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VFC - Q3 2012 VF CORP Earnings Conference Call

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OVERVIEW:

Co. reported 3Q12 revenue growth of 14% and adjusted EPS of \$3.52. Expects full-year 2012 revenue to be \$10.9b and adjusted EPS to be \$9.60. Expects 4Q12 revenue growth to be 5% or 7% in constant dollars.



CORPORATE PARTICIPANTS

Jean Fontana *ICR, Inc. - IR*

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

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

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

Scott Baxter *VF Corporation - VP, Group President-Jeanwear Americas & Imagewear*

Bob Shearer *VF Corporation - SVP & CFO*

CONFERENCE CALL PARTICIPANTS

Joseph Parkhill *Morgan Stanley - Analyst*

Kate McShane *Citigroup - Analyst*

Jim Duffy *Stifel Nicolaus - Analyst*

Mitch Kummetz *Robert W. Baird - Analyst*

Eric Tracy *Janney Capital Markets - Analyst*

Robby Ohmes *BofA Merrill Lynch - Analyst*

Omar Saad *ISI Group - Analyst*

Christian Buss *Credit Suisse - Analyst*

David Glick *Buckingham Research - Analyst*

Michael Binetti *UBS - Analyst*

PRESENTATION

Operator

Good day and welcome to the VF Corporation third quarter fiscal 2012 earnings conference call. Today's conference is being recorded. At this time I'd like to turn the conference over to Jean Fontana. Please go ahead.

Jean Fontana - ICR, Inc. - IR

Thank you. Good morning, everyone. Thank you for joining us today for VF Corporation's third-quarter 2012 conference call. By now you should have received today's earnings press release. If not, please call 203-682-8200 and we will send you a copy immediately following the call. Hosting today's call is Eric Wiseman, Chairman and CEO of VF Corp.

Before we began I'd 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 SEC. I would now like to turn the call over to Eric Wiseman.



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

Thanks, Jean. Good morning, everyone, and thanks for joining us. With me today are Bob Shearer, our Chief Financial Officer, and our three Group Presidents, Scott Baxter, Steve Rendle and Karl Heinz Salzburger.

We are now three quarters through the year and I can say with confidence that 2012 will market another year of outstanding performance for our shareholders. However, the economic news is decidedly mixed. We're seeing some slowing in the US economy, increasingly challenging conditions in Europe and slowing growth in China.

Against this backdrop VF delivered another quarter of record revenues, margins and earnings, we raised our earnings guidance, increased our dividend payments for the 40th consecutive year and confirmed our expectation for all-time highs in revenues, earnings and cash flow. And we are looking forward to wrapping up the year on a very strong note with fourth-quarter constant dollar revenue growth of 7% in the first fully comparable quarter with Timberland under VF's ownership and an increase in adjusted earnings per share of just over 30%.

I'll take just a minute to comment on a few items I think are of most interest to all of you. First is VF's margin recovery story which is playing out even better than we envisioned at the beginning of the year. And it is not all about product costs. We are seeing the continued benefit of the transformation of VF's portfolio toward higher growth, higher margin businesses and geographies. Our profitability is strong and getting stronger, reinforcing our confidence in reaching the 15% long-term operating margin target we set last year.

Our international performance story also remains healthy with solid growth in the quarter. In China, with 23% growth this quarter and growth across all major brands, I think you will agree that our performance there has been exceptional. Having announced last month our new five year growth rate target of 21% through 2017 in China, we continue to be very bullish on our prospects in this dynamic and increasingly important market for VF.

In terms of Europe, no doubt you noted the 3% constant dollar growth in our European revenues which follows a long string of consistent double-digit growth. We've said repeatedly that we are not immune to conditions there and that we expected our growth in Europe to moderate in the second half from what we saw in the first, though no real surprise to us here.

The diversification provided by our brand portfolio continues to pay off with results that continue to trend above those of many of our competitors. In fact, we are looking at about 10% revenue growth in constant dollars in the fourth quarter and we are again confirming today our expectations that our revenues in Europe will grow at a double-digit rate in constant dollars this year.

With much of 2012 behind us our attention and yours naturally turns to next year. The work we have done this year to build our brands, manage costs and inventories and expand internationally should pay off in the form of another strong year for VF. In fact, we have made the decision to increase our fourth-quarter marketing investments over levels previously planned to ensure we continue to grow our market share and to build momentum for 2013.

Uncertainty around world economic conditions will persist, but we've demonstrated that the VF model built around diversity and brands, products, channels and geographies is ideally suited to succeed regardless of the environment.

Our portfolio of brands is as strong as it has ever been. We have many opportunities to grow around the world. We are investing to strengthen our core capabilities across the board including product innovation, technology, supply chain, direct to consumer and sustainability among others to support an even bigger and more profitable VF in the future. And with that I'm very pleased to turn the call over to Steve Rendle. Steve.

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

Thank you, Eric. Third global revenues for the North Face were up 5%, or 8% on a constant dollar basis, including a 10% increase in the brand's D2C business. As a reminder, we had tough comes this quarter given the 22% growth rate in last year's third quarter. In addition, comparisons also

reflect some movement in our order book from the third quarter into the fourth quarter. And as we have noted in past calls, wholesale orders moved closer to need based on last year's warm winter.

And coupled with challenging conditions in Europe we're actually quite pleased with our results. As we noted last quarter, the fall order book is up low double-digits on a global basis and is driven primarily by North America and Asia. We have great confidence that the business will accelerate in the fourth quarter to a mid-teen constant dollar revenue growth rate positioning us to end the year strongly.

In the Americas The North Face brand third-quarter revenues rose at a high single-digit rate driven by a solid sell-through in both wholesale and D2C with particular strength in sales of lightweight outerwear, sportswear and equipment product categories.

Product innovation is at the core of what we do at The North Face. We've seen strong consumer response to our key full product initiatives including flash dry apparel, which has been launched in more than 3,700 wholesale doors as well as our D2C channel where early reads are quite positive. Our Powder Guide ABS vest, the industry's first avalanche airbag apparel system, has won numerous awards and praise for product innovation from the likes of Outside magazine and Popular Science.

The North Face brand continues to build relevance in new product categories as well with our technical running, training and yoga lines gaining momentum as we increase penetration in existing doors and expand into relevant new specialty doors. Our new product pipeline is robust and we continue to raise the bar on product innovation for the entire outdoor industry.

As Eric mentioned, due to our outstanding performance we are incrementally increasing our fourth-quarter marketing spend to capitalize on our momentum. This spend, which will be focused on two of our strongest brands, The North Face and Vans, will include greater grass-roots in media activation efforts in our strongest market, the United States.

In the fourth quarter for The North Face we will launch our biggest technology focused media campaign ever. The campaign, which will focus on flash dry, the ABS vest and key Summit Series products in four key US markets, features TV, radio and digital efforts geared at educating and inspiring consumers.

We are also investing at retail both in our own stores and in those of key partners to drive traffic and improve conversion rates in the seasonally important period for the brand. Now here is Karl Heinz Salzburger to highlight The North Face's international business.

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

Thanks, Steve, and good morning, everyone. Starting with The North Face European business, as you know, macro conditions have continued to soften. In the third-quarter we saw a mid-single-digit constant dollar revenue decline in Europe driven by weakness in the wholesale channel as retailers remain cautious and committed to orders later than usual.

That said, The North Face brand continues to capture market share in Europe; we are confident that we are extremely well positioned to compete successfully even in today's difficult environment.

Similar to our efforts in the Americas regions, we have high-profile events that continue to share our brand story and engage consumers. A huge highlight in the quarter at the end of August was the successful 10th edition of The North Face Ultra Trail du Mont-Blanc, an epic trail running expedition that was broadcast live with the launch of UTMB digital television.

Our online presence in Europe also continued to expand with 33% growth in eCommerce sales in the third quarter. The launch of our new website in Germany, the Netherlands, Ireland and Austria brings our total eCommerce presence to 12 countries and we are very well-positioned to drive brand traffic for the fall and winter seasons.

And consistent with the US, we are also increasing our fourth-quarter marketing investment over previously planned levels to ensure continued momentum for The North Face and Vans brands. In Europe we will increase our efforts for Vans in the UK and Benelux, The North Face in Germany and in China for both brands.

Turning to Asia, we continue to see excellent momentum for The North Face brand with constant dollar revenues up by more than 60% driven primarily by outstanding growth in China where outdoor category growth remains very strong. We also doubled our distributor business in the quarter driven by growth in Taiwan, Australia and Singapore.

Our efforts continue to be focused on building brand awareness and engaging consumers around the outdoors. For example, we have established an outdoor training school with a top Chinese athlete with the goal of training 5,000 outdoor enthusiasts in five years.

In September we launched a new digital outdoor ecosystem on [J-yabba].com reaching 40,000 consumers daily in the just first two weeks. And in the fourth quarter we're launching a Turn Winter Upside Down marketing campaign with a focus on Summit CA's outerwear. Now let's move on to Vans. Steve.

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

Global revenues for Vans in the third quarter were up 21%, or 26% excluding the impact of foreign currency. During the quarter we continued to execute on our four key growth drivers -- product innovation, consumer connectivity, D2C growth and geographic expansion.

Starting with our performance in the Americas region, third-quarter revenues were up at a mid-teens rate in constant dollars driven by balanced wholesale and D2C growth. We continue to excel in the consumer connectivity front as well.

The 18th Vans Warp Tour wrapped up here in the United States and was once again a tremendous success at connecting the brand with its core consumer through music, social media and philanthropic efforts relevant to their youth culture. And our Vans House Parties concert series held at the House of Vans in Brooklyn, New York did an amazing job at continuing to put the brand on the map in the greater New York Metro region, the epi-center of our strategy to grow the brand in the Northeast.

On the product front, our Van Doren and [Slim Classics] lines are resonating well with men and women respectively and, in fact, we are seeing renewed strength in Classics across the board. And although still early, our Vans 66 collection, which launched globally in late June, is gaining traction across key wholesale partners and our own stores.

And similar to The North Face, we have made the decision to increase our fourth-quarter global marketing investment over previously expected levels around the Vans brand to capitalize on the momentum we've created to ensure a strong 2013.

In the fourth quarter we will focus our marketing efforts at building awareness for the Vans 66 collection and specific tactics to help drive sell-through in both our own and US dealer doors. Our Vans campaign will center on TV, print and digital advertising to connect with our target consumer. And to drive traffic and conversion at our own stores and key mall partners we will focus our investments on targeted in mall and radio advertising. Now I will pass it over to Karl Heinz who will take us through some international highlights.

Karl Heinz Salzburger - VF Corporation - VP, Group President-International

In the third quarter Vans continued its outstanding momentum in Europe with constant dollar growth of more than 45% versus the same period of 2011. All markets and categories were up significantly in the quarter with exceptional strength in Northern and Central Europe.

Our efforts to drive our off the wall culture deeper into Europe are clearly proving successful. We staged a Vans Downtown Showdown skate contest in Amsterdam with 9,000 people attending. On the heels of the successful Vans Warp Tour in the US the tour will return to the UK for the first time in 13 years in November for a sold-out show at the iconic Alexandra Palace in North London.

And we are building additional visibility through an aggressive outdoor campaign targeted at 30 cities in Europe and reaching 55 million consumers.

During the quarter we opened stores in Copenhagen, Toulouse, Bordeaux, Stockholm and Amsterdam that showcase our new Vans retail concept and so far performance has been strong. The new 66 product has launched in Europe as well in 188 doors and 14 countries and, as we mentioned last quarter, we simultaneously launched seven new eCom sites in Europe. Initial demand on these new sites has been strong across the board with the strongest demand in the UK region and in our classic category. So we are very bullish about the opportunities for this new channel to drive future growth for Vans.

Vans' Asian business also posted strong results in the third quarter growing more than 40% in constant dollars. Here too we are seeing strength in the Classic category and investing more behind programs to the Vans apparel to meet local needs. Additionally, we remain focused on deepening our connections with consumers in the region by leveraging consumer insights and learnings. We are driving skate culture awareness in the region through sponsorships such as our Go Skateboarding Day and Dragons Skate series.

We also recently launched a new digital activation program called Unlock Your Dreams in China with a strong collaborative and crowd sourcing component. Finally, Vans continued to show tremendous growth in a number of key distributor markets in Asia, most notably Australia, which further validates the regional growth opportunity we have beyond China.

We remain confident in our global strategy and are excited about the strength we are carrying to 2013. And now let's take a look at Timberland.

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

Global constant dollar revenues for Timberland declined slightly in the third quarter. In the Americas where the industry continues to grapple with excess inventories related to last year's usually warm weather, the Timberland business declined moderately. It is important to note that we are well positioned from an inventory standpoint with inventories running down on a year-over-year comp basis.

The absence of Timberland apparel in the Americas, a business that was formally licensed, negatively impacted revenues in the quarter. In addition, we continue to take actions to right size our distribution. While this also negatively impacted revenue, it also helped to drive improved profitability. These actions are all part of the model we deploy against new acquisitions here toward building stronger top- and bottom-line performance in the future.

This year on a global basis Timberland should achieve a slight increase in revenues on a constant dollar basis. As we move through the year we have continued to realize significant integration synergies driven by supply chain leverage, inventory discipline and organizational initiatives designed to bring Timberland's cost structure into better alignment with that of the overall outdoor and action sports portfolio.

And while we are still in the middle of our integration journey, we are quite pleased with the Timberland team's focus and commitment to driving this year's results while we all continue to focus on initiatives to drive future success.

Our hookset handcrafted collection consisting of only four material components is the most simple, eco friendly footwear ever designed by Timberland and has been very well received. During the quarter we also launched the exceptionally rugged Helcore boot collection with an integrated campaign that included street team product demos, webisodes and a launch party.

On the D2C side we opened the first new full priced retail store since the acquisition in Chicago during the month of August. Certainly a strong market that appreciates great cold-weather footwear and preliminary results are looking very good.

So with one year under our belts we are more excited than ever that there is a great future ahead for this powerful global brand. Now I will turn it over to Karl Heinz to take you through what is going on internationally with Timberland.



Karl Heinz Salzburger - VF Corporation - VP, Group President-International

An increasingly more challenging environment, constant dollar revenues for Timberland in Europe were flat against last year. The bright spot in Europe is our men's footwear collections including here too the hookset handcrafted collection in our City capsule -- both are showing good performance as is our new fall outerwear collection.

We're also seeing good response to some of our in-store retail initiatives which has resulted in improved comp store performance toward the end of the quarter.

Asia continues to experience strong growth with positive results across all product categories, very good retail comp performance and particular strength in the key Japanese market. We opened 10 retail doors during the quarter and are making great strides connecting with consumers in the region. And with that let's switch gears to the Wrangler brand. Scott.

Scott Baxter - VF Corporation - VP, Group President-Jeanwear Americas & Imagewear

Thanks, Karl Heinz. In our Americas region our US Jeanswear business was up 3% in the third quarter. In terms of the Wrangler, on a global basis, third-quarter revenues declined 5% or 3% in constant currency. Wrangler revenues in the Americas region were down very slightly in constant dollars, yet we are seeing strength in our western specialty and Latin American businesses.

Our ongoing commitment to product innovation continued to be central to driving growth with the Wrangler brand, especially in our western businesses, which has performed very well throughout the year. Our Wrangler 20X competition jean is selling very well in the specialty store channel as is our performance cowboy cut, fire resistant western and Riggs collections. We are also pleased by the continued strength in our eCommerce business.

In the mass channel we are seeing success in our comfort five-star premium jean and in our expanded tops offering. We expect modest growth in our mass business in the fourth quarter as we drive our comfort story and execute powerful in-store presentations.

In Latin America we are encouraged by solid growth in Mexico, Argentina and Brazil, where we see our business accelerating nicely and expect to continue to gain traction. Turning to Wrangler's international business, Karl Heinz.

Karl Heinz Salzburger - VF Corporation - VP, Group President-International

As we have seen in the last several quarters, Wrangler's business in Europe continues to be challenged by the very difficult conditions there. Revenues for the third quarter were down high-single-digits on a constant dollar basis, but our efforts to improve profitability are paying off with strong improvements in gross margin. We are seeing positive performance in some regions, for example in Russia and Turkey.

We also opened our first owned and operated store in Leipzig, Germany. This is our biggest Wrangler market so it provides a great opportunity to stay connected with our consumers and tell the branded story in an even more authentic way. On a relative basis we feel our performance is consistent with our peers and the greater market.

We remain confident in our ability to carefully manage the business and inventory levels in accordance with market conditions. Our Wrangler business in Asia is quite small. And in India, an emerging key market in the region, we continue to experience positive momentum. Finally, let's take a look at Lee.

Scott Baxter - VF Corporation - VP, Group President-Jeanwear Americas & Imagewear

Thanks, Karl Heinz. Lee's business on a global basis achieved a slight increase in revenues on a constant dollar basis. Lee's Americas business saw 3% constant dollar growth in the third quarter with solid growth in both Latin America and Mexico and continued success in our new product innovations. In the US the brand continues to navigate near-term difficulties created by ongoing challenging dynamics in the mid-tier channel.

On the product front, Slender Secret, which combines great fit, great finishes and fashion details for the female consumer, has been our best selling new product this fall. For Riders by Lee, our fit innovations, including Slender Stretch, continue to garner great reception. And we are encouraged by the continued solid results from Lee.com, which grew 19% in the quarter.

Looking ahead, we are excited about the Lee Brand and its continued expansion with the Lee Platinum Label collection in the department store channel. Karl Heinz?

Karl Heinz Salzburger - VF Corporation - VP, Group President-International

Similar to Wrangler, Lee's European business has also been negatively impacted by challenging conditions with constant dollar revenues for the third quarter down at the high-single-digit rate. However, here too we have our bright spots, most notably in Russia and Scandinavia, which are showing very strong revenue growth.

These women initiatives in Europe, led by the Stretch Deluxe concept, are outperforming expectations with our women's jeans business anticipated to be up 15% this year. We are also excited about the launch of our new website for Lee in Europe. With an energized new look and feel the new site should also help to stimulate sales in the region.

In Asia Lee's momentum continued with high-single-digit growth. Throughout the region we are focused on driving consumer connections through integrated 360 degree consumer centric campaigns which are contributing to the success of new product initiatives such as our Urban Riders collection. Now I'll turn it over to Bob who will take you through our financial highlights in greater detail.

Bob Shearer - VF Corporation - SVP & CFO

Thanks, everyone for a great overview and I will wrap up today's call with commentary around our third-quarter financial performance and our updated guidance. Starting at the top with revenues, our top-line growth continues right in line with our expectations. Total revenues were up 14% or 17% in constant dollars; organic revenue growth in the quarter mirrored that of the second, up 6% in constant dollars.

Given our expectations for strong fourth-quarter revenue comparisons we are confident in our ability to achieve our 8% organic constant dollar revenue growth guidance for the year. And just as a reminder, each of these revenue comparisons is negatively impacted by about 1% from the sale of John Varvatos.

Now a few words about our international and direct to consumer businesses, both of which are important drivers of top- and bottom-line growth.

You recall that in conjunction with our China investor meeting last month, we increased our five-year goal for international revenues as a percent of total revenues from 40% to 45%. Current challenges in Europe and slight economic slowdown in China notwithstanding, we feel very good about our brands' prospects for continued international growth over the coming years given their generally low market penetration and demonstrated desirability with consumers.

In the most recent quarter total international growth in constant dollars was 28% with organic growth of 7%. Now there is no doubt that international organic growth has moderated from what we saw in prior quarters primarily due to economic conditions in Europe. But again, we anticipated this slower growth and reflected it in our original guidance provided in February.

The good news is that, unlike many of our competitors, we are continuing to grow our business in Europe. In particular our Vans brand has been exceptionally strong, growing by more than 40% in constant dollars in the quarter. That is the power of VF's diversified portfolio. And looking forward we do expect significantly stronger top-line growth in the fourth quarter in Europe driven by another quarter of exceptional growth at Vans and new store openings across a number of brands.

And as Eric noted, we are still looking forward to delivering double-digit constant dollar organic revenue growth in Europe for the full year.

Now in terms of Asia, the third quarter marked another period of exceptional growth in the region with organic constant dollar revenue growth of 25% in total and 23% in China. Last month we set new five-year growth targets for the Asia-Pacific region, 19% growth annually for Asia in total and 21% annual growth in China.

For more specifics about our growth plans in Asia I'd encourage you to do the view the presentations and videos available at VFinChina.com. And for the full year we remain very comfortable with our guidance for organic revenue growth in Asia Pacific of about 20%.

Now I should also point out that we're seeing good growth in our other international markets outside of Europe and Asia, particularly in Canada and Mexico. On a combined basis organic growth in these other international markets grew 7% in constant dollars.

Growth in our direct to consumer business was another bright spot in the quarter with organic revenue rising by 9%. We experienced strong D2C growth in both The North Face and Vans of 10% and 18% respectively. And we were also very pleased with the D2C performance of our Nautica, 7 For All Mankind and Kipling brands during the quarter.

Year to date we've opened 100 stores across our brands and remain on track to open a record 130 stores this year. Not only do these stores provide us with a source of very profitable growth, they also are helping to offset somewhat weaker conditions at wholesale particularly in Europe.

Now as you know, the fourth quarter is seasonally the most important quarter for our D2C business and we are looking forward to double-digit D2C revenue growth for the quarter given the combination of new store growth, solid increases in comp store sales, the impact of higher marketing investments to drive store traffic and continued rapid growth in our eCom business. For our D2C business in total we remain confident in our ability to achieve our full-year revenue guidance for organic growth of about 15%.

Now a quick comment on the three businesses we haven't yet touched on, Imagewear, Sportswear and contemporary brands. And starting with Imagewear, as anticipated, the revenue growth comparisons have continued to moderate from prior periods.

You will recall the string of strong double-digit comps in Imagewear revenues during 2011 and into the first quarter of 2012 as they gain distribution and market share especially on the image or uniform side of the business during a slowly recovering economy.

Now comping those exceptional growth periods of last year has proven challenging. On the other hand, licensed sport revenues rose at a healthy mid-single-digit rate in the quarter and the good news is that we remain confident in achieving our guidance for mid-single-digit revenues growth for the full year.

In terms of operating margin, the impact of higher product cost is now largely behind us. Fourth-quarter operating margin for this coalition should reflect significant gains over the prior year period. Full-year operating margin is expected to be about flat with the 14% achieved in 2011.

Now on the surface the Sportswear numbers indicate very modest growth in the quarter, but, as we indicated in the second quarter, Sportswear is seeing a shift in the timing of special programs which should lead to mid-teen revenue growth in the fourth quarter.

Also contributing to the revenue comparisons in the last couple of quarters is a decrease in Nautica distressed sales; that hurts the top-line but obviously is good for the brand and for profitability. Nautica continues to grow its men's business with its biggest department store customer where it is gaining share and achieving higher AURs. Sportswear is on track to deliver high-single-digit revenue growth for the full year and a significant improvement in operating margin.



In terms of our contemporary brands business, keep in mind the reported results now reflect the sale of the John Varvatos business. If we take the Varvatos numbers out of both 2011 and 2012 revenues were up 2% in constant dollars in the quarter driven by high teen growth in our Splendid and Ella Moss businesses. And at 7 For All Mankind revenue comps were affected by lower distressed product sales; again, while the store sales comparisons it's a big contributor to the improved profitability of the coalition.

Here too we expect stronger top-line growth and a big improvement in profitability in the fourth quarter with 7 For All Mankind anticipating the continuation of improved sell-throughs at retail. For the year due to the Varvatos sale, total coalition revenue should decline by a mid-single-digit rate. Excluding the Varvatos business from both 2011 and 2012 the coalition is on track to achieve high-single-digit revenue growth.

Now let's move on to gross margin. Our gross margin story is developing just as we had planned if not even a little better than anticipated at the beginning of the year. In the third quarter gross margin expanded by 140 basis points to 46.7% which was an all-time high for us for the quarter.

We pointed out the main drivers of the increase in our release -- improved gross margins across nearly all of our businesses; a continuation of our business mix moving toward higher margin businesses; and lower product cost, particularly in our cotton-based businesses.

We continue to expect the strongest gross margin comparison of the year in the fourth quarter. In fact, we expect our fourth-quarter gross margin to be an all-time high for any quarter in VF's history. Product costs for our cotton-based businesses peaked in the fourth quarter of last year; also benefiting the comparisons is continued growth in our high-margin D2C business.

Strong growth in our D2C business drives favorability at the gross and operating margin line. For the year we now expect gross margin to expand by about 80 basis points.

Our SG&A ratio as a percent of revenues were flat at 29.6% in the third quarter, but there is more to that story. As we've pointed out in the past, Timberland's SG&A rate is higher than the rest of VF. So, maintaining the overall SG&A ratio, despite the inclusion of Timberland for a full quarter in 2012, points to our very disciplined cost controls across all our businesses.

Our operating margin reached a record level on both an adjusted and reported basis in the quarter. The adjusted operating margin of 17.5% was 90 basis points above last year's third quarter. And while Timberland achieved a mid-teen operating margin in the quarter, exclusive of acquisition-related expenses it negatively impacted VF's overall adjusted margin by 40 basis points.

And that brings us to the bottom line and record earnings per share on both a reported and adjusted basis. Included in this quarter's adjusted earnings per share of \$3.52 was \$0.54 per share of earnings from Timberland, that compares to a \$0.25 EPS contribution in last year's third quarter which included just three weeks of Timberland earnings in a short but very profitable period for the brand. Also impacting the current quarter's earnings is a combined \$0.23 per share from foreign currency and higher pension expense.

Now turning to our balance sheet, we are particularly proud of our tightly controlled inventories which were actually down slightly year over year. Given our strong earnings growth and working capital management we are looking forward to generating a record \$1.2 billion in cash flow from operations this year.

Now let's close with a recap of our revised earnings guidance. We've raised our annual EPS guidance by \$0.10 per share from \$9.50 to \$9.60. That means our 2012 adjusted earnings per share are expected to increase by 17% over 2011. The euro rate assumption for the fourth quarter is \$1.25 to the dollar. Our guidance also contemplates increased marketing investments over previously expected levels for the fourth quarter in both The North Face and Vans brands globally.

These investments have historically proven to be drivers of both top- and bottom-line growth. Given some continued weakening in overall economic conditions we are convinced that these are the right investments to make today to ensure that our brands remain front and center with consumers. Another factor relevant to our earnings guidance, we remain comfortable with the \$1.10 in accretion from Timberland, right in line with what we said back in February.



In terms of revenues, our full-year revenue guidance remains at \$10.9 billion which will mark another milestone for VF and, as we have noted, that is despite about a 1% negative impact on revenues from the John Varvatos sale.

And finally a few comments on the fourth quarter. We're looking forward to wrapping up 2012 on a really strong note. Based on our full-year guidance fourth-quarter revenue should increase by 5% or 7% in constant dollars. And if you take the Varvatos sale into consideration that number would be 8%. This of course will be the first quarter where we fully anniversary the Timberland acquisition.

I've commented on the fact that we are expecting very strong gross margin comparisons leading to operating margin expansion and, in turn, another quarter of record earnings per share. Taking into consideration the revised adjusted earnings per share guidance of \$9.60, the fourth quarter points to earnings per share of \$3.03, an increase of just over 30% over the \$2.32 in adjusted earnings per share reported in last year's fourth quarter.

The VF story is stronger than ever. Revenues strong and growing, outstanding profitability, keeping our balance sheet strong and flexible. Our dividend increase of over 20% says a lot about our confidence. We look forward to a strong finish to the year and talking to you about our plans for another great year in 2013 during our next call in February. Eric?

Eric Wiseman - VF Corporation - Chairman, President & CEO

Thanks, Bob. Let's open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Joseph Parkhill, Morgan Stanley.

Joseph Parkhill - Morgan Stanley - Analyst

I was wondering if you could talk about the re-acceleration on European revenue in 4Q. Is that mostly due to a shift in wholesale orders and have you seen that uptick already? And then also, is that mostly driven by The North Face?

Karl Heinz Salzburger - VF Corporation - VP, Group President-International

Hi, thanks for the question. Karl Heinz here. Just if you remember -- we had strong quarters in the past in Europe and this is a deceleration, it is correct. As you know, The North Face is our largest brand in Europe so it is driven by The North Face. We also had some lower sales on jeans, as we reported in the script. So I guess the combination of these two, jeans and The North Face, has contributed to the 3%.

Joseph Parkhill - Morgan Stanley - Analyst

Okay, and then the question was more around the re-acceleration into 4Q.

Karl Heinz Salzburger - VF Corporation - VP, Group President-International

Yes, we do expect fourth quarter to grow again, we said it in the script, by the low double digits. And we also do expect The North Face to grow in the fourth quarter. Vans, as you know, as you have heard in the script, is doing extremely well consistently over the year and we expect strong numbers on the Vans fourth quarter as well.



We also have a lot of new retail stores, which we didn't have last year, on Vans but also in The North Face and our eCom presence which will give us stronger business in Q4.

Joseph Parkhill - *Morgan Stanley - Analyst*

And then also just how are you looking in general about the open to buy in 4Q particularly around The North Face and Timberland? Is there an ability to take some sales if the winter proves to be colder and snowier than last year?

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

Well, we always said it, right, the winter has actually more impact than the weather, especially on The North Face and Timberland, versus the economy. So the initial -- we don't know. We can't predict the winter, but we saw a colder winter -- colder weather in October and we saw that immediately on our comp sales, on our stores.

So if the winter is just normal that will normalize. Remember, we had a very warm winter last year. And also we have assumed very low reorder numbers in our forecast for the year. So, if the winter is strong or -- then our numbers will be better.

Joseph Parkhill - *Morgan Stanley - Analyst*

Okay, thank you and good luck.

Operator

Kate McShane, Citi.

Kate McShane - *Citigroup - Analyst*

In the past when we have seen you increase your marketing spend you've seen a clear opportunity in the market to take share. Is this how you are viewing your spend on The North Face and Vans? Or is it more an effort to support the brands globally? And can you quantify how much of this impact will have on MG&A in Q4?

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

Kate, it's Eric, I will deal with the first part of that. Yes, when we pull the trigger on focused brand investments, as we have just done, we have done it because we have seen very clear opportunities to capture some growth in share and to build momentum for next year too because, as you know, if we can drive better sell-through in the fourth quarter it will set us up for heavier ordering in 2013 in the fall season.

So we look at -- and this gets back to the whole diversified portfolio story at VF. We look at where we have brands and the specific country that has a unique growth opportunity that we think we can accelerate with focused investment. We do that and we hope that that will drive sell-through this year and set us up for bigger reorders last (sic) year. In terms of what it means to our SG&A in the fourth quarter, I don't -- does Bob know that? Bob looks like -- he is shaking his head like he may have an answer to that one, Kate.



Bob Shearer - VF Corporation - SVP & CFO

I have one answer for that. In the fourth quarter, despite the increased investment, we still expect our SG&A ratio to decline in the fourth quarter now. Part of that, of course, is as the expense ratios in Timberland improve, we will see a significant opportunity there. So actually, overall in the quarter, we will see improved ratios in SG&A versus last year.

Kate McShane - Citigroup - Analyst

Okay, great. And then if I could just ask a second question unrelated about China. Is there any way you can walk us through how much of the growth was from new distribution? I believe one of the brands you said you were able to double distribution and how much was from comp growth?

Karl Heinz Salzburger - VF Corporation - VP, Group President-International

Yes, sure. Karl Heinz here, I'll handle this question. We doubled distribution; that actually was not related to China, but to our distributor markets, right, because our Asia presence -- when we talk about Asia, we do talk about China, but also our distributors increase at Australia, Taiwan, Malaysia. So we doubled that business.

On the China, as we said a few weeks ago during our conference, we still have -- we operate with five brands there, five margin brands and our total penetration is 2200 doors, all five. So we still have opportunities in spite of a little bit more tougher conditions in China to expand our distribution. Having said that, we don't give comp number by brands, but so far what we have seen, our comp numbers are in line with what we expect.

Kate McShane - Citigroup - Analyst

Okay, thank you.

Operator

Jim Duffy, Stifel Nicolaus.

Jim Duffy - Stifel Nicolaus - Analyst

A couple questions. On the North Face, you mentioned some movement in the order book from 3Q to 4Q, is that something you could quantify for us?

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

Hi, Jim, this is Steve Rendle. Difficult to quantify it, but we have talked before about how we -- with the warm winter last year how our dealers really started to move orders closer to demand. Also would remind you that we were up 15% in the first half of the year and some of that had to do with placing fall goods early, come through Q3 nicely and set up very, very well for Q4.

Jim Duffy - Stifel Nicolaus - Analyst

Okay. And then, Karl Heinz, for the North Face in Europe, you mentioned retailers committing later there as well. Are retailers still in the mode of destocking and then I was hoping you could offer some variances that you are seeing across the different countries in Europe with respect to the North Face brand.



Karl Heinz Salzburger - VF Corporation - VP, Group President-International

Yes, I think the retailers in Europe, they are handling or managing at the moment an inventory problem which is an overhang from last winter. Yes, we have seen a little bit more aggressive terms in the market. There are still inventories around. Again, a normal winter -- we don't see an exceptional winter, but just a normal winter compared to the bad situation we had last year, we certainly over a few quarters or maybe one or two quarters will normalize the situation.

Jim Duffy - Stifel Nicolaus - Analyst

Okay, great. And then last question on the Jeanswear business, the Jeanswear business had some difficult compares against 2Q and 3Q in 2011. Those compares seemed to ease beginning in the 4Q. Is the reason -- or should that be reason to think that the year-to-year growth can improve in the Jeanswear business, or is that not how you are seeing it?

Scott Baxter - VF Corporation - VP, Group President-Jeanwear Americas & Imagewear

Jim, why don't I take the North American piece, okay? This is Scott. And then I will hand it over to Karl Heinz. Yes, we feel confident on the plan for the year and I have stated before that we felt as though we have hit our plan for low- to mid-single-digit growth and still feel that way going into the fourth quarter -- feel real good about that Wrangler health and the rest of the year.

Karl Heinz Salzburger - VF Corporation - VP, Group President-International

On the international side let's divide between Europe and Asia. Asia is good as you have heard, we have been consistently growing. Europe is more challenging. And if you look at all the competitors' situations, there are very few brands -- actually, as far as we know, no brands which had consistent growth in Europe.

Our strategy is clearly focused on improving profitability. You heard us saying our margins are increasing from quarter to quarter and we are now on par on our jeans margin with some of our outdoor brands.

Jim Duffy - Stifel Nicolaus - Analyst

Great, that's helpful. Thank you.

Operator

Mitch Kummetz, Robert W. Baird.

Mitch Kummetz - Robert W. Baird - Analyst

A couple questions, first for Steve Rendle. Steve, could you give us spring backlog on North Face, Vans and Timberland?

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

Hi, Mitch. Would that be Spring 2013?



Mitch Kummetz - *Robert W. Baird - Analyst*

Correct.

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

Yes, it is a little early to call. Similar to what we have seen in the fall order book we have dealers moving, specifically with The North Face, demand closer to need and we are still in the -- kind of the final wrap-up of our spring.

And in the case of Timberland and Vans, I know you are familiar with the footwear model, demand there absolutely moves closer -- our orders move very close to demand and we are just really two months into collecting those orders. So it is early to call. I will tell you early reads, we are feeling very good that we will deliver at historic levels.

Mitch Kummetz - *Robert W. Baird - Analyst*

Okay, that is helpful. And then, Bob, on cotton, can you quantify the impact on Q3 in terms of the basis point impact and then kind of what your thoughts are in terms of quantifying that impact on Q4? You mentioned that that is your easiest comparison year over year on cotton. And maybe even some preliminary comments on how that might benefit you through at least the first half of next year?

Bob Shearer - *VF Corporation - SVP & CFO*

Yes, Mitch, so it might be useful just to go through some of the breakdowns of the gross margin comparisons. So, in the third quarter the improvement of 140 basis points mix, just the improved mix moving -- our business moving to higher margin businesses was 60 basis points of that 140 basis points.

Now Timberland in the third quarter still hurt us a little bit, so that cost us about 20 basis points in the comparison year over year. Once again, we had that -- keep in mind we had that for a full quarter. And the rest, the rest which is about 100 basis points is what is left was pretty well split between cotton-based cost reductions and just overall improvements in the rest of our business.

I made a point a couple times in my comments that we are seeing gross margin expansion across the board in nearly every one of our businesses. And that, of course, is driving the improvement as well. So in that remaining 100 basis points, about half of that was related to the cotton businesses and the other half were other efficiencies like lower distressed sales, that type thing for improved mix.

In the fourth quarter the implication with the 80 basis points of improvement is about 260 basis points of gross margin improvement. So a really strong quarter. Now to your point, up against the toughest comparisons last year when cotton costs were highest in the fourth quarter, that is when they really peaked and that is when it impacted our margins the most.

But in the fourth quarter, once again, we expect to see a mix impact of about 80 basis points, so a really strong mix improvement. Timberland will help us in the fourth quarter as well, we will add about 20 basis points. And the remainder, once again, are from all of our other businesses including product cost and other efficiencies that we are seeing across the board.

And, yes, I would say while I don't have a specific number, Mitch, about the same amount, about half of that is driven by our cotton-based businesses in terms of reductions and the other half just by other efficiencies.

As we go into the early part of 2013, as you know, we will talk a lot more about that in February and we won't say a lot about that right now. We just -- we don't expect a lot of fluctuation at this point in terms of our cotton-based businesses and their costs. Keep in mind that while cotton is now not all of that has yet been passed through in denim costs. So we haven't yet seen all of that improvement.



So again, we don't expect a big change going into the first part of next year, at this point in time anyway, relative to where we are, especially on denim costs.

Mitch Kummetz - *Robert W. Baird - Analyst*

Okay, great. Thanks. Appreciate all that color.

Operator

Eric Tracy, Janney Capital Markets.

Eric Tracy - *Janney Capital Markets - Analyst*

I guess if I could follow-up on the increase in the marketing spend, is it possible to get order of magnitude by geographic region? And then maybe, Eric, just backing up a little bit, what it speaks to in terms of what you are seeing from last quarter in terms of deterioration in Europe, you mentioned a slowdown here domestically. So what are the signs that you are sort of seeing and, again, the order of magnitude of where you are stepping up on those investments?

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

Yes, I'm going to deal with the first part of this and then hand it over to Bob who has a very large spreadsheet in front of him that is going to help him give you some specific numbers.

A comment on your question about the deterioration in Europe. Just to remind you and everyone, our business is around 80% wholesale and about 20% retail. So what we saw in the slowdown in our revenue growth rate in the third quarter was largely the result in The North Face of a slowdown in retailers buying fall outerwear because they were carrying over some fall outerwear from last winter.

It had nothing to do with consumer demand for the brand whatsoever. It is all about how we push product ultimately to consumers. We know with the product placement we have, both what we have shipped this year and what is at retail from last year, we are in a strong position right now to grab some market share. And that is what leads us to pull the trigger on the additional investments. Bob, can you comment?

Bob Shearer - *VF Corporation - SVP & CFO*

Well, just what I can tell you is that in our core businesses, in other words excluding Timberland, the increase in our marketing investment will be \$18 million over the prior year's fourth quarter. So that is about a 13% increase overall. Now relative to the breakout, Eric, between US and the international side I guess I would ask Steve or Karl Heinz to speak to that.

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

Sure.

Bob Shearer - *VF Corporation - SVP & CFO*

Fairly even, is that the case? I would say it is pretty even between the US businesses and internationally.



Karl Heinz Salzburger - VF Corporation - VP, Group President-International

Yes, and remember, then we had a split between Europe and China as well, as we mentioned. China we do Vans and The North Face and in Europe we do The North Face and Vans in two or three countries -- Germany, UK and Benelux.

Eric Tracy - Janney Capital Markets - Analyst

Okay. And then if we could switch gears a little bit to Timberland. Maybe just walk us through as we head into 4Q and certainly into next year in lapping the integrating of the business, just the cadence of the top-line.

And then maybe more -- because I know you are vetting distribution, you are rolling out the apparel side, how we should think about top-line growth, what profitability should look like.

And then on the apparel side, I know it is more fully developed internationally. How do you think about syncing up what you've got existing versus, again, sort of creating that new apparel offering?

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

Great. Eric, this is Steve Rendle. I will take it and perhaps Karl Heinz can add some additional color. So on Timberland and the cadence of our Q4 top-line, as I mentioned, we have been putting quite a bit of effort into really right sizing our business model there, focusing on our go-to-market strategy, product segmentation and also looking at within our own retail store mix opportunities to remove underperforming stores.

That in addition to the absence of Timberland apparel, which was a licensee arrangement previously, has had a negative impact on our top-line. But I would emphasize that it has had a significant improvement on our profitability. And as we right size our business model, we are really setting ourselves up for the future.

And I would tell you as we look back historically with The North Face and Vans integration there's a lot of experience and understanding of the value of those actions and our team at Timberland are focused on getting those done quickly and very effectively.

On the apparel, our international business is where the bulk of our apparel is sold and we will be relaunching apparel here in the United States. And we see opportunity to begin to grab momentum next year with some key partners.

But the good -- the products are designed and developed in Europe and we see taking that European collection and with the help of our -- the brand work we have been doing over the last 12 months being able to inform what a global product line would look like with all of the relevant regional nuances required to drive good sell-through.

Karl Heinz Salzburger - VF Corporation - VP, Group President-International

If I can just finally add, apparel is very important for us in Europe and even more so in Asia. It wasn't before a regional effort and we certainly will benefit from now going forward because it is becoming a company global effort. So there is much more strength behind the development of this program. So in short, it would be good for us going forward.

Eric Tracy - Janney Capital Markets - Analyst

Okay, and then lastly, Eric and Bob, maybe just speak to capital allocation. Certainly aware of the Company's track record, increased dividend here. But just a ton of free cash. Maybe just speak to sort of the M&A environment, any now sort of fully integrated Timberland, how we should be thinking about augmenting the organic growth?



Bob Shearer - VF Corporation - SVP & CFO

Eric, we -- our priorities relative to how we allocate capital remain the same. You are right, especially by year-end we will be out of commercial paper with a very strong fourth-quarter cash generation number. So once again, we will be in a great spot with a balance sheet that has a lot of flexibility in it to do further acquisitions.

So the M&A side remains our number one priority for sure relative to the buyback. We bought back a couple million shares in the early part of this year and once again our approach there is to offset the impact of option exercises and that hasn't -- that really hasn't changed. So our priorities remain the same and again our balance sheet remains quite strong and gives us a lot of flexibility to do so.

Eric Tracy - Janney Capital Markets - Analyst

Okay, guys, thanks. Best of luck.

Eric Wiseman - VF Corporation - Chairman, President & CEO

Thanks.

Operator

(Operator Instructions). Robby Ohmes, Bank of America-Merrill Lynch.

Robby Ohmes - BofA Merrill Lynch - Analyst

My one question and then I will just ask the follow-up before you guys answer, but can you guys talk about your global AUR trends? You mentioned the strength of your product margins across all your brands. And I know some of that obviously is cost reductions, but can you walk through the aspect of that that might be related to price increases and where you are in AURs in your key businesses, you know obviously North Face and Jeanswear and then maybe even in Vans what that looks like.

And my follow-up question was just going to be, Eric, can you talk a little bit more about maybe -- just follow up on the capital allocation question, divestitures versus acquisitions where your head is at? Maybe reminding us, John Varvatos small but you've gotten rid of it. Could there be other opportunities to pare down the portfolio? Thanks.

Eric Wiseman - VF Corporation - Chairman, President & CEO

Yes, sure, Robby, I will start with the second piece. As you know, we are constantly looking at the shape of our portfolio because we believe that the diversity of our portfolio is our strength, so we have to spend a lot of time looking at what is in and what's not in our portfolio. And we do that on an ongoing basis. So far this year that has resulted in the divestiture of the John Varvatos business, has not resulted in any acquisitions this year.

We are pretty focused on the integration of Timberland this year for all the appropriate reasons. However, as we were just talking about with Eric, we are having a great capital year, as Bob said, acquisitions are our priority. And we are beginning to look into 2013 about what we might do.

I can't offer any specifics about any particular action that we might take, but you should know that it's something that we are always working on and always have a few irons in the fire on both sides actually.

On the AUR thing I'm going to make an overall comment and then pass it on to somebody else in the room. It looks like Steve Rendle is raising his hand. In general there is a timing difference between our businesses. In 2011 we took big price increases in our denim-based businesses, that is when cotton was a big issue.

We had big price increases that cost increases that we passed some of them along to consumers, but our prices in the denim business -- or in our jeans business have been more stable this year than the big changes we took last year.

In our synthetic businesses, like The North Face, we are seeing those price increases passed along this year. So there is a difference in timing. And with that overview, Steve, did you want to make another comment?

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

Sure. You know, Robby, on The North Face and Vans in particular, as we look at year over year, we have a significant percent of our total offering that is new and then when we are able to bring new innovation, new styles, new colors we are able to really look for those value price points and have AURs that help us look for incremental margin improvement.

I would tell you also as we brought Timberland into the platform we have seen good supply chain leverage that has benefited not only Timberland but also our Vans and North Face footwear businesses. And as we grow our D2C component we are seeing a benefit in mix as well.

Robby Ohmes - BofA Merrill Lynch - Analyst

Great, that is very helpful.

Operator

Omar Saad, ISI Group.

Omar Saad - ISI Group - Analyst

Just kind of switching back to Timberland again, if you go back to when you made the deal and walked everybody through your long-term expectations, it seemed like you guys were looking at I believe, if memory serves, a 10% kind of annualized top-line growth rate.

Can you talk about where the business has been and what is different versus your expectations? And is this just kind of how you had planned it from the beginning that you needed kind of a little bit of a retrenchment rationalizing some of the distribution, setting up the apparel piece properly before the re-acceleration occurs?

Are there any discrepancies from what your original expectations were there? And if so, what are the underlying causes? And then I have one follow-up.

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

Hi, Omar, this is Steve. I will take a shot at this one. So, as we are a year into this acquisition what we have found and what we have been able to work on is very consistent with what we knew going in. We knew we needed to do some work on the go-to-market model specifically around distribution and on product segmentation putting the right products in the right channels and working with customers on just basically how to market and merchandise those styles.

We also knew that we had retail distribution that needed some particular effort and investment behind our eCommerce -- as we were able to drive momentum there we are seeing good improvement. So what we found is very similar to what we expected and, as I mentioned, it feels very, very similar to what we found with The North Face in 2000 and Vans in 2004.

I would say the difference being is the magnitude of the acquisition is a little bit different. But I would tell you our knowledge and the quality of our leadership team that is in place both here in the US and internationally, the capabilities and their ability to leverage the VF knowledge has helped us get after this at a much quicker rate.

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

Omar, I will just add quickly that it is going just about the way we thought. I would say Europe is a little bit tougher than we thought originally, but that probably isn't too much of a surprise. But overall, as Steve said, it is modeling -- it's working out kind of the way we modeled it, which is let's build a foundation first and then move forward and that is what we did with The North Face and that is what we did with Vans.

And I will remind everyone that we expected this year for it to contribute \$1.10 and that is right where we are. So economics are working out right on plan for us.

Omar Saad - *ISI Group - Analyst*

Got you. Thanks, that is helpful. And then one quick follow-up. On the -- can you give us an update on what is happening in China in terms of the inventory situation for you guys and the competitive landscape? I know there has been a buildup in some of the department stores and malls in terms of the numbers of brands that are over there, the amount of stores everybody has or the inventory situation and how that is impacting your business?

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

Yes, Omar, you will recall in Asia -- it is not the same on all our businesses. For instance, we don't see that in our outdoor business; our performance is very strong. But we are affected and we see it in our jeans business. There is certainly a hangover of inventory as far as that is concerned, we touched on jeans, we do see that.

Omar Saad - *ISI Group - Analyst*

Got you, thanks.

Operator

Christian Buss, Credit Suisse.

Christian Buss - *Credit Suisse - Analyst*

I was wondering if you could talk about your ability to support reorder activity given your tight inventory management heading into the fourth quarter.



Bob Shearer - VF Corporation - SVP & CFO

I will start on that and maybe the rest of the folks here want to pick up. Relative to our shipping performance despite the fact that our inventories are down a little bit, a lot of that actually came from Timberland where we expected to reduce our inventories. Our shipping performance has been as strong as ever.

So despite the fact that our inventories are down and they will stay down our shipping performance has been really strong. So again, a lot of the reduction is in Timberland, which is exactly what we expected. And we don't see any challenges whatsoever in terms of our ability to support our business going forward.

Christian Buss - Credit Suisse - Analyst

That is great to hear, thank you.

Operator

David Glick, Buckingham Research Group.

David Glick - Buckingham Research - Analyst

Just a follow up on the Jeanswear business. You continue to cite the mid-tier as a challenge for Lee and I think we all know the source of that challenge. When you look at the presence of the brand across the mid-tier channel, and in some cases the department stores, the brand has a very strong presence.

And when you look at the Lee jeans presentation in J.C. Penney it is not in the young men's area, for example it is off in the men's area. And I am just wondering how long these challenges are going to continue and at what point do you go more on the offensive with that key retailer.

Or is there -- you mentioned the department store opportunity, I think it was premium, Scott, you mentioned. Is there an opportunity to maybe offset what is happening at Penney's with some other retailers? Thank you.

Scott Baxter - VF Corporation - VP, Group President-Jeanwear Americas & Imagewear

Yes, no problem, David. I did mention in my opening comments that we are pretty excited about our -- it's called Platinum Label and we are and have had some success already in the department store channel. But we are expanding our offering and we feel real confident about it and have a very large test going on right now.

So, we do understand that the Lee brand, it is very strong, very healthy right now, but we need to go ahead and work through additional channels and expansion with the Lee brand and that is currently what we are doing with that.

As far as the mid-tier channel, Lee has had a very strong year. We are working through the situation that you discussed. We don't comment on specific customers but we are working very closely with them to make sure the end result is positive for both parties and that is probably the most that I can currently say about that. But for the year we feel real good about the Lee brand, feel real good about the tests that we are running and feel real good about the holiday season.

David Glick - Buckingham Research - Analyst

Might you guys do a shop at J.C. Penney or that is the part that you can't tell me about right now?

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

Yes, we have actually -- our two biggest businesses with Penney's are Vans and Lee and both are in discussions with Penney's about how to contribute to their new strategy in a very significant way. And more on that in the future because nobody has committed to anything yet.

David Glick - *Buckingham Research - Analyst*

Great. Thank you very much. Good luck.

Operator

Michael Binetti, UBS.

Michael Binetti - *UBS - Analyst*

Can I just -- Eric, can I go back to a comment that Karl Heinz made earlier that when the weather got colder in October you saw the comps accelerate at your own North Face stores, I think he was talking about Europe. Does that translate to that US business, what you guys have seen so far in October as well?

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

Yes. The first -- I can tell you the first week in October was cold because I know when we saw a spike in the performance in our stores because everybody was texting about it that weekend. So, yes, and that was very encouraging to us because that says when needed they liked our products because they came to the stores, our traffic was up and our conversion was up and they bought in abundance. So we are hoping that we get more weather like that in the next 90 days.

Michael Binetti - *UBS - Analyst*

Okay, and I know last year when we talked about this there were definitely some differences between categories like jackets versus boots, but does that comment translate over to Timberland doors as well by chance?

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

Yes, because I started this -- we saw the same -- Michael, we saw the same reaction in our comp stores on Timberland predominantly footwear in Europe, yes. So the answer is yes.

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

And the answer is definitely yes here in the United States as well.

Michael Binetti - *UBS - Analyst*

Okay. And then if I just look at the fourth-quarter guidance, it seems like it calls for some pretty significant contribution from Timberland I'm thinking on the cost saving side. And it seems like a lot of the synergies you have been talking about there accelerated in the fourth quarter.



So you can just walk us through some of the components of the Timberland contribution in fourth quarter and how that is a little bit different, a little bit magnified versus the rest of the year for our models, please?

Bob Shearer - VF Corporation - SVP & CFO

Yes, Michael, you are talking about relative to the 30% EPS growth in the quarter?

Michael Binetti - UBS - Analyst

Or maybe even just the \$1.10 in synergy.

Bob Shearer - VF Corporation - SVP & CFO

Okay. Yes, Michael, you are absolutely right on and of course it's a gross margin as well as an SG&A story. From a gross margin standpoint we will see improved gross margin comparisons for the Timberland business in the fourth quarter.

Last year at this point in time we were battling the higher cost without really any pricing cover and prices -- we have a little bit of pricing cover this year and the improvements that Steve was talking about earlier in the supply chain. So just managing the business a lot more cleanly so that all of those factors impact the gross margins and Timberland will contribute to an improvement in our gross margin comparison in the fourth quarter.

On the SG&A line, as I said, earlier again a significant comparison improvement there as well. Last year at this point in time we really were just beginning to address some of the cost reduction opportunities that we were seeing in the SG&A area and now those are being realized not fully yet.

And, yes, we are, we are actually ahead of some of our original projections in terms of what we thought we could -- the cost reductions that we thought we could achieve on Timberland. So you have got stronger gross margins and the SG&A costs really coming in line to produce a nice contribution for Timberland in the fourth quarter.

Michael Binetti - UBS - Analyst

Okay. And if I could just leave it with one last thing. I just want to make sure I am clear just from a modeling standpoint. You guys feel that there is actually a push of revenues in Europe from the third quarter into the fourth quarter based on the changes in the deliveries, right?

Karl Heinz Salzburger - VF Corporation - VP, Group President-International

Yes, we said before, Michael, we expect a low-double-digit growth in Q4 in Europe again.

Michael Binetti - UBS - Analyst

Okay. And you do believe that came out third quarter?

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

(Technical difficulty) constant dollars.



Karl Heinz Salzburger - VF Corporation - VP, Group President-International

That is in constant dollars, yes. It is constant dollars.

Michael Binetti - UBS - Analyst

All right, thanks a lot, guys.

Operator

And that does conclude today's question-and-answer session. At this time I'll turn back over to management for any closing remarks.

Eric Wiseman - VF Corporation - Chairman, President & CEO

Yes, just a quick comment. We are real confident in our year and we are confident in a really strong fourth quarter. When we look at the fourth quarter, including Timberland and excluding John Varvatos, so on an apples-to-apples basis we think we are going to grow 8% on a constant currency basis, that is what our call was for the year all along to grow 8%.

We are tracking -- we are right on track there, our earnings per share are going to be up over 30%, we are a little bit ahead of plan there. And we are investing more than we thought so that we can propel ourselves into next year. And with that I will thank you for your time and attention and we will talk to you at the end of February. Thanks.

Operator

And that does conclude today's conference. Again, thank you for your participation.

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