up 10% globally to $1.8 billion, or up 12% excluding FX and the 53rd week. That's great momentum in the Timberland business. And as we look out at 2016, our strategic priorities focus on continuing to elevate style and innovation in product, continued thoughtful expansion of distribution without – with existing and new customers, as well as our own D2C, and connecting product, experience and lifestyle stories with our global outdoor lifestyle consumer. Based on our fall booking, which is impacted by similar factors at The North Face, we expect Timberland to grow revenue at a high-single digit rate in 2016.

Now let's shift gears to Jeanswear. Scott?

Scott H. Baxter

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

Thanks, Steve, and good morning, everyone. In the fourth quarter, our global Jeanswear business was up 1% on a currency neutral basis driven by mid-single digit growth in the Lee business and a slight decline in Wrangler. Excluding FX and the 53rd week, Jeanswear was up 6% in the fourth quarter.

In the Americas region, Jeanswear revenue was flat in the quarter. A low single-digit increase in Lee revenue was offset by a low single-digit decline in Wrangler revenue. At Wrangler, our Mass business showed solid growth with a mid-single digit increase in revenues. This was more than offset by declines in the brand's Western Specialty business where the regions challenged by the contraction in oil and gas exploration are hardest hit.

From a product perspective, we're successfully expanding the Advanced Comfort line into casuals and warmer-weather product. Additionally, we're working to address the needs of everyday consumers as the outdoor and active categories converge with outdoor-inspired casual solutions and versatile fabrics and functional design aesthetics. We also had a very strong launch of our Cool Vantage product in our Western platform. We do expect the positive momentum that Wrangler realized in 2015 to continue into 2016 as we introduce new products with innovative fabrics that satisfy unmet consumer needs.

On to Lee. We once again saw growth in this business during the quarter, with the Americas growing in the low-single digits. We're seeing strong response for both male and female consumers to our new performance fabrications, and are excited to introduce even more advanced fabrication offerings in the coming year, including improved breathability and comfort innovations. We have also made great strides as we work to enhance our presence in department stores, clubs and e-commerce. And we are pleased to have grown nicely in 2015. In 2016, we will build on this momentum as we continue to expand our distribution footprint and introduce new product assortments.

Karl Heinz?

Karl Heinz Salzburger

Vice President, VF Corporation & Group President, International

In Europe, currency neutral revenue for the Jeanswear coalition was up at low-single digit rate. The Wrangler revenues were down slightly in the quarter, with strength in our e-commerce and D2C business offset by declines in our wholesale business. During the quarter, we successfully launched new styles in our Body Bespoke collection and the response has been very positive. We look forward to expanding this collection even more broadly this year.

Lee's European business marked its eleventh consecutive quarter of revenue growth, with the business up at the mid-single digit rate. New products including the skinny and bootcut jeans for women, and the Malone jeans for men, drove our growth in the quarter.

In Asia, despite uncertain economic conditions, our Lee business had another solid quarter, with revenue up at the low-double digit rate and very strong profit growth. We are truly becoming a leader in the premium denim segment in Asia driven by our innovations such as our Jade Fusion line and meaningful consumer activations throughout the region. And it's not just consumers who have responded well to this product. We learned that Lee's Jade Fusion has been nominated for an Edison Award, which honors the best innovations as voted by industry peers.

In summary, we continue to see consistent momentum in our global Jeanswear business and expect to achieve mid-single digit growth once again in 2016.

Now to Imagewear.

Scott H. Baxter

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

Fourth quarter Imagewear revenue was down 12% with slight growth in the Licensed Sports Group business, being offset by a more than 20% decline in the workwear business. Excluding FX and the 53rd week, our Imagewear coalition was down 7%. In LSG, our Major League Baseball Cool Base jersey saw sustained momentum in the fourth quarter and finished the year strong. Our street fleece baseball product, which launched during the postseason, also had strong results during the quarter. In 2016, we'll be introducing a new patented flex-based, on-field uniform, which we expect will continue to create healthy demand in this category.

On the workwear side, our Red Kap Shop Gear collection delivered strong results, posting the sixth year of more than 30% growth. And while our Bulwark line remained very challenged by slower oil and gas exploration, we did see some bright spots, particularly in the iQ knits and woven products. Given the continued softness on the workwear side of the business, we're expecting the Imagewear coalition to grow at a low single-digit rate in 2016.

Steve?

Steven E. Rendle

President, Chief Operating Officer & Director

Our Sportswear business was down 9% in the quarter. If you take out FX and the 53rd week, Sportswear was down 6%. Revenue in Nautica was down low double digits due primarily to lower outlet traffic, tourism declines and record warm weather, which impacted fleece, sweaters, and outerwear purchases. In spite of this, we continue to make progress in our efforts to elevate the Nautica business and realize improved profitability in our wholesale business. In efforts to elevate the brand perception, we successfully tested a full-price pop-up shop in New York City's trendy Flatiron District and received positive consumer feedback during the holiday.

Kipling's U.S. business saw a low single-digit increase in revenues due to similar factors that impacted Nautica. Kipling's global business was up at a low double digit rate. In 2016, we're expecting a slight decline in revenue for this coalition based primarily on the strategic decision to license Nautica's sleepwear business, which will provide greater profitability in the long run, and on adjusted basis, excluding this move revenue would be up at a low single-digit rate. Revenue in the Contemporary Brands coalition declined 17% during the quarter, with weakness in both the wholesale and D2C business. Excluding FX in the 53rd week contemporary brands was down 10% in the quarter. While we are disappointed with our results in this challenging sector, we are focused on optimizing our product, consumer connections and distribution options. For 2016, we anticipate a mid-single digit decline in the Contemporary Brands coalition.

And with that, I'll turn it over to Scott for a deeper dive into our financial results.

Scott A. Roe

Chief Financial Officer & Vice President

Thanks, Steve. On today's call, you've heard recurrent themes, including things we can't impact like record warm weather, strengthening of the U.S. dollar, the 53rd week of 2014, and a softer retail environment. You've also heard us refer to things we can impact like operational and fiscal discipline, executing strategic initiatives and ultimately, how our strengths and agility give us the unique ability to deliver consistent shareholder returns in an uneven environment.

With both sides of this coin in play, let's review our fourth quarter results and I'll do my best to filter through the noise to illustrate an apples-to-apples story that tells the true performance of VF's model. Starting at the top, revenue was down 1% on a currency-neutral basis or if you normalize for the 53rd week, it was up 3%. This included relative strength in our Outdoor & Action Sports, Jeanswear, international and direct-to-consumer businesses.

Gross margin came in at 49% on a currency-neutral basis, equal to last year. Reported gross margin was down 70 basis points to 48.3%, and to walk you through the puts and takes, benefits from changes in mix and favorable product costs were more than offset by foreign currency headwinds and aggressive efforts to manage inventory among our brands with greatest exposure to cold weather. As you would expect, we responded quickly with respect to inventory, an effort that enabled us to finish the quarter with levels up just under 9%.

For context, nearly half of that 9% increase is related specifically to cold weather related product. And, it's important to note that the composition of this inventory is good, it's core product that's already slated for our fall 2016 line. So while inventory levels will remain a bit higher than we'd like for the first half of 2016, we expect them to normalize in the second half of the year.

Earlier, Steve gave a quick overview of our contemporary brands coalition. Suffice it to say that it was a disappointing year for our business, one in which we fell short of our expectations. As a result, the fair values of 7 For All Mankind, Splendid and Ella Moss brands were determined to be below their respective carrying values. Therefore, we have recorded $144 million pre-tax, non-cash impairment charge in the fourth quarter to reduce the carrying value of intangible assets of these brands. After tax, this was a $97 million charge or $0.23 of diluted EPS.

Adjusted SG&A, that is, excluding the impairment charge, was down 40 basis points in the quarter, demonstrating our disciplined approach to offsetting continued investments in D2C, demand creation and innovation, with operating leverage and expense control. Excluding the impairment charge, adjusted operating income was down 6%, and adjusted operating margin was 15.8% compared with 16.2% in the fourth quarter of 2014. On a reported basis, operating income was 11.6% compared to 5.1% last year.

And finally, adjusted EPS for the fourth quarter was $0.95 compared to $0.98 in the same period of 2015. Adjusted currency neutral EPS was up 5%, and if you exclude FX and the 53rd week, fourth quarter adjusted EPS was up 12%. On a GAAP basis, earnings per share was $0.72, up significantly over last year's fourth quarter.

Turning now to the full year. 2015 revenue grew 6% on a currency neutral basis. Excluding the 53rd week, revenue increased 7%. Highlights included 9% growth in both our Outdoor & Action Sports and international businesses, and 7% growth in our direct-to-consumer business, which comped positively for the full year. Apples-to-apples, Outdoor & Action Sports and D2C were up 11% year-over-year.

We also benefited from improved performance in our Jeanswear coalition, which, although it carries lower gross margins than VF's average, it's still our most profitable coalition.

Gross margin was down 0.5 point to 48.3%. To walk you through the full year factors, our mix benefit was present but slightly less than that about 50 basis points we typically see due to improved Jeanswear performance and softer than expected D2C results. And while we did see the expected tailwind from lower product costs, our aggressive management of inventory offset this benefit. So that leaves us with FX, which negatively impacted our gross margin by 80 basis points.

SG&A for the year, as a percentage of total revenue, was down 10 basis points due to the same discipline we exhibited in the fourth quarter. That is, offsetting investments in our fastest-growing businesses and strategic priorities by maintaining strong cost controls across other areas in the organization. Excluding the impairment charge, adjusted currency neutral operating income was unchanged at $1.8 billion, and operating margin was 14.6% in 2015 compared with 14.9% in the prior year. Taking into account the 70-basis-point foreign currency hit, we achieved an operating margin of 15.3% in spite of top line pressure.

On a reported basis, full year operating income was $1.7 billion in 2015, and operating margin was 13.4% compared with 11.7% in 2014. So that brings us to a full year adjusted EPS, which was $3.08, in line with 2014's result. On a currency neutral basis, EPS was up 12%. Now, at the end of year three of our five-year plan, we've averaged 13% EPS growth annually, which is right in line with our long-term guidance. On a GAAP basis, full year EPS was up 20% to $2.85.

We ended the year with a strong balance sheet and a capital structure that continues to afford us great flexibility. In 2015, we generated $1.1 billion in cash from operations and returned nearly $1.3 billion to shareholders through dividends and share repurchases.

Turning now to 2016. While we do expect some challenges to continue in the near-term, we remain as confident as ever in our ability to deliver long-term profitable growth and returns to our shareholders, and here's why. Our portfolio of brands with its diversity of consumer, geography and channel is supported by a deep arsenal of P&L levers including strategic investments, focused operational discipline and a world-class supply chain, all of which deliver superior cash flow. Working in concert, these strengths will allow us the flexibility necessary to emerge even stronger coming out of 2016.

We expect revenue in 2016 to grow at a mid-single digit percentage rate, including about a 1% impact from a stronger U.S. dollar. On both a reported and currency neutral basis, our plans include growth in every region, as well as in our wholesale and D2C channels. By coalition, revenue for Outdoor & Action Sports is expected to increase at a high single digit rate, with similar increases for Vans and Timberland, and mid-single digit growth for The North Face brand. In Jeanswear, we expect the momentum to continue with mid-single digit revenue growth. And to round it out, we're expecting low single-digit growth for Imagewear, a slight decline in Sportswear and mid-single digit decline in Contemporary Brands business.

We expect momentum in the international and direct-to-consumer business to continue in 2016. International revenue is expected to be up at a high single digit rate on a currency neutral basis or mid-single digits on a reported basis. By region, in Europe, we expect mid-single digit increase in currency neutral revenues, up low single digit reported. In our Asia-Pacific region, currency neutral revenue should be up at a low double-digit percentage rate or up high single digit reported. And in our Americas non-U.S. business, we are expecting revenue to grow a low teen percentage rate on a currency neutral basis or up low single digits reported.

Our D2C business should accelerate in 2016 with revenues expected to be up at a low double-digit currency neutral rate with about a point of negative impact due to changes in FX. For the year, we expect to increase our total store count to about 1,600 doors compared with 1,520 at the end of 2015. Comp sales growth are expected to grow at a mid-single-digit rate, including growth of more than 20% in e-commerce.

On now to gross margin. We expect 2016 gross margin rate to improve by 50 basis points to reach 48.8% or 49.5% on a currency neutral basis. To click down into the drivers, we estimate a combination of product costs and pricing benefits to be equally offset by 70 basis points of FX headwinds. That leaves 50 basis points of mix benefit to flow through as Outdoor & Action Sports, international and D2C continue to drive gross margin expansion.

In terms of SG&A, we will continue to make strategic investments in our brands with respect to product innovation and demand creation, as well as investing in our growing D2C business. In addition to store openings, we continue to make significant investments in our e-commerce capabilities, specifically bringing additional brands onto the common VF platform. These investments, along with continued pressure from foreign currency rate changes, should result in a modest increase in our SG&A ratio in 2016. This brings us to operating margin, which we anticipate to reach 14.4% in 2016, net of an anticipated 70 basis points of foreign currency impact.

Moving to the bottom line, we expect currency neutral EPS to be up 11% in 2016 or up 5% reported compared to the adjusted EPS of $3.08 in 2015. And as you think about the cadence of revenue and earnings, there's a few things to keep in mind. In the first quarter of 2016, we expect currency neutral revenue to be about flat with the first quarter of 2015.

With respect to earnings, recall that in the first quarter of 2015, we recorded a one-time $17 million gain related to the sale of a VF outlet store. Additionally, we expect the first quarter will see the most difficult FX comparison of the year, with an estimated 120 basis point negative hit to gross margin. Therefore, we anticipate currency neutral EPS to be about flat or down low double digits as reported.

In the second quarter of 2016 revenue should increase at a low single-digit percentage rate with a low single-digit decline in currency neutral EPS or high single digit as reported. Recall that last year's second quarter benefited from a significantly lower tax rate related to the settlement of prior year's tax audits.

Currency neutral revenue growth in the second half of 2016 should increase at a high single-digit percentage rate, with the strongest performance coming in the fourth quarter. We expect second-half EPS to increase at a mid to high teen percentage rate. Our outlook for cash from operations remains very strong as we expect to generate $1.3 billion in 2016.

And finally, our commitment to returning cash to our shareholders has never been more evident. In 2016, we expect our share buyback to reach about $1 billion, which is a meaningful increase over the prior year. And to echo what Eric said earlier, this increase is in response to cash flow generation and our commitment to shareholders, not an indication that we are changing our capital allocation priorities. In fact, our first priority remains acquisition. And as previously mentioned, our intention is to take a much more proactive approach to our portfolio composition this year. So share buyback combined with our annual dividend should return $1.5 billion of cash to our shareholders in 2016. That's a 15% increase in shareholder returns over 2015.

In closing, I'd like to underscore that we are very proud of what we've accomplished in 2015. All global companies operate in a constantly changing environment. We've demonstrated time and time again, our ability to effectively manage our business under a variety of conditions. This speaks to the agility of the VF model. We are highly confident that the power of our portfolio, along with numerous flexible levers, will enable us to drive revenue growth and profitability, mitigate risk and most importantly, create value for our shareholders.

And with that, I will turn it back over to the operator and open it up for your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And we'll go first to Omar Saad with Evercore ISI.

Omar Saad
Evercore ISI

Q

So, I wanted to ask you, and as far as I can remember, I can't remember a quarter where what you guided to ended up being so different than what you reported and what you experienced. So I'm just trying to get an understanding of where the biggest changes were post-October when you gave us the most recent guidance. Also want to understand a little bit deeper where you think the implied guidance for 2016 in the second half revenue is to really reaccelerate on a constant-currency basis. And then, lastly, on the question of revenues, did you see anything in the quarter post the October timeframe between the lines that gave you any indication or insight into what's really going on with the consumer, whether it's macro or behavioral changes, et cetera? Thanks.

Eric C. Wiseman
Chairman & Chief Executive Officer

A

Sure. Omar, it's Eric. I'll start trying to tackle your questions. So, where was the biggest – well, what caused the big miss, and you're right, we haven't had change like that to our expectations happen before to that degree of magnitude. As you know from looking at all the retailers who are reporting, there was a significant slowdown in consumer spending from what everyone expected in the fourth quarter. So that hit everybody in all categories. It particularly hit cold weather apparel and footwear, and that's a big piece of our business. So we were unusually impacted by it, and we came out of it with only 9% more inventory.

And the implications of that were we understand the carrying that inventory was probably not the right thing to do, so we aggressively got rid of it and that affected our earnings. That was a big driver of the earnings miss, was the investment we made to end the year with only 9% more inventory than last year. So, it was that combination that got to the EPS miss that we had. We think that was a smarter choice than getting closer to our guided EPS and ending the year with significant excess inventory. The – how we're looking at next year. Scott guided – gave pretty clear guidance to how we're seeing the first half, which suggests that we – there is an inventory overhang out there. Some vendors have it, we have a little bit of it, Scott mentioned that about half the 9% was in Outdoor and cold-weather products.

So that's going to slow things down here in the first half. And then as we approach the second half, we're cautious in our outlook for next winter's weather and consumer behavior, more cautious than we have been in the past. We have the early part of that season booked and that's reflected in our guidance, and we're coming up against really easy numbers for us to beat, unless maybe it's going to be 80 degrees in New York next winter, I don't know. But if – I think the odds are that the winter weather will be a little kinder around the world to us. So with a cautious outlook and really easy numbers to lap, that's why we are more confident about the growth in the second half, and we're off the growth rates we've had as – but we've said during the call, we've been averaging 7% a year for the last couple of years, and we're calling it mid-single digits until we see how this plays out.

I think your last question was anything post all this that we learned about the consumers and I don't know that we have. There were interesting product categories that slowed down and most of the material impact for us was weather-related. It really hit our cold-weather brands. I'm looking down the table to see if anybody has more insight than I do on that, but I don't think there's any macro trends that we're seeing other than consumer spending is a little soft and we think that will continue. Our expectations for 2016 assumes that, that continues through the first half of the year.

Omar Saad
Evercore ISI
Q

Thanks. Good luck.

Eric C. Wiseman
Chairman & Chief Executive Officer
A

Thanks, Omar.

Operator: And we'll go next to Bob Drbul with Nomura.

Bob S. Drbul
Nomura Securities International, Inc.
Q

Hi. Good morning.

Steven E. Rendle
President, Chief Operating Officer & Director
A

Hey, Bob.

Eric C. Wiseman
Chairman & Chief Executive Officer
A

Good morning, Bob.

Bob S. Drbul
Nomura Securities International, Inc.
Q

I guess, on the Outdoor coalition, I think given your guidance in terms of all the points you just made in terms of the second half, are the order books complete or how far are they complete in terms of The North Face as you look for fall next year? And when you talk about looking at the portfolio and actively exploring business expansion, and you also talked a little bit more about less exposure, Eric, when you think about it, is it more likely to have disposals or an acquisition, like how do you think about exactly what we should take away from that statement?

Steven E. Rendle A
President, Chief Operating Officer & Director

Hey, Bob. I'll take the order book question you had for the Outdoor coalition and then I'll toss it back to Eric on the portfolio. I would tell you, the Outdoor coalition, our order books are certainly on our hands for spring and they're reflected in our guidance. But it's too early for us to tip our hat on fall. I would tell you we are looking at cautious consumer or retailer behavior, but we're no more confident than ever on the quality of the product and our ability to react to the trends that we saw coming through Q4. Our Vans business remains extremely strong, and North Face and Timberland both have great strategies in place to react.

Eric C. Wiseman A
Chairman & Chief Executive Officer

On the shape of the portfolio, Bob, the – I'm obviously not going to disclose anything specific in this – on this call today. But know that as we look back over the last four years, because we – people have said, you haven't made an acquisition in four years and, we quite frankly, haven't made a divestiture in four years or five years either. So – and you talked about being active portfolio managers, so how do you define active? And what we're saying now is we're defining active as being active.

And I think the fair and honest assessment of the last four years is when we acquired Timberland, for the next two years, we were not in the acquisition market, period, flat out, we were not. We were very focused on delivering the shareholder returns that we promised to our shareholders with the biggest acquisition we ever made, and we've done that. But for the last two years, we've not made an acquisition. We are actively exploring everything in our portfolio and everything that we might want to have in our portfolio with a level of activity that hasn't existed for the last few years, and we think it's likely something will change this year. I can't give you any more guidance about how that change might happen.

Bob S. Drbul Q
Nomura Securities International, Inc.

Got it. And when we look at some of the more challenged pieces of the business, I guess, in the fourth quarter but throughout last year, when you look at your assumptions going forward, do you believe that you're being conservative enough in terms of – whether in some portions of the workwear business or the Sportswear business or the Contemporary businesses?

Steven E. Rendle A
President, Chief Operating Officer & Director

Yeah, Bob, I think I'll take that. I think we feel confident in our ability to understand where we are. In the case of some of these sectors, for example, the Contemporary, we continue to be disappointed in the trends going on there, but could not be more confident in the teams that we have as we maintain our number one share, though perhaps that's not as important as it was in the past as that sector's under great pressure. Workwear, we've got, by far, two of the strongest brands, Bulwark and Red Kap, and teams that deeply understand their marketplace. And the business development teams really focus on expanding beyond the sectors that we win in when some of those commodities are moving our direction. So I would say we have confidence in our plan, extreme confidence in our teams that are in place to deliver those.

Eric C. Wiseman
Chairman & Chief Executive Officer

A

Yeah, Bob, I'll lean into that just a little bit. Of all those things that Steve just mentioned, the one that drives the most earnings potential for us is the workwear business, which is really on its heels right now. We've been through this cycle at least a half a dozen times in the last 20 years where for macroeconomic reasons or things like the oil industry shutting down that's happening right now, we get hurt and then – that happens pretty quickly. And then it comes back. And when it comes back, there's years of goodness. You'll recall because we talked about it in 2010 and 2011. Bulwark was our fastest-growing brand. And it's really a good thing for our shareholders when the recovery happens and we know it's inevitable, we're not planning on it next year.

Bob S. Drbul
Nomura Securities International, Inc.

Q

Okay. Great. Thank you very much.

Operator: And we will go next to Kate McShane with Citi.

Eric C. Wiseman
Chairman & Chief Executive Officer

A

Kate, are you there? We can't hear you. Might be muted.

Operator: Kate, please check your phone line. I'm not hearing a response. We will go next to Laurent Vasilescu with Macquarie.

Laurent Vasilescu
Macquarie Capital (USA), Inc.

Q

Good morning, and thanks for taking my questions. I wanted to follow up on the high single-digit guidance for Outdoor & Action Sports. Can you parse out ASP growth versus unit growth? Should we assume three percentage points for ASPs? And if that's the case, how has it changed over the prior years? And what are you seeing in terms of ASPs with regards to the competitive landscape?

Eric C. Wiseman
Chairman & Chief Executive Officer

A

I will start and maybe, Steve, chime in. So, as a general statement, we don't quote specific percentages on what our price increases are, but we've said that's a big part of our model. And that would be true in Outdoor & Action Sports, right? We price both like-for-like and probably even more importantly, bringing new product. Remember, every season, more than half of our product is new and we are merchandising the new price points. And that's how we've maintained our margins. So, you saw it in our guidance as you look forward. We've got 70 basis points of price and rate improvement, which would be the proof point that, that model is intact, and indeed, we are seeing those prices come through.

Steven E. Rendle
President, Chief Operating Officer & Director

A

Yeah, I wouldn't have much to add to that, Laurent, other than our team has spent a tremendous amount of time looking at consumer and market analytics to guide their seasonal product creation strategies, and really targeting price value relationships in each of those categories across the globe, each and every region.

Laurent Vasilescu
Macquarie Capital (USA), Inc.

Q

Okay. Great. And then I wanted to follow up on the comments made earlier that you are actively exploring segments of the business that you might want to be less exposed to. Curious to know if there are any metrics we should think about with regards to this comment. Should we think about profitability, anticipated revenue growth over the next few years, or metrics tied to demographics, channels or geographies? And if it's all of the above, how would you rank them?

Eric C. Wiseman
Chairman & Chief Executive Officer

A

I guess the answer is all of the above because when we look at our company to think about what the shape of the portfolio would be, we look across the company. As I said, we're not – I can't disclose anything today and won't, but know that when we exit a category, it's either for a strategic reason or a financial reason, meaning the business isn't aligned with us strategically, or it's unable to contribute to our shareholders financially. Either one has ended up to be a good move for us when we exit out of something.

Laurent Vasilescu
Macquarie Capital (USA), Inc.

Q

Okay. Thank you very much, and best of luck.

Eric C. Wiseman
Chairman & Chief Executive Officer

A

Thank you.

Operator: And we'll go next to Matthew Boss with JPMorgan

Matthew Robert Boss
JPMorgan Securities LLC

Q

Hey, good morning. So, I guess my question, as we think about the 11% constant currency EPS forecast for this year versus the 13% multiyear target CAGR that you have out there, a number of headwinds, you clearly walked through them for this year. But is there any reason to think the 13% needs to change in 2017 and beyond? And then separately, your 16% EBIT margin target, while we might not get there in 2017, is there any reason to think that this is no longer the goal of multiyear?

Eric C. Wiseman
Chairman & Chief Executive Officer

A

Hey, Matthew, the answers are no and no. And we still have line of sight. We obviously – when we made our original plan, we said at that time that we weren't assuming any change in currency translation to affect the plan, and we've had a boatload of that happen to us. But we are on track to hit our numbers, we believe, and don't think that – on a currency neutral basis. I'm glad we have the 53rd week story behind us now, because that just complicated the discussion for all of us. But we're pretty confident in the growth rates in the top and bottom line that we're going to be able to achieve. We missed the top line. We're a little light there. We didn't anticipate some of the challenges that have happened around the world, but on an EPS basis, we're tracking right on plan. Scott, do you want to add anything to that from a profitability basis?

Scott A. Roe
Chief Financial Officer & Vice President

A

Yeah, I guess two things. I think the best evidence of the future is what you have done, right? So as Eric said in his comments, we've averaged 13% over the last three years, and we're a little slower in the top line for all the reasons we talked about today. That is a short-term bump, that's not long term. And really, what gives me confidence looking forward is the model, right? That gross margin expansion that we talked about, the levers that we have from an efficiency standpoint and the powerful brands. I see no reason why we don't go back to that over the long term. It doesn't change anything.

Matthew Robert Boss
JPMorgan Securities LLC

Q

Just a quick follow-up. On the gross margin guide for 2016, the 120 basis point constant currency expansion that you're embedding there ex-FX...

Scott A. Roe
Chief Financial Officer & Vice President

A

Right.

Matthew Robert Boss
JPMorgan Securities LLC

Q

...could you just help walk through what you're seeing from a product cost and a pricing perspective embedded within that?

Eric C. Wiseman
Chairman & Chief Executive Officer

A

Yeah, we're really not breaking that down. Again, it's 70 basis points. It's kind of simple if you think about your margin going forward, right? You got 70 basis points negative currency headwinds, you got 70 basis points positive on price and cost, and then you got the 50 basis points of mix falling through, and that's really – your margin is 50 basis points plus the 70 basis points, gets you the 120 basis points that you referenced. So we're not breaking it down, but again, as I mentioned earlier, be assured that pricing is a big part of our model and we're pulling that lever along with merchandising to maintain our margins.

Matthew Robert Boss
JPMorgan Securities LLC

Q

Okay. Great. Best of luck.

Operator: And we'll go next to Kate McShane with Citi.

Kate McShane
Citigroup Global Markets, Inc. (Broker)

Q

Hi. Can you hear me this time?

Steven E. Rendle
President, Chief Operating Officer & Director

A

Hi, Kate.

Eric C. Wiseman
Chairman & Chief Executive Officer

A

Hi, Kate.

Kate McShane
Citigroup Global Markets, Inc. (Broker)

Q

Hi. I promise I wasn't on mute. I think I was disconnected. But anyway, thank you for taking my questions. My question is on the brands, first with The North Face. I think we've had warm winters in the past, and when we take a look at winter 2011, I think there was still – you still posted double-digit growth for the brand at the time. So can you help us understand maybe what the difference is between this warm winter versus previous warm winters as we think of the supply chain, and things that you've employed have only gotten better over time, and what we should expect going forward if warm winter hits again?

Steven E. Rendle
President, Chief Operating Officer & Director

A

Yeah, Kate, I'll take that. Let me first start by saying this brand is absolutely still the double-digit growth driver that we've said it is. As you kind of look over the four years in our five-year plan, and to your point on what we saw in 2012, we had two years where we had record warm weather. In 2013, we grew at a rate of 7%. 2014, where we had a more normal winter, we grew at 12%. And then this year where we saw the warmest winter on record, we were up 5%.

We've talked to you all about how we are pivoting this brand to be more competitive in a four-quarter type business model. And I think some of the results that you saw this year absolutely show that we're doing that. Our Thermoball franchise, which is a fantastic three-season outerwear franchise, continues to grow. Performance apparel with our Mountain Athletics group up 40%, our equipment category growing double-digits, re-launch of our premier Summit Series collection, and multi-sport footwear growing double-digits. We are pivoting to be more responsive and more capable to navigate these kinds of extreme weather conditions. The realignment of the category merchandising model that I referenced is absolutely kind of fine-tuning what we've already done with our activity-based model. So we see huge opportunities still from a category channel and geographic expansion standpoint for this brand.

Kate McShane
Citigroup Global Markets, Inc. (Broker)

Q

Okay, thank you. And then, my second brand question was on Vans. I think Karl Heinz had mentioned slowness in the Core Classics category in Europe. I think last quarter, you attributed some slowness in Vans from shipping, timing changes in Vans. Can you talk to us about what's happening with that brand internationally and, again, what we should expect over the long term for the brand growth internationally?

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

A

Sure, Kate. I'll start with Asia, I think you heard the numbers in Asia are good. We had stellar performance in Asia and we believe in the future there are no clouds there.

Europe is a little bit different. First of all, the brand is really strong. We don't see a brand problem, right? We see that when analyzing our metrics. We see how we do with the competition and we see our product initiative. It is true, though, that there is a product issue in the market, which affects not only us but affects the entire market, which is on this Classic style. That's why we guided a little bit softer for 2016 because we need time to digest this. But the brand is very strong and we are very confident. All the great numbers we had in the past outside 2016, we have no reasons to believe that we have an issue with the brand.

Kate McShane
Citigroup Global Markets, Inc. (Broker)

Q

Thank you.

Operator: And we'll go next to Dana Telsey with Telsey Advisory Group.

Dana L. Telsey
Telsey Advisory Group LLC

Q

Good morning, everyone. As you think about this new environment and the channels and geography and new customer profile, as you think about each division and their contribution to operating income going forward, does that change at all? Is there any puts and takes on margins or expenses on each division to be aware of, that makes things different than what have been expected go-forward? Thank you.

Eric C. Wiseman
Chairman & Chief Executive Officer

A

Thanks, Dana. That's a really good question and actually we haven't had that question before. That doesn't happen to us that often. So, well done.

Thinking about it quickly and from a high level, we have, by brand, strategies right through – for the next five years that we're looking at, and they include everything that we anticipate in the changes in shopper behavior. And so, we don't see that causing a fundamental change to the mechanics of our P&L, which I think was your question. We don't see that, but that's – I'm looking around the room to see if anybody else sees anything that I don't see. So, no.

What we will continue to see is an expansion in our D2C business, particularly through e-commerce, and expansion of our international business, which as you know very well is very profitable business for us. And because the tax rates are lower outside United States than they are in United States, that helps us create shareholder value, and we still have a lot of opportunity outside United States.

Dana L. Telsey
Telsey Advisory Group LLC

Q

Thank you.

Eric C. Wiseman
Chairman & Chief Executive Officer

A

Thanks, Dana.

Operator: And we'll go next to Edward Yruma with KeyBanc Capital Markets.

Edward J. Yruma
KeyBanc Capital Markets, Inc.
Q

Hey, just two quick ones, guys. I guess, first, I know this is kind of a fungible line, but how would you over assess the overall sales of what you'd consider to be non-weather-impacted goods?

And then I guess second, with the gross margin investment you had to make to clear and get the inventory level under control, is it your understanding that the goods are actually sold through or is some of that investment potential going toward folks that may end up packing that inventory away? Thanks.

Steven E. Rendle
President, Chief Operating Officer & Director
A

Yeah, I'll take a stab at this one, Ed. I think sales on the non-weather-impacted businesses or categories were very strong. In the case of The North Face, I referenced the success we saw with our Mountain Athletics collection, up 40%; the ThermoBall franchise continuing to grow nicely, not just here in the U.S. but globally; our Vans business had another breakout year, up 16% when you take into effect the FX and the 53rd week. I would tell you, all those would be non-weather-related businesses.

But even there, the Mountain Edition collection, both footwear and apparel, saw significant sell-through, giving it great momentum going into this year. So, it really is those heavily insulated styles where we saw the slowdown.

I'm sorry, Scott will grab that second portion.

Scott A. Roe
Chief Financial Officer & Vice President
A

Yeah, I guess the question on the second part of that was the aggressive inventory actions, where do we think that inventory ultimately ended up. And I guess the answer is, we can't really definitively answer that.

Let me tell you what the actions we took were, right? So, it was varied. We discounted through our own outlets and our own full price retail. In some cases, we sold some off-priced goods. And the weather has turned a bit this year so far in 2016. So certainly, some of that has sold through, hard to speculate how much.

Edward J. Yruma
KeyBanc Capital Markets, Inc.
Q

Great. Thanks so much.

Operator: And we'll take our next question from David Weiner with Deutsche Bank.

David Weiner
Deutsche Bank Securities, Inc.
Q

Yes, good morning. So, I had two quick questions. Number one, could you talk a little bit about the wholesale business in Europe? It seemed to me from the comments – and obviously I understand that you have a mix shift to D2C globally, but nonetheless it seemed to me that there were some weakness relative to expectation in Europe at wholesale. So, can you talk a little bit about what's going on in that channel broadly?

And I guess, just my second question, a follow-up, I think it was Ed that asked the question about weather versus non-weather. Is there any way you can kind of bottom-line it and tell us – you've broken out the FX impact and the cycling of the 53rd week impact on revenue, can you give a range of estimate of what the total impact to revenues was due to the weather? Thanks.

Karl Heinz Salzburger
Vice President, VF Corporation & Group President, International
A

So, Dave, maybe I'll start with the first question, the wholesale scenario in Europe. I think Eric mentioned it in his opening script. The first nine months actually, we were tracking as we had planned. We were growing mid-single digit as per our plan. The challenge was more in the last quarter, where the weather affected us as well. I think it was widely reported, and that particularly challenged our cold winter brands.

On the other one, Kipling for instance, Eastpak, we did actually pretty well. So, we're not affected there. All in all, I think also snow came and it got cold in Europe, a little bit later but it came. So, inventories are pretty normalized now, so that is good news.

The second part of the question – what was the second part?

Scott A. Roe
Chief Financial Officer & Vice President
A

Weather-related potential impact.

Eric C. Wiseman
Chairman & Chief Executive Officer
A

Yeah, we haven't quantified what that might be.

Scott A. Roe
Chief Financial Officer & Vice President
A

Right.

Eric C. Wiseman
Chairman & Chief Executive Officer
A

Yeah.

David Weiner
Deutsche Bank Securities, Inc.
Q

Okay, thanks.

Operator: And we'll go next to Lindsay Drucker Mann with Goldman Sachs.

Lindsay Drucker Mann
Goldman Sachs & Co.
Q

Thanks. Good morning, everyone. I had two questions. The first is, you mentioned one of your long-term strengths being your best-in-class supply chain. I was hoping that you could give us any insight as to whether you have specific initiatives this year to make you guys faster or more efficient or any other benefits that could accrue to the business from supply chain innovation?

Steven E. Rendle
President, Chief Operating Officer & Director
A

Lindsay, I'll start with that, and then I'll have Scott Baxter pipe in on something specific going on in Jeanswear. Speed and nimbleness within our supply chain is top of mind and it always is. In fact, our internal production is extremely responsive and is one of the key strengths of our Jeanswear businesses, and we're looking at being able to transfer that type of thinking through our Third Way programs into the sourced side of the business.

And then on top of that, with our new Innovation Centers now in place and up and running, we have some specific projects both in our Jeanswear and Technical Apparel groups partnering with our supply chain on longer-term advanced manufacturing initiatives that would absolutely make us more nimble, add speed, partnered with the upstream merchandising capabilities within our businesses where we are constantly looking at ways to really reduce lead times, increase frequency of flow to be more relevant and more frequent in front of our consumers. And Scott might want to talk to you a little bit about something going on in Jeanswear.

Scott H. Baxter
Vice President, VF Corporation & Group President, Jeanswear, Imagewear and South America
A

Yeah, I most certainly can. We have a project going on right now. And, Lindsay, as you know, we own our factories in this hemisphere, and we actually use those factories and are planning on using those factories as a weapon. It's a strategic advantage for us to have those here. And we've really embarked upon a project with our Jeanswear teams on taking our cycle times down. So from concept till the time a consumer can purchase that product, we are really working on and have a pretty, pretty big project going on on how we take that lead time down, how we work throughout our entire supply chain in combination with our merchant team, and bringing the consumer the products that they're looking for much quicker and much faster than we have in the past.

And then in combination with that, we have a parallel program where we're working on some small batch programs where we can go ahead and get in style and get on trend really quickly, where we haven't done that as fast as we'd like in the past.

So, those two projects are going on right now at Jeanswear and we're pretty happy with the progress we're making. And I can talk about that in the future as we progress down the line.

Lindsay Drucker Mann
Goldman Sachs & Co.
Q

Great. I think you mentioned that for Vans America, that the wholesale business was a bit weak. Could you expand on some of the specific drivers there? And just a quick housekeeping question. Can you confirm that the 53rd week had no impact on operating profit in the quarter or was there an impact? Thanks.

Steven E. Rendle
President, Chief Operating Officer & Director
A

I'll talk about Vans and then I'll let Scott talk about the operating profit. And I think this is the fourth quarter softness that you've heard us and others talk about, had some impact on our Vans wholesale business. Certainly, Karl Heinz spoke specifically about a Classics inventory build in a couple of our key markets having an impact on our wholesale build. We really see that working through over the course of the year.

I think it's important to note though, we have a number of styles, other collections. For example, our Sk8-Hi, Old Skool that are performing extremely well and much stronger than our competition. And I think another catalyst there would be our D2C and e-commerce performance that continues to perform very, very strongly, and it's really that balanced model between wholesale and D2C for our Vans business that allows it to continue to show such significant growth.

Scott A. Roe
Chief Financial Officer & Vice President

A

Yeah, and just to add on the second part of your question about the 53rd week, sure, it of course has an impact on profit. Probably, a couple of points for the year, so the 12% would be a couple points higher. And remember what Eric said, if you want to take that noise out and look over the last two years, we averaged 13%, and that's probably the right way to look at it.

Lindsay Drucker Mann
Goldman Sachs & Co.

Q

Great. Thanks, guys.

Operator: And we'll go next to Erinn Murphy with Piper Jaffray.

Erinn E. Murphy
Piper Jaffray & Co (Broker)

Q

Great. Thanks. Good morning. You guys alluded to briefly of the off-price lever that you pulled in the fourth quarter. Can you just talk a little bit more about your exposure overall to off-price versus what the norm would normally be in this season? And then, when you talked to those partners post-season, what is their appetite to take on more products just given the abundance of inventory out there in the channel?

Steven E. Rendle
President, Chief Operating Officer & Director

A

I think as we look at the off-price lever, our businesses, we have our outlet stores that are our first choice, where you see us holding the inventory that Scott referenced. When we look outside of our model, we've got some very strategic partners that have worked with us very, very well over the years.

Our exposure year-over-year is up slightly but not to a degree that would have us at all concerned. And I can't really speak to the appetite for them. I can tell you in our quick movement and strong relationship, we feel very good with where we are with our inventories going into next year. And not really sure – can't really comment on how those partners sit in their relative business.

Eric C. Wiseman
Chairman & Chief Executive Officer

A

And, Erinn, I'll add to that. As I said this, I think it was Omar's question at the very beginning, we reacted early and aggressively to the slowdown that we saw coming at us and it was only 9% growth in inventory. And we think that's going to look pretty good versus some others in our space.

And so, we moved on our inventory. Now, that came at an earnings per share cost, it absolutely did have a gross margin rate cost, but we would rather come into this year with as much of that behind us as possible versus dragging around a big inventory anchor for the next six months to nine months, maybe 12 months, and we think some people are going to be doing that.

Erinn E. Murphy
Piper Jaffray & Co (Broker)
Q

Got it. No, I appreciate that. And then I'm sorry if I missed this, just as a housekeeping on the guidance for 2016, but in Imagewear how are you thinking about the first half versus the second half? It seems that things aren't getting broadly better in Texas or some of the other oil and kind of gas-producing regions. I'm curious what's driving that improvement to the low-single digit positive rate in 2016 versus where you exited in fourth quarter. Thanks.

Scott A. Roe
Chief Financial Officer & Vice President
A

This is Scott. So obviously, Erinn, you heard that we're actually coming out of the gates a little bit slower in the first half, but through business development opportunities and also a focused team around the Red Kap and Bulwark brand we do feel that the positive momentum in the second half will continue that we've had in previous years.

And I think the most important piece of that is we do have some big product introductions. So, it's a product story there too. We've got our continuation of our [ph] shop (01:11:46) line, which kicks off several big new initiatives and big items in the second half. So, we're feeling more confident as the economy kind of moves ahead forward in the next half of next year.

Erinn E. Murphy
Piper Jaffray & Co (Broker)
Q

Got it. Thanks you, guys, and best of luck.

Scott A. Roe
Chief Financial Officer & Vice President
A

Thanks.

Eric C. Wiseman
Chairman & Chief Executive Officer
A

Thanks, Erinn.

Operator: And we'll take our last question from Robby Ohmes with Bank of America.

Robert F. Ohmes
Bank of America Merrill Lynch
Q

Eric, can you hear me okay?

Eric C. Wiseman
Chairman & Chief Executive Officer
A

I can, Robby. Can you hear me?

Robert F. Ohmes
Bank of America Merrill Lynch
Q

Great. For the last question, I was hoping that you could talk about Greater China and maybe tell us what you guys are seeing there right now, maybe even go through Vans, TNF, Jeanswear and Timberland, and sort of the just broad brush strokes 2016 assumptions for Greater China? Thanks.

Eric C. Wiseman
Chairman & Chief Executive Officer

A

So, Robby, Karl Heinz is going to take that question for us. I'm actually a little under the weather today, so I'm trying to reduce my talking.

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

A

Okay, Robert, I think you heard me saying, I always tend to give the same answer, China is a marathon for us, it's a great opportunity long term. I mean many people talk about China, the slowdown in China. The fact is when we talk China, it's Greater China, we grew 13% in constant dollars in 2015, and that includes Hong Kong which was widely reported being down because of the tourists. So, Mainland China was even higher for us. And we expect similar numbers for 2016.

So actually, we're performing well in China. As you know, we are active with primarily four brands; The North Face, Vans, Timberland and Kipling. For the rest, we have a distributor model. So, there's a long way to go. We have about 2,500 doors on four brands, which, benchmarking to large players, [ph] where they play about (01:13:33) 5,000, 6,000, 7,000. So, we have a long way to go there.

Robert F. Ohmes
Bank of America Merrill Lynch

Q

And then on Jeanswear?

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

A

Jeanswear, we act with Lee in China. And I mentioned that in my script, it's doing extremely well. We have a leadership position there in that market driven by product innovation. The Jade, I mentioned, we are a candidate to win an award. We're really doing well. We're up this year again double-digit, and, no, it's good, it's really good.

Robert F. Ohmes
Bank of America Merrill Lynch

Q

So, there's no assumption of a China slowdown – a significant China slowdown in 2016 in what you gave us today?

Eric C. Wiseman
Chairman & Chief Executive Officer

A

We see Greater China in two halves. There absolutely has been a slowdown in Hong Kong. Our business is really strong in Mainland China, and the two of those together, we're up 13%, as Karl Heinz said, which tells you how strong the Mainland China business is. And we're not anticipating it being much better or worse. We're right in that zone of up 13%.

Robert F. Ohmes
Bank of America Merrill Lynch

Q

Got it.

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

A

And clearly, I mean...

Robert F. Ohmes
Bank of America Merrill Lynch

Q

That's very helpful. Eric, I hope you feel better soon.

Eric C. Wiseman
Chairman & Chief Executive Officer

A

Thank you, Robby.

Operator: That concludes today's question-and-answer session. I'd like to turn the conference back to Eric Wiseman for any closing or additional remarks.

Eric C. Wiseman
Chairman & Chief Executive Officer

So, just a quick comment. First, thank you for taking so much time with us today. Look, we are disappointed in our fourth quarter numbers for sure, but we're not disappointed in our performance for last year. We think we threaded the needle really well coming through a very surprising and difficult fourth quarter, and that we're positioned to put ourselves right back on track towards our 2017 growth rates that we've talked about.

As we've said, we have a cautious outlook for this year at this point, and we think that's a prudent thing to do. And we'll give you another update in April. Thanks so much.

Operator: This does conclude today's conference. We thank you for your participation. You may now disconnect.