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MANAGEMENT DISCUSSION SECTION

Operator: Please standby, we're about to begin. Good day, and welcome to the VF Corporation Third Quarter 2016 Earnings Conference Call. Today's call is being recorded. At this time, I would now like to turn the conference over to Lance Allega, VP of IR and Strategic Accounts. Please go ahead sir.

Lance Allega
Vice President-Investor Relations, VF Corp.

Thank you, good morning and welcome to VF Third Quarter 2016 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 uncertainties that could cause actual results to differ materially. These uncertainties are detailed in documents filed regularly with the SEC. Unless otherwise noted, amounts that our participants refer to on today's call will be predominantly in currency-neutral terms which we define in the press release that was issued at 6:55 A.M. Eastern this morning. We use currency-neutral amounts as lead numbers in our discussion because we feel it more accurately represents the true operational performance and underlying results of our businesses and brands.

You may also hear us refer to reported amounts which are in accordance with U.S. GAAP. These amounts include the impact from foreign currency exchange rates. Reconciliations of GAAP measures to currency-neutral amounts can be found in the supplemental financial tables included in the press release which identify and quantify all excluded items. On August 26, we announced that we had completed the sale of the Contemporary Brands Coalition to Delta Galil Industries. Accordingly, those assets and liabilities were moved into discontinued operations and results present on today's call are based on continuing operations.

Joining us on today's call will be VF's Chairman and CFO, Eric Wiseman; President and COO, Steve Rendle; President of our International business, Karl Heinz Salzburger; and our CFO, Scott Roe. Following our prepared remarks, we'll open the call for questions and ask that you limit yourselves to two per caller. Thanks. Eric?

Eric C. Wiseman
Chairman & Chief Executive Officer, VF Corp.

Thanks, Lance, and good morning, everyone. We have a lot to share on today's call; so I'll get right to it. You'll hear that our third quarter results confirm our ability to deliver value in an uneven global economy. You'll hear caution around the external environment and confidence that our operational discipline can safeguard profitability in the near term and long term. But what you won't hear is that it's business as usual for VF. Let's start with the environment.

Last October, our year-to-date revenue on a comp basis was up 9% and EPS was up 17% including broad based strength across our brands and regions around the world. However, during the past four quarters, weak consumer spending, the warmest winter on record, retail bankruptcies and excess inventory in the off-price channel have had an outsized impact, particularly on our U.S. business. Consistently positive results from our International business, which is about 40% of our revenues, have been somewhat offset by a slight decline in our U.S. business. Simply put, we've seen mixed results. By channel, our D2C business has seen steady growth, up 7% year-to-date and we've made significant progress towards amplifying our connection with consumers in the space where we directly control our brands.

In harnessing this powerful growth driver, we're keeping a sharpened eye towards brick-and-click channel shifts while staying laser-focused on productivity and ensuring our growth-oriented investments are balanced accordingly. In wholesale, conservative retailer open-to-buys, buy-now, wear-now calendar shifts and leaner inventory positions remain among the top priorities for many retailers. As you'd imagine, this conservatism has put even greater pressure on vendors who are being asked to take on larger inventory risk to meet demand closer to consumer need. And while we don't like it, rather than speculatively building inventory, we've reduced our inventory buys to protect our brands and ensure channel health. And we're pulling various levers to preserve gross margin expansion and ensure profitability. With inventory up only 1%, we're confidently managing the business to be in line with the environment. That said, let's take a look at how this environment impacted our third quarter top-line results.

Revenue was down 1%. And while we were down in the U.S., VF's International business was up 6% with a 6% increase in Europe, a 9% increase in the non-U.S. Americas region and 4% growth in Asia-Pacific. Our direct-to-consumer business was also up 6% with strength in the Outdoor & Action Sports and Jeanswear coalitions being tempered by ongoing weakness in Sportswear. Our Outdoor & Action Sports coalition was up 2%, driven by an 8% increase in Vans and essentially flat results for both The North Face and Timberland. Keep in mind, these three brands faced tough comps against last year's third quarter when Timberland was up 21%, The North Face up 11% and Vans up 10% in a very different environment.

Let's take a moment on Vans and paraphrasing Mark Twain, the reports of Vans' decline have been greatly exaggerated. So let's take a closer look. Unless you've been following along all year, Vans' 8% growth on top of last year's 10% growth doesn't tell the whole story. As we've detailed on previous calls, Vans' EMEA business, which is about 25% of global revenue, has been working through an inventory imbalance in 2016. This work-through saw Vans' EMEA revenue down slightly this quarter, which is exactly what we expected. And we still expect the brand to return to growth in the last quarter of this year. In Asia, the Vans momentum continued with revenue up more than 20%. Now, in the Americas, despite reports from channel checks and even partner commentary that was mistakenly interpreted to our brand, the Vans business was up 10%, which is an acceleration of 9% in the second quarter and 8% in the first quarter. That makes 10% growth on top of 10% growth for the Vans America business. So by quarter, 8%, 9% and 10%. And we're expecting the fourth quarter to be in line with the third quarter. And yes, that's more detail than we normally give, but it just seemed necessary this time around.

Next up and returning to the mixed and uneven environment theme, Jeanswear revenue was down 4% following seven consecutive quarters of mid-single-digit growth. Steve will go into greater detail about the particulars in the quarter. But on balance for the year, Q3 should prove to be an anomaly and we expect Jeanswear to return to mid-single-digit growth in the fourth quarter. Our Imagewear coalition declined 4% as growth in our Licensed Sports Group was offset by ongoing sector challenges in the workwear business. And despite the revenue decline, profit remained strong, up more than two points. Our Sportswear business saw revenue decline 13% and the story there remains the same, troubling U.S. department store and outlet conditions along with general category weakness and finally, in August, we completed the sale of the Contemporary Brands business to Delta Galil Industries.

Now rounding out the P&L, on a currency-neutral basis, our gross margin was up 130 basis points to 49% and our operating margin was up 50 basis points to 18.6%. Take that through to the bottom line, and currency-neutral EPS was up 16%.

While we're certainly not satisfied with this quarter's top-line performance, we clearly demonstrated some of the many levers we have at our disposal to ultimately get the EPS job done and we did just that.

So what's not business as usual? The current environment has led us to employ even greater analysis with respect to the areas of the business where we can become stronger, more efficient and more effective, from processes and operations to product creation, category expansion and distribution opportunities, to the shape of our brand portfolio and where we ultimately plan to take it in our next chapter.

All of this requires an aggressive, yet measured and holistic approach to marketplace management, to bring the industry's most compelling and innovative products to consumers more quickly, delivering premium experiences whenever, wherever and however they connect with our brands.

Our approach is centered on the development of business scenarios assessing the risks and opportunities by brand and platforms and the playbook necessary to address them and then leveraging the full power of VF's operational and financial disciplines. If this sounds like just the type of content that would fill an Investor Day, then you would be correct. It's an event we're targeting for sometime late in the first quarter of 2017, with more details to follow.

And speaking of next chapters, we announced earlier this month that I'm retiring from the CEO position and will remain Executive Chairman of the Board of Directors. The board named Steve Rendle CEO effective January 1.

I give VF's board a lot of credit for its longstanding rigorous approach to succession planning and Steve's selection is the direct result of this process. When I became CEO nine years ago, within the first few months, the board began work to identify and prepare the right person to succeed me. Steve is the right person. I know most of you have had the pleasure of meeting Steve and I can assure you, VF will be in very capable hands.

Steve?

Steven E. Rendle
President, Chief Operating Officer & Director, VF Corp.

Thanks, Eric. Appreciate the kind words and the trust that VF's Board of Directors has placed in me. I look forward to January 1 and the incredible opportunities that lie ahead for VF in its next chapter.

For now, let's take a look at Q3. Starting with the Outdoor & Action Sports coalition, revenue was up 2%. As described earlier, where we control our brands directly, we continue to see consistent growth. In the quarter, Outdoor & Action Sports D2C was up low-double digits with positive results in 9 of our 11 brands. This was offset by a low-single-digit decline in wholesale, where a tough comp against last year's low-teen increase, buy-now, wear-now calendar shifts and bankruptcies tempered results.

Turning to our three largest brands, revenue for The North Face was flat with a mid-teen increase in D2C offset by a mid-single-digit decline in wholesale. Keep in mind that last year, The North Face grew 11% in the third quarter. So even though the results were flat, we performed relatively well given the changes in the environment and retailer caution around orders headed into this winter season. On a comp basis, if you exclude impacts from bankruptcies, global revenues for The North Face would have been up at a mid-single-digit rate.

In the Americas, revenue was down mid-single-digits with healthy mid-teen D2C growth offset by a low-double-digit decline in wholesale. Bankruptcies had a big impact on our wholesale business. Without them, total revenue for The North Face Americas would have been flat in the quarter versus a mid-single-digit decline.

Versus last year, we did see a meaningful shift of retailers wanting deliveries later in the calendar, particularly a third quarter to fourth quarter shift. This reflects the desire to have leaner inventory positions and match consumers' buy-now, wear-now behavior. Setting floors with seasonal products when it's actually the season is a shift we believe is appropriate and one that should eventually help mitigate what's been a volatile markdown environment.

Taking a look at some of the product highlights during the quarter, as we continue to evolve our Four Seasons strategy, warm weather categories like training apparel, lightweight outerwear and sportswear continue to resonate. Our Mountain Athletics collection, along with products like DRYZZLE, VENTURE and MILLERTON have seen some early season momentum. Additionally, Thermal 3D, our new smooth-faced fleece, is already a top five selling sportswear style in our direct-to-consumer business. We also saw strong results in backpacks and logo wear which combined were up at a mid-teen rate.

On the branding side, less than two weeks ago, in honor of its 50th anniversary, The North Face unveiled its new global brand campaign Question Madness. The campaign's digital content series showcases athletes from throughout the brand's history examining individual motives for exploration and the gratification that comes from pushing norms and boundaries. And finally, on Wednesday this week, The North Face officially opens its Fifth Avenue store in New York City, an immersive brand experience that includes an interactive climbing wall, our unique consumer segmentation strategy and custom product that will only be available at that location.

Clearly a lot of momentum, innovation and experience is at play, yet we're electing to take a cautious approach to the balance of the year to more closely mirror market conditions. Despite the fact that we feel well positioned with our inventory in the channel, it's readily apparent that there is a lot of competitive product in the marketplace, particularly in the off-price channel that's stunting early autumn momentum. This, along with bankruptcies and warmer September and October conditions, have caused us to take a more prudent position with inventory to try to mitigate markdown risk and protect the long-term integrity of the brand.

Given this conservatism in the Americas business, we're taking our full-year global expectations down to low-single-digit growth compared to the previous mid-single-digit. This move is also mirrored in our full-year Outdoor & Action Sports coalition outlook. Certainly not what we'd like to do at this point, but on balance, the right thing to do for the brand and overall channel health.

Now to K.H.

Karl Heinz Salzburger

Vice President & Group President, International, VF Corp.

Good morning, everyone. The North Face European business had another strong quarter with revenue up over 20%, driven by high-teen increase in D2C and more than 20% growth in our wholesale business. Demand remained strong across most geographies and product categories. Warm weather products performed well in the quarter with our Mountain Athletics collection up over 70%, driven by our expanded men's collection. Sportswear also performed strongly with revenue up over 20%. In September, our new Thermoball campaign went live across e-Commerce, retail and wholesale, good timing before cooler weather has started to set in.

During the quarter, we opened our first Urban Exploration store in London, an active lifestyle-focused location geared at the city adventurer. We also opened our first [ph] branch stores based on a (14:16) new concept with a higher focus on the consumer experience and our distinct consumer segmentation strategies. Early results have been very promising. We're really pleased with the enhanced European business. The work we started a few years ago with respect to local-for-local product design, our targeted distribution strategy and changes in the way we reach consumers has put the business solidly on track for a very strong year.

In Asia, third quarter revenue was down slightly. Our Retail business saw mid-teen growth, driven by strength in Hong Kong and strong e-Commerce sales, which more than doubled as we revamped our website. This was offset by mid-single-digit decline in wholesale due to heavy promotions across the Outdoor category in China. Overall, we expect Asia to return to growth in the fourth quarter.

Now on to Vans.

Steven E. Rendle

President, Chief Operating Officer & Director, VF Corp.

I think Eric's opening run on Vans was pretty straightforward about the confidence we have in VF's second largest brand, the strong momentum that continues and its ability to perform consistently well against expectations. In the third quarter, Vans global revenue was up 8% driven by a mid-teen increase in D2C and a slight bump in wholesale driven by strong results in the Americas and Asia-Pacific businesses. In the Americas, revenue was up 10%. D2C, which is more than 50% of this region's revenue, and there is your cautionary tale about market share data, was up at a low-teen rate with 15% e-Commerce growth.

Wholesale revenue was up mid-single-digits with fairly even strength across concepts. And to point out once again, this 10% increase follows 9% growth in Q2, which was up from 8% growth in Q1. During the quarter, our new LIGHTs and ISO models met the demands of the athletic lifestyle-inspired consumer with lightweight construction, new colors and materials. Our classic styles, specifically the Sk8-Hi and Old Skool, continued to perform really well and have been recently called out by quite a few magazines and blogs as the "it" shoe being frequently seen on the feet of celebrities, athletes and tastemakers worldwide. And of course, in its 50th year of business, Vans' heritage remains front of mind. As the original and still number one skate shoe in core board shops, we continue to support skateboarders worldwide.

During the quarter, Vans held its first Pro Skate Park Series competition in four countries to create the platform for skateboarding's inaugural participation in the 2020 Tokyo Summer Olympics. Earlier this month, Vans launched a collection celebrating the original characters from Disney's Toy Story movie, which showcases Andy's favorite toys across an extensive assortment of adult and kids footwear as well as apparel and accessories. Following Star Wars and Nintendo, the bar is set pretty high, but early momentum on this one is very encouraging.

To close out, Vans remains obsessively focused on their consumer and is becoming even better and more capable of delivering the right product across multiple channels. With momentum and the ever-present "it" factor on our side, we're looking forward to finishing yet another strong year for the brand in the Americas.

Karl Heinz Salzburger

Vice President & Group President, International, VF Corp.

Vans' European business continued its sequential improvement, with revenue down at the low-single-digit rate. This result is right where we said we would be on our last call, so tracking along as planned. Independent of wholesale, which is where inventory actions have taken place all year, our DTC business has performed well with revenue up 20%. This was driven by mid-teen comps and e-Commerce, which was up more than 40% on the back of a new platform launch.

Our iconic Old Skool and Sk8-Hi Classic delivered solid advance sales. Our Pro Skate performance was also strong with sales up more than 30%, supported by the finance of the Pro Skate Park Series, which were held in Malmö, Sweden.

Our Panel business also continues to show really strong results. Overall, for Vans Europe, we expect this business to return to growth in the fourth quarter.

In Asia, Vans revenue continues to impress with more than 20% growth driven by almost 40% growth in DTC and a mid-teen increase in our wholesale business. Similar to last quarter, e-Commerce had a significant role in these results by doubling its business.

Looking at products, Old Skool continues to perform well and was up over 70% compared to last year, while the Nintendo Collection continues to be a hit and had over 80% sell-through. We also completed a series of House of Vans pop-up events across Asia, which continues to be a key brand activation platform centered around creative self-expression. With more than 45,000 attendees and over 2.5 million live video views in China, we are constantly driving momentum through visibility and consumer touch points. And finally, China continues to maintain strong momentum, posting over 30% growth on the back of an aggressively growing e-Commerce business.

Globally, Vans remains on track to deliver high-single-digit growth for the year. Now on to Timberland.

Steven E. Rendle

President, Chief Operating Officer & Director, VF Corp.

Timberland global revenue was down slightly compared to last year with a mid-single-digit decline in D2C and flat wholesale results. Timberland had the toughest comparison at VF in the third quarter as it was up against a 21% growth last year, which was driven by a 40% increase in the Americas business. Excluding impacts from bankruptcies, global revenues for Timberland would have been up at a low-single-digit rate.

The Americas had a mid-single-digit decline with flat D2C results, offset by a mid-single-digit decline in wholesale. The dip in wholesale reflects the impacts of the proactive reduction in sell-in that we spoke about on our last call and a buy-now, wear-now calendar shift very similar to The North Face with retailers trying to set floors later in the year for cold weather product. D2C was flat including gains in full-price stores and nearly a 30% increase in e-Commerce being offset by outlet locations, which saw a reduction in traffic. And similar to last quarter, the PRO business is still under pressure from subdued oil and gas exploration and industrial manufacturing.

Product-wise, we've continued to see momentum in the men's casual footwear across both wholesale and D2C, which is positive validation that our diversification strategy is working. We're particularly excited about the success of our SensorFlex platform, with collections like Britton Hill and Amherst seeing excellent sell-through.

Another bright spot is The Timberland Boot Company, which was our top family in D2C and saw strong results with our exclusive department store partner. At more than $300 a pair, this reinforces we have permission to play in the premium footwear market.

In women's, we see a similar story with our casual footwear collections. Revenues for our heeled Glancy six-inch boot were up five times in D2C and the Kenniston, again a SensorFlex style, saw strong sell-through as well, more proof points that Timberland's focus on women is paying off.

Helping to drive this success, we launched a new marketing campaign touting the Flex Appeal of SensorFlex being on both style and performance. The brand also launched a 360-degree marketing campaign centered on our Yellow Boot, driving extensive awareness, PR buzz and social engagement. In fact, the Yellow Boot video garnered over 3.5 million views in six weeks and was reported as best-in-class by YouTube.

Karl Heinz Salzburger

Vice President & Group President, International, VF Corp.

Revenue in Europe was up at low-single digit rate with low-single-digit DTC and wholesale growth which was consistent with expectations. Men's Footwear was up nicely, supported by a SensorFlex campaign. The new footwear technology combines the SensorFlex out-sole with a cup-sole look and is selling well.

Casual category also performed and drove the Footwear business to positive growth in the quarter despite the warm weather in Q3. In Women's, we continued to innovate and bring new products to market with the Kenniston being our number two seller after the Yellow Boot. In Apparel, new product introductions with updated fits, fabric and style contributed to a 30% increase in that business. Especially the Outerwear category, they performed very well, gaining market share against competition in new silhouettes.

Revenue in Timberland's Asian business was down slightly with low-double-digit wholesale growth offset by mid-teen decrease in DTC due to traffic declines in Singapore and Japan. This was partially offset by e-Commerce which was up more than 50% in the region.

[ph] Kenniston (23:11) sold too very well in the quarter, supported by impactful in-store marketing. In September, consumers in Japan camped out overnight to purchase items from the limited Timberland monkey time Apparel collection, a collaboration between the two brands that sold out in hours.

Also just last week, Timberland launched its first direct e-Commerce platform in Southeast Asia by opening a site in Singapore, so an excellent way to connect further with consumers in this important market.

For the full year globally, there are no changes to the expectation that Timberland will see low-single-digit revenue growth.

Now to Jeanswear.

Steven E. Rendle

President, Chief Operating Officer & Director, VF Corp.

Our global Jeanswear business declined 4% with similar declines at both Wrangler and Lee. While we did plan for the business to be down slightly based on changes in the timing of shipments, the decline was a little more than we originally anticipated, but as Eric indicated, should still prove to be an anomaly for the full year.

Our Americas business saw the majority of the decline which was partially offset by strength in Europe. Results in the Asia Pacific region were in line with last year. In the Americas, Jeanswear revenue was down at a high-single-digit rate with a mid-single-digit decline in Wrangler and a high-single-digit decline in Lee.

In addition to timing of shipments, we're off to a slower start to our second half. And similar to The North Face and Timberland, when cold weather materializes, we've seen immediate pickup in our Denim and Long Bottoms business. We expect to return to mid-single-digit growth in the fourth quarter.

In Wrangler, on the marketing front, the brand launched a new fall creative campaign in conjunction with the start of the American football season that has received strong consumer response in brand awareness and recall. The brand also sponsored weekly programs including ESPN College Football Live and the NFL's GameDay Morning, contributing to more than 2.3 billion national media impressions in the quarter. Wrangler's Western Specialty business continues to be challenged. In addition, subdued energy and industrial manufacturing conditions are impacting community spending levels and retailers are aggressively managing inventory.

Lee's high-single-digit decline in the third quarter doesn't necessarily tell the whole story. With a low-double-digit increase in the second quarter due to accelerated timing of shipments, the third quarter was penalized accordingly. When averaged across both quarters which are pretty similar in size, revenue was essentially flat year over year for the comparable period. That said, we expect to deliver low-single-digit growth in the fourth quarter.

A few product highlights in the quarter that received positive response included the new Extreme Comfort Men's casual pant that has led to market share expansion and wholesale growth. In late September, Lee's Dream Jean was featured on Good Morning America's Best Denim segment which has driven a very nice pickup in sales and on the marketing front, we launched the Move Your Lee campaign in September to rave reviews, an event that spiked e-Commerce sales significantly.

Karl Heinz Salzburger
Vice President & Group President, International, VF Corp.

In Europe, consistent growth continued for the Jeanswear coalition with revenue up at the mid-single-digit rate balanced between Wrangler and Lee. Marking more than three years of consecutive quarterly growth, these results were driven by solid fall-winter bookings and strong replenishment. The Scarlet for women and Ryder for men continue to be strong drivers for the brand. Also in Europe, the Move Your Lee brand campaign launched across Scandinavia, Germany, France and the UK to a very positive reception. Wrangler saw strength as the brand transitioned to more modern assortments with success in tops and bottoms as well as an increase in third quarter reorders. Our Body Bespoke PR and social campaign reached more than 5 million views.

In Asia, Jeanswear revenue was in line with last year, driven by a low-double-digit increase in Wrangler, offset by a slight decline in Lee due to a timing of shipments from Q3 to Q4. Lee's e-Commerce business was up over 20%. During the quarter, BODY OPTIX launched in 400 stores in China, Hong Kong and e-Commerce with particularly strong sell-through. The media efforts behind BODY OPTIX kicked off in August and was the first ever to be streamed live on Tmall. For the full year, globally, Jeanswear revenue is now expected to see low-single-digit growth.

Now to Imagewear.

Steven E. Rendle
President, Chief Operating Officer & Director, VF Corp.

Imagewear revenue was down 4% with a slight LSG increase, offset by a high-single-digit decline in the workwear business. This business, similar to Timberland and Wrangler, continued to be impacted by weakness in the energy and industrial manufacturing sectors. In LSG, MLB saw double-digit growth with strong jersey demand aided by continued success of the Cool Base replica jersey.

On the workwear side, while we continue to see consistent strength in Red Kap's automotive shop gear line, it should be no surprise that with oil rig counts hovering at historic lows, both Red Kap and Bulwark sales were down in the quarter. Considering we will soon begin to lap this decline, we expect the workwear business to return to growth in the fourth quarter.

Our Sportswear business was down 13% in the quarter due to weakness in both wholesale and D2C. Revenue at Nautica was down 15%. However, adjusting for strategic decision to license the women's sleepwear and men's underwear business, the brand was down 7%. Nautica continues to face the same challenges including heavy discounting in promotional environments in the U.S. department store channel and traffic declines at outlet where we've closed 11 stores in the past year. Kipling's North America business was down 6% and the International business was down 2% and we expect both businesses to return to growth in the fourth quarter.

And last but not least, congratulations to the Napapijri team for being VF's fastest growing brand in the quarter.

And with that, I'll turn it over to Scott.

Scott A. Roe

Chief Financial Officer & Vice President, VF Corp.

Thanks, Steve. In the third quarter, revenue was down 1% to $3.5 billion. We've already reviewed the individual coalition results, so let's look at the global business by channel. Direct-to-consumer revenue was up 6% including a low-double-digit increase in Outdoor & Action Sports and mid-single-digit growth in Jeanswear, moderated by a low teen decline in Sportswear. Wholesale was down at a low single-digit rate in the quarter, with a mid-single-digit increase in our International business being offset by high-single-digit decline in the U.S. By region, the Americas was down 4%, EMEA up 6% and APAC was up 4%.

Gross margin was 48.4%, up 70 basis points versus last year as benefits from pricing, mix and lower product costs were held back a bit by inventory management efforts and a 60 basis point headwind from FX. In fact, currency-neutral gross margin expanded by 130 basis points in the quarter. SG&A as a percentage of revenues was up 60 basis points to 30.2% as we balanced appropriate cost controls with continued strategic investments in direct-to-consumer, product innovation and connecting our brands with consumers whenever, wherever and however they shop.

Third quarter operating margin was up 10 basis points to 18.2%, which included 40 basis points of negative impact from currency. By coalition, operating income in the Outdoor & Action Sports coalition was up 1% and operating margin was 21%. That's 20 basis points less than last year as strong gross margin expansion was tempered by FX and continued investment in strategic priorities including D2C and innovation.

Jeanswear operating income was down 10% with operating margin down 90 basis points to 20.3% due to top-line volume and the quarter-specific impacts discussed earlier. Profit for Imagewear was up 11% and operating margin was up 230 basis points to 16.6% as widespread gross margin improvement with particular strength in LSG drove the results. And in Sportswear, operating income was down 35% for the reasons already detailed.

So carrying all of this to the bottom line, our reported EPS grew 13% to $1.20 in the third quarter. Currency-neutral earnings were up 16%. This increase was primarily due to gross margin expansion and a lower tax rate due to regional mix and discrete items.

Now to our balance sheet. If we turn back the clock to February 19, which was in the midst of the winter that never showed up, we told you we intended to carry forward about $60 million of cold weather core product to fulfill orders for the 2016 fall/winter season. We said it again on April 29, and again on July 22. With today's report that our inventory position is nearly flat, we've now delivered on our commitment to solid inventory management. We have great confidence that our marketplace discipline, that is, our ability to quickly adapt to supply/demand changes, will continue to play an essential role in our future performance.

During the quarter, we bought back 2.7 million shares of VF stock for $166 million, bringing our year-to-date total to $1 billion, meeting the target we set in February. As you know, our commitment and track record of returning cash to shareholders is essential to our approach to delivering total shareholder return. In fact, at the end of 2016, we will have returned more than $5.5 billion of cash via share buybacks and dividends over the past five years.

This year, our Board of Directors approved a quarterly dividend of $0.42 per share, which is $0.05 or 14% over the prior quarterly amount. This marks the 44th consecutive year we've increased our annual dividend payout. With this increase, our calendar 2016 dividend will reach $1.53, a 15% increase over the prior year.

Turning to outlook, we expect full-year currency-neutral revenue to be up 2% to about $12.2 billion. This revision is primarily due to lower-than-expected third quarter results which flow through to the balance of the year and specific inventory actions we're taking at The North Face and Timberland to improve brand and channel health.

Gross margin should improve 40 basis points to 48.6% or 49.3% currency-neutral. Operating margin should reach 14.3%, or 14.8% currency-neutral. Our tax rate should be about 20% and our reported EPS is expected to increase 3% to $3.13 or up 7% on a currency-neutral basis.

As we assess our performance during the past year, pressures in the global economic environment and related shopping patterns combined to create what has now been a four-quarter long uneven environment with mixed performance across our portfolio. Throughout this period, we've continued to speak to delivering sustainable profitable growth by investing in the future and delivering value for our shareholders. And while many things in this environment have changed and shifted since last October, our financial philosophy has not. Maintaining profitability, preserving and returning capital to shareholders and strengthening our brands to ensure long-term sustainable growth remain our top priorities.

For VF, the current environment is characterized by both challenges and opportunities. To meet the challenges, we're using multiple P&L and balance sheet levers to counterbalance top-line weakness. From supply chain initiatives and inventory management to expense discipline around overhead, demand creation and investments, the evolution of our tax platform to powerful free cash flow, historically high return on capital and dividend yields, we remain able to mitigate risk and safeguard consistency even in the face of uneven conditions.

We've begun to work to strategically assess and actively explore how best to optimize and leverage our strengths to create an even better, more responsive organization to accelerate growth. As Eric mentioned, we do have line of sight to an Investor Day where we will share these strategies in the context of our next long-range plan. Currently, we're looking sometime late in the first quarter of next year, so stay tuned and we'll be in touch by the holidays, if not sooner, for a save the date and more details.

To close out today's call, amid persistently tough conditions in some geographies and categories, we believe passionately in our brands, our business and our ability to deliver the results you've come to expect from us, even when our top line is challenged in an uneven environment.

With that, I'll turn the call back over to the operator and we'll take your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And we will take our first question from Bob Drbul with Guggenheim Securities.

Robert Drbul
Analyst, Guggenheim Securities LLC

Q

Steve, congratulations. Eric, best of luck.

Eric C. Wiseman
Chairman & Chief Executive Officer, VF Corp.

A

Thanks, Bob.

Steven E. Rendle
President, Chief Operating Officer & Director, VF Corp.

A

Thanks, Bob.

Eric C. Wiseman
Chairman & Chief Executive Officer, VF Corp.

A

Was that your question, Bob?

Robert Drbul
Analyst, Guggenheim Securities LLC

Q

No. I guess on Vans, could we start on Vans a little bit? Seems to be a lot of discussion around the Vans brand. Can you guys update us on where you see the channel inventories both in the U.S., with Vans and the category, but also importantly Europe and the category?

Steven E. Rendle
President, Chief Operating Officer & Director, VF Corp.

A

Bob, I'll start and talk to you in general about Vans. And I'll let K.H. close with specific comments around Europe. I would tell you first and foremost, our Vans brand, the strong momentum continues. And I feel compelled to reiterate, we were up 10% for this quarter following a 9% in Q2 and an 8% in Q1. This brand's ability to have consistent flow of relevant new products for each of the channels that they do business in is really I think one of the main points that continues to drive their significant and sustainable growth.

They're intently focused on their consumer. And as they think about the different channels, they're being very thoughtful around the collections and the different collabs that they're bringing to bear in each of these seasons. The channel inventory that we see here in the U.S. is – nothing is alarming to us. They're right where we expected them to be. But I think the most remarkable thing, Bob, is the results that we're seeing in our own direct-to-consumer channel, where we control that complete brand experience, continuing to drive significant growth this last quarter, up low teens.

I'll pass it to K.H. and he can talk about Europe where we have had some inventory build that we've been systematically working through.

Karl Heinz Salzburger
Vice President & Group President, International, VF Corp.

A

Yeah, Bob. Europe is playing out exactly how we had anticipated it at the beginning of the year. Every quarter, we saw sequential improvement. And as I mentioned, we expect Q4 to return into positive territory. I would say the inventory situation which we faced is normalizing month by month. And the fact that our DTC numbers in Q3 were so strong, up mid-teens, show that the brand resonates well with our consumers. We have a lot of good stuff in the pipeline, good product stories which are resonating well. So all in all we're pretty confident.

Robert Drbul
Analyst, Guggenheim Securities LLC

Q

Great. And I guess the second question that I have is in the Outdoor area, when you look at the inventories that are in off-price, can you just talk about how that may impact the Q4 on some of your inline product and how you're forecasting to manage through that and your confidence level in both Timberland in the fourth quarter and The North Face?

Eric C. Wiseman
Chairman & Chief Executive Officer, VF Corp.

A

Yeah. So I think an important fact here, Bob, is we have seen demand in the wholesale channel shift from Q3 to Q4, or as we said, in the commentary to the right. And we've seen this beginning, but coming out of last winter, the dealer caution is at a significant level and we took actions at that point to really mitigate the amount of inventory that we brought in to cover our orders. We kind of had a good sense of what was going to go on in the off-price channel. We participated in moving goods there last fall.

But I'll tell you, as we came into September, we were a bit surprised by the sheer amount of just not outerwear from the outdoor industry, but all categories from across Apparel. And it's what's caused – it's really brought us to make this decision to really be thoughtful around our go-forward actions and to mitigate the impact that participation in this channel can have on the long-term health of a brand. I think if we had to do it over again, we may have taken a little bit less of a position as we went in to – out of last fall. And I think what we saw that maybe compounded things that we didn't see last fall was the bankruptcies that took place early in the year that had an additional amount of inventory move into the off-price channel as well as online that's causing some pressure in the outdoor industry.

Robert Drbul
Analyst, Guggenheim Securities LLC

Q

Thank you very much. Good luck.

Operator: We'll take our next question from Michael Binetti with UBS.

Michael Binetti
Analyst, UBS Securities LLC

Q

Hey, guys. Good morning. Congrats, Eric, on your next move. If I could just ask a...

Eric C. Wiseman
Chairman & Chief Executive Officer, VF Corp.

A

Thanks, Michael.

Michael Binetti
Analyst, UBS Securities LLC

Q

Sure. If I could just ask a quick question on the model, could you help us quantify how much the shift was in Jeanswear? You've kind of commented on an overarching theme here that the retailers are looking to take delivery later on. Maybe you can help us contextualize how much that impacted Jeanswear in the quarter?

Steven E. Rendle
President, Chief Operating Officer & Director, VF Corp.

A

I don't know if I can put an exact number on it. We did expect the Q3 number to be down slightly when we considered the movement of our Lee business from Q3 into Q2 as well as what we saw in our Asia Lee business going from Q3 to Q4, but it was a slightly slower start to the second half. And we were – as we saw the softer consumer spending in the U.S. and specifically in that energy and industrial community, but also mid and mass – with the warm weather, we saw that slight downturn in our Denim and Long Bottoms business, but Lee was up low double digits in Q2. And as we've come into Q3, we saw that moderate. But we see it coming back to growth in Q4. So kind of on the level, we are right-sizing our expectations for the Jeans business for the year, taking it to a low-single-digit growth year-over-year.

Michael Binetti
Analyst, UBS Securities LLC

Q

Okay. And congrats, Steve, if I didn't mention that upfront.

Steven E. Rendle
President, Chief Operating Officer & Director, VF Corp.

A

Yes.

Michael Binetti
Analyst, UBS Securities LLC

Q

Just a – you mentioned – looking at the Analyst Day for 1Q, obviously we've all been looking very forward to having an update from you guys. You mentioned looking at the optimum portfolio longer term and obviously timing of things like brand acquisitions is something that's less controllable. Maybe you can give us some thoughts on what you guys are evaluating or maybe some of your early goals you guys are trying to look at as far as what are you trying to deliver for the Analyst Day in 1Q?

Eric C. Wiseman
Chairman & Chief Executive Officer, VF Corp.

A

Yeah, Michael, we're not going to give a lot of details at this point. But obviously – we've used the words historically that we're active portfolio managers and that includes what we move away from our portfolio and what we hope to bring in. And we've been clear this year about a couple of moves that I don't need to repeat. And our intent at the Analyst Day will be to lay that out and hopefully have more updates between now and then. So I just can't be specific right now. That would be inappropriate, but we will be more clear I hope when we get to that time in the first quarter.

Michael Binetti
Analyst, UBS Securities LLC

Q

Maybe as far as connecting the algorithm that you guys gave us in 2013 to how you guys are thinking about the targeting that you guys want to look at? I know you gave us M&A within the context of the last algorithm. Is that something that – with several years gone by since Timberland, and obviously you guys have said you're actively looking at things – but is that something you want to continue to put yourself – put a timeframe on? Or is it something that you guys think will come when it comes [ph] we just (44:47) take the focus off that for now?

Eric C. Wiseman
Chairman & Chief Executive Officer, VF Corp.

A

One of the things that we're really proud of is that we haven't made an acquisition in the last five years because we've had opportunities that we've walked away from based on price where we couldn't deliver shareholder value and we got inactive when the market was frothy. And we would have had to really overpay just in general. So our discipline around that is strong. Our efforts around M&A are non-stop. There has not been a week that's gone by in the last 12 weeks that we haven't had at least one M&A-related meeting and discussion. So we're as active as we could possibly be and that's really all I can say.

Michael Binetti
Analyst, UBS Securities LLC

Q

Okay. Thanks again, guys.

Eric C. Wiseman
Chairman & Chief Executive Officer, VF Corp.

A

Thanks, Michael.

Operator: We'll take our next question from Matthew Boss with JPMorgan.

Matthew Robert Boss
Analyst, JPMorgan Securities LLC

Q

Thanks. Can you guys speak to pricing and product costs? So on pricing, any brands where you might consider driving market share at the expense of historical margins? And then on product costs, what you're seeing in terms of your outlook?

Scott A. Roe
Chief Financial Officer & Vice President, VF Corp.

A

Yeah, this is Scott. I'll take that. So we've talked all year about how we expected pricing to offset the FX impact and we said that would be mostly second half-weighted. And indeed that is what we're seeing as you can see from our gross margin expansion this quarter and what we expect next quarter. Same with product costs. While it's not huge for the year, we said it was a little against us early on and it flips to positive. Again, we are seeing that and we said particularly in the leather area is where the biggest benefit is coming in.

Matthew Robert Boss
Analyst, JPMorgan Securities LLC

Q

Got it. And then as we think about the multi-year gross margin profile, what's the confidence on 50 basis points annually? Can you just walk through some of the moving parts? And more so just offsets to potentially more moderate Outdoor coalition growth.

Scott A. Roe
Chief Financial Officer & Vice President, VF Corp.

A

Yeah, so as you would probably anticipate, we can't speak to the future. But our model really has been, and we've said consistently, we see no reason for this to change in the future, that our fastest growing businesses are our highest margin businesses, and that being Outdoor/Action Sports, our D2C and our International and there's no reason that wouldn't continue to be the same in the future.

Matthew Robert Boss
Analyst, JPMorgan Securities LLC Q

Got it. Best of luck.

Eric C. Wiseman
Chairman & Chief Executive Officer, VF Corp. A

Thanks.

Operator: We will take our next question from Lindsay Drucker Mann with Goldman Sachs.

Lindsay Drucker Mann
Analyst, Goldman Sachs & Co. Q

Thanks. Good morning, everyone. And I'll offer my congratulations as well to Eric and Steve.

Eric C. Wiseman
Chairman & Chief Executive Officer, VF Corp. A

Thanks, Lindsay.

Lindsay Drucker Mann
Analyst, Goldman Sachs & Co. Q

I wanted to ask a question, Eric, on a remark you made earlier in the conference call about it's not business as usual at VF. And I was hoping maybe you could expand a little bit on some of the areas and initiatives that you're doing differently with the – in the context of as an organization that you guys are always evolving and striving to perform better. So maybe just some more specifics on what's changing.

Eric C. Wiseman
Chairman & Chief Executive Officer, VF Corp. A

Yeah, Lindsay, we will cover a lot of this at our Investor Day later in the first quarter, but I'll give you a couple real-time examples. As we saw a slowdown in the performance of our North Face stores in North America earlier this year, we rapidly worked to implement some in-store model changes that made our stores look different and were more engaging for consumers. We've been rolling that out and we're seeing immediate impact from it. So they're pretty significant changes. And if you were to go into the Michigan Avenue store or the new store in New York City, you're going to see what we think the future of that looks like. It was a sense of urgency around making some of those tactical things and we're doing that around the world.

You heard that our D2C business is up 7% year-to-date in total and that to us is very encouraging because when we record revenue in our D2C business, it's because a consumer came into a store and bought something they wanted. When we report revenue in our wholesale model, it's a shipment to another retailer for a future sale to consumer. One is a true impact of how effectively our products and stories communicate. The other has a long delay on it and is impacted by things we don't control like wholesale – I'm sorry, like inventory in wholesale. So we've been working on the shorter-term things and we'll be giving a lot more detail around the shape of the portfolio, the regions and how we're going to distort effort in some of those and more later in the first quarter.

Lindsay Drucker Mann
Analyst, Goldman Sachs & Co. Q

Okay. Great.

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

Lindsay, if I were to add just a real quick point to build on Eric, I think one of the other areas that we're really doubling down on is in the area of product design and innovation. And to Eric's point on what we've done in-store is it's really clear in this changing consumer environment that for brands to succeed and with the powerful brand portfolio that we have, we know that when we elevate the quality of the design of our products and marry that with really powerful experiences, be it in-store, at events or through our demand creation, we have an outsized opportunity to succeed. And I think that would be the other area really married with what Eric talked about in The North Face store that we think will continue to propel our brands forward. And you really see that going on in our Vans business and it's no accident that we congratulated our Napapijri business for being the fastest-growing business. They began a lot of work last year and were able to rapidly really shift their go-to-market strategy with product and marketing and they're having a really, really good fall season.

Lindsay Drucker Mann
Analyst, Goldman Sachs & Co. Q

Great. And on the point about wholesale, is it possible for you to comment on the difference between sell-in versus sell-through to the degree that you're seeing retailers order inventory more cautiously? And how long until this sort of destocking effort from retailers is through to the degree that it escalated, it sounds like, in the back half of the year? Is this a drag do you think potentially in the first half of next year?

Eric C. Wiseman
Chairman & Chief Executive Officer, VF Corp. A

Yeah, it really is an exaggerated thing this year and Steve touched on it earlier about the inventory that didn't sell last winter when winter didn't happen. A lot of that inventory is still out there and it's affected our wholesale bookings because people – if last year, they sold 100 jackets and this year they plan to sell 100, but they started with 10, they're going to buy 10 less this year and that's just a reality. But it's really distorted in North America this year and you're seeing it sit at The North Face and Timberland.

It's our colder weather brands that are – have the least momentum in their wholesale business in North America and that's really where our biggest challenge is. You saw our International results have been strong. They were up 6% in total and they were up in every region other than in the U.S. And a lot of that is because of the wholesale business being down because of inventory that already exists from last year.

Lindsay Drucker Mann
Analyst, Goldman Sachs & Co. Q

Great. Thanks, guys.

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

And if I could be consistent in tag teaming with Eric here, our inventories at key retailers are balanced and that's something that we are controlling. But I think the lesson here, Lindsay, is that it's no longer going to be the norm where you set a floor early fall and expect to take reorders through the season and come out the other side in a successful place. I mean, the demand that consumers are now putting on businesses to bring more frequency of new ideas and elevating that brand experience is something that we're pivoting to be very, very responsive to. And our supply chain really puts us in an advantaged position to be able to look at the number of drops per season for each of our brands and being able to dial that into our model, both how we create the product, but also how we build that product and deliver to our wholesale and our own stores.

Lindsay Drucker Mann
Analyst, Goldman Sachs & Co.
Q

Thanks very much.

Eric C. Wiseman
Chairman & Chief Executive Officer, VF Corp.
A

Thanks, Lindsay.

Operator: And we will take our next question from Kate McShane from Citi Research.

Kate McShane
Analyst, Citigroup Global Markets, Inc. (Broker)
Q

Hi. Good morning. Thanks for taking my question and congratulations, Steve and Eric. My question was – wanted to build on the last question actually with regard to how the business is changing and some of your commentary around direct-to-consumer. We've heard from you in the past that you have these innovation centers and have a lot of flexibility by having partially owned your supply chain. I just wondered if you could update us on how you're leveraging these two competitive advantages to, again, focus on some of the changes that you're seeing in the industry?

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

Well, Kate, this is Steve. I mean, really I just build on my reply to Lindsay is, I think the consumer today is able to access pretty much any time what they want, where they want. And for powerful brands to compete in this environment, we need to be ever-present with innovative product and really powerful experiential demand creation, as I said, either in our stores, at events, like our Vans business does with House of Vans, or through the demand creation that we deliver across the different mediums available to us.

So our D2C platform – and it's, again, I don't think it's any surprise that that's where we're seeing the greatest success. That is where we're able to have ultimate control of our brands' assortments and in-store experience that leads to that brand experience and that's where we're able to really bring to bear our new tools. And we take those to our wholesale partners and use those to build the same kind of strengths in there.

I mean, the innovation platform, just to finish, that's really that upstream capability that we've added over the last two or three years that as they marry more closely with our in-line product teams, we have new ideas that will create new platforms, new franchises, just really building into a frequency and flow of new ideas back to that point of bringing new ideas consistently to the consumer.

Eric C. Wiseman
Chairman & Chief Executive Officer, VF Corp.

A

Kate, this time I get to pile on Steve's answer; just the way it works. One of the things that we have that is a unique competitive advantage is just under a third of the products that we sell in the United States we make in this hemisphere in factories that we own and operate. And in a time when retailers are carrying less inventory and consumers are going through this buy-now, wear-now, everything is happening later closer to the moment of purchase.

And by far, our shortest lead time is when we make it in factories that we own and operate in this hemisphere and we're uniquely positioned to do that in our space. Just not very many people own and operate factories like we do and our lead time there is a fraction of what it is from other regions of the world. And it gives us an advantage, whether that's making Timberland Boots in the Dominican Republic or making Jeanswear or some North Face products in Mexico and Central America. It really is an asset that we're relying on more and will become more and more part of our strategy.

Kate McShane
Analyst, Citigroup Global Markets, Inc. (Broker)

Q

Thank you.

Eric C. Wiseman
Chairman & Chief Executive Officer, VF Corp.

A

Thanks, Kate.

Operator: We'll take our next question from Erinn Murphy from Piper Jaffray.

Erinn E. Murphy
Analyst, Piper Jaffray & Co.

Q

Great. Thanks. Good morning. Just as I take a step back and listen to the commentary, you are highlighting a number of your brands that are returning to growth in Q4, particularly those that have significant exposure in North America and in the wholesale channel. So could you maybe just express kind of what's changing in the environment or in your visibility that really gives you the confidence in the pickup in the fourth quarter?

Eric C. Wiseman
Chairman & Chief Executive Officer, VF Corp.

A

Yeah, I really do wish that I had a crystal ball that could give me clear context around the fourth quarter. Let me just shape up how we look at it. The fourth quarter, Erinn, in terms of total revenue is about the same size as the third quarter. So we're looking at about a $3.5 billion quarter in each.

One of the differences is that the third quarter is more about wholesale shipments to retailers for eventual sale and we've already documented that we struggled with that in the third quarter. And the fourth quarter for us is much more about our D2C business. It is when that business peaks as a percentage of our revenue and it's a business that is up 7% year-to-date. So it has been working for us all year around the globe and that's one thing that gives us confidence.

We've also assumed a normal winter. And by a normal winter, we don't mean a 1980s normal winter. We mean an average of the last three years to five years normal winter which includes some good ones and some bad ones. And if it sets up like that, which is our assumption – and that is a big assumption, we're going to be just fine because we know our stores are working and we know we have the right products in them. As we said, we're up 7% year-to-date, we were up 6% in the third quarter and our effort on communicating to consumers is a lot around driving them to retail, ours or our customer's.

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

Yeah, I'd just add one thing from a context standpoint. Remember, our third quarter is off of a plus 9% in the previous year, and our fourth quarter is against a minus 1%. So from a comp standpoint, fourth quarter is much easier.

Erinn E. Murphy
Analyst, Piper Jaffray & Co. Q

Got it. And then historically, you guys have done a significant portion of your order book on pre-book, particularly for the seasonal businesses. So for your major brands today, how much are on pre-book going forward? And then where would that have been about a year ago?

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

Yeah, I'd say the pre-book percentage pretty much holds true. It's not a dramatic shift. It's in the high 90%. We've always gone out and presold and had a very limited amount of reorder inventory on those key seasonal initiatives and I don't really see that changing dramatically today or in the future.

Erinn E. Murphy
Analyst, Piper Jaffray & Co. Q

I may have missed this, but just the direct-to-consumer comp in Q3? And then what is assumed in Q4? That would be helpful. Thank you.

Scott A. Roe
Chief Financial Officer & Vice President, VF Corp. A

Yeah, Erinn. We don't give the comp specifically. We just talked about from a shave standpoint low-single-digit.

Erinn E. Murphy
Analyst, Piper Jaffray & Co. Q

Thank you, guys, and best of luck.

Operator: We'll take our next question from Omar Saad with Evercore ISI.

Omar Saad
Analyst, Evercore ISI Q

Thanks. Good morning. Eric and Steve, best wishes to you both.

Eric C. Wiseman
Chairman & Chief Executive Officer, VF Corp. A

Thanks, Omar.

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

Thank you.

Omar Saad
Analyst, Evercore ISI
Q

Wanted to ask – it's pretty interesting. The U.S. market performance seems to be so different than the rest of the world the last few quarters and especially this quarter. Maybe talk about what some of the differences are in the markets. Is it a macro level issue? Is it a competitive landscape? Or is it – the business is already quite big in the U.S. and maybe a little bit closer to maturity? Maybe help us think about your key brands in the U.S. versus the other markets? And why there's such a disparity in performance?

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

Yeah, Omar. I guess I'd go first. We all get to watch the TV these last few weeks and I think there's an overarching theme going on in our political atmosphere that's giving consumers a little bit of pause and potentially making them a bit conservative as we're all uneasy about where we're ultimately going here.

I think last year's fall season has had a compounding effect not just on the winter goods, but in Apparel and Footwear in general and we've seen bankruptcies come into view, having an impact on certainly where businesses like ours have the opportunity to sell, but also where consumers are looking to engage. So I think the U.S. market just finds itself in maybe a similar situation of where our European business was two years or three years ago. And as we've got a lot of lessons learned and are employing a lot of really great solutions, I think you saw the growth that we delivered here for Q3, I think we have a really strong playbook of how to navigate this.

Because I think at the center here is powerful brands, consumers absolutely want to connect with them, engage with them and purchase from them. And it's really in our court to create the compelling products and the demand creation that draws them to us and really create that loyal relationship that we can build on year-over-year.

Eric C. Wiseman
Chairman & Chief Executive Officer, VF Corp.
A

I'll add just a little bit of context for you, Omar, because there's this consumer thing and then there's the thing that Steve talked about, the bankruptcies and the inventory hangover from last winter. So peeling it back for The North Face because it's such an important part of our story. In the quarter, in the Americas, our direct-to-consumer business was up mid-teens. And in Europe, it was up high-teens. And in Asia, it was up mid-teens. So there's – we're all kind of right in the same pocket where we're selling products to consumers through our stores. It's in the wholesale side that there's a different story in outside the U.S. and inside the U.S. And a big part of that is the bankruptcies and the inventory hangover from last year. And as I've stacked them up geographically and by the way, you see about the same thing in Vans where in Americas, it was up low teens and in EMEA, it was up over 20%. It was still strong growth in our own stores and differences in the wholesale piece of the business.

Omar Saad
Analyst, Evercore ISI
Q

That's actually really helpful, Eric, to put some context around it. Maybe along the same lines then, do you think differently long-term about the growth rates DTC, e-Commerce, owned stores versus the wholesale channel? Is this kind of ratcheting down to inventory levels, is this a temporary thing – really just a temporary thing, the hangover from last year and retailers ordering more cautiously or do you think there's more of a structural trend here where you're going to really try to shift the consumer maybe a little bit away from the traditional wholesale channels and more towards the overall DTC complex?

Steven E. Rendle
President, Chief Operating Officer & Director, VF Corp.

A

Great question. I really wish I knew the answer to it. I will tell you that for sure, if you had to make a choice right now, you'd be doing so in a cloudy environment because we don't know exactly how much inventory is out there from us and from all the competitors between our core channel to distribution and the off-price. And that's going to have to flush through, I think, until we get a better read on that. And it will be different when that flushes through. So if we have a nice solid winter this year and that flushes out, I think that's when you want to make any choices about changes in your model.

Eric C. Wiseman
Chairman & Chief Executive Officer, VF Corp.

A

Real quick, I mean, our model is very intact. Our wholesale partner relationships are very important. It's over 70% of our total revenue today. And I think our best wholesale partners are looking to and actively evolving their model that marries with our model and we use our stores to really position our brands in the most complete way and that learning flows into our best wholesale partners. And as we evolve our model and really move to more frequency of deliveries across the seasons, this idea of pre-book and wait for reorders starts to give way to more monthly or every six weeks to eight weeks drops of meaningful collections across the different channel partners that our brands have to work with and putting the right product for that consumer in front of them and using the powerful demand creation to draw them in to transact with us directly or through our powerful wholesale partners.

Omar Saad
Analyst, Evercore ISI

Q

Appreciate the thoughts, guys. Thank you.

Eric C. Wiseman
Chairman & Chief Executive Officer, VF Corp.

A

Thanks, Omar.

Operator: And we'll take our next question from Sam Poser with SIG.

Samuel Marc Poser
Analyst, Susquehanna International Group, LLP

Q

Good morning. Thanks for taking my question. And congratulations to both of you as well. I just want to talk about the inventory first of all. I mean, if we look back on the inventory levels over the last few years, it looks like even though your inventory is basically in line with last year, it looks like your inventory is still significantly higher than it was two years or three years ago – at the end of Q3 and you're really driving in the same range of cost of goods sold. So I understand it's in line with last year, but was last year too high? And what is the correct amount of inventory? What kind of turn do you want to get to and questions of that nature?

Scott A. Roe
Chief Financial Officer & Vice President, VF Corp.

A

Yeah, Sam, this is Scott. So, I mean, obviously I think if VF is known for anything, we're known for the way we manage our inventory and we look at this very carefully every month really, not even every quarter. And we set targets based on the balance between trying to manage the balance sheet and the cash flow versus making sure we're matching with demand. And you look at our days, they're right in line with what we've historically run from our standpoint. Our business mix has changed a bit. Our model has evolved a bit as we go to a little more D2C. That has impacts if you look over a long period of history. But I guess the short answer is we're right about where we want to be from an inventory standpoint and it's back in line from the hangover that we had a year ago.

Samuel Marc Poser
Analyst, Susquehanna International Group, LLP

Q

Thank you. And then secondly, can you give us – in the press release, you give us a breakdown of the EBIT by coalition, but can you dig into the EBIT maybe by brand within the Outdoor & Action Sports coalition to give us some color within the brands there?

Scott A. Roe
Chief Financial Officer & Vice President, VF Corp.

A

Yeah, Sam, we don't get into profitability by brand. I mean I think you can logically say that our largest brands are our also our largest contributors to both gross margin and operating margin expansion. That's just the law of big numbers. But in terms of actually quoting the profitability, we don't do that by brand.

Samuel Marc Poser
Analyst, Susquehanna International Group, LLP

Q

How about on a growth perspective, both in the quarter?

Scott A. Roe
Chief Financial Officer & Vice President, VF Corp.

A

Yeah, we've given you the growth on the top five brands, and beyond that we really don't give more detail.

Samuel Marc Poser
Analyst, Susquehanna International Group, LLP

Q

All right. Well, thank you very much, and best of luck.

Eric C. Wiseman
Chairman & Chief Executive Officer, VF Corp.

A

Thanks, Sam.

Steven E. Rendle
President, Chief Operating Officer & Director, VF Corp.

A

Thanks, Sam.

Operator: We'll take our next question from Laurent Vasilescu from Macquarie.

Laurent Vasilescu
Analyst, Macquarie Capital (USA), Inc.

Q

Good morning and I'll add my congratulations. I wanted to follow up on the Jeanswear coalition. Can you provide some color on how inventories stand within the Jeanswear channels? The last time there was too much Jeanswear inventory in the channel, I think you wound down some internal production. Could we see that happening over the next few quarters? And if so, what are the P&L implications?

Eric C. Wiseman A
Chairman & Chief Executive Officer, VF Corp.

Laurent, the inventory levels across our channel partners in Jeanswear is fine. It's in line with expectation. Ours is really looking at coming off a strong Q2 and that shift in our Asia business from Q3 to Q4. And just really moderating shipments based on consumer demand. With our channel partners, which our Jeanswear team does extremely well, if anything they're the benchmark that all of our other businesses have learned from.

Laurent Vasilescu Q
Analyst, Macquarie Capital (USA), Inc.

Okay. Congrats. And congrats on today's overall inventory number. A few weeks ago, a very large athletic brand out of the West Coast reported significant buildup in the Western European inventories. And I was curious to know how your Western European inventories are versus the company-wide reported percentage of up 1%. And then more specifically, how are inventories at your key European retail partners?

Karl Heinz Salzburger A
Vice President & Group President, International, VF Corp.

I'll try to answer this question. I mentioned before in my script, we had an issue during the year on Vans, which is normalizing as you saw in our results. As far as we know, there's no real issue in the market in other brands or in other channels.

Laurent Vasilescu Q
Analyst, Macquarie Capital (USA), Inc.

Okay. Thank you very much and best of luck.

Eric C. Wiseman A
Chairman & Chief Executive Officer, VF Corp.

Thank you.

Operator: We'll take our next question from Camilo Lyon with Canaccord Genuity.

Camilo Lyon Q
Analyst, Canaccord Genuity, Inc.

Thanks. And all the best to Eric and Steve. I just wanted a little clarification on the commentary around the proactive inventory pullback for North Face and for Timberland in the fourth quarter. Were there any order cancellations that materialized? Or really what was the impetus for this? It sounds like this was a stark change from how you had anticipated the season unfolding. And given that we're at the outset of this, beginning of this season, and I appreciate the awareness of the channel inventory, was there something that – was there something that drove this initial sort of decision to pull back on inventory that you saw from your wholesale partners?

Steven E. Rendle
President, Chief Operating Officer & Director, VF Corp.

A

Sure. There have not been any cancellations to our order books. If anything, it's been that shift to the right of demand from what historically was Q3 into Q4. What really caused us to talk about mitigating our inventory positions in the marketplace really has to do with what we see in the off-price channel, really driven from the record warm winter of last year, but also the bankruptcies that compounded. And as we rolled into September and just were able to see the amount of inventory out there, not just ours, but of all brands, we've taken the position to be very proactive and thoughtful about managing long-term integrity of our brands. And these are great channel partners, but there's a finite amount of capacity out there and we want to be really thoughtful about how we're utilizing it.

Camilo Lyon
Analyst, Canaccord Genuity, Inc.

Q

Great. And then just to follow up on that, should there be incremental demand as the fourth quarter progresses and hopefully as winter really materializes, could that serve as a lever to – could inventory serve as a lever to meet or satisfy reorders if and when wholesale partners of yours realize that they under-ordered and under-stored their – or under-inventoried their stores or was that inventory that you pulled back on, was that curtailed farther back in the supply chain?

Eric C. Wiseman
Chairman & Chief Executive Officer, VF Corp.

A

Well, I think a high-level answer to that is we run our business – on average, we have about a hundred days of inventory. So right now, our plans are kind of in that ZIP code. I hope we end the year with 90 days of inventory because that would mean that we had the – that we had a good winter and we were able to sell some more through. But it's not like we're standing here with no product to sell. The question is, does it match up with what demand is? And that's never going to be perfect, but I don't want people to think we don't have the ability to chase some things. We just can't chase everything.

Camilo Lyon
Analyst, Canaccord Genuity, Inc.

Q

Okay. Last question too, you speak about the strength of DTC and how there is a divergent path of how your brands are performing. Sticking to those growth numbers, could you just dig into the unit comparisons on what you're seeing on a unit basis of sell-through in your D2C versus your wholesale?

Eric C. Wiseman
Chairman & Chief Executive Officer, VF Corp.

A

I don't think we're capable of that.

Steven E. Rendle
President, Chief Operating Officer & Director, VF Corp.

A

If we have that level of detail...

Eric C. Wiseman
Chairman & Chief Executive Officer, VF Corp.

A

We're all sitting here looking at dollar reports...

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

Great question.

Camilo Lyon
Analyst, Canaccord Genuity, Inc.
Q

Well, you see what I'm trying to get at, right? I'm trying to understand – you obviously get the pricing benefit of your DTC, but we're just really trying to dig into what is the underlying unit demand because there's obviously that...

Eric C. Wiseman
Chairman & Chief Executive Officer, VF Corp.
A

Sure. Well, the numbers I gave in an earlier comment of – and I was focused on The North Face where our direct-to-consumer business was up mid-teens both in the Americas and Asia and high-teens in EMEA, guaranteed that there's unit sales increase in that because we certainly don't have mid-teens to high-teens price increases in our products, particularly in the third quarter when we're not selling our most expensive outerwear products, we're selling other kinds of products in those stores. So it implies – it actually tells you that there's a unit price increase that – what might be slightly below those because we haven't taken big retail price increases.

Camilo Lyon
Analyst, Canaccord Genuity, Inc.
Q

Perfect. Thanks, guys. Good luck in the fourth quarter.

Eric C. Wiseman
Chairman & Chief Executive Officer, VF Corp.
A

Thanks.

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

Thank you.

Operator: This does conclude today's Q&A session. I would now like to turn the call back over to Eric Wiseman for any additional or closing remarks.

Eric C. Wiseman
Chairman & Chief Executive Officer, VF Corp.

Thank you, and thank you all for being with us on this call. I said at the opening that we had a lot to cover and that's why we went a little long on the Q&A. We wanted to give you a chance to ask your questions. I hope you heard from us a lot of confidence about the upcoming quarter. As I said earlier, the fourth quarter is where our business model shifts and our direct-to-consumer business peaks both in dollars and as a percent of our revenues. And that's our best indicator, and that's where we've been performing strongly. We're up 7% year-to-date.

We also have confidence in our wholesale business because by this stage in the game, we obviously are – in the quarter, we have the most visibility of any quarter in terms of what's going to happen from a wholesale business.

And we sit here confident that we can deliver the year as promised, even though we have – it is not what we promised at the beginning of the year for lots of reasons that we've discussed. Hope we gave you some clarity and look forward to talking to you in February.

Operator: And this does conclude today's conference call. Thank you all for your participation. You may now disconnect.