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PRESENTATION

Operator

Good day, everyone, and welcome to the VF Corporation fourth-quarter fiscal 2011 earnings conference call. Please be aware that today's conference is being recorded. And now your host for today's call, Miss Jean Fontana. Miss Fontana, please go ahead, ma'am.

Jean Fontana - ICR - IR

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

Before we begin I would like to remind participants that certain statements included in today's remarks and the Q&A session may constitute forward-looking statements within the meaning of the federal securities laws. Forward-looking statements include management's current expectations, estimates and projections about business and results of operations and the industries in which VF operates.



Actual results may differ materially from those projected in the forward-looking statements. Important factors that could cause actual results to differ materially from those projected in the forward-looking statements are discussed in the documents filed with the Company and the SEC. I would now like to turn the call over to Eric Wiseman.

Eric Wiseman - VP Corporation - Chairman, President & CEO

Thanks, Jean. Good morning, everyone, and thanks for joining us. With me today are Bob Shearer, our Chief Financial Officer; our three Group Presidents, Steve Rendle, Karl Heinz Salzburger and Scott Baxter; as well as Karen Murray, President of VF Sportswear, and Susan Kellogg, President of VF Contemporary Brands.

I'd like to start off today's call by answering a question I know has been on everyone's mind lately. That question relates to the impact of unseasonably warm weather on VF in general and on The North Face in particular. I'm delighted to report that in the fourth quarter of 2011 The North Face achieved a 22% increase in global revenues and this was no easy comp. In the fourth quarter of 2010 The North Face achieved global revenue growth of 25% during an exceptionally cold and snowy winter season globally.

Here are some additional numbers. The North Face Americas business grew by 24%; European revenues rose 12% in constant dollars; and Asia revenues increased 41% in constant dollars. I hope that this helps put to rest concerns about the ability of this powerful brand to grow even in less than ideal conditions. We are confident that The North Face's momentum will continue in the years to come and we look forward to achieving our 2015 revenue goal of \$3 billion.

Now with that piece of the picture behind us, let's talk some about the year and the quarter just ended. 2011 was a year of records -- record revenues, record earnings, record cash flow from operations both on an organic basis and of course including Timberland which represents another VF record, the largest acquisition in VF's history. We continue to be thrilled about the opportunities that Timberland and SmartWool offer VF and our shareholders.

We delivered revenues and earnings accretion in 2011 above our initial expectation. We have outstanding teams in place at both Timberland and SmartWool who are working incredibly hard to realize all the synergies and growth we laid out for you at the time of the acquisition and we're confident that both the Timberland and small or SmartWool brands will be important drivers of VF's success for years to come.

The VF team delivered an impressive array of accomplishments in 2011. First, solid organic revenue growth in each and every VF coalition and higher operating income in every coalition except Jeanswear for reasons we have discussed throughout the year. Continued momentum at both The North Face and Vans brands, both of which grew over 20%.

Internationally organic revenue growth was about 20% in constant dollars. Including Timberland international revenues were 34% of VF's total revenues. And speaking of international growth, despite the well-documented financial challenges in Europe, our organic revenue growth in Europe was 16% in constant dollars. In Asia, an area of continued investment for us, organic revenue growth was greater than 30% in constant dollars. And in our direct to consumer businesses we achieved organic revenue growth of 15%.

In terms of the fourth quarter, we're delighted to wrap up the year on such a strong note with total revenues rising 37% and organic growth of 11%. I noted earlier the strength of The North Face in the quarter, but that doesn't tell the whole story. All VF coalitions achieved solid organic revenue growth in the quarter and both our international and direct-to-consumer businesses posted double-digit organic growth in the period.

Remember a year ago at this time we talked at length about the key issue of the day, higher product costs, and we laid out our assumptions for 2011 and acknowledged that no one knew how those assumptions were going to play out. So, how did we do?

We indicated then that the impact on gross margins from higher product costs would be just under 100 basis points. The reported gross margin was down 90 basis points. And we guided to an operating margin that was flat with 2010 levels. Our operating margin, excluding Timberland, was up 30 basis points to 13.6%. Including Timberland our operating margin was about flat.



I think that speaks volumes about VF's ability to execute in the face of highly challenging and volatile conditions. We recognize that this issue continues to be on everyone's radar for 2012 and Bob will have more to say on this in his comments.

I know another big issue out there is the outlook in Europe. As I mentioned, our organic revenues in Europe grew 16% in constant dollars in 2011. We did see some slowdown in the fourth quarter with European revenues growing by 14% in constant dollars versus the 20% growth achieved in the third quarter.

In times like these it's important to appreciate the benefits of VF's diversified model. Europe represents about 20% of VF's total revenues, but we are highly diversified there with a presence across European markets that remained relatively healthy such as Northern and Eastern Europe. Our brands still have [low] market shares in nearly every major European market.

The substantial marketing investments we've made over the past couple of years and will continue to make in 2012 are paying for themselves in the form of strong profitable growth which will continue this year. In fact, our revenues in Europe in 2012 are expected to grow more than 10% in constant dollars. Of course we're constantly monitoring events overseas and are prepared to course correct as needed should conditions change dramatically.

So with 2011 behind us our focus is now squarely on 2012 and on achieving the results we've laid out in today's release. To quickly summarize -- we expect to grow revenues by 15% or 17% in constant dollars and that will take us very close to the \$11 billion mark. Organic growth is pegged at 8% in constant dollars, which we think is a prudent assumption given the uncertainty surrounding economic conditions here and abroad.

All VF coalitions are planning to deliver solid organic growth with another outstanding year of double-digit organic growth in Outdoor and Action Sports. Timberland should add \$1 billion to revenue growth this year. You'll hear more from Steve and Karl Heinz about our plans for Timberland and the steps we're taken to ensure strong, long-term growth and profitability.

In 2012 our international business should be 37% of total revenues, so we are well on our way toward achieving our goal of 40% of revenues from our highly profitable international markets by 2015. And we're closing in rapidly on our 2015 goal of 22% of revenues coming from our direct-to-consumer business with direct-to-consumer revenues approaching that level this year.

Finally, in terms of earnings per share, we've acknowledged the twin headwinds of foreign currency translation and higher pension expense. And as mentioned in today's release, we expect these headwinds to impact our earnings per share by \$0.60 in 2012. Yet despite these headwinds we're looking for to another record year with adjusted earnings per share expected to reach \$9.30, up 13% over 2011.

So we enter 2012 with confidence in the power of our brands to continue their momentum with conviction in our ability to execute against our plans and with a great deal of excitement about many, many opportunities that still lie ahead. I'll turn the call over to Bob now to discuss our financial performance in more detail. Bob?

Bob Shearer - VP Corporation - SVP & CFO

Thanks, Eric. These are truly exciting times for VF with strong momentum across our brands globally. I'd also point out another big milestone reached this year. With the Timberland acquisition VF will have more than half its revenues coming from Outdoor and Action Sports. The portfolio transformation that we envisioned several years ago has become a fast rolling, highly profitable reality.

One point before I dive in, the release contains financial data on an adjusted basis. The adjusted data excludes two items -- expenses related to the Timberland acquisition in 2011 and 2012; and the impairment charges recorded in 2010. We hope that this helps you better interpret our results. Now let's start at the top with revenues.

Revenues in the quarter increased 37% with 26 percentage points of the growth, more than \$500 million, coming from Timberland. So organic revenues grew at a very healthy rate of 11% this quarter and that is on top of a strong Q4 in 2010. The momentum continues. And for the year revenues grew 23% with 9 percentage points of the growth coming from Timberland.

We exceeded the \$700 million in revenues targeted for Timberland in 2011; their total contribution was \$713 million. Organic revenues grew 14% in 2011 which is substantially above our long-term organic revenue growth target of 10% that we established in early 2011. The power of the VF portfolio diversified global and growing is clearly evident in these results.

So on to gross margin. Our original gross margin guidance on a full-year basis was a decline of just less than 100 basis points. So we're really pleased that on a full-year basis we navigated our way through the challenges related to higher product costs with full-year gross margin down at 90 basis points.

In terms of the fourth quarter, we were a bit behind the gross margin guidance we provided back in October. The reason, we experienced some modest gross margin pressure from one-time expenses in our US Jeanswear business including a charge related to the bankruptcy of a supplier. And to anticipate a question that you might have, Timberland did not have a material impact on gross margin in the quarter as their gross margin was comparable to that of VF's core businesses.

Now in terms of SG&A, you also recall that our guidance for the ratio of SG&A to revenues in 2011 was a decline of 100 basis points. On a reported basis SG&A declined 80 basis points, but that reduction was impacted by the inclusion of Timberland.

Timberland's SG&A ratio to revenues is substantially higher than that of other VF businesses and in 2011 also included one-time acquisition-related expenses. Excluding Timberland the SG&A ratio for the full year 2011 declined by 110 basis points or 10 basis points better than our initial guidance.

In the fourth quarter the negative impact on the SG&A ratio from Timberland was 90 basis points. Excluding Timberland the SG&A ratio would have declined by nearly 150 basis points. Obviously this speaks to the opportunities we see for future improvements in profitability and margins for Timberland and also to the benefit that we've seen from leveraging our strong organic growth.

In addition, you'll recall that the SG&A ratio in the 2010 quarter reflected some heavier investments in marketing spending which also help the comparisons.

Let's move on to the operating income line. As you saw and the release, earnings from Timberland contributed \$43.3 million to operating income in the quarter which is net of \$6.7 million in one-time acquisition-related expenses. For the quarter, the operating margin for Timberland, excluding the one-time expenses, was 9%.

If you exclude Timberland our fourth-quarter operating margin increased 10 basis points to 13% compared with the 2010 adjusted operating margin of 12.9%, despite the gross margin pressure I noted earlier. On a full-year basis excluding Timberland our operating margin moved to 13.6% from 13.3% in 2010. With the inclusion of Timberland our reported operating margin for the year was 13.2% and, adjusted to exclude the one-time acquisition-related costs, 13.5%.

Now let's bring it down to the bottom line. For the year adjusted earnings per share grew 27% to \$8.20 from \$6.46 in 2010, that's a \$0.05 [beat] to our prior guidance of \$8.15 per share from stronger than anticipated accretion from Timberland. Timberland contributed \$0.60 per share in 2011 on an adjusted basis, that is excluding one-time costs. On a reported basis Timberland's contribution was \$0.38 per share.

Organic earnings per share growth in 2011 was 18%, that is \$7.60 versus the \$6.46 reported in 2010, something we're quite proud of and well ahead of our long-term growth target of 12%. And for the quarter adjusted EPS rose by 30%, that's based on \$2.32 per share versus \$1.78 per share reported in the 2010 quarter. Timberland provided \$0.34 accretion in the quarter excluding \$0.04 of acquisition expenses.

And now before moving on to our 2012 guidance, a few points related to our balance sheet and cash flow. Excluding Timberland inventories were up 12% with 9 percentage points of the increased due to higher product costs.

Our balance sheet continues to be in excellent shape. As expected we did generate sufficient cash by year-end 2011 to pay down the commercial paper borrowings related to the Timberland acquisition. The remaining short-term borrowings on the year-end balance sheet support current working capital needs.

And from a cash generation standpoint 2011 marked another very strong year. In fact, our cash generated at \$1.081 billion was a new record high.

Okay, so let's review our guidance for 2012 and our plans to deliver another year of double-digit revenues and earnings growth to our shareholders. Revenues are expected to increase 15% or 17% in constant dollars. A note here, we are putting a particular emphasis on constant dollar amounts in our discussions related to 2012 given the headwinds presented by foreign currency translation for the year.

As you know, our biggest exposure is to the euro. And for planning purposes we are using a [1.25] rate for 2012. Given where the euro is today that would indicate some upside. To answer your question in advance, every 5 point movement in the euro is equivalent to about \$100 million in revenue and equal to approximately \$0.18 per share.

Timberland should contribute about \$1 billion to revenue growth this year. So, on a reported basis, or \$1.050 billion on a constant dollar basis. You'll hear more about our plans for Timberland from Steve Rendle and Karl Heinz in just a minute.

In constant dollars excluding Timberland in both 2011 and 2012 revenue should rise by 8%, which is pretty close to our target for organic revenue growth of 10%. We realize there's still a lot of uncertainty out there related to economic conditions both here and abroad, so we're taking what we think is an appropriately cautious approach to our guidance this year.

Following all the concern and discussions around gross margin in 2011, we're looking forward to getting back on track with gross margin expansion in 2012. In fact, we're looking for about 70 basis points of gross margin expansion over the 45.8% reported in 2011. Now to be clear, as we discussed during our third-quarter call, we'll continue to experience higher product costs through the first half of 2012, so that increase will all occur in the second half of the year.

Our operating margin in 2012 is targeted to improve and that is despite higher pension costs which will negatively impact our operating margin by 30 basis points. Timberland's operating margin should improve significantly in 2012 and could exceed 11%. Excluding Timberland in both 2011 and 2012 VF's core operating margins should improve to about 14% and that includes the 30 basis point negative impact from higher pension expense. So we are pointing toward once again making great progress as we set our sights on achieving our 15% operating margin goal.

Wrapping up now with our earnings guidance, our target for adjusted earnings per share for 2012, again, that's excluding Timberland-related expenses, is approximately \$9.30, that implies 13% growth over our adjusted EPS of \$8.20 in 2011.

Talk about the puts and takes here. First, we expect \$1.10 in adjusted earnings from Timberland, which is higher than our original estimate of \$0.90 that we committed to when we first announced this great acquisition. Our experience has obviously been quite positive to date.

And also as detailed in the release, our adjusted EPS guidance of \$9.30 is held back by a \$0.60 per share negative impact from foreign currency translation and higher pension expense. In constant dollars and without the pension expense increase adjusted EPS would be up 21% from the adjusted EPS of \$8.20 in 2011.

If you go a step further here and strip out Timberland from both 2011 and 2012, the growth in VF's core EPS once again excluding foreign currency exchange and pension impact would be 16% over VF's core EPS of \$7.60 in 2011. On a gap that basis earnings per share are expected to increase 14% to approximately \$9.10 per share from the \$7.98 per share in 2011.

Now let's talk for a moment about the cadence of our earnings per share results in 2012. There are a couple of significant factors that will impact our flow of earnings this year. First, product cost reductions in our Jeanswear business will benefit gross margin starting in the third quarter. Up to that point higher product costs will continue to pressure gross margin for Jeanswear and for VF in total especially in Q1.

Next, Timberland is a highly seasonal business with much stronger second-half results than first. Historically Timberland has recorded losses in their second quarter. And while we see their profitability continuing to improve we expect the same for 2012 for this business.



Next, the FX impact will be biggest in the first and third quarters which are the biggest quarters for our international business. And finally the \$0.19 increase in pension expense will be spread evenly across the four quarters. So, our earnings gains for 2012 will clearly be back half loaded with the second quarter being our most challenged earnings comparison.

And finally, I should comment on our planned capital expenditures for 2012 which are expected to increase to \$375 million. The good news here is that this higher level of spend is directly related to the success and growth that we're experiencing across our businesses. We'll be investing in new headquarters locations for our Outdoor and Action Sports businesses both in the US as well as in Europe, new distribution centers across the globe and continued store growth -- investments that we're more than happy to fund.

In summary, 2011 has been a year like no other for VF, marked by tremendous momentum across our brands and around the world capped by the transformational acquisition of Timberland. We look forward to delivering another strong year in 2012 and remain confident in our ability to achieve our long-term revenue and earnings growth objectives. And with that I'll turn the call over to Steve Rendle.

Steve Rendle - VP Corporation - VP, VF Corp. & Group President, Outdoor & Action Sports Americas

Thank you, Bob. On our third-quarter call I emphasized the momentum that our global Outdoor and Action Sports business continues to build, a momentum we're particularly proud as we finish out a record year and enter 2012 with our strongest portfolio ever. Our fourth-quarter and full-year results demonstrate the investments we continue to make in our brands, our infrastructure and our ability to connect with consumers is contributing to a very exciting long-term growth story.

Clearly our results for both the quarter and year benefited tremendously from the Timberland acquisition, but we're just as excited about the organic growth we achieved during both periods.

Excluding Timberland and SmartWool, our core Outdoor and Action Sports Americas revenues grew near 20% in the fourth quarter including double-digit revenue increases from The North Face, Vans, Lucy and Reef. For the full year, again excluding Timberland and SmartWool, our Outdoor and Action Sports Americas revenues grew nearly 15% with solid growth achieved at The North Face, Vans, JanSport, Lucy and Reef.

Taking a quick look at some of the brand highlights it's easy to understand why we believe 2012 will be another great year for us. Starting with The North Face. As Eric mentioned in his opening remarks, the brand showed amazing resilience in the fourth quarter in the face of unusually warm weather with a 22% increase in global revenues. In fact, The North Face Americas fourth-quarter revenue growth was the strongest we've seen all year and included strong double-digit D2C growth in both retail and eCommerce channels as well as mid-teen increases in our wholesale business.

For the year, The North Face Americas revenue growth finished ahead of our global five-year compounded growth goal of 16%. And as noted on our last call, spring 2012 bookings for The North Face are up 15% globally and, although early, we're encouraged by what we see for fall.

As the number one outdoor brand both in the US and globally, the success of The North Face is due to our continued sharp focus on executing against our activity-based strategy. This model is driven by industry-leading product innovation that is athlete tested and expedition proven.

In 2012 product innovation takes a dramatic leap forward with four technologies. Two examples include our revolutionary Flash Dry apparel which works with your body to regulate its temperature by accelerating moisture removal and dramatically improving dry time; and our new CRADLE cushioned footwear, which equips elite athletes with maximum stability and comfort for any foot on any terrain.

In summary, The North Face is looking forward to another great year of record revenues. On a worldwide basis in 2012 we're targeting mid-teen revenue growth and remain on track to achieve our goal of \$3 billion in total sales by 2015.

Turning now to Vans. Vans also had a tremendous year with ongoing investments including further retail expansion, grassroots marketing efforts targeted at influential consumers and athletes and a heightened social media presence, our efforts are clearly working.



Fourth-quarter global Vans revenues saw 25% revenue growth with a double-digit increase in our Americas business, and that growth was well-balanced with gains in all channels including US retail, wholesale and eCommerce. In fact, Vans.com continues to break records with 28 million unique visitors in 2011.

Social media is an important marketing tool for Vans and our marketing work is paying off with the brand's Facebook fans exceeding 4 million. For the full year Vans Americas had double-digit growth and I'm proud to say helped push global revenues well past the \$1 billion mark for the first time in the brand's 46-year history.

This is a major achievement that we're all very proud of, so congratulations to Vans and the amazing team around the world whose ability to stay authentic to the brand's consumers while driving growth continues to inspire generation after off the wall generation.

2012 promises to be another very strong year for Vans with global revenues targeted to grow at a mid-teen rate. Going direct to consumers remains our greatest opportunity to showcase the Vans brand and products. We'll continue to activate the brand outside of its core West Coast market, building on the success of new stores in the Northeast region added in 2011 and our rapidly growing eCommerce business.

Moving to Timberland and SmartWool. The fourth quarter marks the first full quarter of contribution from these high potential brands and we feel very good about their results. Globally the Timberland brand achieved revenue growth of more than 10% in the fourth quarter, less than the very strong rate we saw in the third quarter, which is not surprising considering the unfavorable weather conditions.

SmartWool revenues grew 20% in the fourth quarter. We enter 2012 highly energized and ready to take full advantage of VF's resources to do what we do best -- position both brands for healthy sustainable and profitable growth.

These are still early days for Timberland within VF and we have much to do to realize the full potential of these great outdoor brands. Our 2012 to do list is extensive. First, we'll be supercharging Timberland's product engine for maximum innovation. Second, we'll continue to align Timberland's financial and planning processes with those of VF to ensure clear visibility into current and future business performance. Third, we're working on a comprehensive global technology integration plan to support growth while minimizing business risk. And last but not least, we'll continue to assess and adjust Timberland's wholesale distribution to build the strongest possible connection between the brand and its outdoor inspired consumers.

Looking more immediately at 2012, we're targeting low-single-digit global revenue growth for the combined Timberland and SmartWool business, but that doesn't tell the whole story. In constant dollars the growth increases to a mid-single-digit rate. And if you take into account the impact of some highly targeted and strategic business exits to improve Timberland's distribution, we're looking at a high-single-digit growth rate for the year.

We're fully cognizant of the fact this is below our five-year compounded growth rate of 10%, but it will take time to fully activate all of the growth opportunities and synergies envisioned in our five-year plan. For example, a third of the year -- of the five-year revenue target for Timberland is slated to come from our US apparel launch which won't take place until fall 2013.

And to add some additional context, I see many parallels to our early days with The North Face. Purchased in 2000, for the first two years The North Face revenues remained relatively stable as we worked through distribution and operational issues. As we all know the rest is history.

Today we are fortunate to have two brands, The North Face and Timberland, with combined revenues of roughly \$3.5 billion who are both passionately committed to embedding sustainability across their products and operations. As authentic outdoor brands, both The North Face and Timberland understand the importance of getting consumers outside to enjoy and appreciate the environment and to protect and conserve it for future generations.

Before I conclude my comments I also want to acknowledge great performances from Lucy and Reef. On our last call I noted that we are very well positioned to capitalize on Lucy's potential given the success of new product introductions, strengthening revenue trends and improved store profitability.



I'm happy to report that Lucy had a record year with healthy double-digit profitable growth and we anticipate even stronger results in 2012. In fact, we have amazing new products that are hitting the stores right now and early indications are very positive. And finally, Reef, another story of strong double-digit growth, profitable revenue growth, with another great year planned for 2012.

In summary, a terrific finish to 2011 and, as noted in today's release, we're looking forward to delivering another solid year of growth for our Outdoor and Action Sports business. Now I'll turn the call over to Karl Heinz who will take you through our international results.

Karl Heinz Salzburger - VP Corporation - VP, VF Corp. & Group President, International

Thank you, Steve. On our last call I mentioned that VF's 2011 international business was shaping up to be the strongest I had seen in my 12-year career with [the Company]. Today I'm happy to say that is in fact the case. With 20% organic growth in constant currency revenues including double-digit increases in Europe, Asia and India, growth across nearly every brand in our portfolio and significant gains in our direct to consumer business, 2011 was a record year for our international business.

My review of our businesses today will focus on results in constant dollars. In Europe each of our three businesses, Outdoor and Action Sports, Sportswear and Contemporary and Jeanswear achieved organic revenue growth in both the fourth quarter and full year.

Taking a deeper dive into our European Outdoor and Action Sports business, excluding Timberland and SmartWool, we achieved revenue growth of over 25% in both the fourth quarter and full year driven by tremendous momentum with Vans where revenues grew more than 50% in both periods, (inaudible) to support another strong year in 2012 as well.

The North Face also enjoyed a strong finish to 2011 with a double-digit revenue increase in the fourth quarter and nearly 20% growth for the full year. The momentum continues here as well with solid spring 2012 bookings pointing to another strong year.

I would also like to congratulate the Vans team in Europe whose passion for the brand and hard work contributed to growth well above the 24% revenue increase that Steve referenced earlier.

In the first full quarter as part of our portfolio Timberland and SmartWool Europe enjoyed very healthy growth. For the full fourth-quarter period revenues increased at a mid-teen rate. Timberland is now the largest brand in our European portfolio and, while market conditions are still difficult across Southern Europe, long-term we are bullish on our growth prospects as we continue to expand Earthkeepers in both apparel and footwear and continue to build Timberland's overall apparel business.

Our European sportswear and contemporary brands coalition achieved moderate growth in the fourth quarter with higher revenues in our Eastpak, Kipling and 7 For All Mankind brands. For the full year European sportswear and contemporary brands revenue rose 10% and, based on healthy booking to date, we believe this business could achieve similar growth in 2012 as well.

Taking a look at Jeanswear in Europe, we are pleased to report that the business grew in both the fourth quarter and full year driven by the strength of our Lee brand. The best news here is that the work we have done behind the scenes to improve operating efficiencies is yielding significant improvement in our profitability. Looking ahead to 2012, we expect continued modest Jeanswear growth in Europe as we navigate through today's challenging conditions.

I noted earlier that conditions are weak in Southern Europe, particularly Italy. However, we remain cautiously optimistic as retailers continue to place priority and confidence in brands with proven sell-through strength such as ours. In summary, for 2012, given our current visibility and market conditions, we are targeting greater than 10% organic revenue growth in constant dollars for our European business.

Let's now turn to Asia, a pillar of VF's growth story both today and in the future. Organic revenue growth in constant dollars in Asia was about 20% in the fourth quarter and over 30% for the year. For both periods we achieved strong double-digit organic growth in nearly every brand. China remains at the center of our long-term growth story.



We are continuing to invest in consumer insight work that is enabling our brands to connect more strongly with local tastes and preferences. For The North Face our work is concentrated around encouraging outdoor participation in a way that's relevant to Chinese consumers.

And with respect to Timberland, which is now our largest single brand in Asia, we are very excited about our long-term growth potential. VF has a strong well-established platform in China which we are eager to leverage to enable Timberland's future growth. In fact, we expect to grow our Timberland business in Asia by more than 15% in 2012.

India is another rapidly growing market for us and you'll recall that in September we acquired the minority interest in our joint venture there with the business now operating as a wholly owned subsidiary. Our growth in India remains strong with full-year revenue growth over 45% in constant dollars and we're looking to a very strong year in 2012 as well.

We are very well positioned to continue the momentum across our brands in Asia. We have all established platforms in place encompassing four key categories -- Jeans, Outdoor, Action Sports and Sportswear. 2012 should be another great year for us in Asia with revenues growing more than 20%. And with that I'll turn it over to Scott Baxter who will take you through Jeanswear and Imagewear in Americas.

Scott Baxter - VP Corporation - VP, VF Corp. & Group President, Jeanswear Americas & Imagewear

Thank you, Karl Heinz, and good morning, everyone. I'll start with our Jeanswear America business first which includes our Lee, Western Specialty and mass businesses and then discuss our Imagewear results.

We entered 2011 with our key Jeanswear brands as strong and well positioned for growth as they have ever been. Yet with the sharp rise in product costs you are all familiar with we knew we faced a tough year in an unprecedented margin pressure. Accordingly, we went heads down and devised a short- and long-term plan to navigate through an environment the likes of which we have never seen.

We implemented strategic pricing actions to help mitigate costs while growing our retail floor space and market share; we elevated our product innovation agenda to ensure industry-leading style, construction and performance; and we supported our brands with strong, targeted demand creation efforts investing marketing dollars to forge even stronger connections with our consumers.

So how did we do? We did well. The year ended on a strong note with the fourth consecutive quarter of top-line growth and full-year revenues up mid-single-digits with growth from all brands and geographies in our Jeanswear Americas business. As expected profitability was hindered by exceptionally high raw material costs and unit volume was impacted by price increases.

Despite these challenges our brands gained market share across all channels -- mass, mid-tier and specialty, top-line growth, profitability in line with our expectations and market share gains in arguably the toughest constant environment we've ever seen. I am very proud of the performance we achieved in 2011 and, more importantly, how well-positioned we are for continued success in 2012.

Now let's dig a little bit deeper. The Lee brand had a very strong year with 8% growth in 2011. Our success was driven by new product innovations such as the Lee classic set and premium select lines that helped drive our market share gains for this year. We have a very full agenda designed to drive solid top-line growth with new fit innovations in both men's and women's jeans and casual pants in mid-tier department stores.

And speaking of mid-tier department stores, you'll recall that 2012 marks the launch of a new brand, Rock & Republic, as an exclusive with Kohl's in both men's and women's jeans. The launch takes place this weekend in all Kohl's doors and online. In fact, if you check out Kohl's website you'll see that the product is already available.

This launch will be supported by a major national advertising campaign including Rock & Republic TV and print ads, plus an online and social media campaign. We're very excited about the long-term opportunity for this brand and another great example of our ability to identify and add compelling new brands to our portfolio and leverage them for success with our retail partners.



Our Western Specialty business delivered 10% growth in 2011 led by continued momentum in our new and innovative cowboy cut western and women's fashion bottom styles.

And in terms of our mass business, having successfully navigated through pricing actions in the most price-sensitive channel of our Jeanswear business, the mass market, a flat revenue and performance in 2011 should be construed as a successful demonstration of our ability to manage our business well regardless of the environment. Add on to that the fact that we gained market share in both our Wrangler and Riders by Lee brands and you'll understand why we're proud of our performance this year.

Internationally, we enjoyed another double-digit revenue growth quarter and year in all three of our major Americas geographies -- Latin America, Mexico and Canada. Looking at 2012 we expect to see a strong year in our Jeanswear Americas business with solid top- and bottom-line growth and continued market share gains in all three of our businesses -- Lee, Western Specialty and mass.

We're looking forward to revenue growth this year. However, 2012 is a tale of two halves. While the cost of denim purchases peaked in the second half of 2011, the negative impact will continue to work through our P&L in 2012 accordingly. The first quarter of 2012 will be characterized by lower gross margins than the exceptionally strong first quarter of 2011, then we can expect margins to stabilize in the second quarter and improve in the second half of 2012.

Switching gears I'll now touch briefly on our Imagewear results. I'm happy to report that with the revenue increase of 10% for the fourth quarter and 13% for the year our Imagewear coalition passed the \$1 billion threshold for the first time. Our protective apparel business powered by the Bulwark brand had an outstanding fourth quarter which, along with Red Kap, drove our image or uniform business up nearly 20% revenues for the full year.

In our licensed sports group we saw great results from our NFL business which was up nearly 30% contributing to a 6% increase in the overall licensed sports group revenue for the full year. In terms of 2012 we are confident that we can maintain positive momentum in both businesses and are targeting a mid-single-digit growth rate for the Imagewear coalition revenues. Next we have Karen Murray who will take us through the sportswear business.

Karen Murray - VP Corporation - President, VF Sportswear

Thank you, Scott. Our sportswear coalition which consists of the Nautica brand and Kipling's US business performed very well in 2011 growing total revenues by 9%. Here's a quick recap of some highlights for both of these brands in the fourth quarter and full year starting with Nautica.

Nautica ended the year with revenues up 5% including gains in our sportswear licensed and outlet businesses. We've been working hard to evolve our product offering to a more differentiated performance-based positioning around water, the core of the Nautica brand, and it's working with our momentum building with our biggest retail partner and consumers.

We're also telling our product stories more effectively, particularly online, with a new fully refreshed and integrated website. Our brand connection with consumers is strengthening as well. Our YouTube holiday ad generated over 1 million (technical difficulty). In addition, we saw a significant increase in Facebook fans in 2011 and, most importantly, we are engaging with these fans and driving meaningful traffic to Nautica.com.

Nautica is truly a global brand sold in over 75 countries and in 155 freestanding stores. Our international business is licensed and the strength of the brand is evidenced by the 30% increase in international retail sales in our key markets in 2011 and over 1,200 points of sale.

Nautica's outlet business continues its turnaround ending the year with comps up at a mid-single-digit rate. The growth is due directly to successful test concepts we've executed at our highest volume locations where we've worked to reset the consumer experience, updated our store navigation and appearance and, most importantly, improved the store allocation process. We're looking forward to continuing this momentum in 2012.

Now on to Kipling, a fast growing and very profitable success story in the United States, particularly since we joined forces with Macy's as our exclusive department store partner for handbags in 2010. Kipling achieved 49% revenue growth in the quarter and 56% growth for the full year.



We're currently in 420 Macy's doors, additional door expansion in 2012 and increased penetration, coupled with a growing direct-to-consumer business should fuel another year of exceptional growth for Kipling in the US.

To sum up, the sportswear coalition is well positioned to grow revenues at a mid-single-digit rate in 2012, with gains in both our Nautica and Kipling brands. And we're planning improve profitability as we too begin to benefit from lower product costs.

Now my colleague, Susan Kellogg, will take you through contemporary brands.

Susan Kellogg - VP Corporation - President, VF Contemporary Brands

Thanks, Karen, we're in the home stretch. Our contemporary brands coalition which consists of 7 For All Mankind, Splendid, Ella Moss, and John Varvatos, saw growth across all brands in the fourth quarter with global revenues up 12% and full-year revenues up 11%. We continue to improve the profitability of our coalition with positive operating comparisons in both the quarter and for the year.

7 For All Mankind achieved mid-single-digit growth in the fourth quarter, driven by increases in DTC business. In fact, our Americas business saw mid-single-digit comp growth in our US retail stores and nearly 30% increase online revenue. For the year the brand continues to grow both in the US and in Europe, fueled by DTC revenues that increased almost 40%.

Looking forward to spring, beyond the lookout for 7 For All Mankind's new ad campaign shot by Oscar-nominated actor, James Franco, the campaign, which features both print and video, rolls out this week and really elevates our brand story to a uniquely fresh California inspired style. Together with future innovations and fit, fabric and finish we're feeling great about 7 For All Mankind's brand outlook for 2012.

Our Splendid and Ella Moss brands continue to experience tremendous growth with fourth-quarter and full-year revenues each rising in excess of 20%. In 2011 wholesale revenues grew at a mid-teen rate and our DTC business nearly doubled with the addition of six new stores and rapid growth in our eCom business. We're barely scratching the surface of the potential of these two brands and we're excited about the outlook for 2012 as well.

Innovation is what drives and it takes to win contemporary and we're driving more innovation than ever before across all of our brands, particularly with emphasis on color and fabric.

Supported by marketing investments and continued DTC expansion in 2012, the global contemporary brands coalition is working and looking forward to a year of healthy mid-single-digit growth combined with our substantial increase in profitability. And with that we conclude today's comments and turn it back over to the operator to open up for Q&A. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Michael Binetti, UBS.

Micheal Binetti - UBS Investment Bank - Analyst

Congrats on a nice quarter. So I might have missed it, did you guys give North Face and Vans bookings yet on the call?

Eric Wiseman - VP Corporation - Chairman, President & CEO

Is that a question about fall 2012 bookings?



Micheal Binetti - UBS Investment Bank - Analyst

I just wanted to see if we could get an update on what bookings are for North Face and Vans right now.

Eric Wiseman - VP Corporation - Chairman, President & CEO

We spoke about The North Face bookings for spring, which we did mention in our third-quarter call, up 15% globally. But in case of fall, it's too early to call. We're very encouraged, but our teams are all actually in the field continuing to sell with our wholesale dealer partners. It's something we'll update you in our Q1 call.

Micheal Binetti - UBS Investment Bank - Analyst

Okay. And obviously that was a volatile winter for those guys. Do you have any better visibility on Van bookings for the fall yet?

Eric Wiseman - VP Corporation - Chairman, President & CEO

No, we don't. They actually come in slightly later than our other business.

Operator

Jim Duffy, Stifel Nicolaus.

Jim Duffy - Stifel Nicolaus - Analyst

Nice results in a challenging environment. A couple of questions around Timberland. The accretion for '12 projected ahead of original plans, though the revenue outlook doesn't appear any more aggressive. Where's the incremental margin benefit that you're finding?

Bob Shearer - VP Corporation - SVP & CFO

Jim, it's actually in a couple places -- in the gross margin as well as in the expense levels. You might notice that we're going to spend just a little bit more than we previously indicated and of course that's giving us nice benefits in terms of the operating margin.

So we're seeing some stronger opportunities in the gross margin and we're realizing those. And also relative to the expense reduction, meaning SG&A reductions, we've seen a little bit more opportunity there as well. So it's really both of those areas that's driving the improved profitability over our initial guidance.

Jim Duffy - Stifel Nicolaus - Analyst

Okay, great. Timberland is clearly tracking quite well; it's a bigger acquisition than you've done in the past. At what point do you see the organization ready to take on another acquisition of any size? Can you guys at this juncture be a serious bidder for any properties that might come to market near-term?

Eric Wiseman - VP Corporation - Chairman, President & CEO

Yes, Jim, it's Eric obviously. We have the capacity to be engaged right now and additional acquisition activities both financial capacity and organizational resource capacity. Something the size of Timberland, probably unlikely in the next 12 months. There aren't a lot of opportunities that are that big out there. But we remain active, as always, in continuing relationships and discussions around future opportunities.

Jim Duffy - Stifel Nicolaus - Analyst

That's great to hear, thanks.

Operator

Joseph Parkhill, Morgan Stanley.

Joseph Parkhill - Morgan Stanley - Analyst

I also wanted to ask about Timberland. I think there's a lot of opportunity for you to improve retail operating margins there. But I was wondering if that improvement is dependent on improving the apparel offering so that really won't come until after 2013. Or is there something that you can do in the meantime to improve profitability at retail?

Eric Wiseman - VP Corporation - Chairman, President & CEO

You're absolutely right, Joe, that the serious improvement will come as we start to introduce apparel. But we do see opportunities to improve this year, in fact we have a very talented team of both Timberland and VF Outdoor retail expertise focused on our direct-to-consumer channel operationally as well as looking at merchandising strategy to bring improvement in this year.

Joseph Parkhill - Morgan Stanley - Analyst

Okay, thanks. And if I could just ask some quick modeling questions. I was wondering if you could quantify the impact of the one-time charge in Jeanswear. Also give your tax rate that you expect in 2012 and what your plan for marketing is as a percentage of sales.

Bob Shearer - VP Corporation - SVP & CFO

Sure, Joe. All in the impact of that charge was really the Jeanswear was 40 or 50 basis points. So again, it accounted for most of the difference in terms of what we guided toward. And the tax rate for 2012, 25% to 25.5% is what we're planning.

Joseph Parkhill - Morgan Stanley - Analyst

Great. And your marketing?

Bob Shearer - VP Corporation - SVP & CFO

Marketing spend should -- will stay relatively stable as a percent of overall revenues, which was right at about 5.7% in 2011 -- 5.7% of revenues.



Joseph Parkhill - Morgan Stanley - Analyst

Great, thank you.

Operator

Robby Ohmes, Bank of America-Merrill Lynch.

Robby Ohmes - BofA Merrill Lynch - Analyst

Two quick questions. I was hoping Scott could talk about the average -- looking back at 2011, what the average ASP in Jeanswear looked like in both US and Europe and then maybe thoughts on holding that as costs come down in the back half and into 2013?

And the second question, I was hoping you guys could give a little more detail on the Vans outlook for 2012. Two things -- can you tell us how many doors you have in China and how many more doors you hope to add in 2012 or remind us that? And then the mix of growth for Vans in 2012 sort of China versus Europe versus US? I know there's a lot there, but appreciate the help. Thanks.

Scott Baxter - VP Corporation - VP, VF Corp. & Group President, Jeanswear Americas & Imagewear

Robby, I'm going to go ahead and answer the first part of the first question and then I'll have Karl Heinz address the European part of the question. But as expected, Robby, 2011 came in as expected and flowed through as expected. And 2012, we feel real good about our plan, feel real confident we're going to be able to hold our AURs and we're seeing those trends all the way through January right now and we feel real good about what's going on for the rest of the year. So, as expected in '11 and feel good about '12.

Robby Ohmes - BofA Merrill Lynch - Analyst

Was it sort of a single-digit or double-digit AUR increase?

Scott Baxter - VP Corporation - VP, VF Corp. & Group President, Jeanswear Americas & Imagewear

Double-digit.

Bob Shearer - VP Corporation - SVP & CFO

In 2011 you're saying?

Robby Ohmes - BofA Merrill Lynch - Analyst

Yes.

Bob Shearer - VP Corporation - SVP & CFO

Yes, on average it was, it was right around 10% (multiple speakers) in the US Jeans business, right.



Robby Ohmes - *BofA Merrill Lynch - Analyst*

And then how did Europe look on that?

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

Yes, Karl Heinz here, Robby. Jeans, we had some price increases in Europe in the lower -- around mid-teens. On the second question, the China doors, we said we have about 1,700s doors which we ended up in 2011 and we plan to open 500 -- around 550 doors which would bring us to around 2,250.

Now to put this in perspective, this is 2,200 doors with four main brands -- The North Face, Vans, Kipling and our Jeans business. And if we benchmark that to what presence is a meaningful presence in China, we see some competitors, large companies, having around 5,000 to 6,000 doors.

Bob Shearer - *VP Corporation - SVP & CFO*

Per brand.

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

Per brand, per single brand.

Robby Ohmes - *BofA Merrill Lynch - Analyst*

And can you give me just the Vans breakout on that?

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

We did say in our announcement we expect Vans to grow about -- in the mid-teens for 2012.

Operator

Mitch Kummetz, Robert Baird.

Mitch Kummetz - *Robert W. Baird - Analyst*

Bob, let me start with you. In terms of your gross margin guidance for this year up 70 basis points, a couple things -- can you break that down by puts and takes in terms of what you expect in terms of basis point increases/decreases on cost, pricing, the mix and FX? And then you've also said that you expect the improvement to come in the back half. Should I assume that means flat to down in the first half? And then I have a follow-up.

Bob Shearer - *VP Corporation - SVP & CFO*

Okay, relative to the gross margin percentage, in terms of the puts and takes I think is what you asked. What we're seeing there, Mitch, is just as we've been seeing over the past couple years, most of the improvement that we expect to see is from mix, right. So in 2011 we gained about 80 points from mix and when I talk about mix it's higher revenues in our Outdoor and Action Sports businesses and retail on the international side becoming a bigger piece of the overall business and I referenced that in my comments.

So again, most of that improvement comes from the mix side. Relative to costs and pricing, what we're seeing there is it's relatively neutral. It could be a little bit of upside from prices exceeding cost increases. Obviously we're not looking for the same kind of cost increases that we saw in 2011, substantially less. So -- but overall relatively neutral impact from pricing net of costs. And the other question was --?

Mitch Kummetz - *Robert W. Baird - Analyst*

Gross margin first half versus second half.

Bob Shearer - *VP Corporation - SVP & CFO*

Gross margin first half/second half. Clearly in the -- what we'll see is in the first quarter our gross margins we expect still to be below the prior year's first quarter. I'd remind you there that in the first quarter of 2011 it was a really good quarter for us. And part of that was that we bought a lot of denim well in advance, right, so we carried low cost denim into the early part of 2011, really benefited from that.

So clearly the toughest comparison will be in the first quarter of the year and we do expect our gross margins to be down, it could be about 100 basis points. In the second quarter we expect the gross margins then to flatten out. That's where we really see the stabilization. Third quarter an improvement, up obviously. And then the fourth quarter, more improvement over the third quarter.

Mitch Kummetz - *Robert W. Baird - Analyst*

Okay. And then my follow up, on your sales outlook for the year, 8% constant dollar or 6% reported dollar growth, again can you talk a little bit about how you and expect that to play out first half/second half? Should I assume maybe stronger growth on a year-over-year basis percentage wise in the first half or at least better visibility on that first-half growth at this point not knowing how your pre-books are coming in for fall just yet?

Bob Shearer - *VP Corporation - SVP & CFO*

Yes, not really. Actually first half versus second half -- and of course I'll speak to the core business, right, Timberland is a different story --

Mitch Kummetz - *Robert W. Baird - Analyst*

Exactly.

Bob Shearer - *VP Corporation - SVP & CFO*

-- tough period. But speaking to the core business, actually first half/second half we expect the top-line growth to be relatively even, maybe a little stronger in the second half but not a lot stronger.

But the point is, what's happening here is that as our business, especially with Timberland and the growth in Outdoor and Action Sports, the seasonality of our business continues to change, so the first half is becoming a little bit less than it has been in the past. And that's particularly so with Timberland, as you probably know. The second quarter, for example, in Timberland is less than 15% of their total year. So, again, all of that impacts the overall seasonality.

Operator

Kate McShane, Citi Investment Research.



Kate McShane - *Citi Investment Research - Analyst*

I wondered, Steve, if you could walk us through a little bit with what has been done with the Timberland brand so far in the US? I wondered if there had been a notable increase in distribution of some of the smaller brands like Mountain Athletics and Earthkeepers so far or is that still yet to come in 2012?

Steve Rendle - *VP Corporation - VP, VF Corp. & Group President, Outdoor & Action Sports Americas*

Sure, Kate. From a product distribution, the classics part of the Timberland merchandise mix continues to be important, but the major, major emphasis previous and now within VF is the Earthkeepers collection and what that means not just to the footwear product but to the overall brand and its brand strategy.

I will tell you there's a heightened focus on our wholesale/retail partnerships. The team has been extremely diligent over the last couple months, meeting with and beginning to update and set strategies in motion to start to drive growth not only this year but to build the base for the years to come.

Kate McShane - *Citi Investment Research - Analyst*

Okay, thank you. And the operating margin you reported for Timberland of 9%, was this for the year or the quarter? And whatever the case, I'm just wondering if you could again highlight what the pressure was on the operating income margin this year versus last year despite some of the synergies?

Bob Shearer - *VP Corporation - SVP & CFO*

Yes, the 9% for Timberland, Kate, was in the fourth quarter and, by the way, that's adjusted for the one-time costs, so it was only the quarter. On the full year it was stronger than that, including the stuff period -- or the short period in the month of September. Overall there on a full-year basis it was more like 12%, again adjusted.

In terms of the pressures on the margin costs, just as we've been seeing in our businesses, product cost increases created some challenges to the Timberland team in 2011 for sure, so not really so different.

Operator

John Kernan, Cowen & Company.

John Kernan - *Cowen and Company - Analyst*

I'm wondering if you could quantify the net unit growth for Timberland in terms of retail next year. I think in the press release it says half of the 130 stores would be from Timberland. And then the geographic mix of that square footage growth for Timberland?

Eric Wiseman - *VP Corporation - Chairman, President & CEO*

Actually, John, we don't break out our store growth targets by brand, we did say that of the 130 stores next year, over half of them are coming from our Outdoor and Action Sports brands combines globally. But we haven't in the past and don't give by brand store numbers, sorry.

John Kernan - Cowen and Company - Analyst

Okay. A little bit more on capital allocation next year. Obviously the CapEx is coming in a little bit higher than we expected due to some headquarters and DC growth. But can you give us a sense as to what I guess the balance sheet is going to look like?

You paid off almost \$900 million of commercial paper in Q4. How do we look in terms of share repurchases? It sounds like you're still open to making an acquisition. And then in terms of -- more in terms of the balance sheet, what is your guidance for interest expense next year -- or in 2012 I should say?

Bob Shearer - VP Corporation - SVP & CFO

Wow, that's a lot. Okay, I hope I hit them all. In terms of the balance sheet, commercial paper, the \$280 million or so that's at the end of the year, we'd expect to pay that down obviously. We indicated in the release that we expect another year of very, very strong cash generation. So we pay the CP down, that would be our plan.

In terms of the buyback you asked about, we did not buy any shares back in 2011 because of the acquisition. But in 2012 we expect to resume our practice of offsetting the impact of option exercises. That would indicate buying back about 2 million shares, that's what's included in our plan on a full-year basis. And the interest guidance for the year is about \$90 million.

John Kernan - Cowen and Company - Analyst

Okay, great. And then one follow-up question. I think I heard Karl Heinz Berger (sic) say to guide to 10% organic rev growth in Europe. What does that imply of organic growth in North America for the year, for 2012?

Bob Shearer - VP Corporation - SVP & CFO

I mean there's a lot of different factors there. We have Asia as well, but what we said -- what we said overall was 8% and Europe is about 20% of our total business.

Operator

Robert Drbul, Barclays Capital.

Robert Drbul - Barclays Capital - Analyst

I guess I want to focus on The North Face a little bit more, just on the outlook for The North Face. So I think you said mid-teens expectation for this year. Can you elaborate a little bit sort of on North America and Europe and the visibility around the expectations? I guess what I'm interested in is, given the warm weather and the inventory levels at retail, just sort of what you're seeing on the order book and how we should think about it geographically a little bit?

Steve Rendle - VP Corporation - VP, VF Corp. & Group President, Outdoor & Action Sports Americas

Robert, this is Steve Rendle. North Face American specifically, we mentioned in our spring order book, globally was up in the mid-teens and that absolutely holds true for here in the Americas. Our teams are currently in the process of collecting our fall order book. I mentioned that we're extremely encouraged.



Yes, our outdoor industry is coming out of a very difficult fourth quarter, specifically December was down 2% from an industry sell-through standpoint. I can tell you that our North Face business was positive and was one of the leading brands from a sell-through standpoint in the industry and as we've seen over the last few years as further consolidation around those brands that deliver very high product price value. And we're very confident what we will see for the balance of the year.

Karl Heinz Salzburger - VP Corporation - VP, VF Corp. & Group President, International

Yes, this is Karl Heinz here. Let me start with Asia first. In Asia we see The North Face as strong as ever. We're a little bit -- we have visibility on the fall bookings and we can confirm that they will be as strong as we always had in the past. Europe is a little bit more different.

Europe -- there's a general trend in the market, as you mentioned before. We had a very late winter coming, we have a lot of snow now, but that caused a delay in the order intake process not only for us but the entire industry. But we are confident to continue to grow in Europe as well based on strong spring bookings. And you know, it's a little bit too early to say how fall will evolve, but again, the entire industry is a little bit later this year.

Robert Drbul - Barclays Capital - Analyst

Okay, great. And then my second question is on Timberland I think, Bob, the original cost synergy number was \$35 million and I think that you originally said maybe \$0.90 of accretion for '12 and this year it's \$1.10. Can you just give us an update in terms of the cost synergy side, what's embedded in the accretion numbers that you've provided us today for 2012?

Bob Shearer - VP Corporation - SVP & CFO

Yes, sure, Bob. It's obviously more than that, right. So we've identified more opportunities, remember those are very early numbers. And you're exactly right. We indicated \$35 million and we're running at a rate that will be above that by \$10 million or \$15 million. So that is part of the increase in the accretion that you mention, the \$1.10 versus the \$0.90, as said earlier on the call.

Another factor, however, where we are seeing opportunity is in the gross margin area as well, so a little more than we originally anticipated. So actually in both areas we're seeing some positive signs and both are contributing to the higher accretion.

Operator

Omar Saad, ISI Group.

Omar Saad - ISI Group - Analyst

To follow up on the Timberland discussion, you saw a little bit of the impact on the margin in the Outdoor business I think on the fact that Timberland is a lower margin business. I just wanted to kind of get your views. Is it structurally lower margin business because it's footwear, or do you expect that over the long-term you should be able to get that Timberland margin up to more where your corporate average is? Obviously it's one of the best in the industry. And then I have a follow-up, too. Thanks.

Bob Shearer - VP Corporation - SVP & CFO

Yes, Omar, we committed to a 15% operating margin on Timberland by 2015. What we also indicated when we issued our initial guidance, we said that there was opportunity beyond that to the 18% level pretty specifically is what we said.



Just as we said when we did the acquisition, the point that I always made was we looked at the gross margin, the gross margins are really strong. And as I just said on an earlier response, we continue to see opportunities in those gross margins. We think that that really does speak a lot to the strength of the brand.

So, no. The answer is there are no inherent or fundamental areas of concern or differences that we see relative to the model for Timberland versus the rest of our Outdoor business. Steve, anything to add there?

Steve Rendle - VP Corporation - VP, VF Corp. & Group President, Outdoor & Action Sports Americas

Omar, we do see opportunity over time as the apparel launch comes live in fall 2013 and beyond to see a benefit to getting a higher mix of apparel.

Karl Heinz Salzburger - VP Corporation - VP, VF Corp. & Group President, International

And, Omar, if I may add Timberland has every strong retail presence in Europe and Asia which will further also improve the gross margins.

Omar Saad - ISI Group - Analyst

Understand, thanks. And then could you also talk about -- I thought I heard a comment in the prepared remarks about changing the Outdoor -- new Outdoor headquarters in Europe and the US. Are you changing the way the business operationally is organized and where the different brands are located?

Eric Wiseman - VP Corporation - Chairman, President & CEO

No, we're not changing the -- where anybody is located or how the businesses are configured, as you would imagine. The buildings that we're in -- we've been in the one in California for over a decade and the one in Lugano for six or seven years and we have outgrown that space. So it simply -- it is a growth driven need for more space, that's it.

Operator

Ken Stumphauzer, Sterne, Agee.

Ken Stumphauzer - Sterne Agee Capital Markets - Analyst

Thank you for taking my question. First, Bob, I just wanted to touch on 2Q. Timberland obviously suffers a loss in 2Q. And I'm wondering if you can help us think through the magnitude of what that can mean for VF as a corporation. Would it be safe to assume that kind of the organic or the core EBIT grows 10% and then you layer on the loss you typically see for Timberland and as such maybe earnings could be around \$1? Or is that too negative of an assumption?

Bob Shearer - VP Corporation - SVP & CFO

Yes, I mean it's just way too early to comment, Ken, on the second quarter, that's why we've kind of talked more about the first half. I can tell you this though, you're absolutely on the right track relative to Timberland. You're right, historically Timberland has incurred a loss in the second quarter of the year and I commented earlier on the seasonality of their business.



So that obviously is going to be a hurdle for us. And could we be down quarter over quarter because of Timberland? Well, sure, it's a fairly significant amount. In 2011, for example, Timberland loss I believe \$30 million plus in the second quarter. So while we're improving the business and may not be quite there, still that's a fairly significant hurdle for us in the second quarter.

Ken Stumphauzer - *Sterne Agee Capital Markets - Analyst*

Okay, thank you for the clarity. And then, Steve, I was just wondering if I could ask you about The North Face and kind of what 4Q could potentially mean for 1Q? It looks like you guys came out of 4Q with actually -- with pretty clean inventories. Do you feel like that's the case at retail given the warm weather? And if that's not the case, is there the potential for sales in 1Q to be a little bit light given the lack of replenishment?

Steve Rendle - *VP Corporation - VP, VF Corp. & Group President, Outdoor & Action Sports Americas*

Yes, Ken, we kind of follow up on some of the discussions we had at the Outdoor Retailer Show. We did come through fourth quarter really well. We talked about the need to see cold weather arrive across the US to start to drive that positive sell-through and fortunately it did come.

We got cold weather, we didn't necessarily get cold snowy weather, but with those colder temperatures we have seen an increase in sell-through giving us confidence for not only the quarter but for what that means for the full year.

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

And, Ken, we experienced a similar situation in Europe. Winter came, it came late, but it helped us tremendously.

Operator

Michelle Tan, Goldman Sachs.

Michelle Tan - *Goldman Sachs - Analyst*

I was wondering -- it's really helpful to understand how you guys are thinking about the margin opportunity long-term for Timberland. I was wondering if you could talk a little bit about the market opportunity from a top-line perspective.

I know -- I think, Steve, you mentioned The North Face experience and the acquisition there, but clearly Timberland is a much bigger business today than North Face was when you bought it. So I was wondering if you could help us with a little more detail on what kind of big opportunities you see to expand the top-line over time, what are the big kind of holes in the business.

Steve Rendle - *VP Corporation - VP, VF Corp. & Group President, Outdoor & Action Sports Americas*

Absolutely. Michelle, from an Americas standpoint -- and then Karl Heinz can fill you in on the international piece. The opportunity that we see, and we've been really forthright from the beginning, is to just continue to expand the distribution opportunities for footwear, first and foremost, building behind the Earthkeepers strategy that the brand has in place.

We do see great opportunity with apparel as one of the synergies that we believe we will bring and be able to really help that team not only vision the apparel assortment but certainly produce it in a way that will be very positive.

We see great opportunities with our direct-to-consumer channel, both the in-store experience which will help us tell that brand story, which will certainly help expand the brand over time, but the digital aspect of the brand driving not only the content but the commerce piece. So I think it's a combination of those elements that we see driving growth over the long term.

Karl Heinz Salzburger - VP Corporation - VP, VF Corp. & Group President, International

Yes, Michelle, it's very similar for us in Europe and Asia. I guess the only change is we already have -- Timberland has a very well developed apparel program which is doing extremely well especially in Asia with a component between -- the ratio between apparel and footwear is nearly 50-50. So Earthkeepers in Europe resonates extremely well with consumers and we're expanding that into more product categories into apparel as well.

Michelle Tan - Goldman Sachs - Analyst

And is there a benchmark kind of thing you point to whether it's another brand or another business that says, hey, this is how big we think it can be? Or is it just too kind of soon or too early in the strategy role out to say that?

Steve Rendle - VP Corporation - VP, VF Corp. & Group President, Outdoor & Action Sports Americas

No, I think we see, Michelle, some real similarities to our North Face business which is heavily weighted to the apparel and equipment side and footwear growing. But we see an opportunity to tell a very clear outdoor message, maybe not to the same technical level of The North Face, but actually building on that New England Outdoor heritage and building both footwear and apparel through wholesale and direct-to-consumer.

Operator

And ladies and gentlemen, that does conclude our question-and-answer session. I would now like to return the conference to Mr. Wiseman for any closing remarks.

Eric Wiseman - VP Corporation - Chairman, President & CEO

Just thank all of you for your time and your interest and your questions. 2011 was a record year for VF Corporation in just about every way. And as we approach 2012 we expect to do significantly better despite headwinds from pension and foreign currency translation and an uncertain economic environment. We'll give you an update in about 90 days. Thanks a lot.

Operator

And, ladies and gentlemen, that does conclude today's conference call. Thank you for your participation.



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