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VF Corp. (VFC)

Q2 2015 Earnings Call

CORPORATE PARTICIPANTS

Lance Allega

Vice President-Investor Relations

Eric C. Wiseman

Chairman, President & Chief Executive Officer

Steven E. Rendle

Senior Vice President-American Region

Karl Heinz Salzburger

Vice President, VF Corporation and Group President, International

Scott H. Baxter

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

Scott A. Roe

Chief Financial Officer & Vice President

OTHER PARTICIPANTS

Edward J. Yruma

KeyBanc Capital Markets, Inc.

Michael Binetti

UBS Securities LLC

Katharine McShane

Citigroup Global Markets, Inc. (Broker)

Matthew Robert Boss

JPMorgan Securities LLC

Jim V. Duffy

Stifel, Nicolaus & Co., Inc.

David J. Glick

The Buckingham Research Group, Inc.

Laurent Vasilescu

Macquarie Capital (USA), Inc.

Dana L. Telsey

Telsey Advisory Group LLC

Omar Saad

Evercore ISI

Lindsay Drucker Mann

Goldman Sachs & Co.

Mitch Kummetz

B. Riley & Co. LLC

David Weiner

Deutsche Bank Securities, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good day, and welcome to the VF Corporation Second Quarter 2015 Earnings Conference Call. Today's conference is being recorded.

At this time, I'd like to turn the conference over to Mr. Lance Allega, Vice President of Investor Relations. Please go ahead, sir.

Lance Allega

Vice President-Investor Relations

Thank you, operator, and good morning to everyone. Thanks for joining us today to discuss VF's second quarter 2015 results.

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

I'd also like to remind everybody that unless otherwise noted, amounts that our participants refer to on today's call will be in currency neutral terms by our definition, which is detailed in our press release issued at 7:00 a.m. Eastern Time this morning. Currency neutral amounts exclude both the impact of translating foreign currencies into U.S. dollars and the impact of currency rate changes on foreign currency denominated transactions.

You may also hear us refer to reported amounts, which are in accordance with U.S. GAAP and include translation and transactional impacts from foreign currency exchange rates. We chose and use currency neutral amounts as a lead number in our discussions because we feel it more accurately represents the true operational performance and underlying results of our businesses and brand. Reconciliations of GAAP measures to currency neutral amounts can be found in the supplemental financial information included with the press release, which identify and quantify all excluded items.

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

And now I'll turn the call over to Eric.

Eric C. Wiseman

Chairman, President & Chief Executive Officer

Thanks, Lance. Good morning, everyone, and thank you for joining us today. Our second quarter results add another proof point to VF's long and proven track record of delivering consistent profitable growth to our shareholders. Our ability to serve consumers and retail partners and to continuously expand on the momentum we've created has never been greater.

In the second quarter, currency neutral revenue was up 10%, an acceleration from our first quarter results, including growth in all channels in every region of the world. By coalition, Outdoor & Action Sports accelerated

beyond last quarter's results with 16% growth, including double-digit increases in nearly all ten of the brands in the portfolio. Our Jeanswear coalition continued its momentum with a 4% revenue increase in the quarter, a result we're particularly proud of.

In fact, with the strengthening confidence in that business we've elected to take up our full-year guidance – our full year growth expectations to mid single digit currency-neutral increases. There's definitely momentum happening in Jeanswear. Eight of our 10 largest brands grew during the quarter including particularly strong results for Vans, Kipling, Napapijri and JanSport, 10% growth from The North Face and Timberland in their smallest quarter of the year and another solid result from Wrangler. Across our portfolio the fastest growing brand of the quarter award goes to Eagle Creek with 28% growth just named as Consumer Report's top luggage brand for 2015, a big congratulations goes out to the team in Carlsbad.

VF's direct-to-consumer business had a strong quarter as well with 13% revenue growth. Our international business, which was also up 13%, grew 11% in Europe, 12% in the Americas region and 17% in the Asia-Pacific region. Reported gross margin was 48.3% down slightly due to the negative impact of foreign-currency. Earnings per share was up 22%, which in fairness was helped by about \$0.02 from the expected lower tax rate but even so, without the tax benefit on a currency-neutral basis our EPS was up 17%, a very strong result in our smallest earnings quarter of the year. So strong in fact that we took up our full year EPS to \$3.22 which represents 15% currency-neutral earnings growth, well ahead of our 2017 planned growth rate.

Taking look at the first half of 2015 and there's a lot to like here, we had the strongest first half organic revenue growth since 2012, double-digit growth in Outdoor & Action Sports, direct to consumer and international, renewed momentum in our Jeanswear business including a strongest first half revenue performance since 2011 and double-digit increases in operating income and EPS.

Needless to say, I'm extremely proud of the progress we continue to make against our near and long-term objectives. We're delivering meaningful innovation across our portfolio, connecting even more deeply with our consumers and are tirelessly working to serve them wherever and whenever they shop and engage our brands around the world. Operationally, strategically and financially, we are stronger than we've ever been; powerful brands, powerful platforms, One VF with a single-minded focus on delivering consistent, sustainable and profitable growth to our shareholders.

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

Steve, over to you.

Steven E. Rendle

Senior Vice President-American Region

Thanks, Eric. Let's start with Outdoor & Action Sports, with revenue up 16% on top of the 10% growth we had in the first quarter, we're really pleased with the momentum this business continues to create and sustain. This quarter's growth was balanced with mid to high teen increases in both our wholesale and DTC businesses and with double-digit growth in almost all ten brands in this portfolio, we're firmly on track to achieve our 2015 currency-neutral growth target.

So let's run through the three largest brands starting with The North Face. Second quarter revenue for The North Face was up 10% with strength across all channels and regions. We continue to see excellent global growth in our DTC business with revenue up 20% for the quarter. Turning to each region; in the Americas revenue was up at a

low double-digit rate the wholesale business grew at a high single digit rate and DTC was up at a mid-teen rate including continued strength in our e-commerce business. With the successful move of The North Face web site to VF's new e-commerce platform, we are really pleased to see increased traffic and conversion particularly in mobile.

One of the highlights of the quarter was our Mountain Athletics collection which saw strong growth including great initial results from our newly-launched women's product. To promote Mountain Athletics we launched the ITrainFor campaign which featured a 30 second TV spot as well as digital and display ad that encourage consumers to share their personal journey and goals. We've also been holding twice-a-week free outdoor workouts in five major cities across the nation reaching consumers training for everything from bucket list ski adventures, cross-country treks on an elusive summit to those training to perform better in everyday life. Athletes everywhere have responded well to these sessions led by expert trainers. Still in its early days, the Mountain Athletics business is picking up momentum and is clearly helping The North Face move to a year-round brand.

During the quarter we successfully relaunched our iconic Hedgehog hiking footwear collection, which is a very strong revenue driver. We also continue to see great response to Thermoball with incredibly strong comp and balanced men's and women's growth. The collection has quickly become a very meaningful four season franchise.

Now to Karl Heinz.

Karl Heinz Salzburger

Vice President, VF Corporation and Group President, International

Thank you, Steve, and good morning, everyone. There's a lot of positive momentum going on outside the Americas. Starting with The North Face. Its international business was up a high single-digit percentage driven by almost 30% growth in DTC revenue. In Europe revenue was up at the mid-single-digit percentage driven by strength in our DTC business. We also saw strength in our Mountain Athletics, Hedgehog and Thermoball collections. So great global response from consumers.

During the quarter we held a very unique event that further engaged consumers in the region. The North Face Lavaredo Ultra Trail race in June saw more than 1,000 participants run a 75-mile, 19,000 foot elevation gain course through the Italian Dolomites.

In Asia, revenue increased at the low teen percentage with significant growth in the DTC business. Here we continued our TNF 100 Trail Run series, which drew great interest with over 12,000 participants in four events across the Asia-Pacific region. We also rolled out our TNF Roadshow to four locations in Mainland China during the quarter and connected with more than 15,000 consumers in the process.

We continue to have great momentum in The North Face business worldwide and as we look ahead we are right on track to deliver low double-digit global growth for the full year. Now let's turn to Vans.

Steven E. Rendle

Senior Vice President-American Region

Vans posted its twenty-third consecutive quarter of double-digit growth, which coincidentally was their growth rate for the quarter as well. 23 quarters and 23%. Now that, I like a lot. There was strength across all products and channels including greater than 20% growth in both wholesale and retail, which featured an impressive double-digit comp. In the Americas, revenue was also up more than 20% with similar growth rates in the retail and wholesale channels.

We often get asked, how does Vans continue to do it? And the simple answer is the strength of our team and the strong connectivity the brand has with their consumers who are often more loyal fans than consumers. This authentic connection is earned with youth culture and then translated back through Vans with innovative, trendsetting product and demand creation that is both inspirational and experiential. This powerful loyalty focuses our execution and keeps us at the center of action sports, music, art, and street culture.

There were two very exciting successful product collaborations this quarter. The first was with Disney, bringing iconic Disney characters and Vans Off the Wall culture together across all product categories. It started with a kickoff event at Disneyland and led to really strong sell-through at both DTC and wholesale. This launch now ranks as Vans most successful collaboration in the brand's history.

The second one was Vans' most influential high-end vault product in recent memory, a collaboration with Takashi Murakami, the Japanese pop art icon who is a long-time Vans buff himself. The launch kicked off in Men's Fashion Week in Paris and was widely heralded as the must-attend event of the week. Boutiques around the world saw long lines, even people sleeping in front of stores, and the limited edition products sold out in a matter of hours.

In addition to connecting with consumers through great new products, authentic and relevant consumer activations continued to be a signature of the Vans brand. The Vans Warped Tour kicked off in June, bringing music, Vans culture, and fans together in more than 40 stops across the U.S. and in the U.K. in October. And tomorrow, we will kick off our third year of headlining the Vans U.S. Open of Surfing in Huntington Beach where the world's elite in surfing, skateboarding, and BMX reach for the podium amid a festival-wide celebration of creative expression, artist exhibits, and installations.

Now to international.

Karl Heinz Salzburger

Vice President, VF Corporation and Group President, International

Vans' International business was up at the high-teen percentage, driven by more than 35% growth in DTC and a mid-teens increase in wholesale. In Europe, revenue grew at a mid-teens percentage driven by more than 20% growth in DTC and double-digit growth in our wholesale business.

We continue to be focused on elevating our storytelling and energizing our product offering, and we certainly achieved those goals during the quarter. The region also saw a record response to the Disney and Murakami product collection.

In Asia, Vans continued to outperform with revenue growth of more than 30% driven by a 60% increase in DTC and more than 20% in wholesale. Tier 2, we saw strong gains across all product categories and great results from the collaborations launched in the quarter. We also continue to bring unique cultural events to the region, including the celebration of the global Go Skateboarding Day which brought together more than 25,000 skateboarders in eight countries. We are thrilled with the continued momentum internationally for Vans. We remain on track to achieve our mid-teen growth target for the full year.

And now on to Timberland.

Steven E. Rendle

Senior Vice President-American Region

Timberland continues to build its relevance as the year-round outdoor lifestyle brand with its adaptive style that's made for the modern trail. And with the revenue increase of 10% in the second quarter driven by a high teen increase in global wholesale sales, we continue to be really happy with the progress the brand is making against its long-term growth targets. In the Americas in a quarter that typically represents less than 15% of Timberland annual revenue, the brand was up at a mid-single-digit rate with a low teen increase in the wholesale space.

Boots and hikers in both men's and women's led the way. In men's it was exciting to see the success of the casual Groveton collection. We're really starting to break through with true spring product. In women's, casual and plastic boots as well as new spring sandals helped that business more than double in the quarter. As you know, we are big proponents of engaging with our consumers and helping them connect with each other.

In the quarter we launched a new Timberland.com web platform with an updated look and interface that marries content and commerce. There are also great new features like Shop the Look and Quick Shop to inform style choices, inspire expression and expedite the purchase experience. To round this out, the #inmyelement page has created a unique community by encouraging consumers to share photos showing how Timberland helps them live their lives to the fullest. It's a great element that was recently recognized by L2 Think Tank as one of the eight brands making the right moves with user generated content alongside some great companies.

On the Timberland PRO side we continued our When Your Feet Hurt, Your Work Suffers media campaign and saw particular strength in our PRO Boondock and PRO Powertrain collections. It is clear that this consumer continues to turn to Timberland to provide great innovative products for their on-the-job need.

So, double-digit growth in the first half and now on to the fun part of the year, definitely a lot of great things ahead for Timberland in 2015.

Karl Heinz Salzburger

Vice President, VF Corporation and Group President, International

Timberland's international revenue was up a mid-teen percentage. In Europe, revenue was up close to 20% with strong growth in wholesale. In the men's business, SensorFlex and Cupsole product continued their strong momentum for the footwear business and the pattern was driven by positive momentum in short, pants and denim. The women's business in Europe was also particularly strong.

Turning to Asia, revenue increased at the high single-digit percentage led by strong wholesale growth. Growth in the footwear business was driven by men's casual styles and sandals and Chakka styles continued to drive strong growth in women's. We also revamped our design-your-own footwear customization webpage which has seen positive early results. Consumers are loving the enhanced experience and features which include extended style and color options. We remain on track to grow global Timberland revenue at a low teen percentage rate for the full year.

Now let's turn to Scott and Jeanswear.

Scott H. Baxter

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

Thanks, KH, and good morning, everyone. Our global Jeanswear revenue increased 4% on a currency neutral basis with positive results for both Wrangler and Lee. Overall, we have been very pleased with Jeanswear's performance. Our confidence in the business continues to grow so much so that as Eric mentioned we're increasing our full year outlook to a mid-single-digit increase based on our first half performance and what we see

the second half. In the Americas region, Jeanswear revenue was up at a mid-single-digit rate reflecting healthier demand for jeans and strong results from our shirts, shorts and casual products.

Revenue for Wrangler in the Americas was up at a high-single-digit rate. A few product highlights included our No Iron Ultimate Khaki which was launched with our first ever casual focused Father's Day campaign. Our Western business saw continued success with our Cool Vantage jeans and innovation that maximizes breathability in hot weather. And on the workwear side, Wrangler Riggs exceeded our expectations for the quarter and with plans to roll this product out to additional doors in the third quarter. We're excited to see this collection gain better visibility and traction.

Turning to Lee, similar to the first quarter, the Americas business was down at a low single-digit rate with a mid-single-digit increase in the U.S. market, offset by weakness in South America. In the States we continue to see momentum in our modern series product for men and in women's the introduction of short, capris and jackets made with performance fabrics has been well received. We also recently signed ESPN's Mike & Mike spokesman for the Lee brand and are excited for that campaign to launch next month. So there's a lot of great traction in the Jeanswear Americas business and we're excited to get into the second half of the year.

KH?

Karl Heinz Salzburger

Vice President, VF Corporation and Group President, International

Our international Jeanswear business was up a mid-single-digit percentage driven by a low double-digit increase in Asia and flat results in Europe. In Europe revenues for Wrangler were down in the mid-single-digit percentage due to ongoing weakness in Eastern Europe. In the quarter Wrangler had a very successful collaboration with Leatherman which drove great brand awareness and consumer engagement. Lee posted its ninth consecutive quarter of revenue growth in Europe with a mid-single-digit increase driven by new women's products and continued response to our contemporary offering, so good momentum there.

In Asia our Wrangler business was up more than 20%, we continue to focus on the denim performance range and we launched Sun Shield product in key markets as well. We also launched our Proud to Be Blue line which celebrates the Wrangler heritage. At Lee, we saw low double-digit growth including great response to our innovative Jade Fusion denim which manages heat and moisture much better than regular denim. Taken together, we had great momentum with our Jeanswear business globally expect it to continue throughout the year.

Now back to Scott on Imagewear.

Scott H. Baxter

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

Thank you, KH. Imagewear revenue was flat for the quarter with a mid-single-digit increase in our Licensed Sports Group business being offset by a low single-digit decline in our Workwear business. In our LSG business we launched our new Cool Base jersey for all 30 MLB clubs to a great response with a strong activation campaign featuring celebrities from the worlds of sport and music and on the workwear side Red Kap showed good growth driven by shop pant and short. However, Bulwark had a meaningful slowdown due to reduced oil and gas exploration, for the full-year we continue to expect mid-single-digit growth for this coalition.

And now it's back to Steve.

Steven E. Rendle

Senior Vice President-American Region

Our Sportswear business was up 1% reflecting a low single-digit decrease for Nautica's business and a 20% growth from Kipling. But apart from Kipling, which clearly had another great quarter, the numbers behind Nautica don't paint the full picture. Along with a strategy and brand positioning reset that's well underway including a deep consumer insight study, the work we began a few quarters ago to increase AURs and pursue more full-priced revenue in lieu of promotion-driven sales is working. It's also clearly showing up in our profitability. And with that said we are maintaining this coalition's revenue outlook of mid-single-digit growth for the full-year.

And to wrap up our coalition comments, revenue in our Contemporary Brands business declined 5% as the overall contemporary category especially here in the U.S. remains soft. Globally, a low double-digit increase in the international revenue was more than offset by a low double-digit decline in the Americas region. In the U.S. despite the top line performance we did see sequential improvement in our Jeans business with sales stabilizing in the quarter. That said however, given the year-to-date results we are now expecting revenue for this coalition to be down at a mid-single-digit, currency-neutral rate for the year.

Now on to Scott with a deeper dive into our results.

Scott A. Roe

Chief Financial Officer & Vice President

Thanks, Steve. I echo Eric's comments by saying that our second quarter and first half year results speak to the continued strength of our diverse portfolio of brands and our business model we remain focused on executing our strategic plan which includes delivering innovative products, maintaining a strong connection with our consumers and strategically investing in our brands and as a result, we have delivered yet another solid quarter that supports our long-term growth commitments. In the second quarter on a currency-neutral basis our revenue rose 10% which is an acceleration off the 8% increase we saw in the first quarter and at 9% year-to-date that's solid growth for the first half of the year. By channel our direct-to-consumer business grew 13% in the second quarter reflecting strong results across all regions including a high teen increase in Europe and more than 20% growth in Asia. This performance was led by our Outdoor & Action Sports coalition with The North Face, Vans, Kipling and Lucy leading the way.

In our wholesale business we also saw strong results with revenue up at high single digit rates with Vans, Timberland, Wrangler, JanSport, Reef and Lucy among the highest growth rates in the quarter. Gross margin for the second quarter was right in line with our expectations at 48.3%, down just 10 basis points to last year's results. This decrease included 50 basis points of mix benefit which was offset by 60 basis points of foreign currency and rate. And to unpack that a bit, our mix benefit, just like in the first quarter, was somewhat tempered due to the higher Jeanswear revenue. Now keep in mind, even though Jeanswear carries lower gross margins, it is still VF's most profitable coalition so we're okay with that flow through.

Foreign currency changes on a year-over-year basis, including an average euro rate of \$1.11 in this year's second quarter versus a \$1.37 rate last year, accounted for the majority of the headwinds. And finally, recall that the majority of our product costs with ties to commodities like leather, cotton, and oil-based derivatives will only begin to see benefits flowing through the P&L in the second half of the year, more specifically in the fourth quarter.

Now turning to SG&A. Our SG&A ratio to revenue was up just 10 basis points due to continued investments in DTC almost entirely offset by leverage. In fact, we're operating 139 more stores now than we did at the same time

last year. And that's our motto: to make investments to drive top line growth, find leverage elsewhere in our expense structure, and improve profitability.

Our operating income grew 1% and operating margin in the second quarter was 8.9%, down 30 basis points due to the impact from foreign currency headwind. Excluding currency, operating income was up 10%, resulting in an operating margin of 9.2%.

Looking down into that profitability by coalition, reported Outdoor & Action Sports operating income rose 3% and operating margin was 9.7%, 50 basis points below last year. This decline was entirely due to the impact of changes in foreign currency rates as about 40% of the coalition's revenue came from regions outside of the U.S. On a currency neutral basis, operating income was up 17%, slightly ahead of revenue growth.

Operating income from Jeanswear was up 4% in the second quarter and operating margin increased 70 basis points to 17.2%. Excluding the impact of currency, operating income was up 5.0%, also ahead of revenue growth. We are really pleased with the global strength we're seeing return to this business.

Imagewear operating income was flat with a 10 basis point increase in operating margin to 14.2% held back a bit because of unfavorable changes in foreign currency. Without the impact of currency, operating income was up 2.0%. Sportswear operating income was up 41% while operating margin improved 290 basis points to 10.2% as the move towards higher-quality sales begins to gain traction. And Contemporary Brands' operating income was down significantly as this category remains challenged.

And now on to the bottom line. Our EPS grew 22% on a currency neutral basis and, as Eric mentioned, the result was helped by about \$0.02 due to a higher tax rate which included settlements of prior year's tax audits. While we expected this tax settlement as part of our annual outlook, the fact that it came in our smallest EPS quarter certainly shows up nicely. And even if you take it out, we were still up 17% on a currency neutral basis. On a reported basis, EPS was up 11%.

Turning now to some balance sheet highlights, our inventories were up 8%, which was in line with our expectations ahead of the second half of the year when will realize about 60% of our revenue. And finally, our board of directors declared a \$0.32 quarterly dividend payable in the third quarter.

Now let's turn to our full-year outlook, beginning with the top line. We continue to expect currency neutral revenue to be up 8% in 2015 consistent with our 2017 commitment. On a reported basis, we expect revenue for the full year to be about \$12.7 billion. Based on first half performance, we did make a couple of changes to our full-year currency neutral revenue expectations for two of our coalitions. As previously mentioned, we're taking Jeanswear up to mid-single-digit increase from our previous expectation of low single-digit growth, and we're taking Contemporary Brands down to mid single-digit decline from the previous nearly flat outlook.

Our gross margin expectation for 2015 remains about 49.5% on a currency neutral basis, reflecting a 70 basis point increase over 2014. The primary driver of our gross margin expansion remains the favorable mix shift to our higher-margin businesses which we've seen for so many years. This is a trend we expect will continue.

Taking a look at currency assumptions, we've elected to keep our euro to U.S. dollar assumption at \$1.10 for the balance of the year. At this rate, a \$0.05 move would translate into a revenue impact of about \$60 million and an EPS impact of \$0.03 to \$0.04 for the second half of the year. Outside of the euro, which represents 40% of our foreign currency basket, other currencies have continued to devalue against the U.S. dollar. So with this additional pressure in the second half of the year, full year reported gross margin could be about 49%.

Moving now to the bottom line, we expect earnings per share on a currency neutral basis to increase 15%, up from the previous expectation of 14% as compared to last year's adjusted EPS of \$3.08. On a reported basis, despite the negative impact from foreign currency, we now expect EPS growth of 5% to get us to \$3.22 versus last year's adjusted EPS. This compares to our previous EPS guidance of \$3.20, which reflected the 4% growth outlook. This places us even further ahead of our 2017 plan and, in fact, is a nice stairstep acceleration in the first three years of our plan: plus 13% in year one, 14% in year two, and now plus 15% in year three. That's not too bad.

Now let's see how we see the second half playing out. For the third quarter we expect currency neutral and reported revenue to increase at nearly the same rates as the second quarter. Now keep in mind the third quarter is the biggest international quarter of the year and, therefore, our most significant FX exposure. In fact, given current rates, we see the potential for about 70 basis points of foreign currency headwinds impacting our operating margin in the third quarter.

For the fourth quarter, we see revenue growth at a slightly lower rate than the third quarter as we will be up against the comparable period in 2014 that included a fifty-third week. The fourth quarter will also see the strongest margin and profit comparisons for the year when DTC is at its peak, the negative impact of currency moderates, and we begin to see the impact of lower product costs.

So to wrap it up, there are a lot of green lights as we look out across our portfolio, and our execution only continues to get stronger. The initiatives and investments we have in place combined with the power of our diverse portfolio of brands are positioning us to achieve growth targets that we view as pretty strong when you stack us up against the industry as a whole. Equally as important is our proven track record of delivering steady earnings growth that we believe clearly illustrates the strength of our business model and consistent return to our shareholders. After posting a strong first half, we now have an even greater level of confidence as we enter the second half of 2015.

With that, I'll turn it back to the operator for your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from Ed Yruma with KeyBanc Capital Markets.

Edward J. Yruma

KeyBanc Capital Markets, Inc.

Q

Hi. Good morning. and thanks for taking my question. I guess first on the Jeanswear business, obviously nice performance there. How do we think about the drivers of that business? And then second, the instrumentality from a margin perspective I know it is lower gross but are there certain benefits as that growth rate accelerate? Finally, with the Nautica reboot, you have done these a number of times. I guess how should we think about timing and cadence of that process? Thank you.

Scott H. Baxter

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

A

Hey, Ed, this is Scott. How are you? So from a Jeanswear standpoint, we are seeing denim trend up a little bit so that has been real positive for us. You've seen that this is the third quarter in a row that we've have had mid single digit increases. But if you think about Jeanswear, this is the culmination of a lot of things.

First of all, it is our new innovative products that are coming to market. We have been on an innovation process pipeline now for about five years and you are starting to see some of that come out of our pipeline. You are starting to see things like Cool Vantage, which we just kicked off here about 45 days ago to tremendous success. That's part of the pipeline, that's part of the creation that we have had and that's starting to come out and we're seeing really good success.

You're also seeing expanded distribution, Ed. You're seeing that our consumers want to see our products in different and more channels because we're just really connecting with them. An example of that would be in the mid tier where you're seeing Wrangler really do very, very well.

In addition to that, we've really gotten our demand creation platform harmonized with our businesses. So we are pretty excited about what is going to happen in the second half this year because we are kicking off in the Lee business Mike & Mike from ESPN. And then we have a really strong Advanced Comfort platform coming up from Drew Brees on the Wrangler side.

And I think for me the big benefit has been the real strong leadership that we've seen from our team at both Wrangler and Lee and just the excitement around our products and our people and our innovations.

Scott A. Roe

Chief Financial Officer & Vice President

A

Ed, Scott speaking here. I guess just on the model, it is a great model is the short answer. We have relatively lower margins when you compare it to average VFs but it is a very efficient machine and we see a lot of leverage. So when we get the top line moving, that leverage drives profitability and remember it's already our most profitable coalition at almost 19%.

Steven E. Rendle

Senior Vice President-American Region

A

And then on your Nautica question real quick, we are really at the front end of this work. As I mentioned, we have just finished our consumer segmentation study and that is beginning to inform everything to do with our brand positioning and our brand strategy which flows through our product and go-to-market strategy.

So from a timing and what can you expect is really over the – I think you will continue to see improvement over the next 12 months, 18 months as our team really locks onto this new model, new strategy and the product machine is able to start putting the differentiated product into the segmentation strategy.

Edward J. Yruma

KeyBanc Capital Markets, Inc.

Q

Great. Thanks so much.

Operator: Our next question comes from Michael Binetti with UBS.

Michael Binetti

UBS Securities LLC

Q

Hey. Good morning, guys. Congrats on a great quarter.

Eric C. Wiseman

Chairman, President & Chief Executive Officer

A

Thanks, Michael.

Michael Binetti

UBS Securities LLC

Q

Eric – I guess jump ball Eric or Scott, you guys had much better trends in the revenue growth in the quarter in constant currency. I'm curious why you didn't feel like taking up the revenue growth overall for the year? Maybe you could help connect that decision to what you are seeing in the backlogs for the fall and holiday and maybe if you see the same trends in the direct-to-consumer business [audio gap] (33:53) you are seeing in the enthusiasm for the backlog in our wholesale customers. Is that what you would look at and say okay, we've got room there to then maybe raise the guidance for the year at that point?

Eric C. Wiseman

Chairman, President & Chief Executive Officer

A

Yes, Michael, it is a great question and something we talked about a lot. The math works – you know how this works, that all of the numbers between 7.5% and 8.5% round to 8% as we report our numbers. So there is \$127 million gap there on a \$12.7 billion business and we actually – our revenue outlook is a little stronger but the number is still 8% is the way to deal with that I think. So we are very encouraged by how the back half looks.

Scott mentioned in his comments that the back half – we are up against a back half that had an important 53rd week last year, so that is part of the dynamic as well. But we are seeing growth in both our wholesale and retail business around the world in our big brands and it is very encouraging because we have a lot of our bookings in for fall and we have pretty good visibility to the numbers.

Scott A. Roe

Chief Financial Officer & Vice President

A

Yeah, and, Michael, this is Scott. Maybe just building on that, as you try to model this out, obviously the top line as Eric said is incrementally better. Given our FX environment and our history of tightly controlling expenses, that means we are driving leverage and so the couple of pennies that we took up in terms of bottom line, that is really where that is coming from.

Michael Binetti

UBS Securities LLC

Q

All right. And Eric, it seems like you are ready to have a basis point argument with me on revenues there so thanks for that. If we just look at the gross margin line and start thinking ahead to 2016 a bit, you guys have told us about – you guys have mentioned a couple of times how you are getting close to your five-year margin target early but obviously FX has gotten a lot different since then. Maybe you could help us think about the 60 basis points to 70 basis points of mix you guys get every year, how should we lay currency on top of that as we look at next year? And then also any kind of comment you could give us on how you are thinking about price increases as you get into that FX pressure?

Eric C. Wiseman

Chairman, President & Chief Executive Officer

A

I think that was five or six questions, Michael.

Michael Binetti

UBS Securities LLC

Q

Perhaps.

Eric C. Wiseman

Chairman, President & Chief Executive Officer

A

And you know the first answer I'm going to give you, which is we are not going to give guidance into 2016 at this point, but there are a few things I can say, Michael. So first of all, currency has impacted us this year, as we said, about 60 basis points and that is essentially offset by the mix benefit that we see. And then a little bit of input cost is the rest of the delta to get there for 2015.

But you know pricing has always been a part of our quiver of arrows I guess as we attack things like commodity price and currency. And there is no reason to believe that wouldn't be true in the future. The other thing I always like to point out on this topic is, in any given season more than 50% of our products are new each time. So when we talk about price, it is really merchandising to a known value as opposed to necessarily raising the price on a like for like basis.

Michael Binetti

UBS Securities LLC

Q

Right. Okay. Thanks a lot, guys.

Eric C. Wiseman

Chairman, President & Chief Executive Officer

A

Thanks, Michael.

Operator: Our next question comes from Kate McShane with Citi.

Katharine McShane
Citigroup Global Markets, Inc. (Broker)

Q

Thanks. Good morning.

Eric C. Wiseman
Chairman, President & Chief Executive Officer

A

Morning, Kate.

Katharine McShane
Citigroup Global Markets, Inc. (Broker)

Q

My first question was on the rollout of your brands in China and just has there been any change in strategy there given the environment?

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

A

Kate, this is Karl Heinz. No. No change in strategy. I think we all heard the news recently – there was some noise in the economy and our strategy stays unchanged. I always say that very consistently. This is a marathon; it's not a short-term race. We actively work at the moment with four brands which are our major focus. I said it in the past we still have opportunities in a number of stores. I gave the number compared and benchmarked to big players. We still have a lot of room there. And also had a relatively good quarter, our comps are strong, so it's really good feedback from China at the moment.

Katharine McShane
Citigroup Global Markets, Inc. (Broker)

Q

Okay. Thank you. You may have given us – I may have missed it, but did you give a comp growth number for your DTC business in your prepared comments?

Eric C. Wiseman
Chairman, President & Chief Executive Officer

A

We did not but I will make a brief comment on that. As we look at our DTC business in total, we think we are going to grow low to mid single-digit in our brick-and-mortar stores and we have talked about high single-digit comp growth in our overall DTC and that is really pulled up by the rapid growth of our e-commerce business which has been and continues to be up over 30%.

So when you put those two together low to mid-single digit comps in brick-and-mortar and up 30% in e-commerce, we get to a high single digit comp number in our DTC business.

Katharine McShane
Citigroup Global Markets, Inc. (Broker)

Q

Okay. Thanks so much.

Eric C. Wiseman
Chairman, President & Chief Executive Officer

A

Thanks.

Operator: Our next question comes from Matthew boss with JPMorgan.

Matthew Robert Boss

JPMorgan Securities LLC

Q

Hey, guys. Congrats on a nice quarter.

Eric C. Wiseman

Chairman, President & Chief Executive Officer

A

Thank you.

Matthew Robert Boss

JPMorgan Securities LLC

Q

So, on your longer-term objectives, split adjusted 2017 earnings target would be about \$4.50 in earnings. Are you – I guess higher level, are you so comfortable with this? And if we don't see an acquisition which you have some embedded in that, are there other levers to still think about to be able to get us there?

Eric C. Wiseman

Chairman, President & Chief Executive Officer

A

Sure, when we announced the \$4.50 earnings per share target, we said at that time that we weren't really relying on a big contribution from acquisitions to get to that number. The fact is we aren't and as Scott pointed out, our three-year trend in EPS growth – we were assuming a 13% compounded EPS growth to get there and our numbers are 13%, 14% and we are now guiding to 15% this year on a constant currency basis. What has changed is when we gave the \$4.50, we said we were expecting no change from FX, FX wouldn't affect that, it would be pegged at whatever the rate was at that time and obviously we have an FX headwind this year.

What is going to happen for the next few years from an FX standpoint I can't comment on, we don't know. But organically, we are driving greater than the planned organic growth rate in our EPS. So how you think about that, I don't know what to tell you because I don't know what the foreign currency exchange rates are going to be for the next 30 months. We are exactly halfway through our five-year plan sitting here right now.

Matthew Robert Boss

JPMorgan Securities LLC

Q

Great. And then just a follow-up, so as the balance sheet continues to build here, anything new to think about on the capital allocation front? More so if we didn't see an acquisition by say the midpoint of next year, is it fair to think about maybe a larger, more consistent share repurchase? Would you look to return cash to shareholders maybe in a different fashion?

Eric C. Wiseman

Chairman, President & Chief Executive Officer

A

Well, Matthew, I would say this, there's no change in our position which has been consistent. Acquisitions remains our number one priority, dividends is the following and then we've said consistently we won't let cash accumulate. We'll return that to shareholders as we've done over \$1.3 billion over the last couple of years. So if we had cash accumulate, as I said, we would absolutely not let it sit there. We would find a way to return that back to shareholders.

Matthew Robert Boss

JPMorgan Securities LLC

That's great. Congrats again, guys.

Q

Eric C. Wiseman

Chairman, President & Chief Executive Officer

Thanks.

A

Operator: Our next question comes from Jim Duffy with Stifel.

Jim V. Duffy

Stifel, Nicolaus & Co., Inc.

Good morning, everyone.

Q

Eric C. Wiseman

Chairman, President & Chief Executive Officer

Hey, Jim. Good morning.

A

Jim V. Duffy

Stifel, Nicolaus & Co., Inc.

My question is a big picture question about the portfolio brands as a whole. A few brands nicely ahead of pace relative to 2017 targets, a few laggards. I suppose that is the benefits of having a portfolio. We are seeing DTC ahead of pace. The world has changed quite a bit in the past few years with the pace at which consumers are embracing shopping directly with the strong brands. Given this kind of new world order, can you provide some updated perspective on strategies to shape the portfolio, how you think about those brands that are laggards? That would be helpful. Thank you.

Q

Eric C. Wiseman

Chairman, President & Chief Executive Officer

Sure. I'm going to respond to that in a couple of ways, Jim. One thing we are seeing is that our DTC business worldwide is running at a – is going to be a bigger percentage of our company than we originally thought. It's grown about 200 basis points as a percentage of our total revenue over the last couple of years. We did have an accounting change there that affected that, but it's looking like that could continue – that could hit 30% of our total revenue in the next couple of years.

A

So that is different. Consumers are engaging with us as I said earlier to an earlier question. Primarily through our e-commerce sites, which are very compelling, getting bigger, and we have them in more countries. As regards to the shape of the portfolio, it's something that we look at all the time. We want to be in a position 5, 10 years from now where we have a compelling and relevant portfolio. I can't comment specifically about how we're thinking about adding to that portfolio or subtracting to that portfolio because it'd be an inappropriate comment to make. But it is something we manage.

Jim V. Duffy

Stifel, Nicolaus & Co., Inc.

Q

Okay. Can you speak in any general terms about things you would be more likely to add to the portfolio or the characteristics of how you are trying to shape the portfolio, what you'd like to emphasize and what are some things you're less interested in emphasizing?

Eric C. Wiseman

Chairman, President & Chief Executive Officer

A

You've heard us talk over time about our focus on the Outdoor & Action Sports space and those activity-based brands are where we are best and growing the most and investing the most. We invest disproportionately them in brand spend. We invest disproportionately in them in new stores and e-commerce sites because we like the characteristics of them and the stickiness with consumers when we are helping them live out their lives doing the activities they like to do. So you will see us invest in that type of thing in our portfolio beginning with an emphasis on Outdoor & Action Sports.

Jim V. Duffy

Stifel, Nicolaus & Co., Inc.

Q

Understood. Thank you.

Eric C. Wiseman

Chairman, President & Chief Executive Officer

A

Thanks, Jim.

Operator: Our next question comes from David Glick with Buckingham Research Group.

David J. Glick

The Buckingham Research Group, Inc.

Q

Thank you, and I'll add my congratulations.

Eric C. Wiseman

Chairman, President & Chief Executive Officer

A

Thanks, Dave.

David J. Glick

The Buckingham Research Group, Inc.

Q

Scott, just a question. I just want to make sure I understand your comments on the gross margin and profit progression for the balance of the year. You said that FX was a little bit greater in Q3, but also you have some of your higher-margin brands have a higher penetration as well. Should we think about the gross margin progression Q3 being kind of similar, maybe a little bit better relative to last year in Q3, and then the big increase over last year in Q4? And the same for EBIT and EPS, is that the right way to think about it?

Scott A. Roe

Chief Financial Officer & Vice President

A

Yeah, I think that's generally right. I mean, we're not being that specific but I think in terms of the shape, you listened well.

David J. Glick

The Buckingham Research Group, Inc.

Okay. Great. And then tax rate is still around 24%? Is that fair?

Q

Scott A. Roe

Chief Financial Officer & Vice President

That's right. About 24%.

A

David J. Glick

The Buckingham Research Group, Inc.

The last question on Jeanswear it sounds like you have a lot of new product initiatives. And I am just wondering, is this part of a broader improvement in the overall denim market? I mean, there's certainly been a lot of discussion about that. Obviously, you guys are doing a lot of things right. But I am just wondering has the demand sort of bottomed out in the category and really starting to recover overall? Is this a rising tide in addition to some of the strategies you guys are successfully implementing?

Q

Steven E. Rendle

Senior Vice President-American Region

Yeah, David, I think it is a little bit of all of what you said. The market is definitely improving' we have seen a little bit of additional demand around denim. But I think the single most important thing is our folks are really doing a good job as far as helping accelerate that demand with their consumers and with our wholesale customers. We are bringing products to market that the consumer really likes. We've got our new Heavenly Touch, our Advanced Comfort, our Dream Jean and even I mentioned earlier talking about the Cool Vantage. It's a product that hasn't really been addressed in the marketplace before and we brought it all the way through our innovation pipeline over the last three to four years' came to market with it here at it's been a tremendous success.

A

So, it's not just that, it is the additional piece and the additional piece is when you bring a product to market that the consumer finds that they have a need for, you have success. And we are really listening to the consumer with our insight process and we are bringing those things to market and the consumer is finding them and we just have to have a bigger voice going forward from a demand creation and you heard me talk about some of the things that we are doing there to go ahead and highlight those products and highlight our brands. So as you combine both of those factors I think it is really good for our Jeanswear business.

David J. Glick

The Buckingham Research Group, Inc.

Great. Thank you very much. Good luck.

Q

Operator: Our next question comes from Laurent Vasilescu with Macquarie.

Laurent Vasilescu

Macquarie Capital (USA), Inc.

Good morning, and congrats on solid results. Two weeks ago, The Wall Street Journal highlighted that VF Corp. is one of the brand leaders out there looking at Africa as the next frontier from a sourcing standpoint. Can you provide any insights regarding your geographic sourcing strategy going forward? And how should we think about labor cost pressures this year and longer-term from a gross margin standpoint?

Q

Eric C. Wiseman

Chairman, President & Chief Executive Officer

A

Sure. It's Eric. I'll handle that one. For as long as I've been here, and I've been here for 20 years, our supply chain strategy about sourcing product has always been to have a balanced portfolio of countries that we can create our products in, not chasing lowest-cost but chasing the best business model for us. As a result of that, we're spread pretty wide in terms of the regions of the world and a number of countries we have facilities in that we either own and operate or that we source from, including a small presence in Africa. Africa is a place that interests us, it is emerging on the scene, as the article said, it's kind of a new place for the apparel and footwear industry to go to and we're there in a very small way trying to learn what role that may have in our future.

I'm going to take a step back from that and as we look for places to source' cost is not the first thing that we look for. We have to first have the quality of products made, if the product – it doesn't do us any good to get an inexpensive product that doesn't have great quality, that's bad for our brands. Second thing we look for is working conditions. We won't source products in a place that doesn't have good working conditions for the people that work in those factories. Third thing we look for is service. So now we have quality of the product, good working conditions and a place that can service our demand and then the last thing we look for his cost. In that order and to the extent countries can tick those boxes in that order, we go there.

Laurent Vasilescu

Macquarie Capital (USA), Inc.

Q

Great. And continuing on the sourcing theme can you provide an update on the third way of manufacturing? I think last time we heard about the third way was during the 2013 Investor Day. So hoping to get a little bit of an update on that initiative in terms of the potential for gross margins going forward.

Eric C. Wiseman

Chairman, President & Chief Executive Officer

A

Yeah, the third way is, giving a Reader's Digest version, one way to produce is in factories that we own and operate, the second is in a factory this purely a third-party relationship and the third way is in a factory where we have a strategic alliance with the factory bringing everything we know about making product into a factory that's owned and operated by somebody else.

That was an idea three or four years ago. We have some of those set up around the world and we have one of those – or a couple of those set up now in Bangladesh. It's a place where we find that we can take an attractive – a potentially attractive factory in a market that meets all the criteria I said and make it even better because we're pretty good manufacturing operators ourselves, have a lot of tricks up our sleeves and we share them with some of those factories and that model will continue to see more of that. I can't speak to what percentage of our products come out of that today but it's a growing percentage.

Laurent Vasilescu

Macquarie Capital (USA), Inc.

Q

Okay, great. Congrats again.

Eric C. Wiseman

Chairman, President & Chief Executive Officer

A

Thank you very much.

Operator: Our next question comes from Dana Telsey with Telsey Advisory Group.

Dana L. Telsey
Telsey Advisory Group LLC

Q

Good morning, everyone, and congratulations on very solid results.

Eric C. Wiseman
Chairman, President & Chief Executive Officer

A

Thank you.

Dana L. Telsey
Telsey Advisory Group LLC

Q

Can you talk a little bit about as you think of marketing investment for the back half of the year, how does that differ by coalition, what should we be seeing? And just lastly on the jeans side, mid-tier department store performance, how did that look and was there any change? Thank you.

Scott A. Roe
Chief Financial Officer & Vice President

A

Yeah, good morning, Dana. This is Scott, I'll start. Our demand creation is growing a little bit faster than our top line so just in terms of modeling it out, we continue to make those investments, but importantly, we're also improving the effectiveness of those investments. We're making those dollars work better. I'll give you one simple example, we've had 14 global media agencies and we've embarked on a project to really look at rationalizing that, getting more leverage, the power of One VF and as a result we've taken that 14 down to three and that's resulting in tens of millions of dollars of savings over several years and that's really a way to just put those dollars to work in a more effective way.

Steven E. Rendle
Senior Vice President-American Region

A

And from a mid-tier standpoint, Dana, I think there are two things I'd like to talk about, one is we brought Wrangler to the mid-tier and it's been extremely successful. What I mentioned earlier is our consumer is asking for our product in different channels and that just tells us the strength of the brand that we have and we brought that product to that channel, it's resonated extremely well and we're rolling it out across the channel, across United States with great success.

And then on the female side, we're bringing real innovation to the channel, so not just around denim. I think the thing that's really interesting and really exciting for the Lee brand is we're bringing some different fabrications and some different performance-type products that have been really successful from a female standpoint and the consumer has really liked that in that channel too. So that's a little bit on the male and a little bit on the female within the channel but we feel really good about what's happening in the second half and what we have in our innovation pipeline going forward.

Eric C. Wiseman
Chairman, President & Chief Executive Officer

A

Dana, it's Eric again. It's absolutely fair to say that – how to do this, because I won't talk about a specific mid-tier retailer, but is mid-tier sector healthier than it was two years ago? You bet it is. Is it healthier than it was last year? Yes, it is. Where is that going to go? I don't know. But those retailers in that space have been working really hard to become relevant and to get momentum and they're getting some traction.

Dana L. Telsey
Telsey Advisory Group LLC

Q

Thank you.

Eric C. Wiseman
Chairman, President & Chief Executive Officer

A

Thanks, Dana.

Operator: Our next question comes from Omar Saad with Evercore ISI.

Omar Saad
Evercore ISI

Q

Thanks. Good morning, guys. I wanted to follow up on Michael's question on FX. I know you're not giving guidance for next year but just wanted to get a kind of better understanding of the key drivers on the transactional side as your hedges roll off later this year, next year. Is it price/merchandising are by far the two biggest components – levers you can pull to manage through that? Is there supply chain efficiencies or product costs coming down or raw materials? Just help me think how to order that, and are you still comfortable that you'll largely be able to handle that issue, that FX issue?

Scott A. Roe
Chief Financial Officer & Vice President

A

Yeah, Omar, as we've discussed in the past, the answer is all of the above are true, right? All those are levers and I always just – when we have this discussion, I always encourage people don't isolate too much on one single component of our input costs because the reality is the markets are pretty efficient, we see commodities now trending down, we see currency going the other way. It's really hard to predict how all those factors are going to come together but that's why we have hedging programs and that's why we enter into longer-term relationships and contracts so that we can see those coming and design and merchandise around those known input costs.

And pricing is absolutely a lever. I made the point earlier in the call that it's not necessarily like-for-like items, although that will be part of the equation. But really, I'd say merchandising and the mix and the innovation that we're bringing to market that we get paid for, all those things together mix to allow us to maintain our margins.

The other thing I always say too is while the speed with which currency change this time is a little unprecedented, the fact that it is changing and the relative amount is not unprecedented. We manage this every quarter and the best evidence of our ability to do it going forward is the fact that we've done it for many years in the past. So I think a lot of those factors are going to come to bear, Omar, and we see our model is intact and we see no reason why we wouldn't be able to overcome these headwinds.

Omar Saad
Evercore ISI

Q

Thank you, Scott. That's super helpful. And then, Eric, I want to ask a question, I heard you mention Eagle Creek is one of the fastest-growing brands. You've got a number of smaller brands in the portfolio that don't get as much attention, Napapijri – I know Kipling is doing really well; Reef is one we haven't heard about in a while. Should we think about these smaller brands – they all seem to be coming together and starting to reach a critical mass, maybe not individually, but as a whole as kind of another leg of growth – organic growth for the company? Is that the right way to think about it or are they still kind of too small as we think about the broader portfolio?

Eric C. Wiseman

Chairman, President & Chief Executive Officer

A

They are – yeah, you're right. We tend to focus on our big brands because our big brands move the needle for us and that's how we talk on these calls. We have a lot of smaller brands that are doing fantastically well. A brand like Kipling which was a brand we don't talk about much. It was a small brand. It's approaching the size that Vans was when we acquired it so it's becoming not such a small brand and it's growing. It's one of our fastest-growing brands consistently over the last four years. So that's just one.

Napapijri is another one that you called out. We're having great growth in that brand. Eagle Creek is a very small brand for us but a really important brand in the outdoor luggage space and for Consumer Reports readers to have discovered it and name it the best luggage brand of 2015 is remarkable and I couldn't be more proud of that group. And we think all those brands have runway and collectively they are an important part of our growth story.

Omar Saad

Evercore ISI

Q

Can you give us a sense of the size combined Napapijri, Kipling, Reef, Eagle Creek, any others that I'm missing in that genre?

Eric C. Wiseman

Chairman, President & Chief Executive Officer

A

I couldn't do that accurately in my head on this call. It might be a conversation we have later.

Omar Saad

Evercore ISI

Q

Okay no problem. Thanks a lot, guys.

Eric C. Wiseman

Chairman, President & Chief Executive Officer

A

Thank you. See you, Omar.

Operator: Our next question comes from Lindsay Drucker Mann with Goldman Sachs.

Lindsay Drucker Mann

Goldman Sachs & Co.

Q

Thanks. Good morning, everyone.

Eric C. Wiseman

Chairman, President & Chief Executive Officer

A

Hi, Lindsay.

Lindsay Drucker Mann

Goldman Sachs & Co.

Q

I wanted to ask about Mountain Athletics and just get a better sense of number one, what kind of distribution that initiative is getting? And maybe Steve, you could talk to – clearly breaking into training and sort of outside of the outdoor part of action would be a pretty big new category to tap into and I was just curious from your consumer

insights work what your consumer is telling you that – how you would position North Face in that category in order to really take off? Thanks.

Steven E. Rendle

Senior Vice President-American Region

A

Great, Lindsay. Mountain Athletics is a very important new line extension, new collection that The North Face has been focusing on. It's really important in being able to spread The North Face beyond its second half concentration into becoming a true 12-month out-of-the-year brand. And our consumer insights is what really has led the team to the way it is positioned. And you heard me talk about in my comments, it's about training for the activities that are relevant to The North Face consumer. It could be that ski adventure, climbing, a long hike that someone has been focused on, or if you're just part of that focused consumer group in your everyday life, it's a method of training that really resonates with you.

We see the distribution opportunity being very consistent with where the brand is distributed today. Specialty retail is an important part but where we're seeing very good placement and very good sell-through is in the sporting goods channel. The department store piece, which is smaller for the brand, absolutely has seen good placement. And then our own DTC and specifically e-commerce where we're able to really present the brand, present the collection and the theory behind Mountain Athletics Training; we've seen really good strong growth on a quarter by quarter basis.

Karl Heinz Salzburger

Vice President, VF Corporation and Group President, International

A

And, Lindsay, just to give you an international point of view, we just launched it a little bit later than in the U.S. It's in the market and the sell-out data are phenomenal. Really doing well.

Lindsay Drucker Mann

Goldman Sachs & Co.

Q

Great. And just a follow-up for both Timberland and Vans, can you talk about how momentum has been in apparel versus footwear? Are you seeing sort of increased strength in apparel as you focused on that offering or is it kind of balanced growth?

Steven E. Rendle

Senior Vice President-American Region

A

So I'll start with Vans. As you saw, they had a spectacular quarter yet again, and that's broad-based. It's across all categories, all genders, and all channels and regions. Apparel is growing. It's a very important element of that brand's go-to-market strategy. And the collaboration that they brought to market – Disney, wasn't just a footwear collaboration. It came to life in apparel in a really unique and a fun way.

And at Timberland, it continues to be a big focus for us. As I've said before, we're just beginning to get placement and penetration here in the U.S. market. Our greatest go-to-market presence is within our own retail and it's an important focus. It's part of the three areas that we've committed to really drive: men's footwear, women's footwear, and men's apparel. So really happy with both businesses apparel growth.

Lindsay Drucker Mann

Goldman Sachs & Co.

Q

Great. Thanks.

Eric C. Wiseman
Chairman, President & Chief Executive Officer

A

Thanks, Lindsay.

Operator: Our next question comes from Mitch Kummetz with B. Riley.

Mitch Kummetz
B. Riley & Co. LLC

Q

Thanks for taking my questions. So Eric, you're expecting stronger 8% growth this year. I think the only coalition that you formally raised the growth rate was Jeanswear. I'm curious on Outdoor & Action Sports, the plan is double-digit growth. Are you now kind of assuming stronger double-digit growth for the year given how strong that coalition was for the quarter?

Eric C. Wiseman
Chairman, President & Chief Executive Officer

A

No comment on outdoor growth for the back half of the year. I will remind you, Mitch, that particularly at The North Face, the fifty-third week last year was extremely helpful. You might remember in the first quarter of this year we talked about the slowdown in the growth rate at The North Face. It was because they traded the first week of January for the first week of April, and obviously in The North Face model the first week of January is more important than the first week of April. But we're up against that in our growth rates for fall. We're not taking our guidance up on Outdoor & Action Sports but we're very pleased with where we're positioned right now.

Mitch Kummetz
B. Riley & Co. LLC

Q

Got it. Scott, just on reconciling the earnings guidance again, the sales assumption is essentially the same although again maybe able bit stronger 8% growth. Gross margin has come down a little bit. EPS bumps up a couple of pennies. Is it really on the SG&A side that we should see kind of the improvement? I think you mentioned tax is the same. Does share count come down at all? And does Jeanswear impact kind of the model since you are now expecting more Jeanswear growth for the year and that is lower gross margin, lower SG&A?

Scott A. Roe
Chief Financial Officer & Vice President

A

Yeah, I think it was all in there, Mitch. But you nailed it. It's really leverage on SG&A is really what you need to make your model work because all the other factors, shares are the same. We said about 24% on the tax rate. Obviously, we talked about the gross margin. So the difference is that higher volume is driving leverage. And remember, that Jeanswear business, that is their model, right? Relatively low margins based on the channels they play in, and they drive volume and that drops right to the bottom line. That's why we see that 19% or so operating income for Jeanswear.

Mitch Kummetz
B. Riley & Co. LLC

Q

Got it. Thanks, guys. Good luck.

Operator: Our final question comes from David Weiner with Deutsche Bank.

David Weiner

Deutsche Bank Securities, Inc.

Q

Great. Good morning, guys. So just my two questions. I guess first I was hoping regarding Europe you could maybe give a little more color by geography. If you could do that maybe kind of what's working better or if there are any regions that are kind of lagging if you will? And then in the U.S. are there any callouts in terms of stores that are located in heavier tourist markets. Are you being impacted by tourist inflows into the States? Thanks.

Karl Heinz Salzburger

Vice President, VF Corporation and Group President, International

A

David, maybe I start with Europe. As you heard us saying we had a strong quarter, up 11%. I guess the good news is most of our brands in the portfolio are growing so from a brand point of view that's the first point. The second one, we see a good strength in most of the geographies, right? It's not just bumping up in one area so all over. In southern Europe particularly strong. It's good and the Scandinavian piece and U.K. also the greater German area and even Greece, I looked into Greece. Even if it's small for us we have a subsidiary there, that it's a few percent up to last year, so it's really a surprise considering what's going on in that market.

David Weiner

Deutsche Bank Securities, Inc.

Q

The Greek comp. Okay.

Eric C. Wiseman

Chairman, President & Chief Executive Officer

A

That's going to put us over the top for the year I'm sure.

Scott A. Roe

Chief Financial Officer & Vice President

A

And then David to your tourist question we have seen those large tourist markets of southern Florida, New York and to some degree Las Vegas, impacted by that international tourist. What's interesting is the offset is we're seeing really strong comps in our international retail as that consumer stays home. I think the important thing to remember, the DTC is a smaller percentage of our total revenue, strong wholesale base and very balanced and broad platform by which our businesses drive their revenue.

Karl Heinz Salzburger

Vice President, VF Corporation and Group President, International

A

David, we are happy that we got a few American tourists more now in the U.S.

David Weiner

Deutsche Bank Securities, Inc.

Q

There you go. Good. Thanks, guys.

Eric C. Wiseman

Chairman, President & Chief Executive Officer

A

Thanks, David.

Eric C. Wiseman

Chairman, President & Chief Executive Officer

Thank you, all, for your time and attention this morning. We're thrilled with how the quarter played out with currency neutral growth of 10% on the top line and 22% on the bottom line. I hope you sensed our confidence as we face the back half of this year which is when most of our business comes together but we are confident. We look forward to talking to you next quarter. Thank you.

Operator: This concludes today's conference. Thank you for your participation.

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